Revision of macroeconomic forecasts – May 2024 –

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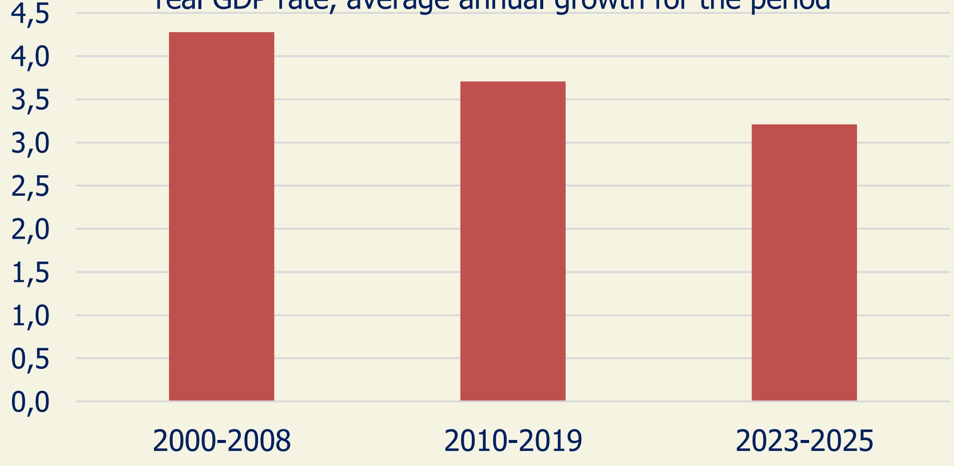
The effects of global shocks were also felt last year

Global trends point to a certain stabilization and resilience in 2023, but the effects of the shocks are still visible in several segments:

- **Global economic growth,** while slightly better than forecasts, kept on slowing down to 3.2%, which is below historical rates in the pre-pandemic period
- Global inflation, after historically high levels in 2022, slowed down significantly last year to **6.8%** on average (to 8.3% in less developed economies), but still remains above the historical average in most economies
- **Risks to financial stability increased**, as seen in the failure of several US banks; however, the rapid regulator’s response prevented any major spillovers on a wider scale, including Europe
- **Geopolitical risks and reduction of trade and financial flows have increased**, as seen through the growing number of trade barriers - 3000 new barriers which is three times more compared to 2019

Global GDP

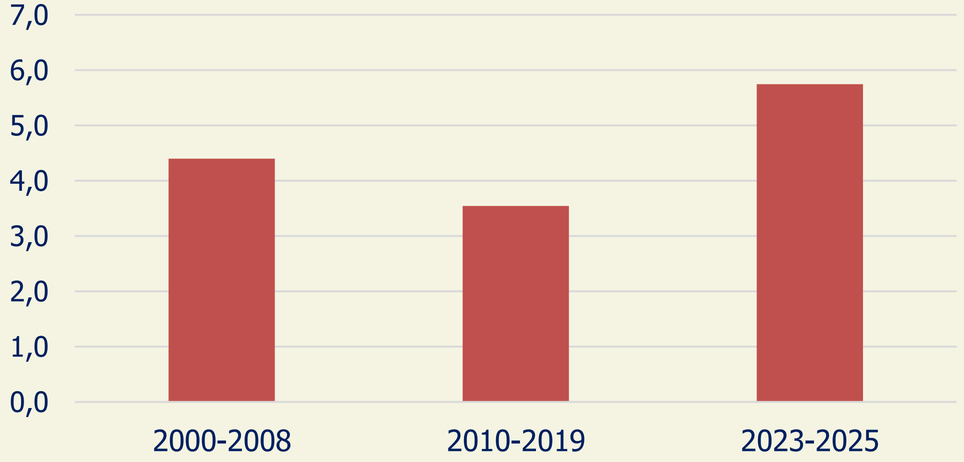
real GDP rate, average annual growth for the period



Source: IMF, World Economic Outlook, April 2024

Global inflation

average growth for the period



According to IMF forecasts, the consequences will be felt in the medium term as well

- **Global growth is estimated at 3.2% for the next two years (same as last year),** with a slight acceleration in developed economies, and a slight slowdown in less developed ones. Relative to the October forecasts, this is a minor upward revision for 2024 (0.3 pp)

- **The forecasted growth is going to be weaker than the historical average** in the decade before the pandemic (3.8%)

- **Global inflation is expected to decelerate further**, falling down to 5.9% in 2024 and 4.5% in 2025, similar to October, with estimates for return to the pre-pandemic average in the next year for developed countries, and a year later for less developed economies

