



NATIONAL BANK OF THE
REPUBLIC OF MACEDONIA

Revision of Macroeconomic Projections - April 2015 -

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Governor**

7 May 2015



CONTENTS

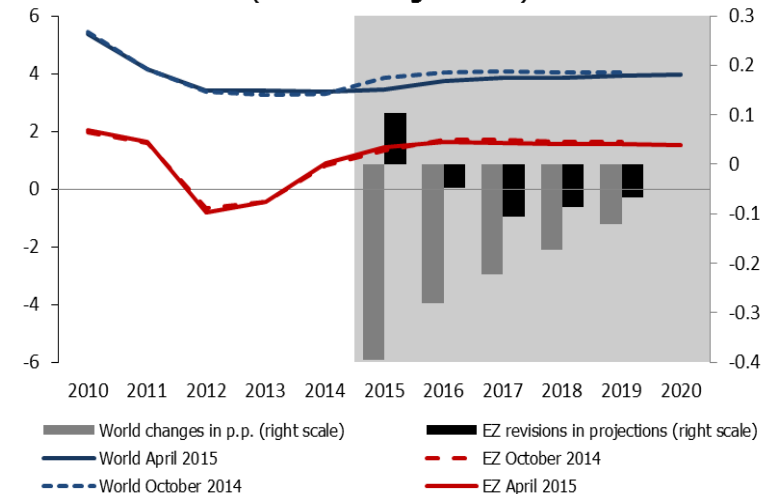
- ❑ **Macroeconomic Projections for 2015-2016**
 - ❑ **External Assumptions**
 - ❑ **Basic Macroeconomic Scenario for 2015 -2016**



External Assumptions

- **The global growth continues amid improved economic outlook in the developed countries**
 - **The risks to the euro zone alleviated after the recent ECB "quantitative easing" measures**
- **The downward risks surrounding the projected growth remain, yet more balanced compared to the October projection**
 - **Low oil prices as a support for the global growth - a positive shock to the oil-importing countries**

Global growth and growth in the euro zone
(annual changes in %)



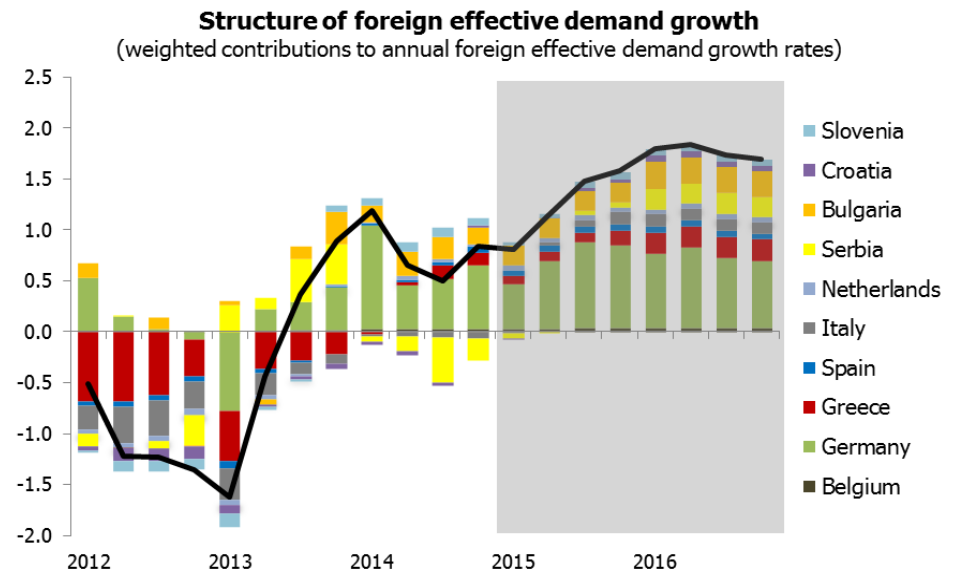
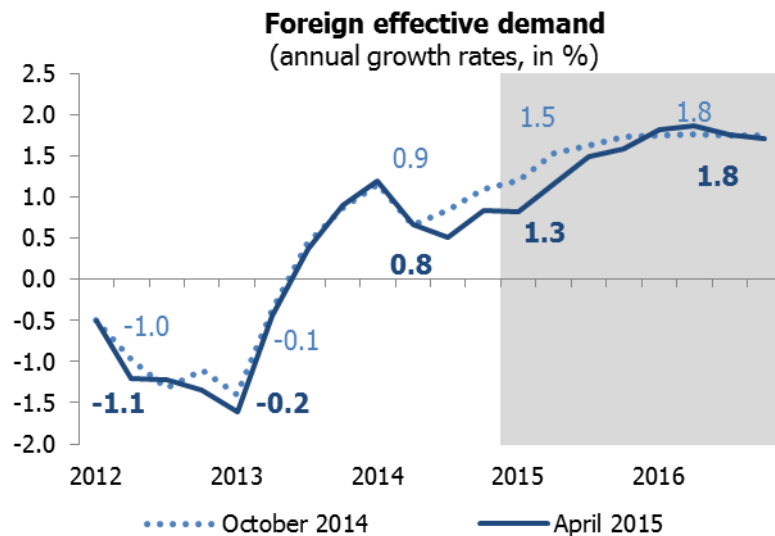
- **Negative risks associated with:**

