



Revision of macroeconomic forecasts - May 2019 -

Anita Angelovska Bezhoska

Governor

9 May 2019



Underlying assumptions

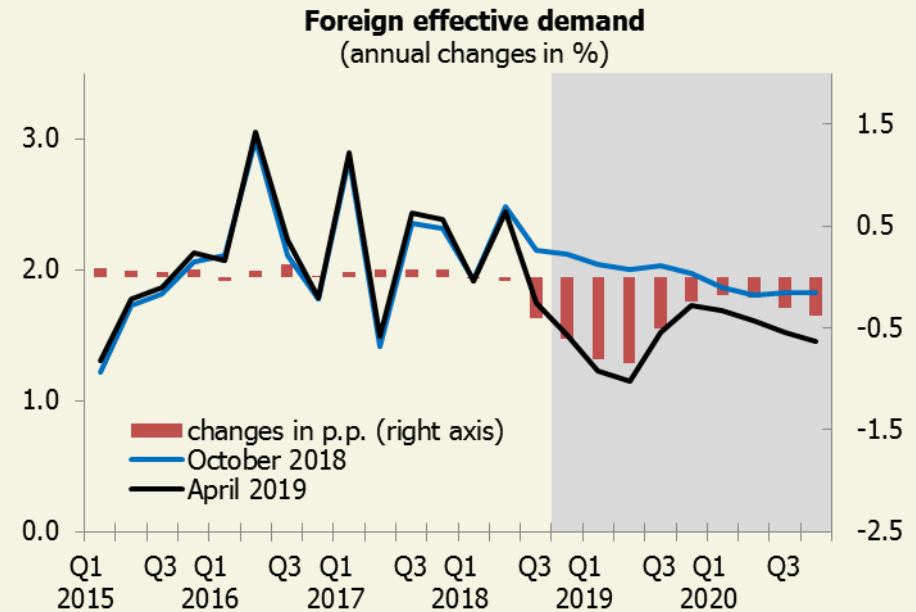
- **Global economic growth is expected to continue**, but at slower pace, thus further providing stimulus for the domestic export sector;
- **Stable domestic political conditions**, that will positively affect economic agents' confidence and their investment and spending decisions;
- **Policies in place that support foreign and domestic investment** - an impetus for additional capital inflows in tradable sectors of the economy (positive effects on productivity and competitiveness);
- **Further growth of the activity of export-oriented facilities** as a specific structural factor of the domestic economy conducive to solid export growth;
- **Strengthening the public infrastructure investment cycle** - expected growth after the temporary slowdown in 2018;
- **Gradual fiscal consolidation** in line with the medium-term fiscal strategy.



External environment

- foreign effective demand -

- **Expected slowdown of global growth** from 3.6% in 2018 to 3.3% in 2019 ...
- ... also noticeable through the **downward revision of foreign effective demand** (growth of 1.4% and 1.6%, respectively, for 2019 and 2020 instead of 2% and 1.8%, respectively, as forecasted in October) ...
- ... mainly reflecting the expectations for lower growth in Germany.
- **Risks** to the global growth forecasts are predominantly downward
- **Less favorable external environment compared to October**

