Revision of macroeconomic forecasts
- November 2019 -

Anita Angelovska Bezhoska
Governor
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Key projection assumptions

- **Global economic growth is expected to continue,** but a slower pace, thus further providing stimulus for the domestic export sector

- **Stable domestic environment** that positively affects economic agents’ confidence and their investment and spending decisions;

- **Policies in place that support foreign and domestic investment** - an impetus for additional capital inflows in tradable sectors of the economy (positive effects on productivity and competitiveness);

- **Policies supporting foreign and domestic investments**, as well as policies conducive to stronger private consumption

- **Further growth of the activity of the export-oriented facilities** as a specific structural factor of the domestic economy conducive to solid export growth and further trade integration

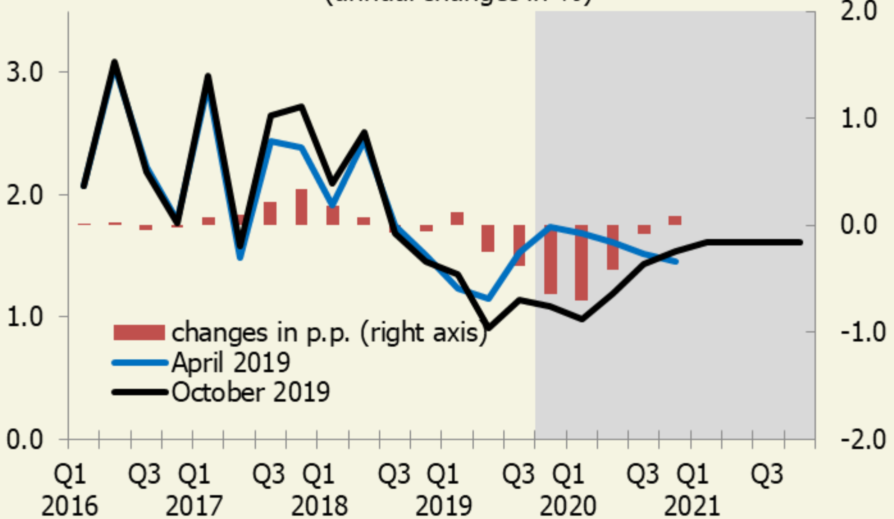
- **Intensification of the public infrastructure investment cycle and growth of private investment** (short-term and long-term effects)

- **Gradual fiscal consolidation** in accordance with the medium-term fiscal strategy (as of May 2019)

External Environment Assumptions
- foreign effective demand -

- **Further growth of global activity, but at a lower pace in comparison**
- **Global growth to slowdown from** 3.6% in 2018 to 3% in 2019 (broad-based)...
- **...slowdown of the foreign effective demand** (for 2019 and 2020 - growth of 1.1% and 1.4%, compared to 1.4% and 1.6% as expected in April), mainly due to the slower growth of Germany
- **Since 2021, moderate acceleration** of both global growth and foreign effective demand
- **Risks** to the global growth forecasts are predominantly downward (trade tensions, geopolitical risks, tighter financial markets, Brexit)
- ***Less favorable external environment compared to April***

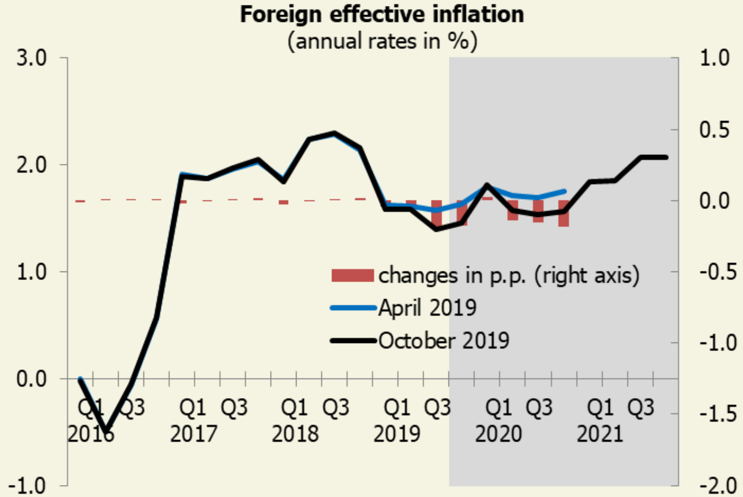
Foreign effective demand
(annual changes in %)



