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

# Recent Macroeconomic Indicators
# Review of the Current Situation

January 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 - December 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 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 continues to be assessed as unsatisfactory, amid increased uncertainty and pronounced geopolitical risks.** Regarding the economic position of the euro area, after the 0.3% quarterly GDP growth rate in the third quarter of 2015 (1.6% annually), most high frequency indicators point to minor acceleration of the growth rate in the last quarter of the year. This mostly refers to surveys of the households and companies, and the labor market that registers favorable movements. Specifically, the unemployment rate in the euro area in October was revised down (from 10.7% to 10.6%) and declined further to 10.5% in November, which is the lowest rate since October 2011. In terms of inflation, December data indicate retention of annual growth of 0.2%. Low inflation continues to be primarily influenced by energy prices, amid unchanged annual rate of core inflation of 0.9% in December. 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 remain almost unchanged relative to the October cycle.** Thus, it is estimated that the growth of foreign demand in 2015 is slightly higher as a result of the assessments for improved performance in the second half of the year in some countries of the region, while for 2016 and 2017, no changes have been made relative to previous expectations. **Foreign effective inflation** has been revised slightly downward, and now it is estimated that in 2015 prices dropped somewhat faster, while for 2016 and 2017, lower growth of foreign prices is expected. **With regard to prices of primary products, the outturns in 2015 as well as the projections for 2016 are revised downwards, while the revisions for 2017 are upwards.** The movements of **world oil prices** in 2015 indicate a similar decline as in the October projection cycle, and unlike earlier, prices are now expected to fall in 2016 as well. On the other hand, price growth of oil is expected to be higher in 2017 than projected in October. Analyzing **metal prices**, the chronic condition of high supply and low demand resulted in greater decline of prices of nickel and copper in 2015, and expectations for faster drop of prices in 2016. On the other hand, the projected decline in metal prices for 2017 is inconsiderably lower than previously expected. Furthermore, the **prices of wheat and maize** in 2015 are lower than expected in October. The expected import pressures through this channel will act in the opposite direction on domestic inflation in the future, given that food prices are revised downwards for 2016, and revised upward for 2017. However, one should bear in mind that expectations for the prices of these primary commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy.

The latest assessments indicate that the **EURIBOR interest rate will follow a similar path in this and in the next year, as well as in the October projection, amid slightly more**

**negative rates**, which corresponds to the decisions of the ECB for extension of the implementation period of the 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.** According to recent data, the economy continued to grow in the third quarter which is in line with the October projection, although the growth rate is somewhat higher than expected. The construction is seen as a driving sector of growth in the third quarter, while on the demand side, the growth structure points to the domestic demand as a key generator of the economic growth. The indicative high frequency data for the fourth quarter of 2015 point to further growth of the domestic economy, in environment of favorable movements registered in most of the significant economic sectors. In terms of inflation, in December slight decline in consumer prices was registered, reflecting lower energy prices and food prices, while core inflation was positive. These developments caused minor downward deviation of the inflation rate, compared with the October projection. Also, in December 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 2016.**

**According to the latest available data, in the last 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, 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). The available external sector indicators for the fourth quarter are still insufficient, making it difficult to provide an accurate understanding of the position of the balance of payments compared with the projections. Foreign trade data as of November give indications of trade deficit which is slightly higher than expected for the fourth quarter, while the net purchase from the currency exchange operations as of December suggests net inflows of private transfers that are somewhat higher than projected. Moreover, as of October, the balance of payments signals smaller than expected financial inflows in the economy. However, the assessment period is very short, and part of the financial flows are volatile. Therefore, it is difficult to provide reliable conclusions about the deviations in this area. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone.

**With regard to monetary developments,** the final data as of November show 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 6.5%. Thus, the stock of total deposits is almost at the level projected for the end of the year indicating a possible exceeding of the October projection for the end of the fourth quarter (of 3.7%). In November, the credit market activity accelerated on a monthly basis, amid growth of corporate loans, as opposed to their decline in the previous month. The growth of loans to households continued in November at moderately slower pace compared to the previous month. On an annual basis, total loans in November grew by 7.9% and were above the October projection for the fourth quarter (7.7%). In addition, close to 40% of projected credit growth for the fourth quarter was achieved as of November. 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 under the assumption that the growth rate of total loans registered in the previous two years will continue in December.

In November, **the Budget of the Republic of Macedonia registered a deficit of Denar 1,414 million,** financed from domestic sources through net issue of government securities. On a cumulative basis, for the period January-November 2015, the budget deficit amounted to Denar 16,153 million (or 2.9% of GDP[1]), constituting 80.2% 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 perceptions about the environment for conducting monetary policy and about the risks, compared to the assessments provided 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 fourth quarter point to further solid growth by the end of the year, which is in line with the projected movement. In December, the inflation movements are mainly in line with the projection, i.e. the December 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. Although the loans are as expected, the NBRM took measures related to credit activities. Thus, in December, it passed a set of macro prudential measures that are expected to limit risks of high growth of long-term consumer loans to the financial and macroeconomic stability, and to facilitate access to finance for the corporate sector and more efficient credit risk management by banks. **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.**

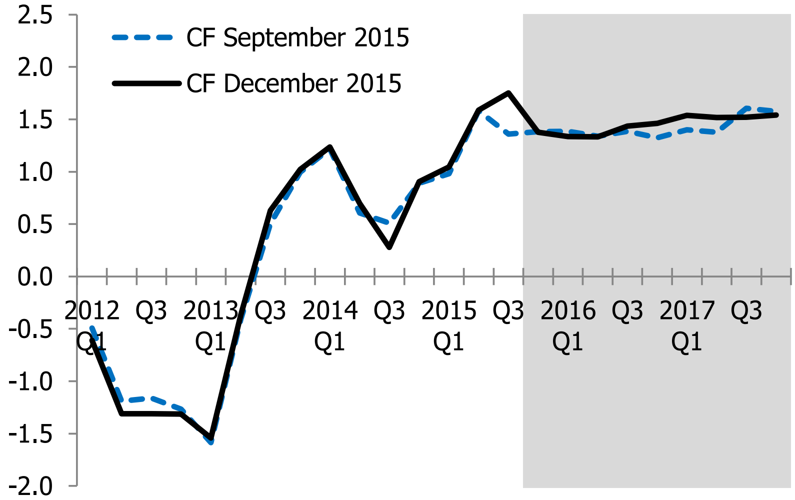
[1] According to the latest NBRM projection for the nominal GDP.

## Selected economic indicators/1

| | | | | 2015 | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | Jan. | Feb. | Mar. | Q1 | Apr. | May | Jun. | Q2 | Jul. | Aug. | Sep | Q3 | Oct. | Nov | Dec | Q4 | 2015 |
| **I. Real sector indicators** | | | | | | | | | | | | | | | | | | | | |
| **Gross domestic product (real growth rate, y-o-y) /2** | **-0.5** | **2.7** | **3.5** | | | | **3.5** | | | | **3.3** | | | | | | | | | |
| **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 | | | | | | | |
| 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 | | | | | | | |
| **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 | | | | | | | |
| 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 | | | | | | | |
| 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 | | | | | | | |
| 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 | | | | | | | |
| **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** | |
| **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** | |
| 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 | |
| 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 | |
| **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** | |
| 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 | |
| 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 | |
| **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 | | | | | | | |
| 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 | | | | | | | |
| 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 | | | | | | | |
| 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 | | | | | | | |
| 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 | | | | | | | |
| **IV. External sector indicators** | | | | | | | | | | | | | | | | | | | | |
| **Current account balance (millions of EUR)** | **-240.0** | **-134.1** | **-68.7** | **38.5** | **6.9** | **-80.7** | **-35.3** | **-54.5** | **-25.1** | **5.8** | **-73.7** | **29.1** | **42.4** | **70.9** | **142.4** | **-52.3** | | | | |
| *Current account balance (% of GDP)* | *-1.6* | *-1.6* | -0.8 | *0.4* | 0.1 | -0.9 | -0.4 | -0.6 | -0.3 | 0.1 | -0.8 | 0.3 | 0.5 | 0.8 | 1.6 | -0.6 | | | | |
| **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** | **-168.5** | | | |
| *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 | -1.9 | | | |
| import (millions of EUR) | -5,061.8 | -4,968.4 | -5484.9 | -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 | -517.7 | | | |
| 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 | 349.1 | | | |
| 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 | 3.0 | 12.5 | | | |
| 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 | 4.6 | 2.1 | | | |
| **Foreign Direct Investment (millions of EUR)** | **131.1** | **229.4** | **197.4** | **35.4** | **11.1** | **19.2** | **65.6** | **36.2** | **-9.1** | **17.9** | **44.9** | **16.0** | **7.8** | **-18.6** | **5.2** | **59.3** | | | | |
| **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** | **2,187.4** | | **2,188.0** | **2,203.4** | **2,257.6** | | **2,257.6** |

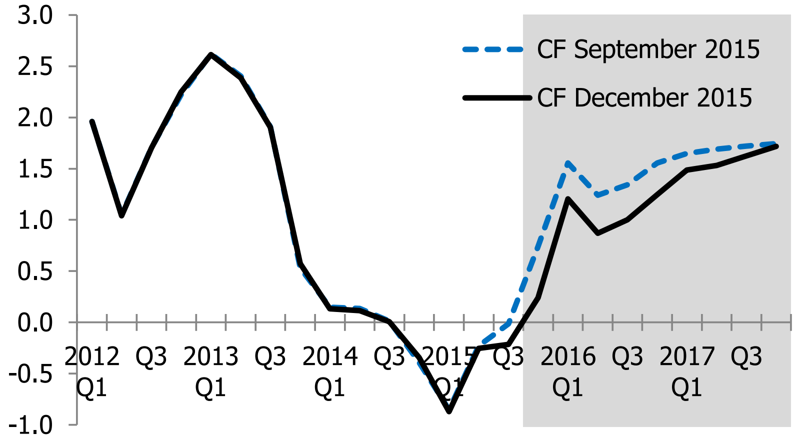
/1 While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2015, the projected level from the NBRM projections from October 2015 is used.
/2 Preliminary data for 2014. Estimated data for 2015.
/3 The changes of Index of industrial production are according 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: "Consensus Forecast" and NBRM calculations.

**Foreign effective inflation**
(annual rates in %)




Source: "Consensus Forecast" and NBRM calculations.

**The latest projections point to slightly higher growth of foreign effective demand in 2015 than expected in October...**

...which is now forecast at 1.4%, rather than at 1.3%...

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

**On the other hand, in 2016 and 2017, the projection of foreign demand remained unchanged compared with October, i.e. the growth is still expected to be 1.4% and 1.4%, respectively.**

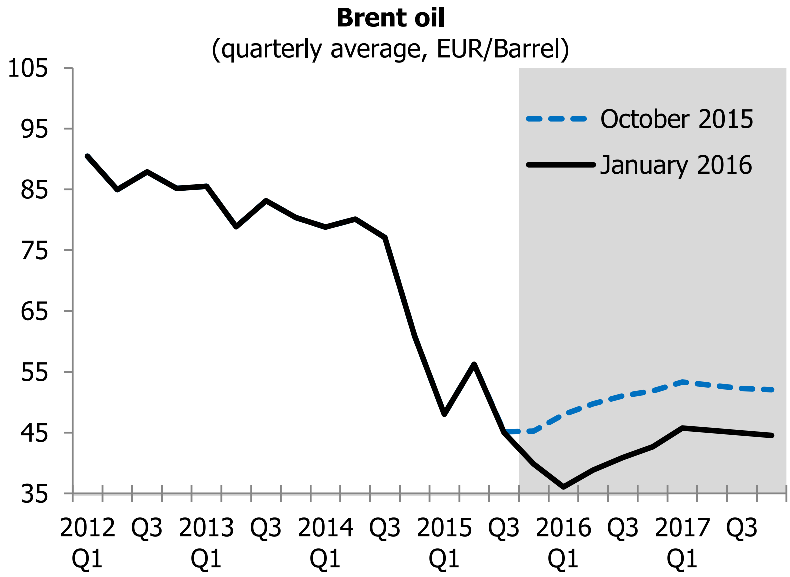
**In the projection period, the foreign effective inflation was revised downwards.**

Thus, the assessment is that foreign inflation **in 2015** was -0.3%, which is a downward adjustment from the projection of -0.1% in October...

