Revision of macroeconomic forecasts
- November 2018 -

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1 November 2018

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Key forecast assumptions

- **Conducive external environment** (though slightly less favorable than in April) - continuation of the growth of foreign demand (impetus for exports);

- **Stable political context** with positive effects on the expectations and domestic demand (impetus for investments and consumption);

- **FDI supportive policies** to ensure inflows in the tradable sector and further structural changes in the economy;

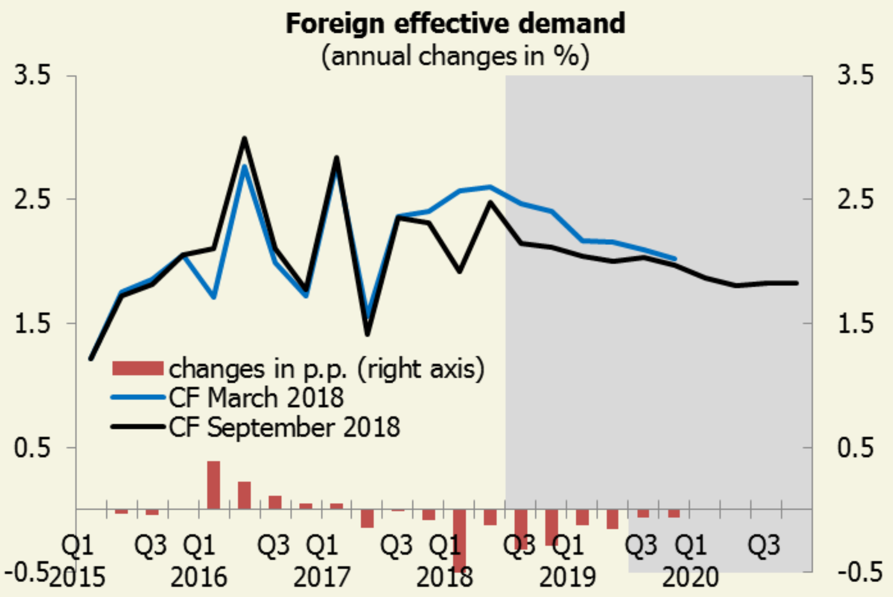
- **Further increase of the capacity utilization of existing export-oriented companies;**

- **Rebound of public investment** (expectations for investment growth after the fall in 2017 and in the first half of 2018);

- **Gradual fiscal consolidation** in line with the Fiscal Strategy.

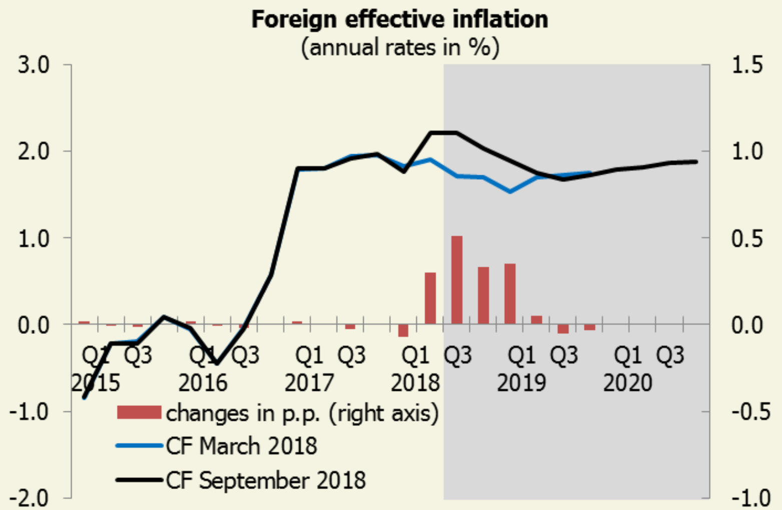
External Assumptions
- Foreign effective demand -