- **Potential intensification of geopolitical tensions**
- **Sudden and unexpected changes in the prices of primary commodities and financial assets**
- **Potential negative effects of the appreciation of the US dollar on the developing countries**
- **Although reduced, the risks of stagnation and long-lasting low inflation in the developed countries are still present**



Foreign Demand

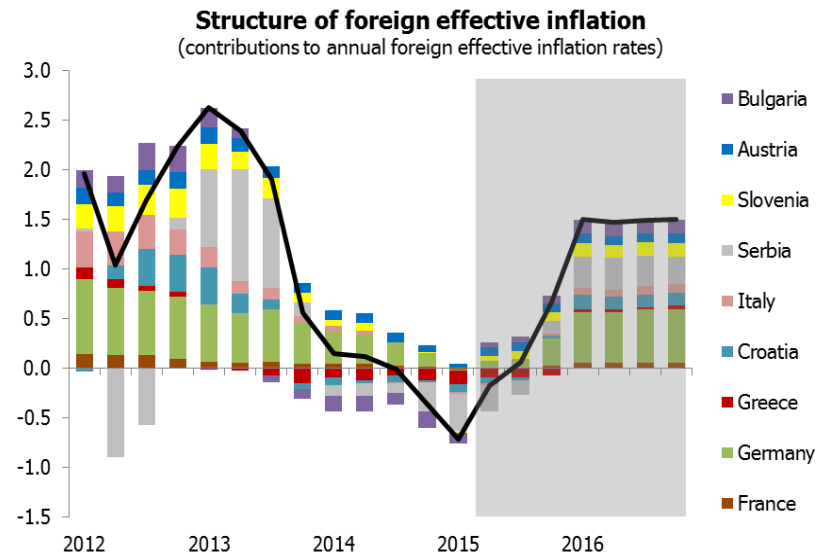
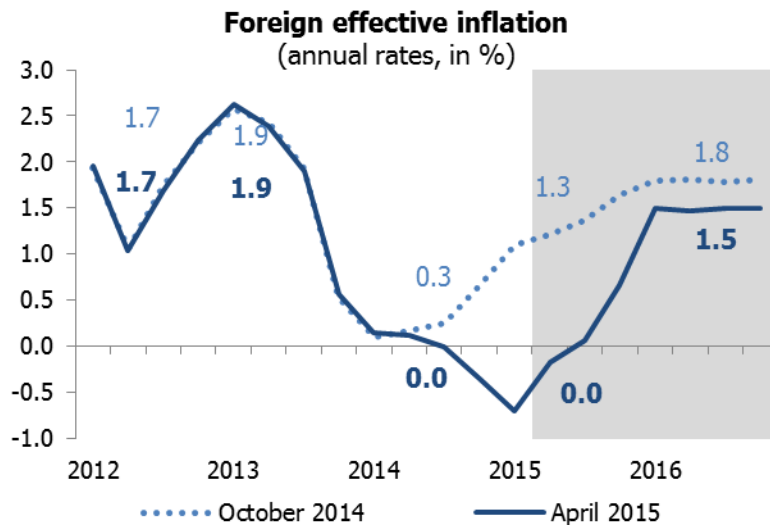
- A minor downward revision has been made of the expected growth of foreign demand for Macedonian products in 2015 compared to the October projections (primarily due to the countries in the region, while the expectations for the euro zone have improved)
- The expectations for gradual recovery in the period ahead continue





