

National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators Review of the Current Situation

July 2015

Recent Macroeconomic Indicators

Review of the Current Situation - Implications for the Monetary Policy

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

There are no considerable changes in expectations about the global economic environment compared to the April projections, even though current projections are accompanied by significant adverse risks due to uncertainty about the crisis in Greece. **The latest indicators suggest similar movements in relation to the April projections.** In fact, recent data show further recovery of the euro area, at a quarterly GDP growth rate of 0.4% in the first quarter (i.e. 1% on an annual basis), primarily due to growth in domestic consumption. Also, most high frequency indicators of growth in the euro area in the second quarter of 2015 indicate relatively favorable developments. In May, the unemployment rate in the labor market remained unchanged at 11.1%, representing the lowest rate in the last three years. In terms of inflation, upward price changes continued in June at a rate of 0.2% on an annual basis, and core inflation of 0.8%. The moderate growth of inflation and stabilization of unemployment, as well as the strengthened consumer confidence and positive trends in retail trade suggest further recovery of private consumption, although there are indications of reduced consumer confidence in the peripheral countries of the euro area because of the crisis in Greece. The main challenge for the monetary policy in the euro area remains the return of inflation rate to the targeted path, which is caused by the transmission of the ECB's measures, as well as the geopolitical events and movements in the prices of energy and in the exchange rates. **Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the assessments regarding the foreign effective demand did not register significant changes relative to the April projection.** Although the growth rates were insignificantly revised downward, there are still expectations for gradual recovery in foreign demand in 2015 and acceleration of growth in 2016.

Foreign effective inflation has undergone minor changes, i.e. prices are now expected to increase slightly in 2015 versus the expected rate of 0% in the April assessments, and minimum lower inflation in 2016 compared to the April assessments. **Changes in the expectations for the prices of primary products are divergent.** Recent developments and assessments of **world oil prices** point to similar trends as in the April projections that expected a smaller decline in prices in 2015 and almost unchanged growth rate in 2016. Although minor revisions have been made in the rates compared to the April projections, the previous expectations remain for **metals prices**, i.e. a decline in the nickel price and rise in the price of copper in 2015 and 2016. The assessment for the **food prices** suggests significantly faster growth in the price of corn and wheat during 2015 and 2016, indicating likely stronger import pressures through this channel on domestic inflation compared to the April projections. However, one should note the downward risks to the projections for the global economic environment derived from uncertainty about the resolution of the debt crisis and the consequences of the possible exit of Greece from the euro area, which will probably have a negative effect on the growth in the euro area and countries in the region.

The comparison of the latest macroeconomic indicators with their projected dynamics within the April forecasting round does not indicate major deviations in the individual segments of the economy. Published data on GDP for the first quarter are in line with the expected growth of the economy according to the April cycle projections. Observing the sectors, the

growth has been distributed among several economic sectors, while in terms of demand, the growth structure is similar to the previous quarter. Namely, in the first quarter of the year, the growth was driven by the exports (although at a slower growth rate), amid the solid growth in domestic demand. Indicative high frequency data for the second quarter of 2015 point to further growth of the domestic economy. Analyzing consumer prices, June registered a slight price increase due to higher food prices and core inflation, while energy prices continued to decline. However, the rise of consumer prices in the second quarter remained at a level lower than projected. Taking this into account, despite the moderate upward correction of the key assumptions for world prices during June, **it is assessed that the current movement of consumer prices was as projected for 2015 according to the April projection cycle.**

According to the latest available data, in the second quarter of 2015, foreign reserves (adjusted for the price and exchange rate differentials and price changes of securities) registered a decline, which is slightly higher than the projected for the second quarter of the year. Available data on the external sector so far indicate that the higher decline in foreign reserves than projected is probably determined by the weaker performance in the financial account. Thus, the latest data available as of May indicate a possibility for trade deficit as expected for the second quarter. Data on currency exchange operations indicate slightly lower net inflows of private transfers than projected. On the other hand, performance in the capital and financial account in April showed somewhat lower than projected net inflows. However, it should be borne in mind that the number of available indicators of the external sector is still limited, making it impossible to identify accurately the factors of rising demand for foreign currency on the foreign exchange market and consequently, changes in foreign reserves. Risks surrounding the future dynamics of the foreign reserves are still present and additionally pronounced, and are mainly attributed to the unfavorable and uncertain external and domestic environment, which may cause downward deviations compared to the projected dynamics.

With regard to monetary developments, the initial data on the credit market as of June show further solid growth in total loans to the private sector, which in June was largely distributed among households. Banks have continued to support also the corporate sector, with corporate loans contributing with 33% to the monthly growth of total loans in June. Performance of total loans are better than projected for the second quarter, with an annual growth rate of total loans of 9.1% in June, which is above the projection for the second quarter of 8.8%. Regarding the deposit potential, initial data as of June show growth of total deposits on a monthly basis, which is completely driven by the growth of deposits of the corporate sector. Household deposits register slight monthly decrease for the second consecutive month, (though in June, it is on a smaller scale compared to May), which is primarily driven by Denar component. Such performance in total household deposits in part probably reflects the increased uncertainty derived from domestic political developments and escalating economic and political upheavals in Greece (particularly pronounced in June). Total deposits as of June are lower than projected, so at the end of the second quarter total deposits increased by 8.8% on an annual basis, while the projection envisages growth of 10% annually. The latest assessments of the level of **EURIBOR indicate lower level in the period 2015-2016, compared with the April projection**, where assessments still show expectations for negative interest rate in 2016 (expectations for a positive interest rate in the April projection).

Observing the **fiscal sector**, as of May, the Budget of the Republic of Macedonia registered a deficit of Denar 1,609 million, which was mainly financed by withdrawing funds from the government account with the NBRM and to a lesser extent, by additional net issuance of government securities. Cumulatively, the period January-May 2015 registered a budget deficit of 1.4% of GDP, which in nominal terms constitutes 42.7% of the projected budget deficit for 2015.

In summary, though in the period since last April projections, the domestic and foreign risks have increased, recent macroeconomic indicators and assessments currently do not point to significant changes in the environment for conducting monetary policy. In the

second quarter, foreign reserves registered a higher decrease than expected. Yet, foreign reserves adequacy indicators remain within the safe zone. In terms of inflation, performances in June still indicate a moderate annual growth, and it is assessed that the current performances of the projection are in line with the April projection for 2015. In the first quarter, the GDP growth was as projected, and the latest high-frequency data on economic activity point to continuing growth of the domestic economy in the second quarter. Still, one of the indicators suggesting materialization of negative risks was the industrial output that dropped annually by 3% in the period April-May. Observing credit market, data as of June show further solid growth in total loans, which suggests that the credit growth is higher than projected for the second quarter. Deposits registered weaker performance than expected, which in part perhaps reflects the uncertain domestic and global environment, as factors affecting the household expectations. Yet, the growth of total deposits, amid only two-month slight decline in household deposits implies that it might be a temporary trend. **However, the uncertainty associated with domestic political developments, as well as the development of the Greek debt crisis remains, which leads to increased risks compared with April projections. 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 indicators¹

	2012	2013	2014	2015							
				Jan	Feb.	Mar.	Q.1	Apr.	May	Jun.	Q.2
I. Real sector indicators											
Gross domestic product (real growth rate, y-o-y) ^{1/2}	-0.5	2.7	3.8				3.2				
Industrial production ^{1/3}											
y-o-y	-2.8	3.2	4.8	1.1	3.1	0.6	1.5	-0.9	-5.0		
cumulative average	-2.8	3.2	4.8	1.1	2.1	1.5	1.5	0.8	-0.4		
Inflation ^{1/4}											
CPI Inflation (y-o-y) ^{1/5}	4.7	1.4	-0.3	-1.5	-1.0	-0.3	-0.9	0.1	0.3	0.5	0.3
CPI Inflation (cumulative average)	3.3	2.8	-0.3	-1.5	-1.2	-0.9	-0.9	-0.6	-0.5	-0.3	-0.3
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
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
Labor force											
Unemployment rate	31.0	29.0	28.0				27.3				
II. Fiscal Indicators¹											
(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		
Total budget expenditures	155,840	159,505	168,063	12,732	14,467	16,881	44,080	14,375	15,359		
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301	8	-1,609		
Overall balance (in % of GDP) ¹	-3.8	-3.9	-4.2	-0.4	-0.4	-0.3	-1.1	0.0	-0.3		
III. Financial indicators ^{1/6}											
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		
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		
Total credits - households	6.5	10.2	11.8	11.5	11.8	12.1	12.1	12.3	12.4		
Total credits - enterprises	4.5	3.8	8.6	7.5	7.3	7.1	7.1	8.7	7.4		
Total deposits (incl. demand deposits), y-o-y growth rate	4.9	6.1	10.4	10.6	9.5	8.4	8.4	9.5	8.4		
Total deposits - households	7.2	6.7	8.9	8.4	7.6	8.1	8.1	7.5	6.9		
Total deposits - enterprises	-1.6	3.1	15.7	17.4	14.4	9.0	9.0	17.1	14.5		
Interest rates ^{1/7}											
Interest rates of CBBills	3.7	3.3	3.25	3.25	3.3	3.3	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		
f/x rates	6.8	6.4	6.3	6.1	6.0	6.0	6.0	5.9	5.9		
Deposit rates											
denar rates (aggregated, incl. denar and denar with f/x clause)	4.8	4.1	3.7	3.3	3.2	3.1	3.2	3.0	3.0		
f/x rates	2.1	1.6	1.4	1.5	1.5	1.4	1.5	1.4	1.3		
IV. External sector indicators											
Current account balance (millions of EUR)	-223.7	-146.8	-113.7	36.1	7.4	-80.6	-37.1	-60.3			
Current account balance (% of GDP)	-1.6	-1.8	-1.3	0.4	0.1	-0.9	-0.4	-0.7			
Trade balance (millions of EUR)^{1/8}	-1,948.2	-1,756.6	-1,762.0	-73.7	-109.7	-194.5	-377.9	-202.6	-117.0		
Trade balance (% of GDP)	-25.6	-21.7	-20.8	-0.8	-1.2	-2.2	-4.2	-2.2	-1.3		
import (millions of EUR)	-5,061.8	-4,968.4	-5,484.9	-365.5	-408.8	-533.6	-1,307.9	-497.8	-468.3		
export (millions of EUR)	3,113.5	3,211.8	3,723.0	291.8	299.1	339.1	929.9	295.2	351.3		
rate of growth of import (y-o-y)	0.2	-1.8	10.4	-2.9	-2.2	19.7	5.4	9.2	-2.2		
rate of growth of export (y-o-y)	-3.2	3.2	15.9	24.0	6.5	13.7	14.2	0.0	11.0		
Foreign Direct Investment (millions of EUR)	117.3	263.8	278.0	37.6	13.4	21.6	72.6	36.6			
External debt											
Gross external debt (in millions of EUR)	5171.7	5219.7	5954.4				6185.2				
public sector	2162.1	2172.4	2847.1				3024.9				
public sector/GDP (in %)	28.5	26.8	33.4				33.6				
private sector	3009.5	3047.4	3107.3				3160.3				
Gross external debt/GDP (in %)	68.2	64.3	69.8				68.7				
Gross official reserves (millions of EUR)^{1/9}	2,193.3	1,993.0	2,436.5	2,484.4	2,330.8	2,354.9		2,344.3	2,328.5	2,255.9	
Gross official reserves (months of imports)^{1/10}	4.7	3.8	5.1	5.0	4.7	4.8		4.6	4.6	4.5	

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

² Preliminary data for 2014. Estimated data for 2015.

³ The changes of Index of industrial production are according to base year 2010=100.

⁴ CPI calculated according to COICOP.

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

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

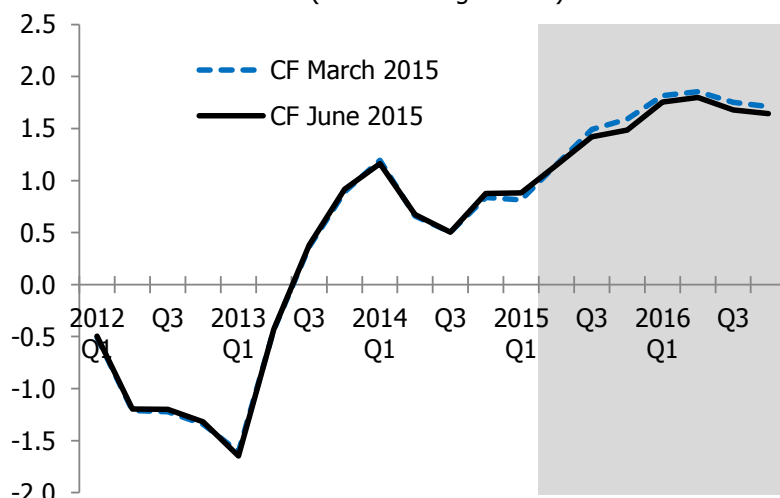
⁷ As of January 2015 data for active and passive interest rates are compiled according to the new methodology of NBRM.

⁸ Trade balance according to foreign trade statistics (on c.i.f. base).

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

¹⁰ The data on gross official reserves (in months of imports) for 2015 is calculated on the basis of projected imports for the next four quarters (according to the April projection in 2015).

Foreign effective demand
(annual changes in %)



Source: "Consensus Forecast" and NBRM calculations.

Compared with the April projection, minimal downward correction has been made of the rise of foreign effective demand.

Now, it is predicted that in 2015, foreign demand will increase by 1.2% versus 1.3% in the April projection...

...which, given the slightly more favorable expectations of economic trends in nearly all of our other major trading partners, largely stems from the significant downward revision of GDP growth in Greece, and to a lesser extent, from the expected revision of economic activity in Serbia.

