THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) LOCATED OUTSIDE THE UNITED STATES.

**IMPORTANT: You must read the following before continuing.**

The following applies to the document following this page (the "**Prospectus**"), whether received by e-mail, accessed from an internet page or received as a result of electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

The Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICITON WHERE THE OFFER, SALE OR SOLICITATION IS NOT PERMITTED. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation:** In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, you must (i) be outside of the United States; or (ii) be a qualified institutional buyer (within the meaning of Rule 144A under the Securities Act). This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that (1) you understand and agree to the terms set out herein; (2) in respect of securities being offered in an offshore transaction pursuant to Regulations S, you are outside the United States, and that the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S under the Securities Act; (3) in respect of securities offered and sold in reliance on Rule 144A, you are a QIB; (4) you consent to delivery by electronic transmission; (5) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of us; and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

This Prospectus is being distributed only to and directed only at (i) persons who are outside the United Kingdom, or (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), or (iii) high net worth entities and other persons falling within Article 49(2)(a) to (d) of the Order, or (iv) those persons to whom it may otherwise lawfully be distributed in accordance with the Order (all such persons together being referred to as relevant persons). This Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction. This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG or Société Générale (together, the "**Joint Lead Managers**") nor any person who controls either of them or any director, officer, employee nor agent of either of them, the Republic of Macedonia or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

# THE REPUBLIC OF MACEDONIA

## €450,000,000 5.625% Notes due 2023

## ISSUE PRICE: 98.598%

The issue price of the €450,000,000 5.625% Notes due 2023 (the "**Notes**") of the Republic of Macedonia (the "**Republic of Macedonia**", the "**Republic**", "**Macedonia**" or the "**Issuer**") is 98.598% of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 26 July 2023 (the "**Maturity Date**").

The Notes will bear interest from, and including, 26 July 2016 at the rate of 5.625% per annum payable annually in arrear on 26 July in each year, commencing on 26 July 2017. Payments on the Notes will be made in Euro without deduction for, or on account of, taxes imposed or levied by Macedonia to the extent described under "*Terms and Conditions of the Notes – Taxation*".

This prospectus has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). Such approval relates only to Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any member State of the European Economic Area. The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange PLC (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List (the "**Official List**") and trading on its main securities market (the "**Market**"). This Prospectus constitutes a prospectus for the purposes of the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "**Prospectus Regulations**") (which implement the Prospectus Directive in Ireland). Reference in this Prospectus to being listed (and all date references) shall mean that such Notes have been admitted to trading on the regulated market of the Irish Stock Exchange.

Notes are being offered (i) in offshore transactions in reliance on, and as defined in, Regulation S (the "**Regulation S Notes**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and (ii) in the United States only to qualified institutional buyers ("**QIBs**") as defined in Rule 144A under the Securities Act ("**Rule 144A**") in reliance on, and in compliance with, Rule 144A (the "**Rule 144A Notes**").

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

The Notes are expected to be assigned a rating of BB+ by Fitch Ratings Ltd ("**Fitch**") and BB- by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). Each of Fitch and S&P is established in the EU and registered under Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**"). Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

**An investment in the Notes involves certain risks. See "*Risk Factors*" beginning on page 13.**

The Notes will be offered and sold in registered form and in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will be represented by beneficial interests in one or more global notes (the "**Global Notes**") and shall be deposited on or around 26 July 2016 (the "**Closing Date**"). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates will not be issued for beneficial interests in the Global Notes. See "*Form of Notes and Transfer Restrictions*".

Joint Lead Managers

Citigroup | Deutsche Bank | Erste Group Bank AG | Société Générale Corporate & Investment Banking

This Prospectus is dated 25 July 2016.

The Republic accepts responsibility for the information contained in this Prospectus. To the best knowledge of the Republic (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus comprises a prospectus for the purposes of Article 5 of the Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) (the "**Prospectus Directive**") and for the purposes of giving information with regard to the Republic and the Notes, which, according to the particular nature of the Republic and the Notes, is necessary to enable investors to make an informed assessment of the prospects of the Republic.

None of the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. None of the Joint Lead Managers or any of their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes (the "**Offering**") and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a representation or warranty, whether to the past or the future, by any of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Prospectus. Any other representation or information should not be relied upon as having been authorised by the Republic or the Joint Lead Managers. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Republic and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

Neither the delivery of this Prospectus nor the Offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Republic since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the Offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Republic and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Form of Notes and Transfer Restrictions*".

This Prospectus has been prepared by the Republic for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the Market. The Republic and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its

U.S. broker-dealer affiliate. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Macedonia of acquiring, holding and disposing of the Notes and receiving payments of principal, interest and/or other amounts under the Notes.

## STABILISATION

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a higher level than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake such stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

## NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

THE NOTES HAVE NOT BEEN APPROVED OR DISTRIBUTED BY THE U.S. SECURITIES AND EXCHANGE COMMISSIONS, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

## PRESENTATION OF ECONOMIC AND OTHER INFORMATION

In this Prospectus, unless otherwise specified, references to "**Euro**", "**EUR**" or "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, references to "**$**", "**USD**" and "**US dollars**" are to United States Dollars and references to "**Denars**" and "**MKD**" are to Macedonian Denars.

The official rate published by the National Bank of the Republic of Macedonia's (the "**NBRM**") for US dollars on 6 July 2016 was MKD 55.3837 = USD 1.00 and the official rate published by the NBRM for Euro on 6 July 2016 was MKD 61.6864 = €1.00.

In this Prospectus, unless otherwise stated, all annual information, including budgetary information relating to the Republic, is based upon calendar years. The GDP and expenditure numbers relating to the Republic in this Prospectus are based on constant prices unless otherwise stated. In certain cases, the Ministry of Finance has performed arithmetic calculations or otherwise determined the form in which information is classified or presented herein. GDP data in this Prospectus have been prepared in accordance with the ESA 2010 methodology adopted by the State Statistical Office in April 2014. Prior to April 2014, the Macedonian State Statistical Office ("**SSO**") published GDP data using ESA 95 methodology. The Republic produces data in accordance with the IMF's Special Data Dissemination Standard which has been designed to guide International Monetary Fund ("**IMF**") member countries in the provision of their economic and financial data to the public. Commencing in June 2014, Macedonia has prepared balance of payment data in accordance with the IMF's Statistics Department's sixth edition of the Balance of Payments Manual ("**BPM6**"), and data for earlier periods have been restated to reflect the methodology. References to the EU and EU members at a particular point in time or date are references to the EU comprising those countries that were members of the EU at that particular point in time or on such date.

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Data generated by the NBRM for the external sector remains subject to revision for a period of up to 270 days following the end of the relevant period. Accordingly, in this Prospectus, some 2014 data, 2015 data and data for the three months ended 31 March 2015 and 31 March 2016 attributed to the NBRM is classified as "preliminary".

Data generated by the Ministry of Finance and the SSO is generally published before certain information is available in final form, and is therefore classified as "estimated" and subject to revision for a period of up to nine months following the end of the relevant period. After these initial revisions, the data is classified as "preliminary" and subject to further revision until all relevant information is available in final form. In this Prospectus, data attributed to the SSO and Ministry of Finance for 2014 is "final", data for 2015 is "preliminary" and data for the three months ended 31 March 2015 and 31 March 2016 is "estimated".

In addition, certain financial and economic data presented herein may differ from previously published data due to regular revisions conducted by the State Statistical Office, the Ministry of Finance, the NBRM and other relevant Macedonian authorities.

See also "*Risk Factors — Official economic data may not be accurate and could be revised*."

## FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Prospectus constitute forward looking statements. Statements that are not historical facts, including statements about the Republic's beliefs and expectations, are forward looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward looking statements speak only as of the date that they are made and the Republic undertakes no obligation to update publicly any of them in light of new information or future events. Forward looking statements involve inherent risks and uncertainties. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward looking statement. Forward looking statements include, but are not limited to: (i) plans with respect to implementation of economic policy and the pace of economic and legal reforms; (ii) expectations about EU and North Atlantic Treaty Organisation ("**NATO**") accession; (iii) expectations about the behaviour of the economy if certain economic policies are implemented; (iv) expectations about the impact of the global financial crisis on the economy; (v) the outlook for inflation, budget deficit, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (vi) estimates of external debt repayment and debt service.

Statistical data appearing in this Prospectus has been extracted or compiled from the records, statistics and other official public sources of information in Macedonia, and has not been independently checked or verified. The Republic has accurately reproduced such information, and as far as the Republic is aware and able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. In recent years there have been significant steps taken in Macedonia to improve the accuracy and reliability of official statistics and to conform statistical methodology to international standards. However, in a transition economy in which there is a substantial amount of unofficial or unreported grey market economic activity, such statistical data may not accurately reflect current or historic levels of, and trends in, economic activity.

## ENFORCEABILITY OF JUDGMENTS

Under Macedonian law, a final and enforceable judgment in a civil proceeding rendered by a court outside the Republic will be enforced on territory of the Republic without re-examination on the merits if such judgment meets the prerequisites for recognition prescribed by Macedonian law.

A final judgment will meet the presumptions for recognition if (i) the defendant had an opportunity to appear and be heard in connection with the original proceeding; (ii) the invitation, the lawsuit or the decision initiating the procedure was properly delivered to the defendant in a manner prescribed by the law of the country where the decision has been passed, provided that the absence of such delivery shall not affect the recognition and the enforcement of the foreign court judgment in certain circumstances where the defendant has presented its defence notwithstanding the absence of proper delivery; (iii) Macedonian courts did not have exclusive jurisdiction over the subject matter of the original proceeding; (iv) there are no pending legal proceedings before or a final judgment of a Macedonian court involving the same factual circumstances; and (v) enforcement of the judgment does not violate public order of Macedonia.

**CONTENTS**

## OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

The following is an overview of certain information contained in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set out in the section entitled "*Risk Factors*" in this Prospectus prior to making an investment decision. See "*Overview of the Republic of Macedonia*", "*Macedonian Economy*", "*Balance of Payments and Foreign Trade*", "*Monetary and Financial System*", "*Public Finance*" and "*Indebtedness*" for a more detailed description of the Issuer.

*Capitalised terms not otherwise defined in this overview have the same meaning as in the terms and conditions of the Notes (the "**Conditions**"). See the Terms and Conditions of the Notes for a more detailed description of the Notes.*

| | |
|---|---|
| **Issuer** | The Republic of Macedonia (acting through its Ministry of Finance). |
| **Joint Lead Managers** | Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG and Société Générale. |
| **Issue Price** | 98.598% of the principal amount of the Notes. |
| **Notes Offered** | €450,000,000 5.625% Notes due 2023. |
| **Issue Date** | 26 July 2016. |
| **Maturity Date** | 26 July 2023 (the "**Maturity Date**"). |
| **Interest on the Notes** | 5.625% per annum. |
| **Interest Payment Dates** | Interest on the Notes will be payable annually in arrear on 26 July of each year. The first payment of interest in respect of the Notes will be made on 26 July 2017 (the "**First Interest Payment Date**") for the period from and including the Issue Date to but excluding the First Interest Payment Date.<br><br>See "*Terms and Conditions of the Notes – 5. Interest*". |
| **Yield** | As at the Issue Date and on the basis of the issue price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 5.875% per annum. |
| **Status** | The Notes will constitute direct, unconditional and unsecured obligations of the Issuer and will at all times rank *pari passu*, without preference among themselves, with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, provided, however, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa. |

See "*Terms and Conditions of the Notes – 2. Status*".

**Denominations**

The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of €100,000 and integral multiples of €1,000 in excess thereof.

**Redemption**

The Issuer will redeem the Notes at their principal amount on the Maturity Date.

See "*Terms and Conditions of the Notes – 6. Redemption, Purchase and Cancellation*".

**Negative Pledge**

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer shall not create, incur, assume or permit to arise or subsist any Lien, other than a Permitted Lien, upon the whole or any part of its existing or future assets or revenues to secure any Public External Indebtedness of the Issuer or any other person, or any Guarantee in respect thereof, unless, at the same time or prior thereto, the Issuer's obligations under the Notes are secured equally and rateably therewith or have the benefit of such other arrangement for the Notes as may be approved by an Extraordinary Resolution (as defined in Condition 14(c) (*Modifications*)) of the Noteholders.

See "*Terms and Conditions of the Notes – 4(a). Negative Pledge*".

**Events of Default**

The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default.

Holders of not less than 25 per cent. in aggregate principal amount of the outstanding Notes may, by written notice to the Issuer (with a copy to the Fiscal Agent at its Specified Office), declare all the Notes immediately due and repayable and all principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives such written notice of the declaration.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto.

See "*Terms and Conditions of the Notes – 9. Events of Default*".

**Form of Notes**

The Notes will be in registered form, without interest coupons.

Notes offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Unrestricted Global Note and Notes offered and sold in reliance upon Rule 144A will be represented by beneficial interests in the Restricted Global Note, each in registered form, without interest coupons attached, deposited with the Common Depositary and registered in the name of the Common Depositary (or a nominee thereof). Except in limited circumstances, certificates for the Notes will not be issued to investors in exchange for beneficial interests in the Global Notes.

**Taxation and Additional Amounts**

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Macedonia or any regional or local subdivision or any authority thereof or therein having power to tax (together, "**Taxes**"), unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction had been required, subject to certain exceptions set out in "*Terms and Conditions of the Notes – 8. Taxation*".

**Modification and Amendment**

A summary of the provisions for convening meetings of Noteholders and amendments is set forth under "*Terms and Conditions of the Notes – 12. Meetings of Noteholders and Modification*".

**Use of Proceeds**

The net proceeds of the issue of the Notes will be used by the Issuer for budget support in 2016 and 2017 and to repay its maturing debt liabilities.

See "*Use of Proceeds*".

**Ratings**

The Notes are expected to be assigned a rating of BB+ by Fitch and BB- by S&P. Each of Fitch and S&P is established in the EU and Registered under the CRA Regulation A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating organisation.

**Listing and Admission to Trading**

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its main securities market.

| | |
|---|---|
| **Governing Law** | The Notes, the Fiscal Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes or the Fiscal Agency Agreement (as defined in the Conditions), as the case may be, will be governed by English law. |
| **Transfer Restrictions** | The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered, sold or resold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws.<br><br>See "*Form of Notes and Transfer Restrictions*". |
| **Fiscal Agent and Principal Paying Agent** | Deutsche Bank AG, London Branch |
| **Registrar and Transfer Agent** | Deutsche Bank Luxembourg S.A. |
| **ISINs** | XS1452578591 Regulation S Global Note<br><br>XS1452578757 Rule 144A Global Note |
| **Common Codes** | 145257859 Regulation S Global Note<br><br>145257875 Rule 144A Global Note |

# RISK FACTORS

*Investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Prospectus, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on Macedonia's ability to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and Macedonia is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to Macedonia or that Macedonia currently deems to be immaterial may also materially affect Macedonia's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Prospectus have the same meanings in this section.*

## Economic Risks

### *An investment in a developing country such as Macedonia is subject to substantially greater risks than an investment in a more developed country*

An investment in a country such as Macedonia is subject to substantially greater risks than an investment in a country with a relatively more developed economy and relatively more developed political and legal systems. These greater risks include economic instability caused by factors such as a narrow export base, reliance on imports of energy and key inputs, fiscal and current account deficits, reliance on foreign direct investment, high unemployment and changes in the political, economic, social, legal and regulatory environment and the possibility that actions of current governments may be challenged by future governments. Although significant progress has been made in reforming Macedonia's economy and political and legal systems since the dissolution of the former Yugoslavia and Macedonia's independence in 1991, Macedonia's economy remains characterised by attributes such as concentration in a number of key industries, reliance on imports and foreign direct investment, trade and current account deficits, and high unemployment, any or all of which may adversely impact Macedonia's economic stability. In addition, Macedonia's legal infrastructure and regulatory framework are still developing. As a consequence, an investment in Macedonia carries risks that are not typically associated with investing in more mature markets. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, such investment is appropriate. Generally, investments in developing countries, such as Macedonia, are only suitable for sophisticated investors who can fully appreciate the significance of the risks involved.

Investment in the Notes could also be adversely affected by negative economic or financial developments in other countries, particularly neighbouring countries. Adverse economic developments in one or more of the countries that comprise Macedonia's major trading partners (many of which are in the EU), or questions about their ability to repay sovereign debt or the stability of their banking systems, could adversely affect the Macedonian economy, and Macedonia's ability to repay principal and make payments of interest on the Notes. For example, concerns about credit risk (including that of sovereigns) and the large sovereign debts and/or fiscal deficits of several European countries (including Portugal, Italy, Ireland, Cyprus, Greece and Spain) have, from time to time, in recent years caused significant disruptions in international capital markets. In addition, on 23 June 2016 the UK held a referendum to decide on the UK's membership of the EU, and determined to leave the EU, resulting in a number of uncertainties in connection with the future of the UK and its relationship with the EU. Such disruptions have led to, and may in the future lead to, increased market volatility and reduced liquidity and increased credit risk premiums for certain market participants and a reduction of available financing. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or the departure of one or more countries from the EU and/or Euro zone, could cause severe stress in the financial system generally and could adversely affect the global financial markets, which could in turn adversely affect the value of investments in Macedonia, including the Notes.

***Macedonia may not succeed in implementing its proposed economic, financial and other reforms and policies which may adversely affect the Macedonian economy and Macedonia's ability to repay principal and make payments of interest on the Notes***

Since declaring independence in 1991, Macedonia has undergone substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. In conjunction with this transformation, Macedonia has been pursuing a programme of economic structural reform with the objective of establishing a market-based economy through privatisation of state enterprises and deregulation and diversification of the economy. While Macedonia has made substantial progress in developing a functioning market-based economy, establishing economic and institutional infrastructure to a Western European standard requires further investment and may take years to complete.

The implementation of these reforms, including programmes to support further economic growth, development, and diversification, depends on significant and sustained political commitment and social consensus in favour of reforms. Notwithstanding significant progress in recent years and stated policies of implementing further reforms and supporting diversification of the economy, there can be no assurance that these and other economic and financial initiatives and the reforms described in this Prospectus will continue, will not be reversed or will achieve their intended aims in a timely manner or at all. In addition, from time to time, Macedonia has experienced political and/or ethnic tensions, resulting in early Assembly elections for the three most recent completed elections as well as other challenges to the political process and/or difficulties in reaching consensus. Most recently, the elections that had been scheduled for April 2016 were delayed until June 2016, and subsequently postponed without a new date being set. See "*Overview of the Republic of Macedonia — Overview of the Current Political Situation — Assembly Elections*". Failure of the Government of Macedonia (the "**Government**") to implement its proposed economic, financial and other reforms and policies, a change in the political or social consensus relating to these policies, or a failure to fulfill conditions associated with the EU or other funding for such reform programs, may adversely affect the growth and development of the Macedonian economy and, as a result, have a material adverse effect on Macedonia's capacity to repay principal and make payments of interest on the Notes.

***Political tensions in Macedonia may affect the implementation of its proposed economic reforms***

Recent political tensions in Macedonia may affect or delay the implementation of proposed economic reforms. For example, in February 2015, the leader of the Social Democratic Union of Macedonia ("**SDSM**") claimed that the government formerly led by Nikola Gruevski illegally wiretapped over 20,000 people. The crisis deepened in April 2016 when President Ivanov stopped investigations into 56 individuals, including politicians and their associates (one of the 56 subsequently deceased), some of whom are allegedly linked to the wiretapping, and pardoned them. Public demonstrations ensued, and the EU and the US both urged the President to withdraw his decision to pardon. In June 2016, President Ivanov revoked all 55 pardons. Further protests followed in June 2016, including requests for the politicians who had previously been the subject of pardons in the wiretapping scandal to resign and for them and some of the other individuals to be prosecuted, after the deadline protesters had set for the government to react to the current political crisis had expired. In addition, protesters demanded that assurances be provided that the special prosecutor's office created to lead the investigation of claims of illegal surveillance activity would not be dismantled, which is currently under the review of the Constitutional Court. Political tensions and uncertainties such as these may materially adversely affect Macedonia's agenda for financial initiatives and economic reform.

On 14 July 2016, the Joint Lead Managers received correspondence (dated the same day) from a member of the SDSM asserting that Macedonia may not have proper legal authority to issue the Notes, and that if Macedonia were to proceed with the Offering it may be in violation of certain laws and regulations of Macedonia, and the SDSM have subsequently made a number of public announcements making similar assertions. The correspondence and announcements also stated that the sender of the correspondence may seek clarification from the Constitutional Court as to the legality of the issuance within the existing legal framework, and that following elections a new Government may consider such Notes to be null and void and potentially seek to cancel all payments due under the Notes.

The Government believes that the correspondence and announcements are politically motivated and that there is no legal basis for challenging the due authorisation or issuance of the Notes. In connection with the issuance of the Notes, the Ministry of Justice, on behalf of Macedonia, and the Joint Lead Managers' Macedonian counsel will issue customary legal opinions confirming Macedonia has full power and authorisation and is able lawfully to execute, offer, issue and deliver the Notes, and to perform its respective obligations under the Notes and that the Notes are legal, valid and binding obligations of the Issuer. In addition, the Joint Lead Managers' Macedonian counsel have advised that the positions asserted in the correspondence are without merit and that Macedonia is duly authorised to proceed with the Offering. Nevertheless, allegations regarding the validity of issuance of the Notes, or other public statements, may adversely affect the trading price of the Notes.

***Macedonia's economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on Macedonia's economic growth and its ability to service its public debt***

Macedonia's economy is small and open and thus largely dependent on external trade, both for supplies of energy as well as of inputs for the export-oriented industrial sector. In addition, Macedonia has historically had a current account deficit, reflecting a large trade deficit resulting from its dependence on energy imports and imported goods for its export-oriented processing industries, largely financed by private transfers (principally remittances from expatriate workers). Macedonia is also heavily reliant on foreign direct investment ("**FDI**") flows in order to finance investment, and to drive changes in its economic structure. In particular, 'greenfield' FDI has played a key role in contributing to the diversification of Macedonia's industrial production and broader sector diversification. The rate of future economic growth is, in turn, dependent on effecting such changes in the structure of Macedonia's economy and maintaining Macedonia's appeal to foreign investors and institutions as an appropriate destination for investments. Accordingly, Macedonia's economy is vulnerable to external shocks, particularly those affecting economic trends in the EU and its other major trading partners, such as the global financial and economic crisis that started in 2008 and the subsequent sovereign debt crisis and the accompanying impact on economic conditions in Macedonia's major trading partners and sources of inbound FDI.

In connection with adverse global economic conditions in 2008 and 2009, Macedonia experienced negative trends in GDP (which also occurred in 2012), a deteriorating current account balance, decreased private transfers and declining FDI, and an increase in net borrowing by the Government. While these trends have since reversed, Macedonia's economy remains subject to deterioration in global economic conditions. In addition, net borrowing by the Government has increased in recent years and is expected to increase further, increasing Macedonia's exposure to, and dependence on, global financial markets. Macedonia's ability to attract FDI is, in large part, based on international perceptions of the overall status of structural reforms and economic conditions in Macedonia, perceptions of regional stability and economic prospects, and global macroeconomic conditions generally. In particular, in recent years concerns over the condition of the Greek economy, as well as other Southern European economies and European economic conditions more generally, have adversely impacted the willingness of investors to invest in the region as a whole, including Macedonia. In addition, uncertainties relating to the UK's departure from the EU and/or the associated impact on the UK and regional economies may adversely impact the willingness of investors to make investments in Macedonia. Accordingly, economic conditions in Macedonia may be materially and adversely affected by any deterioration in regional or global economic conditions.

Additionally, a significant decline in the economic growth of Macedonia's trading partners, including EU member states, could also have an adverse effect on demand for exports from Macedonia and Macedonia's balance of trade and, as a result, adversely affect Macedonia's economic growth. These economic factors could have a material adverse effect on Macedonia's ability to repay principal and make payments of interest on the Notes.

***The currency peg between the Macedonian Denar and the Euro limits the ability of the NBRM to accommodate monetary policy***

Macedonia has sought to maintain a fixed exchange rate between the Macedonian Denar and the Euro or, prior to the adoption of the Euro, the Deutsche Mark, since 1995. Maintaining this fixed exchange rate imposes certain constraints on Macedonia's ability to accommodate monetary policy (including in response to external shocks) that are not present in countries that have fully floating exchange rates, including the ability to set interest rates and regulate the money supply. In addition, Macedonia's economy is and will continue to be directly affected by the monetary policy of the European Central Bank ("**ECB**"), including its interest rate policy. For example, the NBRM may be limited in its ability to halt significant outflows of capital, which could in turn result in depletion of Macedonia's foreign exchange reserves and potentially an inability to maintain the fixed exchange rate. The foregoing limitations on Macedonia's ability to manage its monetary policy (as implemented by the NBRM) and fiscal policies, or a failure to maintain this fixed exchange rate, thereby resulting in a depreciation of the Macedonian Denar against the Euro, could materially and adversely affect economic conditions in Macedonia and Macedonia's ability to repay principal and make payments of interest on the Notes.

***Macedonia's economy is reliant on a small number of industrial sectors and exports to a limited number of trading partners, and adverse market conditions affecting one or more of these sectors or economic developments in these trading partners could have a material and adverse effect on overall economic conditions in Macedonia***

While in recent years Macedonia has sought to diversify its economy, with sectors such as the automotive industry becoming increasingly important, Macedonian industry remains heavily reliant on the metals, mining and quarrying and textiles sectors. While these sectors are relatively diversified and consist of a range of producers, in the year ended 31 December 2015, in the aggregate, textiles and clothing accounted for 14.6%, mining and quarrying accounted for 11.6% and metals accounted for 5.5% of industrial production. In addition, Macedonia's principal export markets are concentrated, with exports to EU countries accounting for approximately 77.2% of Macedonia's total exports for the year ended 31 December 2015. Within the EU, Germany accounted for 44.3% of total exports in

2015, reflecting the increase of recent years in light of the greater importance of the automotive industry in total exports. Bulgaria, Italy and Greece accounted for 6.0%, 4.0% and 3.7% of total exports, respectively, in the year ended 31 December 2015. As a result, economic conditions in Macedonia are significantly affected by changes in EU and global demand for such products, the costs of extracting, processing or producing of such material and the prices for such products on regional and global markets. In addition, adverse economic developments in EU countries, or other countries that are significant consumers of products produced in Macedonia, could adversely affect the markets for Macedonian exports. See also "— *Macedonia's economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on Macedonia's economic growth and its ability to service its public debt*". Any or all of these developments may materially and adversely affect economic conditions in Macedonia and, accordingly, Macedonia's ability to repay principal and make payments of interest on the Notes.

***Deterioration in Macedonia's relations with its major energy suppliers may adversely affect the supply of energy resources and therefore have an adverse effect on the Macedonian economy***

Macedonia imports a large proportion of its energy requirements, with net imports amounting to approximately 48.7% of primary energy consumption from 2011 to 2014. While Macedonia has in recent years sought to increase its energy self-sufficiency, in particular through a number of hydropower projects, Macedonia imports oil and natural gas primarily from the Russian Federation, Greece, Serbia and Bulgaria, and imports electricity primarily from Switzerland, Serbia and Bulgaria. Deterioration in bilateral trade relations with Macedonia's major energy suppliers or restrictions on supplies of oil or natural gas to Macedonia, or significant increases in prices of oil, natural gas or electricity, could adversely affect Macedonia's economy. Any major changes in relations with major energy suppliers to Macedonia, and in particular any such changes adversely affecting supplies of energy resources to Macedonia, may adversely affect the Macedonian economy and, accordingly, its ability to repay principal and make payments of interest on the Notes.

***The high level of foreign ownership in the Macedonian banking system makes it vulnerable to disruption as a result of internal or external factors***

As at 31 December 2015, foreign-controlled banks accounted for approximately 69.1% of total assets, 74.6% of total loans and 69.4% of total deposits in the Macedonian banking system, and two of the three largest banks in Macedonia, collectively accounting for 36.4% of total assets of the Macedonian banking system as at 31 December 2015, were subsidiaries of a Greek and a Slovenian bank, respectively. While these local subsidiaries are at present largely self-financing, in the event of increased levels of non-performing loans or deteriorating economic conditions in Macedonia, foreign parent banks may decline to provide financing to their subsidiaries in Macedonia and/or be rendered unable to provide such financing as a result of adverse economic developments or regulatory requirements in their home jurisdictions. Foreign-owned banks may also reduce their loan portfolios or other business activities in a manner adversely affecting Macedonia as a result of events unrelated to Macedonia, including as a result of economic turbulence in the Eurozone and sovereign debt markets or the jurisdictions of their parent banks and the resulting impact of these and other factors on the financial condition of the banking group more generally. Such occurrences may result in a reduction in the level or scope of the activities of these banks' activities in Macedonia or a failure to meet capital ratios or other regulatory requirements, amongst other developments. Any or all of these occurrences may negatively affect the Macedonian economy and have an adverse effect on Macedonia's capacity to repay principal and make payments of interest on the Notes.

**Political and Other Risks**

***Macedonia may not become a member of the EU in the near to medium term or at all***

Macedonia is in the process of applying for full membership of the EU. See "*Overview of the Republic of Macedonia — International Relations —EU Accession*". Since becoming a candidate for EU accession in 2005, Macedonia has implemented a wide range of electoral, judicial, administrative and economic reforms to align its laws and government practices with those of the EU and to meet the preconditions for commencement of accession negotiations. In 2008, in the framework document for "Accession Partnership with Macedonia", the European Commission identified eight key priorities (benchmarks) to be met as a precondition for the country to begin accession negotiations. Macedonia has made significant progress and has substantially addressed the key accession partnership priorities. In light of the progress achieved, the European Commission recommended opening accession negotiations with Macedonia in October 2009, and has repeated this recommendation annually since then. In June 2015, following the renewal of political dialogue in the country, the European Commission presented to the Macedonian authorities a List of Urgent Reform Priorities for the country and, subsequently, the Government developed a plan for implementation of these priorities. Nevertheless, opposition from Greece relating to the use of the name Macedonia has remained an obstacle to commencing accession talks. See "*Overview of the Republic of Macedonia — International Relations — EU Accession*."

Continuing delays in the EU accession process due to Macedonia's inability to meet harmonisation criteria or a change in EU entry criteria, or the continued opposition of or disputes with certain EU member states, may adversely impact Macedonia's economic development and, accordingly, its ability to repay principal and make payments of interest on the Notes.

***Corruption, money laundering and organised crime may hinder the growth of the Macedonian economy, delay or foreclose EU accession or otherwise adversely affect Macedonia***

Independent analysts have identified corruption, money laundering and organised crime as concerns in Macedonia. In the 2015 Transparency International Corruption Perceptions Index, Macedonia ranked 66 out of 168 countries and territories under review. Allegations or evidence of corruption, money laundering or organised crime involving the Government and/or members thereof, regardless of whether such allegations prove to be true, may create tensions between political parties, including parties within the governing coalition, otherwise destabilise the governing coalition and/or lead to early elections. In addition, corruption, money laundering or organised crime in Macedonia may have a negative impact on Macedonia's economy and its reputation abroad, especially on its ability to attract foreign investment, and adversely impact progress towards EU membership. A combination of all or some of these factors may lead to negative effects on economic and social conditions in Macedonia which may, in turn, lead to a further deterioration in public finances and a material adverse effect on the ability of Macedonia to fund payments on its debt obligations, including the Notes.

***Macedonia's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system***

Macedonia has taken, and continues to take, steps aimed at developing a more mature legal system, comparable to the legal systems of other EU countries. New laws have been introduced and revisions have been made with respect to, amongst others, company, property, securities, labour, environmental and taxation laws in order to harmonise them with EU laws. In addition, the independence of the judicial system and its immunity from economic and political interference in Macedonia remains in development. Accordingly, Macedonia's legal system remains in transition and is therefore subject to greater risks and uncertainties than a more mature legal system, such as (i) potential inconsistencies between and among the Constitution and various laws, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in laws and regulations that are ambiguously worded or lack specificity and raise difficulties when implemented or interpreted; (iii) difficulties in predicting the outcome of judicial application of Macedonian legislation; and (iv) political or other factors resulting in inconsistent judicial determinations and interpretations. As Macedonia is a civil law jurisdiction, judicial decisions under Macedonian law generally have no precedential effect and the courts are generally not bound by earlier court decisions taken under the same or similar circumstances. This may result in an inconsistent application of Macedonian legislation to resolve the same or similar disputes. In some circumstances, therefore, it may not be possible to obtain swift enforcement of a judgment in Macedonia or to predict the outcome of legal proceedings. These and other factors may adversely impact economic conditions and the environment for investment in Macedonia, including the willingness of foreign and other investors to invest in Macedonia or to provide financing for projects and companies in Macedonia. Such effects could have an adverse effect on economic conditions and growth in Macedonia and, accordingly, on the ability of Macedonia to repay principal and make payments of interest on the Notes.

***Official economic data may not be accurate and could be revised***

A range of government ministries including the Ministry of Finance, along with the NBRM and the SSO, have prepared statistical data which appears in this Prospectus. Certain of these statistics may be more limited in scope, less accurate, reliable and/or consistent in terms of basis of compilation between various ministries and institutions, and published less frequently than is the case for the comparable statistics for other countries (particularly existing members of the EU). Consequently, prospective investors in the Notes should be aware that figures relating to Macedonia's GDP and many other figures cited in this Prospectus may be subject to some degree of uncertainty. Furthermore, these limitations of statistical information make adequate monitoring of key fiscal and economic indicators more difficult than for other countries.

In addition, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Prospectus, data are presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the International Monetary Fund (the "**IMF**") or World Bank. Since 2011, Macedonia has produced data in accordance with the IMF's Special Data Dissemination Standard. The existence of a sizeable unofficial or "grey" economy in Macedonia may also affect the accuracy and reliability of Macedonia's statistical information. The statistical information presented herein is based on the latest official information currently available from the stated source, including balance of payments data in accordance with the IMF's Statistics Department's sixth edition of the Balance of Payments Manual ("**BPM6**") and GDP data in accordance with ESA 2010. The development of statistical information relating to Macedonia is however, an on-going process, as revised figures are produced on a continuous basis. Figures presented may be subject to rounding. Prospective investors should also be aware that none of the statistical information in this Prospectus has been independently verified.

## Risks related to the Notes and the trading market

### *Notes where denominations involve integral multiples: definitive Notes*

The Notes have denominations consisting of a minimum denomination of €100,000 plus one or more higher integral multiples of €1,000, and it is possible that Notes may be traded in amounts that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive certificate in respect of such holding (should certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least €100,000.

### *Credit ratings may not reflect all risks*

The Notes are expected to be assigned a rating of BB+ by Fitch and BB- by S&P. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. On 19 February 2016, Fitch Ratings affirmed Macedonia's Long Term Foreign and Local Currency at BB+ (with a negative outlook). On 1 April 2016, Standard & Poor's Rating Services affirmed Macedonia's 'BB-/B' long- and short-term foreign and local currency sovereign credit ratings (with a stable outlook). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. Any adverse change in the credit ratings of the Notes, or of Macedonia, could adversely affect the trading price of the Notes.

### *Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurances can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

### *Modification*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

### *The secondary market generally*

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. Although application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on its Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Notes.

The Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg and investors will have to rely on their procedures for transfer, payment and communication with the Republic

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Global Notes. The Global Notes will be registered in the name of BT Globenet Nominees Limited as nominee for, and deposited with, Deutsche Bank AG, London Branch as common depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Republic will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Republic has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in Euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Euros would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

## TERMS AND CONDITIONS OF THE NOTES

The Conditions set forth below are the terms and conditions of the Notes, subject to amendments, that will be endorsed on each Note.

The €450,000,000 5.625 per cent. Notes due 26 July 2023 (the "**Maturity Date**") (the "**Notes**") and forming a single series therewith) of the Republic of Macedonia (the "**Republic**", "**Macedonia**" or the "**Issuer**") were authorised by the Republic, acting through the Ministry of Finance of the Republic of Macedonia. A fiscal and paying agency agreement to be dated 26 July 2016 (the "**Fiscal and Paying Agency Agreement**") has been entered into in relation to the Notes between Macedonia, Deutsche Bank AG, London Branch in its capacity as fiscal agent (the "**Fiscal Agent**") and principal paying agent (the "**Principal Paying Agent**") and Deutsche Bank Luxembourg S.A. in its capacity as registrar (the "**Registrar**") and as transfer agent (the "**Transfer Agent**").

In these Conditions, "**Registrar**", "**Transfer Agent**", "**Fiscal Agent**" and "**Principal Paying Agent**" shall include any successors appointed from time to time in accordance with the provisions of the Fiscal and Paying Agency Agreement, and any reference to an "**Agent**" or "**Agents**" shall mean any or all (as applicable) of such persons.

Certain provisions of these conditions are summaries of the Fiscal and Paying Agency Agreement and are subject to its detailed provisions. The Fiscal and Paying Agency Agreement includes the form of the Notes. A copy of the Fiscal and Paying Agency Agreement is available for inspection during usual business hours at the principal office of the Fiscal Agent (presently at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom) and at the specified offices of each of the other Agents. The holders of Notes are bound by and are deemed to have full notice of the provisions of the Fiscal and Paying Agency Agreement.

References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

### 1. Form and Denomination

The Notes are in registered form in denominations of EUR100,000 and integral multiples of EUR1,000 in excess thereof. The Notes will be represented by beneficial interests in global note certificates (the "**Global Notes**") in registered form without interest coupons.

The Global Notes will be exchangeable for Certificates in definitive, fully registered, form ("**Definitive Note Certificates**" and each a "**Definitive Note Certificate**") without coupons, in the circumstances specified in the Global Notes.

*The Notes will not be issuable in bearer form*.

### 2. Status

The Notes constitute direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured External Indebtedness (as defined below) of the Issuer, from time to time outstanding; **provided**, **however**, **that** the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and *vice versa*.

## 3. Register, Title and Transfer

(a) *Register*

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Fiscal and Paying Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A Definitive Note Certificate will be issued to each Noteholder in respect of its registered holding or holdings of Notes only in certain limited circumstances. Each such Definitive Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*

Title to the Notes will pass by and upon registration in the Register. Each Noteholder shall (except as otherwise required by law) be treated as the absolute owner of such Notes for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note Certificate) and no person shall be liable for so treating such Holder.

The Rule 144A Notes will be represented by interests in a Restricted Global Note. The Regulation S Notes will be represented by interests in the Unrestricted Global Note. The Global Notes will each be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**").

Ownership of beneficial interests in the Global Notes will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book entry form by Euroclear, Clearstream, Luxembourg and their participants, as applicable.

(c) *Transfers*

Subject to paragraphs (f) and (g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Definitive Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the transfer form (the "**Transfer Form**"); **provided**, **however**, **that** a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are authorised denominations. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Definitive Notes*

Subject to paragraphs (e) and (f) below, within five Business Days (as defined below) of the surrender of a Definitive Note Certificate in accordance with paragraph (c) above, the Registrar will register the transfer in question and deliver a new Definitive Note Certificate of the same aggregate principal amount as the Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**Business Day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the Transfer Agent has its specified office.

Where some but not all the Notes in respect of which a Definitive Note Certificate is issued are to be transferred, a new Definitive Note Certificate in respect of the Notes not so transferred will, within five Business Days of the surrender of the original Definitive Note Certificate in accordance with paragraph (c) above, be mailed by uninsured first class mail (airmail if overseas) at the request of the Holder of the Notes not so transferred to the address of such Holder appearing on the Register.

(e) *No charge*

Registration or transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but against payment by the Holder of such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty or governmental charge of whatsoever nature which may be levied or imposed in connection with such registration or transfer.

(f) *Closed periods*

Noteholders may not require transfers to be registered during the period beginning on the 15th calendar day before the due date for any payment of principal or interest in respect of such Notes.

(g) *Regulations concerning transfers and registration*

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Fiscal and Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

## 4. Negative Pledge and Other Covenants

(a) *Negative Pledge*

So long as any Note remains outstanding (as defined in the Fiscal and Paying Agency Agreement) Macedonia shall not create, incur, assume or permit to arise or subsist any Lien (as defined below), (other than a Permitted Lien (as defined below)), upon the whole or any part of its existing or future assets or revenues to secure any Public External Indebtedness (as defined below) of Macedonia or any other Person (as defined below), or any Guarantee (as defined below) in respect thereof unless, at the same time or prior thereto, Macedonia's obligations under the Notes are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Fiscal and Paying Agency Agreement) of the Noteholders.

(b) *Other Covenants*

So long as any Note remains outstanding:

(i) either Macedonia or an Agency (as defined below) or any of Macedonia's Monetary Authorities (as defined below) shall continue to exercise full ownership, power and control over the International Monetary Assets (as defined below) as they exist from time to time; and

(ii) Macedonia shall duly obtain and maintain in full force and effect all governmental approvals (including any exchange control and transfer approvals) which may be necessary under the laws of Macedonia for the execution and delivery by it of, and performance of its obligations under, the Notes and the Fiscal and Paying Agency Agreement and duly take all necessary governmental and administrative action in Macedonia in order to perform or comply with all or any of its obligations under the Notes and the Fiscal and Paying Agency Agreement (including, without limitation, to make all payments to be made under the Notes as required by these Conditions and the Fiscal and Paying Agency Agreement).

(c) *Certain Definitions*

For the purposes of these Conditions:

"**Agency**" means any political sub division, regional government, ministry, department, authority or statutory corporation of Macedonia or the government thereof (whether or not such statutory corporation is autonomous) and any corporation or other entity (but not any commercial corporation or other commercial entity except, in each case, to the extent that any International Monetary Assets are owned, controlled, held or administered thereby) which is directly or indirectly controlled (whether by reason of whole or partial ownership, control over voting or other relevant decision making power to direct management, the composition of management or otherwise) by Macedonia or the government thereof or one or more Agencies (including, without limitation, the Ministry of Finance, the Government or the National Bank (as defined below)).

"**External Indebtedness**" means all obligations, and Guarantees (as defined below) in respect of obligations, for money borrowed or raised (whether or not evidenced by bonds, debentures, notes or other similar instruments) denominated or payable, or which at the option of the relevant creditor or holder thereof may be payable, in a currency other than the lawful currency of Macedonia, **provided that** if at any time the lawful currency of Macedonia is the Euro, then any such obligations and Guarantees for money borrowed or raised as described herein denominated or payable, or which at the option of the relevant creditor or holder thereof may be payable, in Euro more than 50 per cent. of the aggregate principal amount of which is initially placed outside Macedonia and issued after the date on which the Euro becomes the lawful currency of Macedonia, shall be included in this definition.

"**Guarantee**" means any guarantee of or indemnity in respect of indebtedness or other like obligation.

"**International Monetary Assets**" means all Macedonia's official holdings of gold and all Macedonia's and Macedonia's Monetary Authorities' holdings of (i) Special Drawing Rights, (ii) Reserve Positions in the Fund and (iii) Foreign Exchange, and the terms "**Special Drawing Rights**", "**Reserve Positions in the Fund**" and "**Foreign Exchange**" have, as to the types of assets included, the meanings given to them in the publication of the International

Monetary Fund ("**IMF**") entitled "**International Financial Statistics**" or such other meanings as shall be formally adopted by the IMF from time to time.

"**Lien**" means lien, pledge, hypothecation, mortgage, security interest, charge or any other encumbrance or arrangement having a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

"**Macedonia's Monetary Authorities**" means the National Bank and, to the extent that they perform monetary authorities' functions, currency boards, exchange stabilisation funds and treasuries.

"**National Bank**" means the National Bank of the Republic of Macedonia.

"**Permitted Lien**" means:

(i) any Lien upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of such property and any renewal and extension of such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing, **provided that** the principal amount of the Public External Indebtedness secured thereby is not increased;

(ii) any Lien existing on property at the time of its acquisition (and not created in contemplation of such acquisition) to secure Public External Indebtedness and any renewal and extension of such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing, **provided that** the principal amount of the Public External Indebtedness secured thereby is not increased;

(iii) any Lien securing Public External Indebtedness in existence on 25 July 2016 or any Lien arising out of an exchange of collateral permitted by the terms of such Public External Indebtedness and the renewal or extension of such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original secured financing, **provided that** the principal amount of the Public External Indebtedness secured thereby is not increased;

(iv) any Lien securing Public External Indebtedness or any Guarantee of Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project (including any renewal or extension thereof **provided that** the principal amount secured by any such additional encumbrance does not exceed the principal amount outstanding and secured by the original encumbrance), **provided that** (a) the holders of such Public External Indebtedness or Guarantee expressly agree to limit their recourse to the assets and revenues (including insurance proceeds) of such project as the principal source of repayment of such Public External Indebtedness and (b) the property over which such Lien is granted consists solely of such assets and revenues or revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete, or damage to, such properties;

(v) any Lien on any assets securing Public External Indebtedness which arises pursuant to any order or attachment, distraint or similar legal process arising in connection with court proceedings so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings; and

(vi) any Lien arising by operation of law, **provided that** such Lien is not created or permitted to be created by the Republic to secure any Public External Indebtedness.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or any other juridical entity, including, without limitation, a state or agency of a state (including the Ministry of Finance and the Council of Ministers) or other entity (including the National Bank), whether or not having separate legal personality.

"**Public External Indebtedness**" means External Indebtedness which (i) is in the form of, or represented by, bonds, notes, or other securities or any Guarantees thereof and (ii) is, or is capable of being, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over the counter or on any other securities market.

## 5. Interest

Each Note bears interest on its principal amount from and including 26 July 2016 (the "**Issue Date**") at the rate of 5.625 per cent. per annum. Interest is payable annually in arrear on 26 July in each year commencing on 26 July 2017 (each an "**Interest Payment Date**") until maturity. Interest due on an Interest Payment Date will accrue during the immediately preceding Interest Period (as defined below) and will be paid subject to and in accordance with the provisions of Condition 7 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, after surrender of such Note, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder of Notes and (b) the day which is seven days after notice has been given to the holders of Notes that the Fiscal Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any failure in the subsequent payment to the relevant holders under these Conditions).

The amount of interest payable on each Interest Payment Date shall be €5,625 in respect of each Note of EUR100,000 denomination and €56.25 in respect of each Note of EUR1,000 denomination. Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, the day count fraction applied to calculate the amount of interest payable in respect of each Note shall be the number of days in the relevant period, from and including the date from which interest begins to accrue, to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**".

## 6. Redemption, Purchase and Cancellation

(a) *Final Redemption*

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 26 July 2023, subject as provided in Condition 7 (*Payments*).

(b) *No other Redemption*

The Issuer shall not be entitled to redeem the Notes other than as provided in paragraph (a) above.

(c) *Purchase and Cancellation*

Macedonia and its Agencies may at any time purchase Notes in the open market or otherwise at any price. Any Notes so purchased may be cancelled or held and resold. Any Notes so purchased, while held by or on behalf of Macedonia or any Agency, shall not entitle the holder to vote at any meeting of holders of Notes and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of holders of Notes. Any Notes so cancelled will not be reissued.

## 7. Payments

(a) *Method of Payment*

Payments of principal and interest in respect of the Notes will be made by Euro cheque drawn on a bank in London and mailed to the Holder by uninsured first class mail (airmail if overseas), at the address appearing in the Register at the opening of business on the relevant Record Date (as defined below) or, upon application by a Noteholder to the specified office of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a Euro account maintained by the payee with a bank in London.

(b) *Payments Subject to Fiscal Laws*

All payments in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*).

(c) *No Commissions*

No commission or expenses shall be charged to the Noteholders in respect of any payments of principal or interest in respect of the Notes.

(d) *Payments on business days*

Where payment is to be made by transfer to a Euro account, payment instructions (for value the due date, or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by a Euro cheque, the cheque will be mailed on the due date for payment. A Noteholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*

If a Paying Agent makes a partial payment in respect of any Note, the Registrar shall procure that the amount and date of such payment are noted on the Register.

(f) *Record date*

Payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's specified office on the 15th day before the due date for such payment (the "**Record Date**").

"**Business Day**" in respect of the Notes means a day on which banks are open for business and carrying out transactions in Euro in the country in which the Fiscal Agent has its specified office, and is a day on which the Trans European Automated Real Time Gross Settlement Express Transfer System (TARGET2) ("**TARGET2**") is operating.

(g) *Agents*

The Issuer has initially appointed the Fiscal Agent, the Principal Paying Agent, the Registrar and the Transfer Agent named above. The Issuer may at any time vary or terminate the appointment of any such Agent and appoint another Agent or additional or other Agents outside the United States, **provided that**, it will at all times, and while any Note is outstanding, maintain one or more Paying Agents having a specified office in Europe for payments on Notes.

Notice of any such termination or appointment and of any change in the specified office of any Agent will be given in accordance with Condition 14 (*Notices*).

## 8. Taxation

All payments of principal and interest in respect of the Notes by Macedonia shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Macedonia or any regional or local subdivision or any authority thereof or therein having power to tax (together "**Taxes**"), unless such withholding or deduction is required by law. In that event, Macedonia shall pay such additional amounts as will result in the receipt by the holders of Notes of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) to a holder, or to a third party on behalf of a holder, if such holder is liable to such Taxes in respect of such Note by reason of having some connection with Macedonia other than the mere holding of such Note; or

(b) if the Note is surrendered for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the holder would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days; or

(c) where any withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

For the purpose of these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount plus any accrued interest having been so received) notice to that effect has been given to the holders of Notes.

