

## Macroeconomic Developments in the Republic of Macedonia in June 2003

*The* macroeconomic indicators in June 2003 indicate favorable movements in the Macedonian economy, evident through maintaining the price stability and average annual increase in the industrial output as an indicator of the economic activity. Within the framework of the banking sector, further extension of the banks' deposit base was registered, which, supplemented with the gradual consolidation of the real sector and the lower risk, contributed to acceleration of their credit activity. In addition, further adjustment was registered in the banks' credit policy to the changes previously made in the monetary policy layout.

The decrease in the prices of vegetables caused by seasonal factors, as well as the decrease in the price of oil and oil derivatives, resulted in deflation movements on monthly basis (deflation of 0.9%) in June 2003. The average inflation rate registers no considerable fluctuations and equals 0.3% in the first half of 2003. The maintained price stability represents achievement of the primary goal of the monetary policy. From the aspect of the economic activity, although the industrial output registers moderate monthly fall (2.4%), the average growth rate was positive and equaled 3.5%. The four-month permanent cumulative increase in the industrial output signalizes gradual recovery of the economic activity in the first half of the year. Movements in identical direction were registered in the foreign trade, as well. Thus, contrary to the monthly fall in the exports and the imports in June (decrease of 6.3% and 15.3%, respectively), on cumulative basis they were higher by 27.0% and 22.5%, respectively.

In June 2003, the total deposits of the non-government sector with the banks registered monthly increase of 1.5%, generated from the more significant saving of both the households and the enterprises. The increased relevance of the saving and the gradual returning of the confidence in the banking system is reaffirmed by the high annual growth rate of the deposit potential (20.9%). The extension of the banks' deposit base is one of the factors that contributed to further acceleration of their credit activity. In June 2003, the total banks' placements were higher on monthly and annual basis by 1.4% and 2.8%, respectively. Additionally, the banks strengthen their role of development through further acceleration of the long-term lending to enterprises, as well as through the long-term housing and other types of loans extended to households.

The monetary growth in June 2003 was under the dominant influence of the considerably higher level of transaction deposits and the apparent preferences for short-term saving. Thus the moderate increment in the currency in circulation (monthly growth of 1.0%) and the intensified monthly dynamics of the demand deposits (increase of 5.1% on monthly basis) resulted in increase in the monetary aggregate M1 of 2.9%. Such movements, combined with the higher propensity to save on short run, resulted in monthly increase in the money supply M2 of 2.5%. In line with the lower level of long-term deposits, the monthly growth rate of the money supply M4 was more moderate and equaled 2.0%. Conversely to the annual dynamics of the money supply M1 (decrease on annual basis of 3.5%, primarily due to the lower level of currency in circulation), the monetary aggregates M2 and M4 registered annual increase of 16.1% and 11.5%, respectively.

In June 2003 also, the NBRM was successfully preserving the exchange rate stability of the Denar against the Euro (at the end of the month, Denar 61.3 were exchanged per one Euro on the foreign exchange market, which is a monthly appreciation of 0.2%) by offsetting the more considerable fluctuations of the supply and the demand on the foreign exchange market. In June 2003, the amount of sold CB bills reached Denar 4.079 million, and registered a monthly increment of 11.1%.

The changes in the liquidity caused considerable acceleration of the turnover on the Money Market (by 40.2%), with the average weighted interest rate on the Money Market registering a decline of 0.2 percentage points, and in June 2003 it equaled 9.2%. Such movements on the Money Market, as well as the fixed interest rate on the CB bills auctions (7.0% since mid-April 2003) enabled further adjustment of the banks' interest rate policy. Thus the short-term average weighted lending banks' interest rate equaled 15.8% in June 2003, which is by 0.7 percentage points lower. The decrease in the average weighted deposit interest rate was more intensive (by 1.2 percentage points), and in June 2003 it reduced to 7.5%. The uneven dynamics of monthly change in both the lending and the deposit interest rate resulted in further extension of the interest rate margin, which equaled 8.3 percentage points in June 2003.

### **IMF and World Bank Financial Sector Assessment Program, FSAP**

The implementation of the Financial Sector Assessment Program (FSAP), as a joint program of the International Monetary Fund (IMF) and the World Bank commenced in May 1999. The program is designed in order to strengthen the financial systems monitoring. FSAP is considered a useful instrument for determining the potential vulnerabilities and analysis of the development priorities of the financial sector in the IMF and the World Bank member states. One of the primary goals of this program is to create diversified and competitive financial sector.

The importance of the FSAP may be discussed from two aspects: a. from the aspect of particular countries, due to the possibility for obtaining useful and internationally uniformed instruments and methodology for analyzing the conditions in the financial sector, obtaining external expert assistance, as well as further technical assistance for solving the problems diagnosed during the FSAP missions and b. from the aspect of the international institutions, primarily the IMF and the World Bank, for providing wide database, better understanding of the vulnerabilities and the qualities of the financial systems and more adequate analysis of the effects of the conditions in the financial sector on the macroeconomic developments.

The FSAP disposes of several complementary analytical instruments which enable comprehensive analysis of the financial sector. In general, they are classified in three basic groups: a. systematic analysis of the financial soundness indicators and application of a stress test for identification of the vulnerabilities and the risks of the financial sector; b. assessment of the application of the standards and the codes, in order to validate the quality of the institutional and the regulatory structures and c. assessment of the financial sector stability policy, which enables more adequate assessment of its flexibility and resistance to various shocks.

The FSAP Mission submits a report to the respective country, which is a basis for preparation of two documents. Thus the IMF prepares Financial System Stability Assessment, FSSA, while the World Bank prepares the Financial Sector Assessment, FSA. These two reports are submitted to the respective Boards of Executive Directors. So far, 95 countries have been participating or agreed to take part in this program (FSAP).

From June 18 to 27, 2003, the Republic of Macedonia was visited by the joint FSAP Mission of the IMF and the World Bank (preceded by the FSAP Mission in May 2003). Stress testing was made for the Macedonian banking system, as well as assessment of the implementation of particular standards (primarily the compliance with the Code of Transparency of the Monetary and the Financial Policies, the supervisory and the payment operations standards). The assessments of the FSAP Mission for Macedonia are positive. Thus the basic conclusions of the Mission pertain to the following: a. the banking system is resistant to various shocks; b. the NBRM is well organized institution with high degree of transparency in its operations; c. the banking supervision operation is rated as positive and d. positive rating was given also to the implementation of the reform of the payment operations and the payment system functions.