



# **Latest Macroeconomic Forecasts**

## **- May 2017 -**

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26 May 2017



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# Risks between the two forecasts

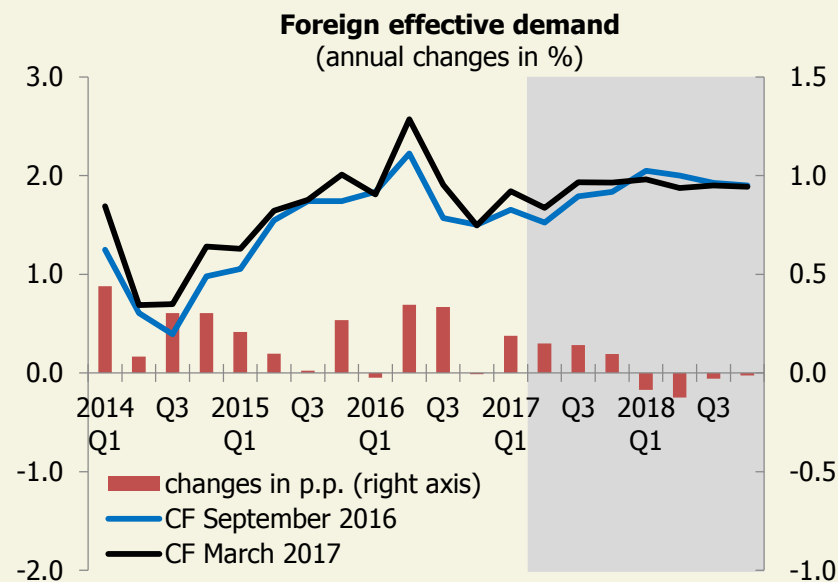
- **The unfavorable risks in this forecast cycle are more pronounced compared to October**
  - ...mainly associated with **domestic non-economic factors** - political crisis that continued in 2017, contrary to the October expectations for its resolution...
  - ...and with the **external environment** - uncertain implications of the Brexit, protectionist trends globally, faster increase in interest rates by FED than originally expected, and geopolitical tensions
- **However, the latest scenario is accompanied by certain favorable risks**
  - ...possibly stronger positive effects of structural changes in the export sector on the domestic economy...
  - ...and globally - faster recovery of international prices of primary commodities, further revival of the global financial markets and fiscal stimulus in the United States



# External environment assumptions

## - foreign demand -

- **Further recovery of the external demand to almost 2% in 2018.**
- Slight upward revision of foreign demand for **2017** (growth of 1.8% versus 1.7% in October) mainly reflecting expectations for higher contribution of the growth in Germany.
- Minor downward correction for **2018** (growth of 1.9% versus 2% in October).

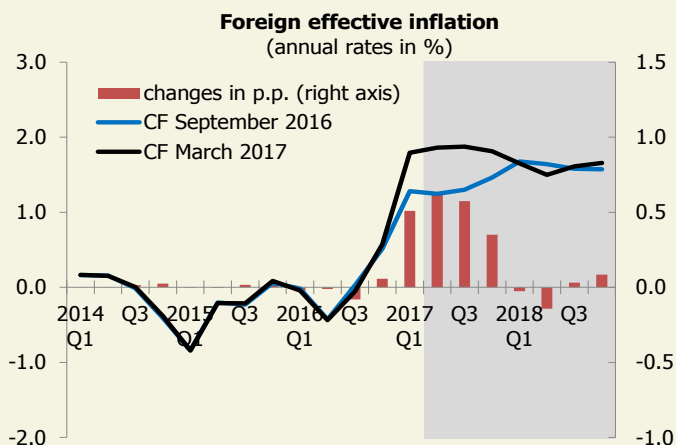




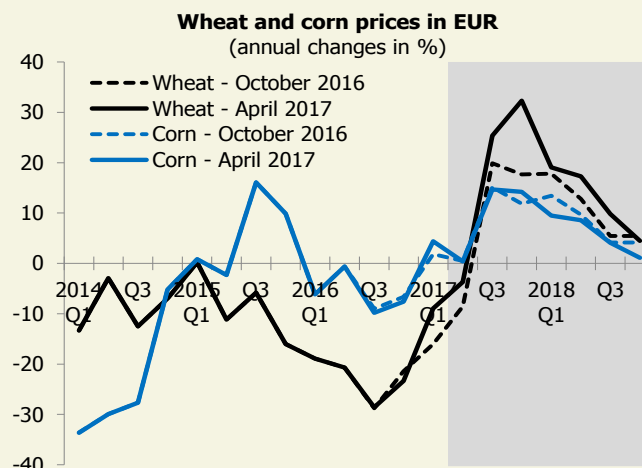
# External environment assumptions

## - imported prices -

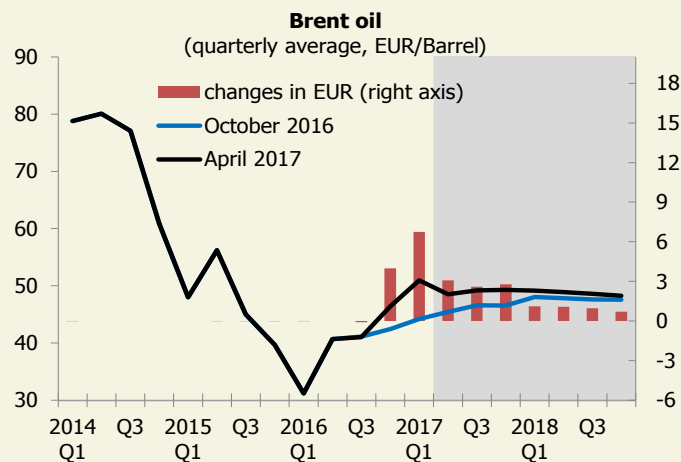
**Upward revision of foreign effective inflation in 2017...**



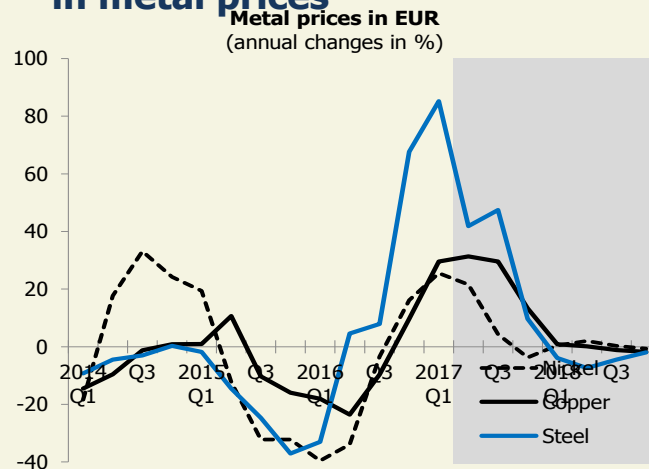
**...mainly upward revisions of cereal prices...**



