Annex 1

Timeline of the changes in the setup of the monetary instruments of the National Bank and selected supervisory decisions adopted in the period from 2013 onwards

January 2013

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

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

March 2013

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

July 2013

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

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

October 2013

- A Decision amending the Decision on managing 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[1], 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 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.

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

April 2015

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

June 2015

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

August 2015

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

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

December 2015

- The National Bank Council adopted the Decision amending the Decision on the methodology for determining 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 30 June 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 its regular meeting held on 3 May 2016, the NBRM's Operational Monetary Policy Committee decided to increase the interest rate on CB bills 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 influence of the non-economic factors.

- 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 have been made for the sole purposes of further maintenance of low propensity of the economic agents to place 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

- In the regular meeting held on 13 December 2016, the NBRM's Operational Monetary Policy 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. the so-called 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 Council decided to extend the application period of the non-standard measure for reducing the reserve requirement base 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.

March 2018

- At its regular meeting held on 13 March 2018, the NBRM's Operational Monetary Policy Committee decided to cut CB bill interest rate by 0.25 percentage points, to 3.00%, and the supply of CB bills to be unchanged, at the level of Denar 25,000 million. Furthermore, the Committee decided to reduce the interest rates on 7-day and overnight deposit facilities by 0.20 and 0.10 percentage points, respectively (to 0.30% and 0.15%, respectively).

August 2018

- At its regular meeting held on 14 August 2018, the NBRM's Operational Monetary Policy Committee decided to cut CB bill interest rate by 0.25 percentage points, to 2.75%, and the supply of CB bills to be unchanged, at the level of Denar 25,000 million.

October 2018

- At its regular meeting, the NBRM Council also reviewed and adopted the Decision amending the Decision on reserve requirement that refers to the reserve requirement in euros for commercial banks. With the amendments to the reserve requirement system, the NBRM, same as other central banks, from November, will start to determine reserve requirement remuneration in euros, whereby the amount of the remuneration will be directly related to the interest rate on overnight deposit facility of the European Central Bank. At the same time, this Decision also amends the calculation of the remuneration that banks pay for the excess funds above the reserve requirement, allocated to the foreign exchange account in euros in MIPS, whereby it will be set at a rate equal to the interest rate on the overnight deposit facility of the European Central Bank, less 0.15 percentage points.

December 2018

- At its regular meeting held on 11 December 2018, the NBRM's Operational Monetary Policy Committee decided to cut CB bill interest rate by 0.25 percentage points, to 2.50%, and the supply of CB bills to be unchanged, at the level of Denar 25,000 million.

March 2019

- At its regular meeting held on 12 March 2019, the National Bank's Operational Monetary Policy Committee decided to cut CB bill interest rate by 0.25 percentage points, to 2.25%, and the supply of CB bills to be unchanged, at the level of Denar 25,000 million.

July 2019

- In July 2019, the Decision on the methodology for credit risk management (Official Gazette of the Republic of Macedonia No. 149/18) entered into force, which was adopted by the National Bank Council in August 2018. The Decision was prepared in order to harmonize the domestic regulations with the requirements of the International Financial Reporting Standard IFRS 9, as well as with the provisions of the European standards adopted by the European Banking Authority and the European Central Bank, primarily in terms of defining non-performing and restructured credit exposures. Among other things, the Decision provides for banks to make mandatory transfer of credit exposures where twelve months have passed from the date when impairment was made, i.e. special reserve of 100% was allocated, into the accounts for off-balance sheet records (in the previous Decision, the period for mandatory transfer was set at two years).

January 2020

- At its regular meeting held on 14 January 2020, the National Bank's Operational Monetary Policy Committee decided to cut CB bill interest rate by 0.25 percentage points, to 2.0%, and the supply of CB bills to be unchanged, at the level of Denar 25,000 million.

