

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



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

June 2014

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 (March - May 2014) and to make a comparison with the latest macroeconomic projections (April 2013). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous cycle projections. The review focuses on the changes in external assumptions and performance with 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 period of the last assessments. The data on the growth of the economy of the euro area indicate further trend of a moderate recovery also in the first quarter of 2014. However, the analysis of the sources of growth further highlights the risks about the sustainability of the recovery. The latest ECB's estimations for growth are not much changed, i.e. indicate gradual recovery by the end of 2016. The data on inflation in the euro area in May has further emphasized the risks of deflation. Annual inflation slowed in May from 0.7% down to 0.5%, with incomplete capacity utilization, reduced inflation expectations and appreciation of the Euro. Estimates of the ECB for the next period point to low inflation rate within a longer period, with estimations for the inflation being revised downwards. In such conditions of weak growth and significant risks of deflation, in June, the ECB decided to lower the policy rate by 0.1 percentage point, the interest on loan facility by 0.35 percentage points, and the interest on deposits facility by 0.1 percentage point, which means negative interest rate of -0.1%. Furthermore, the ECB took additional measures by introducing targeted long-term refinancing operations to support lending to the private sector. In its communication to the public, the ECB stressed again the readiness to conduct adjustable monetary policy and to take measures to improve the functionality of the transmission mechanism. **Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the assessments for the foreign effective demand for the period 2014-2015 remained almost unchanged relative to the April projection. Changes in the expectations about the prices of primary commodities move in different direction.** The latest assessments for the **global oil prices** indicate a reduction of the price of this energy source in 2014 and 2015, as expected in the April projections. However, for 2015 the latest estimations indicate smaller decline than expected. The new estimations for the **metal prices** point to more favorable developments in terms of trade for this sector, in comparison with the April projections. This movement is especially evident in the price of nickel, which is mainly associated with the factors on the supply side. Regarding the **food prices**, the latest estimations for 2014 indicate apparently smaller import pressures through this channel on the domestic inflation and the terms of trade, in comparison with the April projections. For 2015, the changes are going in opposite direction, expecting larger increase in the wheat prices, while there are no larger changes in the price of maize. However, there are upward risks connected with these projections for the food prices associated with the Ukrainian-Russian conflict, as well. In addition, source of upward risks for these prices are the floods that hit the region, and mean lower supply of cereals and possibility for upward pressures on their prices.

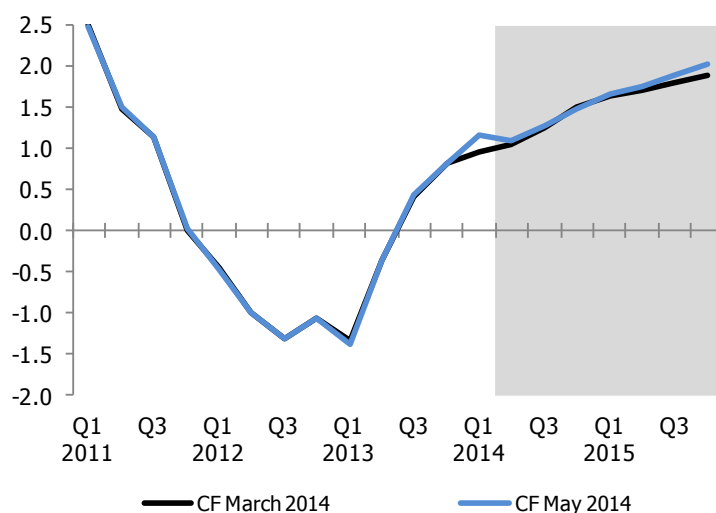
The comparison of the recent macroeconomic indicators with their projected dynamics within the April cycle projections does not signalize larger deviation. From the aspect of individual indicators relevant for the monetary policy, in April 2014 the inflation stagnated on a monthly basis, while in terms of high base

effect, the annual dynamics was negative. The fall in the inflationary pressures is evident also through the core inflation, the increase of which decelerated for the seventh consecutive month and in April, it reduced to 0.8%. The April changes in the prices point to smaller inflationary pressures than expected in the April cycle projections, and mean lower initial conditions. These deviations are mainly due to the food component and to a lesser extent, to the energy component and core inflation. Hence, there are downward risks for the inflation projection related to the latest performances and the revisions of the external input assumptions. On the other hand, the food and energy prices are associated with upward risks, which are related to the conflict in Ukraine. New upward risk threatens from the unfavorable weather conditions in the region, as well as the possible unfavorable effects of the weather conditions in the domestic economy. However, according to the estimations, the downward risks still dominate in the **balance of risks related to the inflation projection for 2014 of about 1%.**

According to the latest available data, in the period April - June 2014, the foreign reserves (adjusted for price and exchange rate differences and securities price changes) decreased, with intensity similar to the projected one for the second quarter. In terms of limited available data on the external sector, it is hard to identify the factors of change of reserves. The available data so far indicate possible smaller negative gap in the trade of goods, caused by lower import demand than expected. On the other hand, recent performance on currency exchange market indicates net inflows of private transfers close to the projected. The analysis of the indicators of the adequacy of the foreign reserves shows that they are still within the safe zone. Regarding the real sector, **the high frequency indicators for the economic activity** suggest further positive trends during the first quarter of 2014. In line with the estimations, it is expected that this growth dynamics will be a result of the sound performances with the key economic sectors, industry and construction, with favorable movements being also registered with trade. **Within monetary sector**, according to the preliminary data as of end of May 2014, the **amount of total loans** is above the April projection for the second quarter, and the annual growth rate equals about 7.6% (compared to the projected 7.3%). According to the latest data, after the fall in April, the balance of the total deposits in May augmented on monthly basis, but less than expected for the second quarter, with their level being below the projection. The latest assessments for the level of **EURIBOR interest rate indicate unchanged level in 2014 compared to the April projection, while for 2015 the expectations are revised downwards.**

The recent macroeconomic indicators and assessments do not indicate major changes in the perceptions for the environment and the risks given in the April projections. Foreign exchange reserves registered a decrease, which is within the projection for the second quarter, however there are indications for improved balance of payments flows than expected. The total inflation in April is lower than projected, and the risks to the projection are still perceived as mostly downward. At the same time, there is a further slowdown of the core inflation. The geopolitical tensions related to the conflict between Ukraine and Russia remains a factor that can cause instability and lead to a larger price shocks that would reflect on future inflation. Meanwhile, the region is faced with flooding, which can lead to upward pressure in food prices in the region, as well as pressures in energy prices. The indicators of the economic activity suggest that the economy will register growth in the first quarter of 2014, which would not cause imbalances. The credit growth in May exceeds the projection, although it still takes time to assess the durability of these movements.

Foreign effective demand
(annual rates of change in%)



According to new estimations, the increase in the foreign effective demand for 2014 has been minimally revised upwards compared to the April projection ...

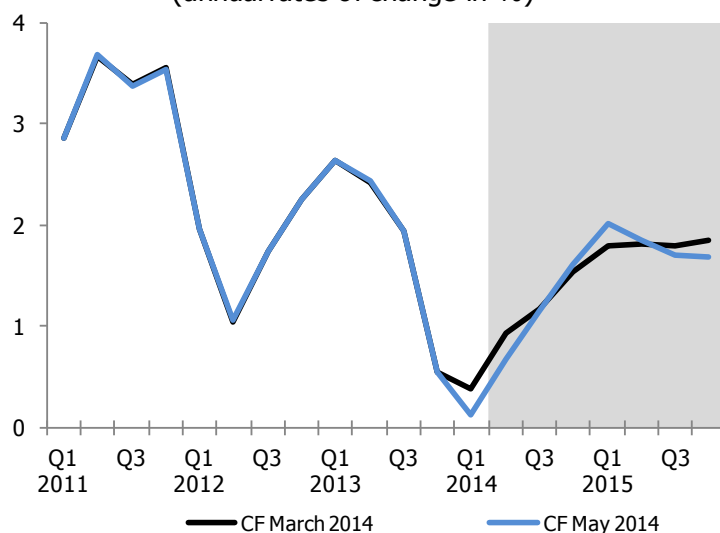
... i.e. it is estimated that the increase will equal 1.3%, compared to 1.2% in the April projection ...

... mostly due to the upward revision of the growth of the German economy. The current growth expectations for the Greek economy, as opposed to the April projection for its further fall, have additional positive contribution to the revision.

On the other hand, no changes in the projection of the foreign effective demand for 2015 were made, i.e. as in April, its increase of 1.8% is expected...

... amid further expectations of positive economic developments in all countries.

Foreign effective inflation
(annual rates of change in %)



The new assessment of the foreign effective inflation is minimally lower in 2014 ...

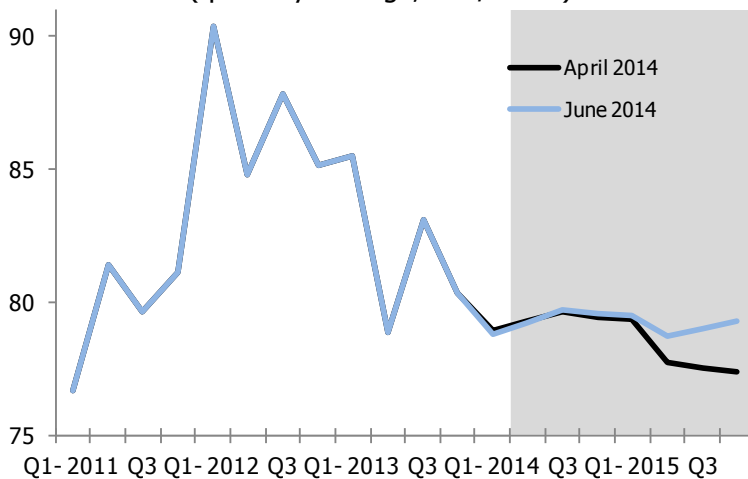
... now expecting rise in the foreign prices of 0.9%, compared to the April projection of 1% ...