Foreign Effective Inflation

- ❑ Downward revision of oil prices for 2015 and 2016 (to 52.4 euros and 59.4 euros per barrel for 2015 and 2016 from about 75 euros per barrel for 2015 and 2016 in the October projection) - improved terms of trade compared to the October assessments
- ❑ Also, downward correction of the foreign effective inflation - less pressure on domestic prices than previously expected

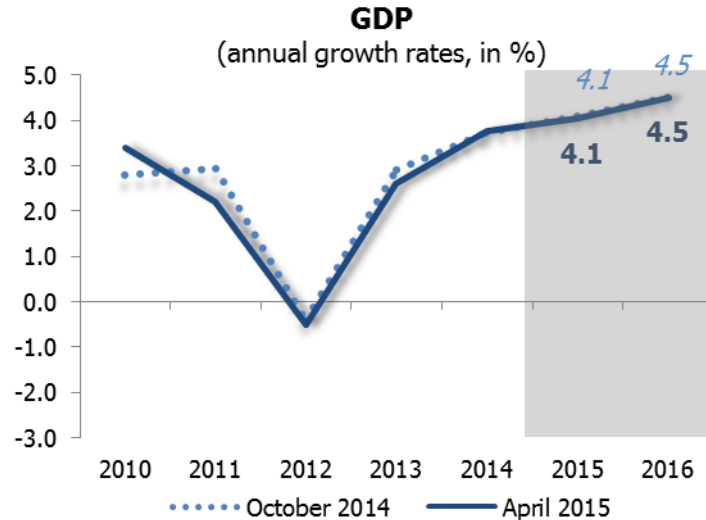




Macroeconomic Projections for 2015-2016

GDP

- ❑ Risks associated with the external environment are still present, but less pronounced compared to the previous projection
- ❑ Preserved assessments about:
 - continuation of the government investment incentive
 - positive effects of the existing and the new FDI-based facilities
 - continuation of favorable developments in the labor market
 - solid credit support
- ❑ The assessments about the economic growth for 2015 and 2016 remain unchanged compared to the previous projection

