National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

March 2016

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 (January - February 2016) and to make a comparison with the latest macroeconomic projections (October 2015). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous round of projections. The review focuses on the changes in external assumptions and performances of domestic variables and the effect of these changes on the environment for monetary policy conduct.

The global economic environment has not undergone major changes compared to the October projections. The global economy continues to follow a path of gradual recovery, but the pace of growth continues to be assessed as unsatisfactory, amid increased uncertainty and pronounced geopolitical risks. In the euro area, the volatility of the global financial markets and the weaker growth of developing countries are beginning to reflect upon economic activity. The initial data for the last quarter of 2015 point to retention of the quarterly GDP growth rate of 0.3%, which is an increase of 1.5% on an annual basis. The most recently published high frequency data, as well as surveys of the households and companies point to a slowdown in the economic growth in the first quarter of 2016. Somewhat more favorable trends were registered in the unemployment rate, which continued the downward trend and reduced to 10.3% in January, the lowest level in the last four years. In terms of inflation, February data showed a drop of prices by 0.2% on an annual basis (compared to the growth of 0.3% in January), which is the lowest rate in the previous 12 months. The decline in prices mainly reflects lower energy prices and to a lesser extent low inflation in food, while the significant slowdown in core inflation to 0.7% annually (1% in January) had an additional effect. In view of these developments, as well as increased downward risks associated with weaker growth in developing countries, increased volatility of the financial markets and markets of primary products and geopolitical risks, according to economic analysts further easing of the monetary policy is expected at the meeting of the ECB in the beginning of March 2016, when the new macroeconomic projections are going to be released.

Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the projections regarding the foreign effective demand do not have major changes relative to the October cycle. Thus, it is estimated that growth in foreign demand in 2015 is somewhat higher than projected, for 2016 the assessment remains unchanged, while for 2017 minor upward adjustments are made compared to the previous expectations. **Foreign effective inflation** has been revised significantly downward for 2016, while in 2017 slightly higher growth of foreign prices is expected, compared with the October projection. **With regard to prices of primary products, the current projections for 2016 are significantly revised downwards, while the revisions for 2017 are upwards. World oil prices,** amid a glut of markets and weak demand, in 2016, decline in prices is expected as opposed to the growth envisaged in the October projections, and in 2017 higher growth in oil prices than in the October projection is expected, but the price level remains lower than previously expected. Analyzing **metal prices,** the condition of solid supply and weak demand is expected to continue during 2016, so that current assessments point to a deeper decline compared to the October projections, and in 2017 it is generally expected their stabilization. With regard to world **prices of food,** in 2016 lower pressures on future domestic inflation than in October expectations are expected, while for 2017 the latest assessments show stronger growth than previously projected. However, one should bear in mind that the expectations for the prices of these commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy.

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

The comparison of the latest macroeconomic indicators with their projected dynamics within the October cycle of projections generally does not indicate major deviations in the individual segments of the domestic economy. In the area of economic activity, high frequency indicators suggest likelihood of maintaining steady pace of growth in the fourth quarter, given the favorable movements registered in the main economic sectors. Speaking for the entire year, so far the growth of GDP is slightly higher than projected which is a potential risk for a small upward deviation from the projected growth rate for 2015. Available high frequency indicators for January suggest a continuation of favorable developments in the first quarter of 2016. However, uncertainty about these movements is great considering that estimates rely upon few available data. Analyzing **inflation**, January registered a slight annual consumer price increase due to higher prices of core inflation, while energy and food prices remained in the negative zone. Despite the growth in January, the realized inflation rate continues downward deviation compared with expected from the October projection. Additionally, in January, a downward adjustment of projected movement in the prices of internationally traded primary commodities again was made, which amid lower performance indicates **presence of downward risks with regard to the inflation projection for 2016**.

Recent foreign reserves data (adjusted for the effects of price and exchange rate differentials and price changes of securities), as of February 2016 show that they have been moderately decreasing since the beginning of 2016. Analyzing by the factors of change, the decrease in reserves during this period was due to the transactions for the account of the government and net sales of foreign currency on the foreign exchange market by the NBRM. Observing the external sector indicators, balance of payments data for 2015 point to higher than expected current account deficit in 2015 (1.4% of GDP, against a projected deficit of 0.5% of GDP). The higher deficit than expected was entirely due to the weaker performance in foreign trade of services. Financial transactions realized slightly higher outflows than expected, mainly due to the weaker performance in the portfolio (less than projected government borrowing on the international markets) and in direct investments. Regarding the latest available external data, indicators of external trade for January give an indication of a smaller trade deficit, mainly due to lower raw materials and energy imports, while net purchase from currency exchange operations as of February indicates performance at level of the projections.

With regard to developments in the monetary sector, the final data as of January show a decrease of the deposit base by 1.6% on a monthly basis, compared to the strong growth of 2.7% realized in December. The decline in total deposits was primarily driven by the corporate sector (with a share of 94.5%) amid slight decline in household deposits. Despite the monthly decline, on an annual basis (due to good performance in December), the total deposits in January increased by 4.2% and they are slightly below the projection for the first quarter of 4.6%. Regarding the credit market, in January, total loans to the private sector declined, which was entirely due to reduced lending to enterprises. The monthly decline in loans is not unusual for the first month of the year, and suggests possible temporary character of these movements. Loans to households further increased, but at a significant slower pace compared to the previous month. Despite the decrease in January, on an annual basis, the total loans increased by 8.6%, which is above the projection of 7.7% for the first quarter, mainly due to the high performances from the end of 2015.

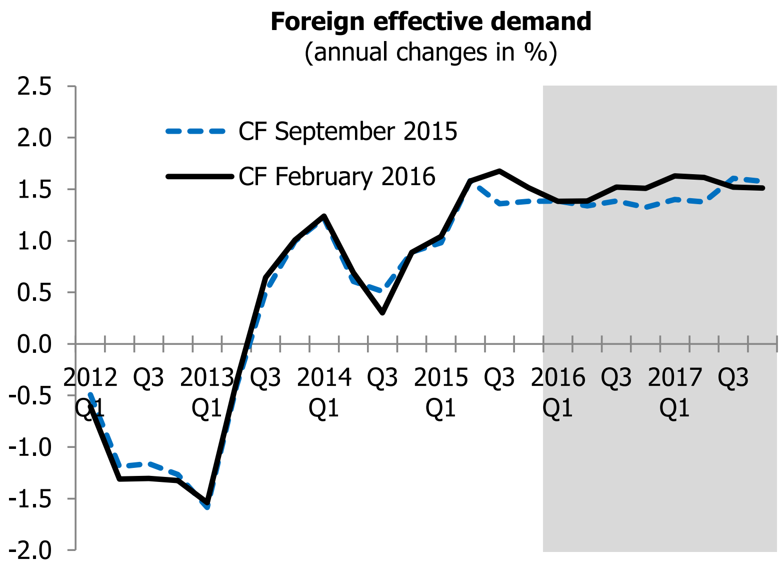
In January, the **Budget of the Republic of Macedonia registered a deficit of Denar 1.688** million, financed through net issuance of government securities in the domestic market. In addition, part of the inflows on the basis of issued securities were deposited in the form of deposits on the government account with the NBRM. The realized deficit in January is around 9% of the planned deficit for the entire year, according to the adopted Budget of the Republic of Macedonia for 2016.

The latest macroeconomic indicators and assessments do not point to major changes in the perceptions about the environment for conducting monetary policy and about the risks, compared to the assessments provided in the October projections. The latest data for 2016 show movement of reserves in accordance with the projections, while foreign reserves adequacy indicators continue to move in a safe zone. In terms of economic activity, according to high frequency indicators for the fourth quarter, realization of solid growth is expected, and available high frequency indicators for January suggest a continuation of favorable developments during the first quarter of 2016. Regarding the inflation, the performance is below the projections, which together with the downward correction of the expected movement of external assumptions indicates existence of downward risks to the inflation projection for the next year. Within the monetary sector, data as of January show significant monthly decline, which followed after the exceptionally high growth in deposits and loans in the last month of the previous year. However, despite the January decline, due to the good performance in December, deposits and loans recorded annual growth rates close to the projected for the first quarter of 2016. Also, the point is only one month of the quarter and is likely to change the flows of monetary and credit aggregates as expected. **In any case, the uncertainty associated with domestic political developments and global environment which was pronounced within the October round of projections is still present. This situation imposes the need for continuous monitoring of the performance and regular reassessment of risks and their relevance in the context of achieving monetary goals.**

Selected economic indicators/1

				2015																	2016	
	2012	2013	2014	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep	Q3	Oct.	Nov	Dec	Q4	2015	Jan.	Feb.
I. Real sector indicators																						
Gross domestic product (real growth rate, y-o-y) /2	**-0.5**	**2.7**	**3.5**				**3.8**				**3.4**				**3.6**				**3.9**			
Industrial production /3																						
y-o-y	-2.8	3.2	4.8	1.1	3.1	0.6	1.5	-0.9	-5.0	6.4	0.1	-2.7	12.7	8.6	5.7	13.1	11.5	10.5	11.7	4.9		
cumulative average	-2.8	3.2	4.8	1.1	2.1	1.5	1.5	0.8	-0.4	0.8	0.8	0.2	1.7	2.5	2.5	3.6	4.4	4.9	4.9	4.9		
Inflation /4																						
CPI Inflation (y-o-y)/5	4.7	1.4	-0.3	-1.5	-1.0	-0.3	-0.9	0.1	0.3	0.5	0.3	-0.4	0.1	-0.2	-0.2	-0.5	-0.3	-0.3	-0.4	-0.3	0.1	
CPI Inflation (cumulative average)	3.3	2.8	-0.3	-1.5	-1.2	-0.9	-0.9	-0.6	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	0.1	
Core inflation (cumulative average)	2.1	3.0	0.6	-1.1	-0.6	-0.4	-0.4	-0.2	0.0	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5	1.6	
Core inflation (y-o-y)	2.1	3.0	0.6	-1.1	-0.2	0.0	-0.4	0.5	0.8	0.8	0.7	1.0	0.4	0.8	0.7	0.6	1.1	1.3	1.0	0.5	1.6	
Labor force																						
Unemployment rate	31.0	29.0	28.0				27.3				26.8											
II. Fiscal Indicators																						
(Central Budget and Budgets of Funds)																						
Total budget revenues	138,115	140,248	145,929	10,527	12,089	15,163	37,779	14,383	13,750	12219.0	40352.0	14,458	11,537	13,319	39,314	14,046	13,889	15,827	43,762	161,207	12,923	
Total budget expenditures	155,840	159,505	168,063	12,732	14,467	16,881	44,080	14,375	15,348	13849.0	43572.0	16,038	13,240	14,389	43,667	14,911	15,303	19,099	49,313	180,632	14,611	
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301	8	-1,598	-1630.0	-3220.0	-1,580	-1,703	-1,070	-4,353	-865	-1,414	-3,272	-5,551	-19,425	-1,688	
Overall balance (in % of GDP)/1	-3.8	-3.8	-4.2	-0.4	-0.4	-0.3	-1.1	0.0	-0.3	-0.3	-0.6	-0.3	-0.3	-0.2	-0.8	-0.2	-0.3	-0.6	-1.0	-3.5	-0.3	
III. Financial indicators /6																						
Broad money (M4), y-o-y growth rate	**4.4**	**5.3**	**10.5**	**11.1**	**9.7**	**8.8**	**8.8**	**9.7**	**8.9**	**9.2**	**9.2**	**7.8**	**7.0**	**6.2**	**6.2**	**7.0**	**6.8**	**6.8**	**6.8**	**6.8**	**4.5**	
Total credits, y-o-y growth rate	**5.4**	**6.4**	**10.0**	**9.2**	**9.2**	**9.2**	**9.2**	**10.2**	**9.5**	**9.0**	**9.0**	**8.9**	**8.8**	**8.8**	**8.8**	**8.4**	**7.9**	**9.5**	**9.5**	**9.5**	**8.6**	
Total credits - households	6.5	10.2	11.8	11.5	11.8	12.1	12.1	12.3	12.4	12.4	12.4	12.7	12.7	12.8	12.8	12.5	12.6	12.9	12.9	12.9	12.6	
Total credits - enterprises	4.5	3.8	8.6	7.5	7.3	7.1	7.1	8.7	7.4	6.7	6.7	6.3	6.0	6.0	6.0	5.4	4.5	7.1	7.1	7.1	5.5	
Total deposits (incl. demand deposits), y-o-y growth rate	**4.9**	**6.1**	**10.4**	**10.6**	**9.5**	**8.4**	**8.4**	**9.5**	**8.4**	**8.9**	**8.9**	**7.4**	**6.7**	**5.7**	**5.7**	**6.5**	**6.6**	**6.5**	**6.5**	**6.5**	**4.3**	
Total deposits - households	7.2	6.7	8.9	8.4	7.6	8.1	8.1	7.5	6.9	6.2	6.2	6.2	4.8	5.0	5.0	4.4	4.5	4.1	4.1	4.1	3.6	
Total deposits - enterprises	-1.6	3.1	15.7	17.4	14.4	9.0	9.0	17.1	14.5	17.8	17.8	11.4	13.1	7.1	7.1	11.0	11.7	13.0	13.0	13.0	6.4	
Interest rates /7																						
Interst rates of CBBills	3.73	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	
Lending rates																						
denar rates (aggregated, incl. denar and denar with f/x clause)	8.3	7.7	7.5	7.4	7.3	7.2	7.3	7.2	7.1	7.1	7.1	7.0	7.0	7.0	7.0	6.9	6.9	6.8	6.9	7.1	6.8	
f/x rates	6.8	6.4	6.3	6.1	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.8	5.8	5.8	5.8	5.8	5.7	5.8	5.9	5.7	
Deposit rates																						
denar rates (aggregated, incl. denar and denar with f/x clause)	4.8	4.1	3.7	3.3	3.2	3.1	3.2	3.0	3.0	2.9	3.0	2.9	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.9	2.5	
f/x rates	2.1	1.6	1.4	1.5	1.5	1.4	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.1	1.2	1.1	1.1	1.1	1.1	1.3	1.1	
IV. External sector indicators																						
Current account balance (millions of EUR)	**-240.0**	**-134.1**	**-68.7**	**37.6**	**2.9**	**-86.9**	**-46.5**	**-57.1**	**-28.5**	**3.4**	**-82.1**	**26.7**	**39.1**	**65.1**	**130.9**	**-36.7**	**-22.2**	**-70.7**	**-129.6**	**-127.3**		
Current account balance (% of GDP)	*-1.6*	*-1.6*	-0.8	*0.4*	0.0	-1.0	-0.5	-0.6	-0.3	0.0	-0.9	0.3	0.4	0.7	1.4	-0.4	-0.2	-0.8	-1.4	-1.4		
Trade balance (millions of EUR)/8	**-1,948.2**	**-1,756.6**	**-1762.0**	**-73.7**	**-109.9**	**-194.5**	**-378.1**	**-202.8**	**-110.6**	**-133.1**	**-446.5**	**-158.8**	**-110.9**	**-92.7**	**-362.3**	**-166.3**	**-161.6**	**-210.8**	**-538.7**	**-1725.7**	**-68.8**	
Trade balance (% og GDP)	*-25.6*	*-21.6*	-20.7	*-0.8*	*-1.2*	-2.1	-4.2	-2.2	-1.2	-1.5	-4.9	-1.7	-1.2	-1.0	-4.0	-1.8	-1.8	-2.3	-5.9	-19.0	*-0.8*	
import (millions of EUR)	-5,061.8	-4,968.4	-5485.0	-365.5	-408.9	-533.6	-1308.1	-498.0	-469.6	-514.0	-1481.7	-505.8	-428.1	-460.1	-1394.0	-535.0	-521.6	-536.5	-1593.2	-5776.9	-353.6	
export (millions of EUR)	3,113.5	3,211.8	3723.0	291.8	299.1	339.1	929.9	295.2	359.0	380.9	1035.2	347.0	317.3	367.4	1031.7	368.7	360.0	325.8	1054.4	4051.2	284.8	
rate of growth of import (y-o-y)	0.2	-2.0	10.4	-2.9	-2.2	19.7	5.5	9.3	-2.0	19.0	8.4	0.9	2.5	-4.5	-0.5	3.0	13.4	8.0	7.9	5.3	-3.3	
rate of growth of export (y-o-y)	-3.2	2.8	15.9	24.0	6.5	13.7	14.2	0.0	13.4	16.6	10.3	7.9	4.6	2.7	5.0	4.6	5.2	11.3	6.8	8.8	-2.4	
Foreign Direct Investment (millions of EUR)	**131.1**	**229.4**	**197.4**	**35.4**	**12.0**	**20.6**	**68.0**	**36.5**	**-8.3**	**18.3**	**46.5**	**16.4**	**7.6**	**-18.6**	**5.5**	**56.2**	**-23.7**	**18.1**	**50.7**	**170.7**		
External debt																						
Gross external debt (in milllions of EUR)	5171.7	5219.7	5992.3				6244.7				6345.6											
public sector	2162.1	2172.4	2846.8				3024.9				3059.9											
public sector/GDP (in %)	28.5	26.7	33.4				33.3				33.7											
private sector	3009.5	3047.4	3145.5				3219.8				3285.6											
Gross external debt/GDP (in %)	68.2	64.0	70.3				68.7				69.8											
Gross official reserves (millions of EUR)/9	**2,193.3**	**1,993.0**	**2,436.5**	**2,483.7**	**2,330.7**	**2,354.8**		**2,344.3**	**2,328.5**	**2,254.8**		**2,198.3**	**2,177.7**	**2,187.4**		**2,188.0**	**2,203.4**	**2,261.7**		**2,261.7**	**2,246.9**	**2,252.4**