**... amid higher level of oil prices...**



**...and mostly upward movements in metal prices**



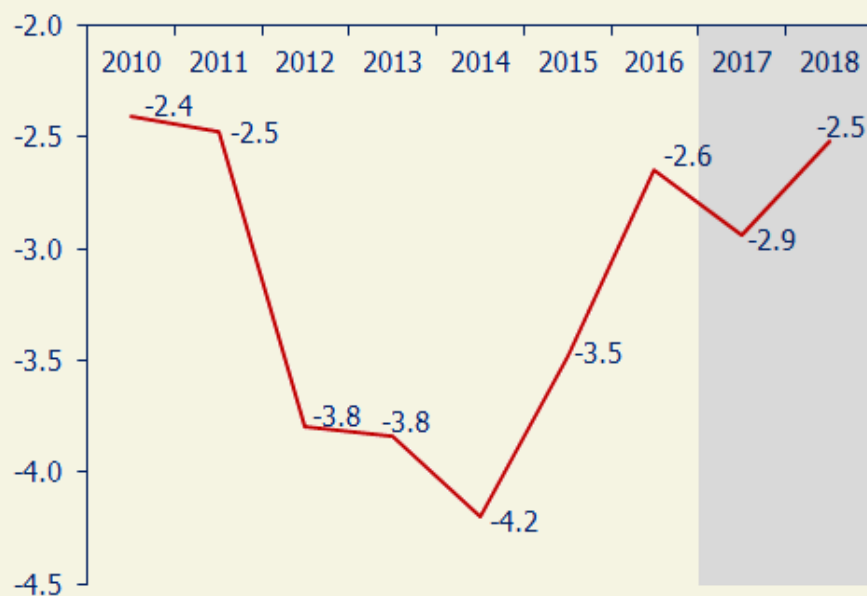




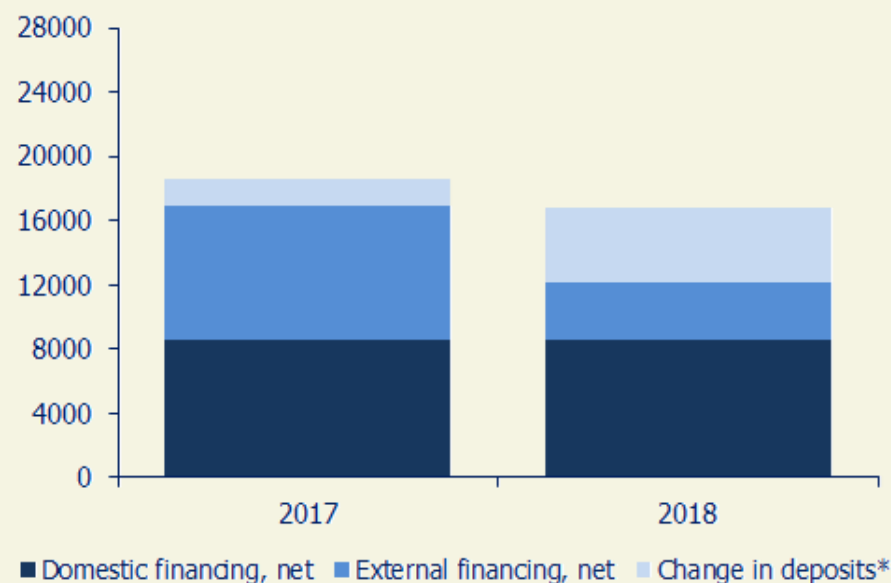
# Fiscal policy assumptions

- **2017 Budget and Fiscal Strategy 2017-2019 - gradual fiscal consolidation with deficit declining to 2.2% of GDP in 2018, financed mainly through a mix of domestic and external borrowing;**
- **Slower spending in the first quarter to be offset with higher spending in the forthcoming period;**
- **No changes in comparison with October forecasts (although better than expected realization in 2016).**

**Budget balance**  
(% of GDP)



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



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



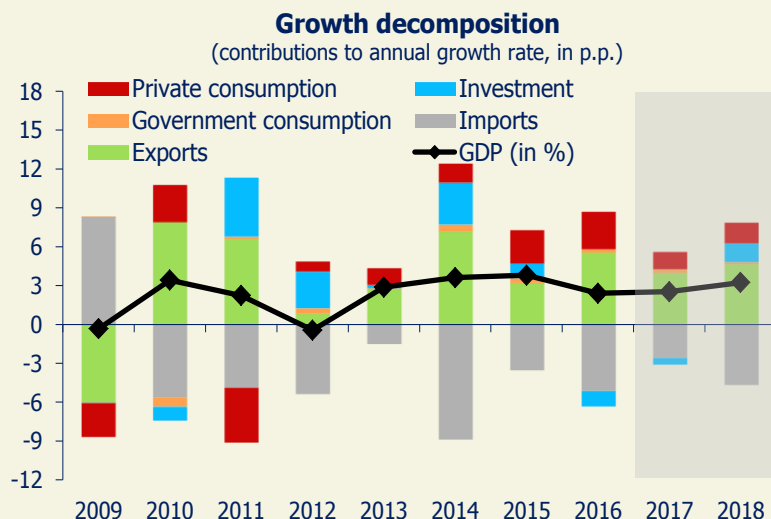
# **Macroeconomic scenario 2017-2018**



# GDP forecast

- **Solid growth rate is expected during the forecast horizon:** 2.5% for 2017 and acceleration to 3.2% for 2018
- **Downward correction** of the economic growth forecast for 2017 and 2018 compared to October (mostly due to investments)
- **Growth structure:** export-driven growth supported by private consumption... with weaker effect of investments

	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.	
2017	<b>2.5</b>	2.3	1.3	-1.3	-0.5	7.6	4.0	3.1	-2.5	2.4	0.3	1.1	1.5
2018	<b>3.2</b>	2.4	1.6	5.3	1.4	8.1	4.7	6.3	-4.6	1.2	0.2	3.2	0.0







