



Macroeconomic projections for 2014-2015

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Macroeconomic projections for 2014 -2015

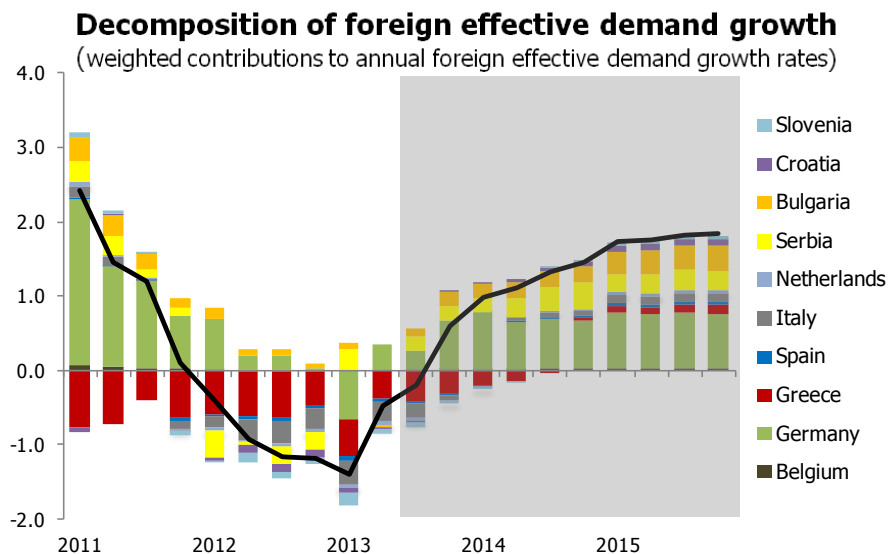
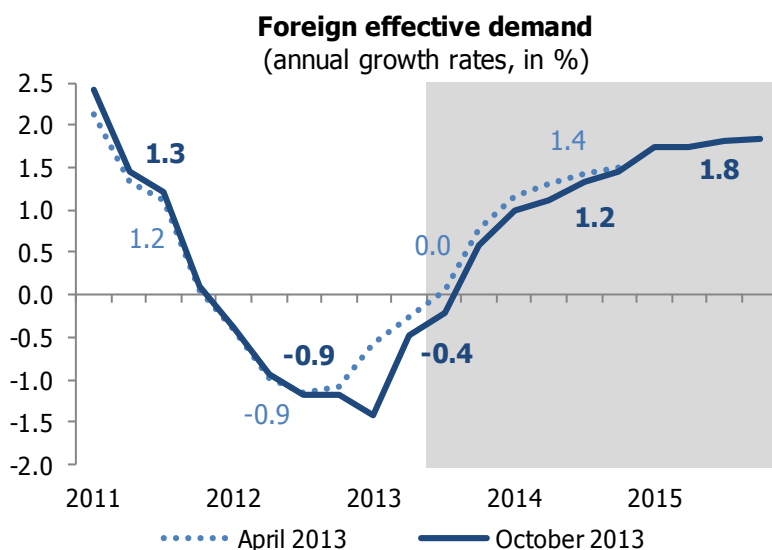
external environment

- The global economic environment didn't register any significant changes relative to April, amid slow recovery...**
- ...and maintenance of the adjustable monetary policy in the developed countries (forward guidance for the interest rates of ECB and postponing the introduction of the exit strategy of FED).**
- Expectations for reduction in the activities in the Euro area in 2013 and moderate recovery in 2014, given gradual return of optimism by the market participants.**



Foreign demand

Expectations for slight decrease in the foreign demand in 2013 relative to the preceding projection and its moderate recovery in the following two years, which corresponds to the April projection.

