

National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators Review of the Current Situation

October 2015

Recent Macroeconomic Indicators

Review of the Current Situation - Implications for the Monetary Policy

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

The global economic environment is somewhat less favorable compared to the April projections, with continuing presence of downward risks. The slowdown in the growth of emerging economies as a new risk and the increased volatility on global financial markets are factors that increase the uncertainty in the environment. Regarding the performance of the economy of the euro area, after the quarterly GDP growth of 0.4% in the second quarter, most high frequency indicators for the third quarter of 2015 indicate likely retention of such growth rates. On the labor market, certain favorable developments are registered, and the unemployment rate in August equals 11%. However, the latest ECB growth projections are revised downwards¹, the euro area growth risks are considered as dominantly negative, while the ECB gives signals for additional relaxation, if needed. All these elements show that the recovery pace and stability of the euro area are still associated with great uncertainty. In terms of inflation, the latest data for September showed an annual drop in the general price level of 0.1%, the first since March. The fall in the total inflation is primarily due to lower oil prices, while core inflation remains positive, with steady annual growth of 0.9%. However, the inflation expectations of the investors are getting lower, which together with the fall in oil prices creates downward risks to future inflation and achievement of the inflation target of the ECB.

Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the assessments regarding the foreign effective demand remained unchanged for 2015, while being revised downward for 2016. This revision mainly reflects the deterioration of economic prospects of Greece for this and the next year, amid unchanged or slightly more positive expectations for most other countries. However, there are still expectations for gradual recovery in foreign demand in 2015 and acceleration of growth in 2016. **With the foreign effective inflation, minimal downward changes were made. Projections for prices of primary products for this and next year have been downwardly revised.** Recent developments and assessments of world oil prices point to a steeper fall in 2015 relative to the April projections, while for 2016 smaller growth is expected. Regarding the **metal prices**, the slower growth of Chinese economy and solid global inventories spilled over the markets with expectations of a sharper decrease in the price of nickel and a reduction, rather than the previous assessment for growth in the price of copper in 2015 and 2016. The assessments for the **food prices** also changed downward for both 2015 and 2016, indicating a possible lower import pressures through this channel on domestic inflation compared to the April projections. 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 of the level of **EURIBOR indicate lower level in the period 2015-2016, compared with the April projection**, where assessments still show expectations for negative interest rate in 2016 (expectations for a positive interest rate in the April projection).

¹ According to the latest ECB's projections from September 2015, the growth rate of real GDP for 2015, 2016 and 2017 is estimated at 1.4%, 1.7% and 1.8%, respectively. The previous (June) projections estimated that the growth will be 1.5%, 1.9% and 2% for 2015, 2016 and 2017, respectively.

The comparison of the latest macroeconomic indicators with their projected dynamics within the April forecasting round presents a divergent picture with respect to the deviations in the individual segments of the economy. The published data on the GDP for the second quarter are in line with the expected growth of the economy according to the April cycle projections. Observed by the production side, the growth is distributed among several economic sectors, while in terms of demand, the growth structure shows that exports and domestic consumption are the key drivers of the economic growth. The indicative high frequency data for the third quarter of 2015 point to further growth of the domestic economy, in environment of favorable movements registered in most of the significant economic sectors. Despite the solid growth pace, the risks of prolonged effects of the domestic developments, as well as changes in the global environment creates opportunity for slower economic growth in the second half of the year, than expected. In terms of inflation in September a slight decline in consumer prices was registered, given a fall in energy and food prices. Such a change, like in the last few months, is a slight downward deviation of the realized inflation rate, compared with the April projection. **Amid lower performance and the downward correction of the expectations in most input assumptions, the risks associated with the inflation projection for 2015 are assessed as downward.**

According to the recent available data, in the third quarter of 2015, the foreign reserves (adjusted for exchange rate differentials and price changes in securities) registered a decrease, but the reserve adequacy indicators remained in the safe zone. Analyzing factors of change, the reduction in reserves during this period was largely due to the transactions on behalf of the government (regular servicing of liabilities by the government). The interventions on the foreign exchange market had almost neutral effect on the foreign reserves. In terms of available data on the external sector for the third quarter, the balance of payments for July and the latest data on foreign trade in the period from July to August and data on the net purchase based on currency exchange operations in September, showed that the current account, for now is within the expectations. On the other hand, the financial inflows through the financial account are lower compared to the projections.

With regard to monetary developments, the preliminary data as of September show minimal increase in the total deposits on a monthly basis, after their solid increase in the previous month. The growth in the deposits is fully driven by household deposits, while corporate deposits decreased on a monthly basis. On an annual basis, total deposits in September grew by 5.7% and were below the projected level for the third quarter (9.5%). After the moderate increases in the previous two months, in September, the credit market activities recorded solid monthly growth of 0.9%, with credit support being directed to both, companies and households. On an annual basis, total loans in August grew by 8.9% and were below the April projection for the third quarter (9.8%).

In August, **the Budget of the Republic of Macedonia registered a deficit of Denar 1,703 million,** financed from domestic sources through withdrawal of deposits from the government account with the NBRM and issue of government securities. On a cumulative basis, for the period January-August 2015, the budget deficit amounted to Denar 12,804 million (or 2.3% of GDP²), representing 63.6% of the projected budget deficit for 2015 in accordance with the Budget Revision.

In summary, in the period since last April projections, the domestic and foreign risks have increased, but recent macroeconomic indicators and assessments indicate that currently their effects are limited and that there are no significant changes in the environment for conducting monetary policy. In the third quarter, the foreign reserves registered a decrease, the foreign exchange market is stable, while the foreign reserves adequacy indicators remained within the safe zone. In terms of inflation, data as of September show a small fall

² According to the latest NBRM projection for the nominal GDP.

in consumer prices, while the risks to the inflation pace to the end of 2015 are assessed as downward. In terms of economic activity, the latest high-frequency indicators as of August showed similar pace of growth of the economy, as in the previous quarter. The risk of weaker performance in the real sector in the second half of the year, compared to expectations, is still present. Within the monetary sector, the preliminary data as of August show weaker performance in total deposits and total loans compared to the projection for the third quarter, in part perhaps reflecting the uncertain domestic and global environment, as factors influencing private sector expectations. These developments point to increased downward risks to the projection of the credit and deposit growth to the end of the year. This is especially evident with the deposits, where the deviation is more pronounced and indicates potential underperformance regarding the projected growth. In this context, the changes in the setup of reserve requirement instrument in August should contribute towards further stimulation in the long-term household savings in domestic currency and creating room for intensified banks' lending activity. **In any case, the uncertainty associated with domestic political developments, and the global environment is present and points to increased risks associated with the dynamics of foreign reserves in the following period compared to the April projections. This situation imposes the need for continuous monitoring of the performance and regular reassessment of risks and their relevance in the context of achieving monetary goals.**

Selected economic indicators^{/1}

				2015											
	2012	2013	2014	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep	Q3
I. Real sector indicators															
Gross domestic product (real growth rate, y-o-y) ^{/2}	-0.5	2.7	3.8				3.2				2.6				
Industrial production ^{/3}															
y-o-y	-2.8	3.2	4.8	1.1	3.1	0.6	1.5	-0.9	-5.0	6.4	0.1	-2.7	12.7		
cumulative average	-2.8	3.2	4.8	1.1	2.1	1.5	1.5	0.8	-0.4	0.8	0.8	0.2	1.7		
Inflation ^{/4}															
CPI Inflation (y-o-y) ^{/5}	4.7	1.4	-0.3	-1.5	-1.0	-0.3	-0.9	0.1	0.3	0.5	0.3	-0.4	0.1	-0.2	-0.2
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
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
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
Labor force															
Unemployment rate	31.0	29.0	28.0				27.3				26.8				
II. Fiscal Indicators[□]															
(Central Budget and Budgets of Funds)															
Total budget revenues	138,115	140,248	145,929	10,527	12,089	15,163	37,779	14,383	13,750	12219.0	40352.0	14,458	11,537		
Total budget expenditures	155,840	159,505	168,063	12,732	14,467	16,881	44,080	14,375	15,348	13849.0	43572.0	16,038	13,240		
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301	8	-1,598	-1630.0	-3220.0	-1,580	-1,703		
Overall balance (in % of GDP) ^{/1}	-3.8	-3.9	-4.2	-0.4	-0.4	-0.3	-1.1	0.0	-0.3	-0.3	-0.6	-0.3	-0.3		
III. Financial indicators ^{/6}															
Broad money (M4), y-o-y growth rate	4.4	5.3	10.5	11.1	9.7	8.8	8.8	9.7	8.9	9.2	9.2	7.8	7.0		
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		
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		
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		
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		
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		
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		
Interest rates ^{/7}															
Interest rates of CBBills	3.73	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25		
Lending rates															
denar rates (aggregated, incl. denar and denar with f/x clause)	8.3	7.7	7.5	7.4	7.3	7.2	7.3	7.2	7.1	7.1	7.1	7.0	7.0		
f/x rates	6.8	6.4	6.3	6.1	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.8		
Deposit rates															
denar rates (aggregated, incl. denar and denar with f/x clause)	4.8	4.1	3.7	3.3	3.2	3.1	3.2	3.0	3.0	2.9	3.0	2.9	2.7		
f/x rates	2.1	1.6	1.4	1.5	1.5	1.4	1.5	1.4	1.3	1.3	1.3	1.3	1.2		
IV. External sector indicators															
Current account balance (millions of EUR)	-240.0	-134.1	-68.7	38.6	8.9	-78.5	-31.0	-53.2	-22.2	8.6	-66.9	31.8			
Current account balance (% of GDP)	-1.6	-1.8	-0.8	0.4	0.1	-0.9	-0.3	-0.6	-0.2	0.1	-0.7	0.4			
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	-133.0	-446.5	-158.8	-132.7		
Trade balance (% of GDP)	-25.6	-21.7	-20.8	-0.8	-1.2	-2.2	-4.2	-2.3	-1.2	-1.5	-5.0	-1.8	-1.5		
import (millions of EUR)	-5,061.8	-4,968.4	-5484.9	-365.5	-408.9	-533.6	-1308.0	-498.0	-469.6	-514.0	-1481.6	-505.8	-419.7		
export (millions of EUR)	3,113.5	3,211.8	3723.0	291.8	299.1	339.1	929.9	295.2	359.0	380.9	1035.2	347.0	286.9		
rate of growth of import (y-o-y)	0.2	-1.8	10.4	-2.9	-2.2	19.7	5.5	9.3	-2.0	19.0	8.4	0.9	0.5		
rate of growth of export (y-o-y)	-3.2	3.2	15.9	24.0	6.5	13.7	14.2	0.0	13.4	16.6	10.3	7.9	-5.4		
Foreign Direct Investment (millions of EUR)	131.1	229.4	197.4	35.0	10.6	19.2	64.8	36.3	-9.2	18.0	45.0	16.2			
External debt															
Gross external debt (in millions of EUR)	5171.7	5219.7	5992.3				6242.6				6342.2				
public sector	2162.1	2172.4	2846.8				3024.9				3059.2				
public sector/GDP (in %)	28.5	26.8	33.4				33.6				34.0				
private sector	3009.5	3047.4	3145.5				3217.8				3283.0				
Gross external debt/GDP (in %)	68.2	64.3	70.2				69.3				70.4				
Gross official reserves (millions of EUR)^{/9}	2,193.3	1,993.0	2,436.5	2,484.4	2,330.8	2,354.9		2,344.3	2,328.5	2,254.8		2,198.3	2,177.7	2,187.4	

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

^{/2} Preliminary data for 2014. Estimated data for 2015.

^{/3} The changes of Index of Industrial production are according to base year 2010=100.

^{/4} CPI calculated according to COICOP.

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

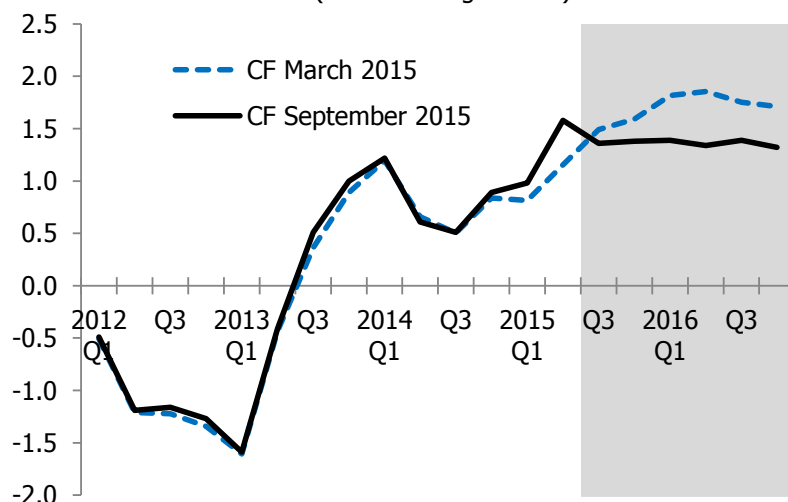
^{/6} The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since 01.01.2009).