Any reference in these Conditions to payments of principal or interest in respect of the Notes shall be deemed to include any additional amounts which may be payable under this Condition 8 (*Taxation*).

## 9. Events of Default

If any of the following events occurs and is continuing:

(a) *Non payment*

Macedonia fails to pay any principal on any of the Notes within seven days of the due date for payment or any interest or additional amounts on any of the Notes within 15 days of the due date for payment; or

(b) *Breach of other obligations*

Macedonia does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default has been given to Macedonia at the specified office of the Fiscal Agent by any holder of Notes; or

(c) *Acceleration and cross-default*

(i) the holders of any Public External Indebtedness of Macedonia accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required payment), prior to the originally stated maturity thereof; or

(ii) Macedonia fails to pay in full any principal of, or interest on, any Public External Indebtedness when due (after expiration of any originally applicable grace period) or any Guarantee of any Public External Indebtedness given by Macedonia shall not be honoured when due and called upon (after the expiration of any originally applicable grace period);

**provided that** the aggregate amount of the relevant Public External Indebtedness or Guarantee in respect of which one or more of the events mentioned above in this paragraph (c) shall have occurred equals or exceeds EUR20,000,000 or its equivalent in other currencies; or

(d) *Moratorium*

Macedonia shall suspend payment of, or admit its inability to pay, its Public External Indebtedness or any part thereof or declare a general moratorium on or in respect of its Public External Indebtedness or any part thereof, or anything analogous to the foregoing shall occur; or

(e) *Unlawfulness or Invalidity*

The validity of the Notes is contested by Macedonia or Macedonia shall deny any of its obligations under the Notes or it is or becomes unlawful for Macedonia to perform or comply with all or any of its obligations set out in the Notes or any of such obligations shall be or become unenforceable or invalid; or

(f) *IMF*

Macedonia ceases to be a member of the IMF;

then the holders of at least 25 per cent. in aggregate outstanding principal amount of the Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and repayable, whereupon they shall become immediately due and payable at their principal amount, together with interest accrued to the date of repayment, without further formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer. After any such declaration, if the Issuer receives notice in writing from holders of not less than 50 per cent. in aggregate outstanding principal amount of the Notes that all amounts then due with respect to the Notes are paid (other than amounts due solely because of such declaration) and all other defaults with respect to the Notes are cured, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon such declaration shall be annulled and rescinded.

## 10. **Prescription**

Claims in respect of principal and interest will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

## 11. **Replacement of Notes**

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as Macedonia may reasonably require. Mutilated or defaced Definitive Notes Certificate must be surrendered before replacements will be issued.

## 12. **Meetings of Noteholders and Modification**

(a) *General*

The Fiscal and Paying Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any of these Conditions (having been approved by the Issuer) or any provisions of the Fiscal and Paying Agency Agreement. The following is a summary of selected provisions contained in the Fiscal and Paying Agency Agreement.

For the purposes of this Condition 12 (*Meetings of Noteholders and Modification*):

(i) "**Debt Security**" means the Notes and any other bills, bonds, debentures, notes or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year, and includes any such obligation, irrespective of its original stated maturity, that formerly constituted a component part of a Debt Security;

(ii) "**Cross-Series Modification**" means a modification involving (i) the Notes or any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement), and (ii) the Debt Securities of one or more other series or any agreement governing the issuance or administration of such other Debt Securities;

(iii) for the purposes of this Condition 12 (*Meetings of Noteholders and Modification*) only, "**holder**" in relation to a Note means the person in whose name the Note is registered on the books and records of the Issuer and, in relation to any other Debt Security, means the person the Issuer is entitled to treat as the legal holder of the Debt Security under the law governing that Debt Security, and the term "**Noteholder**", for the purposes of this Condition 12 (*Meetings of Noteholders and Modification*) only, shall be construed accordingly;

(iv) "**modification**" in relation to the Notes means any modification, amendment, supplement or waiver of the terms and conditions of the Notes or any agreement governing the issuance or administration of the Notes, and has the same meaning in relation to the Debt Securities of any other series save that any of the foregoing references to the Notes or any agreement governing the issuance or administration of the Notes shall be read as references to such other Debt Securities or any agreement governing the issuance or administration of such other Debt Securities;

(v) "**outstanding**" in relation to any Note means a Note that is outstanding for the purposes of Condition 12(k) (*Outstanding Notes; Notes Controlled by the Issuer*), and in relation to the Debt Securities of any other series will be determined in accordance with the applicable terms and conditions of that Debt Security;

(vi) "**Record Date**" in relation to any proposed modification means the date fixed by the Issuer for determining the holders of Notes and, in the case of a cross-series modification, the holders of debt securities of each other series that are entitled to vote on or sign a written resolution in relation to the proposed modification;

(vii) "**Reserved Matter**" in relation to the Notes means any proposal to:

(A) change any date, or the method of determining the date, fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;

(B) effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

(C) reduce or cancel the principal amount of outstanding Notes or, in the case of a Cross-Series Modification, the principal amount of Debt Securities of any other series required to approve a proposed modification in relation to the Notes, the principal amount of outstanding Notes required for a quorum to be present, or the rules for determining whether a Note is outstanding for these purposes;

(D) vary the currency or place of payment in which any payment in respect of the Notes is to be made;

(E) amend the status of Notes under Condition 2 (*Status*);

(F) amend the obligation of the Issuer to pay additional amounts under Condition 8 (*Taxation*);

(G) amend the Events of Default set out in Condition 9 (*Events of Default*);

(H) amend the law governing the Notes, the courts to the jurisdiction to which the Issuer has submitted in the Notes, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder set out in Condition 16 (*Governing Law and Jurisdiction*);

(I) modify the provisions contained in the Fiscal and Paying Agency Agreement concerning the quorum required at any meeting of the Noteholders or any adjournment thereof or concerning the majority required to pass an Extraordinary Resolution or the percentage of votes required for the taking of any action;

(J) change the definition of "**Reserved Matter**" or "**outstanding**" in the Conditions and/or Fiscal and Paying Agency Agreement; or

(K) amend this definition;

and has the same meaning in relation to the Debt Securities of any other series save that any of the foregoing references to the Notes or any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement) shall be read as references to such other Debt Securities or any agreement governing the issuance or administration of such other Debt Securities; and

(viii) "**series**" means a tranche of Debt Securities, together with any further tranche or tranches of Debt Securities that in relation to each other and to the original tranche of Debt Securities are (i) identical in all respects except for their date of issuance or first payment date, and (ii) expressed to be consolidated and form a single series, and includes the Notes and any further issuances of Notes;

(b) *Convening Meetings of Noteholders*

A meeting of Noteholders:

(i) may be convened by the Issuer at any time; and

(ii) will be convened by the Issuer if an Event of Default in relation to the Notes has occurred and is continuing and a meeting is requested in writing by the holders of not less than 10 per cent. of the aggregate principal amount of the Notes then outstanding.

(c) *Quorum*

(i) The quorum at any meeting at which Noteholders will vote on a proposed modification to, or a proposed modification of:

(A) a Reserved Matter will be one or more persons present or represented at the meeting and holding not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding; and

(B) a matter other than a Reserved Matter will be one or more persons present or represented at the meeting and holding not less than 50 per cent. of the aggregate principal amount of the Notes then outstanding.

(ii) The quorum for any adjourned meeting will be one or more persons present or represented at the meeting and holding;

(A) not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a proposed Reserved Matter modification or a proposal relating to a Reserved Matter; and

(B) not less than 25 per cent. of the aggregate principal amount of the Notes then outstanding in the case of a non-Reserved Matter modification or any proposal relating to a matter other than a Reserved Matter.

(d) *Non-Reserved Matters*

These Conditions and any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement) may be modified in relation to any matter other than a Reserved Matter with the consent of the Issuer and:

(i) the affirmative vote of a holder or holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(ii) a written resolution signed by or on behalf of a holder or holders of more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

(e) *Reserved Matters*

Except as provided by Condition 12(f) (*Cross-Series Modifications*) below, these Conditions and any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement) may be modified in relation to a Reserved Matter with the consent of the Issuer and:

(i) the affirmative vote of a holder or holders of not less than 75 per cent. of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(ii) a written resolution signed by or on behalf of a holder or holders of not less than 66 2/3 per cent. of the aggregate principal amount of the Notes then outstanding.

(f) *Cross-Series Modifications*

In the case of a Cross-Series Modification (and/or a proposal in respect of a Cross-Series Modification), these Conditions and Debt Securities of any other series, and any agreement (including the Fiscal and Paying Agency Agreement) governing the issuance or administration of the Notes or Debt Securities of such other series, may be modified in relation to a Reserved Matter with the consent of the Issuer and:

(i) the affirmative vote of not less than 75 per cent. of the aggregate principal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the holders of the Debt Securities of all the series (taken in the aggregate) that would be affected by the proposal and/or proposed modification; or

(ii) a written resolution signed by or on behalf of the holders of not less than 66 2/3 per cent. of the aggregate principal amount of the outstanding Debt Securities of all the series (taken in the aggregate) that would be affected by the proposal and/or proposed modification;

and

(i) the affirmative vote of more than 66 2/3 per cent. of the aggregate principal amount of the outstanding Debt Securities represented at separate duly called and quorate meetings of the holders of each series of Debt Securities (taken individually) that would be affected by the proposal and/or proposed modification; or

(ii) a written resolution signed by or on behalf of the holders of more than 50 per cent. of the aggregate principal amount of the then outstanding Debt Securities of each series (taken individually) that would be affected by the proposal and/or proposed modification.

(g) Partial Cross-Series Modification

If a proposed Cross-Series Modification is not approved in relation to a Reserved Matter in accordance with Condition 12(f) (*Cross-Series Modifications*), but would have been so approved if the proposed modification had involved only the Notes and one or more, but less than all, of the other series of Debt Securities affected by the proposed modification, that Cross-Series Modification will be deemed to have been approved, notwithstanding Condition 12(f) (*Cross-Series Modifications*), in relation to the Notes and Debt Securities of each other Series whose modification would have been approved in accordance with Condition 12(f) (*Cross-Series Modifications*) if the proposed modification had involved only the Notes and Debt Securities of such other series, provided that:

(i) prior to the Record Date for the proposed Cross-Series Modification, the Issuer has publicly notified holders of the Notes and other affected Debt Securities of the conditions under which the proposed Cross-Series Modification will be deemed to have been approved if it is approved in the manner described above in relation to the Notes and some but not all of the other affected Series of Debt Securities; and

(ii) those conditions are satisfied in connection with the proposed Cross-Series Modification.

(h) *Written Resolutions*

A "written resolution" is a resolution in writing signed by or on behalf of Noteholders of the requisite majority of the Notes and will be valid for all purposes as if it was a resolution passed at a quorate meeting of Noteholders duly convened and held in accordance with these provisions. A written resolution may be set out in one or more documents in like form each signed by or on behalf of one or more Noteholders.

(i) *Binding Effect*

A resolution duly passed at a quorate meeting of Noteholders duly convened and held in accordance with these provisions, and a written resolution duly signed by the requisite majority of Noteholders, will be binding on all Noteholders, whether or not the Noteholder was present at the meeting, voted for or against the resolution or signed the written resolution.

(j) *Manifest Error, Technical Amendments, etc*.

Notwithstanding anything to the contrary herein, these Conditions and any agreement governing the issuance or administration of the Notes (including the Fiscal and Paying Agency Agreement) may be modified by the Issuer without the consent of Noteholders:

(i) to correct a manifest error or cure an ambiguity; or

(ii) if the modification is of a formal or technical nature or for the benefit of Noteholders.

The Issuer will publish the details of any modification of the Notes made pursuant to this Condition 12(j) (*Manifest Error, Technical Amendments, etc*.) within ten days of the modification becoming legally effective.

(k) *Outstanding Notes; Notes Controlled by the Issuer*

In determining whether Noteholders of the requisite principal amount of outstanding Notes have voted in favour of a proposed modification or whether a quorum is present at any meeting of Noteholders called to vote on a proposed modification, a Note will be deemed to be not outstanding, and may not be voted for or against a proposed modification or counted in determining whether a quorum is present, if on the record date for the proposed modification:

(i) the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued;

(ii) the Note has previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligation to make all payments due in respect of the Note in accordance with its terms; or

(iii) the Note is held by the Issuer, by a department, ministry or agency of the Issuer, or by a corporation, trust or other legal entity that is controlled by the Issuer or a department, ministry or agency of the Issuer and, in the case of a Note held by any such above-mentioned corporation, trust or other legal entity, the holder of the Note does not have autonomy of decision, where:

(A) the holder of a Note for these purposes is the entity legally entitled to vote the Note for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Note for or against a proposed modification;

(B) a corporation, trust or other legal entity is controlled by the Issuer or by a department, ministry or agency of the Issuer if the Issuer or any department, ministry or agency of the Issuer has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and

(C) the holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Issuer: (x) the holder may not, directly or indirectly, take instruction from the Issuer on how to vote on a proposed modification; or (y) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or (z) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this Condition 12(k) (*Outstanding Notes; Notes Controlled by the Issuer*).

(l) *Modification*

The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of any of the provisions of the Fiscal and Paying Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders and, if the Fiscal Agent so requires, such modification shall be notified to the Noteholders as soon as practicable.

13. **Further Issues**

Macedonia may from time to time, without notice to or the consent of the holders of Notes, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects save for the date for and amount of the first payment of interest thereon) so as to form a single series with the Notes.

*Noteholders should note that additional securities that are treated as a single series for non-tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount, as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may adversely affect the market value of the Notes since such additional securities may not be distinguishable from the Notes*.

14. **Notices**

All notices to Noteholders may be delivered in person or sent by mail or facsimile transmission or telex to them at their respective addresses, facsimile or telex numbers reflected in the Register. Any such notice shall be deemed to have been given, in the case of a letter delivered by hand, at the time of delivery, in the case of a letter sent by mail, at the time of dispatch or, in the case of a telex, on receipt of an answerback confirmation by the sender.

*So long as any of the Notes are represented by the Global Notes, notices required to be published in accordance with Condition 14 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders*.

15. **Currency Indemnity**

The Euro is the sole currency of account and payment for all sums payable by Macedonia under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than the Euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any holders of Notes in respect of any sum expressed to be due to it from Macedonia shall only constitute a discharge to Macedonia to the extent of the Euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Euro amount is less than the Euro amount expressed to be due to the recipient under any Note, Macedonia shall indemnify such recipient against any loss sustained by it as a result. In any event, Macedonia shall indemnify the recipient against the cost of making any such purchase. These indemnities constitute separate and independent obligations from Macedonia's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any holders of Notes and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any judgment or order.

## 16. Governing Law and Jurisdiction

(a) *Governing Law*

The Fiscal and Paying Agency Agreement and the Notes and any matter, claim or dispute arising out of or in connection therewith, whether contractual or non-contractual are governed by and shall be construed in accordance with English law.

(b) *Jurisdiction*

(i) Subject only to Condition 16(b)(ii), the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes (including a dispute relating to any non-contractual obligation arising out of or in connection with the Notes) ("**Proceedings**") may be brought only in such courts. The Issuer irrevocably submits to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(ii) However, the provisions of Condition 16(b)(i) are made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) *Agent for Service of Process*

The Issuer has in the Fiscal and Paying Agency Agreement irrevocably appointed the Ambassador of the Republic of Macedonia to the Court of St. James's from time to time of Suite 2.1 and 2.2, Bucking Court, 75-83 Buckingham Gate, London, SW1E 6PE, United Kingdom as its authorised agent in England to receive service of process in any Proceedings in England based on any of the Notes. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) *Consent to Proceedings*

Subject to Condition 16(e) (*Waiver of State Immunity*) below, the Issuer has irrevocably and generally consented in respect of any Proceedings anywhere to the giving of any relief or the issue of any process in connection with those Proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings.

(e) *Waiver of State Immunity*

To the extent that Macedonia or any of its revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, Macedonia irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction. Such waiver of immunities constitutes only a limited and specific waiver by the Issuer for the purposes of the Notes and under no circumstances shall it be construed as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Notes. The Issuer does not waive any immunity in respect of (a) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Regulations signed in 1961, (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963, (iii) any other property or assets used solely for official state purposes in the Republic of Macedonia or elsewhere, (iv) military property or military assets of the Republic of Macedonia related thereto, or (v) the natural resources and objects of historical and artistic heritage as referred to in Article 56 of the Constitution of the Republic of Macedonia.

17. **Rights of Third Parties**

No person who is not a Noteholder has any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any of the Terms and Conditions of the Notes.

# FORM OF NOTES AND TRANSFER RESTRICTIONS

The following information relates to the form, transfer and delivery of the Notes. Capitalised terms used but not defined herein have the meanings provided in the section entitled "*Terms and Conditions of the Notes*".

## 1. Form of Notes

The Regulation S Notes will be represented by interests in a global note, in fully registered form, without interest coupons attached (the "**Unrestricted Global Note**") which will be deposited on or about the Closing Date with a common depositary for, and registered in the name of the common depositary for the accounts of Euroclear and Clearstream, Luxembourg.

The Rule 144A Notes will be represented by interests in a global note in fully registered form without interest coupons attached (the "**Restricted Global Note**" and together with the Unrestricted Global Note, the "**Global Notes**") which will be deposited on or about the Closing Date with a common depositary for, and registered in the name of a common depositary for the accounts of Euroclear and Clearstream, Luxembourg. The Restricted Global Note (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Note as set forth below.

The Global Notes will each have an ISIN number and a Common Code.

For the purposes of the Restricted Global Note and the Unrestricted Global Note, any reference in the Conditions to "**Note Certificate**" or "**Note Certificates**" shall, except where the context otherwise requires, be construed so as to include the relevant Restricted Global Note or, as the case may be, the relevant Unrestricted Global Note and interests therein.

Except in the limited circumstances described below, owners of interests in a Global Note will not be entitled to receive physical delivery of individual note certificates.

## 2. Euroclear and Clearstream Arrangements

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form ("**book-entry interests**"). The holdings of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the Register to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership of Notes will be held though financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

So long as Euroclear or Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of the Global Notes, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Global Notes for all purposes under the Fiscal and Paying Agency Agreement. Consequently, none of the Republic, the Fiscal Paying Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Participants must rely on the procedures of Euroclear and Clearstream, Luxembourg, and indirect participants must rely on the procedures of the participants through which they own book-entry interests, to transfer the interests or in order to exercise any rights of holders of the Notes.

Euroclear and Clearstream, Luxembourg have advised us that they will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Notes are credited and only in respect of the portion of the aggregate principal amount of Notes for which the participant or participants has or have given direction. Euroclear and Clearstream, Luxembourg will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, Euroclear and Clearstream, Luxembourg reserve the right to exchange the Global Notes for definitive registered Notes in certificated form, and to distribute those definitive registered Notes to its participants.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The book-entry interests will trade through participants of Euroclear or Clearstream, Luxembourg and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any book-entry funds where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

We understand the following with respect to Euroclear and Clearstream, Luxembourg:

- Euroclear and Clearstream, Luxembourg hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of those participants. Euroclear and Clearstream, Luxembourg provide to their participants, among other things, services for safekeeping administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg interface with domestic securities markets.

- Euroclear and Clearstream, Luxembourg participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear and Clearstream, Luxembourg participant, either directly or indirectly.

## 3. Exchange of Interests in the Global Note

The Restricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for individual note certificates ("**Restricted Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) following a failure to pay principal when due and payable in respect of any Rule 144A Note, in each case where the Fiscal Agent has received a request from the registered holder of the Restricted Global Note requesting exchange of the Restricted Global Note for Restricted Note Certificates. In such circumstances, such Restricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Republic will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Unrestricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for individual note certificates ("**Unrestricted Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or (b) following a failure to pay principal when due and payable in respect of any Regulation S Note, in each case where the Fiscal Agent has received a request from the registered holder of the Unrestricted Global Note requesting exchange of the Unrestricted Global Note for Unrestricted Note Certificates. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Republic will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that the Restricted Global Note is to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together, "**Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Republic will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Note holders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Republic and such Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Restricted Global Note only, a fully completed, signed certification (in the form provided in the Fiscal Agency Agreement) substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under " — Transfer Restrictions".

Book-entry interests in the Restricted Global Note ("**restricted book-entry interests**") may be transferred to a person who takes delivery in the form of book-entry interests in the Unrestricted Global Note ("**unrestricted book-entry interests**") only upon delivery by the transferor of a written certification (in the form provided in the Fiscal Agency Agreement) to the effect that the transfer is made in accordance with Regulation S and in accordance with any applicable securities laws of any state of the U.S. or any other jurisdiction.

Unrestricted book-entry interests may be transferred to a person who takes delivery in the form of restricted book-entry interests only upon delivery by the transferor of a written certification to the effect that the transfer is being made to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the U.S. or any other jurisdiction.

Any book-entry interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a book-entry interest in the other Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note, and accordingly, will thereafter be subject to all transfers, if any, and other procedures applicable to book-entry interest in that other Global Note for as long as that person retains the book-entry interests.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under " — Transfer Restrictions" below, or upon specific request for removal of the legend on a Restricted Note Certificate, the Republic will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes..

## 4. Secondary Market Trading in Relation to the Global Notes

Upon their original issue, the Notes will be in global form represented by Global Notes. Interests in the Notes will be in uncertificated book-entry form. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

## 5. Notices

So long as the Global Notes are held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Notes represented by a beneficial interest in the Global Notes may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System; except that, so long as the Notes are listed on the Irish Stock Exchange PLC, the rules of the Irish Stock Exchange PLC or the Central Bank of Ireland have been complied with.

## 6. Record Date

Notwithstanding Condition 7(f), each payment in respect of a Global Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note is begin held is open for business.

## 7. Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, as amended, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisers.

## 8. Transfer Restrictions

Each purchaser of Notes will be deemed to have represented and agreed as follows:

- the purchaser (a) (i) is a QIB within the meaning of Rule 144A, (ii) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A or (b) is purchasing the Notes in an offshore transaction pursuant to and in accordance with Regulation S;

- the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws;

- the Restricted Global Note and any Restricted Note Certificate will bear a legend to the following effect, unless the Republic determines otherwise in accordance with applicable law:

  "THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE REPUBLIC OF MACEDONIA THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), OR (4) TO THE REPUBLIC OF MACEDONIA OR ITS AFFILIATES".

- it understands that the Republic, the Joint Lead Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes is no longer accurate, it shall promptly notify the Republic and the Joint Lead Managers;

- if it is acquiring any Notes for the account of one or more QIBs, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

- it acknowledges that neither the Republic, the Joint Lead Managers nor any person representing the Republic or the Joint Lead Managers, has made any representation to it with respect to the Republic or the offer or sale of any of the Notes, other than the information contained in this Prospectus, which Prospectus has been delivered to it and upon which it is relying in making an investment decision with respect to the Notes. It acknowledges that the Joint Lead Managers made no representation or warranty as to the accuracy or completeness of this Prospectus.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provision of Section 5 of the Securities Act provided by Rule 144A.

# USE OF PROCEEDS

The net proceeds of the issue of the Notes, which are expected to amount to approximately €442,916,000 million after deduction of the combined management, underwriting and selling commission payable to the Joint Lead Managers (see "Subscription and Sale"), but before deduction of the Issuer's other expenses of the Offering, will be used by the Issuer for budget support in 2016 and 2017 and to repay its maturing debt liabilities.

# OVERVIEW OF THE REPUBLIC OF MACEDONIA

## Area and Population

The Republic of Macedonia (the "**Republic**" or "**Macedonia**") is located in Southeast Europe with a total area of 25,713 square kilometres. Macedonia is bordered by five countries: Serbia and Kosovo to the North, Bulgaria to the East, Greece to the South and Albania to the West. Approximately 80% of Macedonia's terrain is mountainous, rising to its highest point at Mount Korab along its western border, with an elevation of 2,764 metres. The Vardar River runs North to South through the centre of Macedonia and connects the country, through Greece, with the ports of the Aegean Sea. Macedonia has a moderate continental climate with four distinct seasons.

Macedonia had an estimated population of approximately 2.1 million as at 31 December 2015 of whom approximately 507,000 lived in Skopje, the political, administrative and commercial centre of Macedonia. After Skopje, Macedonia's largest cities are Bitola, Kumanovo, Prilep and Tetovo, with populations ranging from 50,000 to over 100,000 people. Ethnic Macedonians comprise approximately 65.1% of the population, with ethnic Albanians comprising 25.2%, and the balance consisting of Turks (3.9%), Romas (2.7%), Serbs (1.8%), Bosnians (0.8%), Vlachs (0.5%) and other ethnic groups.

## History

The name "Macedonia" comes from the territory encompassing the ancient kingdom of Macedon which, along with current day Macedonia, included some parts of what is now Greece, south-western Bulgaria and Albania. During the reign of Alexander III, also known as "Alexander the Great" (356 - 323 BC), Macedon's influence increased throughout Asia Minor, the Levant, Egypt, Mesopotamia, Persia and some parts of India. Macedon gradually declined after the death of Alexander the Great in 323 BC and was conquered by the Romans in 168 BC and later annexed to the Roman Empire in 148 BC.

After the fall of the Western Roman Empire, in the 6th and 7th centuries the territory of Macedonia came under the control of the Byzantine Empire. During this period, large numbers of Slavic people came to and settled in the Balkan region. By the end of the 14th century, the Ottoman Empire had gained control over Macedonia, and ruled Macedonia for more than 500 years. During this period, political and cultural customs were heavily influenced by the Ottoman Turks.

In the late 19th century, as Greece, Bulgaria and Serbia began to compete for control over the territory of Macedonia, a number of nationalist movements emerged and challenged the Ottoman Empire. In the most well-known uprising Macedonian revolutionaries liberated the town of Krushevo from the Ottomans in August 1903 and briefly established the Krushevo Republic. The uprising was quickly put down by Ottoman forces. In 1912, a combined force from Bulgaria, Serbia and Greece defeated the Ottoman Empire in the First Balkan War and forced the Ottomans to leave Macedonia and the surrounding regions. Shortly thereafter, Bulgaria, Serbia and Greece fought against each other in the Second Balkan War in an attempt to divide Macedonia. The Treaty of Bucharest officially ended this conflict in 1913 and the territory of Macedonia was partitioned among these countries. Following World War I, what is today Macedonia was incorporated into the newly-formed Kingdom of Serbs, Croats and Slovenes (later known as the Kingdom of Yugoslavia) as part of the Province of Vardar.

During World War II, Macedonia was occupied by Bulgaria and Italy. Harsh rule by the occupying forces encouraged many Macedonians to support the resistance movement led by the partisans and Marshal Tito, who became Yugoslavia's president when the war ended. Following World War II, Macedonia became a constituent republic (federal unit) of the Socialist Federal Republic of Yugoslavia, with the name "Socialist Republic of Macedonia."

Macedonia, like other republics that constituted Yugoslavia, declared its independence in November 1991. Following elections held in late 1990 which resulted in a multi-party elected assembly, a democratically elected government took office in January 1991, and shortly thereafter the name officially became the "Republic of Macedonia". Macedonia held a national referendum in September 1991 on establishing a sovereign state based on a parliamentary democracy, and later that month the parliament formally declared independence from Yugoslavia. Macedonia adopted a new constitution on 17 November 1991.

The first government was led by Prime Minister Nikola Kljusev, and Kiro Gligorov became the first President of the newly-independent Republic. Macedonia was admitted to the United Nations (the "**UN**") in 1993, under the name "the former Yugoslav Republic of Macedonia", reflecting certain objections to the use of "Macedonia" by Greece, though many countries have recognised Macedonia under its constitutional name, "Republic of Macedonia." See "— *International Relations — Regional Relations — Relations with Greece*."

Unlike most of the former Yugoslavia, Macedonia did not experience ethnic conflict during the process of secession. While tensions between ethnic Albanians and Macedonians remained following independence, there was no open conflict between these ethnic groups comparable to the ethnic strife experienced by other countries in the region at that time. However, in February 2001, ethnic Albanians, influenced by the Kosovo crisis, carried out attacks against Macedonian government forces in the region near the Kosovo border, and the hostilities spread to some parts of northern and western Macedonia. Following a cease-fire in June 2001, the President of Macedonia and the leaders of major political parties, supported by the EU and the United States, signed the Ohrid Framework Agreement (the "**Framework Agreement**") in August 2001, which called for the implementation of political, constitutional and administrative reforms to improve rights for minority groups in Macedonia. These reforms were adopted by the Macedonian Assembly (*Sobranie*) (the "**Assembly**") in November 2001, and included, among others, the decentralisation of power from the Macedonian government to local municipalities, the creation of new municipal borders within Macedonia, the granting of equal status to the Albanian language as well as to other languages in areas where the ethnic communities exceed a certain percentage of the population, and an expanded role for ethnic minority communities in public institutions.

Since its introduction, the Framework Agreement has facilitated the introduction of new laws designed to ensure the political, social and cultural participation of all ethnic communities in Macedonia. For example, it has paved the way for the usage of the Albanian language in local government, the Macedonian Assembly and in education and other public forums.

One year after the signing of the Framework Agreement, parliamentary elections were held on 15 September 2002. Elections were conducted according to a proportional electoral model in six constituencies, which has become the basis for subsequent elections. In 2011, three Macedonians living abroad were elected as representatives in the Assembly to represent Macedonians living outside of Macedonia, with one member representing each of the following pairs of continents: Europe and Africa, North and South America, and Australia and Asia.

Local democratic elections in Macedonia were most recently held in early 2013. Since 2006, the Internal Macedonian Revolutionary Organisation-Democratic Party of Macedonian National Unity ("**VMRO DPMNE**") has captured the largest share of the vote in Macedonian elections, and following the 2014 elections to the Assembly, is one seat short of a majority.

## Political System and Government Structure

### *The Constitution*

Soon after the first free and direct multi-party parliamentary elections were held on 11 November 1990, the newly elected Assembly adopted the Declaration on the Sovereignty of the Socialist Republic of Macedonia (the "**Declaration**"). The Declaration described the basic principles of the new state, which included the maintenance of positive relations with neighbouring states and respect for fundamental human rights. On the basis of the Declaration, the Assembly issued notice of a public referendum that, when it passed with 95% of the vote on 8 September 1991, led to the formal establishment of the Republic of Macedonia as a sovereign and independent state. The first Constitution of the Republic of Macedonia was adopted on 17 November 1991 in order to create an institutional framework for the development of parliamentary democracy and to guarantee civil liberties. After several months of ethnic conflict in 2001, a second Constitution of the Republic of Macedonia (the "**Constitution**") was ratified in November 2001 as part of the Ohrid Framework Agreement. The principal changes of the new constitution were the recognition of Albanian as an official language and increased access for ethnic Albanians to public-sector jobs. References in the original 1991 preamble that were perceived as treating minorities as second-class citizens were removed to reflect a more pluralist society. The Constitution guarantees equality before the law and contains a non-discrimination clause that prohibits discrimination on the basis of sex, race, religion or national, social or political affiliation.

### *The President*

The President of the Republic is the head of state, elected by majority vote in direct elections, for a term of five years. No person may serve more than two terms as President. The current President is Mr. Gjorge Ivanov, who was elected in April 2009 and re-elected in April 2014. The next presidential elections are scheduled to be held in April 2019. The President represents Macedonia domestically and internationally, is the commander in chief of the armed forces and is the President of the Security Council of Macedonia. In the event that the Assembly is not able to sit, the President has the power to declare a state of war and may also appoint or dismiss the government or individual officials.

The President may negotiate international agreements on behalf of Macedonia, appoint and recall Macedonian ambassadors and envoys and receive letters of credence and letters of recall from foreign diplomatic representatives. The President gives the mandate to form a government to the nominated Assembly candidate, appoints three members to the country's Security Council, proposes candidates for the Council of Inter Ethnic Relations, nominates two judges for the Constitutional Court and two members of the State Judicial Council of the Republic (the "**Judicial Council**"), and performs other duties defined by the Constitution.

### *Government*

The Government currently consists of the Prime Minister as the head of the Government, four Deputy Prime Ministers and 21 other ministers. The Government is elected by an absolute majority vote in the Assembly. The Prime Minister and the Government's programme are approved by an absolute majority vote of the Assembly. The interim Prime Minister, Emil Dimitriev, was confirmed by the Assembly on 18 January 2016. Government ministers are proposed by the Prime Minister and elected and discharged by the Assembly. The Government is responsible for proposing legislation to the Assembly. Quorum is obtained if an Assembly meeting is attended by a majority of the members. Laws are passed by a majority vote of the Assembly members in attendance but no less than one-third of the total members, in so far as the Constitution does not provide for a qualified majority for certain decisions (e.g., border alterations).

On 14 June 2016, the Finance Minister (who was also Deputy Prime Minister) resigned citing health reasons, and on 15 June 2016 the Assembly approved the nomination of the new Finance Minister.

### *The Assembly*

The unicameral Assembly is the country's legislative body. Its powers include amending the Constitution, passing laws and resolutions and ratifying international agreements. Since 2011, the Assembly has consisted of 123 members (including three who are Macedonian citizens living abroad) who are elected by a proportional system in six constituencies. All members of the Assembly serve four-year terms. Assembly elections were held most recently in April 2014, and the next elections were scheduled to be held in 2018, but were advanced to April 2016 following the June 2015 agreement. However the elections that had been scheduled for April 2016 were delayed until June 2016, and subsequently postponed without a new date being set. See " — *Overview of the Current Political Situation — Assembly Elections*" and "—*June 2015 Agreement and 2016 Elections*".

Two members of the Assembly are listed on the Specially Designated Nationals and Blocked Persons List published by the Office of Foreign Assets Control of the United States Department of the Treasury. As a result, U.S. persons are subject to broad prohibitions on dealing with such persons, and must block any property of such persons that comes within their possession or control. Neither of such persons is a member of the Government.

### *The Judicial System*

In the Republic of Macedonia, the judicial system is composed of a constitutional court, the Supreme Court of the Republic of Macedonia, four appellate courts, the High Administrative Court, the Administrative Court, and 27 courts of the first instance (the "**Basic Courts**"). The Constitution provides for the independence of courts and states that cases are to be adjudicated only on the basis of the Constitution, laws and ratified international agreements and treaties.

Pursuant to the Macedonian Law on Courts (the "**Law on Courts**"), there are 27 Basic Courts, each covering a designated geographic area. Basic courts have general jurisdiction and handle civil, criminal, commercial, labour, family and other types of cases. There are four appellate courts, located in Skopje, Bitola, Gostivar and Stip, which exercise appellate jurisdiction over the basic courts. The Supreme Court is the highest court, serving a variety of roles, including providing uniformity in the implementation of the laws by the courts and thus acts as a court of final resort (extraordinary legal remedies).

The Administrative Court has original jurisdiction over administrative disputes and the High Administrative Court decides on the appeals for decisions made by the Administrative Court.

The Constitutional Court, consisting of nine judges, follows a continental European model, and rules on the constitutionality of laws and the constitutionality and legality of secondary legislation. It is vested with authority to protect certain fundamental human rights and freedoms such as freedom of expression, right to assembly and right to equality. Further, the Constitutional Court adjudicates conflicts between the central and local government and amongst holders of legislative, judicial and executive office, and decides on the accountability of the President of the country. The Constitutional Court's rulings are final and not subject to review.

Judges for the Basic Courts, Appellate Courts, Administrative Court, High Administrative Court and Supreme Court are elected by the Judicial Council. The Judicial Council is composed of 15 members, eight of whom are judges elected by their peers and five of whom are elected by the Assembly from amongst law professors, lawyers and other jurists. The president of the Supreme Court and Minister of Justice (who do not have a right to vote) are members of Judicial Council ex officio. All members are elected to six-year terms. The Judicial Council has primary responsibility for the election and discharge of judges. It also conducts an annual assessment of the work of judges and is responsible for implementation of measures intended to protect judicial independence and impartiality. In 2014, a new judiciary body was introduced to Macedonia's legal system to manage disciplinary proceedings for judges, including initiating procedures and undertaking factual investigations with final decisions for disciplinary measures taken by the Judicial Council. In September 2015, Macedonia's political parties agreed on the appointment of a new special prosecutor to lead the investigation of claims of illegal surveillance activity in the Government, as set forth in the June 2015 Agreement. See "—*Overview of the Current Political Situation —June 2015 Agreement and 2016 Elections*".

The Constitution, the Law on Courts and other substantive and procedural legislation pertaining to the judiciary are intended to provide essential institutional and functional guarantees for the independence and impartiality of the Macedonian judiciary. To this end, they have established doctrine including lifetime appointment of judges (subject to grounds for dismissal as provided for in the Constitution, and with the exception of Constitutional Court judges, who are elected for nine-year terms), judicial immunity and protections from transfer to another court against their will, together with other features in concurrence with generally accepted principles and norms of European and international law. Macedonia has also introduced the guidelines recommended by the European Commission for Efficiency of Justice that are incorporated in the Methodology of Court Statistics, adopted by the Ministry of Justice.

*Strategy for further reform of the judicial system in the Republic of Macedonia (2016 to 2020)*

A revised strategy for further reform of Macedonia's judicial system (2016 to 2020) addresses the findings of the European Commission Progress Report (the "**Progress Report**") and targets the establishment and implementation of various policies in the following six areas: (i) judiciary, (ii) the criminal legal system, (iii) access to justice, (iv) sector policy and implementation of EU law, (v) administrative law and (vi) IT and E-Justice.

*Anti-Corruption measures*

Reducing crime and corruption is a strategic priority for Macedonia. Programmes for the prevention and repression of corruption and reduction of conflicts of interest have been implemented through a single action plan covering eleven areas of the public and private sphere for the period from 2011 to 2015 (the "**Anti-Corruption Action Plan**"), adopted by the State Commission for Prevention of Corruption ("**SCPC**") in accordance with the Law on Prevention of Corruption and the Law on Prevention of Conflicts of Interest.

In December 2015, the SCPC adopted the National Programme 2016-2019 ("**National Programme**"). The focus of the National Programme is to strengthen integrity and public involvement in preventing and fighting against corruption and conflict of interest, and to effectively coordinate anti-corruption activities.

The Law on Protection of Whistle-blowers was adopted in November 2015. This law regulates protected applications and the rights of whistle-blowers, as well as the actions and responsibilities of the institutions or legal entities related to protected applications and provision of protection to whistle-blowers. In March 2016 by-laws were adopted regarding protection of internal reporting in public sector institutions and the adoption of protected internal reporting of legal entities in the private sector.

The application of the Law on Protection of Whistle-blowers and by-laws started on 18 March 2016 as part of the Institution for Pre-Accession Assistance ("**IPA**") 2010 project "Support to Efficient Prevention and Fight Against Corruption". As part of this project, activities to support the implementation of the Law on Protection of Whistle-blowers and to raise public awareness are planned to be carried out.

The Council of Europe's Group of States against Corruption ("**GRECO**"), in its third evaluation round of Macedonia, published in May 2014, concluded that the Government's approach to criminalisation of corruption offences largely meets the requirements of the Criminal Law Convention on Corruption (European Treaty Series 173) and addresses GRECO's recommendations in areas relating to bribery of foreign officials and of domestic/foreign arbitrators, active trading in influence, bribery in the private sector, the defence of effective regret and jurisdiction issues. The Government is actively working to further strengthen institutional capacities and to implement recommendations from the fourth report published with respect to the GRECO's evaluation of Macedonia in March 2016.

In 2013, Macedonia implemented criminal procedure reforms, aiming both to increase efficiency and to strengthen the Government's capacity to fight organised crime and corruption. For example, the IPA 2009 project entitled "*Support in the Implementation of the Reform of the Criminal Justice System*" ran from 2012 to 2014 and was intended to strengthen the capabilities of public prosecutors, the judiciary police and other parties with an active role in the criminal proceedings for implementing criminal procedure legislation. The IPA 2010 project entitled "*Support to Prevention and Fight Against Corruption*" is ongoing and seeks to improve the implementation of the national anti-corruption legal framework, strengthen the national mechanisms for the prevention of and fight against corruption and promote cooperation between the SCPC, the judiciary, law enforcement agencies and other relevant institutions in the prevention, detection, prosecution and sanctioning of criminal acts of corruption. Specific elements include developing and implementing an IT system for collecting and processing corruption prevention and repression statistics (track-record); assessing the legal and institutional framework for anti-corruption measures; developing and implementing an advanced system for managing conflicts of interests; institutional capacity building for preventing and repressing corruption, financing political parties and electoral campaigns, prosecution and trial cases of corruption; and raising public awareness against corruption (including public relations campaigns and social media tools). Continued efforts to improve the anti-corruption framework include implementing a number of IT solutions for record keeping and secure software development. Analysis of the anti-corruption legal and institutional framework is ongoing and preliminary recommendations have been discussed with relevant policy makers.

In support of these measures, the budget of the SCPC has significantly increased in recent years, including by approximately 47.9% in 2015 as compared to 2014. The State Commission has also increased its number of employees and expects to continue growing and hire additional personnel in the anti-corruption department. In 2016 the SCPC's budget was MKD 31.8 million, which was approximately 1.8% higher than in 2015. As of the beginning of April 2016 the Secretariat of the SCPC employed 23 persons, with a further four agents in the Department of Anticorruption Examination of Legislation. In July 2015, as part of amendments to the Law on Prevention of Corruption, a register of elected and appointed persons was adopted. Further amendments to the Law on Prevention of Corruption and the Law on Prevention of Conflict of Interest are ongoing to implement Council of Europe - GRECO recommendations and to determine the need for additional amendments in anti-corruption legislation.

**Local Government**

Macedonia is divided into 80 municipalities (*opstini*) and the city of Skopje municipality. Each of the municipalities is autonomous, manages local affairs democratically, establishes its own budget and sets the rates of certain limited local taxes. The Macedonian constitution grants all municipalities the same fundamental rights.

In accordance with the Law on Local Self-Government, enacted in 2002, all municipalities have equal authority and responsibilities. The municipalities can make decisions within their competences and adopted laws. Municipalities are governed by representative bodies, whose members are elected for four-year terms. Decisions of municipalities may only be overruled if they conflict with the constitution or national legislation. The most recent municipal elections were held in 2013 and the next elections are planned for 2017.

**Overview of the Current Political Situation**

***Presidential Elections***

Mr. Gjorge Ivanov, who was initially elected as president in 2009, was re-elected in April 2014 with 55.3% of the vote. Mr. Ivanov is a member of the VMRO-DPMNE party.

In light of the diverse demography of the country and municipalities, Mr. Ivanov and the VMRO-DPMNE party depend on the cooperation of coalition partners. One coalition partner, the Albanian Democratic Union for Integration Party ("**DUI**"), is a prominent ethnic Albanian party that has been part of the ruling coalition for 10 of the past 12 years, recently seeking to broaden its base by appealing to broader constituencies.

***Assembly Elections***

Historically, relations in the Assembly between VMRO-DPMNE and the SDSM have been volatile. On 28 January 2011, the opposition party SDSM walked out of the Assembly in protest, demanding early elections. SDSM was soon joined by the smaller opposition parties in the Assembly: the New Social Democratic Party ("**NSDP**"), New Democracy ("**ND**"), the Liberal Party ("**LP**") and the Democratic Party ("**DP**").

Following several failed attempts by the two major parties to reach consensus on the changes to the electoral law and other demands of the opposition, the Assembly was dissolved on 14 April 2011, with a new election date set for 5 June 2011. All 123 parliamentary seats of the Assembly were due for election, including the three seats provided for the first time for representatives of Macedonian citizens living abroad. The election was held on the planned date and the new Assembly began meetings in 2011.

In December 2012, during the process of approving the 2013 budget, there was a dispute between members of the opposition party and members of the governing party with respect to budget expenditures and the appropriate allocation of such expenditures. As a result, the opposition party withdrew from participation in the Assembly and its members threatened to resign; the opposition party also stated its intention to boycott the forthcoming municipal elections. With the mediation of the EU Enlargement Commission, the parties reached an agreement on 1 March 2013 to facilitate a return of the opposition party to the Assembly and to hold the municipal elections, as well as commitments to key strategic priorities and reforms. The parties entered into a Memorandum of Understanding affirming the cross-party consensus on, and commitment to, EU and NATO integration and the establishment of a Committee of Inquiry to investigate the December incidents.

***June 2015 Agreement and 2016 Elections***

The most recent national Assembly elections were held on 27 April 2014, which was early following a vote for dissolution of the then-ruling Assembly. These April 2014 Assembly elections were the third early elections in Macedonia and the voting participation rate was approximately 63%. Fourteen political parties participated in these elections, most prominently the VMRO-DPMNE, the SDSM, the DUI, the Democratic Party of Albanians ("**DPA**"), the NSDP, the Socialist Party ("**SP**") the Option for Macedonia ("**GROM**") and the National Democratic Victory ("**NDP**"). The following table sets out the percentage breakdown of the vote in the election and each party's number of seats in the Assembly following the elections:

| Party | Seats | Percentage |
|---|---|---|

| Party | Seats | Percentage |
|---|---|---|
| VMRO-DPMNE (including coalition members) | 61 | 42.97 |
| SDSM (including coalition members) | 34[1] | 25.34 |
| DUI | 19 | 13.71 |
| DPA | 7 | 5.52 |
| GROM | 1 | 2.82 |
| NDP | 1 | 1.59 |
| VMRO-NP | 0 | 1.50 |
| KPM | 0 | 0.94 |
| DM | 0 | 0.83 |
| SDPM | 0 | 0.42 |
| PDP | 0 | 0.28 |
| NDM | 0 | 0.17 |
| PEP 21 | 0 | 0.11 |
| **Total** | **123** | **100.0** |

Note:

(1) In May 2014, SDSM resigned 31 of its 34 seats.

*Source:* The Assembly of Macedonia (Sobranie)

In the 27 April 2014 election, Gjorge Ivanov was re-elected with a plurality of votes. SDSM, the main opposition party, subsequently refused to enter the National Assembly and on 28 May 2014 the SDSM announced the resignation of 31 of its 34 Assembly seats in protest of what the party perceived to be an unfair political interference during the administration of April's elections. The country was thereafter faced with a deep political crisis, which affected, among other things, the implementation of EU-related reforms. The EU offered to mediate between the parties in an effort to re-stabilise the country and help maintain its course towards EU membership. This offer was accepted by the main political parties. On 2 June 2015, facilitated by the EU, four parties (VMRO-DPMNE, SDSM, DUI and DPA) reached an agreement for early re-elections to be held on 24 April 2016, resulting in renewed political dialogue between the main political parties. This agreement also established a list of reform activities in areas such as rule of law, public administration, freedom of expression, media, electoral reform, inter-ethnic relations, fundamental rights and economic governance. Each of the four main political parties has agreed on these measures, the responsible parties for each and the deadlines within which targets should be achieved. In September 2015, in accordance with the agreement Macedonia's political parties agreed on the appointment of a new special prosecutor to lead the investigation of claims of illegal surveillance activity in the Government.

On 10 November 2015, the Assembly approved legislation on the appointment of interim additional deputy ministers in advance of the April 2016 elections. Representatives of the SDSM became ministers of the Ministry of the Interior and the Ministry of Labour and Social Policy, and the approved legislation established the roles and jurisdiction of the appointed additional deputy ministers at the Ministry of the Interior, the Ministry of Labour and Social Policy, the Ministry of Finance, the Ministry of Agriculture and the Ministry of Information Society and Administration. Any individual appointed as an additional deputy minister is required to be from the opposite party to that of the minister to which such individual will serve as additional deputy, and such additional deputy minister is granted specific approval powers with respect to actions related to personnel, legal and financial matters in connection with the April 2016 elections. Any disputes as to the scope of authority of such additional deputy minister are to be referred to the electoral commission.

In early January 2016, as a consequence of the June 2015 agreement, Nikola Gruevski resigned in favour of an interim prime minister 100 days in advance of the elections that were scheduled for April 2016. The elections were later postponed to June 2016 after the EU and US expressed a view that satisfactory conditions for credible elections were not met. The Assembly was dissolved in April 2016 ahead of the planned June elections. In response, SDSM and other opposition parties announced they would boycott the elections, stating that conditions for free and fair elections had not been met yet. In late May 2016, the Constitutional Court ruled that the dissolution of the Assembly was unconstitutional, and the Assembly was reconvened and voted to postpone the election date. A new date for the elections has not yet been scheduled. When the new date for the elections is confirmed, in accordance with the Law on Government applicable to elections taking place in 2016, the Assembly will appoint interim additional deputy ministers 100 days prior to the date of the elections.

In April 2016, President Ivanov stopped investigations into 56 individuals, including politicians and their associates (one of the 56 subsequently deceased), some of whom are allegedly linked to wiretapping over 20,000 people and pardoned them. Public demonstrations ensued, and the EU and the US both urged the President to withdraw his decision to pardon. In June 2016, President Ivanov revoked all 55 pardons.

