I. Macroeconomic forecasts and risks

The context of the April forecasts completely changed in relation to the period of the preparation of the October forecasts last year. The main reason for these shifts is the emergence of Covid-19 pandemic at the beginning of 2020. The measures for preventing the spread of the virus - complete shutdown of activities involving close social interaction, movement restriction, border closure, are measures for preserving public health with concurrent major economic effects. The Macedonian economy will be affected by the channel of unfavorable global environment, and same as in all economies, the measures for dealing with the infection will also have temporary adverse effects.

The April forecasts suggest that the viral infection shock will be short-lived and that the main blow to the economy will be felt in the second quarter, followed by a gradual normalization. The magnitude of the effects from the pandemic is highly uncertain, but the main transmission channels are clear. The emergence of the new corona virus will affect the confidence and expectations for future income, and thus greater restraint from consumer and investment decisions. The reduced foreign demand will affect the export activity of domestic companies, and the signals have been present since March when part of the companies temporary closed their facilities. Amid limited movement and uncertainty, an important transmission channel are remittances, which are a significant inflow to the economy, and in such circumstances can be significantly reduced. Amid tightened global financial conditions, risk aversion and deterioration of international corporations' performances, adverse effects are also expected in foreign investments. Given the temporary nature of the shock, the effects on the labor market are expected to be short-lived, making it relatively stable on an average for the year, without downward corrections, but with a significant slowdown in wage growth and stagnation in the number of employees.

Taking into account the environment and assumptions, GDP is expected to decline by -3.5% in 2020, followed by a recovery of 4.7% in 2021 and stabilization to 4% in 2022 (growth of 2,8%, 4% and 4% in the October forecasts). Given the decline in domestic demand, and significant downward corrections of global oil prices and part of food prices, in 2020 the inflation rate is expected to be around 0%, compared to the previous forecast of 1.5%, while for 2021 and 2022 prices are expected to grow from 1.5% to around 2%, respectively. In the external sector, the current account deficit in 2020 is expected to extend to 3.2% of GDP, mainly due to the reduction of remittances, followed by a gradual decrease of 1.6% of GDP on an average in 2021-2022. In this period, the current account deficit is expected to be fully financed by the flows in the financial account, mainly through external borrowing and foreign direct investments, which would enable growth of foreign reserves and their maintenance at the appropriate level.

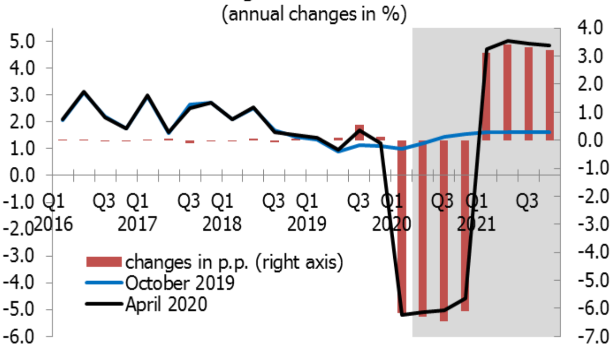
The risks of such a scenario are assessed as extremely low and depend on the dynamics of controlling the viral infection, duration of the measures to prevent the spread and possible changes in the economic agents' behavior. On the other hand, the positive risk factor for the medium-term scenario is the more favorable context for the domestic economy due to the country's entry to NATO and the start of the EU negotiation process.

1.1. Assumptions in the external environment forecast[1]

The latest estimates for the foreign effective demand[2] for 2020 have been significantly revised downwards, and upwards for 2021 compared to the October forecasts, as a result of the effect of the new viral infection on the economies of our trading partners. Thus, it is now expected that the foreign effective demand in 2020 will decrease by 5%, and a recovery and growth of 4.9% is expected in 2021, compared to the October forecasts for a growth of 1.3% and 1.6% in 2020 and 2021, respectively. Analyzed by country, the downward revision for 2020 is due to the decline in GDP in all countries, with the Germany's economic decline having the largest contribution, despite previously expected growth, while the estimates for a stronger economic growth in Germany in 2021 compared to the October forecast are the main factor for the upward correction in the foreign effective demand. Namely, the German Economy is expected to decrease by 5% in 2020 and will register a strong growth of 4.5% in 2021 (growth of 0.8% and 1.2% in 2020 and 2021 in the October forecasts).

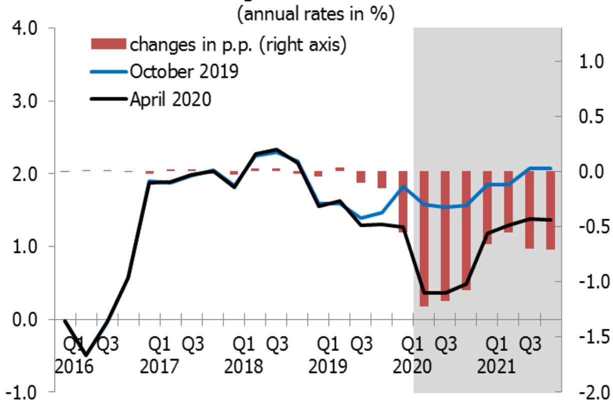
Compared to the October forecasts, the foreign effective inflation[3] was revised downwards for the two forecast years. The current assessments indicate growth of 0.6% and 1.3%, for 2020, 2021, respectively, compared to the October forecasts of 1.6% and 2% for 2020 and 2021, respectively. The downward revision in both years is due to the downward correction of prices in all countries compared to October, with Germany having the largest contribution in 2020, followed by Bulgaria, Italy and Slovenia, and the revision for 2021 is mostly due to Serbia and Germany.

Foreign effective demand
(annual changes in %)



Source: Consensus forecasts and NBRNM calculations.

Foreign effective inflation
(annual rates in %)



Source: Consensus forecasts and NBRNM calculations.

