National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

October 2016

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Review of the Current Situation - Implications for the Monetary Policy

The review of the current situation aims to give an overview of the recent macroeconomic data (April - September 2016) and to make a comparison with the latest macroeconomic projections (April 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 came to a deterioration of the global economic environment, respectively to downward revisions of the projected growth of the world economy[1], primarily as a result of the decision of Great Britain to exit the European Union (BREXIT) and the slower increase of the US economy compared to the previous expectations. Despite the limited short-term effects, a relatively high uncertainty about economic, politic and institutional aspects of Brexit still exists. In terms of the performances of the economy in the Euro area, after the quarterly increase of the GDP by 0.3% in the second quarter (respectively 1.6% on annual basis), most high-frequency indicators suggest an increase in the third quarter of 2016. However, an uncertainty about the growth rate exists, given the different signals from the main surveys of households and companies. The unemployment rate was unchanged in August as well as in the past 4 months and it amounted to 10.1%. In terms of inflation, the assessed data for September show acceleration of the annual rate to 0.4% (from 0.2% in August), which represents the highest rate in the previous two years. This acceleration mostly reflects the decelerated annual decline of the energy prices, amid the growth of the food prices and the unchanged core inflation rate of 0.8% on annual basis. In such circumstances, the ECB continues to conduct accommodative monetary policy. At the last ECB meeting on the monetary policy, held in early September, the policy rate was maintained at a low level, and the non-standard monetary policy measures were unchanged.

Observed from a viewpoint of individual quantitative indicators for the external environment of the Macedonian economy, it is assessed that the growth **of the foreign effective demand**, in 2016, will be higher than expected in April, mainly as a result to the higher increase in Germany in the second quarter. On the other hand, a downward revision is conducted for 2017, given the expected materialization of the negative effects of the decision for the exit of Great Britain from the European Union. The expectations for **foreign effective inflation** for 2016 and 2017 have been revised downward. **Decrease in the prices of primary commodities in 2016 and their recovery in 2017 is expected,** amid divergent directions of revisions by individual products. Thus, **world oil prices** are expected to be lower in 2016, while for 2017, they are expected to increase faster, and therefore, the price level will be slightly higher than previously expected. In **metal prices**, the latest perceptions for 2016 are divergent, whereby the nickel price is expected to decline at a slower pace, while the copper price is expected to decline faster than previously forecasted, while 2017 a higher increase in prices is expected to be experienced, especially of the nickel. With regard to world **prices of food,** there are no expectations of pressures on domestic inflation in 2016, amid expected significantly faster decline in wheat and corn prices, given the improved perceptions for production. In 2017, a significantly lower increase of the price of wheat and minimally higher increase of the price of corn from the previously forecasted is expected. However, it should be kept in mind that the estimations for the prices of these primary commodities are extremely volatile. The latest assessments indicate that during the current and the next year, **EURIBOR will follow similar path as in the April forecasts,** which corresponds to the unchanged ECB's monetary policy setup.

[1] IMF, World Economic Outlook, October 2016.

The comparison of the latest macroeconomic indicators with their projected dynamics within the baseline scenario from the April forecasting round presents a divergent picture of the deviations in the individual segments of the economy. According to the published estimated data on GDP, in the second quarter, economic activity increased at a similar pace as in the first quarter. Such performance represents lower growth than the expected according to the April projections round, and with regard to the projection the main reason is the weaker performance in gross-investments. The available high-frequency indicators for movements in individual economic sectors suggestt continuation of the growth in the third quarter. **In summary, the performance in the first half of the year is lower than in the April projection, indicating a potential downward deviation from the forecasted economic growth for the entire 2016.** Also, domestic non-economic factors related to the political developments in the country further raise the uncertainty about the performance and evaluation of the economic activity. **In terms of inflation, in September the consumer prices registered a small annual growth** amid price increase within the core inflation, whereas the prices of food and energy were maintained in the negative zone. The key input assumptions were corrected in different direction, in an environment of still low global prices. The price movements until September 2016 along with the change in input assumptions, so far indicate small downward divergence from the inflation projection for 2016.

Recent foreign reserves data (adjusted for the effects of price and exchange rate differentials and price changes of securities), indicate increase in the foreign reserves. Analyzed through the factors of change, the increase in reserves mainly results from transactions on behalf of the government, due to the issued Eurobond, and then, in a smaller part, from the foreign currency deposits of domestic banks with the NBRM and the NBRM interventions on the foreign exchange market. The latest available data for balance of payments currently show that the higher than projected growth of the foreign reserves, is due to the better performance of the financial account, supplemented with higher spruls in current transactions. Data on foreign trade as of July and August give an indication for the performance of trade deficit in the third quarter in line with the expectations according to the April projection. Also, the latest data for net purchase from foreign exchange operations as of September indicate movements of private transfer within projected level. 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 August show further widening of the deposit base, with greater intensity compared to the previous period (monthly growth of 2.5%). Analyzing by sectors, the increase of the total deposits in August dominantly is due to the higher level of deposits in corporate sector, whereby household deposits also contribute to the growth. Such performances are a clear signal of the further stabilization of domestic economic agents' perceptions. On an annual basis, total deposits in August grew by 4.4%, which is below the projected 7.4% for the third quarter of 2016. In terms of credit market, in August the total credits register an insignificant increase, compared to the decline by 0.3% in the previous month. Therefore, the small rise is entirely due to the higher household loans, amid the decrease in corporate loans. Such performances are still under the influence of the effects of the transfer of part of the doubtful and contested bank claims to the off-balance sheet record, pursuant to the NBRM decision[2], but with a significantly weaker effect compared to the previous period. On annual basis, the total loans went up by 2.9% (8.1% if we isolate the effect of the transfer), which is close to the projection of 7.9% for the third quarter, according to the April forecast.

In the period January-August 2016, a deficit in the Budget of the Republic of Macedonia of Denar 9,816 million was registered, which constitutes 42.5% of the projected budget deficit according to the Budget Revision for 2016[3]. The deficit was mostly financed through external government borrowing by issuing Eurobond on the international financial markets.

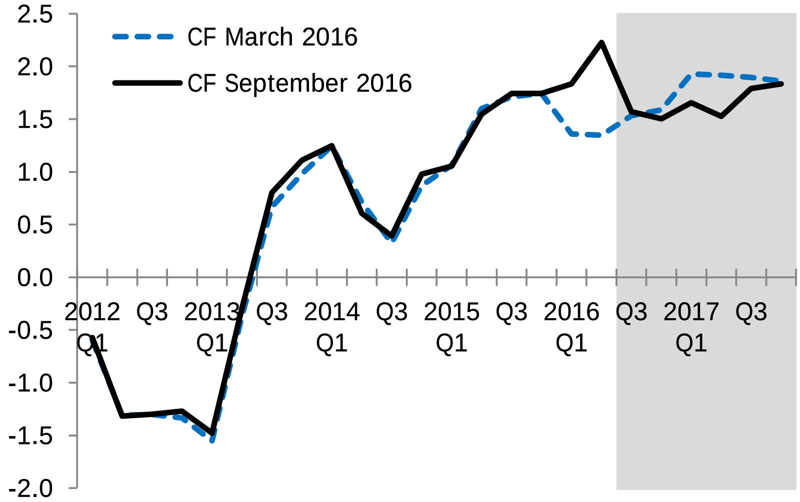
[2] On 17 December 2015, the National Bank Council adopted the Decision on amending the Decision on credit risk management that requires from banks, by 30 June 2016 at the latest to write off (and to continue to write off) all claims that have been fully booked for more than two years, and where the bank has identified and fully covered the credit risk of default at least two years before. Despite the write-off of these claims, i.e. their transfer to the off-balance sheet record, banks reserve the right for their collection.
[3] Refers to the Budget Revision for 2016 of 30 August 2016.

The latest macroeconomic indicators and assessments indicate changes in some key variables for monetary policy and more pronounced risks to the baseline scenario provided in the April forecasts. Recent foreign reserves data (adjusted for price and exchange rate differentials and price changes of securities) suggest growth, mainly as a result of external government borrowing. Also, the foreign exchange market stabilized significantly, and the NBRM intervened with net purchase of foreign currencies during the third quarter. All foreign reserves adequacy indicators show that they continually hover in a safe zone. Available high frequency indicators of economic activity suggest a continuation of growth in the third quarter of 2016. However, the performance in the first half of the year was lower than the expectations, suggesting potentially lower than expected GDP growth in 2016. In terms of inflation, the current performance and assessments of the import prices so far indicate little downward deviations from the inflation projection for 2016. Within the monetary sector, the data for August indicate stabilization of expectations, amid growth of total deposits and growth in corporate savings. In the credit market, if we exclude the effects from the regulatory changes, in August, the credit activity registers a moderate increase compared to the previous month, due to the household loans, amid monthly decline of the corporate loans. The realization in deposits at the end of August is poorer than expected for the third quarter of 2016 and indicate deviations from the level in the April projection. The credit activity, without the effects from the regulatory changes is in line with the projections. However, given the weak dynamics of deposits, the main source of financing, the risks for the future developments in the credit market are present. Given the set of measures undertaken in early May by the National Bank, further stabilization of expectations and normalization of flows is anticipated. In any case, the uncertainty associated with the domestic political upheavals and the global surrounding is still present. The above creates the need for continuous monitoring of the performance and regular reassessment of risks and their relevance in the context of achieving monetary goals.

Selected economic indicators/1				2015					2016											
	2012	2013	2014	Q1	Q2	Q3	Q4	2015	Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep	Q3
I. Real sector indicators																				
Gross domestic product (real growth rate, y-o-y) /2	**-0.5**	**2.7**	**3.5**	**3.8**	**3.4**	**3.6**	**3.9**					**2.0**								
Industrial production /3																				
y-o-y	-2.8	3.2	4.8	1.5	0.1	5.7	11.7	4.9	8.0	15.2	8.9	10.7	3.6	5.3	-4.4	1.3	5.1	5.2		
cumulative average	-2.8	3.2	4.8	1.5	0.8	2.5	4.9	4.9	8.0	11.7	10.7	10.7	8.7	8.0	5.6	5.6	5.6	5.5		
Inflation /4																				
CPI Inflation (y-o-y) /5	4.7	1.4	-0.3	-0.9	0.3	-0.2	-0.4	-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
CPI Inflation (cumulative average)	3.3	2.8	-0.3	-0.9	-0.3	-0.3	-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
Core inflation (cumulative average)	2.1	3.0	0.6	-0.4	0.1	0.3	0.5	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
Core inflation (y-o-y)	2.1	3.0	0.6	-0.4	0.7	0.7	1.0	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
Labor force																				
Unemployment rate	31.0	29.0	28.0	27.3	26.8	25.5	24.6	26.1				24.5								
II. Fiscal Indicators□																				
(Central Budget and Budgets of Funds)																				
Total budget revenues	138,115	140,248	145,929	37,779	40352.0	39,314	43,762	161,207	12,923	12,925	14,742	40,590	14,820	13,344	13,261	41,425	14,985	13,621		
Total budget expenditures	155,840	159,505	168,063	44,080	43572.0	43,667	49,313	180,632	14,611	15,696	15,917	46,224	14,318	14,529	13,889	42,736	16,992	14,485		
Overall balance (cash)	-17,725	-19,257	-22,134	-6,301	-3220.0	-4,353	-5,551	-19,425	-1,688	-2,771	-1,175	-5,634	502	-1,185	-628	-1,311	-2,007	-864		
Overall balance (in % of GDP)/1	-3.8	-3.8	-4.2	-1.1	-0.6	-0.8	-1.0	-3.5	-0.3	-0.5	-0.2	-1.0	0.1	-0.2	-0.1	-0.2	-0.3	-0.1		
III. Financial indicators /6																				
Broad money (M4), y-o-y growth rate	**4.4**	**5.3**	**10.5**	**8.8**	**9.2**	**6.2**	**6.8**	**6.8**	**4.5**	**5.4**	**6.2**	**6.2**	**3.8**	**3.7**	**2.5**	**2.5**	**3.6**	**4.5**		
Total credits, y-o-y growth rate	**5.4**	**6.4**	**10.0**	**9.2**	**9.0**	**8.8**	**9.5**	**9.5**	**8.6**	**8.7**	**8.4**	**8.4**	**7.5**	**6.4**	**3.5**	**3.5**	**3.0**	**2.9**		
Total credits - households	6.5	10.2	11.8	12.1	12.4	12.8	12.9	12.9	12.6	12.8	13.0	13.0	12.8	12.2	8.8	8.8	8.1	7.8		
Total credits - enterprises	4.5	3.8	8.6	7.1	6.7	6.0	7.1	7.1	5.5	5.8	5.1	5.1	3.7	2.0	-0.5	-0.5	-0.8	-0.9		
Total deposits (incl. demand deposits), y-o-y growth rate	**4.9**	**6.1**	**10.4**	**8.4**	**8.9**	**5.7**	**6.5**	**6.5**	**4.3**	**5.3**	**6.2**	**6.2**	**3.1**	**3.7**	**2.3**	**2.3**	**3.5**	**4.5**		
Total deposits - households	7.2	6.7	8.9	8.1	6.2	5.0	4.1	4.1	3.6	3.5	3.1	3.1	0.9	-0.4	0.2	0.2	0.2	1.0		
Total deposits - enterprises	-1.6	3.1	15.7	9.0	17.8	7.1	13.0	13.0	6.4	11.8	16.0	16.0	9.2	14.5	5.6	5.6	11.8	11.7		
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	3.25	3.25	3.25	3.25	4.00	4.00	4.00	4.00	4.00		
Lending rates																				
denar rates (aggregated, incl. denar and denar with f/x clause)	8.5	8.0	7.5	7.3	7.1	7.0	6.9	7.1	6.8	6.7	6.7	6.7	6.7	6.6	6.6	6.6	6.6	6.6		
f/x rates	7.0	6.5	6.3	6.0	5.9	5.8	5.8	5.9	5.7	5.7	5.6	5.6	5.5	5.5	5.5	5.5	5.4	5.4		
Deposit rates																				
denar rates (aggregated, incl. denar and denar with f/x clause)	5.1	4.4	3.7	3.2	3.0	2.7	2.6	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5		
f/x rates	2.2	1.8	1.4	1.5	1.3	1.2	1.1	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.1	1.0	1.0		
IV. External sector indicators																				
Current account balance (millions of EUR)	**-240.0**	**-134.1**	**-43.2**	**-61.7**	**-97.2**	**114.4**	**-142.4**	**-187.0**	**23.8**	**-9.5**	**-39.4**	**-25.1**	**-86.9**	**-69.6**	**-27.9**	**-184.4**	**69.2**			
Current account balance (% of GDP)	*-1.6*	*-1.6*	-0.5	-0.7	-1.1	1.3	-1.6	-2.1	0.3	-0.1	-0.4	-0.3	-0.9	-0.7	-0.3	-1.9	0.7			
Trade balance (millions of EUR)/8	**-1,946.7**	**-1,748.1**	**-1757.9**	**-378.1**	**-446.5**	**-362.3**	**-538.7**	**-1725.7**	**-65.8**	**-131.6**	**-175.8**	**-373.2**	**-160.8**	**-175.7**	**-164.8**	**-501.4**	**-112.5**	**-156.8**		
Trade balance (% og GDP)	*-25.7*	*-21.6*	-20.7	-4.2	-4.9	-4.0	-5.9	-19.0	-0.7	-1.4	-1.9	-3.9	-1.7	-1.9	-1.7	-5.3	-1.2	-1.7		
import (millions of EUR)	-5,070.6	-4,983.3	-5504.5	-1308.1	-1481.7	-1394.0	-1593.2	-5776.9	-354.1	-477.5	-525.0	-1356.5	-529.4	-531.2	-497.1	-1557.7	-516.6	-503.1		
export (millions of EUR)	3,124.0	3,235.2	3746.6	929.9	1035.2	1031.7	1054.4	4051.2	288.3	345.9	349.2	983.3	368.5	355.4	332.3	1056.2	404.1	346.3		
rate of growth of import (y-o-y)	0.3	-1.7	10.5	5.4	8.2	-0.7	6.9	4.9	-3.1	16.8	-1.6	3.7	6.3	13.1	-3.3	5.1	2.1	17.5		
rate of growth of export (y-o-y)	-2.8	3.6	15.8	13.9	9.9	4.5	5.4	8.1	-1.2	15.7	3.0	5.7	24.8	-1.0	-12.8	2.0	16.4	9.2		
Foreign Direct Investment (millions of EUR)	**131.1**	**229.4**	**197.4**	**78.5**	**60.8**	**-7.7**	**71.1**	**202.8**	**20.1**	**45.1**	**38.0**	**103.2**	**22.9**	**24.7**	**-20.2**	**27.4**	**25.2**			
External debt																				
Gross external debt (in milllions of EUR)	5171.7	5219.7	5992.3	6320.7	6416.2	6326.8	6290.5	6290.5				6812.5				6914.6				
public sector	2162.1	2172.4	2846.8	3019.1	3054.2	3035.5	2933.7	2933.7				3279.4				3283.1				
public sector/GDP (in %)	28.5	26.7	33.4	33.2	33.6	33.4	32.3	32.3				34.7				34.7				
private sector	3009.5	3047.4	3145.5	3301.6	3362.0	3291.3	3356.9	3356.9				3533.2				3631.6				
Gross external debt/GDP (in %)	68.2	64.0	70.3	69.5	70.6	69.6	69.2	69.2				72.0				73.1				
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**		**2,193.8**	**2,164.3**	**2,158.8**		**2,588.2**	**2,676.6**	**2,698.9**	

