

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



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

January 2017

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 (October - December 2016) and to make a comparison with the latest macroeconomic projections (October 2016). 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.

In the period between projections no major revisions on the expectations regarding global economic environment were registered, i.e. further gradual strengthening of the recuperation pace is expected. Thus, projections for pronounced geopolitical risks are reserved, as well as the economic, politic and institutional uncertainty aspects of BREXIT. The economic recovery of the Euro area as our key economic partner continues mostly supported by the domestic demand. After the quarterly growth rate of the GDP by 0.3% in the third quarter of 2016 (1.7% annually), most high frequency indicators point to economic growth in the last quarter of the year. Favorable shifts are registered in the labor market, whereby unemployment in October decreased to 9.8%, which represents the lowest rate since April 2011. In terms of inflation, the data for December show significant acceleration of the annual rate to 1.1% (from 0.6% in November), which is the highest rate since September 2013. This acceleration is primarily due to the effects of the price of energy, amid additional contribution in the growth of the food prices, alcoholic beverages and tobacco, whereas the core inflation rate was relatively stable (0.9% on annual basis, compared to 0.8% in November).

Observed from a viewpoint of the individual quantitative external environment indicators for the Macedonian economy, the projections regarding the foreign effective demand are minimally changed relative to the October cycle. Therefore, it is assessed that in 2016 a minimal higher growth rate of foreign demand is performed, as a result to better performances in the countries in the region, whereas minimal upward revisions are also conducted for 2017 and 2018. The October projections were maintained in the **foreign effective inflation**, i.e. unchanged level of prices is expected in 2016, and increase of prices in the following two years. The performances register a drop of the prices in **commodities** in 2016, whereas the newest assessments generally point to their recovery in 2017 and 2018, amid divergent directions of the revisions in individual products. The data show a decrease in **world oil prices** in 2016, which is minimally lower compared to the October cycle. On the other hand, significantly higher growth of prices is expected in 2017, as well as a small decrease compared to the previously expected growth in 2018. The **metal prices** decrease in 2016 is moderately smaller than the previously expected. In 2017, significantly faster growth of the prices of nickel is expected, whereas the revisions for 2018 are minimal, i.e. stabilization of the prices is further expected. Further, the decrease in **wheat and corn prices** in 2016 is on line with the October projections. The revisions of the projections are with different intensity, i.e. a decrease instead of increase in prices of wheat is expected in 2017 and a stronger growth in 2018, whereas the increase in corn is expected to be lower in the following two years compared to October. However, one should bear in mind that the expectations for the prices of these commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long-term. Data show that the movement of the **EURIBOR interest rate** for 2016 is within the October projections. The previous expectations are maintained for 2017, whereas a moderate upward correction is conducted for 2018, even though it is expected that during the whole period of projections the interest rate will be negative, in accordance with the simulative monetary policy of ECB.

The comparison of the latest macroeconomic indicators with their projected dynamics within the October cycle of projections does not indicate major deviations in the individual segments of the economy. Published estimated data on GDP for the third quarter

confirm the economy growth, which is somewhat higher compared the expected growth within the October projection. **In conditions of divergent movements towards which current available data for October and November are pointing to, it is difficult to form a precise assessment in terms of the condition of the economy in the fourth quarter.** In terms of inflation, in December the consumer prices register a small decrease. In December, factors through which such shift in consumer prices is explained remain the same as in the previous month, i.e. the decrease is mostly relative to the decrease of the prices of food in conditions of significantly lower prices of fruits. In December, the decline of the energy prices continued, whereas the core inflation was maintained in the positive zone. Observed in terms of inflation projection, current performances are little lower than expected, whereas the expectations for the key input assumptions for 2017 are changed in divergent direction. Bearing in mind such changes, currently, the risks connected to the inflation projection for 2017 are assessed as balanced.

Foreign reserves data at the end of the fourth quarter of 2016, suggest a decline in foreign reserves (adjusted for the price and exchange rate differences and price changes of securities). Observed through the factors of change, the downward changes in the reserves mostly were driven from transactions on behalf of the government, as a result of the regular servicing of the government liabilities to abroad and to a lesser extent from the reduction of foreign currency deposits of domestic banks with the NBRM. On the other hand, net-purchase of foreign currencies in the foreign exchange market from the NBRM and the positive currency changes of the price of gold influenced the increase in reserves. The latest available data from the external sector point to a better trade balance compared to the expected, which is imposed as the main factor for increased supply of foreign currencies in the foreign exchange market. Additionally, from the external sector indicators, data on the net purchase from currency exchange operations as of December point to net inflows from private transfers which are in line with the projections. The data for balance of payments in October indicate to performing better balance of the current account, driven from the better trade deficit, but with a possibility of lower net-outflows in the financial account compared to the expected in the fourth quarter. However, data refer to a very short period and are not sufficient to reach reliable conclusions. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone.

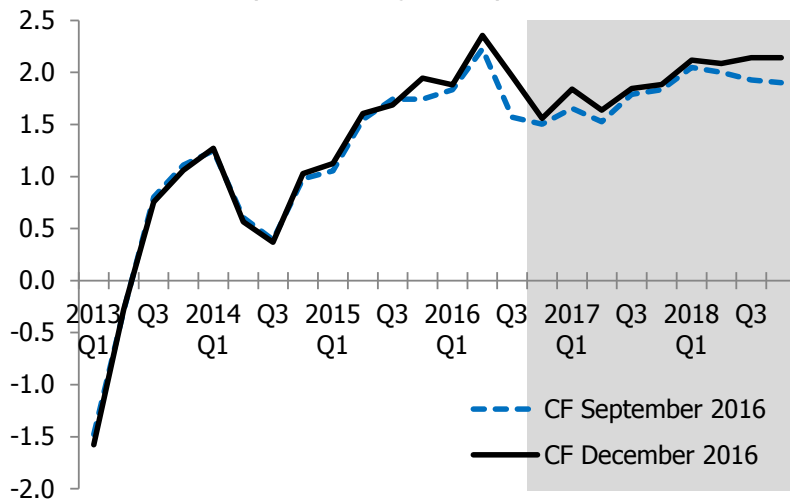
In terms of developments in the monetary sector, the final data as of November show further increase of the deposit base (of 1.2%), after the previous month increase of around 1%, which suggests further stabilization of the expectations of the domestic economic entities. Analyzing by sectors, the increase in total deposits in November is mostly due to the deposits in corporate sector, and household deposits also have a positive but lower contribution in the increase. On an annual basis, total deposits in November grew by 4.4%, which is above the projected growth of 2.6% for the fourth quarter of 2016. In terms of loans market, in November the total loans registered a growth of 0.2%, as opposed to the decrease of 0.4% in the previous month. Therefore, the growth is entirely as a result to the higher volume of approved household loans, whereas the corporate sector loans register a decrease. On an annual basis, total loans are higher by 1.3%, which is below the projection of 2.1% for the fourth quarter of 2016.

In the period January-November 2016, a deficit in the Budget of the Republic of Macedonia of Denar 13,629 million was registered, which constitutes 59% of the projected budget deficit according to the Budget Revision for 2016¹. The deficit was mostly financed through external government borrowing by issuing Eurobond on the international financial markets and through net-emission of government securities. Therefore, part of the inflows were cumulated in the form of deposits on behalf of the government with the NBRM.

The latest macroeconomic indicators and assessments do not show major changes in the perceptions about the environment for conducting monetary policy and about the risks, compared to the assessments provided in the October forecasts. Foreign reserves (adjusted

¹ Refers to the Budget Revision for 2016 of 30 August 2016.

Foreign effective demand
(annual changes in %)



Source: "Consensus Forecast" and NBRM calculations.

Compared to October projections, the foreign effective demand was minimally revised upwards throughout the entire projection period.

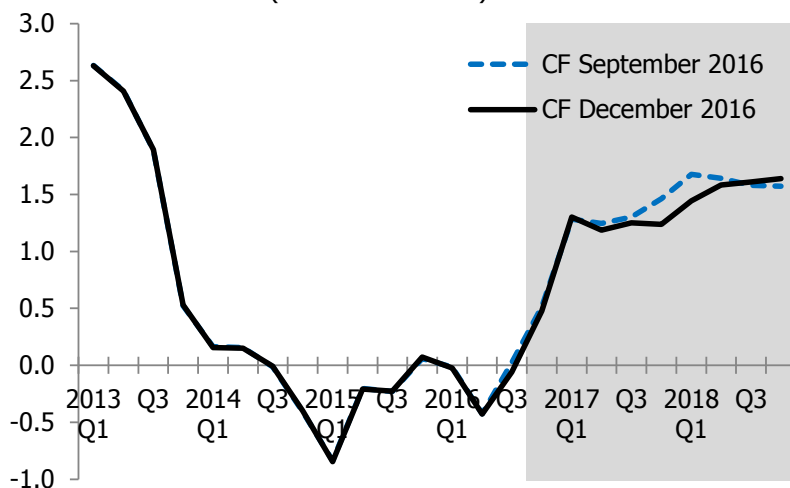
Thus, the estimated growth of the foreign demand for 2016 amounts to 1.9%, compared to 1.8% in October...

...amid minimal upward revision of the projected growth for 2017 (from 1.7% to 1.8%)...

...which mainly is due to better economic performances in the countries of the region (Bulgaria, Greece and Serbia) in 2016, and the expectations for higher economic growth in these countries in 2017.

Similar revision was also conducted for 2018, when, the higher projected growth, primarily in Germany and Bulgaria, is expected to bring about higher growth in the total foreign demand of 2.1%, compared to 2% in October.

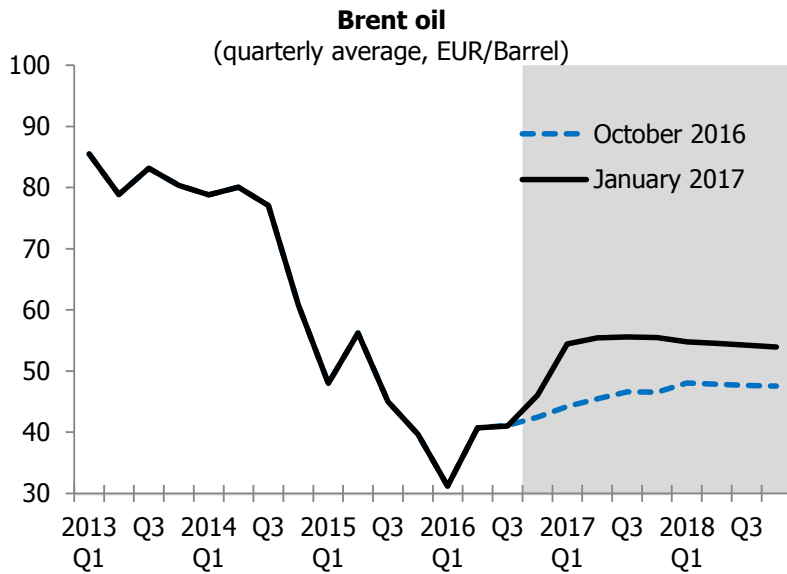
Foreign effective inflation
(annual rates in %)



Source: "Consensus Forecast" and NBRM calculations.

In terms of foreign effective inflation, the estimations from the October cycle are maintained...

...i.e. the foreign effective inflation is expected to increase from 0% in 2016 to 1.3% and 1.6% in 2017 and 2018, respectively.



Source: IMF and NBRM calculations.

In 2016, a smaller decrease of the oil price² from the projected in October (15.9%, compared to 17.7%) was registered...

...which is due to the Agreement between the member countries of OPEC and part of the countries out of OPEC for the decrease of the global oil production, in order to influence the upward movement of the prices³.

This factor, in conditions of unchanged expectations for the demand, is the main reason of the significant upward correction of the projection of the oil price in 2017...

...whereby now is expected that its growth will be more than double higher than the October projection.

On the other hand, in conditions of higher price level in 2017, in 2018 a small decrease of the oil price is now projected in the world stock exchange markets, compared to the expected in October.

The estimation of the price decrease of metals in 2016 is similar as in October.

In 2017 however, the world metal prices are revised in different directions.

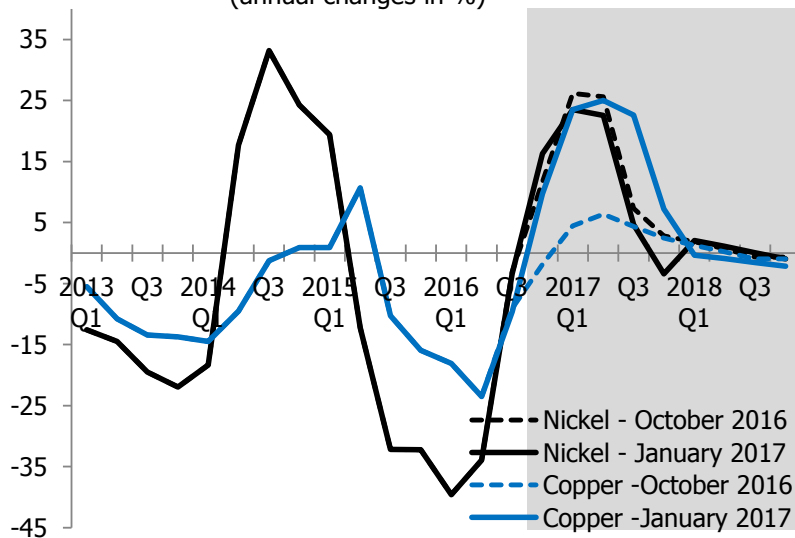
Thus, a significant change in the expectations is conducted in terms of price of copper, which is forecasted to register a double-digit growth, which is different from the moderate pace expected in October...

