

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



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

December 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 (October - November 2015) and to make a comparison with the latest macroeconomic projections (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 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 is slightly less favorable compared to the October projections. The global economy continues to follow a path of gradual recovery, but the pace of growth continues to be assessed as unsatisfactory, given the weaker global growth achieved in the third quarter of 2015, increased uncertainty and the highlighted geopolitical risks. However, despite less stimulative global environment, economic recovery of the euro area as our key economic partner continued, largely supported by domestic factors. In the third quarter of 2015, real GDP grew by 0.3% and the last high-frequency indicators point to a possible acceleration of economic growth in the last quarter of 2015. This is reflected in the latest projections of the ECB¹, which in 2015 are revised minimally upwards, although risks to the growth of the euro zone are still considered mostly downwards, associated with developments and uncertainties in emerging countries. Economic growth in the euro zone is expected to be supported by the latest measures taken by the ECB, which are aimed at further monetary accommodation². In addition, in the labor market, favorable developments continue to be registered, whereby the unemployment rate in October decreased to 10.7%. In terms of inflation, data for November indicate retention of last month's annual growth of 0.1%. Low inflation is still largely influenced by energy prices, although in November a slowdown of core inflation to 0.9% was registered, from 1.1% in October. However, inflation remains below the medium-term objective of the ECB, which combined with weak economic growth could refer to further relaxation of the conditions of the current program of quantitative easing.

Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the projections regarding the foreign effective demand are minimally changed relative to the October cycle. Thus, in 2015 slightly higher growth rate of foreign demand is now expected as a result of improved performances and projections for the second half of the year in some countries of the region, while in 2016 change in the assessment of growth of foreign demand was not made. For 2017 the effective foreign demand underwent minimal downward revision. The corrections that were made now indicate expectations of stagnation in growth in foreign demand in 2016 and 2017, versus October assessments for its acceleration. In **foreign effective inflation** minimal changes in downward direction were made, i.e. slightly higher decline in prices in 2015 is now expected and a minimal lower growth of foreign prices in 2016 and 2017. **With regard to prices of primary products, changes in the projections for 2015 and 2016 are mainly downwards, while for 2017 are upwards.** The latest projections for **world oil prices** in 2015 indicate a similar decline as in the October round, which unlike earlier now is expected to continue in 2016. On the other hand, price growth of oil is now expected that in 2017 will be higher than in the October projection. In **metal prices**, chronic condition of high supply and low demand affected for change of expectations in direction of greater decline in the price of nickel and copper in 2015 and

¹ According to the latest ECB's projections from December 2015, the growth rate of real GDP for 2015, 2016 and 2017 is estimated at 1.5%, 1.7% and 1.9%, respectively. The previous (September) projections estimated that the growth will be 1.4%, 1.7% and 1.8% for 2015, 2016 and 2017, respectively.

² At the last meeting of the ECB it was decided to reduce the deposit interest rate from -0,2% to -0,3% and to extend the period of implementation of the policy of quantitative easing until March 2017 or further.

2016. For 2017 certain upward correction of expectations about metal prices is made. Recent assessments for 2015 in terms of **the price of wheat** and **the price of corn** were changed downwards compared to the October projections, and also food prices were revised downwards for 2016. On the other hand, certain import pressures through this channel on domestic inflation can be expected in 2017, given that food prices for this year were revised upwards. 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, especially in the long-term.

The latest assessments indicate that **the Euribor interest rate will follow similar path in the period 2015-2016 as in the October projection**, and more significant change is evident in the expectations for 2017 when more negative interest rate is expected, which corresponds to the new decisions of the ECB in terms of extension of the implementation period of the policy of quantitative easing.

The comparison of the latest macroeconomic indicators with their projected dynamics within the October cycle of projections does not indicate major deviations in the individual segments of the economy. Namely, in line with the performance of the second quarter, the high frequency indicators of economic activity point to probable retention of such solid pace of growth in the third quarter amid favorable trends registered in the significant economic sectors. Available high frequency indicators for October suggest continuation of favorable trends in the fourth quarter. However, uncertainty about these movements is great considering that estimates are based on very small volume of available data. Also, domestic risks associated with political developments in the country remain current which increases the uncertainty in terms of economic growth in the fourth quarter. In terms of inflation, in November slight average annual decline in consumer prices was registered, reflecting lower energy prices and food prices, while core inflation was positive. These developments caused minimal downward deviation of the realized inflation rate, compared with the October projection. Also, in November certain downward correction to the projected movement for most of the input assumptions was made, indicating the existence of **potential downward risks to the inflation projection for the next year.**

According to the latest available data, in the fourth quarter of 2015, foreign reserves (adjusted for the price and exchange rate differentials and price changes of securities) registered growth. Observed through the factors of change, in this period, for the most part, the changes in reserves were driven by transactions on behalf of the government. Namely, in the course of December, the government borrowed on the international financial market by issuing the fourth Eurobond (Euro 270 million), and simultaneously paid off obligations in external debt based on previously issued Eurobond (Euro 150 million). Given the limitation of the available indicators of the external sector for the fourth quarter, the ability to identify accurately the factors of changes in foreign reserves and their comparison to the projections is limited. From external sector indicators, data on foreign trade in the first ten months of the year do not indicate major deviations compared to projections. Also, data on the net purchase of currency exchange operations as of the end of November support this conclusion, which as of now is in line with the projections. The analysis of foreign reserves adequacy indicators shows that they continue to move within a safe zone.

With regard to monetary developments, the preliminary 10-day data as of November showed a monthly increase of total deposits, at a similar pace as in the previous month. Growth in deposits in November was largely driven by the growth of household deposits (with a share of 42%, mainly in foreign currency), amid further growth of deposits of the corporate sector, although at a slower pace compared to the previous month. On an annual basis, total deposits in November increased by 6.6%. Thus, the stock of total deposits is almost at the level projected for the end of the year indicating a possible exceeding the October projection for the end of the fourth quarter (of 3.7%). According to preliminary data for November, the credit market activity accelerated on a monthly basis, amid registered growth of loans to enterprises, as opposed to their decline in the previous month. The

growth of loans to households continued in November with moderately slower pace compared to the previous month. On an annual basis, total loans in November grew by 8% and were above the October projection for the fourth quarter (7.7%). In addition, as of November close to 40% of projected credit growth for the fourth quarter were realized.

In October, **the Budget of the Republic of Macedonia registered a deficit of Denar 865 million**, financed from domestic sources through net issue of government securities. On a cumulative basis, for the period January-October 2015, the budget deficit amounted to Denar 14,739 million (or 2.7% of GDP³), representing 73.2% of the projected budget deficit for 2015 in accordance with the Budget Revision.

The latest macroeconomic indicators and assessments do not point to major changes in the environment for conducting the monetary policy and the risks compared to the assessments given in the October projections. Foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) increased, while the reserve adequacy indicators continue to move in a safe zone. In terms of economic activity, high frequency indicators for the third quarter and for October point to retention of solid growth by the end of the year which is in line with the projected movement. Regarding inflation, in November movements are generally in line with the projection, i.e. the November performances are minimally lower compared to the expected rate. However, the downward correction of the expected movement of external assumptions indicates existence of potential downward risks to the inflation projection for the next year. Within the monetary sector, data as of November show slightly better performances in total deposits, while in terms of lending activity the assessment is that the movements are in line with the projection. **In any case, the uncertainty associated with domestic political developments and global environment which was highlighted within the October round of projections 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.**

³ According to the latest NBRM projection for the nominal GDP.

Selected economic indicators ^{/1}				2015													
	2012	2013	2014	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep	Q3	Oct.	Nov.
I. Real sector indicators																	
Gross domestic product (real growth rate, y-o-y) ^{/2}	-0.5	2.7	3.8				3.2				2.6						
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	
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	
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
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
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
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
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	12219.0	40,352	14,458	11,537	13,319		14,046	
Total budget expenditures	155,840	159,505	168,063	12,732	14,467	16,881	44,080	14,375	15,348	13849.0	43,572	16,038	13,240	14,389		14,911	
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301	8	-1,598	-1630.0	-3,220	-1,580	-1,703	-1,070		-865	
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	-0.3	-0.3	-0.2		-0.2	
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	
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	
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	
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	
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	
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	
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	
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	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	7.0	7.0	7.0	7.0	6.9	
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	5.9	5.9	5.8	5.8	5.8	
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	2.9	2.7	2.7	2.7	2.7	
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	1.3	1.2	1.1	1.2	1.1	
IV. External sector indicators																	
Current account balance (millions of EUR)	-240.0	-134.1	-68.7	38.5	6.5	-81.1	-36.1	-55.3	-25.5	5.4	-75.4	29.0	42.4	42.9	114.3		
Current account balance (% of GDP)	-1.6	-1.8	-0.8	0.4	0.1	-0.9	-0.4	-0.6	-0.3	0.1	-0.8	0.3	0.5	0.5	1.3		
Trade balance (millions of EUR) ^{/8}	-1,948.2	-1,756.6	-1,762.0	-73.7	-109.9	-194.5	-378.1	-202.8	-110.6	-133.1	-446.5	-158.8	-110.9	-92.7	-362.3	-183.8	
Trade balance (% of GDP)	-25.6	-21.7	-20.8	-0.8	-1.2	-2.2	-4.2	-2.3	-1.2	-1.5	-5.0	-1.8	-1.2	-1.0	-4.0	-2.1	
import (millions of EUR)	-5,061.8	-4,968.4	-5,484.9	-365.5	-408.9	-533.6	-1,308.1	-498.1	-469.6	-514.0	-1,481.7	-505.8	-428.1	-460.1	-1,394.0	-532.6	
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	380.9	1,035.2	347.0	317.3	367.4	1,031.7	348.8	
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	19.0	8.4	0.9	2.5	-4.5	-0.5	2.5	
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	16.6	10.3	7.9	4.6	2.7	5.0	-1.1	
Foreign Direct Investment (millions of EUR)	131.1	229.4	197.4	35.4	10.7	19.2	65.2	36.3	-9.0	17.9	45.2	15.9	7.1	-14.4	8.6		
External debt																	
Gross external debt (in millions of EUR)	5171.7	5219.7	5992.3				6242.6				6342.2						
public sector	2162.1	2172.4	2846.8				3024.9				3059.2						
public sector/GDP (in %)	28.5	26.8	33.4				33.8				34.1						
private sector	3009.5	3047.4	3145.5				3217.8				3283.0						
Gross external debt/GDP (in %)	68.2	64.3	70.2				69.7				70.8						
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	2,177.7	2,187.4		2188.0	2203.4

/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)

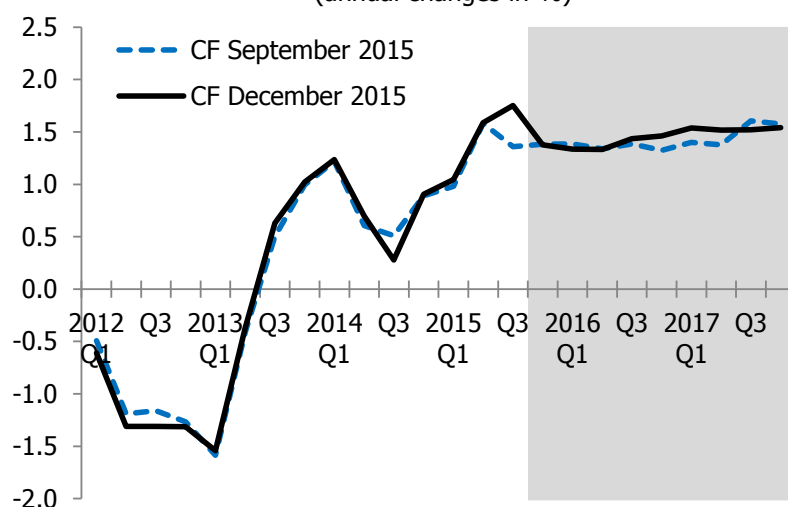
/6 The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since 01.01.2009).

/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.

Foreign effective demand
(annual changes in %)



Source: "Consensus Forecast" and NBRM calculations.

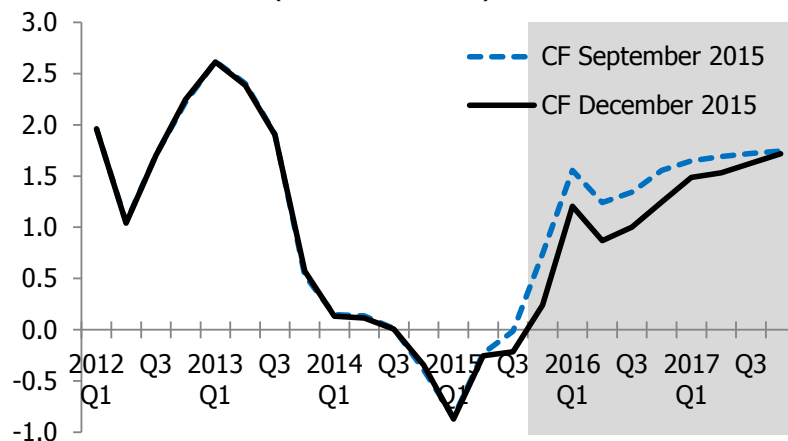
According to the latest projections, the growth in the foreign effective demand in 2015 is expected to amount to 1.5%, which represents an upward revision of 0.2 percentage points compared with the October projection...

...largely due to higher estimates for economic growth in the second half of the year in Bulgaria, Serbia and Croatia ..

On the other hand, in 2016, change to the projection of foreign demand was not made compared with October, i.e. it is still expected to be higher by 1.4%.