Lower estimates for economic growth in Greece are the main reason behind the downward revision of the growth in foreign demand in 2016...

...which is now expected to amount to 1.7% instead of 1.8% in April.

On the other hand, the foreign effective inflation has undergone a moderate upward revision in 2015...

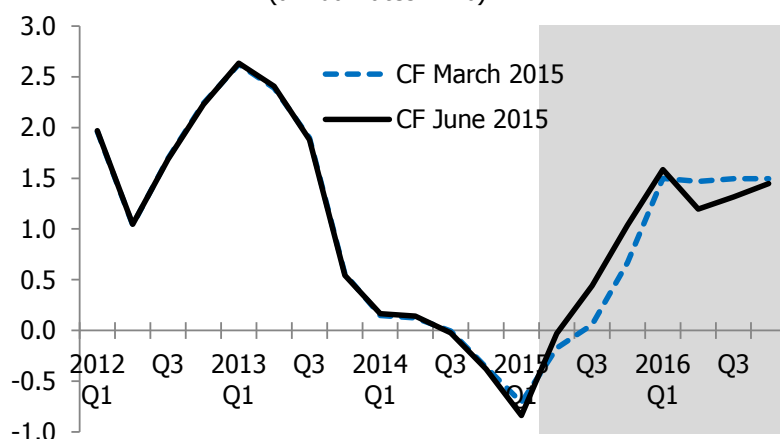
...which is estimated to amount to 0.2%, unlike the April forecast of 0%...

... primarily as a result of expectations of lower negative contribution from price movements in Serbia¹, as well as estimates of higher inflation in Croatia and Germany.

In contrast, it is estimated that foreign inflation in 2016 will be slightly lower than the April projection, and will equal 1.4% instead of 1.5%...

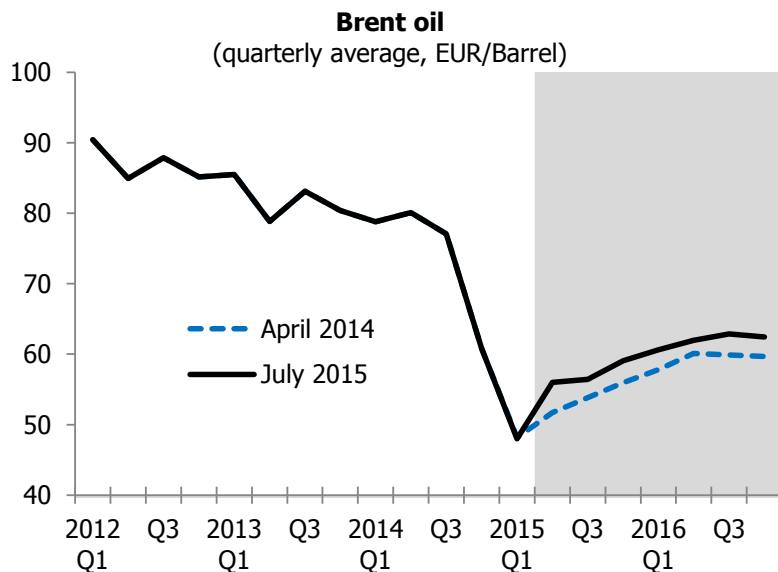
...largely due to lower imported inflation from Serbia.

Foreign effective inflation
(annual rates in %)



Source: "Consensus Forecast" and NBRM calculations.

¹ Inflation in Serbia and Croatia has been adjusted for the changes in the exchange rate.



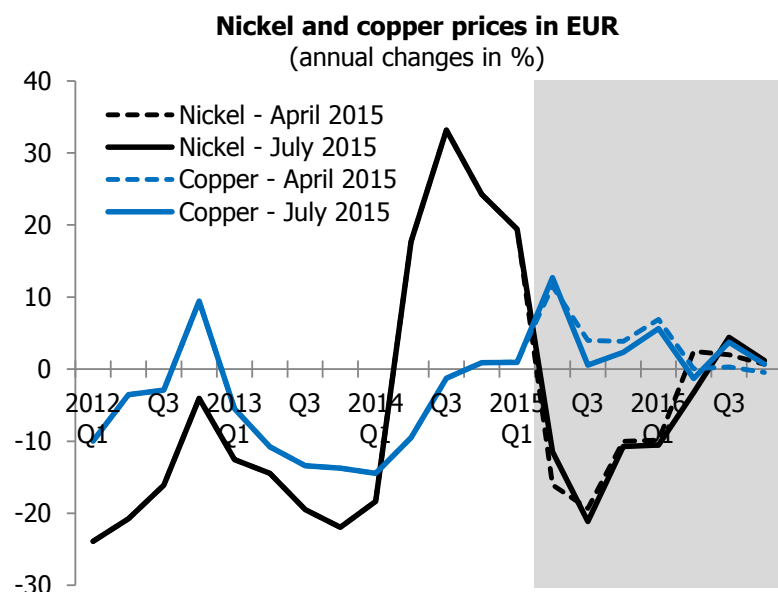
Source: IMF and NBRM calculations.

Recent estimates of the price of oil are close to the April projections.

Thus, in 2015, it is expected that the decline in oil prices will be somewhat lower than the April projection...

... amid strengthened demand and signals for downward adjustment of oil production in the United States.

On the other hand, the expected growth in oil prices in 2016 is almost identical to the April projection.



Source: IMF and NBRM calculations.

The latest revisions of metal prices in euros in the projection period are in the opposite direction.

Thus, in 2015, it is expected that the price of nickel will decline at a slightly slower pace than assessed in April...

...amid expectations of tighter supply conditions and possible effects on demand of any stimulus measures in China...

...unlike the price of copper, which is expected to rise slightly slower than projected in April...

...amid low boost of global demand and possibility for higher performance on the supply side.

On the other hand, higher increase in the price of copper and faster decline in the price of nickel is now expected in 2016.

During the projection period, prices of primary food products are significantly revised upwards.

Recent estimates show that the price of wheat will register a higher growth than projected in April...

... as a result of growing concern over the impact of adverse weather conditions on wheat crops, especially in the North America, Australia and Russia...

...amid simultaneous projection for faster growth in the price of corn...

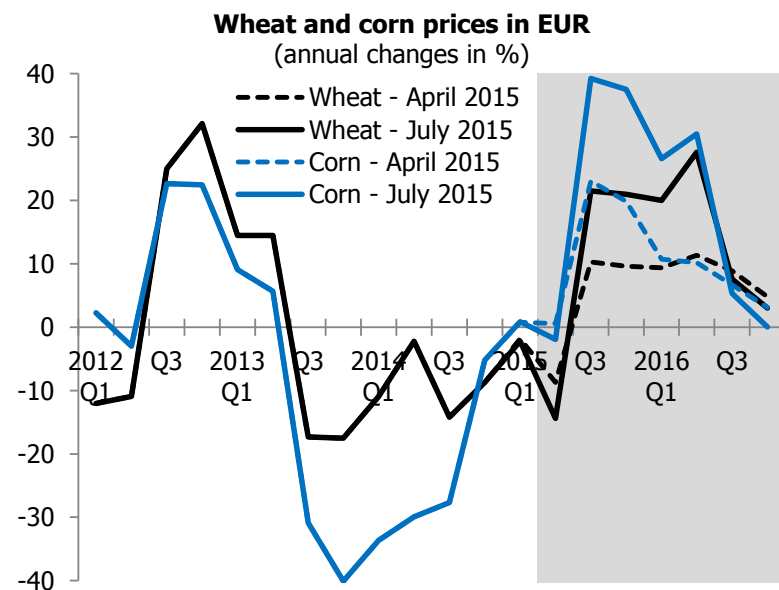
...with the assessments for reduced plantings of corn in the United States making further impact.

Stock market prices of cereals for 2016 are also projected to rise more than projected in April.

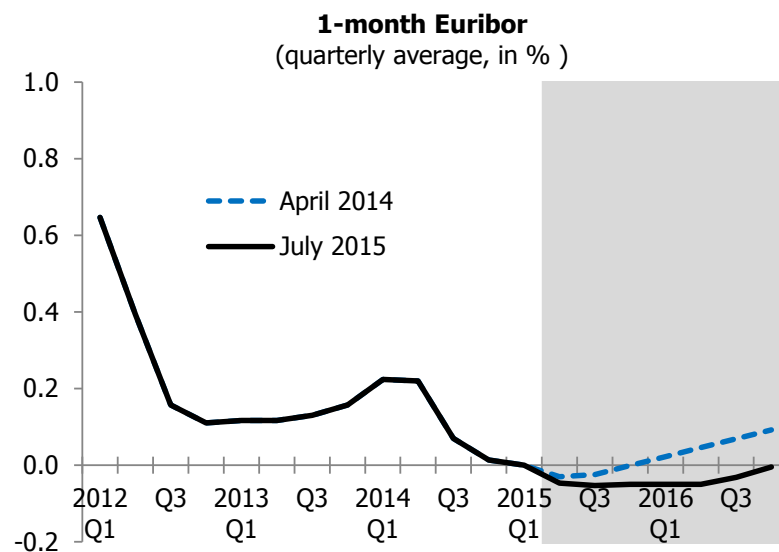
One-month EURIBOR is estimated to be in the negative zone in 2015 and 2016 and equal -0.04% and -0.03%, respectively, which compared with the April projection is downward revision...

...mainly due to the commitment of the ECB to implement the public and private sector asset purchase program, aimed to increase excess liquidity in the financial system of the euro area.

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

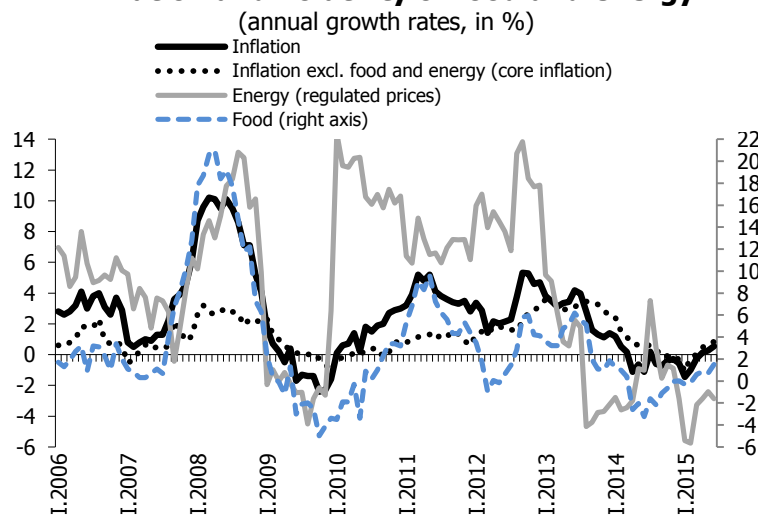


Source: IMF and NBRM calculations.



Source: "Consensus Forecast" and NBRM calculations.

Inflation and volatility of food and energy



After the moderate growth in the previous three months, consumer prices in June remained at the level of May (monthly inflation rate of 0%)...

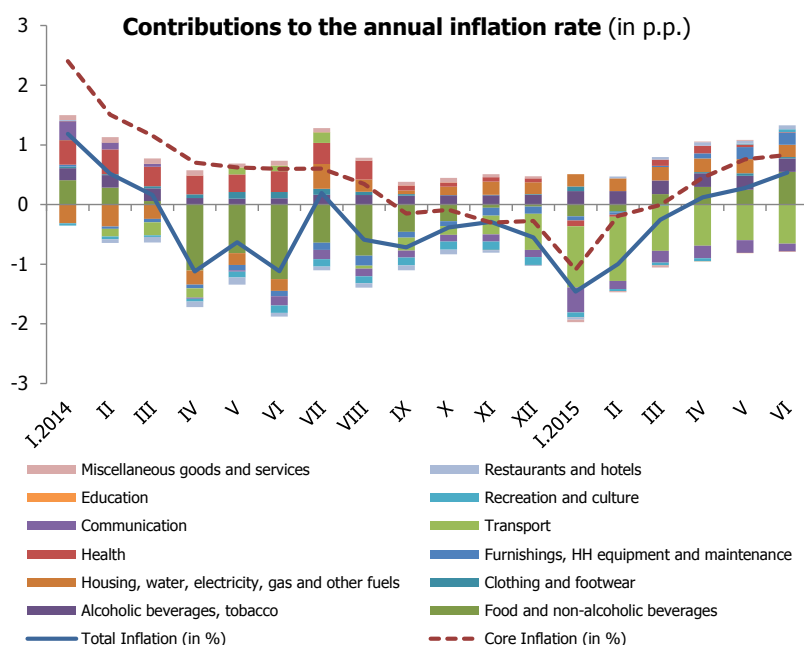
...given the small increase in food prices, slight decline in energy prices and unchanged core inflation rate².

In June, consumer prices continued to rise on an annual basis. The overall price level registered an annual growth of 0.5%, which is slightly stronger, compared to the previous two months...

...representing a slight upward deviation compared with the expected rate of inflation in the April cycle projections...

...due to the higher growth in the core inflation rate and the smaller decline in energy prices compared to projected trends. On the other hand, food prices have risen (in line with the predicted movements), but at a slower pace than expected.