...mostly as a result to the decrease in global copper inventories and improved

² For the analysis of prices of oil, metals and primary food products, various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals are used.

³ The agreement was reached on 30.11.2016 in Vienna, requiring the production to be cut by 1.2 million barrels a day, starting on 01.01.2017. An additional meeting between the OPEC and non-OPEC countries was held on 10 December, where, for the first time since 2001, it was agreed oil production also to be cut by the 11 non-OPEC countries (by 558 thousand barrels) in addition to cuts that were previously promised by the OPEC member countries. This agreement will be implemented during the first six months of the year with the possibility of continuation for another six months.

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



Source: IMF and NBRM calculations.

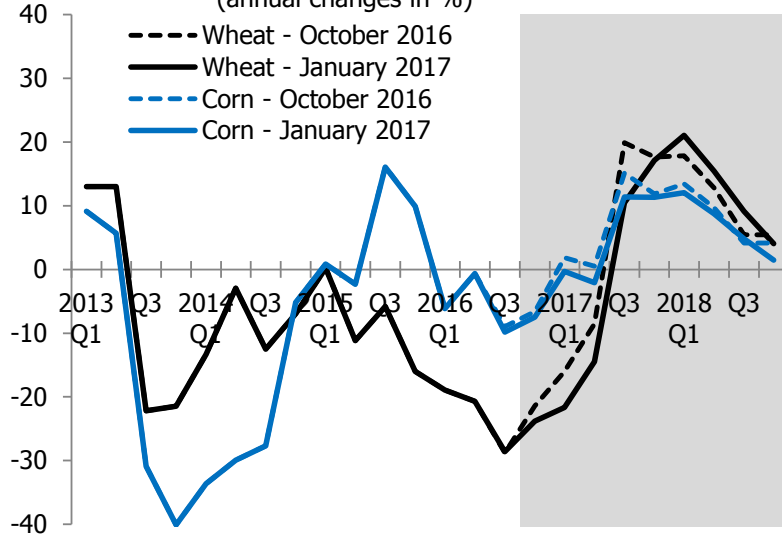
expectations of demands for the needs of the global manufacturing industry.

Contrary to this, nickel price revision is lower and is in a downward direction...

...amid expecting lower price growth from the October projection, most probably as a result to the increased uncertainty on the following measures by the authorities in Philippines related to the operation of nickel mines and possibility of smaller decrease of the supply from the previously expected.

In 2018, the changes in the projections for the metal prices are minimal, whereby further level of stabilization is expected.

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



Source: IMF and NBRM calculations.

Performances for 2016 point to decrease in the prices of primary food products compared to the October projection.

On the other hand, downward revision of stock market prices was conducted for 2017.

Thus, the wheat price is now forecasted that will continue the trend of declining that started four years ago, unlike October projections for its smaller growth...

...in conditions of high supply of the market, favorable prospects for this year's global production for this year and expected higher inventories.

The corn price is expected to register a smaller growth than the October projection...

...amid upward revision of the expected corn yields as a result of the favorable conditions in the southern hemisphere and higher projection of the global inventories.

On the other hand, the revisions of the prices of primary food products in

2018 are low and in different direction...

...i.e. slightly higher growth of the wheat price and slightly lower growth of the corn price compared to the October projections.

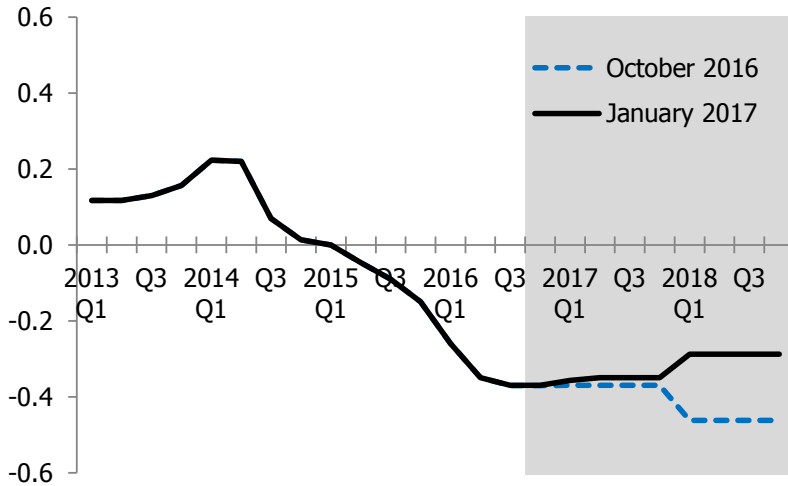
In 2016, the one-month EURIBOR was -0.34%, in average which is on the level projected in October.

Also, no major changes were conducted in the expectations of the movement of the foreign interest rate in 2017...

...when a similar level is projected of -0.35% (-0.37% in October), in conditions of extending the program of quantitative easing of ECB until the end of the year, but while reducing its volume.

On the other hand, the current expectations include the possibility of reducing the monetary stimulus of the ECB in 2018, due to which an upward revision of one-month EURIBOR level to the level of -0.29%, compared to 0.46% was conducted in October.

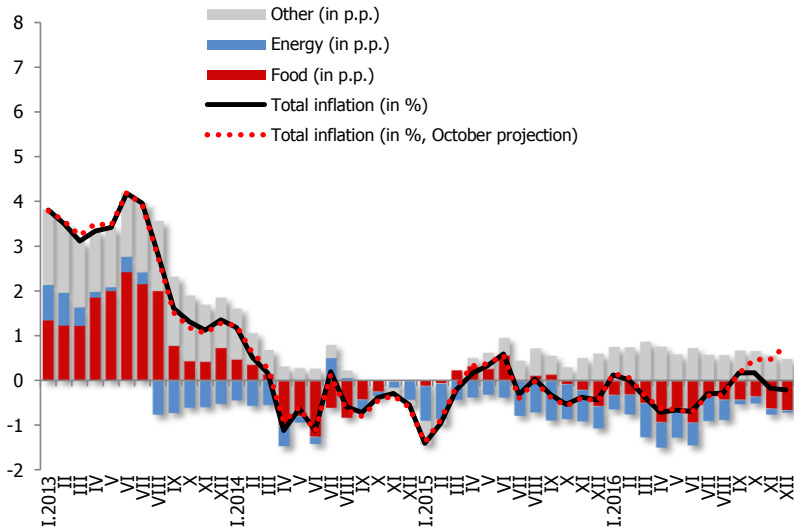
1-month Euribor
(quarterly average, in %)



Source: "Consensus Forecast" and NBRM calculations.

Inflation rate

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



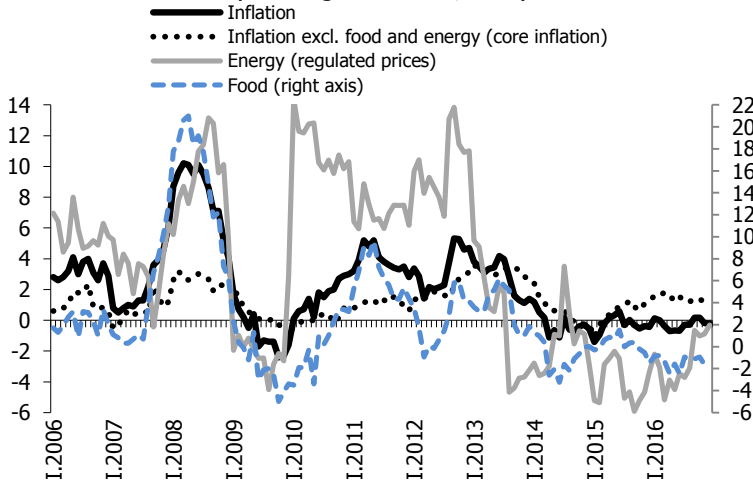
Source: SSO and NBRM.

In December 2016 the domestic consumer prices went down by 0.1% on a monthly basis...

...amid decrease in food prices. On the other hand the energy prices register a monthly growth, whereas, the core inflation stagnated on a monthly basis, second month in a row⁴.

Inflation and volatility of food and energy

(annual growth rates, in %)

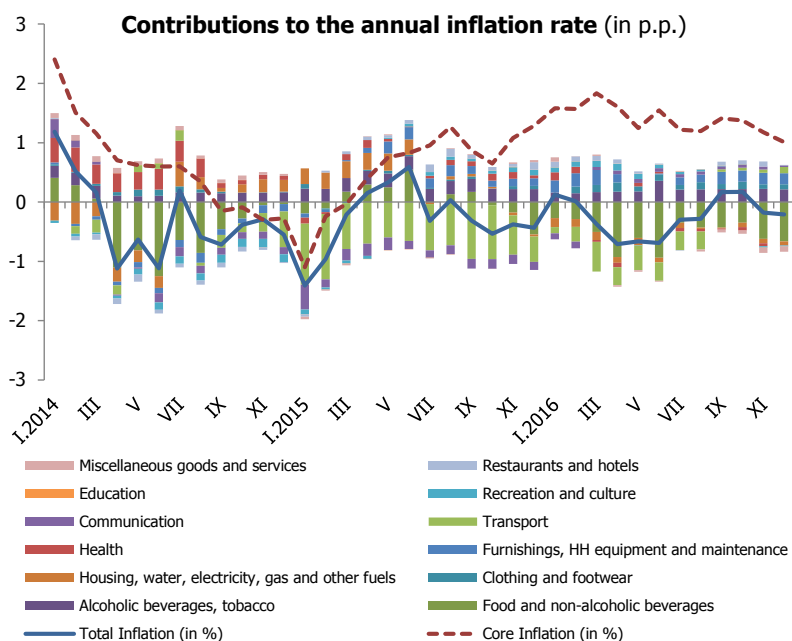


Source: State statistical office and NBRM calculations.

In accordance with the monthly decrease, the annual rate of inflation in December was also negative and amounted -0.2%, which deviated compared to the October projection for moderate growth of the inflation.

Observed by individual price categories, the downward deviation in December, is mostly as a result of the decrease of food prices, instead of the expected growth. Regarding energy prices and core inflation the deviations are with a lower intensity (lower decrease in energy prices and lower growth rate of the core inflation compared to the projected movements).

⁴ Observed by production groups, the category with the highest negative contribution in December is the fruit category.

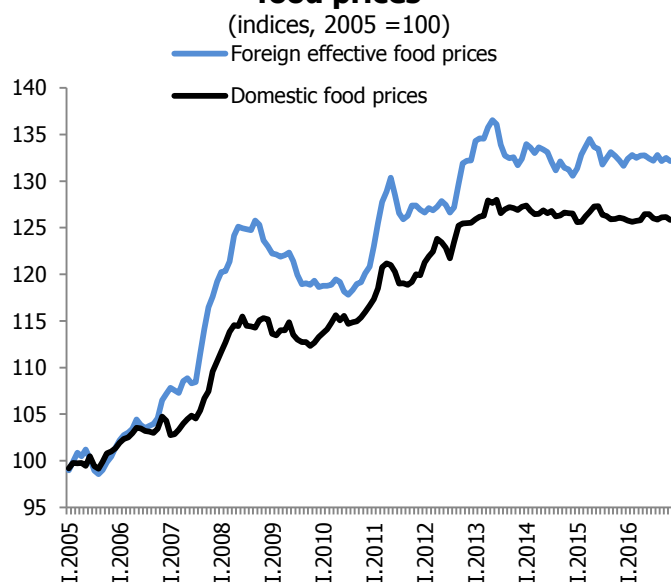


Source: SSO and NBRM.

The core inflation rate in December was 0%, whereas on an annual basis a growth of 1% is registered, compared to the 1.2% in the previous month.

Observing the structure of core inflation, the (annual) growth in December is due to the small rise in prices of most categories within the core inflation, with the highest contribution of tobacco prices⁵ and the prices in the category "furniture, household equipment and household maintenance."

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 in the inflation projection for 2017 have been revised in divergent directions.

Thus, the newest estimations of the oil prices for 2017 point to significantly higher growth compared to the expected in the October cycle of projections.

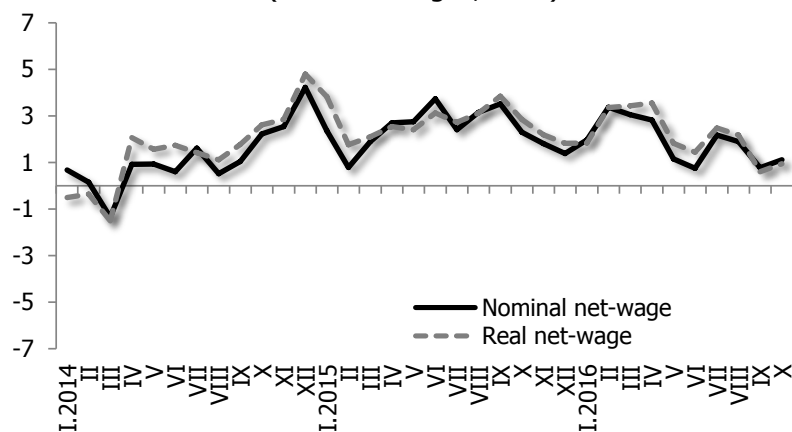
On the other hand, the expectations for the crops prices are somewhat more pessimistic, or is expected that the corn price will grow slower, whereas in wheat price a decrease is now expected contrary to the growth in October.

Amid relatively small downward deviation of the performed inflation from the projected path of the external assumption revised in divergent directions, currently it is estimated that risks about the projections of inflation in 2017 are balanced. The uncertainty about the projected movements of the world primary commodities prices, primarily connected to the oil prices remains.

