



# **Latest Macroeconomic Projections**

Vice Governor  
Anita Angelovska-Bezhoska

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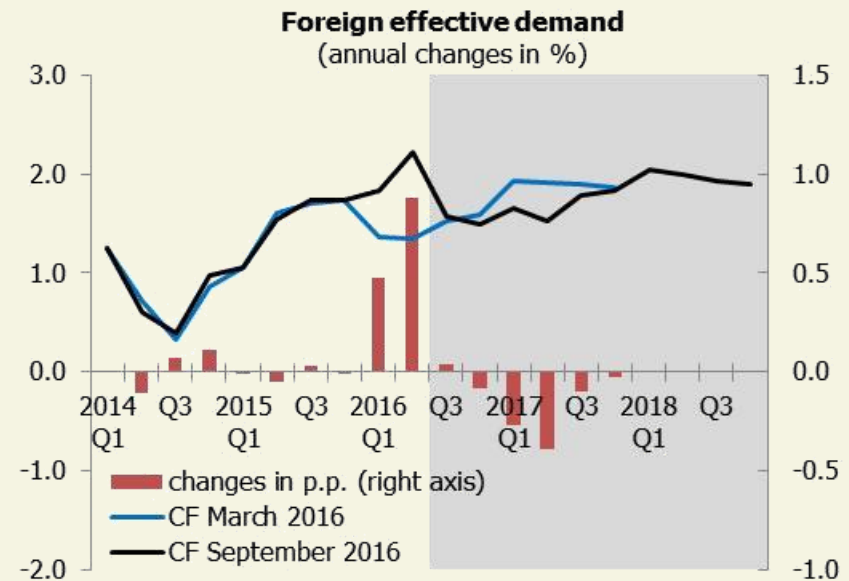
# Risks between the two projections

- **April projections finalized in the context of highly uncertain environment and initial spillover effects from the escalation of domestic political crisis.** High uncertainty in assessing the impact on the economy resulted in producing two macroeconomic scenarios: baseline and alternative
- **Main risks that were emphasized:**
  - domestic non-economic risks
  - external environment - slower global recovery, especially of the European economy due to Brexit, as well as geopolitical risks
- **What happened?**
  - **domestic environment:** materialization of the domestic risk related to the political crisis, but with relatively contained effects (outcome was between basic and alternative scenario)
  - **external environment:** generally in line with expectation, minor downward revision of global growth

# External environment assumptions

## - foreign demand -

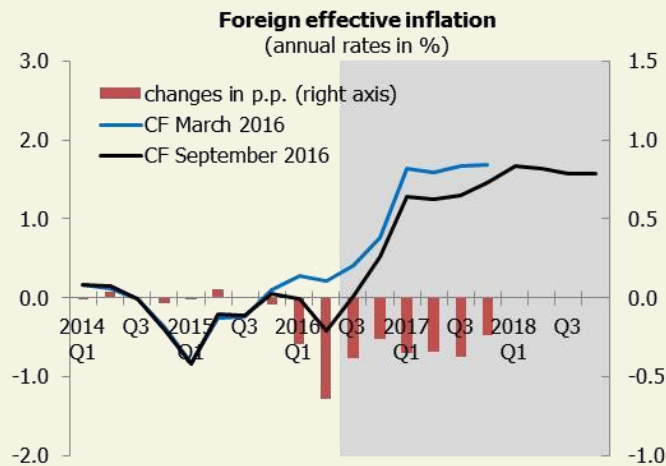
- No significant changes compared to April - slight upward revision for 2016, and slight downward revision in 2017
- Gradual recovery of foreign demand expected to continue
- Projected growth of 1.8%, 1.7% and 2% in 2016, 2017 and 2018.



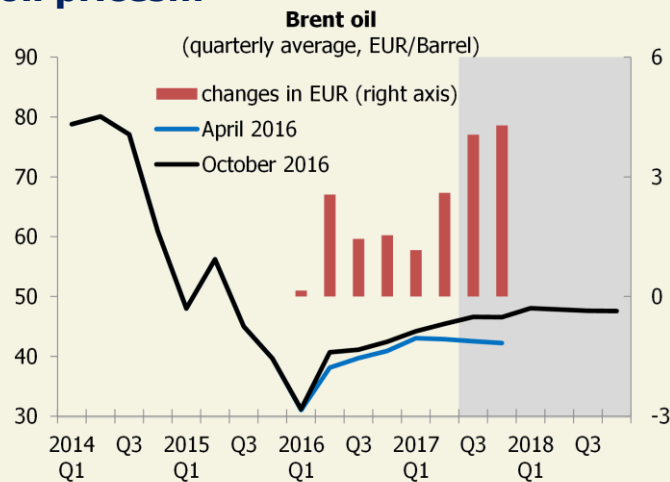
# External environment assumptions

- after a couple of years decline, prices of primary commodities projected to raise

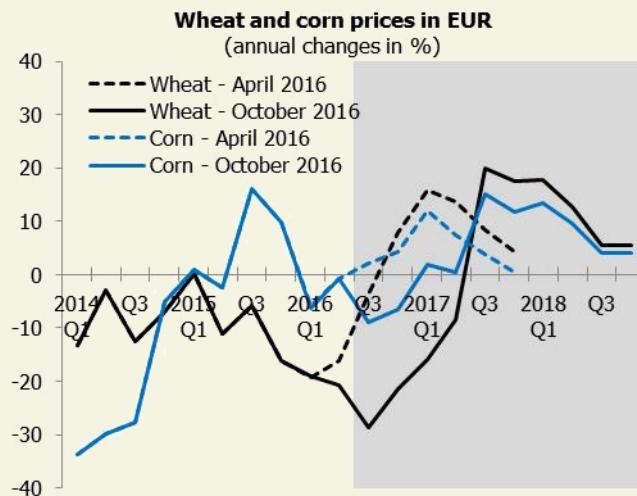
## Downward revision of foreign effective inflation...



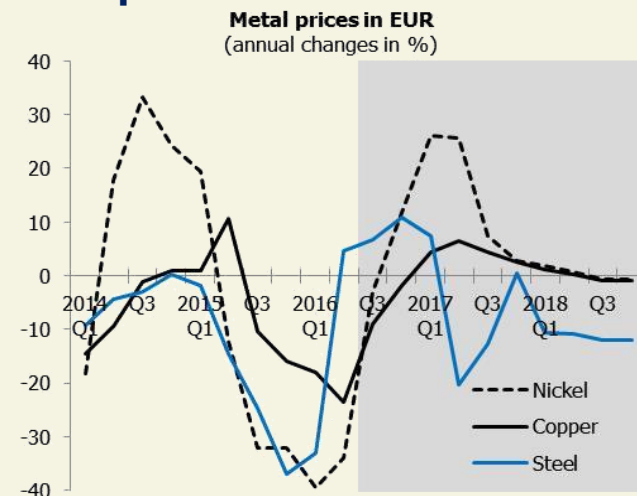
## ... but minimal upward revisions of oil prices...



