National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

April 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 (January - March 2017) and to make a comparison with the latest macroeconomic forecasts (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 forecasts. The review focuses on the changes in external assumptions and performance with domestic variables and the effect of these changes on the environment for monetary policy conduct.

The recovery of the global economy is expected to continue, at a pace that is similar to the October expectations. The main current risks still refer to the likelihood of increased protectionism, uncertainty about the possible effects arising from the manner in which the Brexit would take place[1], as well as from the possible faster monetary tightening by FED, amid expectations for fiscal stimulus by the new US administration. In terms of economic growth in the euro area, the latest high frequency data and the surveys on the economic sentiment of both economies and households, as our most significant partner, are mainly favorable and indicate GDP growth in the first quarter of 2017[2]. Favorable trends on the labor market continued, so that unemployment rate decreased to 9.5% in February, hitting a record low since May 2009. As for inflation, after almost a year of gradual acceleration, initial estimates for March show slower price growth of 1.5% on annual basis (2% in February). Price growth continues to be driven mainly by the higher energy prices, and to a lesser extent by the rise in the prices of food and services. Core inflation continued to grow, but at a slower pace (growth of 0.9% in February, compared to 0.7% in March)[3]. Hence, the ECB is expected to keep the accomodative monetary policy. However, amid expectations by market participants for its gradual normalization, the **interest rate EURIBOR** was revised upwards in 2017 and especially in 2018, although it is expected to remain in the negative zone throughout the entire forecast horizon.

Observed from a viewpoint of the individual quantitative external environment indicators of the Macedonian economy, the forecasts regarding the foreign effective demand indicate certain upward revision relative to the October expectations. Namely, higher rise compared to previously forecasted is expected in 2017, while the growth rate in 2018 remains unchanged. Having in mind the **foreign effective inflation,** a significant upward revision was made for 2017, while for 2018 the October projection was retained. The latest estimations for the **prices of primary commodities on the world markets for 2017 generally indicate an upward revision relative to the October projection, while price revisions for 2018 go in different direction.** Thus, regarding the **world oil prices**, in 2017 higher rise than in the October projection is expected, while in 2018 slight decrease instead of rise in the price is now anticipated. Regarding the **metal prices**, the latest estimations in 2017 indicate growth again, whereby with the copper it is significantly higher than previous expectations, while the nickel is expected to register slightly lower growth than envisaged in the October projection. In 2018, as earlier, metal prices are expected to stabilize. Regarding the **world prices of the primary food products**, pressures on the domestic inflation are still expected. Moreover, stronger growth of the prices of the corn and especially of the wheat is expected for 2017, compared to October expectations, while for 2018, the new estimates indicate a slightly higher increase in the wheat price, and somewhat smaller rise in the corn price. However, it should have in mind that the estimations for the prices of these commodities

[1] On 29 March 2017, the United Kingdom officially launched the procedure for exiting the EU, by handing a letter to the President of the European Council, in which it informs him of the intention to activate Article 50 of the Lisbon Treaty.
[2] According to the latest ECB's forecasts, the growth rate of real GDP for 2017, 2018 and 2019 is projected at 1.8%, 1.7% and 1.6%, respectively. According to the previous (December) projections, the growth has been projected at 1.7% in 2017 and 1.6% in 2018 and 2019.
[3] The latest inflation forecasts are 1.7%, 1.6% and 1.7%, for 2017, 2018 and 2019 respectively, compared to the December forecasts for these years of 1.3%, 1.5% and 1.7%, respectively.

are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long-term.

The comparison of the latest macroeconomic indicators with their forecast dynamics from October indicates smaller deviations in the individual segments of the economy. Real economic growth in 2016, according to the estimated **GDP** data, equals 2.4% and it is much closer to the projected rate of 2.3%. As for the movements in the first quarter, the currently available data in terms of aggregate demand mostly indicate continuation of the growth. However, part of the data registered divergent movements which increases the uncertainty around the assessment of the situation in the economy in the first quarter. When it comes to **changes in consumer prices**, in March and in the first two months of the year, positive inflation rate was measured, which is still lower than the October projection. On the other hand, external input assumptions for the inflation projection for the whole of 2017 have been revised upward, which in turn creates upward risks to the inflation projection for 2017. However, the uncertainty around the forecasted movement of world prices of primary commodities, especially related to oil prices, remains.

Foreign reserves data (adjusted for the effects of price and exchange rate differentials and price changes of securities) at the end of the first quarter of the year show a decrease. Analyzing change factors, the reduction of reserves in this period was mostly driven by the maturity of the banks' foreign currency deposits with the NBRM, as well as by transactions with a temporary effect. Transactions for the account of the government also decreased foreign reserves. On the other hand, in conditions of stable foreign exchange market developments, the NBRM interventions acted towards moderate growth of foreign reserves. Available data on the currency exchange market in the first quarter of 2017 suggest somewhat lower net inflows in private transfers in relation to the October expectations, and the performances in the foreign trade for the first two months also give an indication of slightly higher trade deficit. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone.

As for the monetary sector developments, final data as of February show a deceleration in the monthly decline in total deposits, which stood at 0.4%, versus 0.7% in the previous month. Analyzed by sector, the decline in February, similar to the previous month, entirely stems from the lower corporate deposits, while household deposits still register monthly growth. In terms of currency structure, the reduction of total deposits results from the decrease in foreign currency deposits, while Denar savings registered a monthly growth, which is a positive movement compared to the previous month. On an annual basis, total deposits in February grew by 5.1%, which is above the forecasted growth of 3.8% for the first quarter of 2017. Analyzing the credit market, in February, total loans registered monthly fall of 0.5%, which was more moderate compared to the fall in the previous month (of 1.6%). The decrease in the total loans in February, similar to the previous month, is fully triggered by the lower amount of corporate loans, while the loans to households made positive contribution. On an annual basis, total loans decreased by 0.3%, which is below the projected growth (of 1.9%) for the first quarter of the year, according to October projection. If we exclude the regulatory effect, the annual growth rate of total loans is 5.8% and is below the projected annual growth of 7% for the first quarter of 2017.

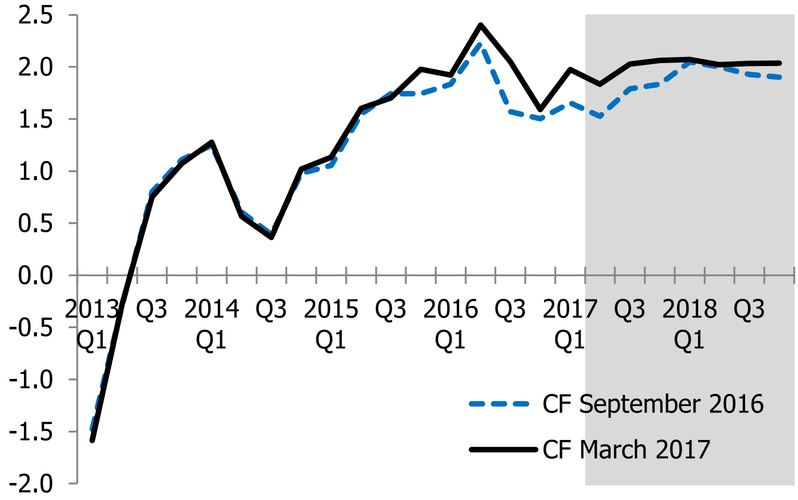
In the first two months of the year, the Budget of the Republic of Macedonia registered a deficit of Denar 3,674 million, mostly financed through a new net issuance of government securities, and to a lesser extent through deposit withdrawal from the government account with the National Bank. The budget deficit constitutes 19.7% of the envisaged deficit in the Budget for 2017.

The latest macroeconomic indicators and assessments indicate certain deviations compared to the forecast dynamics in individual segments in the economy, but the perceptions about the environment for conducting monetary policy and about the risks highlighted in the October forecasts are mainly unchanged. Foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) decreased at the end of the first quarter of the year. However, foreign reserves adequacy indicators continue to hover in the safe zone. In terms of economic activity, the currently available data mostly indicate continuation of the growth in the first quarter, which is in line with the expectations within the October cycle projections. Regarding inflation, the current achievements are slightly lower than forecast, while expected movement of external assumptions underwent upward correction thus indicating potential upward risks to the projection for 2017. Within the monetary sector, data on total deposits in February indicate higher performance than expected in the October projection, while the growth pace of credit activity is below the expectations for the first quarter of the year. Growth in household deposits continued in February, for the ninth consecutive month, with positive developments in the currency structure of savings. Performance in lending activity in February, for the second consecutive month, is fully driven by the lower amount of corporate loans, which is below the expectations for the first quarter of the year, according to the October projection.

Selected economic indicators/1					2016																	2017			
	2012	2013	2014	2015	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep.	Q3	Oct.	Nov	Dec	Q4	2016	Jan.	Feb.	Mar	Q1
I. Real sector indicators																									
Gross domestic product (real growth rate, y-o-y) /2	**-0.5**	**2.9**	**3.6**					**2.4**				**2.9**				**2.0**				**2.4**	**2.4**				
Industrial production /3																									
y-o-y	-2.8	3.2	4.8	4.9	8.0	15.2	8.9	10.7	3.6	5.3	-4.4	1.3	5.1	5.2	4.6	5.0	-3.6	-4.9	3.5	-1.8	3.4	-2.6	-1.3		
cumulative average	-2.8	3.2	4.8	4.9	8.0	11.7	10.7	10.7	8.7	8.0	5.6	5.6	5.6	5.5	5.4	5.4	4.4	3.4	3.4	3.4	3.4	-2.6	-1.9		
Inflation /4																									
CPI Inflation (y-o-y) /5	4.7	1.4	-0.5	-0.3	0.1	0.0	-0.4	-0.1	-0.7	-0.7	-0.7	-0.7	-0.3	-0.3	0.2	-0.1	0.2	-0.2	-0.2	-0.1	-0.2	0.6	0.2	0.6	0.5
CPI Inflation (cumulative average)	3.3	2.8	-0.3	-0.3	0.1	0.1	-0.1	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	0.6	0.4	0.5	0.5
Core inflation (cumulative average)	2.1	3.0	0.6	0.5	1.6	1.6	1.7	1.7	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.6	1.6
Core inflation (y-o-y)	2.1	3.0	0.6	0.5	1.6	1.6	1.8	1.7	1.6	1.2	1.5	1.5	1.2	1.2	1.4	1.3	1.4	1.2	1.0	1.2	1.4	1.4	1.4	2.0	1.6
Labor force																									
Unemployment rate	31.0	29.0	28.0	26.1				24.5				24.0				23.4				23.1	23.7				
II. Fiscal Indicators																									
(Central Budget and Budgets of Funds)																									
Total budget revenues	138,115	140,248	145,929	161,207	12,918	12,926	14,739	40,583	14,813	13,346	13,263	41,422	14,981	13,625	15,201	43,807	14,369	13,489	15,666	43,524	169,336	12,584	13,310		
Total budget expenditures	155,840	159,505	168,063	180,632	14,606	15,695	15,917	46,218	14,309	14,529	13,891	42,729	16,991	14,485	14,477	45,953	16,217	16,182	18,107	50,506	185,406	14,723	14,845		
Overall balance (cash)	-17,725	-19,257	-22,134	-19,425	-1,688	-2,769	-1,178	-5,635	504	-1,183	-628	-1,307	-2,010	-860	724	-2,146	-1,848	-2,693	-2,441	-6,982	-16,070	-2,139	-1,535		
Overall balance (in % of GDP)/1	-3.8	-3.8	-4.2	-3.5	-0.3	-0.5	-0.2	-0.9	0.1	-0.2	-0.1	-0.2	-0.3	-0.1	0.1	-0.4	-0.3	-0.4	-0.4	-1.1	-2.6	-0.4	-0.3		
III. Financial indicators /6																									
Broad money (M4), y-o-y growth rate	**4.4**	**5.3**	**10.5**	**6.8**	**4.5**	**5.4**	**6.2**	**6.2**	**3.8**	**3.7**	**2.5**	**2.5**	**3.6**	**4.5**	**4.0**	**4.0**	**3.9**	**4.6**	**6.1**	**6.1**	**6.1**	**6.7**	**5.1**		
Total credits, y-o-y growth rate	**5.4**	**6.4**	**10.0**	**9.5**	**8.6**	**8.7**	**8.4**	**8.4**	**7.5**	**6.4**	**3.5**	**3.5**	**3.0**	**2.9**	**2.5**	**2.5**	**1.8**	**1.3**	**0.9**	**0.9**	**0.9**	**0.6**	**-0.3**		
Total credits - households	6.5	10.2	11.8	12.9	12.6	12.8	13.0	13.0	12.8	12.2	8.8	8.8	8.1	7.8	7.3	7.3	7.5	7.3	7.0	7.0	7.0	7.1	6.7		
Total credits - enterprises	4.5	3.8	8.6	7.1	5.5	5.8	5.1	5.1	3.7	2.0	-0.5	-0.5	-0.8	-0.9	-1.2	-1.2	-2.7	-3.3	-3.8	-3.8	-3.8	-4.4	-5.9		
Total deposits (incl. demand deposits), y-o-y growth rate	**4.9**	**6.1**	**10.4**	**6.5**	**4.3**	**5.3**	**6.2**	**6.2**	**3.1**	**3.7**	**2.3**	**2.3**	**3.5**	**4.5**	**4.0**	**4.0**	**4.0**	**4.4**	**5.7**	**5.7**	**5.7**	**6.7**	**5.0**		
Total deposits - households	7.2	6.7	8.9	4.1	3.6	3.5	3.1	3.1	0.9	-0.4	0.2	0.2	0.2	1.0	1.2	1.2	1.8	1.8	2.5	2.5	2.5	2.9	2.8		
Total deposits - enterprises	-1.6	3.1	15.7	13.0	6.4	11.8	16.0	16.0	9.2	14.5	5.6	5.6	11.8	11.7	11.3	11.3	9.6	11.8	13.4	13.4	13.4	15.9	9.0		
Interest rates /7																									
Interst rates of CBBills	3.73	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.25		
Lending rates																									
denar rates (aggregated, incl. denar and denar with f/x clause)	8.5	8.0	7.5	7.1	6.8	6.7	6.7	6.7	6.7	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.5	6.5	6.4	6.5	6.6	6.4	6.4		
f/x rates	7.0	6.5	6.3	5.9	5.7	5.7	5.6	5.6	5.5	5.5	5.5	5.5	5.4	5.4	5.4	5.4	5.3	5.3	5.2	5.2	5.4	5.1	5.1		
Deposit rates																									
denar rates (aggregated, incl. denar and denar with f/x clause)	5.1	4.4	3.7	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.4	2.3		
f/x rates	2.2	1.8	1.4	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9		
IV. External sector indicators																									
Current account balance (millions of EUR)	**-240.0**	**-134.1**	**-43.2**	**-187.0**	**13.1**	**-21.7**	**-50.1**	**-58.7**	**-96.7**	**-81.5**	**-41.1**	**-219.4**	**60.8**	**23.3**	**16.3**	**100.3**	**-7.8**	**-62.0**	**-55.9**	**-125.6**	**-303.3**	**-0.9**			
Current account balance (% of GDP)	*-1.6*	*-1.6*	-0.5	-2.1	0.1	-0.2	-0.5	-0.6	-1.0	-0.8	-0.4	-2.2	0.6	0.2	0.2	1.0	-0.1	-0.6	-0.6	-1.3	-3.1	0.0			
Trade balance (millions of EUR)/8	**-1,946.7**	**-1,748.1**	**-1757.9**	**-1713.6**	**-65.8**	**-131.6**	**-175.8**	**-373.2**	**-160.8**	**-175.7**	**-164.9**	**-501.5**	**-112.5**	**-156.0**	**-122.9**	**-391.4**	**-146.0**	**-174.0**	**-191.3**	**-511.3**	**-1777.4**	**-117.4**	**-133.1**		
Trade balance (% og GDP)	*-25.7*	*-21.4*	-20.5	-18.9	-0.7	-1.3	-1.8	-3.8	-1.6	-1.8	-1.7	-5.1	-1.1	-1.6	-1.2	-4.0	-1.5	-1.8	-1.9	-5.2	-18.0	-1.2	-1.3		
import (millions of EUR)	-5,070.6	-4,983.3	-5504.5	-5801.1	-354.1	-477.5	-525.0	-1356.6	-529.4	-531.2	-497.2	-1557.7	-516.6	-509.5	-513.9	-1540.0	-533.8	-526.1	-592.6	-1652.4	-6106.7	-442.2	-511.2		
export (millions of EUR)	3,124.0	3,235.2	3746.6	4087.6	288.3	345.9	349.2	983.3	368.5	355.4	332.3	1056.2	404.1	353.5	391.0	1148.6	387.8	352.1	401.2	1141.1	4329.3	324.7	378.1		
rate of growth of import (y-o-y)	0.3	-1.7	10.5	5.4	-4.2	16.6	-1.7	3.3	6.1	12.9	-3.6	4.9	1.9	18.7	11.3	10.2	-0.8	0.2	9.5	3.0	5.3	24.9	7.1		
rate of growth of export (y-o-y)	-2.8	3.6	15.8	9.1	-1.7	15.2	2.6	5.3	24.1	-1.6	-13.4	1.4	15.6	10.5	5.7	10.5	4.5	-3.1	18.6	6.4	5.9	12.6	9.3		
Foreign Direct Investment (millions of EUR)	**131.1**	**229.4**	**197.4**	**202.8**	**29.9**	**54.9**	**47.8**	**132.7**	**31.1**	**33.2**	**-12.2**	**52.2**	**10.7**	**48.1**	**-30.6**	**28.2**	**17.9**	**45.2**	**77.9**	**141.0**	**354.0**	**-32.6**			
External debt																									
Gross external debt (in milllions of EUR)	5171.7	5219.7	5992.3	6290.5				6816.2				6886.6				7513.4				7253.2	7253.2				
public sector	2162.1	2172.4	2846.8	2933.7				3279.4				3283.1				3891.1				3445.5	3445.5				
public sector/GDP (in %)	28.5	26.7	33.2	32.4				33.3				33.3				39.5				34.9	34.9				
private sector	3009.5	3047.4	3145.5	3356.9				3536.8				3603.6				3622.3				3807.7	3807.7				
Gross external debt/GDP (in %)	68.2	64.0	70.0	69.4				69.1				69.8				76.2				73.5	73.5				
Gross official reserves (millions of EUR)/9	**2,193.3**	**1,993.0**	**2,436.5**		**2,246.9**	**2,253.4**	**2,266.3**		**2,193.9**	**2,164.4**	**2,158.8**		**2,588.2**	**2,676.6**	**2,699.0**		**2,729.0**	**2,551.4**	**2,613.4**			**2,557.1**	**2,563.0**	**2,534.3**	

