



Revision of the Macroeconomic Forecasts - November 2016 -

Governor
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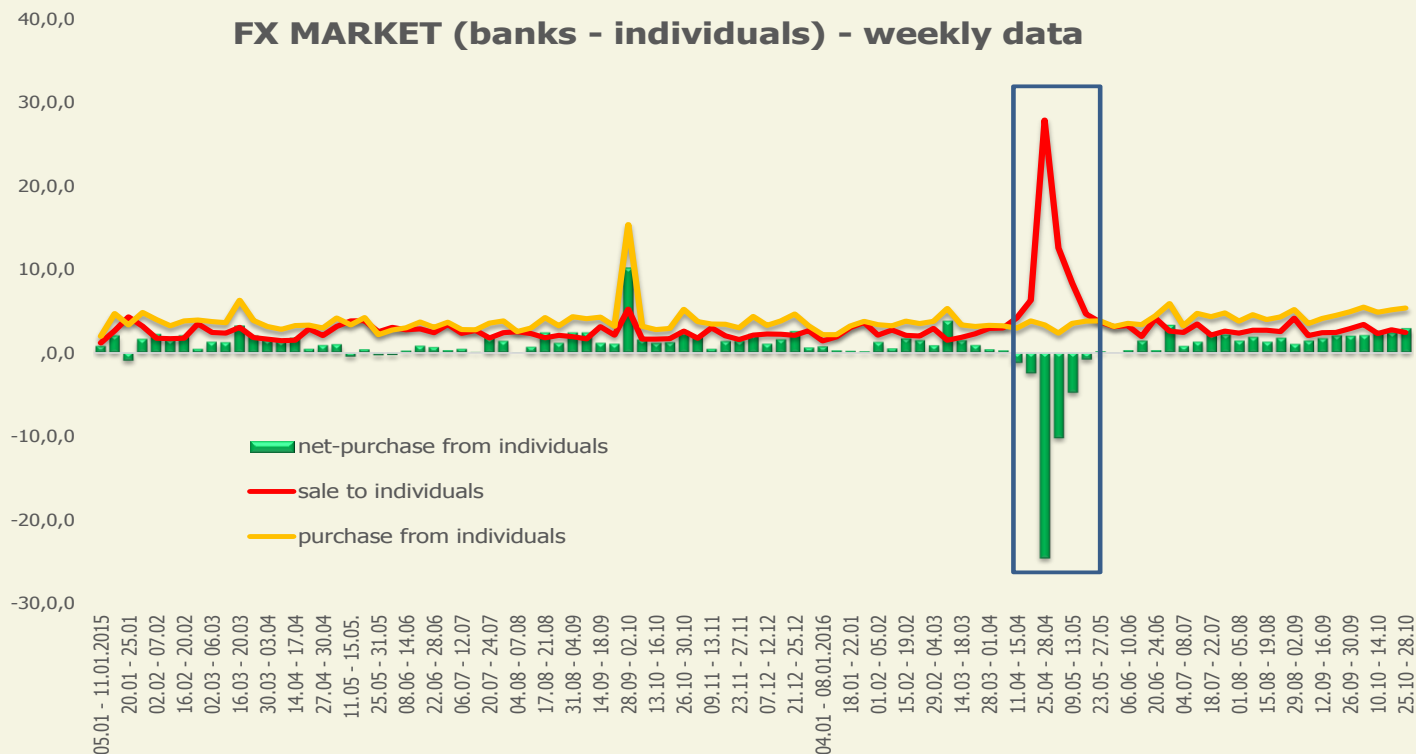
November 2016



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Stabilization of foreign currency demand on the FX market after the shock in April-May...



