National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

February 2018

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 (November 2017 - January 2018) and to make a comparison with the latest macroeconomic projections (October 2017). 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 performances of domestic variables and the effect of these changes on the environment for monetary policy conduct.

Since November, the global economic environment improved compared to the October projections, having in mind the intensified global growth registered in 2017 and the more favorable global perspectives. According to the latest estimations[1], the global activity is expected to grow further in 2018 and 2019, so the global growth was revised upwards. From the aspect of risks, it is estimated that they are mainly balanced on a short run, but unfavorable on a medium run, reflecting the possibility of accumulating financial vulnerabilities in circumstances of eased financial conditions, possible implementation of protectionist policies and impact of geopolitical turmoil. In terms of **economic developments in the euro area,** as our most significant partner, the preliminary announcements show solid economic growth also in the last quarter of 2017, which equals 2.7% annually, i.e. 0.6% on a quarterly basis (2.8%, i.e. 0.7%, respectively in the previous quarter). Additionally, the latest high-frequency data and surveys of households and enterprises indicate a probable acceleration in the economic growth in the beginning of 2018. At the same time, positive developments on the labour market continued, and in the fourth quarter of 2017 the unemployment rate decreased to 8.8% (9% in the previous month). In terms of inflation, the latest data for January show further slowdown in the annual rate of 1.3% (from 1.4% in December), which is largely due to the slower growth of energy prices (2.1%), with slightly lower rise in food prices (1.9%). On the other hand, core inflation registered a slightly higher annual growth compared to the previous month, although it still remains low (1%). According to the latest estimates, the EURIBOR interest rate in 2018 and 2019 is expected to be on a similar level as in the October projection, in accordance with the communicated guidelines for the implementation of the monetary policy by the ECB in the forthcoming period.

Observed from a viewpoint of the individual quantitative external environment indicators of the Macedonian economy, the forecasts regarding the foreign effective demand have been revised upwards relative to the October expectations during the entire projection period. Similar upward revisions have been made also in **foreign effective inflation** for this and for the following year. According to the latest assessments about the **euro/US dollar exchange rate**, the US dollar is expected to register a greater depreciation in 2018 and 2019 compared to forecasts. **Regarding the prices of primary products on the world stock markets, the comparison with October mainly points to upward revisions of prices in the projection period.** Observed by individual products, the latest assessments of **world oil prices** point to a significantly higher price growth in 2018 and greater fall in 2019 compared to the October round. For **metal prices**, expectations are generally more favorable compared to October, especially for 2018, when the prices of nickel and copper are predicted to register significantly higher growth rates.

In 2019, the copper price was again revised slightly upwards, unlike the price of nickel that is unchanged.

Regarding the **world prices of primary food products**, revisions are upward, which could affect

[1] Update to the World Economic Outlook, IMF, January 2018.

larger import pressures on domestic inflation.

The price of wheat is expected to see higher growth in the next two years, while the price of corn is expected to register a slight decline in 2018, and to rise minimally in 2019. However, it should have in mind that the estimations for the prices of these commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long-term.

The comparison of the latest macroeconomic indicators for the domestic economy with their forecasted dynamics within the October forecast cycle does not indicate major deviations in the individual segments. The published estimated GDP data for the third quarter confirm the economy growth, which is somewhat lower than expected in October forecast cycle. The available high frequency data for the fourth quarter point to somewhat more favorable movements in the economy compared to the previous quarter, and the results of the surveys show retained confidence of the economic entities. When it comes to changes in consumer prices, in January, upward adjustments were made regarding the expected movement for 2018 in the input assumptions. In the absence of data on the movement of prices in the domestic economy in January 2018, when the inflation in 2017 is within the projections, for now, the risks regarding the inflation forecast are estimated as balanced.

At the end of 2017, **the foreign reserves** equaled Euro 2,336 million, which is a decrease of Euro 159 million on an annual basis. Foreign reserves data in February indicate an increase since the beginning of the year, which was mostly due to transactions on behalf of the government as a result of the issuance of the sixth Eurobond on the international financial markets. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone. Available external sector data for 2018 are the data on the net purchase based on currency exchange operations, as of January. They indicate net inflows from private transfers, which match the projections for the first quarter of 2018, although the data are available for a short period of time and are insufficient to produce more reliable conclusions.

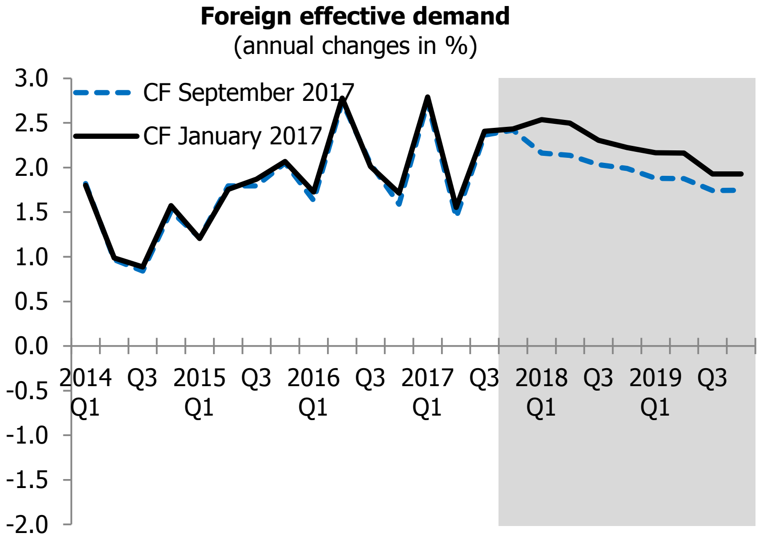
As for the monetary sector developments, final data as of December show substantial growth of total deposits with banks (of 3.7%) on a monthly basis, as opposed to the decrease in the previous month (of 0.9%). More evident growth dynamics of deposits is common for the last month of the year and it is partially explained by the influence of certain seasonal factors. By sector, the monthly increase in the total deposits is driven by household deposits, whereby corporate deposits also have a positive but relatively lower contribution to the growth. From the aspect of the currency structure, most of the growth is influenced by deposits in domestic currency (including demand deposits), while the contribution of deposits in foreign currency is lower. **On an annual basis**, total deposits in December grew by 5.2%, which exceeds the forecasted growth of 3.6% for the fourth quarter of 2016. Regarding the credit market, the total loans registered a significant growth acceleration also in December (monthly growth of 3%, as opposed to 0.9% in the previous month). Such performance has been common for December in the last five years and almost entirely arises from the increased lending to the corporate sector. **On an annual basis,** total loans in December grew by 5.7%, which is higher compared to the projected increase of 4.6%. The lending performance corresponds with the results of the Lending Survey for the fourth quarter, which indicates a growth in the demand for loans and further easing of the credit standards. Such lending activity, according to banks, is expected to pursue also in the first three months of 2018.

In 2017, **the Budget of the Republic of Macedonia registered a deficit of Denar 16,896 million,** financed from domestic sources through net issue of government securities on the domestic market and withdrawal of deposits from the government account with the National Bank. The budget deficit constitutes 91% of the forecasted deficit in the Budget Revision for 2017.

The latest macroeconomic indicators and assessments indicate significant deviations in terms of the forecasted dynamics and the perceptions about the environment for conducting monetary policy and about the risks highlighted in the October forecasts are mainly more favorable. At the end of January 2018, foreign reserves (adjusted for price and exchange rate differences and securities price changes) increased relative to the end of 2017, largely due to transactions for the account of the state, and as a result the issuance of the sixth Eurobond on the international financial markets. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone. Regarding the economic activity, the growth in the third quarter is slightly lower than expected, while the signals from the high frequency indicators and the surveys for the last quarter show somewhat more favorable movements than those in the third quarter. As for the inflation, risks related to the inflation forecast of 2% for 2018 have been assessed as balanced. Within the monetary sector, the increase in deposits and loans is higher than projected.

Selected economic indicators/1		**2015**	**2016**					**2017**					**2018**
	2014	2015	Q1	Q2	Q3	Q4	2016	Q1	Q2	Q3	Q4	2017	Jan.
I. Real sector indicators													
Gross domestic product (real growth rate, y-o-y) /2	**3.6**		**3.6**	**2.3**	**2.4**	**3.3**	**2.9**	**0.0**	**-1.3**	**0.2**			
Industrial production /3													
y-o-y	4.8	4.9	10.7	1.3	5.0	-1.8	3.4	-1.5	3.7	-2.4	0.9	0.2	
cumulative average	4.8	4.9	10.7	5.6	5.4	3.4	3.4	-1.5	1.2	-0.1	0.2	0.2	
Inflation /4													
CPI Inflation (y-o-y) /5	-0.5	-0.4	-0.1	-0.7	-0.2	-0.1	-0.2	0.5	1.2	1.6	2.2	2.4	
CPI Inflation (cumulative average)	-0.3	-0.3	-0.1	-0.4	-0.3	-0.2	-0.2	0.5	0.9	1.1	1.4	1.4	
Core inflation (cumulative average)	0.5	0.5	1.6	1.4	1.3	1.3	1.3	1.6	1.9	2.1	2.3	2.3	
Core inflation (y-o-y)	0.5	0.5	1.6	1.3	1.1	1.1	1.3	1.6	2.2	2.7	2.9	2.3	
Labor force													
Unemployment rate	28.0	26.1	24.5	24.0	23.4	23.1	23.7	22.9	22.6	22.1			
II. Fiscal Indicators													
(Central Budget and Budgets of Funds)													
Total budget revenues	145,929	161,207	40,583	41,422	43,808	43,543	169,356	42,734	43,636	44,600	48,718	179,688	
Total budget expenditures	168,063	180,632	46,218	42,729	45,953	50,507	185,407	46,300	48,377	47,346	54,561	196,584	
Overall balance (cash)	-22,134	-19,425	-5,635	-1,307	-2,145	-6,964	-16,051	-3,566	-4,741	-2,746	-5,843	-16,896	
Overall balance (in % of GDP)/1	-4.2	-3.5	-0.9	-0.2	-0.4	-1.2	-2.7	-0.6	-0.8	-0.4	-0.9	-2.7	
III. Financial indicators /6													
Broad money (M4), y-o-y growth rate	**10.5**	**6.8**	**6.2**	**2.5**	**4.0**	**6.1**	**6.1**	**4.2**	**7.8**	**6.4**	**5.3**	**5.3**	
Total credits, y-o-y growth rate	**10.0**	**9.5**	**8.4**	**3.5**	**2.5**	**0.9**	**0.9**	**0.0**	**4.4**	**4.3**	**5.7**	**5.7**	
Total credits - households	11.8	12.9	13.0	8.8	7.3	7.0	7.0	6.6	9.5	9.8	9.2	9.2	
Total credits - enterprises	8.6	7.1	5.1	-0.5	-1.2	-3.8	-3.8	-5.2	0.0	-0.5	2.8	2.8	
Total deposits (incl. demand deposits), y-o-y growth rate	**10.4**	**6.5**	**6.2**	**2.3**	**4.0**	**5.7**	**5.7**	**4.2**	**7.6**	**6.0**	**5.4**	**5.4**	
Total deposits - households	8.9	4.1	3.1	0.2	1.2	2.5	2.5	1.8	6.5	5.6	6.1	6.1	
Total deposits - enterprises	15.7	13.0	16.0	5.6	11.3	13.4	13.4	8.8	10.8	5.6	2.1	2.1	
Interest rates /7													
Interst rates of CBBills	3.25	3.25	3.25	4.00	4.00	3.75	3.75	3.25	3.25	3.25	3.25	3.25	
Lending rates													
denar rates (aggregated, incl. denar and denar with f/x clause)	7.5	7.1	6.7	6.6	6.6	6.5	6.6	6.4	6.3	6.2	6.0	6.2	
f/x rates	6.3	5.9	5.6	5.5	5.4	5.2	5.4	5.1	5.0	4.9	4.7	4.9	
Deposit rates													
denar rates (aggregated, incl. denar and denar with f/x clause)	3.7	2.9	2.5	2.5	2.5	2.5	2.5	2.3	2.2	2.1	2.2	2.2	
f/x rates	1.4	1.3	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.8	
IV. External sector indicators													
Current account balance (millions of EUR)	**-43.2**	**-177.1**	**-48.2**	**-209.4**	**108.1**	**-115.5**	**-265.0**	**-140.1**	**-95.5**	**174.9**			
Current account balance (% of GDP)	-0.5	-2.0	-0.5	-2.2	1.1	-1.2	-2.7	-1.4	-0.9	1.7			
Trade balance (millions of EUR)/8	**-1757.9**	**-1713.6**	**-373.2**	**-501.5**	**-391.4**	**-511.3**	**-1777.4**	**-435.1**	**-450.8**	**-385.9**	**-545.9**	**-1817.7**	
Trade balance (% og GDP)	-20.5	-18.9	-3.8	-5.1	-4.0	-5.2	-18.0	-4.3	-4.4	-3.8	-5.3	-17.8	
import (millions of EUR)	-5504.5	-5801.1	-1356.6	-1557.7	-1540.0	-1652.4	-6106.7	-1583.8	-1721.7	-1648.8	-1870.6	-6824.9	
export (millions of EUR)	3746.6	4087.6	983.3	1056.2	1148.6	1141.1	4329.3	1148.6	1270.9	1263.0	1324.7	5007.2	
rate of growth of import (y-o-y)	10.5	5.4	3.3	4.9	10.2	3.0	5.3	16.7	10.5	7.1	13.2	11.8	
rate of growth of export (y-o-y)	15.8	9.1	5.3	1.4	10.5	6.4	5.9	16.8	20.3	10.0	16.1	15.7	
Foreign Direct Investment (millions of EUR)	**197.4**	**202.8**	**129.3**	**41.4**	**20.1**	**126.1**	**316.9**	**111.6**	**-10.8**	**-50.2**			
External debt													
Gross external debt (in milllions of EUR)	5992.3	6290.5	6813.1	6861.2	7488.7	7216.6	7216.6	7786.8	7786.8	7710.2			
public sector	2846.8	2933.7	3279.1	3282.8	3890.9	3445.3	3445.3	3819.9	3741.0	3710.6			
public sector/GDP (in %)	33.2	32.4	33.7	33.8	40.0	35.4	35.4	37.4	36.6	36.3			
private sector	3145.5	3356.9	3534.0	3578.4	3597.8	3771.2	3771.2	3967.0	4045.8	3999.7			
Gross external debt/GDP (in %)	70.0	69.4	70.1	70.6	77.0	74.2	74.2	76.2	76.2	75.5			
Gross official reserves (millions of EUR)/9	**2,436.5**												**2577.6**

/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 2016=100.
/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.