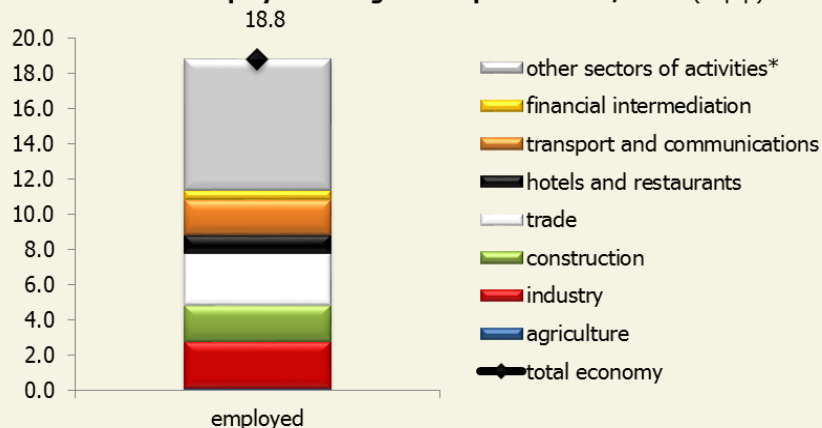
# GDP forecast

- **Fundamental growth factors similar to those in 2016 - exports and private consumption as generators of growth, with additional impetus from investment activity in 2018:**
  - **Prolonged effects of the political crisis**, which are expected to fade away by end 2017
  - **Exports** driven by the growing activity of the existing production facilities in foreign ownership, and the recovery of some traditional sectors
  - **Continuation of the public capital investment** cycle and growth in foreign direct investment
  - **Restraint of the domestic corporate sector in 2017**, and recovery and solid growth of investments in 2018, amid stable environment and accelerating growth
  - **Resilience of private consumption** to the political crisis, given the positive labor market developments and credit support from banks



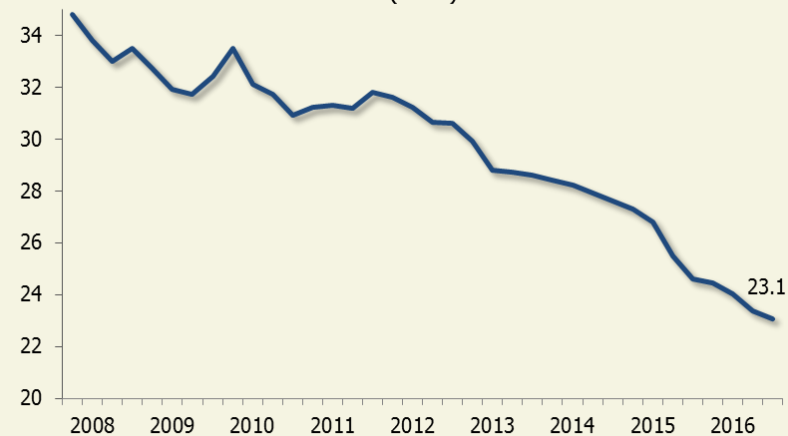
# Labour market

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



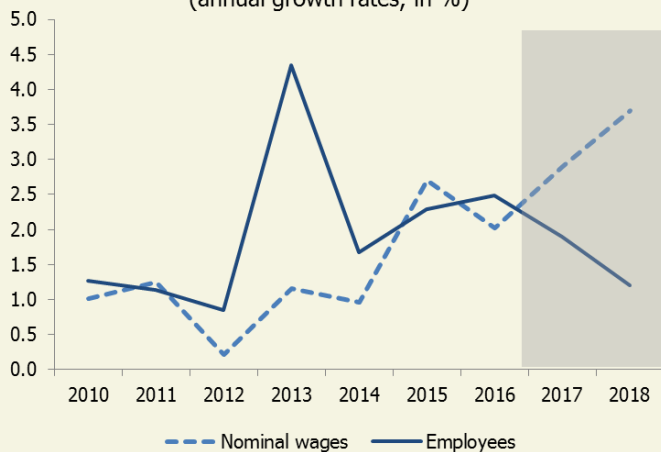
\*Other sectors of activities include: public administration and defence, compulsory social security, education, health and social work activities, activities of households as employers, as well as activities of extraterritorial organisations and bodies.

**Unemployment rate (in %)**



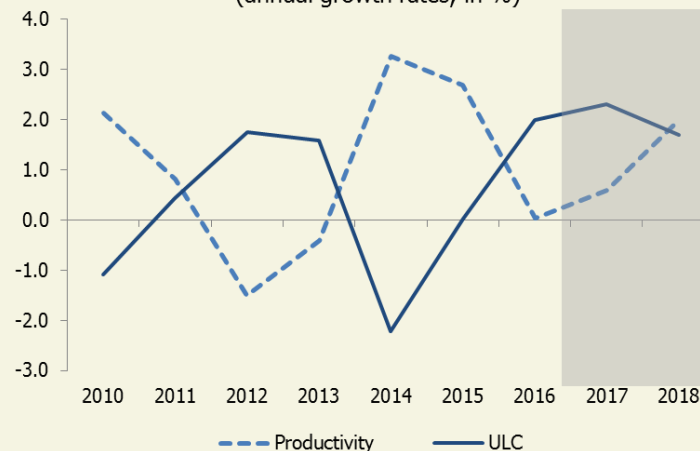
Source: State Statistical Office, Labor Force Survey

