

National Bank of the Republic of North Macedonia



**REPORT ON THE IMPLEMENTATION OF THE PLAN OF
ACTIVITIES OF THE NATIONAL BANK OF THE
REPUBLIC OF NORTH MACEDONIA FOR 2019**

Skopje, February 2020

Introduction

The implementation of the Plan of Activities achieves the main legal objectives and the vision of the National Bank to be recognized as an independent, responsible, professional and transparent institution

The National Bank of the Republic of North Macedonia (hereinafter: the National Bank) aims its overall operations at efficient achievement of the main legal objectives. The vision of the National Bank is to be recognized as an independent, responsible, professional and transparent institution. Hence, the National Bank, through the process of strategic and operational planning, establishes the strategic objectives as key segments in its operations in a three-year period, and by setting the annual program activities, they are operationalized, following the principle of appropriate allocation of disposable resources and assessment of the expected results in the operations.

According to this framework, the [Plan of Activities of the National Bank for 2019](#) (hereinafter: Plan of Activities) is a detailed elaboration of the eleven strategic objectives set out in the [Strategic Plan of the National Bank of the Republic of Macedonia for 2019-2021](#) (hereinafter: Strategic Plan). The Plan of Activities contains 150 program activities with the most of them covering regular work processes directly related to the strategic objectives and tasks of the National Bank, implemented during the year. During the year, also were implemented a larger number of projects¹, which enable realization of National Bank's vision.

Some of the activities promote the **analytical infrastructure of macroeconomic forecasts and the operational conduct of monetary policy**. Taking into consideration the changes in the environment and their effects on the economy, the **National Bank has worked on research on current topics in the field of macroeconomics**, and the activities for promoting the research activity in our country also continued, by organizing working meetings of the Researchers Club.

Regarding the financial stability, the activities were focused on **deepening and formalization of the cooperation between financial regulators, in order to establish the macro-prudential framework**. Also, the National Bank started activities for **improving its crisis management capacity and developing a function for bank resolution**. The amendments to the regulation allowed opening of accounts with all foreign electronic payment transactions services, for commercial purposes, which enables **greater promotion and support of e-commerce and the use the advantages of financial technologies**. Also, the National Bank provided **greater consumer protection**, through more precise definition of the scope of total costs of consumer loans.

In terms of the **supervisory function**, the National Bank improved the risk assessment methodology, especially the process of supervisory assessment of IT risk and banks' business models. In 2019, the **by-laws were harmonized with the Law on Anti-Money Laundering and Combating the Financing of Terrorism**, and the National Bank also took part in the preparation of the National assessment of the risk of money laundering and terrorist financing.

¹ The Plan of Activities also includes a number of projects (71) implemented as scheduled utilizing the capacity of the dedicated financial and human resources. From the planned projects, 44 projects have been fully implemented, while the implementation of 17 projects is under way. The implementation of 9 projects has been delayed for the next period, whereby it concerns 6 software development projects and 3 projects related to work processes.

Also, as medium-term projects, the National Bank started the activities for strengthening the monitoring of systemically important banks and improving the readiness to deal with crisis situation.

Regarding the statistics in the field of payment services and payment systems, the National Bank started to publish new statistical data in the domain of card operations that are related to transactions abroad with payment cards issued by domestic issuers and to transactions in the country with payment cards issued by foreign issuers. **Important project in the field of statistics** was the accession to the latest statistical data dissemination standard of the IMF, while the project for setting the new statistical portal NBStat increased the availability and flexibility of published statistical data, which contributed to a **higher degree of transparency in the operations**. Related to transparency, were also the projects for improving the communication with the public, as well as the organization of the workshop for the journalists, with the presentations on the new statistical portal and the new data in the field of payment statistics.

Several **projects in the field of financial education** show the constant efforts of the National Bank to improve the knowledge of the general public with respect to the advantages of the use of the various financial services. In addition, the National Bank started with **activities for encouraging the development of innovations in the field of financial services and products** (the Innovation Gateway - a communication channel with the fintech sector was set).

In 2019, the **EU Twinning Project *Strengthening of the institutional capacity of the National Bank of the Republic of North Macedonia in the process of its accession to the European System of Central Banks* was launched**. This project was designed to support the National Bank's compliance with the European System of Central Banks (ESCB) standards and the best international practices.

The wide range of work tasks and projects that were successfully implemented during 2019 allows the National Bank also in the following period, with increased capacity, to continue to improve its operations standard for more flexible and responsible implementation of the main objectives and tasks.

Strategic objective 1

Maintaining price stability through a stable exchange rate of the denar against the euro

Related to the first strategic objective, maintaining price stability through a stable exchange rate of the denar against the euro, in 2019, the National Bank continued the **activities for further improvement of the analytical infrastructure of macroeconomic forecasts**. Thus, the National Bank developed two new models for the short-term GDP forecasting, and it also continued the regular activities for checks and improvement of the performances of the MAKPAM model as a basic tool for preparation of macroeconomic forecasts.

In order to actively monitor developments and appropriately inform when making monetary decisions, the National Bank conducted the regular revision of the assessments of the external debt sustainability, as well as of the public debt sustainability. Also, the National Bank updated the analyses of the main indicators underlying the existing monetary strategy, i.e. it reassessed the monetary transmission through interest rates and assessed the compliance of the real effective exchange rate with its fundamentals by applying the two approaches (BEER and FEER)². During the year, the indicators for the vulnerability of the Macedonian economy and for the individual countries in the region were also discussed. Due to the need for obtaining important input elements when forecasting the future macroeconomic flows, the National Bank regularly conducted the Bank Lending Survey, as well as the Survey on Inflation Expectations and Expectations for the Movement of the Real GDP. At the same time, for the needs of the balance of payments forecast, in April and October, the National Bank conducted surveys of the business plans of the largest exporters and importers.

