

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



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

March 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 (December 2013 - March 2014) and to make a comparison with the latest macroeconomic projections (October 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 the external assumptions and performance of domestic variables and the effect of these changes on the environment for monetary policy conduct.*

**The global economic environment has not undergone major changes compared to the period of the last assessments.** The latest economic indicators for the Euro area are favorable and point to moderate pace of growth during the first quarter of 2014. Recent ECB's assessments released in March, which include 2016 for the first time, confirm the expectations for growth of economic activity in 2014 (slightly higher than projected in the December) that, as expected, will accelerate during 2015 and 2016. According to Eurostat's first estimate, the rate of inflation in the euro area in February stabilized at the level of the previous two months (0.8%). The ECB's assessments for the period ahead still indicate a low rate of inflation over a longer period, after which, it would gradually reduce to 2% by the end of 2016. Under these conditions, in March, the ECB decided to keep the same policy rate and reaffirmed the decision to conduct accommodative monetary policy as long as necessary. According to the ECB, there are still risks identified in the last reassessment<sup>1</sup>, coupled with a new geopolitical risk factor - the political turmoil in Ukraine<sup>2</sup>. **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 are within the October projection. Changes in the expectations about the prices of primary commodities diverge.** The latest assessments for the global **oil prices** indicate less favorable developments in both 2014 and 2015 (**partly due to the geopolitical tensions over Ukraine**). The individual **metal prices** were revised in opposite direction, indicating favorable movements in the price of nickel in both years and worsening terms of trade of copper for the same period. The recent revisions of **food prices** for 2014 are downward and show alleviation of pressures through this channel on the domestic inflation and the terms of trade. However, prices of primary food products are still expected to register an increase for 2015, which is revised upwards for wheat, and downward for corn.

**A comparison of recent macroeconomic indicators with their projected dynamics within the October cycle projections provides a different picture in different segments. In terms of individual indicators relevant for the monetary policy, inflation** data for January 2014 indicate significantly lower inflationary pressures than expected. These deviations are mainly due to the food component and less to the core inflation. On a monthly basis, the price level moderately reduced (by 0.1%), with significant slowdown of annual inflation, which in January, reduced to 0.9% (1.4% in December). The

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<sup>1</sup> The ECB considers that the risks arise from the uncertain movements of financial markets, especially in emerging economies and developing countries, the possibility of weaker performance in domestic and export demand and the slow and inadequate implementation of structural reforms in the member states of the euro area.

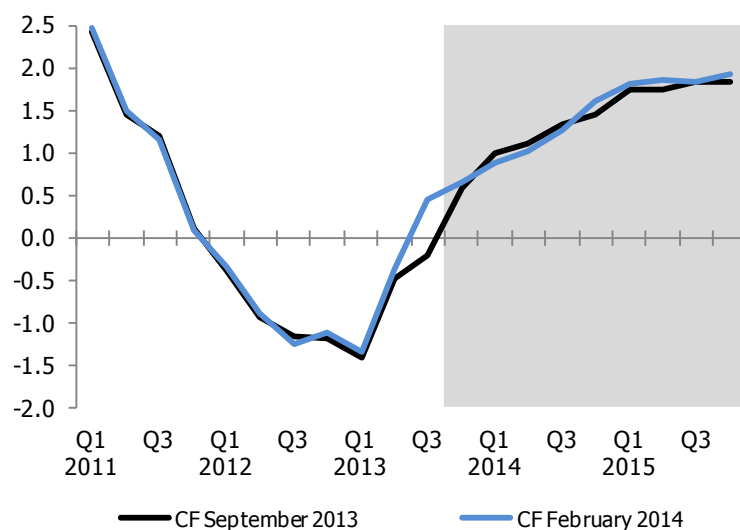
<sup>2</sup> Estimates show that any deterioration of circumstances would not directly threaten the economic recovery in the euro area because of the relatively weak foreign and financial relations with Ukrainian and Russian markets. However, depending on the further developments, indirect effects are possible, as well as risks related to the prices of primary products, thus requiring greater vigilance by the policy makers. Current developments in the markets of primary products indicate no larger effects of the crisis in Ukraine on commodity prices. However, the conflict between Ukraine and Russia is seen as a factor that can cause high volatility in these markets and greater price shocks.

annual inflation slowed down due to the food prices and some components of core inflation. In January, the core inflation equaled 1.9%, which is a significant slowdown compared to December and below the October projection. **Taking into account recent developments and revisions of external assumptions, the balance of risks points to more pronounced downward risks to the inflation projection for 2014 of 2.3%.**

***According to the latest available data as of early March 2014, foreign reserves (adjusted for price and exchange rate differences and securities price changes) decreased, which is consistent with the trajectory of foreign reserves in the first quarter projected in October.*** The latest data on foreign trade in January suggest somewhat lower trade deficit than projected for the first quarter. Such performance arises from the import, which is lower than projected, amid weaker performance on the export side, which still corresponds to the usual seasonal dynamics. However, data include only one month and are not sufficient to present reliable conclusions for the entire quarter. Data on currency exchange market concerning the net inflows for the period January-February indicate slightly weaker performance than expected. **Regarding the real sector,** the available **high frequency indicators of the economic activity** suggest further annual growth of the domestic economy during the last quarter of 2013 and positive trends during the first quarter of 2014. **Within the monetary sector,** according to the preliminary data as of February, the amount of **total loans** is above the October projection for the first quarter, and the annual growth rate is around 7% (instead of 5.3% as projected). These developments represent a combined effect of the increased lending activity in the last quarter of 2013 and further growth of total loans since the beginning of 2014. According to recent data, deposits will increase in 2014 as well, at a pace stronger than expected. Under these conditions and better performance than expected in the last quarter of 2013, as of February, total deposits significantly outperformed the projections for the first quarter. The latest assessments for the level **of EURIBOR for 2014 indicate a somewhat higher level compared to the October projection, while for 2015, it was revised moderately downward.**

***Recent macroeconomic indicators and assessments do not indicate major changes in the perceptions for the environment and the risks compared to the assessments made under the October projections.*** Foreign reserves declined, which is usual for this time of the year. The headline inflation in January is significantly lower than projected, and according to recent assessments, the downward risks around the inflation projection for 2014 again come to the fore. At the same time, there was a significant slowdown in core inflation. However, the emergence of geopolitical tensions related to the conflict between Ukraine and Russia is yet another factor that can cause instability and occurrence of major price shocks, which is a potential future risk to the inflation. According to the indicators of economic activity, the economy will accelerate in the first quarter of 2014, as well, without creating any imbalances. Within the monetary sector, data on Denar and foreign currency savings indicate that households still prefer to save in domestic currency. Credit growth, as of February, is above the projection and the projected credit flows for the first quarter have already been achieved in the first two months of the year. However, there are still downward risks associated with the credit flows to the end of the year. The external environment is still uncertain, amid unfavorable projections for the global oil price and a downward revision of prices of certain metals on the international market, which can have a detrimental effect on the external position of the Macedonian economy. Uncertainty clouding the developments in Ukraine further highlights the risks arising from the global environment.

**Foreign effective demand**  
(annual rates of change in %)



Source: "Consensus Forecast" and NBRM estimates.

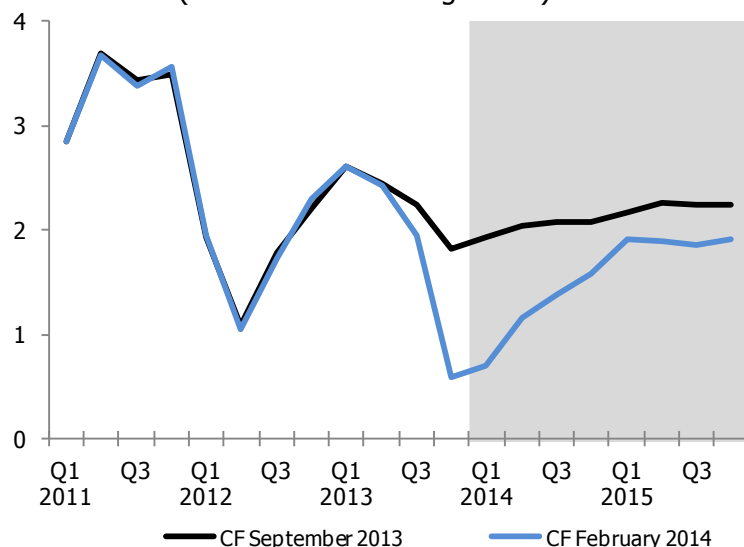
**The latest performance and assessments indicate somewhat slower decline in foreign effective demand in 2013, compared to the October projection...**

... where it is estimated at 0.2%, unlike the expected decline of 0.4%...

... mostly due to the improved economic developments in Serbia and Greece.

**On the other hand, there are no changes in projections for foreign effective demand, and as projected in October, it is expected to grow by 1.2% and 1.8% in 2014 and 2015, respectively.**

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



Source: "Consensus Forecast" and NBRM estimates.

**Foreign effective inflation in 2014 has been revised downward to 1.2%, compared to the October projection of 2%...**

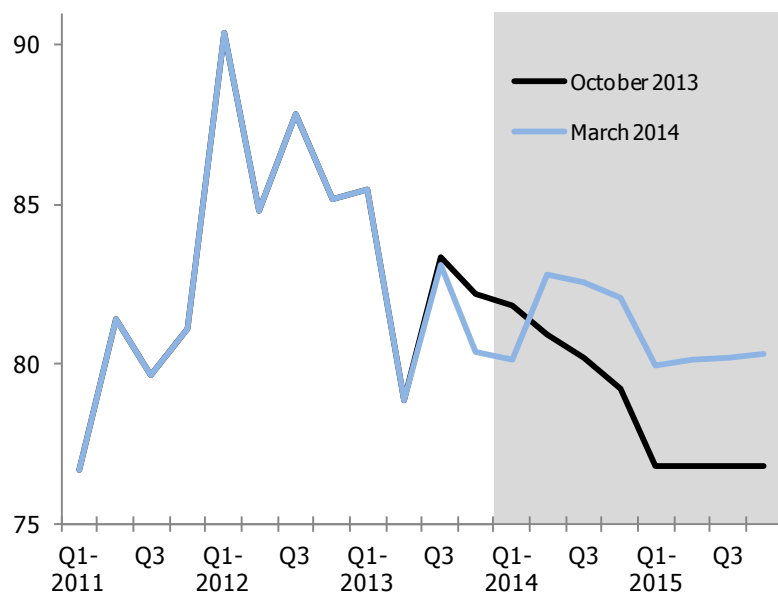
... owing to the downward revision of expected inflation in all of our most important import partners.

