



Latest macroeconomic forecasts

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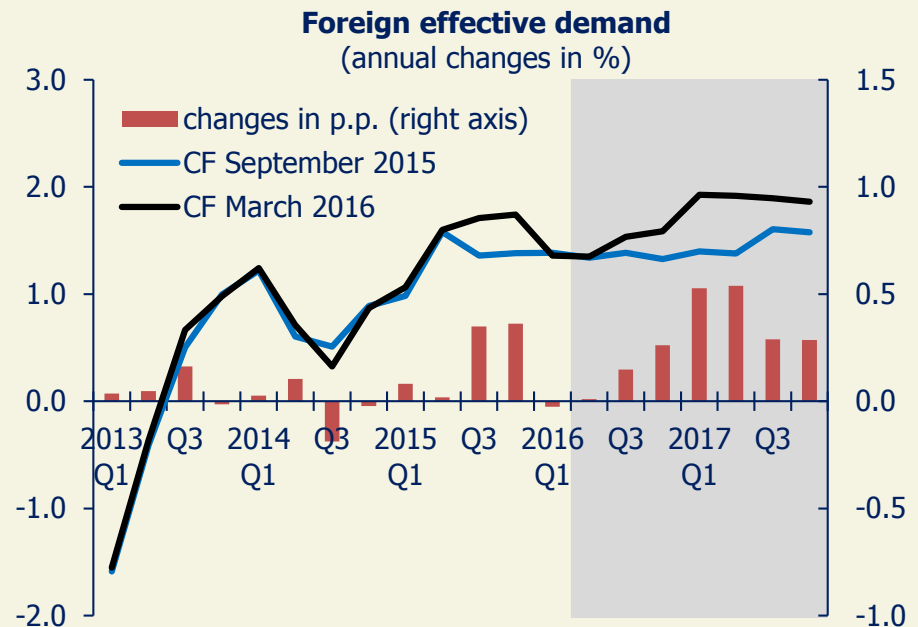
Risks between the two forecasts

- **Pronounced adverse risks ...**
 - ... primarily related to the domestic political crisis...
 - ...as well as to the external environment - slow recovery of the global economy, downward revision of the global growth forecasts, geopolitical risks.
- **Baseline macroeconomic scenario** - assumption for rapid stabilization of the political context.
- The deteriorating political environment in the last stages of forecasts 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

- foreign demand -

- Foreign effective demand revised upwards
- Gradual recovery expected to proceed in the next two years
- Expected increase of 1.5% and 1.9% in 2016 and 2017, respectively



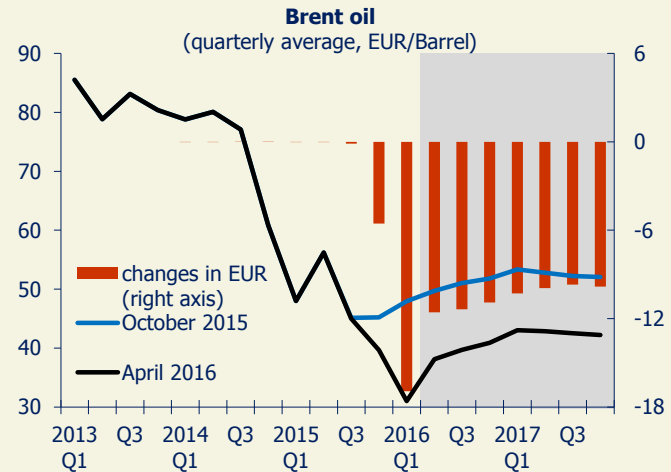
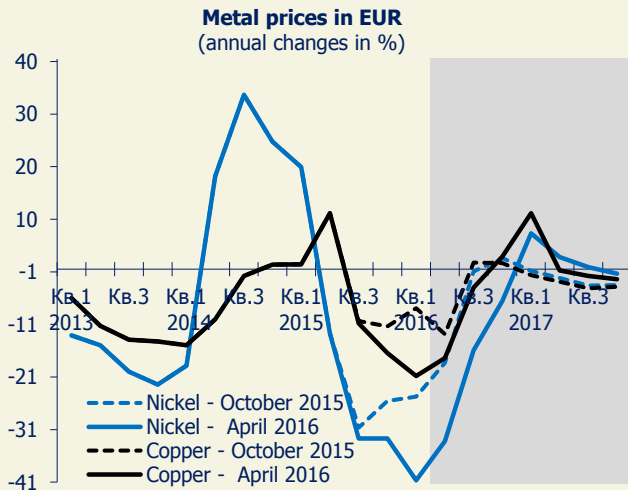


External assumptions

- prices of primary commodities -

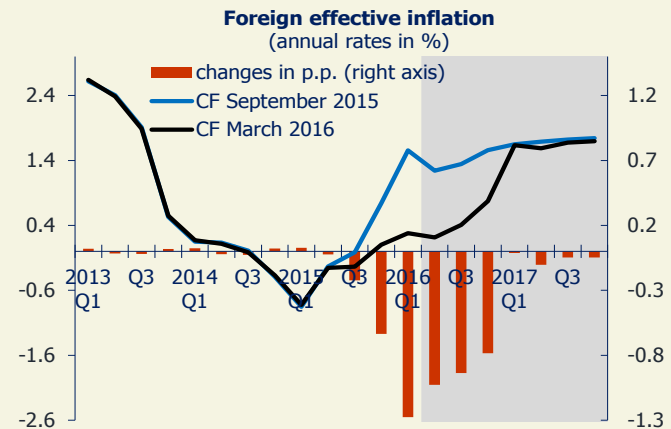
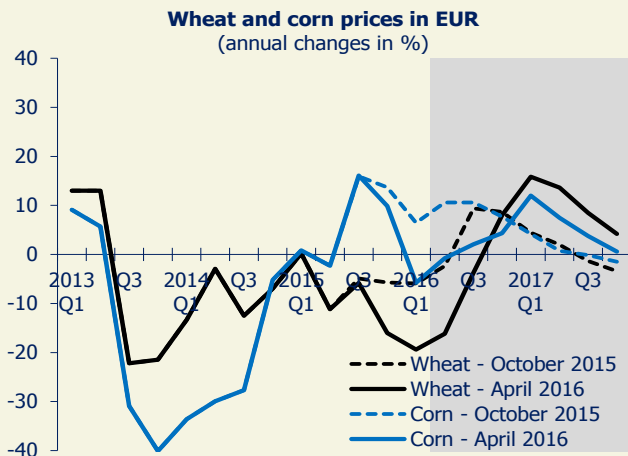
Downward revision of metal prices...

... oil prices...



... food prices...

...as well as foreign effective inflation.





Baseline macroeconomic scenario



GDP forecast

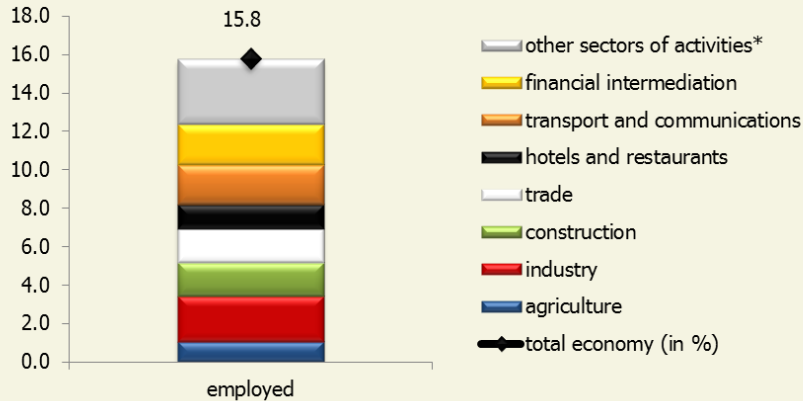
- During the forecast horizon, the growth rate is expected to remain solid - **growth of 3.5% for 2016 and 4% for 2017.**
- The projected pace and structure of growth remain unchanged compared with the October forecast.
- **Fundamental growth factors remained the same - investment and exports-led growth,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

	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
	%	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	<i>contrib. in p.p.</i>	
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



