Revision of macroeconomic forecasts
- November 2020 -

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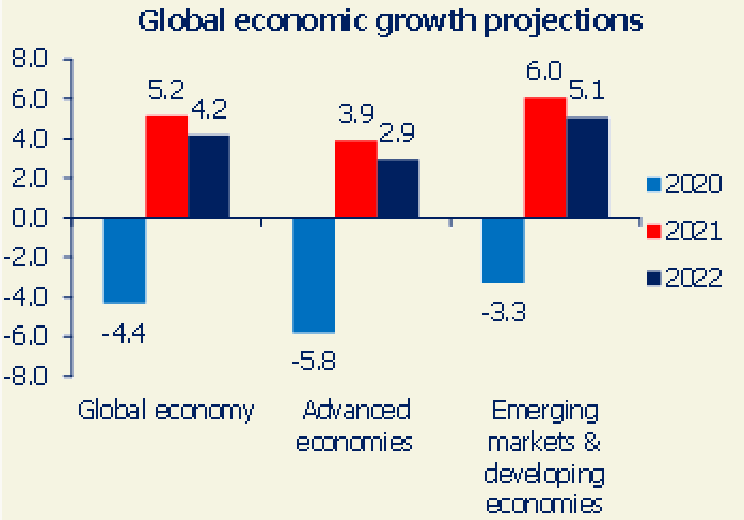
The coronavirus pandemic turned out to be more protracted than initially expected

- **The world is facing the most severe economic crisis since the Great Depression:**
  - **It is a synchronized economic crisis** that has simultaneously hit almost all economies in the world - only about 26 countries are expected to report a small positive economic growth rate
  - **It is a crisis which, unlike the great economic crisis of 2008, is not a result of weak economic fundamentals** or financial system weaknesses, but of a health crisis that swiftly spilled over into the real sector.
  - **The measures that were necessary for health protection along with the high uncertainty and gloomy expectations entailed** restricted supply and demand that caused sharp economic contraction.
  - **International financial markets also reacted to these real sector developments**, initially by significantly increasing the cost of financing and restricting the access to finance, but owing to the central banks responses (which were faster and stronger than during the global crisis) stabilization followed.
  - **Initially, it was expected that the second quarter would be hit the hardest** followed by a rapid recovery, but given the second wave of the crisis, despite the strong responses of the fiscal and monetary policy makers, it is clear that the recovery will be more gradual.
  - **A positive risk to the economic outlook would be the vaccine development earlier than initially expected,** given the intensified global efforts in this field

The IMF has made a downward revision of the global economic activity

- For 2020, it forecasts global economic contraction of 4.4%, which is stronger compared to the April estimates (3%), amid
  - more pronounced decline in developed economies compared to emerging economies
  - more pronounced adverse effect on the service sector than on the industrial sector
- **For 2021, it forecasts global economic recovery with growth of 5.2%, yet slower than in April (5.8%) and with uneen dynamics** - faster recovery in emerging countries (growth of 6%), and weaker in developed countries (growth of 3.9%)
- **Key medium-term assumptions** - longer-term effects on the potential of economies, although expected to be mitigated through further fiscal and monetary support and continuation of relatively favorable financial conditions
- **In case of a slower overcoming of the pandemic,** expectations for stronger decline this year and weaker growth next year

* Due to the high level of uncertainty in global economic conditions, the April 2020 WEO database projections are provided only through 2021.
Source: IMF, WEO database.



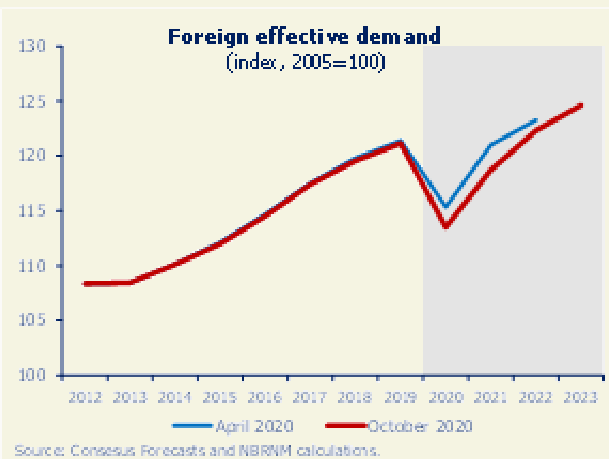
Source: IMF World Economic Outlook, October 2020.

