



NATIONAL BANK OF THE  
REPUBLIC OF MACEDONIA

# **Revision of the macroeconomic projections for 2011**

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## 1. MACROECONOMIC PICTURE BETWEEN THE TWO PROJECTIONS

- ❑ Real **GDP** growth in the first quarter of 2011 – in line with the expectations;
- ❑ In the second quarter of 2011:
  - Movement of **inflation** below the expectations from the April projection;
  - Movements in the **balance of payments** were within the expectations;
  - Growth of **money supply** and **credit growth** identical with the projection.

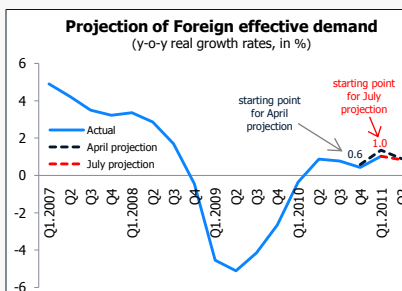
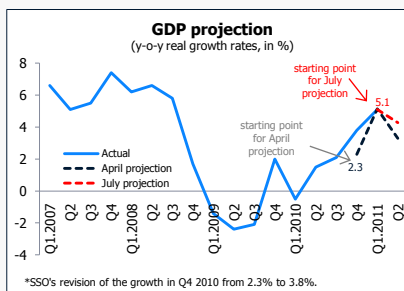
*The key interest rate of the NBRM remained at the level of 4% during the second quarter of 2011.*

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## ECONOMIC ACTIVITY

- ❑ Real GDP growth in Q1 2011 of 5.1%, in line with the April projection:
  - Higher positive contribution of domestic demand (due to the higher investment and private consumption),
  - More negative contribution of net-exports (more negative contribution of imports).
- ❑ In Q2 2011, the annual GDP growth is estimated at 4.3% (higher than that of 3.3% projected in April) – investments and exports are still the main generators of growth.

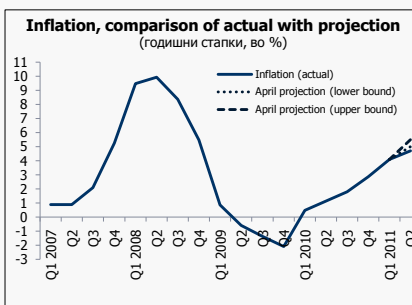
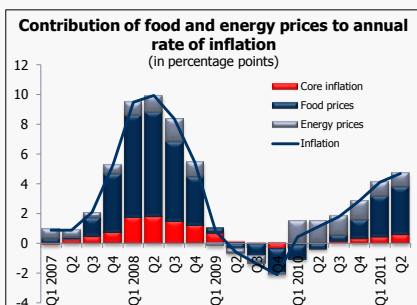


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## INFLATION

- **Stabilization of the annual inflation rate in Q2 2011: 4.7%** (4.1% in Q1 and 2.9% in Q4).
- The annual inflation rate in the second quarter is due to:
  - increased prices of food with contribution of 3.2 p.p.
  - regulated prices of energy products with contribution of 0.9 p.p.
- Core inflation still relatively stable: 1.2% (contribution of 0.6 p.p.)
- The achieved inflation rate is lower than the one projected in April (5 – 5.5%): due to **lower than expected growth of food prices**, and to a lesser extent due to the **reduced excise duty on oil derivatives**.

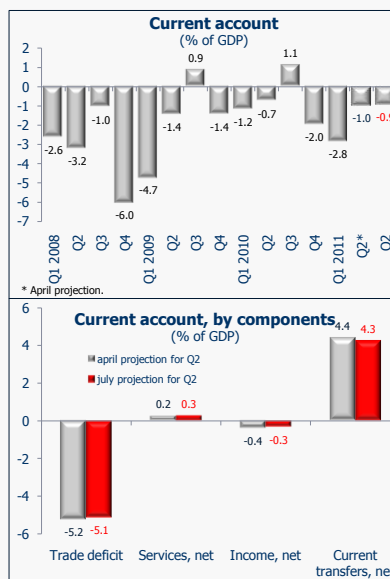


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## BALANCE OF PAYMENTS - current account -

- **In the second quarter of 2011, the current account deficit is estimated at 0.9% of GDP** (1% of GDP in the April projection).
- Positive developments:
  - **in the trade balance** (lower deficit);
  - **in services** (estimated higher surplus);
  - **in income** (estimated lower deficit).
- Downward correction in the net-inflows from private transfers):
  - net-purchase of cash registered an annual decline of 12.2%, as opposed to 9.5% according to the April projection.



