

National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT



Recent Macroeconomic Indicators Review of the Current Situation

September 2015

Recent Macroeconomic Indicators

Review of the Current Situation - Implications for the Monetary Policy

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

The global economic environment is somewhat less favorable compared to the April projections, with continuing presence of downward risks. They stem from the economic and political developments in Greece and the slowdown in emerging economies as a new risk that further increased the uncertainty in the environment. In terms of performance, the recovery of the euro area continued in the second quarter, when a quarterly rate of GDP growth of 0.4% (1.5% annually) was reported. Most high-frequency indicators for the third quarter of 2015 indicate retention of such growth rates. On the labor market, after the mild stagnation in June, the number of unemployed dropped in July and the unemployment rate went down to 10.9%, which is the lowest level since February 2012. Despite the favorable results, **the latest ECB projections suggest weaker expectations about the GDP growth in the euro area in the coming period compared to previous projections¹, primarily due to the slowdown in the emerging economies**, which has a negative effect on the global demand and the exports from the euro area. On the other hand, it is expected that growth will continue to be mostly due to domestic demand, given the stimulating monetary policy and moderately expansionary fiscal policy in the period ahead, with additional impetus being expected from lower oil prices and improved price competitiveness. The risks to the growth of the euro area are predominantly downward and mainly related to uncertainty about the external environment, which could have a negative effect on global growth through the effects on trade and confidence. In terms of inflation, data as of August show restraint of the pace of annual growth of headline inflation of 0.2%, and core inflation of 1%. The latest ECB projections indicate downward revision of expected inflation rates in the euro area in the coming period², primarily due to lower oil prices. By the end of this year, inflation will gradually accelerate as a result of the base effect of oil prices, while additional impetus on price movements in the next two years is expected from the acceleration of the economic growth, the second-round effects of the depreciation of the euro and the expected higher oil prices. Main risks to the inflation projection are the recent downward movements in oil prices and the depreciation of the exchange rate. In such circumstances, the ECB continues to conduct accommodative monetary policy. In the last ECB meeting about the monetary policy, held in early September, the key interest rate was kept low, while the issue share limit was raised for each instrument that the ECB can purchase under the asset purchase programme, which could indicate more accommodative monetary policy in the future.

Observed from a viewpoint of individual quantitative external environment indicators for the Macedonian economy, the assessments about foreign effective demand have been revised downward relative to the April projection. 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. **Foreign effective inflation** has undergone minor changes, i.e. prices are now expected to increase slightly in 2015, versus the

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.

² In the September forecast, the ECB projected the HICP inflation rates at 0.1%, 1.1% and 1.7%, for 2015, 2016 and 2017 respectively, compared to the March projections of 0.3%, 1.5% and 1.8% for 2015, 2016 and 2017, respectively.

expected rate of 0% in the April assessments, while the expectations for 2016 have been revised downward (from 1.5% to 1.3%). **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, a 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 decline in the price of nickel and fall rather than rise in copper price in 2015 and 2016 as previously assessed. 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 prices of these commodities are extremely volatile, creating uncertainty about the assessment of their future pace and effects on the domestic economy.

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. Namely, in line with the performance of the first quarter, **the high frequency indicators of economic activity point to probable retention of such pace of growth in the second quarter amid favorable trends registered in most of the significant economic sectors.** The industrial sector is an exception, which registered a slower growth of production in the second quarter than expected. Available high frequency indicators for July suggest continuation of favorable trends in the third quarter. However, uncertainty about these movements is great considering that estimates rely upon small volume of available data. Also, there are still unfavorable risks to the growth in the second half of the year, due to potential prolonged effects of domestic events and developments in the external environment. Analyzing **inflation**, August registered a slight consumer price increase due to higher food prices and core inflation, while energy prices remained in the negative zone. Still, this change represents slight downward deviation of the inflation rate, compared with the April projection according to which higher growth of prices was expected in August. At the same time, certain downward correction was made in the expectations for most of the input assumptions. However, given the high volatility of movements in short intervals, risks to the projected inflation for 2015 have been assessed as balanced.

According to the latest available data, in the third quarter of 2015, foreign reserves (adjusted for the price and exchange rate differentials and price changes of securities) registered a decline³, but the reserve adequacy indicators still remain within the safe zone. After the sale of foreign currency on the foreign exchange market in the first half of July, the foreign exchange market was stable, and at the end of July, the NBRM started to intervene by purchasing foreign currencies. The number of available external sector indicators is still limited, making it impossible to identify accurately the factors of changes in foreign reserves. Observing external sector indicators, data on net purchase from foreign exchange operations have been available as of August, which indicate that the remittances move within the projected level. On the other hand, data on foreign trade as of July give an indication of somewhat larger trade deficit for the third quarter than expected. However, the evaluation period is very short and therefore, no reliable conclusions can be drawn in this field.

With regard to monetary developments, the preliminary 10-day data as of August showed a monthly increase of total deposits, after the decrease in the previous month. Deposit growth is fully driven by corporate deposits, while household deposits, after the increase in July, again dropped in August on a monthly basis driven by lower deposits in domestic currency. In August, total deposits increased by 6.7% annually, yet below the projection for the third quarter (9.5%), indicating likelihood of underperformance compared to the projected growth. According to the preliminary data as of August, the credit market activity was registering a slight monthly growth of 0.2% for the

³ Refers to the last available operational data as of September.

second month in a row, which in August was also due to the reduced corporate lending, while loans to households continued to grow at a moderately slower pace compared to the previous month. Changes in total credits may partly be due to seasonal factors, and may in part be a reflection of the uncertain domestic and global environment. On an annual basis, total loans in August grew by 8.8% and were below the April projection for the third quarter (9.8%).

In July, **the Budget of the Republic of Macedonia registered a deficit of Denar 1,580 million**, financed from domestic sources through gross issuance of government securities and withdrawal of deposits from the account with the NBRM. On a cumulative basis, for the period January-July 2015, the budget deficit amounted to Denar 11,101 million (or 2% of GDP⁴), making up 55.1% of the projected budget deficit for 2015 in accordance with the budget revision.

The latest assessments of the level of **EURIBOR indicate lower level in the period 2015-2016, compared with the April projection**, while the assessments still show expectations for negative interest rate in 2016 (expectations for a positive interest rate in the April projection).

In summary, in the period since the last April projections, the domestic and foreign risks have increased, but recent macroeconomic indicators and assessments indicate that currently their effects are limited and there are no significant changes in the environment for conducting monetary policy. In the third quarter, the foreign reserves dropped, but the foreign exchange market is stable, and the foreign reserves adequacy indicators remain within the safe zone. In terms of inflation, data as of August show a small increase in consumer prices, while the risks to the inflation pace to the end of 2015 are assessed as balanced. Analyzing economic activity, high-frequency data for the second quarter indicate further economic growth as projected, and the latest high-frequency indicators as of July indicate continuation of favorable trends in the third quarter. 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. The deviation in deposits is more pronounced and indicates potential underperformance compared to the projected growth. The lending activity is still uncertain, since the performance may be affected by seasonal effects, taking into account the historical performance of often weaker lending in July and August. This is also confirmed by the surveys that provide positive signals about changes in credit activity in the third quarter, with expectations for growth in both the supply (mainly to the corporate sector) and the demand for loans. Moreover, changes were made in the setup of reserve requirement instrument in August, which are expected to prompt long-term household savings in domestic currency and to create room for accelerating banks' lending activity. **Nonetheless, the uncertainty associated with domestic political developments and the Greek debt crisis is present, and points to increased risks associated with the dynamics of foreign reserves in the period ahead compared to the April projections. This situation creates a need for ongoing monitoring of the performance and regular reassessment of risks and their significance in the context of achieving monetary goals.** In the context of Greek developments and uncertainty about the future course of events, in late June, the National Bank took preventive measures⁵ to manage capital flows. These are temporary protective measures introduced to prevent the threat of any significant outflows of capital from the domestic economy to Greece and thereby prevent significant disturbance to the equilibrium in the balance of payments and the stability of the financial system.

⁴ According to the latest NBRM projection for the nominal GDP.

⁵ For details on the preventive measures of the NBRM see the Decision on introducing special protective measures (Official Gazette of the Republic of Macedonia No. 107/15) at: http://nbrm.mk/WBStorage/Files/Regulativa_Odluka_voveduvanje_posebni_zastitni_merki_ang.pdf

Selected economic indicators^{/1}

2015

	2012	2013	2014	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.
I. Real sector indicators													
Gross domestic product (real growth rate, y-o-y) ^{/2}	-0.5	2.7	3.8				3.2						
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	
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	
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
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
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
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
Labor force													
Unemployment rate	31.0	29.0	28.0				27.3						
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	14458.0	
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	16038.0	
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301	8	-1,598	-1630.0	-3220.0	-1580.0	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
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	
IV. External sector indicators													
Current account balance (millions of EUR)	-223.7	-146.8	-113.7	36.3	7.3	-80.6	-37.0	-55.0	-24.9	-4.2	-84.1		
Current account balance (% of GDP)	-1.6	-1.8	-1.3	0.4	0.1	-0.9	-0.4	-0.6	-0.3	0.0	-0.9		
Trade balance (millions of EUR)^{/8}	-1,948.2	-1,756.6	-1762.0	-73.7	-109.9	-194.5	-378.1	-202.8	-110.7	-133.0	-446.4	-159.0	
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	
import (millions of EUR)	-5,061.8	-4,968.4	-5484.9	-365.5	-409.0	-533.6	-1308.1	-498.0	-469.7	-513.9	-1479.4	-496.8	
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	1023.3	337.9	
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	
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	5.0	
Foreign Direct Investment (millions of EUR)	117.3	263.8	278.0	37.4	13.4	21.6	72.4	36.4	-4.1	22.0	54.3		
External debt													
Gross external debt (in millions of EUR)	5171.7	5219.7	5954.4				6185.2						
public sector	2162.1	2172.4	2847.1				3024.9						
public sector/GDP (in %)	28.5	26.8	33.4				33.6						
private sector	3009.5	3047.4	3107.3				3160.3						
Gross external debt/GDP (in %)	68.2	64.3	69.8				68.7						
Gross official reserves (millions of EUR)^{/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

^{/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)

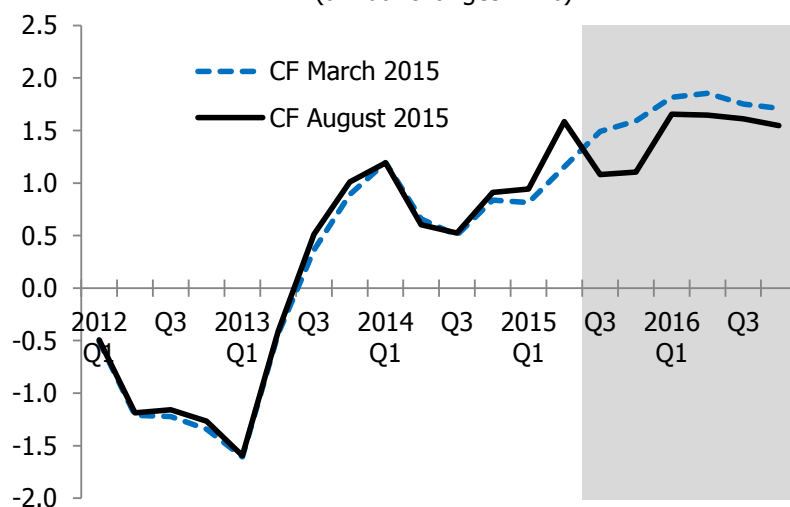
^{/6} The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since 01.01.2009).

^{/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.

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

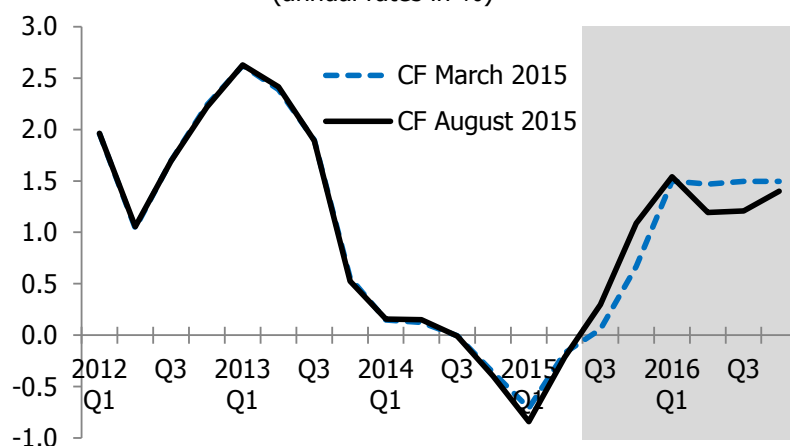
Thus, the growth of foreign demand would be 1.2% in 2015, which is a minimum downward revision of 1.3% compared with the April projection.

