National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

April 2016

Recent Macroeconomic Indicators
Review of the Current Situation - Implications for the Monetary Policy

The review of the current situation aims to give an overview of the recent macroeconomic data (January - March 2016) and to make a comparison with the latest macroeconomic forecasts (October 2015). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous round of forecasts. The review focuses on the changes in external assumptions and performances of domestic variables and the effect of these changes on the environment for monetary policy conduct.

The global economic environment has not undergone major changes compared to the October forecasts. The global economy continues to follow a path of gradual recovery, but the pace of growth continues to be assessed as unsatisfactory, amid increased uncertainty and pronounced geopolitical risks. Thus, despite the economic growth of 1.5% in the euro area for the whole of 2015 as forecasted in December, the latest ECB's forecasts from March 2016 show a downward revision of economic growth1 due to the weaker global demand, increased financial market volatility, expectations for a stronger euro and weaker confidence indicators. Inflation was downwardly revised, particularly for 20162. Thus, in accordance to the global and domestic conditions and the latest forecasts, as previously announced, at the meeting held on 10 March 2016, the ECB adopted several decisions on further easing of monetary policy3. The latest high frequency data provide mixed signals for growth in the first quarter of 2016. The labor market developments remain favorable, given the reduction in the unemployment rate to 10.3% in February 2016 and the favorable trends in industrial output and construction in January. On the other hand, the foreign trade data as of January indicate a decline in exports and imports of goods and narrowing of the trade surplus. Surveys of the confidence of households and companies point to reduction in the negative expectations. As for inflation, according to the preliminary estimates for March 2016, it is again slightly within the negative zone i.e. -0.1% annually (-0.2% in February), given the decline in energy prices, while core inflation accelerated from 0.8% in February to 1% in March.

Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the forecasts regarding the foreign effective demand for Macedonian products indicate moderate upward revision relative to the October cycle. Thus, the assessment of higher foreign demand in 2016 is minimally adjusted upward compared to previous expectations, and slightly more significant upward revision has been made in the assessment for 2017. **Foreign effective inflation** has been revised significantly downward for 2016, while for 2017, the foreign prices growth forecast remained unchanged compared with the October forecast. **With regard to prices of primary products, the current forecasts for 2016 have been revised downwards, while the revisions for 2017 are upwards. World oil prices,** amidst the glut on the markets and weak demand, are expected to decline in 2016 as opposed to the growth forecasted in October, while for 2017, oil prices are expected to increase at a faster pace than forecasted in October, but the price level is still lower than previously expected. Analyzing **metal prices,** amid expectations for unbalanced fundamentals during 2016, a deeper decline is expected than in the October forecast, while for 2017, the market of non-ferrous metals is expected to somewhat recover, amid expectations for a gradual reduction of excess supply on the global market. With regard to world **prices of food,** stronger decrease of prices

[1] According to the latest ECB's forecasts, the growth rate of real GDP for 2016, 2017 and 2018 is estimated at 1.4%, 1.7% and 1.8%, respectively. The previous (December) forecasts estimated that the growth will be 1.7% and 1.9% for 2016 and 2017, respectively.

[2] The latest inflation forecast are 0.1%, 1.3% and 1.6%, for 2016, 2017 and 2018 respectively, compared to the December forecasts of 1% and 1.6% for 2016 and 2017, respectively.

[3] The ECB cut its policy rate to 0% (down 5 basis points), simultaneously correcting both deposit interest rate (-0.4%) and lending interest rate (0.25%). Furthermore, the ECB has also expanded the program for quantitative easing, increasing the amount of monthly purchase from Euro 60 billion to Euro 80 billion since April 2016, and including in the portfolio corporate bonds from the private non-banking sector enjoying an investment rating. In addition, the ECB announced the implementation of a new program for targeted longer-term refinancing operations (TLTROs) to lower bank funding costs, starting from June 2016, thus further affecting its liquidity.

for 2016 is expected than in the October forecast, while for 2017, the latest assessments show stronger growth than previously forecasted. However, one should bear in mind that the expectations for the prices of these commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy.

The latest assessments indicate that the **EURIBOR interest rate will follow similar path during the current and the next year, as in the October forecast, but at a lower level than expected,** taking into account the ECB's measures from March 2016 aimed at additional monetary relaxation.

The comparison of the latest macroeconomic indicators with their forecasted dynamics within the October forecasts generally does not indicate major deviations in the individual segments of the economy. The latest data confirm the growth of the economy in the fourth quarter, as forecasted in October. Analyzing by sector, construction, along with trade, transport and communications, and catering, are seen as driving sectors of growth in the fourth quarter, while on the demand side, the growth structure points to the domestic demand as a key generator of the economic growth. Speaking for the whole year, the GDP growth was 3.7%, slightly higher than forecasted in October (3.2%), with a significant part of this deviation being explained by the upward revisions made to the growth in the first half of year. The indicative high frequency data for the first quarter of 2016 point to further growth of the domestic economy, amid favorable movements registered in most of the significant economic sectors. However, uncertainty about these movements is great considering that estimates rely upon few available data. **As for inflation, in February, consumer prices remained unchanged (annual inflation rate of 0%)** amidst higher core inflation as prices of energy and food prices continue to decline. In terms of forecasted inflation, the trend of downward deviation of the actual rate versus the one forecasted in October continued in February. Additionally, in February, the forecasted movement in the prices of internationally traded primary commodities was again adjusted downwards, which amid lower outturn indicates **presence of downward risks with regard to the inflation forecast for 2016**.

Recent foreign reserves data as of March 2016 (adjusted for the effects of price and exchange rate differentials and price changes of securities) show moderate growth since early 2016. Analyzed through the factors of change, the growth in the reserves in the first quarter mainly results from transactions on behalf of the government and NBRM transactions. External sector indicators suggest that balance of payments data in January 2016 point to the possibility of a smaller current account deficit than expected for the first quarter of the year, while the financial transactions generated net outflows instead of the expected net inflows. Latest available foreign trade data as of the first two months still suggest a smaller trade deficit, as a combined effect of the good performance of the new companies and the smaller price pressures from energy imports. Net purchase from currency exchange operations as of March indicates that the performance is in line with the expectations for the movement of private transfers for the first quarter forecasted in October. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone.

With regard to the monetary sector developments, the final data as of February show a monthly increase of the deposit base by 1.3%, compared to the fall of 1.6% in January. The growth was mostly due to the increased corporate deposits, amid moderate growth of household deposits, as well. These developments are contrary to the outturn in January when both sectors registered a monthly decline, with significantly higher intensity of corporate deposits. On an annual basis, total deposits in February grew by 5.1%, exceeding the forecast for the first quarter of 4.6%. Analyzing the credit market, in February, total loans increased on a monthly basis, contrary to the decline registered in the previous month. The increase in total loans is mostly due to the increase of loans to households amid a moderate monthly growth in corporate loans (as opposed to their more intensive monthly decline in January). On an annual basis, the total loans increased by 8.7%, exceeding the forecast of 7.7% for the first quarter, mainly due to the high performance from the previous quarter.

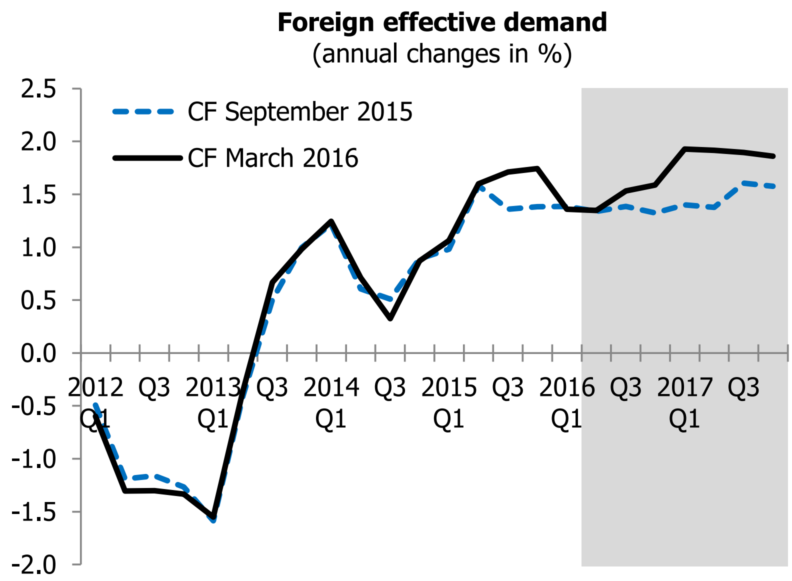
In the first two months of 2016, the Budget of the Republic of Macedonia registered a deficit of Denar 4,459 million, primarily financed through net issuance of government securities in the domestic market and government deposits with the NBRM. The deficit in January-February was around 23.5% of the planned deficit for the entire year, according to the Budget of the Republic of Macedonia for 2016.

The latest macroeconomic indicators and assessments do not show major changes in the perceptions about the environment for monetary policy conduct as well as the risks, compared to the assessments provided in the October forecasts. Foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) increased in the first quarter, while the foreign reserve adequacy indicators remain within the safe zone. In terms of economic activity, GDP growth in the last quarter was solid and as expected. Available high frequency indicators suggest a continuation of favorable developments in the first quarter of 2016. Inflation performance is below the forecasts, which together with the downward correction of the expected movement of external assumptions indicates downward risks to the inflation forecast for the next year. Within the monetary sector, February data again show higher deposits and loans, after falling in the first month of the year. Given the good performance in December, the level of deposits at the end of February was above the forecasts for the first quarter of 2016, while loans to the private sector are almost as forecasted. **In any case, the uncertainty associated with domestic political developments and global environment which was pronounced within the October round of forecasts is still present. This situation imposes the need for continuous monitoring of the performance and regular reassessment of risks and their relevance in the context of achieving monetary goals.**

Selected economic indicators/1

				2015																	2016			
	2012	2013	2014	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep	Q3	Oct.	Nov	Dec	Q4	2015	Jan.	Feb.	Mar.	Q1
I. Real sector indicators																								
Gross domestic product (real growth rate, y-o-y) /2	**-0.5**	**2.7**	**3.5**				**3.8**				**3.4**				**3.6**				**3.9**					
Industrial production /3																								
y-o-y	-2.8	3.2	4.8	1.1	3.1	0.6	1.5	-0.9	-5.0	6.4	0.1	-2.7	12.7	8.6	5.7	13.1	11.5	10.5	11.7	4.9	8.0	15.2		
cumulative average	-2.8	3.2	4.8	1.1	2.1	1.5	1.5	0.8	-0.4	0.8	0.8	0.2	1.7	2.5	2.5	3.6	4.4	4.9	4.9	4.9	8.0	11.7		
Inflation /4																								
CPI Inflation (y-o-y) /5	4.7	1.4	-0.3	-1.5	-1.0	-0.3	-0.9	0.1	0.3	0.5	0.3	-0.4	0.1	-0.2	-0.2	-0.5	-0.3	-0.3	-0.4	-0.3	0.1	0.0	-0.4	-0.1
CPI Inflation (cumulative average)	3.3	2.8	-0.3	-1.5	-1.2	-0.9	-0.9	-0.6	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	0.1	0.1	-0.1	-0.1
Core inflation (cumulative average)	2.1	3.0	0.6	-1.1	-0.6	-0.4	-0.4	-0.2	0.0	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5	1.6	1.6	1.7	1.7
Core inflation (y-o-y)	2.1	3.0	0.6	-1.1	-0.2	0.0	-0.4	0.5	0.8	0.8	0.7	1.0	0.4	0.8	0.7	0.6	1.1	1.3	1.0	0.5	1.6	1.6	1.8	1.7
Labor force																								
Unemployment rate	31.0	29.0	28.0				27.3				26.8				25.5				24.6	26.1				
II. Fiscal Indicators																								
(Central Budget and Budgets of Funds)																								
Total budget revenues	138,115	140,248	145,929	10,527	12,089	15,163	37,779	14,383	13,750	12219.0	40352.0	14,458	11,537	13,319	39,314	14,046	13,889	15,827	43,762	161,207	12923	12925		
Total budget expenditures	155,840	159,505	168,063	12,732	14,467	16,881	44,080	14,375	15,348	13849.0	43572.0	16,038	13,240	14,389	43,667	14,911	15,303	19,099	49,313	180,632	14611	15696		
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301	8	-1,598	-1630.0	-3220.0	-1,580	-1,703	-1,070	-4,353	-865	-1,414	-3,272	-5,551	-19,425	-1688	-2771		
Overall balance (in % of GDP) /1	-3.8	-3.8	-4.2	-0.4	-0.4	-0.3	-1.1	0.0	-0.3	-0.3	-0.6	-0.3	-0.3	-0.2	-0.8	-0.2	-0.3	-0.6	-1.0	-3.5	0	0		
III. Financial indicators /6																								
Broad money (M4), y-o-y growth rate	**4.4**	**5.3**	**10.5**	**11.1**	**9.7**	**8.8**	**8.8**	**9.7**	**8.9**	**9.2**	**9.2**	**7.8**	**7.0**	**6.2**	**6.2**	**7.0**	**6.8**	**6.8**	**6.8**	**6.8**	**4.5**	**5.4**		
Total credits, y-o-y growth rate	**5.4**	**6.4**	**10.0**	**9.2**	**9.2**	**9.2**	**9.2**	**10.2**	**9.5**	**9.0**	**9.0**	**8.9**	**8.8**	**8.8**	**8.8**	**8.4**	**7.9**	**9.5**	**9.5**	**9.5**	**8.6**	**8.7**		
Total credits - households	6.5	10.2	11.8	11.5	11.8	12.1	12.1	12.3	12.4	12.4	12.4	12.7	12.7	12.8	12.8	12.5	12.6	12.9	12.9	12.9	12.6	12.8		
Total credits - enterprises	4.5	3.8	8.6	7.5	7.3	7.1	7.1	8.7	7.4	6.7	6.7	6.3	6.0	6.0	6.0	5.4	4.5	7.1	7.1	7.1	5.5	5.8		
Total deposits (incl. demand deposits), y-o-y growth rate	**4.9**	**6.1**	**10.4**	**10.6**	**9.5**	**8.4**	**8.4**	**9.5**	**8.4**	**8.9**	**8.9**	**7.4**	**6.7**	**5.7**	**5.7**	**6.5**	**6.6**	**6.5**	**6.5**	**6.5**	**4.3**	**5.3**		
Total deposits - households	7.2	6.7	8.9	8.4	7.6	8.1	8.1	7.5	6.9	6.2	6.2	6.2	4.8	5.0	5.0	4.4	4.5	4.1	4.1	4.1	3.6	3.5		
Total deposits - enterprises	-1.6	3.1	15.7	17.4	14.4	9.0	9.0	17.1	14.5	17.8	17.8	11.4	13.1	7.1	7.1	11.0	11.7	13.0	13.0	13.0	6.4	11.8		
Interest rates /7																								
Interst rates of CBBills	3.73	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25		3.25
Lending rates																								
denar rates (aggregated, incl. denar and denar with f/x clause)	8.5	8.0	7.5	7.4	7.3	7.2	7.3	7.2	7.1	7.1	7.1	7.0	7.0	7.0	7.0	6.9	6.9	6.8	6.9	7.1	6.8	6.7		
f/x rates	7.0	6.5	6.3	6.1	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.8	5.8	5.8	5.8	5.8	5.7	5.8	5.9	5.7	5.7		
Deposit rates																								
denar rates (aggregated, incl. denar and denar with f/x clause)	5.1	4.4	3.7	3.3	3.2	3.1	3.2	3.0	3.0	2.9	3.0	2.9	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.9	2.5	2.5		
f/x rates	2.2	1.8	1.4	1.5	1.5	1.4	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.1	1.2	1.1	1.1	1.1	1.1	1.3	1.1	1.1		
IV. External sector indicators																								
Current account balance (millions of EUR)	**-240.0**	**-134.1**	**-68.7**	**37.6**	**2.9**	**-86.9**	**-46.5**	**-57.1**	**-28.5**	**3.4**	**-82.1**	**26.7**	**39.1**	**65.1**	**130.9**	**-36.7**	**-22.2**	**-70.7**	**-129.6**	**-127.3**	**24.9**			
Current account balance (% of GDP)	*-1.6*	*-1.6*	-0.8	*0.4*	0.0	-1.0	-0.5	-0.6	-0.3	0.0	-0.9	0.3	0.4	0.7	1.4	-0.4	-0.2	-0.8	-1.4	-1.4	0.3			
Trade balance (millions of EUR)/8	**-1,946.7**	**-1,756.6**	**-1762.0**	**-73.7**	**-109.9**	**-194.5**	**-378.1**	**-202.8**	**-110.6**	**-133.1**	**-446.5**	**-158.8**	**-110.9**	**-92.7**	**-362.3**	**-166.3**	**-161.6**	**-210.8**	**-538.7**	**-1725.7**	**-65.9**	**-130.2**		
Trade balance (% og GDP)	*-25.7*	*-21.6*	-20.7	*-0.8*	*-1.2*	-2.1	-4.2	-2.2	-1.2	-1.5	-4.9	-1.7	-1.2	-1.0	-4.0	-1.8	-1.8	-2.3	-5.9	-19.0	-0.7	-1.4		
import (millions of EUR)	-5,070.6	-4,968.4	-5485.0	-365.5	-408.9	-533.6	-1308.1	-498.0	-469.6	-514.0	-1481.7	-505.8	-428.1	-460.1	-1394.0	-535.0	-521.6	-536.5	-1593.2	-5776.9	-354.0	-475.7		
export (millions of EUR)	3,124.0	3,211.8	3723.0	291.8	299.1	339.1	929.9	295.2	359.0	380.9	1035.2	347.0	317.3	367.4	1031.7	368.7	360.0	325.8	1054.4	4051.2	288.1	345.4		
rate of growth of import (y-o-y)	0.3	-2.0	10.4	-2.9	-2.2	19.7	5.5	9.3	-2.0	19.0	8.4	0.9	2.5	-4.5	-0.5	3.0	13.4	8.0	7.9	5.3	-3.1	16.3		
rate of growth of export (y-o-y)	-2.8	2.8	15.9	24.0	6.5	13.7	14.2	0.0	13.4	16.6	10.3	7.9	4.6	2.7	5.0	4.6	5.2	11.3	6.8	8.8	-1.3	15.5		
Foreign Direct Investment (millions of EUR)	**131.1**	**229.4**	**197.4**	**35.4**	**12.0**	**20.6**	**68.0**	**36.5**	**-8.3**	**18.3**	**46.5**	**16.4**	**7.6**	**-18.6**	**5.5**	**56.2**	**-23.7**	**18.1**	**50.7**	**170.7**	**1.6**			
External debt																								
Gross external debt (in milllions of EUR)	5171.7	5219.7	5992.3				6251.5				6359.8				6240.1				6353.7	6353.7				
public sector	2162.1	2172.4	2846.8				3024.7				3059.8				3036.6				2935.4	2935.4				
public sector/GDP (in %)	28.5	26.7	33.4				33.3				33.7				33.4				32.3	32.3				
private sector	3009.5	3047.4	3145.5				3226.9				3300.0				3203.5				3418.3	3418.3				
Gross external debt/GDP (in %)	68.2	64.0	70.3				68.8				70.0				68.6				69.9	69.9				
Gross official reserves (millions of EUR)/9	**2,193.3**	**1,993.0**	**2,436.5**	**2,483.7**	**2,330.7**	**2,354.8**		**2,344.3**	**2,328.5**	**2,254.8**		**2,198.3**	**2,177.7**	**2,187.4**	**2,187.4**	**2,188.0**	**2,203.4**	**2,261.7**	**2,261.7**	**2,261.7**	**2,246.9**	**2,253.4**	**2,266.3**	