Considering the changes in the environment and their effects on the economy, the National Bank worked on several presentations, internal analyses and researches on current topics in the field of macroeconomics³. At the same time, the National Bank published several macroeconomic analyses, in the form of analytical appendices within the regular quarterly reports, as follows:

- within the Quarterly Report from February 2019, the National Bank covered the analyses of the sectoral decomposition of the dynamics of labor productivity and unit labor costs, the impact of the new export-oriented companies with foreign capital on the change in the structure of foreign trade and the calculation of core inflation using the method of reduced average;
- in the Quarterly Report from August, the National Bank gave a short review of the post-crisis path of inflation – factors and consequences;

² BEER-Behavioral Equilibrium Exchange Rate; FEER-Fundamental Equilibrium Exchange Rate.

³ – [Central Banking in the Aftermath of the Global Economic Crisis](#);

– Cross-border banking in the Republic of North Macedonia, with emphasis on the region of Central, Eastern and Southeast Europe (CESEE) (available in the [Book published on the occasion of 10th anniversary of the launch of the Vienna Initiative](#));

– [Resilience to global headwinds? CESEE responses to changing trade and financial landscape – focus on the Macedonian economy](#);

– [Developments in major labor market indicators and active labor market measures in dealing with unemployment: Evidence from Macedonia](#).

➤ In the latest Quarterly Report, from November 2019, the National Bank prepared analytical appendix on the growth of the technological intensity of the Macedonian economy, with emphasis on the changes in the structure of the manufacturing industry.

Besides the numerous analyses, in order to see the latest developments in the Macedonian economy as a whole and in individual sectors of the domestic economy, as well as to assess their implications on the monetary policy, the National Bank prepared its **regular monthly and quarterly reports, as well as the [annual report on its operations](#)**. In the context of the need for ensuring monetary policy transparency, the National Bank regularly prepared and published press releases and presentations intended for the public, which gave a detailed review of the expectations for the next period and their effects on the monetary decisions.

In the process of the operational implementation of the monetary policy, the National Bank regularly conducted monetary operations and transactions on the foreign exchange market, in order to maintain the balance of the foreign exchange market. In doing so, the stability of the Denar exchange rate was maintained as a basic anchor of the applied monetary strategy. Also, given the multi-year conditions of structural surplus of liquidity in the banking system, the National Bank started a more comprehensive analysis of multiple macroeconomic and market factors, in order to identify the possible changes in the setup of the operational framework, in order to withdraw a portion of the structural surplus on a more permanent basis, encourage the development of the domestic financial markets and further support the process of denarization. In this context, according to the measures provided for in the Denarization Strategy, the National Bank undertook activities for examining the needs and possibilities for using derivative instruments for protection against currency risk in the domestic financial markets.

Strategic objective 2

Maintaining a stable and reliable banking system as the main prerequisite for financial stability and sustainable economic growth of the country

Regarding the second strategic objective, the **National Bank was focused on deepening and formalization of the cooperation between financial regulators, in order to establish the macro-prudential framework** according to the directives of the EU and the recommendations of the assessment mission of the International Monetary Fund and the World Bank, FSAP⁴. Regarding this, the National Bank prepared a draft-text of a *Memorandum of Understanding on financial stability maintenance*, which should be signed in the nearest future. This confirms the commitment of regulatory institutions and their strong determination to establish even more successful cooperation to strengthen the stability and prudence of our financial system. Also, the National Bank started to prepare draft-amendments to the Law on the National Bank to determine its macro-prudential mandate.

The National Bank was also focused on improving its crisis management capacity and developing a function for bank

⁴ FSAP Financial sector assessment program.

resolution according to the European regulation. Moreover, appropriate organizational changes were made within the National Bank for building capacities for its role of a competent authority for bank resolution. Hence, a completely new function for resolving troubled banks was established within the Financial Stability and Banking Regulation Department. The recommendations of the FSAP mission of the International Monetary Fund, but also the provisions of the Bank Recovery and Resolution Directive, provided for this organizational unit to be independent in its operations of the supervisory function performed in the National Bank.

In the area of banking regulation, the National Bank made amendments to the by-laws⁵ in order to harmonize with the Law on Foreign Exchange Operations related to the entry into the second phase of the association between the Republic of North Macedonia and the EU and its member states. In addition, the National Bank amended the by-laws⁶ on the manner and the terms under which residents that are not authorized banks may open and hold accounts abroad. The amendments allowed citizens and companies to open and hold accounts with all foreign electronic payment transactions services that will provide their services for the residents from our country. Citizens and companies will be able to use these accounts solely for commercial purposes or for purchasing and/or for selling goods and services electronically. Thus, the National Bank also created room for greater promotion and support of e-commerce and for use of the advantages of financial technologies, i.e. it created conditions for the goods and services offered by our residents, through e-commerce, to be more available on the international market. **In terms of consumer protection,** the National Bank amended the by-laws⁷ for greater transparency in the setting of the prices of consumer loans and more detailed informing to borrowers about the total costs they will have on an annual level, which will also provide them greater protection as consumers.

During the year, the National Bank carried out several activities for **improving system analyses** as a support to macro-prudential policies in order to maintain financial stability. The National Bank gradually strengthens the activities for promoting the cooperation with other regulators, by revising the memorandums on the exchange of data. At the same time, the National Bank started to frequently monitor other financial institutions, so for this purpose an analysis of the developments in financial companies has already been made, and analyses for both the pension and the insurance companies are also planned.

Strategic objective 2

Maintaining a stable and safe banking system, as a basic prerequisite for financial stability and for sustainable economic growth of the country

⁵ Decision on amending the Decision on the manner and the terms under which residents that are not authorized banks may open and hold accounts abroad (Official Gazette of the Republic of North Macedonia No. 50/19), Instructions for international payment operations Official Gazette of the Republic of Macedonia No. 41/19).

