National Bank of the Republic of Macedonia

MONETARY POLICY AND RESEARCH DEPARTMENT

Recent Macroeconomic Indicators
Review of the Current Situation

December 2016

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Review of the Current Situation - Implications for the Monetary Policy

The review of the current situation aims to give an overview of the recent macroeconomic data (October - November 2016) and to make a comparison with the latest macroeconomic forecasts (October 2016). This will determine the extent to which the current situation in the economy corresponds to the expected movements of the variables in the previous round of forecasts. The review focuses on the changes in external assumptions and performances of domestic variables and the effect of these changes on the environment for monetary policy conduct.

In the period between forecasts, there were no major revisions of the expectations about the global economic environment, i.e. the pace of recovery is still expected to gradually strengthen. Analyzing risks surrounding the forecasts, the geopolitical risks and the uncertainty surrounding the economic, the political and institutional aspects of Brexit are still considered critical. The economic recovery in the euro area, as our key economic partner continues, mainly supported by domestic demand. In the third quarter of 2016, real GDP in the euro area rose by 0.3% on a quarterly basis (1.7% on an annual basis), and recent surveys of households and corporations point to solid economic growth in the last quarter of the year. The December's ECB forecasts point to gradual recovery of the euro area, with a minimal upward revision of the expected growth in 2017[1], although risks continue to be regarded as predominantly downward. Economic growth in the euro area is expected to be supported by measures taken by the ECB for further stimulating monetary policy stance[2]. Also, labor market continues registering favorable shifts, when unemployment rate declined to 9.8% in October, hitting a record low since July 2009. In terms of inflation, estimated data for November show further acceleration of the annual rate to 0.6% (from 0.5% in October), which is the highest rate since April 2014. This acceleration is due to the movement of prices of food, alcoholic drinks and tobacco, amid unchanged core inflation rate of 0.8% annually, and minimally faster decline in energy prices. The December's ECB forecasts suggest gradual acceleration of inflation in the euro area, with minimal revisions compared to the September expectations[3].

Observing the individual external environment indicators for the Macedonian economy, the forecasts for foreign effective demand remain almost unchanged relative to the October cycle. Thus, slightly higher growth rate of foreign demand is now expected for 2016 as a result of the improved performances in the region. No revisions have been made for 2017 and 2018, i.e. external demand is still expected to recover. October estimates still apply to the **foreign effective inflation**, i.e. unchanged level of prices in 2016 and price growth in the next two years. **Decrease in prices of primary commodities in 2016 and their general recovery in 2017 and 2018 is expected,** amid divergent revisions of individual products. The latest forecasts for the **world oil prices** in 2016 indicate slightly smaller decline compared to the October cycle. On the other hand, significantly higher and slightly higher growth rates are now expected for 2017 and 2018, respectively. **Metal prices** are expected to register slightly smaller decline in 2016 and significantly higher growth in 2017 compared to the October forecasts, and to continue stabilizing in 2018. Moreover, **prices of wheat and maize** in 2016 have not undergone major changes, and are expected to continue declining. The intensity of revisions for the next two years is varying - fall rather than rise in the price of wheat in 2017 and stronger growth in 2018. Maize prices have not undergone major changes, and they are expected to register similar growth rates in both years. However, one

[1] According to the latest ECB's forecasts from December 2016, the growth rate of real GDP for 2016 an 2017 is estimated at 1.7%, and for 2018 and 2019 at 1.6%. Compared to the former (September) forecast, an upward adjustment was made of 0.1 percentage points for 2017.

[2] At the last meeting of the ECB, the interest rates were kept unchanged, but it was decided to extend the period of implementation of the quantitative easing policy until December 2017 or further, if necessary, with unchanged volume of redemption of Euro 80 billion per month until March 2017, and Euro 60 billion per month from April 2017.

[3] According to the latest ECB's forecasts from December 2016, the inflation rate for 2016, 2017, 2018 and 2019 is estimated at 0.2, 1.3%, 1.5% and 1.7%, respectively. Compared to the former forecast (from September), there is an upward adjustment of 0.1 percentage points for 2017 and a downward adjustment of 0.1 percentage points for 2018.

should bear in mind that the expectations for prices of these commodities are extremely volatile, which creates uncertainty about the assessment of their future dynamics and effects on the domestic economy, especially in the long-term. The latest assessments indicate that **EURIBOR** for 2016 is as expected in the October forecast, while for 2017 and 2018, it is revised moderately upward. It is still expected that over the forecast horizon, the interest rate will be negative in accordance with the ECB's stimulating monetary policy.

The comparison of the latest macroeconomic indicators with their forecast dynamics from October generally does not indicate major deviations in the individual segments of the economy. The estimated GDP data for the third quarter confirm the economy growth, which is somewhat higher than expected in April. **Given the limited volume of available high frequency data, and the divergent movements as indicated by the currently available October data, it is difficult to make a precise assessment for the economy in the fourth quarter.** In terms of **inflation**, in November, consumer prices registered a slight decline after two months of upward movement in prices. The reduction in the price level mainly reflects lower food prices, whose decline in November accelerated due to the lower fruit prices. Energy prices continued declining in November, while core inflation remained in the positive zone. Analyzing the inflation forecast, past performances are slightly lower than expected, while the expectations for the key input assumptions for 2017 changed in divergent directions. Taking into account these changes, currently, risks associated with the inflation forecast for 2017 are assessed as balanced.

According to the latest available data, in the last quarter of 2016, foreign reserves (adjusted for the price and exchange rate differentials and price changes of securities) went down. Observing change factors, in this period, the foreign reserves reduced due to transactions on behalf of the government for regular servicing of the government external debt, and smaller portion due to the foreign currency deposits of domestic banks with the NBRM. Given the limitation of the available external sector indicators for the fourth quarter, the ability to accurately identify change factors in foreign reserves is also limited. From the external sector indicators, data on net purchase from currency exchange operations are available as of the second 10-day period of November, which now point to net inflows from private transfers as forecasted. Data on foreign trade as of October point to a trade deficit, which is somewhat lower than expected for the fourth quarter. 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 October show growth of the deposit base (of about 1%), compared to the decrease in the previous month of 0.4%. Analyzed by sector, the growth of total deposits in October was driven equally by both sectors and points to further stabilization of the expectations of domestic economic agents. On an annual basis, total deposits in October grew by 3.8%, which is above the forecasted growth of 2.6% for the fourth quarter of 2016. Analyzing the credit market, in October, total loans fell by 0.4%, compared to the rise of 0.5% in the previous month. The decline fully reflects the lower volume of loans granted to the corporate sector, while loans to households increased. On an annual basis, total loans grew by 1.8%, which is below the October forecast of 2.1% for the fourth quarter.

In the period January-October 2016, the Budget of the Republic of Macedonia registered a deficit of Denar 10,921 million, accounting for 47.2% of the forecasted budget deficit according to the Budget Revision for 2016[4]. The deficit was mainly financed by external government borrowing through the issuance of euro bond on the international financial markets, where some of the inflows were accumulated in the form of deposits on the government account with the NBRM.

The latest macroeconomic indicators and assessments do not show changes in the perceptions about the environment for conducting monetary policy and about the risks, compared to the assessments provided in the October forecasts. Foreign reserves (adjusted

[4] Refers to the Budget Revision for 2016 of 30 August 2016.

for price and exchange rate differences and price changes of securities) declined in the last quarter of 2016, as expected in the October forecast for the last quarter of the year. Foreign reserves adequacy indicators continue to move in the safe zone. As for the economic activity, GDP data for the third quarter point to further solid growth of the economic activity, as forecasted. The current inflation performance is slightly lower than forecasted in October, the expectations for the key input assumptions for 2017 are revised in divergent directions, and the risks associated with the forecast for 2017 are balanced. Within the monetary sector, the October data indicate pronounced stabilization of expectations, amid growth of total deposits and growth in both household and corporate savings. The decline in lending activity on the credit market in October is entirely driven by lower loans to the corporate sector, while the loans to households increased. The performance of total deposits at the end of October is better than expected for the fourth quarter of 2016, which creates conditions for support of lending in the period ahead, which was weaker in October than expected in the October forecast.

Selected economic indicators[1]

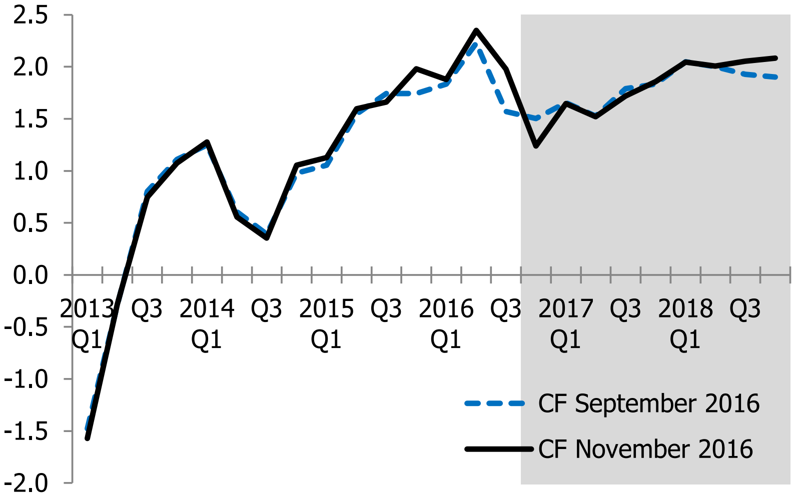
	2012	2013	2014	2015 Jan.	2015 Feb.	2015 Mar.	2015 Q1
I. Real sector indicators							
Gross domestic product (real growth rate, y-o-y) [2]	**-0.5**	**2.9**	**3.6**				**4.2**
Industrial production [3]							
y-o-y	-2.8	3.2	4.8	1.1	3.1	0.6	1.5
cumulative average	-2.8	3.2	4.8	1.1	2.1	1.5	1.5
Inflation [4]							
CPI Inflation (y-o-y) [5]	4.7	1.4	-0.5	-1.5	-1.0	-0.3	-0.9
CPI Inflation (cumulative average)	3.3	2.8	-0.3	-1.5	-1.2	-0.9	-0.9
Core inflation (cumulative average)	2.1	3.0	0.6	-1.1	-0.6	-0.4	-0.4
Core inflation (y-o-y)	2.1	3.0	0.6	-1.1	-0.2	0.0	-0.4
Labor force							
Unemployment rate	31.0	29.0	28.0				27.3
II. Fiscal Indicators (Central Budget and Budgets of Funds)							
Total budget revenues	138,115	140,248	145,929	10,527	12,089	15,163	37,779
Total budget expenditures	155,840	159,505	168,063	12,732	14,467	16,881	44,080
Overall balance (cash)	-17,725	-19,257	-22,134	-2,205	-2,378	-1,718	-6,301
Overall balance (in % of GDP) [1]	-3.8	-3.8	-4.2	-0.4	-0.4	-0.3	-1.1
III. Financial indicators [6]							
Broad money (M4), y-o-y growth rate	**4.4**	**5.3**	**10.5**	**11.1**	**9.7**	**8.8**	**8.8**
Total credits, y-o-y growth rate	**5.4**	**6.4**	**10.0**	**9.2**	**9.2**	**9.2**	**9.2**
Total credits - households	6.5	10.2	11.8	11.5	11.8	12.1	12.1
Total credits - enterprises	4.5	3.8	8.6	7.5	7.3	7.1	7.1
Total deposits (incl. demand deposits), y-o-y growth rate	**4.9**	**6.1**	**10.4**	**10.6**	**9.5**	**8.4**	**8.4**
Total deposits - households	7.2	6.7	8.9	8.4	7.6	8.1	8.1
Total deposits - enterprises	-1.6	3.1	15.7	17.4	14.4	9.0	9.0
Interest rates [7]							
Interst rates of CBBills	3.73	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)	8.5	8.0	7.5	7.4	7.3	7.2	7.3
f/x rates	7.0	6.5	6.3	6.1	6.0	6.0	6.0
Deposit rates							
denar rates (aggregated, incl. denar and denar with f/x clause)	5.1	4.4	3.7	3.3	3.2	3.1	3.2
f/x rates	2.2	1.8	1.4	1.5	1.5	1.4	1.5
IV. External sector indicators							
Current account balance (millions of EUR)	**-240.0**	**-134.1**	**-43.2**	**33.3**	**-2.9**	**-92.2**	**-61.7**
Current account balance (% of GDP)	*-1.6*	*-1.6*	-0.5	*0.4*	0.0	-1.0	-0.7
Trade balance (millions of EUR) [8]	**-1,946.7**	**-1,748.1**	**-1757.9**	**-73.7**	**-109.9**	**-194.5**	**-378.1**
Trade balance (% og GDP)	*-25.7*	*-21.6*	-20.7	*-0.8*	*-1.2*	-2.1	-4.2
import (millions of EUR)	-5,070.6	-4,983.3	-5504.5	-365.5	-408.9	-533.6	-1308.1
export (millions of EUR)	3,124.0	3,235.2	3746.6	291.8	299.1	339.1	929.9
rate of growth of import (y-o-y)	0.3	-1.7	10.5	-3.0	-2.3	19.6	5.4
rate of growth of export (y-o-y)	-2.8	3.6	15.8	23.8	6.1	13.4	13.9
Foreign Direct Investment (millions of EUR)	**131.1**	**229.4**	**197.4**	**43.0**	**27.0**	**8.5**	**78.5**
External debt							
Gross external debt (in milllions of EUR)	5171.7	5219.7	5992.3				6320.7
public sector	2162.1	2172.4	2846.8				3019.1
public sector/GDP (in %)	28.5	26.7	33.4				33.3
private sector	3009.5	3047.4	3145.5				3301.6
Gross external debt/GDP (in %)	68.2	64.0	70.3				69.8
Gross official reserves (millions of EUR) [9]	**2,193.3**	**1,993.0**	**2,436.5**	**2,483.7**	**2,330.7**	**2,354.8**	

