



Macedonian economy during the global crisis and challenges ahead

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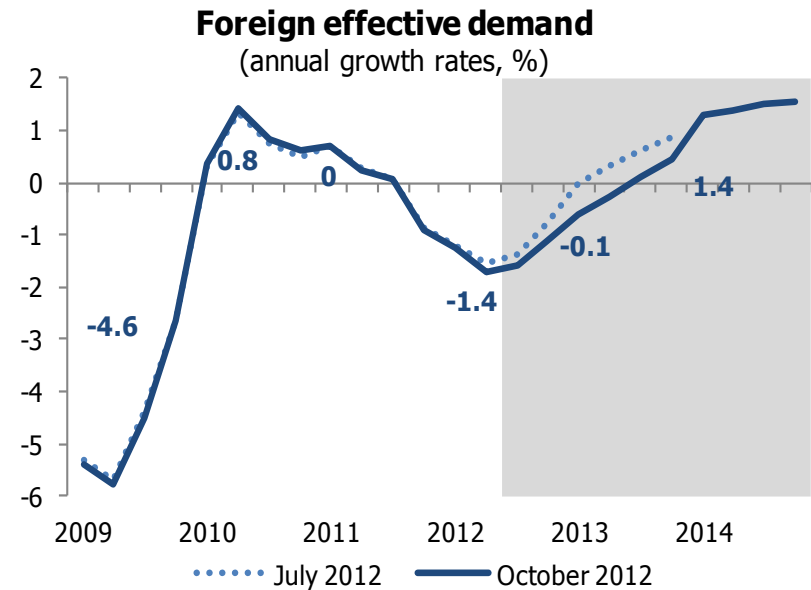
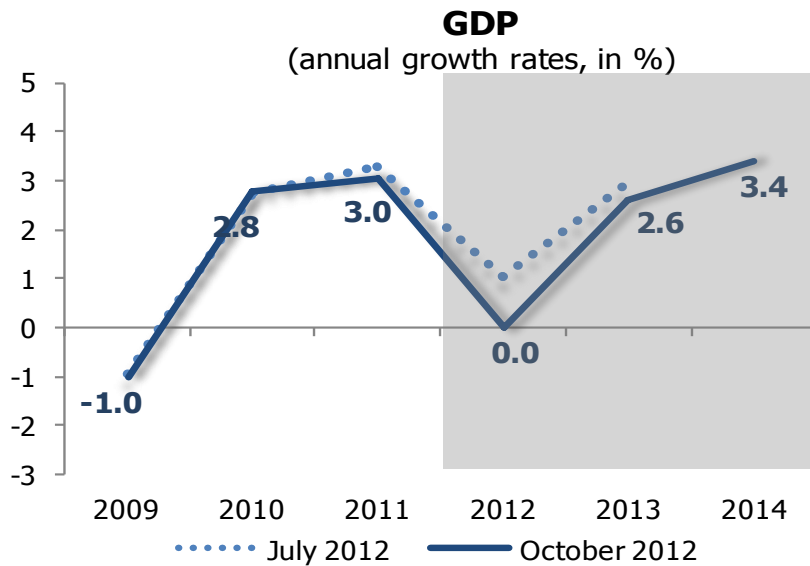
Content:

- **The impacts of the crisis on Macedonian economy and latest macroeconomic forecasts for 2013 -2014;**
- **Monetary policy of the NBRM;**
- **Banking sector indicators;**
- **Indicators for Macedonian economy according to the Macroeconomic Imbalances Procedure Scoreboard of the EC.**



I. GDP - developments and forecast

- **After GDP decline in 2009, a moderate recovery in the next two years;**
- **Stagnation of economy in 2012;**
- **Gradual recovery in 2013 and 2014:**
 - expectations for recovery of the domestic demand, particularly investments,
 - expectations for positive effect of structural changes;
- **Strong impact of foreign demand developments.**

