

National Bank of the Republic of Macedonia
National Payment System Council



Strategy
for development of the payment system of the Republic of Macedonia
within 2013-2017 period

March 2013

STATEMENT OF ACCEPTANCE OF THE STRATEGIC FRAMEWORK

This document sets forth the agreed strategic directions, activities and principles of operation between all parties involved in the payment system of the Republic of Macedonia to achieve a common vision for its development within 2013-2017 period.

The development of the national payment system in the next five years is aimed at meeting the needs of payment services users arising from the changes in business processes, towards application of the latest technological developments and towards further alignment of its operation with international and European standards and rules. The implementation of the planned activities should increase safety and efficiency of payments, ensure better acceptance of the non-cash payment instruments, as well as create conditions for easy and efficient integration of the national payment system with payment systems in the Single European Payment Area once the Republic of Macedonia joins the European Union.

The Strategy for development of the payment system of the Republic of Macedonia in the 2013-2017 period¹ is accepted by the major carriers of the development of the national payment system - the Ministry of Finance of the Republic of Macedonia, the National Bank of the Republic of Macedonia and the Banking Association, as a national strategic document. The coordination of activities through the National Payment System Council, as well as the adherence to the agreed principles *for consultation, subsequent planning and continuity* of the agreed projects by all parties concerned, are key to the successful accomplishment of the common vision for development of the payment system in the following five-year period.

May 29, 2013

Skopje

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¹ The Strategy was prepared by the National Payment System Council on the basis of the prior consultations and information obtained by all parties included in the payment system of the Republic of Macedonia and the Consumers' Organization of Macedonia, and adopted as a common strategic document on the 21 Session held in March 2013.

INTRODUCTION

In 2001, with the joint efforts of the Government of the Republic of Macedonia and the National Bank of the Republic of Macedonia (NBRM) and the active support of the banking sector, a major reform of the payment system in the country was carried out. With the reform, the previous centralized execution of payment operations in the country,² which was assessed as insufficiently effective and risky because it took place outside the banking sector and the central bank, was replaced with decentralized execution of payments through the commercial banks.³ At the same time, modern and market-oriented payment and clearing systems have been established, as well as a system for the settlement of transactions by electronic transfer of funds through the bank accounts with the NBRM. Also, the Ministry of Finance of the Republic of Macedonia (MFRM) established a treasury mode of revenue collection and expenditure execution of the budget and budget users, while for the centralized execution and settlement of payment transactions it has opened a single treasury account in the NBRM.

At the same time, internationally, the Committee on Payment and Settlement Systems (CPSS) at the Bank for International Settlements (BIS) released the basic standards for stability, safety and efficiency of systemically important payment systems, the so-called Basel Core Principles.⁴ For temporal overlap of domestic with international activities, the operation of the newly established payment, clearing and settlement systems in the Republic of Macedonia was not in full compliance with the requirements of these international standards. The inconsistency was mainly due to weaknesses in the regulation covering this area. Namely, in the Law on Payment Operations, which introduced the reform, no provisions for payment systems were defined, which were "de facto" set and through which the execution of the payment transactions in the country commenced, and thus it failed to establish the necessary

² The Law on Transformation of the Payment Operations Bureau ("Official Gazette" no. 32/01) extinguished the state institution (Payment Operation Bureau - POB), where the payment transactions of legal entities and state bodies and institutions have been centrally performed and settled (from their so-called giro accounts).

³ With the Law on the Payment Operations ("Official Gazette of RM" no. 32/01), the banks were set as carriers of the payment operations, where the giro accounts of the legal entities were transferred to.

⁴ The Core Principles for Systemically Important Payment Systems", published by BIS in January, 2001, Basel, <http://www.bis.org/publ/cpss43.pdf>.

oversight over them. In other words, the responsibility for the safety, soundness and efficiency of the payment system was not clearly "de jure" placed within the competence of the NBRM as the central bank, which among other things, is one of the responsibilities of central banks regarding the implementation of Basel Core Principles.⁵ Additional noncompliance was the imposed legal requirement for the banks, as payment operations carriers, to execute guarantees from the funds on the accounts of the clients-guarantors without their order and to execute non-standardized court decisions on forced collection (often vague in terms of their execution and the amount of debt). Such a situation caused uncertainty and huge legal, operational and financial risks with the banks in the execution of the payment transactions, which is inconsistent with the Basel Core Principles.

In October 2004, with an Agreement between the Minister of Finance, the Governor of the NBRM and the Chairman of the Banking Association of the Economic Chamber of Macedonia, National Payment Systems Council (NPSC), as a consultative and coordinating body of all stakeholders, was founded. The main objective of the NPSC is to contribute to the safety, soundness and efficiency of the payment system by launching initiatives and giving proposals for its improvement and development, appropriate to the needs of the providers and users of payment services and the economy, as a whole. Pursuant to Article 5 of the Agreement and the decision made on the 18th meeting held on 29.7.2011, besides representatives of the founding institutions, the NPSC is constantly attended by representatives of the Securities and Exchange Commission of the Republic of Macedonia (SEC), the clearing house "Interbank Clearing Systems" AD Skopje and "International Card System - CaSys" AD Skopje.

In the first two years of the establishment, NPSC with its activities and proposals succeeded to contribute to overcome many of the existing legal, operational and financial risks for the carriers of the payment operations, such as setting a standardized format and a single application of an enforcement order, when introducing the enforcement activity in the Republic of Macedonia⁶ and abolition of the banks' obligation for forced execution of guarantees and other collateral

⁵ The responsibilities of the central bank for implementation of the core principles are defined in part 8 of the "The Core Principles for Systemically Important Payment Systems".

⁶ Law on Enforcement ("Official Gazette of RM" no. 35/05).

instruments without an order by the holder of the funds.⁷ Having in mind the strategic commitment of the Republic of Macedonia for joining the European Union and the acquired candidate status in November 2005, part of the activities of NPSC were directed towards studying of the European legislation and standards for the operation of payment systems.

In August 2007, NPSC adopted the first national Strategy for development of the payment system of the Republic of Macedonia until 2011.⁸ Most of the strategic directions were determined for overcoming the current situation in the national regulations, such as: defining concepts and functions of payment and settlement systems; defining the operational, regulatory and especially the oversight role of the NBRM; defining the Treasury at MFRM as a separate carrier of the payment operations for the needs of the state; establishing a single register of transaction accounts (ERTS) of all users of payment services (besides the accounts of legal entities that have been reported in the registry and the transaction accounts of individuals) and introducing transparency in prices for payment services by the carriers of the payment operations, but also for setting regulations for operations with electronic money. The activities planned in the first national strategy were mostly carried out by the relevant entities.⁹ Thus, with the adoption of an entirely new Law on Payment Operations¹⁰ and bylaws thereof, in December 2007, most of the weaknesses identified in the national legal framework have been overcome, with legal bases for operations with electronic money also being set, thus achieving partial compliance with EU legislation and laying the foundations for further harmonization. Also, for the purpose of familiarization with the standards and schemes of the payment instruments of SEPA, and for future harmonization of the national payment instruments with them, NPSC established separate working groups whose activities were directed towards their study. At the same time conferences, workshops and other forms of training for individuals from institutions involved in payment systems, clearing and settlement, were organized. Activities for encouraging non-cash payments through proliferation of ATM and POS-terminals and expansion of networks for making them available to as many users as possible were also taken, with

⁷ Law on Amending the Law on Payment Operations ("Official Gazette of RM" no. 13/2006).

