



# **Latest Macroeconomic Forecasts**

## **- November 2017 -**

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- **Key external and domestic environment assumptions**
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- **Comparison with the April forecasts**



# Risks between the two forecasts

- **Downside risks in the October forecast vintage less pronounced compared to April...**
  - ...mainly reflecting lesser **domestic risks**, in line with the more stable political context, and assumption about full dissipation of their impact on the economy in the forecast horizon
  - **External risks balanced on the short run, but tilted to downside on the medium run** - similar risks to those outlined in April (high policy uncertainty in the United States, possible increase of protectionism, adverse shifts of the sentiment of investors on the global financial markets, uncertain implications of the Brexit process and geopolitical tensions)
- Yet, **upside risks** are also present and mostly related to the better than currently envisaged performances of the new export capacities



# Key domestic environment assumptions

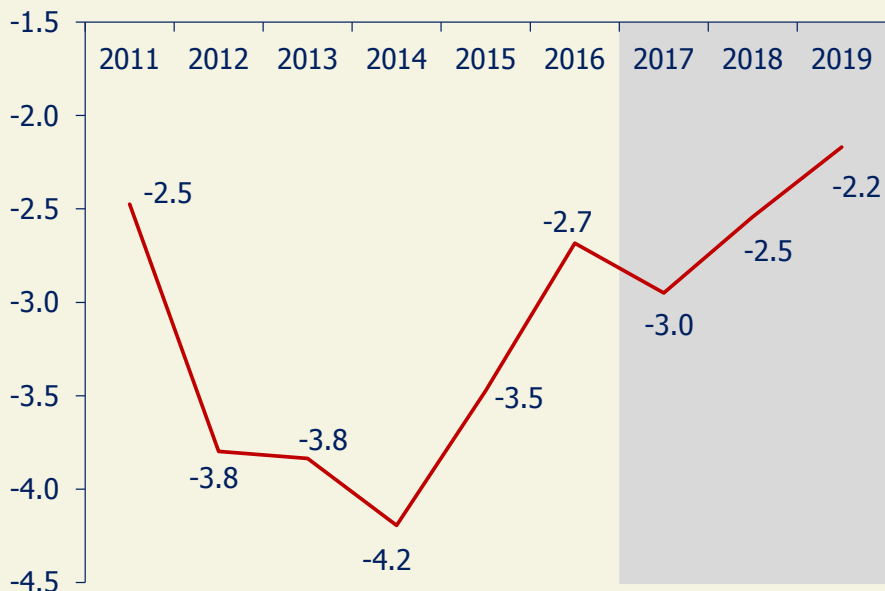
- **Stable political context** with positive implications for expectations and aggregate demand (impulse for investments and consumption)
- **FDI policies** conducive to FDI inflows in the tradable sector leading to further structural changes of the economy
- **Continued public investments in infrastructure** (after the deceleration in 2017, pick up in 2018)
- **Gradual fiscal consolidation** that will stabilize the public debt level in the medium term



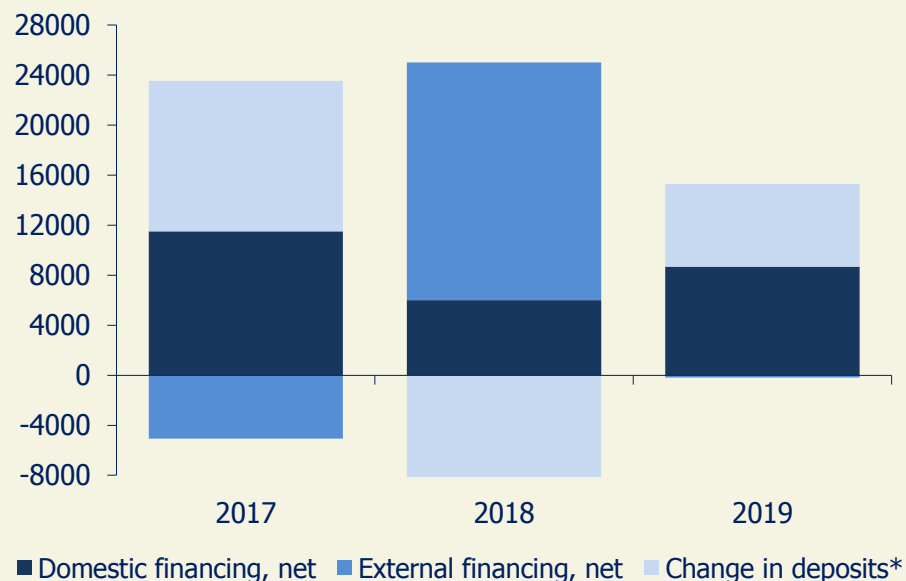
# Fiscal policy

- **The pattern of fiscal consolidation remains unchanged**, in line with the revised 2017 Budget and the latest available 2017-2019 Fiscal Strategy
- **Deficit financing** mainly through additional borrowing (mixed sources of borrowing)

**Budget balance**  
(% of GDP)



**Budget balance financing**  
(in Denar million)

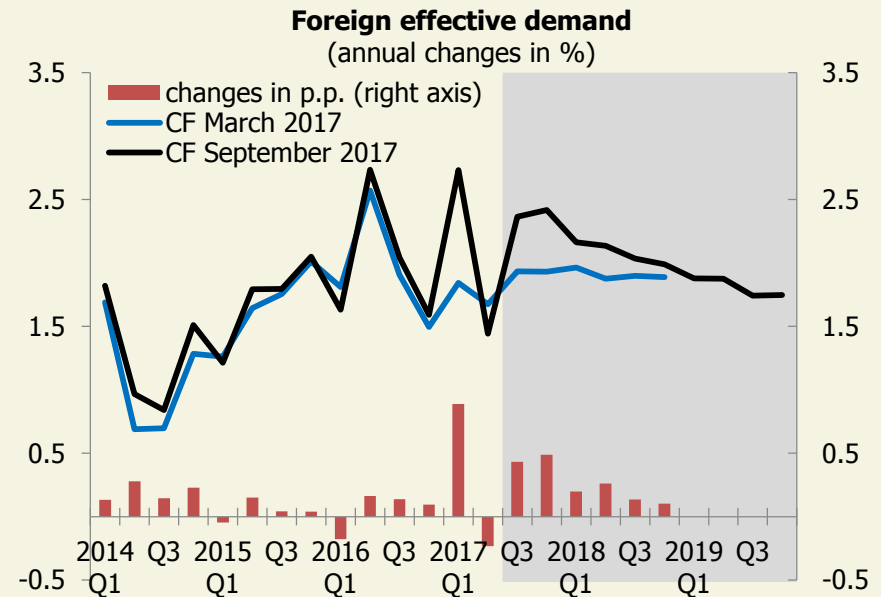


\* Positive change- deposits withdrawal; negative change-deposits accumulation.  
Source: NBRM simulations.