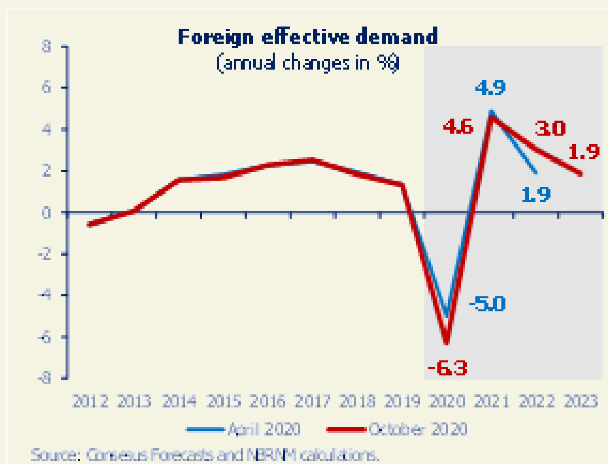
Less favorable foreign effective demand

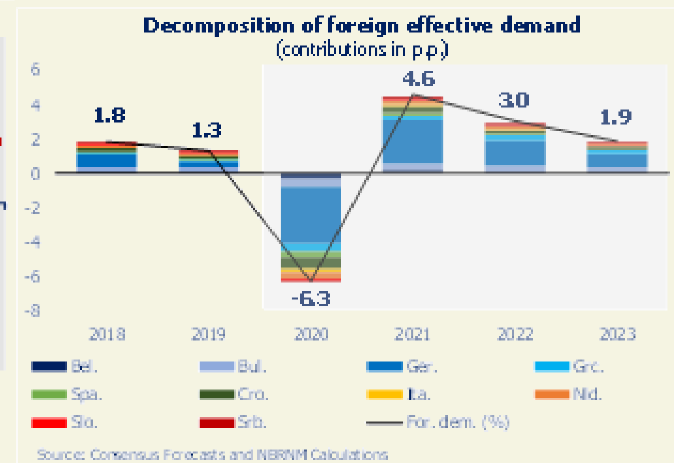
- **Foreign demand for our goods and services is expected to decrease by 6.3% this year** *(as an illustration, this is a steeper decline than in 2008)*, followed by growth in the next 2 years (4.6% and 3% in 2021 and 2022, respectively), which is a **downward correction compared to April for the entire forecast horizon**

- **Downward correction for this year reflects downward growth revision of almost all our trading partners**, with the greatest contribution of the German economy as our major trading partner

- **Risks are mainly tilted downside** (conditioned on the pandemic duration, virus management measures, and the speed of restoring confidence and stabilizing expectations)