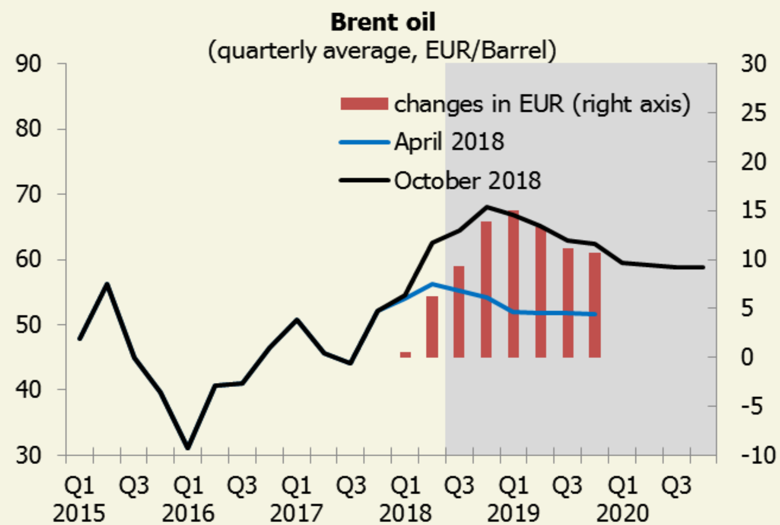
- **Global growth continues at a rate of 3.7%,** though with a slower pace than expected;
- **Downward revision of foreign demand** for 2018 and 2019 (growth of 2.2% and 2.0% instead of 2.5% and 2.1%);
- Downward revision is mainly related to Germany, reflecting lower foreign demand and a stronger euro.



External Assumptions
- Import prices -

- **Despite the downward revisions of global growth, there is an upward revision of import prices.**
- **Prices expected to continue to grow in 2018, after surging in 2017**
- **Higher foreign effective inflation** - 2.1% and 1.8%, instead of 1.8% and 1.7% in the April forecasts and acceleration to 1.9% in 2020.
- Higher **oil prices** in 2018-2019.
- Mainly upward revisions of **food prices** for 2018 and downward revisions for 2019. Dynamically observed, food prices are expected to grow throughout the forecast horizon.
- Faster growth of **metal prices** in 2018, but also a sharp decline in 2019. Assessments for further decrease in metal prices for 2020.

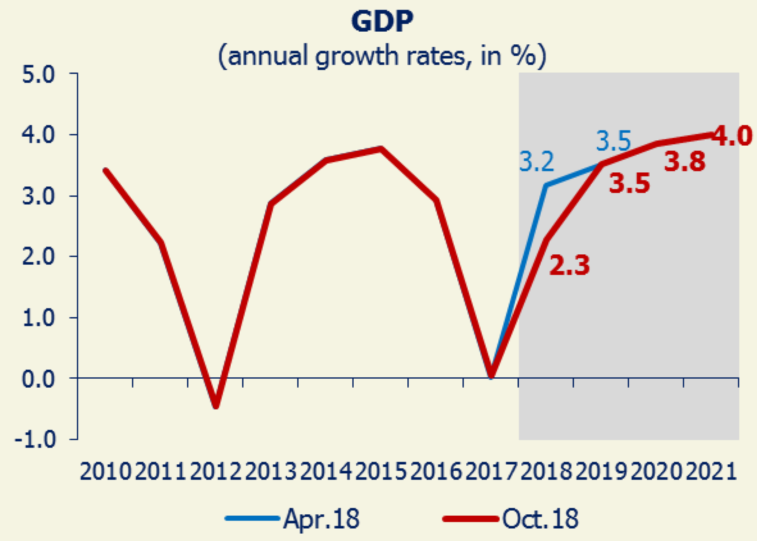




Macroeconomic scenario for 2018-2021

GDP forecast

- **Within the forecast horizon, expectations for gradual recovery of the domestic economy, after the stagnation in 2017** - estimated GDP growth of 2.3% for 2018 and acceleration in the forthcoming period (3.5% in 2019, 3.8% in 2020 and 4% in 2021).
- **A downward correction for 2018** (from 3.2% to 2.3%), reflecting the weaker performance in the first half (actual growth of 1.6%, versus forecasted growth of 3.3%), mostly due to investments.
- **The assumption on investment rebound** remains a major source of risk for the forecast (same as in the April forecast vintage).



GDP forecast

- Analyzing the **growth structure**, domestic demand is expected to be the major growth driver, except for 2018 when net exports has the dominant role
- On average for 2018-2020, **export demand** remains the key growth factor due to the activity of foreign export facilities, investments of new companies and the further growth of foreign effective demand.
- Solid growth of **investments** - after the fall in 2017 and 2018, assessments for solid growth in the next two years, supported by public and foreign investment and improved investment environment for domestic investors.
- Positive contribution of the **private consumption**, given the steady wage growth, increased employment, and further credit support by domestic banks.