The projected slower rise in prices in Serbia, Croatia and Germany has the largest contribution to this revision.

**Foreign inflation for 2015 is projected to reduce to 1.9%, compared to 2.2% as projected in October...**

... mainly due to the lower contribution to the price growth made by Serbia (given the higher expected depreciation of the Dinar), Bulgaria and Germany.

**Brent oil**  
(quarterly average, EUR/Barrel)



Source: IMF, "Bloomberg" and NBRM estimates.

**It is expected that the price of crude oil in the first quarter of the year will register a slightly faster fall than projected in October...**

... given the more favorable supply - demand ratio...

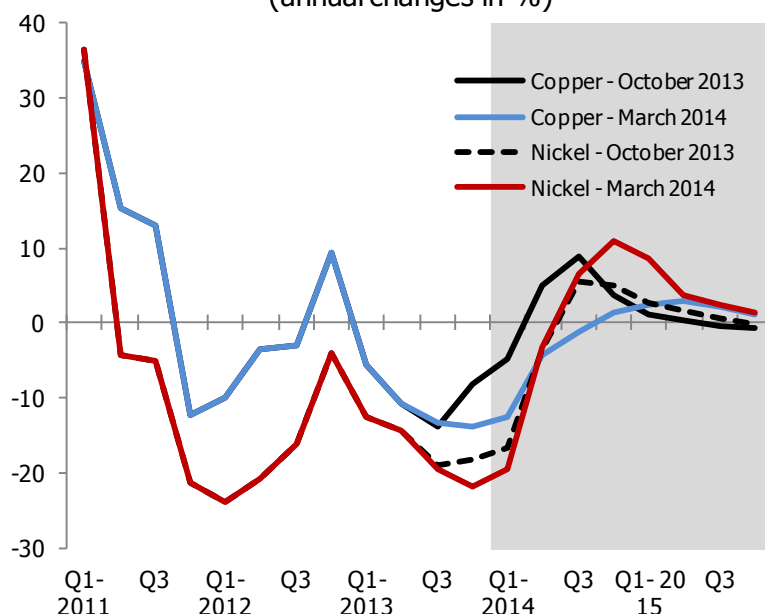
... but for the rest of the year, the expected price growth is revised significantly upward...

... reflecting the effect of increased geopolitical tensions over Ukraine and the upward revision of growth projections for the global consumption...

... and therefore, it is projected that in 2014 the oil price will be close to the level of the previous year, despite the decline projected in October.

**On the other hand, oil price is still expected to decline in 2015, but slowly than projected in October.**

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



Source: IMF, "Bloomberg" and NBRM estimates.

**In the first quarter of 2014, the expected rate of decline in prices of nickel and copper was downwardly revised...**

...because of the concerns about the lower demand of emerging economies.

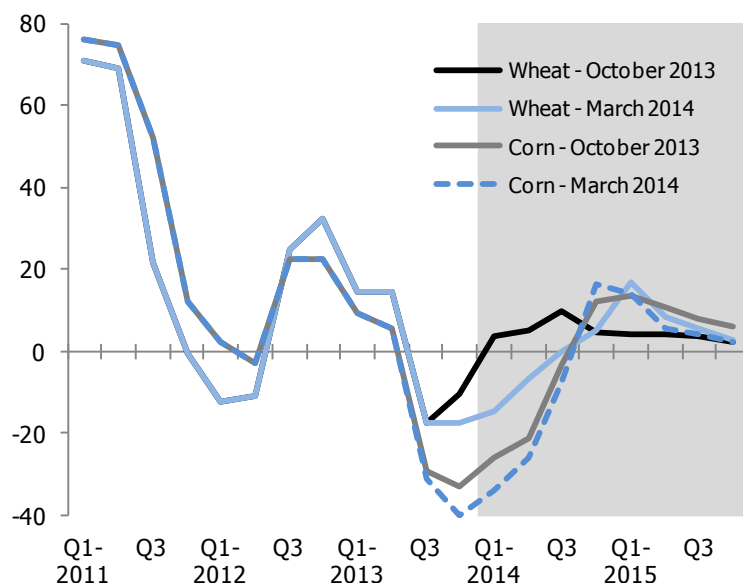
Annually, the 2014 revisions of prices of nickel and copper are in opposite directions...

... with a slower drop in the nickel price, due to the ban on Indonesian export ...

... and a fall instead of rise in the price of copper due to the sufficient supply and the weaker indicators for the Chinese economy.

**For 2015, it is expected that the movements in metal prices on international markets will be more favorable for domestic exporters, since the price increase is anticipated to be faster than projected in October.**

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



Source: IMF, "Bloomberg" and NBRM estimates.

**It is estimated that the decline in corn price in the first quarter will be stronger than expected in October, with simultaneous decrease rather than increase in the wheat price...**

... and given the improved outlook for global supply...

... more downward price deviations for the entire 2014 are projected.

However, at present, the main upward risk to prices of corn and wheat is the crisis in Ukraine, which is among the major producers of these products.

**On the other hand, the prices of cereals are expected to register an increase in 2015, which has been revised upwards for wheat and downward for corn.**

**At the beginning of the year, the short-term EURIBOR moderately increased...**

... given the lower levels of excess liquidity in the euro system...

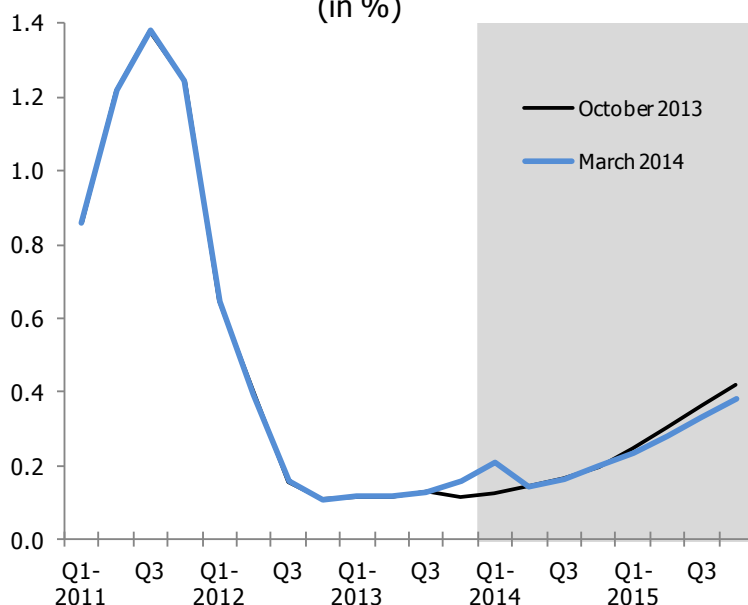
... and then stabilized at this level...

... with assessments that during the quarter, the one-month EURIBOR will equal 0.21%, unlike 0.12% in the October projection.

Moreover, gradual normalization of the money market in the euro area is expected for the rest of the year, where the interest rate in 2014 would increase marginally by 0.18% rather than 0.16% as projected in October.

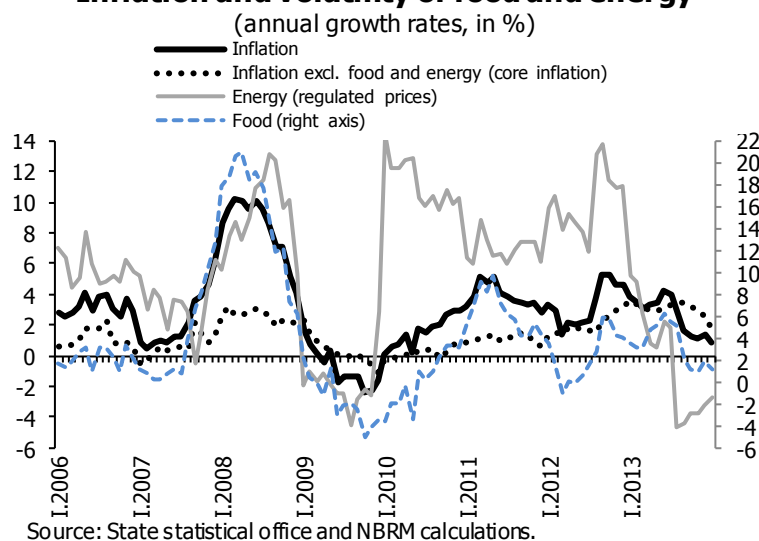
**On the other hand, in 2015, EURIBOR is expected to be slightly lower than projected in October (0.33%) and to equal 0.31%.**

**1M Euribor**  
(in %)



Source: "Consensus Forecast" for 2014, "Bloomberg" for 2015 and NBRM estimates.

## Inflation and volatility of food and energy

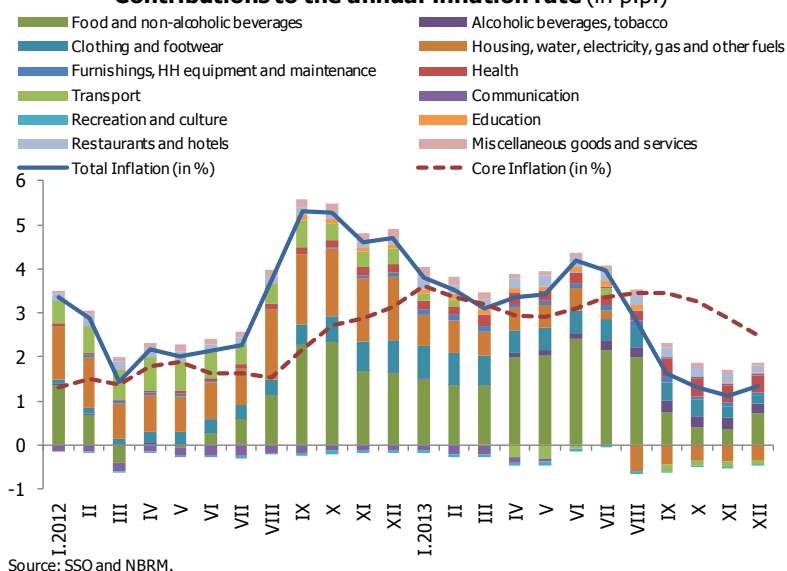


In January 2014, consumer prices experienced a minor monthly decline<sup>3</sup> of 0.1%...

... mainly due to the lower prices of footwear and food.

On the other hand, rising prices of pharmaceutical products, unprocessed vegetables, and catering services acted in opposite direction.

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



The annual rate of inflation significantly decelerated and reduced to 0.9% (1.4% in December)...

