Latest Macroeconomic Forecast
- November 2019 -

Vice Governor
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- Current global context and impact on the domestic economic outlook
- Key external and domestic assumptions underpinning the latest forecast
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- Comparison between two forecast vintages

Risk mapping

Global growth momentum lost, with downward revision of growth forecast and risk tilted to downside

- **Trade tensions** – major setback impairing confidence, reducing predictability, and potentially disrupting global supply chains
- Marked slowdown in global trade growth in 2019 expected, with revert to the trend thereafter
- Slowdown in **global industrial output** – car production and sales decline, reflecting supply and demand factors
- Lingering **geopolitical risks**

Further monetary accommodation of the ECB and FED, rollback of the normalization policy

- Further reduction of the ECB **deposit rate** from -0.4% to -0.5%
- **Reintroduction of quantitative easing** policies and strengthening of the forward guidance
- Overall **financial market sentiment volatile** – on average easier financial conditions compared to April

Changes in the domestic context

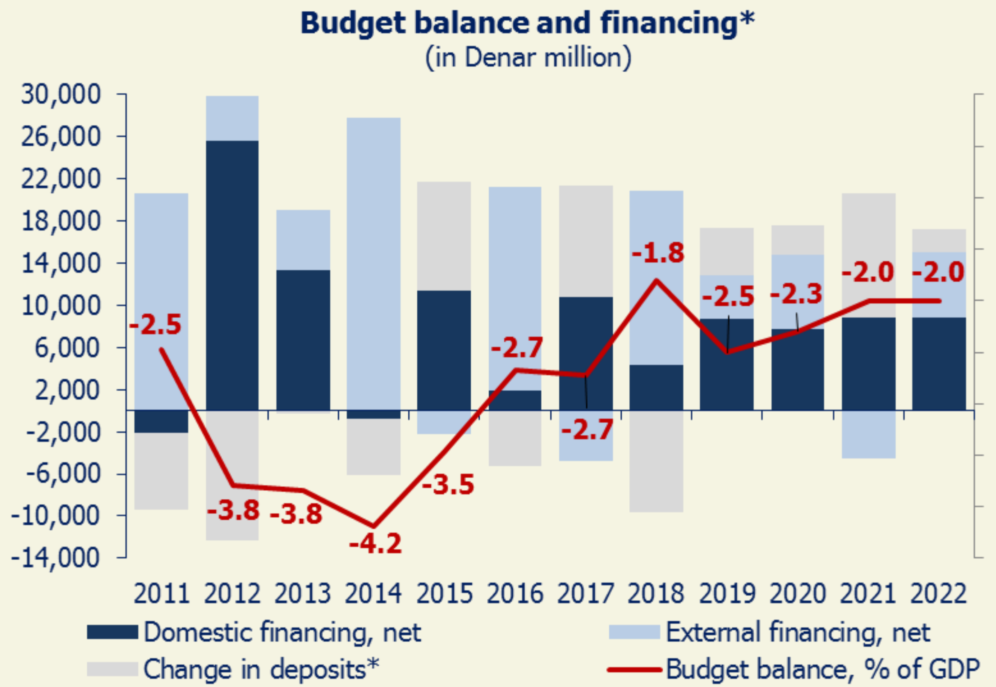
- On a short term, less predictable domestic political context, with possible **temporary** impact on the macroeconomic scenario

Key assumptions underpinning the forecast

- **Less conducive external environment,** but growth of external demand expected during the forecast horizon
- **Domestic context –** election cycle in-between two forecast vintages with possible temporary impact on expectations and rise in the "wait and see" attitude
- In general, **confidence expected to be in place**, sustaining the rise in domestic demand
- **Investment supportive policies and strong fundamentals** – conducive for long-term and productive foreign inflows
- **Public investments cycle in infrastructure** – expected to proceed further
- **Prudent fiscal stance –** expected to be kept during the forecast horizon

Assumptions on the fiscal policy

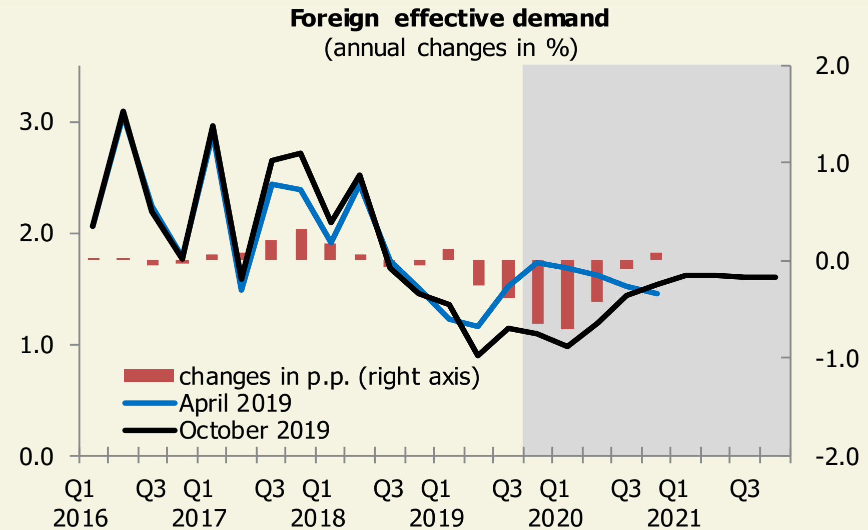
- The baseline scenario factors in the latest revised budget for 2019 and the latest medium term fiscal strategy
- Fiscal outlook, envisages contained headline fiscal deficit on average at around 2%
- **Deficit financing** – combined external and domestic sources



