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

Recent Macroeconomic Indicators
Review of the Current Situation

February 2016

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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 (November 2015 - January 2016) 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 has not undergone major changes compared to the October projections. The global economy continues to follow a path of gradual recovery, but the pace of growth is again assessed as unsatisfactory, amid increased uncertainty and pronounced geopolitical risks. In the euro area, the volatility of the global financial markets and the weaker growth in developing countries are beginning to reflect upon economic activity. Namely, the most recently published high frequency data, as well as surveys of households and companies show no larger recovery of the economy in the last quarter of 2015 and point to a slowdown in economic growth in the first quarter of 2016. Somewhat more favorable trends were registered in the unemployment rate, which continued the downward trend in December 2015 and reduced to 10.4%, its lowest level in four years. In terms of inflation, the preliminary data for January 2016 show minimal acceleration of the annual rate from 0.2% in December 2015 to 0.4%.

The low inflation is still generally influenced by energy prices. Although the measures that the ECB took so far give some results, however, the inflation remains below the expectations and the medium-term objective of the ECB. Hence, taking into account the increased downward risks associated with weaker growth in developing countries, the increased volatility on financial markets and the markets of primary products and the geopolitical risks, at the ECB meeting held on January 21 2016, revision and possible change in monetary policy towards its further easing in March 2016 were announced, when new projections are going to be released.

Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the projections regarding the foreign effective demand register no larger changes relative to the October cycle. Thus, it is estimated that the increase in foreign demand in 2015 is somewhat higher than projected, for 2016 the assessment remains unchanged, while for 2017, minor upward adjustments than previously expected were made. **Regarding the foreign effective inflation,** the performance for 2015 shows a decline in international prices of 0.3%, which is higher than projected in October. Downward adjustments are made also for 2016, amid lower than expected growth within the October projection, while in 2017 minimally higher growth in foreign prices is expected. **With regard to prices of primary products, the current projections for 2016 have been revised downwards, while revisions for 2017 are upward.** Regarding **the world oil prices**, amid a glut in the markets in 2016, fall in prices is expected, contrary to the rise in October projections, and in 2017 higher increase in oil prices than in the October projection is anticipated, but the price level remains lower than previously expected. Regarding the **metal prices**, the situation of solid offer and weak demand is expected to continue during 2016, with the current assessments also heading towards deeper decrease compared to the October projections, while in 2017, generally, they are expected to stabilize. In terms of world **food prices**, in 2016 smaller pressures on the future domestic inflation than in October are expected, while in 2017 the latest estimations show stronger growth than previously projected. However, it should be taken into consideration that the expectations for the prices of these primary products are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy.

The latest assessments indicate that the **EURIBOR interest rate will follow similar path during this and in the next year, as in the October projection, but slightly on lower level,** which corresponds to the ECB announcements for possible new relaxation of the monetary policy.

The comparison of the latest macroeconomic indicators with their projected dynamics within the October cycle of projections generally does not indicate major deviations in the individual segments of the economy. In the area of economic activity, the high frequency indicators suggest probable maintenance of solid growth pace in the fourth quarter, given favorable movements registered in the main economic sectors, which is in line with the October projection. However, it should be noted that the small upward deviation of the GDP growth achieved so far in terms of projected GDP growth is a potential upward risk to the projected growth rate for 2015. When it comes to changes in consumer prices, in January some downward correction of the expected movement in most of the input assumptions was made. In the absence of data on the movement of prices in January 2016, such movement in exogenous variables indicates presence of **potential downward risks to the inflation projection for 2016.**

The latest foreign reserves data (adjusted for the effects of price and exchange rate differentials and price changes of securities) as of January show that they have been moderately decreasing since the beginning of 2016. Analyzing by the factors of change, the decrease in reserves during this period was due primarily to the transactions for the account of the government and net sales of foreign currency on the foreign exchange market by the NBRM. The latest data on the foreign currency market, as of January, for now indicate lower net inflows of private transfers than expected for the first quarter of 2016. However, the evaluation period is very short and therefore reliable conclusions in this domain cannot be drawn. The latest available indicators of the balance of payments as of November 2015, confirm the findings of a current account deficit in 2015, which is within the projections, given higher financial outflows than expected. The data on foreign trade as of December, which showed a trade deficit in 2015, which is in line with the projection, also indicate such a conclusion. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone.

Regarding the monetary developments, the final data as of December show significant acceleration of the monthly increase in the total deposits. In December, the deposit growth was largely driven by the growth of corporate deposits (with a share of 67.7%, mainly in domestic currency), amid further growth of household deposits, although more intensively compared to the previous month. On an annual basis, total loans in December grew by 6.3%, which exceeds the projected growth for the fourth quarter (3.7%) according to October projection. Total loans continued to grow in December, as well, at an accelerated pace compared to the previous month. Most of the loans in December were directed to the corporate sector, with further moderate increase in household loans. On an annual basis, total loans in December grew by 9.5% and were above the projected annual increase of 7.7%, according to October projection.

In December, **the Budget of the Republic of Macedonia registered a deficit of Denar 3.272 million,** which was financed through government borrowing on the foreign capital market by issuing the fourth Eurobond and additional net issuance of government securities. For the entire 2015, the budget deficit amounted to Denar 19,425 million (or 3.5% of GDP[1]), representing 96.5% of the projected budget deficit for 2015, according to the Budget Revision. In terms of its financing, the realized budget deficit was financed through government borrowing on the foreign and domestic capital market given simultaneous withdrawal of funds from the account with the NBRM.

The latest macroeconomic indicators and assessments do not point to major changes in the perceptions about the environment for conducting monetary policy and about the

[1] According to the latest NBRM projection for the nominal GDP.

risks, compared to the assessments provided in the October projections. The latest data on 2016 show movement of the reserves in line with the projections, while the foreign reserves adequacy indicators continue to move in a safe zone. In terms of economic activity, high frequency indicators for the fourth quarter point to further solid growth by the end of the year which is in line with the projected movement. Regarding the inflation, the performance is just below the projections, which together with the downward correction of the expected movement of external assumptions indicates potential downward risks to the inflation projection for the next year. Within the monetary sector, the data as of December show higher performance in both, total deposits and credit activity. **In any case, the uncertainty associated with domestic political developments and global environment which was pronounced 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.**

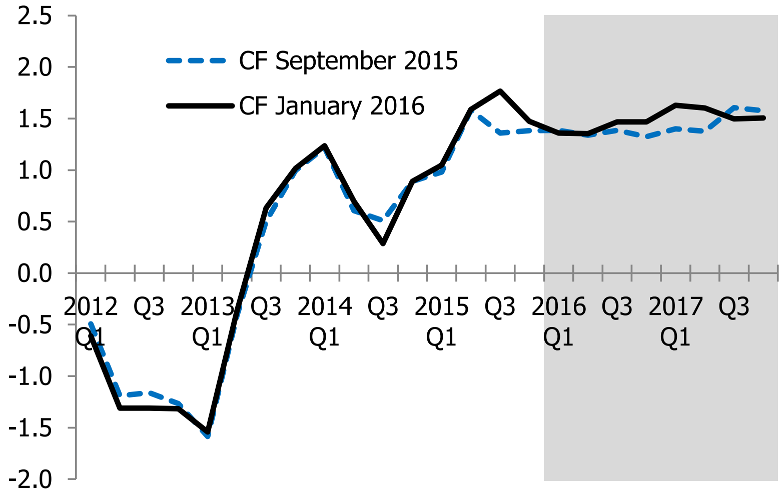
Selected economic indicators/1

2015

	2012	2013	2014	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep	Q3	Oct.	Nov	Dec	Q4	2015	Jan
I. Real sector indicators																					
Gross domestic product (real growth rate, y-o-y) /2	**-0.5**	**2.7**	**3.5**				**3.5**				**3.3**				**3.5**						
Industrial production /3																					
y-o-y	-2.8	3.2	4.8	1.1	3.1	0.6	1.5	-0.9	-5.0	6.4	0.1	-2.7	12.7	8.6	5.7	13.1	11.5	10.5	11.7	4.9	
cumulative average	-2.8	3.2	4.8	1.1	2.1	1.5	1.5	0.8	-0.4	0.8	0.8	0.2	1.7	2.5	2.5	3.6	4.4	4.9	4.9	4.9	
Inflation /4																					
CPI Inflation (y-o-y) /5	4.7	1.4	-0.3	-1.5	-1.0	-0.3	-0.9	0.1	0.3	0.5	0.3	-0.4	0.1	-0.2	-0.2	-0.5	-0.3	-0.3	-0.4	-0.3	
CPI Inflation (cumulative average)	3.3	2.8	-0.3	-1.5	-1.2	-0.9	-0.9	-0.6	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	
Core inflation (cumulative average)	2.1	3.0	0.6	-1.1	-0.6	-0.4	-0.4	-0.2	0.0	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5	
Core inflation (y-o-y)	2.1	3.0	0.6	-1.1	-0.2	0.0	-0.4	0.5	0.8	0.8	0.7	1.0	0.4	0.8	0.7	0.6	1.1	1.3	1.0	0.5	
Labor force																					
Unemployment rate	31.0	29.0	28.0				27.3				26.8										
II. Fiscal Indicators																					
(Central Budget and Budgets of Funds)																					
Total budget revenues	138,115	140,248	145,929	10,527	12,089	15,163	37,779	14,383	13,750	12219.0	40352.0	14,458	11,537	13,319	39,314	14,046	13,889	15,827	43,762	161,207	
Total budget expenditures	155,840	159,505	168,063	12,732	14,467	16,881	44,080	14,375	15,348	13849.0	43572.0	16,038	13,240	14,389	43,667	14,911	15,303	19,099	49,313	180,632	
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301	8	-1,598	-1630.0	-3220.0	-1,580	-1,703	-1,070	-4,353	-865	-1,414	-3,272	-5,551	-19,425	
Overall balance (in % of GDP)/1	-3.8	-3.8	-4.2	-0.4	-0.4	-0.3	-1.1	0.0	-0.3	-0.3	-0.6	-0.3	-0.3	-0.2	-0.8	-0.2	-0.3	-0.6	-1.0	-3.5	
III. Financial indicators /6																					
Broad money (M4), y-o-y growth rate	**4.4**	**5.3**	**10.5**	**11.1**	**9.7**	**8.8**	**8.8**	**9.7**	**8.9**	**9.2**	**9.2**	**7.8**	**7.0**	**6.2**	**6.2**	**7.0**	**6.8**	**6.8**	**6.8**	**6.8**	
Total credits, y-o-y growth rate	**5.4**	**6.4**	**10.0**	**9.2**	**9.2**	**9.2**	**9.2**	**10.2**	**9.5**	**9.0**	**9.0**	**8.9**	**8.8**	**8.8**	**8.8**	**8.4**	**7.9**	**9.5**	**9.5**	**9.5**	
Total credits - households	6.5	10.2	11.8	11.5	11.8	12.1	12.1	12.3	12.4	12.4	12.4	12.7	12.7	12.8	12.8	12.5	12.6	12.9	12.9	12.9	
Total credits - enterprises	4.5	3.8	8.6	7.5	7.3	7.1	7.1	8.7	7.4	6.7	6.7	6.3	6.0	6.0	6.0	5.4	4.5	7.1	7.1	7.1	
Total deposits (incl. demand deposits), y-o-y growth rate	**4.9**	**6.1**	**10.4**	**10.6**	**9.5**	**8.4**	**8.4**	**9.5**	**8.4**	**8.9**	**8.9**	**7.4**	**6.7**	**5.7**	**5.7**	**6.5**	**6.6**	**6.5**	**6.5**	**6.5**	
Total deposits - households	7.2	6.7	8.9	8.4	7.6	8.1	8.1	7.5	6.9	6.2	6.2	6.2	4.8	5.0	5.0	4.4	4.5	4.1	4.1	4.1	
Total deposits - enterprises	-1.6	3.1	15.7	17.4	14.4	9.0	9.0	17.1	14.5	17.8	17.8	11.4	13.1	7.1	7.1	11.0	11.7	13.0	13.0	13.0	
Interest rates /7																					
Interst rates of CBBills	3.73	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	
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	6.9	6.8	6.9	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	5.9	5.8	5.8	5.8	5.8	5.8	5.7	5.8	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	2.9	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.9	
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	1.1	1.1	1.1	1.3	
IV. External sector indicators																					
Current account balance (millions of EUR)	**-240.0**	**-134.1**	**-68.7**	**37.6**	**2.9**	**-86.9**	**-46.5**	**-57.1**	**-28.5**	**3.4**	**-82.1**	**26.7**	**39.1**	**65.1**	**130.9**	**-36.7**	**-22.2**	**-70.7**	**-129.6**	**-127.3**	
Current account balance (% of GDP)	*-1.6*	*-1.6*	-0.8	*0.4*	0.0	-1.0	-0.5	-0.6	-0.3	0.0	-0.9	0.3	0.4	0.7	1.5	-0.4	-0.2	-0.8	-1.4	-1.4	
Trade balance (millions of EUR)/8	**-1,948.2**	**-1,756.6**	**-1762.0**	**-73.7**	**-109.9**	**-194.5**	**-378.1**	**-202.8**	**-110.6**	**-133.1**	**-446.5**	**-158.8**	**-110.9**	**-92.7**	**-362.3**	**-166.3**	**-161.6**	**-210.8**	**-538.7**	**-1725.7**	
Trade balance (% og GDP)	*-25.6*	*-21.6*	-20.7	*-0.8*	*-1.2*	-2.2	-4.2	-2.3	-1.2	-1.5	-5.0	-1.8	-1.2	-1.0	-4.0	-1.9	-1.8	-2.4	-6.0	-19.3	
import (millions of EUR)	-5,061.8	-4,968.4	-5485.0	-365.5	-408.9	-533.6	-1308.1	-498.0	-469.6	-514.0	-1481.7	-505.8	-428.1	-460.1	-1394.0	-535.0	-521.6	-536.5	-1593.2	-5776.9	
export (millions of EUR)	3,113.5	3,211.8	3723.0	291.8	299.1	339.1	929.9	295.2	359.0	380.9	1035.2	347.0	317.3	367.4	1031.7	368.7	360.0	325.8	1054.4	4051.2	
rate of growth of import (y-o-y)	0.2	-2.0	10.4	-2.9	-2.2	19.7	5.5	9.3	-2.0	19.0	8.4	0.9	2.5	-4.5	-0.5	3.0	13.4	8.0	7.9	5.3	
rate of growth of export (y-o-y)	-3.2	2.8	15.9	24.0	6.5	13.7	14.2	0.0	13.4	16.6	10.3	7.9	4.6	2.7	5.0	4.6	5.2	11.3	6.8	8.8	
Foreign Direct Investment (millions of EUR)	**131.1**	**229.4**	**197.4**	**35.4**	**12.0**	**20.6**	**68.0**	**36.5**	**-8.3**	**18.3**	**46.5**	**16.4**	**7.6**	**-18.6**	**5.5**	**56.2**	**-23.7**	**18.1**	**50.7**	**170.7**	
External debt																					
Gross external debt (in milllions of EUR)	5171.7	5219.7	5992.3				6244.7				6345.6										
public sector	2162.1	2172.4	2846.8				3024.9				3059.9										
public sector/GDP (in %)	28.5	26.7	33.4				33.8				34.2										
private sector	3009.5	3047.4	3145.5				3219.8				3285.6										
Gross external debt/GDP (in %)	68.2	64.0	70.3				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**	**2,187.3**		**2,188.0**	**2,203.4**	**2,261.7**		**2,261.7**	**2,246.9**

