



Revision of the macroeconomic projections

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Macroeconomic projections for 2014-2015

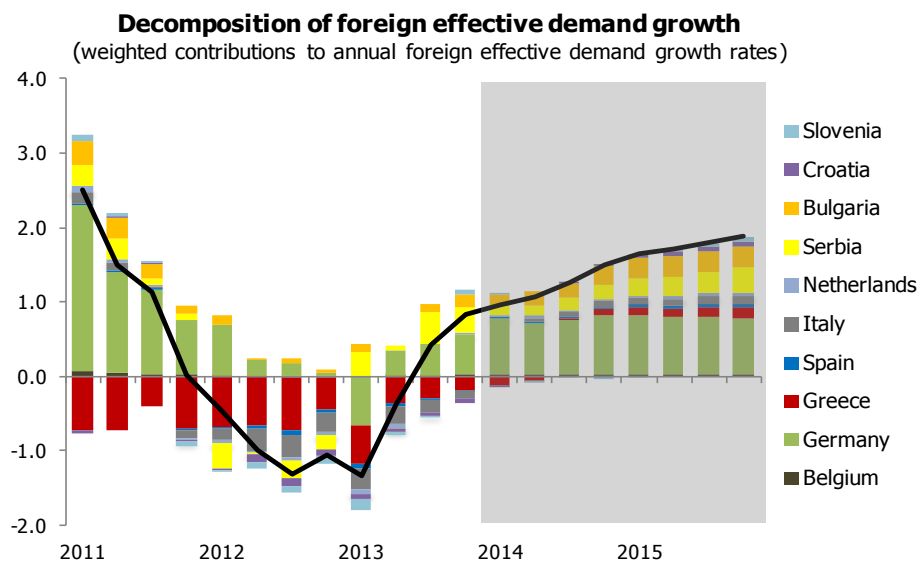
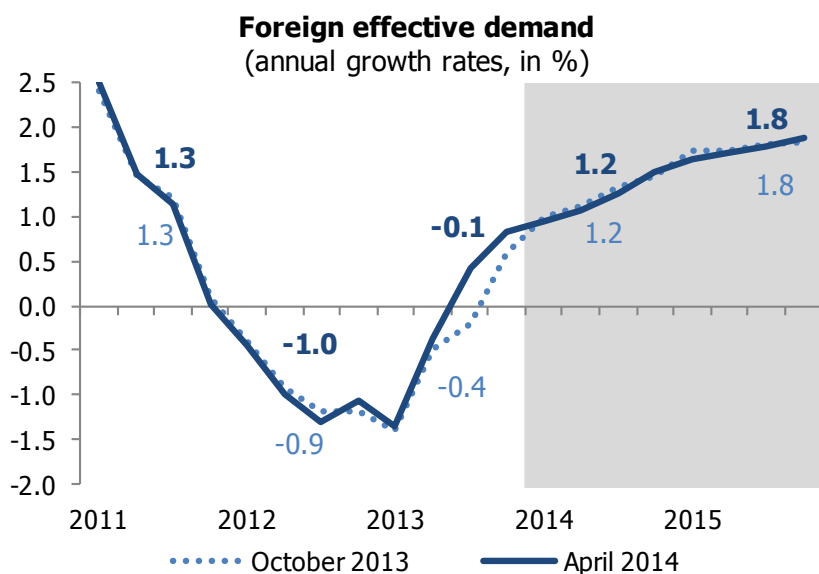
External environment

- ❑ There are no major changes in the external economic environment, with retained continuity of global recovery**
- ❑ However, there are still mostly downward risks to future growth, especially emphasized in the emerging economies, amid expectations for "normalization" of Fed's monetary policy**
- ❑ Yet, new geopolitical tensions have occurred (Ukraine) posing a risk for the recovery of the European economy**
- ❑ Slowing inflation, influenced by the world prices of food and energy**
- ❑ Retained expectations for moderate growth of the activity in the Euro zone in 2014 and intensified growth in 2015**



