Revision of macroeconomic forecasts - November 2021 -

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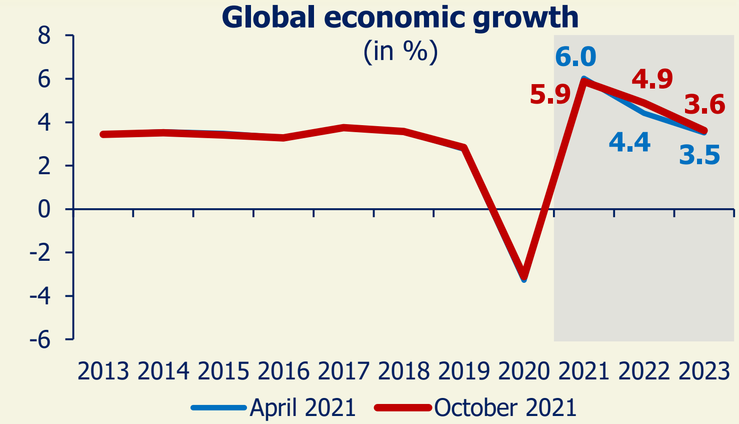
The global economy is recovering, yet uncertainty remains

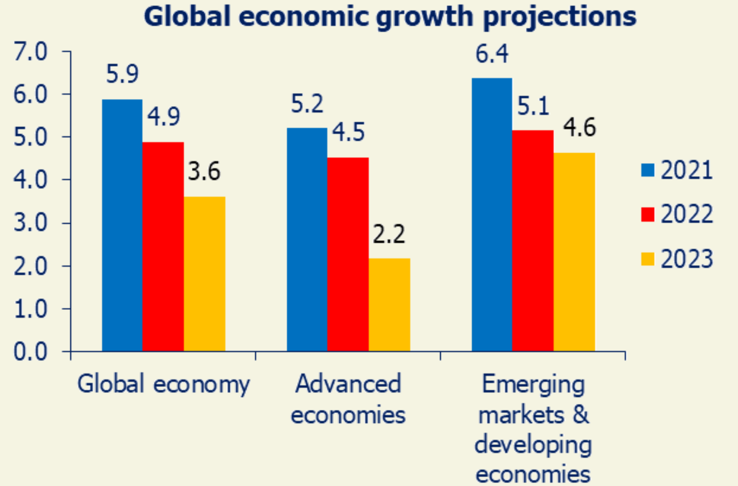
- **For the second year in a row, macroeconomic forecasts are done amid pandemic and global uncertainty:**
  - **The health crisis has led to a synchronized economic crisis** that simultaneously affected all economies in the world with unprecedented intensity – last year the global GDP fell by 3.1% (in 2009, the decline was 0.1%), and only 32 economies in the world reported a growth;
  - **However, the shock intensity varied among economies** depending on the structure of economies, the pre-crisis fundamentals, as well as the strength and effectiveness of the measures taken by policymakers;
  - Owing to the strong monetary and fiscal support IMF estimates that this crisis (compared to 2008/09) **will not lead to significant economic scarring** and will enable a relatively faster recovery;
  - In fact, **last year the decline in global GDP was weaker than originally expected** (3.1% instead of 4.4% in October 2020), and this year, the global economy is already recovering at solid growth rates of around 6%;
  - **However, with the emergence of new, more contagious and more severe variants of the virus**, at relatively low immunization rate, especially in less developed economies, the downside risks to the global growth path become more pronounced.

The latest IMF forecasts still point to a solid recovery of the global economy, but with uncertainty in place

- **Global growth of 5.9% is forecasted for 2021,** slightly lower than the April forecast of 6%. The downward correction is primarily made for advanced economies mostly due to the protracted adverse effects from supply chain disruptions.
- **For 2022 and 2023 forecasts are revised upwards -4.9% and 3.6%, respectively** (4.4% and 3.5% in April).
- **Uneven recovery dynamics is still expected** - faster in the emerging countries (average growth of 5.4%), and weaker in the advanced countries (average growth of 4%)
- It is estimated that the solid demand recovery dynamics on the one hand, and supply chain disruptions on the other hand will lead to **higher global inflation** (2.8% in the advanced and 5.5% in the less developed economies).
- **Main downward risks for such global scenario:**
  - **slower vaccination rate;**
  - emergence of **new more contagious variants;**
  - more pronounced and protracted **supply chain disruptions**;
  - significant tightening of **international financial conditions.**



Source: IMF, WEO database.

