

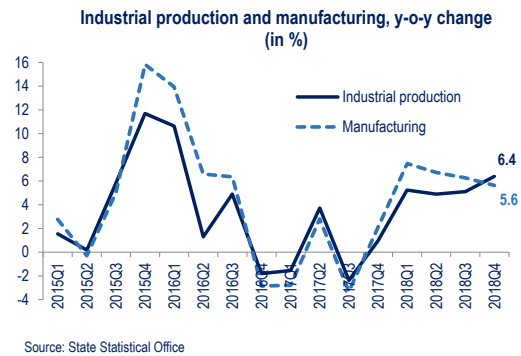
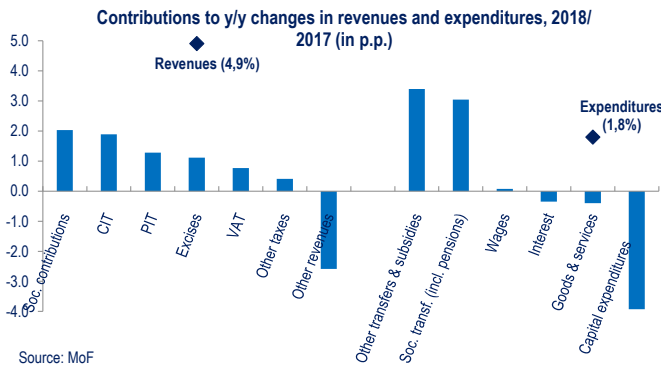


MONTHLY NEWSLETTER - JANUARY 2019

- In 2018, **budget revenues** grew by 4.9% y/y, with tax revenues growing by 9.3% y/y and social contributions growing by 6.9% y/y. Higher budget revenues were driven by higher social contributions, CIT, PIT and excises, as well as VAT and other taxes, whereas the contribution of other revenues was negative.
- In 2018, **budget expenditures** grew by 1.8% y/y, reflecting higher current expenditures by 6.4% y/y, as opposed to the considerable fall in capital expenditures. Current expenditure growth was driven by other transfers and subsidies and social transfers (mostly to the pension fund), whereas wages were almost unchanged, and interest and goods and services were slightly lower than in 2017.
- The **2018 budget deficit** was 1.8% of MoF-estimated GDP, as opposed to the projected deficit of 2.7%. In absolute terms, the 2018 deficit was around 2/3 of the 2017 deficit, reflecting considerably higher growth of revenues than expenditures.
- In end-2018, **general government debt** stood at 40.7% of MoF-estimated GDP for 2018 (40.3% of GDP in Q3 2018; 39.5% of GDP in end-2017), which is among the lowest in the region. **Public debt** in end-2018 was 48.7% of MoF-estimated GDP for 2018 (48.2% of GDP in Q3 2018; 47.8% of GDP in end-2017).

Special focus - Developments on the name issue and NATO accession

- On 11 January, with the necessary 2/3 majority, the Macedonian Parliament approved the constitutional changes needed to reflect the Agreement between Macedonia and Greece on the solution of the 27-year old name dispute and the establishment of strategic partnership between the countries.
 - On 26 January, the Greek Parliament approved the Agreement between Macedonia and Greece.
 - It is planned that NATO member-states will very soon sign the Accession Protocol for Macedonia, which makes Macedonia an invitee member, i.e. grants it a NATO observer status (participates in all activities, but without voting power). The Protocol will immediately be submitted to member-states for ratification in their parliaments. Based on the experience of other SEE countries, the entire process should take about a year.
 - The ratification of the NATO Accession Protocol by the Greek Parliament is expected by mid-February. Following this step, Macedonia will inform the UN and the international community that the Agreement between Macedonia and Greece has entered into force, and that the official name of the country is henceforth "the Republic of North Macedonia".
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- The 2018 **inflation rate** was 1.5% y/y, mostly reflecting oil prices and core inflation, as well as food prices.
 - In 2018, **industrial production** grew by 5.4% y/y, which is mostly due to the growth in manufacturing of 6.5% (driven by machinery and equipment, motor vehicles, electrical equipment, furniture and food products).
 - In January, **Fitch Ratings affirmed its 'BB' ratings on Macedonia, as well as the positive outlook**. Ratings are supported by a track record of coherent macroeconomic and financial policy, which underpins the longstanding peg to the euro. The positive outlook reflects the stabilization of the political environment and, as a result, material progress towards accession to the EU and increased economic confidence.
 - On 29 January, the IMF published the report under the regular **2018 Article IV Consultation** with Macedonia. According to the IMF forecast, 2018 GDP growth is estimated at 2%, with the budget deficit at 2.6% of GDP. Growth is projected at 2.8% in 2019 and 3% in 2020, with the budget deficit temporarily rising to 3% of GDP in 2019 before gradually declining to 2.4% in the medium term. Inflation is projected at 1.8% in 2019 and 2% in 2020.