# External environment assumptions

## - Foreign demand -

- **Foreign demand growth continues to accelerate** supporting the export sector (particularly the traditional segment)
- **Upward revision** of foreign demand for 2017 and 2018 (growth of 2.2% in 2017 and 2.1% in 2018 versus 1.8% and 1.9% in April) mainly reflecting expectations for higher growth in Germany
- For 2019, foreign demand is expected to grow by 1.8%

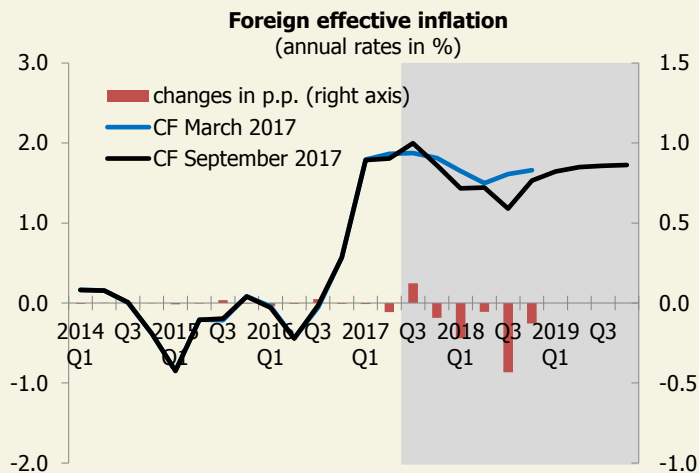




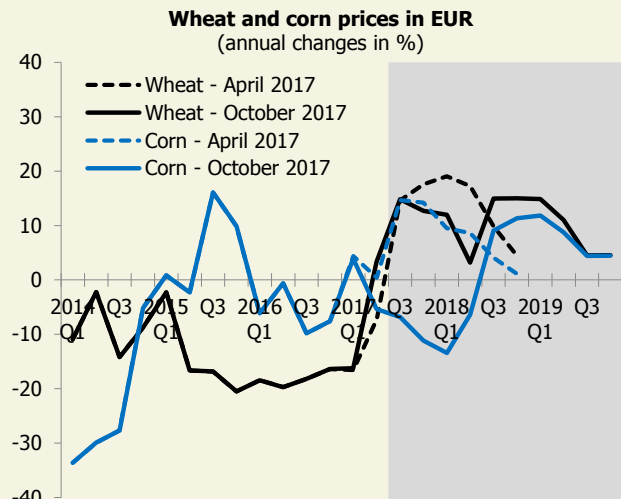
# External environment assumptions

## - Imported prices -

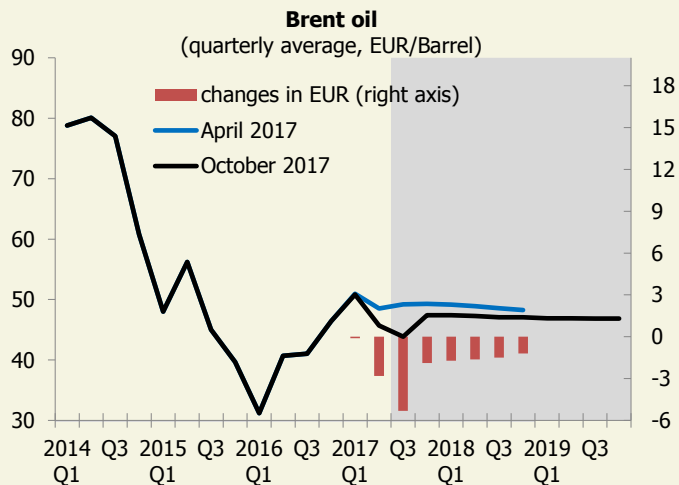
### Downward revision of foreign effective inflation...



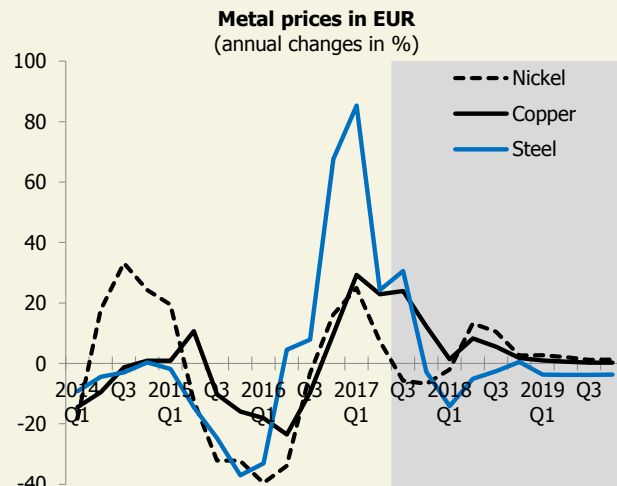
### ...food commodity prices revised in different directions in 2017 and downward revisions for 2018...



