National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

July 2017

Recent Macroeconomic Indicators

Review of the Current Situation - Implications for the Monetary Policy

The review of the current situation aims to give an overview of the recent macroeconomic data (January-June 2017) and to make a comparison with the latest macroeconomic projections (April 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 performance with domestic variables and the effect of these changes on the environment for monetary policy conduct.

External environment assumption remained unchanged relative to the April expectations, whereby further recovery of the global economy at a pace similar to the April projections is expected. The assessments in terms of the major risks on global growth are also similar, and the same are related to the possibility for increased protectionism, uncertainty on the possible effects from Brexit[1], increased instability on the financial markets, and potential faster monetary tightening by FED, in conditions of expecting fiscal stimuli by the new USA administration. In terms of the economic growth in the euro area, as our most significant economic partner, in the first quarter of 2017, the economic activity registered an annual growth of 1.9% (growth of 0.6% on a quarterly basis), in conditions of growth of domestic demand (mainly due to private consumption and investments in fixed assets) and negative contribution of net export. In the second quarter, the available data and research surveys on the economic sentiment of both companies and households indicate a similar or faster economic development compared to the first quarter. The labor market also registers favorable developments, whereby the number of employed in the first quarter increased by 1.5% on an annual basis (i.e. 0.5% compared to the previous quarter), whereas the unemployment rate in May remained on the April level of 9.3% which is the lowest rate since March 2009. In terms of inflation, the preliminary data for June show that it decelerates again, and amounts to 1.3% on an annual basis (1.4% in May). Such development is due to the significant deceleration of the increase of energy prices. Contrary to that, core inflation registered an acceleration and in June amounted to 1.1% on an annual basis (0.9% in May). In the meeting in June, although ECB expressed readiness for adjusting through non-standard measures of the monetary policy in case of an upward correction of the inflation prospects, generally the market participants expect continuation of the adjustable monetary policy and its gradual normalization in 2018. Hence, **the interest rate EURIBOR** for 2017 and 2018 is expected to have a similar upward trend as in the April projections, whereby it should continue to remain in the negative zone during the entire projection period.

Analyzing quantitative external environment indicators for the Macedonian economy for the current and following year, the forecasts regarding the foreign effective demand indicate more favorable expectations in relation to the April projections, especially a higher growth in 2017. In terms of **foreign effective inflation**, the latest assessments for 2017 show a lower inflation compared to the projections in April, whereas for 2018 the assessments remain unchanged. Regarding **primary commodities prices in global markets**, assessments for 2017 are mainly revised downwards, whereas for 2018 most prices register an upward revision relative to the April projections. Thus, regarding the **world oil prices**, in 2017, a lower growth compared to the April projection is expected, while in 2018, a similar decline rate is anticipated as before. Regarding **metal prices**, during the current and the following year, a downward correction was conducted to nickel, especially in 2017, whereas the copper price in 2017 is expected to register a smaller than previously projected growth, and for 2018 a small growth compared to the previous expectations for price stabilization is expected. Regarding the **world prices of the primary food products**, further increase is expected and subsequently create pressures on the domestic inflation. Thus, compared to

[1] On 29 March 2017, the United Kingdom (UK) officially started the European Union (EU) exit procedure, and at the Summit held on 22 May, the EU Council adopted the start of the negotiation according to Article 50 of the Lisbon Agreement and the exit negotiations formally started on 19 June in Brussels.

the April projections, wheat prices are expected to register a higher growth during both years, whereas the newest assessments for the corn price indicate to somewhat lower growth for 2017, and higher in 2018 compared to April. However, one should bare in mind the exceptional variability of estimations for these primary commodities prices which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long-term.

The comparison of the latest macroeconomic indicators with their projected dynamics within the April forecasting round indicates certain deviations in individual segments of the economy. Despite the downward revision of GDP in the last April projection, the published percentage **GDP data for the first quarter** are below the expectations for the economic growth, indicating a lower starting point and downward risks for the GDP projection for the entire 2017. For the second quarter, the available high-frequency data generally indicate improvement of the economic situation. When it comes to changes in **consumer prices**, in June as in the previous months of the year, a positive inflation rate is measured, marginally higher than the projected. However, cumulatively for the second quarter, the performed rate for 2017 continues to deviate from the trajectory of gradual acceleration of the inflation with the April projection. Thus, despite the downward revision of most external input assumptions in the inflation projection for 2017, it is still currently estimated that risks on th inflation projection for the entire 2017 are balanced. The uncertainty on the projected movement of the world primary commodities prices continues to remain the main risk on the inflation projection.

Foreign reserves data (adjusted for the effects of price and exchange rate differentials and price changes of securities) at the end of the second quarter of the year show a decrease. Analyzing the change factors, the decline in reserves is due NBRM's intervention on the foreign exchange market through conducting net sales of foreign currencies, and partially from other transactions and transactions on the account for the government. The available external sector data for the second quarter point to higher net inflows from the private transfers than the expected, based on the data from the foreign exchange market as of June. Additionally, performances in foreign trade in April and May indicate a trade deficit which does not significantly deviate from the projected in April, amid improved export performances and higher import. According to the balance of payment data for April 2017, performance in the current account deficit are close to the April projection, and the performed financial inflows on net basis do not significantly deviate from the expectations. Regarding current transactions, the improved performances are due to the higher surplus in the exchange of services and simultaneously smaller than the projected deficit in primary income. On the financial transactions side, foreign direct investments, currency and deposits of the banking sector and portfolio investments have a better performance, whereas performances in financial and trade loans are weaker compared to the expectations. The analysis of foreign reserves adequacy indicators shows that they continue to hover in a safe zone.

As for the monetary sector developments, final data as of May indicate further monthly decline of total deposits in the banking sector (of 0.3%), with almost the same intensity as the previous month. Analyzed by sectors, the monthly decline of the total deposits in May is entirely due to the decrease in corporate deposits, while the household deposits registered moderate growth. In terms of currency structure, foreign currency deposits registered a monthly decline, amid moderate growth of denar deposits. On an annual basis, total deposits in May grew by 6.4%, which is below the projected growth of 8.4% for the second quarter of 2017. Analyzing the credit market, in May, total loans registered a monthly decline of 0.8%, compared to the growth of 0.6% in the previous month. The increase in total loan in May, as in the previous month, is mostly driven by household loans, amid moderate growth of the corporate loans. On an annual basis, total loans are higher by 1.5%, performance which is in accordance with the projected growth (of 3.2%) for the second quarter of the year, pursuant to the April projection. If we exclude the regulatory effect, the annual growth rate of total loans is 6.4% and is above the projected annual growth of 4.5% for the second quarter of 2017.

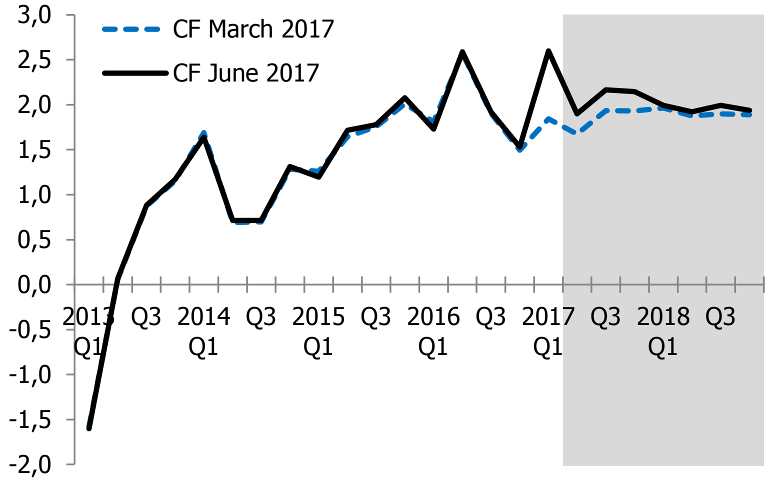
In the first five months of the year, the Budget of the Republic of Macedonia registered a deficit of Denar 5,337 million, mostly financed through the new net issuance of government securities, and to a lesser extent through deposit withdrawal from the government account with the National Bank. The budget deficit constitutes 28.7% of the envisaged deficit in the Budget for 2017.

The latest macroeconomic indicators and assessments indicate certain deviations relative to the projected dynamics in individual segments in the economy, but the perceptions about the environment for conducting monetary policy and about the risks highlighted within the April forecasts are mainly unchanged. Foreign reserves (adjusted for price and exchange rate differentials and price changes of securities) registered a decrease in the second quarter of 2017. Foreign reserves adequacy indicators continue to hover in the safe zone. In terms of economic activity, currently available indicators point to improved performances of GDP in the second quarter. However, the lower starting point, as a result of the downward deviation in the first quarter of the year, points to potentially lower rate of economic growth for the entire 2017 relative to the April projection. Regarding inflation, performances during the second quarter are relatively lower than the projected, while the expected development of the external assumptions suffered a downward correction, but however given their variability, it is assessed that risks about inflation projection for 2017 are balanced. Within the monetary sector, data on total deposits in May indicate to lower deviations compared to the expected with the April projections, mostly due to the downward shifts in corporate deposits. On the other hand, the growth pace of the lending activity currently is according to the expectations for the second quarter of the year, pursuant to the April projections, whereby performances in May are mostly driven by household loans, amid moderate growth of corporate loans.

Selected economic indicators[1]		2015	2016					2017							
	2014	2015	Q1	Q2	Q3	Q4	2016	Jan.	Feb.	Mar	Q1	Apr.	May	Jun.	Q2
I. Real sector indicators															
Gross domestic product (real growth rate, y-o-y) [2]	**3,6**		**2,4**	**2,9**	**2,0**	**2,4**	**2,4**				**0,0**				
Industrial production [3]															
y-o-y	4,8	4,9	10,7	1,3	5,0	-1,8	3,4	-2,6	-1,3	-0,9	-1,5	-1,9	9,2		
cumulative average	4,8	4,9	10,7	5,6	5,4	3,4	3,4	-2,6	-1,9	-1,5	-1,5	-1,6	0,6		
Inflation [4]															
CPI Inflation (y-o-y) [5]	-0,5	-0,3	-0,1	-0,7	-0,1	-0,1	-0,2	0,6	0,2	0,6	0,5	1,0	1,2	1,5	1,2
CPI Inflation (cumulative average)	-0,3	-0,3	-0,1	-0,4	-0,3	-0,2	-0,2	0,6	0,4	0,5	0,5	0,6	0,7	0,9	0,9
Core inflation (cumulative average)	0,6	0,5	1,7	1,6	1,5	1,4	1,4	1,4	1,4	1,6	1,6	1,7	1,8	1,9	1,9
Core inflation (y-o-y)	0,6	0,5	1,7	1,5	1,3	1,2	1,4	1,4	1,4	2,0	1,6	2,0	2,1	2,4	2,2
Labor force															
Unemployment rate	28,0	26,1	24,5	24,0	23,4	23,1	23,7				22,9				
II. Fiscal Indicators															
(Central Budget and Budgets of Funds)															
Total budget revenues	145.929	161.207	40.583	41.422	43.807	43.524	169.336	12.584	13.310	16.840	42.734	15.053			
Total budget expenditures	168.063	180.632	46.218	42.729	45.953	50.506	185.406	14.723	14.845	16.733	46.301	15.082			
Overall balance (cash)	-22.134	-19.425	-5.635	-1.307	-2.146	-6.982	-16.070	-2.139	-1.535	107	-3.567	183			
Overall balance (in % of GDP) [1]	-4,2	-3,5	-0,9	-0,2	-0,4	-1,1	-2,6	-0,3	-0,2	0,0	-0,6	-0,6			
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**	**6,7**	**5,1**	**4,2**	**4,2**	**5,9**			
Total credits, y-o-y growth rate	**10,0**	**9,5**	**8,4**	**3,5**	**2,5**	**0,9**	**0,9**	**0,6**	**-0,3**	**0,0**	**0,0**	**0,6**			
Total credits - households	11,8	12,9	13,0	8,8	7,3	7,0	7,0	7,1	6,7	6,6	6,6	6,5			
Total credits - enterprises	8,6	7,1	5,1	-0,5	-1,2	-3,8	-3,8	-4,4	-5,9	-5,2	-5,2	-4,2			
Total deposits (incl. demand deposits), y-o-y growth rate	**10,4**	**6,5**	**6,2**	**2,3**	**4,0**	**5,7**	**5,7**	**6,7**	**5,0**	**4,2**	**4,2**	**6,3**			
Total deposits - households	8,9	4,1	3,1	0,2	1,2	2,5	2,5	2,9	2,8	1,8	1,8	3,4			
Total deposits - enterprises	15,7	13,0	16,0	5,6	11,3	13,4	13,4	15,9	9,0	8,8	8,8	12,0			
Interest rates [7]															
Interst rates of CBBills	3,25	3,25	3,25	4,00	4,00	3,75	3,75	3,50	3,25	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	6,4	6,3	6,4	6,3			
f/x rates	6,3	5,9	5,6	5,5	5,4	5,2	5,4	5,1	5,1	5,0	5,1	5,0			
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	2,4	2,3	2,3	2,3	2,2			
f/x rates	1,4	1,3	1,1	1,1	1,0	1,0	1,0	1,0	0,9	0,9	0,9	0,9			
IV. External sector indicators															
Current account balance (millions of EUR)	**-43,2**	**-187,0**	**-58,7**	**-219,4**	**100,3**	**-125,6**	**-303,3**	**-7,1**	**-59,1**	**-57,6**	**-123,8**	**-30,1**			
Current account balance (% of GDP)	-0,5	-2,1	-0,6	-2,2	1,0	-1,3	-3,1	-0,1	-0,6	-0,6	-1,2	-0,3			
Trade balance (millions of EUR) [8]	**-1757,9**	**-1713,6**	**-373,2**	**-501,5**	**-391,4**	**-511,3**	**-1777,4**	**-117,4**	**-138,1**	**-166,0**	**-421,5**	**-152,9**	**-171,8**		
Trade balance (% og GDP)	-20,5	-18,9	-3,8	-5,1	-4,0	-5,2	-18,0	-1,1	-1,3	-1,6	-4,1	-1,5	-1,7		
import (millions of EUR)	-5504,5	-5801,1	-1356,6	-1557,7	-1540,0	-1652,4	-6106,7	-442,2	-517,7	-599,5	-1559,3	-550,9	-600,5		
export (millions of EUR)	3746,6	4087,6	983,3	1056,2	1148,6	1141,1	4329,3	324,8	379,6	433,4	1137,8	398,0	428,7		
rate of growth of import (y-o-y)	10,5	5,4	3,3	4,9	10,2	3,0	5,3	24,9	8,4	14,2	14,9	4,1	13,1		
rate of growth of export (y-o-y)	15,8	9,1	5,3	1,4	10,5	6,4	5,9	12,7	9,7	24,1	15,7	8,0	20,6		
Foreign Direct Investment (millions of EUR)	**197,4**	**202,8**	**132,7**	**52,2**	**28,2**	**141,0**	**354,0**	**-7,8**	**52,2**	**63,9**	**108,3**	**69,2**			
External debt															
Gross external debt (in milllions of EUR)	5992,3	6290,5	6816,2	6886,6	7513,4	7253,2	7253,2				7780,8				
public sector	2846,8	2933,7	3279,4	3283,1	3891,1	3445,5	3445,5				3819,8				
public sector/GDP (in %)	33,2	32,4	33,2	33,3	39,5	34,9	34,9				37,2				
private sector	3145,5	3356,9	3536,8	3603,6	3622,3	3807,7	3807,7				3961,0				
Gross external debt/GDP (in %)	70,0	69,4	69,1	69,8	76,2	73,5	73,5				75,7				
Gross official reserves (millions of EUR) [9]	**2.436,5**							**2.557,1**	**2.563,0**	**2.534,4**		**2.496,0**	**2.448,5**	**2.399,8**	

/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.