According to the latest forecasts for the movement of the Euro/US dollar exchange rate, an upward revision was made in 2020 compared to October, and the estimate for 2021 is unchanged. The growing uncertainty regarding the future global growth due to the spread of the viral pandemic contributes to increased global demand for US dollars. Hence, in the April forecasts in 2020, the US dollar is expected to depreciate against the euro by 1.1%, compared to the depreciation of 0.8% in October. No changes are expected in the forecasts for 2021, with the US dollar expected to depreciate by 1.9% against the euro.

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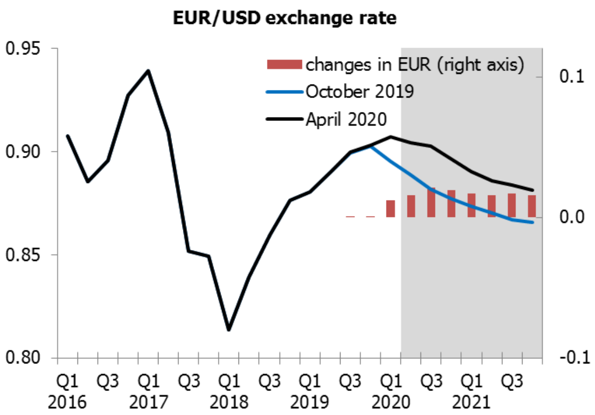
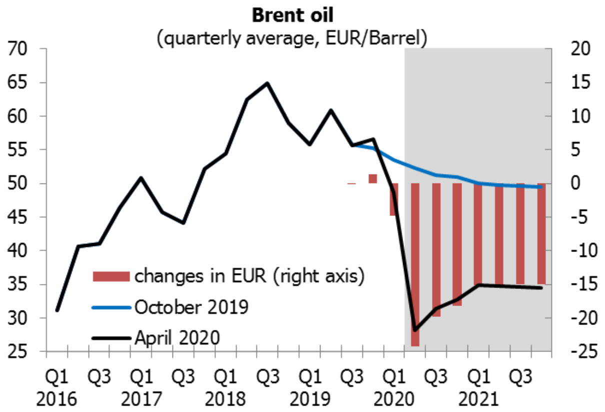
[1] Historical data on foreign demand, foreign inflation, exchange rate of the US dollar/euro and EURIBOR are sourced from Eurostat, while the World Bank statistics is a source of the data on prices of oil, food and metals. The forecasts of foreign demand, foreign inflation, foreign exchange rate of the US dollar and EURIBOR are based on the Consensus Forecast, while the forecasts of the prices of oil, food and metals are based on the forecasts of market analysts. The analysis uses various reports of the IMF, the World Bank, ECB, FAO, OPEC and specialized economic portals.

[2] Foreign effective demand is calculated as the weighted sum of GDP indices of the major trading partners of the Republic of North Macedonia. The calculation of this index includes Germany, Greece, Italy, the Netherlands, Belgium, Spain, Serbia, Croatia, Slovenia and Bulgaria.

[3] The foreign effective inflation is calculated as the weighted sum of consumer price indices of the countries that are major partners of the Republic of North Macedonia in the field of import of consumer goods. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia and Serbia. Inflation in Croatia and Serbia has been adjusted for the changes in the exchange rate.

The new estimates of oil price levels are significantly lower compared to the October forecasts, reflecting the expectations for reduced global demand due to the unfavorable effects on the economic activity by the spread of the new viral infection and expectation for greater market supply after a failed agreement between OPEC+ member states to increase and extend the measure of limited production[4]. In terms of dynamics, a significant price decline of 38.4% is expected for 2020 (decline of 8.7% in October), while current estimates for 2021 point to a smaller decline of 1.6% compared to the October forecasts (decline of 4.4%).



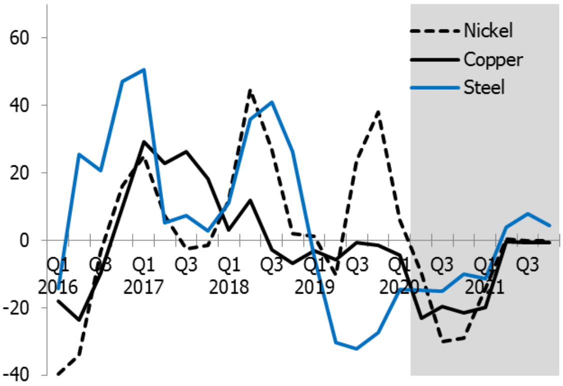


Metal prices were revised downwards for 2020 and 2021 compared to the October estimates. Although a certain reduction of production is expected due to the spread of the Covid-19 pandemic, which would reduce the supply, the demand is still expected to be more affected. Namely, the faster than expected spread in Europe and USA and estimates for the negative virus effects on the Chinese economy increased the perceptions for a significant global recession, which led to expectations for reduced demand and negative pressure on the future price movements in basic metal prices, especially in 2020. Thus, the latest estimates for copper and nickel prices, expressed in euros, point to a significant decline in 2020, compared to the expectations for double-digits growth of the nickel prices and slight drop of the copper prices in the October forecasts. Prices are expected to drop in 2021, but slower compared to 2020, and stronger compared to the previous forecasts.

Compared to the October forecasts, the current assessments of food prices in 2020 and 2021 have been revised in different directions. Wheat prices expressed in euros have been significantly revised upwards for 2020, thus expecting a growth rather than decline as in the October forecasts. The upward revision is largely due to the expectations for higher global wheat demand, concerns regarding the global viral pandemic, which has led to logistics problems and the introduction of export restrictions, despite favorable prospects for the wheat supply and stock. For 2021, the wheat price has been revised downwards and is expected to register a decline instead of the growth as expected in October. Current forecasts for the future movement of corn prices, for both years have been revised downward compared to the October estimates, thus expecting a decline in 2020, compared to the growth in the previous forecasts and slight growth in 2021. The downward correction is primarily a reflection of the expectations for a higher global corn supply, as well as due to the concerns regarding the spread of the pandemic and the negative spillover effects of other markets (strengthening the US dollar, declining stock markets and declining oil prices).