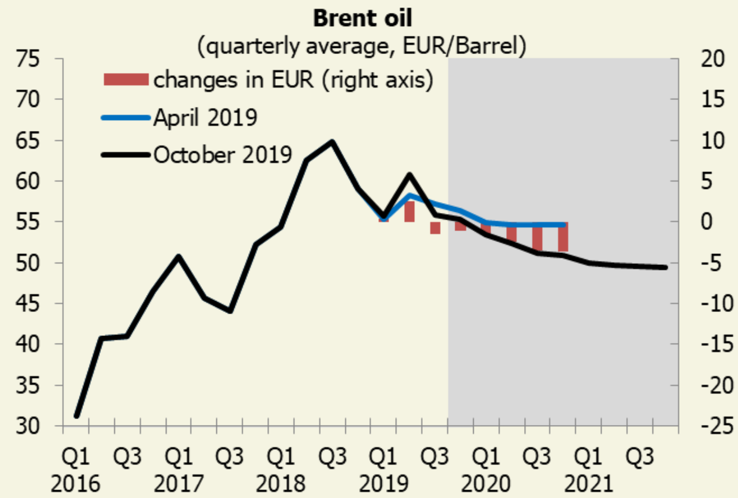
Source: Consensus forecasts and NBRNM calculations.

External Environment Assumptions
- import prices -

- ***In line with the weaker growth outlook, prices of primary commodities (energy, food metals) are revised downwards***
  - After the sharp increase in the last two years, **oil prices are expected to decline** - extremely high volatility of the expectations for the prices of this energy source
  - **Metal -** downward revision of copper and steel prices, and upward revision of nickel price for 2019 and 2020
- **Foreign effective inflation** - small downward revision to 1.5% and 1.6% for 2019 and 2020, from 1.6% and 1.8%, in April
- ***Generally, more favorable terms of trade, with positive effects on the balance of payments and inflation***



Source: Consensus forecasts and NBRNM calculations.

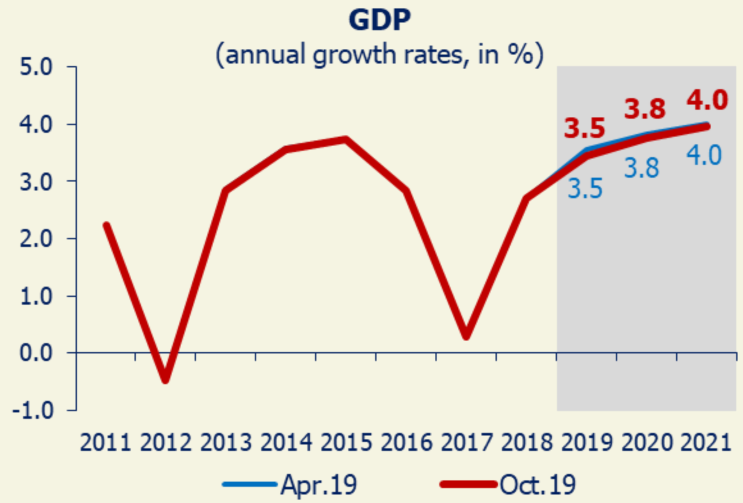


Source: IMF and NBRNM calculations.

Macroeconomic scenario for 2019 - 2022

GDP forecast

- **The trend of gradual growth acceleration continued**-last year 2,7%, growth of 3.6% in first half of the year, indicators for the third quarter suggest continuation of this trend
- **Expectations for further gradual acceleration over the forecasting horizon:** 3.5% in 2019, 3.8% in 2020 and 4% in the medium term
- **Compared to April**: generally without major changes to the overall growth dynamics, but with certain changes to the growth structure - less favorable contribution of net exports and more positive contribution of domestic demand
- **Yet, growth risks are more pronounced than in April**



GDP forecast

- On average for 2019-2021, **export demand** remains an important growth factor: positive effects of the industrial facilities with foreign capital and the traditional export sector amid further, albeit more moderate, growth of foreign demand

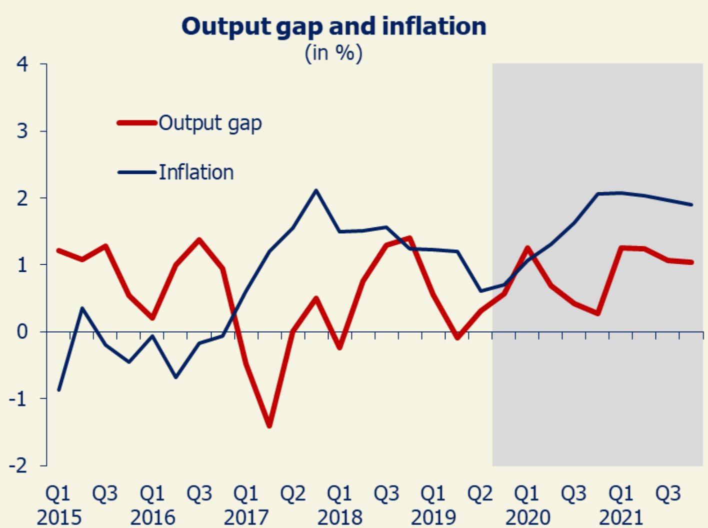
- Positive **investment** stimulus to growth - after the unfavorable movements in 2017 and 2018, investment is expected to pick up in the next three years, amid acceleration of public infrastructure investments, FDI inflows and increased appetite for investment of private agents, supported by bank lending