	2015 Apr.	May	Jun.	Q2	Jul.	Aug.	Sep.	Q3	Oct.	Nov.	Dec.	Q4	2015
I. Real sector indicators													
Gross domestic product (real growth rate, y-o-y) [2]				**0.8**				**4.5**				**6.0**	
Industrial production [3]													
y-o-y	-0.9	-5.0	6.4	0.1	-2.7	12.7	8.6	5.7	13.1	11.5	10.5	11.7	4.9
cumulative average	0.8	-0.4	0.8	0.8	0.2	1.7	2.5	2.5	3.6	4.4	4.9	4.9	4.9
Inflation [4]													
CPI Inflation (y-o-y) [5]	0.1	0.3	0.5	0.3	-0.4	0.1	-0.2	-0.2	-0.5	-0.3	-0.3	-0.4	-0.3
CPI Inflation (cumulative average)	-0.6	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Core inflation (cumulative average)	-0.2	0.0	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5
Core inflation (y-o-y)	0.5	0.8	0.8	0.7	1.0	0.4	0.8	0.7	0.6	1.1	1.3	1.0	0.5
Labor force													
Unemployment rate				26.8				25.5				24.6	26.1
II. Fiscal Indicators (Central Budget and Budgets of Funds)													
Total budget revenues	14,383	13,750	12219.0	40352.0	14,458	11,537	13,319	39,314	14,046	13,889	15,827	43,762	161,207
Total budget expenditures	14,375	15,348	13849.0	43572.0	16,038	13,240	14,389	43,667	14,911	15,303	19,099	49,313	180,632
Overall balance (cash)	8	-1,598	-1630.0	-3220.0	-1,580	-1,703	-1,070	-4,353	-865	-1,414	-3,272	-5,551	-19,425
Overall balance (in % of GDP) [1]	0.0	-0.3	-0.3	-0.6	-0.3	-0.3	-0.2	-0.8	-0.2	-0.3	-0.6	-1.0	-3.5
III. Financial indicators [6]													
Broad money (M4), y-o-y growth rate	**9.7**	**8.9**	**9.2**	**9.2**	**7.8**	**7.0**	**6.2**	**6.2**	**7.0**	**6.8**	**6.8**	**6.8**	**6.8**
Total credits, y-o-y growth rate	**10.2**	**9.5**	**9.0**	**9.0**	**8.9**	**8.8**	**8.8**	**8.8**	**8.4**	**7.9**	**9.5**	**9.5**	**9.5**
Total credits - households	12.3	12.4	12.4	12.4	12.7	12.7	12.8	12.8	12.5	12.6	12.9	12.9	12.9
Total credits - enterprises	8.7	7.4	6.7	6.7	6.3	6.0	6.0	6.0	5.4	4.5	7.1	7.1	7.1
Total deposits (incl. demand deposits), y-o-y growth rate	**9.5**	**8.4**	**8.9**	**8.9**	**7.4**	**6.7**	**5.7**	**5.7**	**6.5**	**6.6**	**6.5**	**6.5**	**6.5**
Total deposits - households	7.5	6.9	6.2	6.2	6.2	4.8	5.0	5.0	4.4	4.5	4.1	4.1	4.1
Total deposits - enterprises	17.1	14.5	17.8	17.8	11.4	13.1	7.1	7.1	11.0	11.7	13.0	13.0	13.0
Interest rates [7]													
Interst rates of CBBills	3.25	3.25	3.25	3.25	3.25	3.25	3.25	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)	7.2	7.1	7.1	7.1	7.0	7.0	7.0	7.0	6.9	6.9	6.8	6.9	7.1
f/x rates	5.9	5.9	5.9	5.9	5.9	5.8	5.8	5.8	5.8	5.8	5.7	5.8	5.9
Deposit rates													
denar rates (aggregated, incl. denar and denar with f/x clause)	3.0	3.0	2.9	3.0	2.9	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.9
f/x rates	1.4	1.3	1.3	1.3	1.3	1.2	1.1	1.2	1.1	1.1	1.1	1.1	1.3
IV. External sector indicators													
Current account balance (millions of EUR)	**-62.3**	**-33.4**	**-1.5**	**-97.2**	**22.0**	**33.1**	**59.3**	**114.4**	**-42.1**	**-27.0**	**-73.3**	**-142.4**	**-187.0**
Current account balance (% of GDP)	-0.7	-0.4	0.0	-1.1	0.2	0.4	0.7	1.3	-0.5	-0.3	-0.8	-1.6	-2.1
Trade balance (millions of EUR) [8]	**-202.8**	**-110.6**	**-133.1**	**-446.5**	**-158.8**	**-110.9**	**-92.7**	**-362.3**	**-166.3**	**-161.6**	**-210.8**	**-538.7**	**-1725.7**
Trade balance (% og GDP)	-2.2	-1.2	-1.5	-4.9	-1.8	-1.2	-1.0	-4.0	-1.8	-1.8	-2.3	-5.9	-19.0
import (millions of EUR)	-498.0	-469.6	-514.0	-1481.7	-505.8	-428.1	-460.1	-1394.0	-535.0	-521.6	-536.5	-1593.2	-5776.9
export (millions of EUR)	295.2	359.0	380.9	1035.2	347.0	317.3	367.4	1031.7	368.7	360.0	325.8	1054.4	4051.2
rate of growth of import (y-o-y)	9.1	-2.1	18.8	8.2	0.7	2.4	-4.8	-0.7	2.7	13.1	5.5	6.9	4.9
rate of growth of export (y-o-y)	-0.2	13.1	15.8	9.9	7.1	4.1	2.3	4.5	4.3	5.0	7.2	5.4	8.1
Foreign Direct Investment (millions of EUR)	**30.2**	**5.0**	**25.6**	**60.8**	**-6.8**	**5.0**	**-5.9**	**-7.7**	**51.7**	**-13.2**	**32.6**	**71.1**	**202.8**
External debt													
Gross external debt (in milllions of EUR)				6416.2				6326.8				6290.5	6290.5
public sector				3054.2				3035.5				2933.7	2933.7
public sector/GDP (in %)				33.7				33.5				32.4	32.4
private sector				3362.0				3291.3				3356.9	3356.9
Gross external debt/GDP (in %)				70.8				69.8				69.4	69.4
Gross official reserves (millions of EUR) [9]	**2,344.3**	**2,328.5**	**2,254.8**		**2,198.3**	**2,177.7**	**2,187.4**		**2,188.0**	**2,203.4**	**2,261.7**		

	2016 Jan.	Feb.	Mar.	Q1	Apr.	May	Jun.	Q2	Jul.	Aug.	Sep.	Q3	Oct.	Nov
I. Real sector indicators														
Gross domestic product (real growth rate, y-o-y) [2]				**2.6**				**3.1**				**2.4**		
Industrial production [3]														
y-o-y	8.0	15.2	8.9	10.7	3.6	5.3	-4.4	1.3	5.1	5.2		5.0	-3.6	
cumulative average	8.0	11.7	10.7	10.7	8.7	8.0	5.6	5.6	5.6	5.5		5.4	4.4	
Inflation [4]														
CPI Inflation (y-o-y) [5]	0.1	0.0	-0.4	-0.1	-0.7	-0.7	-0.7	-0.7	-0.3	-0.3	0.2	-0.1	0.2	-0.2
CPI Inflation (cumulative average)	0.1	0.1	-0.1	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2
Core inflation (cumulative average)	1.6	1.6	1.7	1.7	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.4
Core inflation (y-o-y)	1.6	1.6	1.8	1.7	1.6	1.2	1.5	1.5	1.2	1.2	1.4	1.3	1.4	1.2
Labor force														
Unemployment rate				24.5				24.0				23.4		
II. Fiscal Indicators (Central Budget and Budgets of Funds)														
Total budget revenues	12,923	12,925	14,742	40,590	14,820	13,344	13,261	41,425	14,985	13,621	15,200	43,806	14,375	
Total budget expenditures	14,611	15,696	15,917	46,224	14,318	14,529	13,889	42,736	16,992	14,485	14,478	45,955	16,202	
Overall balance (cash)	-1,688	-2,771	-1,175	-5,634	502	-1,185	-628	-1,311	-2,007	-864	722	-2,149	-1,827	
Overall balance (in % of GDP) [1]	-0.3	-0.5	-0.2	-1.0	0.1	-0.2	-0.1	-0.2	-0.3	-0.1	0.1	-0.4	-0.3	
III. Financial indicators [6]														
Broad money (M4), y-o-y growth rate	**4.5**	**5.4**	**6.2**	**6.2**	**3.8**	**3.7**	**2.5**	**2.5**	**3.6**	**4.5**	**4.0**	**4.0**	**3.9**	
Total credits, y-o-y growth rate	**8.6**	**8.7**	**8.4**	**8.4**	**7.5**	**6.4**	**3.5**	**3.5**	**3.0**	**2.9**	**2.5**	**2.5**	**1.8**	
Total credits - households	12.6	12.8	13.0	13.0	12.8	12.2	8.8	8.8	8.1	7.8	7.3	7.3	7.5	
Total credits - enterprises	5.5	5.8	5.1	5.1	3.7	2.0	-0.5	-0.5	-0.8	-0.9	-1.2	-1.2	-2.7	
Total deposits (incl. demand deposits), y-o-y growth rate	**4.3**	**5.3**	**6.2**	**6.2**	**3.1**	**3.7**	**2.3**	**2.3**	**3.5**	**4.5**	**4.0**	**4.0**	**4.0**	
Total deposits - households	3.6	3.5	3.1	3.1	0.9	-0.4	0.2	0.2	0.2	1.0	1.2	1.2	1.8	
Total deposits - enterprises	6.4	11.8	16.0	16.0	9.2	14.5	5.6	5.6	11.8	11.7	11.3	11.3	9.6	
Interest rates [7]														
Interst rates of CBBills	3.25	3.25	3.25	3.25	3.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	
Lending rates														
denar rates (aggregated, incl. denar and denar with f/x clause)	6.8	6.7	6.7	6.7	6.7	6.6	6.6	6.6	6.6	6.6	6.6	6.6	6.5	
f/x rates	5.7	5.7	5.6	5.6	5.5	5.5	5.5	5.5	5.4	5.4	5.4	5.4	5.3	
Deposit rates														
denar rates (aggregated, incl. denar and denar with f/x clause)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	
f/x rates	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.1	1.0	1.0	1.0	1.0	1.0	
IV. External sector indicators														
Current account balance (millions of EUR)	**18.1**	**-15.3**	**-44.8**	**-42.0**	**-91.8**	**-74.3**	**-32.9**	**-199.0**	**70.6**	**32.9**	**26.9**	**130.4**		
Current account balance (% of GDP)	0.2	-0.2	-0.5	-0.4	-1.0	-0.8	-0.3	-2.1	0.7	0.3	0.3	1.4		
Trade balance (millions of EUR) [8]	**-65.8**	**-131.6**	**-175.8**	**-373.2**	**-160.8**	**-175.7**	**-164.8**	**-501.4**	**-112.5**	**-156.0**	**-122.9**	**-391.4**	**-160.1**	
Trade balance (% og GDP)	-0.7	-1.4	-1.8	-3.9	-1.7	-1.8	-1.7	-5.2	-1.2	-1.6	-1.3	-4.1	-1.7	
import (millions of EUR)	-354.1	-477.5	-525.0	-1356.5	-529.4	-531.2	-497.1	-1557.6	-516.6	-509.5	-513.9	-1540.0	-531.0	
export (millions of EUR)	288.3	345.9	349.2	983.3	368.5	355.4	332.3	1056.2	404.1	353.5	391.0	1148.6	370.9	
rate of growth of import (y-o-y)	-3.1	16.8	-1.6	3.7	6.3	13.1	-3.3	5.1	2.1	19.0	11.7	10.5	-0.8	
rate of growth of export (y-o-y)	-1.2	15.7	3.0	5.7	24.8	-1.0	-12.8	2.0	16.4	11.4	6.4	11.3	0.6	
Foreign Direct Investment (millions of EUR)	**24.7**	**49.7**	**42.7**	**117.1**	**25.9**	**27.9**	**-17.5**	**36.4**	**4.5**	**41.9**	**-36.7**	**9.7**		
External debt														
Gross external debt (in milllions of EUR)				6813.4				6880.3						
public sector				3279.4				3283.1						
public sector/GDP (in %)				34.1				34.2						
private sector				3534.0				3597.3						
Gross external debt/GDP (in %)				70.9				71.6						
Gross official reserves (millions of EUR) [9]	**2,246.9**	**2,253.4**	**2,266.3**		**2,193.8**	**2,164.3**	**2,158.8**		**2,588.2**	**2,676.6**	**2,698.9**		**2,728.8**	**2,551.2**

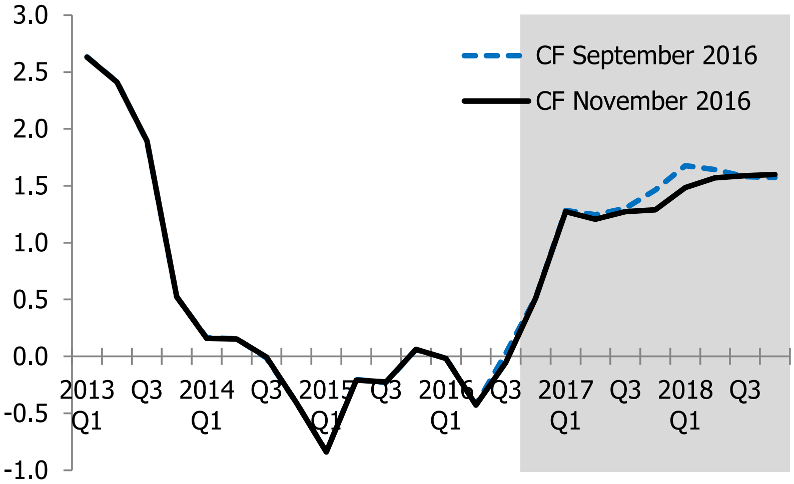
/1 While calculating the relative indicators, the annual GDP from the official announcement of SSO is used. For 2015, the projected level from the NBRM projections from October 2015 is used.
/2 Preliminary data for 2014. Estimated data for 2015.
/3 The changes of Index of industrial production are according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

Foreign effective demand
(annual changes in %)



Source: "Consensus Forecast" and NBRM calculations.

Foreign effective inflation
(annual rates in %)



Source: "Consensus Forecast" and NBRM calculations.

Compared with the October forecasts, minimal upward revision in the foreign effective demand was made for 2016...

...when the growth was forecasted at 1.9% versus 1.8% in October...

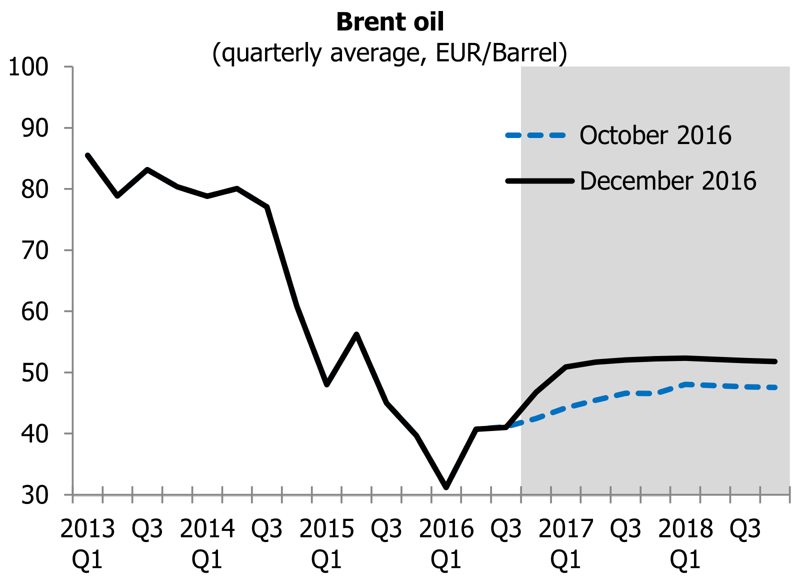
...mainly due to the improved economic performance in the region (Bulgaria, Slovenia, Greece and Serbia).

On the other hand, no changes were made in the expectations about the movement of foreign effective demand in 2017 and 2018...