### International Relations

#### *General*

The Republic of Macedonia is a sovereign state at the crossroads of Central and Southeast Europe. Macedonia declared its independence from the Socialistic Federal Republic of Yugoslavia on 8 September 1991. Macedonia's main foreign policy objectives in the 1990s were to gain international recognition and to join the United Nations, both of which the country achieved by the end of the decade. Since then, Macedonia's foreign policy priorities have been NATO and EU accession and strengthening multilateral, regional and bilateral cooperation.

Macedonia has established diplomatic relations with 170 countries. Macedonia became a member of the United Nations in April 1993, the Organisation for Security and Cooperation in Europe (the "**OSCE**") in 1995, the Council of Europe in 1995 (including the Council of Europe Development Bank (the "**CEB**") in December 1997), and the World Trade Organisation (the "**WTO**") in April 2003. Macedonia is currently a member of more than 43 international organisations, agencies and bodies within the framework of the UN and other regional organisations, including the International Monetary Fund (the "**IMF**"), the World Bank Group, the International Bank for Reconstruction and Development (the "**IBRD**"), the International Development Agency (the "**IDA**"), the International Finance Cooperation (in each case, since February 1993), the Multilateral Investment Guarantee Agency (March 1993), the International Centre for Settlement of Investment Disputes (October 1998); the European Bank for Reconstruction and Development (the "**EBRD**") and the International Organisation of La Francophonie (2006).

Macedonia actively participates in all major regional cooperation organisations and initiatives in Southeast Europe, including the Southeast Europe Cooperation Process (the "**SEECP**"), the Regional Cooperation Council (the "**RCC**") and the Central European Initiative (the "**CEI**"). Macedonia is also seeking to join the Adriatic-Ionian Initiative and Organisation of the Black Sea Economic Cooperation ("**BSEC**"). In addition, it is a party to several regional agreements such as the Central European Free Trade Agreement ("**CEFTA 2006**"), Energy Community Treaty and European Common Aviation Area Agreement. The offices of several regional initiatives are seated in Macedonia, including the Migration, Asylum and Refugee Return Initiative (the "**MARRI**"), SEE Health Network, the National Associations of Local Authorities in Southeast Europe (the "**NALAS**") Network and the Regional Rural Development Standing Working Group of SEE. See "*Overview of the Republic of Macedonia — International Relations— Regional Relations*".

In recent years, there has been an increase in the number of migrants and refugees travelling to the European Union through Southeast Europe and applying for asylum in European Union countries. Macedonia is part of the transit route for many migrants from Syria, Iraq and Africa. Between 19

June and 31 December 2015, the Ministry of the Interior ("**MoI**") officially registered 399,233 persons who had declared an intention to apply for asylum in Macedonia, although the majority of them were only transiting in Macedonia and left the country after a few days finally resulting in 86 persons filing asylum applications during 2015. In August 2015, the Government officially declared a crisis situation, and increased its border security, particularly near the Greek and Serbian borders, where most migrants entered the country, and additional registration and security procedures for granting migrants and refugees asylum were implemented. While Macedonia's law enforcement authorities seek to maintain security, humanitarian assistance is provided in accordance with European and international standards. To assist in securing Macedonia's borders several countries (including Hungary, Croatia, Serbia, Slovenia, the Czech Republic, Slovakia, Austria and Poland) have seconded police officers and provided border surveillance equipment and financial assistance. In a recent agreement between Turkey and the EU, Turkey has agreed to take back asylum seekers who land in Greece via the Aegean Sea, in return for financial aid to help migrants in Turkey and easier Schengen visa regime for Turkish citizens. This is expected to ease the migrant tension at the Macedonia-Greece border.

***EU Accession***

Accession to the EU is a strategic priority of the Government. The country established diplomatic relations with the EU in early 1996. Additionally, it signed a cooperation agreement with the EU in 1996 when it also became a beneficiary of the PHARE Programme. At the time, the PHARE Programme was the main financial instrument of the pre-accession strategy for Central and Eastern European EU candidate members. Pursuant to the Schengen Agreement, Macedonian nationals have been able to travel to and within the EU without requiring a visa since December 2009.

In April 2001, the Republic of Macedonia signed the Stabilisation and Association Agreement (the "**SAA**") with the EU, becoming the first country in the region to do so, thereby taking an initial step towards EU membership. The Interim Agreement on Trade and Trade-Related Matters, a section of the SAA that entered into force in June 2001, allows for preferential access of Macedonian products to the EU common market. The SAA entered into force on 1 April 2004. Since 2004, Macedonia has focused on the implementation of the legal, administrative, institutional, and economic reforms required under the SAA.

Macedonia formally submitted its application for EU membership on 22 March 2004 and on 17 December 2005 was granted candidate country status by the European Council.

In accordance with the EU financial framework for the period between 2014 and 2020, pre-accession assistance is funded through the IPA. Since 2011, Macedonia has worked to transition from the first cycle of the IPA programme to the second cycle, IPA II, which was implemented in 2014 and is expected to remain on-going until 2020. Under IPA II, Macedonia is expected to receive approximately €664 million in assistance to use in fulfilling its pre-accession commitments, including commitments in the following sectors: (i) democracy and good governance, (ii) rule of law and fundamental rights, (iii) competitiveness and innovation, (iv) transport, environment and climate change, (v) education and employment, (vi) agriculture and rural development and (vii) regional and territorial cooperation. Unlike the strict separation of funds imposed during IPA I, IPA II allows for a more flexible division of funds between sectors and also accounts for the possibility of spill over amongst various sectors.

The Republic of Macedonia has continued to make progress towards full compliance with the SAA. April 2014 marked the ten-year anniversary of signing the SAA. The implementation of the SAA helped Macedonia achieve a satisfactory level of harmonisation with the regulations of the EU and impose European standards in the areas envisaged in the SAA. Article 5 of the SAA stipulates that within 10 years, the two-stage implementation process must be completed. In October 2009, based on Macedonia's progress in implementing the SAA guidelines, as well as general political and economic reformation, Macedonia was recommended to transit to the second stage of the SAA (pursuant to Article 5 therein) and was permitted by the European Commission to open accession negotiations with a view to full EU membership. The recommendation has been subsequently repeated by the Commission each year thereafter. Despite the European Commission's repeated recommendations, the European Council has not yet formally opened accession negotiations with Macedonia due to objections over the use of its constitutional name by Greece, on the basis that a region in northern Greece bears the same name.

In order to maintain progress in Macedonia's EU accession, since March 2012 the European Commission has created and tailored a pre-accession reform mechanism with the Government. Known as the High Level Accession Dialogue ("**HLAD**"), the initiative has focused on several key chapters of the EU legislation related to the rule of law and fundamental rights, freedom of expression, electoral reform, public administration reform and the market economy. This platform is intended to bridge the period preceding accession negotiations and to facilitate a prompt process once negotiations are opened.

The most recent HLAD meeting was held on 18 September 2015 in Skopje. The joint conclusion was that the HLAD provides significant support in the country's accession process. Macedonia expressed a strong commitment to continue with the implementation of its plan related to urgent reform priorities and the European Commission reiterated its willingness to support the country on that path.

Prior to Macedonia's accession to the EU, the country must fully harmonise with European legislation, or the *acquis communautaire* (the "**EU Acquis**"). The EU Acquis is divided into 35 chapters for the purposes of negotiations between the EU and the candidate countries. In order to meet the EU accession criteria, the chapters are screened by the European Commission, following which negotiations with respect to the relevant chapters are opened and continue until the European Commission is satisfied with its completion.

The vision and implementation of the accession agenda by the Macedonian government is reflected in the National Programme for the Adoption of the EU Acquis (the "**NPAA**"). This document represents a strategic plan of short and medium-term measures to meet political and economic criteria for accession, to support integration of the EU Acquis into the national legislation and to increase the capacities of Macedonian institutions for its enforcement. The NPAA is subject to annual review and revision, most recently in March 2016, and is scheduled to be revised for the eleventh time in December 2016, after the publishing of the Progress Report. The 2014 Progress Report stated that Macedonia maintained a high level of alignment with the acquis relative to where it was in the accession process.

On 15 December 2015, the European Council issued a statement that reaffirmed its previous conclusions regarding the Republic of Macedonia and reiterated its commitment to the EU accession process of the country.

In June 2015, following the renewal of political dialogue in the country, the European Commission presented to the Macedonian authorities a List of Urgent Reform Priorities for the country and recommendations of the group of senior experts on systemic issues of law relating to the interception of communications. Subsequently, the Government developed a Plan of activities for implementation of the urgent reform priorities, including previously undertaken HLAD obligations. The Plan was developed in cooperation with state institutions and political parties. It was also communicated with the European Commission. See "— *Overview of the Current Political Situation—June 2015 Agreement and 2016 Elections*".

### *NATO Accession*

Membership of the North Atlantic Treaty Organisation ("**NATO**") is also a strategic priority for Macedonia. Since its independence in 1991, Macedonia has worked to strengthen its ties with NATO and in December 1993 the Assembly voted in favour of Macedonia becoming a NATO member. Macedonia is an active participant in NATO's Partnership for Peace. Under the NATO Membership Action Plan (the "**NATO MAP**"), Macedonia launched a major effort to reform and reconstruct its armed forces in order to build and sustain a modern, professional defence force. Macedonia seeks to act as a de facto NATO ally through its contribution of troops to NATO's operations. Macedonia has expressed its commitment to contribute further to the post ISAF Mission "Resolute Support" in Afghanistan and has been recognised as an operational partner in this mission, which strives to help meet the needs of the recovering country.

In 2003, Macedonia, Albania and Croatia formed the Adriatic Charter (also referred to as the US-Adriatic Charter), with support from the United States. The Adriatic Charter seeks to foster cooperation on military and defence issues in order to promote regional stability and enhance the prospects for NATO membership of the member states. Under Macedonian chairmanship, Bosnia and Herzegovina and Montenegro joined the Adriatic Charter in November 2008. In the first half of 2016 Macedonia remained an active and committed member of the Adriatic Charter and expects to continue as such in the future. Macedonia's cooperation in the framework of the Adriatic Charter has not only accelerated security and defence reforms, but has also spurred development in the country.

As an active member in the Centre for Security Cooperation – Regional Arms Control Verification and Implementation Assistance Centre ("**RACVIAC**"), Macedonia actively participates in various programmes, conferences, trainings and forums organised by RACVIAC on a regular basis, all of which contribute to regional stability and security.

At the Bucharest summit in April 2008, NATO members decided that Macedonia met all criteria for membership, but decided to postpone its membership invitation until a mutually acceptable solution to the constitutional name disagreement with Greece had been reached. NATO's intention to extend membership to Macedonia has been repeated at subsequent NATO summits. Following Greece's objection to Macedonia's membership of NATO at the NATO Bucharest summit of April 2008, Macedonia filed an application with the International Court of Justice (the "**ICJ**") against Greece for violation of Article 11 of the UN-brokered Interim Accord signed by the parties in 1995 (the "**Interim Accord**"), pursuant to which Greece is obliged not to object to Macedonia's membership of international organisations. The ICJ ruled that Greece had violated the terms of the Interim Accord by blocking Macedonia's accession to NATO. The ruling is legally binding and has continuous applicability. While NATO's intention to extend membership to Macedonia has been reaffirmed at subsequent NATO summits, the organisation has also reiterated that it will not extend an invitation until the dispute has been resolved.

In September 2015, Macedonia concluded its 16th NATO MAP. It is currently in its 17th NATO MAP cycle. Macedonia's Parliament recently passed a declaration affirming the country's commitment to NATO membership.

### *Relations with the United States*

Macedonia and the United States have maintained positive bilateral relations since Macedonia's independence in 1991. Macedonia was formally recognised by the United States on 8 February 1994 and the two countries established full diplomatic relations on 13 September 1995. In 2004, the United States recognised Macedonia under its constitutional name.

The partnership with the United States on both a bilateral and a multilateral level has best been demonstrated through the cooperation of Macedonia's military troops under the Iraq and Afghanistan missions aimed at achieving the common goals of countering terrorism and promoting international security.

In May 2008, Macedonia and the United States signed a joint Declaration of Strategic Partnership and Cooperation. On the basis of this declaration, both governments sought to enhance their relations and broaden cooperation across a range of bilateral issues, including security, people-to-people ties and commerce.

The United States Agency for International Development ("**USAID**") has also provided support for Macedonia's development. For example, USAID/Macedonia's Country Strategic Plan ("**CSP**"), which covered the period from 2011 to 2015, was aimed at supporting the rule of law and democratic reform, sound economic policy and regional stability.

***Regional Relations***

Macedonia seeks to further develop good-neighbourly relations with all of its neighbouring countries and to foster regional co-operation, through political, economic, trade and cross-border cooperation. Macedonia has no open border issues with any of its neighbours and has achieved full border demarcation. Macedonia actively encourages opening new border crossings with its neighbours to increase mutual cooperation and communication.

In December 2006, Macedonia, together with Albania, Bosnia and Herzegovina, Croatia, Moldova, Montenegro, Serbia and UNMIK/Kosovo signed the CEFTA 2006, which came into force in November 2007. The main purpose of the CEFTA 2006 was to achieve significant trade liberalisation amongst its signatories. It provides for the creation of a single free trade zone and includes a single common approach towards the protection of intellectual property rights, investment policies, public procurements protection measures and other comprehensive measures.

Macedonia has also concluded a trade agreement with the European Free Trade Association. This multilateral agreement provides for preferential customs duties on industrial and agricultural products for a transitional period until a free trade area has been established.

Macedonia is party to a number of other agreements for trade and economic cooperation which are in conformity with the level of relations of these countries with the EU.

***Relations with Greece***

Since Macedonia's independence, Greece has objected to the country's use of its constitutional name "Macedonia" on the basis that a region in northern Greece bears the same name. Macedonia's relations with Greece improved with the conclusion of the Interim Accord, which ended the 19-month trade embargo imposed by Greece on Macedonia in February 1994 and set forth a legal framework for preventing the name difference from affecting the development of good-neighbourly relations. Since then, the political dialogue between the two countries has moderately improved and diplomatic relations have moderately normalised. In 1996, Macedonia and Greece opened liaison offices in Skopje and Athens. In October 2004, Macedonia opened a trade and consular office in Thessaloniki, and Greece opened a similar office in Bitola in October 2005. Greece has become one of the largest foreign investors in Macedonia with investments in the banking, petrochemical and textile industries.

Nevertheless, the difference over the use of the constitutional name of Macedonia remains an obstacle to the full normalisation of bilateral relations and cooperation, particularly with respect to Macedonia's accession to the EU and NATO. See "*International Relations —EU Accession*" and "*International Relations — NATO Accession*" above.

Macedonia actively participates in the on-going talks pursuant to United Nations Security Council ("**UNSC**") resolution 817 (1993) aimed at resolving the name disagreement. In June 2015, the Greek Foreign Minister visited Macedonia, the first high level bilateral visit in almost 11 years.

At the meeting, the Greek and Macedonian Foreign Ministers agreed on a set of confidence-building measures to be implemented going forward, which are aimed at creating a positive relationship conducive to resolving the name dispute.

The latest round of talks regarding confidence-building measures were held in Athens on 13 June 2016, with the participation of relevant experts from each country. The focus of the discussions included connectivity projects, police cooperation, European programmes, cooperation between the countries' Diplomatic Academies and launch of business initiatives.

***Relations with Albania***

Relations with Albania, founded on shared foreign policy goals of European and Euro-Atlantic integration and engagement in regional and multilateral cooperation, have been developing steadily. Open political dialogue on issues of mutual interest is accompanied by cooperation across a number of areas. Bilateral communication includes regular visits and meetings at ministerial, prime ministerial and presidential levels, dynamic economic relations and people-to-people contacts. The Albanian community in Macedonia and Macedonian national minority in Albania demonstrate cooperation between the two countries, though there is mutual interest to further deepen economic cooperation, particularly in the areas of transport and communications. In early 2015, Macedonian President Ivanov made an official visit to Tirana to continue to develop relations.

***Relations with Bulgaria***

Bilateral relations with Bulgaria have been progressing steadily, based on shared foreign policy objectives of EU and NATO integration of the region. There are over 50 bilateral cooperation agreements in place.

In December 2012, Bulgaria announced it would join Greece in blocking EU accession negotiations for Macedonia. Since then, political relations with Bulgaria have been positive with regular high-level dialogue focused on practical cooperation projects in areas such as infrastructure, economy and improving interconnectivity. Discussions on finalising a friendship treaty between the two countries are in progress. It is expected that the treaty will enhance political and economic relations, improve regional and multilateral cooperation and develop sector and inter-institutional cooperation and joint participation in infrastructure-related activities.

***Relationship with International Organisations and Private Foreign Investors***

Macedonia depends on its relationship both with International Financial Institutions ("**IFIs**") and with private foreign investors to finance major infrastructure, health, education and other social and economic projects that the Government deems critical to Macedonia's continued development and EU Acquis harmonisation efforts. For further details relating to historic and planned expenditure associated with the organisations discussed below, see "*Indebtedness — External General Government Debt — International Financial Institutions" and "Macedonian Economy — Public Investments*".

***International Monetary Fund***

Since 1994, Macedonia has received assistance from the IMF in the form of stand-by arrangements and other types of financing facilities, including the Systematic Transformation Facility, Enhanced Structural Adjustment Facility, Compensatory and Contingency Financing Facility, Poverty

Reduction and Growth Facility, Extended Fund Facility and Precautionary Credit Line. The IMF has historically worked closely with Macedonia to foster macroeconomic stability and encourage structural reform so as to increase the pace of economic growth. For further information, see "*Indebtedness — External General Government Debt — International Financial Institutions — International Monetary Fund*."

***World Bank***

Macedonia joined the World Bank in 1993 and has received bank financing assistance targeted at specific projects and public sector, financial and infrastructural reforms. The World Bank has historically worked to maintain macroeconomic stability and develop a sound financial sector in Macedonia. Committed loans, guarantees and grants from the World Bank to Macedonia totalled approximately US$1.9 billion as at 31 December 2015. The World Bank has supported Macedonia in its efforts to join the EU through: (i) fostering economic growth, job creation and improving living standards and (ii) improving the governance and transparency of public service delivery to support the market economy. The World Bank has stated that its current objectives for Macedonia are to provide selective and targeted financing and knowledge advisory services to improve competitiveness, employment opportunities, job creation, reducing poverty and sustainable resource use, with the ultimate goal of attaining faster and broader economic growth.

In the medium term, Macedonia intends to continue its cooperation with the World Bank by focusing on the continued implementation of existing projects financed by the World Bank, as well as on the implementation of a new four-year Country Partnership Strategy ("**CPS**") for the period from 2015 to 2018. The current portfolio includes the following projects:

- *Conditional Cash Transfers Project*. This project is designed to strengthen the effectiveness and efficiency of the social safety net through the introduction of conditional cash transfers and improvements in the administration, oversight, monitoring and evaluation of social assistance transfers.

- *Skills Development and Innovation Support Project*. The goal of this project is to improve the quality of university and vocational education, and to provide public financial support for encouraging new innovations from local companies.

- *Project for AD MEPSO-ECSEE APL3 and associated additional financing*. This project aims to integrate the Macedonian electricity network into the broader Southeast Europe electricity market, offering significant local and regional benefits upon completion. The project is expected to be completed by July 2016.

- *The Regional and Local Roads Programme Support Project*. This project is intended to reduce the cost of access to the markets and services for communities served by regional and local roads, and improve the condition and the quality of part of the network of regional and local roads.

- *Municipal Service Improvement Project and associated additional financing*. This project is intended to improve the transparency, financial sustainability and delivery of targeted municipal services in participating municipalities by providing loans and grants for financing investments in revenue-generating public services and investment projects with cost-saving potential.

- *National and Regional Roads Rehabilitation Project*. This project is aimed at improving the connection of selected national and regional roads with Corridors X (which runs between Salzburg and Thessaloniki) and VIII (which runs between Durres, Albania and Varna, Bulgaria), as well as improving national road safety.

- *Road Upgrading and Development Project*. The purpose of this project is to improve transportation connectivity for road users along Corridor VIII, which is used for travel between Skopje and Deve Bair.

In 2017, the Second National and Regional Rehabilitation Project, which is focused on constructing several regional roads throughout the country, is expected to commence.

***European Investment Bank***

Since 1998, the European Investment Bank ("**EIB**") has contributed to the realisation of the Government's priorities for investment in road infrastructure, energy, small and medium enterprise development, water supply and other public works.

The EIB supplied funding to build two motorway sections situated on Corridors VIII and X, which were selected for development by successive Pan-European Transport Ministers Conferences. The development of the motorway network is intended to facilitate international traffic and foster exports, both of which are important to the Macedonian economy (see "*Macedonian Economy — Public Investments*"). In the energy sector, the EIB supported the rehabilitation and modernisation of various power substations and lines in and around the capital, Skopje and Western Macedonia. This project aims to maintain and improve the quality and reliability of power supply, reducing maintenance costs and technical losses. Under the APEX global loan, the EIB has also provided substantial funds for small and medium-sized investments by private companies and local municipalities.

An EIB project for the financing of small and medium enterprises ("**SME**") and other priority projects, launched between 2009 and 2015, was instituted in response to the economic and financial crisis in order to provide fresh capital for SMEs. Four SME credit lines amounting to an aggregate of €350 million were approved between 2009 and 2015. The EIB also supported a Water Supply and Wastewater Collection Project, which included investments in rehabilitating, upgrading and constructing new water infrastructure, water supply systems, drinking water treatment facilities, wastewater drainage systems, faecal sewage systems and wastewater treatment stations in the municipalities in Macedonia. This project is expected to finish by December 2018.

The project "Utilisation of the Water from the HS Zletovica" was planned to be implemented in three phases. Following completion of the first phase, financed by a loan from the Japan International Cooperation Agency, the Government expects that its cooperation with the EIB will be focused on the implementation of the remaining second and third phases of this project. Phase 2 includes irrigation of 4,500 hectares in the region of municipalities Probistip and Kratovo, aimed at promoting stable economic development for citizens in this region and quality food production. Phase 3 includes construction of hydropower plants along the river Zletovica aimed at increasing the availability of electricity in Macedonia, thereby developing opportunities for new employment in the region. The preparation of all necessary documents for the commencement of Phases 2 and 3 is nearing completion and was financed by a Western Balkans Investment Framework ("**WBIF**") grant of €1 million. It is expected that these documents will be finalised by the end of 2016, and that loans will be secured for these two phases in 2017.

***European Bank for Reconstruction and Development ("EBRD")***

The EBRD has been active in Macedonia since 1993. In the period covered by the existing Strategy for the Republic of Macedonia (2013 to 2016), EBRD initiatives have been aimed at enhancing the competitiveness of and facilitating private investment in the corporate and municipal sectors, promoting energy efficiency and sustainable energy and advancing regional integration.

The EBRD works closely with the Macedonian authorities and other key partners such as the EIB and the EU on financing road and other transportation projects. Key projects that have been implemented with EBRD support include:

- *The Project for Construction of New Motorway Section Demir Kapija - Smokvica as Part of Pan–European Corridor X. See "—Jointly financed projects by international finance institutions".*

- *Project for Construction and Installation of Electronic Toll Collection System along Corridor X*. This project envisages reconstruction, extension, and modernisation of the existing toll stations along Corridor X; the relocation of, modernisation of and increase in the number of toll collection lanes at the Petrovec, Sopot and Otovica toll stations; and construction of two new toll stations in Demir Kapija and Gevgelija. All seven toll stations are expected to be completed by the end of 2016.

- *The Rehabilitation and Construction of the Eastern Part of the Railway Corridor VIII*. This project aims to further develop the rail transportation system, which is expected to increase trade and interconnectivity amongst neighbouring countries, in an effort to increase competitiveness, promote economic development and improve communication with other European countries. Rehabilitation of the first and second sections of the railway is being financed by the EBRD loans obtained in 2012 and 2014.

- *Regional and Municipal Roads Programme.* This project aims to improve the conditions and the quality of part of the regional and local road network in the Republic of Macedonia. Improvement of road infrastructure is expected to create better living conditions, as well as opportunities for better economic development in specific areas.

- *National Roads Programme*. The purpose of this project is to assist in the construction of four national road sections. Construction works for two of the four road sections are expected to begin in the middle of 2016. The construction of the other two road sections is expected to begin in 2017.

- *Construction of Shtip – Radovish Road Section.* This project aims to improve the quality of road infrastructure in Macedonia. It is expected that the completion of this project will facilitate the transportation of people, goods and services in the southeastern part of Macedonia.

- *Project for 400 kv long-distance power line interconnection between TC Bitola 2 (Republic of Macedonia) and TC Elbasan (Republic of Albania).* This project envisages construction of a new 400/110 kv long-distance power line in Ohrid, approximately 90 kilometres in length. It is the first project to envisage the connection of electricity systems between the Republic of Macedonia and Republic of Albania. It is expected that, once this project is completed, it will also allow Macedonia to become a more important energy crossroad in the Balkan area.

The EBRD has also provided financing for the renewal of several rail sections of Corridor X, aiming to reduce future maintenance costs and ensure safer and more efficient travel along these sections. They have also supported a programme to renew the rolling stock of Macedonian Railways, where 150 wagons, three new electric passenger units and three new diesel passenger units have already been purchased and three electric locomotives are planned to be purchased by the end of the year in 2016.

In the energy sector, the EBRD is supporting Macedonian hydropower with the financing of the Boskov Most Hydro Power Plant Project. The project aims to ensure an efficient, secure and environmentally sustainable energy supply, in line with EU eligibility criteria.

In addition to the activities for the implementation of ongoing projects in 2016, cooperation with the EBRD is expected to focus on preparation of the following projects: (i) Deve Bair Border Crossing – Kriva Palanka Road Section Project, which includes complete rehabilitation and reconstruction of the section, and (ii) Additional Financing of Railway Fleet Renewal Project, which is aimed at satisfying the needs of Macedonian Railway Transport and providing efficient and effective passenger traffic, through the supply of five new additional passenger units.

***Council of Europe Development Bank ("CEB")***

The CEB has supported the realisation of numerous social investment projects in Macedonia, including in the fields of education, social housing, and rehabilitation. Key projects financed by the CEB include:

- *The Physical Education Facilities Project and Physical Education Facilities and Rehabilitation of Primary and Secondary Schools Project.* These projects are part of a broader effort by the Government to improve the educational system in the country, with particular emphasis on enhancing the performance of students, improving their long term health, and stimulating social interaction among students with different backgrounds, capabilities, and aptitudes.

- *Project for Construction of Low-Income Rental Housing in the Republic of Macedonia*. This project is aimed at strengthening the development of the Government's social policy through the fight against poverty and social exclusion of low-income persons and vulnerable groups, by providing them with adequate housing.

- *Prison Reconstruction Project*. This project includes construction, reconstruction, refurbishment and expansion of prisons and correctional facilities in Macedonia in line with international standards, including the European Prison Rules, and is intended to strengthen the protection of the inmates' dignity, improve their living conditions and provide better working conditions for the employees in the above-mentioned institutions.

- *Project for Rehabilitation of Health Provider Institutions in the Republic of Macedonia*. The project seeks to improve health infrastructure and operational conditions for the delivery of adequate healthcare services and to introduce modern medical equipment and technology to replace most of its existing obsolete equipment. This project includes immediate actions for rehabilitation of 24 health provider institutions.

- *Project for Construction of the Clinical Centre "Mother Teresa" in Skopje and Construction of the Regional Clinical Hospital in Shtip*. The overall objective of the project is to contribute to the implementation of healthcare reform in the Republic of Macedonia by creating a network of modern regional clinical hospitals, and to improve conditions for the provision of tertiary health care services in line with EU countries.

***Jointly financed projects by international finance institutions***

Jointly financed projects are typically regionally significant, complex projects with considerable capital requirements that may exceed levels that an individual institution would be willing to bear, and which are therefore financed by more than one international financial institution. These are typically major transportation and energy sector infrastructure projects marked as the highest priorities of the Government because of their importance for country development, and sustainable and equally distributed economic growth.

Jointly financed initiatives include:

- *Construction of New Motorway Section Demir Kapija - Smokvica as Part of Pan–European Corridor X Project.* This project is intended to enhance this road by constructing a 28-kilometre motorway which will complete the main axis of Corridor X, which passes through the Republic of Macedonia. The project is being financed with loans by the EBRD and EIB, a grant from IPA and the budget of the Republic of Macedonia.

- *Construction of the third section of Rail Corridor VIII, section Kriva Palanka-Deve Bair border with Bulgaria*. The Government intends to use grant funds from IPA II, while the remaining amount will be provided by a loan from the EBRD, EIB and other international financial institutions.

***Bilateral Initiatives***

In addition to support from IFIs, the Government relies on financing from private third parties in order to pursue its domestic growth strategy and implement related initiatives. See "*Macedonian Economy — Public Investments*". Key partners and projects are discussed below.

*Japan International Cooperation Agency ("**JICA**")*

- *Lake Ohrid Sewerage Improvement Project*. This project includes rehabilitation of the current system for the collection and treatment of waste water in the Ohrid Lake Region, as well as other necessary measures to protect the Ohrid Lake. The project will be implemented in cooperation with the JICA. According to the Final Report issued in December 2015, the total investment will amount to approximately €47.5 million.

*Kreditanstalt für Wiederaufbau ("**KfW**")*

Cooperation with KfW is focused on projects related to water supply, energy and renewable energies. Recent projects include initiatives to provide affordable and sustainable supplies of drinking water and to upgrade the efficiency and safety compliance standards of Macedonia's hydropower plants. In cooperation with KfW, Macedonia is implementing the following projects:

- *Water and Sewerage Programme Macedonia - Phase I*. The primary objective of this project is ensuring a sustainable water supply to the population in the selected municipalities at socially acceptable costs. The more urgent operations in the water supply systems have been successfully completed, and are intended to ensure a sustainable supply of drinking water for the population of the eight municipalities included in the project (Bitola, Gevgelija, Gostivar, Kavadarci, Kocani, Negotino, Radovis and Tetovo).

- *Irrigation Programme Southern Vardar Valley*. This project involves the sustainable development of agricultural production through construction of irrigation systems in Southeast Macedonia. Within the first phase of this project, irrigation systems were built, covering approximately 2,500 hectares of arable land. The second phase of this project includes rehabilitation and modernisation of the irrigation systems in the municipality of Valandovo.

- *Project for District Heating of Bitola*. This project aims to replace the use of electricity, oil and wood for heating, instead using heat waste from a power plant, thereby reducing greenhouse gas emissions and improving the reliability of the distribution network. Connections may also be provided to future distribution networks Novaci, Mogila and Logovardi, depending on interest.

*Deutsche Bank*

- *Project for Modernisation of TPP Bitola Unit 1, 2 and 3.* This project is expected to extend the life cycle of boilers at the Bitola thermal power plant by an additional 120,000 hours, and to increase boiler efficiency and reduce nitrous oxide emissions, as well as to prevent higher electricity imports, with the long term goal of establishing stability in the Macedonian power system and complying with relevant EU directives. Revitalisation and modernisation of boilers and their supporting systems is intended to increase the longer-term efficiency of the plant and improve its reliability. Modernisation of TPP Bitola Units 2 and 3 is nearing completion and Unit 1 is expected to be modernised in 2017.

- *Project for Building a Gas Pipeline System in Republic of Macedonia.* This project aims to build a gas transportation pipeline and a thermoelectric plant to increase efficiency in transporting gas to facilities expecting to have high demand. The construction of the section from Klecovce to Valve Station 5, totalling 61 kilometres in length, is in progress and is being financed with budget funds and funds from the debt obligations of the former USSR to the Republic of Macedonia (an agreement was finalised in June 2010 between the Republic of Macedonia and the Government of the Russian Federation regarding outstanding trade obligations between the Former USSR and the Former Yugoslavia). With a loan from Deutsche Bank AG and Erste Group Bank AG, the Republic of Macedonia is financing the construction of the following sections: (i) Section from Valve Station 5 to Negotino, totalling 36 kilometres in length, (ii) Section from Negotino to Bitola, totalling 92 kilometres in length and (iii) Section from Skopje via Tetovo to Gostivar, totalling 76 kilometres in length. These sections are expected to be completed by December 2018.

*Export-Import Bank of China*

In 2014, two major infrastructure projects financed by loans from the Export-Import Bank of China were commenced: (i) construction of highway section Miladinovci - Stip with total length of 47 kilometres (US$278.37 million) and (ii) highway section Kicevo – Ohrid, with a total length of 57 kilometres (US$505.04 million). By developing road infrastructure in this part of Macedonia, the Government hopes to ensure more efficient, secure, and safe road traffic. The construction of the highway section Miladinovci – Stip is expected to be finished in the first half of 2017, and the construction of the highway section Kicevo – Ohrid is expected to be finished in the first half of 2018.

For further detail, see "*Indebtedness — External General Government Debt — International Financial Institutions*".

**Legal Proceedings**

Except as described below, the Republic is not and has not been involved in any government, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Republic is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on the Republic's financial position.

On 6 August 2012, Fiduciary Trust, Ltd f/k/a Capital Conservator Savings & Loans, Ltd filed a request for arbitration against Macedonia with the International Centre for Settlement of Investment Disputes in Washington D.C., seeking damages for alleged unlawful activities and actions taken by Macedonia and its institutions in connection with money laundering proceedings against an employee of the business' operation in Macedonia. The claimant alleged that the Government's activities caused damage to the claimant's work in Macedonia, citing the Agreement on Promotion and Mutual Protection of Investments between the Government and the government of the Netherlands, ratified by the *Law on ratification of the agreement on encouragement and mutual protection of investments between the Macedonian government and the Dutch Government* (Official Gazette of RM.br.13/99).

The Republic challenged the competence of the tribunal to address the request of the plaintiff, and the claim was dismissed in September 2015.

## MACEDONIAN ECONOMY

### Overview

Following independence in 1991, Macedonia faced significant economic challenges as it transitioned from a centrally planned economy to a market economy. In particular, the collapse of the former Yugoslavia and the subsequent closing of its markets in the early 1990s, the unallocated external debt of the former Yugoslavia that was assumed by Macedonia and the deficit of funds in the health and social sectors all contributed to macroeconomic instability in Macedonia. This instability manifested through a sharp contraction of GDP, high unemployment and hyper inflation. The economy was also adversely impacted by a trade embargo imposed by Greece from February 1994 through October 1995, the war in Bosnia, international sanctions imposed on Serbia (Macedonia's largest trading partner at the time) and the crisis in Kosovo. By 1998 the situation had stabilised and Macedonia's annual real GDP growth rate from 1998 through 2015 was 3.0% per annum, reflecting progress on economic reform, free trade, and regional cooperation.

In 1992, the Government began introducing broad reforms to the economic system, including liberalisation of markets, privatisation of ownership and restructuring industries and companies. It introduced this process with a series of changes to fundamental aspects of the economy in the mid-1990s, including introduction of the Macedonian Denar in 1992 and initiatives to reduce previously high levels of inflation, combined with an intensification of the privatisation process. More significant reforms were introduced after 2000, including the introduction of value added tax ("**VAT**") to the tax regime in April 2000 and the adoption of the law on foreign exchange operations in 2001 allowing free flow of capital. Fiscal decentralisation started in 2004, facilitating greater autonomy for Macedonia's municipalities.

Macedonia developed its trade relationship with the EU through free trade agreements for textiles and transportation towards the end of the twentieth century, culminating in the signing of the SAA in April 2001. Macedonia joined the WTO in April 2003, and has since entered into numerous bilateral and multilateral trade agreements. As a result, trade plays an important role in Macedonia's economy.

Privatisation in Macedonia started in 1989 and continued for over a decade before the privatisation agency was closed in 2005, during which time approximately 1,750 enterprises were privatised. As a result of the privatisation process, the Macedonian economy is primarily based on private ownership, with the market economy functioning on the principles of free interaction between supply and demand.

EU accession remains a key strategic priority for Macedonia. Recognising the progress that Macedonia has made in meeting the Copenhagen criteria, the European Commission granted Macedonia official candidate status for EU membership in 2005, and has subsequently recommended that Macedonia commence accession discussion. See "*Overview of the Republic of Macedonia — International Relations — EU Accession*".

Since achieving candidate status for EU membership in 2005, Macedonia has implemented an ambitious reform programme aimed at stimulating economic growth and improving the living standards of Macedonian citizens through the development of the private sector, improvement of the investment climate and greater job creation. These reforms are intended to unify the Government's policies with certain macroeconomic criteria required by the EU, as well as ensure that the country's laws are in compliance with the EU framework. These reforms have focused on improving the conditions for doing business in Macedonia, mainly through reduced bureaucratic procedures and administrative burden on the firms, as well as through substantial tax reforms. In 2009, a series of measures combined tax bases for social contributions and personal income tax and streamlined the tax collection process. These reforms have contributed to a range of economic and social achievements, including a general increase in FDI (including foreign greenfield investment) since 2010 and a decrease in the unemployment rate from 36.0% in 2006 to 24.6% by 31 December 2015. Although unemployment levels remain high, Macedonia was one of the few countries in Europe where unemployment continued to decline during the global economic crisis, reflecting the anti-crisis measures implemented between 2009 and 2012 and broader structural changes in the economy.

Economic policies have also been designed to improve Macedonia's international competitiveness by enhancing support of innovation and entrepreneurship. In 2014, the government-backed Innovation Fund was established; this Fund offers grants and co-financing to companies for research and innovation projects. The Government has also encouraged capital investment in new industries by creating technological industrial development zones ("**TIDZs**") that comply with EU competition regulations throughout the country for foreign and domestic investors. As at 31 March 2016, there were five operational TIDZs in Macedonia and an additional 12 TIDZs were envisioned by the Government in other regions in the near future. There are 23 companies in the TIDZs that are operating actively or building operating capacity. See "— *Key Components of the Economy — Industry*".

## Economic Policy

Government economic policy is focused on fulfilling Macedonian requirements for EU membership, accelerating economic growth, job creation and the development and improvement of the standard of living in Macedonia. In pursuit of these objectives, the Government has instituted the following key initiatives:

- Increasing the competitiveness of Macedonian enterprises through structural reforms; increased investments in IT, technology and education; and strengthening the quality of the labour force;

- Attracting greater levels of foreign and domestic investment by simplifying and improving regulations, increasing the transparency and efficiency of Government institutions and operations, improving public infrastructure and creating easier access to financial resources; and

- Improving the quality of public institutions to better implement reforms, reducing the grey economy, providing greater protection for creditors, facilitating faster execution of financial obligations, decreasing public consumption and combating corruption.

### *Global comparison*

Macedonia has shown a sustained commitment to implementing reforms in order to improve national competitiveness and promote economic growth. As a result, the World Bank's *Doing Business 2016* report (the "**Doing Business 2016 report**") ranked Macedonia 12 out of 189 countries that have undertaken significant reforms to facilitate business, an improvement from a ranking of 14 out of 189 countries in the World Bank's *Doing Business 2015* report. As such, Macedonia ranked ahead of all countries in the region and 24 EU Member States, all except Denmark, the United Kingdom, Sweden and Finland. According to the *Doing Business 2016* report, Macedonia ranks second in terms of ease of starting a business through its implementation of an electronic platform for registering new businesses. The same metrics rank Macedonia ahead of many countries in Europe and Central Asia in terms of the number of procedures and days it takes to register a business, the cost as a percentage of income per capita to start a business and the minimum paid-in capital that must be deposited following incorporation. Macedonia was also ranked highly in terms of regulatory efficiency and transparency in the area of construction. The table below shows the comparative ranking of Macedonia against selected neighbouring countries in this report.

| | Macedonia | Montenegro | Croatia | Slovenia | Serbia | Bulgaria |
|---|---|---|---|---|---|---|
| | | | Ranking | | | |
| Ease of Doing Business .... | 12 | 46 | 40 | 29 | 59 | 38 |
| Starting a Business........... | 2 | 59 | 83 | 18 | 65 | 52 |
| Dealing with Construction Permits .......................... | 10 | 91 | 129 | 71 | 139 | 51 |
| Getting Electricity............ | 45 | 163 | 66 | 35 | 63 | 100 |
| Registering Property ......... | 50 | 79 | 60 | 36 | 73 | 63 |
| Getting Credit .................. | 42 | 7 | 70 | 126 | 59 | 28 |
| Protecting Minority Investors ....................... | 14 | 36 | 29 | 7 | 81 | 14 |
| Paying Taxes ................... | 7 | 64 | 38 | 35 | 143 | 88 |
| Trading Across Borders.... | 26 | 42 | 1 | 1 | 23 | 20 |
| Enforcing Contracts.......... | 26 | 43 | 10 | 117 | 73 | 52 |
| Resolving Insolvency ....... | 37 | 36 | 59 | 12 | 50 | 48 |

*Source:* Doing Business 2016, World Bank

In the 2015 Global Competitiveness Report of the World Economic Forum, Macedonia is ranked 60 out of 144 countries, an improvement from 63 in the 2014 report and from 73 in the 2013 report. Further, according to the World Bank and PricewaterhouseCoopers *Paying Taxes 2016 Report*, Macedonia has the fifth lowest Total Tax Rate, reflecting the fact that it does not levy corporate income tax on reinvested profits, an absence of labour taxes that are paid by the employer and low levels of "other" taxes, which include vehicle taxes, environmental taxes, road taxes, property taxes, property transfer fees, taxes on checks and cascading sales tax. The Total Tax Rate is currently 12.9%.

Macedonia was ranked 66th in the 2015 Transparency International Corruption Perceptions Index, a decrease of two places from 2014, which year had shown an improvement of three places from 2013. See "*Overview of the Republic of Macedonia — The Judicial System — Anti-Corruption measures*".

**Economic developments and trends**

The table below sets out key indicators of the Macedonian economy for the years indicated. Major trends behind these movements are outlined in the discussion that follows.

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Real GDP growth (%)................. | 2.3 | (0.5) | 2.9 | 3.5 | 3.7 | 2.0 |
| Consumer Price Inflation ............ | 3.9 | 3.3 | 2.8 | (0.3) | (0.3) | (0.1) |
| Budget deficit (% of GDP) ......... | 2.5 | 3.8 | 3.8 | 4.2 | 3.5 | 1.0 |
| Budget deficit (% change) .......... | 2.6 | 53.5 | 1.0 | 9.8 | (17.6) | (10.6) |
| Central Bank bills interest rate (%) ............................................ | 4.0 | 3.8 | 3.3 | 3.3 | 3.3 | 3.3 |
| Unemployment (%)..................... | 31.4 | 31.0 | 29.0 | 28.0 | 26.1 | 24.5 |
| Unemployed persons (% change)....................................... | (1.8) | (0.8) | (5.2) | (3.0) | (7.4) | (11.7) |

*Source*: State Statistical Office, Ministry of Finance and National Bank of the Republic of Macedonia

*2011*

Macedonian real GDP grew by 2.3% in 2011, driven primarily by increased foreign demand during the first half of the year, as well as an increase in government capital expenditures, credit activity and employment, with such gains partially offset by the negative effects of the sovereign debt crisis that affected EU member states during the second half of the year. Due to the EU's role as Macedonia's major trade partner, the favourable trend in the first half of the year reversed over the second half of 2011 in the domestic industry and the export sectors.

The unemployment rate decreased by 0.6% in 2011 compared to 2010, declining to a full year average of 31.4%.

The general price level in 2011 increased by 3.9% on average compared to the year ended 31 December 2010, driven primarily by increased food and energy prices.

After the decrease in the previous year, the interest rate for CB Bills remained at 4.0% in 2011. Inflation accelerated in the first half of the year, following which Macedonian monetary policy was guided by the uncertainty clouding the economic outlook of the majority of EU countries, as compared to the year ended 31 December 2010, alleviated by NBRM interventions on the foreign exchange market and its retention of adequate levels of foreign reserves, combined with its easing bank liquidity requirements. Total bank deposits and total credits increased by 9.2% and 8.5%, respectively, in 2011.

In 2011, the budget deficit was 2.5% of GDP, which was in line with expectations. Total budget revenues for 2011 increased by 3.8% as compared to 2010. In 2011, tax revenues increased by 7.0% as compared to 2010, primarily as a result of an increase in VAT revenues of 12.0%. Total budget expenditures increased by 4.2% and realisation of capital expenditures increased by 15.5%, each as compared to 2010.

*2012*

Macedonian real GDP declined by 0.5% in 2012, due to the negative contribution of net exports as a result of the sovereign debt crisis, offset by increased government and private sector investment, and the realisation of new investments in the TIDZs. Macedonian exports decreased by 2.8% during the year ended 31 December 2012, reflecting decreased demand on Macedonia's principal export markets accompanied by decreased global metal prices and declining global demand for iron and steel.

Average annual inflation in 2012 was 3.3%, driven by the increase in the prices of electricity, heating energy and food.

Monetary policy in 2012 was driven by prevailing economic and financial conditions and the assessments of the future prospects. During the year, the maximum interest rate on CB Bills auctions was reduced from 4.0% to 3.75%. Total loans grew by 5.4%, despite the tightening of lending terms by domestic banks facing economic uncertainty stemming from the perceived instability of the EU finance and banking system. During the same period, there was a limited increase of non-performing loans to the non-financial sector (to 10.3% of total loans on average in 2012, from 9.5% in 2011) which also contributed to the decreased growth in credit activity in 2012.

In 2012, the budget deficit was 3.8% of GDP, which was higher than anticipated. Total budget revenues for 2012 increased by 0.7% as compared to 2011, with tax revenues and social contributions accounting for 85% of total revenues. Total budget expenditures increased by 4.8% as compared to

2011. Capital expenditures in 2012 increased by 5.9% as compared to 2011 and represented 12% of total expenditures.

In 2012, the number of employed persons increased by 0.8%, with the employment rate increasing to 39.3% and the unemployment rate decreasing to 31.0%. These positive trends reflected the successful implementation of economic policy, resulting in job creation and a gradual increase in the number of employees.

The average nominal net wage in 2012 increased by 0.3% over the previous year, while the average nominal gross wage increased by 0.2%. The relative growth slowdown was mainly due to reduced wages in agriculture, and to a lesser extent to the slowdown of the wage growth in the industry and services sectors. Net and gross wages registered a real decline of 2.9% and 3.0%, respectively.

*2013*

Macedonia's real GDP increased by 2.9% in 2013, driven primarily by an increase in exports, as well as a significant increase in construction activity in connection with increased government expenditures on infrastructure projects and foreign and domestic investment in TIDZs. Export of goods registered an increase of 3.6% during the year, in large part due to operation of production facilities in the TIDZs, which the Government estimates accounted for approximately 25% of total exports in 2013. By contrast, import of goods decreased by 1.7% in 2013. Domestic demand also made a positive contribution to GDP growth, with consumption increasing by 1.6% and gross investment by 0.5%.

The inflation rate in 2013 was 2.8%, driven largely by lower energy prices.

The interest rate on CB Bills was further reduced, resulting in an annual average rate of 3.3%. Total loans increased by 6.4%, and total deposits by 6.1%, both driven by overall favourable macroeconomic trends.

Continued improvement in the labour market was observed in 2013, as the number of employees increased by 4.3% from 2012. The increased employment was, in part, attributable to the start of the operations of new production facilities in the TIDZs and increased activity in the construction sector, as well as the implementation of active labour market policies. The unemployment rate reached a post-independence low of 29.0%, while the employment rate increased to 40.9%.

In 2013, a moderate strengthening of the nominal growth of average wages was observed. Nominal gross and net wages increased by 1.2%, due to the increase of wages across sectors, while in real terms, net and gross wages declined by 1.6%.

The budget deficit was 3.8% of GDP in 2013. Total budget revenues increased by 1.5% compared to 2012, with tax revenues in 2013 accounting for 55.2% of total revenues. Total budget expenditures increased by 2.4% compared to 2012 and represented 31.8% of GDP.

*2014*

Macedonia's real GDP increased by 3.5% in 2014, driven primarily by an increase in exports and investment. Exports of goods and services grew by 18.2% in real terms, and was accompanied by a change in export structure with a greater focus on higher value-added goods. Imports of goods and services increased by 14% in 2014. Gross investment in 2014 grew by 13.1% in real terms, mainly as a result of the realisation of public investment in infrastructure and the investment of foreign companies in the free economic zones.

The high growth of exports and gross investment was accompanied by increased import of goods and services, which grew by 16.0% in real terms. Consumption, driven by growth in private consumption of 2.1%, also made a positive contribution to economic growth, which increased by 1.9% overall. The increase of private consumption was attributable to the increase in employment, wages and pensions, as well as the increase of private transfers from abroad. In addition, private consumption was supported by credit growth to households.

The inflation rate in 2014 was negative 0.3%, which was driven by food prices having decreased by approximately 1%, as well as a decrease in fuel prices by almost 4%, reflecting the downward trend of oil prices on the world market.

In 2014, the National Bank of the Republic of Macedonia maintained a 3.25% interest rate on its CB Bills. Total bank loans grew by 10.0% from 2013 as a result of higher consumer confidence in economic recovery and an increase in household and enterprise borrowing. Banking deposits grew by 10.4%, following an increase of 6.1% in 2013. This higher deposit growth rate was mainly due to an increase in local currency deposits, which in 2014 grew by 15.7%.