In 2017 it is expected that foreign demand will also increase by 1.4%, which represents minimal downward correction compared with the October assessment of 1.5%.

Foreign effective inflation
(annual rates in %)



Source: "Consensus Forecast" and NBRM calculations.

Compared to the October projections, minimal downward revision has been made in the foreign effective inflation.

Thus, now it is expected that foreign inflation in 2015 will be slightly more negative and will amount to -0.2%, instead of -0.1%, as projected in October ...

...arising from minimal revisions in several countries.

On the other hand, foreign inflation in 2016 and 2017 is expected to amount to 1.3% and 1.6%, respectively, which represents a downward revision of 0.1 p.p. compared to October projection.

The projection of oil price in 2015 slightly deviates from the October projection, i.e. it is probable that the anticipated significant price decline will be realized.

On the other hand, in 2016, more significant downward revision was made, amid expected decline rather than growth in the price of oil...

... as a result of the strategy for retention of higher production in OPEC countries, combined with slower growth in global demand. An additional contribution to the growth of the supply of oil is expected to have the lifting of sanctions on Iran from the beginning of 2016.

On the other hand, in 2017, an upward revision of the oil price was made, i.e. higher growth than projected in the October projection.

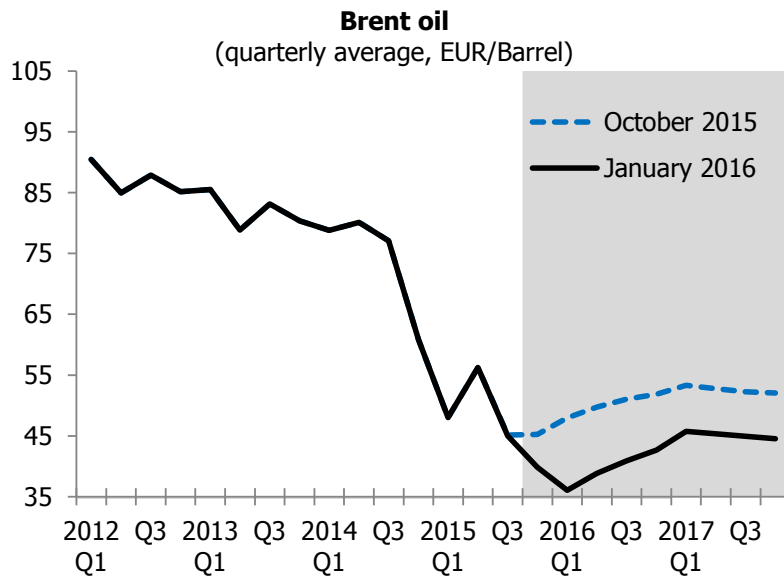
According to recent estimates, in 2015, higher decline in the prices of nickel and copper on world markets is projected ...

... in a situation of oversupply in the global market of non-ferrous metals, weak demand for nickel and further adverse impact on the prices of copper by slower growth in industrial production in China.

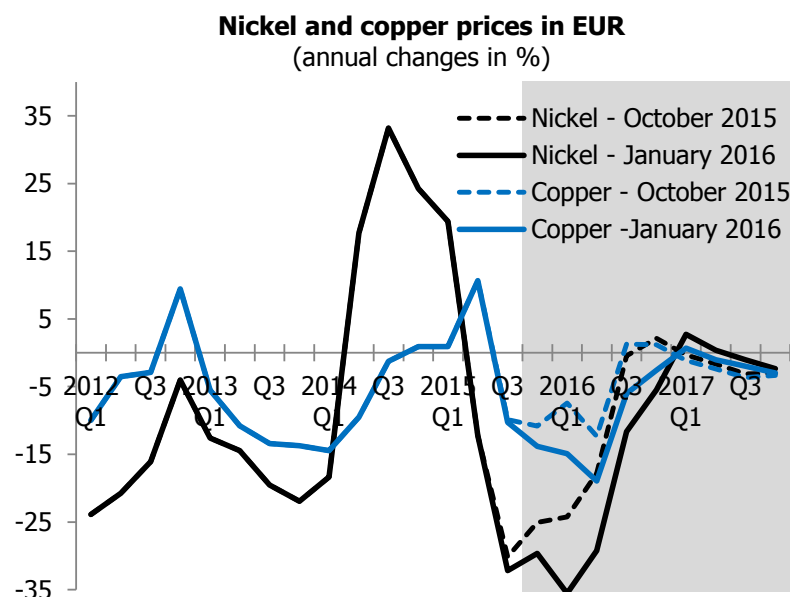
Given the expectations for increased production of copper, in 2016, significant downward revision of its price is made compared with the October projection ...

... and also, a significant downward revision was made in the price of nickel, due to the impact of unfavorable fundamental factors.

On the other hand, small upward revision in prices of metals was made in 2017, when a stagnation rather than decline in the price of nickel is expected and a lower decline in the price of copper compared with October.

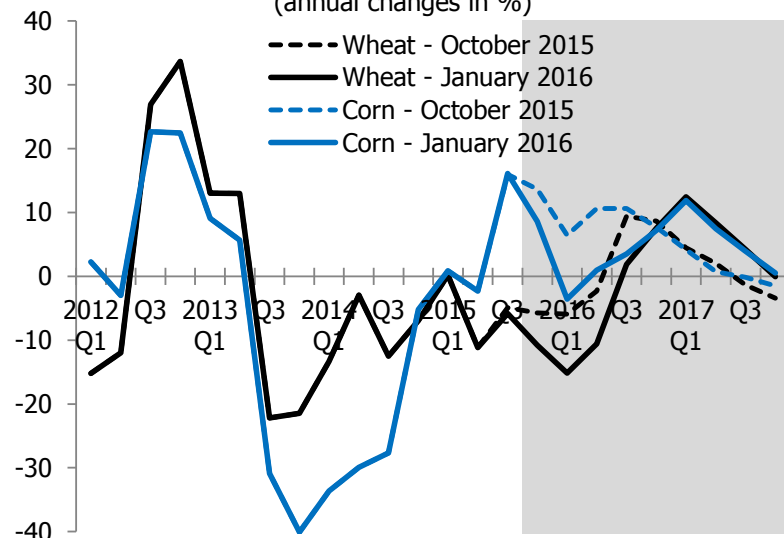


Source: IMF and NBRM calculations.



Source: IMF and NBRM calculations.

Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRM calculations.

The projection for 2015 points to a larger decline in the prices of wheat and corn compared with the October projection⁴.

... while the expected rise in the price of **corn** deviates minimally downwards compared with the October projection.

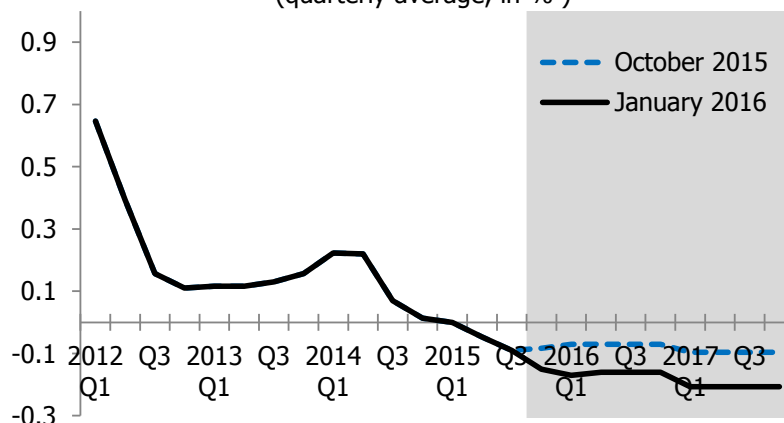
On the other hand, in 2016, downward revision of prices of primary food products in the global market was made ...

... amid expectations for a slightly higher decline in the price of wheat, driven by solid position in terms of global supply, favorable conditions for the coming harvest and weaker demand ...

... and lower growth in the price of corn, amid high crop yields, especially in the USA, and good prospects for the new harvest.

On the other hand, in 2017, it is expected prices of primary food products to realize growth which will be higher than the October projection.

1-month Euribor
(quarterly average, in %)



Source: "Consensus Forecast" and NBRM calculations.

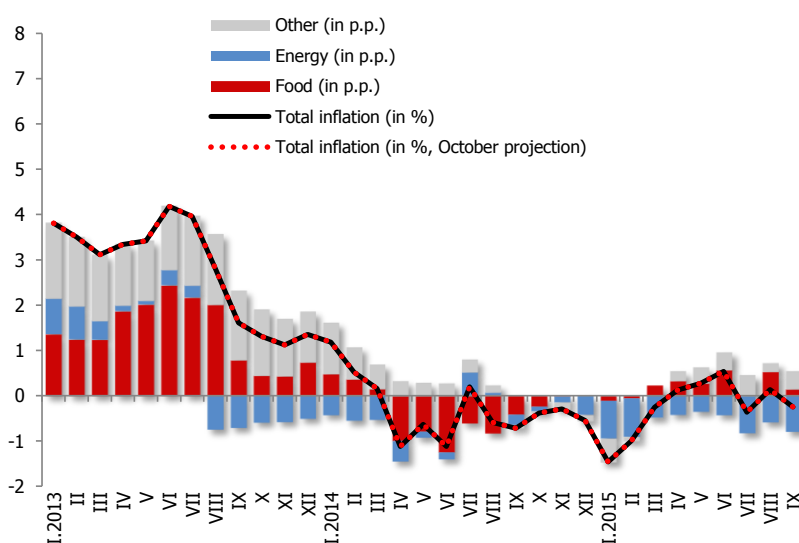
It is expected that the average level of one-month Euribor in 2015 and 2016 will amount to -0.07 and -0.05%, respectively, which is approximately at the levels projected in October (-0.06% and -0.07%).

Considering that the ECB's decision to extend the period of implementation of the policy of quantitative easing at least until March 2017, **for 2017, downward revision of the foreign interest rate has been made, which is now expected to amount to an average of -0.15% instead -0.1% in October.**

⁴ The series of prices of wheat used in the October projection 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 December compared to October the historical data used as a basis for the projection have been revised according to the new series.

Inflation rate

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



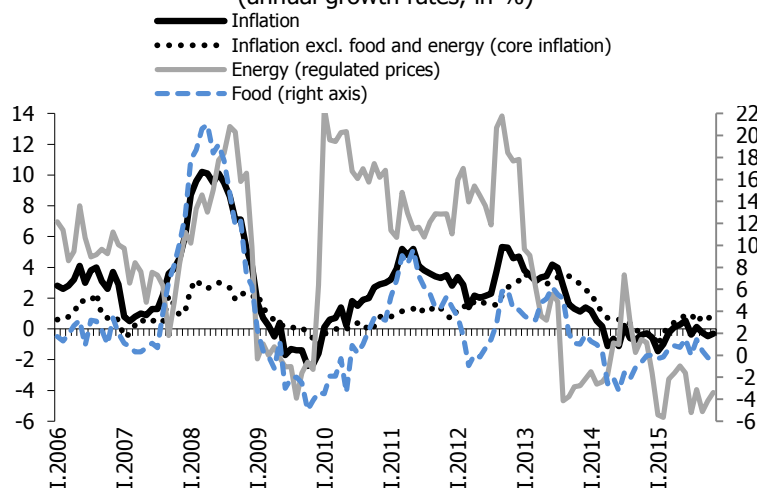
Source: SSO and NBRM.

Contrary to the stagnation in the previous month, consumer prices in November recorded a small monthly growth of 0.1%...

...amid growth in core inflation, while prices of food and energy prices remained unchanged⁵.

Inflation and volatility of food and energy

(annual growth rates, in %)



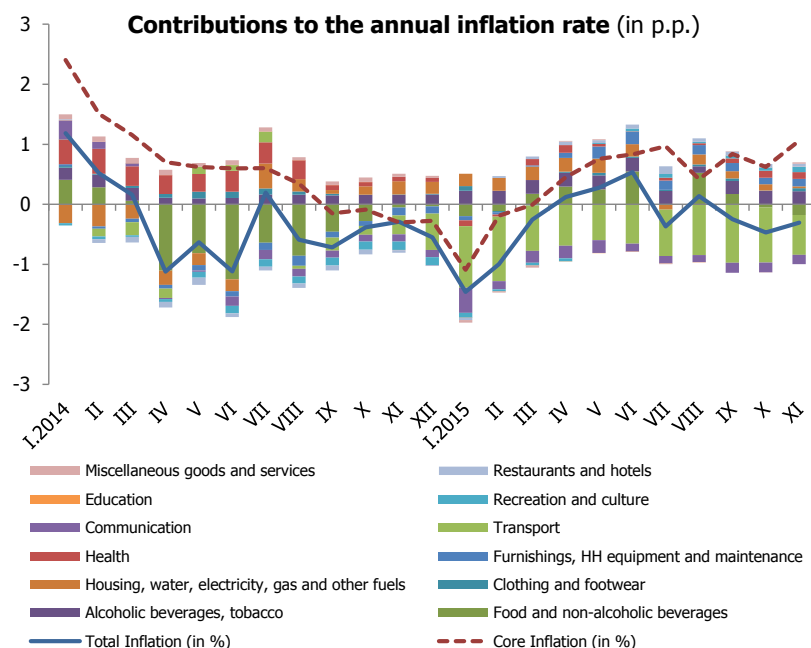
Source: State statistical office and NBRM calculations.

Despite the small monthly increase, the annual inflation rate in November remained in the negative zone (as in the previous two months) and amounted to -0.3% ...