⁶ Decision on amending the Decision on the manner and the terms under which residents that are not authorized banks may open and hold accounts abroad (Official Gazette of the Republic of North Macedonia No. 181/19).

⁷ Decision on amending the Decision on the methodology for calculation of the annual percentage rate of total costs (Official Gazette of the Republic of North Macedonia No. 181/19).

Strategic objective 2

Maintaining a stable and reliable banking system as the main prerequisite for financial stability and sustainable economic growth of the country

To improve the indicators used to monitor the risks in the banking system, the [data that are published on the Internet were supplemented with three indicators](#)⁸ which refer to the non-performing exposure. Starting from September 2019, these indicators are regularly calculated and published.

In order to monitor the developments in the banking and financial system, the National Bank regularly published the banking system data, and regularly prepared the quarterly reports on the risks in the banking system. Regarding the financial stability, the financial stability indicators were monitored, and the contents of the [Financial Stability Report](#) was improved and enriched with new annexes that referred to: analysis of the performances of the new production facilities in foreign ownership in the Republic of North Macedonia, digitalization of the banking sector - analysis of the situation and effects on financial stability, review of the segments that comprise the financial market infrastructure and stress testing of the banking system of the Republic of North Macedonia using scenario analysis and contagion matrix.

During the year, the National Bank regularly conducted the off-site supervisory activities, the preparation and monitoring of the corrective measures on the basis of identified non-compliances and irregularities in the operations of banks and savings houses, the assessment of the PIC⁹ of banks, as well as the activities for licensing of banks, savings houses, exchange offices and fast money transfer service providers. In order to bring the supervisory practices closer to the guidelines of the EBA and the practices of the ECB, during the year, the National Bank worked on the improvement of the internal methodology for assessing banks' business models. Moreover, the National Bank prepared a tool for analyzing the sustainability of business models in the long run, which would be used in the annual supervisory risk assessment for 2020. **Regarding the activities for off-site supervision of the developments in systemically important banks**, the National Bank revised the matrix of supervisory activities for these banks, by introducing regular meetings with the external auditor and regular meetings with the members of the Management Board on a semiannual basis. At the same time, in cooperation with experts of the World Bank, the National Bank developed a draft internal methodology for assessing the recovery plans for systemically important banks, whose practical application and testing are planned for 2020 within the assessment of the specific plans submitted by banks.

At the same time, **according to the recommendations from the FSAP mission, the National Bank also started to conduct full-scope on-site controls of systemically important banks**. At the same time, in order to further improve the Supervisory Review and

⁸ It concerns the indicators: total non-performing credit exposure/total exposure to credit risk, total non-performing on balance sheet credit exposure/total gross assets and total non-performing on balance sheet credit exposure and foreclosed assets based on outstanding claims/total gross assets.

⁹ Process of determining the banks' internal capital.

Evaluation Process¹⁰ and determine the minimal necessary level of capital for the individual banks, the National Bank developed a draft-tool which will assess the IT risk. The tool was sent for testing to four systemically important banks. The results were subject to testing and analysis by supervisors during 2019. The activities continue in 2020, when the tool will be formalized by developing a methodology and operating procedure, and it will start to be used in the operations.

Within the regular supervisory controls, according to the annual control plan, the National Bank performed regular supervisory controls (on-site risk controls) on 10 banks, whereby the compliance of the operations with the regulations was also subject to control with 6 banks. Also, the National Bank conducted controls of the compliance of the operations with the regulations with other 4 banks, as well as with 2 savings houses, 1 subagent and 209 authorized currency exchange offices.

Regarding the activities for strengthening the framework for anti-money laundering and combating the financing of terrorism, in 2019 the National Bank adopted the *Instructions for assessing the risk of money laundering and terrorist financing with banks, savings houses, fast money transfer service providers and licensed currency exchange offices*. Representatives of the National Bank participated in working groups to assess the risk of money laundering and terrorist financing with banks and non-bank financial institutions. Within these activities, in October 2019, the National Bank adopted a **Draft national assessment of the risk of money laundering and terrorist financing**, which is submitted to the Government of the Republic of North Macedonia.

Following the trends which arise from the initiatives undertaken by financial regulators within the European Union, aimed at creating an environment of closer cooperation between the regulators, the existing financial institutions and the fintech sector, the National Bank opened an [Innovation Gateway](#) – a communication channel with the fintech sector.

Strategic objective 3

Efficient management of the foreign reserves of the Republic of North Macedonia relying on the optimal balance of the principles of safety, liquidity and return on investment

In the process of managing the foreign reserves of the Republic of North Macedonia, the National Bank **developed tools for more detailed monitoring of the income from investment, by separating the factors (amortization, capital gain) that affect the price changes of instruments, and achieved substantial progress in the monitoring of the set exposure limits when investing**. Also, the National Bank **developed a model for measuring the credit risk** and determining a potential loss from credit event, made according to the guidelines and methodology of the World Bank – RAMP program¹¹. During 2019, the National Bank **expanded the scope of eligible financial instruments** for

¹⁰ Supervisory Review and Evaluation Process (SREP)

¹¹ RAMP-Reserves Advisory Management Partnership

investing the foreign reserves, and it also examined the possibilities for introducing new derivative instruments.

Strategic objective 4

Supporting the development of domestic financial markets

The strategic objective for supporting the development of domestic financial markets was implemented through several activities, whereby the National Bank regularly monitored the interbank trading in deposits, in foreign currency assets, as well as the secondary securities market and published the data and information on the financial markets developments on its official web site. During the year, the National Bank **also analyzed the trends in the international financial markets related to the reform of the reference interest rates** and prepared brief information on the interest rates on the money markets for the euro and the introduction of the new reference rate ESTR¹².