⁵ The annual growth of tobacco prices in September is a combination of the flat increase in cigarette prices by five denars per box in March 2016 and increase in the price of a certain type of cigarettes in June 2016. In July 2016, the excise on cigarette additionally increased (from July 1, 2017 to July 1, 2023 the excise duty will increase by 0.20 denars each year), but the monthly change in prices of tobacco in July and August showed no price adjustments.

In October 2016, the average net wage registered a nominal annual growth of 1.1%, which is a moderate acceleration of the growth (of 0.3 percentage points), compared to the previous month.

Average net-wage
(annual changes, in %)



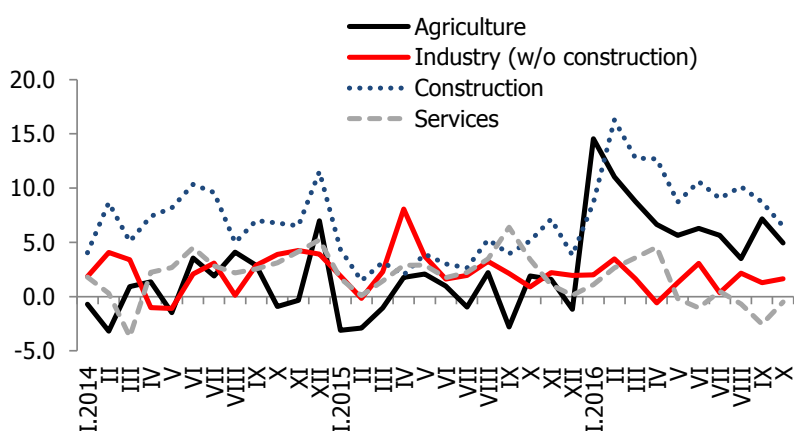
Source: SSO.

Upward development of the wages is registered in most of the activities, and the highest growth rates were performed in construction, administrative and auxiliary service activities and in tourism and catering activity. On the other hand, lower wages in October were registered in some service activities⁶ and in mining.

In conditions of small growth of consumption prices in October, **the real wage growth** is somewhat lower and amount to 0.9%.

The October shifts in wages are slightly lower from the expected for the fourth quarter within the October projections.

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



Source: SSO.

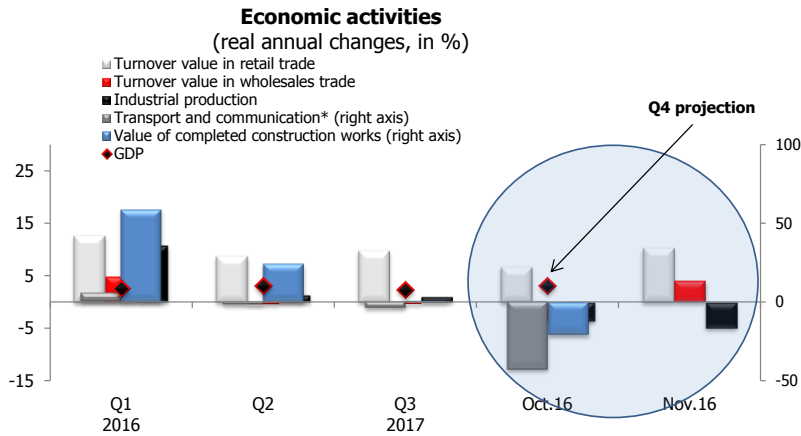
Giving a more precise estimation of the activity in the economy in the last quarter of the year is difficult, bearing in mind that in October and November the key indicators register movements in divergent directions. Additional risk factor that creates uncertainty about the performances and estimations of the economic activity are also the domestic non-economic factors linked with the political events in the country that continue to be current.

In the period October-November, the industrial output registers a decline of 4.3%, which is mostly due to the decrease in the manufacturing industry. A decrease is also registered in mining, whereas growth is registered in the energy sector.

Analyzed by individual sectors within the manufacturing industry, the decline is explained by unfavorable movements of the traditional activities (production of food, beverage and clothes⁷). Thus, the decline of the production, to some extent, was mitigated through the increased production of non-metallic mineral products, machinery and equipment, as well as in the manufacturing of

⁶ Within the service sectors, lower wages in October are paid in "art, entertainment and recreation" activity, "financial activities and activities for insurance", and in "real estate activities".

⁷ The decrease of clothes and beverage production is due to the high comparative basis from the previous year.



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

moto vehicles, trailers and semi-trailers.

Despite the decline in industrial output, surveys conducted in October and November indicate continued growth of the degree of capacity utilization and more optimistic perceptions of the managers of the manufacturing sector about the output volume in the next three months. Such developments point to a possible improvement of the situation in this sector in the last month of the quarter.

At the same time, in October the **construction sector** registers an annual decline which is mainly due to the decrease in the domain of civil engineering⁸, unfavorable developments are also registered in **railroad transportation**.⁹

On the other hand, the turnover value of the total **trade** continued to grow in the first two months of the fourth quarter, mostly reflecting the turnover in retail.

The available data for October show an increase of the catering services as well (annual growth of the number of tourists, overnight stays and in turnover).

Available aggregate demand indicators mainly point to the economic activity growth in the fourth quarter of 2016.

High-frequency data on **private consumption** point to its further growth in the fourth quarter of 2016...

...supported by the favorable performances in the main disposable income components (wages, pensions, net-personal transfers social government transfers) and by the continuous solid growth of household lending.

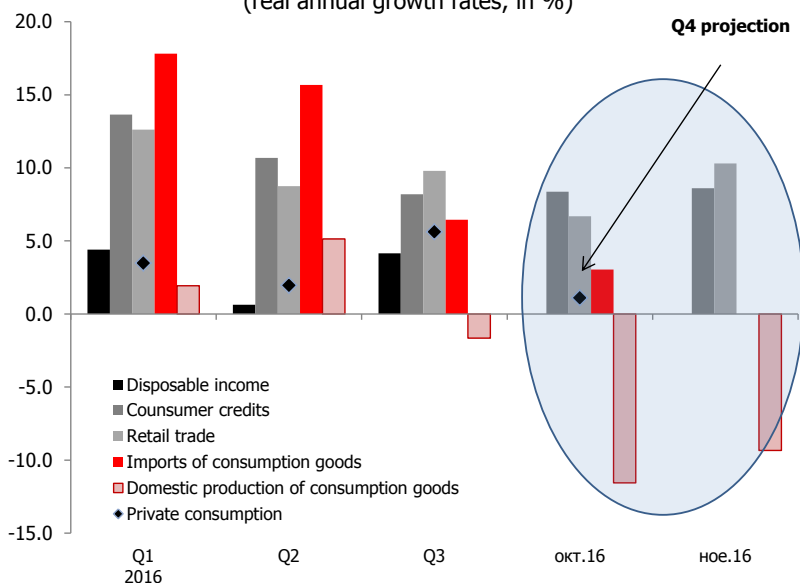
At the same time, growth is also registered in turnover in retail and import of consumption goods, but at a slower pace.

On the other hand, in the period October-November, a decline in domestic production of consumption goods was registered.

⁸ The decrease is a result of the high comparative basis from the previous year when record high investments were performed in the road infrastructure.

⁹ The relatively high decrease in railroad transportation is connected to the high comparative basis from the previous year, where in the second half of the year, the demand of such service increased as a result to the refugee crisis.

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



Source: SSO and NBRM calculations.

Available short-term indicators of **investment activity** point to divergent directions in terms of gross investments in the fourth quarter of 2016.

Thus, in the period October-November, even though at a slower pace, further growth of the long-term lending to the corporate sector and domestic production of capital goods is registered.

On the other hand, the conducted construction activities register a decline in October...

...downward realization is also registered in the import of investment goods, government capital investments and foreign direct investments.

Concerning the movement of stocks, the index of stocks of finished products in industry in October was higher on an annual basis, indicating possible growth of this gross investments' component during the fourth quarter of the year.

In October-November, the nominal data on **foreign trade exchange** point to slightly narrowed trade deficit...

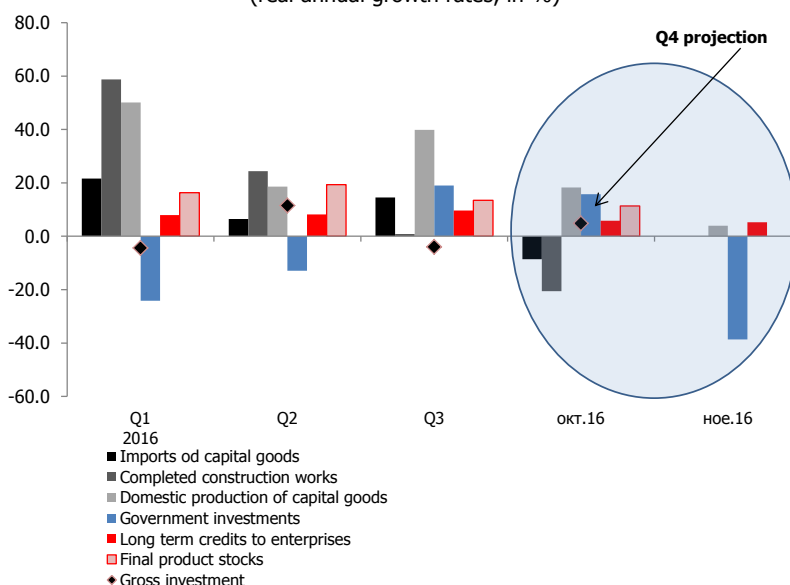
...given the higher increase in exports compared to almost unchanged import of goods.

In October-November, Budget performances point to growth of the **public consumption** in the fourth quarter...

...given accelerated increase in the expenditures for goods and services.

...and increase in wage expenses for the employees in the public sector and increased health care transfers¹⁰.

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



Source: SSO and NBRM calculations.

¹⁰ Most of these assets refer to expenditures for goods and services.

During October and November 2016, the foreign trade deficit narrowed to 3.2% on an annual basis, amid moderate annual growth of the export and stagnation in the import activity.

Performances are better than the estimations in the October projection, where a slight deepening of the trade deficit in the fourth quarter was expected.

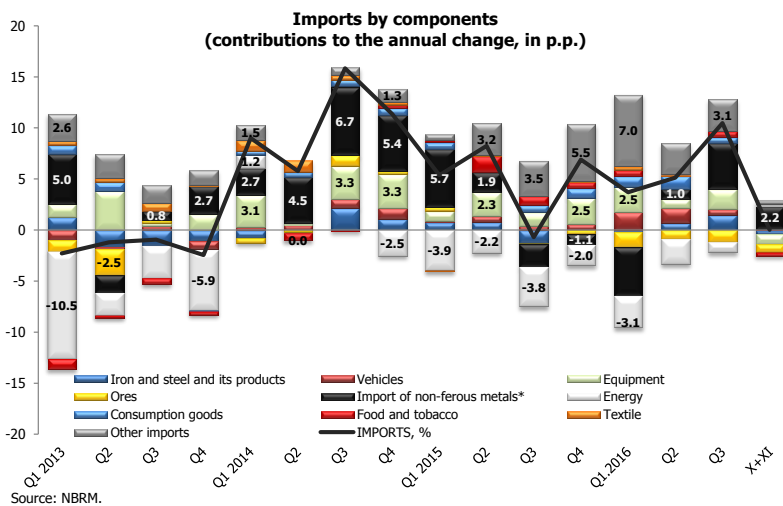
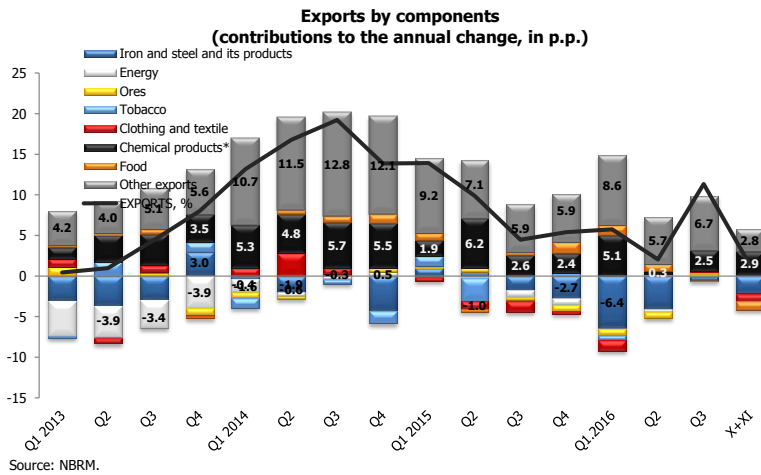
Export of goods during October and November registered an annual growth of 1.5%, which is almost entirely due to the export activity of part of the new export-orientated capacities...

...in conditions of decline in the export in other export categories, besides energy...

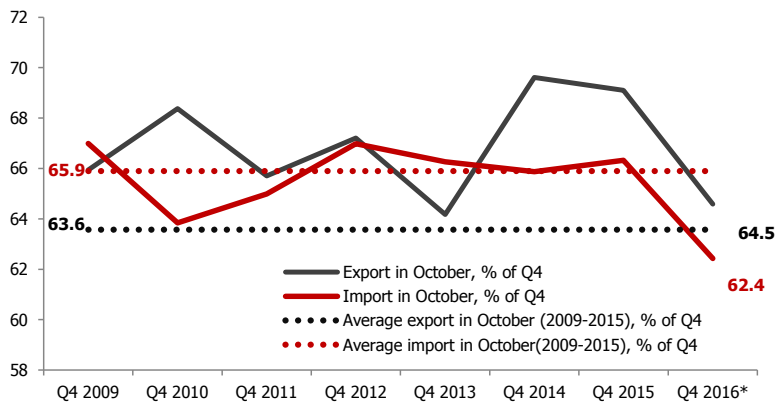
Compared to the October projection, export in October and November points to performances which are somewhat lower from the expected in the fourth quarter. Greater downwards deviations are registered in traditional export sectors, i.e. the export of iron and steel, textile and food.