/1 While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2017, the projected level from the NBRM projections from October 2016 is used.
/2 Preliminary data for 2015. Estimated data for 2016.
/3 The changes of Index of industrial production are according to base year 2010=100.
/4 CPI calculated according to COICOP.
/5 Inflation on annual basis corresponds to end-year inflation (December current year/December previous year)
/6 The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since 01.01.2009).
/7 As of January 2015 data for active and passive interest rates are compiled according to the new methodology of NBRM.
/8 Trade balance according to foreign trade statistics (on c.i.f. base).
/ 9The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

Foreign effective demand
(annual changes in %)



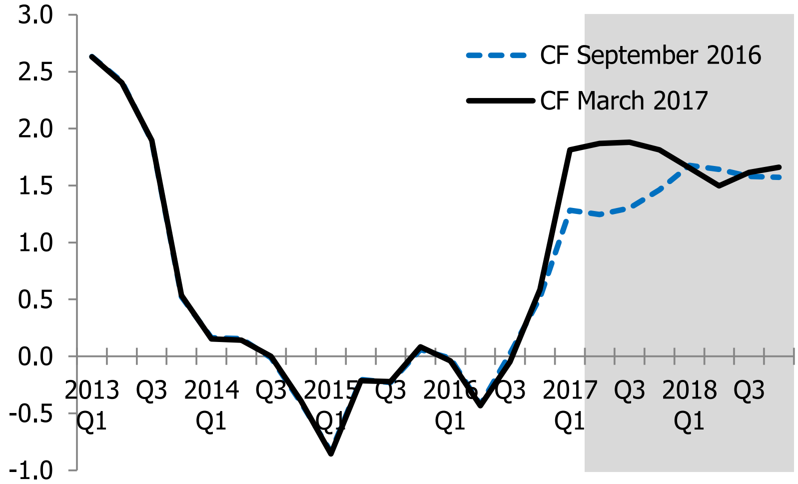
Source: "Consensus Forecast" and NBRM calculations.

In 2017, the foreign effective demand is expected to increase by 2%, which is an upward revision of 0.3 p.p. in comparison with the October projection...

...largely due to the expectations for higher growth in Germany and in the regional countries (Greece, Serbia, Croatia and Bulgaria).

For 2018, the expected growth rate of the foreign effective demand is identical to October projections, envisaging an increase of 2%.

Foreign effective inflation
(annual rates in %)



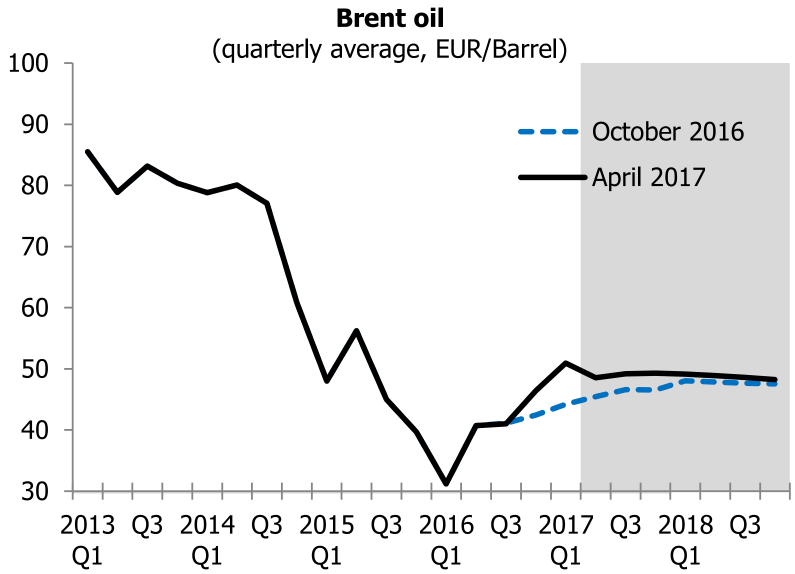
Source: "Consensus Forecast" and NBRM calculations.

The expectations about the foreign effective inflation for 2017 have been revised upwards...

...from 1.3% to 1.9%, expecting higher price level in Croatia[4], Serbia, Germany and Italy.

On the other hand, the estimations given in the October projection for 2018 remained, i.e. the foreign effective inflation is expected to amount to 1.6%.

[4] Inflation in Croatia and Serbia has been adjusted for the changes in the exchange rate.

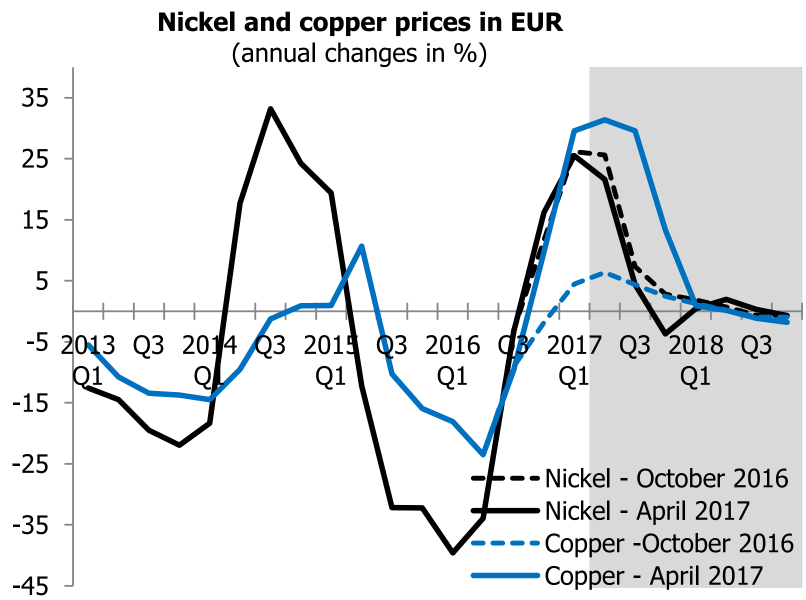


Source: "Consensus Forecast" and NBRM calculations.

In 2017, oil price was revised upward[5]...

...as a result of the agreement between the OPEC countries and some non-OPEC countries for reduction of the global oil production in order to influence towards upward movement of prices[6].

On the other hand, given the higher price level in 2017, in 2018, slight decline in oil price on world markets is projected, compared to the growth expected in October.



Source: "Consensus Forecast" and NBRM calculations.

In 2017 the copper price has been considerably revised upward compared to the October projections...

...i.e. envisaging that the price will register significant growth, despite the moderate pace expected in October...

...largely due to the drop in global inventories of copper, possible interruptions in supply facilities and expectations for higher demand in the US and China.

On the other hand, the nickel prices in 2017 have been revised downward compared to the October projections....

...largely due to the expectations for larger

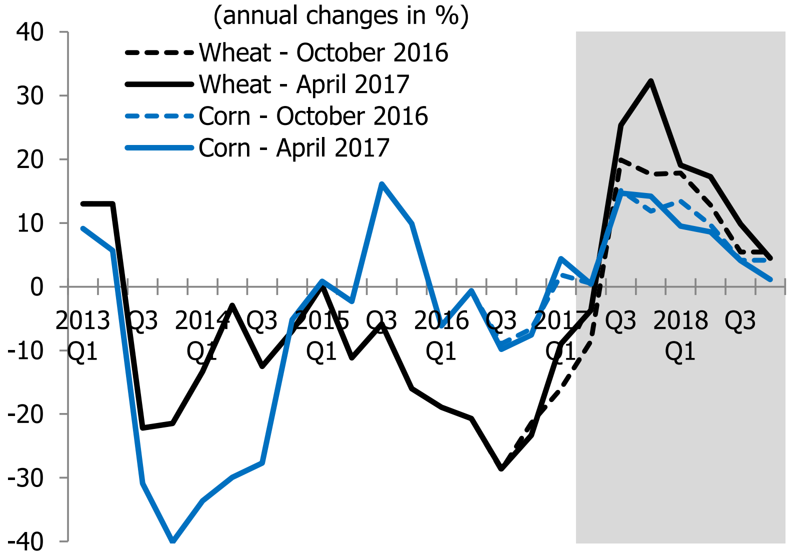
[5] For the analysis of prices of oil, metals and primary food products, various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals are used.

[6] Agreement was reached on 30 November 2016 in Vienna, requiring the production to be cut by 1.2 million barrels a day, starting from 1 January 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 non-OPEC countries, which should amount to 558 thousand barrels, in addition to cuts that were promised by the OPEC member countries. This agreement will be implemented during the first six months of the year with a possibility of extension for another six months.

supply on the market, primarily due to the abolition of part of the export restrictions on the nickel producers in the Philippines[7] and Indonesia.

In 2018, changes in the forecasts of metal prices are small, whereby their stabilization is further expected.

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



Source: "Consensus Forecast" and NBRM calculations.

In 2017, the stock exchange prices of wheat have been considerably revised upward, compared to the October projections...

....mostly because of the low production level in the US, the rise in the global demand and the bad weather conditions in Ukraine.

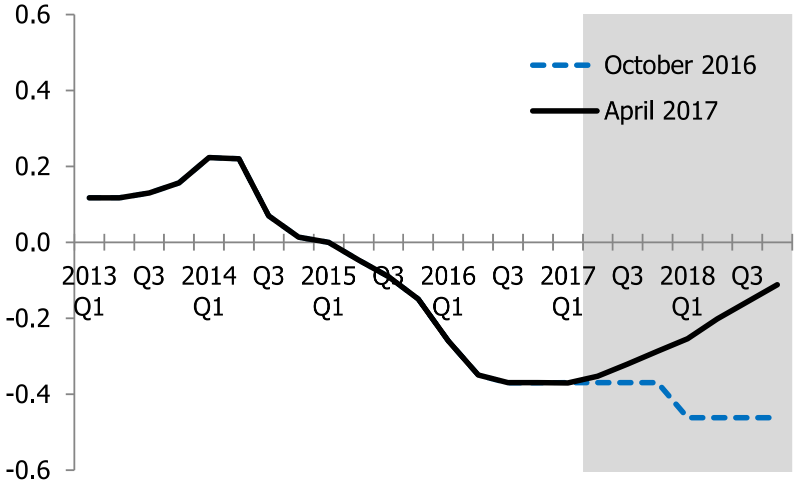
On the other hand, maize prices denominated in US dollars have been revised downwards for 2017, while prices denominated in euros have been revised upwards in relation to the October projections...

