

National Bank of the Republic of Macedonia
MONETARY POLICY AND RESEARCH DEPARTMENT



**Recent Macroeconomic Indicators
Review of the Current Situation**

August, 2015

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 (April - August 2015) and to make a comparison with the latest macroeconomic projections (April 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 projections. 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 April projections. The global economy continues to recover, but the risks are still present and are predominantly downwards. Since the latest projections until now, economic and political developments in Greece have imposed a new risk, which increased the uncertainty in the global environment. Regarding the economic position of the Euro area as our important economic partner, after the quarterly GDP growth rate of 0.4% in the first quarter (i.e. 1% annually), most high frequency indicators for the second and third quarter of 2015 point to retaining such modest rates of growth. In June, for the first time in nine months, the number of unemployed persons on the labor market grew and the unemployment rate stagnated at 11.1%, for the third consecutive month. Although these movements in the labor market may be temporary, they however, signal the uncertainty about the economic recovery. Regarding the inflation, preliminary data for June point to maintaining the pace of annual growth at 0.2%, while core inflation accelerated from 0.8% in May to 1%. However, inflation remains below the medium-term objective of the ECB and the ongoing weakness in the labor market creates risks of downward pressures on wages and renewed risk of deflation. In such circumstances, the ECB continues to conduct an accommodative monetary policy. At the last ECB meeting regarding the monetary policy, held in mid-July, the policy rate was maintained at a low level, and the intention to fully implement the program of quantitative easing by the end of September 2016, or any way until it is assessed that inflation is close to the medium-term objective, was confirmed.

Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the assessments regarding the foreign effective demand did not significantly change relative to the April projection. The growth rates are minimally revised downwards, reflecting the deteriorating economic outlook of Greece. However, there are still expectations for gradual recovery in the foreign demand in 2015 and acceleration of growth in 2016. **Foreign effective inflation** has undergone minor changes, i.e. prices are now expected to increase slightly in 2015 versus the expected rate of 0% in the April assessments, while the expectations for 2016 remained unchanged. **Changes in the latest expectations about the prices of primary commodities are mainly downward.** Recent developments and assessments of world oil prices point to similar trends as in the April projections for 2015, while for 2016 smaller growth is expected. Regarding the **metal prices**, increased risks from the developments in Greece and the slower growth of the Chinese economy spilled over the markets with expectations of a sharper decline in the price of nickel and a reduction, rather than the previous assessment for growth, in the price of copper in 2015 and 2016. The assessments for the **food prices** also changed downward for both 2015 and 2016, indicating a possible lower import pressures through this channel on domestic inflation compared to the April projections. 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 comparison of the latest macroeconomic indicators with their projected dynamics within the April forecasting round presents a divergent picture with respect to the

deviations in the individual segments of the economy. The published GDP data for the first quarter are in line with the expected economic growth in the April forecasting round, and high-frequency indicators for the second quarter point to probable maintaining of the pace of this growth. Despite the slower growth in the industry, movements in construction and trade are more favorable compared to the previous quarter, suggesting a solid pace of growth, which corresponds with the projection. In terms of inflation, in July a slight decline in consumer prices was recorded, which mostly reflects the lower food prices (drop in the prices of fresh vegetables), but it was also a result of the energy prices, which remained in the negative zone. These developments caused a slight downward deviation of the realized inflation rate, compared with the April projection. At the same time, certain downward correction was made in the expectations for most of the input assumptions. However, given the high volatility of the movements in short intervals, **the risks to the projected inflation rate for 2015 were assessed as balanced.**

According to the latest available data for the third quarter of 2015, foreign reserves (adjusted for the price and exchange rate differences and price changes of securities) registered a decline¹. Analyzing the factors of change, the decline in reserves during this period was due primarily to the transactions for the account of the government (regular settlement of external liabilities by the government) and net sales of foreign currency on the foreign exchange market by the NBRM. However, it should be emphasized that after the sale of foreign currency in the first half of July, the foreign exchange market was stable, and starting from the end of July the NBRM started to intervene by purchasing foreign currencies. Observing the external sector indicators, only available data for the third quarter are the data on the net purchase from currency exchange operations for July, which point to a significant improvement of the situation on the currency exchange market and for now indicate that the private transfers move within the projected framework. Other external sector data relate to the period May-June and indicate possibly higher current account deficit than expected, due to the weaker performances in private transfers and services. Regarding the financial account, some of the flows registered somewhat better performances, while some of them (primarily external borrowing of the public sector) were weaker than expected.

With regard to monetary developments, preliminary ten-day data as of July show a decline in total deposits on a monthly basis, which is completely driven by lower corporate deposits, after the relatively fast growth in the previous month. Household deposits in July grew on a monthly basis, following the reduction registered in the previous two months. These developments indicate a gradual depletion of the effects of non-economic factors associated with domestic political developments and developments with the Greek debt crisis, which were the main factor of uncertainty in the previous period contributing to the temporary worsening of households' expectations. On an annual basis, total deposits in July grew by 7.4% and were below the projection for the third quarter (9.5%). Data on the credit market point to a slowdown in credit growth in July to 0.2% on a monthly basis, as a result of reduced lending to the corporate sector (which may partly be due to seasonal factors), while lending to households continues at a moderately slower pace compared with the previous month. On an annual basis, total loans in July grew by 9%, while the April projection envisages annual growth of 9.8% at the end of the third quarter.

In June, the **Budget of the Republic of Macedonia** registered a deficit of Denar 1,630 million, which was funded by government deposits with the NBRM, amid realized net payments based on debt financing (domestic and foreign). Cumulatively, the budget deficit amounted to Denar 9,521 million (or 1.7% of GDP²) in the first six months of 2015, constituting 51.5% of the projected budget deficit for 2015.

¹ Refers to the last available operating data for August 2015.

² According to the latest NBRM projection for the nominal GDP.

The latest assessments of the level of **EURIBOR indicate lower level in the period 2015-2016, compared with the April projection**, with the assessments still showing expectations for negative interest rate also in 2016 (expectations for positive interest rate in the April projection).

In summary, in the period since the April projections, the domestic and foreign risks have increased, but recent macroeconomic indicators and assessments point to the fact that currently their effects are limited and that there are no significant changes in the environment for conducting monetary policy. In the second quarter, foreign reserves decreased, somewhat more than expected, while the latest data point to their further reduction. However, foreign reserves adequacy indicators remain within the safe zone. In terms of inflation, in July it returned to the zone of negative annual change, but the assessment of the risks to the projection by the end of the year are, for now, assessed as balanced. In the first quarter, the GDP growth was as projected, and the latest high-frequency data on economic activity point to continuing growth of the domestic economy in line with the projection, also in the second quarter. Data as of July indicate slowing pace of credit growth on the credit market that may in part be due to seasonal factors. Moreover, as of July, about 7.5% of the anticipated quarterly growth of loans for the third quarter were generated. Deposits were lower than expected, which may in part reflect the uncertain domestic and global environment, as factors affecting households' expectations. Such dynamics of the main source of financing the credit activity creates risks also for the movements on the credit market in the forthcoming period. However, the time period is short in order to assess whether these deviations are temporary or they will persist in the coming period. Surveys give positive signals about changes in credit activity in the third quarter, with expectations for growth in both the supply (mainly to the corporate sector) and the demand for loans. Furthermore, preliminary data on the dynamics of deposits in July indicate a gradual depletion of the effects of non-economic factors and possible stabilization of the deposit base growth in the next period. **In any case, there is uncertainty associated with domestic political developments and the Greek debt crisis. 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.** Regarding the developments in Greece and uncertainty about the future course of events, in late June the National Bank took preventive measures³ to manage capital flows. Those are protective measures of a temporary character, introduced to prevent the threat of any significant outflows of capital from the domestic economy to Greece and thereby prevent significant disturbance to the equilibrium in the balance of payments and the stability of the financial system.

³ For details on the preventive measures of the NBRM see the Decision on the introduction of special protective measures ("Official Gazette of RM" no. 107/15) on the following link:
http://www.nbrm.mk/WBStorage/Files/Regulativa_Odluka_voveduvanje_posebni_zastitni_merki0.pdf

Selected economic indicators^{/1}

	2012	2013	2014	2015								
				Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.
I. Real sector indicators												
Gross domestic product (real growth rate, y-o-y) ^{/2}	-0.5	2.7	3.8				3.2					
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	
cumulative average	-2.8	3.2	4.8	1.1	2.1	1.5	1.5	0.8	-0.4	0.8	0.8	
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
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
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
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
Labor force												
Unemployment rate	31.0	29.0	28.0				27.3					
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	12,219	40,352	
Total budget expenditures	155,840	159,505	168,063	12,732	14,467	16,881	44,080	14,375	15,348	13,849	43,572	
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301	8	-1,598	-1,630	-3,220	
Overall balance (in % of GDP) ¹	-3.8	-3.9	-4.2	-0.4	-0.4	-0.3	-1.1	0.0	-0.3	-0.3	-0.6	
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	
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	
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	
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	
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	
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	
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	
Interest rates ^{/7}												
Interest 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	
Lending rates												
denar rates (aggregated, incl. denar and denar with f/x clause)	8.3	7.7	7.5	7.4	7.3	7.2	7.3	7.2	7.1	7.1	7.1	
f/x rates	6.8	6.4	6.3	6.1	6.0	6.0	6.0	5.9	5.9	5.9	5.9	
Deposit rates												
denar rates (aggregated, incl. denar and denar with f/x clause)	4.8	4.1	3.7	3.3	3.2	3.1	3.2	3.0	3.0	2.9	3.0	
f/x rates	2.1	1.6	1.4	1.5	1.5	1.4	1.5	1.4	1.3	1.3	1.3	
IV. External sector indicators												
Current account balance (millions of EUR)	-223.7	-146.8	-113.7	36.3	7.3	-80.6	-37.0	-55.0	-24.9			
Current account balance (% of GDP)	-1.6	-1.8	-1.3	0.4	0.1	-0.9	-0.4	-0.6	-0.3			
Trade balance (millions of EUR) ⁸	-1,948.2	-1,756.6	-1,762.0	-73.7	-109.9	-194.5	-378.1	-202.7	-110.7	-142.7	-456.1	
Trade balance (% of GDP)	-25.6	-21.7	-20.8	-0.8	-1.2	-2.2	-4.2	-2.3	-1.2	-1.6	-5.1	
import (millions of EUR)	-5,061.8	-4,968.4	-5,484.9	-365.5	-409.0	-533.6	-1,308.1	-498.0	-469.6	-511.8	-1,479.4	
export (millions of EUR)	3,113.5	3,211.8	3,723.0	291.8	299.1	339.1	929.9	295.2	359.0	369.1	1,023.3	
rate of growth of import (y-o-y)	0.2	-1.8	10.4	-2.9	-2.2	19.7	5.5	9.3	-2.0	18.5	8.2	
rate of growth of export (y-o-y)	-3.2	3.2	15.9	24.0	6.5	13.7	14.2	0.0	13.4	13.0	9.0	
Foreign Direct Investment (millions of EUR)	117.3	263.8	278.0	37.4	13.4	21.6	72.4	36.4	-4.1			
External debt												
Gross external debt (in millions of EUR)	5171.7	5219.7	5954.4				6185.2					
public sector	2162.1	2172.4	2847.1				3024.9					
public sector/GDP (in %)	28.5	26.8	33.4				33.6					
private sector	3009.5	3047.4	3107.3				3160.3					
Gross external debt/GDP (in %)	68.2	64.3	69.8				68.7					
Gross official reserves (millions of EUR) ⁹	2,193.3	1,993.0	2,436.5	2,484.4	2,330.8	2,354.9		2,344.3	2,328.5	2,254.8		2,198.3

/1 While calculating the relative indicators until Q1 2015, the annual GDP from the official announcement of SSO (from 12.06.2015) is used. For 2015, the projected level from the NBRM projections from April 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.

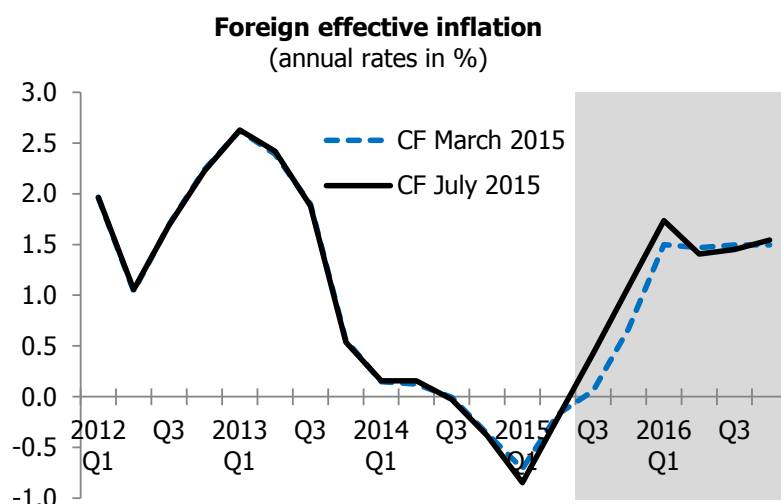
/5 Inflation on annual basis corresponds to end-year inflation (December current year/December previous year)

/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).

