National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

April 2014

Recent macroeconomic indicators
Review of the current situation - implications for the monetary policy

The review of the current situation aims to give an overview of the recent macroeconomic data (January - March 2014) and to make a comparison with the latest macroeconomic projections (October 2013). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous cycle projections. The review focuses on the changes in external assumptions and performance of domestic variables and the effect of these changes on the environment for monetary policy conduct.

The global economic environment has not undergone major changes compared to the period of the last assessments. The latest economic indicators for the euro area are favorable and point to further moderate pace of growth during the first quarter of 2014. Recent assessments indicate a growth of economic activity in 2014 that will accelerate during 2015 and 2016. According to Eurostat's flash estimate, in March compared to February, the rate of inflation in the euro area slowed down to 0.5%. The ECB's assessments for the period ahead still indicate a low rate of inflation for a longer period, and by the end of 2016, it would gradually reduce to 2%. Under such circumstances, in April, the ECB decided to keep the same policy rate and reaffirmed the decision to conduct accommodative monetary policy as long as necessary. According to ECB, the risks identified with the last reassessment[1] still apply, which means further downward risks related to the economic growth. **Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the assessments for the foreign effective demand for the period 2014-2015 are within the October projection. Changes in the expectations about the prices of primary commodities diverge.** As projected in October, the latest assessments for the **global oil prices** indicate a reduction of the price of this energy source in 2014 and 2015, which will be stronger for 2014 compared to the October projection. The revisions of individual **metal prices** for 2014 indicate a decrease rather than an increase in the price of copper and rise rather than fall in the price of nickel, while the revision for 2015 refers to a faster increase than previously expected. Analyzing **food prices,** the latest revisions for 2014 are downward and indicate alleviation of pressures through this channel on the domestic inflation and the terms of trade. The price of primary food products is still expected to rise in 2015, however, it is revised upwards for wheat, and downward for corn. In addition, there are upward risks about these projections for the food prices associated with the Ukrainian-Russian conflict.

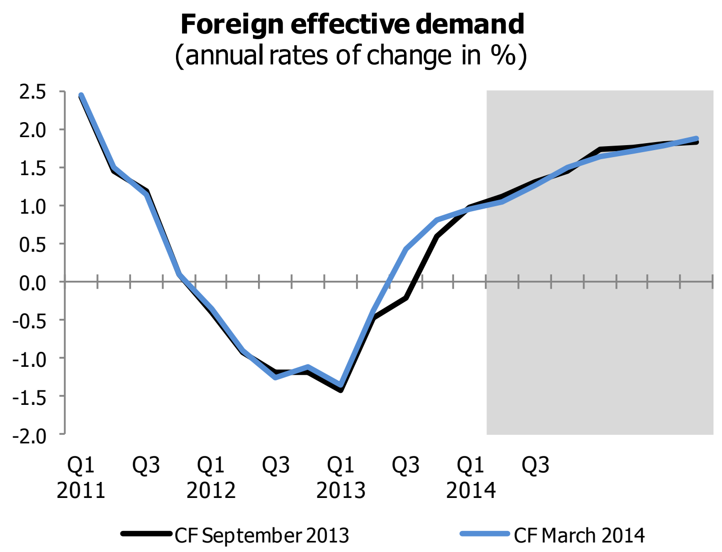
A comparison of recent macroeconomic indicators with their projected dynamics within the October cycle projections provides a different picture in different segments. In terms of individual indicators relevant for the monetary policy, inflation data for February 2014 indicate further alleviation of inflationary pressures and significantly lower inflation than expected in the October projection. These deviations are mainly due to the food component and less to the core inflation. On a monthly basis, the price level moderately reduces (by 0.1%) for second month in a row, contributing to a further slowdown of the annual inflation to 0.6% in February (0.9% in January). The annual inflation slowed down due to the food prices and some components of core inflation. In February, the core inflation equaled 1.6%, which is a continuation of the slowdown of growth and is below the October projection. **Taking into account recent developments**

[1] The ECB considers that the risks arise from the uncertain movements of financial markets, especially in emerging economies and developing countries, the possibility of weaker performance in domestic and export demand, the slow and inadequate implementation of structural reforms in the member states of the euro area, and the geopolitical risks related to the uncertain development of the conflict between Russia and Ukraine.

and revisions of external assumptions, the risk balance still points to more pronounced downward risks about the inflation projection for 2014 of 2.3%.

According to the latest available data as of the end of March 2014, foreign reserves (adjusted for price and exchange rate differences and securities price changes) decreased, as projected for the first quarter. The latest data suggest a lower trade deficit than projected and favorable developments in the services balance. On the other hand, recent performance on currency exchange market indicates lower net inflows of private transfers than expected for the first quarter. **Regarding the real sector,** the initial SSO's GDP assessment suggests 3.1% growth of the economic activity in 2013, as projected in October. The available **high frequency indicators for the economic activity** suggest further positive trends during the first quarter of 2014. **Within the monetary sector**, according to the preliminary data as of 31 March 2014, the amount of **total loans** is above the October projection for the first quarter, and the annual growth rate is around 7.5% (instead of 5.3% as projected). Analyzed on a monthly basis, the growth of total loans in March is almost equally distributed among household and corporate sectors. According to recent data, after the rapid growth in February, total deposits increased during March, and as of 31 March 2014, they outperformed the projections for the first quarter. The latest assessments for the level **of EURIBOR for 2014 indicate a somewhat higher level compared to the October projection, while almost all assessments from the October projections apply for 2015.**

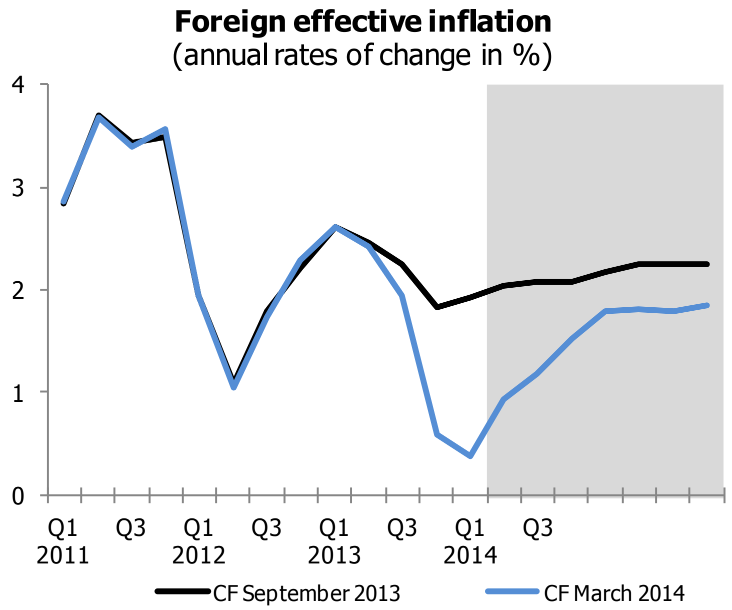
Recent macroeconomic indicators and assessments do not indicate major changes in the perceptions for the environment and the risks compared to the assessments made under the October projections. Foreign reserves declined, as projected for the first quarter. In February, the headline inflation was significantly lower than projected, and according to the recent assessments, the downward risks around the inflation projection for 2014 again come to the fore. At the same time, there was a significant slowdown in core inflation. However, the geopolitical tensions related to the conflict between Ukraine and Russia is yet another factor that can cause instability and major price shocks, which is a potential future risk to the inflation. According to the indicators of economic activity, the economy will accelerate in the first quarter of 2014, as well, without creating any imbalances. Credit growth, as of the second 10-day period of March, is above the projection, but there are still downward risks associated with the credit flows to the end of the year. The external environment is still uncertain, amid downward revision of prices of certain metals on the international market, which can have a detrimental effect on the external position of the Macedonian economy. Uncertainty clouding the developments in Ukraine additionally highlights the risks arising from the global environment.



According to the recent assessments, the growth of foreign effective demand for 2014 is the same as projected in October...

...i.e. it is estimated that the growth will equal 1.2%, largely owing to the economic developments in Germany.

No changes have been made in the assessment of foreign effective demand either for 2015, i.e. it is expected to accelerate by of 1.8% as projected in October.



The latest assessments indicate lower foreign effective inflation in 2014...

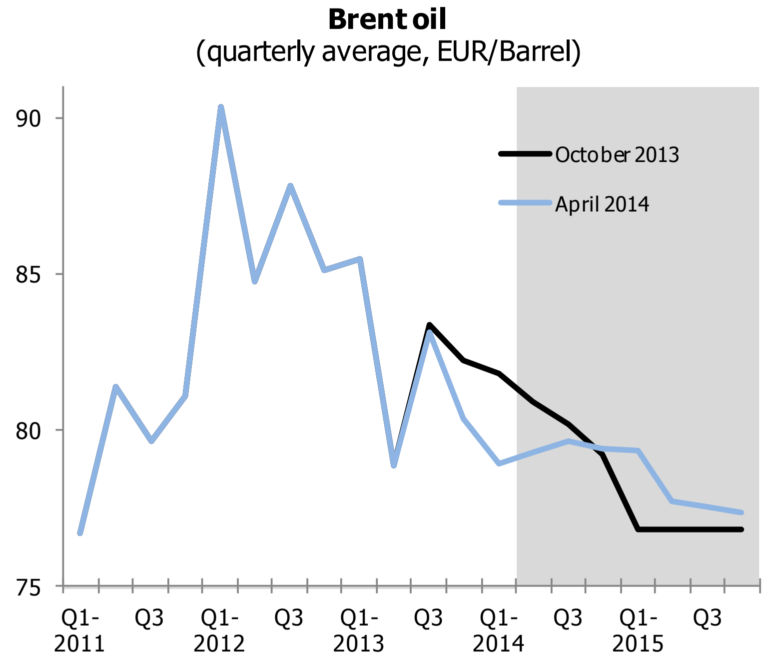
...which is now expected to be 1% instead of 2% as projected in October...

