



# **Latest Macroeconomic Projections**

## **- November 2018 -**

Vice Governor  
Ana Mitreska

November 5, 2018



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- Map of risks – changes from April to October forecast vintage
- Key external and domestic assumptions underpinning the latest forecast
- Macroeconomic scenario 2018-2021
- Comparison with the April forecast



# Map of Risks

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Risks  
surrounding  
the forecast

**Adverse external risks more pronounced** – both on short and medium run

- Escalation of trade tensions
  - Geopolitical risks
  - Potential sharp tightening of financial conditions
  - Mounting global financial vulnerabilities
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**The uncertain domestic political setting still weighing on the future prospects**

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The October forecast, same as the April one, **does not factor in** the possibility of faster **EU integration** and the positive economic impact it might yield in

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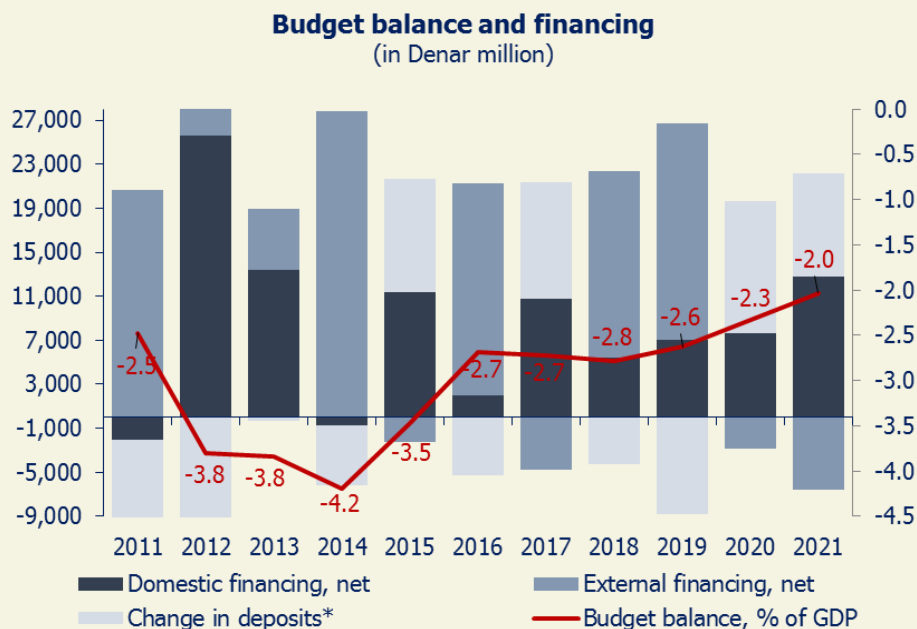
# Key assumptions underpinning the forecast

- **Softer, but still favorable external outlook** – growth conducive external environment
- **Stable and predictable domestic context** – confidence and positive expectations in place, sustaining the rise in domestic demand
- **Strong domestic fundamentals and investment supportive policies** – “pull” factor for further long term and productive foreign inflows
- Public investments cycle in infrastructure – expected to resume by the end of 2018
- **Gradual fiscal consolidation on a medium run**



# Assumptions on the fiscal policy

- Fiscal projections in accordance with the 2018 budget and with the medium term fiscal outlook, envisaging **gradual fiscal consolidation** as of 2019
- **Deficit financing** – combined external and domestic sources

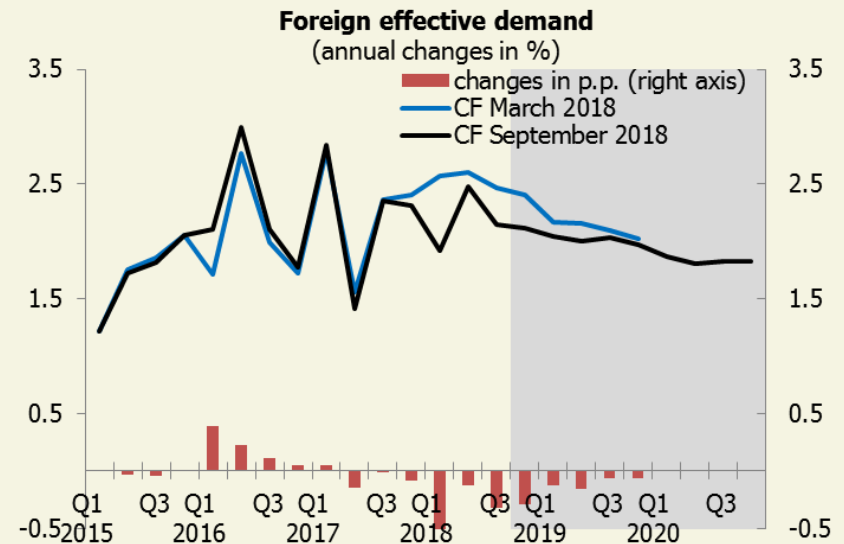


\* Positive change- deposits withdrawal; negative change-deposits accumulation.  
Source: NBRM simulations.

