



Revisions of macroeconomic forecasts – April 2016 –

Governor
Dimitar Bogov

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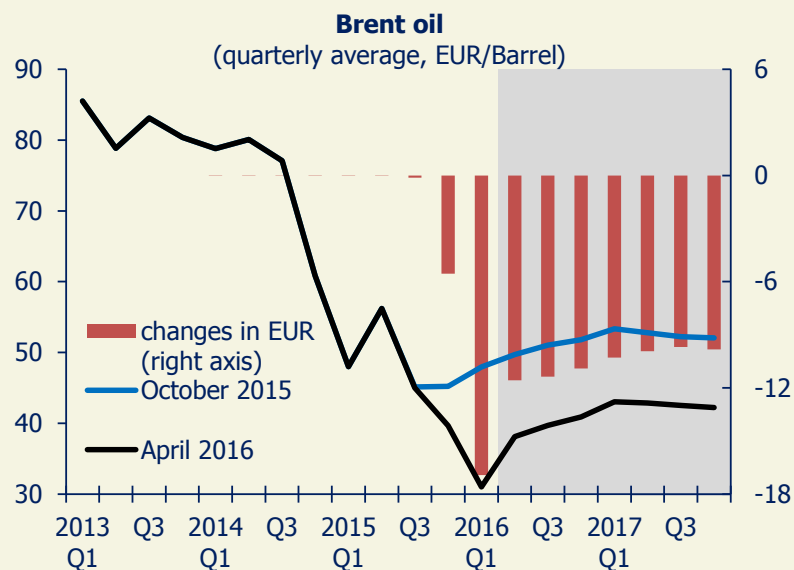
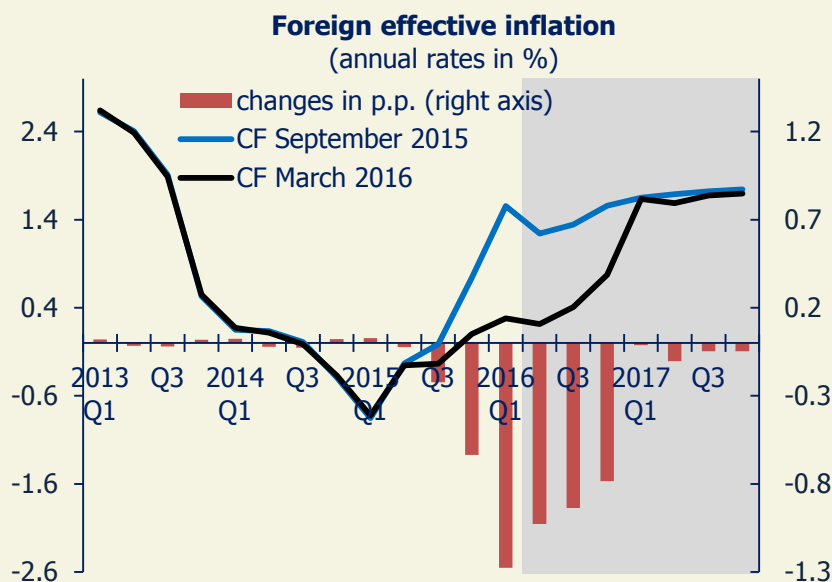
Review of risks between the two forecasts

- **Pronounced adverse risks ...**
 - ... primarily related to the domestic political crisis...
 - ...as well as with the external environment - slow recovery of the global economy, downward revision of the global growth forecast, geopolitical risks.
- **Baseline macroeconomic scenario** - assumption for rapid stabilization of the political context.
- The deteriorating political environment in the last stages of forecast and the initial spillover effects on the confidence and expectations of economic agents have created a need for an **alternative macroeconomic scenario** which assumes continuation of political instability until the end of the year.

External assumptions

- import prices -

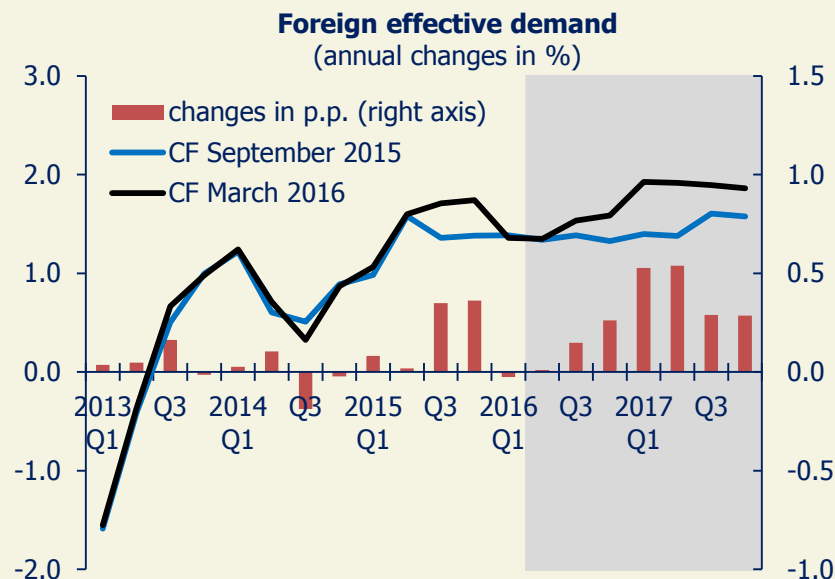
- In this forecast cycle: downward correction of **foreign effective inflation...**
- ...amid downward revisions of the expectations for oil prices and prices of cereals.



