



Latest Macroeconomic Projections

- May 2018 -

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Key assumptions of the forecast

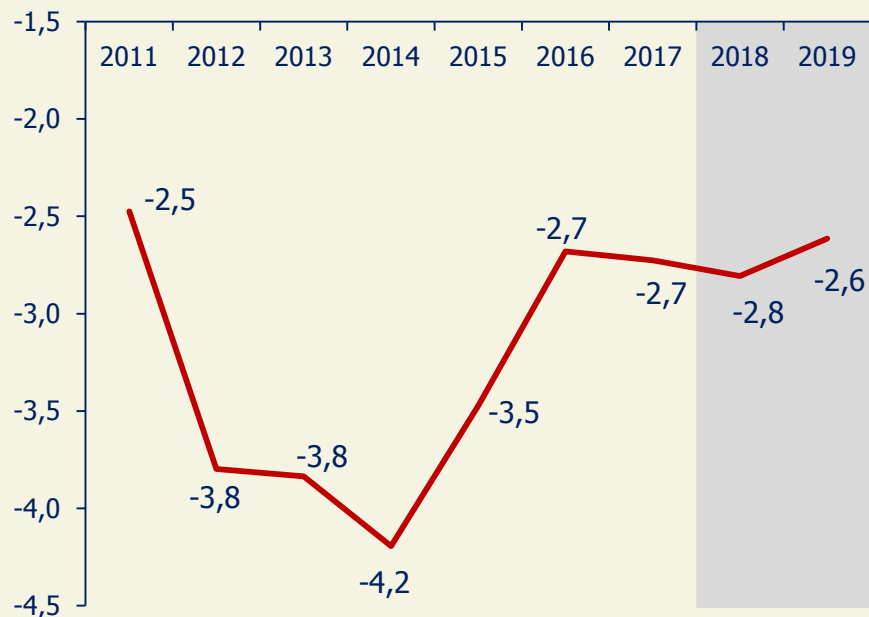
- **Favorable outlook for the external demand** – growth conducive external environment (impulse for exports);
- **Stable political context** with positive implications for expectations and aggregate demand (impulse for investments and consumption);
- **FDI policies** conducive to FDI inflows in the tradable sector leading to further structural changes of the economy;
- Further increase in the use of capacities of the **new export oriented companies**;
- **Continued public investments in infrastructure** (after deceleration in 2017, pick up in 2018, in the second half of the year in particular);
- **Gradual fiscal consolidation** that will stabilize the public debt level in the medium-term.



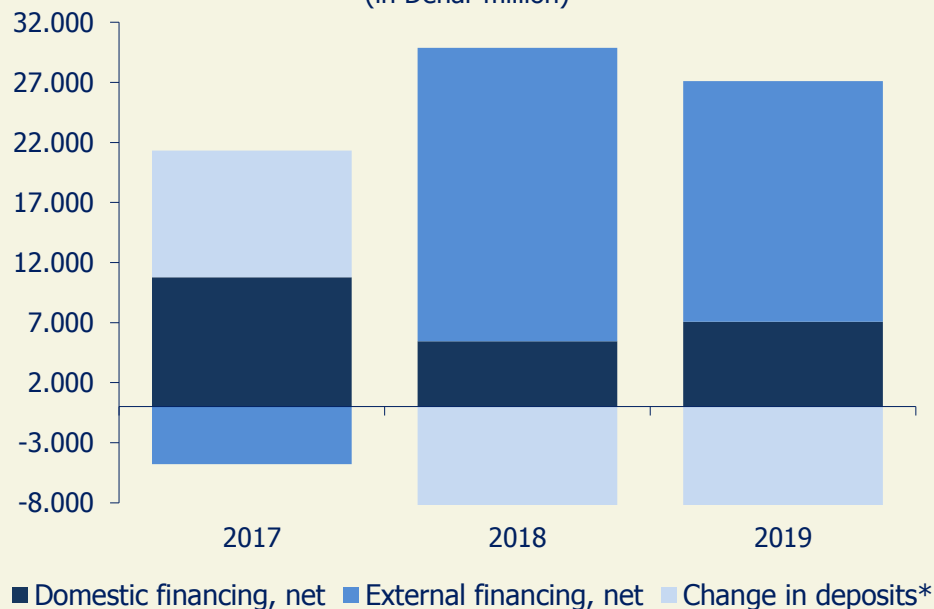
Fiscal policy

- Fiscal projections in line with the 2018 Budget and 2018-2020 Fiscal Strategy, envisaging gradual **fiscal consolidation**
- **Deficit financing** through external and domestic borrowing
- **Compared to October:** slower fiscal consolidation and higher external financing in 2019

Budget balance
(% of GDP)



Budget balance financing
(in Denar million)



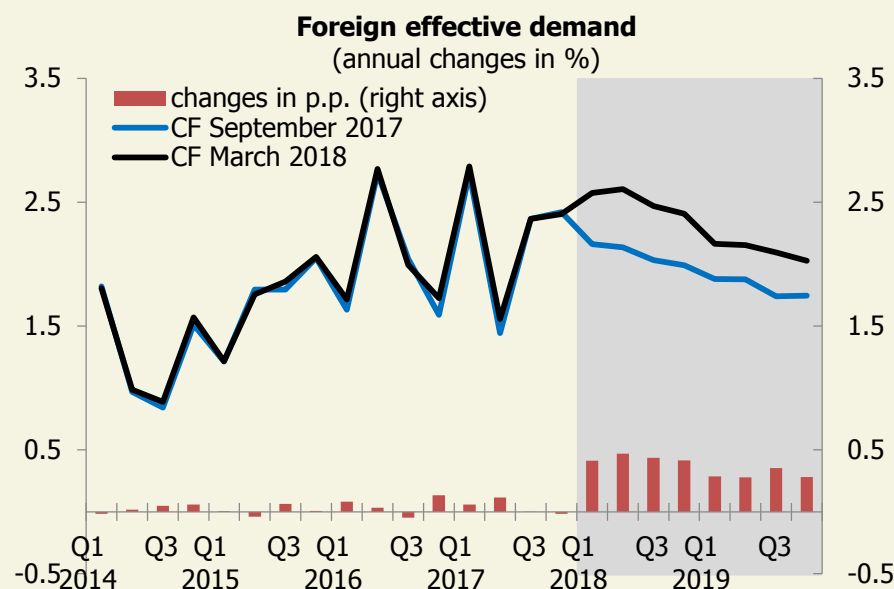
* Positive change- deposits withdrawal; negative change-deposits accumulation.
Source: NBRM simulations.