...as a result of the downward revision of inflation expectations in all our major import partners...

...mostly given the lower inflation assessments for Serbia, Croatia and Germany.

Lower foreign inflation is forecast for 2015 i.e. it is now expected to be 1.8%, instead of 2.2% as projected in October...

...primarily as a result of the downward revisions of the projected inflation in Germany, Italy and Bulgaria.



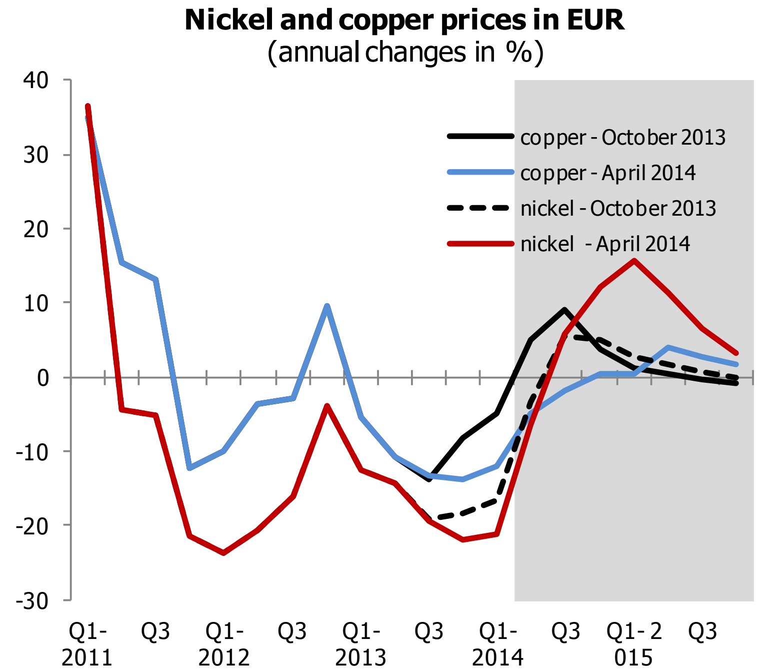
Source: IMF, "Bloomberg" and NBRM estimates.

The latest assessments for crude oil price in 2014 indicate a higher fall than projected in October...

...given the faster decline in the first quarter of 2014...

...and the announcement from the Libyan government to reopen the ports, which will increase global Brent oil supply and the simultaneous reduction of demand by China and the euro area.

Oil price for 2015 is assessed to keep on declining, but at a slower pace than projected in October.



Source: IMF, "Bloomberg" and NBRM estimates.

Annually, the projected price changes of copper for 2014 were revised downward ...

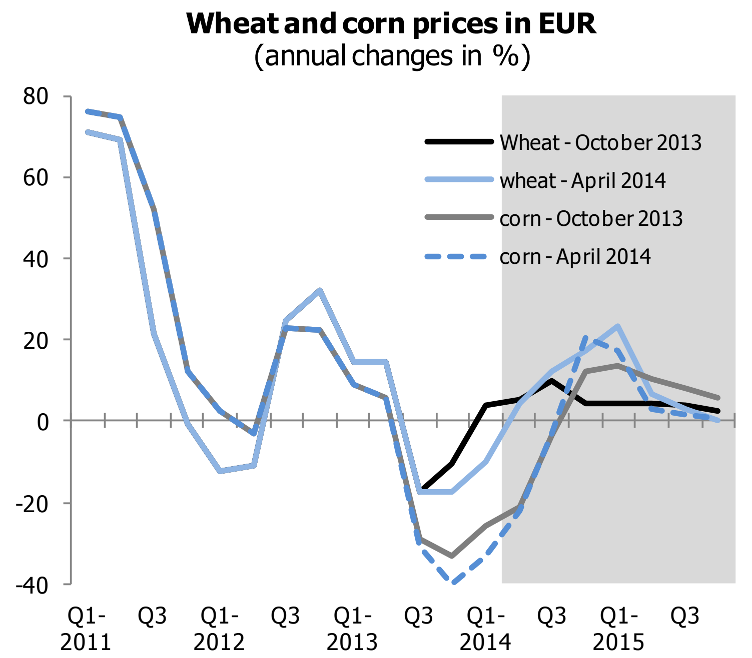
...given the assessments for a significant decline rather than increase in its price...

...that is mainly attributable to the reduced demand by China...

...while the price of nickel was revised substantially upward. Now, it is expected to increase moderately rather than to decrease as projected in October.

Main upward risk to the price of copper is the earthquake in Chile, while to the price of nickel, it is the announcement of U.S. sanctions on Russia because of the recent turmoil in Ukraine, which may affect the supply of nickel from Russia.

The new assessment includes stronger rise of metal prices in 2015, compared with October projection, mainly due to the expectations for the metal market to stabilize.



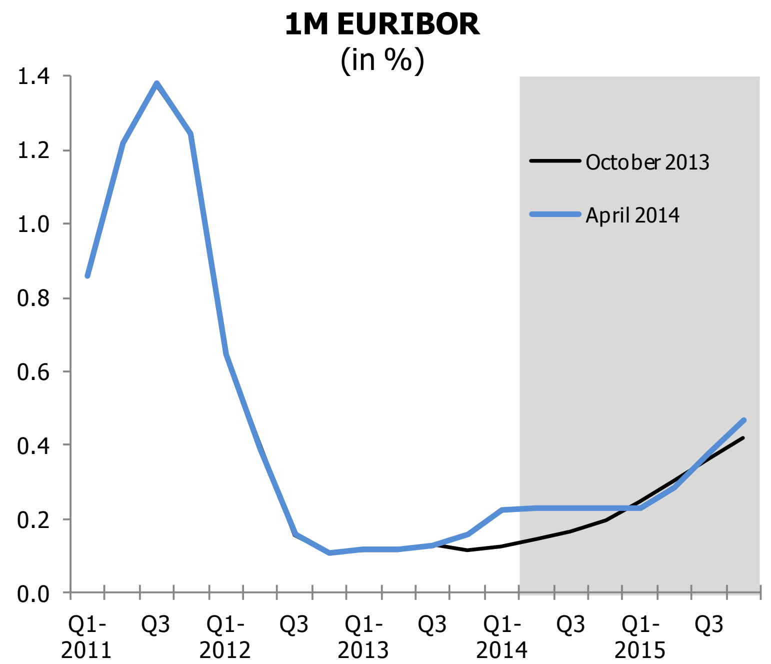
Source: IMF, "Bloomberg" and NBRM estimates.

The new assessment for the trends in cereal prices for 2014 include a stronger decline in the price of corn, while the price of wheat is not expected to change, as projected in October...

...mostly due to the improved outlook for global supply and the positive expectations for the next harvest yields.

However, there is an increasing risk to the cereal prices because of the recent developments in Ukraine, which is one of the major manufacturers of these products.

According to the recent assessments, higher increase in wheat prices and slower rise in corn prices is expected for 2015, compared with the October projection.



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

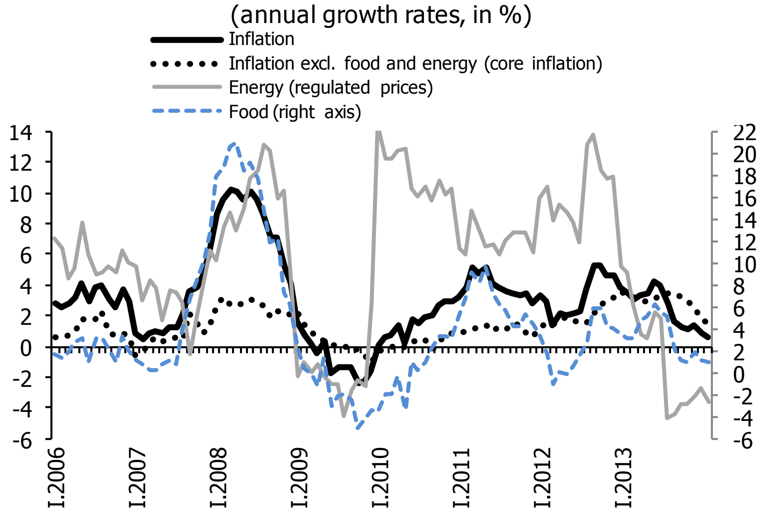
It is estimated that by the end of 2014, the short-term EURIBOR will remain at the level of the first quarter of the year…

...where it is assessed that the one-month EURIBOR will equal 0.23%, on average, rather than 0.16% as projected in October.

The latest assessments for 2015 suggest almost unchanged EURIBOR, compared with the October projection, i.e. an average level of 0.34% (0.33% in October).