... which is mostly due to lower estimations on the inflation for Bulgaria, Slovenia and Germany.

For 2015, the projection of foreign inflation is at the same level as in April ...

... i.e. it is still expected to equal 1.8%.

Brent oil
(quarterly average, EUR/Barrel)



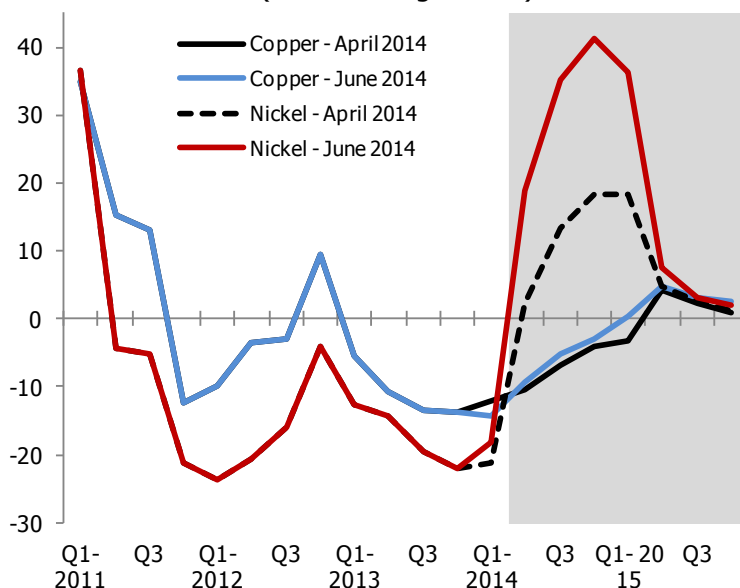
Source: IMF, "Bloomberg" and NBRM estimates.

The latest assessment of the price of crude oil in 2014 has not changed compared to the April projection...

...i.e. moderate annual decrease in the price of oil of -3.2% is expected again, in conditions of sufficient oil supply¹.

For 2015, it is expected that the fall in the oil price will continue, but less than expected in April (-0.2% compared to -1.6%).

Nickel and copper prices in EUR
(annual changes in %)



Source: IMF, "Bloomberg" and NBRM estimates.

The latest assessment of the movement of prices of copper for 2014 has been revised upwards minimally compared to the April projection...

...given the expected smaller annual decrease of -8.2% (compared to -8.5% in April), which is associated with the economic performance of the Chinese economy.

On the other hand, the price of nickel has been revised upwards substantially, i.e. an annual growth of 17% is expected (as opposed to 1.7% in April)...

...as a result of the ban on exports imposed by Indonesia and concerns of a possible reduction of supply by Russia².

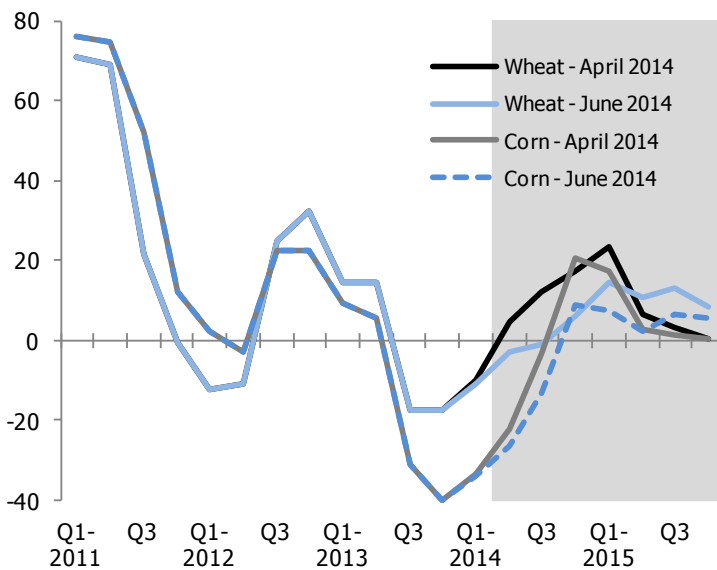
The latest assessment for 2015 predicts higher growth in metals prices compared to the April projection, mainly due to expectations for stabilization on the metals market³.

¹ IMF Commodity Price Outlook & Risks, 21 May, <http://www.imf.org/external/np/res/commmod/pdf/cpor/2014/cpor0514.pdf>

² IMF Commodity Market Monthly, 13 May, <http://www.imf.org/external/np/res/commmod/pdf/monthly/050114.pdf>

³ Consensus Forecast Energy and metals, April 2014.

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



Source: IMF, "Bloomberg" and NBRM estimates.

The recent estimations of the movements in the prices of cereal products for 2014 indicate a decline, rather than increase in the price of wheat and deeper fall in the price of maize compared to the April projection...

... which is associated with improved prospects for global supply and positive expectations for the next harvest yields.

However, there is an upward risk of cereal product prices due to geopolitical tensions between Ukraine and Russia, and the effects of drought in parts of the United States⁴.

According to the latest assessments, for 2015 higher growth in prices of wheat is expected, while no major changes in the maize prices compared with the April projection were made.

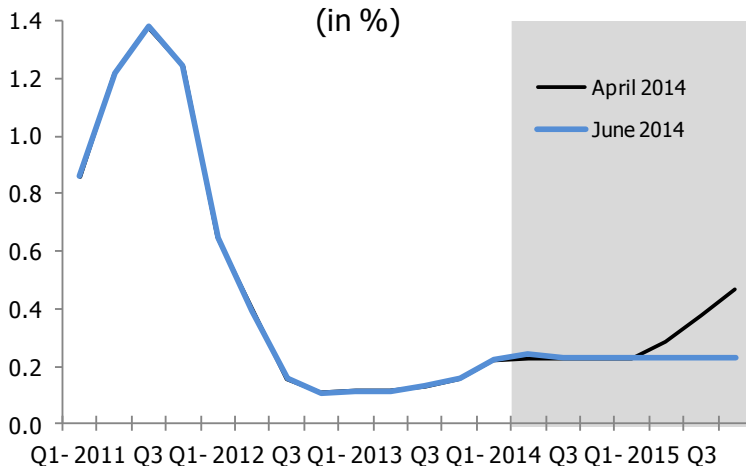
The latest estimations about the short-term interest rate EURIBOR for 2014 are on par with the April projection...

...i.e. it is estimated that one-month EURIBOR will equal 0.23%, on average.

The latest expectations for 2015 indicate significant reduction in the rate of EURIBOR, in comparison with the April projection, i.e. an average level of 0.23% is envisaged (0.34% in April)...

...largely as a result the ECB announcements for holding the interest rates low for a longer period of time⁵.

1M Euribor
(in %)

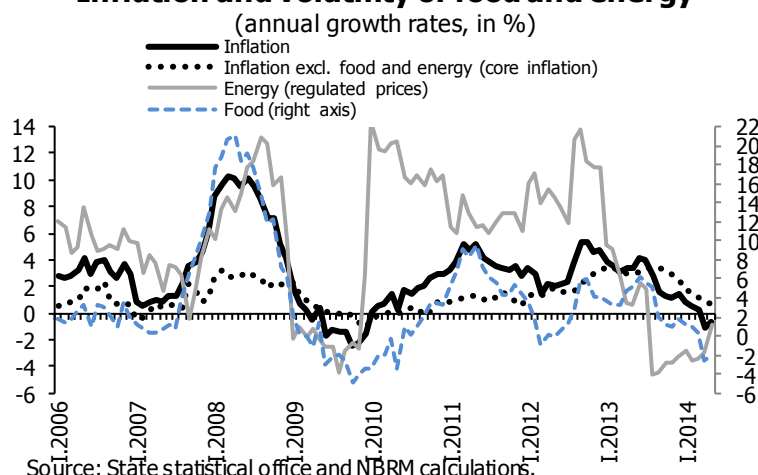


Source: "Consensus Forecast" and NBRM estimates.

⁴ IMF Commodity Price Outlook & Risks, 21 May, <http://www.imf.org/external/np/res/commmod/pdf/cpor/2014/cpor0514.pdf>

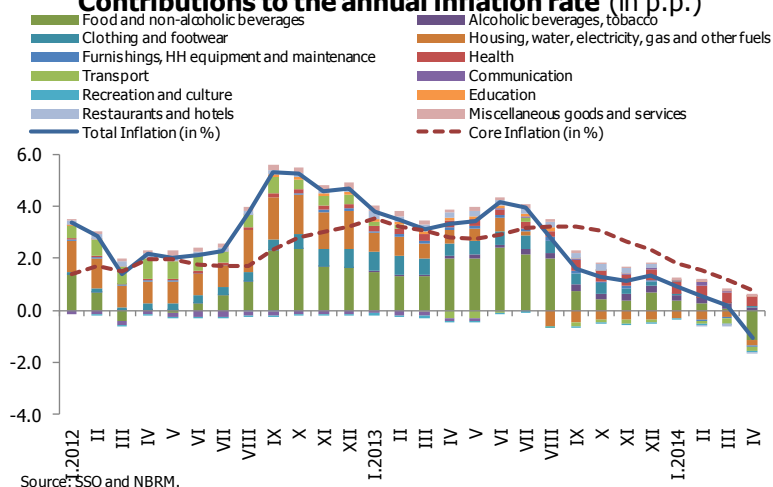
⁵ Introductory statement to the press conference (with Q&A), Mario Draghi, President of the ECB, Brussels, 8 May 2014 <http://www.ecb.europa.eu/press/pressconf/2014/html/is140508.en.html>

Inflation and volatility of food and energy



In April 2014, the consumer prices remained unchanged relative to the previous month, given small price movements with almost all categories.