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

Foreign effective demand
(annual changes in %)



Source: "Cons1ensus Forecast" and NBRM calculations.

The latest estimations for the foreign effective demand for 2015 indicate somewhat more solid recovery than expected in October, i.e. an annual growth of 1.5% compared to the previous estimate of growth of foreign demand by 1.3%...

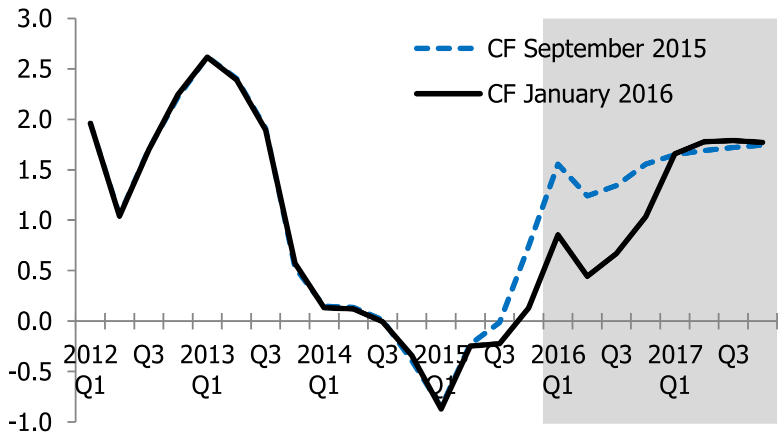
...primarily due to the higher performance and estimates for economic growth of Bulgaria, Croatia and Serbia.

The estimation for 2016 indicates growth of 1.4%, and it remained unchanged compared to October projection...

...while for 2017, some growth acceleration to 1.6% is expected, slightly higher compared to October projection of 1.5%...

...on the backdrop of better expectations for Bulgaria and Serbia growth.

Foreign effective inflation
(annual rates in %)



Source: "Consensus Forecast" and NBRM calculations.

The foreign effective inflation for 2015 shows lower performance of -0.3%, compared with the projection of -0.1% in October...

...with lower performance in the second half of the year in most of the countries, especially in Germany and Serbia.

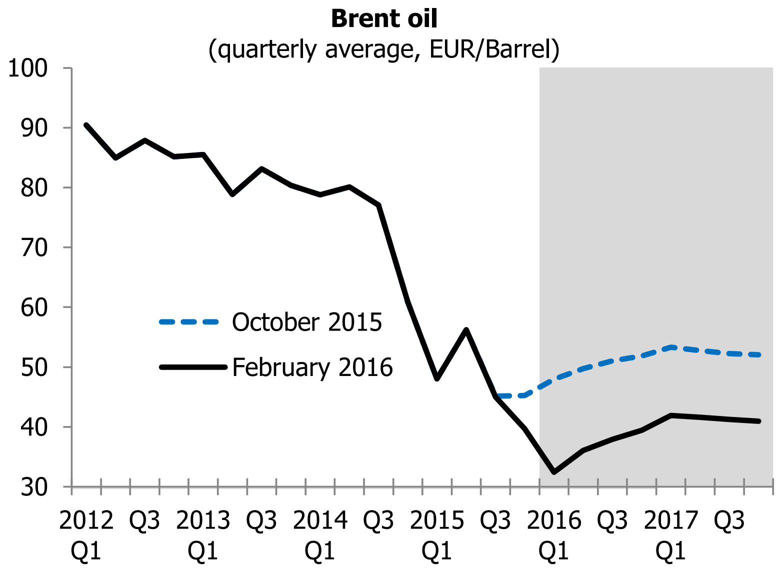
The estimations for 2016 were also revised downwards from 1.4% in October to 0.8%...

...given lower expectations for change in prices in all trade partners.

In contrast, the current estimates for 2017 point to a certain acceleration and an inflation rate of 1.8% ...

... which is a minimal upward correction of 0.1 percentage points relative to October projection...

...mostly due to the higher expectations for Bulgaria and Serbia.



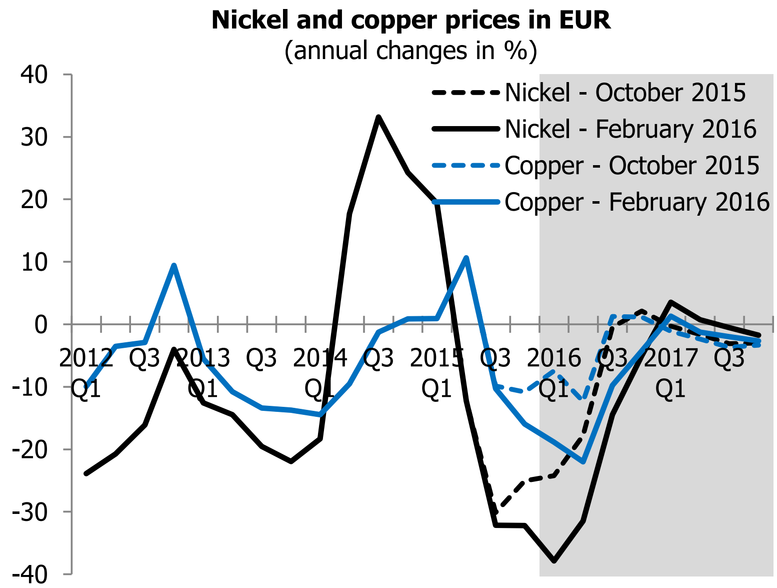
Source: IMF and NBRM calculations.

The expectations for future movement of oil prices for 2016 have been revised downwards, with estimating further reduction, as opposed to the October projection when small increase was envisaged...

...on the backdrop of a glut on the oil market and expectations to maintain this situation for longer periods, and related to the lifting of sanctions against Iran since the beginning of 2016. Low demand and the appreciation of the US dollar also have an effect on the changes in expectations about oil prices.

For 2017, the oil price is expected to increase, at a stronger pace though, compared to the October projection...

...expecting certain market stabilization in conditions of expectations for neutralization of the future increase in Iran output with the reduced US output.



Source: IMF and NBRM calculations.

In 2015, the prices of nickel and copper registered more severe drop than expected in October projection.

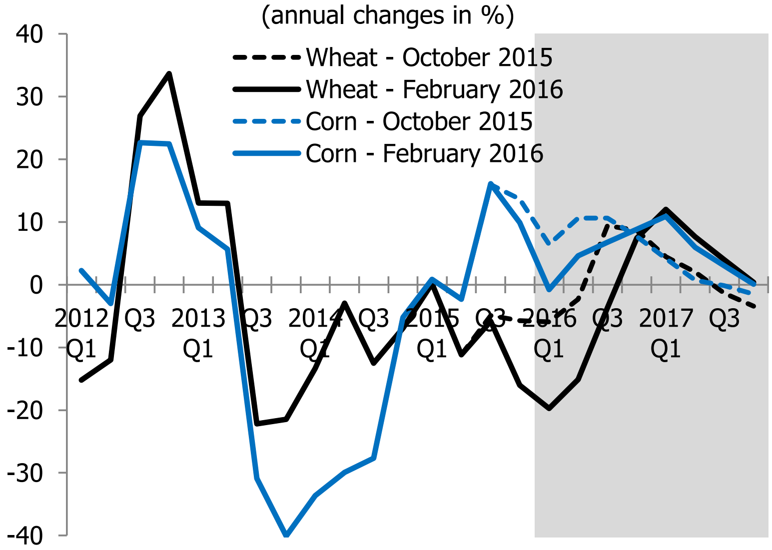
For 2016, deeper decrease on the international markets for non-ferrous metals than anticipated in October is expected...

...in conditions of solid supply and poor demand from China and other developing countries.

On the other hand, in 2017, small upward revisions compared to October projections were made...

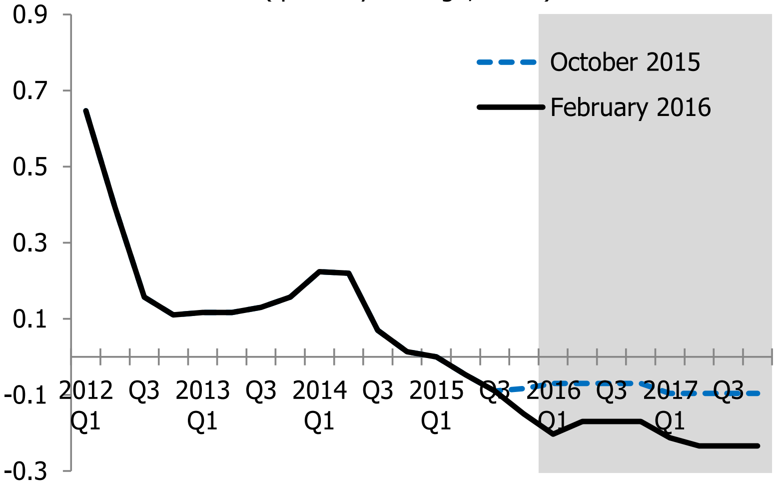
...so it is expected that the price of nickel will register marginal growth, despite the anticipated decline, amid expectation for reducing the supply due to the closure of the production facilities, especially in Australia, while the price of copper is expected to register smaller decline than previously anticipated.

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



Source: IMF and NBRM calculations.

1-month Euribor
(quarterly average, in %)



Source: "Consensus Forecast" and NBRM calculations.

The performance for 2015 show slightly deeper fall in the wheat price[2] and somewhat lower increase in the price of corn in comparison with the October projections.

A downward revision in the prices of primary food products for 2016 was made...

...given the further decrease rather than rise in the price of wheat, amid solid global supply, which is still higher than the demand and favorable winter season...

...and smaller increase in the corn price, in conditions of good supply of inventories on the market.

In contrast, in 2017 it is expected that the prices of wheat and corn will register higher growth compared to the October projection.

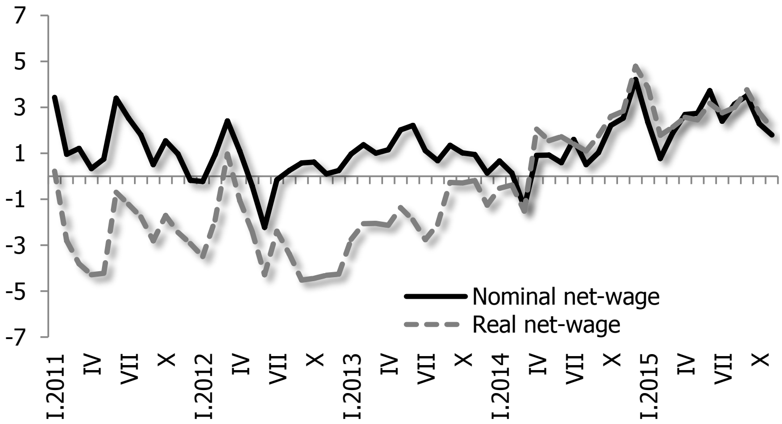
According to the latest performance and estimations of future movement of the one-month EURIBOR, for 2016 and 2017 lower rates relative to the October projection are expected...

