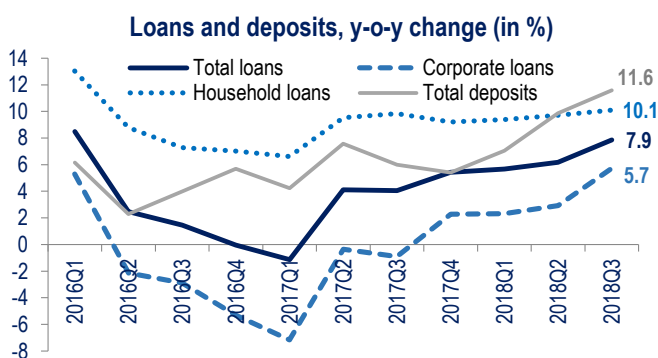


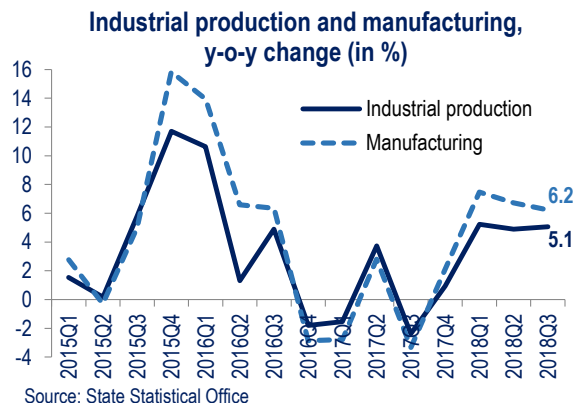


MONTHLY NEWSLETTER - OCTOBER 2018

- On 30 September, the **referendum** was held with the question "Are you for accession to the EU and NATO by supporting the Agreement between Greece and Macedonia?" The turnout was 36.9% (666,344 voters), of which a large majority of 91.5% voted "yes".
- On 8 October, the Government submitted to the Parliament the proposal for initiation of **constitutional changes** needed to reflect the agreement between Macedonia and Greece. On 19 October, the Parliament voted with the necessary 2/3 majority to initiate the process of constitutional changes, which should be completed by early next year, following the legally prescribed parliamentary process.
- In the latest **World Bank 2019 Doing Business Report**, Macedonia is ranked in the 10th position in the world, which is an improvement over the previous year for one position. In the Doing Business ranking, Macedonia has by far the highest position in the Southeastern European region, and is also ahead of 26 EU members.
- In Q3 2018, **general government debt** stood at 40.3% of MoF-projected GDP for 2018 (also 40.3% of GDP in Q2 2018; 39.5% of GDP in end-2017), which is among the lowest in the region. **Public debt** in Q3 2018 was 48.2% of MoF-projected GDP for 2018 (48.1% of GDP in Q2 2018; 47.8% of GDP in end-2017).
- In the first nine months of 2018, **industrial production** grew by 5% y/y, which is entirely due to the growth in manufacturing of 6.8% (driven mostly by machinery and equipment, motor vehicles, electrical equipment and fabricated metal products).



Source: NBRM. Loan rates between June 2016 and May 2017 also reflect NBRM measures for write-off of claims that have been fully covered for more than two years.



Source: State Statistical Office

- Strong credit and deposit performance intensified in September. **Total loans** were higher by 7.9% y/y, primarily driven by the growth in household lending by 10.1% y/y. Corporate lending also grew by 5.7% y/y, which is the highest y/y growth rate in more than two years. **Total deposits** were higher by 11.6% y/y, which is the highest y/y growth rate in more than seven years, reflecting strong growth in both household and corporate deposits.
- In the first eight months of 2018, the **net nominal wage** grew by 5.7% y/y on average. In August 2018, it equaled MKD 24,210 (EUR 393), with the average gross wage at MKD 35,573 (EUR 577).
- In September 2018, the **inflation rate** was 1.5% y/y. In the first nine months of 2018, average inflation was 1.5% y/y, mostly reflecting core and food inflation, as well as energy prices.
- In the first three quarters of 2018, **budget revenues** grew by 4.3% y/y, reflecting higher tax revenues and social contributions by 6.2% y/y and 6.6% y/y respectively, as opposed to the fall in other revenues. In the same period, **budget expenditures** grew by 1.1% y/y, reflecting higher transfers by 8% y/y, as opposed to lower capital expenditures, goods and services and interest payments, whereas spending on wages and salaries was almost unchanged. The **budget deficit** stood at 1.1% of MoF-projected GDP for 2018.