### ...lower level of oil prices...



### ...and predominantly downward revision of metal prices





# **Macroeconomic scenario 2017-2019**

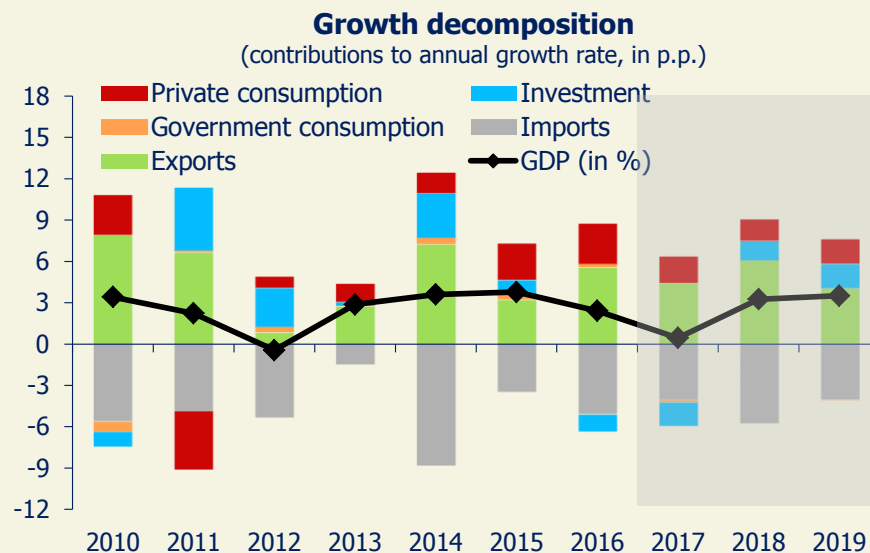




# GDP projection

- **Solid growth rate is expected during the forecast horizon** – after the moderate growth of 0.5% in 2017, there are expectations for acceleration of the growth rate to 3.2% for 2018 and to 3.5% for 2019
- Downward revision of the growth forecast for 2017 (driven by the outcomes in the first half of the year), while the forecasted 2018 growth rate remained the same as in April

	GDP	Private consumption		Gross capital formation		Exports of goods and services		Imports of goods and services		Public consumption		Domestic demand	Net exports
	%	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	%	<i>p.p.</i>	<i>contrib. in p.p.</i>	
2017	<b>0.5</b>	2.9	1.9	-5.4	-1.7	8.1	4.4	5.4	-4.0	-0.6	-0.1	0.1	0.4
2018	<b>3.2</b>	2.1	1.5	5.0	1.4	10.1	6.1	7.7	-5.8	0.0	0.0	2.9	0.3
2019	<b>3.5</b>	2.5	1.7	6.4	1.7	6.5	4.1	5.0	-4.0	0.0	0.0	3.5	0.0





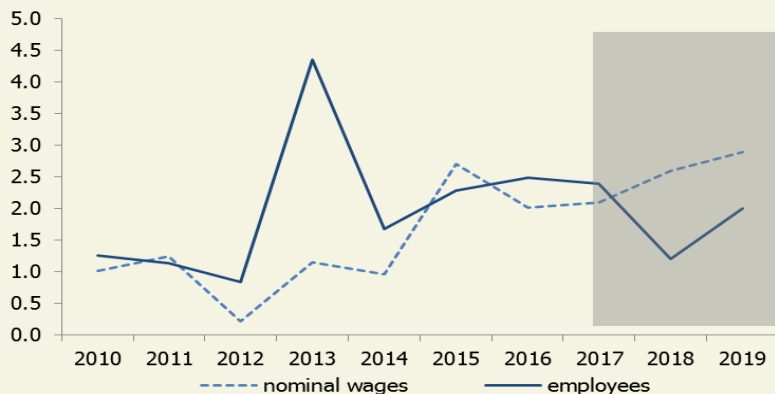
# GDP forecast

- **Fundamental growth factors similar as before - exports as growth engine with additional impetus from private consumption and investment activity:**
  - In the second half of 2017, the adverse effects of the domestic political crisis assumed to fade away and positive GDP growth is expected, generated by solid growth of export and private consumption, as well as gradual pick up in investment activity
  - On average for the three years of forecasts, **exports** are expected to be the main growth engine, driven by the growing activity of the existing production facilities in foreign ownership, the recovery of some traditional sectors and the further recovery of the foreign demand
  - Additional stimulus from **investment activity** – following the fall in 2017, the continuation of the public capital investment cycle and the growth in foreign direct investment, as well as the more stable environment for domestic investors, will support the growth in the next two years
  - Positive contribution of the **private consumption**, given the positive developments in the disposable income and the solid credit support from banks



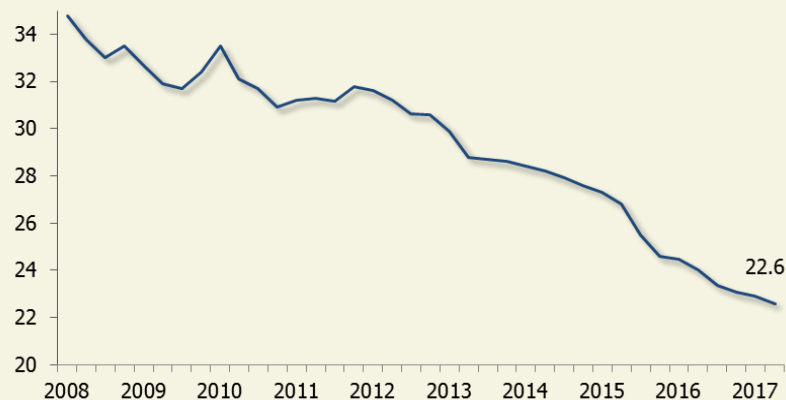
# Labour market

**Gross-wages and number of employees**  
(annual growth rates, in %)



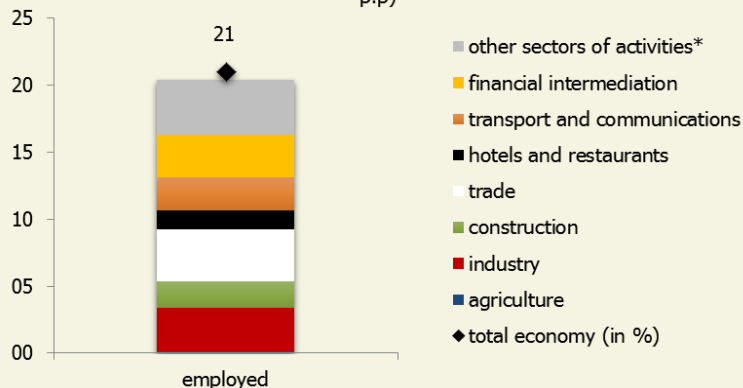
Source: State Statistical Office and NBRM calculations and projections