The trend of positive changes in the labour market continued in 2014. Employment in 2014 increased by 1.7% compared to the previous year. Employment growth was coupled with a decrease in unemployment of 3% as compared to 2013. At 31 December 2014, the unemployment rate had decreased to 27.6%, while the employment rate had increased to 41.5%. The average net wage in 2014 increased by 1.2% on a nominal basis compared to 2013, whereas in real terms it increased by 1.5%.

In 2014, a moderate strengthening of the nominal growth of average wages was observed. Nominal gross and net wages increased by 1.2%, due to the increase of wages across sectors, while in real terms, net and gross wages declined by 1.6%.

Total budget revenues in 2014 increased by 4.1% compared to 2013. Tax revenues and social contributions together accounted for 88.6% of total revenues. Tax revenues accounted for 58% of total revenues. Total budget expenditures in 2014 increased by 5.4% compared to 2013, with an increase in capital expenditure of 6.1%. In 2014, the budget deficit amounted to 4.2% of GDP.

*2015*

Real GDP growth was 3.7% in 2015. Output growth was driven by exports of goods and services and consumption, as exports grew by 4.6% in real terms, mainly due to increased exports from the facilities in TDIZs. Growth in imports of goods and services was lower than growth in exports and amounted to 2.4% in real terms, reflecting a positive contribution of net exports to economic growth.

Consumption increased by 3.5%, reflecting increases in both private and public consumption. Private consumption increased by 3.2%, mostly as a result of growth in household disposable income and an increase in household credit. Public consumption growth amounted to 4.6%, reflecting an increase in budget expenditure for goods and services. Gross investment in 2015 increased by 0.1% in real terms.

Analysed by sector, construction activity increased by 16.8% in 2015, in part as a result of the fiscal stimulus in connection with budget expenditures on infrastructure projects. The services sector increased by 3.9%, primarily as a result of increased activity in the trade sector and financial and insurance services. Industrial production in 2015 increased by 4.9%, primarily as a result of increased production in manufacturing and construction and various governmental measures to improve the business climate. Agricultural output decreased by 0.7%, mainly due to unfavourable weather conditions.

The inflation in 2015 was negative 0.3%, largely as a result of a decline in fuel prices of 16.5%, reflecting the fall in crude oil prices on the world markets. Food prices, which comprise the largest share in the consumption basket, increased by 0.1%.

As a result of the negative inflation and favourable developments in the external sector, the National Bank of the Republic of Macedonia maintained the interest rate of CB bills at 3.25%. Bank support to the private sector remained solid and total credits increased at a 9.5% annual growth rate through December 2015 as a result of increased credits to households and enterprises. Total banking deposits increased at an annual rate of 6.5%, due to both local and foreign currency deposit growth, and represented 92% of the broad money ("**M4**") monetary aggregate.

The unemployment rate continued to decline during 2015, reaching 24.6% in the fourth quarter, which was more than 3.0% lower compared to the same quarter in 2014. The number of workers increased by 2.3% on average in 2015, with most of the new jobs created in the manufacturing and trade sectors. Levels of employment also increased in the construction sector, as well as in other service activities, such as accommodation and food service activities and financial and insurance activities. The overall growth in employment principally reflected investment of foreign companies in the TDIZs, active labour market measures, including the introduction of a new project that provided tax and social contribution incentives to employers who hire youth and the long-term unemployed and the implementation of public infrastructure projects. Average gross wages in 2015 increased by 2.7% in nominal terms and by 3.0% in real terms, while average net wages registered nominal growth of 2.4% and real growth of 2.7% in comparison to 2014.

In 2015, total budget revenues increased by 10.5% compared to 2014. Tax revenues accounted for approximately 58% of total revenues and social contributions accounted for approximately 30% of total revenues. In 2015 tax revenue collection increased by 9.2%, while revenues from social security contributions increased by 8.4% compared to 2014. Total budget expenditures increased by 7.5% compared to 2014. In 2015 the budget deficit amounted to 3.5% of GDP, decreasing from 4.2% of GDP in 2014.

*2016*

Real GDP growth was 2.0% in the first quarter of 2016. The output growth was driven by an improved contribution of net exports, reflecting the increasing importance of export-oriented industries, accompanied by reduced imports, in part attributable to the decline in energy prices, even as imports overall increased.  Analysed by sector, construction activity continued to register strong performance, increasing by 7.7% year-on-year. The services sector also continued to exhibit strong growth, primarily as a result of increased activity in the trade, financial and insurance services and professional, scientific and other services. The contribution of agriculture to GDP increased by 3.2%.

Inflation in the first quarter of 2016 was negative 0.1%, largely as a result of the decline in oil and energy prices. The unemployment rate continued to decline during the first quarter of 2016, reaching 24.5%, while the employment rate also increased, reaching 42.6%.

In the first quarter of 2016, total budget revenues increased by 7.4% compared to the same period in 2015. Tax revenues accounted for approximately 58% of total revenues and social contributions accounted for approximately 29% of total revenues. In the first quarter of 2016 tax revenue collection increased by 8.1%, while revenues from social security contributions increased by 6.0% compared to the same period in 2015. Total budget expenditures increased by 4.9% compared to the same period in 2015. The budget deficit amounted to 1.0% of GDP, decreasing by 10.6% compared to the same period in 2015.Gross Domestic Product

The following table sets out certain annual information about Macedonia's GDP for the periods indicated:

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| GDP at current prices (MKD millions) | 464,187 | 466,703 | 501,891 | 525,620 | 560,148 | 141,406 |
| GDP at current prices (€ millions) | 7,544 | 7,585 | 8,150 | 8,530 | 9,092 | 2,293 |
| Real GDP growth (%) | 2.3 | (0.5) | 2.9 | 3.5 | 3.7 | 2.0 |
| GDP per capita (€) | 3,665 | 3,680 | 3,948 | 4,126 | 4,392 | -(1) |

Note:

(1) GDP per capita is only available for yearly data.

*Source:* State Statistical Office. Data for 2014 is preliminary and data for 2015 and the first quarter of 2016 are estimated.

Macedonian average real GDP growth rate from 2011 to 2015 was 2.4%, which compares favourably to other countries in the region.

***GDP by sectors***

The following table sets forth the composition of real GDP by sector for the periods indicated.

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | (*MKD millions, reference year 2005*) | | | | | |
| Agriculture | 33,875 | 28,439 | 30,878 | 31,568 | 31,354 | 6,218 |
| *year on year change (%)* | 1.8 | (16.0) | 8.6 | 2.2 | (0.7) | 3.2 |
| Industry | 50,260 | 46,893 | 48,642 | 58,418 | 59,225 | 13,187 |
| *year on year change (%)* | 10.2 | (6.7) | 3.7 | 20.1 | 1.4 | (3.4) |
| Construction | 36,873 | 35,859 | 40,434 | 41,181 | 48,106 | 14,165 |
| *year on year change (%)* | 38.3 | (2.8) | 12.8 | 1.8 | 16.8 | 7.7 |
| Trade, transportation and storage, accommodation and food service activities | 56,202 | 60,444 | 67,158 | 68,394 | 73,371 | 17,783 |
| *year on year change (%)* | (17.1) | 7.5 | 11.1 | 1.8 | 7.3 | 5.7 |
| Information and communication | 20,133 | 20,015 | 20,971 | 24,030 | 25,137 | 6,073 |
| *year on year change (%)* | (4.6) | (0.6) | 4.8 | 14.6 | 4.6 | 0.2 |
| Financial and insurance activities | 12,139 | 14,249 | 14,045 | 15,625 | 17,475 | 4,465 |
| *year on year change (%)* | 15.9 | 17.4 | (1.4) | 11.3 | 11.8 | 13.3 |
| Real estate activities | 44,477 | 45,559 | 44,947 | 46,215 | 47,095 | 12,002 |
| *year on year change (%)* | 0.9 | 2.4 | (1.3) | 2.8 | 1.9 | 2.2 |
| Professional, scientific, technical and administrative activities | 12,604 | 12,619 | 13,835 | 15,209 | 17,142 | 4,655 |
| *year on year change (%)* | 16.5 | 0.1 | 9.6 | 9.9 | 12.7 | 11.7 |
| Public sector(1) | 48,063 | 49,193 | 45,506 | 46,478 | 45,532 | 11,363 |
| *year on year change (%)* | (1.5) | 2.4 | (7.5) | 2.1 | (2.0) | (1.3) |

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | (*MKD millions, reference year 2005*) | | | | | |
| Arts, entertainment, recreation and other service activities.......... | 9,852 | 9,197 | 10,367 | 11,653 | 10,644 | 2,473 |
| *year on year change (%)*............ | (5.0) | (6.6) | 12.7 | 12.4 | (8.7) | (17.3) |
| Value added ............................... | 325,881 | 323,710 | 336,383 | 358,523 | 371,924 | 90,049 |
| *year on year change (%)*............ | 1.9 | (0.7) | 3.9 | 6.6 | 3.7 | 2.1 |
| Net taxes on products................. | 58,182 | 58,670 | 56,665 | 47,127 | 48,624 | 12,435 |
| *year-on-year change (%)*........... | 4.8 | 0.8 | (3.4) | (16.8) | 3.2 | 0.9 |
| GDP .......................................... | 383,837 | 382,087 | 393,262 | 407,187 | 422,111 | 102,942 |
| *year on year change (%)*............ | 2.3 | (0.5) | 2.9 | 3.5 | 3.7 | 2.0 |

Note:

(1) Public administration and defence; compulsory social security; education; human health and social work activities.

*Source:* State Statistical Office. Data is according to the National Classification of Activities, NKD Rev.2, based on ESA 2010 Methodology. Data for 2013 is final, while data for 2014 is preliminary and data for 2015 and the first quarter of 2016 are estimated.

The share of services in GDP, consisting of all categories presented above except for agriculture, industry and construction, has been the largest, ranging from 53.0% to 56.9% during the period from 2011 to 2015. The share of agriculture in GDP during this period was 8.0% on average and the share of industry amounted to 13.0% on average. The construction sector contributed significantly to GDP growth during the period from 2009 to 2015 (except for 2012 when growth was negative), reflecting efforts to improve the infrastructure and competitiveness of the country, as well as Government spending programmes aimed at mitigating the effects of the global recession and the euro area debt crisis on the economy. These factors resulted in an increase of the share of construction in GDP to 11.4% in 2015 from 9.6% in 2011.

***GDP by expenditure components***

The following table sets forth the share of each GDP component in current prices according to the expenditure method for the periods indicated.

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | (%) | | | | | |
| Final consumption, *of which* ............... | 92.0 | 92.5 | 89.3 | 86.8 | 84.4 | 81.1 |
| Household final consumption ........ | 73.9 | 73.9 | 71.8 | 70.0 | 67.7 | 64.3 |
| General government final consumption................................. | 18.1 | 18.6 | 17.5 | 16.9 | 16.7 | 16.7 |
| Gross capital formation...................... | 26.9 | 28.9 | 28.8 | 30.5 | 31.9 | 31.7 |
| Export of goods and services ............. | 47.1 | 45.4 | 43.4 | 47.8 | 48.5 | 48.2 |
| Import of goods and services ............. | 66.1 | 66.8 | 61.5 | 65.1 | 64.8 | 61.0 |
| Net export ..................................... | (19.0) | (21.4) | (18.1) | (17.3) | (16.3) | (12.8) |
| **GDP** .................................................. | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

*Source:* State Statistical Office. Data up to 2013 is final, data for 2014 is preliminary and data for 2015 and the first quarter of 2016 are estimated.

Household consumption has historically accounted for the largest share of GDP by expenditure component, averaging 71.5% from 2011 to 2015, though the share has been declining over this period, from 73.9% in 2011 to 67.7% in 2015. The share of exports in GDP increased slightly from 2011 through 2015, with exports increasing from 47.1% in 2011 to 48.5% in 2015. The share of imports in GDP decreased from 2011 through 2015, with imports decreasing from 66.1% in 2011 to 64.8% in 2015 (and as high as 66.8% in 2012). The growth in exports reflected the increasing importance of export-oriented industries.

## Inflation

The following table sets forth the average change in the Macedonian consumer price index for the periods indicated:

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | | | *(%)* | | | |
| Consumer price inflation........ | 3.9 | 3.3 | 2.8 | (0.3) | (0.3) | (0.1) |

*Source:* State Statistical Office

Inflation in 2011 was 3.9%, driven by increases in the prices of food and electricity, an increase from 2010. In 2012, the inflation rate was 3.3%, reflecting higher prices for electricity, heating energy and food prices. In 2013, the inflation rate was 2.8%, reflecting primarily increases in prices of food, clothing, footwear, hygiene and health. The inflation rate in 2014 and 2015 was -0.3%, driven by food prices, as well as energy prices, in particular fuel prices, reflecting the downward trend of oil prices on the world market. While global prices for food and energy were key drivers of inflation during these periods, the liberalisation of imports over the period, including the process of further reduction of the average weighted customs rates initiated by the accession of Macedonia into the WTO and the implementation of the SAA, has contributed to keeping inflation at low levels.

## Key components of the economy

### *Industry*

Industry accounted for 15.7% of Macedonian GDP in 2015. The traditional industrial sectors in the Macedonian economy have been steel and iron, textiles and clothing, chemicals, food processing and tobacco. In 2015, the principal components of industrial production were of food and beverage (16.4%), textiles and clothing (14.6%), electricity and gas (7.0%), metals (5.5%), machinery and equipment (6.1%) and mining and quarrying (11.6%). The remainder consisted of miscellaneous manufactured goods.

Industrial output in Macedonia has increased overall in recent years, notwithstanding a decline in 2012 due to the lower external demand as a result of the global economic and EU debt crises. The main drivers of performance of the industry output have been the re-opening of production and mine capacities, increased foreign direct investment in greenfield operations (particularly in relation to the automotive sector), links with new commercial partners in the region and EU and technological improvements.

The following table shows industrial production as a proportion of industrial production in the prior year.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| | | | *Index of industrial production* | | |
| Industrial output | 106.9 | 97.2 | 103.2 | 104.8 | 104.9 |

*Source*: State Statistical Office

Industrial production in 2011 increased by 6.9%, reversing two years of decline. Electrical components (for which production more than doubled) accounted for the largest positive contribution to this increase in industrial production, as well as clothing (11.6%), tobacco products (21.0%), non-metallic mineral products (9.7%) and metals (15.3%).

As a result of the EU sovereign debt crisis and the reduced demand for Macedonian export products, industrial production declined by 2.8% in 2012. Industrial production recovered in 2013 with growth of 3.2%. In 2014, industrial production increased by 4.8%, led by the manufacturing industry (9.0%). Electricity, gas, steam and air conditioning supply decreased by 14.2% and mining and quarrying by 1.9%. According to the State Statistical Office data, industrial production in 2015, in comparison with 2014 increased by 4.9 %. In 2015, manufacturing increased by 6.0%, electricity, gas, steam and air conditioning supply increased by 3.2% and mining and quarrying decreased by 1.4%. Industrial production increased by 10.7% in the first quarter of 2016.

In recent years, there has been a gradual change in the structure of industrial production as a result of opening new facilities that produce products with higher technological value, particularly in the TIDZs, which are targeted at attracting foreign investors and which were established in order to support modern technologies. The TIDZs are free zones with respect to customs and tax laws, and provide fully developed infrastructure and connections to utilities.

There are currently four operating TIDZs in Macedonia, with several others in the planning stage. Foreign companies operating in the TIDZs include several companies in the automotive, electronics, machinery and equipment manufacturing sectors. These companies generally manufacture higher value-added goods for export.

### *Electricity and Gas*

The Government is committed to becoming energy independent.

In 2014, energy sources consisted mostly of electricity (40%), oil products (40%), renewables (17.2%) and natural gas (4%). Coal is largely used in generating electricity domestically. In accordance with an action plan for renewable energy sources, the share of renewables in 2015 was 17.5%.

Sixty percent of the energy needs of Macedonia are traded on the open market. Over the medium to long-term, Macedonia expects to satisfy its energy requirements with domestic lignite reserves, imported gas and renewable resources such as hydroelectricity and electricity imports.

*Electricity Production*

The following table shows Macedonia's electricity production, imports, exports and consumption for the periods indicated:

| Year | Production | Import | Export | Consumption |
|---|---|---|---|---|
| | | | *GWh* | |

| Year | Production | Import | Export | Consumption |
|---|---|---|---|---|
| | | *GWh* | | |
| 2011 ............................................ | 6,877 | 2,748 | 0 | 8,799 |
| 2012 ............................................ | 5,807 | 2,741 | 72 | 8,326 |
| 2013 ............................................ | 5,677 | 2,490 | 0 | 7,979 |
| 2014 ............................................ | 4,983 | 3,072 | 0 | 7,874 |
| 2015 ............................................ | 5,252 | 2,655 | 0 | 7,755 |

*Source*: Electricity Balances and Annual Reports of the ERC

Macedonia has a total installed power generation capacity of 2,053.25 megawatt ("**MW**"), of which 1,010 MW is thermal power generation, 603.2 MW are from hydro power plants, 287 MW is combined heat and power from natural gas, 95.6 MW are from small hydro power plants, 36.8 MW are from wind plants and 16.66 MW are from photovoltaics. Coal-fired thermal power plant generation capacity accounts for approximately 800 MW. The coal for the thermal power plant's operation is mostly obtained domestically and is a low calorie lignite grade. A fuel oil thermal power plant provides a further 210 MW of installed capacity.

As part of the Government's programme to liberalise the electricity market, the vertically integrated Electricity Power Company of Macedonia ("**ESM**") was divided into four legally separate enterprises from 2004 to 2005. The Macedonian Electricity (Transmission) System Operator ("**MEPSO**") is owned and controlled by the Government and is responsible for the transmission of electricity and managing the high voltage transmission network, operating the electricity central despatching system and implementing the market operations. Electricity generation is conducted by JSC Electric Power Plants of Macedonia ("**ELEM**"), and JSC TPP Negotino, both of which are owned by the Government. JSC EVN Makedonija, which distributes and provides the retail supply for tariff customers, was privatised in 2006 through the sale of 90% of its shares by public tender to the Austrian company, EVN AG.

Imports of electricity (typically by electricity traders) have become increasingly important since 2002. The most significant sources of electricity imports are Serbia, Slovenia, Belgium and Switzerland.

The Government's current electricity development programme also includes the expected construction of 400 small hydro power plants, each with capacity of less than 5 MW and with total power of around 250 MW. Development of these plants is expected to be contracted to private operators via Government concessions, with a number of such contracts already executed. The annual electricity generation from these small hydro power plants is expected to be around 1,200 GW/h, with a total investment by the concession grantees of approximately €300 million.

In connection with the Government's electricity development programme, as at 31 May 2016, there were 36 operational small hydro power plants with installed capacity of approximately 36 MW, 24 small hydro power plants in the construction phase with installed capacity of approximately 15 MW and six small hydro power plants awaiting approval for construction permits. Through 2018, the Ministry of Environment and Physical Planning plans to continue the approval process for the construction of the additional small hydro power plants to meet their expected target of 400.

***Oil and natural gas***

The following table shows Macedonia's natural gas and oil consumption for the periods indicated:

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| | | | *(kilo-tonnes)* | | |
| **Oil** | 866 | 859 | 872 | 865 | 958 |
| **Gas** | 110 | 114 | 128 | 110 | 110 |

Source: State Statistical Office

Macedonia does not have any domestic oil or gas deposits. Macedonia's gas is supplied pursuant to agreements with Gazprom and its affiliates. The crude oil refinery in Skopje has a total annual capacity of 2,500,000 tonnes and produces heavy oil (mazut), unleaded gasoline, diesel fuel, heating fuel and liquefied petroleum gas. Oil is transported to the refinery through the 213-kilometre pipeline from Thessaloniki, Greece to Skopje. Macedonia also has a 98 kilometre gas pipeline system extending to Skopje, with a total capacity of 800 million cubic metres. Currently, this pipeline is significantly underutilised, with utilisation of approximately 20%. Macedonia intends to increase use of the pipeline and meet rising domestic demand for gas by extending its local distribution networks to urban areas, particularly along the gas transportation corridor in the Southern and Western parts of Macedonia. As the price of natural gas depends on the quantity of gas transported through the pipeline, increased domestic gas usage may result in a lower domestic price of natural gas per cubic metre. The extension of its local networks combined with renewed efforts to extend connectivity to international gas pipeline corridors form the basis of the National Gasification System.

In order to meet the forecasted demand for natural gas, there are ongoing activities for further expansion of the existing gas pipeline system in Macedonia and its connection to the regional gas pipeline systems. There are also ongoing negotiations to secure additional quantities of natural gas. For example, construction of the 61-kilometre Section Klechovce Block Station 5 (near City of Shtip), which is being funded by Russia in repayment of debt obligations owing to Macedonia in respect of amounts owed by Russia to jurisdictions formerly a part of Yugoslavia, was completed in June 2016.

In November 2015 the Republic of Macedonia received a loan of €90 million from Deutsche Bank and Erste Bank to finance the "Gasification of the Republic of Macedonia - Phase 1 - section Stip - Negotino - Bitola (127 kilometres in length) and section Skopje - Tetovo - Gostivar (75 kilometres in length)" project, for the first phase of construction of the national gas transmission system of the Republic of Macedonia. This construction is scheduled to take place from 2016 to 2018. The tender for the construction of the Section Skopje-Tetovo-Gostivar gas pipeline was closed on 10 March 2016 and the tender is in its final phase. The tender for the construction of the Section Negotino - Bitola gas pipeline was closed on 18 May 2016 and currently the bidders are being evaluated.

The second phase of construction of the national gas transmission system of the Republic of Macedonia is expected to be constructed from 2018 to 2022. This phase includes construction of sections of the Stip-Radovis- Hamzali -Strumica- border with the Republic of Greece (110 kilometres in length), sections of the Hamzali-Novo Selo- border with the Republic of Bulgaria (134 kilometres in length), the Gostivar-TPP Oslomej-Kicevo section (39 kilometres in length) and the rest of the main gas pipelines of the National Gas Pipeline System in Macedonia.

Funds in the amount of €106.5 million for the construction of the remaining sections of the gas pipeline system of the Republic of Macedonia are expected to be provided by international financial institutions, the European Investment Bank, the European Bank for Reconstruction and Development and others.

In accordance with the development of international gas pipelines there are several possibilities for interconnection of the gasification system in the Republic of Macedonia with Tesla, TAP (Trans Adriatic Pipeline) and others through the regional initiative for gas connection of Central and Southeastern Europe (CESEC). In particular, Project Tesla is a joint gas pipeline initiative among Serbia, Macedonia, Hungary, Turkey and Greece which was included in the list of Projects of Common Interest for the EU in November 2015, a pre-condition to become eligible for funding from EU resources.

The Government of the Republic of Macedonia is in the final phase of requesting bids for construction of a gas distribution network in the Skopje region, and there are similar plans for the eastern and western regions of the country. Also, in addition to using natural gas in industry and municipal buildings, there are initial activities in the municipalities of Kumanovo and Strumica to connect interested households to the local gas distribution grids.

Macedonia remains committed to accelerating the integration of Central and Southeast European gas markets and diversifying gas supplies by utilising natural gas from the Caspian Sea region, which would provide great economic assistance to Central and Southeast European countries. The Government intends to finance further work on the main pipeline of the National Gasification System with a loan from international financial institutions. The Government hopes to engage in a similar partnership for the entire country of Macedonia in the future. See "*Overview of the Republic of Macedonia — International Relations — Jointly financed projects by international finance institutions*"

Macedonia also supports a number of programmes to develop the capacity of its hydropower, wind and other renewable energy facilities. See "*Overview of the Republic of Macedonia — International Relations — Relationship with International Organisations and Private Foreign Investors — European Bank for Reconstruction and Development ("EBRD")*".

### *Textiles and Clothing*

Textiles and clothing accounted for 14.6% of total industrial production, 24.4% of total industry employment and 13.6% of total exports in 2015. In 2015, manufacturing of textiles (which accounted for 1.9% of total industrial production) increased by 14.8% and clothing manufacturing (which accounted for 12.7% of total industrial products) increased by 6.7%. In 2015, clothing and textiles comprised 11.8% and 1.8% of total exports, respectively, while imports of clothing and textiles were 1.1% and 7.0% of total imports, respectively.

The growth of textile and clothing production in 2013 was mainly due to the general expansion of economic activity and demand from the main trading partners in the EU. This contributed to increased demand from the textile companies in the country. Some growth was also attributable to an increased level of value added in the final products as a result of new FDI investments.

There are Government programmes in place to further develop the textile industry and attract additional foreign investment. These include (i) the development of human resources through the improvement of infrastructure and quality of education, (ii) the establishment of a Textile Marketing Research Centre and a Centre for Design and Quality Control Centre, (iii) facilitating competitiveness of textiles exports and support of export expansion, (iv) assistance for increasing business cooperation of textile products in the EU, Russia, Ukraine, other Eastern European countries and the United States and (v) the creation of a favourable business environment through the improvement and harmonisation of laws relating to the formation, development, growth and closure of business with EU law.

### *Metals and Mining*

Basic metals manufacturing accounted for 5.5% of total industrial production in 2015 and mining and quarrying accounted for 11.6% of total industrial production.

In 2015, iron, steel, metal ore, metal scrap and non-ferrous products accounted for 16.1% of the total exports of Macedonia, with exports principally to Serbia, Germany, Greece, Bulgaria, Italy and Croatia. In 2015, the manufacturing of basic metals comprised 13.2% of total exports and 18.3% of total imports, while metal ores comprised 2.9% of total exports and 1.4% of total imports.

In 2015, basic metal manufacturing grew by 6.3%, influenced by the mild increase in the price of metals. Companies expect to experience greater demand in the future as a result of the recent large-scale infrastructure projects announced in the Balkan region.

Based on the detailed geological research of mineral resources, the Government believes that there is significant potential for an increase in mining activity in Macedonia and is actively looking to mining as a potential source of development with the assistance of foreign investors in the industry. Projects include the development of (i) Ilovica mine near Strumica (copper, gold and silver – Concessioner Euromax Resources Skopje), (ii) Plavica mine near Kratovo and Probistip (copper, gold and silver – Concessioner Sileks Kratovo), (iii) Kazandol mine near Valandovo (copper – Concessioner Sardich Skopje), (iv) Luke-Toranica mine near KrivaPalanka (lead, zinc, copper, gold and silver – Concessioner Ri-Energetika Skopje) and (v) Kaddica mine near Pehcevo (copper – Concessioner Kadiica Metal Pehcevo). The development of the mining sector is also expected to contribute to additional investment in ore-processing facilities.

It is expected that the Zletovo and Toranica mines, which are lead and zinc mines (Concessioner Bulmak 2016 DOOEL Probishtip), will open in 2016.

***Agriculture***

Agriculture export and import accounted for 11.1% and 10.6% of the overall exports and imports of the country in 2015, respectively. Agricultural and food export, primarily comprising tobacco, fruits and vegetables and wine, has been fairly constant at €486 million to €500 million annually from 2013 to 2015. In 2015, the value of agriculture exports was €486.7 million while the value of agriculture imports was €700 million, resulting in the smallest trade deficit since 2011, of €214 million. Approximately half of the total trade in agriculture and fishery products in 2015 were exports and imports with the EU. CEFTA countries (Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and UNMIK (Kosovo)) are the second most important trade partners and account for 36.4% of total agriculture exports and 27.8% of total agriculture imports).

Agriculture and rural development are high on the national economic reform agenda. The National Strategy for Agriculture and Rural Development 2014 to 2020 was adopted in 2014, reaffirming the Government's aim to continue its Agriculture and Rural Development policy in line with the CAP objectives for 2014 to 2020. According to the long term framework for financial allocations to agriculture and rural development programmes in the National Strategy for Agriculture and Rural Development 2014 to 2020, the annual budgetary support for agriculture and rural development is projected to be approximately €150 million due to increases of the share of capital investments under the rural development financial programme (projected up to 35% in 2020). Developing and increasing the competitiveness of the rural areas remain the key strategic objectives of the national agricultural policies.

The key areas of focus for agriculture and rural development capital investments are: (i) grant schemes for private investments in agriculture and food processing, (ii) diversification of rural economic activities, (iii) municipal investments in local rural infrastructure to improve quality of life and (iv) public investments in provision of irrigation and drainage systems. Ongoing structural reforms in the agriculture land policy include promotion of increasing transparency of the distribution of state owned land (rent or sales) and implementation of land consolidation projects. Further structural reforms include the promotion of farmer groups with a specific focus on the cooperatives, provision of favourable agriculture and rural credits, provision of quality and professional farm advisory services, training and transfer of knowledge.

***Construction***

Construction accounted for 7.1% of GDP in 2015, and 5.6% of total employment.

During the period from 2011 to 2015, Macedonia sought to achieve greater transparency and reduce costs and bureaucratic barriers in the construction sector. Partly as a result of this focus, the value of housing units built by private owners increased throughout this period. This increase was also due, in part, to reforms in state-owned undeveloped construction land management.

Supported by investment in public infrastructure, the construction sector has realised high growth in recent years, most notably in 2013, which witnessed a significant increase in construction activity. Among the most significant road construction projects currently ongoing are the construction of the new Demir Kapija to Smokvica motorway section on Corridor X (total length of 28.2 kilometres) and the construction of two new motorways from Miladinovci (Skopje) to Shtip on National road A4 (total length of 47 kilometres and Kichevo to Ohrid on Corridor VIII (total length of 57 kilometres). In 2014, the reconstruction of the motorway from Veles to Katlanovo or Corridor X began, as well as rehabilitation of more than 15 sections of regional and national roads totalling over 100 kilometres.

In 2015, the rehabilitation and reconstruction of the 10.2-kilometre motorway from Smokvica to Gevgelija on Corridor X began, as well as the rehabilitation of the 23.5-kilometre motorway from Kumanovo to Miladinovci (right carriageway) on Corridor X. In 2016, a 10.2-kilometre express road was constructed on national road A1, section Bridge over River Raec – Interchange Drenovo and was funded with an EBRD loan. The 8.9-kilometre motorway from Negotino to Demir Kapija (both carriageways) on Corridor X was rehabilitated, and this was funded by PESR. In addition, in 2016, the construction of several new express roads is expected to commence with EBRD and World Bank financing. For example, construction of the approximately 28-kilometre express road Stip – Kochani is planned, and construction of the approximately 23-kilometre express road Kriva Palanka – Rankovce is planned. Moreover, in 2016 the rehabilitation and reconstruction of several regional and national roads with EBRD and World Bank financing have begun or are scheduled to begin.

A public-private partnership project is planned for two additional motorway sections from Gostivar to Kichevo on Corridor VIII (total length of 42 kilometres) and from Skopje to Blace on Southeast European Transport Observatory Route 6a (total length of 12.5 kilometres), but the realisation of these investment projects will depend upon private sector investment.

Previously, the construction of Tabanovce to Kumanovo motorway section on Corridor X was completed in 2012, the motorway section Katlanovo (Skopje) to Veles on Corridor X was rehabilitated, a new road from Radovis to Strumica was constructed and fifteen regional roads were either constructed or rehabilitated. Over the same period, the programme for the reconstruction of local roads in all municipalities (financed by credit from the World Bank and the EBRD) resulted in the renovation of 402 local roads totalling 747 kilometres, which were completed in December 2015.

The Government has expressed a strategic commitment to complete the East-West rail axis, also known as Corridor VIII, which would link transport flows from the Adriatic and Ionian Sea to those from the Black Sea. These projects are being financed in conjunction with several IFIs. For further information, see "*Overview of the Republic of Macedonia — Relationship with International Organisations and Private Foreign Investors — Jointly financed projects by international finance institutions*".

***Communications***

Communications accounted for approximately 3.4% of Macedonia's GDP in 2015. The Macedonian telecommunications market is developing rapidly.

There are currently two mobile carriers and ten fixed-line operators. The most significant active fixed-line operators as at 31 December 2015 are Macedonian Telecom (60.5% market share), One (16.6%), Blizoo (12.5%), Robi (6.9%) and Neotel (3.8%). The mobile operators are Macedonian Telecom (48.0% market share) and VIP (52.0%). All market data has been collected by the Macedonian Agency for Electronic Communications.

The Law on Electronic Communications, introduced in 2005, has provided stable and consistent regulation of the communication sector. It has been harmonised with the EU legal regulatory framework package since 2002, thus enabling full liberalisation of the market.

The Ministry of Information Society and Administration, together with the Agency for Electronic Communications, prepared a New Law on Electronic Communications for implementation of a new EU legal regulatory framework package for electronic communications networks and services. This New Law on Electronic Communications was adopted by the Assembly in March 2014. It defined new responsibilities of the Agency for Electronic Communications in the area of network security and personal data protection in accordance with the EC Directive requirements regarding supervision of security measures and measures to reduce the cost of deploying high speed electronic communications networks.

In December 2014, the parliament adopted amendments to the Law on Electronic Communications. The amendments promote the establishment of a national centre for response to computer incidents ("**MKD-CIRT**"). It is expected that MKD-CIRT will play a crucial role in the protection of key information infrastructures by coordinating the resolution of computer incidents. In the first half of 2016 the Agency for Electronic Communications developed procedures and internal documents that are intended to support the activities of MKD-CIRT, and established systems that are intended to support incident reporting and handling procedures. MKD-CIRT is publicly available through its website and other dedicated channels of communication.

The amendments to the Law on Electronic Communications authorise the Agency for Electronic Communications to set the maximum prices of roaming services offered by mobile operators to citizens of countries that have signed an agreement with Macedonia that visit Macedonia. In particular, roaming service prices cannot be higher than the prices of equivalent services that are in effect for other Member States of the European Union.

The Government of Macedonia has supported the development and liberalisation of electronic communications services to ensure these services are available at affordable prices in an effort to achieve mass broadband internet usage. Increased competition in the telecommunications sector is expected to establish the necessary infrastructure to provide for efficient, safe and timely delivery of high quality digital content and services.

The Law on Electronic Communications provides for the adoption of a National Strategy for Development of Electronic Communications with Information Technologies ("**NSECIT**"), in line with the strategy for the development of an information society in Macedonia.

According to data from the State Statistical Office in Macedonia, in the first quarter of 2015, approximately 69.4% of the households in Macedonia were connected to broadband services, 69.2% of the population were using computers, and 70.4% of the population were using Internet service in some capacity.

In April 2009, the Assembly adopted a national strategy for developing the next generation of broadband internet. The strategy focuses mainly on creating a favourable environment for the installation and development of next generation access networks as a key link in the networked economy and as an instigator in the development of an information society. The activities and measures foreseen in the national strategy have been derived from EU best practices and are harmonised with EU recommendations on the development of electronic communications. The strategy is expected to produce measures that will promote the development of innovative public services such as e-health, e-government and e-education.

Pursuant to the 2010 amendments to the Law on Electronic Communications, the Government adopted an action plan for transition from analogue to digital terrestrial television broadcasting in the Republic of Macedonia that went into effect on 1 June 2013. The Government also recommended a new free-to-air DVB-T operator for commercial television stations on a national and regional level that was fully functional and began digital broadcasting in June 2013.

In 2014, the Ministry of Information Society and Administration, in cooperation with local chambers of commerce and academic experts, began to prepare a new information and communication technology strategy, which includes both short-term and long-term components. The Government adopted this strategy in August 2015.

In February 2014, the Macedonian Academic Research Network ("**MARnet**") established the Macedonian Internet Exchange Point ("**MatrIX**") which uses the infrastructure of MARNet to enable internet service providers to connect and exchange data within Macedonian borders rather than limiting them to internet exchange points abroad. Neutral policies for membership in MatrIX and low entry costs are intended to facilitate market entry for international and domestic providers, thereby fostering competition in the internet service provider market, reduce average per-bit data costs and improve routing efficiency.

***Tourism***

The tourism sector (including the hotel and restaurant sector) accounted for a small proportion (approximately 1.4%) of GDP in 2014 and grew by 2.3% in real terms in 2014. The market has continued to develop and expand as Macedonia becomes a more attractive tourist destination. More than 485,530 foreign visitors came to Macedonia in 2015, an increase of 67.0% since 2011, while the number of tourist nights spent by foreign tourists increased by 72.8% over the same period. In the period from 2011 to 2015, the Government believes that tourists from EU countries accounted for approximately half of the total number of foreign tourists.

The Government revised the medium-term national strategy for tourism development for the years 2010 to 2014, and an action plan was adopted for the period 2011 to 2015. This plan was focused on further improving the cultural, lake and river, mountain, spa, sports, hunting, wine, winter, archaeological, religious, rural, eco-tourism and congress tourism offerings. A tourism development strategy for the period 2016 to 2021 is in the process of being developed.

A new Law on Touristic Development Zones was adopted in November 2012 which regulates incentives for investing in tourism development zones, the conditions, manner and procedure for their establishment and the activities that will be performed. A strategy was adopted for 2012 to 2017 to develop rural areas for tourism and improve the overall quality of life in those areas. In order to stimulate the tourism and catering industry, the VAT rate for accommodation and services in tourist facilities was decreased from 18% to 5%.

The Agency for Promotion and Development of Tourism works to promote tourism resources and facilities in the Republic of Macedonia internationally.

The Government has specified the following strategic tasks for the development of the tourism and catering industry:

- expansion of accommodation capacity and tourism infrastructure, including resorts and four- and five-star hotels;

- improvement of the quality of service by improving the law and security;
- strong support for promotion of tourism in order to make Macedonia a recognisable tourist destination all around the world;
- support for the Agency for the promotion and support of tourism;
- promotion of principles for sustainable development;
- protection of the natural environment and tourist destinations;
- improvement of tourist areas; and
- development of new types of tourism products, such as rural tourism, cultural tourism, health tourism and conference tourism.

**Public Investments**

The Government intends to prioritise public investments as part of developing its fiscal policy. In the past few years, capital projects financed from Macedonia's budget have played a key role in combating the effects of the economic crisis. The table below reflects total realised Government public investments for the periods indicated.

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| | | *(€ millions)* | |
| Central Budget (own sources, grants and loans) | 270.1 | 286.5 | 303.5 |
| Agency for State Roads | –[(1)] | –[(1)] | –[(1)] |
| **Total** | **270.1** | **286.5** | **303.5** |

Note:

(1) With effect from 1 January 2013, the functions of the Agency for State Roads were transferred to an independently funded public entity and accordingly no longer form part of the Government's public investment account. See "*Public Finance — Budgetary Funds*".

*Source*: Ministry of Finance

The Budget for 2016 provides for MKD 25.6 billion (€416 million) for capital investment, a higher amount than in previous years. The Government expects that a portion of the funding necessary to sustain this level of capital expenditure will come from IFIs and other private partners. For further information about outstanding debt in relation to IFIs, see "*Indebtedness — External General Government Debt — International Financial Institutions*".

Major capital expenditures contemplated for 2016 include completion of the construction of Corridor X highway and railway infrastructure (18.6% of total capital expenditure for the year), building of energy and utilities infrastructures (15.7% of total capital expenditure for the year), as well as capital investments aimed at improving education (9.9% of total capital expenditure for the year), the health system (6.3% of total capital expenditure for the year) and agriculture (8.1% of total capital expenditure for the year). The remaining 41.4% of the budgeted capital expenditures are contemplated for areas such as IT infrastructure, defence, investments in environmental protection and investments in the judiciary system (including the building and reconstruction of prisons), among others.

With respect to public health projects, the Government intends to benefit from foreign support for upgrading technology and improving rural health care, and it similarly expects to use foreign funding to assist in the development of physical education programmes in primary and secondary schools. Foreign funds are also anticipated to help shape housing expenditure, with funds allocated to low income housing. Social spending, supported by foreign investment, is also intended to be used to upgrade prison facilities and improve rehabilitation programmes. For further information, see "*Overview of the Republic of Macedonia — Relationship with International Organisations and Private Foreign Investors*".

In the medium term, public enterprise debt is expected to grow as a result of government projects in the energy sector and improvement initiatives for road and rail infrastructure. While debt of public enterprises in relation to GDP is expected to increase moderately, the Government seeks to keep the overall indebtedness at sustainable levels.

**Grey Economy**

The informal sector, or the *grey economy*, accounts for approximately 15% to 20% of GDP based on 2011 GDP data and other internal and third party estimates.

Government policies have sought to limit the size of the informal economy by providing incentives for individuals to undertake work in the recorded, or *official* sector, such as reductions in income tax rates and social contributions rates and a reduction in unnecessary business regulation, which previously acted as a barrier to the registration of new or family-run businesses.

**Employment and wages**

While unemployment in Macedonia has historically been high, in recent years there has been a gradual increase of the number of employees in the workforce and a decrease in the unemployment rate. The official employment rate (the ratio of employed workers to the total working age population) in 2014 was 41.2%, reaching 42.7% in the fourth quarter of 2015, the highest employment rate in the Republic of Macedonia since employment statistics were recorded. The unemployment rate was 28.0% in 2014 and 26.1% in 2015. Notwithstanding the relatively high levels of unemployment, a portion of those categorized as unemployed are believed to have limited interest in actually finding employment.

Although youth unemployment in Macedonia has historically been high, it has also been decreasing in recent years. The youth unemployment rate at 31 December 2015 decreased to 47.3%, from 50.4% compared to 31 December 2014. This decrease was a result of the successful implementation of several measures aimed at reducing youth unemployment. The Government attributes this trend partially to its initiatives focused on improving education, including obligatory education through the age of 18 (including proficiency in foreign languages), entrepreneurship training and technical skills development.

In order to promote youth employment, the Government has instituted a policy pursuant to which employers are exempt from payment of the social contribution tax for employees who are in their first year of employment and are under the age of 30. Further, the Government has developed two new initiatives to encourage youth employment. The first initiative is focused on increased project lending to youth under the age of 30 for new start-up businesses and the second focuses on increased project lending to micro and small enterprises that create jobs for youth under the age of 30.

The following table sets forth labour market data for the periods indicated:

| | | |
|---|---|---|
| | **Year ended 31 December** | **Three months ended 31 March** |

| Labour market | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Working age population (ages 15-80) .......................... | 1,656,215 | 1,669,965 | 1,672,460 | 1,673,494 | 1,676,659 | 1,678,411 |
| Employed ................................ | 645,085 | 650,554 | 678,838 | 690,188 | 705,991 | 714,435 |
| Unemployed ........................... | 294,963 | 292,502 | 277,219 | 268,809 | 248,933 | 231,386 |
| Employment rate (%) ....................................... | 38.9 | 39.0 | 40.6 | 41.2 | 42.1 | 42.6 |
| Unemployment rate (%) ........................................ | 31.4 | 31.0 | 29.0 | 28.0 | 26.1 | 24.5 |
| Employment by ownership: | | | | | | |
| Private ....................................... | 483,579 | 488,206 | 521,607 | 530,868 | 547,797 | 551,023 |
| Other(1) ....................................... | 161,507 | 162,348 | 157,230 | 159,320 | 158,194 | 163,412 |

Note:
(1) Includes social, collective and state employment.

Source: State Statistical Office, Labour Force Survey, ILO Methodology

The labour force (including both employed and unemployed people) amounted to 57% of the working age population as at 31 December 2015, a decrease of 0.4% from 2014.

## Employment by Sector

The following table sets forth the percentage breakdown of average registered employment by sector for the periods indicated:

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| Sectors of Activity | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | | | % | | | |
| Agriculture, forestry and fishing. | 18.7 | 17.3 | 18.7 | 18.5 | 17.9 | 16.9 |
| Mining and quarrying ................ | 0.8 | 0.9 | 1.0 | 1.1 | 0.9 | 0.9 |
| Manufacturing ........................... | 19.4 | 19.5 | 19.4 | 19.3 | 19.4 | 19.1 |
| Electricity, gas, steam and air conditioning supply .................. | 1.6 | 1.6 | 1.6 | 1.4 | 1.4 | 1.4 |
| Water supply, sewerage, waste management and remediation activities ............................ | 2.0 | 1.6 | 1.5 | 1.6 | 1.7 | 1.8 |
| Construction ............................. | 6.2 | 6.3 | 6.9 | 7.0 | 7.1 | 7.3 |
| Wholesale and retail trade, repair of motor vehicles, motorcycles. ...... | 14.1 | 14.3 | 13.5 | 13.5 | 13.8 | 14.2 |
| Transportation and storage ........ | 4.7 | 4.7 | 5.5 | 5.6 | 5.1 | 4.7 |
| Accommodation and food service activities.................................... | 3.7 | 3.6 | 3.5 | 3.6 | 3.8 | 3.6 |
| Information and communication. | 1.5 | 1.7 | 1.6 | 2.0 | 2.1 | 1.9 |
| Financial and insurance activities .................................................. | 1.6 | 1.4 | 1.4 | 1.2 | 1.4 | 1.6 |
| Real estate activities ................. | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | –(1) |
| Professional, scientific and technical activities............. | 2.4 | 2.5 | 2.0 | 2.1 | 1.7 | 2.3 |
| Administrative and support service | 1.1 | 1.6 | 1.7 | 1.9 | 1.7 | 1.8 |

| Sectors of Activity | 2011 | 2012 | 2013 | 2014 | 2015 | Three months ended 31 March 2016 |
|---|---|---|---|---|---|---|
| | Year ended 31 December | | | | | |
| | % | | | | | |
| activities ............................ | | | | | | |
| Public administration and defence, compulsory social security | 6.8 | 6.8 | 6.6 | 7.0 | 7.3 | 7.4 |
| Education .................................. | 6.3 | 6.5 | 6.1 | 5.8 | 5.8 | 6.0 |
| Human health and social work activities ............................ | 5.5 | 5.5 | 5.6 | 5.3 | 5.2 | 5.2 |
| Arts, entertainment and recreation ................................................... | 1.6 | 1.5 | 1.4 | 1.3 | 1.6 | 1.6 |
| Other service activities ............... | 1.7 | 2.1 | 1.5 | 1.5 | 1.7 | 1.8 |
| Activities of households as employers; undifferentiated goods and services producing activities of households for own use ............................. | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | –(1) |
| Activities of exterritorial organisations and bodies .... | 0.1 | 0.2 | 0.1 | –(1) | 0.1 | –(1) |
| **Total** .......................................... | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Notes:
(1) The estimate is too imprecise to be published.

*Source*: Percentages calculated by the Ministry of Finance, based on State Statistical Office data, LFS

From 2011 to 2015, the number of employed persons in the private sector increased from 483,579 in 2011 to 548,333 in 2015, reflecting an increase of 13.4%. In contrast, the number of employed persons in the other sectors (which included mixed, collective or state ownership) decreased by 2.4% from 2011 to 2015, from 161,507 persons in 2011 to 157,658 in 2015.

Amendments to the *Law on Employment and insurance in case of unemployment* (published in the Official Gazette no. 114/2012) (the "**Act**") in 2012 effected changes in the recording of administrative unemployment. This Act was the basis for establishing and maintaining two records with the Employment Service Agency, one recording active unemployed persons (who are actively seeking for jobs) and the other recording passive unemployed persons (who register as being unemployed, but are not actively seeking employment). Active and passive employment figures, while used for administrative purposes, are not related to the unemployment figures calculated by the State Statistical Office with the Labour Force Survey.

In support of further labour market reform, education has been identified as a key component in the process of improvement of the business climate in Macedonia. The Government has adopted a Programme for Active Labour Market Policy with measures including: a programme for self-employment, a programme to support the formalisation of existing businesses, training and qualification according to the labour market needs (in some of the more rural areas training of the workforce may particularly be necessary), subsidies for employment of specific groups and internships for youth entering the labour market. Such initiatives include the development of programmes to increase youth employment, in an effort to better prepare youth for entrance to the labour market later in life.

**Average Monthly Wages**

Wages in the private sector in Macedonia are determined at an enterprise level, subject to any limits set in collective bargaining agreements. Collective bargaining agreements are applicable to certain sectors of the economy but only to enterprises which are members of the collective organisations. Labour unions, employers and the Macedonian government agreed to set a national minimum wage, which was instituted in 2012 and is subject to annual revisions.

The Government sets the wages in the public sector as prescribed by *the Law on Administrative Servants*. Wage adjustments in the public sector are decided by the Government after consultation with the unions and employers' organisations and in accordance with the *Law on Salary Payments* and the annual budget. Macedonian average gross monthly wages in 2015 were among the lowest of its peers in the region.

The following table sets out information on average monthly wages for the periods indicated:

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| **Wages** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| Average monthly gross wages in MKD...................................... | 30,602 | 30,669 | 31,025 | 31,325 | 32,173 | 32,369 |
| Gross wages, nominal annual growth (%)...................... | 1.2 | 0.2 | 1.2 | 1.0 | 2.7 | 2.6 |
| Gross wages, real annual growth (%) ................................ | (2.6) | (3.0) | (1.6) | 1.3 | 3.0 | 2.7 |
| Average net wages in MKD....... | 20,847 | 20,902 | 21,145 | 21,394 | 21,906 | 22,040 |
| Net wages, nominal annual growth (%) ................................ | 1.4 | 0.3 | 1.2 | 1.2 | 2.4 | 2.8 |
| Net wages, real annual/period growth (%) ................................ | (2.4) | (2.9) | (1.6) | 1.5 | 2.7 | 2.9 |

*Source*: State Statistical Office

The number of employees that did not receive consistent wages has decreased in recent years. Prior to the implementation of the gross wage reform in 2009, this percentage was 7.5%. For the year ended 31 December 2011, that percentage decreased to 3.0% and as at 31 March 2016, the percentage of employees that did not receive any wages was 1.3%. Wage inconsistency arises in cases when an employer faces liquidity concerns or financial constraints and is unable to pay salaries. Inconsistency generally results from temporary delays, and is compensated for at a later date.