...which analyzing by country, mostly stems from expectations of lower consumer prices in Germany and Croatia.

Amid downward revisions in almost all our importing partners, foreign inflation **in 2016 and 2017** has also been revised downward...

...and is expected to be 1.1% and 1.6%, respectively, unlike the October projection of 1.4% and 1.7%.



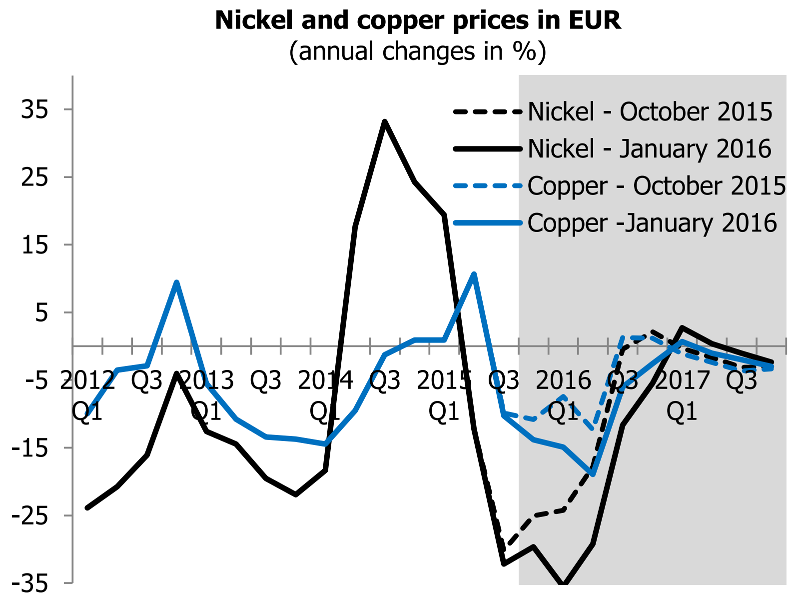

Source: IMF and NBRM calculations.

**In 2015, the oil prices dropped by 36.3%, which is slightly above the October projection.**

**Oil prices for 2016 were significantly revised downward, and it is expected to continue declining, contrary to the projections for its rise in October...**

...as a result of the expectations of further growth of oil production in the OPEC countries and dampened growth in demand. Lifting of sanctions against Iran since the beginning of 2016[2] is expected to have additional effect on oil prices.

**On the other hand, in 2017, a faster increase in oil prices is expected compared with the October projection.**




Source: IMF and NBRM calculations.

**It is estimated that 2015 witnessed stronger decline in stock prices of nickel and copper.**

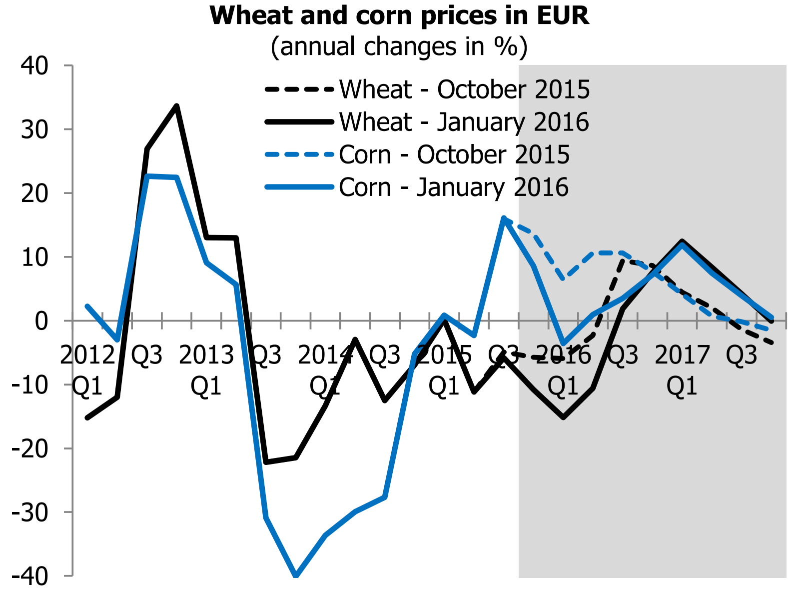
**It is projected that in 2016, the non-ferrous metal market will continue to operate in conditions of solid supply and weak demand from China...**

...which resulted in considerable downward revision of the price of nickel and copper.

**On the other hand, now, a smaller decline in metal prices for 2017 is expected compared to the October projection.**

[2] Expectations for lifting of sanctions against Iran arise from the implementation of the agreement on dismantling parts of its nuclear program reached in July 2015 between the international community and Iran. For more details see:

http://www.npr.org/sections/parallels/2015/12/23/460821794/iran-sanctions-could-be-lifted-as-soon-as-january




Source: IMF and NBRM calculations.

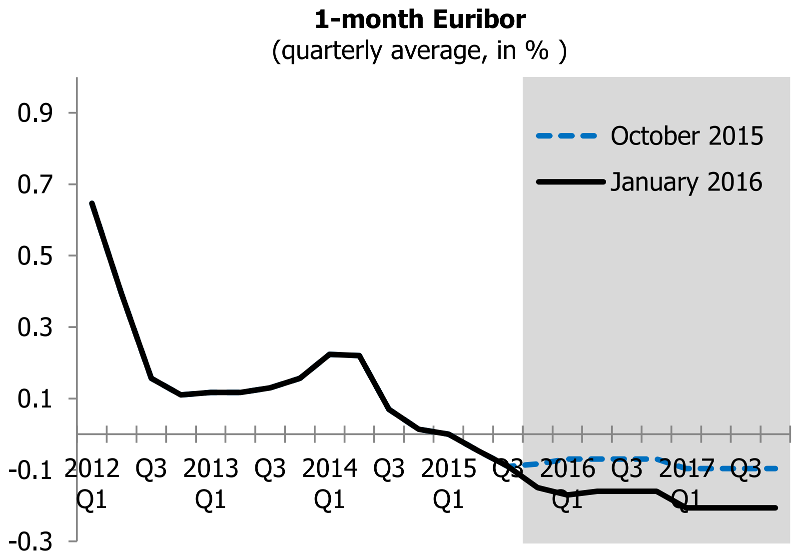
**Estimates for 2015 indicate a slightly faster decline in the price of wheat[3] and slightly lower growth in the price of maize compared to the October projection.**

**A downward revision has been made in the prices of primary food products for 2016...**

...given the further decline rather than rise in the price of wheat, amid solid global supply, high inventories and favorable winter season...

...and lower growth in the price of maize, mainly due to the upward revision of the assessments for the production of this crop.

**On the other hand, in 2017, the growth of prices of primary food products are expected to be faster compared to the October projection.**




Source: "Consensus Forecast" and NBRM calculations.

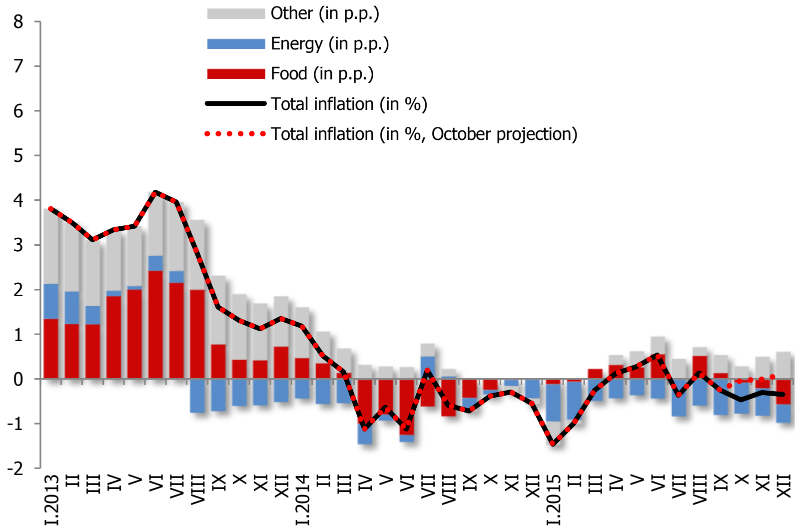
**In 2015, the one-month EURIBOR was -0.07%, which is approximately the level projected in October (-0.06%).**

In the coming period, it is expected that the foreign interest rate will continue to be determined by the monetary policy of the ECB and the economic conditions in the euro area.

**The measures taken in the area of interest rate policy, the commitment to continued implementation of the quantitative easing by the ECB and the willingness for greater flexibility in terms of its duration and size resulted in downward revision of the one-month EURIBOR, which on average is expected to be -0.16% and -0.21% in 2016 and 2017, respectively, rather than -0.07% and -0.1% as projected in October.**

[3] 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 January 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.

**After the slight monthly increase in the previous month, consumer prices in December recorded a small monthly fall of 0.1%...**

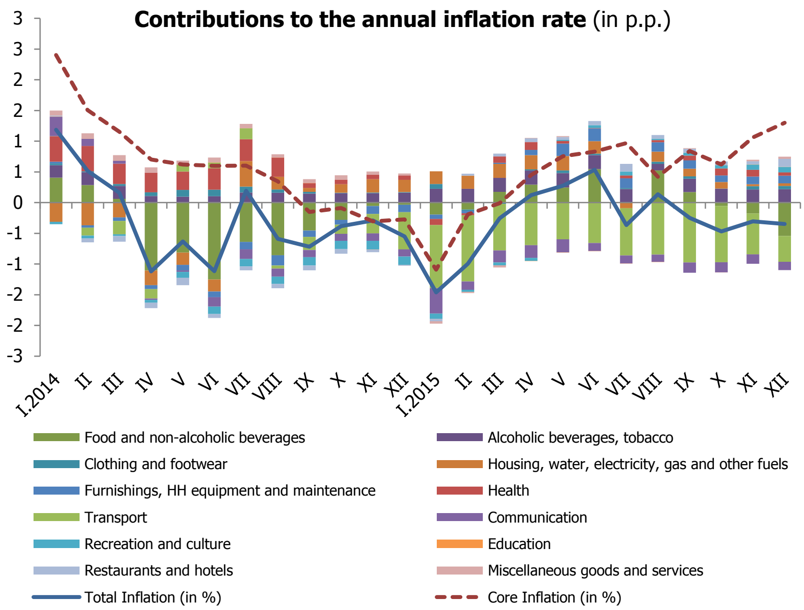
...amid declining prices of food and energy, while core inflation slightly increased[4].

**In line with the monthly decrease, the annual inflation rate in December remained in the negative zone and equaled -0.3% (same as in the previous month)...**

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

...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.-

[4] Categories with the largest individual contribution to the December price decrease include fruits (which registered a monthly price decrease of 6.1%) and pharmaceutical products (which registered a monthly price decrease of 1.6%). Prices of accommodation services which in December registered a monthly rise of 15.3% moved in the opposite direction.




Source: SSO and NBRM.

**In December, core inflation recorded a monthly growth of 0.2%...**

...which contributed to small acceleration of the annual growth rate (1.3%).

Regarding the structure of core inflation, the December growth (annually) is due to the small rise in the prices of most categories within core inflation, with the highest contribution of tobacco prices (due to higher excise duties[5]) and prices of catering services. Among major categories, only prices of communications declined.

**The rate of inflation was low during 2015 and most of the year remained in the negative zone. The headline inflation rate was -0.3% throughout 2015, due to lower energy prices.** On the other hand, in 2015, except for a few months, food prices and core inflation were increasing, but at a very slow pace.

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

...with the largest downward revision in **oil prices** (these prices are expected to continue decreasing rather than insignificantly increasing in 2016)...