... which is significantly lower rate compared to the October cycle projections...

... amid stronger downward deviation of the actual from the projected annual inflation rate in the food component and to a lower extent, in the core inflation...

... while energy component of inflation is generally closer to the projection.

<sup>3</sup> Footwear price was reduced by 3.8%, being a category with the largest individual contribution to the monthly decline in the consumer price index. The food price declined by 0.2%, along with the decline in prices of bread and dairy products and eggs, by 0.7% and 0.3%, respectively.

The core component of inflation continues to decline at a minimum rate on a monthly basis...

... while the annual core inflation slowed down at a stronger pace (from 2.5% in December, to 1.9% in January)...

...with the downward monthly movement being due to the lower prices of footwear and IT equipment.

**External assumptions for 2014, which are included in the projection of inflation, are mainly downwardly revised.**

Thus, prices of primary food products traded on international markets for 2014 show a reduction in the wheat price (instead of an increase as expected in October) and a stronger decline in the price of corn, compared with the October cycle projections.

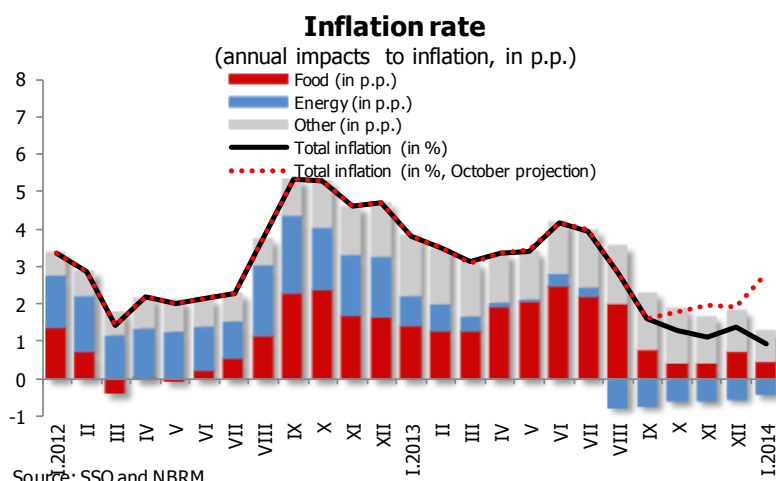
The projected decrease in the price of wheat for 2014 primarily reflects the sudden rise in world wheat yields and inventories from the previous year<sup>4</sup>...

... while the assessment for a lower price of corn in 2014 reflects mainly the high growth of inventories (the highest in the last 8 years)<sup>5</sup>.

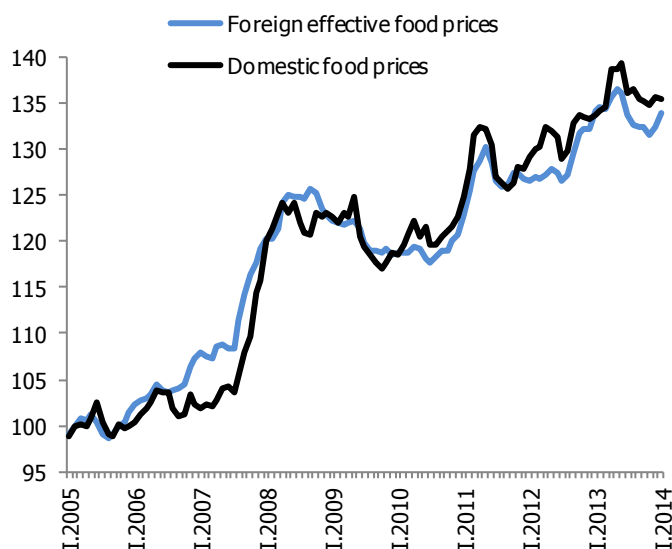
However, the expected decline in price of wheat and corn is lower than in the previous reassessment of the inflation in January, reflecting the effects of the crisis in Ukraine, which is one of the largest exporters of corn and wheat.

The projection for foreign effective inflation for 2014 is also revised downward.

On the other hand, recent assessments of the movement of oil price for 2014 indicate stagnation rather than an annual fall as expected in October...



## 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.

<sup>4</sup> <http://www.capitalpress.com/article/20140106/ARTICLE/140109959/1169>

<sup>5</sup> <http://www.agrimoney.com/feature/corn-prices---will-their-rout-extend-into-2014--255.html>



... as a result of the crisis in Ukraine and fears of economic sanctions on Russia, as one of the largest power producers.

**Amid such initial conditions and revisions of the external assumptions, the balance of risks shows more pronounced downward risks to the inflation projection for 2014 of 2.3%<sup>6</sup>. However, in the recent period, new risks have emerged from the potential worsening of the crisis in Ukraine and the dry winter prevailing in Europe and beyond. In the coming period, these risks could lead to upward price pressures through the import prices of food and energy.**

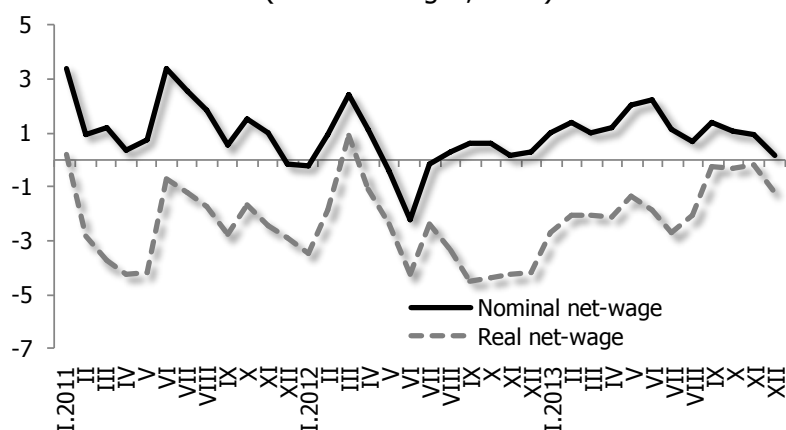
In December 2013, the nominal annual growth of average **net wage** amounted to 0.1%...

... while mining, construction, trade and other services reported higher growth rates. The most significant decline was registered in the wages of IT and communication sector.

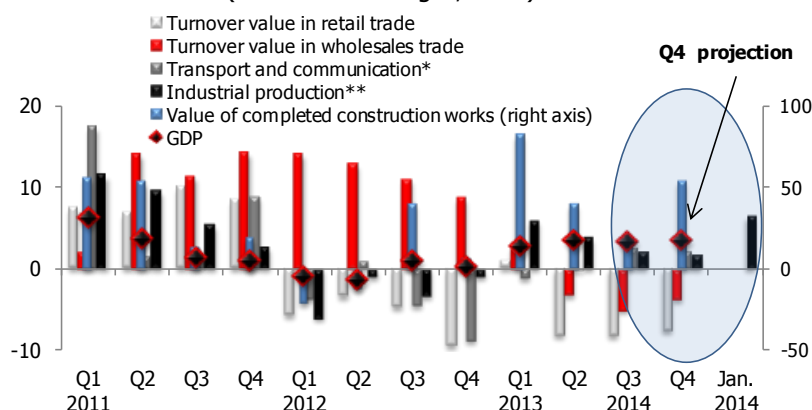
**Thus, the average wage growth in the fourth quarter equaled 0.7%, down by 1.4% compared to the October projection. The average wage growth for 2013 equals 1.2%, as projected (1.3%).**

Amid annual inflation of 1.4%, the decline in **real wages** in December 2014 accelerated to 1.2% from 0.3%, as it was in the previous three months. Thus, in the fourth quarter, real wages registered an average decline of 0.6%, which is an improvement compared to the projected decline of 0.8%.

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



## 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 for the last quarter of 2013 indicate a further annual growth of the national economy...

... given the stronger increase in industrial output of 6.4% in the last quarter of the year<sup>7</sup>...

... mostly influenced by the sharp rise in the manufacture of machinery and equipment and production of beverages...

... amid annual growth in capacity utilization.

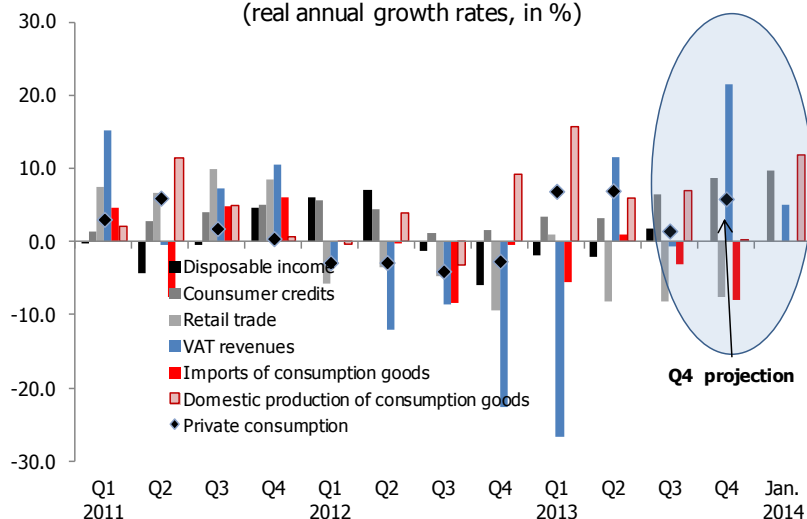
Significant enhancement of growth is reported by the **construction sector**...

... amid similar movements in transportation and telecommunications as in the previous quarter...

... and slight slowdown of the decline in wholesale and retail.

The available aggregate demand indicators are generally in line with the October projection of moderate GDP growth in the last quarter of 2013.

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



Source: SSO and NBRM calculations.

High frequency data on **consumer spending for the fourth quarter** indicate slightly more favorable trends compared to the previous quarter... ... given the faster lending to households, higher pensions and slower decline in real wages.

Improved performance compared to the previous quarter was registered in retail trade, whose decline slows down, ...

... and in VAT revenues, whose growth is substantial...

... unlike the transfers, imports and domestic production of consumer goods, whose trends are negative.

<sup>7</sup> Refers to data on industrial output with a base and weights of **2012**, which include the latest changes in the structure of industrial output. In the fourth quarter of 2013, the annual growth of the index with a base year **2010** equaled 1.6%.

**Available investment indicators suggest that it increased in the last quarter...**

... due to the high and accelerated growth of construction...

... and a slowdown of the annual decline in long-term lending to the domestic corporate sector...

... amid high growth in imports and domestic production of capital goods.

