IMPORTANT NOTICE

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 ATTACHED 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 ATTACHED DOCUMENT 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. ANY SECURITIES TO BE OFFERED OR SOLD 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. YOU ARE NOT AUTHORISED TO AND MAY NOT FORWARD OR DELIVER THE ATTACHED DOCUMENT, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH DOCUMENT IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED 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. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED TO ACCESS THE ATTACHED DOCUMENT.

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 ("**QIB**") (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 of the Securities Act, 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 of 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 to, and is directed only at, persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply (such persons being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents. Any investment activity (including, but not limited to, any invitation, offer or agreement to subscribe, purchase or otherwise acquire securities) to which this Prospectus relates will only be available to, and will only be engaged with, persons who fall within the manufacturer target market described in this Prospectus.

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 or Erste Group Bank AG (together, the "**Joint Lead Managers**") nor any person who controls any of them or any director, officer, employee nor agent of any 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
(acting through the Ministry of Finance)

€500,000,000 2.750% Notes due 2025
ISSUE PRICE: 98.442%

The issue price of the €500,000,000 2.750% Notes due 2025 (the "**Notes**") of the Republic of Macedonia (the "**Republic of Macedonia**", the "**Republic**", "**Macedonia**" or the "**Issuer**") is 98.442% of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 18 January 2025 (the "**Maturity Date**").

The Notes will bear interest from, and including, 18 January 2018 at the rate of 2.750% per annum payable annually in arrear on 18 January in each year, commencing on 18 January 2019. 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 of 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 8.

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**") which shall be registered in the name of Citivic Nominees Limited, as nominee for, and shall be deposited on or around 18 January 2018 (the "**Closing Date**") with Citibank, N.A., London Branch as common depository for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). 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**

This Prospectus is dated 16 January 2018.

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 level higher than that which might otherwise prevail. However, stabilisation may not occur. 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 cease 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 persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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 U.S. dollars on 2 January 2018 was MKD 50.9697 = USD 1.00 and the official rate published by the NBRM for Euro on 2 January 2018 was MKD 61.4950 = €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 regular revision for a period of up to 270 days following the end of the relevant period. Further revision may occur after this period in certain situations. Accordingly, in this Prospectus, some 2015 data, 2016 data and data for the nine months ended 30 September 2016 and 2017 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 2015 is "final", data for 2016 is "preliminary" and data for the nine months ended 30 September 2016 and 2017 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*."

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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 and Erste Group Bank AG.
"**Issue Price**"	98.442% of the principal amount of the Notes.
"**Notes Offered**"	€500,000,000 2.750% Notes due 2025.
"**Issue Date**"	18 January 2018.
"**Maturity Date**"	18 January 2025 (the "**Maturity Date**").
"**Interest on the Notes**"	2.750% per annum.
"**Interest Payment Dates**"	Interest on the Notes will be payable annually in arrear on 18 January of each year. The first payment of interest in respect of the Notes will be made on 18 January 2019 (the "**First Interest Payment Date**") for the period from and including the Issue Date to but excluding the First Interest Payment Date. 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 3.000% per annum.
"**Status**"	The Notes will 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 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 and Paying 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 the Fiscal and Paying Agency Agreement) 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), 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, 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 annulled and rescinded. 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 2018, for a cash tender offer of up to a maximum aggregate principal amount of €100,000,000 of the Issuer's outstanding €270,000,000 4.875% notes due December 2020 (Regulation S ISIN: XS1318363766, Rule 144A ISIN: XS1318364228) and to repay its maturing public 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 and Paying Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes or the Fiscal and Paying 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. See "*Form of Notes and Transfer Restrictions*".
"**Fiscal Agent and Principal Paying Agent**"	Citibank, N.A., London Branch
"**Registrar and Transfer Agent**"	Citigroup Global Markets Deutschland AG
"**ISINs**"	XS1744744191 Regulation S Global Note XS1746171559 Rule 144A Global Note
"**Common Codes**"	174474419 Regulation S Global Note 174617155 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) 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 (“**Brexit**”). The procedure for withdrawing from the

EU was triggered by the UK on 29 March 2017. The implications of the UK's notification and the outcome of the negotiations with respect to Brexit with the other EU Member States are not yet known. In addition, in March 2017, the European Commission ("**EC**") released a five-point white paper outlining the possible post-Brexit scenarios for the EU, among which a proposal for a multi-speed Europe, in which EU countries would work together on different levels of integration, and a proposal for the EU's gradual recentralisation on the single market. The uncertainty created by the Brexit process may also lead to heightened levels of market volatility both in the EU and globally which could directly affect Macedonia.

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 possible departure of one or more countries from the EU and/or the replacement of the euro by one or more successor currencies, could cause significant market dislocations 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, which could result in Macedonia's inability to use EU development funds. In addition, from time to time, Macedonia has experienced political and/or ethnic tensions, resulting in early Assembly elections for the four 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 were ultimately held on 11 December 2016. In May 2017, a coalition government led by the Social Democratic Union of Macedonia ("**SDSM**")—the main former opposition party—was formed. See "*Overview of the Republic of Macedonia — Overview of the Current Political Situation — Assembly Elections*". This political instability has resulted in deposit outflows from Macedonia's banking sector (which his predominantly foreign owned), lower economic performance and, consequently, a supplemental budget for public expenditure. See "*Economy — 2017 Supplemental Budget*". 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 SDSM claimed that the government formerly led by Nikola Gruevski had 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. 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. In June 2017, the special prosecutor's office created to lead the investigation into the allegations of illegal surveillance charged more than 90 people including former high government officials over their involvement in alleged crimes revealed in tapes that emerged during the surveillance scandal. For further detail, please see "*Overview of the Republic of Macedonia – Political System and Government Structure – Recent Developments – Investigation into claims of illegal surveillance activity*". Political tensions and uncertainties such as these may materially adversely affect Macedonia's agenda for financial initiatives and economic reform.

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 vulnerable 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. Vulnerabilities are also present in the form of increasing government guarantees to state-owned enterprises, estimated at 8.0 % of GDP as at 30 September 2017, up from 2.5% of GDP in 2008. 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 addition, consequences of the Brexit process 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.

In addition, any deterioration in financing conditions as a result of market, economic or political factors outside Macedonia's control could make it difficult for Macedonia to refinance its indebtedness on favourable terms.

Finally, 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 and on Macedonia's credit rating.

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 manufacturing, which, in the nine months ended 30 September 2017, accounted for 82.9% of industrial production in the aggregate, followed by mining and quarrying (9.1%) and electricity, gas, steam and air conditioning supply (7.9%). The largest components of manufacturing are: textiles and clothing (12.6%), food and beverage (15.9%) and machinery and equipment (10.9%). The remainder consisted of miscellaneous manufactured goods. In addition, Macedonia's principal export markets are concentrated, with exports to EU countries accounting for approximately 81.2% of Macedonia's total exports in the nine months ended 30 September 2017. Within the EU, Germany accounted for 46.7% of total exports in during the period, reflecting the increase of recent years in light of the greater importance of the automotive industry in total exports, followed by Bulgaria, Serbia and Greece, which accounted for 6.0%, 4.2%, and 3.8% of total exports, respectively, in the nine months ended 30 September 2017. 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 half of primary energy consumption from 2012 to 30 September 2017. 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. Continued sanctions on the Russian Federation may restrict the supply of oil or natural gas, which could lead to oil and natural gas price increases. 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 30 September 2017, foreign-controlled banks accounted for 70.3% of total assets, 78.1% of total loans and 69.4% of total deposits in the Macedonian banking system. Two of the three largest banks in Macedonia, collectively accounting for 35.2% of total assets of the Macedonian banking system as at 30 September 2017, 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 conditions 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 ability 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 2016 Transparency International Corruption Perceptions Index, Macedonia ranked 90 out of 176 countries and territories under review, compared to a ranking of 66 out of 168 in 2015. 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 repay principal and make payments of interest on 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 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 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 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 21 August 2017, Fitch Ratings affirmed Macedonia's Long Term Foreign and Local Currency at BB (with a negative outlook). On 15 September 2017, 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. In addition, negative rating action could adversely affect Macedonia’s ability to refinance existing indebtedness or finance its deficit and could adversely affect payment of principal and interest under 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 Citivic Nominees Limited as nominee for, and deposited with, Citibank, N.A., 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 €500,000,000 2.750 per cent. Notes due 2025 (the "**Maturity Date**") (the "**Notes**") 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 18 January 2018 (the "**Fiscal and Paying Agency Agreement**") has been entered into in relation to the Notes between Macedonia, Citibank, N.A., London Branch in its capacity as fiscal agent (the "**Fiscal Agent**"), the transfer agent (the "**Transfer Agent**") and principal paying agent (the "**Principal Paying Agent**") and Citigroup Global Markets Deutschland AG in its capacity as registrar (the "**Registrar**").

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 6th Floor Citigroup Centre, Canada Square, London E14 5LB, 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 SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**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 16 January 2018 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 18 January 2018 (the "**Issue Date**") at the rate of 2.750 per cent. per annum. Interest is payable annually in arrear on 18 January in each year commencing on 18 January 2019 (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 €2,750 in respect of each Note of EUR100,000 denomination and €27.50 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 18 January 2025, 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 or on behalf of the Issuer 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 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.

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 Embassy of the Republic of Macedonia in London 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**

Any person who is not a Noteholder has no 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 and Paying 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 and Paying

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 €492,210,000 million before deduction of the combined management, underwriting and selling commission payable to the Joint Lead Managers (see "*Subscription and Sale*") and the Issuer's other expenses of the Offering, will be used by the Issuer for budget support in 2018, for a cash tender offer of up to a maximum aggregate principal amount of €100,000,000 of the Issuer's outstanding €270,000,000 4.875% notes due December 2020 (Regulation S ISIN: XS1318363766, Rule 144A ISIN: XS1318364228) (the "**Tender Offer**") and to repay its maturing public 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 2016 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 64.2% 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 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, combined forces 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. Three seats are reserved for Macedonians living abroad 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. As overseas voter turnout did not reach the required threshold in the December 2016 elections, these seats are currently vacant and will remain vacant until the next election cycle (if the threshold is met at that time).

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 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.

The Assembly

The unicameral Assembly is Macedonia's legislative body. Its powers include amending the Constitution, passing laws and resolutions, and ratifying international agreements. All members of the Assembly serve four-year terms. Assembly elections were held in December 2016, and the next elections are expected to be held in 2020. The Assembly consists of 123 seats in the Assembly of the Republic, of which 120 seats are elected from six constituencies in Macedonia using closed list proportional representation, with seats allocated using the d'Hondt method, which is a highest averages method for allocating seats, and is thus a type of party-list proportional representation. The remaining three seats are single-member constituencies elected by Macedonians living abroad. These overseas seats are only validated if voter turnout reaches a certain threshold. As overseas voter turnout did not reach the required threshold in the December 2016 elections, these seats are currently vacant.

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.

Government

The Government consists of the Prime Minister as the head of the Government, five Deputy Prime Ministers and 20 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 Prime Minister, Zoran Zaev, was confirmed by the Assembly on 1 June 2017. 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).

Recent Developments

Investigation into claims of illegal surveillance activity

Due to insufficient resources available for criminal investigations by the public prosecutor's office in general, and especially the Office for Prosecuting Organised Crime and Corruption in cases of high political significance due to involvement of holders of high political office, in June 2015 the Government of Macedonia established of a special prosecutor's office – the Public Prosecutor's Office for Prosecuting Criminal Offences Related to and Arising from the Content of the Unlawful Monitoring of Communications (the "**SPPO**").

In September 2015, Macedonia's political parties appointed a special prosecutor to lead the investigation into claims of illegal surveillance activity in the Government. Pursuant to the Law on the Special Prosecutor's Office, the special prosecutor had 18 months in which to bring indictments. The charges in these cases involve serious and extensive abuses of institutional powers both by individuals and by organised groups, abuses of official position, as well as abuses of the legal procedures for public procurement. In April 2016, President Ivanov stopped investigations into 56 individuals, including politicians and their associates (one of the 56 subsequently died), 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.

Since the investigative work by the SPPO commenced (in September 2015), it has effectively pursued 24 investigations, 20 of which have led to indictments against a total of 165 persons. The remaining four investigations are on-going, with further developments pending legislative changes to SPPO's mandate described below.

The mandate of the SPPO is regulated under the new strategy for reform of the judicial system, including changes to the law on crime and corruption as well as witness protection, whistle-blowers and a proposed new Law on the Public Prosecutor's Office pursuant to which the SPPO will be transformed into a separate public prosecutor's office with autonomous competence within the Public Prosecutors system, by September 2018. In addition, as part of the reform agenda, the SPPO's mandate will be expanded to include white collar crime.

Elections and protests

The December 2016 elections, conducted in accordance with a political agreement between the Government and the opposition political parties, were expected to resolve the political crisis in Macedonia. However, the process was once again protracted due to actions by the former ruling party, the Internal Macedonian Revolutionary Organisation-Democratic Party of Macedonian National Unity ("**VMRO-DPMNE**" or "**VMRO**"), whose leader and former prime minister, Nikola Gruevski, and other top party officials are facing charges of abuse of power, illegal wiretapping and corruption.

On 27 April 2017, approximately 200 Macedonian nationalists stormed the Macedonian Parliament in Skopje in reaction to the election of Talat Xhaferi, an ethnic Albanian, as speaker of the Assembly and demanding new elections. The protesters physically attacked Assembly members from the SDSM, the Albanian Democratic Union for Integration Party ("**DUI**") and the Alliance for Albanians; more than 100 people were injured during the incident, leading the EU and NATO to condemn the violence. These protests were the result of allegations against the VMRO-DPMNE leader and other VMRO-DPMNE officials regarding abuse of power, illegal wiretapping and corruption.

A new government was finally appointed in Macedonia on 31 May 2017. See "*– Overview of the Current Political Situation – Assembly Elections – June 2015 Agreement and 2016 Elections*".

In October 2017, municipal elections were held. These were the sixth local elections since the independence of Macedonia. International election monitors were present and closely followed the overall election process. In its report, OSCE/ODIHR found that these elections generally show progress in the democratic process in the country and that the confidence of voters in the electoral process is growing. See "*– Local Government*".

3-6-9 Reform Plan

On 4 July 2017, the Government presented the "3-6-9" reform plan ("**Plan 3-6-9**"), which contains proposed reforms that reflect the strategic priorities of the Republic of Macedonia, specifically EU and NATO membership. Plan 3-6-9 is divided into three parts and involves sets of reforms expected to be implemented within three, six and nine months from the announcement.

Plan 3-6-9 priorities for reform include:

- *Judiciary*. The reforms will continue towards building an independent, professional and efficient judicial system in line with the European standards and best practices and restoring the public confidence in the judicial system.

- *Intelligence services*. The focus will be on ensuring sustainable solutions designed to prevent misuse of the system and ensuring its proper functioning in line with the legal requirements.

- *Public administration*. The focus remains on ensuring depoliticisation and professionalisation of the public administration in line with the principles outlined by the SIGMA joint initiative of the Organisation for Economic Cooperation and Development ("**OECD**") and the European Union ("**SIGMA**").

- *Fight against corruption and organised crime*. The Government will focus on fighting all forms of corruption and organised crime in a transparent manner, with equal treatment for all.

- *Fight against terrorism and violent extremism*. The Government will focus on undertaking measures adequately to respond to this challenge, starting by adopting counter terrorism and counter violent extremism strategies and action plans.

- *Migration.* The Government will continue the negations on the Status Agreement with the European Border and Coast Guard Agency ("**Frontex**") towards its finalisation. The Law on International and Temporary Protection (Law on Asylum) and the Law on Foreigners will be adopted in order to align them with European legislation, also referred to as the *acquis communautaire* (the "**EU Acquis**" or "**Acquis**"). Capacity and coordination among governmental agencies for integrated border management will be strengthened.

- *Electoral Reform*. The election reform will remain among the Government's priorities with focus on addressing the Organisation for Security and Co-operation in Europe's Office for Democratic Institutions and Human Rights ("**OSCE/ODIHR**") and Council of Europe expert recommendations well in advance of the next presidential elections.

- *Media and Civil Society*. The Government will focus on preventing any form of undue pressure or influence and ensuring a free media and building partners with civil society.

In the three-month segment, progress has been made in implementing the measures included in Plan 3-6-9 and concrete achievements have been made in all areas in preparation for further reforms in the following period. These achievements include the following:

- *Elections*. Local elections were held and the Government publicly expressed its support for free, direct and democratic elections and instructed all office holders and state employees not to abuse state property for election purposes.

- *Judicial reform*. The Council for Judicial Reforms was established; the draft Strategy for Reform of the Judicial Sector was revised in line with EC recommendations; judicial legislation was drafted in consultation with the Venice Commission (an advisory body of the Council of Europe, composed of independent experts in the field of constitutional law (the "**Venice Commission**")); the inspection of the Automated Case Management Information System ("**ACMIS**") is on-going.

- *Intelligence and securities services reform*. The Government determined the model for reform; an inter-sectoral working group has been established to prepare the reform plan (including the political opposition and civil society organisations ("**CSOs**")).

- *Public administration reform*. A new strategy is being prepared with the experts from the SIGMA. Certain information determined to be of public interest has been declassified, government transparency has increased, and a new public financial management strategy has been drafted in consultation with stakeholders. The Law on Administrative Servants has been amended to enable the promotion of civil servants.

- *Civil society and media*. The Government and CSOs have consulted on the establishment of a council to enhance cooperation between the two groups. In addition, in consultation with media stakeholders, the Government published a detailed overview of the allocation of State funding to support CSOs.

With respect to the six-month segment of Plan 3-6-9, on 15 November 2017, the Government adopted Plan 3-6-9+ which contains a range of reforms, some of which were implemented in December 2017. The Plan 3-6-9+ reforms include the following:

- *Judicial reform*. The Strategy for reform in the judicial sector was adopted on 28 November 2017, with a detailed action plan. The Law on the Annulment of the Council for Determining the Facts, including amendments to the Law on the Judicial Council are in parliamentary procedure and passed the first reading in December 2017.

- *ACMIS*. The inspection of the ACMIS system for the allocation of the court cases is on-going. The working group has completed its inspection at the Skopje 1 Basic Court, the Supreme Court and the Court of Appeal in Skopje. It will continue in the other three Appellate courts and the three basic courts in 2018.

- *Intelligence and securities services reform*. The Plan for Reforms indicating all legislative and operational measures was adopted on 28 November 2017. A separate Technical Operative Agency will be established to host the equipment from Administration for Security and Counterintelligence. The legislation has been drafted in consultation with the public via the portal of the Ministry of Information Society and Administration, which is a national electronic regulations registry of the Republic (ENER), put in place to increase private sector and NGO involvement in the process of creating economic policies and legislation affecting business in Macedonia.

- *Public administration reform*. A draft Public Administration Reform Strategy and the Draft Action Plan were drafted in line with SIGMA recommendations, in consultation with the EC. Due to increased transparency, the public now has access to the agendas and the adopted minutes of Government sessions and briefings.

- *Fight against corruption and organised crime*. This area remains a priority for the government, with a focus on implementing the previous Council of Europe's Group of States against Corruption ("**GRECO**") recommendations and preparing a strategy for financial investigations and the confiscation of assets. Senior government representatives have signed a declaration on the fight against corruption.

With respect to the nine-month segment of Plan 3-6-9, this reform package is expected to be implemented before the release of the next European Commission country report in spring 2018.

Plan 3-6-9+ is intended to restore trust in the rule of law and democratic functioning of the institutions, and is designed to ensure a thorough, irreversible reform process as well as prepare the administration for the opening of the accession negotiations with the EU.

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 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**"), each of the 27 Basic Courts covers 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 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 governments 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 2015, the Council of Europe issued an opinion on the Laws on Disciplinary Liability and Evaluation of Judges of "The Former Yugoslav Republic of Macedonia" to improve the accountability of the Macedonian judiciary. It provided guidelines as to necessary revisions relating to, *inter alia*, disciplinary violations and sanctions, dismissal of judges and disciplinary bodies and procedures. The requirements of the Council of Europe have been fully implemented in the proposed changes to the Law on the Judicial Council, which have been accepted by the Government and are pending adoption by the Assembly.

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.

Judicial System Reform

As part of Plan 3-6-9, the Government has conducted a full revision of the draft strategy for reform of the judicial system (2016 to 2020) (the "**Strategy**"), which 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.

The revised Strategy sets out guidelines for improving the judiciary system by overcoming existing normative and institutional deficiencies within the system, as well as interference by the executive branch and the influences of partisanship as the primary causes of problems in the judicial sector. In addition, these guidelines aim to create an environment for the proper application by the judiciary of principles of liability, which have been lacking in recent years, primarily in the courts and the public prosecutor's office. Normative measures set out in the revised Strategy will result in reopening legal decisions handed down after 2009, as analyses indicate that the normative disorder in the penal, administrative, misdemeanor and civil law sectors generally started around that time and continues to persist.

With the adoption of the revised Strategy on 28 November 2017 and its subsequent implementation, the Government has committed itself to implement reforms in the judiciary whose main goal is to restore the confidence in the institutions by providing more certainty and access to a more impartial judicial system.

Anti-Corruption measures

Reducing crime and corruption is a strategic priority for Macedonia. Programmes for the prevention and repression of corruption and 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. Under the Plan 3-6-9, oversight of corruption investigations has been transferred to the SPPO.

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". In January 2018, amendments to the law will be submitted to the Assembly to further align the law with international best practices and with the recommendations of the Venice Commission. In addition, to support the implementation of this law, a public awareness strategy is being developed to encourage a 'whistle-blowing culture' to fight organised crime and corruption.

The 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. The Government is currently undertaking activities to address GRECO recommendations for the fourth round of evaluations, with activities related to GRECO's fifth evaluation round having started in March 2017.

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 judicial 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*", which was completed in October 2016, enhanced the implementation of the national anti-corruption legal framework, strengthened national mechanisms for the prevention of corruption and promoted 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. As part of these efforts to improve the anti-corruption framework, a number of IT solutions for record keeping and secure software development were developed (including a register of elected and appointed officials and an IT system for collecting and processing corruption prevention and repression statistics which is currently in testing). Analysis of the anti-corruption legal and institutional framework is on-going and preliminary recommendations have been discussed with relevant policy makers.

In support of these measures, the budget of the SCPC has increased in recent years, including by approximately 47.9% in 2015 as compared to 2014, before stabilising in 2016 and 2017, including an increase of approximately 1.8% in 2016 (compared to 2015) and a decrease of approximately 5.3% (compared to 2016) to reach MKD 31.8 million and MKD 30.1 million, in 2016 and 2017, respectively. The State Commission has also increased its number of employees and expects to continue growing and hiring additional personnel in the anti-corruption department. As of the beginning of April 2016 the Secretariat of the SCPC employed 23 persons, with a further four agents in the Department of Anti-corruption 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 on-going to implement Council of Europe - GRECO recommendations and to determine the need for additional amendments in anti-corruption legislation. 28 out of 51 positions envisaged in the systematisation act of the SCPC Secretariat are currently filled.

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 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 October 2017. These were the sixth local elections since the independence of Macedonia. International election monitors were present and closely followed the overall election process. In its report, OSCE/ODIHR found that these elections generally show progress in the democratic process in the country and that the confidence of voters in the electoral process is growing.

Historically, political parties in Macedonia were ethnically based. However, the results of the municipal elections held in October 2017 indicate that the parties such as the SDSM, the DUI and the Alliance for Albanians, are working together in support of the new Government, which has contributed to increased domestic stability.

Subsequent to the October 2017 local elections, the SDSM controls 59 out of Macedonia's 81 municipalities compared to four following the 2013 local elections. The VMRO, which held 57 municipalities following the 2013 local elections, lost 52 municipalities in the 2017 elections. The Alliance for Albanians, which did not hold any municipalities following the 2013 elections, elected three mayors in 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.

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 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 11 December 2016, which was early following a vote for dissolution of the then-ruling Assembly. These December 2016 Assembly elections were the fourth early elections in Macedonia and the voting participation rate was approximately 67%. Six political parties won seats in these elections: the VMRO-DPMNE, the SDSM, the DUI, the Besa Movement, the Alliance of Albanians and the Democratic Party of Albanians ("**DPA**"). Since 2006, the VMRO DPMNE has captured the largest share of the vote in Macedonian elections. The following table sets out the share of the vote in the election and the number of Assembly seats awarded to each party:

Party	**Seats awarded**	**Share of the vote**
		(%)
VMRO-DPMNE (including coalition members)	51	39.39
SDSM (including coalition members)	49	37.87
DUI	10	7.52
Besa Movement	5	5.01
Alliance of Albanians	3	3.04
DPA	2	2.68
Other(1)	0	4.48
Total	**120**(2)	**100.0**

Note:
(1) "Other" represents all parties that did not receive a sufficient share of the vote to be awarded a seat in the Assembly.
(2) No candidates surpassed the required threshold to win the 3 seats reserved for Macedonians abroad.
Source: The Assembly of Macedonia (Sobranie)

The early elections in 2016 followed a two-year long political turmoil in the country. In the 27 April 2014 election, Gjorge Ivanov was re-elected with a plurality of votes. The 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 the April 2014 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. See *"—Recent Developments—*Investigation into claims of illegal surveillance activity".