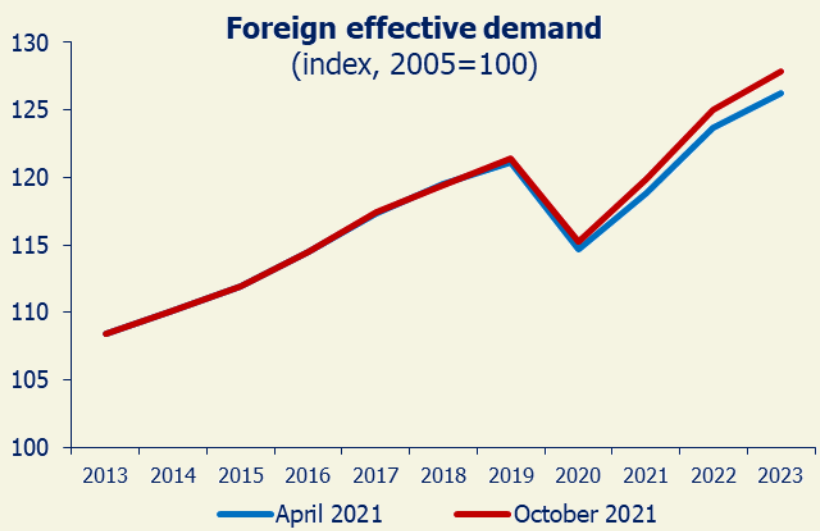


Source: IMF World Economic Outlook, October 2021.

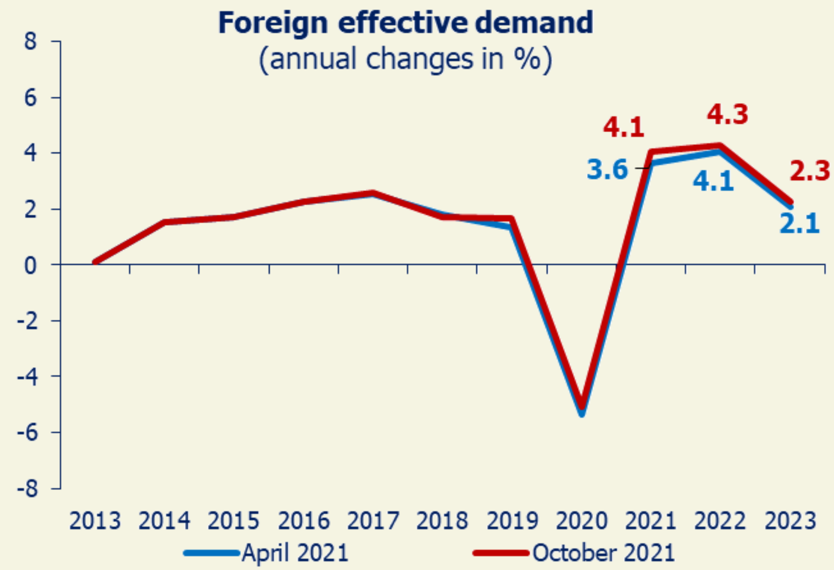
What does this global environment imply for the foreign demand for our goods and services?

- **After the fall of foreign demand of around 5% last year (similar decline as in the crisis year 2009), recovery is expected** with growth of about 4% this and next year. This is a moderate upward revision compared to April projections.

- **The upward revision in 2021 reflects the expectations for higher economic growth in almost all our major trading partners,** mostly Italy, Serbia, Greece and Bulgaria, while for 2022 it is largely due to the expectations for greater economic activity in Germany (growth of 4.4% instead of 3.9% as forecast in April).