/9 The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

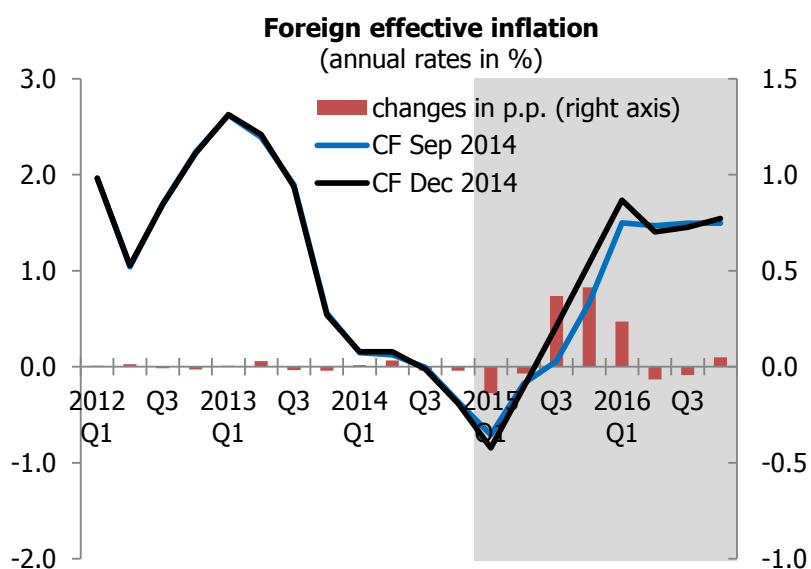


Latest expectations regarding foreign effective demand are minimally adjusted downwards, compared with the April projection. Thus, recent assessments indicate expected growth of 1.2% and 1.7% in 2015 and 2016 (compared to 1.3% and 1.8% in the April projection) ...

...which, given the somewhat more favorable expectations regarding the economic developments in nearly all of our other major trading partners, largely stems from the downward revision of GDP growth in Greece, and a slightly weaker economic activity is expected in Serbia ...

... while in 2016, expectations for slower economic growth in Greece are the main factor for the downward revision of the foreign effective demand.

Source: "Consensus Forecast" and NBRM calculations.



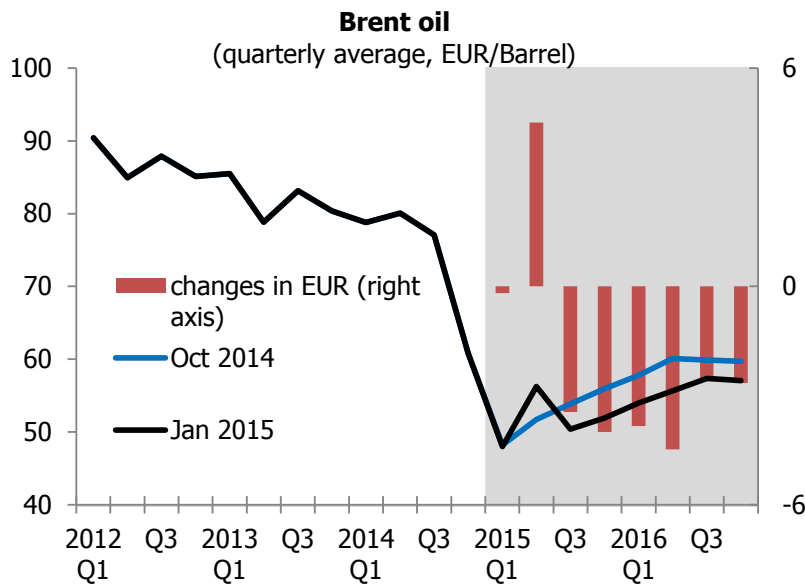
In 2015, minimal upward revision of the foreign effective inflation was made, which is expected to be 0.1% (compared to the April estimates for inflation of 0%) ...

... primarily as a result of the expectations for less negative contribution from price movements in Serbia⁴, as well as estimates of higher inflation in Croatia.

It is estimated that the foreign effective inflation will amount to 1.5% in 2016, which is in line with the expectations from the April projection...

Source: "Consensus Forecast" and NBRM calculations.

⁴ Inflation in Serbia and Croatia has been adjusted for the changes in the exchange rate.



According to the latest data, oil prices in 2015 and 2016 were revised downwards compared to the April projection.

Thus, in 2015 minimally larger decline in oil prices is expected, amid increased production from OPEC countries⁵ and lifting of sanctions on Iran⁶ ...

... while for 2016 the expected growth in oil prices is lower compared with the April projection.

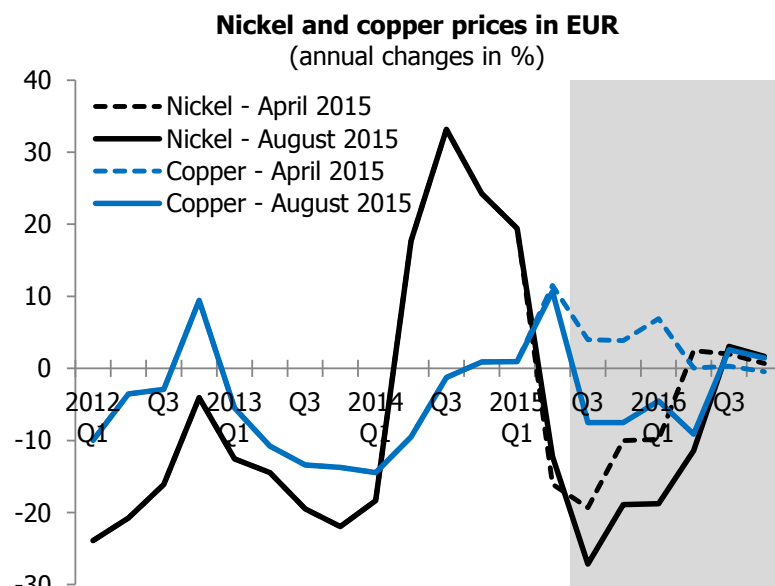
Source: IMF and NBRM calculations.

The latest data on metal prices in euros indicate a downward revision⁷ of the assumptions in the April projections ...

... which mainly reflects the macroeconomic risks associated with the situation in Greece and the weak demand from China, given the continued growth of supply.

Thus, in 2015, the **price of nickel** is expected to decline more than expected in April, while the most recent assessment of the **price of copper** indicates its decline rather than growth as projected in the April forecast.

Downward revision was made also in view of the expected movement in metal prices in 2016, so that now a deeper decline in the price of nickel and drop instead of rise in the price of copper is expected.



Source: IMF and NBRM calculations.

⁵ http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_July_2015.pdf and

<http://www.imf.org/external/np/res/commmod/pdf/monthly/071615.pdf>

⁶ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1327&from=EN>

⁷ <http://www.imf.org/external/np/res/commmod/pdf/monthly/071615.pdf>

Recent estimates of the movements in prices of wheat products for 2015 and 2016 point to downward adjustments compared with the April projection.

Major revision was made in the **price of wheat**, which is expected to decline in 2015 (compared to the expectations for growth in the April projection) and rise slowly in 2016 ...

... reflecting lower than previously expected demand for this product and relatively solid supply globally⁸, despite the unfavorable weather conditions in North America and Europe.

The expected **price of maize** for 2015 is minimally lower than in the April forecasting round ...

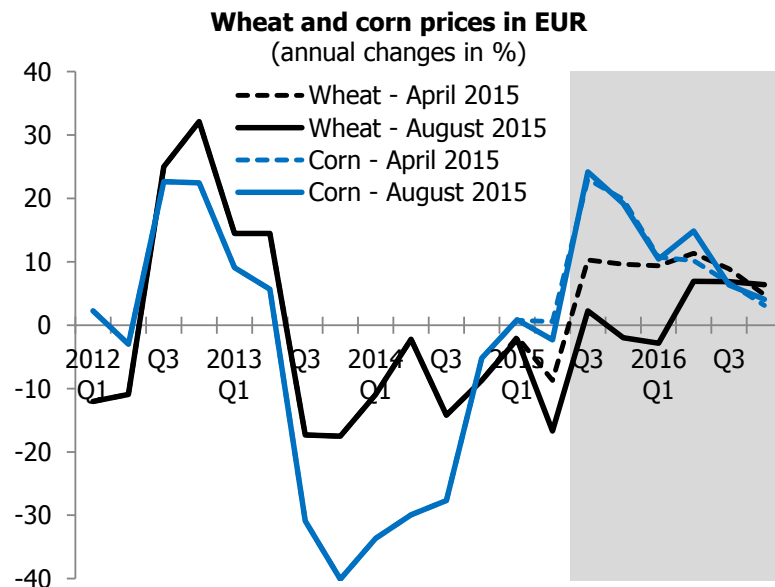
... as a result of the stabilization of weather conditions in the US, leading to stabilization of the unfavorable expectations and risks associated with the summer harvest of this crop⁹...

... while for 2016 a slight upward revision of the growth rate was made.

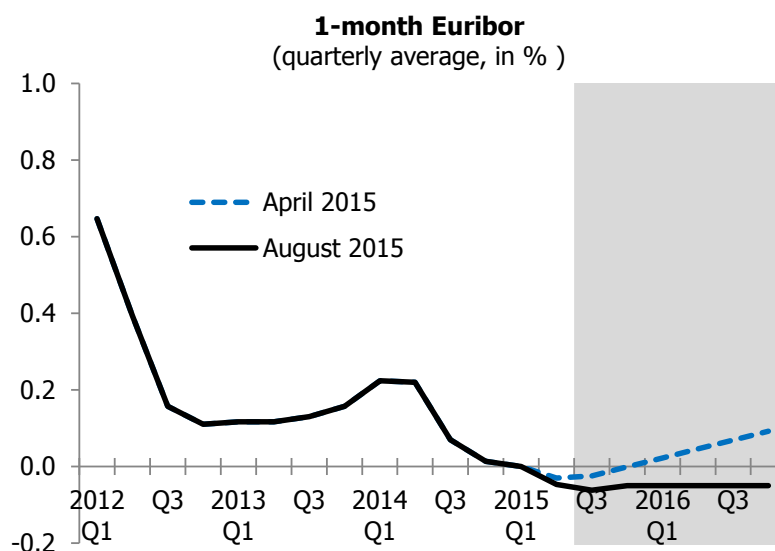
One-month EURIBOR is estimated to be in the negative zone in 2015 and 2016 and equal -0.04% and -0.05%, respectively, which compared with the April projection is a downward revision...

... as a result of the quantitative easing of the ECB, acting in the direction of increasing excess liquidity in the financial system of the Euro area.

At the end of 2016, foreign interest rate is expected to begin to normalize gradually, in accordance with the plan for ending the program of quantitative easing by the ECB.



Source: IMF and NBRM calculations.

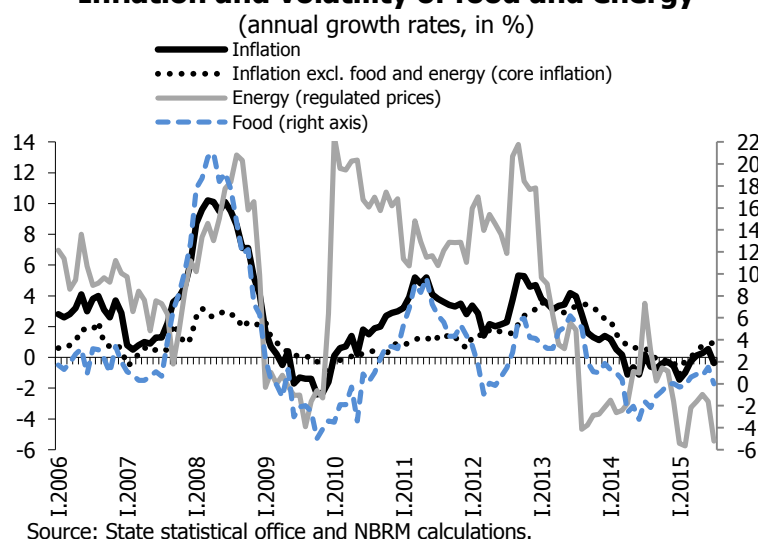


Source: "Consensus Forecast" and NBRM calculations.

⁸ <http://www.ers.usda.gov/media/1869062/whs-15g.pdf> и <http://www.igc.int/en/downloads/gmrsummary/gmrsumme.pdf>

⁹ <http://www.igc.int/en/downloads/gmrsummary/gmrsumme.pdf>

Inflation and volatility of food and energy



After the moderate growth in the period March - May and the stagnation in June, **in July a slight decline in consumer prices was recorded** (the monthly rate of decline in prices was 0.7%) ...

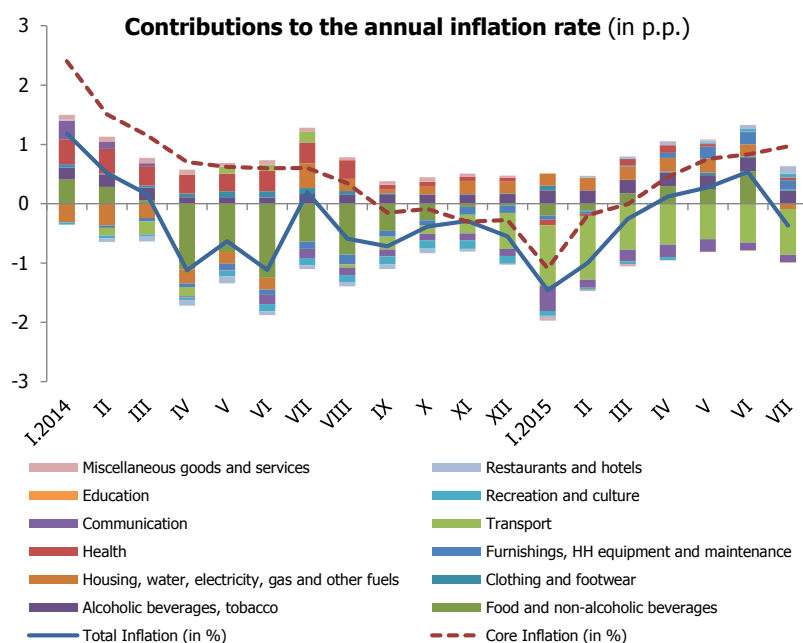
... amid lower prices of food¹⁰ and energy, while core inflation grew.