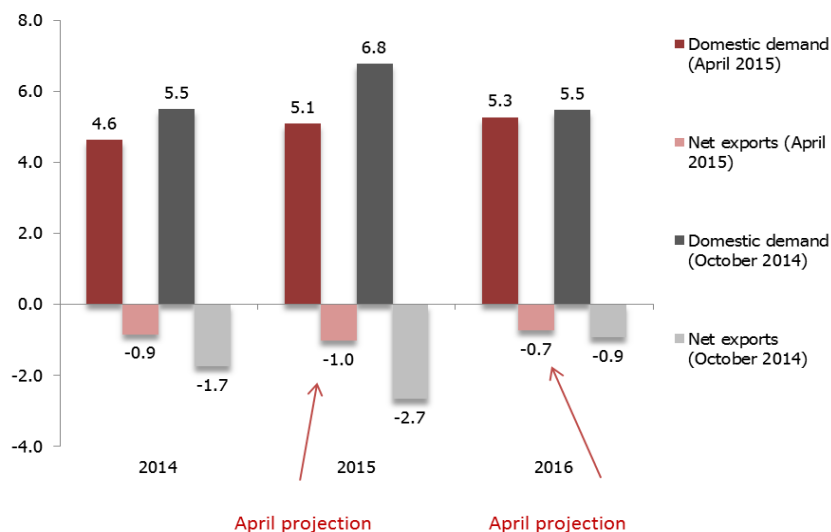




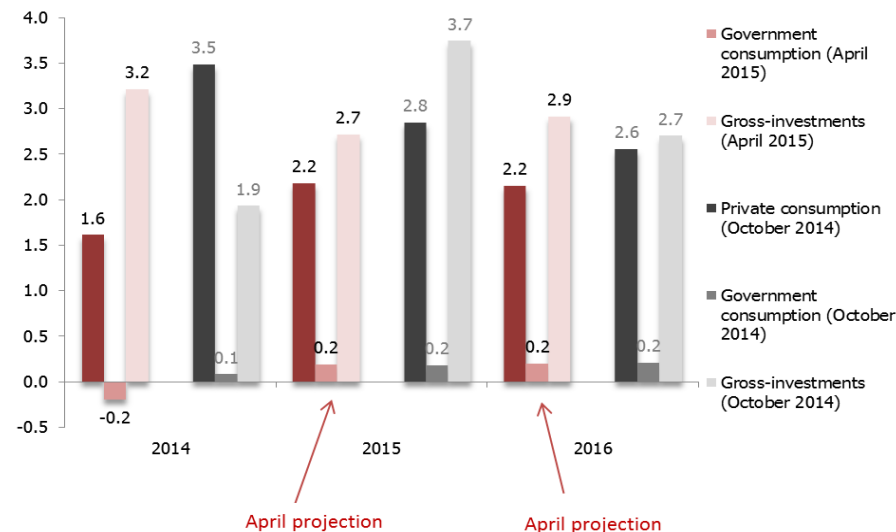
GDP Components

- ❑ The growth this and the next year will mostly be due to the relatively strong positive contribution of the investments and exports, and less to the growth of private consumption
- ❑ Intensive export growth and further growth of all domestic demand components will bring about higher imports, while the net exports would make negative contribution
- ❑ Moderate growth in public consumption during the projection period, in accordance with the announced fiscal strategy

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



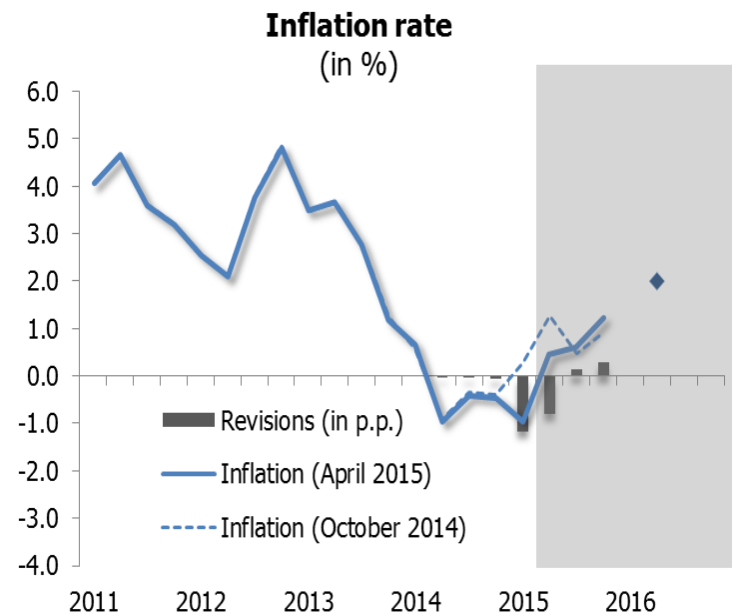
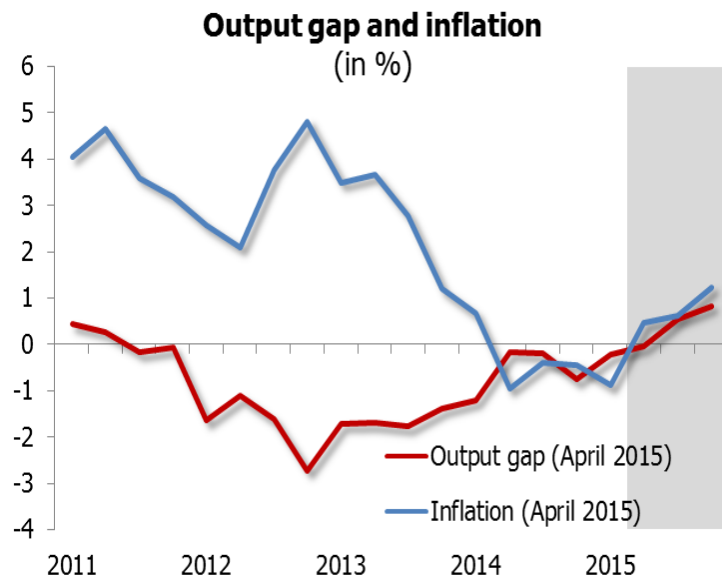
Domestic demand
(contributions, in p.p.)