/1 While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2015, the projected level from the NBRM projections from October 2015 is used.
/2 Preliminary data for 2014. Estimated data for 2015.
/3 The changes of Index of industrial production are according to base year 2010=100.
/4 CPI calculated according to COICOP.
/5 Inflation on annual basis corresponds to end-year inflation (December current year/December previous year)
/6 The calculations are based on the New Methodology for compiling standard forms of the monetary balance sheets and surveys and the new accounting plan (in force since 01.01.2009).
/7 As of January 2015 data for active and passive interest rates are compiled according to the new methodology of NBRM.
/8 Trade balance according to foreign trade statistics (on c.i.f. base).
/ 9The data from 2008 include accrued interest. The latest available data on gross official reserves are preliminary data.

Foreign effective demand
(annual changes in %)



The latest estimations for the foreign effective demand[4] in 2016 indicate an increase of 1.8%...

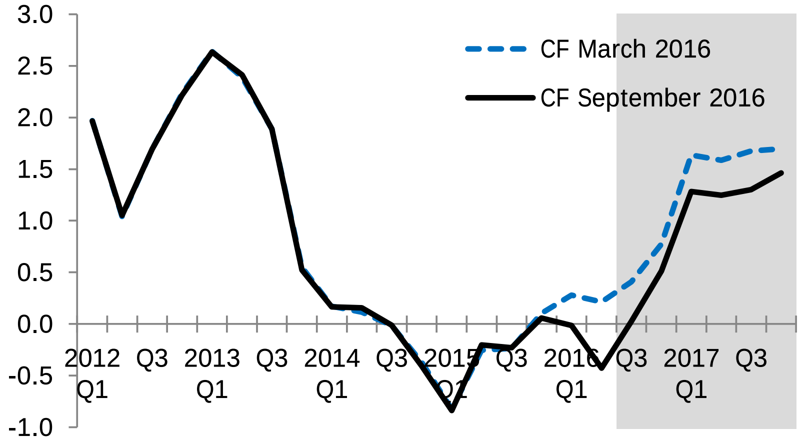
...which represents upward revision compared to the April projection of 1.5%. Such change is mostly due to the higher growth of the German economy in the second quarter, amid absence of the negative effects from the British referendum on the short-term export and stable domestic demand. Additional contribution towards the revision arises from the better economic projections in Serbia, Croatia and Greece.

On the other hand, the negative economic effects from "Brexit" were expected to be effectuated in 2017...

...amid assessed increase in foreign demands of 1.7% unlike the April projection of 1.9%...

...which, by country, mainly arises from the reduced economic growth rates of Germany and Italy.

Foreign effective inflation
(annual rates in %)



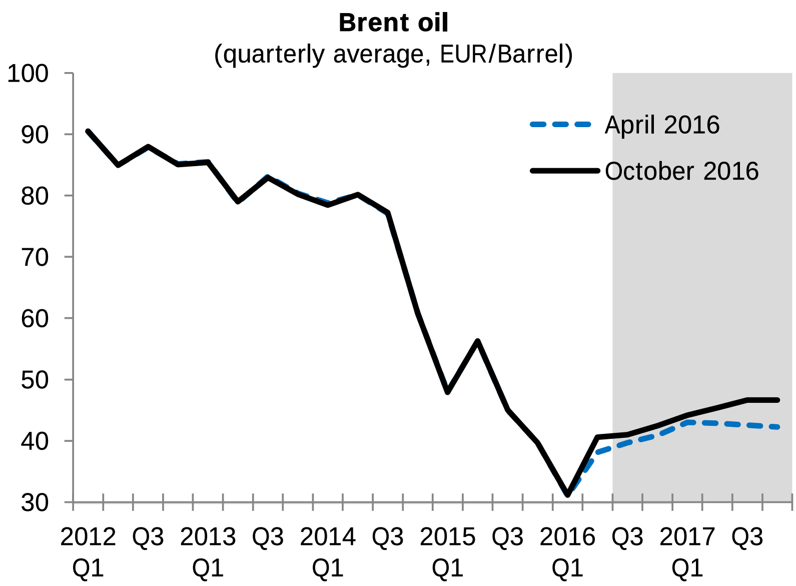
Compared to April, the foreign effective inflation was revised downwards throughout the entire projection period.

Thus, stagnation of the foreign rate of inflation is expected in 2016, compared to the expectation of price increase of 0.4% in April...

...amid the greatest negative contribution of Serbia[5] and Bulgaria, as a result to the expectations of decline instead increase of the prices in these countries.

Similar downward revision was also conducted for 2017, when effective growth of the foreign prices of 1.3% (1.7% in April) was expected, again mainly as a result of the lower expected inflation in Serbia.

[4] The analysis of the foreign effective demand and inflation is based on the projections of the international company for economic surveys Consensus Forecast...
[5] Inflation in Serbia has been adjusted for the changes in the exchange rate.



Source: IMF and NBRM calculations.

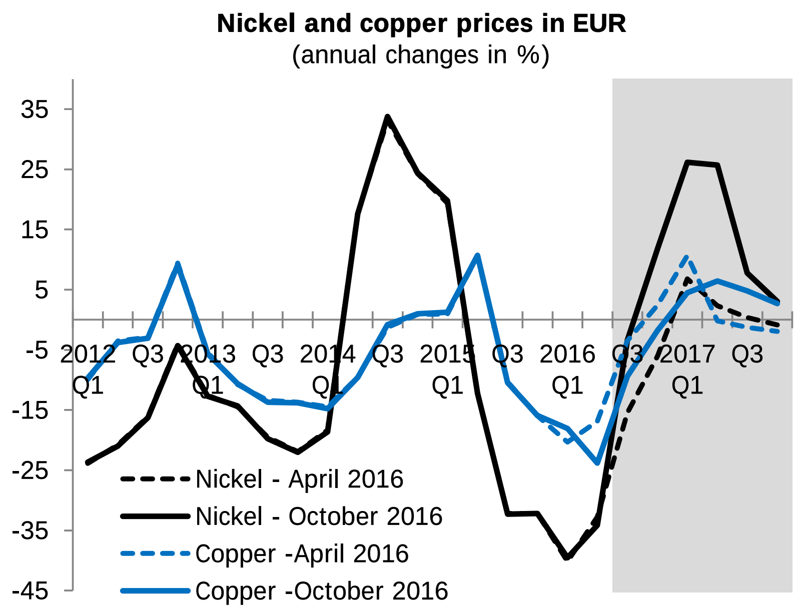
The latest projections[6] for the "Brent" oil price do not differ much compared to the April round.

Thus, in 2016, significant growth, and somewhat lower decline compared to the April projection is further expected...

...given the signals of balancing of oil supply and demand in the second half of the year and the reached agreement for production cuts by member states of OPEC.

On the other hand, in 2017, the oil price increase will be somewhat higher from the April projection...

...as a result to the expectations for faster decrease of global oil inventories, which will contribute in faster depletion of the excess supply on the market.



Source: IMF and calculations

In terms of metal prices, revisions of the projections are in divergent directions.

Thus, the estimation is that in 2016, copper price will register a slightly higher decline from the April forecast...

...in conditions of continuous decline of import in China and increase in inventories...

...unlike **nickel,** whose price is expected to decrease less than forecasted in April...

...due to the termination of certain mines by the authorities in Philippines in order to verify the compliance with the standards of environmental protection.

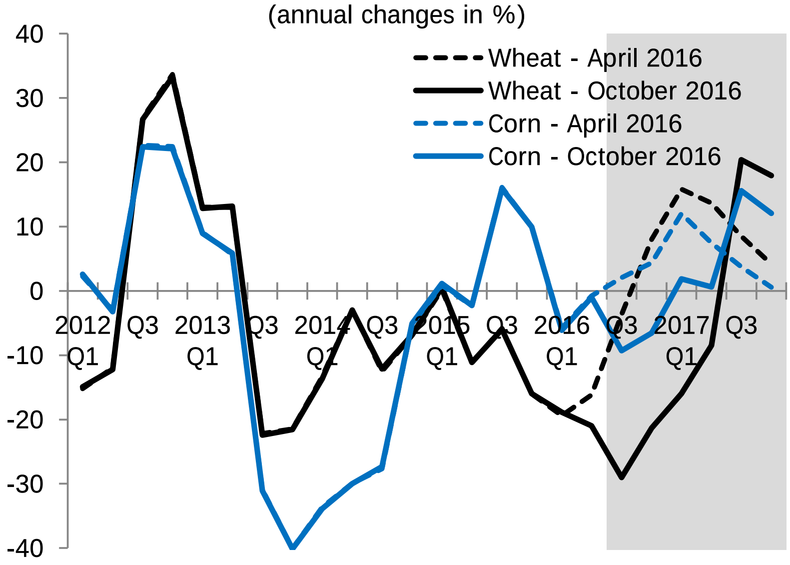
There is a risk of significant decline in the global supply of nickel due to the reduced production in this country, especially in 2017, as a result to which, a significant upward revision for the increase of prices

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

of this metal in the following year was made.

A small upward revision of the price of copper was also made in 2017.

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



Source: IMF and NBRM calculations.

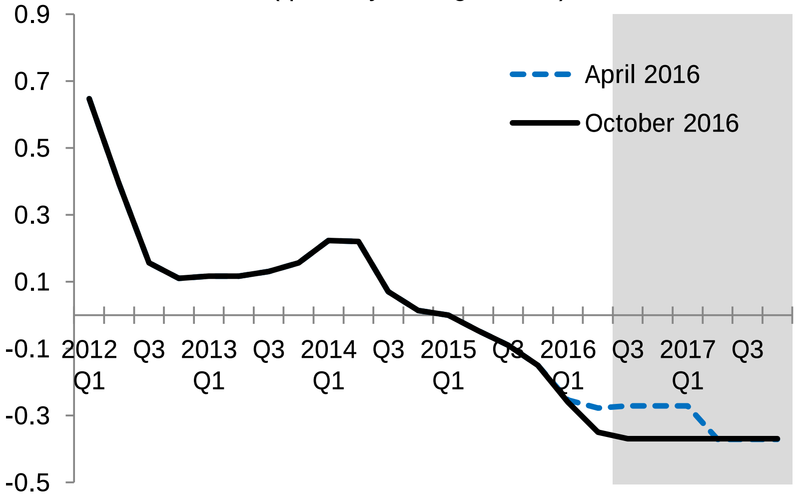
Prospects for global crop production for 2016 have significantly improved compared to the April projection, bearing in mind the particularly favorable weather conditions in the main production countries.