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



Source: State Statistical Office

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

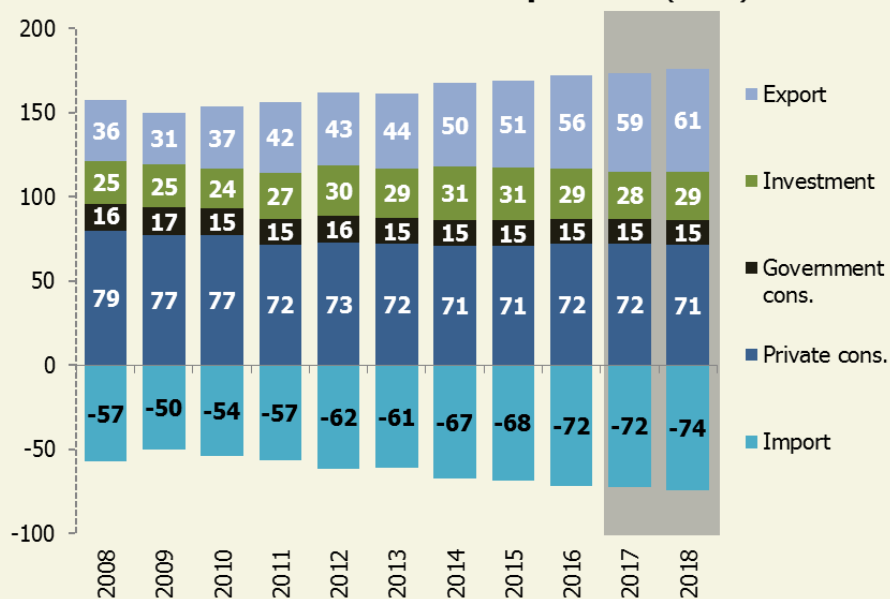


Source: State Statistical Office and NBRM calculations



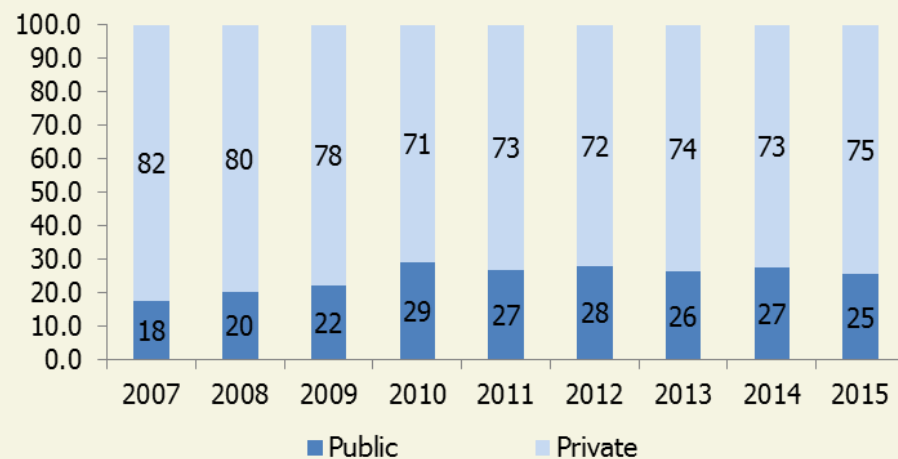
# Structural changes

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



Source: SSO and NBRM forecast.

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

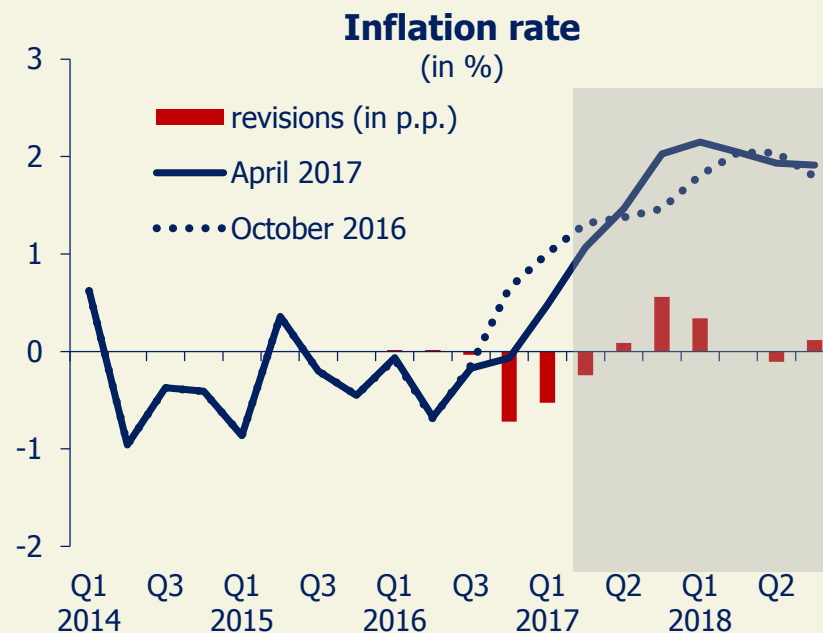
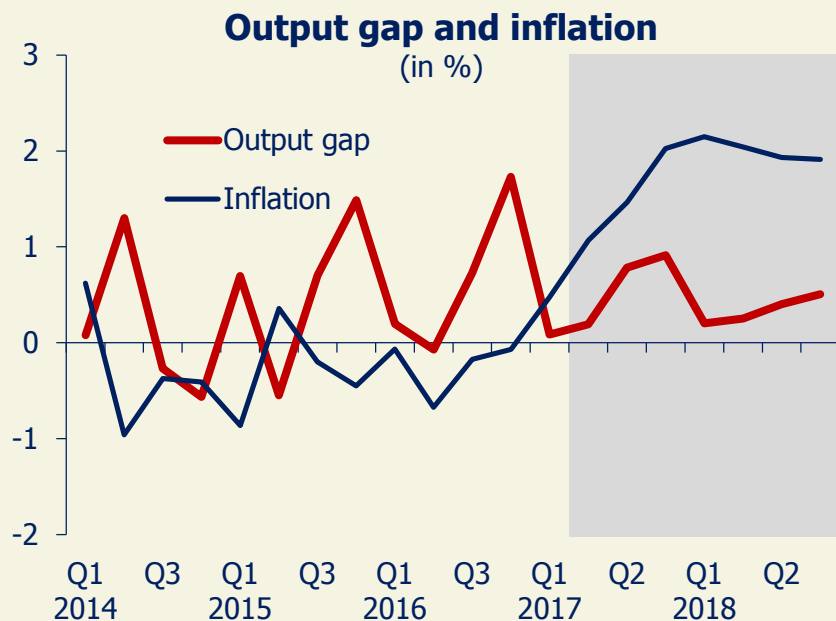


Source: SSO



# Inflation forecast

- Slight downward deviation of the actual inflation from that forecast in October
- On the other hand, upward adjustments of most import prices
- **Unchanged expectations about the price movement compared to October**
  - **Expected acceleration of the growth of prices i.e. inflation of 1.3% in 2017 and 2% in 2018**, amid moderate positive output gap, increased food and energy prices, and higher foreign inflation
- **Risks** to the forecast inflation trajectory, mainly due to the uncertainty about import prices





# Forecasts of other institutions

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

Organisation	Month of publication	Real GDP growth, %		Inflation (average rate, %)	
		2017	2018	2017	2018
IMF	April 2017	3.2	3.4	0.7	1.7
World Bank	April 2017	2.8	3.3	0.6	1.4
European Commission	May 2017	2.9	3.2	0.8	2.3
EBRD	May 2017	2.4	3.0	-	-
Consensus Forecast	May 2017	3.1	3.4	1.3	2.0
Ministry of Finance of the Rep. of Macedonia	July/October 2016	3.0	3.5	1.0	1.5
National Bank of the Republic of Macedonia	April 2017	2.5	3.2	1.3	2.0

Source: IMF World Economic Outlook, April 2017; World Bank SEE Regular Economic Report No.11, April 2017; European Commission European Economic Forecast, May 2017; EBRD Regional Economic Prospects, May 2017; Consensus Forecast, May 2017; Ministry of Finance of the Republic of Macedonia, 2017 Budget and Fiscal strategy 2017-2019, July/October, 2016; and the National Bank of the Republic of Macedonia.

