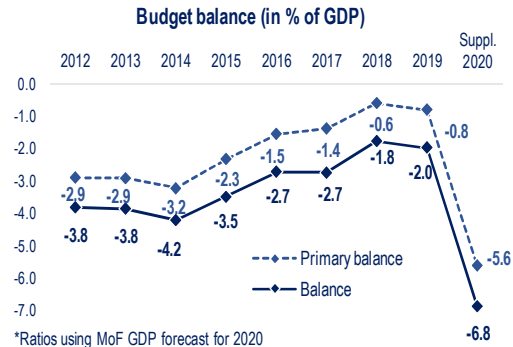




## MONTHLY NEWSLETTER – MAY 2020

On 15<sup>th</sup> May, the **2020 Supplementary Budget** was adopted, aimed at financing measures to overcome the effects of the COVID-19 crisis and accelerate the process of economic recovery, but also to protect budget liquidity, service the highest priority obligations and minimize less productive spending. The slowdown in economic activity stemming from the implementation of health measures and the demand shocks resulting from the unpredictable development of the pandemic, required a downward adjustment of the revenue side of the 2020 Budget by 11.5% (by EUR 415.3 million), amounting to EUR 3.2 billion. At the same time, in order to meet the needs of the health sector, stimulate private consumption and support the economy, significant reallocations were done on the expenditures side, as well as an upward adjustment by 1.4% (by EUR 52.9 million), amounting to EUR 3.95 billion. The **budget deficit** is expected to increase to EUR 750.9 million, or 6.8% of the revised 2020 GDP.



In the period January-April 2020, **budget revenues** fell by 4.9% y/y, resulting from the decrease registered in April 2020 by 20% y/y due to the COVID – 19 crisis (tax revenues in April declined by 31% y/y, while social contributions were at the same level). Tax revenues in the period January - April 2020 decreased by 9.2% y/y, while social contributions grew by 9.2% y/y. VAT, excises and profit tax recorded lower realization, whereas the PIT, import duties and other taxes are positive. In the same period, **budget expenditures** grew by 7% y/y, mostly reflecting higher current expenditures by 6.5% y/y, as well as capital expenditures by 21.3% y/y. **Budget deficit** stood at 1.8% of MoF- projected GDP for 2020.

The Government of the Republic of North Macedonia adopted the **third set of economic measures** so as to revive the economy in times of COVID-19, through direct assistance systematized in 3 main pillars:

- **Support to citizens** - payment cards for socially vulnerable categories, low-income families and young people aimed at boosting confidence and consumption with focus on domestic products and services of the affected sectors; travel vouchers to low-income citizens to support the domestic tourism; co-financing of IT education for young people to increase employability and competitiveness;
- **Support to the business sector** - interest-free loans with SMEs with 30% grant component; financial support for increasing the competitiveness and export with focus on the industry; development of PCG scheme through the Development Bank of North Macedonia; dedicated programs to support innovation and digitalization of MSMEs with grants; and
- **Support to the agricultural sector** - new opportunity for greater competitiveness, financing of micro-agricultural entities, as well as modernization.

On 27<sup>th</sup> May 2020, **Republic of North Macedonia launched its seventh Eurobond, a EUR 700 million issue 3,675% senior unsecured Notes due 3<sup>rd</sup> June 2026**. The order book peaked in excess of EUR 3.6 billion, showing investors' demand, being higher by five times as a result of the macroeconomic and financial stability, as well as the commitment and success achieved as regards the Euro-Atlantic integration. In terms of investor type, buy-and-hold investors dominated in the order book with asset managers accounting for 86%, banks and private banks accounting for 8%, and pensions and insurance accounting for 4%. Geography distribution shows strong positioning of the country at investors from the US, participating with 43%, followed by 23% in UK and 16% in Germany/Austria/Switzerland.

As regards the EU financial support to North Macedonia to overcome COVID-19 consequences, in addition to the macro-financial assistance amounting to EUR 160 million, EU has also provided support through the IPA - National in the amount of EUR 83 million, a part of the EUR 470 million through the Regional Programme IPA - Multi, as well as EUR 50 million through the ongoing EIB credit line.

**Industrial production** in April 2020 fell by 33.5% y/y, reflecting the impact of the so-called Great Lockdown due to the global pandemic. In the period January - April 2020, industrial production dropped by 11.2% y/y, mostly as a result of the decline in Manufacturing by 12.1% y/y, which was driven by the contraction of Manufacture of machinery and equipment by 41.5% y/y.

