



**NATIONAL BANK OF THE
REPUBLIC OF MACEDONIA**

Revision of the macroeconomic projections - April 2015 -

**Anita Angelovska Bezoska
Vice Governor**

May, 2015



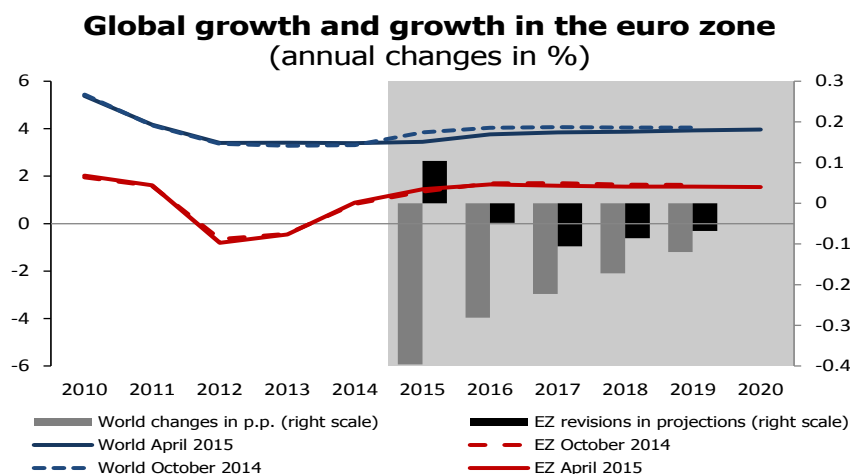
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- Macroeconomic projections for the period 2015 - 2016**
 - Key exogenous assumptions for the projections**
 - Baseline macroeconomic scenario for the period 2015 - 2016**



External environment

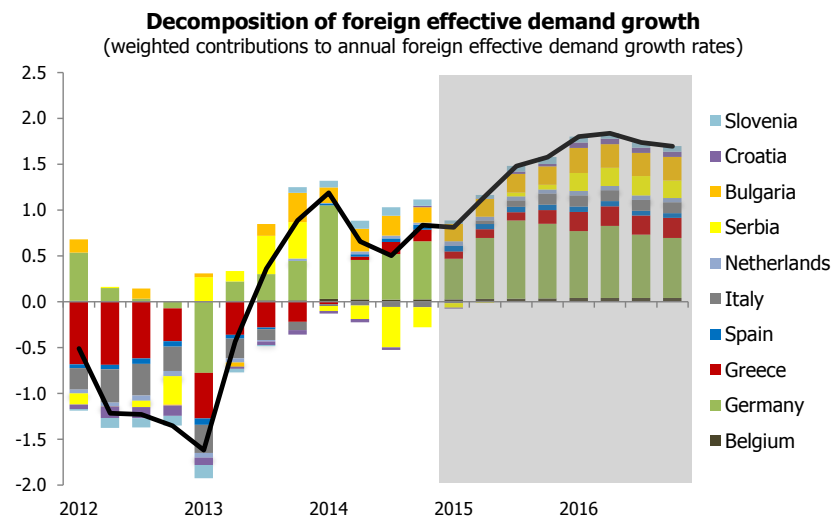
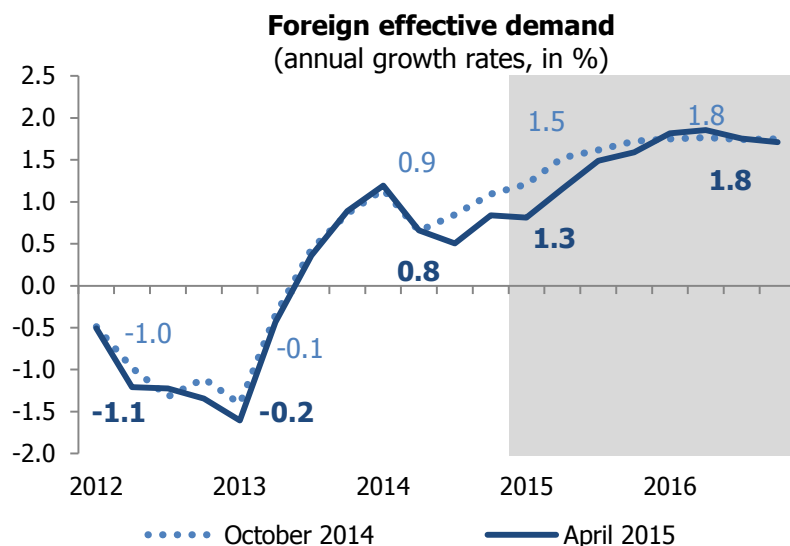
- ❑ Gradual acceleration of global growth continues, although at a slightly slower pace
- ❑ Upward revision of the Eurozone growth in the context of the “QE”
- ❑ Downward risks to the projected growth still persist, but are more balanced compared to October projections
 - Lower oil prices to boost global growth – positive shock for oil-importing countries
- ❑ Downward risks related to:
 - **Geopolitical tensions**
 - Sharp and unexpected changes in the prices of **primary commodities** and financial assets
 - Potentially negative impact from normalization of the **US monetary policy**
 - The risks for stagnation and persistent **low inflation** in advanced countries still present, albeit lessened compared to the previous forecast