Review of Risks Between Two Forecasts

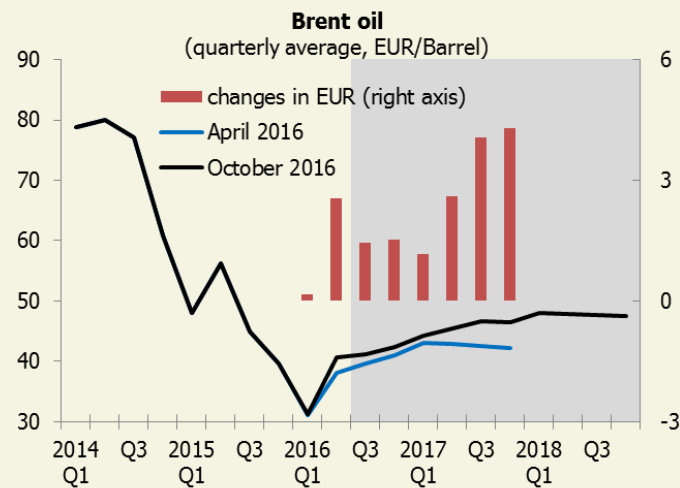
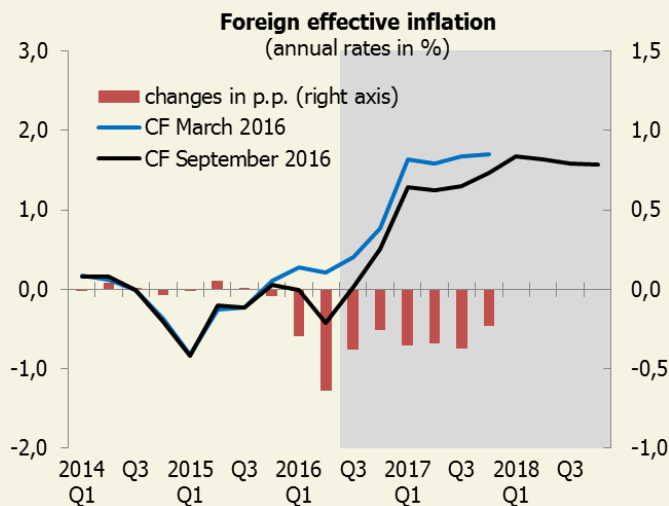
- **The adverse risks present in the previous forecast, endure...**
 - ... and primarily relate to the domestic political crisis ...
 - ... as well as the external environment - slow recovery of the global economy, downward revision of the global outlook, potentially lower growth of the European economy due to the UK decision to exit EU

- **Initial conditions and assumptions in October forecasting cycle**
 - in 2016, materialization of the political-crisis-related domestic risk, but with short-lasting effects
 - expectations for stabilization of the domestic political situation in the forthcoming period

External Assumptions

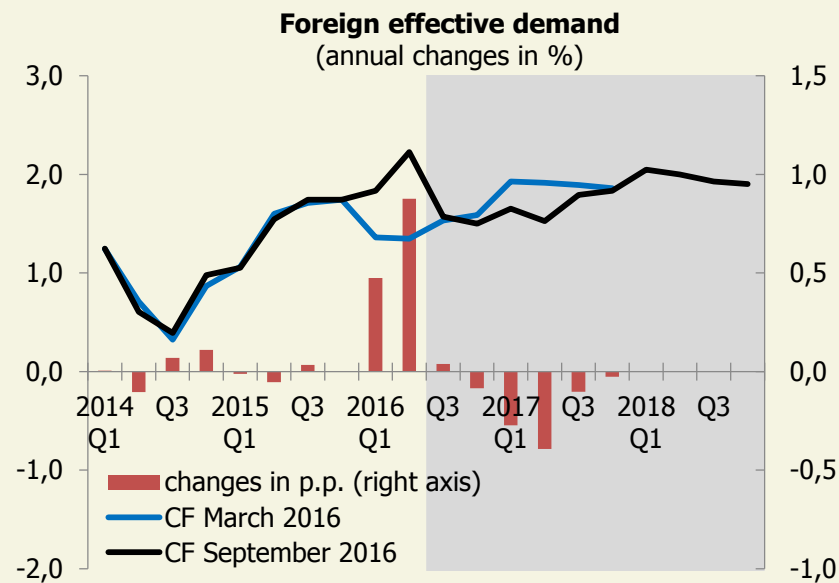
- import prices -

- Downward revision in the **foreign effective inflation** to 0% in 2016 (compared to 0.4% in April forecast) and to 1.3% in 2017 (compared to 1.7%), while in 2018 it would equal 1.6%
- Small upward revisions in the oil prices and mainly downward corrections to cereal prices
- Regarding other import prices, there are divergent movements in metals prices, given upward revisions of the prices of nickel and copper in 2017



