



NATIONAL BANK OF THE
REPUBLIC OF MACEDONIA

Revision of the macroeconomic projections - October 2014 -

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Governor**

November, 2014



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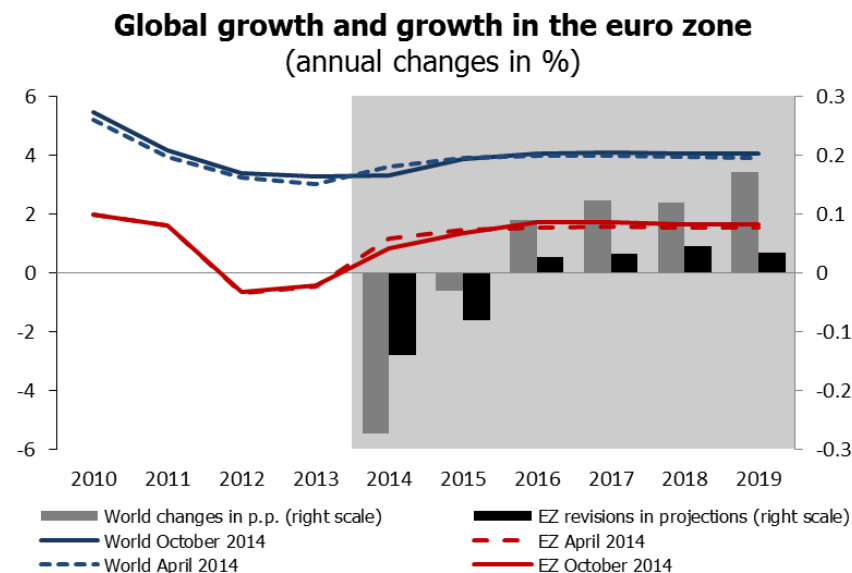
- ❑ **Macroeconomic projections for the period 2014 - 2016**
 - **Key exogenous assumptions for the projections**
 - **Baseline macroeconomic scenario for the period 2014 - 2016**



Macroeconomic projections for 2014-2016

external environment

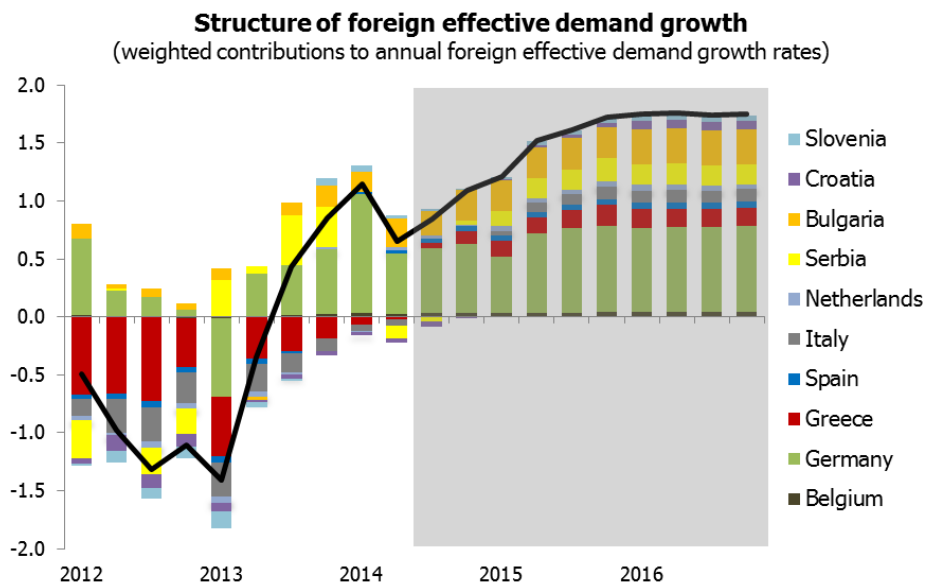
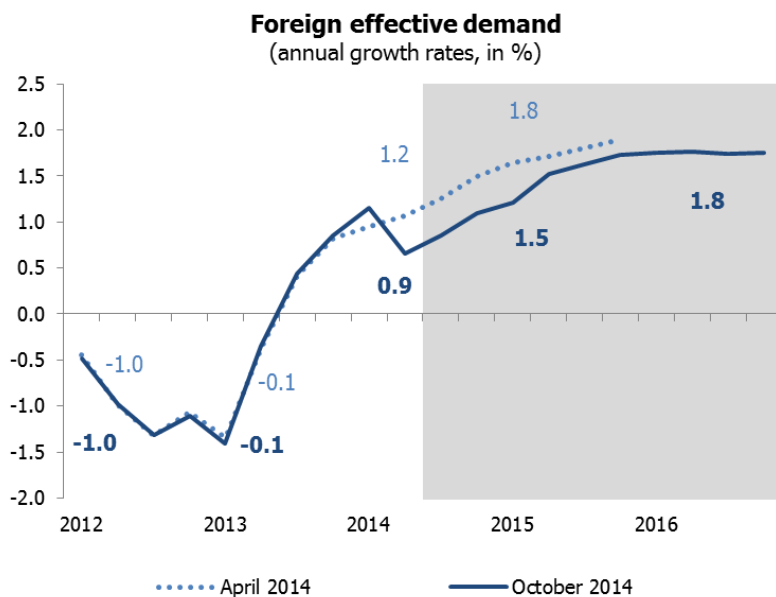
- ❑ Global growth continues, but at a pace slower than expected
- ❑ Downward revisions to global growth and growth in the euro zone for 2014 and 2015
- ❑ Downward risks to the projected growth are predominant and further strengthened relative to the April cycle of projections
 - ❑ Occurrence of geopolitical tensions
 - ❑ The risks of the "normalization" of the Fed's monetary policy remain
 - ❑ The slow economic recovery in the euro zone, but also the fall in the prices of primary products create risks of a long-lasting period of low inflation or emergence of deflation