## ... downward revisions of food prices...



## ... and slight upward changes in metal prices.





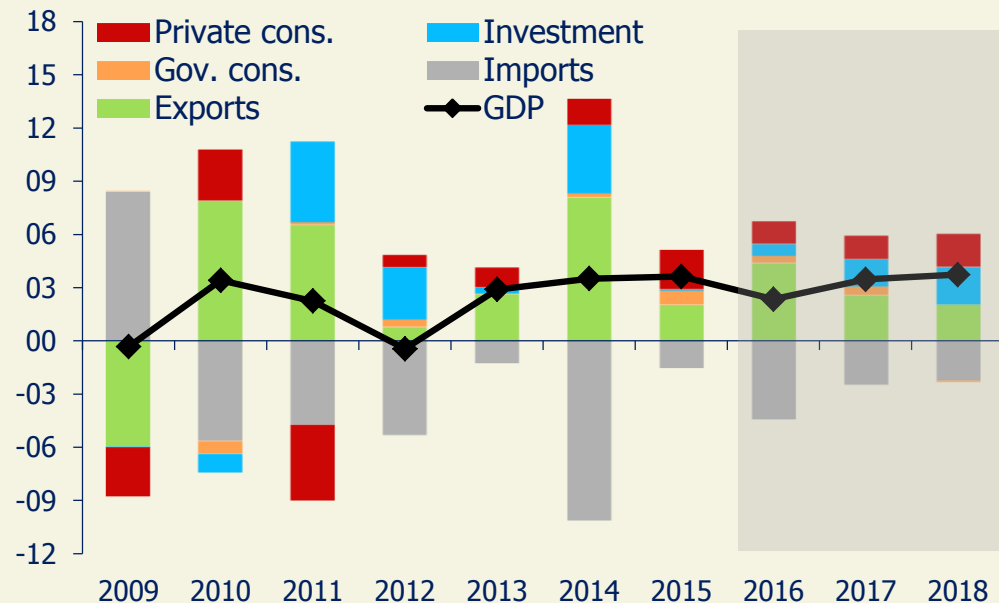


# **Macroeconomic scenario 2016-2018**

# GDP projection

- GDP is expected to grow at a solid pace – growth of 2,3% in 2016, accelerating to 3,5% in 2017 and 3,7% in 2018
- Still, it means downward revision compared to April (reflecting political uncertainty and related shocks), although the structure of the growth remains similar

	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
	%	%	p.p.	%	p.p.	%	p.p.	%	p.p.	%	p.p.	contrib. in p.p.	
2016	<b>2.3</b>	2.0	1.3	2.3	0.7	8.8	4.4	6.7	-4.4	2.9	0.4	2.3	0.0
2017	<b>3.5</b>	0.8	1.3	3.9	1.5	3.9	2.6	2.5	-2.4	2.0	0.5	3.3	0.1
2018	<b>3.7</b>	3.0	1.9	7.0	2.1	4.0	2.1	3.4	-2.2	-0.2	-0.1	3.9	-0.1
<b>2016-2018</b>	<b>3.2</b>	<b>1.9</b>	<b>1.5</b>	<b>4.4</b>	<b>1.4</b>	<b>5.6</b>	<b>3.0</b>	<b>4.2</b>	<b>-3.0</b>	<b>1.6</b>	<b>0.3</b>	<b>3.2</b>	<b>0.0</b>



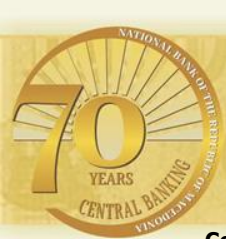


# GDP projection

**Fundamental growth factors remain the same - investment and exports led growth, with additional impetus from private consumption**

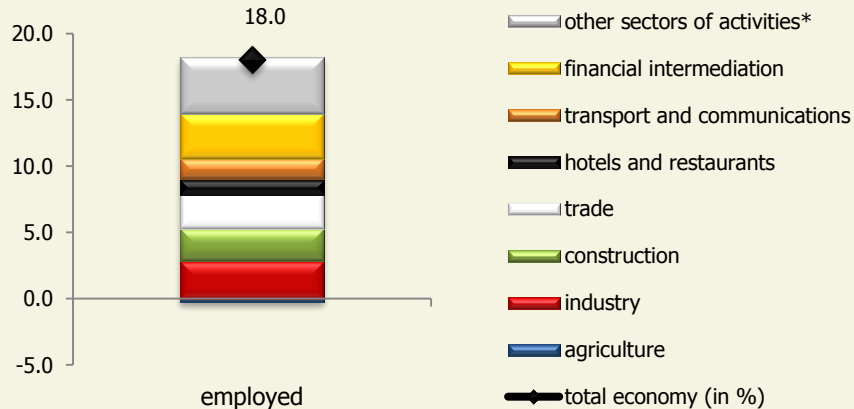
- Effects of the political crisis expected to fade away, and the refrainment from investment as well;
- Public investment in infrastructure to proceed;
- Investment in new facilities by foreign investors and higher FDI;
- Positive impact from existing export facilities (albeit with expectation for gradual stabilization of their production capacity);
- Recovery of part of the traditional sectors;
- Solid credit support to the private sector from domestic banks; and
- Favorable labor market conditions.





