



# Monetary policy and macro update for Macedonian economy

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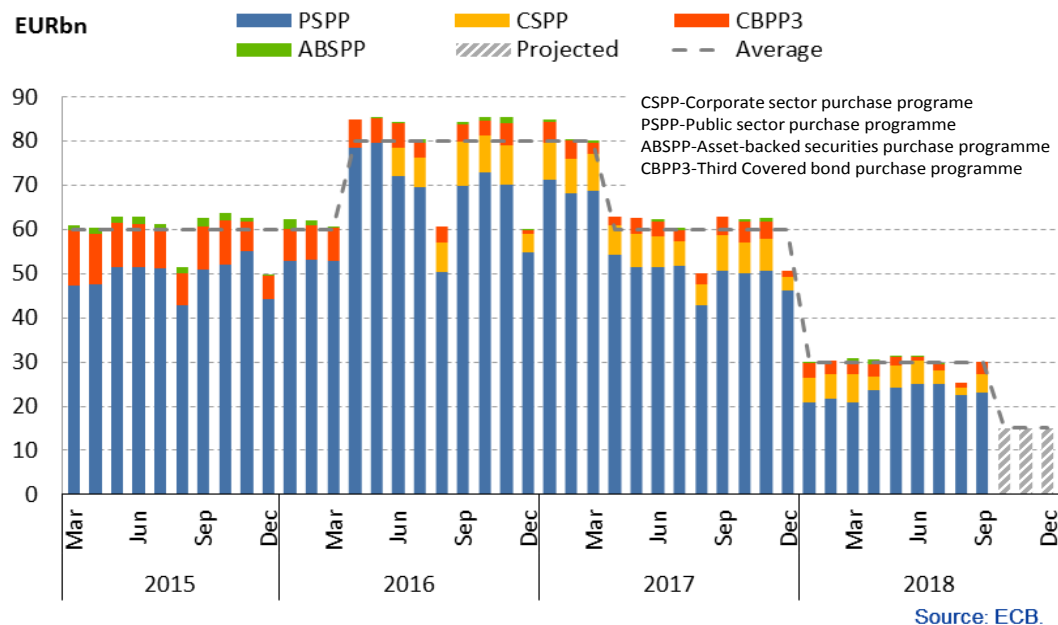


## **Content:**

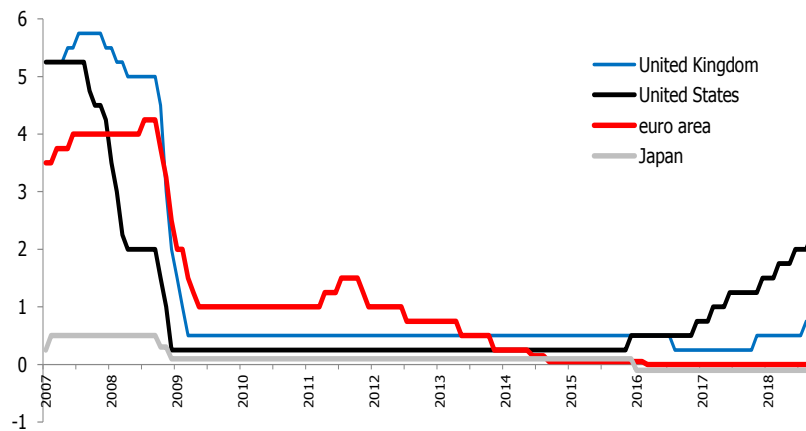
- **External environment;**
- **Developments in the Macedonian economy;**
- **NBRM forecast, October 2018.**



# I. Current global environment - Monetary policy normalization in advanced economies



### Policy rates in advanced economies (in %)



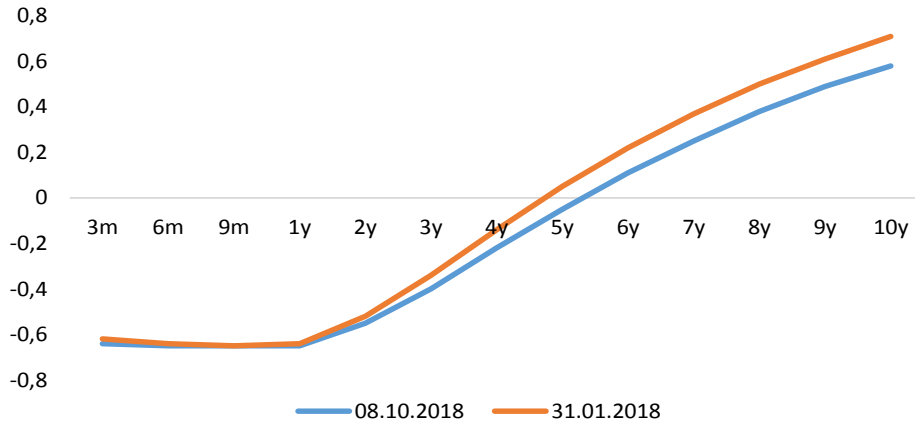
Source: Central banks.

- FED monetary policy normalization since end-2015;
- ECB pre-announced monetary policy normalization.



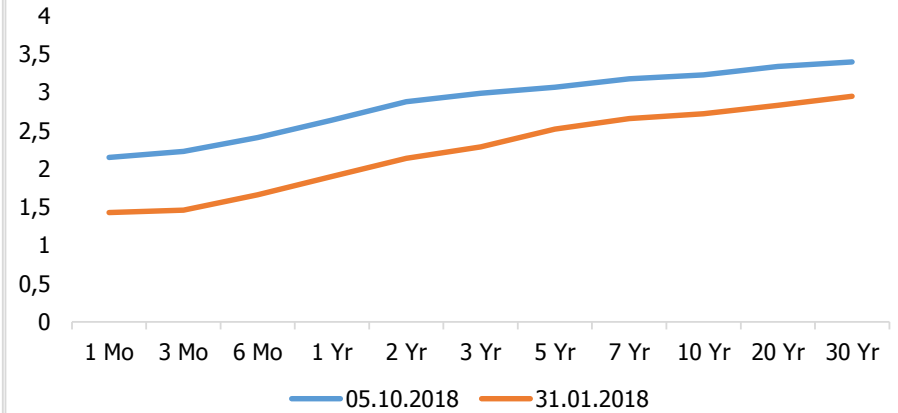
# International financial markets

### Yield curve in the Euro area



Source: ECB.

### Yield curve on the US Government securities

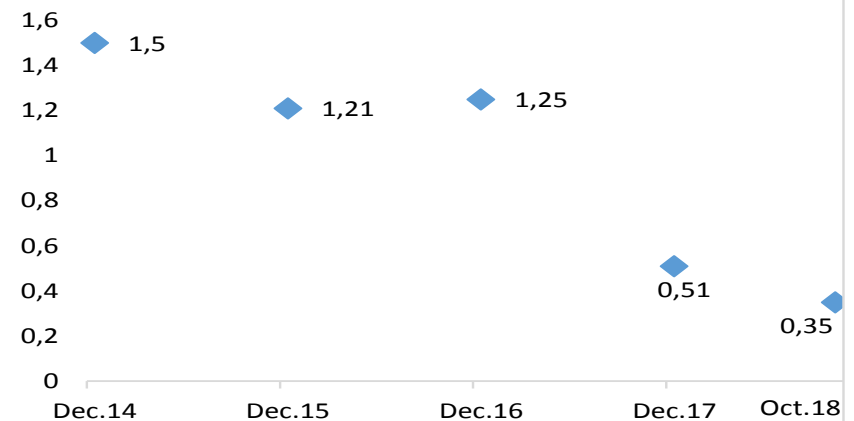


Source: US Treasury.