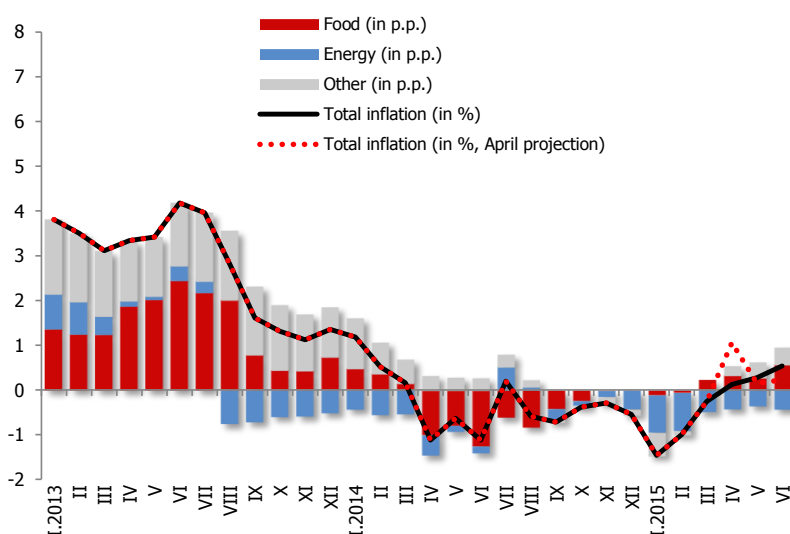
However, despite the slight upward deviation in June, speaking for the entire quarter, growth in consumer prices again dropped below the level projected in April.



² Categories that make the greatest individual contribution to the June inflation rate include unprocessed vegetables (monthly price decrease of 7.3%) and fruit (monthly price increase of 16.1%).

Inflation rate

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



Source: SSO and NBRM.

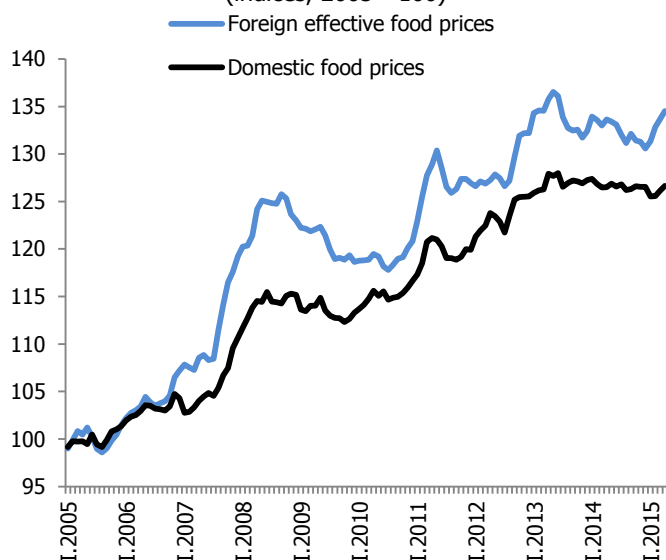
In June, core inflation equaled 0% (versus the moderate monthly growth of 0.5% in May)...

...while on an annual basis, it is positive and amounts to 0.8%.

In terms of the structure of core inflation, the June growth was largely driven by higher prices of tobacco products and home maintenance products.

Foreign effective food prices* and domestic food prices

(indices, 2005 = 100)



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

Source: State statistical office, Eurostat and NBRM calculations.

Exogenous assumptions for 2015, which are included in the inflation projection, have been revised upward.

Thus, according to recent estimates, the **foreign effective inflation** for 2015 registered a slight upward revision.

Upward adjustments relative to the expected movement by the end of 2015 have been observed in the **prices of internationally traded primary food commodities** (expressed in euro)...

...as a result of the growing concern over the impact of adverse weather conditions, additionally influenced by the assessments for reduced plantings of corn in the United States.

Oil prices are expected to further decline by the end of 2015, but compared with April projections, it was adjusted slightly upward (slower fall)...

...given the recovery of demand and indications of a downward adjustment of oil production in the United States.

The upward adjustment of the expected movement in the exogenous assumptions in June indicates **moderate upward risks to the April projection**. However, as noted in the previous report, the high uncertainty surrounding the projected movement of prices of primary commodities in world markets continues.

On the other hand, **the growth of consumer prices in the second quarter is still lower than projected**.

Taking into account these changes, in June it **was estimated that the current movement of consumer prices was in line with the projected growth of prices for 2015**.

In April 2015, the nominal annual growth of **average net wage** accelerated by 2.7% (versus 1.9% in March).

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

...amid faster growth in the mining and partially in the services sector (health, arts, entertainment and recreation, and other services)...

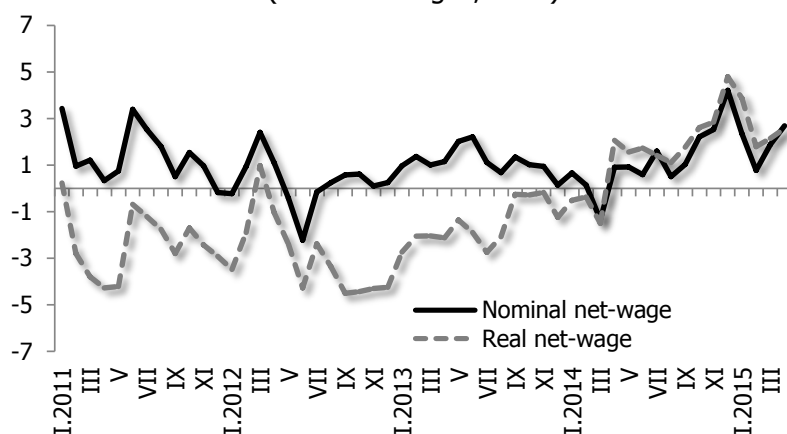
...while annual decrease was registered only in the wages in transport, hotels and restaurants, and real estate sector.

Amid stable domestic prices, in April, **real wages** rose by 2.6%, close to the nominal growth.

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

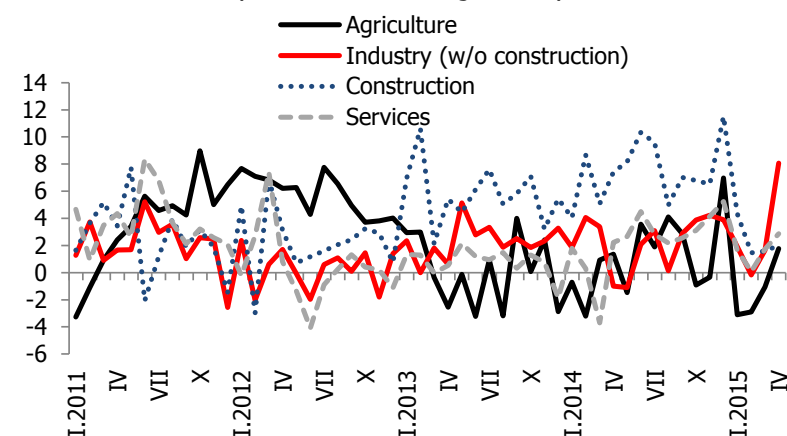
In the first quarter of 2015, the real annual economic growth was 3.2%,

Average net-wage
(annual changes, in %)



Source: SSO.

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



Source: SSO.

which is in line with the expected rate in the April projection (3.1%).

On the **production side**, favorable movements were registered in almost all economic sectors, with the industry, construction and trade, transport and tourism sector making the highest annual contribution to the economic growth...

...while **in terms of demand**, the increase in GDP is the result of growth in exports and higher domestic demand (amid growth in household consumption and investments).

Most of the high-frequency data for the second quarter of 2015 point to continuous growth of domestic economy.

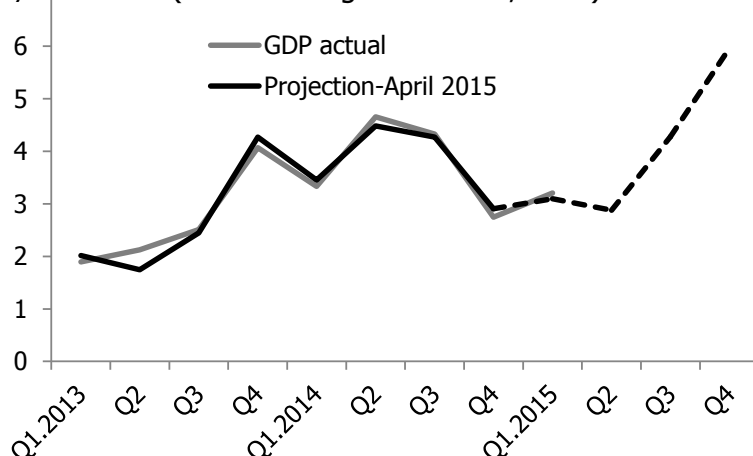
In the period April-May, the growth of **trade** turnover continued ...

...given the growth of the turnover in the wholesale and retail trade and motor vehicles.

Favorable movements were observed in the **construction sector**, which in April registered increased value of completed construction works (as opposed to their decline in the first quarter)...

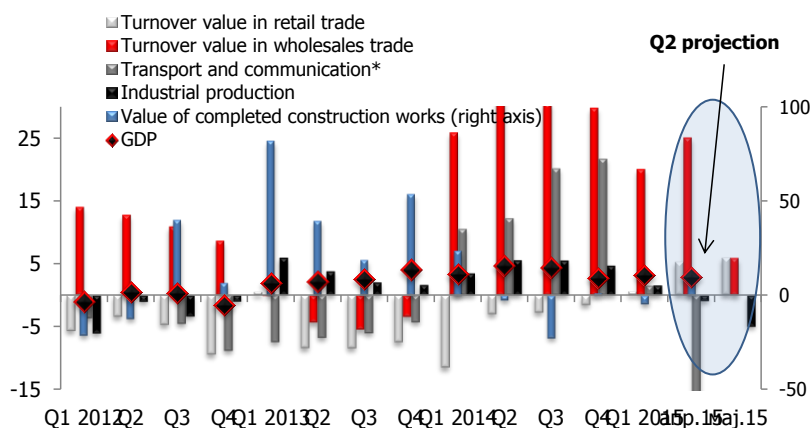
...as well as in **hotels and restaurants** (higher number of tourists, number of overnight stays, turnover) and in the **transport sector**.

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



Source: SSO and NBRM projections.

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.

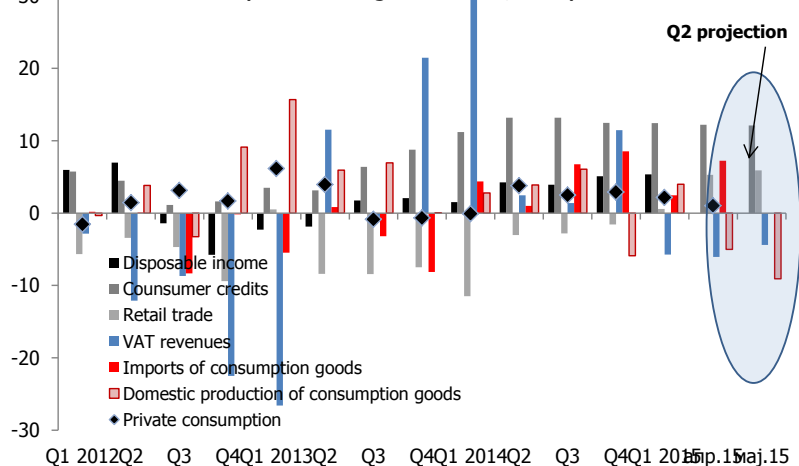
On the other hand, the data for the period April-May indicate worsened conditions in the industry...

...i.e. in the same period, industrial output recorded an annual decline of about 3% amid reduced production in mining, manufacturing and energy sectors. Analyzing manufacturing industry, a significant decline was registered in the production of tobacco products, clothing, fabricated metal products and rubber products.

The fall in production was to some extent mitigated by increased production of the facilities in the technological and industrial development zones (manufacture of electrical equipment and machinery and equipment), higher production of pharmaceuticals, furniture and metals.

Despite the decline in industrial output, surveys conducted in April and May indicate continued growth of the degree of capacity utilization and more optimistic perceptions of the managers of the manufacturing sector about the output volume in the next three months. These developments point to a possible improvement of the situation in this sector in the last month of the quarter.

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



Source: SSO and NBRM calculations.

Available indicators of aggregate demand mostly point to economic growth in the second quarter of 2015, which is consistent with the expectation in the April projection.

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

...amid similar pace of annual growth of real wages and private transfers...

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

The growth of household consumption reflects the higher import of consumer goods, on average, in the first two months of the second quarter (although at a slower

pace compared to the previous quarter), and real growth of retail trade, after the moderate growth in the previous quarter.

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

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

...given the accelerated pace of growth in lending to the corporate sector and in import of investment goods...

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

Positive changes have also been observed in construction (higher value of completed construction works in April) and in foreign direct investments.

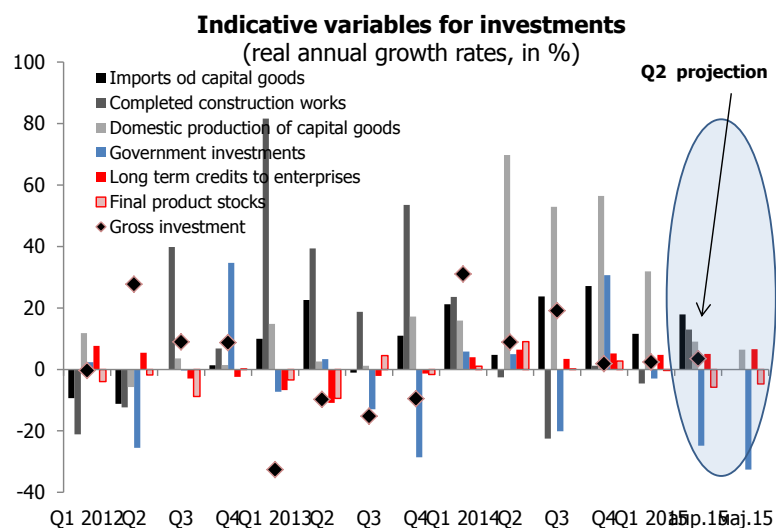
On the other hand, unfavorable trends have been observed in data on budget capital expenditures and inventories of finished products.