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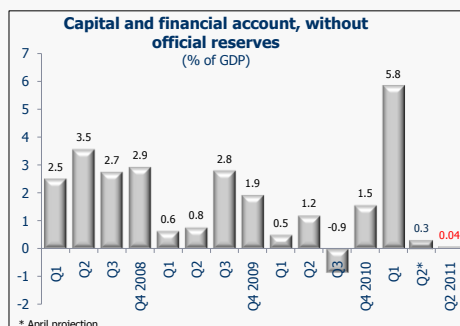


## BALANCE OF PAYMENTS - capital and financial account -

- Capital net-inflows\* in Q2 2011 are estimated at 0.04% (as opposed to 0.3% of GDP in the April projection), mainly due to:

- lower estimated FDI (due to the effect of dividend repatriation, in April 2011);
- lower net-foreign borrowing;
- higher than expected withdrawal of cash foreign currency of households from the banking sector.

- In Q2 2011, financing of the current account deficit was almost entirely covered from the foreign reserves.

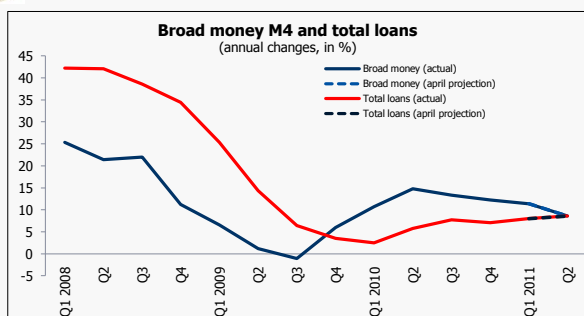


\* Capital net-inflows do not include the official foreign reserves, past due liabilities, currencies and deposits of the monetary authority and IMF utilizations and repayments, i.e. they are according to the analytical presentation of the balance of payments.

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## MONETARY AND CREDIT AGGREGATES



- In Q2 2011, accomplished annual growth rates of the **M4 money supply** and of **total bank loans to the private sector** of **8.6%**, respectively, are at the level of the April projection.

- Data on the banking system for Q1 2011 point to maintaining of its stability and soundness:

- After the initial improvement of the indicators for the credit portfolio quality at the end of 2010, during the first quarter of 2011, the share of the non-performing credits in the total credits registered minimum change (9.4% at the end of the first quarter as opposed to 9.3% as of December 31, 2010);

- Indicators of liquidity are still on a satisfactory level;

- Capital adequacy ratio is still maintained at a level twice higher than the minimum, and in Q1 it equaled 16.8%.

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## 2. REVISION OF MACROECONOMIC PROJECTIONS FOR 2011

- ❑ **Faster growth of economic activity** compared to previous expectations;
- ❑ **Slowdown of inflation** in the second half of the year and approximation to the threshold of range projected in April;
- ❑ **Current account deficit reduction** and perceptions for **faster growth of capital inflows**;
- ❑ **Faster growth of foreign reserves** in 2011 compared to previous expectations;
- ❑ **Moderate upward revision of monetary and credit aggregates.**

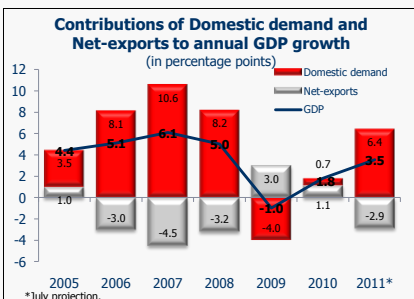
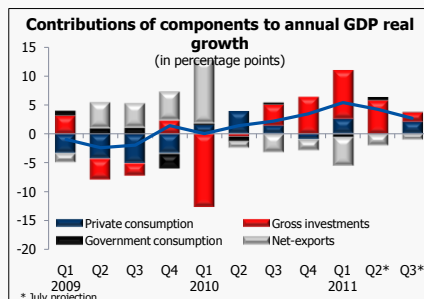
*Maintenance of generally favorable monetary policy environment in the second half of 2011, yet with risks that create a need for further alert monitoring of economic developments in the next period.*

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## ECONOMIC ACTIVITY

- ❑ In Q3 2011, the annual GDP growth is estimated to 2.7%, given the expectations for:
  - personal consumption growth (improved expectations, favorable labor market developments, further annual uptrend of the employment rate, and slower reduction of real wage);
  - further growth of investment activity and exports.
- ❑ **Moderate upward revision of the GDP real growth projection for 2011 to roughly 3.5% (3% in April), in environment of positive contribution of the domestic demand and negative contribution of the net exports.**



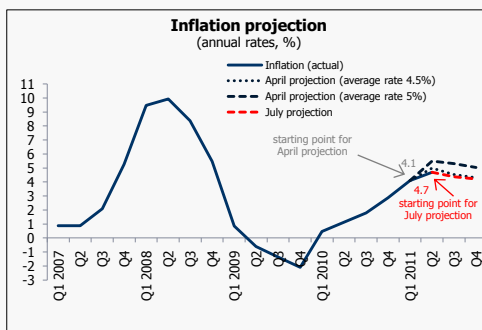
*Risks surrounding the growth alleviate and primarily reflect the debt crisis in the peripheral countries of the Euro area, with potential effects on the external demand, exports, investments and expectations.*