### Stocks markets



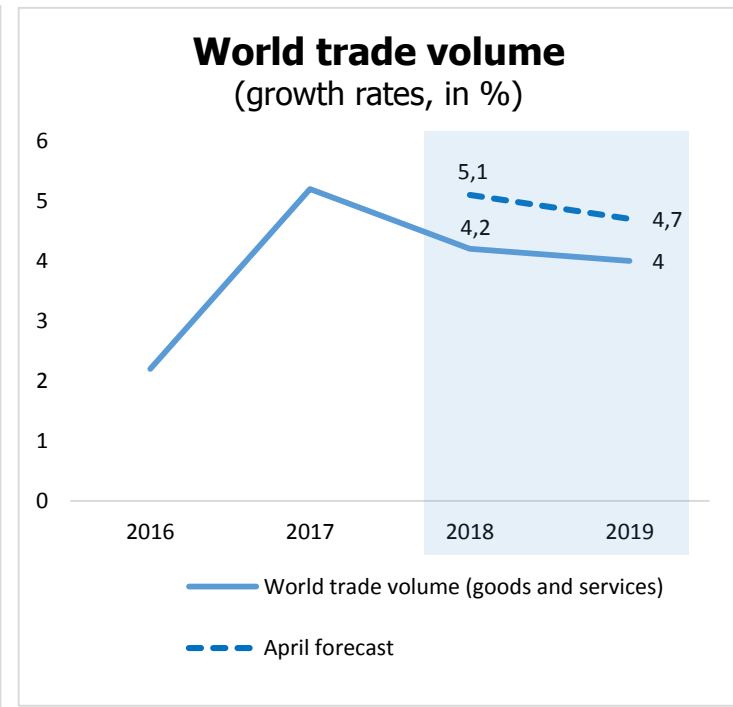
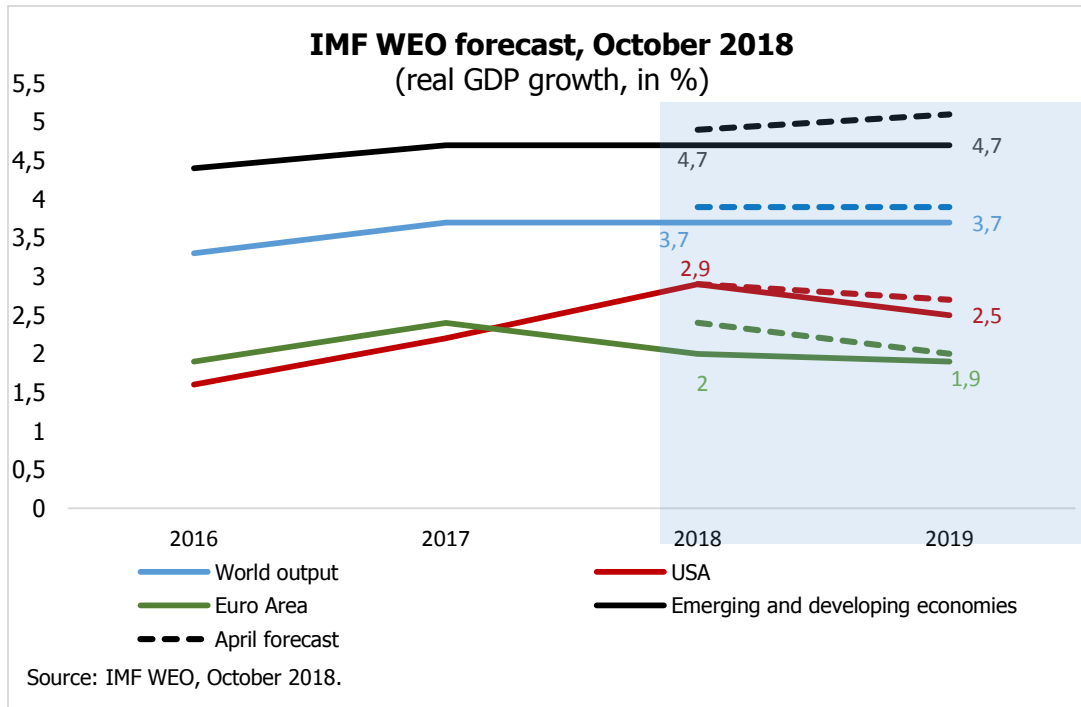
### Spread between 10Y and 2Y US bond



Source: US Treasury.



# Global economy forecasts and risks

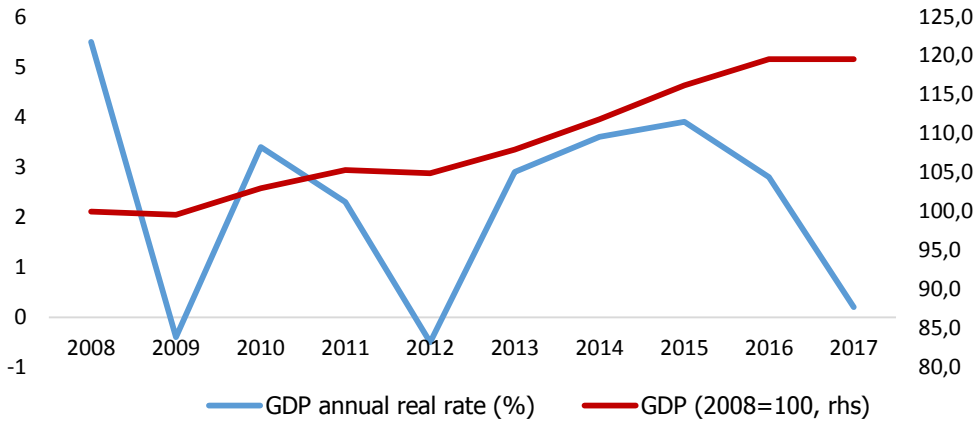


- In October, downward revisions of the global growth forecast by the IMF compared to April forecast;
- Growth slowdown in 2019 in the advanced economies;
- Downside risks: trade tensions, tightening of financial conditions, policy uncertainty, Brexit implications...



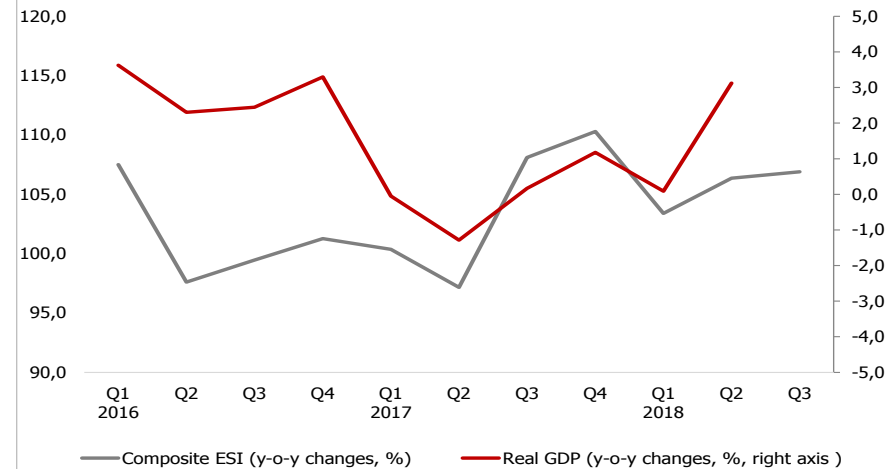
## II. Macedonian economy – domestic and external environment impact

**Macedonian GDP**



Source: SSO, NBRM calculations.