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

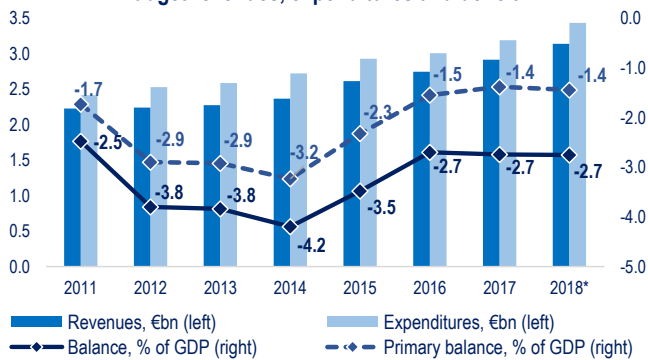
Latest GDP and inflation estimates and forecasts

	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
European Commission, May 2018	3.1	3.3		1.9	2.0	
World Bank, Oct 2018	2.5	2.9	3.2	1.6	2.0	2.0
National Bank, Macedonia, May 2018	3.2	3.5		2.0	2.0	
MoF, Macedonia, Oct 2018	2.8	3.5	4.0	1.7	2.0	2.0

Credit rating, latest

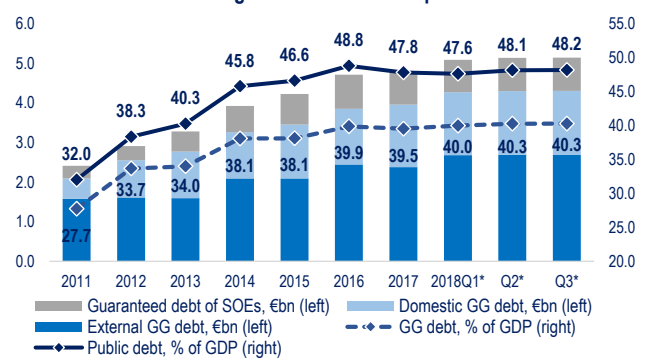
	Rating	Outlook
Fitch, July 2018	BB	Positive
Standard & Poor's, September 2018	BB-	Stable

Budget revenues, expenditures and deficit



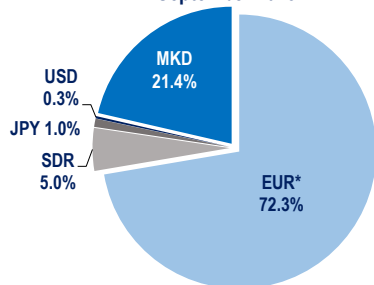
*2018 as per Budget

General government and total public debt



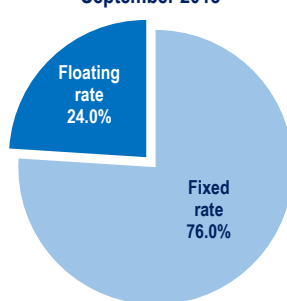
*Ratios using MoF GDP forecast for 2018

GG debt - Currency structure, September 2018

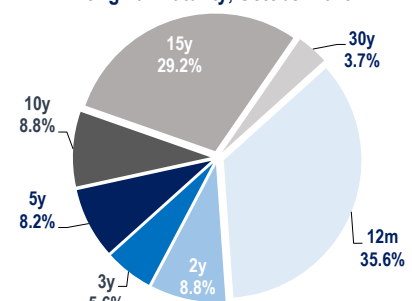


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, September 2018



Domestic government securities - original maturity, October 2018



Domestic government securities, EUR m

Outstanding, 31 Oct 2018	1570.6
- Of which without FX clause	899.3
- Of which with FX clause	671.3
Total planned gross issuance for 2018	287.8
Total planned net issuance for 2018	88.7
- Of which net issued by Oct 2018	69.6

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%	107.6	1.147	177	126
Jul-21	BB-	BB	€ 500	3.975%	105.3	1.974	251	199
Jul-23	BB-	BB	€ 450	5.625%	111.8	2.926	316	265
Jan-25	BB-	BB	€ 500	2.75%	96.9	3.313	336	282