Nominal data on **foreign trade in goods** as of May 2015 show certain narrowing of the trade deficit, as opposed to the expected expansion in the April projection...

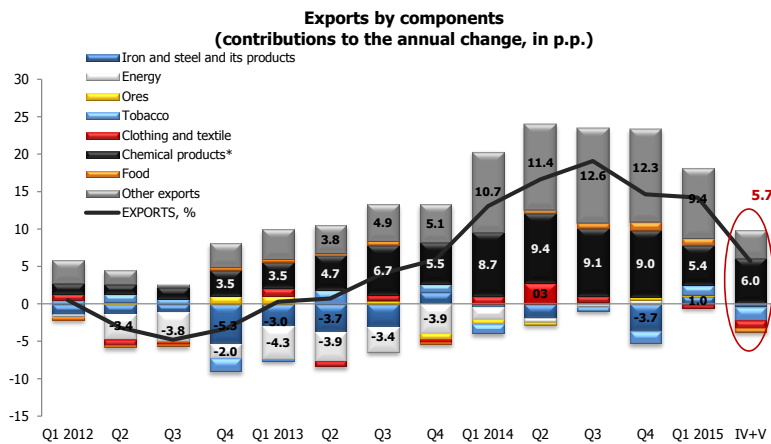
In the first two months of the second quarter of 2015, budget performances indicate increased **public consumption**, as projected in April...

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

Generally, favorable movements in most of the high-frequency indicators point to a conclusion that the growth will continue in the second quarter of the year, given the increased risks arising from non-economic factors related to the political upheaval in the country, as well as the economic and political developments in Greece.



Source: SSO and NBRM calculations.



Source: NBRM.

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

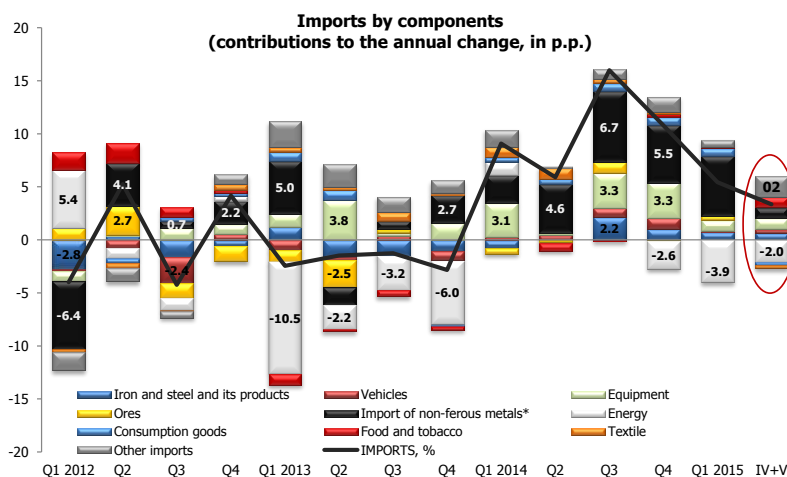
During April and May, the foreign trade deficit narrowed by 1.1% on an annual basis, given the stronger annual growth in exports relative to imports of goods...

...which is contrary to the expected widening of the trade deficit in the second quarter, according to the April projection.

Export of goods in April and May registered an annual growth of 5.7%, driven by the accelerated activity of the new facilities in the economy...

...while lower exports was recorded at traditional export products - tobacco and clothing and textiles.

Compared with the April projection, exports registered in the period April-May points to better than expected export performance for the second quarter. The positive deviation stems from the good export performance of the new facilities, while exports of tobacco and clothing were weaker than expected.



Source: NBRM.

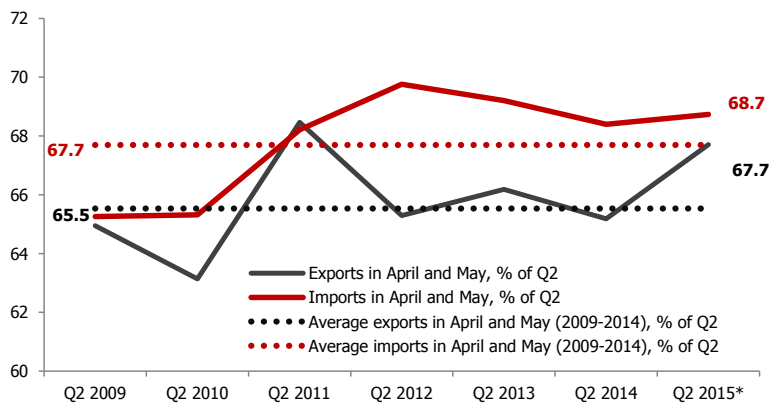
* The following data depict the overall imports of one major export capacity in the free industrial zone.

Imports in April and May increased by 3.3% on an annual basis, largely due to the increase of import of raw materials for new facilities, and to a lesser extent, to higher imports of food...

...while energy imports again declined on an annual basis, as a combined quantity and price effect.

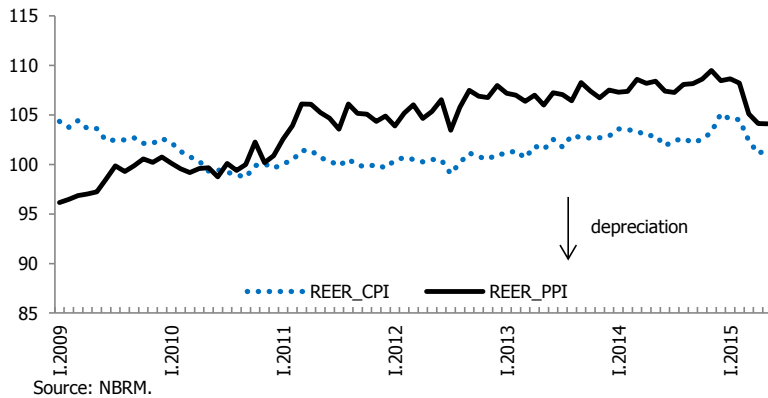
Imports in April and May are higher than projected for the second quarter. Considering the categories, upward deviation is observed in energy imports and raw materials imported by a major new facility, unlike the import of consumer goods and textiles, which is lower than expected.

Share of exports and imports of goods in April and May relative to Q2 projection



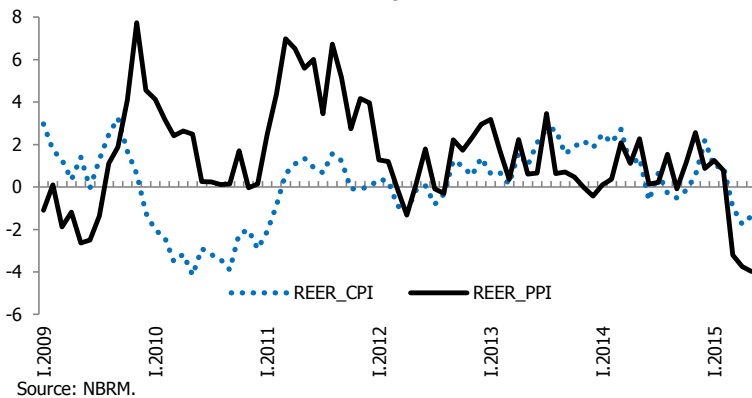
The performance of exports and imports in April and May point to trade deficit which is in line with the one projected for the second quarter, according to the April projection.

REER
(2010=100)

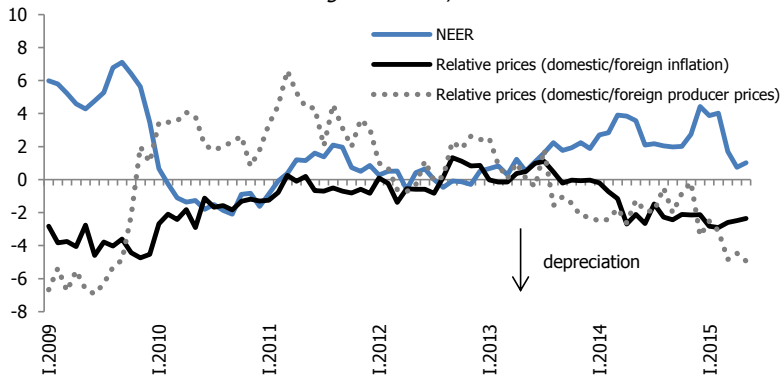


In May 2015, price competitiveness indicators of the domestic economy registered further improvement on an annual basis. Compared with the same period of the previous year, the REER deflated by consumer prices depreciated by 1.4%, while the REER deflated by producer prices depreciated by 4%.

REER
annual changes, in %

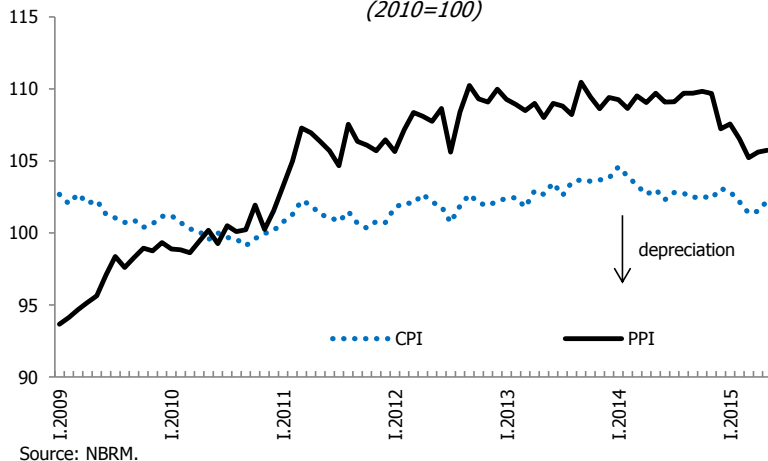


NEER and relative prices
annual growth rates, in %



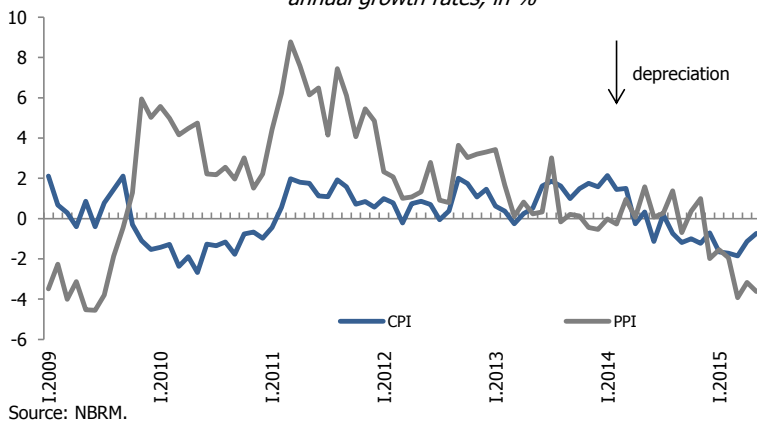
Such performances are entirely due to the reduction in relative prices. Namely, the relative consumer prices registered an annual decline of 2.4%, amid faster growth in foreign relative to domestic prices, while the relative prices of industrial products decreased by 4.9%, amid rise in foreign versus fall in domestic prices. The movement of NEER acted in the opposite direction, and appreciated by 1% as a result of the depreciation of the Russian ruble and the Ukrainian hryvnia against the Denar.

REER, excluding primary commodities
(2010=100)



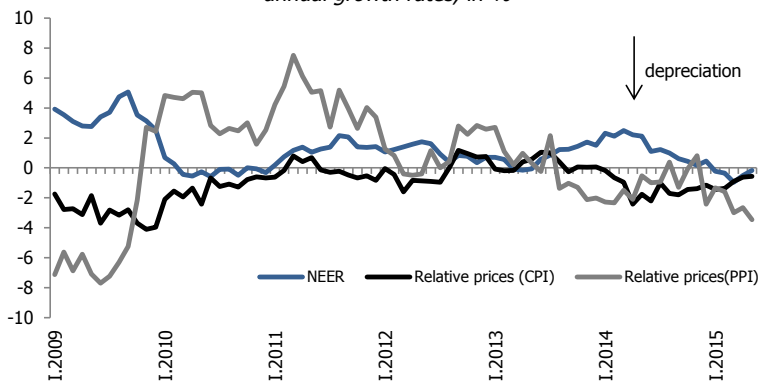
The analysis of the movement of the REER indices, as measured using weights based on the foreign trade without primary products³, still indicates improvement in the price competitiveness of domestic economy. The index of REER deflated by consumer prices and REER deflated by producer prices of industrial products depreciated annually by 0.7% and 3.6% respectively.

REER, excluding primary commodities
annual growth rates, in %



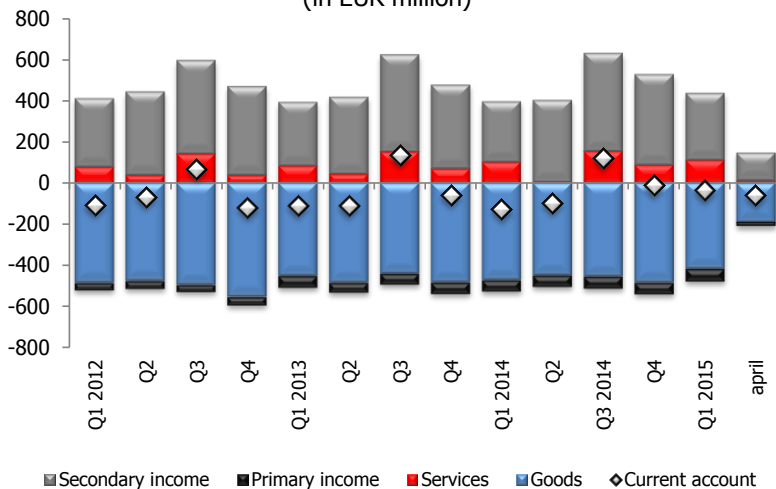
³ Primary products that are not included in the calculation are as follows: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

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



The improvement in both REER indices is a result of both the NEER depreciation (of 0.2%) and the annual fall of relative prices. On an annual basis, the relative consumer prices and the relative producer prices decreased by 0.5% and 3.5%, respectively.