- **Risks to global economic growth and inflation are assessed as balanced.**

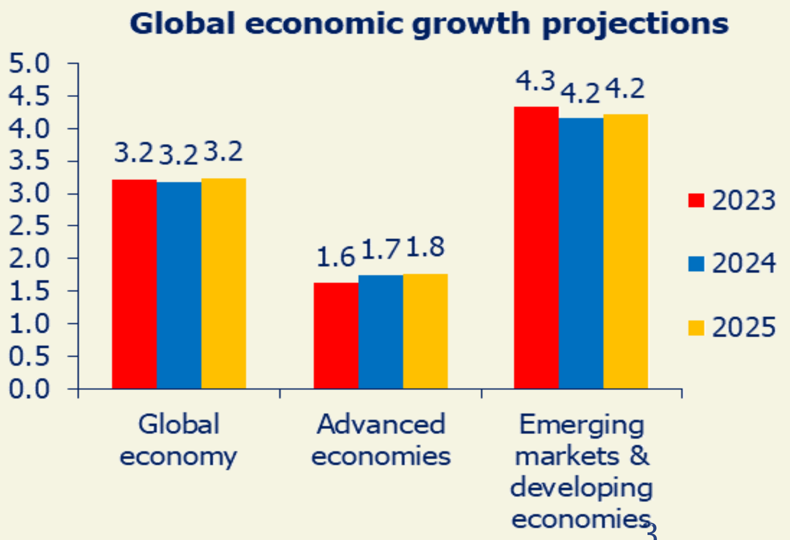
Downside risks to growth:

- Potential new price shock amidst geopolitical tensions;
- Weaker deceleration of core inflation and lingering tight financial conditions;
- Weaker growth of Chinese economy, the second largest in the world;
- Stronger fiscal consolidation;
- More trade restrictions and stronger geo-economic fragmentation

Positive risks to growth:

- Slower fiscal consolidation;
- Faster slowdown of core inflation and stronger monetary policy loosening;
- Increased productivity by applying artificial intelligence

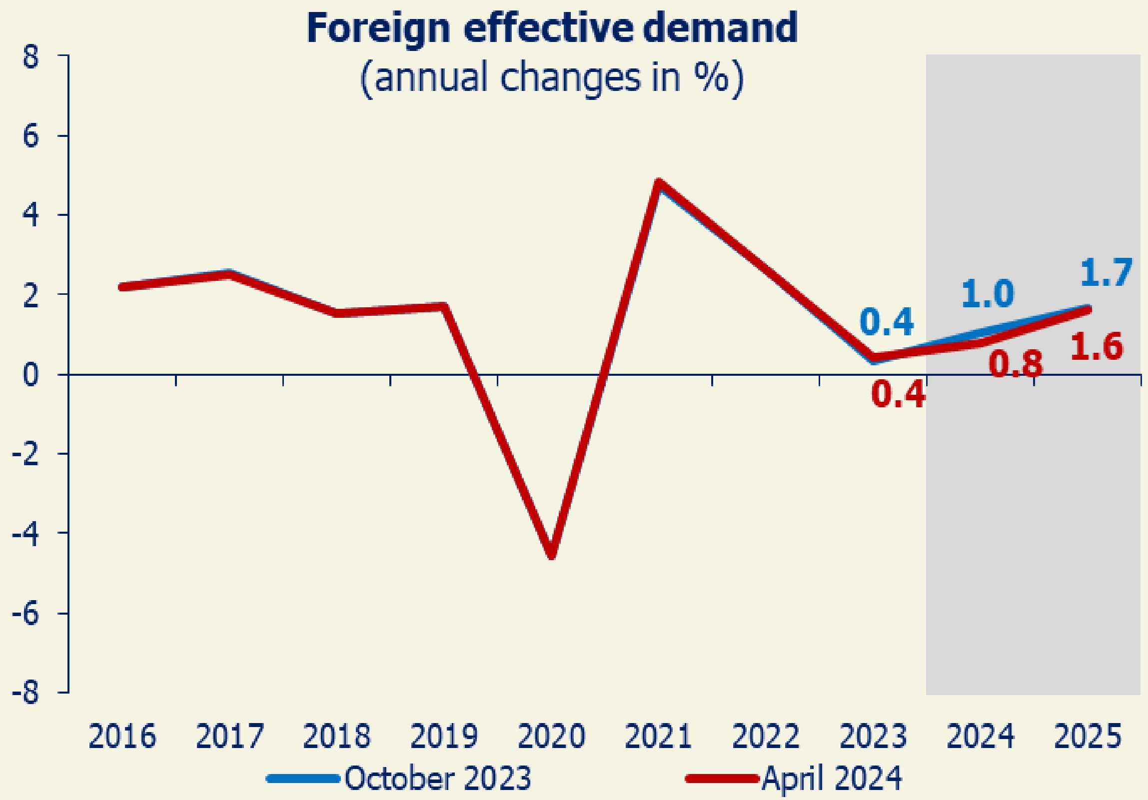
Source: IMF, WEO database.