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 the United States expressed a view that satisfactory conditions for credible elections had not been met. The Assembly was dissolved in April 2016 ahead of the planned June elections. In response, the SDSM and other opposition parties announced that 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. The election was eventually held on 11 December 2016, with the VMRO-DPMNE winning 51 out of 120 seats in Macedonia's parliament. On 27 April 2017, approximately 200 Macedonian nationalists stormed the Macedonian Parliament in Skopje, physically attacking Assembly members from the SDSM, DUI and the Alliance for Albanians and leaving more than 100 people were injured. These protests were the result of criminal allegations against the VMRO leader and other VMRO officials. See "*– Recent Developments – Elections and protests*". On 31 May 2017, six months after the election, the Macedonian parliament voted in a new coalition government led by the SDSM and two ethnic Albanian junior coalition partners: the DUI and DR-DPA (itself a coalition of smaller parties, led by the mayor of Struga).

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 early 1990s were to gain international recognition and to join the United Nations. 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 all major international organisations, multilateral and regional organizations and institutions, including 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. Macedonia was the initiator and one of the founders of both the Charter of Partnership between Macedonia, Albania, Croatia and the United States (the "**US-Adriatic Charter**") and was also among the founding NATO partners active in the South East Europe Security Cooperation Steering Group (the "**SEEGROUP**"), holding the Chairmanships in both in 2017. See "*Overview of the Republic of Macedonia — International Relations— Regional Relations*".

In recent years, Macedonia has experienced large inflows 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 "Balkans Route", a transit route for many migrants from Syria, Iraq and Africa, although the majority of them were only transiting through Macedonia and left the country after a few days, finally resulting in 86 persons filing asylum applications during 2015. Between 1 January 2015 and 1 January 2017, over 800,000 migrants and refugees transited through Macedonia. In August 2015, the Government officially declared a state of emergency at the southern and northern border, which remains in effect. The decision to allow entry and transit only to migrants in need of international protection originating from the countries of armed conflict (i.e., Syria, Iraq and Afghanistan) led to a decrease in total inflow of migrants, but has also prompted an increase in the number of attempts of illegal crossing of the Greek-Macedonian border. Macedonia continues to implement measures in line with the European Council decisions on the closure of the Balkans Route. Law enforcement authorities continue to handle the refugee crisis in a responsible and professional manner, with humanitarian assistance and treatment provided in accordance with all 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. Following the EU-Turkey Summit held in March 2016, the flow of migrants through the Balkans Route has significantly declined.

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.

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.

In June 2001, the Government prepared a matrix as an instrument for monitoring the implementation of the **SAA** between the Republic of Macedonia and the European Communities and their member states, which encompasses of approximation of legislation and law enforcement actions to be taken, including reform of the judiciary. 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 October 2009, based on Macedonia's progress in implementing the SAA guidelines, as well as general political and economic reformation, it was recommended that Macedonia move to the second stage of the SAA (pursuant to Article 5 therein). The European Commission recommended that Macedonia open accession negotiations. 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.

Following the significant progress that had been made in the areas of justice, freedom and security and the achieved benchmarks, the visa obligation for citizens of the Republic of Macedonia was lifted on 19 December 2009 allowing them to freely travel to and within the EU from December 2009.

The Republic of Macedonia has continued to make progress towards full compliance with the SAA. April 2014 marked the ten-year anniversary of entry into the SAA, the implementation of which 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

Prior to Macedonia's accession to the EU, the country must fully harmonise with 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.

High-level Accession Dialogue (HLAD)

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.

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—Assembly Elections—June 2015 Agreement and 2016 Elections*".

IPA assistance

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 I 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, (v) environment and climate change, (vi) education and employment, (vii) agriculture and rural development and (viii) regional and territorial cooperation. Unlike the strict separation of funds imposed during IPA I, IPA II is result-oriented which allows funding in sectors that meet the requirements of the sector approach and also permits direct and indirect management. The IPA II remains in the early stages and funding amounts received to date have been negligible.

NPAA

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**"). The NPAA is a key strategic document encompassing the priorities, dynamics of harmonisation of the national legislation with the EU legislation, as well as adjustments to national institutions towards EU administrative structures. In 2016, the NPAA (subsequently revised in 2017 (the "**NPAA Revision 2017**")) was prepared, marking 11th revision of this Programme.

The NPAA Revision 2017 kept the same methodology for preparation (i.e., its content includes plans for harmonisation of the national legislation with the EU legislation, the necessary dynamic for strengthening the institutions for implementation of the legislation, as well as the necessary resources for realisation). Special attention was paid on the linkage between the NPAA priorities and the Urgent Reform Priorities, the recommendations of the senior expert group on the rule of law issues, high level accession dialogue obligations as well as the Economic Reform Program ("ERP") and the South East Europe 2020 Strategy.

Starting in 2015, the European Commission applied a new reporting methodology to selected areas of the chapters, which aims to provide a clearer picture of the necessary reforms and increase comparability among countries, as well as to put the focus on status in relation to readiness for membership.

According to this new EC methodology applied to the NPAA 2017 revision, apart from the areas that had been selected in 2015: rule of law and fundamental rights (functioning of the judiciary, fight against corruption, fight against organized crime, freedom of expression), public administration reform, public procurement, statistics, and the financial control, new areas were selected under the new EC methodology, including the free movement of goods, competition policy, transport policy, energy, certain elements relating to justice, freedom and security, and the environment. In addition, the NPAA audit focuses on further analysis of the Acquis and its connection with national legislation.

Pursuant to the Plan 3-6-9, the Government is pursuing internal reforms to restore trust and confidence in, among others, the Macedonian judiciary, police and intelligence services to create sustainable reform of public administration and institutions in order to strengthen Macedonia's position for EU integration. Macedonia has also improved and strengthened its relations with neighbouring countries, which has been welcomed by the EU.

The NPAA will be revised in line with the recommendations of the upcoming spring report of the European Commission on the Republic of Macedonia, as well as other priorities related to the EU integration process towards start of the accession negotiations.

NATO Accession

Membership of NATO is 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 Programme and the Euro-Atlantic Partnership Council. Under the NATO Membership Action Plan (the "**NATO MAP**"), Macedonia launched major political, democratic, economic, security and defence reform efforts. Macedonia acts as a de facto NATO ally through its contribution of troops to NATO's operations. Macedonia has expressed its commitment to increase its participation in the Mission "Resolute Support" in Afghanistan and to continue with its contribution to other UN and EU missions as well.

In 2003, Macedonia, Albania and Croatia with support from the United States founded the US-Adriatic Charter, later joined by Bosnia and Herzegovina and Montenegro, with Serbia and Kosovo as observers. The US-Adriatic Charter is an initiative which promotes the regional stability and Euro-Atlantic integration of all countries in southeast Europe by bolstering political, defence and economic cooperation among the partners and between them and their neighbours. In 2017, the Macedonian and Montenegrin Prime Ministers Zaev and Markovic co-chaired a summit in Podgorica, Montenegro which was also attended by US Vice President Pence. In this summit, Charter-member countries reiterated their commitment to NATO membership.

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 2017, Macedonia concluded its 17th NATO MAP cycle and officially opened its 18th MAP cycle on 11 December 2017. In 2016, Macedonia's Parliament 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 and the United States' military troops under the Iraq and Afghanistan missions aimed at achieving the common goals of promoting international security and countering terrorism.

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 addition, Macedonia actively participates in regional initiatives aimed at improving cooperation, interconnectivity, stability and sustainable development of the region (including SEECP, RCC, CEI, WB6, WBF, MARRI, SELEC, SEEHN, RESPA and RACVIAC). 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 Athens and Skopje, respectively. In October 2004, Macedonia opened a trade and consular office in Thessaloniki; 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, differences 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. In total, six Meetings on Confidence Building Measures (**MGDs**) have been held, with the most recent being held on 29 August 2017. The MGDs aim to develop mutual trust and cooperation and create favourable conditions for settling the dispute.

In addition, substantial progress has been made through increased dialogue between the Foreign Ministers of Macedonia and Greece, each returning official visits in Athens and Skopje, respectively, in 2017. At the meetings, the two ministers pledged to continue the dialogue at political and expert levels to develop a positive climate in the relations between the two countries. The countries are pursuing a more open approach: Greek and Macedonian universities are also working together to solve regional problems.

In accordance with the relevant resolutions of the UN Security Council and applicable international law, Macedonia remains committed to continue to participate actively, in good faith, in the process to find a mutually-acceptable solution on the difference over the name. The UN has established a framework for negotiations regarding the dispute, with an initial meeting scheduled for December 2017. Both countries have shown political will towards finding a resolution.

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. The two countries share a vision for a prosperous and interconnected region, integrated within the EU and NATO.

In 2017, with the election of new governments in both countries, relations have improved, with bilateral and regional cooperation being more forward looking, cooperative and transparent. Open political dialogue on issues of mutual interest is accompanied with new initiatives for cooperation across a number of areas. The two countries share commitments to strengthen good neighbourly relations, improve interconnectivity and intensify economic cooperation, as well as to develop regular political dialogue at all levels. On 25 July 2017, Macedonian Foreign Minister Nikola Dimitrov paid an official visit to the Republic of Albania, to be followed by political consultations between the two foreign ministers in preparation of the first joint government meeting between the countries in December 2017.

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.

On 1 August 2017, Macedonian Prime Minister Zaev and Bulgarian Prime Minister Borisov signed a bilateral treaty of friendship, good neighbourly relations and cooperation, with both sides confirming their commitment to a European spirit of cooperation and progress, which will directly contribute to the mutual development of the relations among and stability of the countries and the region. During this visit, two Memoranda of Cooperation for Energy and for Railway Connection were signed, aimed at intensifying cooperation in the areas of infrastructure and energy connectivity between the countries and the region as a whole. In addition, on 23 November 2017, Macedonia and Bulgaria held the first joint government meeting in Macedonia.

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 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$2 billion as at 30 September 2017. 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 the current Country Partnership Strategy ("**CPS**") which extends through 31 December 2018. The current portfolio includes the following on-going 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.

- *Municipal Service Improvement Project I and II 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.

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. From 1998 to 30 September 2017, the total value of all finance contracts signed with EIB is approximately €665 million (including concluded loans and issued guarantees by the Government).

The EIB supplied funding to build a motorway section situated on Corridor X, which was 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*"). The EIB also supports a Water Supply and Wastewater Collection

Project, which includes 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 loans will be secured for both phases at the end of 2018.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (the "**EBRD**") has been active in Macedonia since 1993, with its latest strategy for Macedonia being adopted in 2013. Under this strategy, 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 "—Projects jointly financed by international 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 in 2019.

- *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.

- *National Roads Programme*. The purpose of this project is to assist in the construction of two new national road sections, as well as the rehabilitation of 26 national roads. Construction works for the two new road sections began in 2016. The rehabilitation of the other road sections is expected to begin in 2018.

- *Construction of Stip – 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, two new electric passenger units and four new diesel passenger units have already been purchased and four electric locomotives are planned to be purchased in 2019.

In addition to the activities for the implementation of on-going projects, 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) Gostivar – Kicevo Motorway Project, which is located in western Macedonia and will form part of the Trans-European Corridor VIII motorway.

Council of Europe Development Bank

The Council of Europe Development Bank (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 Stip. 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.

Projects jointly financed by international 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.

- *Waste Water Treatment Plant (WWTP) Skopje.* This project is intended to improve the quality of wastewater treatment services in Skopje and bring these in line with European standards through the construction of a Central WWTP, with capacity to meet the needs of 518,000 inhabitants (or 650,000 population equivalent) by 2045. The construction of WWTP is expected to begin in 2020.

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

- *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 Japan International Cooperation Agency. According to the Final Report issued in December 2015, the total investment will amount to approximately €47.5 million.

Kreditanstalt für Wiederaufbau

Cooperation with the Kreditanstalt für Wiederaufbau (the "**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). Operations in the water supply systems in four municipalities (Radovis, Gevgelija, Kavadarci and Gostivar) are expected take place between 2018 and 2020 as part of the second stage of Phase I.

- *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.

In addition to the above, the Republic is working with the KfW to prepare for the second phase of the Wind Park Bogdanci Project, which will expand the existing wind farm in Bogdanci by adding 6 more turbines, which will increase total capacity by 13.8 MW.

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 2018.

Deutsche Bank and Erste Group Bank AG

- *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 2019.

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 2018, and the construction of the highway section Kicevo – Ohrid is expected to be finished in the first half of 2019.

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.

At the date of this Prospectus, there are several cases against the Government in front of the European Court of Human Rights ("**ECHR**"), with potential damages (on a per case basis) ranging from €175,000 to €810,000. In seven of these cases, the applicants have presented their claims, but these are still pending before the ECHR. Some of these cases are in a preliminary phase of proceedings; therefore no outcome can be foreseen at the present time. However, in one of these cases, the ECHR has entered judgment against the Government, but has not ruled on the applicants' claims relating to pecuniary damages, as well as costs and expenses incurred in this phase of the proceedings, in respect of which the proceedings are still before the ECHR.

In an additional case, the applicants have asserted damages of approximately €51 million, which claim is supported by an expert report. However, the case is in the very early stages and the ECHR has not yet decided on the admissibility and merits of the applicants' case. The Government filed its initial reply on 15 December 2017. In another case the ECHR has entered judgment against the Government but has not decided the applicants' claims relating to pecuniary damages, as well as costs and expenses incurred in this phase of the proceedings, in respect of which the proceedings are still before the ECHR. The applicants have asserted damages of approximately €2 million, which claim is supported by an expert report. These two cases are the only cases that are outside the €175,000 to €810,000 range.

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 23.7% by 31 December 2016. 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. As part of the Government's Plan 3-6-9, it is implementing a wide range of further internal reforms, beginning with the most critical reforms, to better position Macedonia for potential EU membership in advance of the February 2018 announcement of the EU's enlargement strategy. See "*Overview of the Republic of Macedonia – Political System and Government Structure – 3-6-9 Reform Plan*".

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. Currently, there are eight operational TIDZs in Macedonia, six additional TIDZs were established by Government decision between 2012 and 2015 but are not yet functional, and an additional three TIDZs are contemplated by the Government. There are 24 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 country has continuously ranked among the top reformers in facilitating business for several years according to the World Bank's *Doing Business* reports, which was confirmed in the most recent *Doing Business 2018 report*, that ranked Macedonia 11 out of 190 countries. As such, Macedonia ranked ahead of all countries in the region and 25 EU member states, (all except Denmark, the United Kingdom and Sweden), while its ranking was also highest among the upper middle income countries. Macedonia was also ranked second (after Georgia) among the 20 highest ranked countries in terms of the number of business regulation reforms implemented with a total of 41 reforms since the report's launch in 2003. According to the *Doing Business 2018* report, Macedonia ranks fourth in terms of protecting minority investors, mostly as a result of the increased transparency in reporting of corporate transactions as well as the enhanced role of minority investors in corporate management. Macedonia also ranks highly in terms of the ease of obtaining credit following regulatory changes in the definition of collateral and the introduction of a unified collateral registry. The table below shows the comparative ranking of Macedonia against selected neighbouring countries in this report.

	Macedonia	**Montenegro**	**Croatia**	**Romania**	**Serbia**	**Bulgaria**
	Ranking					
Ease of Doing Business ..	11	42	51	45	43	50
Starting a Business	22	60	87	64	32	95
Dealing with Construction Permits ...	26	78	126	150	10	51
Getting Electricity	53	127	75	147	96	141
Registering Property	48	76	59	45	57	67
Getting Credit	12	12	77	20	55	42
Protecting Minority Investors	4	51	29	57	76	24
Paying Taxes	29	70	95	42	82	90
Trading Across Borders..	27	44	1	1	23	21
Enforcing Contracts........	35	42	23	17	60	40
Resolving Insolvency	30	37	60	51	48	50

Source: Doing Business 2018, World Bank

Macedonia's low tax policy over the past decade has earned it a high ranking in terms of overall taxes, according to the World Bank and PricewaterhouseCoopers *Paying Taxes 2017 report*, Macedonia ranks ninth in comparisons of overall taxes. This high rank reflects the fact that no corporate income tax is levied on reinvested profits, an absence of labour taxes to be paid by the employer and low levels of "other" taxes (including 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%.

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					Nine months ended 30 September
	2012	2013	2014	2015	2016	2017
Real GDP growth (%)	(0.5)	2.9	3.6	3.9	2.9	(0.4)
Inflation (CPI)	3.3	2.8	(0.3)	(0.3)	(0.2)	1.1
Budget deficit (% of GDP)	3.8	3.8	4.2	3.5	2.7	1.8
Change in budget deficit (%)[1]	54.4	8.6	14.9	(12.2)	(17.4)	21.7
Central Bank bills interest rate (%)	3.8	3.3	3.3	3.3	3.7	3.3
Unemployment (%)[2]	31.0	29.0	28.0	26.1	23.7	22.6
Change in the number of unemployed persons (%)[3]	(0.8)	(5.2)	(3.0)	(7.4)	(9.6)	(5.2)

Note:
(1) Calculated as the percentage change in the budget deficit as compared to the previous year for 2012, 2013, 2014, 2015 and 2016 and the same period in 2016 for the nine months ended 30 September 2017.
(2) Calculated as the average unemployment rate over the period.
(3) Calculated as the percentage change in the number of unemployed persons for the period as compared to the previous year for 2012, 2013, 2014, 2015 and 2016 and the same period in 2016 for the nine months ended 30 September 2017.

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

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 39.0% 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%, decreasing from 3.3% in the previous year, largely reflecting 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 40.6%.

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 3.6% in 2014, driven primarily increased exports and investment. Exports of goods and services grew by 16.5% in real terms, accompanied by a change in export structure with a greater focus on higher value-added goods. Gross investment in 2014 grew by 10.7% 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 14.1% in real terms. Consumption, driven by growth in private consumption of 2.2%, also made a positive contribution to economic growth, which increased by 2.4% 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%. In 2014, a moderate strengthening of the nominal growth of average wages was observed: the average net wage in 2014 increased by 1.0% on a nominal basis compared to 2013, whereas in real terms it increased by 1.3%.

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 in 2015 was 3.9%. Output growth was primarily driven by gross investment, which increased by 8.3% largely due to the increase in gross fixed capital formation.

Consumption increased by 4.3%, reflecting increases in both private and public consumption. Private consumption increased by 4.4%, mostly as a result of growth in household disposable income and an increase in household credit. Public consumption growth amounted to 3.9%, reflecting an increase in budget expenditure for goods and services. Strong export growth continued in 2015, amounting to 8.5%. Net exports, however, contributed negatively to GDP growth, while imports grew by 9.9%.

Construction activity increased by 8.0% in 2015, partly as a result of the fiscal stimulus in connection with budget expenditures on infrastructure projects. The services sector increased by 4.9%, primarily as a result of increased activity in the information and communication sectors and financial and insurance services. Industrial production in 2015 increased by 4.9%, primarily as a result of increased production in manufacturing and various governmental measures undertaken to improve the business climate. Agricultural output increased by 1.9%.

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 negative inflation and favourable developments in the external sector, the NBRM 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 3 percentage points 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 in 2016 was 2.9%, as a result of the positive contribution from domestic demand, with gross capital formation increasing by 13.3% and final consumption by 2.8% in real terms. Export growth continued in 2016, amounting to 8.1% in real terms, though net exports weighed on output growth as imports increased at a faster pace (by 11.6%), amid strong domestic demand. Analysed by sector, construction activity continued to register strong performance, increasing by 11.9% year-on-year, primarily due to an increase in civil engineering work in connection with infrastructure projects. The services sector also continued to exhibit strong growth, primarily as a result of increased activity in the trade, information and communication sectors and professional, scientific and other services. The contribution of agriculture and the industrial sector to GDP was also positive, registering an increase of 2.8% and 1.4%, respectively.

Inflation in 2016 was negative 0.2%, largely as a result of the decline in oil and energy prices. The NBRM increased the interest rate of CB bills to 4.00% in May 2016, as a response to increased political uncertainty in the country and a rapid decrease in deposits, and maintained it at this level until December 2016, when it was decreased to 3.75% as a step toward reaching the long-standing target interest rate of 3.25%. Bank support to the private sector continued, with total credits increasing by 6.5%[1] annually in December 2016, while total banking deposits increased at annual rate of 5.7%.

The unemployment rate continued to decline in 2016, reaching 23.1% in the fourth quarter, which was 1.5 percentage points lower than the rate in the fourth quarter of 2015. The employment rate also increased, reaching 43.5%.

[1] This growth rate does not take into account changes in loans affected by the NBRM Decision with respect to the non-performing loans, which requires banks to transfer all claims that have been fully provisioned for more than two years from the on-balance sheet to the off-balance sheet record by 30 June 2016, i.e. where the bank has identified and fully covered the risk of default at least two years before.

Total budget revenues in 2016 increased by 5.1% compared to 2015, which is largely due to the higher tax collection rate. Tax revenues accounted for approximately 59.0% of total revenues, representing an increase of 7.7% compared to the previous year. Social contributions have increased by 5.0% compared to 2015 and accounted for approximately 30% of total revenues. Total budget expenditures increased by 2.6% compared to 2015. The budget deficit amounted to 2.7% of GDP from 3.5% of GDP in the previous year.

2017

Real GDP showed a negative growth rate of 0.4% in the nine months ended 30 September 2017 due to a significant decrease in infrastructure investments due to delays in road works and highway construction as a result of the prolonged political crisis, which led to a 5.9% decrease in gross investment during the period. While attempts have been made by the new coalition Government to remedy the delays, as of the date of this Prospectus, highway construction projects remain behind schedule. Consumption in the period grew by 2.1%, largely due to a 2.9% increase in private consumption, whereas public consumption decreased by 1.4%. Export growth remained robust, increasing by 8.1%, while imports registered an increase of 6.7%. When analysed by sector, the decrease in gross fixed investment reflected an 11.5% decrease in the construction sector and a decrease of 3.9% in the industrial sector. In the nine months ended 30 September 2017, the agricultural and services sectors increased by 4.2% and 1.1%, respectively.

Inflation in the nine months ended 30 September 2017 was 1.1%, primarily due to increases in the prices of communication services, alcoholic beverages and tobacco, and transport, of 8.2%, 6.1% and 4.6%, respectively. The unemployment rate continued to decrease and, in the third quarter of 2017, fell to 22.1%. The employment rate reached 44.2% in the same period.

The NBRM has completed its plans to restore the interest rate of CB bills to the long-standing target level of 3.25% by decreasing such rate to 3.50% in January and subsequently to 3.25% in February 2017. The total level of bank loans as of September 2017 increased by 4.3% compared to September 2016. At the same time, the level of bank deposits increased by 6.0%.

Total budget revenues in the nine months ended September 2017 increased by 4.1% compared to the same period in 2016. Tax revenues increased by 3.7% and accounted for approximately 59% of total revenues, while the social contributions grew by 4.4% and accounted for 29% of the total revenues. Total expenditures increased by 5.3%. The budget deficit in the same period was 1.8% of GDP.

Gross Domestic Product

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

	Year ended 31 December					Nine months ended 30 September
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
GDP at current prices (MKD millions)...........	466,703	501,891	527,631	558,954	598,881	453,903
GDP at current prices (€ millions)..................	7,585	8,150	8,562	9,072	9,723	7,369
Real GDP growth (%) ..	(0.5)	2.9	3.6	3.9	2.9	(0.4)
GDP per capita (€)........	3,680	3,948	4,141	4,382	4,691	–[(1)]

Note:
(1) Per capita GDP is only available for annual data.
Source: State Statistical Office.
Note: Data for 2014 and 2015 are final, for 2016 preliminary and for 2017 estimated.

Macedonian average real GDP growth rate from 2012 to 2016 was 2.6%, which compares favourably to other countries in the region. The table below sets forth comparative GDP growth rate data for the region.

Gross domestic product, constant prices (% change)

	2012	2013	2014	2015	2016	Average
Albania	1.4	1.0	1.8	2.2	3.4	2.0
Bosnia and Herzegovina....................	-0.9	2.4	1.1	3.0	2.0	1.5
Bulgaria	0.0	0.9	1.3	3.6	3.4	1.9
Croatia	-2.2	-1.1	-0.5	2.2	3.0	0.3
Greece	-7.3	-3.2	0.4	-0.2	0.0	-2.1
Serbia...	-1.0	2.6	-1.8	0.8	2.8	0.7
Slovenia	-2.7	-1.1	3.0	2.3	3.1	0.9

Source: International Monetary Fund, World Economic Outlook Database, October 2017

GDP by sectors

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

	Year ended 31 December					Nine months ended 30 September
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
	(*MKD millions, reference year 2005*)					
Agriculture	28,439	30,878	31,842	32,433	33,337	24,200
year on year change (%)	(16.0)	8.6	3.1	1.9	2.8	4.2
Industry	46,893	48,642	54,230	56,866	57,687	40,586
year on year change (%)	(6.7)	3.7	11.5	4.9	1.4	(3.9)
Construction	35,859	40,434	42,498	45,903	51,358	32,865
year on year change (%)	(2.8)	12.8	5.1	8.0	11.9	(11.5)
Trade, transportation and storage, accommodation and food service activities	60,444	67,158	69,226	70,186	73,143	58,797
year on year change (%)	7.5	11.1	3.1	1.4	4.2	6.9
Information and communication	20,015	20,971	21,688	24,591	26,181	20,213
year on year change (%)	(0.6)	4.8	3.4	13.4	6.5	3.5
Financial and insurance activities	14,249	14,045	15,936	17,321	17,470	12,814
year on year change (%)	17.4	(1.4)	13.5	8.7	0.9	(2.0)
Real estate activities	45,559	44,947	44,947	46,156	45,934	34,330
year on year change (%)	2.4	(1.3)	0.0	2.7	(0.5)	(0.6)
Professional, scientific, technical and administrative activities	12,619	13,835	14,700	15,566	16,772	12,220
year on year change (%)	0.1	9.6	6.3	5.9	7.7	(2.8)
Public sector(1)	49,193	45,506	46,944	50,015	50,742	37,234
year on year change (%)	2.4	(7.5)	3.2	6.5	1.5	(2.2)
Arts, entertainment, recreation and other service activities	9,197	10,367	11,563	12,082	12,088	8,429
year on year change (%)	(6.6)	12.7	11.5	4.5	0.0	(8.0)
Value added	323,710	336,383	353,149	368,831	380,289	279,812
year on year change (%)	(0.7)	3.9	5.0	4.4	3.1	(0.5)
Net taxes on products	58,670	56,665	53,579	53,580	54,348	40,108
year-on-year change (%)	0.8	(3.4)	(5.4)	0.0	1.4	0.1
GDP	382,087	393,262	407,536	423,249	435,564	320,563
year on year change (%)	(0.5)	2.9	3.6	3.9	2.9	(0.4)

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 2014 and 2015 are final, for 2016 preliminary and for 2017 estimated.