The main factor for the lower foreign demand is the significantly worsened expectations for the Greek economy which as a result of the recent developments is now expected to decline rather than to accelerate.

On the other hand, almost all other trading partners are expected to make increase their contribution to the growth of foreign demand.

Forecasts for the permanent decline of Greek economy resulted in a downward revision of growth in foreign demand in 2016, which is now forecast at 1.6% instead of 1.8% as projected in April.

Foreign effective inflation
(annual rates in %)



Source: "Consensus Forecast" and NBRM calculations.

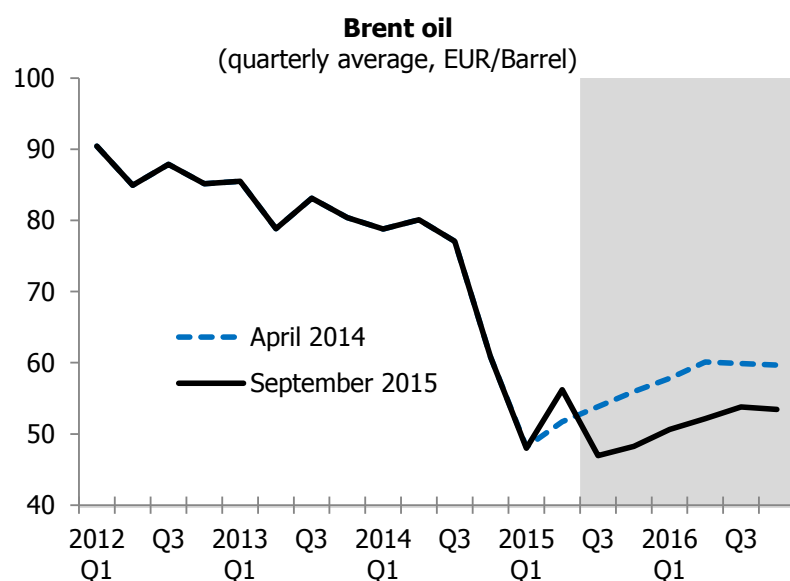
According to the latest estimates, inflation revisions⁶ for 2015 in the major trading partners are mainly upwards ...

...resulting in minor upward revision of the foreign effective inflation in 2015 (from 0% as projected in April to 0.1%).

Observed by countries, the upward revision largely stems from the lower negative contribution of prices in Serbia, as well as the expected positive contribution from the inflation in Croatia.

On the other hand, in 2016, foreign inflation was revised downward and is now expected to be 1.3% rather than 1.5% in April.

⁶ Inflation in Serbia and Croatia has been adjusted for the changes in the exchange rate.



Source: IMF and NBRM calculations.

Thus, in 2015, oil price is expected to decline more drastically than projected in April...

...due to the constant downward pressures on the supply side from OPEC countries and the United States, as well as the indications of slower growth of demand in China and expectations for slowdown in global economy⁷.

Downward revision was made in 2016 as well, when it is predicted that oil prices will have slower growth than projected in April.

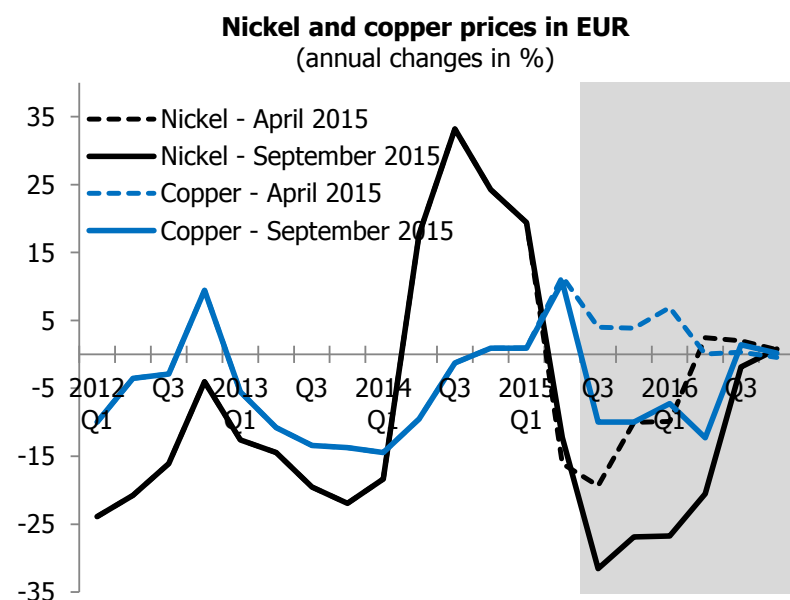
Chinese Yuan was significantly devalued in mid-August, which resulted in a sharp decline in metal prices on world markets.

Since these primary commodities are listed in US dollars, the reduced value of the Yuan would make imports into China more costly, which could adversely affect the demand of the world's largest importer of metals.

As a result and amid less favorable expectations for the growth of the Chinese economy and assessments for solid inventories globally, metal prices were significantly revised downward in 2015⁸...

...and now, there are expectations for fall rather than rise in the price of copper and faster fall in the price of nickel.

Projections for 2016 were also downwardly revised, now predicting a fall rather than rise in the prices of copper and steeper decline in the price of nickel.

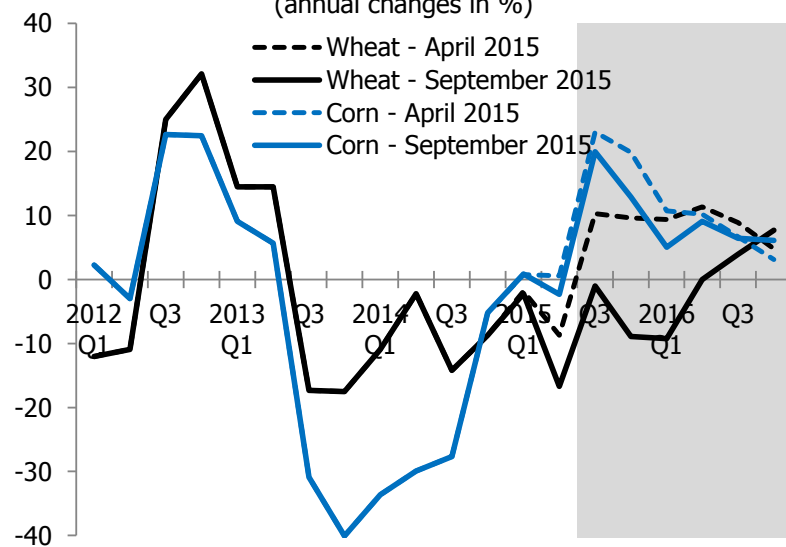


Source: IMF and NBRM calculations.

⁷ Source: <http://www.eia.gov/forecasts/steo/uncertainty/index.cfm>

⁸ Source: Energy & Metals Consensus Forecast.

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



Source: IMF and NBRM calculations.

There was a significant downward revision of the price of wheat for 2015, which is now expected to remarkably decline rather than to increase as projected in April ...

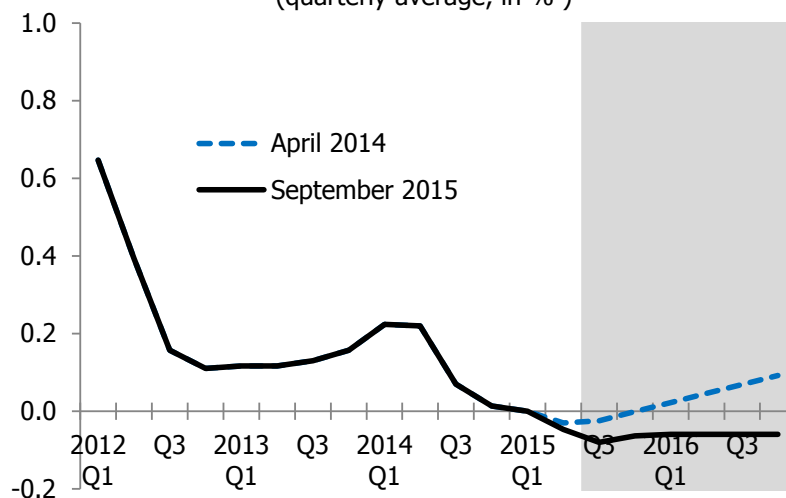
...as a result of the new estimates of higher yields, especially in the northern hemisphere, which contributes to maintaining extremely favorable conditions on the supply side⁹...

...while slower increase in the corn price is projected...

...given the forecasts for higher world production of this cereal.

The increase in prices of these cereals for 2016 is also expected to be lower than projected in April.

1-month Euribor
(quarterly average, in %)



Source: "Consensus Forecast" and NBRM calculations.

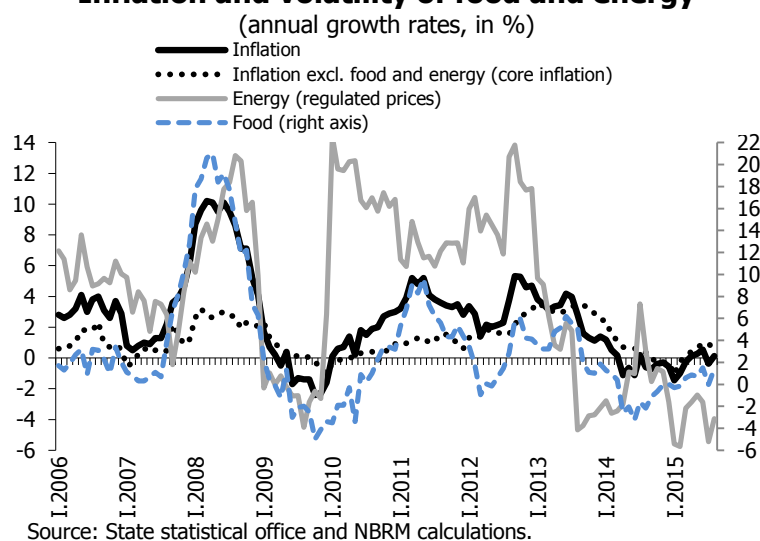
One-month EURIBOR has ranged in the negative zone since the second quarter of 2015 and unlike the April projection, it is now expected to remain there until the end of the projection period ...

...with average levels of -0.05% and -0.06% in 2015 and 2016, respectively, compared to -0.01% and 0.06% as projected in April.

This downward revision is attributable to the ECB quantitative easing policy that has been and is expected to be implemented in the period ahead.

⁹ Source: <http://www.amis-outlook.org/amis-monitoring/monthly-report/en/>

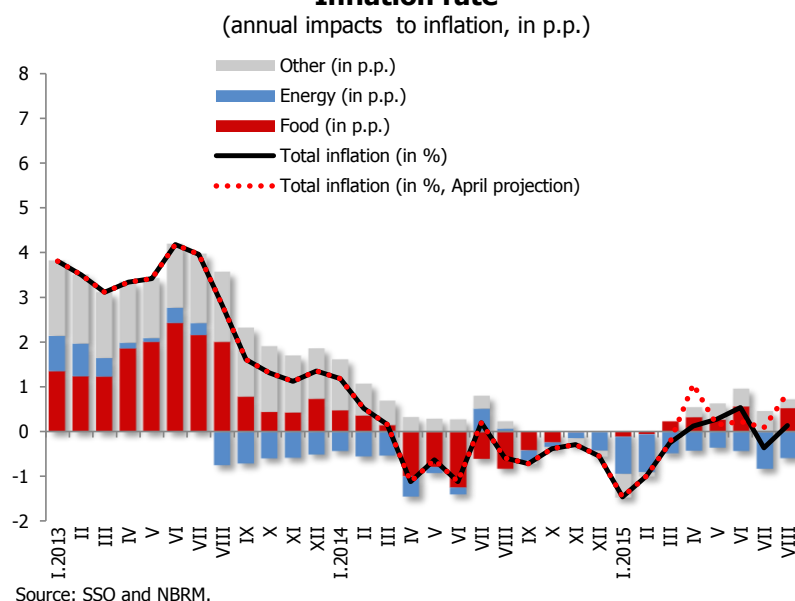
Inflation and volatility of food and energy



In August, consumer prices remained unchanged compared to the previous month when they registered a monthly decline ...

...amid lower prices of core inflation and energy, while food prices went up¹⁰.