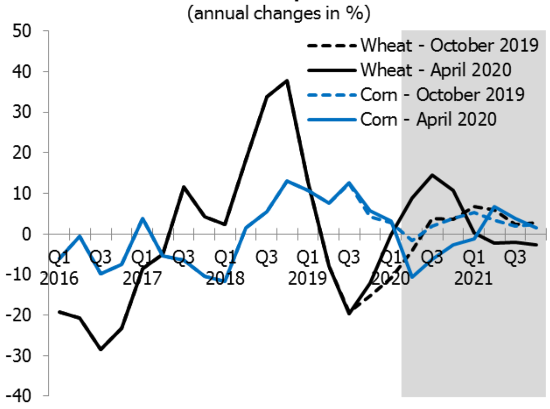
[4] At the March meeting of OPEC+ member states, Russia did not accept the proposed additional reduction in production of 1.5 million barrels per day by the OPEC member states, so the measure for the previously agreed limited production will not be valid after 31 March 2020. On 11 March 2020, the Ministry of Energy of Saudi Arabia issued a directive to Saudi Armaco to increase the daily maximum sustainable level of production for 1 million barrels per day, bringing the total production to 13 millions barrels per day.

Metal prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

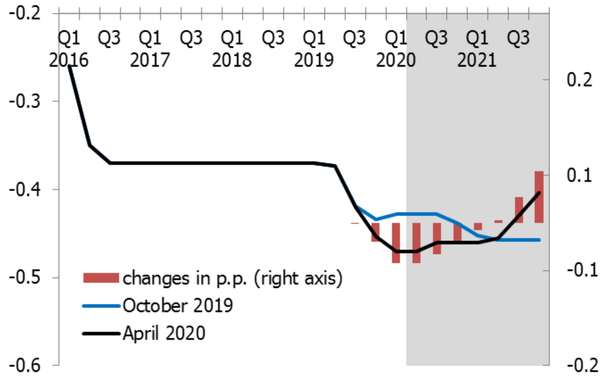
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRNM calculations.

No major downward revisions have been made on **one-month Euribor interest rates** for 2020 and 2021 compared to the October forecasts, thus, still expecting that it will move in the negative zone for the entire forecasting period. Namely, the average level for 2020 and 2021 is expected to be -0.47% and -0.44%, respectively, compared to the expectations in October of -0.43% and -0.46% in 2020 and 2021, respectively.

1-month Euribor
(quarterly average, in %)



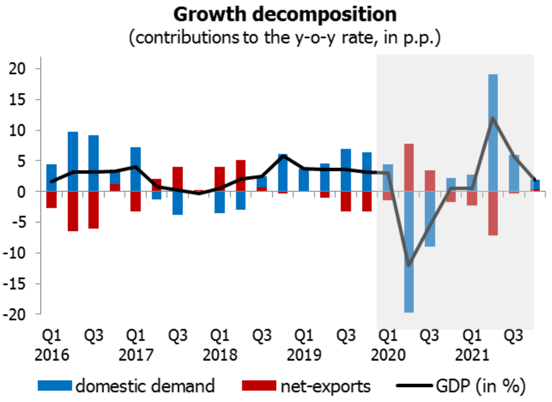
Source: Consensus forecasts and NBRNM calculations.

1.2. Forecast and effects on monetary policy

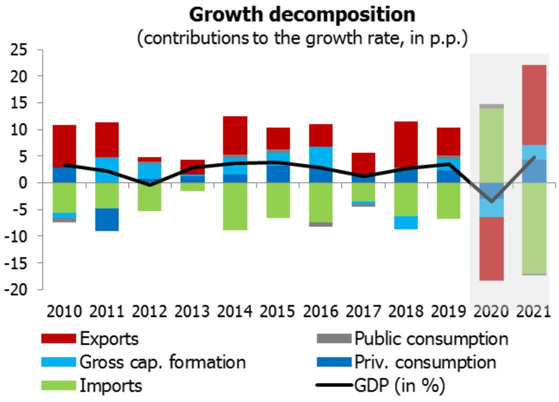
The April macroeconomic scenario for the Macedonian economy has undergone significant changes compared to the previous October forecasts due to the spread of the Covid-19 viral infection and the measures taken to protect public health and prevent further virus spread. All this would lead to strong negative effects on the real economy during the second quarter and gradual recovery by the end of the year, with relatively hight downward risks and increased uncertainty. Nevertheless, the latest forecasts continue to point to **stable external position of the economy and foreign reserves, which will be maintained at an appropriate level in the following period,** which, in turn leaves enough room for monetary policy. The restrictive measures regarding population travel and movement are likely to affect the inflow of remittances in the economy and will lead to temporary deterioration of the positive balance in the secondary income. On the other hand, despite the decline in exports, it is expected that the significant slowdown of in the demand for exported products and the sharp decline in crude oil and metal princes on wold stock markets will be reflected with lower trade deficit. Hence, **despite the downward adjustment, there are expectations that the current account deficit will continue to be moderate and mainly financed by inflows from foreign direct investments and public sector borrowing. Viewed through the foreign interest rate prism, as an important external factor for implementing**

the domestic monetary policy, there are no significant changes in these forecasts compared to October i.e. the latest estimates show that the one-month Euribor interest rate will remain in the negative zone for the entire forecasting period. However, amid expectations for significant reduction in the economic activity, ECB begun implementing a whole package of stimulating measures aimed at creating liquidity in the system and supporting lending. **The risks of achieving the basic macroeconomic scenario are assessed as significantly low, and the uncertainty is more pronounced than ever before[5].** Unlike in October, the current risks mainly relate to the situation associated with the viral infection, the uncertainty regarding the duration of the acute epidemic phase, and thus to the protection measures. In particular, risks relate to the possible continuation of the infection and measures in the second half of the year, possible occurrence of the second wave of the infection and reactivation of protective strategies, as well as changes in the economic agents' behavior in terms of their consumer and investment decisions, which, in turn, would lead to a longer-term disruption of the production and demand chins. These risks refer to both the global environment and domestic economy. **The materialization of any of these risks would lead to a significantly greater decline in the economic activity compared to the basic scenario of the current forecasts.**