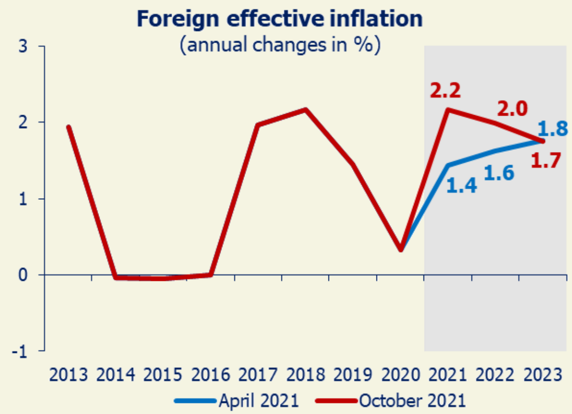
Source: Consesus Forecasts and NBRNM calculations.



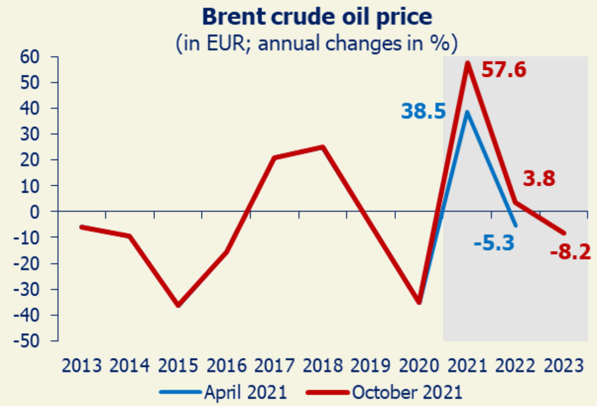
Source: Consesus Forecasts and NBRNM calculations.

What does this global environment imply for our import and export prices?

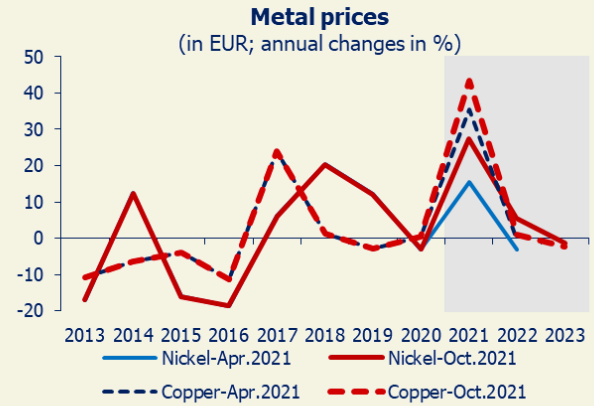
- The recovery of the global economic activity amid restrictions on the supply side causes **higher price growth** especially of primary commodities:
  - **Average imported inflation** would be moderately higher to about 2.2% this year and then about 2%.
  - After the sharp decline of **oil price** last year, this year it is expected to rise, and to stabilize from next year.
  - Similar price dynamics is expected for **other energy sources, food and metals.**
  - ***This generally points to moderately higher pressures on inflation and imports this year, and their gradual stabilization from next year, as well as favorable export prices (metal industry).***



Source: Consesus Forecasts and NBRNM calculations.



Source: IMF and NBRNM calculations.



Source: IMF and NBRNM calculations.

Key forecast assumptions for the Macedonian economy

- **Solid growth of foreign demand,** with positive effects on export recovery which will have multiplier effects on several segments of our economy, but also import pressures for this year and the next.
- **Favorable financial conditions in international markets** as a reflection of the accommodative monetary policy of the central banks of developed economies.
- **The Fiscal Strategy of the Ministry of Finance (2022 - 2024) envisages gradual fiscal consolidation in the medium term,** by reducing budget deficit below 3% in 2024.
- **Gradual strengthening of the investment cycle supported by private and public investments**, amid stable environment and lower restraint of domestic and foreign investors.
- **Gradual stabilization of the situation in the energy sector** in the forecast horizon.