**Economic sentiment indicator and GDP**



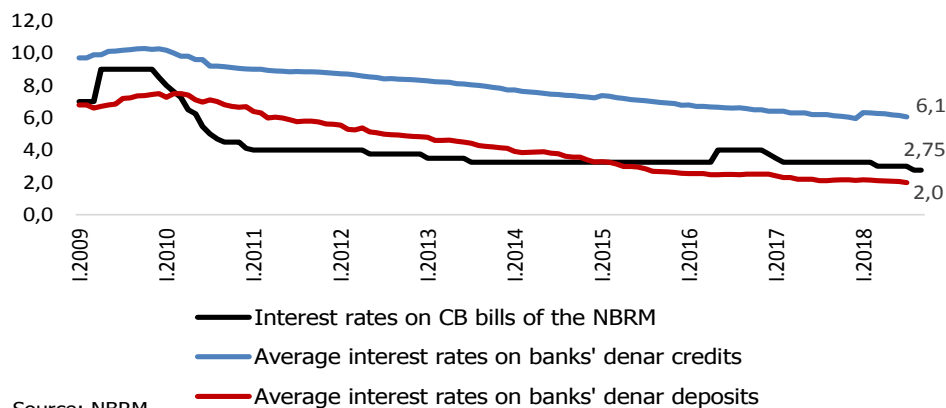
Source: State statistical office and European Commission.

- In 2009 and 2012 global shocks;
- In 2017 internal shock - political instability, in the first half of 2018 real GDP growth of 1,6% (lower than expected).



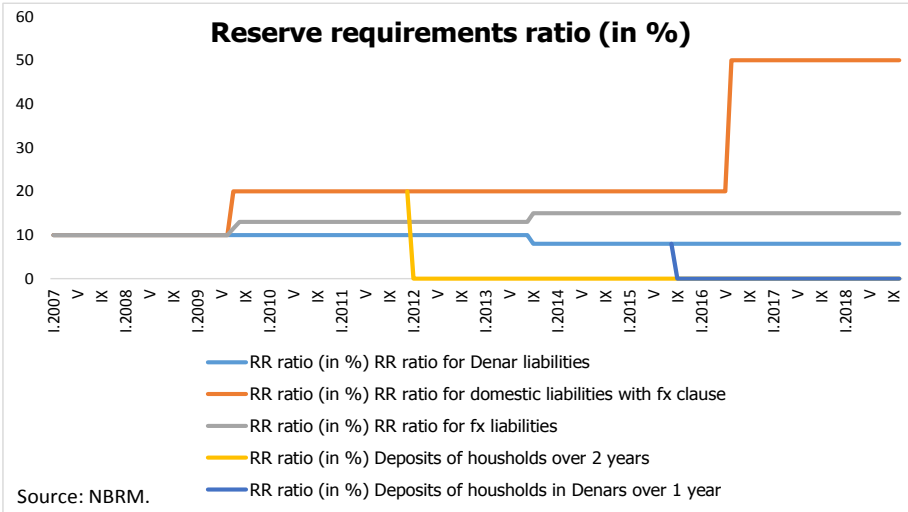
# Accommodative monetary policy

**Interest rates**  
(in %, on annual level)



Source: NBRM.

**Reserve requirements ratio (in %)**



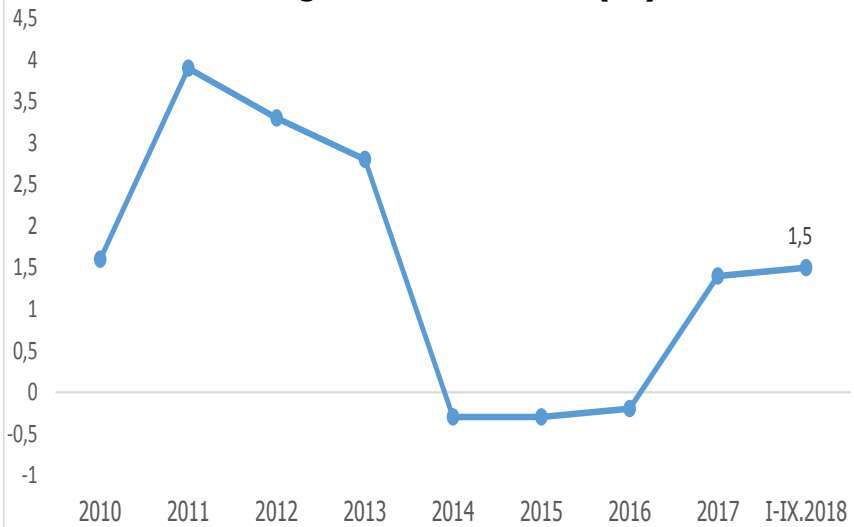
Source: NBRM.

- Main interest rate has been reduced twice in 2018: March and August, to 2,75%, which is historically lowest level.



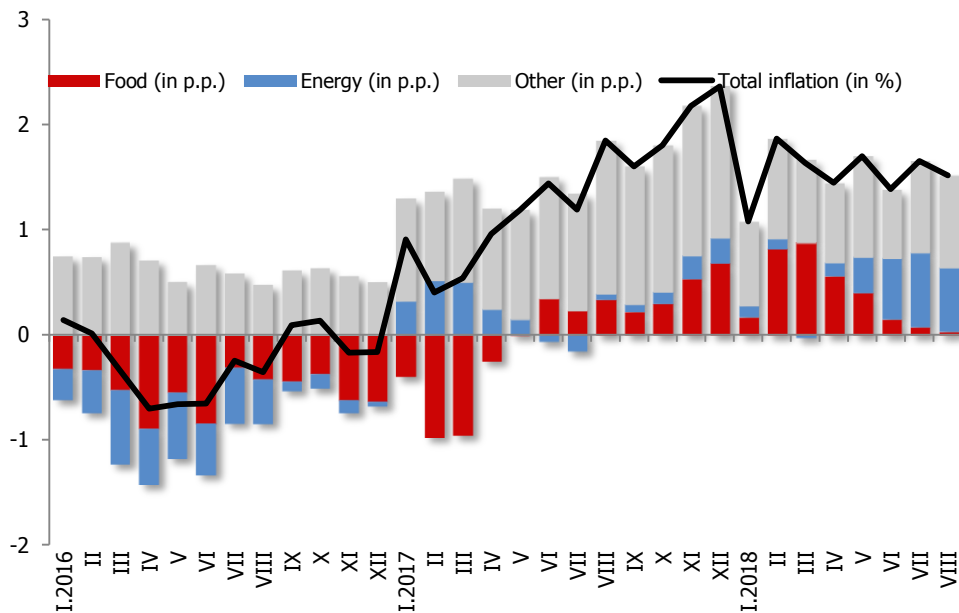
# Inflation and its components

### Average annual inflation (%)



Source: SSO.