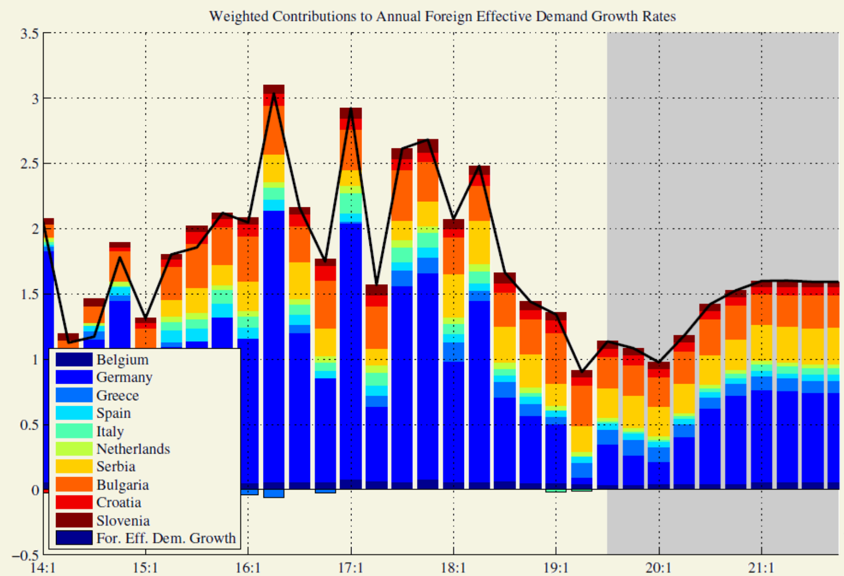
* Positive change-deposits withdrawal; negative change-deposits accumulation.
Source: NBRNM simulations.

External environment assumptions - Foreign demand -

- **Subdued global outlook translated into downscaling of the expected foreign effective demand**
- Foreign demand growth for 2019-2021 (growth of 1.1%, 1.3% and 1.6%, versus 1.4%, 1.6% and 1.6% in April)
- Reflection of the weaker growth in Germany

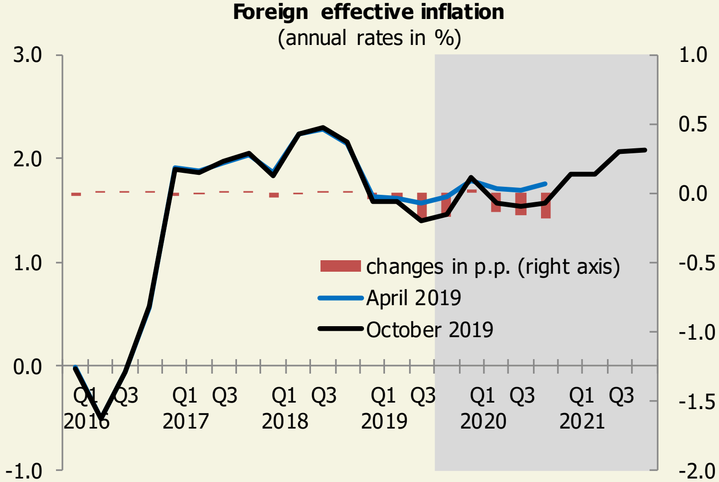


Source: Consensus forecasts and NBRNM calculations.



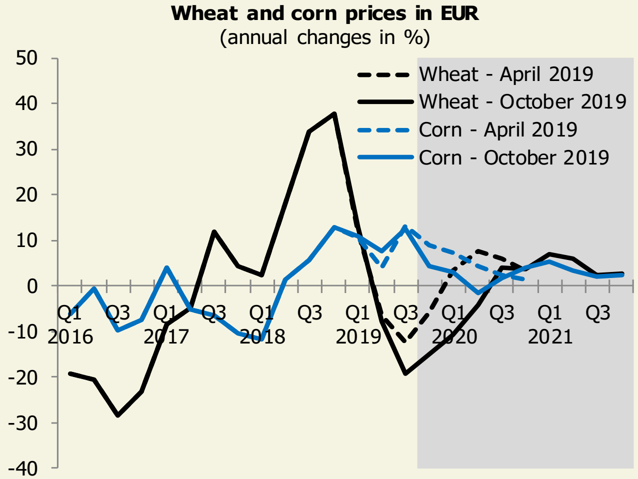
External environment assumptions
- imported prices -

Minor downward revision of foreign effective inflation…



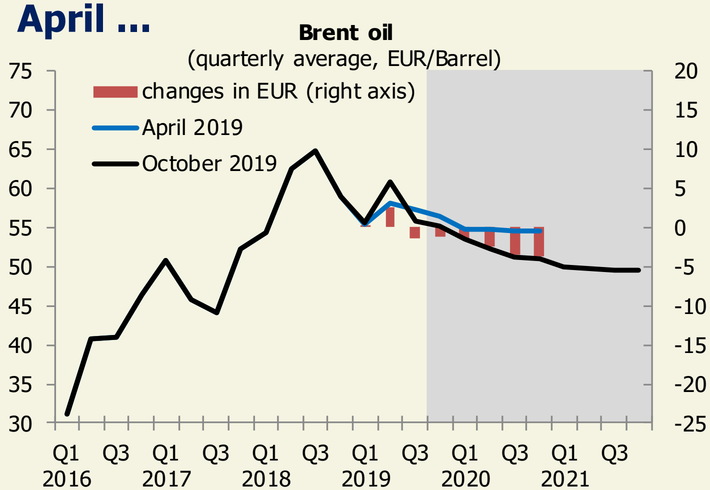
Source: Consensus forecasts and NBRNM calculations.

