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# COMMENTARY



Is the new Eurobond threatening the  
current level of public debt

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**E**urobond is a debt security which is denominated in a currency other than the currency of the country where it was issued. It is called "Eurobond" because they are issued in Europe and it is traded on the European equity markets.

The Government of the Republic of Macedonia for the first time in December 2005 issued a Eurobond in the amount of 150 million euros with a maturity of 10 years and a constant coupon of 4,625%, in order early repayment of debt to a group of international private creditors (known as „London Club"). In July 2009 the Government issued a new Eurobond in the amount of 175 million euros with a maturity of 3.5 years and a constant coupon of 9,875%. The second emission of the Eurobond occurred amid the financial crisis which led to a much higher coupon rate of the Eurobond and shorter maturity compared to the first Eurobond. In July 2014 the Government issued the third Eurobond in the amount of 500 million euros with a maturity of 7 years and an interest rate of 3,975%. In 2015

the Government of the Republic of Macedonia have issued the fourth Eurobond in the amount of 270 million euros with a maturity of 5 years and a coupon of 4,875%. The last and also the most intriguing government borrowing is the issuance of the fifth Eurobond in the amount of 450 million Euros with interest rate of 5,625% and maturity of 7 years.<sup>1</sup>

At the end of 2015, the share of total public debt in GDP of the Republic of Macedonia stood at 46,5% or 0,5 percentage points higher than the value of this ratio recorded at the end of 2014 (2014: 46%). The increase of 0,5 percentage points was largely due to the growth of external guaranteed debt of public enterprises and joint stock companies in state ownership as a result of increased borrowing for infrastructure projects, despite the reduced government debt.<sup>2</sup> Ac-

<sup>1</sup> Source: Ministry of Finance

<sup>2</sup> Report on Financial Stability for 2015, National Bank of the Republic of Macedonia, available at: [http://nbrm.mk/WBStorage/Files/WebBuilder\\_](http://nbrm.mk/WBStorage/Files/WebBuilder_)

ording to the latest quarterly report on the stock of public debt, which can be seen on the website of the Ministry of Finance, the absolute amount of the public debt as of June 30th 2016 was 4,273 billion Euros, while the public debt / GDP ratio accounted for 45,3%.<sup>3</sup> Considering the fact that the debt relating the last issued Eurobond is not included into the calculation of the above-mentioned ratio (45,3%), the final stock of the current public debt would be about 5 billion euros, or about 50% of GDP.

According to the previously mentioned data, it can be concluded that Republic of Macedonia is still moderately indebted country, even if we consider the total level of indebtedness of the country, meaning in the final calculation of the total debt to be included the amount of debt relating to the latest Euro-

[FSR\\_MKD\\_2015.pdf](#)

<sup>3</sup> Stock of public debt, available at: <http://www.finance.gov.mk/mk/node/57>

bond. This fact is also confirmed by EUROSTAT data according to which the Republic of Macedonia is among the ten least indebted countries in Europe (next to Estonia, Luxemburg, Bulgaria and Latvia) with public debt below 50 percent of gross domestic product.

However, it should not be neglected that the current level of debt is too high for a country like the Republic of Macedonia (although the Maastricht criteria prescribed acceptable level of public debt is up to 60% of GDP). At the same time, the maturity of both large Eurobonds issued by the country is 5 years (2021 and 2026), which is relatively short period compared with maturities of 15 years government bonds issued on domestic capital market. In comparison, developed countries (Italy, Spain, Portugal, France etc.) usually issue government bonds with maturity of 30 years or more and are currently highly indebted (as can be concluded from the European debt crisis). On the other hand, these above mentioned highly indebted countries are at the same time wealthy countries which

help to endure their high level of public debt, i.e. they keep higher amount of foreign exchange and gold reserves, possess estate and other goods abroad and also have debtors abroad.<sup>4</sup>

Important aspect of the Eurobond issuance is also the credit rating of the country. Namely, in 2015 the country's credit rating was confirmed by "Fitch" (BB +, reducing the appearance of the country from stable to negative) and "Standard & Poor's" (BB -, affirming the stable outlook of the country). These ratings generally mean that the country currently has the ability to pay back its debts. Yet, given the serious political crisis in the country, there is a risk of lowering the credit rating of the country. This would mean a reduced ability of the country to recover the debts which could lead to an increase in Eurobond interest rates and at the same time paying higher amount of interest to Eurobond holders. Hence, public debt

would increase further.

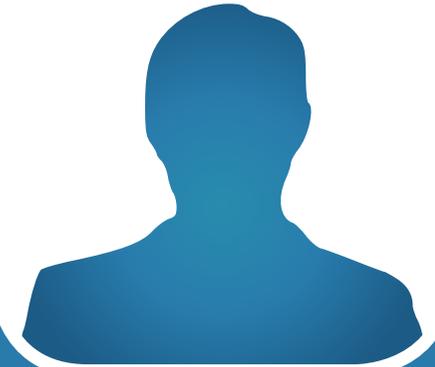
Given that the Republic of Macedonia is a poor country and still not a member of the European Union, the current amount of public debt is at acceptable and sustainable level. The latest government borrowing by issuing the fifth Eurobond equals 4,7% of GDP, in circumstances where the budget deficit is projected at 3,2% and budget rebalance for year 2016 projected a new reduction in the economic growth of 4% to 2,7%.

What is crucial in such a situation is that government measures to be directed toward fiscal consolidation that would involve either reducing the budget deficit by reducing unproductive budget spending, or reducing the public debt. Nevertheless, if there is no fiscal consolidation, the country should achieve very high economic growth (for example: 6.5%) in the long term in order to avoid fiscal instability (However, a high economic growth is

very unlikely to be achieved and maintained in the long term, especially for a country like the Republic of Macedonia which currently has a projected growth of 2.7%).<sup>5</sup>

Given all this, one of the most important issues is the purpose of the funds from the Eurobond. Officially, the funds from the bond will be used for budgetary needs in 2016 and 2017 and repayment of debt. Essential to the economy, in order to justify the huge amount of borrowing, is that these funds to be used for refinancing the previous borrowings and a large part of the funds to be directed to capital investments providing long-term and sustainable economic growth and development. ●

<sup>5</sup> СТАВ Владимир Филиповски: Ке ни треба финовски раст за да можеме да ги враќаме долговите!, јули 2016 година, available at: <http://faktor.mk/2016/07/13/stav-vladimir-filipovski-ke-ni-treba-dhinovski-rast-za-da-mozheme-da-gi-vrakame-dolgovite/>



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<sup>4</sup> Што е еврообвртница, колку веќе должиме и кога и како ќе враќаме, јули 2016 година, Нова ТВ, available at: <http://novatv.mk/shto-e-evroobvrznitsa-kolku-veke-dolzhime-i-koga-i-kako-ke-vrakame/>