Strategic objective 5

Maintaining a stable cash supply system and ensuring standard quality and functionality of banknotes and coins

Regarding the strategic objective related to the **cash supply system**, the National Bank regularly undertook activities for timely and efficient adjustment of demand to individual denominations, thus maintaining a compact and balanced denomination structure, for the smooth execution of cash transactions. To maintain cash reserves at an optimally stable level, the National Bank procured banknotes in denominations of 10 and 500 denars and coins in denomination of 1 denar.

In order to maintain the established standard quality of currency in circulation, **in this period the National Bank significantly intensified the unannounced targeted on-site controls of the network of banks' business units**, in order to monitor the quality of money in the supply of ATMs, as well as test the suitability of processing machines, according to the unified standards and criteria for selection of money. At the same time, the National Bank conducted regular controls of application of the standards and criteria for cash operations in 6 commercial banks, and also performed 82 tests on the money processing machines.

To strengthen the first barrier in protecting the integrity of the national monetary unit, as well as of the other currencies that circulate in the cash drain in our country, the National Bank continued to **intensively conduct trainings of all employees in the financial institutions (banks, cash centers) who come into contact with cash every day, to raise the ability to quickly, safely and efficiently detect suspicious banknotes and coins**. Besides training of employees in banks and cash centers, during 2019, the National Bank **prepared the National Training Plan**, on the basis of which in the next period the experts from the National Bank will conduct trainings for recognizing counterfeit money for the employees of the Ministry of Interior and the Customs Administration, which, within their competences, take activities for protection and dealing with the counterfeiting of money. In this context, the National

¹² €ESTR- Euro short term rate.

Bank has concluded a **Cooperation Agreement with the European Commission** in the process of protecting euro coins against counterfeiting.

The cooperation with the Deutsche Bundesbank, the Oesterreichische Nationalbank and the Croatian National Bank and the successful implementation of the **Twinning Light Project funded by the European Union "Strengthening the capacities of the system for fight against counterfeiting of EUR", should also be noted.** The objectives of the project have been successfully achieved and in the next period the National Bank will work intensively on the implementation of the recommendations which arose from this project and that are especially important for protecting the national and financial interests of the EU. The implementation of this project, as an indirect benefit, allowed the National Bank to deepen its cooperation with other central banks in the area of protection of the euro against counterfeiting, through participation of the employees of the Banknotes Department in international workshops and seminars, as well as through regular participation in the initiative "Balkan network for euro protection", organized by the European Commission and the Croatian National Bank (within the Pericles 2020 programme).

Within the regular activities, the National Bank monitored the demand for effective foreign currencies for the needs of the National Bank, government institutions and governing bodies and intervened in a timely manner to adequately meet the needs.

During 2019, the National Bank regularly followed the trends, the needs and the demand by collectors, numismatists and other stakeholders, whereby the National Bank sold a total of 161 collector coin, and the high demand for coins for this purpose indicates the need for their further issuance.

The National Bank together with the Ministry of Finance during 2019, actively worked on a draft of the new Law on Payment Services and Payment Systems implementing the Directive on payment services in the internal market (2015/2366/EC), the Directive on settlement finality in payment and securities settlement systems (2009/44/EC), the E-Money Directive (2009/110/EC), the Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (2014/92/EC), the Regulation on interchange fees for card-based payment transactions (2015/751) and part of the provisions of the Regulation establishing technical and business requirements for credit transfers and direct debits in euro (260/2012). The draft version of the Law was shared with the stakeholders, whereby during the public debates their comments and suggestions were considered. At the same time, within the IPA Twinning Project funded by the EU, the National Bank **started activities for preparing the by-laws** which will arise from the new Law on Payment Services and Payment Systems.

In the first half-year of 2019, the **National Bank in cooperation with De Nederlandsche Bank successfully organized the Twelfth**

Strategic objective 6

Maintaining the highest level of safety, soundness and efficiency of domestic payment systems, promoting cross-border payments and accelerating the digitization process of the domestic economy

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Conference on Payments and Market Infrastructures: [*Open doors to the changing payments landscape*](#). Within the Conference, in addition to the experts of De Nederlandsche Bank, presentations were also made by the experts of the European Commission, the European Central Bank, the National Bank of Belgium and the Bank of Canada. Moreover, experiences were exchanged between the representatives of central banks of the EU and the region, as well as the domestic participants (the Ministry of Finance, the commercial banks, the financial market infrastructure operators and other institutions). The exchange of experiences and the knowledge acquired have great significance for the implementation of the directives and standards of the EU, in order to strengthen the digitalization of payment services in the domestic economy.

Within the regular activities for processing and settling transactions related to foreign reserves management and to monetary policy implementation, monitoring and supporting the settlement of transactions on OTC markets, the National Bank continued to improve the back office according to the practices and standards of work of the ECB. The National Bank regularly carried out activities for greater efficiency in the management of the accounts with the institutions with which it cooperates in the foreign reserves management process.

In the part of the performance of international payment operations, the National Bank during 2019 **developed a Draft-Policy for anti-money laundering and combating the financing of terrorism** in order to adequately manage this risk in the provision of payment services to its clients.

Regarding the statistics in the field of payment services and payment systems, in the fourth quarter of 2019, the National Bank **started to publish new statistical data in the domain of card operations that are related to transactions abroad with payment cards issued by domestic issuers and to transactions in the country with payment cards issued by foreign issuers**, as well as to publish the fees that banks and other payment service providers charge to merchants for payment card payments. In order to familiarize the general public with the novelties in the domain of payment statistics, the Payment Systems Department took part in the workshop organized by the National Bank with the press devoted to the monitoring of the statistical data prepared by the National Bank. Also, in order to achieve higher quality of payment statistics data, the National Bank incorporated additional control mechanisms into the payment statistics application to automatize the check on the data submitted by reporting agents annually.

