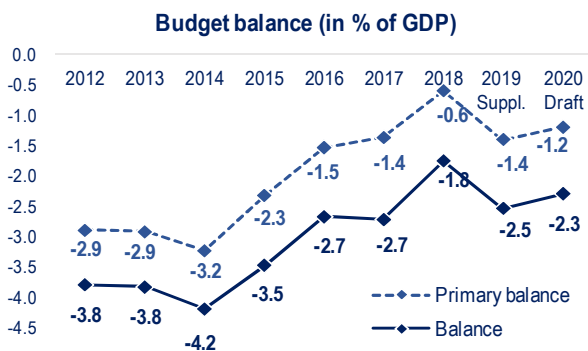


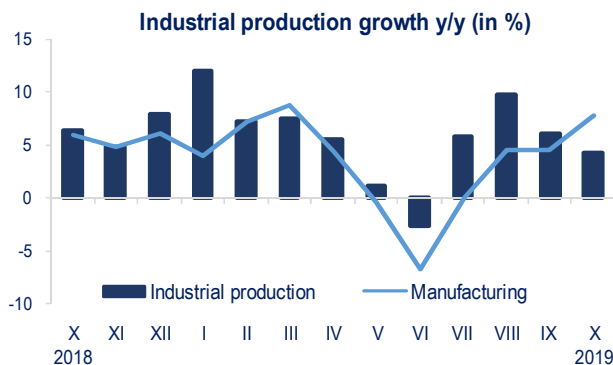


MONTHLY NEWSLETTER - NOVEMBER 2019

- On 12th November, the Government approved the **2020 Draft Budget**, submitting it to the Parliament for adoption. According to the Draft Budget, real GDP will intensify to 3.8%. Total revenues and expenditures will amount to EUR 3.6 billion and EUR 3.9 billion, respectively. The 2020 budget deficit is projected at EUR 282 million, i.e. 2.3% of projected GDP (in line with the Fiscal Strategy for 2020-2022 as of May), with the primary deficit at 1.2% of GDP.
- The 2020 Draft Budget includes several **policy changes**. On the **revenue side**, the application of progressive personal income tax is put on hold for 36 months and, in this period, a flat rate of 10% will be applied on all income types except for the income from games of chance, for which a 15% rate will be applied. This policy change has been introduced in order to identify the most appropriate solution for efficient and effective application of progressive taxation, addressing different opinions, raising tax morale and strengthening mechanisms to minimize the gray economy. In order to lower the pension deficit, the pension contribution rate will be raised at 18.8% in 2020 (starting from 18% in 2018 to 18.4% in 2019) and the health contribution rate will be raised at 7.5% in 2020 (starting from 7.3% in 2018 to 7.4% in 2019).
- On the **expenditure side**, a considerable amount of funds has been provided to the Ministry of Defense to lead the reform activities in achieving the strategic goal of the state - NATO membership. Additionally, the 2020 Draft Budget includes the effect of the already realized salary increase by 5% for the employees in the budget users in the last quarter of 2019, the effect from the increased salaries of doctors and medical staff from 5% to 25%, starting from February payment and also the effect from the increase of pensions by around 700 denars, starting from January.
- Central Government gross financing needs** for 2020 equal to EUR 985 million, EUR 283 million out of which for the deficit and EUR 703 million for debt repayment, to be met by domestic borrowing, borrowing on the international capital markets and project financing by multilateral organisations. **Gross foreign and domestic borrowing** are projected at EUR 558 million and EUR 440 million respectively (without the rollover of T-bills), with deposit accumulation of EUR 18 million.



*Ratios using MoF GDP forecast for 2019 and 2020



Source: SSO

- In the first ten months of 2019, **budget revenues** grew by 8.6% y/y, whereby tax revenues increased by 3.5% y/y and social contributions grew by 9.7% y/y. In the same period, **budget expenditures** grew by 7.9% y/y, mostly reflecting higher current expenditures by 7.2% y/y, as well as capital expenditures by 21.9% y/y.
- In October 2019, **industrial production** growth amounted to 4.2%, stemming from the growth in manufacturing by 7.8%. In the first ten months of 2019, the industry grew by 5.4%.
- Net FDI** rebounded in 2019 Q3 and amounted to EUR 73.6 million, bringing the total net FDI for the first three quarters of 2019 to EUR 131.3 million (1.2% of MoF-projected GDP for 2019). The **current account** registered a surplus of EUR 184.0 million in 2019 Q3, lowering the current account deficit for the first three quarters of 2019 to EUR 13.1 million (0.1% of MoF-projected GDP for 2019).