After the 3.6% growth of the economy in 2019, the available high-frequency data and estimates for the beginning of 2020 indicate downward performances in part of the first quarter, but it is certain that the negative shock associated with the Covid-19 virus will stop this favorable trend. The dramatic decline in the global economy and the measures taken to prevent the spread of the viral infection will lead to an extremely strong decline in the economic activity in the second quarter of the year. The negative effects of the disruptions from the global pandemic and the restrictive measures will also be felt in the third quarter, when the decline will be more moderate, in line with the assumptions of the pandemic strength reduction and gradually reducing the restrictive measures, while an economic recovery and slight growth is expected by the end of the year. **However, the economic activity would decrease by 3.5% for the entire 2020 amid significant decline in private consumption and investments,** despite the positive contribution of net exports, amid downward adjustment of the real exports and imports of goods and services. Furthermore, assuming gradual stabilization of the conditions and exhaustion of the negative effects from the pandemic by the end of this year, **in 2021 there will be a growth of 4.7%, with the expected positive contribution from the domestic demand and exports.** In general, it is estimated that the effects from the pandemic will be temporary and without jeopardizing the economic fundamentals, which will contribute to a return to the growth trajectory in the long run i.e. **real growth rate of around 5% in 2020.** However, as with the assessments for almost all countries, the pandemic and the restrictive measures will have a lasting effect on the GDP level, which will be lower than the level that would be achieved in the absence of this shock.

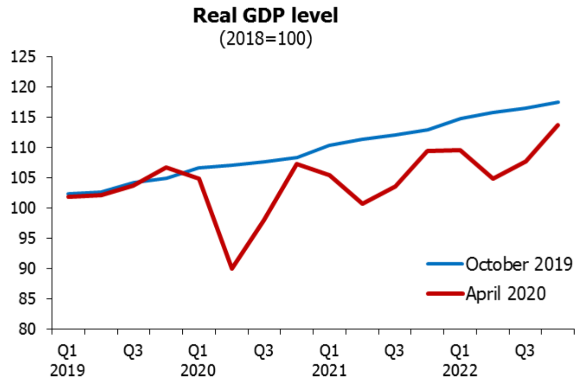


Source: SSO and NBRNM calculations.



Source: SSO and NBRNM calculations.

[5] World Economic Outlook, IMF, April 2020.



Source: State Statistical Office and NBRNM calculations.

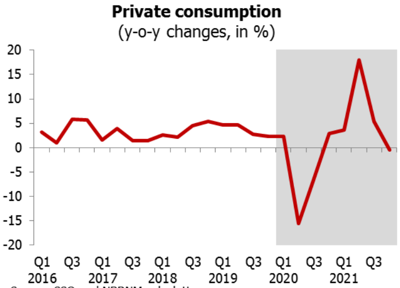
Analyzed by individual GDP components, it is expected that the real exports of goods and services will be one of the main factors for the economic activity decline. Given the key assumption in the forecast in terms of the dynamics, the decline in exports will be particularly expressed in the second quarter of the year, reflecting the cessation of the economic activity by most trading partners, disruption of global production and logistical chains, as well as the high uncertainty. Thus, it is estimated that the existing export oriented facilities, which are largely integrated in the German car manufacturing chain, will be temporary affected by this cessation of the production i.e. it is assumed that the activity will gradually normalize by the end of the second quarter. Traditional sectors will also be affected most in the second quarter, primarily as a reflection of the sharp decline of foreign demand, as well as logistics problems of the global trade and uncertainty. The effects of these disruptions will be also visible in the second half of the year, but will gradually decrease. In 2021, given the low comparative basis, as well as the assumption for fast recovery of the global economic activity, a strong acceleration of the growth rate of the real export of goods and services is expected, amid gradual stabilization and utilization of the production facilities of new export oriented companies, as well as the activity in the traditional export sector.

The **gross investment** is expected to decline in the second quarter of 2020, due to extremely high uncertainty and reduced confidence, difficulties in performing investment activities arising from restrictive measures as well as possible liquidity problems in certain corporate sectors. Thereby, postponing part of the foreign investments as well as moderately weaker realization of the public investments would have an additional negative effect. Even though, in the second half of the year the situation will gradually normalize with the loosening of the restrictive measures, the stabilization of the global economy, return of confidence and acceleration in public investments, annually the gross investment will still be a domestic factor with the strongest negative contribution in the economic activity decline. Gross investments, on the other hand, will be a significant domestic component of growth in 2021, reflecting the assessments that the shock of the pandemic is temporary, and not a permanent disruption of economic fundamentals. Thus, the strong growth of investments in the next year will be due to the growth of global demand, improving confidence, recovery of funding resources as well as accelerating public investment.

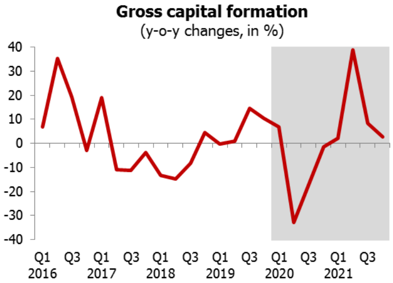
Lower consumer propensity, as a result of uncertainty about the future disposable income, shaken confidence, as well as delays in consumption due to restrictive protection measures, will lead to a sharp decline in **private consumption** in the second quarter of the year. In terms of disposable income, certain adjustments to real wages and employment are expected in the second quarter of the year, partially mitigated by the Government's implemented measures to support employment and income. Given the overall unfavorable context, a decline in remittances is also expected. With the reduction of the protection measures and the acceleration of the overall economic activity in the second half of the year, there will be a gradual stabilization of the sources of income, return of trust and recovery of personal consumption. Positive developments in personal consumption will continue in 2021, primarily as a reflection of the moderate positive movements in all income components, as well as expectations for greater credit support from banks.