Macroeconomic scenario for 2021 - 2024

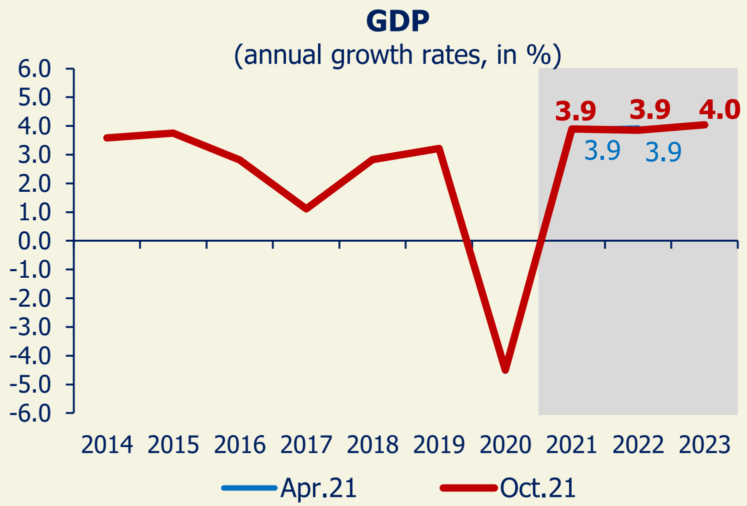
GDP forecast

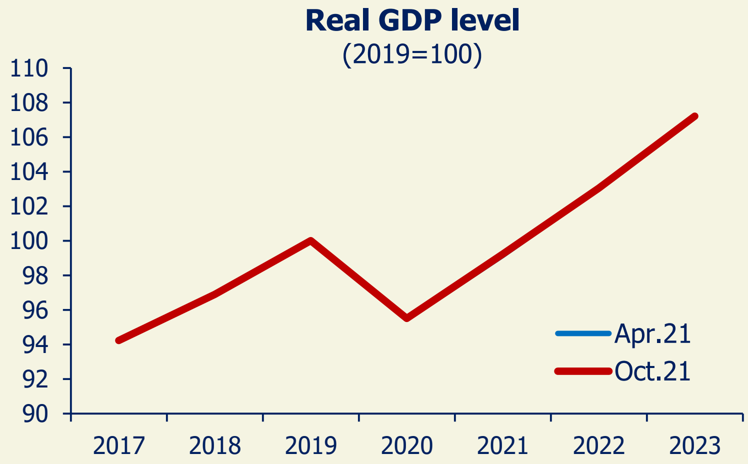
- After the GDP fall of 4.5% last year, in 2021 we forecast economic recovery and solid growth of **3.9%**, same as the April forecast.

- In fact, the **performance so far** is in line with the April forecasts i.e. growth of 5.2% in the first half of the year (forecast of 5.4%).

- **In the medium term,** forecasts for further recovery at growth rates of about 4%.

- **This growth pace** means that the pre-pandemic GDP level will be reached next year.





Source: State Statistical Office and NBRNM calculations.

GDP forecast

- **Analyzing the growth structure,** same as in the April forecasts, domestic demand will have positive contribution, while net export is expected to have a negative contribution:
  - **Personal consumption** - after the decline of 5.4% last year, solid growth of **7%** is forecasted for this year and further moderate growth in the medium term amid more stable expectations, growth of disposable income as a result of recovery of labor market and private transfers, as well as further solid credit support for households.
  - **Investments** - after the plunge of 10% last year, growth of **7.3%** is expected in 2021 and growth of about 10% in the medium term, amid expected FDIs as well as domestic private and public investments and solid corporate lending.
  - **In terms of export,** after the decline of 11% last year, it is expected to recover in 2021 by 11%, and by an average of 6.8% in the medium term given the recovery and growth of foreign demand, gradual recovery of exports of domestic companies with foreign capital and a positive contribution from the traditional export sector, amid favorable price conjuncture in foreign markets.
  - The growth of exports and domestic demand (which have a large import component) will **enhance imports** of about 9% on average in 2021-2023, so that net exports will have a negative contribution.
- **Growth risks are predominantly downward and related to the course of the pandemic and global supply chain disruptions.**
- **The alternative scenario**, which assumes lower foreign demand and greater restraint from consumption and investment of domestic entities, will lead to lower growth by an average of 1.2 percentage points for the period 2022 - 2023.
- **Positive risk are the possible effects of the Growth Acceleration Plan 2022-2026, which is not incorporated in the forecasts.**

