



MONTHLY NEWSLETTER – APRIL 2020

- **Economic outlook for 2020** has worsened significantly due to the COVID-19 pandemic, which will result in a fall of both domestic and external demand, leading to a projected contraction of the domestic economic activity by 3.4%. Inflation rate is projected at -0.2% for 2020.
- In March 2020, the **inflation rate** was 0.5% y/y, following a 0.7% y/y inflation rate in February. In the first quarter of 2020, average inflation was 0.6% y/y.
- Following the growth in the first two months of 2020, **industrial production** in March fell by 13.4% y/y as a result of the global pandemic. In Q1 2020, industrial production fell by 3.7% y/y, which reflects the decline in Electricity supply of 13.8% y/y, as well as Manufacturing of 2.0% y/y (amid a decline in Manufacture of machinery and equipment of 26.8%).
- In the first two months of 2020, the **average net nominal wage** grew significantly by 12.4% y/y on average. In February 2020, it equaled MKD 27,206 (EUR 442), with the average gross nominal wage amounting to MKD 40,588 (EUR 660).

In terms of the COVID-19 crisis, the Government introduced two sets of measures aiming to protect the liquidity of the affected companies and preserve the jobs. The **first set of measures** mainly included targeted measures for the most affected sectors, as well as the most vulnerable groups. The **second set of fiscal measures** includes all affected companies, recording a decline in revenues by 30% due to the crisis. This includes measures related to tax relief, direct financial support, liquidity protection and other “soft” measures.

Main economic measures to mitigate COVID-19 consequences:

- Support to employers, being affected by the COVID-19 crisis to protect jobs – wage of Denar 14,500 per employee for the months of April and May. The purpose of the measure is to enable the companies keep their employees despite the workload decline and to be able to maintain the wages, with a possibility for the viable companies to transform the funds into a grant if they invest an equal or greater amount of the provided support in employee's trainings, process upgrades and productive capital. This measure is estimated to affect ~200.000 jobs;
- Subsidizing the mandatory social contributions for the months of April, May and June for legal entities and self-employed persons up to the amount of half of the social contributions of the average gross wage;
- Exemption from corporate income tax and personal income tax monthly advance payments for legal entities and natural persons, performing business activity for the months of March, April and May 2020;
- EUR 5.7 million interest-free credit line for micro-, small- and medium-sized companies from the most affected industries (tourism, catering and transport) that benefited 630 MSMEs; and EUR 8 million – new interest-free credit line for micro-, small- and medium-sized companies in all sectors, affected by COVID-19 crisis, in addition to the first credit line; and another EUR 50 million loans will soon be made available for the companies under very favourable terms and conditions;
- Measures undertaken by commercial banks (following the Central Bank's changes in the regulatory measures), as well as by financial companies and leasing companies, aimed at temporarily easing of the financial burden of citizens and companies.

International financial support:

- IMF has provided support in the amount of EUR 176.5 million through the Rapid Financing Instrument;
- World Bank support will amount to EUR 140 million through the Emergency Covid-19 Response Project and the Contingent Emergency Response Crises;
- EU announced Macro-Financial Assistance Package, whereby EUR 160 million will be made available to North Macedonia.

- **Budget revenues** in Q1 2020 grew by 1% y/y. Tax revenues decreased by 0.7% y/y, while social contributions grew by 12.2% y/y. Higher budget revenues were driven by social contributions, PIT, import duties, other tax revenues, as well as excises, whereas the VAT and profit tax are negative. **Budget expenditures** grew by 9.4% y/y, mostly reflecting higher current expenditures by 8.9% y/y, as well as capital expenditures by 24.4% y/y. **Budget deficit** in Q1 2020 stood at 1.1% of MoF - projected GDP for 2020.
- In Q1 2020, **general government debt** stood at 41.8% of MoF-projected GDP for 2020 (40.2% of GDP at end-2019), which is among the lowest in the region. **Public debt** amounted 50.7% of MoF-projected GDP for 2020 (48.9% of GDP at end-2019). The increase of public debt to GDP ratio is mainly a result of the projected fall in economic activity for 2020 in terms of the global pandemic.