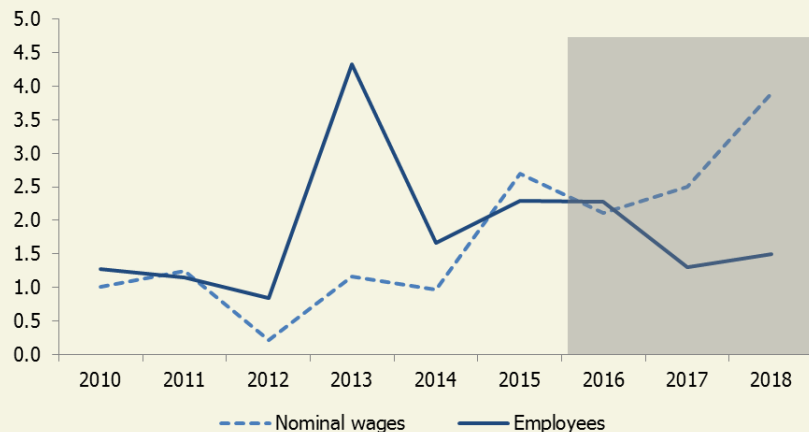
# Labour market

**Contributions of individual sectors of activities to the total number of employees change in the period 2016 H1 / 2008 (in p.p)**

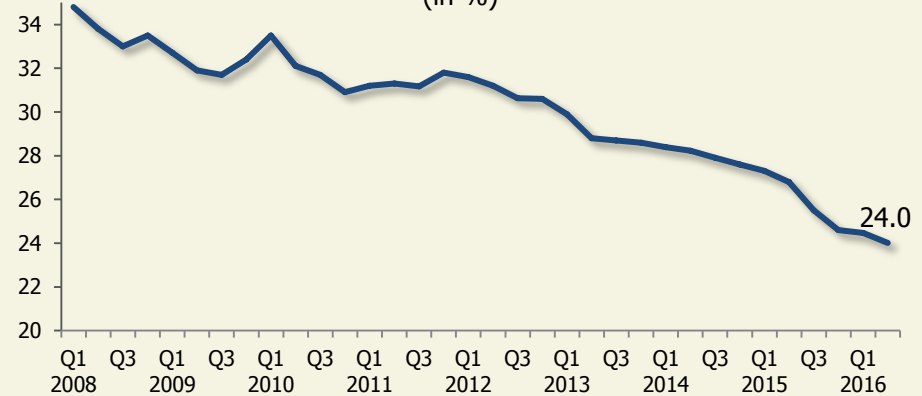


\*Other sectors of activities include: public administration and defense, compulsory social security, education, health and social work activities, activities of households as employers, as well as activities of extraterritorial organizations and bodies.

