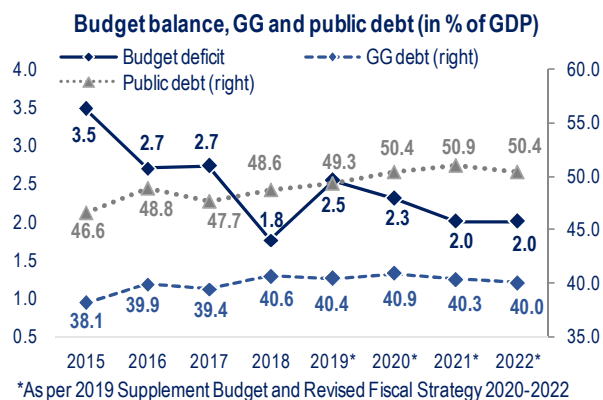
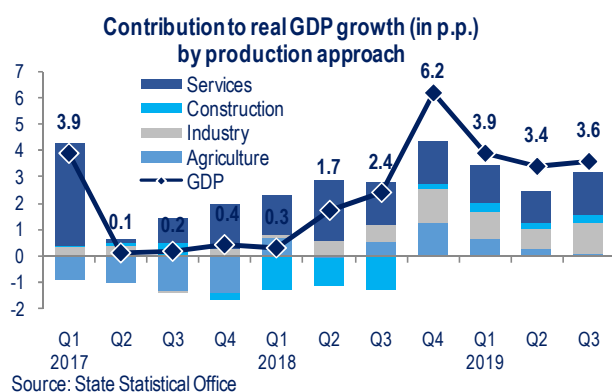




## MONTHLY NEWSLETTER – DECEMBER 2019

- In 2019 Q3, **real GDP** grew by 3.6% y/y, bringing the average to 3.6% in the first three quarters. The growth in Q3 was due to strong increase in domestic demand amid pick up in gross investment (14.9% y/y), as well as solid private consumption (3% y/y), while net exports had a negative contribution to economic growth. Analyzed by sectors, a broad-based economic growth is observed, driven by services and industry, while positive developments in construction sector continued (5.5% y/y in Q3).
- On 22<sup>nd</sup> December, the Parliament adopted the **2020 Budget**. Real GDP growth will intensify to 3.8%, with total revenues and expenditures amounting to EUR 3.6 billion and EUR 3.9 billion, respectively. The 2020 budget deficit is projected at EUR 283 million, i.e. 2.3% of projected GDP, with the primary deficit at 1.2% of GDP.
- **Fiscal strategy 2020-2022 has been revised** to reflect changes in macroeconomic and fiscal parameters. Annual growth rate of total budget expenditures of central government will gradually drop from 5% in 2020 to 4.4% in 2022. Combined with the expected revenue collection, this will lead to a gradual narrowing of the overall budget deficit from 2.3% in 2020 to 2% in 2021 and 2022. The primary budget deficit will also drop from 1.2% in 2020, to 0.9% in 2021 and further declining to 0.8% in 2022. The disciplined fiscal policy will ensure a stable public debt path, reaching 50.9% of GDP in 2021 as a result of the intensified capital projects, and then dropping to 50.4% of GDP in 2022. Public debt will be significantly below the medium – and – long term limit set at 60% of GDP.



- In 2019 Q3, **employment** grew by 5.3% y/y and the **unemployment rate** continued its decline to 17.1%, which is lower by 3.7 p.p. compared to one year ago.
- In the first ten months of 2019, the **average net nominal wage** grew by 3.7% y/y on average. In October 2019, it equaled MKD 25,726 (EUR 418), with the average gross nominal wage at MKD 38,227 (EUR 622).
- In November, **total loans** were higher by 6.4% y/y, primarily driven by the growth in household lending by 10.1% y/y, while corporate lending grew by 2.7% y/y. **Total deposits** were higher by 9.3% y/y, reflecting strong growth in both household and corporate deposits.
- In November 2019, the **inflation rate** was -0.1% y/y. In the first eleven months of 2019, average inflation was 0.8% y/y, mostly reflecting food prices (1.9%) and core inflation (0.6%), whereas energy prices decreased.
- **Budget revenues** grew by 8.2% y/y in the period January-November 2019, whereby tax revenues increased by 3% y/y and social contributions grew by 9.6% y/y. In the same period, **budget expenditures** grew by 6.6% y/y, mostly reflecting higher current expenditures by 5.5% y/y, as well as capital expenditures by 28.2% y/y. In the period January-November 2019, **budget deficit** stood at 1.1% of MoF-projected GDP for 2019.
- **Fitch Ratings in December affirmed its 'BB+' ratings on North Macedonia, as well as the stable outlook.** Rating is supported by a track record of coherent macroeconomic and financial policy, which underpins the longstanding exchange rate peg to the euro, and by more favourable governance, human development and ease of doing business indicators than the 'BB' medians.