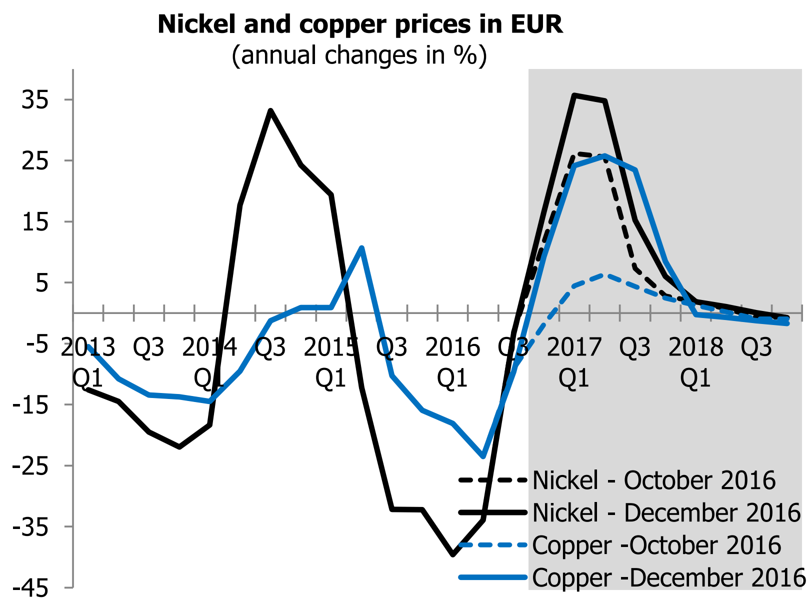
...when the growth was forecasted at 1.7% and 2%, respectively.

The October forecasts for foreign effective inflation remained unchanged...

...i.e. the foreign effective inflation is expected to increase from 0% in 2016, to 1.3% and 1.6% in 2017 and 2018, respectively.



Source: IMF and NBRM calculations.



Source: IMF and NBRM calculations.

The forecasts[5] for the "Brent" oil price for 2016 are similar as in October ...

...i.e. there are forecasts for substantial but slightly smaller price drop compared to 2015, given the current performance and absence of significant changes in the fundamentals compared with the previous estimates.

On the other hand, oil price was considerably revised upward for 2017...

...due to the finalization of the agreement between the OPEC countries for coordinated production cuts, first after 2008, in order to limit global oil supply next year and thus to support world markets prices[6].

Conversely, for 2018, the growth in oil prices is expected to be lower than forecasted in October.

Metal prices on world markets were generally revised upwards during the forecast horizon.

The revisions are minor for 2016, when nickel and copper prices are expected to register a slightly slower decline than forecasted in October...

...affected by the drop in inventories of copper and lower production of nickel in the Philippines.

On the other hand, metal prices for 2017 are significantly revised upward.

Now, nickel price is expected to register faster growth than forecasted in October...

---

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

[6] Agreement was reached on 30 November 2016 in Vienna, requiring the production to be cut by 1.2 million barrels a day, starting from 1 January 2017. An additional meeting between the OPEC and non-OPEC countries was held on 10 December, where, for the first time since 2001, it was agreed oil production also to be cut by the 11 non-OPEC countries (by 558 thousand barrels) in addition to cuts that were previously promised by the OPEC member countries. Estimates say that this will reduce global supply of oil in 2017 by about 2%, which is far more than market expectations.

...because of the reduced supply of this metal globally, taking into account the effect of the current and potential new closures of nickel mines in the Philippines on the global supply, amid expectations of higher demand in China and the United States.

Copper price is also expected to register a significantly stronger growth next year, due to the improved outlook for demand for this metal by the major consumer countries.

The changes in the forecasts for metal prices for 2018 are minimal, i.e. prices are expected to continue stabilizing.

There were no major adjustments in the price of primary food products in 2016 compared to the October forecast...

...and it is again expected to decline this year, especially the price of wheat.

On the other hand, stock prices were revised downward for 2017.

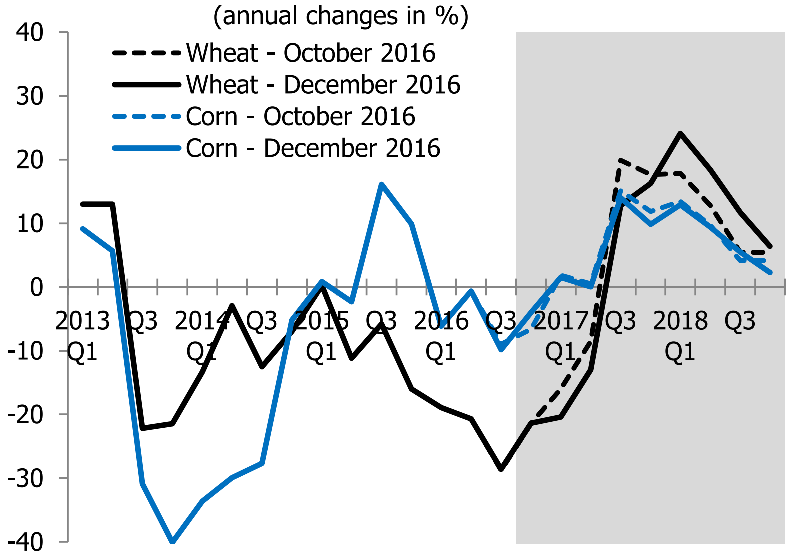
The changes in expectations are prominent in terms of the price of wheat, which is now forecasted to continue to decline next year, despite the October forecast for growth...

...which is mainly associated with the high market supply, favorable weather conditions for winter crops, and expectations for substantial growth in inventories by the end of next year.

At the same time, the growth of the price of corn is expected to be slightly slower than forecasted in October, amid certain improvement of prospects for the new crop in the southern hemisphere.

Revisions for 2018 mainly concern

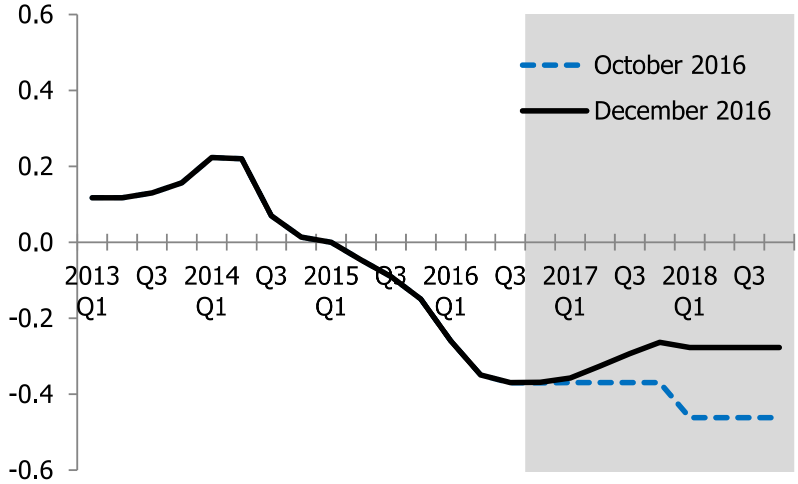
Wheat and corn prices in EUR
(annual changes in %)



Source: IMF and NBRM calculations.

the wheat price, whose increase is forecasted to be slightly higher, unlike the corn price, which is basically the same relative to the October forecast.

1-month Euribor
(quarterly average, in %)



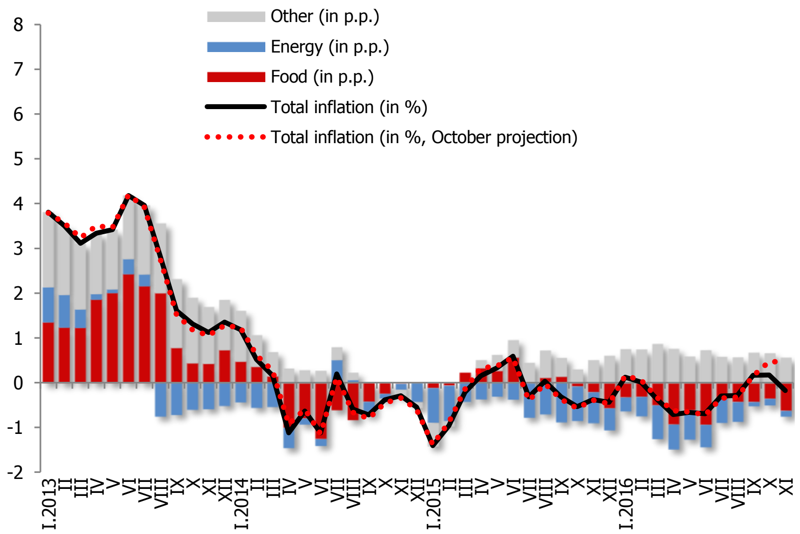
Source: "Consensus Forecast" and NBRM calculations.

The forecast of one-month Euribor for 2016 matches the October expectations (-0.34%).

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

...though, amid further stimulating monetary policy of the ECB, the foreign interest rate will remain negative in 2017 and 2018, and is expected to average -0.31% and -0.28%, respectively (-0.37% and -0.46% in October).

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

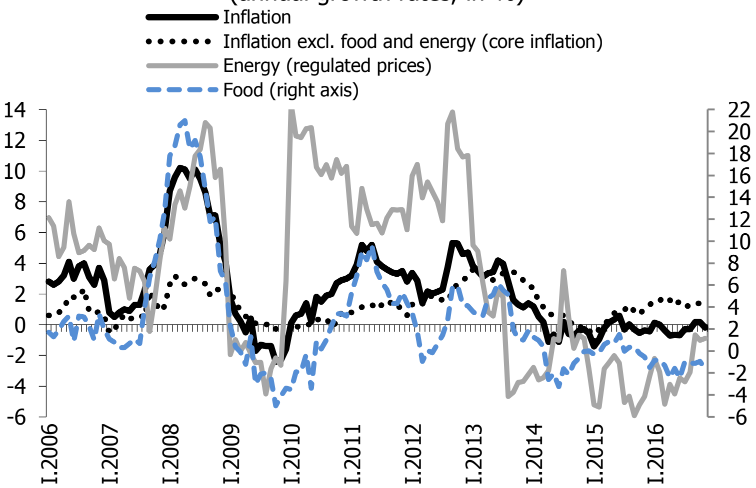


Source: SSO and NBRM.

In November 2016, domestic consumer prices went down by 0.2% on a monthly basis...

...amid drop in food prices, and increase in energy prices. This month, core inflation stagnated on a monthly basis[7].

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

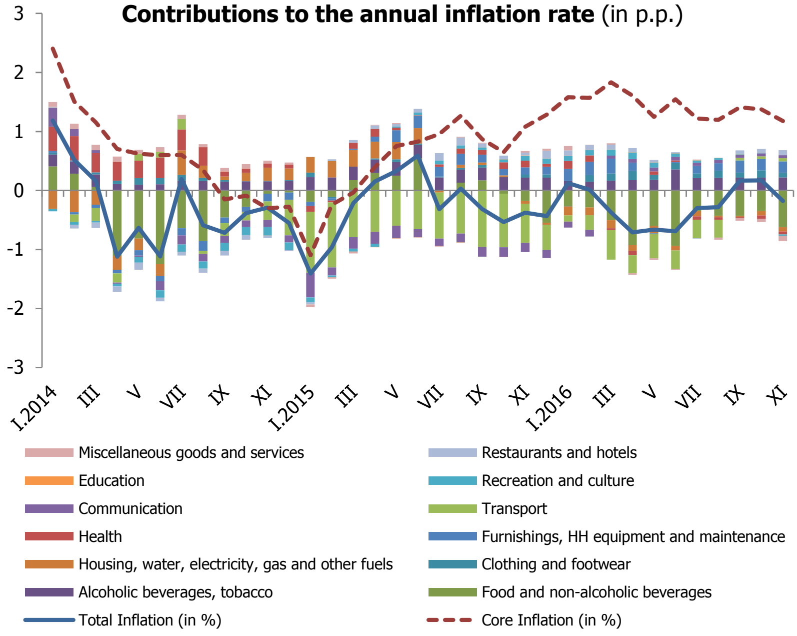


Source: State statistical office and NBRM calculations.

In accordance with the monthly drop, the annual inflation rate in November was also in the zone of negative growth and equaled -0.2%, which deviates from the October forecast for moderate inflation growth.

Observed by price category, the downward deviation largely reflects the fall in food prices in November instead of the expected growth. The deviation in energy prices and core inflation are less severe (lower decline in energy prices and lower growth rate of core inflation than forecasted).

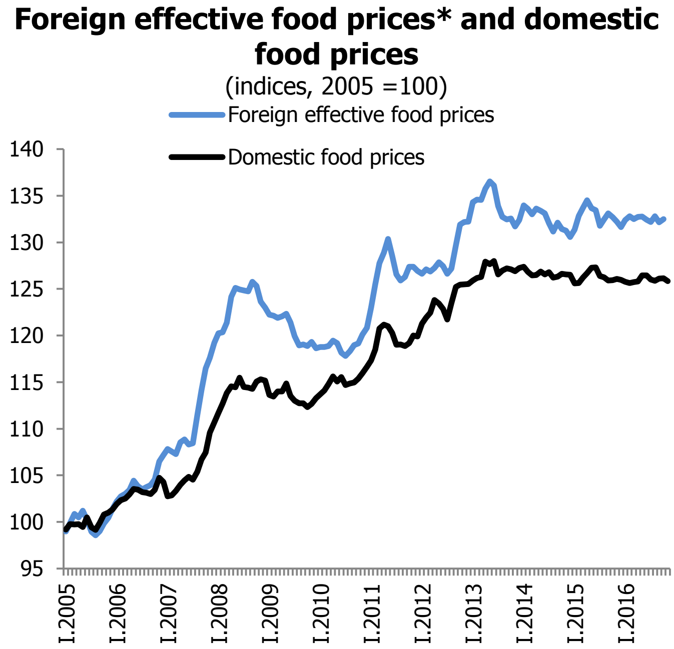
[7] Observed by group of products, the fruit category made the highest negative contribution in November, while vegetables made the highest positive contribution.



Source: SSO and NBRM.

In November, core inflation was 0%, registering an annual growth of 1.2% (1.4% in the previous month).

Observing the structure of core inflation, the (annual) growth in November is due to the small rise in prices of most categories within the core inflation, with the highest contribution made by tobacco prices[8] and prices of commodities that belong to the category of furniture, household equipment and routine house maintenance.



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

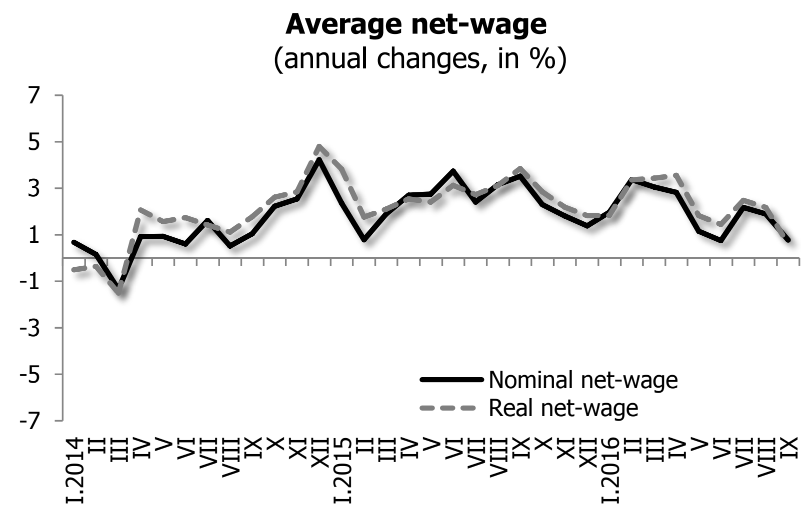
External input assumptions in the inflation forecast for the whole of 2016 have been revised upward, while for 2017, they have been revised in divergent directions.

Thus, the latest oil prices estimates for 2017 indicate faster growth compared to the expectations of the October forecasts.

