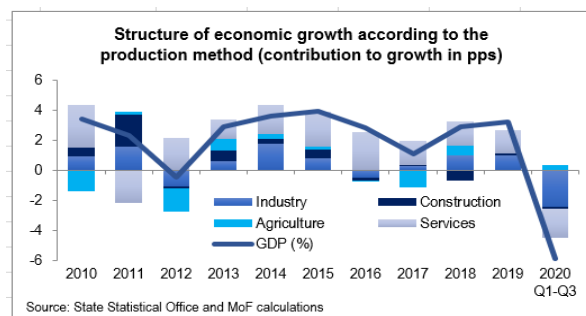




MONTHLY NEWSLETTER – DECEMBER 2020

- In 2020 Q3, amidst the economic crisis caused by the global pandemic, **real GDP** fell by 3.3% y/y, bringing the average to 5.9% for the first three quarters. The drop in Q3 was due to strong decrease in private consumption (4.1% y/y) and negative contribution of net exports amid pick up in gross investment (4.2% y/y), as well as strong public consumption (13.5% y/y). Analyzed by sectors, a decrease was observed in services (1.6% y/y) and industry (10.4% y/y), while positive developments were registered in construction sector (3.4% y/y in Q3) and agriculture (5.2% y/y).
- On December 20th, the Parliament adopted the **2021 Budget – country's first medium-term Budget**. Real GDP is expected to grow by 4.1% in 2021, with total revenues and expenditures amounting to EUR 3.5 billion and EUR 4.0 billion, respectively. The 2021 budget deficit is projected at EUR 568 million, i.e. 4.9% of projected GDP.
- **The Fiscal strategy 2021-2023 (with an outlook until 2025) has been revised** to reflect changes in macroeconomic and fiscal parameters. In the medium term, average economic growth rate is projected to reach 5%, unemployment is projected to reduce to 12.4%, while employment rate is projected to surge to 52.1%. Net wage growth in the coming 5 years is expected to increase up to average rate of 4%. Following the overcoming of COVID-19 crisis, export is expected to experience double-digit growth starting next year. These projections are noted in the Fiscal Strategy which, for the first time, includes projection for 5 instead of 3 years, all to the end of longer-term planning.
- In 2020 Q3, **employment** fell by 1.7% y/y, while the **unemployment rate** declined to 16.5%, and is lower by 0.6 p.p. compared to one year ago.
- In November 2020, **industrial production** decreased by 4.0% y/y. In January – November 2020, the industry decreased by 10.6%, which was mostly a result of the decline in Manufacture of machinery and equipment by 26.1%, Manufacture of motor vehicles by 13.4%, as well as Electricity, gas, steam, and air conditioning supply by 10.5%.



- In October 2020, the exports of goods experienced a growth of 5.6% y/y, which is an encouraging development since the onset of the pandemic. In the first ten months of 2020, **exports of goods** decreased by 13.0%, mostly due to the fall in export of machinery and transport equipment, as well as chemicals and related products. In the same period, **imports of goods** was lower by 11.7%.
- In January – October 2020, the **net nominal wage** grew by 8.2% y/y on average. In October 2020, it amounted to Denar 27,899 (EUR 454), whereas the average gross wage amounted to Denar 41,654 (EUR 677).
- Lending and deposits registered solid growth in November, with **credits to private sector** being higher by 5.4% y/y, primarily driven by the growth in household lending by 8.3% y/y, while corporate lending also grew by 2.5% y/y. **Total deposits** were higher by 6.3% y/y, reflecting a sustained growth in both corporate (10.2% y/y) and household deposits (5.4% y/y).
- In November 2020, the **inflation rate** was 2.2% y/y. The average inflation rate during January - November 2020 was 1.1% y/y, with food prices growing by 2.5%.
- **Budget revenues** in January - November 2020 fell by 7.1% y/y. The decline in budget revenues - expected as a result of the lower economic activity since the pandemic outbreak – was mitigated by the undertaken government preventive measures. Tax revenues in January – November 2020 decreased by 9.6% y/y, while social contributions grew by 7.3% y/y. VAT, excises, PIT, other taxes, and profit tax recorded lower performance, whereas import duties were positive. In the same period, **budget expenditures** grew by 10.3% y/y, mostly reflecting higher current expenditures by 11.1% y/y, whereby capital expenditures decreased by 2.9% y/y. **Budget deficit** stood at 6% of MoF- projected GDP for 2020.