**In the last quarter of 2013, the foreign trade deficit narrowed compared to the same period last year.**

The increase in net exports is due to the growth in exports and fall in imports.

**Budget performance in the fourth quarter of 2013 indicates a slight decline in public spending...**

... that would yet be lower than the decline reported in the previous two quarters.

**The data for January 2014 indicate a further acceleration of economic activity.**

**In January, the industrial output increased at a rate of 6.4%...**

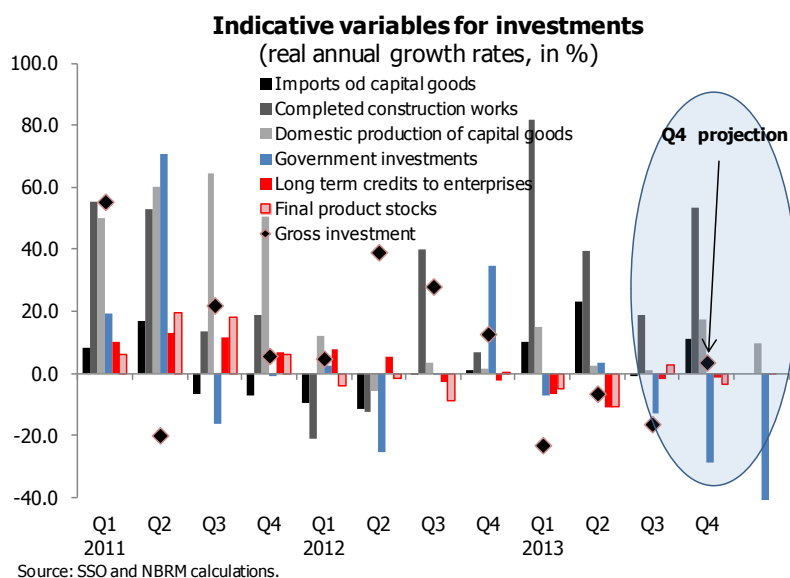
... mostly due to the higher manufacture of clothing, building materials and rubber products and plastic...

... without major annual and monthly changes in the capacity utilization.

**January data suggest positive trends in consumer spending in the first quarter of 2014...**

... as a consequence of the growth of loans to households, which intensifies...

... similar to the manufacture of consumer goods...



... amid a rise in VAT revenue.

**Investment indicators for January are similar...**

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

... and further slowdown of the decline in corporate loans.

**Foreign trade data for January 2014** indicate that the deficit again registered a reduction rather than a slight increase as expected in October...

... amid a resurgence of exports and decline in imports.

**On the other hand, January data indicate a reduced public spending** due to the lower costs for goods and services.

In the first month of 2014, exports again increased, while imports decreased, thus contributing to a **moderate annual narrowing of the trade deficit by 4.3%...**

... while the October projection expects annual expansion of the trade deficit in the first quarter.

In January, **export of goods** registered an annual growth of 1.7%, mainly due to the export activity of new export-based facilities and export of other products. In addition, the export of textile industry made a positive contribution to the annual growth...

... while other categories acted in the opposite direction, with especially high annual decline being recorded in export of iron and steel, energy and tobacco.

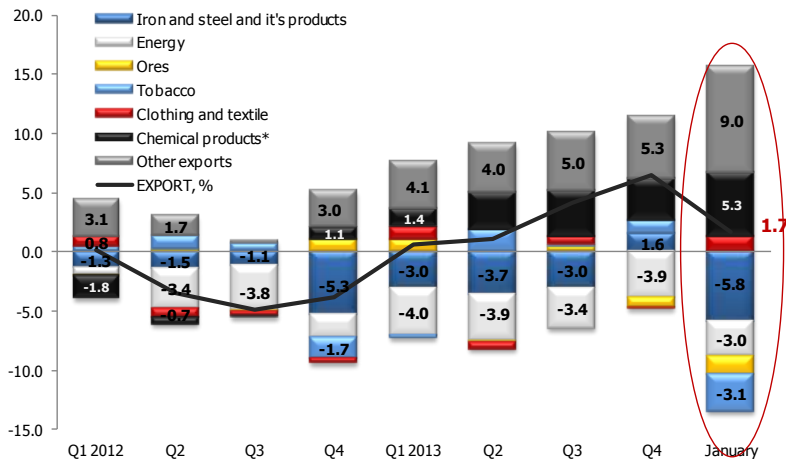
*As projected in October for the first quarter of 2014, the export in January follows the expectations. Significant downward deviations are noticed in the export of iron and steel, energy and tobacco, while the performance of the new export capacities is higher than projected in October.*

In January, the **import of goods** registered small annual decline of 0.6%, which was mainly due to the significant decline in the import of raw materials by the metal industry (mining and iron and steel) and the reduced energy imports...

... with positive contribution made by the import of raw materials for the chemical industry and investment imports of equipment and machinery.

*The import in January was lower than projected for the first quarter of the year. The largest negative deviation is observed with the import of ore and iron and steel, while the import of raw materials for the chemical industry and the import of equipment and machinery are higher than expected.*

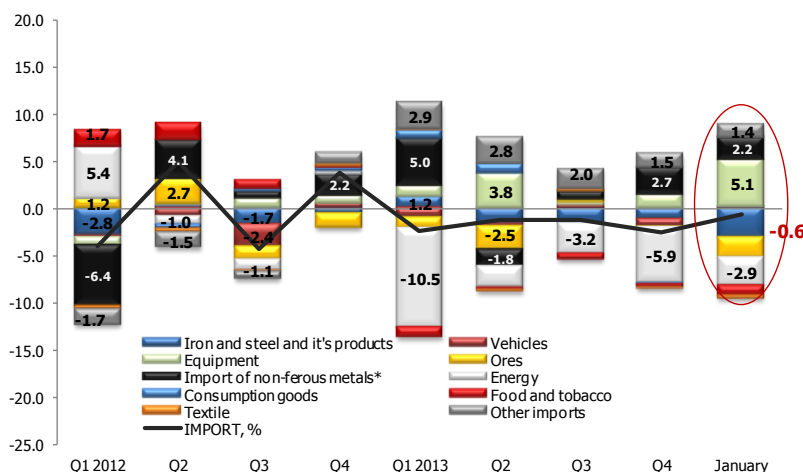
**Exports by components**  
(contributions to the annual change, in p.p.)



Source: NBRM.

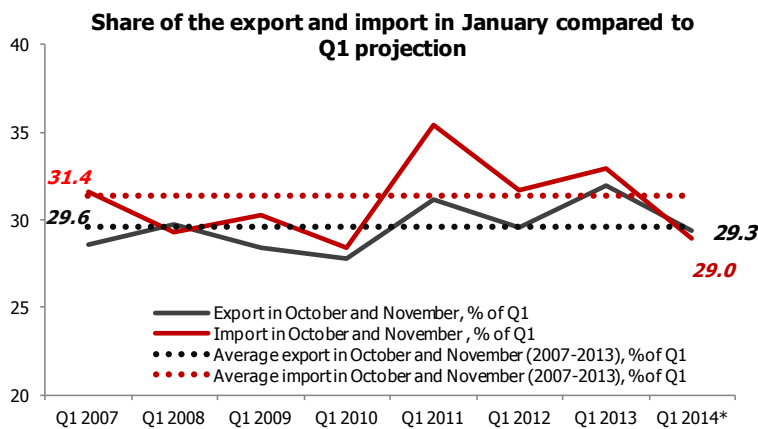
\* The following data depict the overall exports of one major export capacity in the free industrial zone.

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



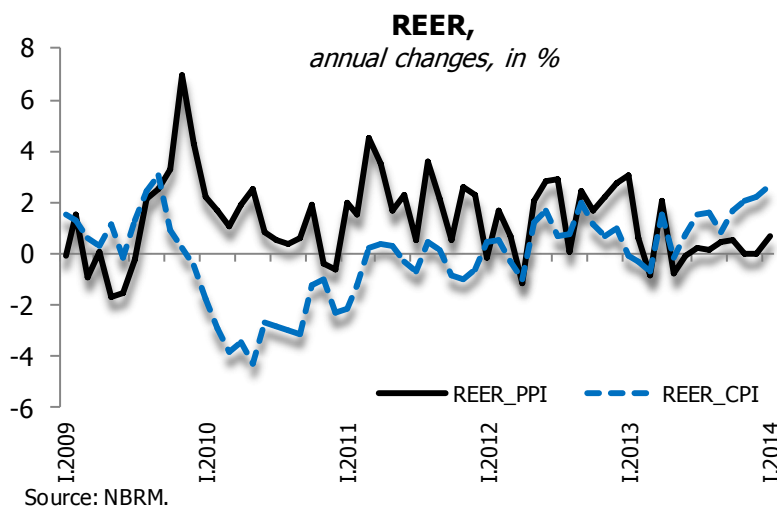
Source: NBRM.

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



The import performance in the first month of the year contributed to a slightly lower trade deficit than projected for the first quarter. However, data refer only to one month and are not sufficient to make reliable conclusions for the entire quarter.

Movements in nickel prices on international stock markets, which are indicative of the future performance of the metal manufacturing sector, show favorable trends in the current and the next year. On the other hand, the movement of crude oil and copper prices indicates less favorable trends in 2014 and 2015, compared with expectations in October. Any worsening of the crisis in Ukraine could cause additional price risks, especially in energy prices (crude oil and natural gas), and risks to the conjuncture of the metal industry.

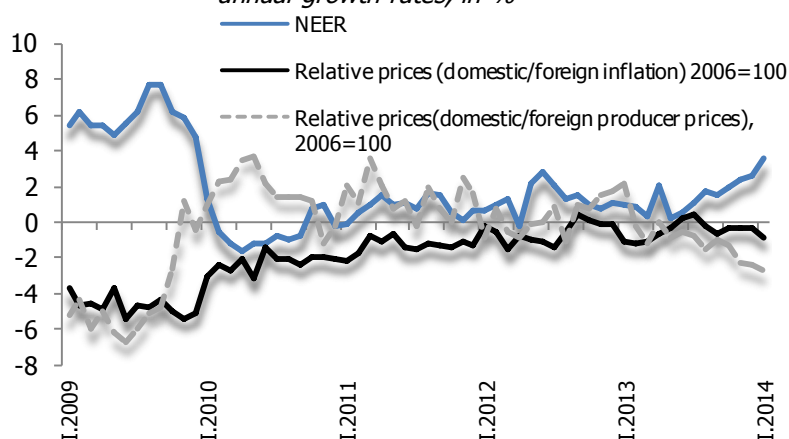


In January 2014, the price competitiveness of the domestic economy deteriorated on an annual basis. Compared with the same period last year, both indices have appreciated. Consumer price index-based REER has appreciated by 2.7%, continuing the trend of a moderate appreciation, typical for the second half of 2013. The appreciation of producer price index-based REER (of 0.7%) was quite moderate during January.