### Inflation rate (annual impacts to inflation, in p.p.)

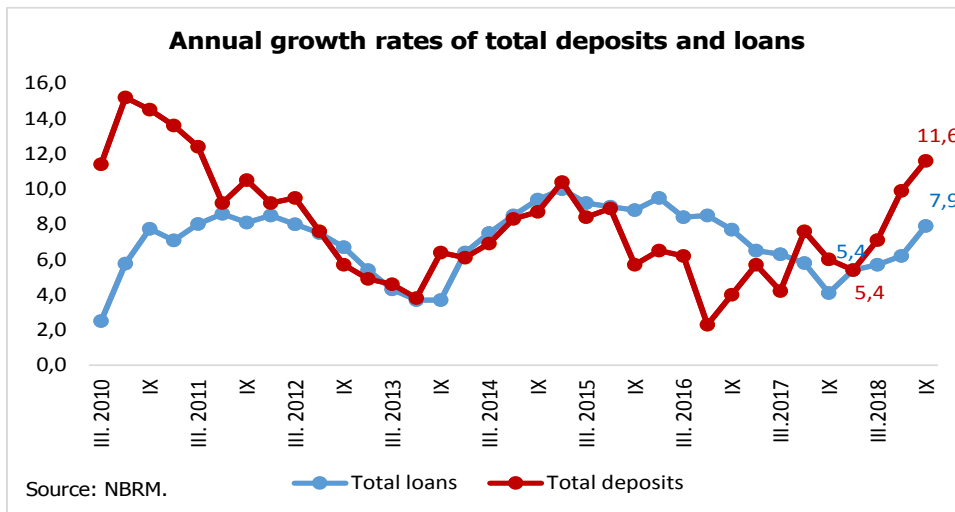


Source: SSO and NBRM.

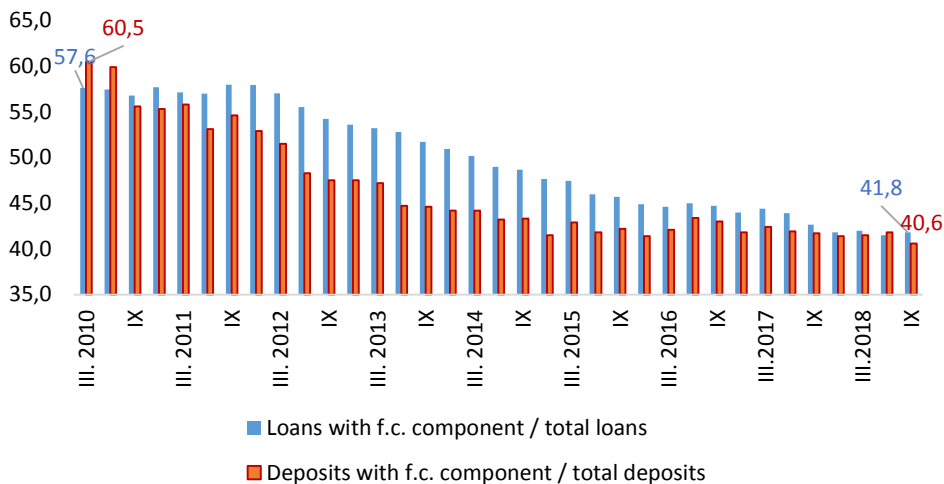




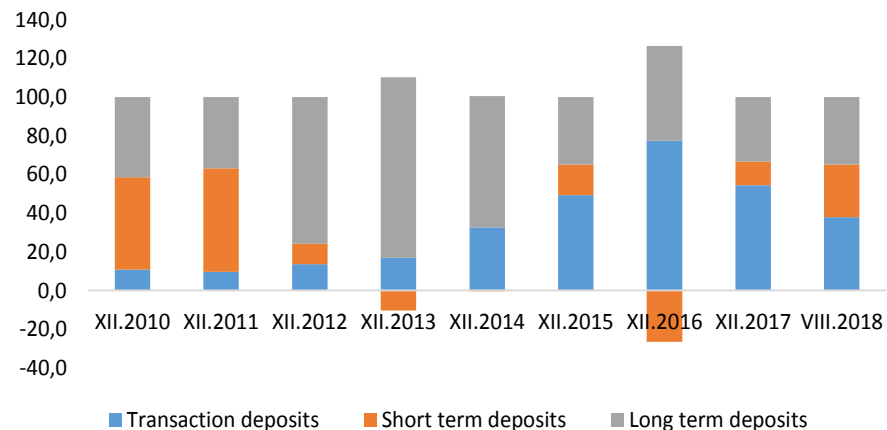
# Deposits and credits growth and de-euroization



**Share of f.c. deposits and credits**

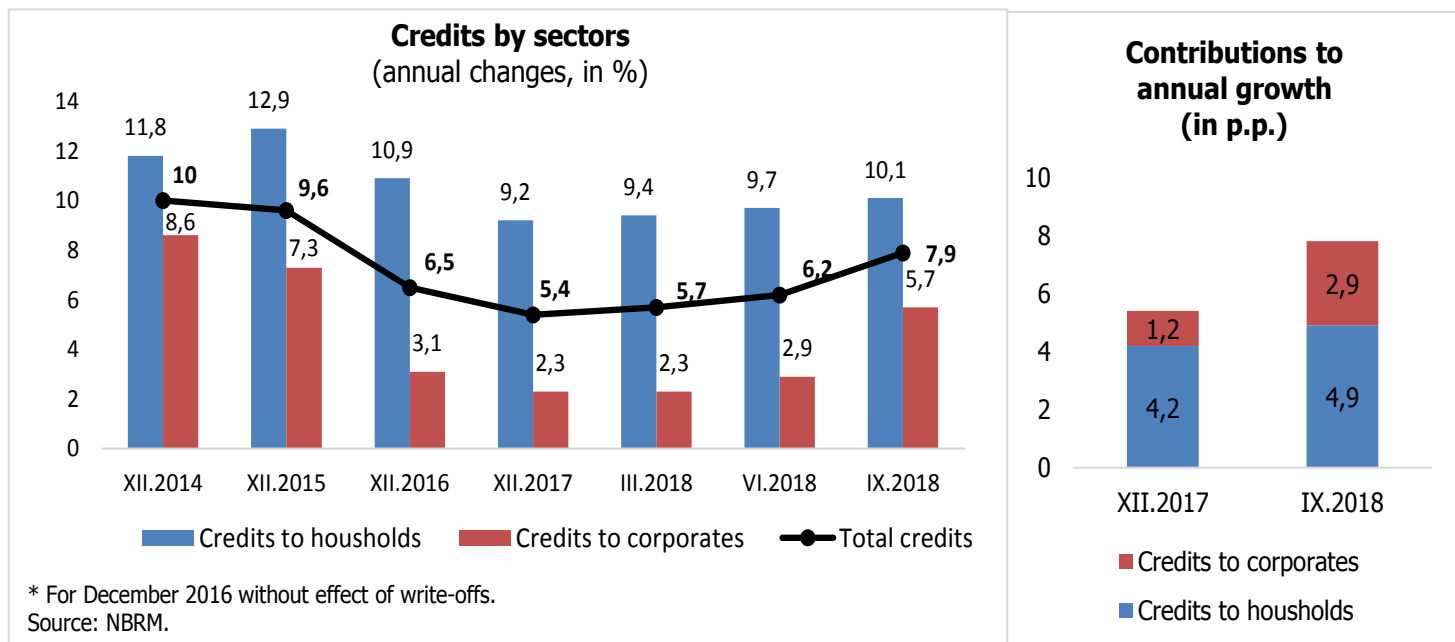


**Households deposits**  
(contribution to annual growth, in %)





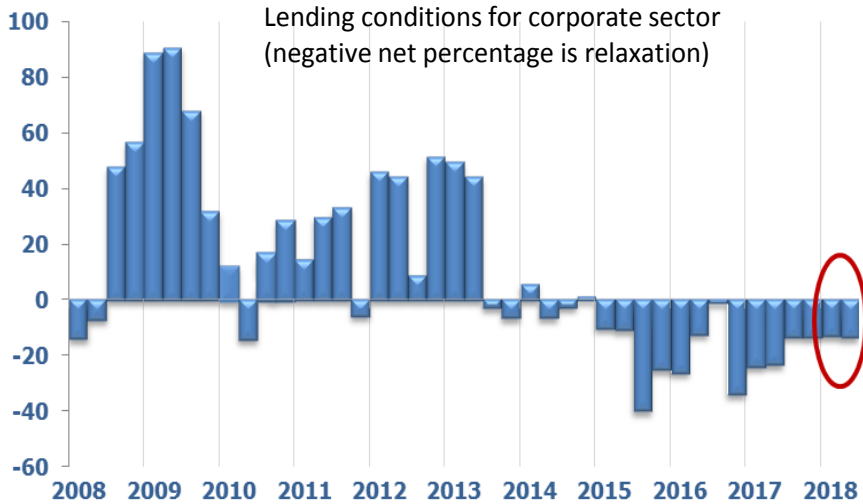
## Stronger lending to households sector