Key macroeconomic indicators and projections

	2012	2013	2014	2015	2016	2017	2018	2019	2020*
Real GDP growth, %	-0.5	2.9	3.6	3.9	2.8	1.1	2.7	3.6	-3.4
Nominal GDP, million EUR	7,585	8,150	8,562	9,072	9,657	10,038	10,698	11,341	10,964
Average annual inflation, %	3.3	2.8	-0.3	-0.3	-0.2	1.4	1.5	0.8	-0.2
Budget balance, % of GDP	-3.8	-3.8	-4.2	-3.5	-2.7	-2.7	-1.8	-2.0	-2.0
General government debt, e.o.p., % of GDP	33.7	34.0	38.1	38.1	39.9	39.4	40.6	40.2	41.8**
Current account balance, % of GDP	-3.2	-1.6	-0.5	-2.0	-2.9	-1.0	-0.1	-2.8	-2.6
Average unemployment rate, %	31.0	29.0	28.0	26.1	23.7	22.4	20.7	17.3	17.4
Average exchange rate MKD/EUR	61.5	61.6	61.6	61.6	61.6	61.6	61.5	61.5	61.5
Average key monetary policy rate, %	3.82	3.32	3.25	3.25	3.73	3.27	2.92	2.29	2.00**
Foreign reserves, e.o.p., % of GDP	28.9	24.5	28.5	24.9	27.1	23.3	26.8	28.8	28.8**

*2020 based on MoF projections, unless otherwise noted

** Actual for Q1 2020, ratios based on MoF GDP forecast for 2020

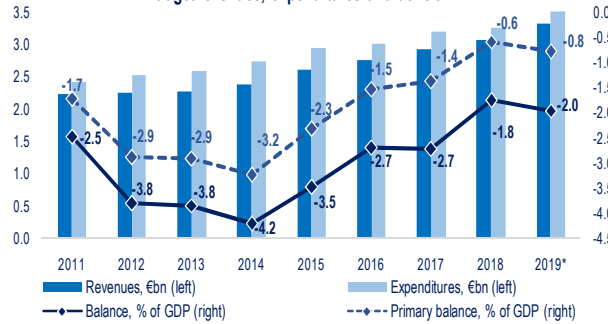
Latest GDP and inflation estimates and forecasts

	Real GDP growth, %	Average inflation, %
	2020	2020
IMF WEO (April 2020)	-4.0	-0.9
European Commission (May 2020)	-3.9	-0.7
World Bank (April 2020)	-1.4	2.1
National Bank (May 2020)	-3.5	0.0
MoF, North Macedonia (May 2020)	-3.4	-0.2

Credit rating, latest

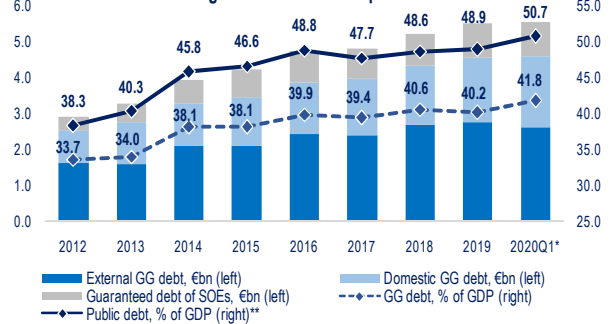
	Rating	Outlook
Standard & Poor's, March 2020	BB-	Stable
Fitch, December 2019	BB+	Stable

Budget revenues, expenditures and deficit



*2019 preliminary data

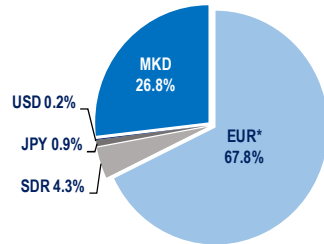
General government and total public debt



Starting Q2 2019, public debt also includes non-guaranteed debt of SOEs

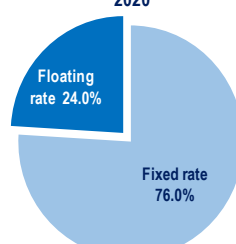
* Ratio using MoF GDP forecast for 2020

GG debt - Currency structure, March 2020

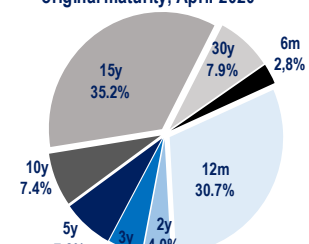


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, March 2020



Domestic government securities - original maturity, April 2020



Domestic government securities, EUR m

Outstanding, 30th April 2020	1863
- Of which without FX clause	1149
- Of which with FX clause	714
Total planned gross issuance for 2020*	307
Total planned net issuance for 2020	200
- Of which net issued by Apr 2020	139

* includes roll-over of T-Bonds + net issuance of GS

Yields on domestic government securities issued on the primary market during April 2020

	in %	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause		0.20	0.50						
With FX clause									4.00

Republic of North 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%	101.3	2.548	275	302
Jul-21	BB-	BB	€ 500	3.975%	101.1	3.037	332	357
Jul-23	BB-	BB	€ 450	5.625%	107.9	3.026	336	376
Jan-25	BB-	BB	€ 500	2.75%	97.6	3.308	361	402