External assumptions

- foreign demand -

- Contrary to the global economic outlook, the foreign effective demand for Macedonian products has been revised upwards, in line with the optimistic growth outlook of some trading partners.
- For 2016, the **foreign demand** is expected to increase by 1.5% (1.4% in October), while for 2017, it was revised upward (from 1.5% in October to 1.9%).





Baseline macroeconomic scenario



GDP forecast

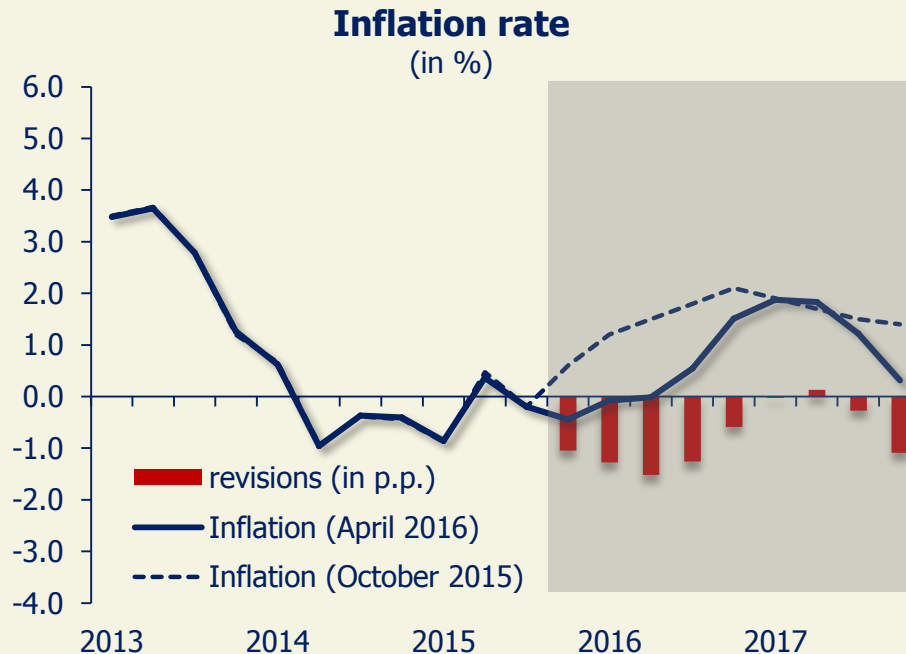
- During the forecast horizon, the growth rate is expected to remain solid - **growth of 3.5% for 2016, and 4% for 2017.**
- The projected pace and structure of growth remain unchanged compared with the October forecast.
- **The assumptions about the fundamental growth factors have remained the same: investment and exports continue being driving forces of growth, with additional impetus from private consumption**
 - public investment in infrastructure, investment in new facilities by foreign investors, increased activity of new export facilities, favorable labor market conditions, credit support from domestic banks.

	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	3.5	2.7	1.9	7.9	2.2	5.9	3.0	6.2	-4.3	3.4	0.5	4.7	-1.2
2017	4.0	2.7	1.9	8.8	2.4	4.3	2.2	4.1	-2.9	1.4	0.2	4.6	-0.6



Inflation forecast

- Lower inflation in 2016 than expected in the October forecast: **a downward correction from 1.5% to around 0.5% in 2016.**
 - Lower performance in the first quarter and downward revision of import prices.
- A positive output gap in the period 2016-2017.
- **For 2017 - inflation rate of 1.6%** amid positive output gap, higher food and energy prices, and increased foreign effective inflation.
- Risks to the projected path of inflation are downward and mainly attributable to the uncertainty about the global economy and the prices of global primary commodities.