External environment assumptions

-Foreign demand -

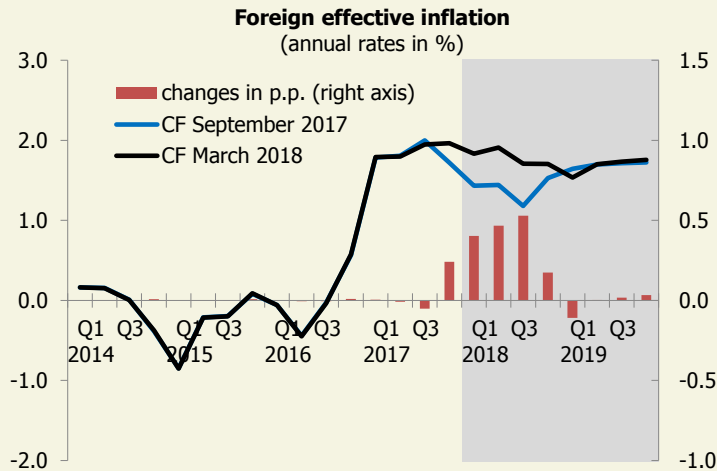
- **The trend of acceleration of global growth to continue** (faster pace than in October)
- **Upward revision of foreign demand** for 2018 and 2019 (growth of 2.5% in 2018 and 2.1% in 2019 versus 2.1% and 1.8% in October), with better than expected outlook across board;
- Expectations for higher growth in Germany, main contributor to the revision



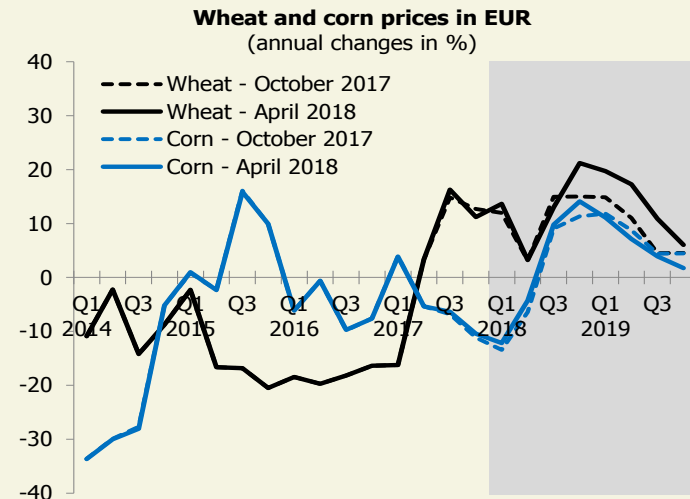
External environment assumptions

- Imported prices -

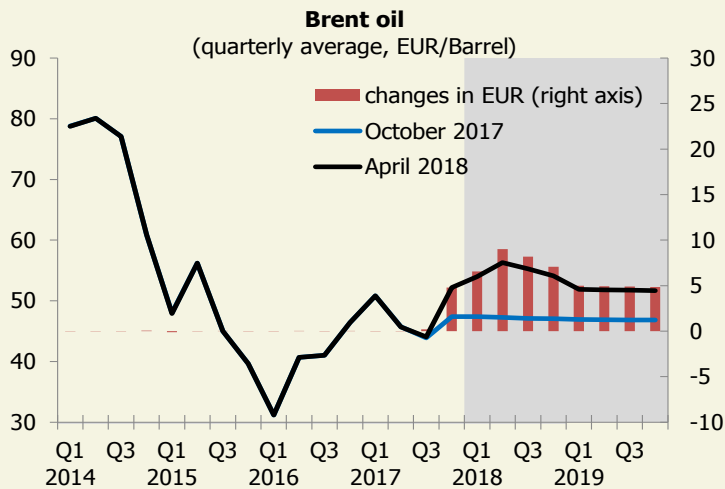
Upward revision of foreign effective inflation in 2018...



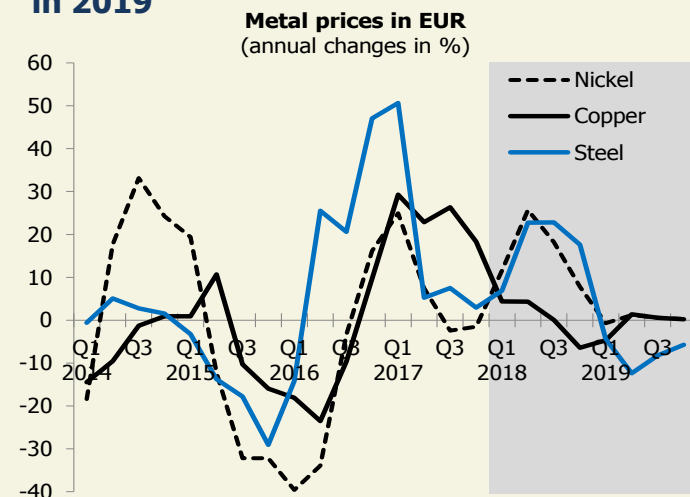
...food commodity prices revised upwards in 2018 and in different directions in 2019...



...higher level of oil prices...