In terms of **public consumption**[6], its overall effect on the economic activity during the forecast horizon has been estimated as moderately positive which is partly related to increased spending in 2020 in order to mitigate the effects of the current crisis.

A significant decline in **import demand** is expected in 2020, respectively in line with export and domestic demand. On a net basis, the decline in import will be similar to export, which will lead to a positive net exports contribution to the GDP rate. On the other hand the import demand is expected to increase significantly in 2021, reflecting the recovery in export, personal and investment demand which will lead to growing need for investment and consumer goods export. Hence, at similar import and export growth rates, the net exports is assumed to make a significantly negative contribution to overall growth in 2021.



Source: SSO and NBRNM calculations.

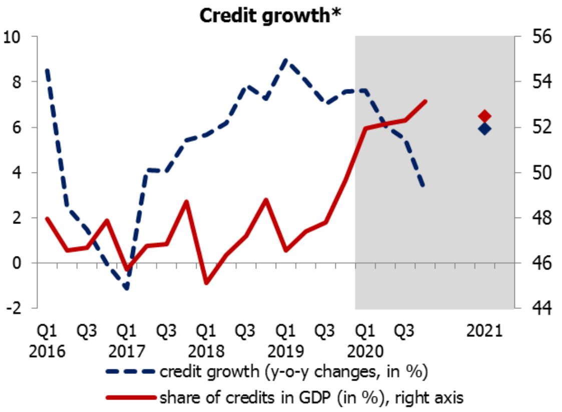


Source: SSO and NBRNM calculations.

Source: SSO and NBRNM calculations.

In the forecast horizon, the latest credit market assessments point to a slowdown in credit activity in 2020 followed by gradual recovery in the next two years. The latest assessments indicate that the negative effects of the Covid-19 pandemic towards personal and investment demand, the sharp decline in confidence and the growth of uncertainty as well as variability of global financial markets will lead to significantly moderate credit support for the population and corporate sector. However, given the strong liquidity and solvency of the banks, the National Bank's undertaken measures for credit cycle support, as well as the announced credit lines by the Development Bank, the credit growth in 2020 is expected to maintain in the positive change zone and reach 3% (6% by the end of 2019). Gradual acceleration of credit activities is expected in the upcoming period in line with the overall recovery of economic activity, stabilization of confidence and expectations as well as increased demand for household and corporate loans. The average credit growth in the period 2021-2022 will amount 6.5%. In line with the economic activity and confidence decline, in 2020 a moderate growth in total deposits of 2.3% is expected. The economic recovery expectations in the upcoming period will enable growth of the deposit base with rapid rates of about 7% on average in 2021-2022.

[6] Public consumption forecasts are based on information from the 2020 Budget, the revised fiscal strategy 2020-2022 from December 2019, as well as the Decision on redistribution of funds among central government budget users and funds ("Official Gazzette of RSM", No97 of 09.04.2020)



Source: NBRNM.
*Corrected for write-offs under the regulatory changes.

In 2020, the current account deficit is expected to increase by 0.4 percentage points of GDP and to reach 3.2% of GDP. The higher current account deficit is a result of the lower surplus in secondary income and the reduced surplus in services. Namely, the global uncertainty caused by the Covid-19 virus, the undermined confidence and the restrictive measures for protection and prevention of the virus spread would lead to a significantly downward remittances adjustment. In terms of the foreign currency demand, the environment of uncertainty and risks would lead to slightly greater tendency for foreign currency disposal among population with a less pronounced and temporary effect. These developments will result in positive balance reduction in the secondary income. The export of goods would be significantly affected within the foreign trade, given the decline in foreign effective demand, slowdown and temporary interruption in the export-oriented capacities and deteriorating trend on the world stock market. Considering the characteristics of domestic economy, the decline of the exports of goods will adequately reflect the import of goods. The downward correction of imports will be further emphasized due to the decline in domestic demand, as well as the decline in the world oil prices causing narrowing of the energy deficit. Such shifts in exports and imports of goods will lead to a trade deficit decline in 2020. A smaller deficit is expected in the primary income, due to the expected profit decline of the foreign investors in the economy in deteriorated economic environment. The financing of current account deficit in 2020 is mostly expected to rely on Government's foreign borrowings (including the already allocated IMF funds through the rapid investment instruments), and less on the direct investments, amid expectations for reduced lending to the parent companies and thus lower outflows within the debt component of FDI. Given the pronounced uncertainty and undermined confidence, net outflow in currencies and deposits is expected. **In the next two years (2021-2022), an improvement in the current account deficit is expected and will amount 1.6% of GDP on average.** The improvement in the balance of flow in the next two years will mainly arise from the increase of surplus of secondary income, and less from the increase of surplus in services, amid global stabilization and recovery of domestic economy. Amid expectations for boosting economic activity and restoring global production chain in the trade deficit, an increase in the deficit is projected in 2021 and its gradual reduction in the coming period. With the normalization of operations in the foreign-owned companies and growth of income among foreign investors in the economy, the deficit in the primary income is expected to grow moderately. **Public sector debt, as well as inflows from foreign direct investment** is estimated as the main sources of financing the current account deficit, while their volume will enable additional growth of the foreign reserves and their maintenance at an adequate level.