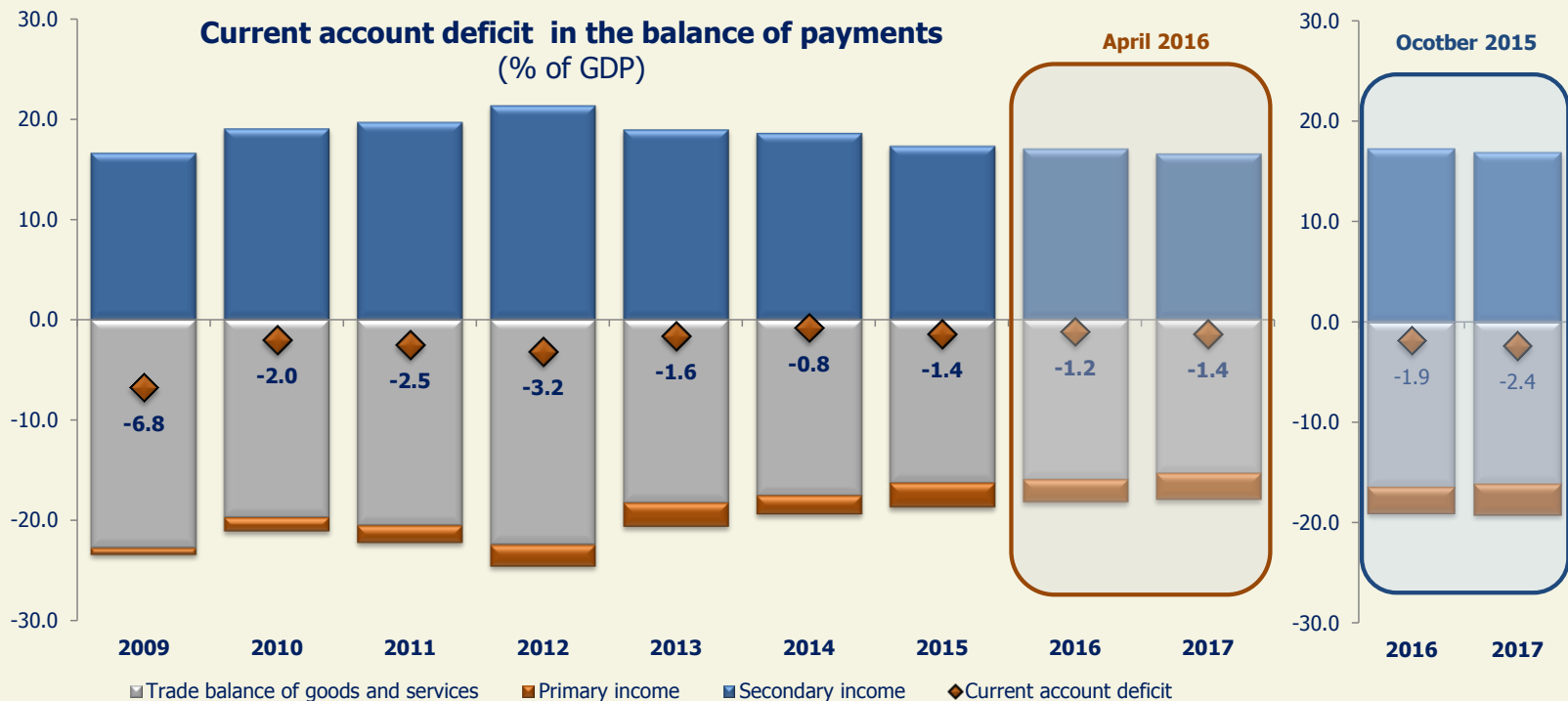




Balance of payments

- current account -

- **A smaller current account deficit for 2016 and 2017 than projected in October**
 - lower energy deficit;
 - lower income deficit - lower reinvested profit.
- **The current account deficit in 2016-2017 remains moderate and stable**
 - improved balance of goods and services - lower energy deficit, increased net exports of new facilities;
 - unfavorable trends in export of metals in 2016 and recovery in 2017;
 - moderate decrease in the surplus in current transfers.