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





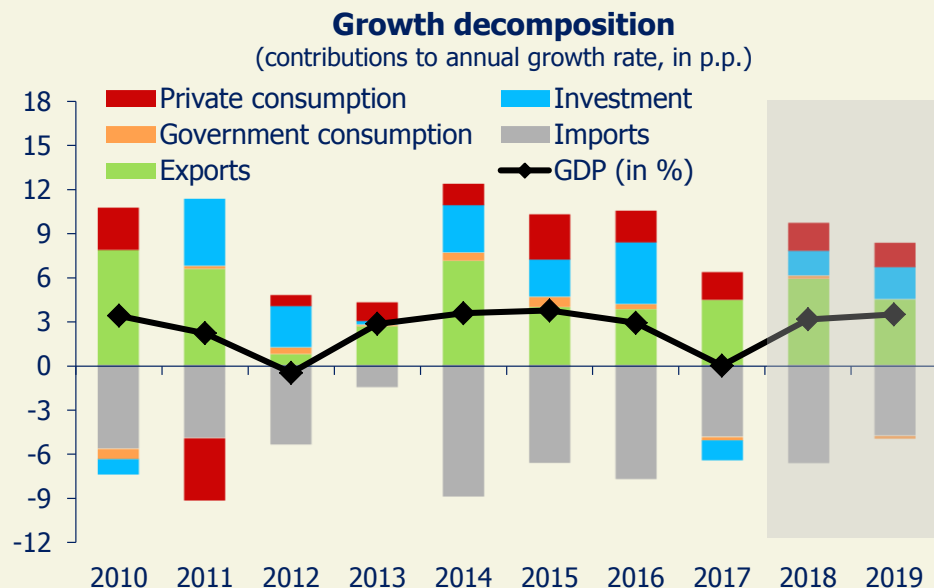
Macroeconomic scenario 2018-2019



GDP projection

- **Solid growth rate is expected during the forecast horizon** – after the stagnation in 2017, an acceleration of the GDP growth to 3.2% for 2018 and to 3.5% for 2019 is expected
- Regarding the **structure of growth**, export to have highest contribution, but due to rising imports, domestic demand seen as the main driver of growth in the medium term

	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.	
2017	0.0	2.8	1.9	-4.6	-1.3	9.2	4.5	7.4	-4.8	-1.6	-0.2	0.3	-0.3
2018	3.2	2.8	1.9	5.2	1.7	10.1	5.9	7.7	-6.6	1.6	0.2	3.8	-0.6
2019	3.5	2.5	1.7	6.4	2.2	7.3	4.5	5.3	-4.7	-1.1	-0.2	3.7	-0.2





GDP projection

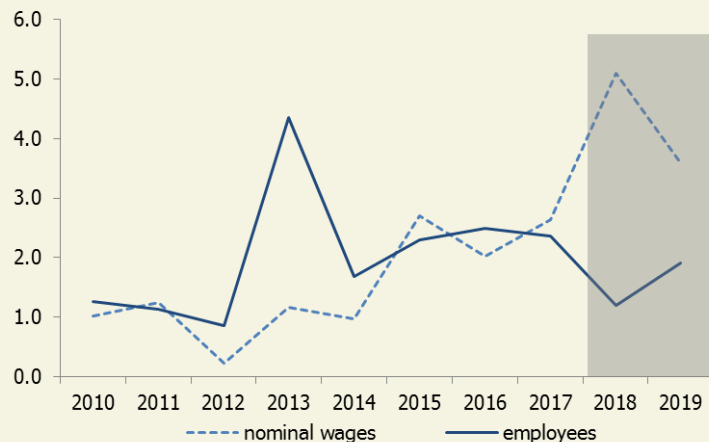
- **Fundamental growth factors similar to previous projection round**
 - **exports as growth engine with additional impetus from private consumption and investments:**
 - On average for the two years of projections, **exports** is expected to be the main growth engine, driven by the expanding activity of the existing foreign export oriented companies, new FDI inflows, recovery of some traditional sectors and further improvement of the foreign demand
 - Additional stimulus from **investment activity** – after the fall in 2017, expected continuation of the public investment cycle in the second half of 2018; further inflow of foreign direct investment; more conducive environment for boosting the activity of domestic investors;
 - Positive contribution of the **private consumption**, given the projected increase in the disposable income, stable expectations and solid credit support from banks;

Key assumption-political stability and revival of public investment cycle. If not materialized, there is a possibility GDP growth to be weaker than the current projections



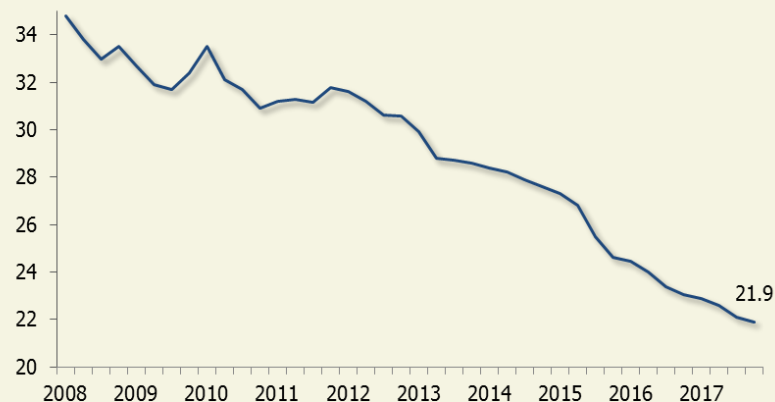
Labour market

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



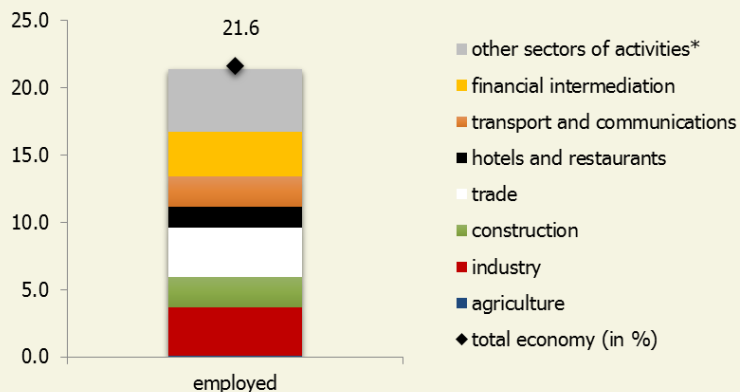
Source: State Statistical Office and NBRM calculations and projections

