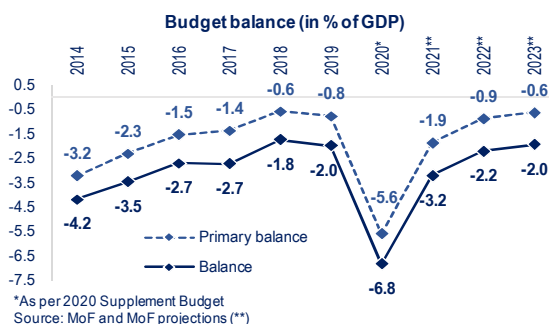
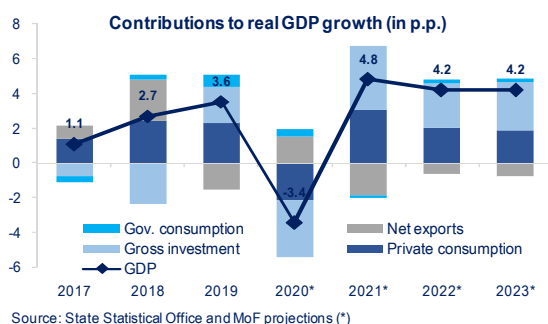




MONTHLY NEWSLETTER – JULY 2020

- On 28th July, the Government adopted the new 2021-2023 Fiscal Strategy. As a result of the Coronavirus pandemic, **economic activity** is expected to decline by 3.4% in 2020, according to the baseline scenario. The economic recovery, which is expected to begin in the last quarter of 2020, will continue at an accelerated pace during 2021, with projected economic growth of 4.8%. In the next two years, more stable growth of economic activity is expected, which is projected at 4.2%.
- Having into consideration the unpredictability of the further development of the health pandemic globally, the duration of this non-economic shock, as well as the implications on the budget and the economy as a whole, the Fiscal Policy in the period 2021-2023 is characterized by a return to the established commitment to further strengthen public financial management and fiscal sustainability, which should contribute to maintaining macroeconomic stability and fiscal consolidation with low budget deficit. Combined with the expected revenue collection, this will support the **gradual fiscal consolidation**. The **total budget deficit** will fall from 6.8% of GDP in 2020, to 3.2% in 2021, 2.2% of GDP in 2022 and 2% of GDP in 2023. The **primary budget deficit** will also decrease from 5.6% of GDP in 2020, to 1.9% in 2022, and further to 0.9% and 0.6% in 2022 and 2023, respectively.
- Central government gross financing needs** for 2021-2023 equal EUR 2.57 billion, EUR 907 million out of which for the budget deficit and EUR 1.66 billion for debt repayment. Financing needs will be met by a mixture of domestic borrowing, issuance of Eurobond on the international capital market, favourable loans from international financial institutions, as well as project-financing credit lines. Between 2021 and 2023, **gross foreign and domestic borrowing** is projected at EUR 1.48 billion and EUR 841 million respectively (without the rollover of T-bills), as well as EUR 249 million from deposits. **Net domestic borrowing** is projected at EUR 511 million, whereas **net foreign borrowing** is projected at EUR 147 million.



- In the first half of 2020, **budget revenues** fell by 9% y/y, being expected as a result of the COVID outbreak and the preventive measures undertaken by the Government, which slowed down the economic activity. Tax revenues in the period January - June 2020 decreased by 13.3% y/y, while social contributions grew by 8% y/y. VAT, excises, PIT, other taxes and profit tax recorded lower performance, whereas import duties were positive. Revenue collection in June was significantly better than the projections, thereby indicating sooner-than-expected reopening of the economy. Revenue collection in June was lower by 9.6% compared to last year, being an improvement in relation to the previous two months (20% and 24% decline). As a result of the Government's measures to support the payment of wages, the PIT revenues experienced positive trends, where growth of 1.7% was observed in June, whereby the contributions also increased by 12.3%. VAT recorded upward trend, while VAT declined by -43.5% and -33%, respectively in April and May, its drop accounted for -7.5% in June. The mitigation of the decline in VAT revenues, among other things, is due to the implemented measures aimed at stimulating the personal consumption. In the first half of 2020, **budget expenditures** grew by 9.9% y/y, mostly reflecting higher current expenditures by 11.3% y/y, whereas capital expenditures fell by 16.1% y/y. In the same period, **budget deficit** stood at 3.8% of MoF- projected GDP for 2020.
- In May 2020, the **average net wage** grew by 4.4% y/y in nominal terms, in spite of the adverse impact of the Coronavirus pandemic on the domestic economy, amounting to Denar 26,390 (EUR 428), while the average gross wage was Denar 39,398 (EUR 639).
- In June 2020, industrial production fell by 15.1% y/y. In the first half of 2020, **industrial production** decreased by 14.6% y/y, with **manufacturing** registering a reduction of 16.1% 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 Q2 2020, **general government debt** stood at 50.7% of MoF-projected GDP for 2020 (41.8% of GDP at Q1 2020). **Public debt** amounted 59.5% of MoF-projected GDP for 2020 (50.7% of GDP at Q1 2020). The increase in public and government debt in Q2 2020 was primarily due to the issued Eurobond on the international capital market and the IMF loan, needed to provide liquidity during the COVID-19 crisis, funds for implementation of the anti-crisis measures, as well as to finance the increased budget deficit resulting from the revenues decline caused by the crisis.