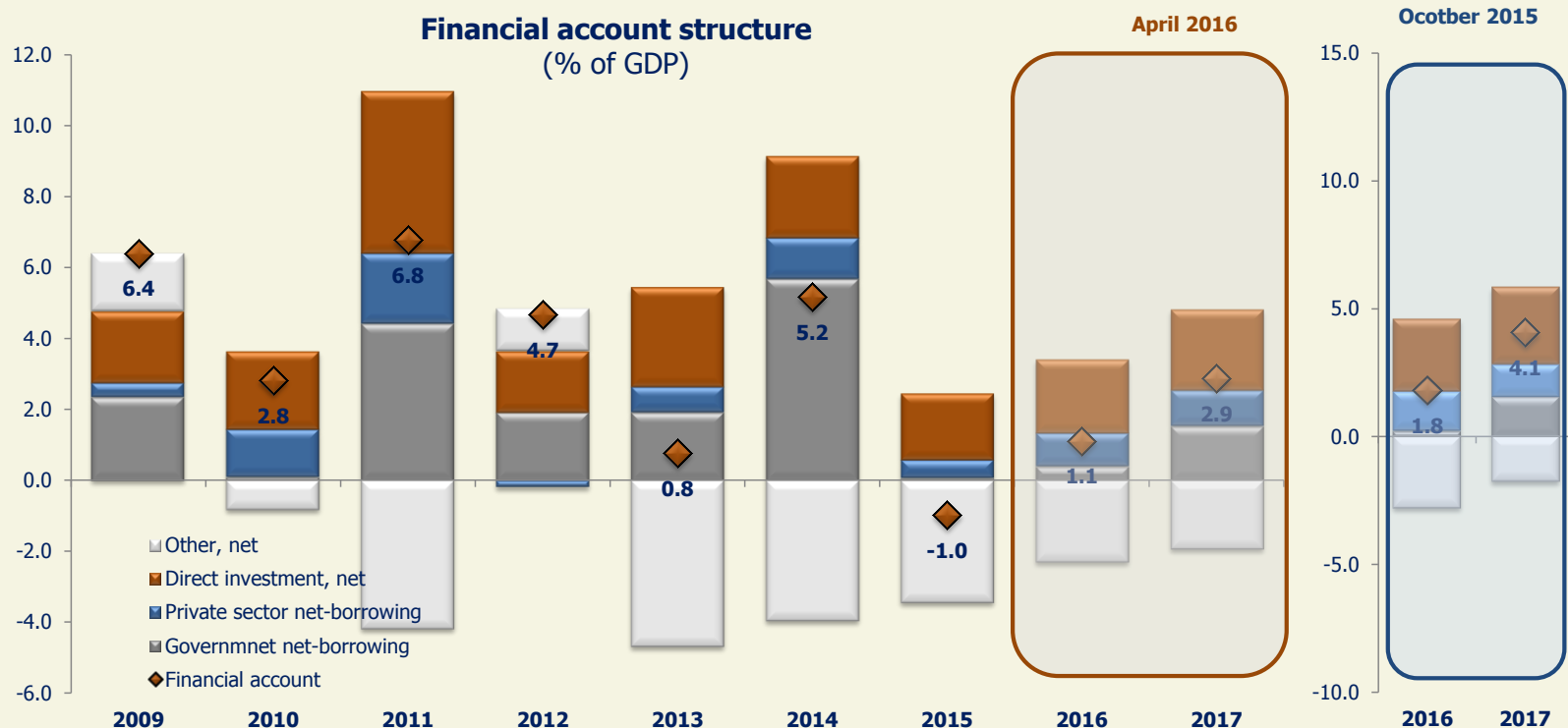




Balance of payments

- financial account -

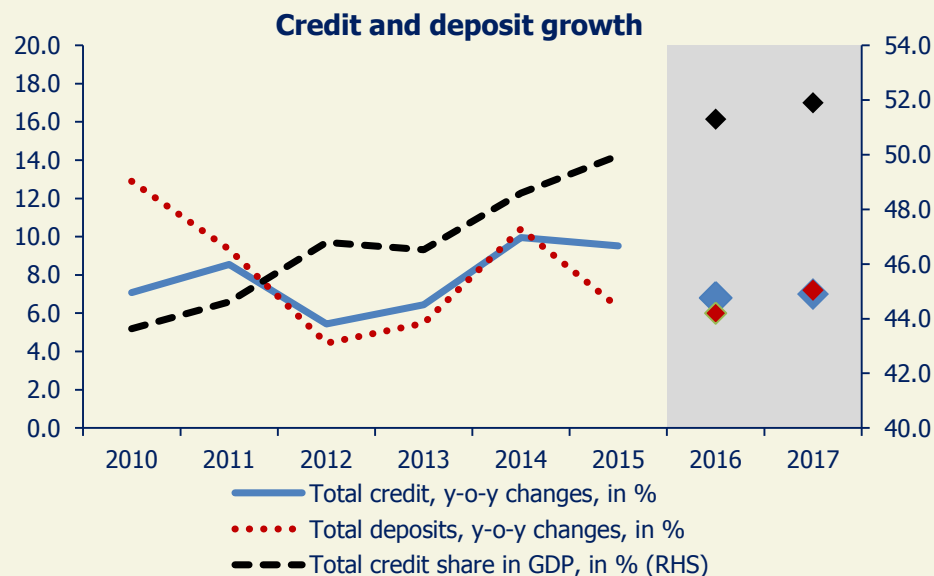
- **Lower net financial inflows compared with the October forecast** - mainly due to reduced foreign investment and lower net borrowing of the private sector.
- **During the entire forecast horizon, foreign reserves adequacy indicators have ranged within the safe zone.**