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



Source: "Consensus Forecast" and NBRM calculations.

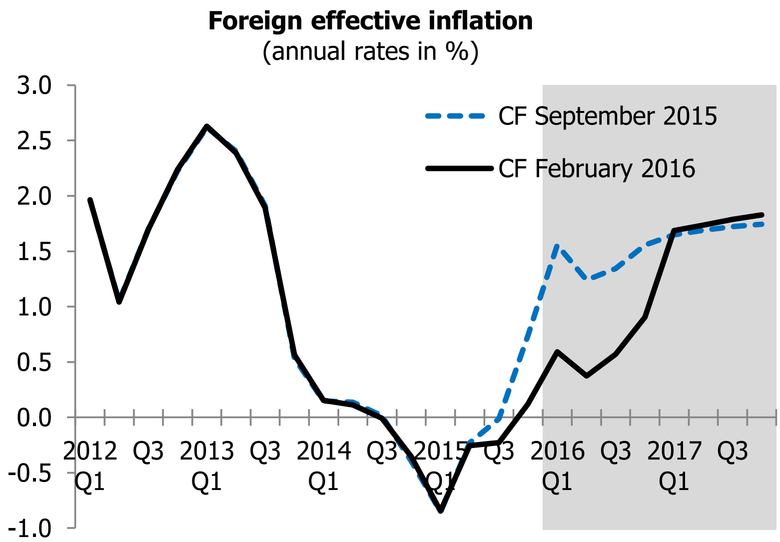
Foreign effective demand for 2015 shows growth of 1.5%, which is slightly higher than expected in October of 1.3%...

...primarily due to the higher performance in Bulgaria, Croatia and Serbia.

The assessment for 2016 still indicates growth of 1.4% as the October assessment...

...while for 2017, growth is expected to accelerate to 1.6%, which is a minimal upward revision relative to the October assessment of 1.5%...

...amid improved expectations for growth in Bulgaria and Serbia.



Source: "Consensus Forecast" and NBRM calculations.

The assessment of the foreign effective inflation for 2016 indicates an annual price increase of 0.6%, which is a downward correction of expectations of 0.8 p.p. compared with the projection in October...

...amid expectations for lower inflation in all trading partners.

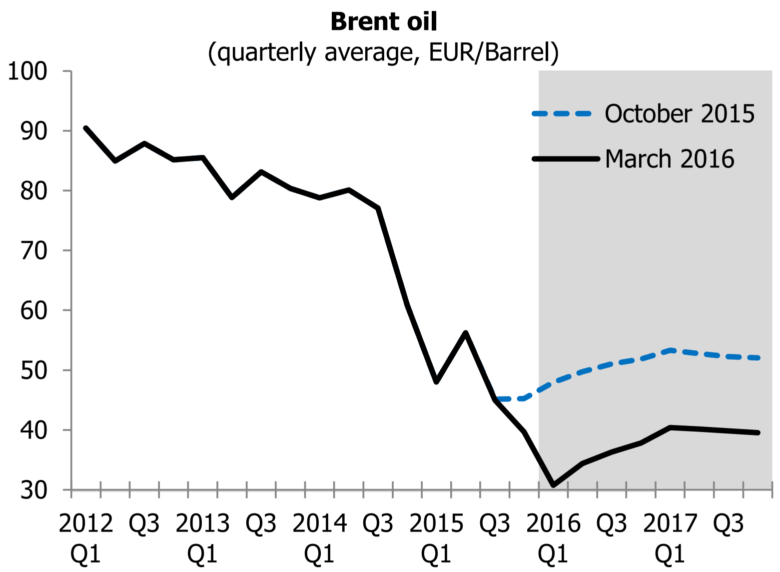
For 2017 certain acceleration and inflation rate of 1.8% are expected...

...which is a minimal upward revision of 0.1 p.p. relative to the October assessment...

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

The expectations for the future movement of oil prices for 2016 indicate a strong decline, contrary to the projections for its rise in October...

...amid still high production and glut in the oil market, as well as further weak demand. However, there are efforts to stabilize the market, whereby several oil-

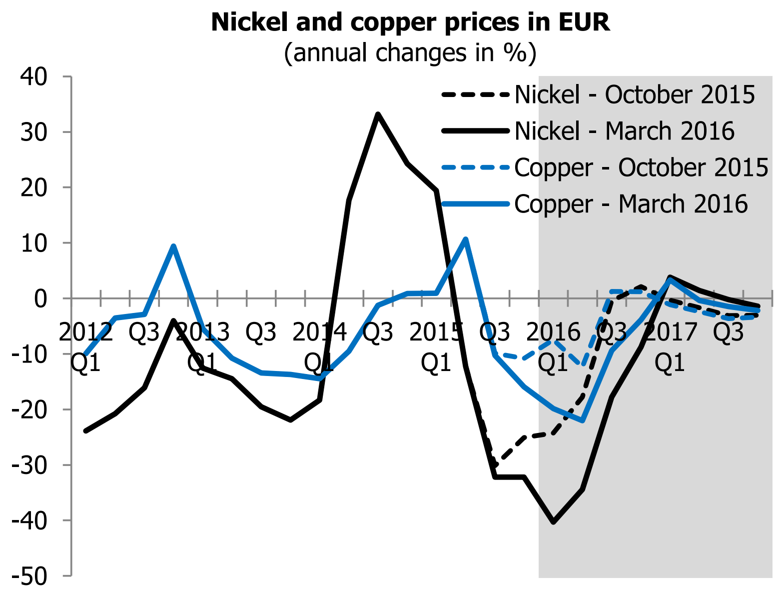


Source: IMF and NBRM calculations.

producing countries agreed on the possible freezing of production at the level of January 2016[1].

In 2017, growth in oil prices is expected, as well as in October, but with stronger intensity...

...whereby certain stabilization of the markets is expected, mainly from the supply side, amid expectations of reduced production by the US.



Source: IMF and NBRM calculations.

The latest assessments of the prices of nickel and copper for 2016 have been revised downwards, with expected deeper fall than the one envisaged in the October projection...

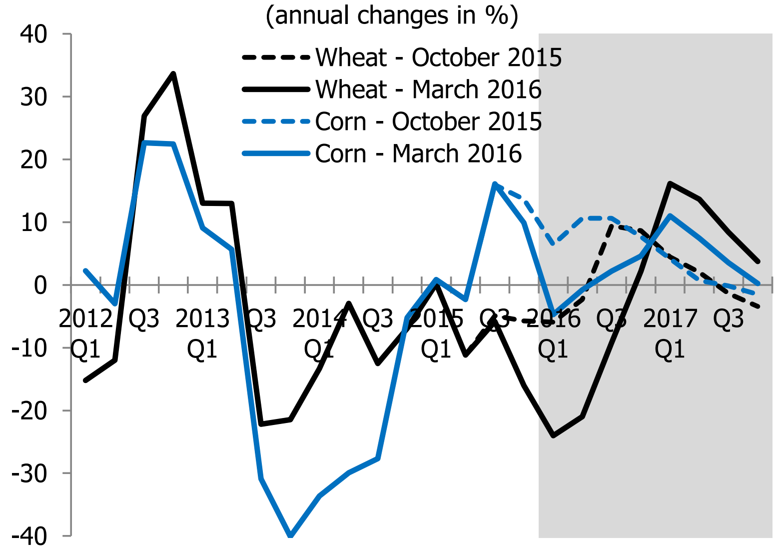
...amid weak demand in developing countries, especially China, further increased production and solid inventories.

In contrast, for 2017 some upward adjustments were made compared to the October projection...

...amid expectations of reduction of global production due to stabilization of prices, the price of nickel is now expected to register minimal growth, as opposed to the previously projected decline, while the price of copper is expected to register smaller decline than previously expected.

[1] Saudi Arabia, Russia, Venezuela and Qatar agreed on the possible freezing of production at the level of January 2016, but only if other major oil producers agree to the same. Iran, as one of the major producing countries, has not consented yet to the proposal, and the markets are skeptical about the approval of Iran and implementation of the agreement, given that this country seeks to restore production at level from before the sanctions. Source: WSJ, Reuters, CNN.

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



Source: IMF and NBRM calculations.

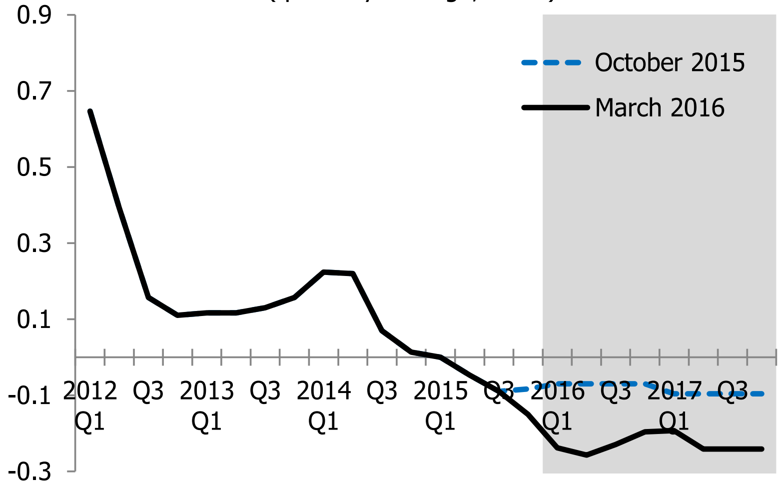
Current expectations for 2016 point to downward adjustments of the prices of primary food products compared to the October projection...