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

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

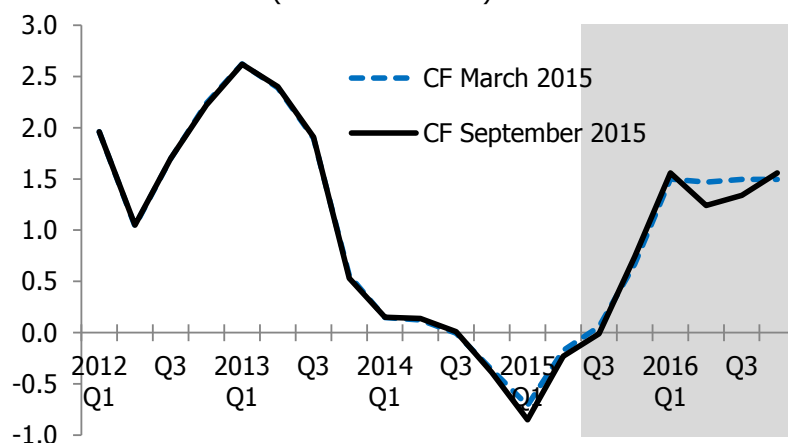
^{/9} The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

Foreign effective demand
(annual changes in %)



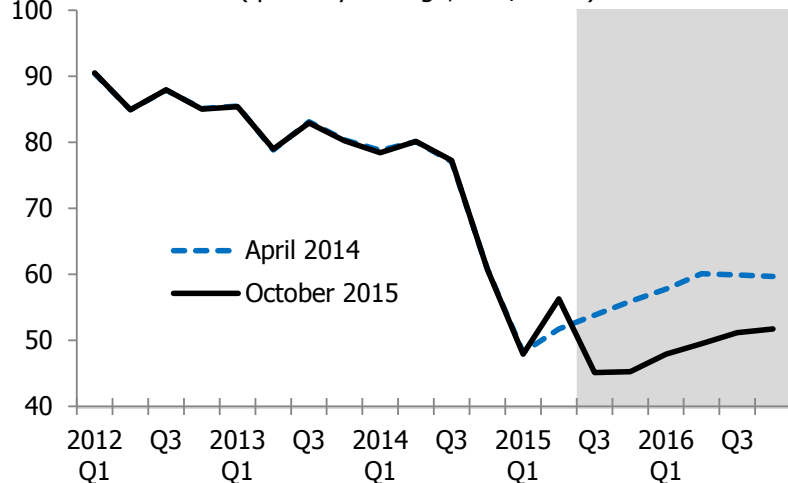
Source: "Consensus Forecast" and NBRM calculations.

Foreign effective inflation
(annual rates in %)



Source: "Consensus Forecast" and NBRM calculations.

Brent oil
(quarterly average, EUR/Barrel)



Source: IMF and NBRM calculations.

The latest estimations of the foreign effective demand for 2015 show annual increase of 1.3%, as expected in the April projections.

On the other hand, downward correction for **2016 was made...**

...expecting that the foreign demand would equal 1.4%, compared to 1.8% in April projection...

...which is fully due to the high negative contribution of Greece, the economic growth of which has significantly been revised downwards.

The latest projections indicate a minimal downward revision of the foreign effective inflation in the current and the next year.

Thus, it is now expected that **in 2015** the foreign inflation will equal -0.1%, compared to 0% as projected in April...

...which is primarily due to the current estimations for negative price movements in Bulgaria and Slovenia.

The foreign inflation will return to positive zone **in 2016**, forecasting that it will equal 1.4%, which is by 0.1 p.p. lower than in the April assessment.

The projection for oil prices in 2015 was revised downward, with deeper expected price decrease than in the April projection ...

... as a result of the higher production in OPEC countries, the mounting stocks and the slowdown of the economic activity in China.

Also **in 2016**, a downward correction of the oil price was made, expecting significantly lower price growth than in April projection.

The latest estimations point to worsened outlook regarding the movement of metal prices on world markets.

Thus, now it is expected **that in 2015 the price of nickel will register deeper fall** compared to the April projection ...

...in conditions of significant inventories and deceleration in the Chinese industrial activity.

The estimations for slower growth in demand from China, as well as for existence of adequate supply contributed to the downward revision also of the **price of copper in 2015**, now envisaging its decrease instead of April projection for growth.

It is estimated that in 2016 the price of nickel will further decrease with intensified dynamics compared to April, while **the price of copper will once again register a decrease**, in comparison with the April growth projection.

The projection for 2015 points to significant fall in the wheat price, as opposed to April projection for slight rise...

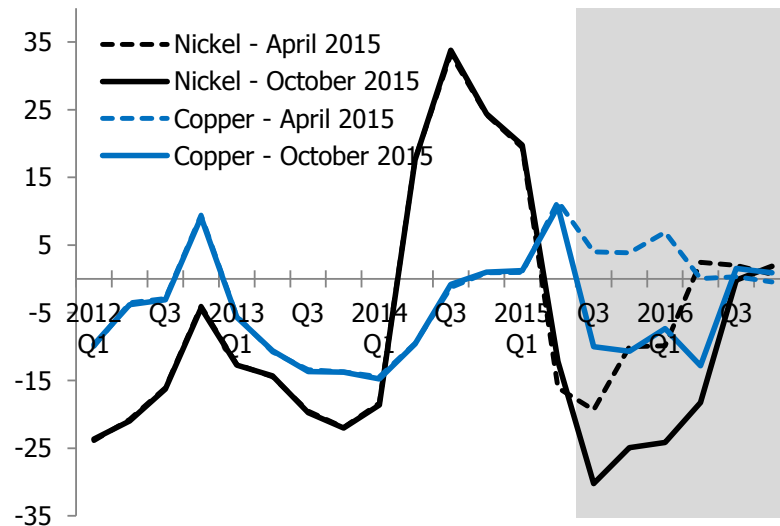
...which is mostly due to the registered higher realized yields than expected in the EU, Russia and Ukraine, as well as improved production prospects in Australia³.

In addition, **the price of corn was revised downwards**, now expecting its smaller rise...

...mostly as a result of the expectations for higher production in USA, as the largest world exporter of corn.

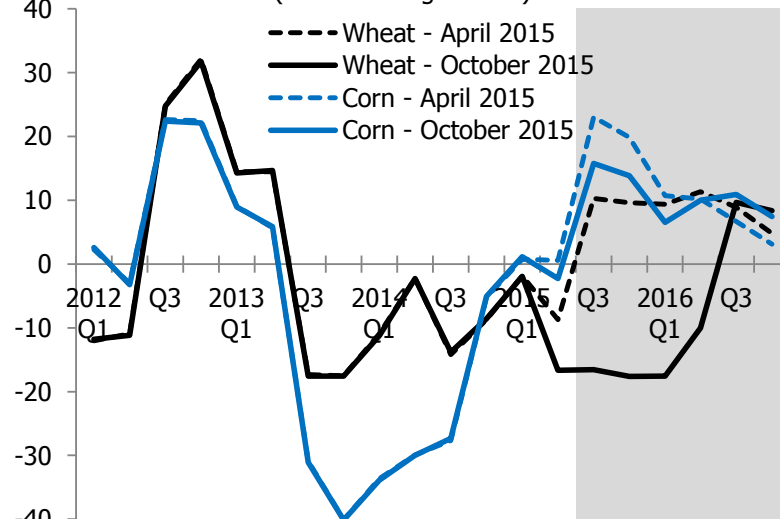
In 2016, it is expected that the price of wheat will continue to decrease, compared to growth projected in April, contrary to **the price of corn** which envisages slightly higher growth than in April.

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



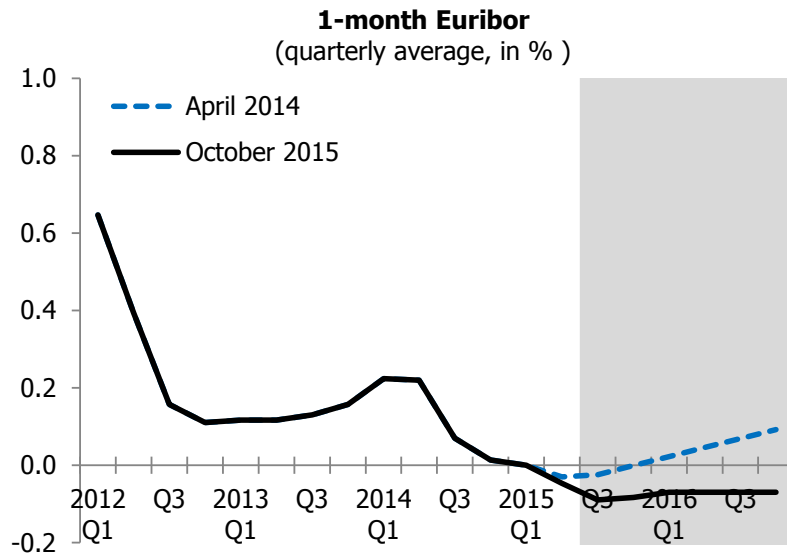
Source: IMF and NBRM calculations.

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



Source: IMF and NBRM calculations.

³ Source: FAO.



The assessment of the level of foreign interest rate registers downward deviation compared to the April projection ...

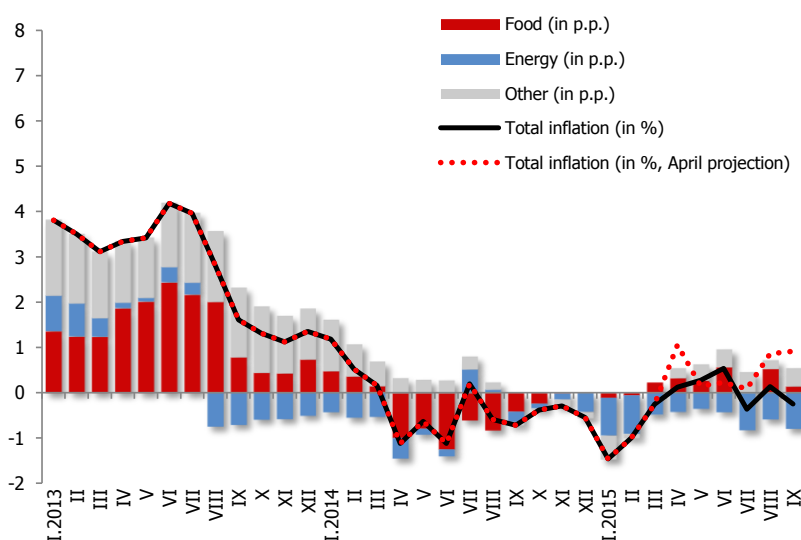
... estimating that it will be negative during the entire period and that it will equal -0.06% and -0.07% in 2015 and 2016, contrary to -0.01% and 0.06%, respectively, as it was expected in April...

...which is a result of the accommodative monetary policy, that is currently applied by ECB.

Source: "Consensus Forecast" and NBRM calculations.

Inflation rate

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



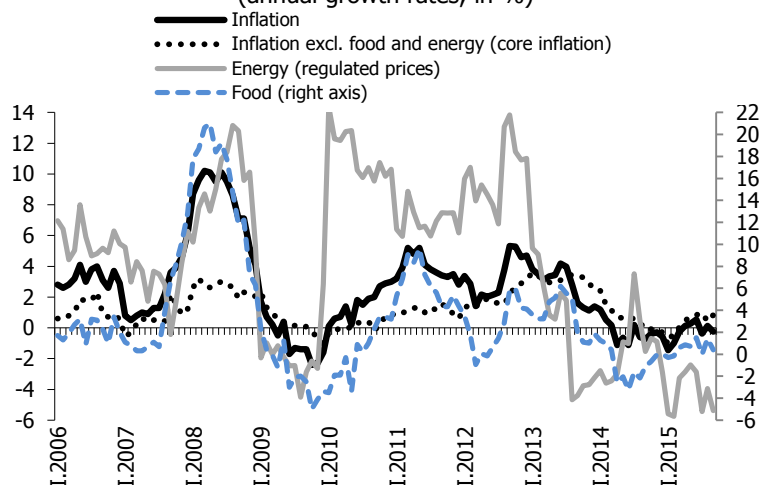
Source: SSO and NBRM.

In September, the consumer prices went down by 0.3% on a monthly basis, as opposed to the previous month, when they remained unchanged⁴....

... amid lower food and energy prices, while the core inflation grew.

Inflation and volatility of food and energy

(annual growth rates, in %)



Source: State statistical office and NBRM calculations.

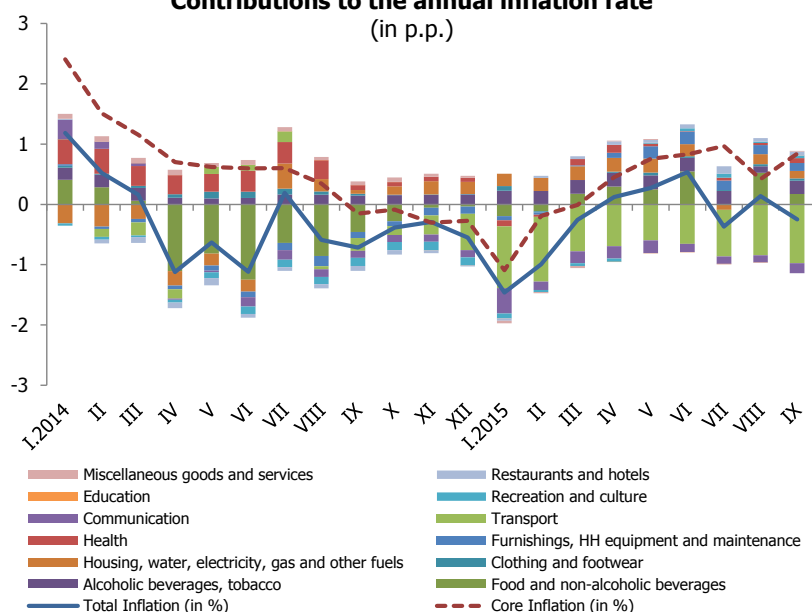
The monthly price drop affected the annual inflation rate which contrary to the increase in the previous month, in September was negative and equaled -0.2% ...