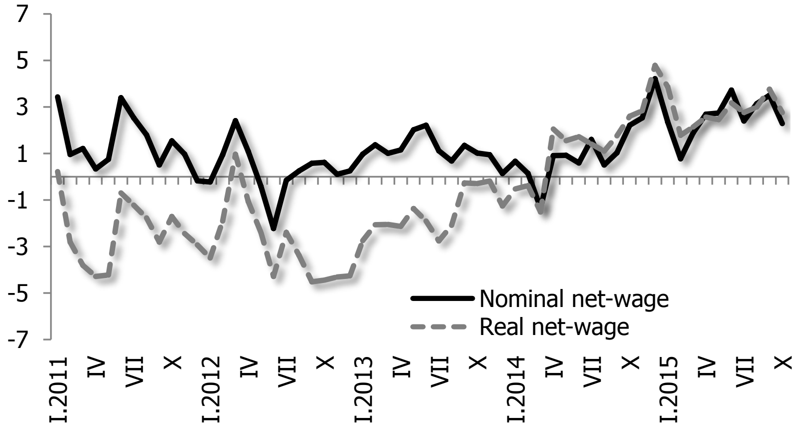
...while **prices of internationally traded primary foodstuffs[6]** (expressed in euro) as well as **foreign effective inflation** were revised downward.

Taking into account performances as well as changes in the expected trajectories of exogenous variables for 2016, **risks to the projected movement of domestic prices in 2016 are mainly downwards**. However, given that the movement of

[5] 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.

[6] 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 5.6% 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.

**Average net-wage**
(annual changes, in %)




Source: SSO.

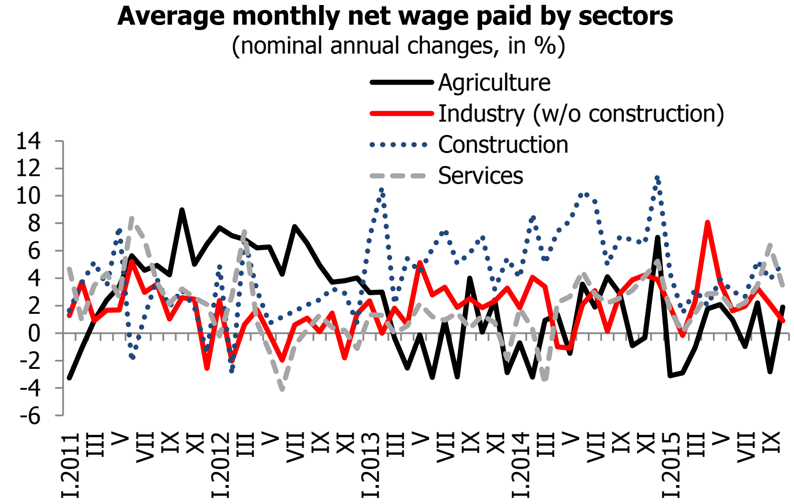
prices of primary commodities is very often affected by temporary factors, uncertainty about their projection is relatively large.

**In October 2015, the average net wage registered a nominal annual growth of 2.3%,** which is a growth deceleration (1.2 p.p.) compared to the previous month.

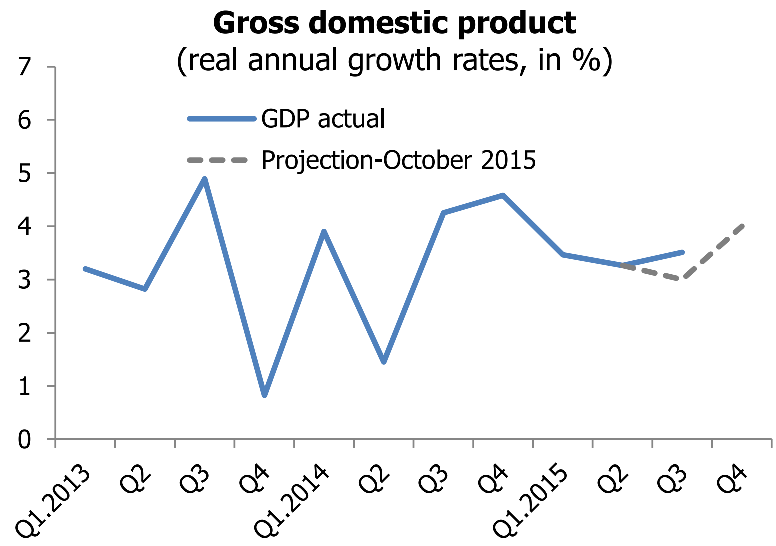
Upward movement in the wages has been registered in agriculture, industry and most of the services...

...whereby, from the viewpoint of individual activities, the highest increase has been registered in "art, entertainment and recreation", and solid increase has been registered in the wages in construction, financial activities, administrative and auxiliary services and other services.

In October, wages in several activities registered downward adjustment, although relatively insignificant (except in the activities related to the real estate, where the drop is more severe).




Source: SSO.




Source: SSO and NBRM projections.

Amid small decrease in the consumer prices, in October, the **real wages increased by 2.8%.**

**The wage movements in October are generally in line with the expected movement for the fourth quarter** within the October projection (expected nominal and real annual growth of 2.5% and 2.6%, respectively).

**In the third quarter of 2015, the real annual GDP growth was 3.5%, which is somewhat higher compared to the October projection (3%).**

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

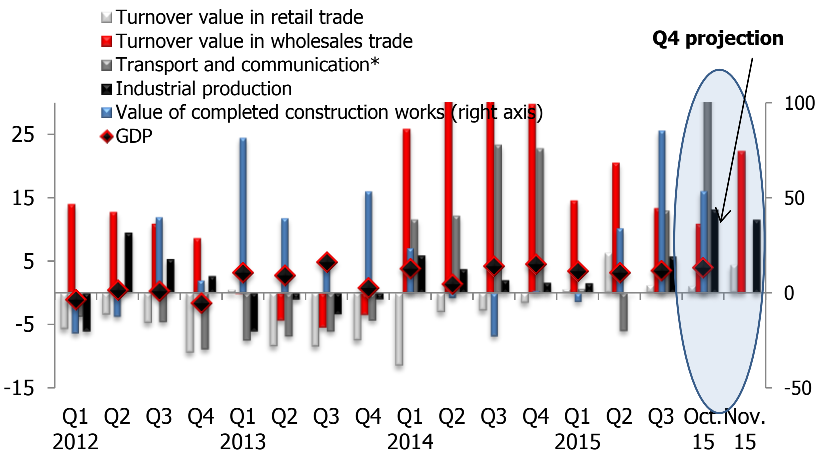
...while **in terms of demand,** GDP growth is the result of higher domestic demand, with small positive contribution of net exports. Analyzing by component, private and public consumption made the greatest contribution to growth in the third quarter, followed by gross capital formation and exports.

**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 period October-November, industrial production** registered a high average growth of 12.3%, which is fully explained by the higher production in manufacturing, while the production in mining and energy sectors declined.

Traditional sectors (production of food products, beverages and clothing) as well as the new export-oriented capacities (primarily production of machinery and equipment and motor vehicles) made the greatest contribution to the growth in manufacturing.

**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.

The growth in the trade turnover continued in the first two months of the fourth quarter, given the higher turnover in the wholesale and retail trade, as well as in the trade in motor vehicles.

**Transport sector** data (favorable trends of indicators related to rail road in October), as well as movements in **construction** (double-digit growth in the value of completed construction works in October) are also aimed at supporting economic growth in the fourth quarter.

On the other hand, the available data on trends in **catering services** point to possible deterioration in this sector during the fourth quarter (a small annual decline in the number of tourists and overnight stays in October).

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

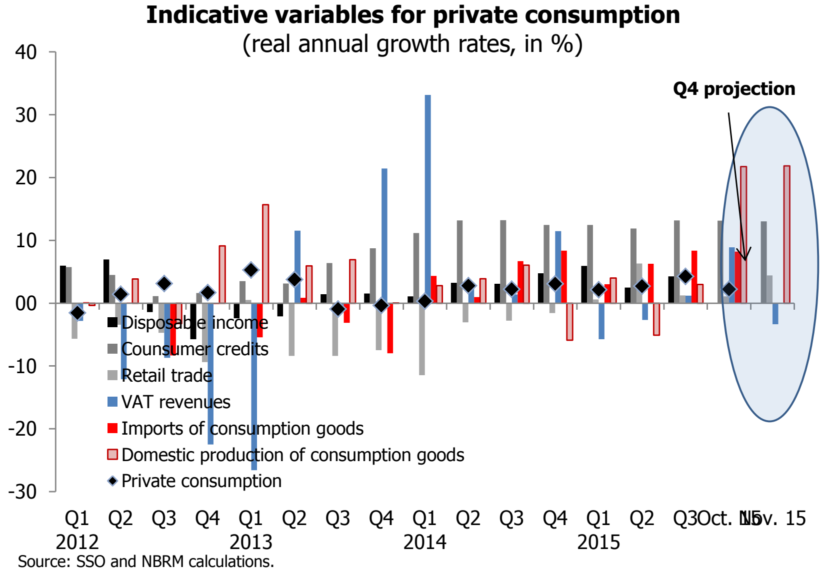
According to the high-frequency data on **private consumption,** its further growth is expected in the fourth quarter of 2015...

...with growth in real wages (although slightly slower compared to the previous quarters), pensions paid and higher social transfers from the government...

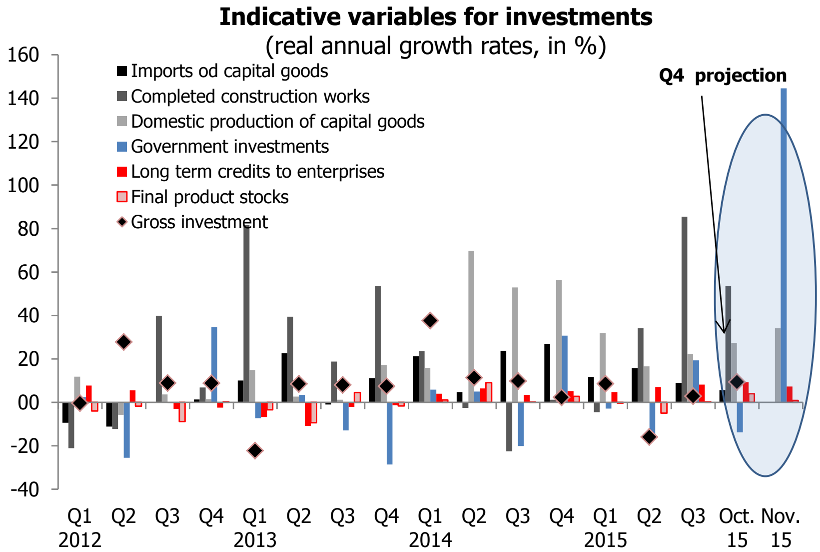
...and continuing solid growth in lending to households.

Changes in other short-term indicators, i.e. higher domestic production of consumer goods, higher turnover in retail trade, the registered growth in import of consumer goods and the increase in the VAT net revenue also indicate growth of household consumption in the fourth quarter.

Analyzing indicative private consumption categories, decline was noted only in




Source: SSO and NBRM calculations.




Source: SSO and NBRM calculations.

private transfers.

Available short-term indicators of **investment activity** point to an annual growth of investments in the fourth quarter of 2015...

...with double-digit growth in the value of completed construction works (although at a slower pace compared to the previous quarter) and domestic production of capital goods, with growth being also registered in imports of investment goods.

Simultaneously, corporate loans continued increasing...

...and the data for the fourth quarter point to higher government capital investments and increasing foreign direct investments (despite their decline in the third quarter).

Inventories, as a component of gross investments, could be expected to increase in the fourth quarter, bearing in mind the annual growth of the index of inventories of finished products in the industry in October.

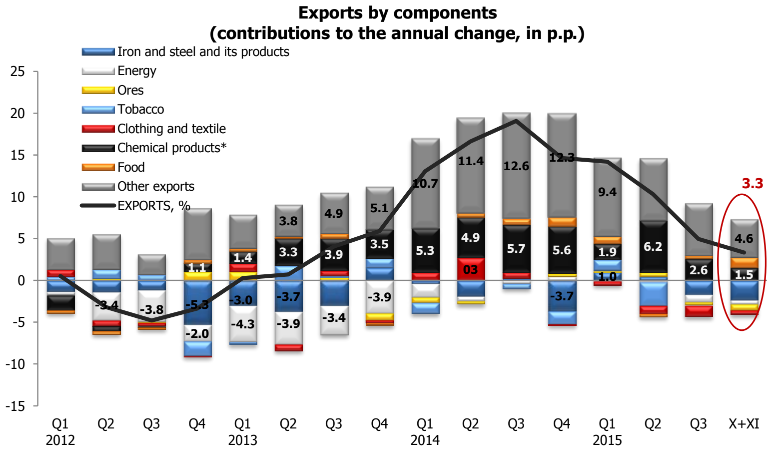
In the fourth quarter of 2015, nominal data on **foreign trade balance** show small increase of deficit as projected in October...