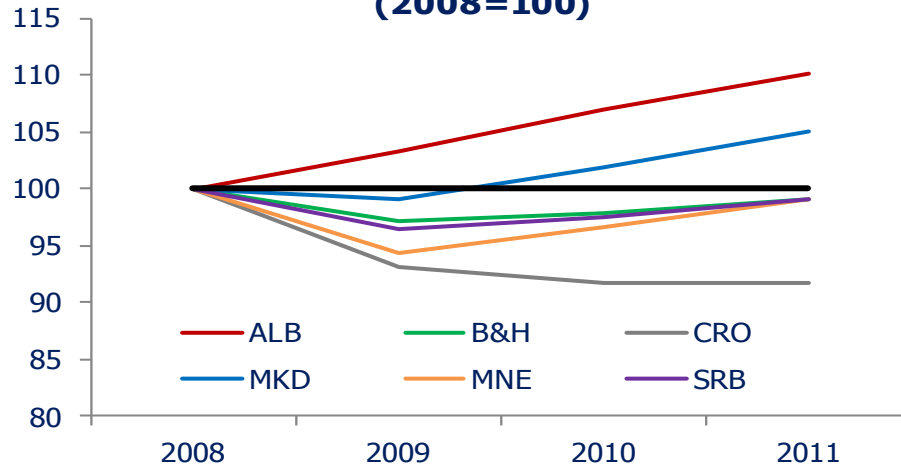




The impacts of the crisis

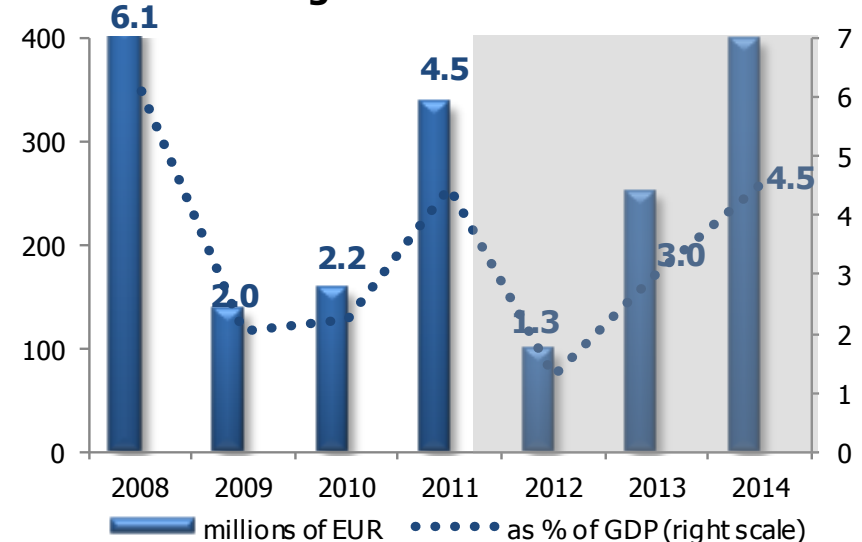
- Crisis spillover effects mainly due to strong trade linkages
- Fall in exports, mainly due to reduced external demand, and lower but continuous capital inflows