...given the further decline rather than rise in the price of wheat[2], which contrary to the expectations for solid demand is determined by increased inventories as well as expectations for favorable conditions and harvest in the northern hemisphere...

...and lower growth in the price of maize, amid good market supply with inventories and low consumption, despite expectations for reduced production[3].

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

1-month Euribor
(quarterly average, in %)



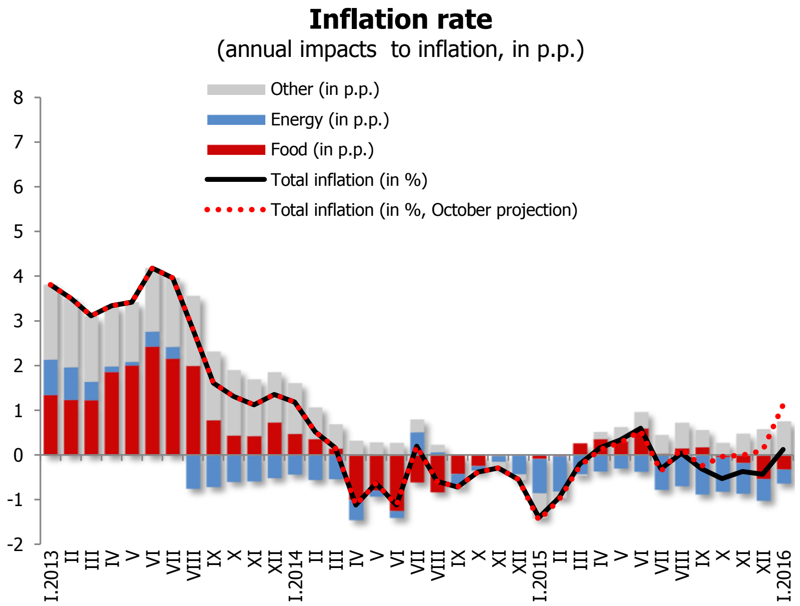
Source: "Consensus Forecast" and NBRM calculations.

The latest assessments of the movement of the one-month EURIBOR in 2016 and 2017 were revised downwards compared to the October projection...

...and in the two years it is expected to be the same and to amount to -0.23% on average, versus expectations in the October projection of -0.07% and -0.1% in 2016 and 2017 respectively...

...according to the announcement of January for further easing of monetary policy of the ECB, amid lower inflation than expectated and increased downward risks associated with weaker growth in developing countries, increased volatility on financial and primary goods markets and geopolitical risks.

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



Source: SSO and NBRM.

The fall in consumer prices registered in the last month of 2015 continued in January 2016, when it was 0.2% on a monthly basis...

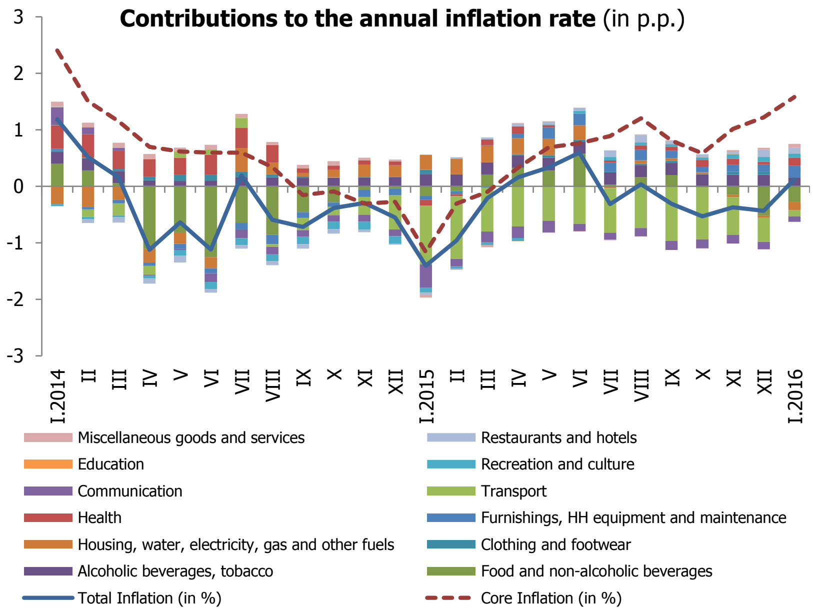
...amid declining energy prices and core inflation, while prices of food slightly increased[4].

The annual inflation rate in January registered minimal growth and amounted to 0,1% (as opposed to the fall of 0.4% in the previous month)...

...representing a downward deviation compared with the expected rate of inflation in the October projection cycle...

...due to the fall in food and energy prices (versus expectations for small growth), while performances in the core inflation are largely in line with the projection.

[4] Categories with the largest individual contribution to the January price decrease include footwear (monthly price decrease of 3.7%), fuels and lubricants (monthly price decrease of 3.5%), as well as part of food products (meat, which registered a monthly price decrease of 0.4% and fruits, which registered a monthly price decrease of 1.4%). The prices of products and home maintenance services moved in the opposite direction (monthly growth of 2.7%) and part of food products (bread and cereals, with a monthly growth of 0.6%, sugar, with a monthly growth of 1% and the category "other food products", registering a monthly price increase of 1.9%).



Source: SSO and NBRM.

The core inflation rate in January recorded a monthly decline of 0.1%...

...while the growth accelerated on an annual basis of 1.6% (versus 1.2% in the previous month).

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

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

...with the largest downward adjustment in oil prices (the reduction of these prices is expected to continue in 2016, rather than expected growth in the October projection)...

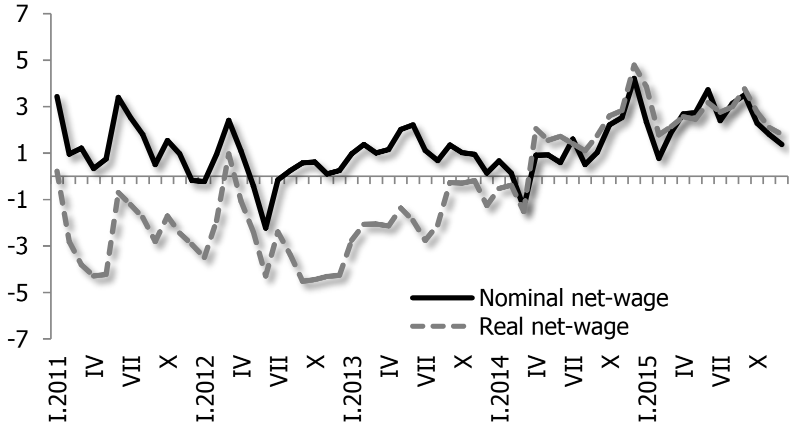
...while prices of internationally traded primary food (expressed in euro)[6] as well as foreign effective inflation were adjusted downward.

Taking into account performances as well as changes in the expected trajectories of exogenous variables for 2016, **risks to the projected movement of domestic prices in 2016 are mainly downwards**. On the other hand, the movement of prices of primary commodities is very often affected by temporary factors thus increasing uncertainty about their projection.

[5] Since 1 July 2014, cigarette excise duty has been increasing (Denar 0.15 per cigarette), and it is intended to gradually increase each year. The planned increase in the excise duty was realized in July 2015, while starting from 1 July 2016 (as of 1 July 2023), it will increase by Denar 0.20 each year.

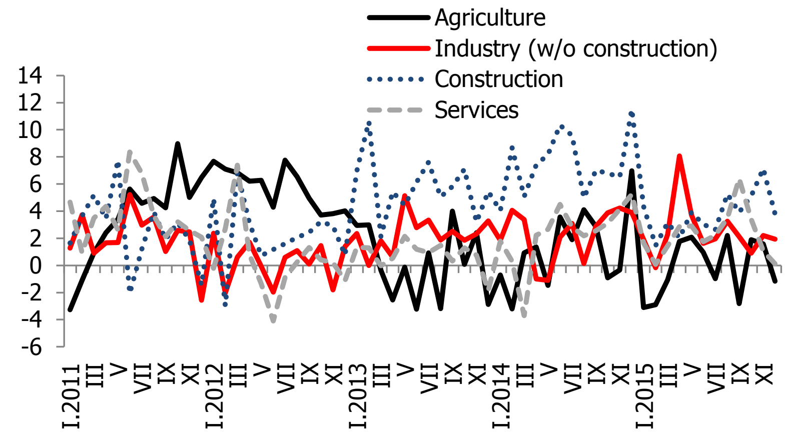
[6] The series of prices of wheat used in the October projection is no longer published. Although the two series of wheat (October 2015 and March 2016) are not directly comparable however, the series that was originally used as an input in the October projection of inflation was shown in the table with the input assumptions. If a simulation is made, i.e. October projection for wheat prices have been upgraded to the new series, in that case, in October 2015, decline in wheat prices by 5.6% would be expected in 2015, while small growth of 2.1% would be expected in 2016.

Average net-wage
(annual changes, in %)



Source: SSO.

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



Source: SSO.

In December 2015, the average net wage registered a nominal annual growth of 1.4%, which is a growth de celeration of 0.4 p.p., compared to the previous month.

Upward movement in the wages was registered in industry and part of the services with the highest increase registered in the activity "administrative and auxiliary services".

On the other hand, in December, downward adjustment of wages was made in agriculture, in the activity "supply of electricity, gas, steam and air conditioning" and more activities in the service sector, of which activities related to real estate and transport and storage recorded continuous reduction throughout 2015.

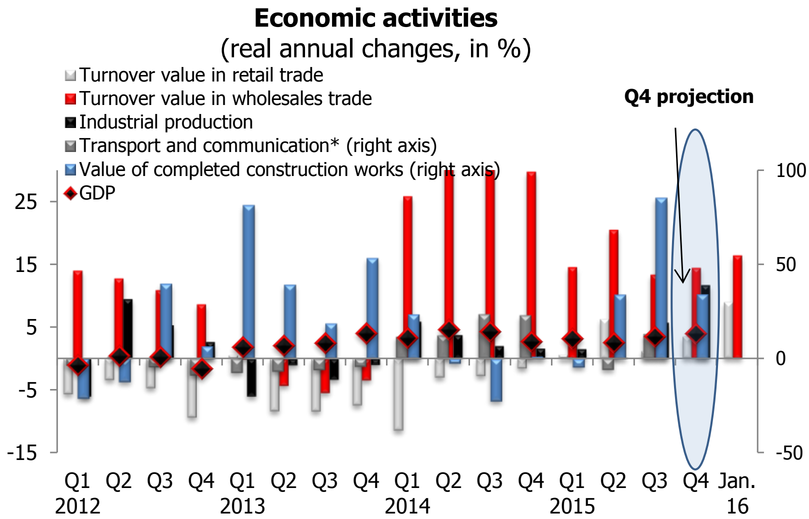
Amid small decrease in the consumer prices, in December, the **real wages** increased by 1.8%.

Performances in net wage in the last quarter of the year (nominal and real annual growth of 1.8% and 2.3%, respectively) **are mainly close to expected movements for the quarter within the October projection** (expected nominal and real annual growth of 2.5% and 2.6%, respectively).

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

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

The growth in manufacturing stems from increased production of traditional sectors (production of food products, clothing and beverages) as well as the new export-oriented capacities, primarily production of

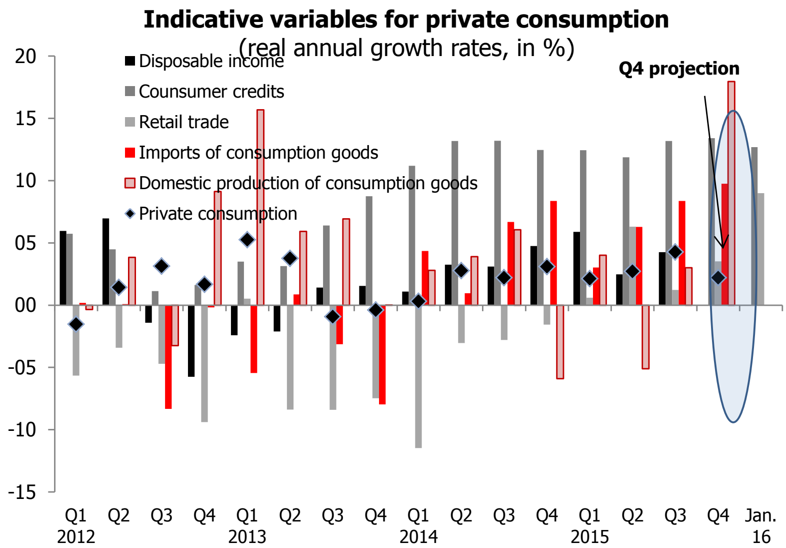


*Simple average of annual growth rates of the different types of transport and the telecommunications.
Source: SSO and NBRM calculations.

machinery and equipment and motor vehicles.

In January, the growth in total **trade** turnover further increased, with registered growth of turnover in wholesale and retail trade as well as trade in motor vehicles.

Transport sector data, with favorable trends in rail road, favorable movements in **construction** (double-digit growth in the value of completed construction works) and growth of turnover in **catering services** are also aimed at supporting economic growth in the fourth quarter.



Source: SSO and NBRM calculations.

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

High-frequency data on **private consumption** point to its further growth in the fourth quarter of 2015...

...supported by favorable performances in the main components of available income (growth in real wages, pensions, social transfers from the government and higher net private transfers)...

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

The households' consumption growth is evident also from the growth of domestic production of consumer goods, the growth in imports of consumer goods and higher turnover in retail trade.

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

... given the high growth in both indicative categories for investments in fixed assets, i.e. completed construction works and the import of machinery and equipment (double-digit increase in both categories)...