Inflation rate

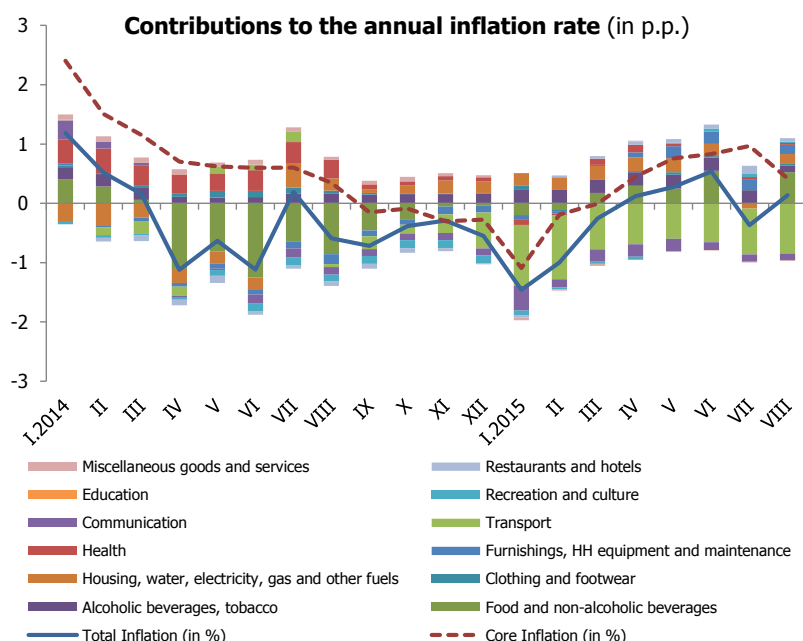


Monthly price stagnation affected the annual inflation rate which despite the decline in the previous month registered a marginal growth of 0.1% in August ...

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

...because of the fall in energy prices (despite the expectations for their rise). The movements of food and core inflation are consistent with the projection.

¹⁰ 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%).



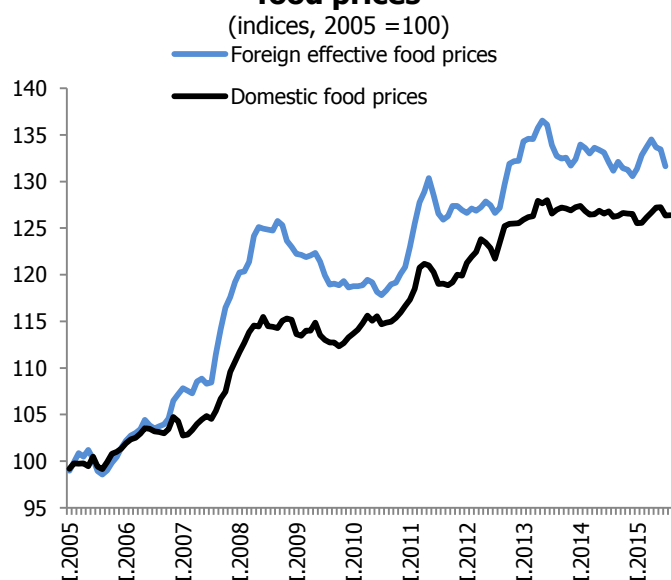
Source: SSO and NBRM.

In August, the core inflation slowed down by 0.7% (increase of 0.4% in July)...

...which resulted in slowdown of the annual growth (0.4%).

Regarding the structure of core inflation, the August growth was largely generated by higher prices of home maintenance products, tobacco (due to higher excise duties¹¹), household appliances, as well as higher prices of hotel and restaurant services.

Foreign effective food prices* and domestic food prices



* Foreign effective food prices are calculated as weighted sum of food prices in countries that are major trade partners with Macedonia.
Source: State statistical office, Eurostat and NBRM calculations.

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

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

...amid solid global supply and upward revision of inventories as a result of the forecast of higher production in the northern hemisphere¹².

At the same time, **oil prices** registered a downward correction, with an assessment of further reduction by the end of the year ...

...because of the increased production of the OPEC and the US, the ongoing growth in global supplies, amid slower growth of Chinese economy and expectations for slowdown in the global economy¹³.

¹¹ Since 1 July 2014, cigarette excise duty has increased (Denar 0.15 per cigarette) and will 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.

¹² Source: <http://www.amis-outlook.org/amis-monitoring/monthly-report/en/>

¹³ <http://www.eia.gov/forecasts/steo/uncertainty/index.cfm>

On the other hand, **foreign effective inflation** for 2015 has been revised upwards minimally.

Regarding the risks to the projected inflation rate for 2015, it is estimated that they are balanced. In fact, despite the downward adjustment of the expectations for the input assumptions and slightly lower inflation in August, due to the great volatility of the movements, for now the risks to the inflation projections are being assessed as balanced.

In June 2015, the nominal annual growth of the **average net wage** was 3.7%, which is a moderate acceleration compared to the last month's pace.

All three major sectors reported increase in wages.

The highest growth was registered in wages in arts, entertainment and recreation, followed by wages in so-called other services, and wages in mining...

...while the fastest annual downward adjustment of wages was registered in the real estate, followed by wages in transport and storage, as well as in supply of electricity, gas, steam and air conditioning.

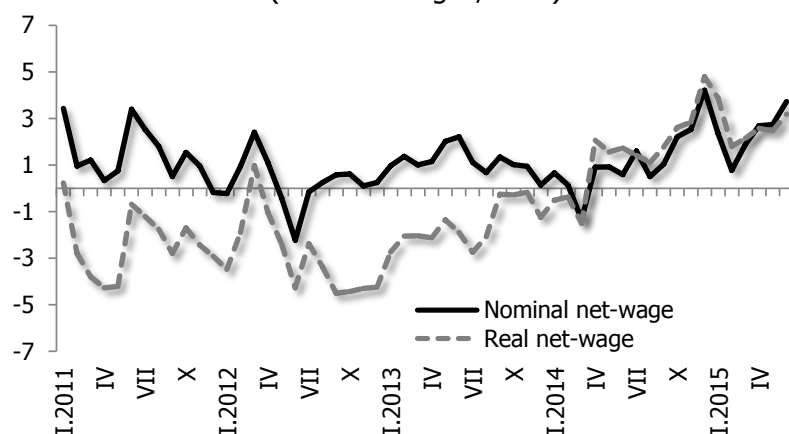
Amid small annual intensification of consumer prices, in June, **real wages** increased by 3.2%.

In the second quarter, nominal and real average net wage registered an annual growth of 3.1% and 2.7%, respectively.

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

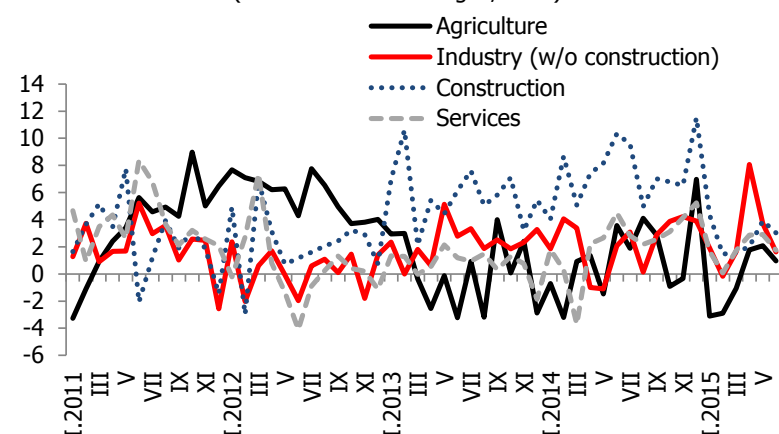
The latest indicative high-frequency data point to a continuation of the positive trends in most of the key

Average net-wage
(annual changes, in %)



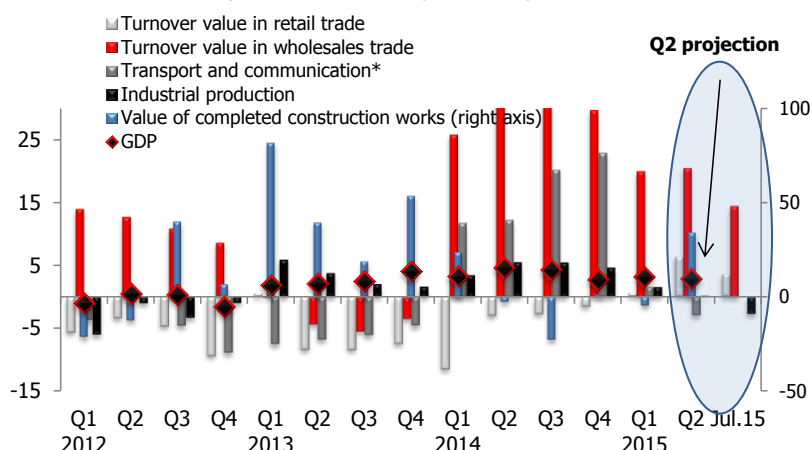
Source: SSO.

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



Source: SSO.

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.

economic sectors, thus confirming the solid growth prospects for the domestic economy in the second quarter of 2015.

Namely, in the second quarter, as already noted in the previous report on the latest macroeconomic indicators, **trade** turnover registered a double-digit growth in real terms ...

...mainly driven by the high growth in turnover of the wholesale trade and the trade in motor vehicles.

In June, construction works increased by 55.2% in real terms. Thus, new data as of June on construction reaffirmed the previous positive performance in the **construction sector**. Also, the double-digit annual growth in the value of completed construction works in the second quarter follows the one-year period of mostly negative dynamics.

In June, the turnover in **hotels and restaurants** was 0.9% in real terms. Thus, the real growth of turnover in hotels and restaurants in the second quarter was 0.3%, which is slightly weaker intensity than that in the previous quarter.

Data on various types of transport indicate positive outlook for the **transport sector** in the second quarter (favorable trends in passenger transport, despite the annual decrease of transport of goods in the second quarter).

Domestic **industrial output** in the second quarter registered only minor annual growth...

...generated mainly by the activity of the new export-oriented facilities (manufacture of machinery and equipment, and motor vehicles).

Recent high-frequency indicators of aggregate demand in most part confirm the expectations for economic

growth in the second quarter of 2015, which is consistent with the assessments of the April cycle projections.

Private consumption is expected to continue the positive annual pace in the second quarter...

...as confirmed by the solid pace of growth in household lending, the slight increase of real annual growth of wages, the growth of social transfers of the government ...

...as well as the acceleration of real annual growth of import of consumer goods and retail trade in the second quarter.

Analyzing indicative private consumption categories, decline was noted only in the domestic production of consumer goods and private transfers.

Recent high-frequency indicators of **investment activity** generally point to investment growth in the second quarter ...

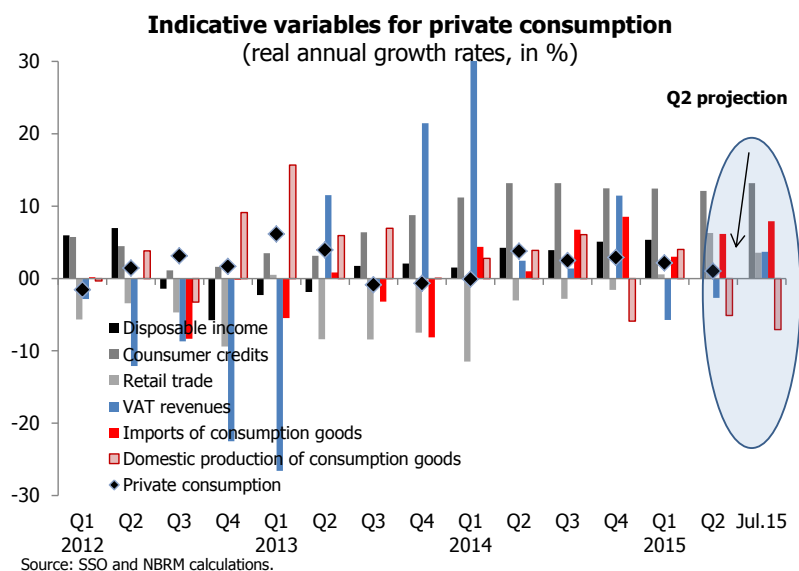
...with the high double-digit annual growth of construction activity, the double-digit growth of import of investment goods, as well as the further intensification of the annual dynamics of corporate lending being seen as a major positive factor.

On the other hand, the second quarter of the year registered a decrease in capital budget expenditures, and in foreign direct investments.

Nominal data on **foreign trade in goods** for the second quarter show certain widening of the trade deficit, which is in line with the April projection.

The Budget for the second quarter show higher **public spending** in the same period, as projected in April...

...amid real annual growth in the cost of goods and services, wage expenses and higher transfers for health care and other



types of transfers¹⁴.

Generally speaking, the favorable trends in most indicative high-frequency data point to GDP growth in the second quarter, which in turn is indicative of the limited effects on the domestic activity of the risks associated with the political conditions in the domestic economy in the past few months, as well as the increased risks associated with the economic and political developments in Greece.

Most data for July 2015 indicate a continuous growth of economic activity in the third quarter of the year.

