Revision of macroeconomic forecast
- May 2018 -

Governor
Dimitar Bogov

3 May 2018

Contents

- Change in risks between the two forecast vintages
- Key assumptions underlying the April forecast
- External assumptions
- Macroeconomic scenario for 2018-2019
- Summary

Change in risks between the two forecasts

- Unfavorable risks assessed as lower than in the October forecast

  - As in the previous projection cycle, the latest forecasts incorporate the assumption for entirely **stable domestic political environment**
  - Balanced **external risks** in a short run, although downward risks prevail in a medium run
    - in a short run – a positive risk for stronger economic growth of the developed economies, while negative risk of increased trade protectionism and possible faster tightening of global financial conditions in the US
    - in a medium run – possible accumulation of financial vulnerabilities in global terms, reduced support for global economic integration, as well as further turbulence on the global geopolitical scene
  - A new **positive risk** in this projection cycle is the possibility for acceleration of the Euro-Atlantic integration process

Key assumptions underlying the April forecast

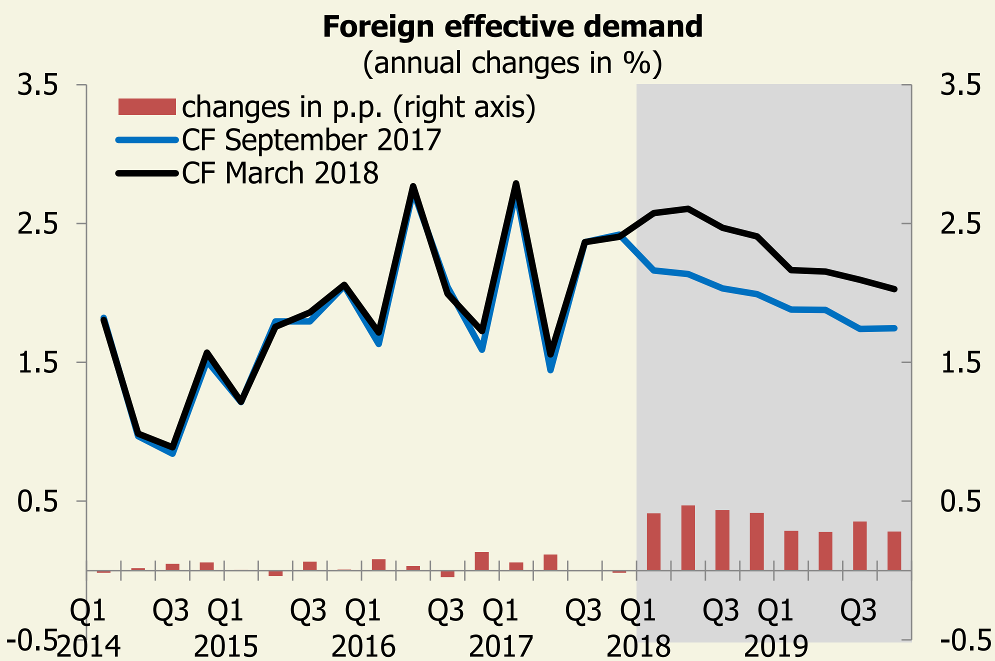
- **Assumptions for more favorable expected path of the main external factors and a favorable domestic political environment**

- Fundamentals are similar to the October forecast - improvement in the external environment, further stimulus by foreign export-oriented facilities, continuation and acceleration of public infrastructure and increase in domestic and foreign investments, increased confidence of domestic entities and credit growth acceleration

- However, current risks to the projected growth are tilted downwards, in part due to the slightly weaker growth of the domestic economy than expected, as well as due to the uncertainty as regards the assumption for continuation and strengthening of the cycle of public infrastructure projects