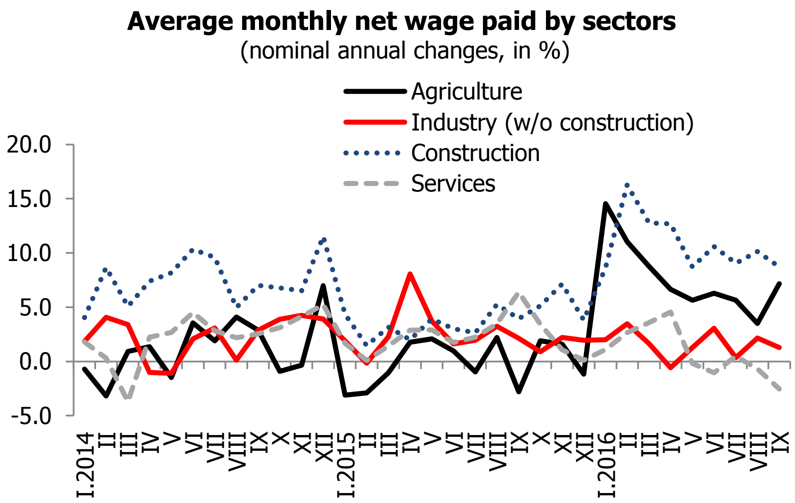
On the other hand, expectations in cereal prices are somewhat pessimistic, and it is expected that maize prices will grow slowly, while wheat prices are expected to decline compared to the increase in October.

Amid small downward deviation of the actual to forecasted inflation, and external assumptions revised in divergent directions, it is currently assessed that the risks to inflation forecast for 2017 are balanced. The uncertainty around the forecasted movement of world prices of primary commodities, especially oil prices, remains.

[8] The annual growth of tobacco prices in November is a combination of the flat increase in cigarette prices by five denars per box in March 2016 and increase in the price of a certain type of cigarettes in June 2016. In July 2016, the excise on cigarette additionally increased (from July 1, 2017 to July 1, 2023 the excise duty will increase by 0.20 denars each year), but the monthly changes in prices of tobacco in the July-November period showed no price adjustments.



Source: SSO.



Source: SSO.

In September 2016, the average net wage registered a nominal annual growth of 0.8%, which is a deceleration of the growth of 1.1 percentage points compared to the previous month.

In September, wage growth was registered in most of the economic sectors, with the most pronounced being in agriculture, construction, and in information and communications[9].

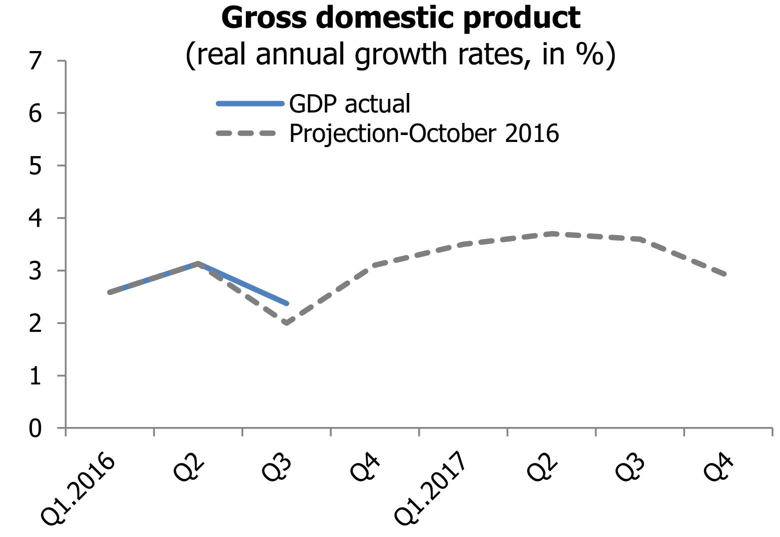
Amid low increase in consumer prices in September, the **growth in real wages** is somewhat lower (0.6%).

In the third quarter, the nominal net wages increased by 1.6% (same as in the previous quarter), while the real growth was 1.7%. These developments are close to the expectations of the October forecast for the third quarter of the year.

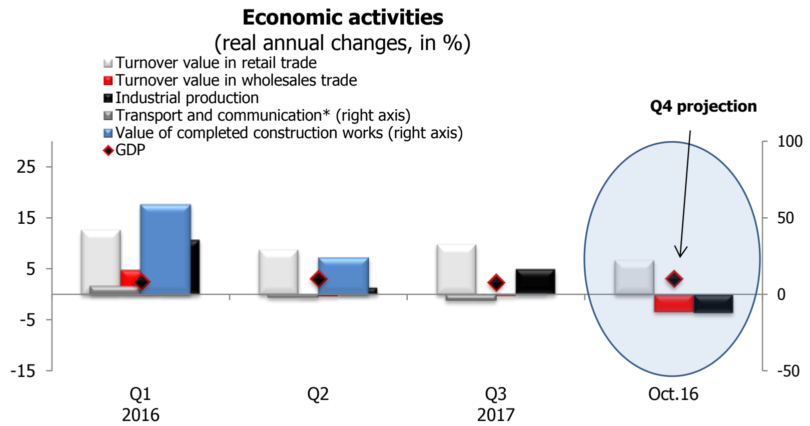
In the third quarter of 2016, the real annual GDP growth rate was 2.4%, which is somewhat higher than forecasted in October (2%). Such deviation of the actual from the forecasted growth is partly explained by the upward revisions made to GDP data for the first half of the year.

Growth structure from the aspect of demand generally does not deviate from the October forecast. Thus, the growth in the third quarter was driven by the domestic demand and exports, while imports made negative contribution. Analyzed by component, same as in the first half of the year, exports made the highest contribution to the growth of GDP, which is also in line with the October forecast. Among the components of domestic demand, private consumption registered the highest growth, while gross capital formation was negative despite the expectations for its growth in the October forecasts. Public consumption is as forecasted - it remained almost unchanged

[9] In September, lower wages were paid only in mining, real estate services, health care, arts, entertainment and recreation, in the category of other service values.



Source: SSO and NBRM projections.



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

in the third quarter.

Observing the production side, added value was registered in most economic sectors[10], with the construction making the greatest contribution to the growth.

It is difficult to give a precise assessment about the economy in the fourth quarter of the year, which in part is due to the limited volume of available high frequency data. Also, the currently available data for October indicate divergent movements. Also, domestic non-economic factors related to the political developments in the country are still present and further increase the uncertainty about the assessments of the economic activity in the fourth quarter.

October data for each economic sector indicate unfavorable movements compared to the third quarter. In October, the **industrial output decreased by 3.6% on an annual basis** primarily reflecting the shifts in the manufacturing industry. Mining production also reduced, while the energy sector registered a growth.

Considering the individual sectors within the manufacturing industry, the decline reflects less favorable developments in traditional industries, with the largest negative contribution made by the manufacture of clothing[11]. On the other hand, activities of larger foreign export facilities (machinery and equipment, motor vehicles and electrical equipment) continued registering output growth, although at a slower pace.

Total trade remained unchanged in October on an annual basis, in part reflecting the fall in the wholesale trade. On the other hand, retail trade continued registering favorable trends, but with slower growth.

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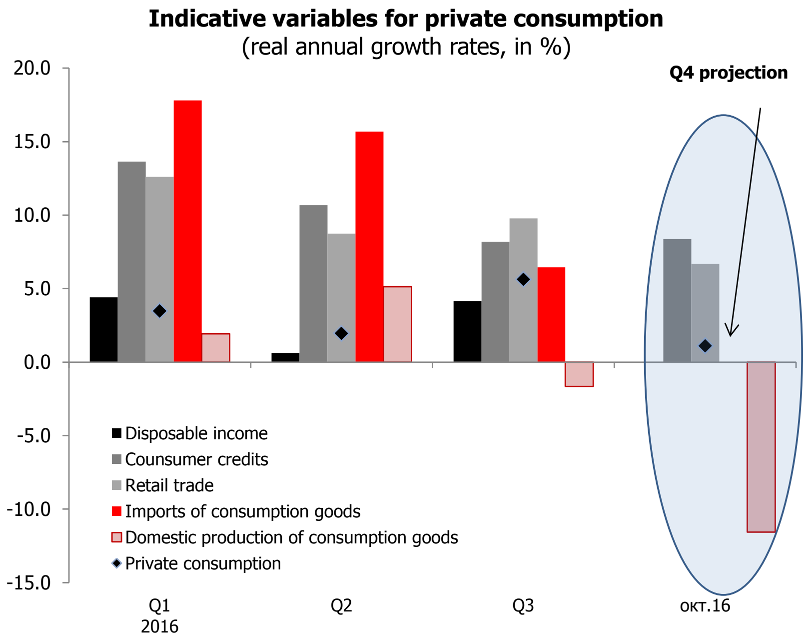
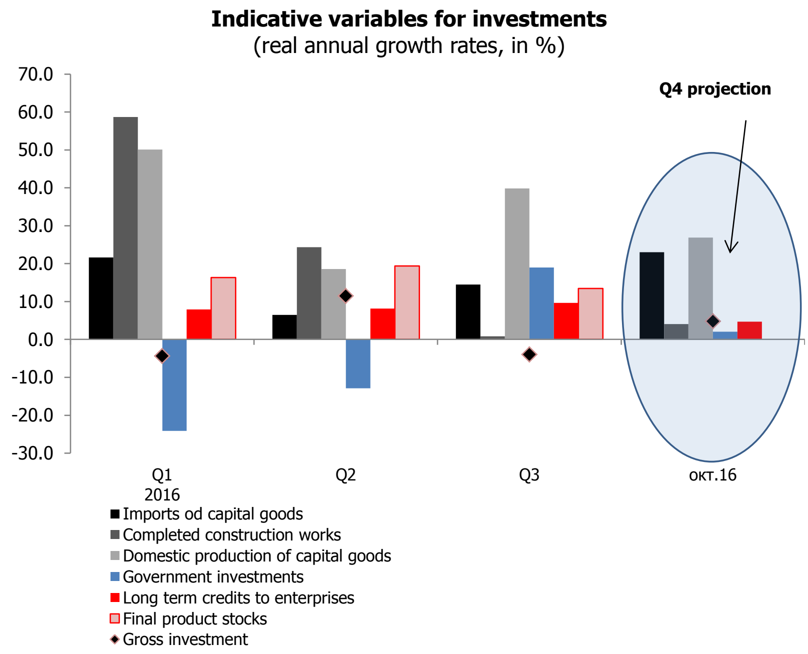
[10] Decline in the value added was registered in real estate services, and collectively, in the category of public administration and defense, compulsory social security, education and health, and social care.

[11] In October last year, the manufacture of clothing hit a record high.



Source: SSO and NBRM calculations.



Source: SSO and NBRM calculations.

Despite the less favorable developments in the economic sectors, **the available aggregate demand indicators point to continuing growth in the fourth quarter.** High frequency data on **private consumption** available as of October indicate its growth in the fourth quarter of 2016...

...amid increased retail trade, higher social government transfers, as well as growth in household lending and pensions.

On the other hand, the domestic production of consumer goods decreased in October.

Indicative investment categories in October suggest continuation of positive trends in the fourth quarter...

....amid higher government capital investments, domestic production of capital goods, as well as further credit support for the corporate sector.

Nominal data on **foreign trade in goods** for October 2016 point to prospects for potential narrowing of the deficit in the fourth quarter.

Budget performance as of October suggests an annual growth of **public consumption** in the fourth quarter amid upward shifts in the costs for wages, goods and services, as well as in the transfers for health care.

In October 2016, the foreign trade deficit narrowed by 3.8% annually, amid modest annual growth in export component and slight decline in import activity.

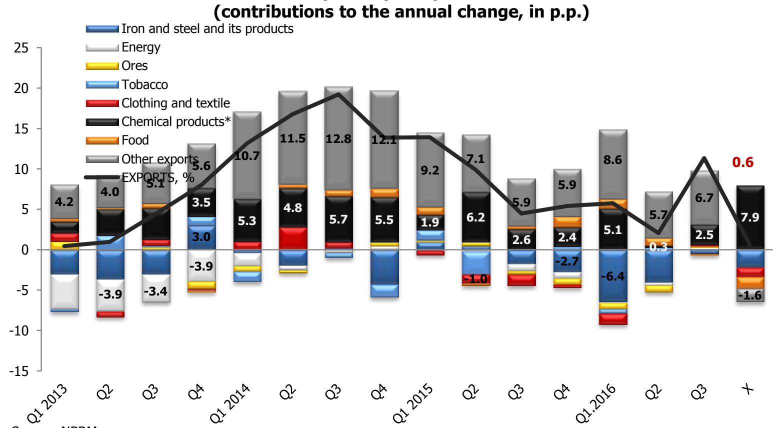
These performances are so far better than the forecasts in October, which expect slight widening of the trade deficit in the fourth quarter. However, one should bear in mind that the data pertain to a short period, insufficient for reliable conclusions.

Export of goods in October registered an annual growth of 0.6%, which is almost solely due to the export activity of some of the new export-oriented facilities...

...which is largely offset by the decline in exports in almost all other export categories.

Compared with the October forecast, exports in October indicate somewhat lower performances than expected for the fourth quarter. Major downward deviations occurred in food exports, export of iron and steel and export of garments and textiles.

Exports by components
(contributions to the annual change, in p.p.)

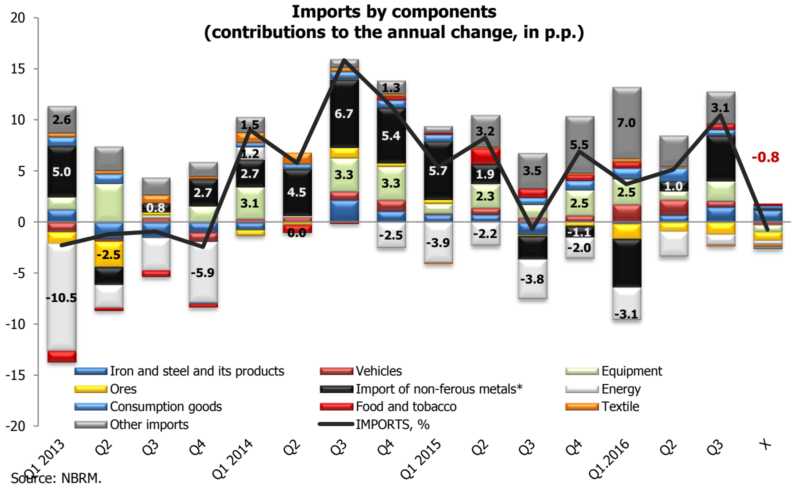


Source: NBRM.
** The following data depict the overall exports of one major export capacity in the free industrial zone.*

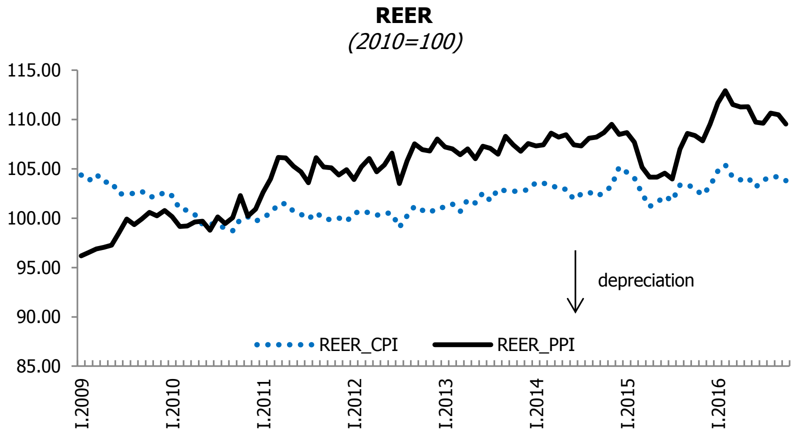
Import of goods in October fell by 0.8% annually, due to the slightly weaker imports of ores and equipment and machinery, in comparison to the small annual growth recorded in import of iron and steel.