# External environment assumptions

## - Foreign demand -

- **Softer growth prospects** resulting in mild downward revision of foreign demand for 2018 and 2019 (growth of 2.2% in 2018 and 2.0% in 2019 versus 2.5% and 2.1% in April), mostly due to the weaker growth prospects for Germany
- Further slowdown of the foreign effective demand in 2020 to 1.8%

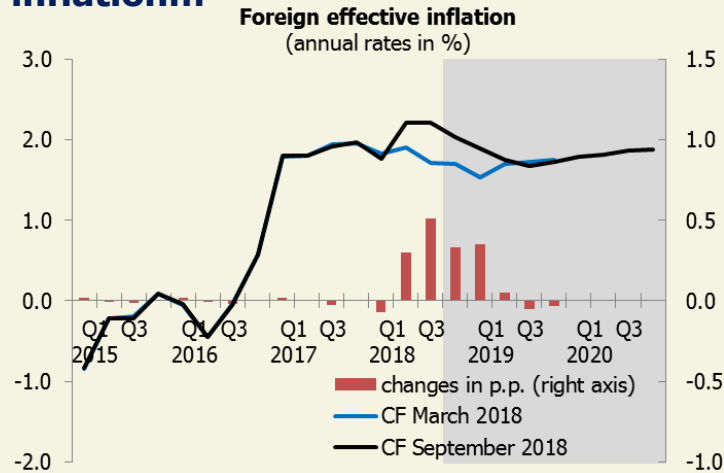




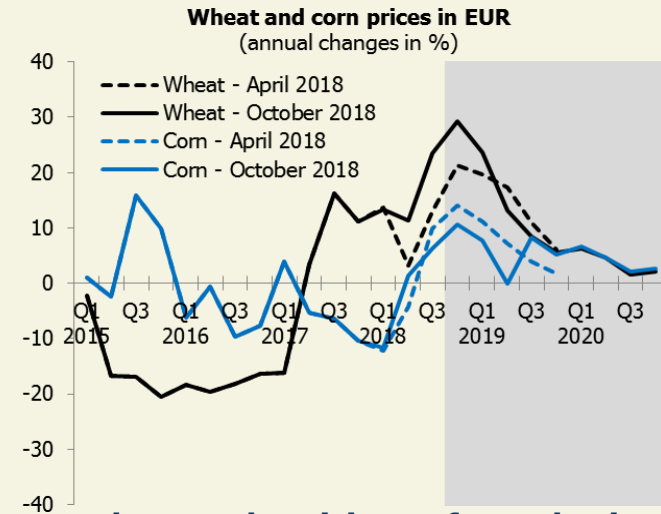
# External environment assumptions

## - imported prices -

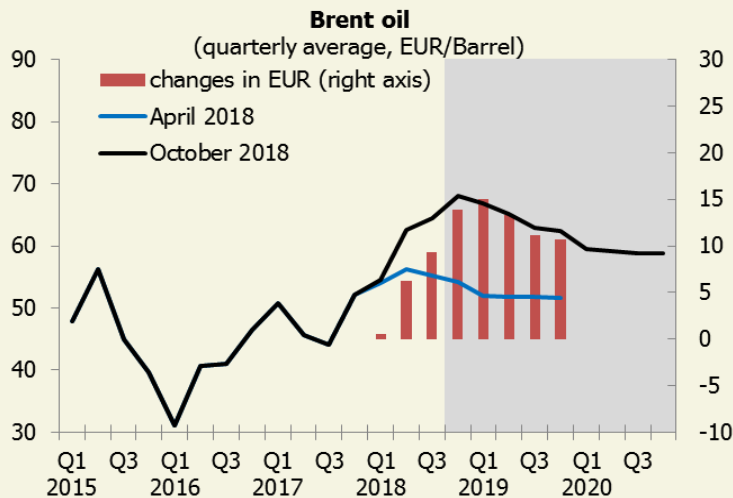
### Upward revision of foreign effective inflation...



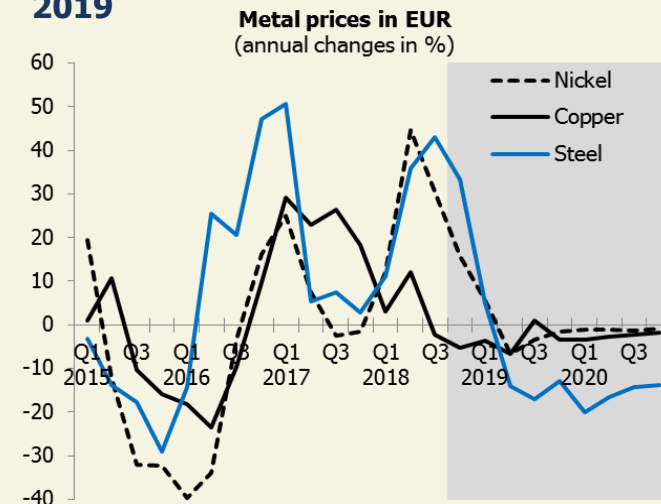
### ...food commodity prices revised upwards in 2018 and downwards in 2019...