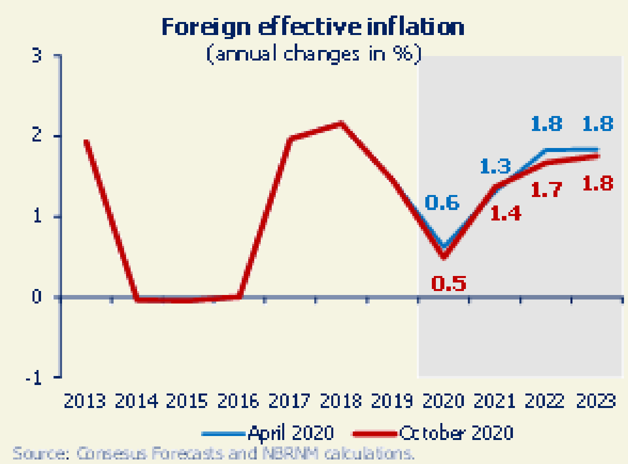


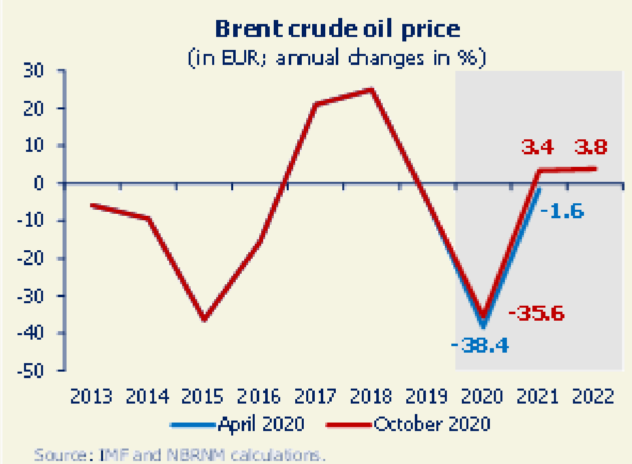


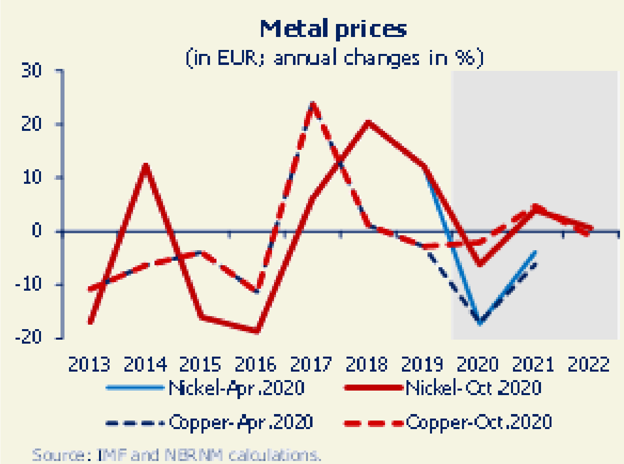
Terms of trade remain rather favorable

- **Import prices are expected to remain low:**
  - **Foreign effective inflation** is projected to grow moderately by 0.5%, 1.4% and 1.7% for 2020, 2021 and 2022, respectively), without major change compared to April
  - **Oil prices will fall sharply** - albeit at a slightly slower pace than in April, due to the extension of OPEC+ production cut agreement and weak global demand
- **Export prices would also remain low, but it is positive that metal prices** have been revised upwards

In general, this indicates the absence of greater pressures on inflation and a favorable effect on imports and exports







Forecast assumptions for the Macedonian economy

- **Overall, less favorable external environment** – weaker foreign demand this year and more moderate recovery in the next two years - slower exports recovery

- **Increased uncertainty from the domestic environment** caused by the second wave of the coronavirus, which is expected to have prolonged economic effects on consumption and private investment in the first half of next year.

- **More expansive fiscal policy this year** to protect public health and mitigate the effects of the crisis, as well as moderate fiscal consolidation in the medium term

- **Intensified public infrastructure investment cycle in the next two years**, after the slower performance this year

- **Export facilities that are part of the global production chain,** after the standstill in the second quarter, expected to resume and provide support to export and overall growth

- **Favorable financial conditions** are maintained as a result of the relaxed monetary policy