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

At the same time, annual growth acceleration was also registered in the government capital expenditures, while the domestic production of capital goods increased.

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

Among indicative categories for the movement of the investments unfavorable performance was recorded only in inflows based on foreign direct investments.

In the fourth quarter of 2015, nominal data on **foreign trade balance** show increase of deficit, higher than expected in the October projection...

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

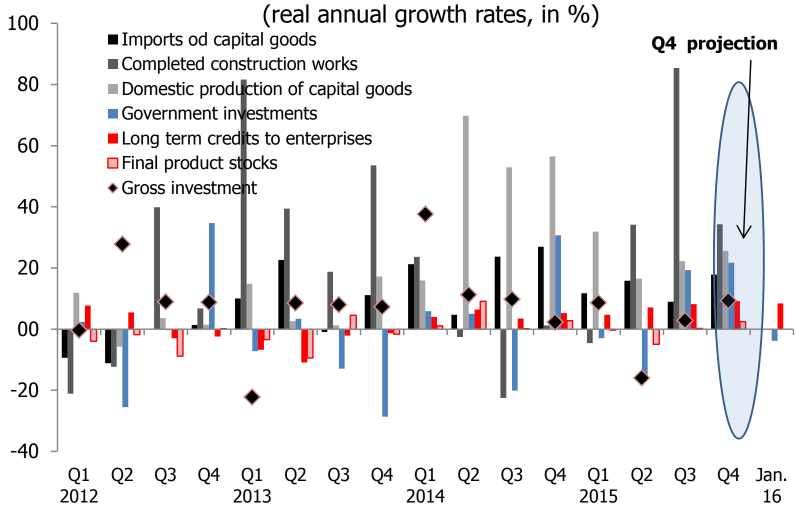
Budget performances in the fourth quarter of 2015 indicate an increase in **public consumption,** which is in line with the expectations in the October projection ...

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

Most data for January 2016 indicate a continuous growth of economic activity. However, it should be emphasized that these assessments are based on very few data available. Also, domestic non-economic factors related to the political developments in the country are still present and further increase the uncertainty about the assessments of the economic activity in the first quarter.

Indicative variables for investments

(real annual growth rates, in %)



Source: SSO and NBRM calculations.

In January, favorable developments in **internal trade** continued, whereby double-digit annual growth in total trade turnover was registered (with a registered growth of turnover in wholesale and retail trade, as well as in the trade in motor vehicles).

January data suggest positive trends in **private consumption** in the first quarter of 2016 in line with the October projection...

...amid increased retail trade, higher social transfers of the government, as well as growth in household lending and pensions.

Available investment indicators give mixed signals in terms of **investment demand** in the first quarter of 2016...

...amid continued growth of loans to enterprises, on the one hand...

...and a small decline in government capital investments, on the other.

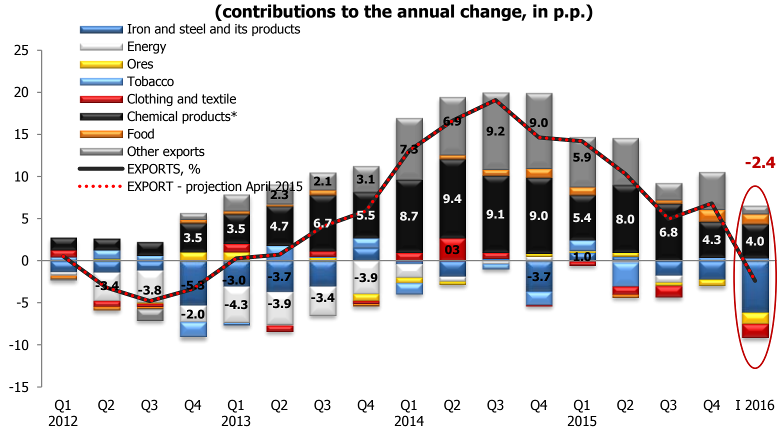
Nominal data on **foreign trade** in goods for January 2016 point to narrowing of the deficit, despite their expected widening within the October projection...

...given the higher decline in imports compared to exports of goods.

January budget performance gives prospects of somewhat higher **public consumption**, given the higher costs for wages and goods and services, as well as higher health care transfers...

...amid expectations for its decline in the first quarter of the year according to the October projection.

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.*

In January 2016, **the foreign trade deficit** decreased by 6.7% on an annual basis as a result of the higher decrease in imports relative to the decrease of exports of goods...

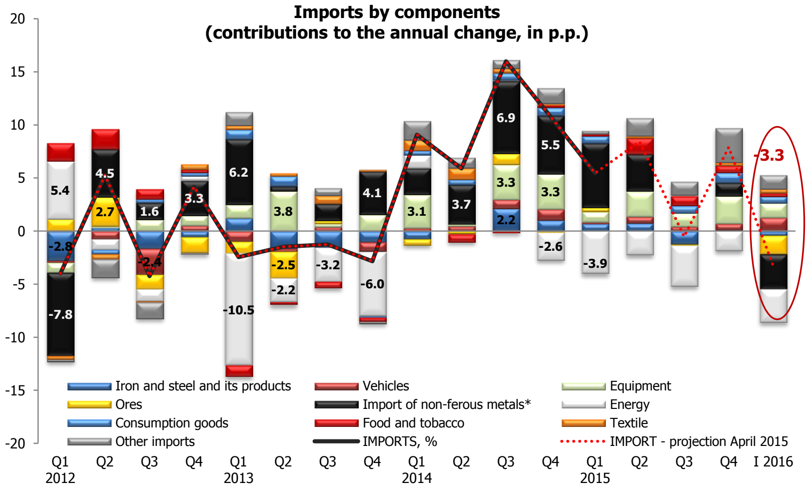
...contrary to expectations for an increase in the trade deficit in the first quarter of 2016, according to the October projection.

Export of goods in January 2016 registered an annual decrease of 2.4% mainly as a result of reduction of exports of part of the traditional export sectors, primarily iron and steel, as well as clothing and textile and ores...

...contrary to the intensified exports of the new industrial facilities, and to a lesser extent, higher export of food.

Compared with the October projection, exports in January 2016 is almost in line with expectations, with an upward deviation in export performances of new capacities in the economy, as well as in the export of food, and downward deviations in the export of iron and steel, ores and clothing and textile.

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



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

Import of goods in January 2016 decreased by 3.3%, mainly due to lower import of raw materials of some of the new export-oriented capacities, and lower import of energy and ores...

...at the same time, investment import of equipment and machinery and import of vehicles registered moderate growth.

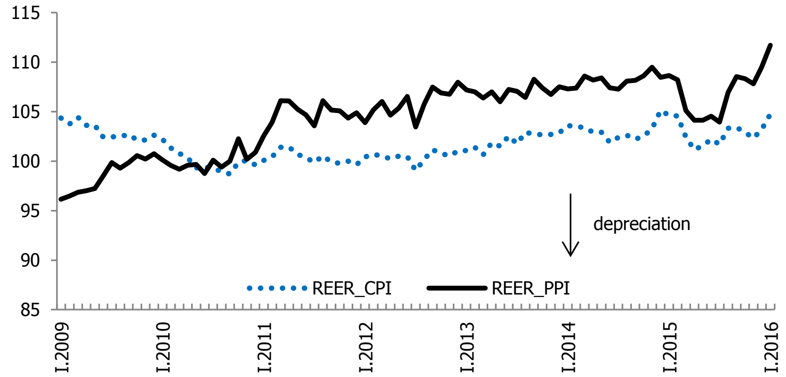
The realized import in January 2016 was lower than projected according to the October projection. The largest downward deviation occurs in the import of raw materials for the new production facilities, the import of energy, ores and iron and steel ...

...on the other hand, the import of vehicles is higher than expected for the first quarter.

Performance of foreign trade

components in January 2016, indicate likelihood of trade deficit lower than projected for the first quarter according to the October projection. However, the evaluation period is too short and therefore reliable conclusions in this domain cannot be drawn.

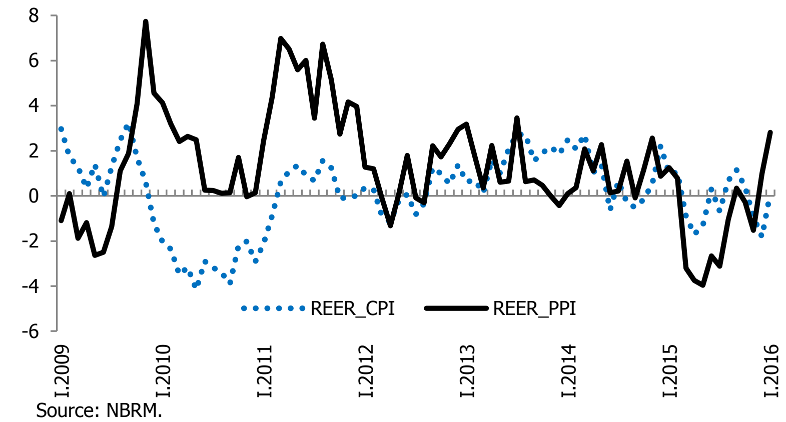
REER
(2010=100)



Source: NBRM.

In January 2016, price competitiveness indicators registered moderate deterioration on an annual basis. The REER index deflated by consumer prices slightly appreciated by 0.1%, while the REER index calculated by the producer prices registered an annual appreciation of 2.8%.

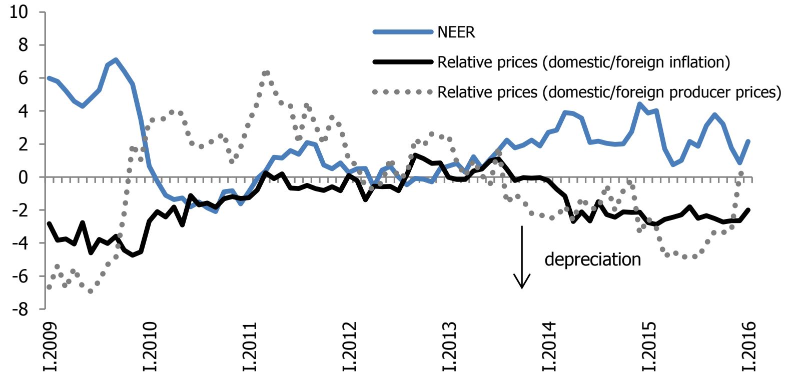
REER
annual changes, in %



Source: NBRM.

These developments are mainly due to the dynamics of the NEER, which on an annual basis further appreciated (by 2.2%), as a result of the further depreciation of the Russian ruble, the Turkish lira and the Ukrainian hryvnia against the Denar. At the same time, the relative prices of industrial products registered an annual growth of 0.6% (the highest growth since July 2013), while the relative consumer prices registered an annual decrease of 2%.

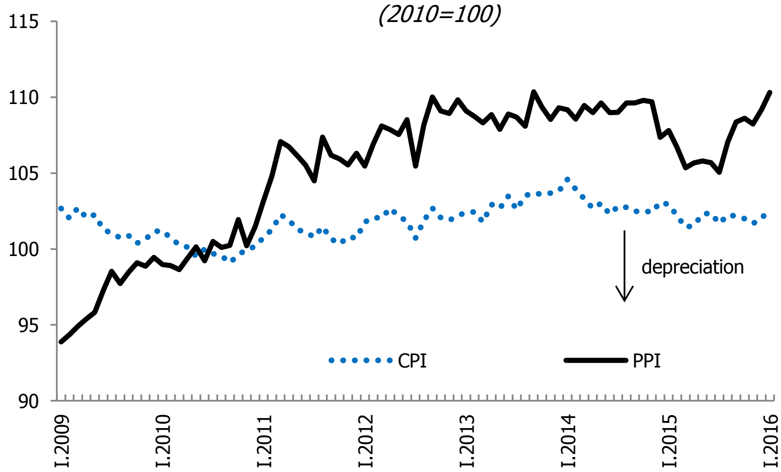
NEER and relative prices
annual growth rates, in %



Source: NBRM.

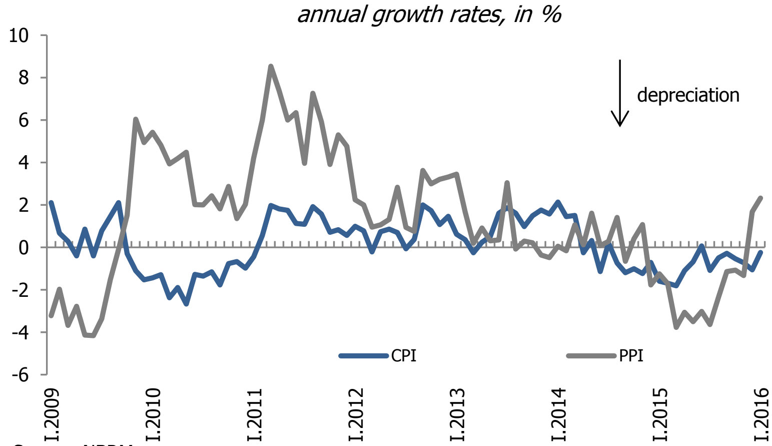
The analysis of the movement of the REER indices calculated with weights based on the foreign trade without primary products, indicates divergent movements compared with the same period last year. In January 2016, the REER index deflated on consumer prices slightly depreciated by 0.2%, while the REER deflated by producer prices appreciated by 2.3%.

REER, excluding primary commodities
(2010=100)



Source: NBRM.