...representing a downward deviation compared to the expected rate of inflation in the April cycle projection...

... due to the decrease in the prices of energy (opposite to the expectations for their growth), with certain contribution of the somewhat smaller increase in the food prices. The movements with the core inflation in September are consistent with the projection.

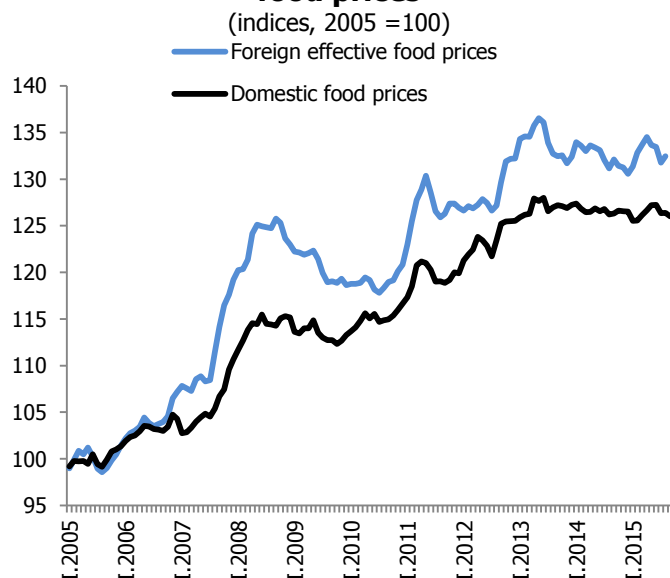
⁴ Categories with the greatest individual contribution to the August price level include vegetables (monthly price increase of 17.7%), fruits (monthly price decrease of 10.2%), and liquid fuels and lubricants (monthly price decline of 3.7%).

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



Source: SSO and NBRM.

Foreign effective food prices* and domestic food prices
(indices, 2005 = 100)



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

Source: State statistical office, Eurostat and NBRM calculations.

In September, the core inflation accelerated by 0.5% (versus the decrease of 0.7% in August)...

...which conditioned also an acceleration of the annual growth rate (from 0.4% in August to 0.8% in September).

Regarding the structure of core inflation, the September growth was largely driven by higher prices of home maintenance products, tobacco (due to higher excise duties⁵), clothings, as well as higher catering services.

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

Thus, the latest projections for prices of **internationally traded primary food products** (expressed in euro) point to a downward correction of the expected movements according to the April projection by the end of 2015 ...

...as a result of the favorable developments on the supply side of these products (higher yields of wheat in EU, Russia and Ukraine, improved perceptions of the production of wheat in Australia⁶ and the expectations for higher production of corn in the USA).

Downward correction was registered also in the **expected oil prices** mainly due to higher production in OPEC countries, growing inventories and the uncertainty regarding the economic slowdown in China.

Minimal downward correction was also made in the **foreign effective inflation**.

Taking into account the downward deviations of the realized from the

⁵ Since 1 July 2014, cigarette excise duty has been increasing (Denar 0.15 per cigarette) and it is intended to gradually increase each year, while starting from 1 July 2016 (until 1 July 2023), the excise duty will increase by Denar 0.20 each year.

⁶ Source: FAO.

projected rate of inflation in recent months and the downward correction of expectations for input assumptions regarding assumed in the April projection, **risks regarding the inflation projection for 2015 are assessed as downward.**

In July 2015, the average **net wage** registered a nominal annual growth of 2.4%, which is a growth deceleration of 1.3 p.p. regarding the dynamics registered in the previous month.

Upward movement in the wages has been registered in industry and services sector...

...where, from the viewpoint of individual activities, higher increase has been registered in the wages in mining, administrative and auxiliary service activities, education, in "art, entertainment and recreation" activity, as well as in the so-called other service activities.

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

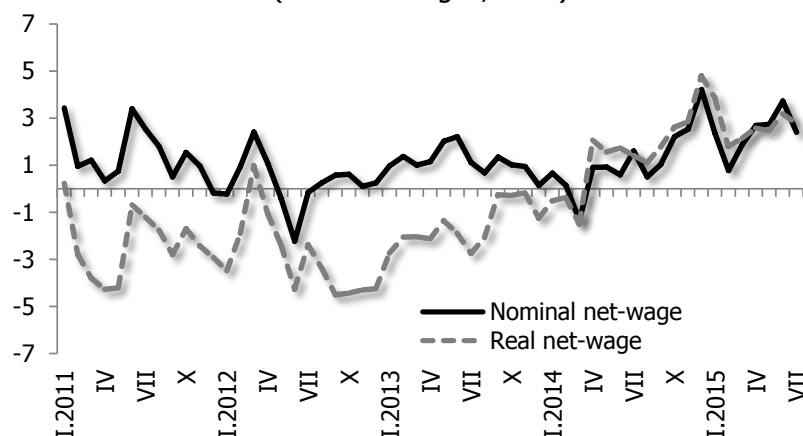
Amid small annual decrease in the consumer prices, in July, the **real wages increased by 2.8%.**

Such trends in wages are close to the expectations for the third quarter of the year under the April projection cycle (projected nominal and real annual growth of 2.5% and 2%, respectively).

In the second quarter of 2015, the real annual economic growth was 2.6%, which is slightly lower rate than the expected one in the April projection (2.9%).

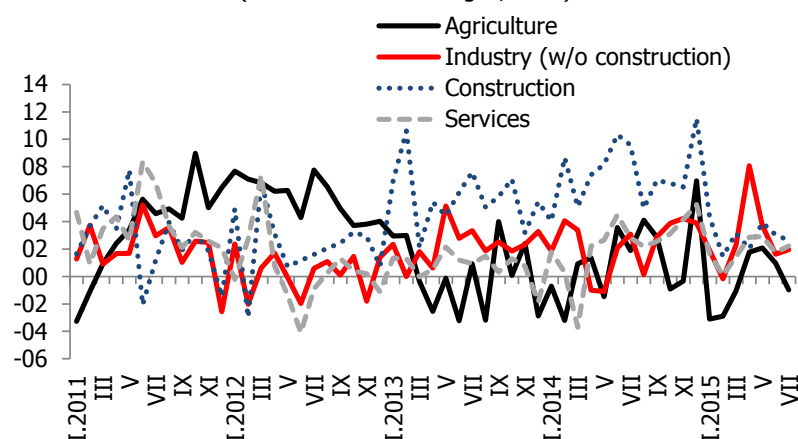
On the **production side**, favorable movements were registered in almost all economic sectors, with the trade, transport and tourism and construction sector making the highest contribution to

Average net-wage
(annual changes, in %)



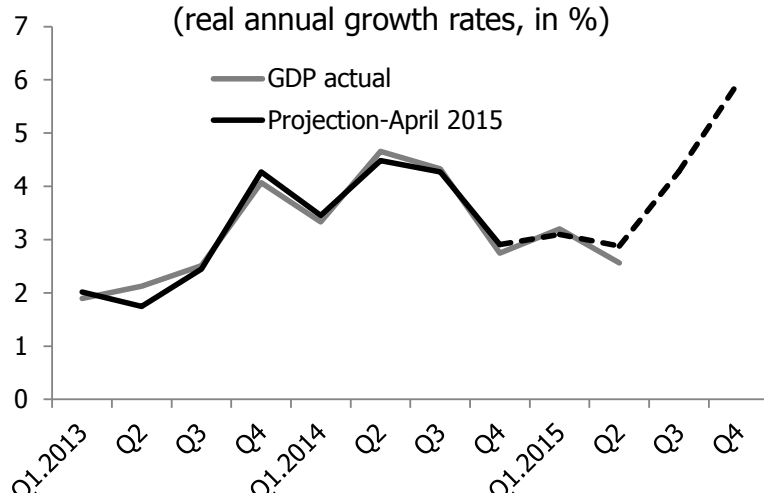
Source: SSO.

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



Source: SSO.

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



Source: SSO and NBRM projections.

the economic growth...

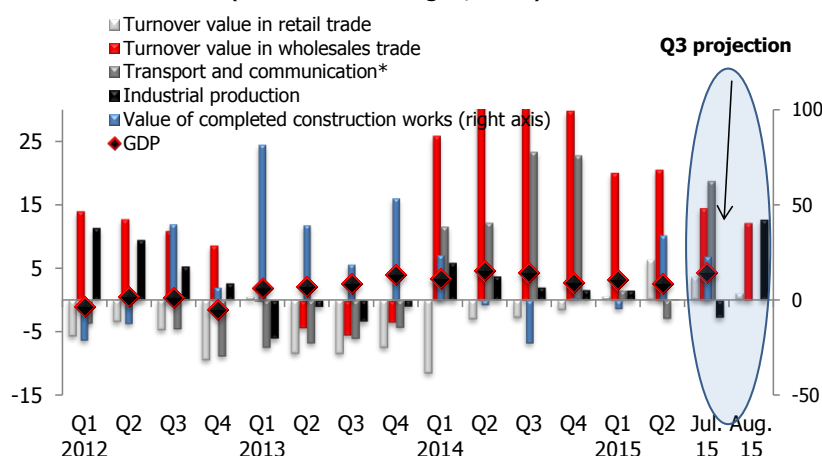
...while **in terms of demand**, the increase in GDP was due to the growth in exports and higher consumption (growth of private and public consumption), which is simultaneously followed by a rise in imports ...

... while the gross investments plunged.

The high frequency data for the third quarter of 2015 indicate growth in the domestic economy, given the ongoing positive performance in most economic sectors.

The industrial output in the period July - August 2015 had an average growth of 4.3% given the production growth in mining, manufacturing industry and energy sectors.

Economic activities (real annual changes, in %)



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

Within manufacturing industry, the increased production of the facilities in technological and industrial development zones (primarily the production of machinery and equipment) had the highest contribution to the growth, with significant increase also being registered in the production of clothing.

Within the period from July to August, the growth in the **trade** turnover continued, given higher turnover registered in the wholesale and retail trade (although at a slower growth pace compared with the previous quarter), as well as in the trade in motor vehicles.

The data on the situation in **catering** (relatively high growth in the number of tourists and overnight stays in July), **the transport sector** (favorable trends in indicators related to rail road) and **construction** (continuation of the double-digit growth in the value of completed construction works in July) are also directed towards support of the economic growth in the third quarter.

Available indicators of aggregate demand mostly point to economic growth in the third quarter of 2015,

which is consistent with the expectation in the October projection.

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

...given the annual rise in real wages and pensions paid, at a similar pace as in the previous quarter, higher social transfers from the state and growth in private transfers (as opposed to a decline in the previous quarter) ...

...as a moderate growth acceleration in lending to households.

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

Most of the available short-term indicators of **investment activity** point to a moderate annual growth of investments in the third quarter of 2015 ...

... amid solid growth of credit activity to the corporate sector and foreign direct investments ...

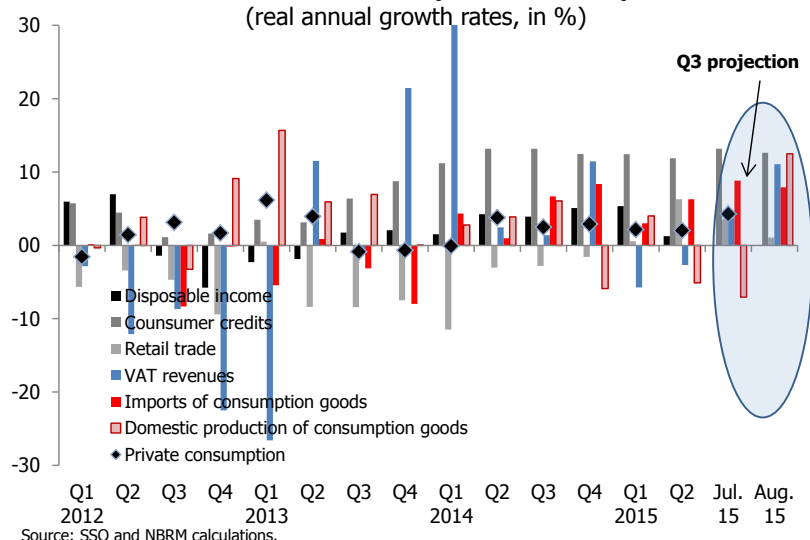
... further growth in the domestic production of capital goods, the import of investment products and intensified construction activity.

