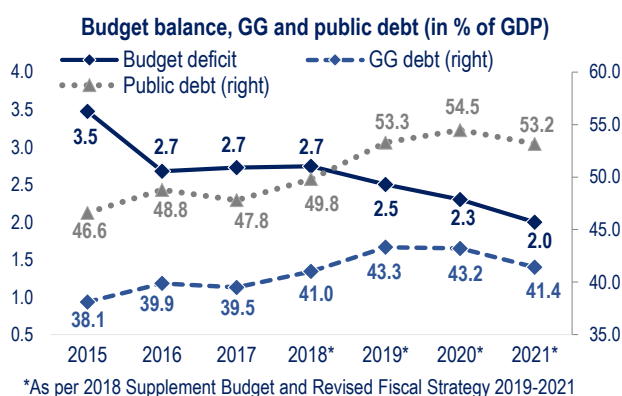
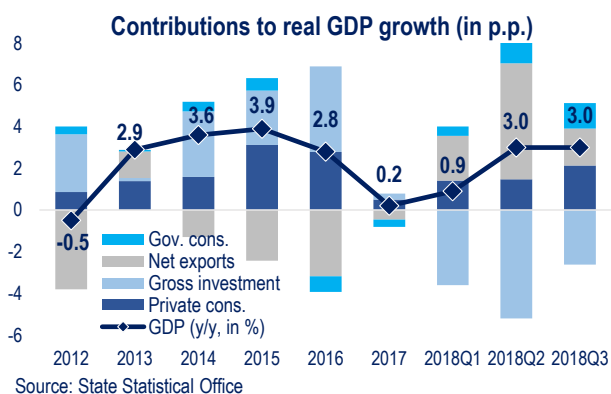




## MONTHLY NEWSLETTER - DECEMBER 2018

- In 2018 Q3, **real GDP** grew by 3% y/y (2.1% q/q s.a.), bringing the average in the first three quarters to 2.3%. Q3 growth was due to continuously stronger real exports than imports (12% and 7.5% y/y, respectively) and solid private consumption (3% y/y), while gross investments declined by 8.5% y/y. Based on the production approach, Q3 growth was driven by industry and services, whereas the contribution of construction was negative, mostly reflecting delays in highway construction and slower than expected implementation of public capital expenditures.
- In 2018 Q3, **employment** grew by 2.2% y/y and the **unemployment rate** continued its decline to a historical low of 20.8% (21.1% in Q2).
- On 21 December, the Parliament adopted the **2019 Budget**. Real GDP growth will intensify to 3.2%, with total revenues and expenditures amounting 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, with the primary deficit at 1.2% of GDP.
- On 11 December, the NBRM reduced the **key monetary policy rate by 25bps to a historically low 2.5%**. The decision reflects continuously favorable movements in the foreign exchange market, indicating a solid external position and stable expectations. Economic fundamentals are deemed healthy, and imbalances are absent.



- In 2018 Q3, **net FDI** were slightly negative (EUR 6 million), with net FDI in the first three quarters at EUR 310 million (2.9% of MoF-projected 2018 GDP). **The current account surplus** in 2018 Q3 amounted to EUR 202 million, bringing the 2018 so far at a surplus of EUR 91 million (0.9% of MoF-projected GDP for 2018).
- In November, **total loans** were higher by 7.9% y/y, primarily driven by the growth in household lending by 10.1% y/y, while corporate lending also grew by 5.8% y/y. **Total deposits** were higher by 11.1% y/y, reflecting strong growth in both household and corporate deposits.
- In the first ten months of 2018, the **average net nominal wage** grew by 5.7% y/y on average. In October 2018, it equaled MKD 24,817 (EUR 403), with the average gross nominal wage at MKD 36,488 (EUR 592).
- In November 2018, the **inflation rate** was 1.2% y/y. In the first eleven months of 2018, average inflation was 1.5% y/y, mostly reflecting the growth of oil prices and core inflation, as well as food prices.
- On 19 December, the Ministry of Finance and the Macedonian Stock Exchange (MSE) signed an agreement enabling the **secondary trading of government bonds** to start in January 2019. Besides the MSE, government bonds will also be traded on the regional SEE Link platform.
- In the first eleven months of 2018, **budget revenues** grew by 5.4% y/y, reflecting higher tax revenues and social contributions by 8.1% y/y and 7.2% y/y respectively. In the same period, **budget expenditures** grew by 2.9% y/y. The **budget deficit** stood at 1.4% 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	20.8**
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 Q3 2018; ratios based on MoF GDP forecast for 2018