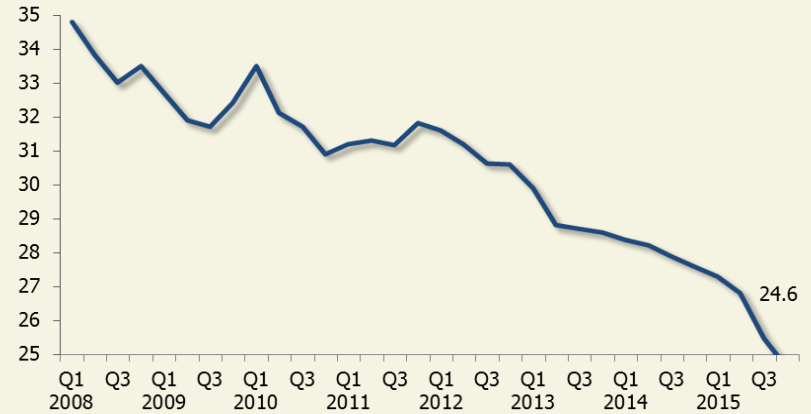
Labor market

Contributions of individual sectors of activities to the total number of employees change in the period 2015/2008 (in p.p)



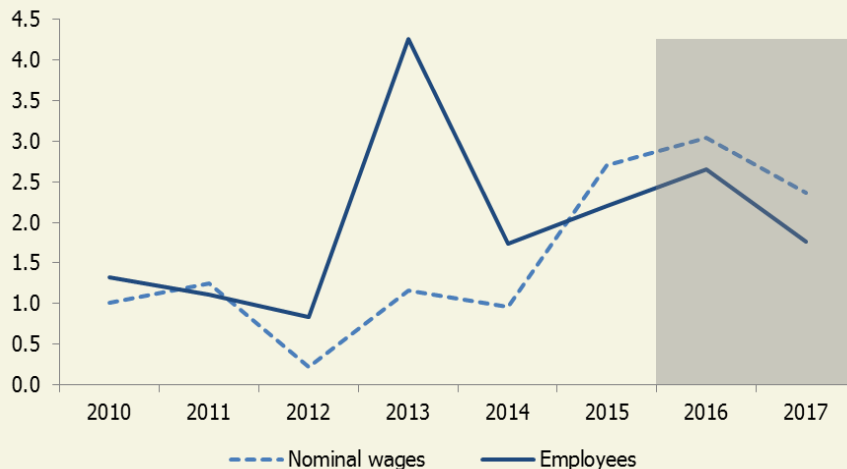
*Other sectors of activities include: public administration and defence, compulsory social security, education, health and social work activities, activities of households as employers, as well as activities of extraterritorial organisations and bodies.

Unemployment rate (in %)

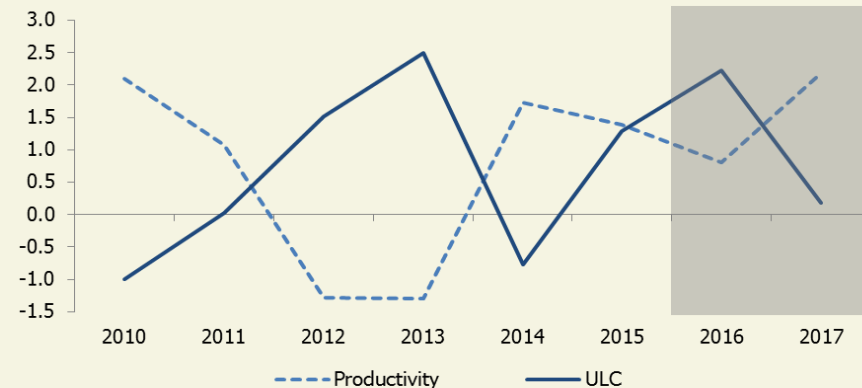


Source: State Statistical Office, Labor Force Survey

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



Productivity and ULC (annual growth rates, in %)



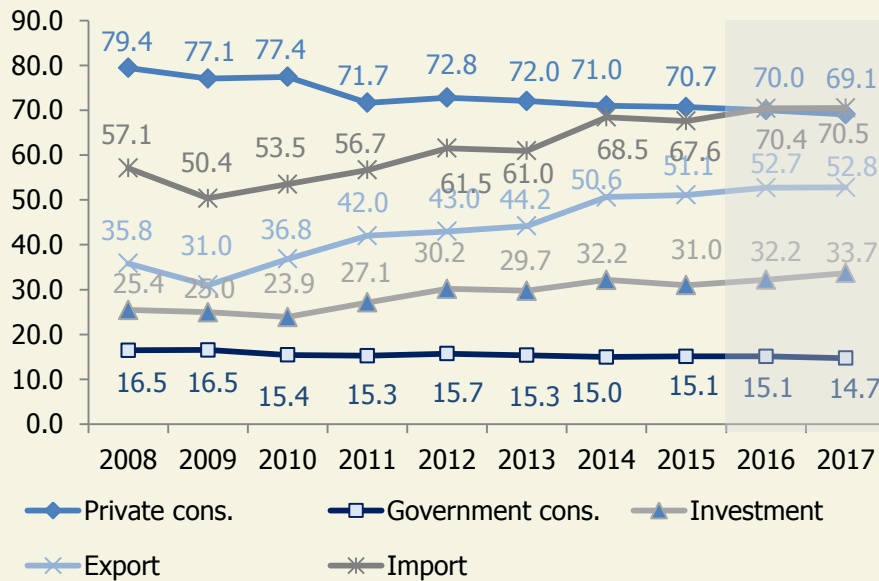
Source: State Statistical Office and NBRM calculations

Source: State Statistical Office and NBRM projections

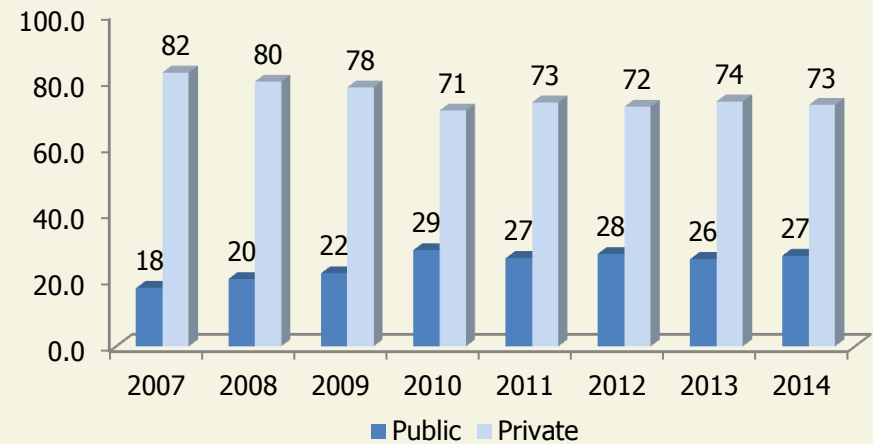


Macroeconomic forecasts -structural changes-

Shares of real GDP components (in %)