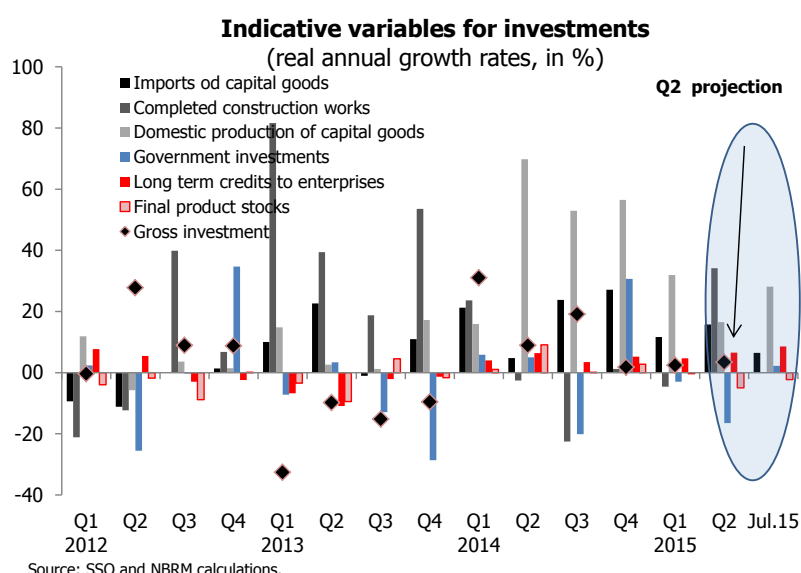
However, it is noteworthy that these assessments are based on very few data available. Also, domestic non-economic factors related to the political developments in the country are still present and increase the uncertainty about the assessments of the economic activity in the third quarter.

The annual growth in **domestic trade** turnover continued in July amid real growth of all kinds of trade.

On the other hand, in July, **industrial output** recorded an annual decline of 2.7%...

...for the most part due to the reduced production of tobacco products, food, as well as electricity.

On the other hand, the manufacture of machinery and equipment (mostly related to the activities of export-oriented foreign facilities in the technological industrial development zones) and the accelerated metal exploitation, as well as mining and quarrying significantly increased the industrial output.



¹⁴ Most of the transfers for health care relate to expenditures for goods and services.

Despite such unfavorable developments in July, no significant deterioration has been registered in the perceptions regarding the future activity of the industrial sector (higher confidence indicator in July and more optimistic perceptions of the managers of the manufacturing sector on the production volume in the next three months). These developments point to the potential temporary character of the July fall of production and intensification of activity by the end of the third quarter.

High frequency data on **personal consumption** available as of July provide generally favorable signals about its movement in the third quarter of 2015 ...

...amid increased retail trade (although at a pace weaker than in the second quarter), higher social transfers of the government, and accelerated annual pace of growth in household lending and pensions.

Additionally, July registered an annual growth in net income from VAT, after the negative performance of this indicator in the first two quarters of the year.

On the other hand, in July, unfavorable signals have been sent by the production of consumer goods that registered a faster annual decline compared to the second quarter.

Indicative **investment** categories in July suggest most probable continuation of positive trends in the third quarter...

...amid higher government capital investments, domestic production of capital goods ...

...and further intensification of corporate lending.

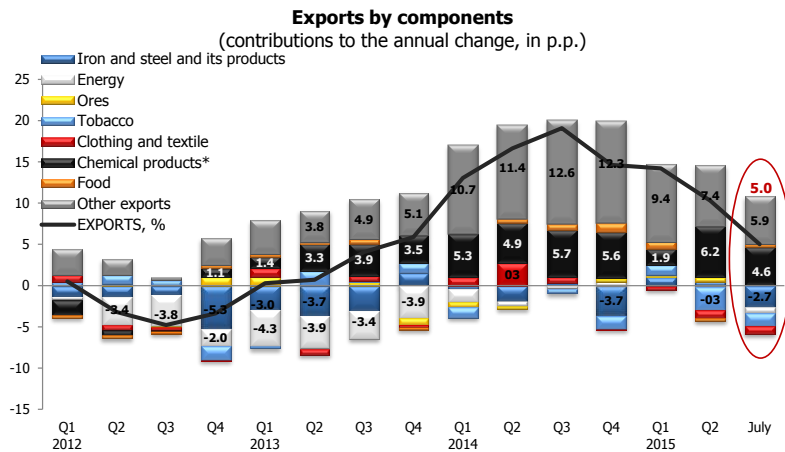
Foreign trade data for July 2015 point to prospects for widening of deficit in the third quarter.

Budget performances as of July suggest an annual growth of **public consumption** in

the third quarter, which is consistent with the expectations from the April projection.

This is also asserted by the upward trends in wage expenses, cost of goods and services, as well as transfers for health care and other transfers.

EXTERNAL SECTOR



Source: NBRM.

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

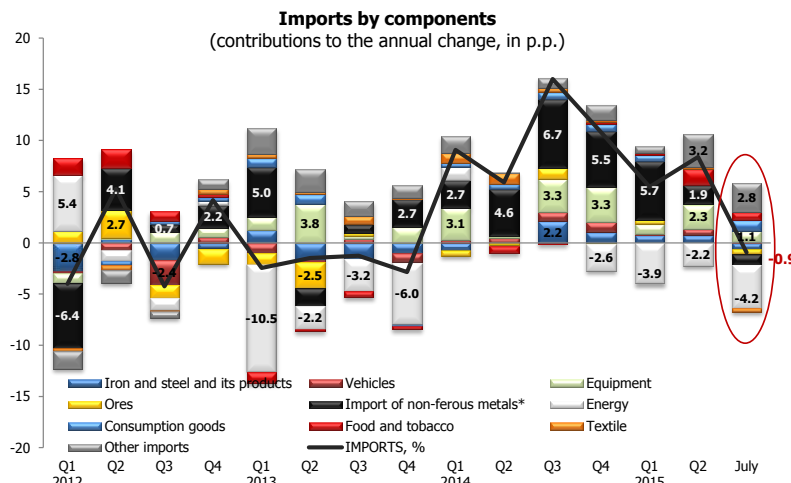
During July, **foreign trade deficit narrowed by 11.6% annually**, driven by the exports growth, amid lower imports...

...which is basically in line with expected changes in the trade deficit in the third quarter according to the April projection.

Exports of goods in July registered an annual growth of 5%, predominantly driven by the improved export performance of some 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 industry.

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



Source: NBRM.

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

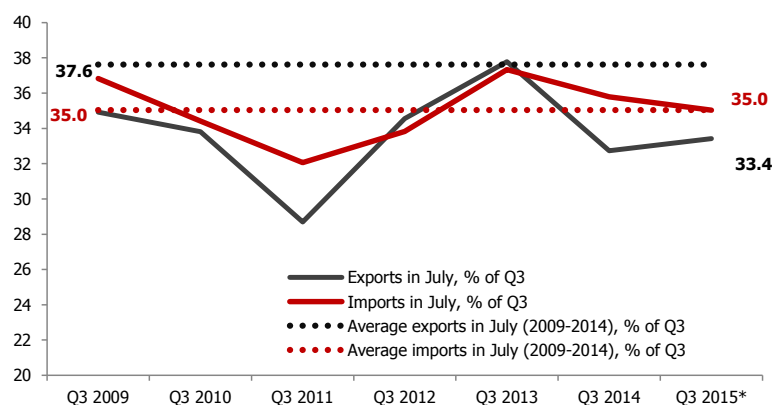
Import of goods in July decreased annually by 0.9%, mainly due to lower energy imports. The decrease in imports of raw materials for the metal and textile industry also acted in this direction, but with a significantly lower contribution...

...contrary to other imports, import of equipment and machinery and consumer goods, which increased on an annual basis.

Import performance in July corresponds to the expected movements in the third quarter according to the April projection. Analyzing individual categories, the most significant upward deviation was observed in import of raw materials for new facilities in the economy, coupled with somewhat higher import of iron and steel, machinery and equipment and vehicles. On the other hand, the energy component of import registered significant downward deviation from expectations, driven by lower energy

prices. Further lower import pressures have been observed in food, raw materials for the textile industry and ores.

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

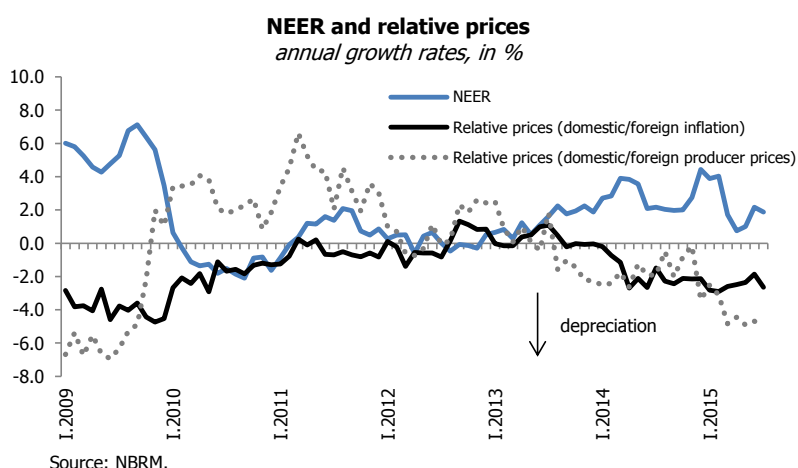
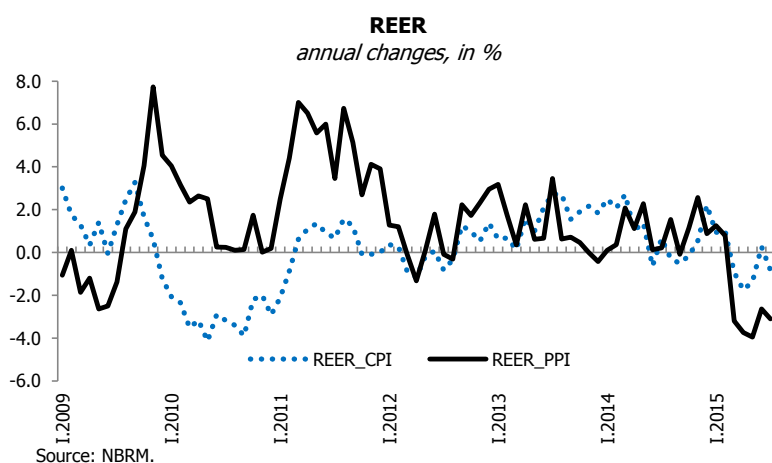
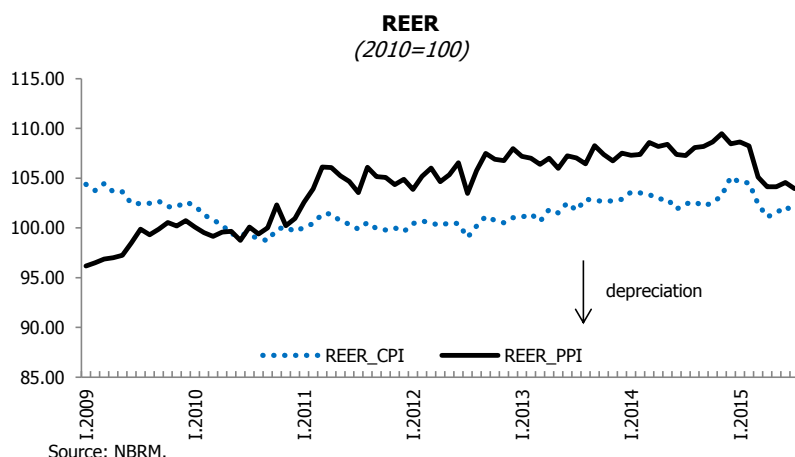


Performance of foreign trade components in July, indicate likelihood of somewhat higher trade deficit than projected for the third quarter according to the April projection. Still, the data refer only to one month, which is not sufficient to enable drawing a reliable conclusion for the entire quarter.

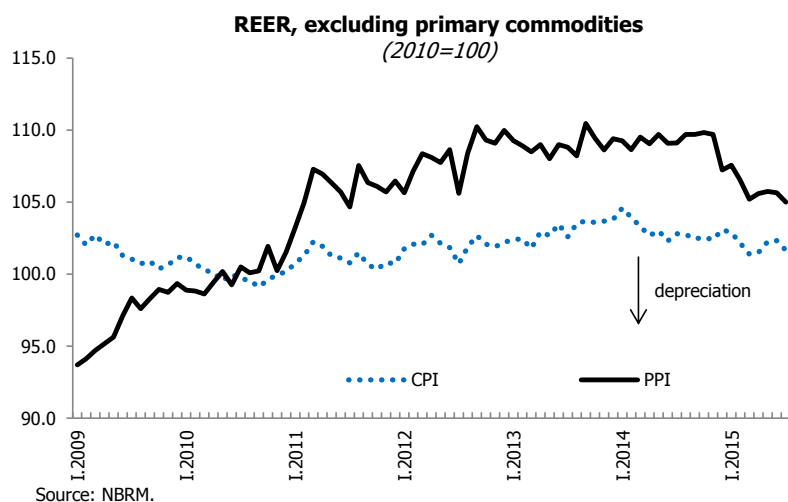
The latest estimates for the movement of oil prices expressed in euros indicate more favorable conditions in relation to the April projection, with expectations for a sharper annual decline in 2015 and slower growth during 2016. On the other hand, expectations for world prices of metals in the current 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 July, price competitiveness indicators of the domestic economy improved on an annual basis.

