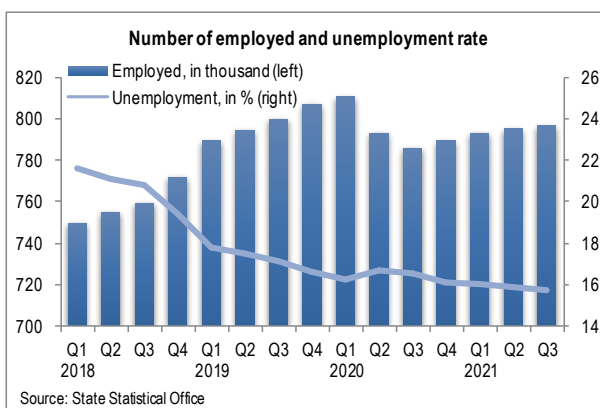
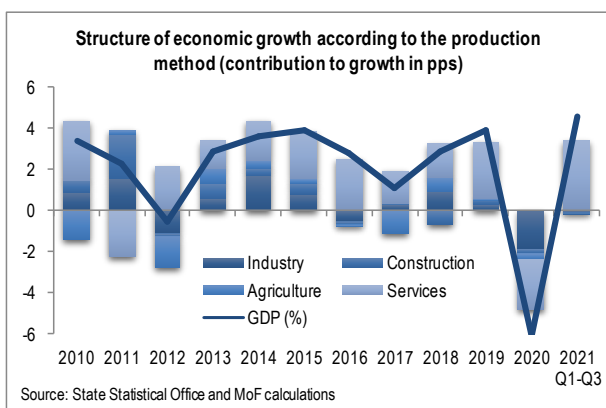




## MONTHLY NEWSLETTER – DECEMBER 2021

- On 16<sup>th</sup> December, the Parliament adopted the **2022 Budget**, country's second medium-term Budget. Real GDP is expected to grow by 4.6% in 2022, with total budget revenues and expenditures amounting to EUR 3.9 billion and EUR 4.4 billion, respectively. The 2022 budget deficit is projected at EUR 544 million or 4.3% of projected GDP.
- 2022-2024 Fiscal Strategy (with prospects until 2026) has been revised**, reflecting changes in macroeconomic and fiscal parameters. In the medium term, average economic growth rate is projected to reach 5.4% and unemployment is projected to reduce to 8.6% by 2026. Net wage growth in the upcoming five-year period is expected to increase at a rate of 4.6% on average. Export is expected to increase at an average rate of 8.8% over the upcoming five years, whereas import is expected to stabilise and grow by 7.7% annually on average in the same period.
- According to the **Revised Public Debt Strategy**, in the period 2022-2026 public debt in relation to GDP will be reduced on medium and long term and in the end of 2026 the public debt will be 57.7% of GDP.
- In 2021 Q3, **real GDP** grew by 3.0% y/y and by 4.6% in the first three quarters. The surge in Q3 was due to the increase of the domestic demand and the positive contribution of net exports. Consumption increased by 2.9% y/y, with public consumption growing by 4.9% y/y and private consumption by 2.4% y/y, while gross investment registered a slight growth of 0.4% y/y. By sectors, an increase was observed at Services (4.2% y/y) and Agriculture (1.2% y/y), while negative developments were registered at the Industry (4.5% y/y) and the Construction sector (1.5% y/y).
- In the period January-November 2021, total budget revenue collection accounted for 88.7% of the 2021 Revised Budget. In the same period, **budget revenues** grew by 16.1% y/y, whereby tax revenues picked up by 19.1% y/y, while social contributions increased by 5.9% y/y. PIT, VAT, profit tax, import duties, excises and other tax revenues were positive. Total expenditure execution in the period January-November 2021 accounted for 84.6% of the 2021 Revised Budget. In the same period, **budget expenditures** grew by 8.3% y/y. Current expenditures surged by 5.3% y/y, while capital expenditures recorded higher execution by 62.8%. **Budget deficit** stood at 4.2% of MoF- projected GDP for 2021. The annual deficit is estimated at 5.4% of 2021 GDP.