The share of services in GDP, consisting of all categories presented above except for agriculture, industry and construction, has been the largest, amounting on average to 54.4% during the period from 2012 to 2016. The share of agriculture in GDP during this period was 9.6% on average and the share of industry amounted to 16.1% 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 7.4% in 2016 from 5.7% in 2012.

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					Nine months ended 30 September
	2012	2013	2014	2015	2016	2017
				(%)		
Final consumption, *of which*	*92.5*	*89.3*	*86.9*	*85.8*	*82.1*	*82.8*
Household final consumption	73.9	71.7	69.8	68.8	66.0	67.1
General government final consumption	18.6	17.5	17.1	17.0	16.2	15.6
Gross capital formation, *of which*	*28.9*	*28.8*	*30.3*	*30.4*	*32.6*	*30.0*
Export of goods and services	45.4	43.4	47.7	48.7	50.0	55.5
Import of goods and services	66.8	61.5	64.9	65.0	64.7	68.3
Net export	*(21.4)*	*(18.1)*	*(17.2)*	*(16.2)*	*(14.7)*	*(12.8)*
GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: State Statistical Office. Data up to 2015 is final, data for 2016 is preliminary and data for 2017 are estimated.

Household consumption has historically accounted for the largest share of GDP by expenditure component, averaging 70.1% from 2012 to 2016, although the share has been declining over this period, from 73.9% in 2012 to 66.0% in 2016. The share of exports in GDP increased slightly from 2012 through 2016, with exports increasing from 45.4% in 2012 to 50.0% in 2016. The share of imports in GDP decreased from 2012 through 2016, with imports decreasing from 66.8% in 2012 to 64.7% in 2016. 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					Nine months ended 30 September
	2012	2013	2014	2015	2016	2017
				(%)		
Consumer price inflation.....	3.3	2.8	(0.3)	(0.3)	(0.2)	1.1

Source: State Statistical Office

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% and -0.2% in 2016, 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. Inflation in the nine months ended 30 September 2017 was 1.1%, primarily due to increases in the prices of communication services, alcoholic beverages and tobacco, and transport, of 8.2%, 6.1% and 4.6%, respectively.

Key components of the economy

Industry

According to estimated State Statistical Office industry data for 2016, the industrial sector represents 17.3% of GDP, of which the manufacturing industry comprises 12.2%. The traditional industrial sectors in the Macedonian economy have been steel and iron, textiles and clothing, food processing and tobacco.

The table below indicates the traditional industrial sector trade gap for the nine months ended 30 September 2016 and 2017:

	Nine months ended 30 September							
	2016	2017	2016	2017	2016	2017		
	Export		Import		Trade gap		Change	
			(*EUR million, unless indicated otherwise*)					
Steel and iron	305.5	337.1	237.5	274.8	68.0	62.3	(5.7)	-8.3%
Textiles and Clothing, total	400.4	397.9	351.2	375.5	49.2	22.4	(26.8)	-54.4%
Textiles	52.3	53.5	296.6	317.7	(244.2)	(264.2)	(20.0)	8.2%
Clothing	348.1	344.4	54.6	57.7	293.4	286.6	(6.8)	-2.3%
Food and Tobacco, total...........................	321.9	337.5	429.0	465.6	(107.1)	(128.1)	(21.0)	19.6%
Food products	230.6	228.1	398.4	436.0	(167.8)	(207.9)	(40.2)	23.9%
Tobacco and tobacco manufactures............	91.3	109.4	30.6	29.6	60.7	79.8	19.1	31.5%

Source: State Statistical Office

In 2016, the principal components of industrial production were of manufacturing (80.7%), mining and quarrying (10.1%) and electricity, gas, steam and air conditioning supply (9.2%). The largest components of manufacturing are: food and beverage (17.6%), machinery and equipment (12.1%) and textiles and clothing (13.8%). 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, technological improvements and continuous private sector development.

The following table shows industrial production as a proportion of industrial production for the periods indicated.

	Year ended 31 December					**Nine months ended 30 September**
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
	Index of industrial production					
Industrial output	93.4	103.2	104.8	104.9	103.4	99.9

Source: State Statistical Office

As a result of the EU sovereign debt crisis and the reduced demand for Macedonian export products, industrial production declined by 6.6% 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 State Statistical Office data, industrial production in 2015 increased by 4.9% compared to 2014. 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 3.4% in 2016 and decreased by 0.1% in the first three quarters of 2017.

In September 2017, the principal components of industrial production were manufacturing (82.9%), mining and quarrying (9.1%) and electricity, gas, steam and air conditioning supply (7.9%). The largest components of manufacturing were food and beverage; machinery and equipment; and textiles and clothing, which comprise 19%, 13% and 15% of total manufacturing, respectively. The remainder consisted of miscellaneous manufactured goods.

In 2016, of the main industrial groupings, non-durable consumer goods represented the largest share (36%) of the total index of industrial production; durable consumer goods accounted for the smallest share (3.4%). In 2016, industrial revenue from non-domestic markets almost doubled compared to 2010 and its share in total industry revenues (domestic and non-domestic markets) was 79.6%.Over the same period, the share of capital goods increased by 15.1%, primarily as a result of newly opened enterprises in the TIDZs.

Industrial production in mining and quarrying decreased by 7.8% in 2016 compared to 2015, while the manufacturing and electricity, gas, steam and air conditioning supply sectors recorded a decrease of 1.4%. The increase in manufacturing is primarily due to increased production in the manufacture of motor vehicles, trailers and semi-trailers, the manufacture of tobacco products, textiles, other non-metallic mineral products, electrical equipment and machinery and equipment.

In 2017, of the main industrial groupings, the total index of industrial production reflected increases in energy and capital goods of 8.9% and 3.6%, respectively, and decreases in intermediate goods (excluding energy), durable consumer goods and non-durable consumer goods, of 0.9%, 4.4% and 3.6%, respectively. According to State Statistical Office data, the industrial production index in the first nine months of 2017 was 99.9 compared to 105.4 in the same period in 2016 and in the first nine months of 2017, production of the manufacturing industry decreased by 1.1%.

According to preliminary State Statistical Office data, the total value of exported goods from the Republic of Macedonia in the period from January to September 2017 amounted to €3.7 billion, a 15.1% increase compared to the same period in the prior year, while the value of imported goods in the same period was €5.0 billion, or 11.2% more than the same period in the prior year. The trade deficit in the period from January to September 2017 was €1.3 billion. Import coverage by export in the period from January to September 2017 was 74.1%.

According to total external trade volumes in the period from January to September 2017, the most important trading partners of the Republic of Macedonia were Germany, Great Britain, Greece, Serbia and Bulgaria.

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.

Currently eight out of 15 TIDZs are operational. Over the last ten years, the TIDZs have attracted 24 companies in total, including large multinationals in the automotive, electronics, machinery and equipment manufacturing sectors that have invested in production facilities in Macedonia. The TIDZs have created over 10,150 jobs and manufacture over 40% of Macedonia's exports, primarily products from chemical industry as well as machinery and equipment and transport equipment, and have catalysed the recent diversification of the overall country exports.

Macedonia's recent export performance indicates that FDI in the automotive sector, as well as other non-traditional manufacturing, have had a significant impact on the country's export profile and labour market. According to the World Bank's Policy Note 2017, from 2011 to 2015, the automotive industry and associated sectors such as chemicals, machinery and electronics, and plastics and rubber, largely drove the increase in exports, while traditional export sectors declined. Along with these trends, the share of high- and medium-technology products in the country's export basket increased from 26.9% in 2012 to 52.8% in the nine months ended 30 September 2017.

Electricity and Gas

The Government is committed to becoming energy independent. In 2016, Macedonia's total gross-primary production of energy was 1,113,745 tonnes of oil equivalent ("**TOE**"), or 41.5% of Macedonia's total domestic energy requirements. In accordance with an action plan for renewable energy sources, the share of renewables in 2016 was 18.2%.

Approximately 50% of Macedonia's energy requirements are bought 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	
2012	6,262	2,741	72	8,931
2013	6,094	2,491	62	8,523
2014	5,374	3,073	113	8,334
2015	5,646	2,656	143	8,159
2016	5,630	2,191	160	7,661

Source: Electricity Balances and Annual Reports of the ERC.

Macedonia has a total installed power generation capacity of 2,057 megawatt ("**MW**"), of which 1,035 MW is thermal power generation, 584.6 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 16.7 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. In 2016, total installed capacity increased by 7.53 MW compared to 2015.

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. In accordance with the changes to the Energy Law, in September 2016, EVN AG Macedonia established an operating company, EVN Elektrodistribucija DOOEL Skopje, for its electricity distribution activities and with approval from the Energy Regulatory Commission, transferred its existing licence to the new operating company.

Imports of electricity (typically by electricity traders) have become increasingly important since 2002. The most significant sources of electricity imports are Serbia, Bulgaria, Slovenia, Switzerland, Greece and Hungary, representing 71%, 15%, 2%, 6%, 2% and 4% of electricity imports in 2016, respectively.

The Government's current electricity development programme 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.

Of the 400 small hydro power plants to be built in connection with the Government's electricity development programme, as at 30 September 2017, 44 small hydro power plants are operational with installed capacity of approximately 40 MW, an additional 12 small hydro power plants are in the construction phase with planned installed capacity of approximately 17 MW and five small hydro power plants are 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:

	2012	2013	2014	2015	2016
			(kilo-tonnes)		
Oil..............	859	872	865	958	1,084
Gas.............	114	128	110	110	176

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 159 kilometre gas pipeline system extending from the Bulgarian border to Skopje and Stip, with a total capacity of 800 million cubic metres. Currently, this pipeline is significantly underutilised, with utilisation of approximately 26%. 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, JSC MER (a 100% state-owned company) is undertaking on-going activities for further expansion of the existing gas pipeline system in Macedonia and its connection to the regional gas pipeline systems. There are also on-going negotiations to secure additional quantities of natural gas. For example, construction of the 61-kilometre Section Klechovce Block Station 5 (near the City of Stip), 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 Group 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 began in 2016, and is expected to be completed in 2019.

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), IAP, Turkish Stream, neighbouring LNG terminals and others through the regional initiative for gas connection of Central and Southeastern Europe (CESEC). In 2016, the Energy Community Secretariat, along with technical advisors and exports including REKK and DNV GL, conducted an extensive evaluation of potential projects of interest for the Energy Community. This list includes one project of interest in Macedonia (for a gas connection with Serbia) and one project of mutual interest in Macedonia (for a gas connection with Greece). These projects are currently in the final stages of development.

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 — Projects Jointly financed 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 12.6% of total industrial production, 32.5% of total industry employment and 11.2% of total exports in the nine months ended 30 September 2017. During the same period, manufacturing of textiles (which accounted for 3.0% of total industrial production) increased by 1.0% and clothing manufacturing (which accounted for 9.6% of total industrial products) decreased by 16.6%. In 2016, clothing and textiles comprised 10.7% and 1.9% of total exports, respectively, while imports of clothing and textiles were 1.2% and 6.6% of total imports, respectively.

The growth of textile and clothing production began 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 domestic textile companies. Some growth was also attributable to an increased level of value added in the final products as a result of new FDI investments. The growth of textile production continued in 2014, 2015 and 2016, having increased 6.5%, 14.8% and 11.5% in 2014, 2015 and 2016, respectively, representing a 36.3%

cumulative growth rate over the period, while clothing production increased by 4.6% and 6.7% in 2014 and 2015, respectively, and decreased by 7.3% in 2016, representing a cumulative growth rate of 3.5% over the period.

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 2016 and mining and quarrying accounted for 12.0% of total industrial production.

In 2016, iron, steel, metal ore, metal scrap and non-ferrous products (which includes components of both basic metals manufacturing and mining of metal ores) accounted for 16.1% of the total exports of Macedonia, with exports principally to Serbia, Germany, Greece, Bulgaria, Italy and Croatia. In 2017 (January-August), the manufacturing of basic metals comprised 9.7% of total exports and 18.9% of total imports, while metal ores comprised 3.5% of total exports and 0.6% of total imports.

In 2016, basic metal manufacturing grew by 9.5%, 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.

The Zletovo and Toranica mines, which are lead and zinc mines, opened in 2016 after having been awarded to Concessioner-Bulmak 2016 DOOEL Probistip, to whom the Ministry of Economy issued exploitation licences.

Agriculture

Agricultural exports and imports accounted for 12.3% and 11.8% of the overall exports and imports of the country in 2016, respectively. In the 2015-2016 period, Macedonia’s agricultural and food export, primarily comprising tobacco, fruits and vegetables and wine, recorded a 10% increase, from €487 million to €531 million, a trend that is expected to stabilise, as indicated by the level of total exports of €406 million at 30 September 2017. In the same period (2015-2016), imports increased by 2.5%. CEFTA countries (Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, Serbia and UNMIK (Kosovo)) are the second most important trade partners (after the EU) and account for 34% of total agriculture exports and 28% of total agriculture imports). Agriculture exports and imports accounted for 11.05% and 11.15%, respectively, of the overall exports and imports of the country as of 30 September 2017.

Agriculture is highly ranked 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. Macedonia's sound level of production will be the basis for implementation of a range of development measures which are expected to strengthen industrialised production. The new 5-year national program for rural development (2018-2022) emphasises programs to accelerate development. The measures to be taken are based on the problems identified by the World Bank and published in its reports, such as modernisation of production, new technologies, opening processing capacities, modernisation and capacity increase of irrigation systems and climate change.

According to the 2014-2020 and 2018-2022 strategic documents, annual budgetary support will increase from an average of approximately €135 million per year to approximately €160 million per year by 2022. The changes undertaken to incentivise development will also affect the budget structure, but not the amount of State investments. Direct payments will be gradually replaced by funded development projects, so that the share of the budget devoted to capital investments under the rural development financial programme will gradually increase (projected up to 35% in 2022), leading to growth and development in the entire sector, which is the main strategic objective along with the reduction of the negative trade balance in the agricultural sector.

The United Nations Food and Agriculture Organisation is supporting on-going initiatives for the regionalisation of agricultural production and the consolidation of agricultural lands to enable the proper utilisation of agricultural lands and the maximisation of yields. The implementation of the national warranty scheme is underway. It is comprised of issuing state warranties to the farmers in order to facilitate the application process for bank loans; this scheme will enable increased investments in the sector and better use of pre-accession funds (IPARD). 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 the provision of irrigation and drainage systems. On-going structural reforms in the agriculture land policy include the promotion of increased transparency of the distribution of state owned land (rentals or sales) and implementation of land consolidation projects. In parallel, further structural reforms relate to strengthening agricultural associations with a specific focus on cooperatives, strengthening the provision of quality and professional farm advisory services, training and transfer of knowledge.

Construction

Construction accounted for 7.1% and 7.4% of GDP in 2015 and 2016, respectively, and 7.1% and 7.2% of total employment.

During the period from 2012 through October 2017, 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 on-going 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 Stip on National road A4 (total length of 47 kilometres) and Kichevo to Ohrid on Corridor VIII (total length of 57 kilometres) as well as rehabilitation of more than 15 sections of regional and national roads totalling over 100 kilometres.

On 31 October 2017, the rehabilitation and reconstruction of the 10.2-kilometre motorway from Smokvica to Gevgelija on Corridor X was completed, as well as the rehabilitation of the 23.5-kilometre motorway from Kumanovo to Miladinovci (right carriageway) on Corridor X, which was completed in May 2017. In 2017, the rehabilitation of the approximately 23-kilometre motorway from Miladinovci - Kumanovo (left carriageway) on Corridor X was completed. In 2016, construction of a 10.2-kilometre express road on national road A1, section Bridge over River Raec – Interchange Drenovo commenced, funded by an EBRD loan. This construction is on-going. In early 2018, construction of an approximately 15-kilometre express road on national road A1, section Gradsko – Drenovo is expected to begin, financed by EU IPA funds. The 3.5-kilometre motorway from Bogorodica to Gevgelija (left carriageway) on Corridor X has been rehabilitated, funded by PESR Rehabilitation of the 8.9-kilometre motorway from Negotino to Demir Kapija (both carriageways) on Corridor X is on-going, and is being funded by PESR. On-going construction of one part of approximately 14-kilometre express road Stip – Krupiste, started in April 2017. Construction of the other 14 km express road Krupiste – Kocani is expected to commence in 2018, and construction of the approximately 23-kilometre express road Kriva Palanka – Rankovce is expected to commence in early 2018. In 2017/2018, construction of approximately 23.5 kilometres express road on national road A1, section Stip – Radovis is expecting to start and it is funded by an EBRD loan.

With respect to the construction of the new motorway from Miladinovci (Skopje) to Stip (via Sveti Nikole), the completion deadline has been extended to 30 September 2018 (from 1 May 2017). With respect to the construction of the new motorway from Kichevo to Ohrid on Corridor VIII, negotiations for extending the completion deadline are on-going. The China Exim Bank loan agreements for both projects were signed in January 2014 in an amount of approximately $505 million for the Kichevo - Ohrid project and $278 million for the Miladinovci – Stip project.

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.

Several crucial infrastructure projects were implemented in the rail sector during 2012 to 2016 period. A loan from the EBRD in an amount of €17.6 million funded the renewal of Rail Corridor X was implemented. In the fourth quarter of 2013, the renewal of the sections Tabanovce-Kumanovo (12 km) and Miravci – Smokvica (12 km) was completed and both commenced operations. For the third and last section from Nogaevci-Negotino (30 km), construction works are expected to be completed by the end of 2018.

For rail Corridor 8, the contract for construction work on the Kumanovo-Beljakovce (31km) section was signed between PE Macedonian Railway Infrastructure and Contractor with a time frame for competition ending in September 2016. The construction was not completed by the deadline and an extension has been requested; construction is on-going. The EBRD loan agreement financing this construction was signed in 2012 and amended in 2015 in amount of €46.4 million. The funds for the design work and supervision services were secured through WBIF in an amount of €4.2 million.

For the Beljakovce-Kriva Palanka (34km) section, design work is underway. The pre-qualification process for selection of the contractor began in mid-2016 and is still on-going. The EBRD Loan Agreement financing this section was signed in 2015 in an amount of €145.0 million. The funds for the design work and supervision services were secured through WBIF in an amount of €4.2 million.

Communications

Communications accounted for approximately 2.9% and 3.1% of Macedonia's GDP in 2015 and 2016, respectively. The Macedonian telecommunications market is developing rapidly.

According to data from the Macedonian Agency for Electronic Communications (the "**AEC**"), three out of seven entities registered in the AEC's official records in the second quarter of 2017 provided publicly available telephone services on a public mobile communications network. These included: Makedonski Telekom AD Skopje, ONE.VIP-Operator Skopje and Lycamobile - Skopje. The share of mobile operators on the mobile telephony market by number of active subscribers (as of 30 June 2017) indicates that the ONE.VIP Operator has a market share of 49.6%, followed by Makedonski Telekom with 48.0%. Lycamobile started offering its services on the mobile market in the third quarter of 2016 and currently has a market share of 2.5%. The AEC's official records further indicate that 17 out of 18 entities registered with the AEC provided fixed network services in the second quarter of 2017.

Beginning in the second quarter of 2008, a number of alternative operators/service providers entered the market and have increased their market share (according to subscribers, revenues and traffic) on the fixed telephony market; this trend continued in 2017. In the second quarter of 2017, the market share of such alternative operators/service providers according to number of fixed lines was 41.1%.

Makedonski Telekom (SMP Operator) holds a share of 58.9% in the fixed network market and is followed by ONE.VIP with 29.49% (alternative operators/service providers), and Robi (7.06%), Neotel (3.22%), Infel Net Plus (1.26%), Cable Call (0.05%) and Altra Sat 2000 (0.01%).

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 AEC, 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 AEC 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 Assembly adopted amendments to the Law on Electronic Communications. The amendments established 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 AEC developed procedures and internal documents to support the activities of MKD-CIRT, and established systems to support incident reporting and handling procedures. MKD-CIRT is publicly available through its website and other dedicated channels of communication.

Macedonia's alignment with EC Directive 2016/1148 on network security and information systems commenced in August 2017, when a working group was established to organise a public debate on compliance with the Directive. A public debate was held on 13 November 2017 and was chaired by both Minister of Defence Sekerinska and the Minister of Information Society and Administration Manchevski. In December 2017, an informal working group was established including representatives of the Ministry of Information Society and Administration, the Ministry of the Interior and the Ministry of Defence, who, with the support of the World Bank, will conduct a cybersecurity assessment of Macedonia at the end of January 2018. After the completion of the assessment, the working group is expected to be expanded to include representatives from all stakeholders and interested parties. The working groups will draft individual military and civil strategies for cyber security (which will include, among other things, the adoption of a new law or amendments to existing laws to ensure a high level of security of networks and information systems) and will work towards alignment with Directive (EU) 2016/1148.

Directive 2002/58/EC, known as the ePrivacy Directive of the European Parliament and of the Council of 12 January 2002, describes the ways in which personal communications are processed as well the security of electronic communications. This Directive was amended by Directive 2009/136/EC of the European Parliament and of the Council of 25 November 2009. The two Directives 2002/58 / EC and 2009/136 / EC are fully transposed into the Macedonian Electronic Communications Act.

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 a fully connected society in Macedonia.

The amendments to the Law on Electronic Communications authorise the AEC 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 Agreement on price reduction for roaming services in public mobile communication networks was signed on 29 September 2014 and entered into effect on such date. The agreement was signed by the ministries responsible for the field of electronic communications from Bosnia and Herzegovina, the Republic of Serbia, the Republic of Macedonia and Montenegro. These ministries agreed that the maximum prices for roaming services should be reduced to the level of prices paid in the European Union. The agreement states that National Electronic Communications Regulators in the signatory countries will be responsible for implementation of the Agreement.

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 Ministry of Information Society and Administration has begun the process of preparing a national operational plan for the development of rapid and ultra-rapid electronic communication networks in the Republic of Macedonia.

On 22 September 2017, a public hearing was held regarding the preparation of the National Operational Plan. Representatives from operators, universities and the public sector participated in the discussion. The Ministry of Information, Society and Administration received a positive opinion from the EU Delegation in Skopje for having received TAIEX express assistance in connection with the preparation of the National Operational Plan.

According to the data from the State Statistical Office, in the first quarter of 2017, 73.6% of households in Macedonia had internet access at home and 67.1% had a broadband connection. Almost all (91.2%) households with internet access had a broadband (fixed or mobile) connection. In the first quarter of 2017, 74.5% of the total population aged 15-74 used the internet, with 61.9% using it every day or almost every day. Mobile or smart phones were the most used devices for internet access in this period, and mostly among persons aged 15-24 (91%).

The Directive on cost reduction for next generation network development has been implemented in the Law on Electronic Communications. The single information point provides data on the type, main technical properties, horizontal and vertical setup of underground and surface infrastructure objects and auxiliary installations, as well as data on the entities managing the above.

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 early 2018, the Government of Macedonia expects to establish a National ICT Committee, which will include members of the civil sector and universities, among others. This National Committee will be under the direct authority of the Minister of Information Society and Administration, and will be a forum for discussion and coordination of activities from the Digital Agenda of Europe on a horizontal level, which should be implemented in the Republic of Macedonia. The Ministry of Information Society and Administration has a national short-term ICT strategy for 2016-2017. Preparations for a new National ICT Strategy have been initiated and the Strategy will be similar to the Digital Agenda of Europe, as the Digital Development of Macedonia will follow the same agenda.

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.

By mid-2018, MARNet intends to upgrade its infrastructure and implement a platform that can support speeds between universities in the Republic of Macedonia to 320Gbit/s and will provide a network development field for the next 15 years, MARnet will launch a 10Gbit/s connection between UKIM and MARnet's data centre. MARnet is already working on project realisation for trans-Balkan interconnection of academic networks, whereby academic networks can exchange equipment and optical fibres and to launch a single optical Balkan network.

Tourism

The tourism sector (including the hotel and restaurant sector) accounted for a small proportion (approximately 1.4%) of GDP in 2016 and grew by 2.3% in real terms in 2016. The market has continued to develop and expand as Macedonia becomes a more attractive tourist destination. More than 510,484 foreign visitors came to Macedonia in 2016, an increase of 5.0% since 2015, while the number of tourist nights spent by foreign tourists increased by 5.1% over the same period. Between 2015 and 2016, the Government believes that tourists from EU countries accounted for approximately half of the total number of foreign tourists.