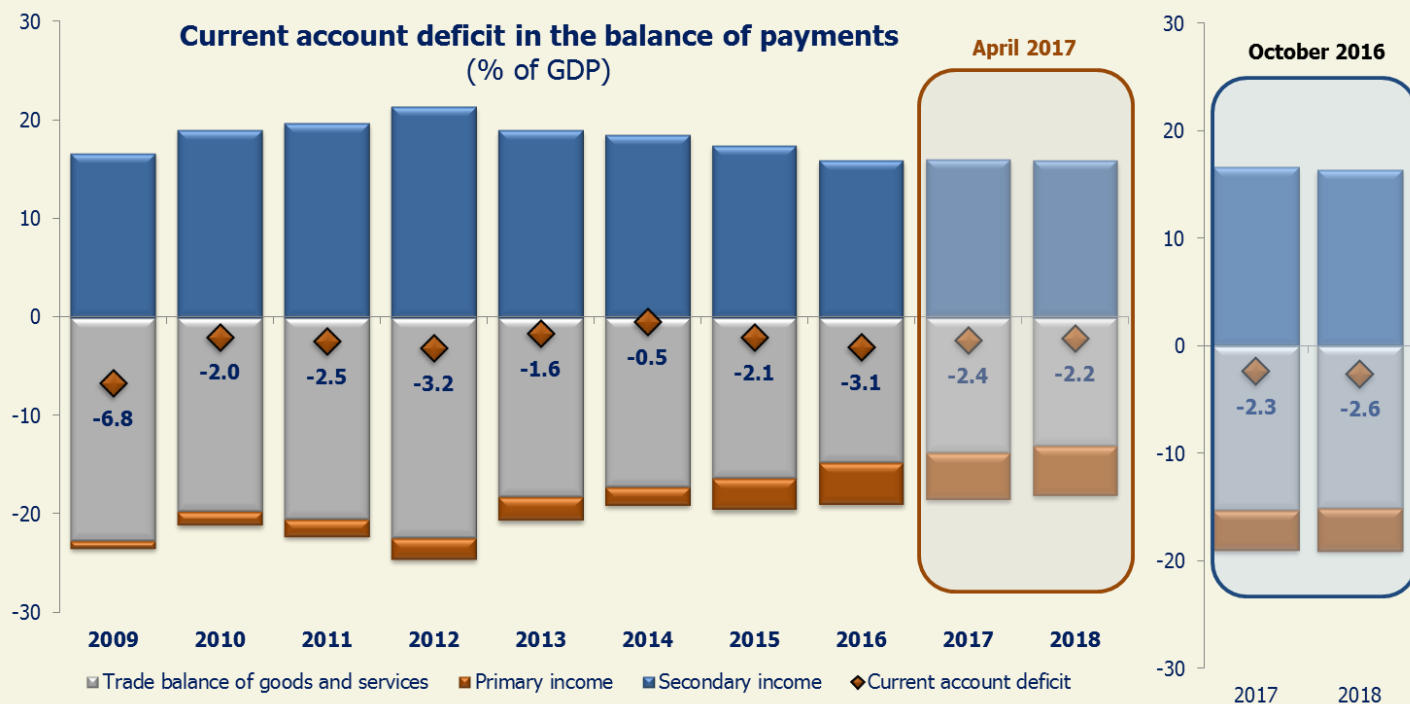




# Balance of payments

## - current account -

- **Expected contraction of the current account deficit in the 2017-2018 period** (on average, deficit similar to previous forecast);
- **Lowering of deficit in the balance of goods and services**, reflecting expectations for better performances of the new export facilities and recovery of some traditional export sectors (lower deficit compared to October);
- **Widening of the primary income deficit** (higher deficit compared to October);
- **Declining secondary income** (slight downward revision compared to October);







Quarter	Share of total export (in %)
Q1 2010	4
Q2 2010	7
Q3 2010	7
Q4 2010	10
Q1 2011	19
Q2 2011	16
Q3 2011	14
Q4 2011	16
Q1 2012	20
Q2 2012	18
Q3 2012	17
Q4 2012	21
Q1 2013	24
Q2 2013	23
Q3 2013	24
Q4 2013	27
Q1 2014	35
Q2 2014	35
Q3 2014	35
Q4 2014	39
Q1 2015	39
Q2 2015	43
Q3 2015	42
Q4 2015	44
Q1 2016	50
Q2 2016	48
Q3 2016	45
Q4 2016	47
Q1 2017	51

(in percent)

Country	2009	2010	2011	2012	2013	2014	2015	2016	Q1 2017
Bulgaria	8.0	7.5	7.0	6.5	6.0	5.5	5.0	4.5	4.0
Germany	17.0	21.5	28.0	30.0	36.0	41.5	46.0	48.0	49.0
Greece	11.0	7.0	5.0	4.5	4.0	3.5	3.0	2.5	2.0
Italy	8.0	7.0	6.5	6.0	5.5	5.0	4.5	4.0	3.5
Croatia	6.0	5.0	4.0	3.5	3.0	2.5	2.0	1.5	1.0
Other EU countries	13.0	17.5	15.0	14.0	15.0	16.0	17.0	18.0	20.5
Kosovo	11.5	13.0	10.0	9.0	7.0	6.0	5.0	4.5	4.0
Bosnia and Herzegovina	3.0	2.5	2.0	1.5	1.0	0.5	0.5	0.5	0.5
Serbia	13.0	8.0	7.0	6.0	5.0	4.5	4.0	3.5	3.0
Other countries	11.0	15.0	16.0	13.0	12.0	11.0	10.0	9.0	8.0

Starting from 2013 Croatia is included in the EU countries.