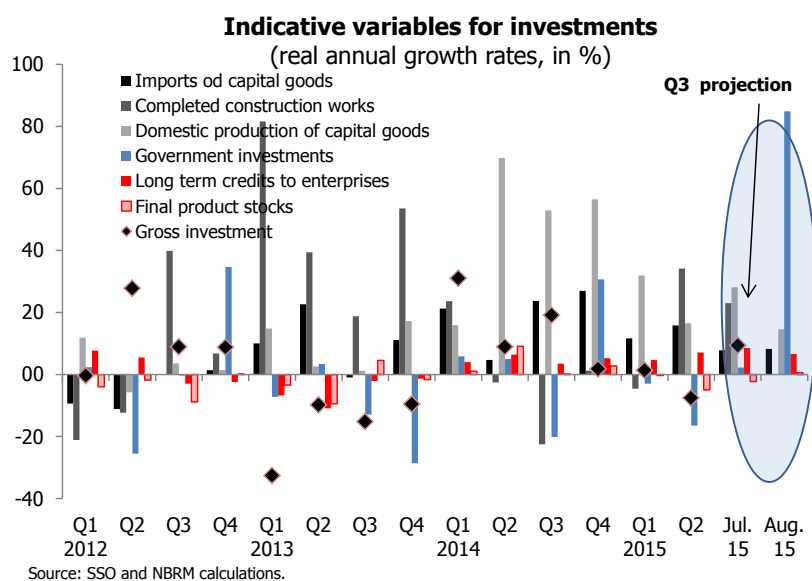
In addition, the data on the first two months of the third quarter point also to the rise in the government capital investments, as opposed to their drop in the preceding quarter.

The only indicator which registers unfavorable movements in the third quarter are the inventories of finished products, which registered a decrease.

Nominal data on **foreign trade in goods** as of August 2015 show certain narrowing

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





of the trade deficit, which is in line with the April projection ...

...with higher growth in exports compared to the increase in imports.

Budget performances in the first two months of the third quarter of 2015 indicate an increase in **public consumption**, in line with the expectations in the April projection ...

...with high real growth of expenditures for goods and services, as well as higher transfers for health care⁷ and increased costs for salaries for the employees in the public sector.

⁷ Most of these assets relate to expenditures for goods and services.

During July and August, **foreign trade deficit slightly narrowed by 0.9% annually**, in conditions of faster exports growth compared to the increase in the import component ...

... which is in line with the expectations from the April projection.

Exports of goods in July and August registered an annual growth of 1.4%, predominantly driven by the improved export performance of some of the new export-oriented facilities.

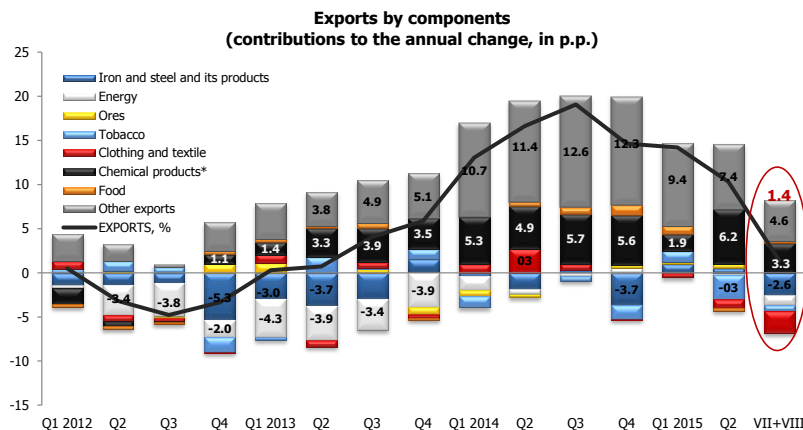
On the other hand, exports of the traditional export sectors recorded an annual decrease, particularly evident in the export of metal and textile industry. In addition, decrease in other exports was also registered.

Compared with the April projection, the exports in July was slightly lower than expected, with these deviations being especially evident with the other export and the export of textile and iron and steel, despite the improved export performance of some of the new export-oriented facilities.

During July and August **the import of goods** recorded a small annual growth of 0.7%, due to higher import of raw materials by the new capacities in the economy, and to a lesser extent the import of machinery and equipment, consumer goods and food...

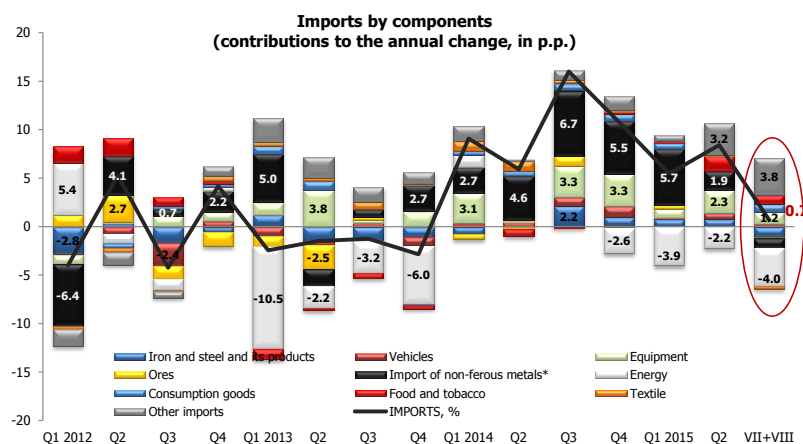
...contrary to the import of energy and iron and steel, which registered an annual drop.

Import performance in July and August are lower than the expected movements in the third quarter according to the April projection. Analyzed by individual categories, the most significant downward deviation was registered in the energy component of the imports, with additional downward deviations being registered in imports of raw materials by textile and metal industries, as well as import of



Source: NBRM.

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

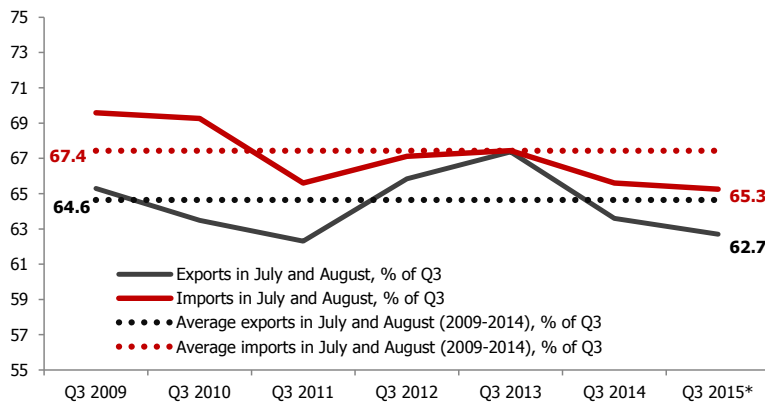


Source: NBRM.

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

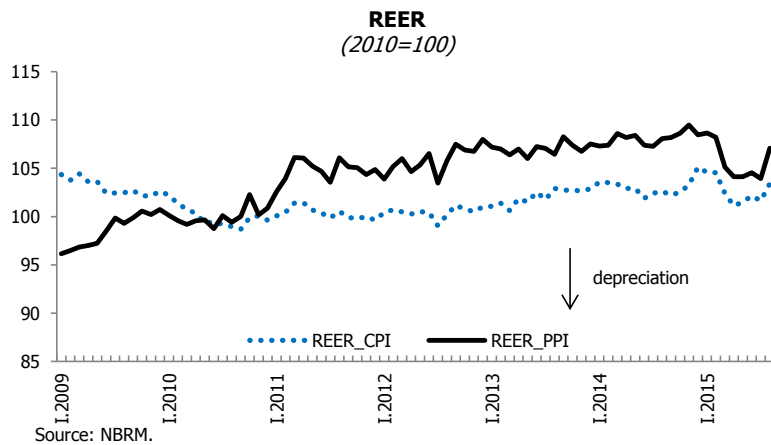
consumer goods. On the other hand, higher performance than expected was registered in the import of raw materials for new facilities in the economy.

Share of exports and imports of goods in July and August relative to Q3 projection

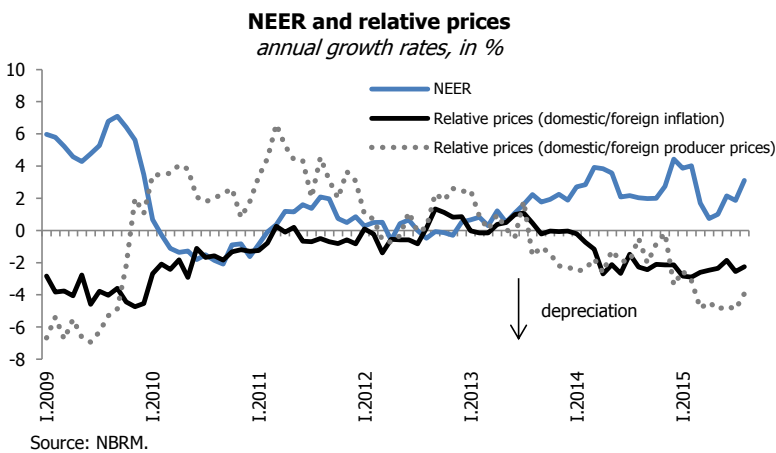
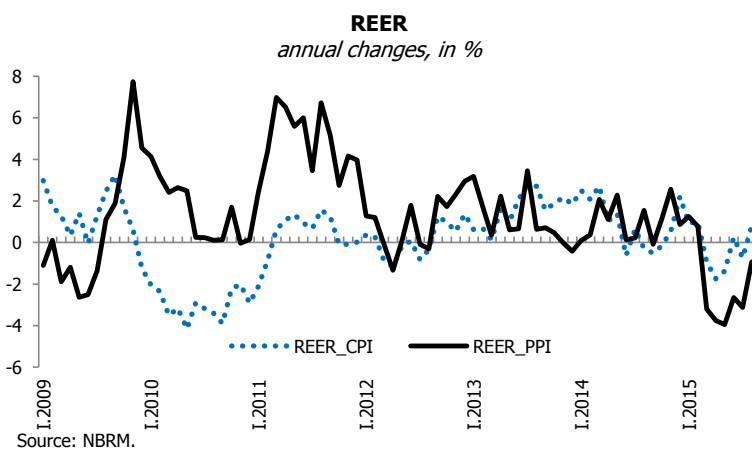


The performance of foreign trade components in July and August, indicate possibility of a trade deficit consistent to the projected one for the third quarter according to the April projection.

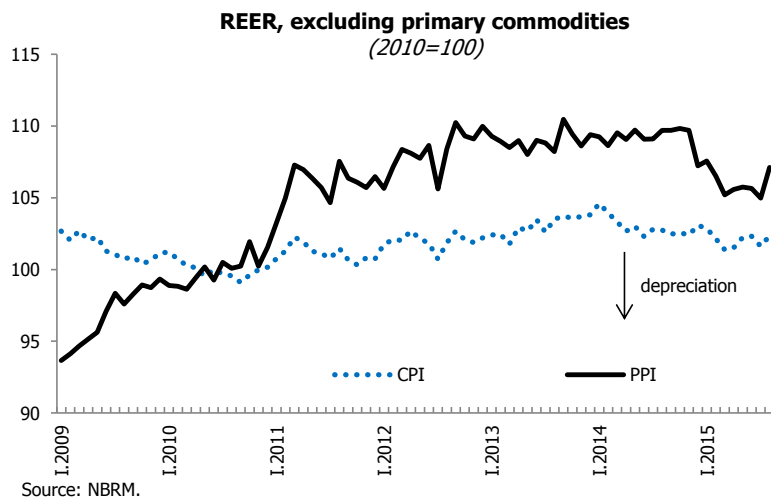
The latest estimates for the movement of oil prices expressed in euros indicate more favorable conditions in relation to the April projection, with expectations for a sharper annual decline in 2015 and slower growth during 2016. On the other hand, expectations for world prices of metals in the current and coming year are less favorable, amid assessments for greater annual decline in the prices of nickel than projected, as well as decline rather than rise in the prices of copper.



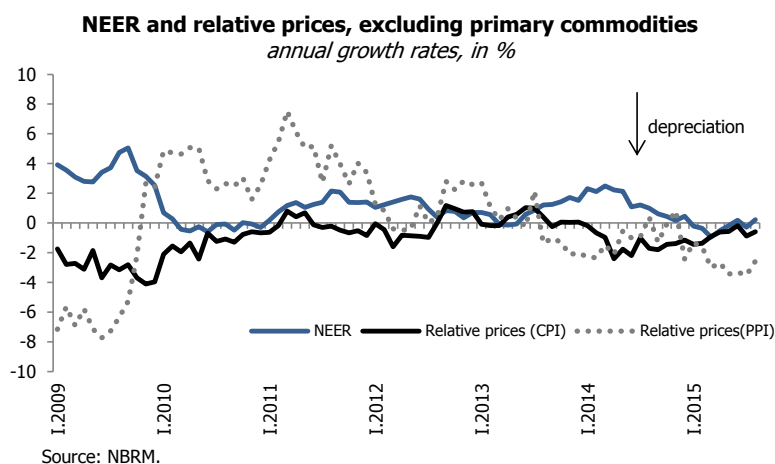
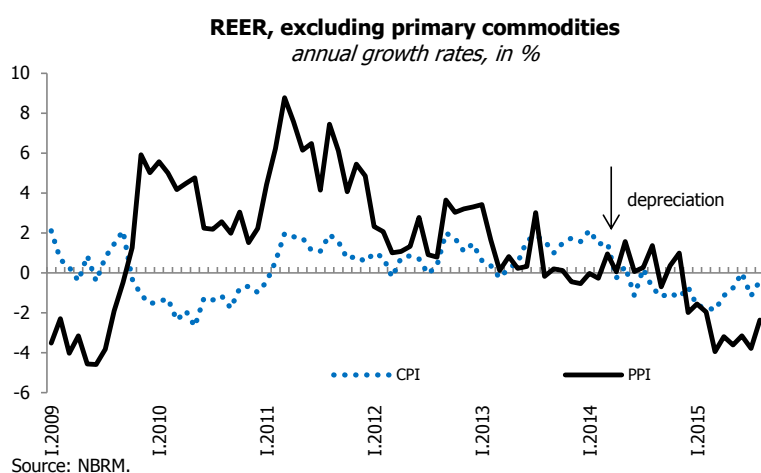
In August, the price competitiveness indicators of the domestic economy registered divergent movements compared to the same period of the preceding year. The REER index deflated by consumer prices appreciated by 0.8% and the REER index calculated by the producer prices registered annual depreciation of 0.9%, for the sixth consecutive month.