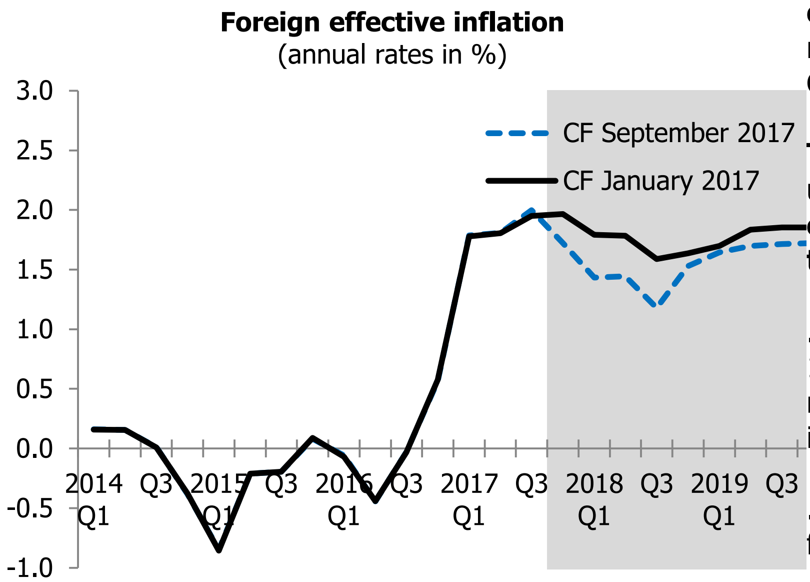


Source: "Consensus Forecast" and NBRM calculations.

According to the latest estimates of the foreign effective demand, it has been revised upwards for the entire projection period relative to the October cycle ...

... whereby the growth rate is now expected to be 2.3% in 2017 (2.2% in October), while in 2018 and 2019 it is estimated at 2.4% and 2%, respectively (compared to 2.1% and 1.8% in October).

The change in the foreign demand assessments is largely the result of the expectations for a higher economic growth in Germany.



Source: "Consensus Forecast" and NBRM calculations.

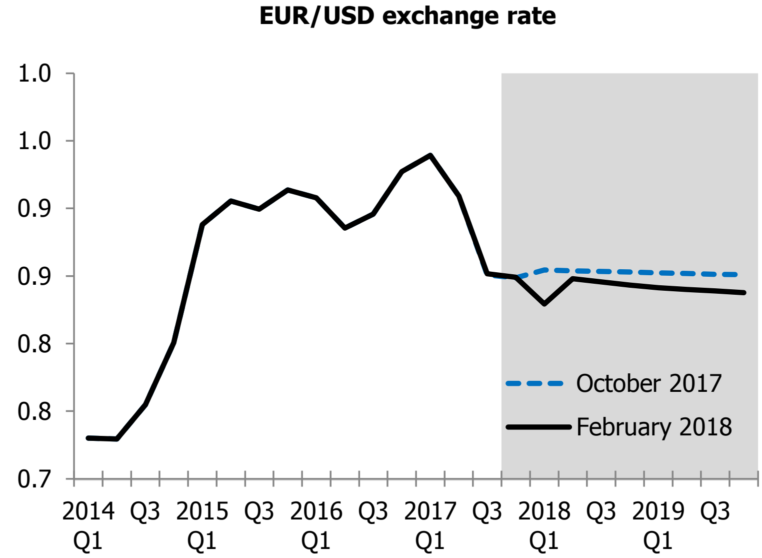
In 2017, a foreign effective inflation of 1.9% was registered, which is a minimal upward deviation from the October forecast of 1.8%.

The latest projections indicate an upward revision of the foreign effective inflation in the current and the following year......

...whereby it is now expected to equal 1.7% and 1.8% in 2018 and 2019, respectively, compared to 1.4% and 1.7% in October...

...largely due to higher imported inflation from Serbia.[2].

[2] Inflation in Serbia has been adjusted for the changes in the exchange rate.



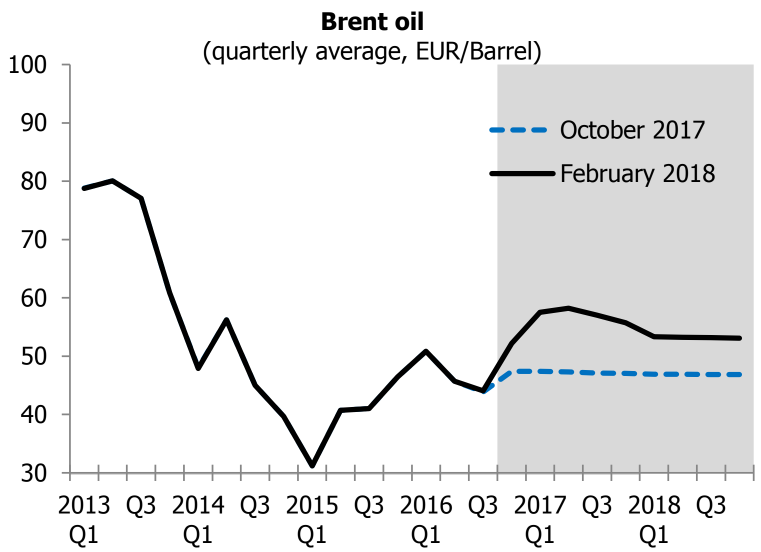
Source: "Consensus Forecast" and NBRM calculations.

Performances for euro/US dollar exchange rate for 2017 are in line with the October forecasts...

...the value of the US dollar against the euro fell by 1.9%.

On the other hand, for 2018 and 2019, a downward revision was made, with the US dollar being more depreciated now against the euro than projected in October, especially in 2018 ...

...which is mostly due to improved economic performance and forecasts for the euro area, amid gradual decrease of the volume of ECB's quantitative easing after December 2017.



Source: IMF, World Bank and NBRM calculations.

In 2017, the oil price registered slightly higher increase than projected in October.

The latest oil price estimations [3] for 2018 were revised upwards ...

...now expecting more evident price growth...

...mostly as a result of the OPEC and Russia agreement on continuing the contract on reducing oil production, [4] the expectations for increased global demand, and the ability of oil producers in the United States to fail to meet the growing global demand for this fuel.

On the other hand, a downward revision was made for 2019...

...expecting a greater oil price reduction than the one forecasted in October.

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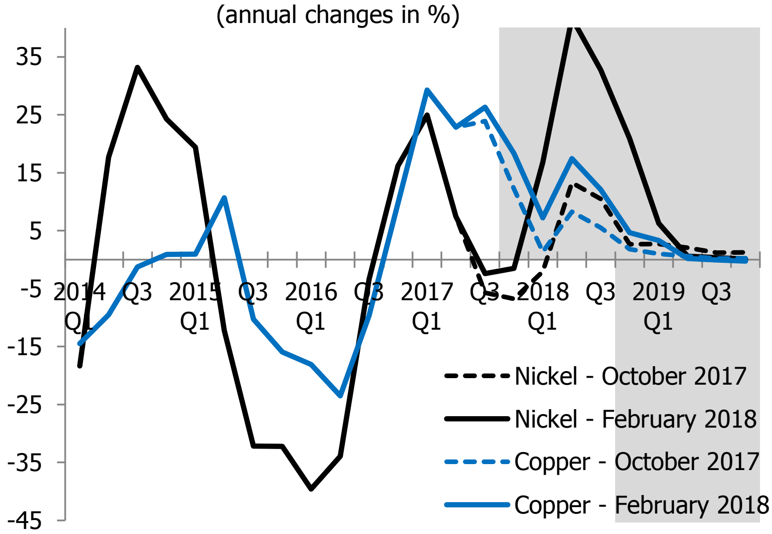
[3] For the analysis of prices of oil, metals and primary food products, various reports of the IMF, World Bank, FAO, OPEC, the ECB and the specialized international economic portals are used.

[4] On 30 November 2017, the OPEC Member States and Russia made a decision to extend the measure for reduction of oil production for nine additional months i.e. until the end of 2018, which aims to reduce the inventories of this fuel globally. Also, other oil producing countries that are not OPEC Member States, including Russia supported the extension of the agreement, decreasing oil production by 1.8 million barrels per day until December 2018. Additionally, Nigeria and Libya also joined in the measure, countries that previously were not part of the agreement.

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



Source: IMF, World Bank and NBRM calculations.

The rise in the prices of copper and nickel registered in 2017 was slightly higher than in the October forecast.

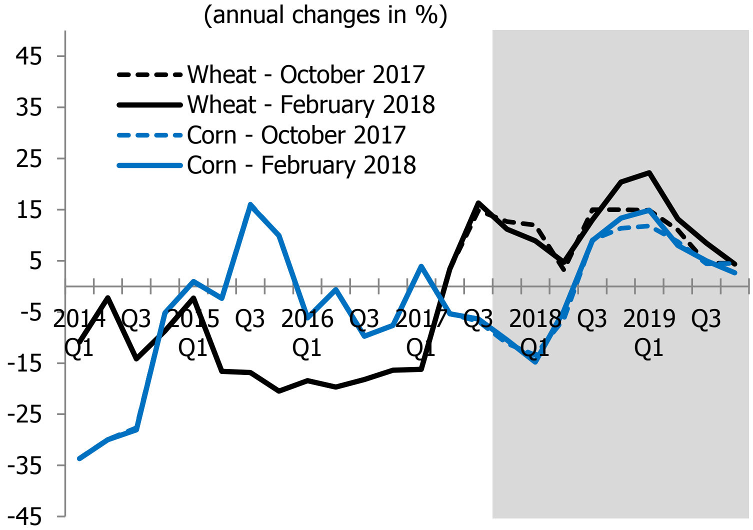
In 2018, metal prices were revised upwards...

...expecting a slightly higher growth of the nickel and copper prices compared to the October forecasts...

...which is mostly due to the expectations for increased global demand of these metals, as well as the possible interruptions in the supply capacities.

On 2019, the copper price is expected to rise again, higher than forecasted in October, while no corrections were made to the expected nickel price.

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



Source: IMF, World Bank and NBRM calculations.

In 2017, the October estimations for higher wheat price and lower corn price materialized.

The expectations for the stock prices of food products for 2018 have been revised upwards compared to the October cycle ...

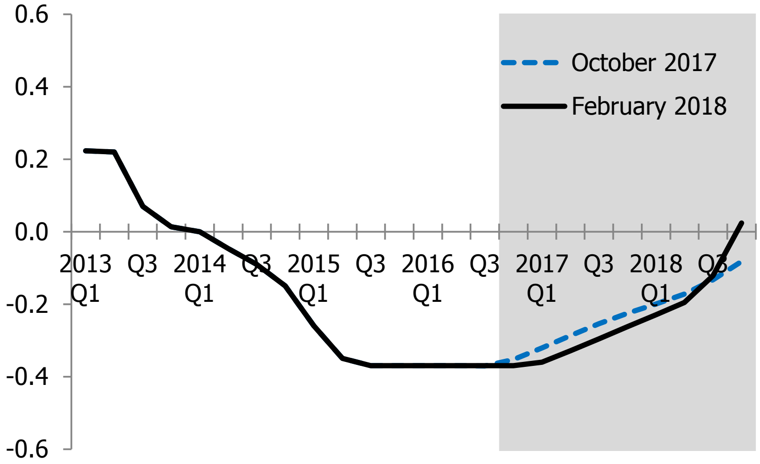
...now expecting higher increase in the wheat price[5], mostly as a result of the expectations for reduced level of world inventories...