**GDP levels before and during the crisis
(2008=100)**



Source: WEO Database October 2012

Foreign direct investment

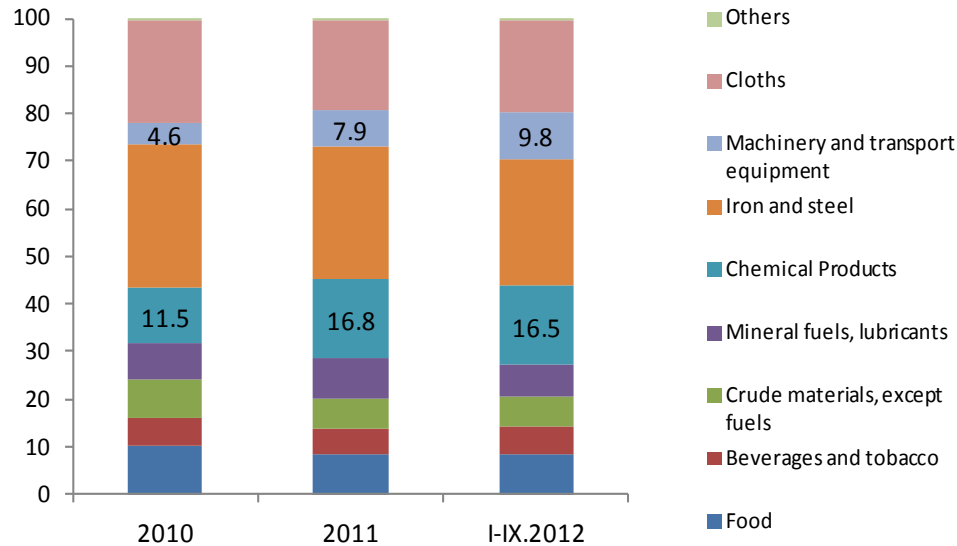




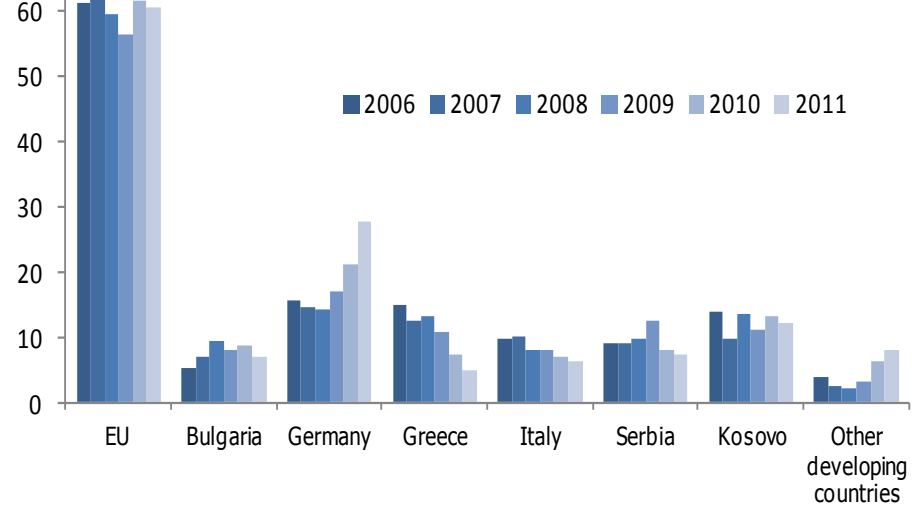
Some structural issues

- Economic recovery after 2009, largely supported by FDI based entities prior to the crisis;
- New export destinations and more diversified export structure, reflecting higher flexibility and some structural improvements, with positive countercyclical effect.

Structure of the exports, by groups of products, in %



Macedonian export destinations, % of the total export





Balance of payments – developments and forecast

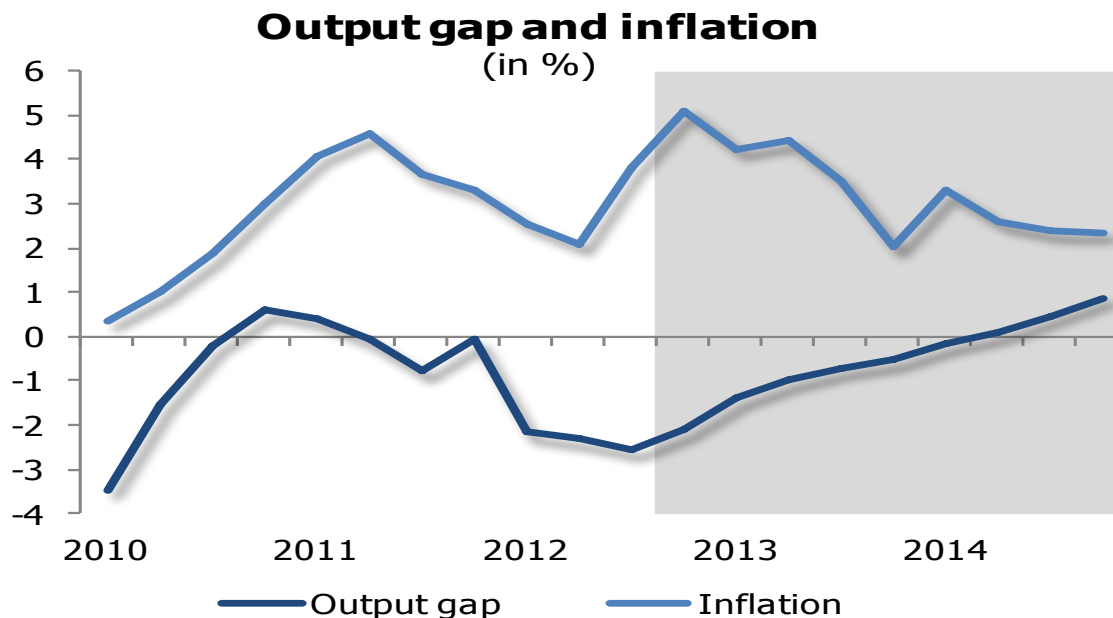
- During the crisis, a moderate current account deficit;
- Expected deterioration of current account and trade balance in 2014, considering the import pressures from new FDIs and expected GDP growth;
- Net inflows of private transfers increase – high confidence in the domestic currency, but expectations for gradual stabilization of their share in GDP;
- Current account deficit financed by capital inflows, mainly from FDIs and external borrowing, therefore foreign reserves are maintained around 4months of imports coverage;
- External debt increase (around 62% of GDP).

