



Weekly Briefing

North Macedonia economy briefing:

The Ministry of Finance has issued new development bonds intended for citizens as part of its as part of its new Public Debt Management Strategy

Gjorgjioska Marija Adela


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Ju Weiwei

Kiadásért felelős személy: Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

The Ministry of Finance has issued new development bonds intended for citizens as part of its new Public Debt Management Strategy

Summary

The launch of the first development bond for citizens was announced by Prime Minister Kovachevski and Finance Minister Besimi on June 30th. The bond, totaling up to 600 million denars, was offered in an auction on July 13th, with an annual interest rate of 5%. Prime Minister Kovachevski and Finance Minister Besimi highlighted the benefits of the bond for citizens and the economy, emphasizing its straightforward purchase process and macroeconomic advantages. Despite differing opinions on its effectiveness, the issuance of the development bond is part of the Ministry of Finance's strategy to reduce reliance on foreign debt and stimulate economic growth. While its immediate impact may be limited, these initiatives are seen as a positive step towards reducing the country's rising and unsustainable public debt.

On June 30th Prime Minister Kovachevski and Finance Minister Besimi announced the launch of the first development bond for citizens, a two-year bond totaling up to 600 million denars (\$10.6 million/9.8 million euros). The finance ministry disclosed that it will offer 60,000 government securities, each with a par value of 10,000 denars, at an auction scheduled for July 13. Moreover, they informed that the interest rate, i.e. the yield that the bond will generate is 5% annually. At a Press Conference dedicated to the bond, Prime Minister Dimitar Kovachevski and Finance Minister Fatmir Besimi highlighted the “straightforward process of purchasing the bond” and underscored “the advantages that arise from investing in it”.¹

¹ Kovachevski and Besimi announced the launch of the first development bond for citizens: We have offered an instrument which brings many benefits, citizens will earn favourable interest, available at

<https://finance.gov.mk/2023/06/30/kovachevski-and-besimi-announced-the-launch-of-the-first-development-bond-for-citizens-we-have-offered-an-instrument-which-brings-many-benefits-citizens-will-earn-favourable-interest/?lang=en>, published on 30.06.2023, accessed on 30.07.2023

"The new financial instrument on the market brings numerous benefits for both the citizens and the economy as a whole," Prime Minister Kovachevski stated. He emphasized that one of the key benefits for citizens is the profit, i.e., the yield, they will generate from the development bond for citizens, which bears 5% coupon interest and has a two-year maturity. Moreover, the bond's impact extends beyond individual investors, as it also brings macroeconomic benefits to the economy. "Funds to be mobilized through the auction of the development bond for citizens will be used for budget support, i.e., they will be used for servicing the current needs, as well as for development purposes and investments in consumer durables," Prime Minister Kovachevski explained. Notably, he added that these injected funds will cycle back into the business sector through consumption, payment of wages and salaries, and investment activities, thereby stimulating economic activity and contributing to accelerated economic growth.²

Finance Minister Fatmir Besimi provided essential details regarding the commencement of the procedure for purchasing the development bonds for citizens. "The procedure is very simple," Minister Besimi emphasized, ensuring accessibility for interested citizens. To participate in the auction, individuals can fill in an application at any commercial bank and make a payment for the amount they intend to invest. The minimum amount required for purchasing the bonds is Denar 10,000. For those eager to take part in the auction, the application should be submitted to the respective bank no later than July 12th, one day before the auction takes place. Besimi further clarified, "Once the bonds are registered in the Central Securities Depository, they will be issued to the bondholders, i.e., registered in their name." This streamlined process aims to make investing in the development bonds for citizens a straightforward and convenient experience for all interested individuals.³ He continued to explain that this new financial instrument allows citizens to invest in projects aimed at the country's development, ensuring both the safety of their investments and the generation of yields. What makes this opportunity even more significant is that, amid two-digit inflation, it adds incremental value to their money. Minister Besimi illustrated this with an example: if a citizen invests in 10 bonds, equivalent to Denar 100,000, they will earn Denar 5,000 at the end

² Ibid

³ Ibid

of the first year and an additional Denar 5,000 at the end of the second year, resulting in a total return of Denar 10,000 for their Denar 100,000 investment.