The relative consumer prices registered annual drop of 2.3%, while the relative prices of industrial products registered a decrease of 3.9%. Contrary to favorable changes in relative prices, NEER appreciated by 3.1%, due to the further depreciation of the Russian ruble, Ukrainian hryvnia, the Turkish lira and Serbian dinar against the denar.



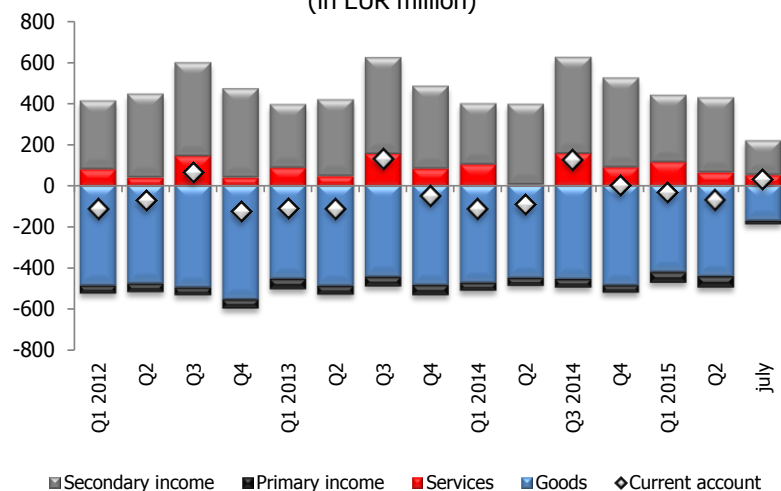
The analysis of the movement of the REER indices, as measured using weights based on the foreign trade without primary products⁸ indicates improvement in the competitiveness of domestic economy. In August, the REER based on consumer prices depreciated by 0.4%, while the REER deflated by producer prices depreciated by 2.4%.



The favorable developments are the result of the realized annual decrease in the relative prices, given slight appreciation of the NEER (of 0.2%). Compared to the same month last year, the relative consumer prices fell by 0.6%, and the relative prices of industrial products by 2.6%.

⁸ Primary products that are not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

Main components of the current account
(in EUR million)

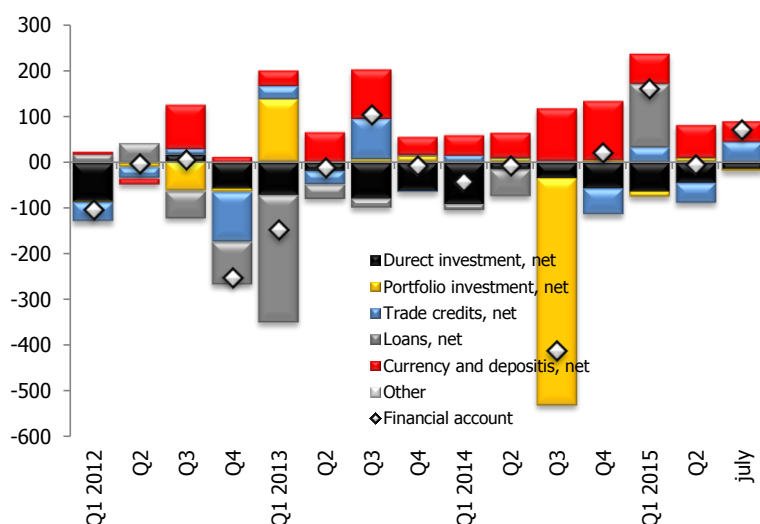


Source: NBRM.

In July 2015, the balance of payments' current account registered a surplus of Euro 31.8 million (or 0.4% of GDP), which is in line with the expected surplus for the third quarter of the year according to the April projection.

In terms of individual components, better performances were recorded in the primary income i.e. lower net outflows amid surpluses in the trade of services and secondary income remaining at the level of the projected amounts. As a contrast, the deficit in trade in goods is higher than in the April projection.

Financial account components
(in EUR million)



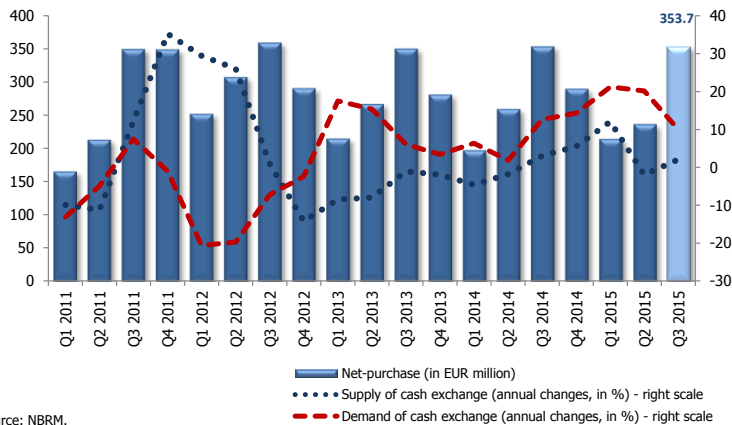
Source: NBRM.

In July 2015, net outflows in the amount of EUR 71.2 million (or 0.8% of GDP) were realized through the financial account, contrary to the expected net inflows in the third quarter according to the April projection⁹.

Such downward deviations mainly stem from loans that registered net outflows contrary to the projected net borrowing (i.e. the public sector realized net payments contrary to the anticipated net usage). On the other hand, short-term volatile flows on financial account register improved performances, i.e. trade credits registered net inflows, than expected in April projection.

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

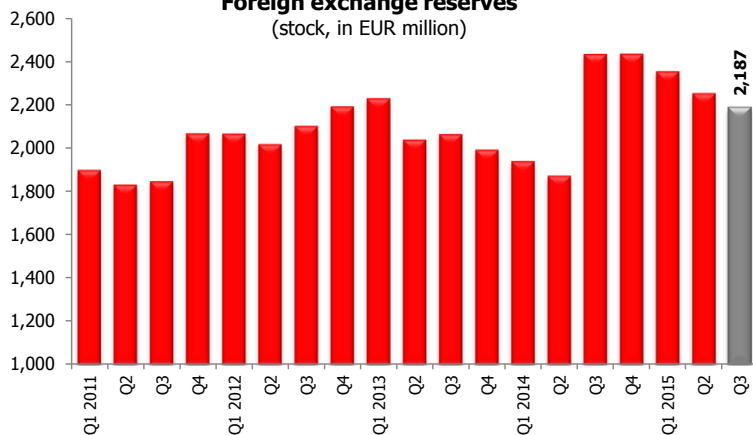
Cash exchange market



The latest data on the currency exchange operations as of September 2015 once again point to decline in the supply of foreign currency and further annual growth of demand for foreign currency on annual basis.

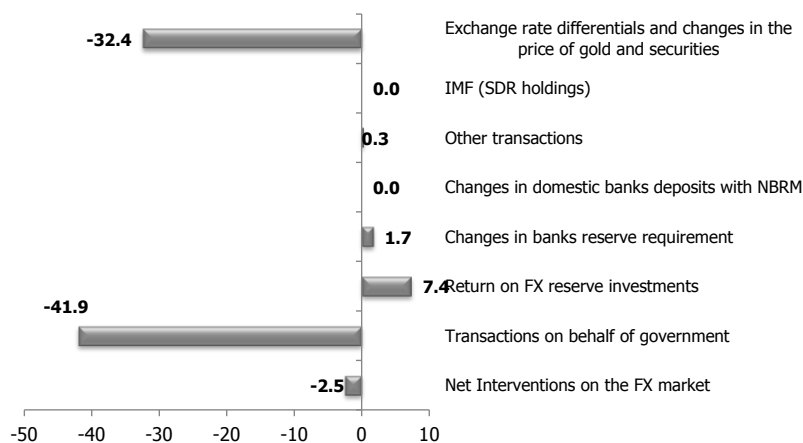
Realized net purchase on the currency exchange market in the third quarter equaled Euro 353.7 million, i.e. minimal increase of 0.2% on annual basis.

According to the latest information from currency exchange market, generated net inflows based on private transfers are higher than expected, according to the April projection.

Foreign exchange reserves
(stock, in EUR million)

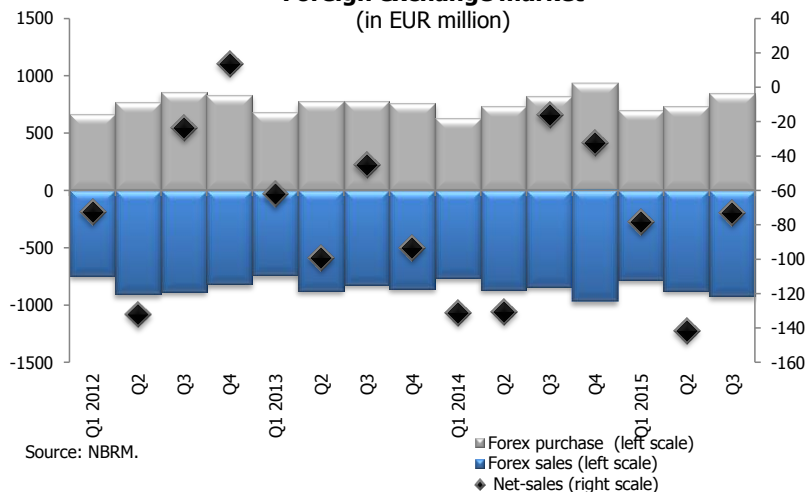
As of 30 September 2015, the gross foreign reserves stood at Euro 2,187 million, down by Euro 67.5 million compared to the end of the second quarter of 2015. The reduction in foreign reserves was mostly due to the transactions on behalf of the government (regular servicing of government liabilities - repayment of interest on the third eurobond) and negative exchange rate differentials and changes in the price of gold.

Factors of change of the foreign reserves in Q3 2015
(in EUR million)



Source: NBRM.

Foreign exchange market
(in EUR million)

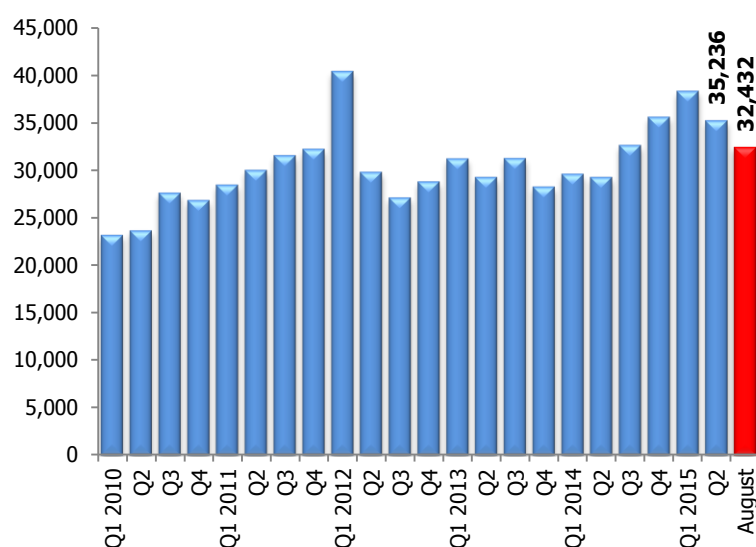


Source: NBRM.

In the period July-September 2015, the **foreign exchange market** of the banks registered a net sale of Euro 72.8 million, which is growth of Euro 57 million on an annual basis. This annual change is a result of the faster growth in the demand relative to the growth in the supply of foreign currency (of 10.1% and 3.3%, respectively).

Sector-by-sector analysis shows that such annual performances are mostly a result of the increased net sales of the companies in this period.

Monetary instruments
(in millions of denars)



Source: NBRM.

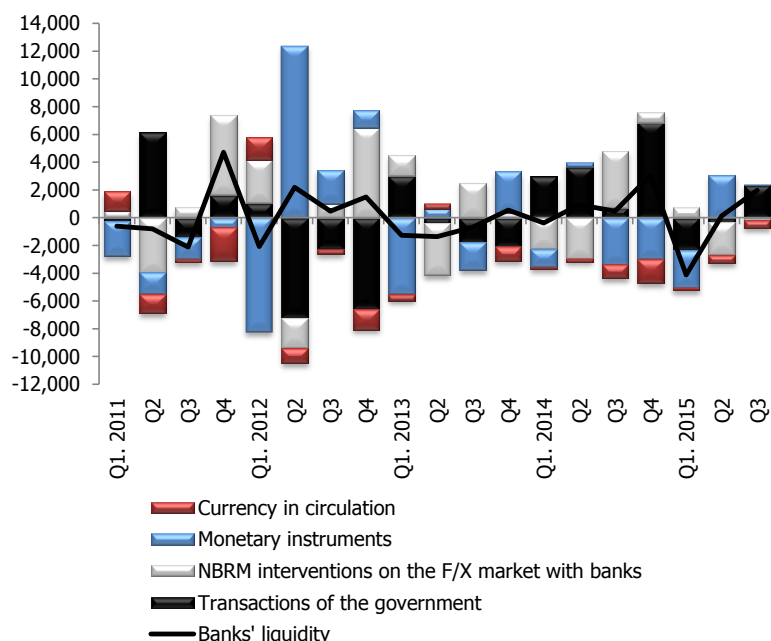
Data as of August show liquidity creation through monetary instruments relative to the end of the second quarter, versus the expected enhanced withdrawal of liquidity in the third quarter, as projected in April...