As a result, the expectations that high yields of **wheat** will be realized, which results to significant downward revision of its price in the global market compared to April.

Similar is the case with **corn**, whose price is also expected to register a higher decline from April, as a result to the estimations of record supply and high inventories, especially in USA.

On the other hand, revisions of the prices of primary food products are in a different direction in 2017, amid expecting significantly lower growth of the price of wheat, and slightly higher growth of the corn price compared to the April projections.

1-month Euribor
(quarterly average, in %)



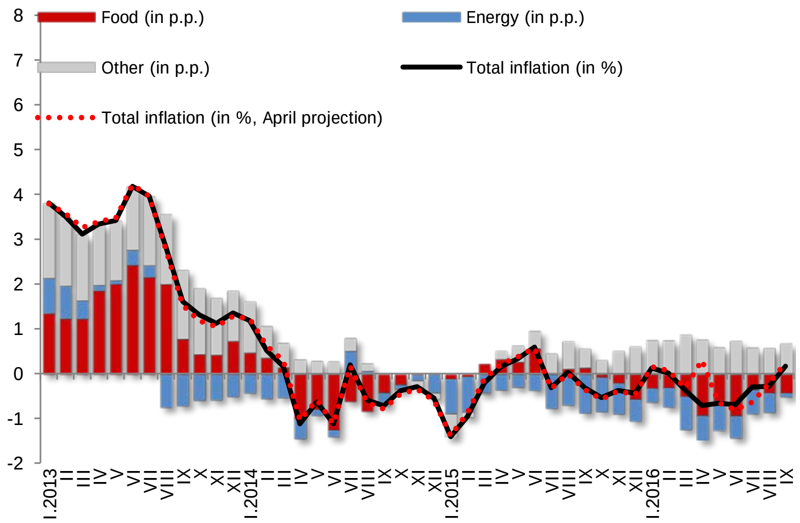
Source: "Consensus Forecast" and NBRM calculations.

Compared to April, more significant differences do not exist in the one-month Euribor forecast, given that in between ECB took no further actions in the domain of standard and non-standard monetary policy.

Hence, it is further expected that foreign interest rate will be negative in the entire period and will amount -0.34% and -0.37% in 2016 and 2017, respectively which is similar to the rates of -0.27% and -0.35% projected in April.

Inflation rate

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



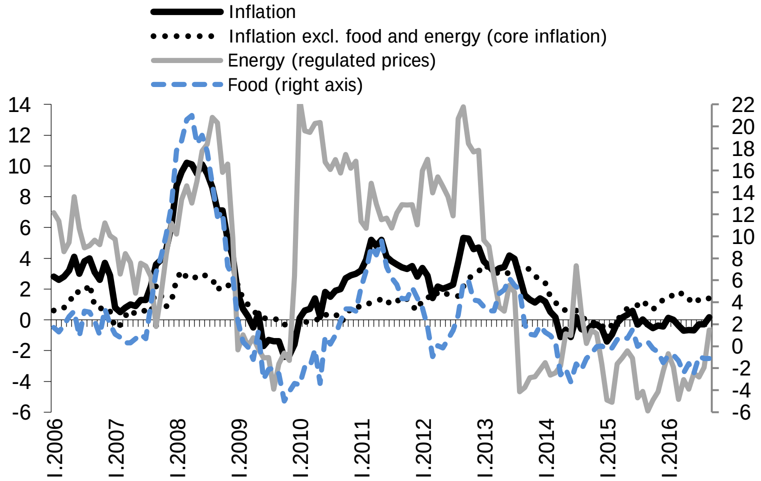
Source: SSO and NBRM.

In September 2016, domestic consumer prices registered a small growth of 0.2% on a monthly basis...

...amid higher prices of food and energy. On the other hand, in September, in core inflation there was a slight adjustment of the downward direction through which the trend of moderate growth starting in the second month of the year was halted.

Inflation and volatility of food and energy

(annual growth rates, in %)

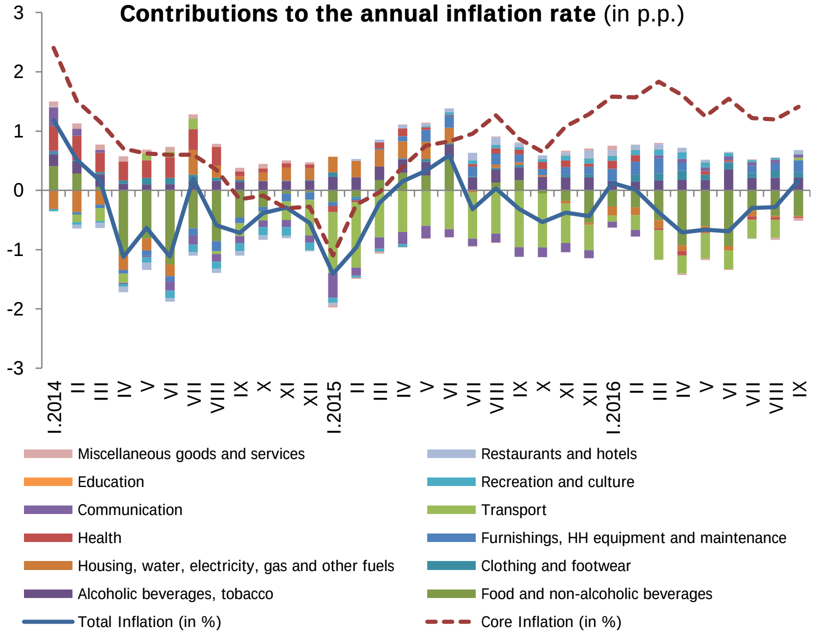


Source: State statistical office and NBRM calculations.

In accordance with the monthly increase, the annual inflation rate in September is moderately positive and it amounts 0.2%, a change that comes after a several-months decline of consumer prices from March this year.

In terms of the projection, the changes in domestic prices in 2016 are in line with the expected dynamics. However, the downward deviation during the second quarter indicates a possible slight downward deviation compared to the expected inflation rate for the entire 2016 in line with April projections round.

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

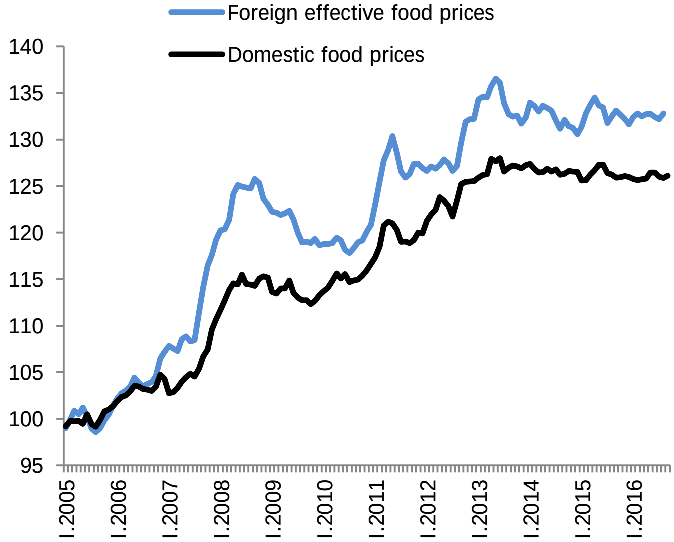


Source: SSO and NBRM.

In September, the core inflation rate is minimally negative (-0.1%), whereas on an annual basis remained positive and amounted to 1.4%.

Regarding the core inflation structure, in September, there was a small rise in the prices of most categories within core inflation, with the highest contribution of tobacco prices[7], footwear, and the prices in the category furniture, household equipment and household maintenance.

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



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

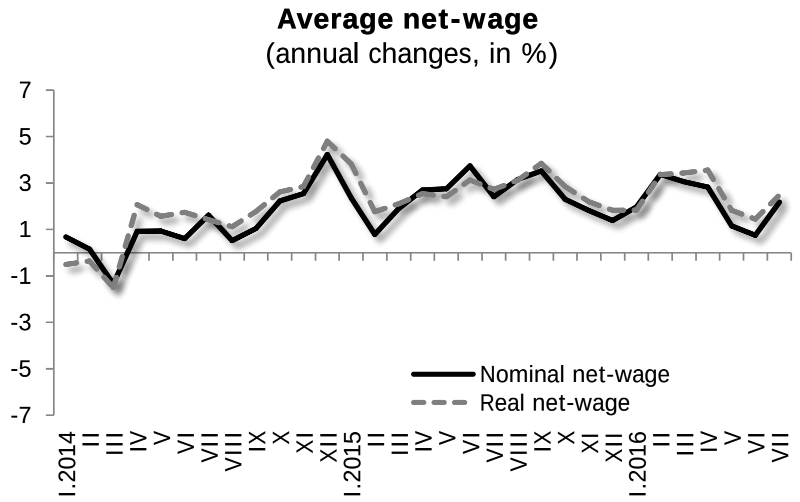
External input assumptions for 2016, included in the inflation projection, have been revised in divergent directions...

...amid minimal upward correction in oil prices, and downward correction of the expected price of wheat, corn, and foreign effective inflation.

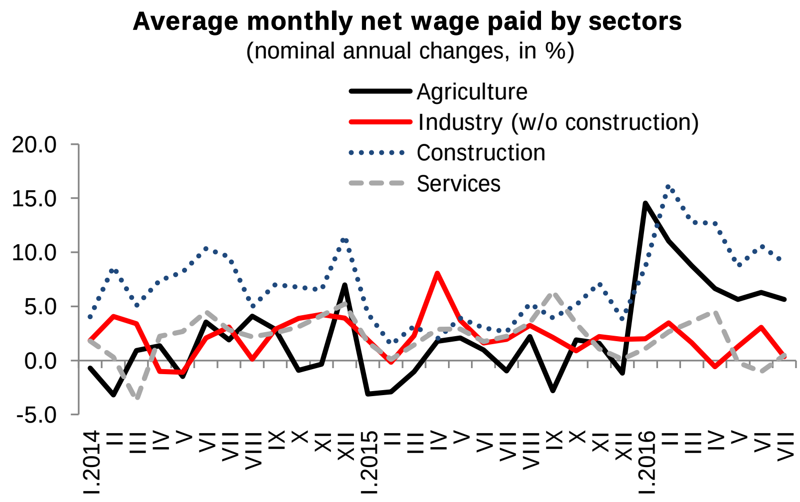
However, global prices remained low, thus it is not expected that the minimal upward correction in oil prices to create pressures on domestic price movement.

The domestic price performances until September, as well as the changes in the expected trajectories of exogenous variables, so far indicate little downward deviations from the inflation projection for 2016. **The risks with regard to the inflation projection** are mainly associated with the uncertainty about the expected movement in prices of primary commodities.

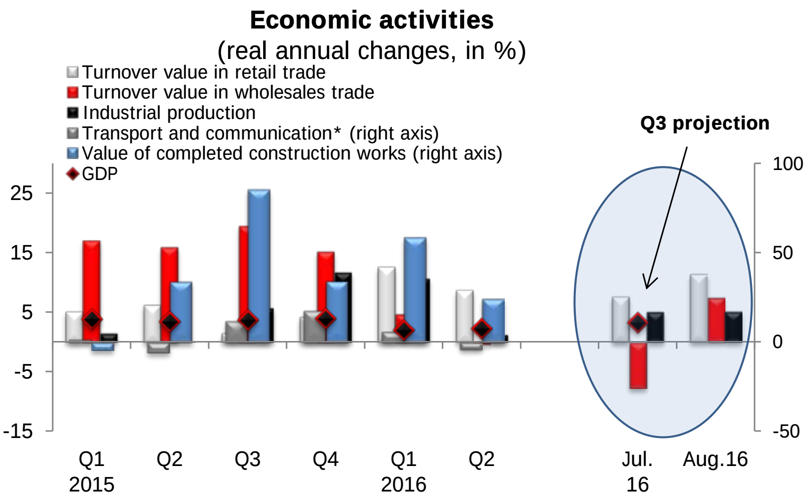
[7] The annual growth of tobacco prices in September is a combination of the flat increase in cigarette prices by five denars per box in March 2016 and increase in the price of a certain type of cigarettes in June 2016. In July 2016 an additional increase of the excise on cigarettes was conducted (from 1 July 2017 until 1 July 2023 the excise will increase by Denar 0.20 for each year), but the monthly changes of the price of tobacco do not show price correction in July, August and September.



Source: SSO.



Source: SSO.



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

In July 2016, the average net wage registered a nominal annual growth of 2.2%, which is a growth acceleration of 1.5 p.p. regarding the dynamics registered in the previous month.

The upward movement of wages in July is registered in most economic sectors, amid the growth mostly dominated in construction and other services (“information and communications” and “administrative and auxiliary service activities”).

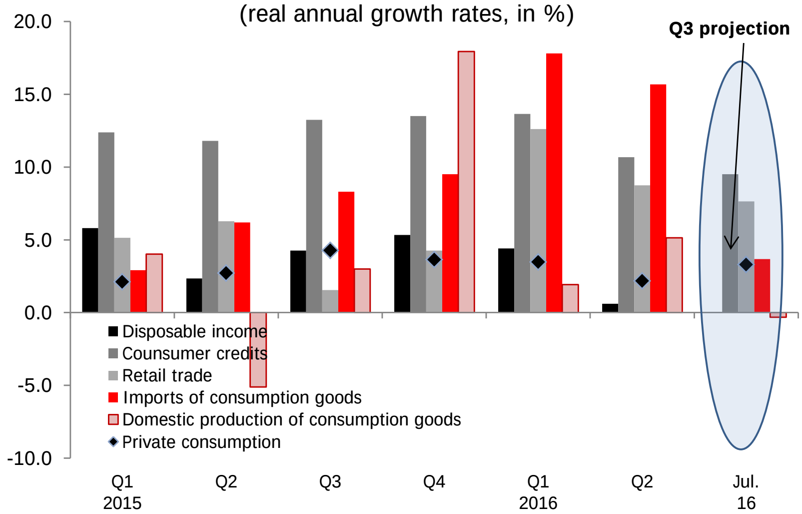
Given the decrease in consumer prices, in July, the **real wages** increased by 2.5%. **Such movements in wages are close to the expected in the third quarter of the year** in line with the April projections.