March 2020

- At its extraordinary electronic meeting held on 16 March 2020, due to the rapid spread of COVID-19 globally, thereby deepening the risks in the domestic economy, the National Bank Operational Monetary Policy Committee decided to cut the interest rate on CB bills by 0.25 percentage points, to 1.75%.
- The National Bank Council has held an extraordinary meeting on 18 March 2020, adopting several decisions within its powers aimed to mitigate any adverse effects on the economy caused by the outbreak of the new viral infection. In particular, the Council adopted the following decisions:
- <u>Decision amending the Decision on the reserve requirement</u>. With this amendment, the National Bank reintroduces the non-standard reserve requirement measure which allows reducing the base for banks' denar reserve requirement for the amount of newly approved and restructured loans to companies which according to the information of the Government of the Republic of North Macedonia will be most affected by the spread of COVID-19. The measure is expected to facilitate loan support on favorable terms by banks for the most affected sectors.
- <u>Decision amending the Decision on the methodology for risk management.</u> This decision extends the deadline for banks to submit their first Internal Liquidity Assessment Report which will have to be met by 30 September 2020, instead of 31 May. With this regulatory easing, banks and their teams are given room to focus on providing credit support to the corporate sector and the households and maintaining the quality of loan portfolio.
- <u>Decision amending the Decision on the single tariff for charging fees for services rendered by the National Bank.</u> A decision was made to abolish fees charged so far for withdrawing and returning cash to the central vault of the National Bank. This is to eliminate all costs for withdrawing and returning cash. Such changes are intended to support the cash management process in a way that minimizes any risk of transmitting the infection through this channel.
- The National Bank Council held an extraordinary electronic meeting on 20 March 2020, and adopted regulatory changes aimed at temporary easing of the financial burden of citizens and companies who use loans, and who already face or in the next period could face real difficulties in settling their liabilities to banks and savings houses, caused by the situation with the coronavirus. The changes give an additional regulatory room to banks and savings houses to offer more favorable contractual terms for the existing loans to those borrowers – natural persons and legal entities, who before 29 February 2020 had no problem with the repayment, i.e. their loans were not classified as non-performing, and in the forthcoming period they could face real difficulties in settling their liabilities. More specifically, the changes refer to <u>greater flexibility of banks and savings houses when modifying the contractual terms for repayment of loans in favor of clients, depending on the need and financial capability of each</u>

borrower. The more favorable terms may be a temporary delay of the payment liability (grace period), prolonging of the maturity date, lower interest rate, approving of a new more favorable loan to repay the existing one, etc., thereby enabling reduction of the current burden of citizens and companies in dealing with the negative pressures of the pandemic. The changes in the contractual terms made by 30 September 2020, in accordance with the regulatory changes, will not be considered restructuring of credit exposure. This also allows citizens and companies who by the beginning of March had no problem with the repayment of their loans, free further access to credit support. At the same time, the regulatory changes also facilitate the requirement for classification of a certain loan as non-performing. Instead of the current approach which requires from banks and savings houses to record loans that are with a delay longer than 90 days as non-performing, now the criterion for shift to a non-performing claim is moved to 150 days. Moreover, banks and savings houses will be able to apply this treatment *only to those borrowers who by the end of February 2020 did not face repayment problems.* This regulatory easing is also of a temporary character and by 31 December 2020, banks and savings houses will be required to fully adjust to the existing criteria for determining non-performing loans.

April 2020

- At its meeting held on 13 April 2020, the National Bank Operational Monetary Policy Committee decided to reduce the amount of CB bills that banks can subscribe with the central bank, while keeping policy rate unchanged. It has also been decided to reduce the CB bills offer at the auction to be held on 15 April 2020 by Denar 8,000 million relative to the amount due. Thus, Denar 17,000 million will be offered at the auction, at an unchanged interest rate of 1.75%. The funds released with the reduced CB bills offer are expected to further support the Macedonian economy by maintaining credit flows and credit cycle of the banking system.
- On 29 April 2020, at its regular meeting, the National Bank Council adopted regulatory changes for further easing of the financial burden for borrowers by modifying the contractual terms by banks. More specifically, in continuation of the previously adopted decision during March that covered the borrowers who by the end of February had no problem with the repayment of their loan liabilities, the new decision also covers the borrowers who have been approved a loan in the period from 1 to 24 March this year.
- On 29 April 2020, the Council adopted a decision that repeals the fee for providing data to natural persons from the Credit Registry of the National Bank for their indebtedness to banks and savings houses.
- At the same meeting, the Council also adopted amendments to the Decision on the methodology for determining capital adequacy, in order to appropriately apply the provisions of the European Capital Requirements Regulation.