Foreign demand

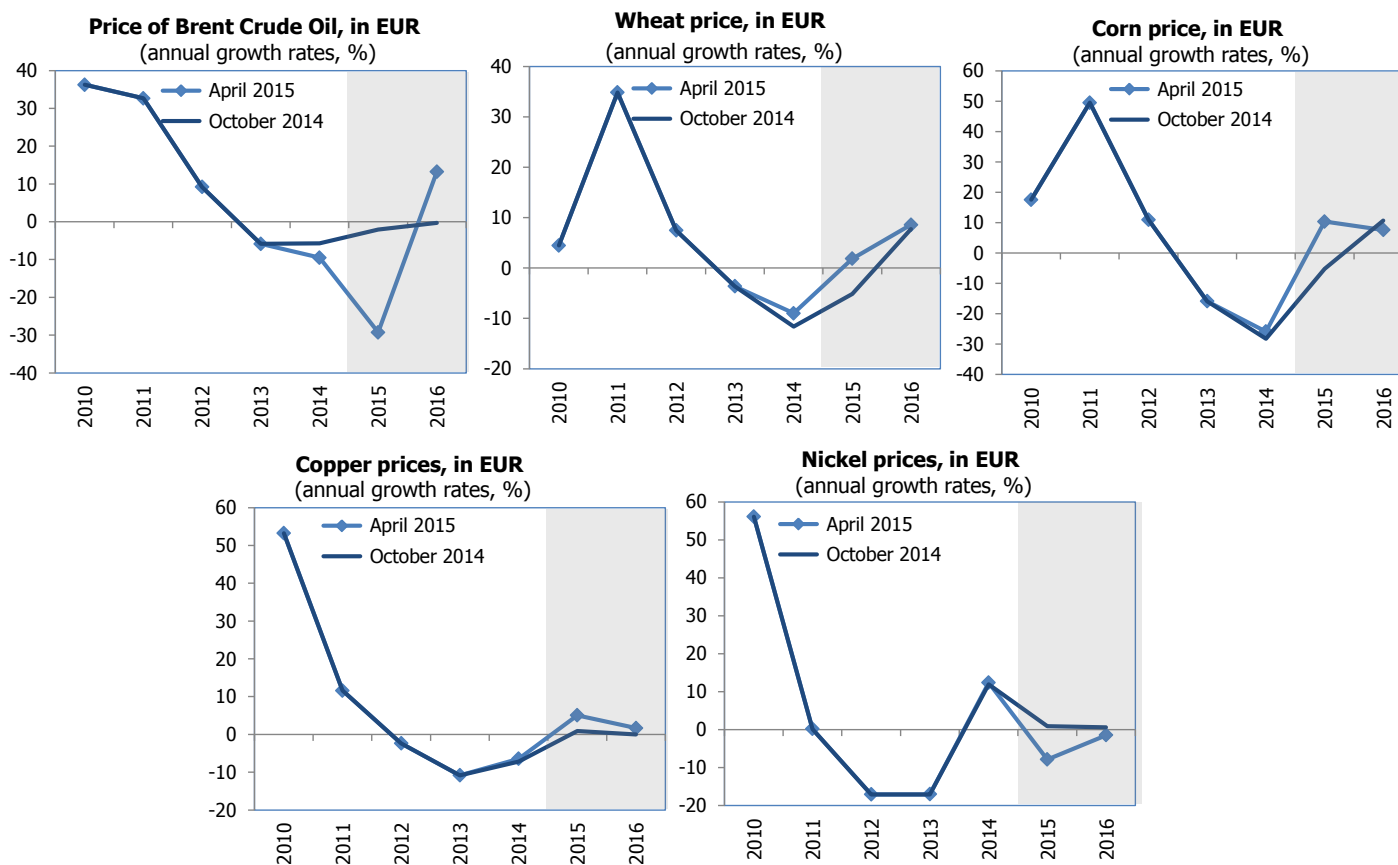
- Negligible downward revision of the expected foreign demand growth for 2015, due to the worsened prospects of neighboring countries, while the expectations regarding Eurozone economy have improved somewhat
- The expectations for gradual recovery of the foreign demand unchanged





World prices of primary products

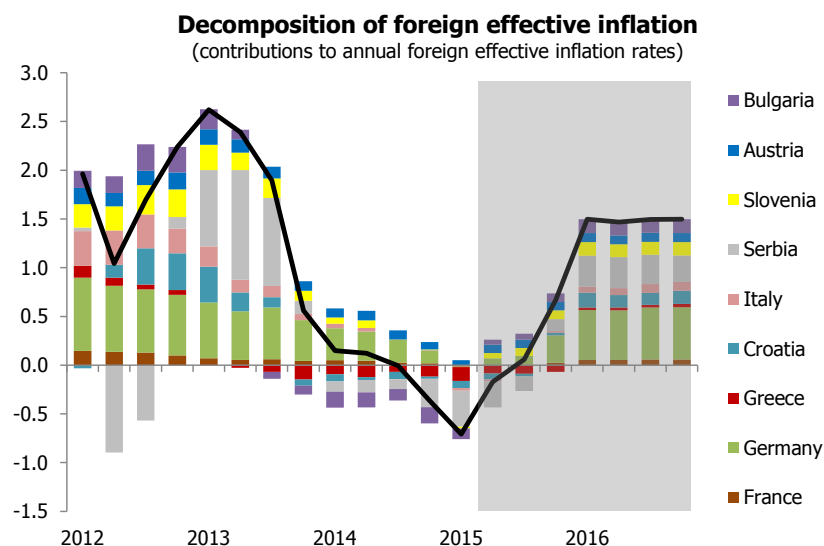
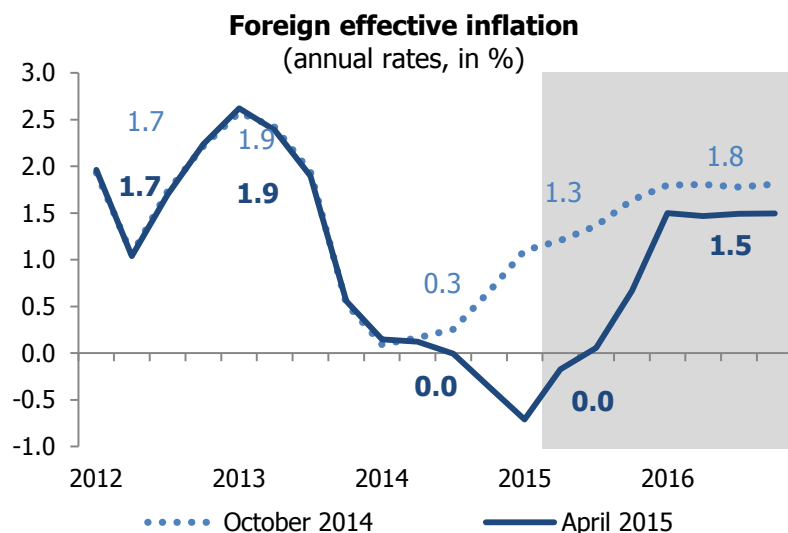
- In general, more favorable terms of trade in 2015-2016 and lower pressures on domestic prices and BOP coming from import prices