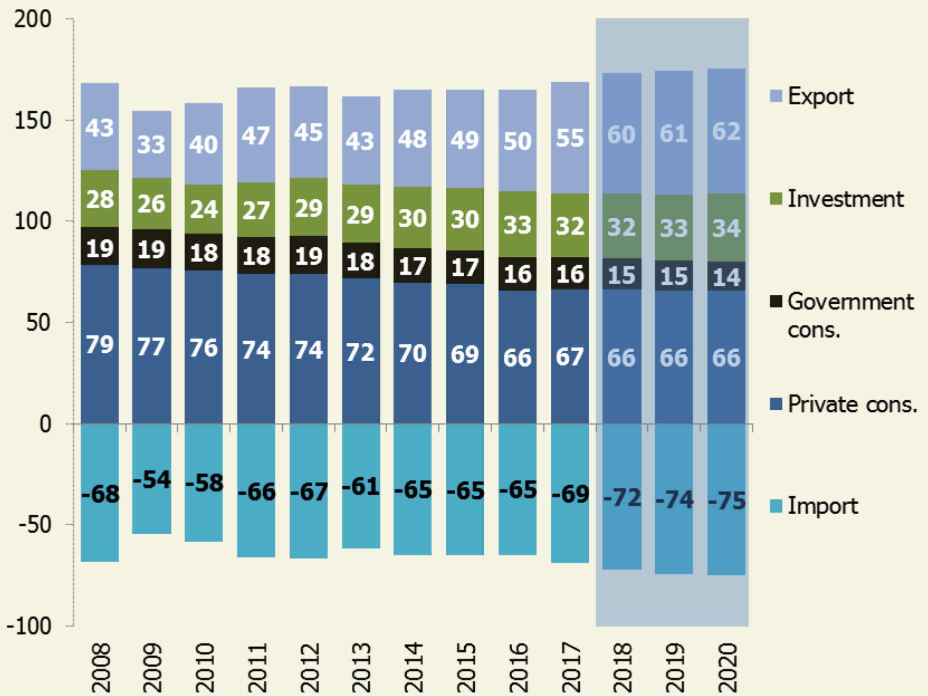
	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
	%	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	*contrib. in p.p.*	
2018	**2.3**	2.2	*1.6*	-4.6	*-1.6*	10.5	*6.3*	5.0	*-4.2*	0.9	*0.1*	*0.2*	*2.1*
2019	**3.5**	2.5	*1.8*	8.3	*2.6*	7.2	*4.6*	6.5	*-5.6*	0.2	*0.0*	*4.5*	*-1.0*
2020	**3.8**	3.4	*2.5*	8.8	*2.9*	7.2	*4.8*	7.2	*-6.4*	0.2	*0.0*	*5.4*	*-1.6*
2018-2020	**3.2**	**2.7**	***2.0***	**4.1**	***1.3***	**8.3**	***5.2***	**6.3**	***-5.4***	**0.4**	***0.1***	***3.4***	***-0.1***

GDP forecast
- structural changes -

Expectations for continuation of the **trend of positive changes in the GDP structure** (after the break in 2017-2018).

- Growth of the share of investments, stagnation of consumption and moderate improvement of net exports.

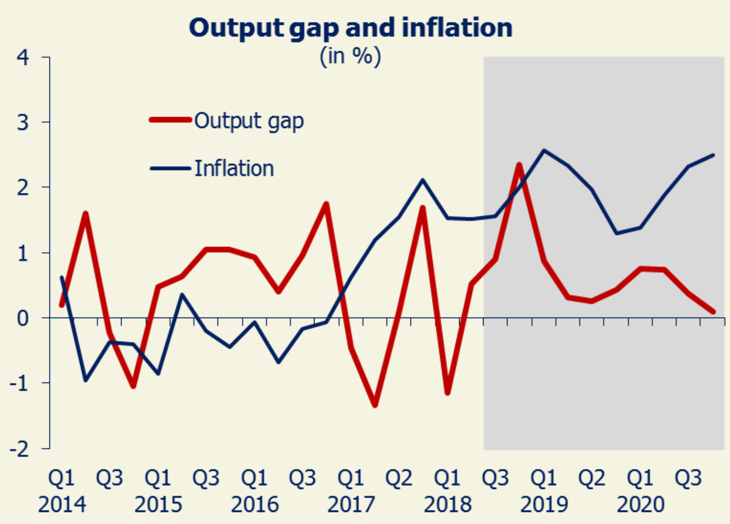
Shares of nominal GDP components (in %)