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	1.79**
Foreign reserves, e.o.p., % of GDP	28.9	24.5	28.5	24.9	27.1	23.3	26.8	28.8	33.2**

*2020 based on MoF projections, unless otherwise noted

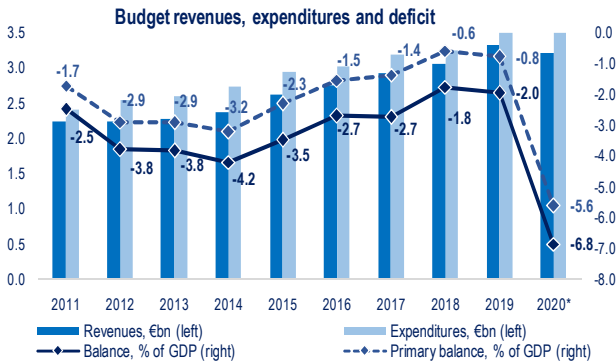
** Actual for January - June 2020, ratios based on MoF GDP forecast for 2020

Latest GDP and inflation estimates and forecasts

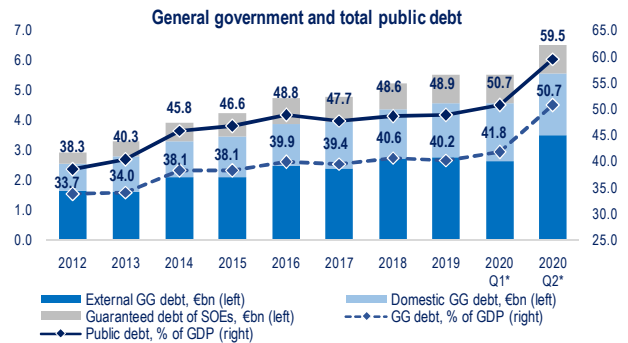
	Real GDP growth, %	Average inflation, %
	2020	2020
IMF WEO (April 2020)	-4.0	-0.9
European Commission (May 2020)	-3.9	-0.7
World Bank (June 2020)	-2.1	/
National Bank (May 2020)	-3.5	0.0
MoF, North Macedonia (May 2020)	-3.4	-0.2

Credit rating, latest

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



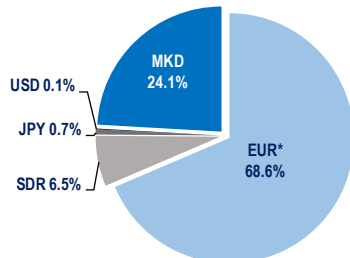
*2020 as per Supplementary Budget and MoF GDP forecast



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

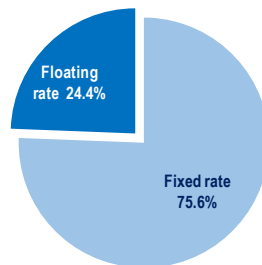
* Ratio using MoF - GDP forecast for 2020

GG debt - Currency structure, June 2020

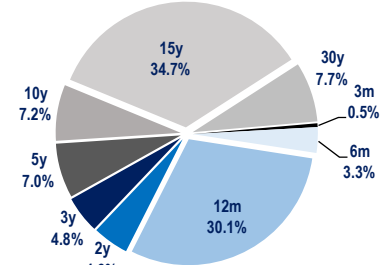


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, June 2020



Domestic government securities - original maturity, July 2020



Domestic government securities, EUR m

Outstanding, 31st July 2020	1902
- Of which without FX clause	1188
- 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 July 2020	178

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

Republic of North Macedonia outstanding eurobonds, latest

Maturity date	Rating	Original/outstanding size	Coupon	Price	Yield	Bid Spread vs. BM	Bid z-Spread vs. MS
	S&P	F	(mn)				
Dec-20	BB-	BB	€ 270/ € 178	4.875%	101.2	1.184	175
Jul-21	BB-	BB	€ 500	3.975%	102.1	1.822	238
Jul-23	BB-	BB	€ 450	5.625%	109.3	2.352	311
Jan-25	BB-	BB	€ 500	2.750%	101.8	2.308	306
Jun-26	BB-	BB+	€ 700	3.675%	105.8	2.593	334