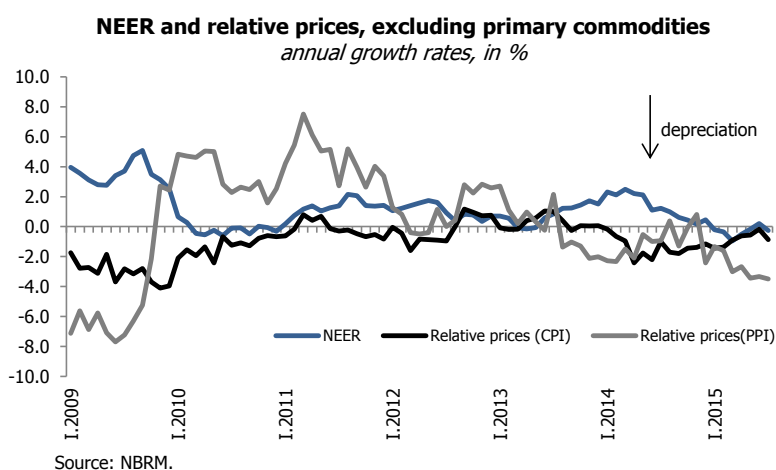
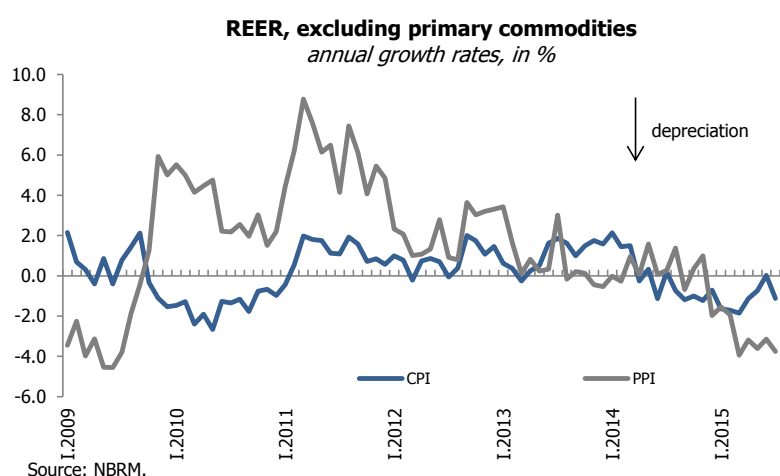
The REER index deflated by consumer prices depreciated by 0.8% and the REER index deflated by producer prices registered faster annual depreciation of 3.1%, remaining in the zone of favorable movements for the fifth consecutive month.



Relative CPI registered an annual decline of 2.7%, amid lower domestic prices with a simultaneous increase in foreign prices. The relative prices of industrial products recorded a decrease of 4.9% due to the decline in domestic prices and the rise in foreign prices. The movement of NEER acted in the opposite direction, and appreciated by 1.9%, primarily as a result of the depreciation of the Russian ruble, the Ukrainian hryvnia and the Serbian dinar against the Denar.



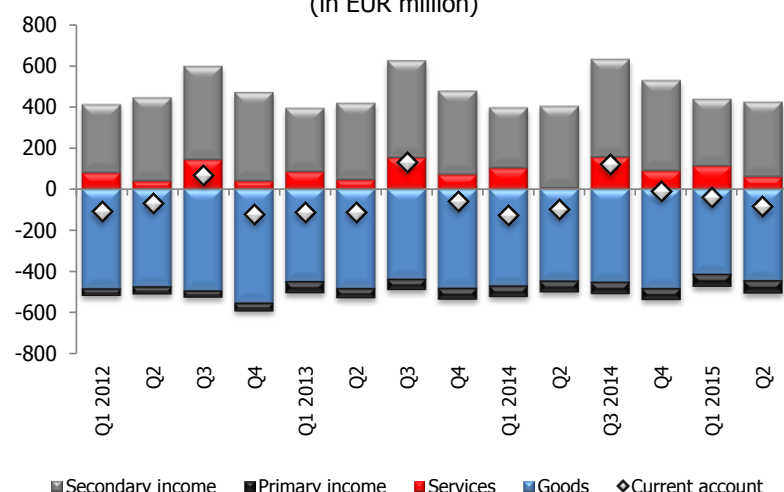
The analysis of the movement of the REER indices, as measured using weights based on the foreign trade without primary products¹⁵ indicates improvement in the competitiveness of domestic economy. In July, the REER deflated by consumer prices depreciated by 1.1%, while the REER deflated by producer prices depreciated by 3.8%.



The movements in both REER indices are a result of both the NEER depreciation (of 0.3%) and the annual fall of relative prices. Compared to the same month last year, a decrease was registered in both relative price indices, i.e. 0.9% in the relative consumer prices and 3.5% in the relative producer prices.

¹⁵ 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)

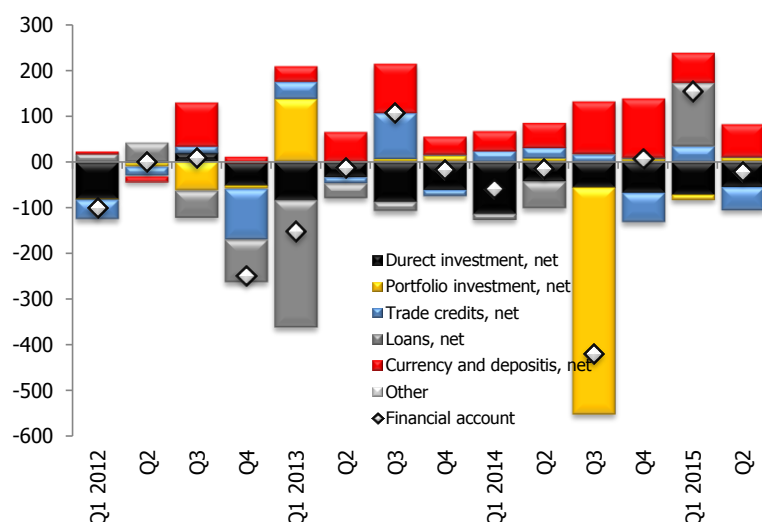


Source: NBRM.

In the second quarter of 2015, the balance of payments current account registered a deficit of Euro 84.1 million (or 0.9% of GDP), which is almost in line with the expected deficit for the second quarter of the year according to the April projection.

...in terms of individual components, the secondary income registered lower net inflows, which were almost entirely offset by lower trade deficit, in conditions where the surplus in trade in services and the deficit in primary income is consistent with the April projection.

Financial account components
(in EUR million)



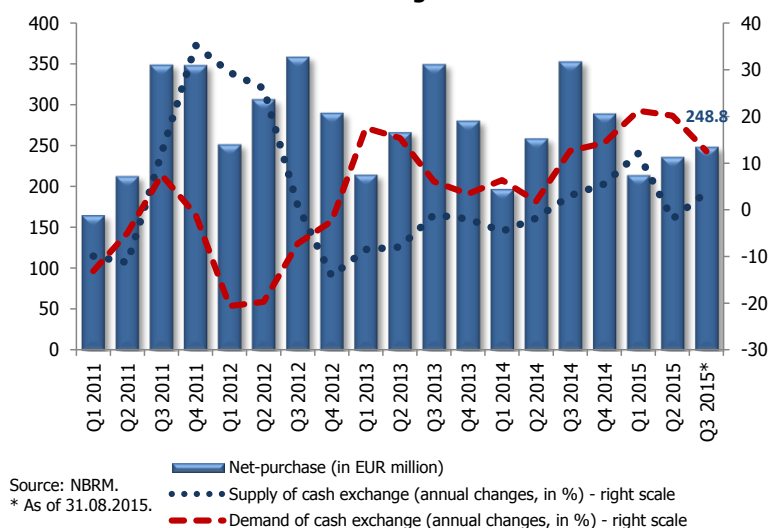
Source: NBRM.

In the second quarter, net inflows of Euro 21.8 million (or 0.2% of GDP) were realized through the financial account, i.e. lower than the total expected net inflows for the second quarter according to the April projection¹⁶.

Such downward deviations mainly stem from loans category that registered net outflows contrary to the projected net borrowing and from lower direct investment than projected in April. On the other hand, short-term volatile flows of financial account register improved performances, i.e. trade credits registered substantial net inflows, contrary to the expected net payments as projected in April.

¹⁶ 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.

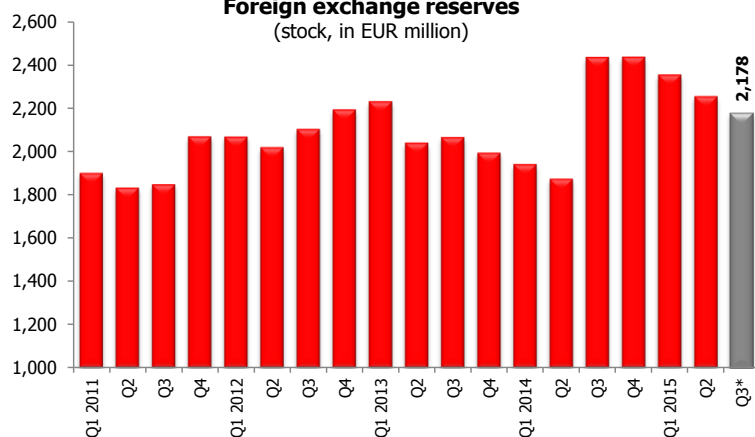
Cash exchange market



The currency exchange operations data as of August 2015 suggest small decline in the supply of foreign currency and further annual growth of demand for foreign currency.

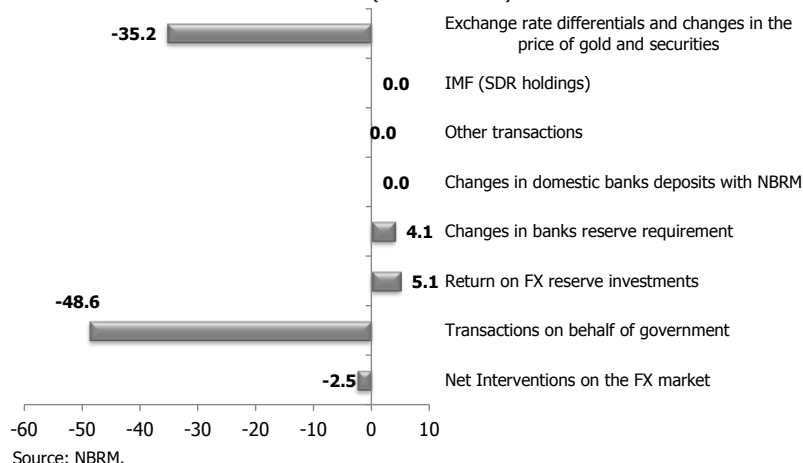
In the period July-August 2015, the net purchase in the foreign exchange market totaled Euro 248.8 million, which is an annual increase of 1.7%.

Foreign exchange reserves (stock, in EUR million)

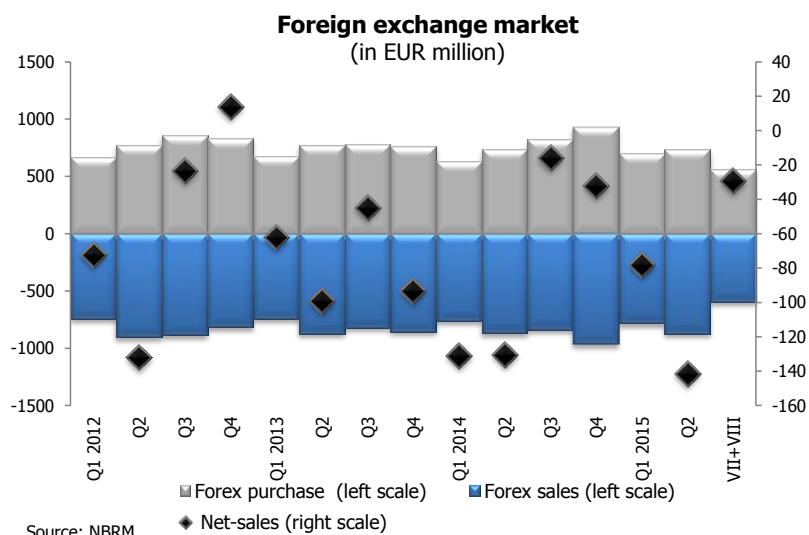


As of 31 August 2015, the gross foreign reserves stood at Euro 2,178 million, down by Euro 77,2 million compared to the end of the second quarter of 2015. The reduction in foreign reserves was mostly due to the transactions on behalf of the government (regular servicing of government liabilities - repayment 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 the july-august period 2015 (in EUR million)



EXTERNAL SECTOR



In the period July-August 2015, the **foreign exchange market** of the banks registered a net sales of Euro 29.2 million, which is growth of Euro 26.9 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 7% and 12.2%, 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.