These changes stem from the annual appreciation of the NEER index (of 3.5%) due to the change in the value of the Denar against the Russian Ruble, Turkish Lira and the Serbian Dinar. On the other hand, the changes in relative prices acted in opposite direction, and given the changes in both price indices (CPI and PPI), the ratio between domestic and foreign prices is still favorable.

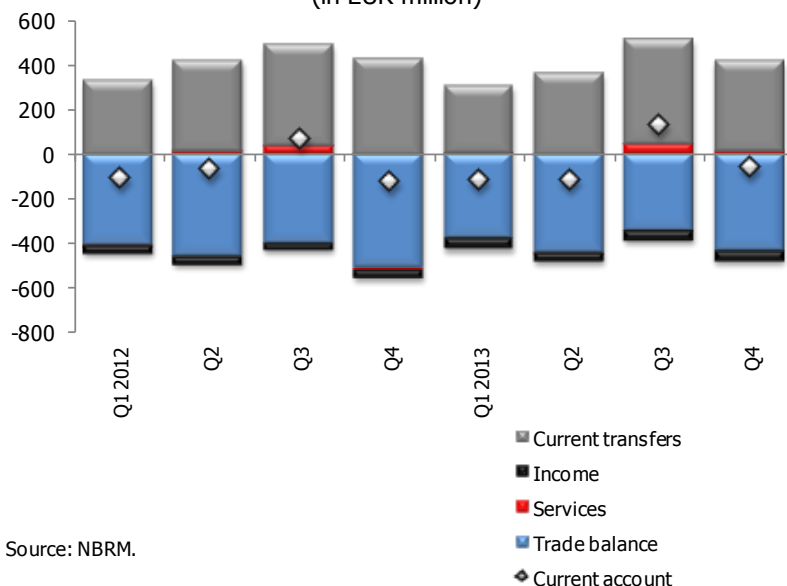
## NEER and relative prices

annual growth rates, in %



## Main components of the current account

(in EUR million)



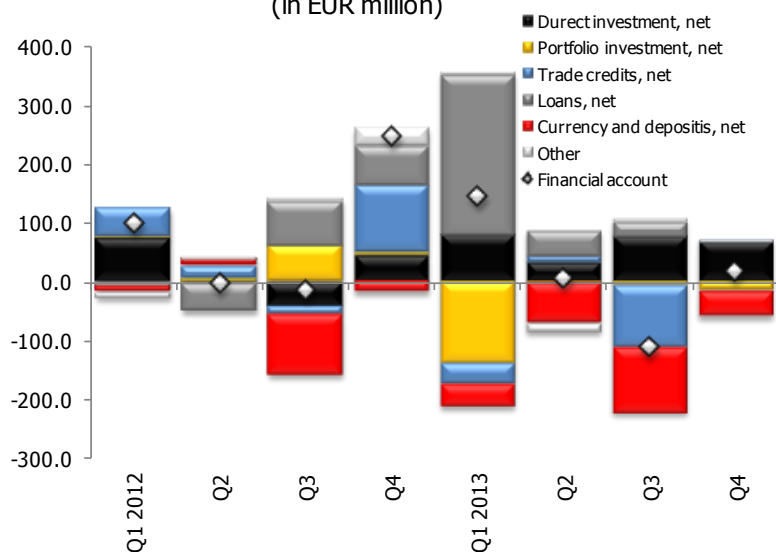
**In the last quarter of 2013, the current account of the balance of payments recorded a deficit of Euro 56.3 million (or 0.7% of GDP), which is significantly lower than projected in October...**

... mostly due to the lower trade balance and services surplus rather than outflows as projected in October...

... performance of current transfers and income deficit are close to the level projected in October.

## Financial account components

(in EUR million)

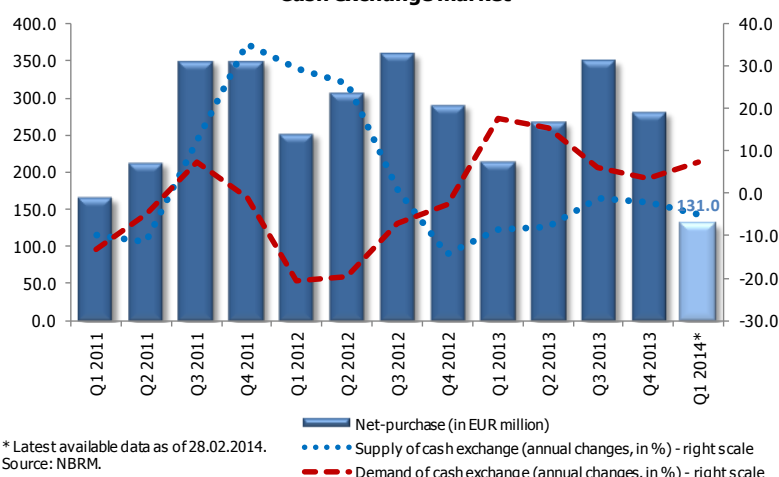


**In the fourth quarter of the year, the capital and financial account of the balance of payments registered net inflows of Euro 19.4 million, or 0.2% of GDP, which is significantly lower than the net inflows projected in October for the last quarter of 2013.**

The discrepancies are mainly due to the lower net borrowing abroad (both lower disbursements and higher repayments of long-term loans than projected) and the significantly lower net inflows of commercial loans, compared with the October projection.

On the other hand, the net inflows of direct investments are higher than projected in October.

## Cash exchange market

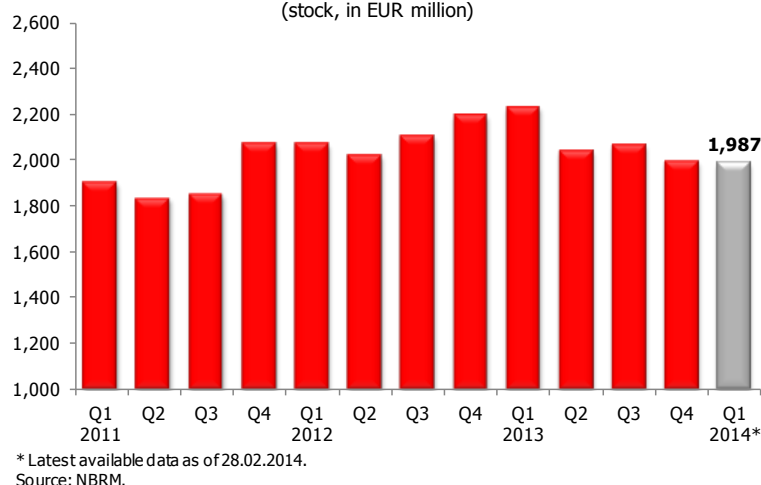


Recent currency exchange operation data as of February 2014 show that the demand for foreign currency has continued to grow, while the supply of foreign currency on the currency exchange market declined after a two-month growth...

...whereby the net purchase on the currency exchange market in the first two months of 2014 totaled Euro 131 million, which is an annual decline of 8.9%.

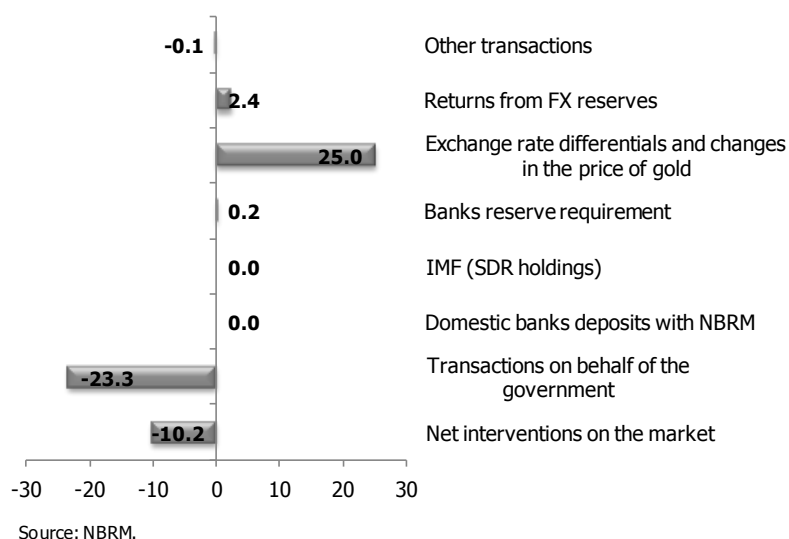
The latest information from the currency exchange market indicate slightly weaker performance than the net inflows of private transfers expected for the first quarter of 2014 as projected in October.

## Foreign exchange reserves (stock, in EUR million)



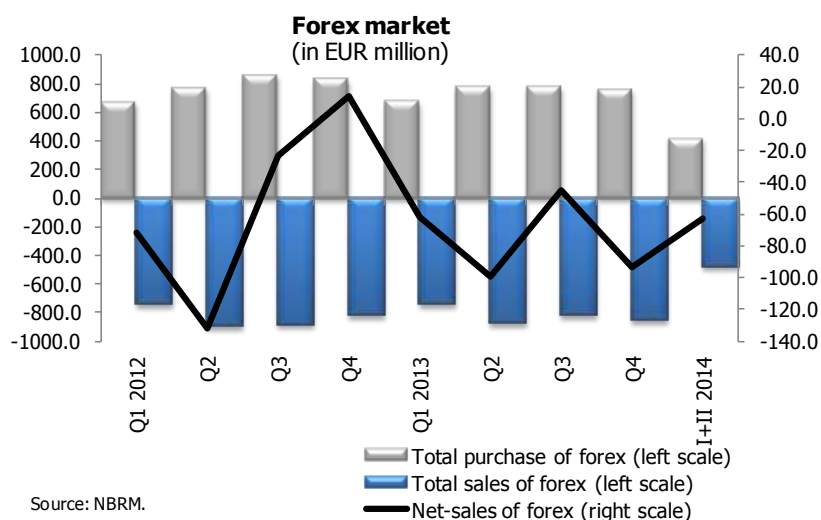
As of 28 February 2014, the gross foreign reserves stood at Euro 1,987.1 million, which is a decline of Euro 5.9 million compared to the end of the previous year. The fall in foreign reserves is mainly due to transactions for the account of the government and net sale of foreign currency by the NBRM on the foreign exchange market.