... so now EURIBOR is expected to amount to -0.18% and -0.23% on average in 2016 and 2017, respectively, compared to expectations in the October projection of -0.07% and -0.1% respectively...

...owing to expectations of a possible further easing of monetary policy of the ECB in March 2016, amid lower inflation expectations and increased downward risks associated with weaker growth in developing countries, increased volatility on financial and primary goods markets and geopolitical risks.

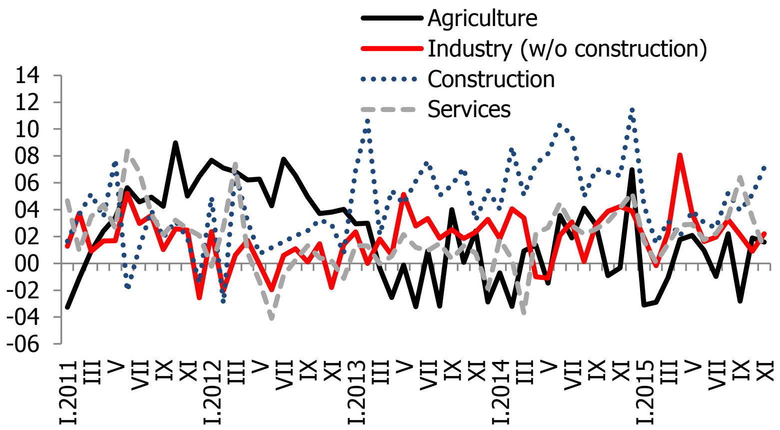
[2] The series of prices of wheat used in the October projection which indicated a decrease of 13.2% in 2015 and a decline of 3.5% in 2016 is no longer published. Due to comparability of prices in January compared to October, the historical data used as a basis for the projection have been revised according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

Average net-wage
(annual changes, in %)



Source: SSO.

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



Source: SSO.

In November 2015, the average net wage registered a nominal annual growth of 1.8%, which is a deceleration (0.5 p.p.) compared to the previous month.

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

...with, in terms of the individual sectors, the highest growth being recorded in so-called other services, while strong wage growth was registered in the "administrative and support service activities", construction, mining, "information and communication", as well as in the manufacturing industry.

Downward adjustment of salaries in November was made in a small number of activities, with the most pronounced decrease in wages in the activities related to real estate.

Amid small decrease in the consumer prices, in November, the **real wages increased by 2.1%.**

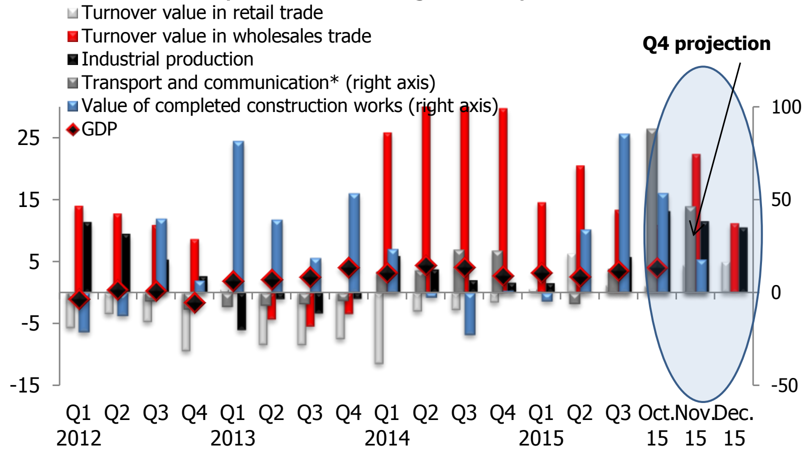
The performance in nominal wages in the first two months of the last quarter (nominal and real annual growth of 2% and 2.4%, respectively) **is generally close to expected for the quarter within the October projection** (expected nominal and real annual growth of 2,5% and 2.6%, respectively).

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

In the last quarter of the year, industrial output registered high average growth of 11.7%, which is fully explained by higher production in manufacturing, while production in mining and energy sectors declined.

Within manufacturing industry, the

Economic activities
(real annual changes, in %)



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

traditional sectors (manufacturing of food products, clothing and drinks) have the highest contribution to growth, as well as the new export-oriented facilities (primarily production of machinery and equipment and motor vehicles).

In the fourth quarter, the annual rise in the trade turnover intensified given the higher turnover in the wholesale, the retail trade, as well as in the trade in motor vehicles.

The data on the **transport sector**, with favorable developments in the rail road transport, the developments in **construction** (double-digit growth in the value of completed construction works) and the growth in the turnover in **catering**[3] also point to support of the economic growth in the fourth quarter.

Available indicators of aggregate demand mainly support the estimates for economic growth in the fourth quarter of 2015, which is consistent with the expectation in the October projection.

Most of the high frequency data point to growth of **private consumption** also in the fourth quarter...

...supported by favorable developments in the main components of disposable income (growth of real wages, pensions, social transfers from the state, higher net private transfers)...

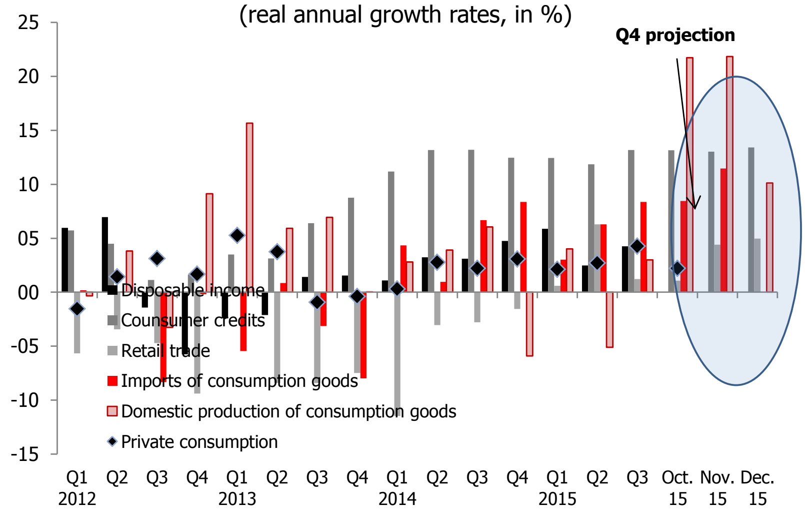
...as well as the credit support provided by banks to households.

The data on the retail trade, the higher domestic production of consumer goods, and the increase in the import of consumer goods also indicate growth of household consumption in this period.

The available short-term data on the **investment activity** proves the estimations about the annual increase in this component in the last quarter of the

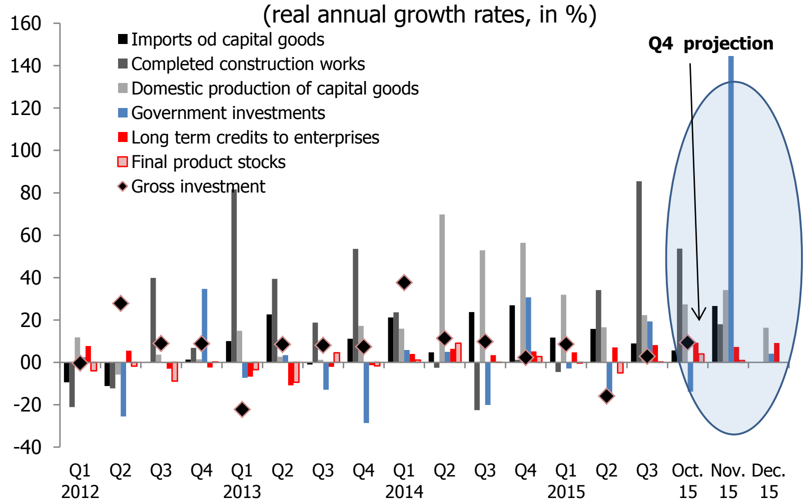
[3] The data on these sectors refer to October - November period.

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



Source: SSO and NBRM calculations.

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



Source: SSO and NBRM calculations.

year.

Both indicative categories for investments in fixed assets, i.e. the completed construction works and the import of machinery and equipment (two-digit increase in both categories) point to this conclusion...

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

Annual growth acceleration was also registered in the government capital expenditures, and after the fall in the previous quarter, positive developments were recorded in inflows based on foreign direct investments.

The data on the domestic production of capital goods also give positive signals about the investment activity.

Regarding the inventories, in the fourth quarter, increase also in this component of the gross investments could be expected, amid upward movement of the index of inventories of finished products in the industry in October - November period.

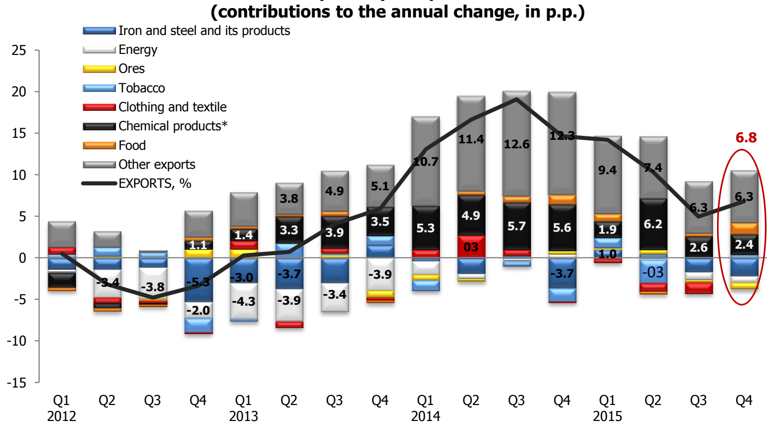
In the fourth quarter of 2015, nominal data on **foreign trade balance** show small increase in deficit as projected in October...

...amid higher growth in import compared to export of goods and services.

In the fourth quarter of 2015, the Budget performances indicate increased **public consumption**, which is in line with the expectations in the October projection ...

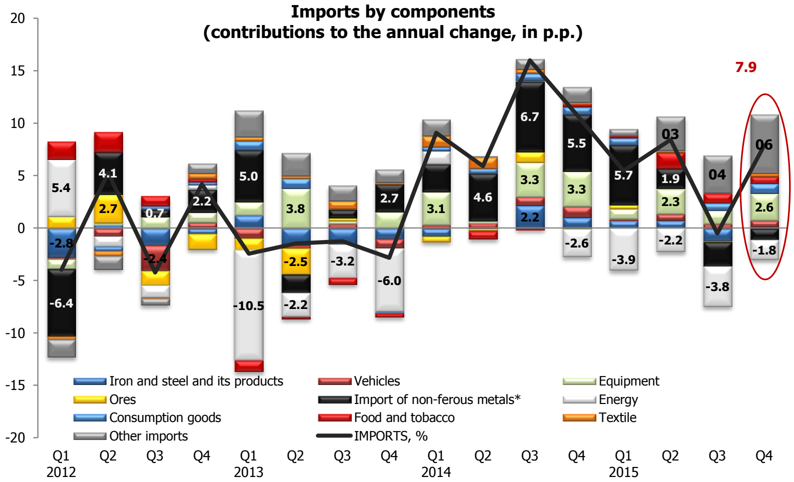
...amid enlarged expenditures for goods and services, as well as higher wage expenses for the employees in the public sector.

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



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

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



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

During the last quarter of 2015, **the foreign trade deficit widened by 10.1% on an annual basis,** as a result of the higher growth in import relative to the growth of export of goods...

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

In the fourth quarter, **the export of goods** registered an annual growth of 6.8%, which was mostly due to the intensified export of new industrial facilities, and less to the export of food...

...contrary to the reduced export activity of metal manufacturing industry.

Compared to the October projection, the exports in the fourth quarter was higher than expected, with significant upward deviation in export performance of new capacities in the economy, as well as in the export of food.

The import of goods in the fourth quarter registered an annual growth rate of 7.9% due to growth in the import of raw materials for the new export capacities, investment import of equipment and machinery and other imports. Additionally, the higher import of consumer goods and food contributed also to the higher imports...

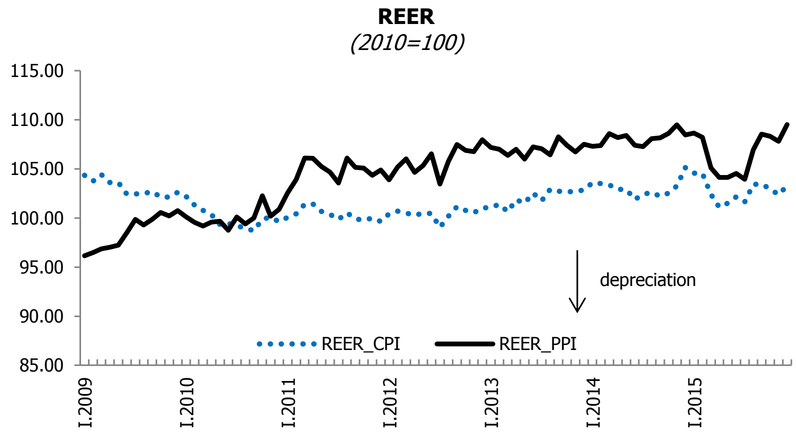
...while the import of energy continues registering an annual drop.

