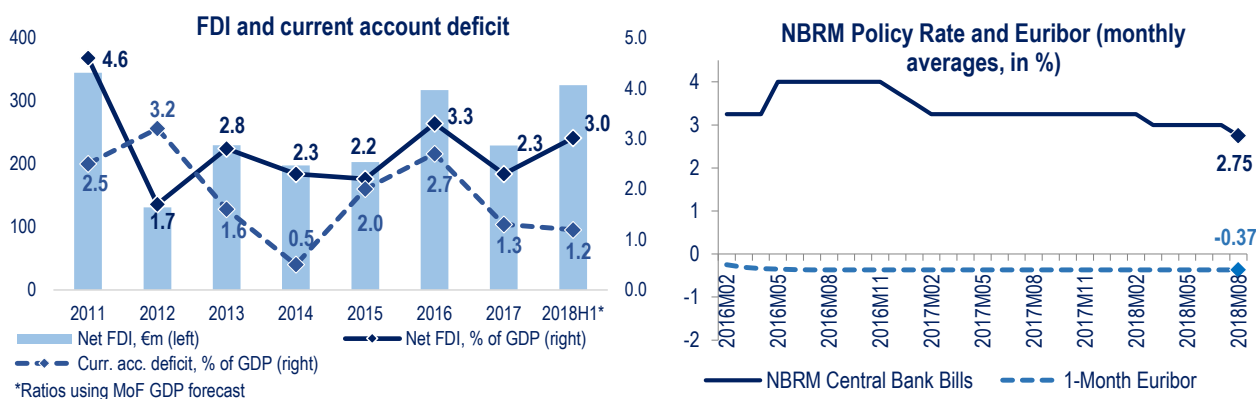




MONTHLY NEWSLETTER - AUGUST 2018

- On 14 August, the NBRM reduced the **key monetary policy rate by 25bps to a historically low 2.75%**. The decision reflects healthy economic fundamentals and absence of imbalances, as well as favorable movements in the foreign exchange market and bank deposits, which indicate stable confidence and expectations.
- In July, **industrial production** grew by 8.4% y/y, while manufacturing grew by 12.5% y/y. In the first seven months of 2018, industrial production grew by 5.5% y/y, which is entirely due to the growth in manufacturing of 7.9% (driven by machinery and equipment, electrical equipment, motor vehicles and fabricated metal products).
- In 2018 H1, **exports of goods** grew by 13.6% y/y, driven particularly by machinery and transport equipment, as well as manufactured goods classified by material and chemicals and related products. In the same period, **imports of goods** were higher by 11% y/y. The **trade deficit in goods** in the first half of the year stood at 8.5% of MoF-projected GDP for 2018, which is 0.3 p.p. lower than in the same period in 2017.
- Following the strong **net FDI** since end-2017, positive developments continued in 2018 Q2, with net FDI of EUR 87 million. This brings the total net FDI for 2018 H1 at EUR 325 million (3% of MoF-projected GDP for 2018), exceeding yearly amounts after 2011. The **current account surplus** in 2018 Q2 amounted to EUR 20 million, bringing the 2018 H1 at a current account deficit of EUR 128 million (1.2% of MoF-projected GDP for 2018).



- In July 2018, the **inflation rate** was 1.7% y/y. In the first seven months of 2018, average inflation was 1.5% y/y, mostly reflecting core and food inflation, and to a lower extent energy prices.
- In the first half of 2018, the **net nominal wage** grew by 5.6% y/y on average. In June 2018, it equaled MKD 24,203 (EUR 394), with the average gross wage at MKD 35,530 (EUR 578).
- Strong credit and deposit performance continued in July, with **credit to private sector** higher by 6.2% y/y, primarily driven by the growth in household lending by 10% y/y, while corporate lending also grew by 2.7% y/y. **Total deposits** were higher by 11.3% y/y, which is the highest y/y growth rate in more than three years, reflecting strong growth in both household and corporate deposits.
- In the first seven months of 2018, **budget revenues** grew by 4.6% y/y, reflecting higher tax revenues by 7% y/y and social contributions by 6.6% y/y. In the same period, **budget expenditures** grew by 1.3% y/y, reflecting higher transfers by 9% y/y, as opposed to the lower capital expenditures, as well as lower spending on wages and salaries and goods and services.
- In the first seven months of 2018, the **budget deficit** stood at 1.1% of MoF-projected GDP for 2018. In absolute terms, the budget deficit is about a third lower than the deficit in the same period in 2017, reflecting considerably higher growth in revenues than in expenditures.