Foreign demand

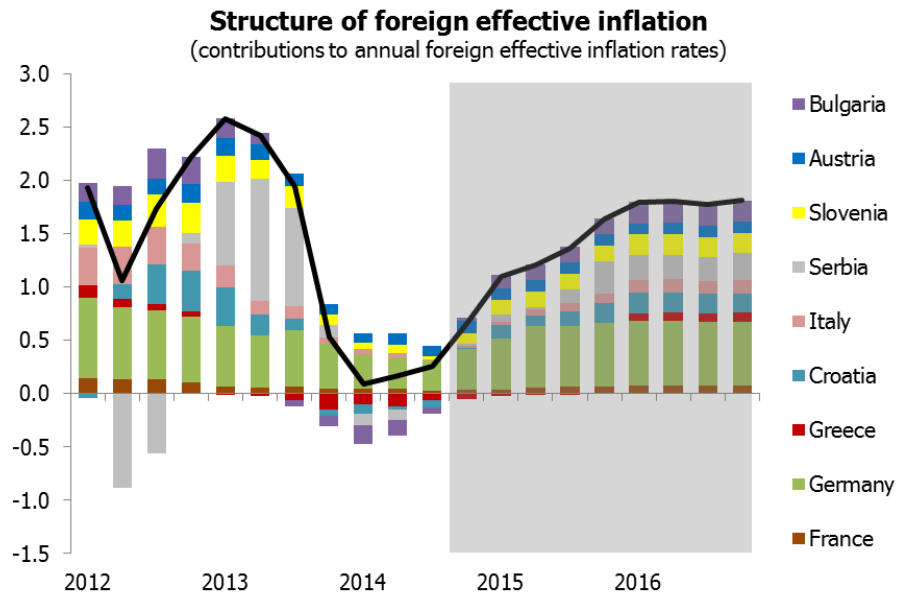
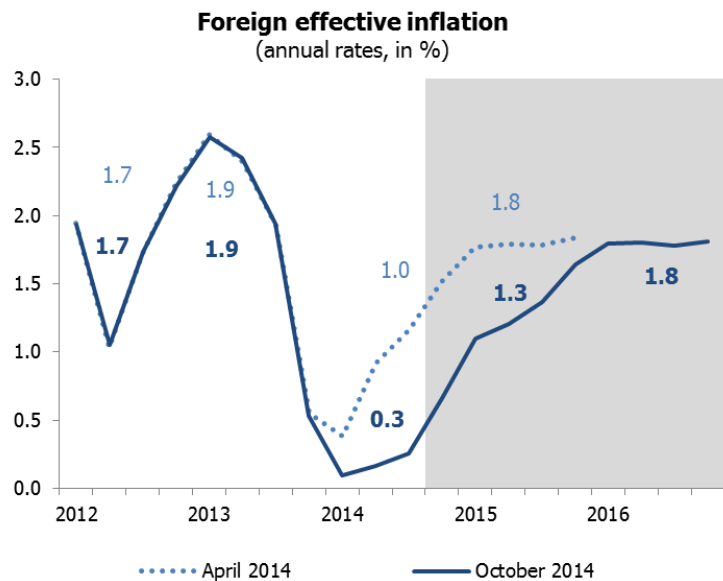
- Retained expectations for gradual recovery of the foreign demand for Macedonian products ...
- ... however, deteriorated external environment is reflected in its slower growth than previously expected