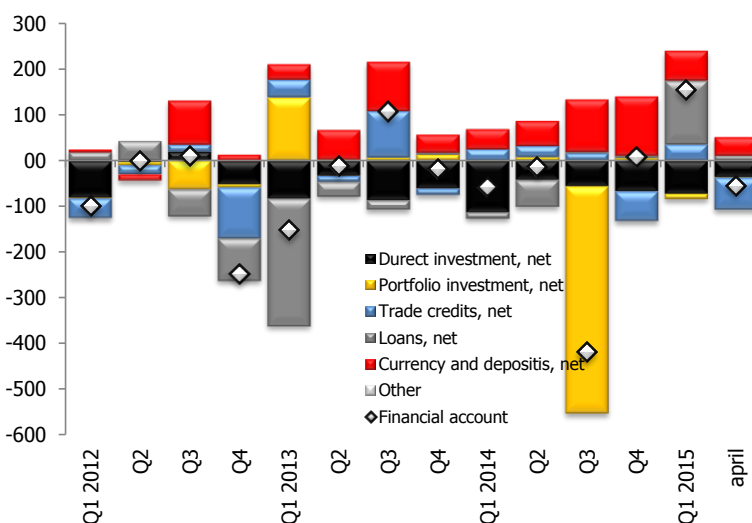
Main components of the current account
(in EUR million)



In April 2015, the current account registered a deficit of Euro 60.3 million (or 0.7% of GDP), indicating a likelihood of slightly higher deficit than expected...

...weaker performances are almost entirely due to the higher deficit in the balance of goods and services, while the deficit in the primary income and the surplus in the secondary income are in line with the April projection.

Financial account components
(in EUR million)

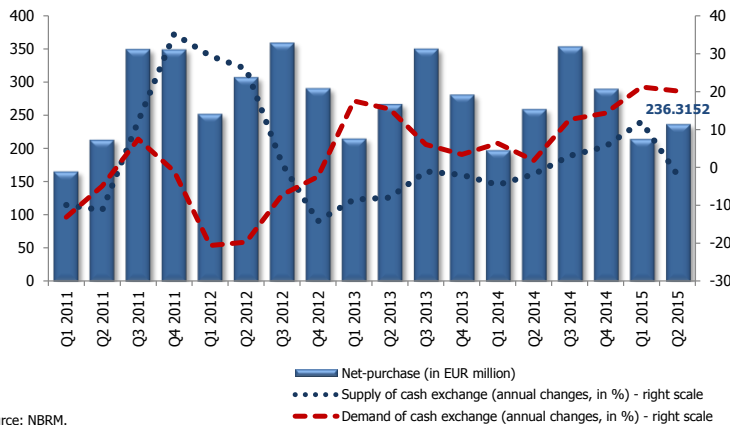


In April, the financial account registered net inflows of Euro 54.8 million (or 0.6% of GDP), which indicates the possibility of slightly improved financial flows than expected⁴.

Such deviations mainly results from net inflows of trade credits, as opposed to the expected net payments in accordance with the April projection, and higher than expected direct investments. On the other hand, loans registered net outflows contrary to the projected net borrowing of both sectors (public and private sector), but also higher net outflows in currency and deposits (due to withdrawal of banks' funds from their accounts abroad), compared with the April projection.

⁴ 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.

Cash exchange market



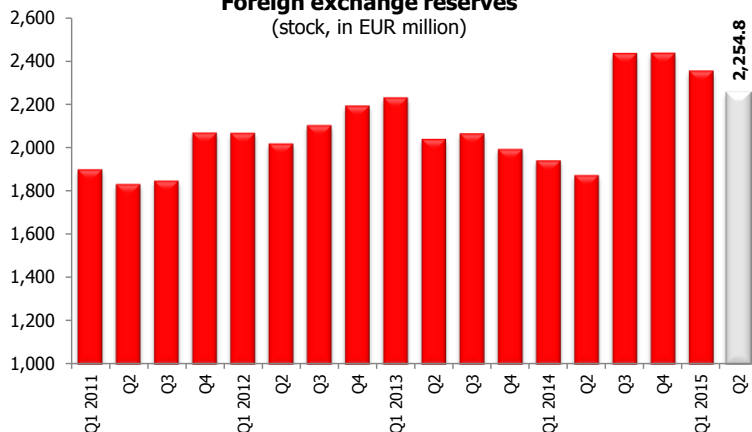
Source: NBRM.

Recent data on currency exchange operations, as of June 2015, after three consecutive quarters of growth, point to a decline in the supply of foreign currency, amid continuous annual growth in the demand for foreign currency.

The net purchase in the foreign exchange market in the second quarter totaled Euro 258.5 million, which is an annual decline of 8.8%. During the quarter, May recorded the strongest decline, while in other months, the decline was moderate.

The latest data available from the currency exchange market indicate that net inflows of private transfers in the second quarter of 2015 are somewhat lower than expected in April.

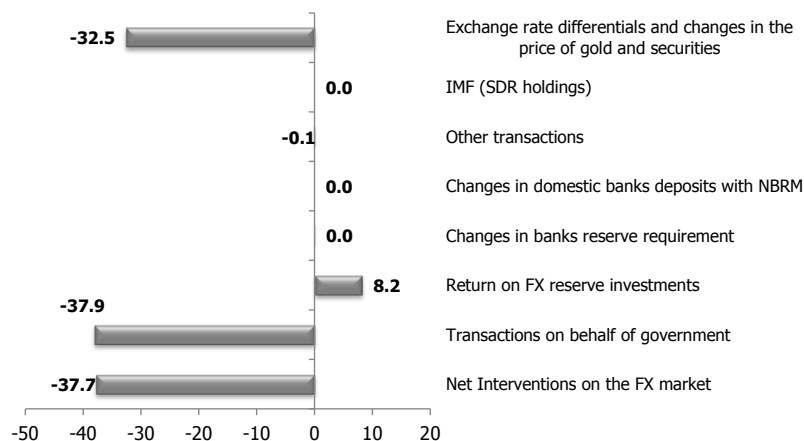
Foreign exchange reserves
(stock, in EUR million)



Source: NBRM.

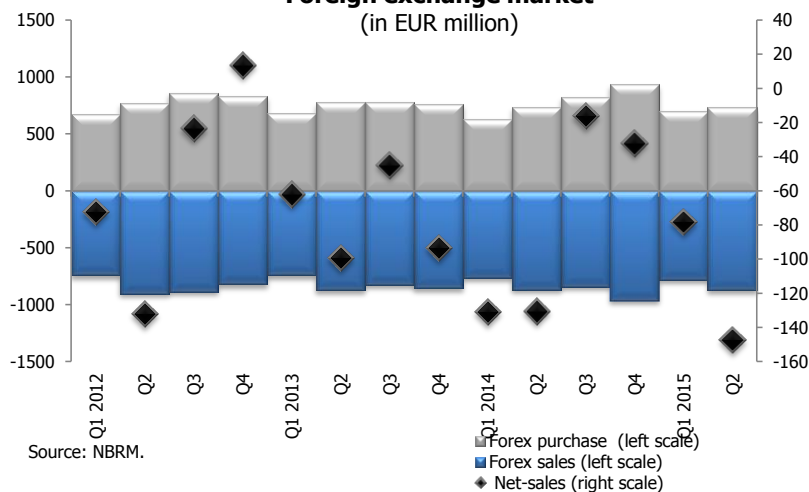
As of 30 June 2015, the gross foreign reserves stood at Euro 2,254.8 million, down by Euro 100 million compared to the end of the first quarter of 2015. The reduction in foreign reserves was mostly due to net sales of foreign currency on the foreign exchange market by the NBRM, transactions on behalf of the government and negative exchange rate differentials and changes in the price of gold.

Factors of change of the foreign reserves in the second quarter (in EUR million)



Source: NBRM.

Foreign exchange market (in EUR million)



Source: NBRM.

In the second quarter of 2015, at the **foreign exchange market**, banks sold net amount of Euro 147 million, which is an annual increase of 12.9%. This annual change is a result of the minor decrease in the supply of foreign currency amid slight annual increase in the demand (of 0.6% and 0.8%, respectively).

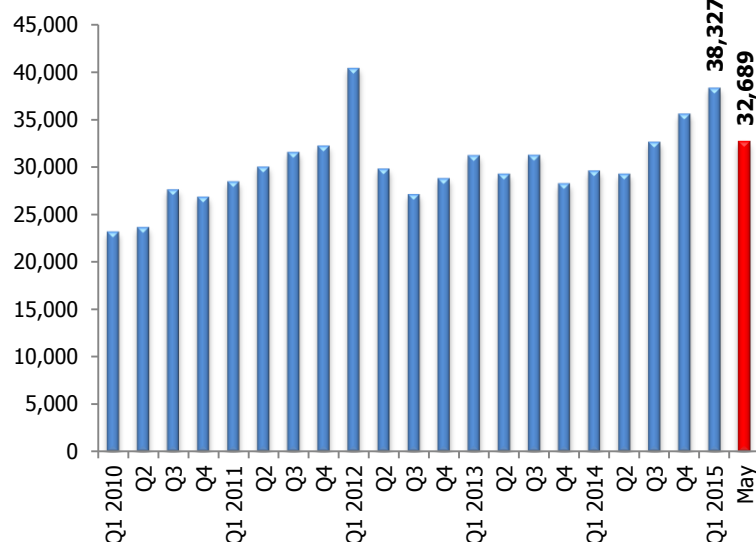
Sectoral analysis shows that these annual performances are mainly due to lower net purchase among natural persons and exchange offices, amid lower net sales of firms.

Data as of May point to creating liquidity through monetary instruments relative to the end of the first quarter in the amount which is by 2.5 times higher than that projected for the second quarter, according to the April projection.

Analyzing the flows of creating and withdrawing liquidity (from the balance sheet viewpoint), as of May, net foreign assets of the NBRM registered a decline compared to March, which is moderately higher than the projected reduction for the second quarter. On the other hand, in May, the total government deposits with the NBRM registered a slight increase of Denar 116 million compared to the end of the first quarter. Thus, from balance viewpoint, government deposits as of May have almost neutral impact on liquidity, versus expectations for their moderate decrease in the second quarter and creating liquidity on that basis.

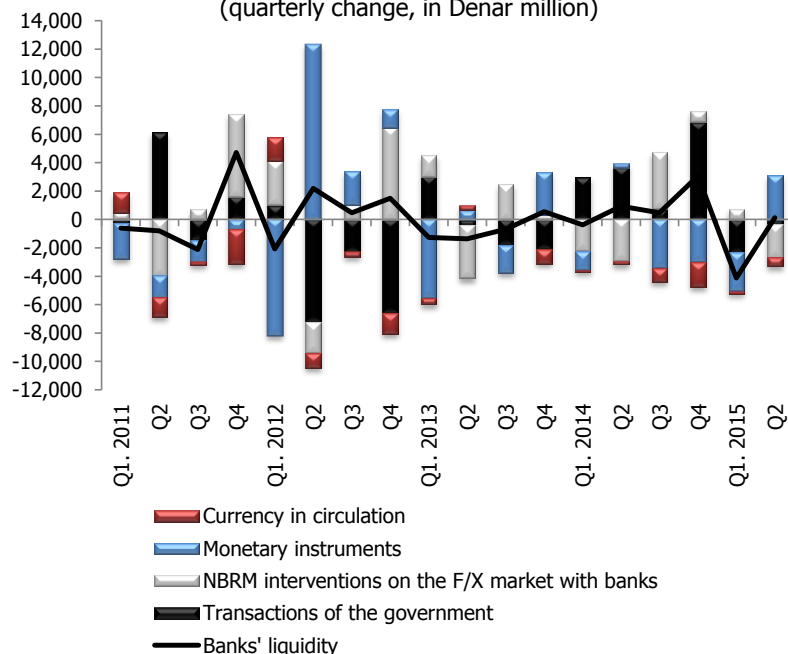
In such conditions, more intensive creation of liquidity through monetary instruments is partly explained by the changes in government deposits and mostly by the higher increase in reserve money compared with the pace of growth projected in April.

Monetary policy instruments, in MKD million



Source: NBRM.

Liquidity of the banking system*
(quarterly change, in Denar million)



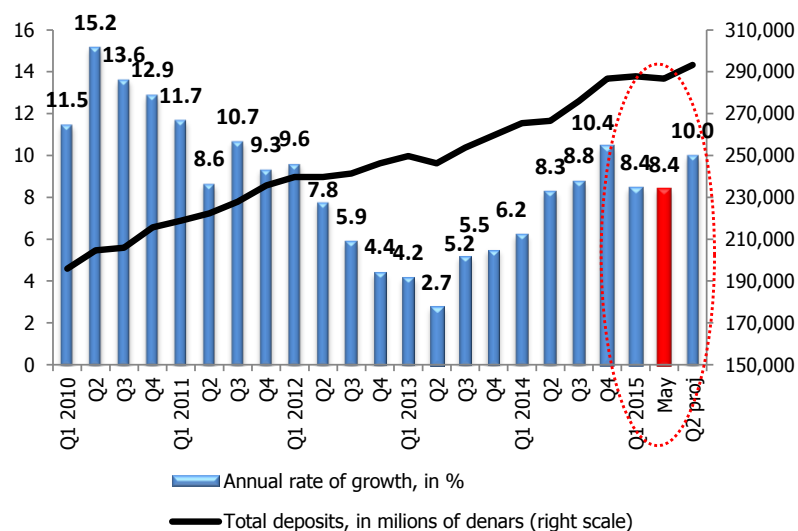
*Positive change- liquidity creation, negative change- liquidity withdrawal.
Source: NBRM.

