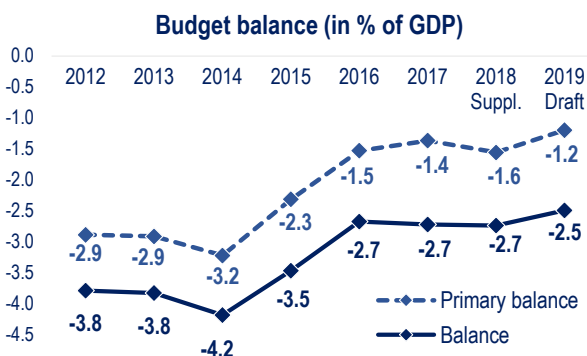


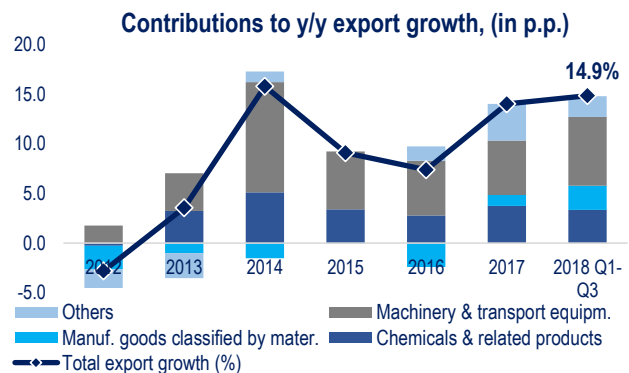


MONTHLY NEWSLETTER - NOVEMBER 2018

- On 11 November, the Parliament adopted the **Supplementary Budget for 2018**. Real GDP growth is revised from 3.2% to 2.8%. Total revenues and expenditures are revised moderately to EUR 3.12 billion and EUR 3.42 billion respectively (from 3.14 and 3.44 with the original budget). The 2018 deficit is unchanged at 2.7% of GDP.
- The **key change in the 2018 Supplementary Budget** is the allocation of EUR 50 million for **clearance of unpaid obligations of municipalities**, intended to clear at least 51% of their obligations. Special legislation was also adopted to prevent similar problems by introducing a fiscal rule to link municipal budgets to realized past revenues. Overall **self-reported unpaid obligations of the public sector**, collected and published by the MoF, stood at EUR 305 million in September 2018, as opposed to the previous stock of EUR 363 million from May 2017.
- On 14 November, the Government approved the **Draft Budget for 2019**, and sent it to Parliament for adoption. According to the draft, real GDP will intensify to 3.2%. Total revenues and expenditures will amount to EUR 3.4 billion and EUR 3.7 billion respectively. The 2019 budget deficit is planned at EUR 287 million, i.e. 2.5% of projected GDP (in line with the Fiscal Strategy for 2019-2021 from May), with the primary deficit at 1.2% of GDP.
- The 2019 draft-budget includes several **policy changes**. The base PIT rate of 10% is unchanged, while a **marginal PIT rate** of 18% will be introduced for top 1% income earners. In order to lower the pension deficit, the **pension contribution rate will be raised** from 18% to 18.4% in 2019 and 18.8% in 2020 (and the health contribution rate from 7.3% to 7.4% in 2019 and 7.5% in 2020), and the **benefit indexation** will be changed to CPI only (from 50% wages, 50% CPI). **Social assistance coverage and targeting** will be improved by consolidating and replacing the social benefits with a means-tested guaranteed minimum income and social pension scheme.
- Central government gross financing needs** for 2019 equal EUR 555 million, of which EUR 287 million for the deficit and EUR 268 million for debt repayment, to be met by domestic borrowing and loans and project-financing by multilateral organisations. **Gross foreign and domestic borrowing** are planned at EUR 414 million and EUR 308 million respectively (without the rollover of T-bills), with deposit accumulation of EUR 168 million. **Net domestic and net foreign borrowing** are planned at EUR 150 million and EUR 314 million respectively.



*Ratios using MoF GDP forecast for 2018 and 2019



*Source: State Statistical Office

- In the first ten months of 2018, **budget revenues** grew by 5% y/y, reflecting higher tax revenues and social contributions by 7.2% y/y and 6.9% y/y respectively. In the same period, **budget expenditures** grew by 1.3% y/y. The **budget deficit** stood at 0.9% of MoF-projected GDP for 2018.
- The regular **IMF Article IV Mission** was completed on 16 November. According to the concluding statement, 2018 GDP growth is projected at 2%, with the budget deficit at 2.6% of GDP. Growth is projected at 2.8% in 2019 and 3.5% over the medium term, with the budget deficit temporarily rising to 3% of GDP in 2019 before narrowing to 2.4% over the medium term and public debt peaking at 54.7% of GDP in 2021. According to the statement, the 2019 draft budget rightly intends to address pension sustainability, promote social equity and support employment.