...given the higher growth in imports compared to exports of goods and services.

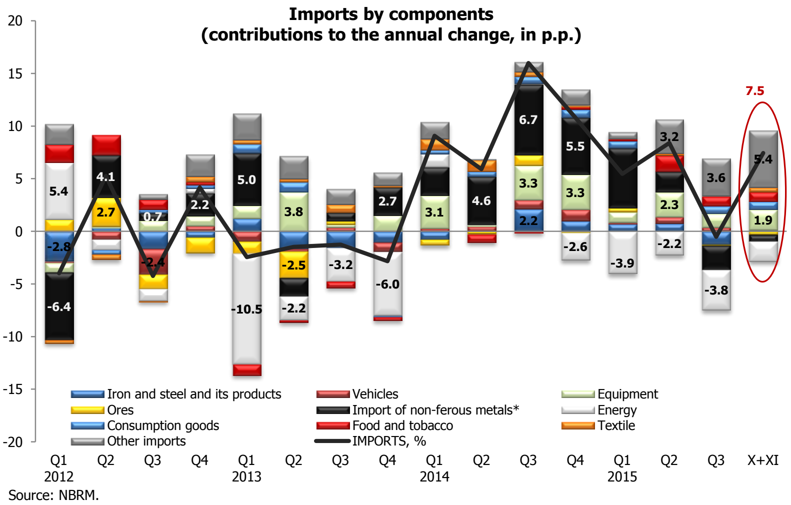
Budget performances in the fourth quarter of 2015 indicate an increase in **public consumption**, in line with the expectations in the October projection...

...amid growth of expenditures for goods and services, as well as higher transfers for health care[7] and increased costs for salaries for the employees in the public sector.

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




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.*

In October and November, **the deficit in the trade in goods with foreign countries increased by 17.5% on an annual basis**, given the faster growth of imports compared to the exports of goods...

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

**Export of goods** in the period October-November registered an annual growth of 3.3%, which was mostly due to the higher exports of the new production facilities, coupled with the higher export of food, amid weaker export performance of the metal manufacturing industry.

*Compared with the October projection, export performances in October and November 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.

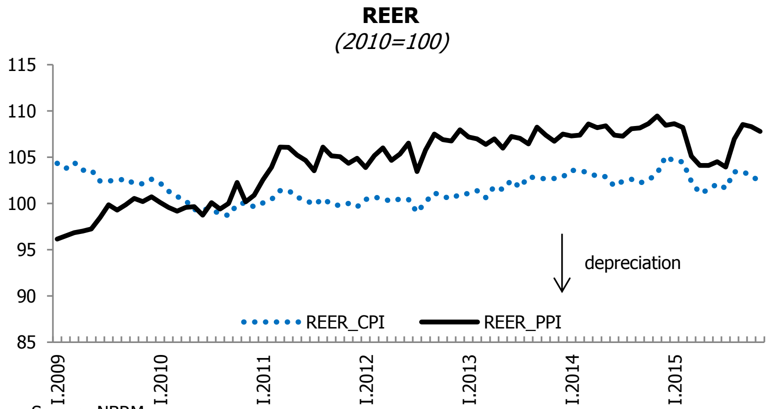
During October and November, **the import of goods** recorded an annual growth of 7.5%, due to higher import of raw materials by new capacities in the economy and higher other imports, and to a lesser extent to higher import of food and consumer goods...

...contrary to the import of energy, which continues registering an annual drop.

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

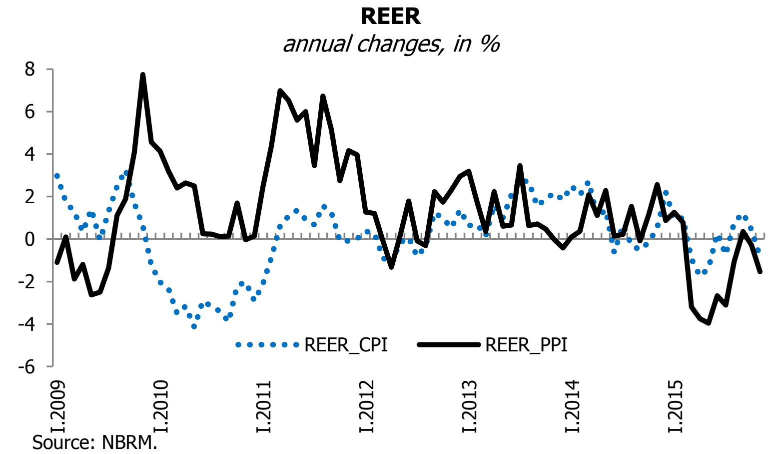

**Performance of foreign trade components in October and November, indicate likelihood of trade deficit higher than projected for the fourth quarter according to the October projection. However, given the improved performances in the third quarter, on a cumulative basis, performances for the entire 2015 are expected to be consistent with the October projection.**

The latest estimates of the movement of oil prices expressed in euros indicate more favorable conditions relative to the October projection, amid 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.



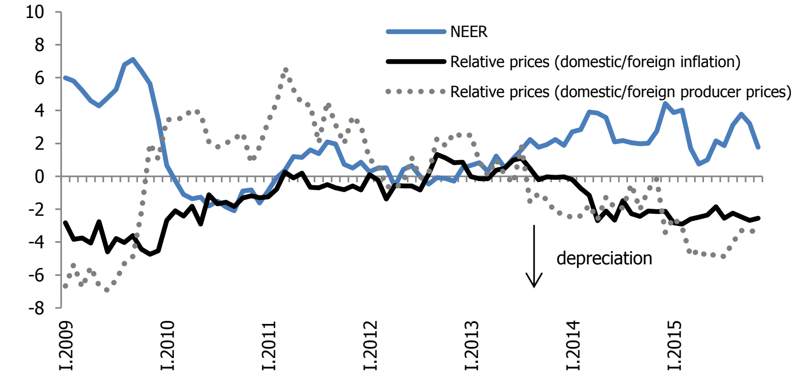
Source: NBRM.

**In November, price competitiveness indicators of the domestic economy improved on an annual basis.** The REER index deflated by consumer prices depreciated by 0.8% and the REER index calculated by the producer prices registered an annual depreciation of 1.5%.



Source: NBRM.

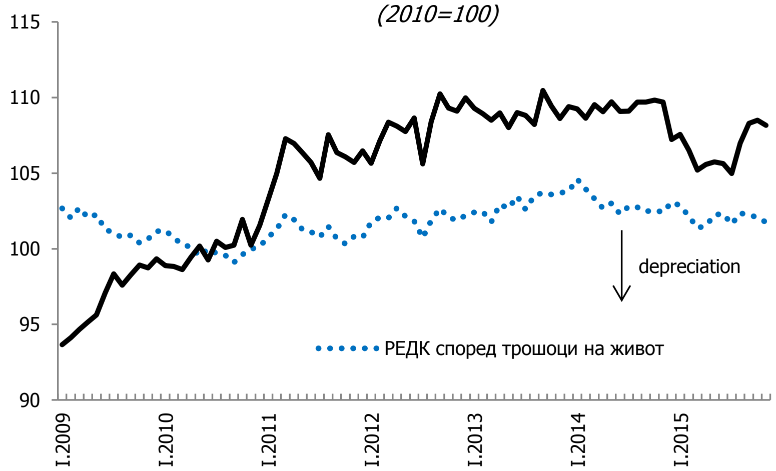
**NEER and relative prices**
*annual growth rates, in %*




Source: NBRM.

The relative consumer prices registered an annual drop of 2.6%, while the relative prices of industrial products registered a decrease of
3.3%. The movement of NEER acted in the opposite direction, and appreciated by 1.8% as a result of the further depreciation of the Russian ruble, the Ukrainian hryvnia and the Turkish lira against the Denar.

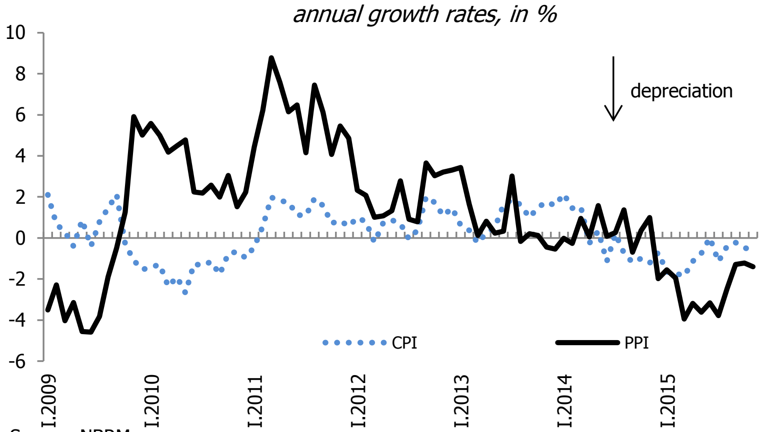
**REER, excluding primary commodities**
*(2010=100)*




Source: NBRM.

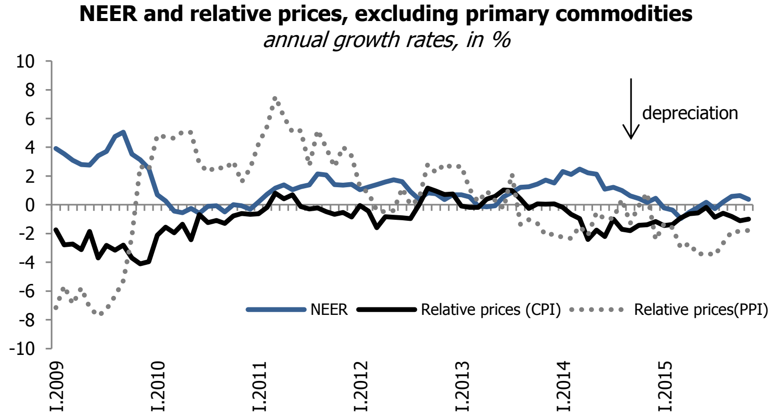
**The analysis of movement of the REER indices, as measured using weights based on the foreign trade without primary products[8], also indicates further improvement in the competitiveness of domestic economy.** In November, the REER index deflated on consumer prices depreciated by 0.6%, while the REER deflated by producer prices depreciated by 1.4%.

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



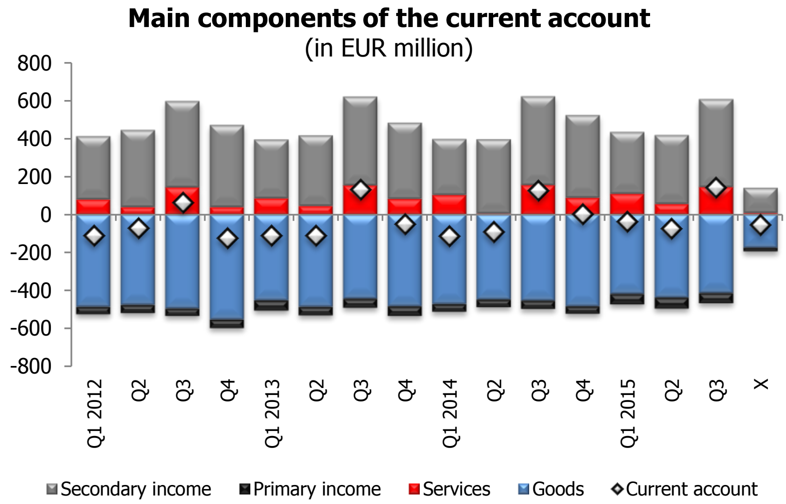

Source: NBRM.