REER, excluding primary commodities
annual growth rates, in %

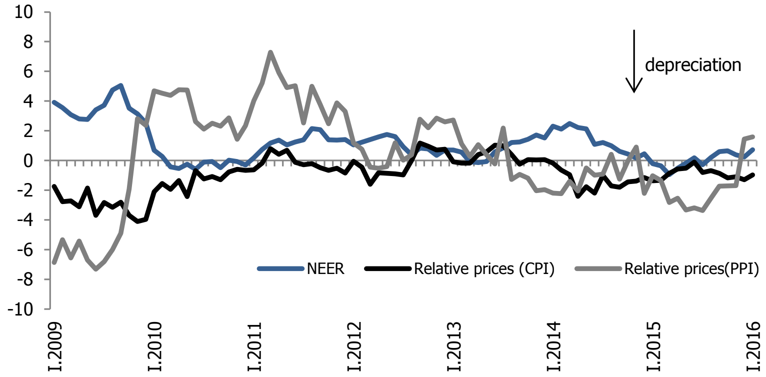


Source: NBRM.

On an annual basis, the relative consumer prices fell by 1%, while the relative prices of industrial products increased by 1.6%. NEER appreciated by 0.7% on an annual basis.

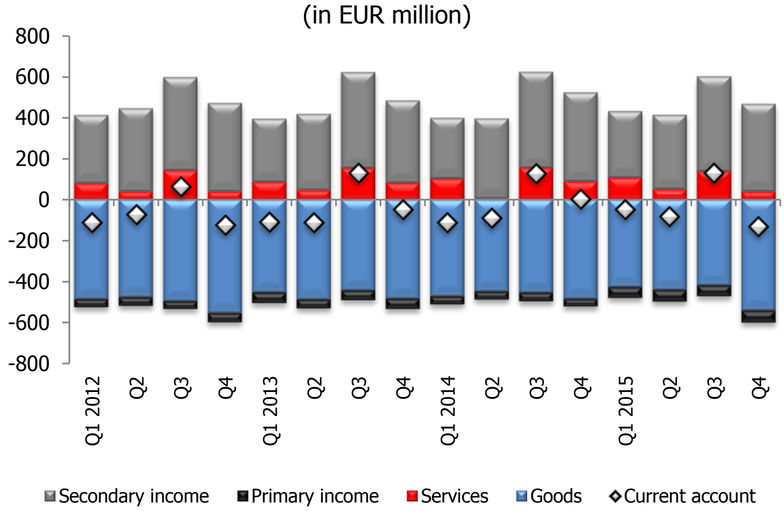
In the fourth quarter of 2015, the

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



Source: NBRM.

Main components of the current account
(in EUR million)



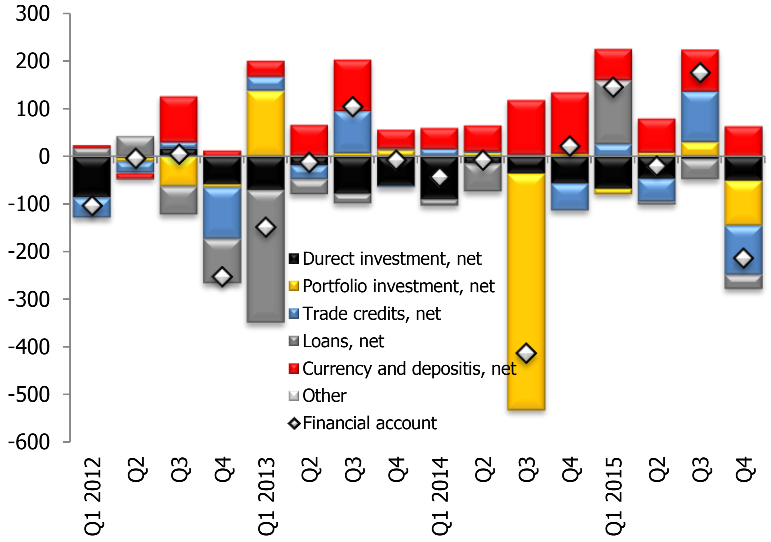
Source: NBRM.

balance of payments' current account registered a deficit of Euro 129.6 million (or 1.4% of GDP), which is higher than expected according to the October projection.

In terms of individual components, the weaker performance in most part is due to the significantly lower surplus in the foreign trade of services and higher trade deficit. On the other hand, secondary income surplus and primary income deficit are generally in line with expectations according to the October projection.

In terms of overall performance for 2015, the current account deficit was higher than projected. The largest downward deviation occurs in the surplus of services, while the other components are largely in line with the expected.

Financial account components
(in EUR million)



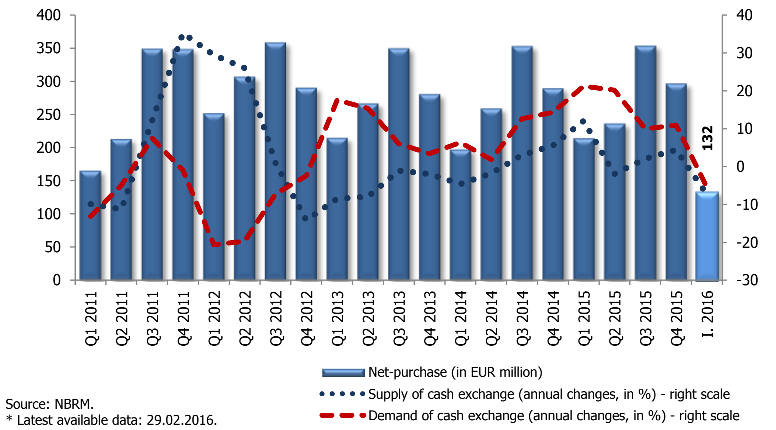
Source: NBRM.

In the last quarter of 2015, the financial account registered net inflows of EUR 213.3 million (or 2.4% of GDP), which are somewhat lower than projected in the October projection[7].

Moreover, such deviations result from lower net inflows than expected in portfolio investments[8]. Higher net inflows of trade credits and realized net inflows of long-term financial credits acted in the opposite direction, as opposed to the expected small net outflows.

In terms of realization for the entire year, the net outflows through the financial account are higher than projected. Analyzed by components, it is due to the weaker performance in the portfolio investment and in direct investments. On the other hand, trade credits registered net inflows relative to the expected net outflows, while long-term loans registered lower net outflows.

Cash exchange market



Source: NBRM.
* Latest available data: 29.02.2016.

Recent data on currency exchange operations as of February 2016 indicate increase in the supply of and demand for foreign currency.

In the period 1 January – 29 February 2016, the net amount of Euro 132.2 million was purchased in the currency exchange market, which is an annual decrease of 8.2%[9].

The latest information from the currency exchange market indicate net inflows which are in line with the expected in private transfers in the first quarter of 2016, as projected in October.

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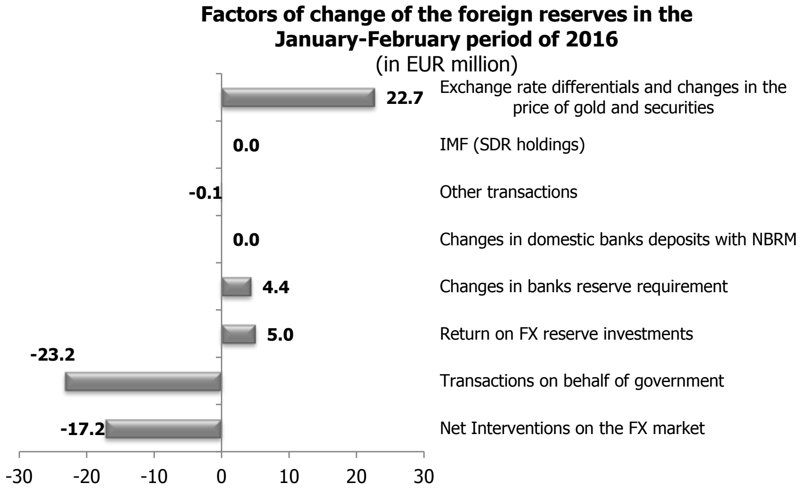
[7] According to the new methodology for compilation of the balance of payments (BPM6), the terms "net inflows" and "net outflows" denote net incurrence of liabilities and net acquisition of financial assets, respectively.

[8] The divergence in the portfolio investment in the last quarter is due to the fourth Eurobond, issued in the last month of 2015 but in a lesser amount than projected.

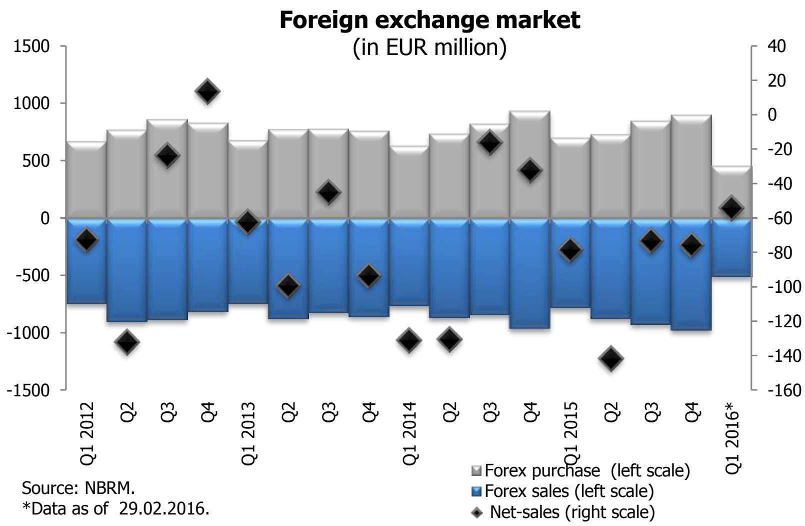
[9] High annual decrease in net purchase stems from the high comparison basis, i.e. in the second ten-day period of January 2015, increased purchase of Swiss francs at the currency exchange market was registered as a result of leaving the target for the exchange rate by the Central Bank of Switzerland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

* Latest available data: 29.02.2016.

As of 29 February 2016, the gross foreign reserves stood at Euro 2,253.4 million, down by Euro 8.3 million compared to the end of 2015. The reduction in foreign reserves is due to the transactions on behalf of the government and NBRM interventions on the foreign exchange market, while exchange rate differentials and changes in the price of gold acted in the opposite direction.



Source: NBRM.

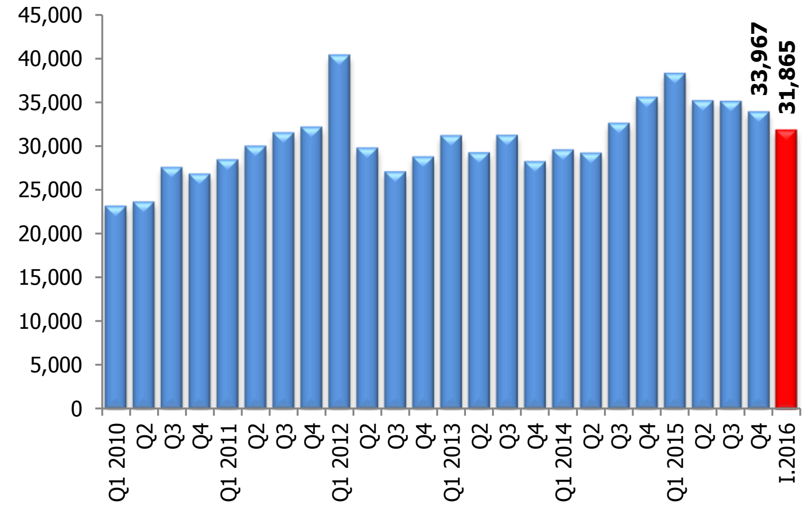


Source: NBRM.
*Data as of 29.02.2016.

In the period January-February 2016, the **foreign exchange market** of the banks registered a net sale of Euro 53.8 million, which is growth of Euro 18.2 million on an annual basis. This annual change is a result of the faster growth in the demand relative to the supply of foreign currency (of 5.6% and 2%, respectively).

Sectoral analysis shows that such performance mostly arise from the lower net purchase by the exchange offices, given the slightly lower net sales of foreign currency of the corporate sector.

Monetary instruments
(stocks, in millions of denars)



Source: NBRM.

In January, **the monetary instruments** acted towards creating liquidity, as expected in the October projection. However, despite acting as expected, the level of monetary instruments at the end of January was lower than projected for the end of the first quarter of 2016[10].

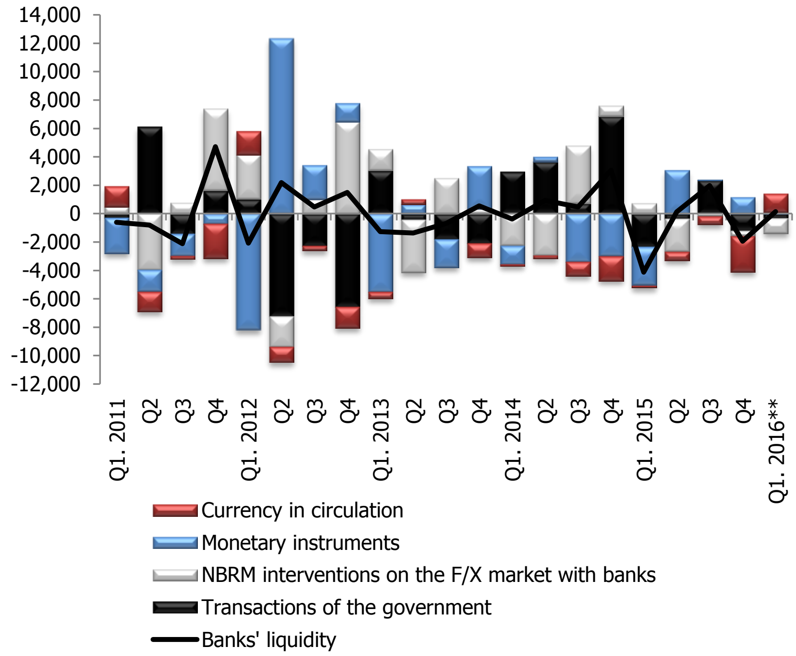
The analysis of the flows of creating and withdrawing liquidity from the on-balance perspective, shows decrease of net foreign assets of the NBRM in January, which is lower than expected in the October projections for the first quarter of the year. The reduction is mostly explained by the NBRM interventions by selling foreign currency to the market makers. In January, the total government deposits remained at a relatively stable level, which was higher than expected in the October projections for the end of the first quarter of the year.