Source: IMF World Economic Outlook, April 2024.

What does this global environment mean for the export demand of our products and services?

- **Expectations for further recovery of foreign demand**, with growth estimates of 0.8% in 2024 and 1.6% in 2025, slightly weaker compared to October (1% and 1.7% in 2024 and 2025, respectively)
- The downward revision mainly reflects the weaker performance in the EU, particularly the **German economy**

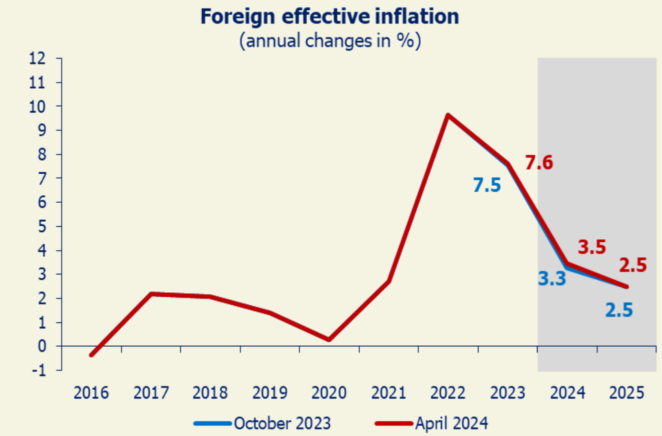


Source: Consesus Forecasts and NBRNM calculations.

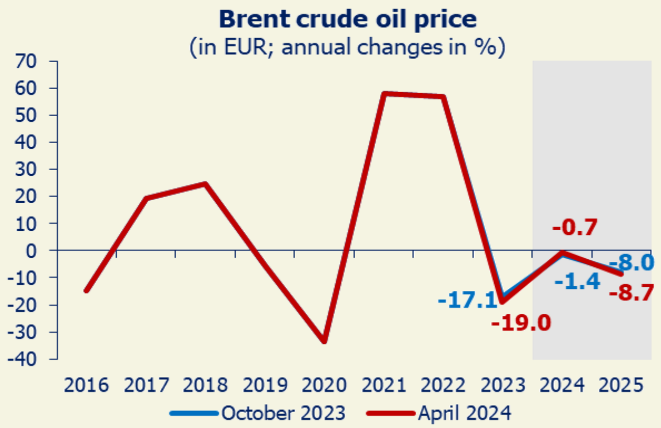
What does such global environment mean for our import and export prices?

- After the significant growth in 2021-2022, commodity prices fell down sharply last year, **with the market participants and IFIs forecasting a further price fall this year and stabilization in 2025**

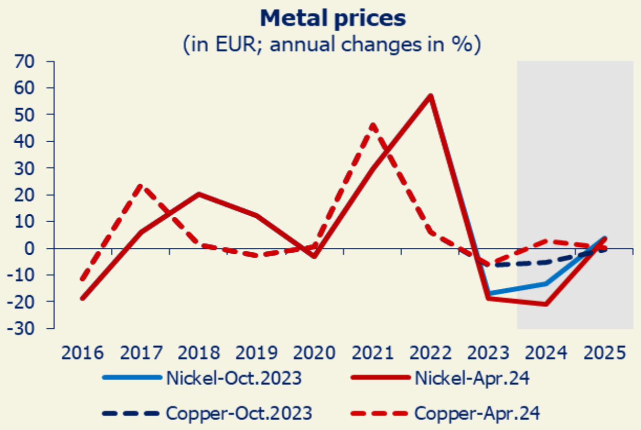
- **Compared to the October forecasts:**
  - Expectations for a sharper drop of **energy and food** prices this year and lower levels.
  - **Imported inflation has been slightly revised upward for the current year, and remains unchanged for the next year,** with expectations for a slowdown to 3.5% (3.3% in October) this year and 2.5% next year.
  - Mostly stronger decline in **metals** is expected for 2024, and slightly better movements next year
  - ***Overall, compared to the October forecasts, this points to moderately more favorable terms of trade (food and energy), yet uncertainty remains.***



Source: Consesus Forecasts and NBRNM calculations.



Source: IMF and NBRNM calculations.



Source: IMF and NBRNM calculations.