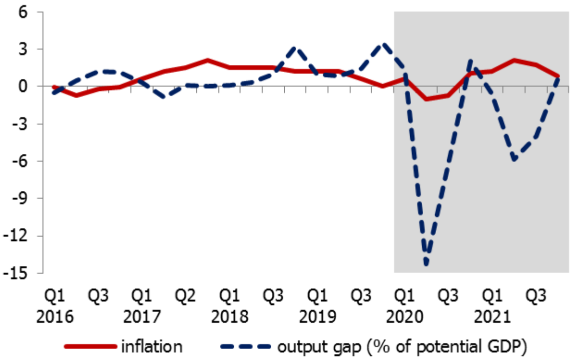
Balance of Payment forecast (% of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022
Current account	**-2.0**	**-2.9**	**-1.0**	**-0.1**	**-2.8**	**-3.2**	**-1.8**	**-1.5**
Balance of goods & services	-16.2	-15.2	-14.1	-12.8	-14.3	-13.3	-13.2	-12.6
Goods, net	-20.1	-18.8	-17.8	-16.2	-17.3	-15.5	-16.4	-15.8
Services, net	3.8	3.5	3.7	3.4	3.0	2.3	3.2	3.2
Primary income, net	-3.2	-4.0	-4.0	-4.2	-4.0	-3.1	-3.5	-3.9
Secondary income, net	17.4	16.4	17.0	16.9	15.5	13.2	15.0	15.0
Private sector, net	16.9	15.4	15.9	15.9	15.2	12.4	14.3	14.4
Capital account	**0.1**	**0.1**	**0.2**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**0.1**	**-6.3**	**0.5**	**-5.1**	**-5.4**	**-3.7**	**-2.7**	**-3.6**
FDI, net	-2.2	-3.3	-1.8	-5.6	-2.6	-1.6	-3.5	-3.5
Portfolio Investment, net	-0.7	-4.4	0.2	-3.0	1.3	-2.6	4.7	0.4
Other Investment, net	3.1	1.4	2.1	3.6	-4.2	0.4	-3.9	-0.5

Source: NBRNM.

Amid significant downward correction of the expected import prices path, global decline in demand and supply as well as significant decline in domestic demand, **the level of prices in 2020 will maintain unchanged compared to 2019, with an inflation of around 0%.** The contribution of the energy component will be significantly negative, as opposed to the moderately positive effect of the core inflation and food component. The inflation is expected to accelerate in 2021 thus reaching around 1.5%, with a positive contribution of food component as well as core inflation amid strong acceleration in domestic demand, while the contribution of energy prices will be neutral. Amid further expected solid rates in domestic economic growth and moderate growth in world prices, **the inflation is predicted to maintain around 2%.** The main risk in the inflation forecast remains associated with exceptionally high uncertainty regarding the future dynamics of the primary commodities market prices, especially oil, as well as the uncertainty about global economic growth and the demand effects on the prices of primary products and total global inflation.

Inflation
(y-o-y changes, in %)



Source: SSO and NBRNM calculations.

1.3. Comparison with the previous forecast

The latest April macroeconomic forecasts point to significant changes in relation to October cycle. The economic growth forecast in 2020 was significantly revised downwards compared to October, reflecting the effects of the coronavirus pandemic, while the forecast for growth in 2021 has been revised upwards. Regarding the prices movements for 2020 and 2021, a downward revision was made at the inflation rate and the correction is mainly related to lower performances and lower energy prices and falling demand. The expected effects of the pandemic will lead to higher average current account deficit in the period 2020-2022, compared to October expectations, primarily due to low surplus in *secondary income and services, while the average trade deficit in goods is lower. Within financial flows, for a two year period, the expected net inflows are slightly higher than planned.*

Forecast of selected macroeconomic variables

	2020 forecast		2021 forecast	
	Oct.	**Apr.**	**Oct.**	**Apr.**
GDP, %	**3.8**	**-3.5**	**4.0**	**4.7**
Private consumption	3.5	-4.3	3.5	6.1
Gross capital formation	9.3	-10.4	9.6	9.8
Public consumption	1.0	6.6	0.9	-1.5
Exports of goods and services	4.0	-17.1	3.5	25.0
Imports of goods and services	5.1	-15.4	4.9	21.6
Inflation	**1.5**	**0.0**	**2.0**	**1.5**
Current account deficit, % of GDP	**-1.3**	**-3.2**	**-1.5**	**-1.8**

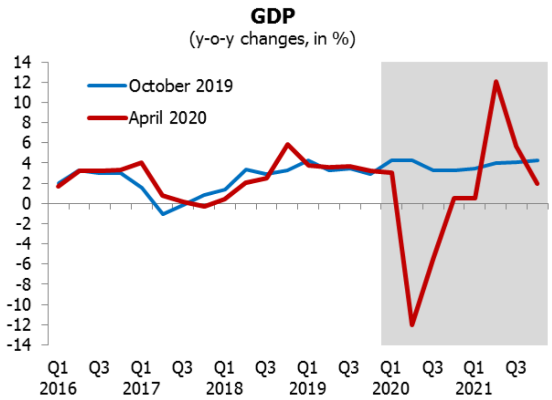
Source: NBRNM.

The health crisis caused by the global spread of the new coronavirus Covid 19 has led to a deterioration of prospects for the Macedonian economy in the short terms compared to October forecasts. **As a result of this non-economic shock, a significant downward revision of the GDP growth forecast in 2020 is made, which is now forecasted to be in the negative area and will amount -3.5%, as opposite to the projected positive growth of 3.8% in October. However, given the expectations of temporary and short-term effects of the coronavirus pandemic that would not have affected the safe fundamentals of the economy in 2021, a quick recovery of the domestic economy is expected while the GDP growth has been revised upward from 4% to 4.7% at a significantly lower comparison basis.** Seen in detail, an appropriate adjustment in all expenditure components of GDP is made. Thus, given the significant adverse effects of the introduced mandatory measures to prevent the spread of the viral infection and declaring a state of emergency throughout the country, as well as transferred effects of the collapse in external demand and overall deterioration of confidence, the forecast for demand in 2020 has undergone a significant downward revision and is now expected to make a negative contribution to the annual GDP change, despite the positive contribution expected in October.