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

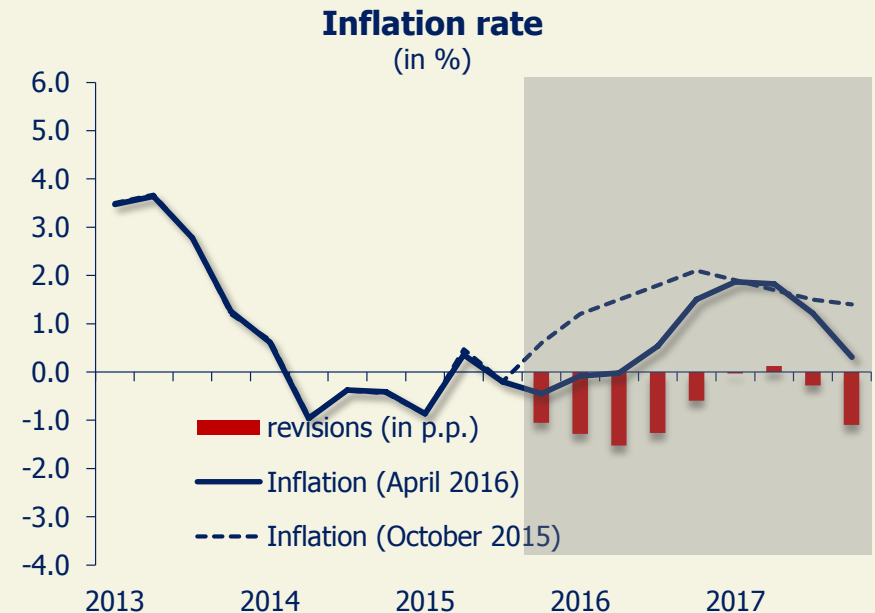
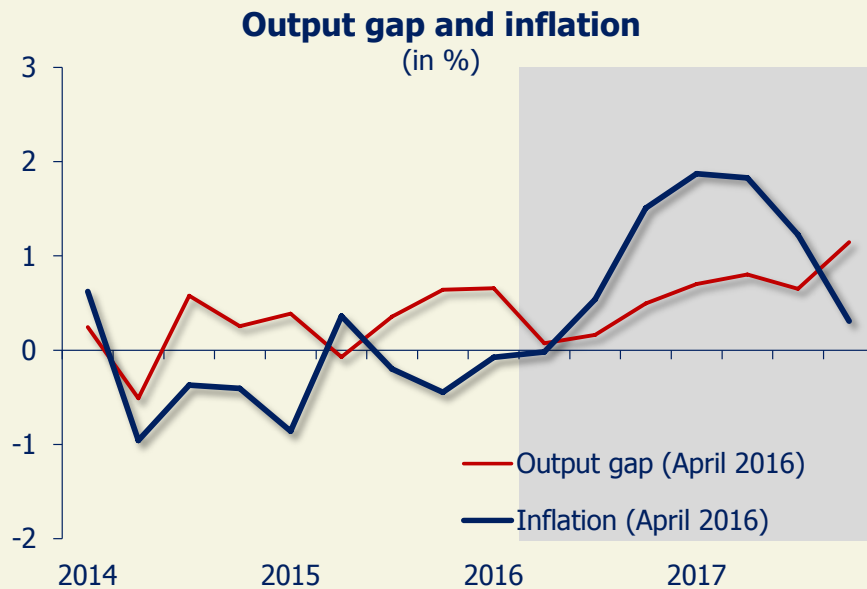


Source: SSO



Inflation forecast

- **Downward revision from 1.5% to around 0.5%, average growth in 2016**
 - Lower initial conditions and downward revision of import prices.
- **Inflation rate of 1.6% in 2017**, on the backdrop of 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.





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	2016	2017
IMF	April 2016	3.6	3.6	0.5	1.5
World Bank	April 2016	3.7	4.0	0.9	-
European Commission	May 2016	3.5	3.5	1.1	1.4
EBRD	November 2015	3.5	-	-	-
Consensus Forecast	April 2016	3.7	3.6	1.5	2.3
National Bank of Greece	April 2016	3.6	3.4	-	-
Ministry of Finance of the Rep. of Macedonia	January 2016	4.0	4.3	2.0	2.0
National Bank of the Republic of Macedonia	April 2016	3.5	4.0	0.5	1.6

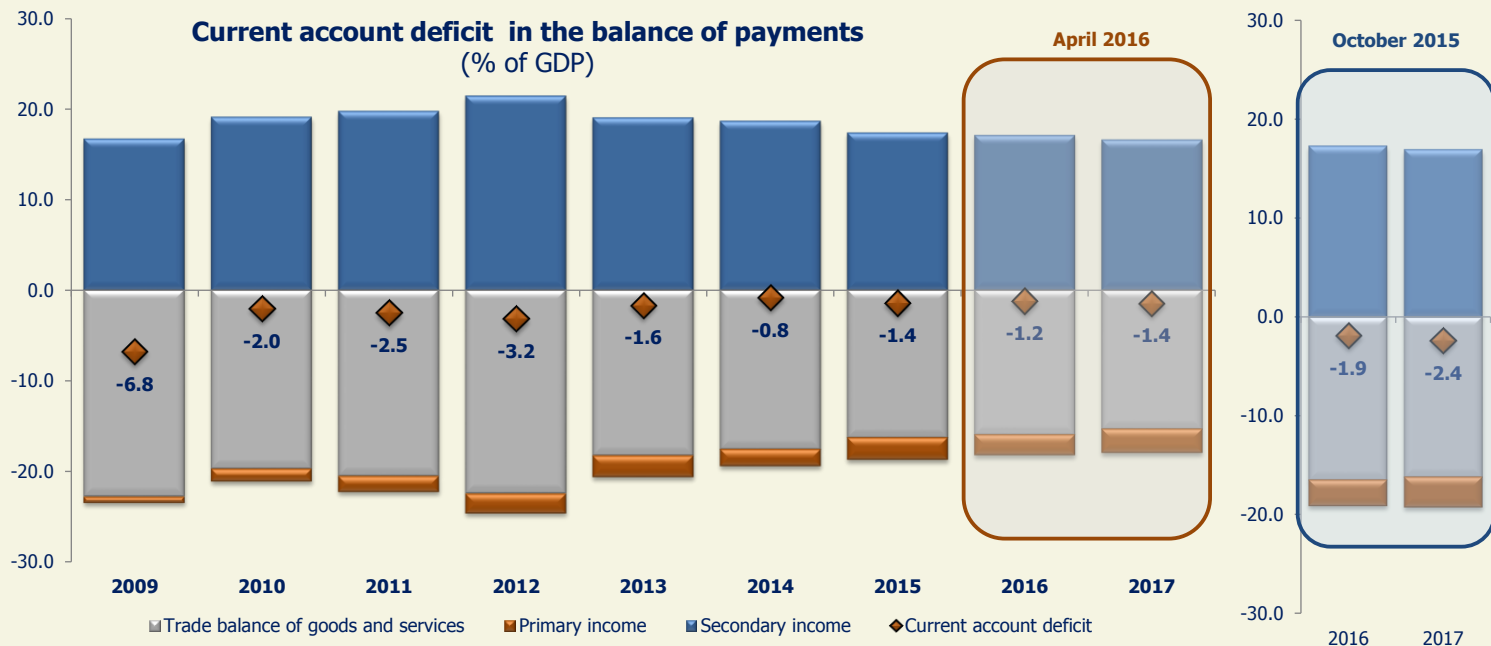
Source: IMF World Economic Outlook, April 2016; World Bank SEE Regular Economic Report No.8, April 2016; European Commission European Economic Forecast, May 2016; EBRD Regional Economic Prospects, November 2015; Consensus Forecast, April 2016; NBG Southeastern Europe and Mediterranean Emerging Market Economies, April 2016; Ministry of Finance of the Republic of Macedonia, 2016 Budget Proposal and Economic Reform Programme; and the National Bank of the Republic of Macedonia.



Balance of payments

- current account -

- **Lower current account deficit for 2016 and 2017** compared to the previous forecast
 - lower balance of goods and services;
 - lower income deficit - lower reinvested earnings.
- **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; and
 - moderate decrease in the surplus in private transfers.