<i>% of GDP</i>	2009	2010	2011	2012	2013	2014
Current account balance	-6.8	-2.0	-3.0	-2.8	-3.8	-5.9
of which:						
Trade balance	-23.3	-20.5	-22.3	-22.5	-22.3	-23.9
Current transfers, net	16.9	19.4	19.7	20.2	18.9	18.6
Capital flows, without official reserves	6.2	2.0	6.8	2.7	4.1	7.1



Inflation – developments and forecast

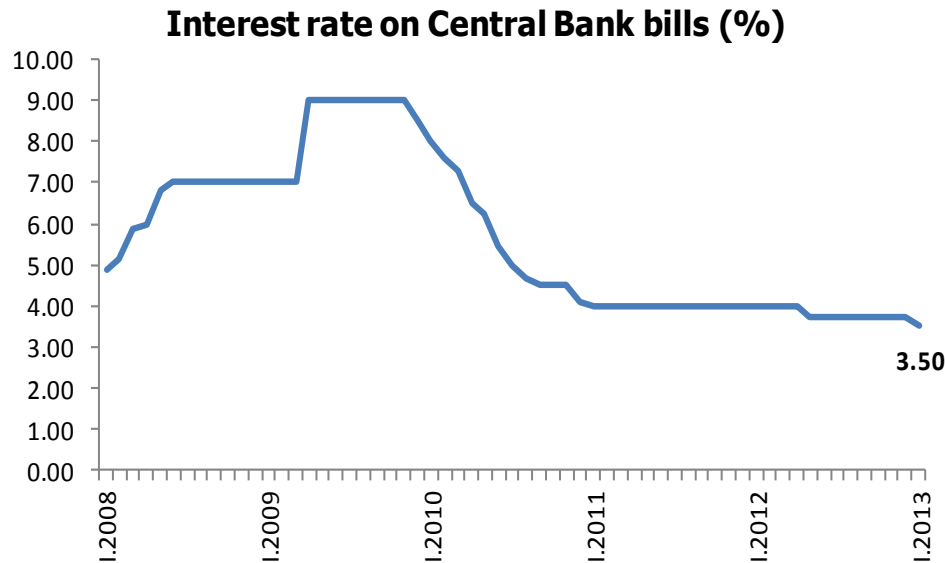
- Average inflation in 2012 was 3.3%, for 2013 it was projected at 3.5% (currently a downward revision is expected), and 2.6% in 2014;
- Lack of demand pressures amid negative output gap by mid-2014;
- Risks related to the world oil and food prices.





II. Monetary Policy Response

- **Considering supply-side driven inflation, as well as sound foreign reserves, from end-2009 onwards a gradual decrease of the main policy interest rate to historically lowest level of 3.5% in January 2013;**
- **In addition, during 2012:**
 - **no reserve requirements on long term deposits (January 2012);**
 - **more flexible operational monetary framework (April 2012);**
 - **lower basis for reserve requirements for the amounts of new credits allocated to the export and energy sector (effective from January 2013).**