In addition, in 2016, capital investments in tourism represented 2.4% of total investments in the country. In 2017, this figure is expected to grow by approximately 6.9% compared to 2016, which according to the World Travel & Tourism Council, places Macedonia as number 39 out of 184 countries in terms of 2017 growth. Between 2009 and the twelve months ended 30 September 2017, the number of foreign tourists per year in Macedonia increased by approximately 66%, compared to the worldwide average of 40%.

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.

In November 2012, the Law on Touristic Development Zones was adopted to regulate 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%. In addition, Macedonia has promoted and supported tourism by increasing flight connections with major cities in Europe and granting financial support to airlines which introduced new direct flights.

Since the implementation of these strategies, the number of tourists from neighbouring countries has increased, with the number of tourists from Bulgaria, Greece and Turkey increasing by 27%, 63% and 150%, respectively. Tourism from other European countries, including the Netherlands, Finland and Poland has also steadily increased.

Increases in the number of tourists have also translated into employment growth, with the tourism sector representing 1.2% of total employment in the country in 2016. According to World Council of Travel and Tourism, the number of employees in the tourism sector is expected to rise to 14,000 jobs, which would represent 2% of total employment in 2017. In addition, 31,000 people were employed in jobs related to tourism in Macedonia in 2016, which represents 1.4% of the total number of registered employed persons in 2016. Projections suggest that this figure increased to 32,500 in 2017 and that it will rise to 40,000 by 2024.

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.

	2014	**2015**	**2016**
		(€ millions)	
Central Budget (own sources, grants and loans)	286.5	303.5	276.0
Agency for State Roads	–[(1)]	–[(1)]	–[(1)]
Total	**286.5**	**303.5**	**276.0**

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 2017 Supplementary Budget provides for MKD 23.4 billion (€380 million) for total capital investment in 2017, a higher amount than realised in previous years. See "*Public Finance—The Central Budget*". 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*". As at the end of November 2017, approximately 58% of this capital investment had been realised. The 2018 Budget provides for MKD 24.1 billion (€393 million) for total capital investment in 2018.

Major capital expenditures contemplated for 2017 include completion of the construction of Corridor X highway and railway infrastructure (20.2% of total capital expenditure for the year), building of energy and utilities infrastructures (23.9% of total capital expenditure for the year), as well as capital investments aimed at improving education (9.5% of total capital expenditure for the year), the health system (6.3% of total capital expenditure for the year) and agriculture

(10% of total capital expenditure for the year). The remaining 30.1% 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. The Government intends to increase the overall level of investment in these areas for 2018, with significant increases for defence projects and the building of energy and utilities infrastructures (particularly gasification).

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*, accounted for approximately 17% of GDP based on 2015 GDP data and other internal and third party estimates. The State Statistical Office estimates that informal employment accounted for 18.5% of the working population in 2016. The official employment rate includes workers in the informal sector under the category of employed workers.

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 in 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 2016 was 43.1%, reaching 44.2% in the third quarter of 2017, the highest employment rate in the Republic of Macedonia since employment statistics were recorded. The unemployment rate was 26.1% and 23.7% in 2015 and 2016, respectively, and 22.6% and 22.1% for the nine months ended 30 September 2017 and the third quarter of 2017, respectively. Notwithstanding the relatively high levels of unemployment, a portion of those categorized as unemployed are believed by the Employment Service Agency to have limited interest in actually finding employment. According to the *Law on Employment and Insurance in Case of Unemployment*, in order to determine the actual number of unemployed people seeking work, the agency registers them under two categories: active jobseekers and others (unemployed persons not actively looking for a job).

Although youth unemployment in Macedonia has historically been high, it has also been decreasing in recent years. The youth unemployment rate in the nine months ended 30 September 2017 decreased to 47.1%, from 48.6% compared to the nine months ended 30

September 2016. 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					**Nine months ended 30 September**
Labour market	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Working age population(ages 15-80) ...	1,669,965	1,672,460	1,673,494	1,676,659	1,678,890	1,679,782
Employed	650,554	678,838	690,188	705,991	723,550	739,129
Unemployed	292,502	277,219	268,809	248,933	225,049	215,257
Employment rate (%)	39.0	40.6	41.2	42.1	43.1	44.0
Unemployment rate (%)	31.0	29.0	28.0	26.1	23.7	22.6
Employment by ownership:						
Private	488,206	521,607	530,868	547,797	555,894	570,273
Other[(1)]	162,348	157,230	159,320	158,194	167,657	168,856

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 56.8% of the working age population in the nine months ended 30 September 2017, representing an increase of 0.3 percentage points as compared to the nine months ended 30 September 2016.

Employment by Sector

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

Sectors of Activity	Year ended 31 December					Nine months ended 30 September
	2012	2013	2014	2015	2016	2017
				(%)		
Agriculture, forestry and fishing	17.3	18.7	18.5	17.9	16.6	16.3
Mining and quarrying	0.9	1.0	1.1	0.9	0.9	0.9
Manufacturing	19.5	19.4	19.3	19.4	19.0	19.2
Electricity, gas, steam and air conditioning supply	1.6	1.6	1.4	1.4	1.4	1.4
Water supply, sewerage, waste management and remediation activities	1.6	1.5	1.6	1.7	1.8	1.7
Construction	6.3	6.9	7.0	7.1	7.2	7.0
Wholesale and retail trade, repair of motor vehicles, motorcycles	14.3	13.5	13.5	13.8	14.4	14.7
Transportation and storage	4.7	5.5	5.6	5.1	5.0	5.2
Accommodation and food service activities	3.6	3.5	3.6	3.8	3.5	3.9
Information and communication	1.7	1.6	2.0	2.1	1.9	1.9
Financial and insurance activities	1.4	1.4	1.2	1.4	1.5	1.5
Real estate activities	0.1	0.1	0.1	0.2	0.2	0.3
Professional, scientific and technical activities	2.5	2.0	2.1	1.7	1.9	1.8
Administrative and support service activities	1.6	1.7	1.9	1.7	2.0	1.9
Public administration and defence, compulsory social security	6.8	6.6	7.0	7.3	7.5	7.2
Education	6.5	6.1	5.8	5.8	5.9	5.9
Human health and social work activities	5.5	5.6	5.3	5.2	5.4	5.5
Arts, entertainment and recreation	1.5	1.4	1.3	1.6	1.7	1.8
Other service activities	2.1	1.5	1.5	1.7	1.9	1.7
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	0.2	0.2	0.1	0.2	0.1	–(1)
Activities of exterritorial organisations and bodies	0.2	0.1	–(1)	0.1	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 2012 to 2017, the number of employed persons in the private sector increased from 488,206 in 2012 to 570,273 in the nine months ended 30 September 2017, reflecting an increase of 16.8%. In contrast, the number of employed persons in the other sectors (which included mixed, collective or state ownership) increased by 4.0% from 2012 to 2017, from 162,348 persons in 2012 to 168,856 in the nine months ended 30 September 2017.

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.

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

	Year ended 31 December					Nine months ended 30 September
Wages	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Average monthly gross wages in MKD	30,669	31,025	31,325	32,173	32,822	33,433
Gross wages, nominal annual growth (%)	0.2	1.2	1.0	2.7	2.0	2.5
Gross wages, real annual growth (%)	(3.0)	(1.6)	1.3	3.0	2.2	1.4
Average net wages in MKD	20,902	21,145	21,394	21,906	22,342	22,747
Net wages, nominal annual growth (%)	0.3	1.2	1.2	2.4	2.0	2.5
Net wages, real annual/period growth (%)	(2.9)	(1.6)	1.5	2.7	2.2	1.3

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 in September 2017, the percentage of employees that did not receive any wages was 1.0%. 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

Pension and disability insurance in the Republic of Macedonia is regulated by the Pension and Disability Insurance Law, Mandatory Fully Funded Pension Insurance, Voluntary Fully Funded Pension Insurance and Fully Funded Pension Insurance Pension Payment Law.

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 September 2017, there were 450,391 members in the mandatory private pension fund with net assets totalling €888 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 September 2017, there were 23,465 members in the voluntary private pension fund with net assets totalling €19 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.

After the implementation of reforms to the pension system in Republic of Macedonia and the introduction of fully funded pension insurance, it was determined that further reforms and revisions are necessary. In order to address these matters, in June 2017 the Government established a Council for Monitoring the Situation in the Pension System, a body comprised of the Minister of Labour and Social Policy, the Minister of Finance, the Deputy Prime Minister of Government of the Republic of Macedonia in charge of economic affairs, the Minister of Economy, the Minister without Portfolio in charge of foreign investments, the President of the Council of Experts of the Agency for Supervision of Fully Funded Pension Insurance (MAPAS), the Director of the Pension and Disability Insurance Fund of Macedonia, the first general managers of the two pension companies and, if necessary, experts (university professors and foreign experts engaged by the World Bank, the European Commission and the International Labour Organization). The Council has the authority to consider issues related to the sustainability of the pension system, to monitor the implementation of the pension system reform, initiate measures for improving the conditions of fully funded pension insurance and ensuring the sustainability of the pension system in the long run.

At the beginning of 2018, the Council is expected to propose specific measures and legal solutions related to pension reform and the sustainability of the pension system. An initial solution proposed in 2017 aimed to prevent increases in the State pension fund deficit by preventing further adjustment of pensions in nominal amount or as an additional percentage.

Namely, pensions in 2017 will be adjusted according to the provisions contained in the Law on Pensions and Disability Insurance, according to the following formula: 50% of the increase in wages and 50% of the increase in the cost of living, calculated twice per year.

Under current legislation, retirement ages for men and women are 64 and 62, respectively. The average monthly government pension in September 2017 amounted to MKD 13,962. In September 2017, there were 310,168 pensioners and 574,514 insured persons, of which 138,278 were employed by public administrations, public enterprises and local governments.

In 2014 new amendments on the Law of Labour Relations came into effect, which permits voluntary extension of the employment relationship from age 62 for women and 64 for men up to 67 for both women and 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.

As a result of consultations and agreements between the Government, trade unions and employer organizations, the Law on Minimum Wage in the Republic of Macedonia was adopted in early 2012. This Law provides for a minimum wage, whose amount was regulated for the first time, as well as to specify those authorities in charge of its determination and publication.

Since its adoption, the Law on Minimum Wage in the Republic of Macedonia has been amended several times. The most recent amendment was in September 2017. The purpose of the recent amendments was: to increase the minimum wage in the Republic of Macedonia; to enable minimum wage level equalisation for all employees and at the same time to provide financial support to employers for such payments over the course of the first 12 months following adoption. The latest amendments set the minimum monthly net wage in the Republic of Macedonia at MKD 12,000 (gross equivalent, MKD 17,130).

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 2016, 244,867 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 aims to strengthen quality and efficiency within the public health realm.

Environment

The *Law on Environment* contains the fundamental environmental protection principles and 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. This forms the basis for the procedures to manage the environment and impacts all laws regulating the environment. In addition, the implementation and planning for the alignment with EU law (i.e., the process of harmonising laws, rules and procedures with the EU law) (the "**IPA project**") is a demanding task that requires careful planning and management on an on-going basis.

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 2016, and a further report is expected in 2018.

In addition, as part of the IPA project, Directive Specific Implementation Plans (DSIPs) will be developed by consultants to be selected pursuant to a tender procedure in cooperation with the Macedonian Ministry of Environment and Physical Planning. These plans will set out the actions required during the transition period and to set a timetable for the completion of certain activities, to assign responsibilities and to allocate resources. Certain completion timetables will require transition periods that will differ from those set in connection with the EU Acquis; these post-accession deadlines will need to be considered in detail.

Further in line with the IPA project, a new Strategy for Environment and Climate Action is expected to be developed in 2018 to update policies related to the environment and climate change and to prepare for the challenges ahead. The concept of sustainable development—aligning environmental concerns with the long-term national social and economic interests—is expected to be a central focus and determinant of the future development of the state. In addition, this Strategy will take into account that EU integration is not just the transposition of

EU legislation, but it will also require changes to current institutional arrangements as well as engaging human and financial resources sufficient to achieve the established objectives.

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. To date, Macedonia has ratified nearly all relevant global and regional environmental agreements. As part of its 2015 to 2020 EU accession plan, Macedonia remains 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. Under the Instrument of Pre Accession, Macedonia is implementing six major projects in an amount of €37.6 million and has a further eight major projects in the programming phase in an amount of €114.3 million.

Under the IPA Regional Development Operational Programme (2007-2013), there is one major project currently under implementation (the construction of a waste water treatment plant ("**WWTP**") in Prilep) and several smaller projects (construction of WWTPs in Radovis, Strumica and Kicevo and construction of sewage networks in Berovo and Kumanovo), which amount to a total investment of €37.6 million. Under IPA 2 Sector Operational Programme on Environment and Climate Action (2014-2020), Macedonia has access to a total of €132 million in available funds for major projects such as the construction of sewage networks in Skopje and Kicevo, WWTPs in Bitola and Tetovo, and construction of integrated financially self-sustainable systems for waste management for the east and northeast regions of Macedonia, which amount to a total of €114.3 million.

The below are notable developments and initiatives relating to the environment:

- a new law on water services pricing was adopted in 2017 to regulate the methodology used to calculate water prices;
- through projects supported by the EU, a number of new laws are being drafted which will reduce harmful industrial emissions, protect and conserve nature and biological, geological and landscape diversity;
- on 6 November 2017, the Parliament adopted a new law on the ratification of the Paris Climate Agreement, announced in Official Gazette 161/2017; and
- a new Energy Law and Energy Efficiency Law are expected to be adopted in early 2018, in which the provisions and obligations arising under the EU Third Energy Package, the Renewable Energy Sources Directive (new market-oriented support mechanisms) and the Energy Efficiency Directive will be implemented.

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 (the "**PDF**") 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 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.

The finalisation of the sale of the residual shares owned by the Government or by the PDF in state-owned enterprises remains to be completed, with the revenues to be paid into the PDF and towards the State budget. The future status of the remaining state-owned company "11 Oktomvri-Eurokompozit AD Prilep (special purpose and composite materials production) should be determined in 2018, with a detailed analysis of its economic and financial situation.

Tutunski Kombinat AD Prilep (a state-owned tobacco company) entered into a strategic partnership with Philip Morris International Management on 27 May 2014, with Philip Morris holding a 51% stake in the new company.

As of 31 August 2017, 52 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 remaining 35 companies, there were 27 companies in which the State holds less than 10% of the issued share capital.

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 sets forth Macedonia's balance of payments for the periods indicated.

	For the year ended 31 December					For the nine months ended 30 Sept.	For the year ended 31 December					For the nine months ended 30 Sept.
	2012	2013	2014	2015	2016	2017	2012	2013	2014	2015	2016	2017
			(€ million)						*(% GDP)*			
I. Current account	**-240**	**-134**	**-43**	**-177**	**-265**	**-60.7**	**-3.2**	**-1.6**	**-0.5**	**-2.0**	**-2.7**	**-0.6**
Goods and services	**-1,698**	**-1,488**	**-1,472**	**-1,474**	**-1,462**	**-962**	**-22.4**	**-18.3**	**-17.2**	**-16.2**	**-15.0**	**-9.4**
Credit	3,374	3,530	4,088	4,425	4,866	4,067	**44.5**	**43.3**	**47.7**	**48.8**	**50.0**	**39.8**
Debit	5,072	5,018	5,560	5,899	6,327	5,029	**66.9**	**61.6**	**64.9**	**65.0**	**65.1**	**49.2**
Goods	**-2,008**	**-1,863**	**-1,856**	**-1,823**	**-1,809**	**-1,293**	**-26.5**	**-22.9**	**-21.7**	**-20.1**	**-18.6**	**-12.7**
Credit	2,307	2,375	2,784	3,047	3,471	2,975	**30.4**	**29.1**	**32.5**	**33.6**	**35.7**	**29.1**
Debit	4,315	4,238	4,640	4,870	5,279	4,268	**56.9**	**52.0**	**54.2**	**53.7**	**54.3**	**41.8**
Services, net	**309**	**375**	**384**	**349**	**347**	**331**	**4.1**	**4.6**	**4.5**	**3.8**	**3.6**	**3.2**
Primary income, net	**-164**	**-193**	**-161**	**-286**	**-384**	**-314**	**-2.2**	**-2.4**	**-1.9**	**-3.2**	**-3.9**	**-3.1**
Secondary income, net	**1,622**	**1,547**	**1,589**	**1,583**	**1,581**	**1,216**	**21.4**	**19.0**	**18.6**	**17.4**	**16.3**	**11.9**
General government	60	74	110	54	91	46	**0.8**	**0.9**	**1.3**	**0.6**	**0.9**	**0.4**
Financial corporations, nonfinancial corporations households, and NPISHs	1,562	1,473	1,479	1,529	1,490	1,170	**20.6**	**18.1**	**17.3**	**16.8**	**15.3**	**11.5**
II. Capital account	**9**	**15**	**3**	**7**	**11**	**3**	**0.1**	**0.2**	**0.0**	**0.1**	**0.1**	**0.0**
Credit	10	15	11	8	11	4	**0.1**	**0.2**	**0.1**	**0.1**	**0.1**	**0.0**
Debit	1	0	8	0	0	0	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**
Net lending (+) / net borrowing (-) (balance from current and capital account)	**-231**	**-119**	**-40**	**-170**	**-254**	**-57**	**-3.0**	**-1.5**	**-0.5**	**-1.9**	**-2.6**	**-0.6**
III. Financial account	**-212**	**-107**	**-27**	**-172**	**-266**	**-72**	**-2.8**	**-1.3**	**-0.3**	**-1.9**	**-2.7**	**-0.7**
Direct investment, net	**-131**	**-229**	**-197**	**-203**	**-317**	**-51**	**-1.7**	**-2.8**	**-2.3**	**-2.2**	**-3.3**	**-0.5**
Portfolio investment, net	**-77**	**159**	**-482**	**-66**	**-429**	**25**	**-1.0**	**2.0**	**-5.6**	**-0.7**	**-4.4**	**0.2**
Other investment, net	**-146**	**8**	**244**	**280**	**142**	**182**	**-1.9**	**0.1**	**2.8**	**3.1**	**1.5**	**1.8**
Currency and deposits, net	104	245	342	287	279	212	**1.4**	**3.0**	**4.0**	**3.2**	**2.9**	**2.1**
Loans, net	-91	-325	-67	54	-106	47.1	**-1.2**	**-4.0**	**-0.8**	**0.6**	**-1.1**	**0.5**
Trade credit and advances, net	-158	88	-32	-61	-30	-77	**-2.1**	**1.1**	**-0.4**	**-0.7**	**-0.3**	**-0.8**
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	**142**	**-44**	**409**	**-183**	**338**	**-228**	**1.9**	**-0.5**	**4.8**	**-2.0**	**3.5**	**-2.2**
IV. Net errors and omissions	**19**	**13**	**13**	**-2**	**-12**	**-15**	**0.2**	**0.2**	**0.1**	**0.0**	**-0.1**	**-0.1**

Notes:

Data for 2016 and 2017 may be revised. *See "Presentation of Economic and Other Information".*

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 current account deficit in 2012 was 3.2% of GDP. The energy balance continued to deteriorate, reaching a deficit of 11.6% of GDP. As uncertainty regarding the stability of the global financial markets continued, the unfavourable global market for metal commodities adversely impacted metal exports, although other traditional export sectors continued to grow slowly. However, the new foreign companies in TDIZs had a positive impact on GDP. 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, partly 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 more than halved in 2014 compared to 2013, reaching 0.5% of GDP. This decrease resulted partly from the improvement in both non-energy and energy trade balances. New foreign-owned facilities strengthened the non-energy trade balance significantly, while the decrease 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, amounting to 17.3% of GDP. Net inflows from private transfers stabilised and their relative share in GDP decreased by 0.8 p.p. compared to the previous year.

In 2015, the current account deficit increased to 2% of GDP, partly due to private transfers, which increased in nominal terms, but decreased in relative terms to 16.8% of GDP. The deficit in primary income also widened, reflecting the improvement of the financial position of foreign companies. 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 in this balance narrowed further in 2015, the third consecutive year of improvement. A key factor in improving the trade balance in 2015 was the persistent decrease in global 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 p.p. of GDP. New foreign-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.

The current account deficit widened slightly in 2016, reaching 2.7% of GDP. This change was driven predominantly by a decline in net inflows of private transfers. In addition, political uncertainty resulted in a temporary increase in preferences for foreign currency, causing a decrease in overall private transfers in nominal terms, as well a decrease of their share in GDP, from 16.8% to 15.3% of GDP in 2015 and 2016, respectively. Despite this, private transfers were adequate to finance the deficit of goods and services, which continued to improve. The current account deficit is estimated to account for approximately 2.0% of GDP in 2017 and is expected to continue to decrease in the medium term, reflecting the continuation of positive developments in the balance of goods and services. The improvement of the balance of goods and services was due to the narrowing of the trade balance, driven by the lower energy deficit, which declined from 6.4% to 5.1% of GDP in 2015 and 2016, respectively. This improvement was partially offset by the reduction in private transfers. Favourable trade terms in the energy sector were the main driver of adjustment in the energy trade balance. Finally, the increase in net exports by new foreign-owned companies supported positive shifts in the trade balance.

In the first nine months of 2017, the current account registered a deficit of 0.6% of GDP, narrowing by 0.9 percentage points of GDP compared to the same period in the previous year. The improvement was driven by the further narrowing of the balance of goods and services.

Financial Account

Foreign direct investment was a significant contributor to financial flows in 2012 and 2013 (approximately 1.7% 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 budgetary 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 entered into 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 2.2% 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 2016, the financial account registered a surplus of 6.2% of GDP (excluding official reserves), mostly due to the issuance of a new Eurobond and the external borrowing of public enterprises for the financing of infrastructure projects. Net FDI also contributed to the financial account surplus with a net financial inflow of 3.3% of GDP, while currency and deposits continued to register a deficit on a net basis. The first nine months of 2017 were characterised by a financial account deficit of 1.5% of GDP (excluding official reserves), mostly as a result of net outflows in currency and deposits, partially offset by a net inflow of trade credits and FDI.

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 nine months ended 30 September
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(% GDP)			
Financial account[(1)]	**-4.7**	**-0.8**	**-5.1**	**0.1**	**-6.2**	**1.5**
Direct investment, net	**-1.7**	**-2.8**	**-2.3**	**-2.2**	**-3.3**	**-0.5**
Portfolio investment, net	**-1.0**	**2.0**	**-5.6**	**-0.7**	**-4.4**	**0.2**
Other investment, net	**-1.9**	**0.1**	**2.8**	**3.1**	**1.5**	**1.8**
Currency and deposits, net	1.4	3.0	4.0	3.2	2.9	2.1
Loans, net	-1.2	-4.0	-0.8	0.6	-1.1	0.5
Trade credit and advances, net	-2.1	1.1	-0.4	-0.7	-0.3	-0.8
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:

(1) Figure excludes 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 nine months ended 30 September
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(€ millions)			
Gross foreign reserves	**2,193.3**	**1,993.0**	**2,436.5**	**2,261.8**	**2,613.4**	**2,271.4**
Gross foreign reserves indicators						
Gross foreign reserves, as % of GDP	28.9	24.5	28.5	24.9	26.9	22.2
In months of the current year's imports	5.2	4.8	5.3	4.6	5.0	4.1
Gross foreign reserves/Short-term debt	1.5	1.6	1.8	1.7	1.7	1.1
Gross foreign reserves/Short-term debt, with residual maturity	1.0	1.1	1.1	1.1	1.2	0.8

Source: National Bank of the Republic of Macedonia

Gross international reserves increased in 2012, but decreased in 2013. There was an accumulation of foreign reserves of €124.4 million in 2012, driven by higher net purchases of foreign exchange on the foreign exchange market by the NBRM. In 2013, there was an outflow of €200.0 million in foreign reserves, predominantly as a result of portfolio valuation effects, partially offset by transactions 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 markets. Valuation effects and returns on reserves also contributed positively. Gross reserves declined by €174.7 million in 2015, in large part due to transactions by 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. In 2016, gross reserves increased by €351.6 million compared to the end of 2015. Several factors contributed to the foreign reserves growth, while net transactions on behalf of the Government made the largest contribution, primarily due to the issuance of the €450 million Eurobond and the increase in foreign currency deposits of commercial banks with the NBRM. See "*Monetary and Financial System*". Despite political turmoil and the temporary loss of confidence, NBRM interventions on the foreign exchange market also made a minor positive contribution. In the first nine months of 2017, gross international reserves declined by €342 million, driven to a large extent by transactions on behalf of the Government, due, among other factors, to the high levels of repayment of external debt and interest including the first instalment of the PBG loan, the negative valuation effects and returns and the decrease in foreign currency deposits of commercial banks with the NBRM. As of the end of September 2017, gross foreign reserves amounted to €2.27 billion. As of 30 September 2017, the NBRM had encumbered assets amounting to €300 million, consisting of securities subject to repurchase agreements. These encumbrances do not result in a decline in gross reserves or any impairment of their liquidity.

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 materials and products") which accounted for approximately 48.2% of total exports in 2016. The share of metals and textiles declined to approximately 20.2% of exports in 2016 from 24.6% at the end of 2015.

The trade deficit widened in 2012, to 25.7% of GDP, following a decrease in exports of goods (2.8%) and a small increase (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 decreases in global energy prices during 2013 led to a narrowing of trade deficit to 21.4% of GDP, 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 to 20.5% of GDP, as export growth accelerated significantly, reaching 15.8% 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 9.1%, 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 5.4%. 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.