⁸ Strategy for Development of the Payment System of the Republic of Macedonia until 2011

⁹ More details are provided in the Report on the realization of the Strategy for Development of the Payment System of the Republic of Macedonia, August 2012.

¹⁰ Law on Payment Operations ("Official Gazette of RM", no. 113/2007).

amendments to the regulations that provide greater legal protection from abuse and crime-related payment cards being also made.

In December 2010, new Law on the National Bank¹¹ was adopted, which for the first time clearly sets the operational, regulatory and oversight role of the NBRM within the payment, clearing and settlement systems domain.¹² With this legal solution, the NBRM gained a key and leading role in the development of payment systems in the country. Only in relation to the European practice, the regulatory role of the NBRM in terms of payment instruments has not been completed, yet. Namely, by the Law on Payment Operations from 2007, just as by the law that was in force until then, the competent authority for prescribing payment instruments to perform domestic payments remained MFRM, while, according to the Foreign Exchange Law, the NBRM prescribes the payment instruments for external payments.

The infrastructure of the payment, clearing and settlement systems, established with the reform of 2001 and was later updated, now includes: Macedonian Interbank Payment System (MIPS) for high-value payments over Denar 1,000,000 and urgent payments with real time gross settlement principle; Clearing Interbank system (KIBS) to perform small value payments to Denar 1,000,000 with deferred net settlement principle; bank's internal systems for payments between clients depositors of same bank and bank clients (in-house payments); internal systems with some banks for settlement of part of card transactions ("on us"); the internal systems payments to budget users within the single treasury account (TA); internal payments system of public health care facilities within the single health treasury account (HTA); system of multilateral deferred net settlement of payments to domestic brands by credit cards (CaSys)¹³ and the system of settlement of transactions with securities concluded on the secondary market¹⁴ by applying the DVP - delivery versus payment system, the owner and operator of which is the Central Securities Depository AD Skopje (CSD).

In defining the strategic directions for the 2013 - 2017 period, the needs for further development of the current payment infrastructure and for improvement of the

¹¹ Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" no. 158/10).

¹² Pursuant to the Law on the National Bank from 2002, the NBRM function was only to regulate the payment system according to a law.

¹³ "CaSys" was established in October 2001, while since July 2002 it participates in MIPS.

¹⁴ The system for settlement of securities transactions concluded on the Macedonian Stock Exchange was established in 2001, while at the beginning of 2005, after the establishment of the market for trading short-term securities known as "OTC" ("over the counter"), system for settlement also of these transactions was established.

national legal framework are used as a starting point, taking into account the requirements in the area of payment systems that the Republic of Macedonia should meet for EU accession.

1. VISION, MISSION AND PRINCIPLES

VISION

The vision for the development of the payment system of the Republic of Macedonia until 2017 is modernization and improvement of the operation of the certain payment, clearing and settlement systems through the application of the latest technological advancements and gradual harmonization with the international and European standards and rules for the operation of the payment systems in the EU, which will increase the safety and efficiency of payments and the acceptance of cashless payment instruments, and at the same time, it will ensure gradual fulfillment of the requirements for integration into SEPA.

MISSION

The mission is reliable and efficient national payment system that is aligned with the international and European operating standards and great acceptance of cashless payment instruments, which underpins the financial stability and economic activity in the country and easy and efficient integration into SEPA once the Republic of Macedonia joins the EU.

To achieve this mission, it is necessary to reinforce actions for further implementation of international and European standards and rules for the operation of the payment, clearing and settlement systems, as well as, the harmonization of national legal framework with EU regulations, directives and other legal acts in order to attain:

- greater safety and efficiency of payment, clearing and settlement systems;
- larger mutual functionality of certain payment, clearing and settlement systems and creation of conditions for their interoperability with European payment systems;
- solid and harmonized national legal framework with a high degree of legal certainty and the gradual incorporation of European law;
- broadening of payment services;
- fair competition among payment services providers;

- cooperation between payment services providers for implementing systemically important decisions;
- information and training of both service users and providers, and
- optimizing the cost of execution of payment services.

PRINCIPLES

The attainment of the vision and mission for the payment system of the Republic of Macedonia requires complex and coordinated approach to the activities of all stakeholders. For this purpose, NPSC will continue to act as a forum where the issues about the national payment system will be considered, agreed upon and channeled, and it is necessary to firmly adhere to the following principles:

Consultation of the institutions with all stakeholders through NPSC in order to provide adequate opinions and recommendations before making decisions, and

Subsequent planning of activities and continuity of projects identified and approved by the NPSC by providing adequate human and financial resources by the institutions concerned.

2. FEATURES OF THE PAYMENT SYSTEM

For better understanding of the level of development of the payment system in the Republic of Macedonia, this section **analyzes the payments on two levels**: the **first level** refers to *payments of the non-banking entities without the mediation of banks (i.e. cash payments) and through banks (i.e. payments from the clients' demand deposits with banks through the so-called transaction accounts)*, which is also the first phase of the bank cashless payments and **the second, higher level** *encompassing the interbank gross and net settlement and transfers of funds, which is the second phase of the bank cashless payments* and forms the basic infrastructure of the payment system in each country. However, the type of payment instruments (paper or electronic) that are used to perform bank cashless payments in the first level, as well as the method of settlement and transfer of funds to the second level, are analyzed separately.

Given that non-cash electronic payments and electronic settlement and transfer of funds have a positive contribution to the safety and efficiency of payment transactions, and thus to the economy, the analysis of the national payment system in

this respect is the basis for setting the strategic directions for the future development.

The analysis uses the data from the **statistical and information system of the NBRM**. Namely, since the placement of the new payment infrastructure in 2001, the NBRM started to collect data for their own needs in order to monitor the operation and functionality of the payment, clearing and settlement systems and to establish official statistics on the number of open and blocked transaction accounts, and since the beginning of 2005 it has adopted a legal framework and launched a monthly collection, processing and publication of data on the volume and value of payment transactions in the country by types of payment instruments for official payment statistics purposes. Although the NBRM, in setting the national payment statistics was governed by the statistical requirements of CPSS at BIS for making Red Book,¹⁵ such collected data still do not provide full international comparability, and also do not comply with the instructions of the European Central Bank (ECB) for payment statistics of the national central banks, members of the European System of Central Banks (ESCB), which is a requirement for admission to the EU.

In the Republic of Macedonia, as in most developing countries, **a large part of the payments are carried out in cash**. However, in the last period, after taking some measures, downward trends in indicators of cash and payment in cash are registered. Thus, the activities to encourage card operations and electronic banking that had been conducted during 2007 and 2008 and the introduced obligation for transaction accounts of individuals (these accounts for legal entities were already established) and their mandatory reporting in ERTS since December 2007, along with the obligatory non-cash payment of salaries and pensions from the beginning of 2009 (with the introduction of the concept of gross salary payment), reflected positively on the demand deposits, with which the share of cash in M1 money supply of 45% in December 2006 was reduced to 31% in February 2009 (decrease of 14 p.p.). Another indicator for the downward trend in cash payments is also the reduced participation of the deposits and withdrawals in cash at/from the bank accounts in the total payment transactions of the non-banking entities by 7 percentage points in 2012 compared to 2006 (average annual share of 15% in 2012). As a result of the continuous measures of the Government of the Republic of Macedonia to increase cashless collection of

¹⁵ The Red Book is a publication of CPSS containing data and information on the payment and settlement systems of selected member states of CPSS. http://www.bis.org/statistics/payment_stats.htm

public duties and services, the number of POS terminals for card-based payments with the providers of public and administrative services has increased in recent years, but it is still in a small volume, with the project for introduction of electronic payment and mobile phone payment of administrative and court fees being underway. However, the still high average annual share of cash in money supply M1 in 2012 of about 30% (in developed economies this share ranges from 10% to 25%), speaks for further extensive use of cash for the execution of payments in the country.