…less than expected pressures from food prices…



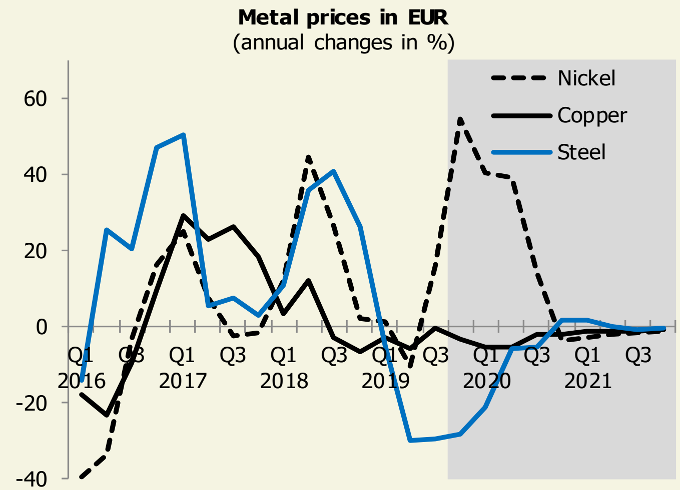
Source: IMF and NBRNM calculations.

… oil prices bellow the assumed in April …



Source: IMF and NBRNM calculations.

… and expected diverse changes on markets for different metal prices



Source: IMF and NBRNM calculations.

Macroeconomic scenario 2019-2022

GDP forecast

- **The autumn forecast round does not envisage any significant changes in the assumed growth drivers, in comparison with April**

  - **Key assumptions:** domestic context, conducive to rebound of investment activity and with no major spillovers on confidence and attitude of economic agents

  - **Exports** to remain important growth engine, driven by foreign export oriented companies, the recovery of some traditional sectors, and the mild increase in foreign demand

    - the forecast assumes slowdown in export growth, as full capacity is reached and activity levels-off

  - Additional stimulus from **investment activity** – continuation of the public investment; further moderate inflows of foreign investment

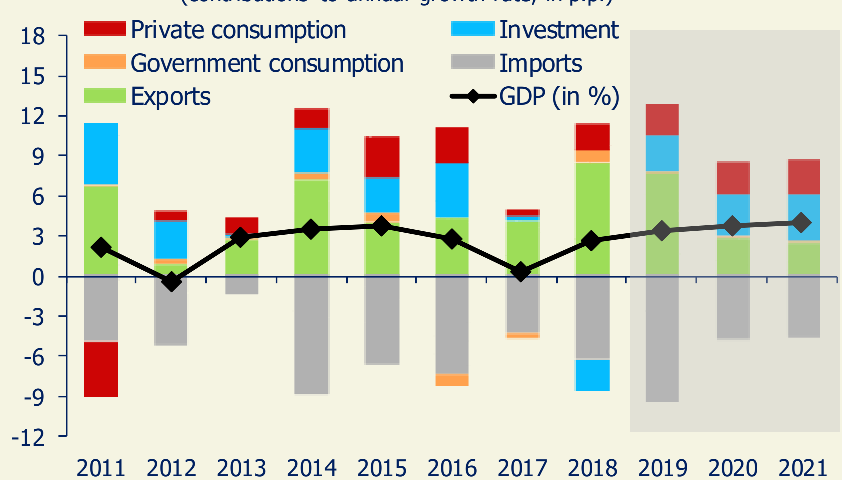
  - **Private consumption** with slightly stronger impact on growth, amidst cyclical increase in the disposable income, and income supportive policies in place; confidence maintained, and credit support from banks

GDP projection

- **In the first half of the year, GDP growth close to the expectations**
- **High frequency indicators for the third quarter –** favorable, indicating growth at least dynamic as in the first half of the year
- **Growth rate is expected to accelerate within the forecast horizon** – GDP growth of 3.5% for 2019, 3.8% for 2020 and 4% for 2021 and 2022

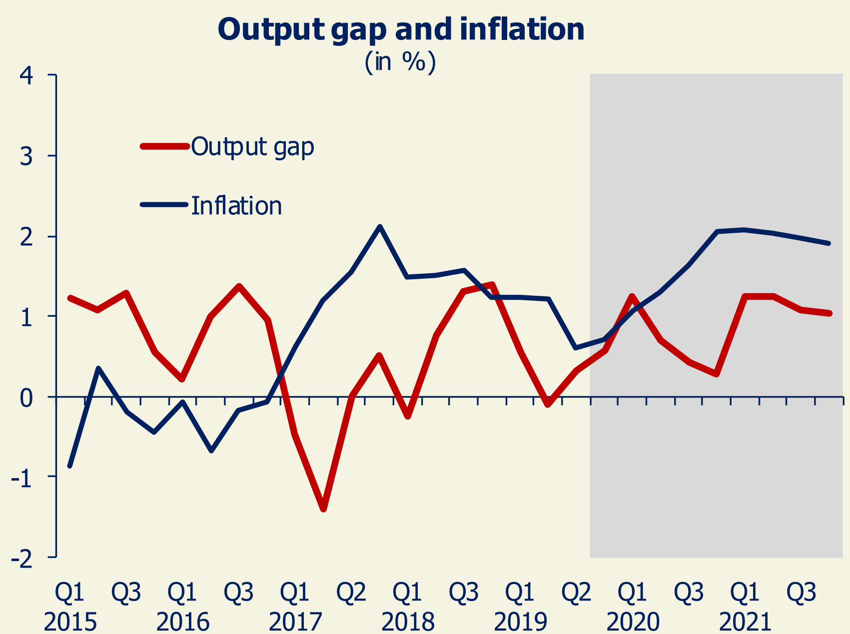
	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
	%	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	*contrib. in p.p.*	
2019	**3.5**	3.3	*2.4*	8.3	*2.7*	11.5	*7.7*	10.8	*-9.4*	0.6	*0.1*	*5.2*	*-1.7*
2020	**3.8**	3.5	*2.5*	9.3	*3.1*	4.0	*2.8*	5.1	*-4.8*	1.0	*0.1*	*5.7*	*-2.0*
2021	**4.0**	3.5	*2.5*	9.6	*3.4*	3.5	*2.5*	4.9	*-4.6*	0.9	*0.1*	*6.1*	*-2.1*
2019-2021	**3.7**	**3.4**	***2.5***	**9.1**	***3.1***	**6.3**	***4.3***	**7.0**	***-6.3***	**0.9**	***0.1***	***5.7***	***-1.9***