Foreign effective inflation

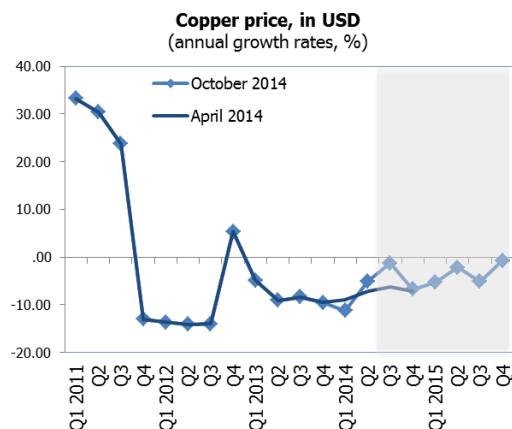
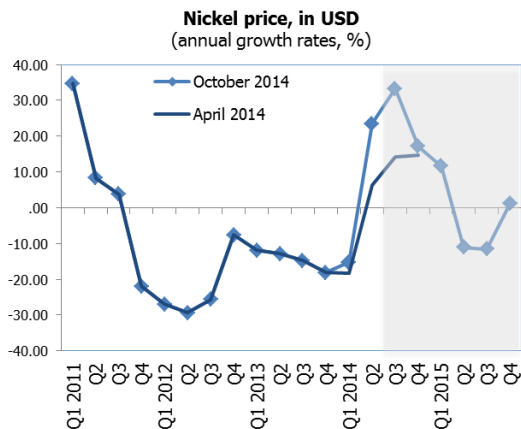
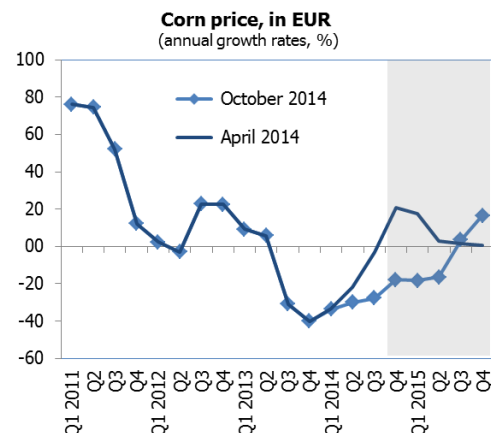
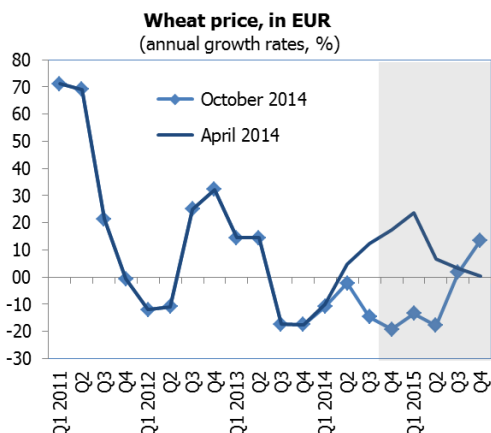
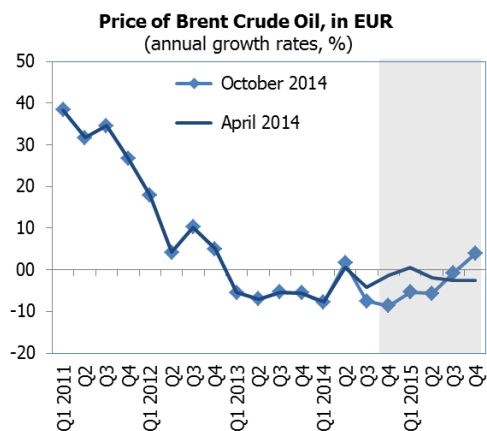
- ❑ In 2014, lower foreign effective inflation than previously expected, amid still weak economic activity and decline in the prices of food and energy
- ❑ Downward adjustment of the foreign effective inflation for 2015 and consequently lesser pressures on domestic prices than previously expected