Inflation

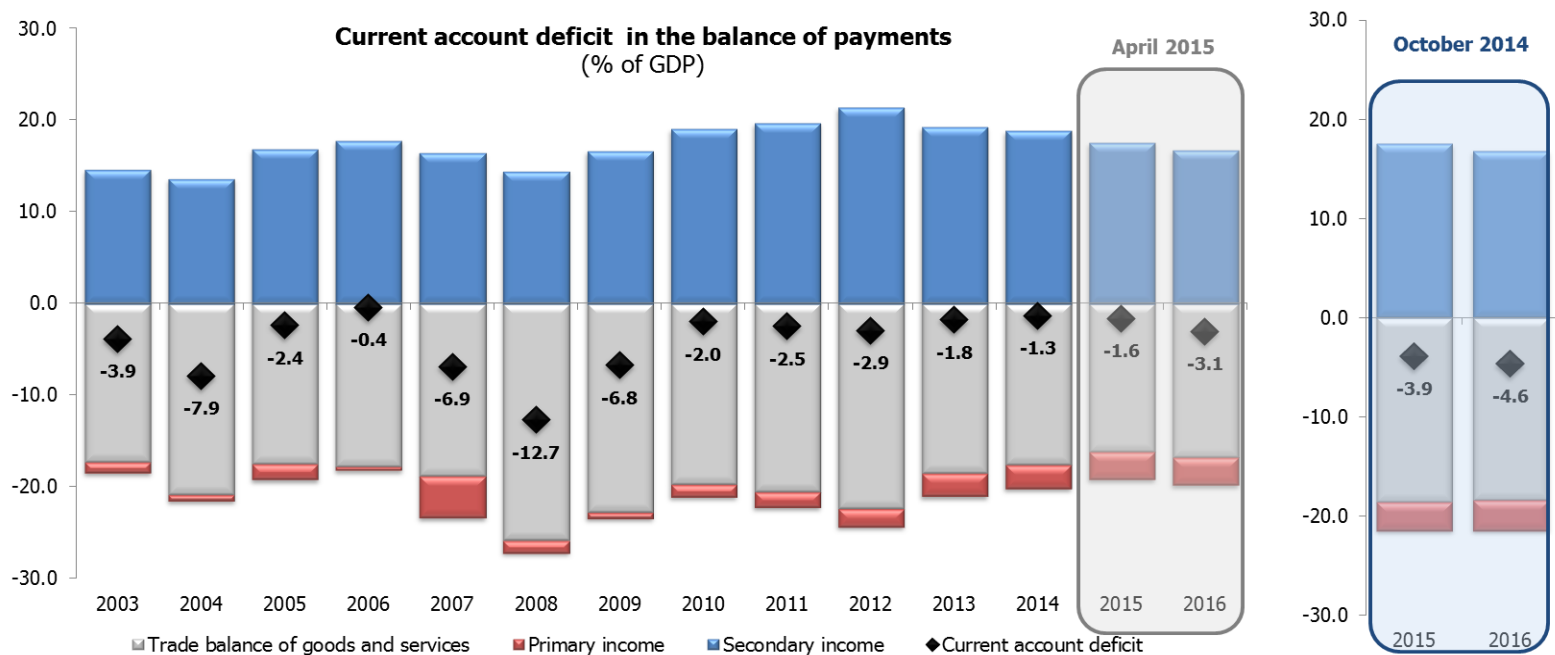
- ❑ Downward revision of the projected inflation rate for 2015 to 0.5%, amid lower initial conditions and downward movements in some external assumptions
- ❑ Assessment for gradual normalization of the inflation to roughly 2% in 2016, as projected in October, driven by the recovery of the demand and foreign effective inflation
- ❑ Closing of the negative output gap in the second quarter of 2015