...and smaller decline in the price of corn, amid expectations for higher demand in EU and Mexico.

For 2019, the prices of food products have being corrected upwards again, expecting their higher growth compared to October.

[5] The October 2017 forecasts started to use a new series of data on wheat prices released by the World Bank, instead of the current IMF series. Due to the differences between the two series, in order to ensure consistency, series of data released by World Bank is used amid comparing both forecasts.

1-month Euribor
(quarterly average, in %)



Source: "Consensus Forecast" and NBRM calculations.

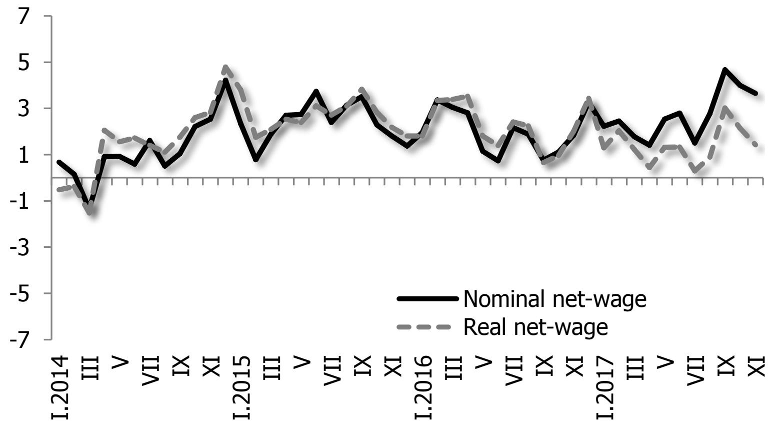
Minimal changes in the estimations for the one-month Euribor for 2018 and 2019 were made...

.... which is now projected to be -0.3% in 2018 and -0.13% in 2019 (-0.27% and -0.15% in October, respectively)...

..in conditions of continuation of the ECB's quantitative easing program by September 2018 or longer, albeit at a reduced scale[6], amid market participants' assessment for a possible beginning of normalization of the interest rate policy at the end of 2019, which would affect the transition of the foreign interest in the positive zone for the first time after a long period.

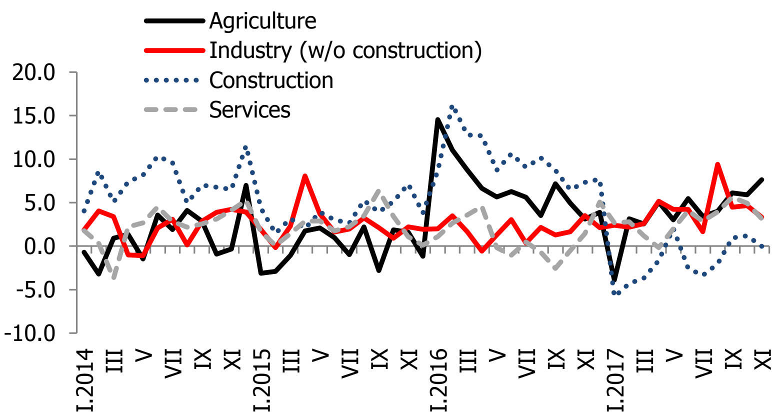
[6] At the ECB's regular meeting in January, the European Central Bank, decided to maintain the current interest rate, and continue the ECB's quantitative easing program until September 2018 with a reduced volume (Euro 30 billion monthly).

Average net-wage
(annual changes, in %)



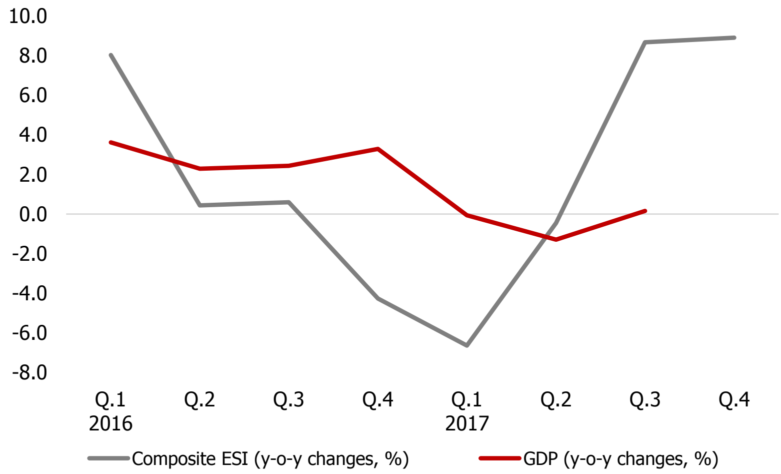
Source: SSO.

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



Source: SSO.

Economic sentiment indicator and GDP



Source: State statistical office and European Commission.

In November 2017, the average net wage in the domestic economy registered a nominal annual growth of 3.6%, which is a slight growth deceleration of (0.4 p.p.) compared to the previous month. Increase in wages in November was registered in most of the sectors, most notably in the processing industry, the sector "accommodation and food service activities" and the "agriculture, forestry and fishing" sector.

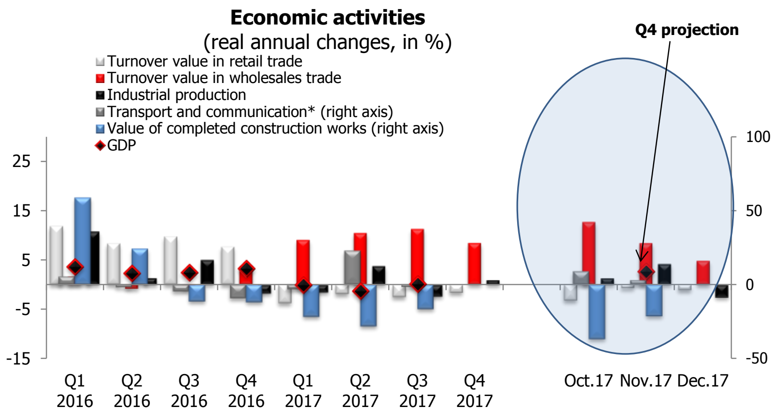
Amid moderate decrease in the consumer prices in November the **real wages increased by 1.4%.**

The performance in the wages ain October - November period are higher than expected for the fourth quarter within the October forecast.

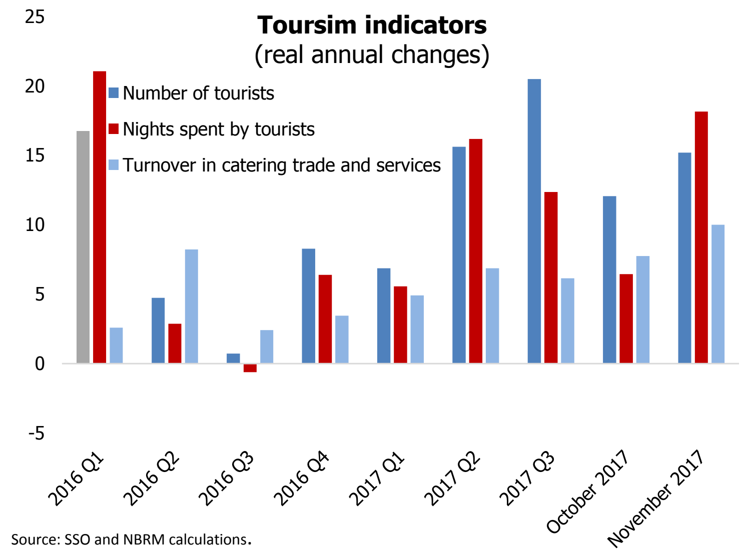
The available high frequency data for the movements on the supply and demand side, generally point to more favorable developments in the economy in the last quarter of the year, compared to the third quarter. The results obtained from the surveys that measure the perceptions of economic agents about the situation in the economy are also favorable[7] which show retained confidence of the economic agents in the fourth third quarter.

After the fall in the third quarter, **the industrial output** in the last quarter of the year registered minimal annual growth due to the increased production in the manufacturing industry, while production in the energy sector and mining decreased.

[7] It refers to the surveys conducted by the European Commission to measure the economic confidence of entities in an economy. The composite indicator of economic confidence is obtained as a weighted average from the confidence indicators for consumers and confidence indicators for individual economic sectors (construction, industry, retail trade and services).



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



Source: SSO and NBRM calculations.

Observed by individual activities within the manufacturing industry, annual growth of production has been registered in most activities, with the largest contribution of activities being registered in larger foreign capital export facilities (machinery and devices, electronic equipment). On the other hand, production in most of traditional activities registers a decline, with the highest negative contribution from production of beverages, metals, tobacco products and production of clothing.

In the fourth quarter, the growth of the value of **the total trade** turnover continued, mainly reflecting the movements in the wholesale trade, while the retail trade registered a slight annual decrease.

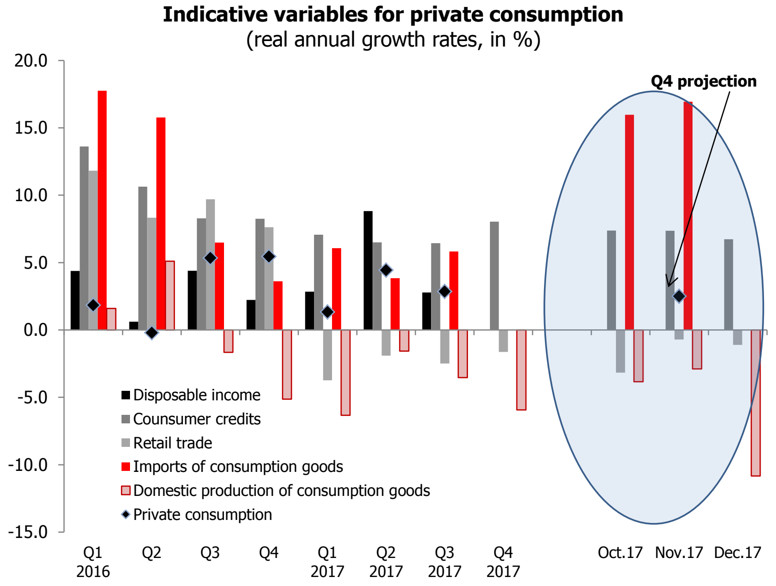
The movements in **the transport sector** were also favorable, where in the October-November period the rail freight traffic increased. The growing number of tourists, overnight stays and turnover in **the catering services** in the October - November period indicates continuation of the favorable movements in this sector in the last quarter of the year.

On the other hand, the performance in the construction sector for the October-November period points to its adverse impact on the economic situation. Thus, the activity in **construction** continues to decline, under the influence of the reduced activity in the field of civil engineering, while the building construction registered an increase.

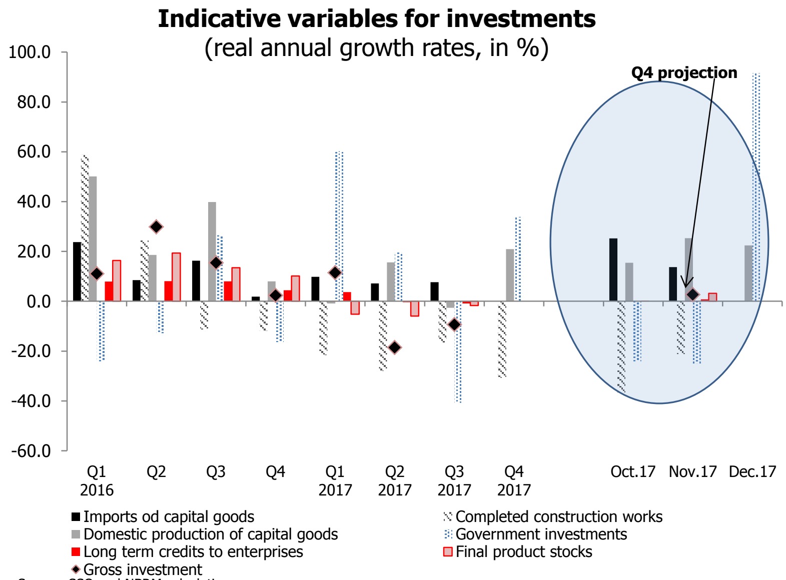
Available indicators for **aggregate demand** also indicate more favorable developments in the fourth quarter.

Indicators of movements in **private consumption** in the fourth quarter[8] mainly show further growth of this expenditure component, in conditions of annual increase in household lending, favorable developments in part of the disposable income components (average

[8] Data on wages, transfers and the import of consumer goods refer to October - November 2017 period.



Source: SSO and NBRM calculations.



Source: SSO and NBRM calculations.