World prices of primary products

- In 2015, the prices of oil, food and metals remain mainly in the zone of negative annual change, reflecting the developments in the global economy, with expected recovery later in the year





Macroeconomic projections for 2014-2016

GDP

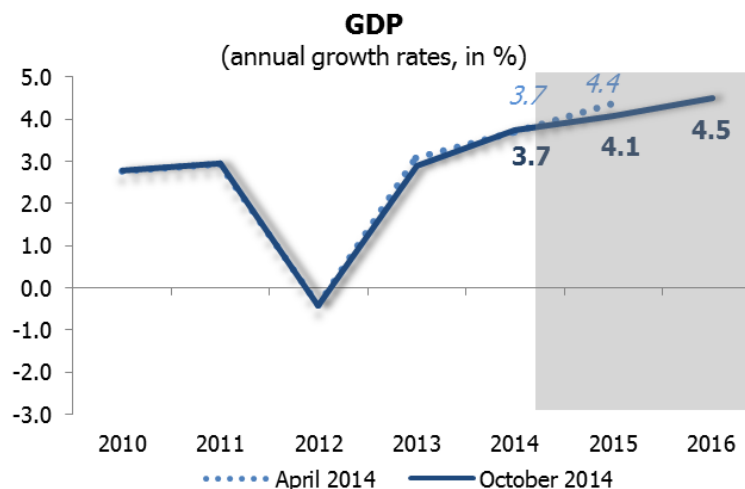
Retained assessments for:

- strong Government investment incentive
- positive effects of existing and new FDI-based facilities
- labor market recovery
- solid credit support

Moderate acceleration of growth in 2015 and 2016

- expectations for positive effects of the structural changes on the export sector
- expectations for solid growth in domestic demand

Small downward adjustment of the expected growth for 2015 according to the expectations for less favorable external environment