Foreign effective demand
(annual changes in %)



Source: "Consensus Forecast" and NBRM calculations.

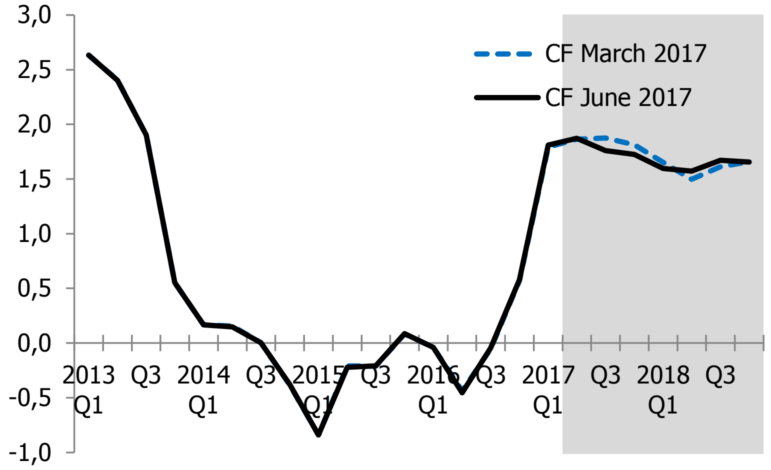
Compared to the April projections round, the foreign effective demand in 2017 was significantly revised upwards...

...whereby its growth is expected to accelerate to 2.2% (from 1.9% in 2016), compared to the April assessment for growth of 1.8%...

...which is almost entirely due to the expectation for a higher positive contribution of the German economy growth, amid moderate shifts in contributions from other trade partners.

The foreign demand has undergone moderate upward revision in 2018, expecting that the growth will amount to 2% compared to 1.9% in April.

Foreign effective inflation
(annual rates in %)



Source: "Consensus Forecast" and NBRM calculations.

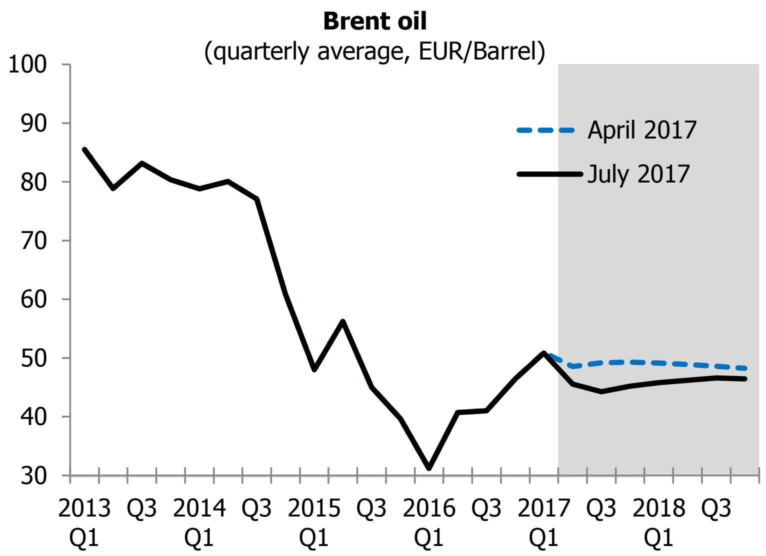
On the other hand, the foreign effective inflation has undergone a moderate downward revision in 2017...

...which is estimated to amount to 1.8%, unlike the April forecast of 1.9%...

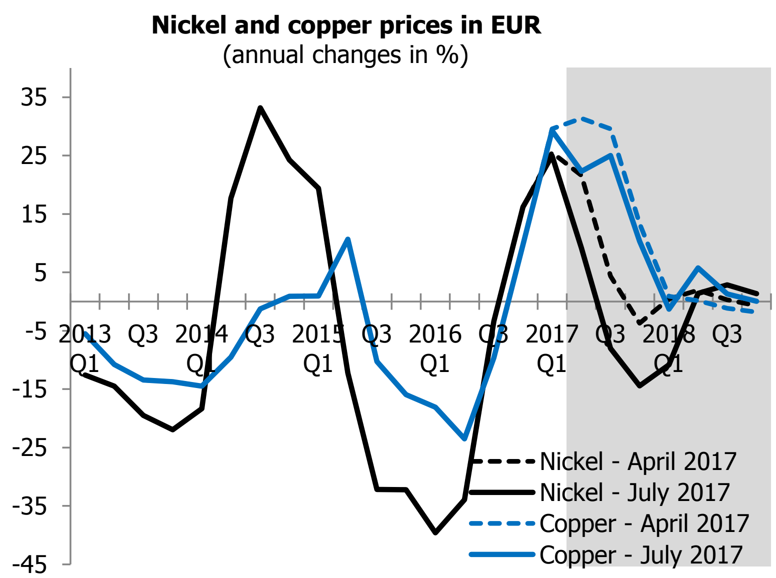
...which is mainly due to the assessments for lower imported inflation from Germany and Serbia[2].

Contrary to this, foreign inflation projection or 2018 is unchanged compared to April, whereby it is still expected to amount to 1.6%.

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



Source: IMF and NBRM calculations.



Source: IMF and NBRM calculations.

According to the latest assessments[3], for 2017 the expected oil "Brent" price was revised downward...

...although further double-digits increase is projected, it will still be lower in relation to the April projection.

...due to the slower rebalancing of the global oil market, amid significant growth of the supply, especially in USA, despite the undertaken measures for limiting global production[4].

A more significant revision of the oil price is conducted for 2018, where basically is expected to remain at the same level as in 2017, compared to the expected small decline in April.

In 2017, world metal prices have been revised downwards.

Thus, the **nickel price** was significantly revised downwards, which is now projected that it will register a much lower growth than in the April projection...

...amid further growth of the nickel supply by both most significant export countries, Indonesia and Philippines, and expectations for a weaker demand by China.

On the other hand, a significant growth of the **copper price** is still envisaged for 2017, amid small downward deviations of the projection compared to April...

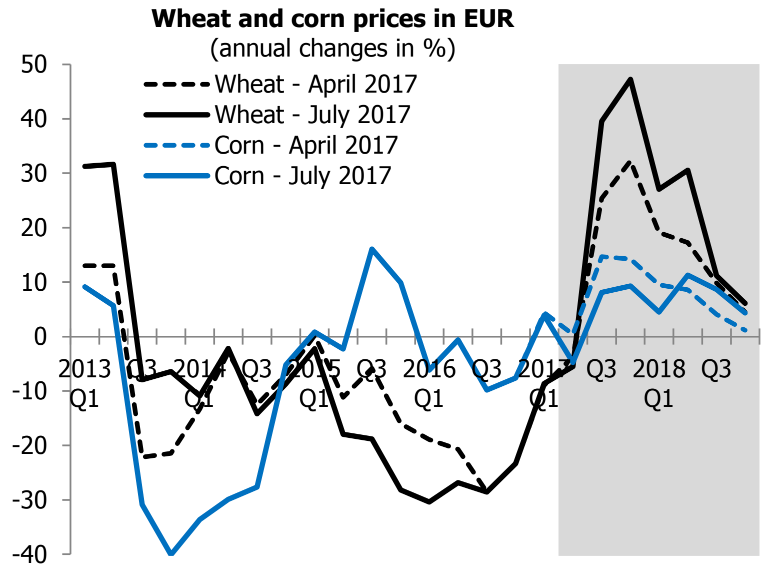
...which is entirely due to the effect of US-dollar exchange rate in relation to the euro.

For 2018, the revisions of the metal price projections are small and in the opposing direction, where a small growth of the copper price and small decline of the nickel price is expected.

In 2017, oil price was significantly

[3] For the analysis of the 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 25 May 2017, a Decision by OPEC countries was adopted for continuing the agreement for reducing oil production for an additional nine months (March 2018), whose aim is reduce the stocks of this fuel globally. Additionally, 11 oil producing countries which are not OPEC members including Russia are expected to support the continuation of the agreement, producing 1.8 million barrels less per day until March 2018.



Source: IMF and NBRM calculations.

revised upwards...

...i.e., its higher growth compared to the April projections is now expected...

...mainly due to the unfavorable weather conditions for the new harvest in the northern hemisphere, especially in USA, and the assessments for lower global supply of wheat compared to the previous year.

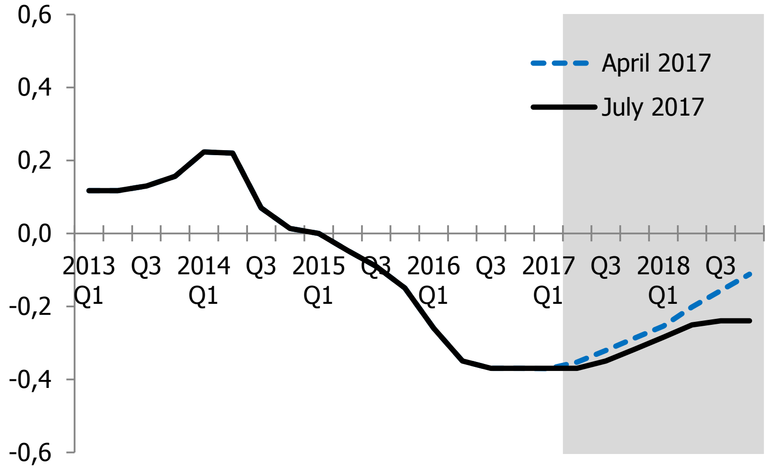
On the other hand, the maize price is expected to register a smaller growth than the projected in April...

...due to the assessments that there are high stocks and favorable production prospects this year.

Wheat and maize prices were revised upwards in 2018...

...i.e. are expected to register higher growth compared to the April projections.

1-month Euribor
(quarterly average, in %)



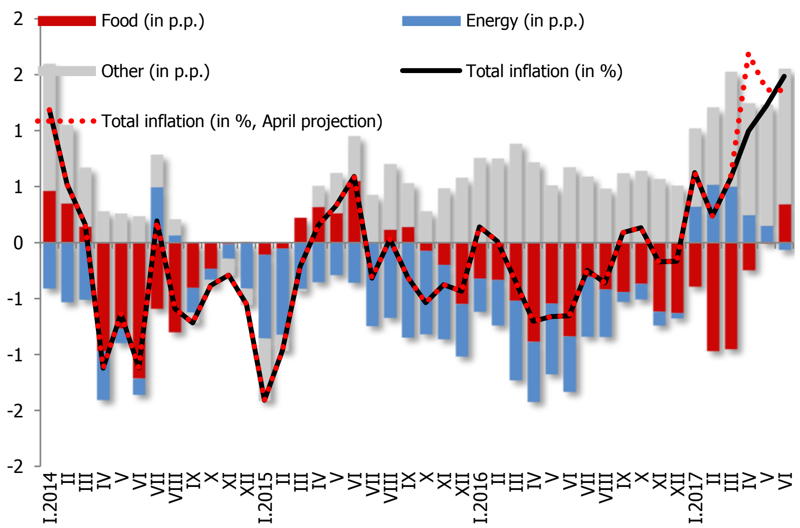
Source: "Consensus Forecast" and NBRM calculations.

The forecast of one-month Euribor for 2017 almost matches the level of the April expectations (-0.35% compared to -0.33% in April).

On the other hand, a moderate downward revision was made for 2017 and 2018...

...in conditions of uncertainty among market participants about the moment when ECB will decrease the volume of the operations for quantitative easing, amid possibility to continue at a same pace at the beginning of the following year, depending on the future inflation movement in the euro area.

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

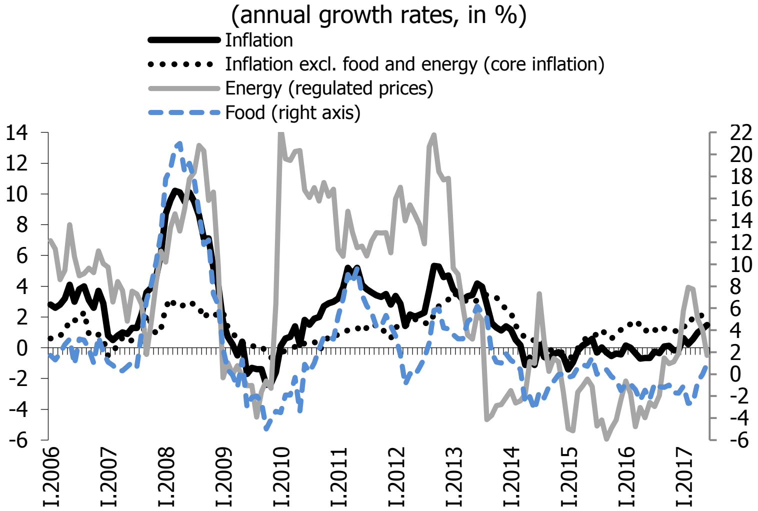


Source: SSO and NBRM.