During 2019, the **National Bank continued to perform direct oversight of payment systems** in order to assess their compliance in the operations with the requirements and standards defined by the by-laws, which translate the international standards that are accepted as payment systems operations standards in the Republic of North Macedonia. In this respect, the National Bank produced an Annual Payment Systems Oversight Report for 2018, which was presented to and adopted by the National Bank Council.

During 2019, the National Bank **also developed a draft version of the Cyber Resilience Framework**, which covers the requirements that payment system operators should undertake to improve the level of resilience to cyber attacks, whereby it will be a part of the by-laws that will arise from the new Law on Payment Services and Payment Systems.

Strategic objective 7

Development of the research activity in areas crucial for the efficient achievement of the National Bank's objectives

Within the research activity, the National Bank continued with the activities related to the construction of the DSGE model¹³ for analysis of the policies in North Macedonia, with the help of the technical mission of the Czech National Bank. Also, during the year, the National Bank worked on the analysis of the effects of the monetary policy on the inflation expectations of different income groups of households, where consumer price indices for the individual income groups were prepared, and initial results of the small structural model and the FAVAR model¹⁴ were also obtained. Regarding the research of the generators of the financial cycle and the effects of the real shocks on lending, the model on which the research (DSGE) will be based was determined, and the database was prepared, and the activities for construction of the model and preparation of working material will continue in 2020. In 2019, the National Bank worked on part of the activities related to the project "Models for short-term forecasting of the export and import of goods", i.e. the already set export and import models were updated with latest available data. The activities should entirely be completed by mid-2020. As for the project related to the assessment of the impact of the global factors on the change of the dynamics of the inflation in the countries of Southeast Europe in 2019, a review of the literature was given and a reference methodology was determined. The activities will continue in 2020.

The working materials related to the researches for measuring the effects of monetary policy by using the FAVAR approach, the assessment of the balanced interest rate, the research for the effectiveness of monetary versus macro-prudential transmission and the assessment of the optimum level of euroization and the drivers of euroization in our economy, are in their final stage of preparation.

The National Bank continued to **promote the research activity in our country by organizing working meetings of the Researchers Club**, where working materials and researches on several topics of macroeconomics were presented. Also, in order to stimulate the development of the scientific thought in the country, as well as in order to promote the young professional staff, for the thirteenth year in a row within the celebration of the anniversary of the monetary independence of the country, the National Bank **awarded the Young Researcher Prize of the Year**, and the prizewinning paper was presented at the *33rd Research Club session*.

¹³ DSGE model - Dynamic stochastic general equilibrium model.

¹⁴ FAVAR model - Factor-augmented vector autoregressive (FAVAR) model.

Strategic objective 8

Providing quality statistical data, fully consistent with international and European statistical standards, taking into account the reporting burden and their effective, timely and easy dissemination to users

During 2019, the National Bank regularly collected, prepared and published statistical data in the area of external and monetary statistics. Also, certain segments were further developed and upgraded during the year. This applies to both certain methodological aspects and the existing infrastructure, and in order to reduce the reporting burden, to increase the effectiveness in the preparation of statistical surveys, as well as in the dissemination. During 2019, special attention was paid to the **improvement of the communication with data users by increasing the availability and improving the access to statistical data by external users**. The most significant activities in this area include:

- **“Development of a tool for internal analysis of statistical data and statistical web portal for external users of data”**. The activities for setting the [new statistical web portal NBStat](#) and preparing data series in the required form were completed during 2019, and from 18 December, NBStat was launched. At the same time, the **web site of the National bank, in the part “[Statistics](#)” was redesigned** and user manual for the purposes of external users was published. NBStat allows greater flexibility for users (independent determination of the form and contents of statistical data, according to the individual needs) and easier browsing, leading to increased usefulness of published data and simultaneous reduction of the time necessary to obtain the required data.
- **Official accession to the latest data dissemination standard of the IMF**. The successful implementation of the final stage of the accession to the SDDS Plus¹⁵ enabled official joining of the Republic of North Macedonia in the SDDS Plus on 28 January 2019, whereby our country became the 18th country that accepted this standard and was included in the group of countries with highly developed statistical practices for dissemination of data.

In the area of financial accounts statistics, the National Bank worked on the **improvement of the methodological bases of the annual financial accounts (balances) and the annual financial accounts (flows) of the government sector**, according to the recommendations of several expert missions, and revised the data for the period from 2013 to 2017. At the same time, the National Bank prepared a methodological document for compiling financial accounts and submitted it to Eurostat. **The National Bank performed an annual transmission of detailed financial account data (balances) to Eurostat, for the period 2013-2018**. Within the Twinning Project of the National Bank - Component 3 “Further harmonization of financial accounts statistics in the National Bank with the ECB standards”, the National Bank carried out the first expert mission with experts from the Croatian National Bank and the National Bank of Romania.

¹⁵ SDDS Plus - Special Data Dissemination Standard Plus.

The project aims to ensure development of quarterly financial accounts (balances and flows), annual financial accounts (flows) and consolidated data.

Strategic objective 8

In the area of securities statistics, the activities for software connection of all available databases for equity and debt securities issued and held by residents and non-residents, continued. The promotion of this statistics creates prerequisites for enriching the data sources and improving the quality of financial accounts statistics and external statistics.

Providing quality statistical data, fully consistent with international and European statistical standards, taking into account the reporting burden and their effective, timely and easy dissemination to users

In 2019, the National Bank continued with the activities within the long-term project for establishing an integrated reporting system for statistical and supervisory purposes (ISIDORA), which will significantly reduce the reporting burden and will allow a much richer data base for the existing statistical purposes, as well as for further compliance with the international statistical requirements.