/1 While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2015, the projected level from the NBRM projections from October 2015 is used.
/2 Preliminary data for 2014. Estimated data for 2015.
/3 The changes of Index of industrial production are according to base year 2010=100.
/4 CPI calculated according to COICOP.
/5 Inflation on annual basis corresponds to end-year inflation (December current year/December previous year)
/6 The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since 01.01.2009).
/7 As of January 2015 data for active and passive interest rates are compiled according to the new methodology of NBRM.
/8 Trade balance according to foreign trade statistics (on c.i.f. base).
/ 9The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.



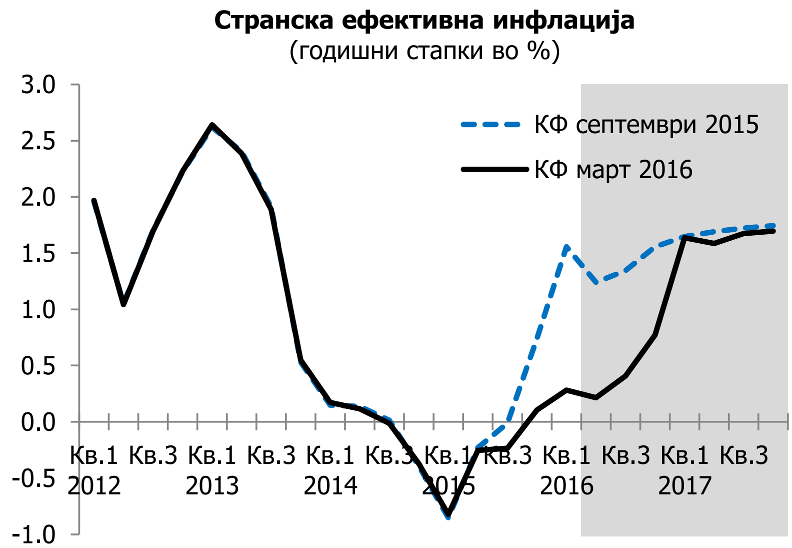
Source: "Consensus Forecast" and NBRM calculations.

According to the latest estimates, the foreign effective demand was revised upwards in the entire forecast horizon.

Thus, **for 2016**, it is now forecasted to increase by 1.5% versus 1.4% as forecasted in October...

...while **for 2017,** the growth in foreign demand was significantly revised upward to 1.9% instead of 1.5% as originally forecasted in October.

The upward revisions in both years were mainly due to more optimistic assessments of the performance of the Greek economy, with additional positive contribution of the upward revision of the economic growth in Bulgaria, particularly for 2017.



Source: "Consensus Forecast" and NBRM calculations.

The latest forecasts point to significantly slower growth of foreign effective inflation in 2016...

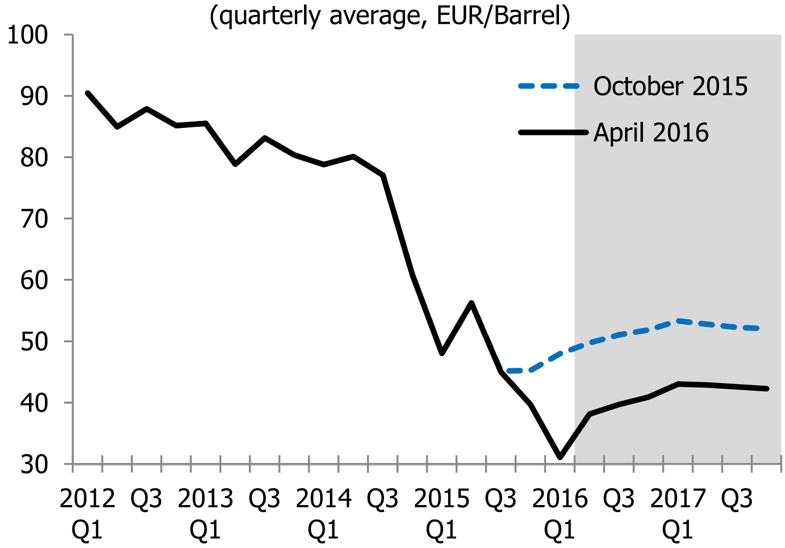
...which is estimated to be minimal (of 0.4%), down from the October forecast when it was expected to be 1.4%.

This change comes amid downward revisions of forecasted inflation rates of all our major import partners, of which the dominant contribution to the revision stems from the corrections in Germany, Greece and Serbia[4].

On the other hand, the forecast of foreign inflation for 2017 remains the same as in October, i.e. it is still expected to reach 1.7%.

[4] Inflation in Serbia has been adjusted for the changes in the exchange rate.

Brent oil
(quarterly average, EUR/Barrel)



Source: IMF and NBRM calculations.

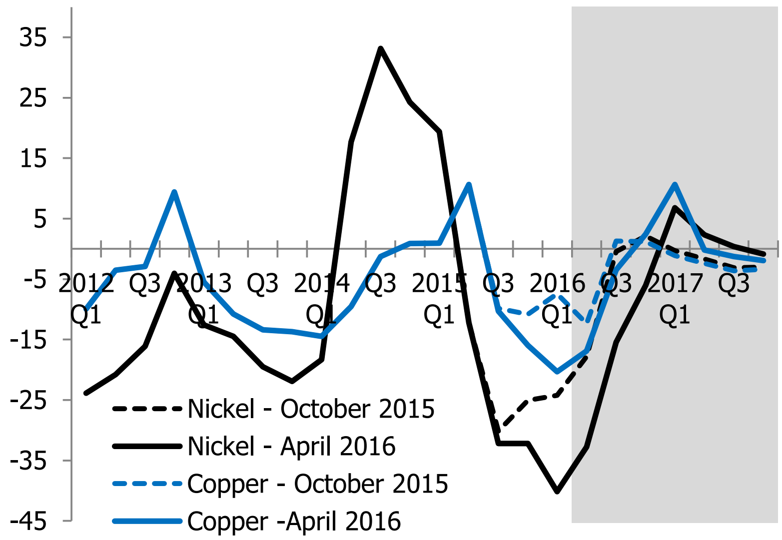
Latest forecasts of Brent oil prices for 2016 indicate significant downward correction compared with the October forecast.

While in October, oil prices were forecasted to increase moderately for this year, now they expect double-digit decline...

...amid continued surplus of oil on the global market and increase of the supply by the OPEC member states, despite the tendencies for its stabilization. Also, the forecasted slowdown of the growth in global demand is expected to further decrease the oil prices.

On the other hand, stronger growth in oil prices is expected for 2017, but the price level remains lower than forecasted in October.

Nickel and copper prices in EUR
(annual changes in %)



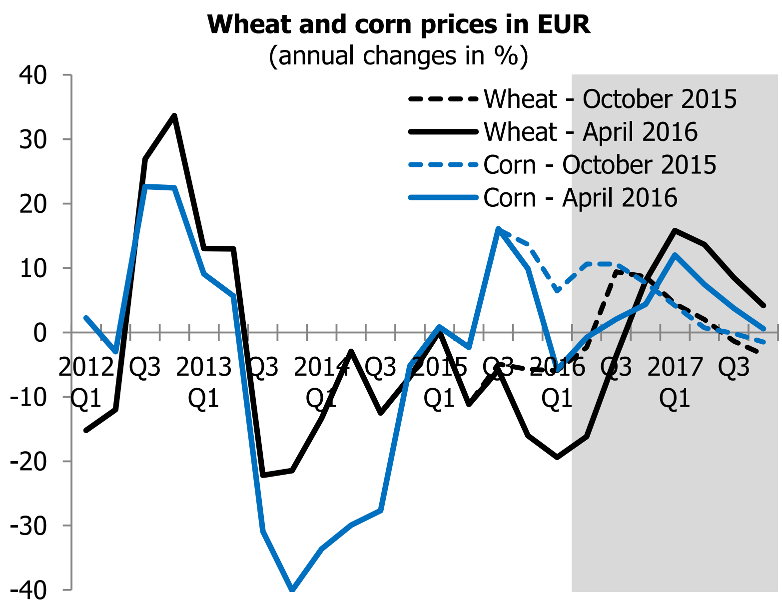
Source: IMF and NBRM calculations.

Recent estimates of nickel and copper prices for 2016 showed renewed downward correction ...

...i.e. increase of negative growth rates for the current year, amid still unbalanced fundamentals, taking into account the supply[5], as well as the increased skepticism about the demand from China.

Furthermore, the non-ferrous metal market is forecasted to recover somewhat in 2017, along with the increase in prices of nickel and copper on global markets, despite the October forecast for further decline, amid expectations for gradual reduction of excess supply on the global market.

[5] Moreover, regarding the nickel price, there were announcements for revision of the ban on exports from Indonesia, which if lifted would increase the supply of nickel on the global market.



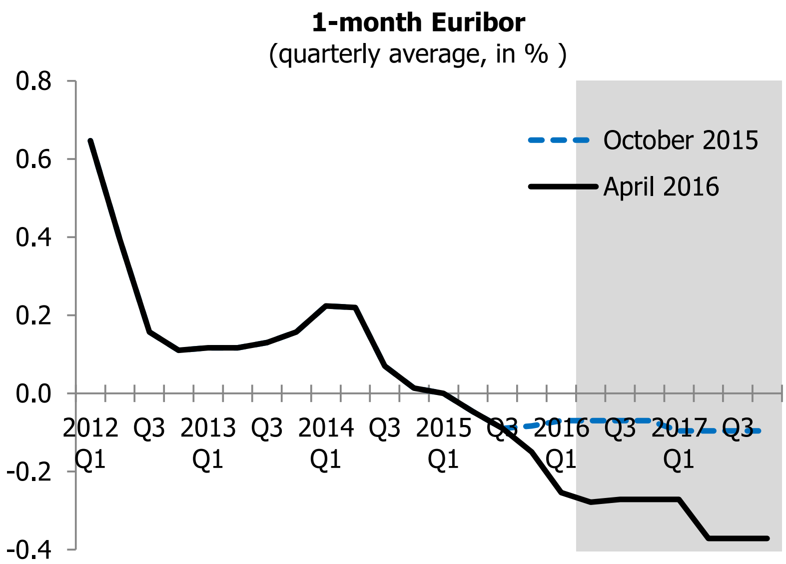
Source: IMF and NBRM calculations.

In the forecast horizon, there are significant changes in the perceptions for the future movement of the prices of primary food commodities compared with October.

On the one hand, a significant downward revision has been made to the forecast for the prices of wheat[6] and corn for 2016, which are now expected to continue to decline contrary to the October estimate for their growth...

...amid solid supply, forecasts for high global stocks of wheat and corn, and favorable expectations for the coming harvest.

On the other hand, an upward revision was made for 2017, and now the prices of wheat and corn are forecasted to be significantly higher compared with the October forecasts.



Source: "Consensus Forecast" and NBRM calculations.

Compared to October, the one-month EURIBOR was revised significantly downward, taking into account the ECB's measures from March 2016 aimed at further monetary easing.

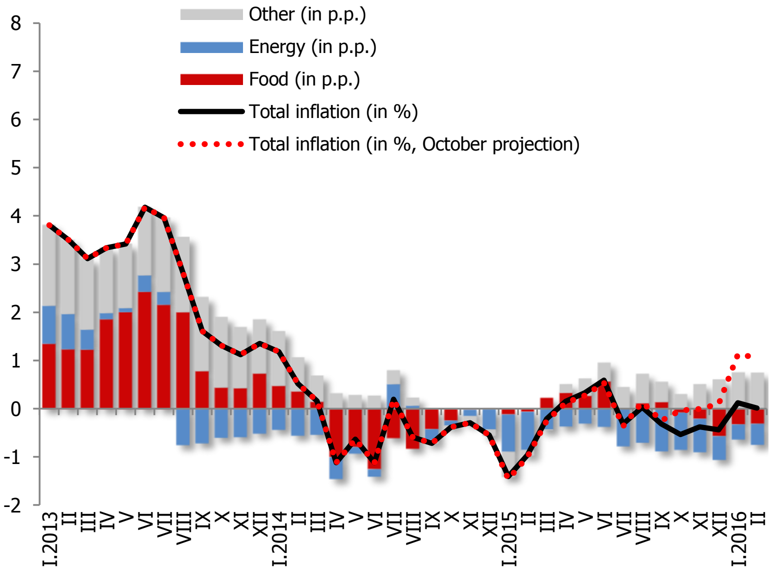
In March, the ECB cut its policy rate to 0%, with concomitant adjustments in the deposit interest rate (reducing it deeper into the negative zone to -0.4%), and also cut the lending interest rate. The ECB undertook additional measures for monetary easing[7].