In June 2017, the monthly growth of domestic consumer prices decelerated on 0.3%[5], compared to the monthly growth of 0.7% in May...

...which is mostly explained by the energy prices where the decline deepened. Food prices continue to grow, but a deceleration of the monthly growth pace is noticeable. On the other hand, in June, there was a small acceleration of the growth of product prices within the core inflation.

Inflation and volatility of food and energy
(annual growth rates, in %)



Source: State statistical office and NBRM calculations.

The annual inflation rate in June amounted to 1.5% (compared to 1.2% in May), which is a small upward deviation from the expected developments for June.

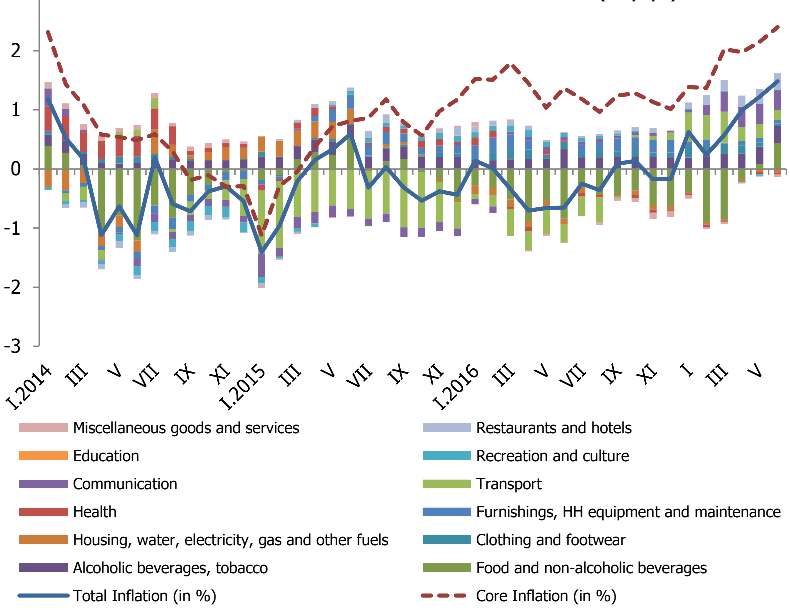
Observed by price category, the upward deviation is mostly due to the higher performances in food prices...

On the other hand, the deviation is in the opposite direction in the energy component (decline instead of the expected growth), whereas the performed core inflation rate is generally in line with the projections.

Despite the small upward deviation in June, **however, cumulatively for the second quarter, the performed inflation rate is moderately lower than the expected pursuant ot the Aprl projection.**

[5] Observed by group of products, fruits and tobacco registered the highest positive contribution in June.

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



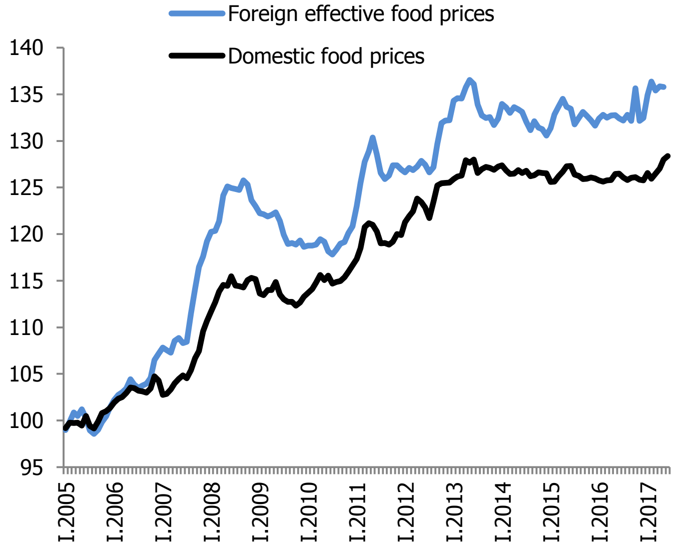
Source: SSO and NBRM.

In June, core inflation equaled 0.6% on a monthly basis and 2.4% on an annual basis.

Regarding the structure of core inflation, the annual growth in June is due to the upward shift in the prices of most categories within the core inflation, with the highest contribution of tobacco prices[6], the prices of "communications" category and "restaurants and hotels" category.

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.

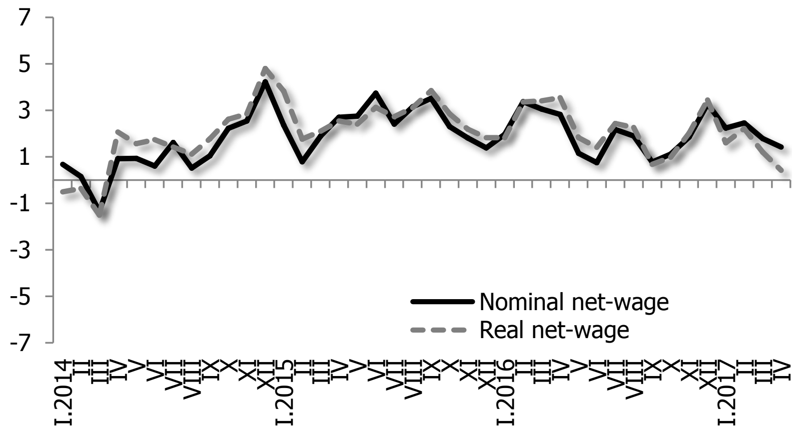
The expected development of the external input assumptions prices regarding inflation projection for the entire 2017 has been revised in different direction.

Thus, the latest oil and maize price estimates for 2017 indicate lower growth compared to the expectations of the April cycle projection, whereas a higher growth of the wheat price is expected.

Amid relatively small downward deviation of the actual inflation of the projected trajectory and simultaneously divergently revised external assumptions, it is currently assessed that the risks to inflation projection for 2017 are balanced. Namely, despite the downward revision of part of the external assumptions, the great uncertainty on the projected movement and changes in the primary commodities world prices, primarily in oil prices, impose the need for caution.

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

Average net-wage
(annual changes, in %)



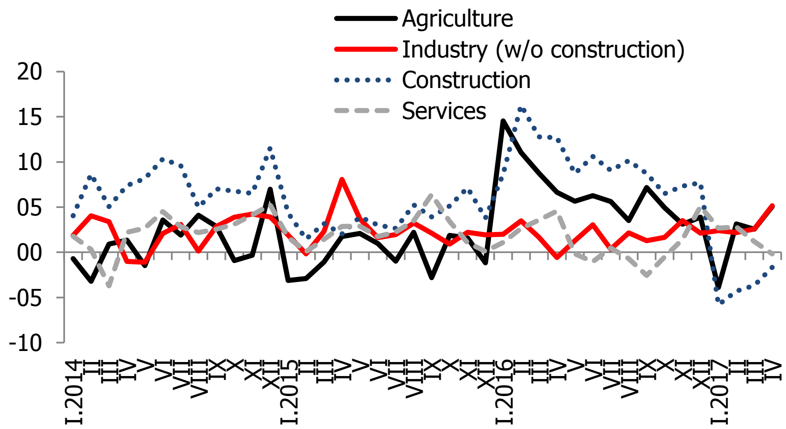
Source: SSO.

In April 2017, the average net wage registered a nominal annual growth of 1.4%, which is a moderate deceleration of the growth (of 0.4 percentage points), compared to the previous month.

An upward shift of wages is registered in most activities, amid higher growth in the "informations and communications" activity, and solid growth of paid wages is registered in mining, trade and agriculture. On the other hand, lower wages in April were paid only in a few service activities[7].

Amid small increase in the cost of living in April, **the real wages increased by 0.4%.**

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



Source: SSO.

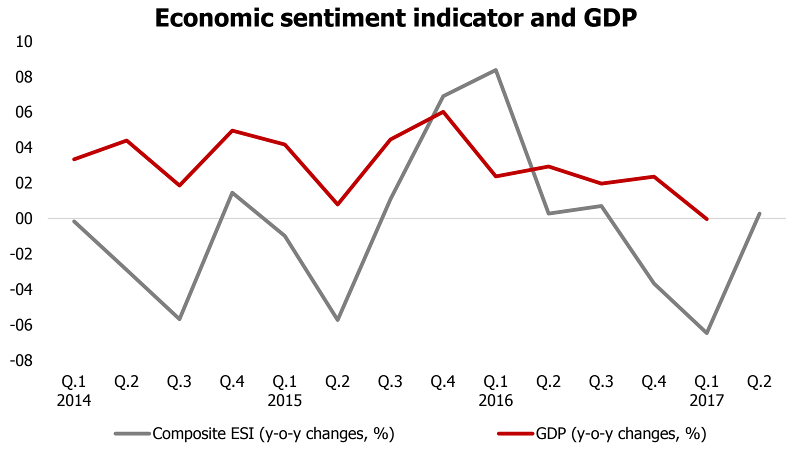
The realizations in net income in April are slightly lower than expected for the second quarter within the April projection.

Key macroeconomic indicators on the side of domestic supply and aggregate demand indicate improvement of the economic condition in the second quarter of the year. The results obtained from the research surveys are in the same direction which measure the perceptions of economic agents for the condition of the economy[8].

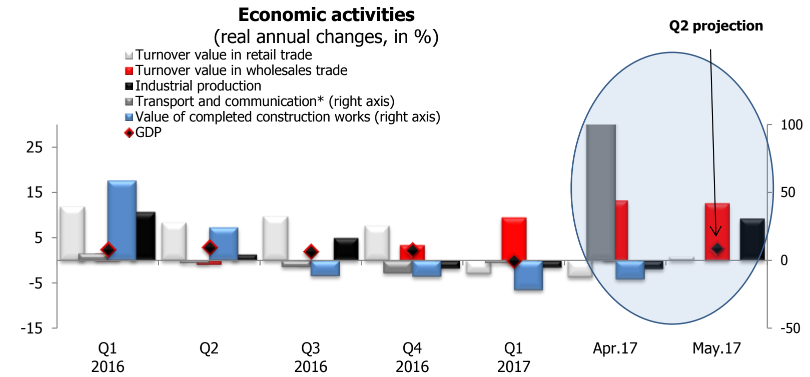
Compared to the decline in the first quarter of the year, cumulatively in the first two months of the second quarter of 2017, the **industrial output** registers a growth primarily reflecting it in the manufacturing industry, and the favorable developments in the energy sector and mining.

Within the manufacturing industry, growth is registered in most sectors, activities which produce new export orientated facilities have the highest positive contribution (primarily production of machines and equipment), as well as

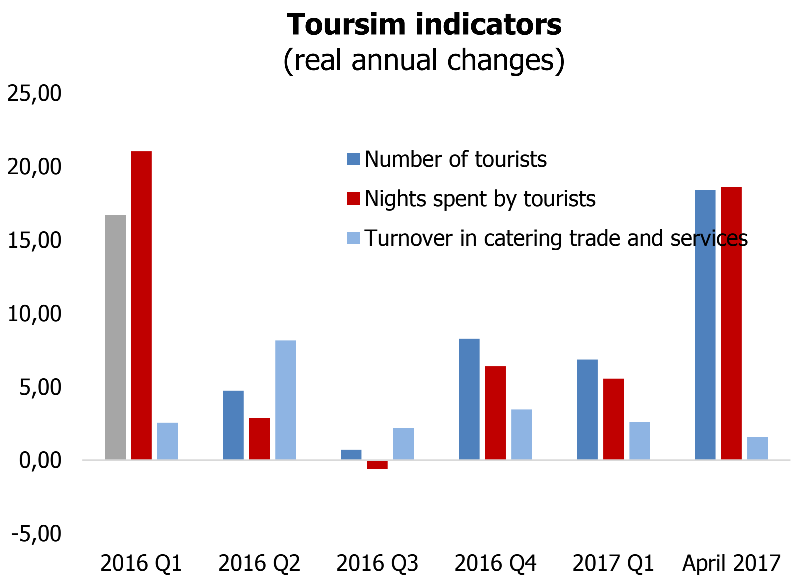
[7] Within the service sector, lower wages were paid in March in the activity "art, entertainment and recreation", "financial and insurance activities", "administrative and auxiliary service activities", "professional, scientific and technical activities" and "other service activities".
[8] Refers to the surveys conducted by the European Commission on measuring the economic confidence of agents in one economy. The composite indicator of the economic confidence is obtained as a weighed average of confidence indicators of consumers and confidence indicators of individual economic sectors (construction, industry, retail trade and services).



Source: State statistical office and European commission.



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



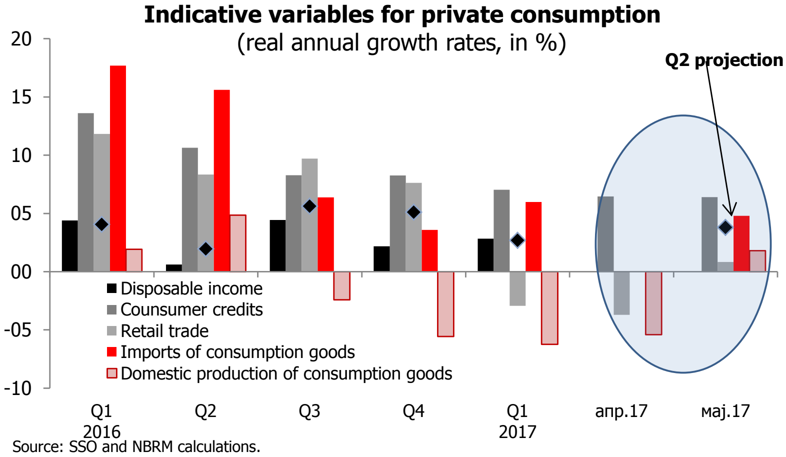
production of other non-metal mineral products. Improvement is registered in part of the traditional sectors (production of beverages, food products, textile and production of clothes) where the decline decelerated, and in part of the activities there was a growth of the production.