Macroeconomic scenario for 2020 - 2023

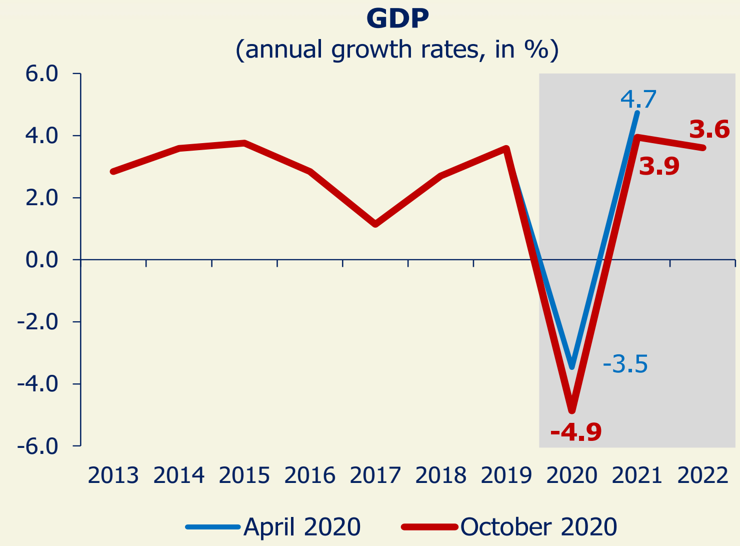
GDP forecast

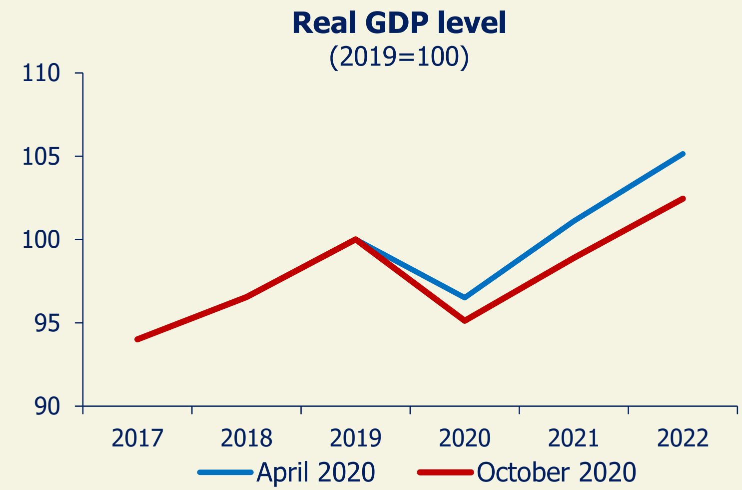
- **Given all of the assumptions, we have made a downward revision of the growth forecasts for the domestic economy over the forecast horizon.**

- **We forecast economic contraction of 4.9% for 2020 (fall of 3.5% in April)** - *weaker performance in the first half of the year and estimates for slower recovery in the second half due to the resurgence of infection rates*

- **In the medium term, we forecast a gradual yet more moderate recovery** with growth rates of 3.9%, 3.6% and 4% in 2021, 2022 and 2023, respectively...

- **Such growth trajectory implies that the economy would reach to pre-crisis levels in 2022.**





Source: State Statistical Office and NBRNM calculations.

GDP forecast

- **Decline in all GDP components in 2020, except in the public consumption:**
  - **Steepest decline in gross investment** - a fall of 12.8% amid reduced FDI, as well as weaker domestic investment by the private and public sector
  - **Fall in private consumption of about 4%** given the lower disposable income of the households, amid unfavorable shifts in labor market and smaller private transfers, as well as precautionary savings
  - Exports will decline by 11.7% due to reduced foreign demand and temporary stagnation in the global supply chains
  - Reduced private and investment demand, along with the lower exports will result in weaker import pressures - i.e. imports will decrease by about 12%
- **From 2021, recovery** with a positive contribution of all growth components given the favorable external and domestic environment and lower uncertainty that favorably affects investment and consumption decisions, supported by solid credit activity
- **Yet, risks to growth remain largely downward**

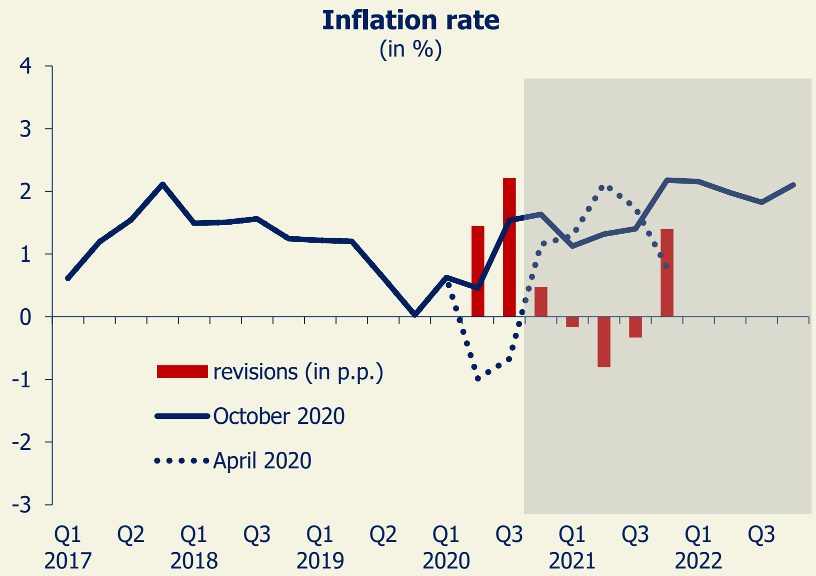
	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
	%	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	*contrib. in p.p.* ***(Oct.20)***	
2020	**-4.9**	-4.3	*-3.3*	-12.8	*-4.2*	-11.7	*-8.3*	-11.9	*10.6*	2.2	*0.3*	*-7.2*	*2.3*
2021	**3.9**	3.4	*2.5*	8.1	*2.4*	4.1	*2.6*	4.5	*-3.7*	0.8	*0.1*	*5.0*	*-1.1*
2022	**3.6**	3.3	*2.3*	9.1	*2.7*	6.1	*3.9*	5.7	*-4.8*	-3.8	*-0.6*	*4.5*	*-0.9*
2021-2022	**3.8**	**3.3**	***2.4***	**8.6**	***2.5***	**5.1**	***3.3***	**5.1**	***-4.3***	**-1.5**	***-0.2***	***4.8***	***-1.0***

Inflation forecast

- **The gradual economic recovery is not expected to create greater pressures from demand** on inflation and therefore we expect inflation to remain moderate in the medium term.