The realized import in the fourth quarter was higher than projected according to the October projection. The largest upward deviation occurs in the export of raw materials for to the new facilities, the import of iron and steel and the investment import of equipment and machinery. On the other hand, the energy imports are lower than expected.

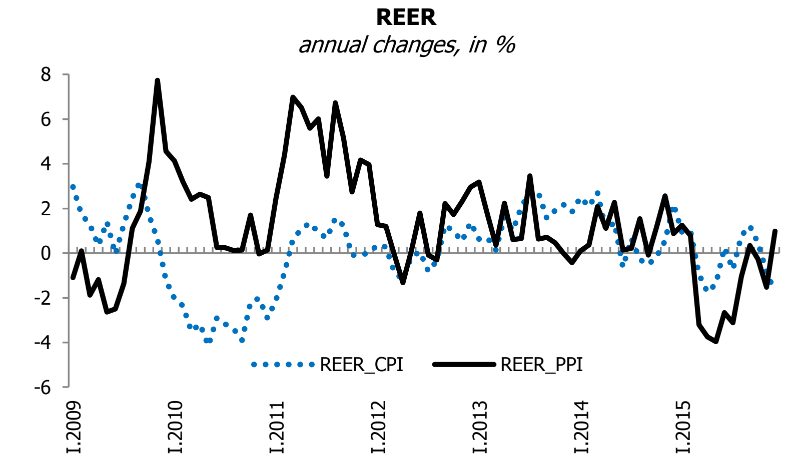
The performance of foreign trade components in the last quarter of 2015, indicates trade deficit higher

than projected for the fourth quarter according to the October projection. However, having in mind the improved performance in the third quarter, on cumulative basis for the entire 2015, the deficit in the trade of goods is in line with the October projection.

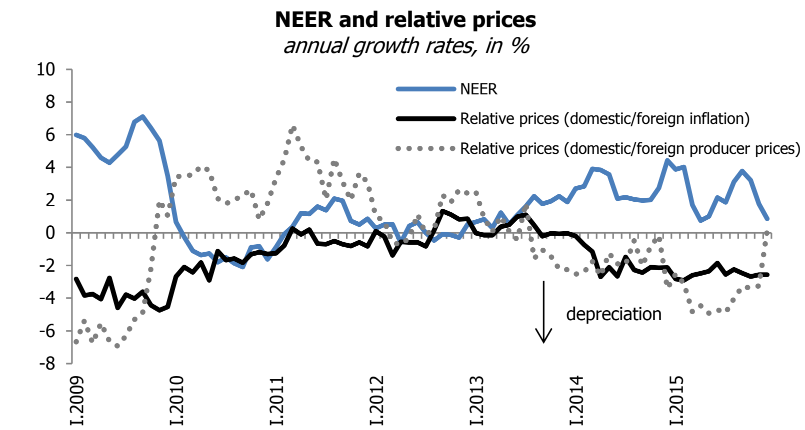
In October, the price competitiveness indicators of the domestic economy registered divergent movements compared to the same period of the preceding year. The REER index deflated by consumer prices depreciated by 1.7% and the REER index calculated by the producer prices registered an annual appreciation of 1%.



Source: NBRM.

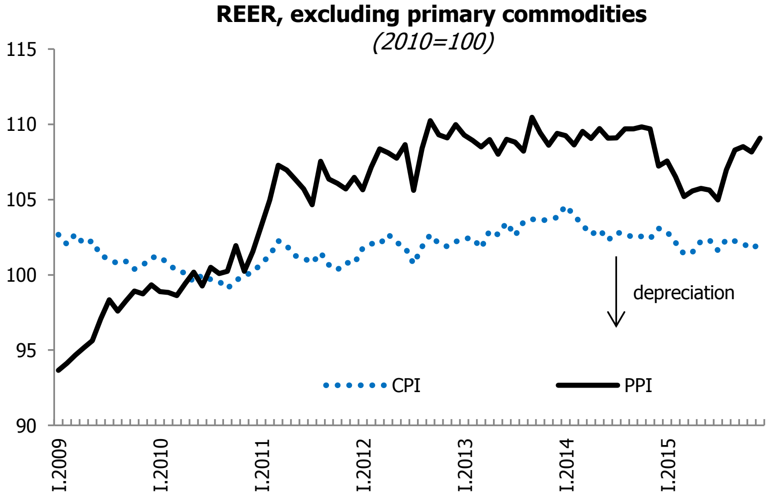


Source: NBRM.



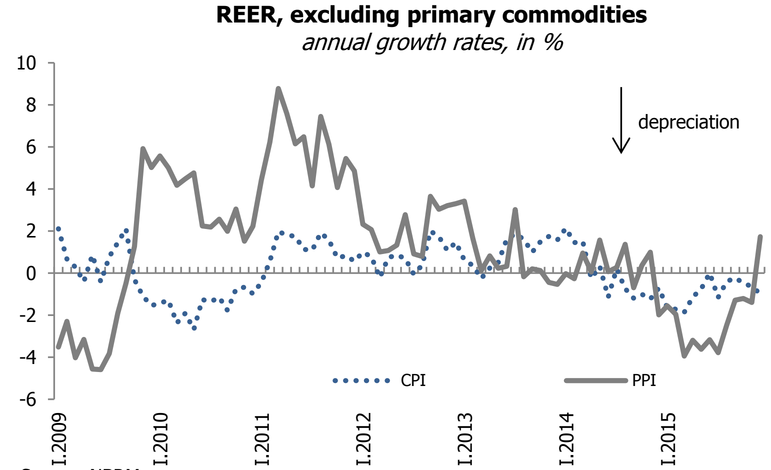
Source: NBRM.

The relative consumer prices registered a significant annual drop of 2.6%, while the relative prices of industrial products registered annual rise of 0.1%. The NEER appreciated by 0.9%, due to the further depreciation of the Russian ruble, the Turkish lira and Ukrainian hryvnia, against the denar.

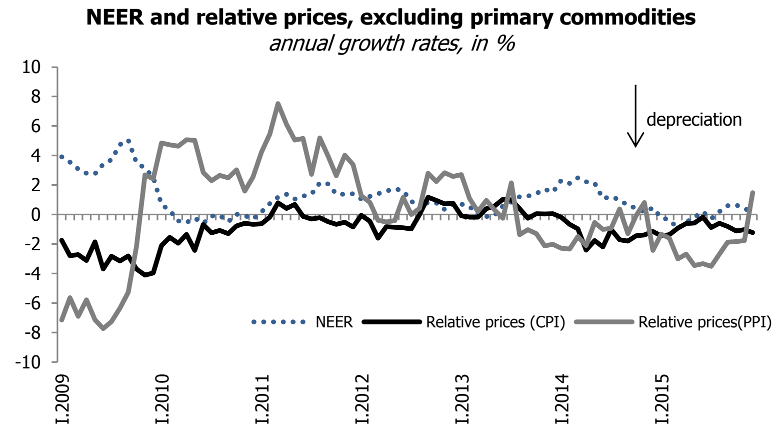


Source: NBRM.

The analysis of movement of the REER indices, calculated by using weights based on the foreign trade without primary products, points to similar movements in the competitiveness of domestic economy.[4] Namely, in December, the REER based on consumer prices depreciated by 1%, while the REER deflated by prices of producers of industrial products appreciated by 1.7%.



Source: NBRM.



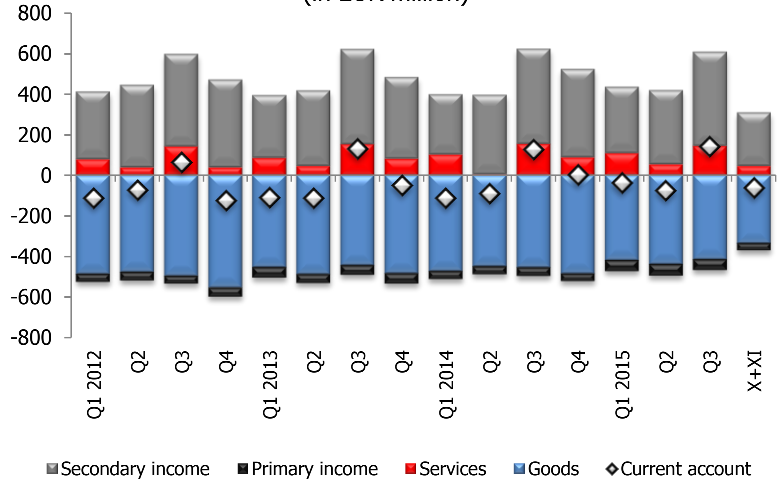
Source: NBRM.

On annual basis, the relative consumer prices fell by 1.2%, while the relative prices of the producers of industrial products increased by 1.5%. The NEER registered a slight appreciation of 0.2%, annually.

In October 2015, the current account registered a deficit of Euro 59.8 million (or 0.7% of GDP), i.e. a somewhat higher

[4] 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.

Main components of the current account
(in EUR million)



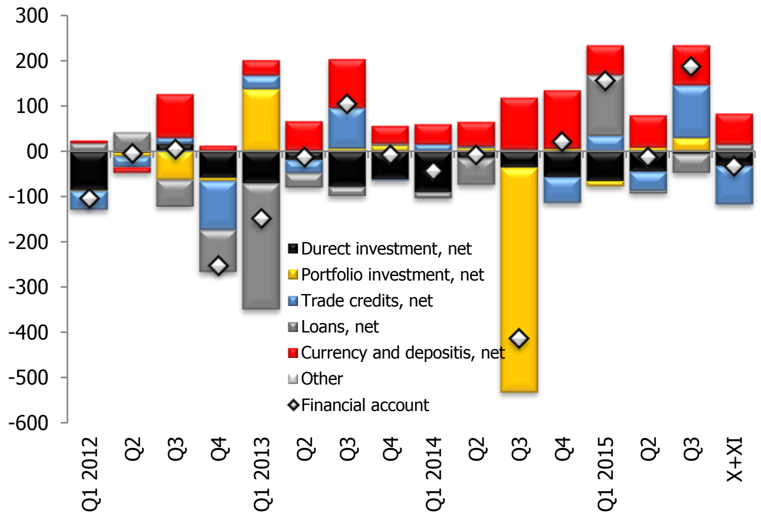
Source: NBRM.

deficit than the total planned for the last quarter, according to the October projection.

In terms of individual components, the weaker performance is mostly due to the significantly lower surplus in the foreign trade of services (higher deficit in other services), while the other components - trade and primary income deficit and secondary income surplus are in line with the projected in October.

Despite such developments in the last quarter, the current account deficit for the entire 2015 is expected to be within the expectations according to the October projection.

Financial account components
(in EUR million)



Source: NBRM.

In October - November 2015 period, the financial account registered net inflows of Euro 32.4 million (or 0.4% of GDP), i.e. lower net inflows than projected in the October projection[5].

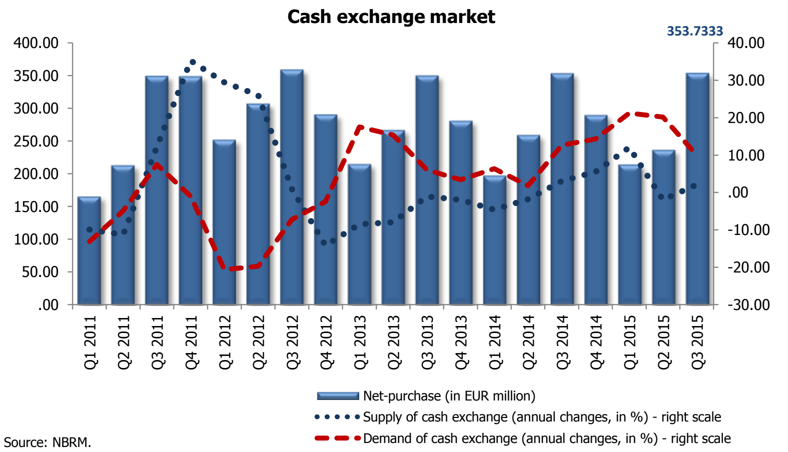
Such deviations registered in these two months, mainly arise from the categories portfolio investments[6] and currencies and deposits of the banking sector.

On a cumulative basis, the net outflows in the financial account are expected to be higher than planned for the entire 2015, according to the October projection, mainly due to weaker performance in direct investments and currencies and deposits of the banking sector.