Contributions to the annual inflation rate (in p.p.)

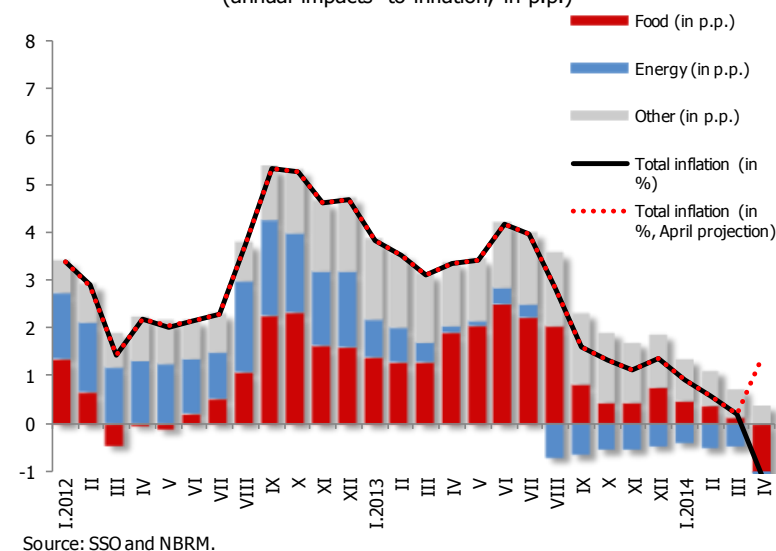


On an annual basis, the inflation moved further in a downward trajectory and entered the zone of negative change for the first time since December 2009⁶. The actual inflation is significantly lower than expected within the April cycle projections...

... given larger downward deviation of the realized from the projected inflation in food and energy component, while the deviation with the core inflation is smaller.

Inflation rate

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



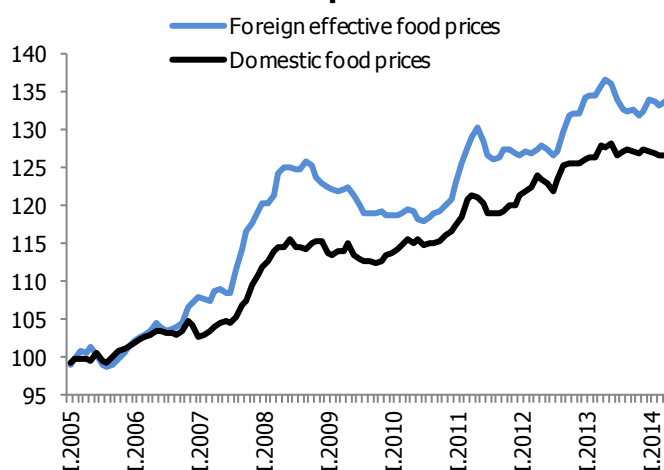
After the decrease in the first three months of the year, in April the core inflation stagnated on a monthly basis ...

...while on annual basis, it decelerated again, and thus from 1.2% in March, the core inflation reduced to 0.8% in April, as a result of slower growth in prices of tobacco and telephone devices and services.

Thus, the annual growth in the core inflation decelerates for seven consecutive months.

⁶ Given high comparison base, as a result of the high increase in the prices on these products in April 2013 due to flooding in the Strumica region in February 2013, which caused significant damage to agricultural land planted with early vegetables and crops.

Foreign effective food prices* and domestic food prices



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

Source: State statistical office, Eurostat and NBRM calculations.

The external input assumptions for 2014, which are included in the projection of inflation, are mainly revised downwards.

Thus, the prices of internationally traded primary food products indicate a slightly larger fall in the aggregate price of cereal products in 2014, in comparison with the signals obtained during the April cycle projections.

Also, the expectations for the foreign effective inflation until the end of the current year show a slight downward correction.

Although there are upward and downward risks in the balance of risks, regarding the projected price movement, the downward risks are still assessed as dominant.

The lower initial conditions and the downward revisions of external assumptions point to possible downward pressures on inflation projection for 2014.

On the other hand, the floods that hit the region can cause upward pressures on the domestic food prices⁷...

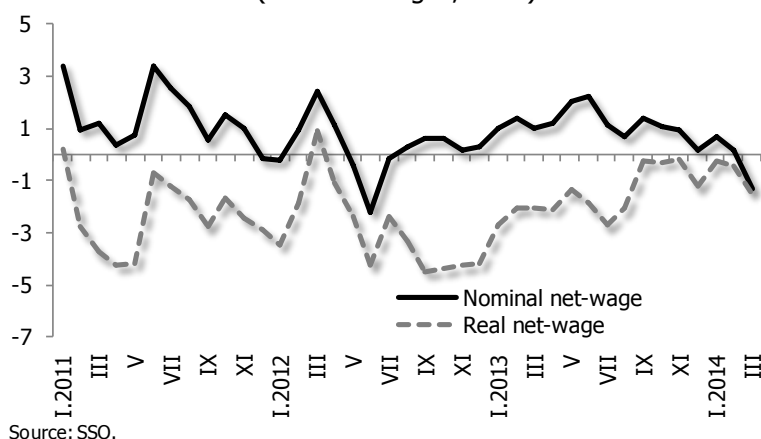
... with the uncertainty associated with the delivery of the Russian gas being also an upward risk⁸, as well as the possible problems related to the import of electricity from Serbia due to the problems with electrical infrastructure after the flooding⁹.

⁷ Considering the reduced export potential of food products from Serbia (cereals and cereal products, meat and meat products, oil and fats), it is possible to come to some upward price pressures as a result of reduced supply from Serbia on regional markets. Source: FAO GIEWS Country Brief on Serbia, <http://www.fao.org/giews/countrybrief/country.jsp?code=SRB>, May 28, 2014.

⁸ It refers to the delivery of Russian natural gas that transits Bulgaria and completely compromise the supply on the domestic market.

⁹ Source: "World Bank: Floods could disrupt Balkans' power supplies for at least six months", <http://www.reuters.com/article/2014/05/26/us-balkans-flood-worldbank-idUSBREA4P0AH20140526>, May 26, 2014.

Average net-wage
(annual changes, in %)



After the constant increase in the past year and a half, in March 2014, the average **net nominal wage** registers annual decrease of 1.3%...

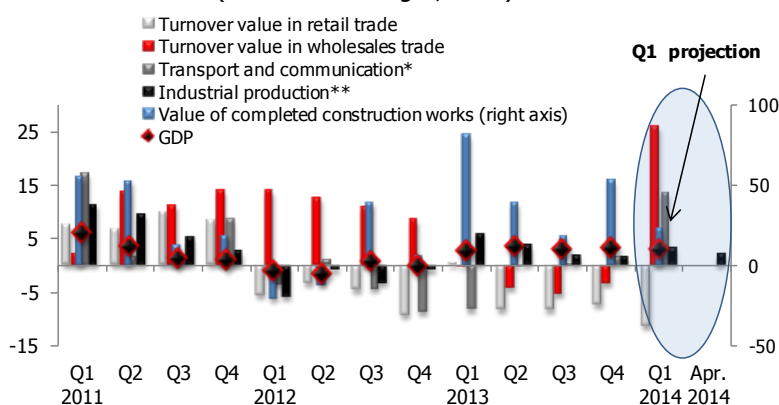
... mostly as a result of the annual drop in the wages in "information and communication" sector, at high comparison base ...

...a decrease is registered with catering and water supply, while more significant wage growth is realized in mining, construction, trade and other services.

Thus the wages in the first quarter of 2014 were lower by 0.2% on average, which deviates from the April forecast when growth of 0.9% was expected.

In conditions of annual inflation of 0.2%, the decrease in real wages in March 2014 equals 1.5% (real decline of 0.4% in the previous month). In the first quarter of 2014, the real wages register an annual decrease of 0.7%, compared to the April projection for a small real growth of 0.2%.

Economic activities
(real annual changes, in %)



*Simple average of annual growth rates of the different types of transport and the telecommunications.

** Data on industrial production are with a base 2010

Source: SSO and NBRM calculations.

The available data on the movement of the economic activity in the first quarter of 2014 suggest maintenance of the growth trend of the economy also in the first quarter, with a similar intensity as in the previous quarter. Positive changes were registered with the key economic sectors.

The industrial output recorded an annual growth of 3.4% in the first quarter of the year ...

...mostly as a result of the growth in the manufacture of rubber and plastic products, construction materials, and machinery and equipment and electrical equipment (largely reflecting the increasingly growing production capacity in technological industrial development zones).

The pace of annual growth in industry is faster compared to the performance in the previous two quarters...

... due to the accelerated growth of the manufacture of both food and clothing, as well as the faster growth in the production of rubber and plastic products.

The activity in **construction** grew at double-digit growth rate in the first quarter of 2014, but it is slower compared to the previous quarter ...

...**the transport** registered stronger upward movement, after the low growth rates in the previous two quarters...

...with the developments in the **trade** sector being also favorable, contrary to the decline in the previous quarter. Given the annual fall in the retail trade, this change is fully explained by growth in wholesale.