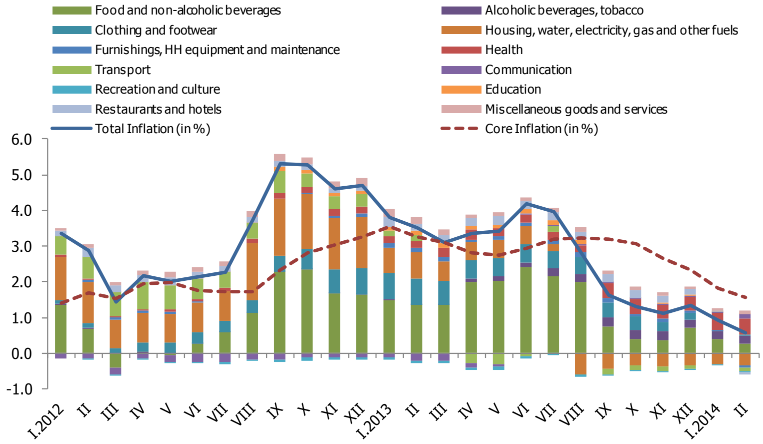
Inflation and volatility of food and energy

(annual growth rates, in %)



Source: State statistical office and NBRM calculations.

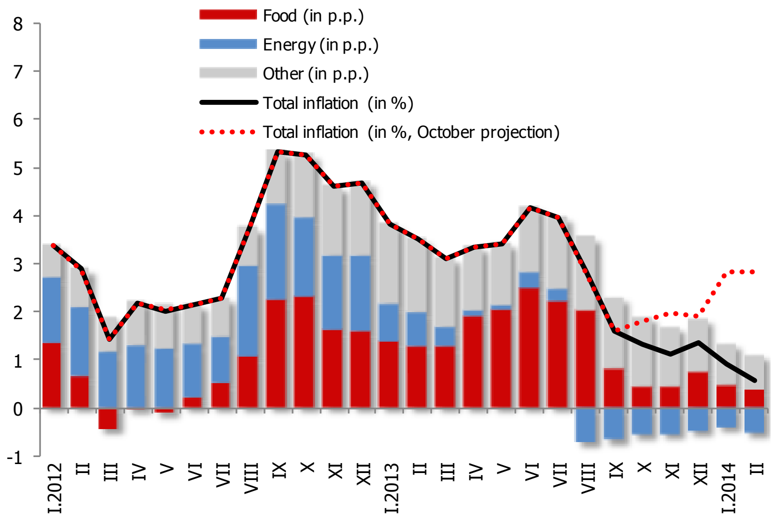
Contributions to the annual inflation rate (in p.p.)



Source: SSO and NBRM.

Inflation rate

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



Source: SSO and NBRM.

Consumer prices in February 2014 decreased by 0.1% on a monthly basis…

…that is mainly attributable[2] to the lower rates of accommodation services, IT equipment, as well as the downward correction in prices of liquid fuels.

The higher price of unprocessed vegetables actually increases the price level on a monthly basis.

The annual inflation rate slowed down to 0.6% in February, compared to 0.9% in January, with the growth of inflation being significantly slower for several months than expected in the October projection cycle…

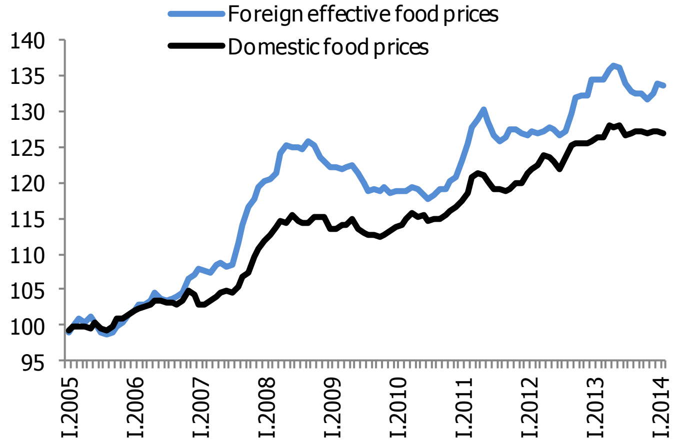
...with higher downward deviation of the actual inflation in the food component than projected, with the deviation in the energy component and the core inflation being weaker.

In February, the core inflation was still going down on a monthly basis for second consecutive month, largely due to the lower prices of accommodation services and IT equipment...

...thus slowing down the annual core inflation to 1.6% in February, compared to 1.8% in January. Thus, the annual growth of core inflation has been decelerating for fifth consecutive month.

[2] Accommodation services, with their price decrease of 10.2%, are the category with largest individual contribution to the monthly drop in the consumer price index. Prices of IT equipment decreased by 8.5%, while prices of liquid fuels were corrected downward by 1%, on a monthly basis.

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

Thus, prices of foreign trade food commodities suggest a slightly larger decline in the aggregate price of cereals in 2014, compared with the signals obtained during the October projection cycle.

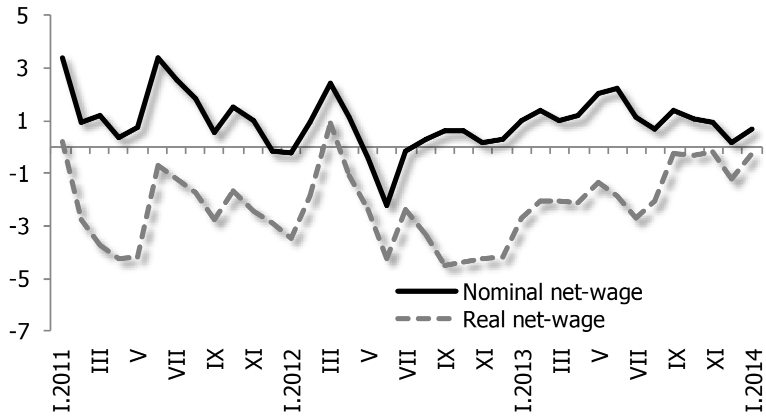
At the same time, the assessments of oil price, as well as the expectations for foreign effective inflation, by the end of the current year, have been revised downwards.

At lower initial conditions and such revisions of external assumptions, the risk balance points to more pronounced downward pressures about the inflation projection for 2014 of 2.3%[3].

However, there is uncertainty surrounding this assessment, associated with the Russian-Ukrainian conflict...

...that could greatly destabilize the global market of these primary commodities, given that Ukraine is the sixth world wheat exporter and the third largest exporter of corn in the world.

Average net-wage
(annual changes, in %)



Source: SSO.

Moreover, unfavorable weather factors in the United States, Ukraine and Russia stand out as a crucial risk factor that could potentially create significant upward pressure on prices of primary food products.

In January 2014, the average **net wage** registered an annual growth of 0.7% in nominal terms...

...given the growth of wages in industry and services sector, particularly transport and storage and financial and insurance activities.

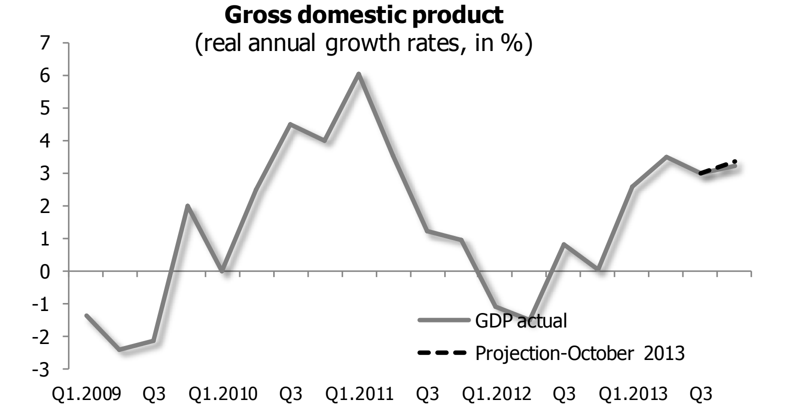
[3] Excluding the effect of a possible increase in the regulated price of electricity. The effect of the 10% increase in electricity price in mid-2014 on the average annual inflation is estimated at 0.4 percentage points.

The acceleration of nominal wage growth, amid a slower rate of inflation, decelerated the decline in **real net wages** (a minor fall of 0.2%, versus the 1.2% decline in December 2013).

The decline in net wages in real terms is slightly slower than projected in October for the first quarter of 2014.

In the fourth quarter of 2013, the gross domestic product registered a real annual growth of 3.2% (3.1% for the entire 2013), which is consistent with the October projection...

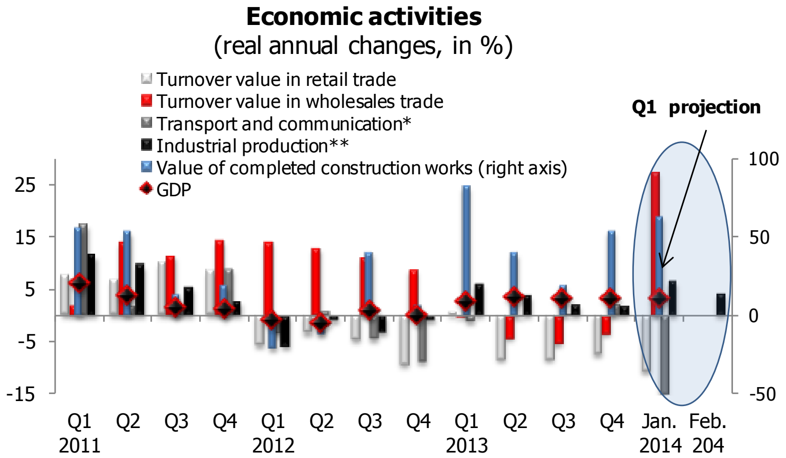
...caused by the positive contribution of net exports, amid reduced domestic demand given the lower investments and public spending.



Source: SSO and NBRM projections.