In April, **construction** registers an annual decline (although there was a certain acceleration compared to the previous quarter) which mainly is due to the decreased activity in building construction.

In the period April - May, total **trade** registered an annual growth which mostly reflects the increase of turnover in wholesale trade, and favorable developments in retail trade whose turnover in May registered a moderate growth, compared to the constant decline for few consecutive months.

On the other hand, available **railway traffic** data indicate decrease of the number of transported passengers and increase of the transported goods on annual basis.

Within **catering,** in April, the number of tourists and overnight stays increases, as well as the turnover in catering.



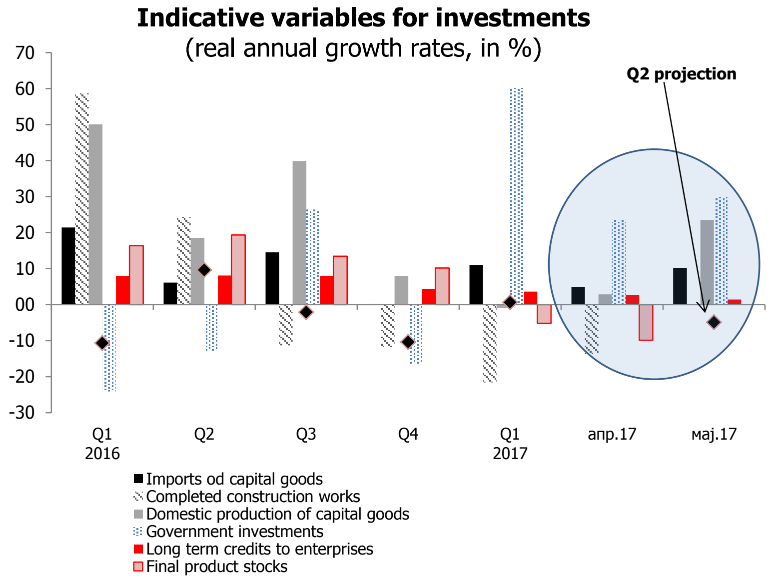
Source: SSO and NBRM calculations.

Most of the high-frequency data for the second quarter of 2017 indicate growth of **private consumption.**

...amid favorable performances in key components of the available income (payments, pensions, social transfers), and growth is registered in lending to the households (although decelerated compared to the previous month)...

...as well as increase of the net private transfers and import of consumer goods.

Unfavorable shifts are registered in retail trade and domestic production of consumer goods[9] which decrease moderately during the second quarter.



Source: SSO and NBRM calculations.

Available short-term indicators of **investment activity** point to an annual growth of investments in the second quarter of 2017.

...given the growth in the import of investment products and government capital and foreign direct investments....

...as well as amid further growth of long-term corporate lending (although at a slower pace compared to the previous quarter).

At the same time, annual growth was registered in the domestic production of capital goods.

Regarding investment indicators, decline is registered only in conducted construction works[10] which is due to the decrease of the activity in the building construction domain.

In the peiod April - May 2017, the data on **foreign trade** show narrowing of the trade deficit...

... given the higher nominal increase in exports compared to imports of goods.

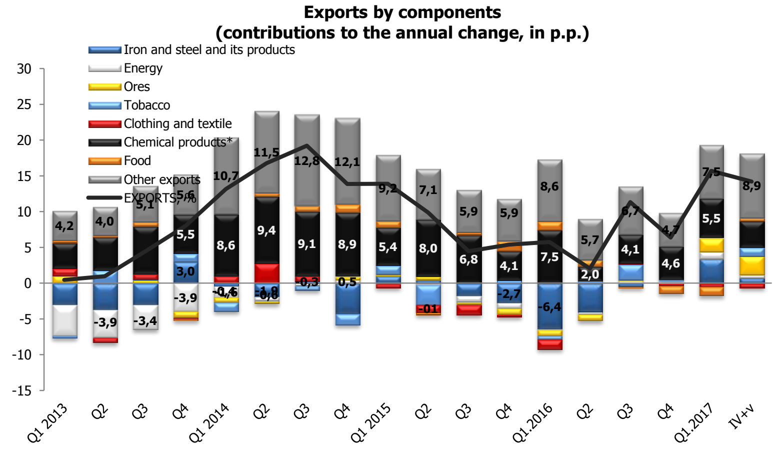
Budget performances for April - May

[9] This analysis is conducted as of May for pensions, social transfers, household loans, retail trade, import of consumer goods and domestic output of consumer goods and as of April for wages and net private transfers.
[10] The analysis is conducted as of May for government capital investments, long-term corporate lending, import of investment products and domestic output of capital goods and as of April for conducted construction works and foreign direct investments.

indicate growth of **public consumption** in the second quarter of 2017...

...amid higher expenditures for goods and services and health care transfers[11].

[11] Most of these assets relate to expenditures on goods and services.



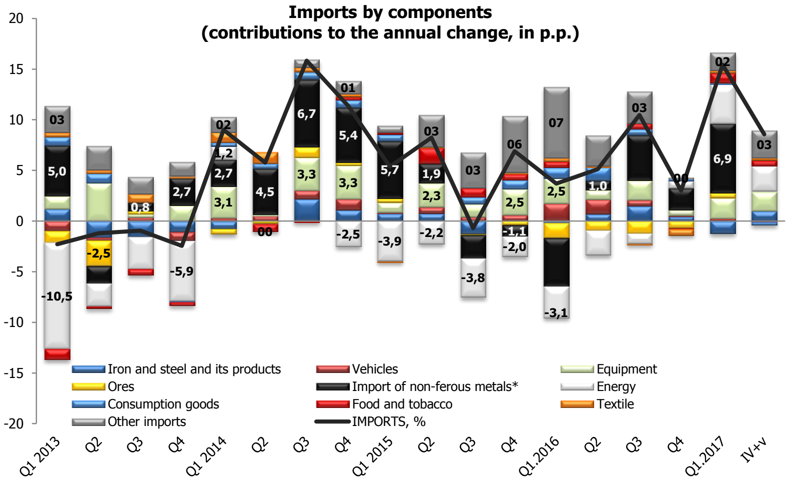
Source: NBRM.

In April and May 2017, the foreign trade deficit registered a moderate narrowing on an annual basis, given higher increase in the import rather than in the export component.

Export of goods in April and May 2017 registered an annual growth of 14.2% which is due to the performances in most export components, except export of clothes and textile where a moderate decline is registered.

In April and May 2017 the total export was higher the expectations in the April projection. Positive deviations are registered in the export of the new export oriented industrial facilities, as well as export of ores, tobacco...

...whereas in other export components, the export is within the April projection.



Source: NBRM.

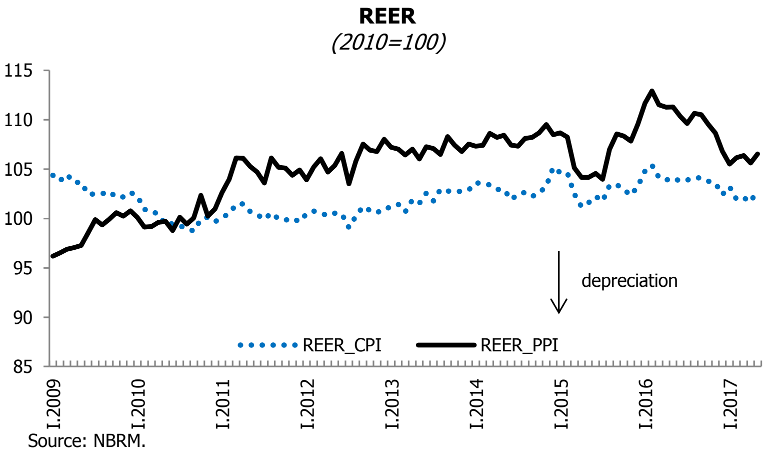
Import of goods in April and May 2017 registered an annual growth of 8.6%, primarily due to the growth of import of energy, raw materials in part of the new export-oriented facilities, but also to the growth of the imports of equipment and machinery, iron and steel...

...amid moderate decline in the import of consumer goods and tobacco.

Import of goods in April and May 2017 suggests higher than forecasted performances for the second quarter. Considering the individual categories, upward deviations occur in most categories, and they are most prominent in the import of energy, iron and steel, equipment and machinery and import of clothes and textile. Moderate downward deviations are registered in the import of part of new export oriented facilities, as well as import of consumer goods.

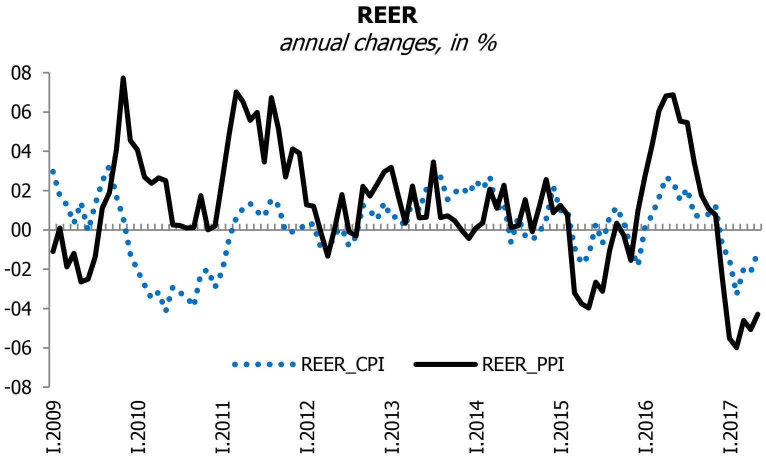
Export and import performances in April and May indicate higher than planned performances for the second quarter pursuant to the April projection, whereas performances in trade balance are in accordance with

the projection.



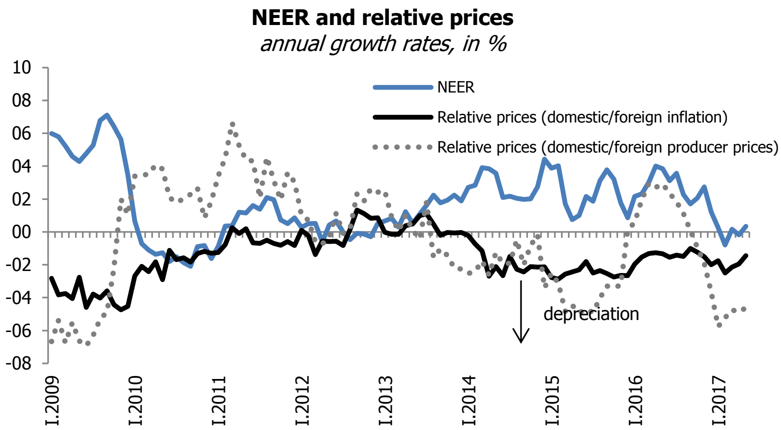
Source: NBRM.

The favorable developments regarding **price competitiveness indicators of the domestic economy that have started at the end of 2016, also continued in the second quarter of 2017**. The REER index deflated by consumer prices in May 2017 depreciated by 1.1% on annual basis, and the REER index deflated by producer prices registered a higher depreciation of 4.3%.



Source: NBRM.

Such developments are largely due to favorable movements in relative prices, whereby relative prices of producer prices decreased by 4.6%, while the relative costs of living by 1.5%. The NEER acted in the opposite direction but more moderately, registering a slight appreciation of 0.3% annually, mostly as a result of the depreciation of the Russian ruble, given the depreciation of the Turkish lira and the British pound.

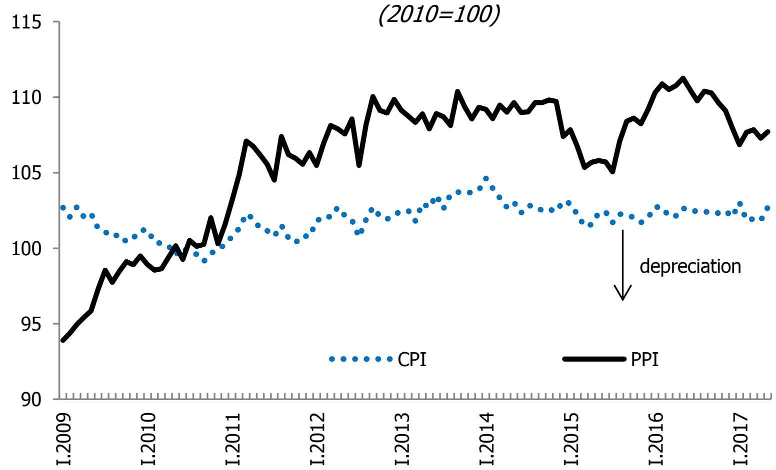


Source: NBRM.

The analysis of **REER indices, as measured using weights based on the foreign trade without primary commodities[12], indicates divergent movements in May 2017.** Namely, the

[12] 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.

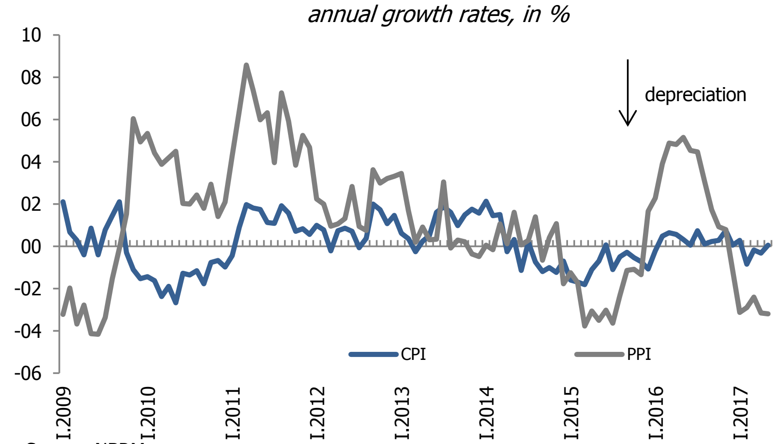
REER, excluding primary commodities
(2010=100)



Source: NBRM.

REER based on consumer prices remained unchanged (appreciated by 0.1%), while the REER deflated by producer prices depreciated by 3.2%.

