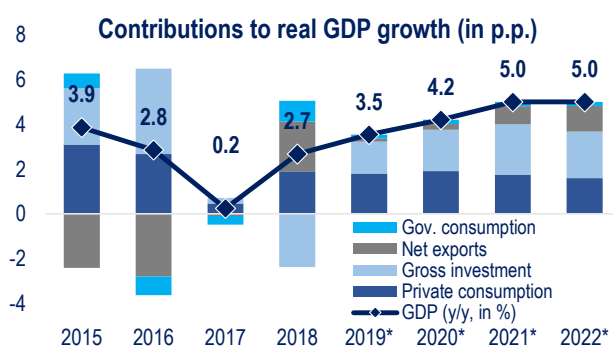


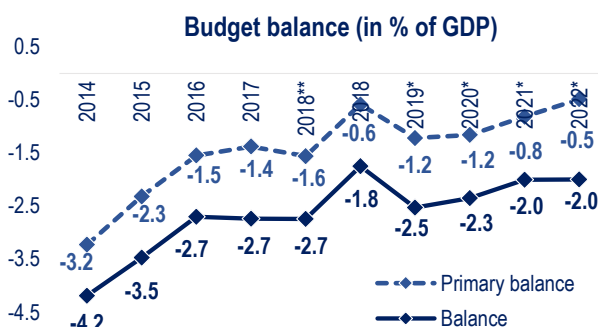


MONTHLY NEWSLETTER - MAY 2019

- On 5 May, the second round of **presidential elections** was held. Stevo Pendarovski, the pro-Western candidate supported by the governing coalition, won with 51.6% of the votes. Gordana Siljanovska Davkova, supported mainly by the ethnic Macedonian opposition, garnered 44.7% of the votes. According to the domestic and international observers, elections were free and fair. Pendarovski was inaugurated as President on 12 May.
- On 28 May, the **European Commission** adopted its annual assessment of the implementation of reforms in the Western Balkans and Turkey with recommendations on the next steps. On North Macedonia, the Commission finds that significant progress has been achieved and that the conditions set by the Council in June 2018 have been met. Therefore, it recommends to the Council to now open accession negotiations with North Macedonia.
- On 28 May, the **Government adopted the new Fiscal Strategy for 2020-2022**. The full English translation will be published on the MoF website in June.
- The continuous intensification of growth in 2018 and the positive developments in 2019 Q1 provide grounds for an **upward revision of the projection of economic growth** in 2019 to 3.5% (from 3.2%). GDP growth is expected to strengthen to 4.2% in 2020, and then to further intensify to 5% in 2021 and 2022. This reflects continuously strong private consumption and investments and the gradual recovery of public investments. Strong export growth will continue, and net exports will have a positive and increasing contribution to GDP growth.
- The Fiscal Strategy applies limits on budget expenditures, both in aggregate terms and by budgetary users. Combined with the expected revenue collection, this will support the **gradual fiscal consolidation**. The **total budget deficit** projection is unchanged, and it will fall from 2.5% of GDP in 2019 to 2% of GDP in 2021 and 2022, whereas the **primary budget deficit** will fall from 1.2% of GDP in 2019 to 0.5% of GDP in 2022.



Source: State Statistical Office and MoF projections (*)



Source: MoF and MoF projections (*)

**As per 2018 Supplement Budget

- The disciplined fiscal policy will ensure a downward path of **general government debt**, from the projected 42.2% of GDP in 2019 to 39% of GDP in 2022. The downward path of general government debt and the moderate rise of **guaranteed debt** to 11.1% of GDP in 2021 (because of infrastructure projects, mainly in roads) and then its fall to 10.1% of GDP in 2022, will result in a moderate increase of the **total public debt** from the planned 51.7% of GDP in 2019 to 52.3% of GDP in 2020, and then its fall to 50.8% of GDP in 2021 and 49.1% of GDP in 2022.
- Central government gross financing needs** for 2020-2022 equal EUR 2.5 billion, of which EUR 830 million for the budget deficit and EUR 1.67 billion for debt repayment. Financing needs will be met by a mixture of domestic borrowing, project-financing by international financial institutions and foreign loans and bonds. Between 2020 and 2022, **gross foreign and domestic borrowing** is planned at EUR 1.37 billion and EUR 860 million respectively (without the rollover of T-bills), as well as EUR 270 million from deposits. **Net domestic borrowing** is planned at EUR 410 million, whereas **net foreign borrowing** is planned at EUR 140 million.



