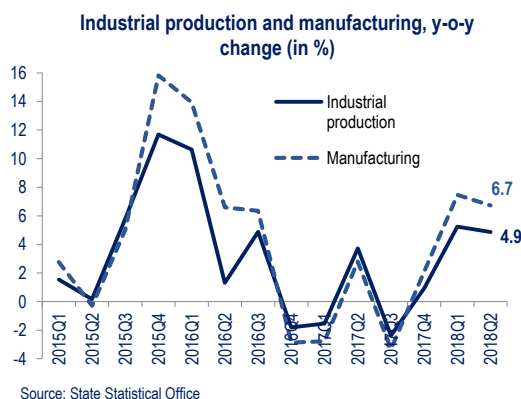
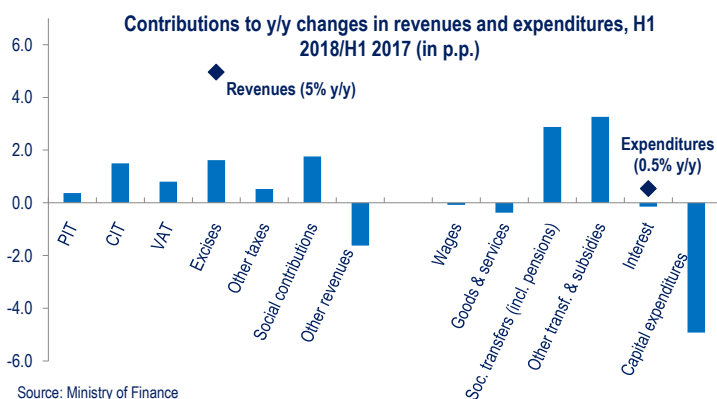




MONTHLY NEWSLETTER - JULY 2018

- On 12 July, **NATO decided to invite Macedonia to begin accession talks** to join the Alliance, once the terms of the agreement between Macedonia and Greece are met.
- On 30 July, the Parliament decided to call a **referendum on 30 September**, with the question "Are you for accession to the EU and NATO by supporting the Agreement between Greece and Macedonia?" The result should serve as a basis for the constitutional changes needed to reflect the agreement between the two countries.
- In June, **industrial production** grew by 12.1% y/y, which is the highest rate since February 2016, while manufacturing grew by 14.1% y/y. In H1 2018, industrial production grew by 5% y/y, which is entirely due to the growth in manufacturing (particularly of electrical equipment, of motor vehicles and of fabricated metal products).
- In the first half of 2018, **budget revenues** grew by 5% y/y, with tax revenues growing by 8% y/y and social contributions growing by 6% y/y. Higher budget revenues were mostly driven by higher social contributions, excises, CIT and VAT, as well as other tax revenues, whereas the contribution of other revenues was negative.
- In the same period, **budget expenditures** grew by 0.5% y/y, mostly reflecting higher current expenditures by 6% y/y, as opposed to the considerable fall in capital expenditures. Current expenditure growth was driven by other transfers and subsidies (mostly reflecting the timely payment of agricultural subsidies) and social transfers (mostly to the pension fund), whereas the contribution of wages, goods and services and interest was slightly negative.
- The **H1 budget deficit** stood at 0.7% of MoF-projected GDP for 2018, i.e. around a quarter of the 2.7% deficit projected for the entire year. In absolute terms, the budget deficit in H1 2018 was around half the deficit in H1 2017, reflecting considerably higher revenues as opposed to almost unchanged expenditures.



- In Q2 2018, **general government debt** stood at 39.9% of MoF-projected GDP for 2018 (39.7% of GDP in Q1 2018; 39.3% of GDP in end-2017), which is among the lowest in the region. **Public debt** in Q2 2018 was 47.7% of MoF-projected GDP for 2018 (47.2% of GDP in Q1 2018; 47.6% of GDP in end-2017).
- Average inflation** in H1 was 1.5% y/y, reflecting core and food inflation, and to a lower extent energy prices.
- In June, **credit to private sector** grew by 6.2% y/y, primarily driven by the growth in household lending by 9.7% y/y, while corporate lending also grew by 2.9% y/y. **Total deposits** were higher by 9.9% y/y, which is the highest y/y growth rate in more than three years, mostly reflecting growth in household deposits.
- In July, **Fitch Ratings affirmed its 'BB' ratings on Macedonia, as well as the positive outlook**. According to Fitch, 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 a more stable political environment that has increased economic confidence, realigned policy direction towards EU accession, and strengthened international relations.