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Period	Year	Very satisfied (%)	Satisfied (%)	Not satisfied (%)	
Average 2011-Q1 2017	Average 2011-Q1 2017	46.6	3.4	40.1	
	Q1 2017			10.0	
	2016				
	2015				
	2014				
	2013				
	2012				
	2011				
	Average 2004-2010	Average 2004-2010	70.4	7.1	10.9
		2010			11.5
2009					
2008					
2007					
2006					
2005					
2004					

The chart displays the percentage share of different export categories from 2007 to 2016. The Y-axis represents the percentage share from 0% to 100%. The X-axis lists the years from 2007 to 2016. The legend identifies seven categories: Food, beverages and tobacco (dark blue); Mineral fuels, lubricants and related materials (grey); Miscellaneous manufactured articles (light blue); Manufactured goods classified by materials (dark blue); Crude materials, inedible, except fuels (orange); Chemical Products (yellow); and Machinery and transport equipment (green). The chart shows a general trend of increasing shares for 'Machinery and transport equipment' and 'Chemical products' over the decade.

Year	Food, beverages and tobacco	Mineral fuels, lubricants and related materials	Miscellaneous manufactured articles	Manufactured goods classified by materials	Crude materials, inedible, except fuels	Chemical Products	Machinery and transport equipment
2007	15%	5%	25%	35%	5%	10%	5%
2008	15%	5%	25%	35%	5%	10%	5%
2009	15%	5%	25%	35%	5%	10%	5%
2010	15%	5%	25%	35%	5%	10%	5%
2011	15%	5%	25%	35%	5%	10%	5%
2012	15%	5%	25%	35%	5%	10%	5%
2013	15%	5%	25%	35%	5%	10%	5%
2014	15%	5%	25%	35%	5%	10%	5%
2015	15%	5%	25%	35%	5%	10%	5%
2016	15%	5%	25%	35%	5%	10%	5%

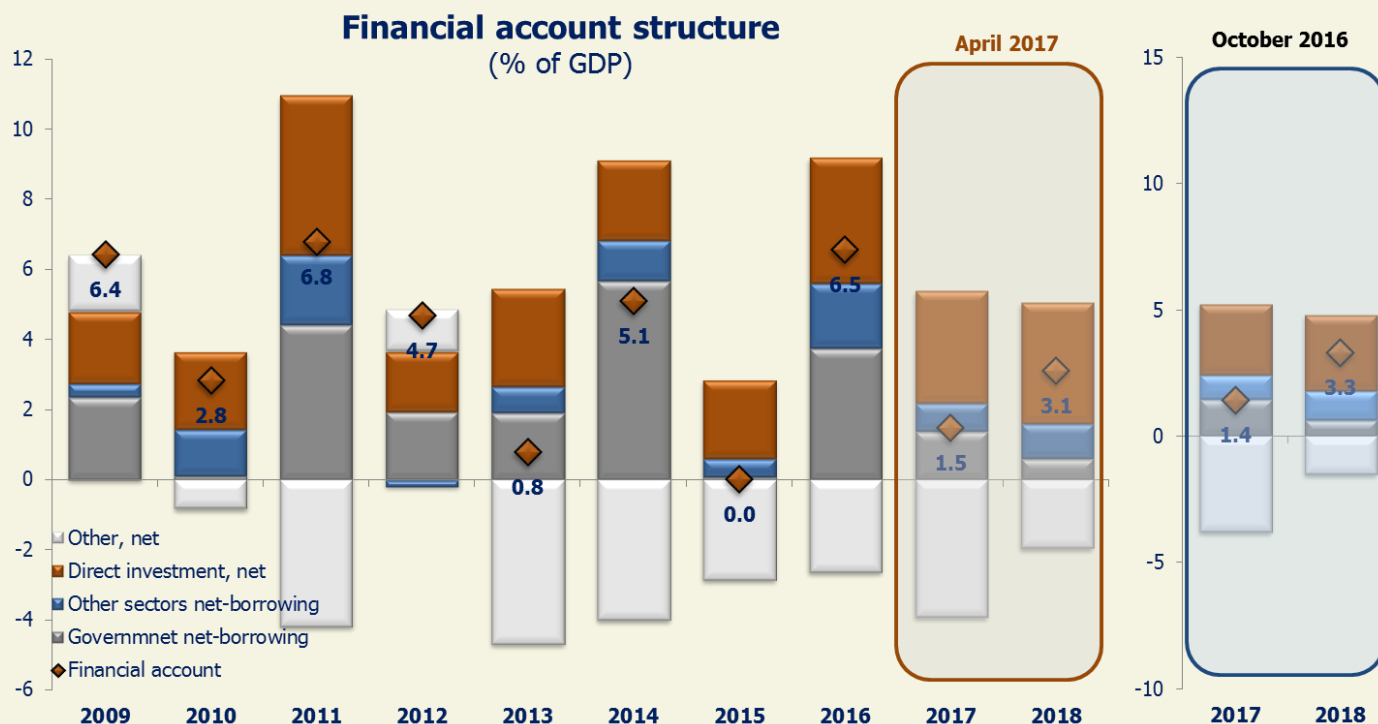
- Food, beverages and tobacco
- Mineral fuels, lubricants and related materials
- Miscellaneous manufactured articles
- Manufactured goods classified by materials
- Crude materials, inedible, except fuels
- Chemical Products
- Machinery and transport equipment



# Balance of payments

## - financial account -

- **Inflows in financial account during 2017 and 2018** (on average, similar to the previous forecasts);
- During the forecast horizon: net inflows of foreign direct investment and long-term borrowing by the public sector.