**Unemployment rate**  
(in %)



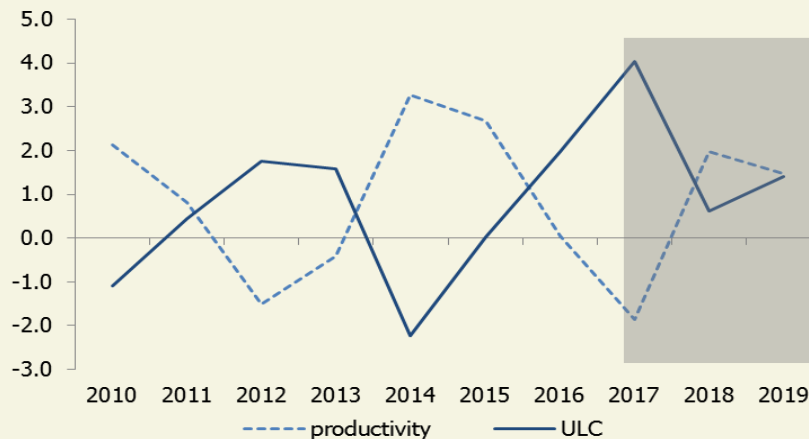
Source: State Statistical Office, Labor Force Survey

**Contributions of individual sectors of activities to the total number of employees change in the period 2017 H1 / 2008** (in p.p)



\*Other sectors of activities include: public administration and defence, compulsory social security, education, health and social work activities, activities of households as employers, as well as activities of extraterritorial organisations and bodies.

**Productivity and ULC**  
(annual growth rates, in %)



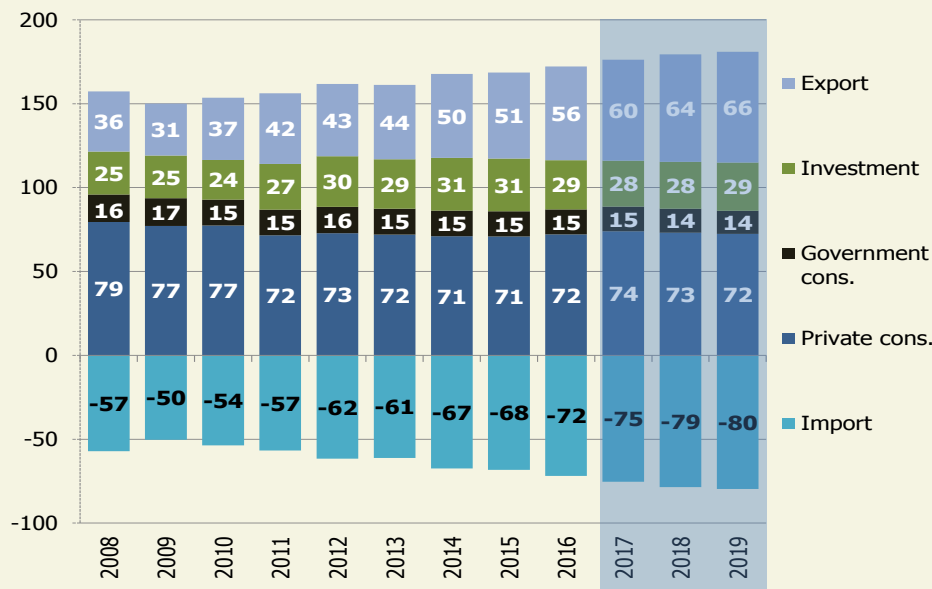
Source: State Statistical Office and NBRM calculations and projections



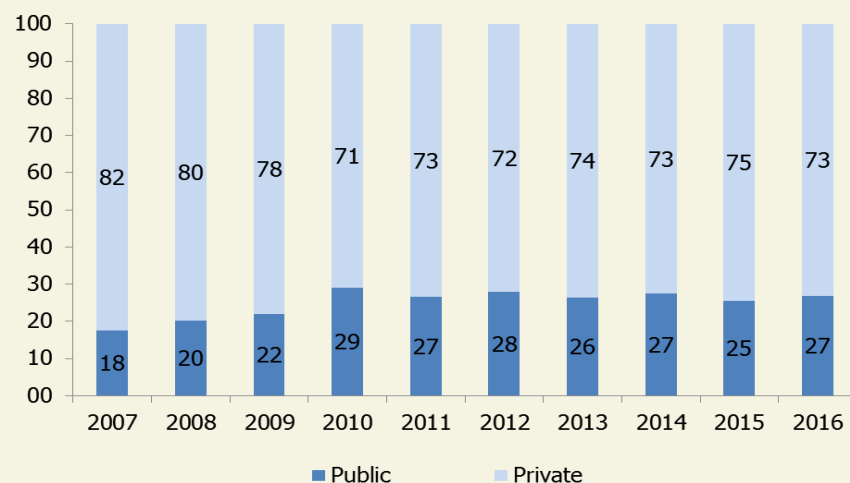
# Structural changes

The trend of positive shifts in the economy - rising share of investments and falling share of consumption - has stopped during 2015-2016, but is expected to resume in the medium term. Net export continued to improve.