The growth structure in 2013 deviates from the projection for positive contribution of the domestic demand, while the assessments for net export imply its slight negative contribution to growth. These discrepancies are partly explained by the substantial revisions of the GDP structure data for 2012 and for the first two quarters of 2013[4].

The available data for the first quarter of 2014 suggest further positive developments in the domestic economy, with an annual growth being recorded in important sectors.



*Simple average of annual growth rates of the different types of transport and the telecommunications.
** Data on industrial production are with a base 2010
Source: SSO and NBRM calculations.

Industrial output increased by 5.2%[5] on average, in the first two months...

...given the 4.1% growth in February, mainly due to the increase of production of machinery, construction materials and rubber and plastic products...

...which is slowing down compared to January, amid lower capacity utilization[6].

In the first quarter of 2014, **construction**

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[4] For more information, see Annex 2 "*Revision of GDP quarterly data*", published in the Quarterly Report, January of 2014.

[5] Refers to data on industrial output with base and weights of **2013**, including recent changes in the industrial output structure. In the period January-February 2014, the annual growth in the index with a 2010 base equals 5.2%, on average.

[6] Business Tendency Survey in the manufacturing industry conducted by the SSO.

recorded a steep rise, with the growth rate in January being more than 60%...

...while the **trade** has been showing positive signals since the beginning of the year, despite the decline in the fourth quarter of 2013...

...which amid the annual decline in retail trade, mainly results from the growth in the wholesale.

Transport registered downward trends, after the growth in the previous quarter.

Available indicators of aggregate demand also point to growth in the first quarter of 2014, which is consistent with the October projection.

High frequency data on **consumer spending** point to a slightly higher growth compared to the previous quarter...

...amid strengthened lending activity to households, further rise of pensions, although slower, and a further slowdown of the decline in real wages...

...while data on net currency exchange operations for the first quarter[7], as an indicator for private transfers, point to their further decline.

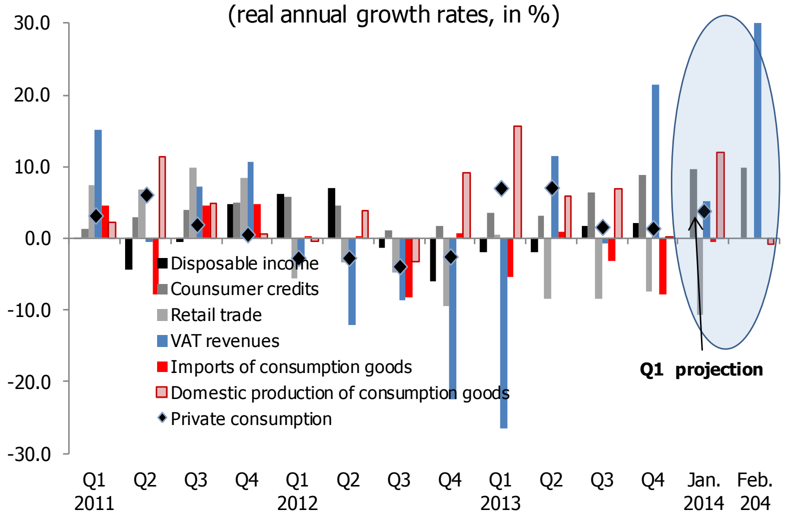
Both domestic output and import of consumer goods registered an improved performance compared to the previous quarter...

...when the output went back to the zone of positive growth rates, and the fall of imports significantly slowed down...

...while the net income from VAT registered a high growth, mainly due to the low base effect.

Despite these trends, the retail trade data point to a faster rate of decline.

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



Source: SSO and NBRM calculations.

[7] Data as of 20 March.

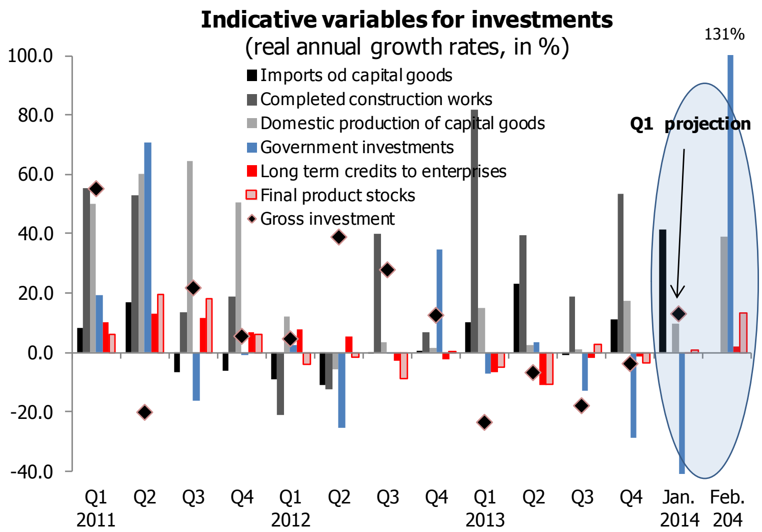
The latest indicators of **investment activity** indicate a significant growth in the first quarter...

...given the stronger growth in domestic output and import of capital goods...

...and real annual growth in long-term lending to the domestic corporate sector, despite the fall in the previous six quarters...

...with more favorable shifts being registered in government expenditures for investments, whose fall significantly slowed down.

On the other hand, the inflows of foreign direct investments declined on an annual basis, compared to the growth in the previous quarter.



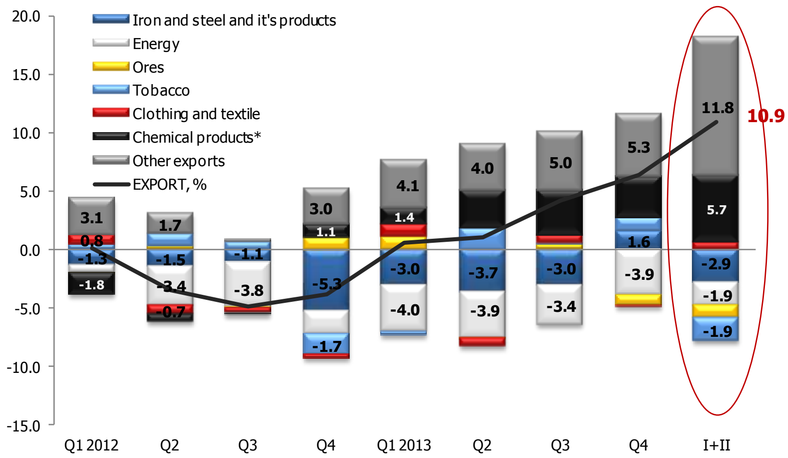
Source: SSO and NBRM calculations.

A minor narrowing of **foreign trade deficit** was registered in the first quarter of 2014 compared to the same period last year...

...where the reduction of deficit results from the higher growth of exports relative to imports.

As of February, the budget performance indicates a further decline in **public spending**, given the reduced costs of goods and services annually.

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



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

In the first two months of 2014, the export of goods also registered a faster upward trend, which, amid moderate growth in imports, caused a **slight annual narrowing of the trade deficit of 1.1**%...

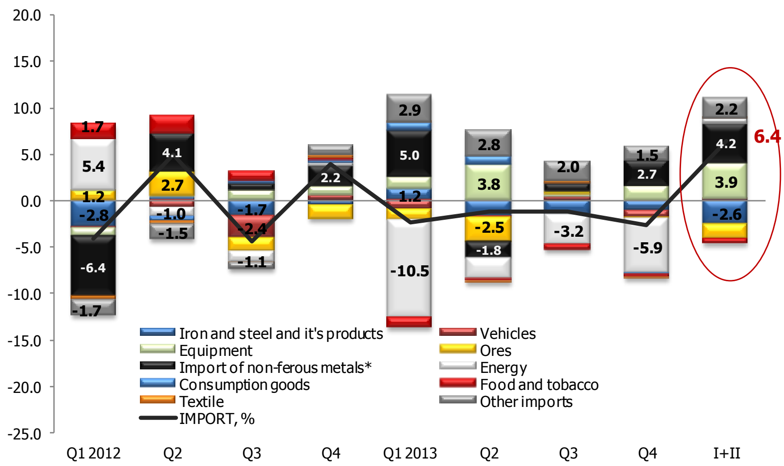
...instead of annual expansion in the first quarter, as projected in October.

Exports of goods registered a high annual growth of 10.9% in January and February, mainly as a result of the export activity of the new export-oriented facilities, particularly the growth of exports of various chemical products and other exports. In addition, a small positive contribution to the annual growth was made by the export of textile industry...

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

Compared with the October projection for the first quarter of 2014, exports in the first two months of the year are slightly higher than expected. Significant downward deviations are observed in exports of iron and steel, tobacco and energy, while the performance of new export capacities and other exports is higher than projected in October.

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

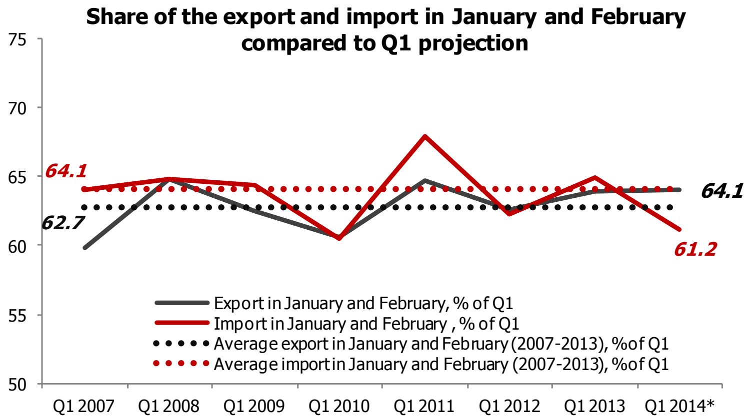


Source: NBRM.
** The following data depict the overall exports of one major export capacity in the free industrial zone.*

In January and February, **import of goods** recorded an annual growth of 6.4%, which was mainly due to the increase of raw materials imported for the new export capacities and investment import of equipment and machinery. Moreover, a negligible annual growth was recorded in import of energy...