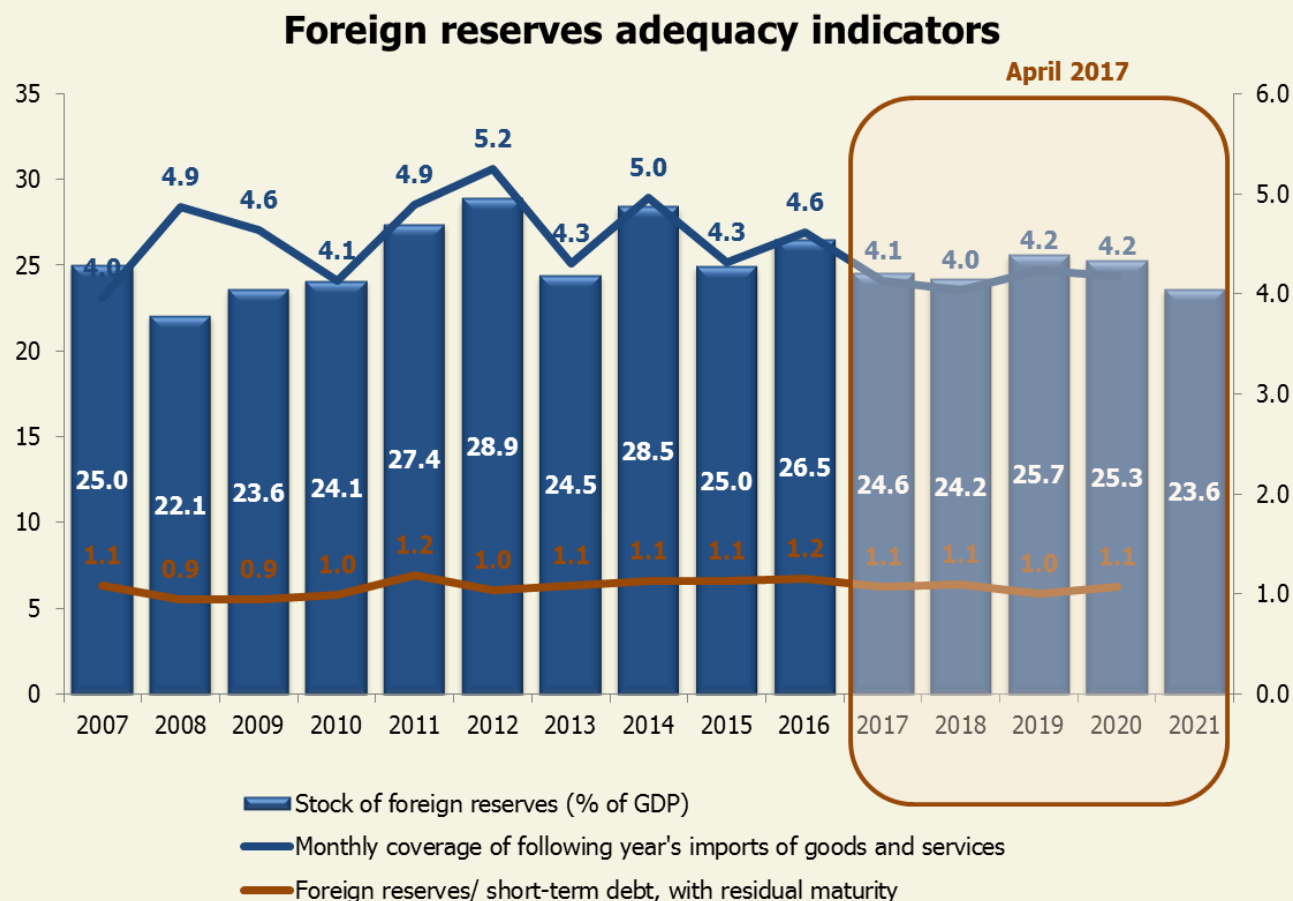




# Balance of payments

## - foreign reserves adequacy ratios -

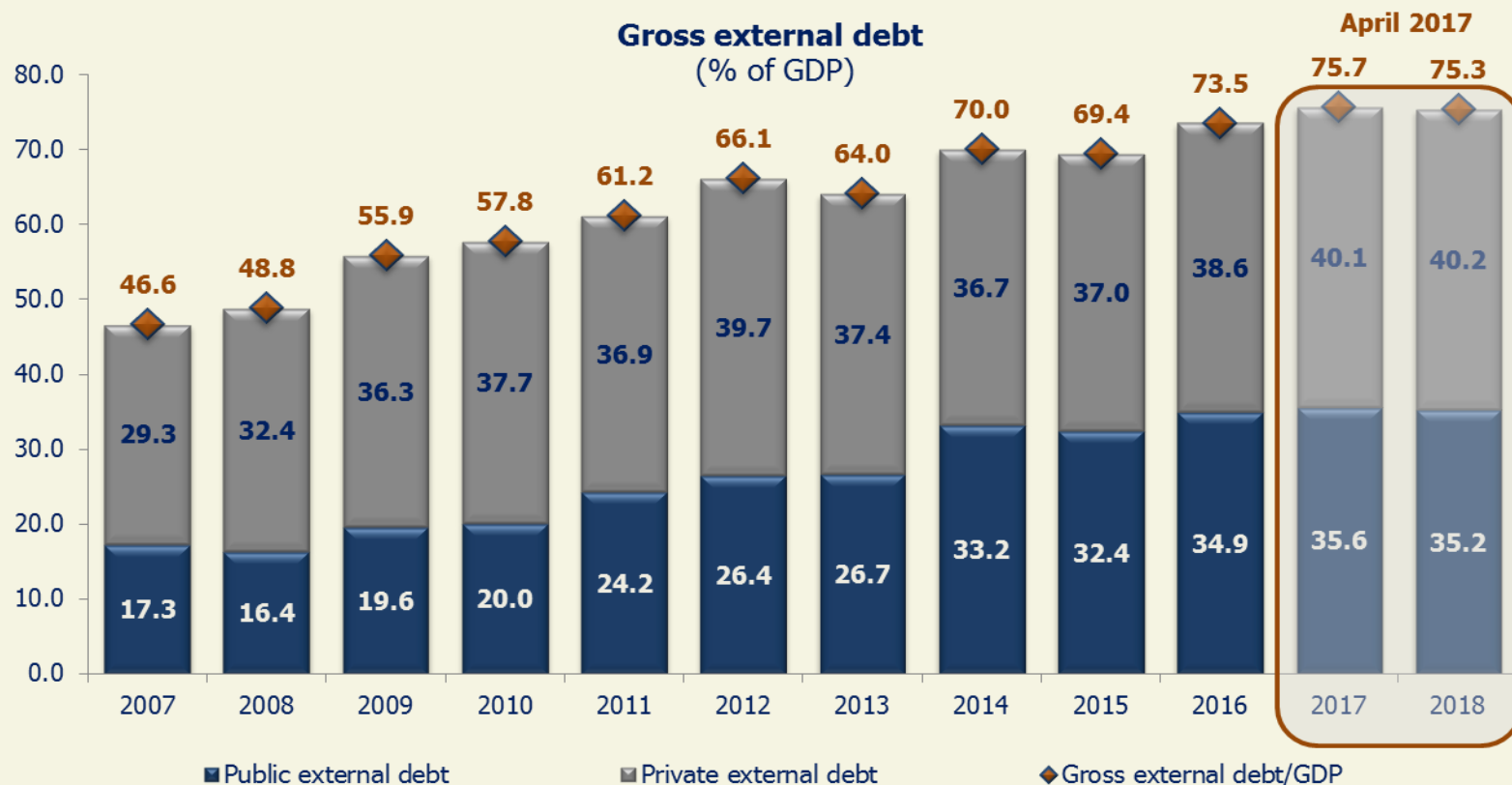
- During the entire forecast horizon, foreign reserves adequacy indicators are maintained in a safe zone.