...largely due to the expectations for slightly stronger appreciation of the US dollar against the euro.

The expectations for the wheat price in 2018 are small and in an upward direction, while the price of corn has been revised downwards.

[7] In January 2016, the Government of the Philippines closed i.e. discontinued the production of 23 nickel mines, in the campaign to reduce the ravages of industry on the environment. These 23 mines represent about 50% of the total nickel production in the Philippines, which is the largest nickel producer in the world. However, during March 2017, the government allowed 8 mines to place their nickel stocks on the market, which equal around 5 million tons, according to calculations.

1-month Euribor
(quarterly average, in %)



Source: "Consensus Forecast" and NBRM calculations.

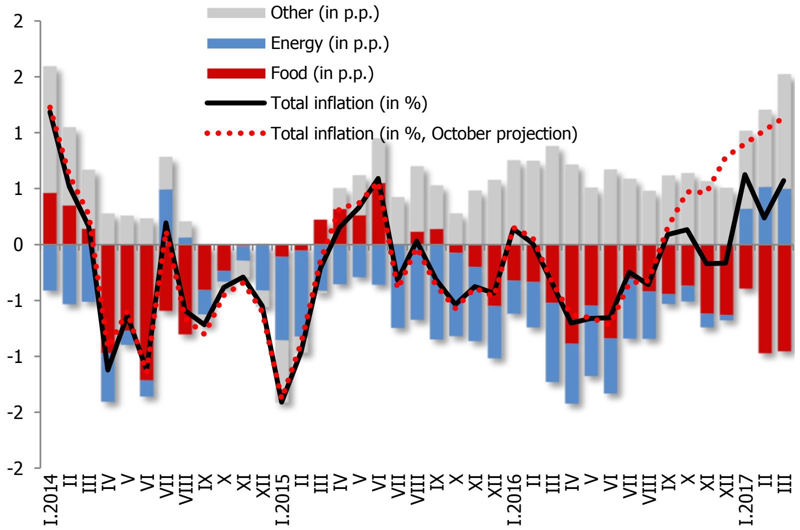
In 2017, there were no major changes in the expectations about the movement of the foreign interest rate...

...whereby similar average level of -0.33% (-0.37% in October) is forecasted, amid a continuation of the Quantitative Easing Program of the ECB by the end of the year, but amid a reduction of its volume.

For 2018, given expectations for reduction of the monetary stimulus of the ECB, upward revision of the average one-month Euribor to -0.18%, versus -0.46% in October was made.

Inflation rate

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



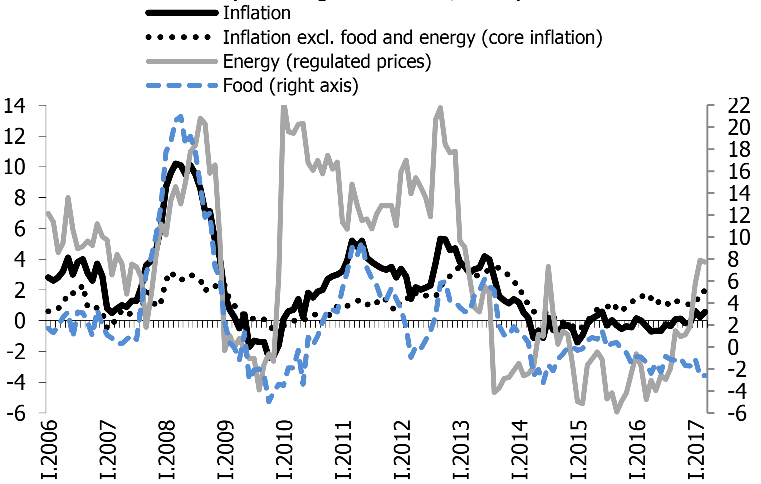
Source: SSO and NBRM.

Domestic consumer prices in March 2017 increased by 0.4% on a monthly basis (unlike the monthly decline in February of 0.5%)...

...mainly due to the movements in the core inflation[8] and the small rise in energy prices, while food prices registered a small decrease.

Inflation and volatility of food and energy

(annual growth rates, in %)

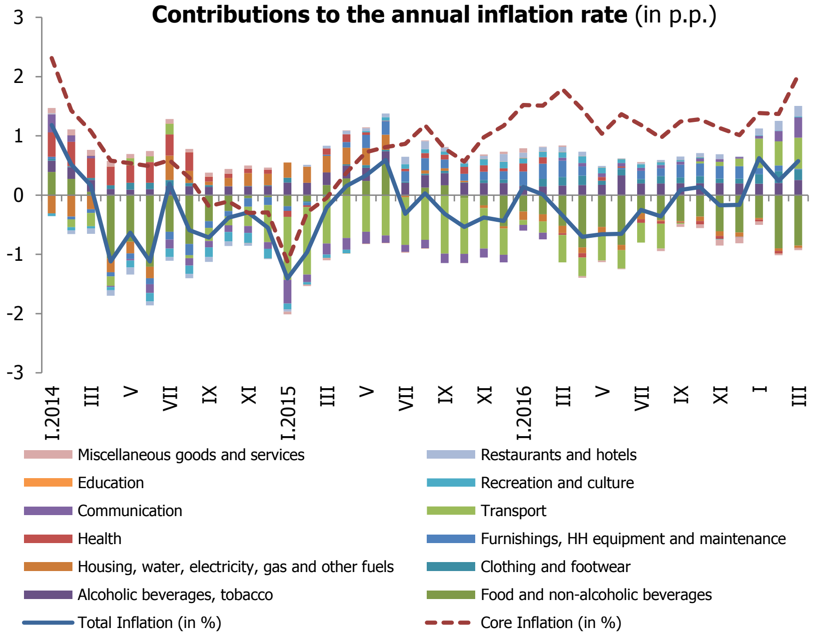


Source: State statistical office and NBRM calculations.

The monthly growth affected the annual inflation rate which equaled 0.6% in March (compared to 0.2% in February), which is still moderate downward deviation compared to the October projection.

Observed by price category, the downward deviation is entirely explained by the fall in food prices instead of the expected growth. The deviation in energy prices and core inflation is in an upward direction (higher increase in energy prices and the core inflation than forecasted).

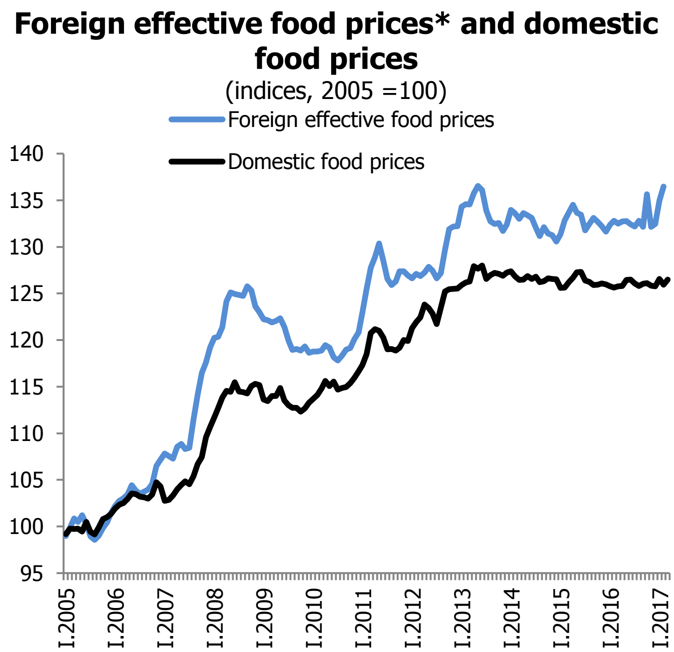
[8] Observed by group of products, the tobacco, air traffic and communications registered the highest positive contribution in March.



Source: SSO and NBRM.

In February, core inflation equaled 0.9% on a monthly basis and 2% on an annual basis.

Regarding the structure of core inflation, the March growth (annually) is due to the small rise in the prices of most categories within core inflation, with the highest contribution of tobacco prices[9], the prices of footwear, products in "communications" category and the prices of catering services.



* 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 forecast for the whole of 2017 have been revised upward.

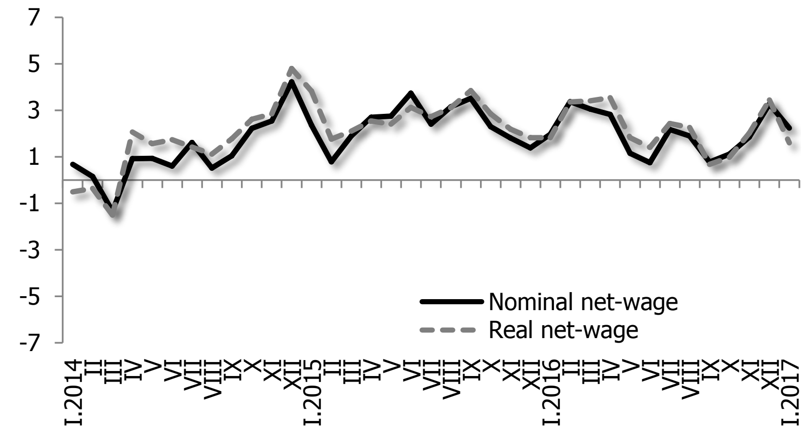
Thus, the latest oil and cereals price estimates for 2017 indicate faster growth compared to the expectations of the October cycle projection.

Although current inflation is lower than projected, the adjustments made in external assumptions create upward risks to the inflation projection for 2017. However, the uncertainty around the forecasted movement of world prices of primary commodities, especially related to oil prices, remains.

In January 2017, the average net wage registered a nominal annual growth of 2.2%, which is a growth deceleration of 1.1 p.p. compared to the previous month.

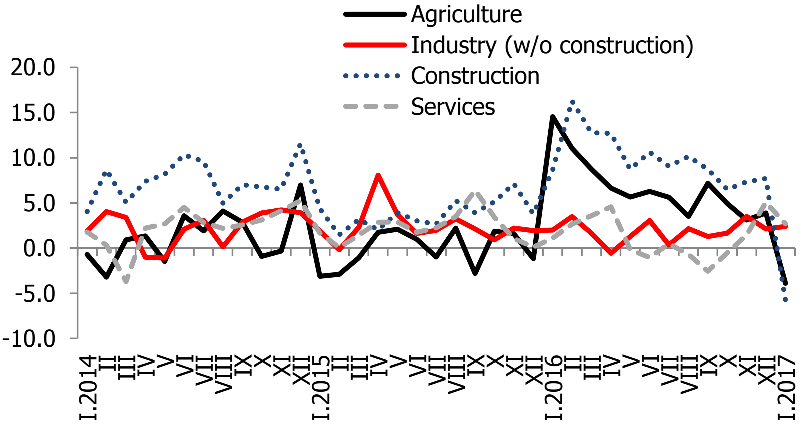
[9] The annual growth of tobacco prices in March is a combination of the increase in the price of a certain type of cigarettes in June 2016 and March 2017. In July 2016, the cigarette excise increased (from 1 July 2017 to 1 July 2023 the excise duty will increase by 0.20 denars each year) which did not reflect on the monthly changes in tobacco prices.

Average net-wage
(annual changes, in %)



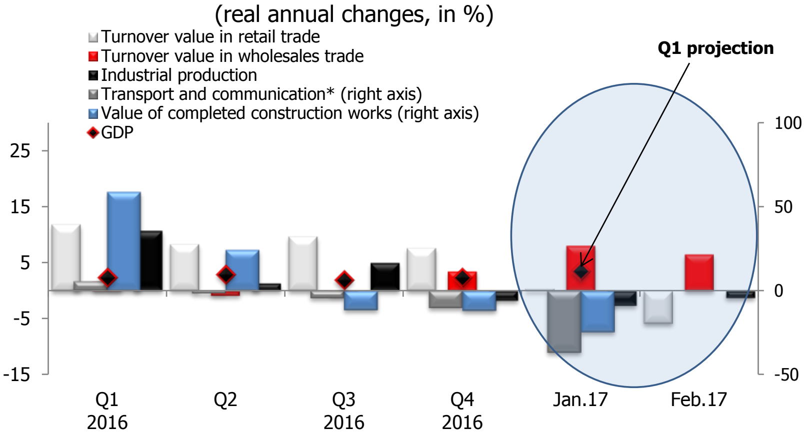
Source: SSO.

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



Source: SSO.

Economic activities
(real annual changes, in %)



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

Upward movement in wages was registered in almost all economic sectors, with the highest growth of wages in information and communications. In January, lower wages were paid only in agriculture, construction and in two service activities[10].

Amid small increase in the consumer prices in January, the **real wages** increased by 1.6%.

January movements in wages are slightly higher than expected for the first quarter of 2017 within the October projection.

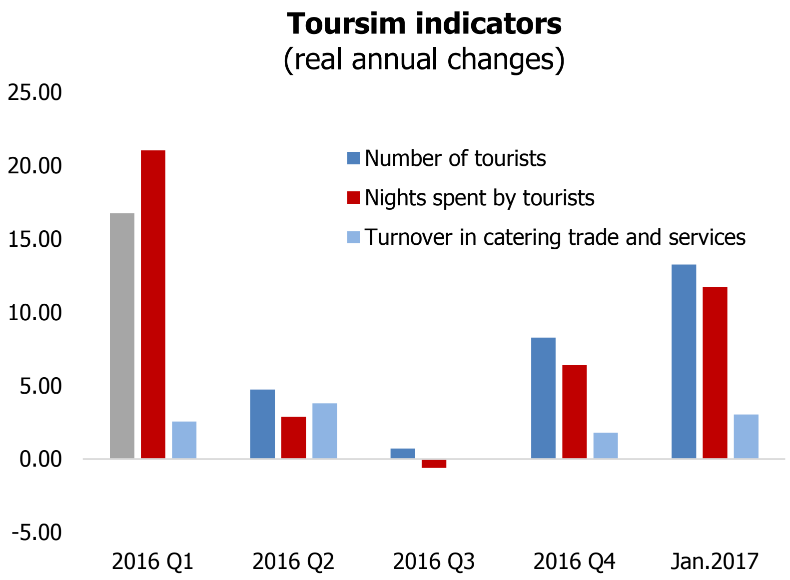
In January and February 2017, key macroeconomic indicators register movements in different directions which increases the uncertainty about the assessment of the situation in the economy in the first quarter of the year. Domestic non-economic factors related to the political developments in the country, which are still present, are an additional risk factor that creates uncertainty about the performance and assessments of the economic activity.