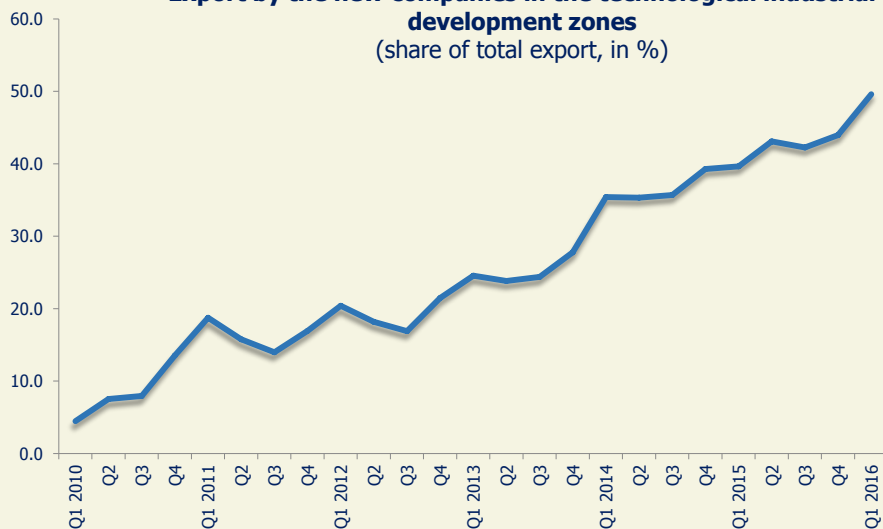




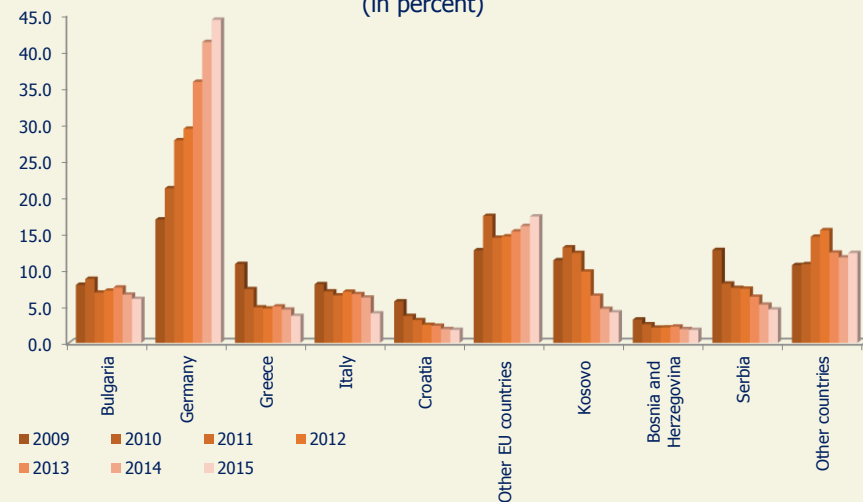
Balance of payments - current account

Export diversification by product and trading partner

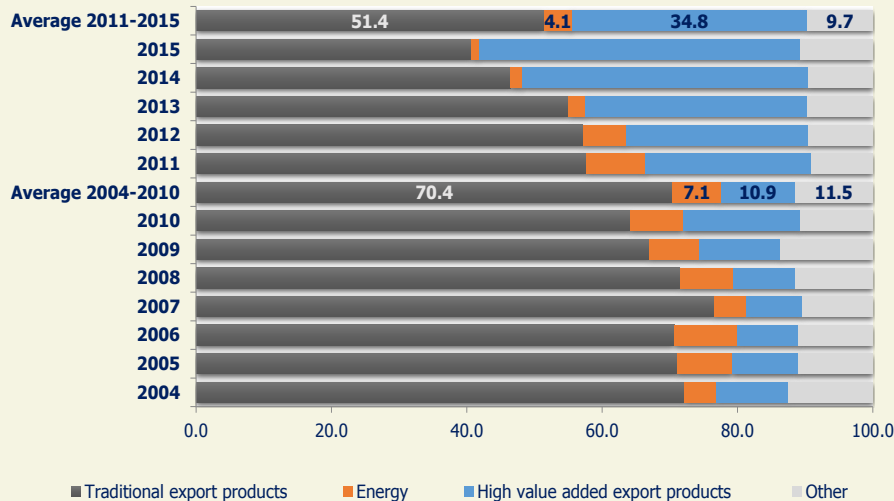
Export by the new companies in the technological industrial development zones
(share of total export, in %)



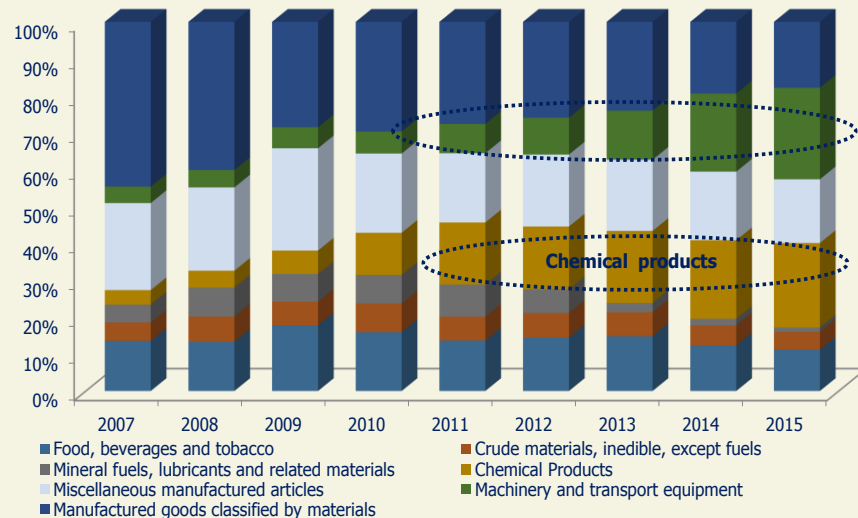
Share of export by trading partners in total export
(in percent)



Export structure
(share in total export, %)



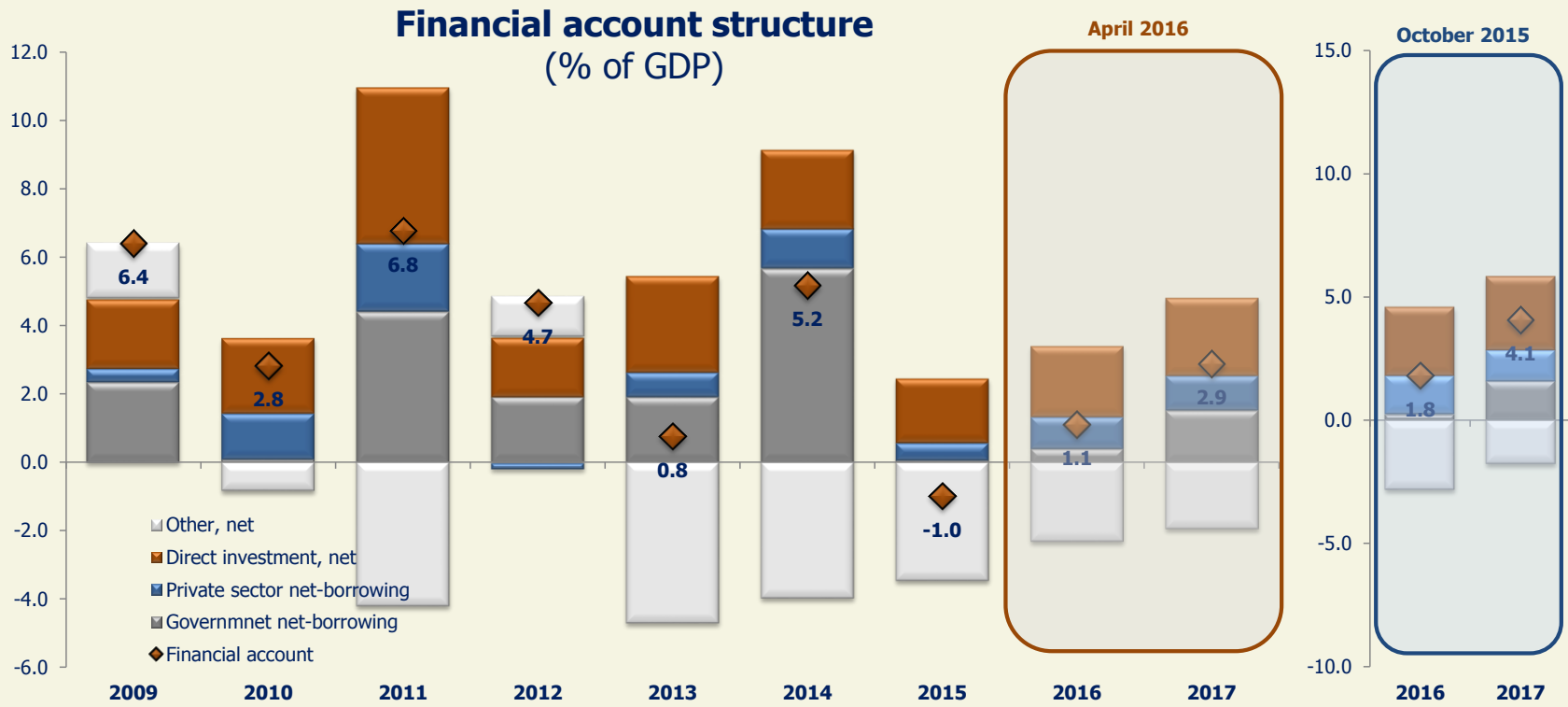
Share of export by categories in total export
(in percent)





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.