# Balance of payments

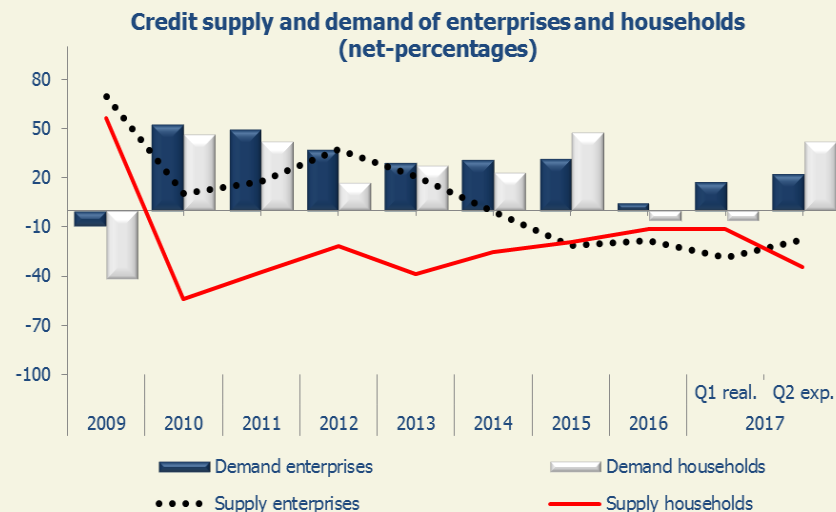
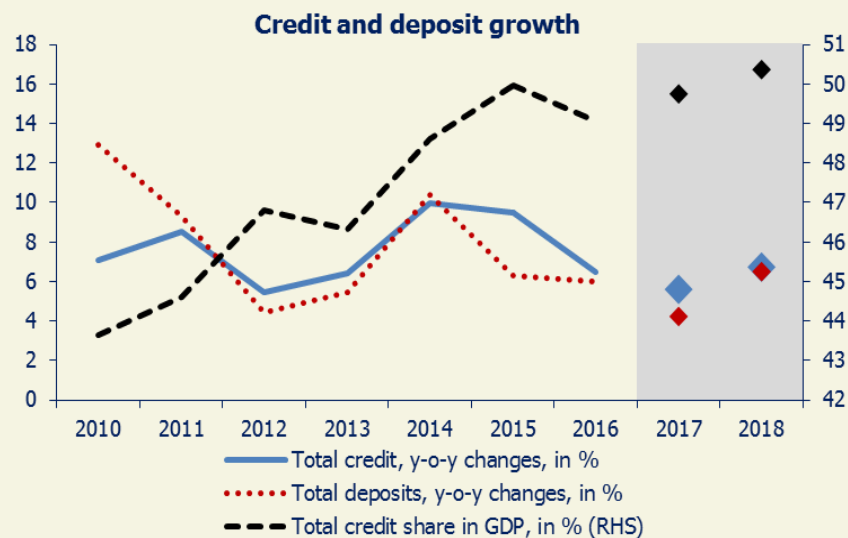
## - gross external debt indicators -





# Credit and deposit growth

- **Lower deposit growth** in 2017 (estimated at 4.2%), forecast to reach 6.5% in 2018, in line with the stabilization of the expectations and the gradual increase of the propensity to save.
- **Lower credit growth** (w/o write-offs) expected to gradually expand (5.6% in 2017 and 6.7% in 2018), on the backdrop of acceleration of economic growth, increased propensity to borrow, higher bank competition and rising deposit base.
- **The banking system remains stable, liquid and highly capitalized.**







# Comparison with the October forecast

**Forecast of selected macroeconomic variables\***

	2016		2017 forecast		2018 forecast	
	Oct. forecast	Apr.	Oct.	Apr	Oct.	Apr.
<b>GDP, %</b>	<b>2.3</b>	<b>2.4</b>	<b>3.5</b>	<b>2.5</b>	<b>3.7</b>	<b>3.2</b>
Private consumption	2.0	4.2	0.8	2.3	3.0	2.4
Gross capital formation	2.3	-4.0	3.9	-1.3	7.0	5.3
Public consumption	2.9	1.5	2.0	2.4	-0.2	1.2
Exports of goods and services	8.8	11.4	3.9	7.6	4.0	8.1
Imports of goods and services	6.7	7.7	2.5	3.1	3.4	6.3
<b>Inflation</b>	<b>0.0</b>	<b>-0.2</b>	<b>1.3</b>	<b>1.3</b>	<b>2.0</b>	<b>2.0</b>
<b>Loans to private sector, % (w/o write-offs)</b>	<b>5.6</b>	<b>6.5</b>	<b>6.4</b>	<b>5.6</b>	<b>6.7</b>	<b>6.7</b>
<b>Deposits, %</b>	<b>2.6</b>	<b>6.0</b>	<b>7.5</b>	<b>4.2</b>	<b>7.5</b>	<b>6.5</b>
<b>Current account deficit, % of GDP</b>	<b>-2.1</b>	<b>-3.1</b>	<b>-2.3</b>	<b>-2.4</b>	<b>-2.6</b>	<b>-2.2</b>

*\* GDP and inflation are seasonally adjusted*





# Risks around the forecast and policy measures

- Risks are present and mainly adverse
  - related to both domestic and external factors
- The April forecast cycle incorporates assessments for favorable domestic fundamentals, similar to the October expectations
- Prolonged adverse effects of the political crisis on the sentiment and confidence of consumers and investors
- Assumption about gradual resolution of the crisis throughout 2017, stabilization of the environment and exhaustion of the adverse effects by the end of the year
- After the strong shock last year, the NBRM normalized the monetary policy and reduced the policy rate to 3.25% in the first quarter of 2017
- In the period ahead, the NBRM will continue to monitor closely the developments and make adjustments of the monetary policy, as appropriate.



# Thank you!