### ...higher level of oil prices...



### ...and upward revisions of metal prices in 2018 and downward revisions in 2019





# **Macroeconomic scenario 2018-2021**





# GDP forecast

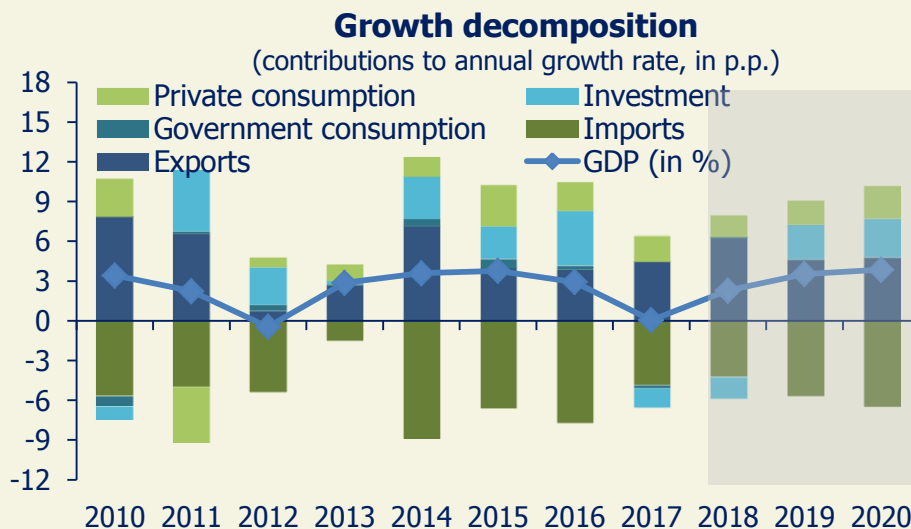
- **Fundamental growth factors similar to previous forecast round - exports as growth engine with additional impetus from private consumption and investments:**
  - **Key assumptions:** stable domestic political context and revival in investment activity, especially as of end 2018
  - **Exports** expected to be the main growth engine, driven by the expanding activity of the existing foreign export oriented companies, the recovery of some traditional sectors and still favorable foreign demand
  - Additional stimulus from **investment activity** – after the fall in 2017 and 2018, expected continuation of the public investment; further inflow of foreign direct investment; more conducive environment for domestic investors
  - Positive contribution of the **private consumption**, given the noticeable increase in the disposable income, employment growth, stable expectations and solid credit support from banks
  - **The revival of public investment cycle, again the major source of risks around the growth forecast**



# GDP forecast

- **Lower initial conditions for the growth forecast**, reflecting stalled investments and resulting in lower than previously anticipated GDP growth for 2018 (2.3%, versus 3.2%)
- **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
- Domestic demand as the main driver of growth in the medium term, except for the current year

	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
	%	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	<i>contrib. in p.p.</i>	<i>contrib. in p.p.</i>
2018	<b>2.3</b>	2.2	1.6	-4.6	-1.6	10.5	6.3	5.0	-4.2	0.9	0.1	0.2	2.1
2019	<b>3.5</b>	2.5	1.8	8.3	2.6	7.2	4.6	6.5	-5.6	0.2	0.0	4.5	-1.0
2020	<b>3.8</b>	3.4	2.5	8.8	2.9	7.2	4.8	7.2	-6.4	0.2	0.0	5.4	-1.6



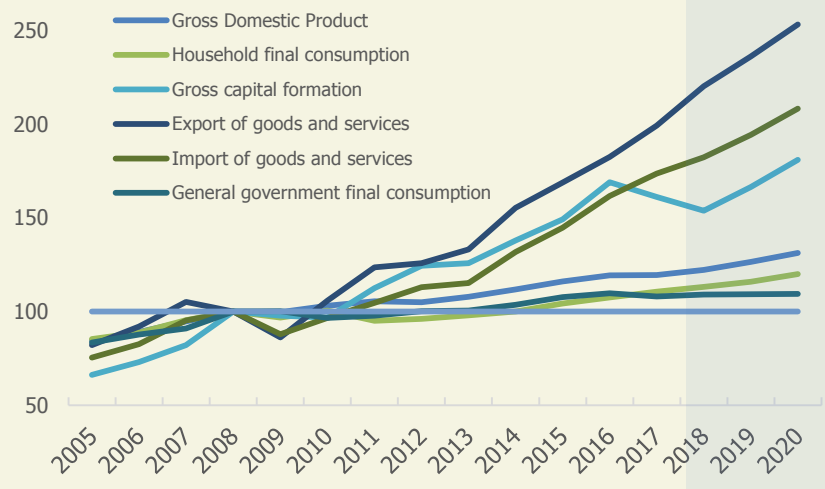


# GDP and labor productivity

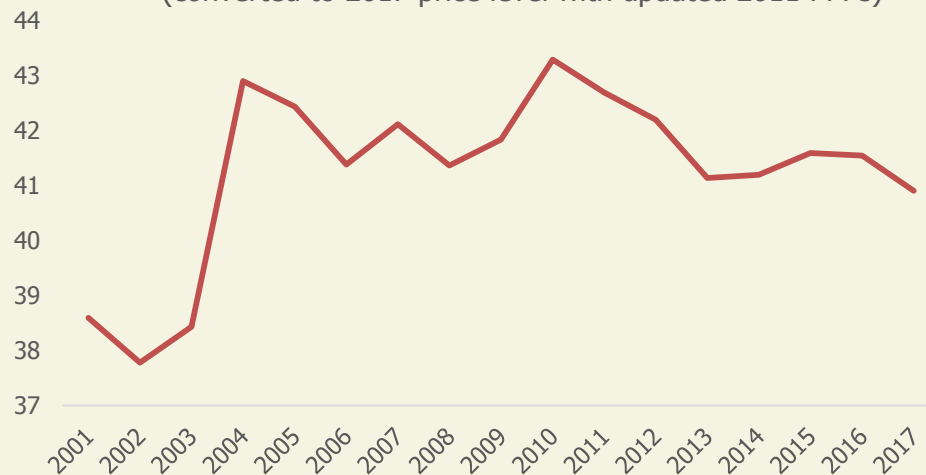
GDP exceeding the pre-crisis level, with investment and export significantly above the pre-crisis maximum

But with stagnating productivity, and need for catching up

**Real GDP and components of GDP**  
(index: 2008=100)



**Macedonian labor productivity in percent of German productivity level**  
(converted to 2017 price level with updated 2011 PPPs)