Forecast of credit and deposit growth

- Estimates for steady economic growth, amid deposit growth and stable risk perceptions of banks, will contribute to the continuation of solid **credit growth**, which is expected to reach 6.8% at the end of 2016 and 7% at the end of 2017.
- It is expected that the **deposit growth** will be 6% in 2016 and for 2017, it is estimated to accelerate and climb to 7.2%.
- **The banking system remains stable, liquid and highly capitalized.**

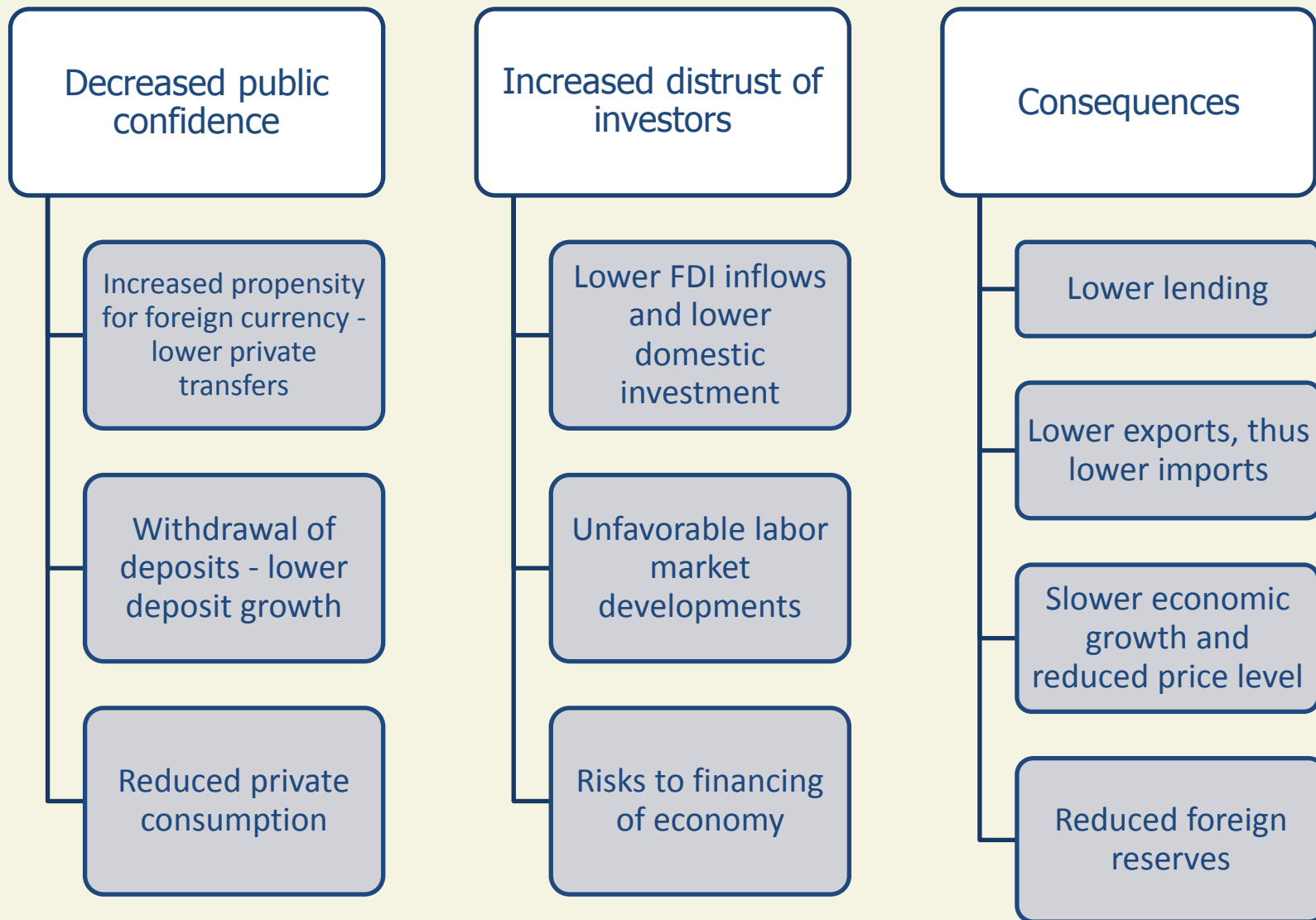




Alternative macroeconomic scenario

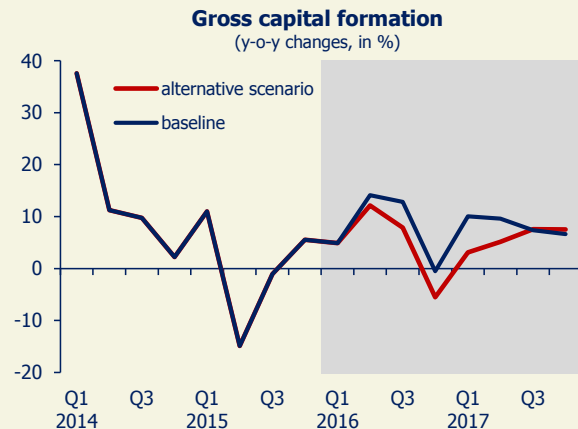
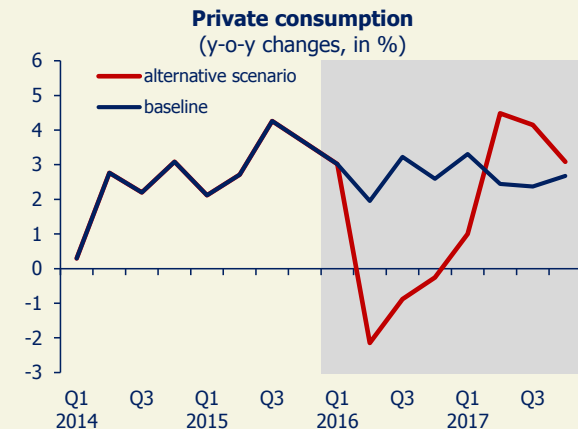
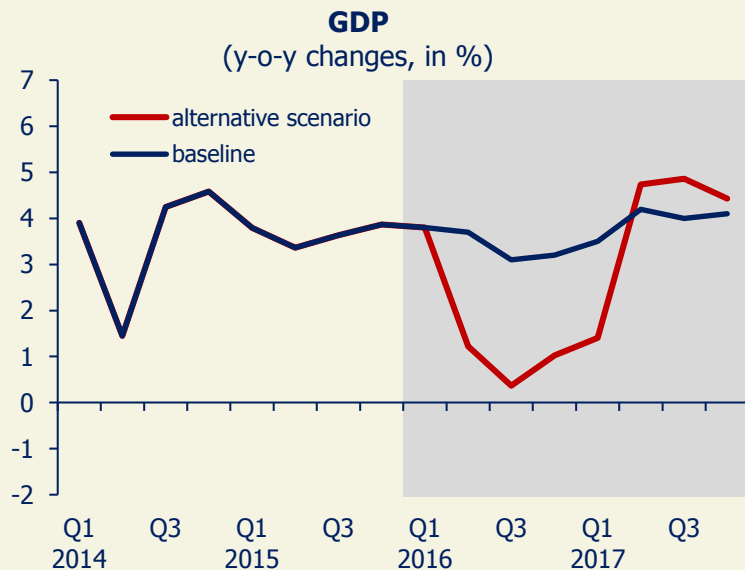