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

... due to the fall in food prices (versus expectations for their growth), while performances in the energy component and the core inflation are generally in line with the projection.

⁵ Categories with the largest individual contribution to the November price increase include vegetables (which registered monthly price increase of 6%) and footwear (which registered monthly price increase of 1.7%). Prices of fruit which in November registered monthly fall of 10.1% affect in the opposite direction.

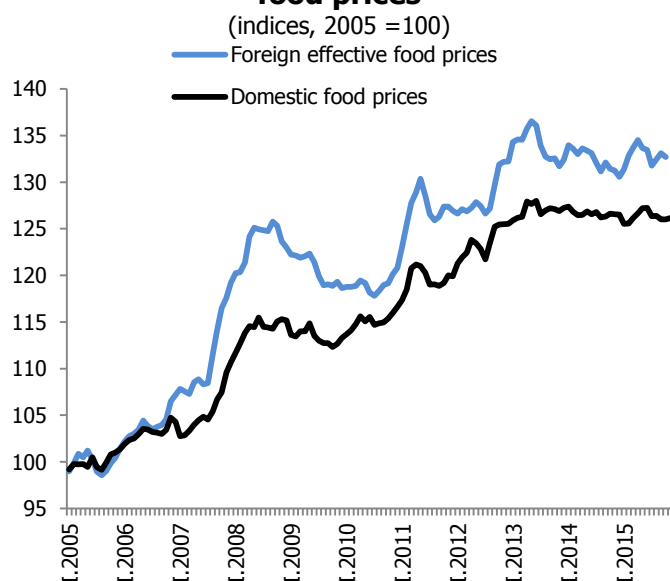


The core inflation rate in November registered monthly growth of 0.2% (monthly growth of 0.5% in September and an increase of 0.2% in October) ...

... which contributed to acceleration of the annual growth (1.1%).

Regarding the structure of core inflation, the November growth (annually) is due to the small upward movement in the prices of most categories within core inflation, and the highest contribution have tobacco prices (due to higher excise duties⁶). Among major categories only prices in transport and communications declined.

Foreign effective food prices* and domestic food prices



* 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 and 2016, which were included in the inflation projection, have been mainly revised downwards.

Thus, the latest data on **oil prices** register downward correction ...

... due to the retention of higher production in OPEC countries, combined with slower growth in global demand. An additional contribution to the growth of the supply of oil is expected to have the lifting of sanctions on Iran from the beginning of 2016.

Downward correction, although minimal was also made in the **foreign effective inflation**.

... as well as in the prices of **internationally traded primary food products**⁷ (expressed in euros)...

... amid solid condition in terms of global supply, favorable conditions for the

⁶ Since 1 July 2014, cigarette excise duty has been increasing (Denar 0.15 per cigarette) and it is intended to gradually increase each year, while starting from 1 July 2016 (until 1 July 2023), the excise duty will increase by Denar 0.20 each year.

⁷ An exception is the price of wheat in 2015, where the decline was smaller than expected in October, but this change arises from the change of the series of wheat prices. If a simulation is made, i.e. October projection for wheat prices have been upgraded to the new series, in that case, decline in wheat prices by 5.5% would be expected in 2015, while small growth of 2.1% would be expected in 2016. These data compared to current projections point to a downward correction in wheat prices in December versus October 2015.

coming harvest and weaker demand⁸.

Taking into account changes in the expected paths of movements of exogenous variables for 2016, **the risks in terms of projected movement of domestic prices in 2016 are mainly downwards**. However, it should be emphasized that there is great uncertainty about the projected movement of world oil prices, given that the movement of these prices is sometimes determined by factors of temporary character.

In September 2015, the average net wage registered a nominal annual growth of 3.5%, which represents slight acceleration of growth (0.4 p.p.) regarding the dynamics registered in the previous month.

Upward movement in the wages has been registered in industry and most services ...

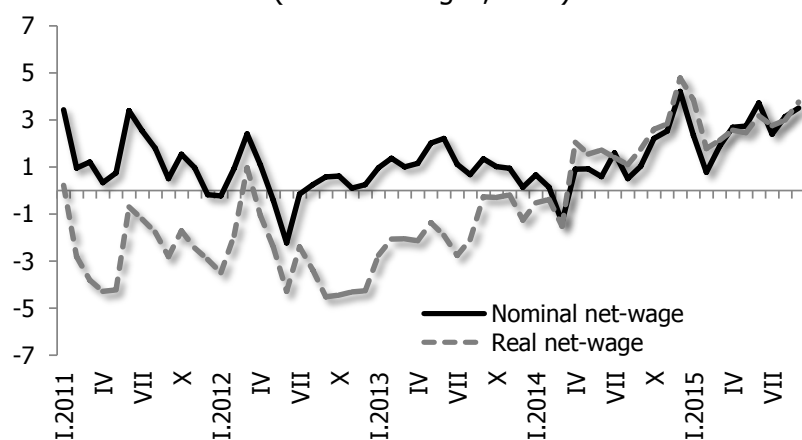
... whereby, from the viewpoint of individual activities, the highest increase has been registered in „art, entertainment and recreation“ activity as well as in the so-called other activities, and higher increase has been registered in the wages in mining, administrative and auxiliary service activities, education and health.

In September, several activities registered downward adjustment in the wages, although relatively slight (except in the activities related to the real estate, where the drop is more severe, and it is present from the beginning of the year).

Amid small decrease in the consumer prices, in September, the **real wages** increased by 3.8%.

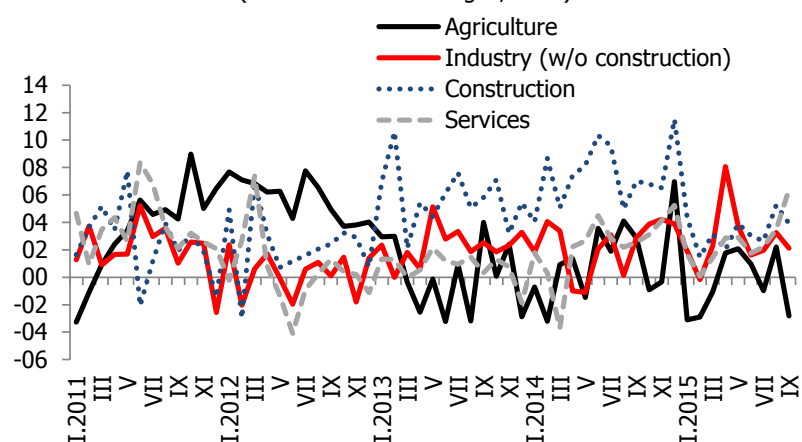
On average, in the third quarter, net wages registered nominal and real annual growth of 3% and 3.2% respectively, which is slightly higher than expected in the October projection (nominal and real annual growth of 2.7% and 3%, respectively).

Average net-wage
(annual changes, in %)



Source: SSO.

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



Source: SSO.

⁸ Source: Agricultural Market Information System.

The high frequency data for the third quarter of 2015 indicate growth in the domestic economy, given the ongoing positive performance in most economic sectors.

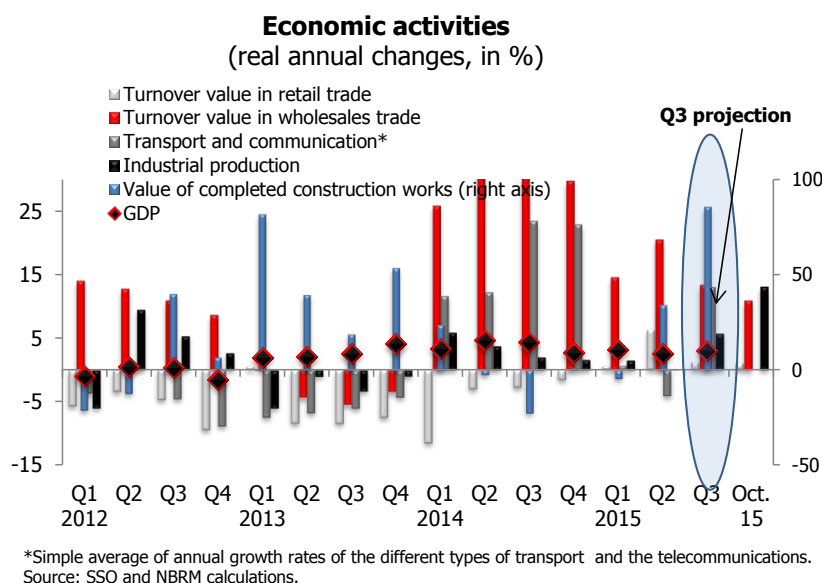
In the third quarter, the industrial production had an average growth of 5.7% given the production growth in mining, manufacturing industry and energy sectors.

Within manufacturing industry, the increased production of new export-oriented facilities (primarily the production of machinery and equipment) had the highest contribution to the growth, and significant contribution has the increased food production.

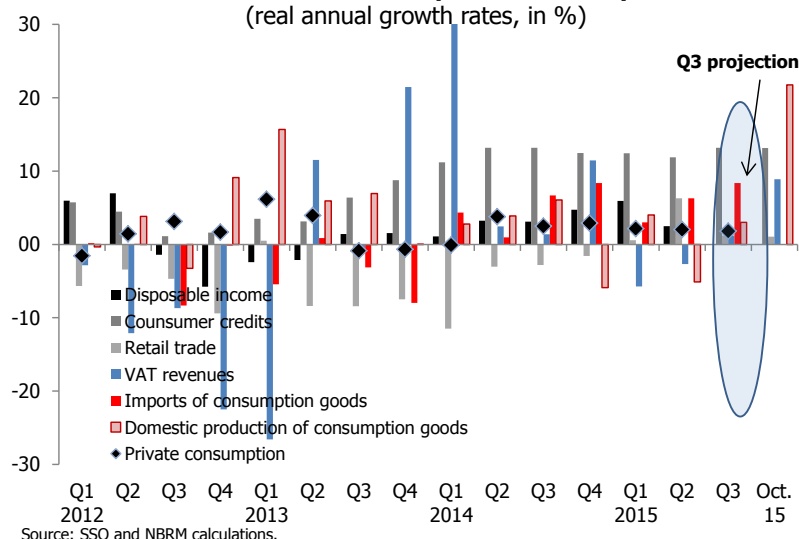
During the third quarter, the growth in the **trade** turnover continued, given higher turnover registered in the wholesale and retail trade, as well as in the trade in motor vehicles (although at a slower pace compared with the previous quarter).

The data on the situation in **catering** (relatively high growth in the number of tourists and overnight stays in the third quarter), **the transport sector** (generally favorable trends in indicators for all types of transport) and **construction** (significantly accelerating the double-digit growth of the value of completed construction works) also indicate support to the economic growth in the third quarter.

Available indicators of aggregate demand generally confirm the estimates for economic growth in the third quarter of 2015, which is consistent with the expectation in the October projection.



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



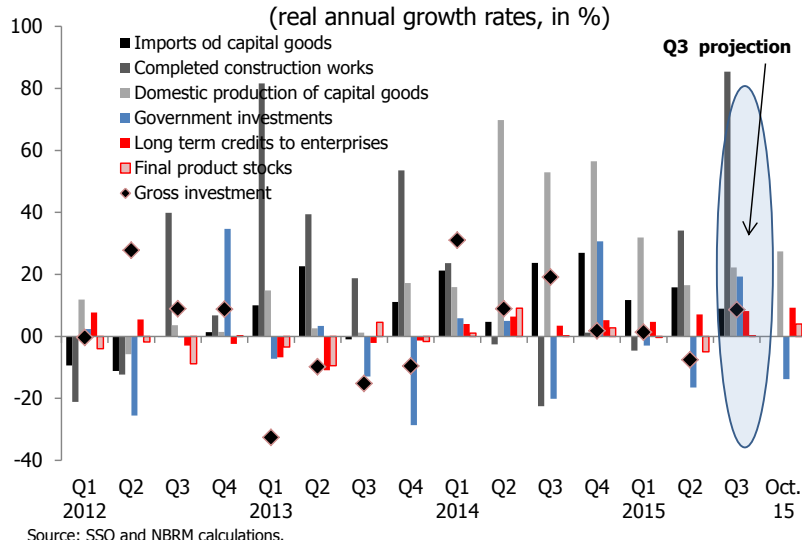
According to the high-frequency data on **private consumption**, its further growth in the third quarter of 2015 is expected ...

... given the acceleration in the annual rise of real wages and pensions paid, higher social transfers from the state and growth of private transfers (as opposed to a decline in the previous quarter) ...

...as well as a moderate growth acceleration in lending to households.

The changes in other short-term indicators, i.e. higher domestic production of consumer goods, higher turnover in retail trade and the registered growth in import of consumer goods also indicate growth of household consumption in the third quarter.

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



Most of the available short-term indicators of **investment activity** point to an annual growth of investments in the third quarter of 2015 ...

... in conditions of moderate acceleration of the growth of loans to the corporate sector.

... a strengthening of the growth of domestic production of capital goods and construction activity, and solid growth in import of investment products was registered.

In addition, the data for the third quarter point also to the rise in the government capital investments, as opposed to their drop in the preceding quarter.

The only indicator which registers decline in the third quarter is the foreign direct investments.

In the third quarter, regarding the movement of inventories, stabilization of this component of gross investments could be expected, bearing in mind that the index of inventories of finished products in the industry registers small growth in the third quarter.

In the third quarter of 2015, nominal data on **foreign trade** show certain narrowing of the trade deficit, which is in line with the October projection ...

... given the growth in exports and decline in imports of goods and services.

Budget performances in the third quarter of 2015 indicate an increase in **public consumption**, in line with the expectations in the October projection ...