- In 2021 Q3, **employment** increased by 1.4% y/y, while **unemployment rate** dropped to 15.7%, being lower by 0.8 p.p. compared to the same period in the previous year.
- In November 2021, **industrial production** increased by 4.7% y/y. In the period January – November 2021, Industry grew by 2.1%, which was mostly a result of the increase in Manufacture of chemicals and chemical products by 50.7%, Manufacture of rubber and plastic products by 28.5% and Manufacture of electrical equipment by 25.9%.
- In October 2021, **exports of goods** declined by 1.4% y/y, whereas in the first ten months of the year, exports grew by 22.8%, mostly as a result of increased export of chemical products, machinery and transport equipment. In the period January – October 2021, **imports of goods** were higher by 27.8%.
- In the period January – October 2021, **net nominal wage** grew by 5.6% y/y on average. In October 2021, it amounted to Denar 29,145 (EUR 473), whereas the average gross wage amounted to Denar 43,557 (EUR 707).
- In November 2021, bank **lending** grew by 7.7% y/y, with lending to households increasing by 7.7% y/y and lending to the corporate sector by 7.4% y/y. **Total deposits** were higher by 8.1% y/y, reflecting a sustained growth in both corporate (13.7% y/y) and household deposits (7.1% y/y).
- In November 2021, the **inflation rate** accounted for 4.8% y/y. In the period January – November 2021, average inflation rate accounted for 3.1% y/y, with food prices growing by 3%. The rise of headline inflation is driven by higher energy and food prices.



Key macroeconomic indicators and projections

|   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017   | 2018   | 2019   | 2020   | 2021*   | 2022*  |
|---|-------|-------|-------|-------|-------|--------|--------|--------|--------|---------|--------|
| Real GDP growth, %                        | -0,5  | 2,9   | 3,6   | 3,9   | 2,8   | 1,1    | 2,9    | 3,9    | -6,1   | 4,1     | 4,6    |
| Nominal GDP, million EUR                  | 7.585 | 8.150 | 8.562 | 9.072 | 9.657 | 10.038 | 10.744 | 11.262 | 10.635 | 11.714  | 12.548 |
| Average annual inflation, %               | 3,3   | 2,8   | -0,3  | -0,3  | -0,2  | 1,4    | 1,5    | 0,8    | 1,2    | 3,0     | 2,4    |
| Budget balance, % of GDP                  | -3,8  | -3,8  | -4,2  | -3,5  | -2,7  | -2,7   | -1,8   | -2,0   | -8,2   | -6,4    | -4,3   |
| General government debt, e.o.p., % of GDP | 33,7  | 34,0  | 38,1  | 38,1  | 39,9  | 39,4   | 40,4   | 40,5   | 51,9   | 51,3**  | 53,4   |
| Current account balance, % of GDP         | -3,2  | -1,6  | -0,5  | -2,0  | -2,9  | -1,0   | -0,1   | -3,3   | -3,4   | -3,2    | -2,7   |
| Average unemployment rate, %              | 31,0  | 29,0  | 28,0  | 26,1  | 23,7  | 22,4   | 20,7   | 17,3   | 16,4   | 15,8    | 14,4   |
| Average exchange rate MKD/EUR             | 61,5  | 61,6  | 61,6  | 61,6  | 61,6  | 61,6   | 61,5   | 61,5   | 61,7   | 61,6    | 61,6   |
| Key monetary policy rate, %               | 3,82  | 3,32  | 3,25  | 3,25  | 3,73  | 3,27   | 2,92   | 2,29   | 1,60   | 1,30**  |        |
| Foreign reserves, e.o.p., % of GDP        | 28,9  | 24,5  | 28,5  | 24,9  | 27,1  | 23,3   | 26,7   | 29,0   | 31,6   | 30,5*** |        |

\* MoF projections, unless otherwise noted

\*\* Actual for January-November 2021

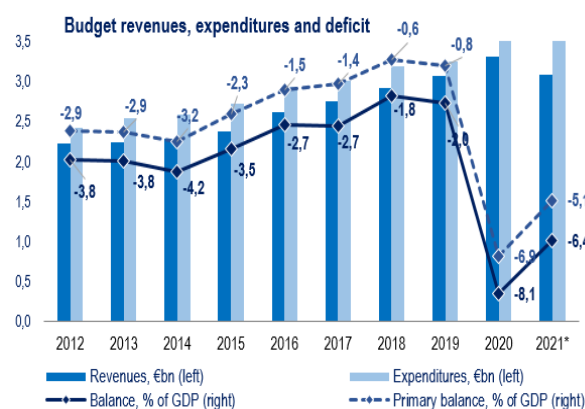
\*\*\* Actual for November 2021, ratio based on MoF projections