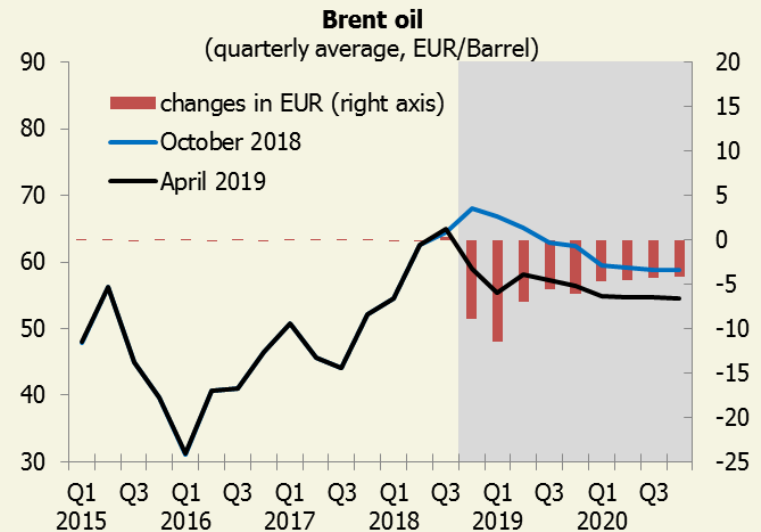
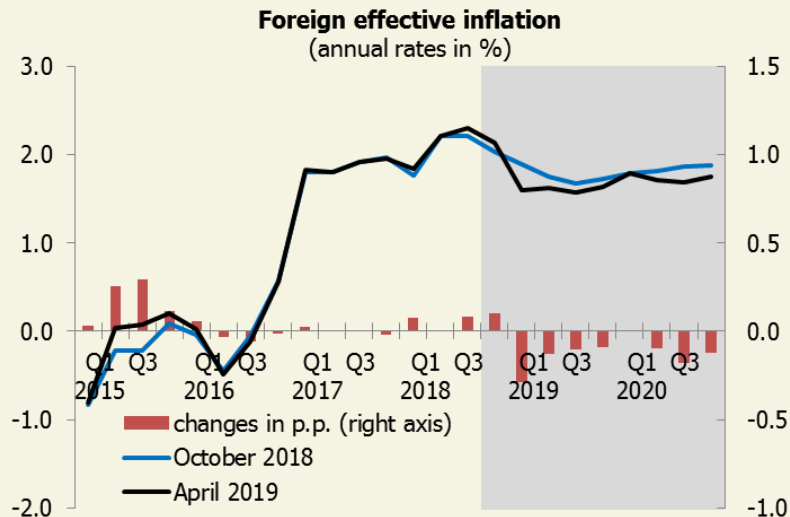




External environment

- import prices -

- **Given the slower global growth, there are expectations for lower increase in foreign prices**
- **Downward revision of oil prices**, with estimates for decrease in 2019 and 2020, after the growth in 2018 - extremely high volatility of the expectations for the prices of this energy source
- **Downward revisions of other energy sources (gas, electricity)**
- **Revisions of food prices in various directions**, with expectations for moderate growth, on average
- **Minor upward revisions of metal prices** with expectations for stabilization, or slight decrease in the period ahead
- **Foreign effective inflation** - with minor downward revision of 1.6% and 1.8% for 2019 and 2020, from 1.8% and 1.9% in October
- **Favorable terms of trade, with positive effects on the balance of payments and inflation**





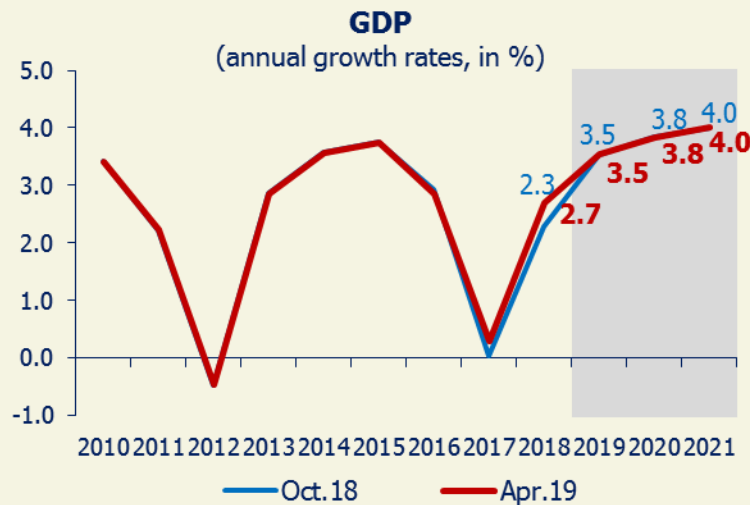
Macroeconomic scenario for 2019-2021

*(generally without major changes compared to
the October forecasts)*



GDP forecast

- The new assumptions about the domestic and external environment, as well as the initial conditions (slightly better GDP performance of 2.7% in 2018, as opposed to 2.3%), imply that ***our mid-term growth forecasts remain unchanged***
- In the forecast horizon 2019-2021, domestic economy is expected to further enhance: estimated GDP growth of 3.5% for 2019 and expectations for acceleration to 3.8% in 2020 and 4% in 2021
- Analyzing the **growth structure**, domestic demand is expected to be the main growth engine; negative contribution of net exports