Unemployment rate
(in %)



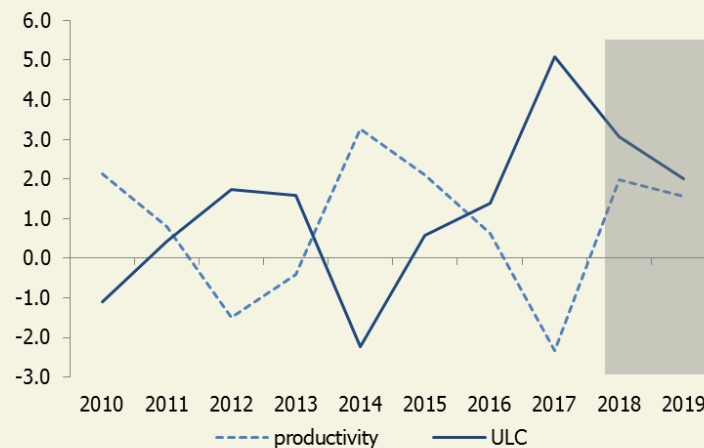
Source: State Statistical Office, Labor Force Survey

Contributions of individual sectors of activities to the total number of employees change in the period 2017/ 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.

Productivity and ULC
(annual growth rates, in %)



Source: State Statistical Office and NBRM calculations and projections

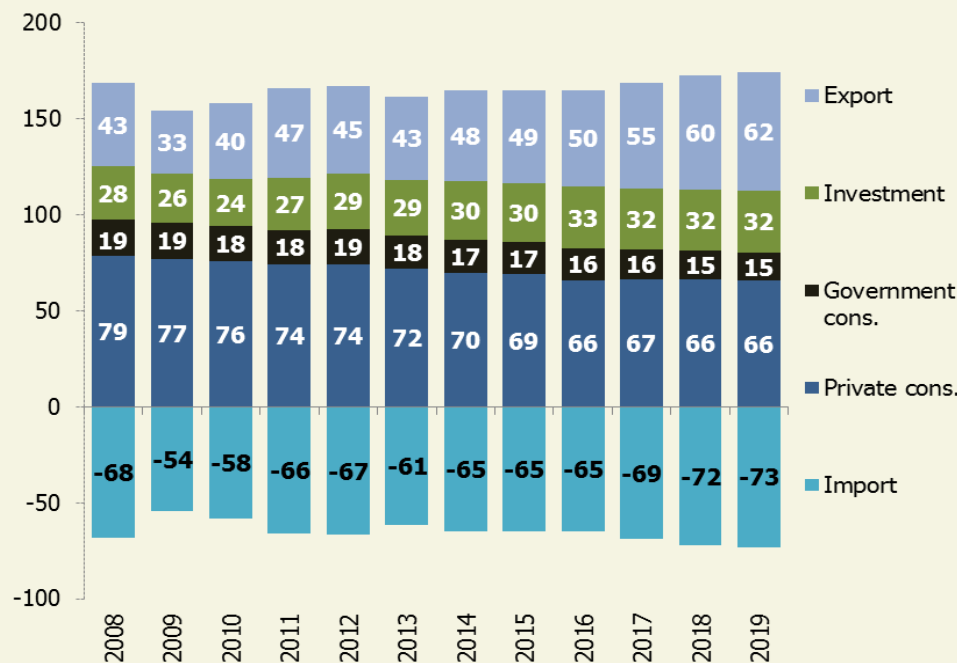


Structural changes

-The positive trend of declining share of consumption, and rising share of investments has stopped, but expect to resume

-The positive trend of rising share of the net -export in GDP continued and envisaged to proceed

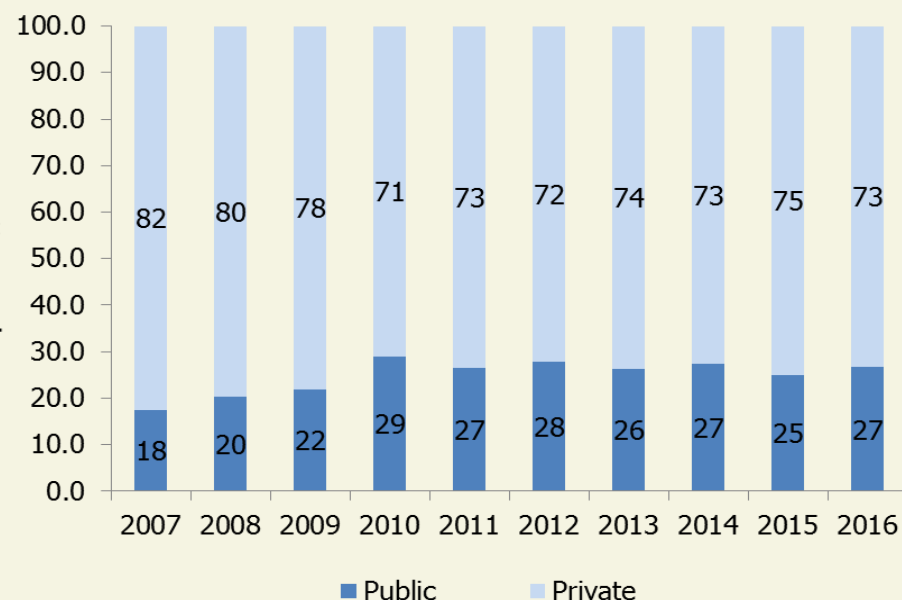
Shares of nominal GDP components (in %)



Source: SSO and NBRM projections.