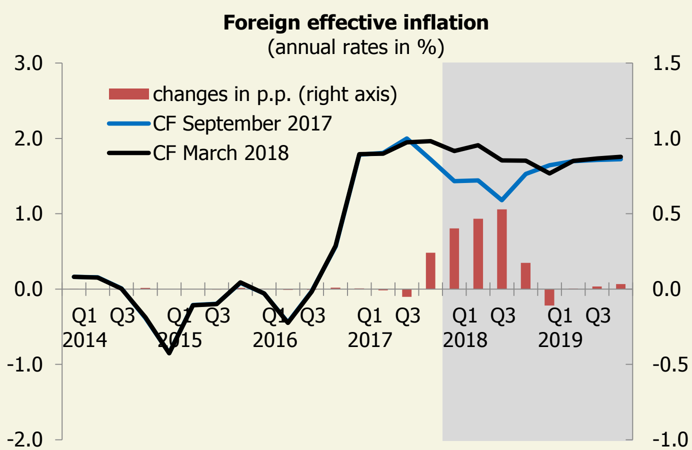
External assumptions - foreign demand -

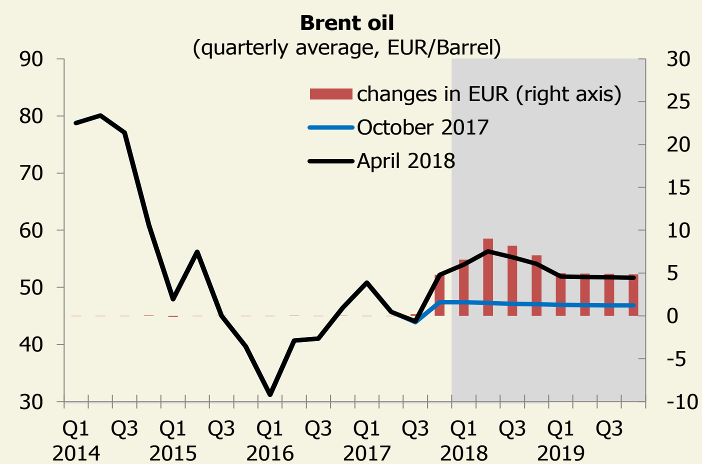
- Upward revision of the foreign demand - for 2018 and 2019, projected growth of 2.5% and 2.1%, compared to 2.1% and 1.8%, respectively in the October forecasts, mainly reflecting the expectations for higher growth in Germany, although growth expectations are improved across the board



External assumptions
- foreign inflation and import prices -

- An upward correction in **foreign effective inflation** to 1.8% was made, from 1.4% in the October projection, while for 2019 it is maintained at 1.7%
- Higher levels of **oil price**, as well as upward revision of **food prices** in 2018 and revisions in a different directions in 2019
- Mainly upward revisions to **metal prices** in 2018 and downward corrections in 2019



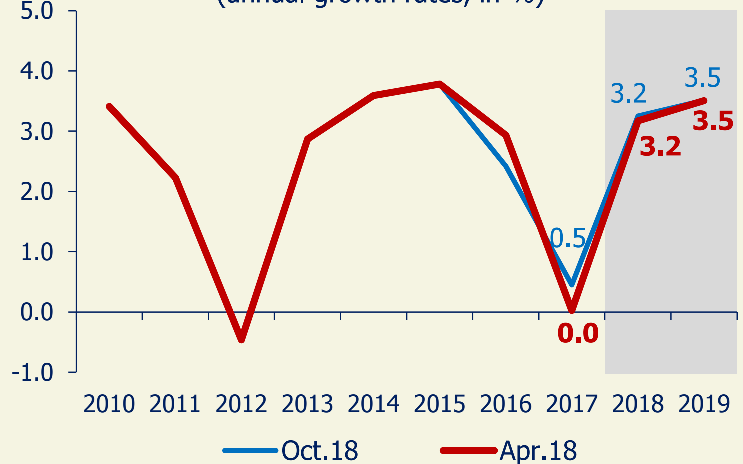


Macroeconomic scenario 2018-2019
GDP forecast

Growth estimations for 2018 and 2019 retained as in October: after the stagnation in 2017, **in 2018 and 2019 growth acceleration up to 3.2% and 3.5%, respectively is expected**

- **Retained assumptions for the fundamental growth factors**
- More favorable domestic political context and more favorable external environment is assumed
- On average, for both years, it is expected that the driving factor will be the **export**, especially from the new production facilities, the expected inflow of new foreign investments, as well as due to the recovery of some of the traditional sectors and the further improvement of the global environment
- Significant growth stimulus from **investments**, as well - following the decrease in 2017, solid growth in the following two years is assessed, supported by public and foreign investment, as well as by the improved investment environment for domestic investors
- Positive contribution of the **personal consumption**, as well, given stronger wages, increased employment, stable expectations and intensified banks’ credit support to households
- Investment revitalization being the key assumption

GDP
(annual growth rates, in %)