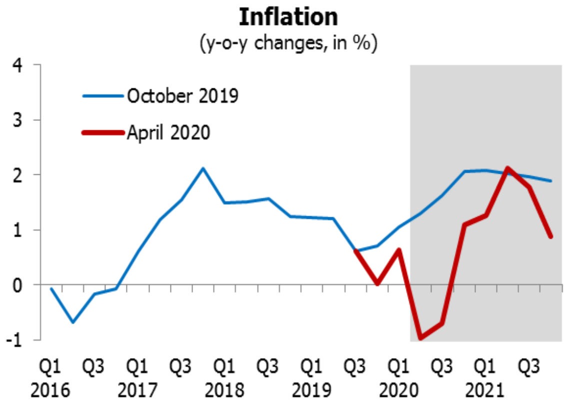
Within the domestic demand, the biggest revision was made in the forecast of gross investments. It is estimated that investment activity will have a significant decline in 2020 with the highest negative contribution to annual GDP growth in 2020 compared to the forecasted growth in October. The adjustment reflects the temporary inactivity of certain domestic business, lower inflows of foreign investments than previously expected and reduced propensity to invest in times of increased uncertainty due to the pandemic. A downward revision is also made in the private consumption, i.e. a fall in this expenditure component is expected this year, as opposed to the assessment of growth in October. As seen through the factors, the lower private consumption is a result of slower growth of the real wage bill, stagnation in employment (as opposed to the previously expected growth), the fall in remittances and the restrictive measures which limit the consumption activity and negatively affect the population confidence. The new fiscal forecasts in the public consumption indicate higher positive contribution of this component compared with the October assessment.

Given the reduced global demand as one of the main transmission channels of the negative effects of the crisis on the domestic economy, a significant downward revision for 2020 is made with real export and import of goods and services. Thus, amid a significant downward revision of foreign effective demand and lower export-oriented capacity due to the disruption of global supply chains, the April scenario assumes a sharp decrease in exports of goods and services compared to the growth expected in October. Reduced export activity and lower domestic demand caused downward correction in the real imports of goods and services. Seen on a net basis, the overall volatility in exports and imports will mean a positive contribution of net exports to annual GDP growth for 2020, opposite of the October expectations, partially neutralizing the negative contribution of domestic demand this year.

In 2021, with depletion of the negative effects of the pandemic and the prevalence of positive economic fundamentals, a more dynamic growth of domestic demand is expected and its positive contribution to GDP growth compared with October. The private consumption would achieve a significantly higher growth rate having a positive contribution to GDP growth higher than the previous forecast. Gross investment is also projected to grow slightly higher compared with October. On the other hand, the public spending is expected to register a moderate consolidation after the growth in 2020, and a small negative contribution to the growth next year. Amid considerable upward revisions to the growth of real exports and imports of goods and services in 2021, the net export is assessed to have a more pronounced negative contribution to overall GDP growth compared with the October forecast.

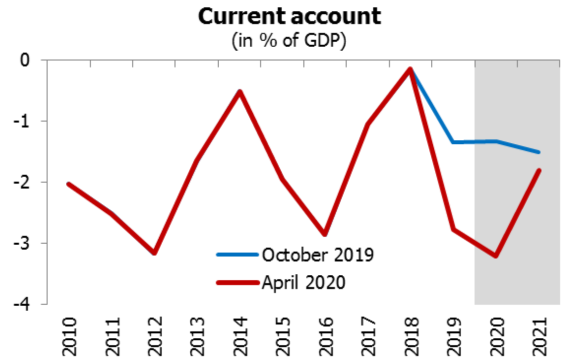


Source: SSO and NBRNM calculations.



Source: SSO and NBRNM calculations.

The inflation rate forecast from 2020 has been significantly revised downwards, and it is currently expected to be around 0, versus 1.5% in October. The downward forecast corresponds to lower inflation realized at the beginning of 2020, the expected strong decline in demand as well as the expectations of significant downward trends in the foreign inflation in import prices by the end of the year. In terms of individual components, most pronounced downward revision was made in the energy component of inflation, in line with the projected significant decline in oil prices on world stock markets this year. With downward pressures from domestic demand and a negative output gap as a result of health-economic crisis, the core inflation has also been significantly revised downwards, and the food inflation suffered smaller revision. Some of this factors are expected to be present in the next year, making a small downward correction in the inflation rate forecast for 2021, and is expected to amount 1.5% in October forecast cycle.



Source: NBRNM.

According to the last April forecasts, a higher average current account deficit is anticipated for the three-year forecast horizon unlike the October expectations (2.1% of GDP in the current forecast compared to 1.5% of GDP in the October forecast. **The biggest correction of the current account deficit refers to 2020, when the strongest effects of the coronavirus pandemic are anticipated. Thus, a deficit higher by 1.8 p.p. of GDP is anticipated this year compared to**

October forecasts. Such change is mostly a result of lower projected surplus in secondary income and services, reflecting the changed global environment and deteriorating anticipations of economic entities. On the other hand, the foreign trade deficit in goods is lower compared to the October forecasts. Namely, a strong decline in both components of exchange is anticipated compared to the moderate growth in October forecasts. Additionally, the significantly lower projected oil prices on world stock exchange have an additional impact on the decline in imports of goods. In terms of balances, the downward correction of the trade deficit in April forecasts stems almost entirely from reduced energy deficit amid stable non-energetic balance. **For the next two years (2021 and 2022),** amid anticipations of gradual normalization in growth factors characteristic for 2020, **the forecast deficit in current transactions, on average**, **is almost the same as in October forecasts. Analyzing financial flows, slightly higher net inflows are anticipated for 2020-2022 cumulatively, compared to the October forecast.** This is mainly due to anticipated higher Government borrowing, opposite of slightly weaker direct investments and higher outflows in currency and deposits. Speaking of direct investments, after the decline in 2020 these inflows are expected to stabilize in the next two years at the level of the October forecasts i.e. at 3.5% of GDP.