...whereas the further decline in imports of raw metal for metal manufacturing industry (ore and iron and steel) acted in the opposite direction.

The import in January and February was lower than projected for the first quarter *of the year.* The largest negative deviation was registered in the import of energy, ore, iron and steel, while the import of raw materials for chemical industry, other imports and the import of machinery and equipment were higher than expected.

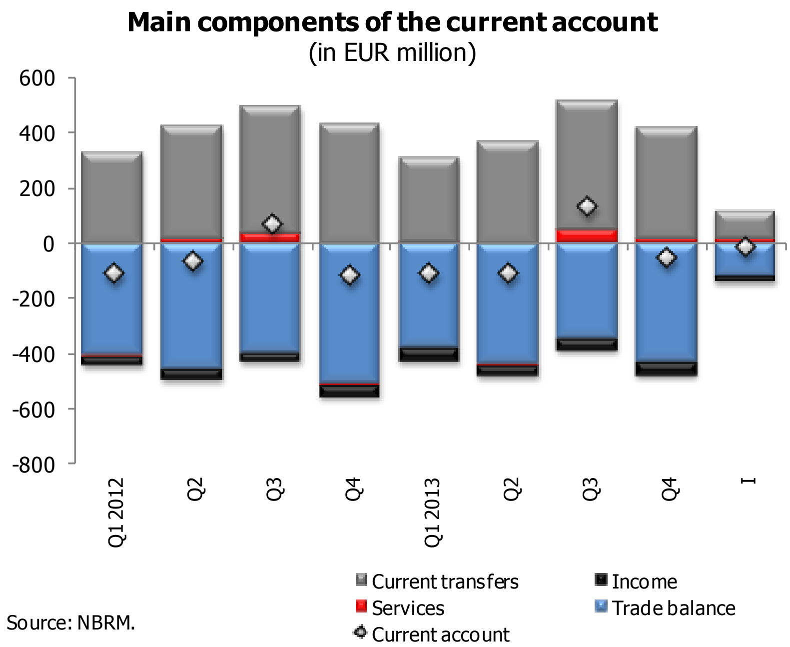


Source: NBRM.

** Share of the export/import in January and February in the projected export/import for Q1 2014, projection October 2013.*

Weaker performance on the import side in the first two months of the year led to a lower trade deficit than projected for the first quarter of the year, indicating the possibility for having lower than projected deficit in the first quarter.

International stock prices of nickel continue to suggest favorable movements in the current and next year. Additionally, the movement of crude oil price in euros indicates a steeper fall in 2014 than expected in the October projection. On the other hand, the movement of prices of copper indicates less favorable trends in 2014 and 2015.

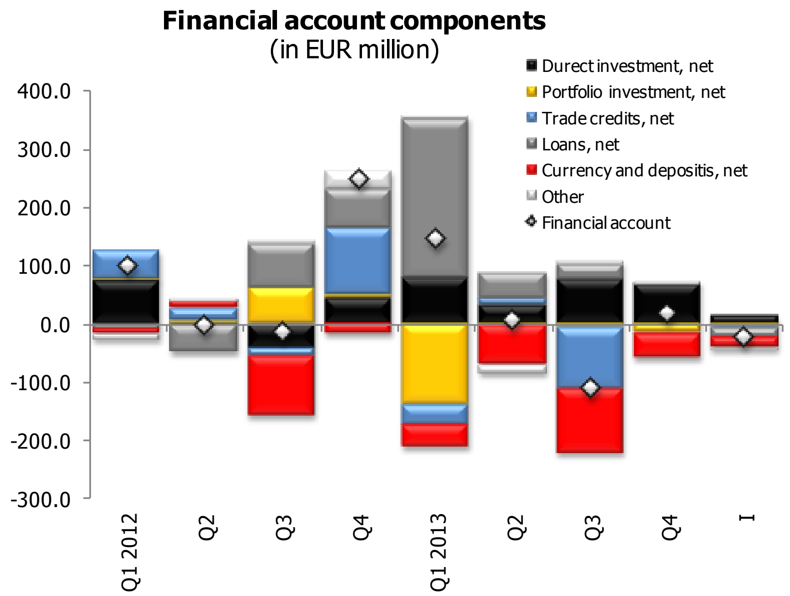


Source: NBRM.

In January 2014, the current account of the balance of payments recorded a deficit of Euro 16.8 million (or 0.2% of GDP), which is performance of roughly 11%, compared to the deficit for the first quarter of the year, as projected in October…

...referring to possibly lower current account deficit for the first quarter, with improved performance in the exchange of goods and services...

...while the performance of current transfers and income deficit is as projected in October.

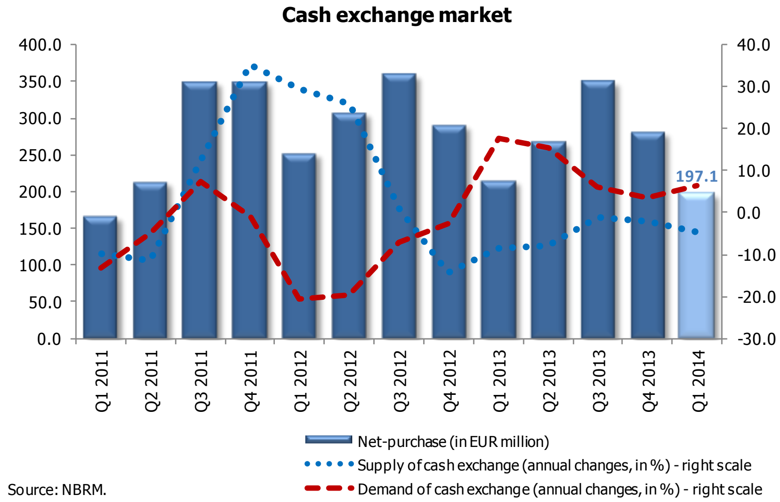


Source: NBRM.

In the first month of the year, the capital and financial account of the balance of payments reported net outflows of Euro 21.6 million, or 0.3% of GDP, compared to the net inflows in the first quarter of 2014, as projected in October.

The deviations are mainly due to the lower net borrowing abroad (occurring amid lower withdrawals and higher repayments of long-term loans than projected for the public sector), as well as lower net inflows of direct investment compared to the expectations from the October projection.

On the other hand, commercial loans registered significantly lower net outflows than projected in October, for the first three months.



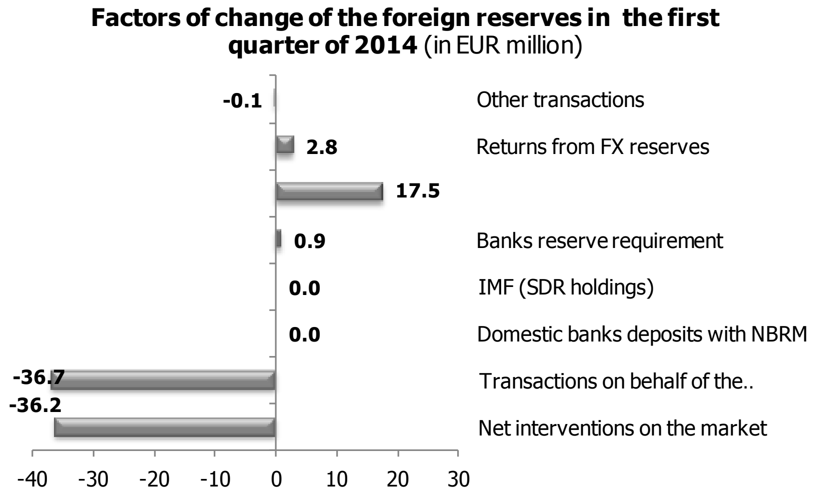
Source: NBRM.

Recent currency exchange operations data as of March 2014, show that the demand for foreign currency has continued to grow, while the supply of foreign currency on the currency exchange market drops for second month in a row...

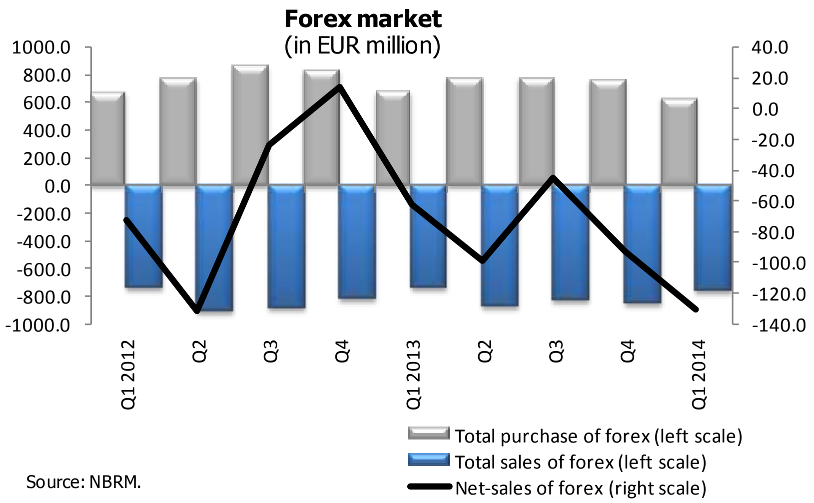
...whereby, in the first quarter of the year, the net purchase on the currency exchange market amounted to Euro 197.1 million, representing an annual decline of 8.7%. The latest currency exchange market information show that the performance will be lower than the expected net inflows of private transfers for the first quarter of 2014, which is in line with the October projection.