Taking into account the ECB's measures, the forecasts for one-month EURIBOR have been corrected downward at an average level of -0.27% and -0.35% in 2016 and 2017, respectively, compared to -0.07% and -0.1% in the October forecast.

[6] The series of wheat prices used in the October forecast which indicated a decline of 13.2% in 2015 and a decline of 3.5% in 2016 is no longer published. Due to comparability of prices in April to October, the historical data used as a basis for the forecast have been revised according to the new series.

[7] See footnote 2.

Inflation rate
(annual impacts to inflation, in p.p.)



Source: SSO and NBRM.

The fall in consumer prices that started in the first month of 2016 continued in February 2016, when it was 0.1% on a monthly basis...

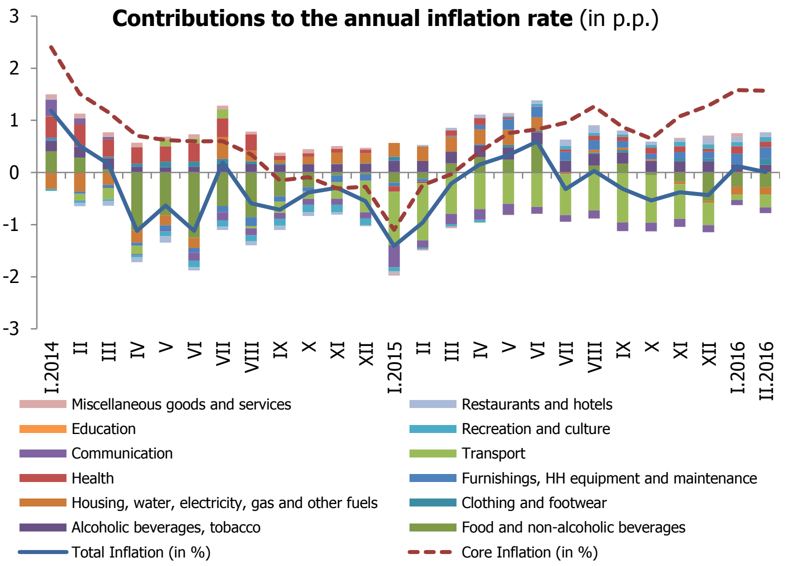
...driven by the decline in energy prices, while food prices registered a small increase, and core inflation stagnated on a monthly basis[8].

On an annual basis, consumer prices remained unchanged, i.e. the annual rate of inflation in February 2016 was 0%...

...which is a downward deviation compared with the expected rate of inflation in the October forecast cycle...

...due to the fall in food and energy prices (versus expectations for small growth), while performances in core inflation are largely in line with the forecast (slightly faster increase than expected).

Contributions to the annual inflation rate (in p.p.)



Source: SSO and NBRM.

The core inflation in February was 0% (despite the small monthly decline in January 2016), while on an annual basis it was 1.6% (as in the previous month).

Observing the structure of core inflation, the February growth (annually) is due to the small rise in prices of most categories within the core inflation, with the highest contribution made by furnishings, households equipment and tobacco prices (due to higher excise duties[9]). Only prices of communications declined.

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[8] The category of liquid fuels and lubricants made the greatest individual contribution to the February price decline (monthly price decline of 6.4%), while food prices acted in opposite direction primarily driven by vegetables prices (monthly price increase of 3%).

[9] Since 1 July 2014, cigarette excise duty has been increasing (Denar 0.15 per cigarette), and it is intended to gradually increase each year. Excise duty increased in July 2015 as planned, while starting from 1 July 2016 (until 1 July 2023), it will increase by Denar 0.20 each year.

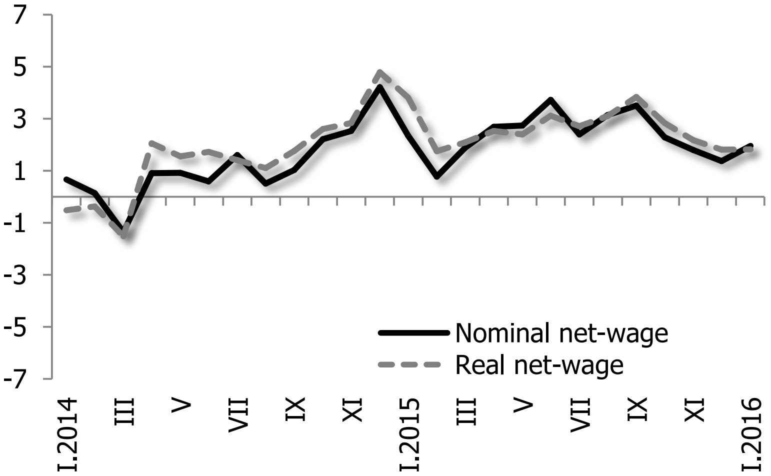
Exogenous assumptions for 2016, which are included in the inflation forecast, have been revised downwards...

...with the largest downward adjustment made in oil prices (in 2016, these prices are expected to decline rather than to increase as forecasted in October)...

...while the prices of internationally traded primary food commodities (expressed in euro)[10] as well as foreign effective inflation were adjusted downward.

Taking into account performances as well as changes in the expected trajectories of exogenous variables for 2016, **risks to the forecasted movement of domestic prices in 2016 are mainly downwards**. On the other hand, the movement of prices of primary commodities is very often affected by temporary factors, thus increasing uncertainty about their forecast.

Average net-wage
(annual changes, in %)



Source: SSO.

In January 2016, the average net wage registered a nominal annual growth of 2% which is a moderate acceleration of the growth of 0.6 percentage points, compared to the previous month.

The wages increased in most of the activities, particularly in agriculture, construction, and administrative and support services.

On the other hand, in January, lower wages were paid in electricity, gas, steam and air conditioning, and in several services[11], but the cut was relatively small.

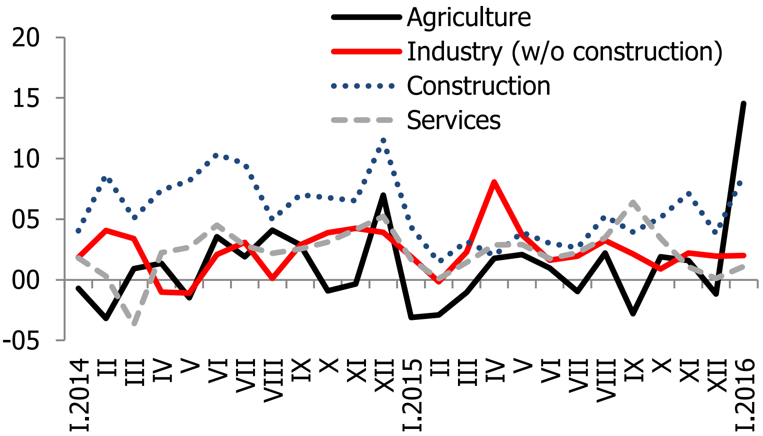
Amid small increase in the consumer price index, **the growth of real wages in January was slightly lower than the nominal one** and equaled 1.8%.

January wages moderately deviate

[10] The series of wheat prices used in the October forecast is no longer published. Although the two series of wheat (October 2015 and March 2016) are not directly comparable, however, the series that was originally used as an input in the October inflation forecast was presented in the table with input assumptions. If a simulation is made, i.e. the October forecast for wheat prices is built on the new series, in that case, in October 2015, decline in wheat prices of 5.6% would be expected for 2015, and a small growth of 2.1% would be expected for 2016.

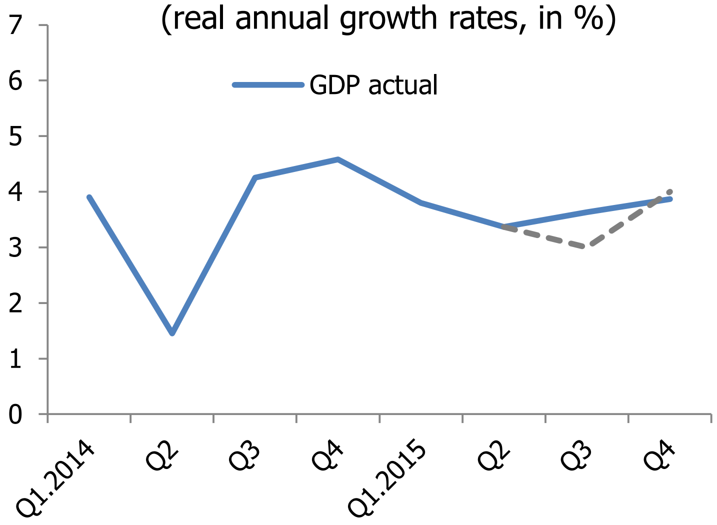
[11] Within the services sector, in January, lower wages were paid in the information and communications, real estate activities, professional, scientific and technical activities, and in health and social care.

Average monthly net wage paid by sectors
(nominal annual changes, in %)



Source: SSO.

Gross domestic product
(real annual growth rates, in %)



Source: SSO and NBRM projections.

from the October forecast for the first quarter of the year (expected nominal and real annual growth of 2.5% and 1.4%, respectively). Namely, the nominal net wage decreased, while real wage increased amid higher forecasted than actual inflation rate.

In the fourth quarter of 2015, the real annual GDP growth was 3.9%, as expected in the October forecast (4%).

On the production side, favorable movements were registered in most economic sectors, with the construction, trade, transport and communications, and catering services making the greatest contribution to the growth...

...while on the demand side, GDP growth is the result of higher domestic demand, amid negative net export contribution. In terms of individual components, consumer spending, exports and gross capital formation made the largest contribution to the growth in the fourth quarter, followed by the solid positive contribution of the public spending.

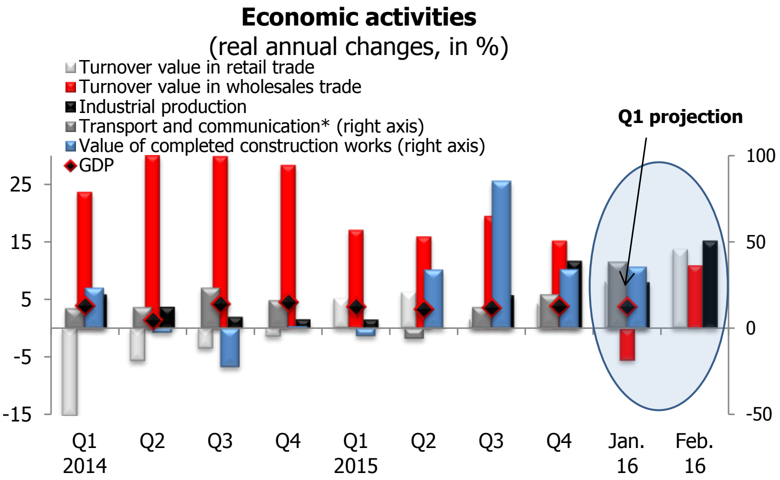
The high-frequency data for the first quarter of 2016 indicate growth in the domestic economy, with further positive performance in most economic sectors.

In the first two months of the year, industrial output increased by 11.7% on average, which is mostly explained by the higher output in manufacturing sector, as well as in the output of both mining and energy sectors.

Analyzing the manufacturing industry, manufacture of machinery and equipment, and manufacture of motor vehicles, i.e. activities of foreign export facilities, and some traditional sectors (manufacture of food and non-metallic minerals) made the highest contribution to the growth.

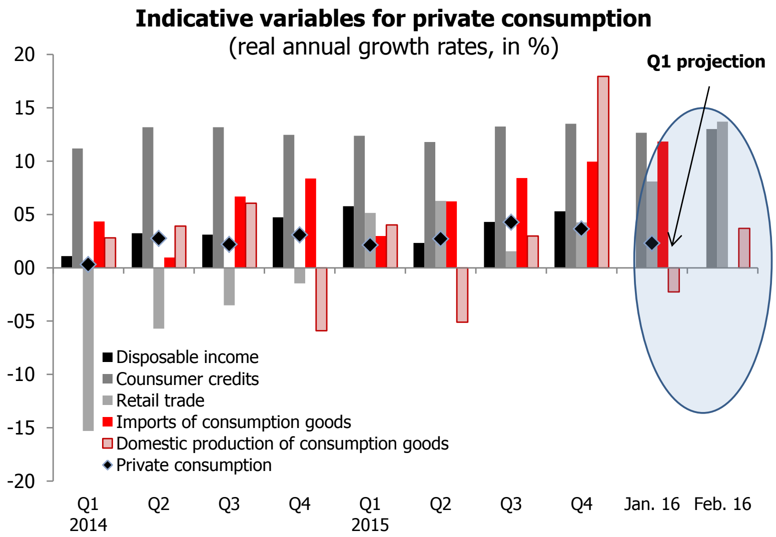
In the period January-February, the growth in total **trade** increased further, amid faster growth of wholesale and retail trade.

Transport sector data, amid favorable



*Simple average of annual growth rates of the different types of transport and the telecommunications.
Source: SSO and NBRM calculations.

trends in rail road, favorable performance in **construction** (continuation of double-digit growth rates in the value of completed construction works) and favorable indicators of **catering services** also suggest support to the economic growth in the first quarter.



Source: SSO and NBRM calculations.

Available aggregate demand indicators mainly confirm the estimates for growth of economic activity in the first quarter of 2016, which is consistent with the expectation in the October forecast.

High-frequency data on **private consumption** point to its further increase in the first quarter of 2016...

...supported by the favorable performances in the main disposable income components (higher real wages, pensions, social government transfers) and by the continuous solid growth of household lending.

In addition, the acceleration of growth in import of consumer goods, the retail trade and the gross revenues from VAT are in line with the assessments for growth of private consumption in the first quarter.

At the same time, a small growth was also registered in the domestic manufacture of consumer goods.

Analyzing indicative private consumption categories, a decline was noticed only in private transfers.

Available short-term indicators of **investment activity** point to an annual growth of investments in the first quarter of 2016...

...amid further double-digit growth in the value of completed construction works and imports of machinery and equipment (although somewhat more moderate compared to the previous quarter)...

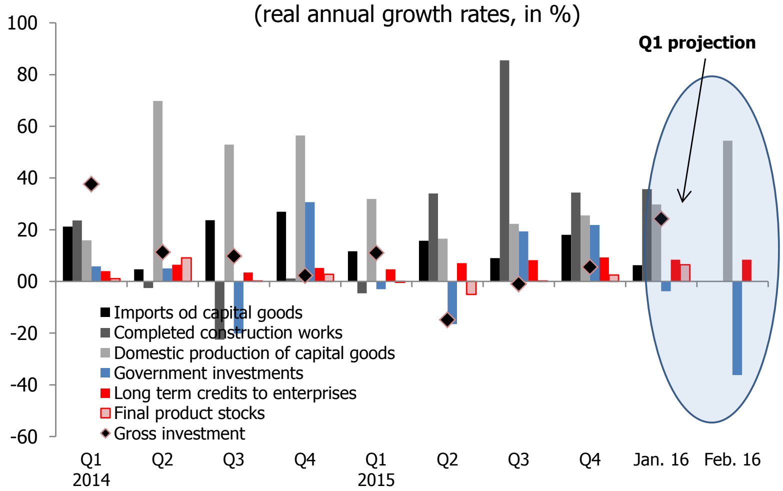
...as well as the solid growth of long-term lending to the corporate sector.

At the same time, the growth of domestic production of capital goods registered an annual acceleration.

Analyzing inventories, the index of inventories of finished products in the industry registered an annual growth in January indicating a possible growth of this component of the gross capital formation during the first quarter of the year.

Among the indicative categories of the investments trends, foreign direct investments and government capital cost registered unfavorable performance.

Indicative variables for investments
(real annual growth rates, in %)



Source: SSO and NBRM calculations.

In the period January-February 2016, nominal data on **foreign trade balance** show small increase in deficit as forecasted in October...