GDP forecast

(generators of growth)

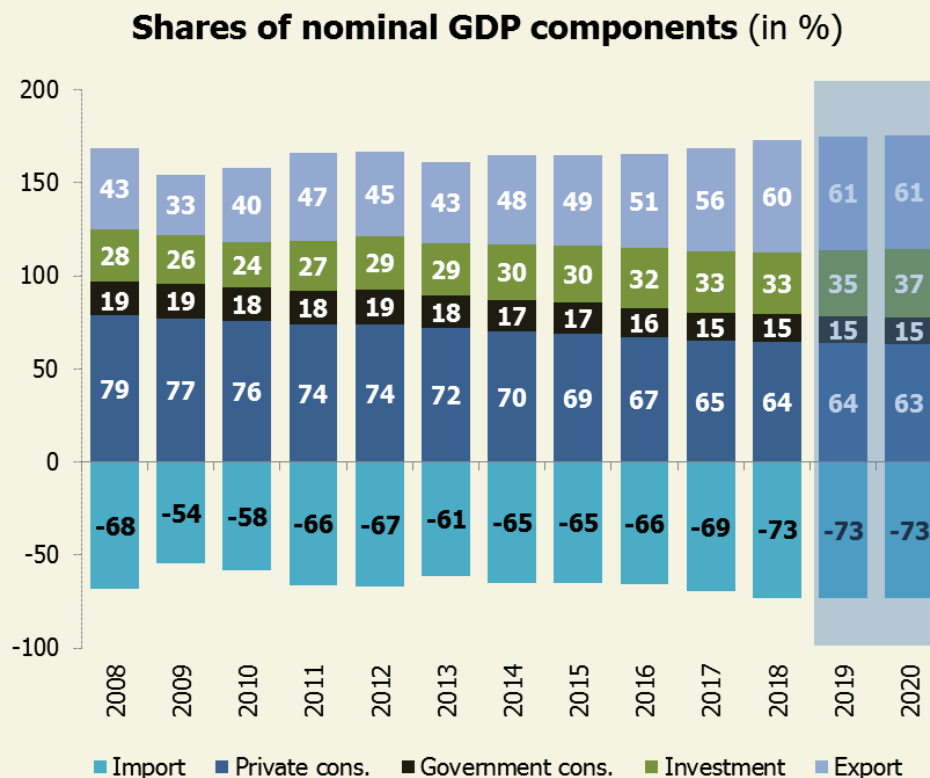
- On average for 2019 and 2020, **export demand** remains to be the major growth factor due to the activity of foreign export facilities, investments of new companies and the further exports growth of some traditional sectors.
- Significant growth stimulus by **investments** - after the fall in 2018, assessments for recovery in the next two years, supported by public and foreign investment and improved investment environment for domestic investors.
- Positive contribution of **private consumption**, amid further growth of disposable income, credit support by domestic banks and enhanced confidence.

	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
	%	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	<i>contrib. in p.p. (Apr. 19)</i>	
2018	2.7	2.9	1.9	-7.2	-2.4	15.3	8.5	9.0	-6.2	6.2	0.9	0.4	2.2
2019	3.5	2.0	1.7	8.3	2.8	5.4	3.7	5.6	-4.7	0.0	0.1	4.5	-0.9
2020	3.8	3.2	2.3	9.4	3.1	4.8	3.2	5.4	-4.8	-0.3	0.0	5.4	-1.6
2019-2020	3.7	2.6	2.0	8.8	3.0	5.1	3.5	5.5	-4.7	-0.1	0.0	4.9	-1.2



GDP forecast - structural changes -

- Further positive changes expected in the GDP structure
- Increase in investment share, reduction in consumption and slight improvement in net exports.