	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.21)***	
2021	**3.9**	7.0	*5.4*	7.3	*2.6*	11.4	*7.4*	13.7	*-11.4*	-1.1	*-0.1*	*7.9*	*-4.0*
2022	**3.9**	3.5	*2.4*	12.6	*4.3*	3.9	*2.5*	5.2	*-5.1*	-2.0	*-0.3*	*6.4*	*-2.6*
2023	**4.0**	3.6	*2.6*	8.2	*3.1*	9.7	*6.5*	8.7	*-8.2*	0.5	*0.1*	*5.8*	*-1.7*
2021-2023	**3.9**	**4.7**	***3.5***	**9.3**	***3.3***	**8.3**	***5.5***	**9.2**	***-8.2***	**-0.9**	***-0.1***	***6.7***	***-2.8***

Inflation forecast

- It is not expected that this growth dynamics (reaching pre-crisis level next year) will create significant pressures from the demand side on prices.

- However, there is a **upward inflation revision** as a result of supply-side factors that are mainly global - rising world commodity prices and disruption of global supply chains.

- For this year, we forecast a **moderate inflation** of **3.1%** (2.2% in the April forecast).

- For the next year, we forecast a deceleration of the inflation rate to 2.4%, and then its maintenance at around the historical average of about 2%, similar to the expectations of the international financial institutions.

- **Inflation risks** are mainly associated with the uncertainty about the world prices of primary commodities (especially energy) and prolonged supply chains disruptions. However, we have to be also vigilant for the domestic factors such as wage increases and their effect on consumption, and inflationary expectations.

Comparison of GDP and inflation forecasts for our country

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

GDP

Organisation	Month of publication	2021	2022	2023	Month of publication	2021	2022	2023	difference in projections 2021	difference in projections 2022
IMF	October 2021	4.0	4.2	3.8	April 2021	3.8	4.0	3.7	0.2	0.2
World Bank	October 2021	4.6	3.7	3.4	April 2022	3.6	3.5	3.4	1.0	0.2
European Commission	November 2021	4.0	3.9	3.7	May 2021	3.7	3.8	-	0.3	0.1
EBRD	November 2021	4.0	4.0	-	June 2021	4.0	4.0	-	0.0	0.0
Fitch	November 2021	4.1	4.3	3.9	May 2021	3.9	4.3	3.5	0.2	0.0
Standard & Poor's	August 2021	3.7	3.7	3.4	February 2021	3.6	3.5	3.3	0.1	0.2
Consensus Forecast	October 2021	4.0	4.1	-	April 2021	4.0	3.9	-	0.0	0.2
Ministry of Finance	October 2021	4.1	4.6	5.2	May 2021	4.1	4.6	5.2	0.0	0.0
National Bank of the Republic of North Macedonia	October 2021	3.9	3.9	4.0	April 2021	3.9	3.9	4.0	0.0	0.0