In January, the reserve money registered moderate decrease that was expected given the seasonal decrease in the money in circulation and relatively higher growth of banks' liquidity. At the end of January, the level of the reserve money is within the assessed in the October projections.

Taking into account the changes of certain on-balance sheet components and their deviations relative to the projection, the lower than expected level of monetary instruments, observed from the viewpoint of balance sheet, is explained by the higher level of government deposits.

[10] In the fourth quarter of 2015, the stock of the monetary instruments decreased as opposed to expectations for growth in the October projections.

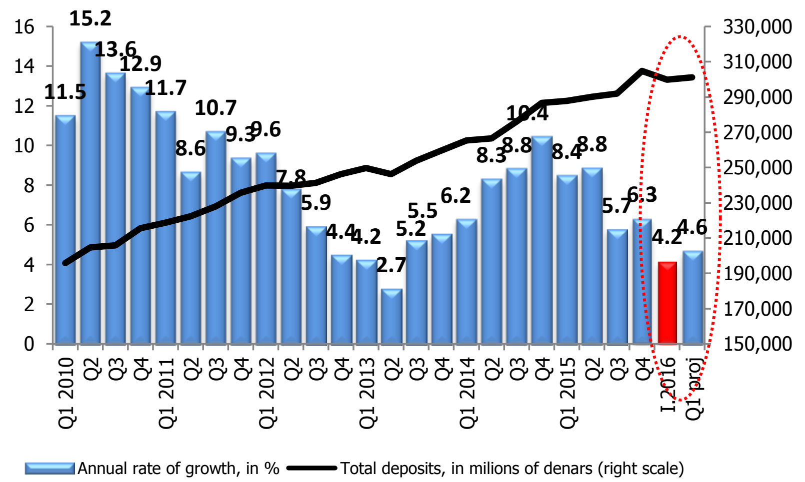
Flows of creating and withdrawing liquidity *
(quarterly changes, in millions of denars)



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

In February, according to operational data on liquidity flows, the liquidity of the banks decreased on a monthly basis. Analyzed by individual factor, the lower liquidity is a result of the currency in circulation, foreign interventions (sale of foreign currency) and monetary instruments, while withdrawing funds from the government denar deposits with the NBRM, acted in the opposite direction, i.e. aimed towards accelerating the liquidity of the banks.

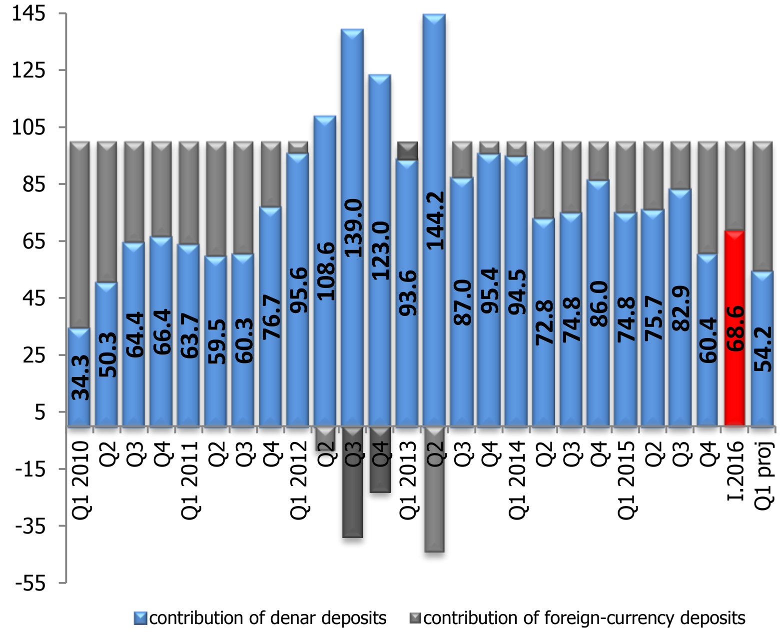
Total deposits



*Includes demand deposits
Source: NBRM.

In January 2016, after the high growth in December, the total deposits registered a significant monthly fall. The decrease was mainly due to the fall in corporate deposits, with a very small monthly decline of household deposits. **However, despite the fall, due to the high performances from the end of the year, the total deposits registered an annual growth of 4.2% in January (projected annual growth of 4.6% for the first quarter).**

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

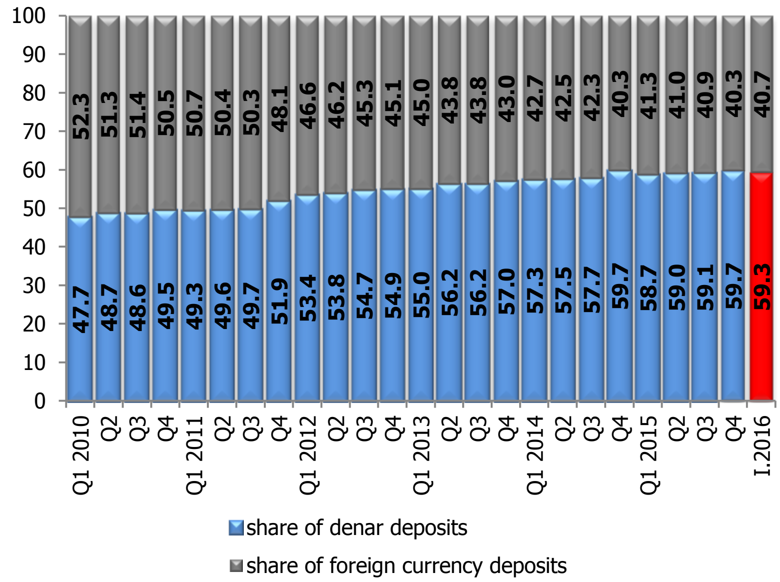


Source: NBRM.

*Includes demand deposits.

The annual growth of total deposits still stems predominantly from the increased denar deposits, but foreign currency deposits also contribute to the growth. Despite the growth, the positive contribution of foreign currency deposits decreased for the first time after the three-month constant increase.

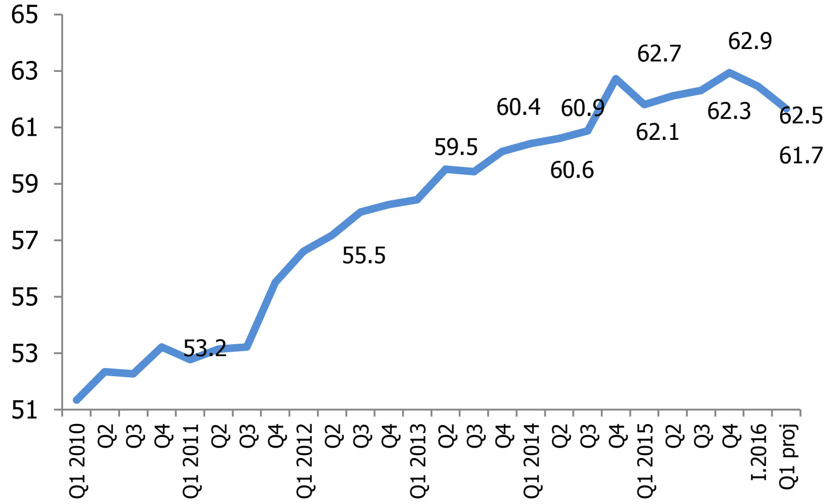
Share of denar and foreign currency deposits in total deposits
(in %)



Source: NBRM.
*Includes demand deposits.

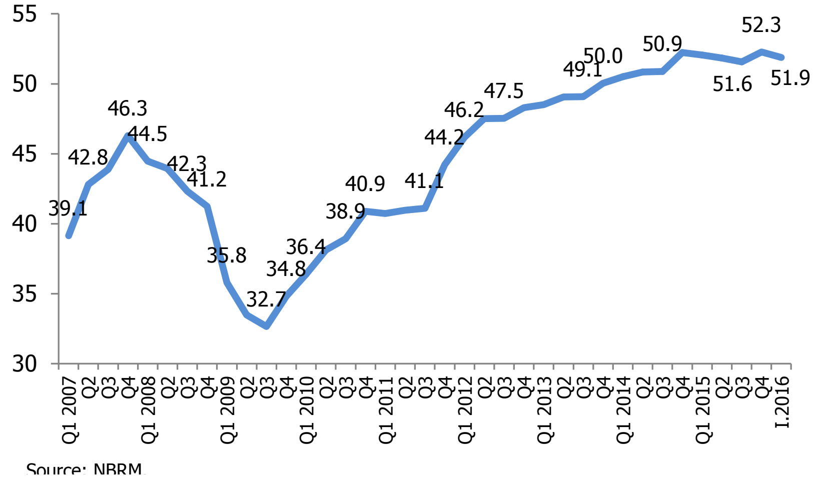
The denar deposits continue to account for the largest share in the deposit base and their share registers slight decline compared to the end of the previous quarter.

Share of denar M4 in total M4
(in %)



Source: NBRM.

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

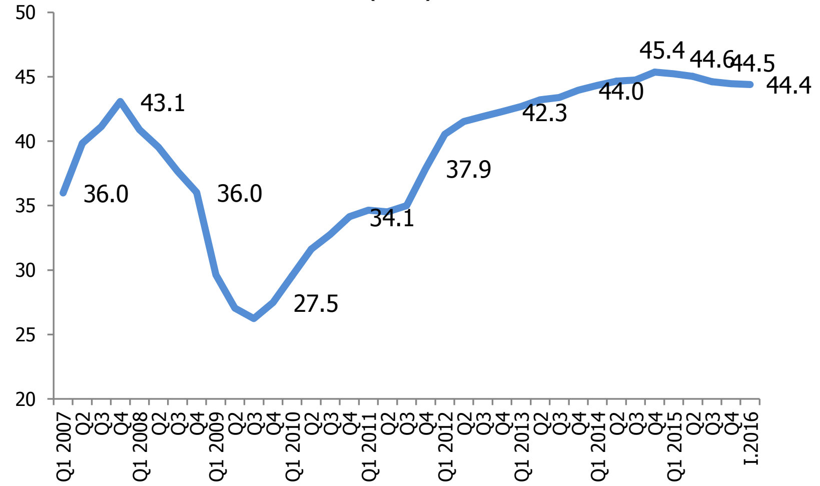


Source: NBRM.

*Includes demand deposits.

Total household deposits slightly decreased in January compared to the previous month. The monthly fall was driven by the reduction in deposits in local currency, primarily due to the reduction of demand deposits. At the same time, foreign currency deposits increased. As a result of these developments, the share of denar deposits in January recorded moderate decrease.

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

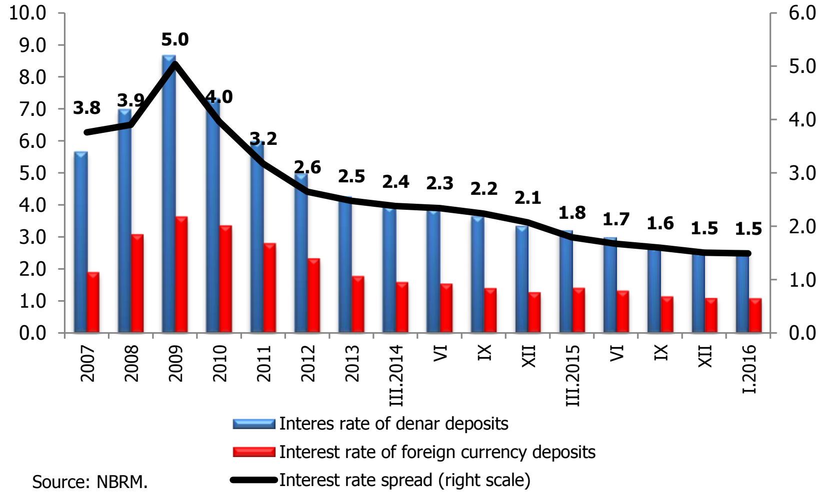


Source: NBRM.

*Without demand deposits.

Total household deposits (without demand deposits) grew on a monthly basis at the end of January. This growth was driven by the growth of deposits in foreign currency, and to a lesser extent of deposits in domestic currency.