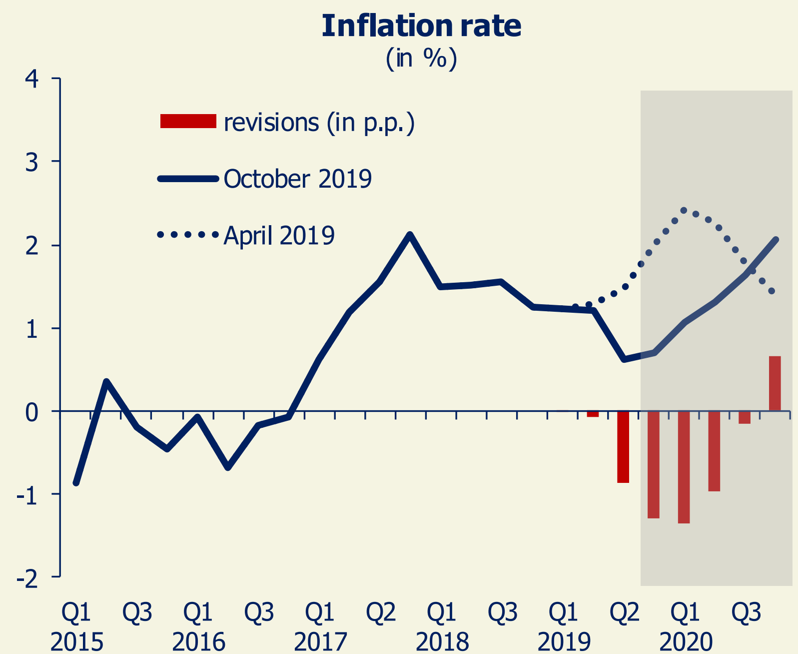
Growth decomposition
(contributions to annual growth rate, in p.p.)



Inflation projection

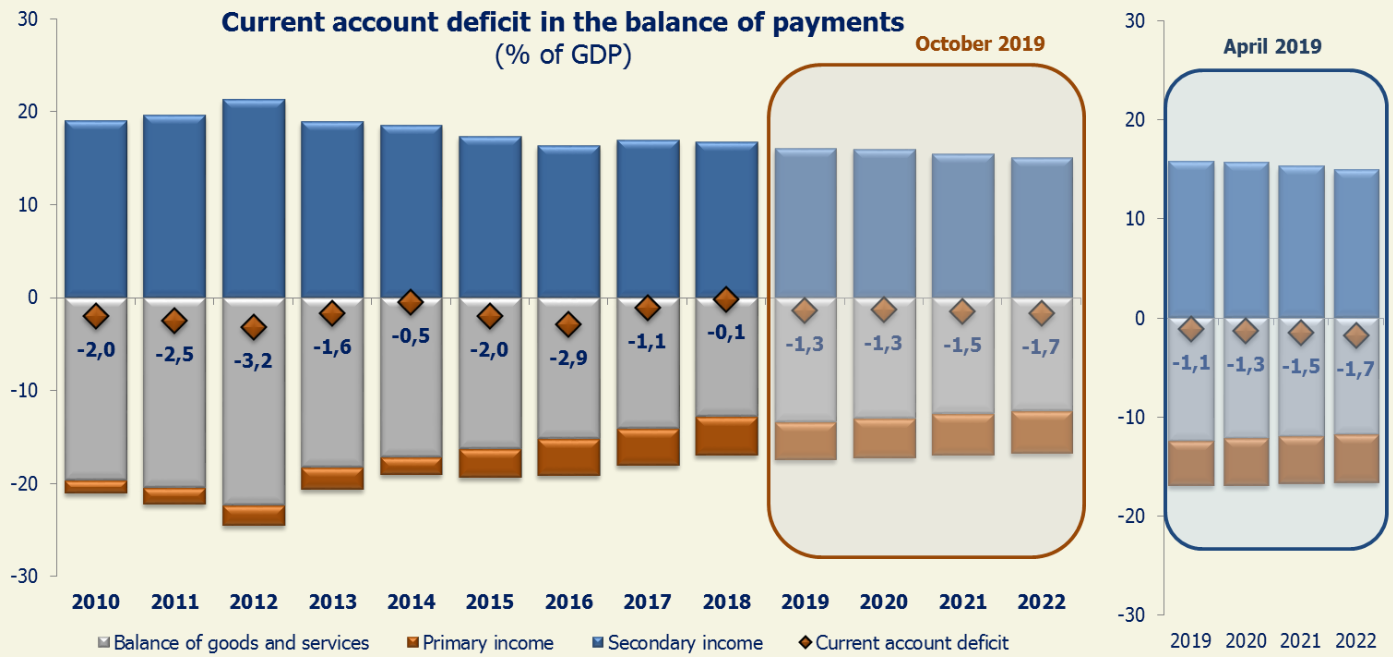
- **Average inflation rate in the first three quarters of 2019 of 1%**
- **Initial conditions lesser** than envisaged in the April forecast
- **Pressures from import prices less pronounced** than expected
- Inflation forecast for 2019 and 2020 revised from 1.5% to 1.0%, and from 2% to 1.5%
- **Average inflation rate expected to be well contained at around 2% in 2021-2022,** amidst rise in foreign inflation and slightly positive output gap