Import of goods in October suggests lower than forecasted performance for the fourth quarter. Analyzing by category, imports of equipment and machinery, other imports, and import of vehicles is lower than expected, with slight upward deviation in the import of raw materials for some of the facilities operating in the technological industrial development zones.

Imports by components
(contributions to the annual change, in p.p.)

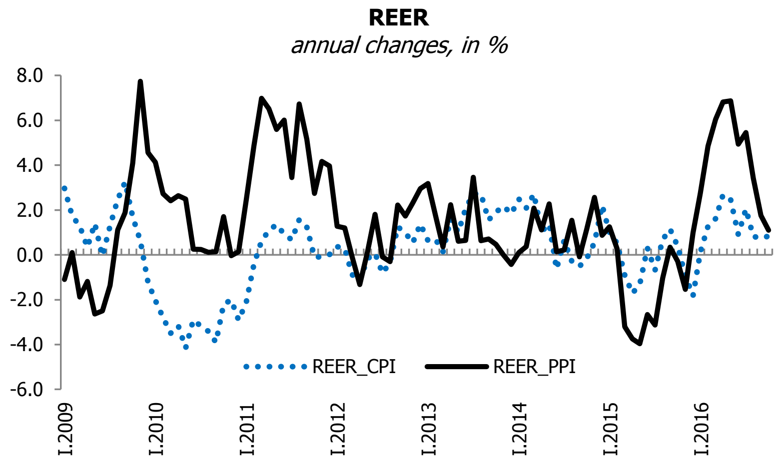


Source: NBRM.
** The following data depict the overall imports of one major export capacity in the free industrial zone.*



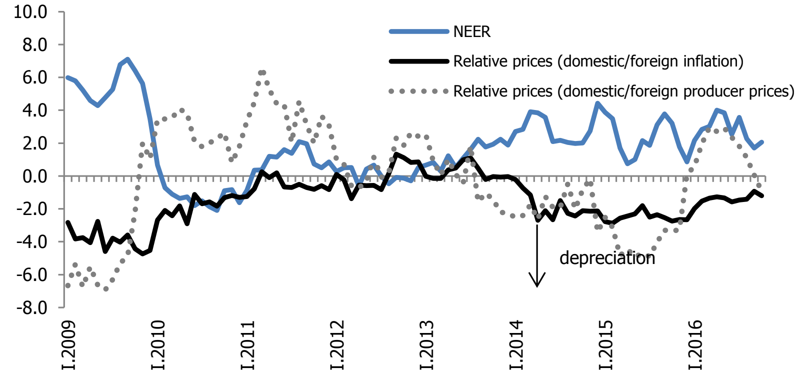
Source: NBRM.

In October 2016, **price competitiveness indicators of the domestic economy registered slight annual changes.** The REER index deflated by consumer prices appreciated by 0.8% and the REER index deflated by producer prices appreciated by f 1.1%.



Source: NBRM.

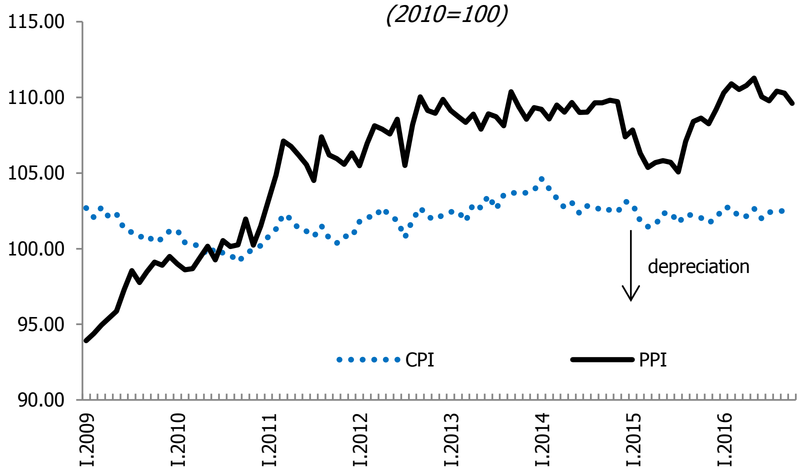
NEER and relative prices
annual growth rates, in %



Source: NBRM.

These developments are solely due to the NEER dynamics, which appreciated by 2.1% on an annual basis as a result of the depreciation of the British pound, the Ukrainian hryvnia and the Serbian dinar against the Denar. On the other hand, the relative consumer prices and the relative producer prices registered an annual decrease of 1.2% and 0.9%, respectively.

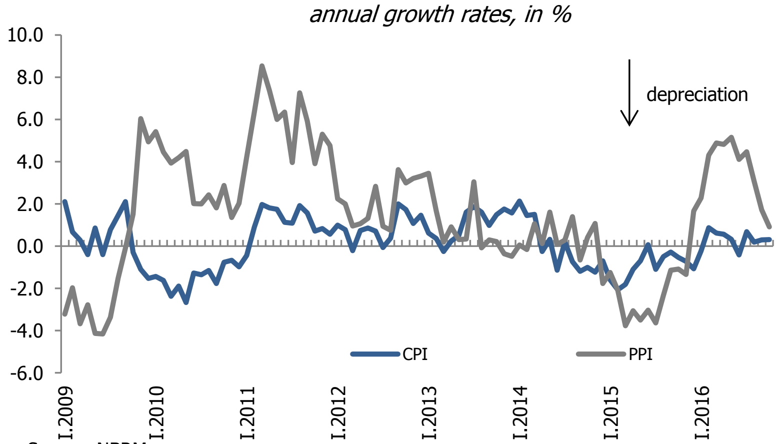
REER, excluding primary commodities
(2010=100)



Source: NBRM.

The analysis of **REER indices, as measured using weights based on the foreign trade without primary commodities[12] also indicates that they have appreciated slightly on an annual basis.** In October, the REER index deflated by consumer prices appreciated by 0.3%, while the REER deflated by producer prices appreciated by 0.9%.

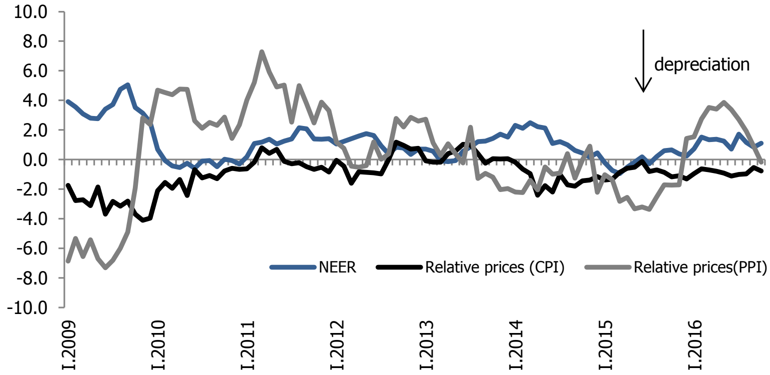
REER, excluding primary commodities
annual growth rates, in %



Source: NBRM.

[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.

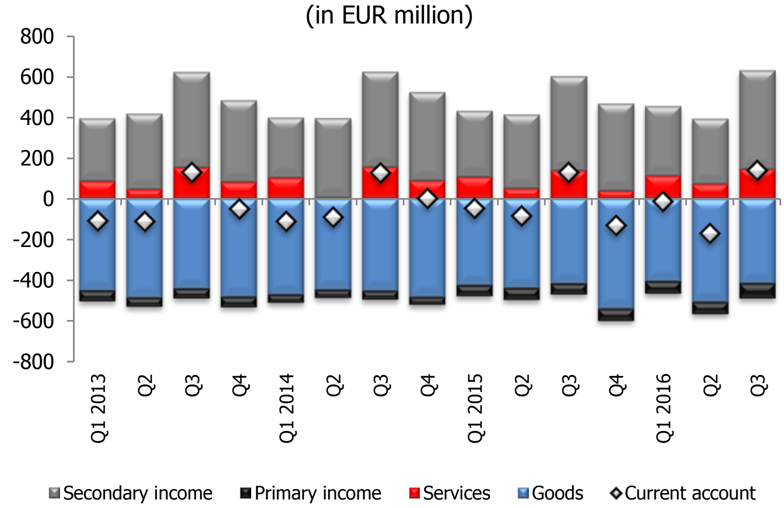
NEER and relative prices, excluding primary commodities
annual growth rates, in %



Source: NBRM.

On an annual basis, the relative consumer prices and the relative producer prices decreased by 0.8% and 0.2%, respectively. The NEER has appreciated by 1.1% on an annual basis.

Main components of the current account
(in EUR million)

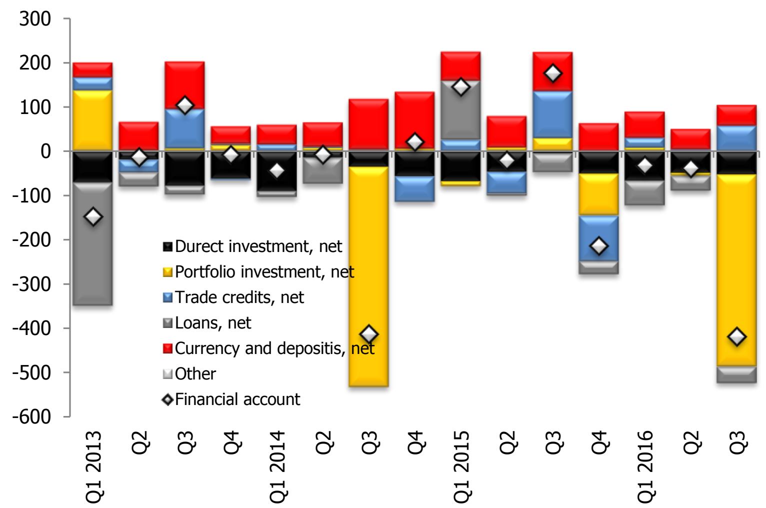


Source: NBRM.

In the third quarter of 2016, the current account registered a surplus of Euro 140.9 million (or 1.5% of GDP), as expected for the third quarter in the October forecasts.

The analysis of individual components indicates that the movements of all current account components (deficit in goods and services, primary and secondary income) are generally as expected in the October forecast.

Financial account components
(in EUR million)

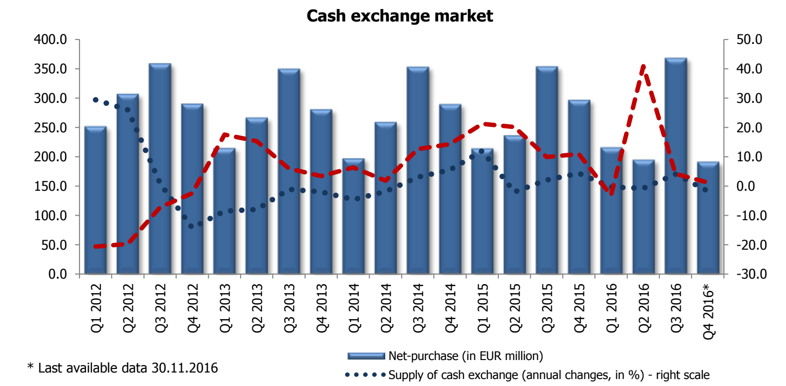


Source: NBRM.

In the third quarter of 2016, the financial account registered net inflows of Euro 418.1 million (or 4.4% of GDP), which is generally in line with the expected net inflows for the same period in the October forecast[13].

Analyzing individual components, moderate deviations were registered in short-term financial flows. Namely, there were lower net outflows in currency and deposits, mainly due to lower net outflows in other sectors. Lower net inflows than expected in October are also registered in short-term loans. Other financial account components are in line with the October forecasts.

[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.

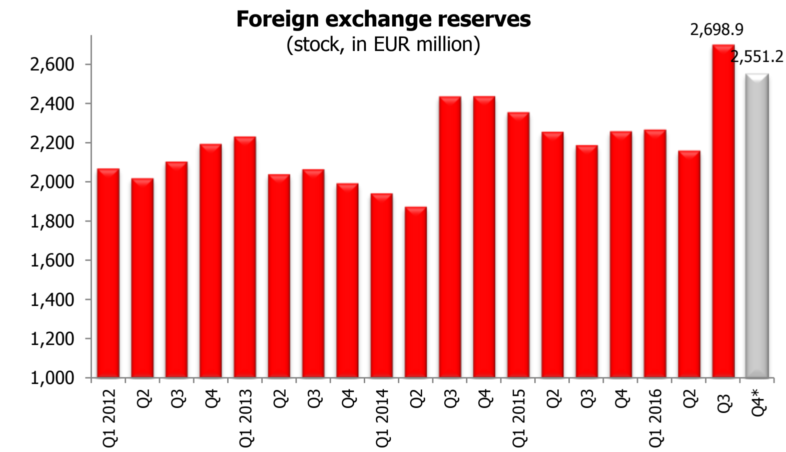


Source: NBRM.

Recent data on currency exchange operations as of November 2016 indicate increase in the supply of and demand for foreign currency.

The net purchase in the foreign exchange market in October and November 2016 totaled Euro 191.5 million, which is a small annual increase of 1.5%.

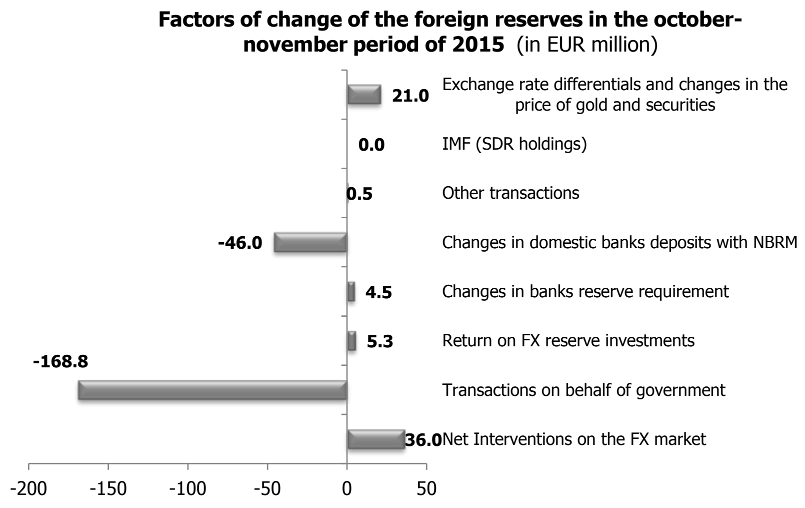
The available information from the currency exchange market indicate net inflows which are in line with those expected in the private transfers in the fourth quarter of 2016, as forecasted in October.