[8] 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.




Source: NBRM.

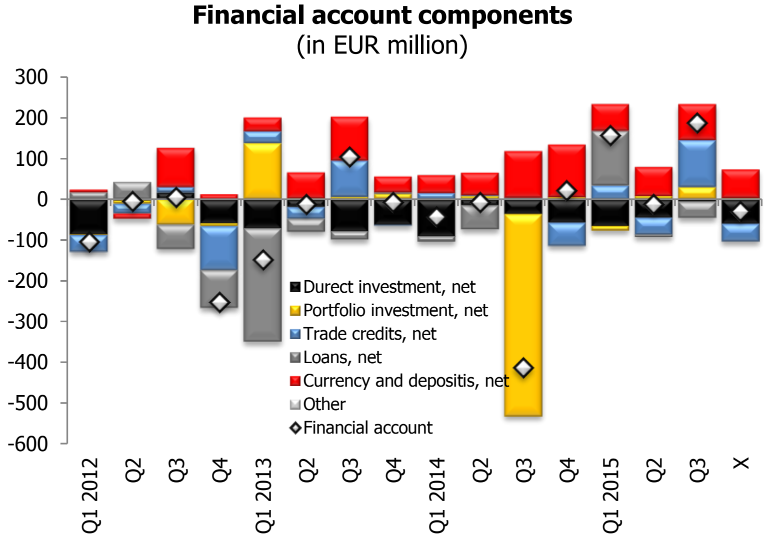
The favorable developments results from the annual decrease in relative prices, given the slight appreciation of the NEER (of 0.4%). Compared to the same month last year, the relative consumer prices fell by 1%, and the relative prices of industrial products by 1.8%.




Source: NBRM.

**In October 2015, the balance of payments' current account registered a deficit of Euro 52.3 million (or 0.6% of GDP)**, i.e. somewhat higher deficit than planned for the last quarter, according to the October projection.

In terms of individual components, the weaker performance in most part is due to the significantly lower surplus in the trade of services, while the other components i.e. trade and primary income deficit and secondary income surplus are as projected in October.

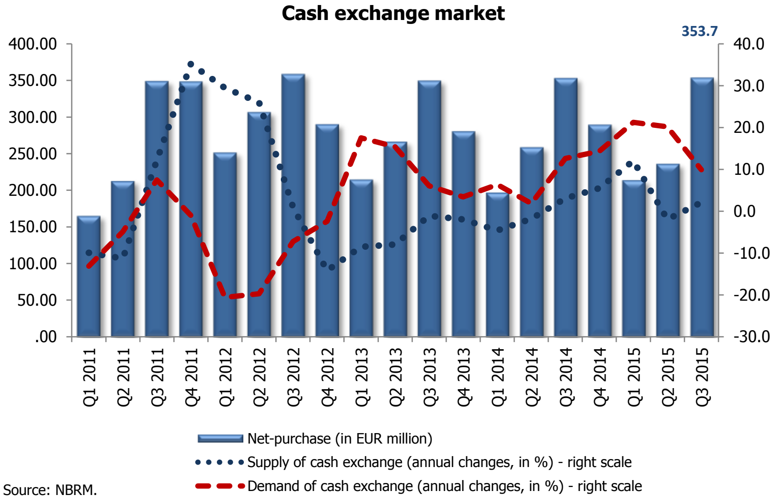



Source: NBRM.

**In October 2015, the financial account registered net inflows of EUR 28.8 million (or 0.3% of GDP),** i.e. lower net inflows than projected in the October[9].

Such divergences mainly result from portfolio investment, and currency and deposits. The divergence in the portfolio investment in the last quarter is due to the fourth Eurobond, issued in the last month of 2015 although at a smaller amount than planned. On the other hand, net inflows of direct investments and trade credits are higher than expected for the entire last quarter as projected in October.

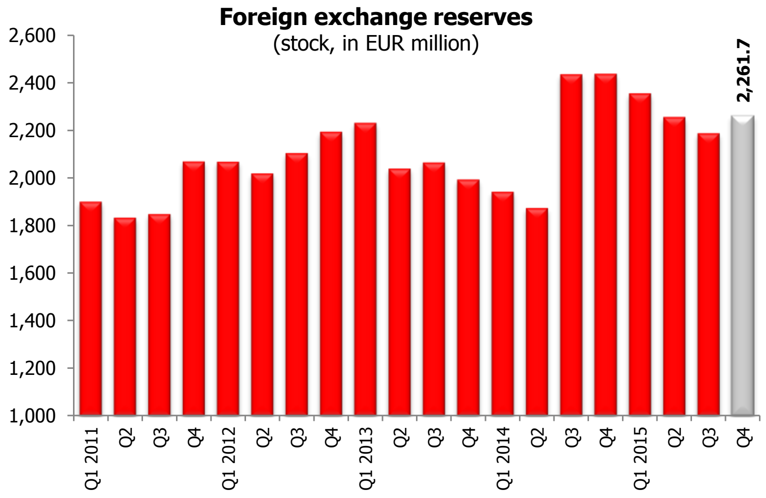
[9] According to the new methodology for compilation of the balance of payments (BPM6), the terms "net inflows" and "net outflows" denote net incurrence of liabilities and net acquisition of financial assets, respectively.




Source: NBRM.

**Recent data on currency exchange operations as of December 2015 indicate further annual increase in the supply of and demand for foreign currency.**

Net purchase on the currency exchange market in the last quarter equaled Euro 296.7 million, which is an annual increase of 2.5%.

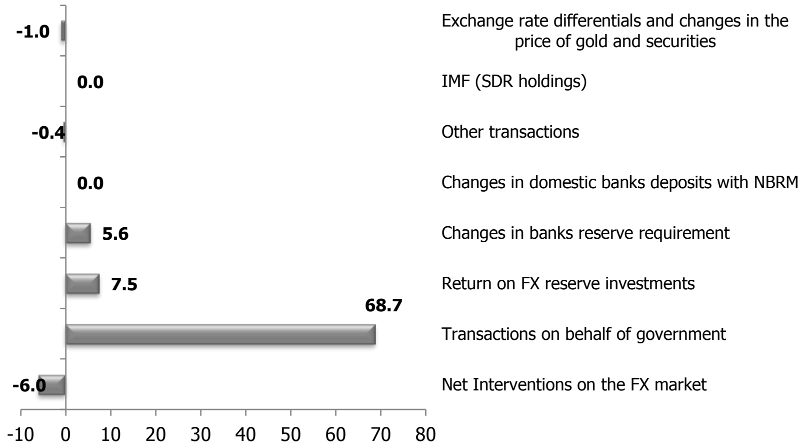



Source: NBRM.

**As of 31 December 2015, the gross foreign reserves stood at Euro 2,257.6 million,** up by Euro 70.2 million compared to the end of the third quarter of 2015. The growth in foreign reserves is almost entirely due to the transactions on behalf of the government[10].

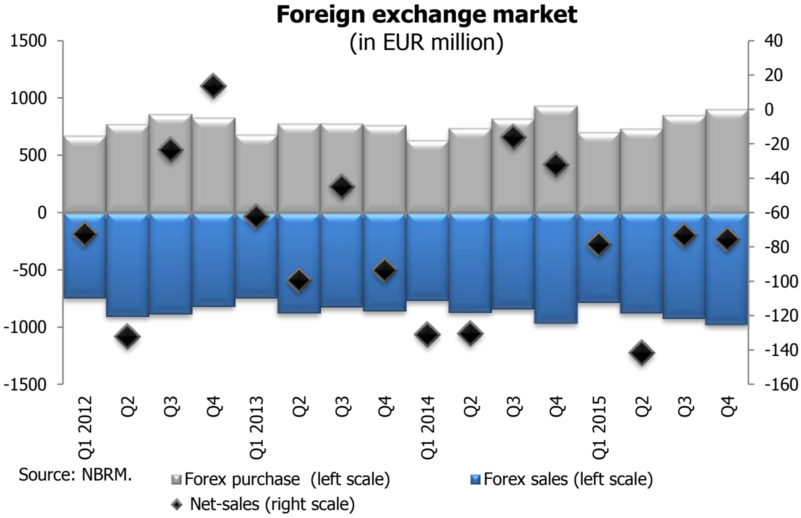
[10] On 1 December 2015, the government issued the fourth Eurobond, amounting to Euro 270 million, while on 7 December 2015 it fully paid the external debt based on the previously issued Eurobond in the amount of Euro 150 million euros.

**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)

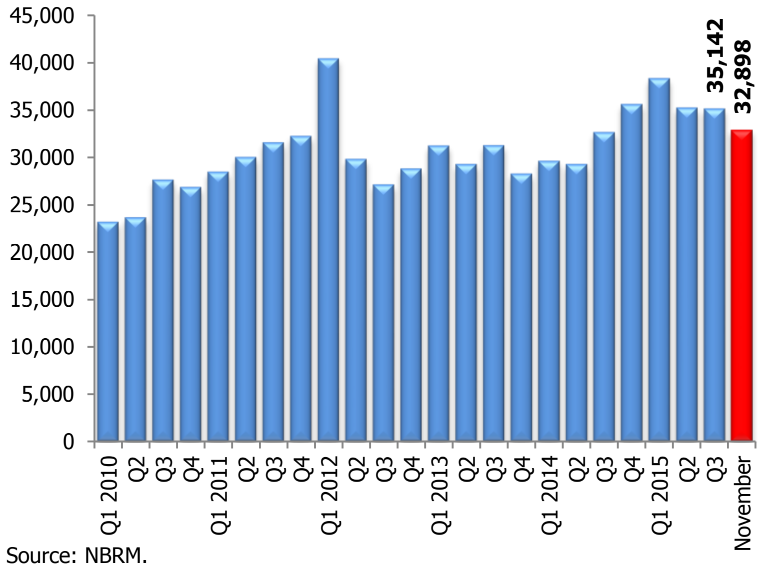



Source: NBRM.

In the last quarter 2015, the **foreign exchange market** of the banks registered a net sale of Euro 75.2 million, which is growth of Euro 43.3 million on an annual basis. This annual change is a result of the fall in the supply of foreign currency of 3.2%, amid growth in the demand for foreign currency of 1.4%.

Sectoral analysis shows that these annual performances stem from the reduced net purchase in the nonresident sector (due to the high base effect), despite the higher net purchase by exchange offices and natural persons, as well as the lower net sales by companies.

Monetary instruments
(in millions of denars)




Source: NBRM.

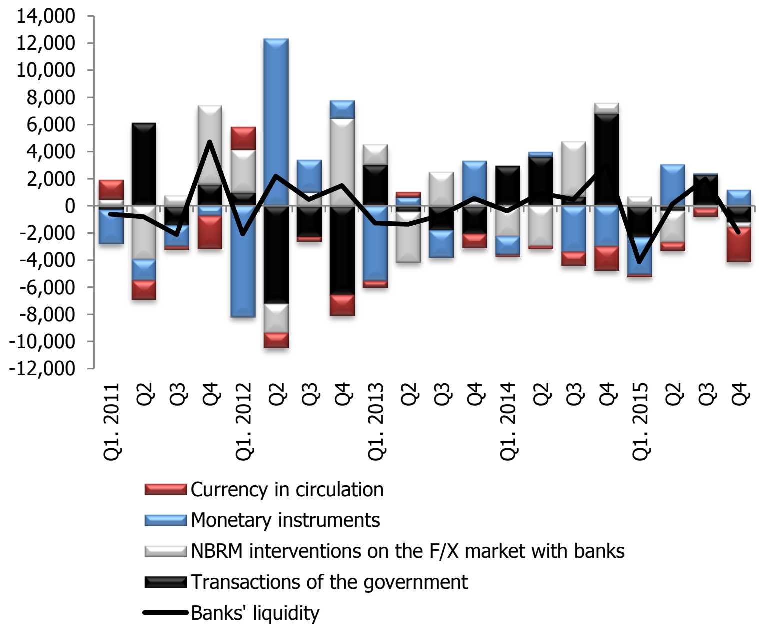
Data as of November show liquidity creation through monetary instruments relative to the end of the third quarter, contrary to the projected withdrawal of liquidity for the fourth quarter, as projected in October.