Current Account of the Balance of Payments

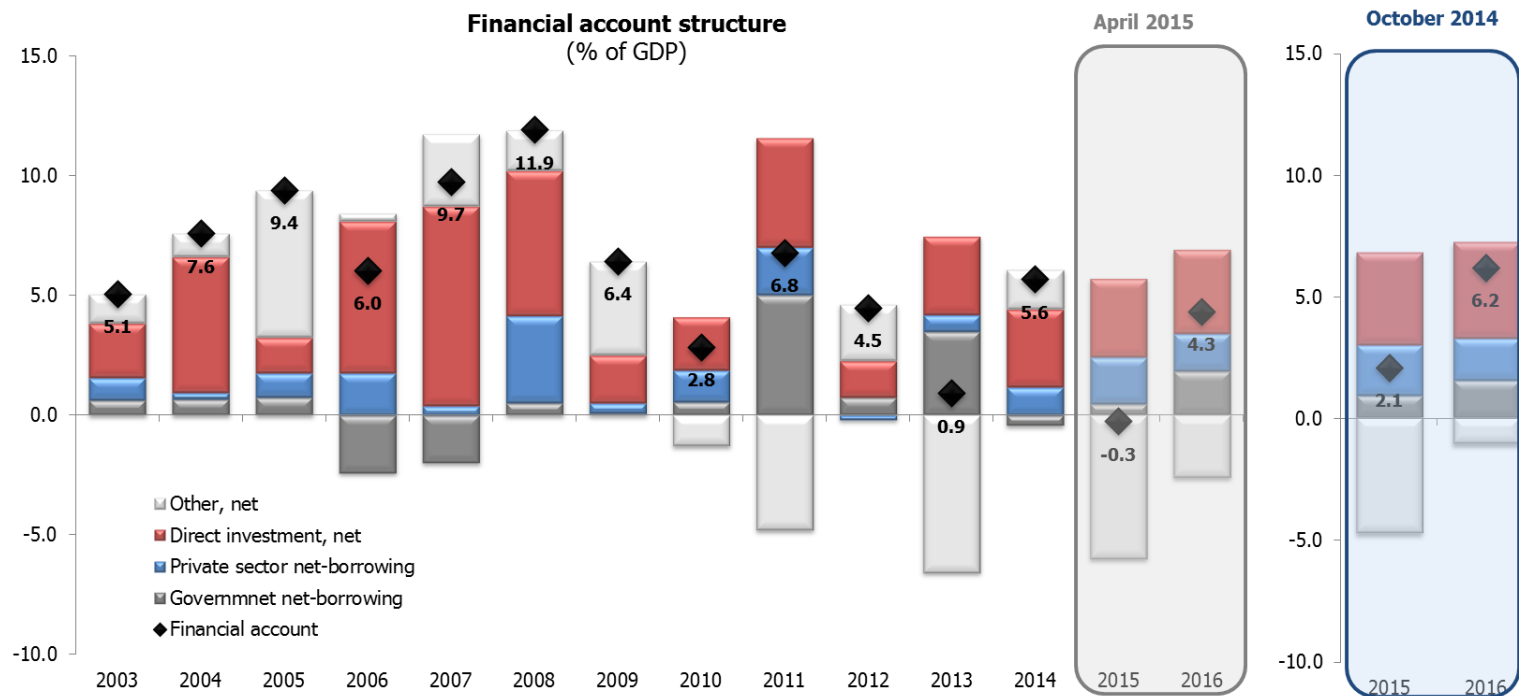
- **Moderate current account deficit in 2015 and 2016**
- **Slight widening over the projection horizon**
 - Reduction of the relative share of private transfers - stabilization of their level
 - Decrease of the trade deficit in 2015 - effect of the lower oil prices and structural changes in the export sector
 - Slight widening of the trade deficit in 2016 - initial import pressures from the entrance of new companies and the further growth of domestic demand
- **Smaller current account deficit than projected in October – positive effect on the trade of the lower oil prices and the stronger than expected fundamental improvements caused by the new companies**