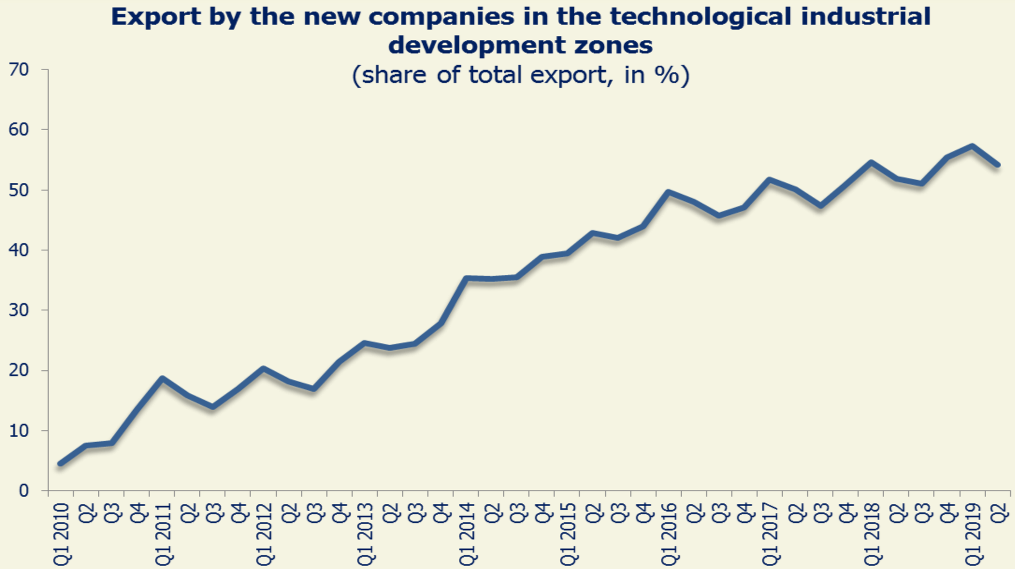


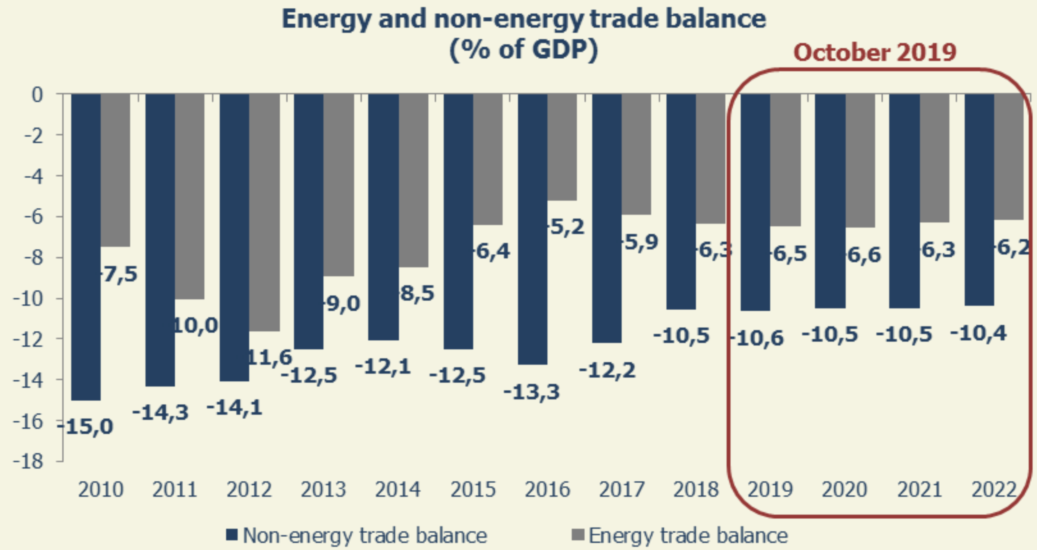
Balance of payments
- current account -

- **Moderate current account deficit** throughout the forecast horizon
- **Expected narrowing of the deficit in the balance of goods and services,** reflecting the catching up with the potential of the new export facilities and more favorable external environment, while lower oil prices create less of pressures on the current account balance
- **Further widening of the primary income deficit**
- **Moderate decrease in secondary income surplus**