**Gross-wages and number of employees**  
(annual growth rates, in %)

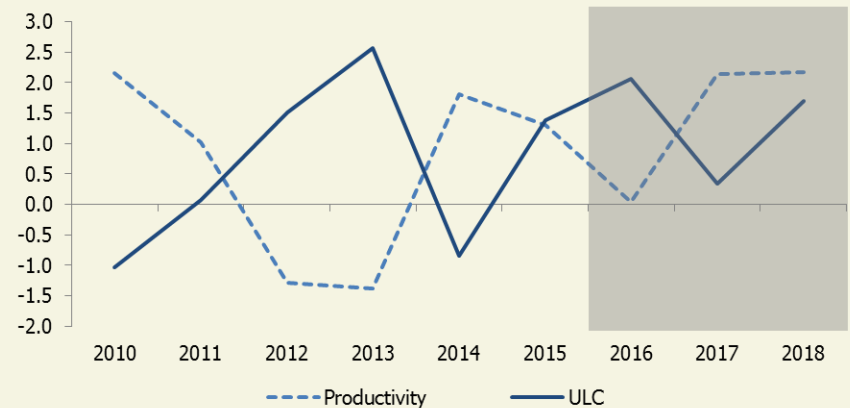


**Unemployment rate**  
(in %)

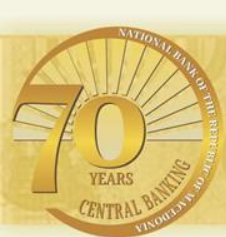


Source: State Statistical Office, Labor Force Survey

**Productivity and ULC**  
(annual growth rates, in %)

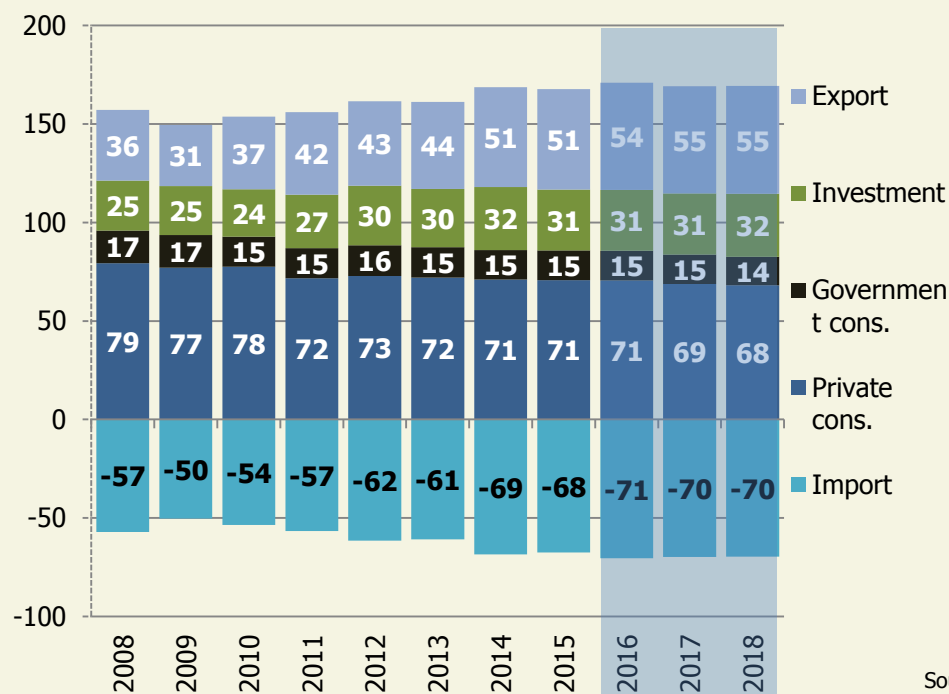


Source: State Statistical Office and NBRM calculations

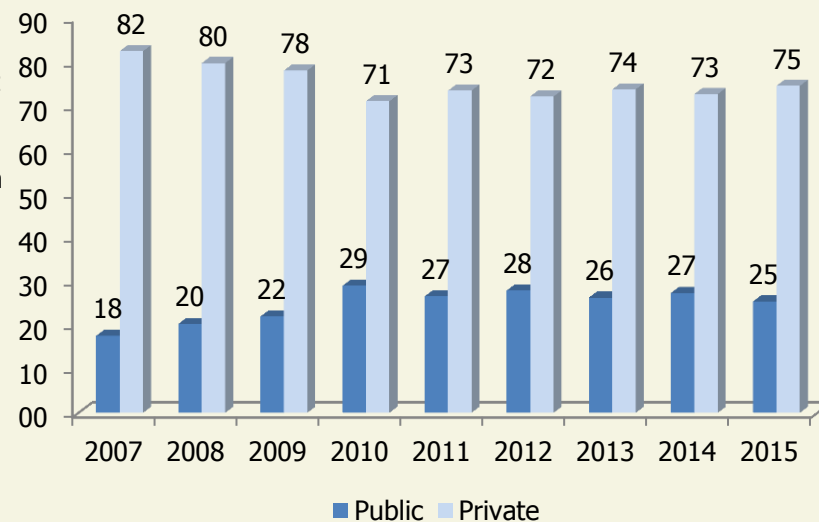


# Macroeconomic projections structural changes

**Shares of real GDP components (in %)**



**Gross fixed capital formation structure by type of ownership**  
(in current prices, in %)

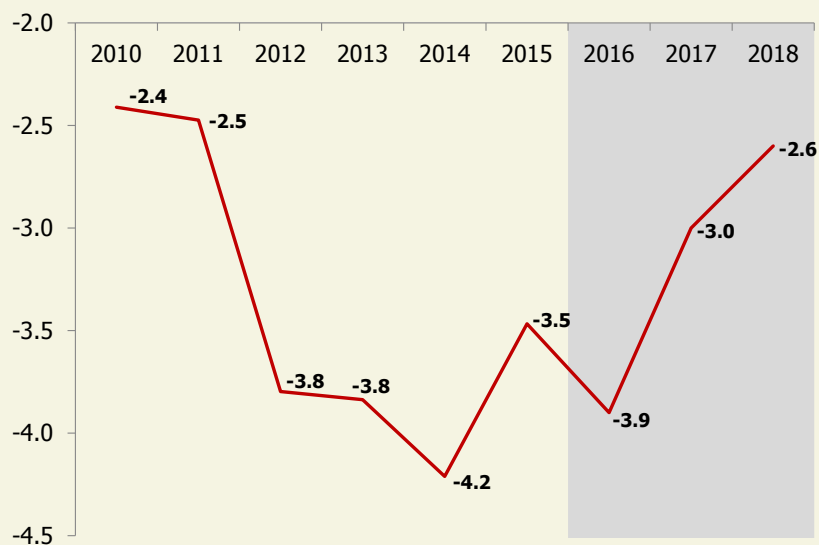


Source: SSO

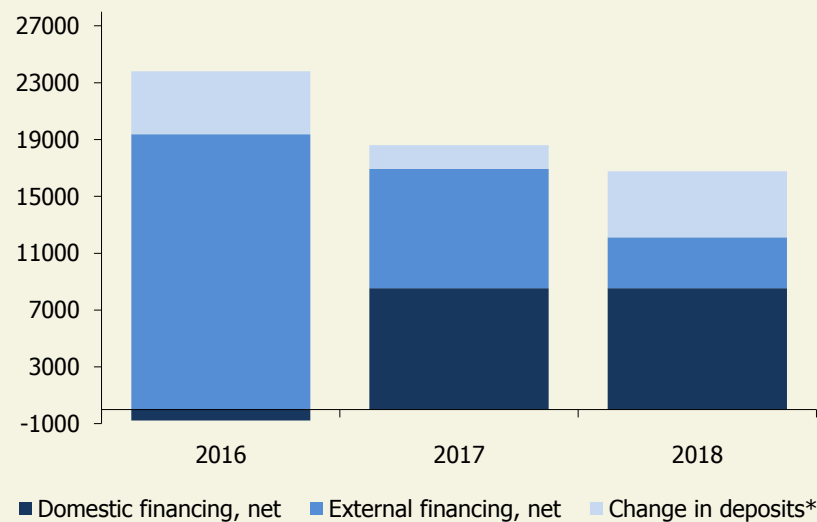
# Fiscal policy

## Assumption for gradual fiscal consolidation in line with the Fiscal Strategy 2017-2019

**Budget balance**  
(% of GDP)



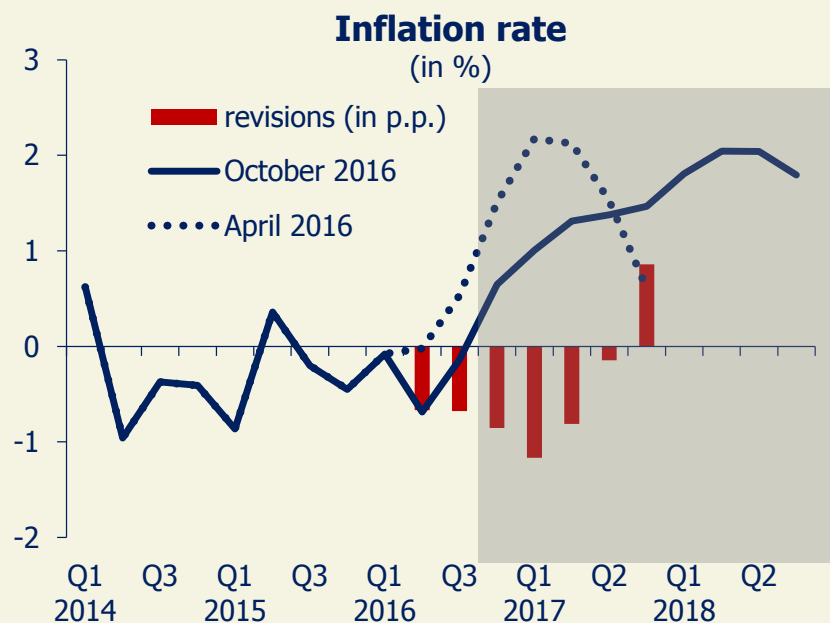
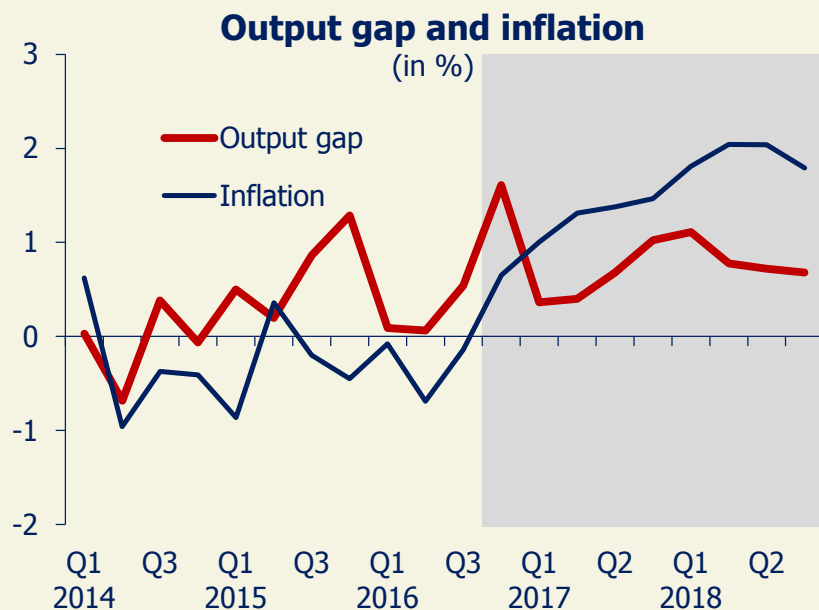
**Budget balance financing**  
(in Denar million)



\* Positive change- deposits withdrawal; negative change-deposits accumulation.  
Source: MoF.