Foreign effective inflation

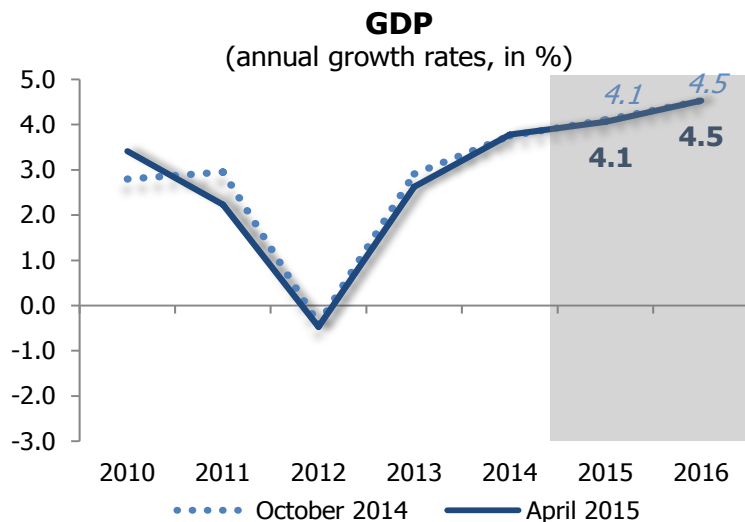
- Foreign effective inflation forecast has been revised downward relative to October forecast - lower pressures on domestic prices and balance of payments





GDP

- ❑ Compared with the previous forecasting round, uncertainties with respect to the global economic environment still present, but less pronounced
- ❑ The assumptions on the fundamentals in the growth forecast unchanged:
 - continuation of the strong Government investment incentive
 - positive effects of the existing and expected FDI-based facilities
 - continuation of the positive trends in the labor market
 - solid credit support
- ❑ **Real GDP growth expectations remain unchanged for 2015 and 2016**

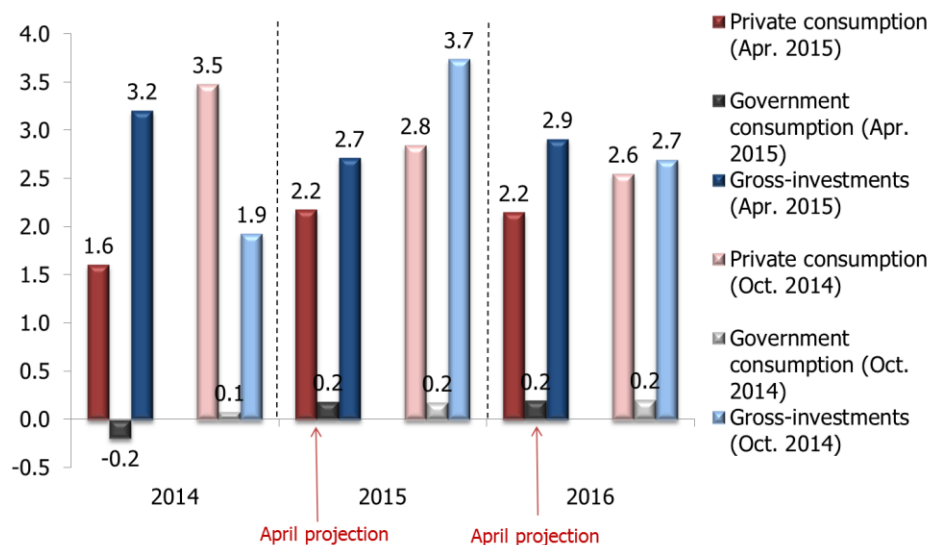




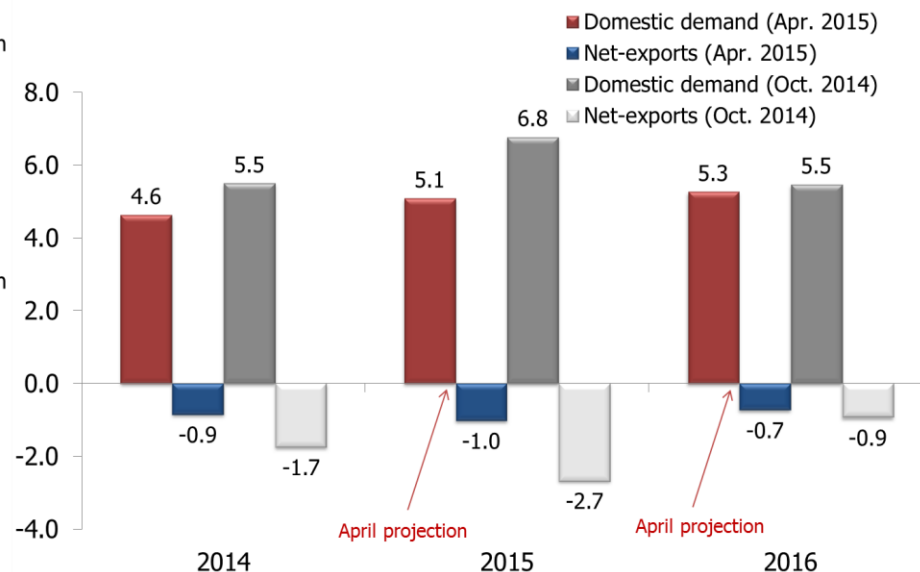
GDP expenditure components

- GDP growth driven by **export potential**, **investments**, as well as **private consumption**
- Moderate growth in **public consumption** during the projection period, in accordance with the announced fiscal strategy
- Amid import pressures during the projection period - created by exports and investment, as well as gradual increase in imports created by household consumption, **net exports** would have a negative contribution

Domestic demand
(contributions, in p.p.)



Domestic demand and net-exports
(contributions, in p.p.)