Key macroeconomic indicators and projections

	2011	2012	2013	2014	2015	2016	2017	2018*
Real GDP growth, %	2.3	-0.5	2.9	3.6	3.9	2.8	0.2	2.8
Nominal GDP, million EUR	7,544	7,585	8,150	8,562	9,072	9,657	10,014	10,679
Average annual inflation, %	3.9	3.3	2.8	-0.3	-0.3	-0.2	1.4	1.7
Budget balance, % of GDP	-2.5	-3.8	-3.8	-4.2	-3.5	-2.7	-2.7	-2.7
General government debt, % of GDP	27.7	33.7	34.0	38.1	38.1	39.9	39.5	40.3***
Current account balance, % of GDP	-2.5	-3.2	-1.6	-0.5	-2.0	-2.9	-1.0	-1.0
Average unemployment rate, %	31.4	31.0	29.0	28.0	26.1	23.7	22.4	21.1**
Average exchange rate MKD/EUR	61.5	61.5	61.6	61.6	61.6	61.6	61.6	61.6
Average key monetary policy rate, %	4.00	3.82	3.32	3.25	3.25	3.73	3.27	2.83***
Foreign reserves, end of period, % of GDP	27.4	28.9	24.5	28.5	24.9	27.1	23.3	25.4***

*2018 based on MoF projections, unless otherwise noted

** Actual for Q2 2018

***Actual for Q3 2018; ratios based on MoF GDP forecast for 2018

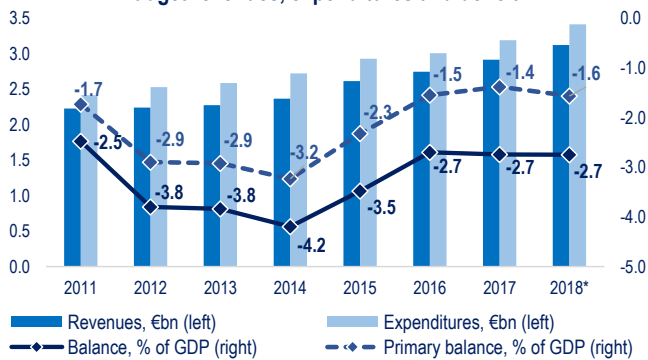
Latest GDP and inflation estimates and forecasts

	Real GDP growth, %			Average inflation, %		
	2018	2019	2020	2018	2019	2020
IMF WEO, Oct 2018	1.6	2.6	2.8	1.8	2.0	2.0
IMF A4 Concl. Statement, Nov 2018	2.0	2.8				
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

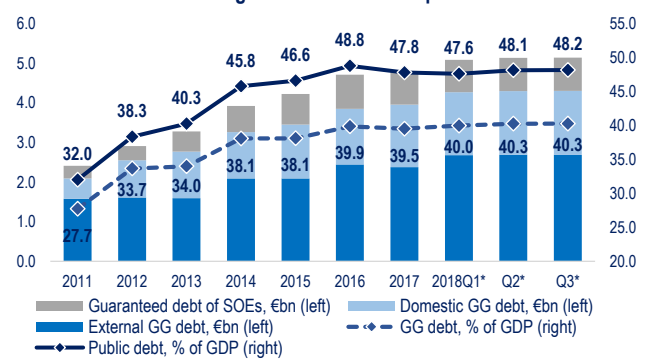
	Rating	Outlook
Fitch, July 2018	BB	Positive
Standard & Poor's, September 2018	BB-	Stable

Budget revenues, expenditures and deficit



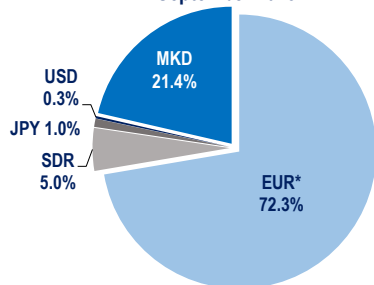
*2018 as per Supplementary Budget

General government and total public debt



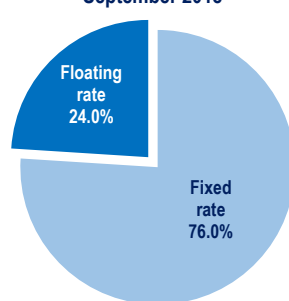
*Ratios using MoF GDP forecast for 2018

GG debt - Currency structure, September 2018

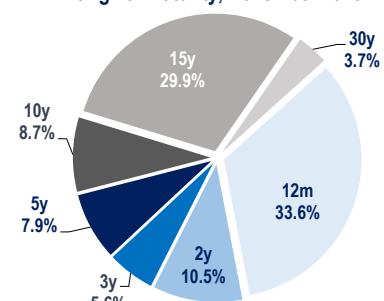


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, September 2018



Domestic government securities - original maturity, November 2018



Domestic government securities, EUR m

Outstanding, 30 Nov 2018	1581.1
- Of which without FX clause	894.9
- Of which with FX clause	686.2
Total planned gross issuance for 2018	287.8
Total planned net issuance for 2018	88.7
- Of which net issued by Nov 2018	81.2

Latest yields on domestic government securities on the primary market during 2018, in %

	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause		0.90	1.30	1.50	2.00	3.40	3.40	
With FX clause	0.60	0.90	0.90	1.10			2.90	4.50

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	1.236	183	139
Jul-21	BB-	BB	€ 500	3.975%	104.5	2.200	275	227
Jul-23	BB-	BB	€ 450	5.625%	111.4	2.963	326	276
Jan-25	BB-	BB	€ 500	2.75%	96.6	3.370	349	295