Regarding the flows of creating and withdrawing liquidity (in terms of balance sheet), in August, the NBRM net foreign assets decreased compared to the end of the second quarter, contrary to the expectations for significant increase in the third quarter. In August, the total government deposits with the NBRM dropped on a quarterly basis and influenced on creating liquidity, but in larger amount than expected for the third quarter as projected in April.

As a result of such developments, the net effect of these two autonomous factors in August was withdrawing liquidity from the system, contrary to the April projection of significant creation of liquidity for the third quarter. In addition, liquidity was withdrawn from the system through the reserve money, which in August registered higher growth than expected for the third quarter. Such deviation from this projection is a result of both higher growth of currency in circulation and to large extent, of the total liquid assets of banks than expected for the third quarter.

As a result of these movements in the major balance sheet categories, August registered significant deviation in monetary instruments compared to the April projection.

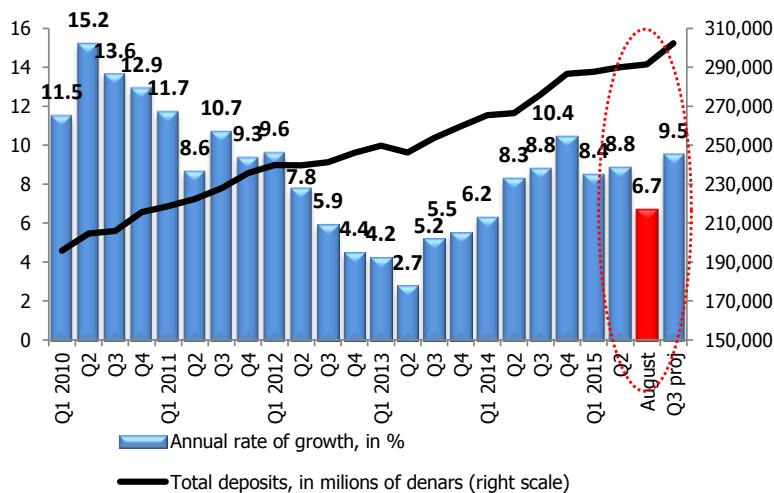
Flows of creating and withdrawing liquidity *
(quarterly changes, in millions of denars)



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

According to the latest data, in September the liquidity of the banking system fell on a monthly basis. From the viewpoint of factors, the liquidity withdrawal was conducted through the monetary instruments of NBRM, mainly through the deposit facilities with 7-day maturity, and less through the central bank bills and overnight deposit facilities. The government transactions and the currency in circulation acted towards creation of liquid assets, while the foreign exchange transactions of NBRM had neutral effect on the liquidity in September (in September, the NBRM failed to realize transactions with the market makers).

Total deposits

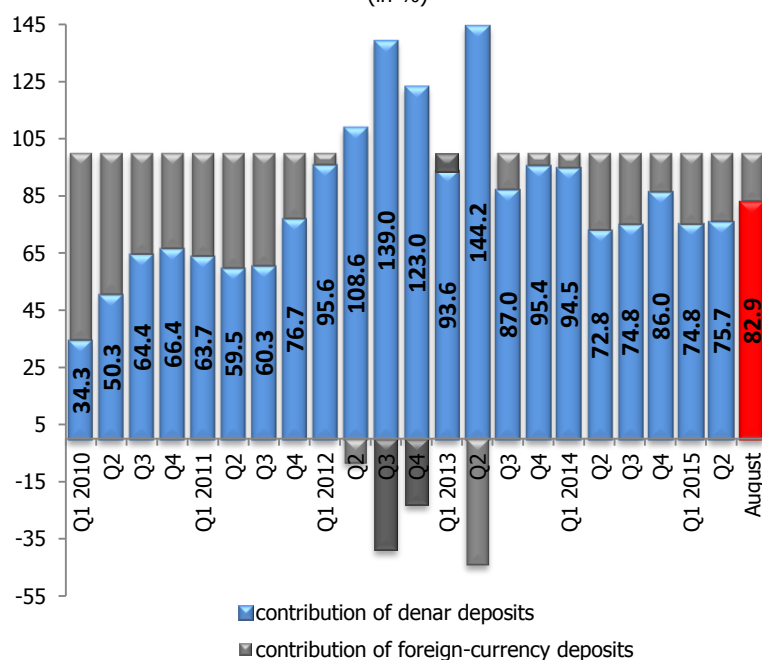


*Includes demand deposits
Source: NBRM.

In August, the total deposits registered monthly rise, as opposed to the registered fall in the previous month. The growth of the deposit base as a whole arises from higher corporate deposits in moderate decrease of household deposits.

The annual growth rate of the total deposits at the end of August, equaled 6.7%, which is below the projection for the third quarter of 2015 (projected annual growth of 9.5%). Compared to the end of June, total deposits increased by Denar 1,477 million representing approximately 16% of the projected growth for the third quarter (Denar 9,106 million), according to the April projection. The weaker performance in the July - August period indicate likely underperformance with the projected growth of the deposit base.

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

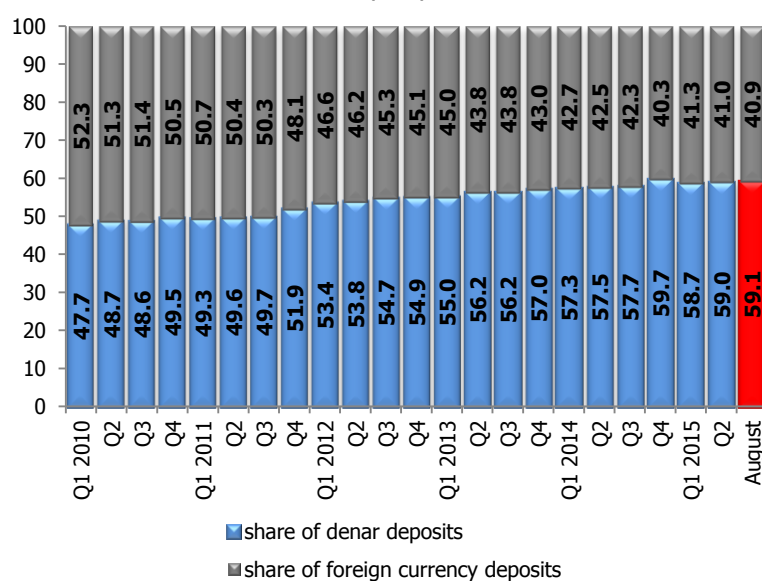


The annual rise in the total deposits is still mostly a result of the growth of denar deposits amid moderate positive contribution of foreign currency deposits. Moreover, there was slight decrease in the annual contribution of foreign currency deposits compared to the previous month ...

Source: NBRM.

*Includes demand deposits.

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

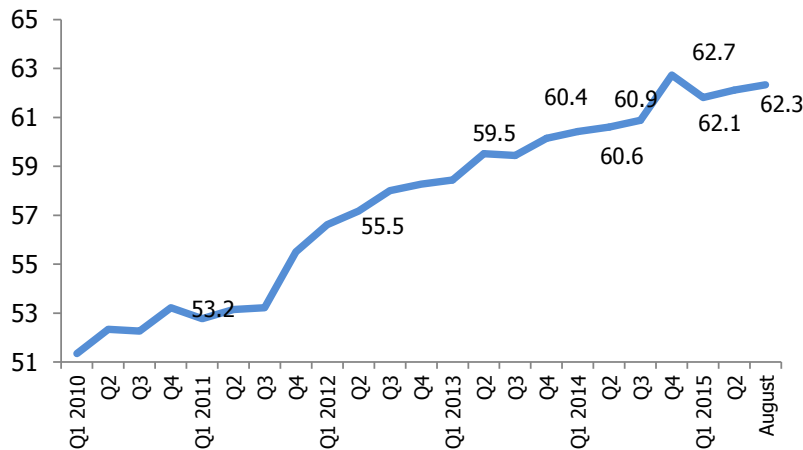


... which contributed towards maintenance of stable currency structure of the deposit base.

Source: NBRM.

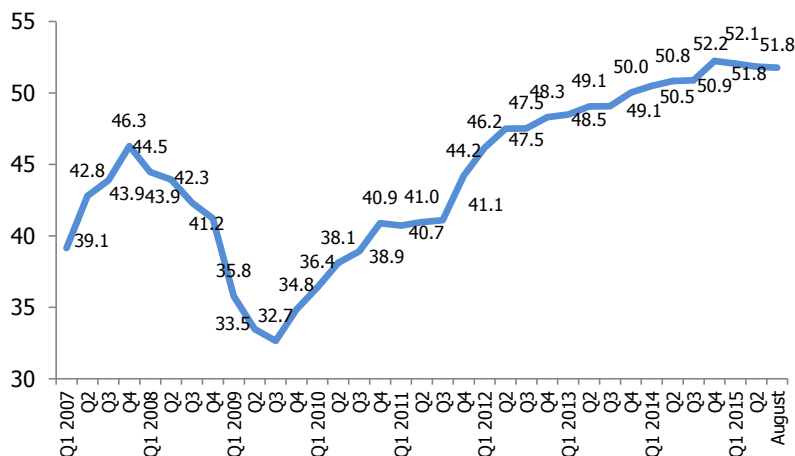
*Includes demand deposits.

Share of denar M4 in total M4
(in%)



Source: NBRM.

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

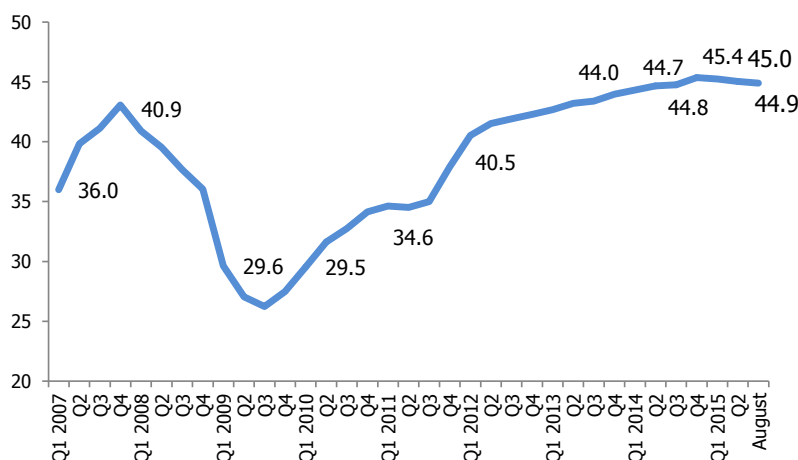


Source: NBRM.

*Includes demand deposits.

During August, total household deposits decreased on a monthly basis, after the increase registered in the previous month. The monthly decline is entirely due to the reduction of deposits in domestic currency (mainly through the reduction of demand deposits), with a small increase in foreign currency deposits. As a result of such movements in August, there was a slight decrease in the share of Denar deposits in the total deposits to 51.8% from 52.1% in the previous month.

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

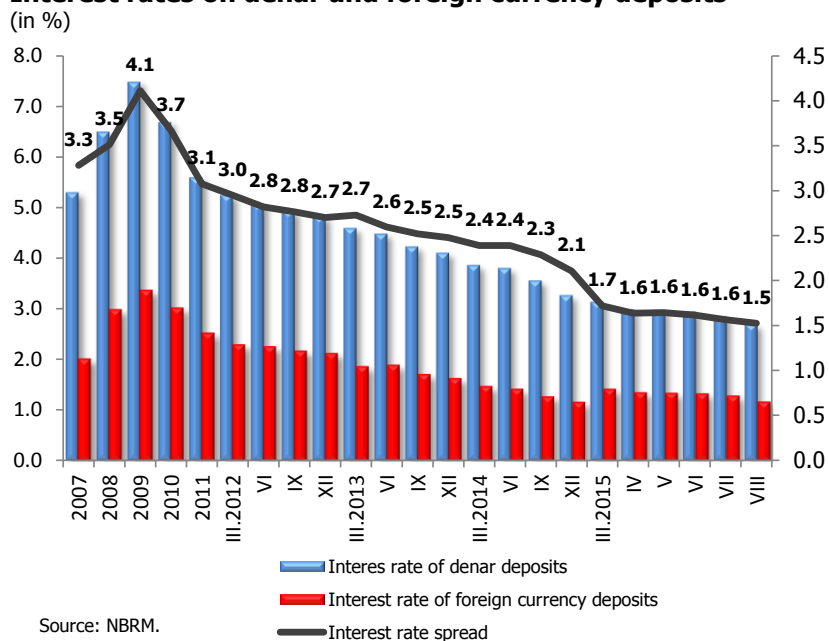


Source: NBRM.

*Without demand deposits.