The nonbanking entities (legal entities and individuals) perform the cashless payments in the country through banks (at first level) mainly as credit transfers (by order of the payer and the funds owner) from their transaction accounts by using prescribed payment instruments¹⁶ and partially by payment cards. Thus the value of the transactions executed with the credit transfers participate with 89% (91% in 2006)¹⁷ in the total value of the performed transactions of the non-banking entities in 2012, the share of the transactions with cards equals 4% (1% in 2006), while the remaining share of 7% refers to the value of the performed payments by the banks on the basis of the so-called "standing order" from the client and on the basis of court decisions on forced collection. Despite the upward trend in the use of cards from 2006 onwards (the number of cards increased by 3.6 times), particularly evident in payments through POS-terminals (growth by 6.9 times), the total value of card-based transactions in 2012 was still quite low, and they still are mostly used for cash withdrawal from ATM (79% of the value of cards-based transactions). Basically, all ATMs in the country allow cash withdrawal from bank account associated with the card, but lately some banks set ATM, which besides raising cash enables transfer of funds from one account to another in the same bank or payments within the internal payment system of the issuing bank. There is still no ATM in the country that provides cash depositing on the transaction account associated with a credit card. The non-banking entities perform most of the payments with credit transfers using specified instruments in paper at the banks' counters (69% of the value of credit transfers in 2012), but in the recent years a downward trend in their use has been registered (reduced participation by 11 percentage points compared to 2006) in favor of

¹⁶ The payment instruments are prescribed by the MFRM in the Instructions for the format and the contents of the payment instruments for performing payment operations in the country ("Official Gazette of RM" no. 161/07, 56/08, 114/08, 149/08, 165/08, 95/09 and 18/11).

¹⁷ In 2006, 1% of the payments of the individuals were made by bank checks, but since the cancellation of the interbank agreement for their mutual acceptance, the use of checks gradually reduced and they are no longer in use.

electronic credit transfers via PC or other terminal. Namely, the automation of the payment instructions (STP - straight through processing) after the establishment of the ERTS from December 2007 contributed for larger acceptance, especially by the individuals, of the electronic credit transfers. This is proven also by the strong upward trend in the opened transaction accounts for online payment, whose number in 2012 is 13.2 times higher than in 2006, with this number being higher by 18.9 times only from the individuals. Besides the electronic credit transfers from transaction accounts, the number and the value of credit cards online payments is getting higher, as well. In the recent years, payments via mobile phone were initiated, but for a limited kind of transactions with low value (for parking services, etc.), with the collection being made by re invoicing of the value for the provided service with the account for telephone charges, and not with direct access of the service user to his transaction account in the bank by the mobile phone. In domestic payment operations, there are no payments by direct debit upon an order of the beneficiary (if exclude standing orders and enforcement orders). Although some of the banks in the internal payment systems used standing order for execution of payments on a specified date from the account of the client-payer, mainly to public service providers, mobile operators, the banks itself, etc., this way of payment has no characteristics of direct debit, because the bank performs it as a credit transfer on the basis of a written agreement with the client-payer, not by order of the payment beneficiary and does not present a systemic solution. To overcome this situation and expanding payment services with a new instrument for direct debit, within the activities of the first national strategy, draft project for introduction of a national direct debit scheme based on the standards and rules of SEPA was developed. The project was initiated by Working group for direct debit established NPSC and it is actively supported by the clearing house "KIBS" AD Skopje, as an operator, which processes most of the bank payments for clients and where this new instrument would have the greatest use.

Commercial banks are the main providers of payment services. The payments with paper-based and electronic orders from and to the bank accounts of the customers within the same bank and with the bank are executed in the internal systems of the banks that are settled electronically, regardless of the value. The payments between customers with transactional accounts with different banks and the interbank payments are carried out electronically, through MIPS for large and urgent payments and through KIBS for small payments. The MIPS applies the SWIFT standard for

messaging and ISO 9362 for bank identification codes (BIC)¹⁸, while KIBS has developed its own standard for the exchange of payment messages. The settlement of the payment transactions in MIPS is made from the accounts of commercial banks with the NBRM, through RTGS (Real Time Gross Settlement) in real time and in gross amount, where the settlement of net positions of each participant after the net multilateral clearing of payment transactions through KIBS is performed. RTGS is owned by the NBRM which is also the operator of MIPS, while KIBS is operated by clearing house "KIBS" AD, which is owned by fifteen commercial banks. All fifteen private commercial banks in the Republic of Macedonia participate in both payment systems, while the Macedonian Bank for Development Promotion, which is fully owned by the state, participates in MIPS.

Card operations are performed by all private commercial banks, fourteen of which issue branded payment cards of multinational financial corporations "MasterCard Worldwide", "Visa International" and "American Express". Nationally branded payment cards are issued by five banks, which are accepted at nine banks. In addition to these payment cards, the cards issued by the nonbank financial corporation "Diners Club Macedonia", are used, which has an internal system for processing transactions. Most used are the debit cards, which are linked to customers' transaction accounts with the banks, but since 2007 the use of credit cards has increased. For processing of payment card transactions, eleven banks use the services of the system of card operator "CaSys"¹⁹. The system is managed by the "International Card System" AD Skopje, which is majority owned by foreign private shareholders, with the state having also a share. For the domestic card transactions, through the "CaSys" system deferred multilateral net settlement of the payments in the country is performed, with the net positions from the clearing (the amount of transactions and the amount of interbank fees) being settled through MIPS. "CaSys" as certified processor for "Visa" (Visa Third Party Processor - TPP) and "MasterCard" (MasterCard Member Service Provider - MSP) enables banks to use it for authentication, processing and switching of the transactions with international cards. Besides CaSys services, to process transactions with international cards five banks use services of foreign processors ("First Data" in Slovakia, "First Data" in Greece, "Bankart" in Slovenia, "Quipu" in Germany), while three banks also own internal card systems. Moreover, depending on

¹⁸ ISO 9362 (also known as SWIFT-BIC, BIC code, SWIFT ID or SWIFT code) is standard for Business Identification Codes approved by the International Standards Organization - ISO).