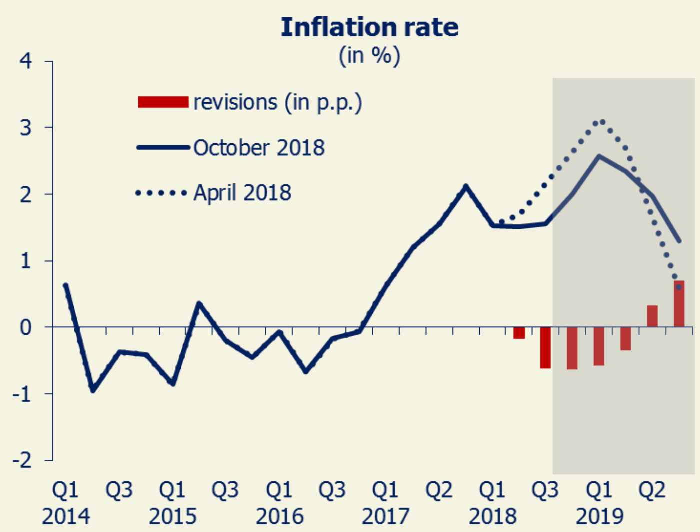


Source: SSO and NBRM projections.

Inflation forecast

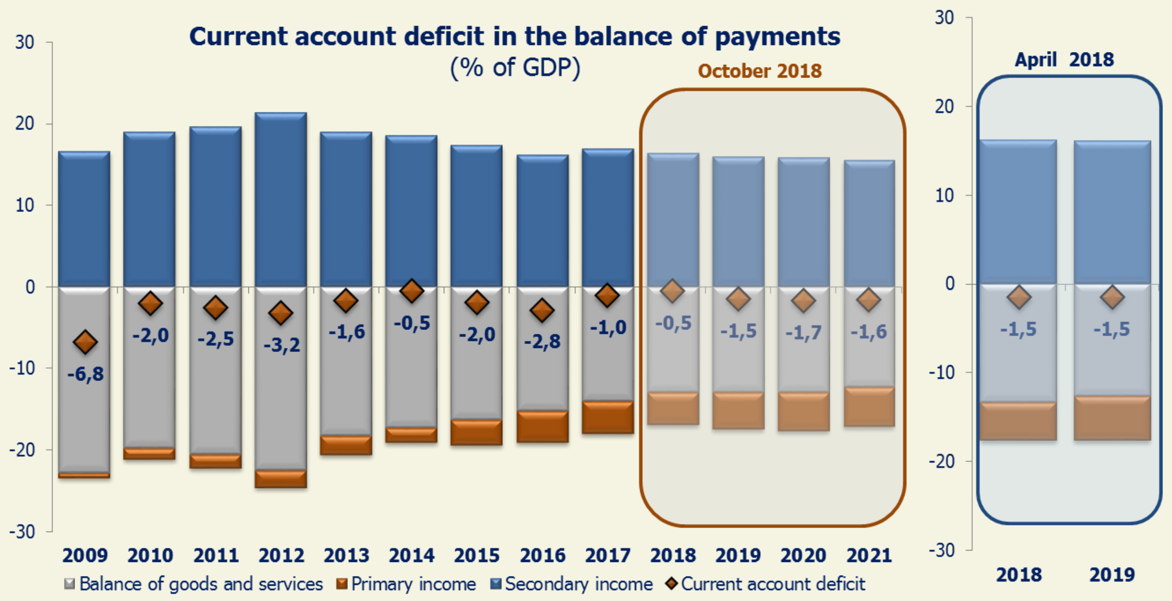
- **Downward revision of the inflation for 2018 to 1.6%** (instead of 2% as forecast in April) - the current inflation dynamics is slightly below expectations (due to food prices).
- **Inflation of around 2% is expected in 2019-2021,** amid small positive output gap and moderate rise in import prices.
- **Risks to the forecasted inflation trajectory,** mainly related to the uncertainty surrounding the import prices, and energy prices in particular.