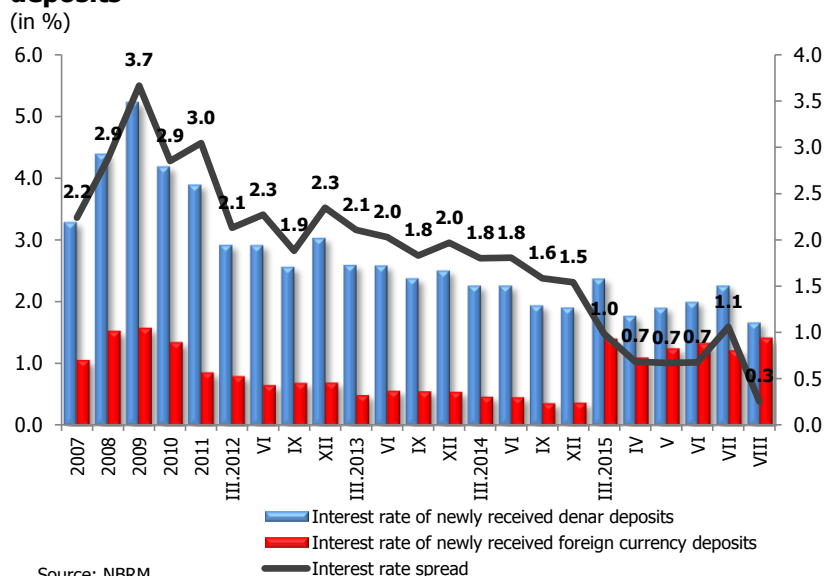
The total household deposits (excluding demand deposits) continued to experience a slight decline on a monthly basis, the fifth consecutive month, due to the monthly drop in the denar deposits, given an increase in foreign currency deposit.

Interest rates on denar and foreign currency deposits



In August, the interest rate spread between denar and foreign currency lending interest rates¹⁰ registered minimal narrowing as a result of the simultaneous decrease in both interest rates, with more intensive fall being registered with the denar interest rate. Interest spread of new deposits has narrowed significantly, as a result of the decrease of the interest rate on denar deposits given moderate rise in foreign currency deposits. However, it should be taken into consideration that the interest rates on new deposits are characterized with variable movements¹¹, which can result in frequent and temporary adjustments of the interest spread.

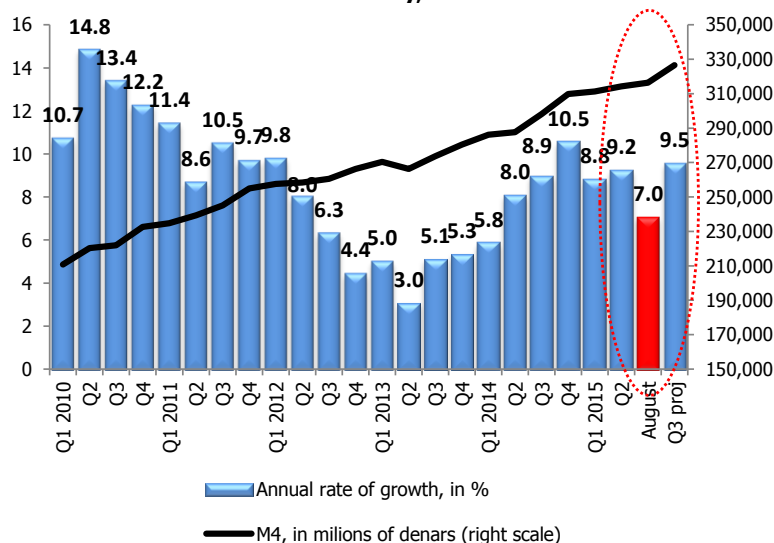
Interest rates on newly accepted denar and foreign currency deposits



¹⁰ 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 visit <http://www.nbrm.mk/default.asp?ItemID=29C1C73ED1A4B745B70EE9C3E423029A>

¹¹ Volatility of interest rate on newly accepted deposits results from the fact that they are driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.

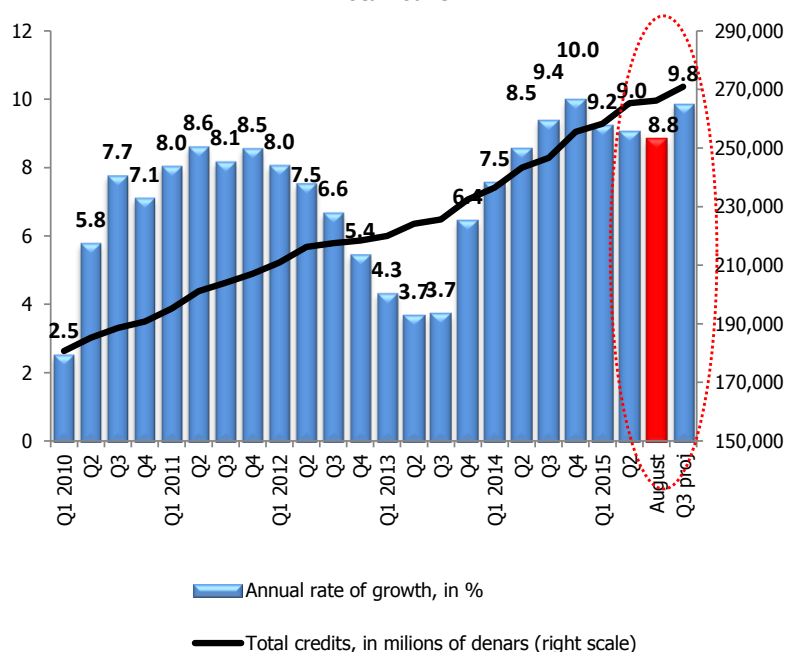
Broad money, M4



Source: NBRM.

In August, the broadest money supply increased on a monthly basis, contrary to the fall registered in the previous month. The registered growth can fully be explained with the widening of the deposit base, given a decrease the currency in circulation. On annual basis, the monetary growth equals 7%, which is below the projected rise of 9.5% for the third quarter of 2015. If compared to June, the money supply is higher by Denar 2,274 million, which equals about 23% of the projected growth for the third quarter (of Denar 9,716 million). The weaker performance during July - August period, indicate possible underperformance with the projected monetary growth for the third quarter, as in April projection.

Total loans

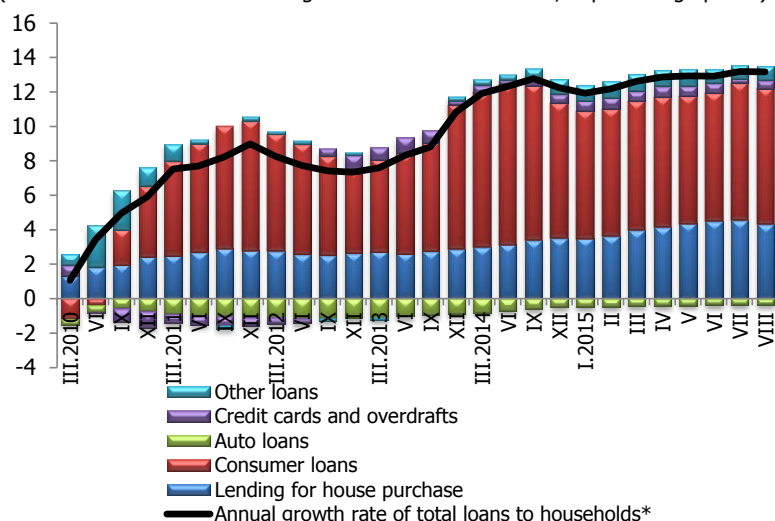


Source: NBRM.

The total loans continued to rise also in August, with relatively slower growth dynamics as in the preceding month. The registered increase fully arises from the monthly increase in household loans, while the corporate loans are falling for the second consecutive month.

Loans of banks and savings houses extended to households

(contribution to the annual change of loans to households*, in percentage points)

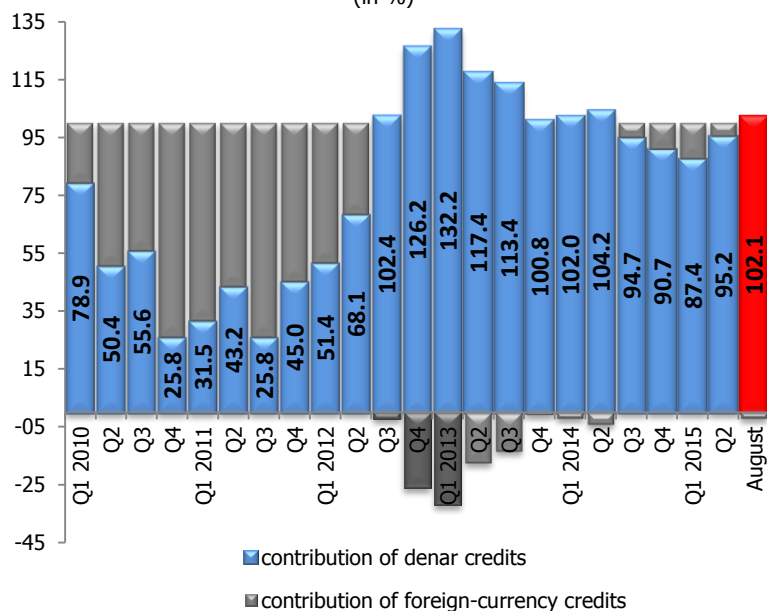


The total growth rate of the total loans at the end of August equals **8.8%**, which is below the projected annual increase of **9.8%**, for the third quarter of 2015. As of June, the total loans registered a growth of Denar 904 million, which is about 15% of the projected growth for the third quarter, according to the April projection.

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

Contribution of denar and foreign currency loans to the annual growth of total loans

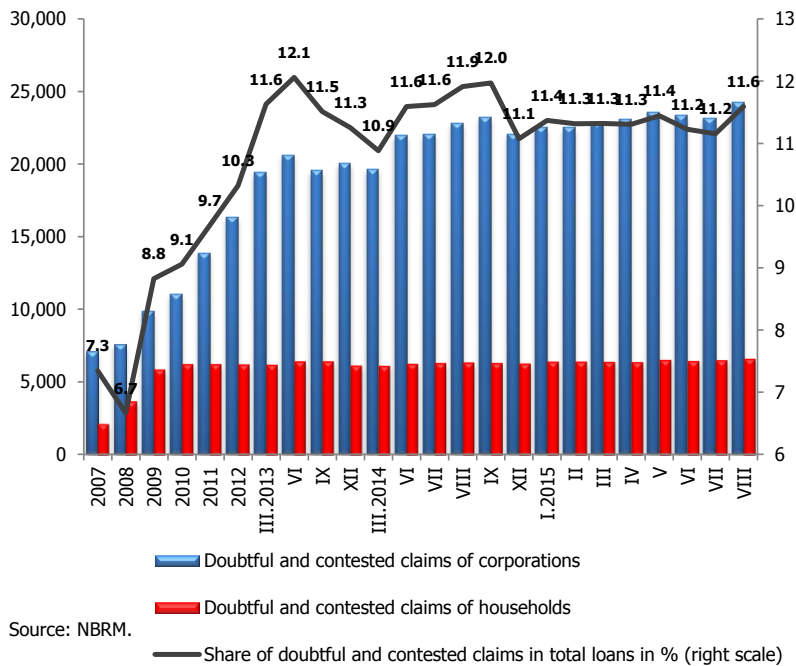
(in %)



The annual increase of the total loans solely stems from the increased denar loans, while the foreign currency loans registered annual fall.

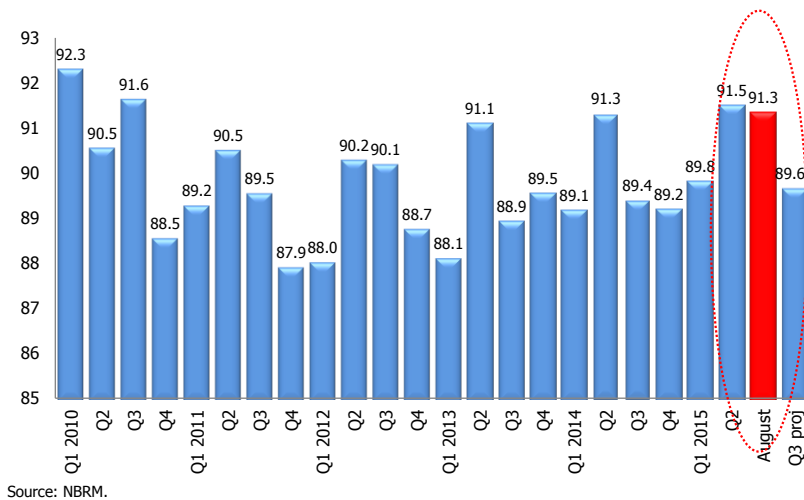
Source: NBRM.