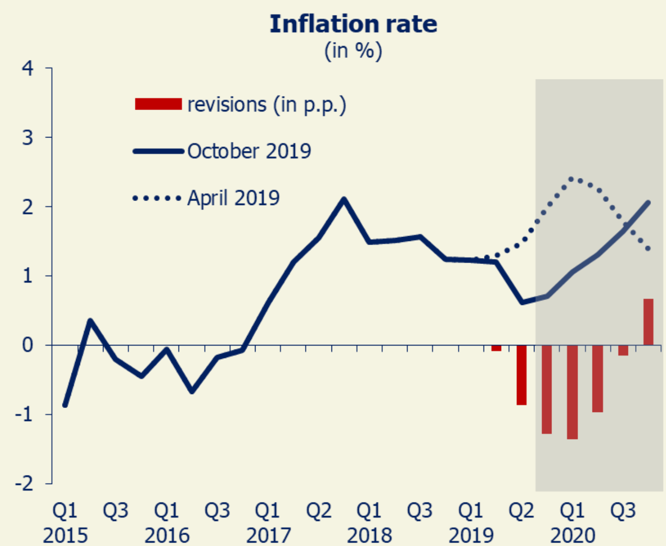
- Positive contribution of **private consumption** as well, amid solid real wage growth, employment growth, growth of pension bill, private transfers and further credit support from banks

	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
												contrib. in p.p. **(Oct.19)**	
	%	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*		
2019	**3.5**	3.3	*2.4*	8.3	*2.7*	11.5	*7.7*	10.8	*-9.4*	0.6	*0.1*	*5.2*	*-1.7*
2020	**3.8**	3.5	*2.5*	9.3	*3.1*	4.0	*2.8*	5.1	*-4.8*	1.0	*0.1*	*5.7*	*-2.0*
2021	**4.0**	3.5	*2.5*	9.6	*3.4*	3.5	*2.5*	4.9	*-4.6*	0.9	*0.1*	*6.1*	*-2.1*
2019-2021	**3.7**	**3.4**	***2.5***	**9.1**	***3.1***	**6.3**	***4.3***	**7.0**	***-6.3***	**0.9**	***0.1***	***5.7***	***-1.9***

Inflation forecast

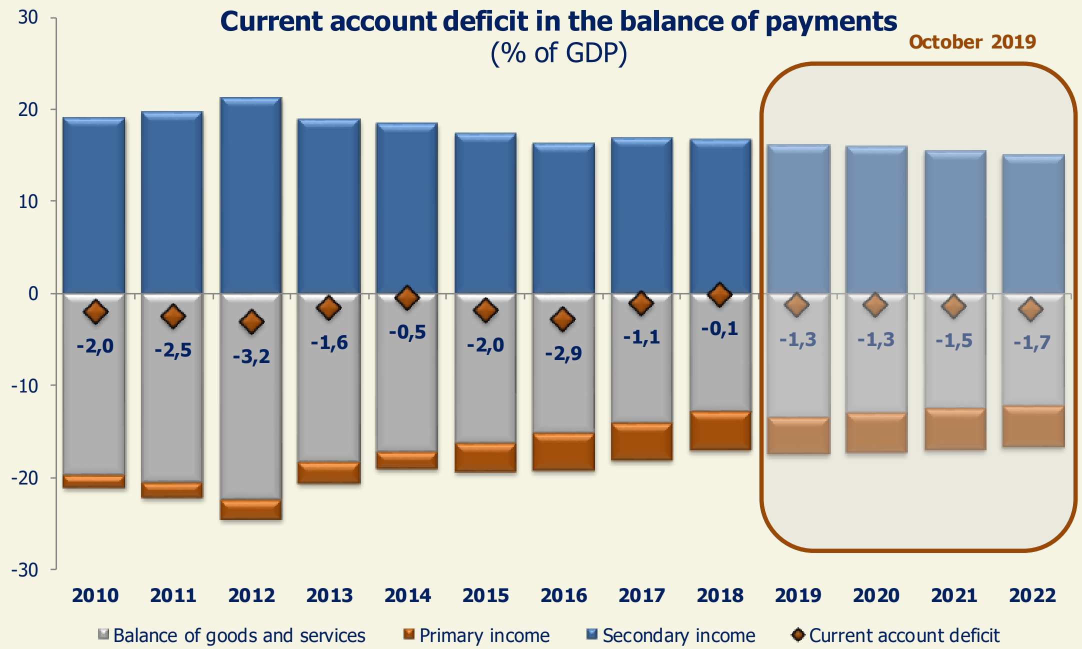
- **Downward revision of inflation for 2019 and 2020** (to **1%** and **1.5%** from 1.5% and 2%, respectively) - current inflation dynamics below forecasts (around 1%) and downward correction of import prices
- **In the medium term expected inflation of around 2%, same as in April forecast** cycle
- In the forecasting horizon, **no pressures from the domestic demand** are expected amid assessments for relatively small positive output gap
- **Risks to the forecasted** inflation dynamics mainly attributed to the uncertainty surrounding the import prices, especially energy prices