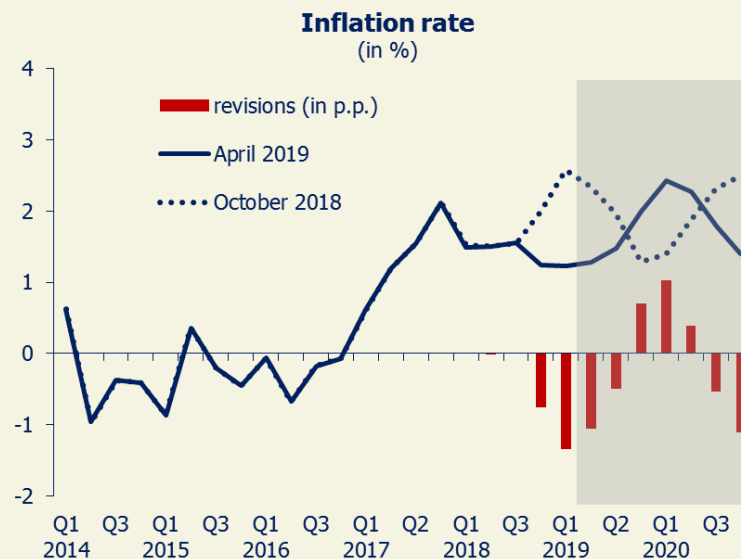
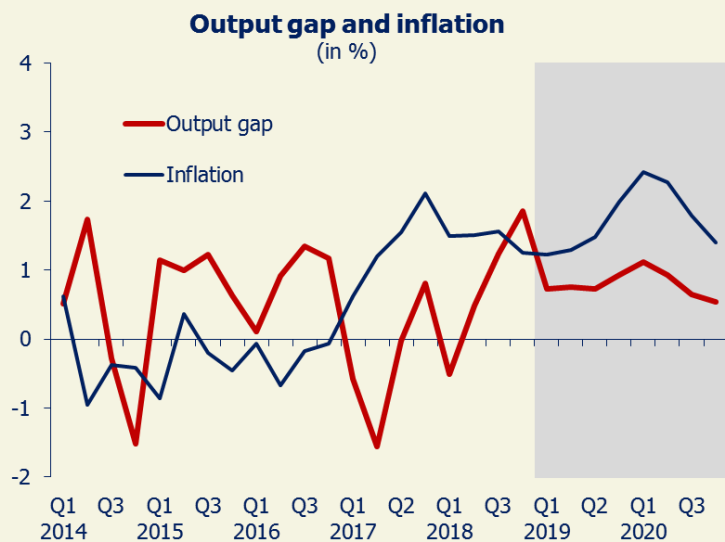


Source: SSO and NBRNM projections.



Inflation forecast

- **Downward revision of inflation for 2019 (from 2% to 1.5%)** - Current inflation dynamics below expectations, and downward correction of the expectations for higher import prices
- **Inflation forecasts of around 2% for 2020 and 2021 as in October**, amid moderately positive output gap, increase in food prices and higher foreign inflation
- Risks to the forecast inflation trajectory mainly attributed to the uncertainty surrounding the import prices of energy sources in particular