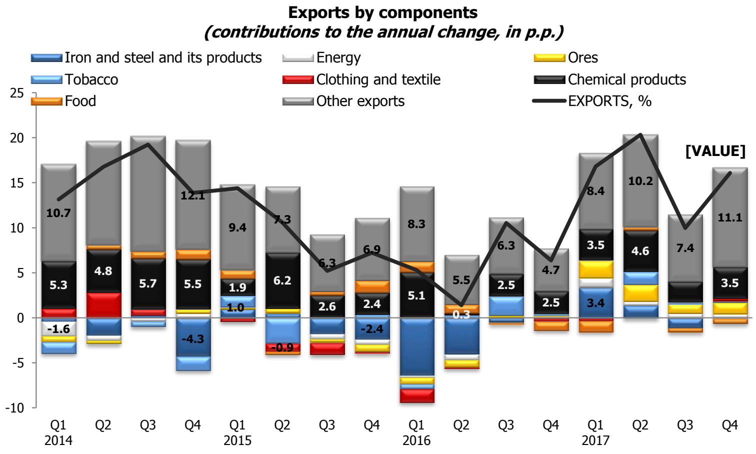
wage, pensions and private transfers) and higher import of consumer goods. On the other hand, in the fourth quarter the fall in the turnover value in retail trade continued, as well as the decrease in the domestic production of consumer goods.

In the fourth quarter[9] improvement in the situation in the field of **investment consumption** is expected. Thus, a significant annual growth of the government capital investments and domestic production of capital goods has been registered, minor growth of long-term lending to the corporate sector, as well as positive signs of the intensified growth of the import of investment products. On the other hand, an annual decline of the construction activity was registered during the quarter.

The data on **foreign trade** show widening of the trade deficit in the fourth quarter of 2017, amid a simultaneous nominal growth of both export and import of goods.

In accordance to the fiscal budget data for December, in the fourth quarter the **public consumption** registered a decline, mainly due to the lower expenditures of goods and services.

[9] Data on the import of investment products and on completed construction works refer to October - November 2017 period.



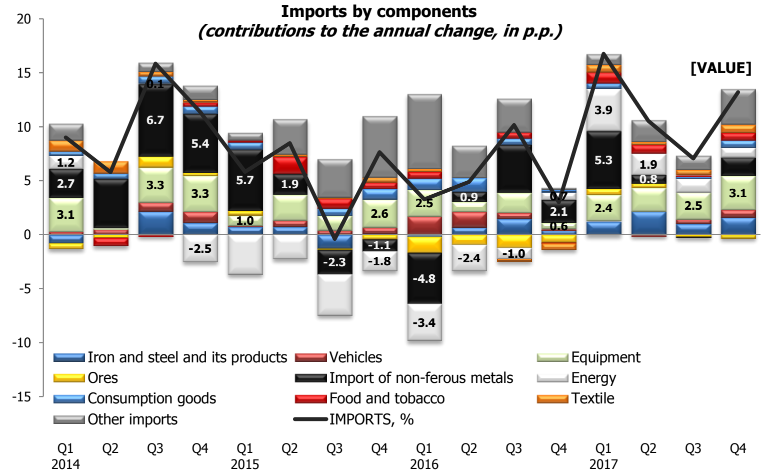
Source: NBRM.

In the fourth quarter of 2017, the higher increase in the total imports compared to the increase in the export component led to **widening of the foreign trade deficit by 6.8% on an annual basis**.

In the last quarter, the **export** of goods registered an annual growth of 16.1%, which was mostly due to the good performance of the new export-oriented industrial facilities. The majority of other export components, primarily the export of ores, also had positive contribution. An annual decrease was also registered in the export of food.

Compared with the October forecast, **the export registered in the last quarter was higher than the expectations for the fourth quarter.** Positive divergence was registered also in the export of the new export-oriented facilities, as well as in the export of iron and steel and in the export of energy...

...while the export of food and ore was moderately smaller than expected in October forecast.



Source: NBRM.

The **import** of goods in the fourth quarter of 2017 was higher by 13.2% compared to the same period of the previous year. The growth is largely due to the higher raw material imports of some of the new industrial capacities and the increase in the import of equipment and machinery, but almost all other import segments have a positive contribution.

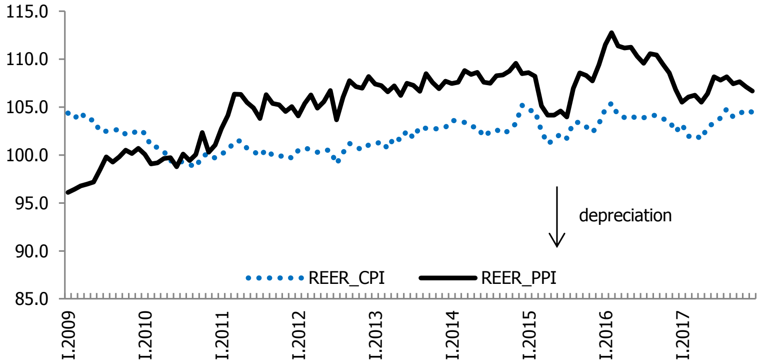
The realized import of goods in the last quarter of 2017 is higher than the projected in the October forecast, amid upward divergence in the import of new export-oriented facilities in the economy and the import of equipment and machinery, as well as in some of the other import categories. ..

... given significant downward deviation in the import of energy.

According to the outcome of the

foreign trade components, the trade deficit is slightly lower than expected for the fourth quarter of 2017 in the October forecast.

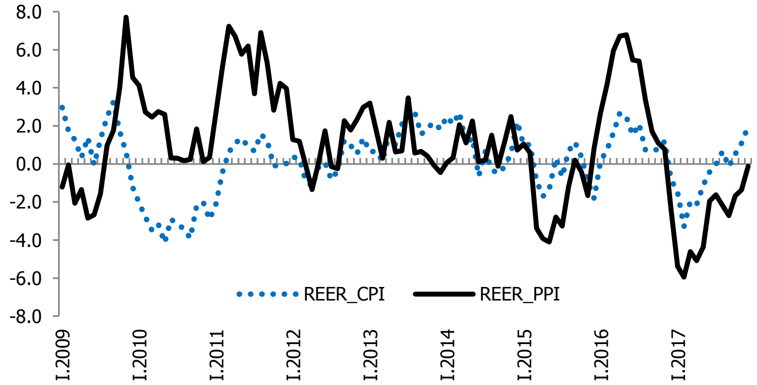
REER
(2010=100)



Source: NBRM.

In December 2017, t**he price competitiveness indicators of the domestic economy registered divergent movements compared to the same period of the preceding year. Namely,** the REER index deflated by consumer prices registered more apparent appreciation of 2%, while the REER index deflated by producer prices depreciated minimally by 0.1%.

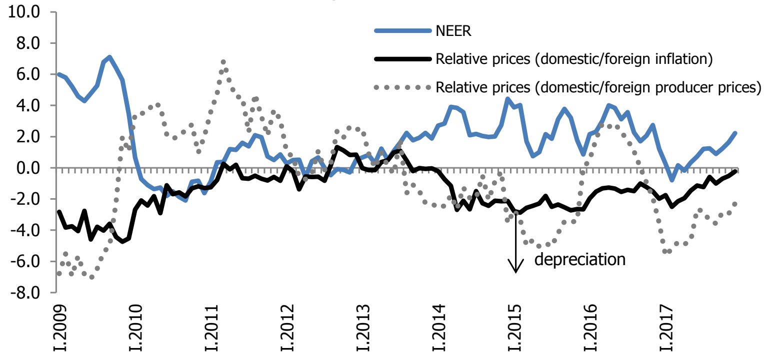
REER
annual changes, in %



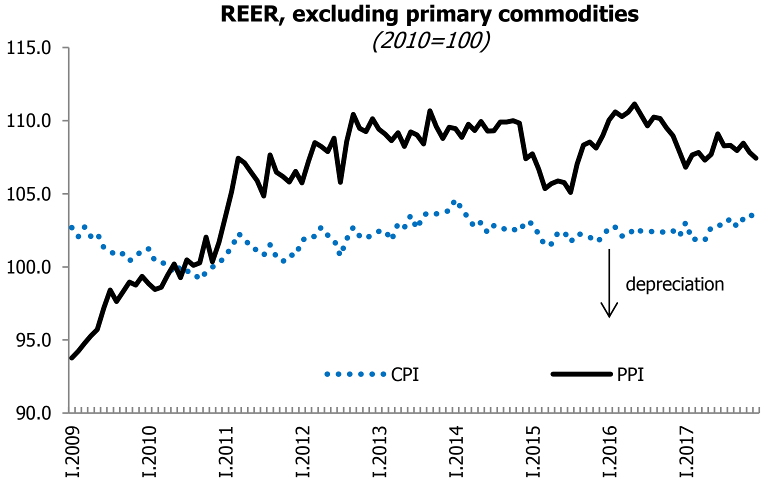
Source: NBRM.

The relative consumer prices registered an annual drop of 0.2%, while the relative prices of industrial products registered a decrease of 2.3% The NEER movement, which appreciated by 2.2% acted in the opposite direction, mostly as a result of the depreciation of the Turkish lira.

NEER and relative prices
annual growth rates, in %

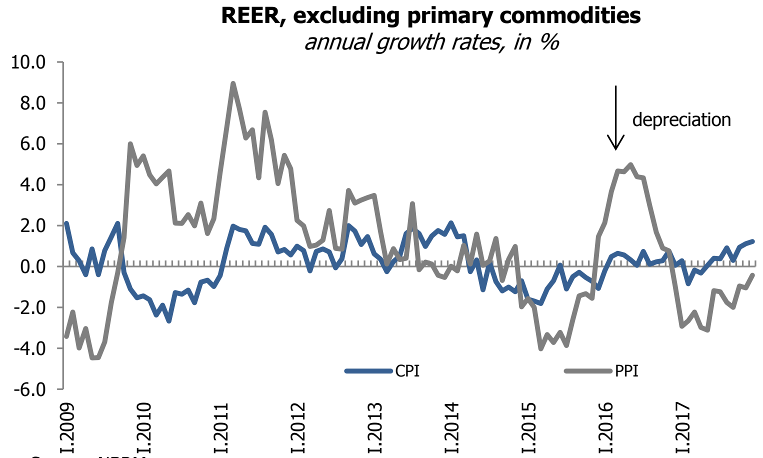


Source: NBRM.



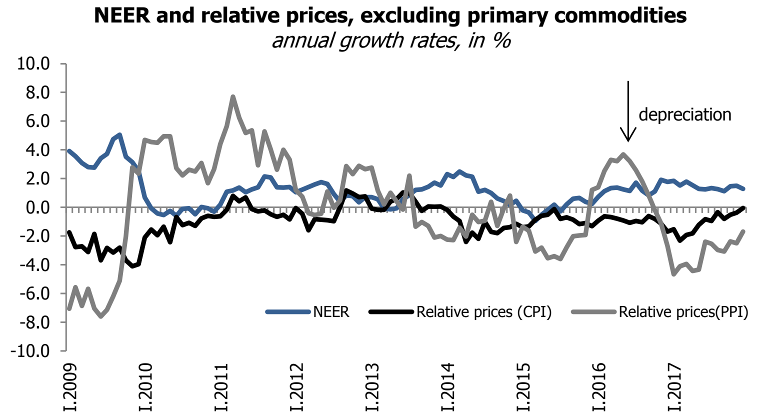
Source: NBRM.

In December 2017, the analysis of **REER indices, as measured using weights based on the foreign trade without primary commodities**[10], also shows similar movements. Thus the REER deflated by consumer prices registered moderate appreciation of 1.2%, while the REER deflated by producer prices depreciated by 0.4%.



Source: NBRM.

On an annual basis, the relative consumer prices and the relative producer prices decreased by 0.1% and 1.7%, respectively. The NEER has appreciated by 1.3% on an annual basis.



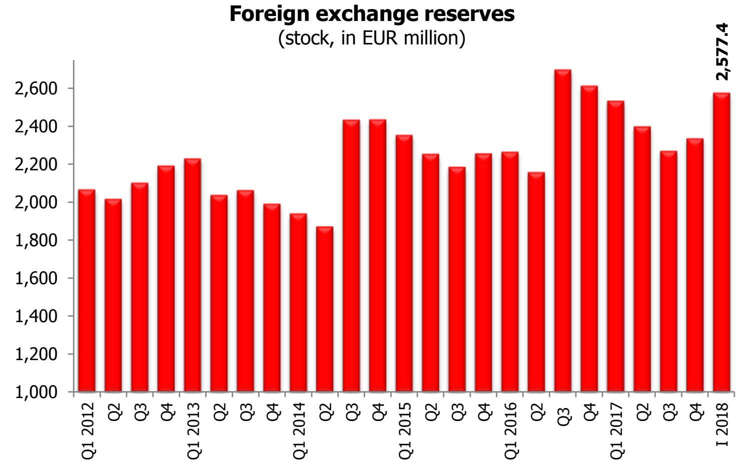
Source: NBRM.