Alternative scenario



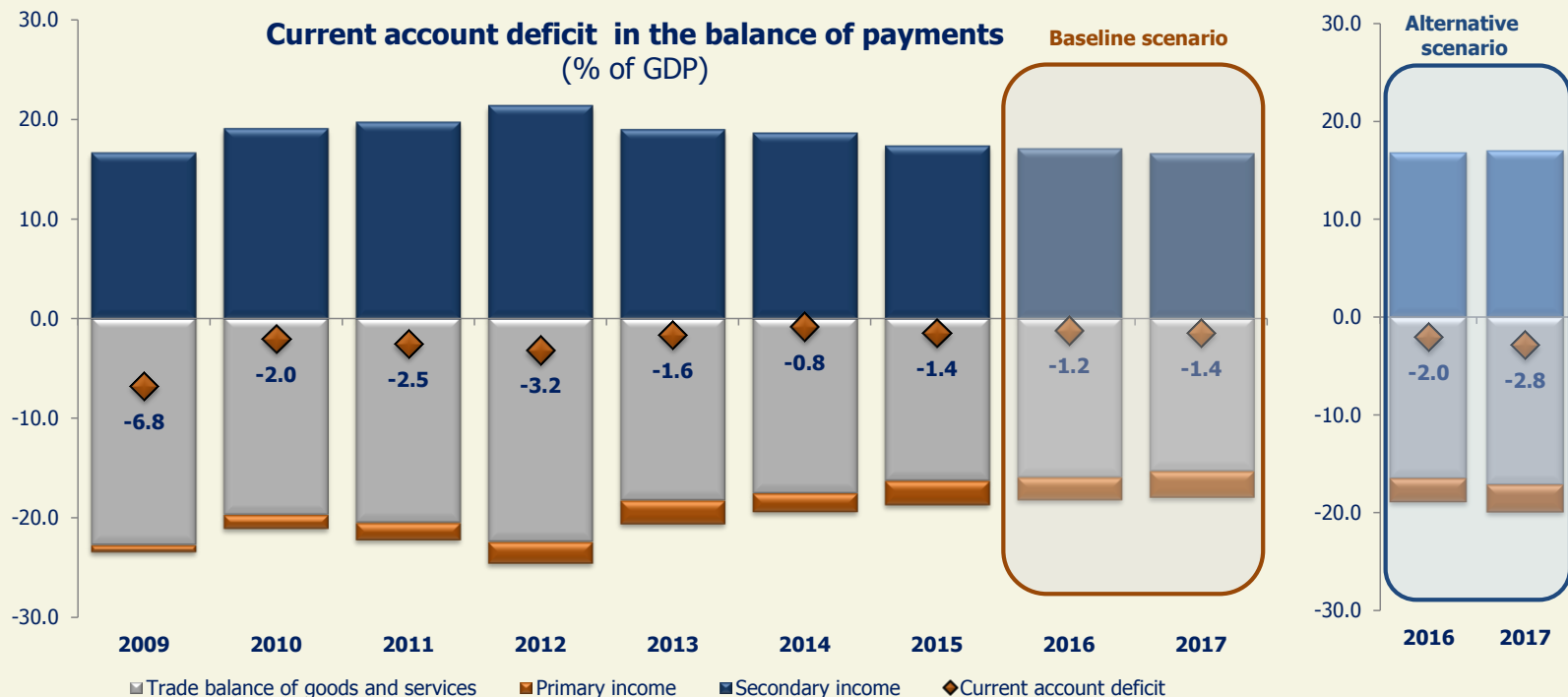
Alternative scenario - GDP -

- Lower GDP growth: 1.6% in 2016 and 3.9% in 2017.
- Compared to the baseline scenario, the greatest downward deviation would be registered in private consumption and investment, exports would be similar, and imports would be slightly lower.