* Last available data 30.11.2016

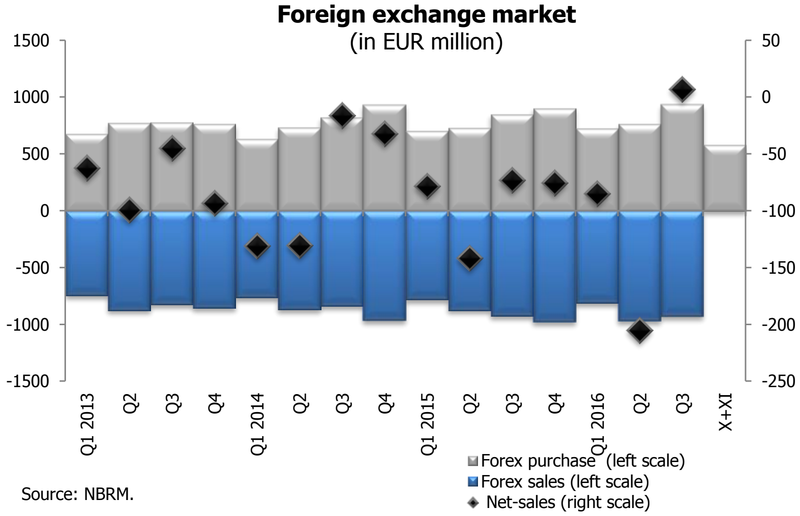
Source: NBRM.

As of 30 November 2016, the gross foreign reserves stood at Euro 2,551.2 million, down by Euro 147.7 million compared to the end of the third quarter of 2016. The foreign reserves reduced mostly due to the transactions on behalf of the government for regular servicing of due government liabilities to foreign creditors[14], and the reduction of foreign currency deposits in domestic banks by the NBRM[15]. On the other hand, the NBRM increased the foreign reserves on the foreign exchange market by net sale of foreign currency, same as the currency changes and changes in the price of gold. The other transactions have no significant influence on the amount of foreign reserves.



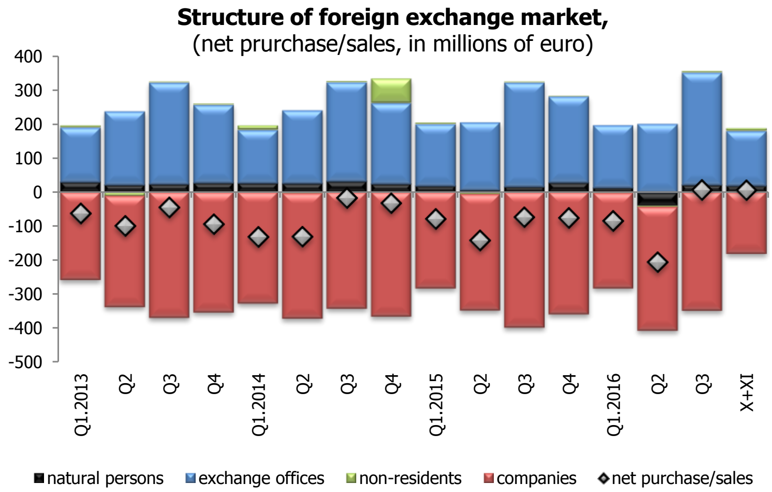
Source: NBRM.

[14] Reduction of foreign reserves is mostly a result of the deleveraging of the Republic of Macedonia to international creditors.
[15] Since 25 October 2016, foreign currency deposits have not been offered as an alternative for placing foreign assets of commercial banks.



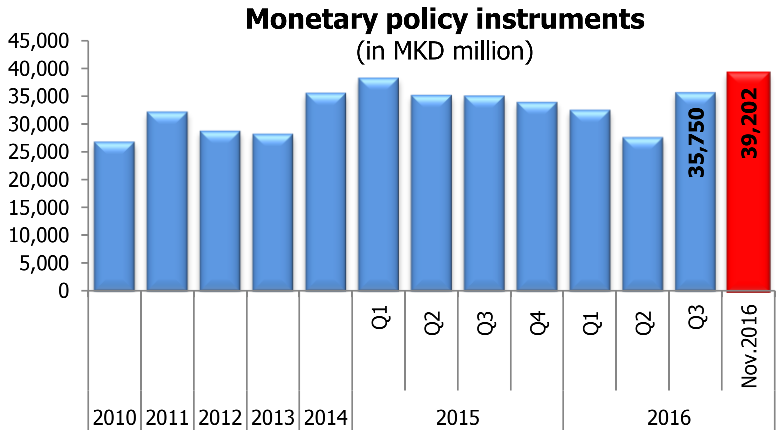
Source: NBRM.

In October-November 2016, the foreign exchange market registered net purchase of Euro 6.6 million, compared to the net sales of Euro 28.3 million in October-November 2015. This annual change was due to the increasing supply of foreign currency by 3.5% given the 2.6% lower demand.



Source: NBRM

Sector-by-sector analysis shows that such performance mostly results from the reduced net sales of companies.



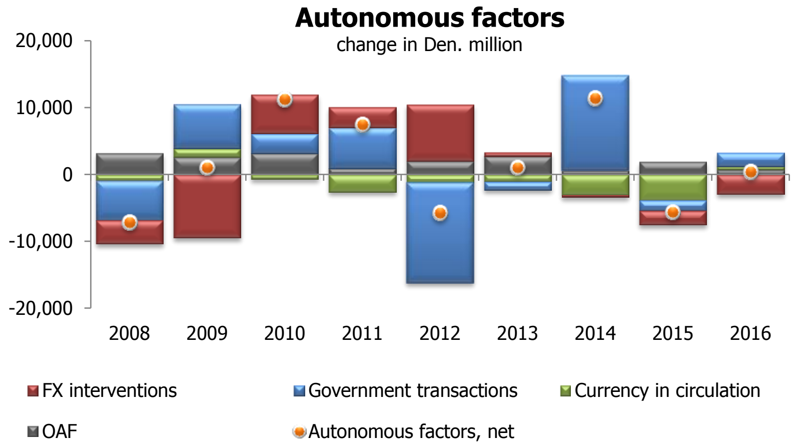
Source: NBRM.

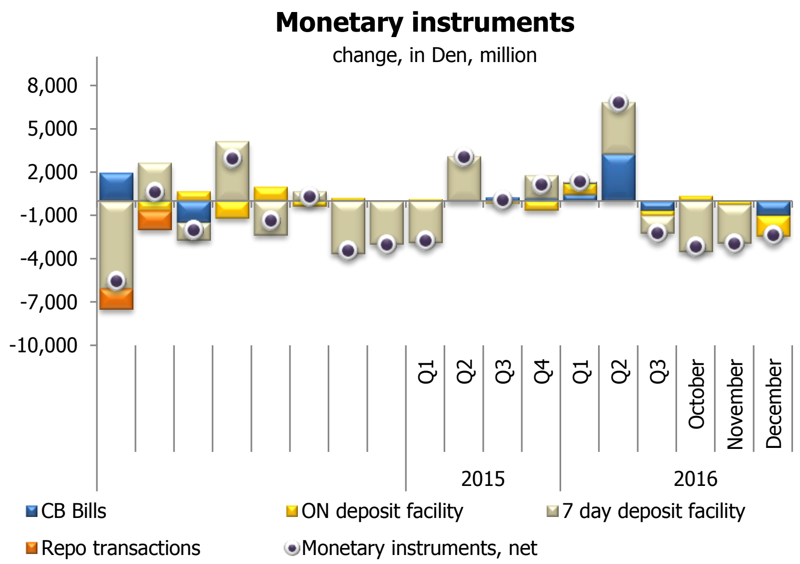
Data as of October (from balance sheet viewpoint) suggest withdrawing liquidity from the banking system through monetary instruments[16] relative to the end of the third quarter, which is as expected for the last quarter, as forecasted in October.

Net foreign assets of the NBRM in October increased compared to the end of the third quarter, versus expectations for significant decline in the fourth quarter, as forecasted in October. On the other hand, total government deposits decreased, but at a significantly slower pace compared to the decline forecasted for the last quarter.

Reserve money in October were moderately lower compared to the end of the third quarter (mostly due to the lower level of banks' reserves with the NBRM), which is contrary to the expectations of growth in the last quarter of the year.

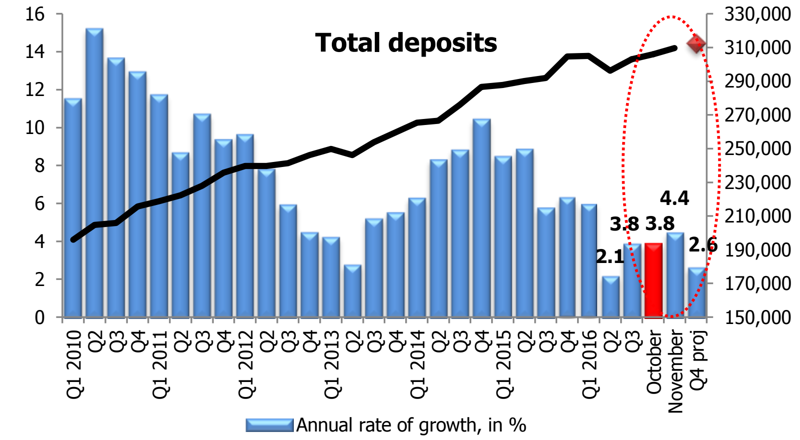
[16] The category of monetary instruments includes auctions of foreign currency deposits, which were reactivated in May 2016.





According to operational liquidity data, in November, bank liquidity decreased on a monthly basis. Analyzing individual factors, lower liquidity is solely due to the higher amount of liquid assets placed in monetary instruments (predominantly short-term deposits with the NBRM). The growing interest to place monetary instruments arises from autonomous factors that acted towards creating liquidity in the banking system, mainly through the foreign exchange transactions of the National Bank with market makers.

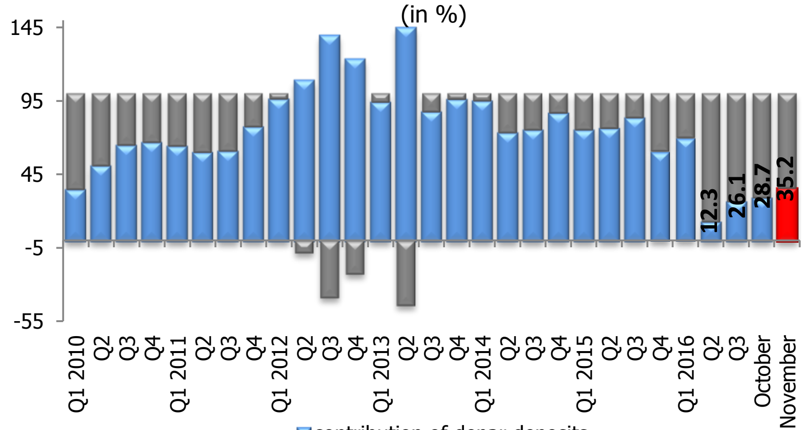
Total deposits increased significantly in October, indicating further stabilization of the expectations of economic agents. The growth of total deposits in October almost equally derives from both the corporate and the household deposits.



*Includes demand deposits
Source: NBRM.

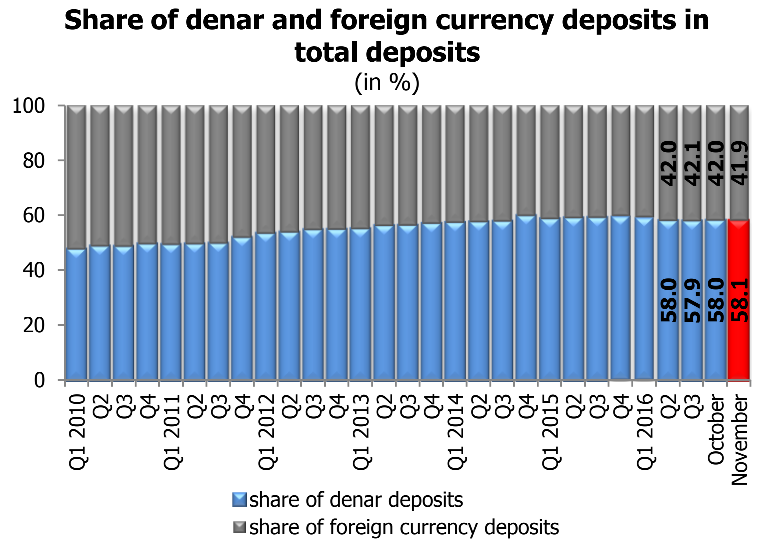
In October, the annual growth rate of total deposits equaled 3.8%, which is above the growth of 2.6% for the last quarter of 2016 forecasted in April.

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



*includes demand deposits
Source: NBRM.
Includes demand deposits.

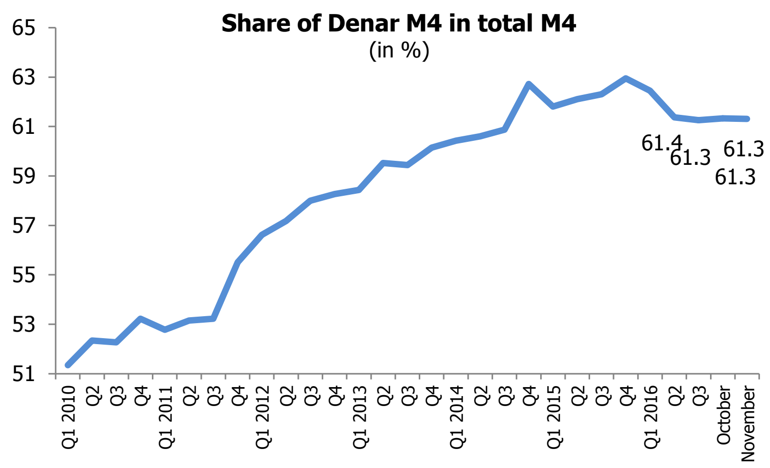
Analyzing by currency, the contribution of the growth of foreign currency relative to the growth of denar deposits to the annual growth of deposits in October is relatively larger.



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

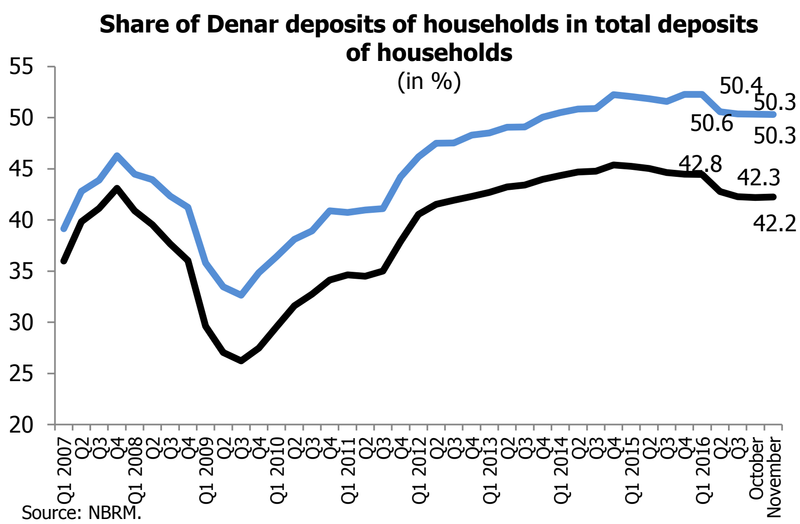
*Includes demand deposits.

The currency structure of total deposits in October registered no significant changes, i.e. the share of denar and foreign currency deposits in total deposits is stable, similar to the previous months. Denar deposits still dominate the banks' deposit base.