High-frequency data for the third quarter of 2016 point to further growth of the domestic economy. However, it should be stressed that domestic non-economic factors are still current, which increase the uncertainty about the prices of economic activity in the third quarter.

In July-August 2016**, industrial output** registered an increase of 5.1% (compared to the increase of 1.3% in the second quarter), which mostly is explained by the higher production in manufacturing industry.

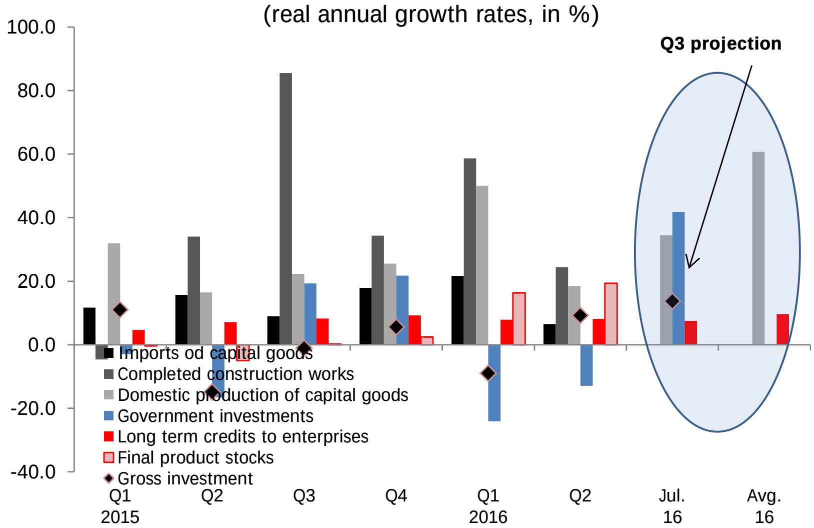
Analyzing the manufacturing industry, the manufacture of electrical appliances, machinery and equipment, and the manufacture of motor vehicles, i.e.

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



Source: SSO and NBRM calculations.

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



Source: SSO and NBRM calculations.

activities where foreign export facilities are present made the highest contribution to the growth.

In the period July-August, there was an increase in the value of turnover in total **trade,** reflecting mostly the increased turnover in retail, while the turnover in wholesale slightly declined.

Data on **catering services** (increased number of tourists and overnight stays in July) and **construction** (continuation of double-digit increase in the value of conducted construction works in July), also indicate support of the economic growth in the third quarter.

On the other hand, transport sector indicators are in divergent directions (unfavorable trends related to railroad transportation, and favorable movements in railway freight transportations).

Available aggregate demand indicators mainly confirm the estimates for growth of economic activity in the third quarter of 2016, which is consistent with the expectation in the April forecast.

According to high-frequency data for **private consumption**, in the third quarter of 2016, further increase is expected...

...amid increase of the components of disposable income (wages and pensions), and simultaneously the solid increase of the household lending continued.

Regarding other indicative categories favorable developments are registered in retail trade and import of consumption goods.

On the other hand, in July-August, lower gross revenues from VAT are registered and decline in domestic production of consumption goods.

Available short-term indicators of **investment activity** point to solid annual growth of investments in the third quarter of 2016…

…in conditions of further growth of long-term lending to the corporate sector, double-digit increase of the domestic production of the capital goods and government capital expenditures.

At the same time, in July, the solid increase of construction activity and the import of investment goods continued, and direct foreign investments also registered an increase.

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

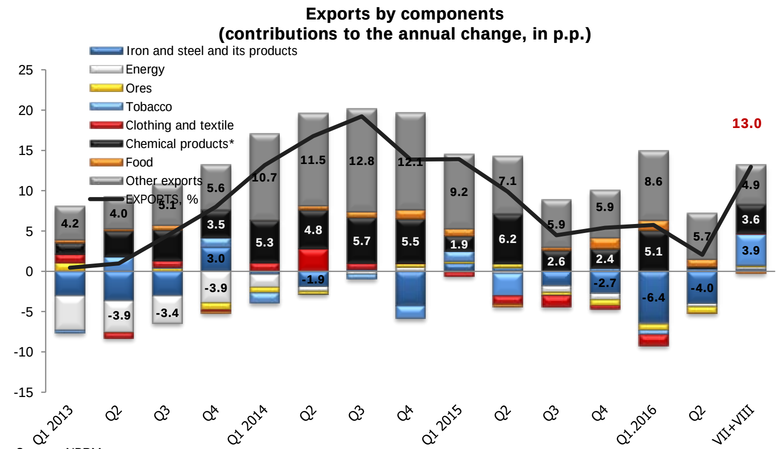
In July-August 2016, nominal data on **foreign trade balance** show small decrease of deficit…

…amid higher increase in exports compared to imports of goods.

In July-August, budget performances indicate growth of the **public consumption in the third quarter…**

…given the higher wage expenses for the employees in the public sector and increased health care transfers[8].

[8] Most of these assets refer to expenditures for goods and services.



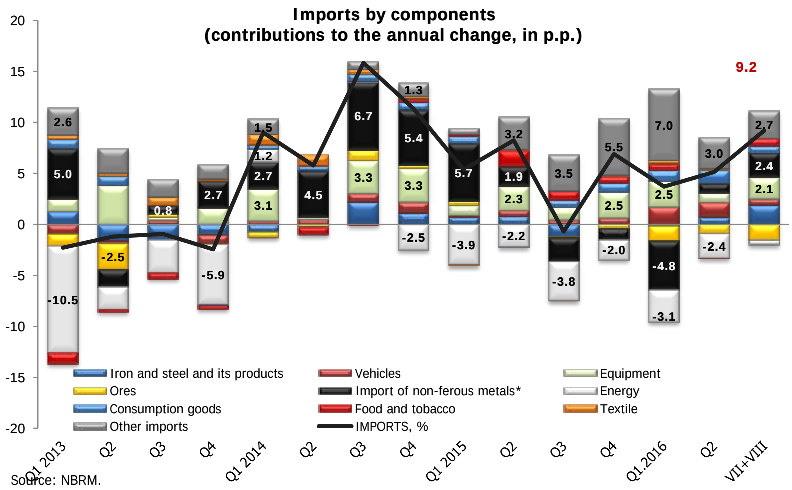
Source: NBRM.
** The following data depict the overall exports of one major export capacity in the free industrial zone.*

During July and August, **the foreign trade deficit remained almost unchanged compared to the same period in the previous year**...

...whereas, according to the April projection, within the third quarter, extension of the trade deficit is forecasted.

Export of goods in July and August registered an increase of 13%, which is primarily due to the good export results of the new product capacities, as well as from the tobacco export.

Compared to the April projection, the realized export of goods in July and August points to the realizations in line with the expected in the third quarter. The positive deviations are expressed in the tobacco export, iron and steel and part of the new capacities, whereas food export is weaker than the expected.

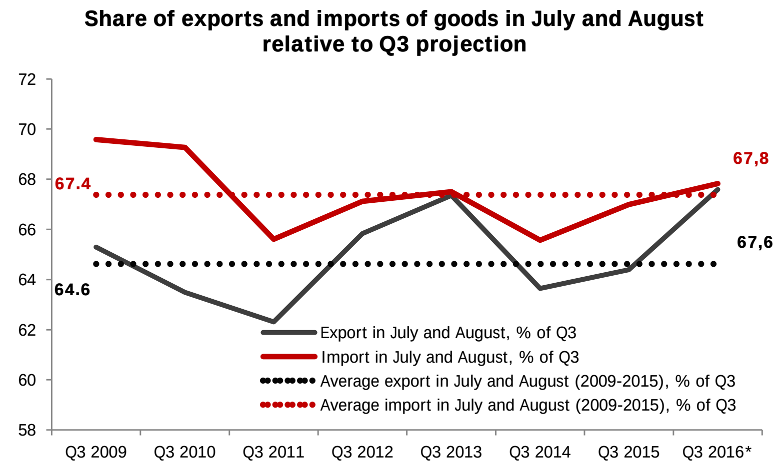


Source: NBRM.
** The following data depict the overall imports of one major export capacity in the free industrial zone.*

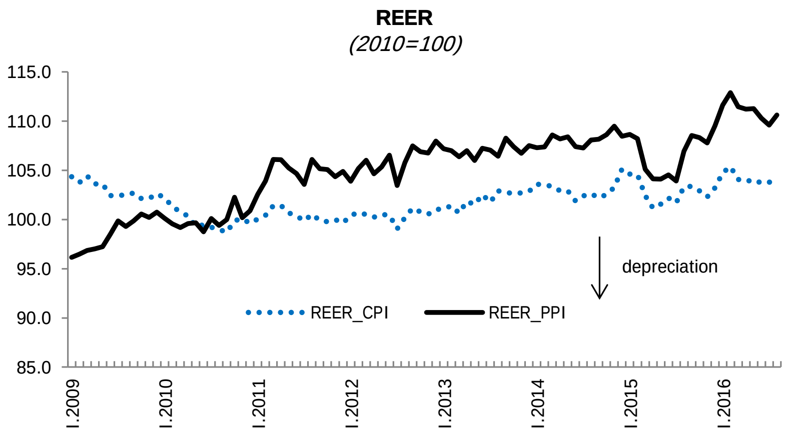
Import of goods in July and August increased by 9.2% on annual basis, influenced by the higher raw material import for the new import capacities, import of iron and steel, as well as other imports...

...whereas decrease is registered in import of ores.

Imports in July and August range within the forecast for the third quarter of the year. Analyzing by categories, raw material import for part of the new companies of foreign ownership, as well as the import of iron and steel are higher than the expected, compared to downward divergence in import of energy, textile and ores.

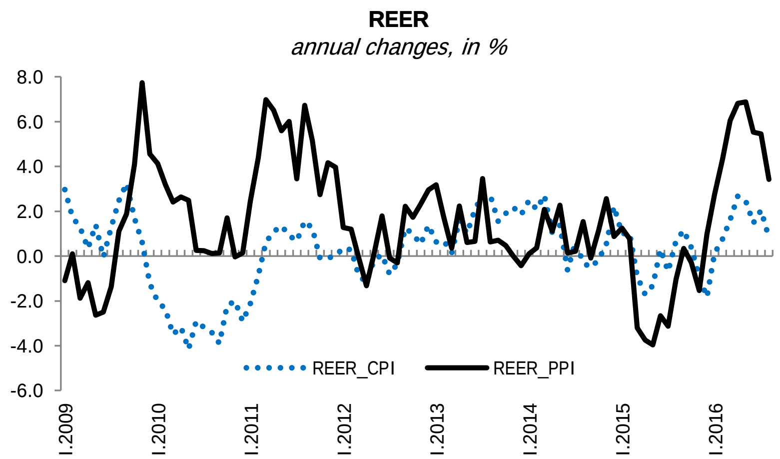


The performance of export and import of goods during July and August point to the possible **trade deficit within the expected in the third quarter** according to the April projection.

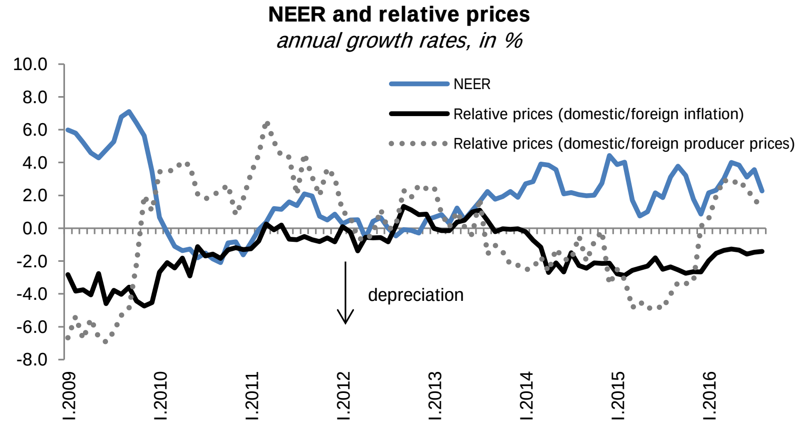


Source: NBRM.

In August 2016, **price competitiveness indicators of the domestic economy pointed to annual deterioration.** The REER index deflated by consumer prices have appreciated by 0.8% and the REER index calculated by producer prices of industrial goods registered appreciation of 3%.

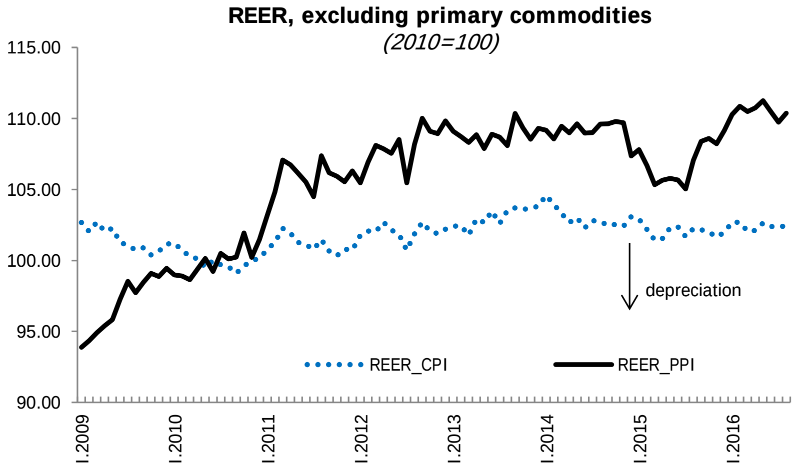


Source: NBRM.