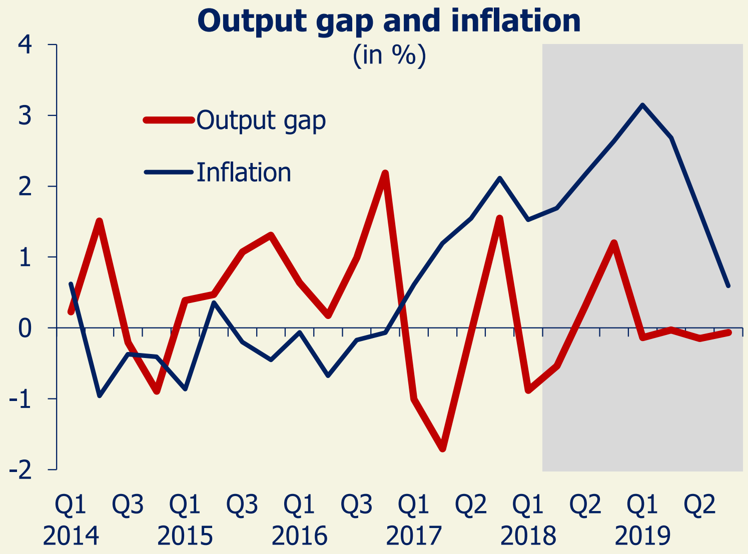
GDP forecast
- GDP components -

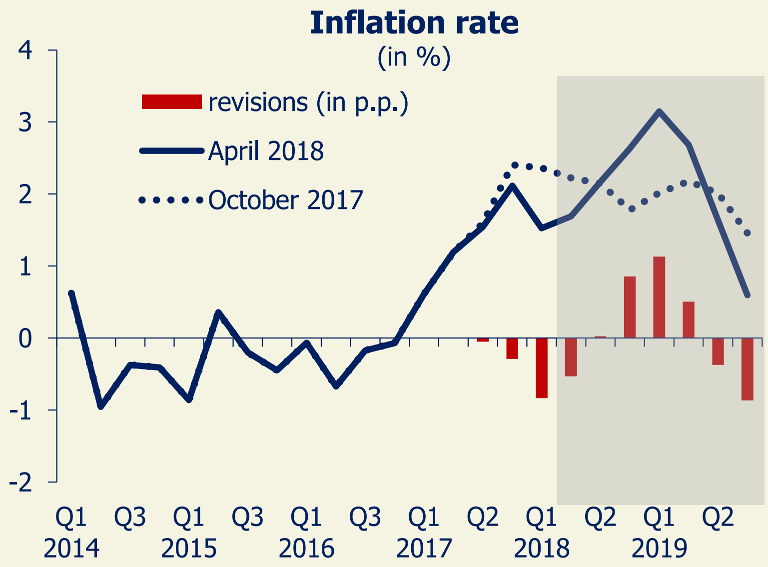
- In the medium term, **domestic demand** is expected to be the main growth generator
- Certain changes in the growth structure on an aggregate basis - domestic demand is the driving force for the growth, given positive effect of investments and private consumption
- By individual components, exports remains a component with the highest positive contribution to growth

	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports	Domestic demand	Net exports
	%	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	%	*p.p.*	*contrib. in p.p.* ***(Apr. 18)***		*contrib. in p.p. (Oct. 17)*	
2017	**0.0**	2.8	*1.9*	-4.6	*-1.3*	9.2	*4.5*	7.4	*-4.8*	-1.6	*-0.2*	*0.3*	*-0.3*	*0.1*	*0.4*
2018	**3.2**	2.8	*1.9*	5.2	*1.7*	10.1	*5.9*	7.7	*-6.6*	1.6	*0.2*	*3.8*	*-0.6*	*2.9*	*0.3*
2019	**3.5**	2.5	*1.7*	6.4	*2.2*	7.3	*4.5*	5.3	*-4.7*	-1.1	*-0.2*	*3.7*	*-0.2*	*3.5*	*0.0*
2018-2019	**3.3**	**2.6**	***1.8***	**5.8**	***1.9***	**8.7**	***5.2***	**6.5**	***-5.6***	**0.3**	***0.0***	***3.7***	***-0.4***	***3.2***	***0.2***

