

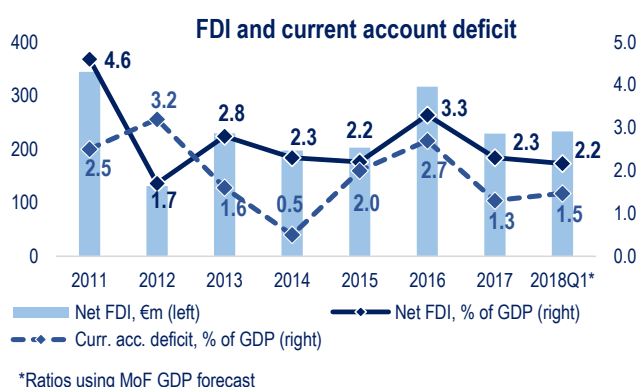
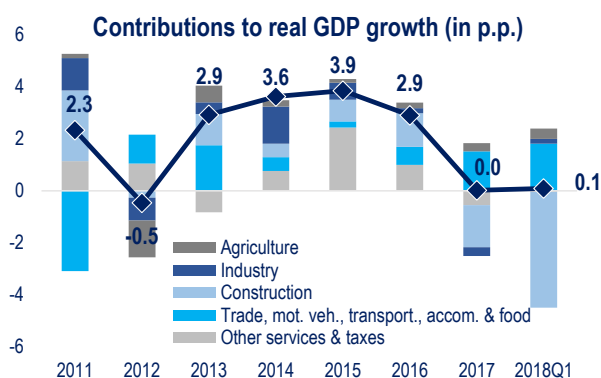


MONTHLY NEWSLETTER - JUNE 2018

- In 2018 Q1, **real GDP** grew by 0.1% y/y, reflecting continuously strong export growth (10.6%) and solid private consumption (2.3%), while there was a fall in gross investments and government consumption (9% and 1.4% respectively). Based on the production approach, in 2018 Q1 there was an increase in almost all sectors, which was however neutralised by the fall in construction, primarily reflecting the delays in highway construction and the slower than expected implementation of public capital expenditures.
- In 2018 Q1, **employment** grew by 2.2% y/y and the **unemployment rate** continued its downward path to 21.6% (21.9% in 2017 Q4). In the first four months of 2018, the **net nominal wage** grew by 5.1% y/y on average. In April 2018, it equaled MKD 23,942 (EUR 389), with the average gross wage at MKD 35,117 (EUR 571).
- Following the recovery of **net FDI** in the end of 2017, the positive developments continued in 2018 Q1, when net FDI amounted to EUR 233 million. This is the highest quarterly amount of net FDI since 2006, and slightly surpasses the total amount for the entire 2017 of EUR 229 million. **The current account deficit** in 2018 Q1 amounted to EUR 158 million, primarily reflecting the trade deficit in goods as well as in primary income, as opposed to the surplus in the secondary income and the trade in services.

Special focus - Developments on the name issue, NATO and EU accession

- On 17 June, the governments of Macedonia and Greece signed an agreement on the solution of the 27-year old name dispute and the establishment of strategic partnership between the countries. According to the agreement, the country will be renamed into the Republic of North Macedonia once all steps are completed.
 - In line with the Agreement, Macedonia should change its constitution by the end of 2018. The Government plans to hold a referendum in autumn regarding the constitutional changes needed to reflect the Agreement.
 - The Macedonian Parliament ratified the Agreement on 20 June with 69 votes (out of 120 MPs). The President has declined to promulgate the Law on ratification, and it is expected that the Parliament will soon override his veto in a second vote, where a simple majority of 61 MPs will suffice.
 - Following the ratification by the Macedonian Parliament, Greece has notified the EU that it supports the opening of the accession negotiations, and also notified NATO that it supports the extension of an accession invitation, under the terms of the Agreement.
 - On 26 June, the Council of the EU agreed to respond positively to the progress made by Macedonia and set out the path for opening accession negotiations in June 2019. Further, the NATO Secretary-General expects that in the July summit the alliance will officially decide to extend an accession invitation to Macedonia.
- In May 2018, the **inflation rate** was 1.7% y/y. In the first five months of 2018, average inflation was 1.5% y/y, mostly reflecting core and food inflation, and to a lower extent energy prices.
 - In May 2018, **credit to private sector** grew by 6.3% y/y, primarily driven by the growth in household lending by 9.6% y/y, while corporate lending also grew by 3.2% y/y. **Total deposits** were higher by 9.8% y/y, which is the highest y/y growth rate in more than three years, mostly reflecting growth in household deposits.
 - In the first five months of 2018, **budget revenues** grew by 3.5% y/y, reflecting higher tax revenues by 5.6% y/y and social contributions by 6% y/y. In the same period, **budget expenditures** grew by 2.1% y/y, mostly reflecting higher transfers by 13% y/y, as opposed to the lower spending on wages and salaries, goods and services and capital expenditures. The **budget deficit** stood at 0.7% 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	2.9	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	39.7**
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	3.17**
Foreign reserves, end of period, % of GDP	27.4	28.9	24.5	28.5	24.9	26.9	23.2	23.9**

*2018 based on MoF projections, unless otherwise noted

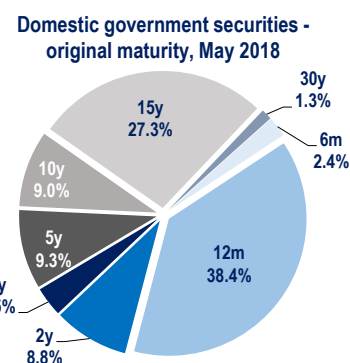
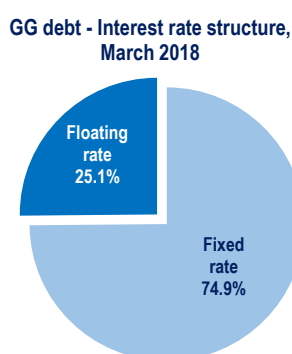
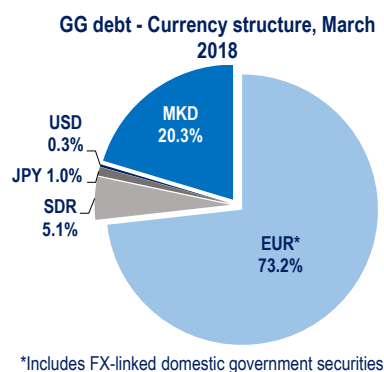
** Actual for Q1 2018; ratios based on MoF GDP forecast for 2018

Latest GDP and inflation estimates and forecasts

	Real GDP growth, %			Average inflation, %		
	2018	2019	2020	2018	2019	2020
IMF WEO, 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
Fitch, Feb 2018	BB	Positive
Standard & Poor's, Mar 2017	BB-	Stable



Domestic government securities, EUR m

Outstanding, 30 May 2018	1531.5
- Of which without FX clause	880.4
- Of which with FX clause	651.0
Total planned gross issuance for 2018	287.8
Total planned net issuance for 2018	88.7
- Of which net issued by May 2018	28.3

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	2.20	3.40	3.50	
With FX clause	0.60	0.90					3.00	4.85

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%	108.3	1.352	199	148
Jul-21	BB-	BB	€ 500	3.975%	106.0	1.947	252	199
Jul-23	BB-	BB	€ 450	5.625%	113.6	2.725	300	249
Jan-25	BB-	BB	€ 500	2.75%	98.1	3.066	314	262