The import of goods in October and November stagnated on an annual basis, in conditions of lower import of equipment and machinery, iron and steel, food and textile versus the annual growth registered in raw material import of part of the new export-orientated capacities.

Import of goods in October and November suggests lower than forecasted performances for the fourth quarter of the year. Analyzing by individual components, performances are lower in almost any individual category besides in raw material import of part of new export capacities and import of energy.

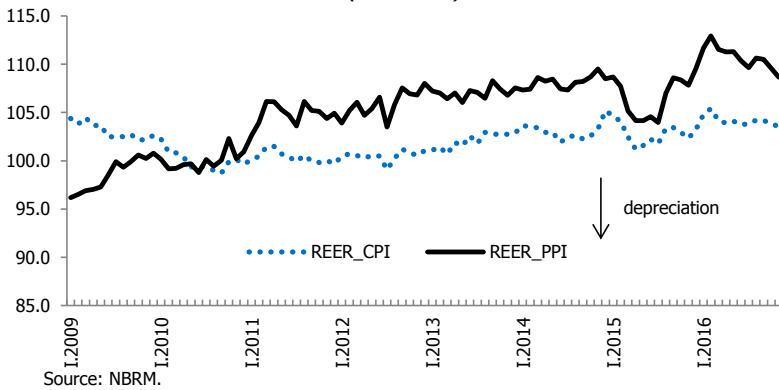


Share of exports and imports of goods in October and November relative to Q4 projection



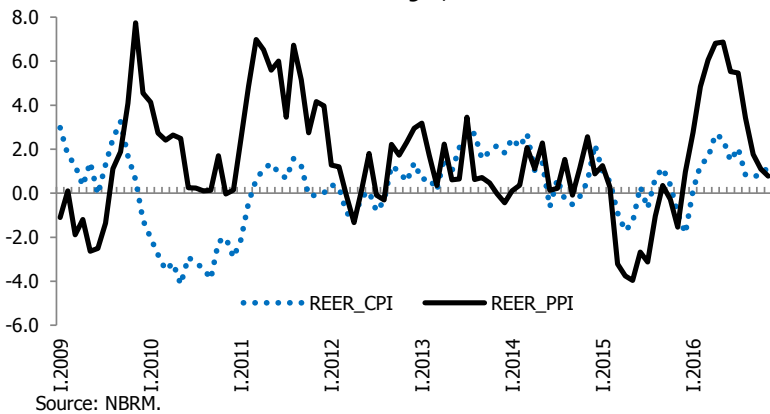
The performance of exports and imports in October and November point to a lower trade deficit for the fourth quarter in accordance with the October projection.

REER (2010=100)

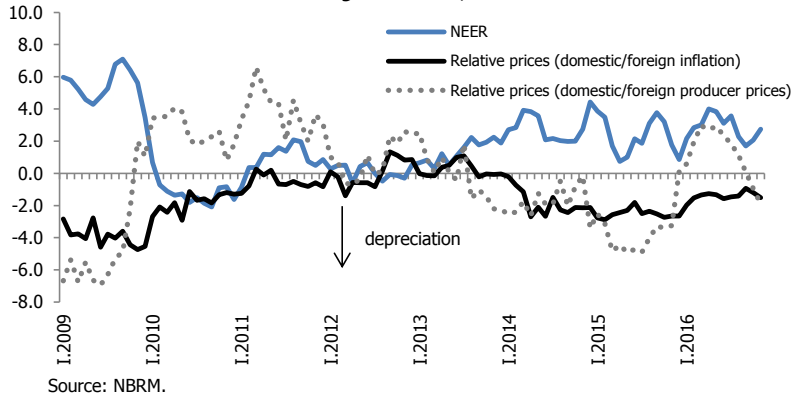


In November 2016, viewed on an annual basis, price competitiveness indicators of the domestic economy are maintained in the appreciation zone. The REER index deflated by consumer prices appreciated by 1.2% and the REER index calculated by producer prices appreciated by 0.8%.

REER annual changes, in %

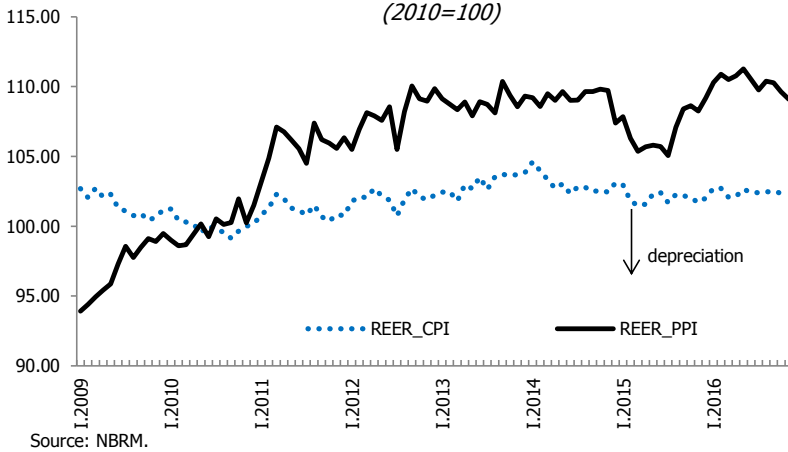


NEER and relative prices
annual growth rates, in %



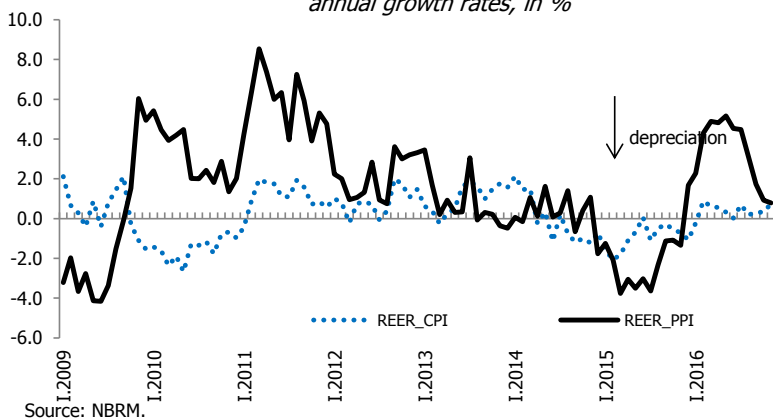
Such developments are mainly due to the NEER dynamics, which appreciated by 2.1% on an annual basis, as a result of the depreciation of the British pound, the Turkish lira, Ukrainian hryvnia and Serbian denar against the Denar. On the other hand, the relative consumer prices and the relative producer prices registered an annual decrease by 1.5% and 1.9%, respectively.

REER, excluding primary commodities
(2010=100)



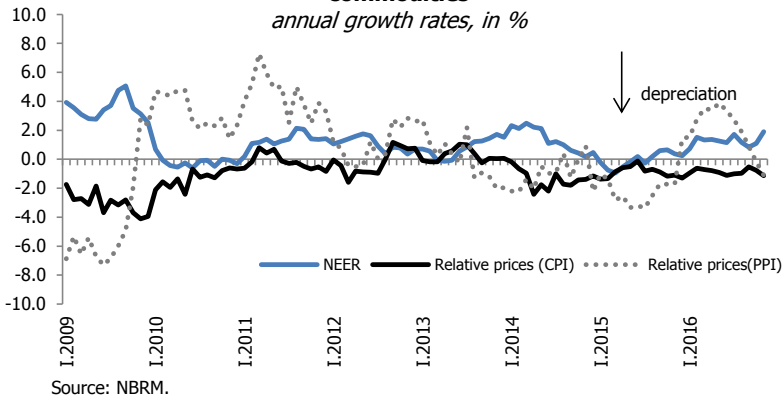
The analysis of **REER indices, as measured using weights based on the foreign trade without primary commodities¹¹**, also indicates to a **slight appreciation on an annual basis**. Namely, in November, the REER index based on consumer prices appreciated by 0.7%, while the REER deflated by producer prices appreciated by 0.8%.

REER, excluding primary commodities
annual growth rates, in %



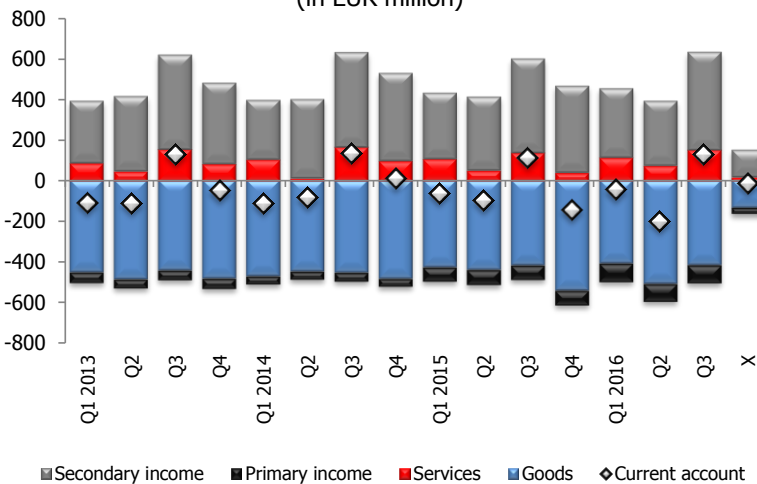
¹¹ Primary commodities not included in the calculation are: oil and oil derivatives, iron and steel, ores and imported raw materials for the new industrial facilities in the free economic zones.

NEER and relative prices, excluding primary commodities



On an annual basis, relative consumer prices and relative producer prices of industrial products decreased with an identical rate of 1.1%, whereas NEER appreciated by 1.9% on an annual basis.

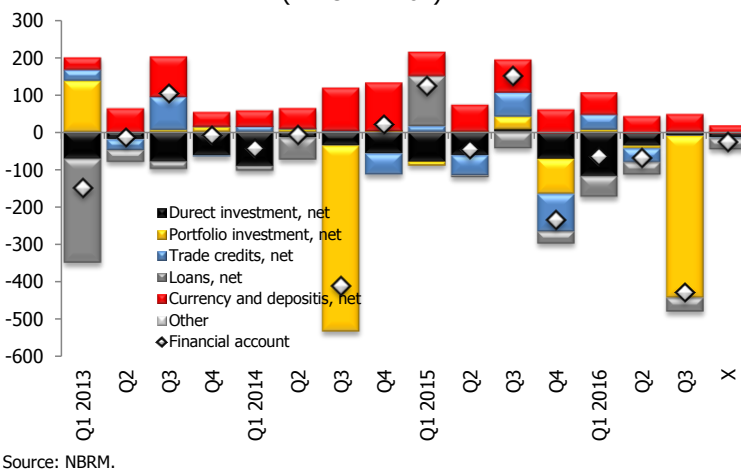
Main components of the current account



In October 2016, the balance of payments current account registered a deficit of Euro 11.8 million (or 0.1% of GDP), which is a significantly lower deficit than expected for the last quarter, according to the October projection.

Analyzed by components, the favorable performance is mostly due to the improvement of the trade balance, whereas the surplus in services is somewhat weaker than the projected. Performances in the other two components are in accordance with the expectations from the October projection.

Financial account components

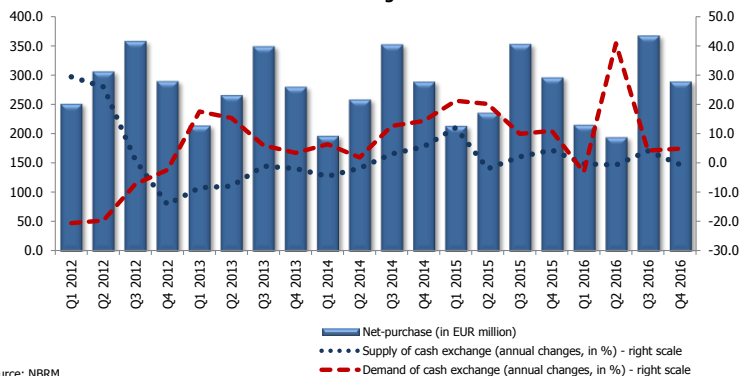


In October 2016, the financial account registered net inflows of EUR 24.2 million (or 0.3% of GDP), compared to the outflows projected for the fourth quarter by the October projection.

Favorable deviations are mainly due to the inflows in landings, compared to the projected outflows in the fourth quarter¹² and significantly lower outflows in currency and deposits category. On the other hand, in direct investments and trade credits, net inflows that are lower than the expected are registered in accordance with the October projection.

¹² In the projections for the financial flows for the fourth quarter of 2016, the payoff of the government loan withdrawn in 2011 is included, and guaranteed from the World Bank funds, which was realized during November.