Gross fixed capital formation structure by type of ownership

(in current prices, in %)

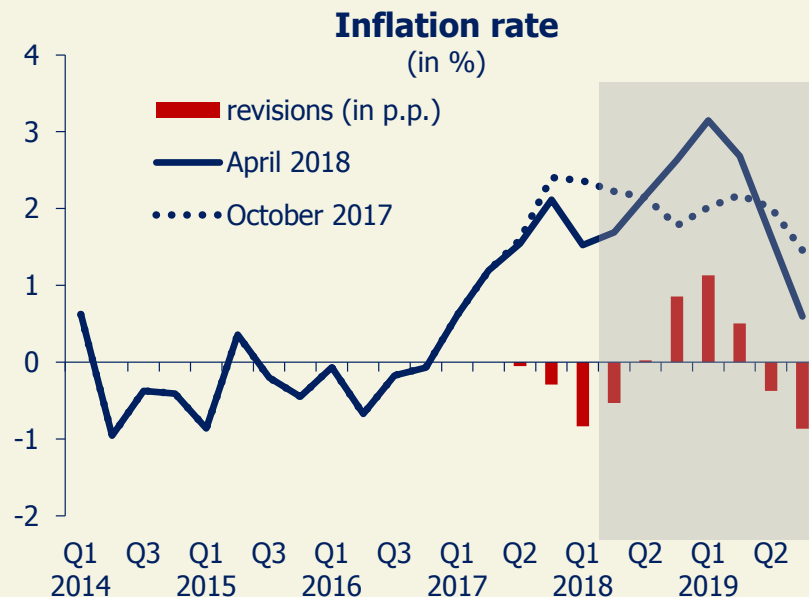
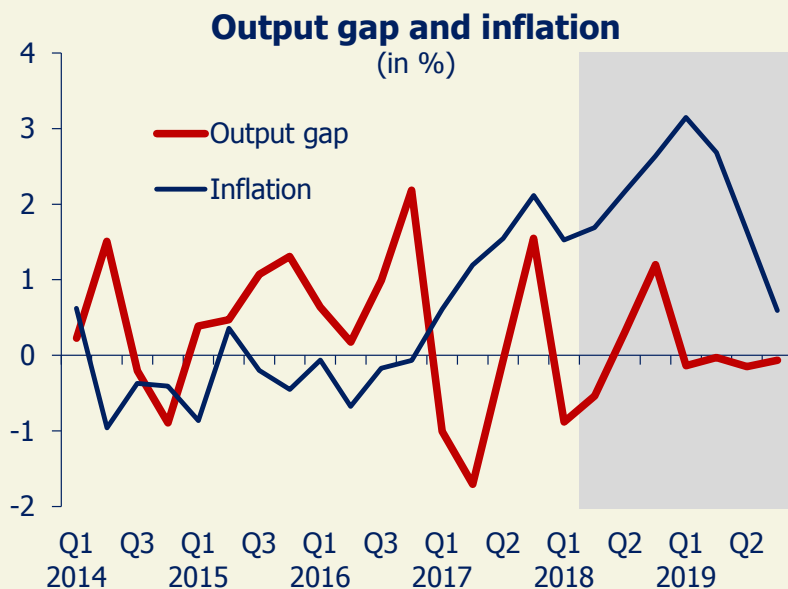


Source: SSO



Inflation projection

- Inflation pressures at the beginning of 2018 lesser than the October forecast
- On the other hand, upward revisions of the expected level of the import prices
- Hence, no changes made to the previous inflation forecast
 - **expected average inflation rate of around 2% in 2018 and 2019**, amid increased food and energy prices, higher foreign inflation and slightly positive output gap in some periods of the forecast horizon
- **Risks** to projected inflation trajectory mainly related to the intrinsic uncertainty about import prices





Forecasts of other institutions

Comparison of GDP and inflation forecasts for Macedonia from various organisations

Organisation	Month of publication	Real GDP growth, %		Inflation (average rate, %)	
		2018	2019	2018	2019
IMF	April 2018	2.8	3.0	1.8	1.9
World Bank	April 2018	2.3	2.7	1.6	2.0
European Commission	May 2018	3.1	3.3	1.9	2.0
EBRD	November 2017	2.5	-	-	-
Consensus Forecast	April 2018	3.0	3.2	2.1	2.2
Ministry of Finance of the Rep. of Macedonia	December 2017	3.2	3.5	1.7	2.0
National Bank of the Republic of Macedonia	May 2018	3.2	3.5	2.0	2.0

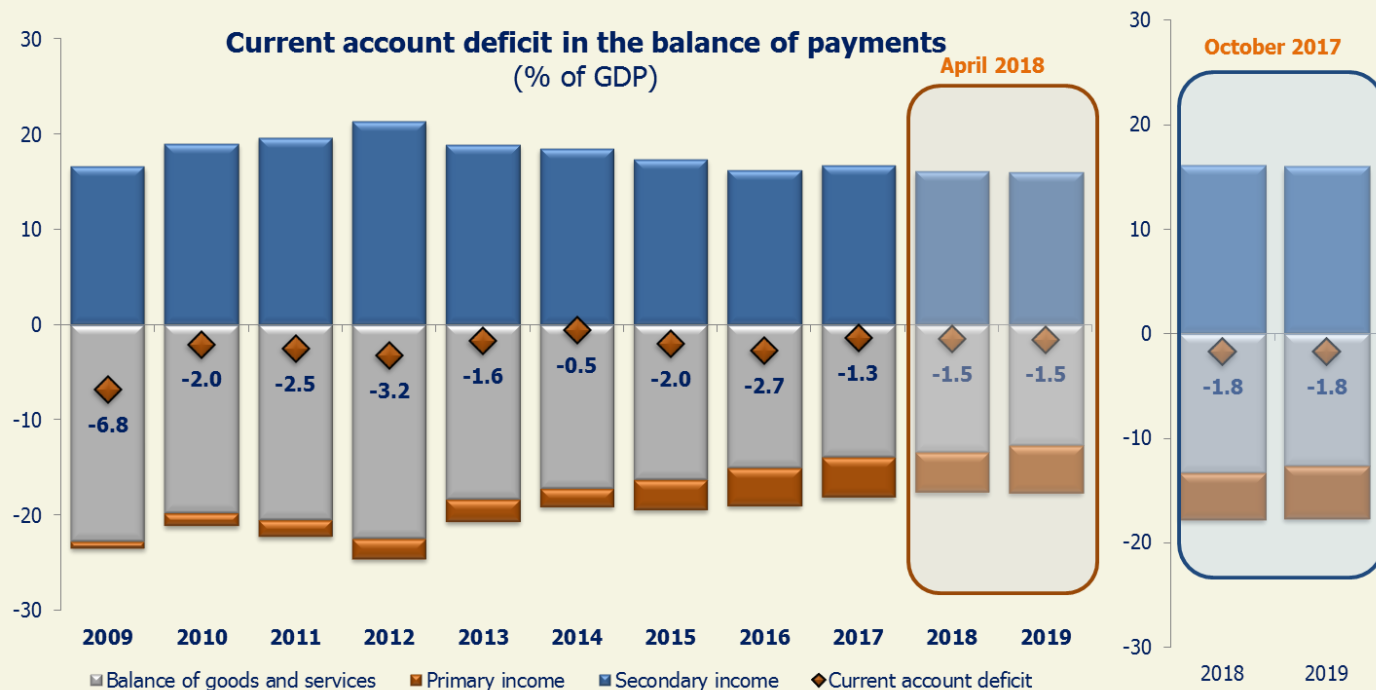
Source: IMF, World Economic Outlook, April 2018; World Bank, Western Balkans Regular Economic Report, Spring 2018; European Commission European Economic Forecast, May 2018; EBRD Regional Economic Prospects, November 2017; Consensus Forecast, April 2018; Ministry of Finance of the Republic of Macedonia, Fiscal strategy 2018-2020, December 2017; and the National Bank of the Republic of Macedonia.