Foreign demand

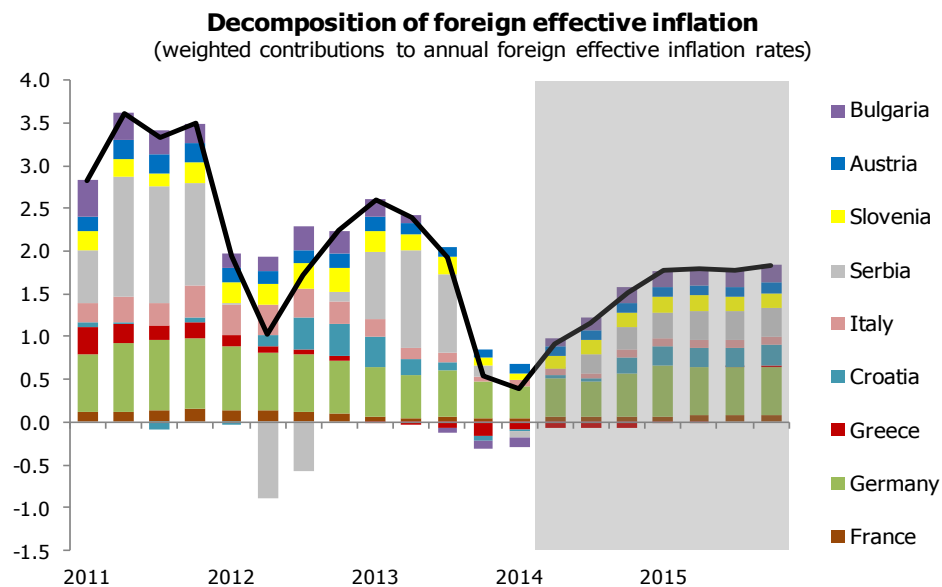
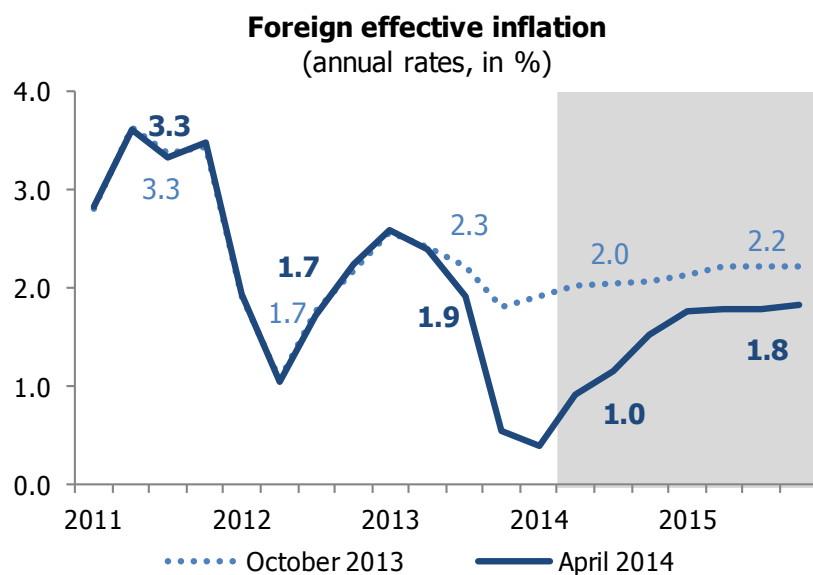
- **Unchanged expectations for the foreign demand compared to the previous projection, with expected demand growth in 2014 and its further acceleration in 2015**





Foreign effective inflation

- ❑ In the last quarter of 2013 and in the beginning of 2014 foreign effective inflation below expectations
- ❑ Downward revision of the foreign effective inflation in 2014 and 2015, consistent with the reduced price pressures from energy and food prices

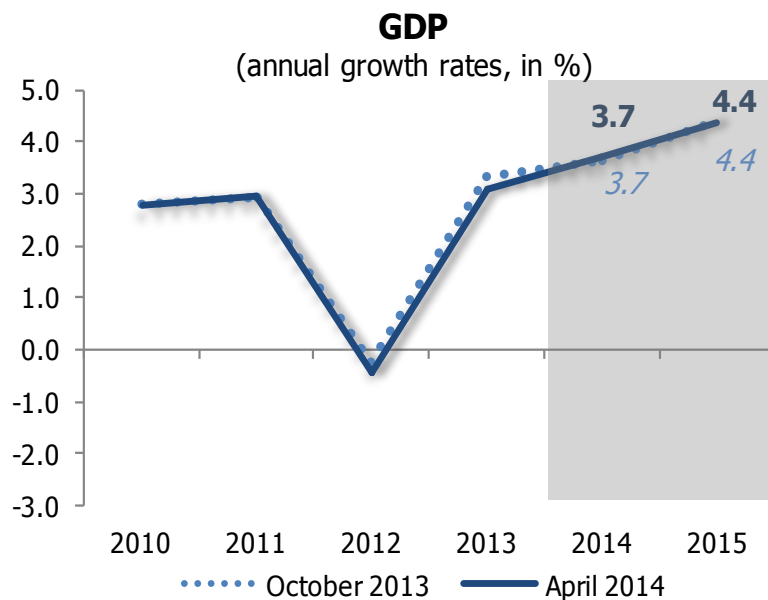




Macroeconomic projections

GDP

- Retained assessments for GDP growth in 2014 and 2015, in line with the assumptions about:
 - positive effects of existing and new FDI-based facilities;
 - Government investment incentive;
 - labor market recovery;
 - solid credit support.