Cash exchange market

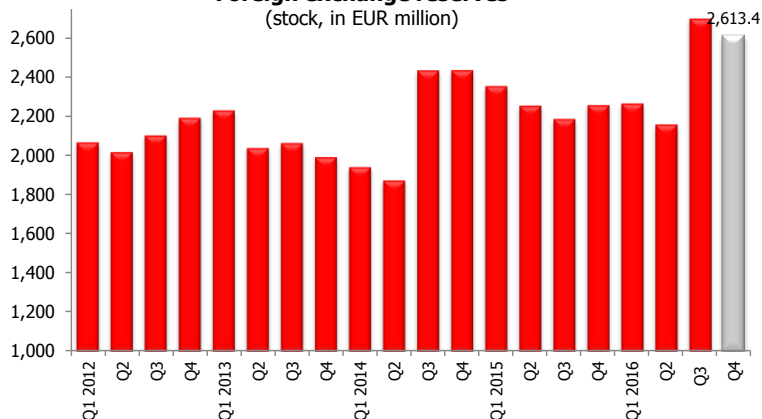


Source: NBRM.

Recent data on currency exchange operations as of December 2016 indicate to a very small annual increase in the demand and a small decrease of the supply of foreign currencies.

The net purchase in the foreign exchange market in the fourth quarter of 2016 totaled Euro 289.8 million, which is a small decline on an annual basis.

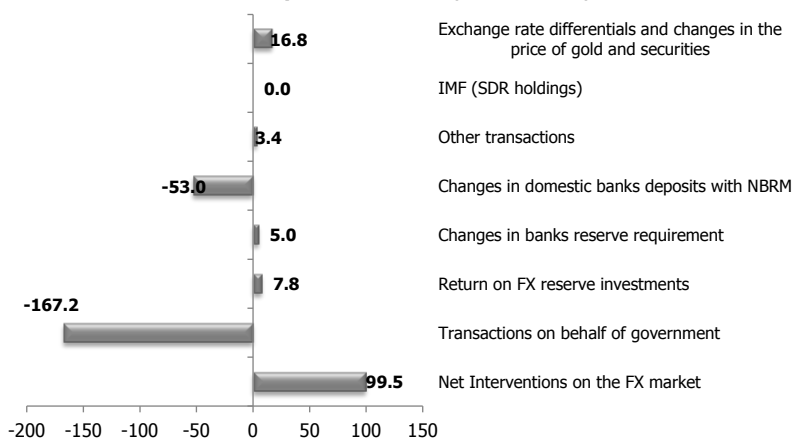
Foreign exchange reserves (stock, in EUR million)



Source: NBRM.

As the end December, gross foreign reserves were in the amount of Euro 2,613.3 million, which is a decline of Euro 85.7 million compared to the end of the third quarter of 2016. The decrease in foreign reserves is due to the transactions of behalf of the government, for regular servicing of liabilities to the external lenders, as well as decreasing the foreign exchange deposits of domestic banks with the NBRM¹³. The net purchase of foreign currencies in the foreign exchange market from the NBRM and positive foreign currencies changes and the change in gold prices had an impact in the opposite direction.

Factors of change of the foreign reserves in the fourth quarter of 2016 (in EUR million)



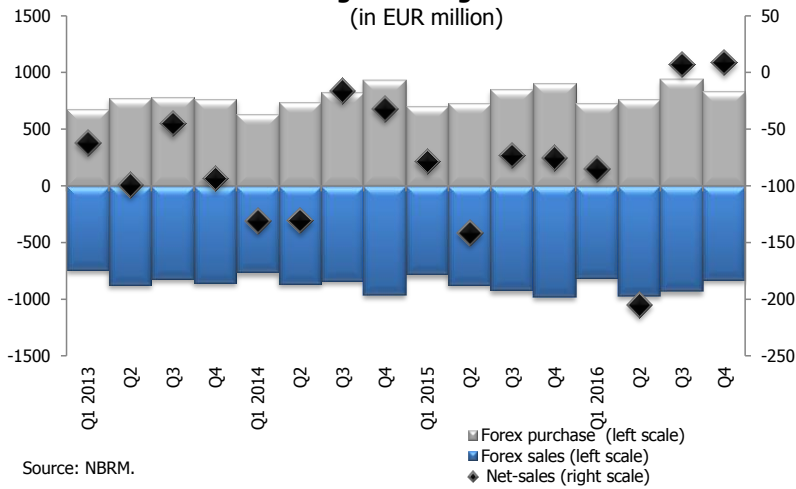
Source: NBRM.

In the fourth quarter of 2016, the foreign exchange market with the banks registered

¹³ On 25 October 2016, The Operational Monetary Policy Committee of the NBRM, decided to offer additional foreign currency deposits, which banks can place with the NBRM, which impacted the decrease of the amount of foreign currency deposit with the NBRM in the following period and in the stock of the foreign reserves, respectively.

EXTERNAL SECTOR

Foreign exchange market
(in EUR million)

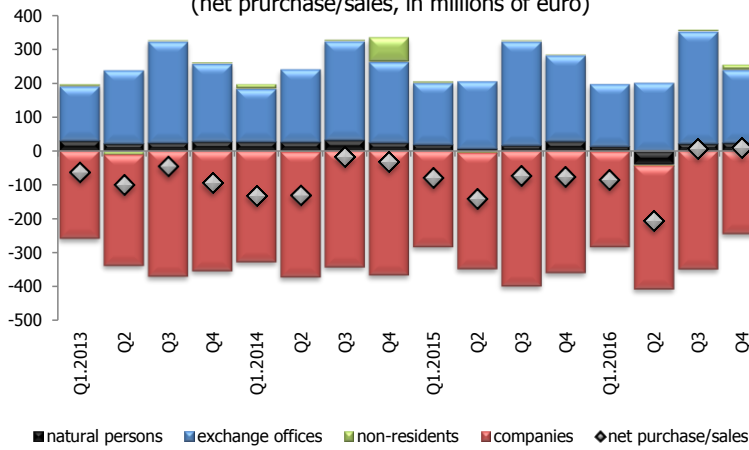


Source: NBRM.

a net purchase of Euro 6.3 million, versus the net sale of Euro 75.2 million in the same period last year. Such annual change was due to increasing supply of foreign currency by 3.9% given the decrease of the demand by 4.7%.

Sector-by-sector analysis shows that favorable developments are mostly a result of the reduced net sales in companies.

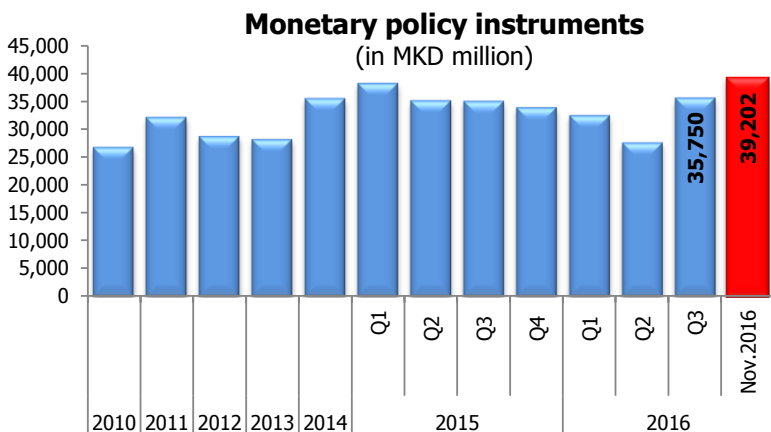
Structure of foreign exchange market,
(net purchase/sales, in millions of euro)



Source: NBRM

Sector-by-sector analysis shows that favorable developments are mostly a result of the reduced net sales in companies.

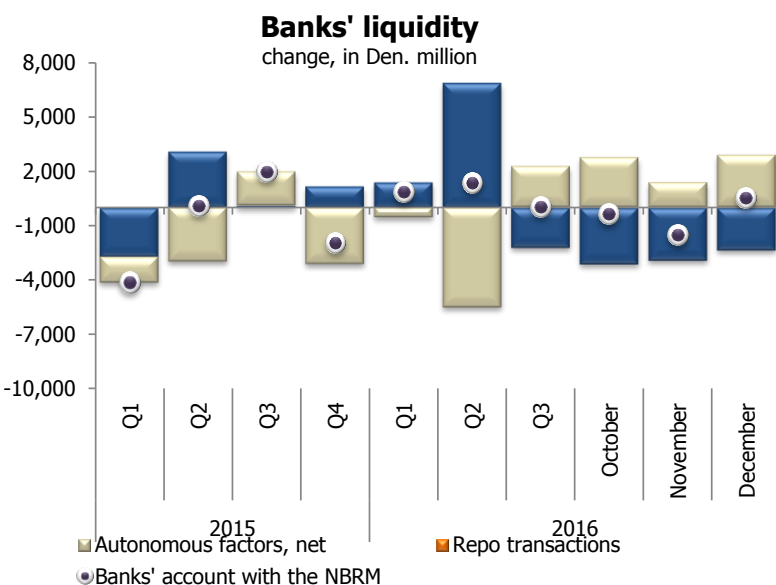
Data as of November (in terms of balance) point to withdrawal of the liquidity of the banking system through monetary instruments¹⁴ compared to the end of the third quarter, which was expected within the October projection.



Source: NBRM.

Net foreign assets as of November registers a decline compared to the end of the third quarter, but at a slower pace compared to the projected in accordance with the October projection. Similar development are registered in total government deposits. Namely, as of November, total government deposits register a decrease which is significantly weaker than the expected for the fourth quarter.

In November, reserve money register a decrease compared to the end of September, versus the expected growth for the fourth quarter, which mostly is due to the banks' liquid assets and the currencies in circulation (versus the expected growth in both categories in accordance with the October projections).



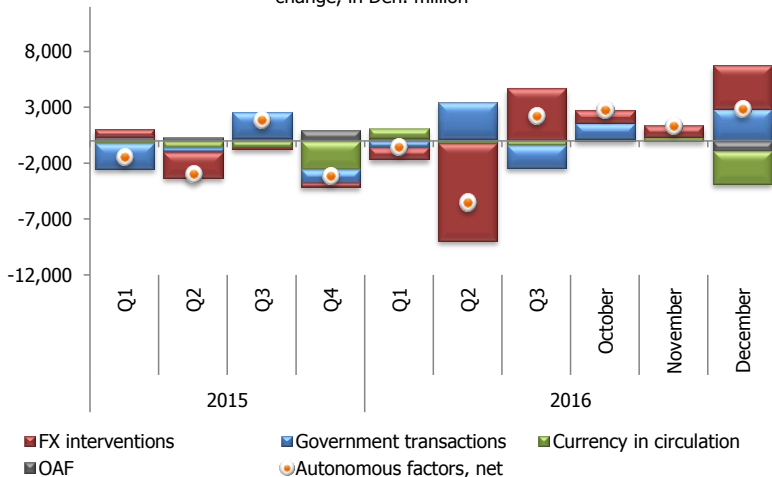
According to the operational data on the liquidity flow, in December, the liquidity of the banking system increased on a monthly basis.

Analyzed by individual factors, foreign currency transactions of the National Bank with the supporting banks (purchase of foreign currencies) and government's transactions impacts the banks' liquidity growth, which partially was decreased under the influence of the seasonal growth of currencies in circulation. Analyzed by individual factors, the foreign currency transactions by the National Bank with the supporting banks (purchase of foreign currencies) and transactions acted towards the growth of banks' liquidity, which was partially decreased under the influence of the seasonal growth of currencies in circulation. In conditions of growth of the

¹⁴ Monetary instruments category also contains the auctions for foreign deposits, which were reactivated in May 2016.

Autonomous factors

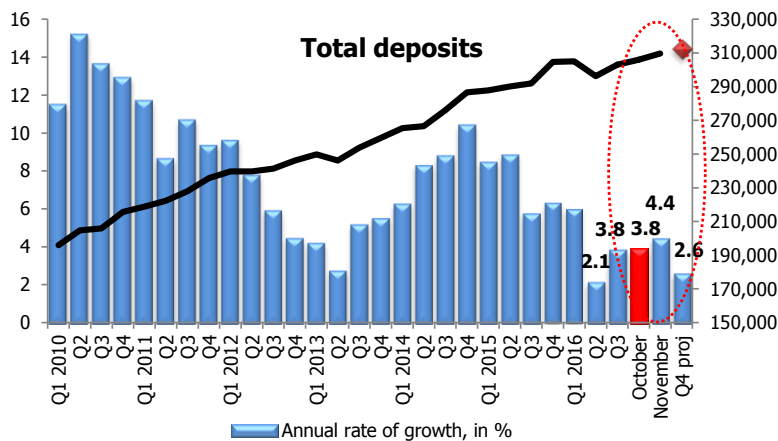
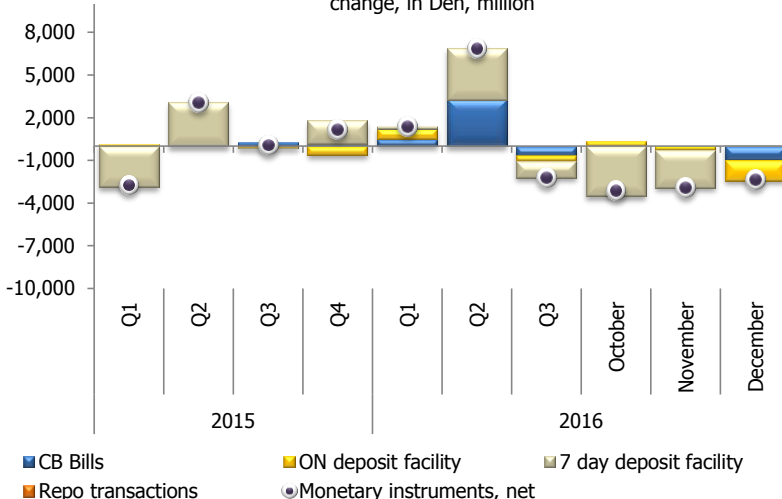
change, in Den. million



liquidity in the banking system, part of the excessing liquidity was withdrawn through increasing the amount of CB bills¹⁵, and part of the bank placed deposits overnight at the NBRM.