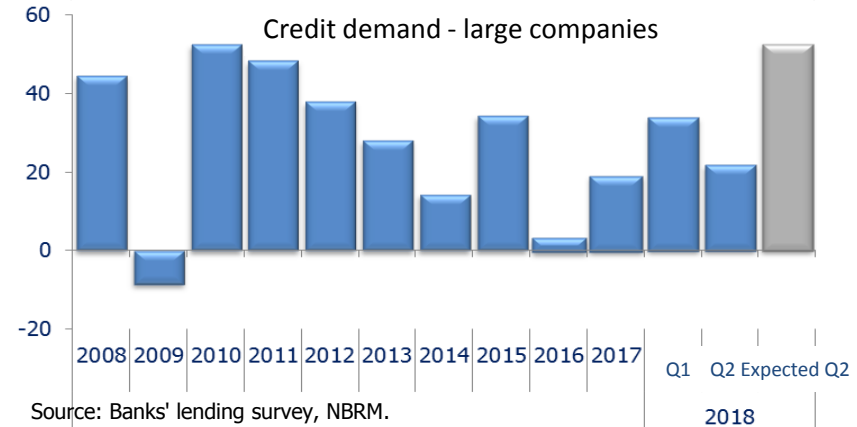
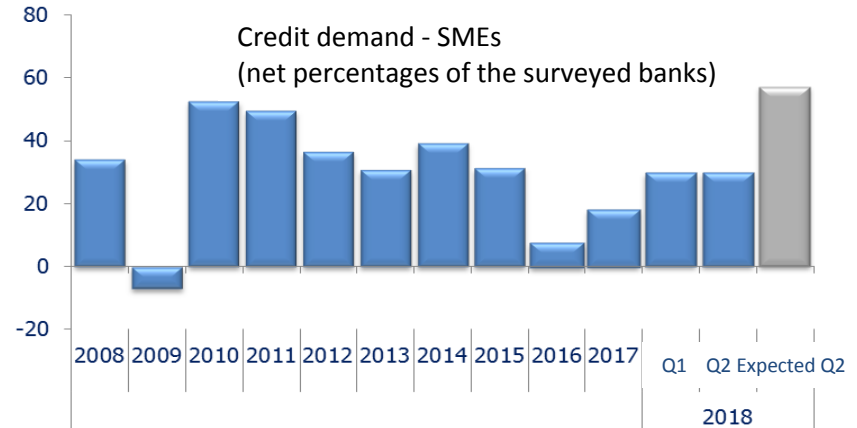


# Banks' lending conditions

(NBRM Survey on banks' lending activity)



Source: Banks' lending survey, NBRM.

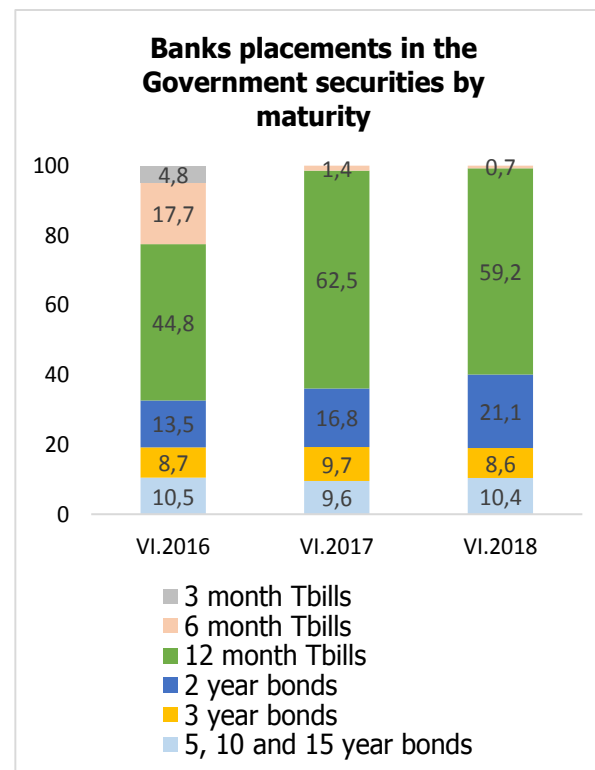
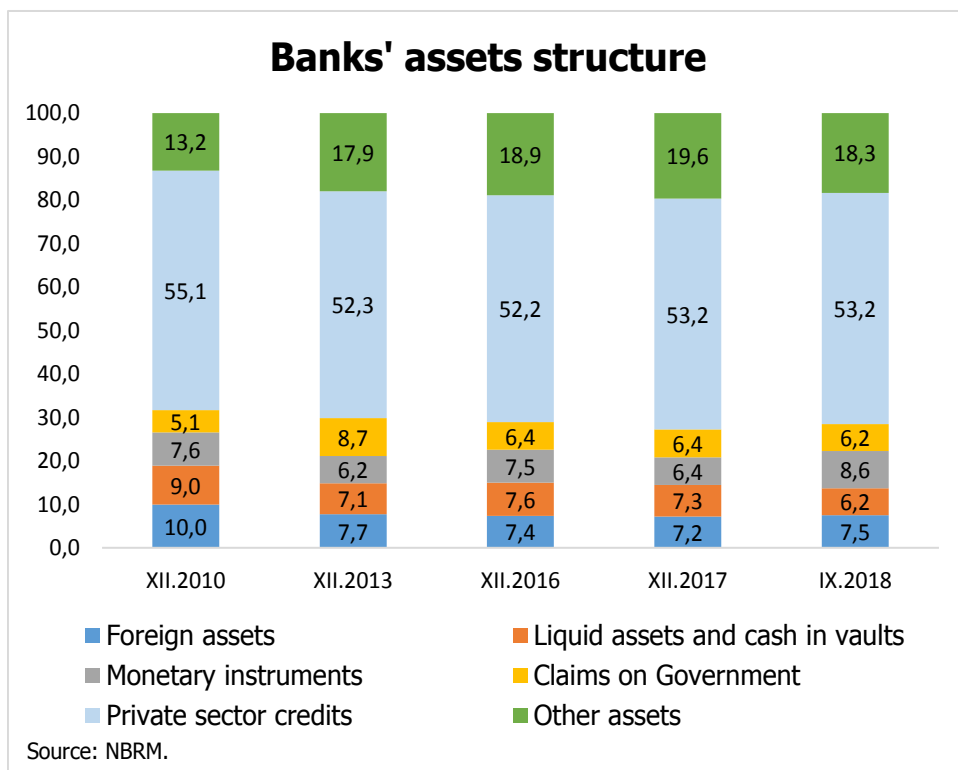


Source: Banks' lending survey, NBRM.

- Banks reported relaxation of credit conditions for the corporate sector (mainly interest rates), but lower demand than expected;
- Factors that negatively affected further relaxation were collateral risk and capital costs (in Q1.2018 also expectations for the economy and for individual firms).