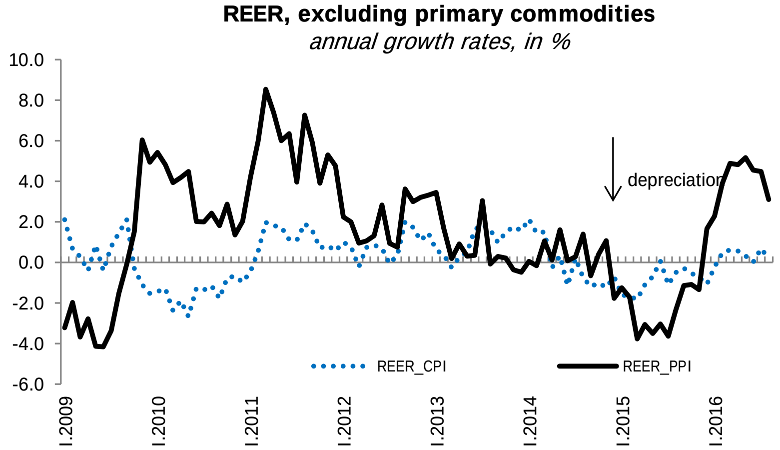
Source: NBRM.

Such movements are mainly due to the NEER dynamics, which appreciated by 2.3% on annual basis, as a result of the depreciation of the British pound, Ukrainian hryvnia and Serbian denar compared to the denar. Simultaneously, the relative prices of industrial products have increased by 0.7%, while the relative consumer prices have decreased by 1.4%.



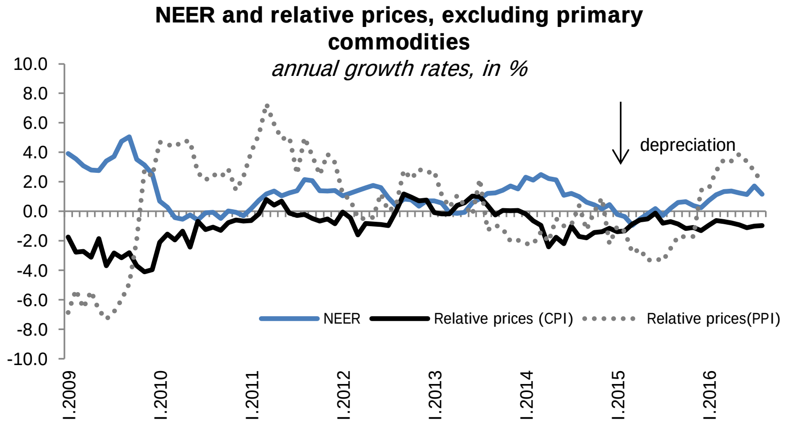
Source: NBRM.

The analysis of movement **of REER indices, calculated using weights based on the foreign trade without primary commodities**[9]**, indicate appreciation.** Namely, in August, the REER index deflated by consumer prices appreciated by 0.2%, while the REER deflated by producer prices appreciated by 2.4%.



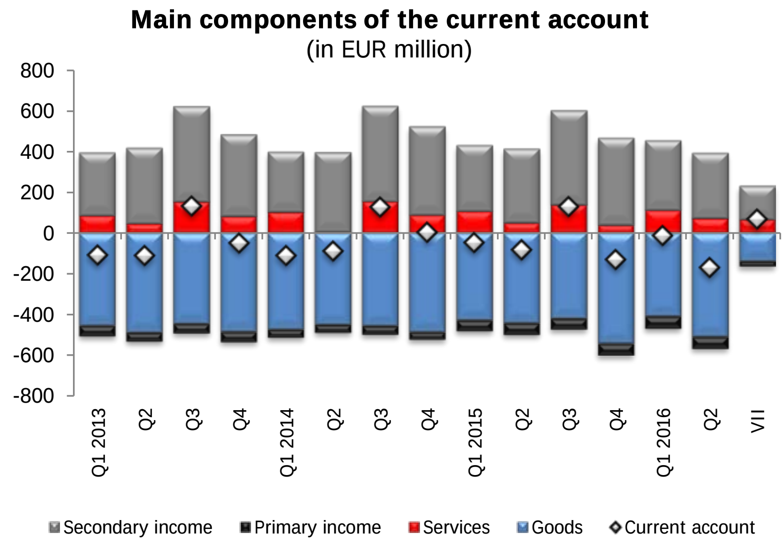
Source: NBRM.

[9] 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.



Source: NBRM.

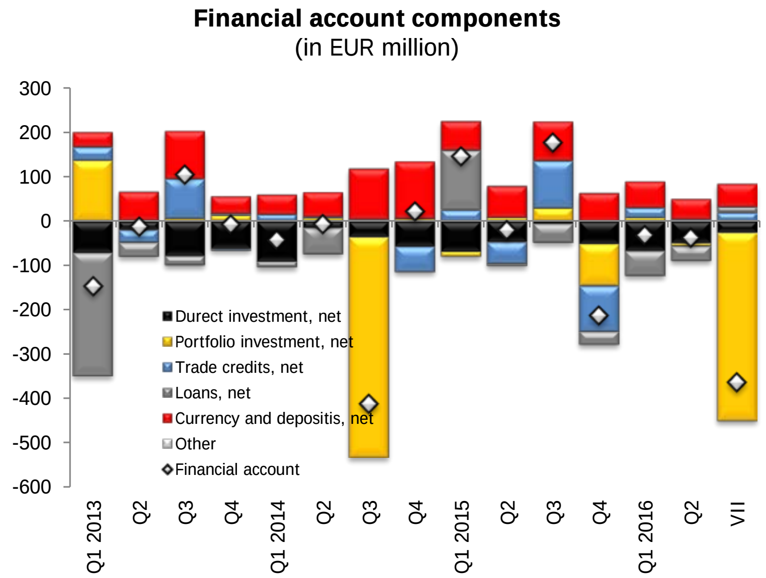
On an annual basis, relative consumer prices fell by 1%, while the relative prices of producer prices have increased by 1.3%. The NEER has appreciated by 1.2% on an annual basis.



Source: NBRM.

In July 2016, the balance of payments' current account has registered a surplus of Euro 69.2 million (or 0.7% of GDP), respectively surplus higher than the expected in the third quarter according to the April projection.

In terms of individual components, such positive deviation is mostly due to the lower deficit in trade of goods and services, respectively better performances in trade of services. On the other hand, in primary income, higher net outflows than expected in the April projection are registered, whereas the movements in the secondary income are in accordance with the projection.



Source: NBRM.

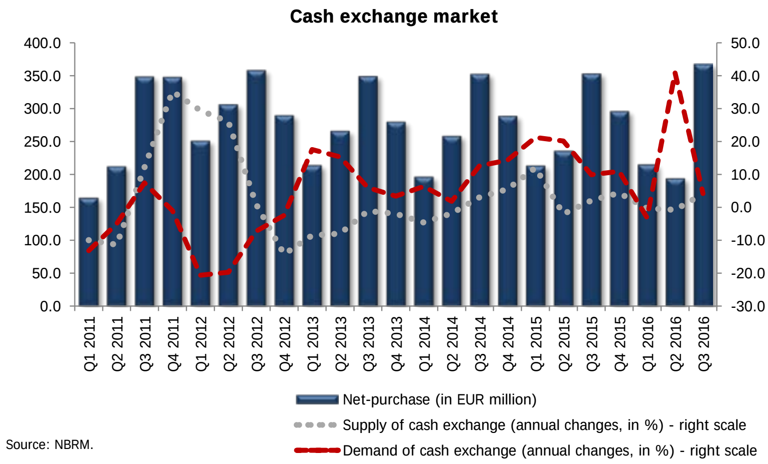
In July 2016, the financial account registered net inflows of Euro 364.2 million (or 3.9% of GDP), which is an upward deviation from the April projection[10] respectively higher net inflows than expected.

The greatest deviation in terms of April projection is recorded in portfolio investments, which is due to issued Euro bond by the government[11]. In July 2016, positive deviation is also registered in direct investments, whose net inflows are solid and higher than expected in the April projection. Contrary to this, the long-term loans register net outflows instead of the expected net inflows (as a result to the

[10] 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.

[11] During July 2016, the government incurred debts from international markets by issuing the fifth Euro bond, in the amount of Euro 450 million, with a total coupon interest rate of 5.625% and a maturity of 7 years.

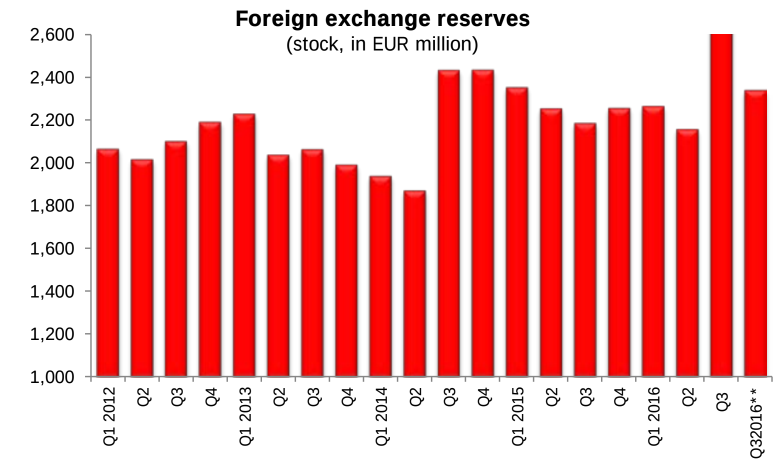
lower withdrawals from the government[12], and in the private sector). Unfavorable movements, i.e higher net outflows than expected in the third quarter are also registered in currencies, deposits and in trade credit.



Source: NBRM.

Recent data on currency exchange operations as of September 2016 point to a moderate increase in the supply and demand for foreign currency.

In the period 1 July – 30 September 2016, the net purchase in the currency exchange market totaled Euro 368.2 million, which is an annual increase of 4.1%.



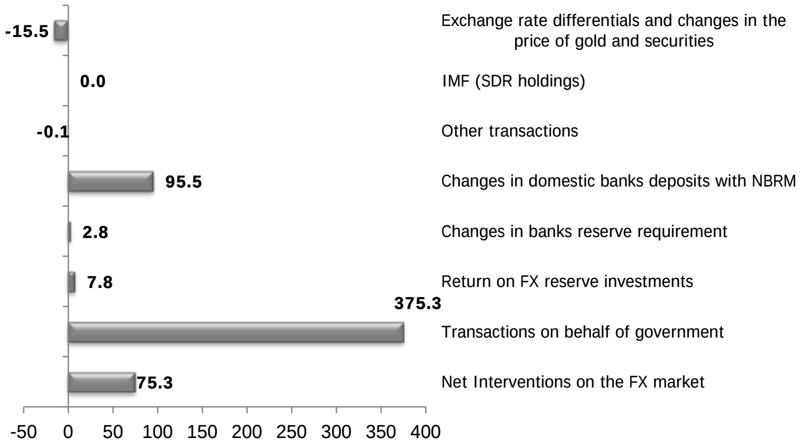
Source: NBRM.

As of 30 September 2016, the gross foreign reserves stood at Euro 2.698.9 million, which is an increase of Euro 540.2 million compared to the end of the second quarter of 2016. The increase in foreign reserves mainly arises from transactions on behalf of the government, i.e. the issued Eurobond, followed by the foreign currency deposits of domestic banks with the NBRM[13] and the NBRM interventions on the foreign exchange market on the foreign exchange market, which acted towards increase in the foreign reserves through the realized net purchase. The other transactions have no significant influence on the amount of foreign reserves.

[12] The highest net-borrowing of the government abroad was performed through portfolio investments, whereas according to the April forecast, the same, but in a lower amount was planned through long-term borrowings abroad.

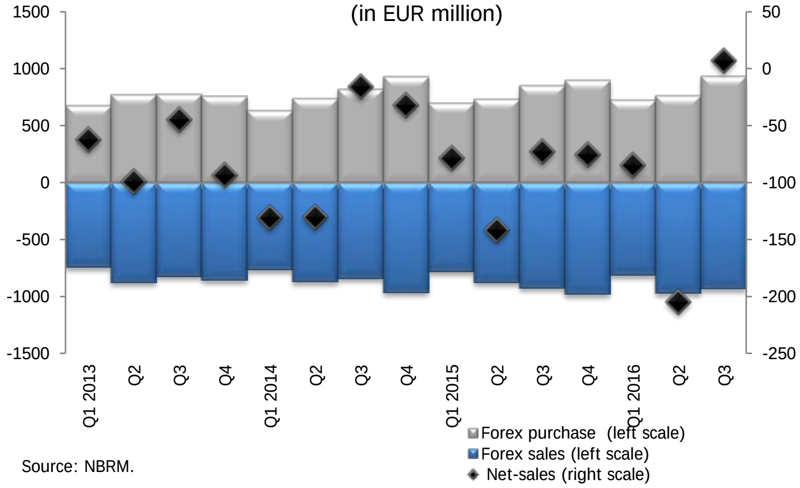
[13] The growth of foreign currency deposits of domestic banks with the NBRM stems from the Decision on foreign currency deposit with the National Bank of the Republic of Macedonia, adopted on 5 May 2016, which allows interest rates to be determined at a level higher than the level of interest rates which domestic banks receive in placing funds in euros abroad.

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



Source: NBRM.