The monthly decline in prices affected the annual inflation rate which was moderately negative in July and amounted to -0.4% (compared to the growth in the previous three months)

...

...representing a slight downward deviation compared with the expected rate of inflation in the April forecasting round...

... due to the lower food prices (stagnation as opposed to the expectations for their growth) and the substantial fall in the energy prices. Movements in core inflation are in line with the projection (expected growth), although the pace of growth is somewhat faster than expected.

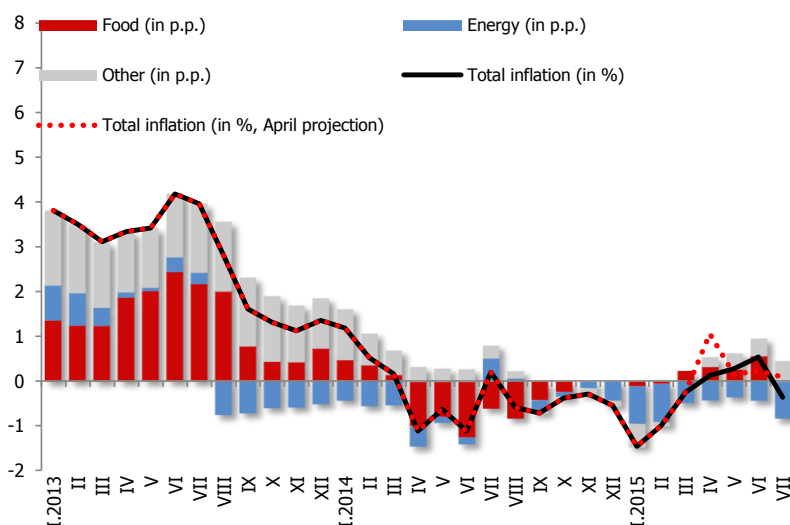


Source: SSO and NBRM.

¹⁰ Category with the largest individual negative contribution to the July price change was fresh vegetables (which registered a monthly price decline of 15.9%).

Inflation rate

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



Source: SSO and NBRM.

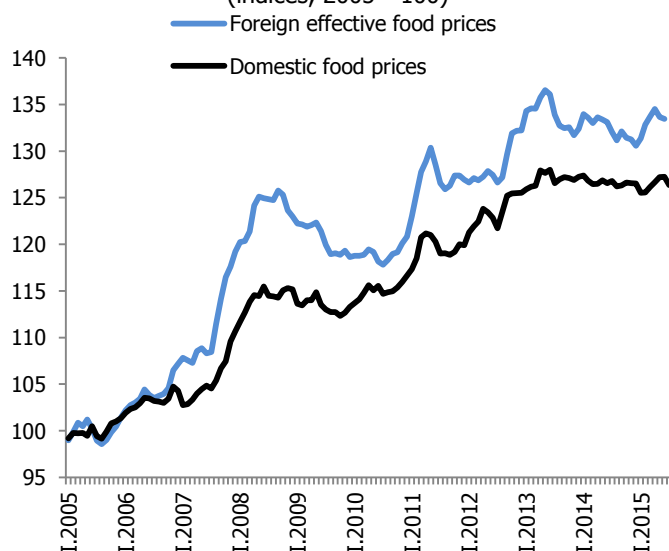
In July, core inflation equaled 0.4% (versus the monthly rate of 0% in June)...

... where growth was observed also on an annual basis (1%).

Regarding the structure of core inflation, the July growth was largely due to the higher prices of tobacco (due to upward adjustments in excise duties), the prices of products for the maintenance of homes, as well as higher prices of catering services.

Foreign effective food prices* and domestic food prices

(indices, 2005 = 100)



* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with Macedonia.

Source: State statistical office, Eurostat and NBRM calculations.

External input assumptions for 2015, which are included in the inflation projection, have been mainly revised downwards.

Thus, the latest projections for the prices of **internationally traded primary food products** (expressed in euro) point to a downward correction of the expected movements in the April projection by the end of 2015 ...

... reflecting the lower than expected demand amid solid global supply, and simultaneous stabilization of the unfavorable expectations and risks associated with the summer harvest.

Further decline in the oil prices is expected, although a small downward correction compared with the April projections was made ...

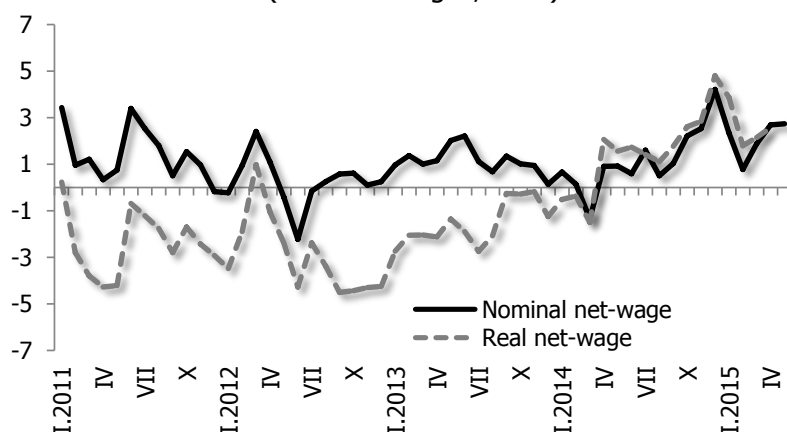
... because of the increased production in the OPEC countries¹¹ and the lifting of sanctions against Iran.

On the other hand, **foreign effective inflation** for 2015 has been revised upwards minimally.

¹¹ http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_July_2015.pdf и <http://www.imf.org/external/np/res/commmod/pdf/monthly/071615.pdf>

Regarding the risks to the projected inflation rate for 2015, it is estimated that they are balanced. In fact, despite the downward adjustment of the expectations for the input assumptions and slightly lower realized inflation in July, due to the great variability of the movements, for now the risks to the projection are being assessed as balanced.

Average net-wage
(annual changes, in %)



Source: SSO.

In May 2015, the nominal annual growth of the **average net wage** was 2.7%, whereby last month's pace of growth of wages was maintained.

Most of the activities registered upward movements in the wages ...

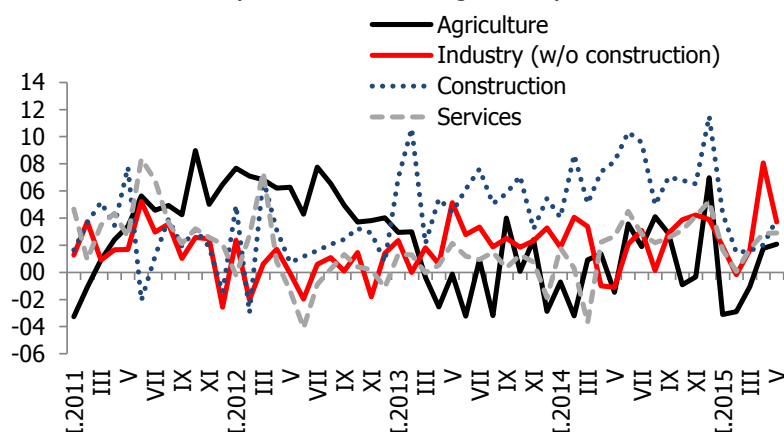
... with the fastest growth being registered in part of the services sector (health, the activity "arts, entertainment and recreation" and other services)¹²...

...while an annual decline was registered only in the wages in transport and in the real estate sector.

Amid relatively stable domestic prices, in April, **real wages** rose by 2.5%, which is close to the nominal growth.

Such trends in wages are in line with the expectations for the second quarter of the year under the April forecasting round (expected nominal and real annual growth in the second quarter of 2.7% and 2.6%, respectively).

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



Source: SSO.

¹² The high annual wage growth in these sectors significantly reflects the impact of rising wages in the public sector realized at the end of 2014. According to the Law amending the Law on payment of wages in RM ("Official Gazette of the Republic of Macedonia" No.139/2014), wages of employees in public administration increased by 4% starting with the payment of the wages for October 2014.

The available data for the second quarter of 2015 indicate further annual growth of the national economy, given the constant positive performance in the key economic sectors.

Thus, in the second quarter of the year a double-digit real growth of **trade turnover** was registered ...

... amid fast growth in the value of the realized turnover in retail and wholesale trade in motor vehicles and more moderate growth in retail trade.

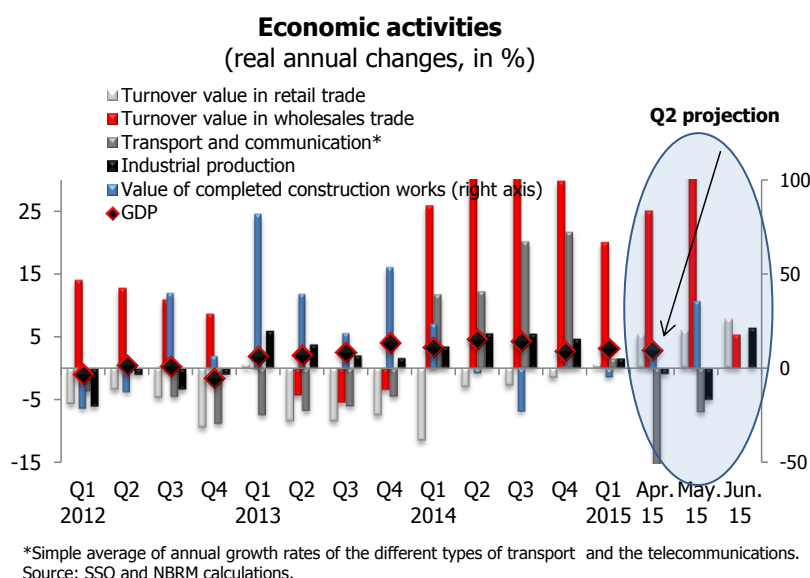
Favorable movements were observed also in the **construction sector**, which in the period April-May registered a double-digit growth in the value of completed construction works (as opposed to their decline in the first quarter)...

... as well as in **catering** (in the period April-May an increase was registered in the number of tourists, the number of overnight stays and the value of turnover) and in the **transport sector** (favorable trends in the indicators related to rail road traffic).

In view of the situation in the industrial sector, data on industrial production, cumulatively for the second quarter, point to a minimal annual growth of 0.1% (annual growth of 1.6% in the first quarter) ...

... with growth in energy production and smaller volume of production in the processing industry and the mining sector.

Within the manufacturing industry, closer analysis indicates divergent trends between individual activities. Thus, half of the processing industries registered growth of production, with the most significant being the growth in the production of the new export-oriented facilities (production of



machinery and equipment and manufacture of motor vehicles), manufacture of metal products and food products ...

... while a dozen of industries registered a decline, the most significant of which was the decline in the production of tobacco products.

During the quarter, the trends in industry were changing, and after the fall in production in April and May 2015, in June a significant improvement was registered (growth in the total volume of industrial production of 6.4%). This improvement is in line with the growth of the degree of capacity utilization in June, and with the managers' favorable assessment of the current business situation.

Most of the available indicators of aggregate demand also point to economic growth in the second quarter of 2015, which is consistent with the expectations in the April projection.

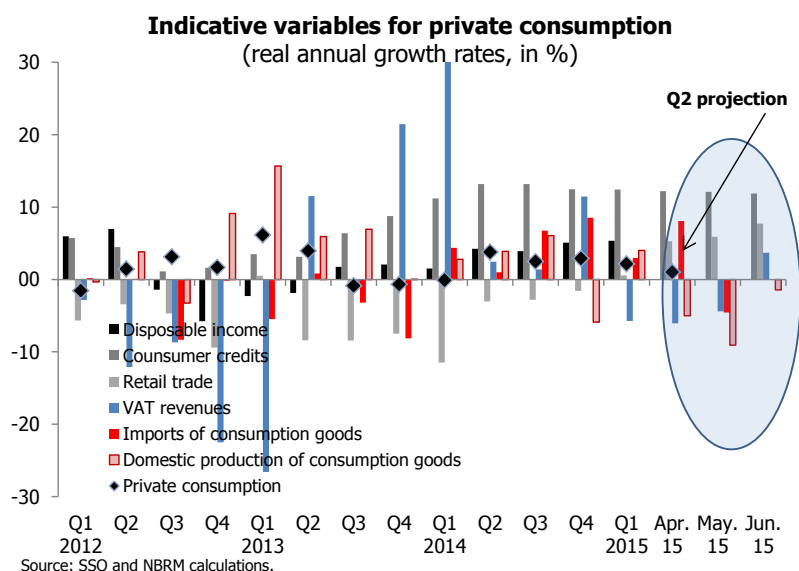
According to the high-frequency data on **private consumption**, its growth is expected to continue in the second quarter of 2015...