In the area of external statistics, stand out the activities for adjusting the IT system for processing foreign trade data in the National Bank to the new system in the Customs Administration of the Republic of North Macedonia, which imposed a need for appropriate adjustment of several application solutions in external statistics.

During the year, the National Bank, the Ministry of Finance and the State Statistical Office continued their inter-institutional cooperation in the area of the financial accounts statistics, the fiscal statistics on excessive debt and deficit, consistent sectoral division of economic agents, as well as in the joint technical assistance projects for further development of several statistical domains.

During 2019, the National Bank **held several events and other activities for presenting and bringing central-banking statistics closer to the public:**

- to celebrate the **European Statistics Day** in 2019, the National Bank and the State Statistical Office organized a joint event, promoting mutual cooperation as a main prerequisite for improving the national statistical system. An expert from the European Central Bank was the keynote lecturer and he gave a lecture on the role of the European central-banking community for providing European statistics;
- to inform data users, a joint **promotional event with the Ministry of Finance and the State Statistical Office was organized for joining the SDDS Plus;**
- within the regular **workshop for the journalists, they were acquainted with the new statistical web portal NBStat**, as well as with the methodological bases of direct investment statistics and payment statistics;
- to introduce and promote the new statistical web portal NBStat and the possibilities it offers, the National Bank **also prepared a short video-material**, available on its website.

Strategic objective 9

Preparation of the National Bank for joining and membership in the ESCB

Within the regular activities, the National Bank actively participated in the development of the National Programme for the Adoption of the Acquis, the Economic Reforms Programme, as well as of the ministerial dialog between the European Union and the ministers of finance and the representatives from the central banks of the Western Balkans and Turkey. At the same time, the National Bank also participated in the implementation of the Stabilization and Association Agreement through the respective subcommittees on economic-financial issues and statistics, the Subcommittee on Internal Market and Competition that are within the Stabilization and Association Committee. Also, the National Bank followed the findings and the recommendations from the EC's Report for the Republic of North Macedonia, as well as the implementation of the recommendations contained in the report from the project funded by the Instrument for Pre-Accession Assistance (IPA)¹⁶, "National Bank Needs Analysis", realized in 2013.

In March 2019, the **Regional program for the central banks of the countries of the Western Balkans "Improving economic governance and competitiveness" was launched**. By the end of the year, 13 out of the planned 20 trainings were held according to the first component of the Program.

In February 2019, the **European Commission approved the Twinning Project for the National Bank "Strengthening of the institutional capacity of the National Bank of the Republic of North Macedonia in the process of its accession to the European System of Central Banks"**. In October, the **opening conference of the Twinning Project** was held, as well as the first meeting of the Management Committee. Within the four project components - payment services and payment systems, banking regulations and supervision, financial accounts statistics and enhancement of know-how in policy analysis, four expert missions were carried out and one study visit was made.

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The strategic objective 10 was implemented by carrying out a larger number of activities in the domain of public relations and cooperation with domestic and foreign institutions, finance and accounting, corporate governance, human resources development, legal affairs and public procurements, as well as the development of the museum, library and archives.

Public relations, cooperation with domestic and foreign institutions, publications and financial education

During the year, the National Bank **intensively communicated with the public** by publishing a larger number of information on its website and on its sites on the social networks, including press releases and other materials intended for informing the public prepared in accordance with the trends in the central-banking community, as well as by organizing meetings with the journalists.

¹⁶ IPA - Instrument for Pre-Accession Assistance.

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Special attention was paid to developing direct communication with the public¹⁷. **Besides the significantly increased scope of activities in the field of communication, the National Bank intensively worked on the improvement of its quality**, whereby special attention was paid to improving the comprehensibility of press releases and the scope of information they contain. Most of the press releases, the reports and the other materials on the website of the National Bank that were published during last year are also available in translation in Albanian and in English.

The traditional Workshop for the journalists was also held, where the National Bank presented the statistical portal NBStat and the new data in the field of payment statistics. Within the Workshop, the National Bank **also conducted a survey on assessing the quality of its communication with the public, according to the results of which, progress was achieved in this area** compared to the previous years.

During the year, the National Bank regularly undertook activities for promoting and developing the cooperation with the relevant domestic and international institutions, within the mandate of the central bank. Among other things, **through participation in important meetings of policymakers at regional, European and global level and in renowned research conferences and forums, the efforts for further establishment of the National Bank in the central-banking community were actively realized.**

The National Bank successfully held the Annual IMF/WB Constituency Meeting in Skopje, in which our country¹⁸ is a member, whereby the meeting was attended by governors, finance ministers and other high representatives of the central banks and the ministries of finance of the member states of the Constituency and high representatives of the IMF and the World Bank Group. At the meeting, on topic [How to Make Capitalism Work for All?](#), the participants discussed current economic issues that are important for the member states of the Constituency, whereby they discussed the rising income inequality, factors causing this trend, long-term and short-term consequences on the economic growth, but also in several other segments of the society and the instruments and policies available to policymakers. Special emphasis was placed on the policies for promoting stronger competition, efficient use of fiscal policy, the improvement of the management in the field of the financial sector and the investments in human capital. At the same time, the National Bank also held several bilateral meetings with the member states of the Constituency and the representatives of the international institutions.

Regarding the [financial education](#), several activities were undertaken. Thus, in March 2019, **a new Memorandum of Cooperation in the field of financial education and financial inclusion was signed by the regulatory institutions of the**

¹⁷ Among other things, the National Bank answered in a timely and detailed manner the questions addressed by the representatives of the media (including requests for statements) and by other persons who addressed through the electronic contact forms.

¹⁸ The Dutch-Belgian Constituency, besides the Netherlands, Belgium and our country, also includes Bosnia and Herzegovina, Bulgaria, Georgia, Armenia, Israel, Cyprus, Luxembourg, Moldova, Romania, Ukraine, Croatia and Montenegro.