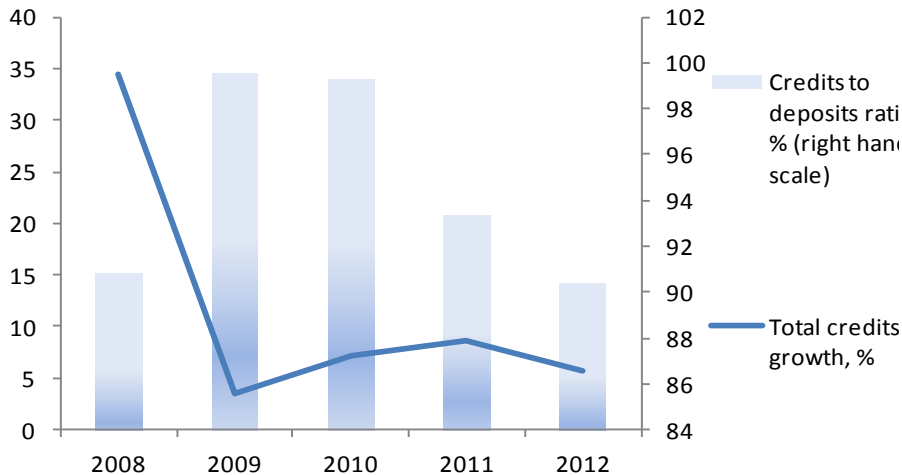




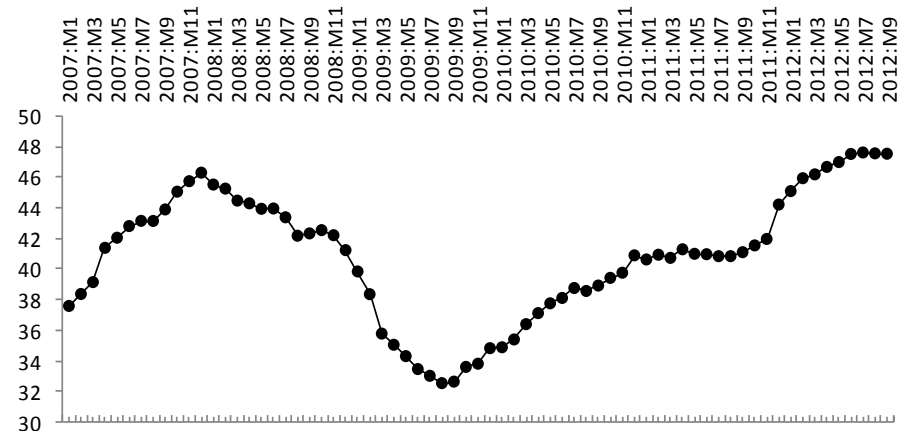
III. Banking sector support to the economy

- A slowdown in the credit growth, although still being moderate;
- Deposits as a main source of financing, with a trend of reduced euroization;
- There is a room for additional financial support of the economy, considering declining credit / deposit ratio;
- The deteriorated portfolio quality and the weak economy constrain a stronger credit growth;
- Potential risk to the credit growth: deleveraging of the foreign parent banks could impose additional constraints to subsidiaries.

Credits growth and credits/deposits ratio



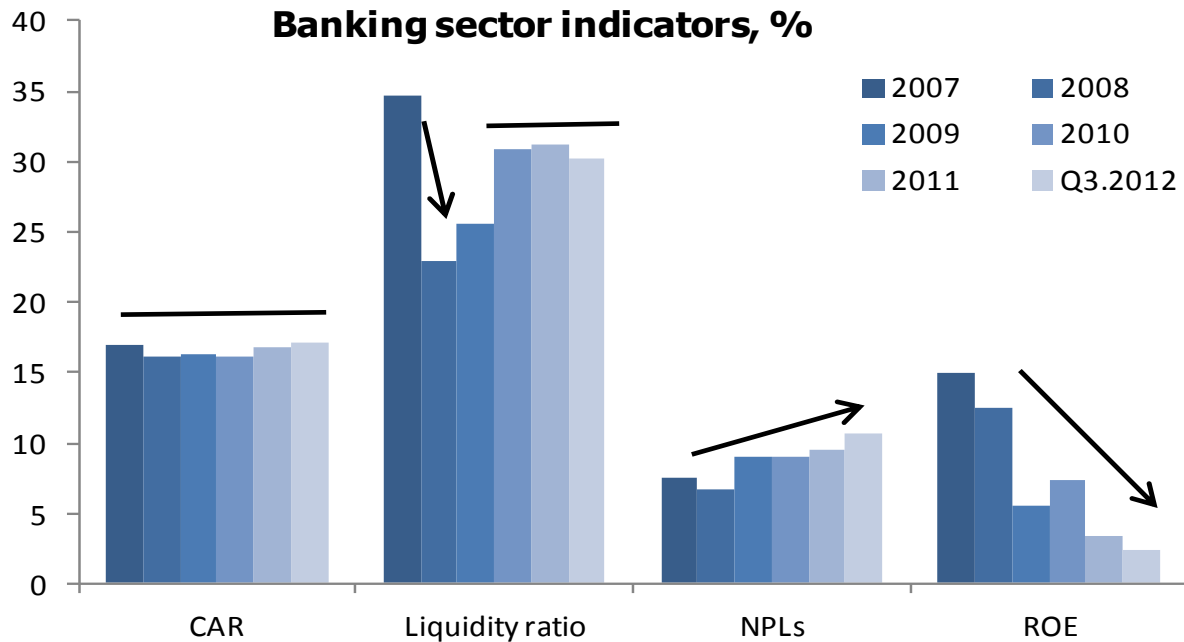
Denar deposits on households/total deposits of households, %





The financial stability has been maintained

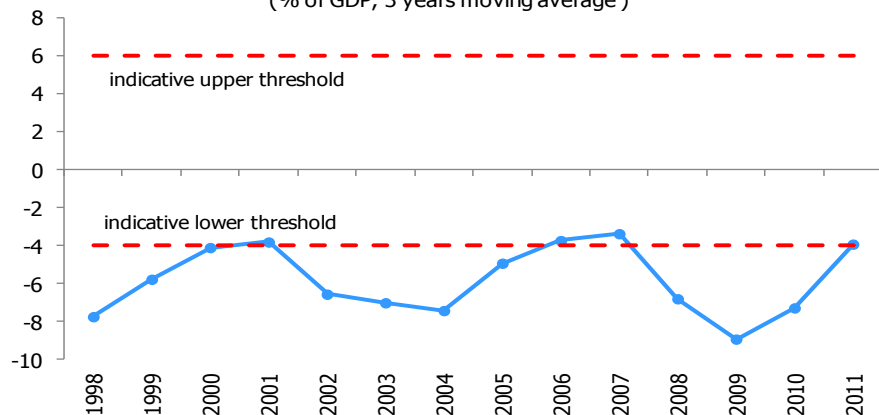
- Sound capitalization and traditional banking operations strongly contributed to banking sector's resilience;
- However, the worsened economic outlook triggered a rise in NPLs and therefore worsened profitability.