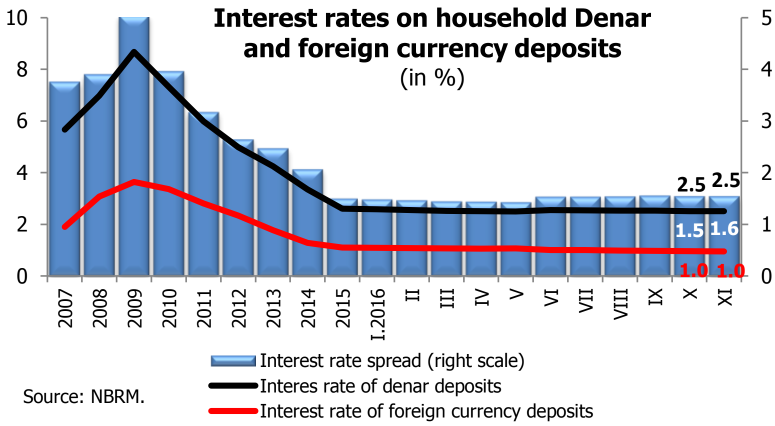


Source: NBRM.

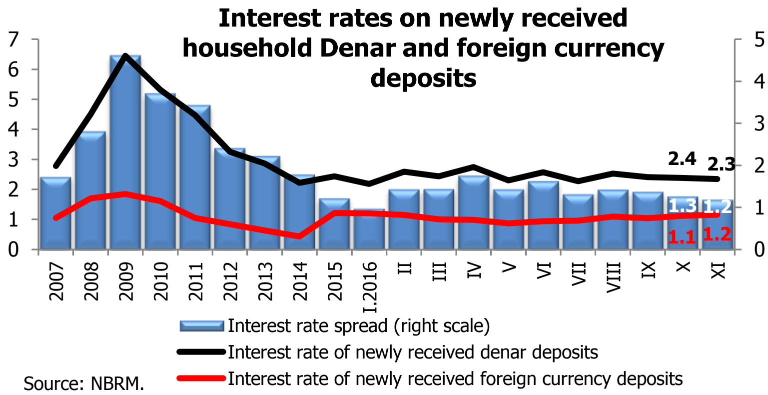
Total household deposits continued to increase in October compared to the previous month. By currency, the increase in household deposits primarily reflects the growth in foreign currency deposits, amid moderate increase in denar deposits.



Source: NBRM.

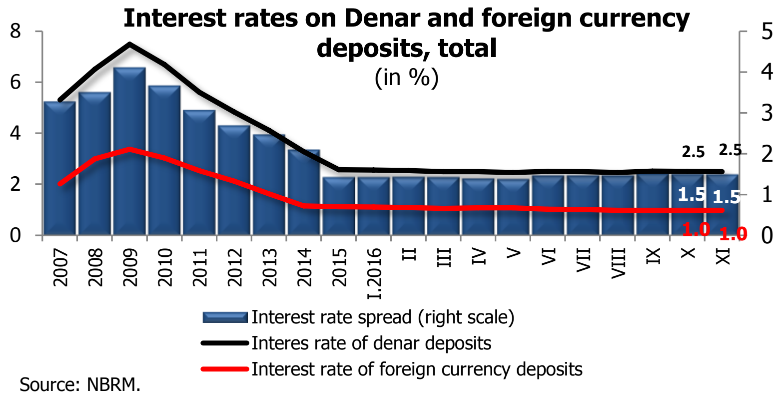


Source: NBRM.

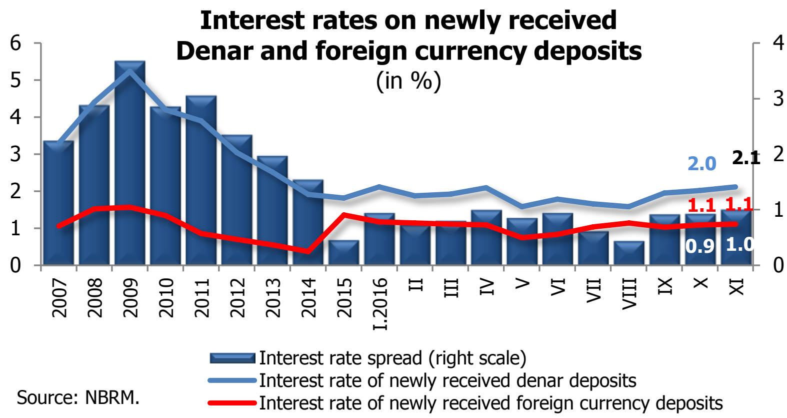


Source: NBRM.

In October, interest rates on denar and foreign currency deposits of households registered insignificant changes. Consequently, the interest rate spread between interest rates remained relatively stable compared to the previous period. Interest spread of new deposits narrowed as a result of the increase in the interest rate on foreign currency deposits amid unchanged interest rate on denar deposits.



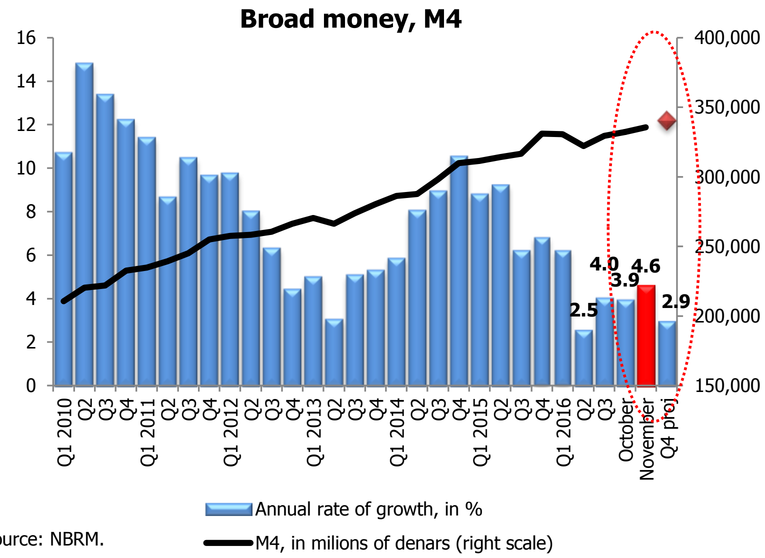
Source: NBRM.



Source: NBRM.

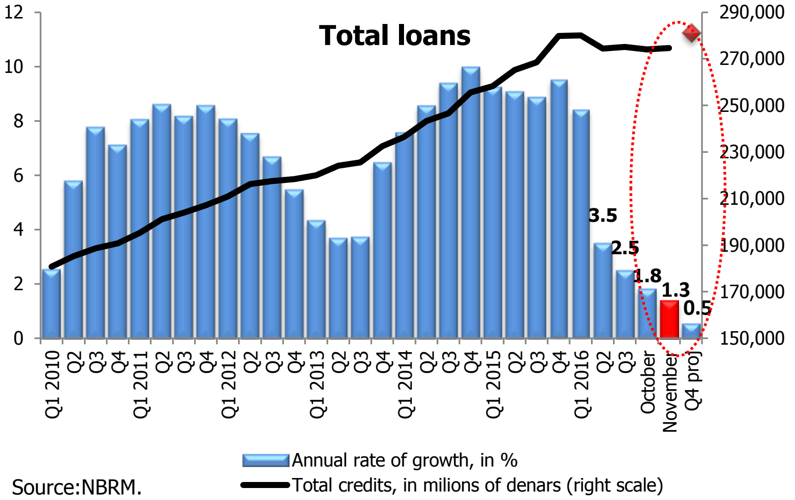
During October, total interest rates remained the same compared to the previous month. The interest rate spread on newly accepted deposits, amid relatively identical moderate increase in interest rates on denar and foreign currency deposits, registered no changes. One should bear in mind that variable movements are characteristic for the interest rates on new deposits[17].

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



Source: NBRM.

Broad money M4 registered a monthly increase in October. The monetary growth fully reflects the widening of the deposit base, given the decrease in currency in circulation. **On annual basis, the broad money increased by 3.9%, which is above the growth of 2.9% forecasted for the fourth third quarter of 2016.**

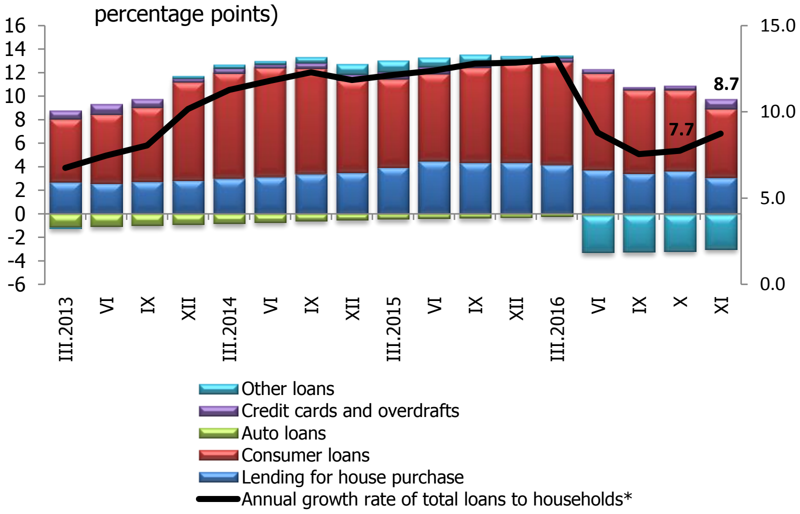


Source:NBRM.

Total loans declined in October compared to the previous month. The total lending reduced on a monthly basis (0.4%) mainly due to the lower corporate loans, amid moderate growth in loans to households. The results of the Lending Survey regarding the banks' expectations for the fourth quarter suggest further easing of the overall credit standards for both sectors, amid moderate net increase in demand in both sectors.

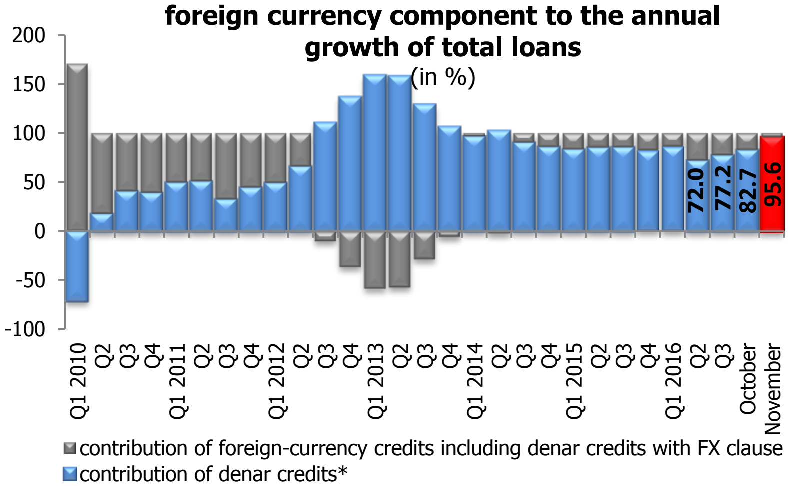
The annual growth rate of total loans at the end of October was 1.8%. If we exclude the regulatory effect, the annual rate is 7.2%, which is above the October forecast for annual growth of 5.6% for the fourth quarter of 2016.

Loans of banks and savings houses extended to households
(contribution to the annual change of loans to households*, in percentage points)



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

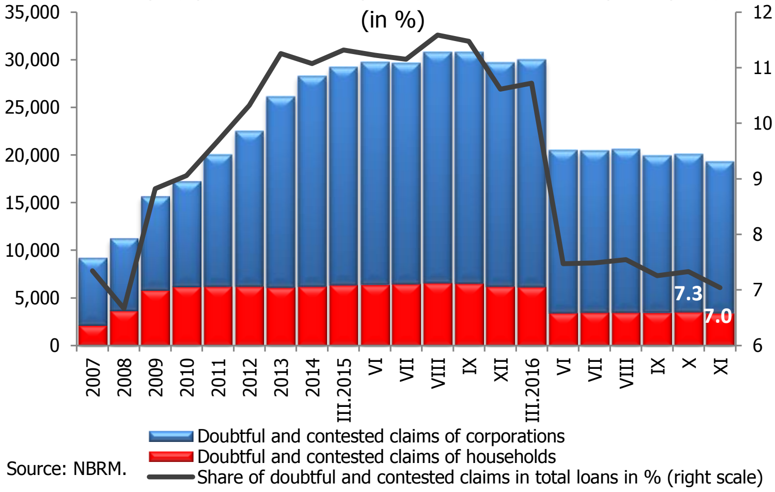
Contribution of denar loans and loans with foreign currency component to the annual growth of total loans
(in %)



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

The annual rise in total loans mostly arises from the growth of denar loans[18] and denar loans with FX clause, while the contribution of foreign currency loans decreased.

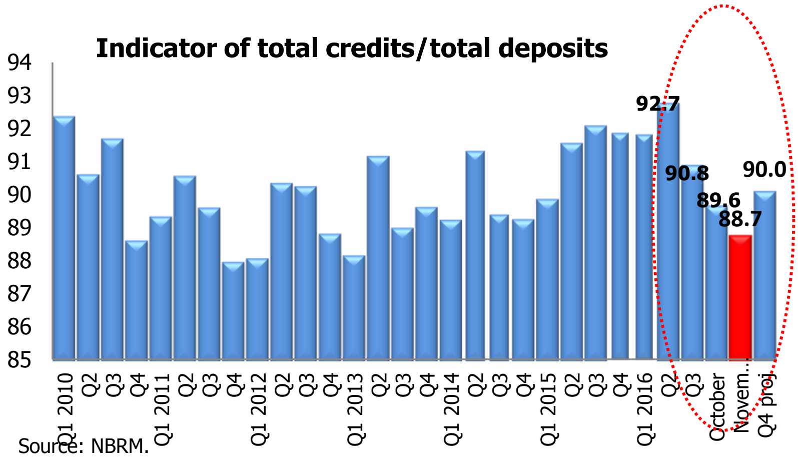
Share of doubtful and contested claims in total loans
(in %)



Source: NBRM.

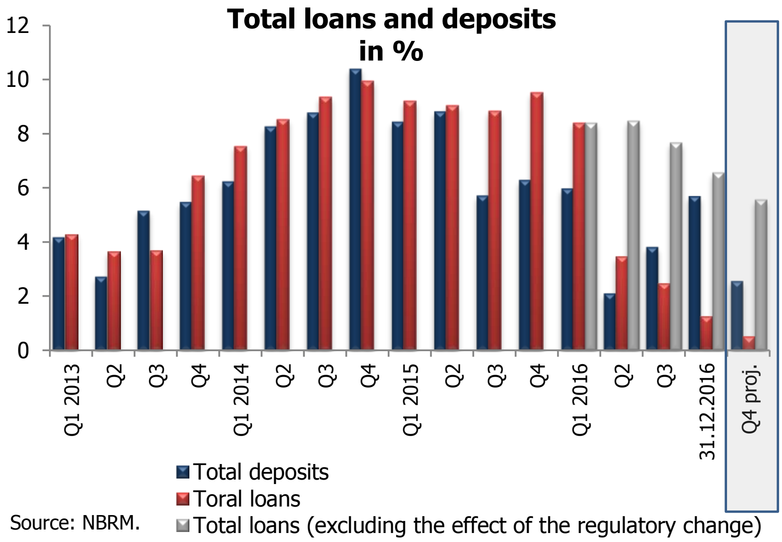
In October, the share of doubtful and contested claims in total loans remained stable and at the level of the previous month (7.3%).