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financial system in the country. Also, the National Bank made an analysis of financial education and financial inclusion in North Macedonia and **undertook initial activities for developing a National Strategy for Financial Education and Financial Inclusion.** Also, the National Bank prepared and published five educational texts on financial education in the serial "Economy for Everyone", "Glossary for terms in the field of central-banking and banking operations", as well as a booklet "Meet the National Bank of the Republic of North Macedonia", and also published an educational video-material of the serial of nine films "With the National Bank in the world of finance". Financial education was also supported by activities for marking the "Financial Literacy Days" (29 – 31 May), as open days of the National Bank for all interested citizens, presentations for students from elementary and secondary education and for students throughout the year, as well as the Competition for the students from elementary and secondary education and activities on the occasion of the celebration of the "World Savings Day" (31 October). Regarding the financial education, **the National Bank organized the Fifth Meeting of the Regional Working Group for Financial Education of Southeastern Europe,** in the period 26-28 September 2019. The meeting was attended by representatives of central banks and other regulatory institutions of the region: Romania, Croatia, Montenegro, Slovenia, Bulgaria, Kosovo, Turkey, Moldova, as well as representatives of the international institutions: the Organization for Economic Co-operation and Development (INFE-OECD) and the European Fund for Southeast Europe (EFSEE).

Finance, Accounting and Control

Besides the regular activities in this area, the National Bank continues to develop and promote financial recording and reporting in order to enable more efficient financial management, dynamic planning and monitoring of the balance sheet of the National Bank. Hence, the National Bank made **amendments to the Basic policies for accounting record and financial reporting of the NB, in order to harmonize with the requirements of the new IFRS 16 – Leases.** Also, the National Bank revised and adopted **new Accounting rules for recording coins, transactions with banknotes and coins and other values.** During the year, the National Bank improved some of the application solutions in the field of financial accounting operations, thus achieving greater efficiency in the execution of processes and reducing operational risks. In 2019, after 4 years, the **State Audit Office** in accordance with its program activities **carried out an audit in the part of the Plan for investments in fixed assets and the Financial Plan in the part of the operating costs for 2018** and their realization, as well as an **audit of the compliance in the National Bank.** The state auditor **issued a Draft-Report which expresses an opinion without reserve** in relation to impartial and real presentation and on the compliance of the financial transactions with the legislation, the instructions and the established policies.

Strategy and prevention

In order to develop and strengthen the functions that comprise the second line of defense in the National Bank, as well as distinguish the functions of the first operational level and the second corporate level of protection, in 2019, **organizational changes were made by establishing a separate independent organizational unit in the National Bank, Strategy and Prevention Office,** which will perform the functions strategic planning, operational risk management, business continuity, information system security, protection of personal data and classified information, as well as the compliance in the operations. Thus, according to the international practices and standards for corporate governance, for efficient corporate governance and risk prevention, the National Bank established the model at three levels of defense.

Regarding the process of **strategic planning**, the regular activities were implemented according to the envisaged frames. In March, the National Bank started the new cycle of strategic planning for the next three-year period¹⁹, and then the annual Plan of Activities²⁰ determined more specifically the work processes and project activities, which refer to the achieving of the strategic objectives. Regarding the project management, the National Bank worked on the criteria for selection of the priority projects and started to apply the methodology for adjustable project management by using the SCRUM²¹ principles. **Regarding the operational risk management**, in the first half of the year, the National Bank updated the work processes registry, reassessed the operational risks and developed action plans with measures for managing the operational risks.

Regarding the activities for ensuring continuity of the work processes in a crisis situation, the National Bank controlled the completeness and compliance of the revised plans for ensuring continuity of the work processes. Based on this, the National Bank prepared an annual Report on the implementation of the Business Continuity Policy of the National Bank of the Republic of Macedonia, as well as a Business Continuity Plan of the National Bank. According to the activities provided for in the Plan of Activities for 2019, the National Bank tested the completeness and feasibility of the business continuity plans of 14 critical work processes that are implemented in 10 organizational units of the National Bank. Thus, the National Bank confirmed the sustainability of the plans and the readiness to carry out the work tasks in crisis conditions.

In the area of the **information system security**, it was determined that the incident management process in the National Bank is satisfactory, according to the Report on the incidents recorded in 2018. Also, it was **prepared an Analysis of the**

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¹⁹ [Strategic Plan of the National Bank for 2020 – 2022.](#)

²⁰ [Plan of Activities for 2020.](#)

²¹ The SCRUM methodology or the framework for adjustable (agile) project management, especially software development projects.

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justification of introducing a solution to prevent leakage of data in the National Bank, thus determining appropriate measures and activities for prevention of leakage of data. Also, the **National Bank reassessed and confirmed its compliance with all mandatory security controls provided for in the SWIFT Customer Security Controls Framework²²** in the SWIFT KYC²³ application.

During 2019, the National Bank conducted controls of the compliance of the internal acts with the regulations on **personal data protection**, thus making an assessment of the need for amendments to the acts due to changes in the environment. Also, the National Bank conducted monthly and periodic controls, as well as internal and external control of the National Bank's compliance with the personal data protection regulations. Regarding the **classified information security**, the National Bank started the procedure for security certification of the communication and information system for work with classified information. To increase the awareness and responsibility of the employees when handling information, and taking into account the provisions of the Information System Security Policy of the National Bank, in 2019, the National Bank conducted trainings for the information system security and personal data protection, and provided the authorized officers for processing of classified information with regular annual information on the rights and obligations when handling and storing classified information.

Internal audit

During the year, all planned audits were carried out. The recommendations for improving the internal control system were monitored on a regular quarterly basis. The findings of the monitoring suggest that the recommendations are mainly observed and implemented within the given deadlines.