Analyzing liquidity creation and withdrawal flows in terms of balance sheet, in November, net foreign assets of the NBRM registered quite small growth compared to the third quarter, while the latest October projection indicates significant increase in the fourth quarter (in line with the projected government borrowing through the issuance of Eurobond on the foreign capital market). Total government deposits with the NBRM as of November registered an increase which is weaker than projected for the fourth quarter.

In November, these two autonomous factors caused a small withdrawal of liquidity from the system, as opposed to the creation of liquidity projected for the fourth quarter. Such performances are partly offset by deviations in reserve money. Namely, in November, reserve money decreased contrary to the projected increase for the last quarter, mainly resulting from the 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 monetary instruments relative to the October projection.

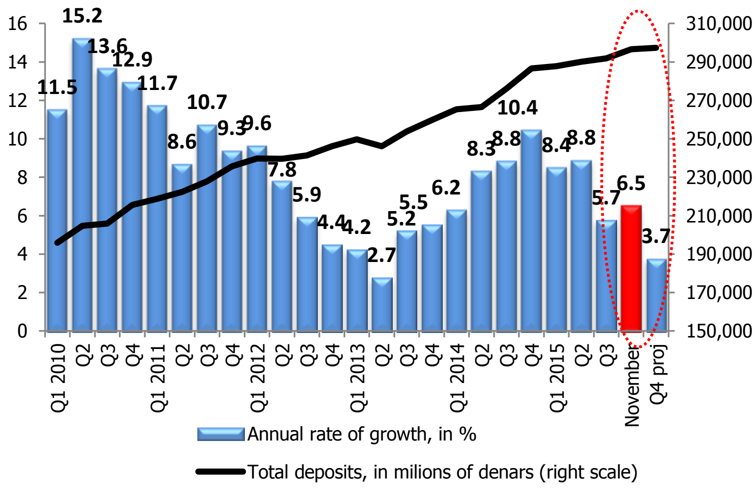
**Flows of creating and withdrawing liquidity ***
(quarterly changes, in millions of denars)




*Positive change- liquidity creation, negative change- liquidity withdrawal
Source: NBRM.

The latest available data as of December, indicate a lower level of liquidity in the banking system compared with the previous month. Analyzed by individual factor, government transactions acted towards creating liquidity while monetary instruments of the NBRM (overnight and seven-day deposit facility) and currency in circulation acted towards withdrawing liquidity from the banking system. After three months, in December, the NBRM sold small net amount of foreign currency on the foreign exchange market, therewith acting towards further withdrawal of liquidity.

**Total deposits**

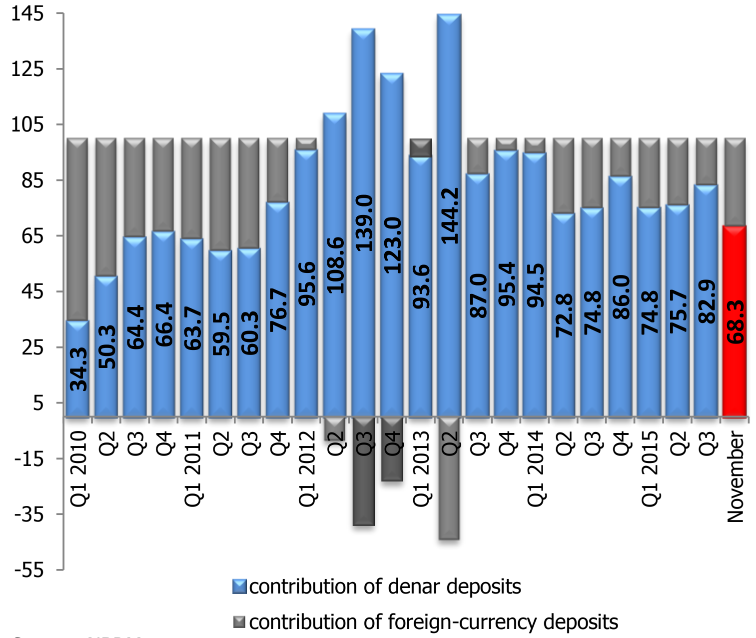



*Includes demand deposits
Source: NBRM.

In November, total deposits continued to grow on a monthly basis with moderately lower intensity compared to the previous month. The increase in total deposits was mostly driven by the increased household deposits, amid further growth of corporate deposits, but with a slightly weaker intensity compared to the previous month.

**The annual growth rate of total deposits at the end of November 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 4,758 million representing 87.4% 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 outperforming of the projected annual growth for the end of the year.

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

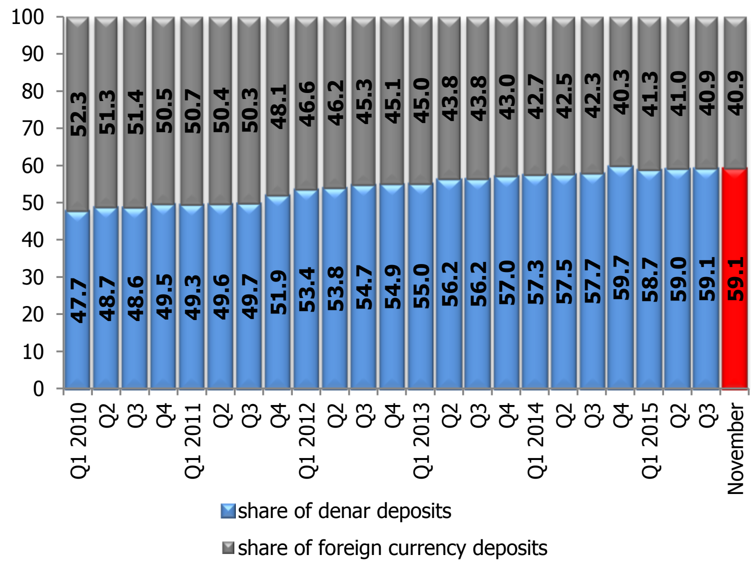



Source: NBRM.

*Includes demand deposits.

The annual rise in total deposits is still mostly due to the growth of denar deposits amid positive contribution of foreign currency deposits. Foreign currency deposits have increased their contribution to the annual growth of total deposits for the second consecutive month...

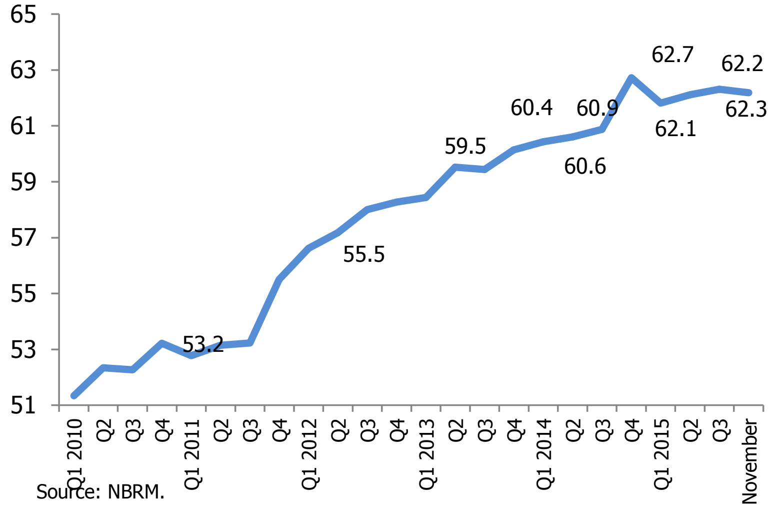
**Share of denar and foreign currency deposits in total deposits**
(in %)




Source: NBRM.
*Includes demand deposits.

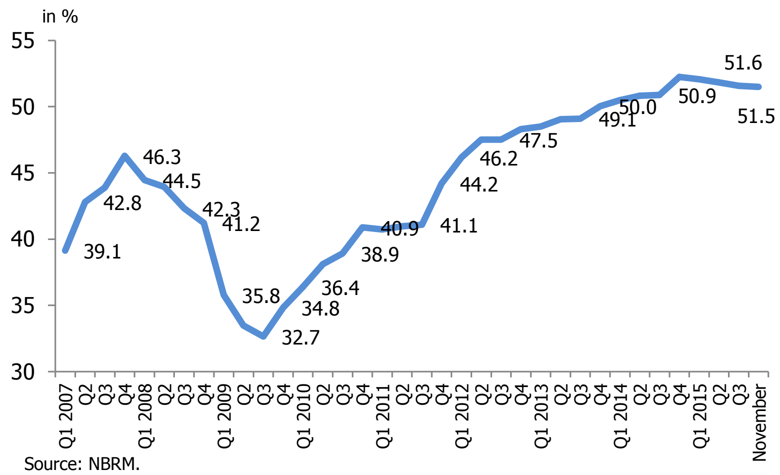
...which is not that strong to cause change in the currency structure. Thus, Denar deposits continued to consist much of the deposit base and their share remained stable compared to the end of the previous quarter.

**Share of denar M4 in total M4**
(in%)




Source: NBRM.

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

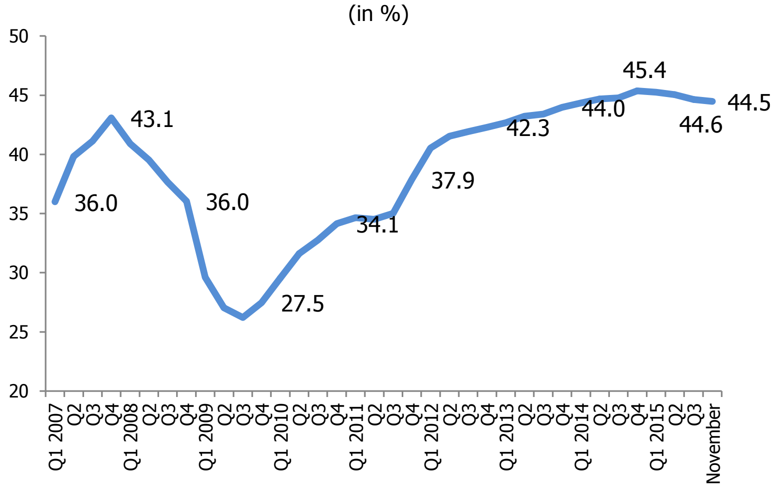



Source: NBRM.

*Includes demand deposits.

Total household deposits continued increasing in November on a monthly basis, at a faster pace compared to the previous month. The monthly growth was largely driven by increased deposits in foreign currency, amid monthly growth of Denar deposits. As a result of such trends, foreign currency deposits in November registered a minimal increase of the share in total deposits.

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

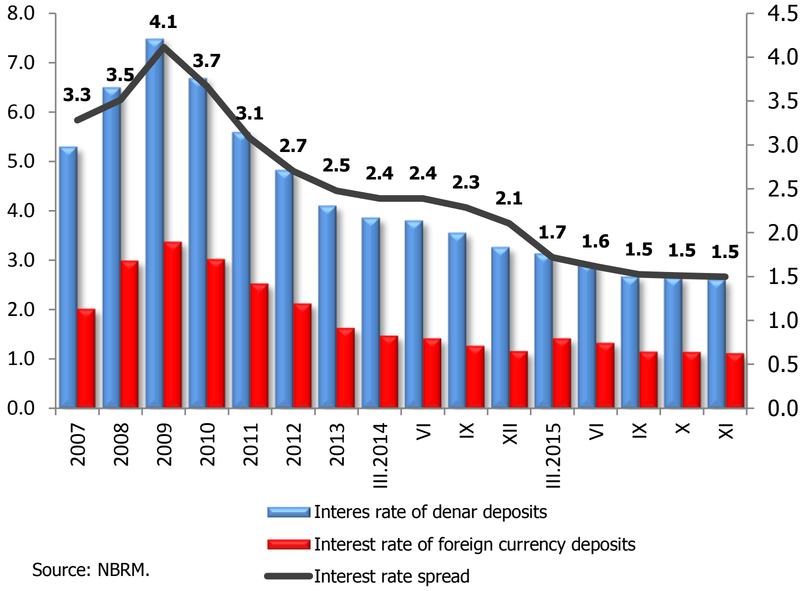



Source: NBRM.