Balance of payments

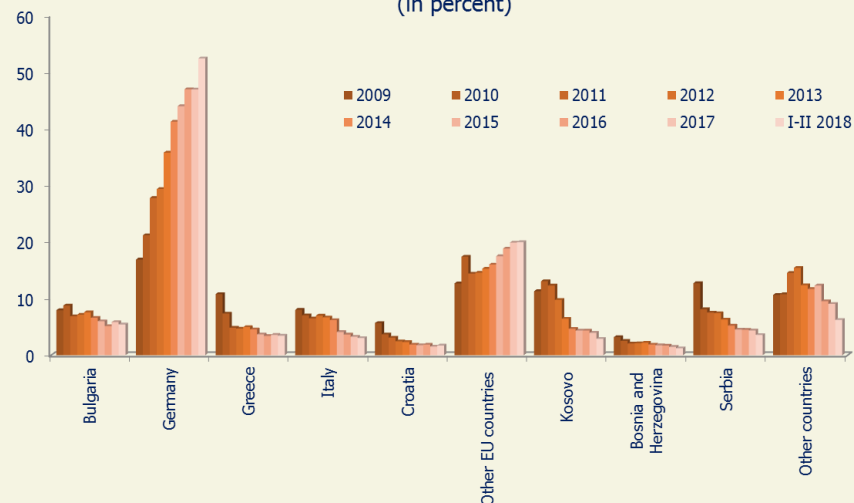
- current account -

- **Positive trend of low CA deficit to continue-moderate CA deficit of 1.5% of GDP in 2018 and 2019** (lower deficit compared to the previous forecast).
- **Expected narrowing of the deficit in the balance of goods and services**, reflecting expectations for further improvement of performances of the new export facilities, new FDIs and more favorable external environment
- **Further widening of the primary income deficit**
- **Moderate decline of secondary income surplus**

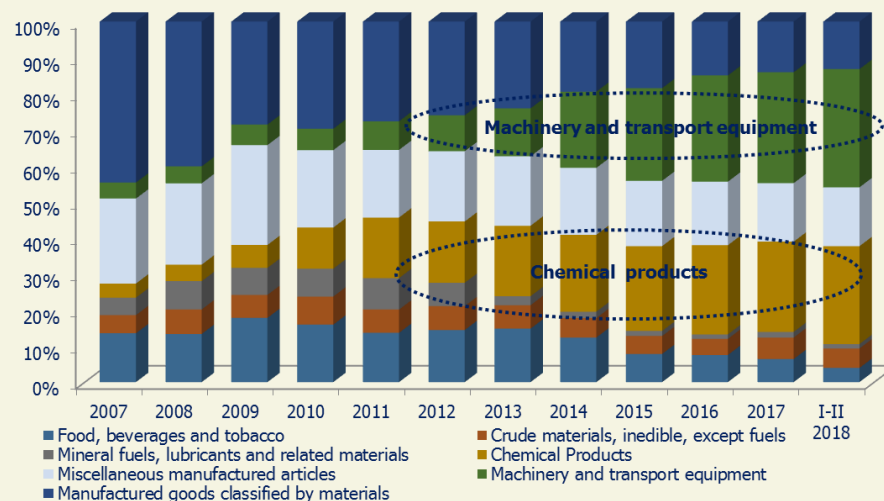




Share of export by trading partners in total export
(in percent)