Legal affairs

Legal support was given on a regular basis, through legal assistance when preparing and discussing laws and bylaws, general and individual legal acts, memorandums of cooperation, protocols, agreements and contracts of the National Bank, as well as consistent legal opinions **according to the needs of the management, the organizational units and the Council of the National Bank**. The legal support for protection of the rights and interests of the National Bank before the competent courts, in addition to the engagement of the internal human resources, was also provided by engaging authorized external persons. In this context, some of the efforts were directed towards the project for improving the software solution for recording court cases and cases in final procedure. **In the relations with other institutions in the country, the legal support was aimed at maintaining continuity in achieving the goals and tasks of the National Bank as an administrative, financial and managing, independent institution and at protecting the**

²² KYC - Customer Security Controls Framework, v2019, 10 August 2018.

²³ Know Your Customer application is used to exchange information between SWIFT members.

independence of the National Bank, according to the constitutional and legal framework. Within the activities related to the real property of the National Bank, in addition to the updated records in the Real Estate Registry, the National Bank launched initiatives for faster legal resolution to the issues related to the property in joint ownership with others.

Human resources management

During the year, **the activities for professional trainings and development of employees** were continued through a constant process of training courses, increasing their expert knowledge and strengthening their skills, providing highly educated staff that fights off any challenge encountered in the current operations and contributes to achieving the goals of the operations. In order to improve the human resources management process, the National Bank **promoted the practice of internal mobility of employees**. For this activity, the National Bank established bilateral cooperation with the Croatian National Bank. The internal mobility enabled greater flexibility of the staff and advancement of the professional career, taking into account the efficient performance of the work tasks within the organizational units. Also, the National Bank strengthened the activities for promoting the work engagement, and by investigating the level of current engagement, an assessment of the need for providing new employees was made. In order to further harmonize with the basic principles of corporate governance, **during the year the National Bank also worked on the improvement of the Code of Ethics** according to the practices of the central banks from the European Union, the World Bank, the IMF, as well as the national regulation. The new code provides for the awareness of employees to be raised, with respect to the necessary application of the established ethic principles of the National Bank.

Public procurements

In carrying out the public procurements during 2019, the National Bank was **focused on the current and timely implementation of the public procurement procedures**, in order to meet the needs for goods, services and works for the smooth functioning of the institution, and taking into account the appropriate and efficient use of the funds of the National Bank. **Special attention was paid to transparency, encouraging competition and providing equal treatment to economic operators, as basic principles of this process, prescribed by law**. According to the new Public Procurement Law (Official Gazette of the RM 24/19), during 2019, the National Bank revised in details the internal regulations for the organization of this working process, and informed all entities in a transparent manner of the amendments and changes in the manner of implementing the procurement procedures.

Technical maintenance, security and archive

The activities for the technical maintenance and physical security, such as logistical support to the other functions of the National Bank, were performed on a regular basis. Business requirements and needs of the organizational units, in terms of the functionality of facilities, premises, technical systems and equipment, were supported within the optimum possibilities, taking into account the standards established in the regulations. The National

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Bank undertook fast and effective interventions with systems and equipment, in order to protect people's safety and health, as well as the tangible property. The National Bank worked out new technical solutions for providing better microclimatic working conditions, as well as for energy efficiency and systems security, primarily for the maintenance of the continuity in the supply of electricity. On a regular basis, through expert opinions in several segments, the National Bank also provided its support in the process for construction of the new facility. Office and archive operations took place on a current basis, according to the applicable regulations.

Museum, library and archive

Within the activities of the Museum, the National Bank **continued with its regular activities related to the collection and the research work²⁴ in the field of numismatics**. In the area of **library and archive activity**, the National Bank undertook several activities for purchase and maintenance of the library fund of the National Bank, and the archive fund was enriched with digitalized archive material of historical significance arising from the National Bank operations.

Strategic objective 11

Maintaining stable information system and its upgrade in accordance with the existing capacities and international standards

During 2019, the National Bank undertook activities for achieving the strategic objective for maintaining **stable information system** and its upgrade in accordance with the existing capacities and international standards. Within the regular working activities, the National Bank ensured a high degree of availability of information systems (all systems operated above the planned 98% of the working hours, and most of them operated with availability of 100%), which enabled smooth functioning and regular implementation of the work tasks within all organizational units in the National Bank. In addition, the National Bank also provided support to the activities related to the testing of the continuity in the operations of the organizational units, which contributes to maintaining a high degree of readiness to perform the work tasks even in unusual working conditions. Also, the National Bank **implemented a large number of software development projects²⁵**.

Besides the current activities, the National Bank **worked on the improvement of the SWIFT infrastructure**, according to the SWIFT recommendations and the regular annual maintenance. Also, the National Bank made **changes in the other systems that contribute to the information security** (a new system for managing user accounts with high privileges of personal computers, new software tools for maintaining the DMS²⁶ server), and the National Bank also worked on the development of medium-term projects²⁷. Regarding the maintenance of a high level of information security by setting and improving the measures for protection against possible cyber-attacks, the National Bank started to carry out penetration test, which should enable perceiving of potential areas for improving the information systems security.

²⁴ "Money as a material asset: medieval numismatic evidences from North Macedonia"; two research papers presented at a scientific meeting in Ohrid.

²⁵ Taking into account the plan of software development projects, 27 projects were fully completed, the development of six projects is under way, while five projects were canceled, at the expense of which one unplanned project and several unplanned activities for developing and improving the applications in the National Bank, were successfully implemented.

²⁶ DMS - document management system.

²⁷ The National Bank installed a development environment for the new version of the SQL Server, a laboratory environment for the new version of the DMS Server, introduced a new manner for electronic signing and upgraded two pilot-applications.