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

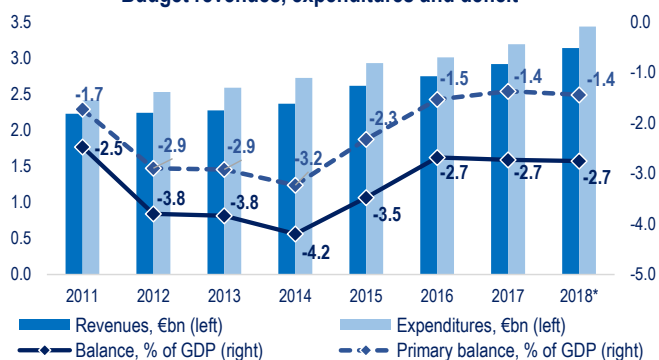
Latest GDP and inflation estimates and forecasts

	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

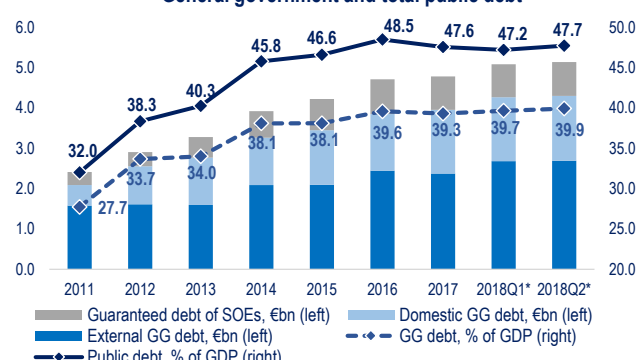
	Rating	Outlook
Standard & Poor's, March 2018	BB-	Stable
Fitch, July 2018	BB	Positive

Budget revenues, expenditures and deficit



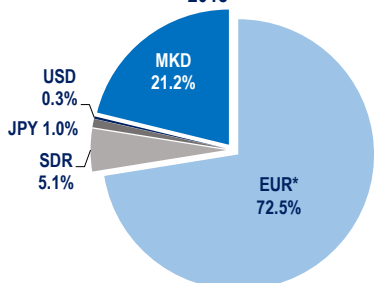
*2018 as per Budget and MoF GDP forecast

General government and total public debt



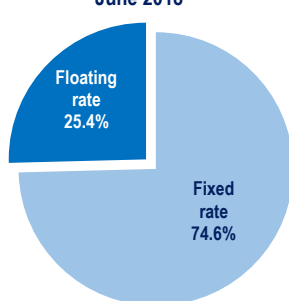
*Ratios using MoF GDP forecast for 2018

GG debt - Currency structure, June 2018

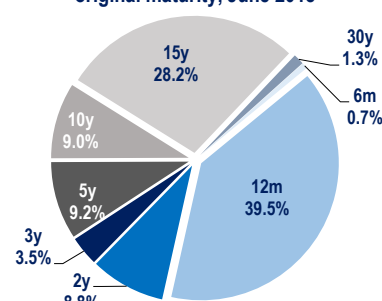


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, June 2018



Domestic government securities - original maturity, June 2018



Domestic government securities, EUR m

Outstanding, 30 Jun 2018	1538.9
- Of which without FX clause	890.9
- Of which with FX clause	647.9
Total planned gross issuance for 2018	287.8
Total planned net issuance for 2018	88.7
- Of which net issued by Jun 2018	35.3

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%	108.9	1.002	158	110
Jul-21	BB-	BB	€ 500	3.975%	107.3	1.467	191	147
Jul-23	BB-	BB	€ 450	5.625%	115.0	2.394	252	209
Jan-25	BB-	BB	€ 500	2.75%	100.3	2.706	275	218