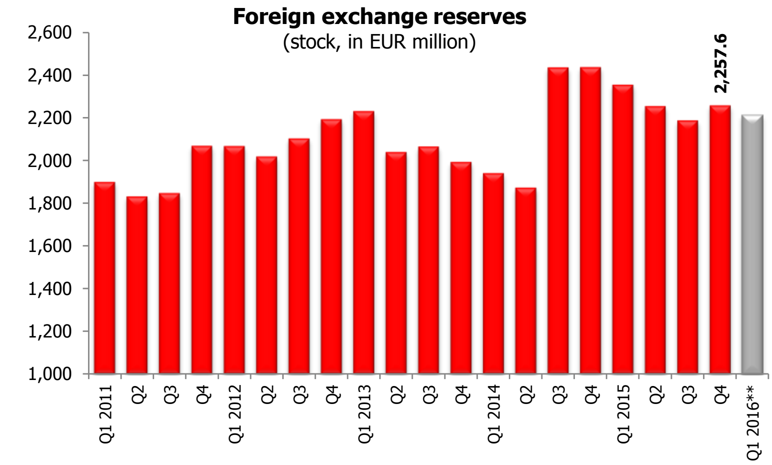
As of 31 January 2016, recent data on the currency exchange operations, indicate lower supply of and demand

[5] 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.

[6] Divergence in portfolio investment in the last quarter due to the issue of the fourth Eurobond, which was issued in the last month of 2015, but in a lesser amount than projected.



Source: NBRM.



Source: NBRM.

for foreign currency.

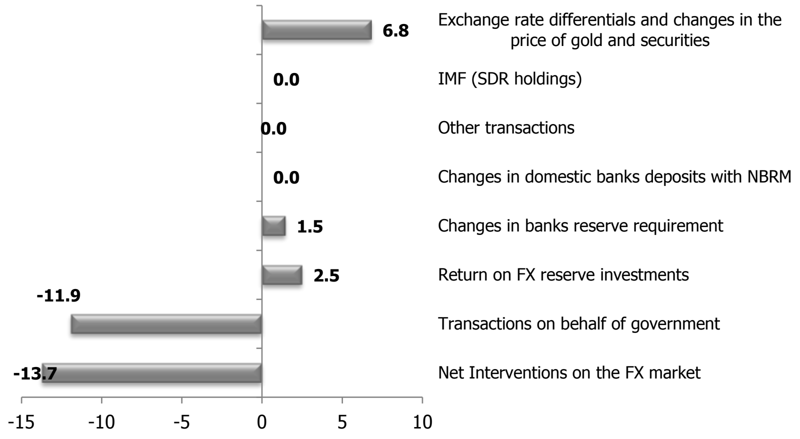
In the period 1 January – 31 January 2016, net amount of Euro 57.5 million was purchased at the foreign exchange market, which is a decrease of 30.0%.[7].

The latest information from the currency exchange market for now indicate slightly lower performance than expected in the private transfers in the first quarter of 2016, as projected in October. It should be noted that the analyzed period is very short to make more precise conclusions.

As of 31 January 2016, the gross foreign reserves equaled Euro 2,246.9 million, down by Euro 14.8 million compared to the end of 2015. The reduction in foreign reserves is due to the NBRM interventions on the foreign exchange market and transactions on behalf of the government, amid increase in the market value of reserves, as a result of calculated negative price and currency differentials.

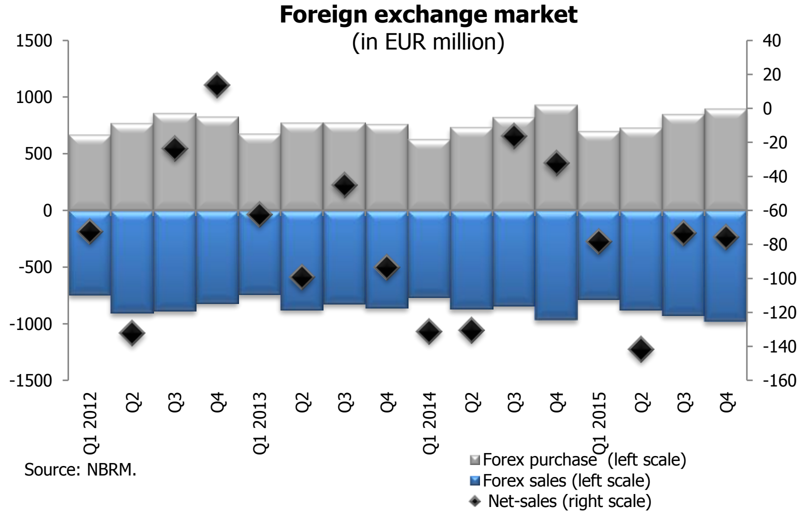
[7] High annual decrease in net purchase stems from the high comparison basis, i.e. in January 2015, increased purchase of Swiss francs at the currency exchange market was registered as a result of leaving the target for the exchange rate by the Central Bank of Switzerland and the strong appreciation to mid-January.

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)



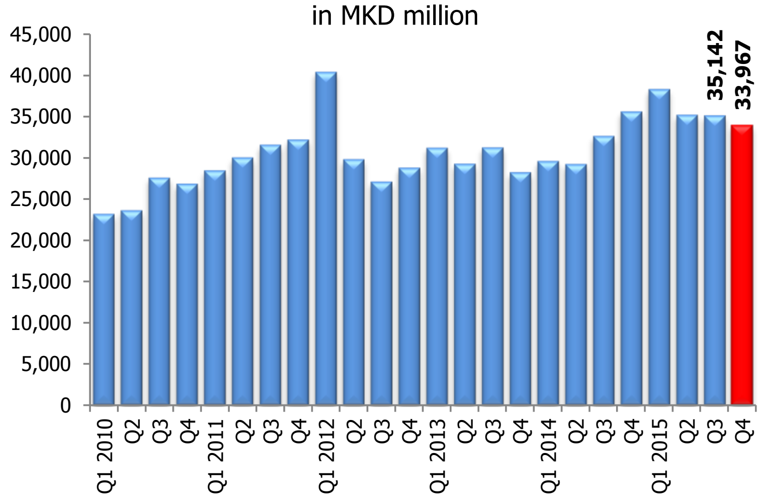
Source: NBRM.

In January 2016, on the banks' **foreign exchange market,** a net sale of Euro 25.8 million was registered, which is an increase of Euro 20.8 million on an annual basis. This annual change is a result of the decrease in the supply of foreign currency of 4.9%, amid growth in the demand for foreign currency of 4%.

Sectoral analysis shows that such performance, mostly arise from the lower net purchase by the exchange offices, while the net sales of foreign currency of the corporate sector in this period reduced.

At the end of the fourth quarter, the stock of the monetary instruments decreased on a quarterly basis, as opposed to the estimations for growth according to the October projections. Thus, in this quarter, the liquidity was created through the monetary instruments, contrary to expectations of liquidity withdrawal.

Monetary policy instruments
in MKD million



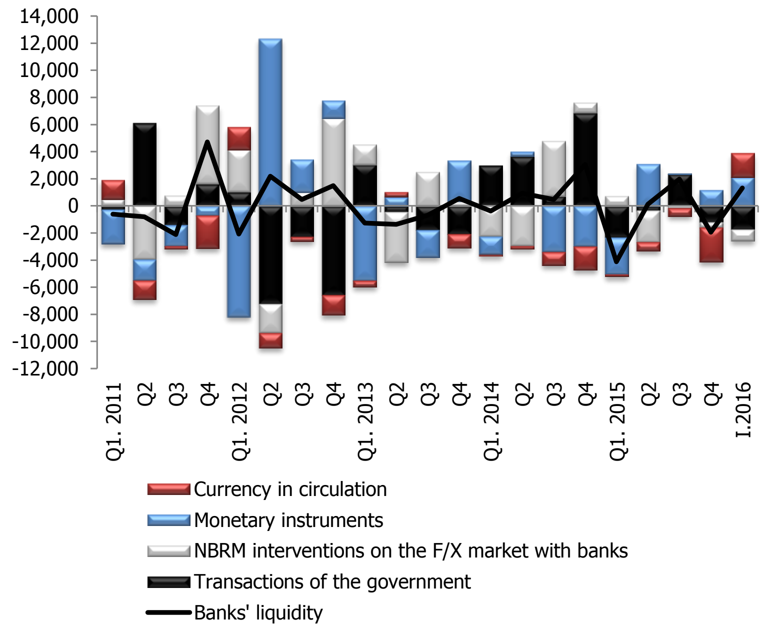
Source: NBRM.

The analysis of the flows of creating and withdrawing liquidity from the on-balance sheet perspective, shows growth of net foreign assets of the NBRM in the last quarter of the year, but less intensive than expected. The growth was mostly due to net government borrowing abroad, with the new borrowing being realized in a smaller amount than anticipated in October. In the fourth quarter of the year, the total government deposits registered an increase which does not deviate significantly from the projection.

In the last quarter, the reserve money increased on a quarterly basis as a result of increased demand for cash. At the end of the year, the level of the reserve money is within the projection.

Taking into account such changes of certain on-balance sheet components and their deviations relative to the projection, the lower than expected level of monetary instruments, observed from the viewpoint of balance sheet, is explained by variance in net foreign assets.

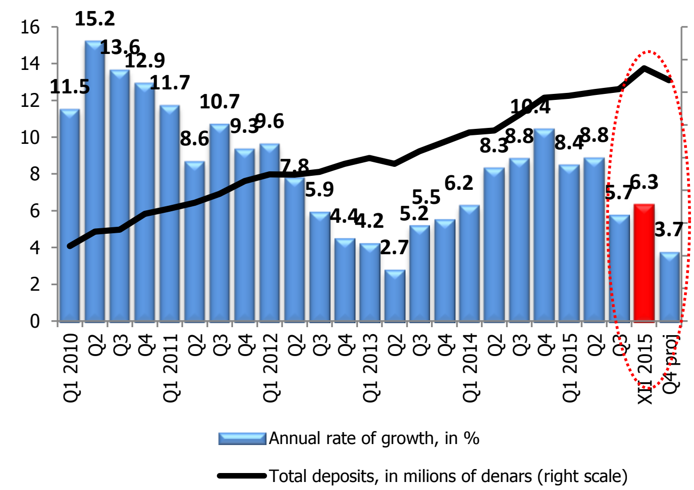
Flows of creating and withdrawing liquidity *
(quarterly changes, in millions of denars)



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

In January, according to operational data on liquidity flows, the liquidity of the banks registered moderate monthly decrease. The government denar deposits had dominant contribution to the reduced liquidity. On the other hand, the seasonal decrease in the currency in circulation influenced towards liquidity growth. On the foreign exchange market, given the relatively low foreign currency position of the banks, the NBRM intervened together with the market makers by selling foreign currency. Thus the autonomous factors acted towards decrease in the banks' liquidity. In such circumstances, and having in mind the higher supply of short-term government securities with higher interest rates, the banks lowered the amount of placed liquid assets with the NBRM.

Total deposits

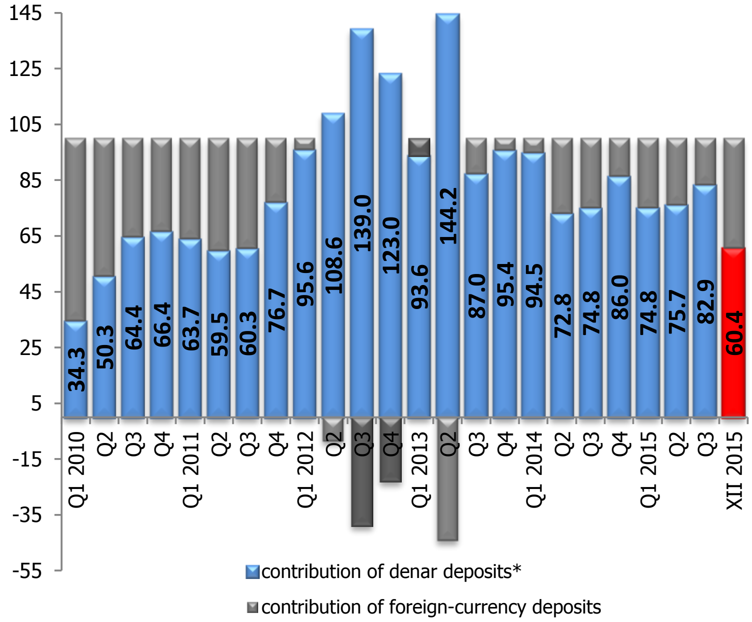


*Includes demand deposits
Source: NBRM.

In December, significant acceleration in the monthly growth in the total deposits was registered. The increase in the total deposit base arises from the increased deposits of both, corporate sector and households. In both sectors, the deposit groth in December explains large part of the total increase in 2015.

The annual growth rate of total deposits at the end of December equaled 6.3%, and it is substantially above the projection for the fourth quarter of 2015 (projected annual growth of 3.7%). Quarterly, the total deposits increased by Denar 12,841 million, which is over the projected growth for the fourth quarter (Denar 5,444 million), according to the October projection.