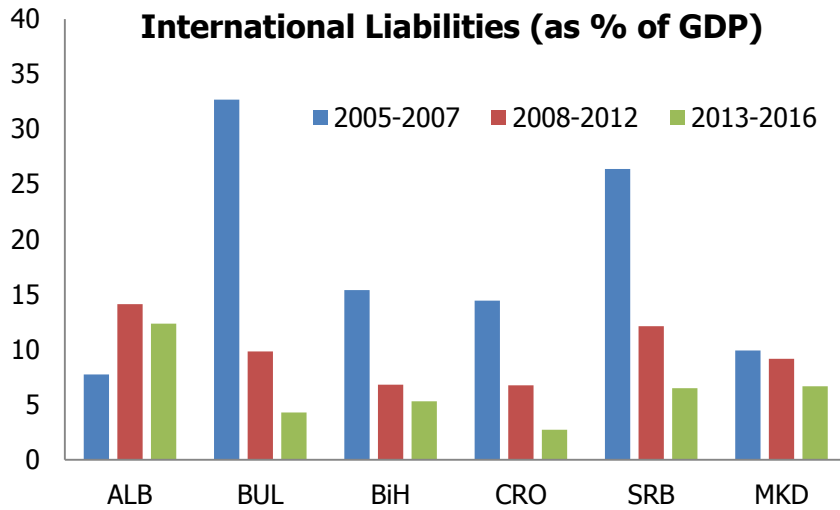


# Banks' assets structure



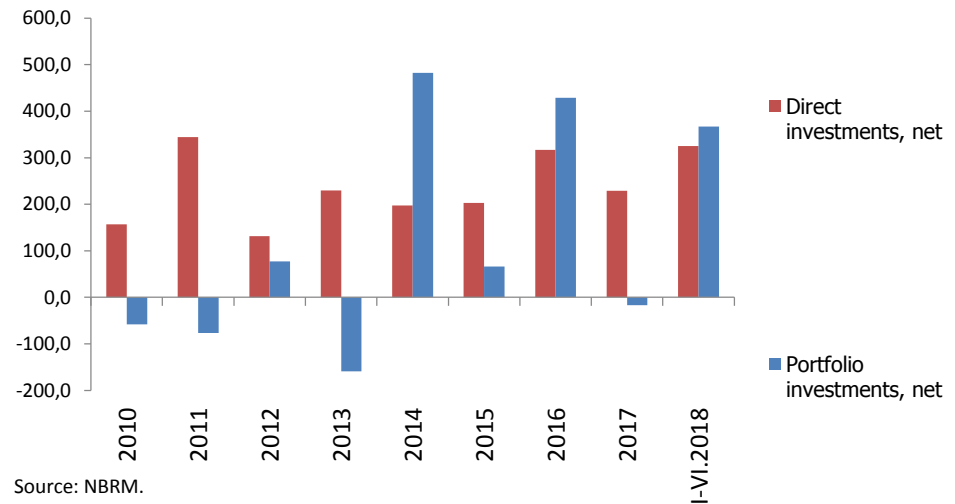


# Capital inflows



\* The average for Croatia and Serbia includes the period 2013-2015.

**FDI and portfolio investments, net (in EUR million)**

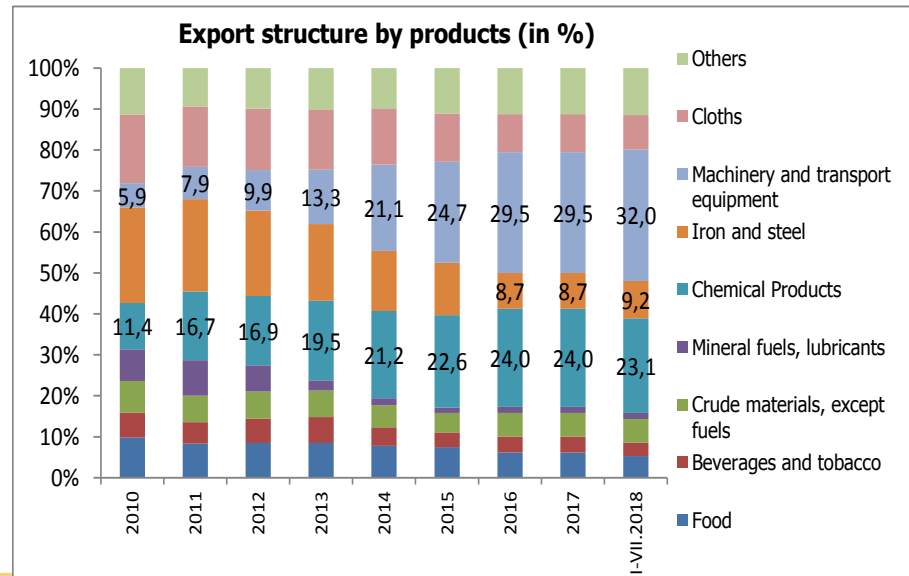
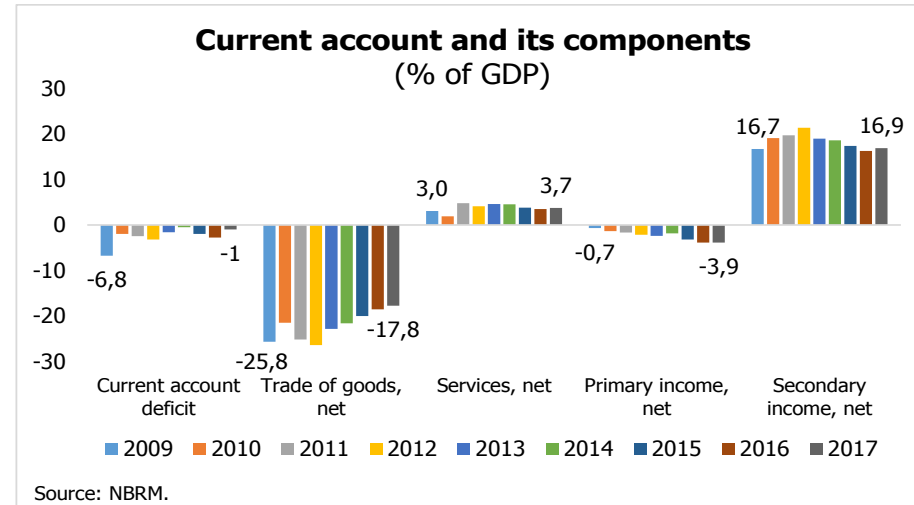
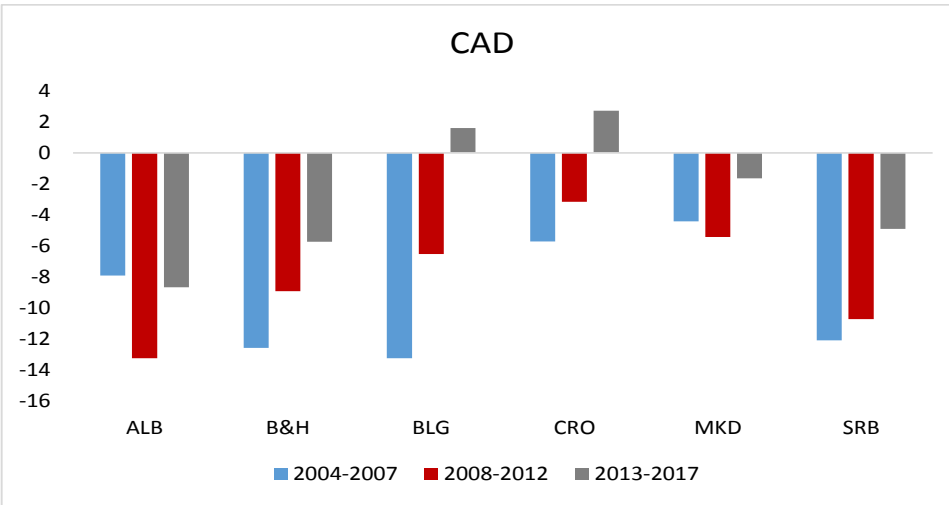


Source: NBRM.