May 2020

- At its meeting held on 12 May 2020, the National Bank Operational Monetary Policy Committee decided to reduce the policy rate (by 0.25 percentage points, whereby it was reduced to the level of 1.5%) and the offered amount of CB bills (reduction of the CB bills offer of Denar 7 billion). At its meeting, the Committee also decided to make additional changes through which the central bank will allow banks greater access to liquidity. More specifically, these changes expanded the scope of securities that the National Bank may accept from domestic banks as instruments to provide denar liquidity in the banking system, i.e. the National Bank will also be able to accept the domestic government bonds with the longest maturities (15 and 30 years), as well as the Eurobonds issued by the government on the international financial markets, which are held by the domestic commercial banks.

- On 29 May 2020, at its regular session, the National Bank Council adopted a new Decision on the liquidity risk management methodology for further harmonization of the domestic regulation with the Basel standards (Basel III) and with the provisions of the EU Regulation no. 575/2013, as well as with its accompanying acts that refer to the Basel liquidity standard - Liquidity Coverage Ratio (LCR). Among other things, the decision introduces major innovations in the banks' liquidity coverage ratio, which represents high-quality liquid assets to net cash outflows ratio, calculated on a monthly basis, as of the end of each month. The Decision also provides for various types of financial instruments available to banks to obtain liquidity which would affect positively the introduction of new instruments on the domestic market or possibly larger investments of domestic banks in new foreign markets instruments. Given the innovations introduced by the Decision and the need for appropriate adjustment of the banks' systems to the new requirements, it will be applied from the beginning of next year.

July 2020

- On 31 July 2020, the National Bank Council held a regular meeting at which it discussed and adopted the Decision on the method of determining connected persons/entities and exposure limits, which will be applied in the banks' operations from the beginning of the next year. This Decision further harmonizes the domestic regulations with the provisions of the regulations of the European Union and with the guidelines issued by the European Banking Authority, in terms of the method of determining and monitoring connected persons/entities, determining exposure to a person/entity and large exposure and the manner of determining and monitoring exposure limits.

September 2020

- On 1 September 2020, on completion of the analyses and after several meetings held with representatives of the Macedonian Banking Association (MBA), it was announced that according to the regulatory changes from March 2020 banks can also offer their clients a second favorable change of the contractual terms for credit products. The aim is to help those clients who are affected by the COVID-19 pandemic. The conditions and the manner of changing the contractual terms for a second period of delay of the repayment of loan liabilities should be defined by banks. The second period of deferred payment of loans to citizens affected by the covid-crisis can last up to 6 months, i.e. by the end of March 2021.

February 2021

- On 26 February 2021, the National Bank Council held a regular meeting, at which it adopted the Decision on temporary restriction of dividend distribution and payment to bank shareholders. This decision also applies to savings houses. This decision was adopted for preventive purposes, and to further increase the banking system resilience and stability, amid uncertainty around the further course of the health crisis. The decision is of a temporary character and will be valid until the end of this year, and the National Bank, not later than 30 September, will reassess the circumstances with the pandemic due to which the decision was adopted. Depending on the assessment, the National Bank may prematurely lift the restriction from this decision.

March 2021

- At its meeting held on 9 March 2021, the National Bank Operational Monetary Policy Committee decided to reduce the policy rate by 0.25 percentage points, whereby it was reduced to the level of 1.25%.