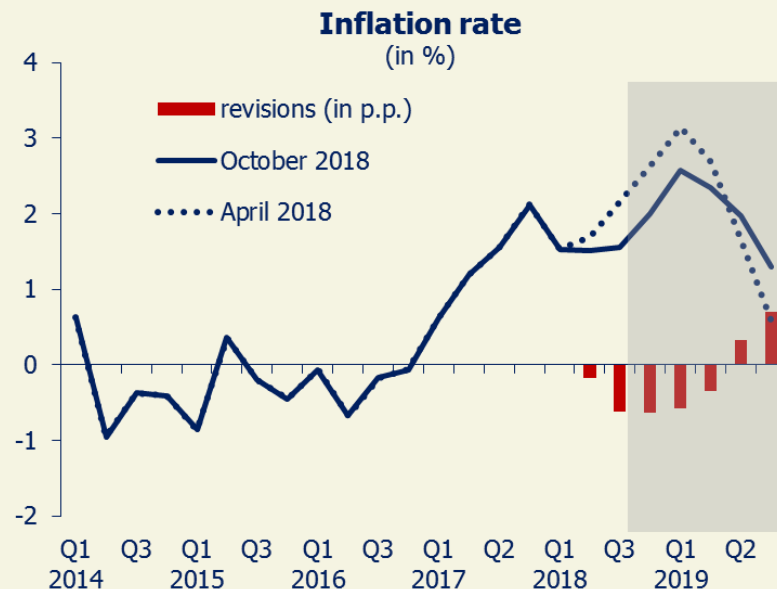
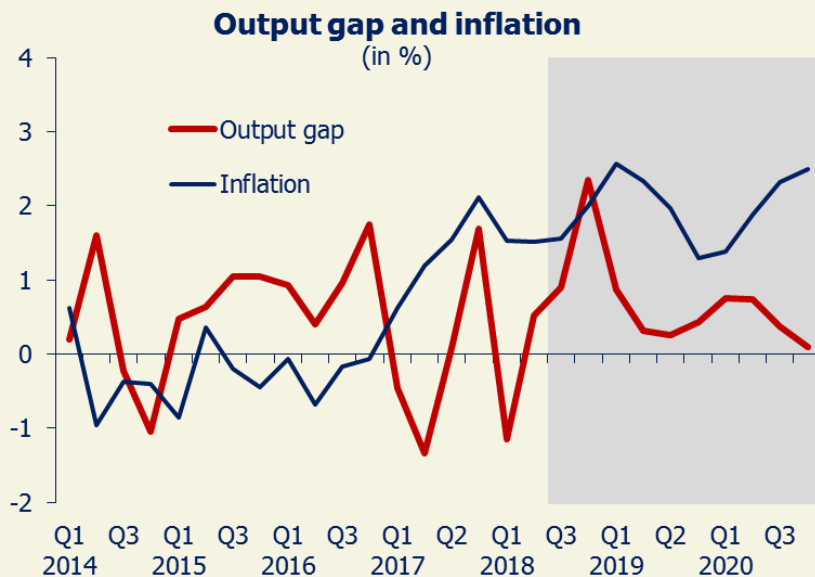


Source: The Conference Board Total Economy Database™ (Adjusted version),



# Inflation forecast

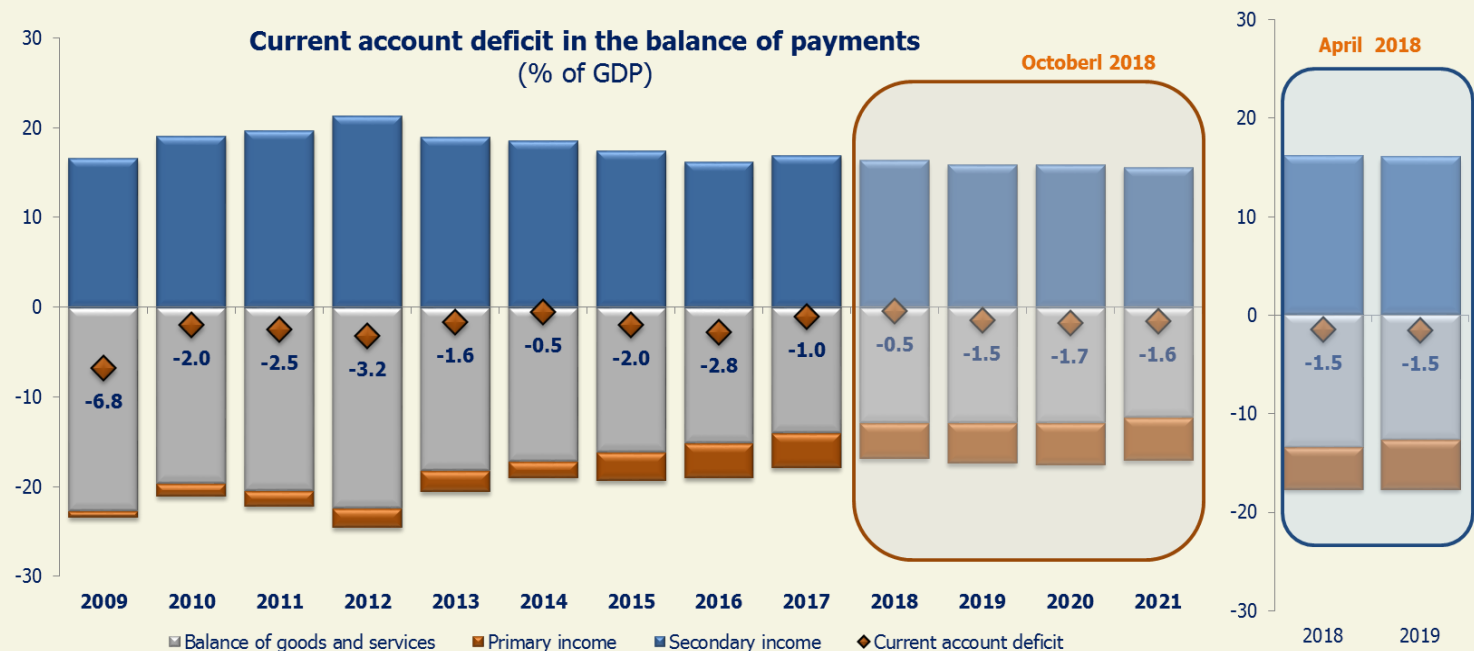
- **Inflation pressures in 2018 lesser** than envisaged in the April forecast
- **Increase in import prices more pronounced** than expected
- Inflation forecast for 2018 revised from 2% to 1.6%, average growth
  - **expected average inflation rate of around 2% in 2019 -2021**, on the backdrop of the increased food and energy prices, higher foreign inflation and slightly positive output gap
  - **Risks** to forecast inflation mainly related to the intrinsic uncertainty related to import prices