Key assumptions of the macroeconomic forecasts for Macedonian economy

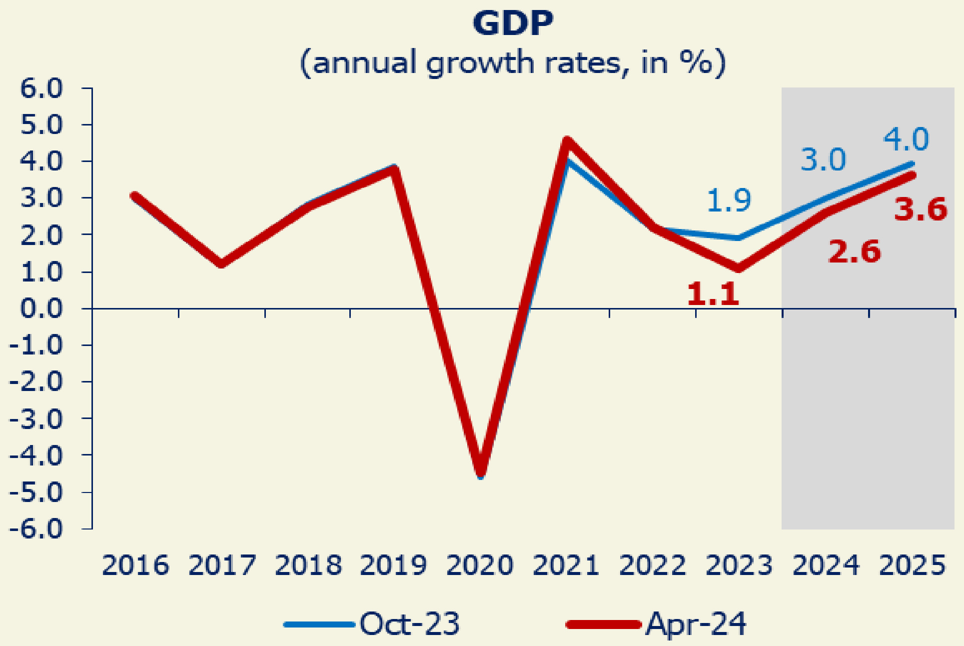
- **The global economy and foreign demand** will continue to recover, but the external context remains uncertain, with risks to economic growth and inflation
- **Prices of commodities** will continue to decrease this year, and expect to stabilize next year
- Given the inflation slowdown, central banks in developed economies will embark on monetary easing this year, and therewith, easing of global financial conditions.
- **Fiscal consolidation will continue in the medium term**, relying on both domestic and external sources of financing of the budget deficit
- **Public infrastructure investments will accelerate**, especially from the second half of 2024
- **Solid inflows of foreign direct investment**
- **Solid growth of disposable income**, as supported by the stronger real wage bill growth, amidst tight labor market conditions