Monetary instruments

change, in Den. million



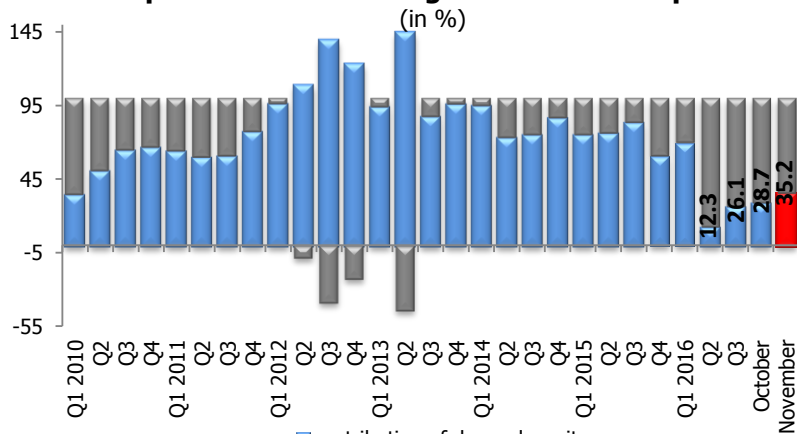
*Includes demand deposits
 Source: NBRM.

In November, total deposits registered a monthly growth, which points to further stabilization of the expectations of economic entities. Analyzed by sectors, the monthly growth (of 1.21%) in total deposits in November mostly arises from corporate deposits (66.6%), and household deposits have positive, yet lower contribution to the growth.

In November, the annual growth rate of total deposits equaled 4.4%, which is above the projected growth of 2.6% for the last quarter of 2016.

¹⁵ In the regular session of The Operational Monetary Policy Committee of the NBRM held on 13 December 2016, was decided that the offer of CB bills in the auction on 14 December shall be increased from Denar 22.000 million to Denar 23.000 million. In the same session a Decision on decreasing the interest rate on CB bills from 4.00% to 3.75%, respectively 0.22 pp, was brought.

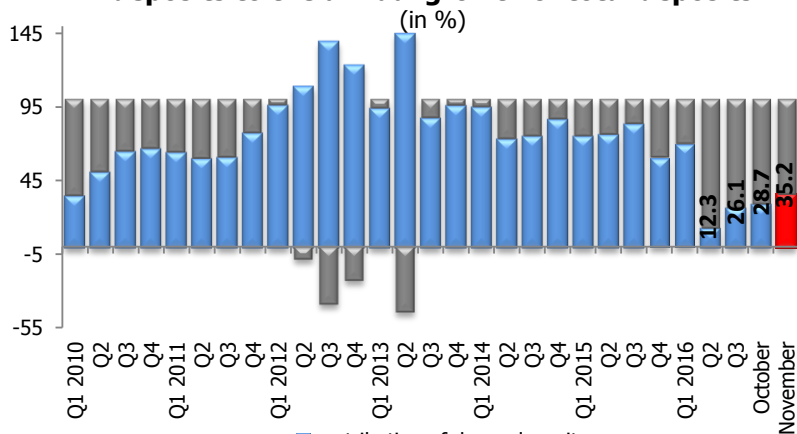
Contribution of denar and foreign currency deposits to the annual growth of total deposits



Similar to the previous months, in the annual growth of deposits in November, the contribution of the growth in foreign currencies is relatively higher compared to the growth in denar deposits.

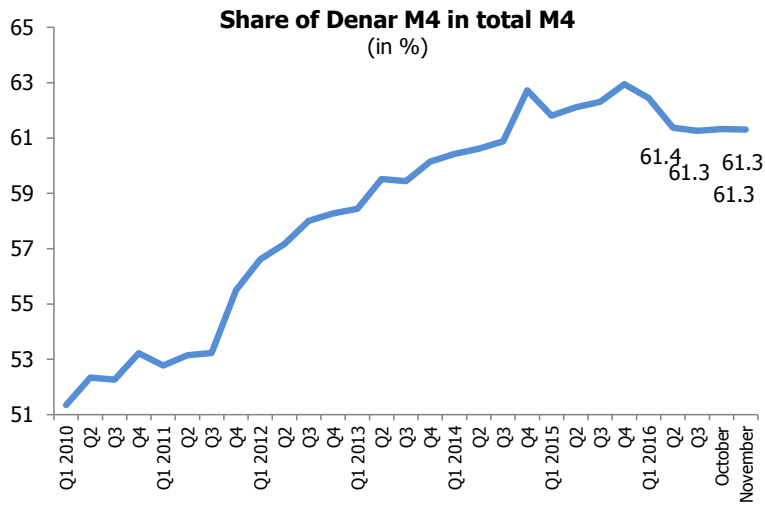
*includes demand deposits
Source: NBRM.
Includes demand deposits.

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



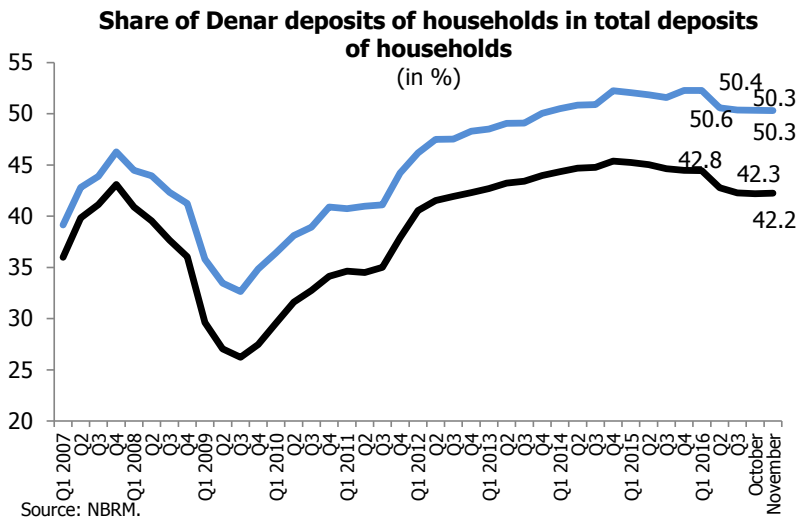
In terms of currency structure of total deposits, denar and foreign currency deposits in November, maintain a stable share, similar to the previous months. Denar deposits dominated in the banks' deposit base.

*includes demand deposits
Source: NBRM.
*Includes demand deposits.

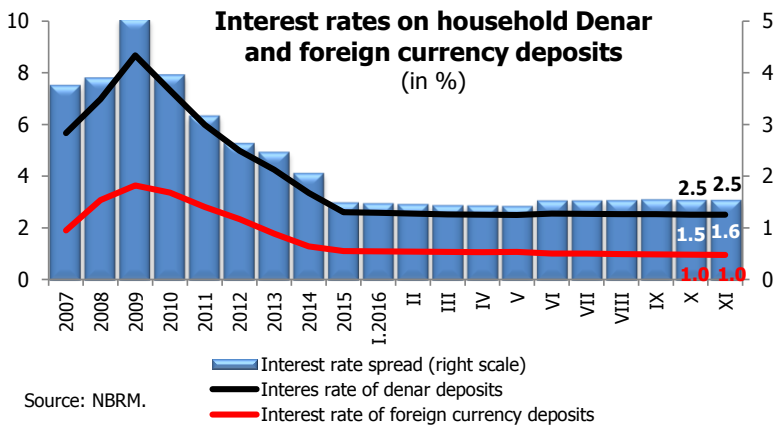


Source: NBRM.

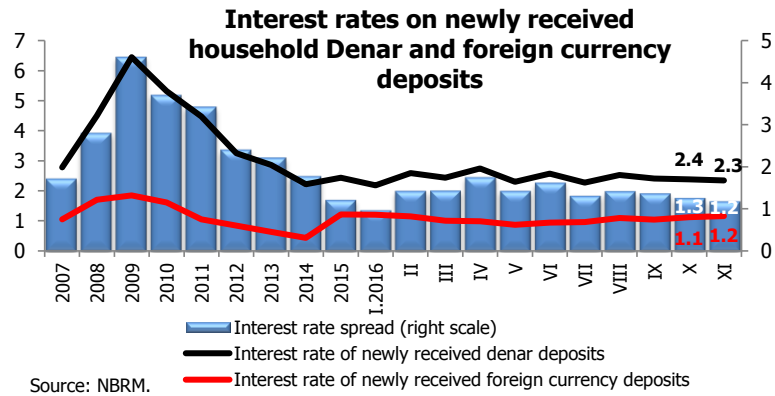
Total household deposits, register a monthly increase for the sixth month in a row. In terms of currency, in November, the foreign currency deposits have a dominantly positive contribution to the monthly increase in the household deposits, and also the contribution of the denar deposits is positive.



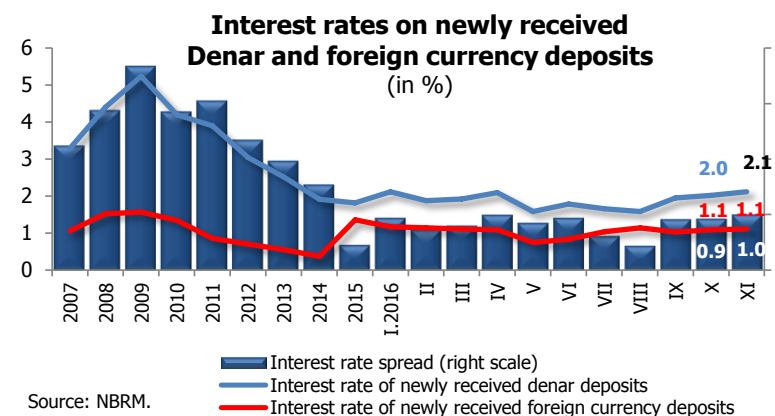
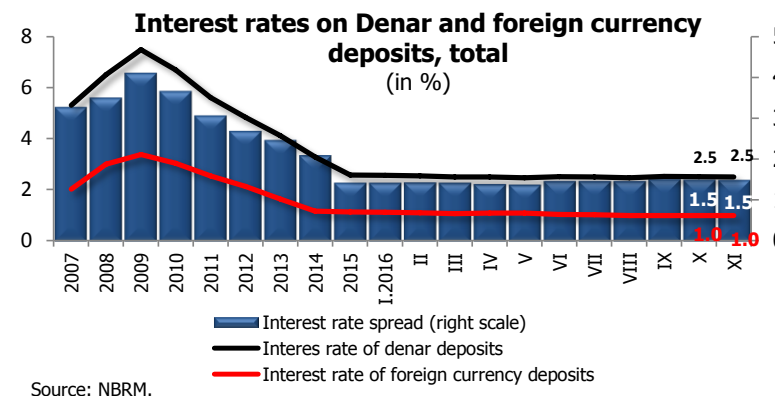
Source: NBRM.



In November, the interest rates on denar and foreign currency household deposits registered minor changes. Interest rates of household deposits in November registered a minor downward shift. In conditions of greater reduction of the interest rate on denar deposits, compared to the decline of the interest rate in denar deposits, the interest spread moderately expanded. In the newly accepted household deposits, the interest spread continued to narrow (three months in a row), mainly driven by the interest rate growth on foreign currency deposits, which in November was coupled with the reduction of the interest rate on the denar deposits.

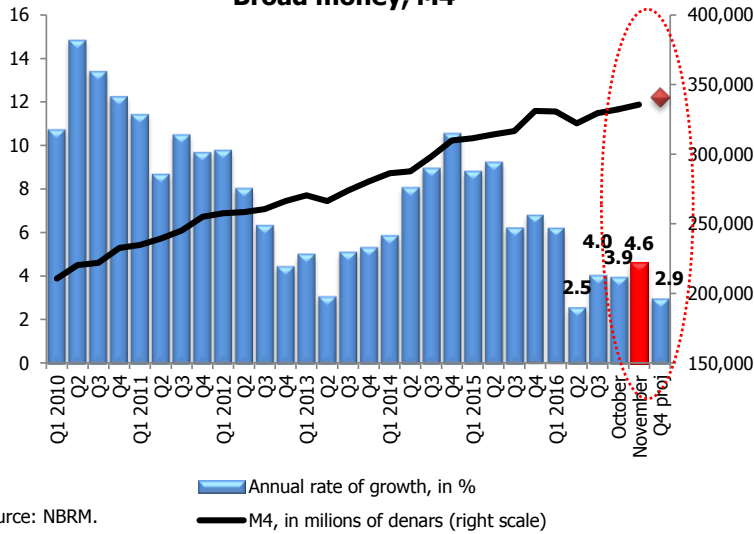


In November, interest rates on denar and foreign currency deposits did not register any changes compared to the previous month. Regarding the newly accepted deposits, in November, the interest rate on Denar deposits registered a minor growth, whereas the interest rate on foreign currency deposits remained unchanged. Amid such performances, the spread in interest rates on total deposits extended. In terms of the interest rates on newly accepted deposits it should be taken into account that volatile movements¹⁶ are characteristic.



¹⁶ Volatility of interest rate on newly accepted deposits results from the fact that they have been driven by the volume of newly received deposits (which can vary from month to month) and their interest rate.