...with high real growth of expenditures for goods and services, as well as higher transfers for health care⁹ and increased costs for salaries for the employees in the public sector.

Most data for October 2015 indicate a continuous growth of economic activity in the fourth quarter of the year. However, it should be emphasized that these assessments are based on very few data available. Also, domestic non-economic factors related to the political developments in the country are still present and further increase the uncertainty about the assessments of the economic activity in the fourth quarter.

In October the favorable developments in the industry continued, whereby a double-digit annual growth in **industrial production** of 13.1% was registered ...

... and the largest contribution to growth comes from increased production of clothing and food products. Also, production growth of new export-oriented facilities continued.

From the other sectors, October data are available for the **trade** sector which point to annual growth in total trade turnover (with a registered growth of turnover in wholesale and retail trade, as well as in the trade in motor vehicles).

High frequency data on **private consumption** available as of October

⁹ Most of these assets refer to expenditures for goods and services.

provide favorable signals about its movement in the fourth quarter of 2015...

...amid increased retail trade, higher social transfers of the government, as well as growth in household lending and pensions.

In addition, in October, on annual basis, growth of net revenues from VAT was registered ...

... data for domestic production of consumer goods, which also grows in October, point towards growth of private consumption as well.

Indicative **investment** categories in October suggest most probable continuation of positive trends in the fourth quarter...

... amid growth of domestic production of capital goods, as well as further acceleration of lending activity aimed at the corporate sector.

On the other hand, in October, drop in government capital investments was registered.

Nominal data on **foreign trade** in goods for October 2015 point to prospects for potential widening of the deficit in the fourth quarter.

Budget performance as of October suggests annual growth of **public consumption** in the fourth quarter amid upward shifts in costs for salaries, as well as in transfers for health care.

During October, **foreign trade deficit widened by 10% annually**, in conditions of imports growth and decline in the export component ...

... contrary to expectations for a slight narrowing of the trade deficit in accordance with the October projection.

Exports of goods in October decreased by 1.1% compared to the same month last year, driven by lower export performances of the metal and mining sector.

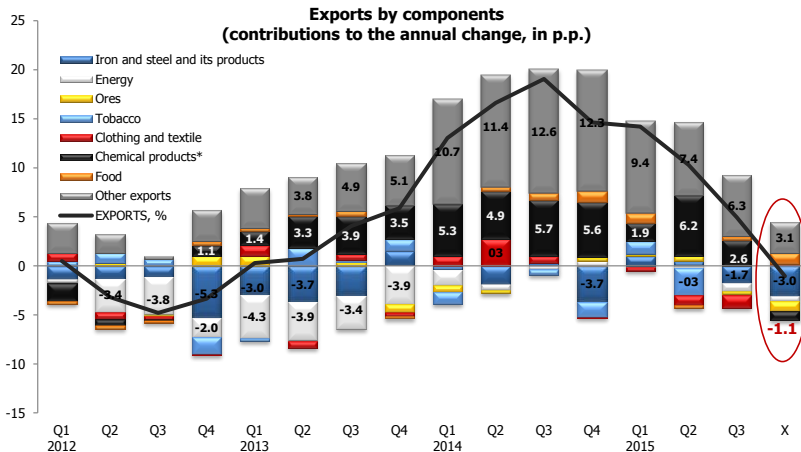
On the other hand, exports of new facilities in the economy continued to grow, moderating the decline in the total exports. In addition, significant growth in the export of food was recorded.

Compared with the October projection, export performances in October are higher than expected. Positive deviations are particularly pronounced in some of the new export-oriented facilities, as well as in the export of food and tobacco, as opposed to the deteriorating export performances of the mining sector.

During October **the import of goods** recorded an annual growth of 2.5%, due to higher import of raw materials by new capacities in the economy, and to a lesser extent to higher import of vehicles, food and consumer goods...

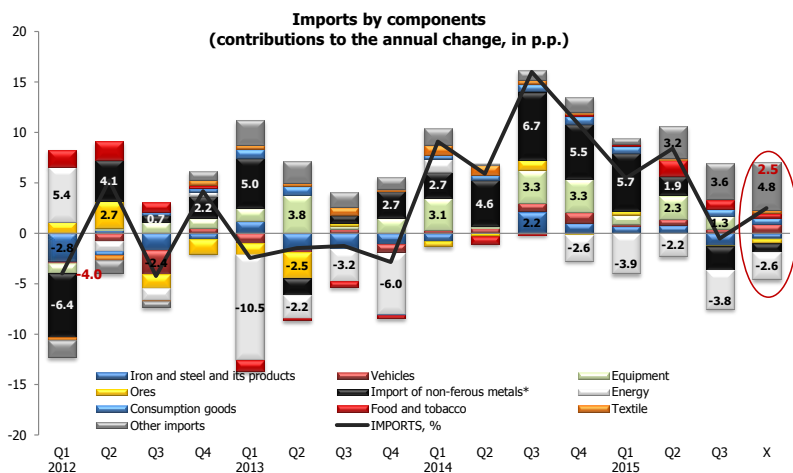
...contrary to the import of energy and iron and steel, which registered an annual drop.

Import performances in October are higher than the expected movements in the fourth quarter according to the October projection. Analyzed by individual categories, the most significant upward deviation was registered in import of raw materials by the new facilities, as well as food imports, investment imports of equipment and machinery and vehicles and imports of iron and steel. Hence, higher import occurs in categories that are intended for export and can mean a better export activity in the next period. On the other hand, lower performance than expected was registered in the import of energies.



Source: NBRM.

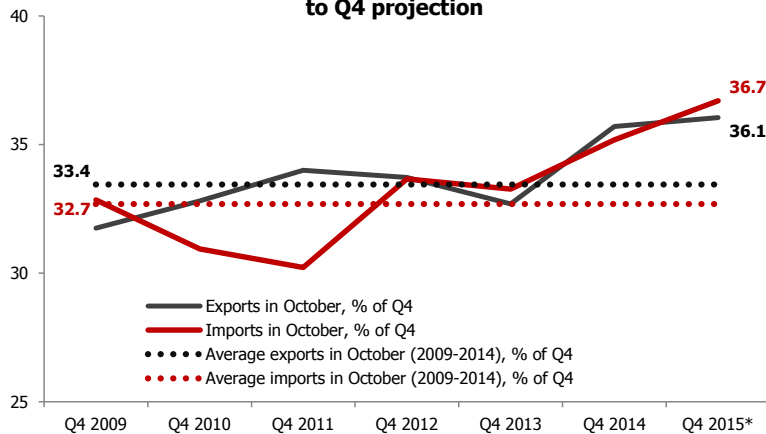
* The following data depict the overall exports of one major export capacity in the free industrial zone.



Source: NBRM.

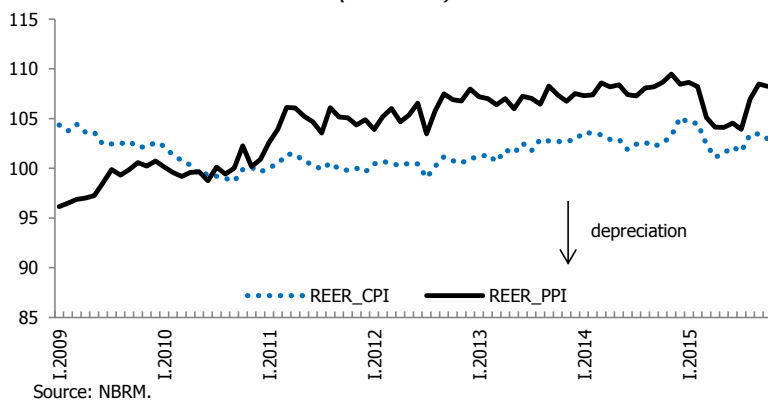
* The following data depict the overall imports of one major export capacity in the free industrial zone.

Share of exports and imports of goods in October relative to Q4 projection



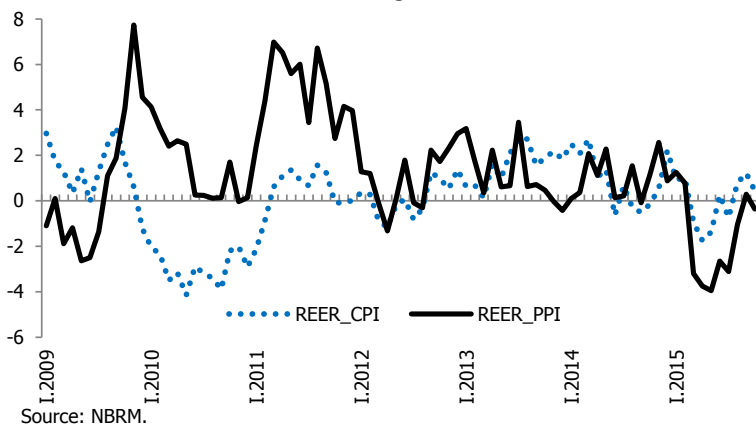
Performance of foreign trade components in October, indicate likelihood of trade deficit higher than projected for the fourth quarter according to the October projection. However, given the improved performances in the third quarter, and the possibility by the end of the year part of the October adverse deviation to ease, there is a possibility deviations in this segment to be relatively small.

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

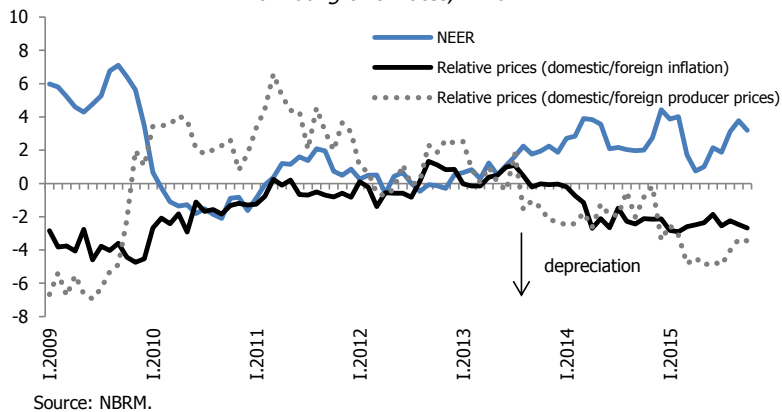
REER
(2010=100)

In October, the price competitiveness indicators of the domestic economy registered divergent movements compared to the same period of the preceding year. The REER index deflated by consumer prices appreciated by 0.4% and the REER index calculated by the producer prices registered annual depreciation of 0.4%.

REER
annual changes, in %

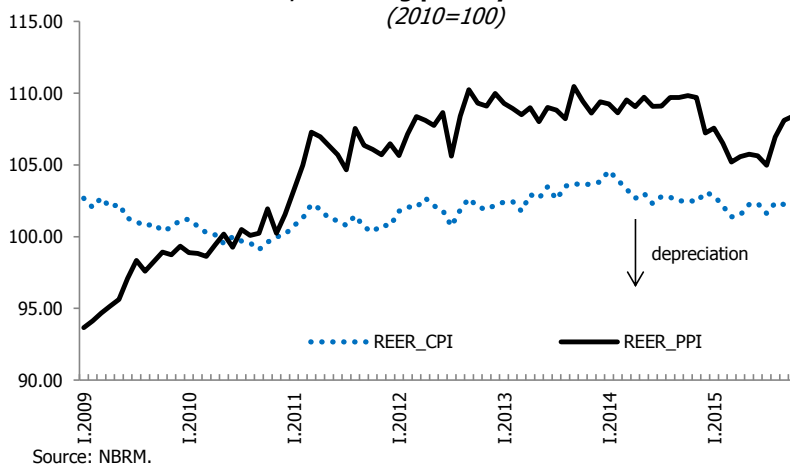


NEER and relative prices
annual growth rates, in %



The relative consumer prices registered annual drop of 2.7%, while the relative prices of industrial products registered a decrease of 3.5%. The movement of NEER acted in the opposite direction, and appreciated by 3.2% as a result of the further depreciation of the Russian ruble, the Ukrainian hryvnia and the Turkish lira against the Denar.

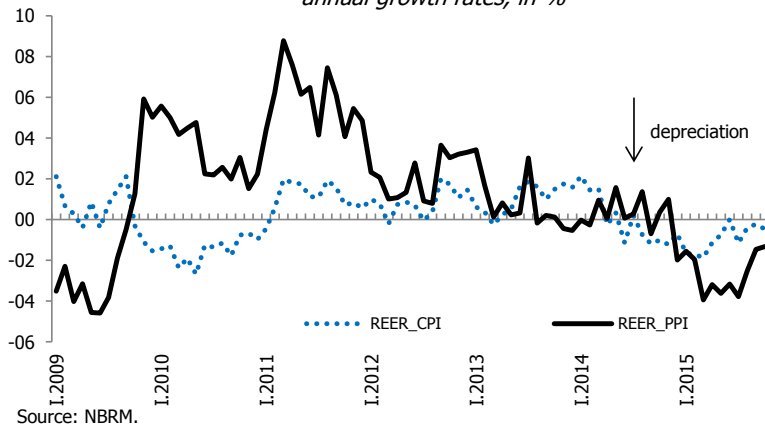
REER, excluding primary commodities
(2010=100)



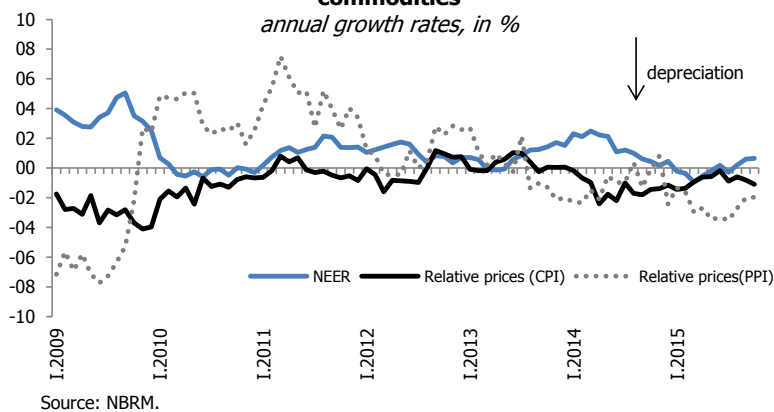
The analysis of the movement of the REER indices, as measured using weights based on the foreign trade without primary products¹⁰ indicates further improvement in the competitiveness of domestic economy. In October, the REER based on consumer prices depreciated by 0.5%, while the REER deflated by producer prices had a more pronounced annual depreciation of 1.3%.