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

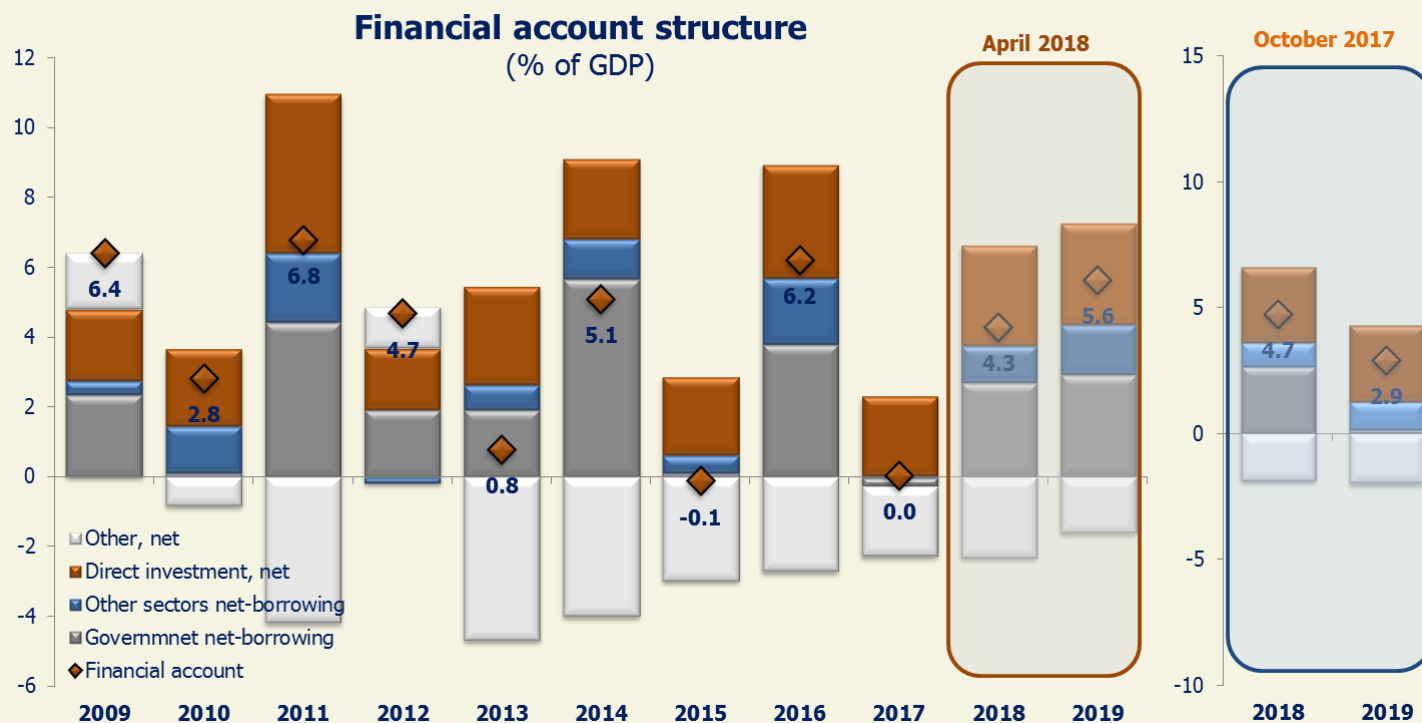




Balance of payments

- financial account -

- **Expected financial inflows on average of around 5% of GDP in 2018-2019 period** (higher than the October projections)...
- ...mainly comprised of **foreign direct investments** and **public sector borrowing**...
- ... while the short term flows remain negative.

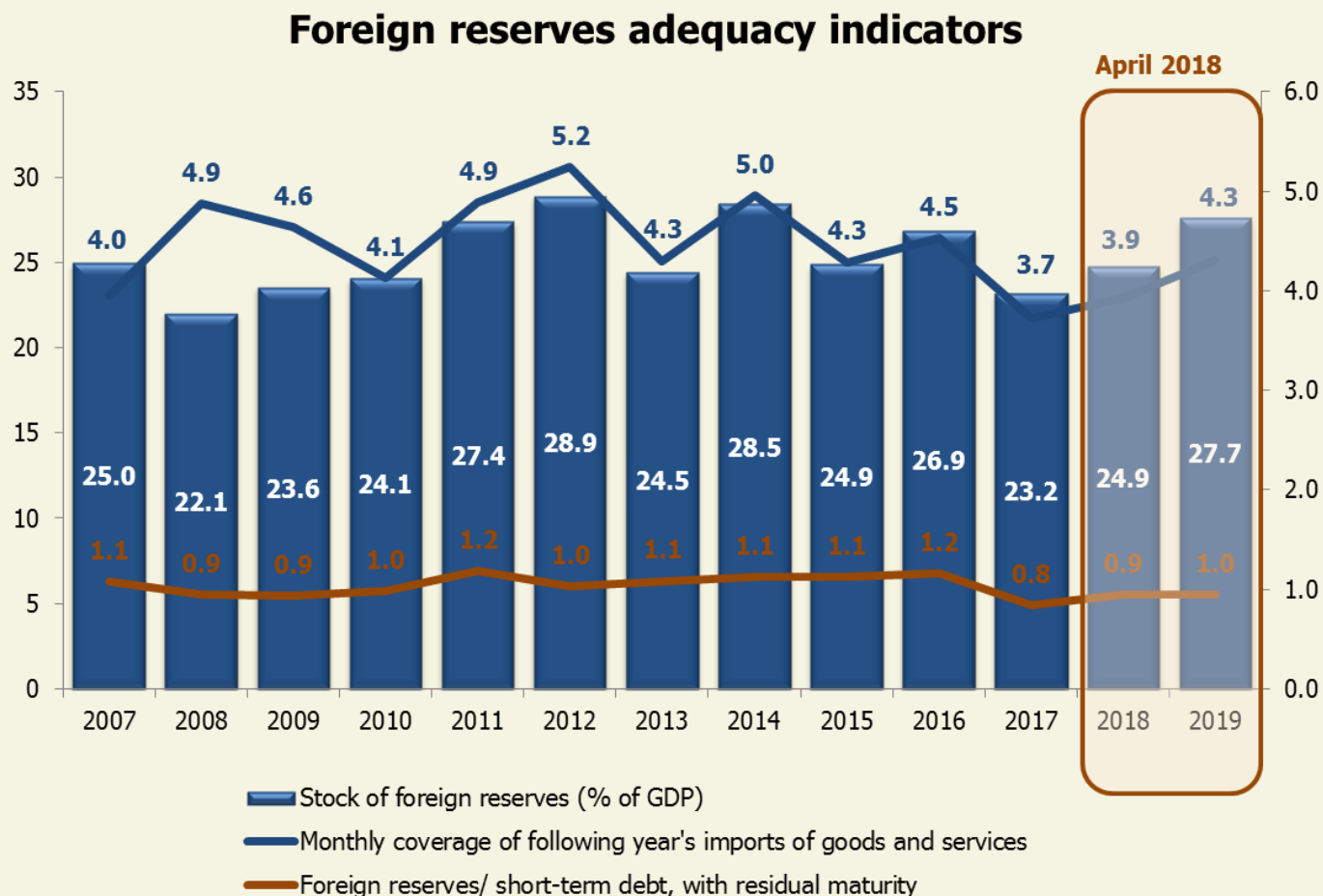




Balance of payments

Foreign reserves adequacy ratios

- During the entire period of projections, foreign reserves adequacy indicators are maintained in a safe zone.