- Opening of negative output gap with downward pressures on prices.



Alternative scenario - current account -

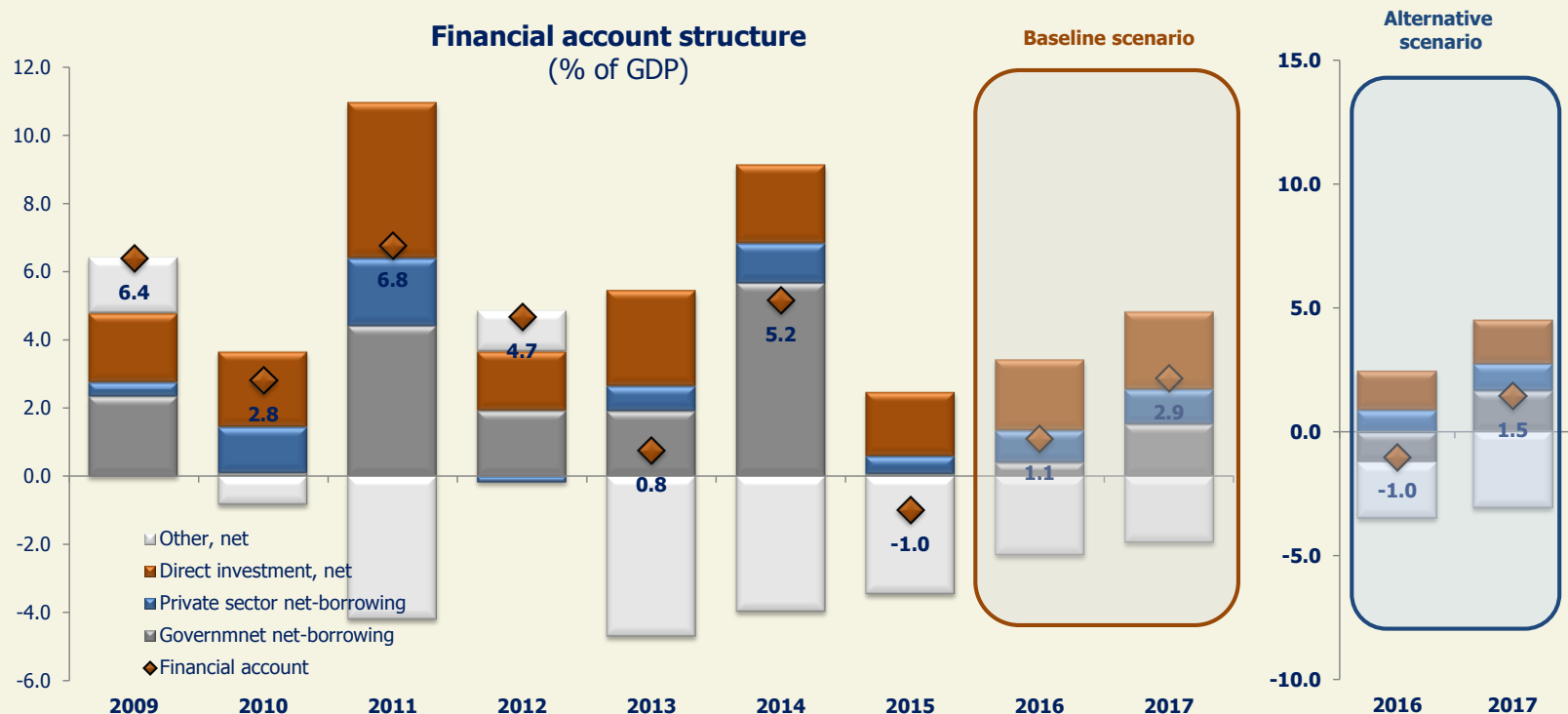
- **Larger current account deficit**, due to reduced inflows of private transfers (net purchase from the currency exchange market). Yet, the deficit remains moderate at about 2% of GDP in 2016 (compared to 1.2% in the baseline scenario).