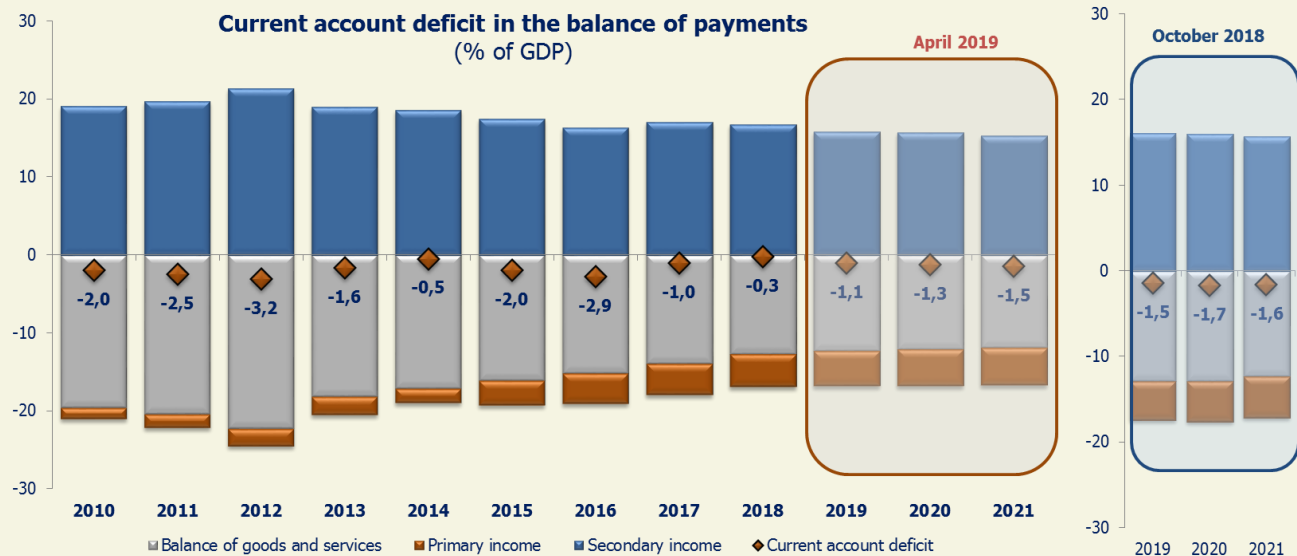


Balance of payments

- current account -

- **Estimates for favorable current account movements in the medium term (moderate deficit)**
- In recent years, a downward trend of current account deficit, which in **2018 reduced to 0.3% of GDP**
- **In the 2019-2021 period, expectations for moderate expansion of 1.3% of GDP, on average**
 - moderate increase in primary income deficit
 - lower secondary income surplus
 - slight improvement in the balance on goods and services

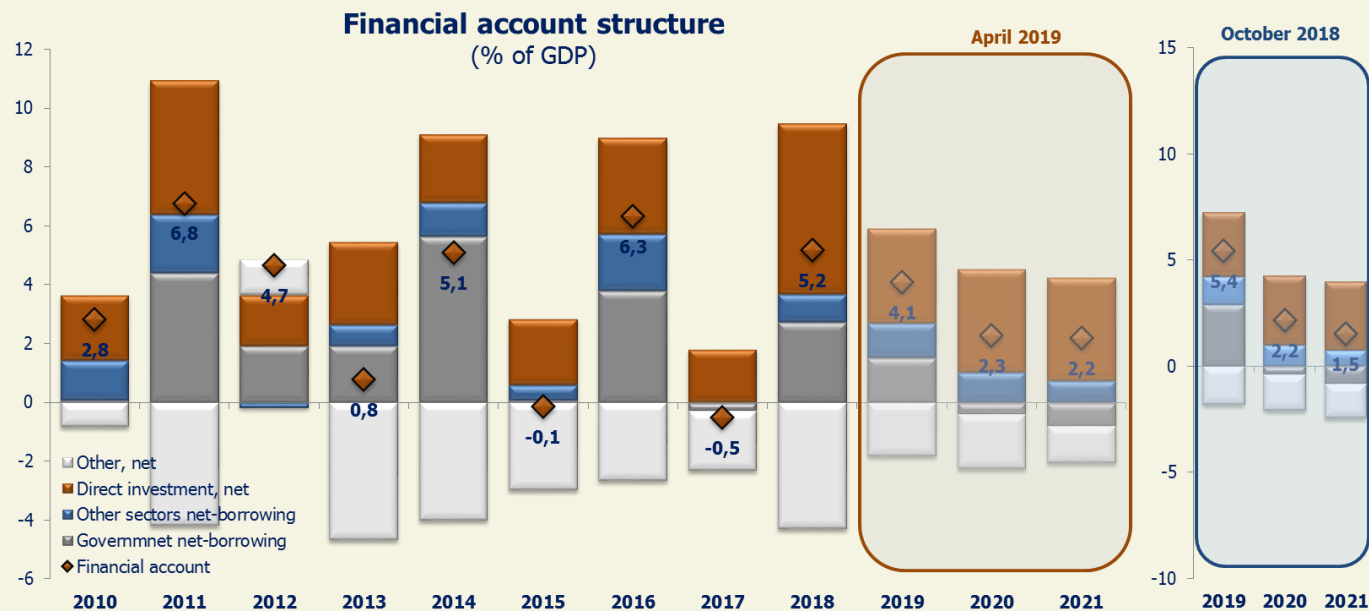
Slight current account improvement compared to October