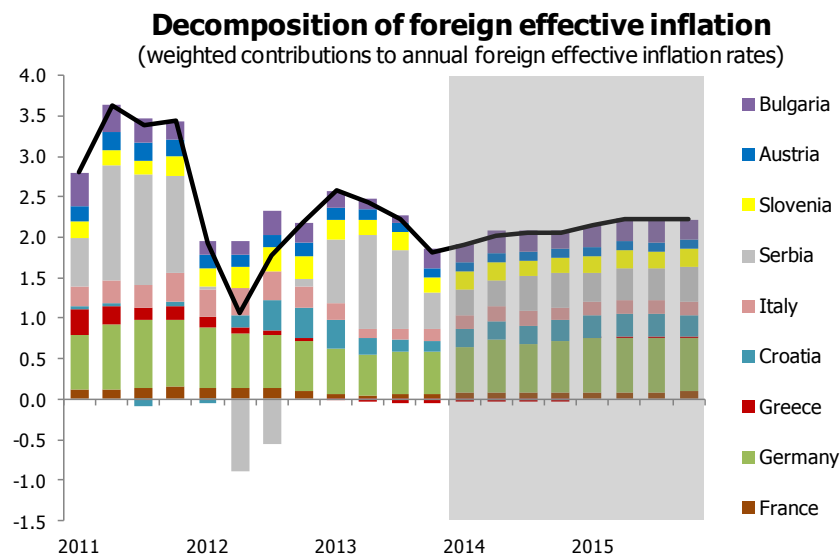
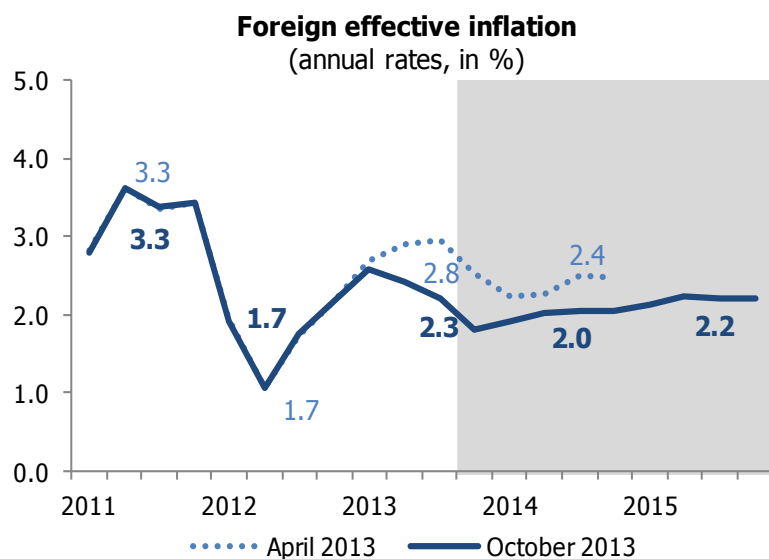


* In this projection cycle, changes in the weights of the countries used in the calculation of the foreign demand according to their share in the Macedonian export within 2010 - 2012 period have been made, with Slovenia being included additionally in the group of countries. In order to provide consistency, all comparisons with April projections are provided with changed weights and scope of countries.



Foreign effective demand

- Downward revision of the expectations for the foreign effective demand in 2013 and 2014;
- Expectations for annual acceleration of the foreign effective inflation in 2013, after which its moderate slowdown in 2014 and certain stabilization in 2015 is anticipated.





World prices of the basic products

- In comparison with the April projection, the world stock exchange prices are revised downwards for 2013, while upwards for 2014;
- Deeper decrease in the crude oil price in 2013 and slightly smaller decrease in 2014 in comparison with the April projection;
- More significant downward revision of the nickel and copper prices, given continuance of the decrease in the prices in 2014, as well;
- Minimal upward revision of food prices relative to the April projection.