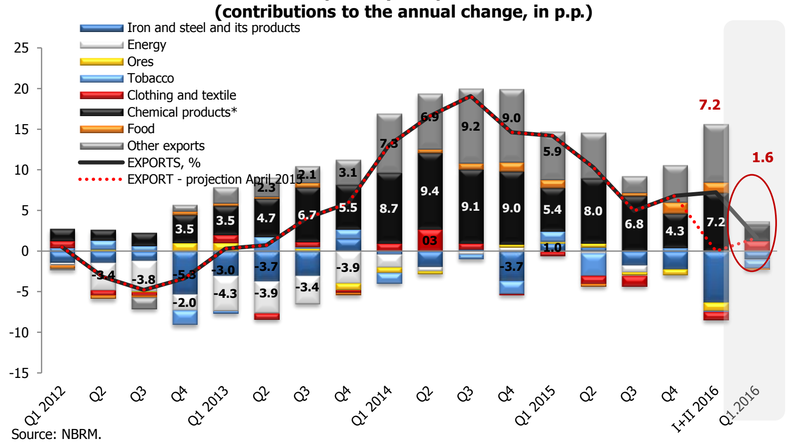
...given the similar pace of growth of both exports and imports.

Budget performances in the first two months of the year indicate an increase in **public consumption**, contrary to the expectations for small decline in the October forecast ...

...amid increased expenditures for goods and services, higher wage expenses for the employees in the public sector and increased health care transfers[12].

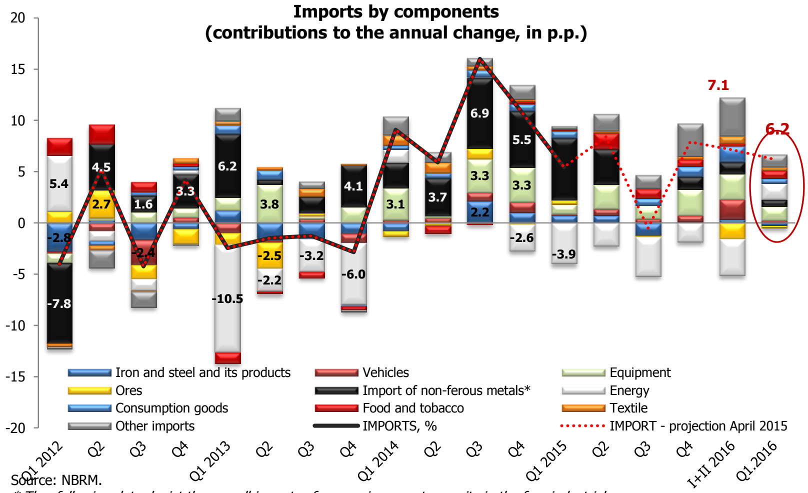
[12] Most of these assets refer to expenditures for goods and services.

Exports by components
(contributions to the annual change, in p.p.)



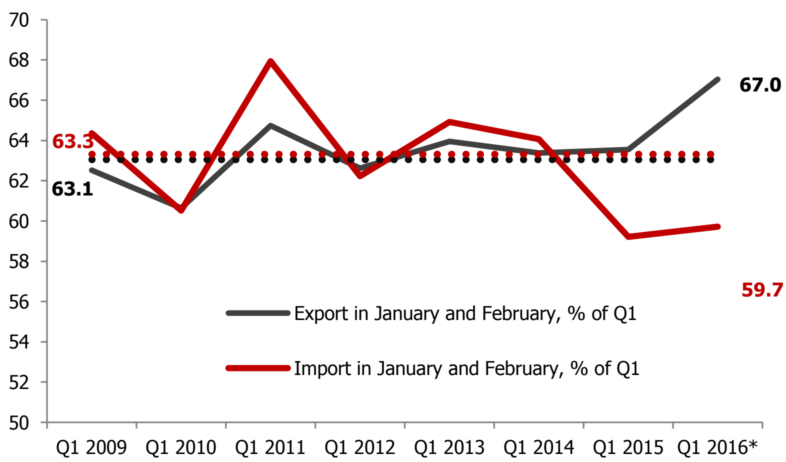
Source: NBRM.
** The following data depict the overall exports of one major export capacity in the free industrial zone.*

Imports by components
(contributions to the annual change, in p.p.)



Source: NBRM.
** The following data depict the overall imports of one major export capacity in the free industrial zone.*

Share of exports and imports of goods in January relative to Q1 projection



In January and February 2016, **the foreign trade deficit** increased by 6.9% on an annual basis as a result of the higher nominal growth in imports relative to the increase of exports of goods...

...somewhat lower than expected increase in the trade deficit for the first quarter of 2016, according to the October forecast.

In January and February 2016, **exports of goods** registered an annual increase of 7.2% mainly as a result of the increased export of new production facilities and food...

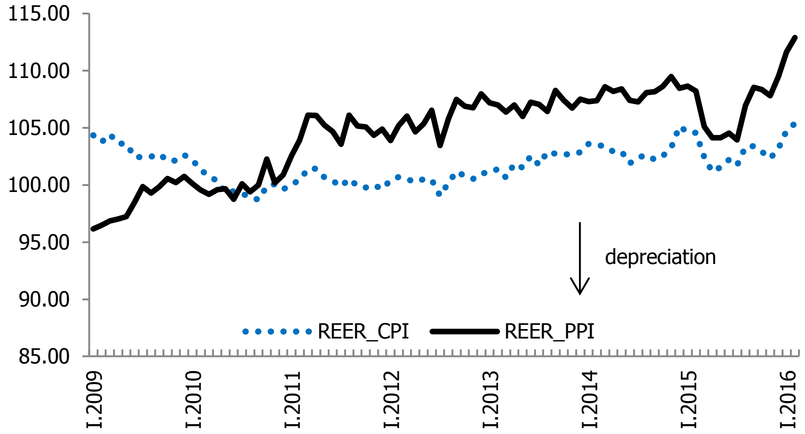
...amid a simultaneous decline in exports of the traditional export sectors, primarily iron and steel, followed by clothing and textiles, and mining.
Compared with the October forecast, exports in January and February 2016 are almost in line with expectations, with upward deviation in export performances of new facilities in the economy, and in the export of food, and downward deviations in the export of iron and steel, and clothing and textile.

In January and February 2016, the **import of goods** increased by 7.1%, mainly due to the higher import of raw materials of the new export facilities, the import of other products and the slightly higher import of consumer goods...

...while the import of energy and mining went down.
The import in the first two months of 2016 was lower than forecasted in October. The largest downward deviation occurred in the energy imports and the import of raw materials for some of the new production facilities, and in the import of ores...

...while the import of vehicles and consumer goods is higher than expected for the first quarter.

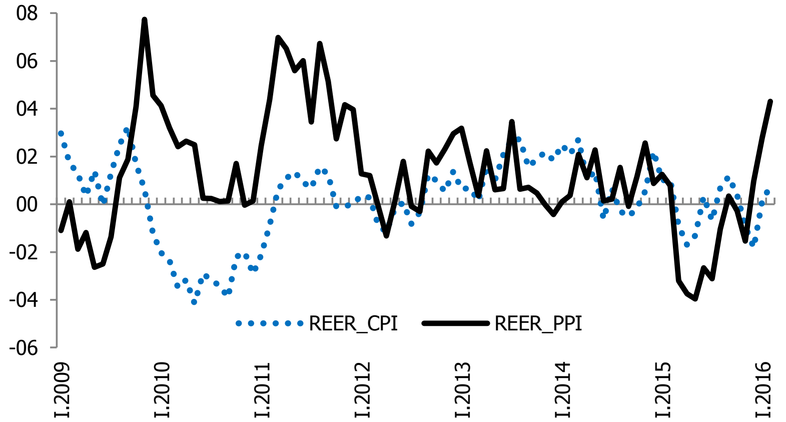
REER
(2010=100)



Source: NBRM.

In February 2016, price competitiveness indicators of the domestic economy point to annual appreciation. The REER index deflated by consumer prices slightly appreciated by 0.8%, while the REER index calculated by the producer prices registered stronger annual appreciation of 4.3%.

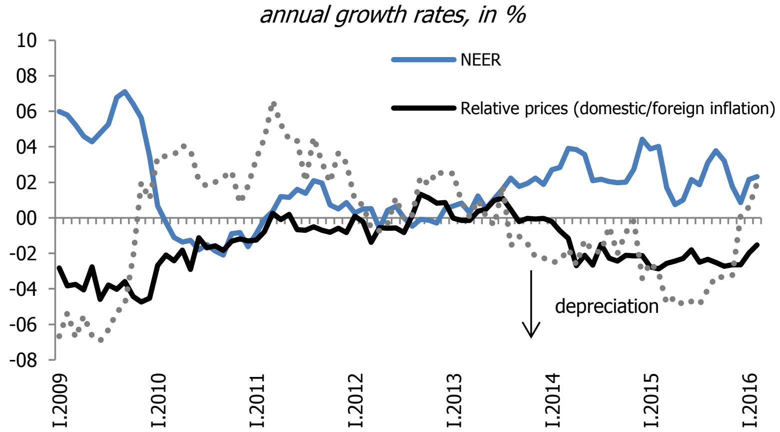
REER
annual changes, in %



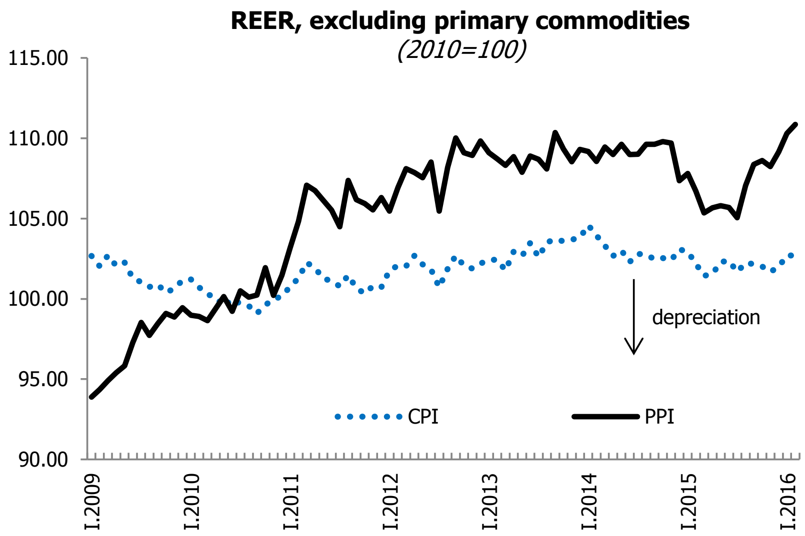
Source: NBRM.

The relative consumer prices registered an annual decline of 1.5%, while the relative producer prices registered an annual growth of 1.9% (the highest growth since October 2012). NEER appreciated by 2.3% as a result of the further depreciation of the Russian ruble and the Turkish lira against the Denar.

NEER and relative prices
annual growth rates, in %

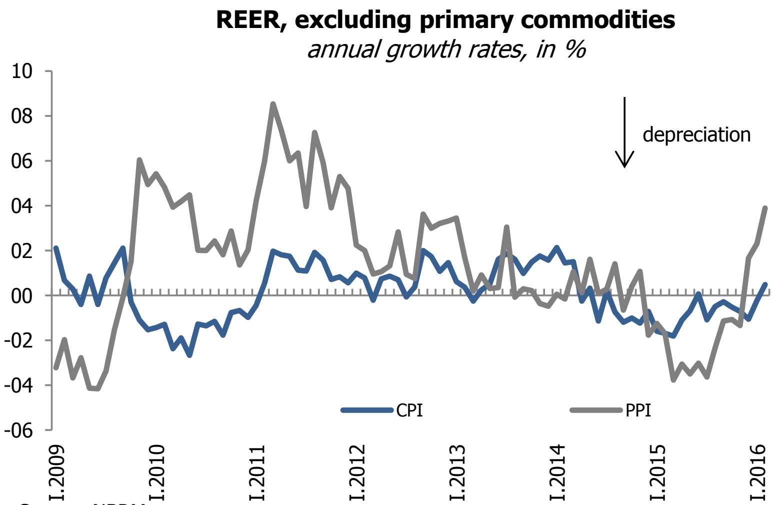


Source: NBRM.



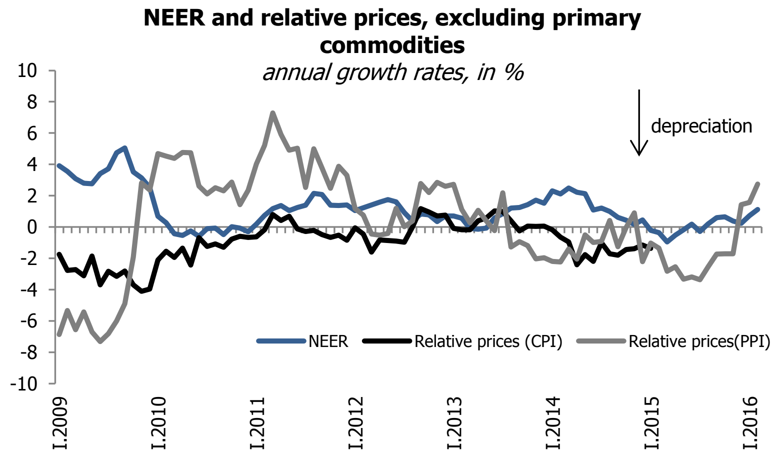
Source: NBRM.

The analysis of REER indices, calculated using weights based on the foreign trade, excluding primary commodities, indicates moderate appreciation compared with the same period last year. In February 2016, the REER index deflated by consumer prices slightly appreciated by 0.5%, while the REER deflated by producer prices registered stronger appreciation of 3.9%.



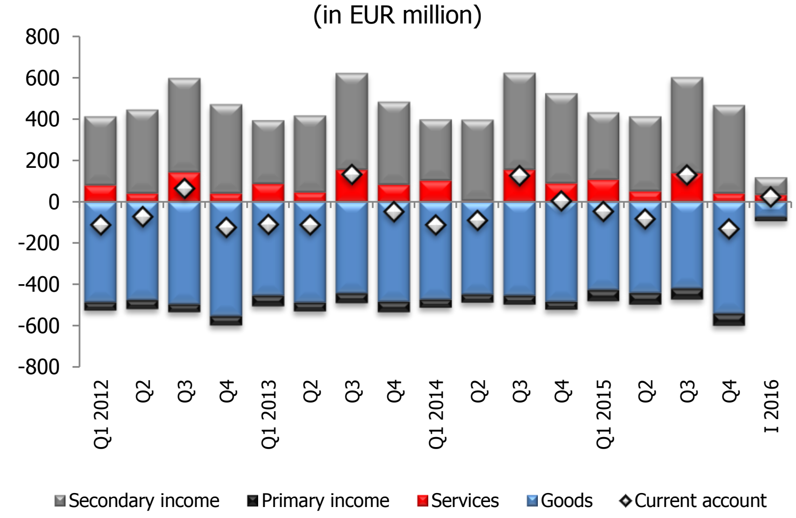
Source: NBRM.

On an annual basis, the relative consumer prices fell by 0.6%, while the relative prices of industrial products increased by 2.7%. NEER appreciated by 1.1% on an annual basis.



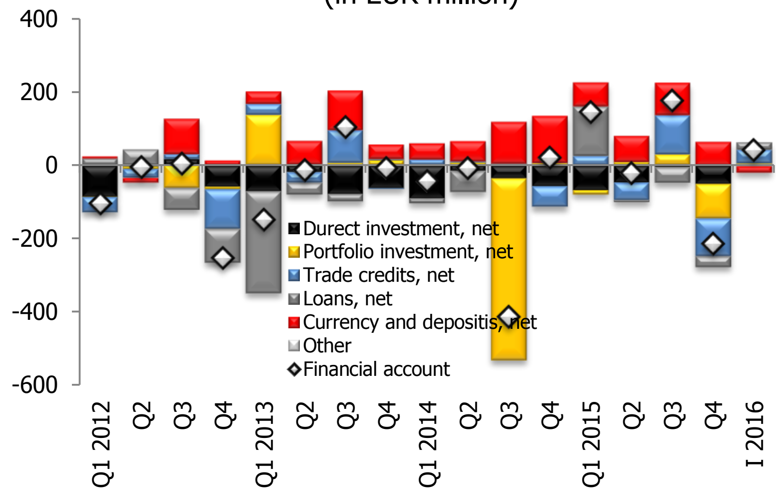
Source: NBRM.