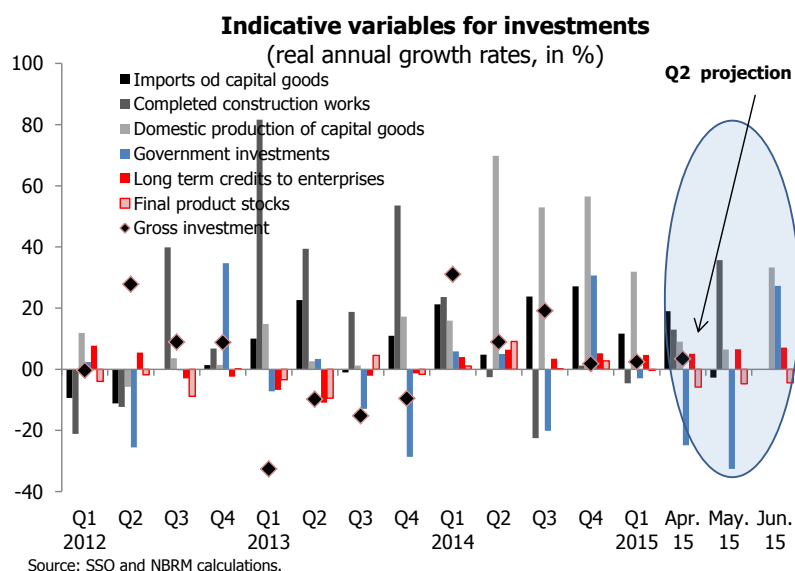
...amid similar pace of annual growth of real wages ...

...and continuing solid pace of growth in lending to households and growth of pensions paid (although at a significantly slower pace compared to the previous quarter).

The growth of household consumption is indicated also by the growth in imports of consumer goods, real growth in retail trade and higher social transfers of the government.

On the other hand, annual decline was recorded in the domestic production of consumer goods, net revenues from VAT and private transfers.





Recent **investment activity** indicators mainly point to investment growth in the second quarter ...

...amid accelerated growth in the lending to the corporate sector ...

...with a growth being also observed in the import of investment goods and the domestic production of capital goods, but at a slower pace compared to the previous quarter.

Also, after the unfavorable movements in the previous quarter, positive changes were observed in construction (amid recorded double-digit growth in the value of completed construction works in April).

On the other hand, unfavorable trends were registered in the data on budget capital expenditures, inventories of finished products and foreign direct investments.

Nominal data on **foreign trade in goods** as of June 2015 show certain widening of the trade deficit, which is in line with the April projection ...

In the second quarter of 2015 budget performances indicate growth in **public consumption**, as expected in the April projection ...

...amid real growth in the cost of goods and services, wages, and higher transfers for health care¹³.

Generally, the favorable movements in most of the high-frequency indicators point to the conclusion that GDP growth can be expected also in the second quarter of the year, which shows that the effects of the increased risks associated with the political developments in the country, as well as economic and political developments in Greece, on the activity, were limited in this period.

¹³ Most of the transfers for health care relate to expenditures for goods and services.

During the second quarter of 2015, **the deficit in foreign trade widened by 6.5% on an annual basis ...**

...which corresponds with the expectations for the trade deficit in the second quarter, as part of the April projection.

Exports of goods in the second quarter registered an annual growth of 9%, driven primarily by the improved export performance of the new capacities in the economy, and the export of metal industry also gave a small positive contribution to growth.

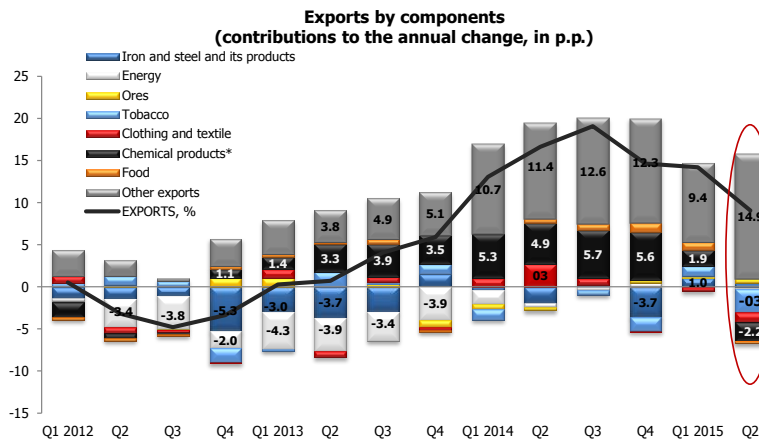
On the other hand, exports of tobacco and clothing and textiles, as one of the most important traditional export activities registered an annual decline in the second quarter.

Compared with the April projection, exports in the last quarter were higher relative to the expectations. The positive deviation stems from the improved export performance of the new industrial facilities, while exports of tobacco and of clothing and textile were weaker than expected.

In the second quarter, **imports of goods** registered an annual growth rate of 8.2%, primarily driven by the increased import of raw materials for the new industrial facilities. The higher imports of equipment and machinery and of food also contributed to the annual growth of imports...

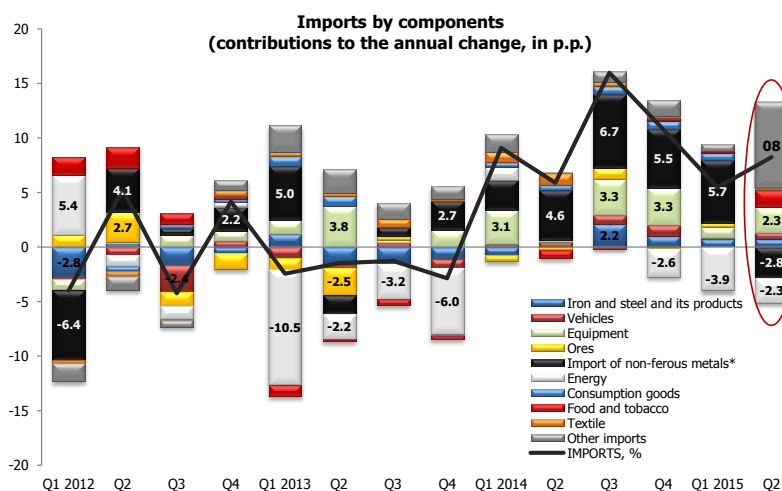
... while imports of energy fell again on an annual basis.

Imports in the second quarter were higher than expected according to the April projection. Analyzing by individual import components, the largest upward deviation was registered in the import of raw materials for the new facilities in the economy, as well as the energy imports, in circumstances of a smaller decline in the import price of oil, compared to the expected under the projections.



Source: NBRM.

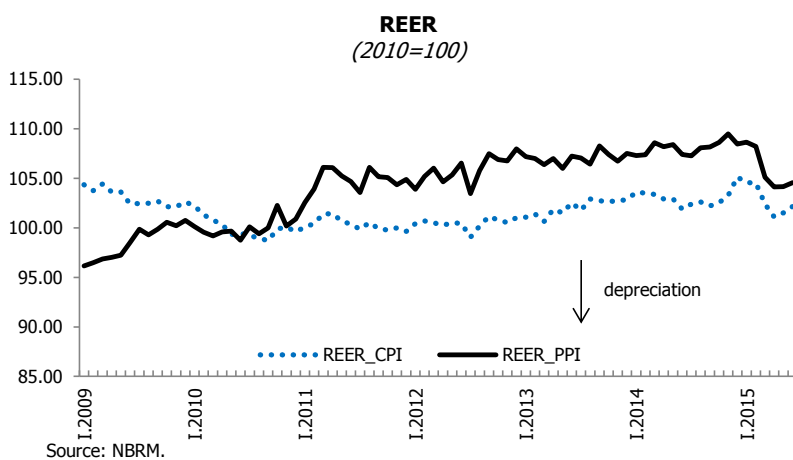
* The following data depict the overall exports of one major export capacity in the free industrial zone.



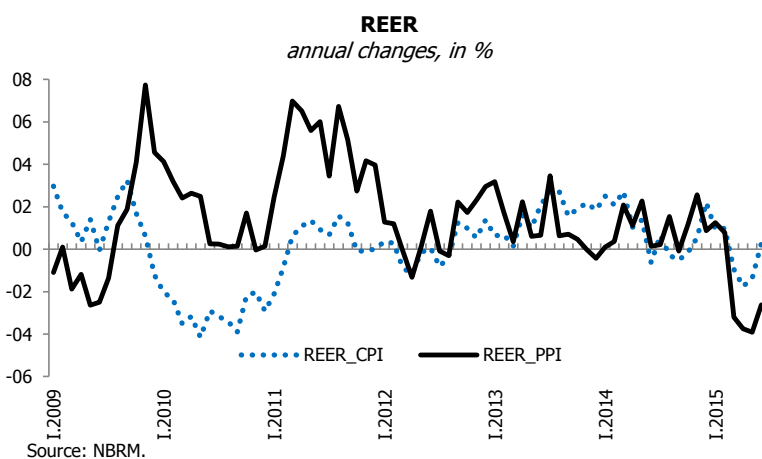
Source: NBRM.

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

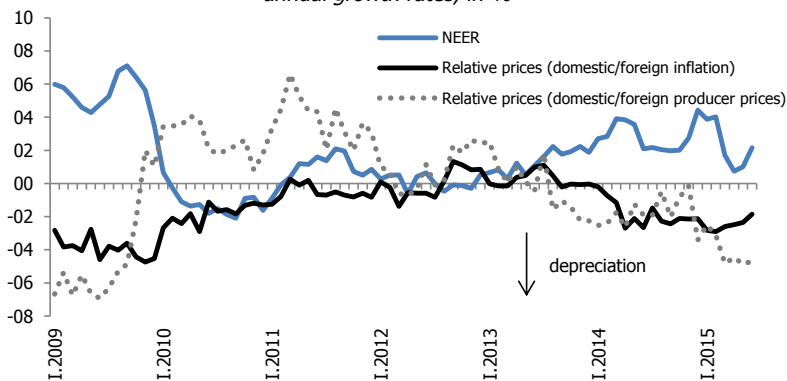
The latest estimates for the movement of oil prices expressed in euros indicate more favorable conditions in relation to the April projection, with expectations for a slightly sharper annual decline in 2015 and slower growth during 2016. On the other hand, expectations for the world prices of metals in the current and coming year are less favorable, amid assessments for greater annual decline in the prices of nickel than projected, as well as decline rather than rise in the prices of copper.



In June 2015, price competitiveness indicators of the domestic economy registered divergent movements. After three months of annual depreciation, in June the REER index calculated by using the consumer prices appreciated by 0.3% compared to the same month last year. On the other hand, REER deflated by the producer price index depreciated by 2.6%.

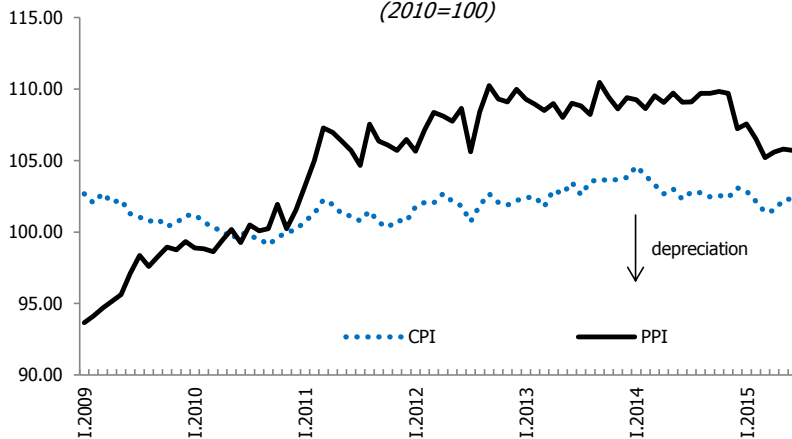


Relative consumer prices registered an annual decline of 1.9%, amid faster growth in foreign relative to domestic prices, while the relative prices of industrial products decreased by 4.7%,

NEER and relative prices*annual growth rates, in %*

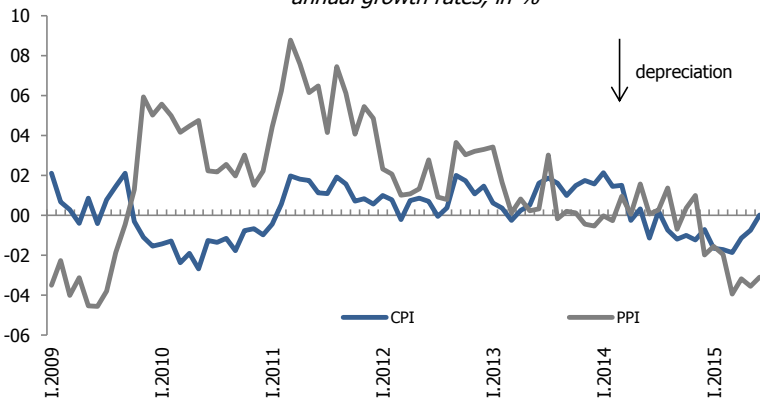
Source: NBRM.

amid rise in foreign versus fall in domestic prices. The movement of NEER acted in the opposite direction, and appreciated by 2.2%, primarily as a result of the depreciation of the Russian ruble and the Ukrainian hryvnia against the Denar.