Alternative scenario - financial account -

➤ **Deteriorated financial account**, due to:

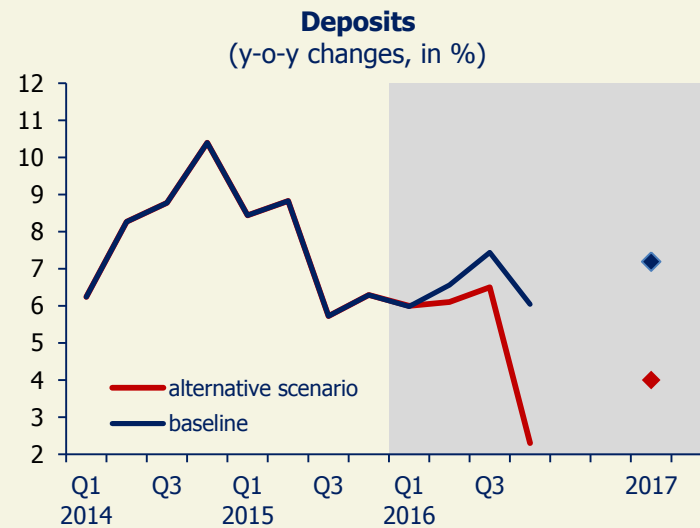
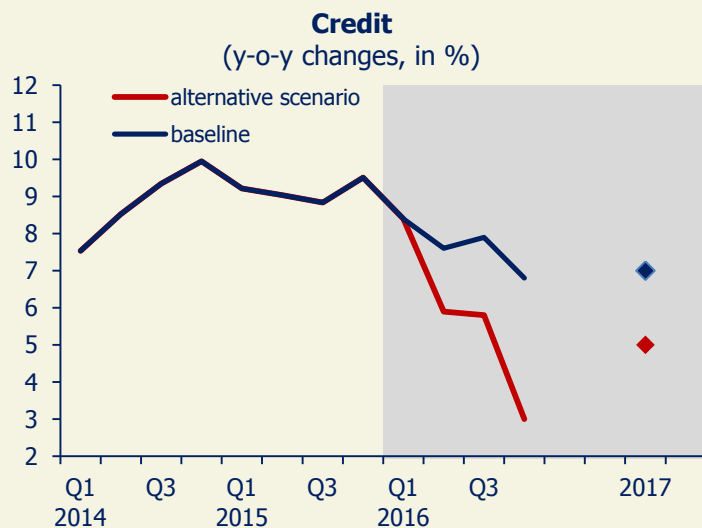
- lower direct investment and net borrowing of the government and the private sector;
- higher net outflows in currency and deposits of other sectors (increased preference for liquid foreign assets).



Alternative scenario

- loans and deposits -

- Slower economic activity and weaker foreign exchange flows - weaker deposit growth (2.3% rather than 6% in 2016), which along with the lower demand and supply of loans results in slower credit growth compared to the baseline scenario (3% rather than 6.8%).





Summary

- **Risks to the two scenarios:**
 - External environment is uncertain and unfavorable;
 - Domestic political risks are particularly pronounced.
- **The alternative scenario clearly shows the effects of political instability on the economy.**
- In response to the deteriorating expectations due to the political situation, the NBRM has increased the policy rate from 3.25% to 4%, and today, we have adopted new monetary measures.
- **It is worth mentioning that the economic fundamentals remain sound and in recent days, the pressures on currency exchange market and deposits have alleviated.**
- The NBRM will continue to closely monitor and, if necessary, take additional measures to fully stabilize the expectations of economic agents.