¹⁰ 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.

REER, excluding primary commodities
annual growth rates, in %

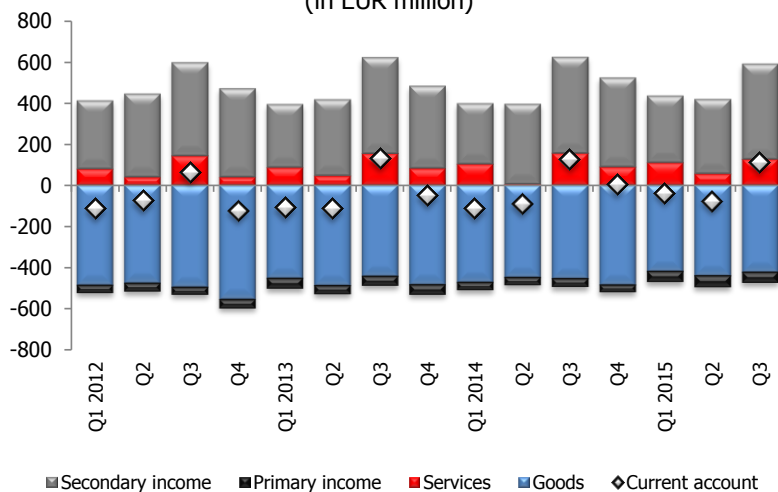


NEER and relative prices, excluding primary commodities
annual growth rates, in %



The favorable developments are the result of the realized annual decrease in the relative prices, given slight appreciation of the NEER (of 0.6%). Compared to the same month last year, the relative consumer prices fell by 1.1%, and the relative prices of industrial products by 2%.

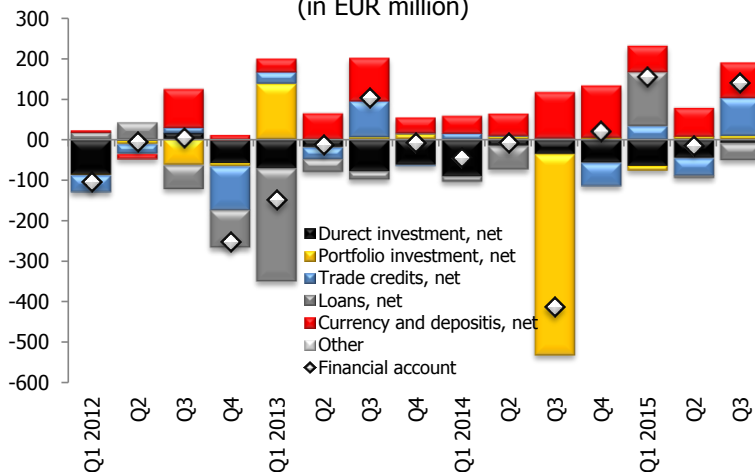
Main components of the current account
(in EUR million)



In the third quarter of 2015, the balance of payments' current account registered a surplus of Euro 114.3 million (or 1.3% of GDP), i.e. higher surplus than planned for the third quarter, according to the October projection.

In terms of individual components, the better performance in most part is due to the lower deficit in the trade of goods and services, while the other components i.e. primary income deficit and surplus of secondary income are almost in line with expectations according to the October projection.

Financial account components
(in EUR million)

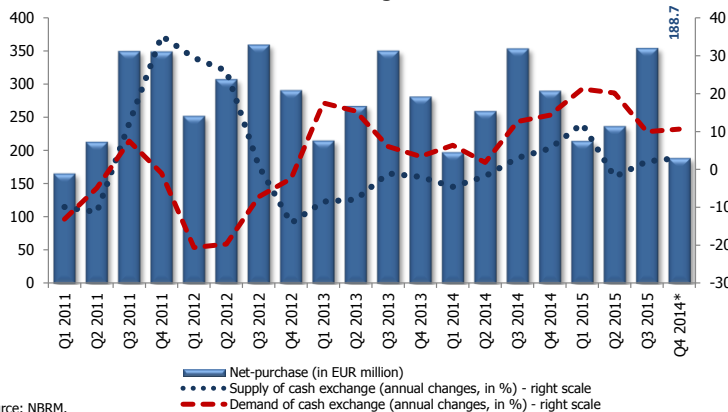


Source: NBRM.

In the third quarter of 2015, net outflows in the amount of EUR 141.7 million (or 1.6% of GDP) were realized through the financial account, i.e. somewhat higher net outflows than projected in the October projection¹¹.

Such deviations mainly result from lower than expected net inflows based on direct investments in the October projection, which were largely offset by net repayments of trade credits, lower than projected. The movements are almost in line with the projection of all other items.

Cash exchange market



Source: NBRM.

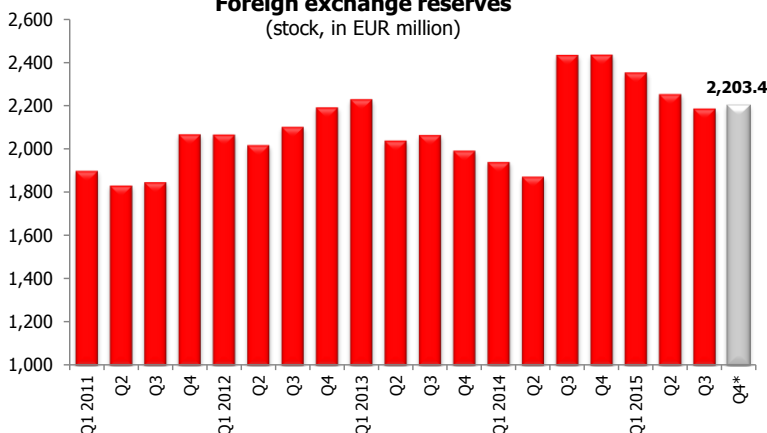
*As of 30.11.2015.

The currency exchange operations data as of November 2015 suggest increase in the supply of foreign currency, after the three-month decline and further continued annual growth of demand for foreign currency.

Realized net purchase on the currency exchange market during October-November 2015 amounted to Euro 188.7 million, showing a small increase of 2.8% on an annual basis.

The latest information from the currency exchange market point to performances which are in line with the expected net inflows of private transfers in the last quarter of 2015, as projected in October.

Foreign exchange reserves
(stock, in EUR million)

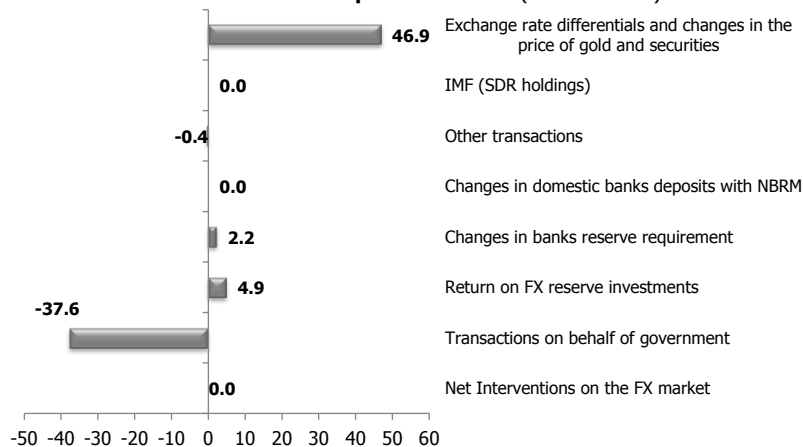


* As of 30.11.2015
Source: NBRM.

At the end of November 2015, the gross foreign reserves stood at Euro 2,203.4 million, which represents an increase of Euro 16 million compared to the end of the third quarter of 2015. The growth in foreign exchange reserves is almost entirely due to the positive currency changes and changes in the price of gold despite negative changes in transactions on behalf of the government.

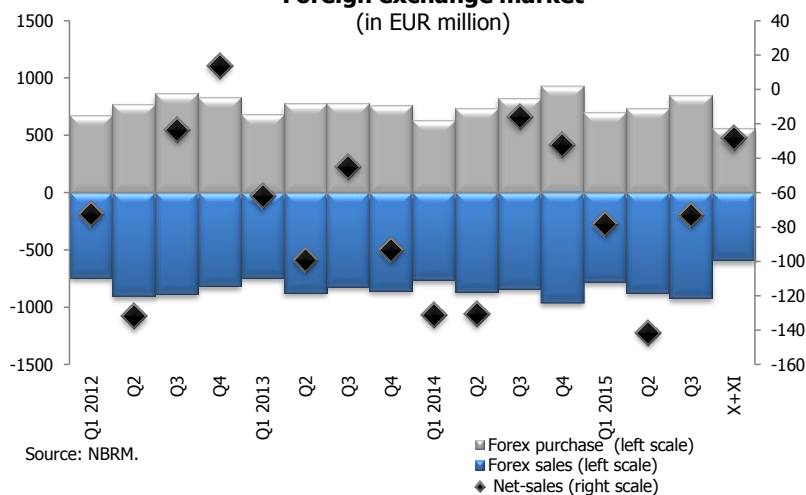
¹¹ According to the new methodology for compilation of the balance of payments (BPM6), the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.

Factors of change of the foreign reserves in the october-november period of 2015 (in EUR million)



Source: NBRM.

Foreign exchange market (in EUR million)



Source: NBRM.

In the period October - November 2015, the **foreign exchange market** of the banks registered a net sale of Euro 28.3 million, which is a drop of Euro 16.9 million on an annual basis. This annual change is a result of the larger decline in the demand relative to the decline in the supply of foreign currency (of 9.9% and 7.8%, respectively).

Sector-by-sector analysis shows that these annual performances are mostly a result of the decreased net sales of the companies in this period, and then the increased net purchase in exchange offices and natural persons.

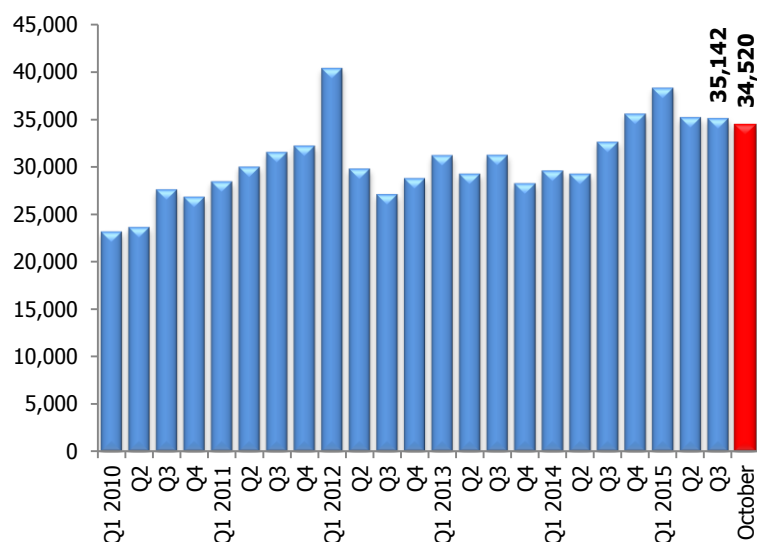
Data as of October show a slight liquidity creation through monetary instruments relative to September, contrary to the projected withdrawal of liquidity for the fourth quarter, as projected in October.

According to the analysis of the flows of creating and withdrawing liquidity in terms of balance sheet, in October, net foreign assets of the NBRM are at a similar level as in the third quarter, while last October projection indicates significant increase in the fourth quarter (in line with the projected borrowing through the issuance of Eurobond on the foreign capital market). In October, total deposits of the government with the NBRM registered a small increase compared to the previous month but with a slower pace compared with the expected increase by the end of the year.

Thus, in October, the net effect of these two autonomous factors was a small withdrawal of liquidity from the system, as opposed to the anticipated creation of liquidity for the fourth quarter. Such performances are partly offset by deviations in reserve money. Namely, in October, reserve money decreased contrary to the projected increase in the last quarter, mainly resulting from the registered decline in total liquid assets of banks as opposed to the expected moderate growth in the fourth quarter.