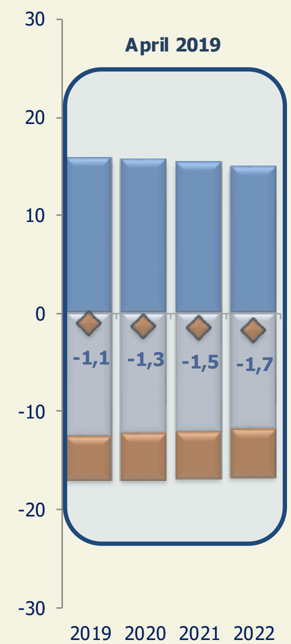




Balance of payments
- current account -

- **Maintaining moderate current account deficit in the medium term**
- **In recent years, low current account deficit** of 1.3% of GDP (due to improved trade balance - foreign owned facilities and traditional segments)
- **In 2019-2022, expectations for moderate widening - deficit of 1.5% of GDP, on average**
  - lower secondary income surplus (private transfers)
  - moderate increase in primary income deficit
  - small deterioration in the trade balance in 2019, followed by improvement
- **Somewhat higher deficit compared to April, but generally, assessment for the deficit being low remains**

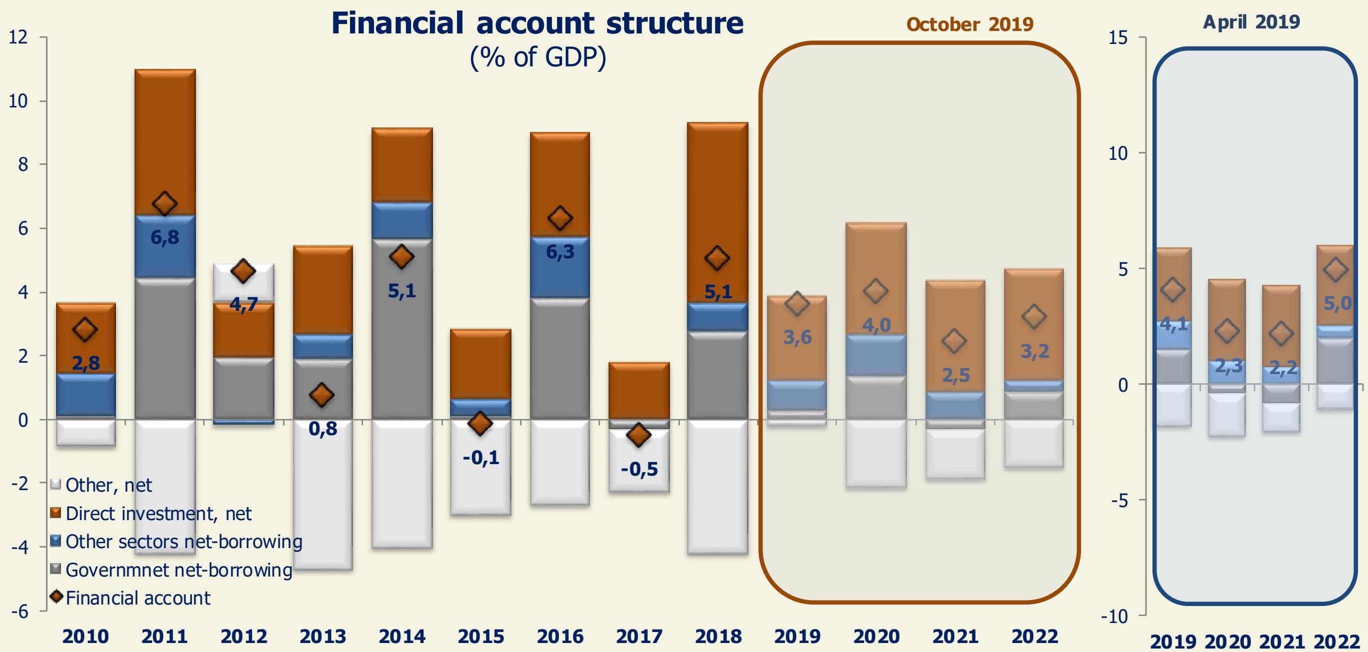




Balance of payments
- financial account -

- **Inflows in the financial account in 2019-2022 (3.3% of GDP)** are sufficient to cover the current account deficit and for additional growth in foreign reserves. **In the forecast horizon,** net inflows from foreign direct investments are expected, along with long-term public and private sector borrowing

- Over the forecasting horizon, **foreign reserves adequacy indicators** (ratio of reserves to projected imports of goods and services, to debt etc.) remain in the safe zone



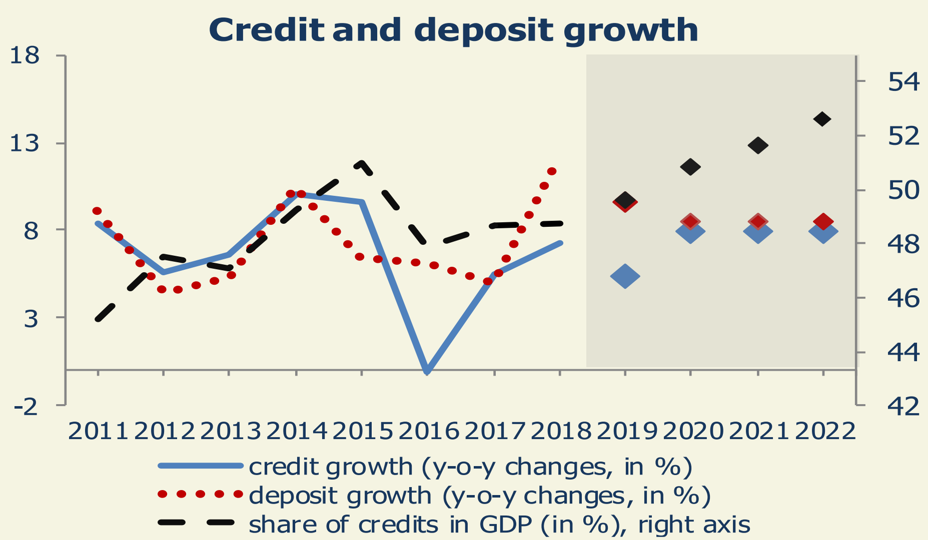
Deposit and credit growth

- **Continuation of the trend of solid deposit (10.1%) and credit growth (7.1%)**

- **Compared to April** - deposit growth higher than expected, and **credit flows** moderately lower than the forecast