External Assumptions - Foreign demand -

- Expected increase in the **foreign effective demand** of 1.8% in 2016 (1.5% in April), mainly due to improved performances
- Downward revision in 2017 (from 1.9% in April to 1.7%), expecting negative effects of Brexit in some of the countries - trade partners and then stabilization in 2018 (increase of 2%)

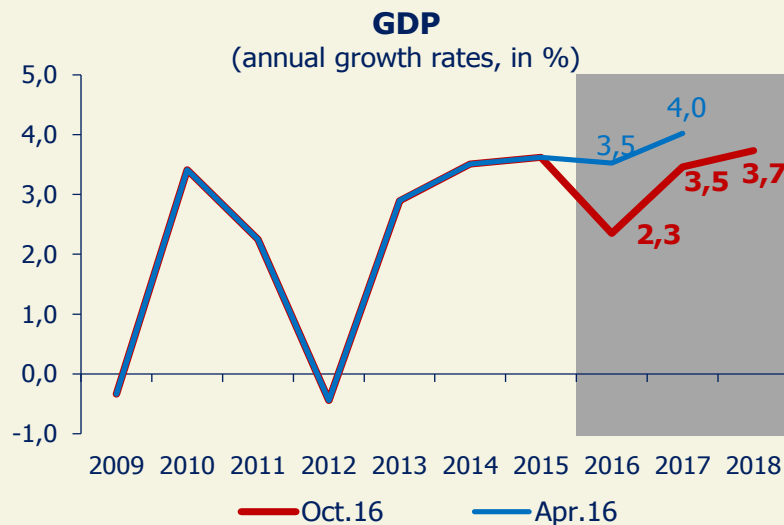




Macroeconomic Scenario 2016-18

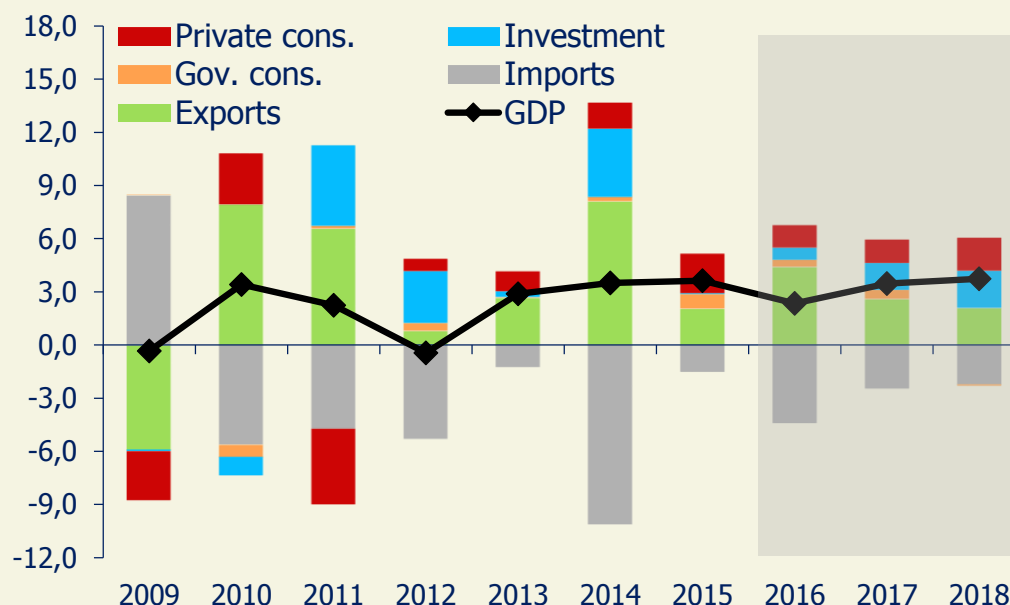
- GDP Forecast -

- During the forecasting horizon, solid growth pace is expected – the GDP growth will equal 2.3% in 2016, then accelerate to 3.5% in 2017 and 3.7% in 2018
- GDP growth rate in 2016 will be between the baseline and alternative scenario of April forecast (considering materialization of the internal political risks) – amid underperformance in investments, as opposed to solid performance in private consumption and higher exports