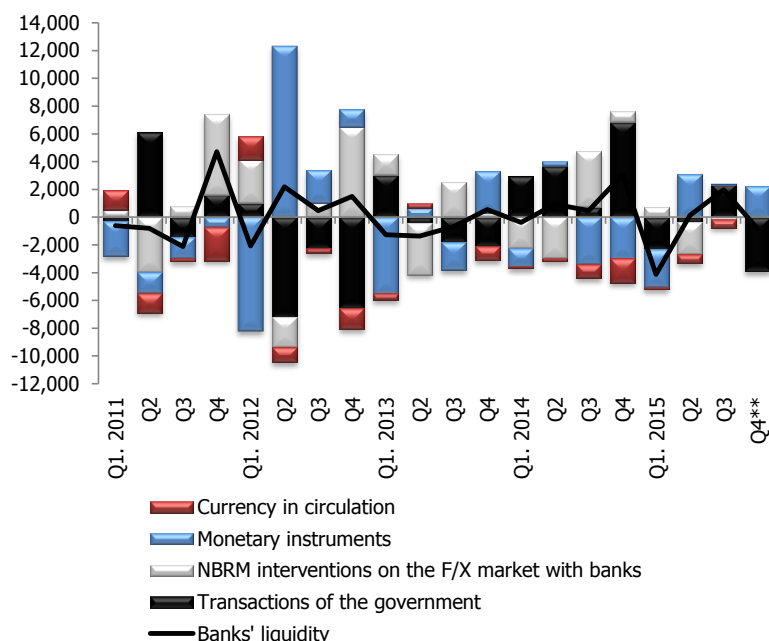
Such developments in all major balance sheet categories, contribute to significant deviation in October monetary instruments relative to the October projection.

Monetary instruments
(in millions of denars)



Source: NBRM.

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



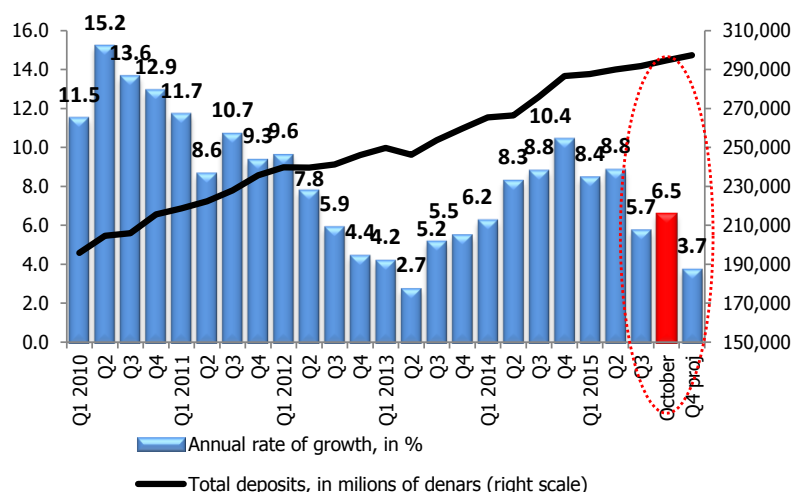
*Positive change- liquidity creation, negative change- liquidity withdrawal

**refers to November/September 2015 change

Source: NBRM.

The latest available data as of November, indicate a higher level of liquidity in the banking system compared with the previous month. Analyzed by individual factors, government transactions acted towards withdrawing liquidity while monetary instruments of the NBRM (mainly through seven-day deposits facility) and to a lesser extent currency in circulation acted towards creating liquidity in the banking system. In November, the NBRM did not realize transactions with market makers in the foreign exchange market, thus the foreign exchange transactions of NBRM had a neutral effect on total liquidity.

Total deposits



*Includes demand deposits

Source: NBRM.

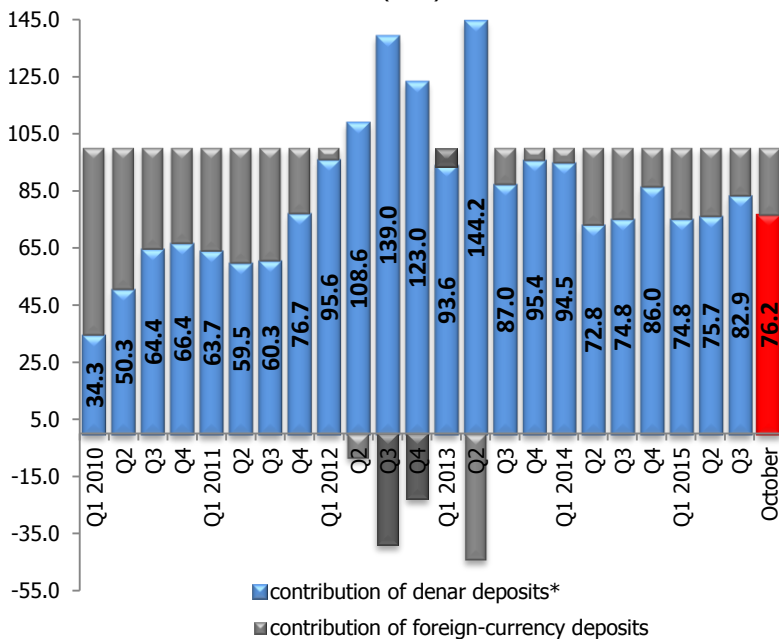
In October, the total deposits registered monthly rise, with larger intensity compared to the previous month. The growth of the deposit base is mostly due to the higher corporate deposits, amid moderate growth of household deposits and other financial institutions¹².

The annual growth rate of the total deposits at the end of October, equaled 6.5%, which is above the projection for the fourth quarter of 2015 (projected annual growth of 3.7%). Compared to the end of September, total deposits increased by Denar 2,814 million representing 51.7% of the projected growth for the fourth quarter (Denar 5,444 million), according to the October projection. Such changes in total deposits are within the projection for the last quarter and point to a possible achievement of the projected annual growth for the end of the year.

¹² Other financial institutions include investment funds, pension funds, insurance companies, investment funds management companies and pension funds management companies, financial companies and leasing companies. In terms of shares in total deposits, the dominant category are household deposits with a share of 70.5% in October, followed by corporate deposits 24.1%, followed by deposits of Other financial institutions with a share of 3.8% in total deposits.

Contribution of denar and foreign currency deposits to the annual growth of total deposits

(in %)



The annual rise in the total deposits is still mostly a result of the growth of denar deposits amid moderate positive contribution of foreign currency deposits. Moreover, there was moderate increase in the annual contribution of foreign currency deposits compared to the previous month ...

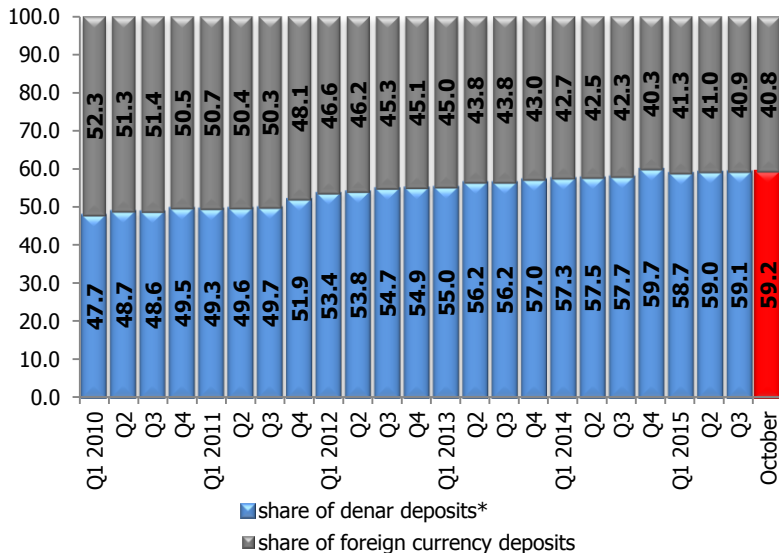
* includes Denar deposits with foreign currency clause.

Source: NBRM.

*Includes demand deposits.

Share of denar and foreign currency deposits in total deposits

(in %)



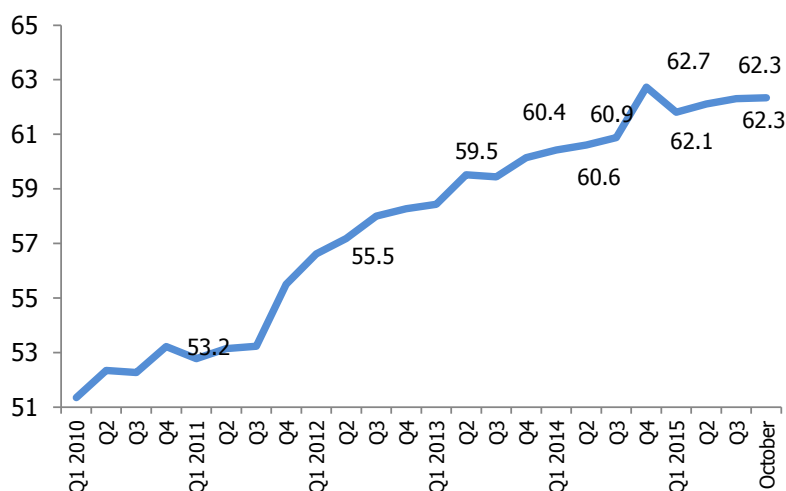
... which contributed to maintaining a stable currency structure of the deposit base, with the deposits in domestic currency still having larger share in total deposits.

* includes Denar deposits with foreign currency clause.

Source: NBRM.

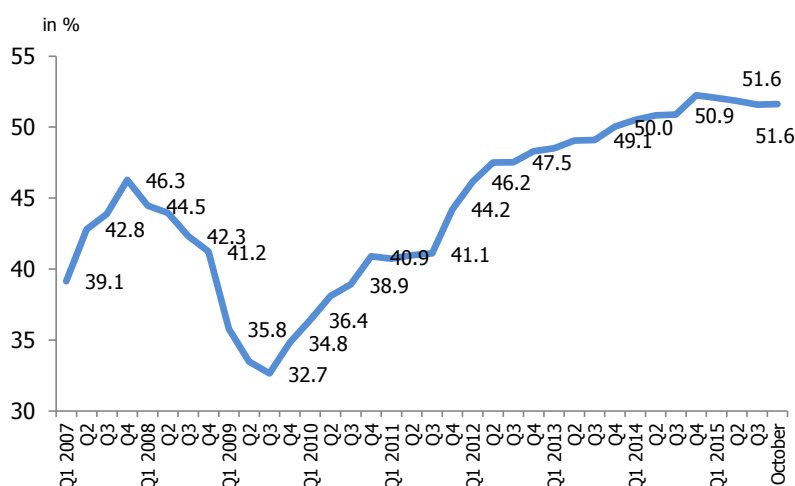
*Includes demand deposits.

Share of denar M4 in total M4
(in%)



Source: NBRM.

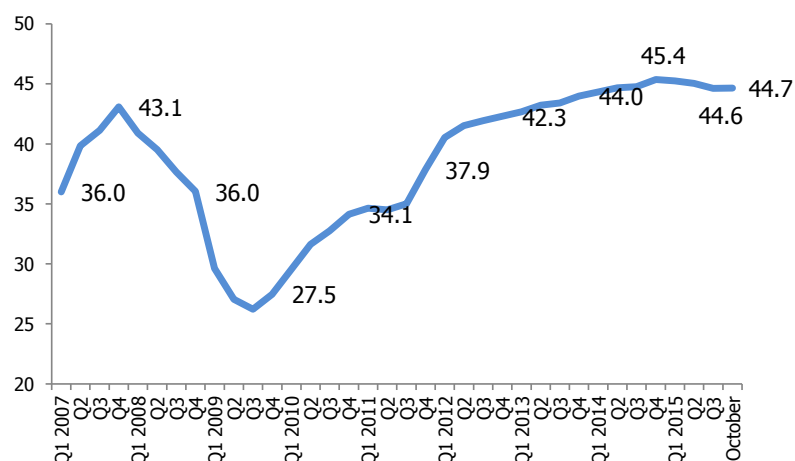
Share of denar deposits in total household deposits
(in %)



Source: NBRM.

*Includes demand deposits.

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



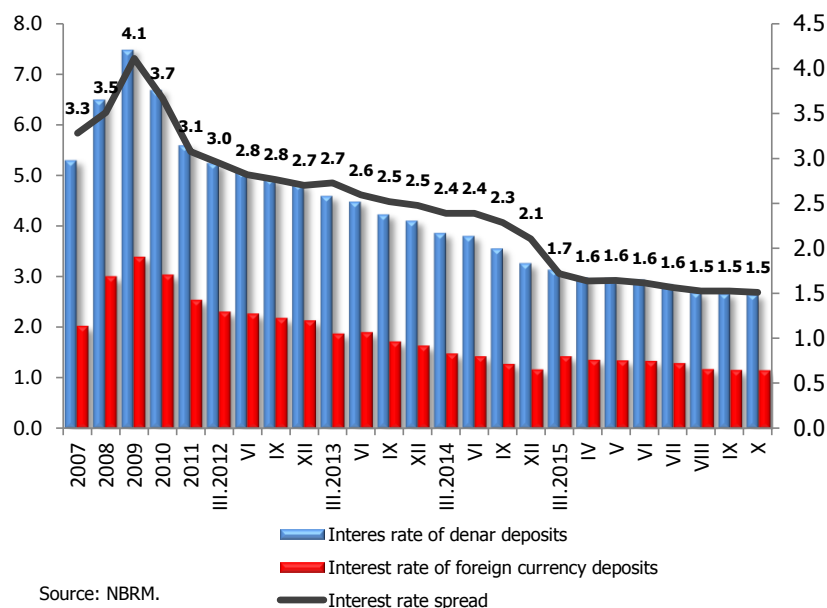
Source: NBRM.

*Without demand deposits.

During October, total household deposits registered moderate growth on a monthly basis, but with lower intensity compared to the previous month. The monthly growth is entirely due to the increase of deposits in domestic currency (mainly by increasing demand deposits), amid slight decline in foreign currency deposits. As a result of such movements in October, the share of Denar deposits in the total household deposits was retained at the level of the previous month.