Financial Account of the Balance of Payments

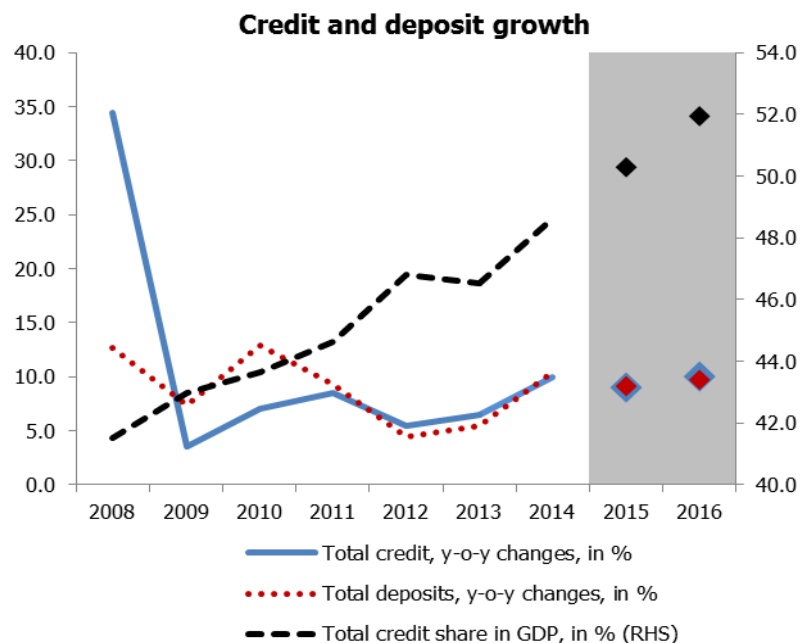
- Capital inflows as a combination of direct investments and external public sector borrowing (for infrastructure projects, according to the fiscal strategy)
- Lower total net inflows compared with the October projection, mainly due to short-term and uncertain flows
- The foreign reserves are projected to decrease in 2015, partly due to the higher repayments of the government external debt, while in 2016, they are expected to resurge, with the foreign reserves adequacy ratios remaining in the safe zone





Deposits and Loans

- ❑ In the banking sector, the deposit growth is expected to remain at around 9-10% in 2015 and 2016
- ❑ Growth in deposits and foreign credit lines available, improved banks' risk perceptions and improved global environment are expected to maintain the credit growth rates at a level of 9-10% p.a. in 2015 and 2016
- ❑ The banking system remains stable given the high capital adequacy ratio (15.7% in December 2014), high liquidity and relatively stable share of non-performing loans (11.6% in March 2015)





Summary

- **Unchanged assessments for the growth pace of the domestic economy**
- **Economic growth in the time horizon of the projections, driven by exports and domestic demand**
- **Downward correction of the inflation projection - because of the changes in factors on the supply side**
- **Smaller current account deficit compared with the October projection, with preserved assessments for its moderate expansion next year**
- **The structure of capital flows is expected to be a combination of debt and non-debt flows**
- **In the period 2015-2016, foreign reserves adequacy ratios are expected to remain in the safe zone**
- **Sensitivity of the scenario to potential changes in the global economic environment and the domestic risks associated with the uncertain political environment**