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



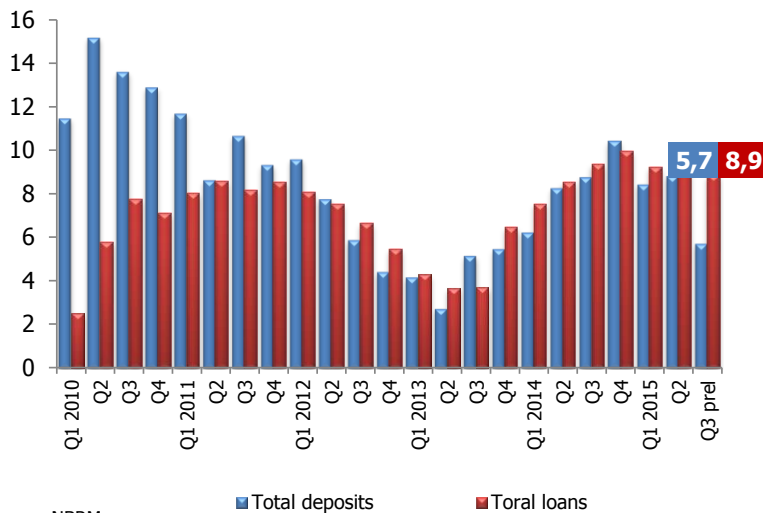
During August, the share of doubtful and contested claims in the total loans recorded a slight increase compared to the previous month, mainly due to the growth in doubtful and contested claims of the enterprises and small growth in population. On an annual basis, the total non-performing loans further increased, registering moderately higher intensity compared to the preceding month.

Loan-deposit ratio, in
(in %)



The utilization of the deposit potential in lending to the private sector at the end of August registered no larger changes compared to the end of the second quarter. The registered ratio indicates higher utilization of deposits for lending compared to the expectations for the third quarter, according to April projection.

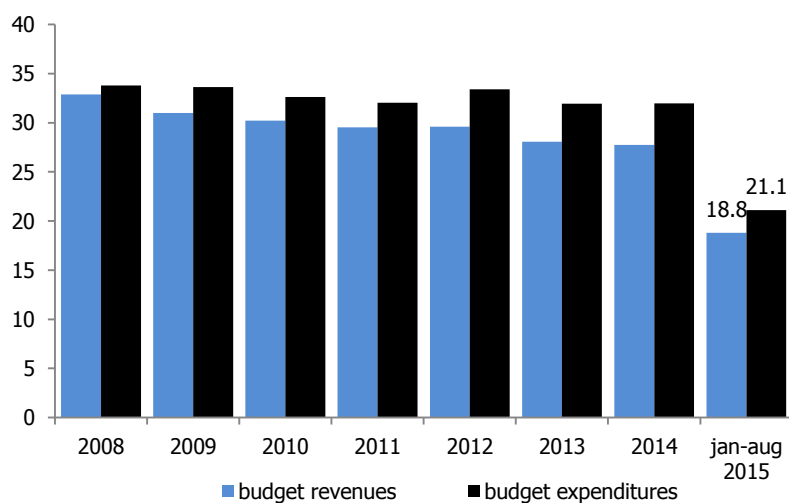
Total deposits and loans
(annual growth, in %)



Source: NBRM.

According to preliminary data in September 2015, the total deposits continued to grow on a monthly basis, but significantly less intensive than in the previous month (from 1.5% in August to 0.1% in September). The increase in the total deposits is a result of the rise in the household deposits (most of them in foreign currency), as well as the deposits of other financial institutions. The total corporate deposits in September registered moderate drop, contrary to the increase in the previous month. Regarding the credit market, the preliminary data as of September indicate moderate acceleration of the credit growth. Thus the total loans in September registered monthly growth of 0.9%, compared to 0.2% in the previous month. Analyzed by sectors, credit growth has been registered with both sectors, which follows the monthly drop of the corporate loans in the previous two months. On annual basis, in September the total deposits and the total loans went up by 5.7% and 8.9%, respectively.

Budget revenues and expenditures
(in % of GDP)



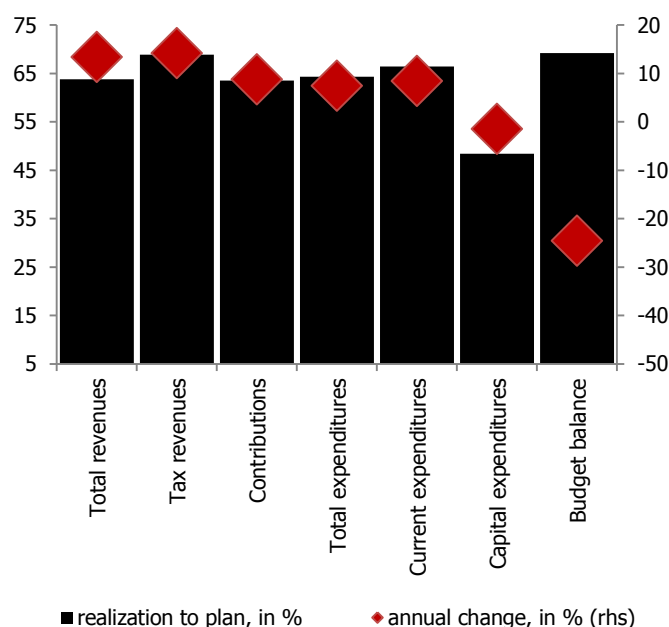
Source: Ministry of Finance and NBRM's calculations.

In the period January-August 2015, the Budget of the Republic of Macedonia (central budget and budgets of funds) generated total revenues of 18.8% of GDP¹² which is higher compared to the previous year (17.5% of GDP). Analyzed in nominal terms, in this period, budget revenues increased by 13.4% annually, mainly resulting from higher profit tax. Moreover, there is an annual growth of inflows from excise duties and from income tax, while inflows from VAT registered an annual decline.

Total budget expenditures in January-August 2015 period amounted to 21.1% of GDP, which is slightly above the level of budget expenditures incurred in the same period last year (20.7% of GDP). In nominal terms, as of July, budget expenditures were by 7.5% higher compared to the same period last year, which is driven by the higher current expenditures, while the capital expenditures registered slight annual fall.

Implementation of the budget (central budget and funds)

Jan-Aug 2015



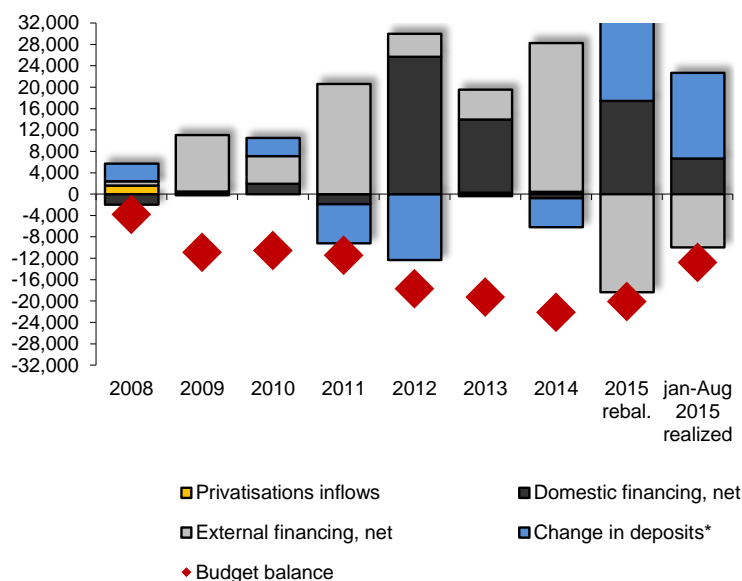
* With respect to the Budget plan for 2015.
Source: Ministry of Finance.

In the period January-August, the realized budget revenues and expenditures constituted 62.4% and 62.5% of the revenues and expenditures projected for the entire 2015, respectively, under the Budget Revision for 2015¹³. Analyzed by certain categories of tax revenues, the highest realization was recorded in inflows of profit tax (of 85.6%), largely because of legislative changes which abolishes anti-crisis measure of non-taxation of retained earnings. Then excises follow (with realization of 67.3%), while slower dynamics was registered with inflows on the basis of import duties (of 56.8%). Regarding other tax categories, the realization equals about 60%. Observing individual categories of expenditures, as of August, there is a higher execution of current expenditures (64.7%) compared to capital costs (46.2%).

¹² The analysis uses the NBRM April projections for the nominal GDP for 2015.

¹³ In August 2015, the Parliament of the Republic of Macedonia passed the Budget Revision for 2015.

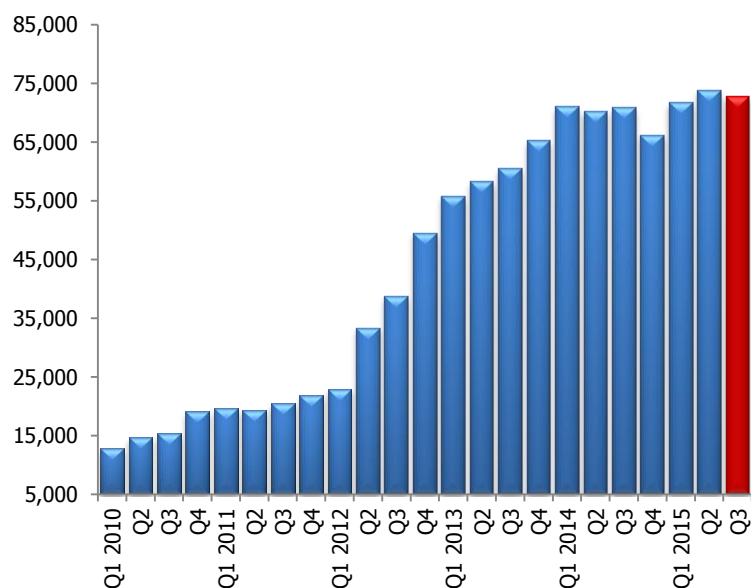
Financing of the budget balance
(in millions of denars)



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

According to the latest available data, in August, the Budget of the Republic of Macedonia registered a deficit of Denar 1,703 million. The deficit was financed from domestic sources through the withdrawal of deposits from the government account with the NBRM and the issuance of government securities on the domestic market. Since the beginning of 2015, the budget deficit amounted to Denar 12,804 million (or 2.3% of GDP¹⁴), representing 63.6% of the projected budget deficit for 2015, according to the Budget Revision. In terms of its financing, in the period January-August, the budget deficit was financed through the government deposits with the NBRM and by additional issuance of government securities.

Stock of total government securities
(in millions of denars)

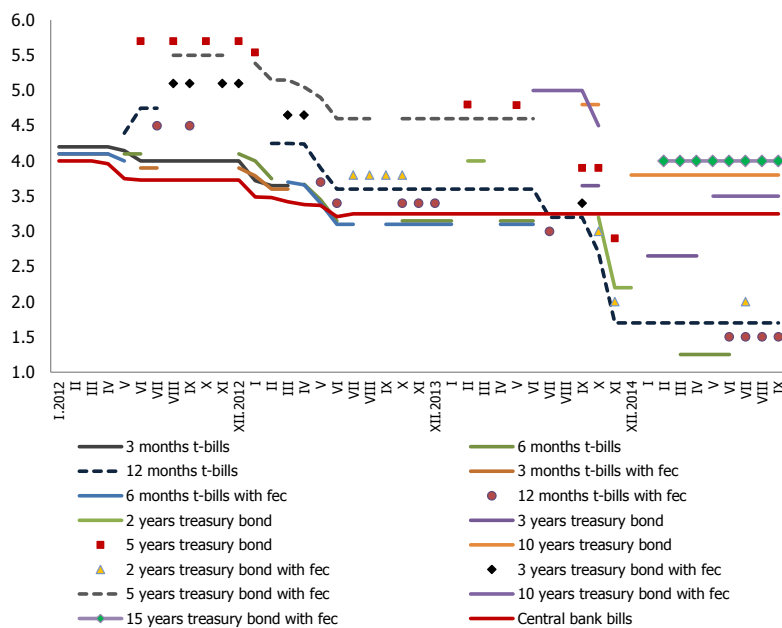


Source: NBRM.

The stock of government securities on the domestic market at the end of September amounted to Denar 72,724 million. Compared to the end of the second quarter, government securities dropped by Denar 1,093 million. On a cumulative basis, net amount of Denar 6,562 million of government securities has been issued since the beginning of 2015.

¹⁴ According to the latest NBRM projection for the nominal GDP.

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



Interest rates on treasury bills offered at the auctions held in September amounted to 1.25% for the six-month treasury bills, as well as 1.5% and 1.7% for the 12-month treasury bills, with and without currency clause, respectively. Interest rates on government bonds ranged from 2.7% for the 3-year government bonds and 3.5% and 3.8% for the 10-year government bonds with and without foreign currency clause, respectively, up to 4% for the 15-year government bonds with foreign currency clause. Interest rates on government securities issued in September remained unchanged compared to the auctions in the previous month.

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

January 2013

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

March 2013

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

July 2013

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

October 2013

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

November 2013

- A Decision amending the Decision on reserve requirement was adopted, which exempts the NBRM from paying reserve requirement remuneration (previously, this remuneration equaled 1% for denar reserve requirement and 0.1% for euro reserve requirement). The Decision is being applied since 1 January 2014.

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

February 2014

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

April 2014

- A Decision amending the Decision on the methodology for determining capital adequacy was adopted, introducing two amendments in the current decision that are expected to contribute positively to the credit support of the commercial banks to the corporate sector. Namely, with this Decision (and in accordance with the amendments to the new EU Regulation no. 575/2013 on prudential requirements for credit institutions and investment companies), performance guarantees or warranties that guarantee completion of works, stand out as items with low-intermediate risk, and therefore take lower conversion factor (20%), instead of 50% as it has been so far. That would mean that in the calculation of capital adequacy, smaller part of these off-balance sheet items would be treated as 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 potential¹⁵, 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

¹⁵ 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) shall cease to be effective.

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.

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.