Medium-term macroeconomic forecast

2024 - 2026

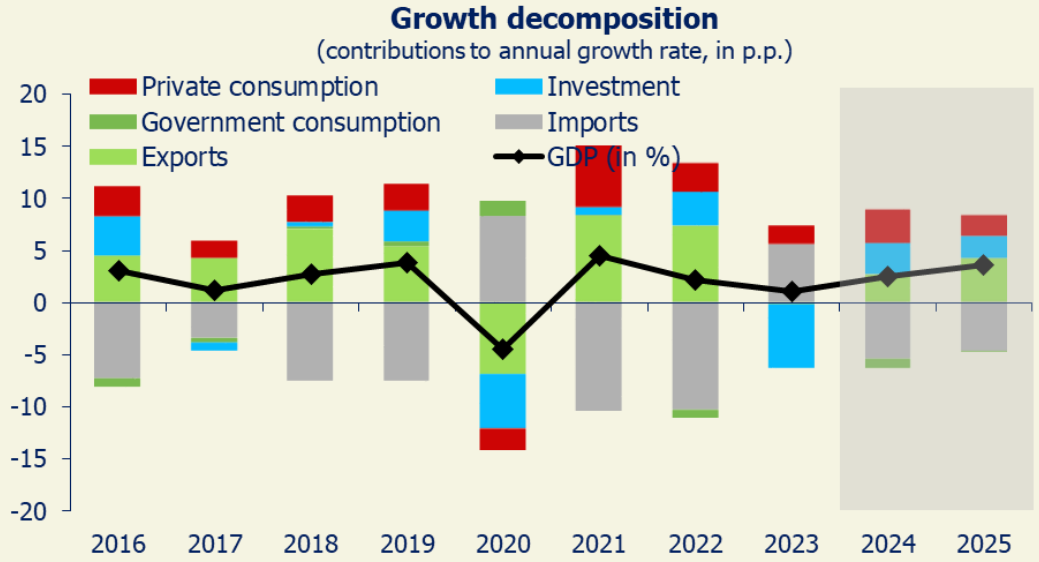
GDP forecast

- Economic growth of **2.6%** is forecasted for this year, and **3.6%** for the next year
- This means a **downward correction compared to the October** forecasts, as a reflection of: weaker growth last year (16.7% decline in investments compared to projected growth), weaker indicators for the first quarter of this year, a downward revision of growth for our major trading partners and slower implementation of the announced public infrastructure projects
- **In the medium term**, in accordance with the expected more favorable global environment (higher foreign demand growth) and the acceleration of construction activities in infrastructure, a gradual acceleration of growth is expected. However, global uncertainty and risks are still enduring



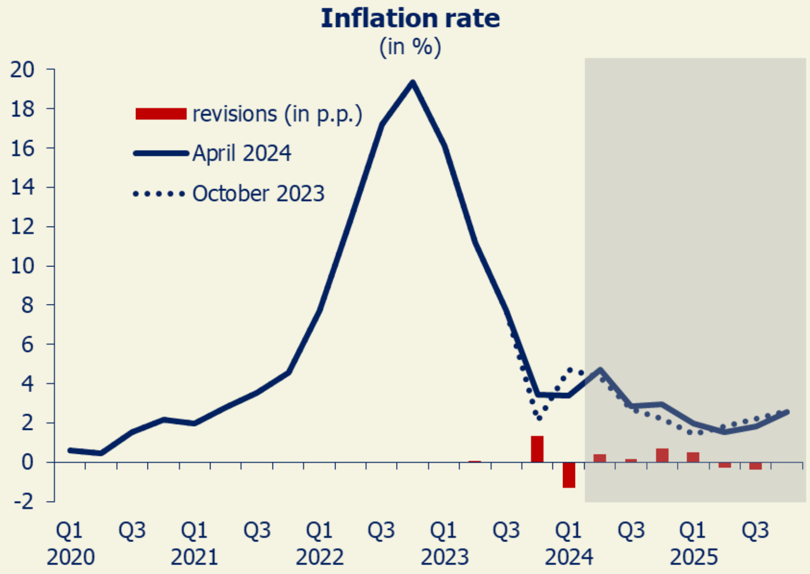
GDP forecast for 2024– 2025

- **Regarding the growth structure,** in 2024 and 2025, it will be driven by the domestic demand, with a negative contribution of net-exports
  - **Private consumption** – average growth of 3.3%, mainly supported by the growth of disposable income and bank lending
  - **Investments** – after the deep fall, an average growth of 8.7% is projected, underpinned by public and private investments, with solid foreign direct investments and credit growth
  - **Exports** – solid average growth of 4.6%, in line with the expected world trade growth, foreign demand recovery and further positive contribution from companies in the automotive industry
  - **Imports** – given the growth in exports and domestic demand, which have a high import component, import is forecasted to grow by 5.1%



Inflation forecast

- **In general, it is expected that inflation, which decreased to a single-digit level last year, will continue to slow down.**
- **In the first quarter of this year** (average annual rate of 3.4%), it was lower than in the October forecasts
- **The average inflation is forecasted to slow down to 3.5% in 2024** (from 9.4% last year), reflecting the decline in global oil and food prices, the slowdown in foreign effective inflation, and tight financial conditions.
- **In the medium term**, inflation is expected to further slow down and return to the historical average of around 2%.
- **The forecast for 2024 is at the lower end of the October range (3.5 - 4%),** and the estimates for the next two years remain unchanged
- **However, inflation risks still exist** and are mainly related to commodity prices, changes in regulated prices, as well as to the demand-side policies (disposable income) and profit margins.



Comparison of GDP and inflation forecasts for our economy

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

Organisation	Month of publication	Real GDP growth, %		Inflation (average rate, %)	
		2024	2025	2024	2025
IMF	April 2024	2.7	3.7	4.0	2.5
World Bank	April 2024	2.5	2.9	3.0	2.0
European Commission	November 2023	2.7	2.8	4.1	2.1
EBRD	September 2023	3.0	-	-	-
Consensus Forecast	April 2024	2.9	3.6	3.9	2.8
Ministry of Finance	December 2023	3.4	4.8	3.6	2.0
National Bank of the Republic of North Macedonia	April 2024	2.6	3.6	3.5	2.0

Source: IMF, World Economic Outlook, April 2024; World Bank, Western Balkans Regular Economic Report, Spring 2024; European Commission European Economic Forecast, Autumn 2023; EBRD Regional Economic Prospects, September 2023; Consensus Forecast, April 2024; Ministry of Finance, Revised Fiscal Strategy 2024-2028, December 2023; and the National Bank of the Republic of North Macedonia, April 2024.