¹⁹ "CaSys" was established in October 2011, and became participant in MIPS in July 2002.

the workload, some banks use the services of two processors or processor and internal card systems. The reason for using several different processors for execution of payment transactions in the country with international payment cards is the already established technical and technological infrastructure of the banks, due to the historical development of the operations with international cards. Namely, at the start up of card operations in the country in the late nineties of the last century, in order to issue and operate with the international payment cards, the banks had to connect to the system for processing of the corresponding card brand in other countries, since there were no such processors in the Republic of Macedonia. All transactions in the country (ATM, POS-terminals and online) with international payment cards issued by domestic banks are authorized through the systems of the multinational financial corporations "MasterCard Worldwide" and "Visa International", where net positions for settlement (clearing) are also created. Such transactions are burdened with charges to international networks and interchange fees. The banks transfer these costs to the card users and/or trader-users of POS terminals, thus reducing the attractiveness and use of payment cards as cashless payment instrument. Until 2005, not only authorization and clearing was carried out by multinational financial corporations "MasterCard Worldwide" and "Visa International", but also the settlement of transactions for Denar payments was executed in foreign currency, through the accounts of the domestic banks abroad. Today, all transactions in the Republic of Macedonia with branded cards "Visa International" and "MasterCard Worldwide," issued by domestic banks, are settled in Denars. Settlement agent for the operations with the "visa" cards from the 2005 is "Stopanska Banka" AD Skopje, where all domestic banks issuers of these payment cards have opened an account for settlement of the net positions after the clearing made by "Visa". Since January 2009, the transactions carried out in the Republic of Macedonia with "master" payment cards have been settled in NBRM. However, the clearing of the transactions is still carried out by "MasterCard International" New York, having a special account in MIPS for the settlement of net positions. Given that the largest portion of card payments in the country is performed by the two international card brands ("Visa" and "Master"), it can be said that in this way one of the important issues in the card operations is resolved, i.e. settlement of transactions in Denars is ensured. The first POS-terminals (imprinters - handheld devices on the points of sale that accept payment cards) in the Republic of Macedonia were set in 1996, with the banks, in order to motivate retailers for payments with cards issued by them, gave/give them to use without charge. This

led to a situation to have terminals of several banks on one point of sale, although they are with the same function. Thus, instead of a larger geographical distribution of the total number of terminals across the country (more posts of sale to accept cards), the POS-terminals are actually concentrated among larger and more frequent points of sale. In developed countries, the retailers either self-purchase POS-terminals or pay compensation to the banks for use and maintenance. In terms of ATM devices, the country is, generally, well covered, and banks began to install ATM devices also in the non-urban areas. Furthermore, the processing of the national transactions through multinational financial corporations "MasterCard Worldwide" and "Visa International" makes the services of the card issuing banks and servers more expensive when using ATM or POS terminal with another bank, because of which the users are directed mainly at ATM terminals of the bank-issuer, while the retailers, in order to optimize the costs, most often use the POS-terminals of several banks-issuers of the cards. Therefore, to further reduce costs and greater use of payment cards, it should be considered the possibility for establishing a national processing centre (authorization and clearing) of the payment transactions in the country with foreign brands of cards issued by domestic banks. In connection with this issue, "CaSys" submitted a proposal to NPSC for centralized processing of transactions in the country by joining of the banks to the card system on the basis of multilateral agreement, enclosing also its own analysis of the situation with the assessment of the costs amount because of the international way of clearing and authorization. The material is given on consideration to the Working group for payment cards, established by NPSC for monitoring of the domestic conditions and international and European standards and practices in this area.

State bodies and institutions, i.e. the budget users and individual users of the Budget of the Republic of Macedonia and the budgets of local government units (hereinafter referred to as: budget users), make payments through TA in NBRM governed by the Treasury of the MFRM as special carrier of the payment operations set by law.²⁰ In additions, since November 2010,²¹ the Treasury of the Health Insurance Fund of the Republic of Macedonia was set as special carrier of the

²⁰ The Law on Payment Operations ("Official Gazette of RM" no. 113/2007) "de jure" sets the competencies of the Treasury as separate carrier of the payment operations for the Government needs, which it "de facto" performed since its establishing with the reform in 2001.

²¹ With the amendments to the Law on Payment Operations ("Official Gazette of RM" no. 145/10).

payment operations for the public health institutions,²² while for execution of the payment transactions, Health Treasury Account (HTA) in the NBRM was opened. The entire payment operations for the needs of the budget users and public health institutions are executed through TA and HTA: internally, for their mutual payments (internal payment system), and externally, for their payments with third parties (individuals and legal entities). The internal payments, at first level, are performed on specially prescribed payment instruments,²³ different from the payment instruments prescribed for the payments of the individuals and legal entities through banks. The use of different payment instruments is due to the need for more detailed information and data on different types of public inflows and outflows of budget users and public health institutions in order to effectively carry out and monitor the planned budgets (meaning, the Budget of RM, the budgets of the local government units and the Health Fund). The Treasury at the Ministry of Finance for identification of the budget users gives them a user registration number, on the basis of which it opens separate accounts for the execution of the payments under the treasury account. The settlement of mutual payments of budget users and public health institutions within the TA and HTA (second level of payments) is done electronically. The external payments by third parties to budget users (tax and other public duties, donations, etc.) are performed through the banks and settled through MIPS and KIBS, while the payments by budget users to third parties are made solely through MIPS, and in both cases the prescribed payment instruments for performing payment operations in the country are used. The MFRM and the Health Fund participate in MIPS, where the electronic settlement of the payment transactions between the TA, the HTR and the bank accounts, is performed through RTGS.

For settlement of payment transactions with securities concluded on Macedonian Stock Exchange, the authorized participants in the stock exchange (brokers) and Central Depository for Securities, AD Skopje (CSD), participate in MIPS since the beginning of establishing the system in 2001, where the settlement is done electronically on DVP basis ("delivery versus payment") for a period of up to three days after the conclusion of the transaction. Once the state began to fund itself by issuing government debt securities in 2004 and a secondary market for trading

²² The Treasury for public health institutions, as a separate organizational unit for managing health treasury account and other accounts of public health institutions within the Health Insurance Fund of Macedonia, was established in order to ensure control of payments of the public health institutions.

²³ Instructions on the method of treasury operations ("Official Gazette of RM" no.161/2009 and 171/2010).

securities - OTC ("over the counter") has been established in 2005, platform for settlement of Treasury bills and bonds and CB bills through MIPS was set. The settlement is done electronically on DVP basis in real time.

The oversight role of the NBRM (despite the operational, regulatory and as a catalyst), as a central bank of the Republic of Macedonia, is the key one for the safety and efficiency of the national payment system. By December 2007, the legal responsibilities of NBRM for the operating of the national payment system were not clearly set and mainly referred to the operational and regulatory role for smooth execution of the payment operations in the country. By establishing the provisions for payment systems in the Law on Payment Operations from December 2007, certain regulatory and oversight powers of NBRM for the payment systems operations were set. Based on these legal authorizations, in December 2007 the NBRM Council adopted bylaws that prescribed criteria and standards for the operation of the national payment systems and oversight, in compliance with the Basel core principles. Larger harmonization of national legislation with the European and international standards and practices for the role of central bank in the payment systems was reached with the Law on the National Bank from December 2010, which defined the task of the *NBRM to establish, develop, register and oversee the safety, soundness and efficiency of payment, settlement and clearing systems*, as one of its primary tasks. However, the NBRM still remains without regulatory competence for prescribing payment instruments in the country that, pursuant to the Law on Payment Operations, are prescribed by the MFRM. The importance of the certain payment, clearing and settlement systems for the stability, safety and efficiency of the overall payment system depends on the volume and the value of transactions processed through them, because of which they are the basis for determining the criteria and standards for their operation and oversight activities of the central bank. In 2012, within the internal systems of banks 34.5 million payment transactions, worth Denar 1479 billion, were settled (average value per transaction of Denar 42.9 thousand), which compared to 2006 is three times higher volume of transactions with almost twice higher value. The same year, 4.9 million payment transactions worth Denar 2563 billion (average value per transaction of 519.8 thousand) were settled through MIPS, which is just over the twice higher volume and value of transactions in respect of 2006. For the same period, the volume of transactions conducted through KIBS has increased by 2.7 times, with growth in value of 72%, while in 2012, 23.8 million