Source: NBRM.

As of 31 March 2014, the gross foreign reserves stood at Euro 1,941.2 million, down by Euro 51.9 million compared to the end of the previous year. Adverse changes in foreign reserves mostly reflect the net sales of foreign currency by the NBRM on the foreign exchange market and the transactions for the account of the government.



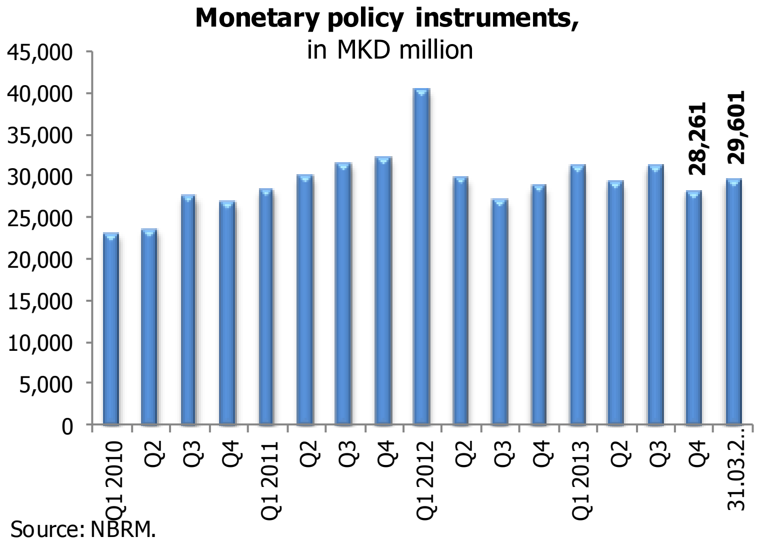
Source: NBRM.



Source: NBRM.

In the first quarter of 2014, the banks sold net amount of Euro 130.8 million on the **foreign exchange market**, which is by Euro 62 million less compared to the same period last year. This annual change results from the 7% decline in the foreign currency supply and the 2.9% increase in the demand for foreign currency.

Analysis of individual components shows that the increased net sale of foreign currency results largely from the higher net sale by companies and significantly less from the lower net purchase of foreign currency from exchange offices and natural persons.

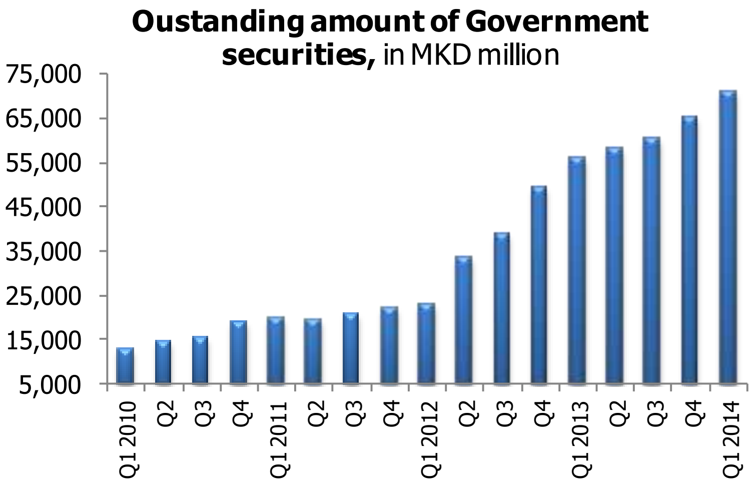


Source: NBRM.

Preliminary data as of 31 March 2014, show withdrawal of liquidity through monetary instruments relative to the end of the fourth quarter, but faster than expected...

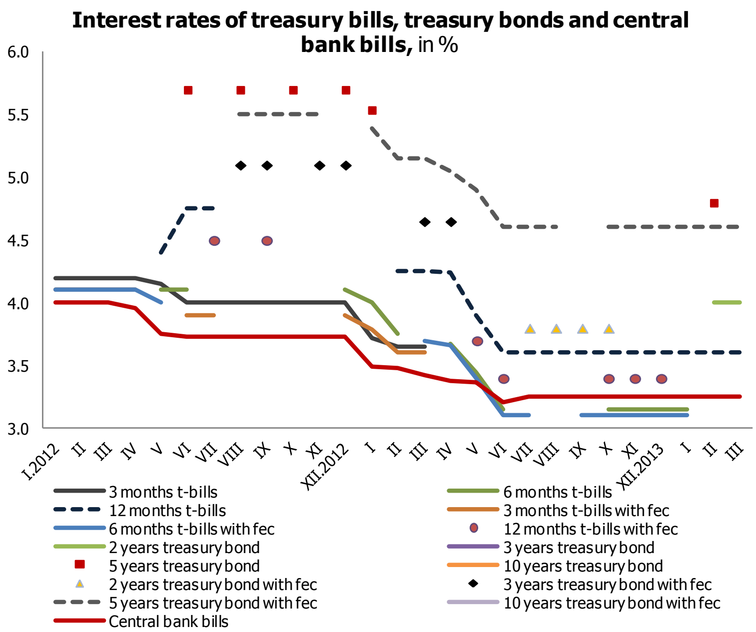
...amid quarterly decline in net foreign assets of the NBRM, but weaker than expected for the first quarter...

...and creation of liquidity through total government deposits within the volume projected in October.



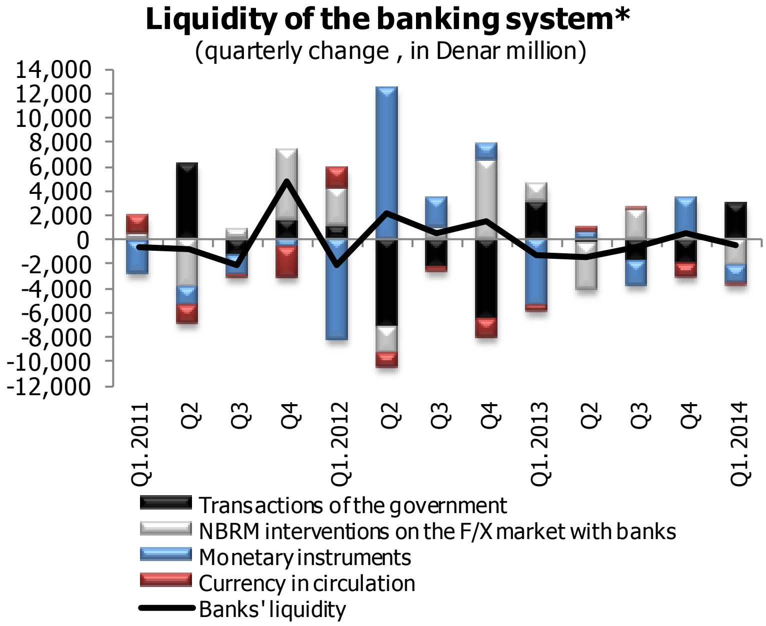
Source: NBRM.

As of 31 March 2014, the stock of government securities in the domestic market amounts to Denar 71,079 million, which is by Denar 5,760 million more compared to December 2013.



Source: NBRM.

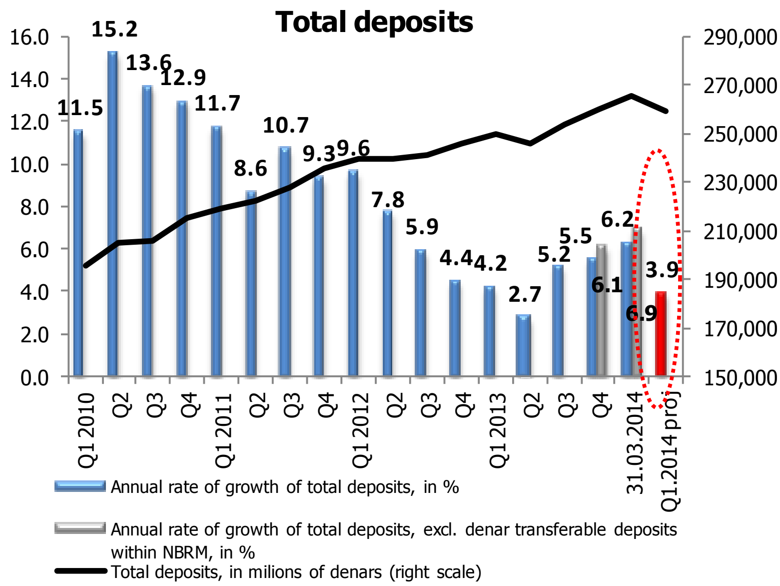
The interest rates on government securities market in March were also stable. The interest rates achieved at auctions in March equaled 3.6% on 12-month bills, 4% on 2-year bonds and 4.6% on 5-year bonds with foreign currency clause.



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

As of 31 March 2014, the level of reserve money is lower than projected for the first quarter...

...given the moderate quarterly decline in banks' liquid assets and weaker growth of currency in circulation, as opposed to the expectations for growth of both components as projected in October.