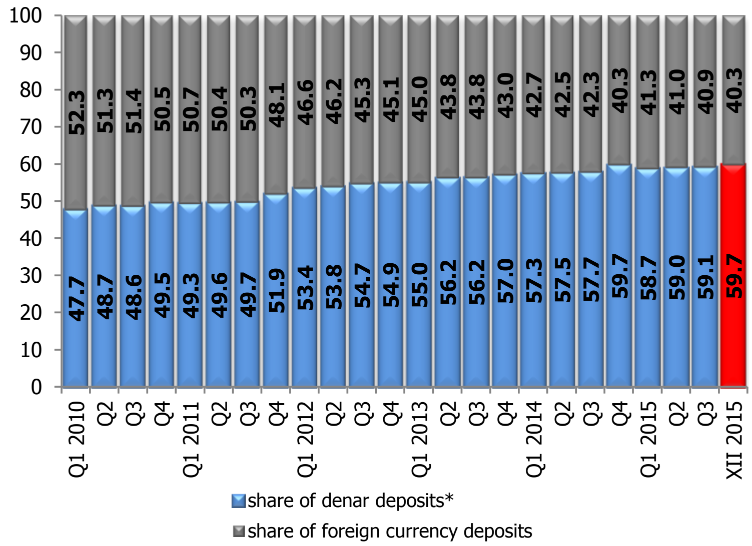
Contribution of denar and foreign currency deposits to the annual growth of total deposits
(in %)



*includes Denar deposits with FX clause.
Source:NBRM.
*Includes demand deposits.

From the viewpoint of the currency structure, most of the annual increase in the total deposits is driven by the increase in the denar deposits, given the positive contribution of foreign currency deposits, as well. The foreign currency deposits for the third consecutive month, register larger contribution in the annual increase of the total deposits.

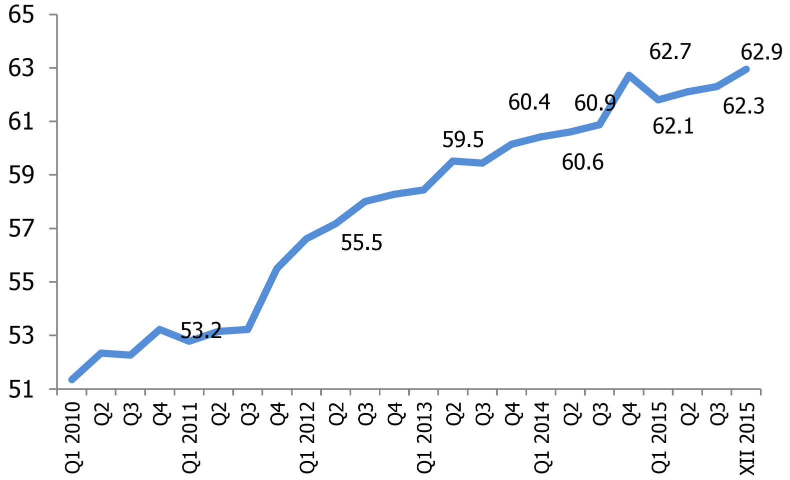
Share of denar and foreign currency deposits in total deposits
(in %)



*includes Denar deposits with FX clause.
Source:NBRM.
*Includes demand deposits.

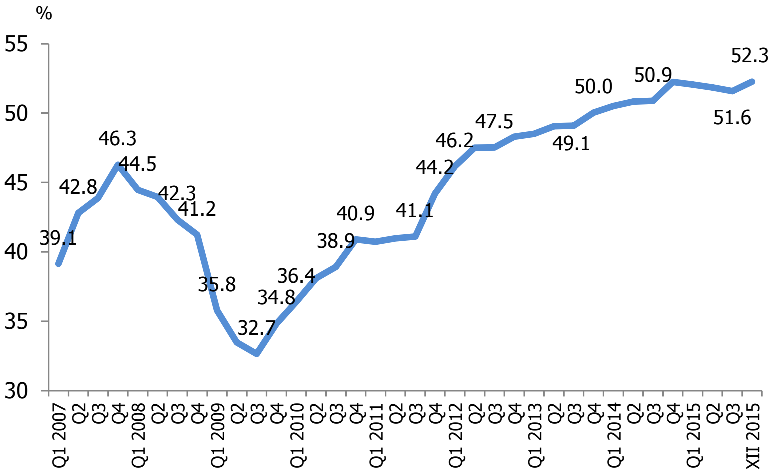
The denar deposits continue to account for the largest share in the deposit base and their share registers slight increase compared to the previous quarter.

Share of denar M4 in total M4
(in %)



Source: NBRM.

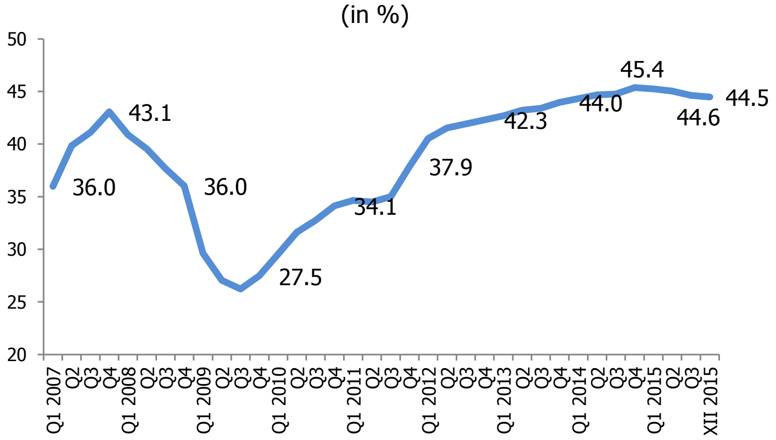
Share of denar deposits in total household deposits
(in %)



Source: NBRM.
*Includes demand deposits.

Total household deposits continued increasing in December on a monthly basis, at a faster pace compared to the previous month. The monthly growth was almost entirely driven by increased deposits in local currency, primarily due to deposit growth. Foreign currency deposits registered small increase. As a result of these developments, the share of foreign currency deposits in December recorded moderate decrease.

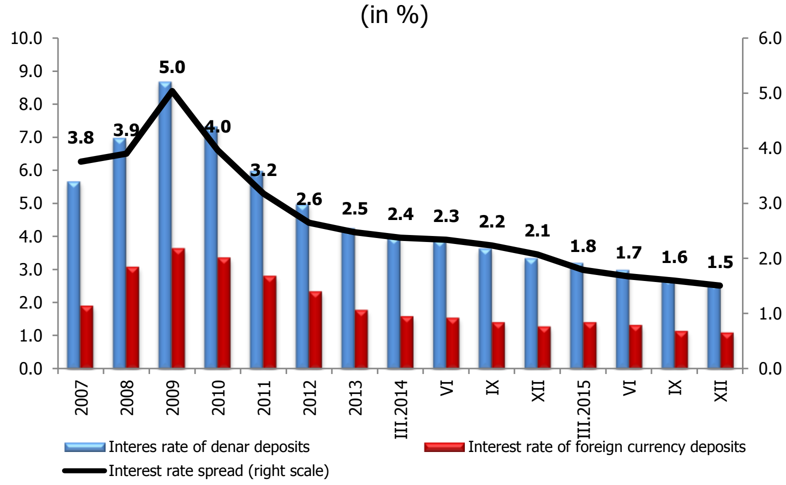
Share of denar deposits in total household deposits
(in %)



Source: NBRM.
*Without demand deposits.

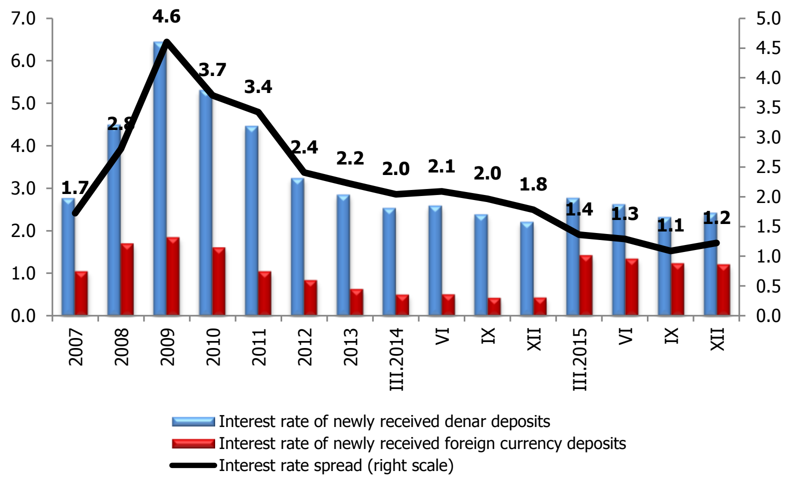
Total household deposits (excluding demand deposits) registered moderate growth on a monthly basis, which is almost equally driven by the growth of deposits in both domestic and foreign currency.

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



Source: NBRM.

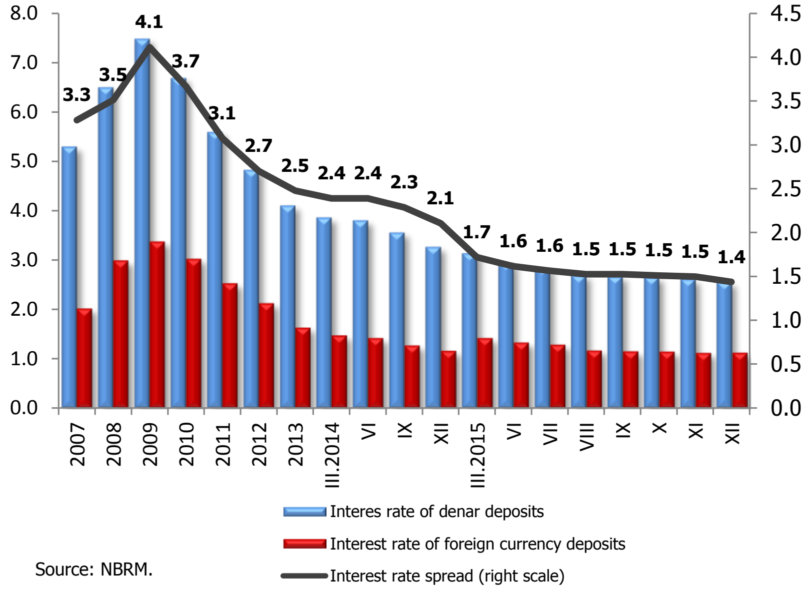
Interest rates on newly accepted denar and foreign currency deposits
(in %)



Source: NBRM.

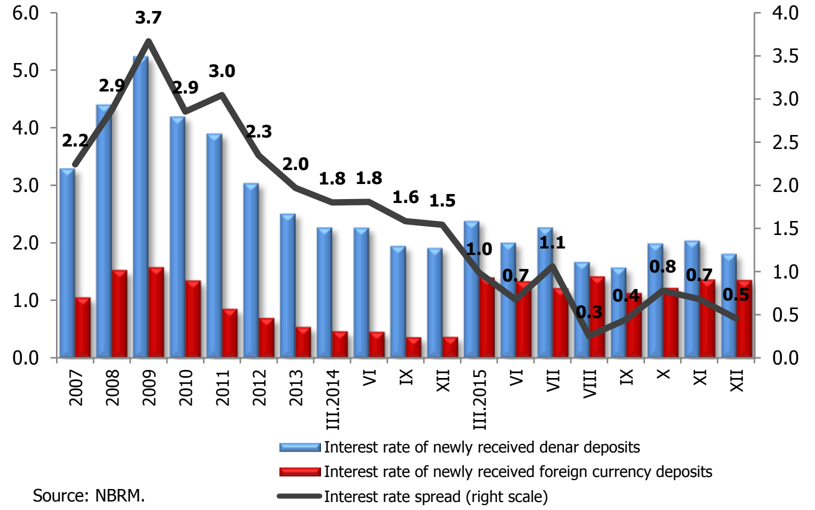
In December, the interest rate spread between the household denar and foreign currency interest rates decreased by 0.1 p.p. compared to the previous month, due to minimum reduction of the interest rate on the denar deposits. Regarding the newly accepted household deposits, there was a slight increase in the interest rate spread as a result of the increase in the interest rates on denar deposits.

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



Source: NBRM.

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



Source: NBRM.

In December, the interest rate spread with the total and newly accepted denar and foreign currency deposits[8] reduced compared to the previous month, as a result of the minimal decrease in the interest rate on the denar deposits. However, regarding the interest on the newly accepted deposits it should be taken into consideration that they are volatile[9], which can result in frequent and temporary adjustments of the interest spread.