payment transactions worth Denar 255 billion were settled (average transaction value of Denar 10.7 thousand). The total annual value of transactions and the average value of a transaction is the highest in MIPS, although with the lowest volume of transactions, which is due to the features and use of this payment system. In fact, more than half of the transactions settled through MIPS refer to large cashless payments through the banks and interbank payments, while the rest mostly relates to the payments ordered by the state institutions (TA and HTA) and the NBRM (these payments are exclusively performed through MIPS), as well as to net settlements through KIBS, and only small part refers to the settlement of card payments (through "CaSyS" and "MasterCard") and to the settlements of trades in securities upon an order of brokerage houses (this situation is due to the small volume of transactions with credit cards and securities). Having in mind that small cashless payments of the non-banking entities, including their payments to the state, are mainly carried out through KIBS, the total annual value and the average value per transaction in this system is the smallest in terms of transactions processed through other systems, but the number of transactions is large. It is worth mentioning the substantially large total volume and value of transactions processed annually in internal payment systems of banks, though, viewed separately, the volume and the value of transactions in the payment system of each bank are not so significant and vary depending on the size of the bank. Namely, the largest volume of payment transactions in the country is processed through the internal systems of banks and their total annual volume in 2012 increased by almost 45% of the volume of transactions in KIBS, while the total annual value is lower by only 42% from the value of transactions through MIPS.

The operating with **electronic money in the Republic of Macedonia** for the first time is regulated with the Law on Payment Operations of 2007 and related bylaws adopted by the NBRM Council. However, until the adoption of this Strategy, no application for a license to operate electronic money has been submitted to the NBRM. In the Republic of Macedonia there are only a few prepaid cards that fail to have function of electronic money, because they can not be used for a wide range of payments. Namely, the fuel companies and market chains in the country issue their own consumer cards valid only for posts of sale in their possession.

External payments, i.e. payments between residents and non-residents are regulated by the Law on Foreign Exchange Operations,²⁴ and for some transactions there are still restrictions so the banks are required to make control prior to the payment. Also, for the needs of the statistics of the balance of payments of the Republic of Macedonia, the banks are required to report on the payment transactions abroad. The non-banking entities make the payments through banks as credit transfers on formalized payment orders, prescribed with the Instructions on payment operations with abroad.²⁵ Given that banks use the SWIFT network for transfer of funds through their accounts in foreign and domestic commercial banks,²⁶ these payment orders must contain the elements, standards and the identification IBAN²⁷ codes necessary for execution of international payments. However, for the purposes of foreign exchange control and balance of payments statistics, the national regulations prescribed additional data and information,²⁸ providing of which requires more time and reduces the efficiency of banks in the execution of external payments. The settlement of transactions through foreign commercial banks that domestic banks have correspondent relationships with is executed with a time delay of maximum two days, given that Macedonia is still not connected to the interbank payment system for real-time settlement of cross-border transfers within the EU, etc. TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer System), nor participate in another pan-European system for small payments. Because of the still present control under the Law on the Foreign Exchange Operations, the banks

²⁴ Law on Foreign Exchange Operations ("Official Gazette of RM" no. 34/01, 49/01, 103/01, 51/03, 81/08, 24/11 and 135/11).

²⁵ Instructions on payment operations with abroad ("Official Gazette of RM" no. 78/11, 156/11 and 58/12)

²⁶ SWIFT (SWIFT - Society for Worldwide Interbank Financial Telecommunication) provides a network that enables financial institutions worldwide to send and receive information on financial transactions in a secure, standardized and reliable environment. SWIFT also provides software and services to financial institutions in the SWIFT network and ISO 9362 codes for identifying banks (bank identifier codes-BICs) known as SWIFT codes (SWIFT codes).

²⁷ IBAN (IBAN - International Bank Account Number) is an international standard for identifying bank accounts in international payments with minimal risk of error in transcription.

²⁸ According to the Instructions on payment operations with abroad for payments by residents to non-residents, the banks are obliged to provide the document by the orderer to determine the basis and the obligation to pay, regardless whether they are current or capital transactions (under the Foreign Exchange Law, legal entities may purchase foreign exchange on the foreign exchange market only for due liabilities for which they must enclose document), excluding transfers of individuals for family consumer costs and personal transfers of funds up to 2,500 EUR per month. For the inflows from non-residents in favor of residents, the banks exercise control mainly for the capital and financial transactions, but for the balance of payments statistics they are required from all recipients to provide data on the type of transaction which prolong the process of approval of the funds on the account of the user (according to the regulations, the user of the payment is responsible for the data accuracy, because they have to fill in and formally confirm the form with which the bank notifies them on the incoming payment). This regulation, in addition to payments in foreign currency, is applied for payments in Denars between residents and non-residents with accounts in banks in the Republic of Macedonia

perform external payments mainly based on the paper payment orders from customers, but lately, after the amendments to the bylaws,²⁹ some of the banks registered activities for acceptance of electronic payment orders, as well. Moreover, except in foreign currency, the external payments could be carried out also in Denars, if the non-resident, beneficiary of the payment or the payment orderer, has Denar account with domestic commercial bank. Although the Denar payments between residents and non-residents are carried out on prescribed orders for payment operations abroad, the banks are using domestic orders for transfer of assets and settlement of payments through internal systems, MIPS and/or KIBS, opening also a transaction account in ERTS (with a special ID code) for customers non-residents. Given that the legal obligation of the banks to control the transactions of residents with non-residents and to report for the balance of payments statistics apply to payments in Denars, this, as well as the double use of orders to execute the same transaction, creates additional risks with banks and reduces the effectiveness of external payments in Denars.

3. STRATEGIC DIRECTIONS

Based on the perceptions for the condition of the national payment, clearing and settlement systems and the vision for their development in the next five years, this section defines eight priority strategic directions. For practical execution of the planned activities within the strategic directions an Action Plan with set time frame, as well as the carriers of the activities, will be adopted.

3.1 Legal framework - ,harmonization with the EU legislation

This strategic direction primarily results from the strategic goal of the Republic of Macedonia for EU membership and ensured candidate status. Also, it is an important tool for strengthening the national legal framework, because of which it is defined as a primary area even with the first national strategy. The perception of the entire relevant European and national legal framework and defining of the priority areas for compliance of the national payment, clearing and settlement systems, as well as the oversight activities, with the international and European standards and best practices,

²⁹ The amendments to the Instructions on the manner of performing the payment operations with abroad from September 2011, i.e. item 36 (collection) and item 46 (payments), prescribed for the first time the bank possibility to receive electronic payment orders in the payment operations with abroad.

are key to the future development of the national payment system. The implementation of this strategic direction involves constant training of the institutions and strengthening of their capacity to incorporate EU law into national, as well as for its implementation. However, the scope and pace of the activities depend also on the dynamics of the overall process of accession of the country to the EU, i.e. on the beginning of the negotiation process for EU membership.

