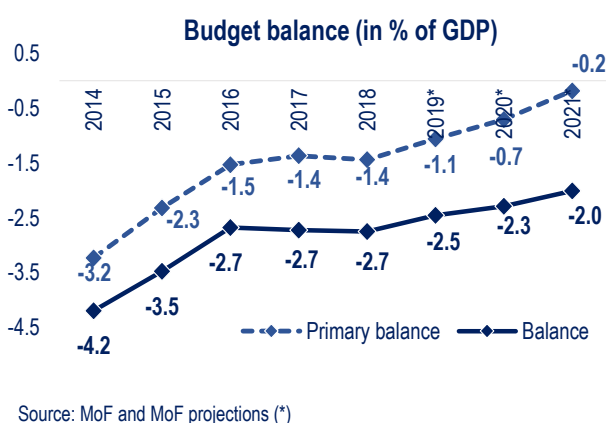
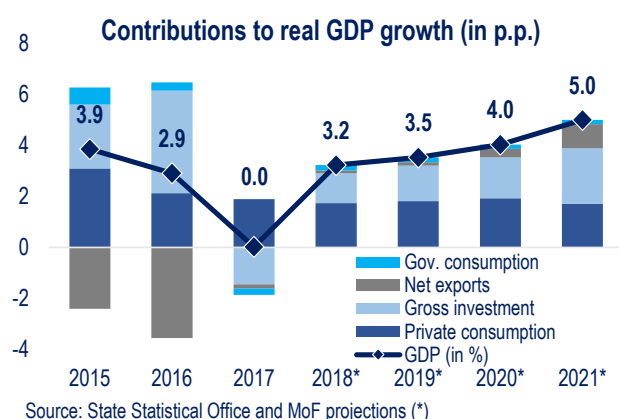




MONTHLY NEWSLETTER - MAY 2018

- On 22 May, the **Government adopted the new Fiscal Strategy for 2019-2021**. The medium-term fiscal strategy was thus adopted within the legally prescribed timeline, for the first time in more than ten years. (The English version will be published on the MoF website in June).
- The Fiscal Strategy projects a **gradual intensification of GDP growth** from 3,2% in 2018 to 5% in 2021. This reflects continuously strong private consumption, and gradual recovery of public and private investments. Strong export growth will also continue, reflecting the activity of existing and new production capacities in the country and the recovering external demand. The contribution of net exports will be positive but relatively low, reflecting rising imports in the wake of strong domestic demand.
- The Fiscal Strategy introduces a **total expenditure growth path**, in line with recommendations from recent IMF technical assistance, as well as annual spending limits by budgetary users. The MoF will in the future report against this total expenditure growth path and accordingly adjust spending to possible deviations from it, which will provide some experience before introducing an explicit fiscal rule in law.
- The annual **budget expenditure growth will slow down from 7,7% in 2018 to 4,2% in 2021**. Combined with the expected revenue collection, including the introduction of the progressive PIT, this will contribute towards **gradual fiscal consolidation**. The **total budget deficit** will fall from 2,7% of GDP in 2018 to 2% of GDP in 2021, whereas the **primary budget deficit** will fall from 1,4% in 2018 to almost balance in 2021.



- The disciplined fiscal policy will ensure a **stable medium-term debt path**. **General government debt** will move from 41,1% of GDP in 2018 to 43,8% of GDP in 2020 and then fall to 42,8% of GDP in 2021. This, combined with controls on guaranteed debt of SOEs, will result in a **public debt** that will rise from 50,6% of GDP in 2018 to 54,8% of GDP in 2020 and then fall to 53,8% of GDP in 2021.
- Central government gross financing needs** for 2019-2021 equal EUR 2,35 billion, of which EUR 830 million for the budget deficit and EUR 1,5 billion for debt repayment. Financing needs will be met by a mixture of domestic borrowing, loans and project-financing by multilateral organisations and foreign bonds. Between 2019 and 2021, **gross foreign and domestic borrowing** is planned at EUR 1,5 billion and EUR 800 million respectively (without the rollover of T-bills), as well as EUR 35 million from deposits. **Net domestic borrowing** is planned at EUR 450 million, whereas **net foreign borrowing** is planned at EUR 380 million.
- On 21 May, the Parliament unanimously appointed **Anita Angelovska-Bezhoska as a new Governor of the National Bank of the Republic of Macedonia (NBRM)**. Since 2010, Angelovska-Bezhoska was NBRM Vice-Governor in charge of monetary policy, research and statistics. Her prior experience includes four years as NBRM chief economist, two years as economist at the IMF European and Fiscal Affairs Departments, and eight years at the Ministry of Finance, most notably as a head of the project for establishing a treasury system in Macedonia.