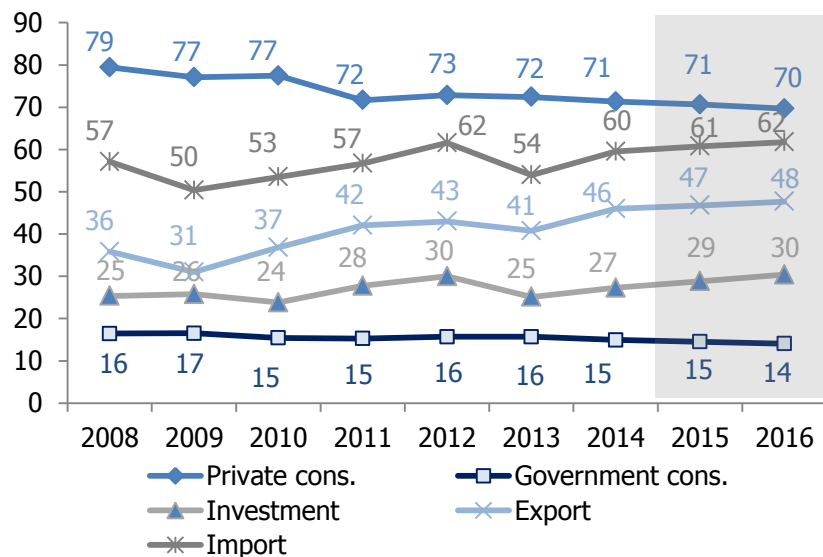




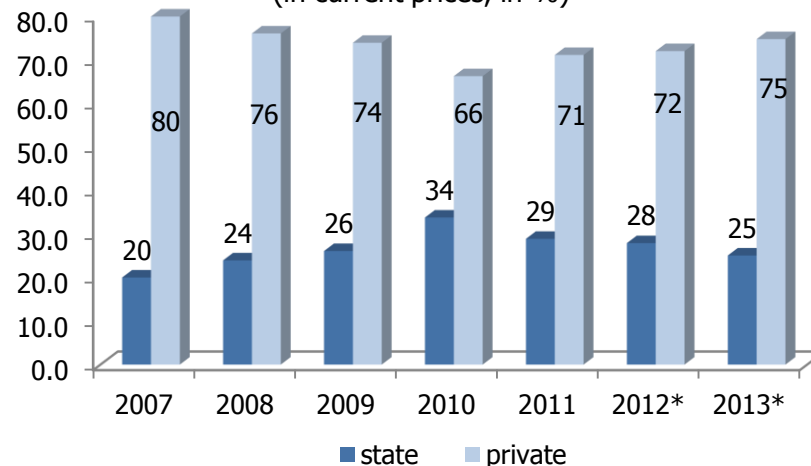
Macroeconomic projections

Structural changes

Shares of real GDP components (in %)



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

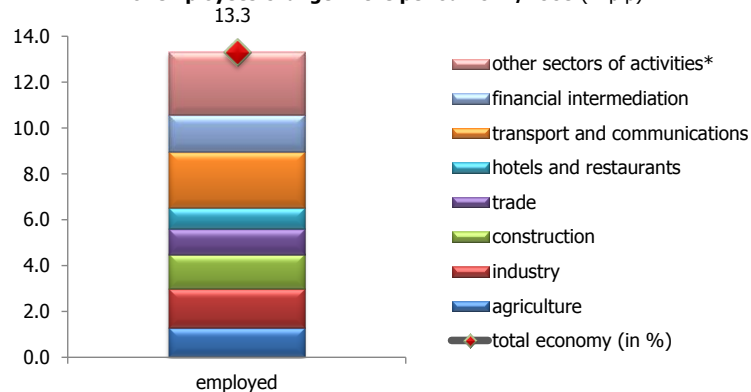


*Data prepared according to ESA 2010. Source: SSO.



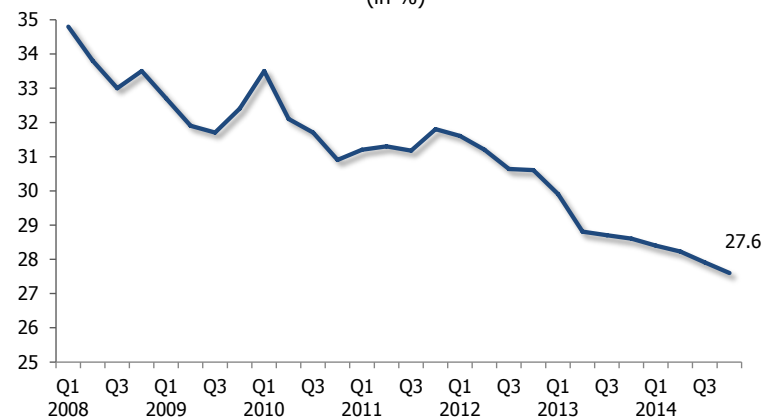
Labour market

Contributions of individual sectors of activities to the total number of employees change in the period 2014/2008 (in p.p)



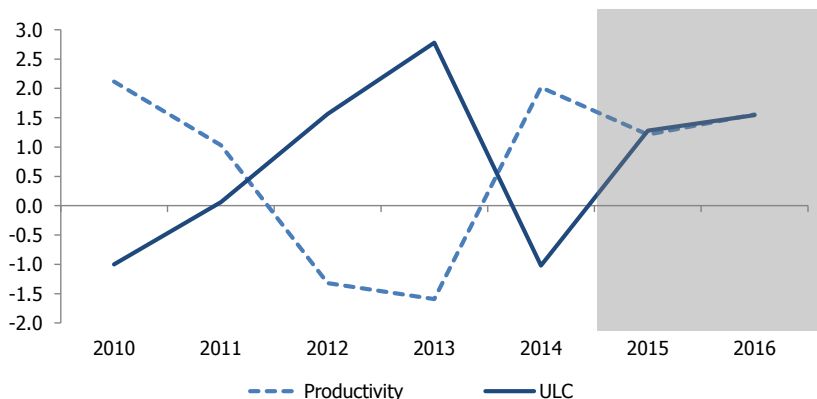
Other sectors of activities include: public administration and defence, compulsory social security, education, health and social work activities, activities of households as employers, as well as activities of extraterritorial organisations and bodies.