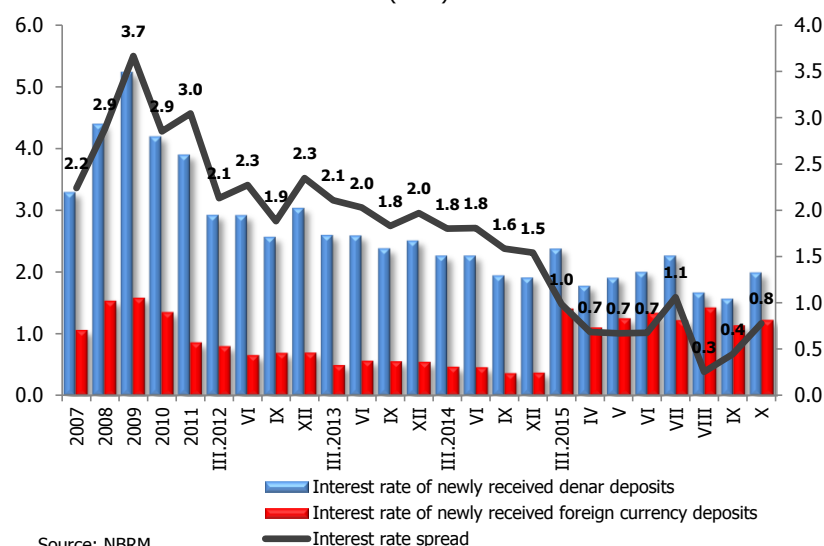
Total household deposits (excluding demand deposits) recorded a slight decline on a monthly basis, as opposed to the growth in the previous month, entirely as a result of the reduction of deposits in foreign currency, amid growth of Denar deposits.

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



In October, the interest rate spread between denar and foreign currency interest rates¹³ remained at level of the previous month, with unchanged interest rates. Interest spread of newly received deposits has widened significantly, due primarily to the increase in the interest rate on denar deposits, amid moderate growth of the interest rate on foreign currency deposits. However, it should be taken into consideration that the interest rates on newly received deposits are characterized with volatile movements¹⁴, which can result in frequent and temporary adjustments of the interest spread.

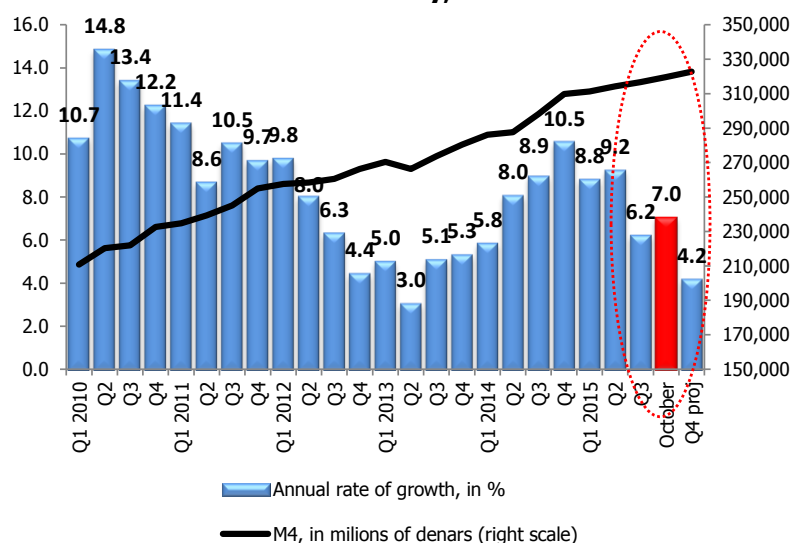
Interest rates on newly accepted denar and foreign currency deposits (in %)



¹³ 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 visit <http://www.nbrm.mk/default.asp?ItemID=29C1C73ED1A4B745B70EE9C3E423029A>.

¹⁴ 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.

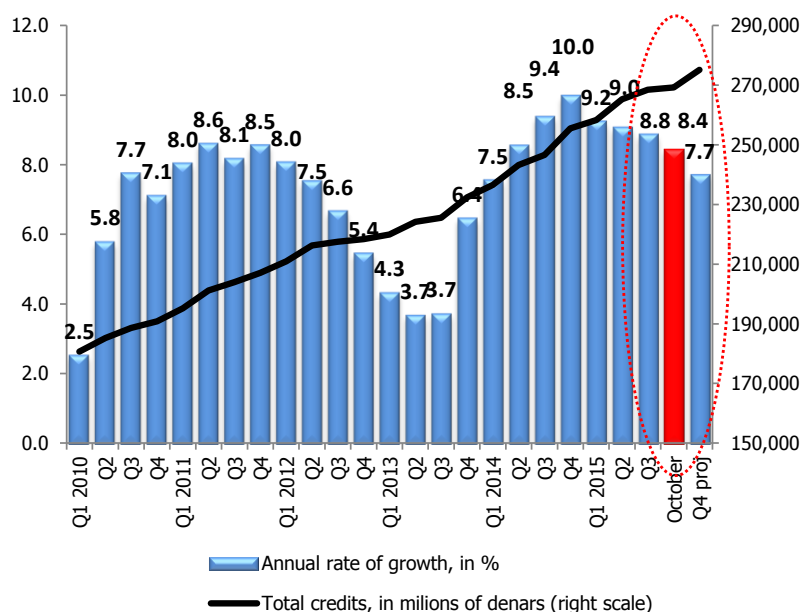
Broad money, M4



Source: NBRM.

In October, the broadest money supply increased on a monthly basis, with larger intensity compared to the previous month. The registered growth is almost entirely explained with the widening of the deposit base, with a small growth of currency in circulation. On annual basis, the monetary growth equals 7%, which is above the projected rise of 4.2% for the fourth quarter of 2015. Compared to September, the money supply is higher by Denar 2,964 million, which equals 48.7% of the projected growth for the fourth quarter (of Denar 6,087 million). Such changes in money supply are within the projection for the fourth quarter and point to a possible achievement of the projected monetary growth for the end of the year.

Total loans



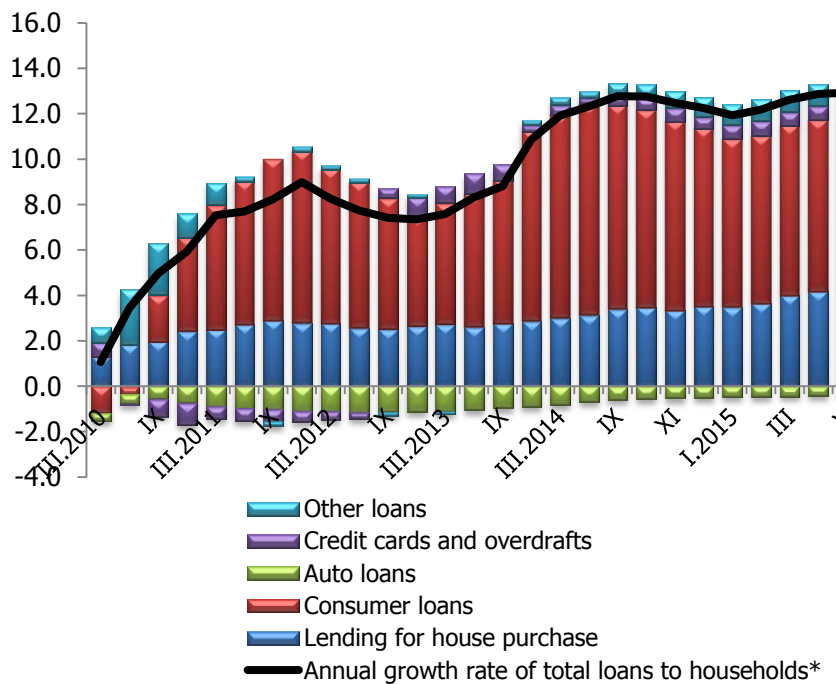
Source: NBRM.

The total loans continued to rise also in October, with relatively slower growth dynamics compared to the previous month. The realized growth is fully driven by the monthly increase in loans to households, amid decline in corporate loans.

At the end of October, the annual growth rate of total loans equaled 8.4%, which is above the annual growth of 7.7% projected for the fourth quarter of 2015. Compared to September, the total loans registered a growth of Denar 768 million, which represents 11.4% of the projected growth for the fourth quarter, according to the October projection. Such performances in total loans are within the projection for the fourth quarter and point to possibility of achieving the projected annual growth of loans at the end of the year.

Loans of banks and savings houses extended to households

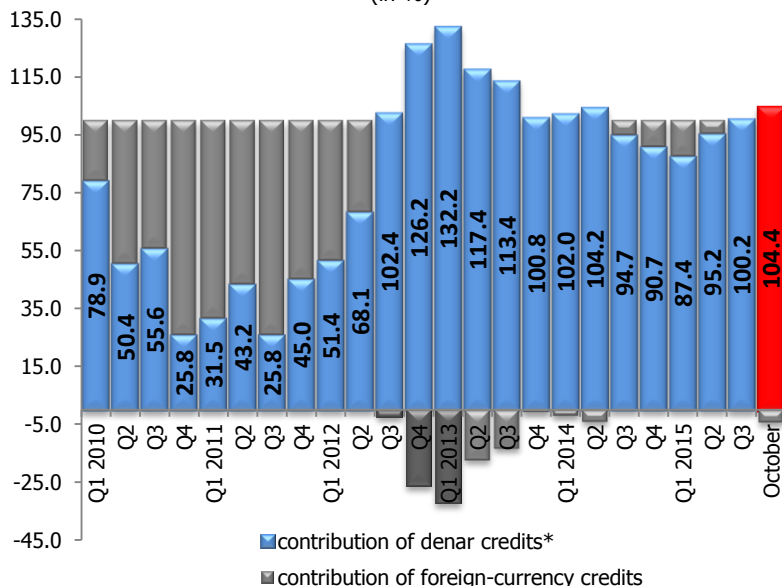
(contribution to the annual change of loans to households*, in percentage points)



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

Contribution of denar and foreign currency loans to the annual growth of total loans

(in %)

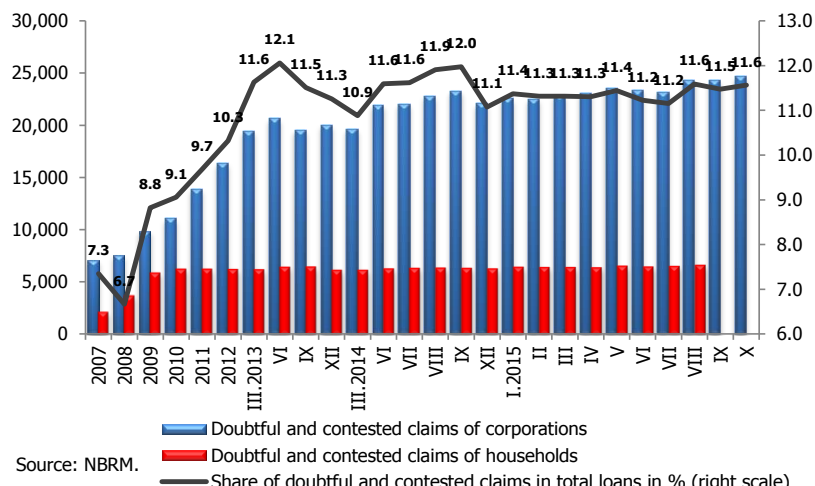


Achieved annual growth of total loans solely stems from increased denar loans. The foreign currency loans registered annual fall.

* includes loans with foreign currency clause.

Source: NBRM.

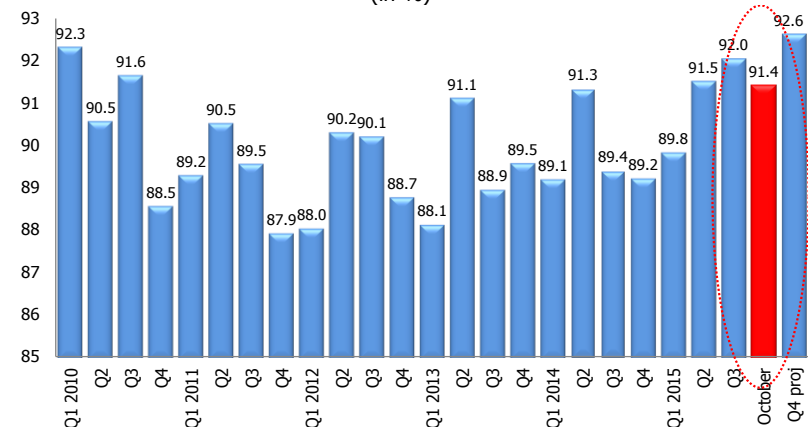
Share of doubtful and contested claims in total loans
(in %)



Source: NBRM.

During October, the share of doubtful and contested claims in the total loans recorded a slight increase compared to the previous month and amounted to 11.6%, solely due to the growth in doubtful and contested claims of the enterprises with a slight decline in households. On an annual basis, the total non-performing loans further increased, registering lower intensity compared to the preceding month.