# Balance of payments - current account -

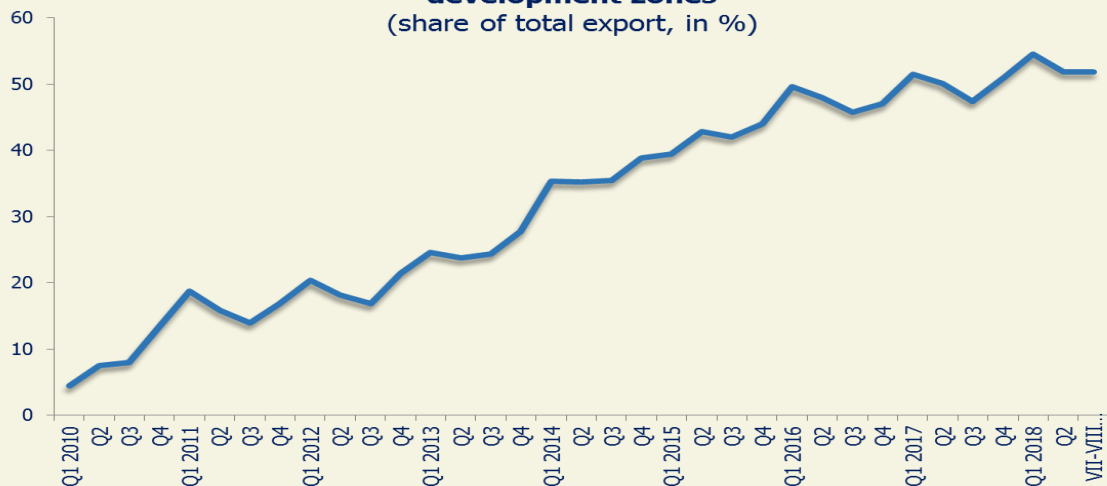
- **Moderate current account deficit** throughout the forecast horizon
- **Expected narrowing of the deficit in the balance of goods and services**, reflecting the catching up with the potential of the new export facilities and more favorable external environment, while rising oil prices encumber the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



# Balance of payments - current account

## Export by the new companies in the technological industrial development zones

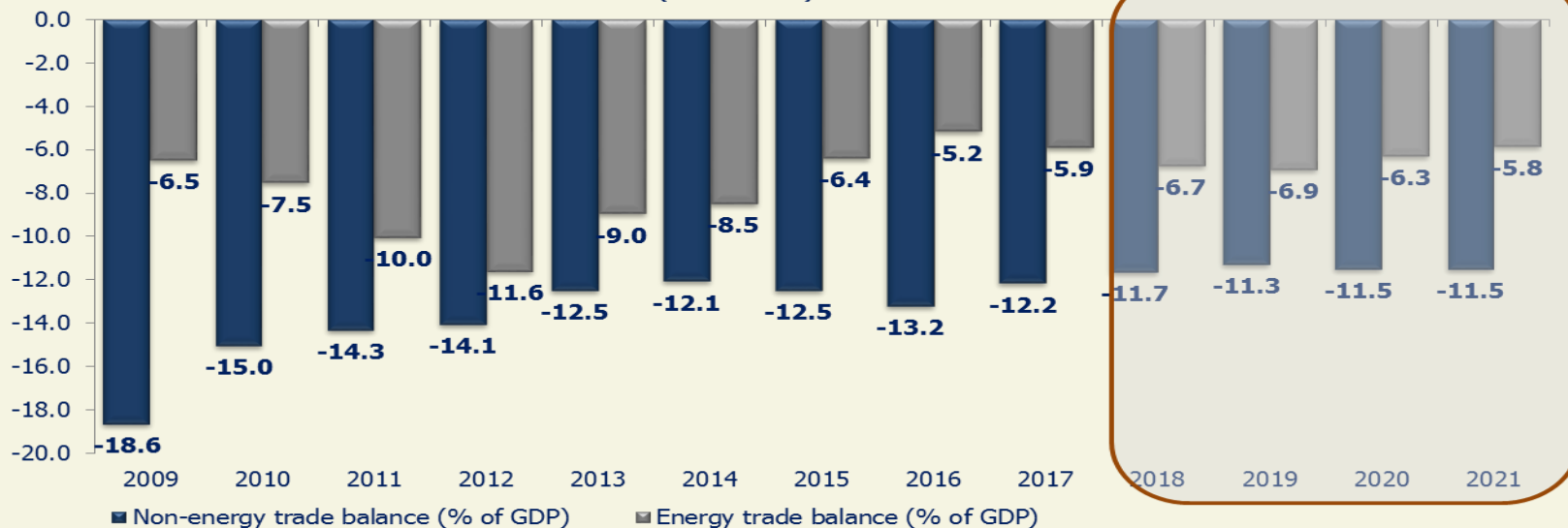
(share of total export, in %)