Main components of the current account
(in EUR million)



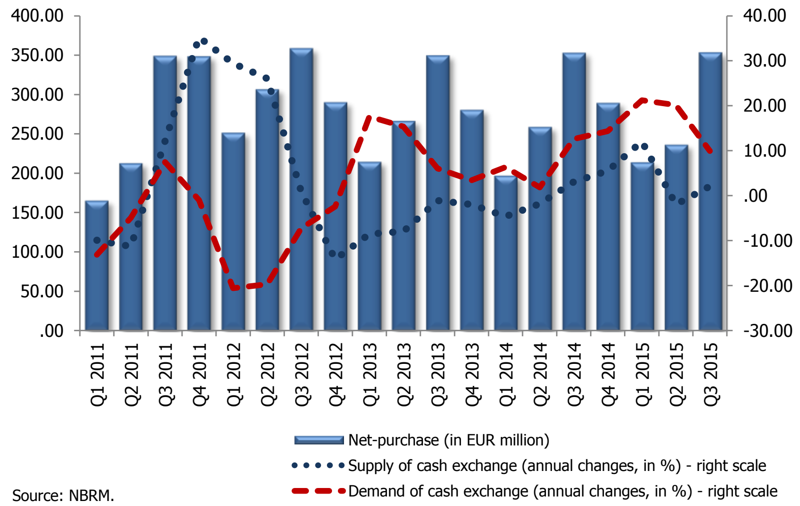
Source: NBRM.

Financial account components
(in EUR million)



Source: NBRM.

Cash exchange market



Source: NBRM.

In January 2016, the balance of payments current account registered a surplus of Euro 24.9 million (or 0.3% of GDP), contrary to the expected deficit in the first quarter, according to the October forecast.

In terms of individual components, the favorable performance is largely due to the significantly lower trade deficit, in circumstances where the balance of services and primary income is generally in line with expectations. On the other hand, the surplus in secondary income in January was lower than forecasted in October, but indirect indicators for this category show that its performance is in line with the forecast until the end of the quarter.

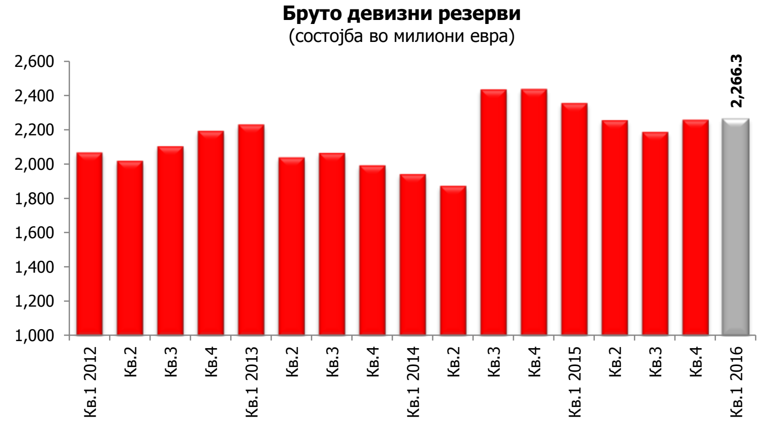
In January 2016, the financial account registered net outflows in the amount of Euro 42.6 million (or 0.5% of GDP), contrary to the net inflows forecasted for the first quarter in October[13].

Such deviations result from net outflows in long-term loans and trade credits, contrary to the expected net inflows, as well as from lower net inflows in direct investment. On the other hand, foreign currency and deposits recorded better performances, i.e. net inflows rather than net outflows.

Latest data on currency exchange operations as of March 2016 indicate stronger annual increase in the supply of compared to the increase in the demand for foreign currency.

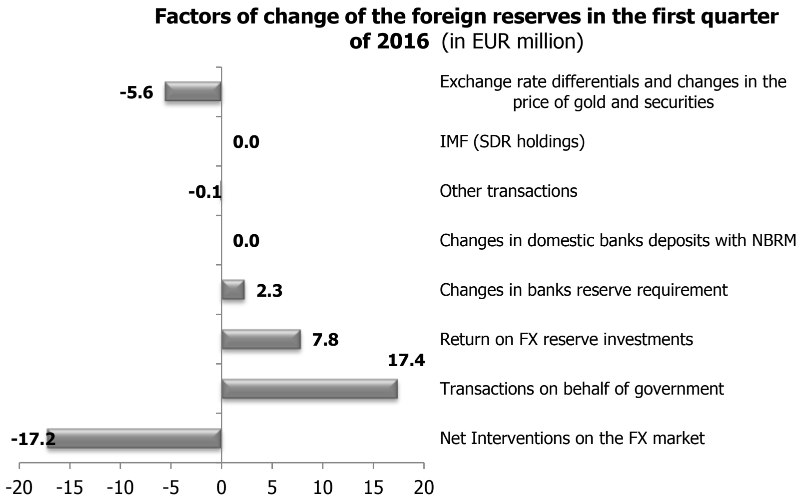
The net purchase in the foreign exchange market in the first quarter of 2016 totaled Euro 215.9 million, which is an annual increase of 0.9%.

[13] According to the new methodology for compilation of the balance of payments (BPM6), the terms "net inflows" and "net outflows" denote net incurrence of liabilities and net acquisition of financial assets, respectively.

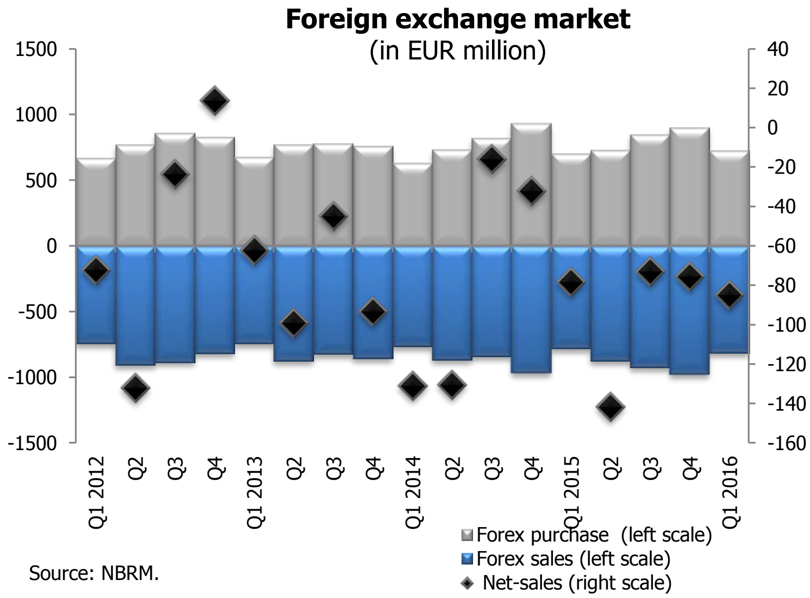


Извор: НБРМ.

As of 31 March 2016, the gross foreign reserves stood at Euro 2,266.3 million, up by Euro 4.6 million compared to the end of 2015. The increase in foreign reserves results from transactions on behalf of the government and return on foreign exchange reserve investments, while the NBRM sales of foreign currency on the foreign exchange market, and the negative currency changes and changes in the price of gold acted in the opposite direction.



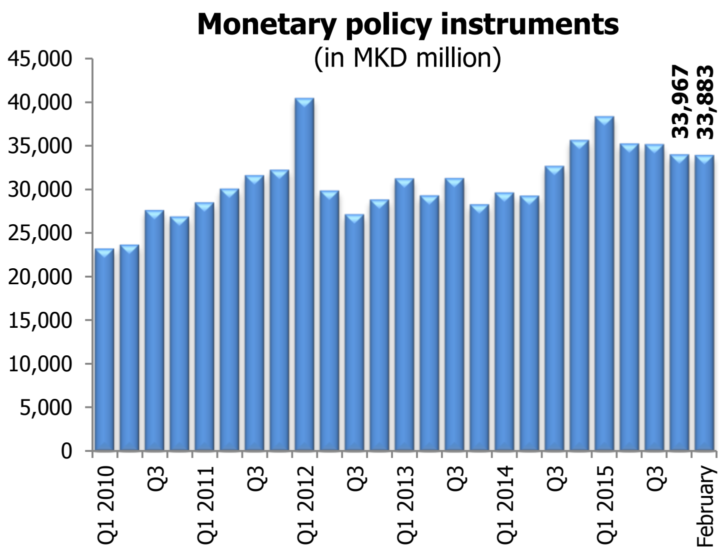
Source: NBRM.



Source: NBRM.

In the first quarter 2016, the foreign exchange market of the banks reported a net sale of Euro 84.7 million, which is an annual growth of Euro 6.6 million. This annual change is a result of the faster growth in the demand for, relative to the supply of, foreign currency (of 4% and 3.5%, respectively).

Sectoral analysis shows that such performance mostly arises from the lower net purchase by natural persons and the net sales by nonresidents.



Source: NBRM.

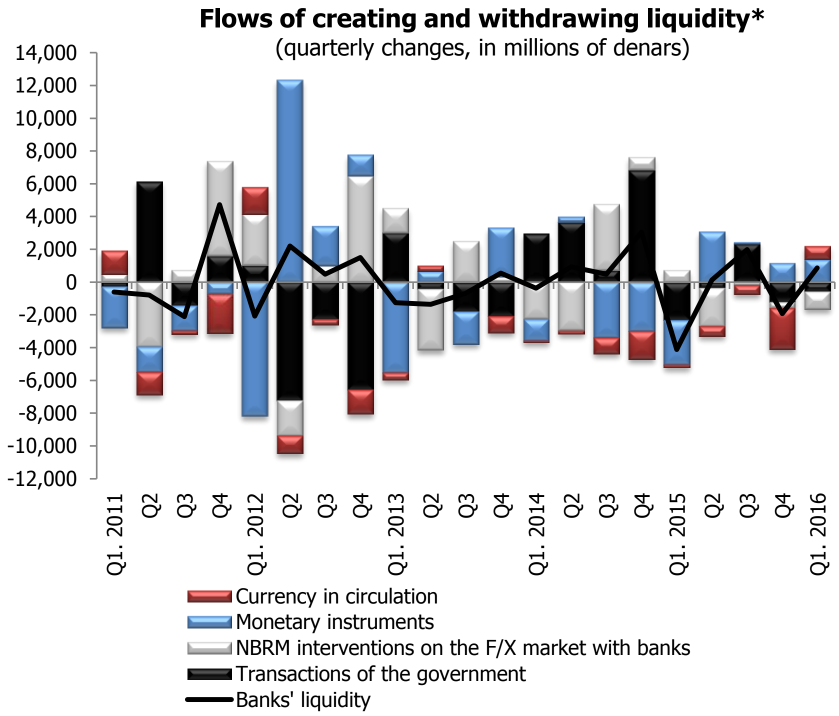
In February, monetary instruments remained almost unchanged compared to the end of the year. However, the level of monetary instruments was lower than expected with the October forecasts, reflecting the lower starting point at the end of the previous year[14].

The analysis of the flows of liquidity creation and withdrawal from the balance sheet perspective in February suggests withdrawal of liquidity through net foreign assets, less than expected for the first quarter. However, given the deviations at the end of the year, the level of NBRM net foreign assets is lower than expected in the October forecast for the first quarter of the year. Total government deposits at the end of February were lower compared to the end of the year, which is in line with the expectations in the October forecast for the first quarter of the year.

In the first two months of the year, reserve money declined, with the level at the end of February being moderately lower than expected for the end of the first quarter of the year.

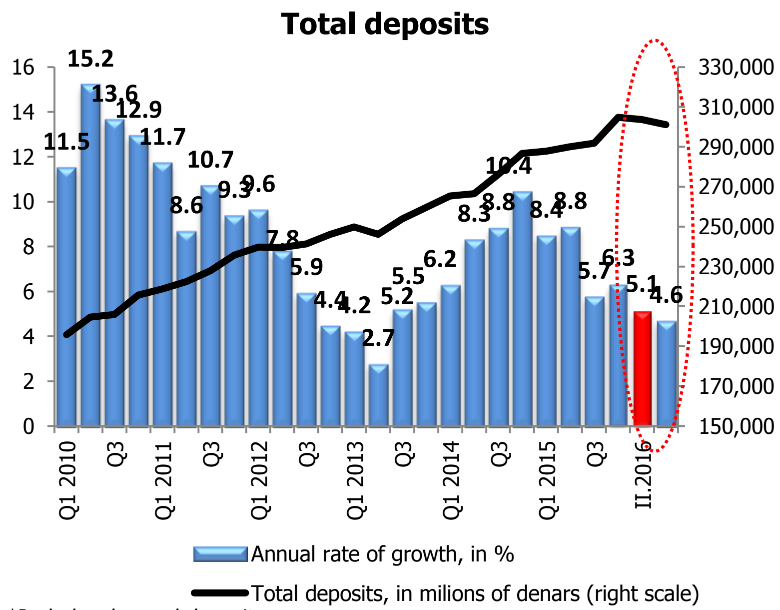
Taking into account the changes in some balance sheet components and their deviations from the forecast, the lower than expected level of monetary instruments, from the balance sheet aspect, is explained by the divergence in net foreign currency assets.

[14] In the fourth quarter of 2015, the stock of the monetary instruments decreased despite the expectations for growth in the October forecasts.



*Positive change- liquidity creation, negative change- liquidity withdrawal
** as of end February2016
Source: NBRM.

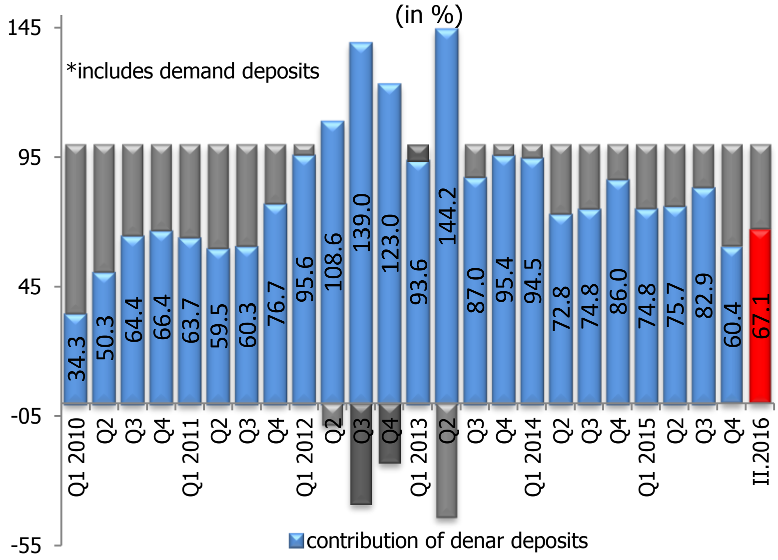
In the first quarter of the year, according to the operational data on the liquidity flow, the liquidity of banks increased. Analyzing the individual factors, the higher liquidity is largely a result of the created liquidity through monetary instruments, in circumstances where government transactions and foreign exchange interventions of the NBRM acted towards reducing bank liquidity. Currency in circulation in the first quarter of the year decreased, moderately increasing bank liquidity.



*Includes demand deposits
Source: NBRM.

February was marked by an increase in total deposits, as opposed to their monthly decline in the previous month. The growth was mostly due to increased corporate deposits, amid moderate growth of household deposits. These developments are contrary to the performances in January when the two sectors reported a monthly decline, with significantly higher intensity of corporate deposits. **On an annual basis, total deposits increased by 5.1% in February (forecasted annual growth of 4.6% for the first quarter). In the period from January to February, total deposits decreased,** as opposed to the expected increase of Denar 3,845 million for the first quarter of the year according to the October forecasts.