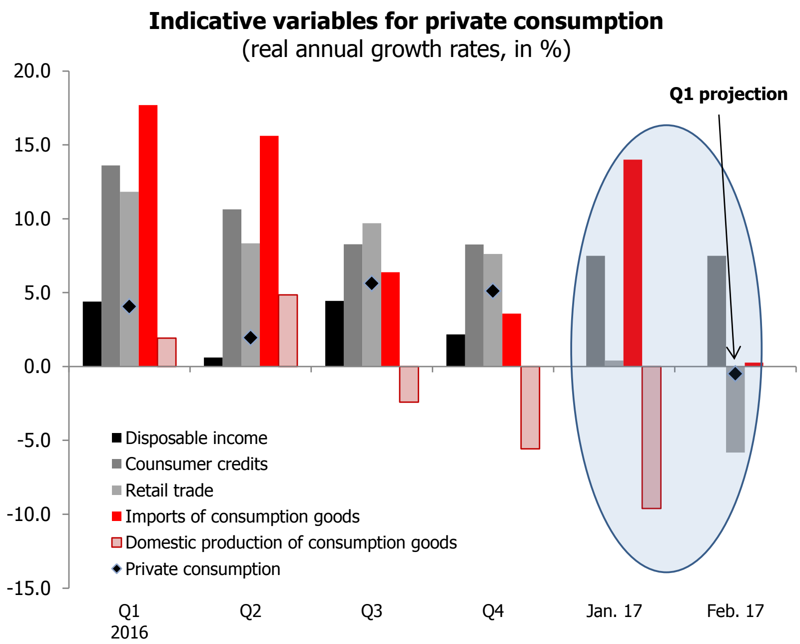
In the first two months of the year **the industrial output** registered a decrease, amid lower production in the manufacturing industry and mining, while the energy sector production registered a growth.

Considering the individual sectors within the manufacturing industry, clothing production made the highest contribution to the fall. Generally, the unfavorable movements were somewhat mitigated by the growth recorded in manufacture of pharmaceutical products, metals and production of machines and appliances.

In January, there was a decrease in the **construction** activity in part reflecting the extremely bad weather conditions at the beginning of the year. The fall entirely

[10] Within the services sector, lower wages were paid in the following activities: financial activities and insurance activities and in real estate activities.





Source: SSO and NBRM calculations.

comes from civil engineering, while the high-rise buildings activity registered a growth. In January, unfavorable movements were also registered in the **transport sector** (decline in the rail road and transport traffic).

In the period January-February, the growth of total **trade** continued. However, there is a certain slowdown in the annual growth pace that mainly reflects the drop in the retail trade activity, while wholesale trade registered a growth.

The growing number of tourists, overnight stays and turnover in the catering services indicate continuation of the favorable movements in the **catering services** in the first month of the year.

Contrary to divergent movements in the individual economic sectors, the aggregate demand indicators mainly point to growth of the economic activity in the first quarter of 2017.

Most of the high-frequency indicators point to continued growth of private consumption in the first quarter...

...amid favorable performances in the main disposable income components (wages, pensions, social government transfers), as well as amid growth of household lending.

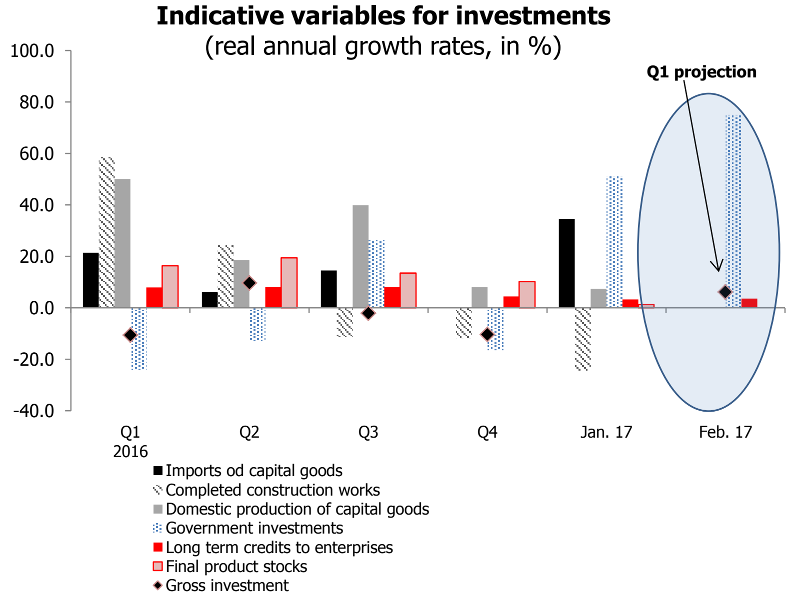
Higher imports of consumer goods and net private transfers also point to growth of private consumption.[11]

Analyzing the indicative private consumption categories, a decline was noticed in retail trade and domestic production of consumer goods.

Available short-term indicators for the first quarter of 2017 of **investment activity** point to movements in different directions.

Thus, in the first quarter, there was an increase in the import of investment products, domestic production of capital

[11] Data on net private transfers are as of January.



Source: SSO and NBRM calculations.

goods, government capital investments, as well as further growth of the long-term lending to the corporate sector.

On the other hand, data on completed construction works and foreign direct investments registered a decrease[12].

In the period January-February, the nominal data on **foreign trade** show a slight widening of the trade deficit...

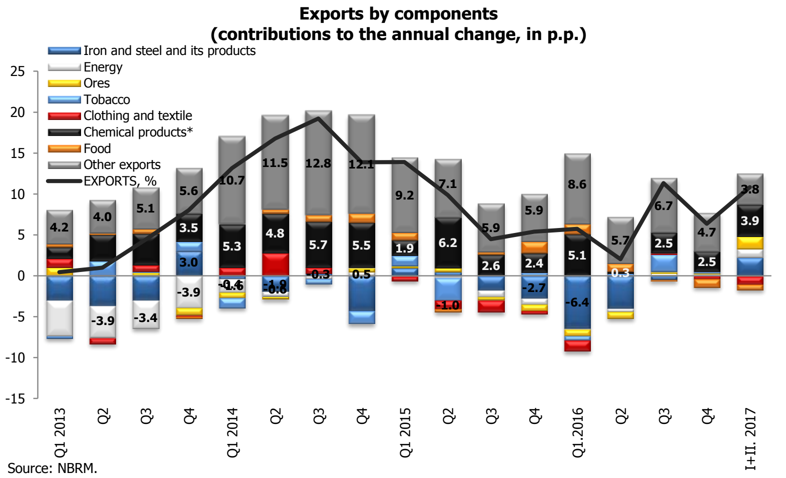
...given the higher increase in imports compared to exports.

In the first two months of the year, the budget performances point to slower growth of **public spending**...

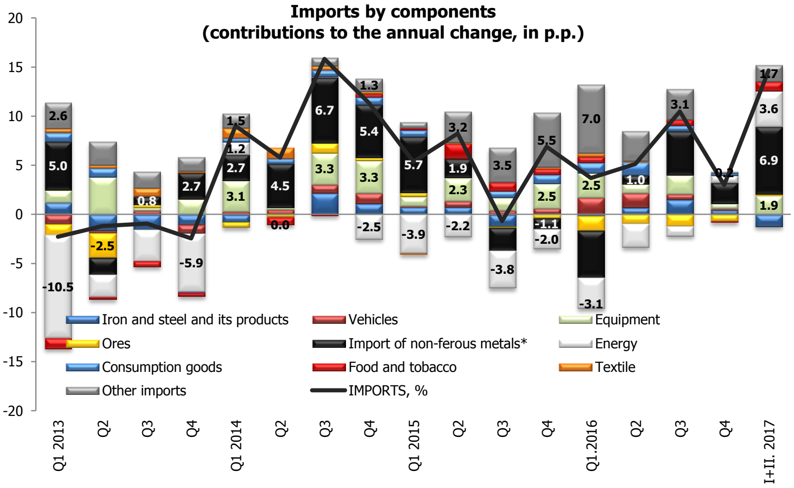
...given the fall in the expenditures on goods and services, while wage expenses for the employees in the public sector and health care transfers[13] increased.

[12] In January 2017, there were net outflows based on foreign direct investments in the amount of Euro 32.6 million.

[13] Most of these assets refer to expenditures on goods and services.



Source: NBRM.



Source: NBRM.

In the first two months of 2017, the foreign trade deficit registered an annual rise, given higher increase in the import than the export component...

...contrary to expectations for moderate narrowing of the trade deficit in the first quarter of 2017, according to the October projection.

In the first two months of 2017, the **export** of goods registered an annual growth of 10.8%, largely due to the performance in the new export-oriented facilities in the economy, but the movements in the export of iron and steel were also positive, and less in the export of ores and energy...

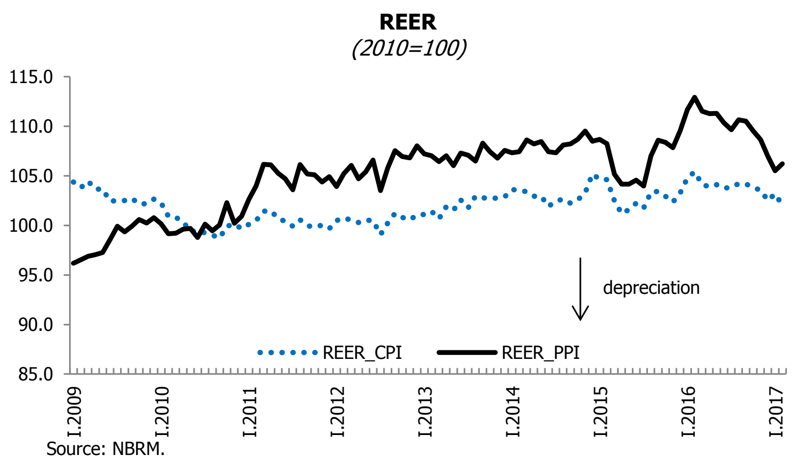
...while the export of clothing and textile and food continued to decline.

Data for the first two months of 2017 point to a moderately higher total export compared to the expectations with the October forecast. A key factor of the upward deviation is the higher export of some new export - oriented facilities, and the export of ores and energy also make a moderate contribution to the deviation. On the other hand, in part of the traditional sectors (textile and metal industry), the export activity is moderately lower than expected for the first quarter.

Import of goods in the first two months of 2017 registered annual growth of 14.6%, primarily due to the increase in the import of raw materials in part of the new export-oriented facilities. Energy imports also made high contribution to the import growth, reflecting the effect of the rise in the world energy prices.

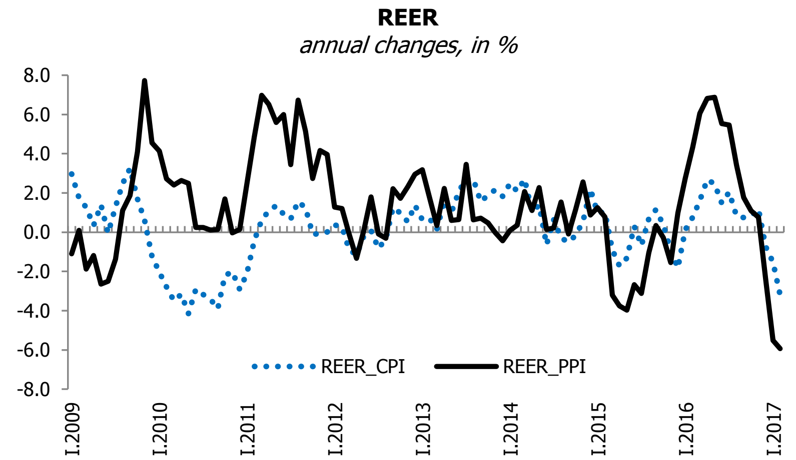
Import of goods in the first two months of 2017 indicates greater import compared with projected for the first quarter. Considering the individual categories, upward deviations were observed in import of some new export-oriented facilities, import of equipment and machinery and energy, while downward deviations were registered in import of iron and steel.

The exports and imports in January and February point to a likelihood of moderately higher trade deficit in the first quarter of 2017 compared with the October projection.



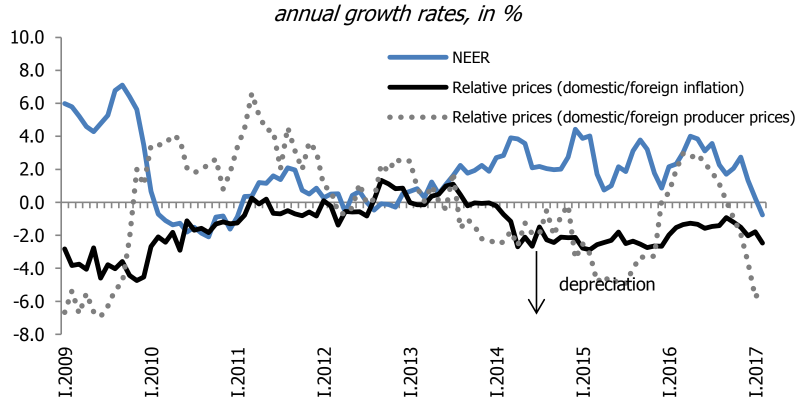
Source: NBRM.

In February 2017, **price competitiveness indicators of the domestic economy once again registered favorable movements on an annual level.** The REER index deflated by consumer prices depreciated by 3.2% and the REER index deflated by producer prices registered larger depreciation of 5.9%.



Source: NBRM.

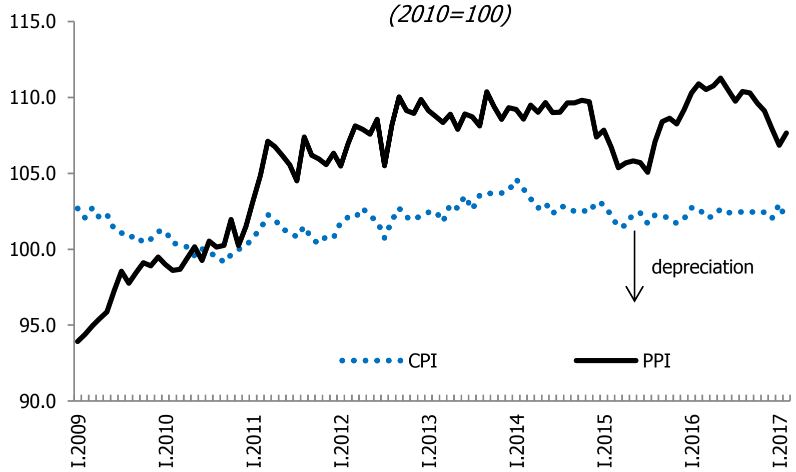
NEER and relative prices
annual growth rates, in %



Source: NBRM.