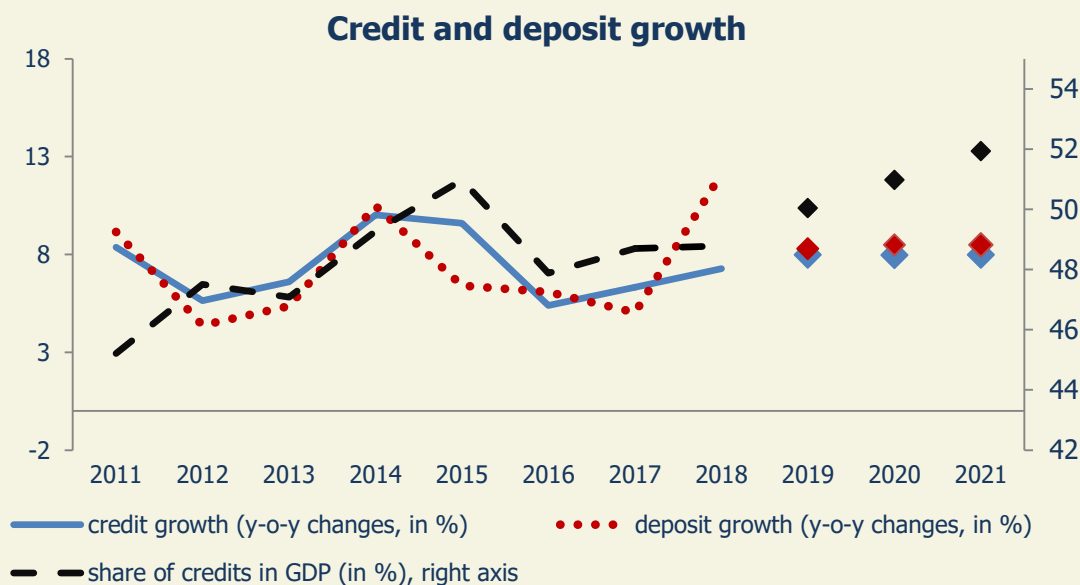
Balance of payments - financial account -

- **Inflows in the financial account in the 2019-2021 period** are sufficient for covering the current account deficit and for additional growth in foreign reserves. **In the forecast horizon, there are expectations** for net inflows from foreign direct investments and long-term public sector borrowing.
- **Over the forecast horizon, foreign reserves adequacy ratios are within the safe zone.**
- ***Slightly higher inflows and higher level of foreign reserves on average, compared to October***



Deposit and credit growth

- At the end of 2018, **deposit growth** exceeded expectations, while **credit flows** moderately lower than forecasted
- Given the changes in the initial conditions, amid estimations for stable environment and enhanced economic activity, **deposit growth** of 8.3% is expected for 2019 (about 7.7% in the October forecast), with moderate acceleration of 8.5%, on average, for 2020 and 2021
- The banks' **credit activity** will remain conducive to the economic growth - for 2019-2021 period, the credit growth is expected to remain stable at 8% (about 8.5% in October), with further increase in financial intermediation