## Energy and non-energy trade balance

(% of GDP)

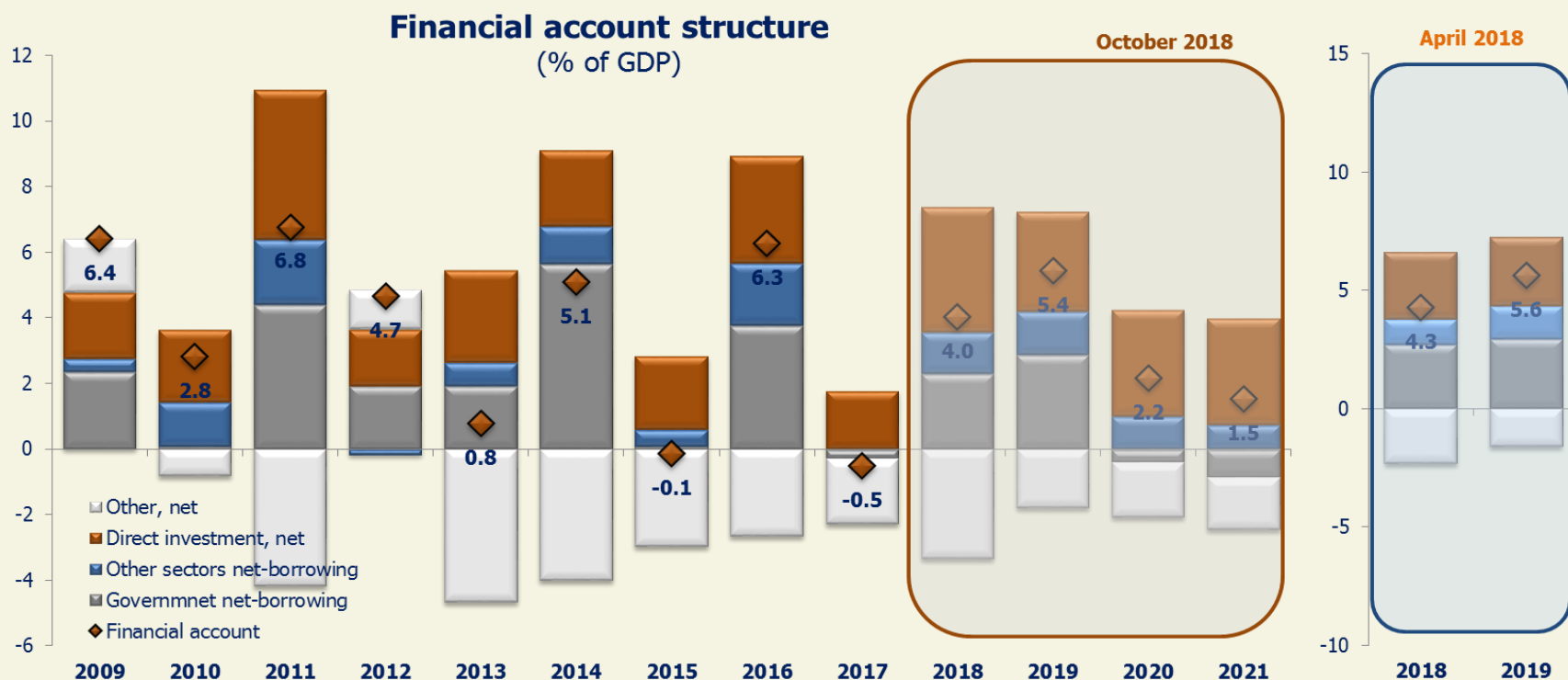
October 2018





# Balance of payments - financial account -

- **Expected financial inflows** on average of around 3% of GDP in 2019-2021 period...
- ...mainly comprised of **foreign direct investments** and **public sector borrowing**...
- ... while the short term flows remain negative