Key macroeconomic indicators and projections

	2012	2013	2014	2015	2016	2017	2018	2019*
Real GDP growth, %	-0.5	2.9	3.6	3.9	2.8	1.1	2.7	3.5
Nominal GDP, million EUR	7,585	8,150	8,562	9,072	9,657	10,038	10,698	11,340
Average annual inflation, %	3.3	2.8	-0.3	-0.3	-0.2	1.4	1.5	1.0
Budget balance, % of GDP	-3.8	-3.8	-4.2	-3.5	-2.7	-2.7	-1.8	-2.5
General government debt, e.o.p., % of GDP	33.7	34.0	38.1	38.1	39.9	39.4	40.6	39.2**
Current account balance, % of GDP	-3.2	-1.6	-0.5	-2.0	-2.9	-1.0	-0.1	-0.9
Average unemployment rate, %	31.0	29.0	28.0	26.1	23.7	22.4	20.7	17.1**
Average exchange rate MKD/EUR	61.5	61.6	61.6	61.6	61.6	61.6	61.5	61.5
Average key monetary policy rate, %	3.82	3.32	3.25	3.25	3.73	3.27	2.92	2.25**
Foreign reserves, e.o.p., % of GDP	28.9	24.5	28.5	24.9	27.1	23.3	26.8	27.6**

\* 2019 based on MoF projections, unless otherwise noted

\*\*Actual for Q3 2019; ratios based on MoF GDP forecast for 2019

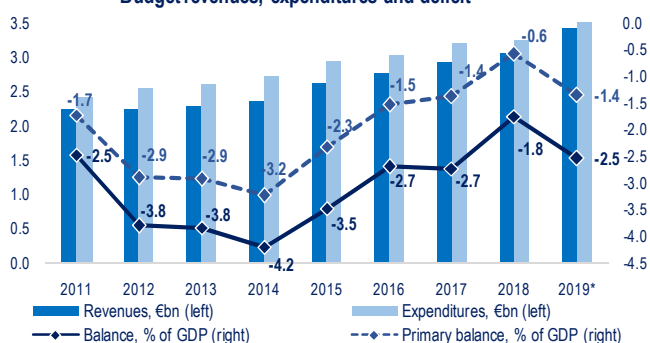
Latest GDP and inflation estimates and forecasts

	Real GDP growth, %		Average inflation, %	
	2019	2020	2019	2020
IMF WEO (Oct 2019)	3.2	3.4	1.3	1.7
European Commission (Nov 2019)	3.2	3.2	1.4	1.9
World Bank (Oct 2019)	3.1	3.2	1.6	1.8
National Bank (Nov 2019)	3.5	3.8	1.0	1.5
MoF, North Macedonia (Nov 2019)	3.5	3.8	1.0	1.7

Credit rating, latest

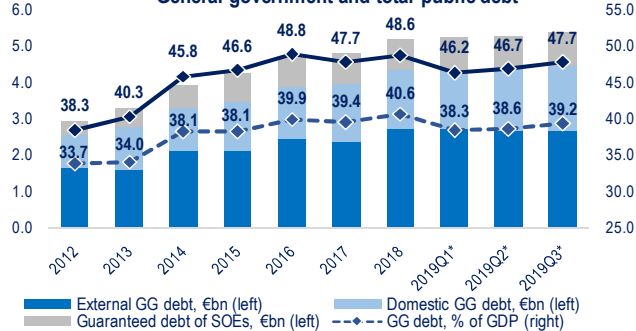
	Rating	Outlook
Standard & Poor's, September 2019	BB-	Stable
Fitch, December 2019	BB+	Stable

Budget revenues, expenditures and deficit



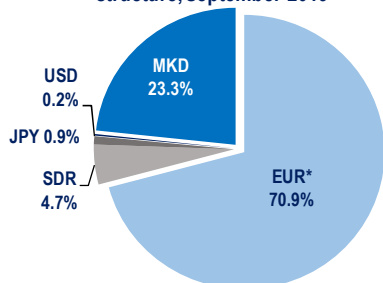
\*2019 as per Supplementary Budget and MoF GDP forecast

General government and total public debt



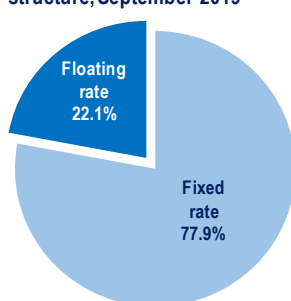
\*Ratio using MoF GDP forecast for 2019  
\*\* Starting Q2 2019, public debt also includes non-guaranteed debt of SOEs

GG debt - Currency structure, September 2019

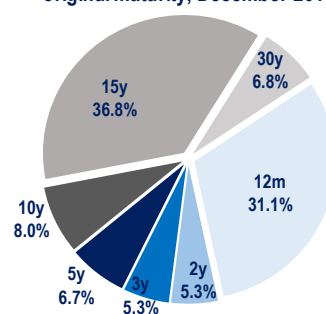


\*Includes FX-linked domestic government securities

GG debt - Interest rate structure, September 2019



Domestic government securities - original maturity, December 2019



Domestic government securities, EUR m

Outstanding, 31st Dec 2019	1,730
- Of which without FX clause	1,040
- Of which with FX clause	689
Total planned gross issuance for 2019	309
Total planned net issuance for 2019	150
- Of which net issued by Dec 2019	149

Yields on domestic government securities issued on the primary market during December 2019, in %

	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause		0.60					3.00	
With FX clause							2.45	

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%	104.5	0.122	71	45
Jul-21	BB-	BB	€ 500	3.975%	105.5	0.617	122	92
Jul-23	BB-	BB	€ 450	5.625%	115.8	1.170	172	139
Jan-25	BB-	BB	€ 500	2.75%	106.4	1.487	200	161