[10] 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.

* Последен расположлив податок 31.01.2018.
Извор: НБРМ.

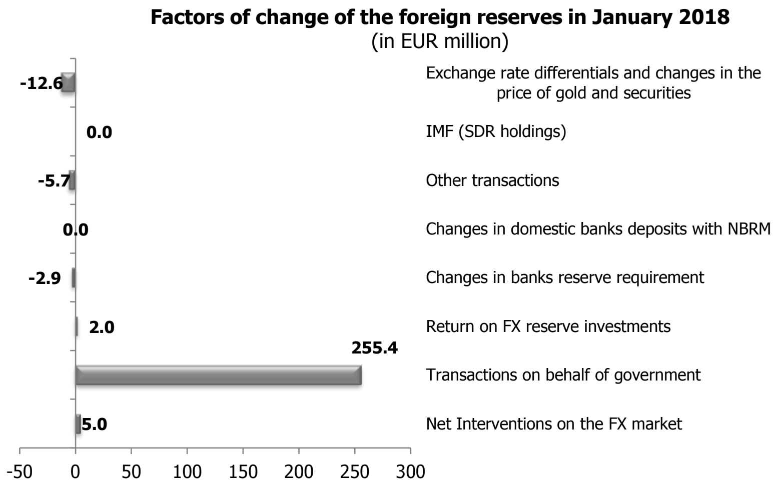
Recent data on currency exchange operations as of January 2018 indicate annual increase in both the supply of and demand for foreign currency.

The net purchase on the currency exchange market registered in January equals Euro 77.5 million, which is an annual increase of 17.4%.



Source: NBRM.

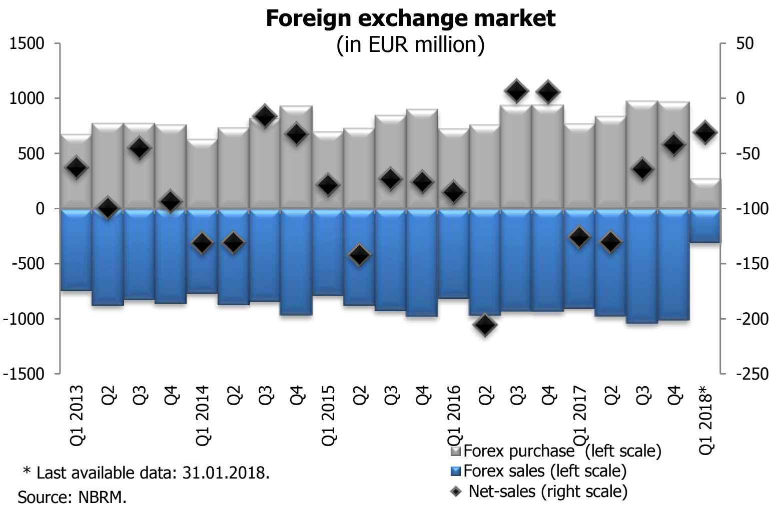
As of 31 January 2017, the gross foreign reserves stood at Euro 2,577.4 million, which is an increase of Euro 241.1 million compared to the end of 2017. The increase in foreign reserves was mostly due to transactions on behalf of the government, which stems from the issuance of the sixth Eurobond on the international financial markets[11]. The remaining flows had a moderate impact on the changes in foreign reserves in the observed period.



Source: NBRM.

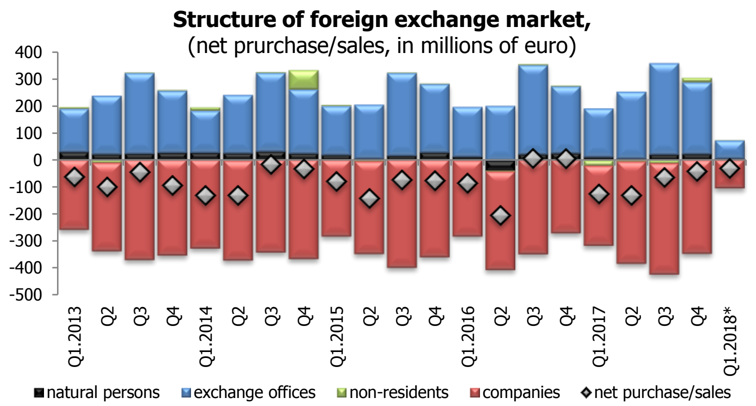
[11] On 11 January 2018 the sixth Eurobond in the amount of Euro 500 million with maturity of 7 years and an interest rate of 2.75 was issued on the international capita market. At the same time, early purchase of one-third of the Eurobond issued in 2015 in total amount of Euro 270 million was made. Also, by the end of the month, debt repayment to Deutsche Bank in the amount of around Euro 100 million was made.

In January 2018, net foreign exchange sale of Euro 30.6 million was realized on the foreign exchange market of the banks, which is a slightly moderate attainment compared to the same period of the previous year. This annual change is a result of the intensified growth in the supply relative to the demand for foreign currency.



* Last available data: 31.01.2018.
Source: NBRM.

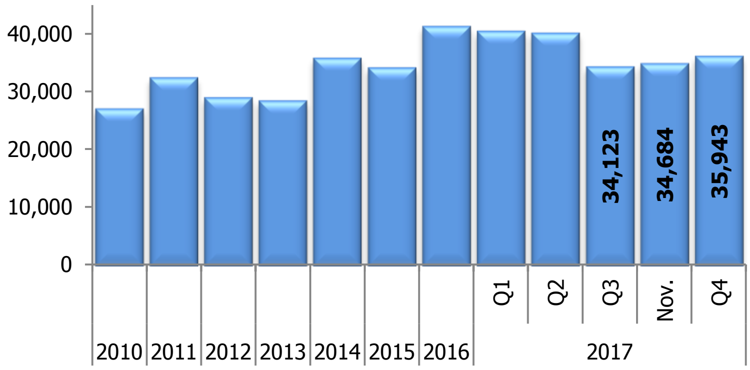
Sectoral analysis shows that such changes arise from the net purchase by non-residents (as opposed to the realized net sales in January 2017) and the higher net purchase from the exchange offices, movements that are partially mitigated by the increased net sales of companies.



* Last available data: 31.01.2018.
Source: NBRM

The stock of the monetary instruments increased in December compared to the previous month. Compared to the end of the third quarter, the monetary instruments stock is moderately higher as opposed to the expectations for its decrease in this period. Consequently, the monetary instruments acted towards liquidity withdrawal, despite the expectations for creating liquidity in the last quarter of 2017, according to October forecast.

Monetary policy instruments
(in MKD million)

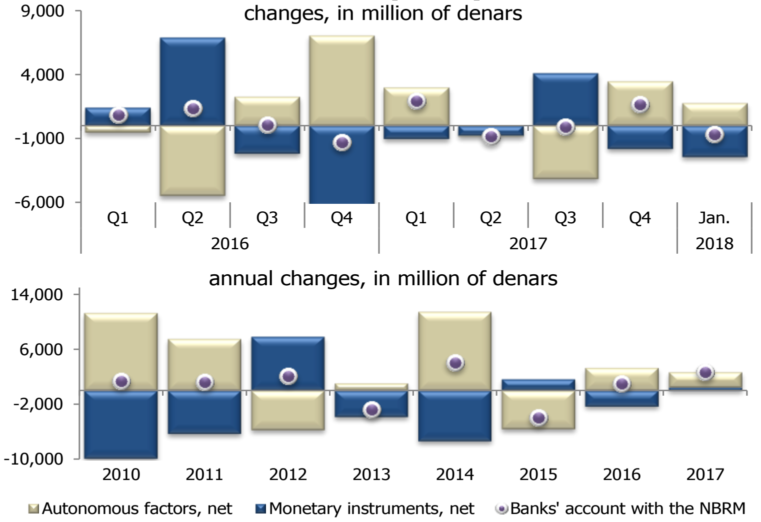


Source: NBRM.

After the fall in November, the net foreign assets of the NBRM registered a solid increase in December. The stock of these balance sheet categories in November is higher compared to the end of the third quarter, in contrast to the expectations for their decline in the fourth quarter of the year, in accordance with the October forecast. The government deposits kept up falling for the second consecutive month, which corresponds to the expectations for the fourth quarter.

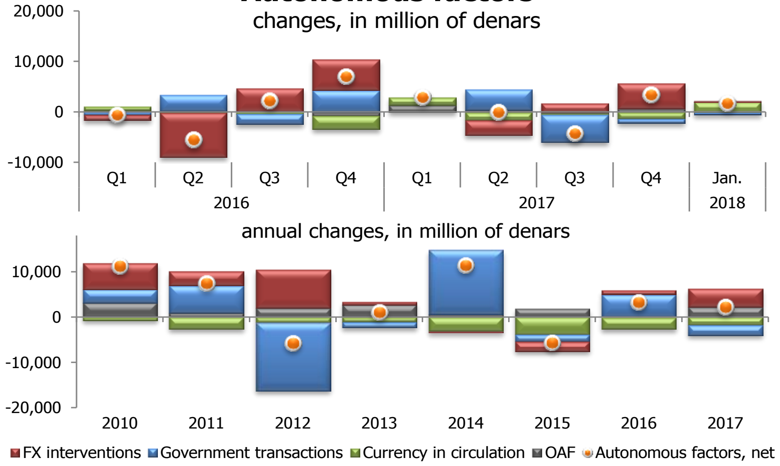
In December, the reserve money increased on a monthly basis, contrary to their decrease in the previous month. Compared to the end of the third quarter, the amount of the reserve money is higher, compared to the expectations for growth in the fourth quarter of the year, according to the October forecasts.

Banks liquidity*



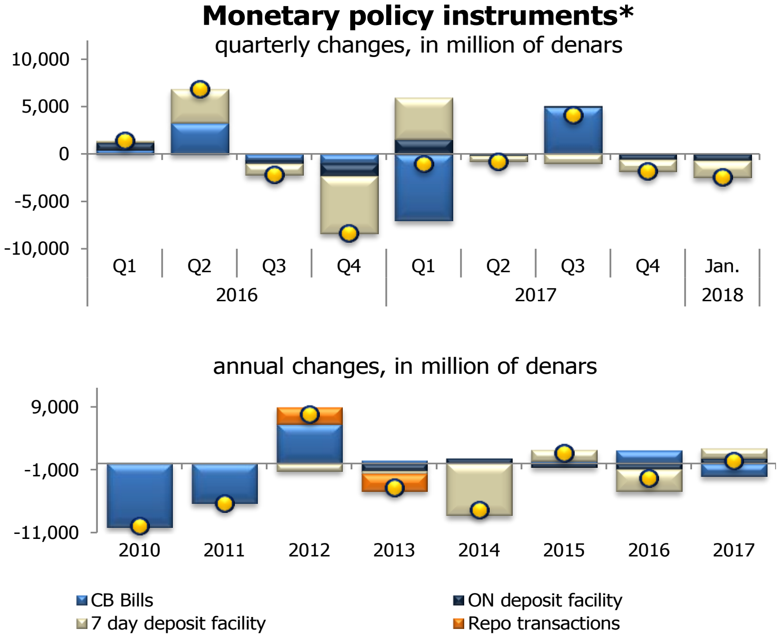
Source: NBRM.
* positive change: liquidity creation, negative change: liquidity withdrawal

Autonomous factors*



Source: NBRM .
* positive change: liquidity creation, negative change: liquidity withdrawal

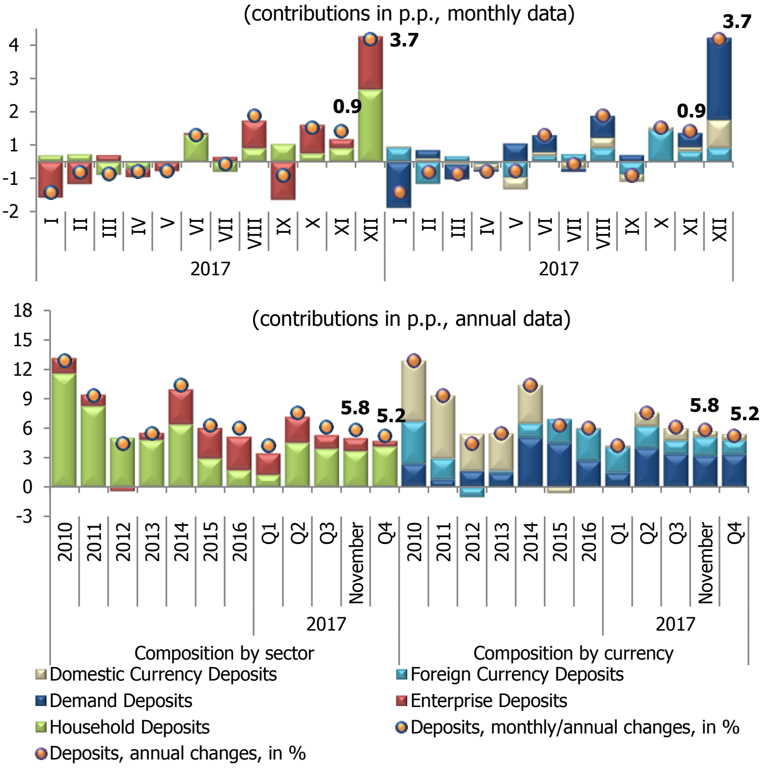
Monetary policy instruments*



Source: NBRM .
* positive change: liquidity creation, negative change: liquidity withdrawal

According to operational data on liquidity flows, in January, the liquidity of the banking system reduced. Under the influence of the autonomous factors towards liquidity growth (mostly as a result of the seasonal drop in currency in circulation) and given the unchanged supply of CB bills, the banks placed the surplus liquid assets in deposits with the NBRM.