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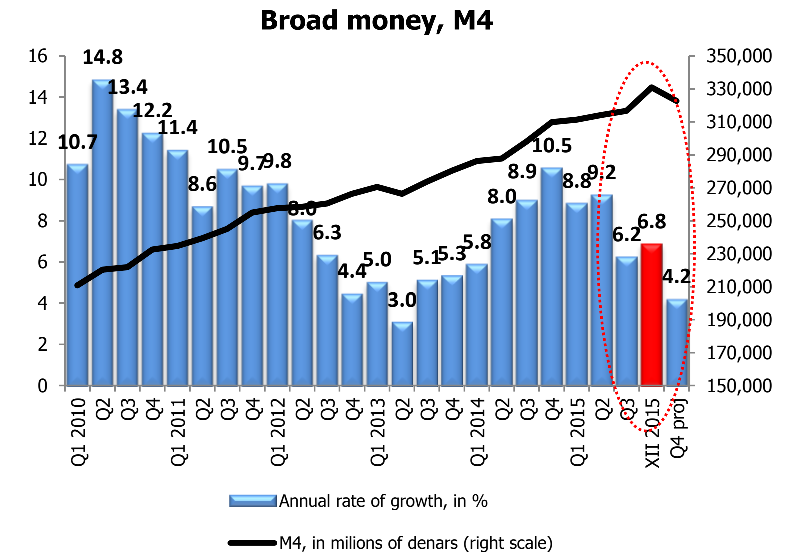
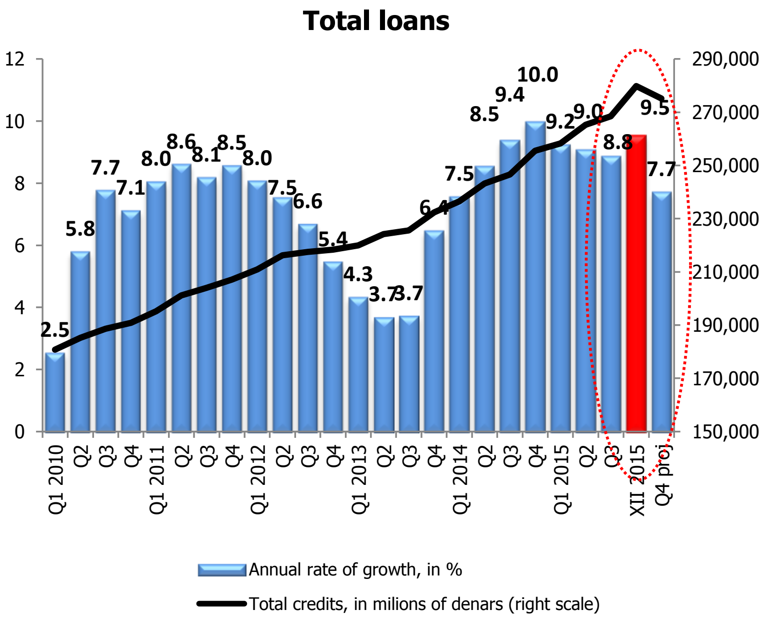
[8] As of January 2015, interest rate data of banks and savings houses have been collected under the new interest rate methodology, while data for the previous period were collected under the old methodology. For more detailed information see http://www.nbrm.mk/default.asp?ItemID=29C1C73ED1A4B745B70EE9C3E423029A

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



Source: NBRM.

In December, the broad money increased on a monthly basis, with significantly higher intensity compared to the previous month. The registered growth is mostly explained by the larger widening of the deposit base, given the small monthly growth of currency in circulation, as well. On annual basis, the money supply increased by 6.8%, which is over the projected rise of 4.2% for the fourth quarter of 2015. Compared to the end of the third quarter, the money supply is higher by Denar 14,333 million, i.e. substantially over the projected growth for the fourth quarter (of Denar 6,087 million).



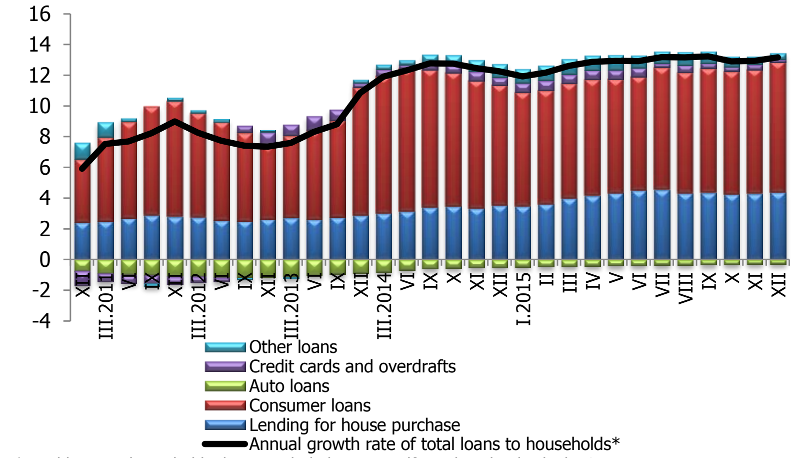
Source: NBRM.

Total loans continued to grow also in December, at an accelerated pace compared to the previous month. Most of the loans in December were extended to the corporate sector, with further moderate growth of loans to households.

At the end of December, the annual growth rate of total loans equaled 9.5%, which is beyond the annual growth of 7.7% projected for the last quarter of 2015. Compared to September, the total loans registered a growth of Denar 11,402 million, which exceeds the projected growth for the fourth quarter (of Denar 6,727 million) according to October projection.

Loans of banks and savings houses extended to households

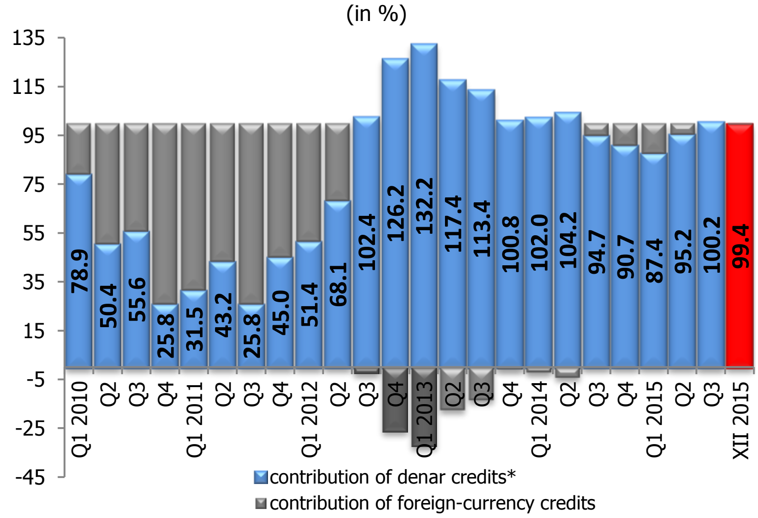
(contribution to the annual change of loans to households*, in percentage points)



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

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

(in %)

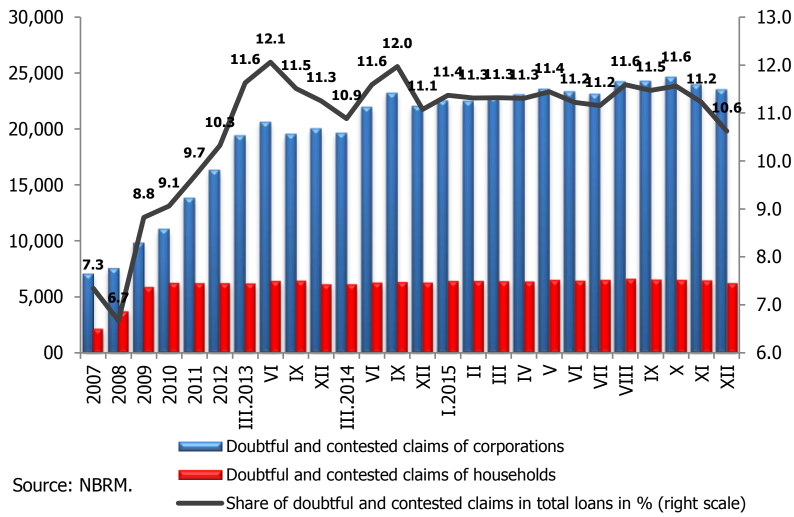


*includes Denar credits with FX clause.
Source:NBRM.

The realized annual growth of total loans almost fully stems from increased denar loans. Foreign currency loans registered a small rise on an annual basis. By sectors, the contribution of household loans in the annual growth dropped from 67.2% in November to 56.6% in December, while the contribution of loans to the corporate sector has increased from 32.7% to 43.1%.

Share of doubtful and contested claims in total loans

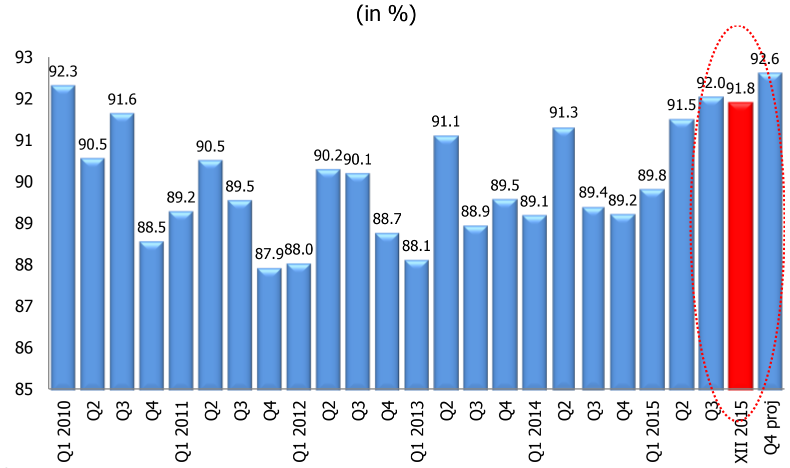
(in %)



Source: NBRM.

In December, the share of doubtful and contested claims in the total loans recorded a decrease compared to the previous month and amounted to 10.6%, solely driven by the decrease in doubtful and contested claims of the corporate sector, with a moderate decline in households, as well. On an annual basis, the total non-performing loans further increased, with moderately stronger intensity compared to the preceding month.

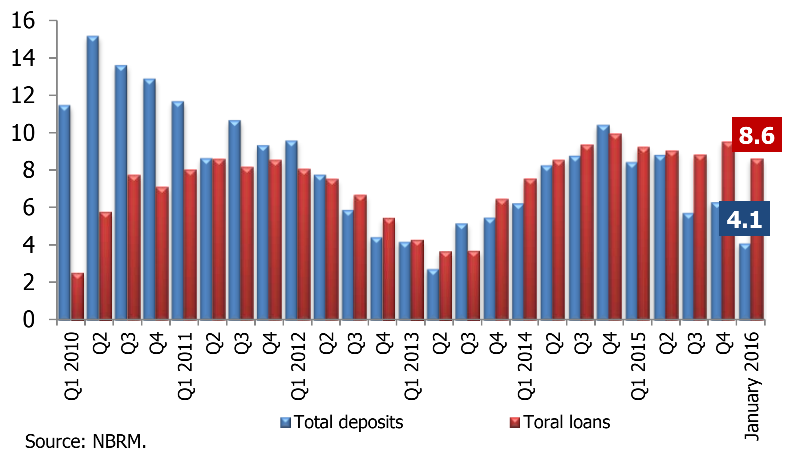
Loan-deposit ratio, in
(in %)



Source: NBRM.

The utilization of the deposit potential for lending to the private sector in December slightly decreased 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.

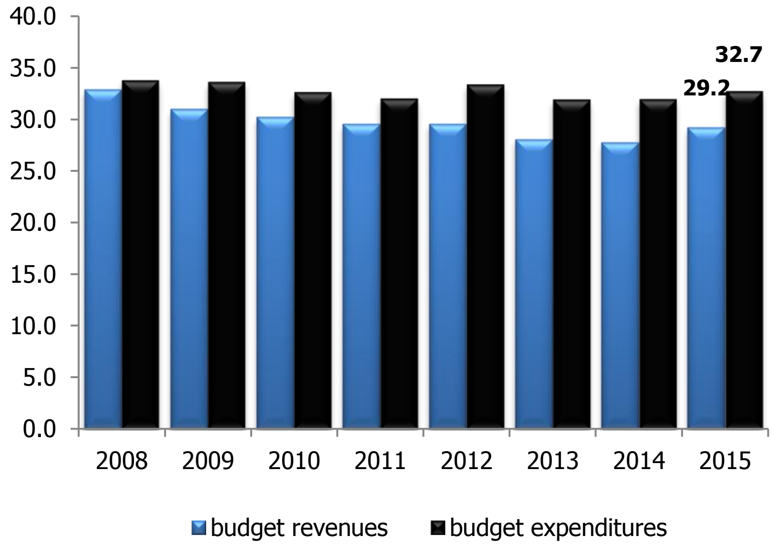
Total loans and deposits
(in %)



Source: NBRM.