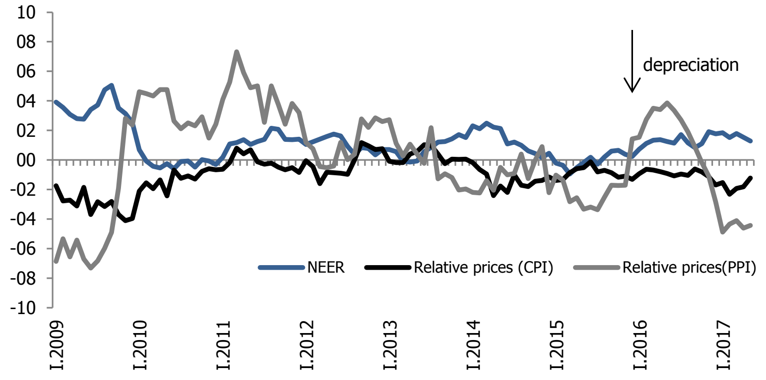
REER, excluding primary commodities
annual growth rates, in %



Source: NBRM.

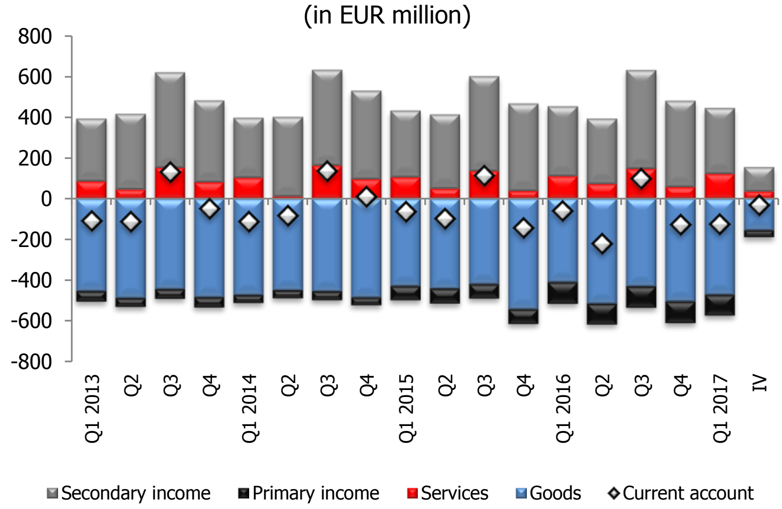
On an annual basis, the relative consumer prices and the relative producer prices decreased by 1.2% and 4.4%, respectively, whereas NEER appreciated by 1.4% on an annual basis.

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



Source: NBRM.

Main components of the current account
(in EUR million)

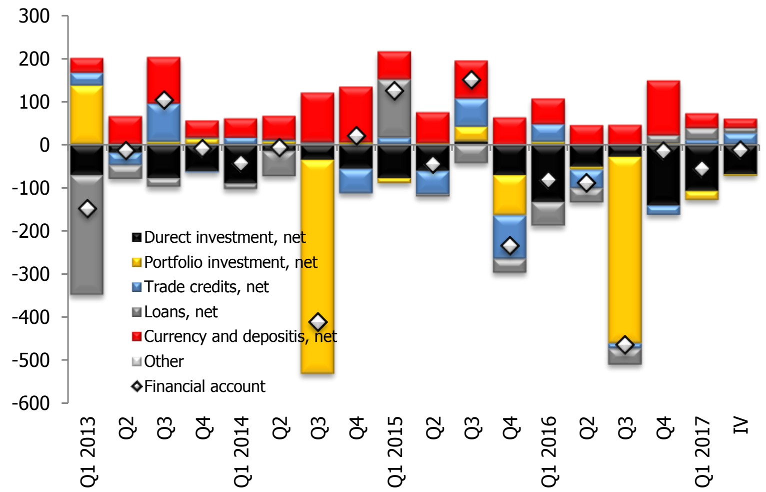


Source: NBRM.

In April 2017, the balance of payments' current account has registered a deficit of Euro 30.1 million (or 0.3% of GDP), which indicates a lower deficit in the second quarter relative to the expectations with the April projection.

The deviation is mostly driven by the improved performances in the balance of goods and services and primary income, whereas second income surplus is somewhat weaker than the expected. However, latest data as of June for the purchased foreign effective on the exchange market, which is used as a percentage of the private cash transfers, indicate depletion of the unfavorable deviations in secondary income and possibilities for improved performances in the second quarter.

Financial account components
(in EUR million)



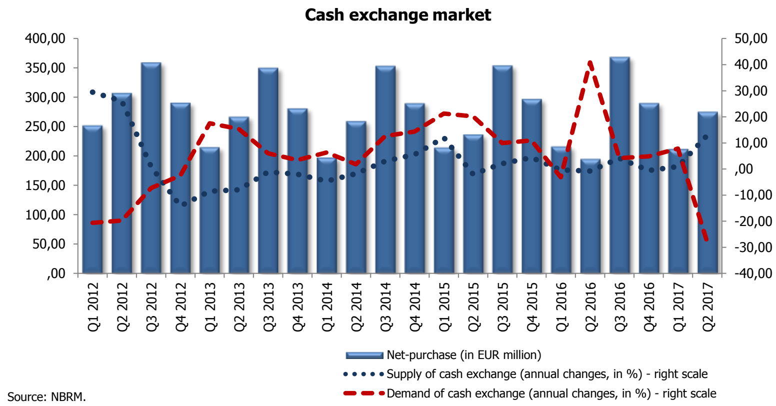
Source: NBRM.

During April, net inflows of Euro 11.6 million (or 0.1% of GDP) were performed in the financial account, in accordance with the expectations for moderate net inflows in the second quarter according to the April projection[13].

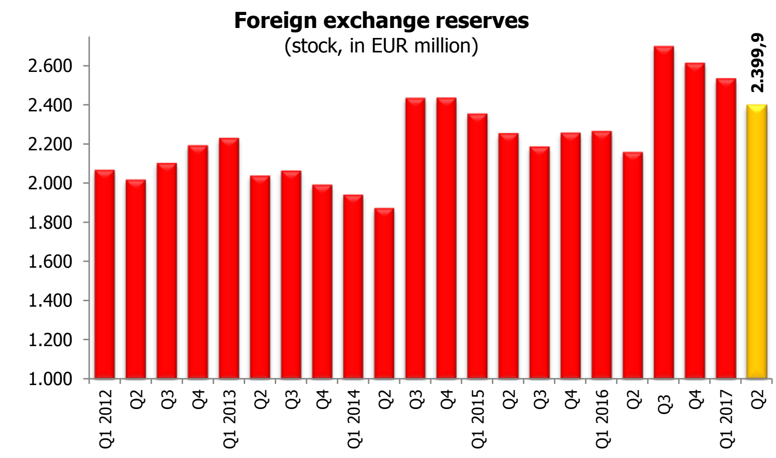
More significant positive deviations appear in foreign direct investments, whereby in April high inflows on net basis were performed. Currency and deposits caused an additionally favorable effect (performed net outflows which are lower than the expected). On the other hand, performances in other financial flows are weaker in relation to the April projections for the second quarter, especially long-term loans and trade credits.

Recent data on currency exchange

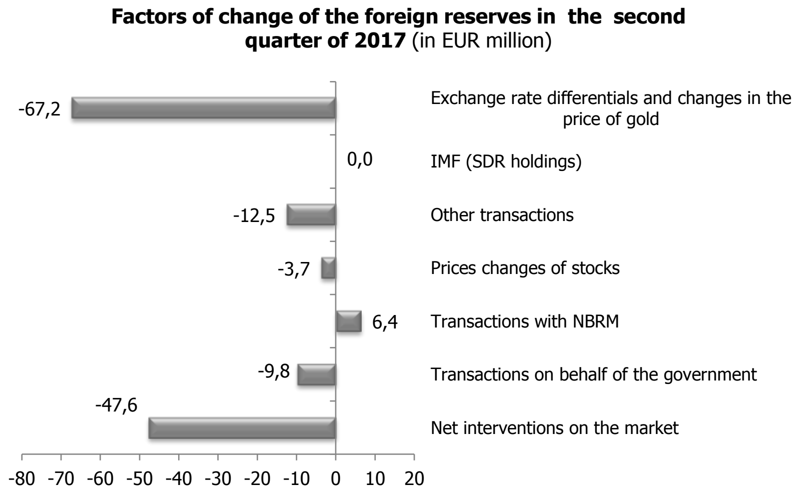
[13] According to the new methodology for compilation of the balance of payments BPM6, the terms net inflows and net outflows denote net incurrence of liabilities and net acquisition of financial assets, respectively.



Source: NBRM.



Source: NBRM.



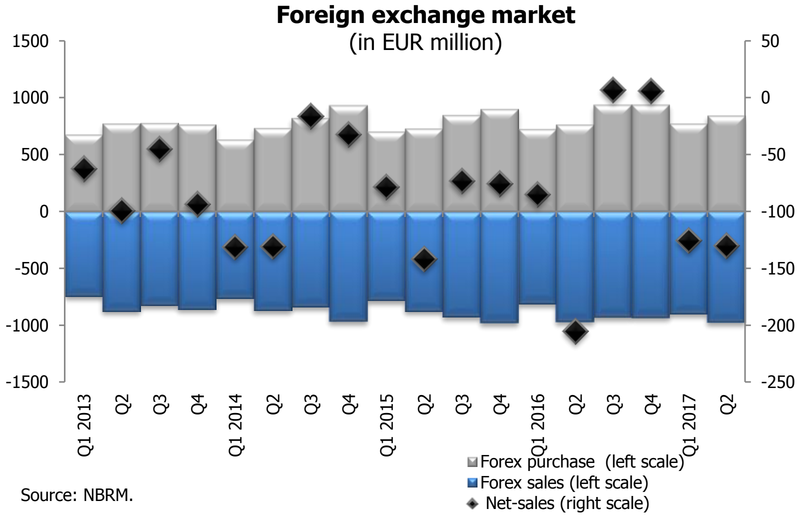
Source: NBRM.

operations as of June 2017 indicate a high annual increase in the supply and significant decline in the demand for foreign currency.

The net purchase on the currency exchange market registered in the second quarter equaled to Euro 275.1 million, which is an annual increase of 41.2%. Such developments are due to the comparative base of the previous year, period when due to the political crisis there were pressures in the currency exchange market through decrease of the supply for foreign currencies and high growth of the demand for foreign currency.

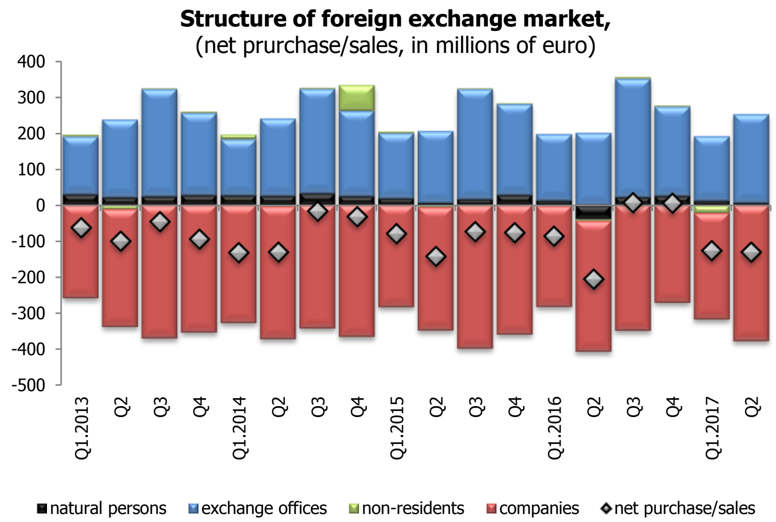
As of 30 June 2017, the gross foreign reserves stood at Euro 2,399.8 million, which is a decrease by Euro 134.5 million compared to the end of the first quarter of 2017. The decrease in foreign reserves is primarily due to the changes in the category currency changes and change in the price of gold, as well as from the NBRM's interventions on sales in the foreign exchange market. Additionally, the category others[14] had a smaller negative impact, which also includes the decline or foreign currency deposits of domestic banks with the NBRM, and transactions for the account of government. On the other hand, transactions with the NBRM had a smaller favorable impact.

[14] The change in this category includes the swap transactions with gold



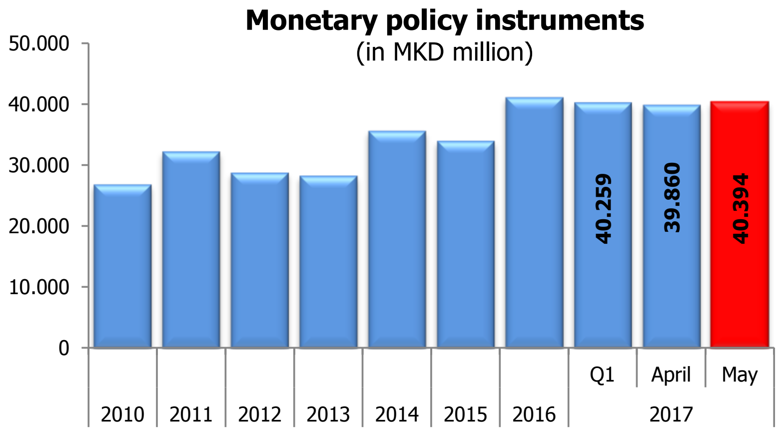
Source: NBRM.

In the period April - May 2017, the foreign exchange market of banks a net sale of Euro 129.7 million was registered, by Euro 75.2 million lower compared to the same period last year. Such annual change was due to the increased supply of foreign currency, given unchanged demand of foreign currency.



Source: NBRM

Sector-by-sector analysis show that such changes are mostly due to the increased net purchase in exchange offices, as well as the registered low net purchase in natural persons (unlike the performed net sale in the same period of the previous year). Contrary to these shifts, net sale in companies registered a moderate increase.