Balance of payments

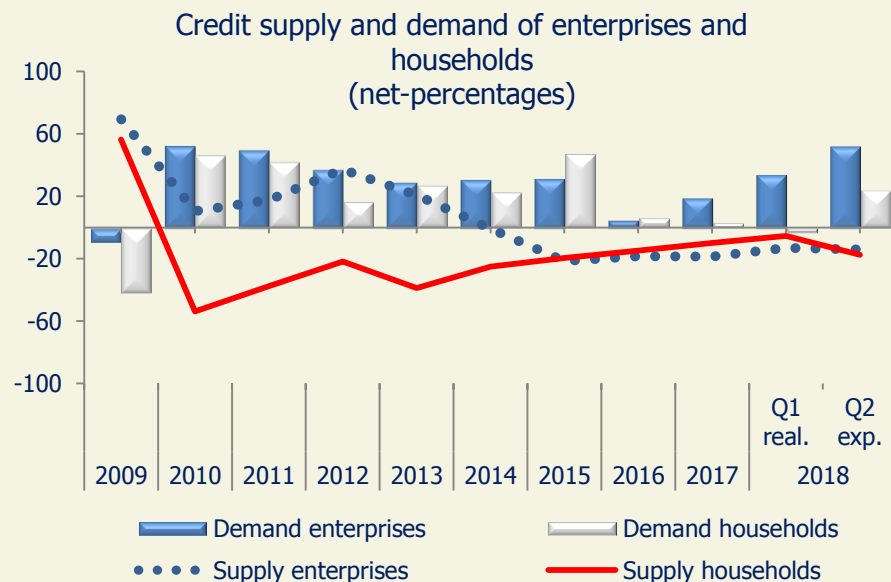
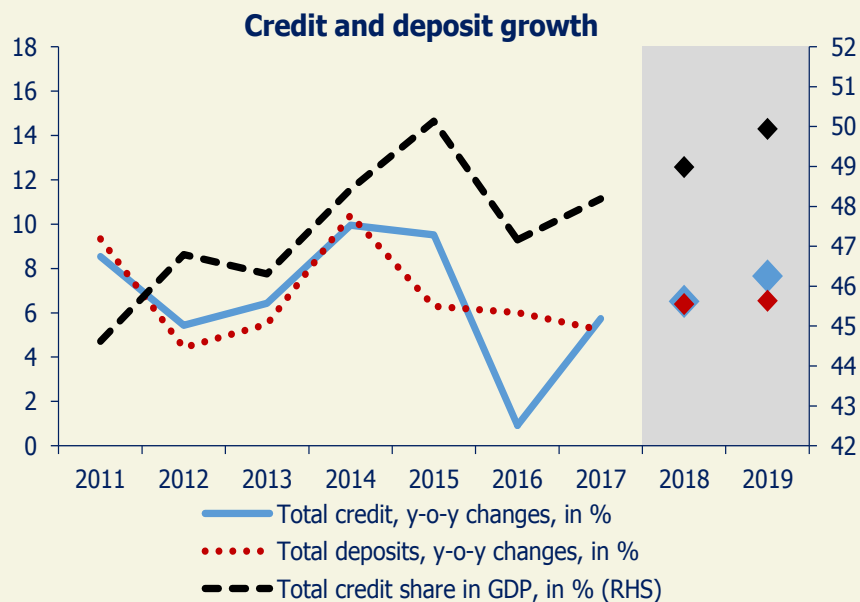
Gross external debt indicators





Credit and deposit growth

- After the slowdown in 2017 (to 5.2%), **deposit growth** expected to accelerate again in 2018-2019 to around 6.5%, in line with the stable expectations and resumed growth of the economy.
- **Credit growth** expected to accelerate to 6.5% in 2018 and 7.7% in 2019 reflecting the increase of the deposit base, favorable capital and liquidity position of banks and expected rebound of investments.
- **The banking system remains stable, liquid and well capitalized.**





Comparison with October forecast

Forecast of selected macroeconomic variables

	2018 forecast		2019 forecast	
	Oct.	Apr.	Oct.	Apr.
GDP, %	3.2	3.2	3.5	3.5
Private consumption	2.1	2.8	2.5	2.5
Gross capital formation	5.0	5.2	6.4	6.4
Public consumption	0.0	1.6	0.0	-1.1
Exports of goods and services	10.1	10.1	6.5	7.3
Imports of goods and services	7.7	7.7	5.0	5.3
Inflation	2.0	2.0	2.0	2.0
Current account deficit, % of GDP	-1.8	-1.5	-1.8	-1.5

Source: NBRM.



Risks between the two projections

- **Overall, downside risks in the April forecast less pronounced compared to October 2017 forecast...**
 - ...mainly reflecting smaller **domestic risks**, in line with the more stable political context. Stable domestic political context is assumed for the entire forecasting horizon.
 - **External risks** balanced on the short run, but tilted to downside on the medium run – similar risks to those outlined in October (high policy uncertainty in USA, possible increase of protectionism, adverse shifts of the sentiment of investors on the global financial markets and geopolitical tensions).
- **New positive risk**, not directly factored in the forecast – possible acceleration of the Euro-Atlantic integration processes.



Summary

- Given solid economic fundamentals, stable external position and absence of inflationary pressures, NBRM decreased the policy rate in the first quarter of 2018
- ...with assumption of stable domestic surrounding, renewal of the public infrastructure cycle and more favorable external conditions....
- the latest forecast shows solid economic and credit growth, stable prices and stable external position in 2018-2019
- In the period ahead, the NBRM will continue to monitor closely the developments and adjust monetary policy, if needed.



Thank you