In this regard, the following activities are planned for the following period:

- development of an action plan for gradual and coordinated incorporation of the European into national legislation, based on the defined priority areas, which will be agreed at NPSC and approved by the MFRM and NBRM;
- establishing working groups for studying of the EU legislation, composed of legal experts and experts in the field of payment and securities settlement systems, appointed by the NBRM, MFRM, SC, CSD, banks and/or other stakeholder, which, according to Action Plan, would work on making specific proposals for incorporation of the European into domestic legislation;³⁰ and
- monitoring the mutual consistency of certain laws of the national regulation that directly or indirectly affect the efficiency of the payment system, and the mutual compatibility of the bylaws of the relevant institutions for regulation and oversight of the systems for payment, clearing and settlement of payment transactions and transactions in securities and proposals to overcome the possible discrepancy.

In the achievement of this strategic direction, an outstanding contribution is expected from the approved technical assistance of the EU by the first component of the Instrument for Pre-Accession Assistance (IPA). Namely, in the fourth quarter of 2012, the NBRM in cooperation with the ECB and 11 national central banks from the ESCB, began to implement the IPA project "Needs analysis for the NBRM to join the Euro system," where the payment system is one of the areas for which the priorities will be determined and directions for further harmonization of national legislation with the EU provided. Moreover, MFRM soon expects to launch IPA project "Further harmonization with EU legislation in the area of free movement of capital and financial services",

³⁰ Used literature on the strategic direction "PAYMENT SYSTEMS - Payments, securities and derivatives and the role of the Eurosystem", ECB, 2010

under which technical assistance for incorporation of the Directive on payment services in the internal market (EU 64/2007) into national law is planned.

3.2 Payment Statistics - improvement of the national payment statistics and compliance with the methodology for payment statistics of ECB

For comprehensive monitoring of the operating and designing of the future development of the national payment, clearing and settlement systems, it is necessary to have data and indicators on the volume and value of transactions on the first (by instruments, providers of payment services, etc.) and second level of payments (by the certain payment systems according to their size and importance, etc..), which should be internationally comparable, and provide information for the needs of payment services users. Also, for the future membership of the country in EU and joining of NBRM in the ESCB, it is necessary to harmonize the national methodology for the payments statistics with the ECB methodology.

For this purpose, according to the Operating Program of the NBRM for 2012, "Comparative analysis of payment statistics of the European Central Bank with the payment statistics of the National Bank of the Republic of Macedonia" was prepared. The comparative analysis should serve for methodological and operational preparation of the payment statistics of the NBRM according to the requirements for the payment statistics of the national central banks of the ESCB, and thus for the further development of the payment statistics of the country. Namely, the comparative analysis reviews the payment statistics of ECB and the NBRM payment statistics, as well as draft measures to be taken to comply the national with the European payment statistics.

Within this strategic direction the following activities are planned:

- development of methodology for payment statistics of the NBRM in accordance with the ECB methodology;
- development of bylaws for the implementation of the new methodology for payment statistics;
- presentation of the new framework for payment statistics to the banking sector and other concerned institutions; and

- initiative to start survey for collecting information from users of payment services for the safety and efficiency of the existing mode of execution of payments, as well as for the needs of the new functionalities of the payment system, with a strictly determined dynamics of collection.

3.3. Systems for payment, clearing and settlement of transactions in the country - analysis and gradual implementation of international and European standards and operating rules

The national payment, settlement and clearing systems provide a high degree of reliability and efficiency in the execution of payment transactions in the country. However, the analysis of the features of the national payment system shows that there is room for further ease of the use of existing and introduction of new payment instruments, as well as for increase in the mutual functionality of the payment, clearing and settlement system, which would create conditions for greater use of electronic payments and reduce prices for payment services. Also, the commitment of the Republic of Macedonia for EU membership imposes a need of implementation of the international and European standards and operating rules of the payment systems. The gradual acceptance of international and European standards and operating rules in the national payment system will allow greater mutual functionality of certain payment, clearing and settlement systems, and also contribute to easier joining SEPA and TARGET2 when the Republic of Macedonia become an EU member. Thus, the citizens and businesses will be able to use reliable payment services with competitive prices to perform as both domestic and external payments.

3.3.1. Payment instruments - revision of existing and introduction of new payment instruments based on the standards and rules of SEPA and placement of electronic payments schemes

Within the activities of the first national strategy, for the purpose of monitoring the efficiency of the national payment instruments and study the standards and rules of the SEPA payment instruments, NPSC established a Working group on electronic credit transfers and a Working group for electronic direct debits, the future work of which will be important for realization of the planned activities in the respective area. In March 2012, the European Parliament and the EU Council adopted Regulation

(EU/260/2012) which set technical and business requirements for credit transfers and direct debits for execution of payments in Euro within the SEPA, since the previous activities of the European banking sector for self-regulation and migration to joint schemes for these two payment instruments were deemed insufficiently effective. The new regulatory requirements apply to the member states of the EU outside the Euro zone, but only for payments in Euros, because of which they have an obligation within a specified period to implement them within the payment systems integrated into SEPA. Whether these requirements will contribute to align also the functionalities of the payment systems for execution of payments in national currencies and payments to non-EU countries (the requirements of EU regulation mostly are international standards) depends on the assessment of each country of the costs and the benefits. For the Republic of Macedonia, as a candidate country for EU membership, the preparation for the implementation of these regulatory requirements represents a step forward towards EU integration. For the timely preparation of the country to meet these criteria for admission to the EU, based on the findings from the analysis of the characteristics of the national payment instruments, the activities planned for the next period, for each instrument are given below.

3.3.1.1. Credit transfers are the most widely used payment instruments for the execution of payment transactions in the country. The non-banking entities use the instruments prescribed by the bylaw (many kinds), mostly in paper form, and lately electronically using the e-services of banks. The use of multiple types of payment instruments, depending on whether the payment is in cash or with demand deposits, and whether it is executed to the private or public sector, create higher costs for banks that are transmitted to the payment services users. Therefore, the planned activities for the next period refer to:

- revision of the prescribed payment instruments and perception of the possibility of setting up a single payment instrument for payments with credit transfer from the accounts of non-bank entities to the private and public sector, based on the European experience, and the standards and rules for SEPA credit transfers and the Regulation 260/2012;
- development of national scheme for electronic credit transfers for execution of payments in the country, based on the European experience, and the standards and rules of SEPA.

3.3.1.2. The direct debits are not defined as a payment instrument with the regulations of the Republic of Macedonia, neither formal and legal obligation schemes and contracts for their acceptance by the banking sector are set, because of which they are not used for execution of payments in the country at all. In the past, the Working group on direct debits, with active involvement of "KIBS" AD Skopje, has conducted a series of activities to introduce an instrument for direct debit in the country and setting national scheme, based on the standards and rules of SEPA. As a result of these activities, for the time being, the Rules for the operation of the scheme for electronic direct debit in SEPA are being translated, a simulator is developed and simulations for application of this instrument in the country were made, as well as presentations to the banking sector.

For the purpose of widening of the payment services in the country with direct debit instrument, the following activities are planned:

- amendments to the bylaws pertaining to the payment instruments in the country to allow the introduction of direct debit instrument, which, because of the legal requirements of the NBRM to look after the safety, stability and efficiency of the payment system and its development, need to reconsider the regulatory competence of the MFRM for prescribing the payment instruments, taking into account the EU legislation and practice in the EU member states;
- setting instrument for direct debit in the country based on the European experience, the standards and rules of SEPA and the Regulation 260/2012;
- development of national scheme for electronic direct debits for execution of payments in the country, based on the European experience, and the standards and rules of SEPA.