- The capital inflows in Macedonia mainly as FDI and Government borrowings on the international markets;
- FDI orientation in the tradable sector and their contribution with net export.



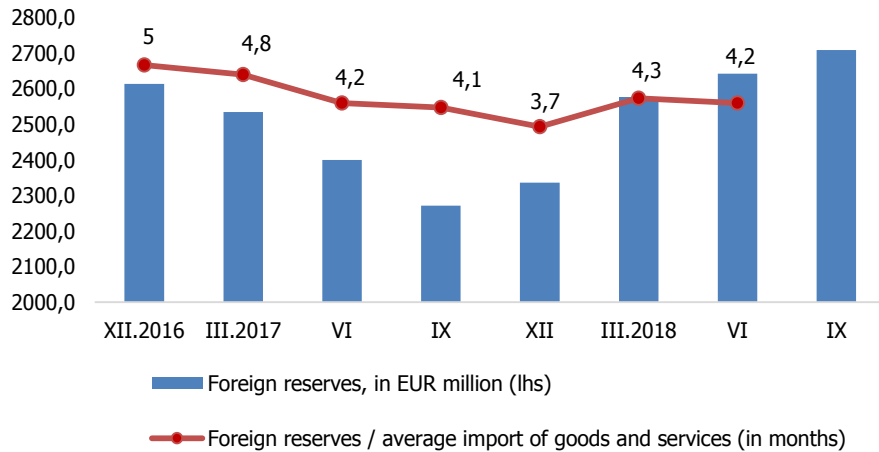
# Sound improvement in the trade deficit and export diversification





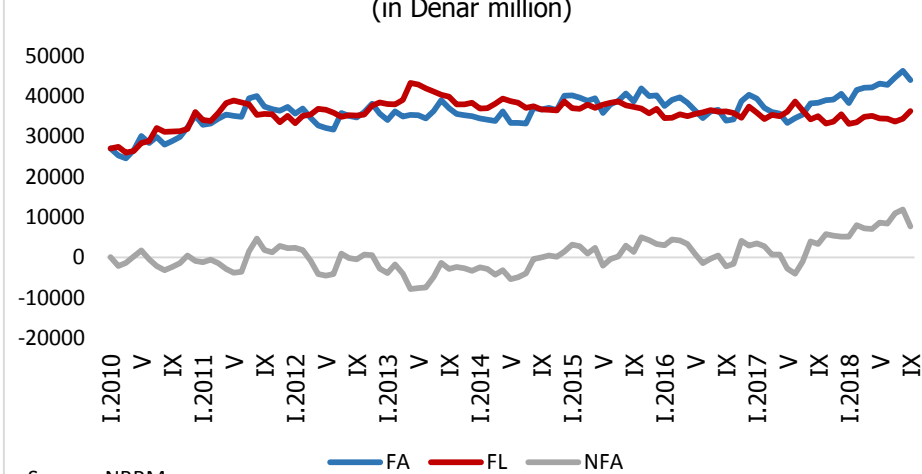
# Foreign reserves

Foreign reserves



Source: NBRM.

Banks' Net Foreign Assets  
(in Denar million)

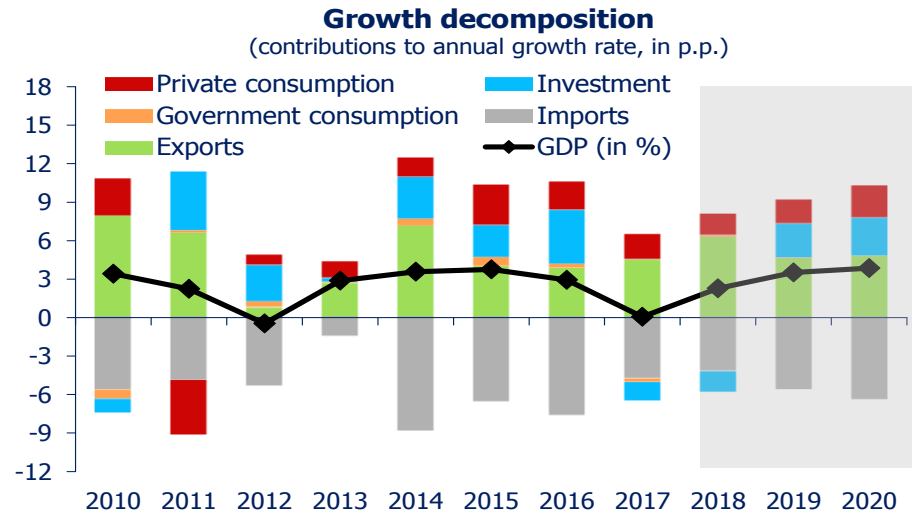
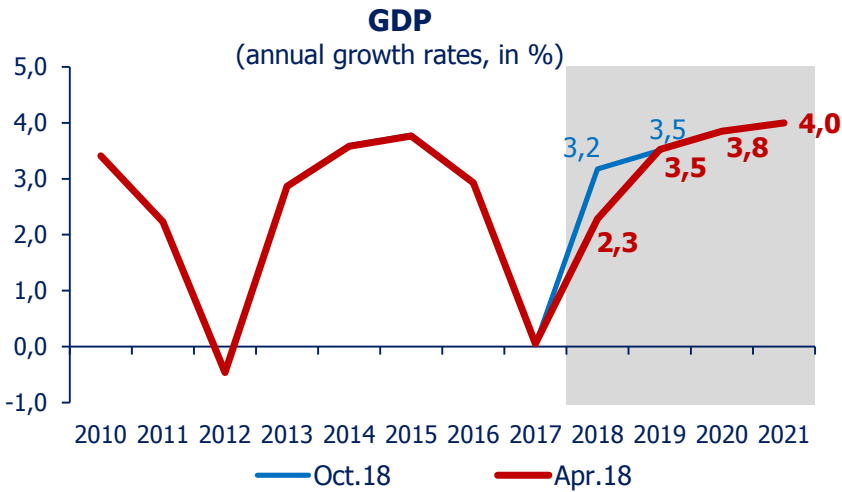
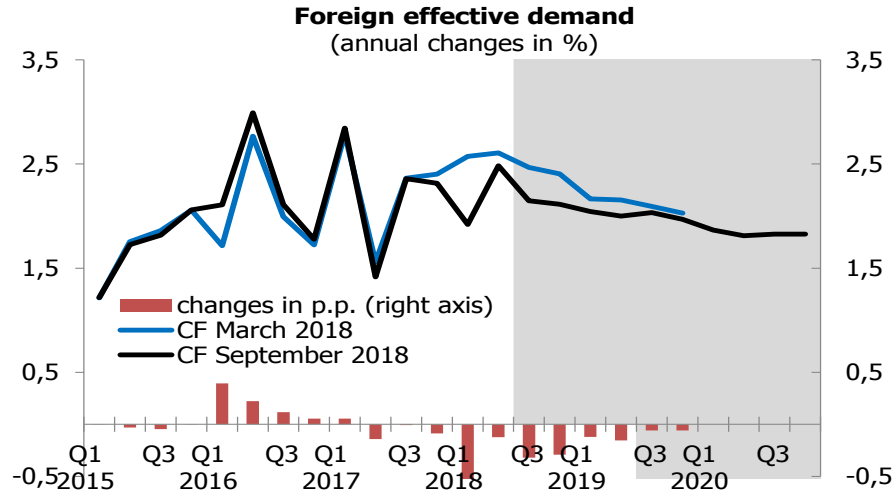


Source: NBRM.