GDP components

□ The main generators of growth:

- export sector - positive effects of the structural changes and
- domestic demand (private consumption and investments).
- Presence of import pressures in 2014 and 2015 - created by exports, investments and increased consumption, wherefore net exports would have a negative contribution.

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	0.3	-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	11.1	11.2	11.0	4.1	10.7
2012	-0.4	-3.0	-1.4	20.4	0.0	4.2	2.0	14.0
2013	3.1	4.2	-3.6	-10.2	4.2	-2.1	-0.3	-15.3
2014	3.7	2.6	0.5	13.1	11.2	10.7	4.6	9.4
2015	4.4	3.9	1.0	11.5	8.4	8.8	5.3	10.0

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	-0.4	-2.4	-0.2	5.0	0.0	-2.8	2.3	-2.8
2013	3.1	3.2	-0.6	-3.0	2.0	1.5	-0.4	3.5
2014	3.7	2.0	0.1	3.4	5.3	-7.1	5.4	-1.7
2015	4.4	3.0	0.2	3.2	4.3	-6.2	6.4	-2.0



Balance of payments' current account

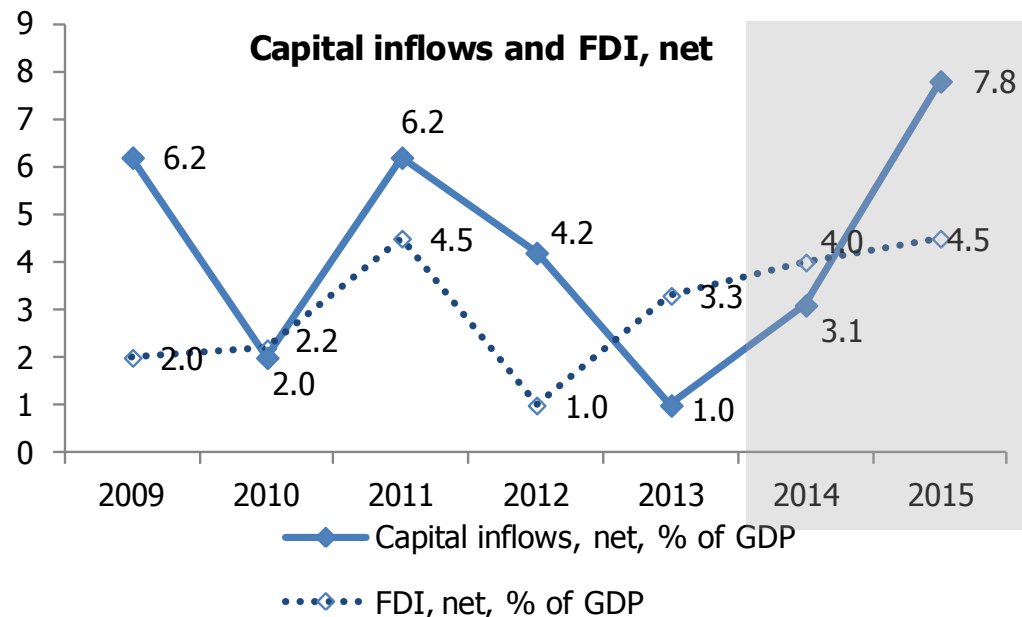
- Slight widening of the trade balance in 2014 and 2015, amid more pronounced import pressures from investment demand and the demand for raw materials
- Further normalization of the share of private transfers in GDP in both years
- Gradual expansion of the current account balance in 2014 and 2015, but at a moderate level

<i>% of GDP</i>	2009	2010	2011	2012	2013	2014	2015
Current account balance	-6.8	-2.0	-2.5	-3.0	-1.9	-4.0	-5.8
of which:							
Trade balance	-23.3	-20.5	-22.1	-23.6	-20.6	-21.1	-21.3
Current transfers, net	16.9	19.4	20.0	21.9	20.0	19.2	18.4