Total Deposits

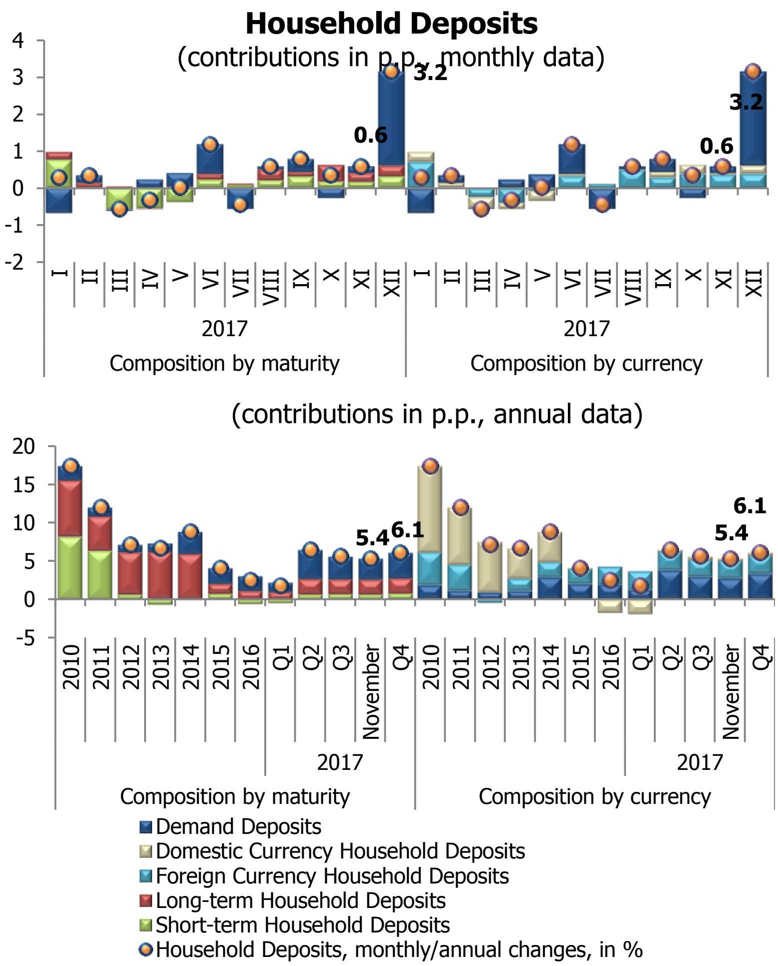


Source: NBRM.

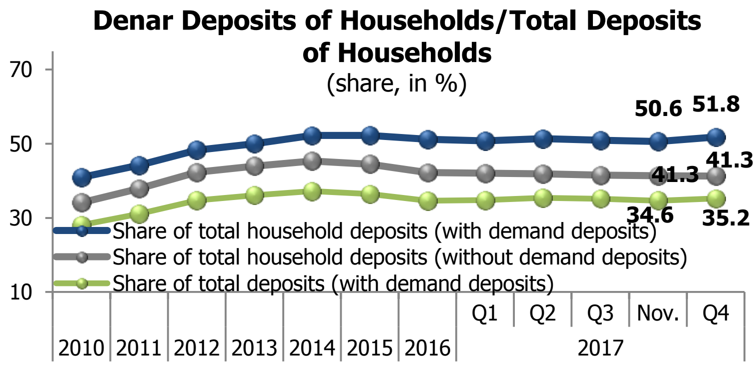
The total deposits with the banks in December 2017 registered significant increase on a monthly basis, partly as a result of the influence of certain seasonal factors. Analyzed by sectoral aspect, the monthly increase of 3.7% in December was driven by household deposits, with the positive, but relatively small contribution to the growth, also being given by the deposits of enterprises. From currency point of view, the deposits growth in December is mostly due to the deposits in domestic currency (including demand deposits), while the contribution of deposits in foreign currency is relatively small.

The registered growth of the total deposits in the October-December 2017 period exceeded the projected deposit growth with the October projection.

In December, the annual growth rate of total deposits equaled 5.2% (5.8% in November), which is above the forecasted growth for the fourth quarter of 2017 (of 3.6%) in October forecast. On annual level, the growth of total deposits in December, from a sectoral aspect, is mostly a result of the growth of household deposits, with a small positive contribution to the annual growth also by corporate deposits. From currency point of view, the annual deposit growth is mostly due to the growth of deposits in domestic currency (demand deposits), with positive but relatively lower contribution to the annual growth and foreign currency deposits.



Source: NBRM.

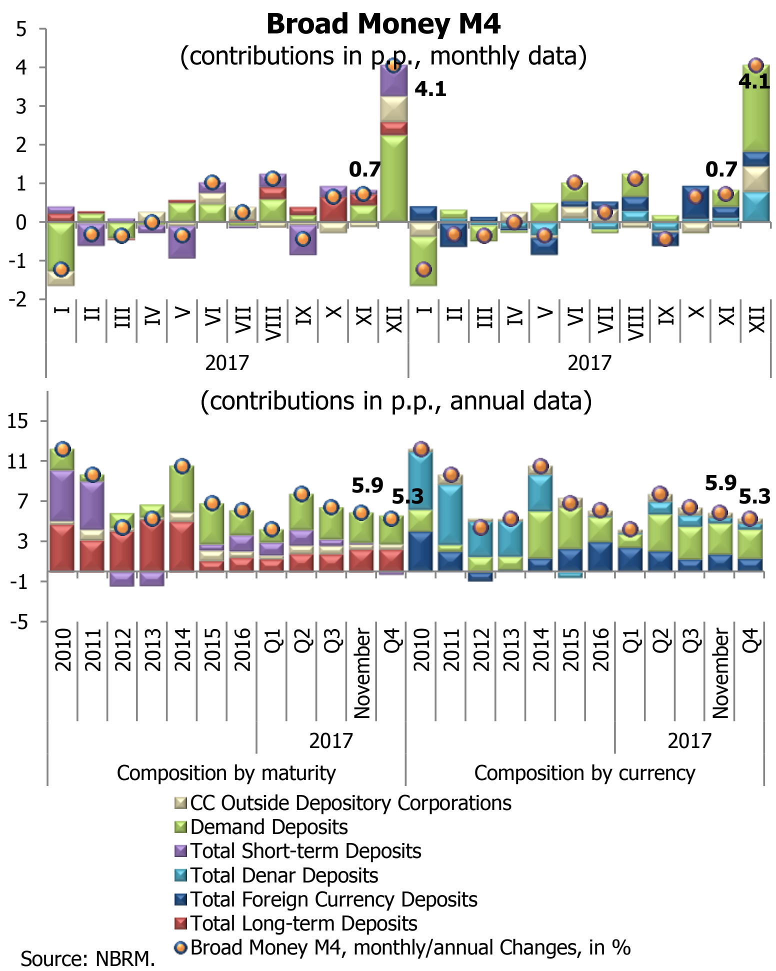


Source: NBRM.

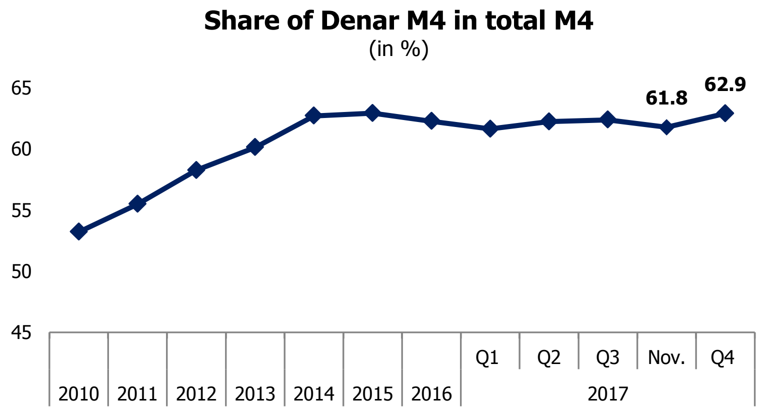
In the last month of the year the household deposits registered significant monthly rise, mostly influenced by seasonal factors. The acceleration of the monthly growth of household deposits (from 0.6% to 3.2%) was primarily due to the increase in demand deposits, which is characteristic for the last month of the year. Such an increase in one part is explained by certain factors characteristic for the last month of the year, such as early payment of pension[12] and payments of part of wages in the private sector, payments of bonuses and government spending for subsidies reimbursement. **Annually, the growth rate of household deposits equaled 6.1%.** With the performance in December, the share of denar deposits (with demand deposits) in the total household deposits registered an increase and in December it equaled 51.8% (50.6% in November).

[12] Some banks paid the December pension at the end of December.

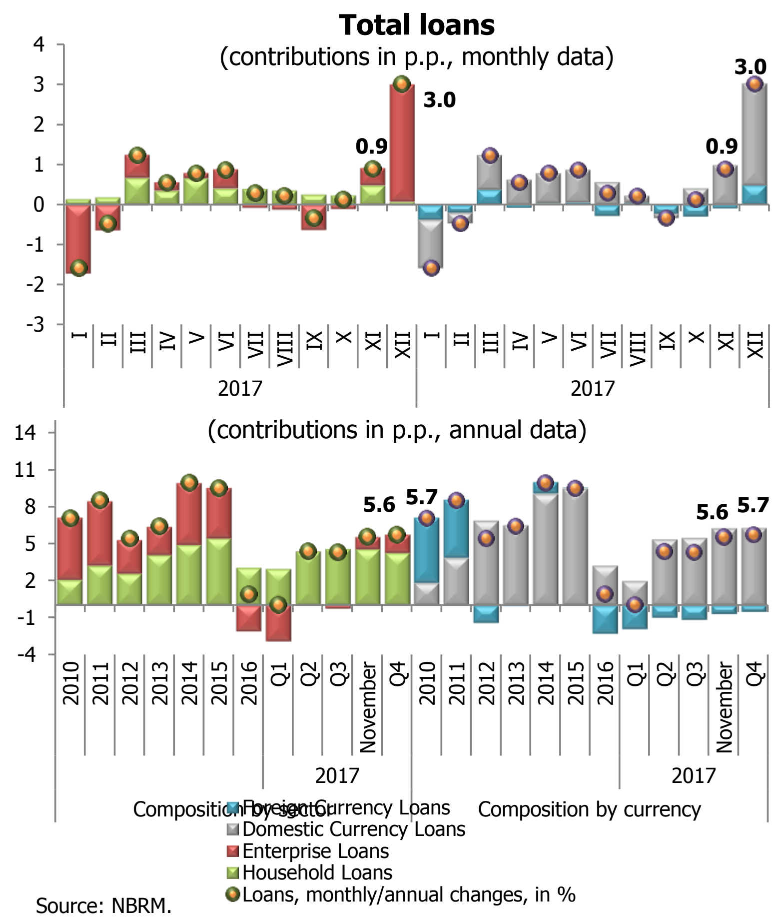
In December, the broad money M4 registered a substantial monthly increase. The monthly growth of broad money (of 4.1%) is mostly due to the increase in the total deposits, with the share of the currency in circulation being moderately positive. **On annual basis, the broad money has increased by 5.3% (5.9% in November), which exceeds the forecasted growth by 4.1%.** Including the December performance, the share of the denar share in the total broad money went up to 62.9% (61.8% in the preceding quarter).



Source: NBRM.



Source: NBRM.

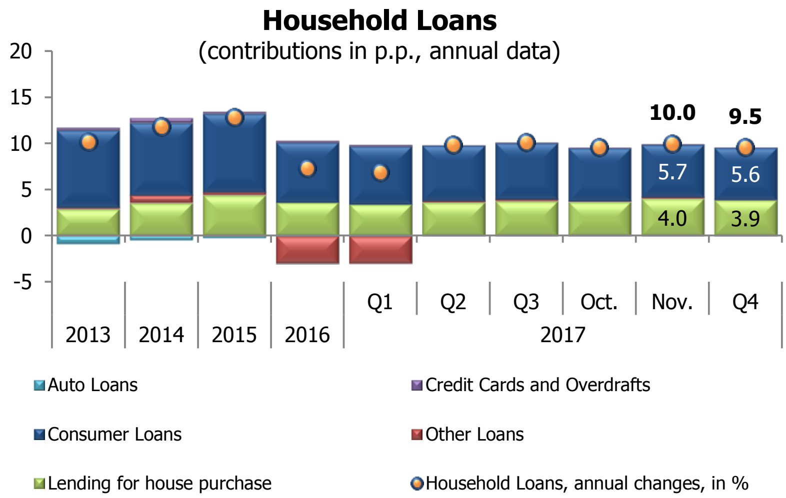


Source: NBRM.