*Without demand deposits.

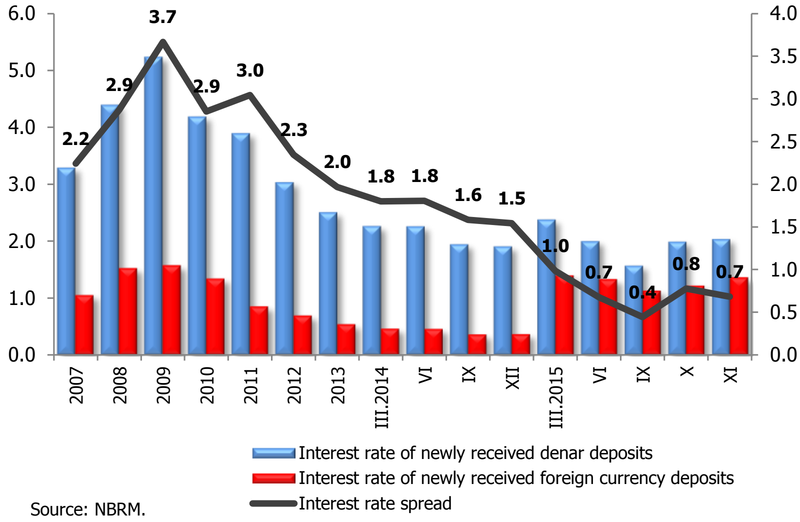
Total household deposits (excluding demand deposits) registered a monthly increase, which was almost entirely driven by the growth of deposits in foreign currency.

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




Source: NBRM.

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



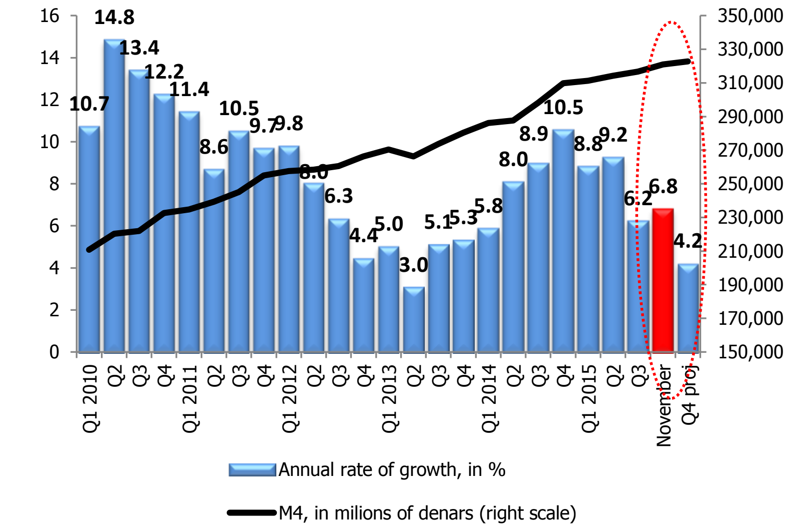

Source: NBRM.

In November, the interest rate spread between denar and foreign currency interest rates[11] remained at level of the previous month, amid almost unchanged interest rates. Interest spread of new deposits has narrowed minimally, as a result of the moderate increase of the interest rate on foreign currency deposits amid unchanged interest rate on denar deposits. However, it should be taken into consideration that the interest rates on newly received deposits are volatile[12], which can result in frequent and temporary adjustments of the interest spread.

[11] 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

[12] 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.

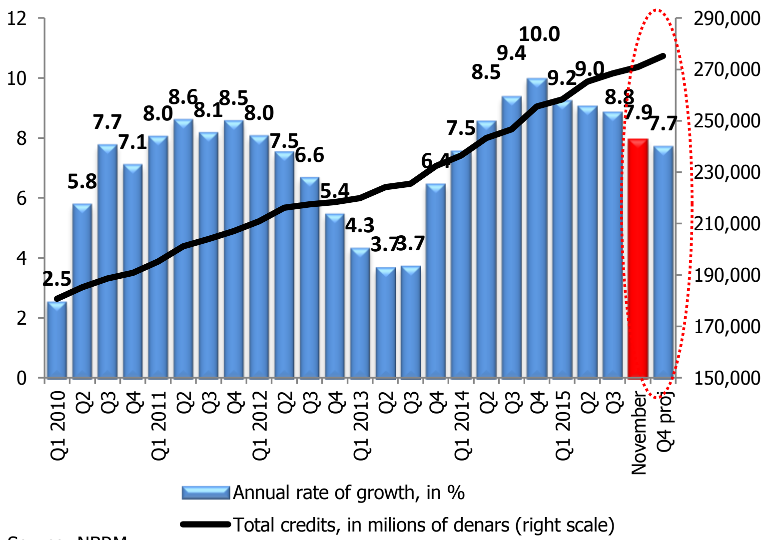
**Broad money, M4**




Source: NBRM.

In November, the broad money increased on a monthly basis, at moderately slower pace compared to the previous month. The growth was entirely due to the expansion of the deposit base, while cash in circulation decreased on a monthly basis. On annual basis, the monetary growth equals 6.8%, 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 4,309 million, which equals 71% 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 outperforming of the projected monetary growth for the end of the year.

**Total loans**

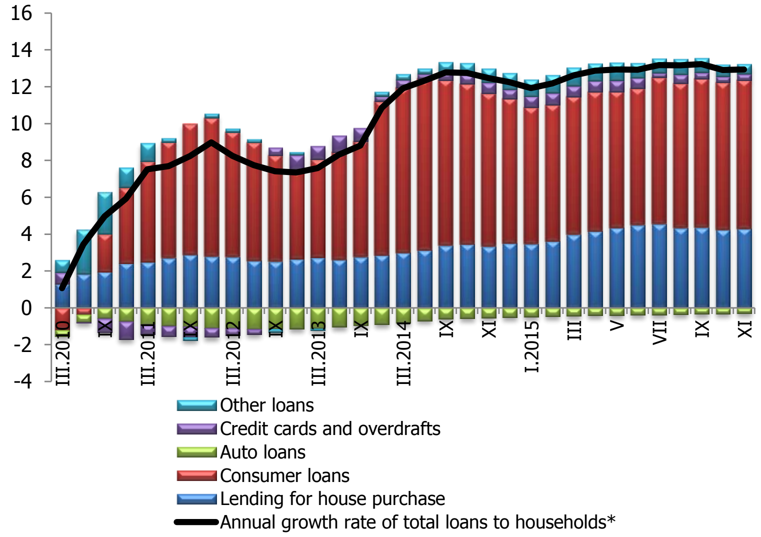



Source: NBRM.

Total loans continued to grow in November, at an accelerated pace compared to the previous month. Lending structure in November shows higher corporate loans (as opposed to the decrease in the previous month) and further growth of loans to households at moderately slower pace compared to the previous month.

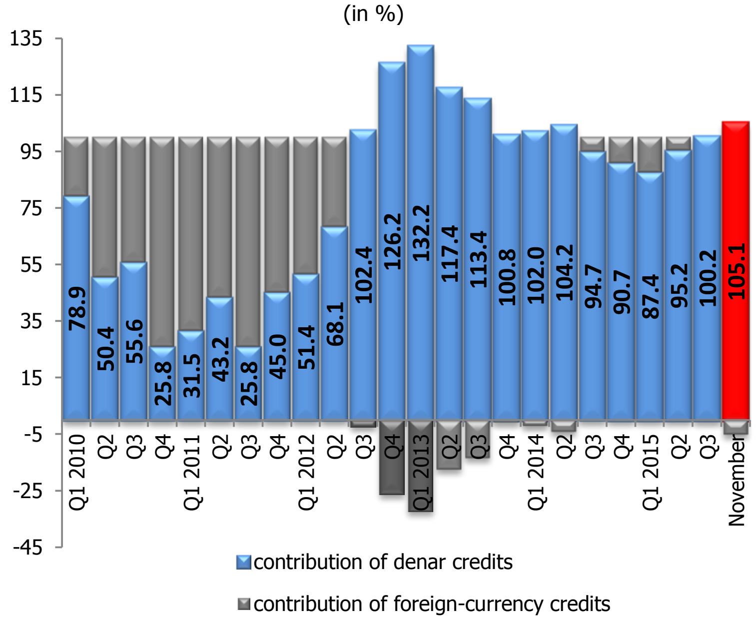
**At the end of November, the annual growth rate of total loans equaled 7.9%, which is above the annual growth of 7.7% projected for the fourth quarter of 2015.** Compared to September, total loans registered a growth of Denar 2,503 million, constituting 37.2% of the growth for the fourth quarter projected in October. 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 under the assumption that the growth rate of total loans registered in the previous two years will continue in December.

**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.

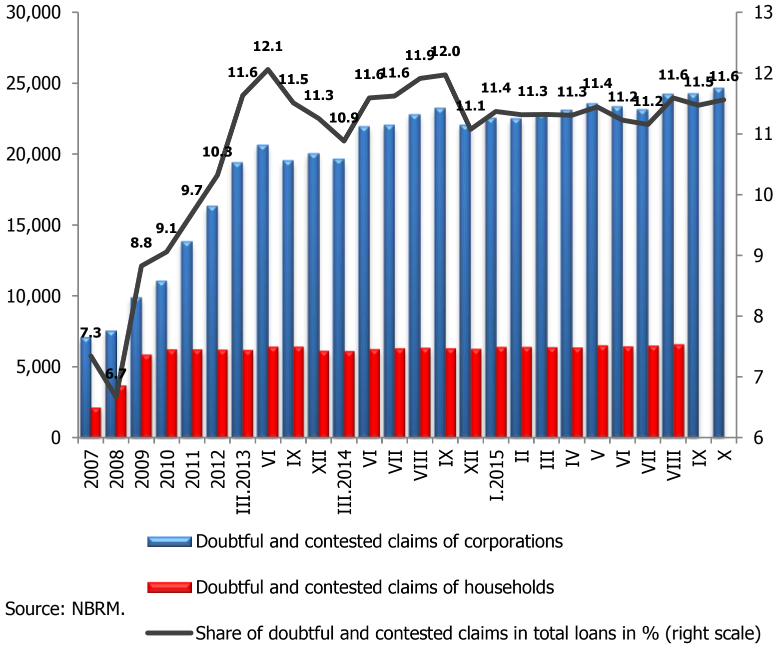
**Contribution of denar and foreign currency loans to the annual growth of total loans**
(in %)




Source:NBRM.

The annual increase of the total loans solely stems from the increased denar loans, while the foreign currency loans registered an annual fall. Sector-by-sector analysis shows greater contribution of household loans to the annual growth of total loans (67.2% in November), which is typical for almost entire 2015.

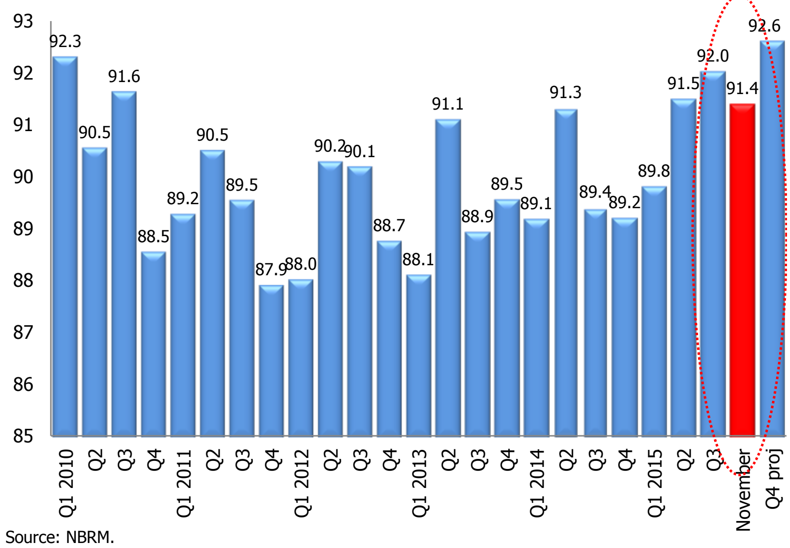
**Share of doubtful and contested claims in total loans**
(in %)




Source: NBRM.