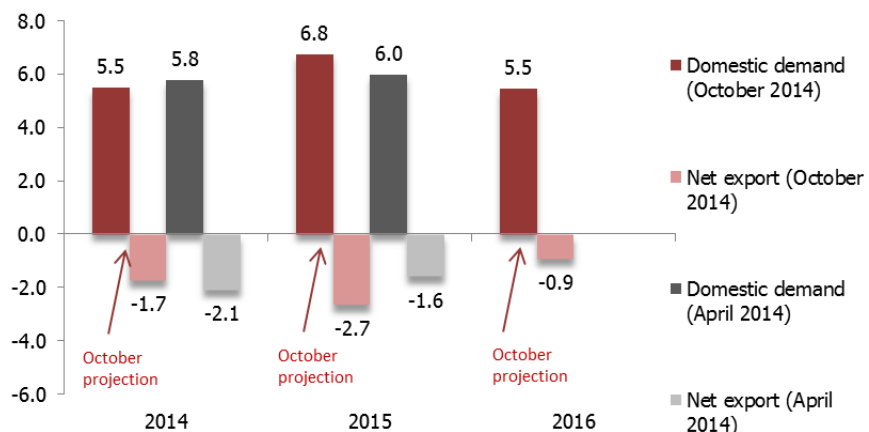




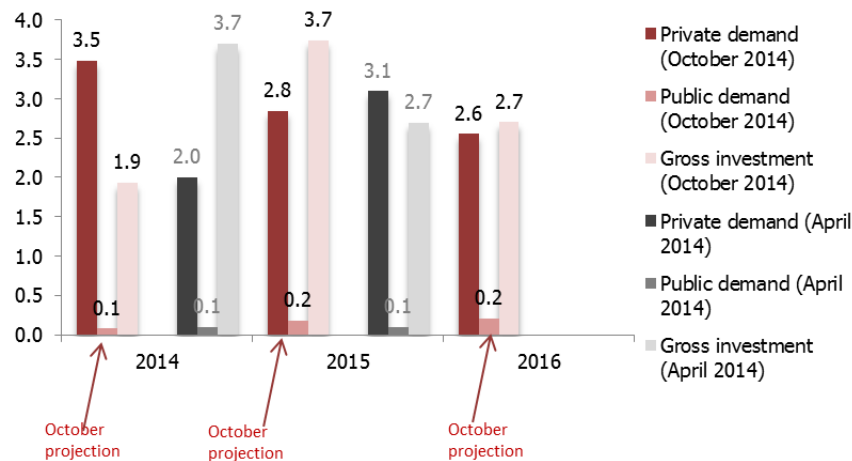
GDP expenditure components

- GDP growth driven by the domestic demand (investments and private consumption) and the growth of the export potential
- 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
- Moderate growth in public consumption during the projection period, in accordance with the announced fiscal strategy

Domestic demand and Net export
(contributions, in p.p.)



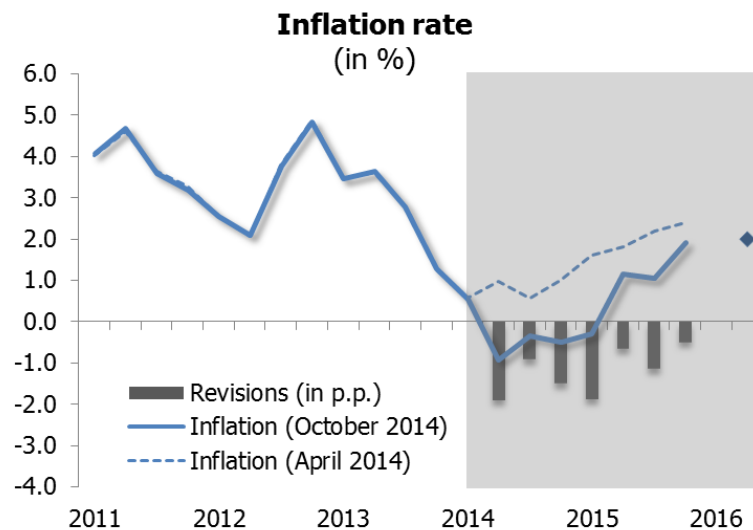
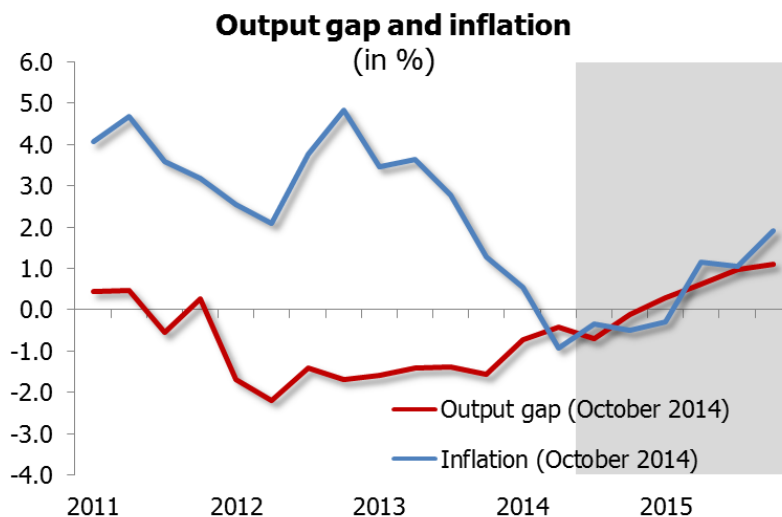
Domestic demand
(contributions, in p.p.)