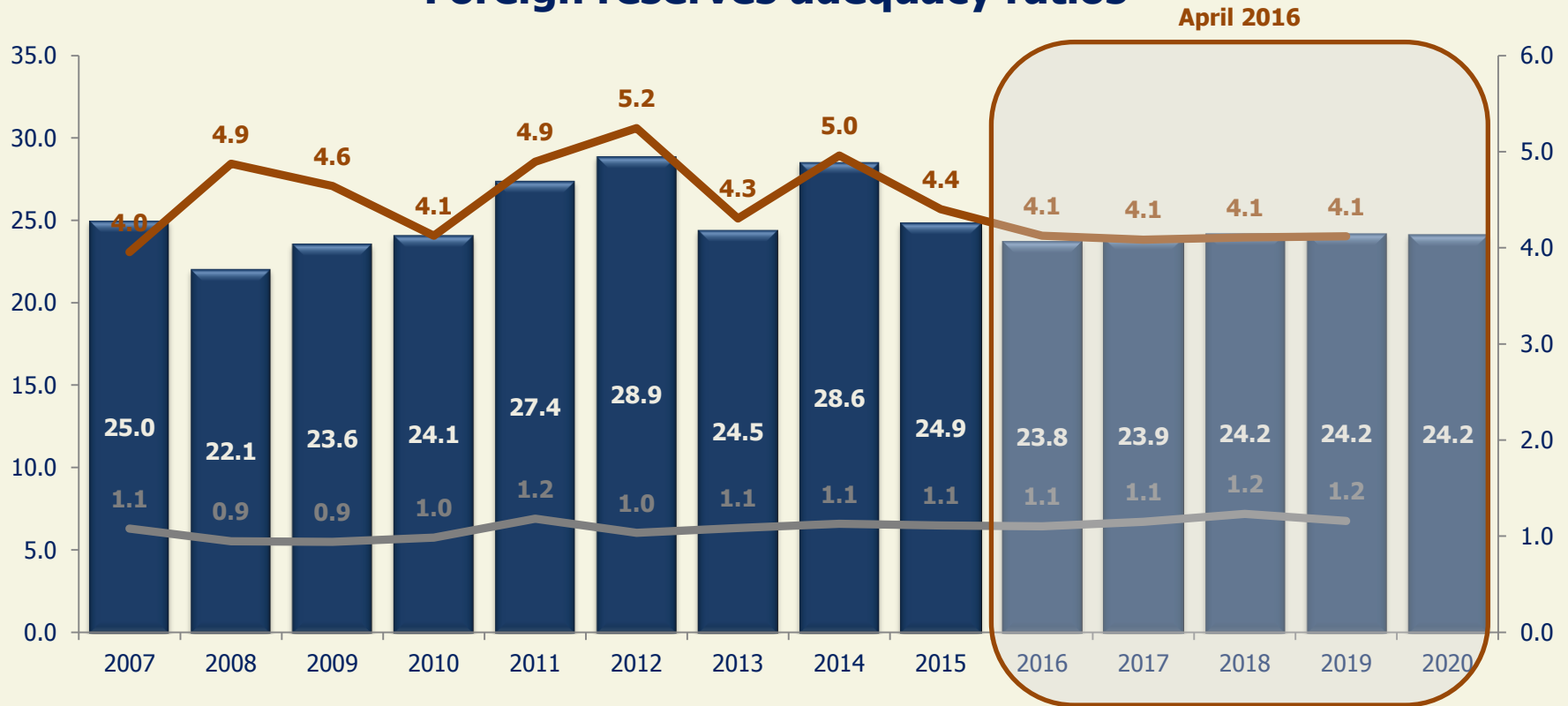


Balance of payments

Foreign reserves adequacy ratios

- During the entire forecast horizon, foreign reserves adequacy indicators have ranged within the safe zone.

Foreign reserves adequacy ratios

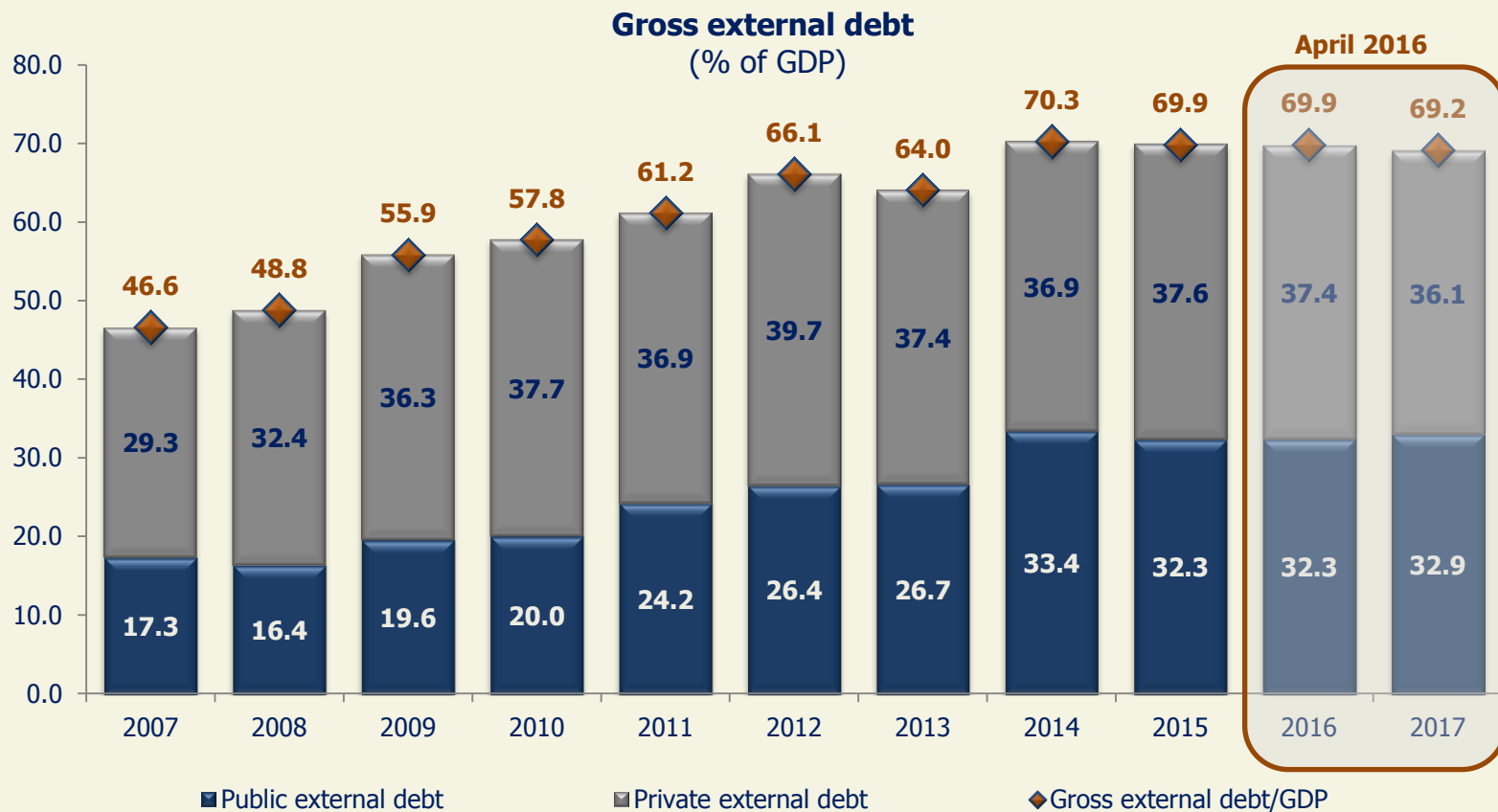


- Stock of foreign reserves, % of GDP (left scale)
- Monthly coverage from the following years' imports of goods and services (right scale)
- Foreign reserves/ Short-term debt with residual maturity (right scale)