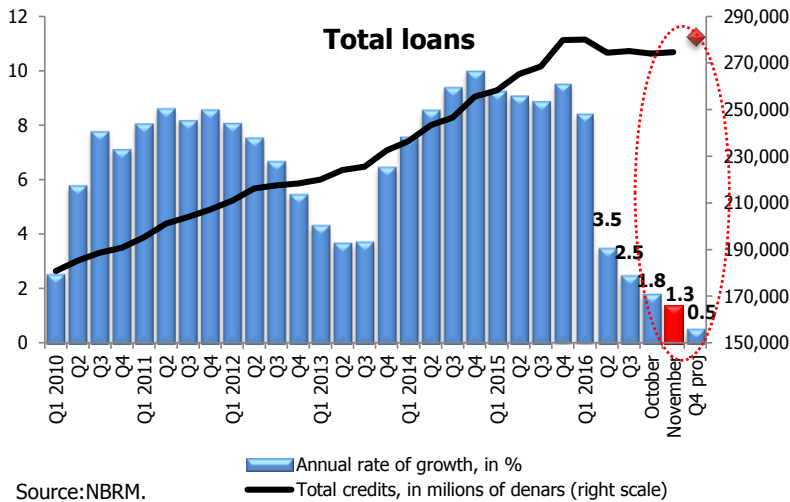
Broad money, M4



Source: NBRM.

In November, broad money M4 registered a monthly increase. The increase in broad money can be fully explained with the widening of the deposit base, whereas currencies in circulation register a decrease. **On annual basis, the broad money is higher by 4.6%, which is above the forecasted growth of 2.9% for the fourth quarter of 2016.**

Total loans

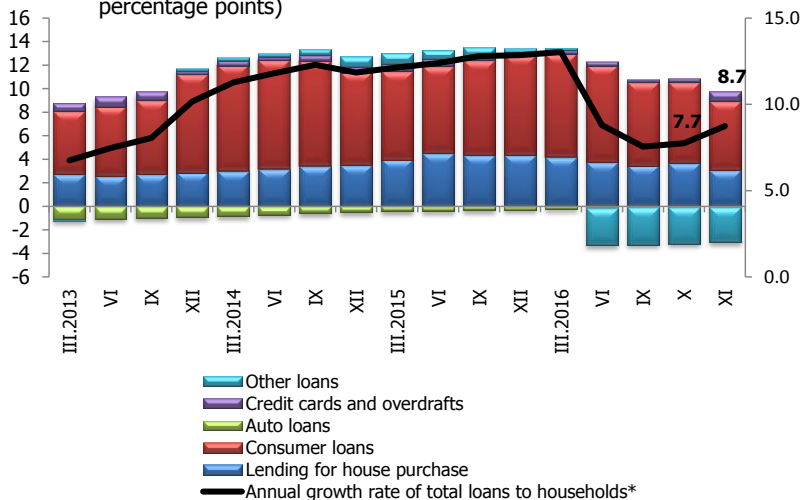


Source: NBRM.

In November, total loans registered an increase compared to the previous month. Analyzed by sectors, the total credit activity increase on a monthly basis (by 0.2%), is entirely driven by the increase in household loans, whereas loans to enterprises registered a decline. The results of the Lending Survey regarding the banks' expectations for the fourth quarter suggest a further easing of overall credit terms in both sectors, amid moderate net increase in demand in both sectors.

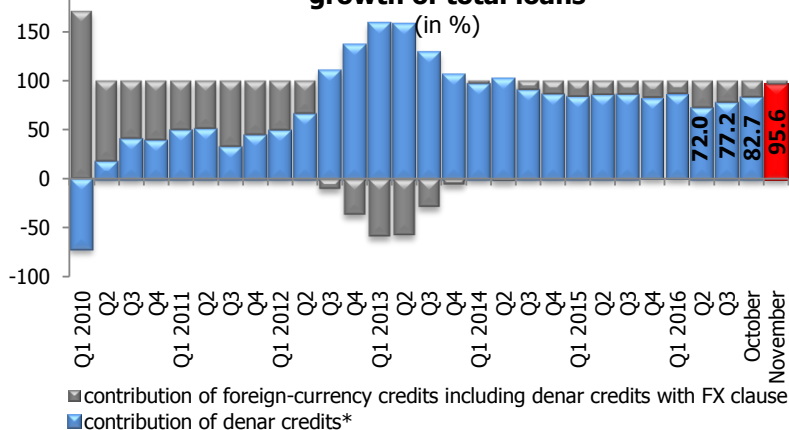
At the end of November, the annual growth rate of total loans equaled 1.3%. If we exclude the effect of regulatory changes it equals to 6.6% and is above the forecasted growth of 5.6% for the fourth quarter of 2016.

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



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

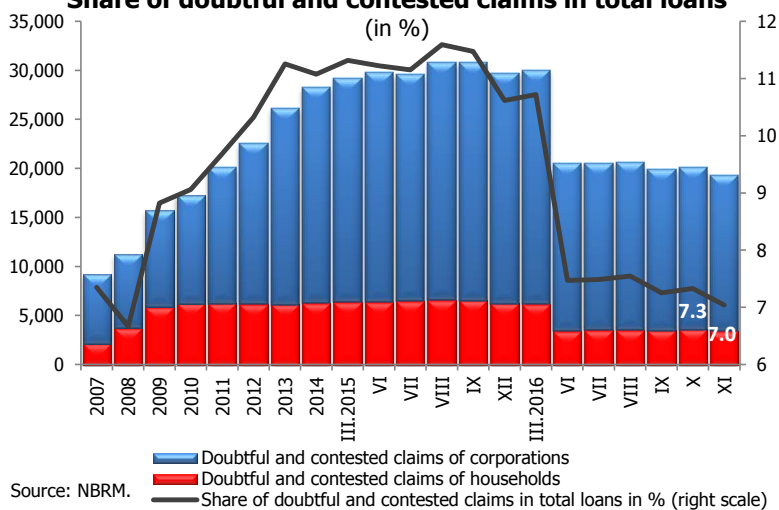
Contribution of denar loans and loans with foreign currency component to the annual growth of total loans



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

The annual rise in the total loans mostly arises from the growth of denar loans¹⁷ and denar loans with FX clause, while the contribution of foreign currency loans decreased.

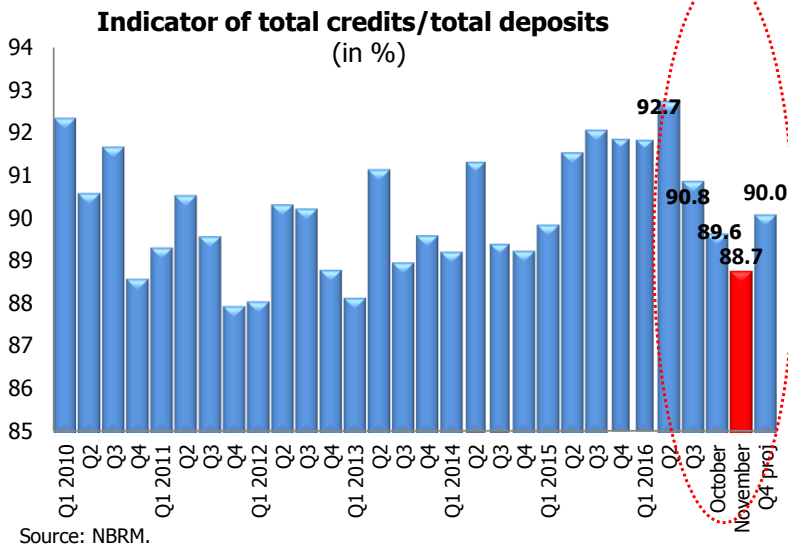
Share of doubtful and contested claims in total loans
(in %)



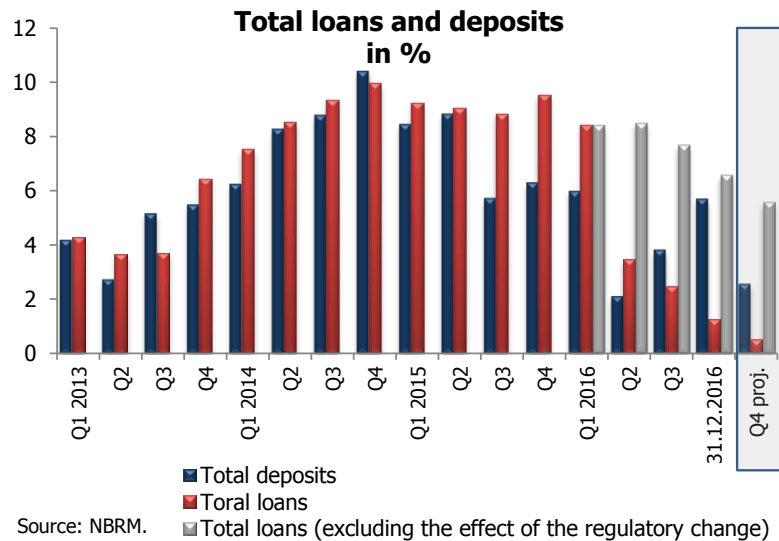
Source: NBRM.

In November, the share of doubtful and contested claims in total loans declined compared to the previous month from 7.3% to 7.0%.

¹⁷ Includes denar loans without FX clause, accrued interest and doubtful and contested claims.



Utilization of the deposit potential for lending to the private sector as measured by the loan-to-deposit ratio amounted to 88.7% in November, which is lower performance compared to expectations with the October projection. Compared to the previous month, the indicator is lower by 0.9 percentage points. If we exclude the effect from the regulatory write-off, then the share of loans in deposits will amount 93.2%.



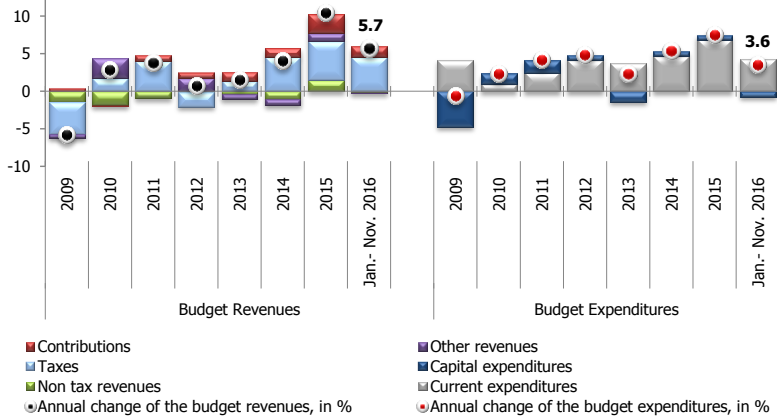
Preliminary ten-day data for December 2016 show a monthly increase of 4% in total deposits, which is a significant acceleration compared to the recent pace of growth (average growth of 1% in two previous months). The monthly increase of deposits in the private sector is normal for the last month of the year, but the growth pace is higher compared to the two previous years, when the monthly increase in total deposits in December averaged around 2.8%. Growth of total deposits in December was mostly driven by the higher enterprise deposits, but the contribution of household savings is also significant. Analyzed by currencies, 79.5% of the new savings are due to the increase in denar deposits. In terms of currency structure of household savings, as opposed to the previous three months when the contribution of the Denar and the foreign currency component to the deposit growth was averaging 46%, in December 2016, almost 90% of the increase in household savings is in denars. **On an annual basis, total deposits in December grew by 5.7%, exceeding the October projection for the end of the year (of 2.6%).**

In terms of credit activity, preliminary data as of December show growth of 3.2% on a monthly basis, which is a result to their moderate increase in the previous month (0.2%). The increase in total loan is mostly due to the higher level of loans to the enterprises, which is a normal characteristic for the last month of the year. Moderate increase is also registered in household loans. **In December, total loans on an annual basis are higher by 1.3% and are above the projected for the last quarter (0.5%)¹⁸. If we exclude the effect from the regulatory changes, the credit activity as of December is higher by 6.6% on an annual basis, which is above the projected growth of 5.6% for the last quarter, in accordance with the October projection.**

¹⁸ The projected annual growth rate for the end of the fourth quarter of 2016 portrays the high performances in December 2015.

Budget revenues and expenditures

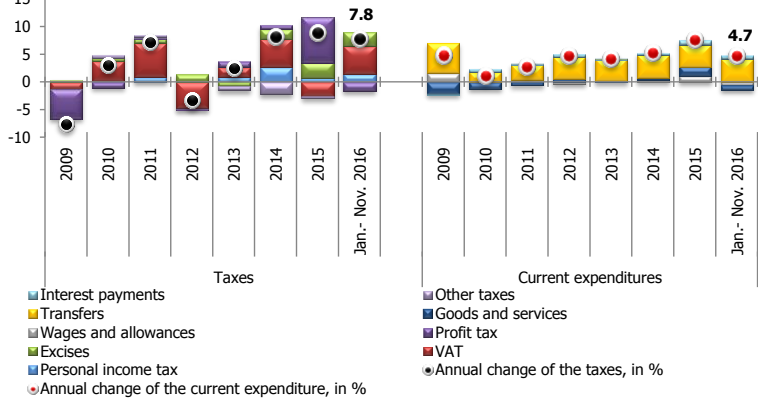
(contributions in annual change, in p.p.)



*Other revenues include capital revenues, donations from abroad and revenues of recovered loans.

Taxes and current expenditures

(contributions in annual change, in p.p.)