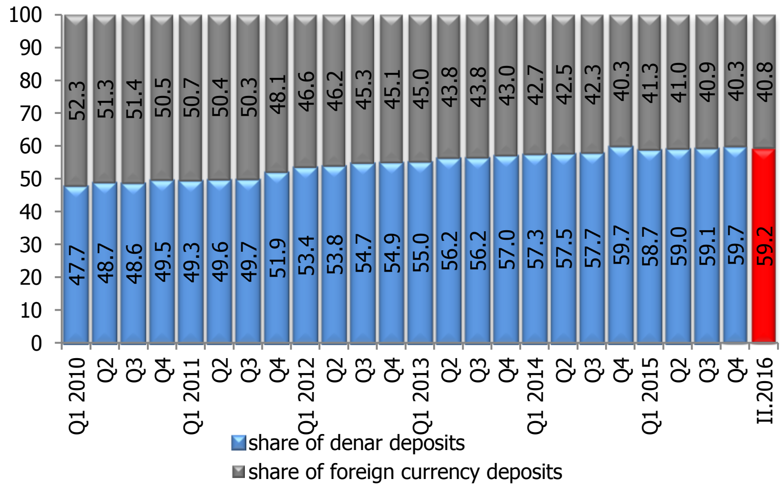
Contribution of denar and foreign currency deposits to the annual growth of total deposits
(in %)



Source: NBRM.

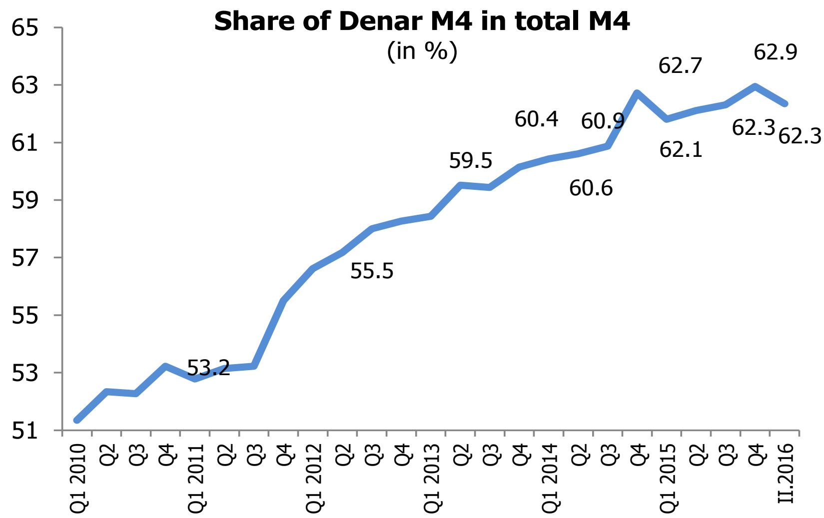
The annual growth of total deposits still mostly stems from the increased Denar deposits, followed by foreign currency deposits. Thus, in February, there was an increase in the contribution of foreign currency deposits compared to the previous month.

Share of denar and foreign currency deposits in total deposits

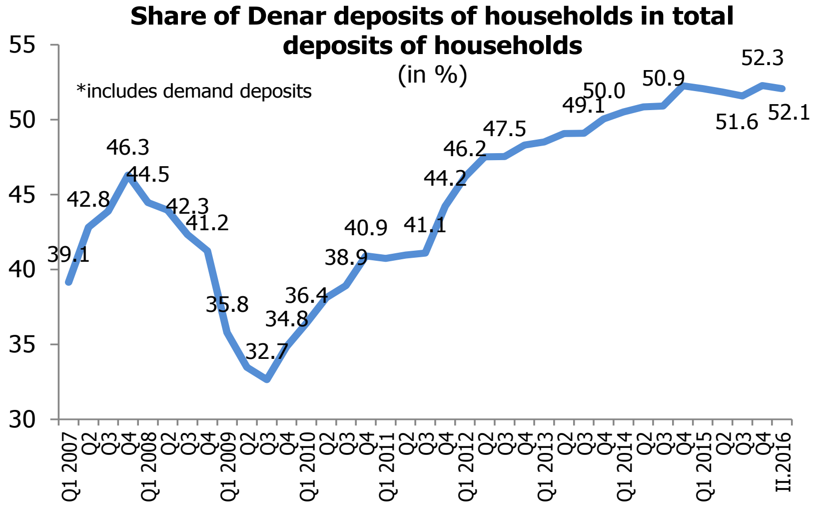


*includes denar deposits with FX clause. Source: NBRM.

The share of Denar deposits in February registered a slight decline compared to the end of the previous quarter, but continues to dominate in the deposit base of banks.

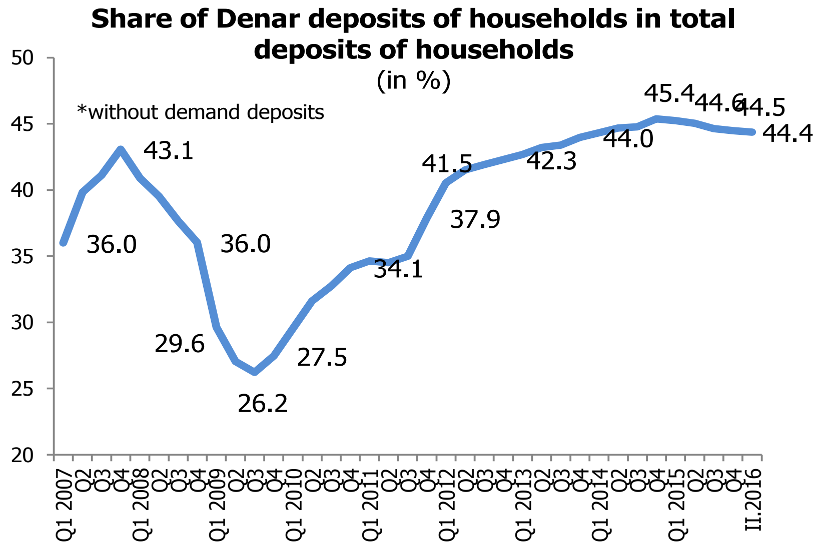


Source: NBRM.



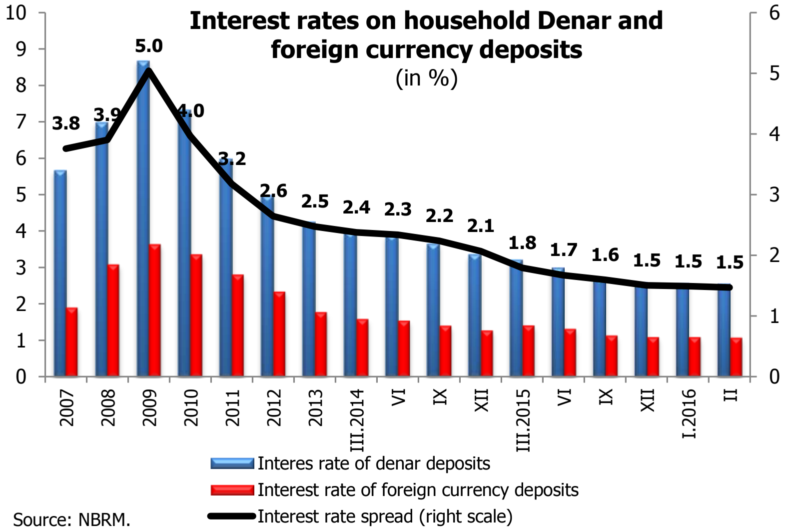
Source: NBRM.

During February, total household deposits registered a moderate monthly increase, after the decrease in the previous month. The monthly increase was driven by the higher local currency deposits, primarily due to the higher demand deposits. Foreign currency deposits registered a small growth. As a result of these developments, the share of Denar deposits in February slightly increased.

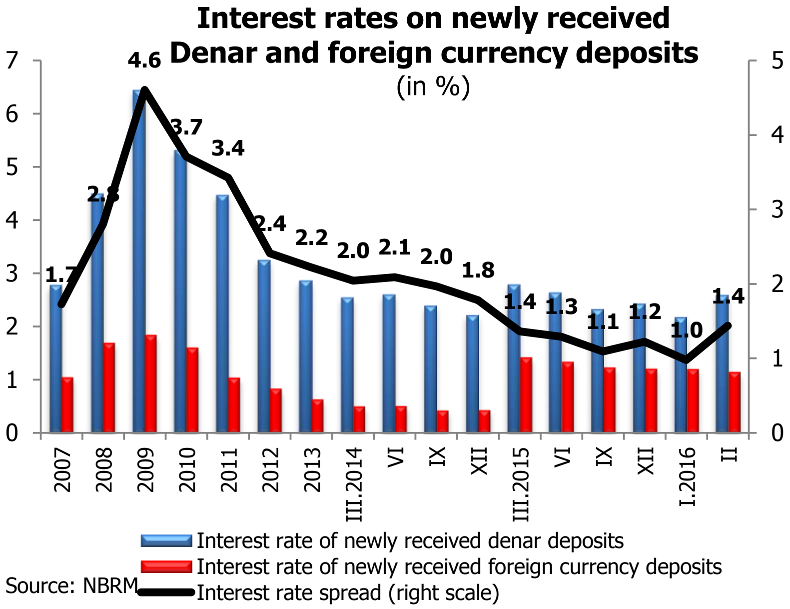


Source: NBRM.

Total household deposits (excluding demand deposits) in February increased slightly compared to the end of the previous quarter. This growth was driven by the growth of foreign currency deposits amid insignificant increase in Denar deposits.

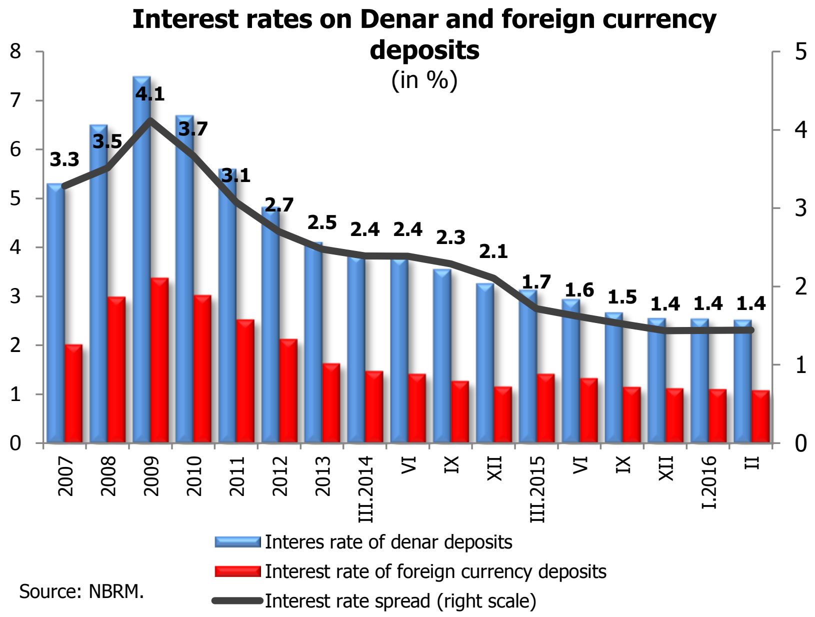


Source: NBRM.

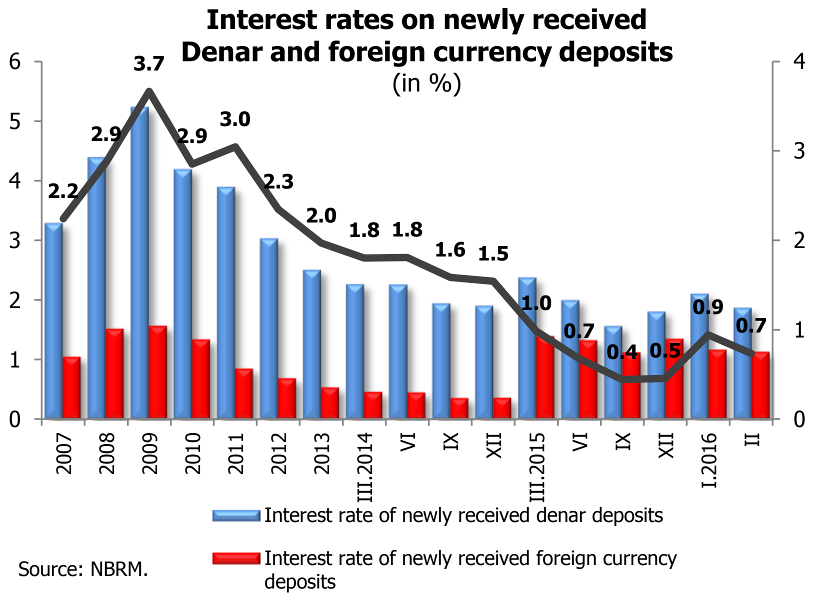


Source: NBRM

In February, the interest rate spread between the household Denar and foreign currency deposit interest rates remained at the same level as in the previous two months. The interest rate spread on newly accepted household deposits registered a moderate increase as a result of the increase in the interest rate on Denar deposits.



Source: NBRM.

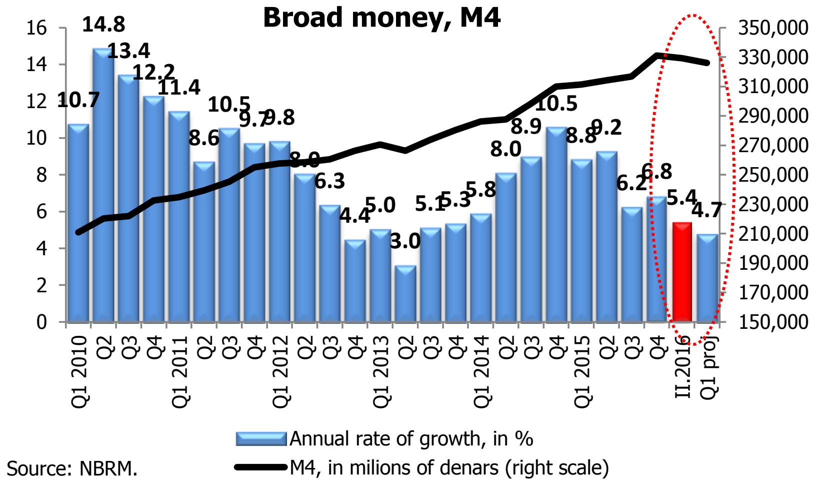


Source: NBRM.

Interest rate spread in total interest rates[15] on Denar and foreign currency deposits remained stable in February. Both Denar and the foreign currency interest rate on newly accepted deposits decreased, narrowing the interest rate spread. However, note that the interest rates on newly accepted deposits are volatile[16], possibly resulting in frequent and temporary adjustments of the interest spread.

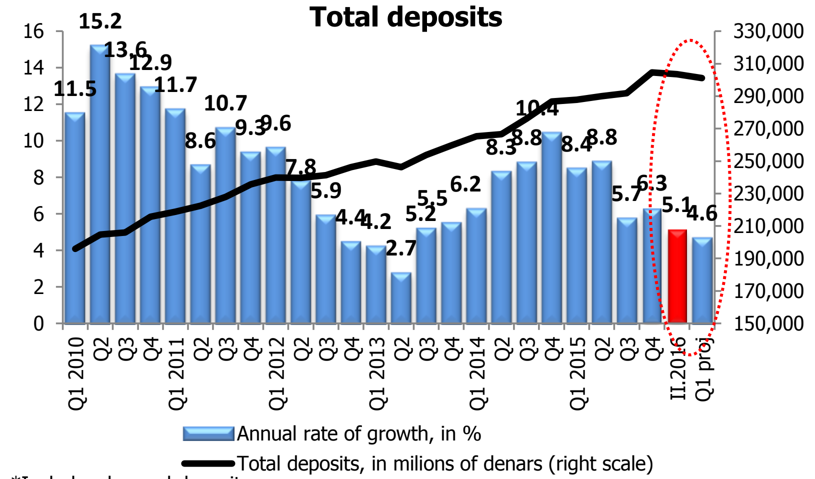
[15] As of January 2015, interest rate data of banks and savings houses have been collected under the new interest rate methodology, while data for the previous period were collected under the old methodology. For more detailed information see http://www.nbrm.mk/default.asp?ItemID=29C1C73ED1A4B745B70EE9C3E423029A

[16] Volatility of interest rate on newly accepted deposits results from the fact that they are driven by the volume of newly received deposits (which can vary from month to month) and their interest rate.