**Pensions**

Under current legislation, retirement ages for men and women are 64 and 62, respectively. The average annual government pension in April 2016 amounted to MKD 13,075.

Pension system reform commenced in January 2006, introducing a three pillar pension system (mandatory first and second pillars and a voluntary third pillar). The basic objectives of the reforms were to ensure both short- and long-term solvency of the Pension and Disability Insurance Fund of Macedonia, maximise benefits and minimise risk for pensioners, guarantee pension security for all generations and strengthen public confidence in the pension system.

Under the system implemented in 2006, a portion of each worker's salary which was previously deposited in the state pension fund was to be divided into the first state-supported pay-as-you-go ("**PAYG**") pillar and a privately managed pension fund chosen by the worker (**second pillar**). This is available for both public and private sector employees.

The second pillar of the pension system comprises a defined contribution system where specialised pension companies manage mandatory pension funds (**open-ended investment funds**). The pension law sets upper limits on the fees that can be charged by private pension companies. There are two such fees, a "**Contribution Fee**" which is set as a percentage of the worker's monthly contribution, and a "**Fee from Assets**" which is charged based on the size of the assets that the pension company manages. The Agency for Supervision of Fully Funded Pension Insurance (the "**Pension Agency**"), established in 2004 as a regulator and supervisor of pension companies and pension funds, receives 0.8% of these fees. The Pension Agency proposes the maximum levels of Contribution Fees and the Fee from Assets to the Assembly each year within the upper limit set by law. The chart below outlines the statutory maximum that private pension companies may charge for the year indicated:

| **Year** | **Contribution Fee** | **Fee from Assets** |
|---|---:|---:|
| 2013 | 4.00% | 0.050% |
| 2014 | 3.50% | 0.045% |
| 2015 | 3.25% | 0.040% |
| 2016 | 3.00% | 0.040% |
| 2017 | 2.75% | 0.035% |
| 2018 | 2.50% | 0.035% |
| 2019 | 2.25% | 0.030% |
| 2020 | 2.00% | 0.030% |

Fees are set based on an analysis of estimated revenues, costs and profits of a hypothetical company that manages a mandatory pension fund, taking into account regulatory and legal changes, as well as other factors. The analysis estimates the reasonable maximum amount of fees that will be sufficient during the 10-year period of operation to cover operating costs of the company, to pay the fees of the participating institutions and to allow company founders to make reasonable rate of return on their investment and are assessed on this long-term basis given that approvals for mandatory pension funds have unlimited duration. Contributions Fees are statutorily prescribed to gradually reduce to 2.0%, while the Fee from Assets is prescribed to gradually decrease to 0.03%, as illustrated in the chart above.

Two financial institutions have been licensed to establish private pension funds relating to the second pillar of the pension system. Currently, pension contributions represent 18% of gross salary, reduced from 19% in 2009 and 21.2% previously. Workers employed since 1 January 2003 are required to contribute 6% of their mandatory pension contributions to a private fund (second pillar) and 12% to the existing state pension fund (first pillar). All other employees could have elected by 31 December 2005 whether to participate in the two pillar system, but were not required to do so. In April 2016, there were 407,000 members in the mandatory private pension fund with net assets totalling €680 million.

In 2009, a third pillar was introduced, voluntary pension insurance, with the same structure as the second pillar, where pension companies manage voluntary pension funds (open-ended investment funds) and where the investment limits are stipulated by the pension law.

The objectives of the voluntary pension insurance introduced by the third pillar are to provide higher income upon retirement to the persons covered by the first and second pillar, to provide retirement benefits to persons not covered by the mandatory pension insurance, and to provide pre-conditions for organising and financing occupational pension plans. In April 2016, there were approximately 22,000 members in the voluntary private pension fund with net assets totalling €13 million.

The *Law on Pension Payment and Pension Benefits from the Fully Funded Pension Insurance* was adopted in January 2012 (published in the "Official Gazette of the Republic of Macedonia" No.11/2012, as amended from time to time) and took effect on 1 March 2014. It regulates the pension payments from the second pillar, pension compensation from the third pillar and the institutions that are to be included in the payment of the pensions. The law stipulates that the pension associations provide the payment of programmed withdrawals and that the insurance companies provide annuity payments in addition to products within the insurance market. Further, *the Law on Pension and Disability Insurance* prescribes that pensions are indexed 50% to inflation and 50% to the annual average wage growth. However, this rule does not apply from 2014 to 2016 as pensions are to grow 5% each year during the period.

Additionally, in 2012 a pension reform was implemented, and still remains in effect, which permits voluntary extension of the retirement age from 62 for women and 64 for men to 65 for women and 67 for men. If an employee elects this option, the employer is obliged to extend the employment contract up to the age for which the employee requests the extension. Employees continue to pay mandatory social insurance contributions during this time.

**Health**

The health care system in Macedonia comprises a wide network of institutions, from primary health care and specialist clinics to consulting and hospital institutions and university clinics and institutes.

The Ministry of Health of Macedonia sets and implements the health policy, while the Health Insurance Fund (the "**HIF**") provides the financing for the health system. Since 2007, the HIF has acted as a strategic purchaser, contracting with health providers and distributing financial resources according to previously negotiated global budgets.

Since 2009, citizens who had previously not been covered by compulsory health insurance began to receive coverage with the supplement to the *Law on Health Insurance*. Health insurance for citizens with income below a specific threshold, determined by the amount of minimum wage from the previous year, is financed by the budget of the Republic of Macedonia (the "**Central Budget**"). As at 31 December 2015, 239,207 persons and their families were entitled to free Government medical insurance.

Investment in modernisation and improvement in all areas of the healthcare system have been underway for several years. With the introduction of the health treasury accounts in 2011, the HIF has sought to control the cost of public health facilities, and better manage the liquidity of the system. A significant priority for the system is integrating health data with the electronic health card, the electronic scheduling system "Moj Termin," and IT centralisation in the HIF. This electronic integration has made access to the healthcare system easier, automated the work processes, eliminated inefficient administration, and provided better control for the authorities. Other reforms have included a performance-related pay scheme for medical personnel, and the *Law on Voluntary Health Insurance*, which seeks to create additional revenue streams in the health system. The *Law on Medicines and Medical Devices* has increased competition and decreased drug prices by regulating the price of medicinal products, facilitating parallel importation of medicines and medical devices and introducing reference pricing for prescription drugs.

Protocols for services, drugs and equipment have also contributed to improving health services in the sector and have reduced costs. Investments in improving the infrastructure of health care institutions, modern medical equipment and expert training of health care professionals are being made to achieve better, cheaper methods of diagnosis and treatment. The implementation of a centralised procedure for the procurement of medications, devices and equipment has produced savings that are used elsewhere in the health system. Finally, the implementation of the Balance Score Card system and the process of accreditation and standardisation of health institutions seeks to strengthen quality and efficiency within the public health realm.

**Environment**

The *Law on Environment* regulates environmental protection across all environmental areas, such as procedures for environmental impact assessment, access to environmental information and public participation in the decision-making process. The *Law on Environment* also regulates integrated pollution prevention and control through the issuance of integrated environmental permits. Through projects supported by the EU, a new *Law on Control of Industry Emission* is being drafted and a new *Law on Nature Protection* is planned to be drafted. Both laws are expected to be adopted in mid-2017.

Macedonia is an active participant in international efforts to solve the problems arising from global environmental pollution and degradation. It has achieved significant progress in international cooperation at bilateral, regional, European and global levels. Macedonia is a signatory to a number of multilateral environmental agreements.

Macedonia has made significant progress in its efforts to harmonise its environmental laws with the EU Acquis. Having commenced the process in 2002, reforms have touched on nearly all aspects of environmental regulation (including horizontal legislation, waste, air, nature, noise, water, genetically modified organisms, chemicals, forestry and integrated pollution prevention and control). It continues to measure its achievements in this respect through Progress Monitoring Reports, which are generated with respect to relevant EU Environmental Directives, Regulation or Decisions. The reports contain a Summary Review of Transposition and Implementation for each environmental sector. They also contain a Detailed Analysis of Transposition and detail regarding implementation of each directive and regulation within each sector. The most recent Progress Monitoring Report was released in June 2015, and a further report is expected to be released in September 2016.

Macedonia is also active in the area of climate change, is a party to the UN Framework Convention on Climate Change and adheres to EU climate change legislation requirements. Furthermore, Macedonia approved the National Strategy for Sustainable Development in 2010, providing policy guidance on environmental matters and its interaction with other aspects of legislation, such as the economy and social development. Macedonia has signed the Paris Agreement within the framework of the United Nations Framework Convention on Climate Change ("**UNFCCC**") and has submitted its Intended National Contribution on Climate Change (the 23rd country in the world to do so). Macedonia prepared and submitted its first national update report on climate change (the 11th country in the world to do so), which was presented successfully at the first facilitative workshop on sharing views under the Bonn Session on Climate Change under the UNFCCC. As part of its 2015 to 2020 EU accession plan, Macedonia is focused on strengthening the administrative capacity at central and local levels to implement the environmental and climate action legislation, meeting the requirements of the EU legislation as well as improving environmental monitoring. Particular attention is given to improving the infrastructure in solid waste and waste water management as well as improving flood protection measures.

Under the Instrument of Pre Accession, Macedonia is implementing 29 projects which are financed by the EU and implementing environmental *aquis* in an amount of €74 million. Of these 30 projects, eight are related to construction of waste water treatment plans in the cities of Prilep, Strumica, Radovish and Kichevo and rehabilitation and extension of the sewer network in Kumanovo, Prilep and Berovo.

In 2015, the Ministry of Environment and Physical Planning began to develop the National Strategy for Nature Conservation, which sets objectives and guidelines for nature conservation in the next decade. This regulation is intended to ensure more effective implementation of national legislation on nature protection and the EU's *Habitats and Birds* Directives and other international conventions.

**Price liberalisation**

Only a small number of goods and services are under governmental pricing regulation. These goods and services are typically confined to utility companies (which provide water, energy and sanitation services), and to companies operating in the transportation sector, post office services and insurers of motor vehicles.

The prices of energy and telecommunication services in Macedonia are regulated by independent regulatory bodies.

**Privatisation**

Most state-owned enterprises were privatised between 1995 and 2005. Following the termination of the Macedonian Privatisation Agency in 2005, its responsibilities were transferred to the Ministry of Economy, the Ministry of Finance, the Pension and Disability Insurance Fund and the Public Housing Enterprise. The Commission for privatisation and Government were to approve each privatisation and the Ministry of the Economy was in charge of completing the privatisation of the remaining state-owned enterprises. The remaining state-owned companies that are slated for privatisation are "EMO", AD Ohrid, "11 Oktomvri-Eurokompozit AD Prilep, and the factory *Fabrika za sinski vozila VELES DOOEL Veles*. The finalisation of privatisation of these companies is pending identification of a suitable strategic partner, and the revenues collected from remaining privatisations will be paid into the Pension and Disability Insurance Fund (the "**PDF**") and in the state budget.

The first major privatisation was the sale of 51% of the shares in Makedonski telekomunikacii (Macedonian Telecommunications) to the Hungarian telecommunications company, MATAV, in 2001. The privatisation of the electricity distribution network in 2006 to EVN AG was a key component in the liberalisation of the electricity market.

In the area of transportation, a 20-year concession for the operation and development of the airports in Ohrid and Skopje and the building of a new cargo airport in Stip was granted to a Turkish company, TAV, in 2008. This led to construction of the new Terminal Building *Alexander the Great* in Skopje with capacity of 4 million passengers per year and the extension of its landing strip to allow landing of large capacity planes. In Ohrid, the *St. Paul the Apostle Airport* was also renovated and modernised.

In January 2014, 12,830 Government shares (a 33.3% holding) in Poshtenska Banka were sold on the market with a total value of €4.4 million. In addition, Tutunski Kombinat AD Prilep (a state-owned company in the tobacco industry) signed a Memorandum for Strategic Cooperation with Philip Morris on 27 May 2014. It is expected that the new company (with a 51% stake granted to Philip Morris) will produce, distribute, sale, export and provide marketing of cigarettes and tobacco products.

As at 31 March 2016, 64 enterprises had full or partial state ownership. The 16 enterprises with full state ownership were Macedonian Post, Macedonian Bank for Development Promotion, ELEM, MEPSO, MIA, Eurocompozit AD Prilep, TEC Negotino, Energetika AD Skopje, Agri lend Skopje, Drzavna lotarija na Makedonija, M-HAB AD Skopje, Macedonian Airport AD Skopje, Macedonian Rail-Transport AD Skopje, Public housing company AD Skopje, Water supply of Macedonia AD Skopje and Housing and real-estate company AD Skopje. Of the remainder, the state interest in 33 companies was less than 10%.

## BALANCE OF PAYMENTS AND FOREIGN TRADE

*The data in the following section has been prepared in accordance with BPM6. Commencing from June 2014, Macedonia prepared balance of payment figures in accordance with BPM6 and data for earlier periods have been restated to reflect the new methodology. See "Presentation of Economic and Other Information".*

### Balance of Payments

The following table shows Macedonia's balance of payments for the periods indicated.

### Balance of Payments[1]

| | For the year ended 31 December | | | | | For the three months ended 31 March | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | *(€ million)* | | | | | | *(% GDP)* | | | | | |
| **I. Current account** | **-189** | **-240** | **-134** | **-69** | **-127** | **0.4** | **-2.5** | **-3.2** | **-1.6** | **-0.8** | **-1.4** | **0.0** |
| **Goods and services** | **-1,546** | **-1,698** | **-1,488** | **-1,497** | **-1,483** | -293 | -20.5 | -22.4 | -18.3 | -17.6 | -16.3 | -3.1 |
| Credit | 3,441 | 3,374 | 3,530 | 4,057 | 4,411 | 1,105 | 45.6 | 44.5 | 43.3 | 47.6 | 48.5 | 11.7 |
| Debit | 4,987 | 5,072 | 5,018 | 5,554 | 5,894 | **1,398** | **66.1** | **66.9** | **61.6** | **65.1** | **64.8** | **14.8** |
| **Goods** | **-1,905** | **-2,008** | **-1,863** | **-1,855** | **-1,825** | **-408** | **-25.2** | **-26.5** | **-22.9** | **-21.8** | **-20.1** | **-4.3** |
| Credit | 2,396 | 2,307 | 2,375 | 2,780 | 3,042 | 758 | 31.8 | 30.4 | 29.1 | 32.6 | 33.5 | 8.0 |
| Debit | 4,301 | 4,315 | 4,238 | 4,635 | 4,867 | **1,166** | **57.0** | **56.9** | **52.0** | **54.3** | **53.5** | **12.3** |
| **Services, net** | **359** | **309** | **375** | **358** | **342** | **144** | **4.8** | **4.1** | **4.6** | **4.2** | **3.8** | **1.2** |
| **Primary income, net** | **-131** | **-164** | **-193** | **-161** | **-222** | **-60** | **-1.7** | **-2.2** | **-2.4** | **-1.9** | **-2.4** | **-0.6** |
| **Secondary income, net** | **1,487** | **1,622** | **1,547** | **1,589** | **1,577** | **354** | **19.7** | **21.4** | **19.0** | **18.6** | **17.3** | **3.7** |
| General government | 77 | 60 | 74 | 111 | 49 | 32 | 1.0 | 0.8 | 0.9 | 1.3 | 0.5 | 0.3 |
| Financial corporations, nonfinancial corporations, households, and NPISHs | 1,411 | 1,562 | 1,473 | 1,478 | 1,528 | 322 | 18.7 | 20.6 | 18.1 | 17.3 | 16.8 | 3.4 |
| **II. Capital account** | **-2** | **9** | **15** | **3** | **6** | **2** | **0.0** | **0.1** | **0.2** | **0.0** | **0.1** | **0.0** |
| Credit | 10 | 10 | 15 | 11 | 6 | 2 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.0 |
| Debit | 13 | 1 | 0 | 8 | 0 | 0 | 0.2 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| **Net lending (+) / net borrowing (-) (balance from current and capital account)** | **-192** | **-231** | **-119** | **-65** | **-122** | **3** | **-2.5** | **-3.0** | **-1.5** | **-0.8** | **-1.3** | **0.0** |
| **III. Financial account** | **-179** | **-212** | **-107** | **-33** | **-94** | **-1** | **-2.4** | **-2.8** | **-1.3** | **-0.4** | **-1.0** | **0.0** |
| **Direct investment, net** | **-345** | **-131** | **-229** | **-197** | **-171** | **-62** | **-4.6** | **-1.7** | **-2.8** | **-2.3** | **-1.9** | **-0.7** |
| **Portfolio investment, net** | **76** | **-77** | **159** | **-482** | **-67** | 8 | 1.0 | -1.0 | 2.0 | -5.7 | -0.7 | 0.1 |
| **Other investment, net** | **-243** | **-146** | **8** | **239** | **327** | 40 | -3.2 | -1.9 | 0.1 | 2.8 | 3.6 | 0.4 |
| Currency and deposits, net | 220 | 104 | 245 | 342 | 289 | 60 | 2.9 | 1.4 | 3.0 | 4.0 | 3.2 | 0.6 |
| Loans, net | -503 | -91 | -325 | -67 | 57 | -56 | -6.7 | -1.2 | -4.0 | -0.8 | 0.6 | -0.6 |
| Trade credit and advances, | 40 | -158 | 88 | -37 | -19 | 36 | 0.5 | -2.1 | 1.1 | -0.4 | -0.2 | 0.4 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| net ........................................ | | | | | | | | | | | | |
| Other accounts receivable/payable ............... | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Special drawing rights (Net incurrence of liabilities) ............................ | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Reserve assets** ..................... | **331** | **142** | **-44** | **409** | **-183** | **14** | **4.4** | **1.9** | **-0.5** | **4.8** | **-2.0** | **0.1** |
| **IV. Net errors and omissions** ............................ | **12** | **19** | **13** | **33** | **28** | **-3** | **0.2** | **0.2** | **0.2** | **0.4** | **0.3** | **0.0** |

Notes:

(1) Data for 2014 and 2015 may be revised. Balance of payments data are subject to annual revisions until 270 days after the end of the reporting year.

*Source*: National Bank of the Republic of Macedonia

## Current Account

Macedonia has historically recorded a current account deficit, reflective of an excess of imports over exports. This has been partially offset by inflows of secondary income (current transfers classified as those involving financial corporations, non-financial corporations, households and NPISHs, or private transfers), including remittances from expatriate workers and funds previously excluded from the banking system, and foreign inflows related to certain cross-border services (payment for these services, usually in cash, are not captured in the statistical reporting system; see "*Macedonian Economy — Grey Economy*"). The global economic crisis in 2008 and 2009 had a substantial and detrimental impact on the external sector that resulted in Macedonia's current account deficit widening significantly, though it has subsequently improved.

In 2011, the current account deficit further widened, to 2.5% of GDP. While the energy balance reached a deficit of 10.0% of GDP as demand and prices both increased, metal industry exports grew in response to increased demand and rising world metal prices. Private transfers increased to 18.7% of GDP, reflecting continued improvements in the domestic economy.

The current account deficit in 2012 widened slightly to 3.2% of GDP. The energy balance continued to deteriorate, reaching a deficit of 11.6% of GDP. As uncertainty on the stability of the global financial markets continued, the unfavourable global market for metal commodities adversely impacted metal exports, though other traditional export sectors continued to grow slowly. Private transfers continued to increase, reaching 20.6% of GDP, reflecting the declining confidence in the Euro currency and an increased tendency to hold domestic currency.

The current account deficit in 2013 improved significantly to 1.6% of GDP. The energy trade balance improved markedly, from a deficit of 11.6 % of GDP to a deficit of 9.0% of GDP, as domestic demand for energy decreased and energy prices fell. Net exports improved, reflecting the increased production at new facilities funded by foreign direct investment and their increasing contribution to exports. Private transfers declined slightly in 2013 to 18.1% of GDP, as the impact of the European sovereign debt crisis dissipated and confidence in the Euro returned.

The downward adjustment of the current account deficit continued in 2014. The current account deficit halved in 2014 compared to 2013, reaching 0.8% of GDP. The decrease resulted partly from the improvement in both non-energy and energy trade balances. New foreign-owned facilities strengthened the non-energy trade balance while the fall in world oil prices positively affected the energy trade, alleviating pressures on the imports of energy and yielding an energy balance of 8.5% of GDP. Private transfers remained an important source of financing the trade gap, standing at 17.3% of

GDP. Net inflows from private transfers stabilised and their relative share in GDP decreased by 0.7% compared to the previous year.

In 2015, the current account deficit increased slightly to 1.4% of GDP, partly due to private transfers, which increased in nominal terms, but which decreased in relative terms to 16.8% of GDP. Nevertheless, private transfers remained at a relatively high level and were the most significant source for covering the balance of goods and services. The deficit of the balance of goods and services narrowed further in 2015, the third consecutive year of improvement. A key factor in improving the trade balance in 2015 was the persistent fall of world oil prices, which translated into a significantly lower energy deficit. The energy trade deficit decreased to 6.4% of GDP in 2015, compared to 8.5% of GDP in the previous year. The non-energy trade balance increased moderately, by 0.4% of GDP. New foreigner-owned facilities continued to contribute to an improvement in the trade balance, through further increases in net export. The performance of the traditional export sector worsened as a result of unfavourable global circumstances, adversely affecting the non-energy trade deficit. In the first quarter of 2016, the current account registered a small surplus of €0.4 million, mainly due to the balance of goods and services reflecting the significantly lower energy deficit as a result of a further decline in world oil prices.

**Financial Account**

In 2010 and 2011, strong foreign financial inflows eased pressure on the foreign exchange reserves and provided for an additional reserves buffer. Foreign direct investment was a significant contributor to financial flows in 2011 and 2013 (close to 4.6% and 2.8% of GDP, respectively), reflecting investments in new industrial projects in these periods, particularly through TIDZs. In light of the overall economic downturn in 2012, trade credits were also used to smooth trade transactions. External financing of budget financing needs played an important role in creating additional foreign financing and supporting foreign exchange reserves, particularly in 2011, when funds were drawn from the Precautionary Credit Line ("**PCL**") with the IMF, and commercial financing was provided with a World Bank guarantee pursuant to a Public Expenditure Policy Based Guarantee Programme ("**PBG**"). An additional World Bank guaranteed loan was provided in 2013, complemented with funds based on a Competitiveness DPL arrangement. The financing provided to Macedonia by the international financial institutions has helped directly to bridge the actual financing needs of the country, supporting its balance of payments needs and enabling additional accumulation of reserves. The accumulation of reserves continued in 2014 in response to significant financial inflows, including a Eurobond issuance in July 2014, other foreign financing and the borrowing of public enterprises for financing infrastructure projects. Direct investment also comprised a large part of the financial flows at 2.3% of GDP, and in 2015 again, at 1.9% of GDP. Nevertheless, there was an overall net outflow in the financial account in 2015. As in the previous year, it was mainly a result of the short-term components of the financial account, such as currency and deposits, where net outflow was observed. However, unlike the previous year, it was not mitigated by large net-borrowing of the Government abroad. In 2015, the Government had very little impact on the financial account. Additional financing was obtained through the issuance of a Eurobond in October 2015, offset by repayment obligations based on the PCL, including the amount due in 2016, as well as the first Eurobond that had been issued in 2005. In the three months ended 31 March 2016, there was a net inflow in the financial account of 0.1% of GDP, mostly due to long-term flows such as direct investments (which amounted to 0.7% of GDP) and loans. These inflows were partially offset by volatile short-term outflows in currency and deposits and trade credits and advances.

The following table sets forth the components of the capital and financial account for the periods indicated.

| | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | | | *(% GDP)* | | | |
| **Financial account** | **-6.8** | **-4.7** | **-0.8** | **-5.2** | **1.0** | **-0.1** |
| Direct investment, net | **-4.6** | **-1.7** | **-2.8** | **-2.3** | **-1.9** | **-0.7** |
| Portfolio investment, net | **1.0** | **-1.0** | **2.0** | **-5.7** | **-0.7** | **0.1** |
| Currency and deposits, net | 2.9 | 1.4 | 3.0 | 4.0 | 3.2 | 0.6 |
| Loans, net | -6.7 | -1.2 | -4.0 | -0.8 | 0.6 | -0.6 |
| Trade credit and advances, net | 0.5 | -2.1 | 1.1 | -0.4 | -0.2 | 0.4 |
| Other accounts receivable/payable | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Special drawing rights (Net incurrence of liabilities) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Note: Excluding official reserves.

*Source*: National Bank of the Republic of Macedonia

The following table sets forth the official international reserves of Macedonia for the periods indicated.

| | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | | | *(€ millions)* | | | |
| **Gross foreign reserves** | **2,068.9** | **2,193.3** | **1,993.0** | **2,436.5** | **2,261.8** | **2,266.3** |
| Gross foreign reserves indicators | | | | | | |
| Gross foreign reserves, as % of GDP | 27.4 | 28.9 | 24.5 | 28.6 | 24.9 | 24.0 |
| In months of the current year's imports | 5.0 | 5.2 | 4.8 | 5.3 | 4.6 | 4.0 |
| Gross foreign reserves/ Short-term debt | 1.5 | 1.5 | 1.6 | 1.8 | 1.6 | 1.6 |
| Gross foreign reserves/ Short-term debt, with residual | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 |

*Source*: National Bank of the Republic of Macedonia

Gross international reserves increased in 2011 and 2012, but decreased in 2013. Foreign reserves rose by a further €354.4 million in 2011, reflecting capital inflows associated with government borrowing through the PCL (see "*Overview of the Republic of Macedonia — International Relations — Relationship with International Organisations and Private Foreign Investors — International Monetary Fund*"), a World Bank PBG and robust inflows from foreign direct investments, notwithstanding widening of the current account deficit. There was a further accumulation of foreign reserves by €124.4 million in 2012, driven by higher net-purchases of foreign exchange on the foreign exchange market by NBRM. In 2013, there was an outflow of €200.0 million in foreign reserves, predominantly as result of portfolio valuation effects, partially offset by interventions on the foreign exchange market. A strong accumulation of reserves amounting to €443.5 million followed in 2014 due mainly to government borrowing on the international market. Valuation effects and returns on reserves also contributed positively. Gross reserves declined by €174.7 million in 2015, in large part due to transactions of the government which used previously accumulated funds for debt servicing, including the prepayment of the PCL based debt, repayment of the 2005 Eurobond and covering of other financing needs. The depletion was also partly caused by minor fluctuations in the foreign exchange market, which occurred mostly in June and July 2015 when demand for foreign currency increased slightly in response to the domestic political turmoil and the Greek crisis. Valuation effects and returns on reserves contributed positively to the change in the gross foreign reserves. Macedonia's foreign reserves as at 30 April 2016 were free from any encumbrances. In the first quarter of 2016, gross foreign reserves increased slightly, by approximately €5 million. As at the end of May 2016, gross foreign reserves amounted to €2.16 billion.

***Foreign trade***

Macedonia seeks to develop a strong export base diversified across a number of industries and allocated to higher value-added segments in order to reduce the trade deficit and to mitigate susceptibility to large external shocks. Recently, positive developments were registered in the export composition of goods. From a historical perspective, the export structure in the pre-crisis period (2004-2008) has been highly concentrated, with approximately 52% of exports consisting of metals (classified as “Iron and steel” within “Manufactured goods classified by materials” below) and textiles (classified as “Articles of apparel and clothing accessories” within “Miscellaneous manufactured articles” below). From 2010, the entrance of foreign investors led to a diversification of the export structure towards higher value-added products (classified as “Machinery and transport equipment” and “Chemical products”) which accounted for approximately 44% of total exports in 2015. The share of metals and textiles declined to approximately 24.6% of exports in 2015 from 28.3% at the end of 2014.

In 2011, favourable global metals market trends, boosted by the impact of higher capacity utilisation in one major FDI-related company in the sector, drove increased export activity (26.8% annual growth). However, these trends were offset by the gradual recovery of domestic and export demand and increased energy imports resulting in increased imports of goods (22.1%) and, as a result, widening of the trade deficit to 24.4% of GDP. The trade deficit further widened in 2012, to 25.7% of GDP, following a drop in exports of goods (2.8%) and a small rise (0.3%) in imports, reflecting a decline in demand of Macedonia’s main developed trading partners, a decline in global metal prices and reduced production at the domestic oil refinery. On the import side, the rise in energy prices and high food prices caused a more pronounced increase in imports of energy and food, despite the reduction in investment imports. Reduced demand in energy and declines in world energy prices during 2013 led to a narrowing of trade deficit, notwithstanding the still weak Euro area conditions and less favourable global prices for some key export goods. Exports, driven by enhanced greenfield foreign investments, registered annual growth of 3.6%, while decreased energy imports caused an overall annual decline in imports of 1.7%. The trade deficit continued to narrow in 2014 as export growth accelerated significantly, reaching 15.8% of GDP year on year. The growth was largely a reflection of the increased production of goods for export from foreign-owned factories and activity in the domestic traditional industries, in particular textile and food. Imports grew approximately by 10.5% year on year, reflecting growth in export and investment related imports. In 2015, exports grew by 8.1%, primarily due to an increase in the exports of foreign-owned companies, mainly in the technological and industrial development zones. During the same year, import growth decelerated to 4.9%. Import growth was mainly led by export related imports as energy imports decreased as a result of the persistent fall in world prices. These developments led to a further trade deficit decrease in 2015 by 1.6 percentage points of GDP. For the three months ended 31 March 2016, exports of goods grew by 5.7% compared to the same period in 2015, primarily due to an increase in the exports of foreign companies, mainly in the TDIZs, as well as an increase in the export of food. During the same period, imports of goods grew by 3.7% compared to the same period in 2015. Export-related imports such as energy imports decreased in line with the continuous fall in world oil prices. In the first quarter of 2016, the trade deficit declined by 1.3% compared to the same period in 2015, amounting to €373 million.

In recent years, the Macedonian economy has experienced significant structural changes as well as changes in the direction of trade. This process has been driven by FDI, through investments in already established sectors, as well as new sectors in the economy. For example, a few key "Greenfield" investments from abroad were behind the introduction of the automotive industry to the Macedonian economy, through the TIDZs. See "*Macedonian Economy — Key components of the economy — Industry*".

### *Composition of trade*

The following tables show the composition of imports and exports by sector for the period indicated:

| Imports [1] Groups of Products [2] | For the year ended 31 December | | | | | For the three months ended 31 March | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | *(€ millions)* | | | | | | *(% of GDP)* | | | | | |
| **Food and live animals** | **483.4** | **529.8** | **513.1** | **517.8** | **551.3** | **126.0** | **6.4** | **7.0** | **6.3** | **6.1** | **6.1** | **5.5** |
| Meat and meat preparations | 111.3 | 125.0 | 128.0 | 118.8 | 122.3 | 24.6 | 1.5 | 1.6 | 1.6 | 1.4 | 1.3 | 1.1 |
| Cereals and cereal preparations | 75.2 | 90.5 | 73.5 | 76.5 | 84.0 | 19.7 | 1.0 | 1.2 | 0.9 | 0.9 | 0.9 | 0.9 |
| **Beverages and tobacco** | **49.3** | **57.6** | **58.8** | **54.0** | **60.1** | **13.9** | **0.7** | **0.8** | **0.7** | **0.6** | **0.7** | **0.6** |
| **Crude materials, inedible, except fuels** | **263.0** | **232.0** | **161.8** | **202.7** | **188.6** | **28.1** | **3.5** | **3.1** | **2.0** | **2.4** | **2.1** | **1.2** |
| Metalliferous ores and metal scrap | 193.7 | 167.4 | 96.5 | 132.3 | 111.1 | 9.2 | 2.6 | 2.2 | 1.2 | 1.6 | 1.2 | 0.4 |
| **Mineral fuels, lubricants and related materials** | **1,035.1** | **1,079.9** | **808.3** | **789.7** | **627.0** | **123.0** | **13.7** | **14.2** | **9.9** | **9.3** | **6.9** | **5.4** |
| Petroleum and petroleum products | 759.0 | 754.8 | 561.7 | 532.0 | 411.7 | 69.0 | 10.1 | 10.0 | 6.9 | 6.2 | 4.5 | 3.0 |
| Electric energy | 165.4 | 196.7 | 128.7 | 140.7 | 119.8 | 27.6 | 2.2 | 2.6 | 1.6 | 1.6 | 1.3 | 1.2 |
| **Animal and vegetable oils and fats** | **54.5** | **61.6** | **51.1** | **42.6** | **52.6** | **10.9** | **0.7** | **0.8** | **0.6** | **0.5** | **0.6** | **0.5** |
| **Chemical Products** | **596.2** | **575.8** | **657.4** | **624.0** | **688.1** | **179.4** | **7.9** | **7.6** | **8.1** | **7.3** | **7.6** | **7.8** |
| Medical and pharmaceutical products | 117.3 | 122.9 | 126.1 | 133.2 | 131.3 | 34.0 | 1.6 | 1.6 | 1.5 | 1.6 | 1.4 | 1.5 |
| **Manufactured goods classified by materials** | **1,412.9** | **1,427.1** | **1,536.4** | **1,883.2** | **2,052.2** | **471.5** | **18.7** | **18.8** | **18.9** | **22.1** | **22.6** | **20.6** |
| Textile yarns, fabrics, etc | 346.8 | 344.2 | 363.6 | 400.4 | 411.5 | 91.9 | 4.6 | 4.5 | 4.5 | 4.7 | 4.5 | 4.0 |
| Iron and steel | 314.0 | 288.2 | 274.6 | 274.3 | 292.5 | 69.0 | 4.2 | 3.8 | 3.4 | 3.2 | 3.2 | 3.0 |
| Non ferous metals | 344.6 | 369.4 | 446.1 | 687.1 | 743.6 | 163.7 | 4.6 | 4.9 | 5.5 | 8.1 | 8.2 | 7.1 |
| **Machinery and transport equipment** | **842.7** | **798.3** | **871.7** | **1,030.7** | **1,165.9** | **303.7** | **11.2** | **10.5** | **10.7** | **12.1** | **12.8** | **13.2** |
| Road vehicles | 250.6 | 211.9 | 190.7 | 224.4 | 246.6 | 70.9 | 3.3 | 2.8 | 2.3 | 2.6 | 2.7 | 3.1 |
| **Miscellaneous manufactured articles** | **309.0** | **303.6** | **320.4** | **355.1** | **386.6** | **98.9** | **4.1** | **4.0** | **3.9** | **4.2** | **4.3** | **4.3** |
| **Commodities and transactions not classified in SITC** | **6.9** | **4.8** | **4.2** | **4.7** | **4.6** | **1.2** | **0.1** | **0.1** | **0.1** | **0.1** | **0.1** | **0.1** |
| **Total Imports** | **5,052.9** | **5,070.6** | **4,983.3** | **5,504.5** | **5,776.9** | **1,356.5** | **67.0** | **66.9** | **61.1** | **64.5** | **63.5** | **59.2** |

Notes:

(1) Import data prepared by the State Statistical Office are on a CIF basis, whereas the import statistics in the Balance of Payments data prepared by the NBRM are on a FOB basis.

(2) Standard International Trade Classification (SITC).

*Source*: State Statistical Office

| Imports (1) Groups of Products (2) | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | *(share of total import, %)* | | | | | |
| **Food and live animals** | **9.6** | **10.4** | **10.3** | **9.4** | **9.5** | **9.3** |
| Meat and meat preparations | 2.2 | 2.5 | 2.6 | 2.2 | 2.1 | 1.8 |
| Cereals and cereal preparations | 1.5 | 1.8 | 1.5 | 1.4 | 1.5 | 1.5 |
| **Beverages and tobacco** | **1.0** | **1.1** | **1.2** | **1.0** | **1.0** | **1.0** |
| **Crude materials, inedible, except fuels** | **5.2** | **4.6** | **3.2** | **3.7** | **3.3** | **2.1** |
| Metalliferous ores and metal scrap | 3.8 | 3.3 | 1.9 | 2.4 | 1.9 | 0.7 |
| **Mineral fuels, lubricants and related materials** | **20.5** | **21.3** | **16.2** | **14.3** | **10.9** | **9.1** |
| Petroleum and petroleum products | 15.0 | 14.9 | 11.3 | 9.7 | 7.1 | 5.1 |
| Electric energy | 3.3 | 3.9 | 2.6 | 2.6 | 2.1 | 2.0 |
| **Animal and vegetable oils and fats** | **1.1** | **1.2** | **1.0** | **0.8** | **0.9** | **0.8** |
| **Chemical Products** | **11.8** | **11.4** | **13.2** | **11.3** | **11.9** | **13.2** |
| Medical and pharmaceutical products | 2.3 | 2.4 | 2.5 | 2.4 | 2.3 | 2.5 |
| **Manufactured goods classified by materials** | **28.0** | **28.1** | **30.8** | **34.2** | **35.5** | **34.8** |
| Textile yarns, fabrics, etc | 6.9 | 6.8 | 7.3 | 7.3 | 7.1 | 6.8 |
| Iron and steel | 6.2 | 5.7 | 5.5 | 5.0 | 5.1 | 5.1 |
| Non ferous metals | 6.8 | 7.3 | 9.0 | 12.5 | 12.9 | 12.1 |
| **Machinery and transport equipment** | **16.7** | **15.7** | **17.5** | **18.7** | **20.2** | **22.4** |
| Road vehicles | 5.0 | 4.2 | 3.8 | 4.1 | 4.3 | 5.2 |
| **Miscellaneous manufactured articles** | **6.1** | **6.0** | **6.4** | **6.5** | **6.7** | **7.3** |
| **Commodities and transactions not classified in SITC** | **0.1** | **0.1** | **0.1** | **0.1** | **0.1** | **0.1** |
| **Total Imports** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Notes:

(1) Import data prepared by the State Statistical Office are on a CIF basis, whereas the import statistics in the Balance of Payments data prepared by the NBRM are on a FOB basis.

(2) Standard International Trade Classification (SITC).

*Source*: State Statistical Office

| Exports(1) Groups of Products(2) | For the year ended 31 December | | | | | For the three months ended 31 March | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | *(€ millions)* | | | | | | *(in % of GDP)* | | | | | |
| **Food and live animals** | **267.4** | **264.5** | **275.2** | **293.5** | **305.7** | **66.3** | **3.5** | **3.5** | **3.4** | **3.4** | **3.4** | **2.9** |
| Fruits and vegetables | 141.1 | 136.9 | 146.0 | 158.5 | 164.2 | 32.2 | 1.9 | 1.8 | 1.8 | 1.9 | 1.8 | 1.4 |
| **Beverages and tobacco** | **169.7** | **185.4** | **203.4** | **168.0** | **144.9** | **32.6** | **2.2** | **2.4** | **2.5** | **2.0** | **1.6** | **1.4** |
| Beverages | 58.5 | 70.9 | 66.0 | 58.5 | 48.3 | 13.7 | 0.8 | 0.9 | 0.8 | 0.7 | 0.5 | 0.6 |
| Tobacco and tobacco preparations | 111.2 | 114.5 | 137.3 | 109.5 | 96.6 | 18.9 | 1.5 | 1.5 | 1.7 | 1.3 | 1.1 | 0.8 |
| **Crude materials, inedible, except fuels** | **206.6** | **206.4** | **209.7** | **202.0** | **195.2** | **41.3** | **2.7** | **2.7** | **2.6** | **2.4** | **2.1** | **1.8** |
| Metalliferous ores and metal scrap | 157.9 | 163.7 | 164.1 | 155.4 | 149.0 | 31.3 | 2.1 | 2.2 | 2.0 | 1.8 | 1.6 | 1.4 |
| **Mineral fuels, lubricants and related materials** | **279.4** | **201.0** | **80.3** | **65.9** | **47.3** | **9.1** | **3.7** | **2.6** | **1.0** | **0.8** | **0.5** | **0.4** |
| Petroleum and petroleum products | 239.0 | 160.5 | 71.5 | 55.4 | 34.3 | 4.3 | 3.2 | 2.1 | 0.9 | 0.6 | 0.4 | 0.2 |
| **Animal and vegetable oils and fats** | **12.8** | **12.1** | **7.3** | **9.4** | **18.3** | **4.2** | **0.2** | **0.2** | **0.1** | **0.1** | **0.2** | **0.2** |
| **Chemical Products** | **537.7** | **528.9** | **630.4** | **795.9** | **923.0** | **248.1** | **7.1** | **7.0** | **7.7** | **9.3** | **10.2** | **10.8** |
| Medical and pharmaceutical products | 59.8 | 65.1 | 60.7 | 61.7 | 63.8 | 14.5 | 0.8 | 0.9 | 0.7 | 0.7 | 0.7 | 0.6 |
| Chemical materials and products | 398.2 | 388.1 | 484.0 | 655.4 | 779.2 | 215.2 | 5.3 | 5.1 | 5.9 | 7.7 | 8.6 | 9.4 |
| **Manufactured goods classified by materials** | **884.8** | **808.1** | **775.8** | **726.0** | **720.1** | **125.7** | **11.7** | **10.7** | **9.5** | **8.5** | **7.9** | **5.5** |
| Non metallic mineral manufactures, n.e.s | 49.2 | 43.0 | 37.5 | 37.2 | 43.3 | 7.0 | 0.7 | 0.6 | 0.5 | 0.4 | 0.5 | 0.3 |
| Iron and steel | 725.9 | 649.7 | 606.0 | 551.3 | 518.0 | 80.1 | 9.6 | 8.6 | 7.4 | 6.5 | 5.7 | 3.5 |
| **Machinery and transport equipment** | **254.1** | **310.4** | **429.4** | **789.4** | **999.7** | **280.2** | **3.4** | **4.1** | **5.3** | **9.3** | **11.0** | **12.2** |
| General industrial machinery and equipment | 88.1 | 147.2 | 214.3 | 335.0 | 446.6 | 118.9 | 1.2 | 1.9 | 2.6 | 3.9 | 4.9 | 5.2 |
| Electrical machinery, apparatus and appliances, | 114.3 | 105.2 | 149.8 | 326.3 | 392.8 | 107.1 | 1.5 | 1.4 | 1.8 | 3.8 | 4.3 | 4.7 |
| **Miscellaneous manufactured articles** | **600.4** | **606.3** | **621.2** | **693.3** | **695.9** | **175.4** | **8.0** | **8.0** | **7.6** | **8.1** | **7.7** | **7.6** |
| Clothing | 473.5 | 468.6 | 472.0 | 509.2 | 477.1 | 117.4 | 6.3 | 6.2 | 5.8 | 6.0 | 5.2 | 5.1 |
| Footwear | 59.3 | 53.8 | 58.9 | 63.5 | 53.4 | 11.4 | 0.8 | 0.7 | 0.7 | 0.7 | 0.6 | 0.5 |
| **Commodities and transactions not classified in SITC** | **2.0** | **0.7** | **2.5** | **3.2** | **1.1** | **0.3** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Total Exports** | **3,214.9** | **3,124.0** | **3,235.2** | **3,746.6** | **4,051.2** | **983.3** | **42.6** | **41.2** | **39.7** | **43.9** | **44.6** | **42.9** |

Notes:

(1) Export data prepared by the State Statistical Office are on a CIF basis, whereas the export statistics in the Balance of Payments data prepared by the NBRM are on a FOB basis.

(2) Standard International Trade Classification (SITC).

*Source*: State Statistical Office

| Exports(1) Groups of Products(2) | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| | *(share of total export, %)* | | | | | |

| Exports(1) Groups of Products(2) | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | *(share of total export, %)* | | | | | |
| **Food and live animals** | **8.3** | **8.5** | **8.5** | **7.8** | **7.5** | **6.7** |
| Fruits and vegetables | 4.4 | 4.4 | 4.5 | 4.2 | 4.1 | 3.3 |
| **Beverages and tobacco** | **5.3** | **5.9** | **6.3** | **4.5** | **3.6** | **3.3** |
| Beverages | 1.8 | 2.3 | 2.0 | 1.6 | 1.2 | 1.4 |
| Tobacco and tobacco preparations | 3.5 | 3.7 | 4.2 | 2.9 | 2.4 | 1.9 |
| **Crude materials, inedible, except fuels** | **6.4** | **6.6** | **6.5** | **5.4** | **4.8** | **4.2** |
| Metalliferous ores and metal scrap | 4.9 | 5.2 | 5.1 | 4.1 | 3.7 | 3.2 |
| **Mineral fuels, lubricants and related materials** | **8.7** | **6.4** | **2.5** | **1.8** | **1.2** | **0.9** |
| Petroleum and petroleum products | 7.4 | 5.1 | 2.2 | 1.5 | 0.8 | 0.4 |
| **Animal and vegetable oils and fats** | **0.4** | **0.4** | **0.2** | **0.3** | **0.5** | **0.4** |
| **Chemical Products** | **16.7** | **16.9** | **19.5** | **21.2** | **22.8** | **25.2** |
| Medical and pharmaceutical products | 1.9 | 2.1 | 1.9 | 1.6 | 1.6 | 1.5 |
| Chemical materials and products | 12.4 | 12.4 | 15.0 | 17.5 | 19.2 | 21.9 |
| **Manufactured goods classified by materials** | **27.5** | **25.9** | **24.0** | **19.4** | **17.8** | **12.8** |
| Non metallic mineral manufactures, n.e.s | 1.5 | 1.4 | 1.2 | 1.0 | 1.1 | 0.7 |
| Iron and steel | 22.6 | 20.8 | 18.7 | 14.7 | 12.8 | 8.1 |
| **Machinery and trans port equipment** | **7.9** | **9.9** | **13.3** | **21.1** | **24.7** | **28.5** |
| General industrial machinery and equipment | 2.7 | 4.7 | 6.6 | 8.9 | 11.0 | 12.1 |
| Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof | 3.6 | 3.4 | 4.6 | 8.7 | 9.7 | 10.9 |
| **Miscellaneous manufactured articles** | **18.7** | **19.4** | **19.2** | **18.5** | **17.2** | **17.8** |
| Clothing | 14.7 | 15.0 | 14.6 | 13.6 | 11.8 | 11.9 |
| Footwear | 1.8 | 1.7 | 1.8 | 1.7 | 1.3 | 1.2 |
| **Commodities and transactions not classified in SITC** | **0.1** | **0.0** | **0.1** | **0.1** | **0.0** | **0.0** |
| **Total Exports** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

Notes:

(1) Export data prepared by the State Statistical Office are on a CIF basis, whereas the export statistics in the Balance of Payments data prepared by the NBRM are on a FOB basis.

(2) Standard international Trade Classification (SITC).