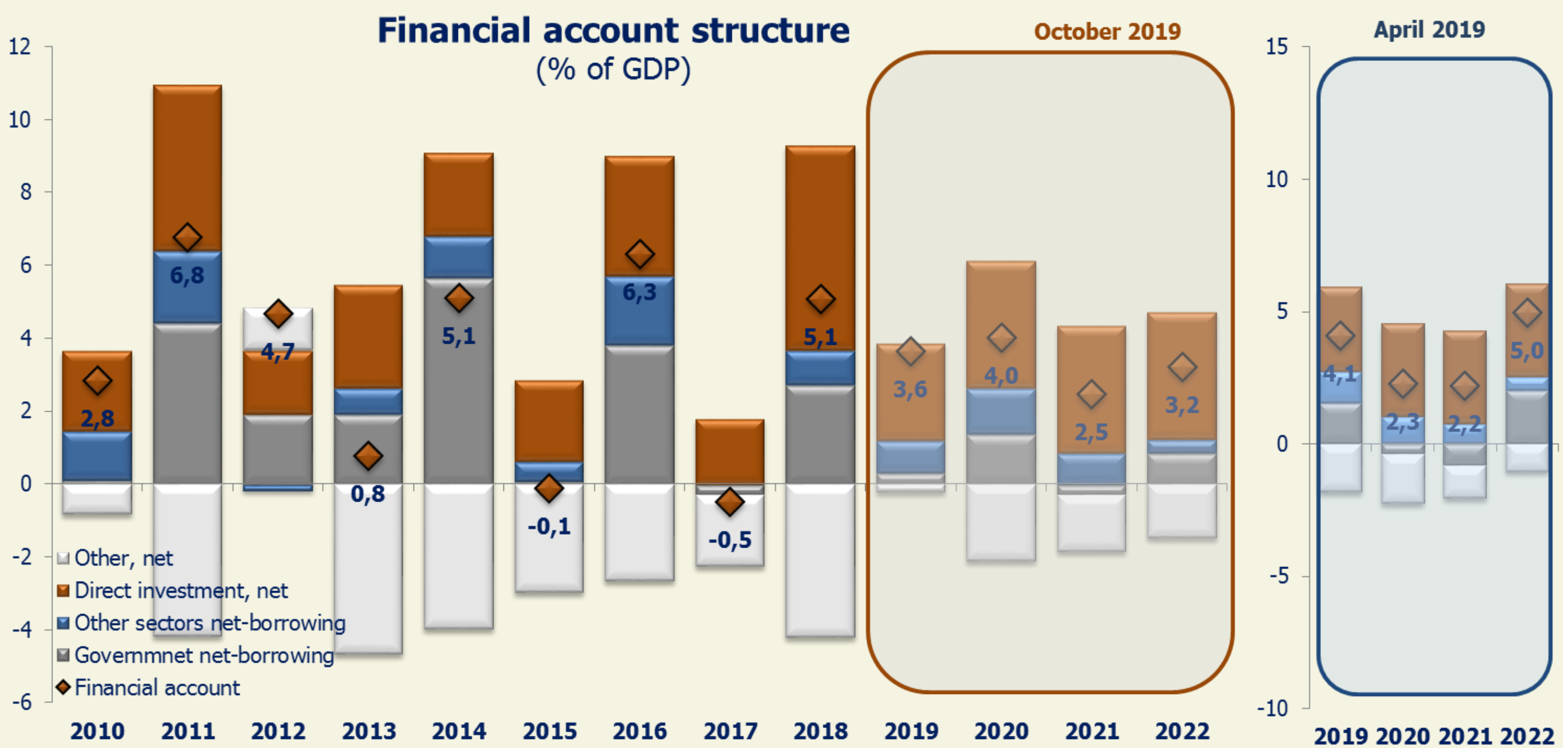
Balance of payments - current account





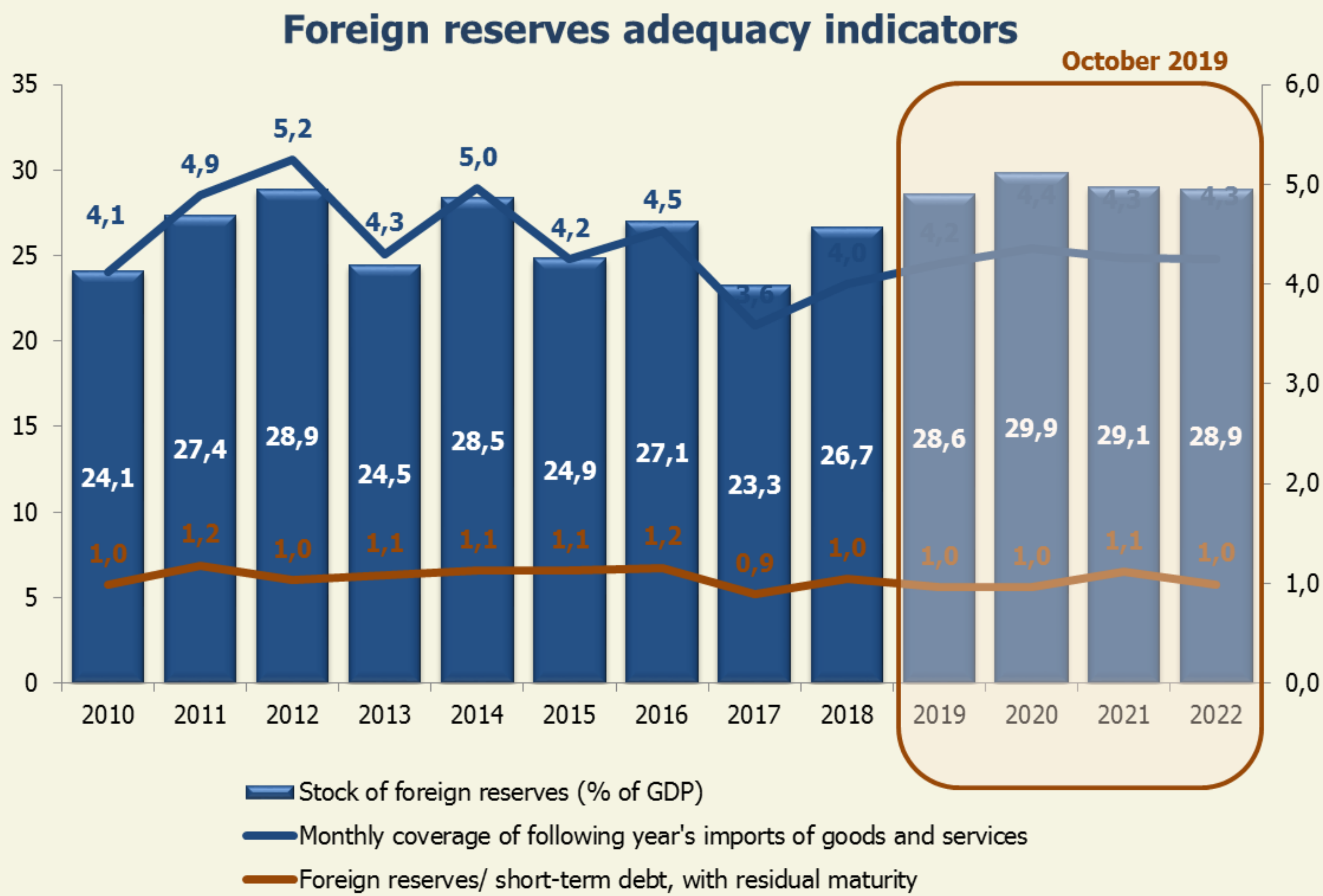
Balance of payments
- financial account -