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	0.2	2.7	3.5
Nominal GDP, million EUR	7,585	8,150	8,562	9,072	9,657	10,014	10,735	11,379
Average annual inflation, %	3.3	2.8	-0.3	-0.3	-0.2	1.4	1.5	2.0
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	39.5	40.5	38.2**
Current account balance, % of GDP	-3.2	-1.6	-0.5	-2.0	-2.9	-1.0	-0.3	-0.9
Average unemployment rate, %	31.0	29.0	28.0	26.1	23.7	22.4	20.7	19.3
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	2.42**
Foreign reserves, e.o.p., % of GDP	28.9	24.5	28.5	24.9	27.1	23.3	26.7	25.2**

* 2019 based on MoF projections, unless otherwise noted

** Actual for Q1 2019, ratios based on MoF GDP forecast for 2019

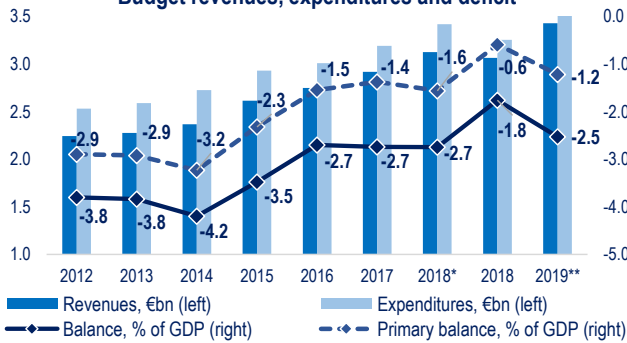
Latest GDP and inflation estimates and forecasts

	Real GDP growth, %			Average inflation, %		
	2019	2020	2021	2019	2020	2021
IMF WEO, Apr 2019	3.0	3.1	3.2	1.8	2.0	2.2
European Commission, May 2019	3.0	3.2		1.7	2.0	
World Bank, Apr 2019	2.9	3.2		1.8	1.9	
National Bank, N. Macedonia, May 2019	3.5	3.8	4.0	1.5	2.0	2.0
MoF, North Macedonia, May 2019	3.5	4.2	5.0	2.0	2.0	2.2

Credit rating, latest

	Rating	Outlook
Fitch, January 2019	BB	Positive
Standard & Poor's, March 2019	BB-	Stable

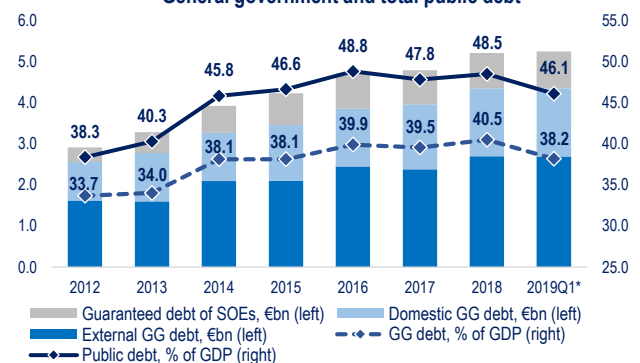
Budget revenues, expenditures and deficit



*As per 2018 Supplement Budget

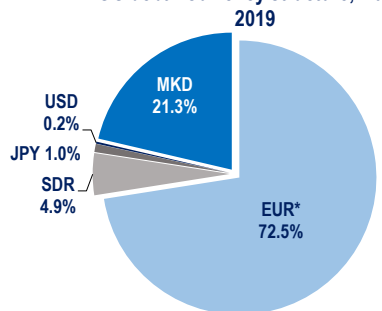
**As per 2019 Budget and MoF GDP forecast

General government and total public debt



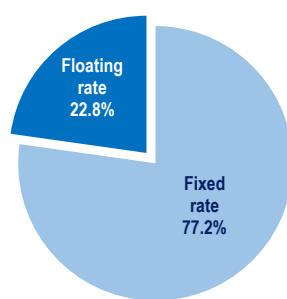
*Ratio using MoF GDP forecast for 2019

GG debt - Currency structure, March 2019

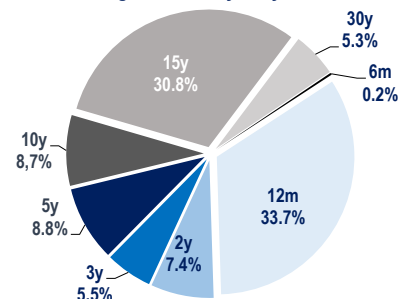


*Includes FX-linked domestic government securities

GG debt - Interest rate structure, March 2019



Domestic government securities - original maturity, May 2019



Domestic government securities, EUR m

Outstanding, 31 May 2019	1,663
- Of which without FX clause	974
- Of which with FX clause	689
Total planned gross issuance for 2019	309
Total planned net issuance for 2019	150
- Of which net issued by May 2019	82

Latest yields on domestic government securities on the primary market during 2019, in %

	6m	12m	2y	3y	5y	10y	15y	30y
Without FX clause		0.80	1.10		1.70		3.20	
With FX clause		0.50			1.30			4.30

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%	105.6	1.045	166	133
Jul-21	BB-	BB	€ 500	3.975%	105.4	1.377	204	165
Jul-23	BB-	BB	€ 450	5.625%	114.8	1.885	252	205
Jan-25	BB-	BB	€ 500	2.75%	103.6	2.062	261	212