*Source*: State Statistical Office

### *Direction of trade*

The following table sets out the direction of imports and exports for the periods indicated:

## Export and import of goods with significant trade partners[(1)]

| | For the year ended 31 December | | | | | | | | | | For the three months ended 31 March | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | | 2016 | |
| | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* |
| **Export** | **3,214.9** | **100.0** | **3,124.0** | **100.0** | **3,235.2** | **100.0** | **3,746.6** | **100.0** | **4,051.2** | **100.0** | **983.3** | **100.0** |
| Germany | 893.1 | 27.8 | 917.1 | 29.4 | 1,157.9 | 35.8 | 1,545.5 | 41.3 | 1,795.0 | 44.3 | 484.9 | 49.3 |
| Greece | 156.2 | 4.9 | 146.8 | 4.7 | 161.3 | 5.0 | 170.7 | 4.6 | 149.5 | 3.7 | 33.4 | 3.4 |
| Serbia | 241.9 | 7.5 | 231.8 | 7.4 | 204.3 | 6.3 | 196.2 | 5.2 | 185.2 | 4.6 | 38.2 | 3.9 |
| Italy | 208.9 | 6.5 | 218.8 | 7.0 | 216.0 | 6.7 | 232.5 | 6.2 | 163.5 | 4.0 | 35.4 | 3.6 |
| Bulgaria | 221.3 | 6.9 | 223.5 | 7.2 | 245.2 | 7.6 | 247.4 | 6.6 | 244.0 | 6.0 | 47.4 | 4.8 |
| Kosovo | 396.1 | 12.3 | 305.1 | 9.8 | 208.7 | 6.5 | 174.6 | 4.7 | 169.0 | 4.2 | 35.2 | 3.6 |
| Russia | 28.5 | 0.9 | 25.9 | 0.8 | 23.8 | 0.7 | 31.9 | 0.9 | 31.7 | 0.8 | 9.7 | 1.0 |
| Great Britain | 39.0 | 1.2 | 49.0 | 1.6 | 60.9 | 1.9 | 52.1 | 1.4 | 42.4 | 1.0 | 14.4 | 1.5 |
| China | 91.4 | 2.8 | 124.1 | 4.0 | 80.3 | 2.5 | 70.8 | 1.9 | 128.8 | 3.2 | 7.8 | 0.8 |
| Turkey | 52.7 | 1.6 | 51.9 | 1.7 | 54.1 | 1.7 | 50.9 | 1.4 | 66.2 | 1.6 | 18.6 | 1.9 |
| Others | 885.8 | 27.6 | 829.8 | 26.6 | 822.8 | 25.4 | 974.0 | 26.0 | 1,075.9 | 26.6 | 258.5 | 26.3 |
| **Import** | **5,052.9** | **100** | **5,070.6** | **100** | **4,983.3** | **100.0** | **5,504.5** | **100.0** | **5,776.9** | **100.0** | **1,356.5** | **100.0** |
| Germany | 523.9 | 10.4 | 493.2 | 9.7 | 522.3 | 10.5 | 608.8 | 11.1 | 730.8 | 12.6 | 196.1 | 14.5 |
| Greece | 409.9 | 8.1 | 627.8 | 12.4 | 526.3 | 10.6 | 502.2 | 9.1 | 450.6 | 7.8 | 88.8 | 6.5 |
| Serbia | 358.4 | 7.1 | 375.4 | 7.4 | 393.2 | 7.9 | 451.3 | 8.2 | 445.4 | 7.7 | 100.6 | 7.4 |
| Italy | 305.7 | 6.0 | 312.7 | 6.2 | 324.1 | 6.5 | 346.0 | 6.3 | 348.7 | 6.0 | 72.5 | 5.3 |
| Bulgaria | 328.1 | 6.5 | 316.9 | 6.3 | 276.0 | 5.5 | 290.0 | 5.3 | 307.3 | 5.3 | 67.1 | 4.9 |
| Kosovo | 25.8 | 0.5 | 22.2 | 0.4 | 22.4 | 0.4 | 27.2 | 0.5 | 22.8 | 0.4 | 4.5 | 0.3 |
| Russia | 491.5 | 9.7 | 278.5 | 5.5 | 123.3 | 2.5 | 106.3 | 1.9 | 139.3 | 2.4 | 29.1 | 2.1 |
| Great Britain | 432.8 | 8.6 | 436.0 | 8.6 | 547.0 | 11.0 | 671.9 | 12.2 | 558.6 | 9.7 | 152.0 | 11.2 |
| China | 254.7 | 5.0 | 291.1 | 5.7 | 285.8 | 5.7 | 326.8 | 5.9 | 352.6 | 6.1 | 99.1 | 7.3 |
| Turkey | 247.8 | 4.9 | 252.9 | 5.0 | 237.9 | 4.8 | 284.8 | 5.2 | 288.5 | 5.0 | 67.0 | 4.9 |
| Others | 1,674.3 | 33.1 | 1,663.8 | 32.8 | 1,724.9 | 34.6 | 1,889.3 | 34.3 | 2,132.5 | 36.9 | 479.7 | 35.4 |

Note*:*

(1) Export and import data prepared by the State Statistical Office are on a CIF basis, whereas the export and import statistics in the balance of payments data prepared by the NBRM are on a FOB basis.

*Source*: State Statistical Office

Germany, Greece and Serbia are Macedonia's most important trading partners, with Germany reaching 44.3% of total exports in 2015. In recent years, Germany has been the country with which the largest trade surplus was recorded. This increase was driven primarily by increased exports to Germany in connection with greenfield investment projects in the automotive industry that produce products for export to Germany. On the other hand, the share of Greece and Serbia in total exports continued to decrease to 3.7% and 4.6% in 2015, respectively, and from 4.9% and 7.5% in 2011, respectively. The highest trade deficit was recorded with Great Britain, reflecting imports of raw materials used in manufacturing products for export.

In terms of region, the EU remains the leading trading partner of Macedonia with an average share of total trade of 70.0% from 2011 to 2015. The share of exports directed to EU countries (mainly to the EU's largest economy, Germany) in this period increased by 15.3 percentage points of the total export, while imports from the EU increased by 9.1 percentage points of the total import. Meanwhile, the share of trade with Western Balkan countries amounted to an average of 14.0% of total trade in the period between 2011 and 2015, which represents a decline of 7.7%. Although there was a decline in the share of total trade with Western Balkan countries, in particular with Serbia and Kosovo, the share of total trade with emerging markets, including China and Russia, increased period on period. In the first quarter of 2016, there were no major changes in the direction of trade.

***Foreign Direct Investment***

Increasing the level of foreign direct investment remains an important priority for the Government, reflecting the importance of such investments in improving the competitiveness and structure of the economy. In 2011, FDI flows dramatically increased and reached €344.4 million, which is close to the average pre-crisis level (2004-2008) and twice the level in 2010. The majority of this investment consisted of equity capital, as well as some reinvested earnings. Amidst the global economic slowdown in 2012, accompanied by foreign investors' risk aversion, FDI significantly dropped to €111.2 million. Positive inflows were registered in the form of equity and reinvested earnings, while intercompany lending remained fairly constant. In 2013, FDI amounted to €252.2 million, composed primarily of reinvested earnings and intercompany lending. In 2014, the FDI slightly declined and amounted to €205.1 million and was largely in the form of intercompany lending, with a smaller contribution of equity. In 2015 FDI flows amounted to €157 million, predominantly in the form of intercompany lending. In the first three months of 2016, the main form of FDI inflows were reinvested earnings in the amount of €58.7 million.

In recent years, the TIDZs have been a key part of the Government's efforts to increase levels of FDI. See "*Macedonian Economy — Key components of the economy —Industry*". In addition, Macedonia has started to become a near-shore IT outsourcing destination for foreign companies, especially given the English-speaking competencies of some of its population.

*Foreign Direct Investment in GDP*

The share of FDI in GDP increased in 2011 and 2013 but has decreased since 2013. This decrease in share of FDI in GDP reflects negative flow from repatriation of profits by companies with foreign ownership.

The following table shows the breakdown of foreign direct investment as a percentage of GDP for the periods indicated:

| | For the year ended 31 December | | | | | For the three months ended 31 March |
|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Annual FDI flows** | | | | | | |
| in € millions | 344.4 | 111.2 | 252.2 | 205.1 | 157.0 | 58.7 |
| as % of GDP | 4.6 | 1.5 | 3.1 | 2.4 | 1.7 | 0.6 |
| **FDI stock[1]** | | | | | | |
| in € millions | 3,615.1 | 3,685.5 | 3,980.0 | 4,023.6 | - | - |
| as % of GDP | 47.9 | 48.6 | 48.8 | 47.2 | - | - |

Notes:

(1) FDI stock data is only available up until the end of 2014.

*Source*: National Bank of the Republic of Macedonia

In 2014, the FDI stock was concentrated in manufacturing (representing 36% of total FDI stock for the year), financial services (21%) and wholesale and retail trade (13%). Other sectors that the Government is targeting as new areas for FDI include information and communication technology, electronics, pharmaceuticals, agribusiness, food processing and tourism.

Greenfield investments constitute an important component of FDI, and the Government expects that increased levels of FDI, with Greenfield investments in particular, will be crucial for the sustained growth of Macedonia and to finance future current account deficits.

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** |
| | *(€ million)* | | | |
| Greenfield investments | 1,286.4 | 1,179.8 | 1,226.0 | 1,081.8 |
| Total FDI | 3,232.4 | 3,263.4 | 3,417.0 | 3,186.4 |
| Share of greenfield investment in total FDI (in %) | 39.8 | 36.2 | 35.9 | 34.0 |

*Source*: National Bank of the Republic of Macedonia

*Foreign Direct Investment by Country*

The five largest investors in Macedonia, as measured by stock of FDI, were the Netherlands, Austria, Greece, Slovenia and Hungary as at 31 December 2014.

The following tables show the breakdown of the share of stock of FDI by country of origin in the total FDI for the periods indicated.

## Stock of Foreign Direct Investment in Macedonia - by country

| **Country** | **For the year ended 31 December** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | | **2012** | | **2013** | | **2014** | |
| | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* |
| Austria | 365.0 | 10.1 | 396.8 | 10.8 | 484.3 | 12.2 | 516.3 | 12.8 |
| Bulgaria | 120.3 | 3.3 | 142.8 | 3.9 | 138.9 | 3.5 | 116.6 | 2.9 |
| Croatia | 77.6 | 2.1 | 85.4 | 2.3 | 92.1 | 2.3 | 95.0 | 2.4 |
| Cyprus | 48.8 | 1.3 | 57.7 | 1.6 | 68.7 | 1.7 | 51.1 | 1.3 |
| France | 131.5 | 3.6 | 134.8 | 3.7 | 137.2 | 3.4 | 30.3 | 0.8 |
| Germany | 86.3 | 2.4 | 83.5 | 2.3 | 111.3 | 2.8 | 154.5 | 3.8 |
| Greece | 442.9 | 12.3 | 436.2 | 11.8 | 433.5 | 10.9 | 429.2 | 10.7 |
| Hungary | 346.6 | 9.6 | 346.4 | 9.4 | 324.6 | 8.2 | 227.3 | 5.6 |
| Italy | 65.2 | 1.8 | 62.7 | 1.7 | 67.2 | 1.7 | 81.4 | 2.0 |
| Luxembourg | 15.4 | 0.4 | 18.8 | 0.5 | 18.7 | 0.5 | 16.2 | 0.4 |
| Netherlands | 740.4 | 20.5 | 783.0 | 21.2 | 815.1 | 20.5 | 869.7 | 21.6 |
| Serbia | 70.9 | 2.0 | 77.7 | 2.1 | 72.4 | 1.8 | 77.2 | 1.9 |
| Slovenia | 380.3 | 10.5 | 348.8 | 9.5 | 396.7 | 10.0 | 387.6 | 9.6 |
| Switzerland | 124.2 | 3.4 | 88.5 | 2.4 | 72.0 | 1.8 | 173.8 | 4.3 |
| Turkey | 117.2 | 3.2 | 145.3 | 3.9 | 168.1 | 4.2 | 182.1 | 4.5 |
| United Kingdom | 48.1 | 1.3 | 39.0 | 1.1 | 111.6 | 2.8 | 141.5 | 3.5 |
| Others | 434. 6 | 12.0 | 438.1 | 11.9 | 467.7 | 11.8 | 473.9 | 11.8 |
| **Total** | **3,615.1** | **100.0** | **3,685.5** | **100.0** | **3,980.0** | **100.0** | **4,023.6** | **100.0** |

Notes:

(1) FDI stock data is only available up until the end of 2014.

*Source*: National Bank of the Republic of Macedonia

## Foreign Direct Investment in Macedonia (flow) - by country

| | **For the year ended 31 December** | | | | | | | | | | **For the three months ended 31 March** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | | **2012** | | **2013** | | **2014** | | **2015** | | **2016** | |
| | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* |
| Austria | 48.1 | 14.0 | 47.7 | 42.9 | 56.3 | 22.3 | 26.2 | 12.8 | -7.5 | -4.8 | 3.4 | 5.7 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bulgaria | 4.7 | 1.4 | 7.1 | 6.4 | -2.9 | -1.1 | -8.1 | -3.9 | 1.4 | 0.9 | 2.1 | 3.6 |
| Croatia | 8.1 | 2.3 | 5.4 | 4.9 | 4.6 | 1.8 | 0.5 | 0.3 | 0.5 | 0.3 | -2.0 | -3.5 |
| Cyprus | 3.4 | 1.0 | 2.3 | 2.1 | 8.5 | 3.4 | -6.2 | -3.0 | 8.1 | 5.2 | 0.5 | 0.9 |
| France | 2.6 | 0.8 | 0.9 | 0.8 | 2.5 | 1.0 | -105.7 | -51.5 | -164.1 | -104.5 | 0.8 | 1.4 |
| Germany | 10.7 | 3.1 | 12.1 | 10.8 | 32.0 | 12.7 | 45.8 | 22.3 | 32.5 | 20.7 | 8.9 | 15.2 |
| Greece | 14.8 | 4.3 | 2.1 | 1.9 | -0.9 | -0.4 | -3.3 | -1.6 | 0.0 | 0.0 | -0.5 | -0.9 |
| Hungary | -0.3 | -0.1 | -0.1 | -0.1 | -22.0 | -8.7 | -1.4 | -0.7 | -31.2 | -19.9 | 0.0 | 0.0 |
| Italy | 9.6 | 2.8 | 2.1 | 1.9 | 5.7 | 2.3 | 11.5 | 5.6 | 12.7 | 8.1 | 4.3 | 7.4 |
| Luxembourg | 0.6 | 0.2 | 1.3 | 1.2 | 0.0 | 0.0 | -2.0 | -1.0 | 0.7 | 0.4 | 2.7 | 4.5 |
| Netherlands | 136.6 | 39.7 | 8.1 | 7.3 | 37.1 | 14.7 | 40.1 | 19.6 | 12.3 | 7.8 | -23.6 | -40.1 |
| Serbia | -5.1 | -1.5 | -0.6 | -0.5 | -0.4 | -0.2 | 3.0 | 1.5 | 0.4 | 0.3 | 1.5 | 2.6 |
| Slovenia | 19.1 | 5.5 | 8.8 | 7.9 | 38.0 | 15.1 | -6.6 | -3.2 | 0.0 | 0.0 | 2.6 | 4.5 |
| Switzerland | -5.8 | -1.7 | -15.0 | -13.5 | -8.5 | -3.4 | 131.7 | 64.2 | 19.6 | 12.5 | 0.4 | 0.7 |
| Turkey | 77.1 | 22.4 | 23.5 | 21.2 | 22.8 | 9.0 | 17.1 | 8.3 | 17.1 | 10.9 | 1.6 | 2.7 |
| United Kingdom | -59.3 | -17.2 | 0.5 | 0.4 | 45.1 | 17.9 | 39.2 | 19.1 | -45.4 | -28.9 | 1.8 | 3.1 |
| Others | 79.4 | 23.1 | 5.1 | 4.6 | 34.3 | 13.6 | 23.3 | 11.3 | 300.1 | 191.1 | 54.1 | 92.1 |
| **Total** | **344.4** | **100.0** | **111.2** | **100.0** | **252.2** | **100.0** | **205.1** | **100.0** | **157.0** | **100.0** | **58.7** | **100.0** |

Notes:

*Source:* National Bank of the Republic of Macedonia

The following table shows the breakdown of the share of stock of FDI by activity for the periods indicated.

## Stock of Foreign Direct Investment in Macedonia – by activity

| | **As at 31 December** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Stock of Direct Investments in Republic of Macedonia - by activity** | **2011** | | **2012** | | **2013** | | **2014** | |
| | *(€ millions)* | *Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* | *(€ millions)* | *(Share in percent)* |
| **Agriculture, forestry and fishing** | **30.9** | **0.9** | **36.5** | **1.0** | **42.9** | **1.1** | **43.6** | **1.1** |
| **Minning and quarring** | **179.4** | **5.0** | **156.4** | **4.2** | **164.8** | **4.1** | **182.3** | **4.5** |
| **Manufacturing** | **1,308.8** | **36.2** | **1,281.5** | **34.8** | **1,388.9** | **34.9** | **1,435.8** | **35.7** |
| **Electricity, gas, steam and air conditioning supply** | **232.9** | **6.4** | **278.8** | **7.6** | **296.5** | **7.5** | **327.7** | **8.1** |
| **Water supplu, sewerage, water management and remediation activities** | **-0.4** | **0.0** | **2.9** | **0.1** | **2.2** | **0.1** | **2.3** | **0.1** |
| **Construction** | **137.0** | **3.8** | **157.1** | **4.3** | **199.1** | **5.0** | **201.3** | **5.0** |
| **Services** | **1,726.3** | **47.8** | **1,772.2** | **48.1** | **1,885.5** | **47.4** | **1,830.6** | **45.5** |
| Wholesale and retail trade, repair of | | | | | | | | |
| motor vehicles and motorcycles | 405.0 | 11.2 | 453.9 | 12.3 | 489.4 | 12.3 | 505.3 | 12.6 |
| Transportation and storage | 46.1 | 1.3 | 39.0 | 1.1 | 41.0 | 1.0 | 39.6 | 1.0 |
| Accomodation and food services | 54.9 | 1.5 | 41.5 | 1.1 | 35.4 | 0.9 | 32.8 | 0.8 |
| activities | | | | | | | | |
| Information and communication | 118.5 | 3.3 | 158.3 | 4.3 | 171.9 | 4.3 | 165.8 | 4.1 |
| Financial and insurance activities | 896.8 | 24.8 | 890.2 | 24.2 | 922.6 | 23.2 | 862.2 | 21.4 |
| Real estate activities | 68.8 | 1.9 | 62.2 | 1.7 | 78.3 | 2.0 | 76.0 | 1.9 |
| Other service activities | 136.2 | 3.8 | 127.1 | 3.4 | 146.9 | 3.7 | 148.9 | 3.7 |
| **Private purchases and sales of real estate** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Total** | **3,615.1** | **100.0** | **3,685.5** | **100.0** | **3,980.0** | **100.0** | **4,023.6** | **100.0** |

*Source*: National Bank of the Republic of Macedonia

## Gross External Debt[(1)]

| | **For the year ended 31 December** | | | | |
|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** |
| | | | *(€ million)* | | |
| General Government | 1,464.2 | 1,589.8 | 1,608.9 | 2,125.6 | 2,092.3 |
| Monetary Authorities (NBRM) | 310.8 | 234.2 | 73.2 | 78.2 | 83.2 |
| Banks | 564.8 | 618.8 | 609.3 | 614.4 | 585.9 |
| Other Sectors | 1,702.6 | 1,730.9 | 1,758.9 | 1,879.8 | 2,032.7 |

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Direct investment: | | | | | |
| Intercompany lending | 804.2 | 997.9 | 1,169.4 | 1,294.2 | 1,559.6 |
| **Gross External Debt** | **4,846.6** | **5,171.7** | **5,219.7** | **5,992.3** | **6,353.7** |
| of which: | | | | | |
| Public debt | 2,061.1 | 2,162.1 | 2,172.4 | 2,846.8 | 2,935.4 |
| Private debt | 2,785.5 | 3,009.5 | 3,047.4 | 3,145.5 | 3,418.3 |

*Source*: National Bank of the Republic of Macedonia

| | For the year ended 31December | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| | *(% of GDP)* | | | | |
| General Government | 19.4 | 21.0 | 19.7 | 24.9 | 23.0 |
| Monetary Authorities (NBRM) | 4.1 | 3.1 | 0.9 | 0.9 | 0.9 |
| Banks | 7.5 | 8.2 | 7.5 | 7.2 | 6.4 |
| Other Sectors | 22.6 | 22.8 | 21.6 | 22.0 | 22.4 |
| Direct investment: Intercompany lending | 10.7 | 13.2 | 14.3 | 15.2 | 17.2 |
| **Gross External Debt** | **64.2** | **68.2** | **64.0** | **70.3** | **69.9** |
| of which: | | | | | |
| Public debt | 27.3 | 28.5 | 26.7 | 33.4 | 32.3 |
| Private debt | 36.9 | 39.7 | 37.4 | 36.9 | 37.6 |

Notes:

(1) 2014 data was revised in September 2015 to reflect the latest data on credit indebtedness.

*Source*: National Bank of the Republic of Macedonia

As at 31 December 2015, gross external debt amounted to 69.9% of GDP, an increase of 5.7 percentage points of GDP from 31 December 2011. The external debt expanded because of the rise in public debt (5.0 percentage points of GDP).

### *Private Foreign debt*

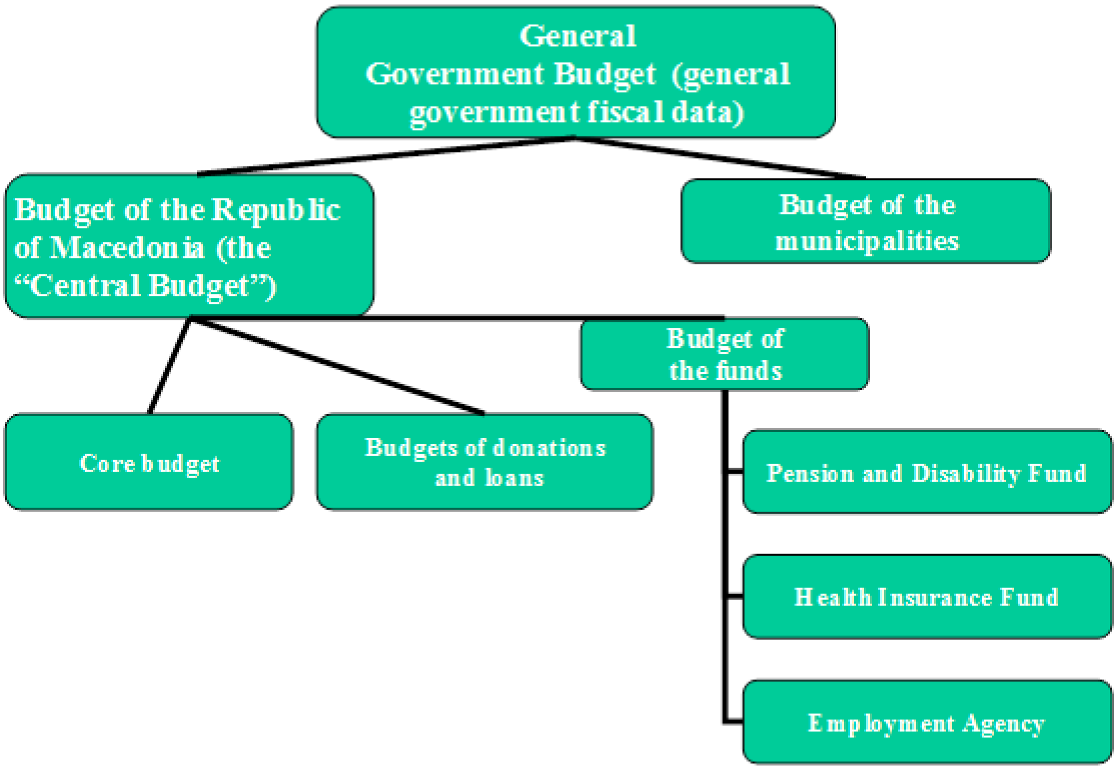
As at 31 December 2015, private foreign debt was €3.4 billion, or 37.6% of GDP and 53.8% of the gross external debt. By the end of 2015, in nominal terms, private foreign debt had expanded by 22.7% compared to its level at the end of 2011, but as a percentage of GDP, it remained almost unchanged. During this period, the share of inter-company debt, which is generally considered less risky than financial loans, increased, reflecting the activity of new and existing foreign investors. Private foreign debt of the remainder of the corporate sector declined, mainly reflecting decreased financing requirements. The foreign indebtedness of the banking system decreased as well, due to sufficient domestic sources of financing. Overall, the level of foreign indebtedness of the private sector remains relatively low. Moreover, intercompany lending and trade credits comprised approximately two-thirds of private foreign debt at the end of 2015.

**PUBLIC FINANCE**

## General Information and Methodology

The General Government Budget unifies fiscal data from the Central Budget and the budgets of the various municipalities. The Central Budget is the primary fiscal record that details the revenues and expenditures of Government institutions and budgetary funds. The Central Budget is adopted each year by the Assembly and has the force of law. It includes revenues and miscellaneous inflows as well as expenditures and miscellaneous outflows for the fiscal year (beginning on 1 January and ending on 31 December of each year). Macedonian fiscal statistics are compiled on a consolidated basis and in accordance with the GFS Manual, IMF 1986 methodology.

The components of the General Government Budget and Central Budget are reflected below:




## The Central Budget

The *Organic Budget Law* prescribes the steps for preparation of the Central Budget, taking into account the strategic priorities of the Government, Macedonian fiscal strategy and strategic plans of the end users of the budget. By 15 April of each year, the Government determines the strategic priorities for the following year. The Ministry of Finance similarly prepares a medium-term fiscal strategy by proposing the directions and objectives of the fiscal policy and determining the main fiscal targets for the period. The Ministry of Finance then reviews draft budget requests in accordance with the principles of efficiency, economy, prioritisation and rationality and then prepares and submits the draft Central Budget to the Government for adoption by 1 November. The Government then submits the draft Central Budget by 15 November to the Assembly for discussion, with adoption of the final budget occuring by 31 December of each year.

Where more significant reallocations of the approved funds are necessary or when the realisation of revenues and other inflows significantly deviates from projections, the Assembly, pursuant to the recommendation of the Ministry of Finance, may adopt a supplementary budget. A supplementary budget has been adopted in each of 2012, 2013, 2014 and 2015, and a supplementary budget for 2016 is currently under consideration.

After the Central Budget is approved by the Assembly, budget users must prepare an annual financial plan, broken down on both a quarterly and monthly basis, for the use of the appropriations. Expenditures must be made in accordance with the *Organic Budget Law* and the Manual for Treasury Working, the latter of which dictates mandatory procedures for making expenditures and collecting revenues. Budget users' accounts for this purpose are part of the single treasury account managed by the Ministry of Finance, and they must submit requests for payment to the Treasury before making any expenditure. The Budget users (including municipalities) are not permitted to open accounts outside the treasury account.

The servicing of domestic and foreign loans is a prioritised expenditure and is exempt from the procedures described above. Under Macedonian law, payments for domestic and foreign borrowing (including interest payments, principal repayments and guarantees) do not depend on budget allocations and procedures referring to the other budget expenditures. The payment of these expenditures has priority according to the amortisation plans and signed contracts; they have always been executed on time.

***2011-2015 results***

In 2011, total budget revenues amounted to MKD 137.2 billion, of which MKD 78.9 billion were from tax revenues and MKD 39.8 billion from social contributions while other revenues were realised from non-tax, capital revenues and donations. Total budget expenditures in 2011 amounted to MKD 148.6 billion, generally in line with Government budgeting. A total of MKD 23.1 billion was paid for salaries and allowances, and MKD 14.0 billion was realised for goods and services. Social transfers were MKD 67.2 billion, of which MKD 35.8 billion was used for the regular payment of pensions, MKD 2.3 billion for the payment of unemployment benefits and MKD 20.5 billion for financing health services and allowances. MKD 14.1 billion in block grants, earmarked grants and grants for financing the operating costs related to public institutions were transferred to local government units from total VAT revenues. Capital expenditures totalled MKD 17.7 billion, an increase of 15.5% from 2010.

In 2012, total budget revenues amounted to MKD 138.1 billion. MKD 117.4 billion (85% of total revenue) came from tax revenues and social contributions. Tax revenues contributed 56% of total revenue, followed by contributions (30%), non-tax revenues (9%), capital revenues (3%) and other revenues (2%). Total budget expenditures in 2012 amounted to MKD 155.8 billion. A total of MKD 22.7 billion was paid in salaries and allowances while there were MKD 14.7 billion in expenditures related to goods and services and social transfers amounted to MKD 69.7 billion. MKD 37.3 billion was allocated for the regular payment of pensions, MKD 2.2 billion was allocated to the Employment Agency (for the payment of unemployment benefits and funds to finance health services) and benefits amounted to MKD 20.9 billion. MKD 15.3 billion in block grants, earmarked grants and grants for financing the operating costs related to public institutions were transferred to local government units from total VAT revenues. Capital expenditures in 2012 totalled MKD 18.8 billion, 5.9% higher than in 2011.

In 2013, total budget revenues reached an amount of MKD 140.2 billion; MKD 121 billion (86%) was realised from tax revenues and social contributions. Tax revenues accounted for most (56%) of the total revenue structure, with the balance consisting of contributions (30%), non-tax revenues (9%), capital revenues (3%) and donations (2%). In 2013, the Government collected MKD 78.6 billion in tax revenues. VAT accounted for 51% of total tax revenues, with the remainder consisting of excises

(21%), personal income tax (13%), profit tax (6%), import duties (5%) and other taxes (4%). In 2013, total budget expenditures amounted to MKD 159.5 billion. Current expenditures were MKD 142.9 billion, while capital expenditures amounted to MKD 16.6 billion. Expenditures for salaries and allowances were MKD 22.6 billion, and goods and services expenditures were MKD 14.9 billion. Transfer expenditures totalled MKD 100.8 billion. Excluding social transfers, which amounted to MKD 74.3 billion (consisting of pensions, health care, unemployment benefits and social assistance), grants transferred to the local government units (including VAT grants and block grants) equalled MKD 15.6 billion. These grants financed the transferred competences at the local level. Part of the transfers was subsidies from the Agency for the financial support of agriculture and rural development. Capital expenditures in 2013 amounted to MKD 16.6 billion, an increase of approximately 5% from 2012, excluding the capital expenditures of the Agency for State Roads of approximately MKD 2.9 billion (there were no corresponding expenditures in 2013, as the Agency for State Roads was abolished with effect from 1 January 2013).

In 2014, total budget revenues amounted to MKD 145.9 billion, or 93.8% of the projected revenue in the 2014 Budget, and were 4.1% higher than the amount in 2013. MKD 129.3 billion was realised from tax revenues and social contributions (88.6%). Tax revenues accounted for most (58%) of the total revenue followed by contributions (30%), non-tax revenues (7%), donations (2%), capital revenues (1%) and other revenues (2%). Tax revenues amounted to MKD 85.1 billion, or 98.2% of the budget, and were 8.4% higher in relation to the previous year. Revenues from social contributions increased by 4.1% compared to 2013, amounting to 98.8% of the budget. Non-tax revenues amounted to MKD 10.6 billion. Capital revenues reached MKD 1.9 billion, mainly from dividend, privatisation, lease of construction land and sale of flats, while revenues from donations reached MKD 3.4 billion. Total budget expenditures in 2014 amounted to MKD 168.1 billion, or 95.9% of the annual projection, and were 5.4% higher compared to 2013. Salaries and allowances expenditure equalled MKD 23.1 billion, 2.3% higher compared to 2013. Expenditures related to goods and services were 4% higher compared to 2013, amounting to MKD 15.5 billion, while social transfers increased by 5.5%, amounting to MKD 78.4 billion. Funds in the amount of MKD 43.9 billion were allocated for regular payment of pensions, while transfers to private pension funds accounted for MKD 4.1 billion. MKD 1.7 billion was allocated to the Employment Agency for payment of unemployment benefits. Funds to finance health services and benefits amounted to MKD 22.1 billion. Grants transferred to the local government units (including VAT grants and block grants) equalled MKD 15.9 billion; these grants financed the transferred competences at the local level. MKD 5.1 billion was allocated to interest payments while repayment of principal amounted to MKD 10.1 billion. Capital expenditures in 2014 amounted to MKD 17.6 billion, an increase of approximately 6.1% compared to 2013. The deficit amounted to MKD 22.1 billion or 4.2% of GDP.

In 2015, total budget revenues amounted to MKD 161.2 billion, or 96.6% of the projected revenue in the 2015 Budget, and were 10.5% higher than the amount in 2014. MKD 140.8 billion was realised from tax revenues and social contributions (87.4%). Tax revenues accounted for most (58%) of the total revenue followed by contributions (30%), non-tax revenues (8%), donations (3%) and capital revenues (1%). Tax revenues amounted to MKD 92.9 billion, or 97.5%, of the budget, and were 9.2% higher than in 2014. VAT tax revenue accounted for the most with 47%. Tax revenues were higher by 9.2% compared to the previous year. The biggest increase in tax revenues was revenue from income tax, which was 137.6% higher than the amount realised in 2014, due to the new Profit Tax Law which had positive fiscal implications on the budget. This was followed by revenue from excises, which increased by 13.7%, and revenues from personal income tax, which increased by 4.8%. VAT tax revenue in 2015 was lower by 4.9% compared to 2014. Revenues from social contributions increased by 8.4% compared to 2014. Non-tax revenues amounted to MKD 12.9 billion. Capital revenues amounted to MKD 2.3 billion, approximately 21% higher than the respective amounts realised in 2014. Revenues on the basis of donations were realised in the amount of MKD 4.7 billion. Total budget expenditures in 2015 amounted to MKD 180.6 billion or 96.6% of the budget. Expenditure execution in 2015 was higher by 7.5% compared to 2014. MKD 24.7 billion was paid for salaries and allowances in 2015, a 6.9% increase compared to 2014. Expenditures related to goods and services were higher by 16.9% compared to 2014, amounting to MKD 18.1 billion, while transfers were higher by 5.6%, amounting to MKD 112.7 billion. Funds in the amount of MKD 45.6 billion were allocated for regular payment of pensions, while transfers to private pension funds amounted to MKD 4.7 billion. MKD 1.5 billion was allocated to the Employment Agency for payment of unemployment benefits. Social benefits amounted to MKD 7.5 billion. Funds to finance health services and benefits amounted to MKD 23.6 billion. Grants transferred to the local government units (including VAT grants and block grants) amounted to MKD 16.3 billion. MKD 6.5 billion was allocated for interest payments, while repayment of principal amounted to MKD 28.4 billion. Capital expenditures in 2015 amounted to MKD 18.7 billion, a 5.9% increase from 2014.

In the period from 1 January to 31 December 2015, the Government budget deficit amounted to MKD 19.4 billion, or 3.5% of GDP (slightly lower than the budgeted deficit of 3.6%), due to revenues in the amount of MKD 161.2 billion and realised expenditure in the amount of MKD 180.6 billion.

***2016 Central Budget***

Under the 2016 Central Budget, total government revenues are projected at MKD 177.3 billion or 30.4% of GDP and 10% higher than the amount realised in 2015, with an estimated 57.3% derived from tax revenues (which includes personal income tax, profit tax, VAT, excises, import duties and other taxes), 27.7% from social contributions, and the rest from a mix of other revenue sources including non-tax revenues, capital revenues and foreign donations. Total government expenditure under the budget is projected at MKD 196.3 billion or 33.6% of GDP and 8.6% higher than the amount realised in 2015. The increase in expenditure is primarily for increased funds allocated towards pensions, social assistance and capital investments. Expenditure is expected to be financed through tax revenues and contributions, funds from existing loans provided by financial institutions, government securities issuances in the domestic market and government borrowings on the international capital market. The budget includes a target fiscal deficit of 3.2% of GDP, lower than the fiscal deficit realised in 2015 of 3.5% of GDP. The 2016 Central Budget was approved by the Assembly on 20 November 2015. A supplementary budget for 2016 has been proposed, taking into account downward revisions in forecast revenues and expenditures. As proposed, the supplementary budget would increase the targeted fiscal deficit for 2016 to 3.6%. The first hearing of the supplementary budget in the Assembly was held on 7 July 2016, following which a revised supplementary budget proposal, as amended following the first hearing, is to be reviewed by the Assembly.

***Four months ended 30 April 2016 results***

For the four months ended 30 April 2016, total budget revenues amounted to MKD 55.4 billion (31.3% of the 2016 budget), 6.2% higher than in the corresponding period of 2015. Tax revenues and social contributions amounted to MKD 49.2 billion, or 88.9% of budget revenue. Tax revenues for the four months ended 30 April 2016 amounted to MKD 433.1 billion, 6.6% higher compared to the same period in 2015. Social security contributions amounted to MKD 16.1 billion, 6.2% higher than the amount realised in the same period in 2015.

Total expenditures for the four months ended 30 April 2016 amounted to MKD 60.5 billion (30.8% of the 2016 budget), 3.6% higher than in the same period in 2015. Current expenditures amounted to MKD 56.3 billion, while capital expenditures amounted to MKD 4.2 billion.

The budget deficit over the four months ended 30 April 2016 amounted to MKD 5.1 billion, 0.9% of the projected GDP for 2016.

***Central Budget components***

The following table sets out principal revenue and expenditure components of the state budget for the periods indicated:

**Consolidated Central Government Budget**

| | Year ended 31 December | | | | | | Four months ended 30 April | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Budget | | |
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[(1)] | 2015 | 2016 |
| | | | | | MKD *million* | | | |
| **TOTAL REVENUES** | **137,166** | **138,115** | **140,248** | **145,929** | **161,207** | **177,292** | **52,162** | **55,417** |
| **Taxes and Contributions** | **118,669** | **117,382** | **120,991** | **129,310** | **140,826** | **150,718** | **46,336** | **49,242** |
| Tax Revenues (SRA) | 704 | 998 | 1,075 | 1,280 | 1,569 | 1,988 | 577 | 522 |
| Taxes | 78,206 | 75,619 | 77,478 | 83,845 | 91,357 | 99,543 | 30,595 | 32,609 |
| Personal Income Tax | 9,513 | 9,553 | 10,254 | 12,320 | 12,910 | 14,006 | 4,090 | 4,385 |
| Profit Tax | 3,888 | 3,652 | 4,421 | 5,060 | 12,024 | 10,979 | 6,127 | 4,365 |
| VAT | 42,224 | 38,469 | 39,835 | 43,860 | 41,694 | 47,607 | 12,797 | 15,804 |
| Excises | 15,513 | 16,596 | 15,990 | 17,392 | 19,783 | 20,227 | 6,034 | 6,289 |
| Import Duties | 3,779 | 4,067 | 4,255 | 4,223 | 4,330 | 5,134 | 1,342 | 1,558 |
| Other Taxes | 3,289 | 3,282 | 2,723 | 990 | 616 | 1,590 | 205 | 208 |
| Contributions | 39,759 | 40,765 | 42,438 | 44,185 | 47,900 | 49,187 | 15,164 | 16,111 |
| Pension Insurance Contributions | 26,890 | 27,524 | 28,632 | 29,726 | 32,215 | 33,186 | 10,185 | 10,832 |
| Unemployment Contributions | 1,699 | 1,746 | 1,802 | 1,884 | 2,042 | 2,065 | 647 | 688 |
| Health Insurance Contributions | 11,170 | 11,495 | 12,004 | 12,575 | 13,643 | 13,936 | 4,332 | 4,591 |
| **Non Tax Revenues** | **12,844** | **12,626** | **12,109** | **10,634** | **12,859** | **18,387** | **4,156** | **3,855** |
| Non Tax Revenues (SRA) | **5,996** | **5,815** | **5,814** | **5,990** | **6,646** | **11,880** | **2,335** | **2,140** |
| Profit of Public Financial Institutions | 362 | 178 | 271 | 261 | 716 | 960 | 127 | 128 |
| Administrative Taxes and Charges | 1,815 | 1,730 | 1,844 | 1,988 | 1,882 | 2,250 | 656 | 612 |
| Health co-payment | 327 | 335 | 335 | 356 | 384 | 390 | 129 | 136 |
| Other Administrative Taxes | 668 | 721 | 831 | 1,190 | 1,733 | 1,600 | 592 | 689 |
| Other Non Tax Revenues | 1,937 | 1,705 | 3,014 | 849 | 1498 | 1,307 | 317 | 150 |
| Road Fund Fees | 1,739 | 2,142 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Capital Revenues** | **3,787** | **4,433** | **3,139** | **1,874** | **2,265** | **3,155** | **469** | **1,196** |
| **Foreign Donations** | **1,087** | **3,045** | **3,451** | **3,383** | **4,733** | **4,232** | **1,087** | **1,011** |
| **Revenues from repayment of loans** | **779** | **629** | **558** | **728** | **524** | **800** | **114** | **113** |
| **TOTAL EXPENDITURES** | **148,649** | **155,840** | **159,505** | **168,063** | **180,632** | **196,276** | **58,455** | **60,547** |
| **Current Expenditures** | **130,939** | **137,083** | **142,894** | **150,440** | **161,965** | **170,698** | **53,038** | **56,319** |
| Wages and Allowances | 23,147 | 22,714 | 22,566 | 23,096 | 24,685 | 25,908 | 8,011 | 8,516 |
| Goods and Services | 13,958 | 14,652 | 14,877 | 15,467 | 18,088 | 19,770 | 5,814 | 4,794 |
| Transfers | 90,363 | 95,501 | 100,845 | 106,787 | 112,734 | 119,192 | 37,569 | 41,436 |
| Transfers (SRA) | 797 | 1,196 | 1,011 | 962 | 1,592 | 1,834 | 456 | 414 |
| Social Transfers | 67,188 | 69,676 | 74,250 | 78,367 | 82,903 | 87,685 | 27,029 | 29,738 |
| *Pensions Fund* | *39,234* | *40,893* | *44,954* | *48,073* | *50,285* | *53,412* | *16,513* | *18,429* |
| *Unemployment Benefits* | *2,269* | *2,239* | *1,935* | *1,702* | *1,482* | *1,523* | *453* | *424* |
| *Social Benefits* | *5,194* | *5,604* | *5,941* | *6,462* | *7,489* | *7,768* | *2,516* | *2,370* |
| *Health Care* | *20,491* | *20,940* | *21,420* | *22,130* | *23,647* | *24,982* | *7,547* | *8,515* |

| | Year ended 31 December | | | | | | Four months ended 30 April | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Budget | | | |
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016(1) | 2015 | 2016 |
| Other Transfers | 22,378 | 24,629 | 25,584 | 27,458 | 28,239 | 29,673 | 10,084 | 11,284 |
| Interest | 3,471 | 4,216 | 4,606 | 5,090 | 6,458 | 5,828 | 1,644 | 1,573 |
| Domestic | 1,107 | 1,306 | 1,994 | 2,525 | 2,691 | 2,189 | 841 | 770 |
| Foreign | 2,364 | 2,910 | 2,612 | 2,565 | 3,767 | 3,639 | 803 | 803 |
| **Capital Expenditures** | **17,710** | **18,757** | **16,611** | **17,623** | **18,667** | **25,578** | **5,417** | **4,228** |
| **Budget Balance** | **-11,483** | **-17,725** | **-19,257** | **-22,134** | **-19,425** | **-18,984** | **-6,293** | **-5,130** |
| **Financing** | **11,483** | **17,725** | **19,257** | **22,134** | **19,425** | **18,984** | **6,293** | **5,130** |
| **Inflow** | **19,584** | **23,126** | **34,574** | **32,225** | **47,846** | **40,546** | **17,049** | **7,747** |
| Other | 0 | 0 | 297 | 449 | 0 | 0 | 0 | 54 |
| Foreign Loans | 23,718 | 7,806 | 19,066 | 36,196 | 19,866 | 22,861 | 1,210 | 2,220 |
| Deposits | -7,316 | -12,272 | -317 | -5,392 | 10,310 | -1,209 | 8,235 | 194 |
| Domestic borowing | 2,906 | 27,472 | 15,238 | 960 | 17,654 | 18,860 | 7,594 | 5,268 |
| *Banking institutions* | *252* | *19,061* | *8,267* | *-1,769* | *7,705* | *0* | *4,253* | *2,574* |
| *Non-Banking institutions* | *2,654* | *8,411* | *6,971* | *2,729* | *9,949* | *0* | *3,341* | *2,694* |
| Sell of Shares | 276 | 120 | 290 | 12 | 16 | 34 | 10 | 11 |
| **Outflow** | **8,101** | **5,401** | **15,317** | **10,091** | **28,421** | **21,562** | **10,756** | **2,617** |
| Foreign | 3,098 | 3,481 | 13,458 | 8,375 | 22,131 | 12,381 | 10,624 | 1,218 |
| Domestic | 5,003 | 1,920 | 1,859 | 1,716 | 6,290 | 9,181 | 132 | 1,399 |
| **Budget Balance as % of GDP** | **-2.5%** | **-3.8%** | **-3.9%** | **-4.2%** | **-3.5%** | **-3.2%** | **-1.1%** | **-0.9%** |

*Source*: Ministry of Finance website

The following table shows the functional classification of budget expenditure and outflow for 2016:

**Central Budget expenditure and outflow by functional classifications**

| Code | Description | Budget 2016 (MKD million) | % of total |
|---|---|---|---|
| 701 | General Public Services | 21,876 | 13.1% |
| 702 | Defence | 6,074 | 3.6% |
| 703 | Public Order and Safety | 14,953 | 9.0% |
| 704 | Economic Affairs | 45,511 | 27.3% |
| | General economic, commercial and labour related affairs | 2,929 | 1.8% |
| | Agriculture, forestry, fishing and hunting | 9,676 | 5.8% |
| | Fuel and Energy | 40 | 0.0% |
| | Mining, craftsmanship and construction | 245 | 0.1% |
| | Transportation | 3,009 | 1.8% |
| | Communication | 207 | 0.1% |
| | Other industries | 471 | 0.3% |
| | Other economic affairs | 28,934 | 17.3% |
| 705 | Environment protection | 885 | 0.5% |
| 706 | Housing and community amenities | 3,653 | 2.2% |
| 707 | Health | 6,554 | 3.9% |
| 708 | Recreation, Culture and Religion | 4,861 | 2.9% |
| 709 | Education | 23,644 | 14.2% |
| 710 | Social Protection | 38,948 | 23.3% |
| | TOTAL | 166,959 | 100.0% |

Source: Ministry of Finance

**Taxation**

The Macedonian tax system is in general comprised of direct taxation, in the form of personal income tax, corporate tax and property tax, and indirect taxation, in the form of value added tax and excise duties. Macedonia is party to 47 double taxation agreements with other countries.

The supply of goods and services and imports are subject to value added tax ("**VAT**"). There is a general VAT rate of 18% and a preferential rate of 5% on some specific types of goods and services. Based on the type of the goods in question, specific or combined excise duty is also applied.

A flat tax system, with a single corporate and personal income tax rate of 10% has been in effect from 1 January 2008.

Certain types of income realised by non-residents are subject to withholding tax, including interest receipts. However, there is no withholding tax on interest from debt instruments issued and/or guaranteed by the Macedonian Government, the NBRM and the commercial banks or other financial institutions acting as an agent of the Macedonian Government.

Income from interest on bonds issued by Macedonia and the local self government units is exempt from taxation. An exemption from VAT may also be granted where funds are obtained on the basis of a donation agreement concluded between the Republic of Macedonia and foreign donor organisations if that agreement envisages that no tax will be paid on the donated funds.

### *Value added tax*

Value added tax ("**VAT**") provided over 45.6% of total Macedonia tax revenue in 2015. In 2015 the Law on Modifications and Amendments to the Law on Value Added Tax was adopted.

The 2015 Amendments instituted a number of changes, including:

- exempting tax for services rendered by telecommunications operators and for donations to humanitarian aims;
- allowing the deduction of VAT relating to certain expenses incurred in film production;
- extending the deadline for application of the preferential rate for the first sale of buildings and apartments used for residential purposes and made in the five-year period after the construction;
- extending the deadline for submission of requests for refund of VAT paid by foreign diplomatic or consular representative offices and by international organisations;
- implementing provisions on enforcement procedures and the supply of goods to and from free zones; and
- harmonising tax penalty provisions with provisions of the new Penalty Law.

In 2016, Modifications and Amendments to the Law on Value Added Tax was adopted in order to harmonise VAT law with the provisions of the new Law on General Administrative Procedure.

### *Excise Tax*

In 2015, Macedonia continued to implement excise tax reforms in order to increase the level of excises in line with the EU Directives. Such increases have been made gradually in an effort to balance the risk of domestic price shock with the country's intention to join the EU and be competitive in the EU common market. A regulation to increase excise tax annually on cigarettes and tobacco was enacted, with the increase starting from 1 July 2014 until 2023. From 1 January 2015, an excise tax of MKD 1 per cigarette pack was implemented. Revenues generated from this excise tax is intended to be used to fund research in rare diseases. However, excise rates for certain goods still remain lower than the minimum requirements of the EU Acquis. Excise tax provided 21.7% of total Macedonia tax revenue in 2015. In 2015, the Law on Modifications and Amendments to the Law of Excise was adopted, in order to harmonise tax penalty provisions with provisions of the new Penalty Law.

The 2016 Amendments instituted a number of changes, including:

- regulating speculative stocks of tobacco goods before increase of excise rate or change of retail price;
- regulating speculative stocks of intermediate products and ethyl-alcohol before increase of excise at distributor's level;
- regulating small independent breweries in the excise duty system; and
- harmonising tax penalty provisions with provisions of the new Law on General Administrative Procedure and the new Penalty Law.

***Personal Income tax***

Since 2008, the Personal Income Tax rate has been 10%. A flat tax system was introduced from 1 January 2007 by applying a single corporate and personal income tax rate ("**CIT**" and "**PIT**", respectively) of 12%.

Personal income tax provided 14.1% of total Macedonia tax revenue in 2015.

The *Law on Personal Income Tax* was amended in 2015, implementing the following rules:

- capital gains realised from the sale or transfer of real estate will be taxed entirely but if the taxpayer has lived for a minimum of one year in the property, tax for capital gains realised from such sale will be capped at 70%. Capital gains are taxed at the personal income tax rate of 10%;

- tax exemption for hotel accommodation and food and transportation expenses incurred in film production;

- three-year extension of the date to commence taxing capital gains realised from the sale of securities;

- extension of the deadline for submission of summary data for all payments made in the course of the previous year, a mandatory submission to the tax authorities by advance payers of personal income tax; and

- harmonisation with provisions of the new Penalty Law.

In 2016, Modifications and Amendments to the Law on Personal Income Tax was adopted in order to harmonise personal income tax law with the provisions of the new Law on General Administrative Procedure.