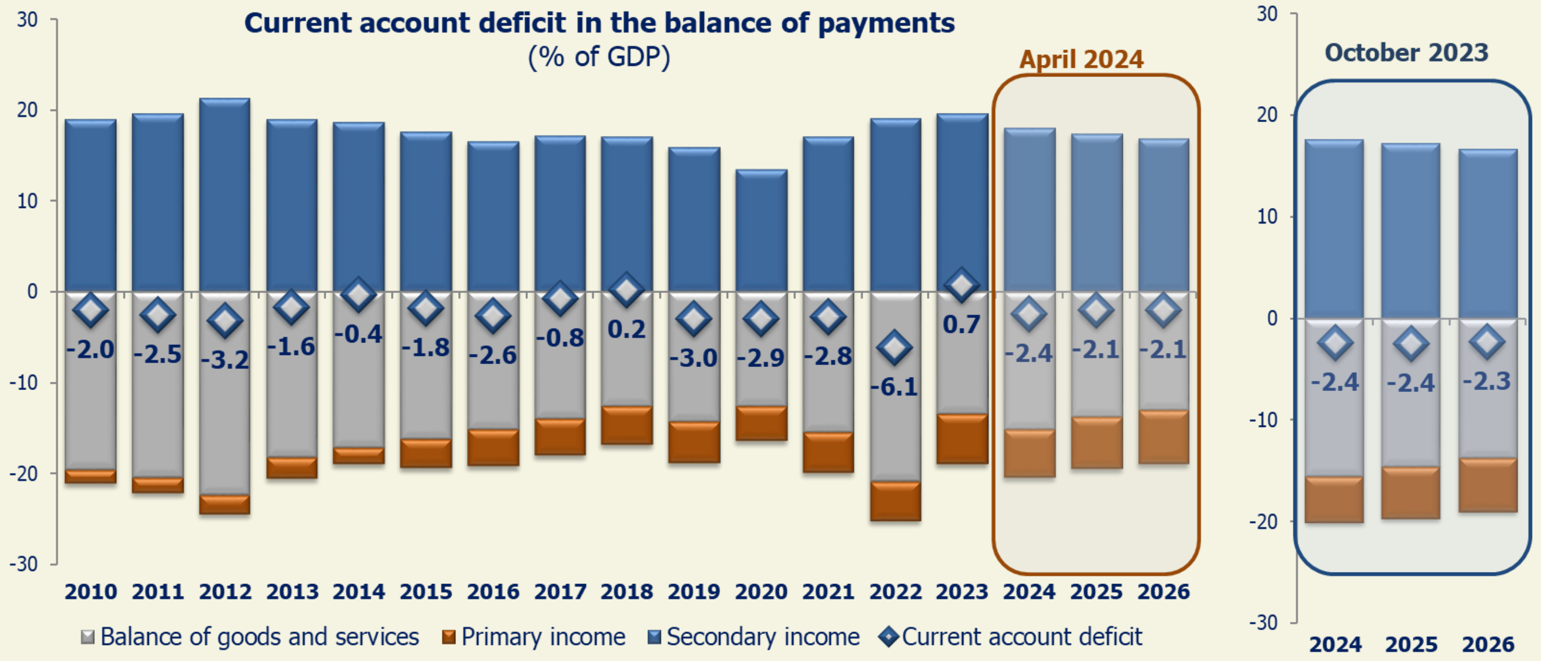
Forecasts of the Balance of Payments
- current account -

Significantly improved performance in 2023 - a current account surplus of 0.7% of GDP (the second time in our history)

Improved performance mainly reflects the narrowing of trade deficit :
- improvement in **non-energy balance** (significantly lower import demand, after stockpiling of raw materials in the previous year)
- improvement in the **energy balance** as well (due to lower global energy prices and increased domestic electricity production)