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	2.9	0.0	3.2
Nominal GDP, million EUR	7,544	7,585	8,150	8,562	9,072	9,723	10,066	10,767
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	39.6	39.3	39.9**
Current account deficit, % of GDP	-2.5	-3.2	-1.6	-0.5	-2.0	-2.7	-1.3	-1.9
Average unemployment rate, %	31.4	31.0	29.0	28.0	26.1	23.7	22.4	21.6**
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	3.00**
Foreign reserves, end of period, % of GDP	27.4	28.9	24.5	28.5	24.9	26.9	23.2	24.5**

*2018 based on MoF projections, unless otherwise noted

** Actual for Q2 2018 (Q1 for unemployment); ratios based on MoF GDP forecast for 2018

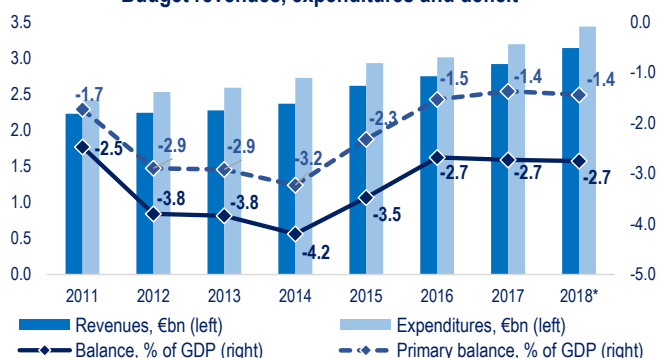
Latest GDP and inflation estimates and forecasts

	Real GDP growth, %			Average inflation, %		
	2018	2019	2020	2018	2019	2020
IMF WEO, Apr 2018	2.8	3.0	3.2	1.8	1.9	2.0
European Commission, May 2018	3.1	3.3		1.9	2.0	
World Bank, Apr 2018	2.3	2.7	3.0	1.6	2.0	2.0
National Bank, Macedonia, May 2018	3.2	3.5		2.0	2.0	
MoF, Macedonia, May 2018	3.2	3.5	4.0	1.7	2.0	2.0

Credit rating, latest

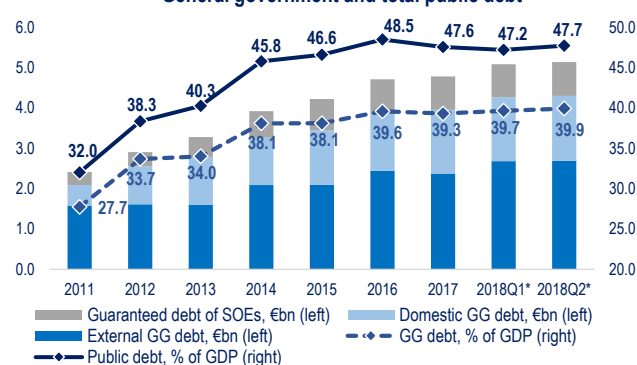
	Rating	Outlook
Standard & Poor's, March 2018	BB-	Stable
Fitch, July 2018	BB	Positive

Budget revenues, expenditures and deficit



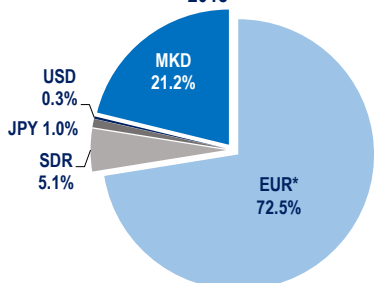
*2018 as per Budget and MoF GDP forecast

General government and total public debt



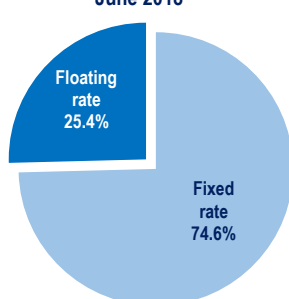
*Ratios using MoF GDP forecast for 2018

GG debt - Currency structure, June 2018

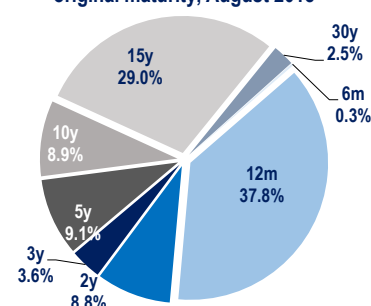


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, June 2018



Domestic government securities - original maturity, August 2018



Domestic government securities, EUR m

Outstanding, 31 Aug 2018	1546.9
- Of which without FX clause	896.6
- Of which with FX clause	650.2
Total planned gross issuance for 2018	287.8
Total planned net issuance for 2018	88.7
- Of which net issued by Aug 2018	44.0

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

	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause		1.00	1.60	1.80	2.00	3.40	3.50	
With FX clause	0.60	0.90					3.00	4.60

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%	108.6	0.967	153	108
Jul-21	BB-	BB	€ 500	3.975%	107.3	1.395	189	142
Jul-23	BB-	BB	€ 450	5.625%	114.9	2.368	258	211
Jan-25	BB-	BB	€ 500	2.75%	99.9	2.770	281	230