Unemployment rate (in %)



Source: State Statistical Office, Labor Force Survey

Productivity and ULC (annual growth rates, in %)



Source: State Statistical Office and NBRM calculations

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

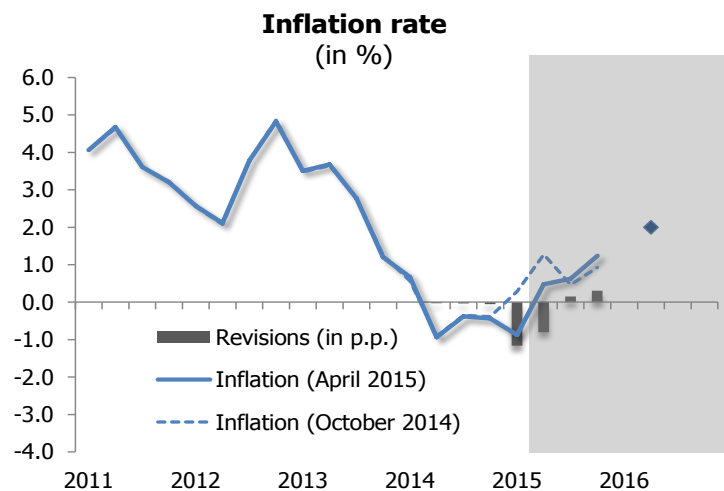
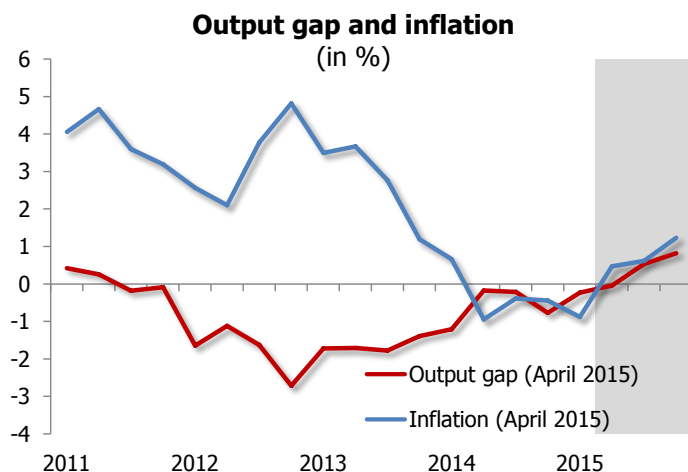


Source: State Statistical Office and NBRM projections



Inflation

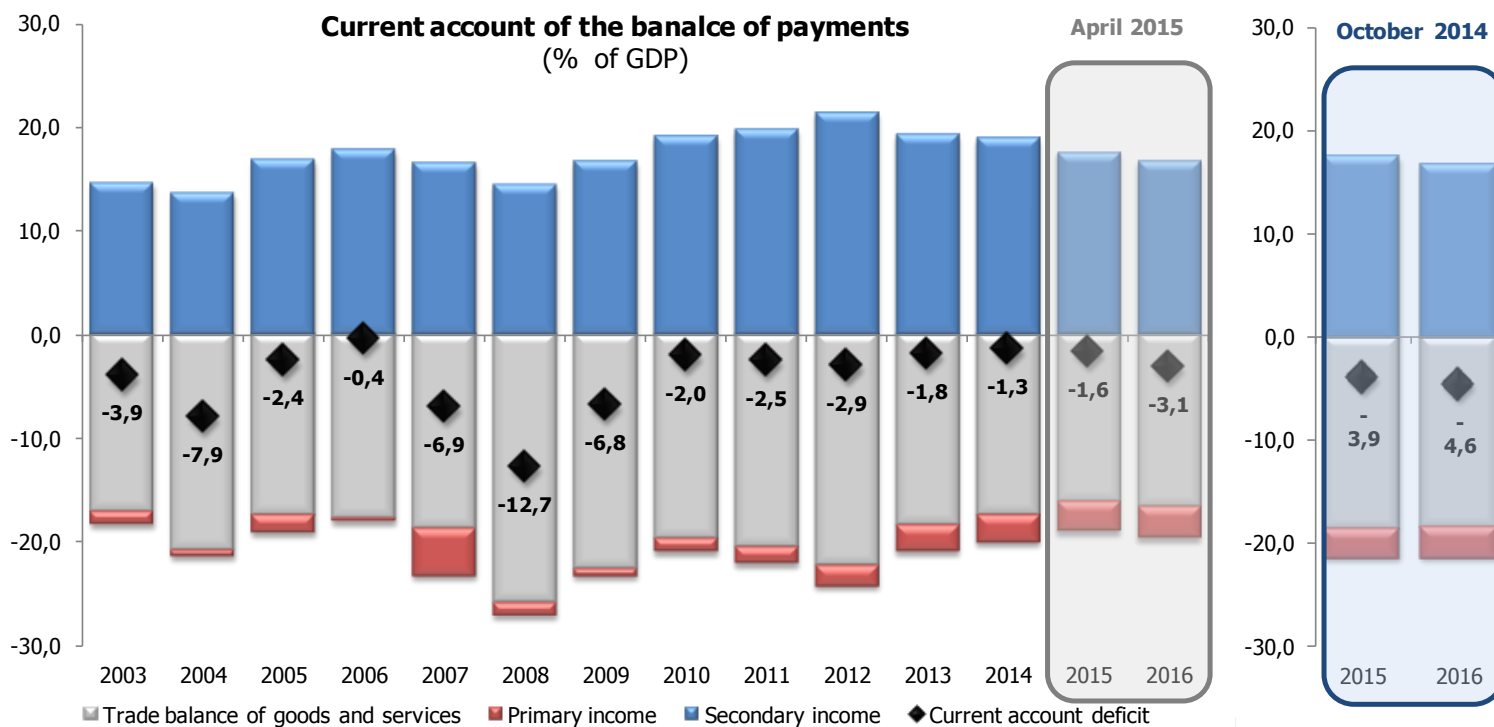
- ❑ **Inflation forecast** for 2015 has been revised downward to around 0.5%
 - amid lower initial conditions and downward adjustments in some of the key exogenous assumptions
- ❑ Inflation is expected to gradually pick up in 2016. The point forecast for the next year's inflation stands at around 2%, and is as expected in the October forecast
 - driven by the aggregate demand recovery and import prices