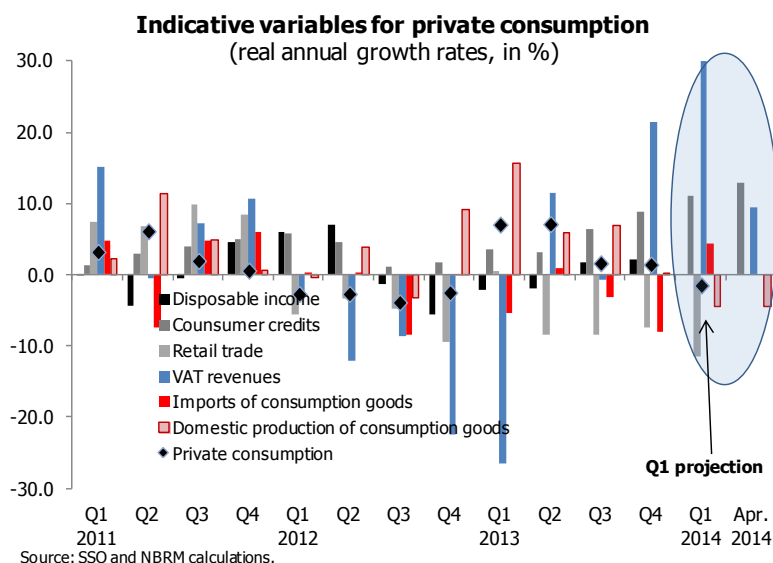
The available indicators of aggregate demand point to increased demand in the first quarter of 2014, which is consistent with the expectations in the April projection.

The high frequency data on **private consumption in the first quarter** emit different signals.

Thus, the enhanced lending to households and the new increase in the pensions (though slower), indicate positive trends...

...along with the growth of net income from VAT and increase in the import of consumer goods after the fall in the previous two quarters.

On the other hand, adverse trends have been observed in real wages, retail



trade and private transfers, whose decrease accelerates in the first quarter of the year...

...and more, there is a fall in domestic production and consumer goods.

The latest indicators **of investment activity** indicate significant growth in the first quarter ...

...under the influence of further high increase in construction...

...strong growth in imports of capital goods and further high rise in the domestic production of capital goods ...

...as well as real annual increase in long-term lending to the domestic corporate sector, despite the fall in the previous six quarters...

...with favorable movements being also registered in the expenditures of the Government for investments and inflows based on foreign direct investment.

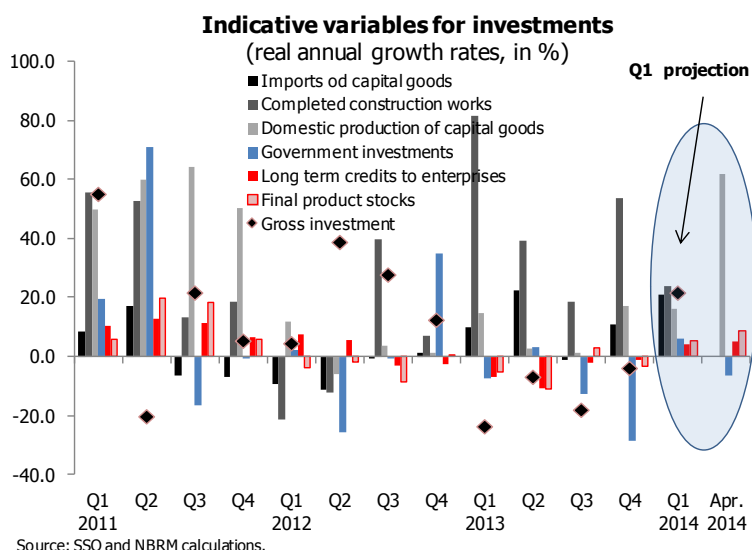
Despite the contraction in the previous four quarters, in the first quarter of 2014 the **deficit in foreign trade** registers slight annual expansion, as opposed to the April expectations for minor nominal narrowing.

The budget performance in the first quarter of 2014 indicates a small increase in **public consumption**, contrary to the April projection for its reduction.

The data for April 2014 indicate continuing growth of economic activity.

The industrial production in April increases at an annual rate of 2.2%...

...mostly due to the higher manufacture of motor vehicles, machinery and equipment (associated with the production capacity of TIR-zones) and



wood processing...

...given higher level of capacity utilization.

High frequency data on private consumption in April, as well as in the first quarter of the year, still give various signals regarding the movement of the private consumption in the second quarter of 2014...

...in conditions of enhanced increase in the household loans...

...slower increase in pensions and VAT-based income...

...and decrease in the production of consumer goods.

The indicators for investments in April suggest further growth...

...given the high increase in the domestic production of capital goods...

...new acceleration of the increase in the loans to enterprises...

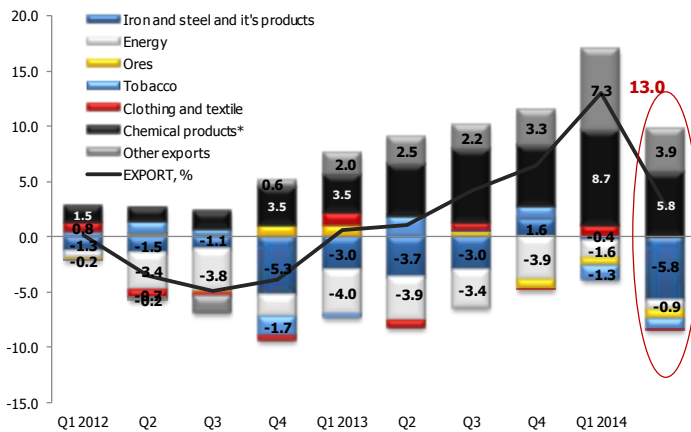
...given fall in the government capital investments.

The data on foreign trade for April 2014 point to a narrowing of the deficit, given increase in the export and decrease in the import of goods.

The budget realization as of April indicates increased **public spending** as a result of higher costs of goods and services, which is consistent with the expectations in the April projection.

EXTERNAL SECTOR

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



Source: NBRM.

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

The decrease in import of goods, with simultaneous continuous annual growth of exports led to **a narrowed deficit in the foreign trade of goods in April to 11.8%, on an annual basis.**

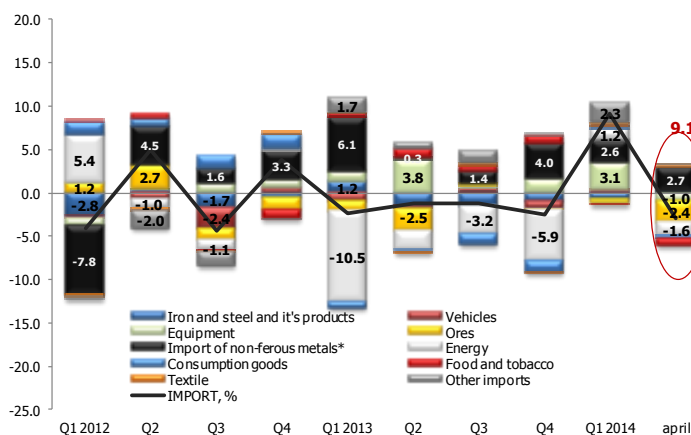
For the second quarter, the April projection indicates widening of the trade deficit.

In April, **the export of goods** registered an annual growth of 2.8%, primarily influenced by increased export activity of new export-oriented facilities. Also, the intensified exports in the food industry had small positive contribution to the annual growth...

...while all other categories acted adversely, with particularly high annual decrease being recorded in the export of iron and steel.

In comparison with the April projection for the second quarter of 2014, the exports in April mainly is in line with the expectations. The most significant downward deviations are observed in the export of tobacco, iron and steel, while the realization in food and energy prices is higher than expected in the April projection.

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



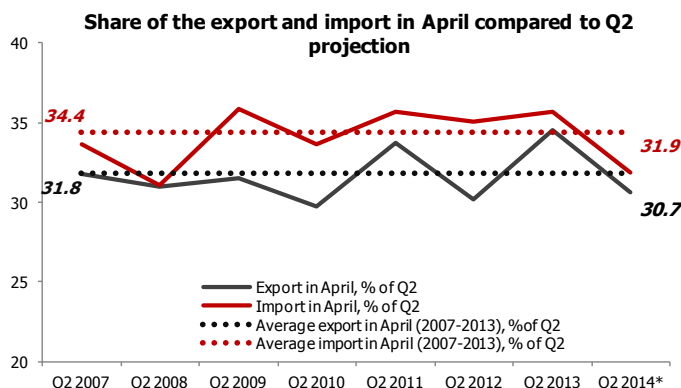
Source: NBRM.

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

After the three-month growth, **the import of goods** registered annual decrease of 3% in April, which is mainly due to the fall in the import of ores and energy, and less to the reduced food imports and investment import of equipment and machinery ...

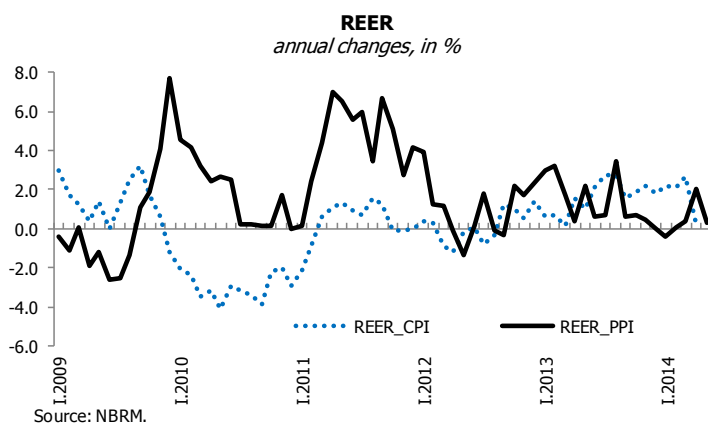
...while significant growth was recorded in the import of raw materials for new export capacities.

The import in April suggests somewhat lower import than expected for the second quarter of the year, given the lower import of equipment and machinery, ore and with part of the import of raw materials.