GDP Components Forecast

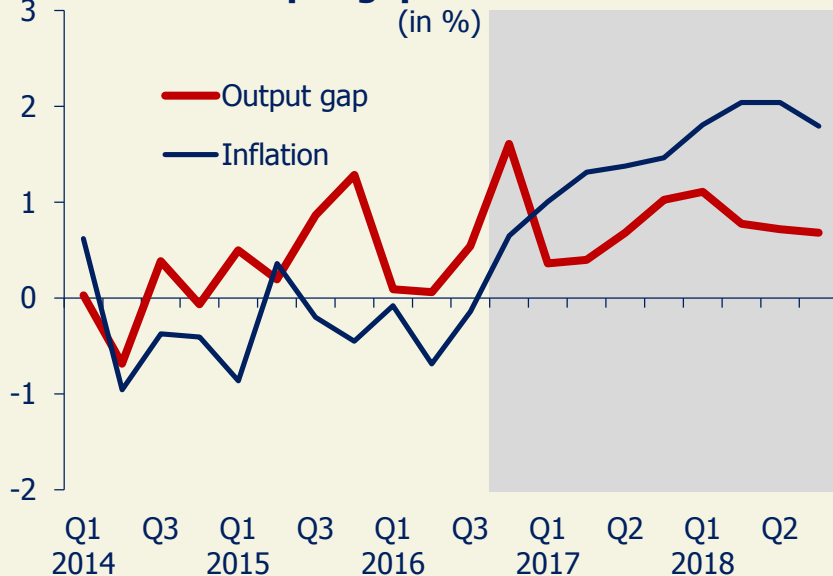
- **Assumptions on the fundamental growth generators remained unchanged (2016 is an exception) – investments and exports as main growth factors, with an additional solid impulse from the private consumption**



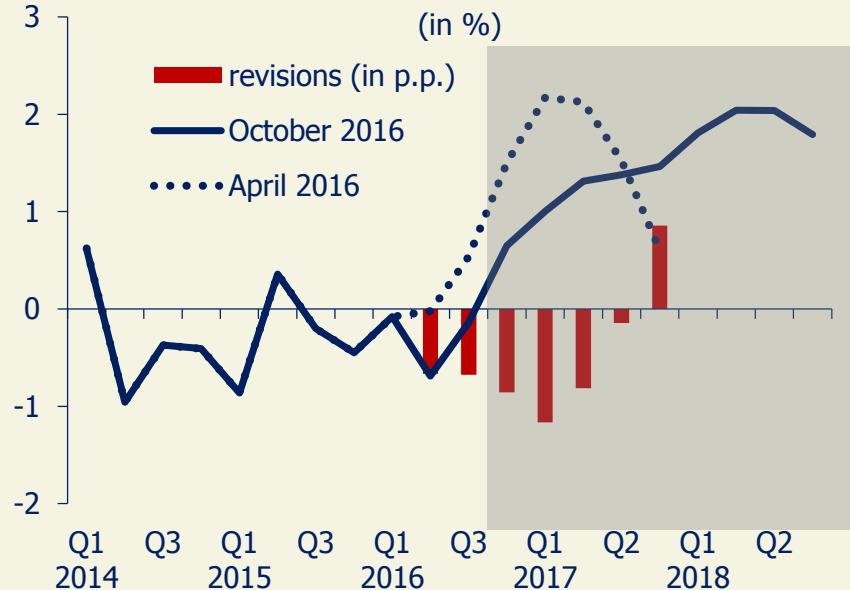
Inflation Forecast

- **In 2016, 0% inflation rate is expected** – minor downward correction as opposed to the expected inflation of 0.5% in April
- **In 2017 and 2018, the price growth is expected to accelerate, i.e. an inflation rate of 1.3% in 2017 and about 2% in 2018**, amid positive output gap, increase in food and energy prices and increase in foreign inflation
- The risks for the projected inflation path are mainly associated with the uncertainty related to import prices