Latest GDP and inflation estimates and forecasts

|                                     | Real GDP growth, % |      | Average inflation, % |      |
|-------------------------------------|--------------------|------|----------------------|------|
|                                     | 2021               | 2022 | 2021                 | 2022 |
| IMF, Article IV (December 2021)     | 4,0                | 4,2  | 3,2                  | 3,9  |
| European Commission (November 2021) | 4,0                | 3,9  | 3,3                  | 2,1  |
| World Bank (October 2021)           | 4,6                | 3,7  | 2,4                  | 2,0  |
| National Bank (November 2021)       | 3,9                | 3,9  | 3,1                  | 2,4  |
| MoF, North Macedonia (October 2021) | 4,1                | 4,6  | 3,0                  | 2,4  |

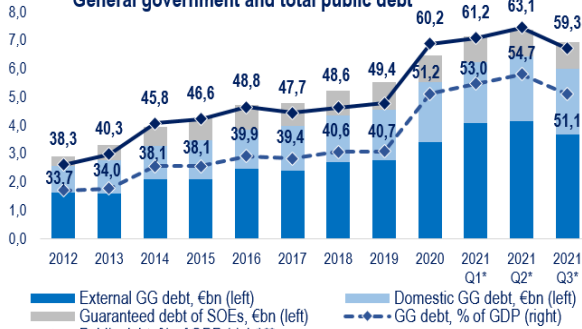
Credit rating, latest

|                                | Rating | Outlook  |
|--------------------------------|--------|----------|
| Standard & Poor's, August 2021 | BB-    | Stable   |
| Fitch, November 2021           | BB+    | Negative |



\*2021 as per Supplementary Budget and MoF GDP forecast

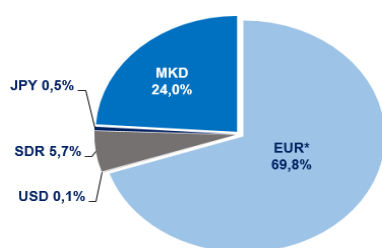
General government and total public debt



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

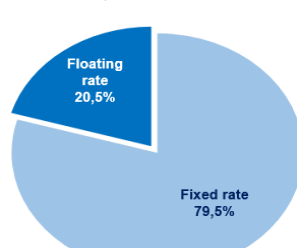
\* Ratio using MoF GDP forecast for 2021

GG debt - Currency structure, Q3 2021

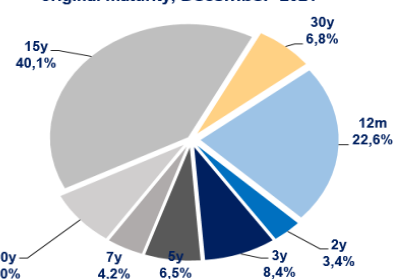


\*Includes FX-linked domestic government securities

GG debt - Interest rate structure, Q3 2021



Domestic government securities - original maturity, December 2021



Domestic government securities, EUR m

|  |        |
|--|--------|
| Outstanding, 31st Dec 2021             | 2374   |
| - Of which without FX clause           | 1473   |
| - Of which with FX clause              | 901    |
| Total planned gross issuance for 2021* | 376,39 |
| Total planned net issuance for 2021    | 299,97 |
| - Of which net issued by December 2021 | 299,90 |

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

Yields on domestic government securities issued on the primary market during November 2021

|                   | in % | 3m | 6m | 12m  | 2y | 3y   | 5y | 7y | 10y | 15y | 30y |
|-------------------|------|----|----|------|----|------|----|----|-----|-----|-----|
| Without FX clause |      |    |    | 0,70 |    | 1,30 |    |    |     |     |     |
| With FX clause    |      |    |    | 0,50 |    |      |    |    |     |     |     |

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-23        | BB-    | BB  | € 450                          | 5,625% | 106,44 | 1,386 | 201               | 177                 |
| Jan-25        | BB-    | BB  | € 500                          | 2,750% | 102,38 | 1,932 | 251               | 207                 |
| Jun-26        | BB-    | BB+ | € 700                          | 3,675% | 105,88 | 2,254 | 270               | 226                 |
| Mar-28        | BB-    | BB+ | € 700                          | 1,625% | 93,87  | 2,716 | 306               | 261                 |