Balance of payments - current account

- ❑ **Moderate current account deficit in the following two years**
- ❑ **Mild widening of the current account deficit within the forecast horizon**
 - Reduction of the relative share of private transfers in GDP
 - Trade deficit decreases in 2015 – as result of the low crude oil prices and structural changes in the export sector
 - Mild widening in 2016 – initial higher import pressures from new companies' entrance in the domestic economy and continued domestic demand growth
- ❑ **Lower deficit compared to October projection** – positive impact on trade coming from low energy prices and stronger than expected fundamental improvements stemming from the new companies

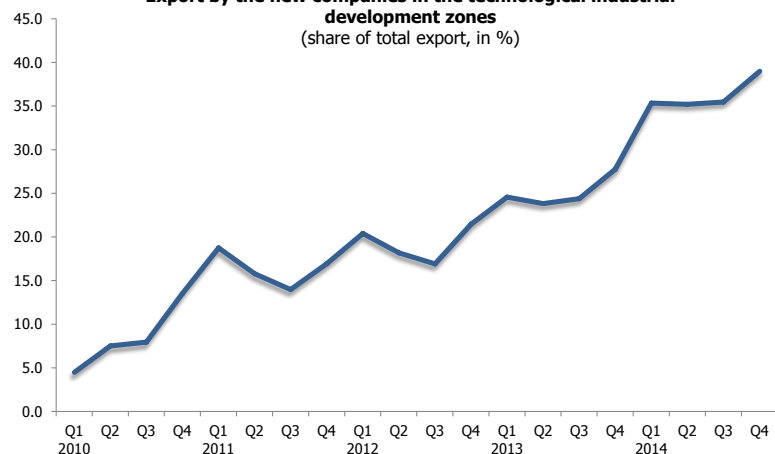




Balance of payments - current account

Export diversification by products and trading partners

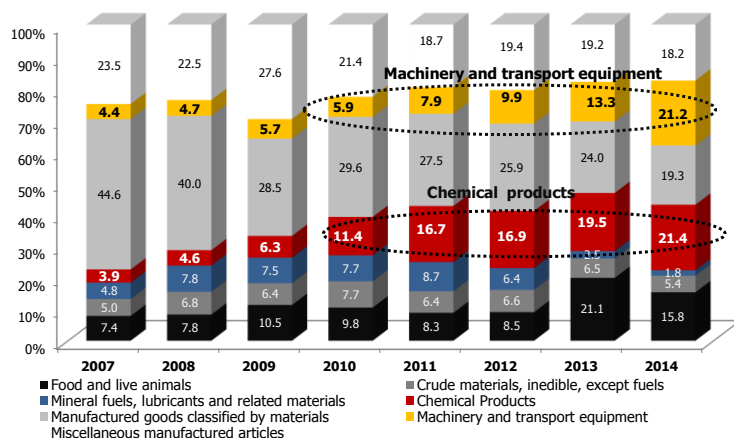
Export by the new companies in the technological industrial development zones
(share of total export, in %)



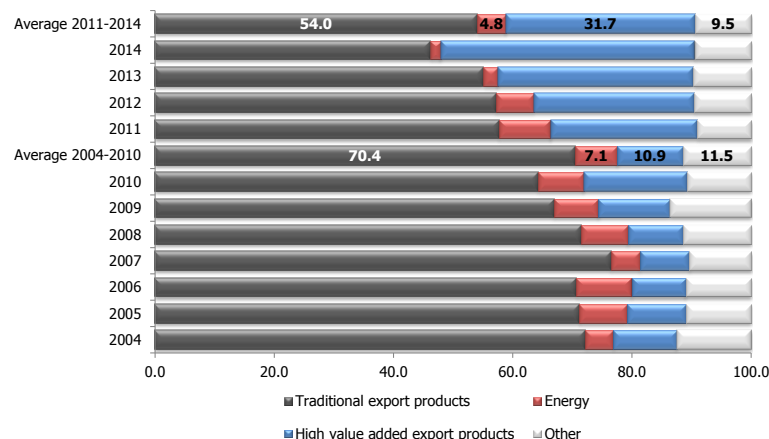
Share of export by trading partners in total export
(in percent)