Inflation forecast

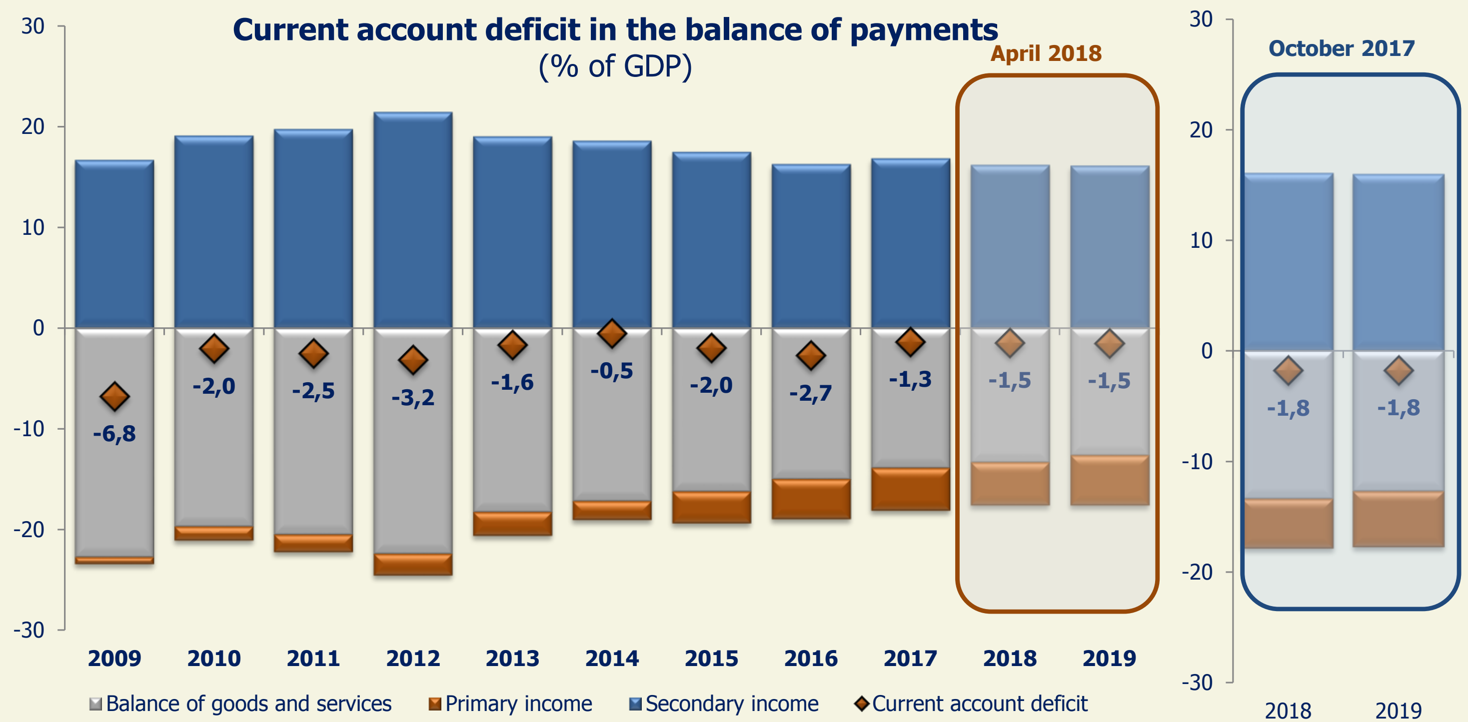
- Compared to October, **expectations are unchanged in terms of the consumer prices** - upward corrections of import prices, with lower actual than projected inflation in the first quarter
- By dynamics, it is expected that **inflation will accelerate to around 2% in 2018 and stabilize at that level in 2019**, amidst increase in food and energy prices, foreign inflation growth, and on average, slightly positive output gap in the projection period
- Risks to the forecast inflation trajectory mainly attributed to the uncertainty about import prices