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	17.5**
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 Q2 2019

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

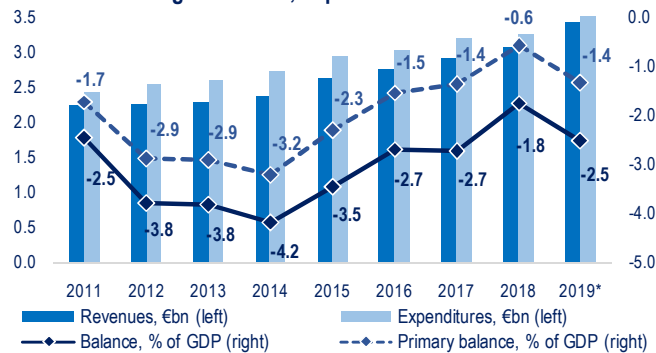
Latest GDP and inflation estimates and forecasts

	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

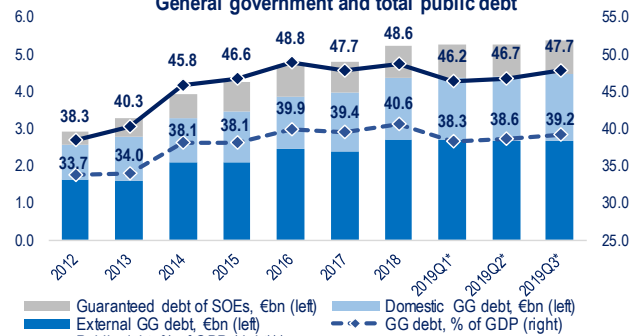
	Rating	Outlook
Standard & Poor's, September 2019	BB-	Stable
Fitch, June 2019	BB+	Stable

Budget revenues, expenditures and deficit



*2019 as per Supplementary Budget

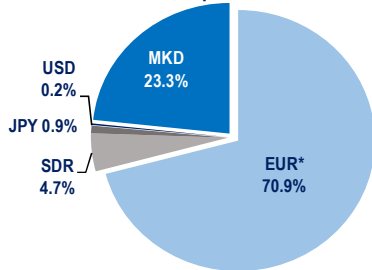
General government and total public debt



*Ratio using MoF GDP forecast for 2019

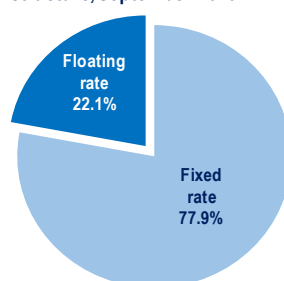
** Starting Q2 2019, public debt also includes non-guaranteed debt of SoEs

GG debt - Currency structure, September 2019

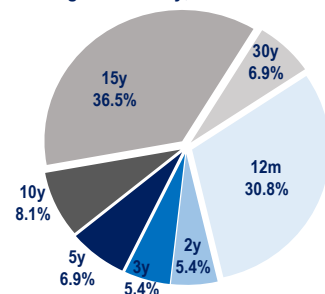


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, September 2019



Domestic government securities - original maturity, November 2019



Domestic government securities, EUR m

Outstanding, 30 Nov 2019	1,699
- Of which without FX clause	1,016
- Of which with FX clause	683
Total planned gross issuance for 2019	309
Total planned net issuance for 2019	150
- Of which net issued by Nov 2019	119

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

	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause		0.60					3.00	
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
	S&P	F						
Dec-20	BB-	BB	€ 270/ € 178	4.875%	104.6	0.254	83	61
Jul-21	BB-	BB	€ 500	3.975%	105.3	0.689	130	105
Jul-23	BB-	BB	€ 450	5.625%	115.7	1.197	185	150
Jan-25	BB-	BB	€ 500	2.75%	106.1	1.459	209	174