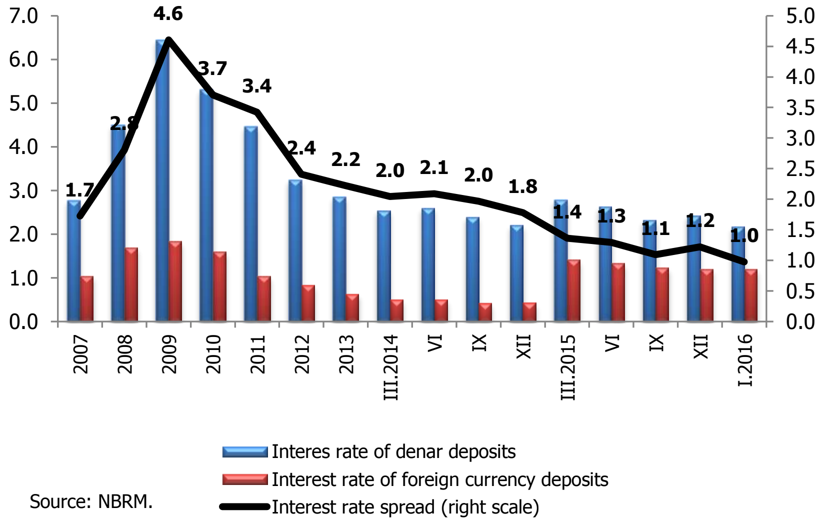
Interest rates on household denar and foreign currency deposits
(in %)



Source: NBRM.

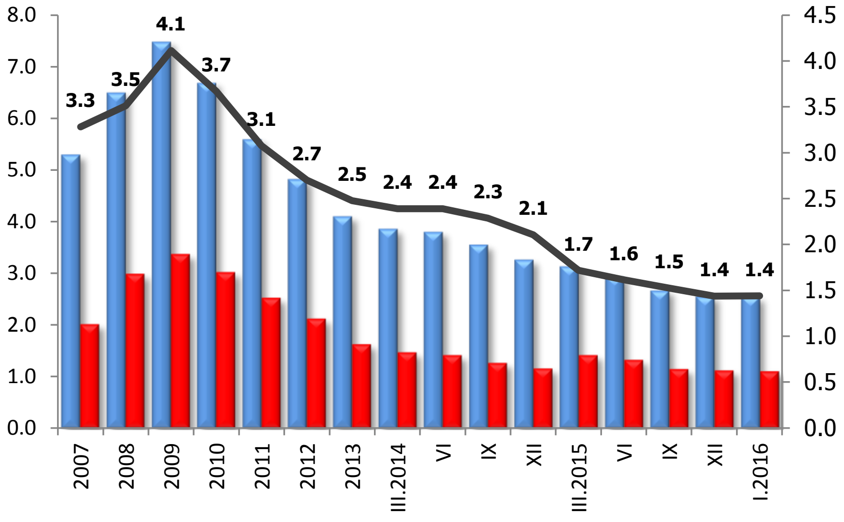
In January, the interest rate spread between the household denar and foreign currency interest rates remained at the same level as the previous month. Regarding the newly accepted household deposits, there was a slight decrease in the interest rate spread as a result of the decrease in the interest rates on denar deposits.

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



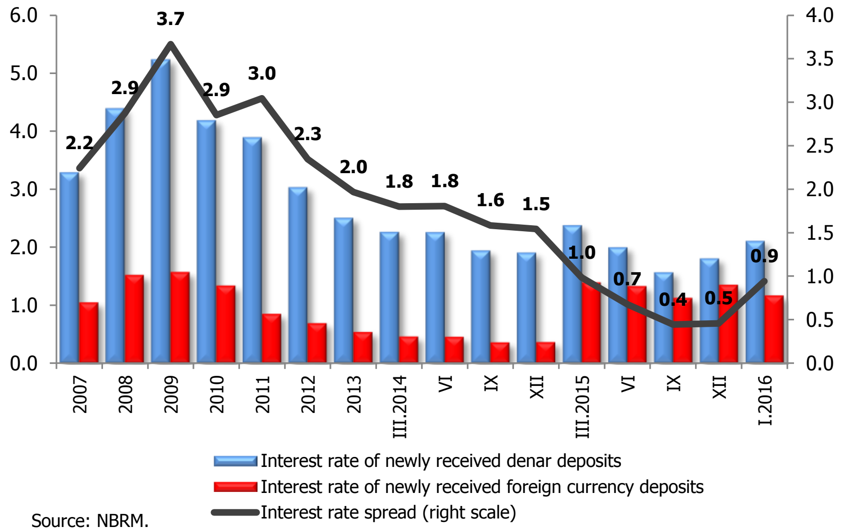
Source: NBRM.

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



Source: NBRM.

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

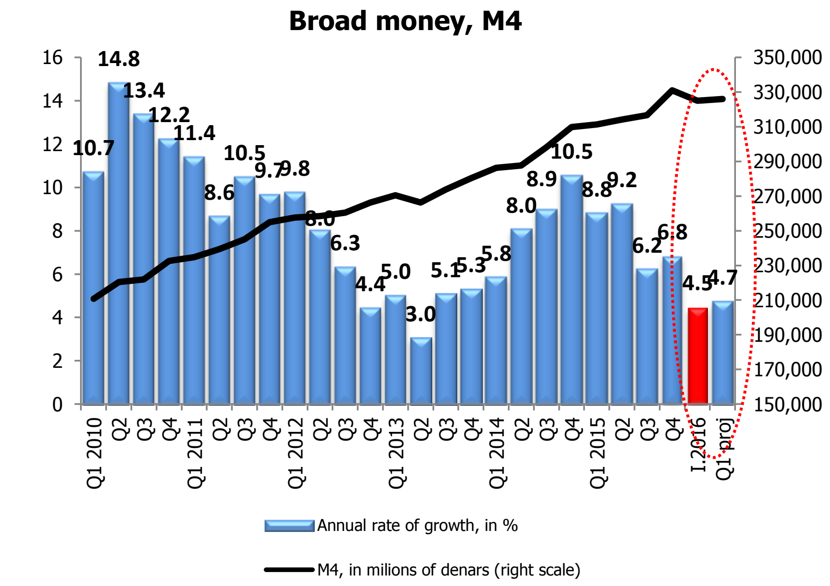


Source: NBRM.

In January, the interest rate spread with the total household denar and foreign currency interest rates[11] remained at the same level compared to the previous month. Regarding the newly accepted deposits, the denar interest rate registered growth and the foreign currency interest rate registered decrease, whereby the interest rate spread widened. However, regarding the interest on the newly accepted deposits it should be taken into consideration that they are volatile[12], which can result in frequent and temporary adjustments of the interest spread.

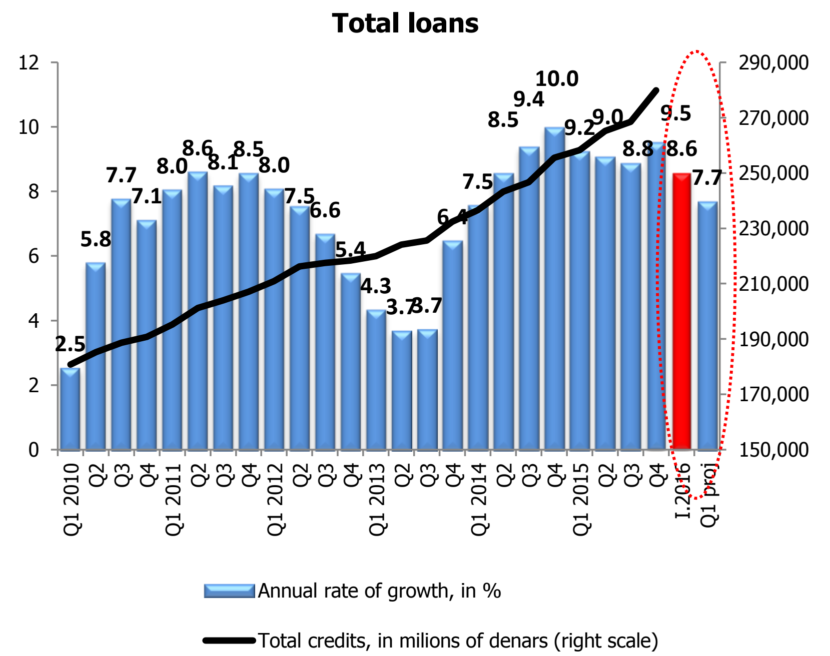
[11] As of January 2015, interest rate data of banks and savings houses have been collected under the new interest rate methodology, while data for the previous period were collected under the old methodology. For more detailed information see http://www.nbrm.mk/default.asp?ItemID=29C1C73ED1A4B745B70EE9C3E423029A

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



Source: NBRM.

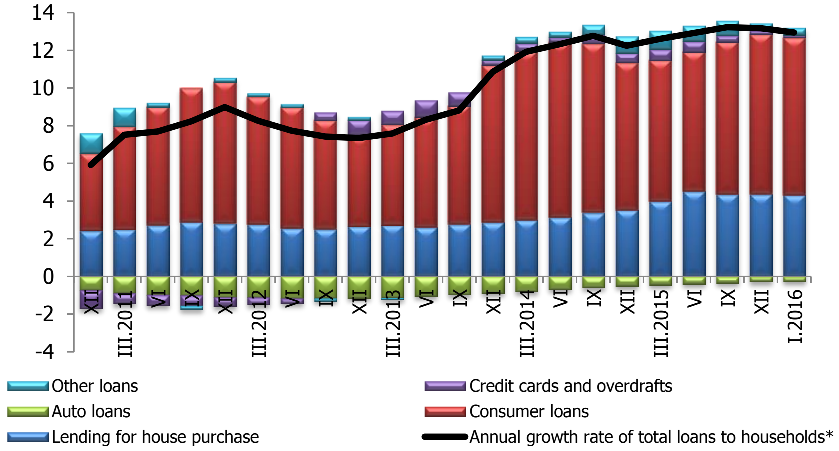
After the high growth in December, in January, the broad money M4 decreased on a monthly basis. The reduction was mainly due to the demand deposits, the component that grew significantly in December. Additionally, the currency in circulation also affected in order to decrease the money supply. However, despite the fall, due to the high performances from the end of the year, the broadest monetary aggregate registered an annual growth of 4.5%, which is slightly below the projected growth of 4.7% for the first quarter of 2016.



Source: NBRM.

After the high growth of loans in December 2015, in January, total loans decreased on a monthly basis. Such decrease of the monthly level of loans is entirely due to the reduction of corporate loans. The monthly decline in loans is not unusual for the first month of the year, and suggests possible temporary character of these movements. Loans to households recorded a moderate monthly increase.

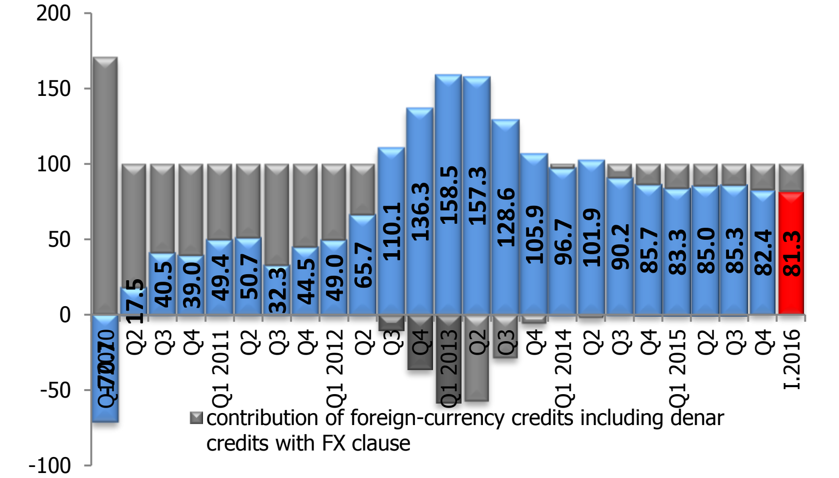
Loans of banks and savings houses extended to households
(contribution to the annual change in loans to households*, in percentage points)



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

At the end of January, the annual growth rate of total loans equaled 8.6%, which is above the annual growth of 7.7% projected for the first quarter of 2016. These performances fully reflect the higher basis from the end of the year.

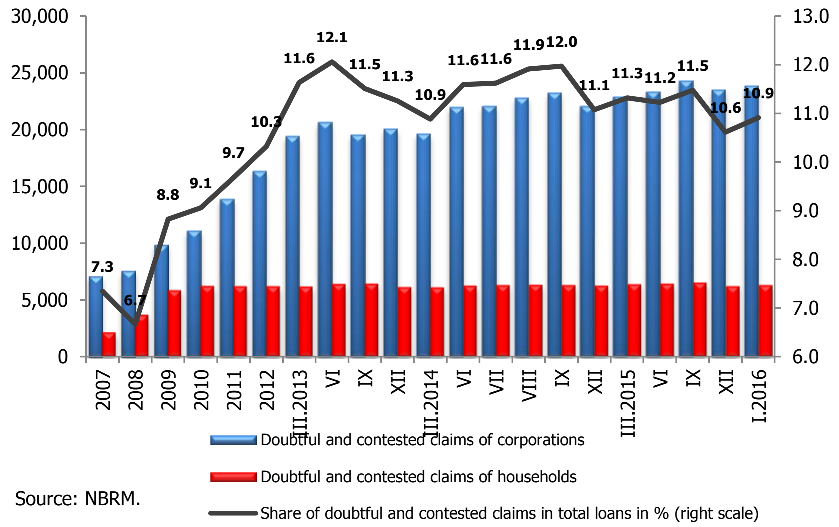
Contribution of denar and foreign currency component loans to the annual growth of total loans (in %)



* does not include Denar credits with FX clause.
Source:NBRM.

In January, the realized annual growth of total loans registered a decrease of the contribution of denar loans[13]. Foreign currency loans together with denar loans with FX clause registered modest growth in their contribution. By sectors, the contribution of household loans in the annual growth registered an increase from 56.6% in December to 62.4% in January, while the contribution of loans to the corporate sector decreased from 43.1% to 37.1% for the corresponding months.