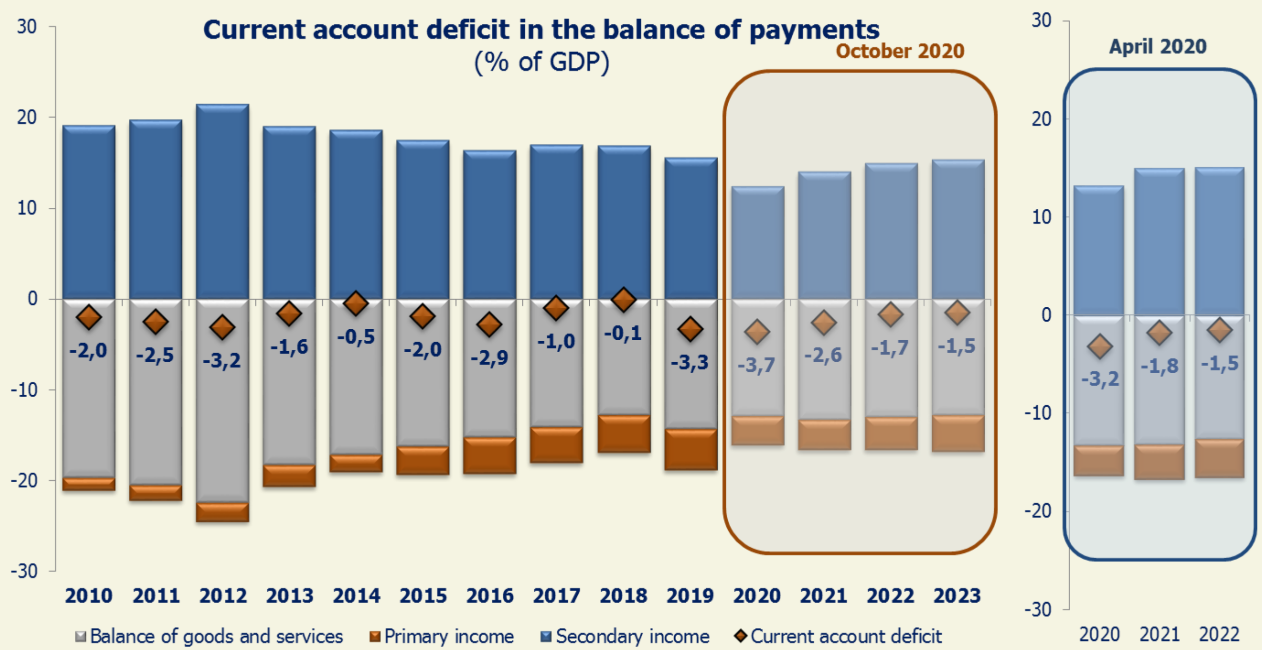
- **Thus, for 2020,** given the over – performance for the ten months of this year (1%), we have made a moderate upward revision from 0% to 1.1%, and for the next two years, we have kept the same forecasts of 1.5% and 2%, respectively

- Forecast inflation **risks** mainly reflect uncertainty about import food and energy prices (significant share in the consumption basket), as well as possible pandemic-related supply constraints.



Balance of payments
- current account -

- **After the moderate current account deficit in recent years (average 2% of GDP), expected current account widening to of 3.7% of GDP for this year** - slightly higher than the April expectations for a deficit of 3.2% of GDP
  - **private transfers** reduction (lower supply, especially due to lower informal remittances, as opposed to higher remittances sent via official channels)
  - slightly higher **trade deficit** (higher non-energy deficit, and lower energy balance)
  - higher surplus in **services** (more pronounced downward adjustment in imports compared to downward adjustment in export of services)
- **In the medium term, we expect gradual narrowing of the current account deficit:** 2.6% of GDP in 2021 (1.8% in April) and an average deficit of 1.6% of GDP in the next two years