According to the latest available data, liquidity of the banking system in June registered a monthly decline. With respect to flows of creating and withdrawing liquidity, in June, liquidity was created through government transactions (through the reduction of government Denar deposits with the NBRM) and currency in circulation. On the other hand, liquidity was withdrawn almost equally through monetary instruments (primarily through deposit facilities, and less through CB bills⁵) and NBRM foreign exchange transactions with market makers (net sale of foreign currency on the foreign exchange market).

Data as of May show an increase in reserve money compared to the end of the first quarter, but with higher intensity compared to the projected pace of growth for the second quarter, according to the April projection. This performance stems solely from the more intensive growth of currency in circulation, despite their expected stabilization in the second quarter.

⁵ May registered slightly lower demand for CB bills compared to the amount offered, but in June, the demand equaled the amount offered by the NBRM.

Total deposits

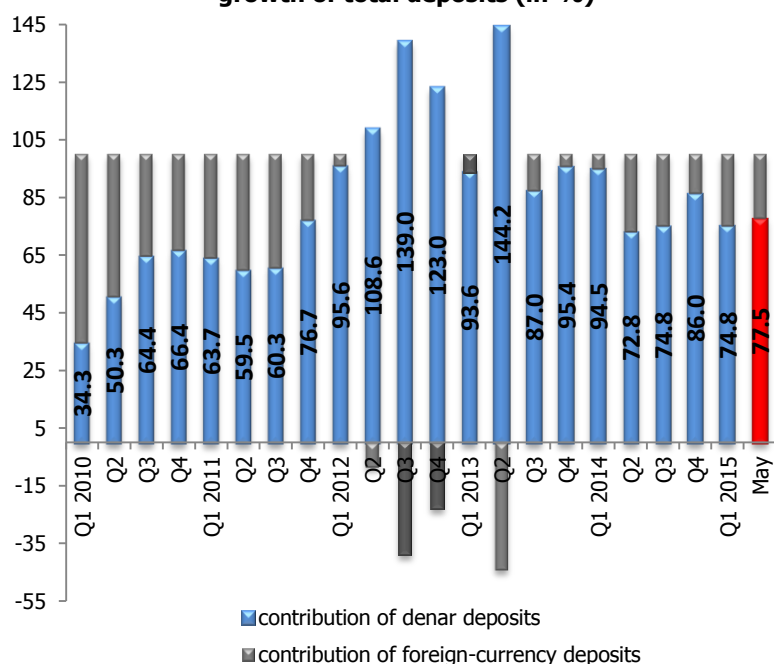


*Includes demand money
Source: NBRM.

In May, total deposits decreased as opposed to their monthly increase in the previous month. The decline was due almost equally to the decline in corporate and household deposits, as opposed to their growth in the previous month.

At the end of May, the annual growth rate of total deposits equaled 8.4%, which is below the growth of 10% projected for the second quarter of 2015. As of May total deposits were lower than projected by Denar 1,003 million on a quarterly basis, compared to the projected growth of Denar 5,443 million in the second quarter.

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

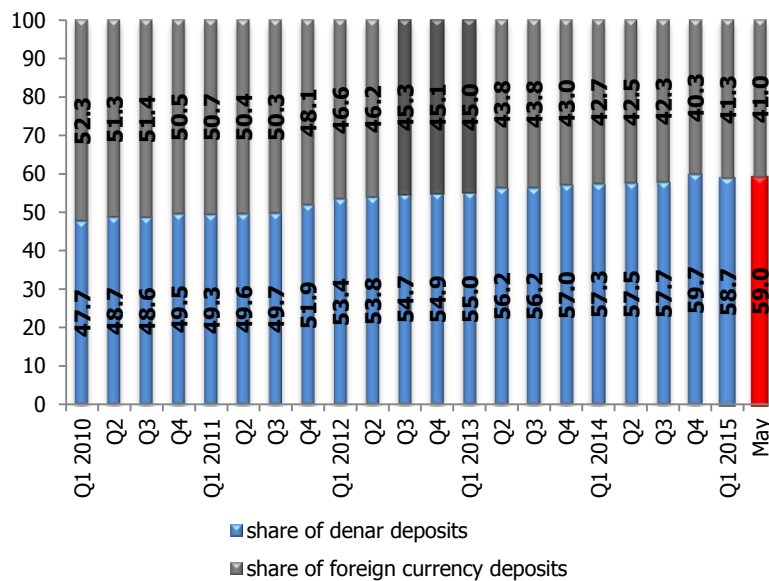


Source: NBRM.

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

*Includes demand deposits.

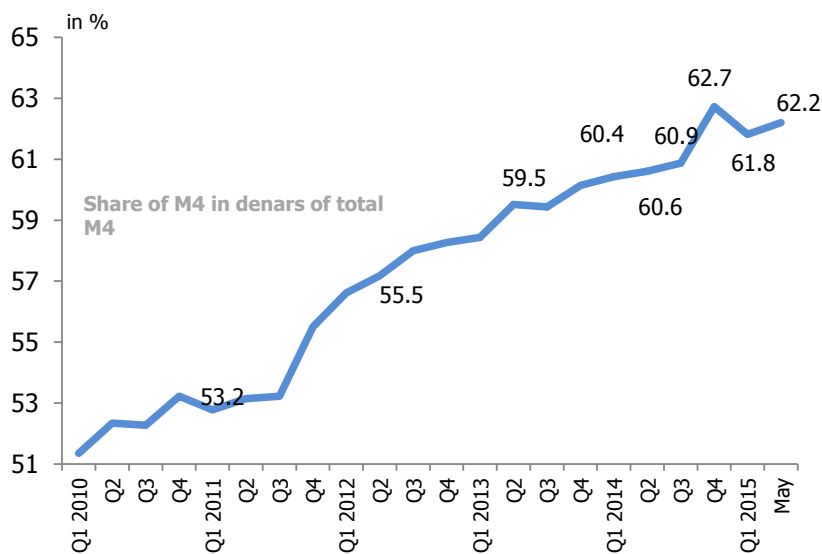
**Share of denar and foreign currency deposits in total deposits
(in %)**



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

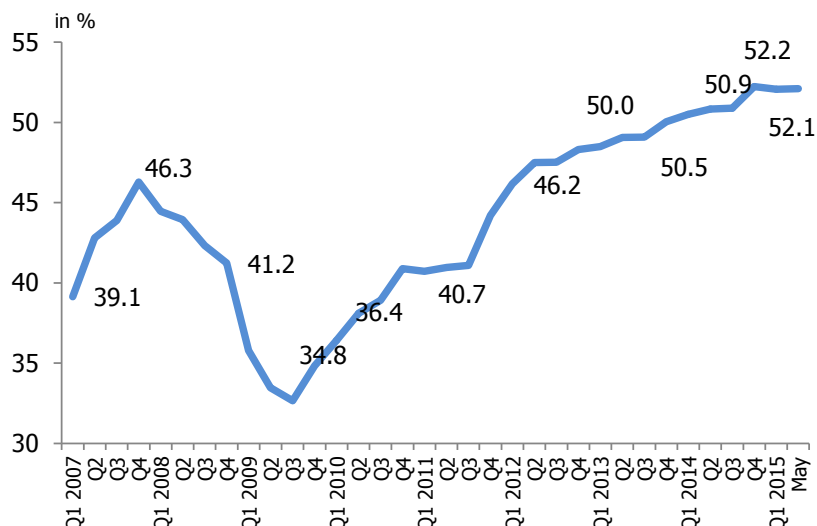
Source: NBRM.
*Includes demand deposits.

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



Source: NBRM.

Share of denar deposits in total household deposits, in %

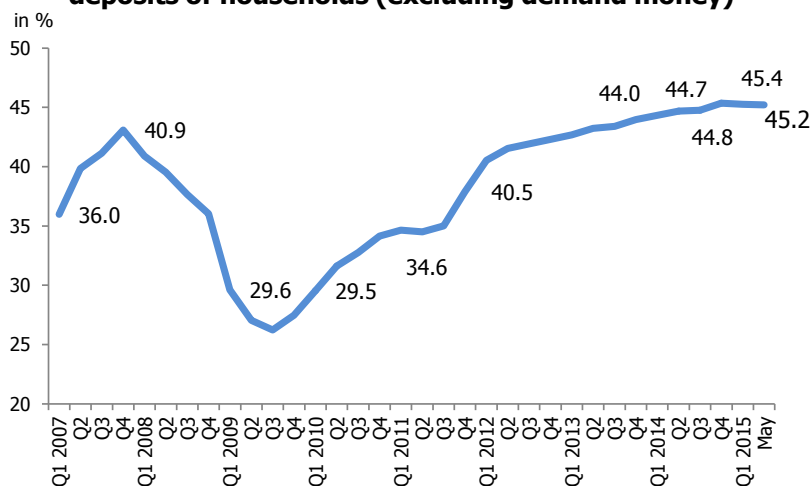


During May, a monthly decrease of total household deposits was registered compared to the previous month, largely driven by the decreased savings in domestic currency amid a moderate decline in the foreign currency deposits. These developments have contributed to a small decrease in the share of denar deposits in total household deposits (accounting for 52.1%).

Source: NBRM.

*Includes demand deposits.

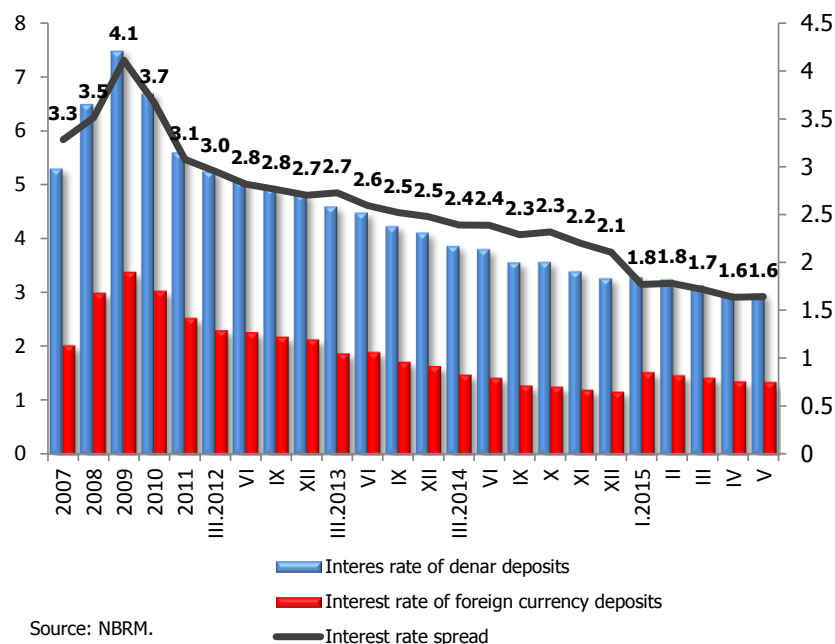
Share of Denar deposits of households in total deposits of households (excluding demand money)



Analysis of the total household deposits (excluding demand deposits) shows a decrease on a monthly basis, with a slightly larger contribution of Denar deposits (56%) and reduction of deposits in foreign currency.

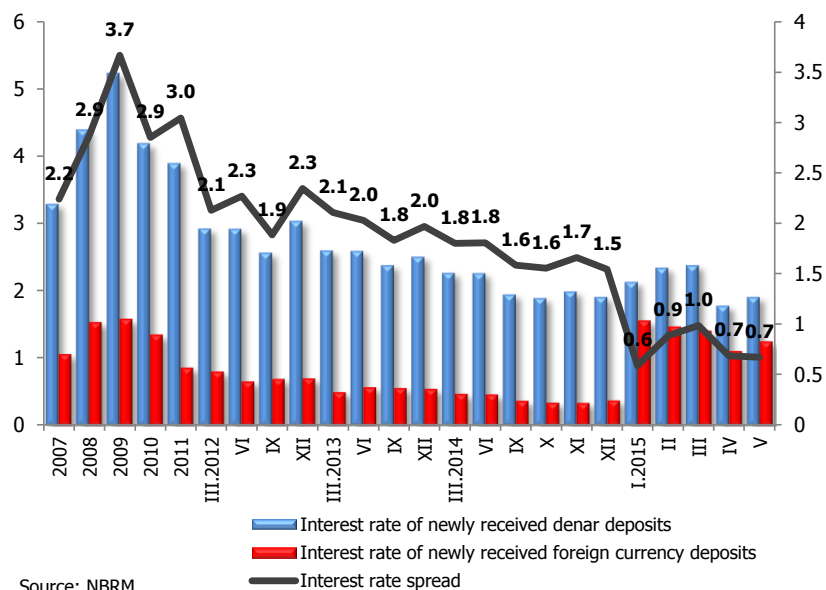
Source: NBRM.