Inflation

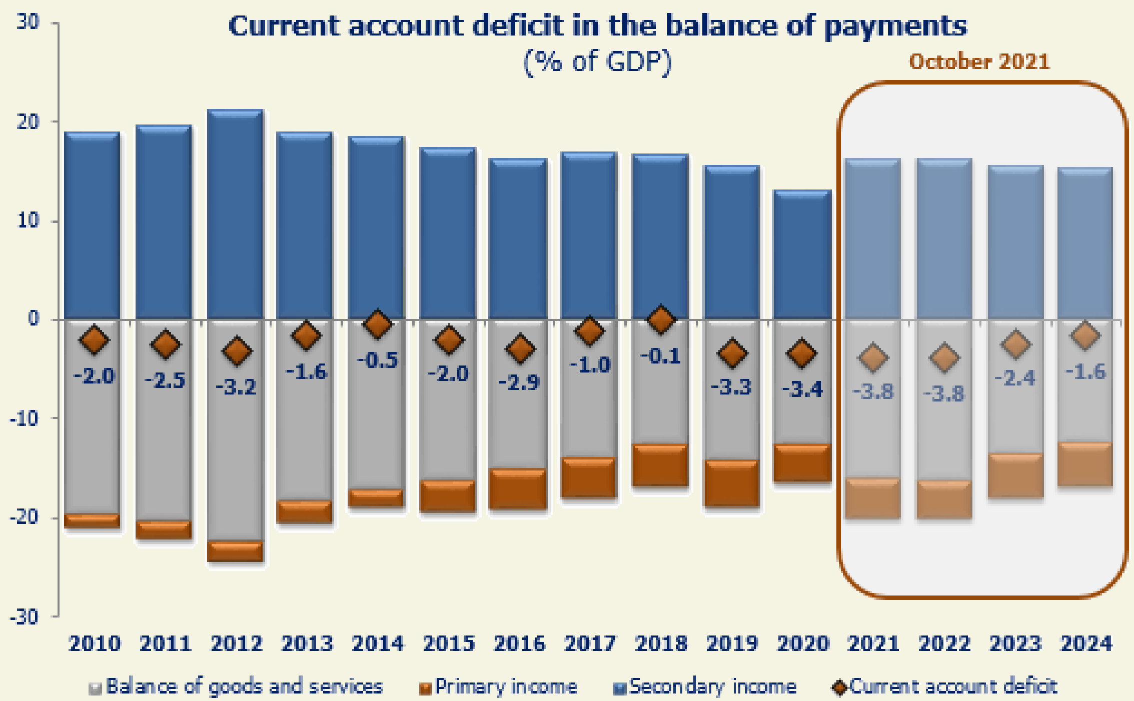
Organisation	Month of publication	2021	2022	2023	Month of publication	2021	2022	2023	difference in projections 2021	difference in projections 2022
IMF	October 2021	3.1	2.2	1.5	April 2021	2.0	1.5	1.6	1.1	0.7
World Bank	October 2021	2.4	2.0	1.8	April 2022	1.6	2.0	2.0	0.8	0.0
European Commission	November 2021	3.3	2.1	1.8	May 2021	1.7	1.7	-	1.6	0.4
EBRD	November 2021	-	-	-	June 2021	-	-	-	-	-
Fitch	November 2021	3.0	2.4	1.8	May 2021	1.9	1.6	-	1.1	0.8
Standard & Poor's	August 2021	2.2	2.1	2.0	February 2021	1.5	1.5	1.7	0.7	0.6
Consensus Forecast	October 2021	2.3	2.0	-	April 2021	1.7	2.0	-	0.6	0.0
Ministry of Finance	October 2021	3.0	2.4	2.0	May 2021	2.1	1.8	2.0	0.9	0.6
National Bank of the Republic of North Macedonia	October 2021	3.1	2.4	2.0	April 2021	2.2	2.0	2.0	0.9	0.4

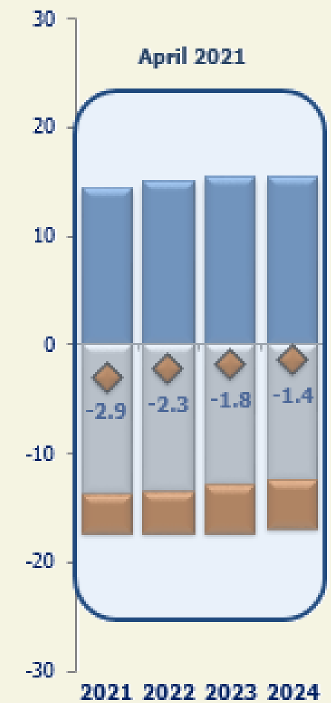
Source: IMF, World Economic Outlook, October 2021; World Bank, Western Balkans Regular Economic Report, Fall 2021; European Commission European Economic Forecast, Autumn 2021; EBRD Regional Economic Prospects, November 2021; Fitch Ratings, November 2021, Standard&Poor's Ratings, August 2021; Consensus Forecast, October 2021; Ministry of Finance, Draft Budget for 2022, October 2021 and Fiscal Strategy 2022-2024, May 2021 ; and the National Bank of the Republic of North Macedonia, October 2021.

Balance of payments
- current account -

- **The current account deficit is still expected to remain moderate,** although at a slightly higher level than last year (3.8% of GDP), and around 2% of GDP in the medium term, similar to the pre-crisis level.