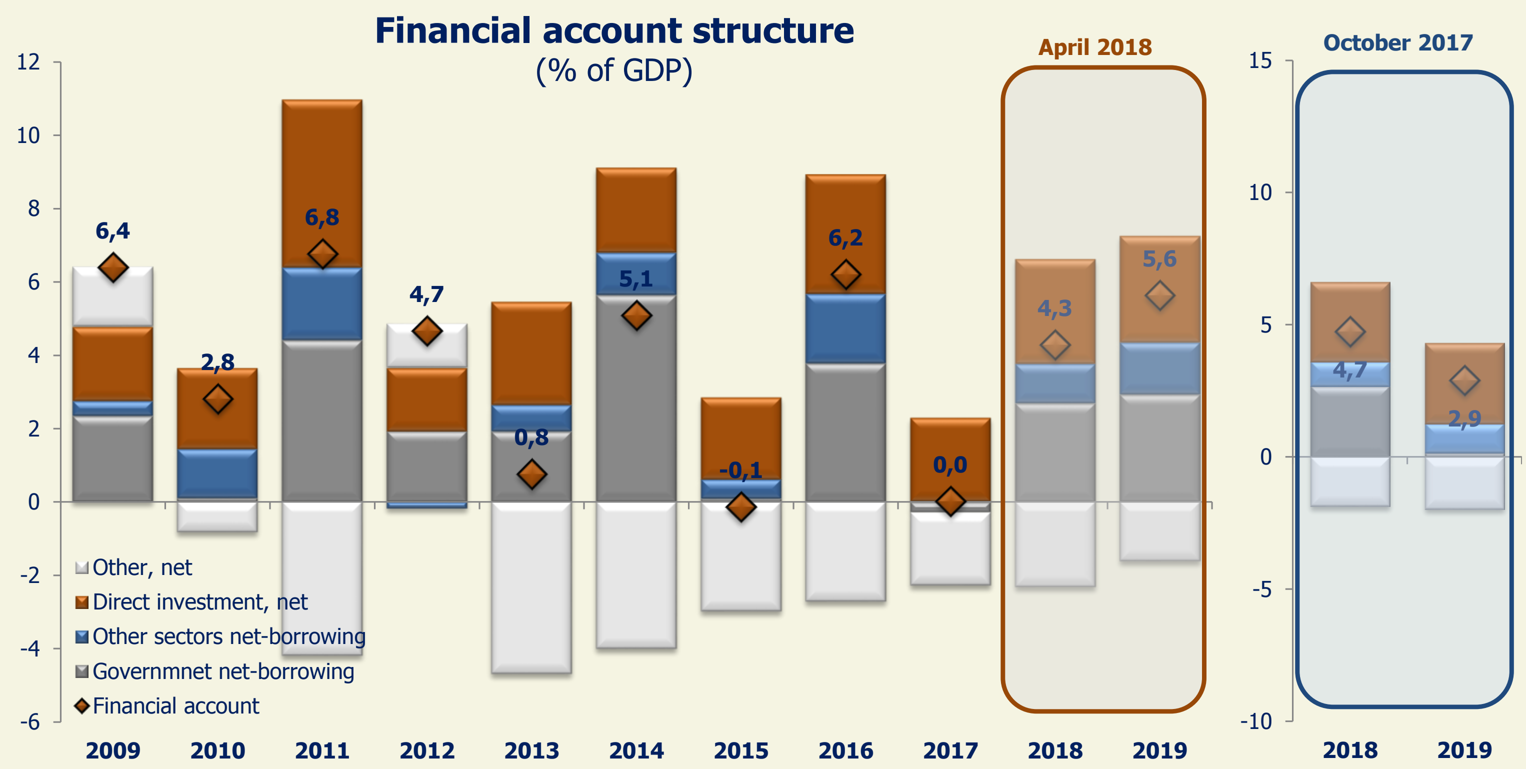
Balance of payments
- current account -

- **A moderate current account deficit** of 1.5% of GDP in 2018 and 2019 (slightly lower than the October forecast)
- **Deficit reduction in the balance of goods and services**, on the backdrop of increased capacity utilization of foreign export–oriented companies and a more favorable global environment
- Moderate slowdown in the inflows from the **secondary income**
- Estimates for further increase of the primary **income deficit**



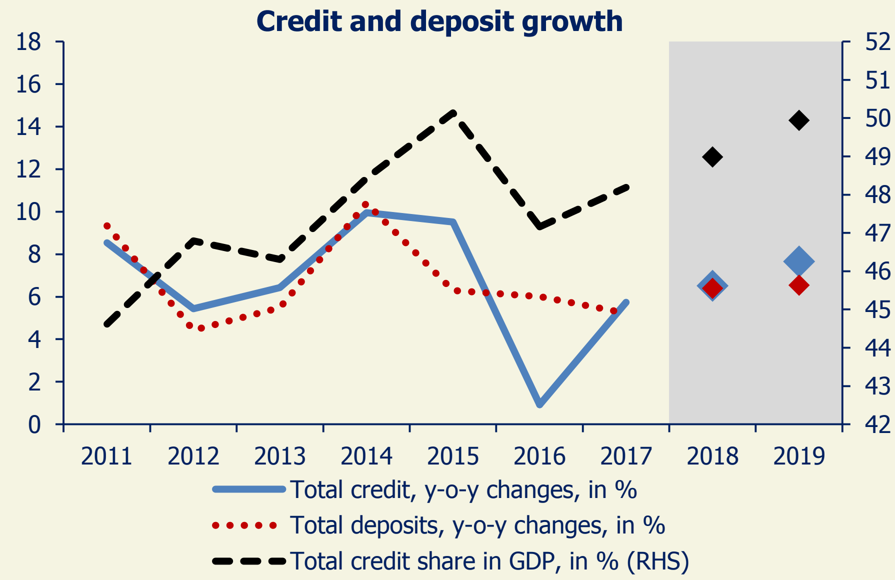
Balance of payments
- financial account -