***Profit tax***

Profit tax reforms were adopted in early 2014, when the *Law on Modifications and Amendments to the Law on Profit Tax* was adopted. The law includes as taxable expenditures outstanding claims arising from the transfers of funds which, on the basis of their economic purpose, are loans that are not going to be repaid in the same year in which the loan transfer is made. Under the revision, when the taxed loan is repaid the taxpayer may reduce the tax base by the amount of the repaid loan, such that the amount of the repaid loans will not to be subject to profit tax. The 2014 amendments also regulate tax on dividends paid to legal entities which reside in Macedonia at the time of dividend payment; if considered taxable to the entity paying the dividend, revenues on the basis of dividends realised is not taxable. Prior to the tax reforms, profit was subject to taxation only in cases of profit distribution by way of dividends and other payments on the basis of profit generated. Profit tax provided 13.2% of total Macedonia tax revenue in 2015. As at 1 January 2015, only reinvested profits are tax exempt, while retained profits are subject to profit tax. This reform had a significant impact on revenue from profit tax, which amounted to MKD 12.0 billion as at 31 December 2015, or 137.6% higher compared to 31 December 2014. With the *Law on Modifications and Amendments to the Law on Profit Tax* adopted in July 2015, tax penalty provisions were harmonised with the new *Penalty Law*. In 2016, Modifications and Amendments to the Law on Profit Tax was adopted in order to harmonise profit tax law with the provisions of the new Law on General Administrative Procedure.

## Budgetary funds

Macedonia has three social security funds: the Pension and Disability Insurance Fund ("**PDF**"), the Employment Agency ("**EA**") and the Health Insurance Fund ("**HIF**"). These funds have their own specific funding sources, but are included within the 'budget of the funds' under the umbrella of the Central Budget. Prior to 2013, the Agency for State Roads ("**ASR**") was included in the Central Budget; since 2013 it has been restructured within the Public Enterprise for State Roads ("**PEST**") and excluded from the Central Budget. These funds have been included in the single treasury account, which is monitored by the Treasury Department of the Ministry of Finance since 2004, with the recent exception of ASR.

The following table shows the total revenues and expenditures of the budgetary funds for the periods indicated, exclusive of PEST funds.

| | Year ended December 31 | | | | | Budget | Four months ended 30 April | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2015** | **2016** |
| | | | | | *(MKD million)* | | | |
| **Total Revenues** | | | | | | | | |
| PDF | 43,661 | 46,251 | 50,782 | 53,769 | 57,231 | 60,353 | 17,945 | 19,874 |
| HIF | 20,981 | 21,411 | 22,037 | 22,516 | 24,465 | 25,575 | 8,364 | 9,125 |
| EA | 2,955 | 2,910 | 2,544 | 2,269 | 2,287 | 2,166 | 692 | 694 |
| ASR | 3,683 | 3,517 | -(1) | -(1) | -(1) | -(1) | -(1) | -(1) |
| **Total Expenditure** | | | | | | | | |
| PDF | 44,306 | 46,226 | 50,856 | 54,016 | 56,784 | 60,387 | 18,795 | 20,781 |
| HIF | 20,966 | 21,436 | 21,887 | 22,571 | 24,120 | 25,575 | 7,712 | 8,649 |
| EA | 2,975 | 2,994 | 2,461 | 2,175 | 2,107 | 2,166 | 654 | 613 |
| ASR | 4,290 | 3,645 | - | - | - | - | - | - |

Notes:

(1) From 1 January 2013 the functions of the ASR were transferred to an independently funded public entity, and accordingly no longer formed part of the Government's public investment account.

*Source*: Ministry of Finance

### *Pension and Disability Insurance Fund*

The PDF is responsible for providing pensions to retired persons. The 2016 budget contemplates PDF revenues of MKD 60,353 million. As at 30 April 2016, MKD 19,874 million or 32.9% of the budgeted amount was realised. Most of the PDF revenues (55%) are from salary contributions. Approximately 91.3% of PDF expenditures are for payment of pensions and other rights related to pension and disability insurance. The PDF deficit in 2016 is projected at MKD 34 million and it is planned to be financed from the sale of shares owned by the PDF in various enterprises that were privatised in the past period.

### *Health Insurance Fund*

The HIF is responsible for healthcare and maintaining health care facilities. The 2016 budget anticipates HIF revenues of MKD 25,575 million. As at 30 April 2016, MKD 9,125 million or 35.7% of the budgeted amount was realised. Approximately 80% of HIF revenues come from health insurance contributions, and transfers from the Central Budget amount to approximately 18%. The largest expenditures of the HIF are for healthcare and compensation payments, amounting to approximately 98% of total payments.

***Employment Agency***

The EA is responsible for providing benefits to the unemployed. The 2016 budget projects EA revenues of MKD 2,166 million. As at 30 April 2016, MKD 694 million or 32% of the budgeted amount was realised. 95% of the EA's revenues come from salary contributions, while the transfer from the Central Budget amounts to 4%. 87% of the EA's expenditures is for the payment of unemployment benefits and for active measures such as employment encouragement and the re-qualification allowance.

**Budget of the Municipalities**

Municipalities are independent authorities responsible for preparation and execution of their own budget. The budget process and financing of municipalities is regulated by the Organic Budget Law, which prescribes all principles and procedures of budget preparation and the execution of the municipalities budget, and the *Law on Financing of the Units of Local Self-Government* (the "**Law on Local Financing**"), which prescribes the system and sources of financing, as well as competences and responsibilities of municipality authorities.

The current sources of income for municipalities are property tax, tax on inheritance and gifts, sales tax on real estate, taxes on specific services, utility fees, fees for the regulation of land and benefits from communal activity. The municipalities are also entitled to 3% of the personal income tax of most of their citizens, and 100% of the personal income tax of their citizens who earn a living by performing specified crafts.

Amendments to the Law on Local Financing adopted in the period from 2011 to 2013 have expanded opportunities for municipalities to seek new sources of revenues or expand on existing ones, including reforms to revenues relating to water and mineral rights, and the institution of autonomous tax revenues, resulting in a steep increase to municipality revenue in the past seven years.

In addition to revenue generated internally, municipalities receive resources from the Central Budget in the form of block grants specifically delegated to the fields of education, child care, culture and fire fighting protection, VAT grants (general grants) and capital grants for infrastructure projects.

During 2013, total VAT revenues transferred to the municipalities amounted to MKD 1.5 billion. The percentage of VAT revenues transferred from the Central Budget to the municipalities in the form of general grants was 4.5% in 2013, a 0.5% increase from 4% in 2012, while the percentage of VAT revenues transferred from the Central Budget was 3.7% in 2011. These VAT revenues are allocated based on a fixed sum of MKD 3 million to each municipality, along with a variable component of which 65% is based on the number of inhabitants, 27% on the area of the municipality and 8% on participation in the total number of settlements. The Government is currently considering the possibility of increasing the VAT revenues transferred to municipalities depending on the actual collection of internal revenues within the municipalities as compared with planned internal revenues.

During 2014, total VAT revenues transferred to the municipalities amounted to MKD 1.7 billion, while MKD 14.3 billion was transferred for block grants.

During 2015, total VAT revenues transferred to the municipalities amounted to MKD 1.7 billion, while MKD 14.6 billion was transferred for block grants.

For 2016, all municipalities and the city of Skopje were also financed with block grants from the Central Budget. According to the 2016 Budget, total planned transfers to the municipalities will amount to approximately MKD 16.8 billion. Out of these transfers, the municipalities will receive approximately MKD 2 billion in VAT grants and approximately MKD 14.8 billion in block grants. As at 30 April 2016, total VAT revenues transferred to the municipalities amounted to MKD 0.7 billion, while MKD 4.9 billion was transferred for block grants.

Any borrowing by local municipalities, including for financing government deficit or capital expenditure requirements must obtain prior consent by the Government, on the basis of an opinion by the Ministry of Finance. Any negotiations of loan agreements by municipalities pursuant to the Public Debt Law can only be started with the Government's prior consent. As at 31 March 2016, domestic municipal debt amounted to €14.0 million.

## MONETARY AND FINANCIAL SYSTEM

### The National Bank of the Republic of Macedonia

The NBRM is the central bank of Macedonia. The legal status of the NBRM and its role as an independent central bank is guaranteed by the Constitution and reinforced by the Law of the National Bank of the Republic of Macedonia (the "**NBRM Law**"). The NBRM law formally sets out the role of the NBRM and confers it authority to operate independently. The NBRM and the Ministry of Finance have regular co-ordination meetings to discuss the main monetary and fiscal policy issues, along with other matters within the scope of the activities of both institutions. The meetings aim to coordinate policies to form the basis of a stable and sustainable regulatory environment.

#### *Monetary policy*

Pursuant to NBRM Law, the primary objective of the NBRM is to maintain price stability in the country. Macedonian monetary policy is thus geared towards maintaining low and stable inflation, aiming to create conditions ideal for businesses to grow and operate. To this end, the NBRM has targeted the nominal exchange rate of the Denar against the Euro (previously against the Deutsche Mark) since October 1995. The *de facto* fixed exchange rate as a nominal anchor has played a major role in stabilising inflationary expectations, permitting the NBRM to maintain low and stable inflation for more than a decade. Average inflation from 2011 to May 2016 amounted to 1.5%, which is close to the average level of inflation in the EU countries.

Reserve position and economic outlook improved during 2010 following the global economic crisis. The policy rate was reduced gradually to 4% in December 2010 from 8.5% at the end of 2009, supported by generally favourable developments in the balance of payments and international reserves against a backdrop of contained inflation and below-potential output. Favourable external demand developments had a positive influence on the performance of the domestic export sector, with export inflows increasing throughout the year. On the other hand, domestic demand remained subdued, restraining import demand growth. Private transfer inflows continued to follow an upward trend. Against this background, the current account deficit narrowed.

Capital inflows in 2010, though lower than the level recorded in 2009, were sufficient to finance the narrowing current account gap, enabling the net-purchase of foreign currency by the NBRM and accumulation of international reserves. International reserves in 2010 outperformed expectations and reached €1.7 billion at year-end, thus providing monetary policy with a sufficient buffer to absorb the possible negative shocks in the forthcoming period.

Although 2011 was characterised by solid GDP growth and relatively favourable balance of payments position, inflation accelerated moderately during the year. Turbulent global conditions (including surging oil and food prices, as well as the European sovereign debt crisis) prompted retention of a relatively cautious monetary policy. Though the policy rate remained unchanged at 4%, the NBRM also introduced changes in reserve requirements aimed at encouraging households' long-term savings and supporting development of a repo market. Uncertainty about the future of the Euro boosted demand for Denars, resulting in strong foreign currency inflows from cash exchange; in addition, inflows from government external borrowings and from foreign direct investments increased foreign reserves, setting the foundation for a buffer against external shocks in future years.

In 2012, the NBRM conducted net purchases of foreign currency on the foreign exchange market which, combined with continuing distrust of the Euro, constituted the main factors behind foreign reserves accumulation. Given the adequate level of gross foreign reserves and perceived absence of risk against inflation and exchange rate, in 2012 the NBRM took measures towards easing the monetary policy stance in an effort to support the economy. These measures included broad-based modification in monetary policy operational framework in April 2012, followed by a reduction in the policy rate to 3.75% in May.

In 2012 the operational framework of monetary policy was significantly modified, resulting in a new framework based on four main pillars:

- **Managing structural excess liquidity in a longer run**, by reducing the frequency of the CB bills auction from once a week to once a month (at the beginning of the reserve requirement period);
- **Managing short-term excess liquidity**, via new overnight and seven-day deposit facilities;
- **Providing liquidity on a regular weekly basis**, by conducting regular auctions of repo transactions; and
- **Establishing interest rate corridor**, set by the interest rate of the overnight credit (upper limit) and the interest rate of overnight deposit facility (lower limit).

However, continuing uncertainty in the global environment and domestic banks' increased aversion towards risks precluded monetary policy easing to fully transmit into the real economy, and banks' lending capacity remained underutilised.

During 2013, the NBRM eased monetary policy to stimulate subdued bank lending to the private sector. The policy rate was reduced twice, reaching its historical low of 3.25% in July. In addition, the NBRM loosened reserve requirements targeted towards the corporate sector to facilitate credit terms for net exporters and domestic electricity producers. In early July, the NBRM modified reserve requirements by introducing several changes to support the process of "denarisation." The NBRM decreased the reserve requirement ratio on bank liabilities in Denar while increasing reserve requirements on liabilities in foreign currency. This supported growth of Denar savings and stimulated a larger inflow of funds from non-residents, especially foreign financial institutions through reserve requirement exemptions for banks' liabilites to these entities, thereby releasing banks' liquid assets. In the last quarter of the year, certain macro-prudential measures in the area of managing liquidity and credit risks were amended to encourage more active bank lending. On the foreign exchange market, the NBRM intervened with net purchases of foreign currency. Foreign reserves remained sufficient throughout the year.

During 2014, the NBRM maintained an accommodative monetary policy by holding the policy rate at 3.25%. The NBRM also took certain macro prudential measures to encourage lending activity in support of economic growth. In April, changes were made in determining banks' capital adequacy to further boost credit growth, including harmonisation with EU Regulation No. 575/2013, which provides a lower risk weight to performance guarantees. In September 2014, the NBRM extended certain measures on reserve requirements until the end of 2015 to further support the two systematically important sectors of the economy – net exporters and domestic producers of electricity. During 2014, the foreign exchange market generally remained balanced, with relatively small net interventions. The level of foreign reserves increased year on year, primarily driven by external inflows from the issuance of the third Eurobond in the principal amount of €500 million in July. Foreign reserves remained adequate during the year. Inflation was low and slightly negative due to supply-side factors such as lower import prices of food and energy. Bank lending strengthened during the year, underpinned by the accommodative monetary policy and banks' improved perceptions of risks.

NBRM kept its policy rate unchanged at 3.25% in 2015. Banks' credit activity, low inflation and an adequate level of foreign reserves contributed to solid economic growth. Economic fundamentals were assessed as strong throughout the year. However, risks faced by the domestic economy increased in tandem with rising global economic risk. As a result, the central bank has adopted a wait and see approach with respect to the main policy rate. Domestic political uncertainty and the escalation of the Greek debt crisis in June were seen as the main risks in 2015. To counter these risks, in June 2015 the NBRM introduced measures, in effect through December 2015, to prevent capital outflows to Greece and to minimise possible contagion risks. The preventive measures restricted capital outflows from Macedonian residents to Greek entities. Further, Macedonian banks were required to withdraw all loans and deposits from Greek banks, regardless of the agreed maturity, other than current correspondent accounts with those banks. These measures, along with the relative domestic political stability and improvement of the situation in Greece, contributed towards stabilising expectations and restoring the confidence of the private sector.

In light of ongoing uncertainty and the resulting impact it had on the expectations of the economic participants and the amount, currency and term structure of their savings in the banks, NBRM introduced new protective measures in the second half of 2015. In August 2015, NBRM decreased the reserve requirement ratio on household deposits in MKD with a contractual maturity over one year from 8% to 0% to support the denarisation of the deposit base and savings with longer maturities. In December 2015, NBRM introduced additional preventive macro-prudential measures in order to further support financial and economic stability by slowing the growth of longer-term consumer credits, and supporting corporate lending. At the end of 2015, the favourable reserve requirement to support lending to net exporters and domestic producers of electricity was extended for an additional two years.

In May 2016 NBRM increased its policy rate from 3.25% to 4%, reflecting increased demand for foreign currency and pressures on the deposit base, as a result of deteriorating expectations of economic participants and the unstable political situation in the country, which are non-economic factors. The NBRM continued to assess the economic fundamentals as sound, in the absence of major imbalances in the economy. In order to further encourage denarisation of deposits in the domestic banking system, in May 2016, NBRM increased the reserve requirement ratio for banks' liabilities in domestic currency with a foreign exchange clause from 20% to 50%. In addition, NBRM improved the requirements for placing foreign currency deposits of domestic banks in the Central Bank, offering higher interest rates on foreign currency deposits against a backdrop of the negative interest rates prevailing on euro-denominated deposits. It is expected that this measure will contribute to the reduction of costs of domestic banks, helping to support higher deposit interest rates and, as a result, encouraging stability of bank deposits.

***Key monetary policy tools***

*Reserve requirements*

The reserve requirement is a standard monetary policy instrument of the NBRM. In recent years, NBRM undertook few changes in the reserve requirement structure in order to address structural issues in the Macedonian economy and banking system, including policies which support denarisation and broaden the scope of bank funding sources.

*Open market operations*

CB bills are the basic monetary policy instrument of the NBRM. CB bills are used to help the NBRM to manage and absorb excess liquidity in the banking system as part of monetary sterilisation operations. CB bills are short-term discounted papers sold on the local market through auctions. Auctions can be carried out on a “volume tender” or “interest rate tender” basis. Currently, the NBRM conducts auctions of 28/35-day CB bills through volume tenders with a predefined interest rate of 4%.

Repo/reverse repo operations are used for short-term liquidity management, and CB bills, Treasury bills and (since 2012) Government bonds may be used as collateral. Repo transactions are conducted on a weekly basis, with auctions conducted through volume tender.

In April 2012, the NBRM introduced a deposit facility, available at two different maturities, to facilitate allocation of excess liquidity by banks. These facilities are available on a bank's initiative, with the overnight facility available each working day, and the seven-day deposit facility available weekly on Wednesday. The current interest rate on an overnight facility is 0.25% and 0.5% on a seven-day facility.

Other less frequently used instruments include overnight credit and foreign currency deposits auctions.

***Money supply***

Over the period from 2011 to 2015, the average growth rate of the money supply was 7.3%. In response to changing economic trends and varying levels of capital inflows, there was volatility in money dynamics as reflected in the pace and structure of monetary growth.

Money supply grew in 2011, continuing the trend from 2010 and supported by solid economic activity, acceleration of banks' credit and a favourable position of the balance of payments. Annual growth of M4 was 9.7%, driven largely by a 14.3% year-on-year increase of Denar deposits, with foreign currency deposits growth slowing down to 4.3%, while currency in circulation increased. These trends were largely driven by the global economic conditions of 2011. In particular, speculation about the uncertain future of the Euro following the European debt crisis prompted an increase in the conversion of Euro to Denar.

The following two years were marked by relatively weakened money growth on the back of deteriorating economic conditions in 2012, volatile capital flows, persistent uncertainty in the economy and a less favourable global outlook. The effect of temporary factors that had encouraged high inflows from money held outside the banking system had also started to dissipate, contributing to lower money growth and resulting in an M4 average growth of 5.8% from 2012 to 2013. As was the case in 2011, Denar deposits retained their role as the main driving force behind M4 expansion, increasing by an average 12.9% from 31 January 2012 to 31 December 2013, and causing the share of foreign currency deposits in M4 to decline to approximately 40% as at 31 December 2013. Both 2012 and 2013 were also characterised by the prevalence of long-term savings, most likely due to the higher returns on long-term savings as compared to short-term deposits, as well as stable expectations on domestic entities.

During 2014, growth in money supply accelerated as a result of stronger economic activity, credit growth and a favourable external position. As at December 2014, M4 grew by 10.5% year on year, driven by a 15.7% increase in Denar deposits from 31 December 2013, while foreign currency deposits grew by 3.4% during 2014. The share of Denar deposits in M4 further increased to 55.2% as at December 2014. With respect to the maturity structure, long-term deposits continued to support the M4 growth.

During 2015, M4 continued to grow, although at a slower pace. As at December 2015, M4 increased by 6.8% period on period. The slight slowdown in money growth was attributable to adverse domestic and external shocks to the economy in this period. The impact of these shocks was pronounced from May to June, in particular, but there was slower growth of household savings throughout the year. In December 2015, Denar deposits increased by 6.7% period on period while foreign currency deposits increased by 6.2% period on period. The share of Denar deposits in M4 has remained broadly stable at 55% as at 31 December 2015, and the share of long-term deposits has continued to grow.

The overall growth in the share of Denar deposits in M4 (from 43.7% at the end of 2009 to 55% as at 31 December 2015) was followed by a similar shift on the asset side of the banks. The share of Denar loans (excluding a foreign exchange clause), as a percentage of total loans to the private sector increased from 43.9% in 2009 to 57.3% in December 2015.

From 2011 to 2015, there has been a decline of "euro-isation" in the money supply. The share of foreign currency deposits in December 2015 was 37.1% in M4, a decrease from 46.8% at the end of 2009. This is due to several factors, including a higher average interest rate on Denar deposits compared to foreign currency deposits and the European debt crisis which led to reduced confidence in the stability of the Euro.

M4 continued to grow during the first quarter of 2016 and, as at 31 March 2016, it was 6.2% higher than as at 31 March 2015. Denar deposits were the main driving force of M4 increasing by 7.4% compared to the same period in 2015, while foreign currency deposits grew by 4.4% compared to the same period in 2015. The share of Denar deposits remained at approximately 55% of M4 as at 31 March 2016. Long-term deposits continued to support the M4 growth.

The following tables reflect the components of money supply for the periods indicated:

| | **Year end 2011 (MKD million)** | **Annual Change (December 2011/ December 2010)(%)** |
|---|---|---|
| Currency in circulation ............................. | 19,308 | 13.9 |
| Demand deposits....................................... | 41,993 | 3.9 |
| **M1**............................................................ | 61,301 | 6.9 |
| Short-term Denar deposits ......................... | 58,293 | 13.6 |
| Short-term Foreign currency deposits........ | 97,107 | 4.5 |
| **M2**............................................................ | 216,700 | 7.5 |
| Long-term Denar deposits.......................... | 21,966 | 45.3 |
| Long-term Foreign currency deposits........ | 16,372 | 3.2 |
| **M4**............................................................ | 255,038 | 9.7 |

| | **Year end 2012 (MKD million)** | **Annual Change (December 2012/ December 2011)(%)** |
|---|---|---|
| Currency in circulation ............................. | 20,118 | 4.2 |
| Demand deposits....................................... | 45,823 | 9.1 |
| **M1**............................................................ | 65,940 | 7.6 |
| Short-term Denar deposits ......................... | 57,541 | (1.3) |
| Short-term Foreign currency deposits........ | 94,228 | (3.0) |
| **M2**............................................................ | 217,709 | 0.5 |
| Long-term Denar deposits.......................... | 31,688 | 44.3 |
| Long-term Foreign currency deposits........ | 16,887 | 3.1 |
| **M4**............................................................ | 266,284 | 4.4 |

| | **Year end 2013 (MKD million)** | **Annual Change (December 2013/ December 2012)** |
|---|---|---|
| Currency in circulation ............................. | 20,706 | 2.9 |
| Demand deposits....................................... | 49,299 | 7.6 |
| **M1**............................................................ | 70,005 | 6.2 |
| Short-term Denar deposits ......................... | 57,112 | (0.7) |
| Short-term Foreign currency deposits........ | 90,949 | (3.5) |

| | Year end 2013 (MKD million) | Annual Change (December 2013/ December 2012) |
|---|---|---|
| **M2**............................................................ | 218,066 | 0.2 |
| Long-term Denar deposits.......................... | 41,509 | 31.0 |
| Long-term Foreign currency deposits........ | 20,788 | 23.1 |
| **M4**............................................................ | 280,363 | 5.3 |

| | Year end 2014 (MKD million) | Annual Change (December 2014/ December 2013) |
|---|---|---|
| Currency in circulation ............................. | 23,221 | 12.1 |
| Demand deposits....................................... | 62,326 | 26.4 |
| **M1**............................................................ | 85,548 | 22.2 |
| Short-term Denar deposits ......................... | 57,151 | 0.1 |
| Short-term Foreign currency deposits........ | 90,980 | 0.0 |
| **M2**............................................................ | 233,678 | 7.2 |
| Long-term Denar deposits.......................... | 51,673 | 24.5 |
| Long-term Foreign currency deposits........ | 24,527 | 18.0 |
| **M4**............................................................ | 309,878 | 10.5 |

| | Year end 2015 (MKD million) | Annual Change (December 2015/ December 2014) |
|---|---|---|
| Currency in circulation ............................. | 26,300 | 13.3 |
| Demand deposits....................................... | 74,978 | 20.3 |
| **M1**............................................................ | 101,278 | 18.4 |
| Short-term Denar deposits ......................... | 53,557 | (6.3) |
| Short-term Foreign currency deposits........ | 96,514 | 6.1 |
| **M2**............................................................ | 251,349 | 7.6 |
| Long-term Denar deposits.......................... | 53,518 | 3.6 |
| Long-term Foreign currency deposits........ | 26,140 | 6.6 |
| **M4**............................................................ | 331,007 | 6.8 |

| | First quarter end 2016 (MKD million) | Annual Change (March 2016/ March 2015) |
|---|---|---|
| Currency in circulation ............................. | 25,726 | 9.0 |
| Demand deposits....................................... | 73,693 | 22.6 |
| **M1**............................................................ | 99,419 | 18.8 |
| Short-term Denar deposits ......................... | 52,553 | (6.6) |
| Short-term Foreign currency deposits........ | 97,635 | 4.0 |
| **M2**............................................................ | 249,608 | 6.7 |
| Long-term Denar deposits.......................... | 54,563 | 4.0 |
| Long-term Foreign currency deposits........ | 26,542 | 6.1 |
| **M4**............................................................ | 330,713 | 6.2 |

*Source*: National Bank of the Republic of Macedonia

***Interest rates***

The NBRM influences market interest rate movements through the policy rate, which is the CB bills rate. Due to pressures on the foreign exchange market in March 2009 the NBRM increased the CB bills rate from 7% to 9%. The stabilisation of economic conditions at the end of 2009 and the improving outlook thereafter led the NBRM to gradually reduce the policy rate to its historical low of 3.25% in July 2013. The policy rate remained unchanged at 3.25% until May 2016, when it was increased to 4.0%.

The period from 2011 to 2015 was characterised by decreasing interest rates on the banks' credit and deposit interest rates as a reaction to the loosening monetary policy stance and generally more stable macroeconomic outlook. Thus, the Denar loan interest rate decreased from 8.8% in December 2011 to 6.8% in December 2015, and the Denar deposit rate fell to 2.6% in December 2015 from 5.6% at the end of 2011. The Denar loan and deposit rate interest rate continued to decline in the first quarter of 2016 and equalled 6.7% and 2.5% in March 2016, respectively.

***Banking supervision***

The NBRM is the regulatory and supervisory body for banks in Macedonia. Through supervision, the NBRM assesses the soundness, stability, risk profile and compliance of the banks' operations with the regulations. The NBRM banking supervision function plays a crucial and anticipatory role in identifying weaknesses that may emerge within a licensed institution. Its primary purpose is to prevent the institution from becoming a potential threat to the stability of the banking system and the overall financial stability in the Republic of Macedonia.

The June 2007 Banking Law, which follows the European Capital Requirement Directives and international best practices in the field of banking and banking supervision, forms the basis for the NBRM's supervision. Based on the Banking Law, the NBRM adopted a number of bylaws that enable more detailed implementation of the provisions of this law. The most significant amendments and improvements in the banking regulation have included:

- **Strengthening of licensing criteria**. This includes strengthening the “fit and proper” criteria for licensing shareholders with qualified holdings in a bank, members of the Board of Directors and members of the Supervisory Board.

- **Strengthening of corporate governance of banks**. The Banking Law and the appropriate bylaw regulate the governing bodies of a bank, as well as the role and the scope of activities of the internal audit and the compliance functions. The provisions incorporate international standards and best practices.

- **Strengthening of the banks' risk management systems**. According to the Banking Law, the banks are obliged to establish and maintain an appropriate risk management system that should include credit risk, liquidity risk, interest rate risk, currency risk, market risk, concentration risk, operational risk, as well as all other material risks that banks are exposed to in their operations.

- **Introduction of liquidity ratios**. In order to lessen the impact of the financial crisis on the operation of the banks in Macedonia and to improve banks' liquidity positions, the NBRM introduced two liquidity ratios, which require the matching of assets and liabilities maturing in the following 30 and 180 days.

- **AML/CFT**. To prevent money laundering and terrorism financing, the NBRM regulates banks' anti-money laundering programmes, which are mandatory for banks and saving houses. During on-site examinations, the NBRM performs detailed assessments of the ML/FT risk and broader compliance with this regulation.

- **Implementation of the International Financial Reporting Standards** (“**IFRS**”). Macedonian banks report in accordance with IFRS. This accounting methodology stipulates the criteria for classification, measurement, recognition and disclosure of the balance sheet items of the banks, which contributes to increased accuracy and objectivity of the financial statements of banks and increases the transparency of the Macedonian banks.

The 2008 IMF-World Bank Financial Sector Assessment Programme ("**FSAP**") mission determined that the 2007 Banking Law and its corresponding legal framework significantly strengthened the pre-existing legal framework and the supervisory policies, procedures and practices. According to the FSAP assessment of compliance with Basel Core Principles, Macedonian banking supervision and regulation were fully or largely compliant with all 30 principles. During 2014 and 2015, the NBRM performed a self-assessment of the compliance of the banking regulation and supervision with the 2012 Basel core principles and confirmed their high level of compliance.

In its supervisory function, the NBRM uses a risk-based approach. This is a continuous process which feeds into the development and maintenance of an institution's risk profile. The NBRM quantifies banks' exposure to different risks and determines the sufficiency of the banks' procedures and systems to identify, assess, monitor and control risks. The NBRM generally focuses on the material risks that banks are exposed to. When determining a bank's risk profile, the NBRM estimates its risk exposure level and the manner in which it manages risks, producing an aggregate risk profile using defined risk matrices.

In previous years, NBRM amended its supervisory framework through the introduction of: (a) the supervisory review and evaluation process ("**SREP**") and (b) the capital review process ("**CRP**"), which includes the internal capital adequacy assessment process ("**ICAAP**"). The main outputs of the SREP are risk profiles of the banks in Macedonia, but the SREP also provides input in setting up the supervisory strategy and the CRP. The supervisory strategy is the plan for future supervisory activities, including on-site examinations. The higher the overall risk profile of the bank, the more intensive the supervisory activity that is undertaken by the NBRM. For systemically important banks, regardless of the risk profile, there will be a higher level of supervisory review. The main goal of the Capital Review Process is ensuring that banks have an adequate level of capital vis-à-vis their risk profile and have adequate ICAAPs. Any significant differences in NBRM's risk assessment and ICAAP assessment are subject to discussion with the banks.

Credit risk is the primary focus of on-site supervisory examinations, with particular focus on the measurement process, suitability of the impairment and provisioning for credit losses. In some banks, the examination was targeted towards assessing the adequacy of systems for anti-money laundering, preventing terrorism financing, information security management, liquidity risk, interest rate risk and operational risk management, profitability and corporate governance.

***Cross-border co-operation***

The NBRM cooperates with foreign supervisory authorities based on bilateral Memoranda of Understanding ("**MoUs**") and/or through supervisory colleges, for three subsidiaries of EU parent banks from Greece and Slovenia.

Since October 2013, the NBRM has also participated in the operation of the Vienna 2 Initiative as a platform for cooperation of relevant public and private stakeholders in the CESEE countries.

At the end of 2014, the European Banking Authority ("**EBA**") performed an equivalence assessment of the NBRM's confidentiality or professional secrecy regime. In April 2015, the EBA confirmed the NBRM's compliance with the EU's Capital Requirements Directive and has included the NBRM in its recommendations on equivalence of non-EU authorities' confidentiality regimes. In October 2015, based on this assessment, the EBA signed a Memorandum of Cooperation with six banking supervisory authorities from the region, National Bank of the Republic of Macedonia, National Bank of Serbia, Bank of Albania, Central Bank of Montenegro, Banking Agency of the Federation of

Bosnia and Herzegovina and Banking Agency of the Republic of Srpska, in order to establish a framework for cooperation and information exchange between the EBA and the signatory supervisory authorities.

**Regulatory developments**

The most significant amendments and improvements in banking regulation in recent years pertain to the adoption of the Basel II approach to capital adequacy, coupled with new approaches to risk and credit management. Basel III implementation is expected to generally follow the timeline defined by the Capital Requirements Regulation and Directive ("**CRR/CRD IV**") although the characteristics of the Macedonian banking system will also play a significant role in determining the time and manner of implementation.

In response to the Greek crisis, in late June 2015 the NBRM took temporary protective measures to prevent the risk of significant capital outflows from Macedonia to Greece. The preventive measures restrict capital outflows from Macedonian residents to Greek entities through transactions such as investments in securities, investment funds and gold. Further, Macedonian banks were required to withdraw all loans and deposits from Greek banks, regardless of the agreed maturity, excluding the current correspondent accounts with those banks. These measures contributed to further strengthening of the resilience of the financial system to external shocks. Reflecting its temporary nature, the measure was withdrawn at the end of December 2015.

In December 2015, NBRM altered the capital adequacy framework as a result of the accelerated growth of long-term consumer loans (consumer loans with a maturity of over ten years, registered an annual growth of 47.5% in September 2015) and concerns that these loans could lower the quality of banks' loan portfolio, as well as an increase in the level of household indebtedness. The NBRM increased the capital requirement for risk weighting of consumer loans with maturities equal to or longer than eight years from 75% for consumer loans eligible to be included in the retail portfolio and 100% for consumer loans not eligible to be included in the retail portfolio to 150% and 150%, respectively, for long-term consumer loans approved after 1 January 2016, including any existing consumer loans that have been extended past 1 January 2016. To prevent arbitrage, NBRM introduced a higher capital requirement in the form of an additional 75% risk weighting on the growth of exposures from overdrafts and credit cards as compared to 31 December 2015.

In addition, changes were made to the capital requirements related to corporate exposures of banks. The capital requirement for payment guarantees for commercial transactions was reduced, from a conversion factor of 100% to 50%. The capital requirement for claims secured by commercial properties that meet certain criteria was also reduced, from a risk weighting of 100% to 75%. Both of these changes are in line with the European Regulation 575/2013 of 26 June 2013, and provide for lower capital requirements, which reduces banks' costs and enhances access to financing for corporations, including SMEs.

***Implementation of BASEL II***

In line with the recommendations of the Basel Committee of Banking Supervision and the Committee of the European Banking Supervisors (European Banking Authority) pertaining to the harmonisation of the implementation of the New Capital Accord with the characteristics and the capacity of the banking system and the banking supervision of the country, the NBRM has decided to implement a gradual transition to the New Basel Capital Accord.

According to the current capital adequacy methodology, the Pillar 1 capital requirements for market risk, in line with the standardised approach of the New Basel Capital Accord, were implemented in 2007, while the implementation of the standardised approach for credit and operational risk started in the second half of 2012. NBRM has decided to extend the adoption of the regulation for the advanced approaches for calculation of the capital requirements for credit, market and operational risk to 2017. Given the features of the Macedonian banking system, the NBRM believes there is limited need for these advanced approaches, and accordingly NBRM has instead focused on the implementation of the Basel III requirements.

The application of Pillar 2 commenced in 2009 with the implementation of the new methodology for risk-based supervision, the establishment and the implementation of the enhanced risk management principles, as well as the requirement for the banks to establish internal capital adequacy assessment process. In addition, the Banking Law and the appropriate bylaws require coverage of all material risks with appropriate level of capital, not only the Tier 1 risks.

The application of Pillar 3 commenced in 2007 with the adoption of the requirements for data disclosure by banks (the disclosure requirements refer to the bank's operations, shareholder structure, amount of own funds and capital adequacy and the systems and processes for risk management). This regulation has been prepared in the spirit of the third Pillar and in accordance with the relevant regulations of the EU member states.

*Basel III standards*

The NBRM has assessed the potential impact of Basel III standards on the capital adequacy level of the Macedonian banks. Reflecting the conservative approach of the current capital adequacy framework (only equity capital, reserves and retained earnings count as Tier 1 capital), all of the existing banks are above the minimum thresholds for common equity Tier 1 (CET1), Tier 1 capital and total capital, including the requirements for a capital conservation buffer. All banks are well above the minimum required leverage ratio. In order to achieve further harmonisation with Basel III and CRR/CRD IV, NBRM has drafted amendments to the existing capital adequacy and such amendments are expected to be adopted and become effective in 2016. These amendments would allow a more precise definition of CET1, Additional Tier 1 and Tier 2 capital instruments, in accordance with the EU Capital Requirements Regulation. Further, the NBRM and Ministry of Finance are amending the Banking Law to introduce capital buffer requirements that are in line with Basel III and CRD IV. In addition, the NBRM has drafted a methodology to identify domestic systemically important banks ("**D-SIBs**"), which is planned to be implemented after the introduction of the capital buffer requirements in the Banking Law. The NBRM has also drafted amendments to the methodology for defining liquidity risk to further comply with Basel III requirements.

***Credit and Risk standards***

In December 2012, the NBRM amended the regulation on risk management in order to further enhance the regulatory requirements for the development and implementation of banks' internal capital adequacy assessment process. The amendments require banks to have detailed and documented procedures and practices for valuation of the internal capital in line with the banks' risk profile.

The following year, the NBRM modified its approach to credit risk, introducing monthly classification of credit exposures, the possibility of using materiality thresholds to determine the non-performing status of claims which are more than 90 days past due, and new approaches to impairments. In addition, the aim of this new regulation was to motivate banks' activities for early and timely restructuring of problem assets, thus enabling for adequate and efficient NPL resolution, and at the same time promoting a better environment for credit growth.

In 2016 and 2017 NBRM is planning to implement changes in the accounting and financial reporting regulation in order for IFRS 9 to be implemented as at 1 January 2018. IFRS 9 will replace IFRS 39 and introduce a model for classification and measurement, an "expected loss" impairment model and a reformed approach to hedge accounting. It is planned that NBRM will perform an analysis of the impact of the implementation of IFRS 9 principles, in particular the impact of changes to impairment losses measurement on the banks' financial statements and the impact of credit losses measurement and related prudential regulation.

***The banking system of the Republic of Macedonia***

The banking sector is the dominant segment of the financial system, and thus the most important segment for the overall financial stability of the country. It consisted of 15 banks and three savings houses as at the date of this Prospectus. The Macedonian Bank for Development and Promotion, a special purpose development and export bank that provides support for development of the Macedonian economy through providing finance to small and medium-sized enterprises and export oriented companies, directly or through providing credit lines to other banks in the country, is fully state-owned; its market share is limited. Nine out of the other 14 banks are owned by shareholders from EU countries, and six of these banks are subsidiaries of foreign banks. In May 2016, Alpha Banka AD Skopje (a subsidiary of Alpha Bank Athens) was sold to an investor from Switzerland. Banks with predominantly foreign capital account for the largest share of total assets, loans, deposits, revenues and profits of the banking system. The five largest banks in Macedonia as at 31 December 2015, as measured by asset size, are as follows:

| **Bank** | **Key Shareholders** | **Share in Assets** |
|---|---|---|
| Komercijalna banka AD Skopje | East Capital Explorer Investments, Stockholm, Sweden, with related parties (13.1%)<br>European Bank for Reconstruction and Development, London (5.3%) | 22.9% |
| Stopanska Banka AD Skopje | NBG Greece (93.4%) | 20.0% |
| NLB Tutunska Banka AD Skopje | NLB Slovenia (87.0%) | 16.4% |
| Ohridska Banka AD Skopje | Societe Generale, Paris (70%) | 7.8% |
| Halk Banka AD Skopje | Halk Bankasi A.S. Ankara, Turkey (98.8%) | 7.1% |

*Source:* National Bank of the Republic of Macedonia

The three savings houses, as small credit institutions dealing mainly with natural persons, have only a limited role in the banking system; their share in total loans, total deposits and total assets of the banking system is each below 0.8%.

From a cross-country perspective, the level of financial intermediation has registered continuous upward movements. As at December 2013, financial intermediation measured by total assets, loans and deposits equalled 73.6%, 45.9% and 51.7% of GDP, respectively. At the end of 2014, financial intermediation measured by total assets, loans and deposits equalled 76.2%, 48.1% and 54.6% of GDP, respectively. As at 31 December 2015, financial intermediation measured by total assets, loans and deposits equalled 75.6%, 49.5% and 54.7% of GDP, respectively (according to GDP figures released on 10 March 2016). As at 31 March 2016, total assets, loans and deposits were 75.5%, 49.5% and 54.6% of GDP, respectively (according to GDP figures for 2015 released on 10 March 2016).

The following table presents banking system assets:

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Banking System Assets (MKD million)................... | 331,176.2[(1)] | 352,885.9 [(2)] | 369,505.0 [(3)] | 400,281.2[(4)] | 423,667.6[(5)] | 422,755.8[(6)] |
| Banking System Assets (% GDP)[(7)]..... | 71.3% | 75.6% | 73.6% | 76.2% | 75.6% | 75.5% |

Notes:

(1) Based on an exchange rate as at 31 December 2011 of €1 = MKD 61.5050.

(2) Based on an exchange rate as at 31 December 2012 of €1 = MKD 61.5000.

(3) Based on an exchange rate as at 31 December 2013 of €1 = MKD 61.5113.

(4) Based on an exchange rate as at 31 December 2014 of €1 = MKD 61.4814.

(5) Based on an exchange rate as at 31 December 2015 of €1 = MKD 61.5947.

(6) Based on an exchange rate as at 31 March 2016 of €1 = MKD 61. 6942.

(7) According to GDP figures released on 10 March 2016. GDP figures for the first quarter of 2016 are currently not available.

*Source*: Ministry of Finance and National Bank of the Republic of Macedonia

### *General developments and performance*

In 2012, growth in banking activities decelerated, and the trend continued into 2013, reflecting general uncertainty with respect to global macroeconomic conditions. These tendencies had a corresponding impact on the growth of the banks' activities, especially lending dynamics, and in 2013 the annual growth rate of total activities continued to decelerate. As at 31 December 2013, total assets of the banking system were MKD 369.5 billion, representing growth of 4.7% as compared to 31 December 2012. Total banking system assets amounted to MKD 400.3 billion as at 31 December 2014, growing 9.1% year on year. Although the Greek crisis adversely affected banking activities in Macedonia in the first half of 2015, the economic situation stabilised over the second half of the year. Total banking system assets amounted to MKD 423.7 billion as at 31 December 2015, an annual growth rate of 5.8%. As at 31 March 2016, total assets were MKD 422.8 billion (5.6% of the annual growth rate).

Liquidity in the banking system has generally been improving. The introduction of the regulatory minimum liquidity ratios (for assets and liabilities up to 30 days and up to 180 days) in March 2009 contributed to the improved liquidity of banks. After the introduction of these ratios, liquid assets started to grow, and in December 2013 they reached 31.2% of total assets, as compared to 20.1% in March 2009, when liquidity ratios were introduced. In the same comparison period, the coverage of household deposits with liquid assets increased to 58.7%. As at 31 December 2013, the Tier 1 ratio was 14.4% and the capital adequacy ratio was 16.8%, averaging 16.6% over the period from 2009 to 2013 and in all cases remaining above the legal minimum of 8%. Bank solvency remained high and stable for 2014 and 2015. As at 31 December 2014, the share of liquid assets to total assets was 29.8%, increasing to 31.4% as at 31 December 2015. Liquid assets are approximately 55% of short-term liabilities and more than 80% of obligations with residual maturity of up to 30 days. As at 31 March 2016, 31.6% of banks’ total assets were liquid, which enabled a coverage of 55.7% of the short-term liabilities and 80.6% of the obligations with a residual maturity of up to 30 days. The capital adequacy ratio was 15.7% as at 31 December 2014, 15.5% as at 31 December 2015 and 15.8% as at 31 March 2016 (nearly twice the regulatory minimum of 8%). Core capital accounts for almost 90% of banks’ capital structure.

At the end of 2013, deposits from non-financial entities were the dominant source of funds, accounting for 70.2% of total assets, with household deposits continuing to be the dominant sector making up 73.1% of these total deposits. As at 31 December 2013, total deposits amounted to MKD 259.3 billion, an increase of 5.7% from 31 December 2012. Total deposits amounted to MKD 287 billion at the end of 2014, an increase of 10.7% from 2013, and reached MKD 306 billion, an increase of 6.7% by the end of 2015. While household deposits have historically been the primary contributor to deposit growth, corporate deposits have become an increasingly important driver of the overall increase in recent years on. During 2015, household deposits increased by 4.3%, reaching MKD 215.4 billion, but a decrease from 8.9% growth in 2014; corporate deposits increased by 13.3%, reaching MKD 80.1 billion, as compared to an increase of 16.3% in 2014. As at 31 March 2016, total deposits grew by 6.1% compared to the same period in 2015. Household deposits grew by 3.3% compared to the same period in 2015, amounting to MKD 217.2 billion, and 59.4% of household deposits were covered by liquid assets as at 31 March 2016. Corporate deposits grew by 15.2% compared to the same period in 2015, reaching MKD 78 billion.

Lending to the non-financial sector grew in the period from 2011 to 2015. As at December 2013, total loans to non-financial entities were MKD 230.1 billion, an increase of 6.4% from 31 December 2013. In 2013, loans to household were the driving factor of the growth of the total lending activity of banks, whereas in 2011 and 2012, corporate loans were the main generators of the growth of total loans (with contributions of 62.6% and 41.4%, respectively). In 2013, household loans contributed 63.7% to total loan growth, and lending to households increased by MKD 8.9 billion, or 10.7%. However, in the last quarter of 2013, lending accelerated significantly in the corporate sector, reflecting some improvement of banks' risks perception, influenced by the positive performances in the domestic economy. This upward trend continued in 2014 and in 2015. As at 31 December 2014, total loans to non-financial entities were MKD 253 billion, an annual increase of 9.9%. The increased lending activity in 2014 was especially apparent for the segment of corporate customers, where the annual growth of loans was twice of that in 2013 (8.6% in 2014 compared to 4.1% in 2013), and also for households (12.1% in 2014 compared to 10.7% in 2013). The Greek crisis had limited effect on lending activity in 2015. As at 31 December 2015, total loans to non-financial entities increased by 9.7%, which was a slight decrease compared to the end of 2014 (9.9%). The annual growth of loans in the corporate customer segment was 7.1% (compared to 8.6% in the previous year) and the annual growth of loans to households equalled 13.4% (compared to 12.1% in the previous year). As at 31 March 2016, total loans to non-financial entities increased by 8.6%, which is a decrease compared to the end of the first quarter of 2015 (9.2%). The annual growth of loans in the corporate customer segment were 5.0% (compared to 7.2% in the same period in 2015) and the annual growth of loans to households were 13.6% (compared to 12.4% in the same period in 2015). The stable growth in the domestic credit market was due to a combination of an improved domestic lending environment, the monetary easing policy and other measures taken by the NBRM.

Credit risk remains the most important risk in bank operations, given the focus of the banking sector in the traditional banking activities of collecting deposits and providing loans. Based on NBRM analysis of capital adequacy levels, almost half of the banking systems' own funds are placed towards covering this risk. Divergent trends in the Macedonian economy, the global environment and the banks' perceptions of risk in 2013 impacted the performance of the banking sector during the year. The overall rate of non-performing loans to non-financial entities reached 12.3% as at 30 June 2013, driven by sharp growth in non-performing loans to the corporate sector in the wake of the on-going global financial crisis. The non-performing loan ratio declined to 11.5% by the end of 2013, driven by the trend of reviving the domestic economy and collection of non-performing claims, as domestic collection of non-performing claims increased amidst a revived domestic economy. Non-performing loans grew at a slower pace in 2015 as compared to the same period in 2014, registering an increase of 4.7% compared to 8.3% in 2014. Reflecting this reduced growth in non-performing loans, as well as increased lending more generally, the share of non-performing loans to non-financial entities against total loans to non-financial entities decreased to 10.8% as compared to 11.3% in December

2014. As at 31 December 2015, 86.7% of non-performing loans were provisioned: almost 70% of total non-performing loans were 100% provisioned, and the remaining 30% were provisioned between the prescribed levels of 30% to 99.9%, according to regulations. If all fully impaired loans were written off, the total NPL ratio would decrease to 3.5%. In addition, half of these NPLs had been fully provisioned to a period of two years or more. At the end of December 2015, NBRM amended regulation, requiring banks to write off all loans that were fully provisioned for more than two years, with the first write-offs to occur no later than June 2016. As at 31 March 2016, the NPL ratio was 10.9% which is a slight increase of 0.1% compared to the same period in 2015.

Bank profitability improved in 2015 due to the sharp decline in deposit interest rates relative to lending interest rates, increased lending activity and the reduction of banks' operating costs. Aggregate bank profits in 2015 were 47.3% higher compared to 2014. The rate of return on average assets ("**ROAA**") and the rate of return on average equity ("**ROAE**") were 1.1% and 10.4% respectively, compared to 0.8% and 7.4% in 2014. In the first quarter of 2016, ROAA and ROAE were 1.4% and 13.0%, respectively.

The NBRM conducts quarterly stress tests to analyse the banks' sensitivity to individual and combined hypothetical shocks relating to deterioration in the quality of the credit portfolio, withdrawal of deposits, changes in the interest rates, foreign exchange rates, etc. Results have generally been satisfactory, indicating that the banking sector in Macedonia is stable and resilient to most of the shocks. With the assistance of IMF experts' the NBRM has developed a model for macroeconomic stress-testing. The results of this stress-test are published in the Report on the Financial Stability in the Republic of Macedonia.

| | **Large banks** | **Medium-sized banks** | **Small-size banks** | **Total banking system** |
|---|---|---|---|---|
| Capital adequacy ratio as at 31 December 2014 (%) ............................................................................ | 14.6 | 18.0 | 18.7 | 15.7 |
| Capital adequacy ratio as at 31 December 2015 (%) ............................................................................ | 14.9 | 16.3 | 18.7 | 15.5 |
| Capital adequacy ratio as at 31 March 2016 (%) ...... | 15.4 | 16.3 | 18.9 | 15.8 |

**Capital Markets**

In order to promote the transition to a market based economy and facilitate the economic development of Macedonian businesses, the Macedonian government has focused on establishing and maintaining stable and efficient capital markets. Macedonia implemented securities market legislation in 1993, providing the foundation for the development of the capital market.