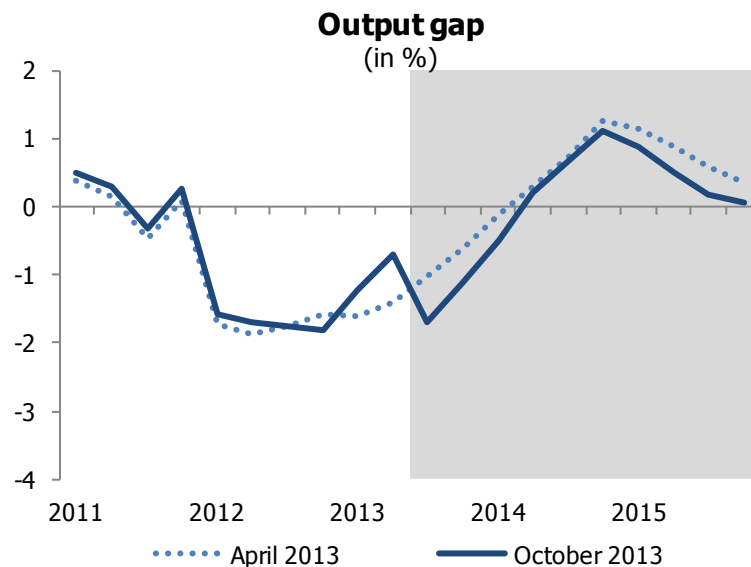
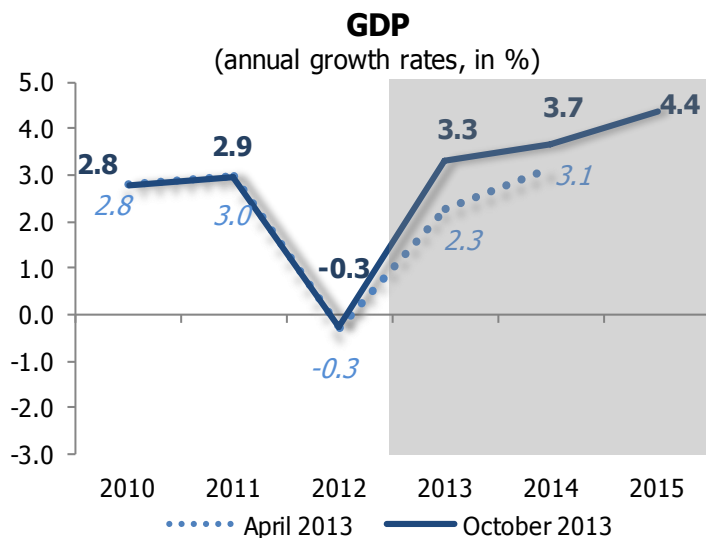
<i>annual changes, %</i>		Exchange rate USD/ EUR	Crude oil	Crude oil	Export metal price index	Nickel price	Copper price	Wheat price	Corn price
		(increase = appreciation of EUR)	(USD per barrel)	(EUR per barrel)	(EUR based, 2005=100)	(USD per metric tonne)	(USD per metric tonne)	(EUR per metric tonne)	(EUR per metric tonne)
Forecast October 2013	2012	-7.6	0.9	9.3	-10.1	-23.4	-9.8	7.5	11.0
	2013	2.2	-3.2	-5.3	-9.7	-14.3	-7.5	-1.6	-13.5
	2014	-3.2	-5.4	-2.4	4.9	-6.1	-0.4	5.8	-11.6
Forecast April 2013	2012	-7.6	0.9	9.3	-6.1	-23.4	-9.8	7.5	11.0
	2013	1.9	-2.4	-4.3	-3.0	-3.9	-3.9	-3.3	-12.0
	2014	-1.7	-5.6	-4.0	1.5	0.3	0.0	3.3	-14.5



Macroeconomic projections

GDP

- The estimations for the economic growth in 2013 and 2014 have been revised upwards relative to the previous projection;
- Moderate recovery of the economy in 2013 and gradual growth acceleration in 2014 and 2015;
- Gradual recovery of the foreign demand, expectations for stronger state investment stimulus, more evident effects of the current capacities of FDI on the export and more favorable perceptions for the labour market;
- Closure of the negative production gap in the first half of 2014.





Macroeconomic projections

GDP components

- Increase in the domestic demand in 2013, expecting its intensification in the following two years, caused mainly by the current and announced public investments and further inflow of FDI, as well as their positive transmission effects on the labour market and private consumption;
- Slight recovery of the export activity in 2013 and expectations for its further intensification in 2014 and 2015, amid simultaneous enhancement of the imports, will result in a moderate negative contribution of the net-export on GDP.