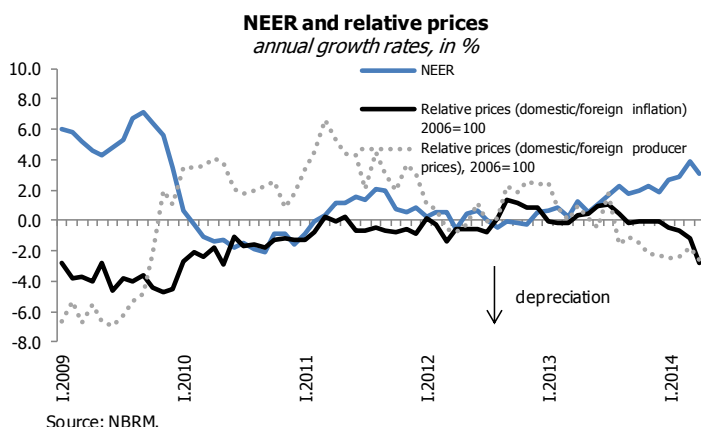


The movements in export and import of goods in April indicate possible lower trade deficit in April, compared to the projected for the second quarter of the year.

The recent assessments of the trend of the global stock metals prices (copper and nickel prices) indicate favorable trends in the current and next year, compared to the April projection. In terms of the movement of the price of crude oil in Euros, it is further expected to fall, which for 2014 is within the projections, while for 2015 the changes are less favorable, i.e. the annual decline was smaller than expected in the last projection.



In April 2014 the price competitiveness indicators of the domestic economy deteriorated on annual basis. In comparison with the same period of the previous year, both indices register small rates of appreciation. Regarding the REER index¹⁰, deflated by the consumer prices, the trend of annual appreciation decelerated and reduced to 0.2%. Simultaneously, REER deflated by the prices of the producers of industrial products in April appreciated by 0.3%.



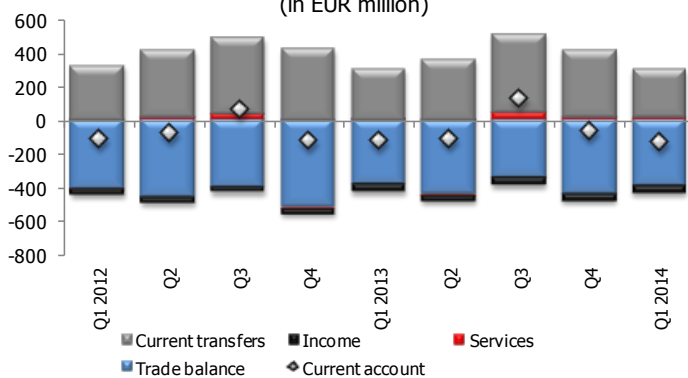
Such performances entirely derive from the appreciation of the nominal effective exchange rate, which had an annual growth of 3%, primarily due to the depreciation of the Turkish Lira, Russian Ruble and Ukrainian Hryvnia relative to the Denar. On the other hand, the changes in the relative prices acted in the opposite direction, with slower growth in domestic consumer prices relative to the foreign ones (2.8%) and lower domestic prices of manufactured goods relative to foreign prices by 2.6%.

¹⁰ The data on REER index, calculated on the basis of two deflators (consumer prices and the prices of the producers of industrial products) are calculated under the new methodology for calculating the REER. More detailed information on the changes in the current methodology for calculating the REER can be found at this link:

http://nbrm.mk/WBStorage/Files/Statistika_REER_Information_on_the_changes_to_the_methodology_for_calculating_the_real_effective_exchange_rate_of_the_Denar_ang.pdf

EXTERNAL SECTOR

Main components of the current account
(in EUR million)

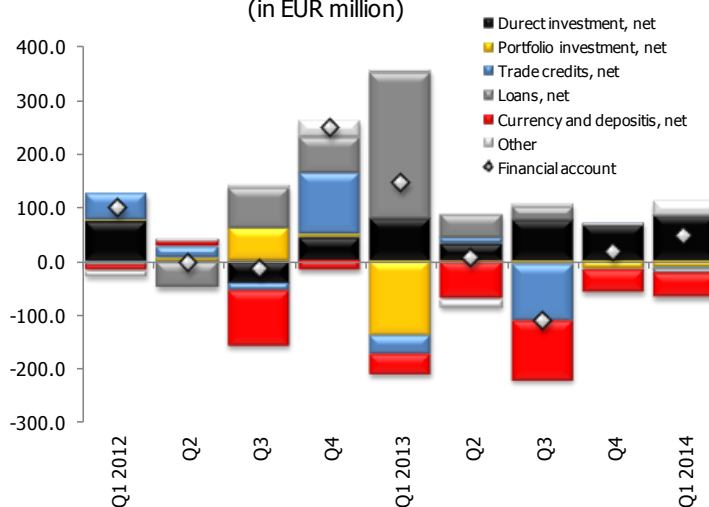


Source: NBRM.

In the first quarter of 2014, the current account deficit of the balance of payments amounted to Euro 123 million (or 1.5% of GDP), which is slightly higher deficit than anticipated for the first quarter of the year, according to the April projection.

There are small negative deviations in all components of the current account excluding services, which registered a larger surplus than expected.

Financial account components
(in EUR million)



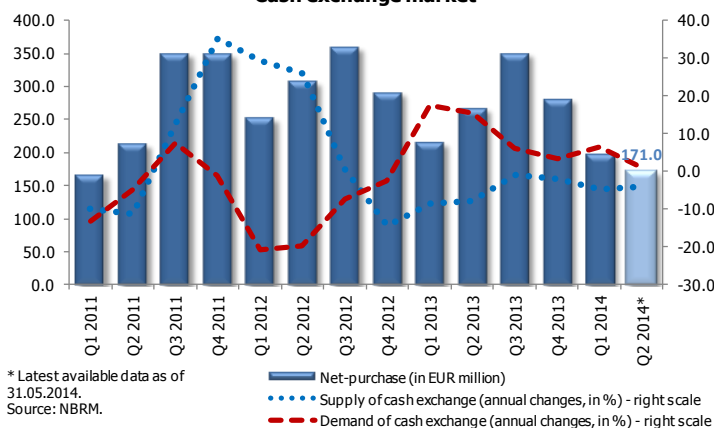
Source: NBRM.

In the first three months of the year, net inflows of Euro 48.6 million (or 0.6% of GDP) were registered on the capital and financial account, which corresponds to the projected flows for this period in accordance with the April projection.

Better performance has been registered with both direct investments and long-term loans, which registered significantly lower net outflows than planned on a net basis.

On the other hand, in the first quarter, net outflows based on commercial loans were registered, contrary to expectations in the April projection, when this category was a source of additional financing of the trade transactions.

Cash exchange market



* Latest available data as of 31.05.2014.

Source: NBRM.

Recent data on the currency exchange operations, as of May 2014 show new increase in the demand for foreign currency after the fall registered in the preceding month, while the supply of foreign exchange on the currency exchange market continues to decrease.

The realized net purchase on the currency exchange market in the period from April to May totaled Euro 171 million, which is an annual drop of 5.3%.

The latest information from the currency exchange market suggest the possibility of realizing net inflows of private transfers for the second quarter of 2014 to be in line with the expected, according to the April projection.

EXTERNAL SECTOR

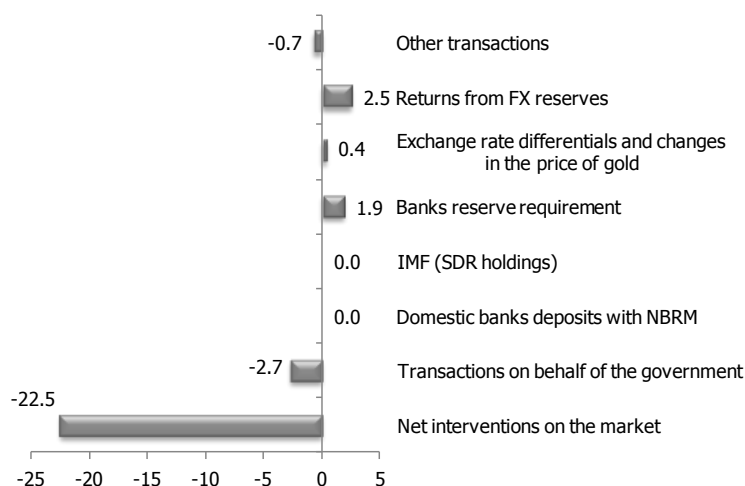
Foreign exchange reserves
(stock, in EUR million)



* Latest data as of 31.05.2014.
Source: NBRM.

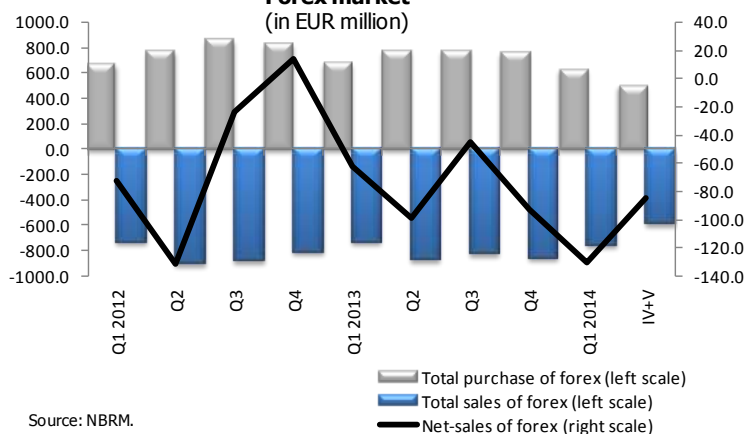
The latest stock of the gross foreign reserves, on May 31, 2014 equals Euro 1,920.1 million, which is a decrease of Euro 21.1 million relative to the end of March 2014. The negative changes in the foreign reserves are mostly due to the net sale of foreign exchange by the NBRM on the foreign exchange market and the transactions for the account of the Government.