As part of the PR campaign on the bond, Besimi also wrote a column in which he explained the benefits for citizens. He highlighted several compelling reasons for citizens to consider investing in the development bond. First and foremost, the bond offers a favorable interest rate, making it an attractive option. Additionally, it provides a safe investment opportunity, ensuring the security of funds. Moreover, the development bond opens doors to expanding one's investment portfolio through the well-established capital market—a significant advantage as the third reason to invest. Besimi also emphasized that by investing in this bond, citizens actively contribute to combatting the informal economy, making it the fourth reason to consider this financial instrument. Finally, the fifth reason, as indicated by the Finance Minister, lies in investing for a better tomorrow, ultimately fostering economic growth and development. These compelling factors collectively make the development bond for citizens a promising avenue for citizens to participate in the country's progress and prosperity, Besimi concluded.⁴

The issuance of the first development bond intended for citizens is part of the Ministry of Finance's new Public Debt Management Strategy. The finance ministry previously announced plans to introduce various financial instruments, including development bonds, green bonds, and project bonds. The first auction of the development bond for citizens, held on July 13th, was described as a success by the Ministry of Finance. The accepted amount reached Denar 1,448,030,000, which is twice the amount offered in the Prospectus (Denar 600 million). A total of 1,283 citizens participated in the auction, demonstrating significant interest. Minister of Finance, Fatmir Besimi, expressed his satisfaction with the enthusiastic response from citizens, stating, "Considerable interest was demonstrated in this innovative product on the financial market. Citizens recognized this as a great opportunity to make a risk-free and safe investment,

⁴ Besimi: Development bond for citizens is among the most favourable financial instruments and it is risk free, published on 02.07.2023, available at

<https://finance.gov.mk/2023/07/02/besimi-development-bond-for-citizens-is-among-the-most-favourable-financial-instruments-and-it-is-risk-free/?lang=en> accessed on 30.07.2023

thereby adding incremental value to their money in terms of generating sound earnings amid prevalent high inflation."⁵

Not all agreed with the success or the utility of the bond. Some described it as “pure PR of the Government and yet another indicator of its declining rating”⁶ Others focused on the low impact that this new bond is likely to have on the reduction of foreign debt as part of the Public Debt Management Strategy. Namely, this year, according to the published data, will end with a public debt amounting to 7.7 billion euros, with nearly 66 percent of the debt owed to foreign creditors.⁷ In the coming years, hundreds of millions of euros will be "knocking on the door" for repayment, based only on matured Eurobonds. In July, with funds from the new Eurobond in the amount of 500 million euros, 450 million euros were paid for the Eurobond issued in 2016. But in the following years, the country will have to pay off the debt on the basis of other Eurobonds.

The domestic borrowing is a part of the strategy to reduce the reliance on foreign debt as the Government implements its Public Debt Strategy. According to the Ministry of Finance, the new development bonds intended for citizens form only part of the strategy. Specifically, new sources are being prepared to secure loans from domestic creditors such as banks, insurance companies, and pension funds, to which citizens have now joined. In addition to civic bonds, the following are also being prepared: Green bonds (these will be used to finance new and/or existing green projects. Unlike regular bonds, green bonds will be solely utilized for investment projects or green development and will be allocated for capital expenses) and project bonds - intended for capital investments through which investors will contribute their financial resources to capital and infrastructure projects. In light of the high level of public debt and

⁵ Besimi: Development bond for citizens' issuance process successfully completed with more than twice the initially offered amount, published on 14.07.2023, available at

<https://finance.gov.mk/2023/07/14/besimi-development-bond-for-citizens-issuance-process-successfully-completed-with-more-than-twice-the-initially-offered-amount/?lang=en> accessed on 30.07.2023

⁶The civil bond controversies, available at

<https://fokus.mk/kontroverziite-za-graganskata-obvrznitsa/>, accessed on 22.07.2023

⁷ ANALYSIS: In four years, the state has to return 2.3 billion euros on the basis of Eurobonds, published on 25.07.2023, available at

<https://meta.mk/analiza-za-chetiri-godina-drzhavata-treba-da-vrati-23-milijardi-evra-samo-po-osnov-na-evroobvrznici/> accessed on 30.07.2023

unproductive fiscal expenditures, it is unlikely that these new instruments will have a meaningful impact on the economy, but any case they represent a step in the right direction.