In December, the total loans to the private sector accelerated their growth compared to the previous month. The acceleration of the lending activity dynamics in the last month of the year is common (it has been registered in the last five years) and is mainly explained by the significant increase in the total corporate credits. Analyzed by sectors, in December as well the monthly increase in the total lending activity (of 3.0%) almost entirely arises from the lending to enterprises. According to the currency structure, the monthly growth of loans is driven by the loans in domestic currency.

The realized growth of the total loans in the period October-December 2017 exceeded the projected credit growth in the October projection.

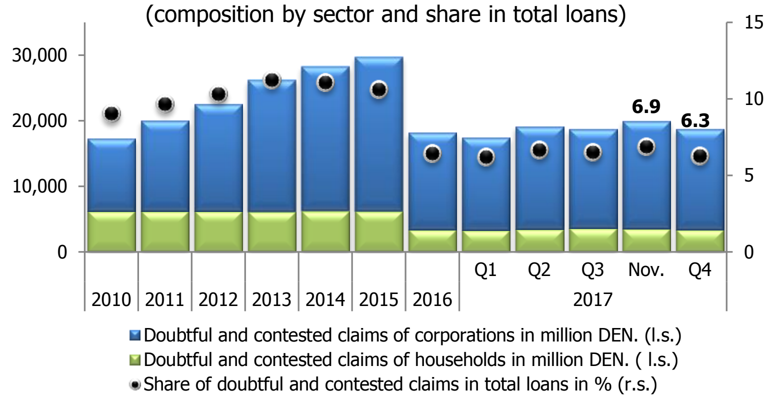
On an annual basis, total loans in December grew by 5.7%, which is above the forecasted growth (of 4.6%) for the fourth quarter of 2017. Observing the currency, the annual growth of total loans also in December2017 stems from the growth of denar loans, amid further annual decline in foreign currency loans. Within the sector structure, the main generator of the annual growth are household loans.



Source: NBRM.

The growth of household loans in December moderately decelerated on an annual basis, mainly equally due to the deceleration of the growth in both, consumer and car loans.

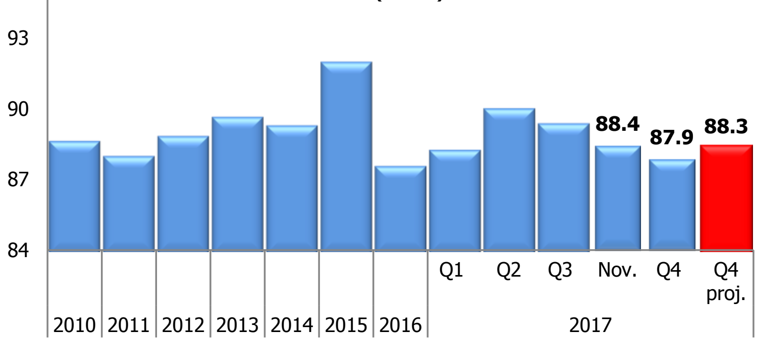
Doubtful and contested claims
(composition by sector and share in total loans)



Source: NBRM.

The share of doubtful and contested claims in total loans in December reduced to 6.3% (6.9% in November), which is mostly due to the decrease in doubtful and contested claims of enterprises.

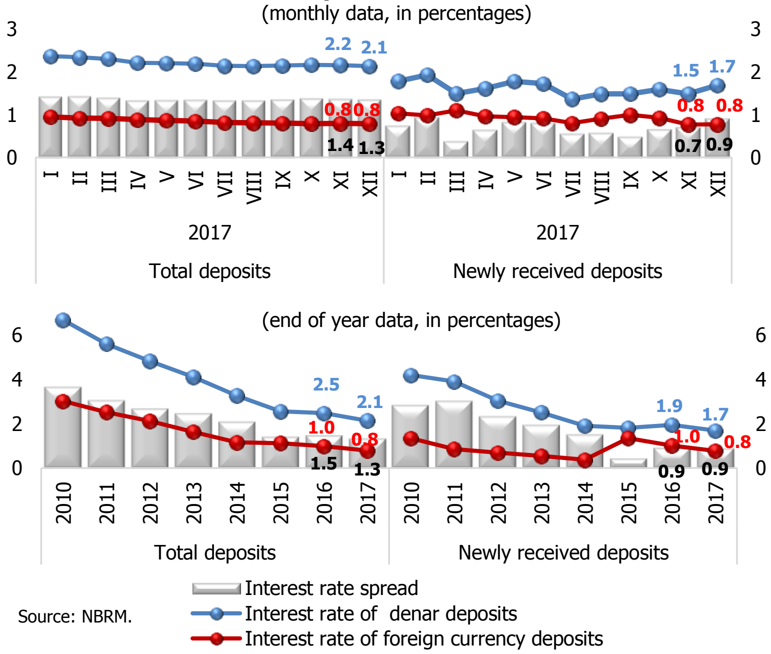
Total credits/total deposits
(in %)



Source: NBRM.

Utilization of the deposit potential for lending to the private sector in December decreased to 87.9%, compared to 88.4% in the previous month. The decrease in the loans to deposits ratio is a result of the significant increase in deposits compared to the growth of loans. December performance is lower compared to the expectations for the fourth quarter of 2017, according to the October forecast.

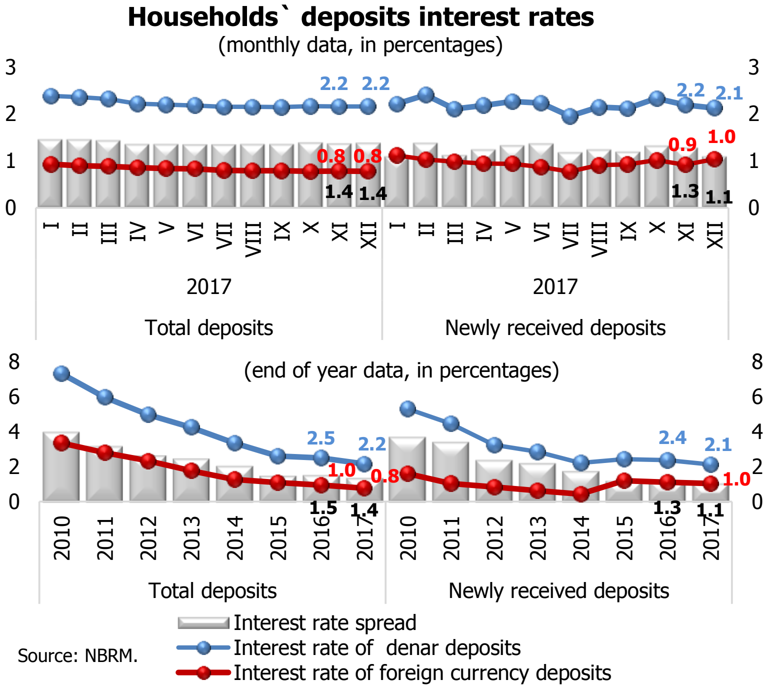
Total deposits interest rates
(monthly data, in percentages)



Source: NBRM.

Interest rates on total deposits in December decreased in comparison with the previous month, which influenced towards moderate decrease in the interest rates spread on denar and foreign currency deposits from 1.4 p.p. to 1.3 p.p. In the **total newly accepted deposits**, the interest rate spread between denar and foreign currency deposits increased from 0.7 percentage points to 0.9 percentage points, amid growth of interest rates on newly accepted denar deposits of 0.2 p.p.. However, regarding the interest rates on the newly accepted deposits, it should have in mind that they characterize with variable movements[13].

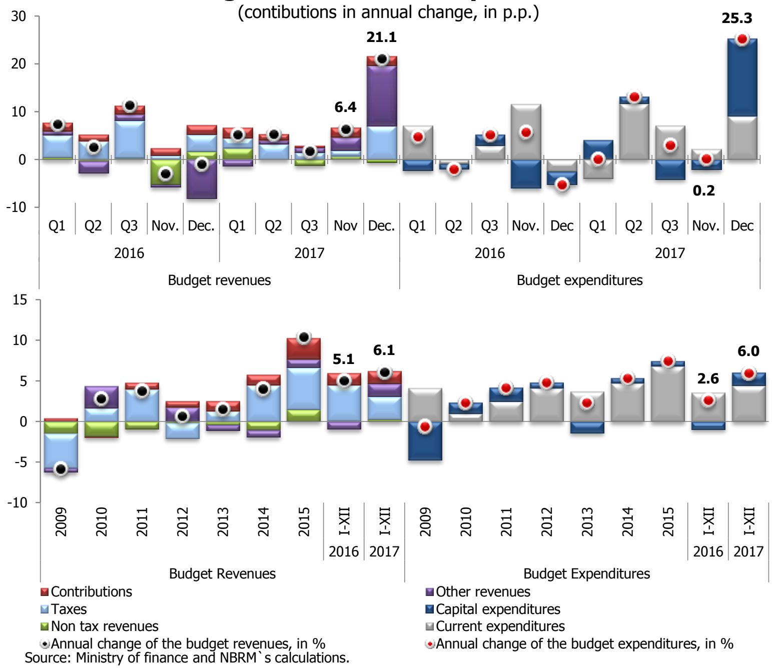
[13] Volatility of interest rate on newly accepted deposits results from the fact that they have been driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.



Source: NBRM.

In December the **interest rates on household deposits** registered no changes compared to the previous month, whereby the interest rate spread between denar and foreign currency interest rates remained at a relatively stable level of 1.4 percentage points. In the **newly accepted household deposits**, the interest rates on newly accepted denar deposits registered a minimal drop of 0.1 p.p., while the interest rates on newly accepted foreign currency deposits increased by 0.1 p.p., with the interest spread decreasing from 1.3 p.p. to 1.1 p.p.

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

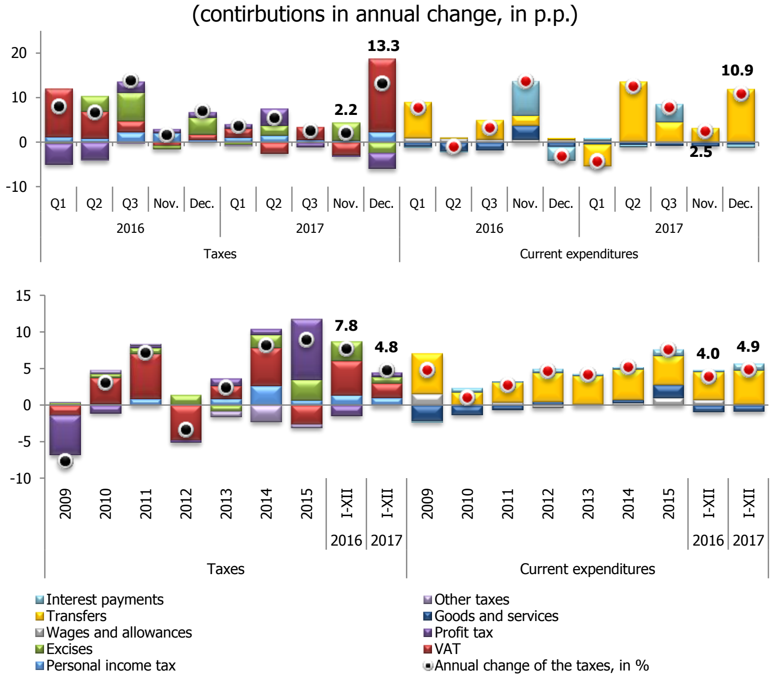


Source: Ministry of finance and NBRM`s calculations.

The total budget revenues realized in the Budget of the Republic of Macedonia (central budget and budget of funds) in December 2017, grew by 21.1% annually, while the total expenditures increased by 25.3% on an annual basis. The main reason for higher budget revenues lies in the performance in other income category [14] and taxes (with a dominant contribution of VAT-based the inflows), whereas the larger budget expenditures are mostly due to the higher capital expenses, with positive, but smaller contribution to the growth accounting to current expenses, as well.

Cumulatively, in 2017, the total budget revenues increased by 6.1% compared to the previous year, which is mostly a result of the improved tax performance, while positive, although smaller contribution to the growth, accounts for other income and contributions. In 2017, the budget expenditures augmented by 6.0% on an annual basis, which is mostly due to the higher current expenditures.

Taxes and current expenditures
(contirbutions in annual change, in p.p.)