Annual growth rates (in %, seasonally adjusted data)

period	GDP	Household final consumption	General government final consumption	Gross capital formation	Export	Import	Domestic demand	Net Export
2009	-1.0	-4.6	0.6	0.4	-16.0	-14.1	-2.9	-10.8
2010	2.8	2.2	-2.0	-7.2	23.2	8.9	-0.4	-14.6
2011	2.9	2.9	0.6	11.2	11.2	11.0	4.1	10.7
2012	-0.3	-1.2	-2.2	15.7	0.0	4.2	2.1	14.1
2013	3.3	2.2	-1.2	6.6	3.0	2.1	2.8	0.4
2014	3.7	3.9	0.5	11.0	11.8	11.8	5.2	12.0
2015	4.4	3.9	1.0	9.9	11.7	10.5	5.1	7.9

Contributions to annual growth (in p.p.)

period	GDP	Household final consumption	General government final consumption	Gross capital formation	Export	Import	Domestic demand	Net Export
2009	-1.0	-3.8	0.1	0.1	-6.9	9.5	-3.6	2.6
2010	2.8	1.7	-0.4	-1.8	8.4	-5.2	-0.4	3.2
2011	2.9	2.3	0.1	2.5	4.9	-6.8	4.9	-2.0
2012	-0.3	-1.0	-0.4	3.8	0.0	-2.8	2.5	-2.8
2013	3.3	1.7	-0.2	1.9	1.4	-1.5	3.4	-0.1
2014	3.7	3.0	0.1	3.2	5.5	-8.1	6.3	-2.6
2015		3.0	0.2	3.1	5.9	-7.8	6.2	-1.9



Macroeconomic projections

balance of payments' current account

- Substantial narrowing of the trade balance in 2013, as a result of the reduced energy import pressures;
- Slight widening of the trade balance in 2014 and 2015, in conditions of more notable import pressures from the investment demand and demand for raw materials;
- Moderate decrease in the share of the private transfers in GDP until 2015;
- Assessments for unchanged current account deficit in 2013 and gradual worsening in 2014 and 2015.

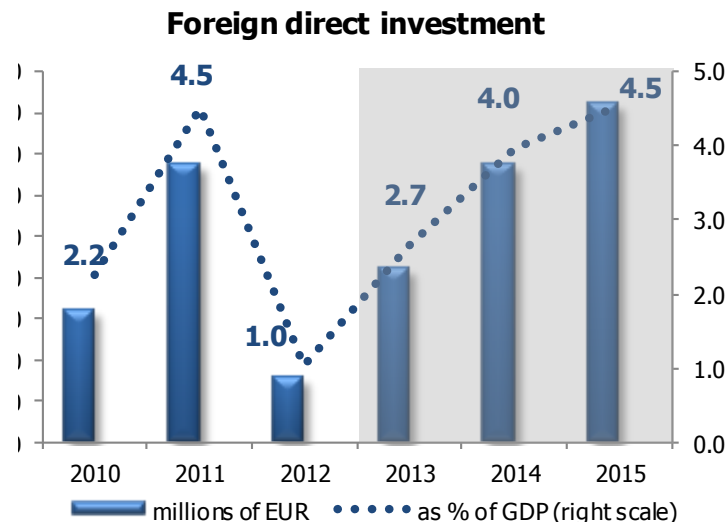
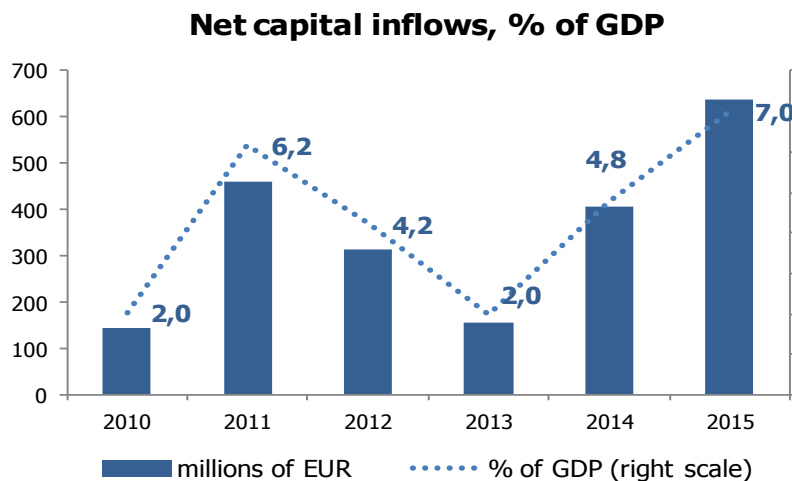
<i>% of GDP</i>	2009	2010	2011	2012	2013	2014	2015
Current account balance	-6.8	-2.0	-2.5	-3.0	-3.0	-4.6	-5.7
of which:							
Trade balance	-23.3	-20.5	-22.1	-23.5	-20.8	-21.5	-21.6
Current transfers, net	16.9	19.4	20.0	21.8	19.5	19.1	18.0