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## INFLATION

- In Q3 2011, the inflation is expected to slow down to 4.4% due to the slower growth of global food prices and stabilization of oil prices.
- Price increase will further result primarily from the demand factors, **while the average inflation rate is expected to swing around 4.5% throughout 2011** (threshold of the April range) reflecting the lower performances and downward revisions of global prices;
- Lack of inflation pressures from domestic demand, given the below-potential economic growth.
- **In 2011, the core inflation is expected to be stable: around 1.2%.**



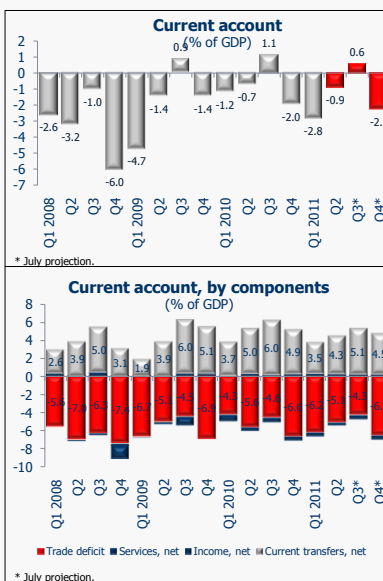
*Notwithstanding the still present uncertainty, risks clouding the inflation projection are being perceived as mostly downward and related to the potential slower growth of foreign food and energy prices.*

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## EXTERNAL SECTOR/1

- Q3 2011 **expects positive current account balance of 0.6% of GDP**, which is a common seasonal dynamics.
- On annual basis, this implies surplus reduction of 0.6 p.p. of GDP, mainly due to the perception for lower net inflows from current transfers (by nearly 1 p.p. of GDP), whereas the trade balance is expected to register minor annual improvement.
- In Q3 2011, the capital and financial account expects net outflows of 0.4% of GDP.



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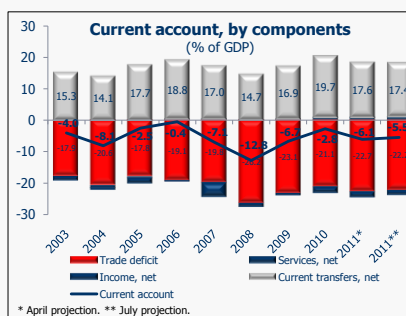
## EXTERNAL SECTOR/2

□ To the end of 2011, the current account deficit is expected to equal 5.5% of GDP, which is a downward correction of 0.6 p.p. of GDP compared to April projection.

□ The capital and financial account expects net inflows of 9.4% of GDP throughout the year, compared to the April projection of 8.8% of GDP\*. The upward correction mainly results from the assumption for additional government borrowing;

□ Foreign reserves are expected to increase more rapidly to the end of 2011 compared to the April projection, and accordingly, to cover four-month imports of the next year.

\* The amount of April projection has been adjusted for certain re-entries.



*Risks surrounding the balance of payments projection primarily include the effectuation of projected capital inflows, the growth of export demand and the developments of the global oil and food prices due to their impact on the import prices.*

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## MONETARY AND CREDIT GROWTH

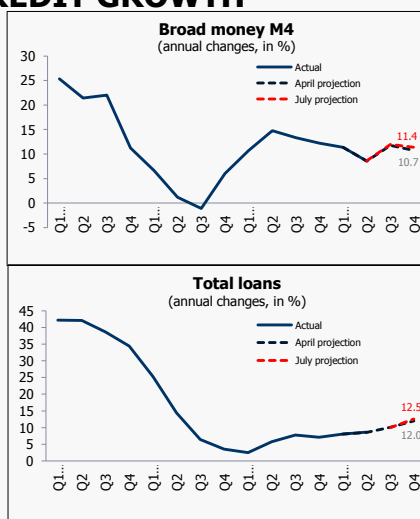
Q3 2011 expects:

- Further enhancement of **money supply M4 (11.9%** annual growth in September 2011, compared to 12.2% projected growth of total deposits) and
- Acceleration of the **credit growth** rate up to **10%** in September, on annual basis.

Moderate upward revision of monetary and credit aggregates throughout 2011 compared to the April projection, with the monetary growth rate being faster:

□ Growth of **money supply M4** of **11.4%**, on annual basis, compared to 10.7% April projection.

□ Annual **credit growth** of **12.5%** compared to 12% April projection.





## CONCLUSION

- ❑ We expect the favorable macroeconomic developments to continue in the second half of 2011, and to create constructive monetary policy environment.
- ❑ Taking account of the current assessments, the NBRM key interest rate remains unchanged. Such assessment mainly reflects:
  - stabilization of inflation rate,
  - downward revision of current account deficit,
  - higher projected level of foreign reserves and
  - relatively moderate lending activity of the banks.
- ❑ Monetary policy risks arise from the debt crisis risk in the Euro area and their potential implications on the domestic economic activity and expectations, the inflation risks, as well as the risks surrounding the expected capital inflows and the level of foreign reserves.
- ❑ NBRM keeps on monitoring the economic developments on a regular basis, for the purposes of undertaking timely measures and actions.