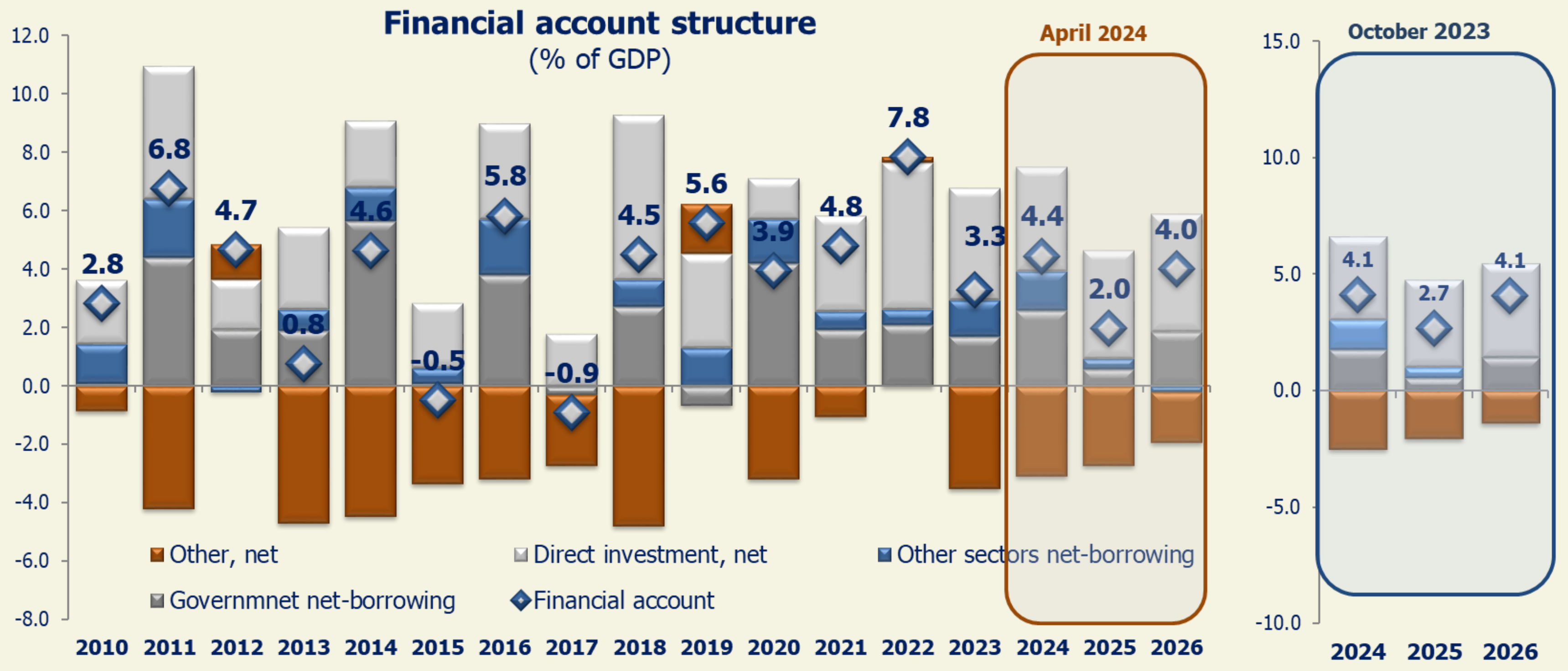
For 2024, a moderate current account deficit of 2.4% of GDP is expected:
- **higher trade deficit** - the import of raw materials and other materials is expected to gradually normalize, after its significant decrease in the previous year, amidst stable energy deficit
- stabilization of private transfers and thus a **more moderate secondary income surplus**
- further positive movements in the **balance of services**

In the medium term (2025-2026), forecast of an average deficit of 2.1%, which means a more favorable current account compared to October



Forecasts of the Balance of Payments
- financial account -

- **Financial account inflows are expected to average 3.5% of GDP (for 2024-2026),** mainly in the form of foreign direct investments and external government borrowing
- Being higher than the current account deficit (2.1% of GDP), they will ensure **further foreign reserves growth**
- Hence, the foreign reserves adequacy indicators for the entire forecast horizon will remain in the safe zone
- **The level of foreign reserves is higher compared to the October forecast.**