In November, the share of doubtful and contested claims in the total loans recorded a moderate decrease compared to the previous month and amounted to 11.2%, solely driven by the decrease in doubtful and contested claims of the corporate sector, with a slight 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.

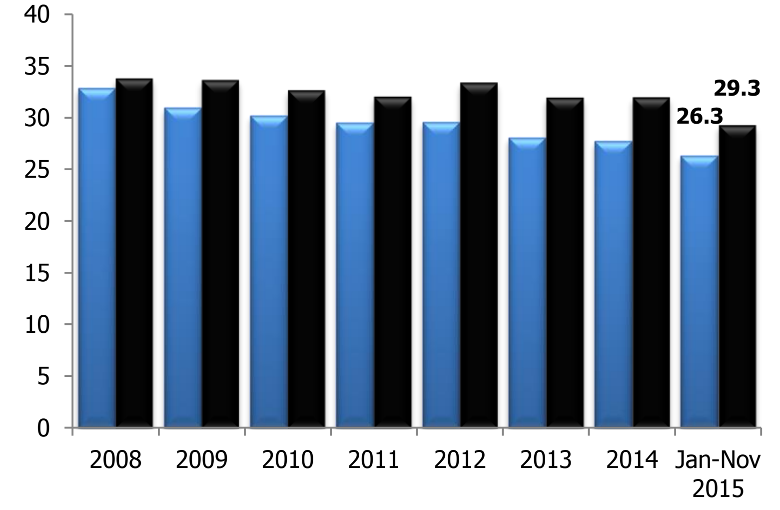
**Loan-deposit ratio, in**
(in %)




Source: NBRM.

The utilization of the deposit potential for lending to the private sector in November 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.

**Budget revenues and expenditures**
(in % of GDP)

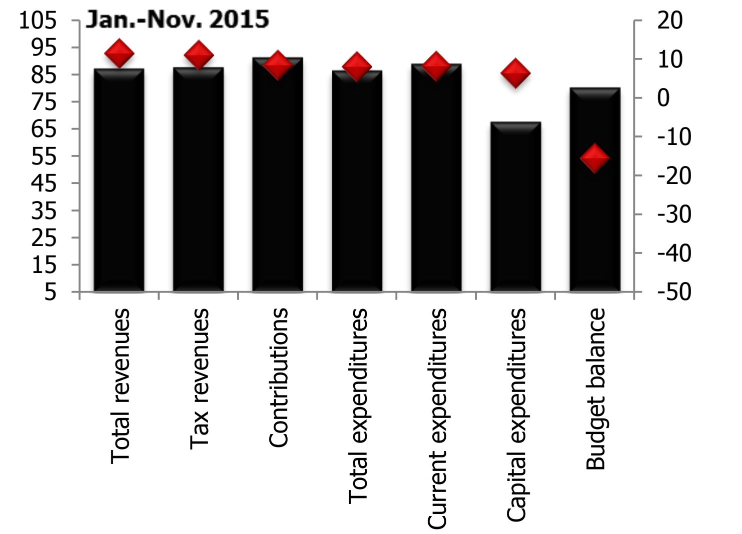



Source: Ministry of Finance and NBRM's calculations.

In the period January-November 2015, the Budget of the Republic of Macedonia (central budget and budget of funds) generated total budget revenues of 26.3% of GDP[13], which is 1.6 p.p. higher compared to the revenues generated in the same period last year. In nominal terms, the budget revenues as of November increased by 11.6% on an annual basis, which largely results from the higher performances in taxes, and to a lesser extent from contributions. Analyzed by category of tax revenues, the largest individual contribution has been made by profit tax, amid annual growth of inflows from excise duties and income tax. Inflows of VAT continued decreasing on an annual basis.

Total budget expenditures in January-November 2015 amounted to 29.3% of GDP, which is 0.9 percentage points higher than budget expenditures incurred in the same period last year. In nominal terms, as of November, budget expenditures were by 8.1% higher compared to the same period last year, which is predominantly due to increased current expenditures, amid increasing capital costs.

**Implementation of the budget (central budget and funds)**

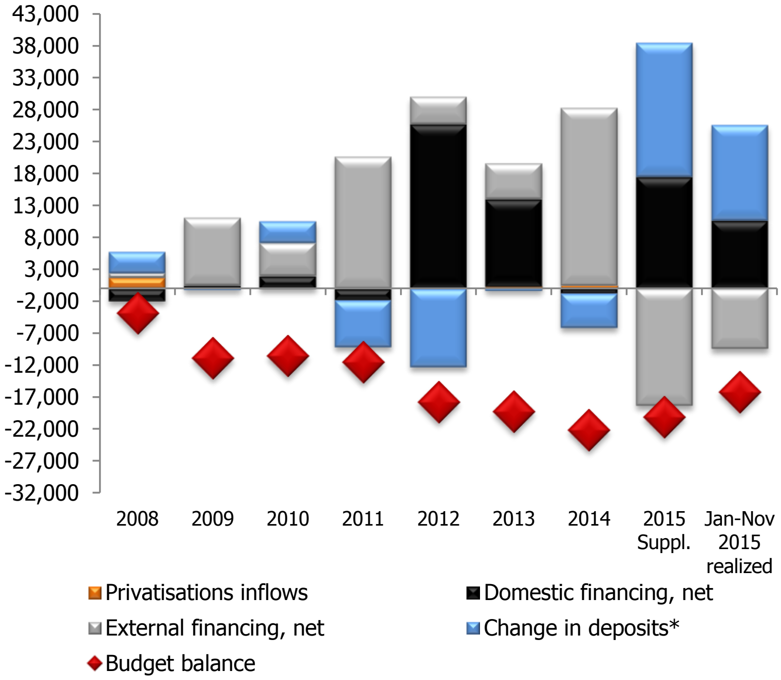



* With respect to the Supplementary Budget for 2015
Source: Ministry of Finance and NBRM's calculations.

In accordance with the Budget Revision[14] for 2015, the realized budget revenues in January-November constituted 87.1% of the revenues projected for entire 2015. Analyzed by individual category, the highest realization was recorded in inflows of profit tax that outperformed the plan for the year by 6.8%, followed by excises (execution of 95.2%). As of November, inflows of VAT equaled 87% of the projection. In terms of expenditures in January-November, 86.4% of the expenditures planned for 2015 were realized. Observing individual categories, as of November, there was a higher realization of current expenditures (88.9%) compared to capital costs (67.9%).

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

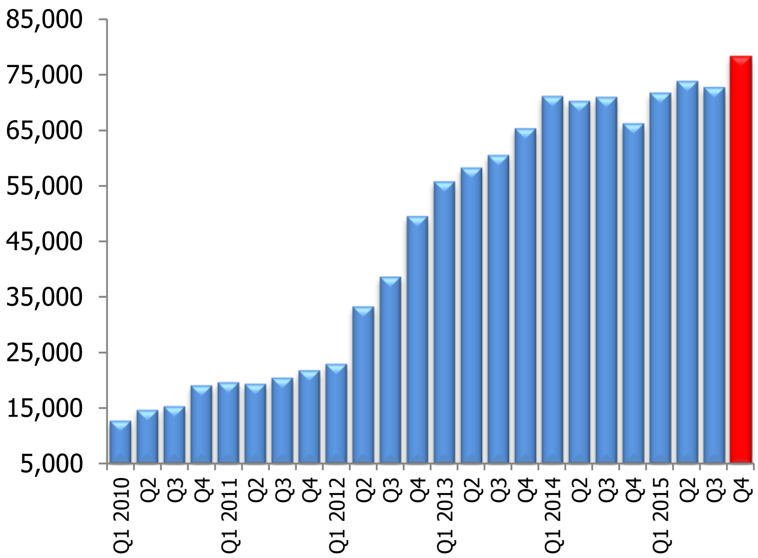
**Financing of the budget balance**
(in millions of denars)




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

In November, **the Budget of the Republic of Macedonia registered a deficit of Denar 1,414 million,** financed through net issuance of government securities in 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 16,153 million (or 2.9% of GDP[15]), representing 80.2% of the projected budget deficit for 2015, according to the Budget Revision. In terms of its financing, in the period January-November, the budget deficit was financed through government deposits with the NBRM and by additional issuance of government securities.

**Stock of total government securities**
(in millions of denars)

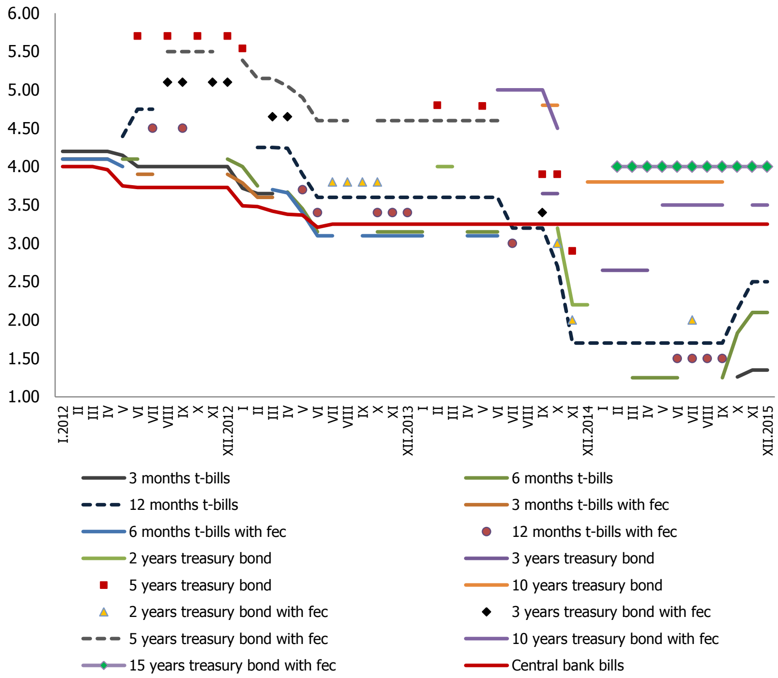



Source: NBRM.

The stock of government securities in the domestic market amounted to Denar 78,334 million at the end of December, and compared to the end of the third quarter, is higher by Denar 5,610 million. The total net issuance of government securities in 2015 amounted to Denar 12,172 million.

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

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




Source: NBRM.

Interest rates on treasury bills offered at the auctions held in December 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 equaled 3.5% and 4% for 10-year and 15-year government bonds with foreign currency clause and 3.8% for 10-year government bonds without currency clause. Interest rates on government securities issued in December remain at the level of previous auctions.

## 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[16], 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.

[16]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).

**October 2014**

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

**March 2015**

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

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

**April 2015**

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

**June 2015**

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

**August, 2015**

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

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

**December 2015**

- The Council adopted the Decision amending the Decision on the methodology for determining the capital adequacy, introducing measures to slow the growth of long-term consumer loans. The measure increases capital requirements for banks on long-term consumer loans with maturity equal to or longer than eight years. Thus, the risk weight for claims on consumer loans with a contractual maturity equal to or longer than eight years, increases from 75% i.e. 100% to 150%. To avoid major shocks in the market of consumer lending, yet the growth rates to be reduced to a moderate level, this measure is aimed only at newly approved long-term consumer loans, i.e. loans with maturity equal or longer than 8 years approved after 1 January 2016. At the same time, this decision introduces higher capital requirement (risk weight of 75%) for the increase of overdrafts and credit cards in relation to 31 December 2015. The aim of this decision is to prevent the possibility of changeover to this type of borrowing as a result of the measure to decelerate consumer loans. Also, this Decision facilitates the access of legal entities to financial services. 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 that requires from banks by 30 June 2016 to write-off all claims that have been fully booked for more than two years, and where the bank has identified and fully covered the credit risk of default at least two years before. According to the existing regulations, banks are required to fully reserve claims where the client defaulted at least 1 up to 5 years if there is a specific collateral, and the new measure requires from banks to write them off two years after their full provisioning. In addition, banks will still be allowed and required to take actions to collect these claims, although they are written off. The measure does not incur additional costs for banks since claims which are fully provisioned are written off, at least two years before.

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

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