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



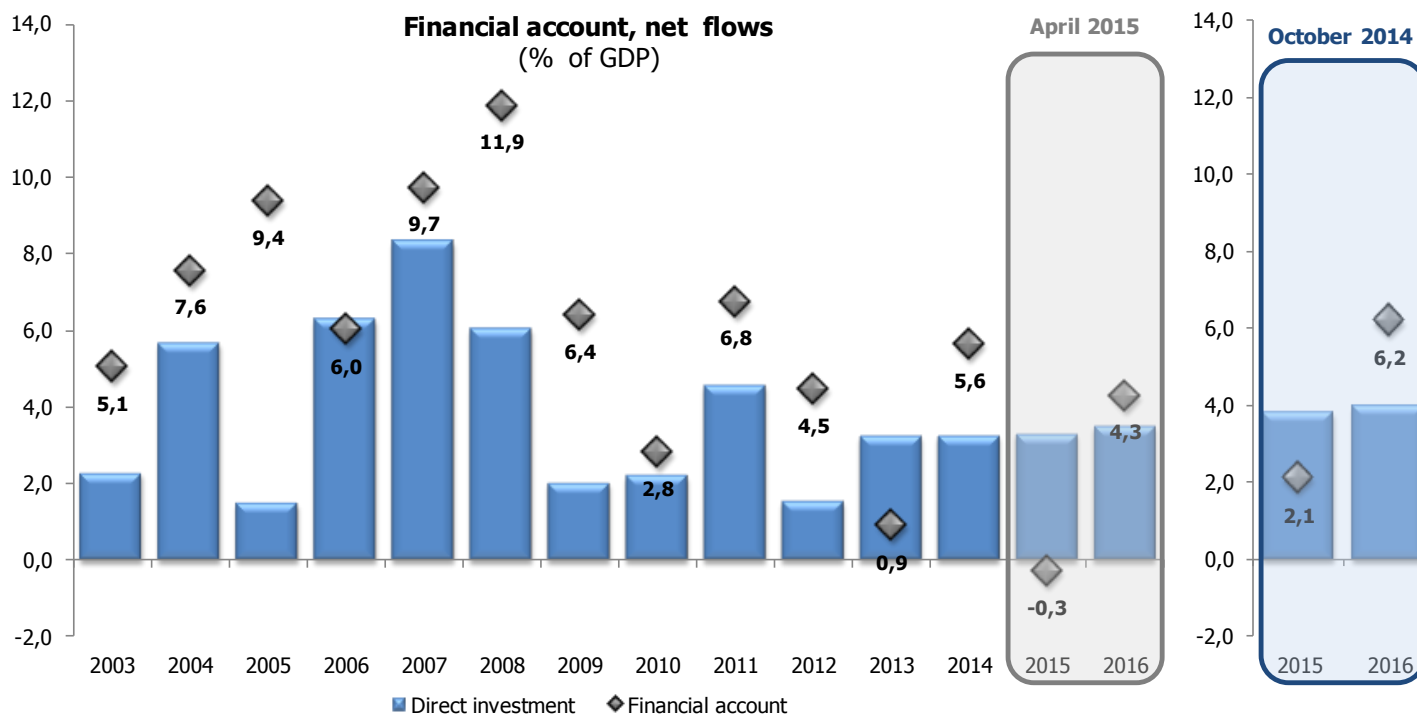
Export structure
(share in total export, %)





Balance of payments - financial account

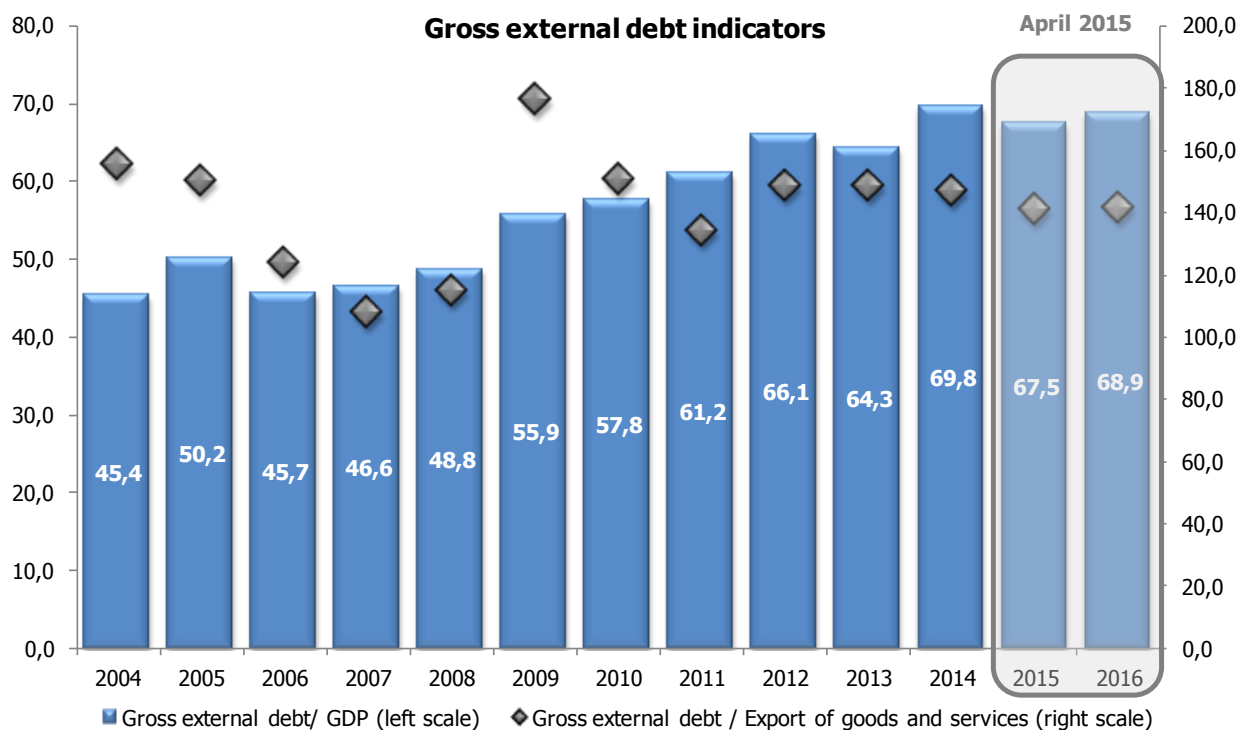
- The **structure of capital inflows in the 2015-2016 period**, mainly a combination of foreign investment and borrowing of the public sector
- After the growth of the **gross external debt** in 2014, in the period ahead it is expected to stabilize
- **Foreign reserves adequacy** ratios remain in the “safe zone”