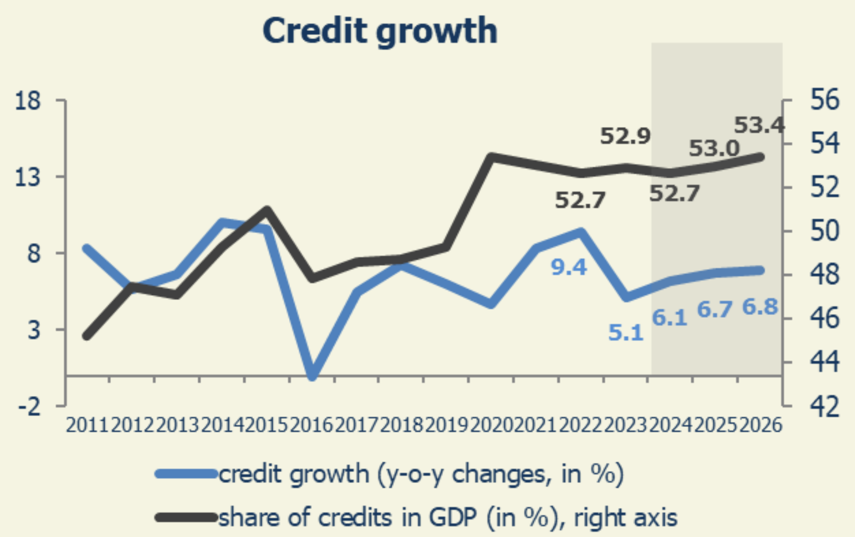
Deposit and credit growth

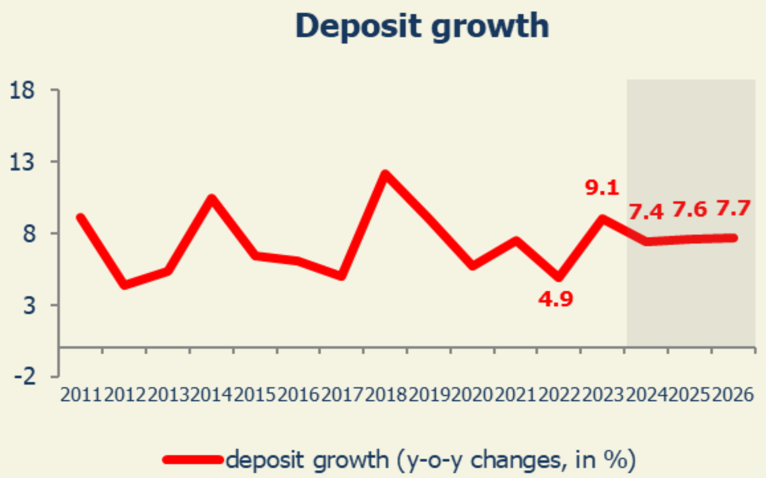
- **The banking system continues to provide solid credit support** - an annual credit growth of 6.1% in the first quarter of 2024 (5.2% in October forecast). ~~Moreover~~, **By the end of 2024**, credit growth is expected to remain stable, at 6.1%

- **In the medium term, 2025 - 2026, an average credit growth of around 6.8% is expected**, given the gradual acceleration of economic growth and stabilization of expectations, with moderate growth in the deposit base, and safe and sound banking system

- **Deposits, as the most significant source of bank financing, registered an annual growth of 9.6% in the first quarter of 2024** (9.1% in the October forecast), given the favorable savings conditions, growth in the household disposable income, stable expectations and increased confidence, as well as the National Bank measures aimed at encouraging savings

- **At the end of 2024**, we expect a solid annual deposit growth of **7.4%** and of about **7.6%, on average in the medium term** for the period 2025 -2026





Summary

- **Compared to the October forecasts, the performance in all macroeconomic segments are somewhat better, except for GDP**
- **According to the latest IMF projections, the global economy will continue to grow in the medium term, but at a pace that is below the average of the past two decades, and global inflation will continue to decrease.**
- With the growth of global economy, especially our trading partners, the Macedonian economy is expected to grow at a rate of 2.6% this year and 3.6% next year, and afterwards to moderately accelerate in the medium term.
- With the stabilization of commodities prices and the prudent monetary policy, **inflation** is expected to continue to slow down and return to the historical average of 2% in the medium term.
- Amid forecast of solid net inflows in the financial account that would exceed the current account deficit, further growth of **foreign reserves** is expected, as a guarantee for the exchange rate stability.
- However, **the global environment remains uncertain and unpredictable,** creating risks to economic growth, inflation and the external position, underscoring the need for prudent domestic macroeconomic and structural policies.
- **The National Bank maintained the prudent monetary policy stance, as required by the economic conditions.** The CB bills interest rate remained at 6.30%. Moreover, changes were made to the reserve requirement setup and maintenance, mainly aimed at further supporting the denarization process and increasing long-term savings in the banking system, but also provide support to the prudent character of monetary policy.
- Given the monetary strategy of a stable exchange rate of the denar against the euro, the changes in the domestic monetary policy also reflect the monetary policy stance of the European Central Bank
- ***The National Bank vigilantly monitors macroeconomic data and risks on a day-to-day basis and as before, will deploy all necessary measures and available instruments to maintain the stability of exchange rate and stabilize inflation in the medium-term.***

THANK YOU FOR THE ATTENTION!