Inflation

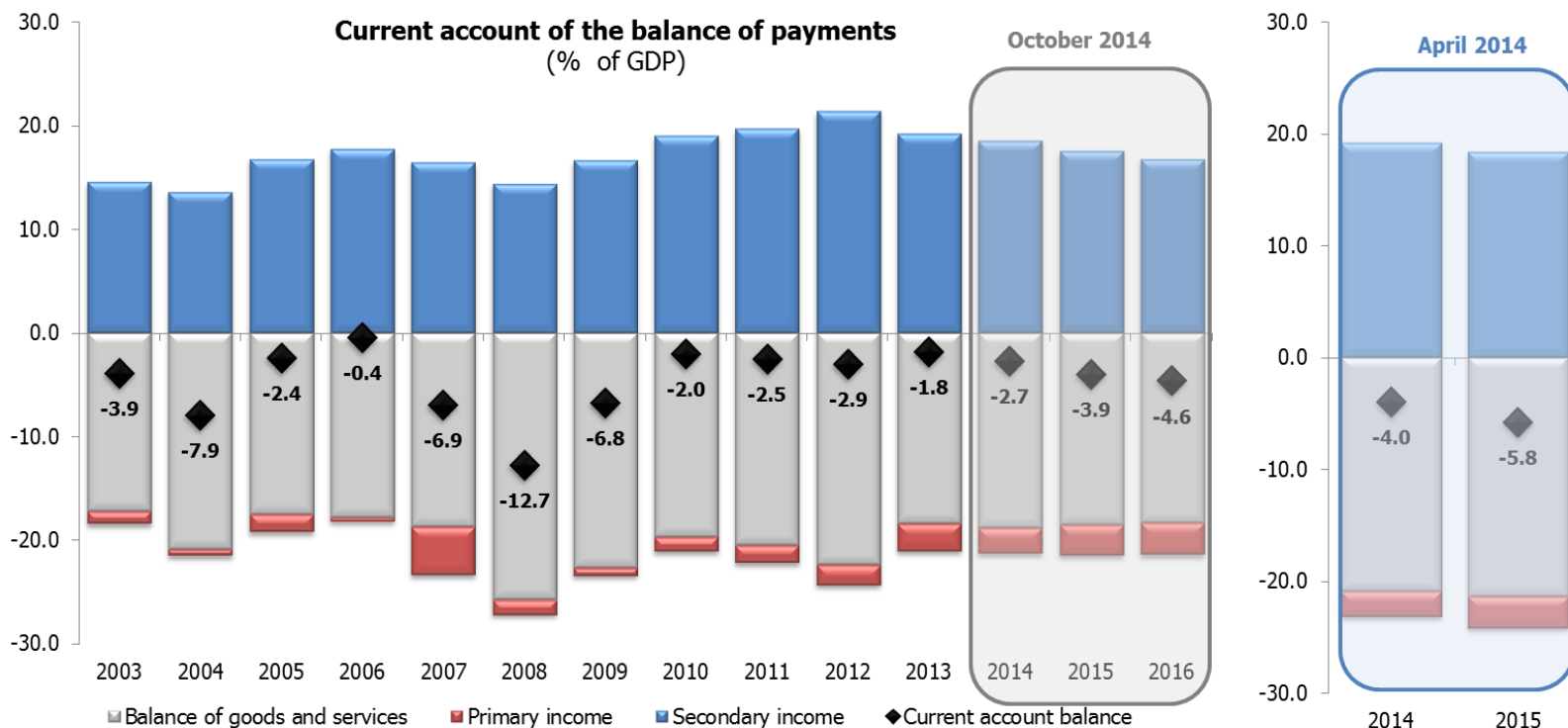
- Downward revision of the assessment for the inflation which is now estimated at around 0% in 2014 and around 1% in 2015, amid lower initial conditions and downward movements in the key exogenous assumptions
- In 2016, the inflation rate is expected to be around 2%
- The gradual growth of inflation driven by the recovery of demand (closing the negative output gap at the end of 2014) and of the foreign effective inflation