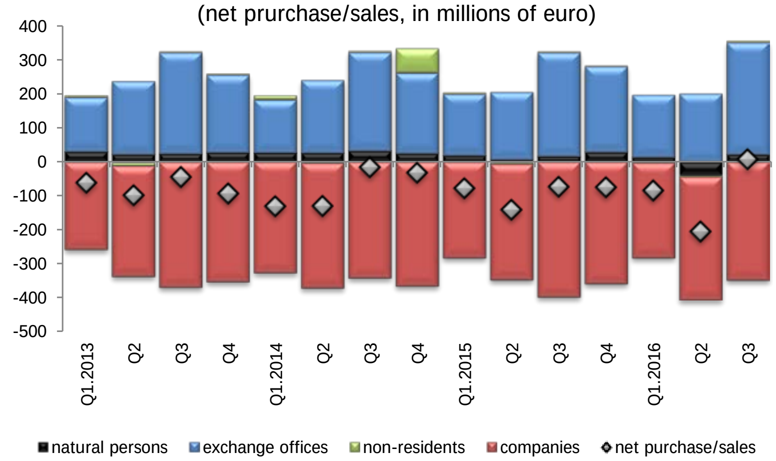
Foreign exchange market
(in EUR million)



Source: NBRM.

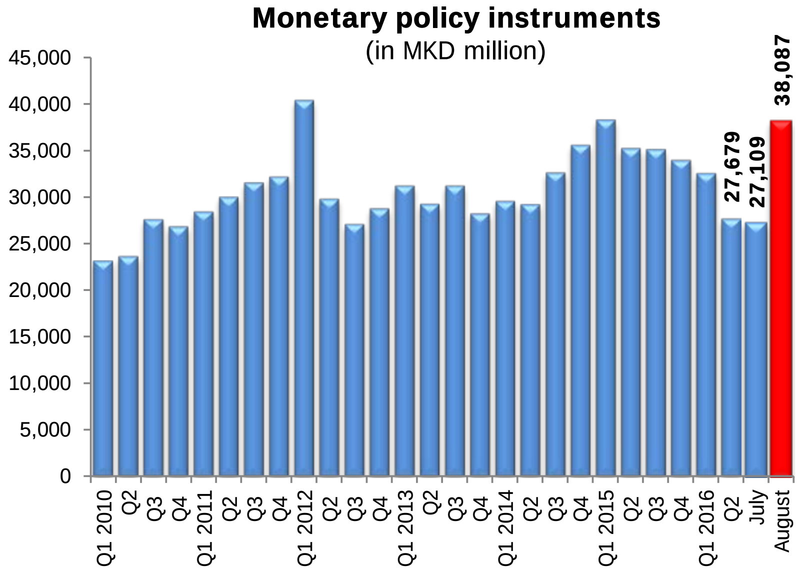
In the third quarter of 2016, in the foreign currency market of banks a net purchase of Euro 7.1 million was realized, which represents an increase of Euro 79.9 million on an annual basis (in the third quarter of 2015 a net sale of Euro 72.8 million was realized). Such annual change is due to the increase in supply of foreign currencies by 10.1% in conditions of lower increase of demand by 0.6%.

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



Source: NBRM

Sector-by-sector analysis show that such performances mostly arise from the lower net sales in companies, as well as the increased net purchase from exchange offices.



Source: NBRM.

Data as of August (in terms of balance sheets) point to significant withdrawal of liquid assets from the banking system through monetary instruments[14] compared to the end of the second quarter. With the exclusion of the foreign currency deposits effect (instrument which was not taken into account in the April projection), the withdrawed liquidity through monetary instruments is on a lower level from the expected in the April projection.

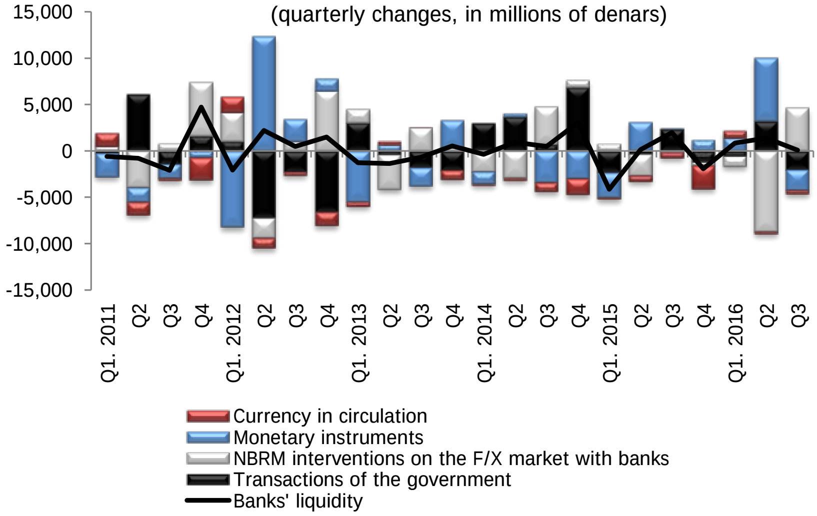
In august, net foreign assets of NBRM registered more significant increase compared to the end of the second quarter, and the growth is also greater than the expected for the third quarter. The increase mostly arises from the net government borrowing abroad which simultaneously contributed to the higher level of government deposits with the NBRM. Total government deposits were significantly higher than the envisaged increase in the third quarter, according to the April forecast.

In August reserve money are lower compared to the end of the second quarter (due to the lower level of bank reserves in NBRM), which is contrary to the expectations for moderate increase in the third quarter of the year.

Taking into account the changes in the individual balance sheet components and their deviations compared to the forecast, the lower than expected level of the monetary instruments (with the exclusion of foreign currency deposits effect) is due to the deviation in net currency asset of the NBRM.

[14] Monetary instruments category includes auctions of foreign currency deposits which were reactivated in May 2016.

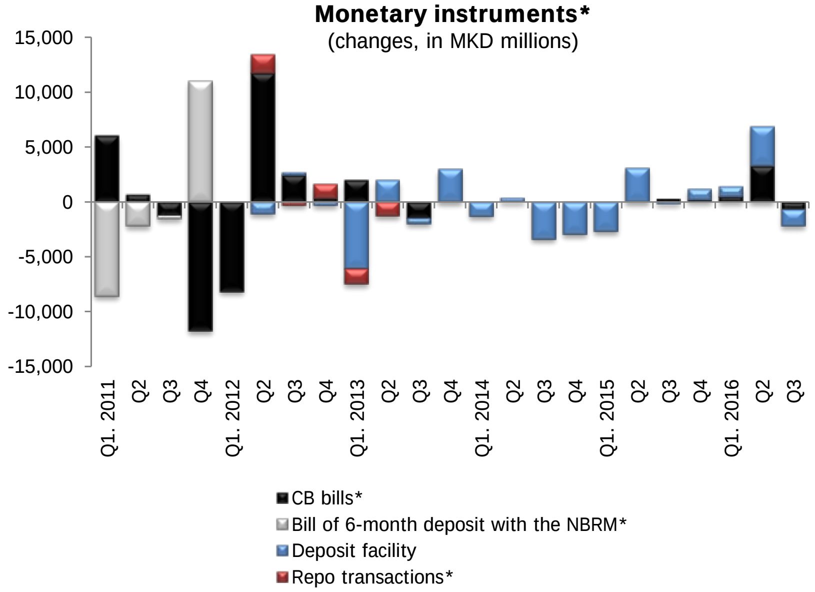
Flows of creating and withdrawing liquidity*
(quarterly changes, in millions of denars)



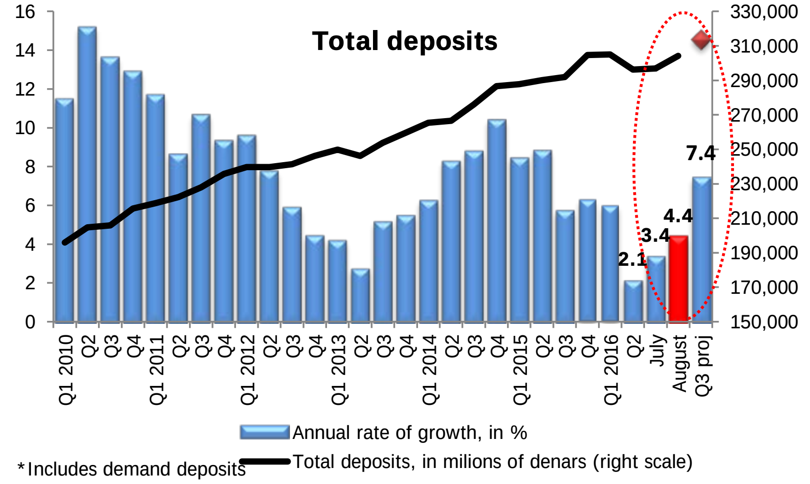
*Positive change- liquidity creation, negative change- liquidity withdrawal
Source: NBRM.

According to the operational data on liquid flows, the liquidity of banks registers a small increase in the third quarter. Analyzed by individual factors, the foreign currency transactions of NBRM with the market makers (performed net purchase of foreign currencies) acted towards the increase of the liquidity, whereas the higher level of denar deposits of the government, the increase of currencies in circulation and the higher amount of placed liquid assets in monetary instruments (mostly in short-term deposits in NBRM) act towards the reduction of the liquidity in banks.

Monetary instruments*
(changes, in MKD millions)



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

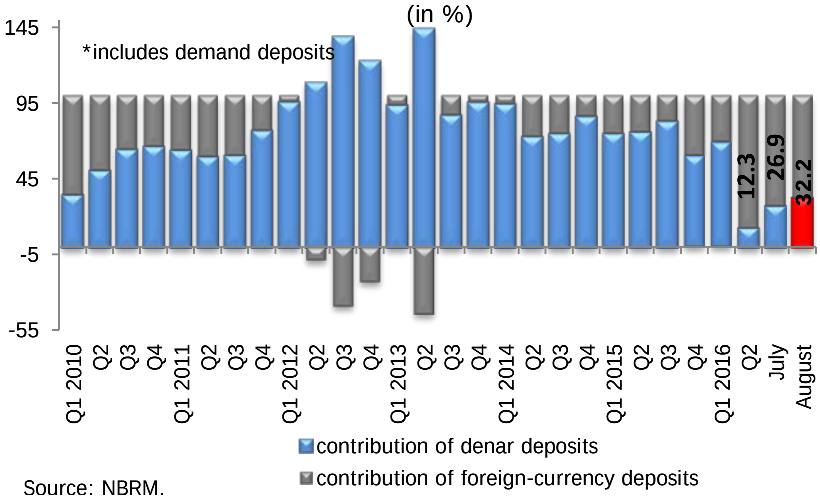


*Includes demand deposits
Source: NBRM.

After the increase in July, total deposits in August continued to increase with more intense dynamics. The more intensified monthly increase of the total deposit base of the banks points to further stabilization of the expectations and behaviors of the economic agents. Analyzed by sectors, the increase of the total deposits in August is mostly due to the higher level of deposits in corporate sector, whereby the household deposits also contribute to the increase.

In August, the annual growth rate of total deposits equaled 4.4%, which is below the projected growth of 7.4% for the third quarter of 2016.

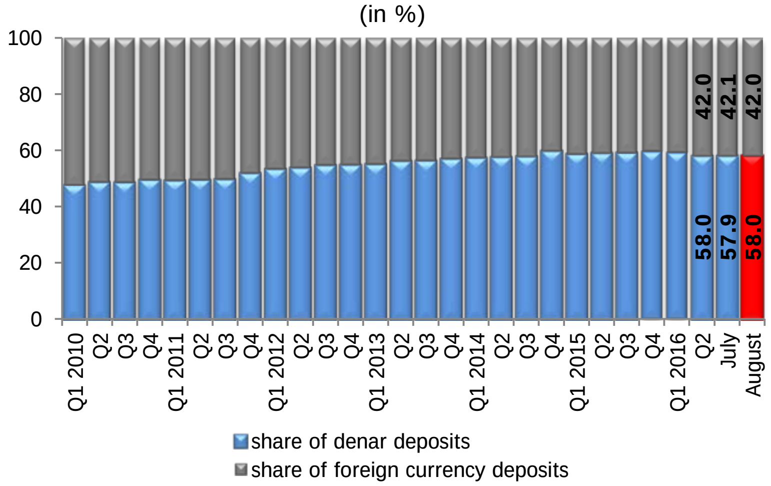
Contribution of denar and foreign currency deposits to the annual growth of total deposits
(in %)



Source: NBRM.
Includes demand deposits.

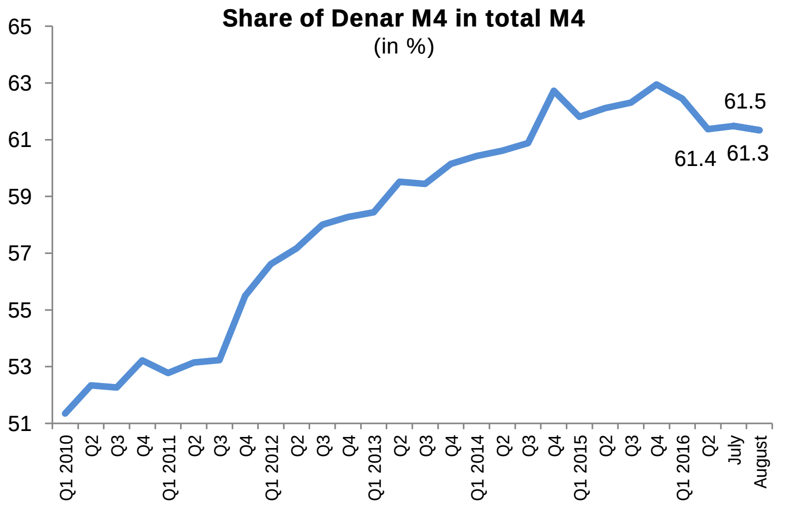
In terms of currency, in August, the annual increase of deposits is due to the increase of the contribution of Denar deposits in total deposits.