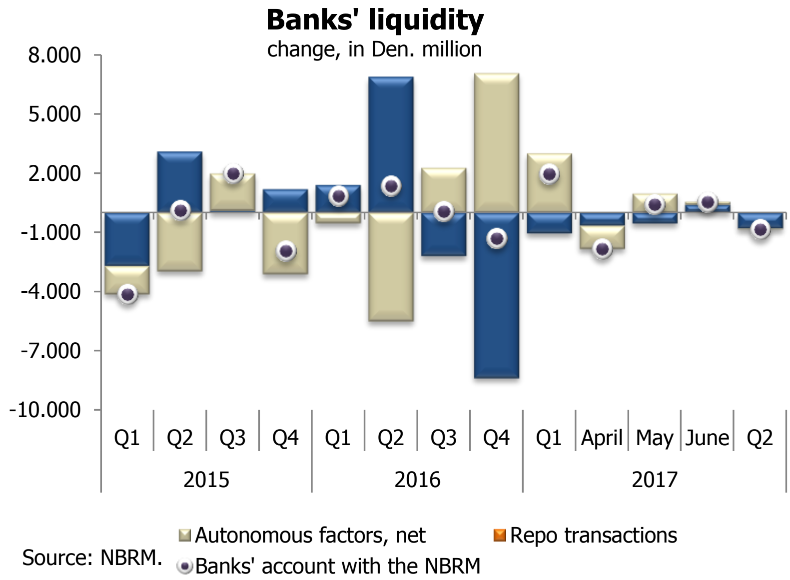


Source: NBRM.

The situation regarding monetary instruments in April is moderately lower compared to the end of the first quarter. Such performances are in accordance with the expectations for creating liquidity through monetary instruments in the second quarter of 2017, pursuant to the April projection.

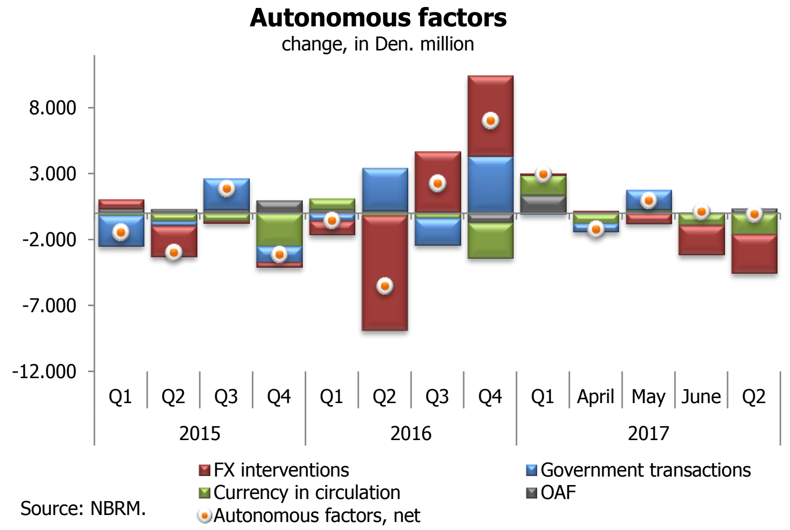
In terms of balance, NBRM's net foreign currency assets in May registered decline for the second consecutive month. Such performance is in accordance with the expectations for the second quarter of 2017, pursuant to the April projection. Total deposits of the government registered a decline during the analyzed period. Thus, their stock is lower compared to the end of the first quarter of the year, which is also in accordance with the expectations, pursuant to the April projection.

In May, the reserve money registered a monthly decline for the second consecutive month. Thus, unlike in April, when the decline was entirely due to the lower banks' reserves with the NBRM, in May, despite banks' reserves, currency in circulation registered a moderate decline. Regarding the April projections, reserve money were projected to increase in the second quarter, amid simultaneous growth in both component categories.

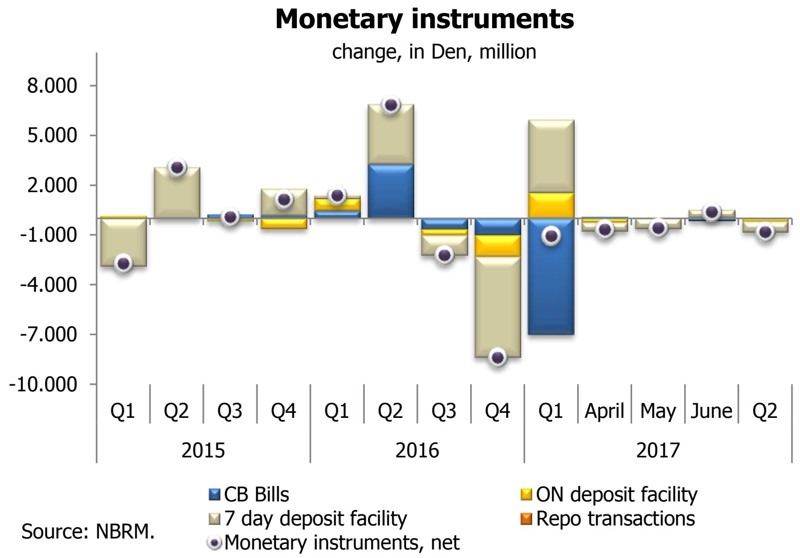


Source: NBRM
*positive change: liquidity creations, negative change: liquidity withdrawal.

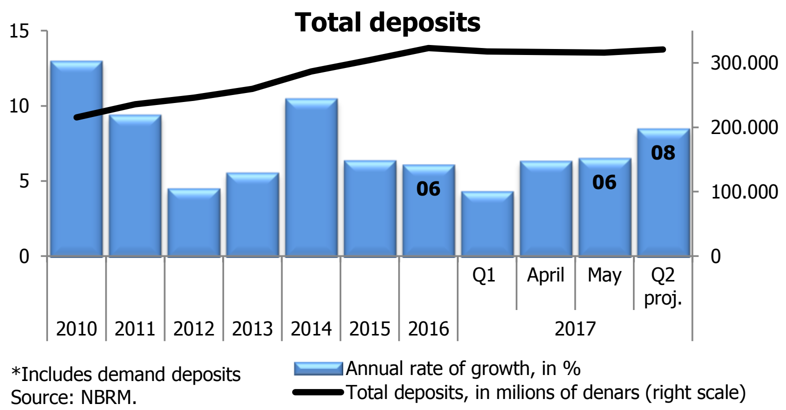
According to operational liquidity data, in June, the banking system liquidity registered a monthly increase. The increase in liquidity in June was impacted by the government transactions, amid decreased banks' interest to place part of excess liquid assets in short-term deposits with the NBRM. (overnight and 7 days)



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



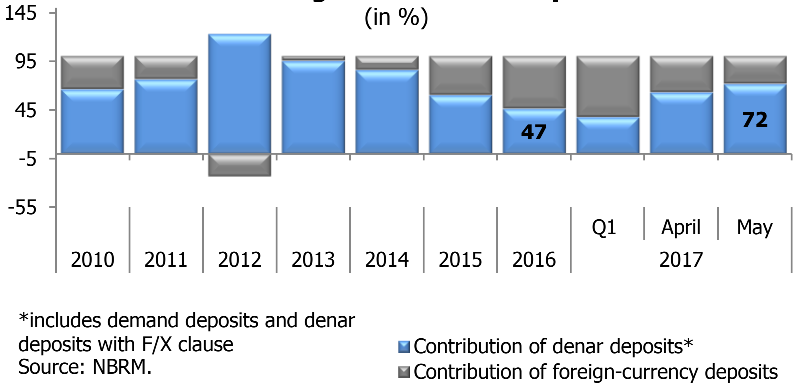
*positive change: liquidity creation, negative change: liquidity withdrawal.
Source: NBRM



Total deposits in May 2017 registered a monthly decline, similarly to the previous month. Analyzed by sectors, the monthly decline (of 0.3%) of the total deposits in May is entirely due to the decrease in corporate deposits, while the household deposits registered a moderate growth. In terms of the currency structure, foreign currency deposits in May (for the second consecutive month) registered a decline, whereas denar deposits, after the decline in April registered a small growth.

The annual growth rate of total deposits in May was 6.4% (6.3% in April) and is below the projected growth for the second quarter of 2017 (of 8.4%) with the April projection. Thus, similar to the performances in the previous month, the annual growth in May is due to the lower base effect given the significant banks deposit withdrawal in May 2016, due to the political events in the country.

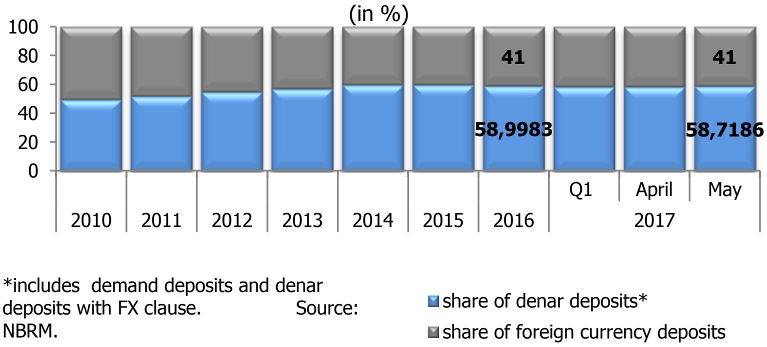
Contribution of denar and foreign currency deposits to the annual growth of total deposits
(in %)



*includes demand deposits and denar deposits with F/X clause
Source: NBRM.

In terms of currency structure, the annual growth of total deposit in May results from denar deposits growth. Thus, the contribution of denar deposits in the annual growth reaches the level of 72.1%, which dynamically observed is a increase compared to the previous month.

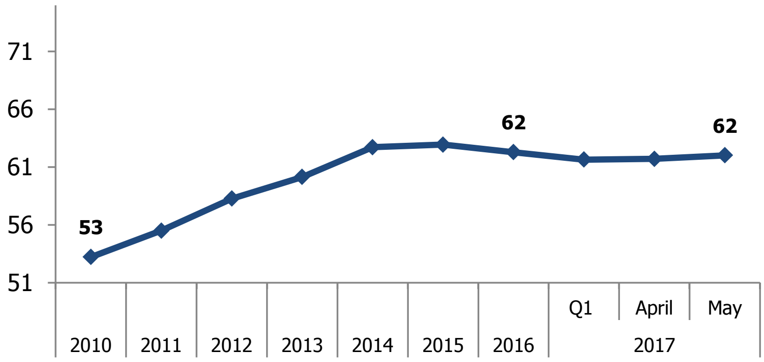
Share of denar and foreign currency deposits in total deposits
(in %)



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

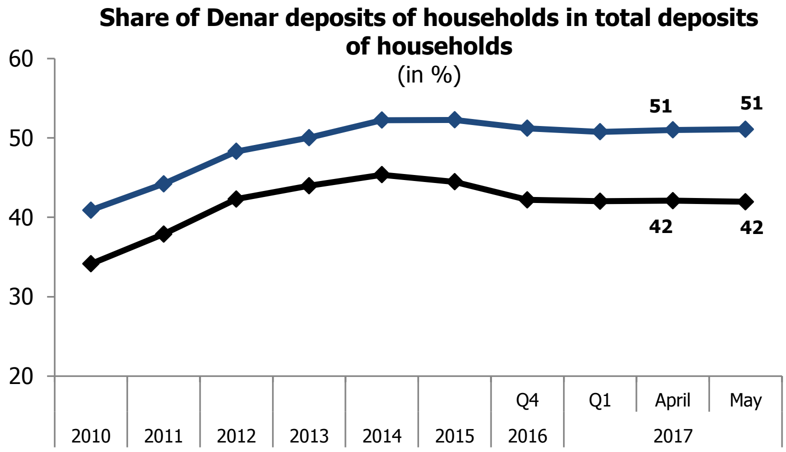
The share of Denar deposits in total deposits in May decreased compared to the previous month. Thus, denar deposits still dominate the banks' deposit base.

Share of Denar M4 in total M4
(in %)

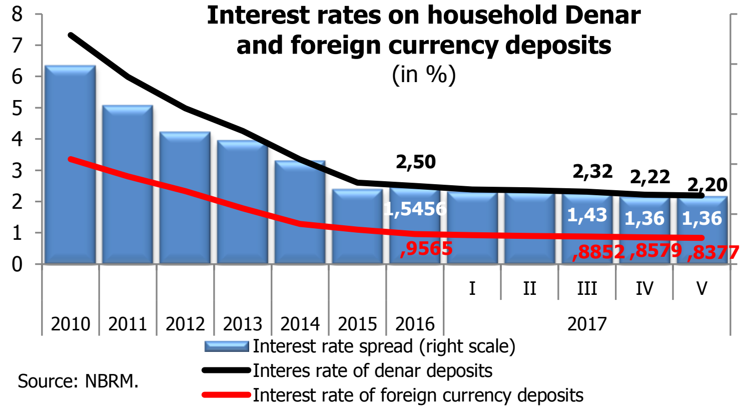


Source: NBRM.

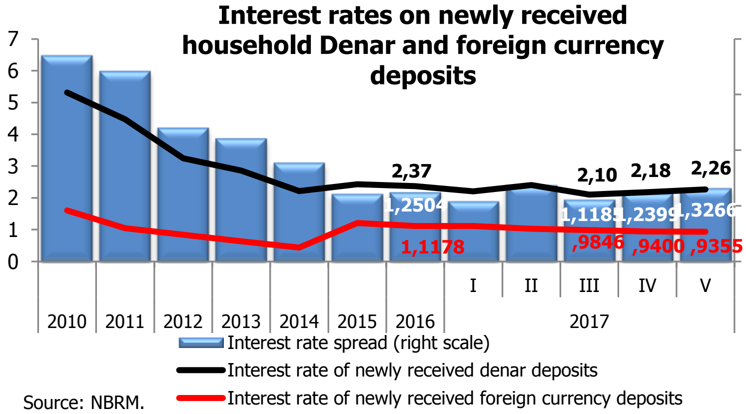
Total household deposits in May registered a moderate increase compared to the previous month. In terms of currency, the monthly increase of household deposits (0.03%) is due to the higher denar savings, amid insignificant decline of the households' foreign currency deposits. As a result of such developments, the share of denar deposits in total household deposits increased in May.



Source: NBRM.