Interest rates on denar and foreign currency deposits, in%



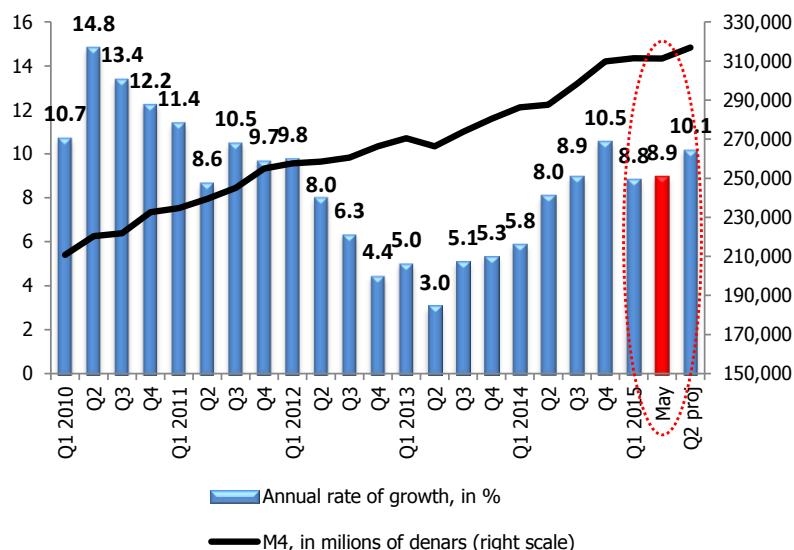
During May, the interest rate spread between denar and foreign currency interest rates⁶ remained at the same level as in the previous month, since the denar and foreign exchange interest rates remained the same. Newly received deposits registered an increase in their interest rates on both denar and foreign currency deposits, with the same intensity. These developments have resulted in unchanged interest rate spread.

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



⁶ 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>.

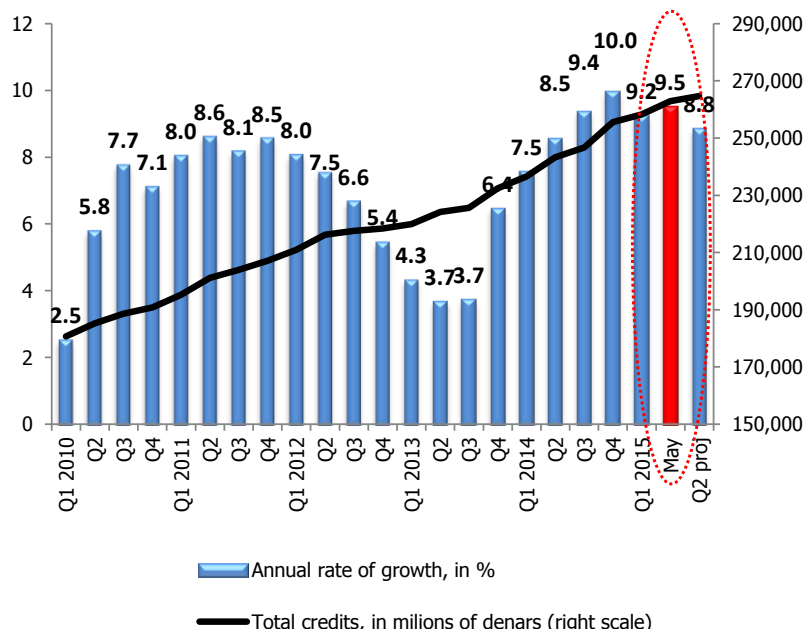
Broad money, M4



Source: NBRM.

According to the data as of May, broad money registered a decrease compared to the previous month due to the decrease in deposit base, amid the moderate growth of currency in circulation. Thus in May, the annual growth rate of the broad money equaled 8.9%, which is below the projection for the second quarter of 2015 (projected annual growth of 10.1%). In addition, as of May, there has been a decline of Denar 44 million on a quarterly basis, compared to the projected growth of Denar 5,507 million for the second quarter according to the April projection.

Total loans

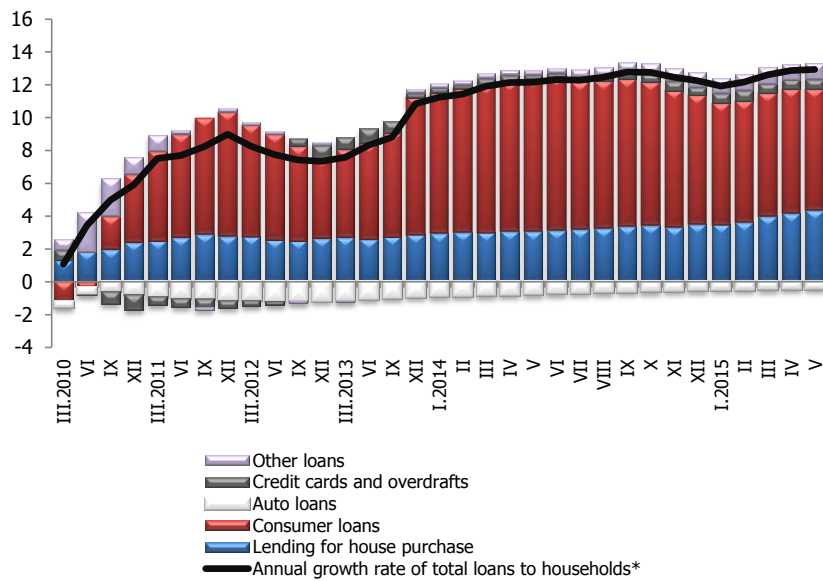


Source: NBRM.

Growth in total loans continued in May, with moderately higher intensity compared to the previous month. The increase in credit activity is mostly a result of the monthly growth of loans to households, amid simultaneous growth of loans extended to companies. Moreover, corporate sector recorded slower credit growth compared to the previous month.

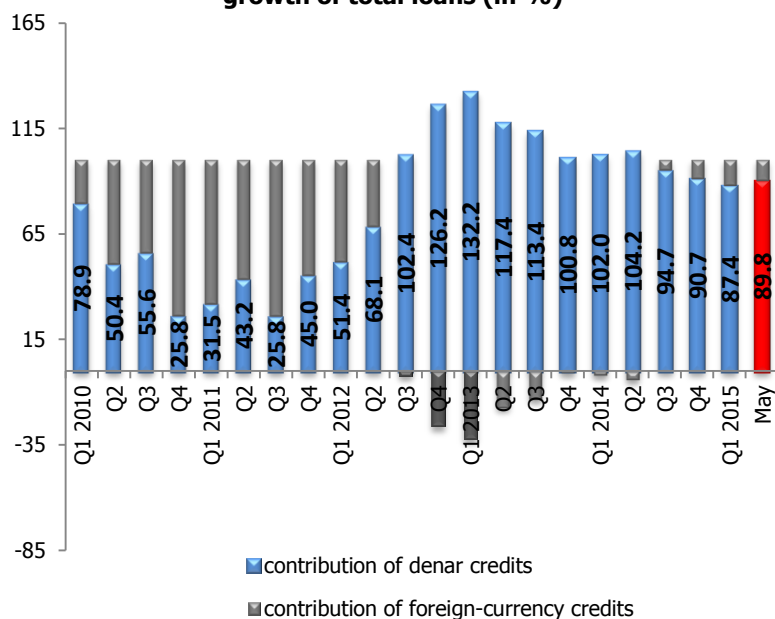
At the end of May, the annual growth rate of total loans equaled 9.5%, which is above the annual growth of 8.8%, projected for the second quarter of 2015. As of May, 71.1% of the quarterly credit growth projected for the second quarter was realized.

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



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

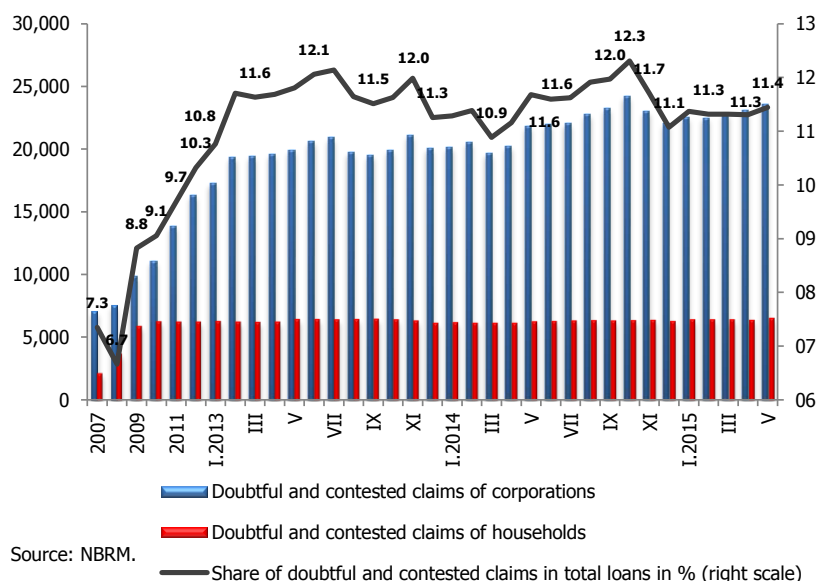
Contribution of denar and foreign currency loans to the annual growth of total loans (in %)



Source: NBRM.

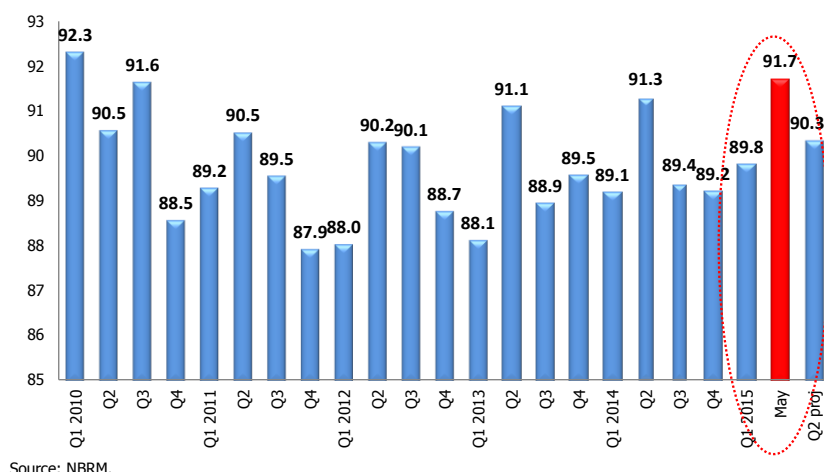
The annual growth of total loans still mostly results from the growth of denar loans, amid moderate positive contribution of foreign currency loans.

Share of doubtful and contested claims in total loans, in %

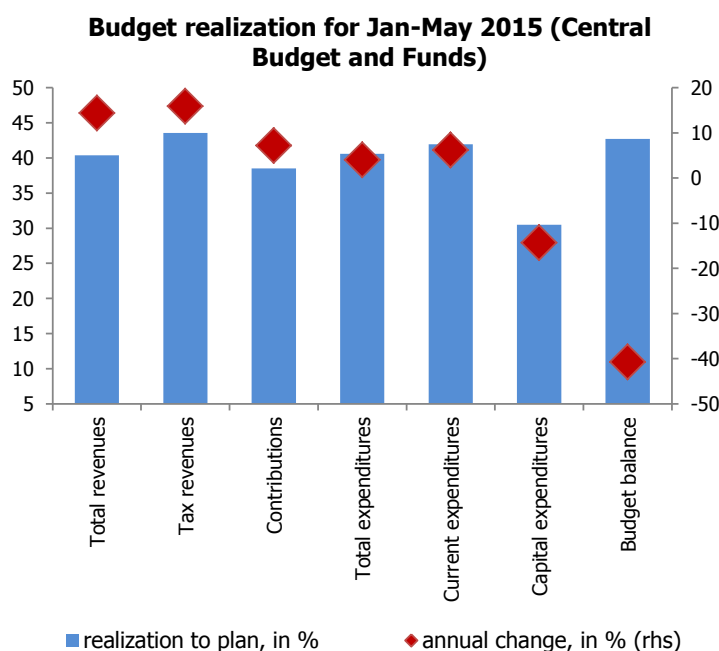


In May, doubtful and contested claims continued to grow, but with higher intensity compared to the previous month. The growth is mostly due to the increase of doubtful and contested corporate claims, with a moderate increase in households as well. In such conditions and amid registered growth of the overall lending activity, the share of doubtful and contested claims in total loans insignificantly increased to 11.4% compared to the previous month. On an annual basis, total non-performing loans further increased, at a slower pace compared to the previous month.

Loan-deposit ratio, in %



The utilization of deposit potential for lending to the private sector at the end of May increased by 1.8 percentage point relative to the previous month, amid growth of loans and fall of deposit base. The actual ratio is higher than the level projected for the second quarter of 2015, according to the April projection.



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

In the period January-May 2015, the Budget of the Republic of Macedonia (central budget and budgets of funds) generated total revenues of 11.9% of GDP⁷ (11% of GDP in the same period last year). In nominal terms, budget revenues in this period increased annually by 14.3%⁸, with the greatest contribution of higher inflows from profit tax amid growth of inflows from excise tax and personal income tax, while inflows from VAT decreased on an annual basis.

Total budget expenditures in January-May 2015 amounted to 13.3% of GDP, which is slightly below the level of budget expenditures incurred in the same period last year (13.5% of GDP). In nominal terms, compared to the same period of the previous year, budget expenditures were by 4% higher, driven by the growth of current expenditure, while capital expenditure decreased annually.

Compared to 2015 Budget, in the period January-May 2015, the realization of total budget revenues is 40.4%. Observed by category of tax revenues, the inflows from corporate income tax registered the highest realization, whose amount in May have already exceeded the plan (33%), while revenue from VAT registered relatively weaker realization (36%). In terms of expenditure, in the period January-May, 40.6% of planned expenditure for the entire of 2015 has been realized, amid higher realization of current costs (42%) compared to capital expenditures (31%).