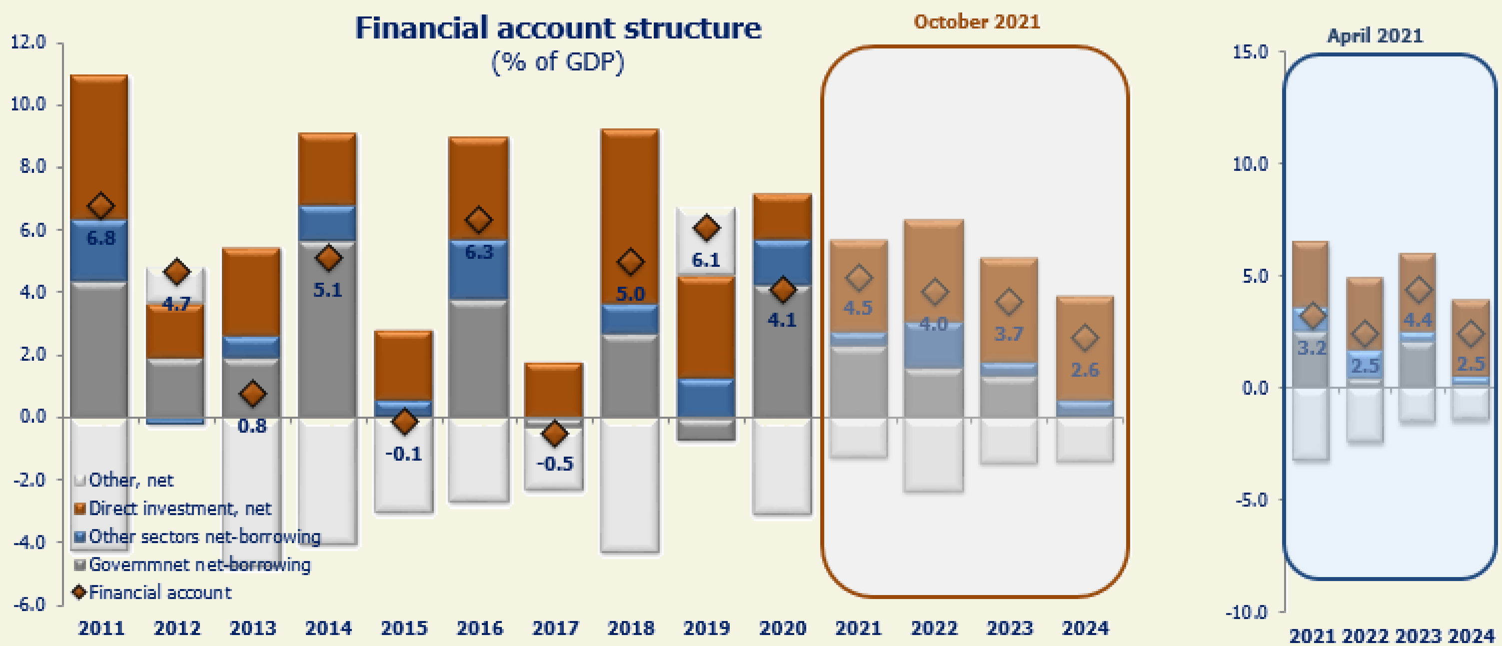
- **The widening deficit primarily reflects the higher trade deficit** given the rising world food and energy prices, a temporary disruption in supply chains that slows exports, and a gradual recovery in domestic demand. These effects are largely offset by faster recovery of **private transfers** as well as improved net export of **services**.