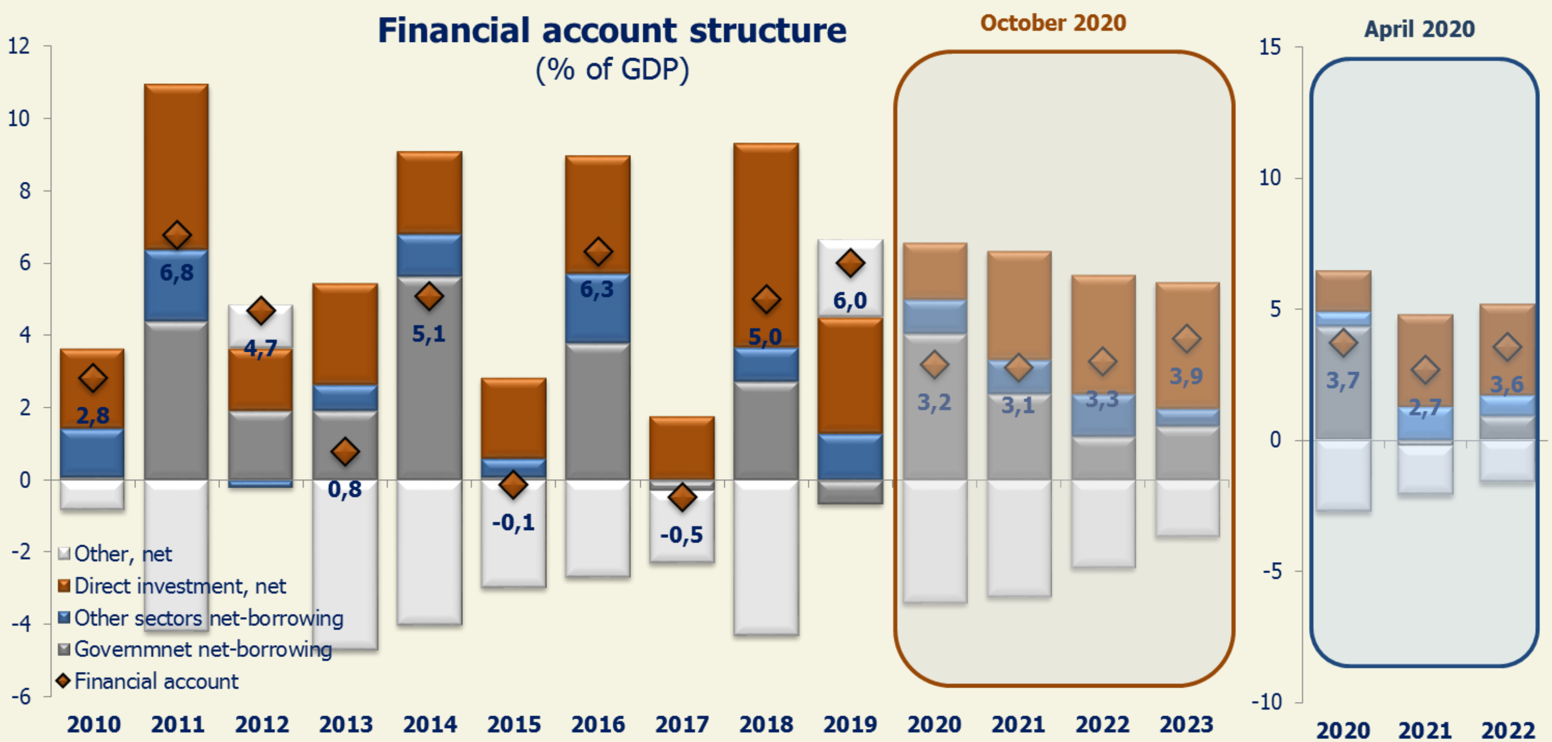


Balance of payments
- financial account -

- **Net inflows in the financial account in 2020-2021 averaged about 3.1% of GDP** (similar to April), while the main financial flows will be FDI and government and private borrowing

- **These financial inflows are expected to be sufficient to finance the current account deficit and to further enable growth of foreign reserves in the medium term.**

- Over the forecast horizon, **foreign reserves adequacy indicators** (coverage of the forecasted import of goods and services, the debt etc.) are in the safe zone