August 2021

- On 3 August 2021, the National Bank Council held a meeting, at which it reviewed the latest indicators and assessments for the banking sector, in light of the adopted Decision on temporary restriction of dividend distribution and payment to bank shareholders. This decision was made in February this year, following the recommendations of the International Monetary Fund and the European Central Bank. This decision was adopted for preventive purposes and to further increase the banking system resilience and stability, amid uncertainty and protracted COVID-19 pandemic effects. As announced at the adoption of the Decision, by September 2021, the National Bank Council was supposed to reevaluate the circumstances that actually led to the adoption of this Decision. Therefore, the Council reviewed the current global and domestic circumstances and the banking system indicators for the first half of this year and decided to repeal the Decision on temporary restriction of dividend distribution and payment. This Decision shall enter into force on the date of publication in the Official Gazette of the Republic of North Macedonia.

March 2022

- The National Bank Council adopted the amendments to the Decision on currency exchange operations, thus allowing the licensed currency exchange operators, in case of a possible shortage of cash foreign currency - euros, to be supplied with by banks, by concluding a contract with the bank. In addition, in order to prevent any speculations about the exchange rate, an additional limit on its movement has been established, led by the exchange rate at which the exchange offices bought euros from banks. Thus, the National Bank introduces yet another protective mechanism on the currency exchange market which provides protection for the citizens regarding the price at which they will be able to buy euros from exchange office, if needed.

April 2022

- On 1 April 2022, the National Bank Council held a regular meeting and adopted the following decisions:

    - Decision amending the Decision on reserve requirement, which would affect the currency structure of deposits in the banking system. The amendment provides for reduction of the reserve requirement rate from denar liabilities from 8% to 6.5%, with a simultaneous increase in the reserve requirement rate from liabilities in foreign currency from 15% to 16.5%. This amendment to the reserve requirement, which will be applied from June this year, is in accordance with the Strategy for Support of Denarization of the Domestic Economy.

- Decision amending the Decision on the methodology for credit risk management, providing clear guidelines for the banks’ actions when selling due, non-performing or written off claims from the credit agreements. These guidelines should enable a unified approach and further development of the market of sale of credit exposures, including non-performing credit exposures, which is also one of the measures envisaged by the Strategy for encouraging the management and the improvement of the management of non-performing loans. In addition, they also enable gradual harmonization with the relevant requirements and practices of the European Union.

- At its meeting held on 12 April 2022, the National Bank Operational Monetary Policy Committee decided to increase the policy rate by 0.25 percentage points, whereby it amounted to 1.50%.

May 2022

- At its meeting held on 10 May 2022, the National Bank Operational Monetary Policy Committee decided to increase the interest rate by 0.25 percentage points, whereby it amounted to 1.75%.

June 2022

- At its meeting held on 14 June 2022, the National Bank Operational Monetary Policy Committee decided to increase the interest rate on CB bills by 0.25 percentage points, to the level of 2%. At this meeting of the Committee, it was also decided to increase the interest rates on overnight and seven-day deposit facilities, by 0.25 and 0.15 percentage points, respectively, to the level of 0.40% and 0.45%, respectively.
- At its regular meeting, the National Bank Council made a decision to further separate the reserve requirement rates from currency aspect, in order to stimulate savings in domestic currency. The National Bank reduced the reserve requirement for denar liabilities from 6.5% to 5%, and also increased the reserve requirement rate for liabilities in foreign currency from 16.5% to 18%. This measure, which is the second in a row after the March change in the reserve requirement rates, is intended to further encourage denarization of the banks' balance sheets, which would be achieved through changes in the interest rate policy of the banks, in particular through an offer of relatively more favorable interest rates on denar deposit products. At the same time, as an additional strengthening of the effect of the changes in the rates for allocating reserve requirement, the National Bank also increased the portion of the reserve requirement in foreign currency that banks meet in euros, from the current 70% to 75%. The package of changes to the reserve requirement system also includes an increase in the portion of the reserve requirement in euros that banks meet on an average basis, from 5% to 10%, which creates conditions for more flexible management of the banks' foreign currency liquidity on a daily basis. The application of the new conditions for allocating reserve requirement will start in the August period of the reserve requirement, i.e. from 10 August 2022.

July 2022

- At its meeting held on 12 July 2022, the National Bank Operational Monetary Policy Committee decided to increase the interest rate on CB bills by 0.5 percentage points, to the level of 2.5%.