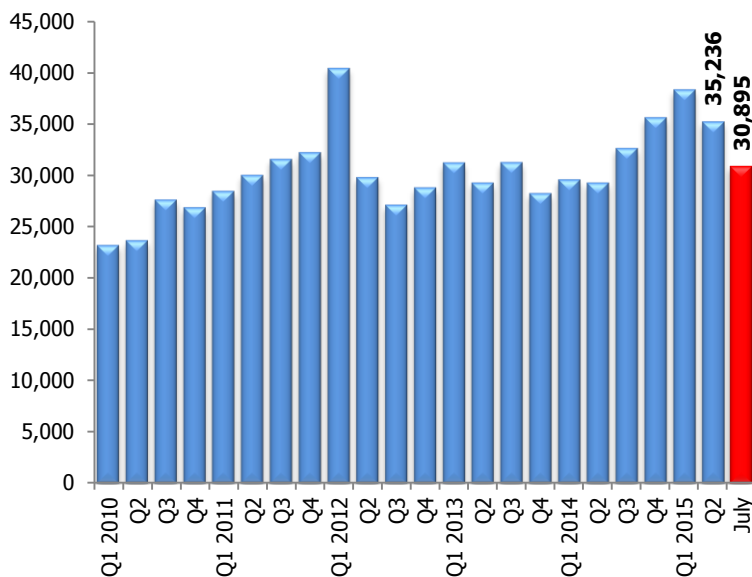
Data as of July show liquidity creation through monetary instruments relative to the end of the second quarter, versus the expected enhanced withdrawal of liquidity in the third quarter, as projected in April...

Regarding the flows of creating and withdrawing liquidity (in terms of balance sheet), in July, the NBRM net foreign assets decreased compared to the previous month, contrary to the expectations for significant increase in the third quarter. In July, the total government deposits with the NBRM dropped on a monthly basis and aimed towards creating liquidity, but at moderately slower pace 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 July was withdrawing liquidity from the system, despite the April projection of significant creation of liquidity for the third quarter. In addition, liquidity was withdrawn through reserve money, which in July registered a slightly faster growth than expected for the third quarter. Such deviation from this projection is a result of both higher growth of currency in circulation and total liquid assets of banks than expected for the third quarter.

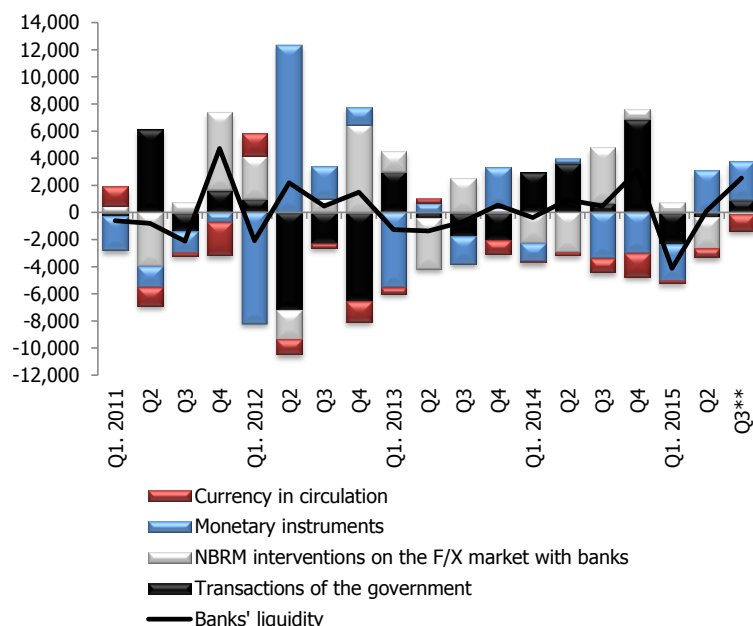
As a result of these movements in the major balance sheet categories, July registered significant deviation in monetary instruments compared to the April projection.

Monetary instruments
(in millions of denars)



Source: NBRM.

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



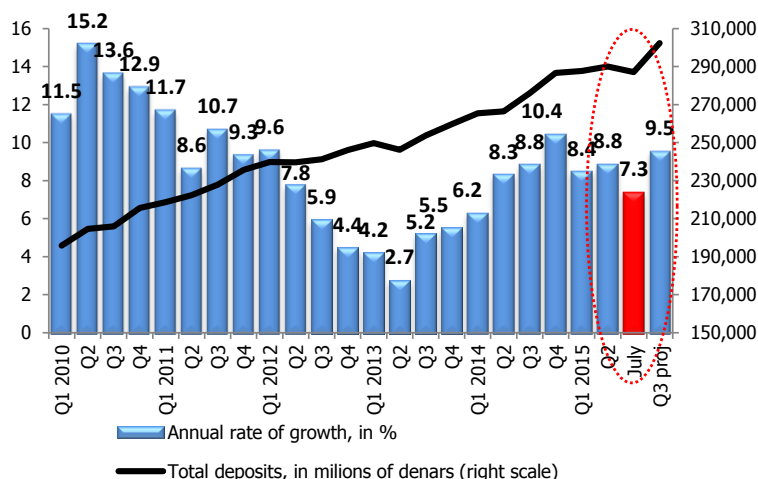
*Positive change- liquidity creation, negative change- liquidity withdrawal

**Refers to July and August 2015.

Source: NBRM.

According to the latest data, the liquidity of the banking system increased in August, largely as a result of autonomous factors. Analyzing factors, the largest contribution to liquidity creation was made by government transactions, followed by the NBRM foreign currency transactions whose contribution was smaller (net purchase of foreign currency by market makers) and currency in circulation. On the other hand, monetary instruments acted towards liquidity withdrawal. The liquidity was largely withdrawn through (seven-day) deposit and CB bills¹⁷, and less through repo transactions.

Total deposits



*Includes demand deposits

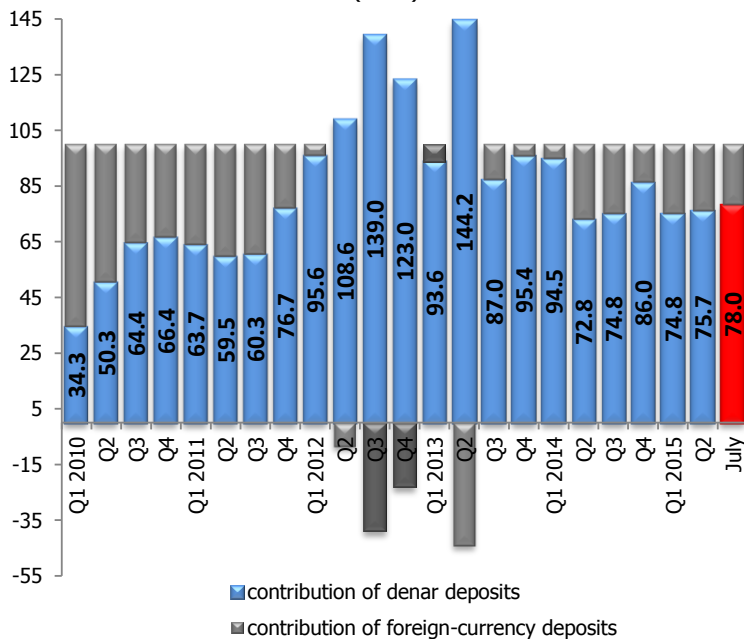
Source: NBRM.

During July, total deposits decreased on a monthly basis, contrary to the increase registered in the previous month. The growth was entirely due to lower corporate deposits, amid higher household deposits.

At the end of July, the annual growth rate of total deposits equaled 7.3%, which is below the growth of 9.5% projected for the third quarter of 2015. As of July, total deposit performance is weaker than projected. Namely, there has been a decline of Denar 2,892 million on a monthly basis, compared to the projected growth of Denar 9,106 million for the third quarter according to the April projection. Although data from a single month are insufficient to draw a conclusion on the trends in the next two months of the quarter, these developments point to the possibility of underperformance of the projected growth.

¹⁷ At the auction of CB bills held in August 2015, the demand was higher than that registered in the previous month, which led to higher amount of CB bills by Denar 659 million on a monthly basis.

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

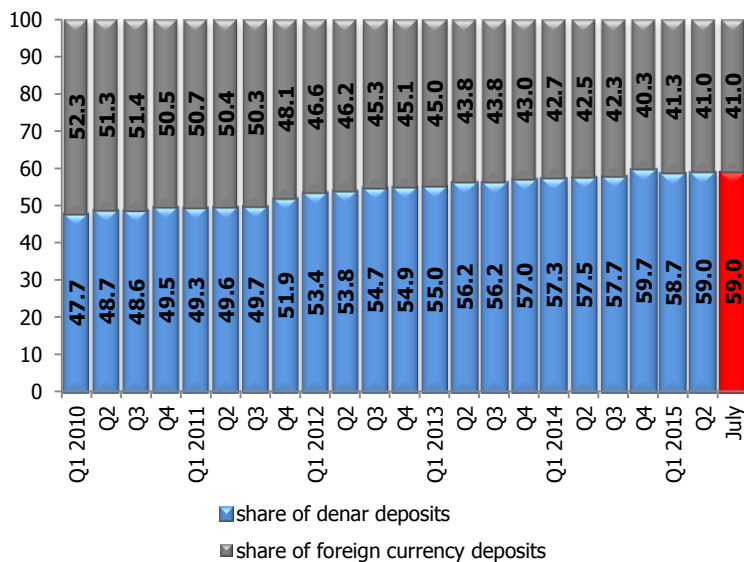


The annual growth of total deposits still stems mainly from the increased denar deposits, amid moderate positive contribution of foreign currency deposits. The contribution of foreign currency deposits declined in July compared to the end of the second quarter...

Source: NBRM.

*Includes demand deposits.

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

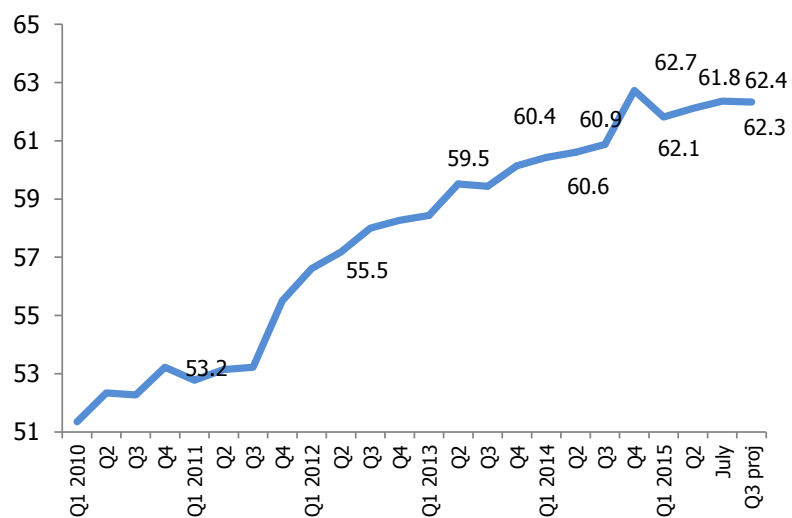


...while their share remained at the level of the end of the second quarter.

Source: NBRM.

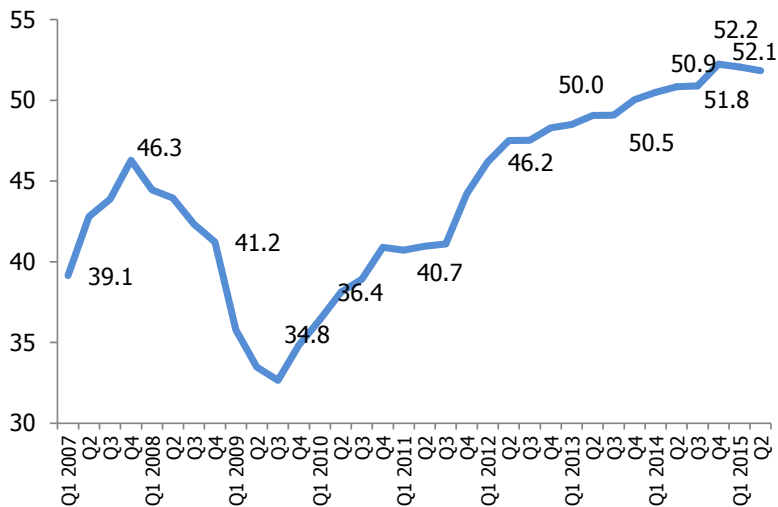
*Includes demand deposits.

Share of denar M4 in total M4
(in%)



Source: NBRM.