Factors of change of the foreign reserves in the period of april-may of 2014 (in EUR million)



Source: NBRM.

Forex market
(in EUR million)

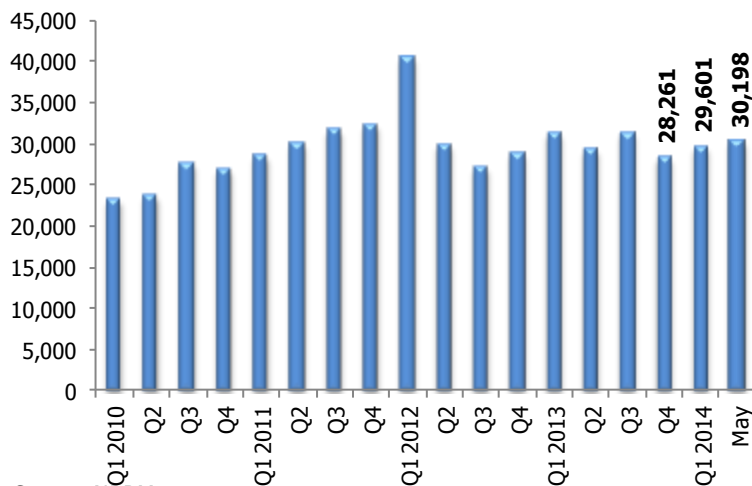


Source: NBRM.

In the period April - May 2014, on the **foreign exchange market**, the banks realized net sale of Euro of 84.6 million, which is an annual decrease in the net sales of 7.1%. This annual change arises from the stronger fall in the demand than in the supply of foreign currency (6.4% and 6.2%, respectively).

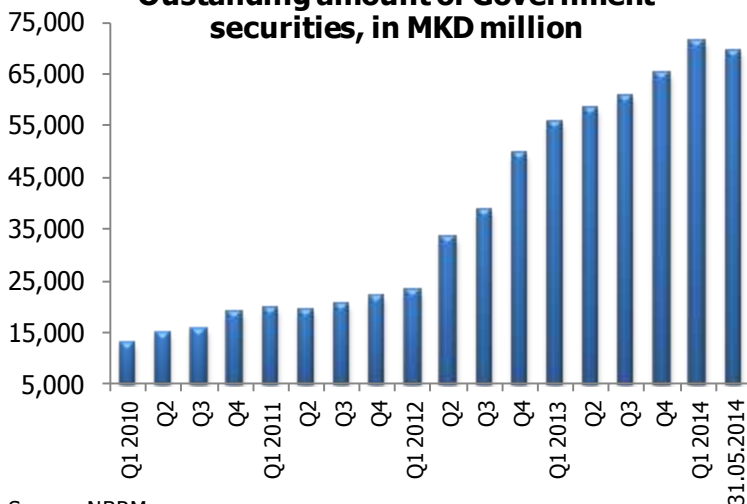
Analysis by individual components shows that the reduced net sale of foreign currency is mainly due to the net purchase with non-residents compared to the net sale with this category, registered in the same period of the last year.

Monetary policy instruments, in MKD million



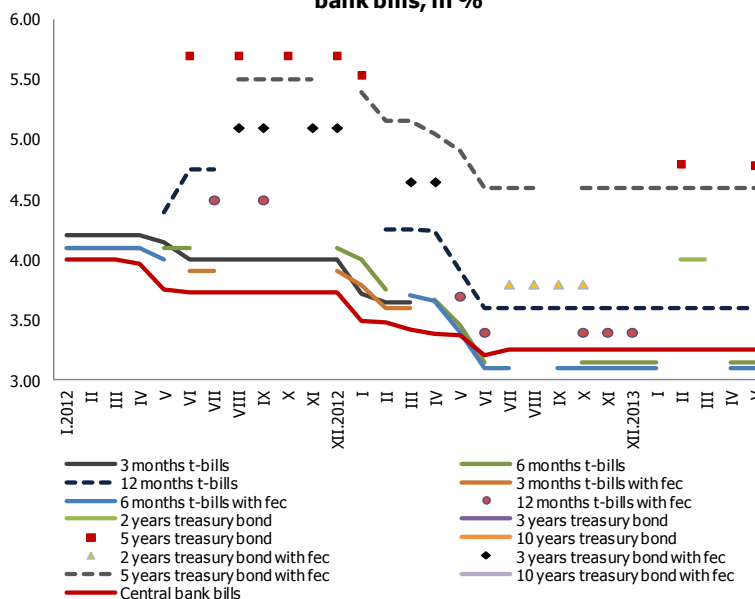
Source: NBRM.

Outstanding amount of Government securities, in MKD million



Source: NBRM.

Interest rates of treasury bills, treasury bonds and central bank bills, in %



Source: NBRM

The preliminary data as of May 31, 2014 show liquidity withdrawal through monetary instruments relative to the end of the first quarter, with a similar intensity to the expected...

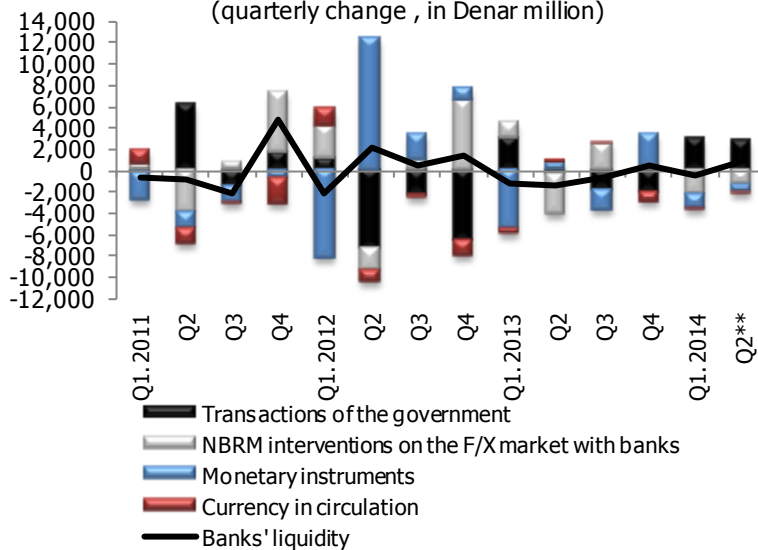
...in conditions of a quarterly decrease in the net foreign assets of the NBRM, but stronger than expected according to the April projection ...

... and liquidity creation by reducing the total Government deposits with the NBRM, but less intensive than expected in the second quarter.

As of May 31, 2014, the stock of government securities on the domestic market totals Denar 69,339 million, which is a decrease of Denar 1,740 million compared to the March 2014.

The interest rates on government securities market remained stable also in May. The interest rates realized at the auctions in May ranged from 3.1% on 6-month bills with foreign currency clause, to 4.8% on 5-year bonds.

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



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

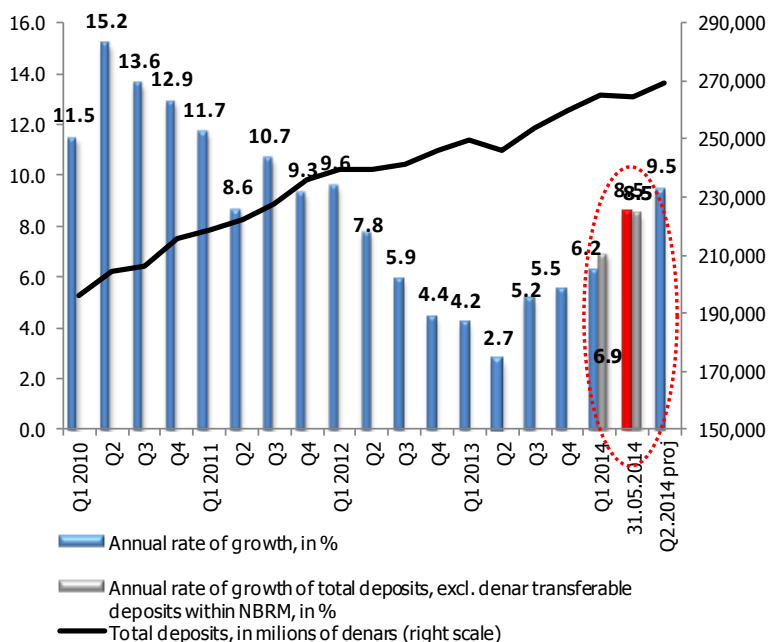
** april and may

Source: NBRM.

As of May 31, 2014, the reserve money is almost at the level projected for the second quarter...

...in conditions of quarterly increase in the currency in circulation and the total liquid assets, which matches the expectations in the April projection.

Total deposits



*Includes demand money

Source: NBRM.

According to preliminary data as of May, the total deposits of the banking system remained almost unchanged compared to the previous month, despite their reduction observed in April (mainly as an effect of the payment of the dividend by a company). These developments emanate from the monthly increase in the corporate deposits, while the household deposits contributed to the reduction of the total deposits.