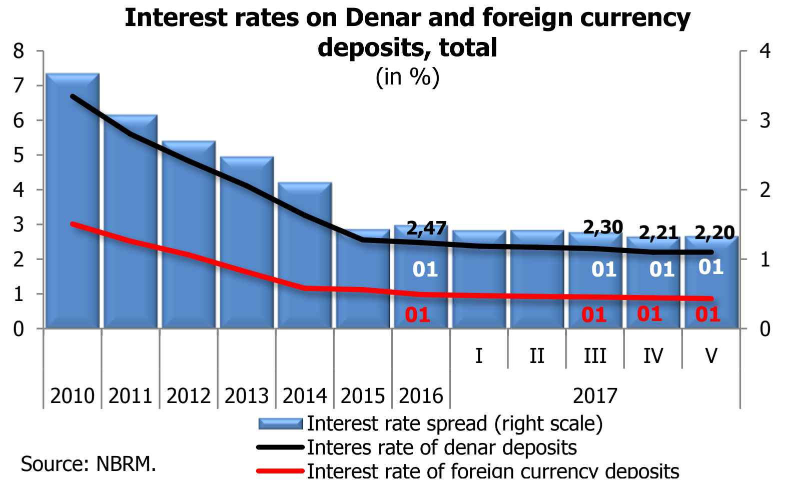
Source: NBRM.

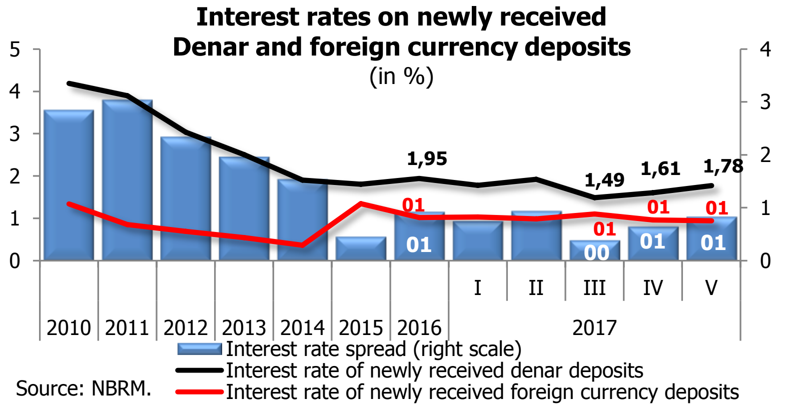


Source: NBRM.

In May, interest rates on household deposit registered a moderate decline of interest rates on denar deposits and interest rates on foreign currency deposits compared to the previous month. Thus, the interest rate spread between denar and foreign currency interest rates remained unchanged. The interest spread of **new household deposits** has widened as a result of the increase in the interest rate on Denar deposits, amid unchanged interest rate on foreign currency deposits.

In May, **interest rates on total**



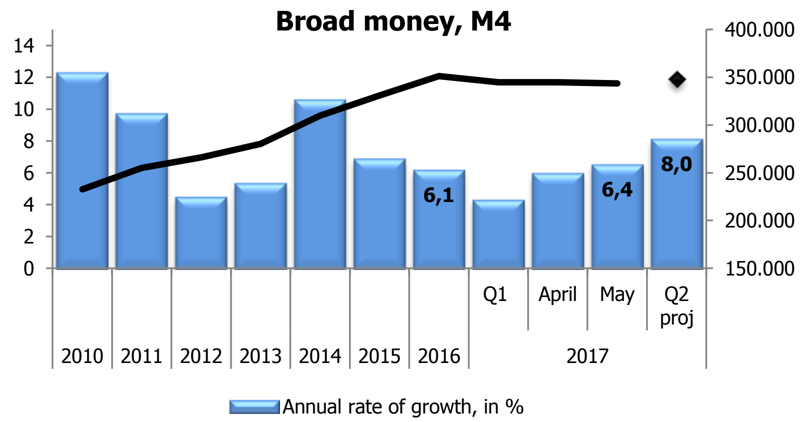


deposits registered a moderate decrease of the interest rates on denar deposits compared to the previous month. Interest rates on foreign currency deposits and the interest spread between denar and foreign currency rates remained unchanged. In May, the interest spread between denar and foreign currency deposits in **newly accepted total loans** widened compared to the previous moth due to the higher interest rate on newly accepted denar deposits and reduced interest rate on newly accepted foreign currency deposits. However, regarding the interest rates on the newly accepted deposits, the characteristic variable movements should be kept in mind[15].

During May, the broadest money M4 decreased on a monthly basis. Such monthly performance is due to the decline of total deposits and currency in circulation. **On an annual basis, the money supply is higher by 6.4%, which is below the projected growth of 8.0% for the second quarter of 2017** and fully reflects theeffect from the lower base effect due to political instability in the country during the April - May period in the previous year.

In May, total loans to the private sector registered a monthly increase, which was higher compared to the previous month growth. Analyzed by

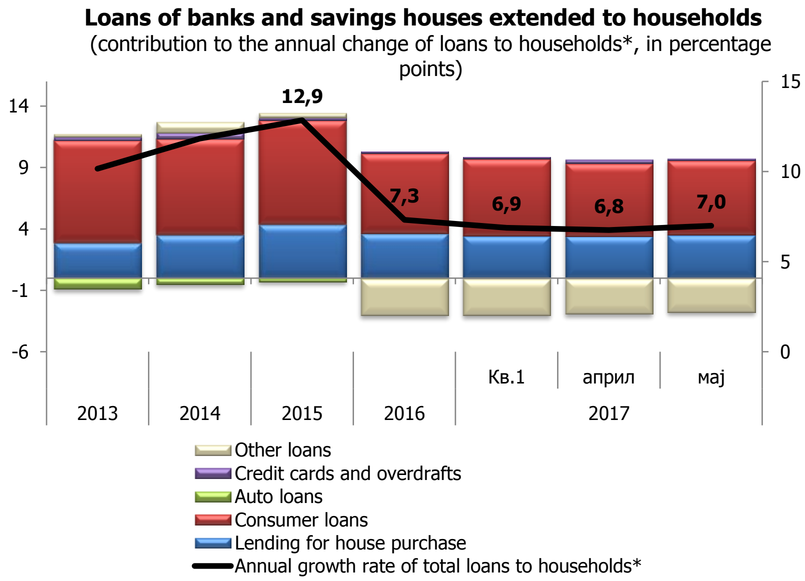
[15] Volatility of interest rate on newly accepted deposits results from the fact that they have been driven by the volume of newly accepted deposits (which can vary from month to month) and their interest rate.



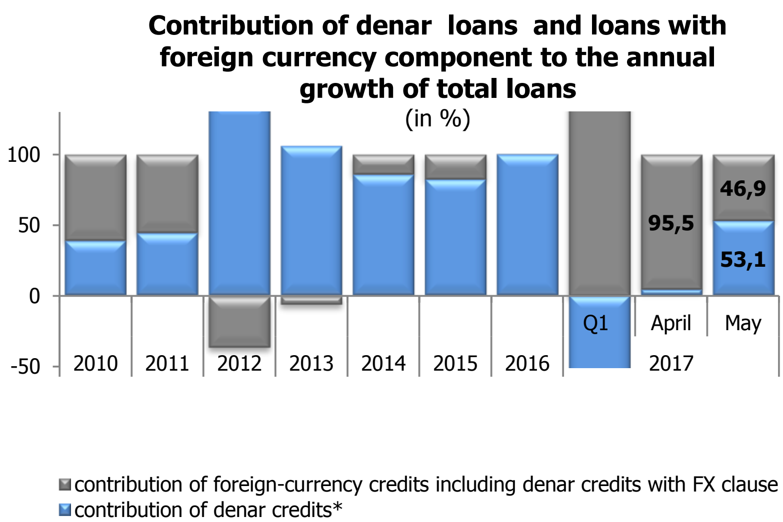
Source: NBRM.

sectors, the monthly increase of the total credit activity (of 0.8%) arises from the higher performances in both sectors (corporate and household).

On an annual basis, total loans at the end of May increased by 1.5%, which is below the projected growth of 3.2% for the second quarter of 2017, according to the April projection. If we exclude the regulatory effect, the annual growth rate of total loans is 6.4% and is above the projected annual growth of 4.5% for the second quarter of 2017.



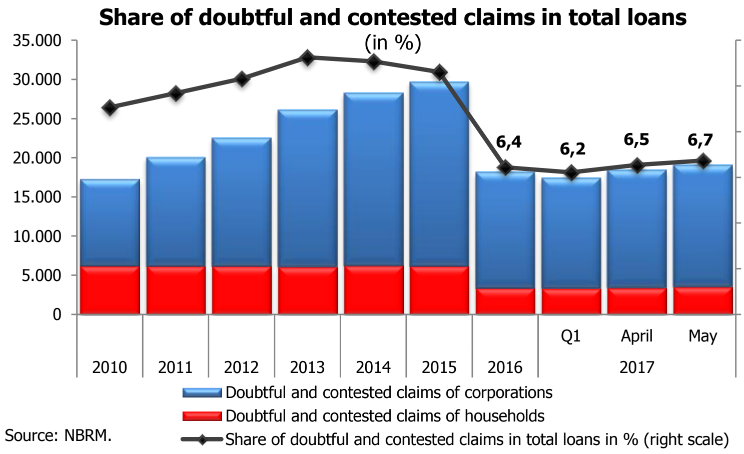
*Total loans to households do not include loans to self-employed individuals. Source: NBRM.



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

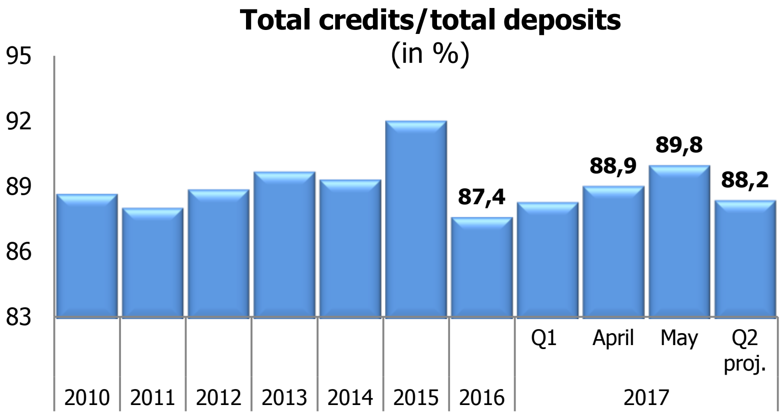
In terms of currency, the annual growth of total loans in May 2017 is mostly (53.1%) due to the growth of denar loans[16].

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



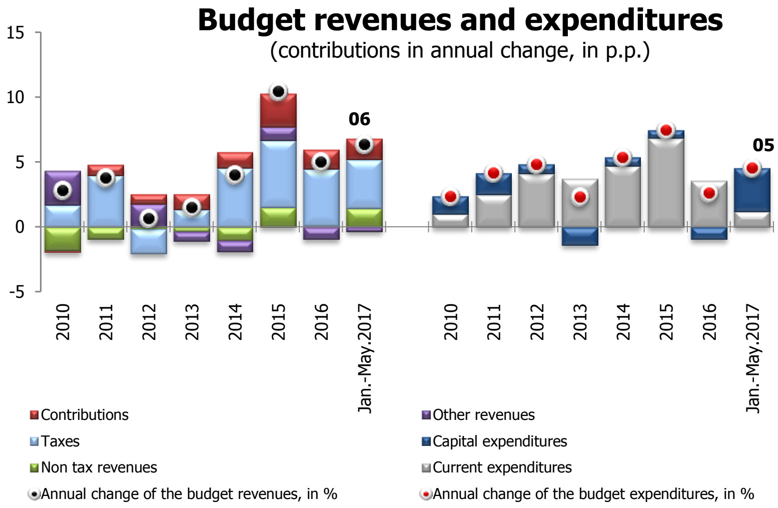
Source: NBRM.

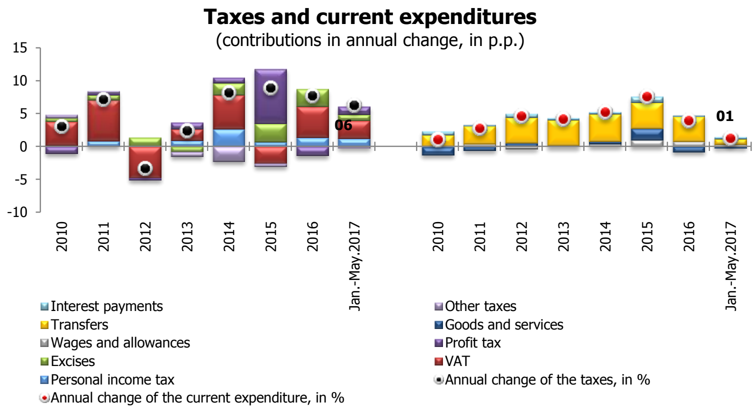
The share of doubtful and contested claims in total loans equaled 6.7% in May and increased by 0.2 percentage points compared to the previous month.

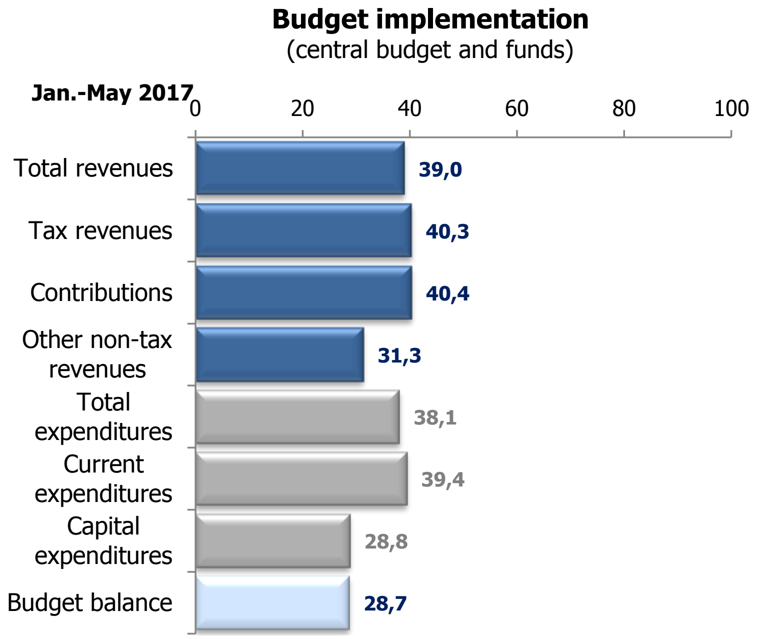


Source: NBRM.