REER, excluding primary commodities*(2010=100)*

Source: NBRM.

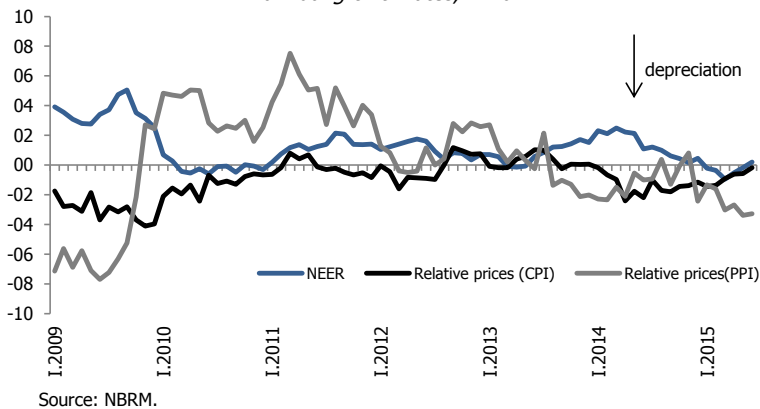
The analysis of the movement of the REER indices, as measured using weights based on the foreign trade without primary products¹⁴ also gives different assessments of the price competitiveness of the domestic economy. The REER deflated by consumer prices did not register change on an annual basis, while the REER deflated by producer prices appreciated by 3.1%.

REER, excluding primary commodities*annual growth rates, in %*

Source: NBRM.

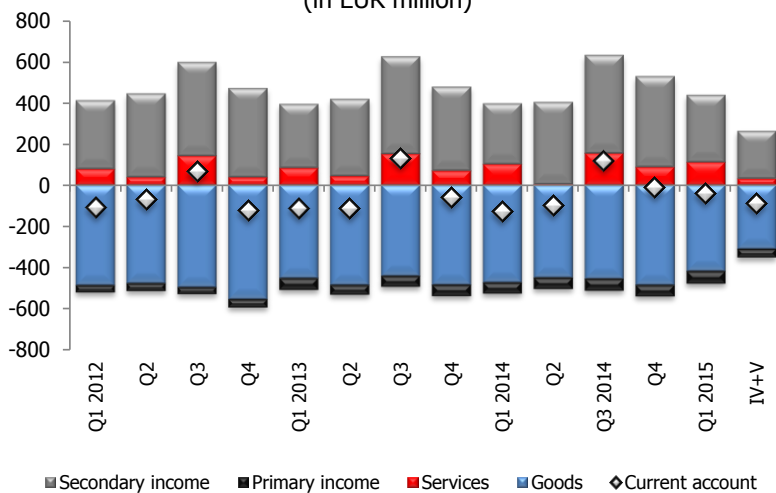
¹⁴ Primary products that are not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

NEER and relative prices, excluding primary commodities
annual growth rates, in %



The movements in both REER indices are a result of both the NEER appreciation (of 0.2%) and the annual fall of relative prices. On an annual basis, the relative consumer prices and the relative producer prices decreased by 0.2% and 3.3%, respectively.

Main components of the current account
(in EUR million)



In April and May 2015, the balance of payments current account registered a deficit of Euro 86.3 million (or 1% of GDP), which is higher than the expected deficit for the second quarter of the year according to the April projection.

These differences are mostly due to the lower net inflows in the secondary income and the lower surplus in services, given that the deficit in the trade in goods and primary income corresponds to the April projection.

In the period from April to May, net inflows of 67.3 million (or 0.7% of GDP), were realized through the financial account, which is higher than the total expected net inflows for the second quarter according to the April projection¹⁵.

Such deviations mainly result from the increased short-term, variable flows on the financial account, such as the net inflows from trade credits, as opposed to the expected net payments, and lower net outflows in currency and deposits (due to the withdrawal of banks' funds from their accounts abroad), compared with the April

¹⁵ 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.

Quarter	Direct investment, net	Portfolio investment, net	Trade credits, net	Loans, net	Currency and deposits, net	Other	Financial account
Q1 2012	-100	0	-100	0	0	0	-100
Q2	-50	0	-50	0	0	0	0
Q3	-50	0	-50	0	0	0	0
Q4	-100	0	-100	0	0	0	-250
Q1 2013	-100	150	0	0	0	0	-150
Q2	-50	0	-50	0	0	0	0
Q3	-100	0	100	0	0	0	100
Q4	-50	0	-50	0	0	0	0
Q1 2014	-100	0	-50	0	0	0	-150
Q2	-50	0	-50	0	0	0	0
Q3	-100	-500	0	0	0	0	-400
Q4	-50	0	-50	0	0	0	0
Q1 2015	-100	0	0	0	0	150	150
IV+V	-50	0	-50	0	0	0	-100

projection. On the other hand, the loans registered net outflows, as opposed to the projected net borrowing. Analyzing by sectors, deviations in long-term borrowing are due primarily to the discrepancies in the public sector. The latest data on direct investments suggest that they could be in line with the April projection.

Source: NBRM.

* Latest available data as of 31.07.2015

Recent data on currency exchange operations, as of end July 2015 indicate annual increase in both the supply of and demand for foreign currency.

The net purchase in the foreign exchange market in July totaled Euro 129.7 million, which is an annual increase of 7.7%.

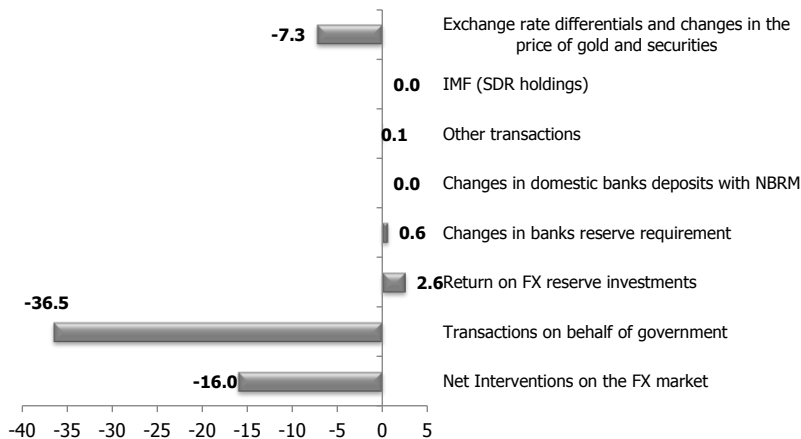
The latest information from the currency exchange market indicate that the performances could correspond with the expected net inflows from private transfers in the third quarter of 2015, as projected in April. However, data refer to a very short period and are not sufficient to reach reliable conclusions.

Foreign exchange reserves
(stock, in EUR million)

Quarter	Reserves (EUR million)
Q1 2011	1,890
Q2	1,830
Q3	1,840
Q4	2,070
Q1 2012	2,070
Q2	2,010
Q3	2,100
Q4	2,190
Q1 2013	2,230
Q2	2,040
Q3	2,070
Q4	1,990
Q1 2014	1,940
Q2	1,870
Q3	2,440
Q4	2,440
Q1 2015	2,360
Q2	2,260
Q3*	2,198.3121

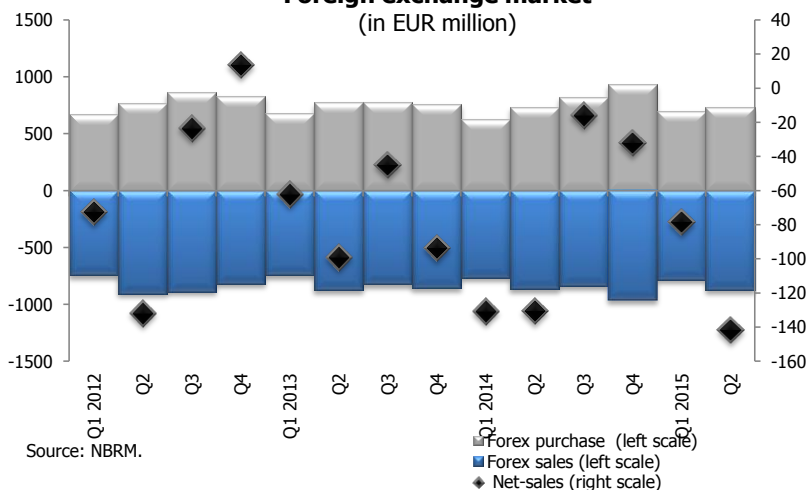
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Factors of change of the foreign reserves in July 2015
(in EUR million)



Source: NBRM.

Foreign exchange market
(in EUR million)



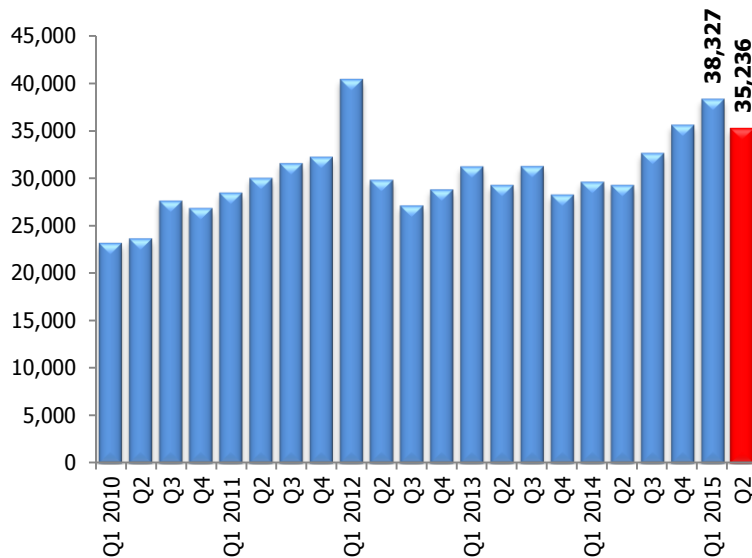
Source: NBRM.

As of 31 July 2015, gross foreign reserves stood at Euro 2,198.3 million, down by Euro 56.5 million compared to the end of the second quarter of 2015. The decline in the foreign reserves was mostly due to the transactions on behalf of the government (in large part because of the regular interest payment based on the third Eurobond), the net sales of foreign currency on the foreign exchange market by the NBRM and the negative currency changes and changes in the price of gold.

In July 2015, the **foreign exchange market** of the banks registered a net purchase of Euro 12.9 million, which is growth of Euro 14.2 million on an annual basis. This annual change is a result of the faster growth in the demand relative to the growth in the supply of foreign currency (of 5.9% and 1.2%, respectively).

Sector-by-sector analysis shows that such annual performances are mostly a result of the increased net sales of the companies in this period.

Monetary instruments
(in millions of denars)



Source: NBRM.

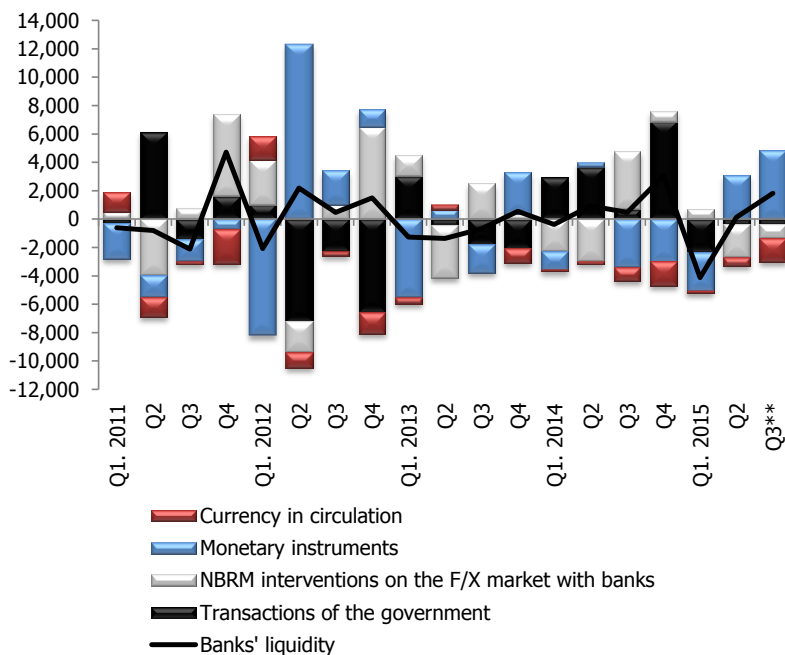
Data as of June point to creating liquidity through monetary instruments relative to the end of the first quarter at a moderately faster pace than that projected with the April forecast.

Analyzing the flows of creating and withdrawing liquidity (from the balance sheet viewpoint), as of June, net foreign assets of the NBRM registered a decline compared to March, which is higher than the projected reduction for the second quarter. In June, total government deposits with the NBRM dropped on a quarterly basis and thus acted towards creating liquidity, with greater intensity than expected for the second quarter, according to the April projection.

The net effect of these two autonomous factors in the second quarter was withdrawing liquidity from the system to a greater extent than projected, which was largely offset with the divergence in reserve money. Thus, the growth of reserve money in the second quarter was lower than projected, which is solely due to the slower growth of total reserves of banks, amid moderately faster growth of currency in circulation than expected for the second quarter.

As a result of these movements in the major balance sheet categories, the deviation in monetary instruments in the second quarter compared to the April projection was relatively small.