These developments are largely due to favorable movements in relative prices, and the relative prices of industrial products decreased by 5.2%, while the relative cost of living by 2.5%. The NEER acted in the same direction but more moderately, noticing slight depreciation of 0.8% annually, mostly as a result of the appreciation of the Russian ruble and the US dollar, given the depreciation of the Turkish lira and the British pound.

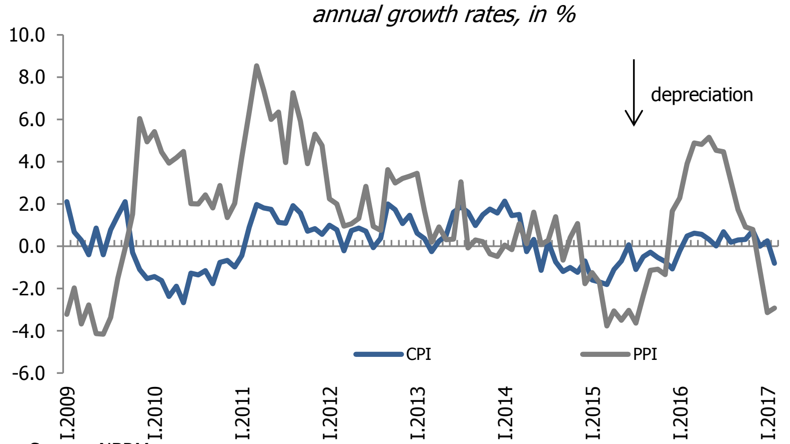
REER, excluding primary commodities
(2010=100)



Source: NBRM.

In February 2017, the analysis of **REER indices, as measured using weights based on the foreign trade without primary commodities**[14], also shows similar movements. The REER deflated by consumer prices depreciated by 0.8%, while the REER deflated by producer prices depreciated by 2.9%.

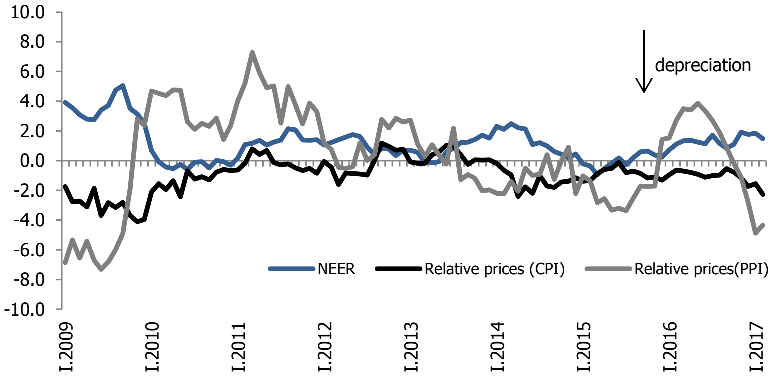
REER, excluding primary commodities
annual growth rates, in %



Source: NBRM.

[14] 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.

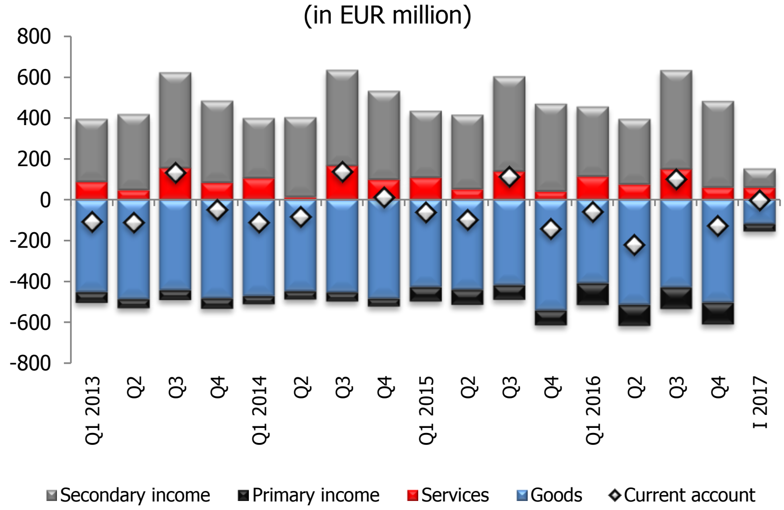
NEER and relative prices, excluding primary commodities
annual growth rates, in %



Source: NBRM.

These movements are driven by changes in relative prices, whereby the relative consumer prices and the relative producer prices decreased by 2.3% and 4.3%, respectively. On the other hand, the NEER has appreciated by 1.5% on an annual basis.

Main components of the current account
(in EUR million)

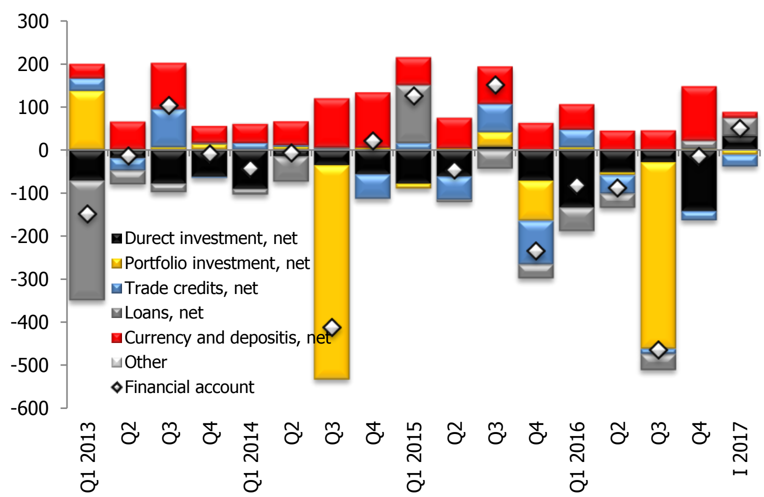


Source: NBRM.

In January 2017, the balance of payments' current account registered a minimal deficit of Euro 0.9 million, indicating a likelihood of higher current deficit than previously expected.

Factors of this deviation are almost all current account components, with the exception of the balance of services, where the performance so far is better than expected.

Financial account components
(in EUR million)

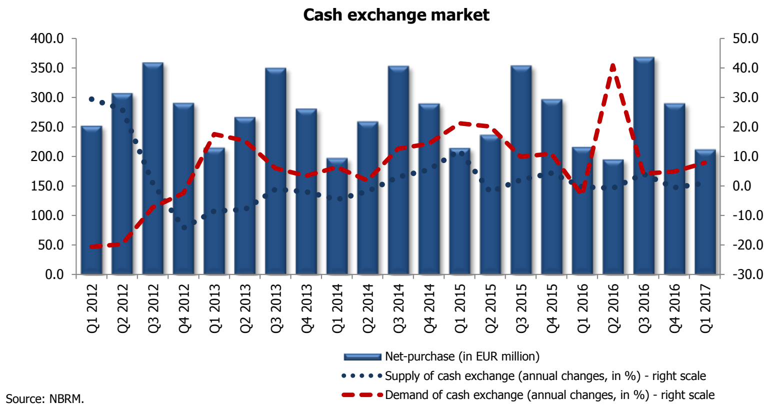


Source: NBRM.

In January 2017, the financial account registered net outflows in the amount of Euro 51.5 million (or 0.5% of GDP), contrary to the expected net inflows according to the October forecast[15].

These deviations mainly derive from the net outflows based on foreign direct investments (despite the solid performances based on equity and reinvested earnings, there was a higher outflow based on debt instruments). Long-term loans acted in the same direction (registered net outflows instead of the planned net inflows). These deviations are largely mitigated by the improved flows in trade credits and portfolio investment, as well as in currency and banks' deposits, given that there was no accumulation of funds on the accounts abroad as expected.

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

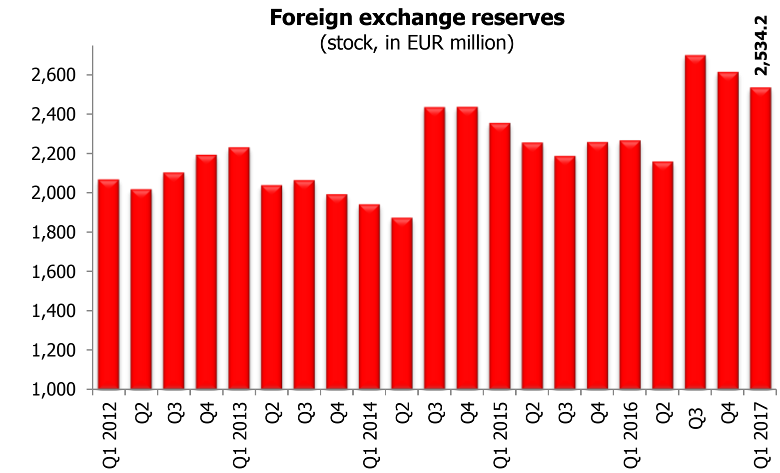


Source: NBRM.

Recent data on currency exchange operations as of 31 March 2017 indicate higher annual increase in the demand for than the growth of the supply of foreign currency.

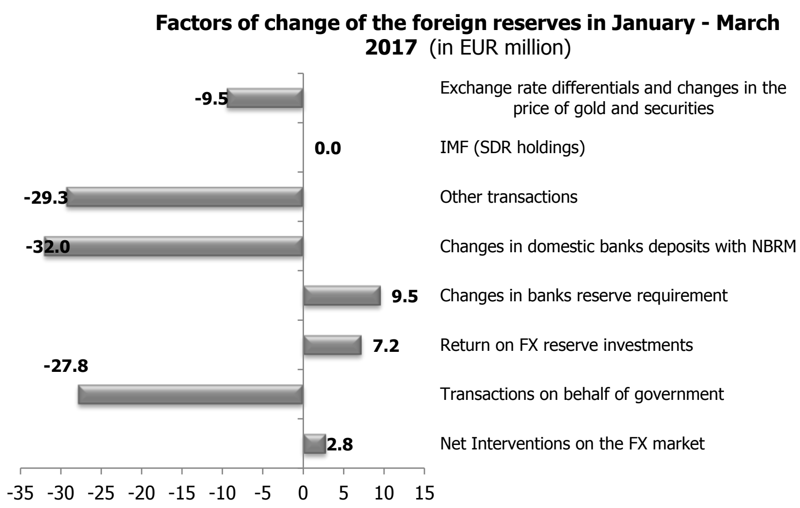
The net purchase on the currency exchange market in the first quarter of 2017 totaled Euro 212 million, which is minimal decline of 1.9% on annual basis.

The latest information on the net purchase from the currency exchange market indicate small downward deviations from the expectations for the private transfers in the first quarter of 2017, as forecasted in October.

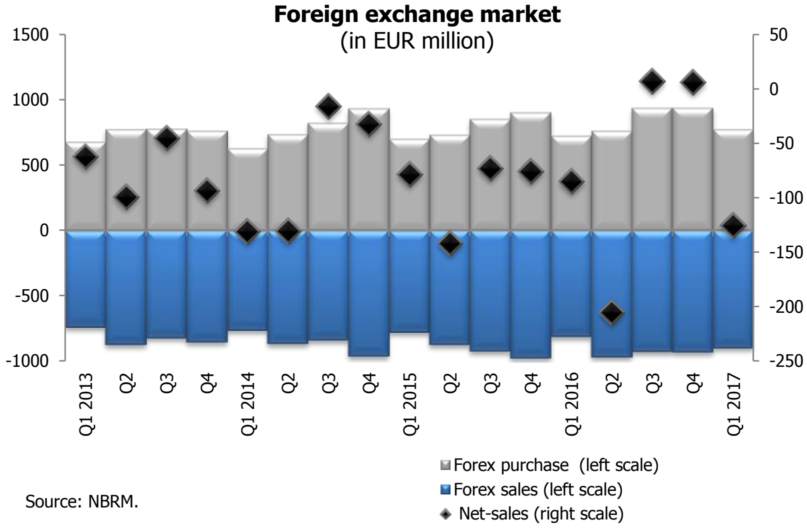


Source: NBRM.

As of 31 March 2017, the gross foreign reserves stood at Euro 2,534.2 million, down by Euro 78.9 million compared to the end of 2016. The decrease in foreign reserves arises primarily from changes in the foreign currency deposits of the domestic banks with the NBRM, the transactions with a temporary effect, as well as from the transactions for the account of the government. Price changes of securities and the currency changes and the change in the price of gold also had moderate negative influence.

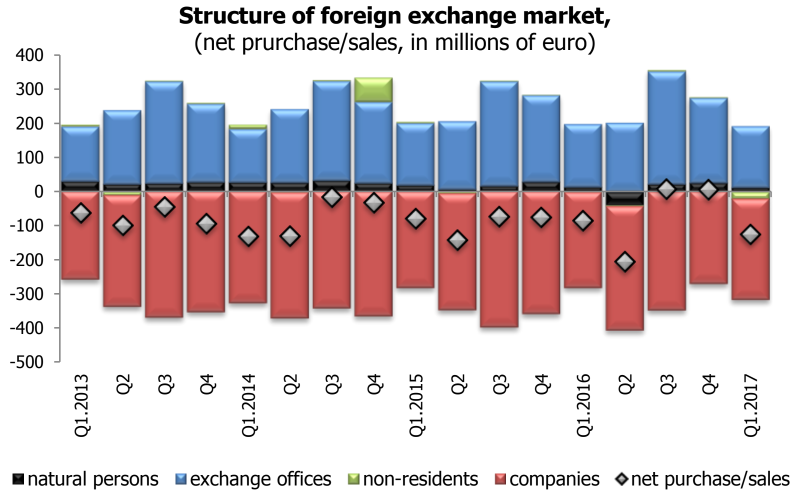


Source: NBRM.



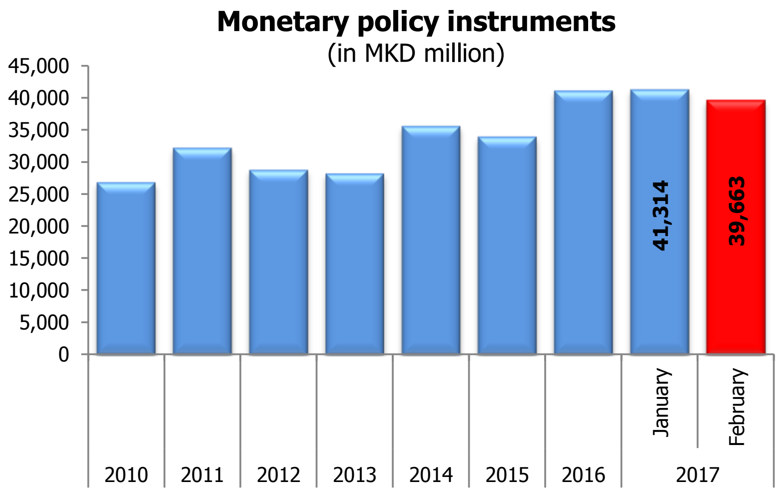
Source: NBRM.