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

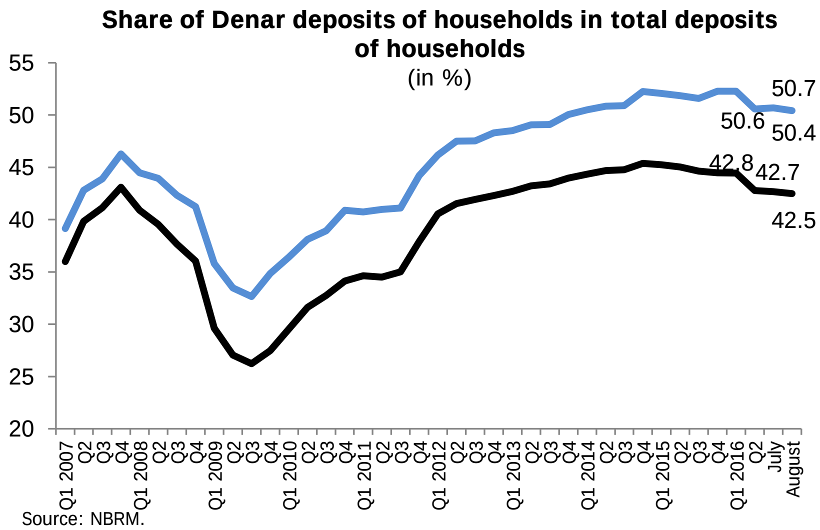


*includes denar deposits with FX clause. Source: NBRM.
*Includes demand deposits.

Data on deposits according to currency point to stable currency structure of the same. The share of Denar deposits in total deposits in August remained on relatively stable similar level as in the previous month. Denar deposits dominated in the banks' deposit base. The share of the foreign currency deposits registered insignificant decrease.

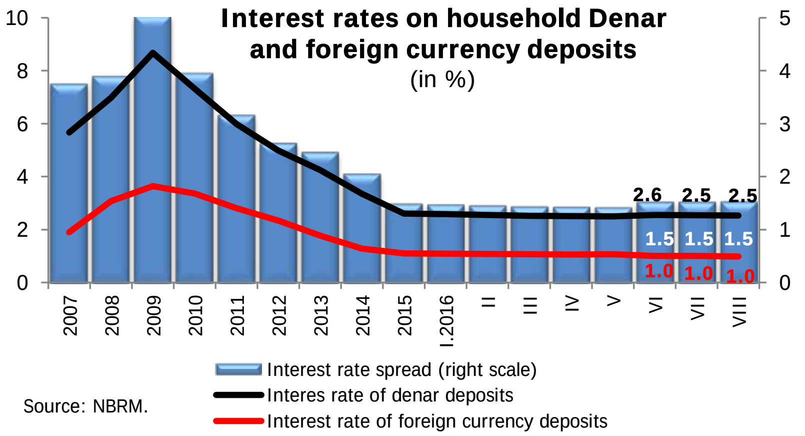


Source: NBRM.



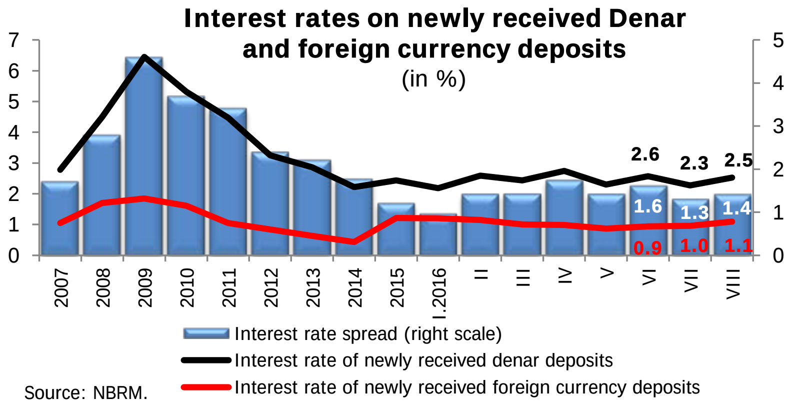
Source: NBRM.

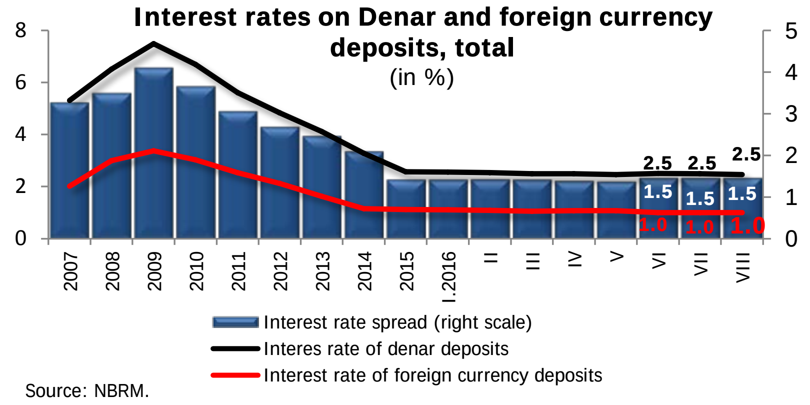
In August, total household deposits registered an increase compared to the previous month. By currency, the increase in household deposits is primarily due to the growth in foreign currency deposits, amid insignificant decrease in the denar deposits.

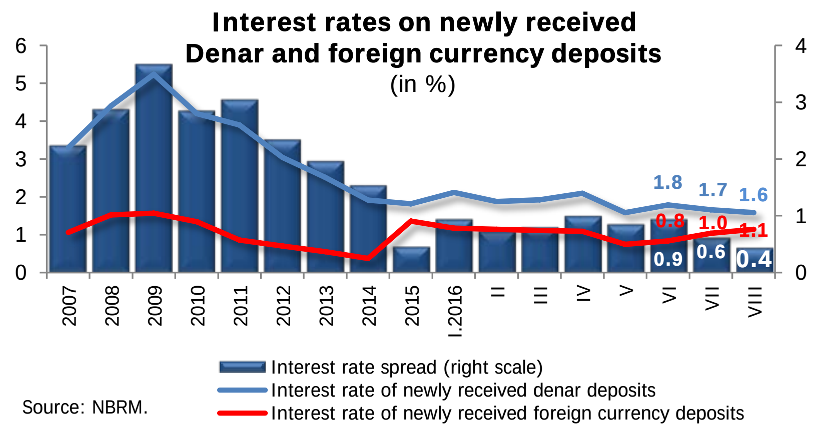


Source: NBRM.

In August, the interest rates on household Denar and foreign currency deposits remained at the same level as in the previous month. Consequently, the interest rate spread between the interest rates remained unchanged on a monthly basis. In the newly received deposits unlike the previous month, a small extension of the interest rate spread is registered, as a result to a greater increase of the interest



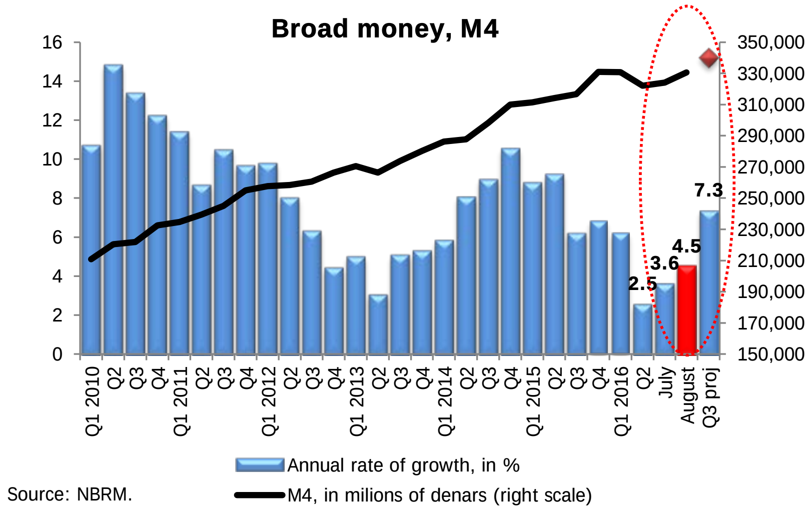




rate on denar from the newly approved foreign currency deposits.

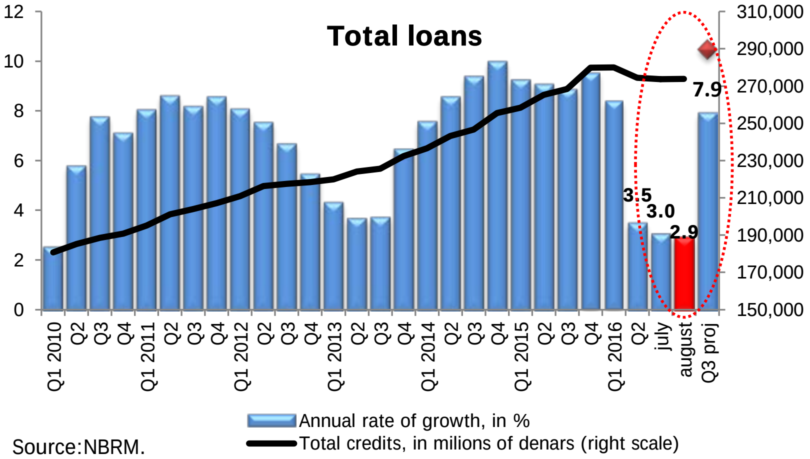
Regarding the total interest rates, in August, there were no changes relative to the previous month. In newly accepted deposits, interest rates on denar deposits moderately declined, whereas interest rates in foreign currencies moderately increased, which influenced in narrowing the interest rate spread. However, note that the interest rates on newly accepted deposits are volatile[15], possibly resulting in frequent and temporary adjustments of the interest spread.

[15] 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.



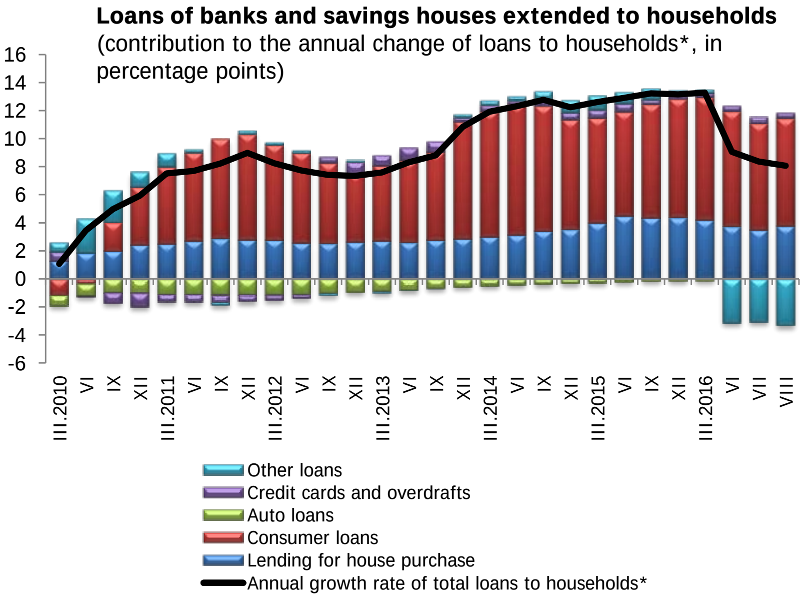
Source: NBRM.

In August, broad money M4 registered an increase on a monthly basis. The registered growth can fully be explained with the widening of the deposit base, given a decrease the currencies in circulation. **On annual basis, the broad money have increased by 4.5%, which is below the forecasted growth of 7.3% for the third quarter of 2016.**



Source:NBRM.

Credit activity in August remained on relatively stable level compared to the previous month. Excluding the effect of the write-offs[16], pursuant to the NBRM decision, loans to the private sector register a monthly increase of 0.1%. The results of the Lending Survey regarding the banks' expectations for the third quarter suggest a further easing of overall credit terms in both sectors, amid moderate net increase in demand in both sectors, at a slower pace in corporate loans.

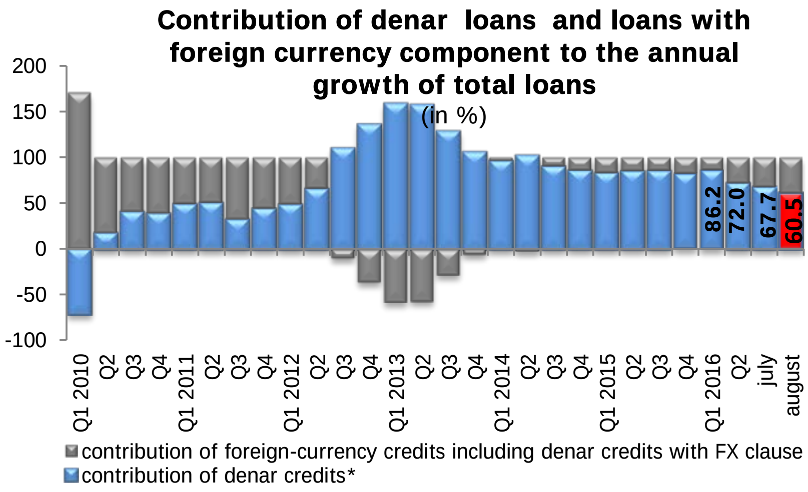


*Total loans to households do not include loans to self-employed individuals. Source: NBRM.

At the end of August, the annual growth rate of total loans equaled 2.9%. While if we excluded the effect of regulatory changes it equals 8.1% and is above the forecasted annual growth of 7.9% for the third quarter of 2016, pursuant to April forecast. In August, the level of total loans decreased by Denar 639 million compared to the end of the second quarter, whereas without the effect of the write-offs the decline is lower and equals Denar 106 million compared to the same period.