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

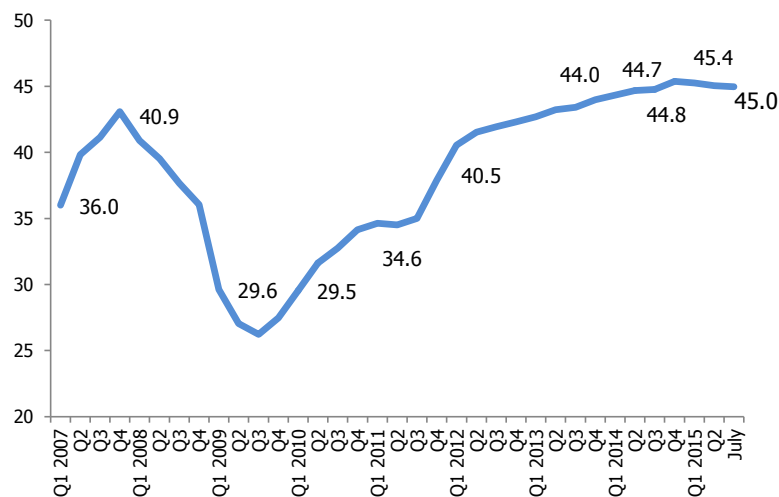


During July, there was a monthly increase in total household deposits, in spite of the fall in the previous month. The increase was almost entirely generated by the increased Denar deposits, as a result of the higher demand deposits and lower time deposits. Foreign currency deposits registered a small growth on a monthly basis. These developments have contributed to a moderate increase in the share of denar deposits in total household deposits to 52.1% in July.

Source: NBRM.

*Includes demand deposits.

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

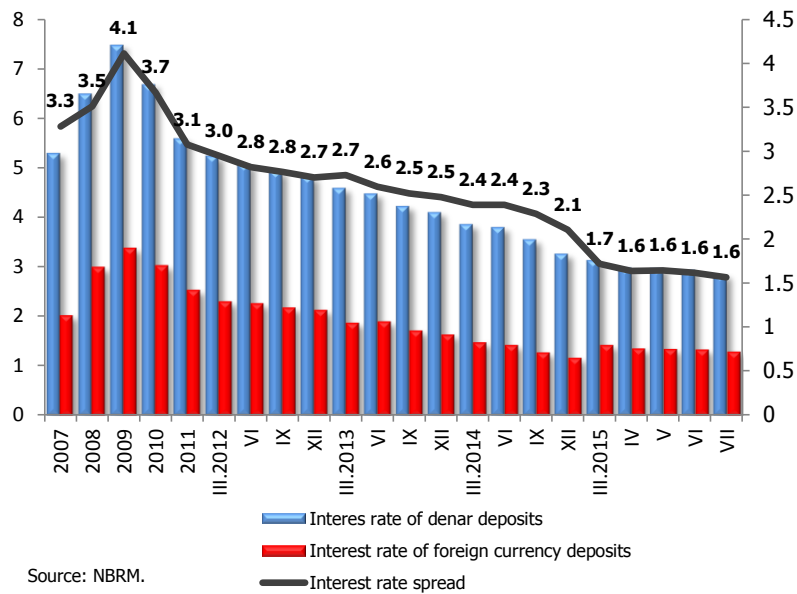


Source: NBRM.

*Without demand deposits.

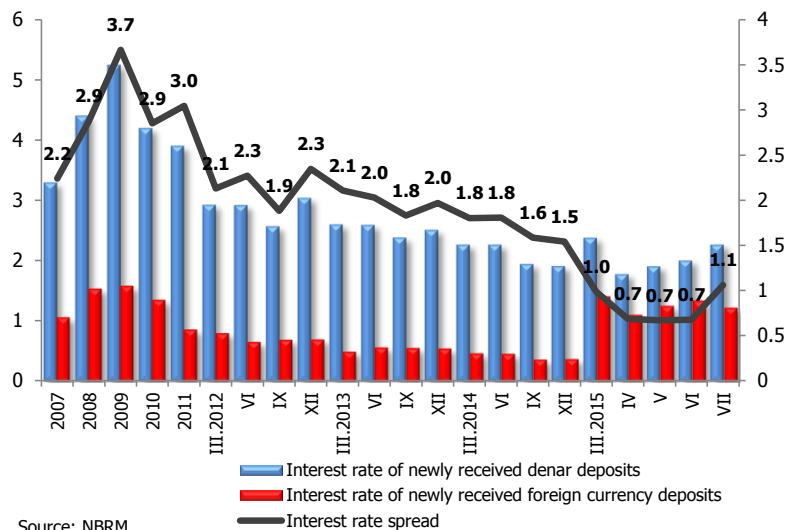
The analysis of the total household deposits (excluding demand deposits) shows a decline on a monthly basis, which is entirely due to the Denar deposits, amid small growth of the deposits in foreign currency.

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



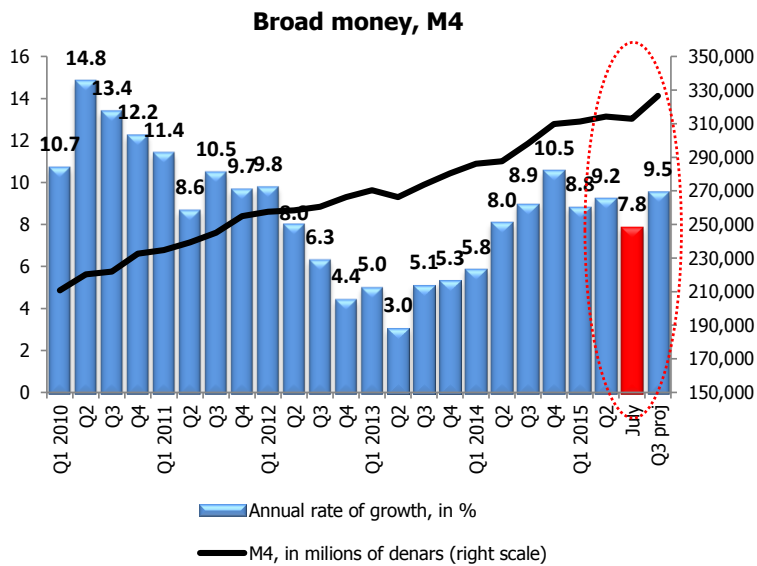
In July, the interest rate spread between the Denar and foreign currency interest rates¹⁸ remained at the same level as in the previous month amid their further maintaining on a stable level. Interest spread of new deposits have expanded as a result of the higher interest rate on Denar deposits and negligible decrease in foreign currency deposits.

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



¹⁸ 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>.

MONETARY SECTOR

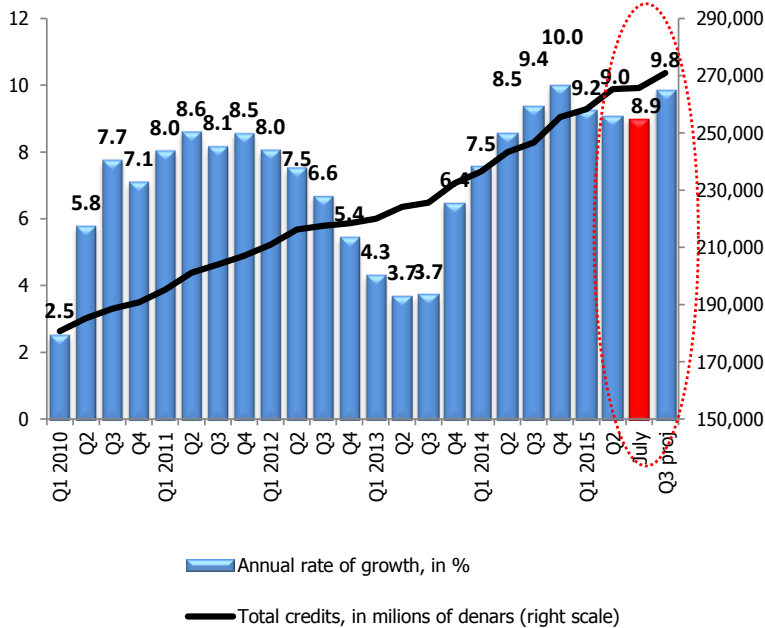


Source: NBRM.

According to the data as of July, broad money registered a decrease compared to the previous month due to the decrease in deposit base, amid the moderate growth of currency in circulation. The annual growth rate of the broad money equaled 7.8%, which is below the projection for the third quarter of 2015 (projected annual growth of 9.5%). As of July, broad money were lower than projected by Denar 1,316 million on a quarterly basis, compared to the projected growth of Denar 9,716 million in the third quarter. Although data from a single month are insufficient to draw a conclusion on the trends in the next two months of the quarter, the deposit base developments point to the possibility of underperformance of the projected growth.

MONETARY SECTOR

Total loans



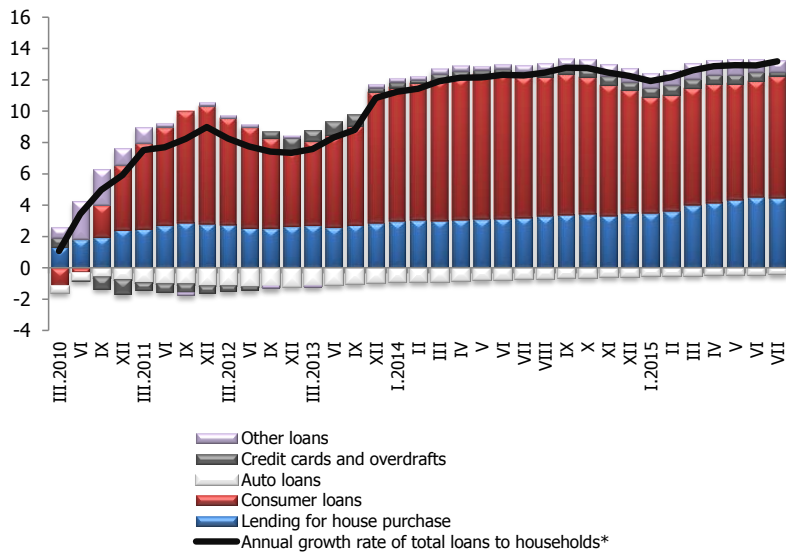
Source: NBRM.

Growth in total loans continued in July, with a weaker intensity than in the previous month. The increase in credit activity solely results from the monthly growth of loans to households, amid simultaneous fall of loans extended to companies.

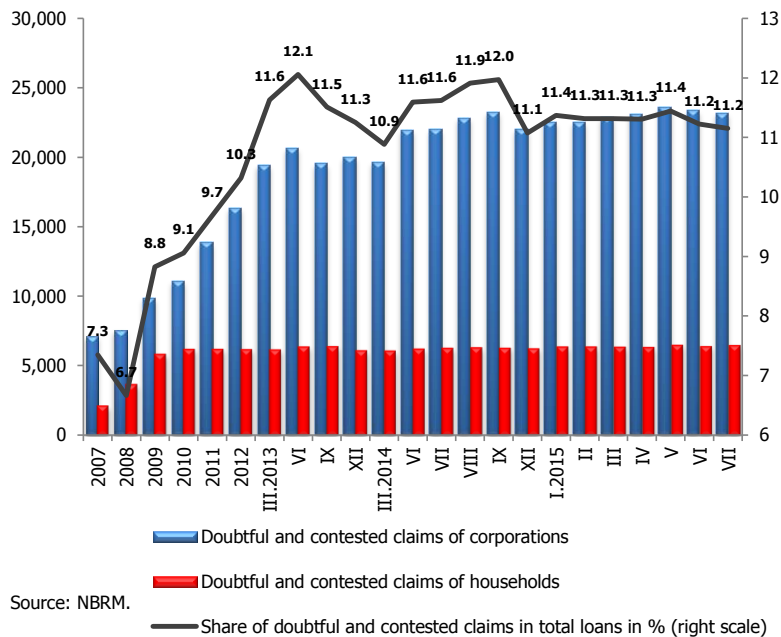
At the end of July, the annual growth rate of total loans equaled 8.9%, which is below the annual growth of 9.8% projected for the third quarter of 2015. As of July, on a quarterly basis, loans registered a growth of Denar 447 million which is about 7% of the projected growth for the third quarter, according to the April projection. However, one-month data are insufficient for drawing a conclusion on the likelihood of achieving the projected growth.

Loans of banks and savings houses extended to households

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

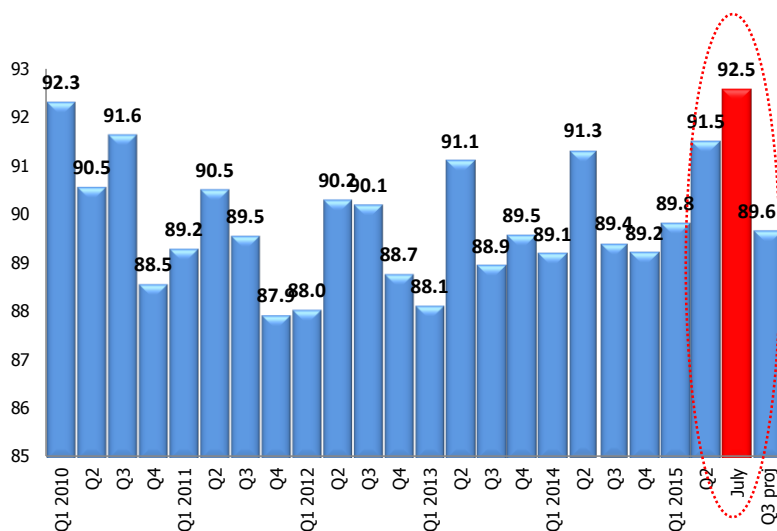


Share of doubtful and contested claims in total loans
(in %)



In July, doubtful and contested claims kept on decreasing, but at slower pace compared to the previous month. The decline is entirely due to the fall in the doubtful and contested corporate claims, with a small increase being registered in households. The share of doubtful and contested claims in total loans remained at the same level as in the previous month (11.2%). On an annual basis, total non-performing loans further increased, at a slower pace compared to the previous month.