Balance of payments

Gross external debt indicators

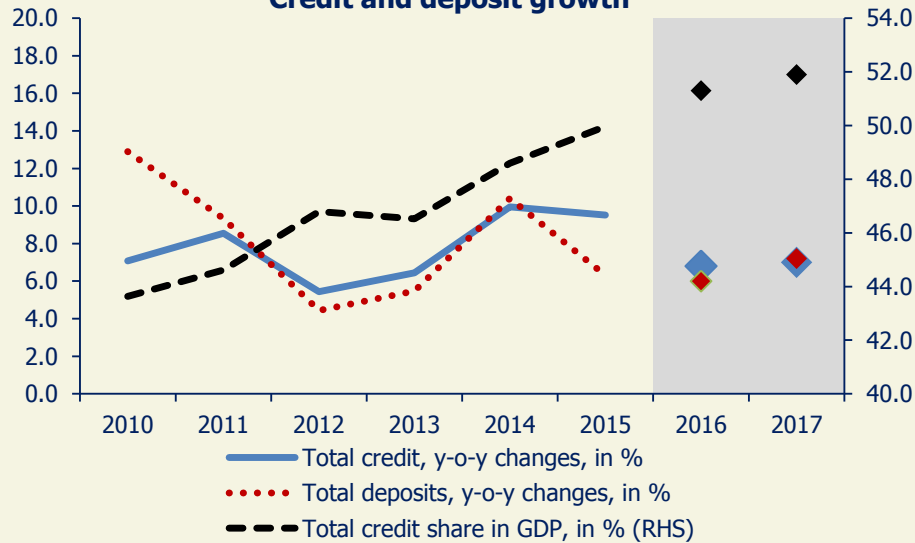




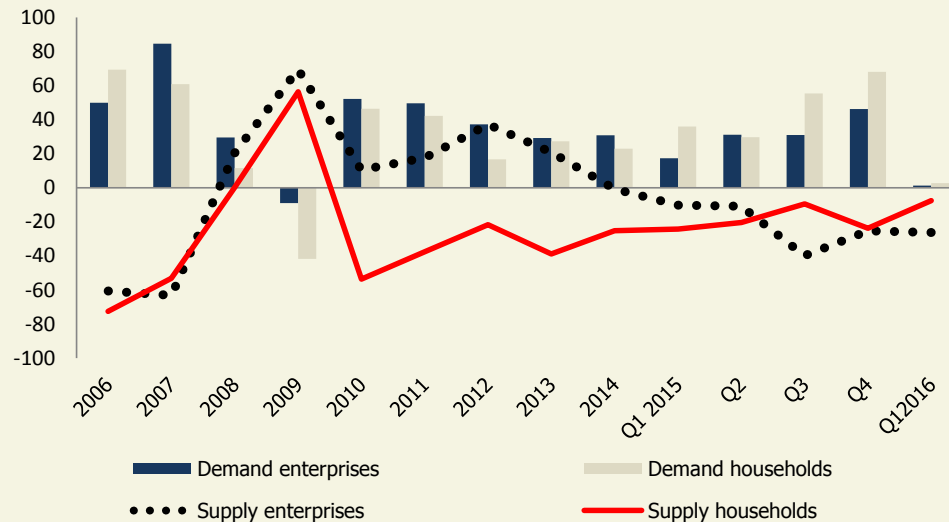
Credit and Deposit Growth

- **Credit growth** expected to grow at a steady pace (6.8% in 2016 and 7% at the end of 2017), on the backdrop of solid economic growth, stable expectations and adequate deposit base
- It is expected that the **deposit growth** will be 6% in 2016 and for 2017, it is estimated to accelerate to 7.2%.
- **The banking system remains stable, liquid and highly capitalized.**

Credit and deposit growth



Credit supply and demand of enterprises and households, (net-percentage)