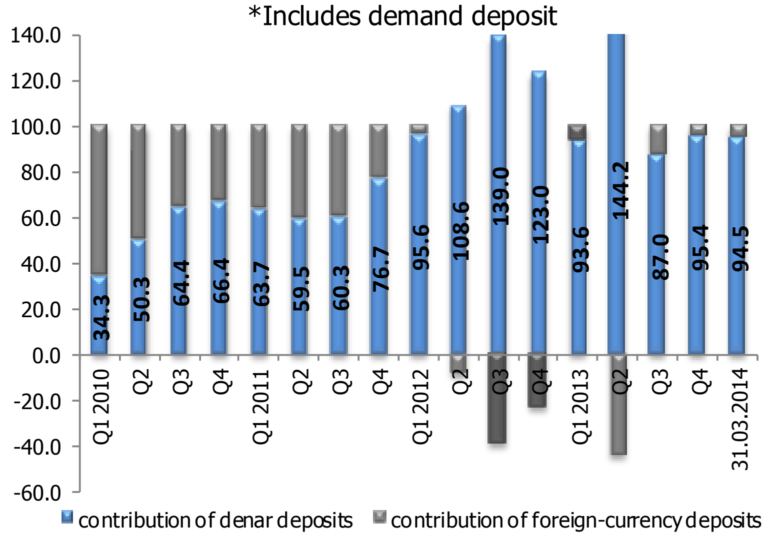
* Includes deposit money
Source: NBRM.

According to preliminary data as of 31 March 2014, total deposits registered a further monthly increase, but significantly slower compared to the previous month. The growth in total deposits in March was mainly due to the increase of deposits of private companies, unlike the performance observed in February when household deposits were the main driver of growth of the total monthly deposits.

As of 31 March 2014, the annual growth rate of total deposits equaled 6.2%[8] compared to the same period last year, which is by 3.9% above the annual growth projection for the first quarter. On a quarterly basis, total deposits increased by about Denar 5,700 million, surpassing the growth for the first quarter projected in October.

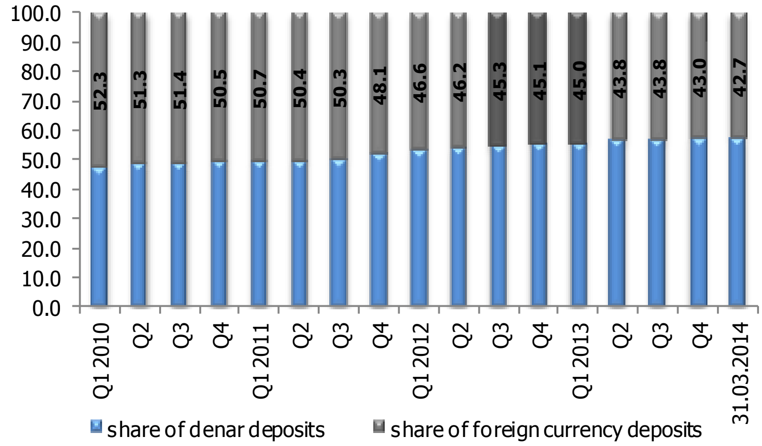
[8] Refers to total deposits including transferable Denar deposits of other financial institutions with the NBRM. Moreover, a greater reduction in this type of transferable deposits was registered in April 2013, after which they relatively stabilized. Consequently, the annual rate of total deposits that do not include this type deposits is higher and as of 31 March 2014 (preliminary data), it equals 6.9%.

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



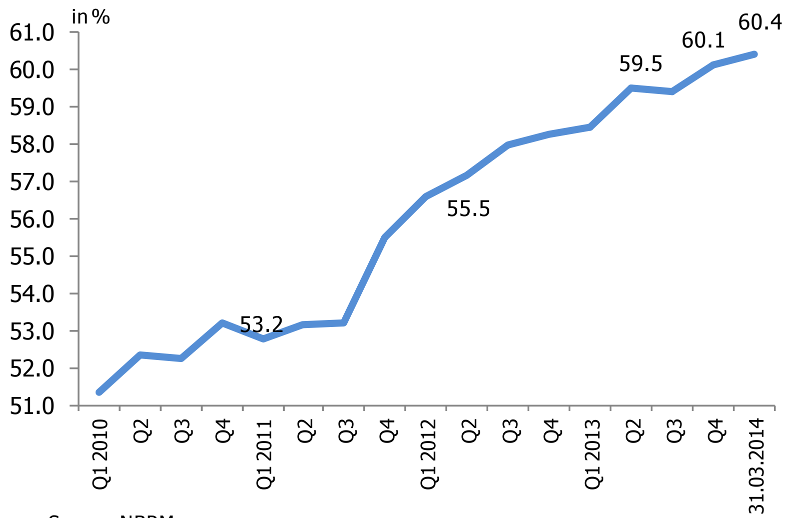
Source: NBRM.

Share of Denar and foreign currency deposits in the total Deposits (in %)
*Includes demand deposit.



Source: NBRM.

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



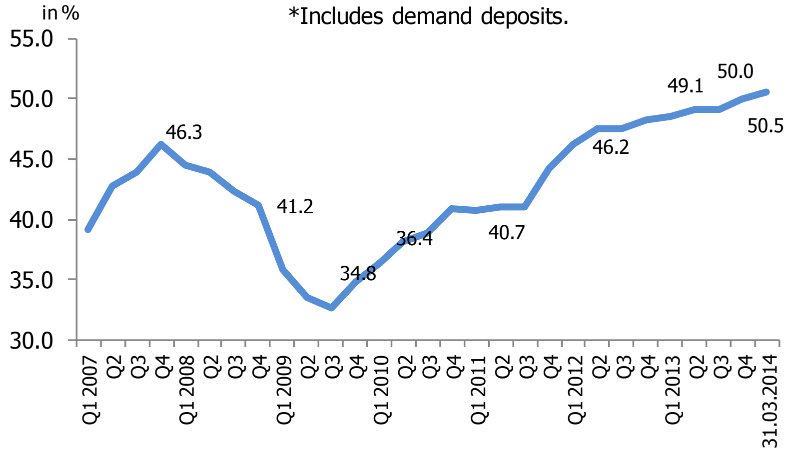
Source: NBRM.

The annual growth in total deposits was mainly due to the increase in Denar deposits, amid a moderate growth of foreign currency deposits.

As a result of the stronger quarterly growth of Denar deposits compared to the foreign currency deposits, as of 31 March 2014, the currency structure of total deposits negligibly changed, i.e. the share of foreign currency deposits went down.

Total household deposits registered a moderate growth in March, which was almost equally distributed between the savings in domestic and foreign currency...

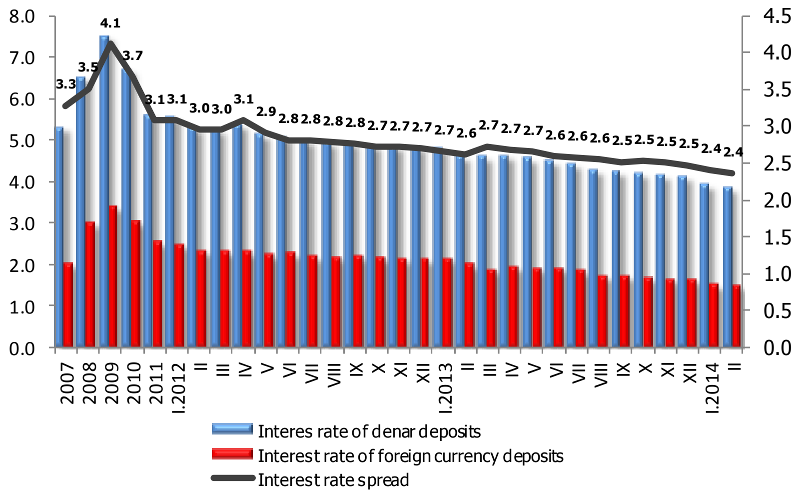
Share of denar deposits of households in total deposits of households



Source: NBRM.

...that amid stronger growth of Denar deposits in the previous two months, contributed to maintaining the share of Denar deposits in total deposits of households at a stable level of about 50.5%.

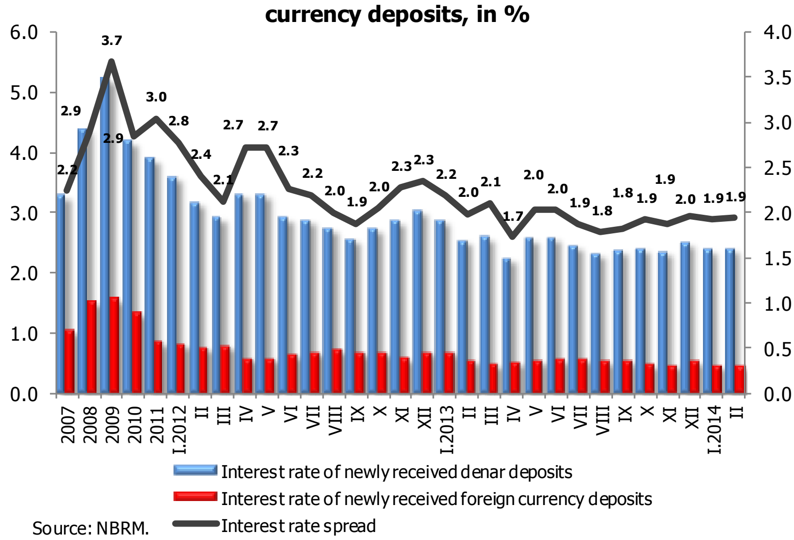
Interest rates on Denar and foreign currency deposits, in %