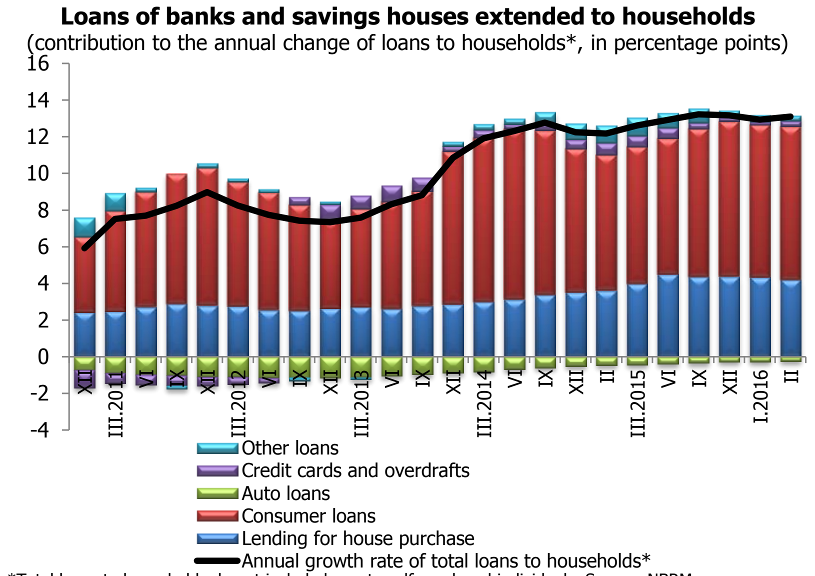
Source: NBRM.

During February, broad money M4 increased on a monthly basis, contrary to the decline registered in the previous month. The increase is mostly due to the growth of total deposits, amid small growth of currency in circulation. On annual basis, the broad money increased by 5.4%, which is above the forecasted rise of 4.7% for the first quarter of 2016. In the period from January to February, the broad money M4 declined, contrary to the forecasted growth of Denar 3,329 million for the first quarter of the year, according to the October forecasts.



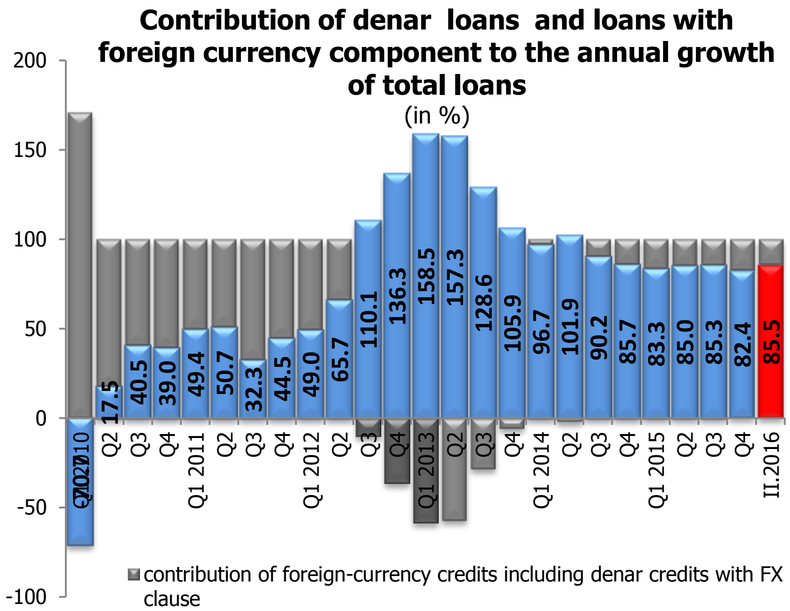
*Includes demand deposits
Source: NBRM.

During February, total loans increased on a monthly basis, contrary to the decline registered in the previous month. The increase in total loans was mostly due to the increase of loans to households, amid a moderate monthly growth of corporate loans (as opposed to their more intensive monthly decline in January).



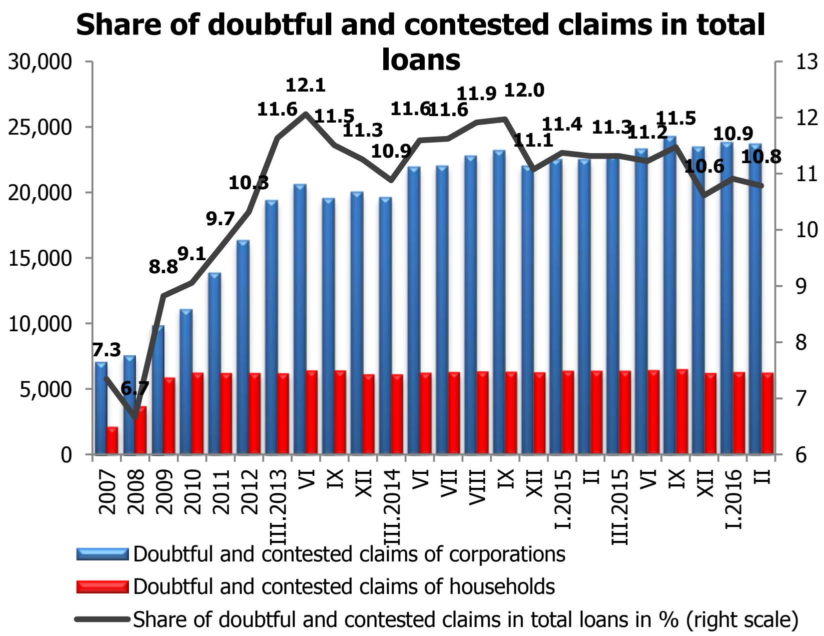
*Total loans to households do not include loans to self-employed individuals. Source: NBRM.

At the end of February, the annual growth rate of total loans equaled 8.7%, which is above the annual growth of 7.7%, as forecasted for the first quarter of 2016. In the first two months of the year, total loans recorded a cumulative decline, compared to the forecasted increase of Denar 2,883 million for the first quarter of 2016, according to the October forecast.



* does not include Denar credits with FX clause.
Source:NBRM.

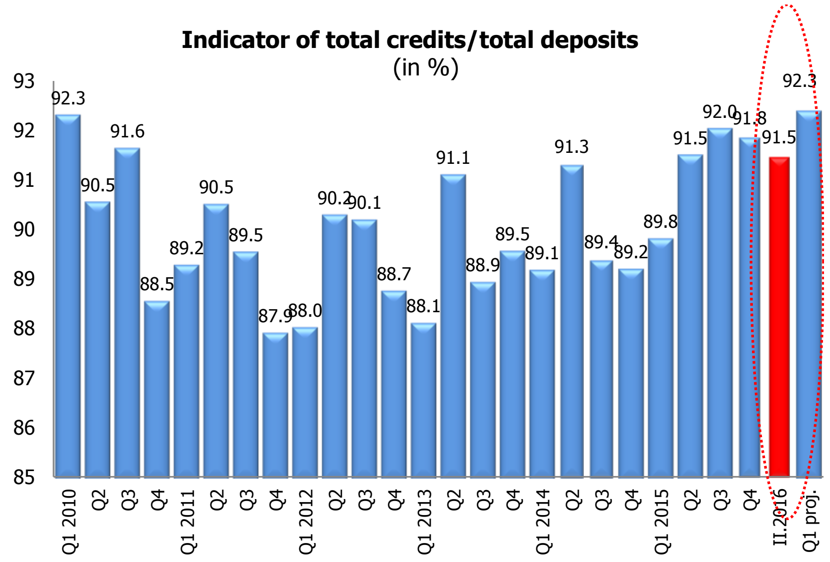
In February there was an increase in the contribution of Denar loans to the annual growth of total loans[17]. The contribution of foreign currency loans along with Denar loans with FX clause decreased. Analyzing by sectors, the contribution of household loans to the annual growth and corporate loans equals 62.2% and 37.9%, respectively, which is similar to the previous month.



Source: NBRM.

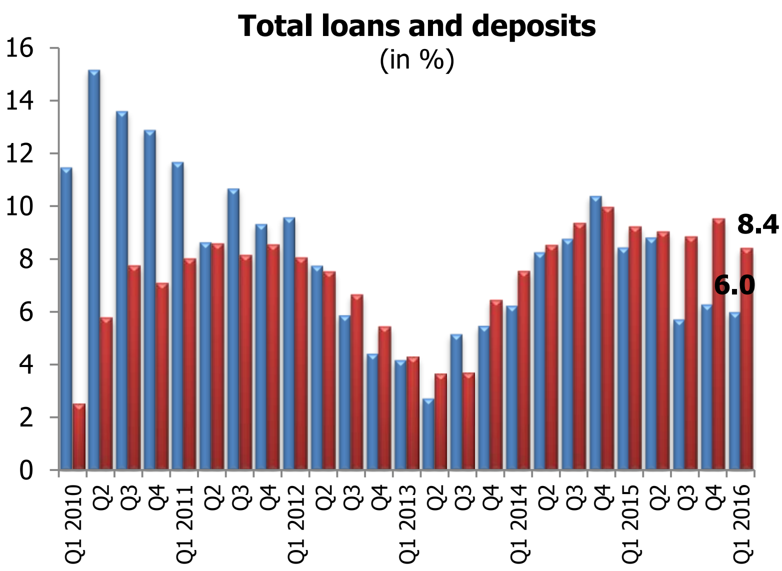
During February, the share of doubtful and contested claims in total loans recorded a slight decrease from 10.9% to 10.8%, primarily due to the decrease in doubtful and contested corporate claims with an insignificant decline in households. On an annual basis, the total non-performing loans further increased, but with lower intensity compared to the preceding month.

[17] Includes Denar loans without FX clause, accrued interest and doubtful and contested claims



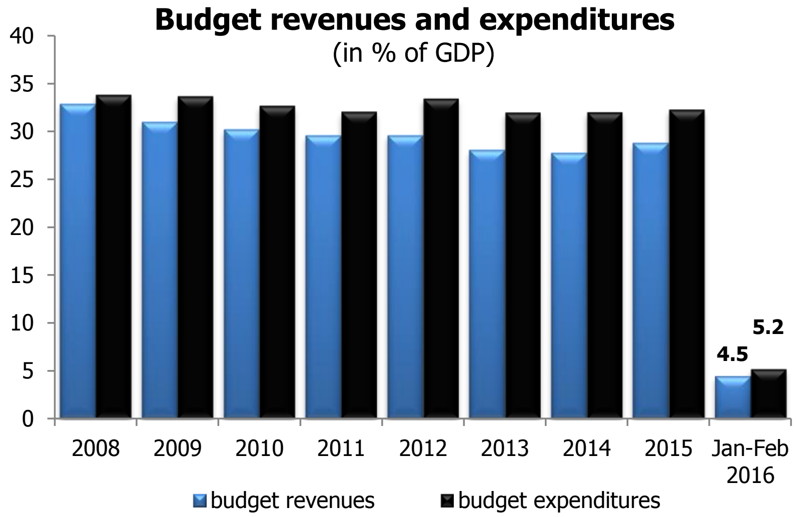
Source: NBRM.

Utilization of the deposit potential for lending to the private sector in February was lower than in the previous month and lower than forecasted for the first quarter of 2016.



Source: NBRM.

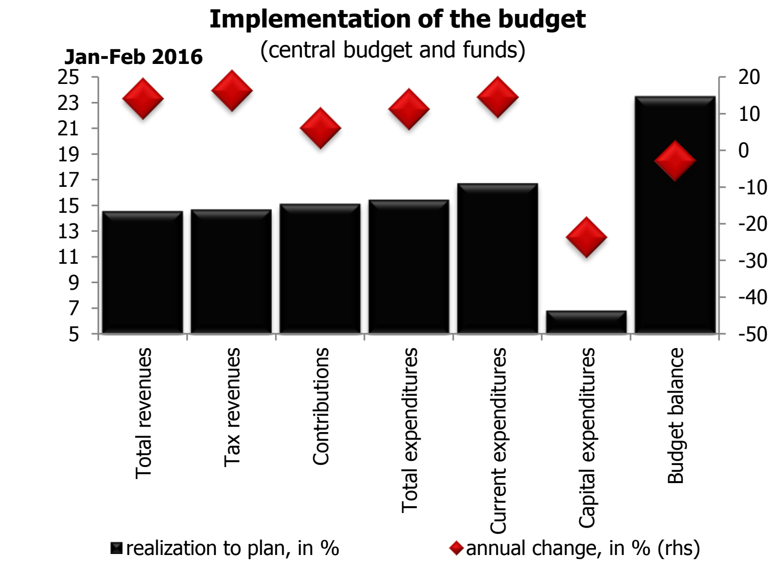
According to preliminary data as of March 2016, total deposits registered a further growth of 0.4% on a monthly basis, which is a slowdown compared to the growth in the previous month (1.3%). The monthly increase in total deposits was almost equally due to the growth of household deposits and corporate deposits, unlike the previous month when corporate deposits made up over two-thirds of the monthly increase. The currency structure of total savings shows further solid growth of Denar deposits, which in March accounted for 84% of the monthly growth of the total savings. The preliminary credit market data as of March show slight acceleration of lending by 0.9% on a monthly basis compared to the increase of 0.4% in the previous month. Moreover, the growth was mostly due to the higher indebtedness of households, amid further moderate growth of corporate lending. **On an annual basis, total deposits and loans rose by 6% and 8.4%, respectively in March.**



Source: Ministry of Finance and NBRM's calculations.

In the period January-February 2016, total budget revenues in the Budget of the Republic of Macedonia (central budget and budget of funds) increased by 6.9% compared to the same period in the previous year and amounted to 4.5% of GDP[18] (4.0% in January-February 2015). In nominal terms, budget revenues as of February increased by 14.3% on an annual basis. The improved performance in the period under observation mostly arises from the higher realization in taxes, and to lesser extent, from contributions. Analyzed by individual tax category, the increase is predominantly driven by the annual growth of inflows from profit tax and VAT.

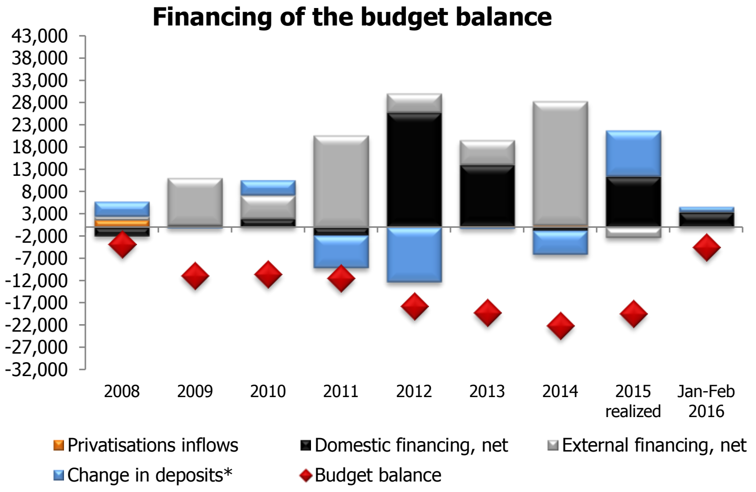
In the period January-February 2016, total budget expenditures amounted to 5.2% of GDP (4.9% in January-February 2015). Budget expenditures in nominal terms increased by 11.4% compared to the same period last year. Higher performance results from the increase in current expenditure, while capital expenditure decreased.



* With respect to the Budget for 2016
Source: Ministry of Finance and NBRM's calculations.