## Factors of change of the foreign reserves in the first two months of 2014 (in EUR million)





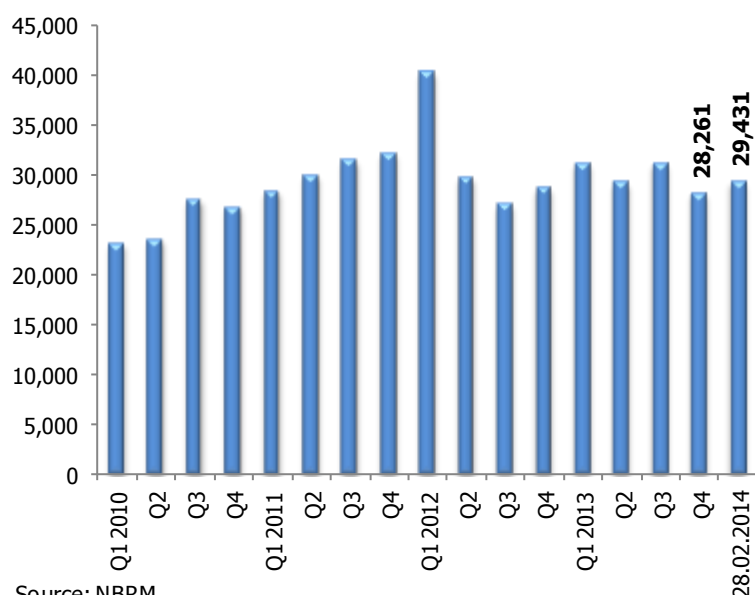
## EXTERNAL SECTOR



In the first two months of 2014, the banks sold net amount of Euro 63.2 million on the **currency exchange market**, compared to Euro 14.2 million in the same period last year. Such annual change results from the 10.3% decline in the supply of foreign currency, compared to the slight increase of 0.1% in the demand for foreign currency.

Analysis of individual components indicates that the higher net sale of foreign currency is due primarily to the higher net sales of companies, and to a lesser extent, to the reduced net purchase of foreign currency exchange and natural persons.

**Monetary policy instruments, in MKD million**



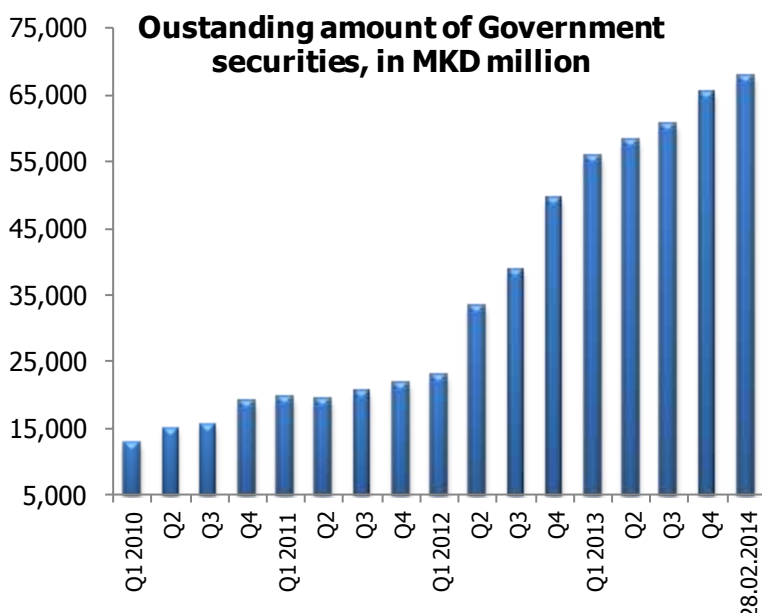
Source: NBRM.

Preliminary data as of 28 February 2014 show stronger than expected withdrawal of liquidity through monetary instruments, compared to the end of the fourth quarter...

... amid negligible increase in the net foreign assets of the NBRM rather than a quarterly drop in the first quarter of 2014, as projected in October...

... and liquidity creation through the total government deposits, which is consistent with the expected trends for the first quarter.

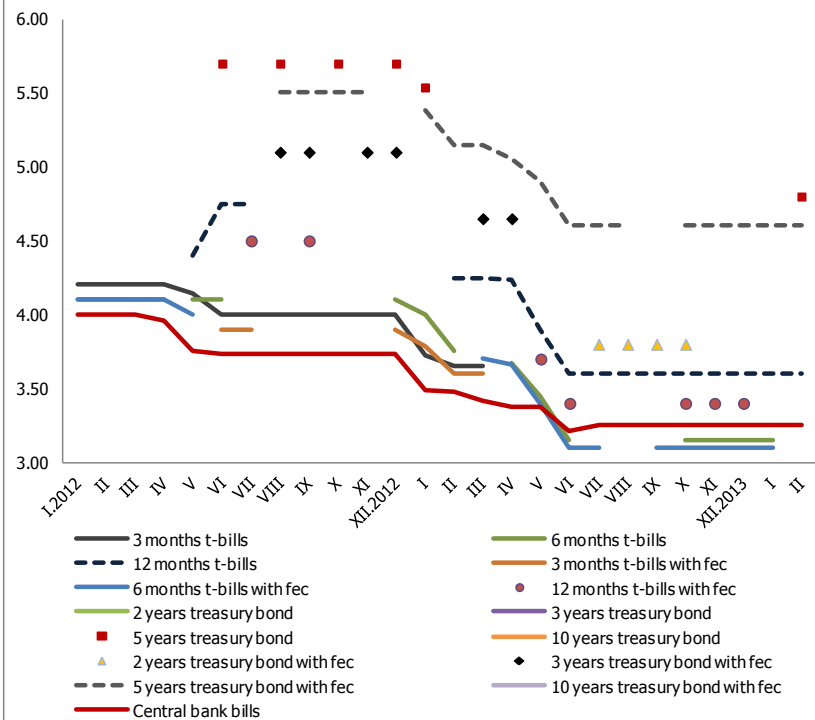
**Outstanding amount of Government securities, in MKD million**



Source: NBRM.

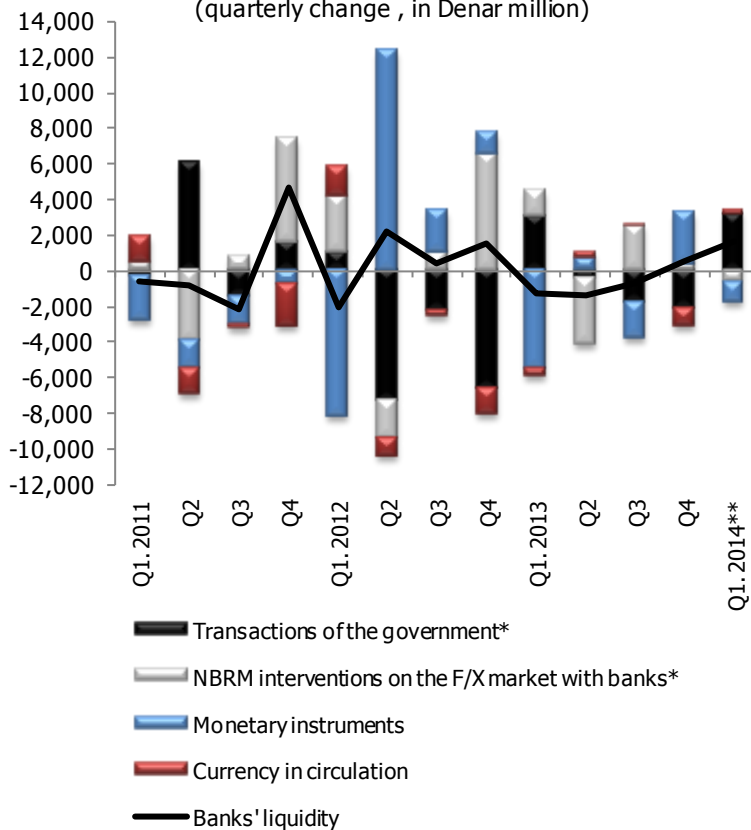
As of 28 February 2014, the government securities on the domestic market totaled Denar 67,848 million, which is by Denar 2,529 million more compared to December 2013.

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



In February, the interest rates on government securities were stable. The interest rates achieved at the auctions in February ranged from 3.6% for 12-month bills to 4.8% for 5-year bonds.

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



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

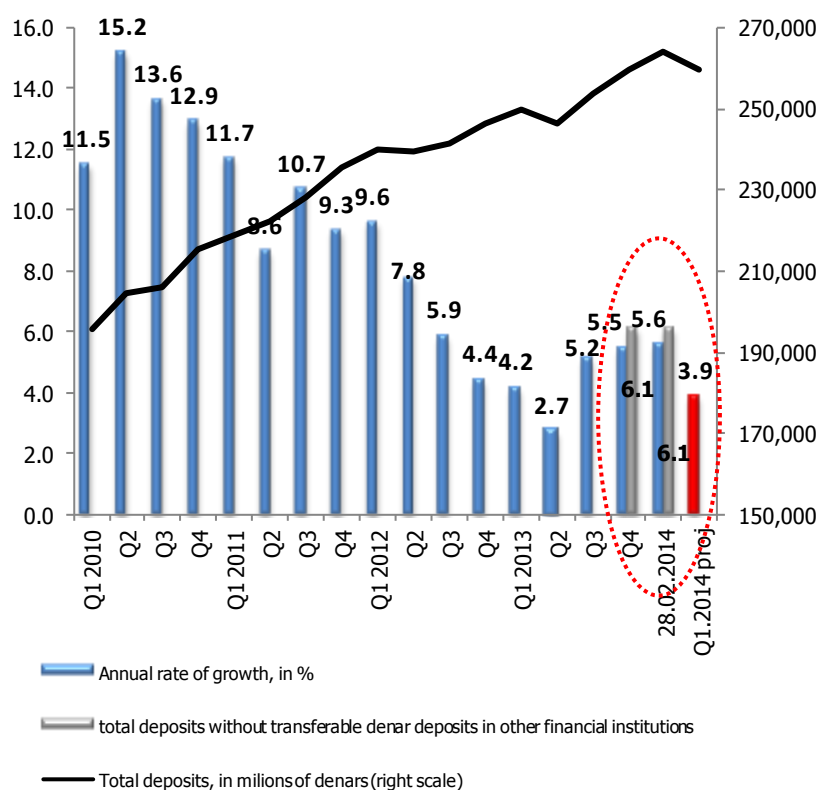
\*\* january and february

Source: NBRM.

As of 28 February 2014, the level of reserve money increased compared to December, which is by roughly Denar 40 million more than projected for the first quarter...