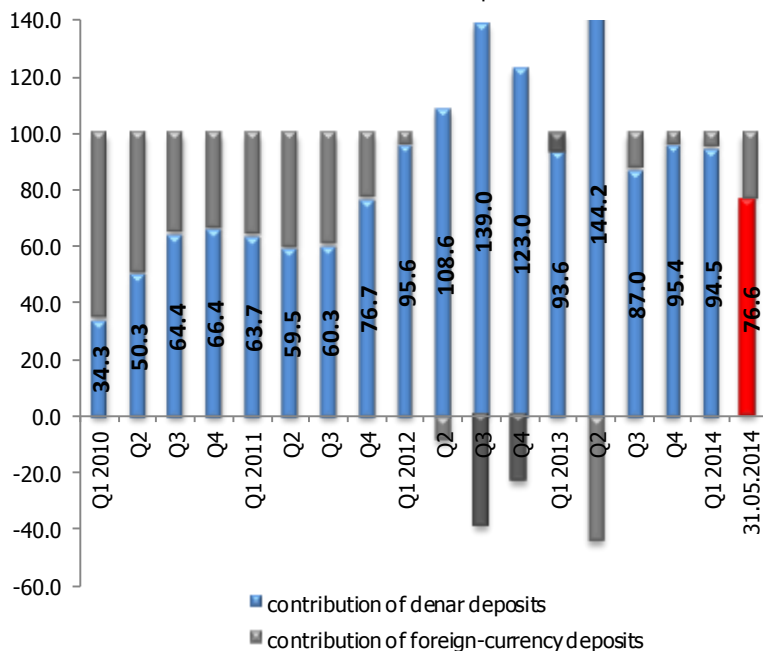
As of **May 31, 2014**, the **annual growth rate of the total deposits equals 8.5%¹¹** and it is below the **growth of 9.5% as projected for the second quarter**. On a quarterly basis, the total deposits fell by Denar 716 million, as opposed to the increase planned for the second quarter of 2014, as projected in April.

¹¹ It refers to total deposits including transferable Denar deposits of other financial institutions with the NBRM.

MONETARY SECTOR

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

*Includes demand deposit

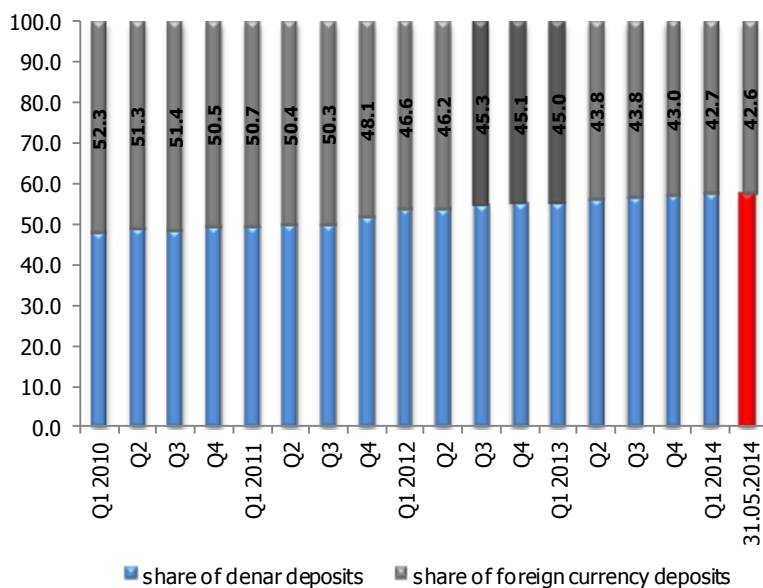


Source: NBRM.

The realized annual increase in the total deposits is mainly a result of the rise in the Denar deposits given intensification of the contribution of the foreign currency deposits, which, still, is due to the base effect¹². Thus after longer period of minor contribution to the total increase in the deposit potential, the foreign currency deposits account for 23% of the annual growth. The new deposit growth in May is fully caused by the Denar deposits.

**Share of Denar and foreign currency deposits in
the total Deposits (in %)**

*Includes demand deposit



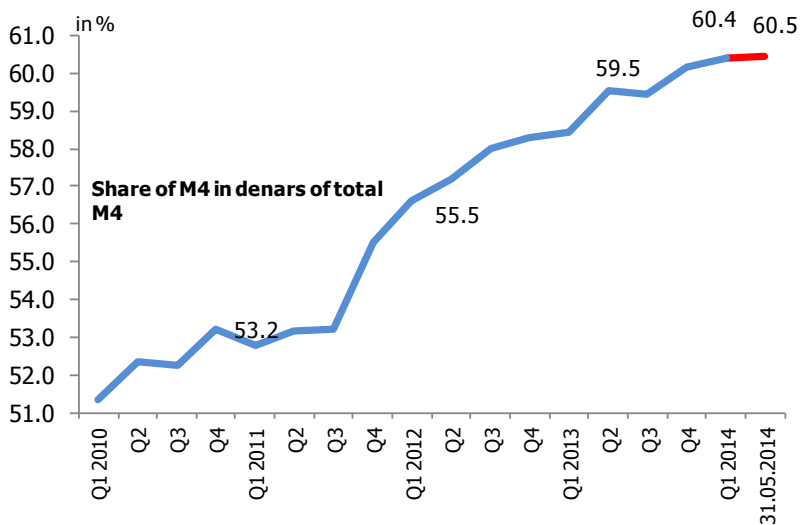
Source: NBRM.

According to preliminary data as of May, the currency structure of total deposits was still stable compared to the previous quarter, with the Denar deposits still dominating in the total deposits.

¹² High outflows of foreign currency deposits of companies in April 2013 have been registered, mainly due to the payment of dividend by one company. In 2014, a smaller amount of dividend was paid (again in April), mainly through the enterprises' Denar deposits.

MONETARY SECTOR

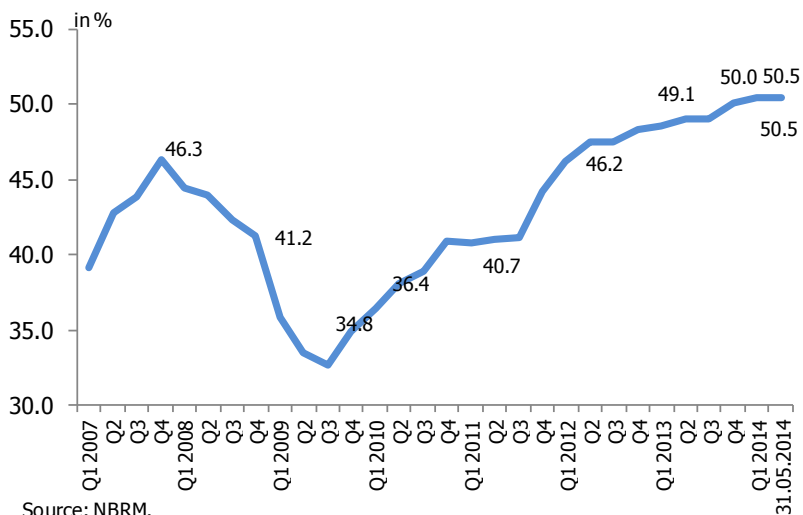
Share of M4 in denars of total M4 (in %)



Source: NBRM.

Share of Denar and foreign currency deposits in the total Deposits (in %)

*Includes demand deposit

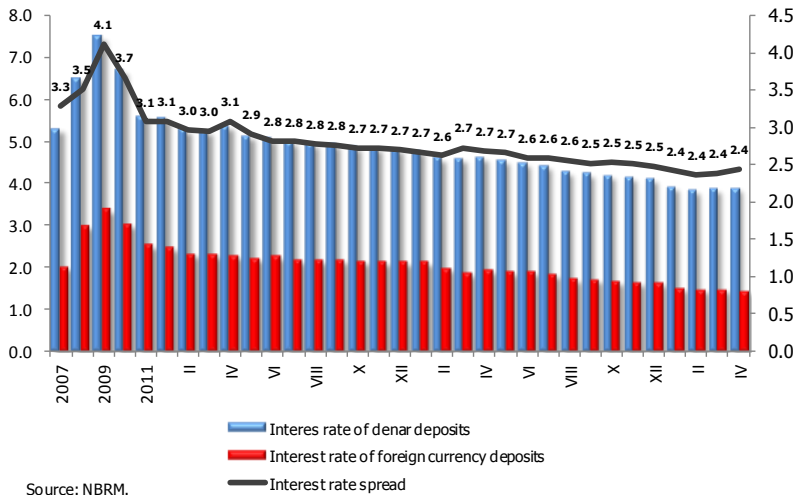


Source: NBRM.

Denar deposits in May decreased on a monthly basis as opposed to their constant increase since June 2013 ...

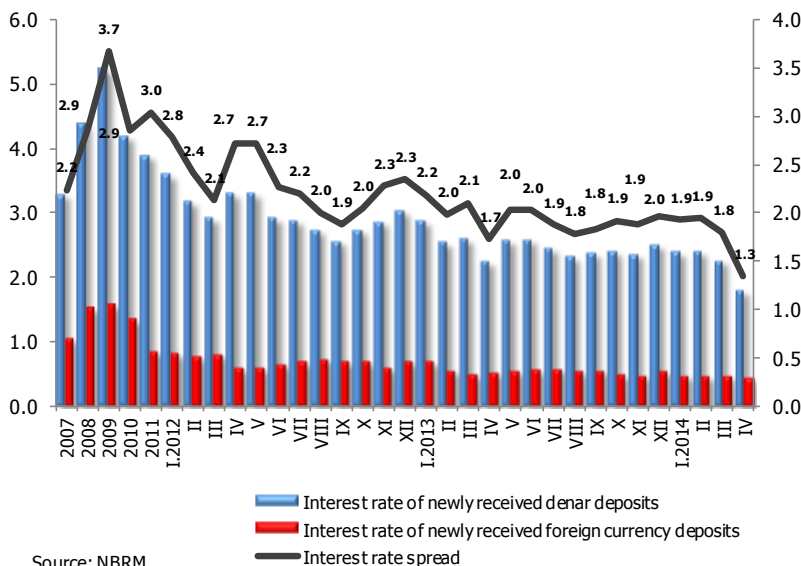
...so their share in the total deposits has stabilized at the level of 50.5%. The foreign currency deposits register moderate increase compared to the previous month.