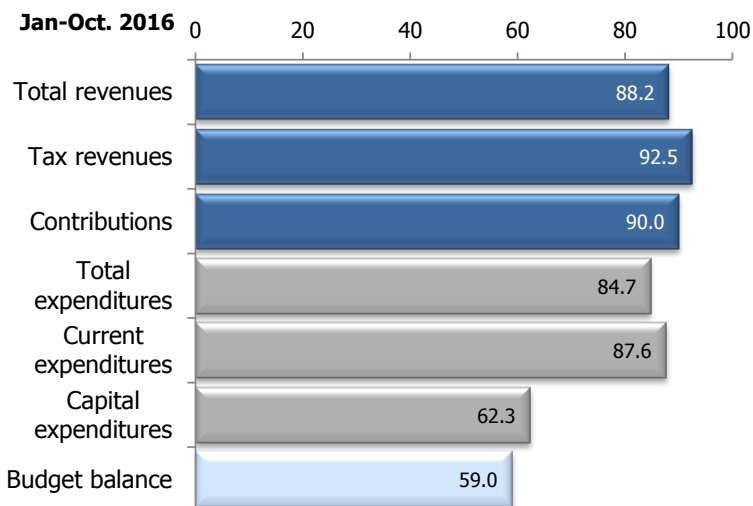
The total budget revenues realized in the period January-November 2016 in the Budget of the Republic of Macedonia (central budget and budget of funds) increased by 5.7% compared to the performances in the previous year. The improved performances mostly arise from the higher performances in taxes, and to lesser extent, from the contributions.

Analyzed by individual tax categories, the growth mostly arises from the performances in inflows from VAT. Moreover, an increase is also registered in inflows from excise duties and from personal income tax, while inflows from profit tax continue to be lower on an annual basis.

In the period January-November 2016 the performances in budgeted revenues are higher by 3.6% on an annual basis which is due to the higher current expenditures (by 4.7%). On the other hand, capital expenditures continue to register an annual decline (by 7.8%).

Budget implementation

(central budget and funds)



Source: Ministry of Finance and NBRM's calculations.

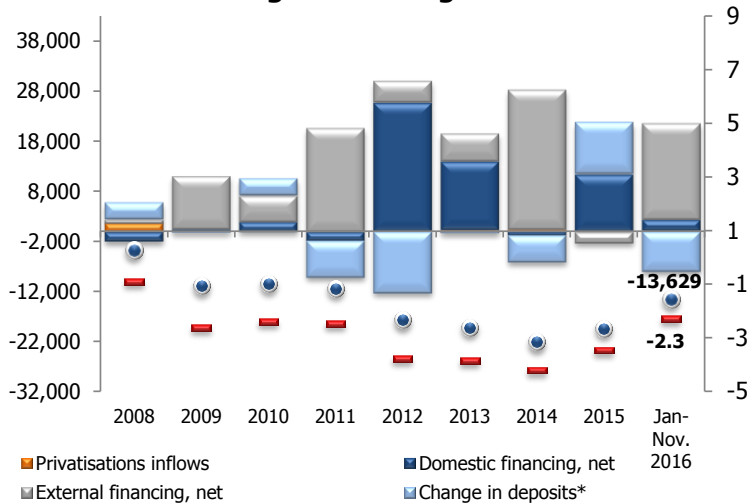
In the period January-November, the realized budget revenues constitute 88.2% of the revenues projected for the entire 2016 in accordance with the Budget Revision for 2016¹⁹. Analyzed by categories, the highest performance is registered in total taxes with 92.5%, whereas performances in contributions are 90%.

In terms of budget revenues, in the period January-November 84.7% of the planned revenues for 2016 are performed, which mostly is due to the higher performances in current expenditures (87.6 from the annual plan), whereas performances in capital expenditures are lower (62.3 from the annual plan).

The realized budget deficit as of November constituted 59% of the planned for 2016.

¹⁹ The comparison is made with the Budget Revision for 2016 of August 2016.

Financing of the budget balance



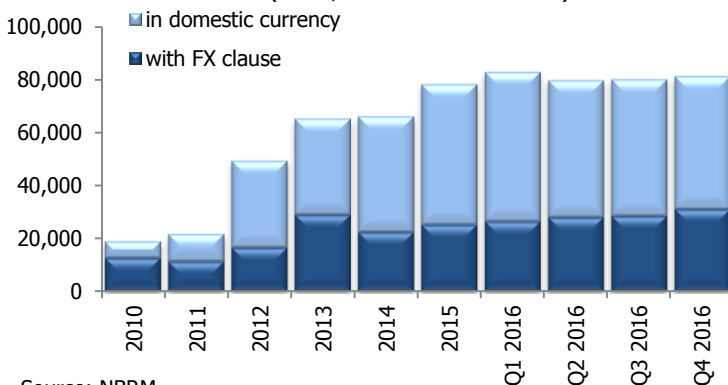
* Positive change- deposits withdrawal; negative change- deposits accumulation. Source: MoF.

In the period January-November 2016, the Budget of the Republic of Macedonia registered a **deficit of Denar 13,629 million, which is 2.3% of the nominal GDP²⁰**.

The realized budget deficit in this period was dominantly financed through external government borrowing in the capital market and through new net emission of government securities. Therefore, part of the performed inflows were cumulated in the form of deposits of the government with the NBRM.

Government securities

(stocs, in millions of Denars)

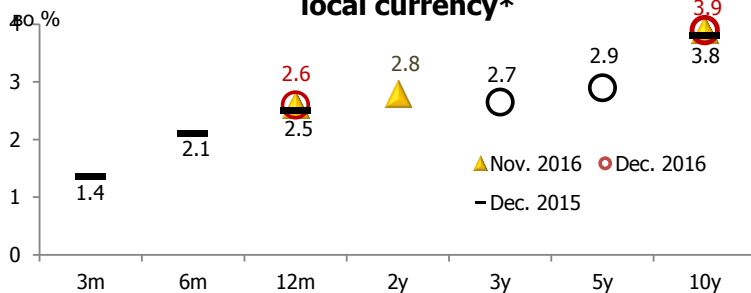


Source: NBRM.

At the end of December, the stock of government securities in the domestic market amounted to Denar 81,370 million, which is higher by Denar 1,245 million, compared to the end of the third quarter.

On a cumulative basis, the stock of government securities is higher by Denar 3,037 million throughout the whole 2016.

Interest rates of government securities in local currency*



*interest rates of 3y and 5y government securities are from auctions held in Sept. 2015 and Nov. 2014, consequently Source: Ministry of Finance.

The interest rates on government securities in November²¹ remained on the same level as the previous month.

Compared to the end of the previous year, interest rates in November were moderately higher.

²⁰ The analysis uses the NBRM April projections for the nominal GDP for 2016.

²¹ In the auctions for government securities in December 12 month treasury bills without FX clause and 10 year government bonds without FX clause were offered.

Annex 1. Timeline of the changes in the setup of the monetary instruments of the NBRM and selected supervisory decisions adopted in the period 2013 - 2016

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.

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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.

²² For the method of determining the potential demand for CB bills see the Decision on CB bills, Official Gazette of the Republic of Macedonia No. 166/13).

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 of over one year from 8% to 0%, with these liabilities obtaining the same treatment as the liabilities with maturity over two years, for which rate of 0% since 2012 has been applied. Having in mind that the amendment releases the banks from the reserve requirement for the natural persons' denar deposits with maturity exceeding one year, this measure is expected to have adequate influence toward larger supply of denar savings products with simulative interest rates.
- The National Bank Council adopted the Decision on amending the Decision on CB bills that envisages adjustment of the mechanism of participation at the CB bills auction of the National Bank, where the main criterion will be the individual share of the banks in the total liabilities in domestic currency without currency clause of the banking system. With these amendments, the National Bank continues to support the natural persons' savings in domestic currency and on a longer run, which creates room for the banks for active credit support to the private sector.

December 2015

- The Council adopted the Decision amending the Decision on the methodology for determining the capital adequacy, introducing measures to slow the growth of long-term consumer loans. The measure increases capital requirements for banks on long-term consumer loans with maturity equal to or longer than eight years. Thus, the risk weight for claims on consumer loans with a contractual maturity equal to or longer than eight years, increases from 75% i.e. 100% to 150%. To avoid major shocks in the market of consumer lending, yet the growth rates to be reduced to a moderate level, this measure is aimed only at newly approved long-term consumer loans, i.e. loans with maturity equal or longer than 8 years approved after 1 January 2016. At the same time, this decision introduces higher capital requirement (risk weight of 75%) for the increase of overdrafts and credit cards in relation to 31 December 2015. The aim of this decision is to

prevent the possibility of changeover to this type of borrowing as a result of the measure to decelerate consumer loans. Also, this Decision facilitates the access of legal entities. Namely, the capital requirement for guarantees issued by banks is reduced, which guarantees payment based on a certain business relationship of the client and banks' claims backed by commercial property that meets certain conditions. This way allows banks to allocate lower amount of capital for credit and guarantee operations with legal entities, including small and medium enterprises, which can cause reduction in the cost of banks and therewith, of clients for this type of operation.

- The National Bank Council adopted the Decision on amending the Decision on credit risk management, which requires starting from 1 January 2016, and by June 30 2016 to write-off all claims that have been fully booked for more than two years, and where the bank has identified and fully covered the credit risk of default at least two years before. According to the existing regulations, banks are required to fully reserve claims where the client defaulted at least 1 up to 5 years if there is a specific collateral, and the new measure requires from banks to write them off two years after their full provisioning. In addition, banks will still be allowed and required to take actions to collect these claims, although they are written off. The measure does not incur additional costs for banks since claims which are fully provisioned are written off, at least two years before.
- The National Bank Council decided to extend the application of the non-standard measure to reduce reserve requirement base in denars of commercial banks for the amount of newly approved loans to net exporters and domestic producers of electricity for two more years, until the end of 2017.
- On 29 December 2015, the Decision on introducing special protective measures adopted by the National Bank Council on 28 June 2015 due to the debt crisis in Greece at that time, ceased being valid. The measures were adopted to protect against any disruptions in the balance of payments or the stability of the financial system of the Republic of Macedonia due to any significant capital outflows from Macedonia to Greece. They were temporary for a period of up to six months, with a possible extension of their application. The protective measures served their purpose and prevented major capital outflows from the Republic of Macedonia, yet not disturbing the business of domestic companies with Greek companies. They delivered equilibrium in the balance of payments and stability of the domestic banking system. The situation in Greece has been stabilizing for quite some time. The lenders continued to financially support Greece, which, in turn, pledged to apply economic and social reforms, and austerity measures. Therefore, after the expiry of six-month validity period of the protective measures on 28 December 2015, since 29 December 2015, this decision is no longer in use.

May 2016

- At the regular meeting of the NBRM's Operational Monetary Policy Committee held on 3 May 2016, it was decided the interest rate on CB bills to be increased by 0.75 percentage points, from 3.25% to 4%. The decision to tighten the monetary policy is a reaction to the increased demand for foreign currency and pressures on banks' deposit base, which were entirely due to the deteriorating expectations of economic agents, caused by the unstable political situation in the country. Thus, the change in the interest rate is a response to the action of factors of non-economic nature.
- The National Bank Council adopted the Decision on reserve requirement, which increased the reserve requirement rate for banks' liabilities in domestic currency with FX clause. The measure has been aimed at further encouraging the process of denarization of deposits in the domestic banking system. Given the negligible market share of these liabilities in the banks' balance

sheets, the changes are exclusively for further maintenance of low propensity of the economic agents for placing this type of deposits in domestic commercial banks.

- In order to maintain and increase deposits in the domestic banking system, the National Bank Council reviewed and improved the terms for placing foreign currency deposits of domestic banks at the National Bank and adopted the Decision on foreign currency deposit with the National Bank of the Republic of Macedonia. Accordingly, starting from 13 May 2016, the banks can place foreign currency deposits at the central bank at higher interest rates compared to current negative interest rates prevailing in the international financial markets. It is expected that this measure will contribute to reduce the cost of domestic banks, which would accordingly contribute to higher interest rates on the deposits of their clients, domestic legal and natural persons.

October 2016

- [1]In the regular meeting held on 25 October 2016, the NBRM's Operational Monetary Policy Committee decided not to offer additional foreign currency deposits that banks would place in the NBRM.

December 2016

- The Committee decided to cut CB bill interest rate by 0.25 percentage points, to 3.75%, and to increase the supply of CB bills at the 14 December auction from Denar 22,000 million to Denar 23,000 million.
- The National Bank Council adopted the Decision on amending the Decision on the methodology for determining the capital adequacy. This Decision is part of the compliance process of the domestic regulations with the reforms of the international capital standard Bazel 3, as well as with the provisions of the European Regulation 575/2013 for prudent claims for lending institutions and investments forms, in the structure of banks' own funds. The most significant amendments are related to strengthening the own funds quality, both in terms of their structure and the requirements that should be met by certain positions in order to be a part of banks' own funds. In that context, own funds continue to be divided in core and supplementary capital, **but in the new Decision the structure of the core capital changes and is divided in regular core capital and added core capital**. In regular core capital, the capital positions with the highest quality (equity capital and reserves) which are complete and immediately available for covering risks and loses during banks' operation are included. The new own funds component, supplementary core capital contains instruments which, among others, contain a clause for the level of turning into instruments of regular core capital or for their write-off on temporary or permanent basis (reduction of the value of their principle), if the so called critic event occurs. **With the amendment of the Decision on capital adequacy current restrictions in terms of size and ratio of individual elements of own funds are replaced with the prescribed minimal rates of the regular core capital, core capital and own funds**, i.e. 4.5% for regular core capital, 6% for the core capital and 8 % for the own funds form the pondered assets according to risks. This way, the grates importance is given to the regular core capital (stocks, reserves, retained undistributed profit), as capital positions with the highest quality.