- **Expected financial inflows** on average of around 3.3% of GDP in 2019-2022 period…
- …mainly comprised of **foreign direct investments** and **public sector borrowing**…
- … while the short term flows remain negative

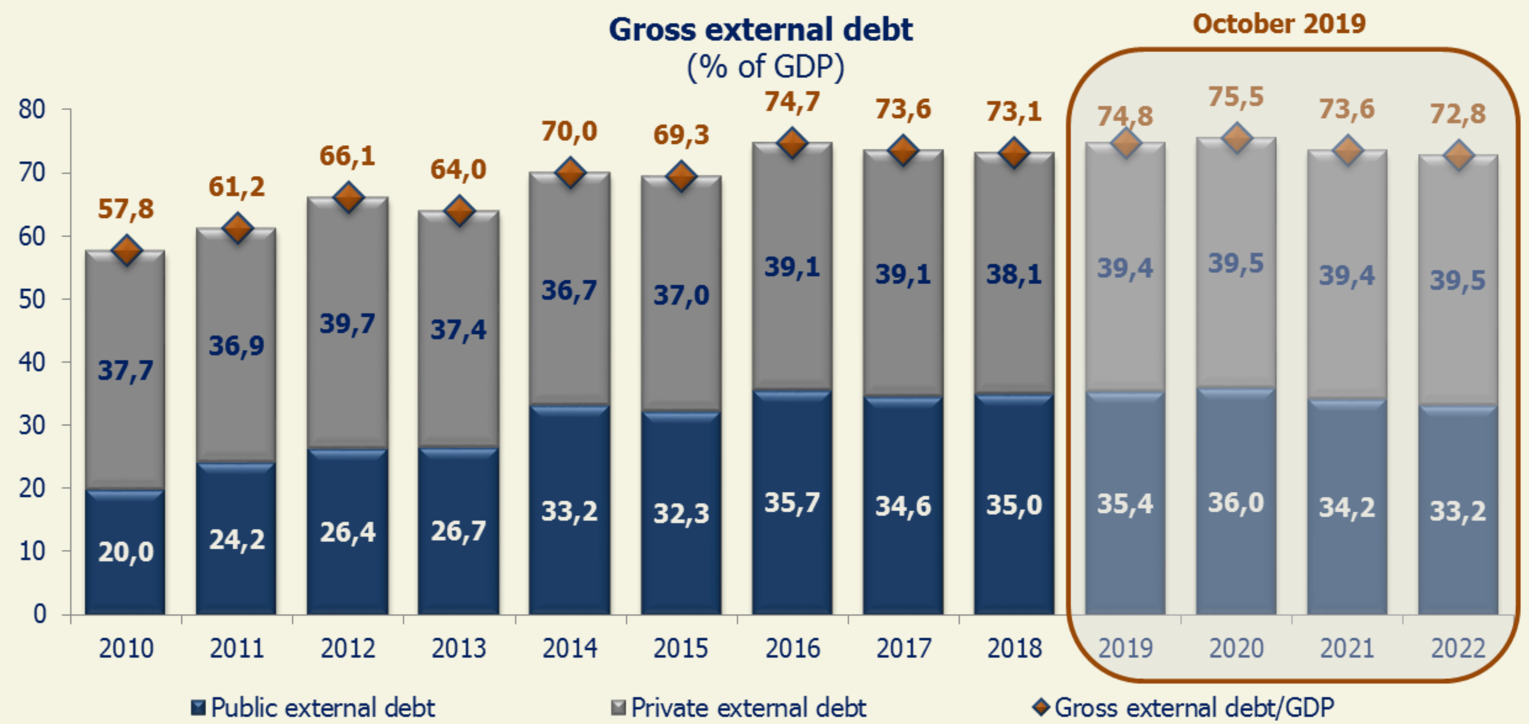


Balance of payments
Foreign reserves adequacy ratios

- During the entire forecast period, the foreign reserves adequacy indicators continue to hover in the safe zone