In 2016, exports of goods increased by 5.9% year on year, primarily due to an increase in the exports of foreign companies in the TDIZs. The import component grew by 5.2%, driven by the export-related imports. This caused a deterioration of the overall trade balance by 0.6% of GDP. The first nine months of 2017 registered growth of export 15.1% compared to the same period of 2016. Increased exports by the new foreign owned companies as well as the recovery of some traditional export sectors were the main factors driving growth. In the same period imports increased by 11.2%, due to increases in industry component and energy imports. During this period, the trade deficit decreased by 0.5 percentage points of GDP compared to the same period in 2016, amounting to €1.28 billion.

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)	For the year ended 31 December					For the nine months ended 30 September	For the year ended 31 December					For the nine months ended 30 September
Groups of Products (2)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
	(€ million)						*(% of GDP)*					
Food and live animals	**529.8**	**513.1**	**517.8**	**551.7**	**554.3**	**435.7**	**7.0**	**6.3**	**6.0**	**6.1**	**5.7**	**4.3**
Meat and meat preparations	125.0	128.0	118.8	122.4	118.4	97.6	1.6	1.6	1.4	1.3	1.2	1.0
Cereals and cereal preparations	90.5	73.5	76.5	84.1	78.4	61.3	1.2	0.9	0.9	0.9	0.8	0.6
Beverages and tobacco	**57.6**	**58.8**	**54.0**	**60.2**	**72.9**	**57.5**	**0.8**	**0.7**	**0.6**	**0.7**	**0.7**	**0.6**
Crude materials, inedible, except fuels	**232.0**	**161.8**	**202.7**	**189.6**	**127.3**	**131.7**	**3.1**	**2.0**	**2.4**	**2.1**	**1.3**	**1.3**
Metalliferrous ores and metal scrap	167.4	96.5	132.3	111.1	48.7	71.5	2.2	1.2	1.5	1.2	0.5	0.7
Mineral fuels, lubricants and related materials	**1,079.9**	**808.3**	**789.7**	**633.5**	**548.1**	**490.3**	**14.2**	**9.9**	**9.2**	**7.0**	**5.6**	**4.8**
Petroleum and petroleum products	754.8	561.7	532.0	418.1	379.0	323.7	10.0	6.9	6.2	4.6	3.9	3.2
Electric energy	196.7	128.7	140.7	119.8	83.9	82.3	2.6	1.6	1.6	1.3	0.9	0.8
Animal and vegetable oils and fats	**61.6**	**51.1**	**42.6**	**52.6**	**53.3**	**32.3**	**0.8**	**0.6**	**0.5**	**0.6**	**0.5**	**0.3**
Chemical Products	**575.8**	**657.4**	**624.0**	**688.3**	**723.7**	**561.1**	**7.6**	**8.1**	**7.3**	**7.6**	**7.4**	**5.5**
Medical and pharmaceutical products	122.9	126.1	133.2	131.4	146.4	105.1	1.6	1.5	1.6	1.4	1.5	1.0
Manufactured goods classified by materials	**1,427.1**	**1,536.4**	**1,883.2**	**2,063.5**	**2,273.0**	**1,844.7**	**18.8**	**18.9**	**22.0**	**22.7**	**23.4**	**18.1**
Textile yarns, fabrics, etc.	344.2	363.6	400.4	419.8	410.9	317.6	4.5	4.5	4.7	4.6	4.2	3.1
Iron and steel	288.2	274.6	274.3	293.5	316.9	274.8	3.8	3.4	3.2	3.2	3.3	2.7
Nonferrous metals	369.4	446.1	687.1	743.6	830.4	685.4	4.9	5.5	8.0	8.2	8.5	6.7
Machinery and transport equipment	**798.3**	**871.7**	**1,030.7**	**1,168.7**	**1,302.2**	**1,056.7**	**10.5**	**10.7**	**12.0**	**12.9**	**13.4**	**10.3**
Road vehicles	211.9	190.7	224.4	246.8	298.1	240.4	2.8	2.3	2.6	2.7	3.1	2.4
Miscellaneous manufactured articles	**303.6**	**320.4**	**355.1**	**388.5**	**444.7**	**336.1**	**4.0**	**3.9**	**4.1**	**4.3**	**4.6**	**3.3**
Commodities and transactions not classified in SITC	**4.8**	**4.2**	**4.7**	**4.6**	**7.4**	**5.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
Total Imports	**5,070.6**	**4,983.3**	**5,504.5**	**5,801.1**	**6,106.7**	**4,951.4**	**66.9**	**61.1**	**64.3**	**63.9**	**62.8**	**48.5**

Notes:

(1) Import data prepared by the State Statistical Office are on a CIF basis and may not be directly comparable to the import statistics in the Balance of Payments data, which are prepared by the NBRM 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 2012	2013	2014	2015	2016	For the nine months ended 30 September 2017
	(Share of total import, %)					
Food and live animals	**10.4**	**10.3**	**9.4**	**9.5**	**9.1**	**8.8**
Meat and meat preparations	2.5	2.6	2.2	2.1	1.9	2.0
Cereals and cereal preparations	1.8	1.5	1.4	1.4	1.3	1.2
Beverages and tobacco	**1.1**	**1.2**	**1.0**	**1.0**	**1.2**	**1.2**
Crude materials, inedible, except fuels	**4.6**	**3.2**	**3.7**	**3.3**	**2.1**	**2.7**
Metalliferrous ores and metal scrap	3.3	1.9	2.4	1.9	0.8	1.4
Mineral fuels, lubricants and related materials	**21.3**	**16.2**	**14.3**	**10.9**	**9.0**	**9.9**
Petroleum and petroleum products	14.9	11.3	9.7	7.2	6.2	6.5
Electric energy	3.9	2.6	2.6	2.1	1.4	1.7
Animal and vegetable oils and fats	**1.2**	**1.0**	**0.8**	**0.9**	**0.9**	**0.7**
Chemical Products	**11.4**	**13.2**	**11.3**	**11.9**	**11.9**	**11.3**
Medical and pharmaceutical products	2.4	2.5	2.4	2.3	2.4	2.1
Manufactured goods classified by materials	**28.1**	**30.8**	**34.2**	**35.6**	**37.2**	**37.3**
Textile yarns, fabrics, etc.	6.8	7.3	7.3	7.2	6.7	6.4
Iron and steel	5.7	5.5	5.0	5.1	5.2	5.6
Non-ferrous metals	7.3	9.0	12.5	12.8	13.6	13.8
Machinery and transport equipment	**15.7**	**17.5**	**18.7**	**20.1**	**21.3**	**21.3**
Road vehicles	4.2	3.8	4.1	4.3	4.9	4.9
Miscellaneous manufactured articles	**6.0**	**6.4**	**6.5**	**6.7**	**7.3**	**6.8**
Commodities and transactions not classified in SITC	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
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 and may not be directly comparable to the import statistics in the Balance of Payments data, which are prepared by the NBRM 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 2012	2013	2014	2015	2016	For the nine months ended 30 September 2017	For the year ended 31 December 2012	2013	2014	2015	2016	For the nine months ended 30 September 2017
	(€ million)						*(% of GDP)*					
Food and live animals	**264.5**	**275.2**	**293.5**	**306.2**	**314.5**	**228.0**	**3.5**	**3.4**	**3.4**	**3.4**	**3.2**	**2.2**
Fruits and vegetables	136.9	146.0	158.5	164.7	171.4	112.5	1.8	1.8	1.9	1.8	1.8	1.1
Beverages and tobacco	**185.4**	**203.4**	**168.0**	**144.9**	**177.6**	**153.0**	**2.4**	**2.5**	**2.0**	**1.6**	**1.8**	**1.5**
Beverages	70.9	66.0	58.5	48.3	59.0	43.6	0.9	0.8	0.7	0.5	0.6	0.4
Tobacco and tobacco preparations	114.5	137.3	109.5	96.6	118.6	109.4	1.5	1.7	1.3	1.1	1.2	1.1
Crude materials, inedible, except fuels	**206.4**	**209.7**	**202.0**	**195.2**	**187.5**	**213.2**	**2.7**	**2.6**	**2.4**	**2.2**	**1.9**	**2.1**
Metalliferrous ores and metal scrap	*163.7*	*164.1*	*155.4*	*149.0*	137.8	**157.3**	2.2	2.0	1.8	1.6	1.4	1.5
Mineral fuels, lubricants and related materials	**201.0**	**80.3**	**65.9**	**55.5**	**49.8**	**53.5**	**2.6**	**1.0**	**0.8**	**0.6**	**0.5**	**0.5**
Petroleum and petroleum products	160.5	71.5	55.4	42.4	39.1	35.3	2.1	0.9	0.6	0.5	0.4	0.3
Animal and vegetable oils and fats	**12.1**	**7.3**	**9.4**	**18.3**	**18.4**	**4.2**	**0.2**	**0.1**	**0.1**	**0.2**	**0.2**	**0.0**
Chemical Products	**528.9**	**630.4**	**795.9**	**923.0**	**1,036.7**	**876.7**	**7.0**	**7.7**	**9.3**	**10.2**	**10.7**	**8.6**
Medical and pharmaceutical products	65.1	60.7	61.7	63.8	69.5	54.5	0.9	0.7	0.7	0.7	0.7	0.5
Chemical materials and products	388.1	484.0	655.4	779.2	883.4	755.2	5.1	5.9	7.7	8.6	9.1	7.4
Manufactured goods classified by materials	**808.1**	**775.8**	**726.0**	**724.4**	**622.9**	**506.6**	**10.7**	**9.5**	**8.5**	**8.0**	**6.4**	**5.0**
Non-metallic mineral manufactures, n.e.s	43.0	37.5	37.2	43.3	40.4	37.4	0.6	0.5	0.4	0.5	0.4	0.4
Iron and steel	649.7	606.0	551.3	522.2	411.9	336.9	8.6	7.4	6.4	5.8	4.2	3.3
Machinery and transport equipment	**310.4**	**429.4**	**789.4**	**1,008.6**	**1,204.7**	**1,069.3**	**4.1**	**5.3**	**9.2**	**11.1**	**12.4**	**10.5**
General industrial machinery and equipment	147.2	214.3	335.0	446.6	517.9	411.5	1.9	2.6	3.9	4.9	5.3	4.0
Electrical machinery, apparatus and appliances,	105.2	149.8	326.3	401.7	474.9	452.4	1.4	1.8	3.8	4.4	4.9	4.4
Miscellaneous manufactured articles	**606.3**	**621.2**	**693.3**	**710.4**	**713.0**	**563.3**	**8.0**	**7.6**	**8.1**	**7.8**	**7.3**	**5.5**
Clothing	468.6	472.0	509.2	481.9	464.6	343.5	6.2	5.8	5.9	5.3	4.8	3.4
Footwear	53.8	58.9	63.5	57.9	51.4	45.1	0.7	0.7	0.7	0.6	0.5	0.4
Commodities and transactions not classified in SITC	**0.7**	**2.5**	**3.2**	**1.1**	**4.1**	**1.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total Exports	**3,124.0**	**3,235.2**	**3,746.6**	**4,087.6**	**4,329.3**	**3,669.6**	**41.2**	**39.7**	**43.8**	**45.1**	**44.5**	**35.9**

Notes:

(1) Export data prepared by the State Statistical Office are on a CIF basis and may not be directly comparable to the export statistics in the Balance of Payments data, which are prepared by the NBRM 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 2012	2013	2014	2015	2016	For the nine months ended 30 September 2017
			(Share of total export, %)			
Food and live animals	**8.5**	**8.5**	**7.8**	**7.5**	**7.3**	**6.2**
Fruits and vegetables	4.4	4.5	4.2	4.0	4.0	3.1
Beverages and tobacco	**5.9**	**6.3**	**4.5**	**3.5**	**4.1**	**4.2**
Beverages	2.3	2.0	1.6	1.2	1.4	1.2
Tobacco and tobacco preparations	3.7	4.2	2.9	2.4	2.7	3.0
Crude materials, inedible, except fuels	**6.6**	**6.5**	**5.4**	**4.8**	**4.3**	**5.8**
Metalliferrous ores and metal scrap	5.2	5.1	4.1	3.6	3.2	4.3
Mineral fuels, lubricants and related materials	**6.4**	**2.5**	**1.8**	**1.4**	**1.2**	**1.5**
Petroleum and petroleum products	5.1	2.2	1.5	1.0	0.9	1.0
Animal and vegetable oils and fats	**0.4**	**0.2**	**0.3**	**0.4**	**0.4**	**0.1**
Chemical Products	**16.9**	**19.5**	**21.2**	**22.6**	**23.9**	**23.9**
Medical and pharmaceutical products	2.1	1.9	1.6	1.6	1.6	1.5
Chemical materials and products	12.4	15.0	17.5	19.1	20.4	20.6
Manufactured goods classified by materials	**25.9**	**24.0**	**19.4**	**17.7**	**14.4**	**13.8**
Non-metallic mineral manufactures, n.e.s	1.4	1.2	1.0	1.1	0.9	1.0
Iron and steel	20.8	18.7	14.7	12.8	9.5	9.2
Machinery and transport equipment	**9.9**	**13.3**	**21.1**	**24.7**	**27.8**	**29.1**
General industrial machinery and equipment	4.7	6.6	8.9	10.9	12.0	11.2
Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof	3.4	4.6	8.7	9.8	11.0	12.3
Miscellaneous manufactured articles	**19.4**	**19.2**	**18.5**	**17.4**	**16.5**	**15.4**
Clothing	15.0	14.6	13.6	11.8	10.7	9.4
Footwear	1.7	1.8	1.7	1.4	1.2	1.2
Commodities and transaction not classified in SITC	**0.0**	**0.1**	**0.1**	**0.0**	**0.1**	**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 and may not be directly comparable to the export statistics in the Balance of Payments data, which are prepared by the NBRM 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 nine months ended 30 September	
	2012		2013		2014		2015		2016		2017	
	(€ 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	**3,124.0**	**100.0**	**3,235.2**	**100.0**	**3,746.6**	**100.0**	**4,087.6**	**100.0**	**4,329.3**	**100.0**	**3,669.6**	**100.0**
Germany	917.1	29.4	1,157.9	35.8	1,545.5	41.3	1,798.3	44.0	2,034.0	47.0	1,712.6	46.7
Greece	146.8	4.7	161.3	5.0	170.7	4.6	150.1	3.7	147.7	3.4	139.8	3.8
Serbia	231.8	7.4	204.3	6.3	196.2	5.2	185.6	4.5	194.3	4.5	155.6	4.2
Italy	218.8	7.0	216.0	6.7	232.5	6.2	167.9	4.1	158.4	3.7	121.4	3.3
Bulgaria	223.5	7.2	245.2	7.6	247.4	6.6	245.1	6.0	223.0	5.2	219.2	6.0
Kosovo	305.1	9.8	208.7	6.5	174.6	4.7	177.8	4.4	188.6	4.4	145.8	4.0
Russia	25.9	0.8	23.8	0.7	31.9	0.9	31.7	0.8	44.4	1.0	33.2	0.9
Great Britain .	49.0	1.6	60.9	1.9	52.1	1.4	42.5	1.0	52.7	1.2	50.3	1.4
China	124.1	4.0	80.3	2.5	70.8	1.9	132.1	3.2	43.5	1.0	49.4	1.3
Turkey	51.9	1.7	54.1	1.7	50.9	1.4	66.6	1.6	63.9	1.5	53.8	1.5
Others	829.8	26.6	822.8	25.4	974.0	26.0	1,089.8	26.7	1,178.8	27.2	988.5	26.9
Import	**5,070.6**	**100.0**	**4,983.3**	**100.0**	**5,504.5**	**100.0**	**5,801.1**	**100.0**	**6,106.7**	**100.0**	**4,951.4**	**100.0**
Germany	493.2	9.7	522.3	10.5	608.8	11.1	732.4	12.6	750.2	12.3	576.7	11.6
Greece	627.8	12.4	526.3	10.6	502.2	9.1	451.0	7.8	449.7	7.4	397.4	8.0
Serbia	375.4	7.4	393.2	7.9	451.3	8.2	446.0	7.7	459.8	7.5	355.0	7.2
Italy	312.7	6.2	324.1	6.5	346.0	6.3	352.8	6.1	348.0	5.7	270.5	5.5
Bulgaria	316.9	6.3	276.0	5.5	290.0	5.3	307.9	5.3	281.6	4.6	210.5	4.3
Kosovo	22.2	0.4	22.4	0.4	27.2	0.5	22.8	0.4	29.9	0.5	25.4	0.5
Russia	278.5	5.5	123.3	2.5	106.3	1.9	139.3	2.4	129.3	2.1	109.4	2.2
Great Britain .	436.0	8.6	547.0	11.0	671.9	12.2	558.7	9.6	654.7	10.7	496.9	10.0
China	291.1	5.7	285.8	5.7	326.8	5.9	355.7	6.1	381.5	6.2	285.8	5.8
Turkey	252.9	5.0	237.9	4.8	284.8	5.2	291.4	5.0	315.8	5.2	229.0	4.6
Others	1,663.8	32.8	1,724.9	34.6	1,889.3	34.3	2,143.4	36.9	2,306.2	37.8	1,994.6	40.3

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 47% of total exports in 2016. 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. The following table sets out amount and composition of exports to Germany for the periods indicated:

	For the year ended 31 December 2016		For the nine months ended 30 September 2017	
	(€ millions)	*(Share in percent)*	*(€ millions)*	*(Share in percent)*
Total exports to Germany[(1) (2)]	2,034.0	100.0%	1,946.7	100.0%
Key exports by tariff:				
Section II: Vegetable products	13.7	0.7%	13.1	0.7%
Section IV: Prepared foodstuffs, beverages and tobacco	23.0	1.1%	16.0	0.8%
Section VI: Chemical products	873.3	42.9%	846.8	43.5%
Section XI: Textiles	301.5	14.8%	245.6	12.6%
Section XV: Base metals	20.6	1.0%	23.8	1.2%
Section XVI: Machinery and electrical equipment	707.6	34.8%	707.8	36.4%
Section XX: Miscellaneous manufactured articles	76.6	3.8%	73.6	3.8%

Note*:*

(1) Preliminary data.

(2) Section references are provided for ease of reference only. (More details in: Customs Clearance Guide 2017, http://www.customs.gov.mk/index.php/en/biznis-zaednica-mk-2/presmetka-na-davacki-en/carinska-tarifa-mk)

Source: State Statistical Office and NBRM calculations.

On the other hand, the share of Greece and Serbia in total exports continued to decrease to 3.4% and 4.5% in 2016, respectively, and from 4.7% and 7.4% in 2012, respectively. The highest trade deficit was recorded with Great Britain, reflecting imports of raw materials used in manufacturing products for export.

In terms of trading regions, the EU remains the leading trading partner of Macedonia with an average share of total trade of 66.6% from 2012 to 2016. The share of exports directed to EU countries (mainly to the EU's largest economy, Germany) in this period increased by 17.2 percentage points of the total export, while imports from the EU increased by 3.7 percentage points of the total import. Meanwhile, the share of trade with Western Balkan countries amounted to an average of 12.6% of total trade in the period between 2012 and 2016, which represents a decline of 5.4 percentage points. In the first nine months of 2017, 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. Amidst the global economic slowdown in 2012, accompanied by foreign investors' risk aversion, FDI significantly decreased to €111.2 million. Positive inflows were registered in the form of equity and reinvestment of earnings, while intercompany lending remained fairly constant. Since then, annual FDI inflows fluctuate in the range of €200-340 million, comprised of equity and reinvested earnings and intercompany lending being positive, on a cumulative basis. FDI inflows slowed in 2017, primarily due to the political uncertainty in Macedonia, amounting to €45.7 million in the first nine months of 2017, as a result of inflows based on equity and reinvested earnings.

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 showed a gradual increase in 2012 and 2013, followed by a slight decrease in 2014, reflecting negative flow from repatriation of profits by companies with foreign ownership. In 2015, the share of FDI stock increased to 48.5% of GDP and stabilised close to a level of 48% of GDP by the end of 2016.

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

	For the year ended 31 December					For the nine months ended 30 Sept.
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Annual FDI Flows[1]						
in € millions	111.2	252.2	205.1	216.7	338.4	45.7
as % of GDP	1.5	3.1	2.4	2.4	3.5	0.4
FDI stock [(2)]						
in € millions	3,685.5	3,980.0	4,023.6	4,400.1	4,657.3	-
as % of GDP	48.6	48.8	47.0	48.5	47.9	-

Notes:

(1) Reflects inward FDI flows only.

(2) FDI stock data is only available up until the end of 2016.

Source: National Bank of the Republic of Macedonia

In 2016, the FDI stock was concentrated in manufacturing (representing 36.2% of total FDI stock for the year), financial services (19.9%) and wholesale and retail trade (14.3%). 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				
	2012	**2013**	**2014**	**2015**	**2016**
	(€ million)				
Greenfield investments	1,179.8	1,226.0	1,081.8	1,107.7	1,275.6
Total FDI	3,263.4	3,417.0	3,186.4	3,359.7	3,524.6
Share of greenfield investment in total FDI (in %)	36.2	35.9	34.0	33.0	36.2

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 Austria, the United Kingdom, Greece, Netherlands and Slovenia, as at 31 December 2016.

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

	For the year ended 31 December									
	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)*
Austria	396.8	10.8	484.3	12.2	516.3	12.8	524.9	11.9	567.5	12.2
Bulgaria	142.8	3.9	138.9	3.5	116.6	2.9	130.3	3.0	148.0	3.2
Croatia	85.4	2.3	92.1	2.3	95.0	2.4	92.9	2.1	93.8	2.0
Cyprus	57.7	1.6	68.7	1.7	51.1	1.3	54.4	1.2	162.9	3.5
France	134.8	3.7	137.2	3.4	30.3	0.8	41.0	0.9	43.9	0.9
Germany	83.5	2.3	111.3	2.8	154.5	3.8	190.7	4.3	248.2	5.3
Greece	436.2	11.8	433.5	10.9	429.2	10.7	477.3	10.8	463.4	10.0
Hungary	346.4	9.4	324.6	8.2	227.3	5.6	226.5	5.1	209.5	4.5
Italy	62.7	1.7	67.2	1.7	81.4	2.0	94.2	2.1	107.6	2.3
Luxembourg	18.8	0.5	18.7	0.5	16.2	0.4	38.2	0.9	36.8	0.8
Netherlands	783.0	21.2	815.1	20.5	869.7	21.6	960.0	21.8	423.3	9.1
Serbia	77.7	2.1	72.4	1.8	77.2	1.9	84.7	1.9	93.0	2.0
Slovenia	348.8	9.5	396.7	10.0	387.6	9.6	375.0	8.5	374.5	8.0
Switzerland	88.5	2.4	72.0	1.8	173.8	4.3	152.1	3.5	179.6	3.9
Turkey	145.3	3.9	168.1	4.2	182.1	4.5	214.6	4.9	247.8	5.3
United Kingdom	39.0	1.1	111.6	2.8	141.5	3.5	134.9	3.1	519.4	11.2
Others	438.1	11.9	467.7	11.8	473.9	11.8	608.5	13.8	737.8	15.8
Total	**3,685.5**	**100.0**	**3,980.0**	**100.0**	**4,023.6**	**100.0**	**4,400.1**	**100.0**	**4,657.3**	**100.0**

Notes:

(1) FDI stock data is only available up until the end of 2016.

(2) In June 2014, a revision of the data for 2010, 2011 and 2012 was done in accordance with BPM6.

Source: National Bank of the Republic of Macedonia

Foreign Direct Investment in Macedonia (flow) - by country

	For the year ended 31 December										For the nine months ended 30 September	
	2012		2013		2014		2015		2016		2017	
	(€ 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	47.7	42.9	56.3	22.3	26.2	12.8	18.0	8.3	35.2	10.4	23.6	51.8
Bulgaria	7.1	6.4	-2.9	-1.1	-8.1	-3.9	-0.4	-0.2	17.8	5.3	1.5	3.3
Croatia	5.4	4.9	4.6	1.8	0.5	0.3	-3.0	-1.4	2.5	0.7	2.1	4.5
Cyprus	2.3	2.1	8.5	3.4	-6.2	-3.0	0.8	0.4	8.6	2.5	1.2	2.6
France	0.9	0.8	2.5	1.0	-105.7	-51.5	-157.0	-72.4	3.2	1.0	0.0	-0.1
Germany	12.1	10.8	32.0	12.7	45.8	22.3	39.3	18.1	48.5	14.3	23.0	50.5
Greece	2.1	1.9	-0.9	-0.4	-3.3	-1.6	43.8	20.2	-15.7	-4.6	3.3	7.3
Hungary	-0.1	-0.1	-22.0	-8.7	-1.4	-0.7	-0.6	-0.3	-3.2	-0.9	0.1	0.2
Italy	2.1	1.9	5.7	2.3	11.5	5.6	10.4	4.8	20.0	5.9	4.7	10.3
Luxembourg	1.3	1.2	0.0	0.0	-2.0	-1.0	-21.7	-10.0	3.8	1.1	13.3	29.2
Netherlands	8.1	7.3	37.1	14.7	40.1	19.6	94.4	43.6	11.0	3.2	-2.7	-5.9
Serbia	-0.6	-0.5	-0.4	-0.2	3.0	1.5	3.1	1.4	9.3	2.8	0.2	0.5
Slovenia	8.8	7.9	38.0	15.1	-6.6	-3.2	-7.7	-3.5	4.6	1.4	1.6	3.6
Switzerland	-15.0	-13.5	-8.5	-3.4	131.7	64.2	3.5	1.6	18.2	5.4	-3.1	-6.8
Turkey	23.5	21.2	22.8	9.0	17.1	8.3	27.0	12.5	32.9	9.7	-2.0	-4.4
United Kingdom	0.5	0.4	45.1	17.9	39.2	19.1	-37.6	-17.4	50.3	14.8	-76.4	-167.3
Others	5.1	4.6	34.3	13.6	23.3	11.3	204.4	94.3	91.4	27.0	55.1	120.8
Total	111.2	100.0	252.2	100.0	205.1	100.0	216.7	100.0	338.4	100.0	45.7	100.0

Notes: The data are in accordance with BPM6.