According to the preliminary 10-day data as of January 2016, the total deposits registered monthly decrease, compared to the intensive growth in the previous month (from 2.7% in December to -1.6% in January). The decrease in the total deposits was largely due to the decrease in corporate deposits (with a share of 94.3% in the monthly fall in total deposits), with a simultaneous decrease in household deposits. The decrease in corporate deposits was mostly due to the deposits in domestic currency, which explain about 66% of the monthly decline. Regarding the credit market, the preliminary data as of January indicate reduced credit activity. Namely, the total loans in January registered monthly drop of 1.3%, compared to the increase of 3.3% in the previous month. Analyzed by sectors, the monthly decline in loans results from the reduced lending to the corporate sector, which is not unusual for the first month of the year, and suggests possible temporary character of these movements. The household loans continued to grow on a monthly basis, with moderately lower intensity compared to December. **On annual basis, the total deposits and loans in January 2016 went up by 4.1% and 8.6%, respectively.**

Budget revenues and expenditures
(in % of GDP)

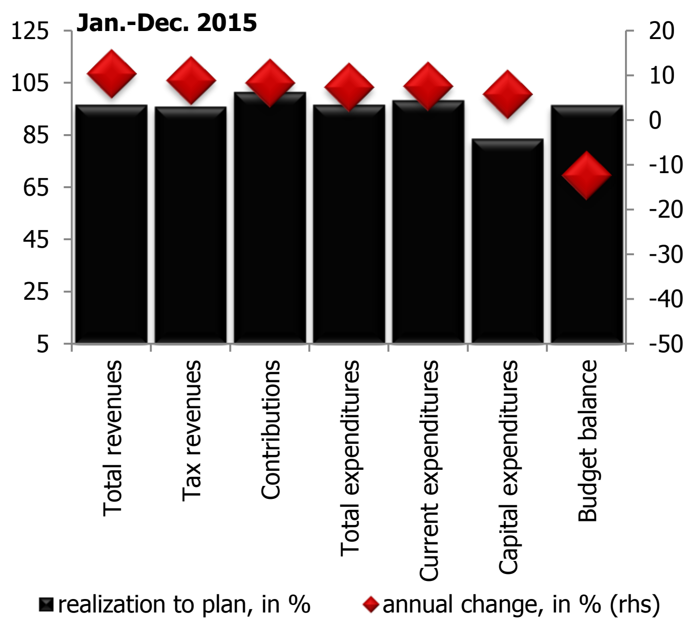


Source: Ministry of Finance and NBRM's calculations.

The total budget revenues realized during 2015 in the Budget of the Republic of Macedonia (central budget and budgets of funds) increased by 10.5% compared to the performance in the previous year and amounted to 29.2% of GDP[10] (from 27.8% in 2014). The improved performance in this period mostly arises from the higher realization in taxes, and to lesser extent, from the contributions. Analyzed by individual tax categories, the increase is dominantly driven by the higher performance in the profit tax. Moreover, there is an annual growth of inflows from excise duties and from income tax, while inflows from VAT registered an annual decline.

Total budget expenditures in 2015 amounted to 32.7% of GDP (from 32% in 2014) and increased by 7.5% compared with the realized budget expenditures in the previous year. The higher realizations stem from the simultaneous increase in current expenses and capital costs.

Implementation of the budget (central budget and funds)

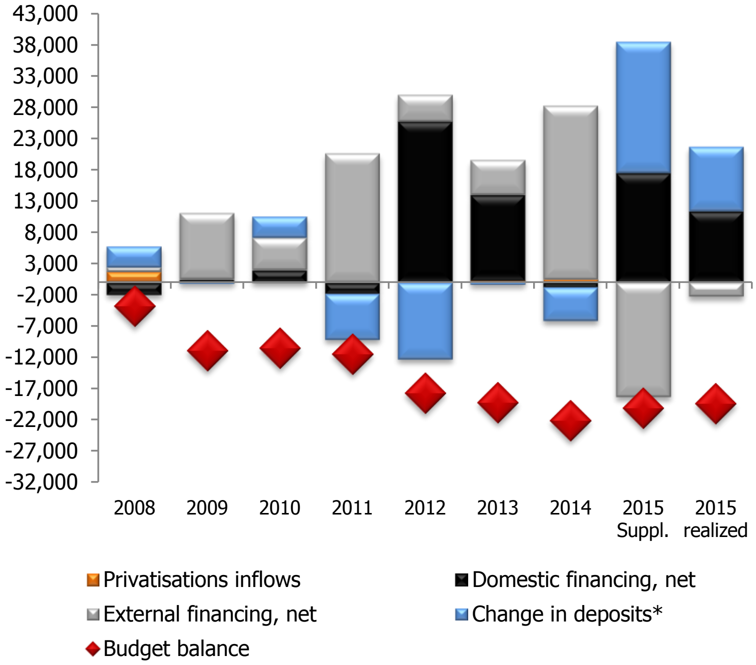


* With respect to the Supplementary Budget for 2015
Source: Ministry of Finance and NBRM's calculations.

The realized revenues and expenditures constitute 96.6% of the revenues and expenditures projected for the entire 2015, respectively, under the Budget Revision for 2015[11]. Analyzed by individual category, the highest realization was recorded in inflows based on profit tax and excises, that outperformed the plan for the year by 16.3% and 3.5%, respectively, followed by inflows based on personal income tax and VAT (execution of 97.7%). Observing individual categories of expenditures, in 2015, there is a higher execution of current expenditures (98.3%) compared to capital costs (84%).

[10] The analysis uses the NBRM October projections for the nominal GDP for 2015.
[11] In August 2015, the Parliament of the Republic of Macedonia passed the Budget Revision for 2015.

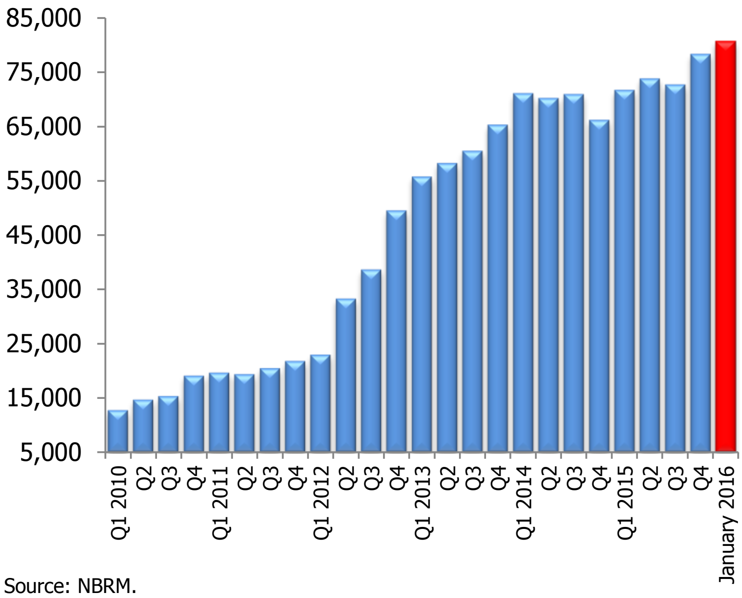
Financing of the budget balance
(in millions of denars)



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

According to the latest available data, in December, the Budget of the Republic of Macedonia registered deficit of Denar 3,272 million. The deficit was financed by government borrowing on the foreign capital market by issuing the fourth Eurobond and additional net issuance of government securities. In addition, part of the inflows based on the Eurobond were accumulated in form of deposits on the government account with the NBRM. On a cumulative basis, for the entire 2015, the budget deficit amounted to Denar 19,425 million (or 3.5% of GDP[12]), representing 96.5% of the projected budget deficit for 2015, according to the Budget Revision. In terms of its financing, the realized budget deficit was financed through the government borrowing on the foreign and domestic capital market, with a simultaneous withdrawal of funds from the account with the NBRM.

Stock of total government securities
(in millions of denars)

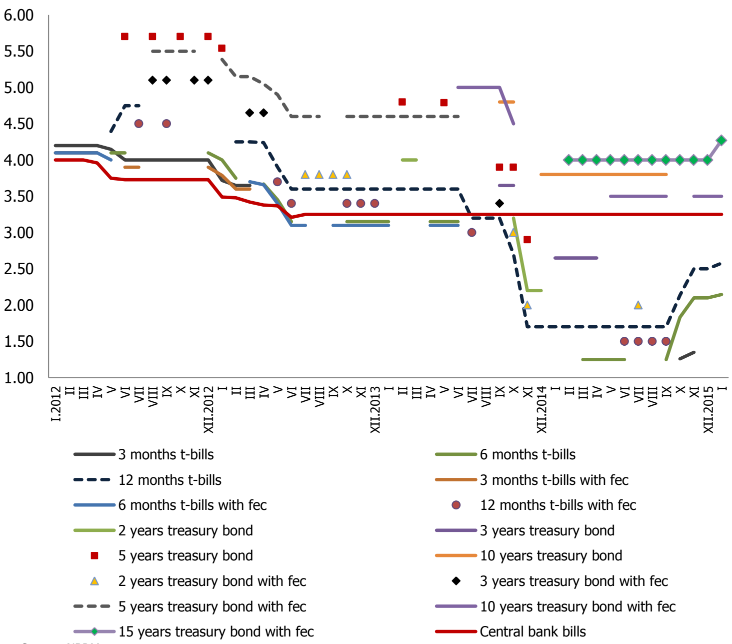


Source: NBRM.

The stock of government securities on the domestic market amounted to Denar 80,684 million at the end of January, and compared to the previous month, it s higher by Denar 2,350 million.

[12] According to the latest NBRM projection for the nominal GDP.

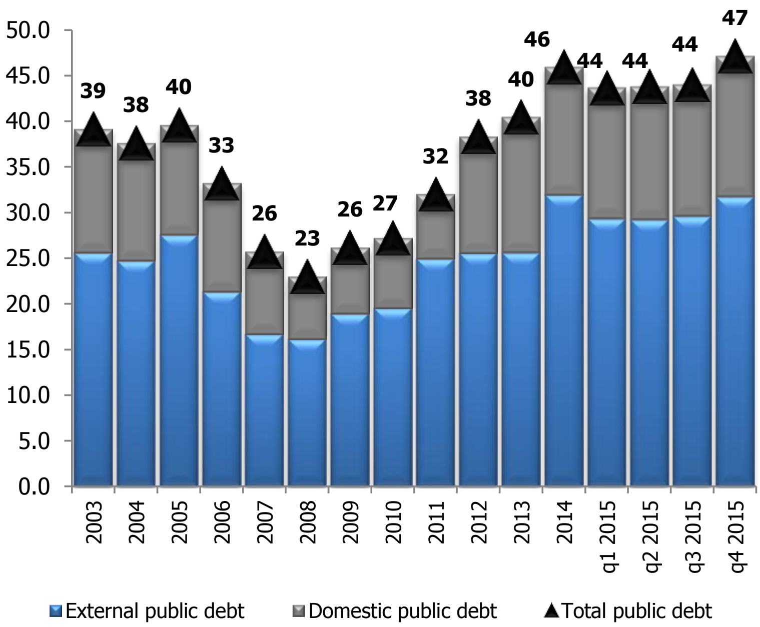
Interest rates on government securities and CB bills
(in %)



Source: NBRM.

The interest rates on government securities offered at the auctions held in January amounted to 2.14% and 2.58% for 6-month and 12-month treasury bills without foreign currency clause, respectively, while the interest rates on the government bonds equaled 3.5% and 4.27% for 10-year and 15-year government bonds with foreign currency clause, respectively. Interest rates on almost all government securities issued in January (except the 10-year government bonds with foreign currency clause) are higher compared to the interest rates in previous auctions, when they equaled 2.1%, 2.5% and 4%, respectively[13].

Public debt
(in % of GDP)



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

According to last available data, on 31 December 2015 the total public debt[14] is higher by 3.2 p.p. of GDP relative to the end of the third quarter and equals 47.2% of GDP[15]. The analysis of its components suggests that the growth is largely due to the increase in the external debt, amid moderate growth of domestic debt. At the end of the year, the share of external and domestic debt in GDP was 31.8% and 15.4%, respectively, which is an increase of 2.1 p.p and 1 p.p., respectively, compared to the balance at the end of September. At the end of December, the total government debt[16] is higher by 2.4 p.p. in comparison with the level registered in the previous quarter and it equals 38.5% of GDP, while the debt of the public enterprises[17] equals 8.6% of GDP (7.9% at the end of the third quarter).

[13] The interest rates on treasury bills and bonds in January represent weighted interest rate under the offered amounts and the adequate interest rates. Thus, at the auctions 6-month treasury bills without foreign currency clause and interest rate of 2.1% and 2.3%, 12-month treasury bills without foreign currency clause and interest rate of 2.5% and 2.6% and 15-year treasury bills without foreign currency clause and interest rate of 4% and 4.3% were offered.
[14] 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 wholly 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.
[15] The calculation uses the October projection of the NBRM for the nominal GDP for 2015.
[16] Government debt is defined as a sum of debts of the central and the local government.
[17] 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 NBRM monetary instruments and selected supervisory decisions adopted in the period 2013 - 2015

January 2013

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

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

March 2013

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

July 2013

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

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

October 2013

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

November 2013

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

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

February 2014

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

April 2014

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

September 2014

- In order to further channel banks' excess liquidity to the non-financial sector, in September the NBRM revised the mechanism for transfer of the demand for CB bills, which is above the banks' potential into another instrument, i.e. seven-day standing deposit facility. According to these changes, for the seven-day standing deposit facility that banks are obliged to allocate if on the CB bills auctions they demand an amount higher than the potential[18], 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

[18]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).

to provide further support to the two systemically important sectors of the economy. The current implementation of this measure has generated positive effects on the dynamics of lending and thus the overall economic growth, contributing to a reduction of the cost of funding of companies from both sectors, although with lower intensity than the potential. In such circumstances, and given the data that indicate some uncertainty about the pace of lending to the corporate sector in the next period, this Decision envisages continued application of this non-standard measure until 31 December 2015.

October 2014

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

March 2015

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

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

April 2015

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

June 2015

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

August, 2015

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

December 2015

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

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

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

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