3.3.2. Clearing and settlement systems - gradual implementation of international and European standards and operating rules

The banks perform electronic clearing and settlement of payment transactions in the country, by applying its own standards and rules in the internal systems, while for the settlement in RTGS and KIBS, by applying the standards and rules of the relevant system. The use of different rules and standards for payment messages in separate clearing and settlement systems complicates their mutual use, because every transfer

of payment messages from one system to another inevitably entails transfer of data in the appropriate format. This situation in the national payment system dates from the time of their placement with the major reform in 2001, when in order to enable their interoperability, additional interventions in programming solutions with the providers of payment services were made. Although the current way of operating of the systems provides a high degree of reliability and efficiency in the execution of payments in the country, however the use of different standards and rules for particular systems and transferring data from one system to another creates certain operational risks and reduces efficiency. At EU level, for greater reliability and efficiency of payments in SEPA, exactly because of the diversity of standards and rules of national payment systems in different member states, the Regulation 260/2012 set an obligation on application of unique, internationally certified technical standards for operation of the systems (international standards for identification codes IBAN and BIC and for the unified payment messages - UNIFI) and the deadline for their implementation by all member states in the execution of payments in Euro (in the next two to five years). The gradual implementation of technical standards and rules defined by Regulation 260/2012 on national systems for clearing and settlement will reduce the existing risks in the operation and will provide greater efficiency in interoperability, enabling easy joining of the country to SEPA and TARGET2. The future activities of the Working group for support to the operations, infrastructure and standards in NPSC will also be devoted to the study and monitoring of the technical standards and rules laid down by the mentioned EU regulation.

In this regard, activities for the next five years are planned:

- analysis of the conditions, opportunities and costs for banks and operators of individual clearing and settlement systems for uniform application of the technical standards for operation of the international standardization bodies, that in accordance with Regulation 260/2012 is binding on the member states of the EU (ISO 13616 for international identification bank account number - IBAN, ISO 9362 for bank identification code - BIC and ISO 20022 Universal financial industry payment messaging - UNIFI);
- preparation of complied timetable for the gradual implementation of international standards on the basis of the analysis.

3.3.3. Payment cards and systems for clearing and settlement of transactions - consolidation of the situation in the card operations and gradual harmonization with the standards and rules of SEPA

Despite the upward trends in the number of issued payment cards (international and domestic with debit and credit function) and set ATM and POS-terminals in recent years (compared to the end of 2006, the number of ATM devices has increased by 2.9 times and the number of POS terminals by 3.5 times), the cards, however, are still insufficiently used for payments on the points of sale in the country and are mainly used for cash withdrawal. The reasons for this situation, despite the lack of knowledge of users due to the too fast penetration of cards at the market and the low consumption level because of the general economic situation in the country, result from the still high card payment costs at retailers imposed by banks, mainly caused by the current situation of authorization and clearing of transactions with international cards, primarily through international networks. At EU level, the cards payment activities are aimed at creation of uniform conditions in the member states that allow easy and cheap services for the card users and wide use by merchants for payment on the single European market. For this purpose, the European Payments Council has set a SEPA scheme for credit cards, with unique rules and standards for issuers and participants in the clearing and settlement systems.

For the purpose of the consolidation of the situation at the national level and greater use of payment cards for execution of payments in the country, as well as the gradual application of the SEPA standards and rules in the payment cards operations, the following activities are planned:

- comprehensive analysis of the card operations costs in the country with certain types of foreign brands of payment cards and perception of the need and feasibility of setting up a national system for processing (authorization and clearing) of transactions with these payment cards in Denars;
- Development of the national scheme for card payments in the country, on the basis of the European experience and the standards and rules of SEPA.

3.4. Internal payment system for the government bodies and institutions (TA and HTA) - better functional connectivity with other payment systems in the country and inclusion of the data in the payment statistics of the country

In order to ensure better efficiency of the payment system in the country the payments in the internal systems of TA and HTA are necessary to be performed by application of uniform national standards and rules. The need for more detailed data and information on inflows and spending of the budget users and public health institutions, for effective monitoring of implementation of budget revenues and expenditures, is the reason for using different payment instruments for the execution of payments in the internal systems of TA and HTA than the payment instruments used by other economic entities in the country. However, result of these conditions are different standards and rules for execution of payment transactions in TA and HTA, which affect the efficiency of the overall payment system in the country and the future integration in SEPA. Also, the statistical information system of the country lacks data and information on payment transactions in TA and HTA. Therefore, it is necessary to distinguish the necessary data for Treasury Information System (TRIS) and Health Information System (HIS) for effective and smooth pursuit and execution of budgets, from the necessary data and standards of the payment system for safe and efficient execution of payments through TA and HTA.

The planned activities for the next period refer to:

- revision of the standards and rules for execution of payment transactions in TA and HTA in order to comply with the standards and rules prescribed by Regulation 260/2012, for both the payments at the first level of the budget users and health institutions, and at the second level for settlement of the payment transactions;
- modernization of TRIS and HIS in order to increase the functionality of the software solution, web-based functionality, electronic connectivity with budget users, electronic submission of payment requests using the electronic signature or dematerialization of the payment instruments and full security and integrity of data, which would increase the efficiency of payments, while the budget users and health institutions would have rapid and timely information about the executed payments;

- reclassification of accounts within the TA and new encoding of data in TRIS towards improvement of the budgeting process and monitoring of the budget execution and increase in the efficiency of payment transactions;
- establishing a system to include data from payment transactions executed through TA and HTA in the payment statistics of the country.

3.5. External payments - increased efficiency through the gradual abolition of the obligation of banks to report on international payment transactions for the needs of the balance of payments statistics

The bank obligations to control the foreign exchange transactions of their customers because of the still present, although partial, legal constraints and to report on international payment transactions for the needs of the balance of payments statistics, reduce the effectiveness of the external payments. Namely, besides the standard data required for execution of international payments, the banks, for meeting these legal obligations, are required to provide additional data, information and supporting documents from the client, which complicates and slows down the payments.

The abolition of the obligation of banks to conduct foreign exchange control depends on the ability of the Republic of Macedonia to fully liberalize transactions between residents and non-residents, and to provide full internal convertibility of the Denar (except individuals, also legal entities to be able to buy foreign currency for keeping them on the bank accounts, not only for paying the due obligations abroad), which in turn depends on the balance of payments condition and the international investment position of the country. Thus, in the period covered by this strategy, full abolition of the obligation of the banks to conduct foreign exchange control can not be expected, due to which no activities in this direction are planned. If because of the phase liberalization of the remaining restrictions on capital and financial transactions, agreed with the Stabilization and Association Agreement with the EU (current and most of the capital and financial transactions are liberalized), conditions for reduction or cancelation of the obligation of banks to conduct foreign exchange controls are created, NPSC will take initiative to expand the strategic actions.

As to the obligation of banks to report on international payment transactions for the balance of payments statistics, the Republic of Macedonia will have to follow the changes that take place in the EU. In fact, this statistical method of collecting data from banks for compilation of the balance of payments, known as ITRS (International transactions reporting system - ITRS), has been applied by many member states of the EU (for payments over Euro 50,000). However, in accordance with Regulation EU/260/2012 from March 2012, in order to reduce the costs of cross-border payments in SEPA, the member states are obliged until February 1, 2016 to lift the system of banks' reporting for the balance of payments statistics purposes, although it is considered that it provides qualitative balance of payments statistics with low costs in comparison with data collection through the reports directly from the residents.