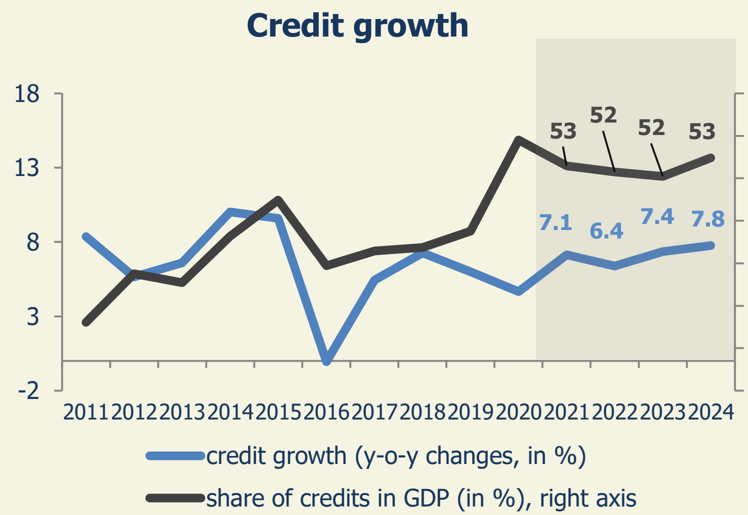
Balance of payments
- financial account -

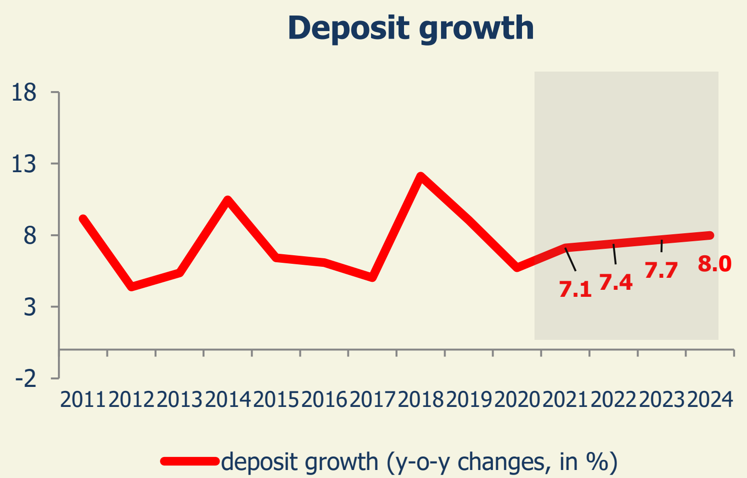
- **The current account deficit, as in the pre-crisis period, will be fully financed by financial account inflows**, which will be about 4.5% of GDP (3.2% of GDP in April), mainly in the form of foreign direct investments and external government borrowing.
- **In the medium term, financial inflows are expected to be about 3.4% of GDP** (3.1% of GDP in April).
- Given that the financial inflows will exceed the current account deficit, they will further **increase foreign reserves in the medium term.**
- Hence, during the entire forecast horizon, **the foreign reserves adequacy ratios are in the safe zone.**



Deposit and credit growth

- In the first three quarters of this year, **the banking system continued providing solid credit support** that helped mitigate the crisis effects.
- This was a result of the capacity built in the pre-crisis period and the accommodative monetary policy.
- We expect further solid support from banks to companies and households, and forecast growth of 7.1% for this year, with gradual acceleration in the medium term, to about 8% (similar to April).
- **Credit growth will continue to be supported by the solid deposit growth** as the main source of financing.
- According to the estimates for gradual stabilization of the environment and economic recovery as well as further propensity to save in banks, an annual deposit growth of 7.1% for this year and moderate acceleration is expected, which would average about **8%** in the medium term (similar to April).





Summary

- In line with the recovery of our trading partners, and in the absence of major domestic containment measures, **this year we expect our economy to recover at a growth rate of 3.9%** and to moderately accelerate in the medium term (same as in the April estimates);
- The economic recovery will be supported by the **solid credit activity of the banking sector**;
- Amid rising world prices of primary commodities, and significant import dependence of our economy, we **revised the inflation forecast moderately upward** and in the medium term we expect it to hover around the historical average of 2%;
- Higher import prices of primary commodities will slightly increase the current account deficit, which will be fully financed through financial account inflows, so that **foreign reserves will continue to grow and be maintained at the adequate level**.
- **Risks to the forecasts** are assessed as mostly downwards and are almost entirely associated with the pandemic, the disruptions in the supply chains and current energy crisis.
- **The National Bank continuously pursues an accommodative monetary policy**, keeping the policy rate at a historic low.
- **In the period ahead, the National Bank will closely monitor the developments** and changes in the domestic and external environment and adequately adjust monetary policy.

THANK YOU FOR THE ATTENTION!