- **Inflows on financial account in 2018 and 2019** of 5% of GDP, on average (higher than October expectations)
- Net inflows based on foreign direct investments and long-term public sector borrowing
- During the entire forecast horizon, foreign reserves adequacy indicators are maintained in a safe zone



Deposit and credit growth

- For 2018 and 2019, in a stable environment and revived economic activity, **deposit growt**h of 6.4% and 6.5%, respectively, is expected (6.1% and 6.3%, respectively in October forecast)
- The banks' lending activity is expected to remain an important factor for supporting the economic growth, with a **credit growth** of 6.5% and 7.7% for the 2018 and 2019, respectively being projected (growth of around 7% on average in October forecasts)
- The banking system remains stable, liquid and well capitalized



Summary

- NBRM loosened the monetary policy stance in the first quarter of 2018, on the backdrop of sound economic fundamentals and absence of imbalances, visible through the relatively favorable external position and the lack of more pronounced inflationary pressures
- The latest NBRM forecast for the next two years incorporates expectations for a stable domestic political environment, inflows of new foreign investments, resume of the public infrastructure cycle, as well as more favorable external environment
- In case some of these assumptions do not materialize, divergence from the projections can occur, with respect to the growth forecast, in particular
- In general, the projections point to a potential for solid growth of the domestic economy, supported by the lending activity of the banks, absence of inflationary pressures and maintenance of a favorable external position
- The NBRM will closely monitor the developments in the coming period and the future changes to the monetary policy will largely depend on the changes in the domestic and external environment

Appendix 1:
Comparison with the October forecast

Forecast of selected macroeconomic variables

	2017		2018 forecast		2019 forecast	
	Oct. forecast	Apr.	Oct.	Apr	Oct.	Apr.
GDP, %	**0.5**	**0.0**	**3.2**	**3.2**	**3.5**	**3.5**
Private consumption	2.9	2.9	2.1	2.8	2.5	2.5
Gross capital formation	-5.4	-4.5	5.0	5.2	6.4	6.4
Public consumption	-0.6	-1.5	0.0	1.6	0.0	-1.1
Exports of goods and services	8.1	9.2	10.1	10.1	6.5	7.3
Imports of goods and services	5.4	7.3	7.7	7.7	5.0	5.3
Inflation	**1.4**	**1.3**	**2.0**	**2.0**	**2.0**	**2.0**
Current account deficit, % of GDP	**-2.0**	**-1.3**	**-1.8**	**-1.5**	**-1.8**	**-1.5**

Appendix 2: Comparison of GDP and inflation forecasts for Macedonia

Comparison of GDP and inflation forecasts for Macedonia from various organisations

Organisation	Month of publication	Real GDP growth, %		Inflation (average rate, %)	
		2018	2019	2018	2019
IMF	April 2018	2.8	3.0	1.8	1.9
World Bank	April 2018	2.3	2.7	1.6	2.0
European Commission	November 2017	2.7	3.2	2.0	2.4
EBRD	November 2017	2.5	-	-	-
Consensus Forecast	April 2018	3.0	3.2	2.1	2.2
Ministry of Finance of the Rep. of Macedonia	December 2017	3.2	3.5	1.7	2.0
National Bank of the Republic of Macedonia	May 2018	3.2	3.5	2.0	2.0

Source: IMF, World Economic Outlook, April 2018; World Bank,Western Balkans Regular Economic Report, Spring 2018; European Commission European Economic Forecast, November 2017; EBRD Regional Economic Prospects, November 2017; Consensus Forecast, April 2018; Ministry of Finance of the Republic of Macedonia, Fiscal strategy 2018-2020, December 2017; and the National Bank of the Republic of Macedonia.