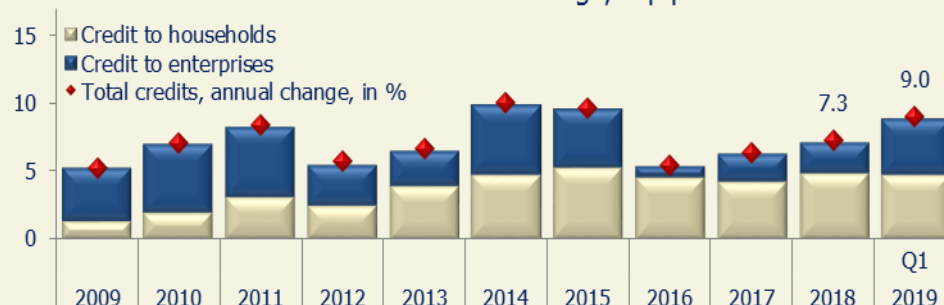


Spotlight on sectoral credit allocation

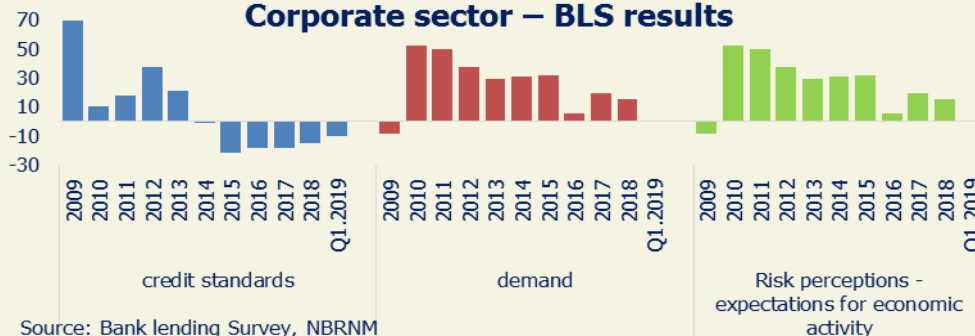
- **Sectoral credit allocation** has been in the spotlight of recent discussions on domestic credit market
- Until 2012, corporate credits with predominant contribution to overall credit growth, with banks being more focused on the household segment afterwards
- Shifts visible in the more recent period, probably a combined effect of supply and demand factors
- Positive risk perceptions towards the corporate segment – conducive for further growth support
- Constraining factors for stronger credit support for SMEs similar across the board, indicating room for alternative financing

Total credits, by sector

contribution to annual change, in p.p.

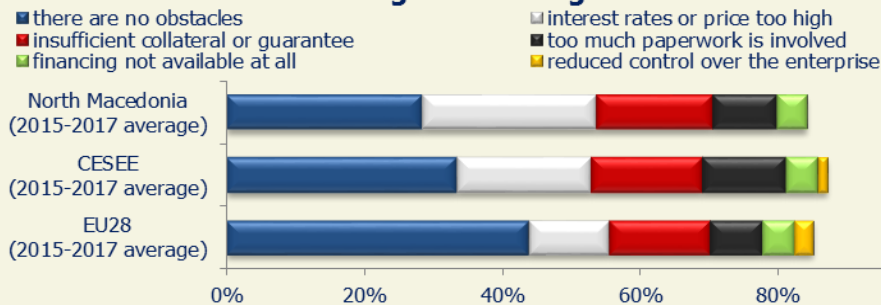


Corporate sector – BLS results



Source: Bank lending Survey, NBRM

What do you see as the most important limiting factor to get financing?



Source: Survey on the access to finance of enterprises (SAFE), EC and ECB.



Summary

- In the period between the two forecasts, amid sound economic fundamentals and stable expectations of economic agents, as well as somewhat more favorable movements of the key indicators for the monetary policy, the National Bank **cut the interest rate on two occasions to 2.25%**
- The latest National Bank forecasts for the period ahead incorporate **expectations for stable and predictable domestic context, further increase in exports and reinforced public infrastructure cycle**
- Any lack of materialization of some of these assumptions or risks may cause divergence from the expectations, especially for the growth forecast
- **Positive risk** - acceleration of the Euro-Atlantic integration process
- Generally speaking, the latest macroeconomic forecasts point to **safe and sound fundamentals of the domestic economy**, with potential for solid growth supported by the banks' lending activity, amid absence of both inflationary pressures and imbalances in the external position
- **In the period ahead, the National Bank will closely monitor the trends** and changes in the domestic and external environment, in light of the monetary policy conduct



*THANK YOU FOR YOUR
ATTENTION*