Flows of creating and withdrawing liquidity *
(quarterly changes, in millions of denars)



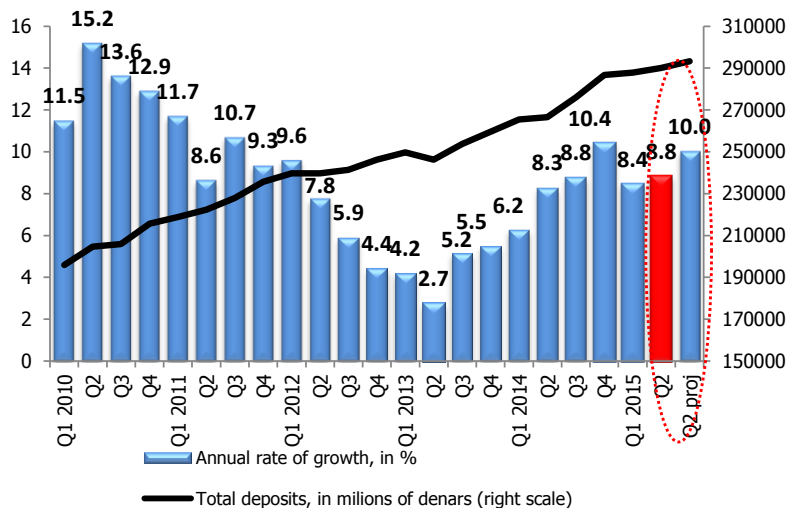
*Positive change- liquidity creation, negative change- liquidity withdrawal

**Refers to change in July as compared to June 2015.

Source: NBRM.

According to the latest available data, liquidity of the banking system in July registered a monthly increase. In terms of the flows of creating and withdrawing liquidity, in July liquidity was created through monetary instruments, such as standing deposits (seven-day), CB bills¹⁶, with the repo transactions also making a small contribution. Creating liquidity through monetary instruments took place in circumstances when autonomous factors acted towards withdrawing liquidity from the system, largely influenced by the currency in circulation, followed by foreign exchange transactions of the NBRM with the market makers (realized net sale of foreign currency on the foreign exchange market) and to a lesser extent, government transactions.

Total deposits



*Includes demand deposits

Source: NBRM.

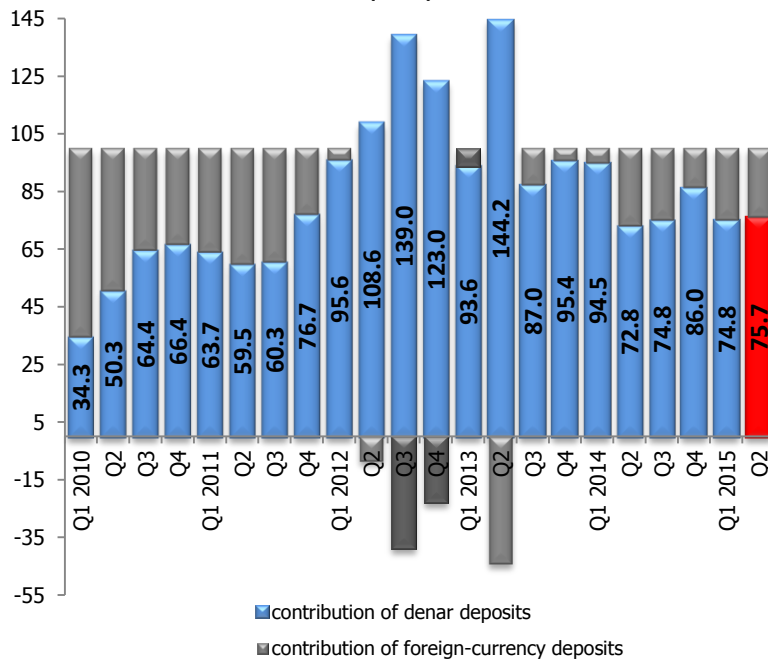
During June, total deposits increased on a monthly basis, contrary to the decline registered in the previous month. The growth was entirely due to higher corporate deposits, amid a moderate decline in household deposits.

At the end of June, the annual growth rate of total deposits equaled 8.8%, which is below the growth of 10% projected for the second quarter of 2015. Realized quarterly growth in total deposits as of June is below the expectations, i.e. it accounts for 41.8% of the projected quarterly growth for the second quarter according to the April projection.

¹⁶ At the auction of CB bills held in July 2015 lower demand than the offered amount (Denar 25,500 million) was registered, which led to a decline in the amount of CB bills by Denar 1,209 million on a monthly basis.

MONETARY SECTOR

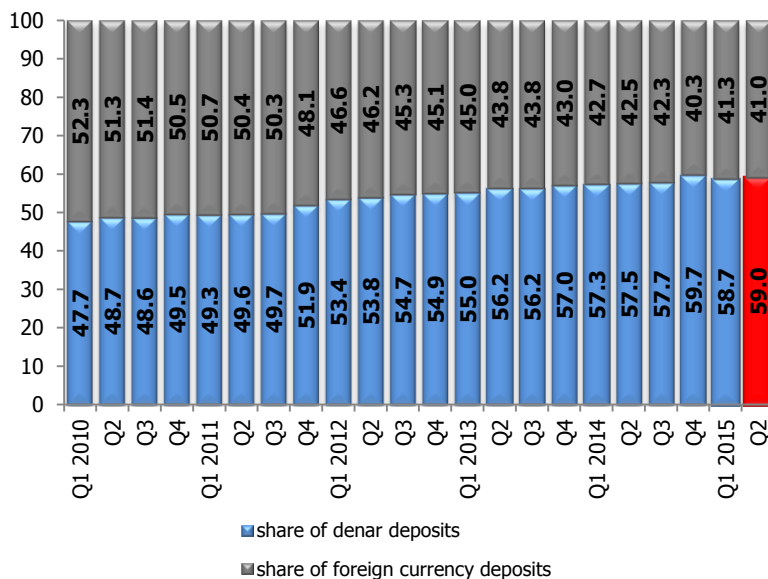
Contribution of denar and foreign currency deposits to the annual growth of total deposits
(in %)



The annual growth of total deposits still stems mainly from the increased denar deposits, amid moderate positive contribution of foreign currency deposits. The contribution of foreign currency deposits was moderately lower in June compared to the end of the first quarter...

Source: NBRM.

Share of denar and foreign currency deposits in total deposits
(in %)



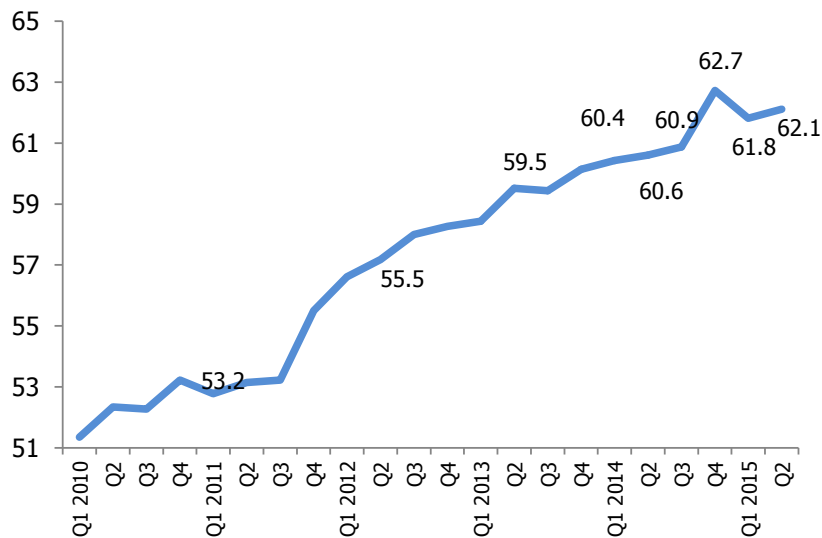
...resulting in a slight decline in their share in total deposits.

Source: NBRM.

*Includes demand deposits.

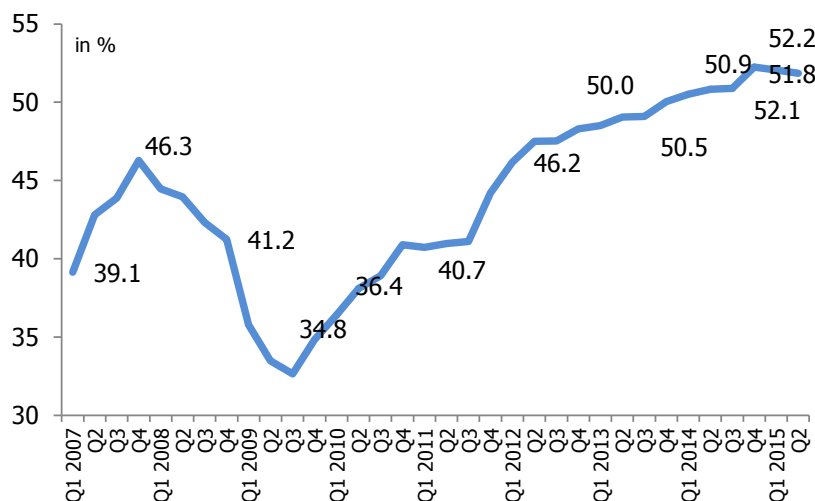
MONETARY SECTOR

Share of the denar part of M4 in the total M4 money supply
(in %)



Source: NBRM.

Share of denar deposits in total household deposits
(in %)



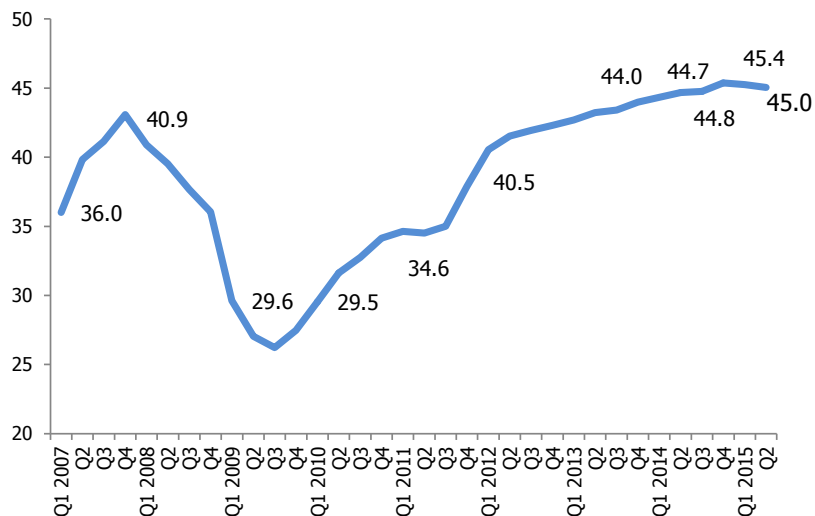
Source: NBRM.

*Includes demand deposits.

During June, there was a monthly decline in total household deposits, but with lower intensity compared to the previous month. The decline is entirely caused by the reduced Denar deposits, with a slightly greater contribution of demand deposits, and simultaneous reduction of time deposits. Foreign currency deposits registered a small growth on a monthly basis. These developments have contributed to a small decline in the share of denar deposits in total household deposits to 51.8% in June.

MONETARY SECTOR

Share of denar deposits in total household deposits
(in %)

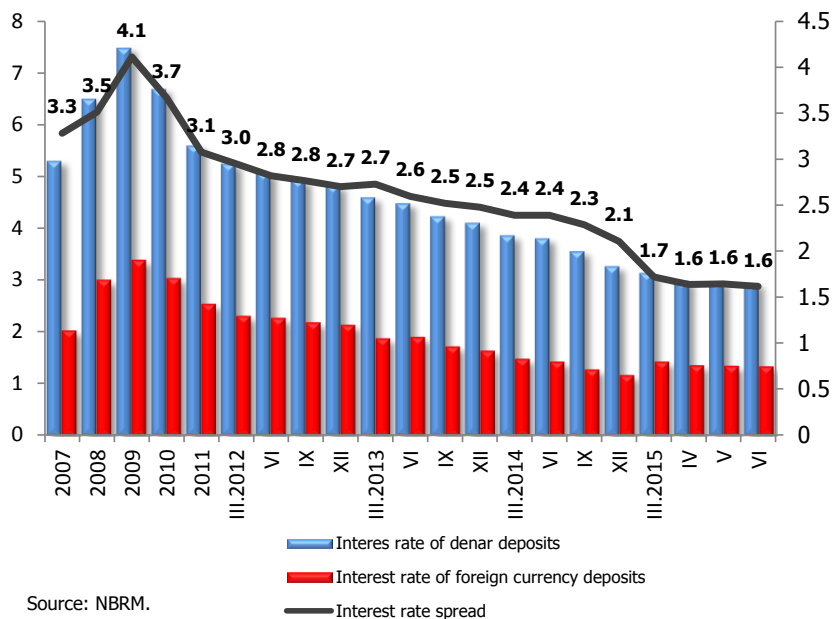


The analysis of the total household deposits (excluding demand deposits) shows a decline on a monthly basis, which is entirely due to the Denar deposits, amid small growth of the deposits in foreign currency.

Source: NBRM.

*Without demand deposits.