Capital inflows

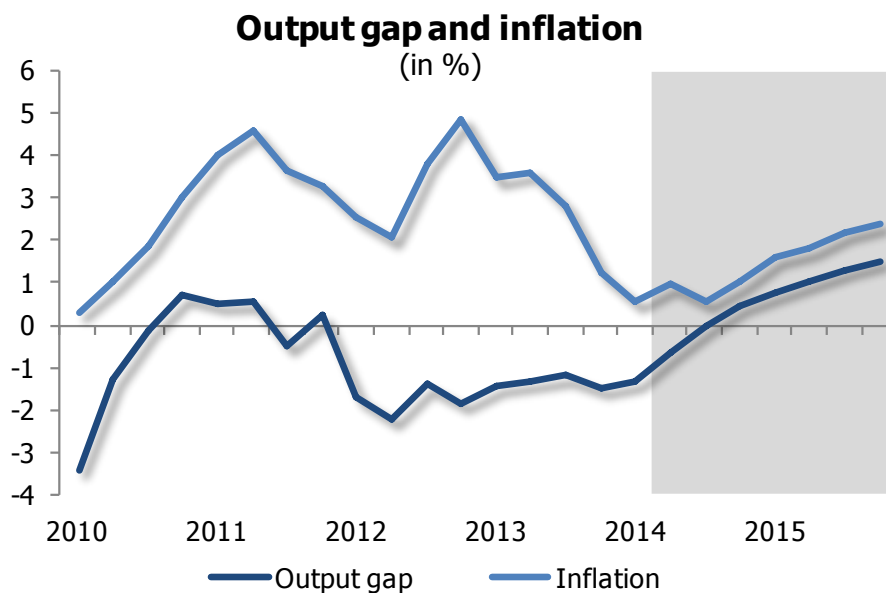
- **More significant increase of capital inflows in 2014 and especially in 2015, driven by foreign direct investments and external borrowing of the Government and of the private sector**
- **Having in mind the developments so far, moderate decline in foreign reserves in 2014 and their significant accumulation in 2015 is expected, with the foreign reserve indicators expected to be constantly maintained around the adequate level**





Inflation

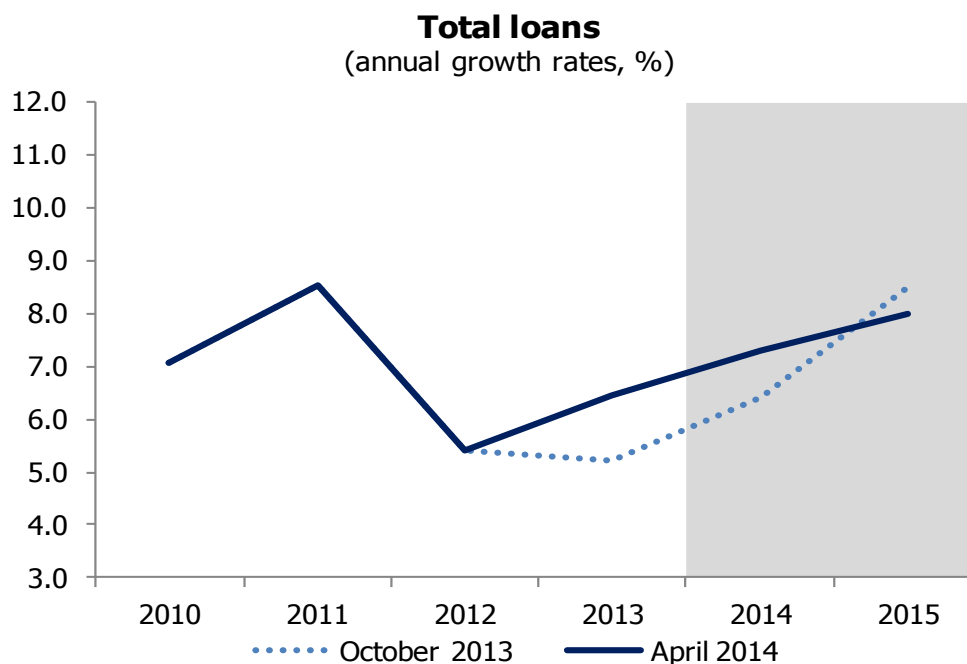
- According to the lower performance in the first four months of the year and downward shifts in the key exogenous assumptions, downward revision of estimated inflation was made
- Average inflation for 2014 is now estimated at about 1%, with more pronounced downward risks
- For 2015, the expectations for inflation rate of about 2% are maintained, with upward pressures from both the import prices and from the factors on the demand side
- The economy is currently still below potential - closing of the negative output gap in the second half of 2014