- Given the changes in the initial conditions, the **deposit growth** is expected to amount 9.6% in 2019 (8.3% in the April forecast), and 8.5%, on average, in the 2020-2022 period, amid assessments for stable environment and accelerated economic activity

- Bank **lending** activity will continue to be an important supporting factor for economic growth - expectations for credit growth of nearly 7%* in 2019 (8% in April forecast), and slight acceleration of lending activity in the medium term until 2022, i.e. credit growth of about 8%



* Corrected for regulatory changes.

Summary

- After the interest rate cut in March this year, no other changes have been made to the monetary policy stance, i.e. **the interest rate remained at 2.25%**

- The latest National Bank forecasts for the period ahead rely on assumptions for **stable and predictable domestic context, further growth of exports and accelerated public infrastructure investment cycle**

- **Any deviation from these assumptions or materialization of some of the negative risks which in the current forecast vintage are more pronounced than in April could lead to a deviation from the forecast**

- In general, the latest macroeconomic forecasts point to **sound and solid fundamentals of the domestic economy**, with potential for solid growth, supported also by the bank lending activity, amid absence of both inflationary pressures and imbalances in the external position

- **In the period ahead, the National Bank will closely monitor the trends** and changes in the domestic and external environment, in the context of monetary policy implementation

THANK YOU FOR THE ATTENTION!