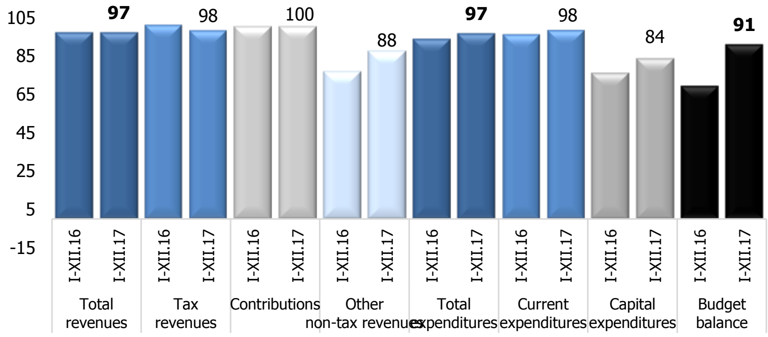


Source: Ministry of finance and NBRM`s calculations.

On a cumulative basis, in 2017, the tax-based inflows were higher by 4.8% on annual basis, which is mainly due to the higher inflows on the basis of VAT and personal income tax, with positive, but lower contribution to the annual growth accounting to excises and profit tax. Regarding the current expenditures, the annual growth equaled 4.9%, with a dominant contribution of transfers.

[14] This category includes capital revenues, foreign donations and revenues of recovered loans.

Budget implementation , per categories (central budget and funds), in percentage of the annual plan*

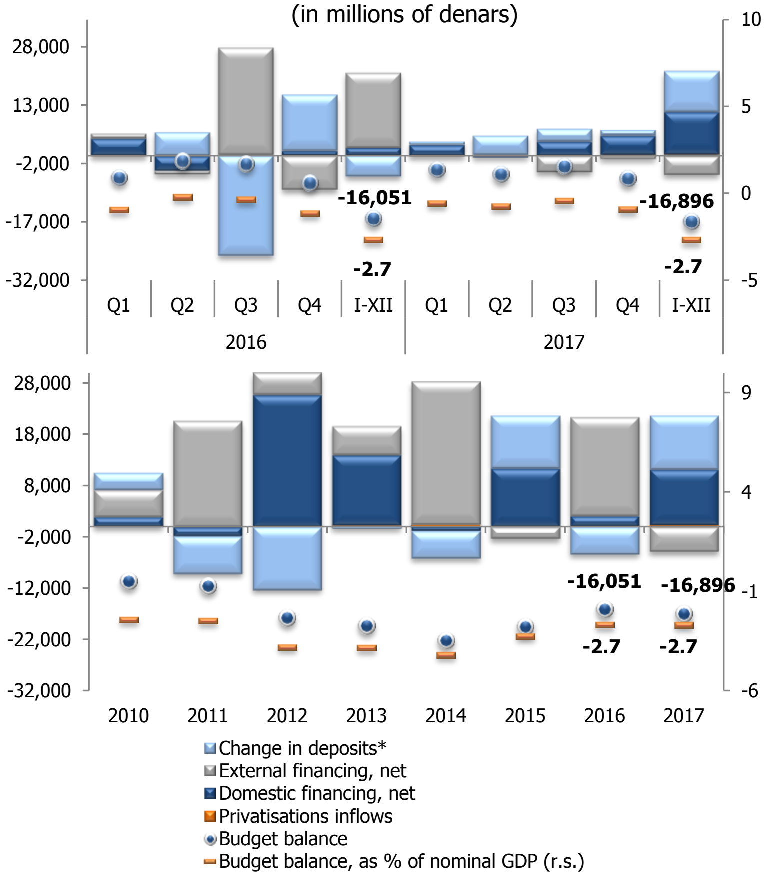


*for 2016 and 2017, figures are calculated compared to the planned Budget for 2016 and 2017.
Source: Ministry of Finance and NBRM's calculations.

In 2017, the realized budget revenues constituted 97% of the projected annual revenues, under the Budget Revision[15]. Analyzed by individual categories of budget revenues, performances in taxes and contributions was 98% and 100%, respectively, while the performance in the category other non-tax revenues[16] was 88%.

Analyzing budget expenditures, 97% of the planned expenditures for 2017 were realized, where performance in current expenditures was 98%, while the performances in capital expenditures was lower and amounted to 84%.

Financing of the budget balance
(in millions of denars)

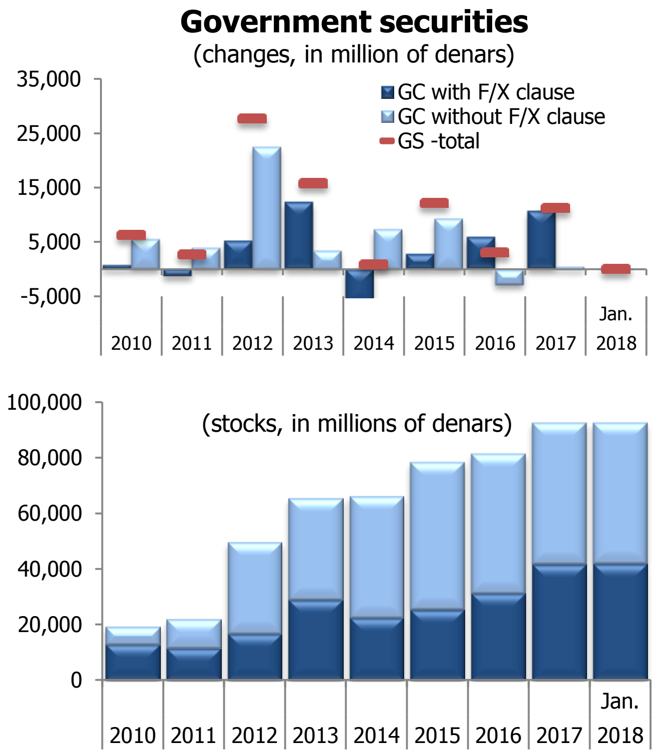


* Positive change: deposits withdrawal; negative change:deposits accumulation.
Source: MoF.

In 2017, the Budget of the Republic of Macedonia registered a deficit of Denar 16,896 million, which is 2.7% of the nominal GDP[17]. The budget deficit in 2017, constituted 91% of the annual plan, under the Budget Revision.

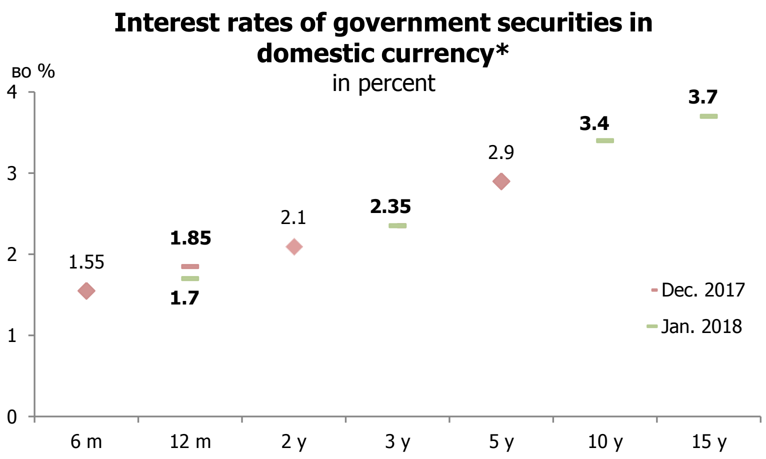
The deficit was financed by domestic sources, through net issuance of new government securities and deposits withdrawal from the government account with the National Bank.

[15]The comparison is made with the Budget Revision for 2017 from August 2017 and the reallocation of the budget assets among budget users from November 2017.
[16]Other non-tax revenues include non-tax revenues, capital revenues, donations from abroad and revenues of recovered loans.
[17]The analysis of nominal GDP for 2017 uses the NBRM October forecasts.



Source: MoF.

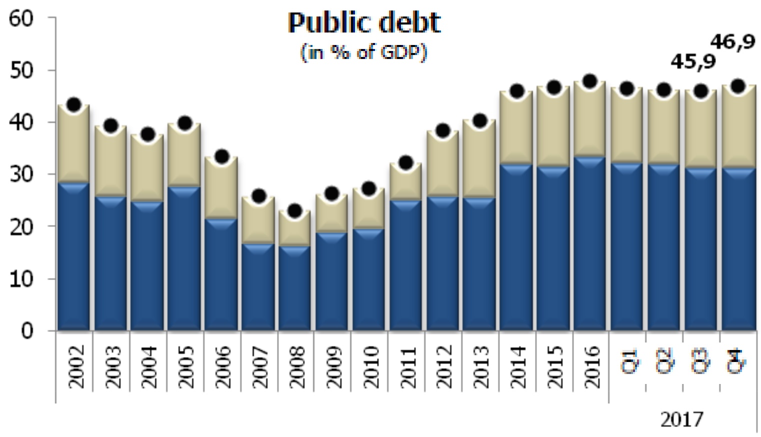
The stock of government securities as of the end of January amounted to Denar 92,582 million and compared to the end of 2017 is lower by Denar 2 million.



Source: Ministry of Finance.
* interest rates for 6m tresury bills, 2y and 5y government bonds are from auctions held in December 2015, October 2017 and December 2016, respectively. The data on 12m treasury bills in january is a weighted avarage interest rate on the two auctions held on January 2018.

In January 2018, the Ministry of Finance held two auctions for selling government securities. Treasury bills with maturity of 6 and 12 months and government bonds falling due in 3, 10 and 15 years with and without currency clause were offered and realized on the auctions.

In January (23 January 2018), the Ministry of Finance reduced the interest rates on 12-month treasury bills without currency clause from 1.85% to 1.20% (by 0.65 p.p.) and to 15 year treasury bonds with currency clause from 3.8% to 3.2% (by 0.60 p.p.). At the same time, 15-year government bonds without currency clause were offered and realized at this auction for the first time. The interest rate on 10-year government bonds was 3.4%, while for government bonds with a maturity of 15 years, the interest rate was set at 3.7%.



Source: NBRM's calculations based on data from the Ministry of Finance.

At the end of the fourth quarter of 2017, total public debt[18] was 46.9% of GDP[19], which is a rise of 0.9 percentage points compared to the previous quarter. The change is mostly due to the increase in domestic debt (from 14.9% to 15.7% of GDP), amid minimal increase in external debt (from 31.0% to 31.1% of GDP). In the fourth quarter, total government debt increased by 0.8 percentage points of GDP, while slight rise (of 0.1 percentage point of GDP) on a quarterly basis was registered also in the public enterprises debt.

[18] The public debt is defined under the Law on Public Debt (Official Gazette of the Republic of Macedonia No. 165/14) according to which it is the sum of the government debt and the debt of public enterprises established by the state or municipalities, municipalities within the city of Skopje and the city of Skopje, and companies that are entirely or predominantly owned by the state or by the municipalities, the municipalities within the city of Skopje and the city of Skopje, for which the Government has issued a state guarantee.
[19]The analysis of nominal GDP for 2017 uses the NBRM October forecasts.

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 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[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 0.5% to 0.5% and on seven-day deposit facility from 1.25% to 0.5% 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.

[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).

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 the current negative interest rates that prevail 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 Basel 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 Tier 1 and Tier 2 capital, **but the new Decision changes the structure of the Tier 1 capital, which is divided into Common Equity Tier 1 capital and Additional Tier 1 capital.** The Common Equity Tier 1 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 Tier 1 capital, includes instruments which, among other things, contain a clause for their transformation into instruments of the Common Equity Tier 1 capital or for their write-off on temporary or permanent basis (reduction in 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 Common Equity Tier 1 capital, Tier 1 capital and own funds,** i.e. 4.5% for the Common Equity Tier 1 capital, 6% for the Tier 1 capital and 8% for the own funds of the risk-weighted assets. Thus, the greatest importance is given to the Common Equity Tier 1 capital positions (shares, reserves, retained undistributed profit), as capital positions with the highest quality.

January 2017

– At its regular meeting held on 10 January 2017, the NBRM's Operational Monetary Policy 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 its regular meeting held on 14 February 2017, the NBRM's Operational Monetary Policy 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. Common 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 its regular meeting held on 14 March 2017, the NBRM's Operational Monetary Policy Committee decided to increase the supply of CB bills from Denar 25,000 million to Denar 30,000 million.

July 2017

- At its regular meeting held on 11 July 2017, the NBRM's Operational Monetary Policy Committee decided to reduce the supply of CB bills from Denar 30,000 million to Denar 27,500 million.

August 2017

- At its regular meeting held on 8 August 2017, the NBRM's Operational Monetary Policy Committee decided to reduce the supply of CB bills from Denar 27,500 million to Denar 25,000 million.

December 2017

- At its regular meeting held on 21 December 2017, the NBRM’s Council decided to continue the application of the non-standard measure for reducing the base of reserve requirement in denars of the commercial banks for the amount of newly approved loans of net exporters and domestic producers of electricity for two additional years.