Output gap and inflation



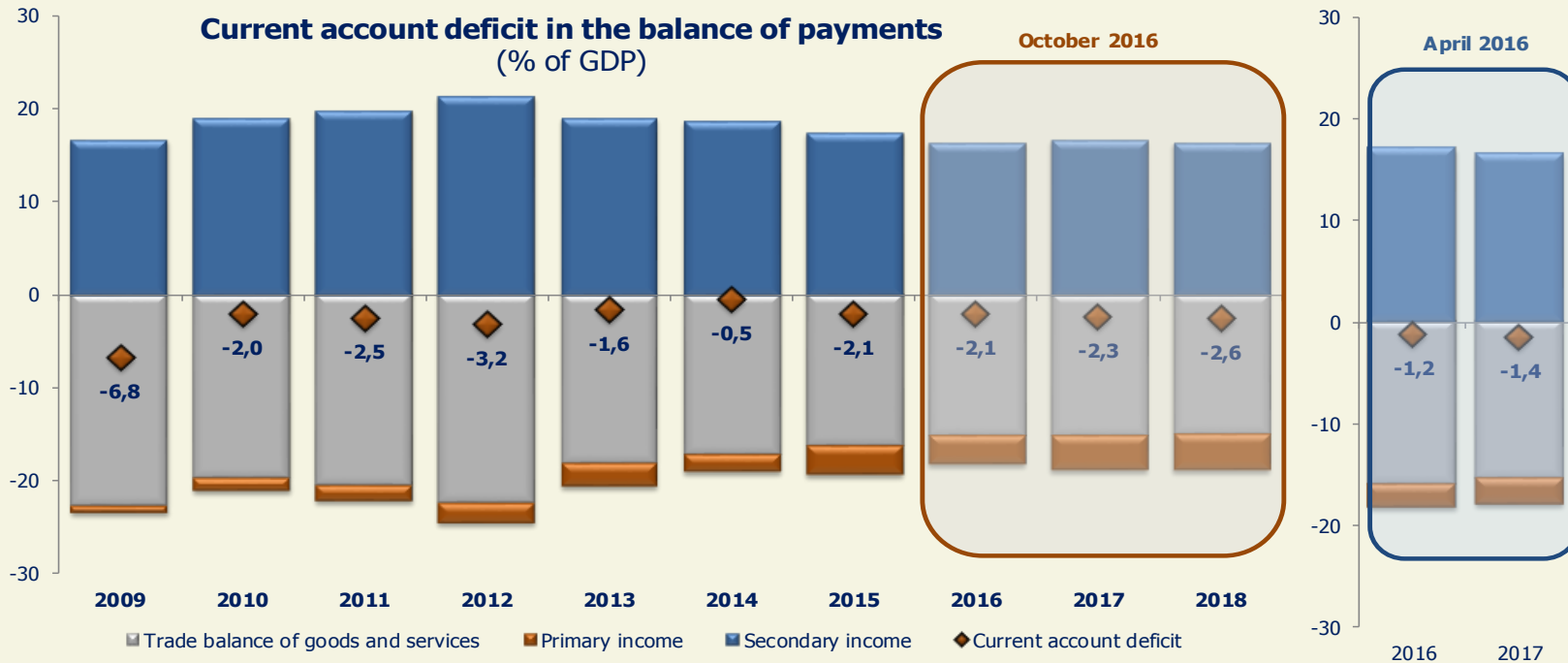
Inflation rate





Balance of Payment Forecast - current account -

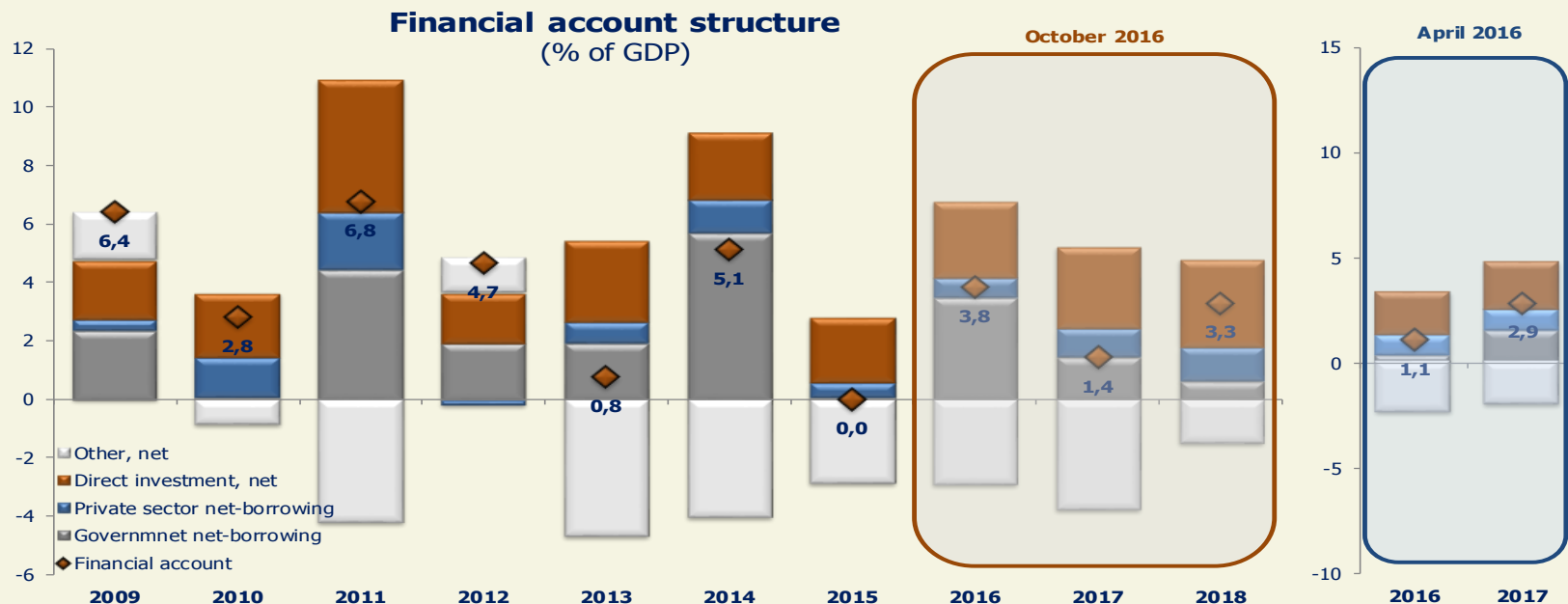
- The deficit on the current account in 2016 and in the two following years will remain near 2% of GDP
- Higher deficit on the current account for 2016 and 2017 compared to April forecast, mainly due to higher deficit in the primary income
- From the viewpoint of the annual dynamics:
 - in 2016, unchanged current account deficit on annual basis, given improved balance of goods and services and lower surplus in the secondary income (negative effect of the speculations in April)
 - minimal widening in 2017, driven by the increased deficit in the primary income