Balance of payments
- current account -

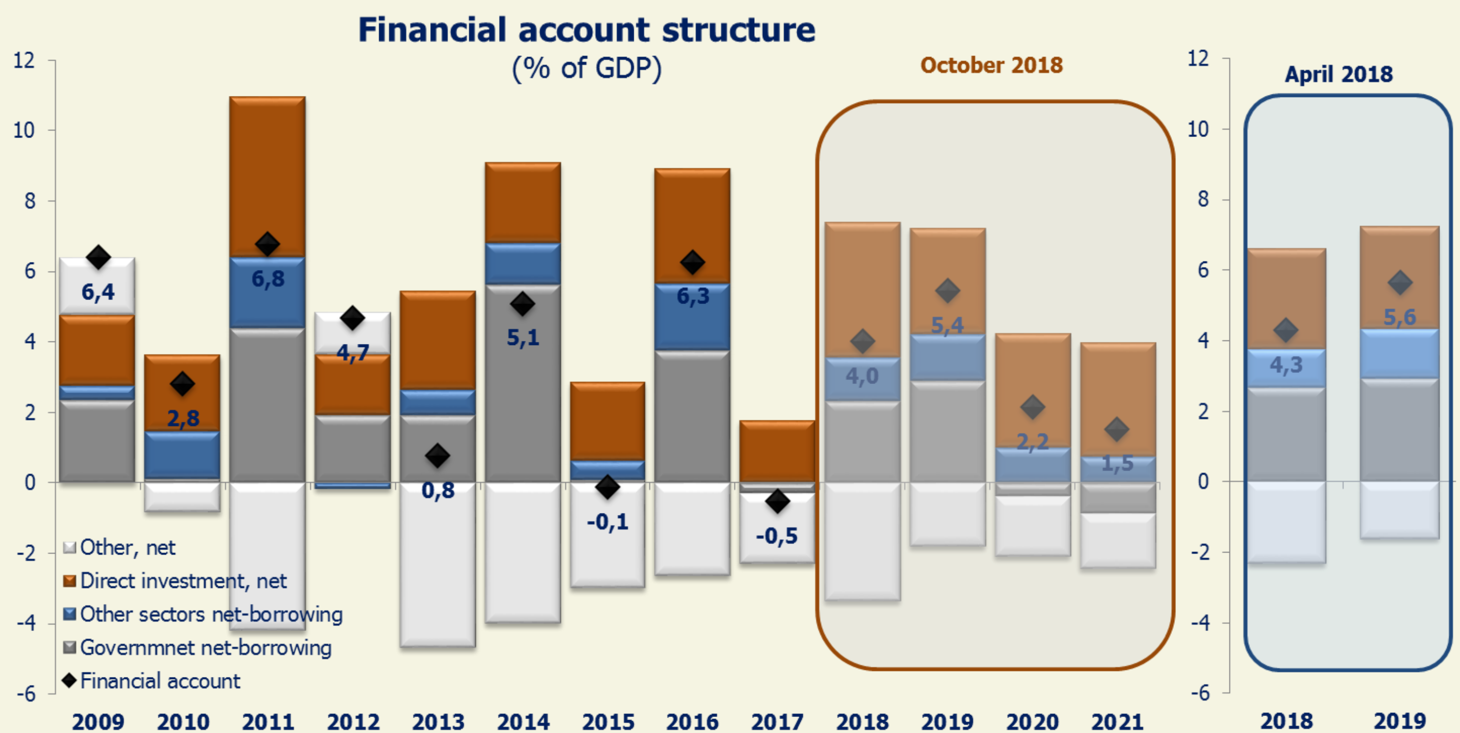
- **Further narrowing of the current account deficit in 2018 to 0.5%,** as a result of the lower deficit in goods and services (higher surplus in services).
- **In the medium term, expectations for moderate deficit of 1.6% of GDP, on average**
  - moderate increase in the primary income deficit;
  - stabilization of the secondary income surplus at a lower level;
  - slight improvement in the balance of goods and services (in the non-energy balance).
- **Improvement for 2018, almost unchanged in the medium term.**