Balance of payments current account

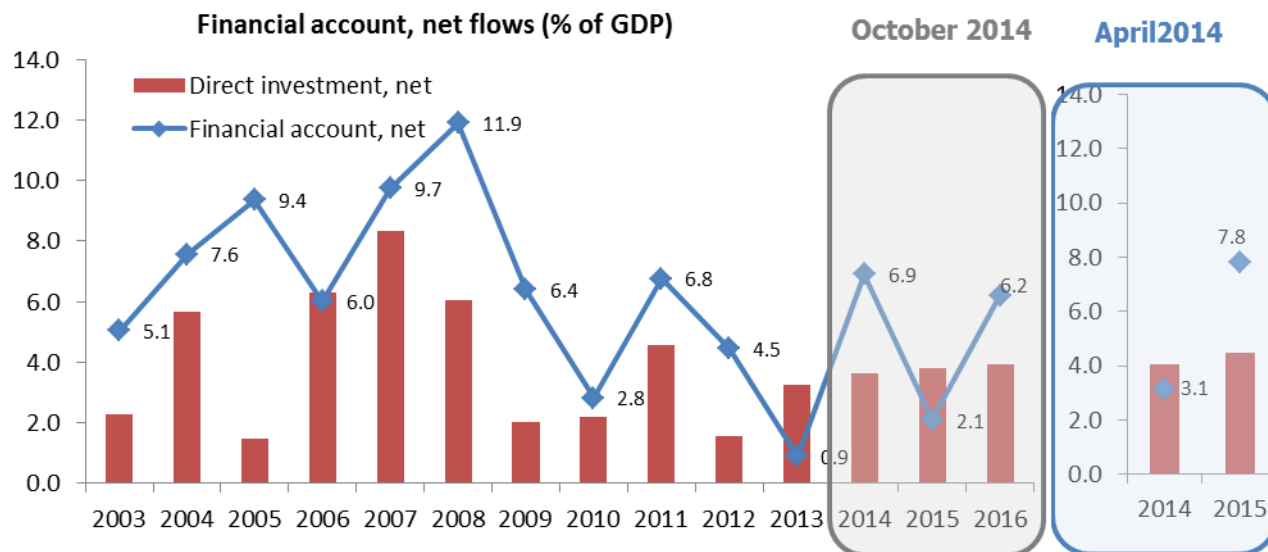
- ❑ Moderate widening of the current account deficit in the period 2014-2016, amid more pronounced import pressures from the investment demand and the demand for raw materials, and reduction of the share of private transfers in GDP
- ❑ Current account deficit lower than expected in April, amid smaller import pressures and greater and faster effect of the new capacities on trade flows





Balance of payments financial account

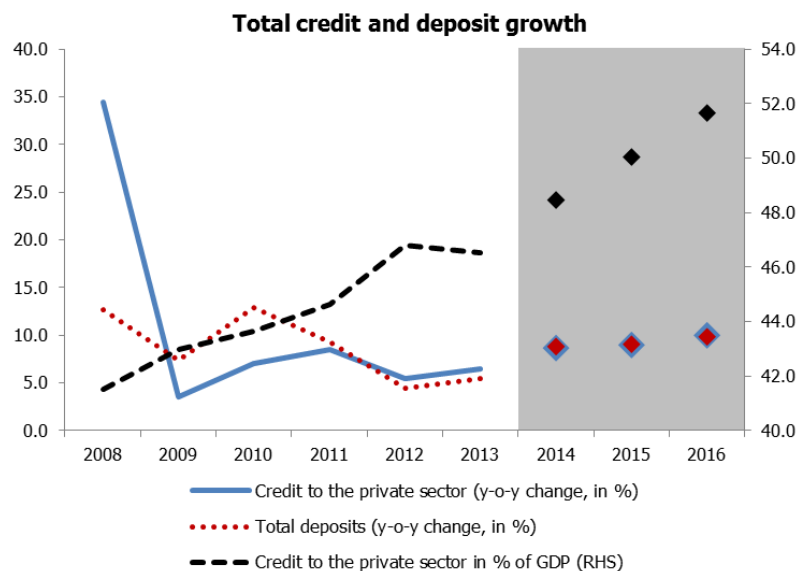
- ❑ Capital inflows in the period 2014-2016 sufficient to finance current transactions and accumulation of foreign reserves
- ❑ The structure of capital inflows, a combination of foreign investment and borrowing of the private sector and the Government (according to the medium-term fiscal strategy)
- ❑ 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





Credit growth

- Since the last quarter of 2013, acceleration of credit growth to 9.4% annually in September 2014
- Growth in deposits and available foreign credit lines, improved banks' 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 nearly 52% (an increase of about 10 percentage points in the crisis period after 2008)
- The banking system remains stable, with high capital adequacy ratio (16.9% in June), high liquidity and relatively stable share of non-performing loans (12.2% in August 2014)





Summary

- **Unchanged assessments for the pace of growth of the domestic economy, with only minor adjustments to the less favorable external environment**
- **Economic growth in the time horizon of the projections, driven by exports and domestic demand**
- **Downward adjustment of the inflation projection, due to changes in the factors on the supply side**
- **Smaller current account deficit compared with the April projections, but retained assessments for its moderate widening in the next two years**
- **The anticipated cumulative capital inflows in the period 2014-2016 are expected to be sufficient to cover the current account deficit and provide additional accumulation of foreign reserves**
- **Sensitivity of the scenario to possible changes in the global economic environment**