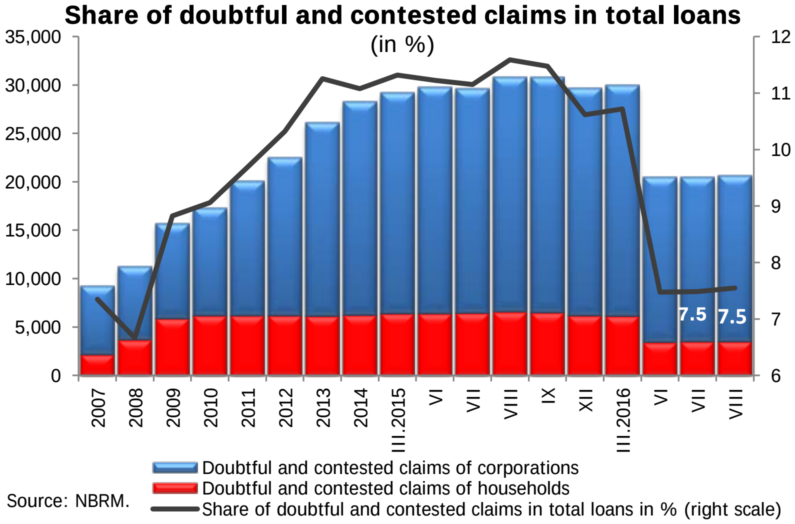
The annual rise in the total loans mostly arises from the growth of

[16] On 17 December 2015, the National Bank Council adopted the Decision amending the Decision on credit risk management, which requires from banks, for the period from 1 January 2016 through 30 June 2016, to write-off any claim that has been fully booked for more than two years, and where the bank identified and fully covered the credit risk of default at least two years before.



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

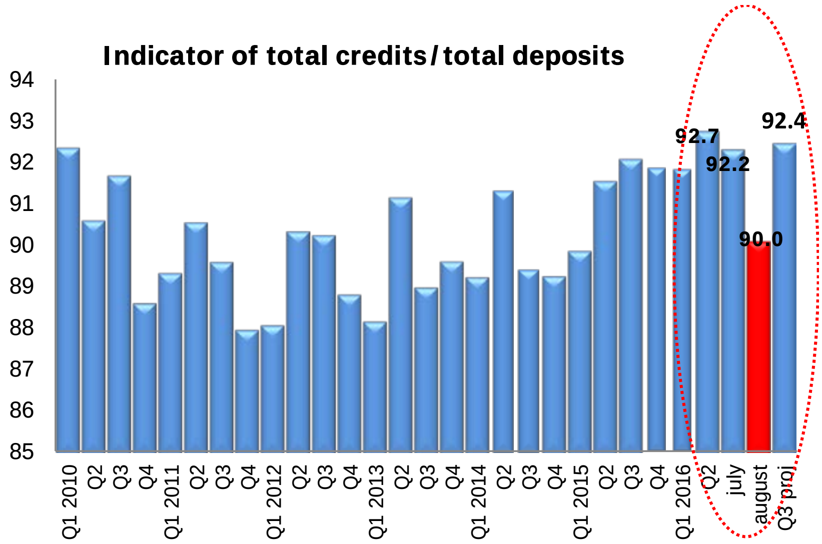
denar loans[17] and denar loans with FX clause, while the contribution of foreign currency loans registered a decrease.



Source: NBRM.

In August, the share of doubtful and contested claims in total loans remained at the same level as in the previous month (7.5%).

On an annual basis, this indicator compared to the same month of the previous year is lower by 4.0 p.p, which is due to the regulatory changes.



Source: NBRM.

Utilization of the deposit potential for lending to the private sector as measured by the loan-to-deposit ratio amounted to 90.0% in August, which is a lower performance compared to expectations with the April forecast. Compared to the previous month, the indicator decreased by 2.2 percentage points. If we exclude the effect of the regulatory write-off, then the share of the loans in deposit will amount 94.5%.

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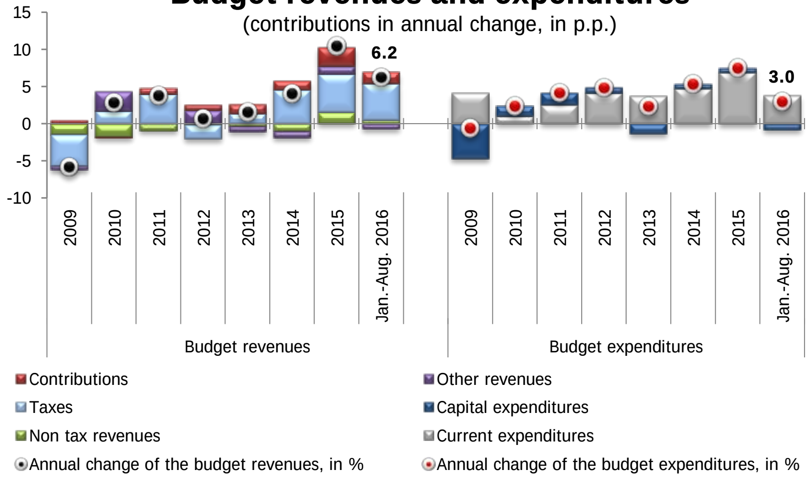
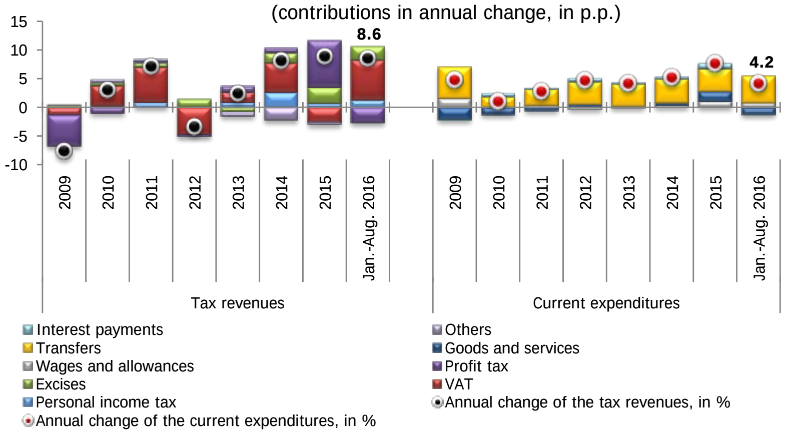
17 Includes denar loans without FX clause, accrued interest and doubtful and contested claims.

Budget revenues and expenditures
(contributions in annual change, in p.p.)

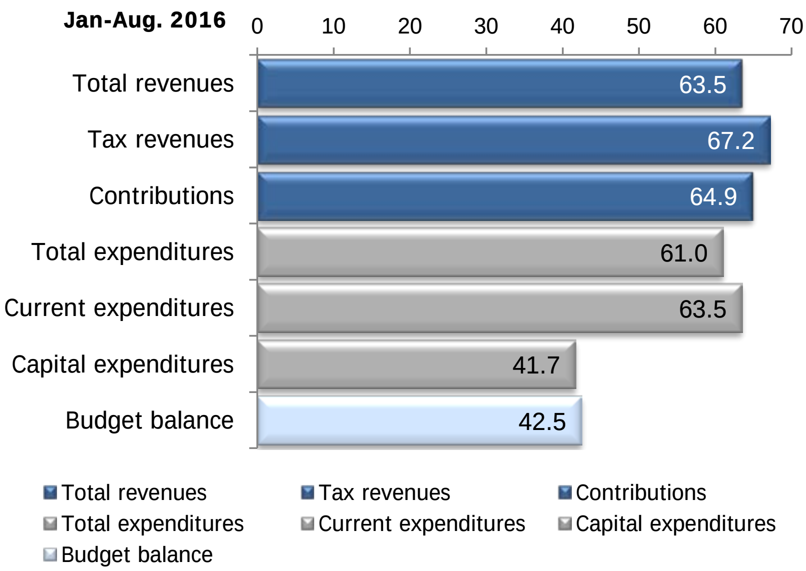


*Other revenues include capital revenues, donations from abroad and revenues of recovered loans.

Tax revenues and current expenditures
(contributions in annual change, in p.p.)



Budget implementation
(central budget and funds)



Source: Ministry of Finance and NBRM's calculations.

In the period January-August 2016, **total realized revenues in the Budget of the Republic of Macedonia (central budget and budget of funds) were higher by 6.2%** compared to the realizations of the same period in the previous year. The improved performances mostly arises from the higher realization in taxes, and to lesser extent, from the contributions.

Analyzed by tax categories, the increase in taxes (8.6 on an annual basis) is predominantly driven by inflows based on VAT and excise, whereas inflows based on profit tax continue to be lower on an annual basis.

In the period January-August 2016, the performances of budget expenditures is higher by 3% on an annual basis, which is entirely due to the higher current expenditures (by 4.2%), whereas the expenditures are lower on an annual basis.

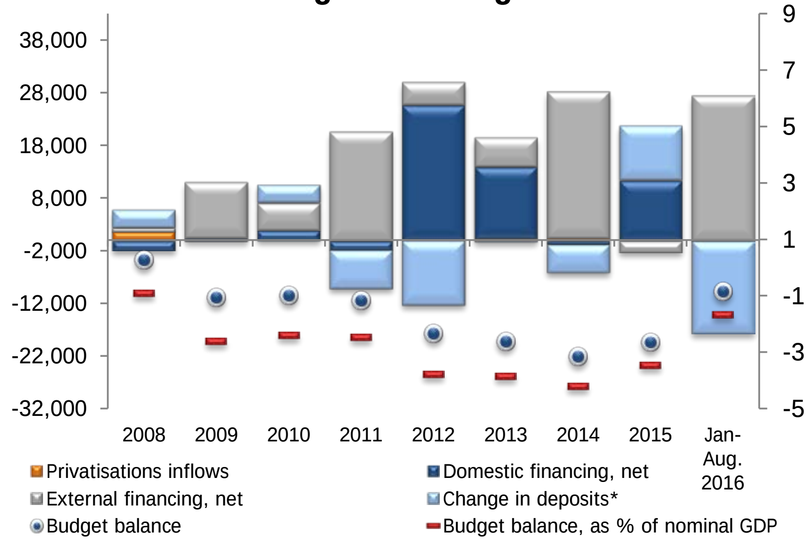
The realized budget revenues in the period January-August represent 63.5% of the planned revenues for 2016, pursuant to the Budget[18]. Within the main categories of budget income, the highest realization is registered in total taxes of realization of 67.2%, whereas in contributions equals 64.9%.

In terms of budget expenditures, in the period January-August, 61% of the planned expenditures were realized for 2016, amid the highest realization in current expenditures (of 63.5% of the annual plan). Realization of capital expnses is considerably lower, at 41.7% of the annual plan.

The realized budget deficit as of August constituted 42.5% of the planned for 2016.

[18] The comparison is made with the Budget Revision for 2016 of August 2016.

Financing of the budget balance



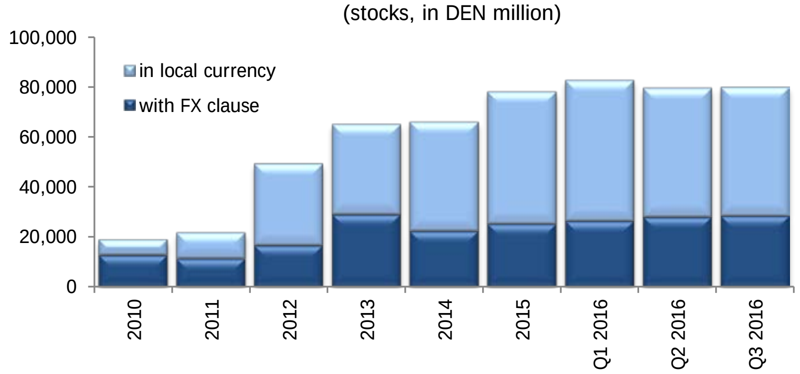
* Positive change- deposits withdrawal; negative change-deposits accumulation.
Source: MoF.

The period January-August 2016, a budget deficit of Denar 9,816 million was registered, which is 1.7% of the nominal GDP[19].

The realized budget deficit in this period was predominantly **financed through the external government capital borrowing**. Therefore, part inflows based on the external borrowing were cumulated in form of government deposits with the NBRM.

Government securities

(stocks, in DEN million)

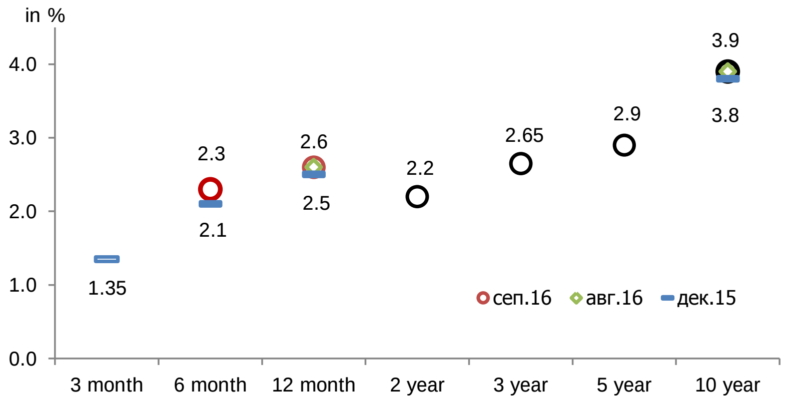


Source: NBRM.

At the end of September, the stock of government securities amounted to Denar 80.126 million and compared to the end of the second quarter was higher by Denar 332 million.

On a cumulative basis, the stock of government securities is higher by Denar 1.792 million since the beginning of 2016.

Interest rates of government securities*



2y, 3y, 5y and 10y govenrment securities interest rates are from auctions held in May 2015, Sept. 2015, Nov. 2014 and Aug. 2016, consequently.

Source: Ministry of finance

In September, **interest rates on government securities remained at the level of the previous month.** Compared to the end of the previous year, interest rates in September were moderately higher.

[19] The analysis uses the NBRM April projections for the nominal GDP for 2016.

Annex 1. Timeline of the changes in the setup of the NBRM monetary instruments 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% 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 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[20], an interest rate of 0% is determined. For the other assets that banks will voluntarily place into a seven-day standing deposit facility the regular interest rate will apply.

September, 2014

- The National Bank of the Republic of Macedonia Council adopted the Decision amending the Decision on the reserve requirement, which extends the application of the non-standard measure 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.

[20] 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).

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, 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.