Balance of payments
- financial account -

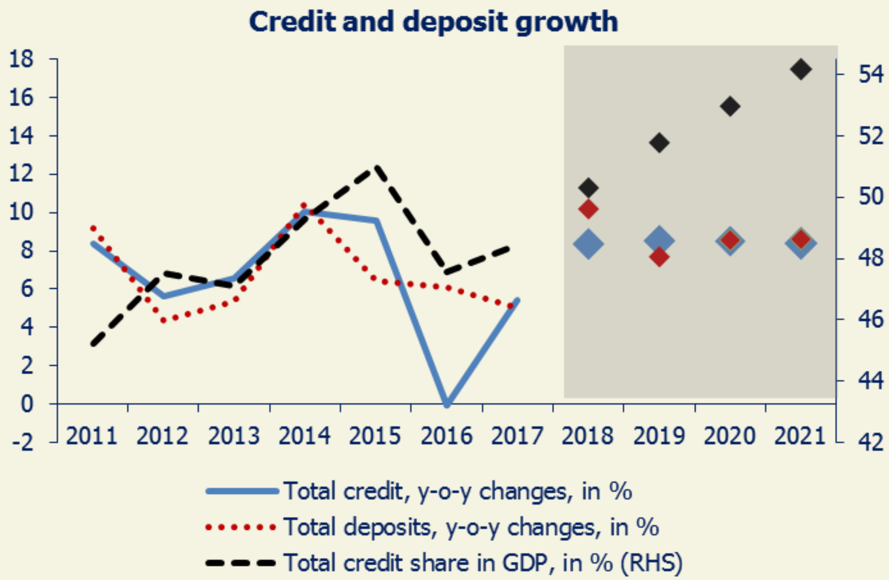
- **Inflows in the financial account in the medium run** - sufficient to cover the current account deficit and for additional growth in foreign reserves. In the forecast horizon, expectations for net inflows from foreign direct investments and long-term public sector borrowing.

- **Over the entire forecast horizon, foreign reserves adequacy ratios range within the safe zone.**



Deposit and credit growth

- Given the over-performance, and the assumptions on stable environment and stronger economic activity, **deposit growth was revised upward** to 10.2% and 7.7%, respectively for 2018 and 2019 (around 6.5% in the April forecast), with moderate growth acceleration of 8.6%, on average, for 2020-2021.
- Banks' lending activity will continue to support the economic growth, with forecasts for **higher credit growth** for 2018 and 2019 of 8.4% and 8.5%, respectively (6.5% and 7.7%, respectively, in the April forecast), and stabilizing at 8.5% on average for 2020-2021.
- The banking system remains stable, liquid and highly capitalized.



Change in risks between the two forecast vintages

- **Unfavorable risks** coming from the **external environment**, **more pronounced** compared to the April forecast vintage

  - in the short term - adverse risks from increased trade protectionism and potentially faster tightening of the global financial conditions;
  - in the medium term - possible accumulation of global financial vulnerabilities, reduced global trust in the mainstream economic policies, unsustainable macroeconomic policies, as well as geopolitical risks.

- Lingering **uncertainty from the domestic political context**.

- As in the previous forecast, the possibility for acceleration of the process of Euro-Atlantic integration is a **positive risk** not embedded in the forecast.

Summary

- Given the stable economic fundamentals and absence of imbalances, as seen through the continuous favorable foreign exchange market, the sound external position and stable expectations of the economic agents, **the NBRM loosened the monetary policy in the third quarter.**
- The latest NBRM forecasts for the period ahead incorporate expectations for stable and predictable **domestic political environment, and recovery of the public infrastructure cycle.**
- The overall macroeconomic forecast, and the growth forecast in particular, highly conditions on these assumptions.
- **Overall**, the latest macroeconomic forecasts point to sound economic fundamentals, with potential for solid growth, supported by the banks' lending activity, amid absence of inflationary pressures and maintenance of favorable external position.
- In the period ahead, the NBRM will closely monitor the trends and changes in the domestic and external environment, in light of the monetary policy conduct.

THANK YOU FOR THE ATTENTION!