Key macroeconomic indicators and projections

	2012	2013	2014	2015	2016	2017	2018*	2019**
Real GDP growth, %	-0.5	2.9	3.6	3.9	2.8	0.2	2.8	3.2
Nominal GDP, million EUR	7,585	8,150	8,562	9,072	9,657	10,014	10,679	11,294
Average annual inflation, %	3.3	2.8	-0.3	-0.3	-0.2	1.4	1.5***	2.0
Budget balance, % of GDP	-3.8	-3.8	-4.2	-3.5	-2.7	-2.7	-1.8***	-2.5
General government debt, e.o.p., % of GDP	33.7	34.0	38.1	38.1	39.9	39.5	40.7**	43.3
Current account balance, % of GDP	-3.2	-1.6	-0.5	-2.0	-2.9	-1.0	-1.0	-1.2
Average unemployment rate, %	31.0	29.0	28.0	26.1	23.7	22.4	20.8***	20.1
Average exchange rate MKD/EUR	61.5	61.6	61.6	61.6	61.6	61.6	61.5***	61.6
Average key monetary policy rate, %	3.82	3.32	3.25	3.25	3.73	3.27	2.92***	
Foreign reserves, e.o.p., % of GDP	28.9	24.5	28.5	24.9	27.1	23.3	26.8***	

*2018 based on MoF estimates, unless otherwise noted

**2019 based on MoF projections

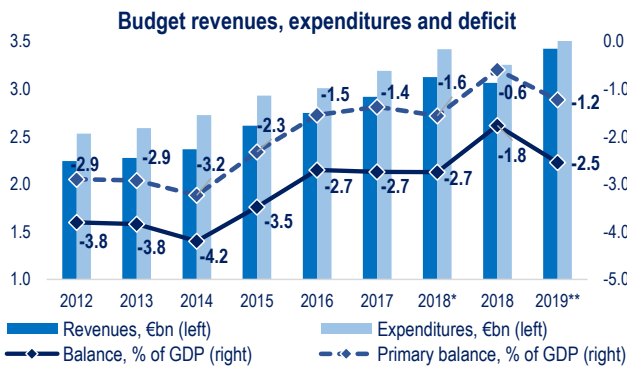
*** Actual for 2018 (unemployment as of Q3 2018); ratios based on MoF GDP estimate for 2018

Latest GDP and inflation estimates and forecasts

	Real GDP growth, %			Average inflation, %		
	2018	2019	2020	2018	2019	2020
IMF Article IV, Jan 2019	2.0	2.8	3.0	1.5	1.8	2.0
European Commission, Nov 2018	2.1	2.8	3.1	1.6	2.0	2.1
World Bank, Oct 2018	2.5	2.9	3.2	1.6	2.0	2.0
National Bank, Macedonia, Nov 2018	2.3	3.5	3.8	1.6	2.0	2.0
MoF, Macedonia, Nov 2018	2.8	3.2	4.0	1.7	2.0	2.0

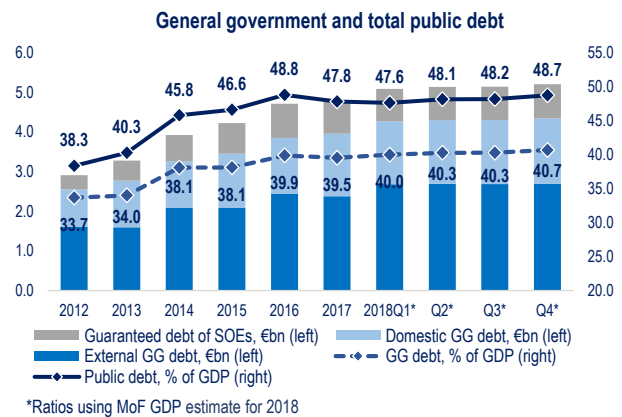
Credit rating, latest

	Rating	Outlook
Standard & Poor's, September 2018	BB-	Stable
Fitch, January 2019	BB	Positive



*As per 2018 Supplement Budget

**As per 2019 Budget



*Ratios using MoF GDP estimate for 2018

Domestic government securities, EUR m

Outstanding, 31 Jan 2019	1584
- Of which without FX clause	896
- Of which with FX clause	688
Total planned gross issuance for 2019	309
Total planned net issuance for 2019	150
- Of which net issued by Jan 2019	5

Latest yields on domestic government securities on the primary market during 2019, in %

	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause		0.80	1.10					
With FX clause		0.50						4.30

Republic of Macedonia Outstanding Eurobonds, latest

Maturity date	Rating		Original/outstanding size (mn)	Coupon	Price	Yield	Bid Spread vs. BM	Bid z-Spread vs. MS
	S&P	F						
Dec-20	BB-	BB	€ 270/ € 178	4.875%	107.1	0.912	147	108
Jul-21	BB-	BB	€ 500	3.975%	105.6	1.626	216	174.5
Jul-23	BB-	BB	€ 450	5.625%	113.9	2.319	269	225
Jan-25	BB-	BB	€ 500	2.75%	100.9	2.589	282.5	235