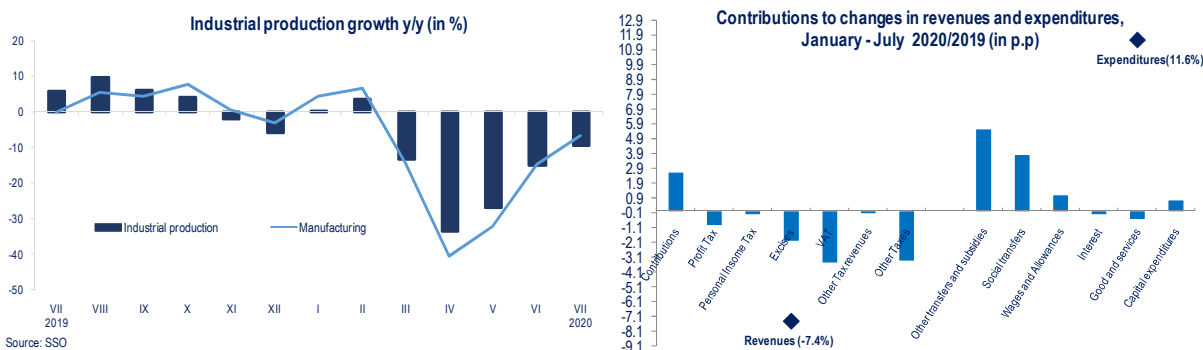




MONTHLY NEWSLETTER – AUGUST 2020

- On 30th August, the **Macedonian Parliament appointed a new Government**, with 62 out of 120 Members of the Parliament voting in favor. The new Government will be led by **Prime Minister Zoran Zaev** for the second time, who takes over from the interim Prime Minister Oliver Spasovski.
- Budget revenues** in the period January-July 2020 fell by 7.4% y/y. The decrease of the budget revenues is expected as a result of COVID outbreak and the undertaken government preventive measures that slowed down the economic activity. Tax revenues in the period January - July 2020 decreased by 11.6% y/y, while social contributions grew by 8.6% y/y. VAT, excises, PIT, other taxes and profit tax recorded lower performance, whereas import duties are positive. In the same period, **budget expenditures** grew by 11.6% y/y, mostly reflecting higher current expenditures by 11.4% y/y, whereas capital expenditures grew by 14.4% y/y. **Budget deficit** stood at 4.8% of MoF-projected GDP for 2020.
- In July 2020, **industrial production** fell by 9.5% y/y. In the first seven months of 2020, industrial production decreased by 13.8% y/y, with manufacturing registering a reduction of 14.7% y/y, to a large extent due to adverse developments in manufacture of machinery, motor vehicles and electrical equipment, i.e. activities related to industrial capacities in the free economic zones, which are largely integrated into the global value chains.
- In July 2020, the **inflation rate** was 1.3% y/y. In the first seven months of 2020, average inflation was 0.7% y/y, with food and non-alcoholic beverages inflation amounting to 1.9%.
- In June 2020, the **average net wage** grew by 6.6% y/y in nominal terms, in spite of the adverse impact of the Coronavirus pandemic on the domestic economy, amounting to Denar 26,867 (EUR 437), while the **average gross wage** amounted to Denar 40,107 (EUR 652).



- In H1 2020, **exports of goods** fell by 22.3% y/y as a result of the Coronavirus pandemic, particularly driven by machinery and transport equipment, as well as chemicals and related products. In the same period, **imports of goods** were lower by 18.1% y/y. The **trade deficit in goods** in the first half of the year stood at 8.2% of MoF-projected GDP for 2020, remaining unchanged from the same period in 2019.
- In the second quarter of 2020, **FDI** amounted to EUR -9.3 million, while in the first half of 2020, FDI amounted to EUR 122.6 million. Compared to H1 2019 when they amounted to EUR 58.7 million, FDI more than doubled. **The current account deficit** in the first half of 2020 amounted to EUR 234.7 million (2.1% of MoF-projected GDP for 2020), which is by 14.4% higher compared to the same period last year. In Q2 alone, the current account deficit amounted to EUR 85.9 million.
- Strong credit and deposit performance were registered in July 2020, whereby **credit to private sector** grew by 8.2% y/y, primarily driven by the growth in household lending by 9.4% y/y, and corporate lending also increased by 7.1% y/y. **Total deposits** were higher by 7.9% y/y, reflecting strong growth in both household and corporate deposits.
- On 12th August, the **National Bank revoked the founding and operating license of Eurostandard Bank AD Skopje**, which accounted for only 1.3% of the banking system assets, and will therefore not affect the stability of the banking system, which remains sound and highly capitalized. Citizens' deposits in the Bank have been insured and will be reimbursed by the Deposit Insurance Fund in the amount of up to Euro 30,000 per person. The capital adequacy ratio of the banking system has further increased and reached a record high of 17%, while the non-performing loans have been maintained at a historic low of 4.7%, and have reduced to 3.7% following the exclusion of Eurostandard Bank AD Skopje.