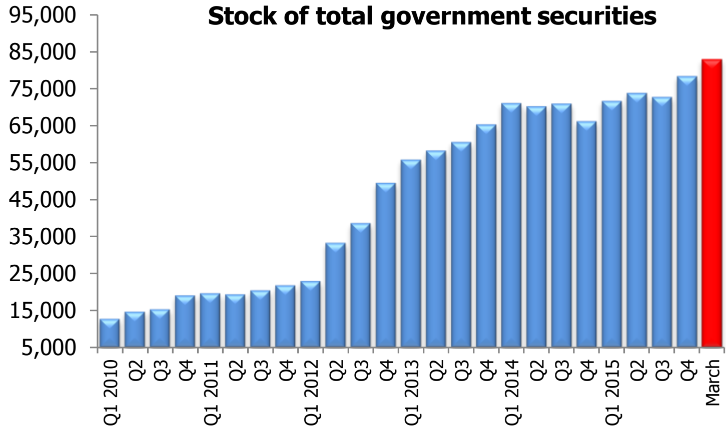
In January-February 2016, the realized revenues and expenditures constituted 15.0% of the revenues and expenditures planned for the entire 2016, in accordance with the Budget. Analyzed by individual categories, inflows from VAT and income tax registered the highest realization of 16.3% and 14.5%, respectively, followed by inflows based on excises and import duties (realization of 14.2% and 13.9% respectively). Observing individual categories of expenditures, in January-February 2016, there is a higher execution of current expenditures (16.7%) compared to capital costs (6.8%).

18 The analysis uses the NBRM October forecasts for the nominal GDP for 2016.



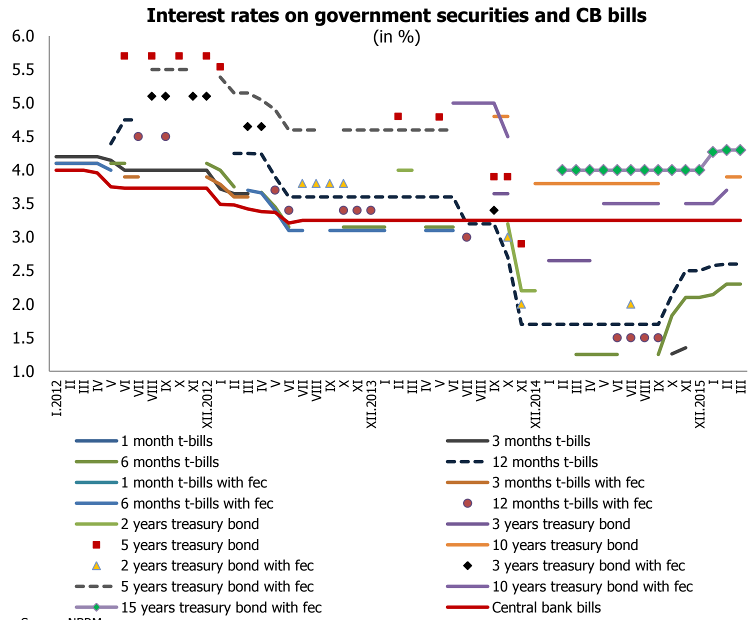
* Positive change- deposits withdrawal; negative change-deposits accumulation.
Source: MoF.

Latest available data show that in January-February 2016, the Budget of the Republic of Macedonia registered a deficit of Denar 4,459 million. The deficit was financed through the net issuance of government securities and the government deposits with the NBRM.



Source: NBRM.

The stock of government securities on the domestic market at the end of March increased compared to the previous month by Denar 1,079 million to Denar 82,902 million. Compared to the end of 2015, in March, government securities increased by Denar 4.568 million.



Source: NBRM.

Interest rates on government securities on 6-month and 12-month treasury bills without FX clause offered at the auctions held in March amounted to 2.3% and 2.6%, respectively, while interest rates on 10-year and 15-year government bonds with FX clause equaled 3.9% and 4.3%, respectively. Interest rates on all government securities issued in March are at the same level as those in the previous month[19].

[19] The interest rates on treasury bills and bonds in February represent a weighted interest rate in line with the offered amounts and the adequate interest rates. Thus, at the auctions, there was an offer of 3-month, 6-month and 12-month treasury bills without FX clause and interest rate of 1.6%, 2.30% and 2.60%, respectively. At the auction, there was also an offer of 10-year government bonds without FX clause and interest rate of 3.9%, as well as 10-year and 15-year government bonds with FX clause and interest rates of 3.7% and 4.3%.

Annex 1 Timeline of the changes in the setup of the NBRM monetary instruments and selected supervisory decisions adopted in the period 2013 - 2015

January 2013

- A Decision amending the Decision on the reserve requirement (adopted in November 2012) came into force, allowing reduction of the reserve requirement base of banks for the amount of new loans to net exporters and domestic producers of electricity, as well as for the investments in debt securities in domestic currency without a currency clause, issued by the aforementioned companies. This decision fully exempts the banks from allocating reserve requirement for liabilities based on debt securities issued in local currency with an original maturity of at least two years. The Decision will apply throughout 2014, after which, depending on the results, the need for further application will be reconsidered.

- A Decision on reducing CB bill interest rate was adopted to cut the policy rate from 3.75% to 3.5%. At the same time, the interest rate on seven-day deposit facility and on overnight deposit facility was cut from 2% to 1.75% and from 1.0% to 0.75%, respectively.

March 2013

- A Decision on credit risk management was adopted, which applies from 1 December 2013.

July 2013

- A Decision on reducing CB bill interest rate was adopted to cut the policy rate from 3.5% to 3.25%. At the same time, the interest rate on seven-day deposit facility was cut from 1.75% to 1.5%.

- A Decision amending the Decision on reserve requirement was adopted, which reduces the reserve requirement rate for banks' liabilities in domestic currency from 10% to 8% and increases the reserve requirement rate for liabilities in foreign currency from 13% of 15%. In addition, the amendments stipulate a reserve requirement rate of 0% for banks' liabilities to nonresident financial companies with contractual maturity of over one year, as well as for all liabilities to nonresidents with contractual maturity of over two years. A rate of 13% still applies to short-term liabilities to nonresident financial companies in foreign currency with contractual maturity of up to one year. To maintain the reserve requirement in denars and in euros relatively stable, the amendments increase the reserve requirement in euros that is fulfilled in denars from 23% to 30%.

October 2013

- A Decision amending the Decision on banks' liquidity risk was adopted. This decision reduces the proportion of time deposits assumed to outflow from banks, from 80% to 60%, and applies from 1 December 2013. This amendment makes more room for long-term bank lending to the real sector.

November 2013

- A Decision amending the Decision on reserve requirement was adopted, which exempts the NBRM from paying reserve requirement remuneration (previously, this remuneration equaled 1% for denar reserve requirement and 0.1% for euro reserve requirement). The Decision is being applied since 1 January 2014.

– A Decision on CB bills was adopted, which introduces a methodology for determining the potential demand for CB bills. In accordance with the established mechanism, if there is a higher demand than the potential across the overall banking system, banks that bid higher amounts of their own liquidity potential will be required to place this difference in seven-day deposits.

February 2014

– A Decision on reducing interest rate on seven-day deposit facility from 1.5% to 1.25% was adopted.

April 2014

– A Decision amending the Decision on the methodology for determining capital adequacy was adopted, introducing two amendments in the current decision that are expected to contribute positively to the credit support of the commercial banks to the corporate sector. Namely, with this Decision (and in accordance with the amendments to the new EU Regulation no. 575/2013 on prudential requirements for credit institutions and investment companies), performance guarantees or warranties that guarantee completion of works, stand out as items with low-intermediate risk, and therefore take lower conversion factor (20%), instead of 50% as it has been so far. That would mean that in the calculation of capital adequacy, smaller part of these off-balance sheet items would be treated as balance sheet items, which could affect the improvement of capital adequacy and encourage lending to the corporate sector. There is another innovation motivated by the international practice of establishing funds by low-risk entities (central governments or multilateral development banks) whose main goal is funding development projects. These projects are mostly funded through one or more commercial banks, which also contribute funds by dividing the exposure into a defined ratio between the bank and the fund or by providing guarantees or other similar instruments used by the fund (warranty provider) to guarantee coverage of part of the credit risk in the event of default by the debtor. In order to cover these cases, this decision also introduces a more favorable regulatory treatment of the funds established by one or several central governments, multilateral development banks or public institutions. These funds will take 0% risk weight, and the requirement will be that the funding is executed by payment in stakes, i.e. on-balance sheet and off-balance sheet activities to be covered by the fund's equity.

September 2014

– In order to further channel banks' excess liquidity to the non-financial sector, in September the NBRM revised the mechanism for transfer of the demand for CB bills, which is above the banks' potential into another instrument, i.e. seven-day standing deposit facility. According to these changes, for the seven-day standing deposit facility that banks are obliged to allocate if on the CB bills auctions they demand an amount higher than the potential[20], an interest rate of 0% is determined. For the other assets that banks will voluntarily place into a seven-day standing deposit facility the regular interest rate will apply.

[20] For the method of determining the potential demand for CB bills see the Decision on CB bills, Official Gazette of the Republic of Macedonia No. 166/13).

September 2014

- The National Bank of the Republic of Macedonia Council adopted the Decision amending the Decision on the reserve requirement, which extends the application of the non-standard measure for reduction of the base for the reserve requirement of commercial banks for the amount of new loans extended to net exporters and domestic producers of electricity. The main objective of the Decision is to provide further support to the two systemically important sectors of the economy. The current implementation of this measure has generated positive effects on the dynamics of lending and thus the overall economic growth, contributing to a reduction of the cost of funding of companies from both sectors, although with lower intensity than the potential. In such circumstances, and given the data that indicate some uncertainty about the pace of lending to the corporate sector in the next period, this Decision envisages continued application of this non-standard measure until 31 December 2015.

October 2014

- A Decision on reducing the interest rate on overnight deposit facility from 0.75% to 0.5% and on seven-day deposit facility from 1.25% to 1% was adopted.

March 2015

- A Decision on reducing the interest rate on overnight deposit facility from 0.5% to 0.25% and on seven-day deposit facility from 1% to 0.5% was adopted.

- The National Bank Council adopted the Decision amending the Decision on CB bills, which introduces a new manner of establishing the bids of banks at the auctions of CB bills. According to the Decision, the amount of supply of individual bank is calculated by applying its appropriate percentage share in the total supply of treasury bills, reduced by the amount of past due CB bills of the Macedonian Bank for Development Promotion AD Skopje. In order to ensure operational efficiency in conducting auctions of this type and greater transparency toward banks, before the auction the NBRM shall inform the banks on the maximum offer that can be submitted by each bank. This opportunity for setting the supply of banks is expected to stabilize the demand at the level of the amount offered, which eliminates the need for calculation of potential demand and subsequently it repeals the obligation for mandatory seven-day deposits for banks when demand at the auction exceeds the potential demand.

April 2015

- A new Decision on the credit of last resort which, besides the current possibility of approving credit of last resort to banks against a collateral of debt securities, foreign currencies and banks' claims on the National Bank, introduces the possibility of extending this credit also against pledging banks' claims on customers. This modality of the credit of last resort is planned to be activated if the bank does not have debt securities and foreign currencies. The Decision specifies the types of claims that are acceptable for the National Bank as collateral for the credit of last resort.

June 2015

- The National Bank Council adopted preventive measures for managing capital flows of the Republic of Macedonia to the Republic of Greece. Preventive measures pertain to restriction of capital outflows from residents of the Republic of Macedonia (natural persons and legal entities) to Greek entities based on newly concluded capital transactions, but not to a restriction of the outflows based on incoming payments for capital transactions already concluded. These measures limit capital outflows only to the Republic of Greece and to entities from the Republic of Greece (such as outflows for founding of a company, investing in securities, investing in documents for units in investment funds, investing in investment gold, financial credits, long-term loans, etc.) but not to block or in any way to impede current and future commercial operations with entities from the Republic of Greece. Current transactions remain free. Also, in order to maintain the security of foreign investors regarding the exercising of their rights to their property in the Republic of Macedonia, outflows based on realized dividends have not been restricted either. Furthermore, in order to secure the funds that domestic banks have in the banks in the Republic of Greece, Macedonian banks are required to withdraw all loans and deposits from banks based in the Republic of Greece and their branches and subsidiaries in the Republic of Greece or abroad, regardless of the agreed maturity. However, in order to allow smooth functioning of payment operations for the transactions that are not prohibited, an exception to this requirement has been made for the funds on the current (correspondent) accounts with those banks. Existing prudential and supervisory measures and limits for banks to investments in securities including Greek securities are supplemented by explicit ban on all residents to invest in Greek securities. Those are temporary protective measures, introduced to prevent the threat of any significant outflows of capital from the Republic of Macedonia to the Republic of Greece to cause significant disturbance to the equilibrium in the balance of payments and undermine the stability of the financial system.

August 2015

- The National Bank Council adopted the Decision on amending the Decision on reserve requirements that reduces the reserve requirement rate for the bank liabilities to natural persons in domestic currency with contractual maturity of over one year from 8% to 0%, with these liabilities obtaining the same treatment as the liabilities with maturity over two years, for which rate of 0% since 2012 has been applied. Having in mind that the amendment releases the banks from the reserve requirement for the natural persons' denar deposits with maturity exceeding one year, this measure is expected to have adequate influence toward larger supply of denar savings products with stimulating interest rates.

- The National Bank Council adopted the Decision on amending the Decision on CB bills that envisages adjustment of the mechanism of participation at the CB bills auction of the National Bank, where the main criterion will be the individual share of the banks in the total liabilities in domestic currency without currency clause of the banking system. With these amendments, the National Bank continues to support the natural persons' savings in domestic currency and on a longer run, which creates room for the banks for active credit support to the private sector.

December 2015

- The Council adopted the Decision amending the Decision on the methodology for determining the capital adequacy, introducing measures to slow the growth of long-term consumer loans. The measure increases capital requirements for banks on long-term consumer loans with maturity equal to or longer than eight years. Thus, the risk weight for claims on consumer loans with a contractual maturity equal to or longer than eight years, increases from 75% i.e. 100% to 150%. To avoid major shocks in the market of consumer lending, yet the growth rates to be reduced to a moderate level, this measure is aimed only at newly approved long-term consumer loans, i.e. loans with maturity equal or longer than 8 years approved after 1 January 2016. At the same time, this decision introduces higher capital requirement (risk weight of 75%) for the increase of overdrafts and credit cards in relation to 31 December 2015. The aim of this decision is to prevent the possibility of changeover to this type of borrowing as a result of the measure to decelerate consumer loans. Also, this Decision facilitates the access of legal entities. Namely, the capital requirement for guarantees issued by banks is reduced, which guarantees payment based on a certain business relationship of the client and banks' claims backed by commercial property that meets certain conditions. This way allows banks to allocate lower amount of capital for credit and guarantee operations with legal entities, including small and medium enterprises, which can cause reduction in the cost of banks and therewith, of clients for this type of operation.

– The National Bank Council adopted the Decision on amending the Decision on credit risk management, which requires starting from 1 January 2016, and by June 30 2016 to write-off all claims that have been fully booked for more than two years, and where the bank has identified and fully covered the credit risk of default at least two years before. According to the existing regulations, banks are required to fully reserve claims where the client defaulted at least 1 up to 5 years if there is a specific collateral, and the new measure requires from banks to write them off two years after their full provisioning. In addition, banks will still be allowed and required to take actions to collect these claims, although they are written off. The measure does not incur additional costs for banks since claims which are fully provisioned are written off, at least two years before.

– The National Bank Council decided to extend the application of the non-standard measure to reduce reserve requirement base in denars of commercial banks for the amount of newly approved loans to net exporters and domestic producers of electricity for two more years, until the end of 2017.

– On 29 December 2015, the Decision on introducing special protective measures adopted by the National Bank Council on 28 June 2015 due to the debt crisis in Greece at that time, ceased being valid. The measures were adopted to protect against any disruptions in the balance of payments or the stability of the financial system of the Republic of Macedonia due to any significant capital outflows from Macedonia to Greece. They were temporary for a period of up to six months, with a possible extension of their application. The protective measures served their purpose and prevented major capital outflows from the Republic of Macedonia, yet not disturbing the business of domestic companies with Greek companies. They delivered equilibrium in the balance of payments and stability of the domestic banking system. The situation in Greece has been stabilizing for quite some time. The lenders continued to financially support Greece, which, in turn, pledged to apply economic and social reforms, and austerity measures. Therefore, after the expiry of six-month validity period of the protective measures on 28 December 2015, since 29 December 2015, this decision is no longer in use.