In the first quarter of 2017, the foreign exchange market of banks reported a net sale of Euro 125.1 million, by Euro 40.4 million higher compared to the same period last year. This annual change is a result of the more intensive increase in the demand for relative to the supply of foreign currency (of 10.7% and 6.4%, respectively).



Source: NBRM.

Sector-by-sector analysis shows that these changes mostly arise from the higher net sales of non-residents, as well as the higher net sales in companies.



Source: NBRM.

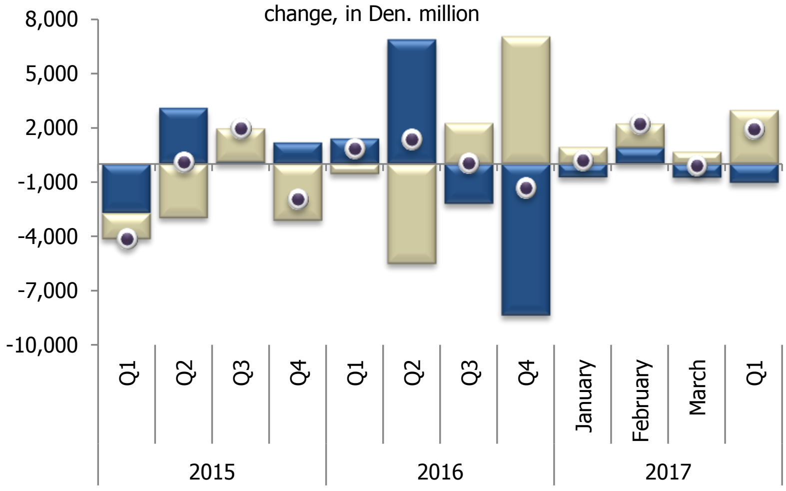
The situation regarding the monetary instruments[16] in February is lower compared to the end of 2016, which is contrary to the expectations for their growth in the first quarter of 2017 according to the October projection.

Viewed from the balance sheet perspective, the net foreign assets of the NBRM in February, remained relatively stable, i.e. compared to the previous month it registered small decrease, while a decrease was registered in total government deposits. In terms of projected changes with the October projections, the net foreign assets of the NBRM is expected to increase, while government deposits were expected to decline in the first quarter of the year.

In February, the reserve money registered a monthly growth, almost entirely as a result of the increase in the banks' liquid assets. The balance of the reserve money at the end of February is almost at the level projected for the first quarter of 2017, according to the October projection.

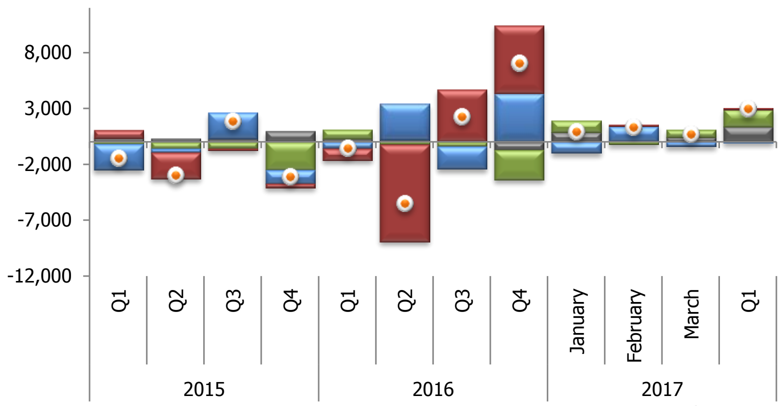
[16] It includes also the balance of the foreign currency deposits.

Banks' liquidity
change, in Den. million



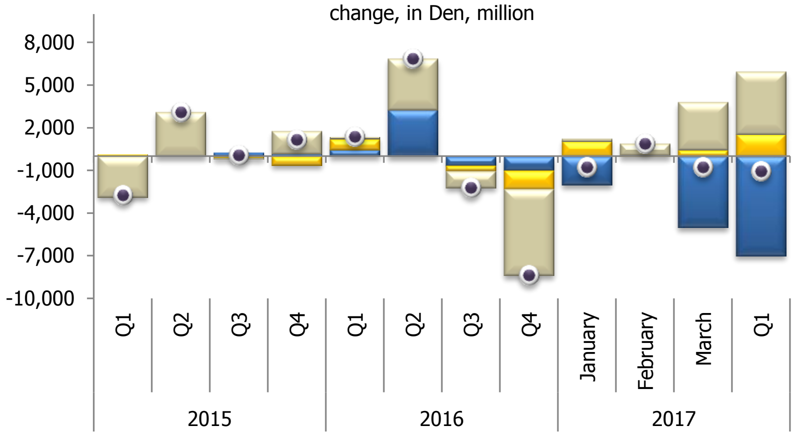
Source: NBRM

Autonomous factors
change, in Den. million



Source: NBRM

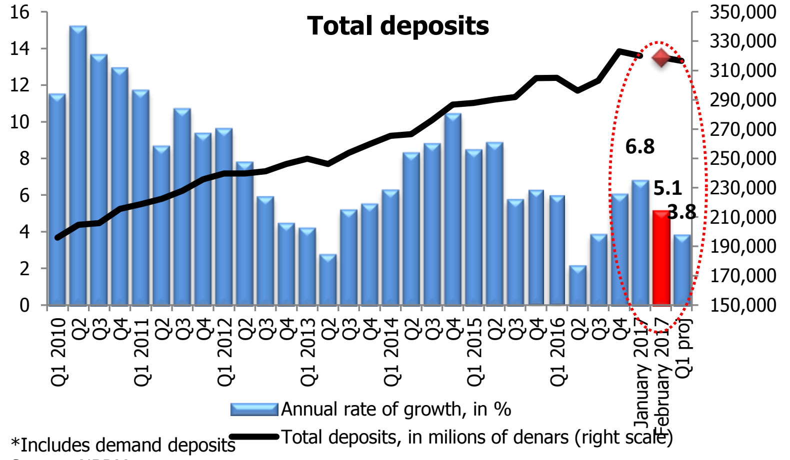
Monetary instruments
change, in Den, million



*changes in monetary instruments in terms of liquidity creation / withdrawal.
Source: NBRM

According to operational liquidity data, in March, the liquidity of the banking system registered a monthly fall. In conditions of growth of the structural liquidity position affected by autonomous factors, the NBRM in March increased the supply of CB bills. Given the banks' interest to place the excess liquidity in this instrument, the situation regarding deposit facility (overnight and 7-day deposits) registered a decline.

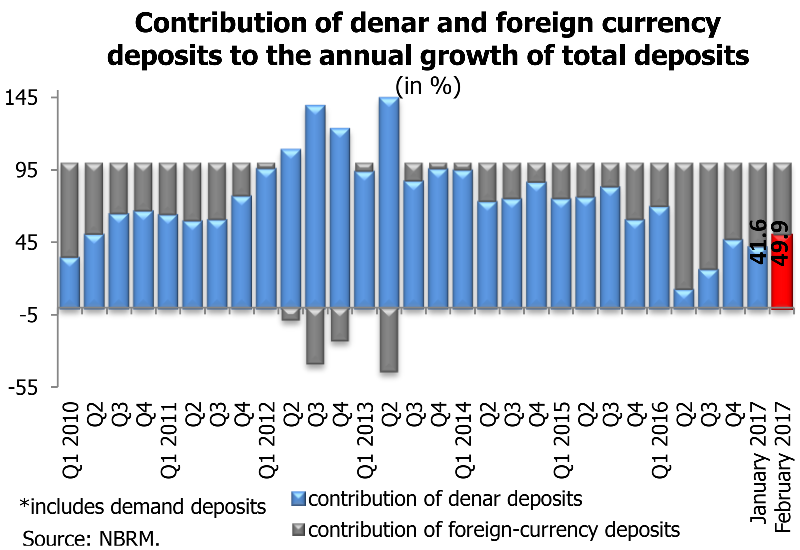
The monthly fall in total deposits



*Includes demand deposits
Source: NBRM.

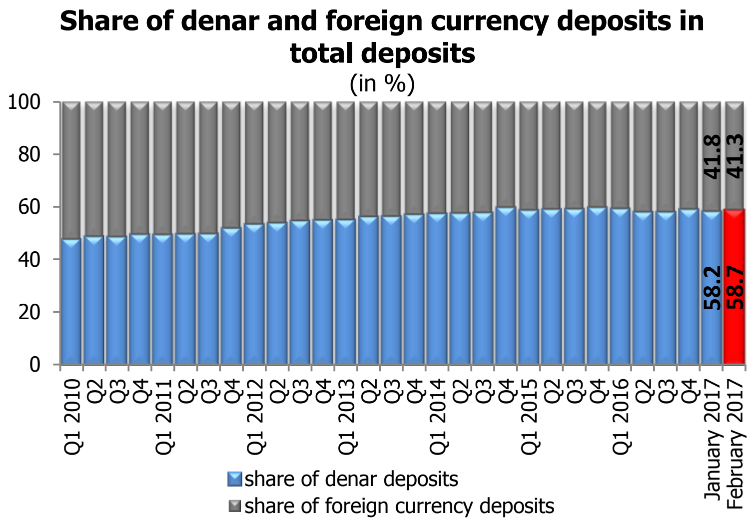
continued in February (down by 0.3%), but at a slower pace in comparison with the decline in the previous month. Analyzed by sector, the decline in February, the same as in the previous month, entirely stems from the lower corporate deposits, while household deposits still register monthly growth. Observing the currency, the reduction of total deposits is due to the lower foreign currency deposits, while Denar savings registered a monthly growth, which is contrary to the performance in the previous month.

The annual growth rate of total deposits in February was 5.1%, which is above the growth projected for the first quarter of 2017 (of 3.8%). The higher annual performance fully reflects the base effect, taking into account the significant increase in the banks' deposit base at the end of 2016.



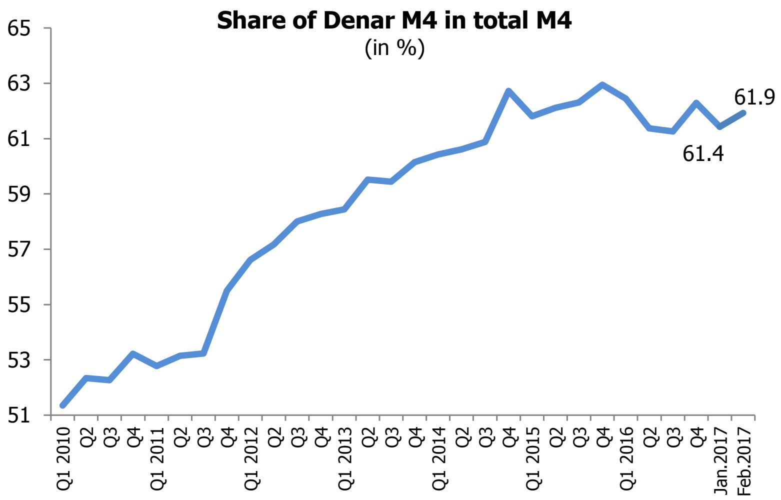
*includes demand deposits
Source: NBRM.

The annual growth of total deposits is almost equally due to the increase in Denar deposits and foreign currency deposits.

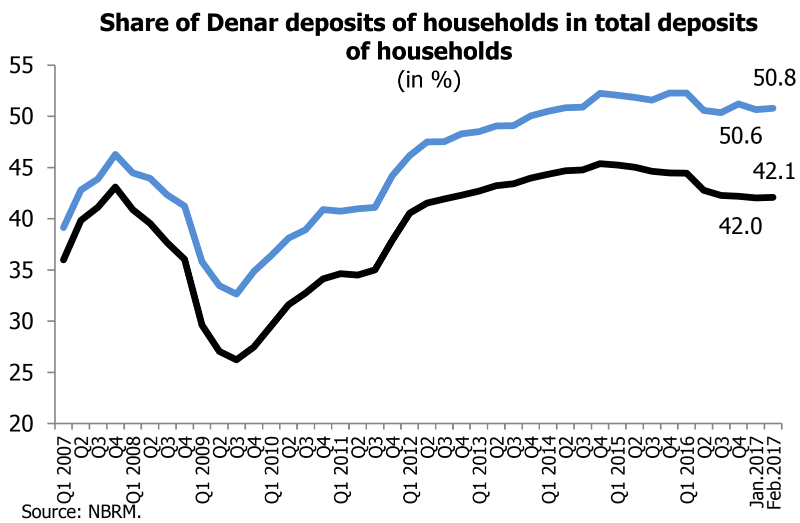


*includes denar deposits with FX clause. Source: NBRM.

The share of Denar deposits in total deposits in February remained relatively stable compared to the previous month, whereby Denar deposits continued to prevail in the banks' deposit base.

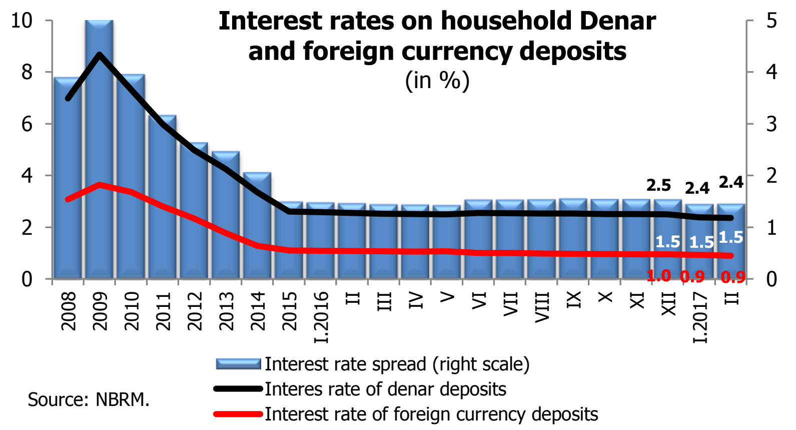


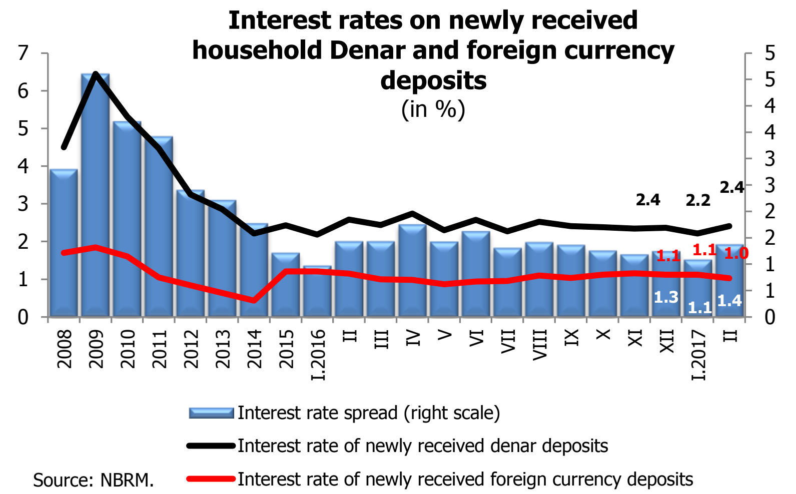
Source: NBRM.