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	50.7**
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	1.75***
Foreign reserves, e.o.p., % of GDP	28.9	24.5	28.5	24.9	27.1	23.3	26.8	28.8	32.0***

*2020 based on MoF projections, unless otherwise noted

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

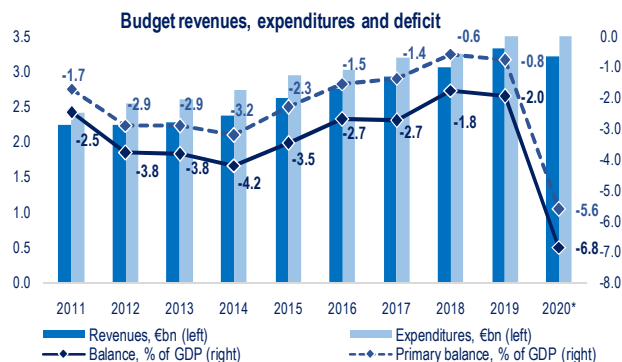
*** Actual for January - July 2020, ratios based on MoF GDP forecast for 2020

Latest GDP and inflation estimates and forecasts

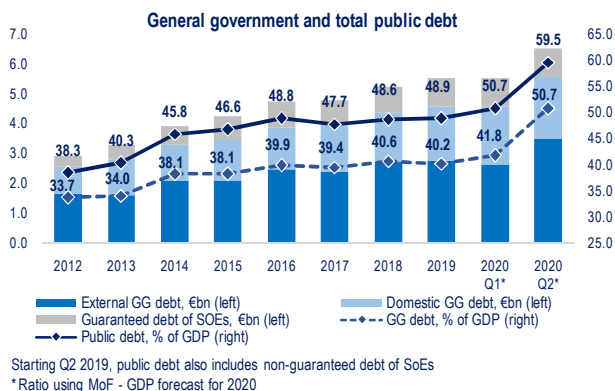
	Real GDP growth, % 2020	Average inflation, % 2020
IMF WEO (April 2020)	-4.0	-0.9
European Commission (May 2020)	-3.9	-0.7
World Bank (June 2020)	-2.1	/
National Bank (May 2020)	-3.5	0.0
MoF, North Macedonia (May 2020)	-3.4	-0.2

Credit rating, latest

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



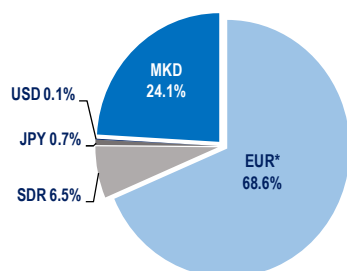
*2020 as per Supplementary Budget and MoF GDP forecast



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

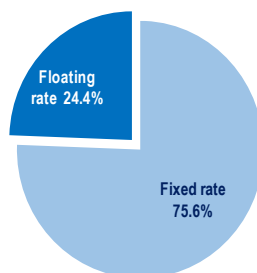
*Ratio using MoF - GDP forecast for 2020

GG debt - Currency structure, June 2020

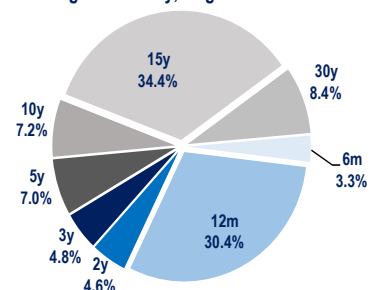


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, June 2020



Domestic government securities - original maturity, August 2020



Domestic government securities, EUR m

Outstanding, 31st August 2020	1916
- Of which without FX clause	1188
- Of which with FX clause	728
Total planned gross issuance for 2020*	307
Total planned net issuance for 2020	200
- Of which net issued by August 2020	193

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

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

in %	3m	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause			0.60						
With FX clause									4.10

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%	101.0	0.858	141	132
Jul-21	BB-	BB	€ 500	3.975%	102.1	1.618	218	206
Jul-23	BB-	BB	€ 450	5.625%	109.7	2.117	279	254
Jan-25	BB-	BB	€ 500	2.750%	102.5	2.147	279	253
Jun-26	BB-	BB+	€ 700	3.675%	106.6	2.433	305	277