For 2017 data, components that are distributed by countries are deemed to be equity other than reinvestment of earnings and loans within debt instruments. Reinvested earnings are incorporated in “Others”.

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

Stock of Direct Investments in Republic of Macedonia – by activity	As at 31 December									
	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)*
Agriculture, forestry and fishing	**36.5**	**1.0**	**42.9**	**1.1**	**43.6**	**1.1**	**43.8**	**1.0**	**46.4**	**1.0**
Mining and quarrying	**156.4**	**4.2**	**164.8**	**4.1**	**182.3**	**4.5**	**119.3**	**2.7**	**116.7**	**2.5**
Manufacturing	**1,281.5**	**34.8**	**1,388.9**	**34.9**	**1,435.8**	**35.7**	**1,563.7**	**35.5**	**1,685.6**	**36.2**
Electricity, gas, steam and air conditioning supply	**278.8**	**7.6**	**296.5**	**7.5**	**327.7**	**8.1**	**327.4**	**7.4**	**365.2**	**7.8**
Water supply, sewerage, water management and remediation activities	**2.9**	**0.1**	**2.2**	**0.1**	**2.3**	**0.1**	**4.3**	**0.1**	**4.4**	**0.1**
Construction	**157.1**	**4.3**	**199.1**	**5.0**	**201.3**	**5.0**	**231.2**	**5.3**	**337.6**	**7.2**
Services	**1,772.2**	**48.1**	**1,885.5**	**47.4**	**1,830.6**	**45.5**	**2,109.3**	**47.9**	**2,100.3**	**45.1**
Wholesale and retail trade, repair of motor vehicles and motorcycles	453.9	12.3	489.4	12.3	505.3	12.6	706.4	16.1	666.0	14.3
Transportation and storage	39.0	1.1	41.0	1.0	39.6	1.0	39.4	0.9	34.5	0.7
Accommodation and food services activities	41.5	1.1	35.4	0.9	32.8	0.8	43.9	1.0	42.0	0.9
Information and communication	158.3	4.3	171.9	4.3	165.8	4.1	174.4	4.0	158.4	3.4
Financial and insurance activities	890.2	24.2	922.6	23.2	862.2	21.4	902.8	20.5	925.1	19.9
Real estate activities	62.2	1.7	78.3	2.0	76.0	1.9	65.2	1.5	67.7	1.5
Other service activities	127.1	3.4	146.9	3.7	148.9	3.7	177.3	4.0	206.5	4.4
Private purchases and sales of real estate	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total	**3,685.5**	**100.0**	**3,980.0**	**100.0**	**4,023.6**	**100.0**	**4,400.1**	**100.0**	**4,657.3**	**100.0**

Notes:

(1) In June 2014, the data for 2010, 2011 and 2012 was revised in accordance with BPM6.

Source: National Bank of the Republic of Macedonia

Gross External Debt

The following table sets out the breakdown of gross external debt for the periods indicated:

Gross External Debt (1)(2)	As at 31 December					As at 30 September
	2012	2013	2014	2015	2016	2017
			(€ million)			
General Government	1,589.8	1,608.9	2,125.6	2,091.0	2,511.9	2,521.2
Monetary Authorities (NBRM)	234.2	73.2	78.2	83.2	83.2	383.0
Banks	618.8	609.3	614.4	585.9	591.7	552.8
Other Sectors	1,730.9	1,758.9	1,879.8	1,845.6	2,077.5	2,125.6
Direct investment: Intercompany lending	997.9	1,169.4	1,294.2	1,684.7	1,952.2	2,127.6
Gross External Debt	**5,171.7**	**5,219.7**	**5,992.3**	**6,290.5**	**7,216.6**	**7,710.2**
of which:						
Public debt	2,162.1	2,172.4	2,846.8	2,933.7	3,445.3	3,710.6
Private debt	3,009.5	3,047.4	3,145.5	3,356.9	3,771.2	3,999.7

Source: National Bank of the Republic of Macedonia

The following table shows the breakdown of gross external debt as a percentage of GDP for the periods indicated:

Gross External Debt (1)(2)	As at 31 December					As at 30 September
	2012	2013	2014	2015	2016	2017
			(% of GDP)			
General Government	21.0	19.7	24.8	23.0	25.8	24.7
Monetary Authorities (NBRM)	3.1	0.9	0.9	0.9	0.9	3.8
Banks	8.2	7.5	7.2	6.5	6.1	5.4
Other Sectors	22.8	21.6	22.0	20.3	21.4	20.8
Direct investment: Intercompany lending	13.2	14.3	15.1	18.6	20.1	20.8
Gross External Debt	**68.2**	**64.0**	**70.0**	**69.3**	**74.2**	**75.5**
of which:						
Public debt	28.5	26.7	33.2	32.3	35.4	36.3
Private debt	39.7	37.4	36.7	37.0	38.8	39.2

Notes:

(1) Including liabilities of the NBRM based on repo arrangements.

(2) Preliminary data
  a) In September 2017, 2016 data were revised, due to improved coverage of credit indebtedness data.
  b) In June 2017, 2014 data were revised in accordance with BPM6 and the External Debt Statistics: Guide for Compilers and Users, IMF, 2013.

Source: National Bank of the Republic of Macedonia

As at 31 December 2016, gross external debt amounted to 74.2% of GDP, an increase of 6.0 percentage points of GDP from 31 December 2012. The external debt expanded predominantly because of the rise in public debt (6.9 percentage points of GDP). The latest data, as of September 2017, indicate a further increase of the gross external debt to 75.5% of GDP, mainly reflecting regular repo transactions of the NBRM. NBRM regularly conducts repo and reverse repo transactions, which at the end of September 2017 amounted to approximately €300 million. All such transactions are liquidated by the year-end.

Private Foreign debt

As at 31 December 2016, private foreign debt was €3.8 billion, or 38.8% of GDP and 52.3% of the gross external debt. By the end of 2016, in nominal terms, private foreign debt had expanded by 25.3% compared to its level at the end of 2012, but as a percentage of GDP, it increased by only 0.9 percentage point. 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 2016.

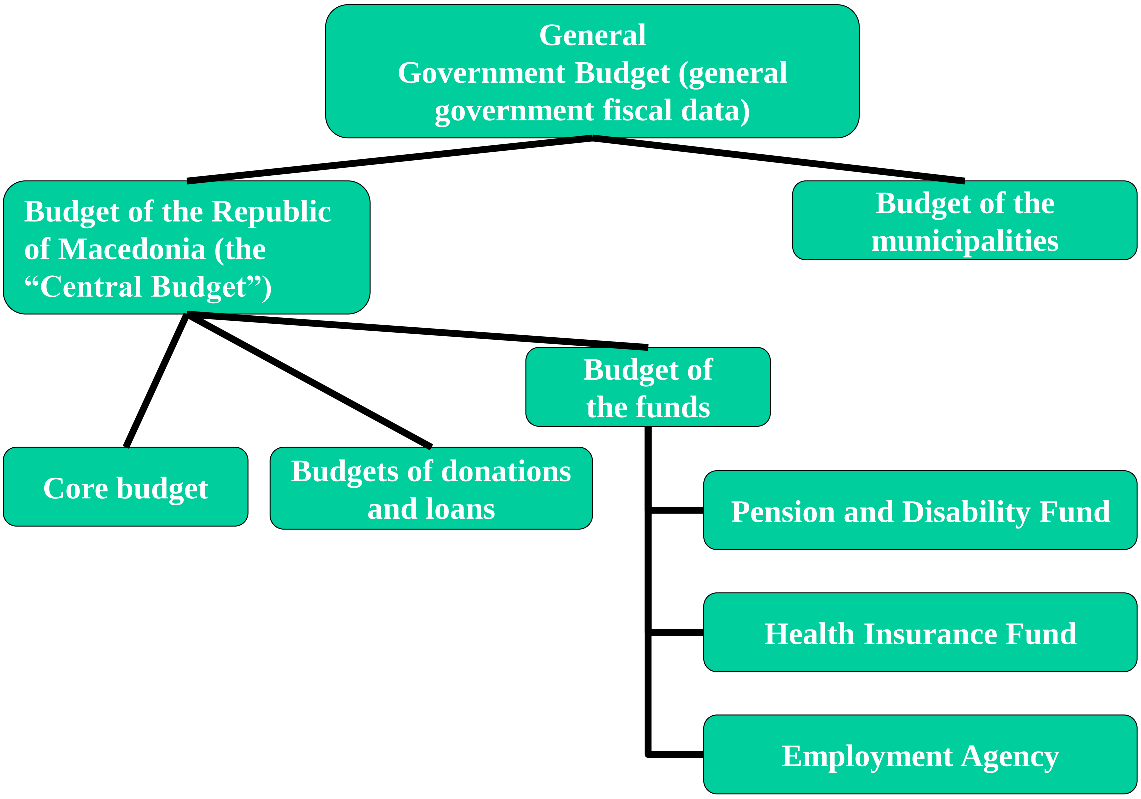
The last available data as at 30 September 2017 show a slight increase in private foreign debt to 39.2% of GDP, representing a 0.4 percentage point increase compared to 31 December 2016. This change is predominantly due to the further increase of FDI related to gross foreign debt.

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 occurring by 31 December of each year. See "*– 2018 Central Budget*".

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, 2015, 2016 and 2017.

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.

2012-2016 results

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 amounted to MKD 20.9 billion. MKD 15.3 billion in block grants, earmarked grants and VAT grants for financing the operating costs related to public institutions were transferred to local government units. Capital expenditures in 2012 totalled MKD 18.8 billion. The budget deficit for 2012 amounted to MKD 17.7 billion, or 3.8% of GDP.

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. The budget deficit for 2013 amounted to MKD 19.3 billion or 3.8% of GDP.

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 amounted to MKD 44.2 billion and 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 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. 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%. The biggest increase in tax revenues was revenue from corporate 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. Total budget expenditures realized in 2015 were 7.5% higher than the total budget expenditures realized in 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 budget deficit amounted to MKD 19.4 billion, or 3.5% of GDP.

In 2016, total budget revenues amounted to MKD 169.4 billion, or 97.2% compared to those projected in the 2016 Budget. Budget revenues were 5.1% higher compared to 2015. Within budget total revenues, MKD 150.4 billion related to tax revenues and social contributions. Tax revenues accounted for the largest share of total revenues (59%), followed by social contributions (30%), non-tax revenues (8%), donations (2%) and capital revenues (1%). The Republic of Macedonia realised tax revenues of MKD 100.1 billion, in line with the annual plan. Tax revenues on the basis of VAT accounted for the largest part of total tax revenue, amounting to 47%, which represented an increase of 7.7% compared to 2015. The most significant increase in tax revenues related to revenue from the excise tax, which were 12.3% higher than in 2015, followed by VAT revenue, which increased by 10.2%, and revenues from personal income tax, which increased by 10%. Profit tax revenues were 10.4% lower than in 2015. Revenues from social security contributions increased by 5% compared to 2015, amounting to 100.3% of the 2016 Government budget for social security contributions. Non-tax revenues and capital revenues amounted to MKD 13 billion and MKD 1.9 billion, respectively. Donation based revenues amounted to MKD 3.6 billion.

Total 2016 budget expenditures amounted to MKD 185.4 billion, or 93.9% of the annual projection, which represented an increase of 2.6% compared to 2015. Salaries and allowances accounted for MKD 25.9 billion in 2016, representing an increase of 5.2% compared to 2015. Expenditures related to goods and services were 7.7% lower than in 2015, amounting to MKD 16.7 billion, while transfers were 5.5% higher, accounting for MKD 118.9 billion. MKD 48.3 billion were allocated for regular payment of pensions, while transfers to private pension funds accounted for MKD 6.3 billion. The Government allocated MKD 1.2 billion to the Employment Agency for unemployment benefits; social benefits amounted to MKD 7.6 billion. Funds to finance health services and benefits amounted to MKD 25.6 billion. As for other transfers, grants were regularly transferred to local government units via VAT grants and block and earmarked grants in an amount of MKD 16.6 billion to finance the competences transferred to municipalities in the fields of education, child care, culture and fire fighting protection.

In 2016, MKD 6.8 billion were allocated to interest payments and MKD 20.8 to the repayment of principal. Capital expenditures in 2016 amounted to MKD 17 billion, representing a 9.1% decrease compared to 2015.

In the period from 1 January to 31 December 2016, the Central Government Budget deficit amounted to MKD 16 billion, or 2.7% of GDP.

2017 Supplemental Budget

Political instability in Macedonia in the latter half of 2016 and the first half of 2017 resulted in deposit outflows from Macedonia's banking sector (which is predominantly foreign owned), lower economic performance and deviations from budgeted amounts, both on the revenue and expenditure side of the budget. As a result, the Government of Macedonia imposed adjustments, which were set forth in a supplemental budget. Under the 2017 Supplemental Budget, total government revenues are projected at MKD 184.7 billion or 29.3% of GDP, with an estimated 57.8% derived from tax revenues (which includes personal income tax, profit tax, VAT, excises, import duties and other taxes), 28.5% from social contributions, and the rest from a mix of other revenue sources including non-tax revenues, capital revenues and foreign donations. Given that the Supplemental budget is only a budget adaptation, the adjustments were made in line with projections, according to which revenues for upcoming periods are reduced to more realistic expectations, and the budget deficit is not increased, i.e., it is projected at the level of 2.9% of GDP.

Total government expenditure under the budget is projected at MKD 203.3 billion or 32.2% of GDP. 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 markets. The Supplemental Budget includes a target fiscal deficit of 2.9% of GDP, which remains unchanged compared to the 2017 Budget. Under the Supplemental Budget, revenues and expenditures were revised downwards by MKD 2.9 billion. Within the Supplemental Budget, travel-related expenses and costs related to advertising and promotions were significantly reduced. Expenditure cuts relating to non-productive costs provide for smooth implementation conditions for the financial policies of the new Government.

Nine months ended 30 September 2017 results

In the period from January to September 2017, total budget revenues amounted to MKD 130.9 billion (70.9% of the Supplemental Budget for 2017), representing an increase of 4.1% compared to the same period in 2016. Tax revenues and social contributions accounted for MKD 116.3 billion (72.9%), with tax revenues amounting to MKD 77.8 billion, representing an increase of 3.9% compared to the same period in 2016. Social security contributions amounted to MKD 38.5 billion, representing an increase of 4.4% compared to the same period in 2016. Non-tax revenues amounted to MKD 10 billion, capital revenues were realised in the amount of MKD 1.1 billion. Revenues on the basis of donations amounted to MKD 3.4 billion.

In the period from January to September 2017, total budget expenditures amounted to MKD 142 billion, representing 69.9% of the budgeted amount, and an increase of 5.3% compared to the same period in 2016. Total realized expenditures were comprised of current expenditures amounting to MKD 130.5 billion (an increase of 5.2% compared to the same period in 2016) and capital expenditures amounting to MKD 11.5 billion (an increase of 6% compared to the same period in 2016).

As of 30 September 2017, the Central Government Budget deficit amounted to MKD 11.1 billion, or 1.75% of the projected GDP.

2018 Central Budget

In the 2018 Central Budget, the Government projects real GDP growth of 3.2% and an inflation rate of 1.7% for 2018. Total government revenues are projected at MKD 193.5 billion, 4.7% higher than the amount for 2017. The increase in revenues reflects expected growth in tax revenues and non-tax revenues of 7.5% and 5.4%, respectively. Key revenue items for 2018 include an estimated 59.3% derived from tax revenues (which includes personal income tax (8.6% of total revenues), profit tax (6.9%), VAT (26.4%), excise tax (13.4%), import duties (2.8%) and other taxes), 28.6% from social contributions (which includes pension contributions (19.3%) and healthcare contributions (8.2%)), 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 211.7 billion, 4.1% higher than the amount in 2017. The increase in expenditure reflects expected growth in current expenditures and capital expenditures of 4% and 3.2%, respectively. Key expenditure items for 2018 include an estimated 88.6% for current expenditures (which includes wages (12.8%), expenditures for goods and services (8.3%), transfers and subsidies (8.2%), pensions (25.5%), healthcare (13.3%) and transfers to local government units (8.6%)) and 11.4% for capital expenditures.

The budget includes a target fiscal deficit of 2.7% of GDP, lower than the fiscal deficit planned in 2017 of 2.9% of GDP. This deficit is expected to be financed through the domestic market and government borrowings on the international capital market, depending on market conditions. Gradual fiscal consolidation, strict control and decrease of less productive expenditures, at the same time providing a significant level of capital investments and subsidies aimed at supporting the national economy will remain as one of the priorities of the Government.

The 2018 Central Budget was adopted by the Assembly on 22 December 2017.

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

Consolidated Central Government Budget	Year ended 31 December						Nine months ended 30 September	
	2012	**2013***	**2014**	**2015**	**2016**	**Budget 2017**	**2016**	**2017**
					(*MKD million*)			
TOTAL REVENUES	**138,115**	**140,248**	**145,929**	**161,207**	**169,356**	**184,745**	**125,813**	**130,972**
Taxes and Contributions	**117,382**	**120,991**	**129,310**	**140,826**	**150,362**	**159,497**	**111,886**	**116,330**
Tax Revenues (SRA)	998	1,075	1,280	1,569	1,605	1,686	1,181	1,076
Taxes	**75,619**	**77,478**	**83,845**	**91,357**	**98,457**	**105,069**	**73,835**	**76,745**
Personal Income Tax	9,553	10,254	12,320	12,910	14,205	15,243	9,992	10,786
Profit Tax	3,652	4,421	5,060	12,024	10,768	11,809	8,234	9,180
VAT	38,469	39,835	43,860	41,694	45,949	49,053	34,956	35,555
Excises	16,596	15,990	17,392	19,783	22,215	23,338	16,712	17,125
Import Duties	4,067	4,255	4,223	4,330	4,761	5,108	3,521	3,766
Other Taxes	3,282	2,723	990	616	559	518	420	333
Contributions	40,765	42,438	44,185	47,900	50,300	52,742	36,870	38,509
Pension Insurance Contributions	27,524	28,632	29,726	32,215	33,814	35,475	24,777	25,890
Unemployment Contributions	1,746	1,802	1,884	2,042	2,152	2,200	1,576	1,648
Health Insurance Contributions	11,495	12,004	12,575	13,643	14,334	15,067	10,517	10,971
Non Tax Revenues	**12,626**	**12,109**	**10,634**	**12,859**	**12,973**	**16,321**	**9,529**	**10,009**
Non Tax Revenues (SRA)	**5,815**	**5,814**	**5,990**	**6,646**	**7,447**	**10,557**	**5,378**	**6,379**
Profit of Public Financial Institutions	178	271	261	716	850	400	766	123
Administrative Taxes and Charges	1,730	1,844	1,988	1,882	1,739	2,050	1,285	1,213
Health co-payment	335	335	356	384	415	416	307	326
Other Administrative Taxes	721	831	1,190	1,733	1,886	2,400	1,447	1,702
Other Non-Tax Revenues	1,705	3,014	849	1498	636	498	346	266
Road Fund Fees	2,142	0	0	0	0	0	0	0
Capital Revenues	**4,433**	**3,139**	**1,874**	**2,265**	**1,977**	**1,941**	**1,695**	**1,100**
Foreign Donations	**3,045**	**3,451**	**3,383**	**4,733**	**3,648**	**6,636**	**2,441**	**3,366**
Revenues from repayment of loans	**629**	**558**	**728**	**524**	**396**	**350**	**262**	**167**

Consolidated Central Government Budget	Year ended 31 December						Nine months ended 30 September	
	2012	2013*	2014	2015	2016	Budget 2017	2016	2017
				(*MKD million*)				
TOTAL EXPENDITURES	**155,840**	**159,505**	**168,063**	**180,632**	**185,407**	**203,312**	**134,900**	**142,027**
Current Expenditures	**137,083**	**142,894**	**150,440**	**161,965**	**168,433**	**179,915**	**124,029**	**130,501**
Wages and Allowances	22,714	22,566	23,096	24,685	25,958	26,614	19,378	19,627
Goods and Services	14,652	14,877	15,467	18,088	16,702	17,666	11,132	10,542
Transfers	95,501	100,845	106,787	112,734	118,902	127,421	88,723	93,900
Transfers (SRA)	1,196	1,011	962	1592	1517	2,081	877	1,284
Social Transfers	69,676	74,250	78,367	82,903	89,005	94,725	66,429	69,917
Pensions Fund	*40,893*	*44,954*	*48,073*	*50,285*	*54,622*	*57,900*	*40,724*	*43,288*
Unemployment Benefits	*2,239*	*1,935*	*1,702*	*1,482*	*1,216*	*1,433*	*943*	*716*
Social Benefits	*5,604*	*5,941*	*6,462*	*7,489*	*7,571*	*8,317*	*5,604*	*6,143*
Health Care	*20,940*	*21,420*	*22,130*	*23,647*	*25,596*	*27,075*	*19,158*	*19,770*
Other Transfers	24,629	25,584	27,458	28,239	28,380	30,615	21,417	22,699
Interest	4,216	4,606	5,090	6,458	6,871	8,214	4,796	6,432
Domestic	1,306	1,994	2,525	2,691	2,593	2,602	1,836	2,037
Foreign	2,910	2,612	2,565	3,767	4,278	5,612	2,960	4,395
Capital Expenditures	**18,757**	**16,611**	**17,623**	**18,667**	**16,974**	**23,397**	**10,871**	**11,526**
Budget Balance	**-17,725**	**-19,257**	**-22,134**	**-19,425**	**-16,051**	**-18,567**	**-9,087**	**-11,055**
Financing	**17,725**	**19,257**	**22,134**	**19,425**	**16,051**	**18,567**	**9,087**	**11,055**
Inflow	**23,126**	**34,574**	**32,225**	**47,846**	**36,836**	**36,920**	**15,449**	**25,270**
Other	0	297	449	0	125	0	54	79
Foreign Loans	7,806	19,066	36,196	19,866	30,892	23,535	30,350	2,899
Deposits	-12,272	-317	-5,392	10,310	-5,318	-7,421	-19,761	9,092
Domestic borrowing	27,472	15,238	960	17654	11116	20,796	4795	13,200
Banking institutions	*19,061*	*8,267*	*-1,769*	*7,705*	*2,257*	*0*	*-1,193*	*1,119*
Non-Banking institutions	*8,411*	*6,971*	*2,729*	*9,949*	*8,859*	*0*	*5,988*	*12,081*
Sell of Shares	120	290	12	16	21	10	11	0
Outflow	**5,401**	**15,317**	**10,091**	**28,421**	**20,785**	**18,353**	**6,362**	**14,215**
Foreign	3,481	13,458	8,375	22,131	11,609	9,057	2,391	6,956
Domestic	1,920	1,859	1,716	6,290	9,176	9,296	3971	7,259
Budget Balance as % of GDP	**-3.8%**	**-3.8%**	**-4.2%**	**-3.5%**	**-2.7%**	**-2.9%**	**-1.5%**	**-1.7%**

* As from 2013, the Agency for state roads is outside the Central government budget .

Source: Ministry of Finance

The following table shows the functional classification of budget expenditure and outflow for 2017:

Central Budget expenditure and outflow by functional classifications

Code	Description	Budget 2017 (MKD million)	% of total
701	General Public Services	22,962	10.4%
702	Defence	5,785	2.6%
703	Public Order and Safety	14,394	6.5%
704	Economic Affairs	41,706	18.8%
	General economic, commercial and labour related affairs	2,048	0.9%
	Agriculture, forestry, fishing and hunting	9,899	4.5%
	Fuel and Energy	71	0.0%
	Mining, craftsmanship and construction	198	0.1%
	Transportation	1,500	0.7%
	Communication	342	0.2%
	Other industries	390	0.2%
	Other economic affairs	27,257	12.3%
705	Environment protection	881	0.4%
706	Housing and community amenities	4,032	1.8%
707	Health	31,080	14.0%
708	Recreation, Culture and Religion	4,772	2.2%
709	Education	24,130	10.9%
710	Social Protection	71,921	32.4%
	TOTAL	**221,663**	**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 ("**VAT**") and excise duties. Macedonia is party to 48 taxation treaties with other countries.

The supply of goods and services and imports are subject to VAT. There is a general VAT rate of 18% and a preferential rate of 5% on certain types of goods and services. Based on the type of the goods in question, a 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 payments of interest. 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 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

VAT provided over 45.2% of total Macedonian tax revenue in 2016. 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:
- an exemption on fees payable for the use of public roads or road facilities;
- an exemption on fees payable for services rendered by telecommunications operators in connection with charitable 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.

The new Law on Modifications and Amendments to the Law on Value Added Tax was adopted in October 2016 (Official Gazette, no. 189/2016) in order to harmonise VAT law with the provisions of the new Law on General Administrative Procedure.

Excise Tax

In 2015, Macedonia implemented excise tax reforms in order to increase the level of excises in line with the EU Directives. Such increases were 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. Revenue 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. 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. In 2016, revenue from excise tax amounted MKD 25.3 billion, accounting for 24.9% of total tax revenue.

The new Law on Modifications and Amendments to the Law of Excise was adopted in 2016 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 accounted for 14.0% of total Macedonian tax revenue in 2016.