Interest rates on denar and foreign currency deposits
(in %)



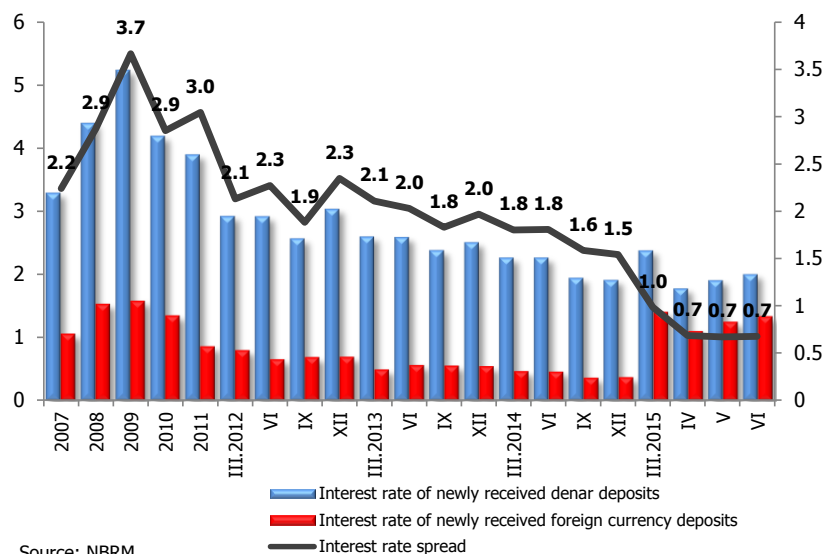
In June, the interest rate spread between the Denar and foreign currency interest rates¹⁷ remained at the same level as in the previous month amid their further maintaining on a stable level, which refers to the interest rates on both the total and the newly accepted deposits.

Source: NBRM.

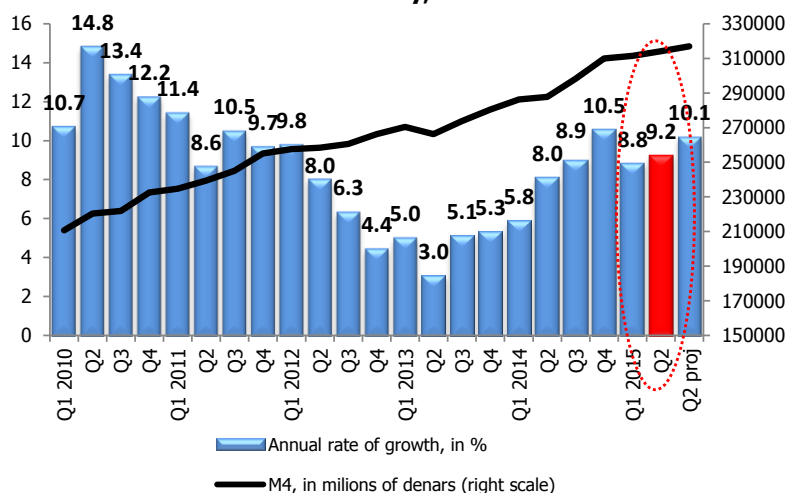
¹⁷ As of January 2015, interest rate data of banks and savings houses have been collected under the new interest rate methodology, while data for the previous period were collected under the old methodology. For more detailed information see <http://www.nbrm.mk/default.asp?ItemID=29C1C73ED1A4B745B70EE9C3E423029A>.

MONETARY SECTOR

Interest rates on newly accepted denar and foreign currency deposits
(in %)

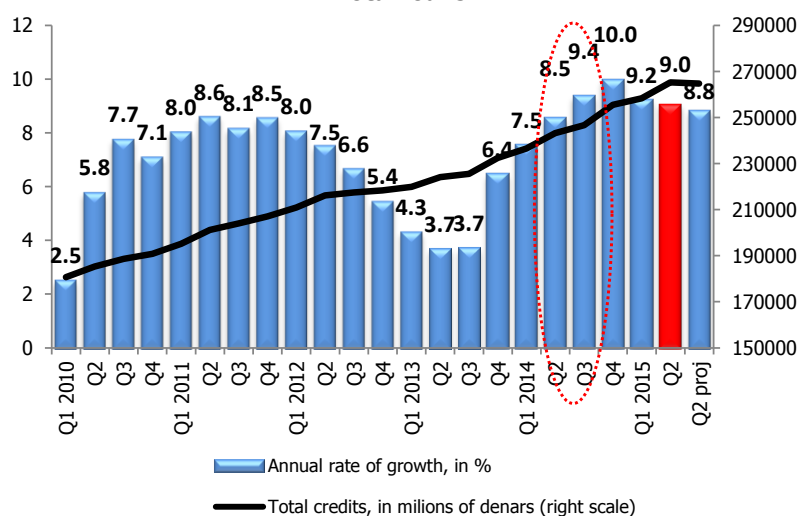


Broad money, M4



According to the data as of June, broad money grew compared to the previous month due to the increased deposit base, amid moderate growth of currency in circulation. The annual growth rate of the broad money equaled 9.2%, which is below the projection for the second quarter of 2015 (projected annual growth of 10.1%). As of June, the quarterly growth of money supply accounted for 51.1% of that projected for the second quarter of 2015, according to the April forecast.

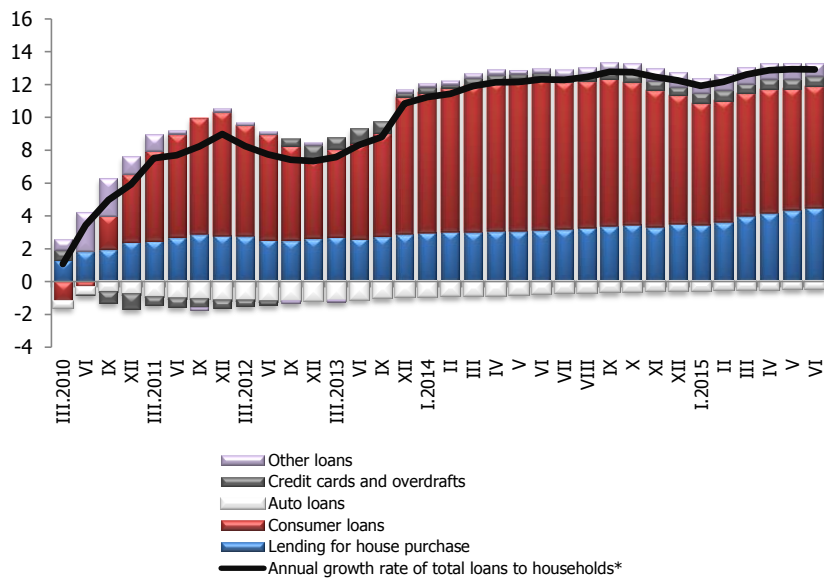
Total loans



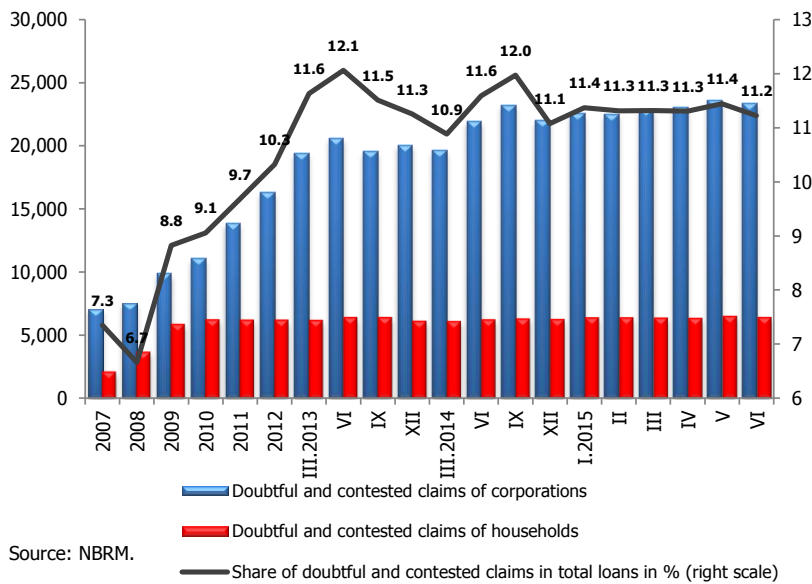
Growth in total loans continued in June, with a similar intensity as in the previous month. The increase in credit activity is mostly a result of the monthly growth of loans to households, amid simultaneous growth of loans extended to companies.

At the end of June, the annual growth rate of total loans equaled 9%, which is above the annual growth of 8.8% projected for the second quarter of 2015. The realized quarterly growth of total loans in the second quarter increased by Denar 538 million compared with that projected in the April forecast.

Loans of banks and savings houses extended to households (contribution to the annual change of loans to households*, in percentage points)

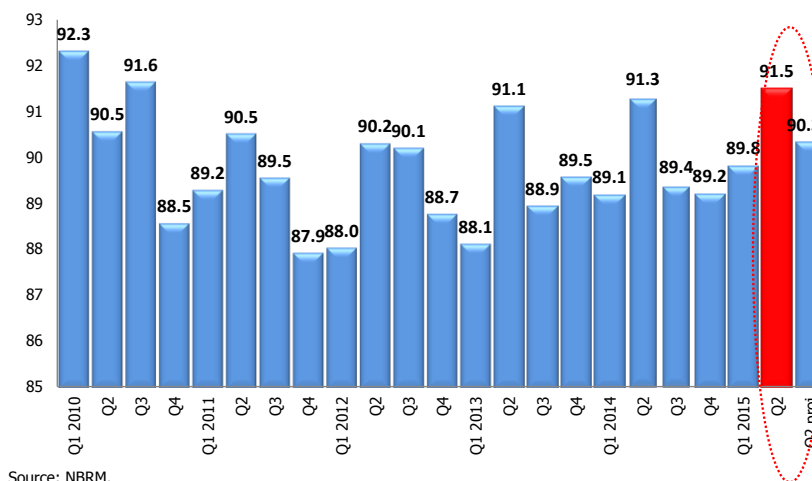


Share of doubtful and contested claims in total loans
(in %)



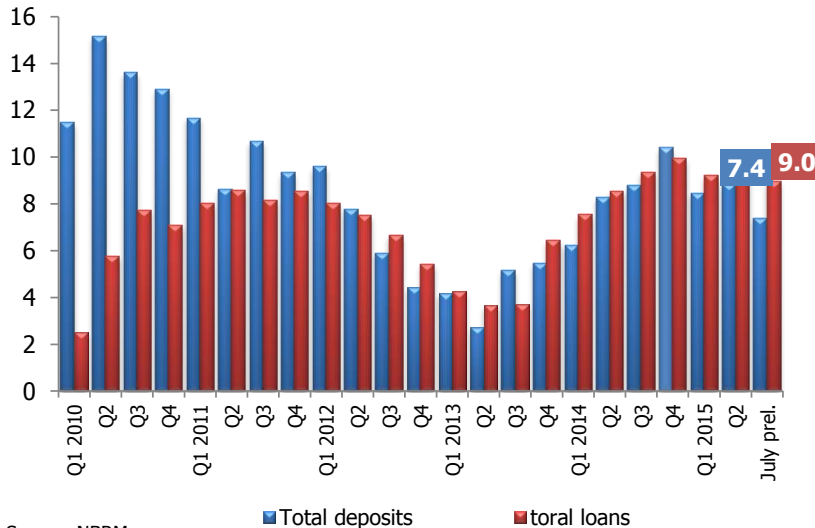
In June doubtful and contested claims registered a monthly decline, as opposed to the growth in the previous month. The decline is mostly due to the fall in the doubtful and contested corporate claims, with a small decline being registered in households as well. In such conditions and amid registered growth of the overall lending activity, the share of doubtful and contested claims in total loans insignificantly declined to 11.2% compared to the previous month. On an annual basis, total non-performing loans further increased, at a slower pace compared to the previous month.

Loan-deposit ratio, in
(in %)



The utilization of the deposit potential for lending to the private sector at the end of June was 91.5%, which is higher than the performances as of the end of the first quarter and the April projection for the end of the second quarter.

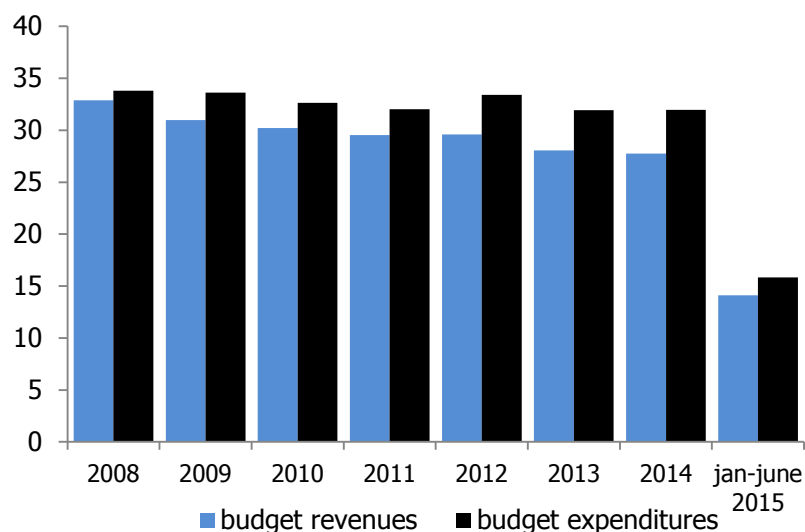
Total deposits and loans
(annual growth, in %)



Source: NBRM.