... given the stronger growth of liquid assets of banks and the fall of currency in circulation, despite the expectations for their moderate growth in the first quarter, as projected in October.

## Total deposits



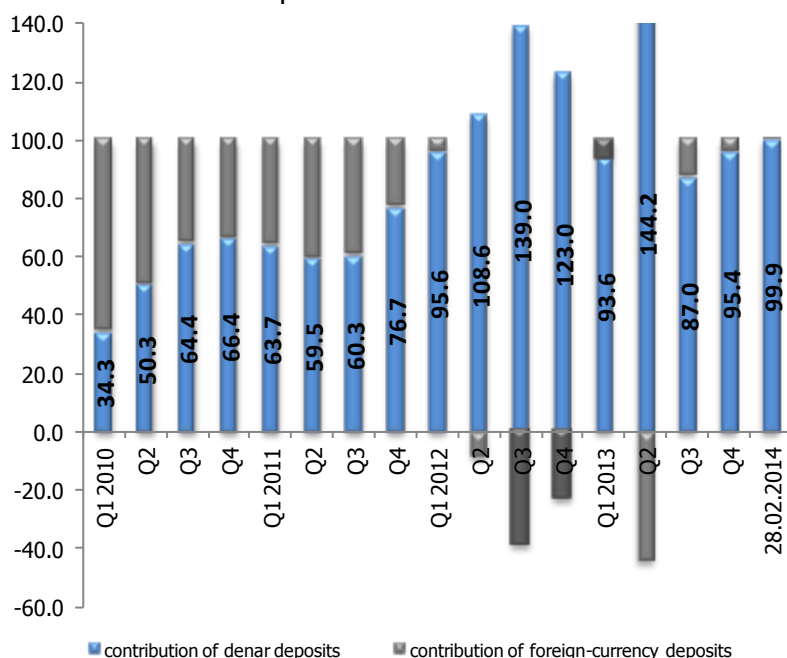
\* include demand money  
Source: NBRM.

The trend of monthly growth in total deposits continued in February, but at an intensified pace. In this period, the deposit flows are significantly higher than in the previous month (Denar 3.715 million versus Denar 466 million in January). The growth is mainly due to the household deposits<sup>8</sup>, with a positive contribution made by corporate deposits (making up about 20% of the total monthly rise).

**At the end of February, the annual growth rate of total deposits amounted to 5.6%<sup>9</sup>, which is above the projection of 3.9% growth in the first quarter.** The total deposits are by Denar 4,378 million above the level projected for the first quarter of 2014, as projected in October, and suggests surpassing the projected position of the deposit base in the first quarter.

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

\*Includes demand deposit



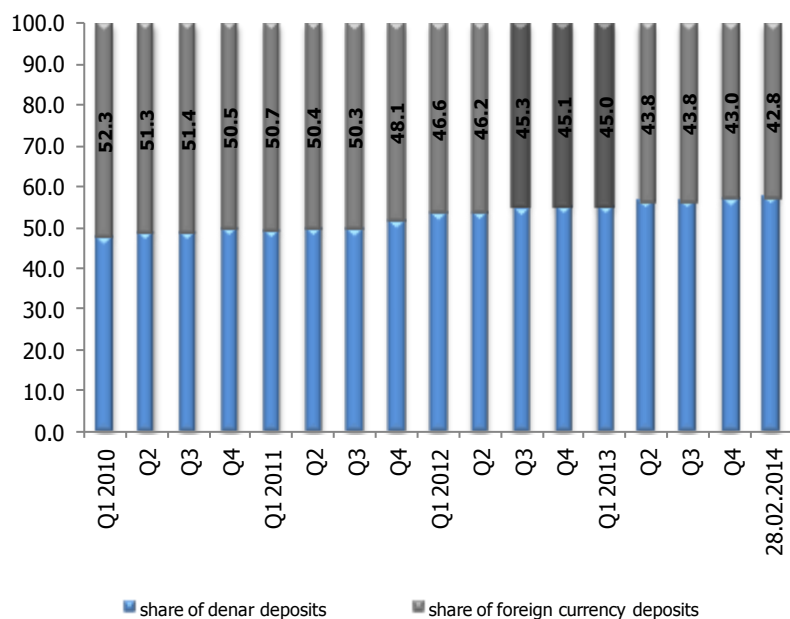
Source: NBRM.

**The annual deposit growth entirely stems from the growth of Denar deposits, with insignificant growth of foreign currency deposits.**

<sup>8</sup> Payment of larger amounts of subsidies to farmers on several grounds by the Ministry of Finance.

<sup>9</sup> Refers to the total deposits, including transferable Denar deposits of other financial institutions with the NBRM. Moreover, April registered a greater reduction of this type of transferable deposits. Hence, the annual rates of total deposits that do not include this type of deposits are higher, and as of 28 February 2014 (preliminary data), they equaled 6.1%.

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

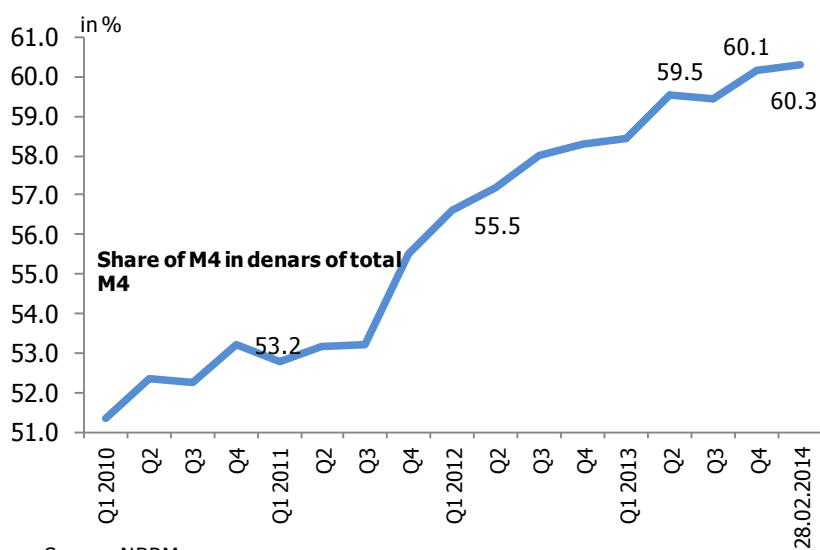


In the analyzed period, the currency structure of total deposits recorded minor changes, i.e. an increase in the share of Denar deposits, while the share of foreign currency deposits reduced, opposite to the trends in the previous month.

Source: NBRM.

\*Includes demand deposit.

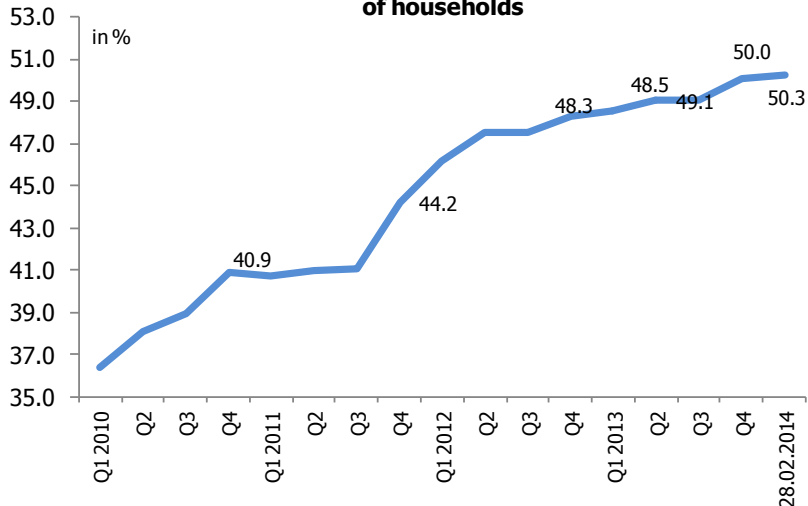
## Share of M4 in Denars in total M4 (in %)



Source: NBRM.

The positive monthly growth of Denar deposits continued in February...

**Share of denar deposits of households in total deposits of households**

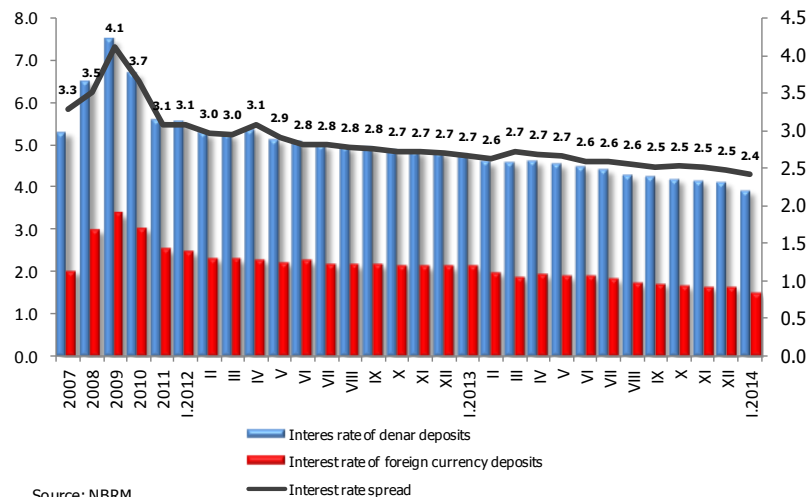


Source: NBRM.

... with the share of Denar deposits in total household deposits increasing from 50% to 50.3%.

\*Includes demand deposits.

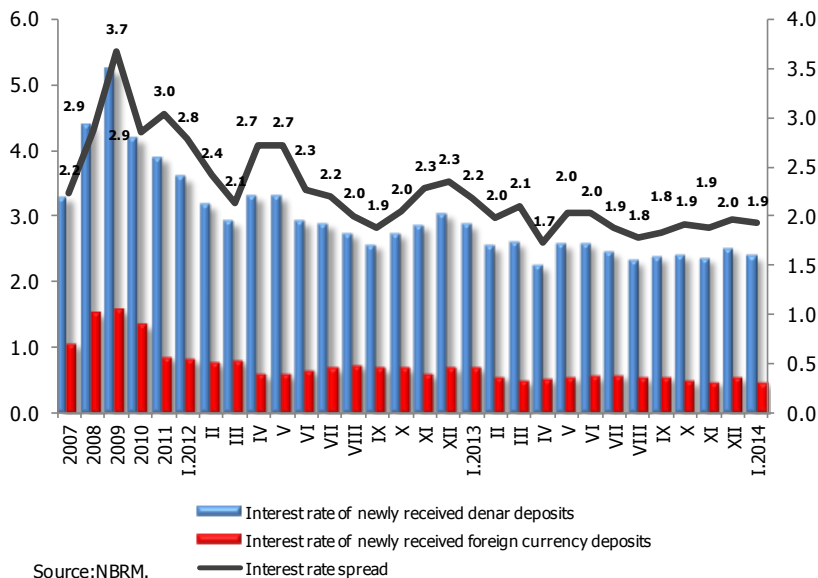
**Interest rates on Denar and foreign currency deposits, in %**



Source: NBRM.