**Shares of real GDP components (in %)**



**Gross fixed capital formation structure by type of ownership (in current prices, in %)**

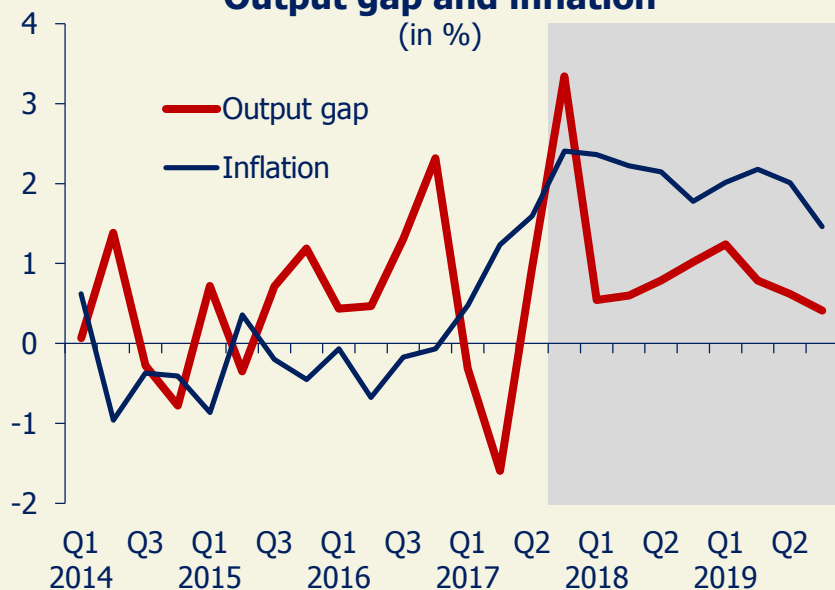




# Inflation forecast

- Inflation outcome broadly in line with the April forecasts
- No changes made to the previous inflation forecast
  - **Expected average inflation rate of 1.3% in 2017, and slight acceleration to around 2% in 2018 and 2019**, amid moderately positive output gap, increase in part of the imported prices and rise of foreign effective inflation
- **Risks** to projected inflation trajectory mainly related to the intrinsic uncertainty about import prices

**Output gap and inflation**  
(in %)



**Inflation rate**  
(in %)





# Forecasts of other institutions

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

Organisation	Month of publication	Real GDP growth, %			Inflation (average rate, %)		
		2017	2018	2019	2017	2018	2019
IMF	October 2017	2.5	3.2	3.4	0.3	2.6	1.9
World Bank	October 2017	1.5	3.2	3.9	0.9	1.6	2.0
European Commission	May 2017	2.9	3.2	-	0.8	2.3	0.0
EBRD	May 2017	2.4	3.0	-	-	-	-
Consensus Forecast	October 2017	2.2	3.3	-	1.3	1.8	-
Ministry of Finance of the Rep. of Macedonia	July 2017	2.2	3.5	4.0	1.0	1.5	1.7
National Bank of the Republic of Macedonia	October 2017	0.5	3.2	3.5	1.3	2.0	2.0

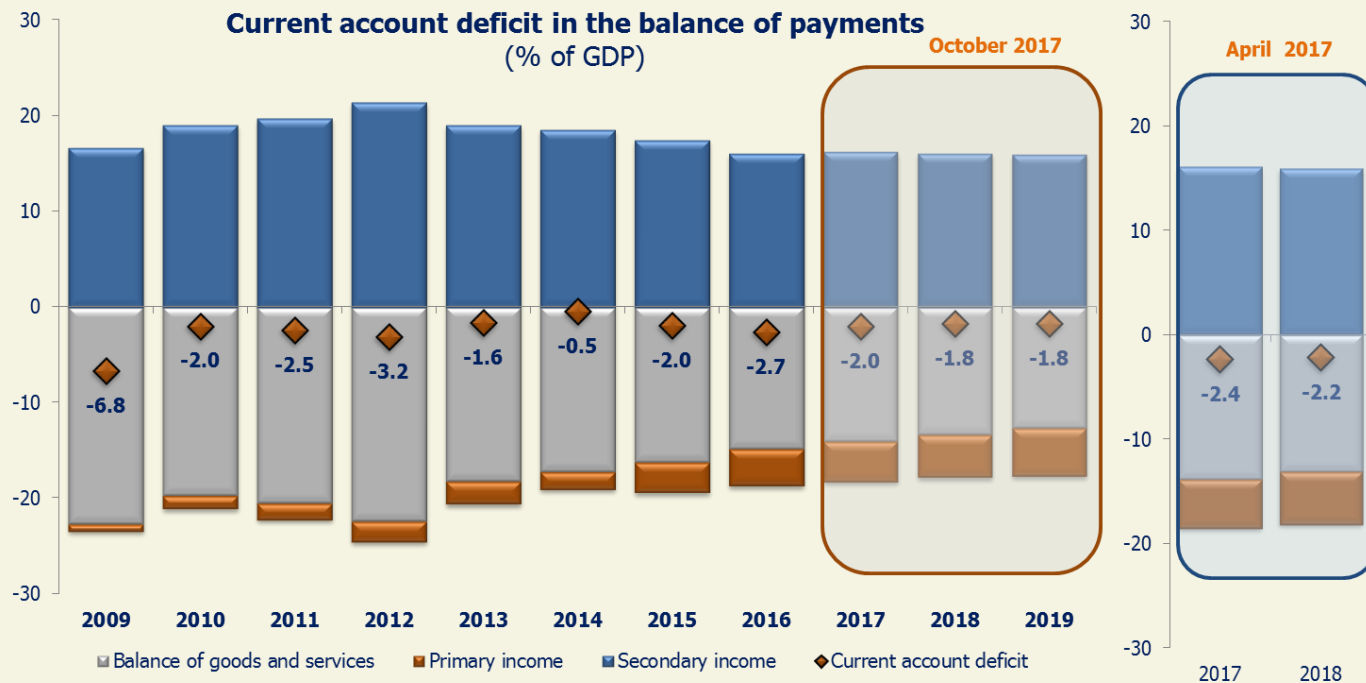
Source: IMF World Economic Outlook, October 2017; World Bank Europe and Central Asia Economic Update: Migration and Mobility, October 2017; European Commission European Economic Forecast, May 2017; EBRD Regional Economic Prospects, May 2017; Consensus Forecast, October 2017; Ministry of Finance of the Republic of Macedonia, 2017 Budget revision, July 2017 and Fiscal strategy 2017-2019, October 2016; and the National Bank of the Republic of Macedonia.