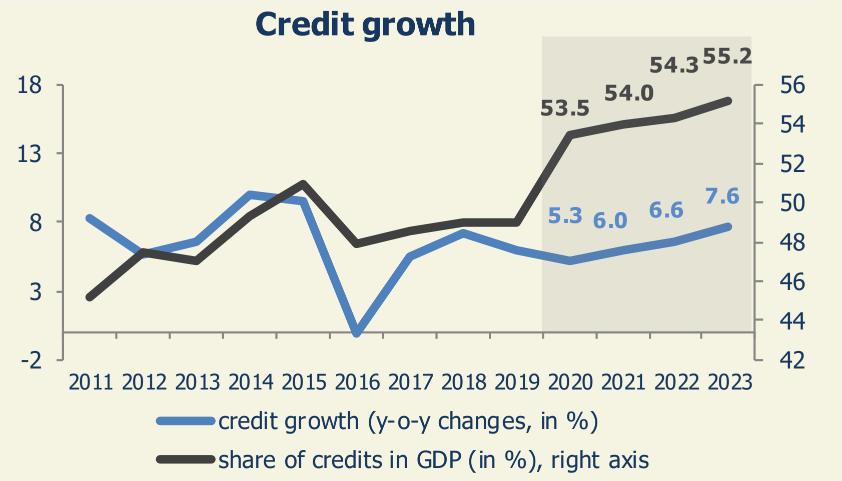
Deposit and credit growth

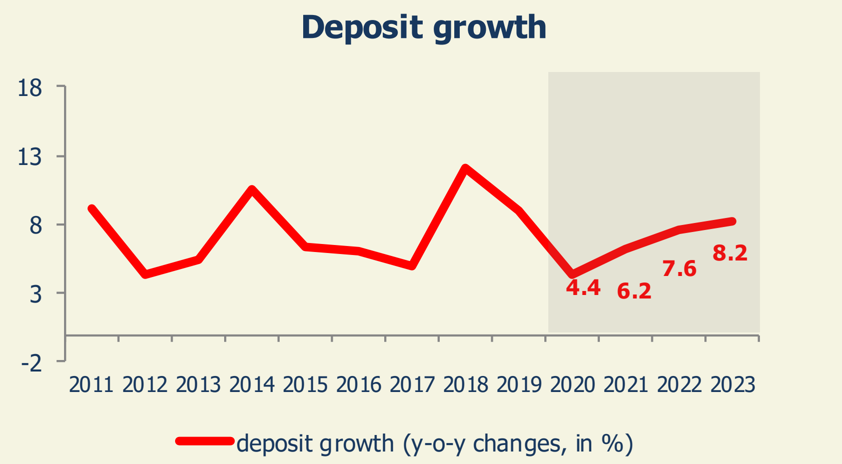
- **The performance so far has indicated solid deposit and credit growth that exceeds the April expectations -** annual growth at the end of Q3 of 5.4% and 7.3%, respectively

- **The solid growth of the deposit base is a result of multiple factors**, including the economic measures to address any consequences of the health crisis, which provided additional access to funding for the corporate and household sector, as well as greater restraint from spending/investing in conditions of uncertainty.

- **Solid credit growth** is a result of the solid deposit growth as a dominant source of funding, relaxed monetary policy, regulatory changes and loan restructuring, as well as the favorable loans from the Development Bank.

- **Given the better performance, we make an upward revision for 2020 - annual deposit growth of 4.4% and credit growth of 5.3%,** followed by gradual acceleration so that the growth would reach about 8%,





Summary

- **The latest forecast for the period 2020-2023 indicate protracted impact of the pandemic, as opposed to the April estimates for shorter health crisis.**
- **In this regard, the domestic economy forecasts** indicate grater decline this year and moderate recovery dynamics.
- **In order to mitigate the adverse effects on the real sector, and amid solid foreign reserves and low inflation, the National Bank has taken multiple measures:**
  - **Policy rate cut of 0.75 percentage points.**
  - **Release of additional liquidity by reducing the amount of CB bills**
  - **Introduction of unconventional measure to reduce banks' reserve requirement for the amount of newly approved loans to the affected sectors**
  - **Facilitation of the regulatory framework in order to prolong borrower repayments.**
- **The measures taken have contributed to maintaining favorable financial conditions and solid credit activity**
- **Risks to the forecasts remain** downward and almost entirely pandemic-based, although faster progress in vaccine development is a positive factor.
- **In the period ahead, the National Bank will closely monitor the trends** and changes in the domestic and external environment for the purposes of adequate monetary policy adjustment

THANK YOU FOR THE ATTENTION!