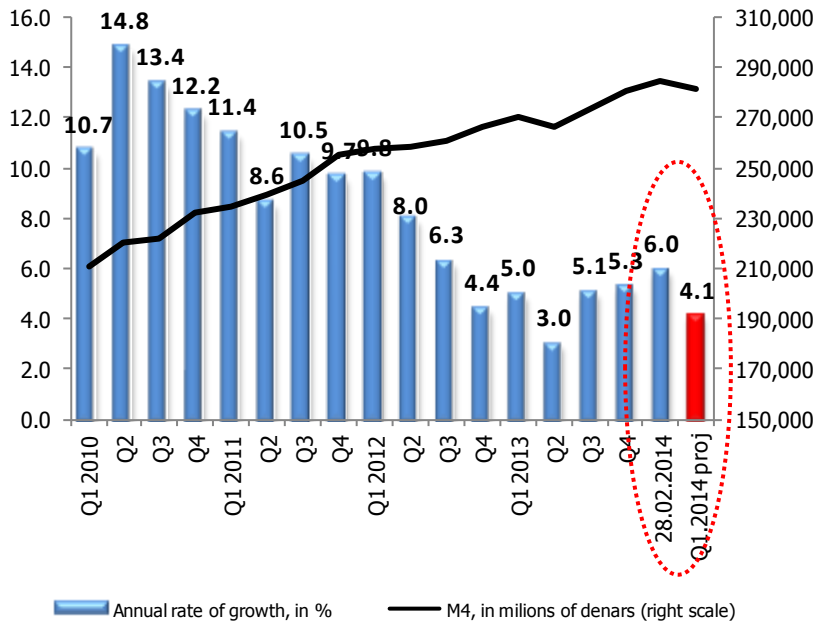
In January, the interest rates on Denar and foreign currency deposits declined monthly by 0.2 and 0.1 percentage points respectively, indicating a reduction of the interest rate spread between the Denar and foreign currency interest rate. However, proceeds from Denar savings are more attractive to savers. Movements in interest rates on newly received domestic and foreign currency deposits indicate an insignificant narrowing of the interest rate spread between deposit interest rates, despite the increase from December.

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



Source: NBRM.

## Broad money, M4

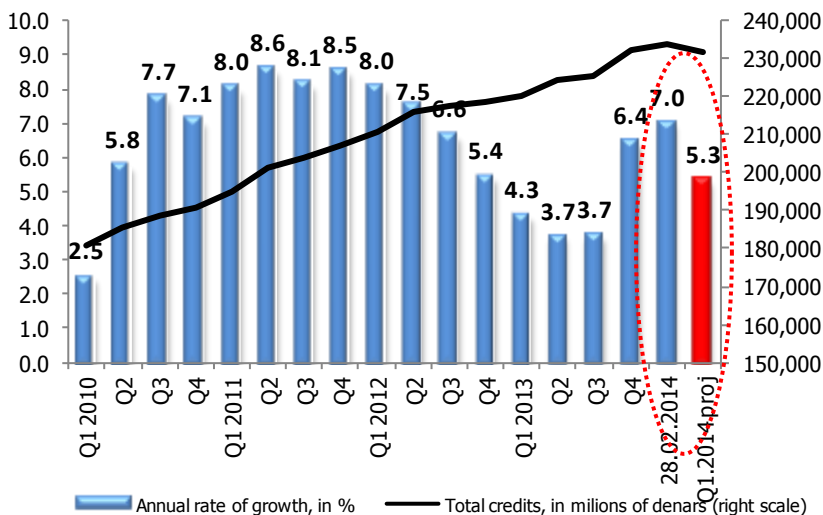


Source: NBRM.

As of February, broad money rose by Denar 3,207 million, compared to the projected level for the first quarter of 2014...

... given the rise in total deposits and slower movements in currency in circulation than projected.

## Total loans

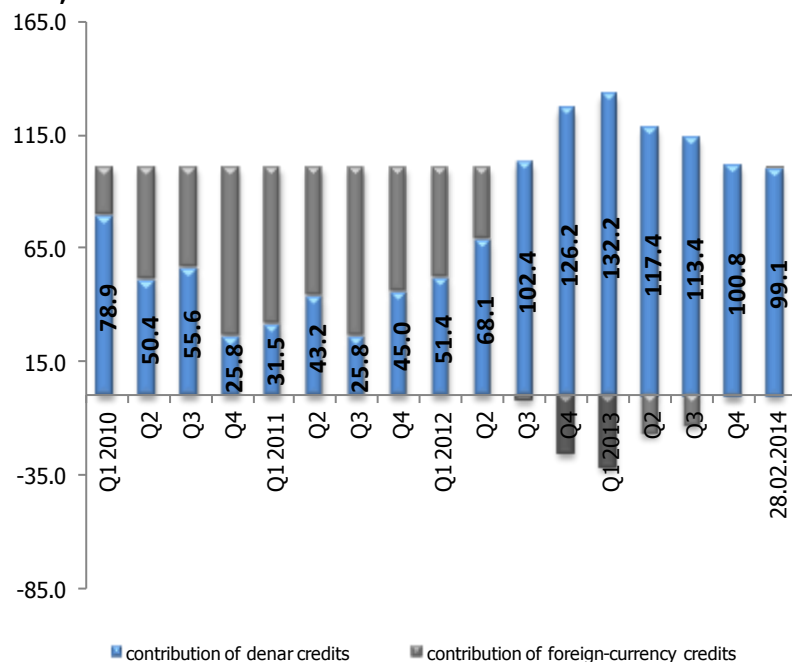


Source: NBRM.

According to the preliminary data for February, total loans registered a moderate monthly growth, due to the simultaneous increase in both corporate and household loans. Thus, corporate loans constituted 57% of the monthly growth in total loans.

**At the end of February, the annual growth rate of total loans amounted to 7.0%, which is above the annual growth of 5.3%, projected for the first quarter of 2014.** The total outstanding loans increased by Denar 2.202 million from the level projected for the first quarter, suggesting a possible exceeding of the level projected in October.

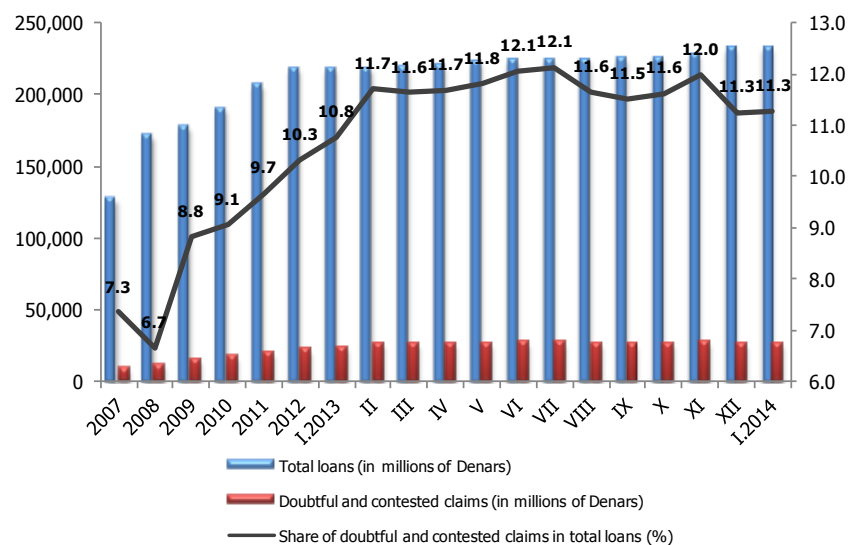
## Contribution of Denar and foreign currency loans to total loans, in %



The annual growth of total loans is a result of the increased Denar loans, with a minimum positive contribution of foreign currency loans.

Source:NBRM.

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

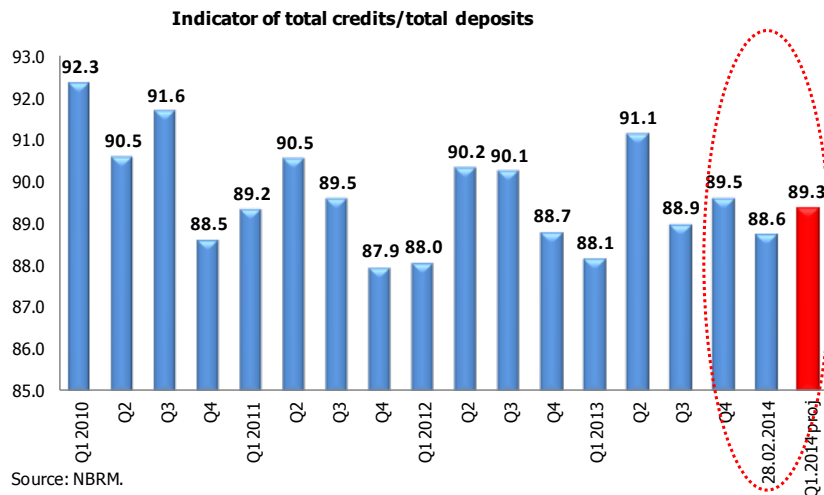


In January, doubtful and contested claims to total loans ratio remained unchanged compared to the previous month.

Source:NBRM.



## Total loan-deposit ratio, in%



According to the preliminary data as of February, the utilization of deposit potential for lending to the private sector is reduced compared to the end of 2013 due to the stronger growth in total deposits compared with the growth in total loans in the same period.

### **Box 1: Timeline of changes in the monetary instrument setup of the Central Bank and selected supervisory decisions adopted in the period 2013-2014**

#### **January 2013**

- A Decision on amending the Decision on 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. The decision fully exempt 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 was cut from 2% to 1.75%, and the interest rates on overnight deposit facility from 1.0% to 0.75%.

#### **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 on 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 are fulfilled in denars from 23% to 30%.

#### **October 2013**

- A Decision on 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 space 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, the remuneration for Denar reserve requirement equaled 1% and 0.1% for Euro reserve requirement). The Decision applies from 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 potential across the overall banking system, banks that bid higher amounts of 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.