Macroeconomic projections

capital inflows

- Increase in the capital inflows in 2014 and 2015, which arises from the foreign direct investments and external borrowings of the Government for infrastructure projects;
- Having in mind the developments so far, minor decrease in the foreign reserves in 2013 and their rise in 2014 and 2015 is expected, with the foreign reserves being maintained around the adequate level.

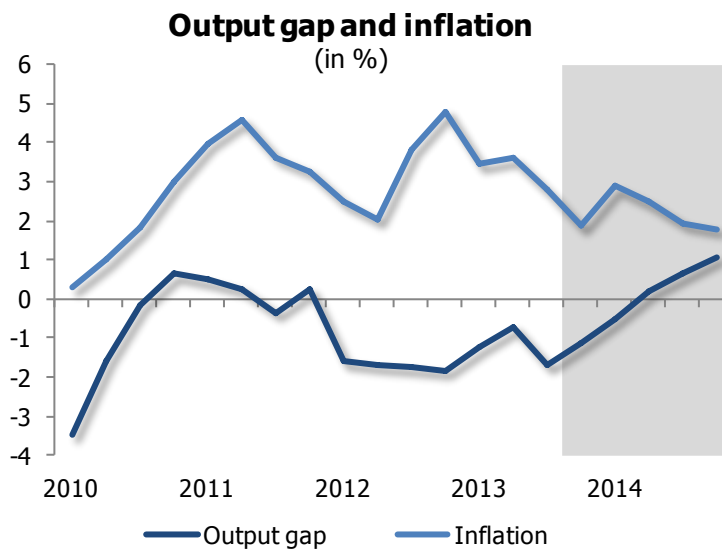




Macroeconomic projections

inflation

- maintenance of the inflation projection in 2013 around 2.8%, and in 2014 (2.3%) and expectations for stabilization of the inflation at about 2% in 2015;
- Downward pressures of oil prices in the following two years;
- The world food prices trend is downwards in 2013, while for 2014, different movement track are expected;
- Gradual intensification of the demand pressures, which corresponds to the projected movement of the production gap.