# Inflation projection

- Inflation will gradually enter positive territory
- **Expected inflation rate of 0% in 2016**, compared to 0,5% projected inflation in April
- **For 2017 and 2018 the price growth is expected to accelerate from 1,3% in 2017 to an inflation rate of around 2% in 2018**, amid positive output gap, growth of food and energy prices, as well as foreign inflation growth
- Slight deviation of the inflation rate from the projected rate in April
- **Risks** to the projected inflation path are mainly related to uncertainties concerning import prices



# Forecast of other institutions

**Comparison of GDP and inflation forecasts for Macedonia from various organisations**

Organisation	Month of publication	Real GDP growth, %			Inflation (average rate, %)		
		2016	2017	2018	2016	2017	2018
IMF	October 2016	2.2	3.5	3.5	0.1	0.8	1.5
World Bank	September 2016	2.0	3.3	3.7	-0.1	0.6	1.4
European Commission	May 2016	3.5	3.5	-	1.1	1.4	-
EBRD	May 2016	3.2	3.5	-	-	-	-
Consensus Forecast	October 2016	2.6	3.4	-	0.1	1.5	-
National Bank of Greece	October 2016	2.4	3.6	-	-	-	-
Ministry of Finance of the Rep. of Macedonia	July/October 2016	2.3	3.0	3.5	0.6	1.0	1.5
National Bank of the Republic of Macedonia	October 2016	2.3	3.5	3.7	0.0	1.3	2.0

Source: IMF World Economic Outlook, October 2016; World Bank SEE Regular Economic Report No. 10, October 2016; European Commission European Economic Forecast, May 2016; EBRD Regional Economic Prospects, May 2016; Consensus Forecast, October 2016; NBG Southeastern Europe and Mediterranean Emerging Market Economies, October 2016; Ministry of Finance of the Republic of Macedonia, 2016 Budget revision, 2017 Budget and Fiscal strategy 2017-2019, July/October, 2016; and the National Bank of the Republic of Macedonia.

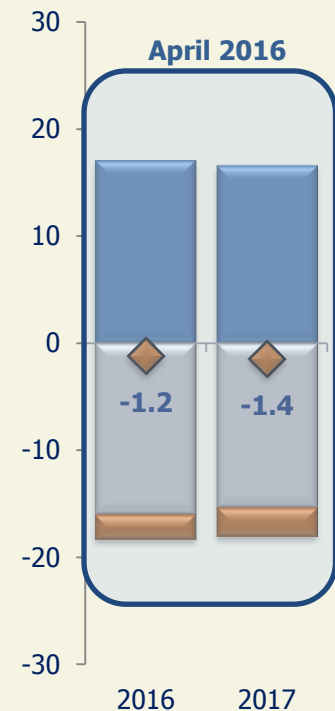
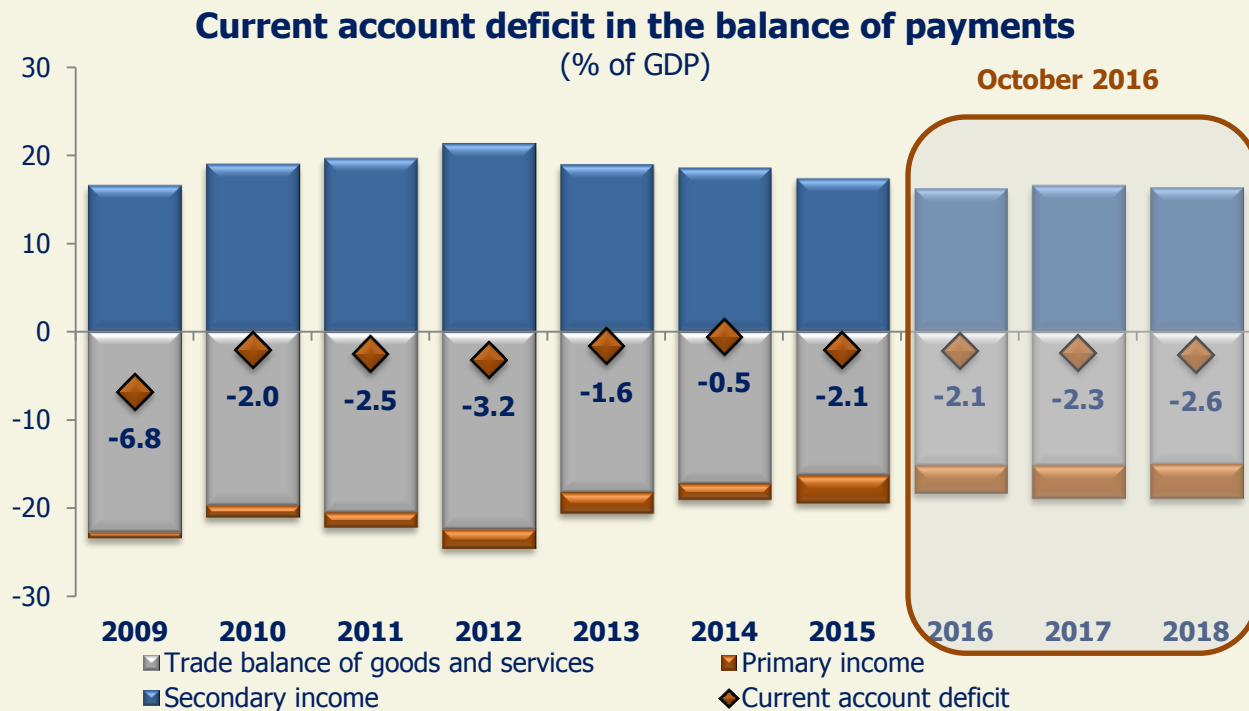