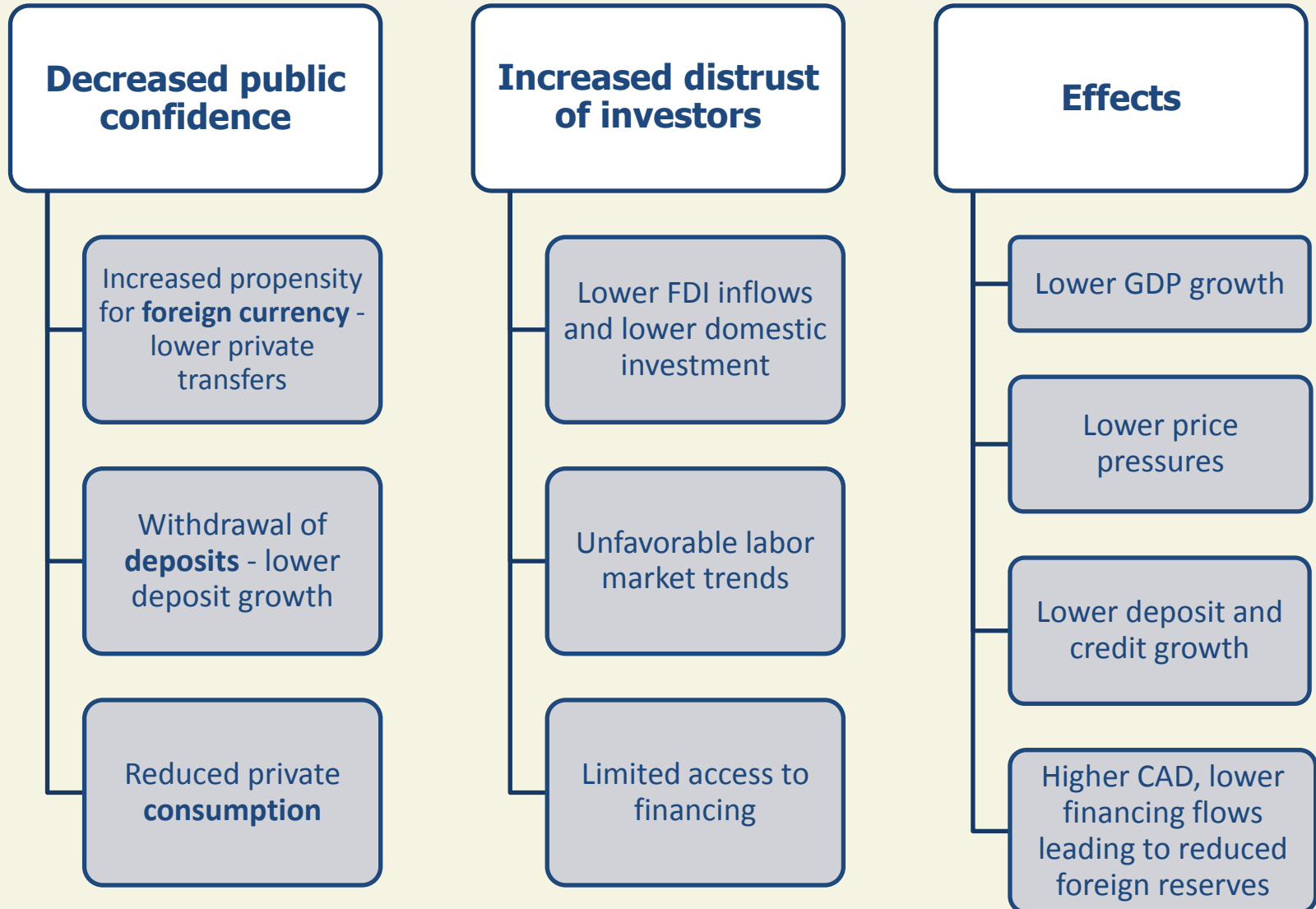




Alternative macroeconomic scenario

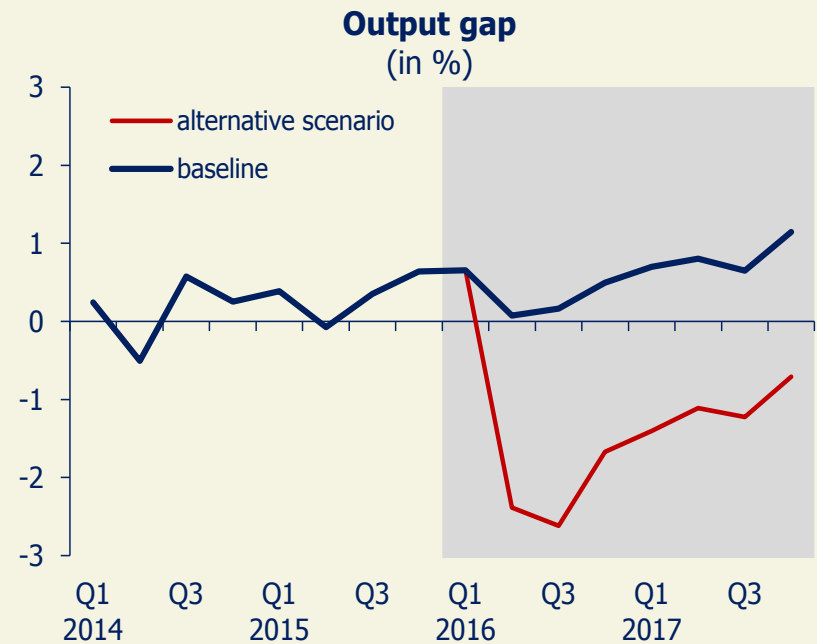
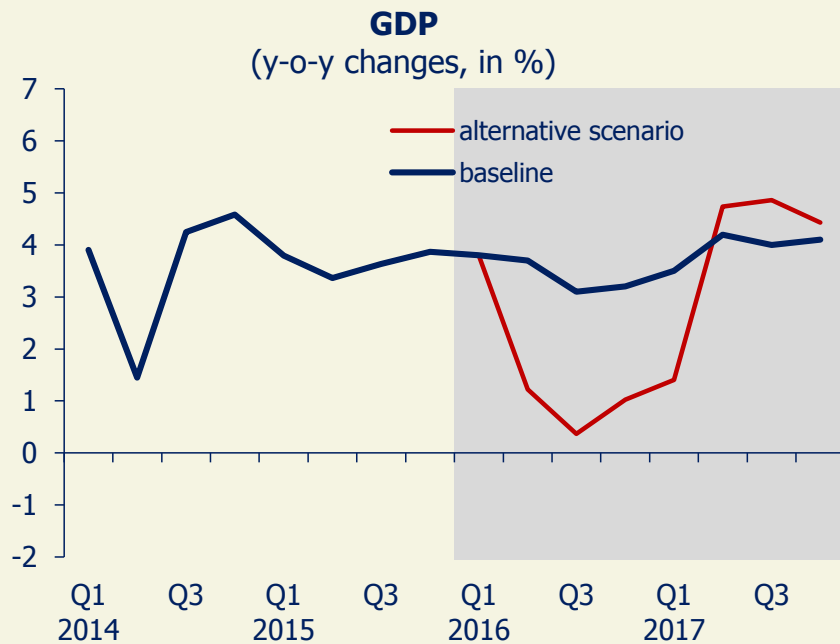


Alternative scenario



Alternative scenario

- Lower GDP growth (1,6% in 2016 and 3,9% in 2017)
- Negative output gap and downward pressures on the price level



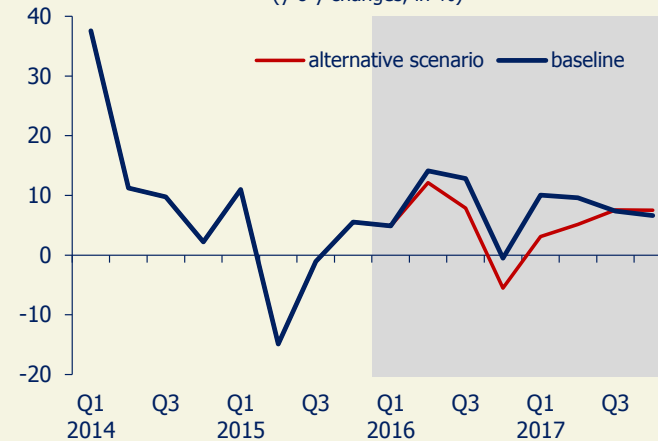


Alternative scenario

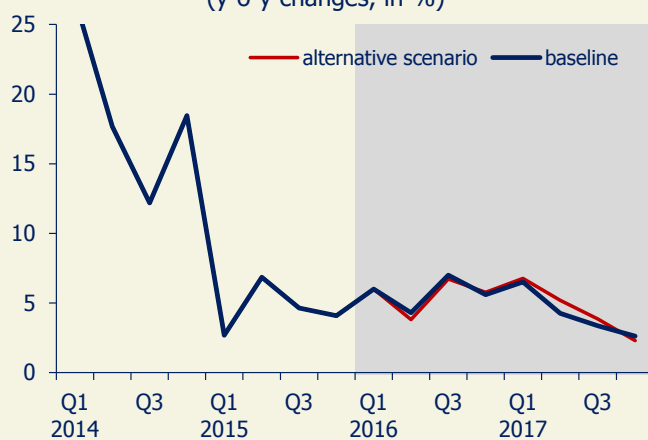
Private consumption
(y-o-y changes, in %)



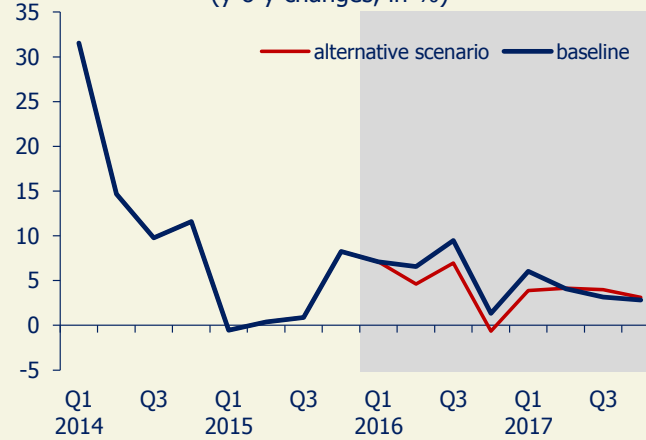
Gross capital formation
(y-o-y changes, in %)



Exports
(y-o-y changes, in %)



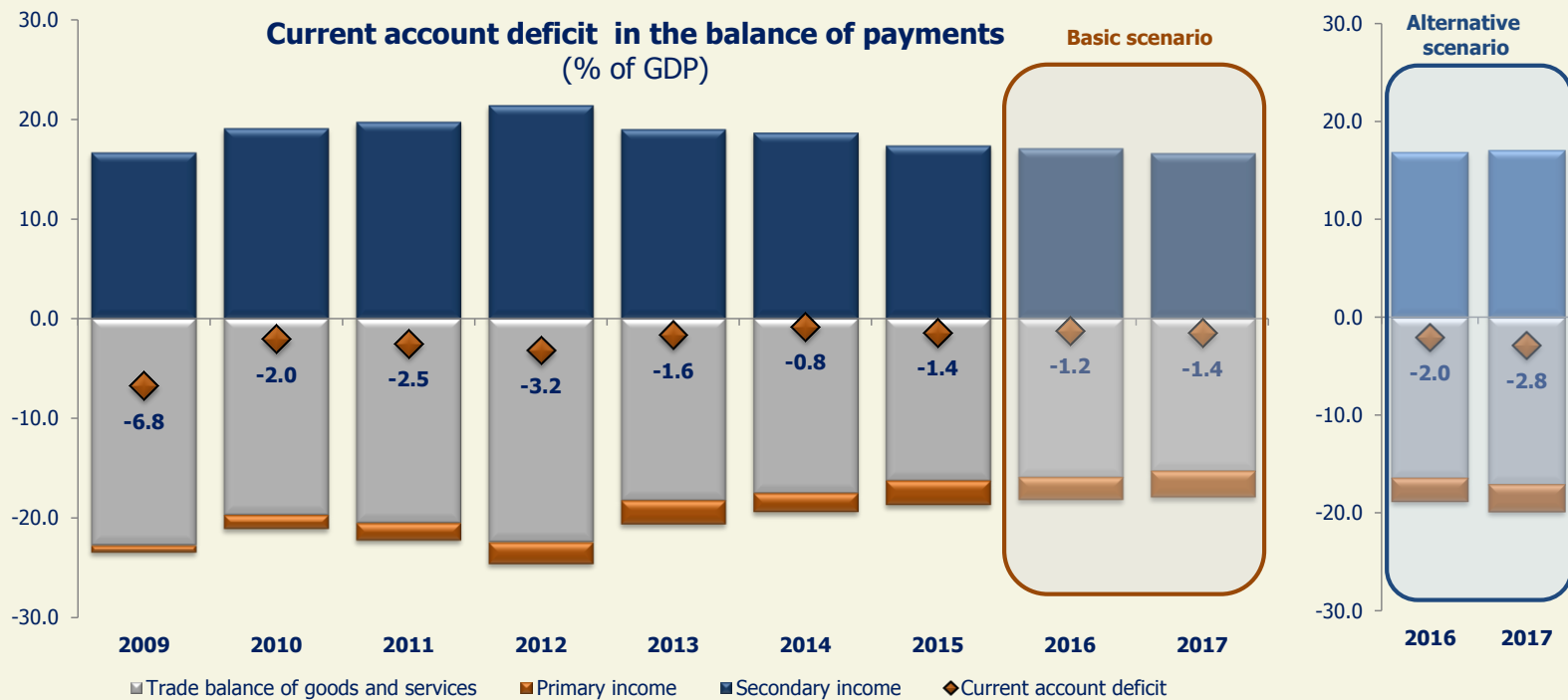
Imports
(y-o-y changes, in %)