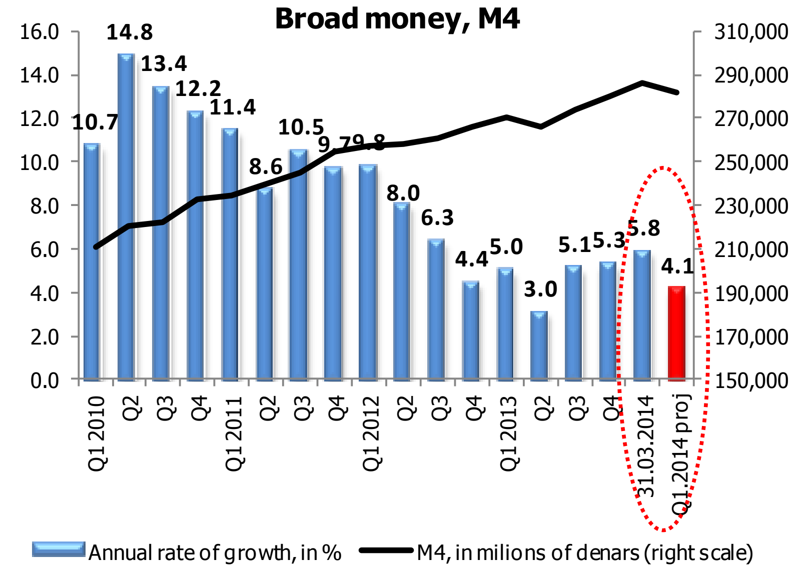
Source: NBRM.

In February, the interest rates on Denar deposits declined by 0.1 percentage points on a monthly basis, while the interest rates on foreign currency deposits remained unchanged compared with the previous month, thus insignificantly narrowing the interest rate spread between Denar and foreign currency interest rate. Interest rates on newly received deposits remained unchanged relative to January.

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



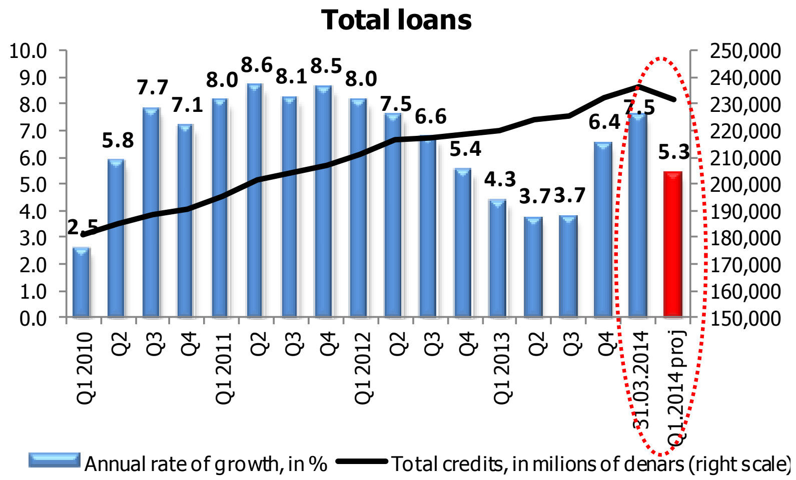
Source: NBRM.



Source: NBRM.

The money supply growth is stronger than projected in October...

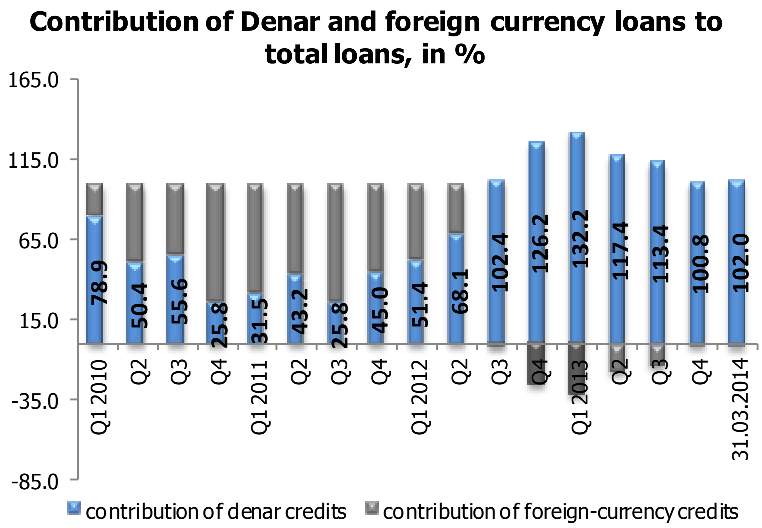
...given the higher performance in total deposits and lower growth of currency in circulation than projected.



Source: NBRM.

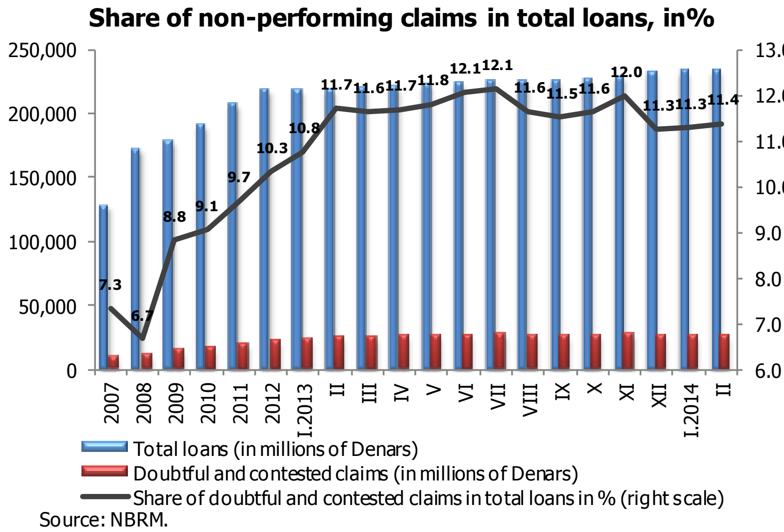
In March, total loans were still growing as a result of the simultaneous increase in corporate loans and loans to households...

...and as of 31 March 2014, the annual growth rate of total loans equals 7.5%, which is above the annual growth of 5.3% projected for the first quarter of 2014.

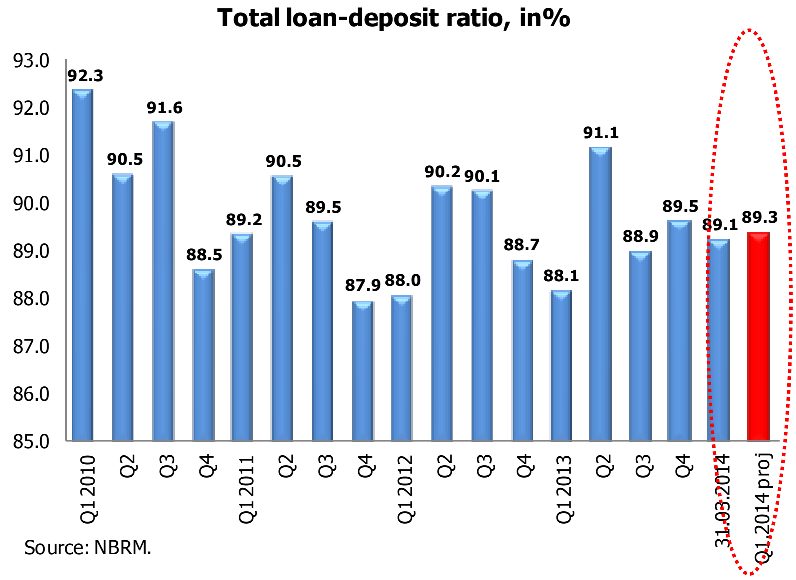


Source:NBRM.

The annual growth of total loans largely results from the rising Denar loans and decreasing foreign currency loans.



In February, the share of doubtful and contested claims to total loans recorded a minor increase compared with the previous month, as a result of the growth of non-performing loans to companies.



As of 31 March 2014, the utilization of the deposit potential for lending to the private sector was reduced on a quarterly basis, which is slightly below the level projected in October for the first quarter of 2014.

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

January 2013

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

- A Decision on reducing CB bill interest rate was adopted to cut the policy rate from 3.75% to 3.5%. At the same time, the interest rate on seven-day deposit facility 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 on amending the Decision on reserve requirement was adopted, which reduces the reserve requirement rate for banks' liabilities in domestic currency from 10% to 8% and increases the reserve requirement rate for liabilities in foreign currency from 13% of 15%. In addition, the amendments stipulate a reserve requirement rate of 0% for banks' liabilities to nonresident financial companies with contractual maturity of over one year, as well as for all liabilities to nonresidents with contractual maturity of over two years. A rate of 13% still applies to short-term liabilities to nonresident financial companies in foreign currency with contractual maturity of up to one year. To maintain the reserve requirement in denars and in euros relatively stable, the amendments increase the reserve requirement in euros that is fulfilled in denars from 23% to 30%.

October 2013

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

November 2013

- A Decision amending the Decision on reserve requirement was adopted, which exempts the NBRM from paying reserve requirement remuneration (previously, this remuneration equaled 1% for Denar reserve requirement and 0.1% for Euro reserve requirement). The Decision applies from 1 January 2014.
- A Decision on CB bills was adopted, which introduces a methodology for determining the potential demand for CB bills. In accordance with the established mechanism, if there is a higher demand 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.