Credit growth

- In the last quarter of 2013 and the first quarter of 2014, credit growth accelerated to 7.5% annually, in March
- The growth of deposits and foreign credit lines available, improved banks' perceptions of risks and improved global environment are expected to provide maintenance of credit growth rates at 7-8% annually, in 2014 and 2015
- The banking system still registers a high capital adequacy ratio (16.8% in December), high liquidity and a gradual slowdown in the share of non-performing loans to non-financial entities (11.1% in March 2014)





Summary

- **Unchanged assessments for the growth dynamic of the domestic economy in these two years, with growth being driven by exports and domestic demand**
- **Downward correction of the inflation projection for 2014 due to factors on the supply side, with unchanged prospects for 2015**
- **A smaller deficit in the balance of payments current account in 2014 compared to the October projections, with maintained assessments for its widening in these two years, however to a moderate level**
- **The anticipated capital inflows in 2014 and 2015, are expected to provide sufficient additional accumulation of foreign reserves**
- **Maintained favorable trends in lending by banks**
- **Sensitivity of the scenario of possible changes in the global economic environment**
- **Need for regular monitoring of the movements for the purpose of timely and adequate policy adjustment**

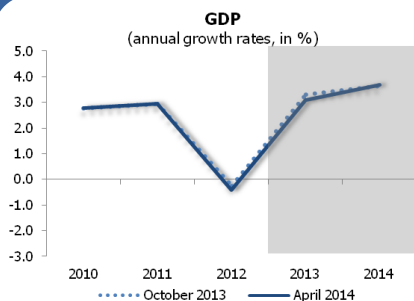


Annex 1: World prices of primary commodities

<i>annual changes, %</i>		Crude oil	Crude oil	Export metal price index	Nickel price	Copper price	Wheat price	Corn price
		(USD per barrel)	(EUR per barrel)	(EUR based, 2005=100)	(EUR per metric tonne)	(EUR per metric tonne)	(EUR per metric tonne)	(EUR per metric tonne)
Forecast April 2014	2013	-2.8	-5.9	-9.7	-17.1	-10.8	-3.6	-15.9
	2014	-2.1	-3.3	-3.5	1.7	-8.5	5.8	-13.0
	2015	-4.5	-1.6	4.5	6.3	1.0	9.5	6.9
Forecast October 2013	2013	-3.2	-5.3	-9.7	-16.1	-9.4	-1.6	-13.5
	2014	-5.4	-2.4	4.9	-3.1	2.9	5.8	-11.6
	2015	-5.2	-5.9	1.2	1.2	0.0	1.7	5.2

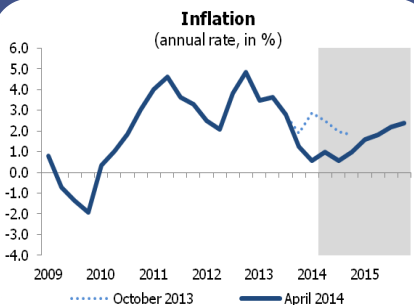


Annex 2: Comparison with the previous projection



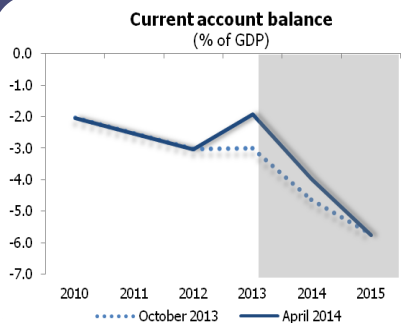
The estimates for economic growth unchanged compared to the previous projection - GDP growth of 3.7% for 2014 and 4.4% for 2015

- almost the same initial conditions
- retained expectations for public investment and the effects of the new facilities, similar expectations in the labor market, unchanged perceptions of foreign demand, almost the same expectations for foreign investment and somewhat stronger credit support
- exports, investment activity and household consumption- again major factors for economic growth



Downward revision of projected inflation for 2014 (estimated at 1%) and unchanged assessment for the inflation in 2015 (2%)

- performance between the two projections deviates downward compared with the expectations
- downward revision of the foreign effective inflation and of the import prices of energy and food for 2014
- in 2015 strengthening of the inflationary pressures through the channel of import prices and upward pressures also from factors on the demand side



External sector

- lower current account deficit in 2014 due to the lower deficit in the goods and services trade balance, as well as a downward revision in the net capital inflows (higher outflows in some of the short-term flows)
- unchanged current account deficit for 2015 and slightly higher capital inflows