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 were adopted in order to harmonise personal income tax law with the provisions of the new Law on General Administrative Procedure.

The new Government has announced that it will introduce a progressive personal income tax system, with the current 10% rate remaining for most citizens, and an additional rate of 18% being introduced for the highest income bracket. This higher tax rate is expected to become effective in 2019 and is expected to increase government revenues and reduce the budget deficit. It is also expected to reduce income inequality, thus contributing to higher economic growth in the medium term.

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 accounted for 12.8% of total Macedonian tax revenue in 2015. From 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. Profit tax revenue at 31 December 2016 was MKD 10.7 billion and accounted for 10.6% of the total tax revenue in 2016. 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 were 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**	**Nine months ended 30 September**	
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2017**	**2016**
	(MKD million)							
Total Revenues								
PDF	46,251	50,782	53,769	57,231	61,675	65,169	47,884	45,442
HIF	21,411	22,037	22,516	24,465	26,067	27,560	20,737	19,478
EA	2,910	2,544	2,269	2,287	2,202	2,216	1,659	1,622
ASR	3,517	-(1)	-(1)	-(1)	-(1)	-(1)	-(1)	-(1)
Total Expenditure								
PDF	46,226	50,856	54,016	56,784	61,489	65,179	48,643	45,905
HIF	21,436	21,887	22,571	24,120	26,031	27,560	20,100	19,480
EA	2,994	2,461	2,175	2,107	1,739	2,015	1,083	1,337
ASR	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 2017 Budget contemplates PDF revenues of MKD 65,169 million. As at 30 September 2017, MKD 47,884 million, or 73.5% of the budgeted amount, was realised. Most of the PDF revenues (54%) are from salary contributions. Approximately 89% of PDF expenditures are for the payment of pensions and other rights related to pension and disability insurance. Rates for contributions to the PDF are set by the Law for Social Contributions and are calculated on the basis of realisation of the contribution and forecast for macroeconomic parameters (for employment and salaries). The PDF deficit in 2017 is projected at MKD 10 million; it is expected to be financed from the sale of shares owned by the PDF in various enterprises that were privatised in the previous years.

Health Insurance Fund

The HIF is responsible for healthcare and maintaining health care facilities. The 2017 budget anticipates HIF revenues of MKD 27,560 million. As at 30 September 2017 MKD 20,737 million, or 75.2% 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%. Rates for contributions to the HIF are set by the Law for Social Contributions and are calculated on the basis of realisation of the contribution and forecast for macroeconomic parameters (for employment and salaries). 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 2017 budget projects EA revenues of MKD 2,216 million. As at 30 September 2017, MKD 1,659 million, or 74.9% of the budgeted amount, was realised. 99.3% of the EA's revenues come from salary contributions. 86% of the EA's expenditures are 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. The calculation of revenues from VAT to be transferred to municipalities is set by law and the criteria for distribution are split between a fixed amount and a variable amount calculated on the basis of population as well as other criteria established in the relevant decree adopted by the Government on an annual basis for the following year.

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. During 2016, total VAT revenues transferred to the municipalities amounted to MKD 1.9 billion, while MKD 14.8 billion was transferred for block grants.

For 2017, all municipalities and the city of Skopje were also financed with block grants from the Central Budget. According to the 2017 Budget, total planned transfers to the municipalities will amount to approximately MKD 17.1 billion. Out of these transfers, the municipalities will receive approximately MKD 2.0 billion in VAT grants and approximately MKD 15 billion in block grants. As at 31 October 2017, total VAT revenues transferred to the municipalities amounted to MKD 1.7 billion; MKD 12.5 billion were 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 30 September 2017, domestic municipal debt amounted to €11.1 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 upon it the authority to operate independently. The NBRM and the Ministry of Finance have regular coordination meetings to discuss the main monetary and fiscal policy issues, along with other matters within the scope of the activities of both institutions. These meetings aim to coordinate policies to form the basis of a stable and sustainable macroeconomic and financial regulatory environment.

Monetary policy

Pursuant to the NBRM Law, the primary objective of the NBRM is to maintain price stability in Macedonia. As a result, Macedonian monetary policy is 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 annual inflation from 2011 to October 2017 amounted to 1.5%, which is close to the average level of inflation in the EU countries.

Since 2012, Macedonia's international reserves have increased by 3.6% through the third quarter of 2017, improving from a low of €1.9 billion in June 2014 and reaching its highest point at €2.7 billion in October 2016. This relatively stable reserve position has allowed the NBRM to maintain an accommodative monetary policy stance over the period, leading to the stabilisation of expectations and increased confidence among economic entities by 2017.

In 2012, the NBRM conducted net purchases of foreign currency on the foreign exchange market, which constituted the main factor behind the accumulation of foreign reserves. 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. The NBRM also undertook measures to increase long-term capital investment from abroad, setting a 0% reserve requirement for bank liabilities to non-resident financial companies with contractual maturities of over one year, as well as for all liabilities to non-residents with contractual maturities of over two years, with the expectation that long-term capital inflows will be stimulated and will have a positive effect on the Republic's balance of payments position, as well as on the sources of funding for banks. 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 NBRM 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 on-going 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 2016, domestic political turmoil and speculation about the stability of the exchange rate and the banking system impaired confidence, especially among consumer households. The consequences were most apparent on the currency exchange market and household deposits in banks. Outflows of deposits from the banking system occurred in April and May 2016, with a concomitant increase in a preference for holding foreign currency cash. As a response to the shock during this two-month period, the NBRM intervened with a net sale of foreign currency and an increase in its policy rate from 3.25% to 4% in May 2016. 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, the NBRM also increased the reserve requirement ratio for banks' liabilities in domestic currency with a foreign exchange clause from 20% to 50%. In addition, the 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 negative interest rates prevailing on the international market. These measures by the NBRM led, in a relatively short time frame, to the stabilisation of expectations and increased confidence among economic entities. The beginning of June brought the first signs of normalisation in both areas where the political crisis had had a direct impact: deposits in the banking system and the foreign exchange market. These favourable conditions continued until the end of the year, spurring continuous growth in household deposits and NBRM net purchases of foreign currency. Against this favourable backdrop, the NBRM initiated a normalisation of monetary policy. The placement of foreign currency deposits with the NBRM was no longer possible as of the end of October, and at the beginning of December, the NBRM cut the policy rate from 4.00% to 3.75%. In December, changes were made to the calculation methodology for bank capital adequacy; Allowing the full implementation of new requirements regarding the structure and quality of own funds, as prescribed by Basel 3 and the CRR (European Regulation 575/2013).

In January and February 2017, the NBRM also adjusted its policy rate from 3.75% to 3.25%, bringing it back to the pre-crisis level. In February, the NBRM adopted several decisions arising from the October 2016 amendments to the Banking Law, which enabled a high level of compliance with Basel 3 and the relevant European regulations (CRD IV and CRR). With these regulations, capital buffers have been introduced, which will further strengthen the solvency of the banking system. During the first nine months of 2017, the NBRM intervened on the foreign exchange market with net purchases of foreign currency; foreign reserves remained adequate throughout the year. Inflation during this period was moderate and bank lending strengthened, both supporting the economic growth of the country.

Key monetary policy tools

The following table sets out the EUR/MKD period-end and average exchange rates for the periods indicated:

	As at and for the year ended 31 December					As at and for the nine months ended 30 September
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Average	61.53	61.59	61.62	61.61	61.60	61.59
End of period	61.50	61.51	61.48	61.59	61.48	61.47

Source: National Bank of the Republic of Macedonia

The following table sets out the breakdown of loans and deposits of non-financial entities by currency for the periods indicated:

	As at 31 December										As at 30 September	
	2012		**2013**		**2014**		**2015**		**2016**		**2017**	
	(*MKD billion, unless indicated otherwise*)											
Loans of non-financial entities by currency												
MKD	96	45%	109	47%	128	51%	149	54%	155	55%	161	57%
MKD with FX clause	65	30%	66	29%	68	27%	72	26%	76	27%	76	26%
Foreign currency	55	26%	55	24%	57	22%	57	21%	50	18%	49	17%
Total	216	100%	230	100%	253	100%	278	100%	281	100%	285	100%
Deposits of non-financial entities by currency												
MKD	127	52%	141	55%	164	57%	176	58%	184	57%	181	57%
MKD with FX clause	2	1%	1	1%	1	1%	1	0%	0	0%	0	0%
Foreign currency	116	47%	117	45%	121	42%	129	42%	139	43%	138	43%
Total	245	100%	259	100%	287	100%	306	100%	323	100%	320	100%

Source: National Bank of the Republic of Macedonia

The following table sets out the breakdown of loans and deposits of non-financial entities by sector for the periods indicated:

	As at 31 December										As at 30 September	
	2012		**2013**		**2014**		**2015**		**2016**		**2017**	
	(*MKD billion, unless indicated otherwise*)											
Loans of non-financial entities by sector												
Enterprises	130	60%	135	59%	147	58%	157	57%	151	54%	146	51%
Households	83	38%	92	40%	103	41%	117	42%	127	45%	136	48%
Other clients	3	1%	3	1%	3	1%	3	1%	3	1%	3	1%
Total	216	100%	230	100%	253	100%	278	100%	281	100%	285	100%
Deposits of non-financial entities by sector												
Enterprises	59	24%	61	23%	71	25%	80	26%	90	28%	83	26%
Households	178	72%	190	73%	207	72%	215	70%	221	68%	226	71%
Other clients	9	4%	9	3%	10	3%	11	3%	11	4%	11	3%
Total	245	100%	259	100%	287	100%	306	100%	323	100%	320	100%

Source: National Bank of the Republic of Macedonia

Reserve requirements

The reserve requirement is a standard monetary policy instrument of the NBRM. In recent years, the NBRM undertook certain 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 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 3.25%.

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 tenders.

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, reverse repo operations and foreign currency deposits auctions.

Money supply

Over the period from 2012 through the third quarter of 2017, the average annual growth rate of the money supply was 6.4%. 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.

The period from 2012 to 2013 was 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 M4 growth.

During 2015, M4 continued to grow, although at a slower pace. As at December 2015, M4 had 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 2012 to 2016, there was a decline of "euro-isation" in the money supply. The share of foreign currency deposits in December 2016 was 37.7% in M4, a decrease from 41.7% at the end of 2012. 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.

During 2016, M4 continued to grow, but at a slower pace. The growth of the broad money supply M4 was consistent with the recovery of economic activity, positive shifts in the labour market and an increase in disposable income, as well as the favourable external position of the economy. However, during 2016, the dynamics of the money supply were strongly influenced by factors of a non-economic nature (i.e., the political crisis), which led to decelerated annual growth of deposits. As at December 2016, M4 grew by 6.1% year on year, driven by an increase in foreign currency deposits (8% year on year), while domestic currency deposits grew by 4.1% during 2016. The share of Denar deposits in M4 decreased from 55% at the end of 2015 to 54.3% as at 31 December 2016. The share of long-term deposits in M4 was stable throughout the year.

M4 continued to grow during 2017 and as at 30 September 2017, it was 6.4% higher than as at 30 September 2016. Denar deposits were the main driving force of M4 growth, increasing by 8% compared to the same period in 2016, while foreign currency deposits grew by 3.3% compared to the same period in 2016. The share of Denar deposits remained at approximately 54% of M4 as at 30 September 2017. Long-term deposits continued to support M4 growth.

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

	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)
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

	Year end 2016 (MKD million)	Annual Change (December 2016/December 2015) (%)
Currency in circulation	28,193	7.2
Demand deposits	83,156	10.9
M1	111,349	9.9
Short-term Denar deposits	51,592	(3.7)
Short-term Foreign currency deposits	103,836	7.6
M2	266,776	6.1
Long-term Denar deposits	55,834	4.3
Long-term Foreign currency deposits	28,612	9.5
M4	351,222	6.1

	Q3 2017 (MKD million)	Annual Change (September 2017/September 2016) (%)
Currency in circulation	28,968	9.9
Demand deposits	83,714	14.4
M1	112,682	13.2
Short-term Denar deposits	48,383	1.0
Short-term Foreign currency deposits	101,757	1.7
M2	262,822	6.2
Long-term Denar deposits	57,651	6.1
Long-term Foreign currency deposits	30,040	9.2
M4	350,513	6.4

Source: National Bank of the Republic of Macedonia

Interest rates

The NBRM influences market interest rate movements through its policy rate, which is the CB bills rate. Due to the stabilisation of economic conditions following the global financial crisis and the improving outlook thereafter, the NBRM gradually reduced 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 stabilisation of macroeconomic conditions at the end of 2016 allowed the NBRM to cut the policy rate from 4.0% to 3.75%. During January and February 2017, the NBRM further decreased the policy rate on two occasions, reducing the basic interest rate from 3.75% to 3.25%.

The period from 2012 to September 2017 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. The Denar loan interest rate decreased from 8.3% in December 2012 to 6.1% in September 2017, and the Denar deposit rate fell to 2.1% in September 2017 from 4.8% at the end of 2012.

Banking supervision

The NBRM is the regulatory and supervisory body for banks and savings institutions in Macedonia. Through its 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.

In order to prevent money laundering and the financing of terrorism, the NBRM regulates banks' anti-money laundering programmes, which are mandatory for banks and saving institutions. During on-site examinations, the NBRM performs detailed assessments of the ML/FT risk and broader compliance with this regulation.

Macedonian banks prepare their financial statements in accordance with International Financial Reporting Standards (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 October 2016 amendments to the Banking Law provide for:

- Further strengthening of corporate governance in line with the international standards (European Directive requirements in this area and the new Basel standards on corporate governance, from July 2015), especially requirements for the members of banks' supervisory and management body;

- Improvement of capital adequacy standards, enabling the NBRM to set capital adequacy requirements based on international standards and the features of the domestic banking system. It has also provided for a flexible approach to determining the necessary capital adequacy level for each bank, having in mind its size, complexity and risk profile;

- Introduction of capital buffers and the leverage ratio as defined in the European regulations; and

- Enhancement of the corrective measures that may be taken by the NBRM.

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. This self-assessment will represent a solid basis for the forthcoming FSAP mission in 2018.

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, the 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 a bank, the more intensive the supervisory activity that is undertaken by the NBRM. The main goal of the CRP is to ensure that banks have an adequate level of capital vis-à-vis their risk profile and have adequate ICAAPs. Any significant differences in the 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 addition, examinations assess the adequacy of the systems relating to liquidity risk, interest rate risk and operational risk management as well as information security, systems for anti-money laundering and the prevention of the financing of terrorism, and 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 two 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. Based on the provisions of these MoU, the NBRM has established close relation with the EBA, through the submission of its opinions on the draft documents prepared by the EBA, as well as participation in meetings and training seminars organised by EBA.

In July 2017, the ECB, in connection with its prudential supervision of credit institutions in the euro-zone, initiated a process to enter into an MoU with the NBRM with the purpose of ensuring the effective exchange of supervisory information in order to promote the integrity, stability and efficiency of the supervised entities that fall within the remit of both authorities (EU parent banks and their subsidiaries in the Republic of Macedonia).

Regulatory developments

The most significant amendments and improvements in banking regulation in recent years pertain to the adoption of the Basel II and Basel III approaches to capital adequacy, coupled with new approaches to risk and credit management. This was especially the case with the latest changes of the Banking Law and the relevant by-laws enacted at the end of 2016 and in the first half of 2017, which enabled a high level of compliance with the EU Capital Requirements Regulation and Directive ("**CRR/CRD IV**").

The application of these amendments is further regulated by several by-laws, which were adopted by the Council of the NBRM in February 2017:

- A methodology for identifying systemically important banks, using several quantitative indicators grouped into four criteria of systemic importance: size, substitutability, interconnectedness and complexity. This methodology is in line with the requirements of the Basel Committee on Banking Supervision and the EBA. Based on this methodology, in April 2017, the NBRM identified seven systemically important banks with the level of capital buffer that each bank will have to achieve by March 2018;

- A methodology for the preparation of a recovery plan by systemically important banks, setting out the content of such recovery plan, namely an obligation for systemically important banks to develop and submit to the NBRM a recovery plan, which is an initial step towards implementation of the Bank Recovery and Resolution Directive (BRRD);

- A methodology for determining the countercyclical capital buffer, which prescribes the manner in which the NBRM will determine such rate for exposures in the country, and the manner in which banks are required to calculate institution-specific countercyclical capital buffers;

- A methodology for determining the maximum amount distributable to holders of CET1 capital and Additional Tier 1 capital instruments, depending on the achievement of the combined capital buffers; and

- A methodology for determining the leverage ratio, being the ratio of capital (Tier 1 capital) to total exposure. Banks are required to determine and monitor their leverage risk level without a minimum level of leverage ratio being prescribed by the NBRM. If a bank has a low ratio, it will not be subject to regulatory measures strictly on the basis of the low leverage ratio. However, other measures prescribed in the Banking Law address inadequate risk management. Considering the relatively high values of bank leverage ratios in the Republic (currently, all Macedonian banks have a leverage ratio in excess of the minimum of 3% determined by Basel Recommendations) and following EU practice, banks are only required to inform the NBRM of the ratio.

In addition to these significant changes to existing banking regulations, the NBRM has prepared a draft regulation on the principles of good corporate governance. This regulation will take into account the Guidelines on corporate governance principles for banks, published by the Basel Committee in July 2015, as well as certain documents published by the EBA on internal governance and on the assessment of suitability of members of the management body and other key function holders in banks.

Basel II

In line with the recommendations of the Basel Committee of Banking Supervision and the EBA pertaining to 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 been transitioning to the New Basel Capital Accord. Pillar 1 capital requirements were implemented in 2007, in line with the standardised approach of the New Basel Capital Accord. Pillars 2 and 3 were fully implemented in 2009.

Basel III standards

In addition to the introduction of capital buffers and the leverage ratio, in December 2016 the NBRM amended its methodology for capital adequacy. These amendments allow full implementation of the new requirements on the structure and quality of own funds prescribed under Basel III and the CRR. The amendments improve the quality of own funds by strengthening the criteria to be met by individual instruments in order to be included in the calculation of a bank’s own funds. In addition, the introduction of minimum ratios for CET1 (4.5%) and Tier 1 capital (6%), further contribute to the improvement and the structure of banks’ own funds.

These requirements, together with the new requirements on capital buffers, will enable further strengthening of the solvency position of banks in the Republic. Both requirements were applicable as of March 2017. During 2017, banks are required to maintain only the capital conservation buffer (2.5% of RWA). In April 2017, the NBRM announced which banks were identified as systemically important banks and informed them as to the capital buffer to be achieved by no later than the end of March 2018. Based on the NBRM’s analysis, the other two capital buffers are regulated by the Banking Law, but they have not yet been introduced in Macedonia.

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 2017, the NBRM implemented changes to the accounting and financial reporting regulation in order for IFRS 9 to be implemented as at 1 January 2018. IFRS 9 will replace IAS 39 and will introduce a model for classification and measurement, an “expected loss” impairment model. For appropriate implementation of IFRS 9 requirements into the prudential regulation, the NBRM has prepared a draft version of the new regulation for credit risk management, which is expected to enter into effect during 2018. As the current Macedonian regulation on credit risk management requires banks to implement an approach aimed at identifying expected losses arising from credit exposures, the new regulation will only frame existing requirements to better align with the IFRS 9 requirements. In addition, the new regulation amends the definition of “forbearance” and “non-performing exposures” in a manner that complies with EU standards.

This will allow for more adequate analysis and comparison of existing NPL levels with regional and international trends.

Macro-prudential measures

In order to prevent adverse trends in the domestic banking system, in the last several years the NBRM has undertaken certain macro-prudential measures. In December 2015, the NBRM altered the capital adequacy framework, introducing measures to decelerate the growth of long-term consumer loans. The measure increases capital requirements for banks on long-term consumer loans with maturities equal to or longer than eight years. As a result, the risk weight for claims on consumer loans with a contractual maturity equal to or longer than eight years increases from 75% and 100% to 150%. To avoid major shocks in the consumer lending market and reduce growth rates to a moderate level, this measure is aimed only at long-term consumer loans approved after 1 January 2016, including loans whose term was extended to more than eight years, after such date. At the same time, higher capital requirements were introduced to counteract the increase in overdrafts and credit cards compared to 31 December 2015 levels. This measure aims to prevent changeover to this type of borrowing as a result of the measure seeking to decelerate consumer loans. As a result of these measures, the annual growth in long-term consumer loans has been gradually decreasing from 47.5% (the maximum reached in September 2015) to 12.3% at the end of the third quarter of 2017.

In addition, since June 2016, banks have been required to write-off all non-performing loans that are fully provisioned for two or more years. Banks are still allowed and required to take actions to collect these claims, although they are written off. The strongest effects on banks' balance sheets from this requirement were felt in June 2016, when significant amounts of fully booked non-performing loans were written off. The mandatory cleansing of banks' credit portfolios from old and fully provisioned non-performing loans improves indicators for the quality of the loan portfolio of banks, but also encourages banks to put greater focus on the management of newer and less provisioned non-performing loans, which can potentially create losses in the future.

In order to encourage denarisation of deposits in the domestic banking system, the NBRM has reduced the required rate of bank liabilities in domestic currency and increased the reserve requirement rate for banks' FX liabilities and liabilities in domestic currency with FX clauses. In addition, there is a 0% reserve requirement for banks' liabilities to natural persons in domestic currency with contractual maturities of over one year. At the same time, in order to promote lending to net exporters and domestic producers of electricity, in November 2012 the NBRM provided for a reduction of the reserve requirement for the amount of new loans extended to these clients, as well as for the investments in debt securities in domestic currency, issued such companies.

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 institutions as at 30 September 2017 (in October 2017 one saving institution had been transformed into a financial company). One of the banks, the state-owned Macedonian Bank for Development and Promotion, a special purpose development and export bank, provides support for development of the Macedonian economy through financing to small and medium-sized enterprises and export oriented companies, directly or through credit lines to other banks in the country; its market share is limited. Eight banks are owned by shareholders from EU countries, and six of the foreign-owned banks are subsidiaries of foreign banks. Banks with predominantly foreign capital comprise the largest share of total assets, loans, deposits, revenues and profits of the banking system. The five largest banks in Macedonia, as measured by asset size, are as follows:

Bank	**Key Shareholders**	**Share in Assets, as of 30 September 2017**
Komercijalna banka AD Skopje	East Capital Explorer Investments, AB Sweden, with related parties (13.1%) European Bank for Reconstruction and Development, London (5.25%)[(1)]	22.6%
Stopanska Banka AD Skopje	NBG Greece (93.4%)	19.0%
NLB Banka AD Skopje	NLB Slovenia (86.97%)	16.2%
Halk Banka AD Skopje	Halk Bankasi A.S. Ankara, Turkey (99.03%)	9.0%
Ohridska Banka AD Skopje	Société Générale, S.A. Paris (70.02%)	7.6%

Note:

(1) In November 2017, the European Bank for Reconstruction and Development sold its stake in Komercijalna banka AD Skopje.

Source: National Bank of the Republic of Macedonia

Each of the five banks listed in the table above are identified as systemically important banks. See " – *Monetary and Financial System – Regulatory Developments*" above.

Savings institutions are very small credit institutions that deal mainly with natural persons. They play a minor role in the banking system; each of their shares in total loans, total deposits and total assets of the banking system is below 0.8%.

As of 30 September 2017, the asset-to-GDP ratio of Macedonian banks amounted to 71.9%. Gross credits and deposits amounted to 46.6% and 52.1% of the gross domestic product, respectively. The following table sets out developments in banking system assets:

	Year ended 31 December					Nine months ended 30 September
	2012	2013	2014	2015	2016	2017
Banking System Assets (MKD million)[1]	352,885.9	369,505.0	400,281.2	423,667.6	444,680.3	440,672.4
Banking System Assets (% GDP)[2]	75.6%	73.6%	75.9%	75.9%	74.3%	71.9%

Notes:

(1) The exchange rates applicable at individual dates are as follows: €1 = MKD 61.5000 (31.12.2012); €1 = MKD 61.5113 31.12.2013); €1 = MKD 61.4814 (31.12.2014); €1 = MKD 61.5947 (31.12.2015); €1 = MKD 61.4812 (31.12.2016); €1 = MKD 61.4680 (30.9.2017).

(2) According to GDP figures released on 7 December 2017.

Source: State Statistical Office and National Bank of the Republic of Macedonia

General developments and performance

In the first half of 2016, the banking system was influenced by the unstable political situation in the Republic of Macedonia, leading to speculation about the stability of the domestic currency exchange rate, domestic banks and deposits placed with them. As a consequence, there were sporadic withdrawals of deposits in April and May 2016. Measures taken by the NBRM as well as prudent liquidity management by banks had positive effects in the second half of the year, resulting in an increase in total assets of 5% for 2016 (compared to 5.8% in 2015). Since June 2017, the political crisis in Macedonia has abated, which is expected to have positive effects on the banking system. As at 30 September 2017, total banking system assets amounted to MKD 440.7 billion, representing annual growth of 4.0%.

Traditional banking is the dominant business model in the Macedonian banking system. Macedonian banks collect deposits as their main source of funding and make placements in the form of loans to nonfinancial entities. Deposits from the non-financial sector account for more than 70% of total funding and gross loans represent approximately 65% of total banking system assets.