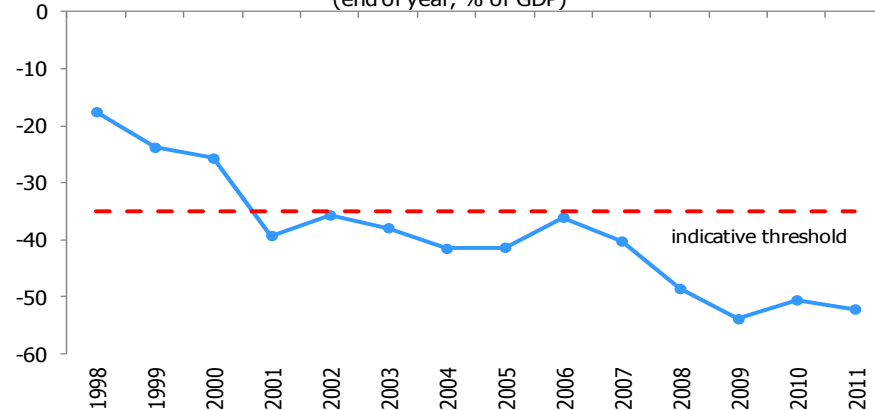


IV. Indicators for Macedonian economy according to the MIP Scoreboard of EC

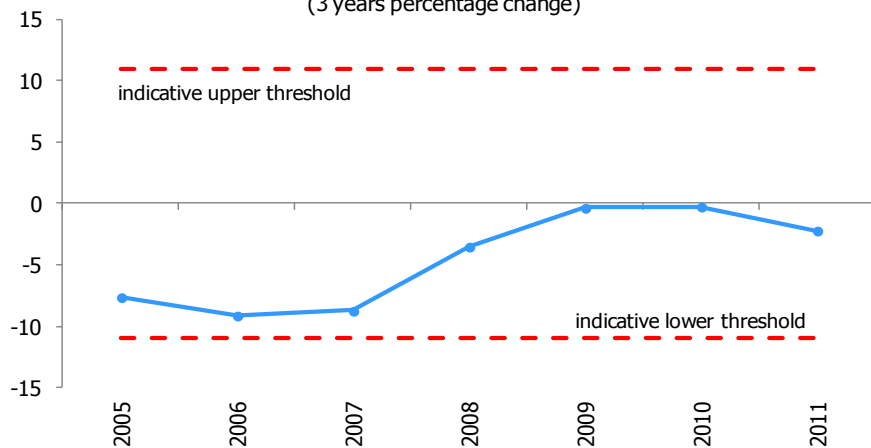
CURRENT ACCOUNT BALANCE
(% of GDP, 3 years moving average)



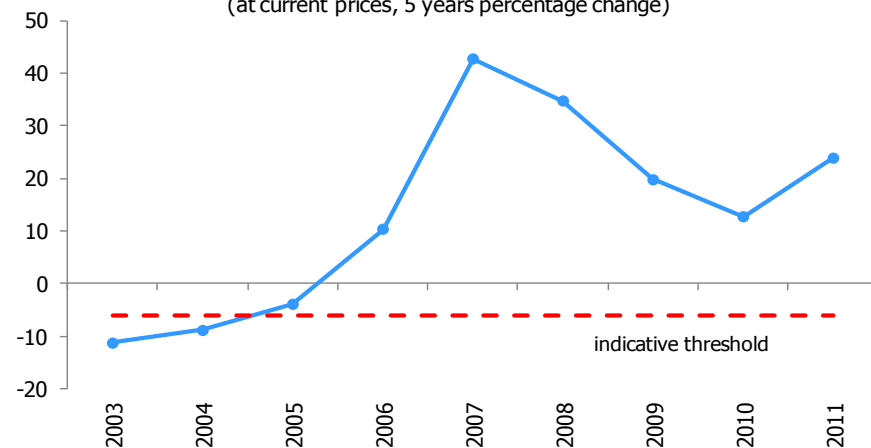
NET INTERNATIONAL INVESTMENT POSITION
(end of year, % of GDP)



REAL EFFECTIVE EXCHANGE RATE
(3 years percentage change)