Alternative scenario - current account -

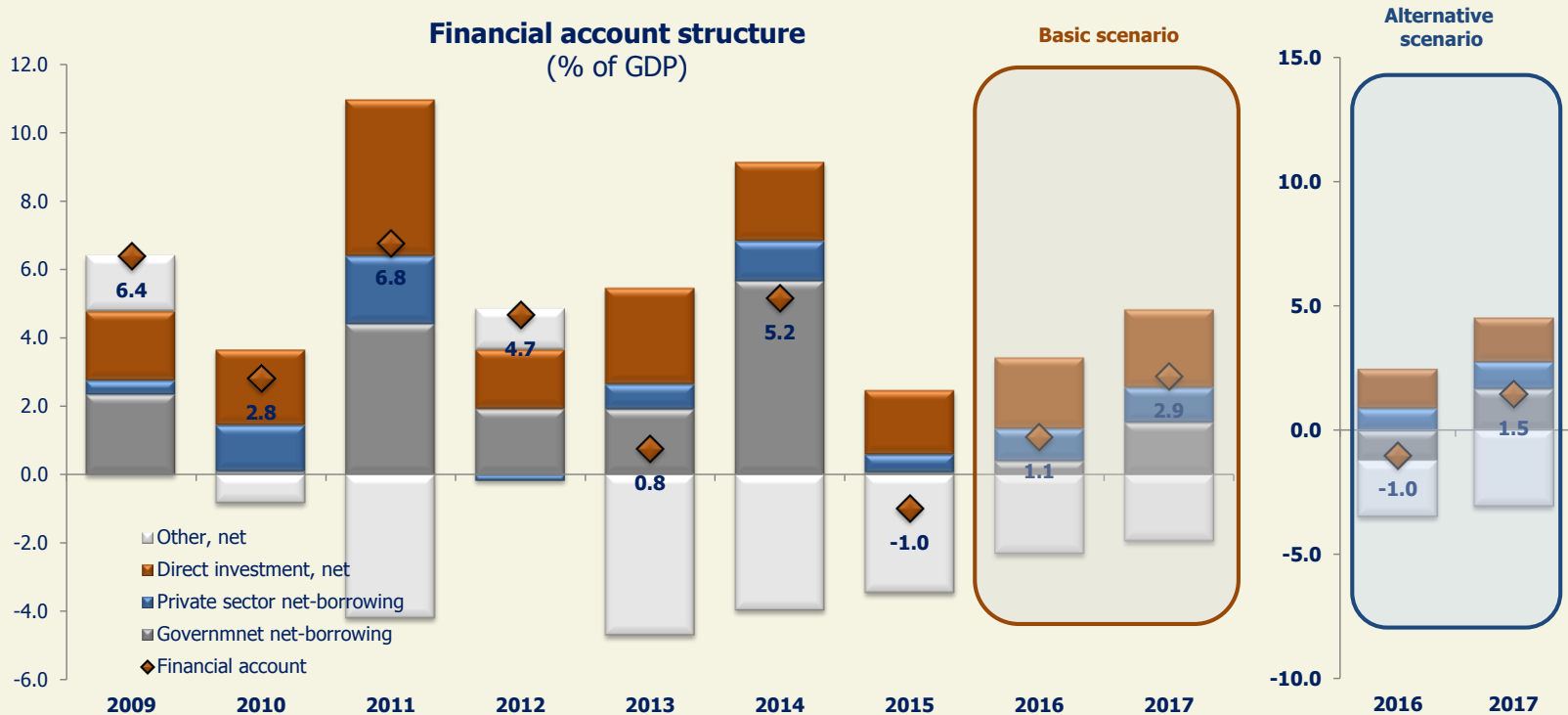
- **Larger current account deficit**, mainly effect of currency conversion.
- **Yet, the deficit remains moderate** at about 2% of GDP in 2016 (compared to 1.2% in the baseline scenario).





Alternative scenario - financial account -

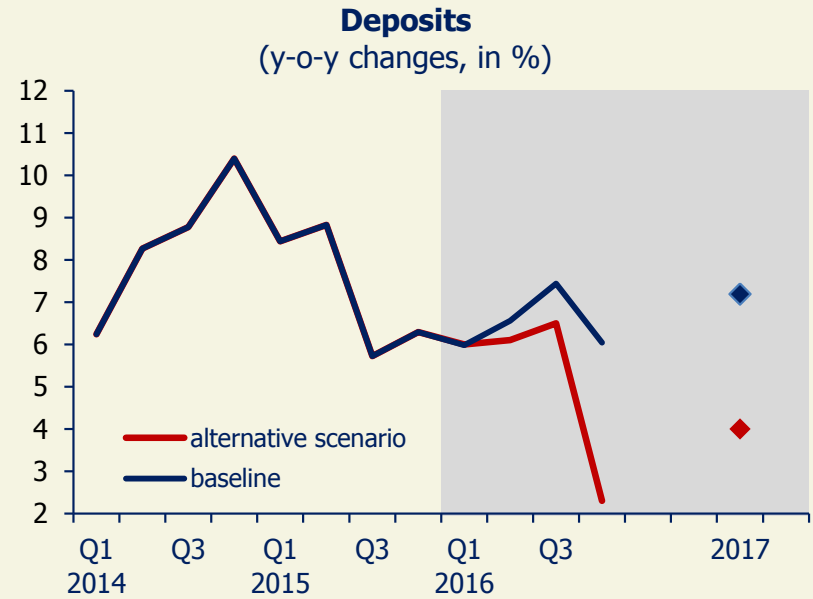
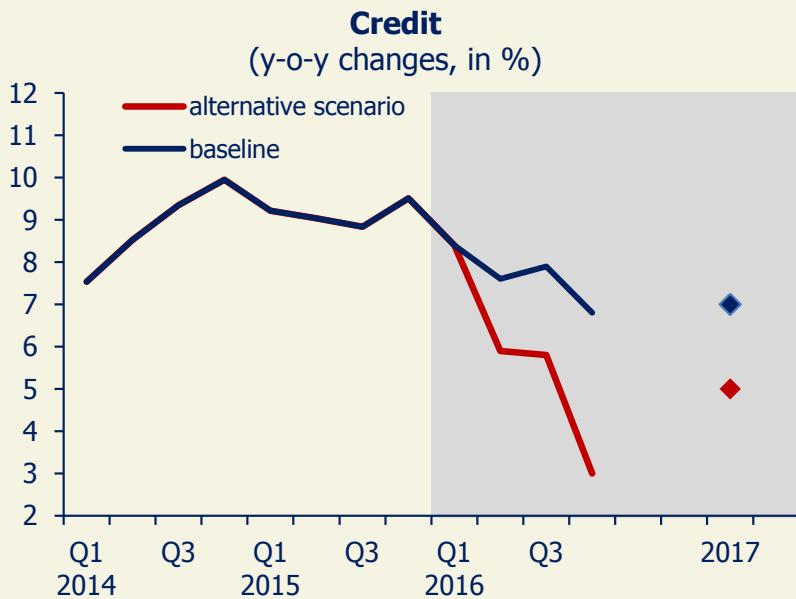
- **Deteriorated financial account**, due to:
 - lower direct investment and net borrowing of the government and of the private sector,
 - higher net outflows in currency and deposits of other sectors (increased preference for liquid foreign assets),
 - and higher external financing of the economy through trade credits in 2016





Alternative scenario - loans and deposits -

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





Risks around the forecast and policy measures

- **Risks around the baseline and alternative scenario remain.**
 - External environment is uncertain and unfavorable.
 - Domestic political risks are particularly pronounced.
- In response to the deteriorating expectations due to the political situation, the NBRM has increased the **policy rate** from 3.25% to 4% and adopted additional measures.
- **Economic fundamentals remain sound and in recent days, pressures have calmed down.**
- The NBRM will continue to closely monitor and, if necessary, take additional measures to fully stabilize the expectations of economic agents.