Key macroeconomic indicators and projections

	2011	2012	2013	2014	2015	2016	2017	2018*
Real GDP growth, %	2.3	-0.5	2.9	3.6	3.9	2.9	0.0	3.2
Nominal GDP, million EUR	7,544	7,585	8,150	8,562	9,072	9,723	10,066	10,767
Average annual inflation, %	3.9	3.3	2.8	-0.3	-0.3	-0.2	1.4	1.7
Budget balance, % of GDP	-2.5	-3.8	-3.8	-4.2	-3.5	-2.7	-2.7	-2.7
General government debt, % of GDP	27.7	33.7	34.0	38.1	38.1	39.6	39.3	39.7**
Current account deficit, % of GDP	-2.5	-3.2	-1.6	-0.5	-2.0	-2.7	-1.3	-1.9
Average unemployment rate, %	31.4	31.0	29.0	28.0	26.1	23.7	22.4	21.5
Average exchange rate MKD/EUR	61.5	61.5	61.6	61.6	61.6	61.6	61.6	61.6
Average key monetary policy rate, %	4.00	3.82	3.32	3.25	3.25	3.73	3.27	3.17**
Foreign reserves, end of period, % of GDP	27.4	28.9	24.5	28.5	24.9	26.9	23.2	23.9**

*2018 based on MoF projections, unless otherwise noted

** Actual for Q1 2018; ratios based on MoF GDP forecast for 2018

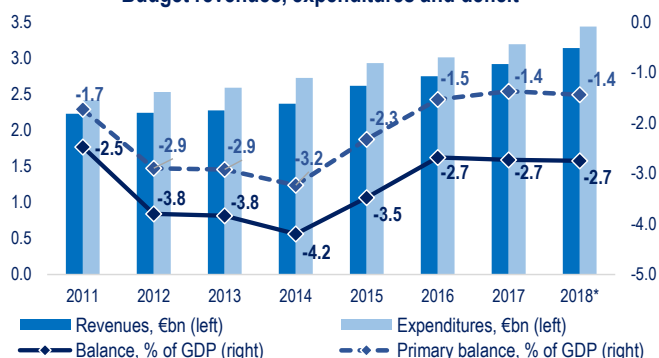
Latest GDP and inflation estimates and forecasts

	Real GDP growth, %			Average inflation, %		
	2018	2019	2020	2018	2019	2020
IMF WEO, Apr 2018	2.8	3.0	3.2	1.8	1.9	2.0
European Commission, May 2018	3.1	3.3		1.9	2.0	
World Bank, Apr 2018	2.3	2.7	3.0	1.6	2.0	2.0
National Bank, Macedonia, May 2018	3.2	3.5		2.0	2.0	
MoF, Macedonia, May 2018	3.2	3.5	4.0	1.7	2.0	2.0

Credit rating, latest

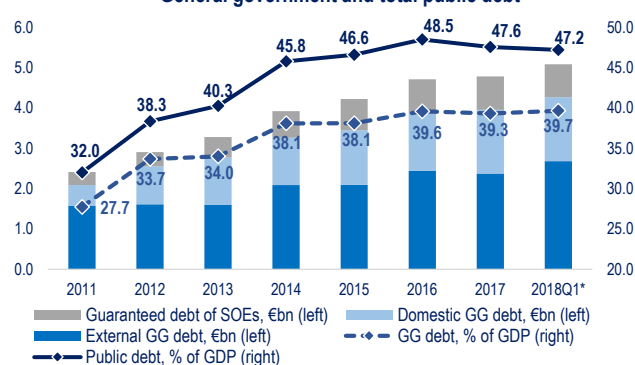
	Rating	Outlook
Fitch, Feb 2018	BB	Positive
Standard & Poor's, Mar 2017	BB-	Stable

Budget revenues, expenditures and deficit



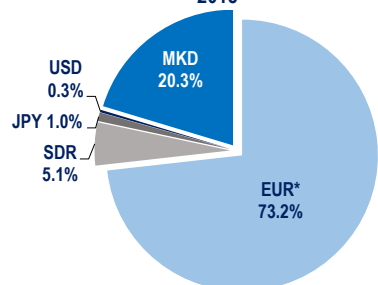
*2018 as per Budget and MoF GDP forecast

General government and total public debt



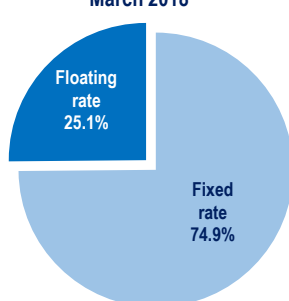
*Ratios using MoF GDP forecast for 2018

GG debt - Currency structure, March 2018

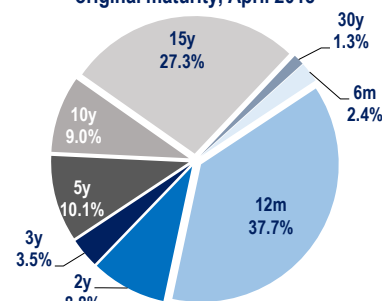


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, March 2018



Domestic government securities - original maturity, April 2018



Domestic government securities, EUR m

Outstanding, 30 Apr 2018	1532.1
- Of which without FX clause	857.4
- Of which with FX clause	674.7
Total planned gross issuance for 2018	287.8
Total planned net issuance for 2018	88.7
- Of which net issued by Apr 2018	28.3

Yields on domestic government securities on the primary market, in %

	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause	0.90	1.20	1.60	1.80	2.20	3.00	3.70	
With FX clause	0.60	0.90	1.20	1.40	1.80	2.60	3.20	4.85

Republic of 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%	108.1	1.548	222	164
Jul-21	BB-	BB	€ 500	3.975%	105.7	2.075	268	209
Jul-23	BB-	BB	€ 450	5.625%	113.8	2.712	299	245
Jan-25	BB-	BB	€ 500	2.75%	97.8	3.125	319	265