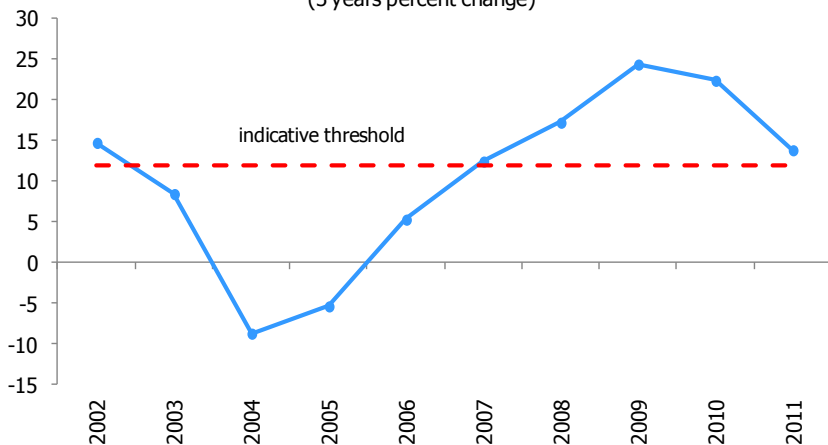
SHARE OF WORLD EXPORT
(at current prices, 5 years percentage change)





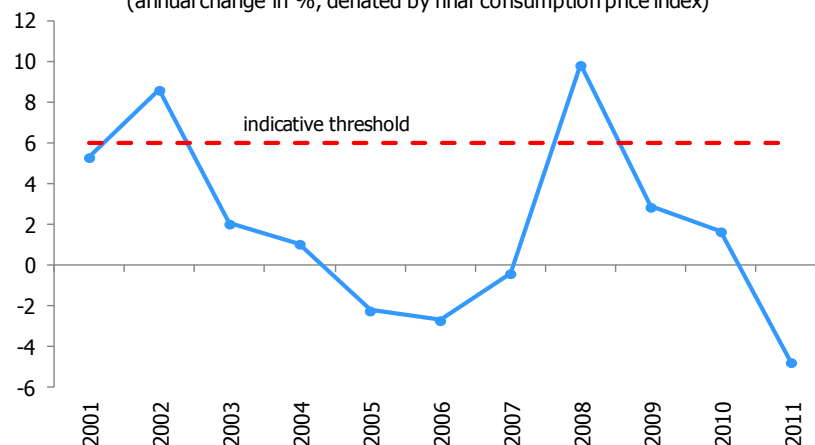
Indicators for Macedonian economy according to the MIP Scoreboard of EC/2

NOMINAL UNIT LABOUR COST
(3 years percent change)

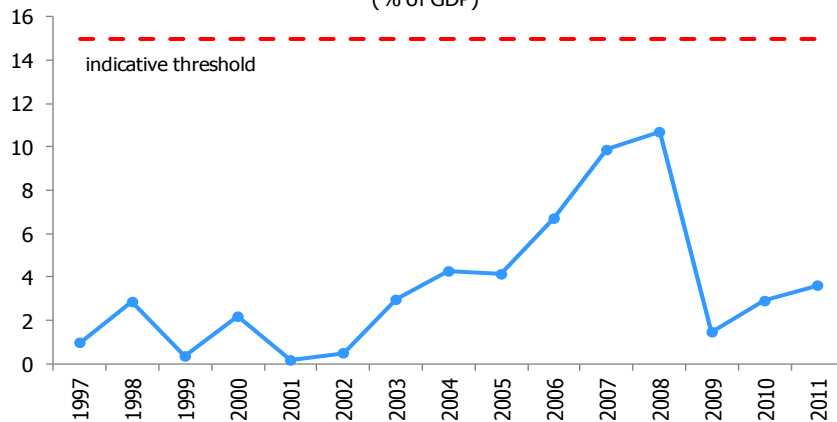


HOUSE PRICES

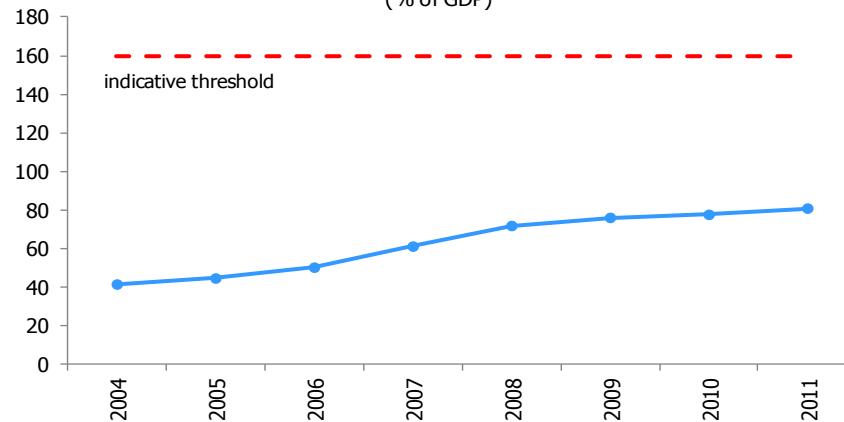
(annual change in %, deflated by final consumption price index)