# Balance of payments

## - current account -

- **Moderate current account deficit, hovering around 2% of GDP in 2017-2019 period** (lower deficit compared to the previous forecast)
- **Expected narrowing of the deficit in the balance of goods and services**, reflecting expectations for further improvement of performances of the new export facilities, recovery of some traditional export sectors, and improvement in the services trade
- **Slight decline of secondary income surplus**, assuming no major positive or negative shocks
- **Continued but moderate widening of the primary income deficit**

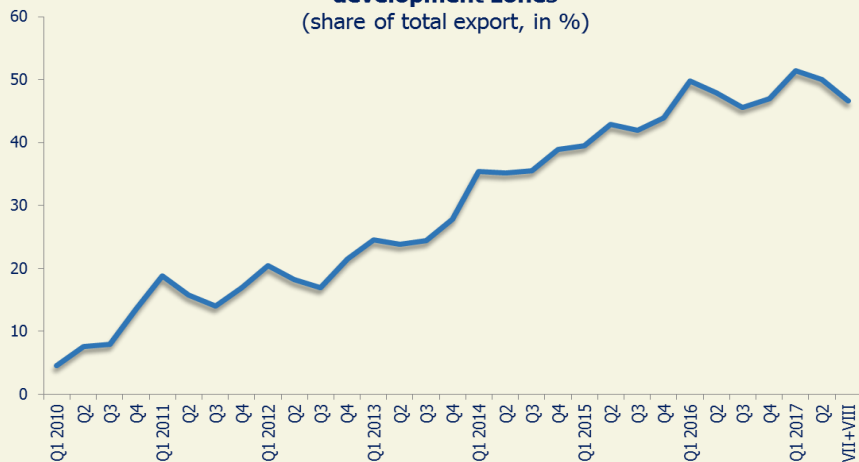




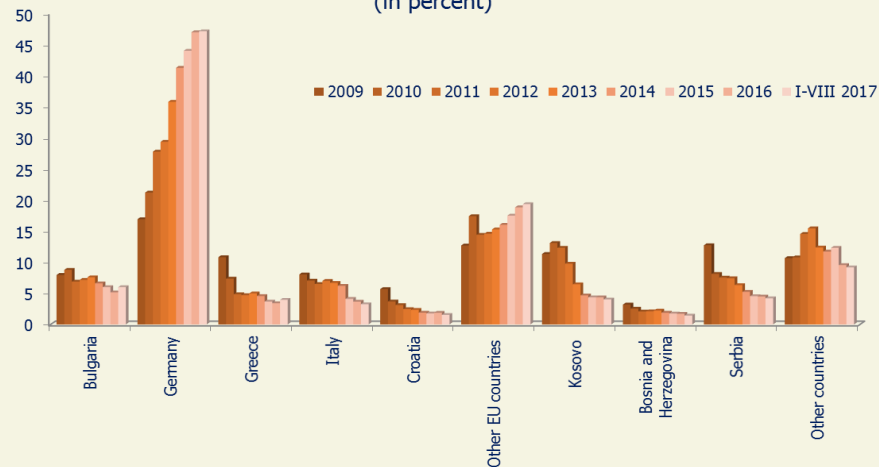
# Balance of payments - current account

## Change in export structure, by product and trading partner

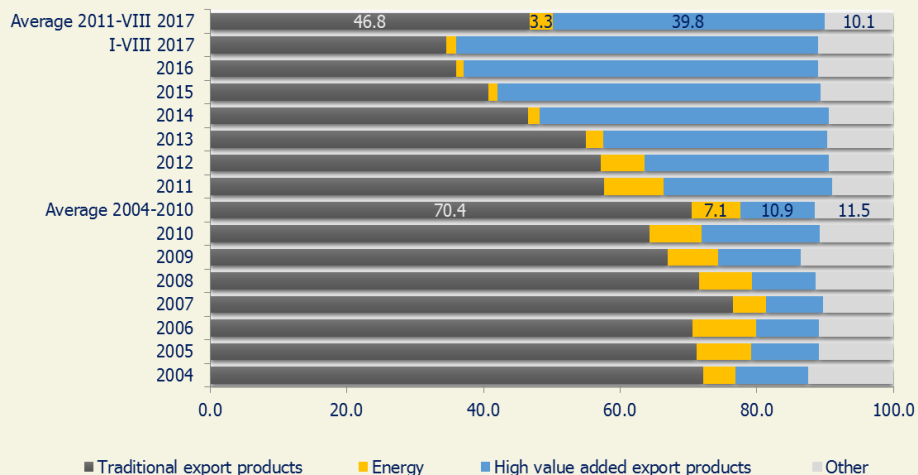
**Export by the new companies in the technological industrial development zones**  
(share of total export, in %)



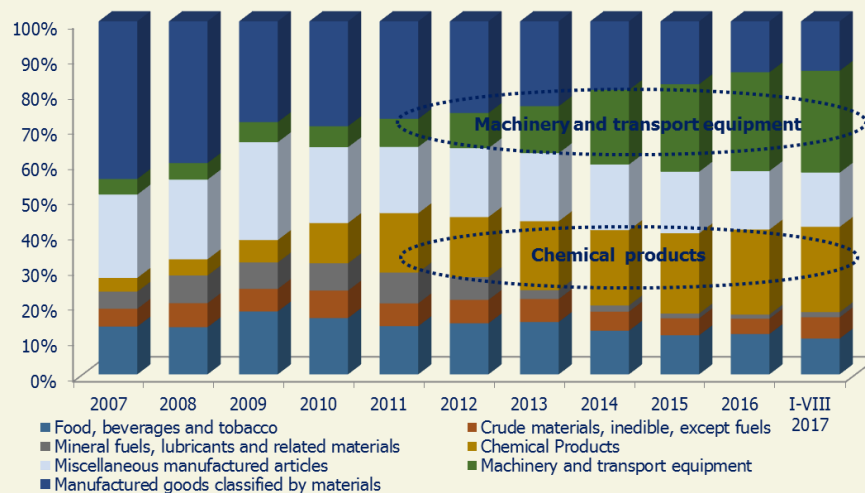
**Share of export by trading partners in total export**  
(in percent)