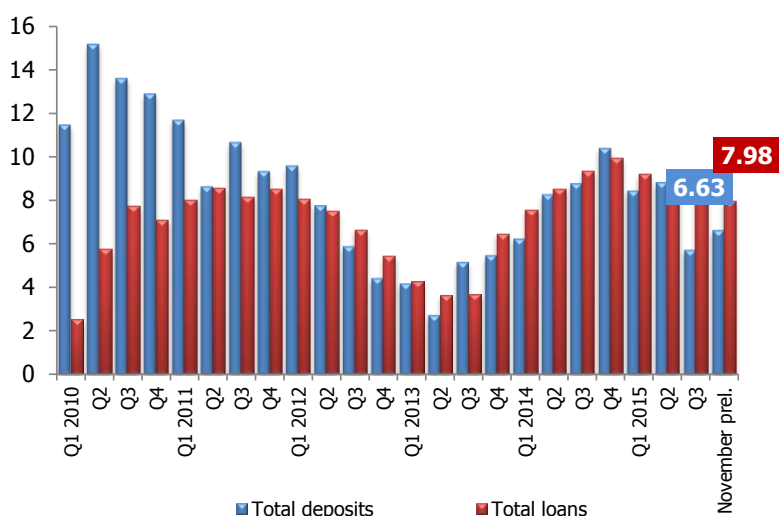
Loan-deposit ratio, in
(in %)



Source: NBRM.

The utilization of the deposit potential for lending to the private sector at the end of October registered a decrease compared to the end of the third quarter. The registered ratio indicates lower utilization of deposits for lending compared to the expectations for the fourth quarter, according to October projection.

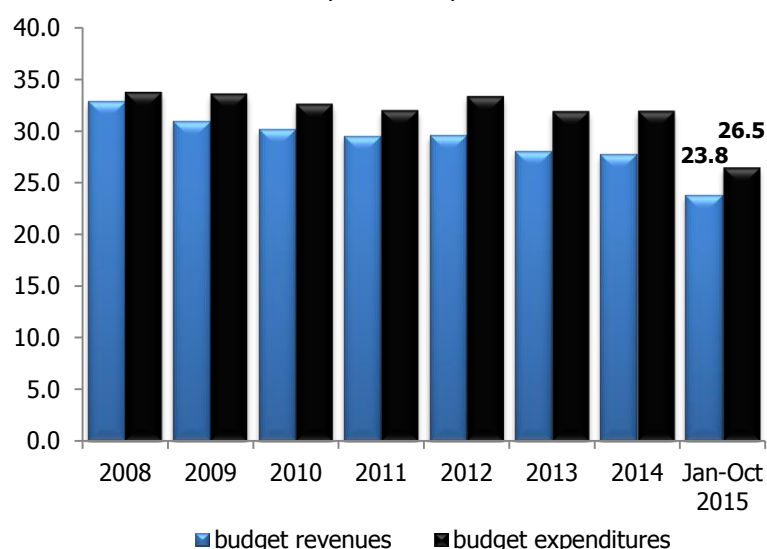
Total deposits and loans
(annual growth, in %)



Source: NBRM.

According to the preliminary 10-day data as of November 2015, the total deposits continued to grow on a monthly basis, with moderately lower intensity compared to the previous month (from 1% in October to 0.8% in November). Moreover, about 42% of the growth in total deposits was due to the increase in household deposits (mostly in foreign currency), with further growth in corporate deposits, although at a slower pace compared to the previous month. Regarding the credit market, the preliminary data as of November indicate acceleration of the credit growth. Thus, total loans in November on a monthly basis increased by 0.7% (versus 0.3% in the previous month), amid registered growth of loans to enterprises, as opposed to their decline in the previous month. Loans to households continued to grow on a monthly basis, with moderately lower intensity compared to October. On annual basis, in November the total deposits and the total loans went up by 6.6% and 8%, respectively.

Budget revenues and expenditures
(in % of GDP)

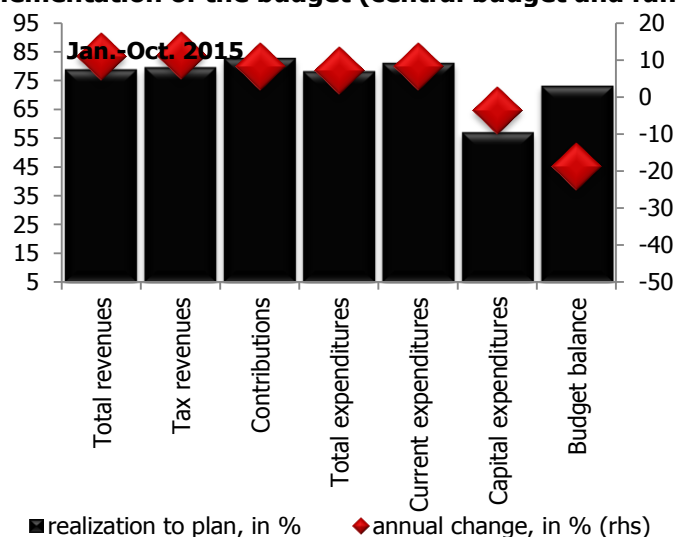


Source: Ministry of Finance and NBRM's calculations.

In the period January-October 2015, the Budget of the Republic of Macedonia (central budget and budget of funds) generated total revenues of 23.8% of GDP¹⁵, which is 1.3 p.p. higher compared to the realized revenues in the same period last year. In nominal terms, the budget revenues as of October increased by 11.2% on annual basis, which largely resulted from the higher performances of the taxes, and to a lesser extent from the contributions. Analyzed by categories of tax revenues, the largest individual contribution has profit tax, amid registered annual growth of inflows from excise duties and from income tax. Inflows from VAT, since the beginning of the year have registered continuous annual reduction.

Total budget expenditures in January-October 2015 amounted to 26.5% of GDP, which is 0.6 percentage points higher than budget expenditures incurred in the same period last year. In nominal terms, as of October, budget expenditures were 7.2% higher compared to the same period last year, which is entirely due to increased current expenditures. On the other hand, the capital expenditures registered annual fall.

Implementation of the budget (central budget and funds)



* With respect to the Supplementary Budget for 2015
Source: Ministry of Finance and NBRM's calculations.

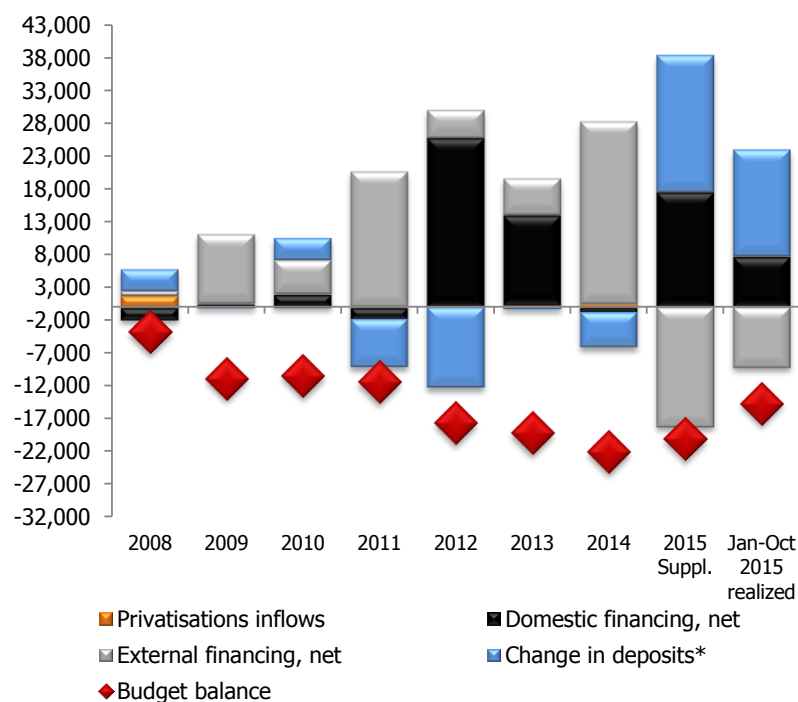
In accordance with the Budget Revision¹⁶ for 2015, the realization of budget revenues in January-October amounted to 78.8%. Analyzed by individual categories, the highest realization was recorded in inflows of profit tax (of 100.2%), indicating a possibility to exceed the plan by the end of the year, followed by excises (with realization of 85.8%). Inflows from import duties registered slightly weaker dynamics of realization of 73.3%. In terms of expenditures in January-October, 78.2% of planned expenditures for 2015 were realized. Observing individual categories, as of October, there is a higher execution of current expenditures (81%) compared to capital costs (57.3%).

¹⁵ The analysis uses the NBRM October projections for the nominal GDP for 2015.

¹⁶ In August 2015, the Parliament of the Republic of Macedonia passed the Budget Revision for 2015.

Financing of the budget balance

(in millions of denars)

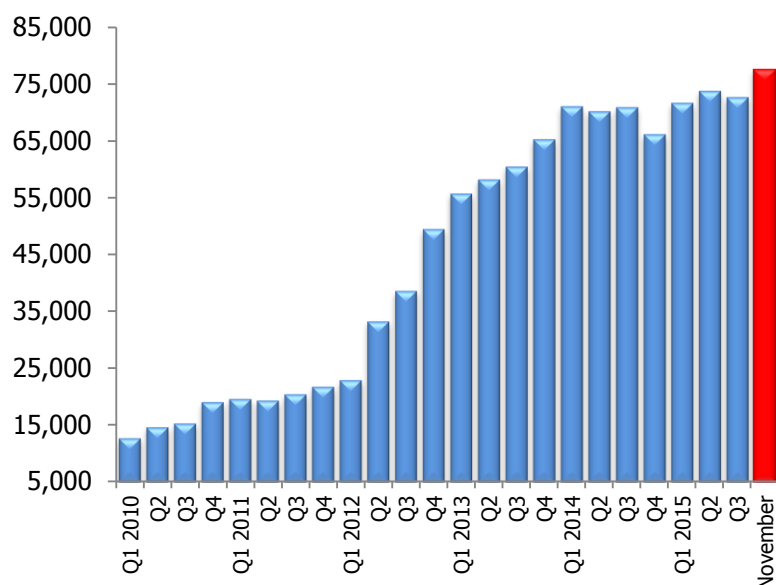


During October, the Budget of the Republic of Macedonia realized a deficit of Denar 865 million, financed through net issuance of government securities on the domestic market. In addition, part of the inflows from the issued securities were cumulated in the form of deposits of the government with the NBRM. On a cumulative basis, since the beginning of 2015, the budget deficit amounted to Denar 14,739 million (or 2.7% of GDP¹⁷), representing 73.2% of the projected budget deficit for 2015, according to the Budget Revision. In terms of its financing, in the period January-October, the budget deficit was financed through the withdrawal of government deposits with the NBRM and by additional issuance of government securities.

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

¹⁷ According to the latest NBRM projection for the nominal GDP.

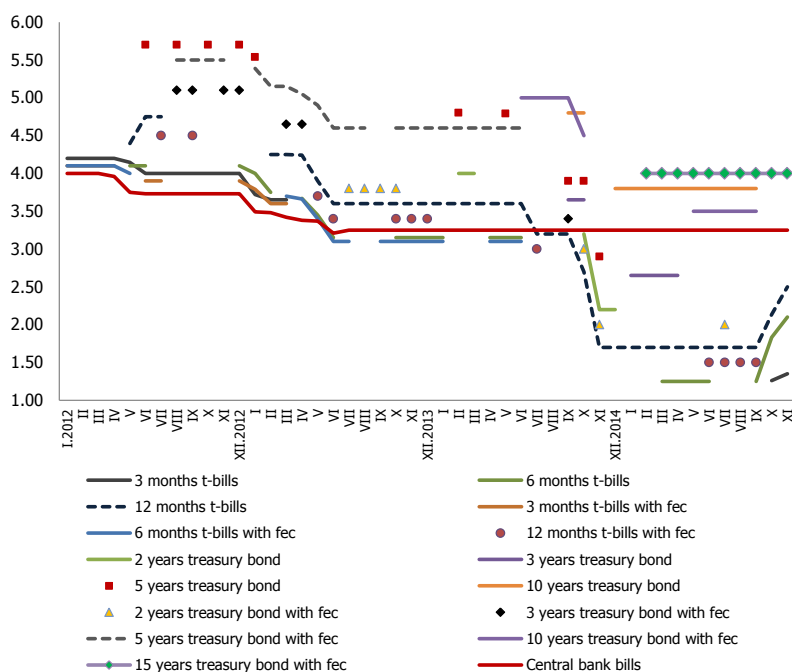
Stock of total government securities (in millions of denars)



The stock of government securities in the domestic market amounted to Denar 77,571 million at the end of November, and compared to the end of the third quarter, is higher by Denar 4,846 million. Since the beginning of 2015, the total net issuance of government securities amounted to Denar 11,409 million.

Source: NBRM.

Interest rates on government securities and CB bills (in %)



Source: NBRM.

Interest rates on treasury bills offered at the auctions held in November amounted to 1.35%, 2.10% and 2.5% for 3-month, 6-month and 12-month treasury bills without currency clause, respectively. Interest rates on government bonds amounted to 3.5% and 4% for 10-year and 15-year government bonds with foreign currency clause. The interest rates on treasury bills issued in November were slightly higher compared to the auctions in the previous month (when they stood at 1.26%, 1.83% and 2.14%¹⁸, respectively) while interest rates on issued government bonds remained unchanged compared to the auctions in October.

¹⁸ The interest rates on treasury bills in October represent weighted interest rate under the offered amounts and the adequate interest rates on treasury bills. Thus, at the auctions 3-month treasury bills without foreign currency clause and interest rate of 1.25% and 1.35%, 6-month treasury bills without foreign currency clause and interest rate of 1.45% and 2.1% and 12-month treasury bills without foreign currency clause and interest rate of 2% and 2.5% were offered.

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 potential¹⁹, 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 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.

¹⁹ 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).

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 stimulative 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.