Key macroeconomic indicators and projections

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020* | 2021* |
|---|-------|-------|-------|-------|-------|--------|--------|--------|---------|--------|
| Real GDP growth, % | -0,5 | 2,9 | 3,6 | 3,9 | 2,8 | 1,1 | 2,9 | 3,2 | -4,4 | 4,1 |
| Nominal GDP, million EUR | 7.585 | 8.150 | 8.562 | 9.072 | 9.657 | 10.038 | 10.744 | 11.209 | 10.824 | 11.493 |
| Average annual inflation, % | 3,3 | 2,8 | -0,3 | -0,3 | -0,2 | 1,4 | 1,5 | 0,8 | 1,0 | 1,5 |
| Budget balance, % of GDP | -3,8 | -3,8 | -4,2 | -3,5 | -2,7 | -2,7 | -1,7 | -2,0 | -8,5 | -4,9 |
| General government debt, e.o.p., % of GDP | 33,7 | 34,0 | 38,1 | 38,1 | 39,9 | 39,4 | 40,4 | 40,7 | 51,5** | / |
| Current account balance, % of GDP | -3,2 | -1,6 | -0,5 | -2,0 | -2,9 | -1,0 | -0,1 | -3,3 | -3,5 | -2,9 |
| Average unemployment rate, % | 31,0 | 29,0 | 28,0 | 26,1 | 23,7 | 22,4 | 20,7 | 17,3 | 16,6 | 15,8 |
| Average exchange rate MKD/EUR | 61,5 | 61,6 | 61,6 | 61,6 | 61,6 | 61,6 | 61,5 | 61,5 | 61,5 | 61,5 |
| Key monetary policy rate, % | 3,82 | 3,32 | 3,25 | 3,25 | 3,73 | 3,27 | 2,92 | 2,29 | 1,50*** | / |
| Foreign reserves, e.o.p., % of GDP | 28,9 | 24,5 | 28,5 | 24,9 | 27,1 | 23,3 | 26,7 | 29,1 | 29,3*** | / |

*2020 and 2021 based on MoF projections, unless otherwise noted

** Actual for Q3 2020, ratios based on MoF GDP forecast for 2020

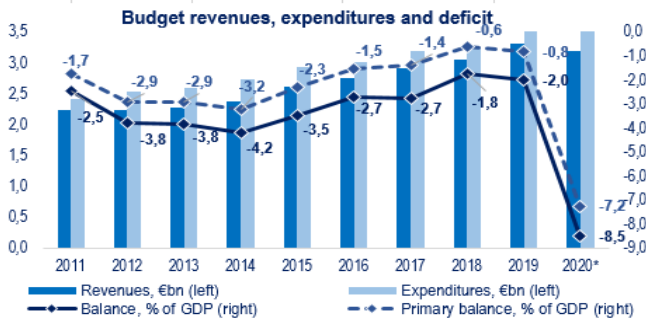
*** Actual for November 2020, ratios based on MoF GDP forecast for 2020

Latest GDP and inflation estimates and forecasts

| | Real GDP growth, % | Average inflation, % |
|-------------------------------------|--------------------|----------------------|
| | 2020 | 2020 |
| IMF WEO (October 2020) | -5,4 | 0,9 |
| European Commission (November 2020) | -4,9 | 0,9 |
| World Bank (October 2020) | -4,1 | 0,5 |
| National Bank (November 2020) | -4,9 | 1,1 |
| MoF, North Macedonia (October 2020) | -4,4 | 1,0 |

Credit rating, latest

| | Rating | Outlook |
|-----------------------------------|--------|----------|
| Standard & Poor's, September 2020 | BB- | Stable |
| Fitch, November 2020 | BB+ | Negative |

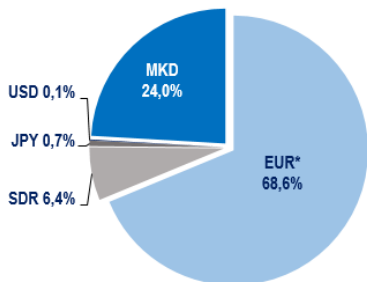


*2020 as per Supplementary Budget 2 and MoF GDP forecast

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

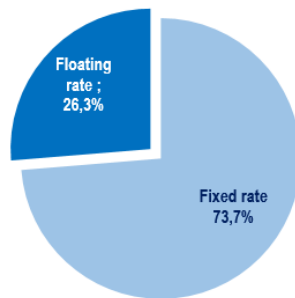
* Ratio using MoF - GDP forecast for 2020

GG debt - Currency structure, Q3 2020

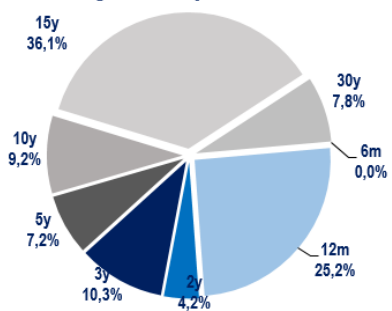


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, Q3 2020



Domestic government securities - original maturity, Q4 2020



Domestic government securities, EUR m

| | |
|--|--------|
| Outstanding, 31st Dec 2020 | 2.073 |
| - Of which without FX clause | 1.313 |
| - Of which with FX clause | 760 |
| Total planned gross issuance for 2020* | 457 |
| Total planned net issuance for 2020 | 350 |
| - Of which net issued by December 2020 | 349,77 |

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

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

| | in % | 3m | 6m | 12m | 2y | 3y | 5y | 10y | 15y | 30y |
|-------------------|------|----|----|------|------------|-----------|----|-----|------|-----|
| Without FX clause | | | | 0,40 | 0,60; 0,90 | 0,8; 1,30 | | | 2,50 | |
| With FX clause | | | | | 0,35; 0,60 | 1,00 | | | 2,20 | |

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 | | | | | | |
| Jul-21 | BB- | BB | € 500 | 3,975% | 101,9 | 0,440 | 116 | 97 |
| Jul-23 | BB- | BB | € 450 | 5,625% | 111,5 | 1,028 | 180 | 155 |
| Jan-25 | BB- | BB | € 500 | 2,750% | 105,6 | 1,329 | 209 | 182 |
| Jun-26 | BB- | BB+ | € 700 | 3,675% | 111,8 | 1,402 | 215 | 186 |