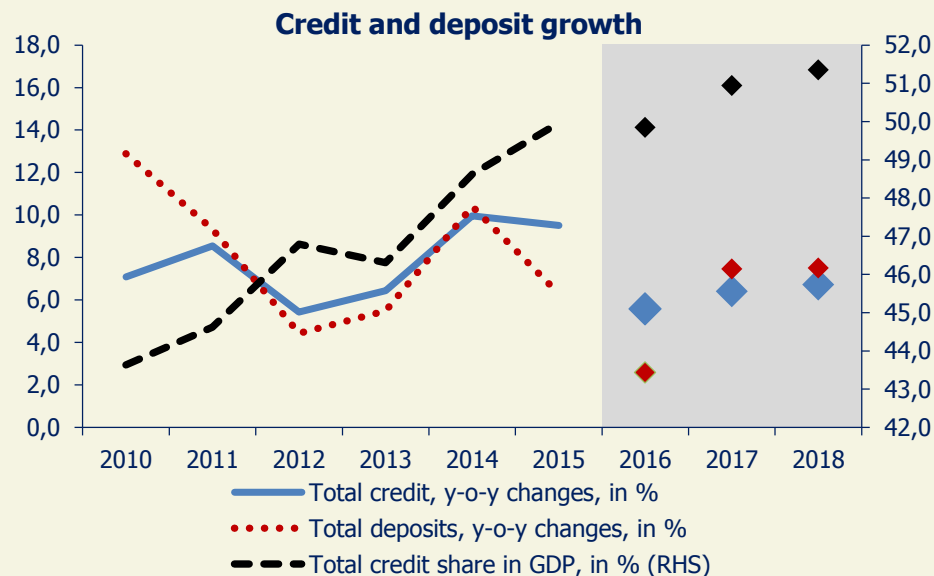
Balance of Payments Forecast - financial account-

- **Higher net financial inflows compared to April forecast**, as a result of:
 - larger net borrowing of the Government
 - higher foreign investments
- **Main flows on the financial account during the forecasting horizon:**
 - net inflows based on borrowing of the public and private sector
 - net inflows based on foreign direct investments
- **During the entire forecasting period, the foreign reserves adequacy indicators remain in the safe zone**



Deposit and Credit Growth Forecast

- It is estimated that in 2016 the **deposit growth** will decelerate to 2.6% due to the consequences of the speculative attack in April, while assessing that the expectations stabilization and the economic growth in 2017 and 2018 would contribute to its acceleration (about 7.5%, in each year, respectively).
- In 2016, **the credit growth** remained solid and it is projected at 5.6% at the end of the year (without the effect of bad loans write-off), while the further economic growth, the deposit growth and the stable risk perceptions of the banks, will contribute to growth acceleration to 6-7% in the following two years.
- **The banking system remains stable, liquid and highly capitalized, thus in 2016 once again verifying its ability to cope with shocks.**



Summary

- **The risks are still present – the external environment is vague and unfavorable, with the domestic environment amid political crisis remaining uncertain**
- **It is important to emphasize that the economic fundamentals are solid, also being supplemented with visible stabilization of expectations**
- **Amid stable trends during the third quarter, we maintained the monetary policy unchanged**
- **The NBRM will continue to closely monitor and if necessary, make appropriate changes in the monetary policy towards price and financial stability maintenance**



Annex: Comparison with the April Forecast (baseline and alternative scenario)

Forecast of selected macroeconomic variables

	2016 forecast			2017 forecast			2018 for.
	Oct.	Apr.	Apr. alt.	Oct.	Apr.	Apr. alt.	Oct.
GDP, %	2,3	3,5	1,6	3,5	4,0	3,9	3,7
Private consumption	2,0	2,7	-0,1	0,8	2,7	3,2	3,0
Gross capital formation	2,3	7,9	4,7	3,9	8,8	6,0	7,0
Public consumption	2,9	3,4	3,6	2,0	1,4	1,4	-0,2
Exports of goods and services	8,8	5,9	5,7	3,9	4,3	4,6	4,0
Imports of goods and services	6,7	6,2	4,5	2,5	4,1	3,9	3,4
Loans to private sector, % (without write-offs)	5,6	6,8	3,0	6,4	7,0	5,0	6,7
Deposits, %	2,6	6,0	2,3	7,5	7,2	4,0	7,5
Current account deficit, % of GDP	-2,1	-1,2	-2,0	-2,3	-1,4	-2,8	-2,6
Secondary income, private sector, net	15,6	16,4	16,1	15,9	15,9	16,3	15,7
FDI, net	2,6	2,1	1,6	2,8	2,3	1,8	3,0