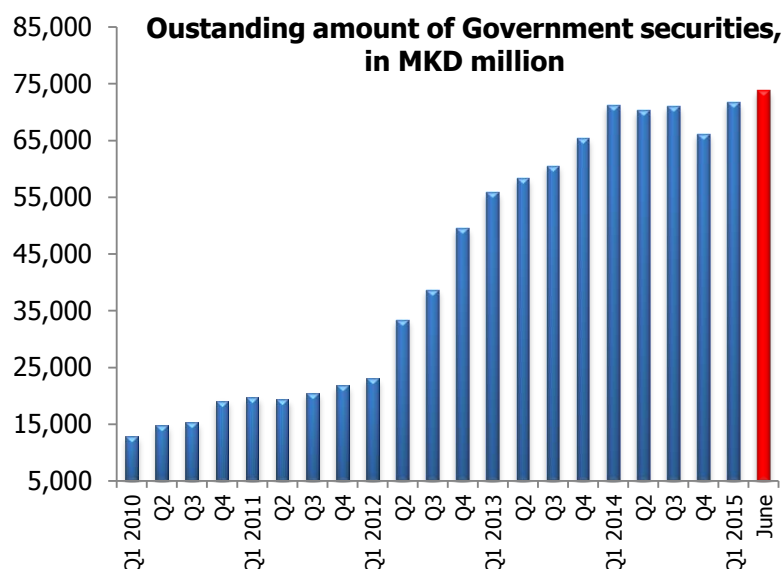
The latest available data show that during May, the Budget of the Republic of Macedonia showed deficit of Denar 1,609 million, compared to the slight surplus in the previous month (Denar 8 million). Cumulatively, the budget deficit amounted to Denar 7,902 million (or 1.4% of GDP⁹) in the first five months of 2015, constituting 42.7% of the projected budget deficit for 2015. In terms of its financing, in the period January-May, the

⁷ The analysis uses the NBRM April projections for the nominal GDP for 2015.

⁸ For more details on the dynamics of individual budget categories see Box 3 of this Report.

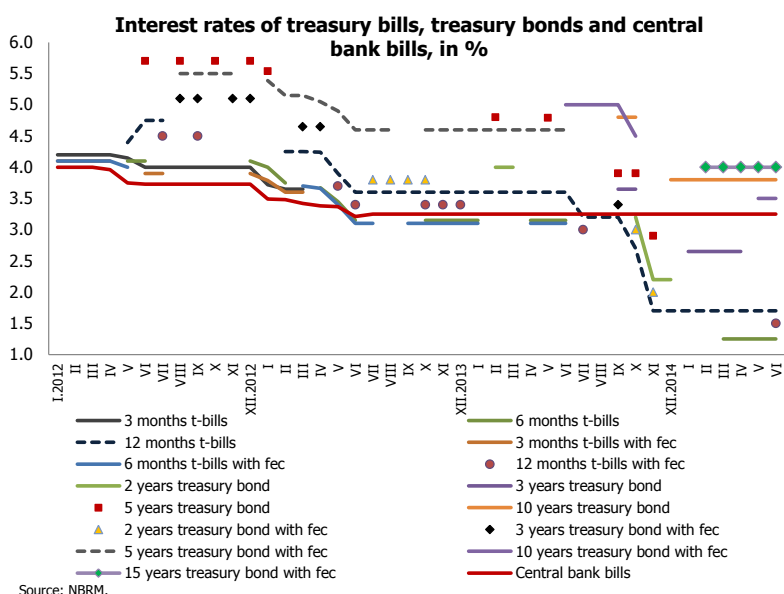
⁹ According to the latest NBRM projection for the nominal GDP. The Ministry of Finance's budget deficit projection also equals 1.4% of GDP.

budget deficit was financed by withdrawing assets from the account with the NBRM, and by additional net-issuance of government securities. Net outflows were registered on the basis of foreign borrowing as a result of early repayment of the government debt to the IMF based on PCL in February 2015.



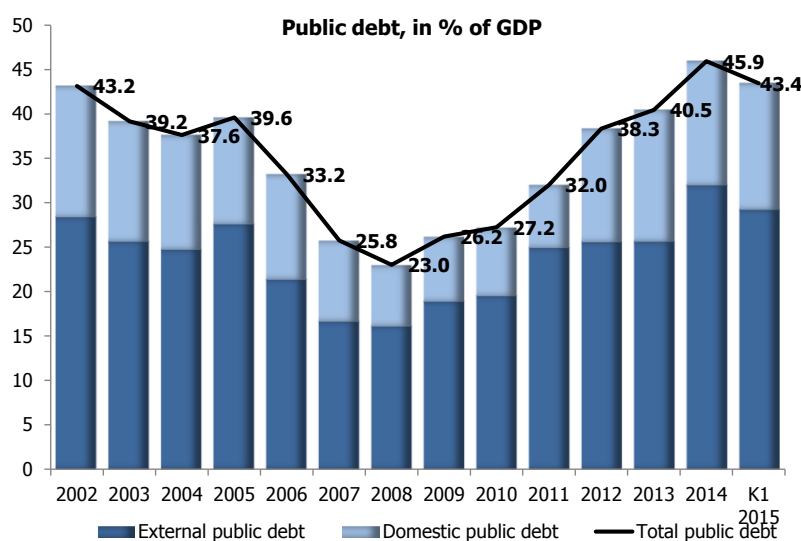
Source: NBRM.

The stock of government securities on the domestic market at the end of June amounted to Denar 73,817 million. On a quarterly basis, government securities increased by Denar 2,134 million compared with the first quarter of 2015. Since the beginning of 2015, total net issuance of government securities amounted to Denar 7,655 million.



Source: NBRM.

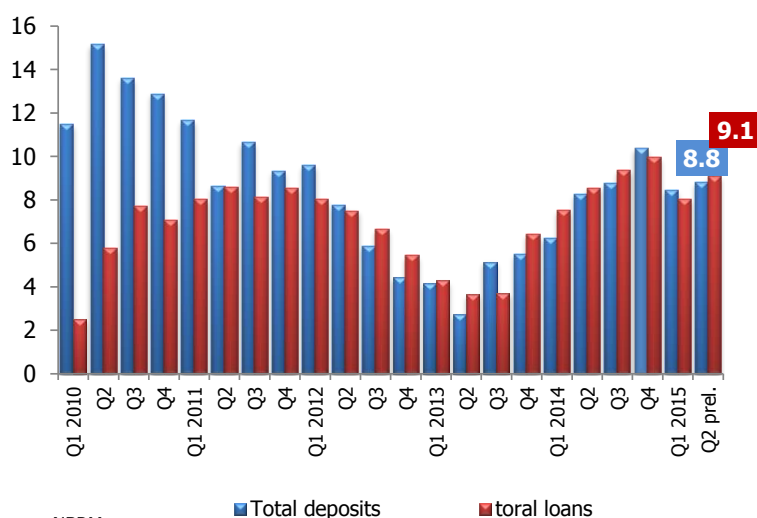
Interest rates on treasury bills offered at the auctions held in June amounted to 1.25% and 1.7% for 6-month and 12-month treasury bills, respectively. Additionally, after nearly a year, the government offered a 12-month treasury bills with FX clause and interest rate of 1.5% (compared to 3% at the last auction held in July 2014). Compared to government bonds, their interest rates ranged from 3.5% and 3.8% for the 10-year government bonds (with and without FX clause, respectively) to 4% for the 15-year government bonds with FX clause. Interest rates on government bonds issued in June remain unchanged compared with the auctions in the previous month.



Source: MoF.

As of 31 March 2015, total public debt¹⁰ equaled 43.4% of GDP¹¹, which is a decrease of 2.5 percentage points of GDP compared with the end of 2014. The reduction in total public debt in this period largely stems from reduced external public debt, as a result of the premature deleveraging of the government to the IMF. Hence, the share of external public debt to GDP decreased from 31.9% to 29.2%, as opposed to the share of domestic public debt, which reported a small increase (from 14% to 14.2%). The first quarter registered a moderate decrease in the share of government debt¹² in total public debt (to 82.6%), compared to the share of the debt of public enterprises¹³, which has been increasing for several quarters in a row, and reached 17.4%.

Total loans and deposits, annual changes, in %



Source: NBRM.

Preliminary ten-day data as of June 2015 show rise in total deposits of 1.2% on a monthly basis, after their decrease in the previous month (of 1%). Growth of total deposits is solely due to increased inflows of corporate deposits. Total household deposits have been decreasing for the second consecutive month, though in June its intensity was lower, compared to the previous month. The decline was entirely due to lower Denar savings deposits, while foreign currency deposits increased slightly on a monthly basis. In total loans, preliminary data as of June show further growth in total loans with similar intensity as in the previous month of 1% on a monthly basis. Same as the previous month, the increase in total loans is mostly driven by the increased lending to households (contribution of 66%), amid registered growth also of the loans to the corporate sector, but with a slightly stronger intensity compared to the previous month. **On an annual basis, in June, total deposits and total loans rose by 8.8% and 9.1%, respectively.**

¹⁰ 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.

¹¹ The calculation uses the April projection of the NBRM for the nominal GDP for 2015.

¹² Government debt is defined as a sum of debts of the central and the local government.

¹³ Refers to guaranteed debt of public enterprises and joint stock companies owned by the state, according to the public debt definition under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14).

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

January 2013

- A Decision amending the Decision on the reserve requirement (adopted in November 2012) came into force, allowing reduction of the reserve requirement base of banks for the amount of new loans to net exporters and domestic producers of electricity, as well as for the investments in debt securities in domestic currency without a currency clause, issued by the aforementioned companies. This decision fully exempts the banks from allocating reserve requirement for liabilities based on debt securities issued in local currency with an original maturity of at least two years. The Decision will apply throughout 2014, after which, depending on the results, the need for further application will be reconsidered.
- A Decision on reducing CB bill interest rate was adopted to cut the policy rate from 3.75% to 3.5%. At the same time, the interest rate on seven-day deposit facility and on overnight deposit facility was cut from 2% to 1.75% and from 1.0% to 0.75%, respectively.

March 2013

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

July 2013

- A Decision on reducing CB bill interest rate was adopted to cut the policy rate from 3.5% to 3.25%. At the same time, the interest rate on seven-day deposit facility was cut from 1.75% to 1.5%.
- A Decision amending the Decision on reserve requirement was adopted, which reduces the reserve requirement rate for banks' liabilities in domestic currency from 10% to 8% and increases the reserve requirement rate for liabilities in foreign currency from 13% to 15%. In addition, the amendments stipulate a reserve requirement rate of 0% for banks' liabilities to nonresident financial companies with contractual maturity of over one year, as well as for all liabilities to nonresidents with contractual maturity of over two years. A rate of 13% still applies to short-term liabilities to nonresident financial companies in foreign currency with contractual maturity of up to one year. To maintain the reserve requirement in denars and in euros relatively stable, the amendments increase the reserve requirement in euros that is fulfilled in denars from 23% to 30%.

October 2013

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

November 2013

- A Decision amending the Decision on reserve requirement was adopted, which exempts the NBRM from paying reserve requirement remuneration (previously, this remuneration equaled 1% for denar reserve requirement and 0.1% for euro reserve requirement). The Decision is being applied since 1 January 2014.
- A Decision on CB bills was adopted, which introduces a methodology for determining the potential demand for CB bills. In accordance with the established mechanism, if there is a higher demand than the potential across the overall banking system, banks that bid higher amounts of their own liquidity potential will be required to place this difference in seven-day deposits.

February 2014

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

April 2014

- A Decision amending the Decision on the methodology for determining capital adequacy was adopted, introducing two amendments in the current decision that are expected to contribute positively to the credit support of the commercial banks to the corporate sector. Namely, with this Decision (and in accordance with the amendments to the new EU Regulation no. 575/2013 on prudential requirements for credit institutions and investment companies), performance guarantees or warranties that guarantee completion of works, stand out as items with low-intermediate risk, and therefore take lower conversion factor (20%), instead of 50% as it has been so far. That would mean that in the calculation of capital adequacy, smaller part of these off-balance sheet items would be treated as a 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 potential¹⁴, an interest rate of 0% is determined. For the other assets that banks will voluntarily place into a seven-day standing deposit facility the regular interest rate will apply.

September 2014

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

October 2014

- A Decision on reducing the interest rate on overnight deposit facility from 0,75% to 0,5% and on seven-day deposit facility from 1.25% to 1% was adopted.

March 2015

- A Decision on reducing the interest rate on overnight deposit facility from 0,5% to 0,25% and on seven-day deposit facility from 1% to 0.5% was adopted.
- The National Bank Council adopted the Decision amending the Decision on CB bills, which introduces a new manner of establishing the bids of banks at the auctions of CB bills. According to the Decision, the amount of supply of individual bank is calculated by applying its appropriate percentage share in the total supply of treasury bills, reduced by the amount of past due CB bills of the Macedonian Bank for Development Promotion AD Skopje. In order to ensure operational efficiency in conducting auctions of this type and greater transparency toward banks, before the auction the NBRM shall inform the banks on the maximum offer that can be submitted by each bank. This opportunity for setting the supply of banks is expected to stabilize the demand at the level of the amount offered, which eliminates the need for calculation of potential demand and subsequently it repeals the obligation for mandatory seven-day deposits for banks when demand at the auction exceeds the potential demand.

¹⁴ For the method of determining the potential demand for CB bills see the Decision on CB bills, Official Gazette of the Republic of Macedonia No. 166/13).

April 2015

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

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. These are temporary preventive measures introduced to prevent any threat of significant capital outflows from the Republic of Macedonia to the Republic of Greece from causing significant disturbance to the equilibrium in the balance of payments and destabilization of the financial system.