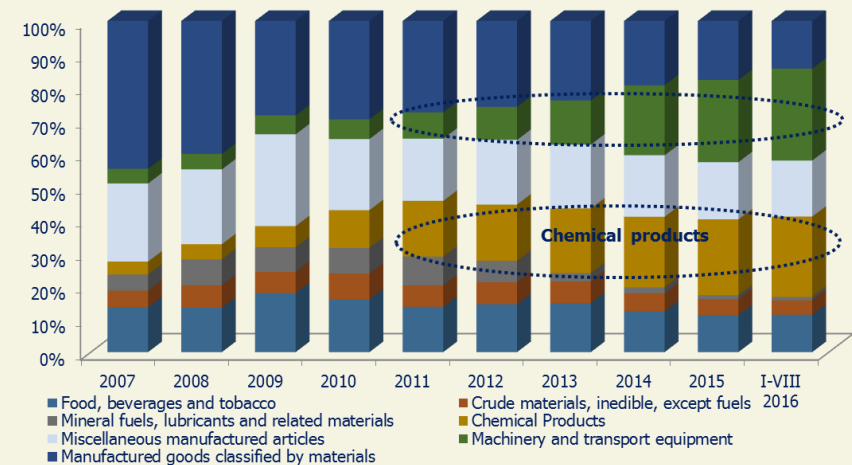


# Balance of payments

## - current account -

- **CAD to remain at moderate level in the medium term reflecting:**
  - Improvement in the balance of goods and services
  - Stable inflows of private transfers
  - Rising deficit in primary income
- **Still, higher compared to the previous forecast** (primary income deficit)



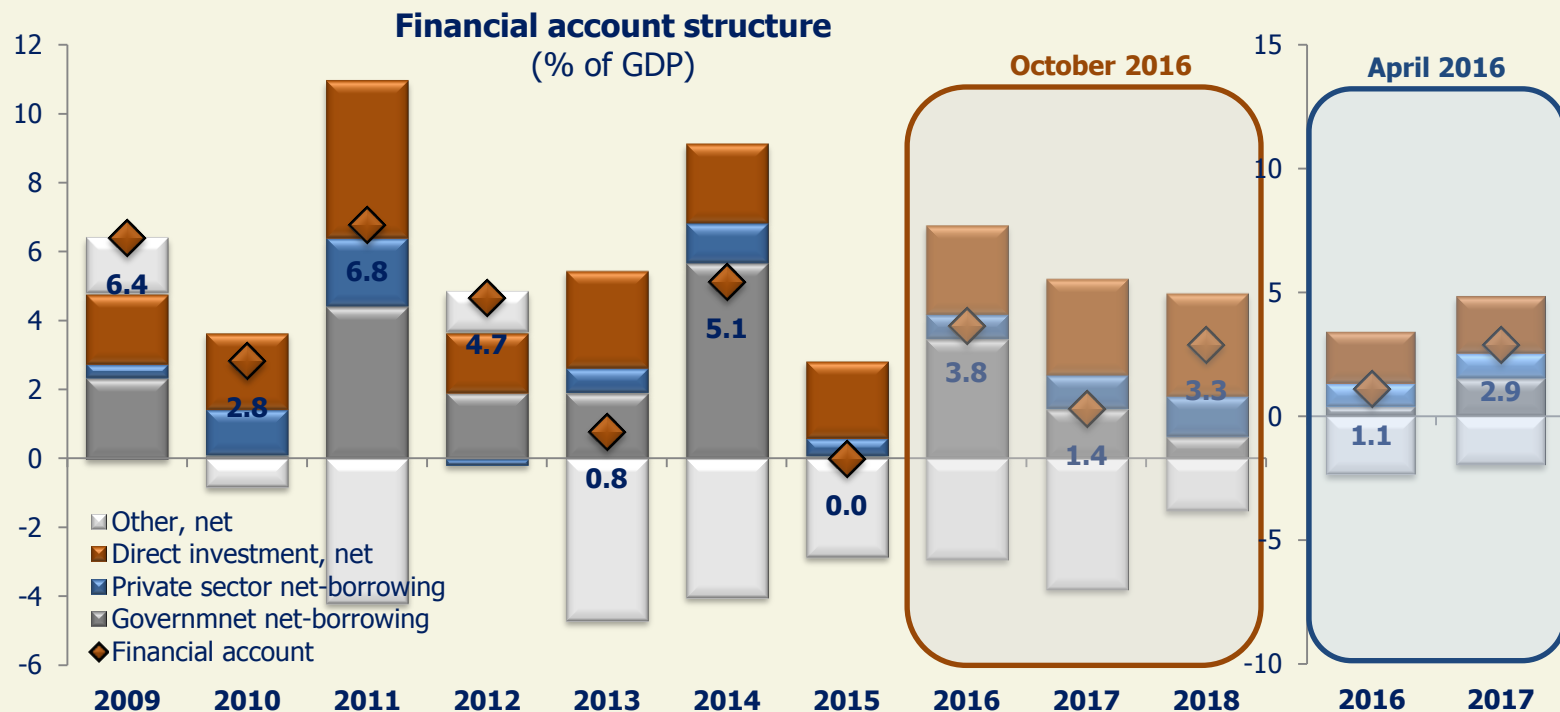


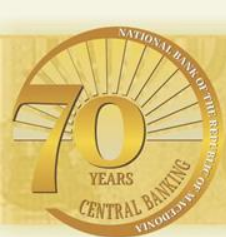


# Balance of payments

## - financial account -

- **Higher net financial inflows compared with the April projection** - mainly due to higher government net borrowing and higher foreign investment.