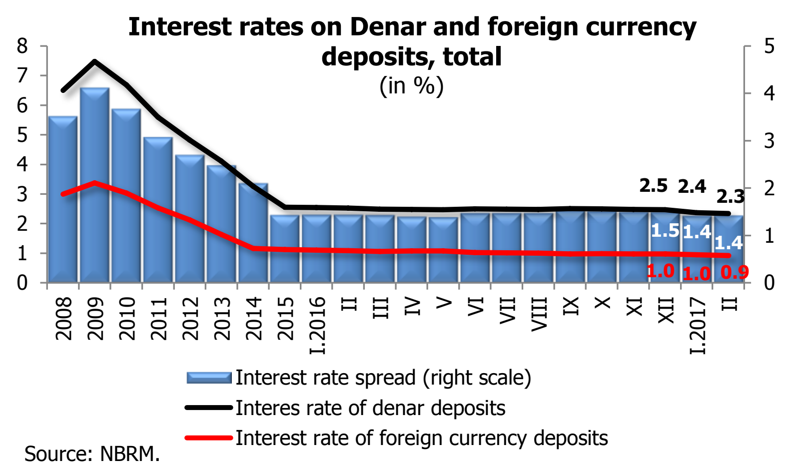
Source: NBRM.

Total household deposits in February continued to grow, at a similar pace as in the previous month. Analyzed by currency, the increase in household deposits almost entirely stems from the higher Denar savings, amid insignificant growth of foreign currency deposits, which is contrary to the performance in the previous month when foreign currency deposits explained the overall monthly increase.



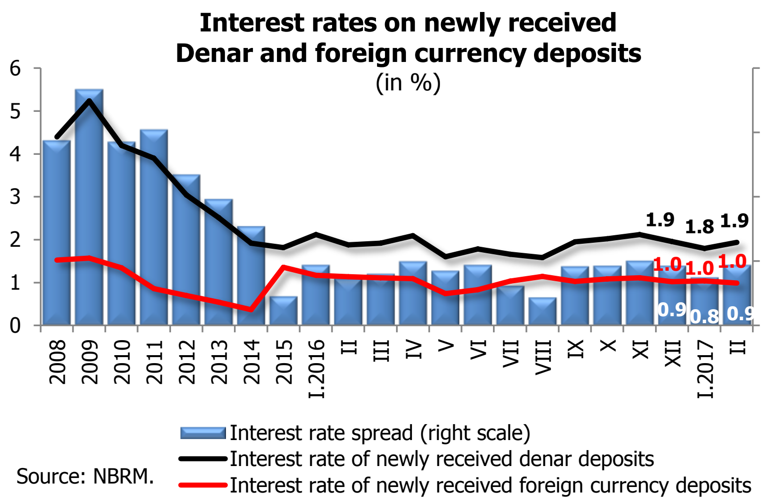


In February, interest rates on Denar and foreign currency household deposits remained at the same level as in the previous month, whereby the interest spread between them remains stable. Interest spread of new household deposits has widened as a result of the increase in the interest rate on Denar deposits, amid simultaneous minimal decrease in the interest rate on foreign currency deposits.

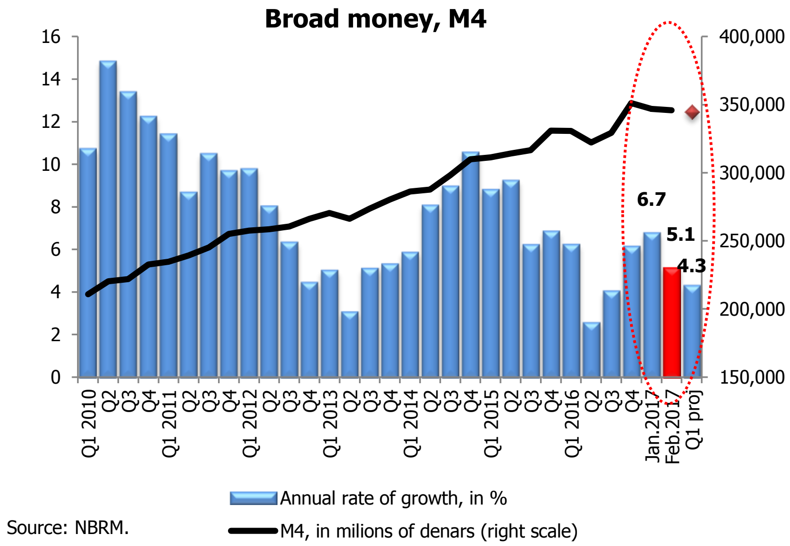


The interest rates on total denar and foreign currency deposits in February are also unchanged compared to the previous month, resulting in an unchanged interest spread between them. Regarding the newly accepted deposits, the interest rate spread between Denar and foreign currency deposits has widened compared to January, mainly due to the higher interest rate on newly received Denar deposits. However, regarding the interest rates on the newly accepted deposits, it should have in mind that they characterize with variable movements[17].

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

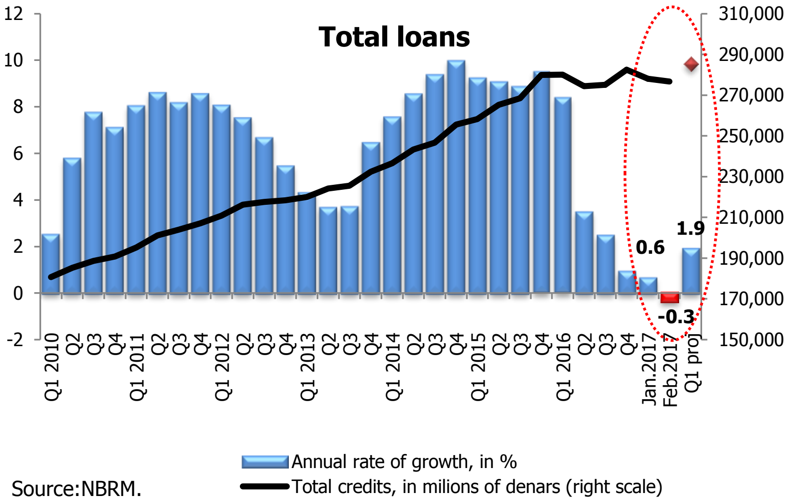


Source: NBRM.



Source: NBRM.

The broadest money supply M4 in February registered monthly fall, but more moderate compared to the previous month. The fall in the money supply (of 0.3%) is almost entirely due to the decrease in the total deposits, given insignificant decline in the currency in circulation. **On annual basis, the money supply is higher by 5.1%, which is above the projected growth of 4.3% for the first quarter of 2017 and fully reflects the base effect.**

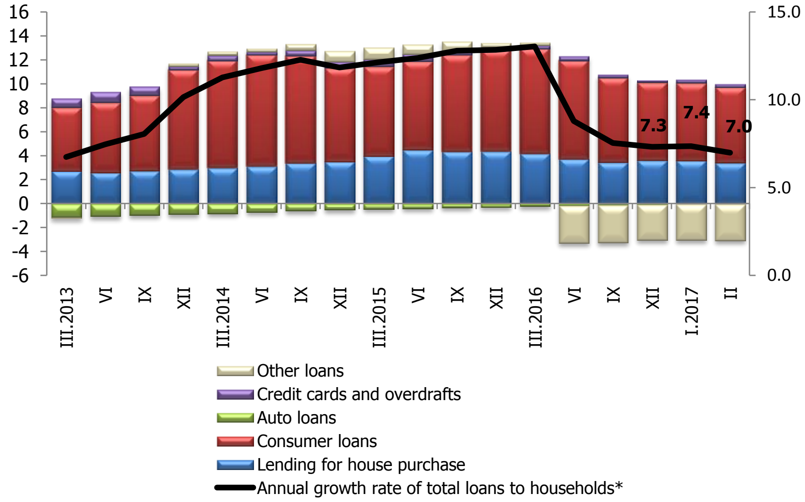


Source:NBRM.

In February, total loans to the private sector registered a monthly decline, but more moderate compared to the previous month. Analyzed by sector, the decrease in total lending (of 0.5%) entirely stems from the lower corporate loans, while loans to households registered further moderate growth on a monthly basis.

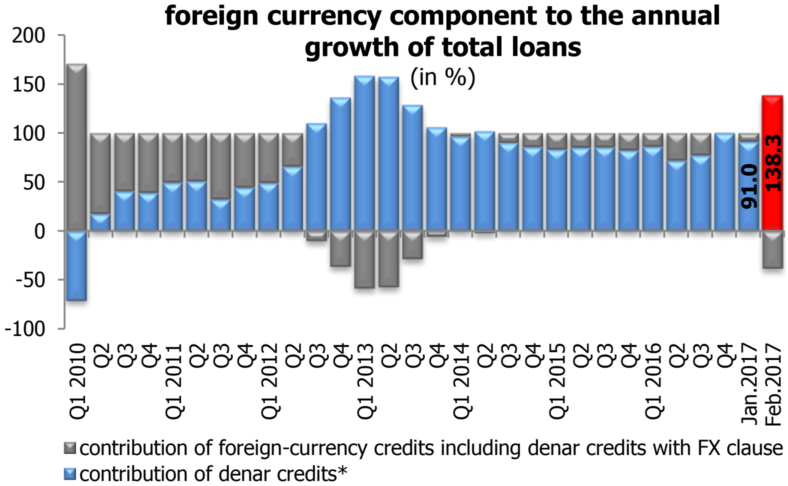
On an annual basis, total loans at the end of February decreased by 0.3%, which is below the projected growth of 1.9% for the first quarter of 2017, according to the October projection. If we exclude the regulatory effect, the annual growth rate of total loans is 5.8% and is below the projected annual growth of 7% for the first quarter of 2017.

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.

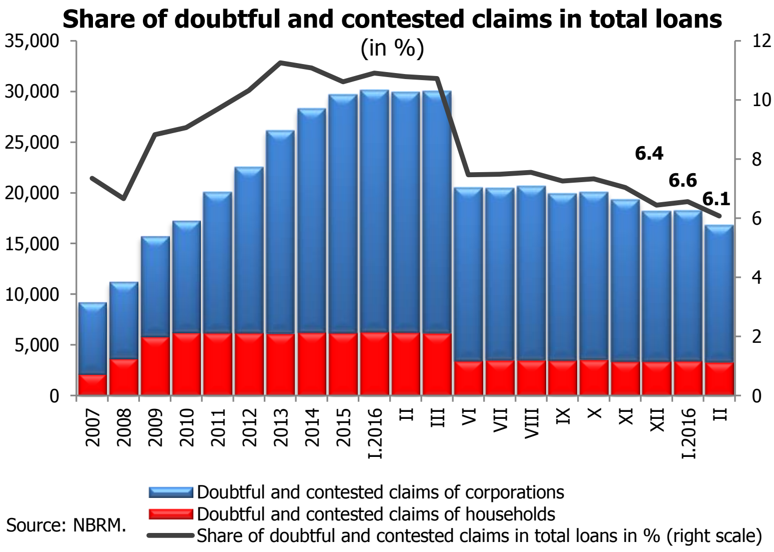
Contribution of denar loans and loans with foreign currency component to the annual growth of total loans
(in %)



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

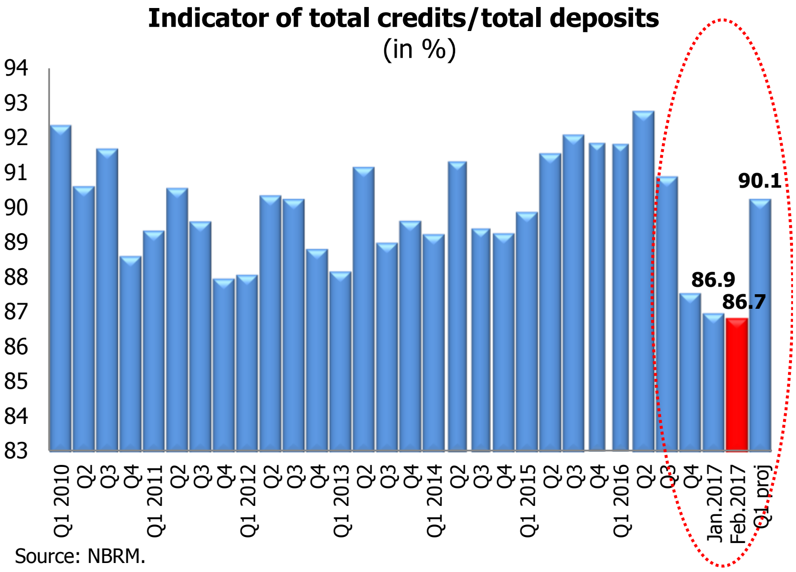
Analyzing by currency, denar loans with FX clause made positive contribution to the annual change, while denar loans[18] and foreign currency loans made negative contribution to the overall annual change.

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



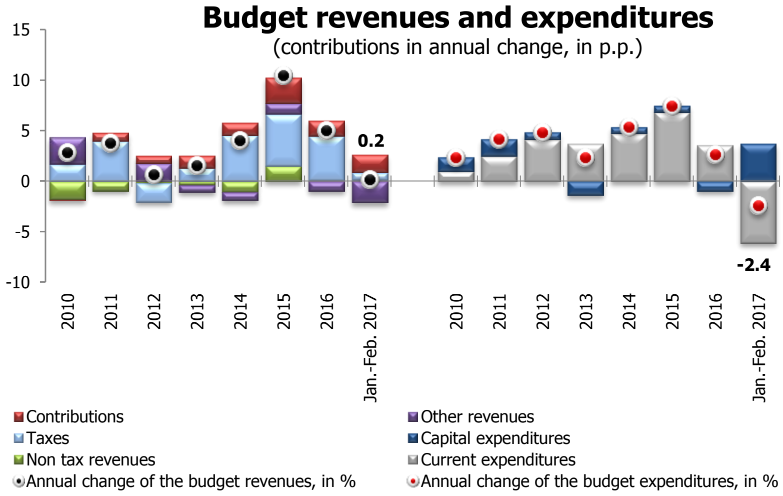
Source: NBRM.