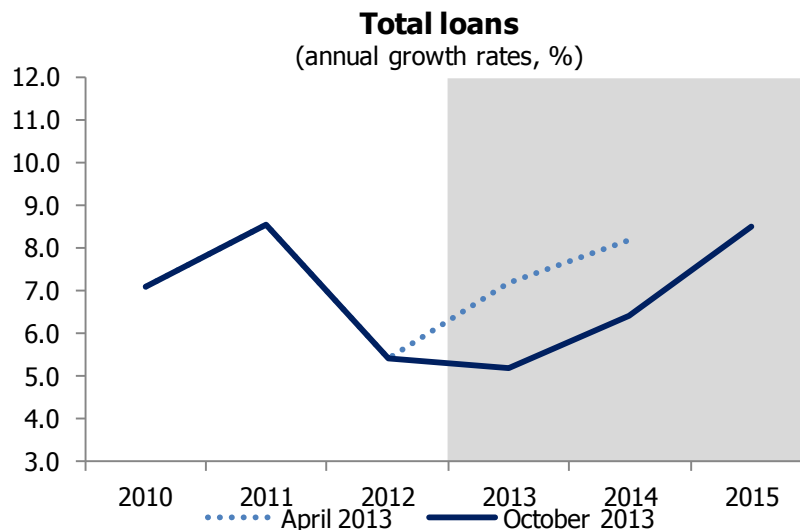




Macroeconomic projections

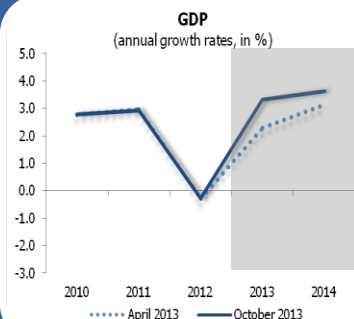
credit growth

- Downward revision of the credit growth to 5.2% for 2013 and expectations for moderate growth acceleration in the following two years of 6.4% and 8.5% respectively, given future deposit growth and available foreign sources of funding;
- The uncertain global environment, the banks risk perceptions and the business strategies of the European banking groups also present on the domestic market, reflected on the credit policy of the domestic banking sector by being more prudent;
- The banking system continues registering high capital adequacy ratio (17.3% at the end of June), high liquidity and moderate deceleration of the share of the nonperforming loans of the nonfinancial entities (from 12.3% in June to 11.9% in August 2013).



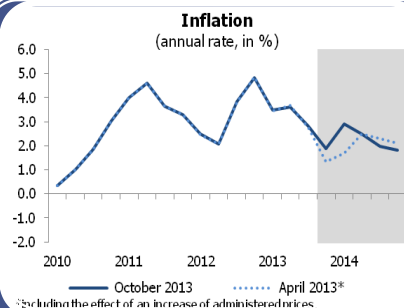


Comparison with the previous projection



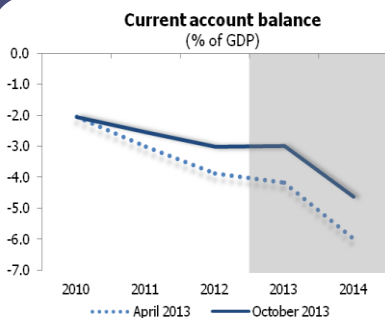
Estimations for the economic growth have been revised upwards relative to the previous projection – GDP growth of 3.3% for 2013 and 3.7% for 2014

- higher initial base;
- intensified public investments, more evident effects of the new facilities, improved expectations with the labour market, almost unchanged perceptions for the foreign demand, given slightly weaker expectations with the foreign investments and credit support;
- the export, the investment activity and the household consumption remain to be the main factors for the economic growth.



Upholding of the projected inflation of 2.8% for 2013 and 2.3% for 2014

- the realization is within the expectations;
- downward revision of the foreign effective inflation;
- slightly higher inflationary pressures from the food prices for 2014;
- slightly intensified pressures from the domestic demand, given more rapid closure of the negative production gap.



External position

- lower current account deficit in 2013 (given lower deficit with the energy balance and adequate correction with the total trade deficit and lower current transfers) and downward revision with the capital flows;
- smaller current account deficit for 2014 and lower capital inflows (more moderate external borrowing of the Government and lower inflows based on FDI);
- decrease in the foreign reserves in 2013, instead of the anticipated increase and smaller rise in the foreign reserves in 2014.



Summary

- **Stronger recovery of the Macedonian economy relative to the previous estimations;**
- **Gradual growth acceleration in the following two years as a result of export and domestic demand;**
- **Unchanged inflation projections, estimating its slowdown in 2014 and stabilization in 2015;**
- **Unchanged current account deficit relative to the previous year, given estimations for moderate widening of the deficit in the following two years;**
- **The anticipated capital inflows in the following two years are sufficient for covering the current account deficit and for ensuring additional foreign reserves growth;**
- **Sensitivity of the scenario to possible changes in the global economic environment, imposing a need of further regular monitoring of the global developments and flexibility of the monetary policy.**