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

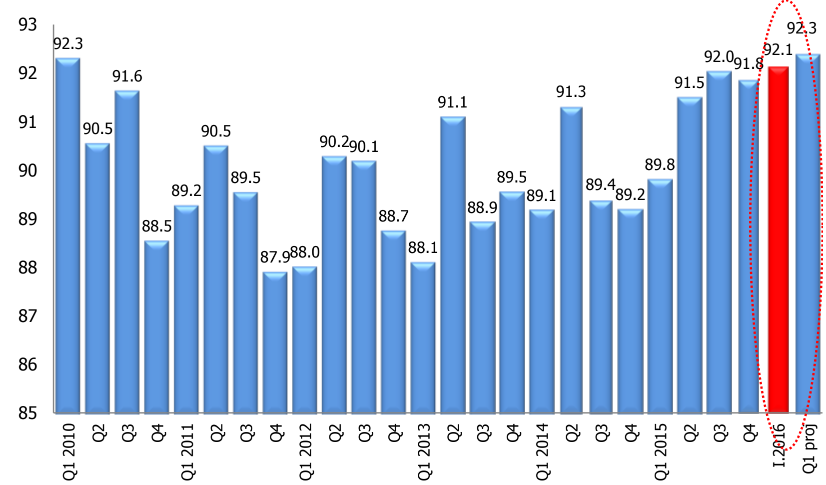


Source: NBRM.

During January, the share of doubtful and contested claims in the total loans recorded an increase compared to the previous month, from 10.6% to 10.9%, respectively, solely driven by the increase in doubtful and contested claims of the corporate sector, with moderate growth in households as well. On an annual basis, the total non-performing loans further increased, registering lower intensity compared to the preceding month.

[13] Includes denar loans without FX clause, accrued interest and doubtful and contested claims

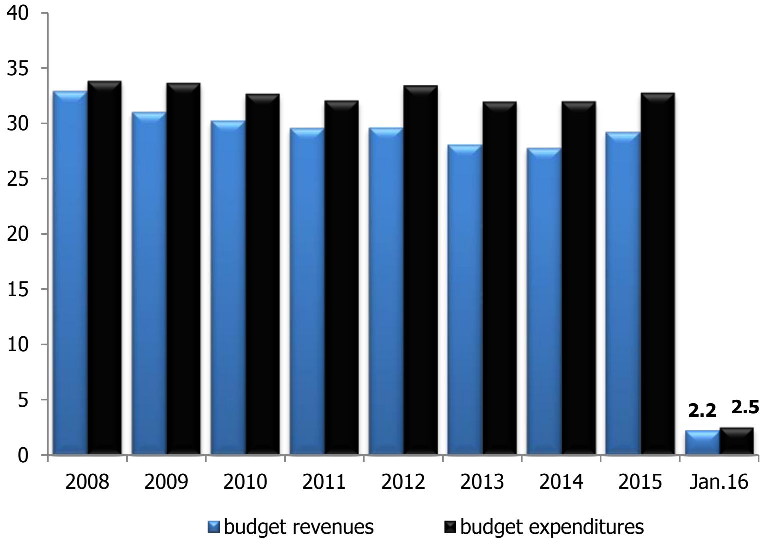
Loan-deposit ratio, in
(in %)



Source: NBRM.

The utilization of the deposit potential for lending to the private sector in January increased compared to the previous month. The realized ratio is within the projection for the first quarter of 2016.

Budget revenues and expenditures
(in % of GDP)

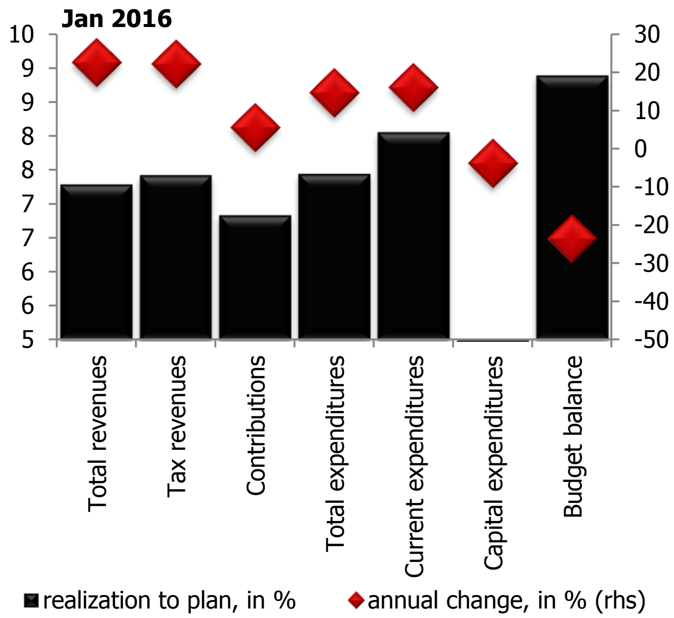


Source: Ministry of Finance and NBRM's calculations.

The total budget revenues realized in January 2016 in the Budget of the Republic of Macedonia (central budget and budget of funds) increased by 22.8% compared to the performance in January 2015 and amounted to 2.2% of GDP[14] (1.9% in January 2015). The improved performance in this period mostly arises from the higher realization in taxes, and to lesser extent, from the contributions. Analyzed by individual tax categories, the increase is dominantly driven by the annual growth of inflows from VAT and to a lesser extent by the growth of inflows from excise duties.

Total budget expenditures in January 2016 amounted to 2.5% of GDP (2.3% in January 2015) and increased by 14.8% compared with the realized budget expenditures in the previous year. The higher realizations fully stem from the increased current expenses, amid a slight decrease of capital costs.

Implementation of the budget
(central budget and funds)

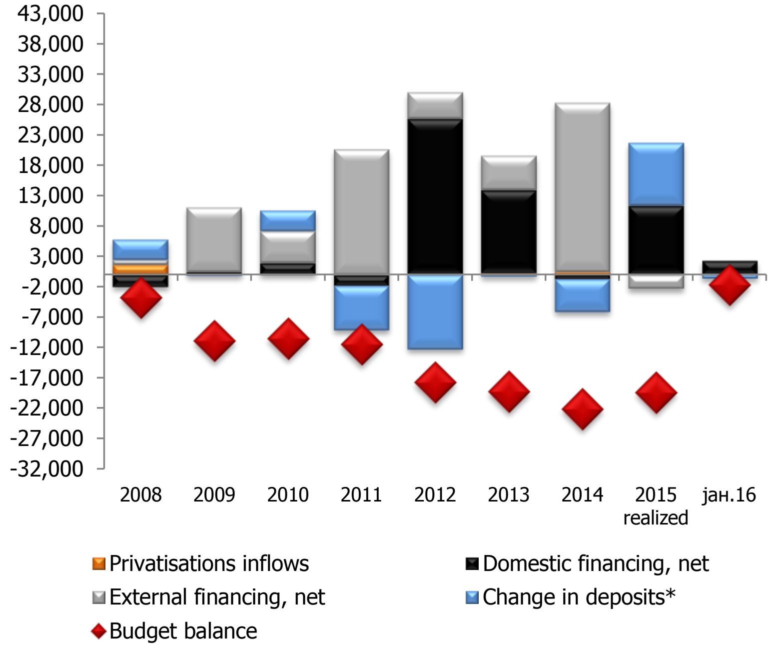


* With respect to the Budget for 2016
Source: Ministry of Finance and NBRM's calculations.

In January 2016, the realized revenues and expenditures constituted 7.4% of the revenues and expenditures projected for the entire 2016, respectively, under the Budget for 2016. Analyzed by individual categories, the highest realization was recorded in inflows based on VAT and excises of 8.8% and 7.2%, respectively, followed by inflows based on personal income tax and import duties (execution of 6.6% and 6.1% respectively). Observing individual categories of expenditures, in January 2016, there is a higher execution of current expenditures (8.1%) compared to capital costs (3.3%).

14 The analysis uses the NBRM October projections for the nominal GDP for 2016.

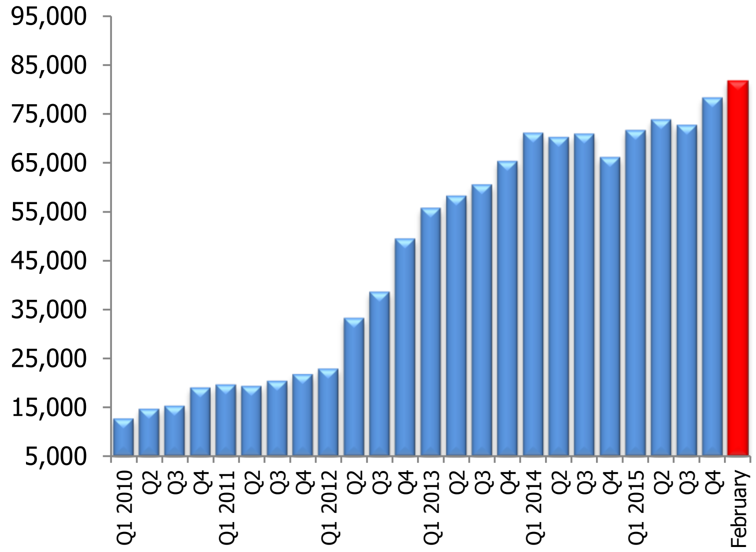
Financing of the budget balance
(in millions of denars)



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

According to the latest available data, in January 2016, the Budget of the Republic of Macedonia registered a deficit of Denar 1.688 million. The deficit was financed by net issuance of government securities. In addition, this period registered a moderate accumulation of funds on the account with the NBRM.

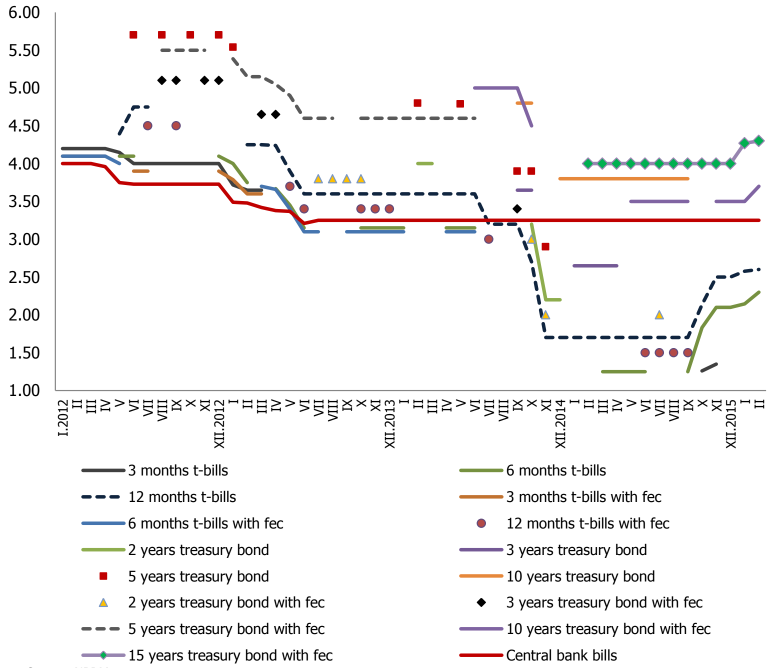
Stock of total government securities
(in millions of denars)



Source: NBRM.

The stock of government securities in the domestic market amounted to Denar 81.822 million at the end of February, and compared to the end of the previous month, is higher by Denar 1.139 million. Compared to the end of 2015, in February, government securities increased by Denar 3.489 million.

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



Source: NBRM.

The interest rates on government securities offered at the auctions held in February amounted to 1.6%, 2.3% and 2.6% for 3-month, 6-month and 12-month treasury bills without foreign currency clause, respectively, while the interest rates on the government bonds equaled 3.9% for 10-year (without foreign currency clause) and 3.7% and 4.3%, for 10-year and for 15-year government bonds with foreign currency clause, respectively. Interest rates on all government securities issued in February are higher compared to interest rates in the previous auctions[15].

[15] The interest rates on treasury bills and bonds in January represent weighted interest rate under the offered amounts and the adequate interest rates. Thus, at the auctions 6-month and 12-month treasury bills without foreign currency clause and interest rate of 2.14% and 2.58% were offered, respectively. At the same time, there were offered 10-year government bonds with foreign currency clause and interest rate of 3.5%, as well as 15-year government bonds with foreign currency clause and interest rates of 4% and 4.3%.

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

January 2013

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

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

March 2013

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

July 2013

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

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

October 2013

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

November 2013

- A Decision amending the Decision on reserve requirement was adopted, which exempts the NBRM from paying reserve requirement remuneration (previously, this remuneration equaled 1%

for denar reserve requirement and 0.1% for euro reserve requirement). The Decision is being applied since 1 January 2014.

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

February 2014

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

April 2014

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

September 2014

- In order to further channel banks' excess liquidity to the non-financial sector, in September the NBRM revised the mechanism for transfer of the demand for CB bills, which is above the banks' potential into another instrument, i.e. seven-day standing deposit facility. According to these changes, for the seven-day standing deposit facility that banks are obliged to allocate if on the CB bills auctions they demand an amount higher than the potential[16], an interest rate of 0% is determined. For the other assets that banks will voluntarily place into a seven-day standing deposit facility the regular interest rate will apply.

September 2014

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

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.

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

April 2015

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

June 2015

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

August, 2015

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

- The National Bank Council adopted the Decision on amending the Decision on CB bills that envisages adjustment of the mechanism of participation at the CB bills auction of the National Bank, where the main criterion will be the individual share of the banks in the total liabilities in domestic currency without currency clause of the banking system. With these amendments, the

National Bank continues to support the natural persons' savings in domestic currency and on a longer run, which creates room for the banks for active credit support to the private sector.

December 2015

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

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

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

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