The share of doubtful and contested claims in total loans equaled 6.1% in February, which is lower by 0.5 p.p. compared to the previous month.

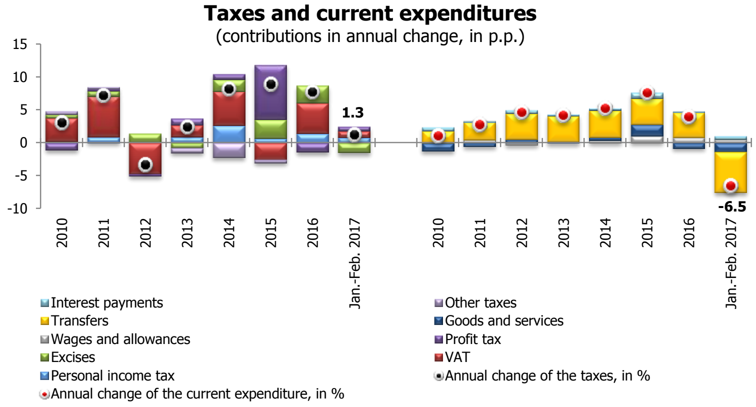


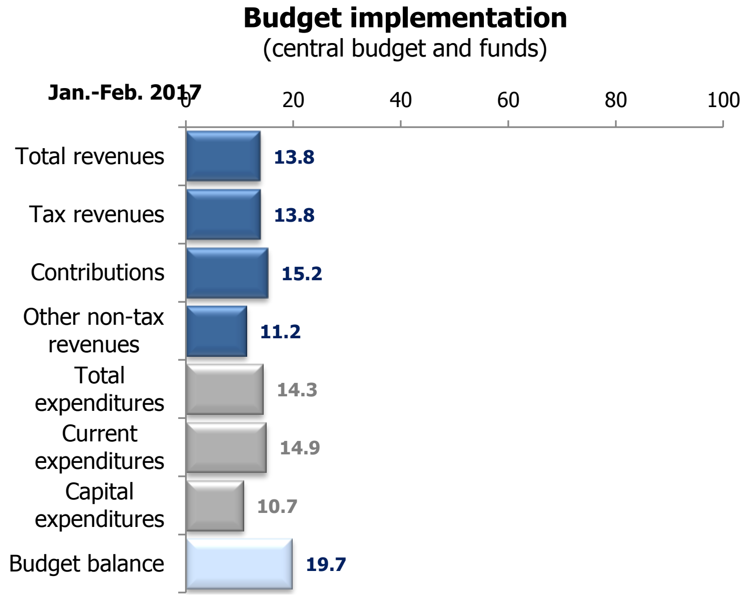
Source: NBRM.

Utilization of the deposit potential for lending to the private sector at the end of February amounted to 86.7% and remained at a similar level as in the previous month (86.9%). February performance is lower compared to the expectations for the first quarter of 2017, according to the October projection. Excluding the effect of regulatory write-off, the ratio of loans and deposits at the end of February is 92.1%.



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





Source: Ministry of Finance and NBRM's calculations.

In the period January-February of the current year, the total revenues realized in the Budget of the Republic of Macedonia (central budget and budgets of funds) increased by 0.2% compared to the same period last year. The improved performance mostly arises from the positive contribution in contributions and taxes, while other revenues[19] made negative contribution to the annual growth.

Tax revenues in January-February 2017 increased by 1.3% on an annual basis, largely due to higher performance of VAT, while moderate positive contribution was also made by the income from the profit tax and the personal income tax. On the other hand, revenues based on excise recorded an annual decrease.

In the period January-February 2017, the budget expenditures decreased by 2.4% on an annual basis, whereby the decrease mostly arises from the lower current expenditures, given higher capital expenses on an annual basis.

In January-February 2017, the realized budget revenues constitute 13.8% of the revenues projected for the entire year, according to the Budget for 2017. Analyzed by categories, higher performance was recorded in contributions and taxes, with realization of 15.2% and 13.8% respectively, while the realization of other non-tax revenues accounted for 11.2%.

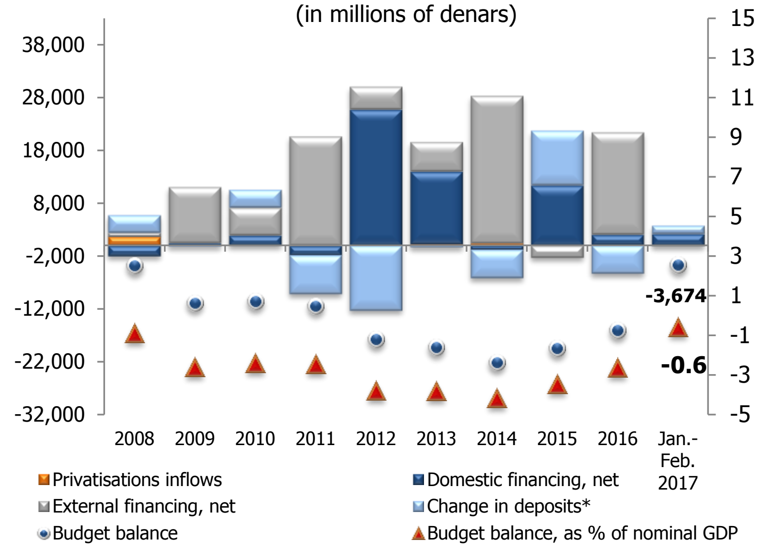
Analyzing budget expenditures, in the period January-February 2017, 14.3% of the planned expenditures for 2017 were realized, which is mostly due to the realization of the current costs (14.9% of the annual plan), while the realization of the capital expenditures is relatively lower (10.7% of the annual plan).

The budget deficit in January-February 2017 accounts for 19.7% of that planned deficit for 2017.

In January-February 2017, the Budget of

[19] This performance is mainly explained by the higher performance in the capital income category in January 2016, when a domestic company specialized in telecommunications paid dividend in the Budget of the RM, with budget revenues based on sale of property being also registered.

Financing of the budget balance
(in millions of denars)

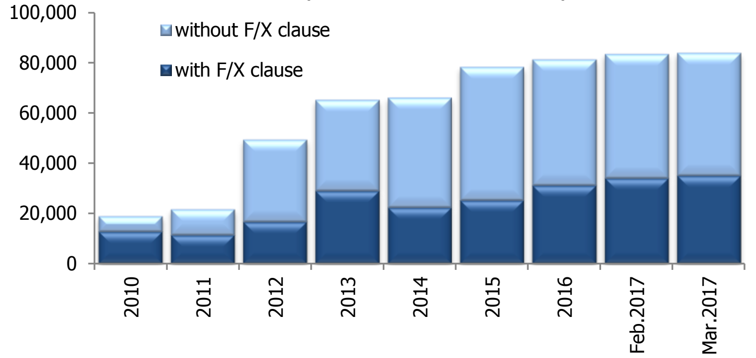


* Positive change- deposits withdrawal; negative change-deposits accumulation.
Source: MoF.

the Republic of Macedonia registered a deficit of Denar 3,674 million, which is 0.6% of the nominal GDP[20].

The deficit was financed through the net issuance of government securities and to a lesser extent through deposit withdrawal from the account with the National Bank.

Government securities
(stocs, in millions of denars)

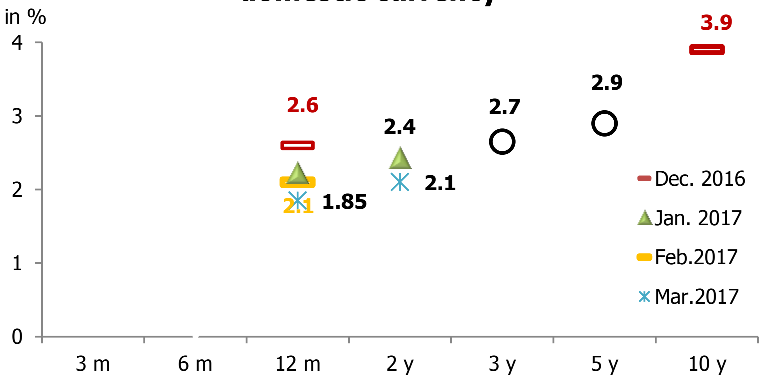


Source: NBRM.

At the end of March 2017, the stock of government securities on the domestic market was Denar 83,960 million, which is higher by Denar 2,590 million, compared to the end of 2016.

[20] The analysis of nominal GDP for 2017 uses the NBRM October projections.

Interest rates of government securities in domestic currency*



* interest rates for 3y and 5y government bonds are from auctions held in September 2015 and November 2014, respectively.

Source: Ministry of finance.

In March 2017, the Ministry of Finance[21], as in the preceding month, reduced the interest rates on government securities.

Compared to the end of the previous year, the interest rates on treasury bills with maturity of 12 months are lower by 0.75 percentage points in March. Also, the interest rates on government bonds with maturity of 2 years are lower by 0.3 percentage points in March compared to January 2017.

[21] At the auctions of government securities in February, 12-month treasury bills without FX clause, 2-year government bonds with FX clause and 15-year government bonds with 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 - 2017

January 2013

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

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

March 2013

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

July 2013

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

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

October 2013

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

November 2013

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

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

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

February 2014

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

April 2014

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

September 2014

- In order to further channel banks' excess liquidity to the non-financial sector, in September the NBRM revised the mechanism for transfer of the demand for CB bills, which is above the banks' potential into another instrument, i.e. seven-day standing deposit facility. According to these changes, for the seven-day standing deposit facility that banks are obliged to allocate if on the CB bills auctions they demand an amount higher than the potential[22], 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 stimulative interest rates.

- The National Bank Council adopted the Decision on amending the Decision on CB bills that envisages adjustment of the mechanism of participation at the CB bills auction of the National Bank, where the main criterion will be the individual share of the banks in the total liabilities in domestic currency without currency clause of the banking system. With these amendments, the National Bank continues to support the natural persons' savings in domestic currency and on a longer run, which creates room for the banks for active credit support to the private sector.

December 2015

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

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

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

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

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

- 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

- At the regular meeting of the NBRM's Operational Monetary Policy Committee, held on 13 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 on prudential requirements for credit institutions and investment firms, in the part of the structure of the banks' own funds. The most significant amendments relate to the strengthening of the quality of own funds, both in terms of their structure and in terms of the criteria that should be met by certain positions in order to be a part of the banks' own funds. In this context, the own funds continue to be divided into core and additional capital, **but the new Decision changes the structure of the core capital, which is divided into regular core capital and additional core capital.** The regular core capital includes capital positions with the highest quality (equity capital and reserves) which are fully and readily available to cover risks and losses during the bank's operation. The new own funds component, the additional core capital, includes instruments which, among other things, contain a clause for their transformation into instruments of the regular core capital or for their write-off on temporary or permanent basis (reduction of the value of their principal), if the so-called critical event occurs. **The amendments to the Decision on the capital adequacy replace current restrictions in terms of size and ratio of individual elements of the own funds with the statutory prescribed minimal rates for the regular core capital, core capital and own funds,** i.e. 4.5% for the regular core capital, 6% for the core capital and 8% for the own funds of the risk-weighted assets. Thus, the greatest importance is given to the regular core capital positions (shares, reserves, retained undistributed profit), as capital positions with the highest quality.

January 2017

- At the regular meeting of the NBRM's Operational Monetary Policy Committee, held on 10 January 2017, the Committee decided to cut CB bill interest rate by 0.25 percentage points, to 3.5%, and to increase the supply of CB bills from Denar 23,000 million to Denar 25,000 million.

February 2017

- At the regular meeting of the NBRM's Operational Monetary Policy Committee, held on 14 February 2017, the Committee decided to cut CB bill interest rate by 0.25 percentage points, to 3.25%, and the supply of CB bills to be unchanged, at the level of Denar 25,000 million.

- At the regular meeting of the NBRM Council held on 27 February 2017, several decisions arising from the amendments to the Banking Law from October 2016 were adopted, for compliance with the Basel Capital Accord, the so-called Basel 3, as well as with the relevant European regulations. Pursuant to the amendments to the Banking Law made in October 2016, the banks are required to maintain adequate amount of capital to cover the so-called capital conservation buffers. The Law prescribes four capital buffers: (1) capital conservation buffer maintained at 2.5% of the risk weighted assets; (2) countercyclical capital buffer which can be up to 2.5% of the risk weighted assets, and more depending on other systemic factors/indicators, (3) capital buffer for systemically important banks which ranges from 1% to 3.5% of the risk weighted assets, and (4) systemic risk buffer which can range from 1% to 3% of the risk weighted assets. Pursuant to the provisions of the Banking Law on this basis, the Council adopted the following decisions:
- The Decision on the Methodology for Identifying Systemically Important Banks, which prescribes the manner of identifying the systemically important banks, i.e. the banks the operations of which are important for the stability of the entire banking system. In addition, the amount of the capital conservation buffer that the systemically important banks should meet depending on the level of system importance, has been set. Also, the Decision on the Methodology for Developing Recovery Plan for Systemically Important Banks, that requires systemically important banks to submit a Recovery Plan to the National Bank, was adopted at today's session.
- The Decision on the Methodology for Determining the Rate of Countercyclical Capital Buffer for Exposure in the Republic of Macedonia. This capital buffer aims to limit the risks arising from high credit growth, so it is introduced in case of high credit growth, on the basis of prescribed criteria.
- The Decision on the Methodology for Determining the Maximum Distributable Amount,envisaging restriction of the bank's earnings distribution, if it fails to maintain adequate amount of capital buffers. The capital buffers can be covered only by the highest quality capital positions, i.e. core equity tier 1 capital.
- The Decision on the Methodology for Managing Leverage Risk, which is a standard of the Basel Capital Accord, Basel 3, and the European banking regulations, which introduces the leverage ratio, as a correlation between the capital and activities of the bank. Banks in RM register extremely low indebtedness, and the purpose of introduction of this standard at the international level was protection against possible excessive borrowing by banks, in terms of satisfactory level of capital adequacy.

March 2017

- At the regular meeting of the NBRM's Operational Monetary Policy Committee, held on 14 March 2017, the Committee decided to increase the supply of CB bills from Denar 25,000 million to Denar 30,000 million.