- Foreign reserves at comfortable level;
- During 2018 higher net purchase on the market by the NBRM.



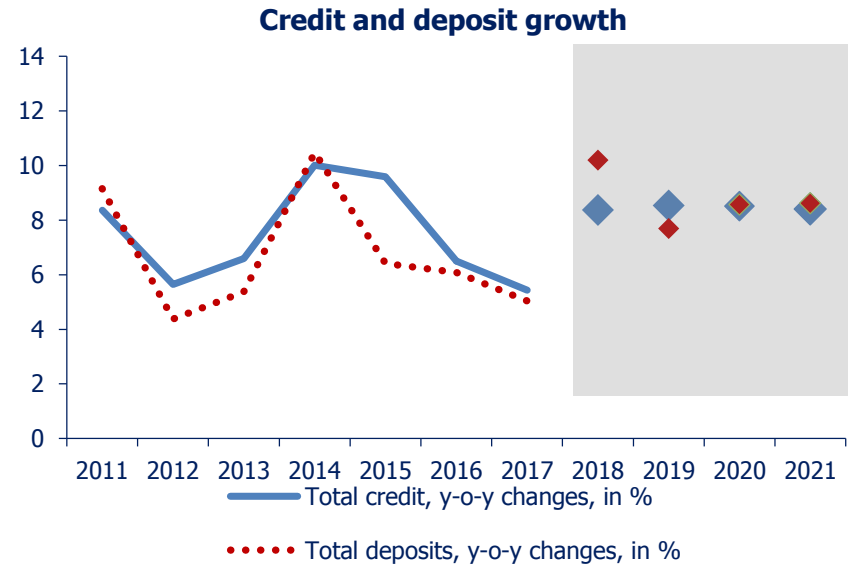
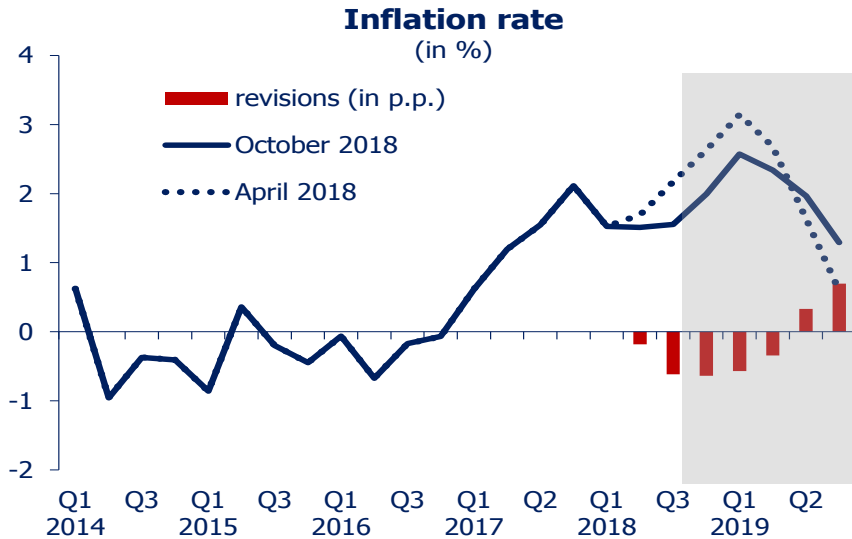
# III. The future outlook – NBRM October 2018 forecast







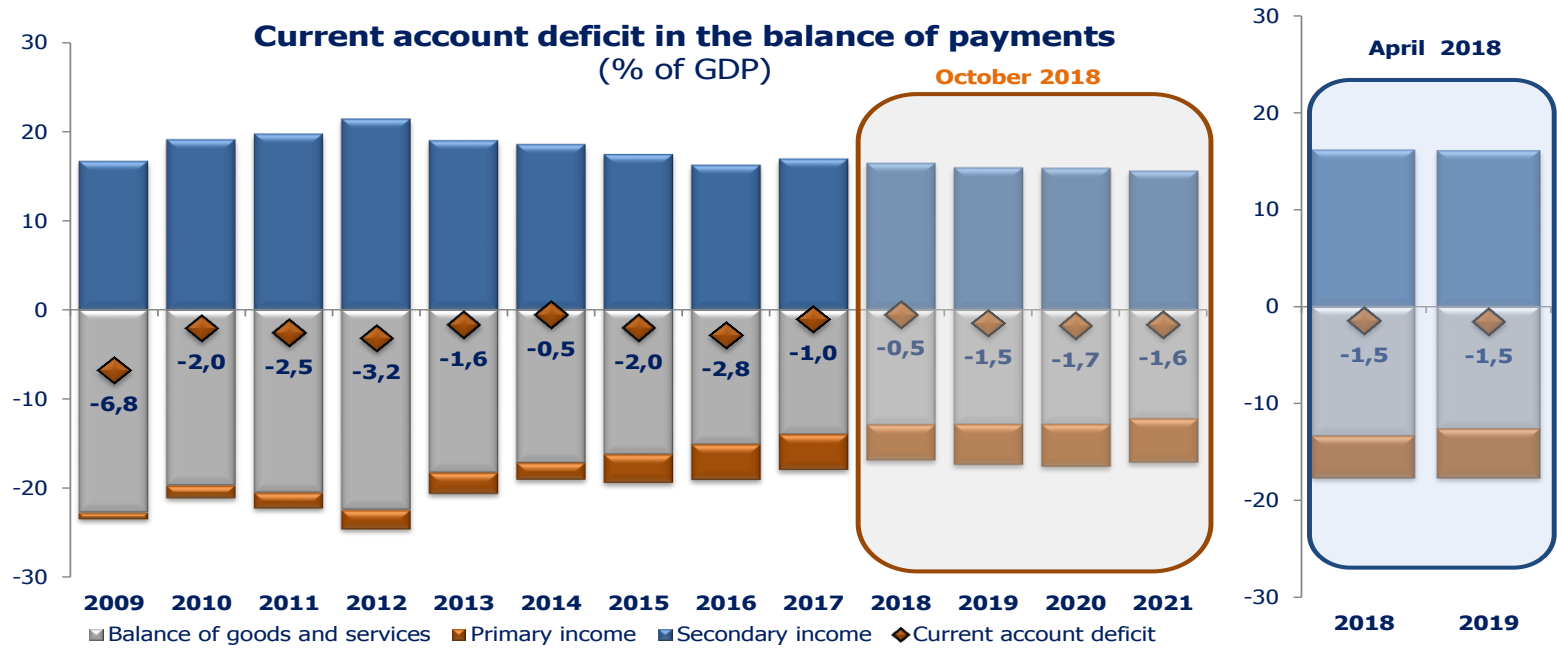
## The future outlook – NBRM October forecast / 2



- Moderate inflation of around 2% in the forecasting horizon;
- Continuation in the banks' deposits and credits growth.



# The future outlook – NBRM October forecast / 3



➤ Moderate current account deficit, amid stable financing and comfortable foreign reserves.



## Closing remarks:

- Monetary policy normalization in advanced economies and tightening of the financial conditions on the international markets;
- The impact on the emerging economies will depend on several factors: structure of capital inflows, fundamentals, monetary policy room of maneuver, other macroeconomic policies, structural reforms;
- Sound fundamentals of Macedonian economy, ensuring growth potential, amid stable inflation, strong external position and continued credit growth;
- Regular monitoring of the underlying risks.