Gross external debt

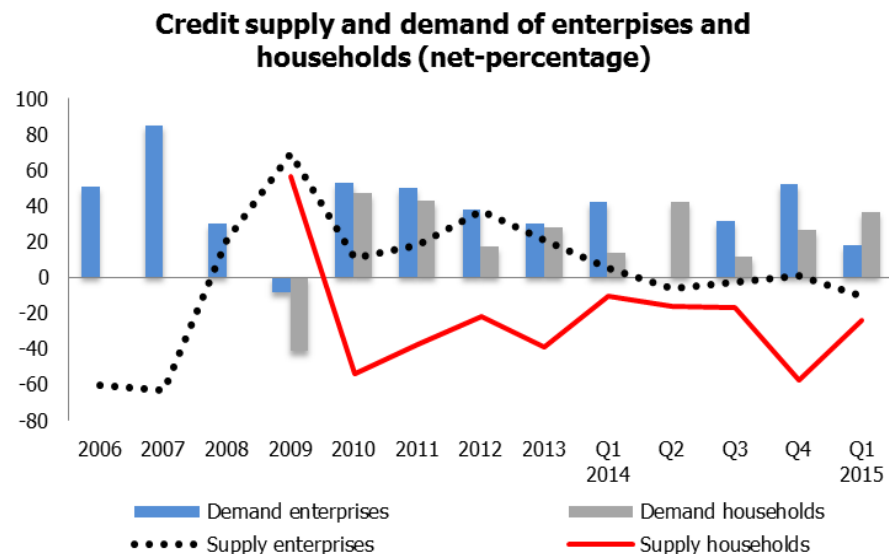
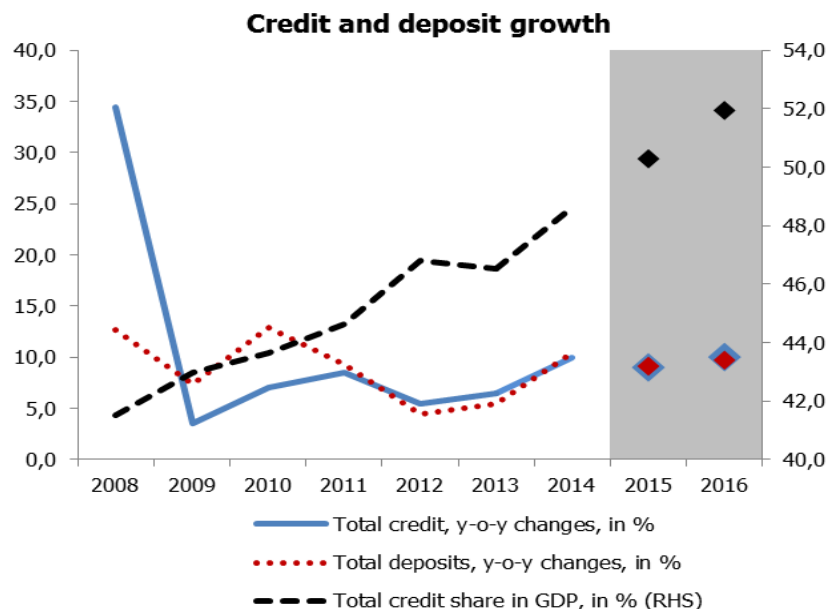
External debt ratios expected to stabilize in the forthcoming period





Credit growth

- ❑ **Acceleration of credit growth to 10%** in December 2014
- ❑ **Growth in deposits and available foreign credit lines**, stable perceptions of the risks and improving global environment are expected to enable maintenance of credit growth rates at the level of 9-10% annually in 2015 and 2016
- ❑ **Strengthened financial intermediation**: loans/GDP in 2016 around 52% (an increase of about 10 percentage points in the crisis period after 2008)
- ❑ The **banking system remains stable**, with high capital adequacy ratio (15.7% as of December 2014), high liquidity and relatively stable share of non-performing loans (11.6% as of March 2015)



*Negative net-percentage is presenting easing of the credit conditions and decreasing credit demand. Positive net-percentage is presenting tightening of the credit conditions and increasing credit demand.



Monetary policy and macro-prudential measures during 2013

– Policy rate:

- Decreased on two occasions (January and July, by 0.25 p.p. consequently) to its historical low of 3.25%.

– Reserve Requirement:

- Targeted RR easing for banks lending to net-exporters and domestic producers of electricity, for banks' debt securities investments of the above mentioned companies and for banks' liabilities based on debt securities issued in domestic currency and original maturity of at least two years – effective as of January; set on a temporary basis till 2014.
- Reduction in RR ratio for banks' liabilities in domestic currency from 10% to 8% with increase in RR ratio for banks' liabilities in FX currency from 13% to 15% and 0% RR ratio for banks' liabilities to nonresident financial companies with contractual maturity of over one year and for all liabilities to nonresidents with contractual maturity of over two years - effective as of September.

– Regulatory and macro – prudential changes:

- Amendments to the Decision on credit risk management and the Decision on managing banks' liquidity risk – both came into force as of December 2013 with prospective stimulating effects on banks' lending to the private sector.



Monetary policy and macro-prudential measures during 2014

– Regulatory and macro-prudential changes:

- In April 2014 amendments to the Decision on the methodology for determining capital adequacy were made- two amendments to the current decision, which are expected to contribute positively to commercial banks' lending to the corporate sector.

– Reserve requirements:

- In September 2014, the non-standard measures for reduction of the reserve requirement base of banks, for the amount of new loans extended to net-exporters and domestic producers of electricity were prolonged until December 31, 2015.



Monetary policy implications

Latest macroeconomic scenario for 2015-2016 does not change fundamentally the monetary policy environment:

- ❑ Further continuation of the solid economic growth, supported by rising credit flows from domestic banks
- ❑ Inflation to remain low and stable
- ❑ “Benign” external position assuming moderate increase in CA deficit and adequate level of gross foreign reserves, enabling sufficient buffers against potential unforeseen shocks
- ❑ Distribution of risks from global environment is more balanced as compared to October 2014, but still tilted to the downside
- ❑ Recent political tensions domestically highlight potentially new negative risks

Further monetary adjustments contingent on the external sector developments and the gross foreign reserves dynamics



Summary

- ❑ **Unchanged assessments for the pace of growth of the domestic economy**
- ❑ **Economic growth in the time horizon of the projections, driven by exports and domestic demand**
- ❑ **Downward adjustment of the inflation projection, due to supply side factors**
- ❑ **Smaller current account deficit compared with the October projections, but retained assessments for its moderate widening in the next two years**
- ❑ **Gross foreign reserves are expected to mildly decline over the 2015-2016 period, but still remain at an adequate level**
- ❑ **Sensitivity of the scenario to possible changes in the global economic environment and potentially rising political instability at home**