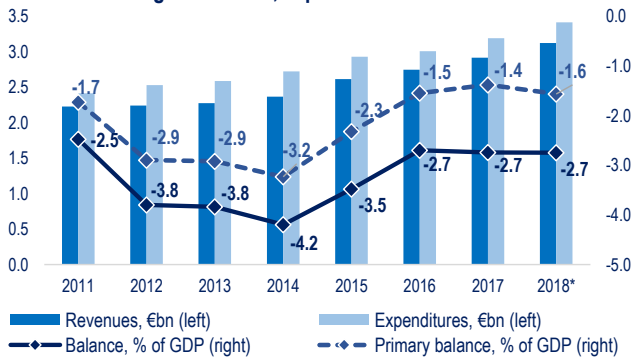
**Latest GDP and inflation estimates and forecasts**

	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**

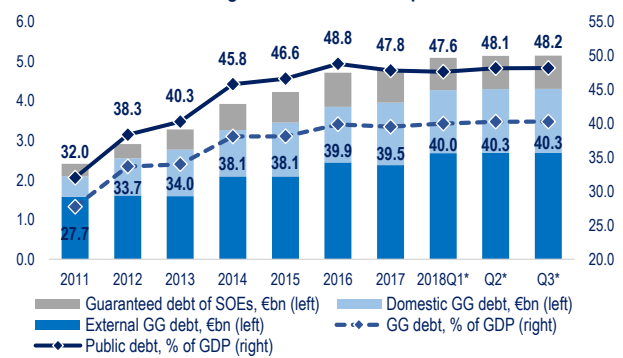
	Rating	Outlook
Fitch, July 2018	BB	Positive
Standard & Poor's, September 2018	BB-	Stable

**Budget revenues, expenditures and deficit**



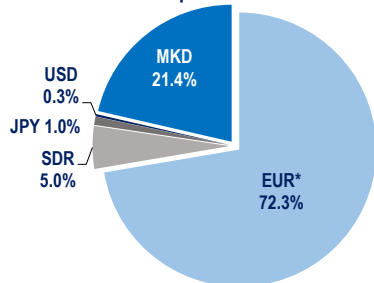
\*2018 as per Supplementary Budget

**General government and total public debt**



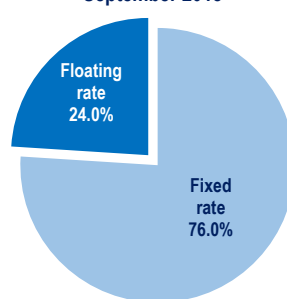
\*Ratios using MoF GDP forecast for 2018

**GG debt - Currency structure, September 2018**

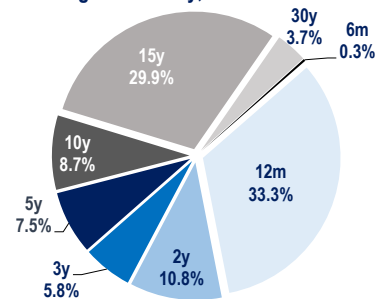


\*Includes FX-linked domestic government securities

**GG debt - Interest rate structure, September 2018**



**Domestic government securities - original maturity, December 2018**



**Domestic government securities, EUR m**

Outstanding, 31 Dec 2018	1580.8
- Of which without FX clause	895.5
- Of which with FX clause	685.3
Total planned gross issuance for 2018	287.8
Total planned net issuance for 2018	88.7
- Of which net issued by Dec 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	0.30	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%	107.2	1.163	176.7	134
Jul-21	BB-	BB	€ 500	3.975%	105.2	1.954	252	206.3
Jul-23	BB-	BB	€ 450	5.625%	111.8	2.876	320.2	273.4
Jan-25	BB-	BB	€ 500	2.75%	97.5	3.237	339.8	289.8