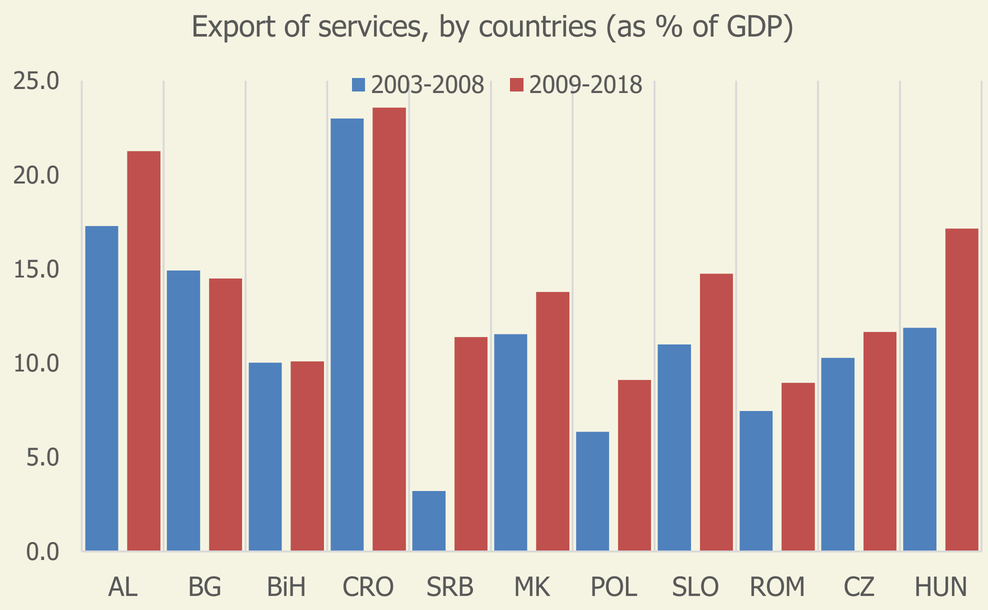


Balance of payments
Gross external debt indicators



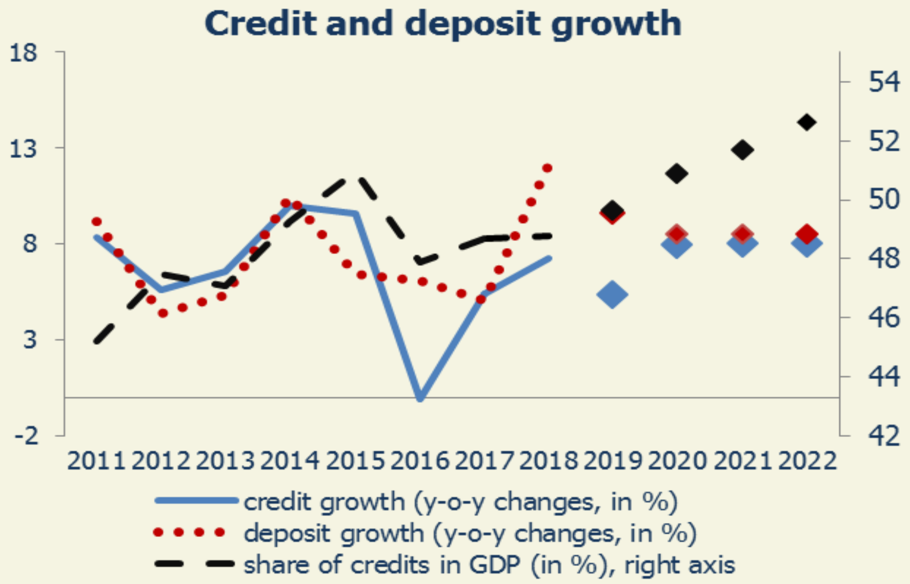
Spotlight on export of services

- **Increasing importance of trade with services in the global trade**
- Macedonian economy integrated in the GVCs in the automotive industry, which allowed for rising trade integration
- But, lifting the growth potential asks for further changes, one of them being increasing the potential of the services sector
- Rise in the share of exports of services in GDP, observed in the last fifteen years in the Macedonian economy by close to 4 p.p. of GDP – though still bellow the average in the region



Credit and deposit growth

- **Strong deposit growth continues in 2019 and outperforms the forecast**
- In 2020-2022, some slowdown is expected, but growth rate to remain robust amid favourable growth outlook and strong confidence
- Deposit growth is expected to continue to rise at a pace of 8.5%, on average in 2020-2022
- Strong financing sources, the sound capital and liquidity position of banks and confidence in place, expected to yield credit growth of 8.0%, on average, in 2020-2022
- **The banking system remains stable, liquid and well capitalized**



Comparison with the April forecast

Forecast of selected macroeconomic variables

	2019 forecast		2020 forecast		2021 forecast
	Apr.	Oct.	Apr.	Oct.	Oct.
GDP, %	**3.5**	**3.5**	**3.8**	**3.8**	**4.0**
Private consumption	2.0	3.3	3.2	3.5	3.5
Gross capital formation	8.3	8.3	9.4	9.3	9.6
Public consumption	0.0	0.6	-0.3	1.0	0.9
Exports of goods and services	5.4	11.5	4.8	4.0	3.5
Imports of goods and services	5.6	10.8	5.4	5.1	4.9
Inflation	**1.5**	**1.0**	**2.0**	**1.5**	**2.0**
Current account deficit, % of GDP	**-1.1**	**-1.3**	**-1.3**	**-1.3**	**-1.5**

Source: NBRNM.

The latest outlook and monetary policy stance

- After the reduction of the policy rate to 2.25% in March 2019, no additional policy measures undertaken

- Most of the headline indicators in line with the forecast, favorable trends on the foreign exchange market, contained inflation, further ECB loosening…

- …but global uncertainty mounting since April, asking for vigilance

- The latest macroeconomic scenario completed in a more uncertain global context, but elevated domestic uncertainty, as well

- In the period ahead, the NBRNM will continue to monitor closely the developments and adjust monetary policy, if needed

Thank you for your attention