- At its regular meeting, the National Bank Council made a decision to introduce a macro-prudential measure that further strengthens the protective mechanisms in the banking system, in order to preserve its resilience and further strengthen financial stability in conditions of a gradual increase in systemic risks. Namely, on the basis of the regular quarterly assessment of systemic risks, as well as the latest indicators, it was assessed that there is a need for introducing a rate of the countercyclical capital buffer of banks for exposures in the Republic of North Macedonia, in the amount of 0.5%. The measure acts preventively, i.e. it continues to further strengthen the capital strength of domestic banks, which is in the basis of the resilience of the banking sector to risks. This measure will start to be applied from 1 August 2023, which means providing sufficient room for adjustment of banks and for gradual formation of the capital buffer without adverse effects on the solid credit support to the economy.

November 2022

- At its meeting held on 14 November, the National Bank Council adopted a decision on changing the reserve requirement rates of the banks, in order to further stimulate savings in domestic currency. The change in this instrument, which is the fourth in a row this year, includes an increase in the reserve requirement rate of banks for liabilities in foreign currency from 18% to 19%. The part of the reserve requirement in foreign currency that banks meet in euros has also been increased, from 75% to 77%, which strengthens the effect of the change in this instrument. It is expected that the measure will strengthen the changes in the interest rate policy of the banks and that banks will offer more favorable interest rates on all categories of denar deposits, contributing to stronger growth of savings in domestic currency. At the same time, this change would achieve optimum liquidity management.
- At its meeting held on 15 November 2022, the National Bank Operational Monetary Policy Committee decided to increase the interest rate on CB bills by 0.75 percentage points to the level of 4.25%. Given the increase in the key interest rate, the interest rates on overnight credit, overnight and seven-day deposit facilities were also increased by 0.75 percentage points.

December 2022

- At its meeting held on 13 December 2022, the National Bank Operational Monetary Policy Committee decided to increase the interest rate on CB bills by 0.50 percentage points to the level of 4.75%. In accordance with the increase in the key interest rate, the interest rates on overnight credit were also increased. At its meeting, the Committee decided to increase the interest rates on overnight and seven-day deposit facilities as well, by 0.50 percentage points.

February 2023

- At its meeting held on 27 February 2023, the National Bank Council adopted the new Decision on the methodology for credit risk management which makes further harmonization with the new regulatory requirements that started to be applied in the European Union, and contribute to further strengthening of the stability of the banking system. The Decision defines a new method of determining non-performing credit exposures and strengthens the criteria for monitoring and control of the quality of the credit portfolio of banks. Also, it improves the rules for restructuring banks' credit exposures to clients facing financial difficulties. For the purpose of greater transparency in the banks' operations and monitoring of their harmonization by the National Bank, the Decision on the methodology for credit risk management prescribes the information and data that banks need to submit to the National Bank, for which they need to expand the scope of the system of reporting to the central bank. Thus, novelty in this area among other things is also more detailed information on restructured credit exposures, on monitoring the banks' activities to reduce non-performing credit exposures, as well as on approved green loans. Taking into account the novelties that are introduced by the Decision, the National Bank envisaged for the Decision to be applied from 1 January 2024, which will provide the time necessary for appropriate changes in the banks' systems and for harmonization of their operations with these new requirements. At the same time, the novelties related to climate risks will start to be applied from 1 January 2025.

March 2023

- At its regular meeting held on 21 March 2023, the National Bank’s Operational Monetary Policy Committee decided to increase the interest rate on CB bills by 0.25 percentage points to the level of 5.50%. At its meeting, the Committee also decided to increase the interest rates on deposit facilities, by 0.25 percentage points, whereby the interest rates on overnight and 7-day deposit facilities will equal 3.40% and 3.45%, respectively.

June 2023

- On 20 June 2023, the National Bank’s Operational Monetary Policy Committee held its regular meeting and decided to increase the interest rate on CB bills by 0.25 percentage points to the level of 6.00%. At its meeting, the Committee also decided to increase the interest rates on deposit facilities, by 0.25 percentage points, whereby the interest rates on overnight and 7-day deposit facilities will equal 3.90% and 3.95%, respectively.