Interest rates on Denar and foreign currency deposits, in %



Source: NBRM.

Interest rates on newly received Denar and foreign currency deposits, in %



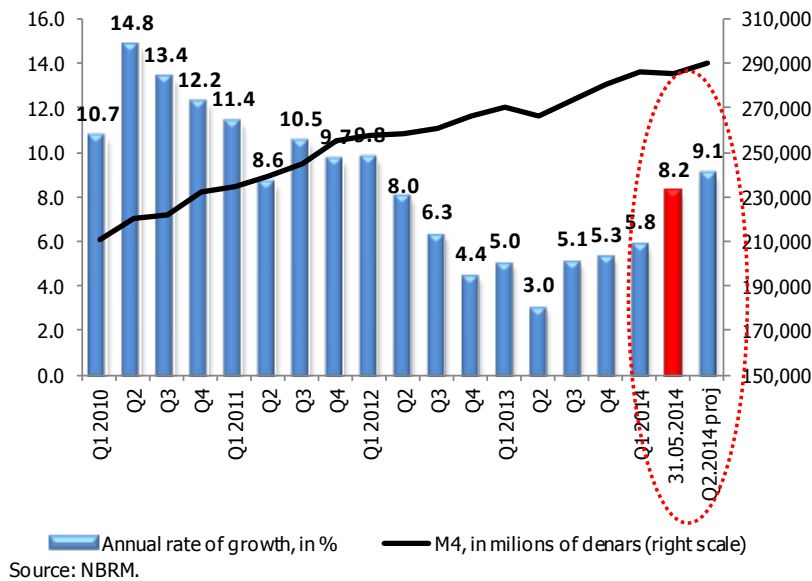
Source: NBRM.

The interest rates on Denar and foreign currency deposits in April remained virtually unchanged compared to the previous month, indicating stabilization of the interest rate spread between the Denar and foreign exchange savings. On the other hand, there is a significant narrowing of the interest rate spread between the interest rate on newly received Denar and foreign currency deposits as a result of declining yields on Denar deposits¹³ (by 0,5 p.p. relative to March).

¹³ The reduction of interest on newly received Denar deposits is due to temporary factors whose effects are likely to exhaust in the following month (depositing of a larger amount of money at a very low interest rate in April, with one-month maturity).

MONETARY SECTOR

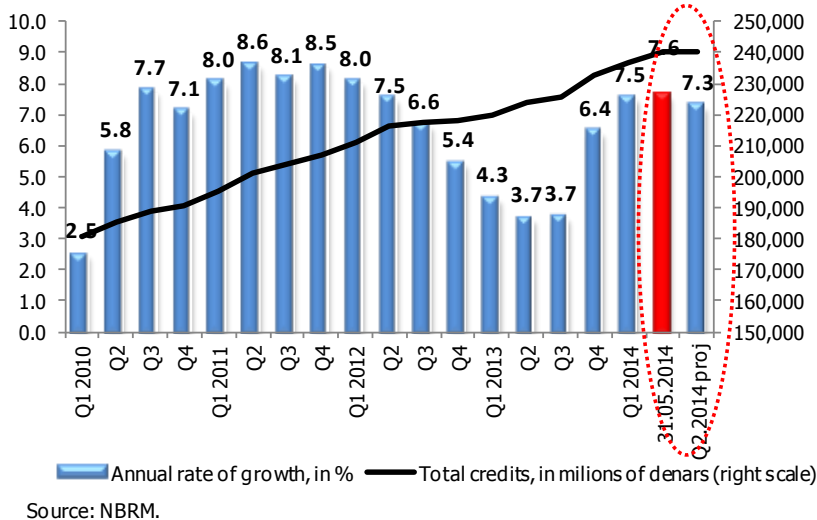
Broad money, M4



According to preliminary data as of May, there is a lower monetary growth relative to the projected situation...

...as a result of the weaker performance in the total deposits, given higher growth in currency in circulation, compared to the April projection.

Total loans



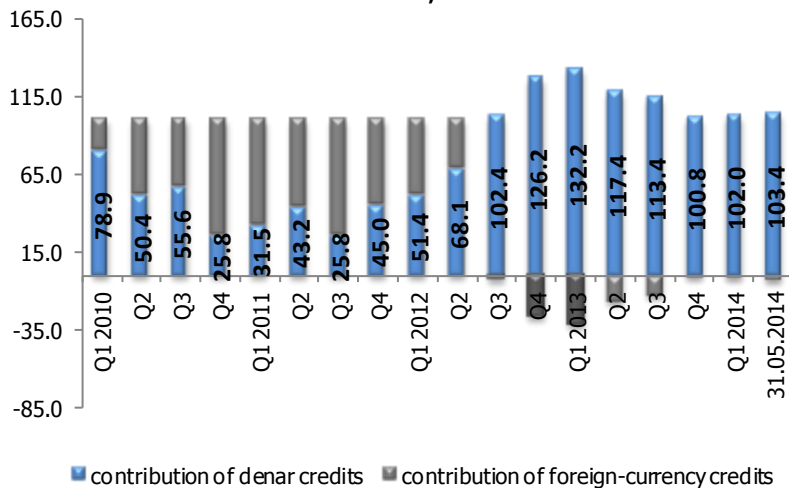
According to preliminary data, as of May 31, 2014, there is significant acceleration of lending to the private sector on the credit market, compared to the decrease in the total loans recorded in April. Thus, the credit flows registered at the end of May, represent the strongest monthly growth since the beginning of the crisis¹⁴, as a result of the higher rise in the corporate loans relative to the one intended for the "households" sector.

At the end of May, the annual growth rate of the total loans equals 7.6% and exceeds the annual growth of 7.3% projected for the second quarter of 2014, according to the April projection. On a quarterly basis, the realized increase of Denar 3,589 million represents 92% of the growth planned for the second quarter of 2014.

¹⁴ The monthly credit growth registered in May is a bit higher than the growth rate of the total loans made in December 2013.

MONETARY SECTOR

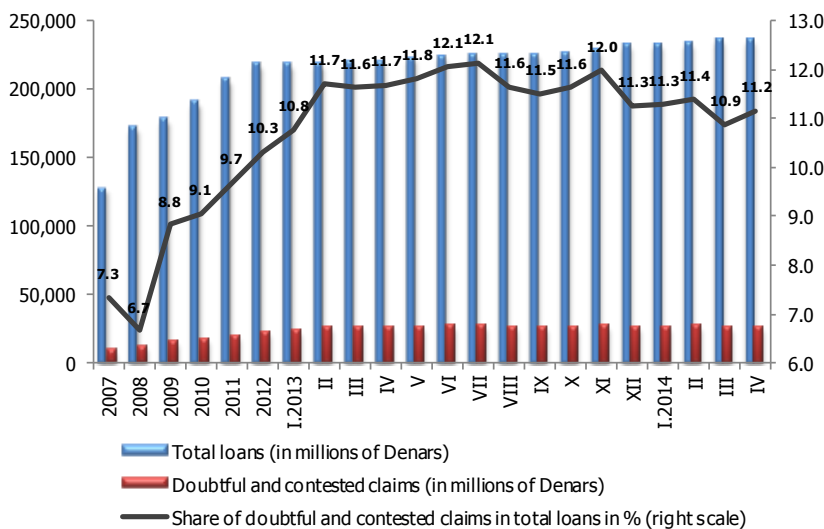
Contribution of Denar and foreign currency loans to total loans, in %



Source: NBRM.

The realized annual rise in the total loans stems fully from the increase in the Denar loans, given the further fall in the foreign currency loans.

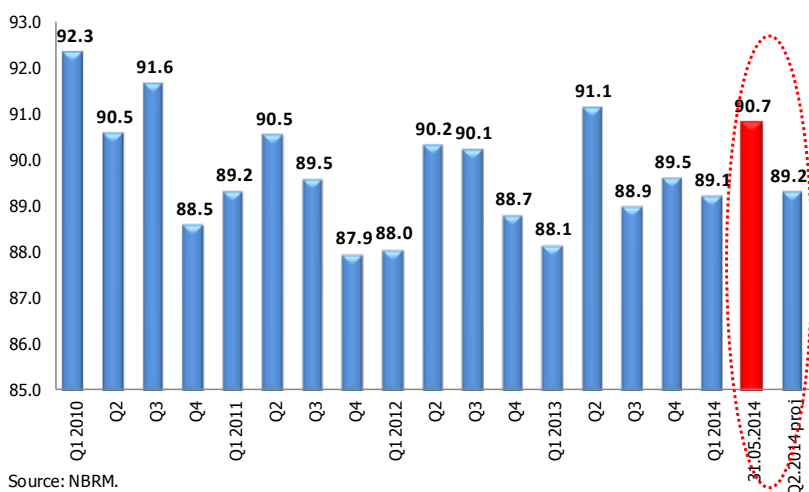
Share of non-performing claims in total loans, in %



Source: NBRM.

As a result of the moderate growth in non-performing loans to enterprises, in April there was an increase in the share of doubtful and contested claims in the total loans, compared to the decrease which was observed at the end of March.

Total loan-deposit ratio, in %



Source: NBRM.

In May, there is higher utilization of the deposit potential in lending to the private sector, than it was realized in the previous quarter...

...as a cumulative effect of the stronger rise in loans to the private sector and moderate quarterly decrease of the deposit base.

Such developments contribute to higher utilization of deposits to finance the private sector, compared to the expected level within the projection.