Having in mind the aforementioned, the activities planned within this strategic direction relate to:

- perception of the possibilities for increasing the efficiency of external payments by analyzing the required resources and capacity to shift from indirect to direct method of collecting data for the compilation of the balance of payments of the Republic of Macedonia;
- development of an action plan, based on the analysis, for gradual reduction, until the complete removal, of the bank obligation to report for the needs of the balance of payments statistics through the phased introduction of direct reports from residents on their transactions with non-residents (starting from the transactions for the execution of which there are no legal constraints), including also the reduction of the obligation of banks to provide additional information and documentation for reporting purposes in the execution of payment transactions abroad;
- revision of the prescribed payment instruments and their compliance with the standards and rules for credit transfers of SEPA and Regulation (EC) 260/2012.

3.6. Oversight of the payment and settlement systems - further harmonization with international methodology and standards for operating of the payment and securities settlement systems

NBRM through its oversight activities will strive the payment, clearing and settlement systems to ensure compliance in the operating with the internationally accepted

standards and principles for risk control. The systemically important payment systems will have to maintain full compliance with Basel Core Principles (accepted as national by decision of the National Bank Council),³¹ while minor systemic payment systems will have to adhere to the relevant international principles for control and risk management. In addition, in cooperation with the SEC, it will be needed to implement the international operating standards with the securities settlement systems, as well.

At the international level, the Committee on Payment and Settlement Systems- CPSS and the International Organization of Securities Commissions - IOSCO, revised the current three sets of standards and on April 16, 2012 they published new unified international standards for operation of the payment, clearing and settlement systems, the securities settlement systems and of the central counterparties etc. "Principles for Financial Market Infrastructures". The new uniform standards strengthen and harmonize the existing three sets of international standards by increasing the minimum requirements, provide more detailed guidance and expands the scope of the standards to cover new areas of risk management and new types of financial market infrastructure. The standard also covers the basic responsibilities of central banks, market regulators and other competent authorities of the financial market infrastructure. The areas covered by these standards relate to: regulation, supervision and oversight of the competent bodies, including also guidance on the necessary authorizations and resources; announcement of policies for the financial market infrastructure, requesting the competent bodies to clearly define and publish their regulatory, supervisory and oversight policies; consistent application of the principles for financial market infrastructure CPSS-IOSCO, and the cooperation of the competent authorities, both at national and international level.

Therefore, adopting the standards would require appropriate adjustments in the regulation and a more integrated approach for their implementation by central banks and other competent bodies. Given the current structure of the supervisory and regulatory bodies in the Republic of Macedonia, necessity of higher degree of coordination between the NBRM and the SEC will impose.

³¹ Decision on the criteria and standards of the payment system operations ("Official Gazette of the Republic of Macedonia" no. 159/07) and Decision on the manner and the methodology for payment system oversight ("Official Gazette of the Republic of Macedonia" no.159/07).

Planned activities:

- harmonization of the national standards for payment, clearing and settlement systems with new international standards;
- application of international standards in the operating of securities settlement systems;
- consistent application of the principles of the CPSS-IOSCO by financial market infrastructure;
- promotion of the cooperation between the NBRM and the SEC for greater coordination of the oversight activities.

3.7. Encouragement of the cashless payments

The use of cashless instruments to carry out payments ensure greater reliability and efficiency of the payment transactions and helps to reduce cash in circulation, which, in turn, provides greater support to the financial stability and the economic activity in the country. From the analysis of the manner of execution of payments in the Republic of Macedonia, upward trend in the use of cashless payment instruments and payment through internet and cell phones is evident, although the use of cash remains high.

The experience of the EU countries shows that it is difficult to influence the reduction of cash payments by administrative measures (ineffectiveness of control mechanisms and additional bureaucracy for monitoring and control measures), for which activities are mainly aimed at encouraging non-cash payments by creating conditions for their extensive and effective use (larger geographical coverage with ATM and POS terminals, electronic banking, cell phone payment, etc., reliable payment systems; affordable prices for payment services with cashless instruments etc.). However, the role of the Government in accepting cashless payment instruments for public duties and services is of particular importance.

The Government of the Republic of Macedonia has already taken a series of actions for this purpose, such as: public campaigns through the state broadcaster - MRTV for greater use of cashless payment instruments, setting up POS-terminals in several state institutions that provide various services to citizens and so on. For further

increase in non-cash payments, all stakeholders (NBRM, government bodies, banks and other participants in the payment, clearing and settlement), appropriate to their responsibilities, should take coordinated actions to extend the use of cashless payment instruments, including the recent technological advancements (mobile phones, internet, etc.), which will enable safe and efficient execution of payments in the country.

Activities planned in this strategic direction relate to:

- larger use of payment cards for payment of taxes and public services through POS devices installed in as many as central and local government bodies, institutions and public institutions that perform such services;
- expanding the ability to pay via cell phone and internet also of the taxes and public services;
- providing greater territorial coverage of the state with ATM and POS-terminals;
- increase the number of ATM terminals with multiple functions, i.e. besides for raising cash and carry out payments and transfer of funds, as well as for depositing cash in a bank account.

3.8. Strengthening institutional capacity - providing technical assistance and professional development of staff through various forms of international cooperation and through the EU pre-accession instruments

The capacity building through various forms of international cooperation of the state and the institutions involved in the national payment system is continually provided by the technical assistance to and training of employees, with the technical assistance that EU provides through pre-accession instruments and funds (IPA TAIEX etc.) becoming more significant. In the past, the conferences and workshops organized by the NBRM in collaboration with the Central Bank of the Netherlands on a regular annual basis since 2007, proved to be particularly useful.³² At these conferences, besides employees from regulatory bodies (Central Bank, MFRM and SEC) employees of KIBS, CaSys, from banks and other stakeholders participated in, while since 2011 they were attended also by representatives of the regional central banks. The benefits of the current organization of such events are multiple, but of particular importance

³² Since 2011, the Central Bank of Portugal also attends the Conference.

are the extended knowledge and raised awareness among employees in the banking sector and operators of payment, clearing and settlement systems of international and European operating standards and SEPA rules, the acquired knowledge of the employees in regulatory bodies for the practice in the EU member states (especially in the Netherlands), and the ability to share experiences with the representatives of the central banks of the region. The IPA project "Needs analysis for the NBRM to join the Euro system," which is currently being implemented and should be completed in June 2013, is expected to significantly increase the knowledge of NBRM employees on the European legislation, standards and operating practices in the field of payment systems, but for its application, further strengthening of the institutional capacity of all stakeholders involved in the national payment system is necessary.

For the coming period the following is planned:

- continuation of the activities for providing technical assistance to and training of employees through various forms of international cooperation (seminars and conferences organized by international institutions, foreign central banks and other training centers; bilateral technical assistance such as the cooperation of the NBRM with the Central Bank of the Netherlands, etc.);
- to boost activities for technical assistance from the EU through greater use of pre-accession instruments and funds intended for the Republic of Macedonia (IPA projects, including the subsequent project for the application of the findings and recommendations resulting from the analysis of the needs of NBRM to achieve standards for the operation of the national central banks from the Euro-system with the project currently being implemented; TAIEX, twinning, etc.) and
- organization of national seminars, workshops, conferences and the like, where the employees will transfer and exchange theoretical knowledge and practical experience gained with international training and technical assistance.

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