**Export structure**  
(share in total export, %)



**Share of export by categories in total export**  
(in percent)

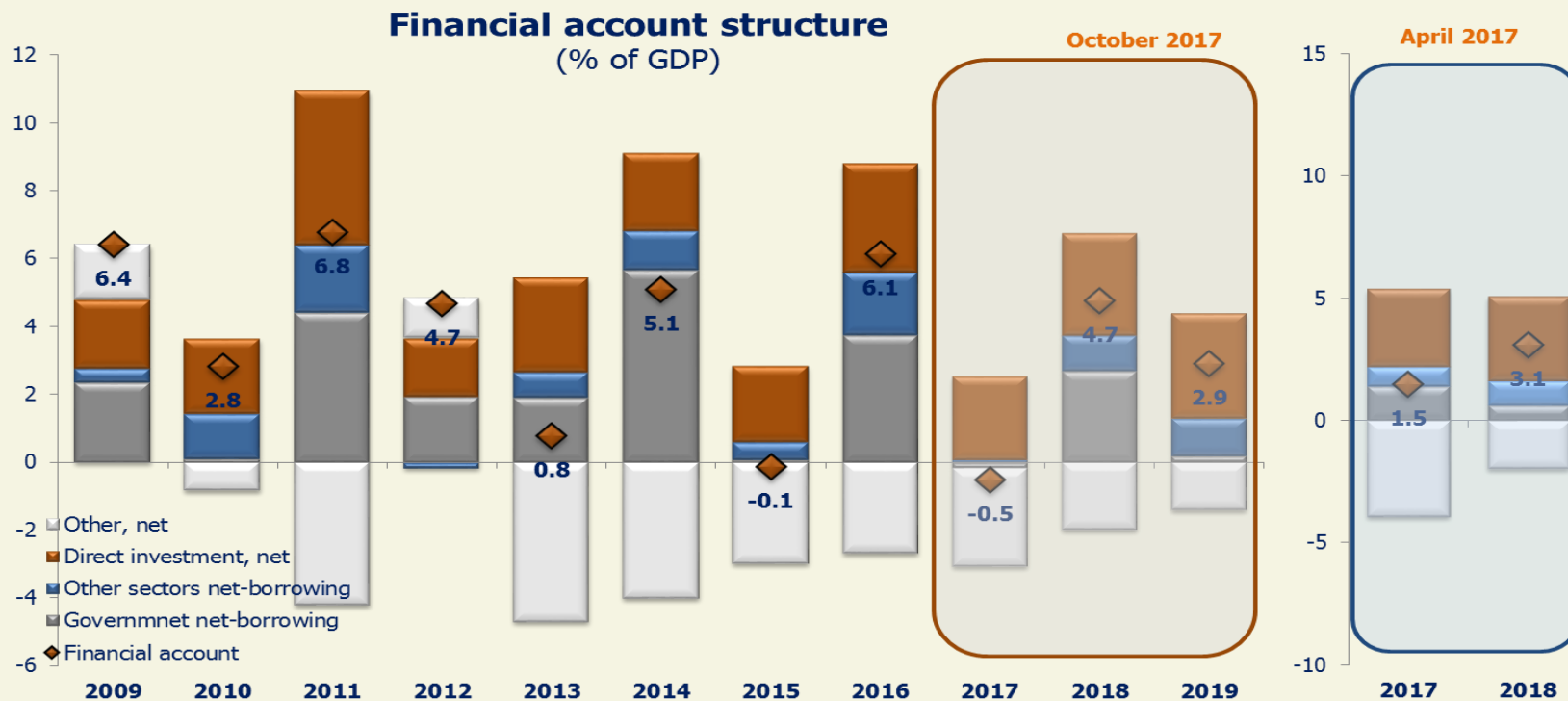






# Balance of payments - financial account -

- **Expected financial inflows on average of around 2.1% of GDP in 2017-2018** (slightly less than in the April forecasts) and further inflows of 2.9% in 2019...
- ...mainly comprised of **foreign direct investments** and **public sector borrowing**...
- ... while the short term flows are mainly negative





# Balance of payments

## Foreign reserves adequacy ratios

- During the entire forecast horizon, foreign reserves adequacy ratios were maintained in a safe zone

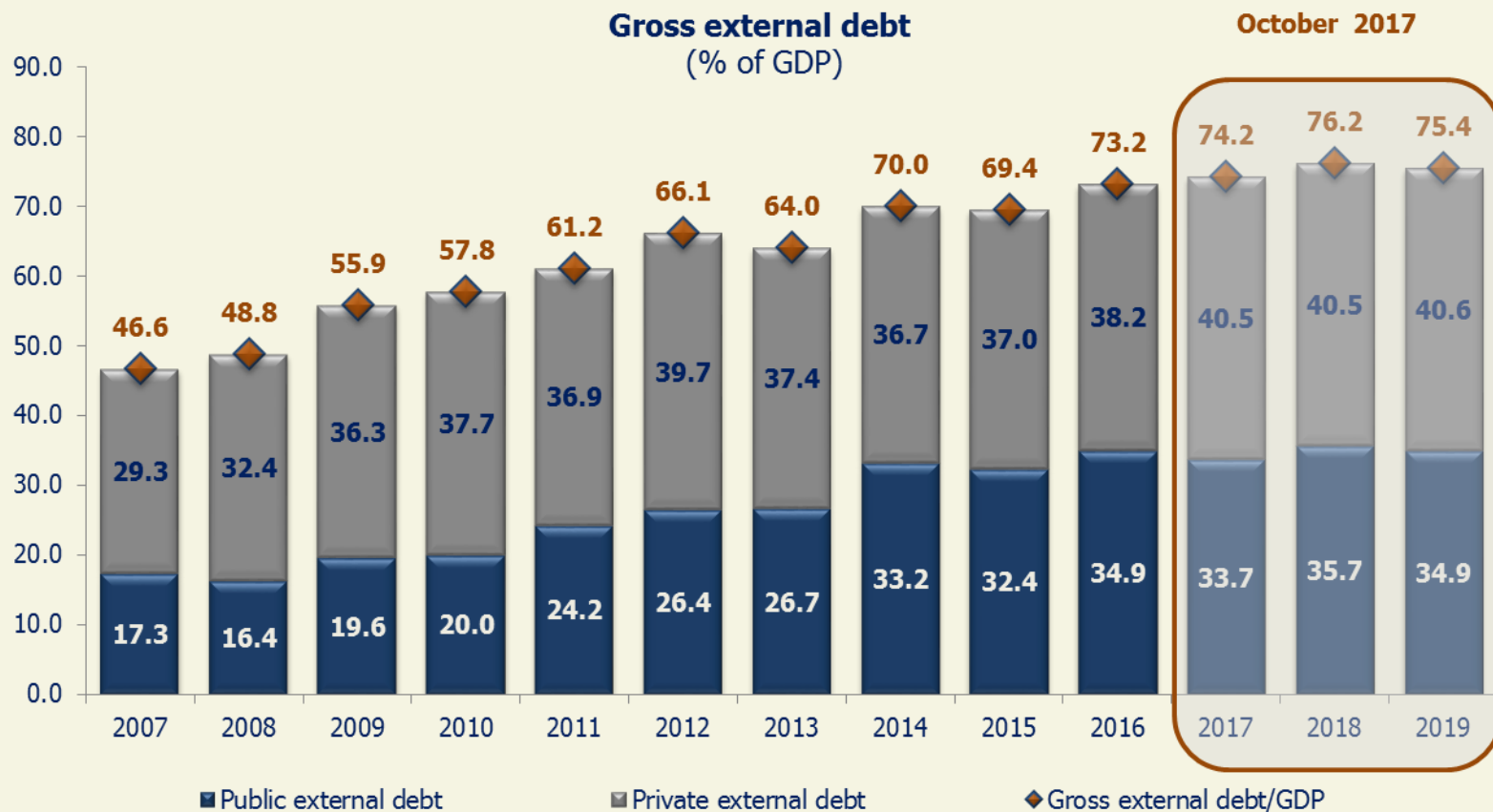
### Foreign reserves adequacy indicators