*Legislation Governing Capital Markets*

The legal framework governing capital markets in the Republic of Macedonia includes the *Law on Securities*, the *Law on Investment Funds*, and the *Law on Taking Over Joint Stock Companies*.

In 2013, the *Law on Taking Over Joint Stock Companies* (Official Gazette of the RM No. 66/2013) was adopted to comply with European Parliament and Council Directive 2004/25/EC, which protects the interest of minority shareholders in joint stock companies. Two amendments on the *Law on Securities* were introduced in the same year; one required companies with capital exceeding €1 million, more than 50 shareholders and a minimum of 1% free float to list on the Macedonian Stock Exchange, and the other imposed additional conditions on auditors in issuing their opinion on a transaction involving interested parties if the securities are listed on an authorised stock exchange.

In 2015, further amendments were made on the *Law on Securities* to improve investing conditions in the securities market for foreign and domestic investors. The amendments included provisions which allowed for the issuance of certificates of deposits and covered bonds. In February 2015, in order to align Macedonia's capital market laws with relevant EU legislation, an 18-month IPA project was approved. As a part of this project, draft legislation has been prepared, to replace the existing *Law on Securities*. This new law will aim to provide greater protection of investors, higher standards of transparency, more precise and extensive measures on the detection and prevention of market abuse, new financial instruments and new trading venues.

***The SECRM***

The Securities and Exchange Commission of the Republic of Macedonia (the "**SECRM**") was established following Macedonia's independence, on 19 June 1992, on the basis of Government Decision made in accordance with the Law on Securities of the former Yugoslavia. The SECRM has been a regular member of the International Organisation of Securities Commissions ("**IOSCO**") since 1994 and is an autonomous and independent legal entity that regulates and supervises all authorised participants within the Macedonian securities market (securities depository, stock exchange, brokerage houses, banks dealing with securities, broker or investment advisor). Since 2010, the SECRM has been a signatory of the IOSCO's Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

The main priority of the SECRM is to oversee and facilitate a well-regulated, transparent and high developed securities market, as well as maintaining efficient, fair and legal capital market with high integrity, maintaining the confidence of all capital market participants and protecting the rights and interests of the investors and shareholders as part of improving the investment climate.

The SECRM has 24 employees, including the President of the SECRM and one Commissioner. In 2015, the SECRM strengthened its supervisory function by implementing a software system for the indirect supervision of investment funds and investment fund management companies, as well as a software system for the implementation of the law on takeover of joint stock companies. In 2015, the Commission carried out seven assessments of controls on the operations of authorised securities market participants. Where legal violations were detected, the SECRM took appropriate measures against market participants to eliminate identified irregularities and prevent further dishonest and illegal activities on the market.

***The Macedonian Stock Exchange***

All secondary trading in securities in Macedonia, except for continuous government securities, which can be traded through the OTC market, is conducted on the Macedonian Stock Exchange ("**MSE**"). The MSE was founded on 13 September 1995, and commenced trading on 28 March 1996 as a central marketplace for trading in securities and was the first organised stock exchange in the history of Macedonia. The table below reflects key indicators of the MSE as at and for the years indicated.

| | **Year ended 31 December** | | | | | **Three months ended 31 March** |
|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Macedonian Stock Exchange Key indicators** | | | | | | |
| **Turnover** (*MKD million*) | 13,656 | 5,600 | 3,235 | 8,704 | 2,660 | 538.77 |
| *Block trades* | 8,964 | 2,400 | 819.5 | 1,568 | 548.5 | 64.6 |

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Macedonian Stock Exchange Key indicators** | | | | | | |
| *Public offerings* | 931 | 98 | 17.5 | 4,329 | 14.1 | / |
| *Public auctions* | 322 | 347 | 275 | 280.3 | 15.8 | 0.09 |
| *Shares* | 2,147 | 1,553 | 1,395 | 1,985 | 1,436 | 381.1 |
| *Government bonds* | 1,292 | 1,202 | 728 | 541.2 | 645.4 | 9.28 |
| *Corporate bonds* | | / | / | / | / | / |
| **Market Capitalisation** *(MKD million)* | 127,605 | 120,371 | 109,335 | 111,051 | 107,732 | 106,359 |
| Turnover/Market Capitalisation (%) | 10.7 | 4.7 | 3.0 | 7.8 | 2.5 | 0.5 |
| **Index value** (**index points**) | 1,974.9 | 1,731.2 | 1,738.9 | 1,844.2 | 1,833.3 | 1,781.0 |

***Central Securities Depositary***

The Central Securities Depositary (the "**CSD**") is responsible for the registration of securities, execution of non-trade transfers and for the settlement of trade transactions in Macedonia. All trades conducted on the MSE are automatically transmitted to the CSD immediately after the end of each trading session. Initial clearing (identification of buyers/sellers, quantity of securities and prices) is done by the MSE BEST (Bourse Electronic System of Trading) system. The rest of the clearing process and settlement is completed by the CSD. The securities register of the CSD is the only legally valid evidence of issuance and ownership of securities. All securities issued in Macedonia are registered in a depository as electronic records. Rolling settlement of trade transactions is implemented on the basis of DVP (delivery versus payment) principles. The settlement period for the securities traded on the stock exchange is maximum T+3, while the settlement period for the securities traded OTC is T+0.

***Investment Funds***

By the end of 2015, there were five investment fund management companies in Macedonia which managed 13 open-ended investment funds. The total net asset value of the funds on 31 December 2015 was MKD 2.87 billion or approximately €46.7 million, representing a 67.28% increase as compared to 2014. The accelerated growth was due to the attractiveness of the cash funds and the improved investment and business climate in 2015. On 31 March 2016, the total assets of 13 open-end investment funds amounted to MKD 3.07 billion or approximately €50.1 million.

**Insurance Sector**

***Legislation and Institutional Framework***

Insurance undertakings perform their activities in accordance with the Law on Insurance Supervision (published in the Official Gazette of the RM No. 27/02, 98/02, 79/07, 88/08, 67/10, 44/11, 112/11, 188/13, 30/14, 43/14, 112/14, 153/15, 92/15 and 23/16), the Law on Compulsory Insurance in Traffic (Official Gazette of the RM No. 88/05, 70/06, 81/08, 47/11, 135/11, 112/14 and 145/15), and the Law on Voluntary Health Insurance (Official Gazette of the RM No. 145/12 and 192/15). These laws provide the basic legal framework for regulating the manner and conditions of insurance and reinsurance activities and conducting supervision over the operations of insurance companies, insurance brokerage companies and insurance agencies.

The broader legal framework is provided under the Contractual Law (Official Gazette of the RM No. 18/01, 4/02, 5/03, 84/08, 81/09, 161/09 and 123/13), and the Company Law (Official Gazette of the RM No. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 3/16 and 61/16).

The Law on Insurance Supervision incorporates the insurance principles and standards of the International Association of Insurance Supervisors ("**IAIS**"), as well as the EU Insurance Directives. This law regulates the establishment and operations of insurance companies, risk management, the role of authorised actuaries, financial reporting, internal and external auditing, activities of insurance brokerage companies and agencies, supervision over insurance companies, procedure for decision-making by the Insurance Supervision Agency ("**ISA**"), operations of insurance and reinsurance pools, cooperation with supervisory agencies and EU authorities, as well as penalty provisions.

The Law on Compulsory Insurance in Traffic provides for mandatory insurance to protect potential victims of traffic accidents. The law has increased the required insurance amount and will gradually align the amount to that adopted under the EU Directives. It further provides for the regulation of deadlines for filing claims and indemnification of claims by the insurance companies, conditions for mediation, strict regulation of the competencies of the Guarantee Fund, and determining premium tariffs (for which the Motor Insurance Commission has been established). The law also facilities the provision of cross-border insurance services through an authorised claims representative, and introduces a "Damage Compensation Service" — these will be effective once the Republic of Macedonia joins the EU.

The Law on Voluntary Health Insurance prescribes a wider scope of activities for an insurance company to offer packages of health services not covered under the system for compulsory health insurance.

Both domestic and foreign legal entities and/or natural persons may incorporate an insurance undertaking in the legal form of a joint stock company. One insurance undertaking is not allowed to perform composite insurance operations. The share capital of an insurance undertaking must be at a level not lower than the Guarantee fund. The Guarantee fund must constitute one third of the required level of solvency margin, and should not be lower than €2 million if the insurance undertaking performs insurance operations in non-life insurance classes other than compulsory insurance in traffic, and €3 million if the insurance undertaking performs insurance operations in compulsory insurance in traffic, or life assurance. A reinsurance undertaking must possess at least €4.5 million of shareholders' capital to perform the active reinsurance operations.

In compliance with the Insurance Supervision Law, the ISA is an autonomous and independent regulatory body which commenced operations on 1 November 2009. The ISA performs insurance supervision through established processes of licensing, on-site and off-site insurance supervision and issuing measures of supervision, with the purpose of safeguarding the interests of insurance policyholders and promoting a sound and competitive insurance market. The ISA also has the authority to adopt and implement secondary regulation on the insurance market and control whether measures against money laundering are implemented and enforced.

***Insurance Market and Supervision***

There are currently 15 licensed insurance undertakings currently operating in Macedonia. Four of these perform life insurance operations, while the remaining 11 perform non-life insurance operations. One of the non-life insurance undertakings is also licensed for active reinsurance.

All insurance undertakings are registered as joint stock companies, and 14 of them are controlled by foreign legal entities. As at 31 December 2015, the aggregate share of foreign ownership in the insurance market was 92.2%.

Gross written premiums at the end of 2015 totalled MKD 8.28 billion, an 8.5% increase over 2014. Aggregate gross written premiums in the non-life insurance sector totalled MKD 7.18 billion, a 6.5% growth over the previous year. The life-insurance sector's gross written premiums totalled MKD 1.10 billion, a 23.9% increase over 2014.

The insurance penetration (measured as the ratio of gross written premiums to GDP) at the end of 2015 was 1.48%, and the insurance density (measured as the total amount of gross written premiums divided by total population) is MKD 4,001. The insurance sector is characterised by its moderate market concentration. Three insurance companies have greater than 10%, but below 20% market share, and the others less than 10%.

By the end of 2015, the insurance companies held MKD 17.6 billion in assets, an increase of 7.3% over the previous year. The total capital of insurance companies was MKD 5.5 billion, a 5.9% growth over 2014. The solvency margin, the main indicator for assessing the stability of the insurance sector, was MKD 1.2 billion, 4.4 times higher than the required solvency margin level. In 2015, the insurance sector reported profits of MKD 513 million, with the non-life sector reporting MKD 469 million, and the life insurance sector reporting MKD 44 million.

The role of intermediaries in insurance sales has become increasingly important for the insurance sector. During the course of 2015, 52.8% of the gross written premium was generated through various intermediary channels. At the end of 2015, there were 31 insurance brokerage companies operating as insurance intermediaries on the insurance market. The minimum capital for establishing insurance brokerage company is €50,000. Also, there were 16 insurance agencies (including banks that sell insurance products) licenced to perform insurance representation activities. The minimum capital for establishing an insurance agency is €15,000.

## INDEBTEDNESS

*While NBRM debt that is created for monetary purposes, consisting primarily of CB Bills ("NBRM debt"), is regarded as public debt for statistical purposes, it does not fall within the purview of public debt management (as set forth in the Public Debt Law of Article 5, paragraph 3 and Article 7, paragraph 4, as modified and amended (Public Debt Law, Official Gazette of the Republic of Macedonia 62/08, 88/08, 35/11 and 139/14). Accordingly, NBRM debt is not presented in the data in this "Indebtedness" section.*

General government debt is the sum of all financial liabilities created through borrowing by the Republic of Macedonia and the municipalities. General government debt is comprised of external general government debt and domestic general government debt. External general government debt includes external central government debt and external municipalities' debt to multilateral, bilateral and private creditors. Domestic general government debt includes debt from domestically issued structural bonds, continuous government securities and domestic municipal debt. Public debt is comprised of general government debt and public enterprises debt, both external and domestic, which are guaranteed by the government.

The following table sets out Macedonia's outstanding general government debt and public debt as at the dates indicated.

| | As at 31 December | | | | | As at 31 March |
|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| Total General Government Debt (€ million) | 2,092.9 | 2,554.5 | 2,771.6 | 3,262.5 | 3,453.3 | 3,547.4 |
| External (€ million) | 1,582.1 | 1,615.9 | 1,597.5 | 2,092.2 | 2,096.7 | 2,117.4 |
| Domestic (€ million) | 510.8 | 938.6 | 1,174.1 | 1,170.3 | 1,356.6 | 1,430.0 |
| Total General Government Debt (% GDP) | 27.7 | 33.7 | 34.0 | 38.2 | 38.0(1) | 36.8(2) |
| External (% GDP) | 21.0 | 21.3 | 19.6 | 24.5 | 23.1(1) | 22.0(2) |
| Domestic (% GDP) | 6.8 | 12.4 | 14.4 | 13.7 | 14.9(1) | 14.8(2) |
| Total Public Debt (€ million) | 2,414.9 | 2,908.8 | 3,281.4 | 3,921.3 | 4,227.2 | 4,332.1 |
| Total Public Debt (% GDP) | 32.0 | 38.3 | 40.3 | 46.0 | 46.5(1) | 45.0(2) |

Note:

(1) GDP value for 2015 is estimated.

(2) GDP value for 2016 is a projection.

*Source:* Ministry of Finance and National Bank of the Republic of Macedonia

### External General Government Debt

As at 31 March 2016, Macedonia's external general government debt was €2,117.4 million, or 22.0% of GDP and 59.7% of total general government debt. Total external general government debt has risen gradually in recent years. This increase is primarily the result of the Eurobond issuances in 2014 and 2015 which amounted to €500 million and €270 million, respectively, and public investment projects with IBRD, CEDB, EBRD and EIB, more than offsetting repayments of maturing debt.

The following table shows total external general government debt at the end of the periods indicated.

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | | | (€ million) | | | |
| External General Government debt | 1,582.1 | 1,615. 9 | 1,597.5 | 2,092.2 | 2,096.7 | 2,117.4 |
| Multilateral Creditors | 959.5 | 957.8 | 883.0 | 888.7 | 764.8 | 784.8 |
| IDA | 277.1 | 262.8 | 242.3 | 249.3 | 253.8 | 246.9 |
| IBRD | 218.8 | 229.9 | 216.3 | 251.3 | 246.0 | 243.8 |
| EIB | 85.7 | 80.2 | 73.7 | 76.6 | 101.4 | 124.9 |
| EBRD | 39.9 | 52.5 | 27.5 | 67.1 | 64.6 | 66.1 |
| CEDB | 29.6 | 39.4 | 49.1 | 53.0 | 64.1 | 72.9 |
| EU | 61.0 | 51.0 | 43.6 | 33.6 | 23.6 | 19.2 |
| IFAD | 12.5 | 11.8 | 10.8 | 11.1 | 11.3 | 11.0 |
| IMF | 234.92 | 230.16 | 219.73 | 146.7 | 0.0 | 0.0 |
| Bilateral Creditors | 133.0 | 114.9 | 98.0 | 94.5 | 93.6 | 94.2 |
| Non rescheduled debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Newly concluded credits | 133.0 | 114.9 | 98.0 | 94.5 | 93.6 | 94.2 |
| Private creditors | 489.6 | 543.2 | 616.5 | 1,109.0 | 1,238.3 | 1,238.4 |
| London Club | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Eurobond | 325.0 | 325.0 | 150.0 | 650.0 | 770.0 | 770.0 |
| Other private creditors | 164.6 | 218.2 | 466.5 | 459.0 | 468.3 | 468.4 |
| Government guaranteed debt(1) | 299.9 | 325.3 | 481.2 | 633.0 | 774.0 | 784.7 |

Note:

(1) Data includes the stock of external and domestic guaranteed debt.

*Source*: Ministry of Finance and National Bank of the Republic of Macedonia

Debt owed to private creditors amounted to 58.5% and debt owed to multilateral creditors amounted to 37.1%, of total external general government debt as at 31 March 2016. The IDA and the IBRD are the principal multilateral creditors to which Macedonia owed €246.9 million and €243.8 million, respectively, as at 31 March 2016.

### *Eurobond Issuances and external loans*

Macedonia issued its debut Eurobond in December 2005 in the aggregate principal amount of €150 million and bearing interest at 4.625%, due in 2015 and listed on the London Stock Exchange. Funds from the issue of the Eurobond were used to purchase liabilities towards the London Club of Creditors and to increase the foreign exchange reserves of Macedonia. The Eurobond was repaid at maturity in 2015.

In order to sustain debt stability, the Republic of Macedonia takes active measures aimed at government debt management. Since 2007, the Ministry of Finance has focused on the goals set out in the Public Debt Management Strategy and has commenced a series of actions aimed at early prepayment of debt under loans approved under unfavourable terms and conditions. Following prepayment of its debt to the Paris Club of Creditors and loans owed to the IBRD, the EIB and the IMF in 2007, external general government debt declined. Early repayment of loans reduced interest-related costs of the Central Budget, thus reducing the budget deficit level in the medium term, and consequently creating room in the Central Budget for new projects without creating additional debt.

On 30 June 2009, Macedonia issued its second Eurobond in the aggregate principal amount of €175 million and bearing interest at 9.875%, due in 2013. The proceeds of this issue were used to finance the budget deficit and fund public investment projects. In January 2013, the Ministry of Finance fully repaid the Eurobond issued in 2009.

In July 2014, Macedonia issued its third Eurobond in the aggregate principal amount of €500 million and bearing interest at 3.975%, due in 2021. The proceeds of the issuance were used for budget support in 2014 and 2015 and repaying maturing debt liabilities, including repayment of Eurobonds issued in 2005.

Macedonia issued its fourth Eurobond in December 2015 in the aggregate principal amount of €270 million and bearing interest at 4.875%, due in 2020. The proceeds of the December Eurobond were used for budget support in 2015 and to repay maturing debt liabilities.

Historically, the Ministry of Finance has used a range of sources for financing its budgetary needs. Funds have been provided through regular loan disbursements from international financial institutions as well as from funds from the international capital market.

Taking into account unfavourable conditions prevailing on the international capital markets during the crisis period (high interest-related costs and short repayment periods), the Republic of Macedonia turned to finding other sources of financing, including:

- A loan facility in the amount of €130 million supported by a World Bank Policy-Based Guarantee, with five-year maturity and 4.348% annual fixed interest rate, pursuant to a facility agreement signed between Macedonia and Deutsche Bank and Citibank on 22 November 2011;

- A loan in the amount of €75 million with five-year maturity and 6.456% annual fixed interest rate from Deutsche Bank pursuant to a loan agreement signed on 6 July 2012; and

- A loan facility in the amount of €250 million supported by a World Bank Policy-Based Guarantee with repayment in two instalments, whereby it is expected that the first instalment, in the amount of €95 million, will be repaid within five years, and the second instalment, amounting to €155 million, will be repaid within seven years at a 3.915% annual fixed interest rate, pursuant to a facility agreement signed between Macedonia and Deutsche Bank on 9 January 2013.

***International Financial Institutions***

As at 31 March 2016, approximately 37.1% of total external general government debt was owed to IFIs. This debt was incurred in connection with a variety of policy initiatives and infrastructure projects, as further discussed below. For further details the programmes supported by these institutions in Macedonia, see "*Overview of the Republic of Macedonia — International Relations - Relationship with International Organisations and Private Foreign Investors" and "Macedonian Economy - Public Investments*".

***International Monetary Fund***

Macedonia was the first IMF member to take advantage of the PCL, an IMF instrument designed for countries with sound policies that do not have immediate financing needs but face risks that could give rise to such needs. In January 2011, the Executive Board of the International Monetary Fund approved a two-year PCL for Macedonia in an amount equivalent to IMF special drawing rights ("**SDR**s") of 413.4 million (approximately €475.6 million). The PCL was approved on the basis of certain key criteria, which included an assessment of Macedonia's economic fundamentals, institutional policy frameworks and fiscal, tax and monetary policy. On 19 January 2011, Macedonia drew down 197 million SDRs pursuant to the PCL. Funds from the PCL were drawn to provide an alternative to external and domestic market funding which had higher interest rates. The borrowings enabled the Government to preserve the stability of its economic recovery while meeting its balance of payments and fiscal financing obligations without putting pressure on its foreign exchange reserves. On 27 February 2015 the full amount of the loan was repaid. Due to the early repayment of the debt, approximately €5 million was saved on the basis of interest and exchange rate differences. On 30 June 2016, the IMF announced that it will not appoint a new resident representative in Macedonia on completion of the current representative's term in August 2016, as there was not a current IMF assistance program for Macedonia and a resident representative was not necessary to support ongoing surveillance and technical assistance.

***World Bank***

Macedonia joined the World Bank in 1993. Since joining, it has received assistance from the World Bank in the form of loans and/or guarantees bank financing targeted at specific projects and reforms. The World Bank has historically worked to maintain macroeconomic stability and develop a sound financial sector in Macedonia. Commitments from the World Bank to Macedonia as at 31 March 2016 totalled approximately US $1.9 billion in the form of loans and grants.

The World Bank supports development projects (offering budget support), and along with a number of other IFIs, also supports projects with infrastructural, social, educational and other similar benefits. As at 31 March 2016, Macedonia had a total of €105.9 million debt outstanding in investment in general government projects funding from the World Bank.

***European Investment Bank***

Since 1998, the EIB has supported Government investments in various sectors of the Macedonian economy and Macedonian infrastructure. The total value of the finance contracts signed with EIB since 1998 amounted to €675 million, of which €344.1 million represented Macedonian outstanding indebtedness as at 31 March 2016 (with the debt of public enterprises amounting to €219.1 million). EIB projects have focused on infrastructure and energy loans, as well as support for small and medium sized enterprises. Four credit lines to support small and medium sized enterprises, totalling €350 million, were approved between 2009 and 2015.

***European Bank for Reconstruction and Development***

The EBRD has been active in Macedonia since 1993. Since then the EBRD has provided €1.4 billion of funding to public sector projects, with the majority of its funding being used to support transport infrastructure and the energy sector.

***Council of Europe Development Bank***

Since 2004, the CEDB has supported social protection projects in Macedonia such as a housing project aimed at building rental housing units for families in socially precarious situations, and other projects in health, education and the judicial system. Macedonian cooperation with CEDB in 2015 focused on the implementation of on-going projects. As at 31 March 2016, Macedonia had a total of €72.9 million in outstanding debt for development project funding from the CEDB.

**Public Debt by Currency**

The following table shows general government debt by currency (as a percentage of total general government debt) as at 31 March 2016.

| **Currency** | **As at 31 March 2016** |
|---|---|
| EUR | 64.3% |
| USD | 0.6% |
| SDR[(1)] | 7.3% |
| MKD | 26.4% |
| JPY | 1.5% |

Notes:

(1) Special drawing rights. The majority of payments on these are made in USD.

*Source*: Ministry of Finance and National Bank of the Republic of Macedonia

As at 31 March 2016, 64.3% of Macedonia's general government debt was denominated in Euro. While the debt is not hedged, the risk of devaluation is low as the Denar is informally pegged to the Euro and most of the country's revenue from exports is also denominated in Euros. In the medium-term, the Government intends to increase the share of the Euro-denominated debt in its debt portfolio. For certain public enterprises such as Macedonian Powerplants, ELEM, the Macedonian Bank for Development Promotion, PESR and Macedonian Railways, Macedonia provides guarantees to creditors on both domestic and foreign borrowing; as at 31 March 2016, this guaranteed public debt amounted to €784.7million, or 8.1% of GDP. The following table shows guaranteed public debt by borrower as at 31 March 2016.

| | **As at 31 March 2016** | |
|---|---|---|
| **Borrower** | *(€ million)* | *% of GDP* |
| AD ELEM................................ | 161.3 | 1.7% |
| AD MEPSO ............................. | 43.7 | 0.5% |
| PESR........................................ | 320.3 | 3.3% |
| MBDP ...................................... | 224.8 | 2.3% |
| Macedonian Railways.............. | 34.6 | 0.4% |
| **Total .......................................** | **784.7** | **8.1%** |

*Source*: Ministry of Finance and National Bank of the Republic of Macedonia

Most of the government guaranteed debt issued recently has been issued to fund infrastructure projects in order to support Macedonia's economic growth and contribute to greater competitiveness of the domestic economy in the medium term.

**General Government Debt Service**

The following table shows general government debt service for the years indicated.

| | **Year ended 31 December** | | | | | **Three months ended 31 March** |
|---|---|---|---|---|---|---|
| | **2011**[(1)] | **2012**[(2)] | **2013**[(3)] | **2014**[(4)] | **2015**[(5)] (preliminary) | **2016**[(6)] (preliminary) |
| | | | *(€ million)* | | | |
| Domestic General Government Debt service ............. | 99.5 | 53.4 | 63.7 | 71.7 | 149.4 | 30.5 |
| Principal............................................................. | 81.5 | 31.8 | 31.1 | 30.0 | 105.0 | 19.1 |
| Interest ............................................................... | 18.0 | 21.6 | 32.6 | 41.7 | 44.4 | 11.4 |

| | Year ended 31 December | | | | | Three months ended 31 March |
|---|---|---|---|---|---|---|
| | **2011**(1) | **2012**(2) | **2013**(3) | **2014**(4) | **2015**(5) (preliminary) | **2016**(6) (preliminary) |
| | *(€ million)* | | | | | |
| External General Government Debt service ................ | 88.9 | 104.0 | 261.7 | 178.7 | 421.8 | 23.9 |
| Principal .............................................................. | 50.4 | 56.6 | 218.8 | 136.7 | 360.4 | 13.4 |
| Interest ................................................................ | 38.5 | 47.4 | 42.9 | 42.0 | 61.4 | 10.5 |
| Total General Government Debt service ..................... | 188.4 | 157.4 | 325.4 | 250.4 | 571.2 | 54.4 |

Notes:

(1) Based on an exchange rate as at 31 December 2011 of €1 = MKD 61.5050.

(2) Based on an exchange rate as at 31 December 2012 of €1 = MKD 61.5000.

(3) Based on an exchange rate as at 31 December 2013 of €1 = MKD 61.5113.

(4) Based on an exchange rate as at 31 December 2014 of €1 = MKD 61.4814.

(5) Based on an exchange rate as at 31 December 2015 of €1 = MKD 61.5947.

(6) Based on an exchange rate as at 31 March 2016 of €1 = MKD 61.6942.

*Source*: Ministry of Finance

### *Debt Service on External General Government Debt*

Macedonia has serviced its external general government debt on a regular and timely basis, and Macedonia has historically arranged for early prepayment of external debt initially issued on unfavourable terms. On 27 February 2015, Macedonia completed the early repayment of its entire outstanding obligations to the IMF of SDR 123.1 million (approximately US$173.3 million), in connection with funds drawn under the Precautionary Liquidity Line (formerly Precautionary Credit Line). The final repayment was originally scheduled for March 2016.

Annual payments on external general government debt in 2015 were €421.8 million and included early repayment of the Precautionary Liquidity Line in the amount of €153 million, repayment of a Eurobond in the amount of €150 million, and regular payments on outstanding loans. It is expected that payments of principal and interest on government debt in 2016 and 2017 will total €260.1 million and €223.8 million, respectively. Payments in 2016 and 2017 are expected to include repayments of loans amounting to €130 million and €75 million, respectively, as well as regular payments on the outstanding loans.

As at 31 March 2016, 19.4% of the external general government debt was floating rate, and the remainder fixed rate.

The following table shows projected external general government debt payments for the periods indicated, not including the amount of the issuance of the Notes. The table does not include provisions for refinancing existing external general government debt as it matures, and reflects interest and exchange rates as at 31 December 2015.

### *External General Government Debt Payments for 2015-2018*

| Period | Principal payments | Interest payments | Total | Total, as share of GDP |
|---|---|---|---|---|
| | | *(€ million)* | | *(%)* |

| | | | | |
|---|---|---|---|---|
| 2015[1] | 360.4 | 61.4 | 421.8 | 4.6 |
| 2016[1] | 201.0 | 59.1 | 260.1 | 2.7 |
| 2017[1] | 148.6 | 75.2 | 223.8 | 2.2 |
| 2018[1] | 167.9 | 80.1 | 248.0 | 2.3 |

Notes:

(1) Estimates.

*Source:* Ministry of Finance

***Domestic General Government Debt***

Domestic general government debt was issued for the first time in 1996. Since that time, domestic bonds have been issued: (i) to compensate Macedonian citizens who lost foreign currency deposits held in the banking system of the former Yugoslav federation; (ii) as compensation for property nationalised on behalf of the state in the period from 1944 to 1991; and (iii) for the rehabilitation and privatisation of the banking system.

In 2004, the Ministry of Finance implemented the Government strategy for developing the domestic government securities market, initially issuing Treasury bills. To date, the Ministry has issued 3-, 6- and 12-month Treasury bills and 2-, 3-, 5-, 10- and 15-year Treasury bonds. The Government's focus with respect to domestic general government debt is to support the further development of the securities markets. The Ministry of Finance intends to continue to issue government securities, and particularly longer-term securities, to provide for more efficient financing of budget needs in the short- and long-term, reduce financing costs, and encourage further development of domestic financial market. In February 2015, the Ministry of Finance launched a 15-year Treasury bond for the first time in the domestic securities market.

The domestic general government debt of Macedonia consists of structural bonds, treasury bills and municipal debt. As at 31 December 2015, domestic general government debt stood at €1.36 billion (14.9% of GDP) and constituted 39.3% of total general government debt. As at 31 March 2016, commercial banks held 46.5% of outstanding government issued securities while other entities held 53.5%. The average time to maturity of the domestic central government debt as at 31 December 2015 was 2.5 years. The following table shows projected general government domestic debt payments for the periods indicated. The table does not include provisions for refinancing existing domestic general government debt as it matures and reflects interest and exchange rates as at 31 December 2015.

| **Period** | **Principal payments** | **Interest payments** | **Total** |
|---|---|---|---|
| | | (*€ million*) | |
| 2016[1] | 149.1 | 35.6 | 184.7 |
| 2017[1] | 204.2 | 45.3 | 249.5 |
| 2018[1] | 265.3 | 47.4 | 312.7 |

Note:

(1) Estimates.

*Source:* Ministry of Finance

The Government intends to reduce reliance on domestic borrowing and to lengthen the maturity of domestic borrowings.

**Maturity Structure of Government securities, as at 31 March 2016**

| **Treasury bond maturity** | **Proportion of Outstanding Government** |
|---|---|

| | Securities |
|---|---|
| 3 months | 0.2% |
| 6 months | 11.9% |
| 12 months | 37.0% |
| 2 years | 5.8% |
| 3 years | 6.0% |
| 5 years | 24.4% |
| 10 years | 8.0% |
| 15 years | 6.7% |

**Maturity Structure of Government securities, as at 31 March 2016**

| Treasury bond maturity | Proportion of Outstanding Government Securities |
|---|---|
| Short term Government securities | 49.1% |
| Long term Government securities | 50.9% |

The following table shows the breakdown of total domestic general government debt stock of Macedonia as at the date indicated.

| | As at 31 December | | | | | As at 31 March | |
|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **Maturity** |
| | | | (*€ million*) | | | | |
| Structural Bonds | 152.1 | 126.8 | 103.2 | 83.4 | 72.3 | 72.3 | |
| Bond for selective credits | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | 25 years |
| Bond for old foreign exchange saving | – | – | – | – | – | - | 10 years |
| Stopanska Banka Privatisation Bond(2) | 27.9 | 19.3 | 10.7 | 2.1 | – | – | 14 years |
| Denationalisation Bonds(1) | 107.3 | 90.6 | 75.6 | 64.4 | 55.4 | 55.4 | 10 years |
| Treasury Bills and Bonds | 354.6 | 805.2 | 1061.9 | 1,076.1 | 1,271.8 | 1,343.8 | |
| Municipal Debt | 4.1 | 6.6 | 9.0 | 10.8 | 12.5 | 14.0 | |
| Total Domestic General Government Debt | 510.8 | 938.6 | 1,174.1 | 1,170.3 | 1,356.6 | 1,430.1 | |
| Government Guaranteed Domestic Debt | 22.1 | 29.0 | 28.6 | 25.9 | 23.2 | 22.5 | |

Notes:

(1) Represents bonds issued as compensation for the property nationalised on behalf of the state in the period from 1944 to 1991. Fifteen issues of denationalisation bonds have taken place since 2002, each with a 2% interest rate, and a further issue is expected in 2016.

(2) Represents bonds issued by the Republic of Macedonia to guarantee the investment of the strategic investors, as well as to undertake certain claims form final beneficiaries in Stopanska Banka AD Skopje. The bond is issued at a floating rate of one percentage point above 3 month EURIBOR and matured in December 2014.

*Source:* Ministry of Finance

*Domestic General Government Debt by Currency*

Domestic general government debt is debt issued inside Macedonia and is denominated in Euro (35.0%) and Denars (65.0%). The share of Denar-denominated debt has increased, primarily as a result of this issuance of Denar denominated government securities.

*Government Guaranteed Domestic Debt*

As at 31 March 2016, government guaranteed domestic debt was €22.5 million, which was a €3.4 million decrease from the same period in 2015.

**Debt Management Strategy**

Macedonia's medium-term Fiscal Strategy envisions that the total public debt will approach 52.4% of GDP by the end of 2018, primarily as a result of increases in funding of infrastructure projects. As at 31 December 2015, total public debt equalled 46.5% of GDP. It is expected that the increase to a level closer to 52.4% will increase debt service. However, the Government has reiterated its commitment to preserve the long-term sustainability of the country's debt levels. The Ministry of Finance manages Macedonia's general government and public debt. The Public Debt Law requires the Ministry of Finance to prepare the medium-term Public Debt Management Policy and broader Fiscal Strategy which integrate the country's fiscal framework with the levels of general government and public debt and ensure full data consistency. The Fiscal Strategy covers a period of three years, with the most recent strategy spanning 2016 to 2018. The budget deficit for 2016 is expected to reach 3.2% of GDP. The deficit and liabilities based on domestic and external debt are planned to be financed by domestic and foreign sources of funding. To ensure financing at a low cost while preserving a sustainable level of medium and long-term risk, the Fiscal Strategy of the Republic of Macedonia for the period 2016-2018 has identified the following objectives:

- Public debt will approach 52.4% of GDP in 2018 and will not exceed 60% of GDP in the long term;
- Share of Euro-denominated debt in total debt in foreign currency will be at a minimum of 80%;
- Government debt with a fixed interest rate will be above 50% of total government debt;
- By the end of 2016, the average maturity term will be at least three years; and
- By the end of 2016, the average time to re-fixing of interest rate will be at least two years.

As at 31 March 2016, total public debt was 45.0% of GDP.

**Ratings**

Macedonia is assigned credit ratings by both Fitch and S&P.

The main factors on which Macedonia's credit ratings are based are its moderate budget deficit, relatively moderate indebtedness and its well-capitalised and stable banking sector. On 19 February 2016, Fitch affirmed Macedonia's Long Term Foreign and Local Currency at BB+ (with a negative outlook). On 1 April 2016, S&P affirmed Macedonia's 'BB-/B' long- and short-term foreign and local currency sovereign credit ratings (with a stable outlook).

# TAXATION

## Macedonian Taxation

*The following is a summary of certain Macedonian tax consequences resulting from the purchase, ownership and disposition of the notes and is not intended to reflect the individual tax position of any beneficial owner. This summary is based upon the laws, regulations, rulings and decisions now in effect, all of which are subject to change.*

*Persons considering the purchase of the notes should consult their own tax advisers concerning the application of Macedonian tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the notes arising under the laws of any other taxing jurisdiction.*

### *Non-resident Holders*

A non resident Holder of a Note will not be subject to Macedonian taxes on receipt from the Republic of amounts payable in respect of principal or interest on the Notes.

A non resident Holder generally should not be subject to any Macedonian taxes in respect of gains or other income realised on the sale or other disposition of the Notes outside the Republic.

A non resident Holder which is a legal person or organisation should not be subject to withholding tax on any gain on sale or other disposal of the Notes even if payment is received from a source in the Republic.

### *Resident Holders*

A Holder of a Note who is a physical or legal person resident in the Republic is subject to all applicable Macedonian taxes.

## The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However the Commission's Proposal remains subject to negotiation between participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

**U.S. Federal Income Tax Considerations**

The following is a summary of certain U.S. federal income tax considerations relevant to U.S. Holders (as defined below) acquiring, holding and disposing of Notes. This summary addresses only the U.S. federal income tax considerations for initial purchasers of Notes at their original issuance at their issue price that will hold the Notes as capital assets (generally, property held for investment). This summary is based on the U.S. Internal Revenue Code of 1986 (the "**Code**"), final, temporary and proposed U.S. Treasury regulations and administrative and judicial interpretations, all of which are subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to investors in light of their particular circumstances, such as investors subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax exempt organisations; (vii) partnerships or other pass through entities, or persons that hold Notes through pass through entities; (viii) holders that are not U.S. Holders; (ix) investors that hold Notes as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes; (x) investors that have a reporting currency other than the U.S. dollar and (xi) U.S. expatriates and former long term residents of the United States), all of whom may be subject to tax rules that differ significantly from those summarised below. This summary does not address U.S. federal estate, gift, Medicare contribution or alternative minimum tax considerations, or non U.S., state or local tax considerations.

For the purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Notes that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organised under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust, or (B) if a valid election is in place to treat the trust as a United States person. If a partnership holds Notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership that holds Notes, the holder is urged to consult its own tax advisor regarding the specific tax consequences of the purchase, ownership and disposition of the Notes.

***Interest***

Payments of interest on a Note that are "qualified stated interest" (interest that is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually at a single fixed rate) will be includible in the gross income of a U.S. Holder as ordinary interest income at the time the interest is received or accrued, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes. The amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, with respect to an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period or taxable year, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the Internal Revenue Service ("**IRS**").

Under either of these two methods, upon receipt of the interest payment an accrual basis U.S. Holder will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference, if any, between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. Interest paid by the Issuer on the Notes will generally constitute income from sources outside the United States.

***Original issue discount***

If the issue price of a Note is less than its principal amount by more than a de minimis amount, U.S. Holders will be subject to special U.S. federal income tax rules with respect to this original issue discount ("**OID**"). OID will be considered to be de minimis if it is less than 0.25% of the principal amount multiplied by the number of complete years to maturity. Generally, the "issue price" of a Note will be the first price at which a substantial amount of such Notes is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers.

U.S. Holders of Notes must include OID in income calculated on a constant yield method before the receipt of cash attributable to the income, and will generally have to include in income increasingly greater amounts of OID over the life of the Notes. The amount of OID includible in income by a U.S. Holder is the sum of the daily portions of OID with respect to the Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (A) the product of the Note's adjusted issue price at the beginning of the accrual period and the Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (B) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The adjusted issue price of a Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

OID on a Note will be translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder. In such event, upon receipt of Euro attributable to OID, a U.S. Holder of such Note would recognise foreign currency exchange gain or loss in an amount determined in the same manner as interest income received by a U.S. Holder on the accrual basis, as described above under "—*Interest*".

***Sale, exchange, retirement or other taxable disposition***

Upon the sale, exchange, retirement or other taxable disposition of a Note, a U.S. Holder generally will recognise gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realised on the date of sale, exchange, retirement or other taxable disposition (other than amounts attributable to accrued and unpaid interest, which will generally be taxable to the extent not previously included in income as described above under "—*Interest*") and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the U.S. dollar value of the purchase price of the Notes on the date of purchase increased by the amount of OID, if any, previously included in the U.S. Holder's income with respect to the Notes and reduced by the amount of any payments made with respect to the Note that are not qualified stated interest payments. In the case of a Note that is considered to be traded on an established securities market, a cash basis U.S. Holder and, if it so elects, an accrual basis U.S. Holder, will determine the U.S. dollar value of the amount realised by translating such amount at the spot rate on the settlement date of the disposition or purchase, as applicable. These rules are complex and U.S. Holders are urged to consult their tax advisors regarding the possibility of recognising exchange gain or loss on the sale, exchange, retirement or other taxable disposition of the Notes.

Except to the extent attributable to changes in exchange rates (as described below), any gain or loss recognised by a U.S. Holder on the sale, exchange, retirement or other taxable disposition of a Note will generally be U.S. source capital gain or loss and will be long term capital gain or loss if the U.S. Holder has held the Note for more than one year at the time of the sale, exchange, retirement or other taxable disposition. Net long term capital gain recognised by a non-corporate U.S. Holder generally is eligible for reduced U.S. federal income tax rates. The deductibility of capital losses is subject to significant limitations.

Gain or loss recognised by a U.S. Holder on the sale or other disposition of a Note that is attributable to changes in exchange rates will be treated as U.S. source ordinary income or loss. Gain or loss attributable to changes in exchange rates generally will equal the difference, if any, between (i) the U.S. dollar value of the euro purchase price for the Note, determined at the exchange rate in effect on the date the U.S. Holder disposes of the Note and (ii) the U.S. dollar value of the euro purchase price for the Note, determined at the exchange rate in effect on the date the U.S. Holder purchased such Note. However, exchange gain or loss is taken into account only to the extent of total gain or loss realised on the transaction.

***U.S. information reporting, backup withholding and certain tax return disclosure requirements***

Payments of principal and interest on, and the proceeds of a sale, exchange, retirement or other taxable disposition of the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the applicable backup withholding requirements. Certain U.S. Holders (including, among others, corporations) are neither subject to backup withholding nor information reporting, though such U.S. Holders may be required to provide a certification of their exempt status, as described above.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information.

Certain U.S. Holders that own "specified foreign financial assets" that meet certain U.S. dollar thresholds generally are required to file an information report with respect to such assets with their tax returns. The Notes generally will constitute specified foreign financial assets subject to these reporting requirements, unless the Notes are held in an account at certain financial institutions. U.S. Holders are urged to consult their tax advisors regarding the application of these disclosure requirements to their ownership of the Notes.

### ***Reportable transactions***

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds certain specified thresholds in a single taxable year. Accordingly, if a U.S. Holder realises a loss on any Note (or, possibly, aggregate losses from the Notes) satisfying the such thresholds, the U.S. Holder could be required to file an information return with the IRS, and failure to do so may subject the U.S. Holder to penalties. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG and Société Générale (together the "**Joint Lead Managers**") have, in a subscription agreement dated 25 July 2016 (the "**Subscription Agreement**") and made between the Republic and the Joint Lead Managers upon the terms and subject to the conditions contained therein, agreed severally to subscribe and pay for the Notes at their issue price of 98.598% of their principal amount plus any accrued interest in respect thereof and less a combined management, underwriting and selling commission of 0.15% of their principal amount, in the amounts as follows:

| Joint Lead Managers | Principal amount of Notes |
|---|---|
| Citigroup Global Markets Limited | €137,500,000 |
| Deutsche Bank AG, London Branch............................................ | €137,500,000 |
| Erste Group Bank AG.................................................................. | €37,500,000 |
| Société Générale .......................................................................... | €137,500,000 |
| **Total** .......................................................................................... | €450,000,000 |

The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes. The Republic will also reimburse the Joint Lead Managers for certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain losses (including liabilities under the Securities Act), incurred in connection with the issue of the Notes.

The Joint Lead Managers and their respective affiliates may have engaged in transactions with the Republic in the ordinary course of their banking business, including provision of loan financing, and the Joint Lead Managers have performed various investment banking, financial advisory and other services for the Republic, for which they receive customary fees, and the Joint Lead Managers and their respective affiliates may provide such services and receive such fees in the future.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken to the Republic that it proposes to offer the Notes for resale (a) to persons they reasonably believe to be QIBs, within the meaning of Rule 144A under the Securities Act, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) in "offshore transactions" (as defined in Rule 902(k) under the Securities Act) in accordance with Rule 903 of Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

To the extent that any Joint Lead Manager that is not a U.S. registered broker dealer intends to effect any sales of the Notes in the United States, it will do so only through its or their selling agents or one or more U.S. registered broker-dealers, which may be its affiliates, or otherwise as permitted by applicable U.S. law.

**United Kingdom**

Each Joint Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

**Italy**

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(a) to qualified investors (investitori qualificati) (the "**Qualified Investors**"), as defined under Article 100 of the Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**"), as implemented by CONSOB (the Italian Securities Exchange Commission) in its Regulation No. 11971 of 14 May 1999, as amended from time to time ("Regulation No. 11971") and its Regulation No. 19160 of 29 October 2007, as amended from time to time ("**Regulation No. 16190**"); or

(b) in circumstances which are exempted from the compliance with the offer restrictions pursuant to Article 100 of the Financial Services Act and Regulation No. 11971, as amended from time to time.

Any offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and Regulation No. (in each case as amended from time to time) and any other applicable laws and regulations and

(ii) in compliance with any other applicable notification requirements or limitation which may be imposed by CONSOB, the Bank of Italy or any other Italian authority.

**The Republic of Macedonia**

Each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold and will not offer or sell the Notes to any person in the Republic of Macedonia other than to certain institutions who are authorised in the Republic of Macedonia within the meaning of the Foreign Exchange Law.

### General

Each Joint Lead Manager has agreed (to the best of its knowledge and belief) to comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Republic nor such Joint Lead Manager shall have any responsibility therefore.

Neither the Republic nor any Joint Lead Manager represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

No action has been or will be taken in any jurisdiction by the Republic or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Republic and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

# GENERAL INFORMATION

**Authorisation**

The creation and issue of the Notes has been authorised by Macedonia, acting through the President of the government of the Republic of Macedonia.

**Listing of Notes**

An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and to have the Notes admitted to trading on the Market; however, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or before the Issue Date, subject only to the issue of the Notes. The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately €4,540.

**Listing Agent**

Walkers Listing & Support Services is acting solely in its capacity as listing agent for the Republic in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Market for the purposes of the Prospectus Directive.

**Litigation**

Except as disclosed on pages 66 and 67 of this Prospectus, the Republic is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Republic is aware) during the previous 12 months which may have, or have had in the recent past, a significant effect on the Republic's financial position.

**Significant Change**

There has been no significant change in relation to the public finances, balance of payments and trade, respectively, of the Republic since the fiscal year ended 31 December 2015.

**Documents available for inspection**

For so long as any of the Notes are outstanding, physical copies of the following documents may be inspected (and in the case of (a), obtainable) during normal business hours at the Specified Office of each Paying Agent:

(a) this Prospectus;

(b) the Fiscal Agency Agreement;

(c) the Paying Agency Agreement;

(d) the Budget of the Republic for the current fiscal year; and

(e) budgetary review bulletins for the last five fiscal years.

**Macedonian Taxation**

Payments of principal or interest in respect of the Notes paid to foreign tax residents are exempt from withholding tax.

### Interested Persons

No person involved in the Offering has any interest in the Offering which is material to the Offering.

### Yield

The yield to maturity of the Notes is 5.875%. The yield to maturity is calculated as at the pricing date on the basis of the Issue Price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes. It is not an indication of future yield.

### Delivery of Global Notes

The Global Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. In respect of the Regulation S Notes, the ISIN is XS1452578591 and the common code is 145257859. In respect of the Rule 144A Notes the ISIN is XS1452578757 and the common code is 145257875.

### Contact Information

The telephone number for the Ministry of Finance is + 389 2 3255 602.

## THE ISSUER

**Ministry of Finance of the Republic of Macedonia**
Dame Gruev 12
Skopje 1000
Republic of Macedonia

## JOINT LEAD MANAGERS

**Citigroup Global Markets Limited**
Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

**Deutsche Bank AG, London Branch**
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

**Erste Group Bank AG**
Am Belverede 1
1100 Vienna
Austria

**Société Générale**
29, boulevard Haussmann
75009 Paris
France

## LEGAL ADVISERS

*To the Republic as to English and United States law:*

**Allen & Overy LLP**
One Bishops Square
London E1 6AD
United Kingdom

**Allen & Overy LLP**
52, Avenue Hoche
75379 Paris
Cedex 08
France

*To the Republic as to Macedonian law:*

**The Ministry of Justice of the Republic of Macedonia**
9 Dimitrija Chupovski Street
Skopje 1000
Republic of Macedonia

*To the Joint Lead Managers as to English and United States law:*

**Clifford Chance LLP**
10 Upper Bank Street
London E14 5JJ
United Kingdom

*To the Joint Lead Managers as to Macedonian law:*

**Polenak Law Firm**
Orce Nikolov 98
1000 Skopje
Republic of Macedonia

## FISCAL AGENT

**Deutsche Bank AG, London Branch**
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

## PRINCIPAL PAYING AGENT

**Deutsche Bank AG, London Branch**
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

## REGISTRAR AND TRANSFER AGENT

**Deutsche Bank Luxembourg S.A.**
2, Boulevard Konrad Adenauer
L-115 Luxembourg
Luxembourg

## IRISH LISTING AGENT

**Walkers Listing & Support Services**
The Anchorage,
17/19 Sir John Rogerson's Quay
Dublin 2
Ireland