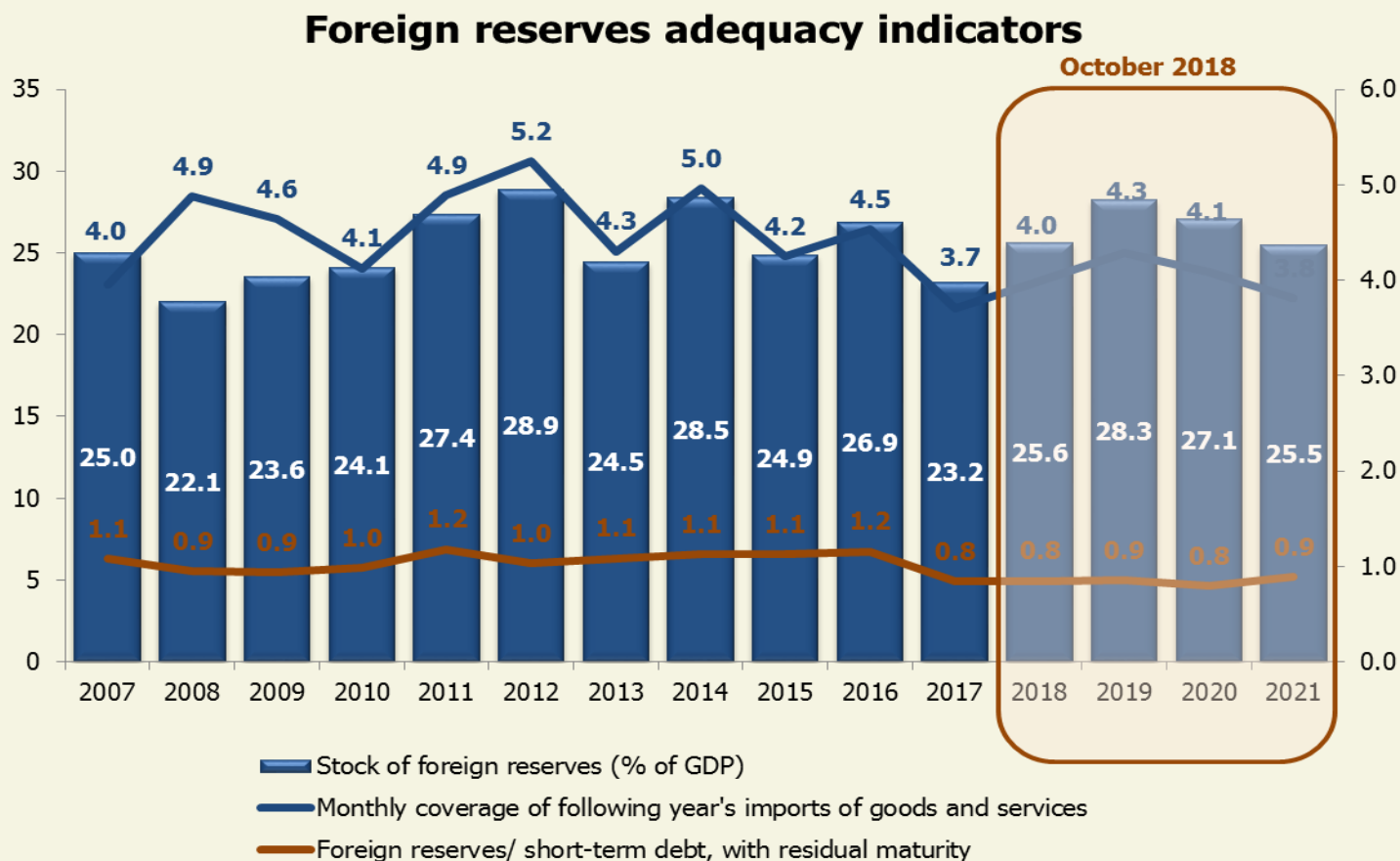




# Balance of payments

## Foreign reserves adequacy ratios

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

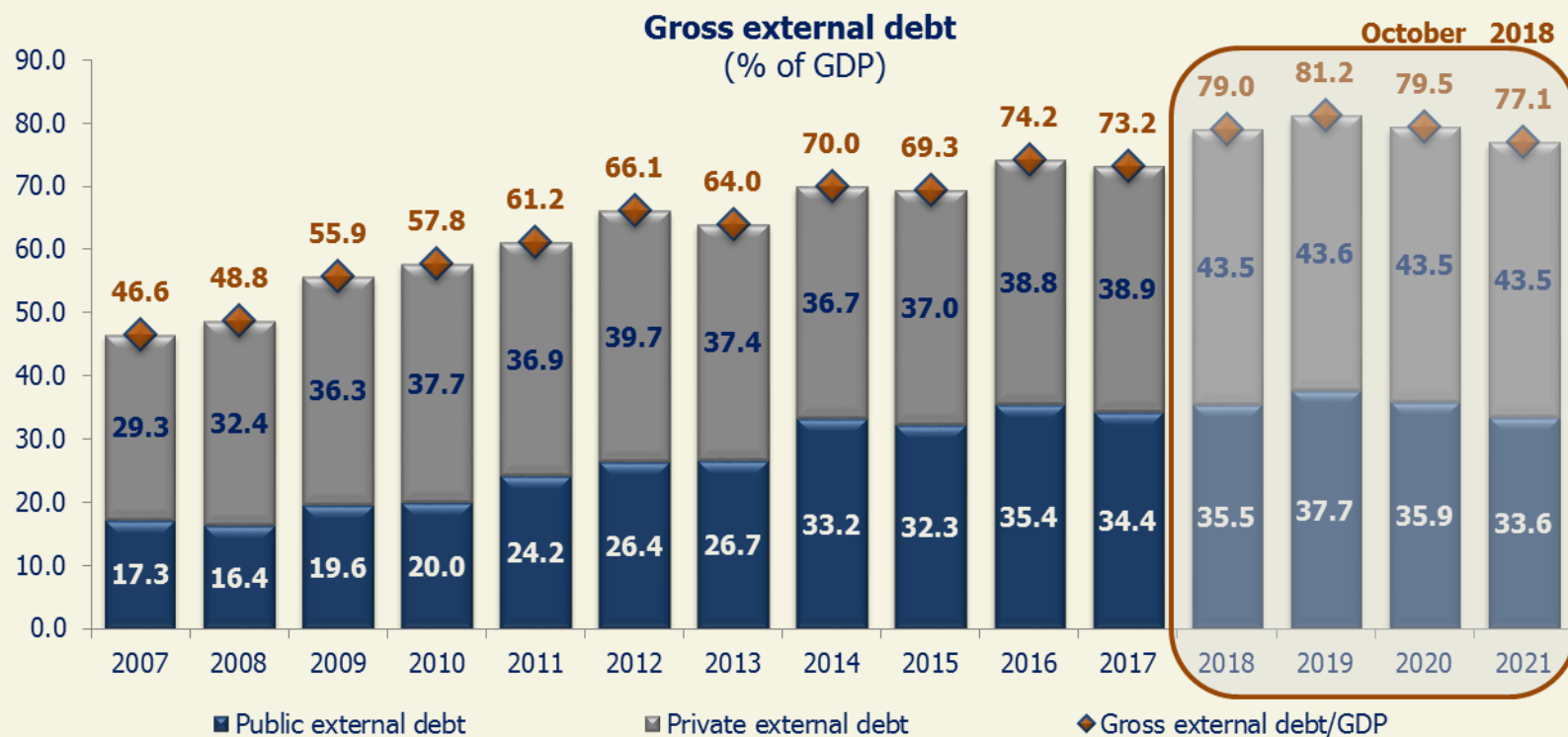






# Balance of payments

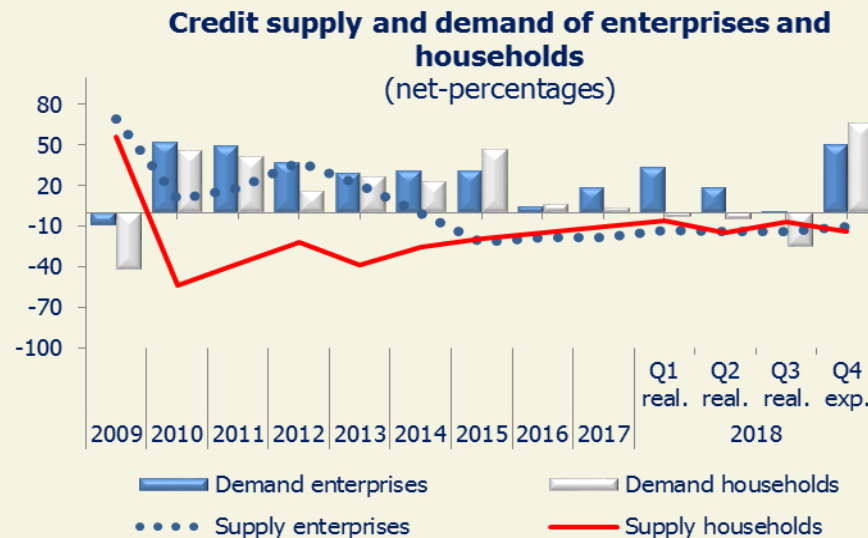
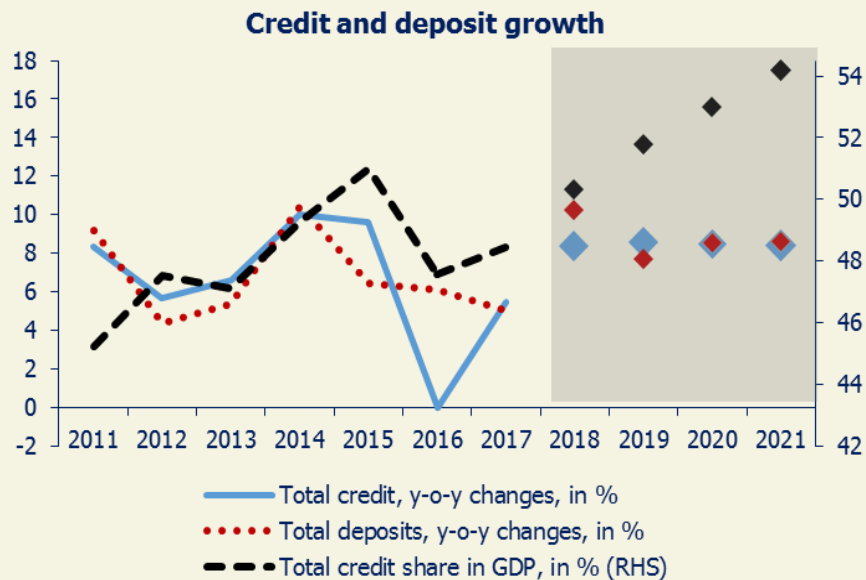
## Gross external debt indicators





# Credit and deposit growth

- After the slowdown in 2017 (to 5.0%), **deposit growth** expected to accelerate again in 2018-2019 to 8.9%, on average, in line with the stable expectations and resumed growth of the economy. In the following period (2020-2021), deposit growth is expected to continue at similar pace (8.6%, on average)
- Credit growth** expected to accelerate to 8.4% in 2018 and 8.5% in 2019, reflecting the increase of the deposit base, favorable capital and liquidity position of banks and growth acceleration. In 2020-2021, credit activity expected to grow at a pace of 8.5%, on average
- The banking system remains stable, liquid and well capitalized**





# Comparison with the April forecast

## Forecast of selected macroeconomic variables

	2018 forecast		2019 forecast	
	Apr.	Oct.	Apr.	Oct.
<b>GDP, %</b>	<b>3.2</b>	<b>2.3</b>	<b>3.5</b>	<b>3.5</b>
Private consumption	2.8	2.2	2.5	2.5
Gross capital formation	5.2	-4.6	6.4	8.3
Public consumption	1.6	0.9	-1.1	0.2
Exports of goods and services	10.1	10.5	7.3	7.2
Imports of goods and services	7.7	5.0	5.3	6.5
<b>Inflation</b>	<b>2.0</b>	<b>1.6</b>	<b>2.0</b>	<b>2.0</b>
<b>Current account deficit, % of GDP</b>	<b>-1.5</b>	<b>-0.5</b>	<b>-1.5</b>	<b>-1.5</b>

Source: NBRM.



# The latest outlook and monetary policy stance

- Sound economic fundamentals, favorable external position and absence of inflationary pressures – conducive for monetary loosening and reduction of the policy rate to 2.75% in August 2018
- The latest macroeconomic scenario completed in a more uncertain global context, and lingering domestic political ambiguity
- Under the assumption of stable domestic context, rebound of investment activity, supportive external environment and positive expectations...
- ...the latest forecast reveals potential for firm economic and credit growth, amid stable prices and “benign” external position in 2018-2021
- In the period ahead, the NBRM will continue to monitor closely the developments and adjust monetary policy, if needed



**Thank you for your  
attention**