With the exception of the deposit withdrawals in 2015 (due to a Greek crisis) and 2016 (domestic political situation), the deposit base of the Macedonian banking system has been stable since 2009. As at 30 September 2017, banking system deposits from the non-financial sector amounted to MKD 319.6 billion, representing an increase of 5.6% compared to September 2016. Of this total, household deposits account for the largest part (approximately 70%) of total deposits, amounting to MKD 225.6 billion as at 30 September 2017, and representing annual growth of 5.8% compared to 30 September 2016. In 2016 and 2015, annual growth in household deposits amounted to 2.6% and 4.3%, respectively.

As at 30 September 2017, credit to the non-financial sector amounted to MKD 285.5 billion, representing annual growth of 4.3% (compared to an annual growth of 1.2% in 2016 and 9.7% in 2015). Credit to corporates grew more slowly than loans to households. As at 30 September 2017, the annual growth in loans to corporates was negative (-0.4%), compared to slight positive annual growth of 0.1% in June 2017, representing an annual decline of 3.8% in December 2016. If the effects of compulsory write-offs are not taken into account, the annual growth rates would have presented increases of 1.7%, 2.4% and 2.6% as at September 2017, June 2017 and December 2016, respectively. The annual growth rates of loans to households are relatively strong, even when the effects of compulsory write-offs are taken into account (amounting to 10%, 8.3% and 13.4% in September 2017, December 2016 and December 2015, respectively).

Given the dominance of traditional banking as banks business model, credit risk remains the most important risk in banking operations. The NPL ratio was mainly stable in the period following the global financial crisis (from the first quarter of 2013 through the end of May 2016), fluctuating between 11% and 12%, until the implementation of the regulation for mandatory write-offs of old and entirely reserved non-performing loans. The share of non-performing to total loans decreased to 6.6% in 2016 (from 10.8% at the end of 2015) and remained unchanged (6.6%) as at September 2017. The corporate credit portfolio has traditionally been of somewhat lower quality, with the NPL ratio amounting to 10.4% as at 30 September 2017. On the other hand, the NPL ratio in the household sector credit portfolio is relatively low and rather stable (amounting to 2.6% as at 30 September 2017, unchanged compared to the end of 2016 and reduced from the level of 5.2% at the end of 2015 – before the compulsory write-offs of NPLs came into effect). The coverage of NPLs with provisions for NPLs has always been high, amounting to approximately 80% (as at 30 September 2017, the coverage ratio of NPLs amounted to 78.3%). In the most severe simulations on non-collection of all NPLs, the capital adequacy ratio of the banking system would be impacted by approximately 1 percentage point.

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 almost continuous trend of improved liquidity of banks. As at 30 September 2017 nearly one third of total assets were liquid assets. These liquid assets provide good coverage for household deposits and short-term liabilities, of 55.8% and 51.7%, respectively.

Even throughout challenging periods such as the insurgency in Macedonia in 2001, the global financial crisis in 2007 and 2008, the sovereign debt crisis in neighbouring Greece and the domestic political crisis in 2016 and 2017, Macedonia’s solvency position has remained strong. Moreover, new changes to the Banking Law (applied from March 2017), which implemented the new rules of the Basel Committee and the European legislation for capital buffers will be an additional support for the banks' solvency. As at 30 September 2017, the capital adequacy ratio was 16.2%, with the core tier 1 ratio equalling 14.6%. Two-thirds of banks’ own funds are used for risk coverage (regulatory determined risks according to standardized approach: credit risk, operational risks, currency and other market risks) as well as for activated capital buffers. The remaining third is “free” capital for coverage of any unexpected losses that banks may incur, after having allocated the required capital for covering risks that are stipulated in Macedonian regulation (risks determined according to a standardised approach: credit risk, operational risks, currency and other market risks) and after having allocated activated capital buffers.

	As at 31 December					**As at 30 September**
Capital adequacy ratio	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
			(%)			
Large banks................................	15.3	15.8	14.6	14.9	14.6	15.8
Medium-sized banks	22.2	18.8	18.0	16.3	16.6	17.4
Small-sized banks	18.8	17.6	18.7	18.7	19.2	17.7
Total banking system	17.1	16.8	15.7	15.5	15.2	16.2

In an environment of historically low interest rates, Macedonian banks have recorded high profits (even in comparison with the banking systems of EU countries), while maintaining relatively high and comfortable net interest margins, improving cost-efficiency and maintaining impairment losses at stable levels.

As at 30 September 2017, the rate of return on average assets ("**ROAA**") and the rate of return on average equity ("**ROAE**") were 1.4% and 12.6%, respectively, compared to 1.5% and 13.6% in 2016 and 1.1% and 10.4% in 2015, respectively.

The NBRM conducts quarterly stress tests to analyse bank 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. The NBRM's quarterly simulations show that only with an extremely large increase in non-performing credit exposure to non-financial entities (of 181.6% as at 30 September 2017) i.e., a shift of 15.1% from performing to non-performing credit exposure, would the capital adequacy of the banking system decrease to 8% (for illustrative purposes, the non-performing credit exposure to non-financial entities decreased by 2.3% in the third quarter of 2017). With the assistance of IMF experts the NBRM has developed a model for macroeconomic stress-testing. The results of the latest stress-test, for 2016, are published in the Report on the Financial Stability in the Republic of Macedonia.

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 markets.

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 to 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 opinions on transactions 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 investment conditions in the securities market for foreign and domestic investors. The amendments included provisions which allowed for the issuance of certificates of deposit 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*; it is expected to be adopted in 2018. The new legislation is expected to (i) create conditions for the development of new products and services in the Macedonian financial markets, (ii) introduce new platforms for trading, (iii) provide a higher level of stability in the market, (iv) strengthen the powers of supervisor, (v) enhance transparency by providing high quality information and (vi) improve the protection of investors and all market participants.

By the end of 2017, further amendments will be made on the Law on Investment Funds in order to align it with the UCITS directive, especially in:

- defining the procedures for mergers of investment funds;
- introducing the establishment of feeder funds in connection with which certain investments will be subject to prior approval and the satisfaction of certain conditions; and
- prescribing new document "key investor information as a supplement to the fund's basic prospectus in order to provide enhanced disclosure to investors.

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 a 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 depositories, stock exchanges, brokerage houses, banks dealing with securities, brokers and investment advisors). 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 highly developed securities market, as well as maintaining efficient, fair and legal capital markets 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 2016, regulators of the securities markets from Macedonia, Slovenia, Serbia, Croatia, Montenegro, the Republic of Srpska, the Federation of Bosnia and Herzegovina and the Brcko District signed a Declaration of Cooperation in order to strengthen cooperation between regulators in the region. The goals outlined in the Declaration of Cooperation include the establishment of a common methodology and practice for the provision of investment services, strengthening supervision through inter-regulator cooperation, developing common regulations and standards for sanctioning market manipulation and insider trading, establishing common procedures for the regulation of various financial instruments and certain investor education initiatives.

In 2016, the Commission carried out twelve assessments of controls on the operations of authorised securities market participants and three assessments of controls on the operations of investment funds. 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 continuously issued 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 Macedonia. The table below reflects key indicators of the MSE as at and for the years indicated.

	Year ended 31 December					Nine months ended 30 September
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Macedonian Stock Exchange Key indicators	*(MKD million unless indicated otherwise)*					
Turnover	**5,600**	**3,235**	**8,704**	**2,660**	**3,023**	**3,211**
Block trades	2,399	819.5	1,568	548.5	645.4	866
Public offerings	97.8	17.5	4,329	14.1	–	–
Public auctions	347	275	270.3	15.8	45.5	12.9
Shares	1,552	1,395	1,985	1,436	1,823	2,158
Government bonds	1,202	728.2	541.2	645.4	508.9	174.0
Market Capitalisation	120,370	109,335	111,051	107,732	120,148	138,581
Turnover/Market Capitalisation (%)	4.7	3.0	7.8	2.5	2.5	2.3
Index value (index points)	1,731.2	1,738.9	1,844.2	1,833.3	2,134.9	2,688.7

Source: Macedonian Stock Exchange

Note: There have not been any corporate bond issuances in the period under review. Central Securities Depositary

Central Securities Depositary

The Central Securities Depositary (the "**CSD**") is responsible for the registration of securities, the execution of non-trade transfers and 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 and settlement process 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 2016, 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 2016 was MKD 3.61 billion or approximately €58.82 million, representing a 25.7% increase as compared to 2015. The accelerated growth was due to the attractiveness of the cash funds and the improved investment and business climate in 2016. On 30 September 2017, the net asset value of 15 open-end investment funds (two of which began operations during 2017) amounted to MKD 5.42 billion or approximately €88.5 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.

In connection with the alignment of national legislation with the EU Acquis in the area of insurance, the EU has provided technical assistance to Macedonia through a Twinning Project, "Further harmonisation with the EU in the field of insurance and increase of market operations", which began in 2016. A new law on insurance, which will be fully harmonised with the EU Acquis, is expected to be completed by the end of 2018.

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 undertakes operations in non-life insurance classes other than compulsory insurance in traffic, and €3 million if the insurance undertaking undertakes 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 16 licensed insurance undertakings currently operating in Macedonia. Five 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. The fifth life insurance company received approval by the Insurance Supervision Agency in September 2017 and it is preparing for starting the operations.

All insurance undertakings are registered as joint stock companies, and 14 of them are controlled by foreign legal entities. As at 31 December 2016, the aggregate share of foreign ownership in the insurance market was 92.2%.

Gross written premiums as o 30 September 2017 totalled MKD 6.8 billion, a 2.7% increase over the same period in 2015. Aggregate gross written premiums in the non-life insurance sector totalled MKD 5.6 billion, representing growth of 0.92% over the same period in the previous year. The life-insurance sector's gross written premiums totalled MKD 948 million, an increase of 14.9% over the same period in 2015.

The insurance penetration (measured as the ratio of gross written premiums to GDP) at the end of 2016 was 1.4%, and the insurance density (measured as the total amount of gross written premiums divided by total population) is MKD 4,211. The insurance sector is characterised by its moderate market concentration. As of 30 September 2017, three insurance companies have greater than 10%, but below 20% market share, and the others less than 10%.

As of 30 September 2017, insurance companies held MKD 19.7 billion in assets, an increase of 7.1% compared to the same period in 2016. The total capital of insurance companies was MKD 5.8 billion, representing growth of 5.6% growth over the same period in 2016. The solvency margin, the main indicator for assessing the stability of the insurance sector, was MKD 1.0 billion, 4.4 times higher than the required solvency margin level. In the nine months ended 30 September 2017, the insurance sector reported profits of MKD 338.5 million, with the non-life sector reporting MKD 262.6 million, and the life insurance sector reporting MKD 75.9 million.

The role of intermediaries in insurance sales has become increasingly important for the insurance sector. As of 30 September 2017, 51.1% of the gross written premium was generated through direct sales by insurance undertakings, whereas 48.9% was generated through various intermediaries. As of 30 September 2017, there were 35 insurance brokerage companies operating as insurance intermediaries on the insurance market. The minimum capital for establishing insurance brokerage company is €50,000. In addition, there were 18 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

NBRM debt that is created for monetary purposes, consisting primarily of CB Bills ("NBRM debt"), is regarded as public debt (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 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 domestically issued structural bonds (issued to address specific structural problems in the economy), regular issuances on the domestic market of Treasury bills and bonds 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 30 September
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
			(€ million)			
Total general government debt (€ million).....................	2,554.5	2,771.6	3,262.5	3,453.3	3,851.5	3,875.8
External (€ million)..............	1,615.9	1,597.5	2,092.2	2,096.7	2,446.6	2,376.7
Domestic (€ million)............	938.6	1,174.1	1,170.3	1,356.6	1,404.9	1,499.1
Total general government debt (% GDP).......................	33.7	34.0	38.1	38.1	39.6(1)	37.8(2)
External (% GDP)................	21.3	19.6	24.4	23.1	25.2(1)	23.2(2)
Domestic (% GDP)...............	12.4	14.4	13.7	15.0	14.4(1)	14.6(2)
Total public debt (€ million)	2,908.8	3,281.4	3,921.3	4,227.2	4,711.4	4,691.5
Total public debt (% GDP)...............................	38.3	40.3	45.8	46.6(1)	48.5(1)	45.8(2)

Note:

(1) GDP value for 2016 is preliminary.

(2) GDP value for 2017 is a projection.

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

Macedonian total general government debt as a percentage of GDP was 37.9% as at 30 June 2017, which compares favourably to other countries in the region as well as the EU average. The table below sets forth comparative data for the region and the EU average for the periods indicated.

	As at 30 June (unless otherwise stated)
General Government Debt (% GDP)	**2017**
EU (28) average	83.4%
Croatia	81.9%
Albania(1)	68.4%
Serbia	66.6%
Montenegro(2)	64.4%
Macedonia	37.9%
Bulgaria	27.7%

Note:

(1) Data as at 31 March 2017.

(2) Data as at 30 December 2016.

Source: Eurostat, Ministry of Finance and the respective ministries of finance of Albania, Serbia and Montenegro

External General Government Debt

As at 30 September 2017, Macedonia's external general government debt was €2,376.7 million, or 23.2% of GDP, and 61.3% 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, 2015 and 2016, which amounted to €500 million, €270 million and €450 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					**Nine months ended 30 September**
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
				(€ million)		
External General Government debt	1,615. 9	1,597.5	2,092.2	2,096.7	2,446.6	2,376.6
Multilateral Creditors	957.8	883.0	888.7	764.8	773.8	772.6
IDA	262.8	242.3	249.3	253.8	240.8	218.2
IBRD	229.9	216.3	251.3	246.0	237.5	229.0
EIB	80.2	73.7	76.6	101.4	119.7	117.2
EBRD	52.5	27.5	67.1	64.6	80.2	105.4
CEDB	39.4	49.1	53.0	64.1	71.0	83.7
EU	51.0	43.6	33.6	23.6	13.6	9.2
IFAD	11.8	10.8	11.1	11.3	10.8	9.8
IMF	230.16	219.73	146.7	0.0	0.0	0.0
Bilateral Creditors	114.9	98.0	94.5	93.6	89.4	81.1
Non rescheduled debt	0.0	0.0	0.0	0.0	0.0	0.0
Newly concluded credits	114.9	98.0	94.5	93.6	89.4	81.1
Private creditors	543.2	616.5	1,109.0	1,238.3	1,583.4	1,522.9
London Club	0.0	0.0	0.0	0.0	0.0	0.0

	Year ended 31 December					Nine months ended 30 September
	2012	2013	2014	2015	2016	2017
	(€ million)					
Eurobonds	325.0	150.0	650.0	770.0	1,220.0	1,220.0
Other private creditors	218.2	466.5	459.0	468.3	363.44	302.9
Government guaranteed debt(1)	354.3	509.8	658.9	774.0	859.9	815.7

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 64.1% and debt owed to multilateral creditors amounted to 32.5%, of total external general government debt as at 30 September 2017. The IBRD and the IDA are the principal multilateral creditors to which Macedonia owed €229 million and €218.2 million, respectively, as at 30 September 2017.

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 debut 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.

In July 2016, Macedonia issued its fifth Eurobond in the aggregate principal amount of €450 million and bearing interest at 5.625%. The proceeds of the Eurobond were used for budget support in 2016 and 2017 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 on 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. A payment of €95 million is scheduled for 29 January 2018.

International Financial Institutions

As at 30 September 2017, approximately 32.5% 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 on-going 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 of 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 30 September 2017 totalled approximately US $2 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 30 September 2017, Macedonia had a total of €99.1 million debt outstanding in investment in general government projects funding from the World Bank (IBRD loans only).

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 €665 million, of which €280.2 million represented Macedonian outstanding indebtedness as at 30 September 2017 (with the debt of public enterprises amounting to €163 million). EIB projects have focused on infrastructure and energy loans, as well as support for small and medium sized enterprises.

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 2017 focused on the implementation of on-going projects. As at 30 September 2017, Macedonia had a total of €83.7 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 30 September 2017.

Currency	As at 30 September 2017
EUR	71.3%
USD	0.4%
SDR[(1)]	5.9%
MKD	21.2%
JPY	1.2%

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 30 September 2017, 71.3% 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 power plants, ELEM, the Macedonian Bank for Development Promotion, PESR and Macedonian Railways, Macedonia provides guarantees to creditors on both domestic and foreign borrowing; as at 30 September 2017, this guaranteed public debt amounted to €815.7 million, or 8.0% of GDP. The following table shows guaranteed public debt by borrower as at 30 September 2017.

	As at 30 September 2017	
Borrower	*(€ million)*	*% of GDP*
AD ELEM	128.7	1.3%
AD MEPSO	34.7	0.3%
PESR	443.3	4.3%
MBDP	169.3	1.7%
Macedonian Railways	39.7	0.4%
Total	**815.7**	**8.0%**

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 periods indicated.

	Year ended 31 December					Nine months ended 30 September
	2012[1]	2013[2]	2014[3]	2015[4]	2016[5] (preliminary)	2017[6] (preliminary)
			(€ million)			
Domestic General Government Debt service	53.4	63.7	71.7	149.4	195.7	154.9
Principal	31.8	31.1	30.0	105.0	152.8	121.3
Interest	21.6	32.6	41.7	44.4	42.9	33.6
External General Government Debt service	104.0	261.7	178.7	421.8	260.0	186.1
Principal	56.6	218.8	136.7	360.4	190.2	114.5
Interest	47.4	42.9	42.0	61.4	69.8	71.6
Total General Government Debt service	157.4	325.4	250.4	571.2	455.7	341.0

Notes:

(1) Based on an exchange rate as at 31 December 2012 of €1 = MKD 61.5000.

(2) Based on an exchange rate as at 31 December 2013 of €1 = MKD 61.5113.

(3) Based on an exchange rate as at 31 December 2014 of €1 = MKD 61.4814.

(4) Based on an exchange rate as at 31 December 2015 of €1 = MKD 61.5947.

(5) Based on an exchange rate as at 31 December 2016 of €1 = MKD 61.4812.

(6) Based on an exchange rate as at 30 September 2017 of €1 = MKD 61.4680.

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 2016 were €260.0 million and included repayment of a loan guaranteed by IBRD (PBG - Policy Based Guarantee) in the amount of €130 million, and regular payments on outstanding loans. It is expected that payments of principal and interest on external government debt in 2017 and 2018 will total €238.6 million and €259.2 million, respectively. Payments in 2017 and 2018 are expected to include repayments to Deutsche Bank of loans amounting to €75 million and €95 million, respectively, as well as regular payments on outstanding loans.

As at 30 September 2017, 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.

External General Government Debt Payments for 2017-2020

Period	**Principal payments**	**Interest payments**	**Total**	**Total, as share of GDP**
		(€ million)		*(%)*
2017[(1)]	147.3	91.3	238.6	2.3
2018[(1)]	169.4	89.8	259.2	2.4
2019[(1)]	100.8	114.0	214.8	1.9
2020[(1)]	531.5	127.2	658.7	5.4

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.

Macedonia's general domestic government debt consists of structural bonds, Treasury bills, bonds and municipal debt. As at 30 September 2017, domestic general government debt stood at €1.5 billion (14.6% of GDP) and constituted 38.7% of total general government debt. As at 30 September 2017, commercial banks held 36.4% of outstanding government issued securities, pension funds held 36.9% of outstanding government issued securities while other entities held 36.7%. The average time to maturity of the domestic central government debt as at 30 September 2017 was 4.1 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.

Period	Principal payments	Interest payments	Total
		(€ million)	
2017[1]	151.2	42.3	193.5
2018[1]	199.1	51.5	250.6
2019[1]	142.4	61.3	203.7
2020[1]	59.2	91.0	150.2

Note:

(1) Estimates.

Source: Ministry of Finance

As part of the Government's strategy to further promote the domestic securities market, to the extent it becomes a reasonable alternative to the international capital markets, the Government intends to lengthen the maturity of domestic borrowings to up to 30 years and attract foreign investors to the domestic market.

Maturity Structure of Government securities

Treasury bond maturity	Proportion of Outstanding Government Securities	
	As at 31 December	As at 30 September
	2012	2017
3 months	65%	—
6 months	6%	2%
12 months	7%	42%
2 years	—	6%
3 years	4%	4%
5 years	18%	15%
10 years	—	9%
15 years	—	22%

Maturity Structure of Government securities, as at 30 September 2017

Treasury bond maturity	Proportion of Outstanding Government Securities
Short term Government securities	43.6%
Long term Government securities	56.4%

The following table shows the breakdown of total domestic general government debt stock of Macedonia as at the dates indicated.

	As at 31 December					As at 30 September	
	2012	2013	2014	2015	2016	2017	Maturity
	(€ million)						
Structural Bonds	126.8	103.2	83.4	72.3	70.2	58.9	
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)]	19.3	10.7	2.1	–	–	–	14 years
Denationalisation Bonds[(1)]	90.6	75.6	64.4	55.4	53.3	42.0	10 years
Treasury Bills and Bonds	805.2	1,061.9	1,076.1	1,271.8	1,323.5	1,492.2	
Municipal Debt	6.6	9.0	10.8	12.5	11.2	11.1	
Total Domestic General Government Debt	938.6	1,174.1	1,170.3	1,356.6	1,404.9	1,499.1	
Government Guaranteed Domestic Debt	29.0	28.6	25.9	23.2	20.5	18.4	

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 (45.1%) and Denars (54.9%) as at 30 September 2017. The share of Euro-denominated debt has increased, primarily as a result of the issuance of government securities denominated in MKD, but whose principal amount and coupon payments are linked to the EUR exchange rate. The debt raised through such foreign exchange-linked securities is recorded as external Euro-denominated debt.

Government Guaranteed Domestic Debt

As at 30 September 2017, government guaranteed domestic debt was €18.4 million, representing a decrease of €2.7 million compared to the same period in 2016.

Debt Management Strategy

Macedonia's medium-term Fiscal Strategy envisions that the total public debt will approach 53.5% of GDP by the end of 2020, primarily as a result of increases in funding of infrastructure projects. As at 31 December 2016 and 30 September 2017, total public debt equalled 48.5% and 45.8% of GDP, respectively. It is expected that the increase to a level closer to 53.5% 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 2018 to 2020. The budget deficit for 2018 is expected to reach 2.7% 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 2018-2020 has identified the following objectives:

- Public debt will approach 53.5% of GDP by the end of 2020 and will not exceed 60% of GDP in the medium and long term;
- General government debt will approach 44.7% of GDP in 2019 and decline to 42.6% by the end of 2020;
- 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;
- Guaranteed debt will peak at 11.3% in 2019 and not exceed 13% of GDP in the medium term;
- By the end of 2018, the average maturity term will be at least three years; and
- By the end of 2018, the average time to re-fixing of interest rate will be at least two years.

The above targets are objectives, and there can be no assurance that such objectives will be reached.

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 (well below BB median) and its well-capitalised and stable banking sector. On 4 August 2017, Fitch affirmed Macedonia's Long Term and Short Term Foreign and Local Currency at BB/B (with a negative outlook). On 15 September 2017, 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 and/or other participating Member States may decide to withdraw.

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 thereof, 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 and original issue discount (as discussed below) 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, interest and accrued OID 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 and Erste Group Bank AG (together the "**Joint Lead Managers**") have, in a subscription agreement dated 16 January 2018 (the "**Subscription Agreement**") and entered into 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 98.442% 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 (to be shared equally among the Joint Lead Managers), in the amounts as follows:

Joint Lead Managers	Principal amount of Notes
Citigroup Global Markets Limited	€166,668,000
Deutsche Bank AG, London Branch	€166,666,000
Erste Group Bank AG	€166,666,000
Total	€500,000,000

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. In connection with the Tender Offer, the Joint Lead Managers are acting as dealer managers. In addition, Macedonian debt service payments in 2017 and 2018 are expected to include repayments to Deutsche Bank of loans amounting to €75 million and €95 million, respectively, as well as regular payments on outstanding loans.

The Republic intends, in connection with the allocation of the Notes in the Offering, to consider, among other factors, whether or not the relevant investor seeking an allocation of the Notes has also tendered existing notes pursuant to the Tender Offer, and if so, the aggregate original principal amount of such existing notes tendered by such investor. When determining allocations of Notes, the Republic intends to look favourably upon those investors whose existing notes have been validly tendered and accepted for purchase pursuant to the Tender Offer and, therefore, an investor that wishes to subscribe for Notes in addition to tendering the existing notes for purchase pursuant to the Tender Offer may be eligible to receive priority in the allocation of such Notes (if issued). Such priority will not exceed the aggregate original principal amount of the existing notes tendered and in no event shall exceed €100,000,000.

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 with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Notes be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations. Each Dealer has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Notes or distribute any copy of this or any other document relating to the Notes in Italy except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the "**Issuers Regulation**"), all as amended from time to time; or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation. In any event, any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

    (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time;

(ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

(iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority. Investors should note that, in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies under paragraphs (a) and (b) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and the Issuers Regulation. Furthermore, where no exemption from the rules on public offerings applies, the Notes which are initially offered and placed in Italy or abroad to professional investors only but in the following year are "systematically" distributed on the secondary market in Italy become subject to the public offer and the prospectus requirement rules provided under the Financial Services Act and Issuers Regulation. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the purchasers of Notes who are acting outside of the course of their business or profession.

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 resident of 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 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 the Republic of 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 EUR4,540.

Listing Agent

Walkers Listing Services Limited 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 69 and 70 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 2016.

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 and Paying Agency Agreement;

(c) the Budget of the Republic for the current fiscal year; and

(d) 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 3.000%. 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 XS1744744191 and the common code is 174474419. In respect of the Rule 144A Notes the ISIN is XS1746171559 and the common code is 174617155.

Contact Information

The telephone number for the Ministry of Finance is + 389 2 3255 602.

INDEX OF DEFINED TERMS

THE ISSUER

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