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



Source: NBRM.

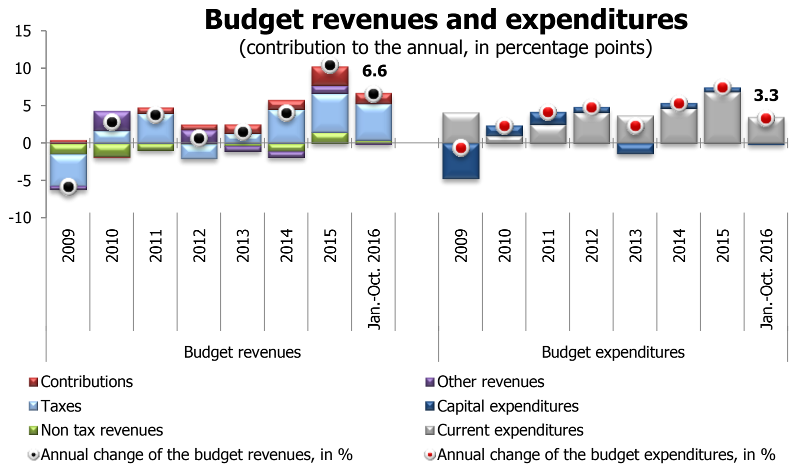
Utilization of the deposit potential for lending to the private sector as measured by the loan-to-deposit ratio was 90.0% in October, which is lower compared to the expectations with the October forecast. Compared to the previous month, the indicator decreased by 1.2 percentage points. Excluding the effect of regulatory write-off, the share of loans to deposits is 94.3%.



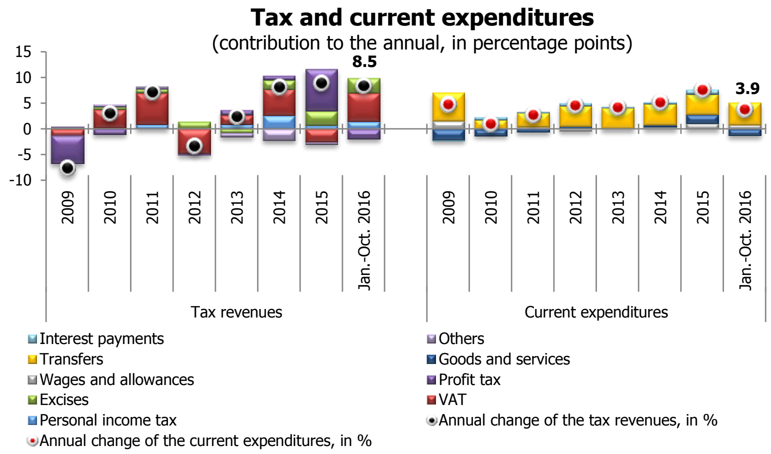
Source: NBRM.

Preliminary ten-day data as of November 2016 show further solid monthly increase in total deposits of 1.2%, which is a moderately faster pace compared to the previous month (monthly increase of 1%). The growth of total deposits in November largely stemmed from the higher corporate deposits, amid increased household savings. Analyzed by currency, around 62% of new savings is due to the growth in denar deposits. Additionally, the propensity of households to save in domestic currency continued in November, at a similar pace as the last month. The growth of total deposits in the period October-November accounts for about 70% of the forecasted quarterly growth of total deposits for the last quarter of 2016. **On an annual basis, total deposits in November grew up by 4.4%, which is above the October forecast for the end of the fourth quarter (2.6%).** Preliminary total loan data show a monthly increase of 0.2%, after their decline in the previous month (of 0.4%). The increase in total loans is solely due to the higher level of household loans, amid further decline in corporate loans (at a significantly slower pace compared to the fall registered in October). In October-November, total loans recorded a slight decrease, while for the fourth quarter of 2016, credit growth was forecasted at Denar 6,192 million. **In November, total loans increased by 1.3% annually, which is above the forecast for the last quarter (0.5%)[19]. Excluding the effect of regulatory changes, lending as of November was higher by 6.6% annually, thus exceeding the growth forecast of 5.6% for the last quarter, according to the October forecast[20].**

[19] The annual growth rate forecasted for the end of the fourth quarter of 2016 reflects higher performance in December 2015.
[20] There was no correction in the write-offs during November. It will be made once these data become available.



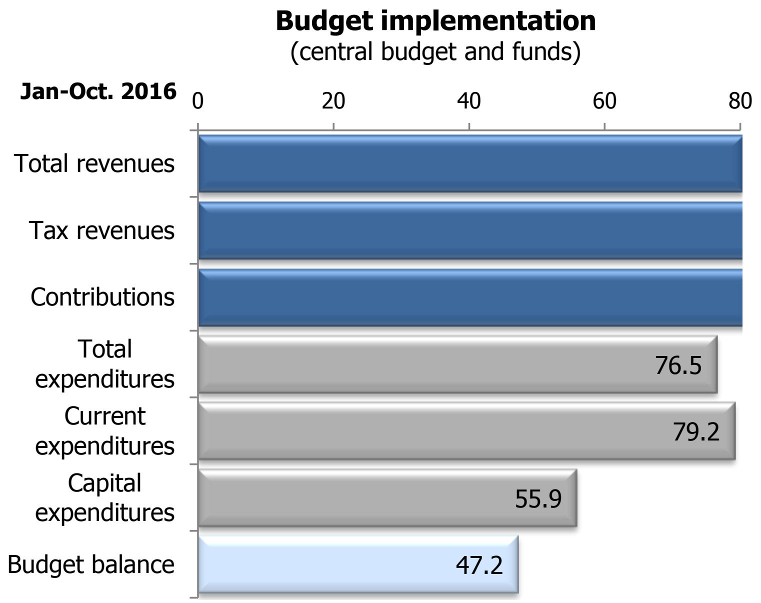
*Other revenues include capital revenues, donations from abroad and revenues of recovered loans.



In January-October 2016, the realized total revenues in the Budget of the Republic of Macedonia (central budget and budgets of funds) were higher by 6.6% compared to the same period last year. Improved performances largely stem from higher realization in taxes, and to a lesser extent from contributions.

Analyzing by tax category, the growth of taxes (8.5% annually) is predominantly driven by inflows from VAT and excise duties, while inflows of income tax remain lower on an annual basis.

The performance of budget expenditures in January-October 2016 increased by 3.3% on an annual basis, fully reflecting higher current costs (3.9%). On the other hand, capital expenditures registered an annual fall of 2.1%.



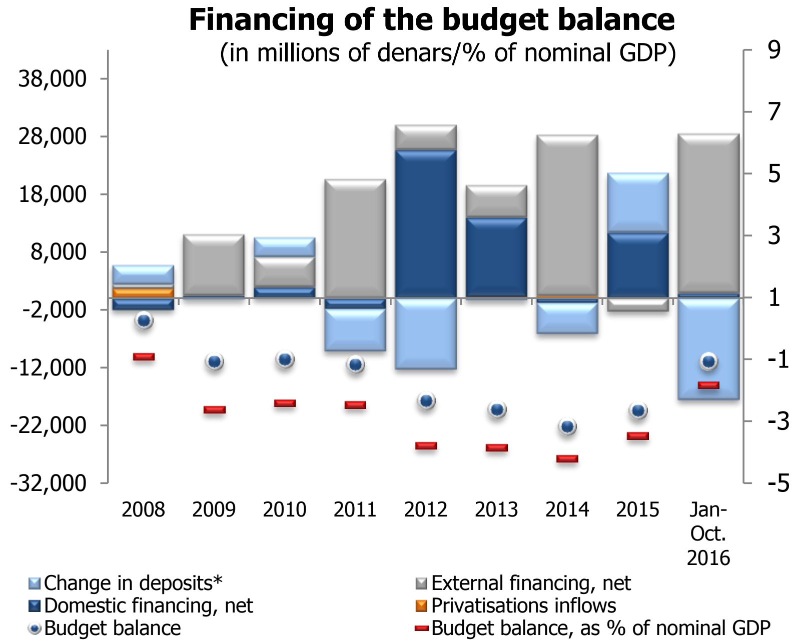
Source: Ministry of Finance and NBRM's calculations.

According to the Budget Revision[21], in the January-October period, budget revenues account for 80.4% of the revenue planned for 2016. Analyzing the main categories of budget revenues, total taxes registered the highest performance of 84.5%, while the performance of contributions was 81.6%.

Analyzing budget expenditures, in the period January-October, 76.5% of the planned expenditures for 2016 were realized, which is mostly due to the realization of the current costs (79.2% of the annual plan). The realization of capital expenditure is lower, i.e. 55.9% of the annual plan.

The budget deficit as of October accounts for 47.2% of that planned for 2016.

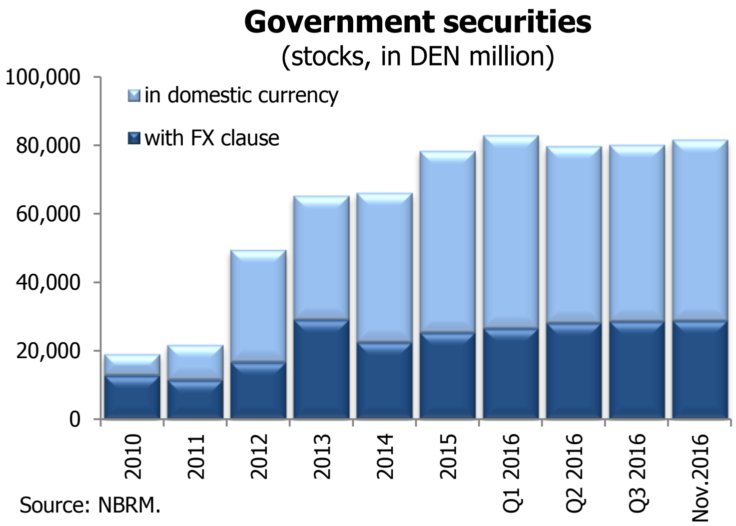
[21] The comparison is made with the Budget Revision for 2016 of August 2016.



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

In the period January-October 2016, the Budget of the Republic of Macedonia registered **a deficit of Denar 10.921 million, which is 1.8% of the nominal GDP[22].**

The budget deficit during this period was predominantly financed through government borrowing on the foreign capital market, where some of the inflows were accumulated in the form of deposits on the government account with the NBRM.

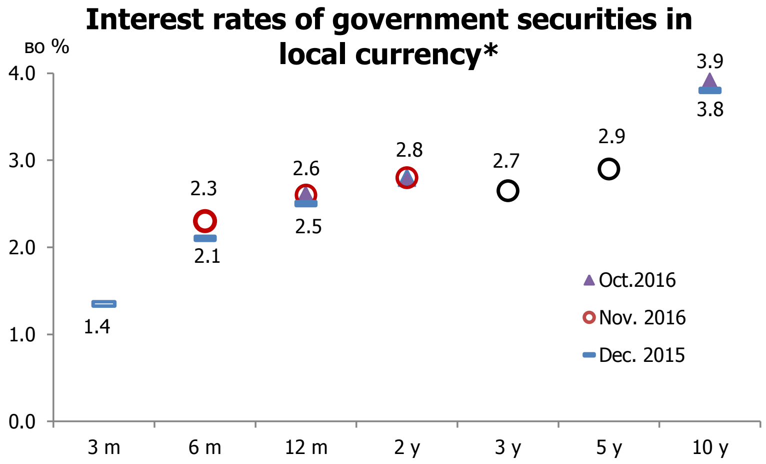


Source: NBRM.

At the end of November, the stock of government securities on the domestic market was Denar 81,640 million, which is higher by Denar 1,514 million, compared to the end of the third quarter.

On a cumulative basis, the stock of government securities is higher by Denar 3,307 million since the beginning of 2016.

[22] The analysis of nominal GDP for 2016 uses the NBRM October forecasts.

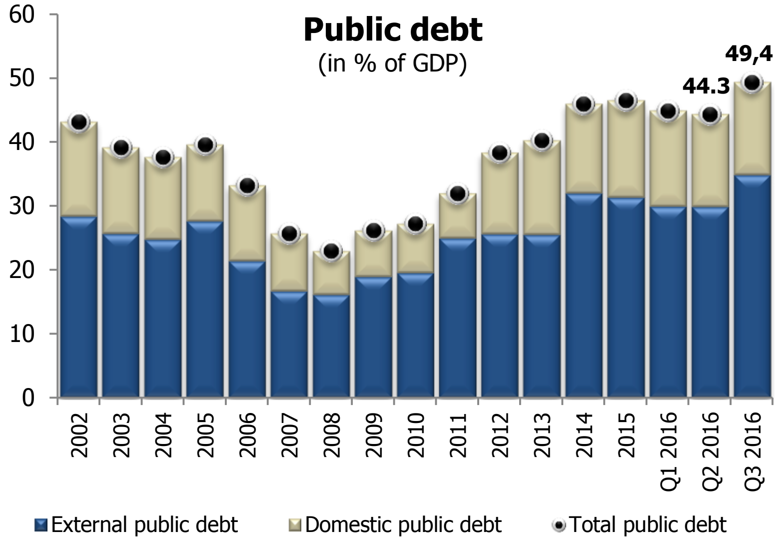


2y, 3y, 5y and 10y govenrment securities interest rates are from auctions held in May 2015, Sept. 2015, Nov. 2014 and Aug. 2016, consequently

Source: Ministry of Finance.

Interest rates on government securities in November remained at the level of the previous month[23].

Compared to the end of the previous year, the interest rates in November were moderately higher.



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

As of 30 September 2016, the total public debt[24] was 49.4% of GDP[25], which is a slight increase of 5 percentage points of GDP compared with the end of the second quarter. The increase in total public debt is a result of higher government external borrowing through the issue of Eurobond.

[23] The interest rate on 2-year government bonds with FX clause, offered in November after several months, was set at 2.70% (2.00% in July 2015).

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

[25] The analysis uses the NBRM October forecasts for the nominal GDP for 2016.

Annex 1. Timeline of the changes in the setup of the NBRM monetary instruments and selected supervisory decisions adopted in the period 2013 - 2016

January 2013

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

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

March 2013

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

July 2013

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

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

October 2013

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

November 2013

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

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

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

February 2014

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

April 2014

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

September, 2014

- In order to further channel banks' excess liquidity to the non-financial sector, in September the NBRM revised the mechanism for transfer of the demand for CB bills, which is above the banks' potential into another instrument, i.e. seven-day standing deposit facility. According to these changes, for the seven-day standing deposit facility that banks are obliged to allocate if on the CB bills auctions they demand an amount higher than the potential[26], an interest rate of 0% is determined. For the other assets that banks will voluntarily place into a seven-day standing deposit facility the regular interest rate will apply.

September, 2014

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

October 2014

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

March 2015

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

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

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

April 2015

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

June 2015

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

August 2015

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

- The National Bank Council adopted the Decision on amending the Decision on CB bills that envisages adjustment of the mechanism of participation at the CB bills auction of the National

Bank, where the main criterion will be the individual share of the banks in the total liabilities in domestic currency without currency clause of the banking system. With these amendments, the National Bank continues to support the natural persons' savings in domestic currency and on a longer run, which creates room for the banks for active credit support to the private sector.

December 2015

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

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

- The National Bank Council decided to extend the application of <u>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</u> for two more years, untill the end of 2017.

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

May 2016

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

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

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

October 2016

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