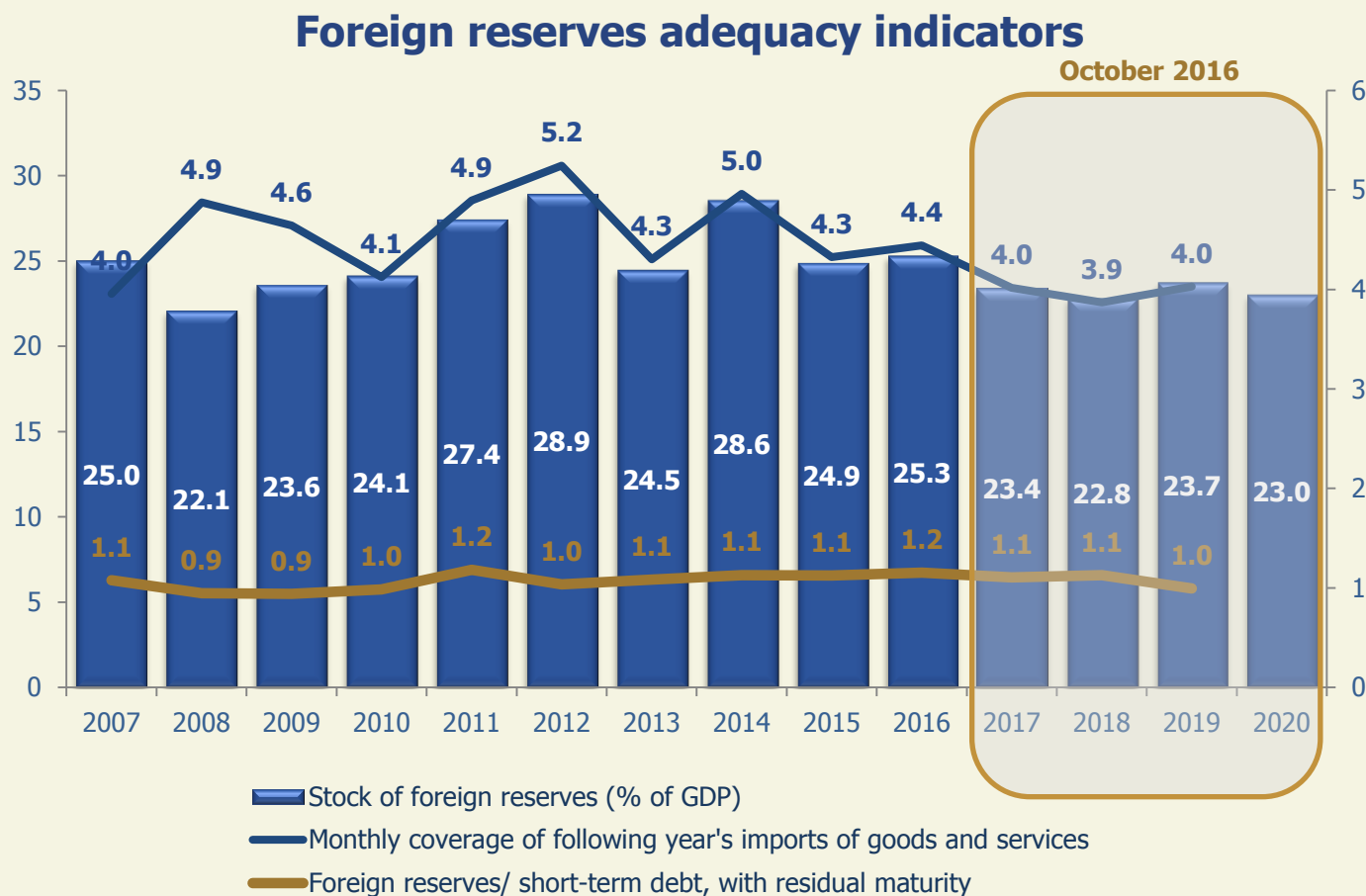


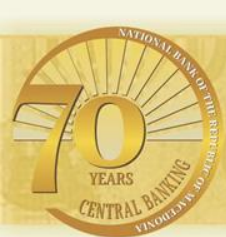


# Balance of payments

## Foreign reserves adequacy ratios

- During the entire projection period, the foreign reserves adequacy indicators range within the safe zone.