According to the preliminary data, in July total deposits decreased by 1% on a monthly basis, as opposed to the growth in the previous month of 1.1%. The fall in total deposits is completely due to the lower corporate deposits, which comes after the relatively fast growth of this category of deposits in the previous month. After the reduction registered in the previous two months, in July total household deposits recorded monthly growth of 0.5%, which is almost entirely a result of the increased savings in domestic currency. Regarding the credit market, the initial data as of July indicate a slowdown in the credit growth from 0.9% in June to 0.2% in July on a monthly basis. Analyzing by sector, the slower credit growth is explained by the changes in corporate loans, which in July decreased on a monthly basis, compared to their growth in the previous month. Household lending continues at a moderately slower pace compared to the previous month. On an annual basis, in July, total deposits and total loans rose by 7.4% and 9%, respectively.

Budget revenues and expenditures
(in % of GDP)

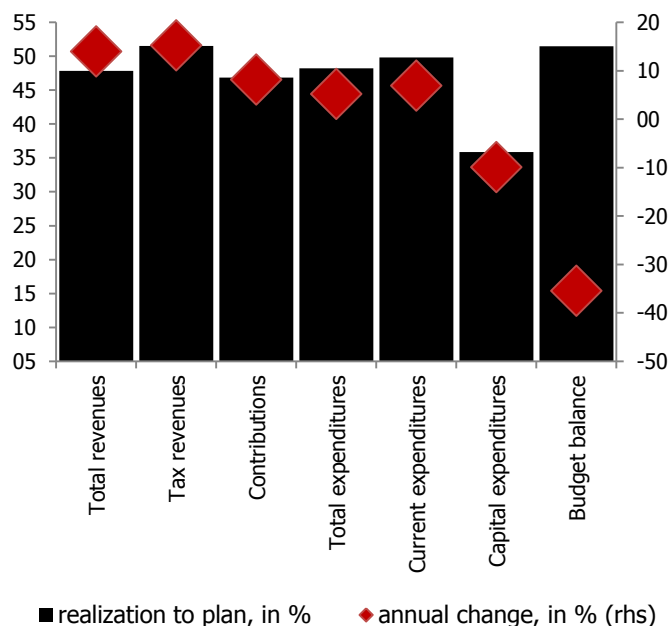


Source: Ministry of Finance and NBRM's calculations.

In the period January-June 2015, the Budget of the Republic of Macedonia (central budget and budgets of funds) generated total revenues of 14.1% of GDP¹⁸ which is higher compared to the previous year (13% of GDP). In nominal terms, budget revenues in this period increased annually by 14%, with the greatest contribution of higher inflows from profit tax amid growth of inflows from excise tax and personal income tax, while inflows from VAT decreased on an annual basis.

Total budget expenditures in January-June 2015 amounted to 15.8% of GDP, which is at the level of the budget expenditures incurred in the same period last year. In nominal terms, compared to the same period of the previous year, budget expenditures were by 5.2% higher, driven by the growth of current expenditures, while capital expenditures decreased annually.

Implementation of the budget (central budget and funds)
Jan-June 2015

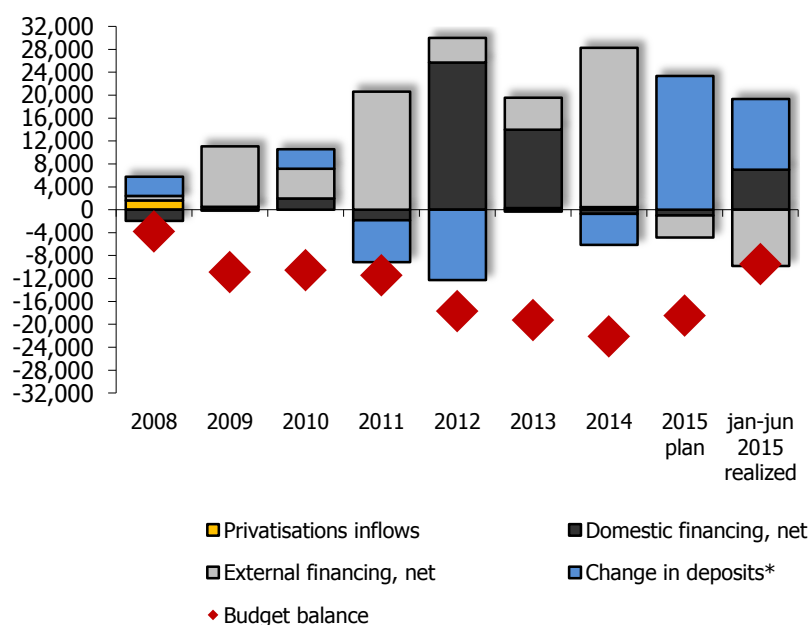


* With respect to the Budget plan for 2015.
Source: Ministry of Finance.

Compared to the official plan of the Budget for 2015, in the period January-June, the realization of total budget revenues is 47.9%. Observed by category of tax revenues, the inflows from corporate income tax registered the highest realization, and their amount in June has already exceeded the plan (by 49%), while revenue from VAT registered relatively weaker realization (of 43.2%). In terms of expenditures, in the period January-June, 48.2% of planned expenditure for the entire of 2015 were realized, amid higher realization of current expenditures (49.8%) compared to capital expenditures (35.9%).

¹⁸ The analysis uses the NBRM April projections for the nominal GDP for 2015.

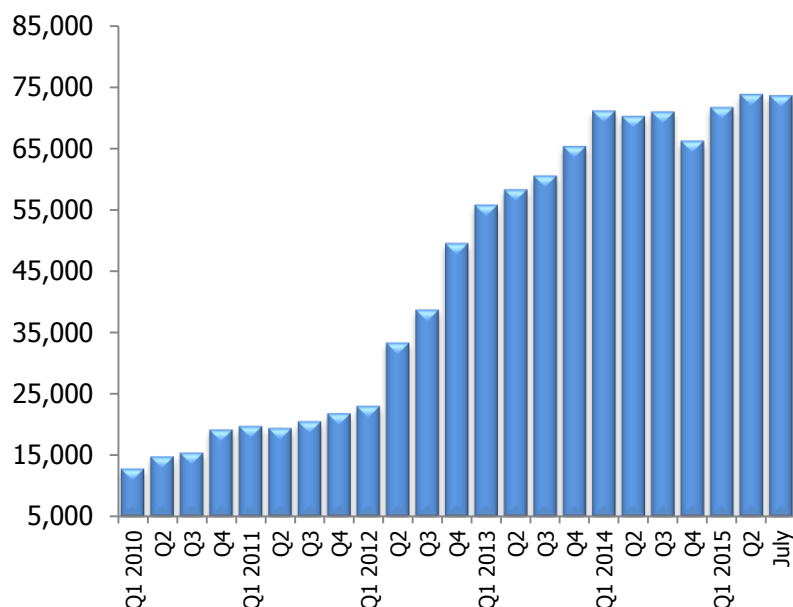
Financing of the budget balance
(in millions of denars)



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

During June, the Budget of the Republic of Macedonia registered a deficit of Denar 1,630 million, which was funded by the government deposits with the NBRM. Debt financing (domestic and foreign) registered higher net repayments in June. Cumulatively, the budget deficit amounted to Denar 9,521 million (or 1.7% of GDP¹⁹) in the first six months of 2015, constituting 51.5% of the projected budget deficit for 2015²⁰. In terms of its financing, in the period January-June, the budget deficit was financed by withdrawing assets from the account with the NBRM, and by additional net-issuance of government securities on the domestic market. Net outflows were registered on the basis of foreign borrowing as a result of early repayment of the government debt to the IMF based on PCL in February 2015.

Stock of total government securities
(in millions of denars)



Source: NBRM.

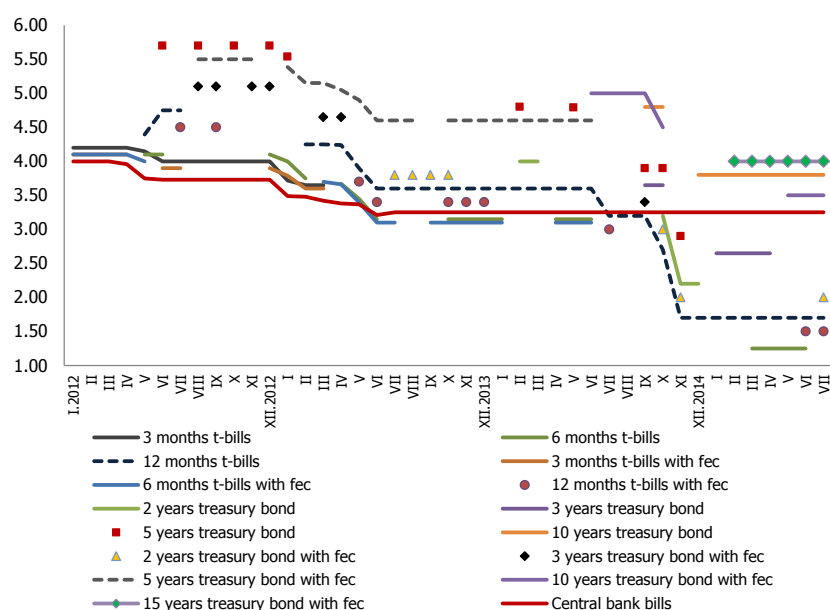
The stock of government securities in the domestic market amounted to Denar 73,596 million at the end of July and compared to the end of the second quarter, it is lower by Denar 222 million. Since the beginning of 2015, total net issuance of government securities amounted to Denar 7,434 million.

¹⁹ According to the latest NBRM projection for the nominal GDP.

²⁰ Compared to the Draft Supplementary Budget, as of June, the implementation was 47.3%.

Interest rates on government securities and CB bills

(in %)

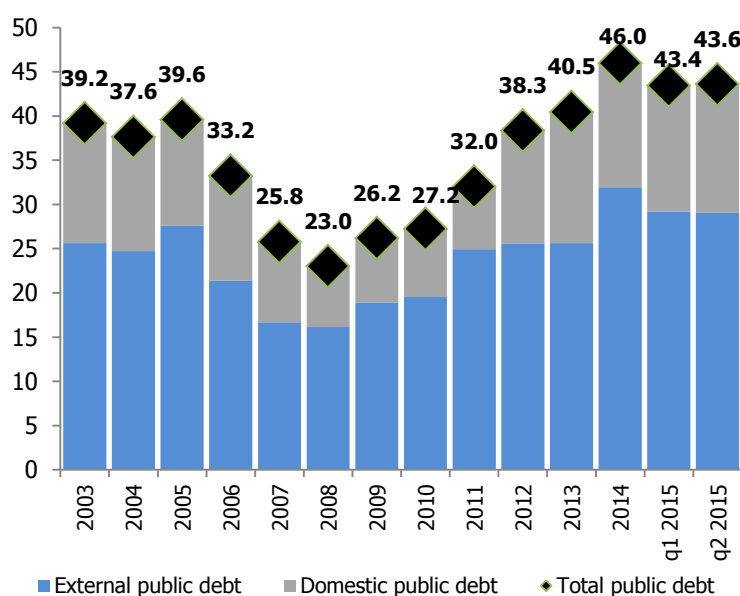


Source: NBRM.

Interest rates on treasury bills offered at the auctions held in July amounted to 1.5% and 1.7% for the 12-month treasury bills, with and without currency clause, respectively. Interest rates on government bonds ranged from 2% for the 2-year government bonds with foreign currency clause (auctioned again after seven months), 3.5% and 3.8% for the 10-year government bonds (with and without foreign currency clause, respectively) up to 4% for the 15-year government bonds with foreign currency clause. Interest rates on government securities issued in July remain unchanged compared with the previous auctions.

Public debt

(in % of GDP)



Source: NBRM's calculations based on data from the Ministry of Finance.

According to recent data, as of 30 June 2015, total public debt²¹ equaled 43.6% of GDP²², which is a slight increment of 0.2 percentage points of GDP compared with the end of the first quarter. Analyzing the components, a small increase was observed in the internal debt, which as of the end of June amounted to 14.5% of GDP (compared to 14.2% of GDP in the first quarter), while external debt recorded a slight decline on a quarterly basis and at the end of the second quarter it equaled 29.1% of GDP (29.2% of GDP at the end of the first quarter). The total government debt²³ at the end of the second quarter was 36% of GDP (35.9% at the end of the first quarter), while the debt of public companies²⁴ remained at the level of the previous quarter and equaled 7.6% of GDP.

²¹ The public debt is defined under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14), according to which it is the sum of the government debt and the debt of public enterprises established by the state or municipalities, municipalities within the city of Skopje and the city of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the city of Skopje and the city of Skopje, for which the Government has issued a state guarantee.

²² The calculation uses the April projection of the NBRM for the nominal GDP for 2015.

²³ Government debt is defined as a sum of debts of the central and the local government.

²⁴ Refers to guaranteed debt of public enterprises and joint stock companies owned by the state, according to the public debt definition under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14).

Annex 1 Timeline of the changes in the setup of the monetary instruments of the NBRM 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% to 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 potential²⁵, 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.

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

²⁵ 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).

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 protective measures of a temporary character, introduced to prevent the threat any significant outflows of capital from the Republic of Macedonia toward the Republic of Greece to cause significant disturbance to the equilibrium in the balance of payments and undermine the stability of the financial system.