PRIVATE SECTOR CREDIT FLOW
(% of GDP)



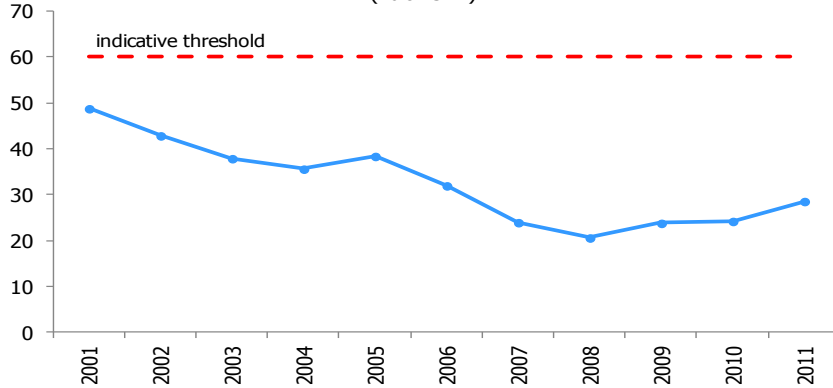
PRIVATE SECTOR DEBT
(% of GDP)



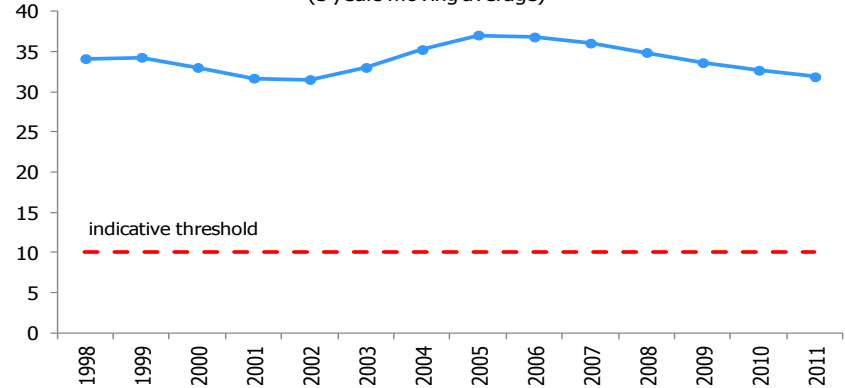


Indicators for Macedonian economy according to the MIP Scoreboard of EC/3

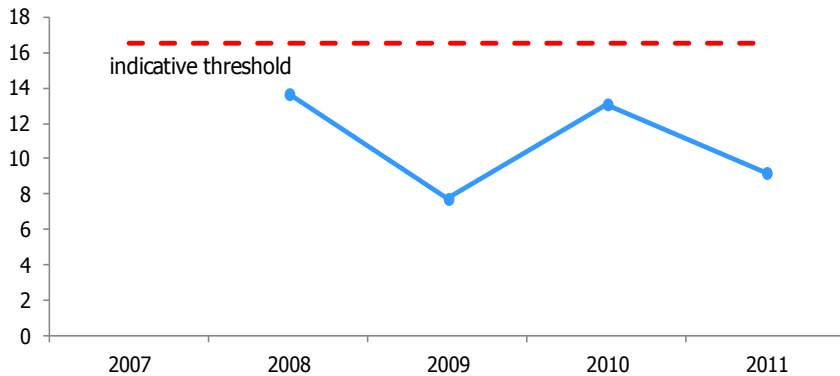
CENTRAL GOVERNMENT DEBT
(% of GDP)



UNEMPLOYMENT RATE
(3 years moving average)



FINANCIAL SECTOR LIABILITIES
(annual present change)



- **Within external indicators: the issue of the IIP (with arguments against imbalances);**
- **Within internal indicators: unemployment rate.**



Main challenges ahead

- Growth acceleration and redefining the growth model – a common challenge for the region;**
- Keeping sound public finance and taking care on the level of the external debt;**
- Enhancing structural reforms and strengthening competitiveness;**
- Conventional monetary policy in combination with unconventional measures and stimulating credit growth, while maintaining banking sector soundness.**