**Inward FDIs** amounted to EUR 137.3 million in Q1 2020 (1.3% of forecasted annual GDP). Compared to Q1 2019, FDIs were higher by nearly three times (by EUR 88.7 million). Equity and reinvestment of earnings accounted for most of the FDI with EUR 106.8 million, and the rest was on the basis of debt instruments.

**Fitch Ratings** have affirmed the country's rating at BB+, however with negative outlook due to the global pandemic, while **S&P Global Ratings** affirmed North Macedonia BB- ratings with stable outlook.



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	-6.8
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	1.94***
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

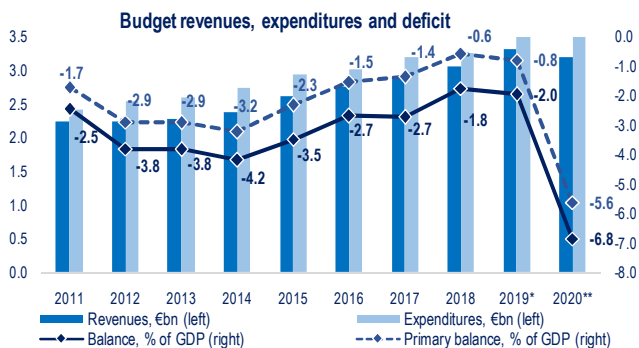
\*\*\* Actual for January - April 2020, ratios based on MoF GDP forecast for 2020

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

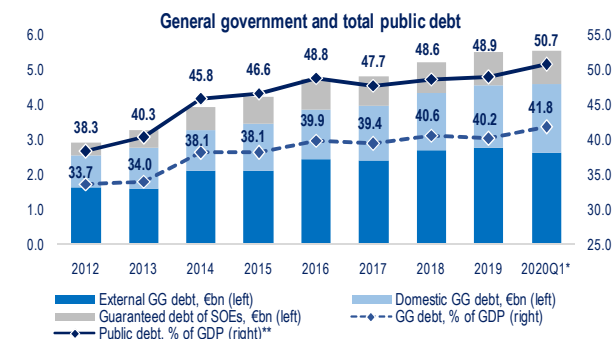
Credit rating, latest

	Rating	Outlook
Standard & Poor's, May 2020	BB-	Stable
Fitch, May 2020	BB+	Negative



\*2019 preliminary data

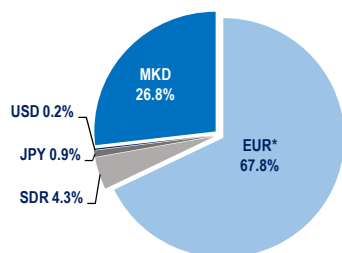
\*\*2020 as per Supplementary Budget and MoF GDP forecast



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

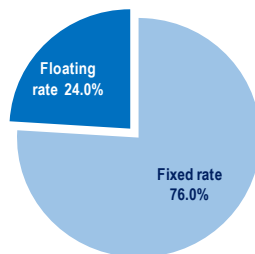
\* Ratio using MoF GDP forecast for 2020

GG debt - Currency structure, March 2020

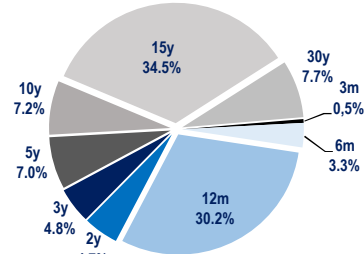


\*Includes FX-linked domestic government securities

GG debt - Interest rate structure, March 2020



Domestic government securities - original maturity, May 2020



Domestic government securities, EUR m

Outstanding, 31st May 2020	1898
- Of which without FX clause	1185
- 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 May 2020	175

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

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

	in %	3m	6m	12m	2y	3y	5y	10y	30y
Without FX clause		0.20	0.30	0.60	0.90				
With FX clause									

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
Dec-20	BB- BB	€ 270/ € 178	4.875%	101.5	2.250	296	263
Jul-21	BB- BB	€ 500	3.975%	101.6	2.553	305	279
Jul-23	BB- BB	€ 450	5.625%	108.2	2.867	353	318
Jan-25	BB- BB	€ 500	2.750%	98.7	3.060	371	336
Jun-26	BB- BB+	€ 700	3.675%	101.8	3.340	396	361