# Balance of payments

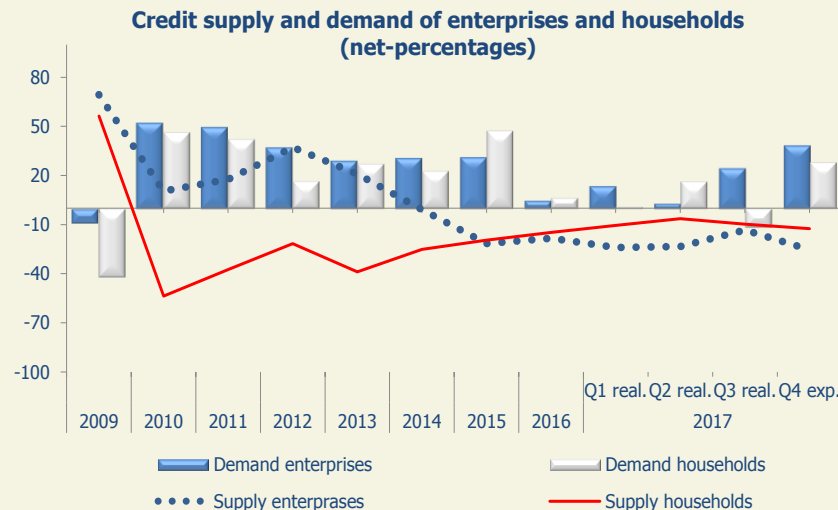
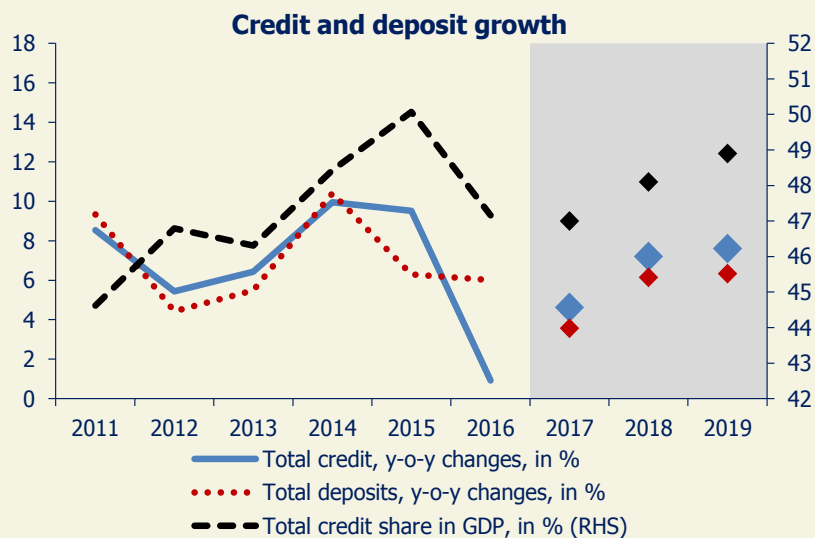
## Gross external debt indicators





# Credit and deposit growth

- **Deposit growth** expected to decelerate in 2017 (estimated at **3.6%**), while rebound to around 6% expected in 2018-2019, in line with the more stable expectations and growth of the economy
- **Credit growth** slowed down in 2017 and is estimated at **4.6%** in 2017, on the backdrop of the slower deposit growth and the uncertainty due to the prolonged political crisis
- Credit growth expected to accelerate to 7.2% in 2018 and 7.6% in 2019 reflecting the increase of credit supply and willingness of the private sector for additional borrowing
- **The banking system remains stable, liquid and highly capitalized.**





# Comparison with the April forecast

## Forecast of selected macroeconomic variables

	2017 forecast		2018 forecast	
	Apr.	Oct.	Apr.	Oct.
<b>GDP, %</b>	<b>2.5</b>	<b>0.5</b>	<b>3.2</b>	<b>3.2</b>
Private consumption	2.3	2.9	2.4	2.1
Gross capital formation	-1.3	-5.4	5.3	5.0
Public consumption	2.4	-0.6	1.2	0.0
Exports of goods and services	7.6	8.1	8.1	10.1
Imports of goods and services	3.1	5.4	6.3	7.7
<b>Inflation</b>	<b>1.3</b>	<b>1.3</b>	<b>2.0</b>	<b>2.0</b>
<b>Current account deficit, % of GDP</b>	<b>-2.4</b>	<b>-2.0</b>	<b>-2.2</b>	<b>-1.8</b>



# Risks around the forecast and policy measures

- Risks around the October macroeconomic scenario are lesser compared to the April forecast vintage...
- ...with the October forecast factoring in assessment of stable domestic surrounding, and fading away of the effects of the previously turbulent political context
- The latest forecast shows solid economic and credit growth, stable prices and “benign” external position in 2018-2019
- Given the solid economic fundamentals, but possible vulnerabilities in certain areas, the NBRM did not change the monetary stance in the third quarter of 2017
- In the period ahead, the NBRM will continue to monitor closely the developments and adjust monetary policy, if appropriate



**Thank you.**