Comparison of GDP and inflation forecasts for North Macedonia from various organisations

Organisation	Month of publication	Real GDP growth, %		Inflation (average rate, %)	
		2020	2021	2020	2021
IMF	April 2020	-4.0	7.0	-0.9	0.8
World Bank	April 2020	-1.4	3.7	2.1	1.8
European Commission	November 2019	3.2	3.3	1.9	2.0
EBRD	November 2019	3.2	3.2	-	-
Consensus Forecast	April 2020	-3.1	4.3	0.6	2.0
Ministry of Finance	April 2020	-3.4	-	-0.2	-
National Bank of the Republic of North Macedonia	May 2020	-3.5	4.7	0.0	1.5

Source: IMF, World Economic Outlook, April 2020; World Bank, Western Balkans Regular Economic Report No.17, April 2020; European Commission European Economic Forecast, Autumn 2019; EBRD Regional Economic Prospects, November 2019; Consensus Forecast, April 2020; Ministry of Finance, Indicators and projections, April 2020; and the National Bank of the Republic of North Macedonia.

Alternative macroeconomic scenarios in the time of Covid-19

The viral infection Covid-19 and the rigorous measures to prevent its spread and protect health will have strong impact on global economic growth. – with disrupting global trade and global chains of production, a decline in consumer spending, especially on durable goods, lower new investment, undermined confidence, volatility in financial and primary commodities markets. According to the IMF, global economic activity would decline by 3% in synchronized recession assessment almost in all economies, with negative anticipations for individual regions and economies provided by a range of international institutions and forecasting institutes. However, it is very difficult to accurately assess and measure the effects of the health crisis. Therefore, despite such unfavorable assessments, the uncertainty remains high, and the risks are assessed as downward and are mainly related to the assumptions regarding the epidemiology of the virus, that is the duration of its acute phase and undertaken measures.

The great uncertainty is also reflected in the forecasts for the European economies ranging in intervals relatively wider than usual. Thus, the forecasts for the decline of the economic activity in the euro zone in 2020 published in April ranges range from -4% to -13%, while the German economy estimates a decline in the range from -3.5% to -10%.

Projections for the economic growth in the euro area and in Germany by different institutions

Institution	Published	2020	2021
Euro area			
Fitch Ratings	22.04	-7.0%	-
S&P Global	16.04	-7.3%	5.6%
Capital Economics	24.04	-12.0%	10%
Consensus Forecast	09.04	-5.7%	5.4%
IMF	14.04	-7.5%	4.7%

Germany			
Fitch Ratings	22.04	-6.2%	4.8%
S&P Global	16.04	-6.0%	4.3%
Capital Economics	24.04	-8.0%	4.5%
Joint Economics Forecast	08.04	-4.2%	5.8%
Economist	08.04	-6.0%	-
Consensus Forecast	09.04	-5.0%	4.5%
IMF	14.04	-7.0%	5.2%

Source: Fitch Ratings, S&P Global, Capital Economics, Joint Economics Forecast, Economist, Consensus Forecast, IMF

The completion of the acute phase of the viral infection in the second quarter is a key assumption on which most of the published forecasts are based, as well as a gradual reduction of the protective measures and normalization of the situation in the second half of the year. Any divergence from this assumption and risks exercise, such as prolonged crisis by the end of the year, keeping the measures longer than expected or possible occurance of a second wave of pandemic spread, would lead to worse economic performances than assumed. In order to measure such unceiratinty, a growing number of institutions prepare and report on alternative scenarios. Thus, within the regular March cycle forecasts, despite the initial forecast, the ECB shared two alternative scenarios for the Eurozone-1) a scenario in which the viral infection acute phase is longer than a quarter, with a downward effect on GDP of 0.6 to 0.8 p.p. and 2) a more pessimistic scenario which despite the prolonged duration of the crisis includes additional adverse shocks in financial markets and primary products prices with a downward effect on GDP of 0.8 to 1.4 p.p. Furthermore, according to the latest forecasts based on three alternative scenarios concerning the effects of the pandemic on the Eurozone, the decline in GDP in the Eurozone in 2020 would be between 5% in the moderate and 12% in the extreme scenario, while growth in 2021 would be between 4% and 6%. Furthermore, within the April forecasts the IMF presented three alternative scenarios that differ in terms of the duraition of the health crisis and hence in terms of the strenght of the economic effects:

- Scenario that assumes the duration of the viral infection and undertaken measures will be by 50% from baseline, leading to a lower global GDP by 3% in 2020 compared to initial forecast.
- Scenario that assumes an additional second, weaker wave in 2021. The global GDP would appropriately drop by 5% in 2021 compared to the baseline scenario.
- Scenario that assumes a longer duration of the viral infection in 2020 and additional second, weaker wave in 2021. In this case, the global GDP in 2020 and 2021 would drop by 3% and 8%, respectively.

The forecast for the Macedonian economy incorporates the assumption of a temporary crisis as a key one, while the negative effects on economic activity would be mostly pronounced in the second quarter. The assumptions on which the forecasts of all external exogenous variables used in the domestic economy are based, including foreign effective demand, are similar. However, as shown in the alternative scenarios developed by some of the institutions, the failure to fulfill the the basic assumption and the realization of the underlying risks can cause downward diverngence in the assumptions on the key external variables. Given the high openness of our economy, this would ultimately cause a deeper decline in Macedonian GDP than the projected.

In this context, to stimulate the effects on the domestic economic activity from potential realization of some of the stated risks, an illustrative **alternative scenario** was **made which assumes a deeper decline in foreign effective demand of 10% in 2020, as opposed to the assumption of 5% decline**, embedded in the basic forecast. The deeper decline in foreign demand would directly affect the export activity, i.e. the decline in exports would be higher than in the baseline forecast. Within domestic demand more pronounced effects would be expected in the investement demand through lower propensity for risk taking among investrors and delay of future investment decisions. **In general, this scenario predicts a deeper decline in GDP compared to the basic forecast of 2.3 p.p. in 2020.**