Utilization of the deposit potential for lending to the private sector at the end of May amounted to 89.8% and is higher compared to the previous month (88.9%). The performance in May is higher compared to the expectations for the second quarter of 2017, according to the April projection. Excluding the effect of regulatory write-off, the ratio of loans and deposits at the end of May is 95.4%.







Source: Ministry of Finance and NBRM's calculations.

In the period January-May 2017, the total revenues realized in the Budget of the Republic of Macedonia (central budget and budgets of funds) increased by 6.4% compared to the realizations in the same period in the previous year. The improved performances are mostly due to the higher realizations in taxes, but non-tax revenues also have a positive contribution. On the other hand, the inflows in other revenues have moderate negative contribution to the annual growth.

Tax revenues in January-May 2017 increased by 6.3% on an annual basis, largely due to higher performance of VAT, while additional positive contribution was also made by the income from the profit tax and the personal income tax.

In the period January-May 2017, the budget expenditures increased by 1.3% on an annual basis, which mostly arises from the higher capital expenses, and partially from current expenditures.

In January-May 2017, the realized budget revenues constituted 39% of the revenues projected for 2017, pursuant to the Budget. Analyzing key categories of budget revenues, higher performance was recorded in contributions and taxes (of 40.4% and 40.3% respectively), while the realization of other non-tax revenues accounted for 31.3%.

Analyzing budget expenditures, in the period January-May 2017, 38.1% of the planned expenditures for 2017 were realized, which is mostly due to the realization of the current costs (39.4% of the annual plan), while the realization of the capital expenditures is relatively lower and equals to 28.8% of the annual plan.

The budget deficit in January-May 2017 accounts for 28.7% of that planned deficit for 2017.

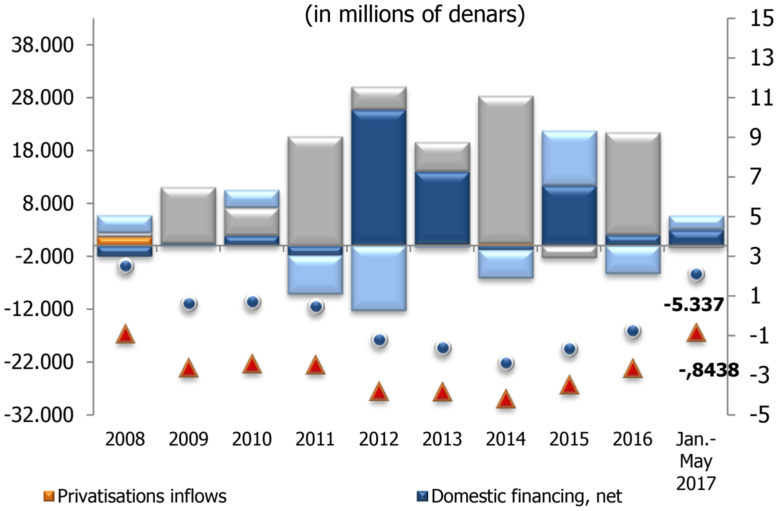
In the period January-May 2017, the Budget of the Republic of Macedonia registered **a deficit of Denar 5.337**

million, which is 0.8% of the nominal GDP[17].

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

Financing of the budget balance

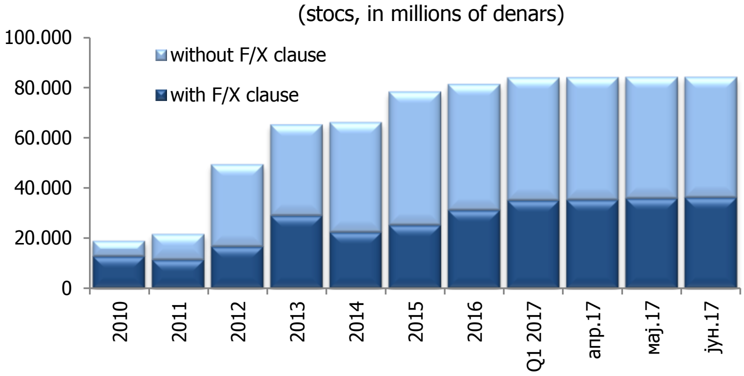
(in millions of denars)



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

Government securities

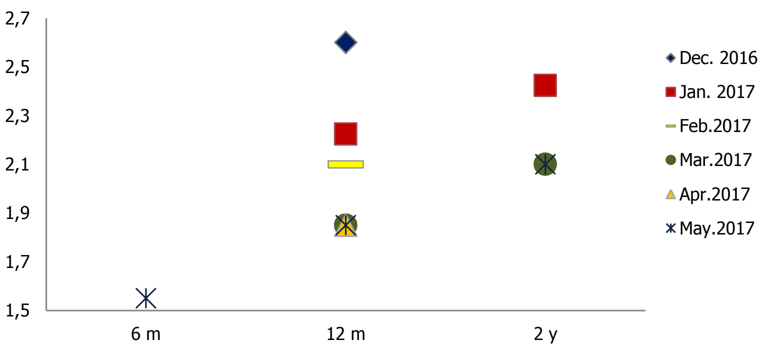
(stocs, in millions of denars)



Source: NBRM.

The stock of issued government securities in the domestic market amounted to Denar 84,240 million at the end of June 2017 and compared to the end of the first quarter is higher by Denar 280 million. In the first half of 2017, government securities increased by Denar 2.870 million.

Interest rates of government securities in domestic currency (realized)



Source: Ministry of finance

Interest rates on the issued government securities in June[18] 2017 remained unchanged relative to the previous month. Compared to the end of the previous year, in June, interest rates on 12-months government securities are lower by 0.75 percentage points.

[17] The analysis uses the NBRM April projections for the nominal GDP for 2017.
[18] At the auctions of government securities in February, 6-month treasury bills without FX clause, 12-months government bonds with FX clause and 15-year government bonds with FX clause were offered.

Annex 1

Timeline of the changes in the setup of the monetary instruments of the NBRM and selected supervisory decisions adopted in the period 2013 - 2017

January 2013

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

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

March 2013

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

July 2013

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

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

October 2013

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

November 2013

- A Decision amending the Decision on reserve requirement was adopted, which exempts the NBRM from paying reserve requirement remuneration (previously, this remuneration equaled 1% for denar reserve requirement and 0.1% for euro reserve requirement). The Decision is being applied since 1 January 2014.

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

February 2014

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

April 2014

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

September 2014

- In order to further channel banks' excess liquidity to the non-financial sector, in September the NBRM revised the mechanism for transfer of the demand for CB bills, which is above the banks' potential into another instrument, i.e. seven-day standing deposit facility. According to these changes, for the seven-day standing deposit facility that banks are obliged to allocate if on the CB bills auctions they demand an amount higher than the potential[19], 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.

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

September 2014

- The National Bank of the Republic of Macedonia Council adopted the Decision amending the Decision on the reserve requirement, which extends the application of the non-standard measure for reduction of the base for the reserve requirement of commercial banks for the amount of new loans extended to net exporters and domestic producers of electricity. The main objective of the Decision is to provide further support to the two systemically important sectors of the economy. The current implementation of this measure has generated positive effects on the dynamics of lending and thus the overall economic growth, contributing to a reduction of the cost of funding of companies from both sectors, although with lower intensity than the potential. In such circumstances, and given the data that indicate some uncertainty about the pace of lending to the corporate sector in the next period, this Decision envisages continued application of this non-standard measure until 31 December 2015.

October 2014

- A Decision on reducing the interest rate on overnight deposit facility from 0.75% to 0.5% and on seven-day deposit facility from 1.25% to 1% was adopted.

March 2015

- A Decision on reducing the interest rate on overnight deposit facility from 0.5% to 0.25% and on seven-day deposit facility from 1% to 0.5% was adopted.

- The National Bank Council adopted the Decision amending the Decision on CB bills, which introduces a new manner of establishing the bids of banks at the auctions of CB bills. According to the Decision, the amount of supply of individual bank is calculated by applying its appropriate percentage share in the total supply of treasury bills, reduced by the amount of past due CB bills of the Macedonian Bank for Development Promotion AD Skopje. In order to ensure operational efficiency in conducting auctions of this type and greater transparency toward banks, before the auction the NBRM shall inform the banks on the maximum offer that can be submitted by each bank. This opportunity for setting the supply of banks is expected to stabilize the demand at the level of the amount offered, which eliminates the need for calculation of potential demand and subsequently it repeals the obligation for mandatory seven-day deposits for banks when demand at the auction exceeds the potential demand.

April 2015

- A new Decision on the credit of last resort which, besides the current possibility of approving credit of last resort to banks against a collateral of debt securities, foreign currencies and banks' claims on the National Bank, introduces the possibility of extending this credit also against pledging banks' claims on customers. This modality of the credit of last resort is planned to be activated if the bank does not have debt securities and foreign currencies. The Decision specifies the types of claims that are acceptable for the National Bank as collateral for the credit of last resort.

June 2015

- The National Bank Council adopted preventive measures for managing capital flows of the Republic of Macedonia to the Republic of Greece. Preventive measures pertain to restriction of capital outflows from residents of the Republic of Macedonia (natural persons and legal entities) to Greek entities based on newly concluded capital transactions, but not to a restriction of the outflows based on incoming payments for capital transactions already concluded. These measures limit capital outflows only to the Republic of Greece and to entities from the Republic of Greece (such as outflows for founding of a company, investing in securities, investing in documents for units in investment funds, investing in investment gold, financial credits, long-term loans, etc.) but not to block or in any way to impede current and future commercial operations with entities from the Republic of Greece. Current transactions remain free. Also, in order to maintain the security of foreign investors regarding the exercising of their rights to their property in the Republic of Macedonia, outflows based on realized dividends have not been restricted either. Furthermore, in order to secure the funds that domestic banks have in the banks in the Republic of Greece, Macedonian banks are required to withdraw all loans and deposits from banks based in the Republic of Greece and their branches and subsidiaries in the Republic of Greece or abroad, regardless of the agreed maturity. However, in order to allow smooth functioning of payment operations for the transactions that are not prohibited, an exception to this requirement has been made for the funds on the current (correspondent) accounts with those banks. Existing prudential and supervisory measures and limits for banks to investments in securities including Greek securities are supplemented by explicit ban on all residents to invest in Greek securities. Those are temporary protective measures, introduced to prevent the threat of any significant outflows of capital from the Republic of Macedonia to the Republic of Greece to cause significant disturbance to the equilibrium in the balance of payments and undermine the stability of the financial system.

August 2015

- The National Bank Council adopted the Decision on amending the Decision on reserve requirements that reduces the reserve requirement rate for the bank liabilities to natural persons in domestic currency with contractual maturity of over one year from 8% to 0%, with these liabilities obtaining the same treatment as the liabilities with maturity over two years, for which rate of 0% since 2012 has been applied. Having in mind that the amendment releases the banks from the reserve requirement for the natural persons' denar deposits with maturity exceeding one year, this measure is expected to have adequate influence toward larger supply of denar savings products with stimulative interest rates.

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

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

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

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

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

May 2016

- At the regular meeting of the NBRM's Operational Monetary Policy Committee held on 3 May 2016, it was decided the interest rate on CB bills to be increased by 0.75 percentage points, from 3.25% to 4%. The decision to tighten the monetary policy is a reaction to the increased demand for foreign currency and pressures on banks' deposit base, which were entirely due to the deteriorating expectations of economic agents, caused by the unstable political situation in the country. Thus, the change in the interest rate is a response to the action of factors of non-economic nature.

- The National Bank Council adopted the Decision on reserve requirement, which increased the reserve requirement rate for banks' liabilities in domestic currency with FX clause. The measure has been aimed at further encouraging the process of denarization of deposits in the domestic banking system. Given the negligible market share of these liabilities in the banks' balance sheets, the changes are exclusively for further maintenance of low propensity of the economic agents for placing this type of deposits in domestic commercial banks.

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

October 2016

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

December 2016

- At the regular meeting of the NBRM's Operational Monetary Policy Committee, held on 13 December 2016, the Committee decided to cut CB bill interest rate by 0.25 percentage points, to 3.75%, and to increase the supply of CB bills at the 14 December auction from Denar 22,000 million to Denar 23,000 million.

- The National Bank Council adopted the Decision on amending the Decision on the methodology for determining the capital adequacy. This Decision is part of the compliance process of the domestic regulations with the reforms of the international capital standard Bazel 3, as well as with the provisions of the European Regulation 575/2013 on prudential requirements for credit institutions and investment firms, in the part of the structure of the banks' own funds. The most significant amendments relate to the strengthening of the quality of own funds, both in terms of their structure and in terms of the criteria that should be met by certain positions in order to be a part of the banks' own funds. In this context, the own funds continue to be divided into core and additional capital, **but the new Decision changes the structure of the core capital, which is divided into regular core capital and additional core capital.** The regular core capital includes capital positions with the highest quality (equity capital and reserves) which are fully and readily available to cover risks and losses during the bank's operation. The new own funds component, the additional core capital, includes instruments which, among other things, contain a clause for their transformation into instruments of the regular core capital or for their write-off on temporary or permanent basis (reduction of the value of their principal), if the so-called critical event occurs. **The amendments to the Decision on the capital adequacy replace current restrictions in terms of size and ratio of individual elements of the own funds with the statutory prescribed minimal rates for the regular core capital, core capital and own funds,** i.e. 4.5% for the regular core capital, 6% for the core capital and 8% for the own funds of the risk-weighted assets. Thus, the greatest importance is given to the regular core capital positions (shares, reserves, retained undistributed profit), as capital positions with the highest quality.

January 2017

- At the regular meeting of the NBRM's Operational Monetary Policy Committee, held on 10 January 2017, the Committee decided to cut CB bill interest rate by 0.25 percentage points, to

3.5%, and to increase the supply of CB bills from Denar 23,000 million to Denar 25,000 million.

February 2017

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

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

March 2017

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