Loan-deposit ratio, in
(in %)

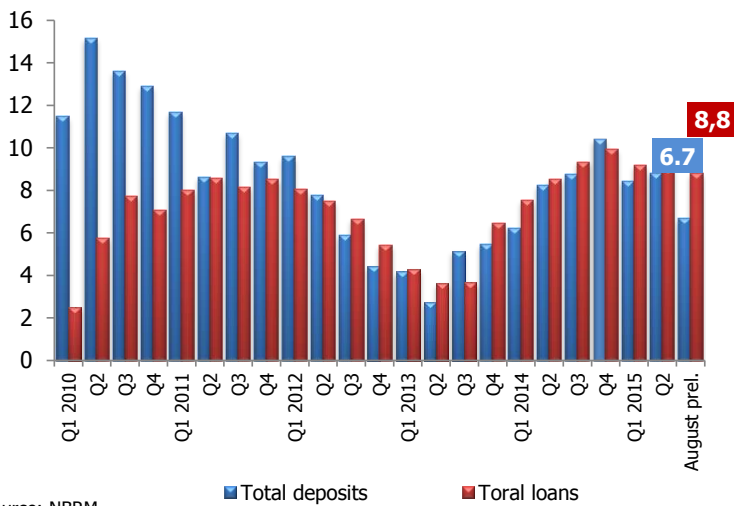


The utilization of the deposit potential for lending to the private sector at the end of July was 92.5%, which is higher than the performances as of the end of the second quarter and the April projection for the end of the third quarter.

Total deposits and loans
(annual growth, in %)

According to preliminary 10-day data, in August 2015, total deposits increased by 1.5% on a monthly basis, despite the 1% decline in the previous month. The growth of total deposits was in full due to increased corporate deposits, while household deposits, after the rise in July, in August again dropped due to the decrease of Denar deposits. In August, the total loans increased by 0.2% on a monthly basis, which is almost the same as in the previous

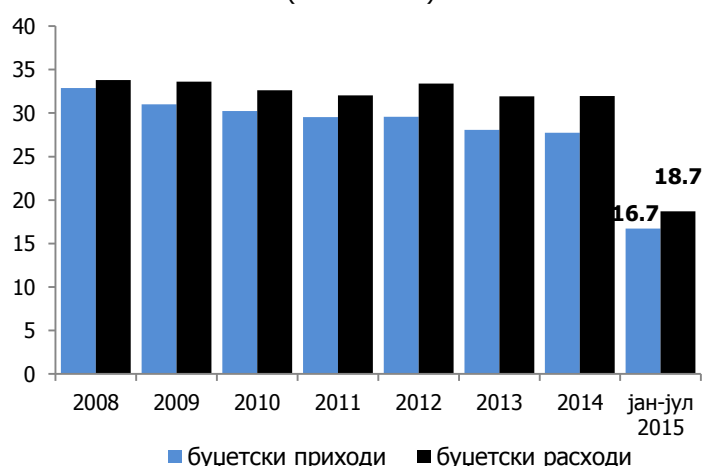
MONETARY SECTOR



Source: NBRM.

month. Analyzed by sector, the weaker credit growth is still explained by the changes in corporate loans, which decline on a monthly basis for the second consecutive month. However, it should be borne in mind that the weaker corporate lending, after the solid shifts in the second quarter, is not unusual for July and August and can indicate seasonal trends. On the other hand, household lending continued at a slightly slower pace compared to the previous month. On an annual basis, in August, total deposits and total loans rose by 6.7% and 8.8%, respectively.

Budget revenues and expenditures
(in % of GDP)

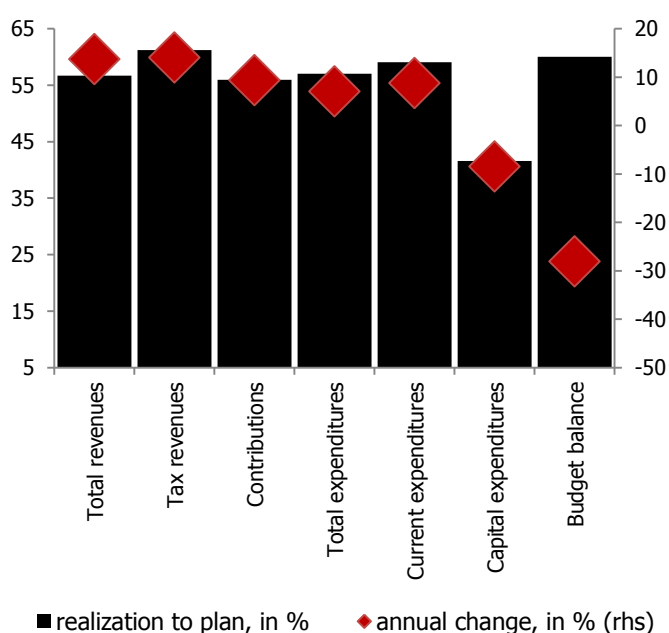


Извор: Пресметки на НБРМ врз основа на податоци од Министерство за финансии.

In the period January-July 2015, the Budget of the Republic of Macedonia (central budget and budgets of funds) generated total revenues of 16.7% of GDP¹⁹, which is higher compared to the previous year (15.5% of GDP). Analyzed in nominal terms, in this period, budget revenues increased by 13.7% annually, mainly resulting from higher profit tax. Moreover, there is an annual growth of inflows from excise duties based on income tax, while inflows from VAT registered an annual decline.

Total budget expenditures in January-July 2015 amounted to 18.7% of GDP, which is slightly above the level of budget expenditures incurred in the same period last year (18.4% of GDP). In nominal terms, as of July, budget expenditures were by 7% higher compared to the same period last year, with the largest contribution of higher current costs, amid annual reduction of capital costs.

Implementation of the budget (central budget and funds)
Jan-July 2015



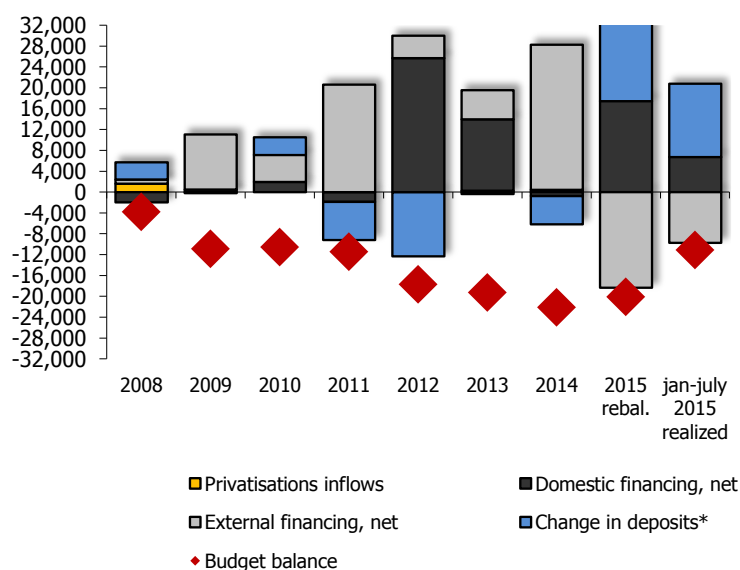
* With respect to the Budget plan for 2015.
Source: Ministry of Finance.

In the period January-July, the revenues and expenditures constituted 55.5% of the revenues and expenditures projected for the entire 2015, respectively, under the Budget Revision for 2015²⁰. Analyzing by category of tax revenues, the realization of inflows of profit tax (79.7%) was the highest, followed by inflows of income tax (54%). Observing individual categories of expenditures, as of July, there is a higher execution of current expenditures (57.6%) compared to capital expenditures (39.7%).

¹⁹ The analysis uses the NBRM April projections for the nominal GDP for 2015.

²⁰ In August 2015, the Parliament of the Republic of Macedonia passed the Budget Revision for 2015.

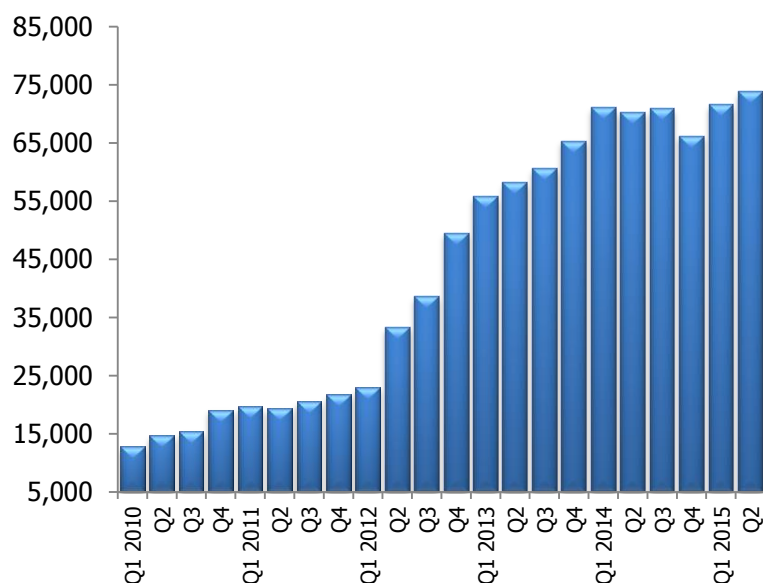
Financing of the budget balance
(in millions of denars)



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

According to the latest available data, in July, in the Budget of the Republic of Macedonia registered a deficit of Denar 1,580 million. The deficit was financed through the issuance of government securities on the domestic market and the simultaneous withdrawal of funds from the account with the NBRM. Since the beginning of 2015, the budget deficit amounted to Denar 11,101 million (or 2% of GDP²¹), representing 55.1% of the projected budget deficit for 2015, according to the Budget Revision. In terms of its financing, in the period January-July, the budget deficit was financed the government deposits with the NBRM and by additional issuance of government securities.

Stock of total government securities
(in millions of denars)

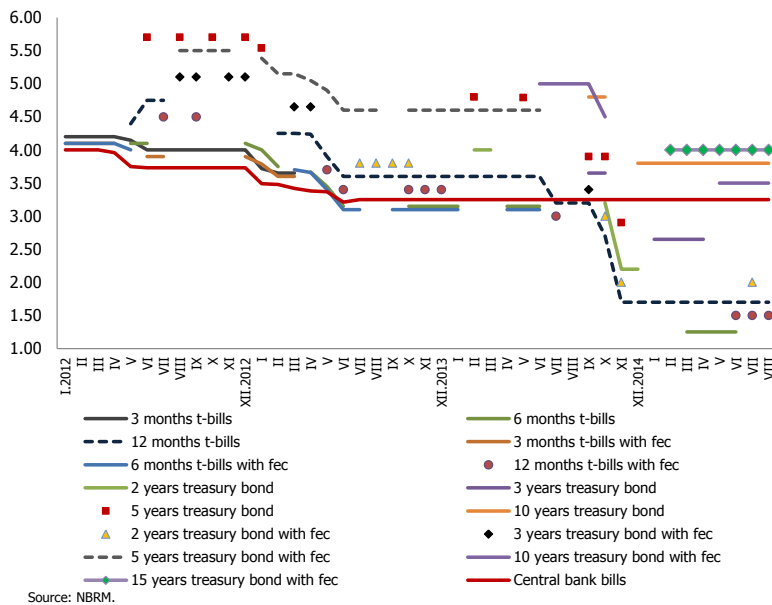


Source: NBRM.

The stock of government securities on the domestic market at the end of August amounted to Denar 73,537 million. Compared to the end of the second quarter, government securities dropped by Denar 280 million. On a cumulative basis, net amount of Denar 7,375 million of government securities has been issued since the beginning of 2015.

²¹ 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 August amounted to 1.5% and 1.7% for the 12-month treasury bills, with and without currency clause, respectively. Interest rates on government bonds ranged from 3.5% and 3.8% for 10-year government bonds, with and without foreign currency clause, respectively, to 4% for the 15-year government bonds with foreign currency clause. Interest rates on government securities issued in August remain unchanged compared with the auctions in the previous month.

Box 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 potential²², 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.

²²For 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).

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.

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 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 stimulating 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.