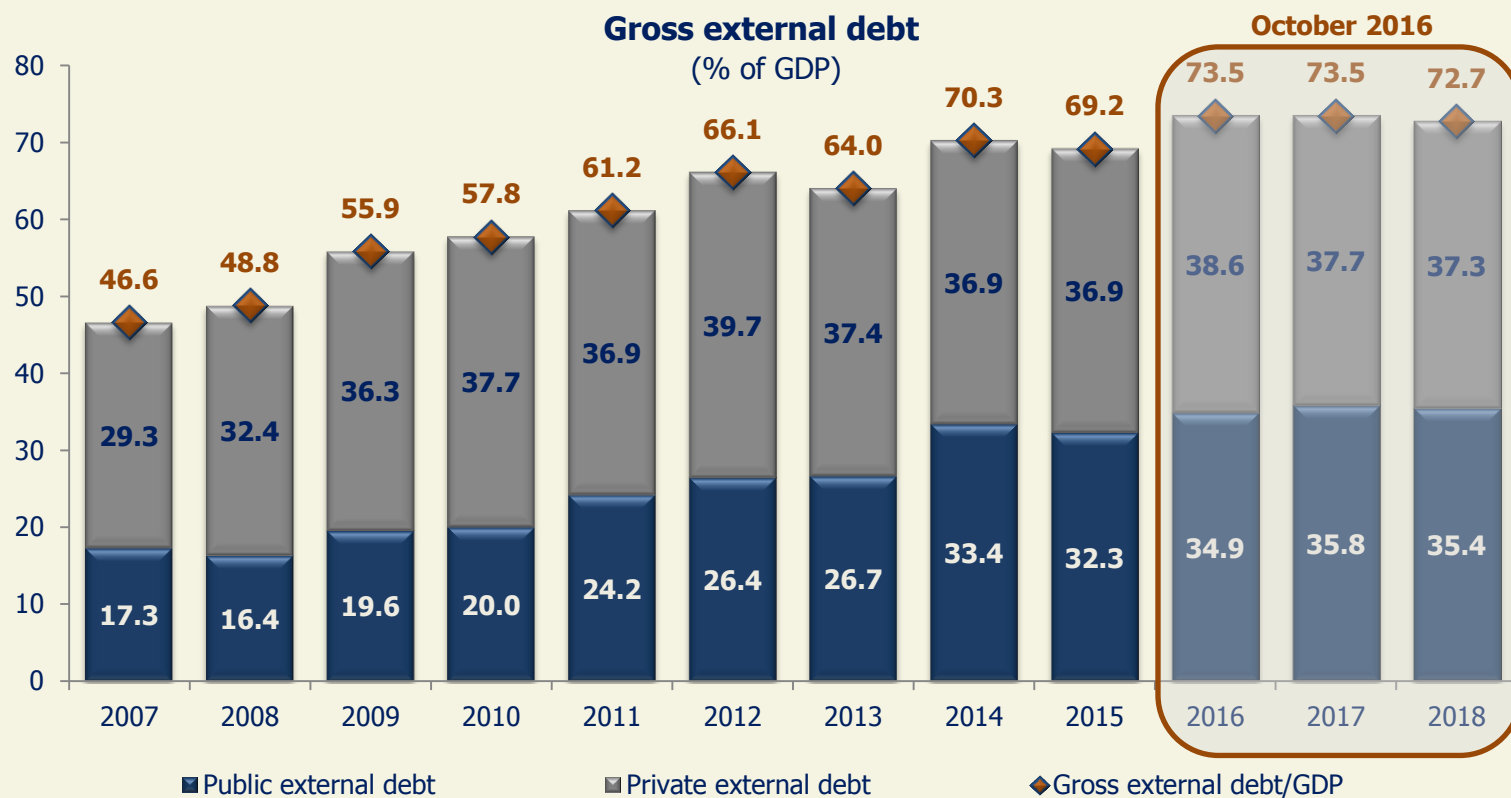




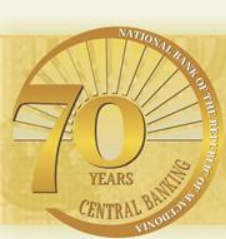
# Balance of payments

## Gross external debt indicators

- Relatively stable external debt to GDP ratio within the projection horizon

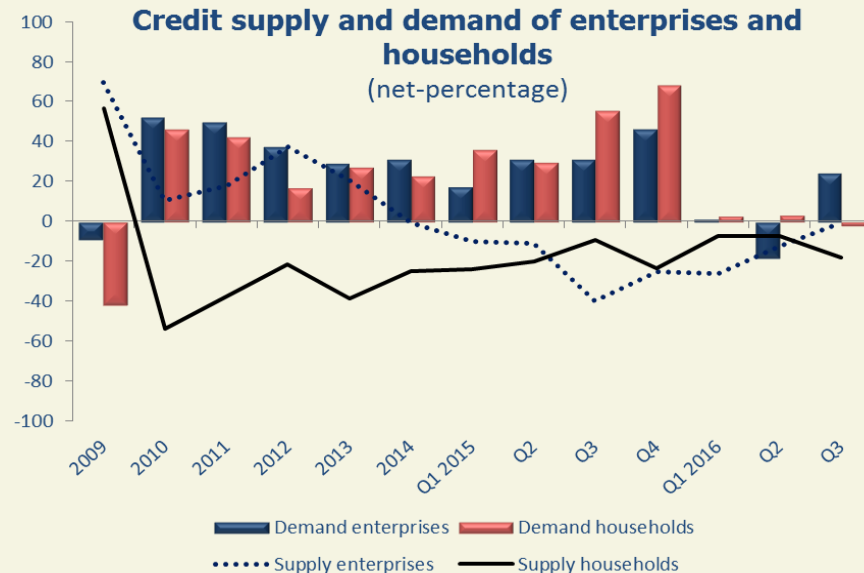
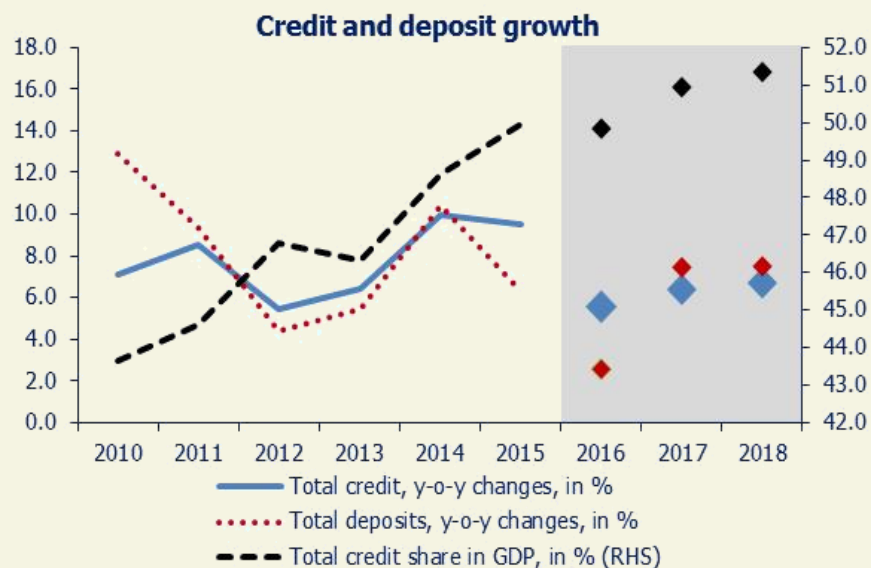






# After the slowdown of credit and deposit growth in 2016, acceleration is expected

- **Low deposit growth** in 2016 (estimated at 2,6%), projected to reach 7.5% in 2017 and 2018, in line with the stabilization of the expectations and the gradual increase of the propensity to save.
- **Credit growth** (w/o write-offs) expected to gradually expand (5,6% in 2016, 6,4% in 2017 and 6,7% in 2018), on the backdrop of acceleration of economic growth, greater need and willingness for borrowing, higher bank competition and rising deposit base.
- **The banking system remains stable, liquid and highly capitalized.**





# Comparison with April projections (baseline and alternative scenario)

## Forecast of selected macroeconomic variables

	2016 forecast			2017 forecast			2018 for.
	Oct.	Apr.	Apr. alt.	Oct.	Apr.	Apr. alt.	Oct.
<b>GDP, %</b>	<b>2.3</b>	<b>3.5</b>	<b>1.6</b>	<b>3.5</b>	<b>4.0</b>	<b>3.9</b>	<b>3.7</b>
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
<b>Loans to private sector, % (w/o write-offs)</b>	<b>5.6</b>	<b>6.8</b>	<b>3.0</b>	<b>6.4</b>	<b>7.0</b>	<b>5.0</b>	<b>6.7</b>
<b>Deposits, %</b>	<b>2.6</b>	<b>6.0</b>	<b>2.3</b>	<b>7.5</b>	<b>7.2</b>	<b>4.0</b>	<b>7.5</b>
<b>Current account deficit, % of GDP</b>	<b>-2.1</b>	<b>-1.2</b>	<b>-2.0</b>	<b>-2.3</b>	<b>-1.4</b>	<b>-2.8</b>	<b>-2.6</b>
Secondary income, private sector, net	<b>15.6</b>	<b>16.4</b>	<b>16.1</b>	<b>15.9</b>	<b>15.9</b>	<b>16.3</b>	<b>15.7</b>
FDI, net	<b>2.6</b>	<b>2.1</b>	<b>1.6</b>	<b>2.8</b>	<b>2.3</b>	<b>1.8</b>	<b>3.0</b>



# Risks around the forecast and policy measures

- Risks remain...
  - External environment is uncertain and unfavorable;
  - Uncertain domestic environment amidst enduring political crisis.
- Economic fundamentals remain sound, complemented with visible stabilization of expectations
- Given the stable macroeconomic developments, but lingering risks, NBRM did not change the monetary policy stance within the third quarter
- NBRM shall monitor the economy closely, and shall take additional measures, if necessary.



Thank you!