



Tackling Euroization in Macedonian economy

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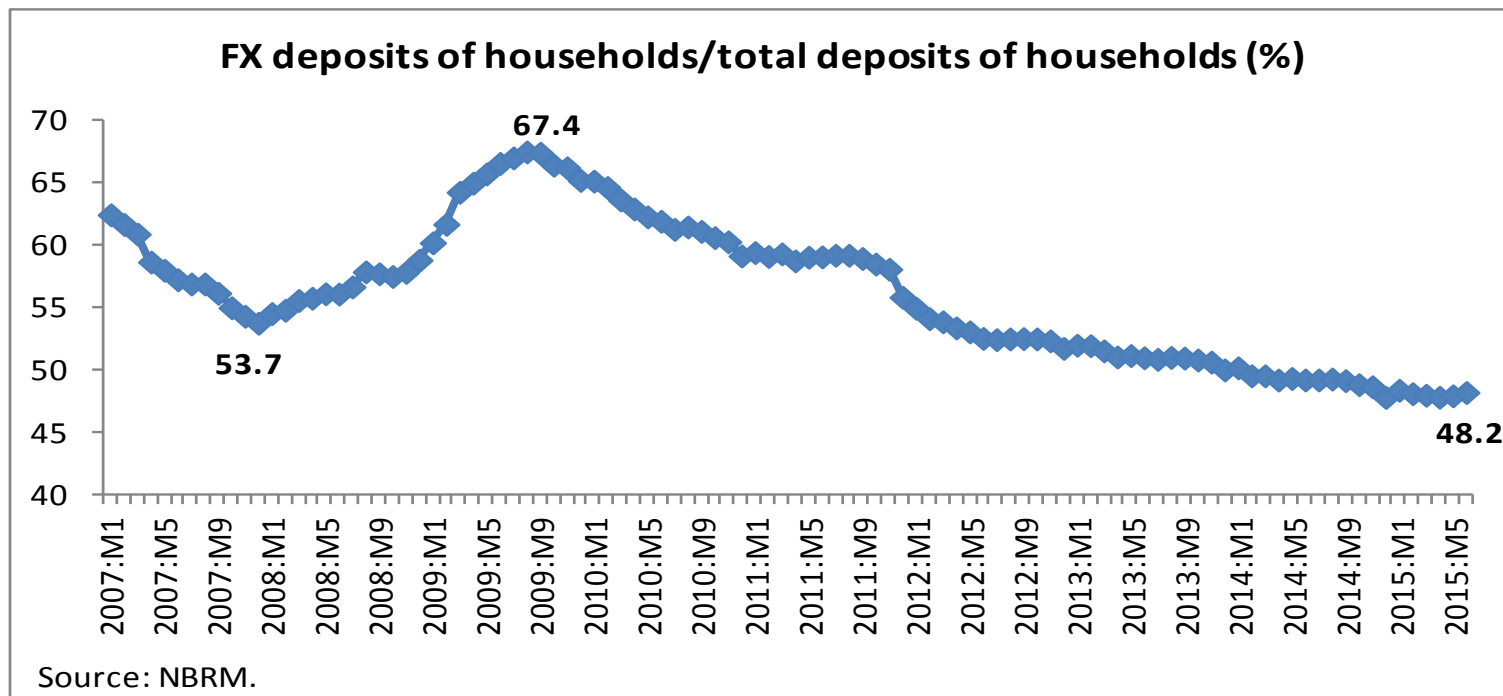


Short overview

- Euroization – a problem with a long history and usually persistent phenomena;
- The main driving forces in Macedonia: experiences with the savings in the previous system, economic uncertainty in the transition period, external and internal shocks, private transfers inflows in foreign currency;
- Positive impact from the gradual strengthening and maintenance of the banking system soundness, low and stable inflation and exchange rate peg to Euro;
- De-euroization during the last global crisis – worsening of external environment and NBRM measures.



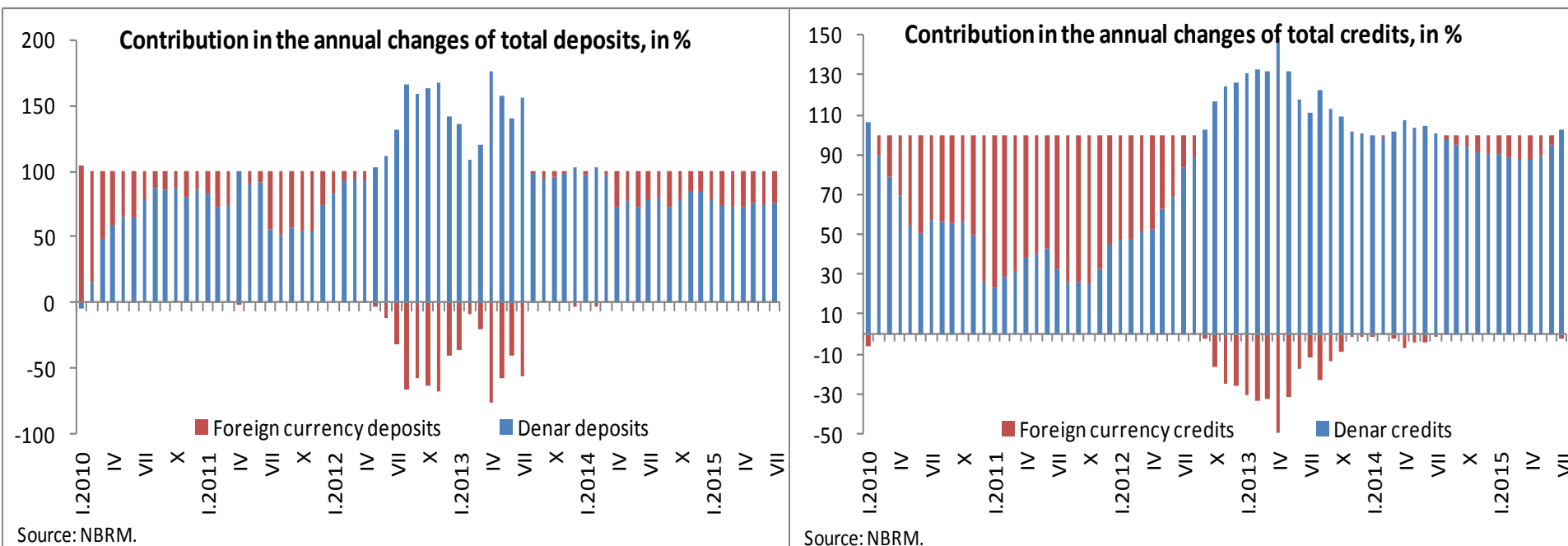
Deposits of the households in foreign currency



- After initial pick up of the deposits in foreign currency in the first wave of the crisis, they gradually reduced afterwards;
- Stabilization of the declining trend in the second quarter of 2015.



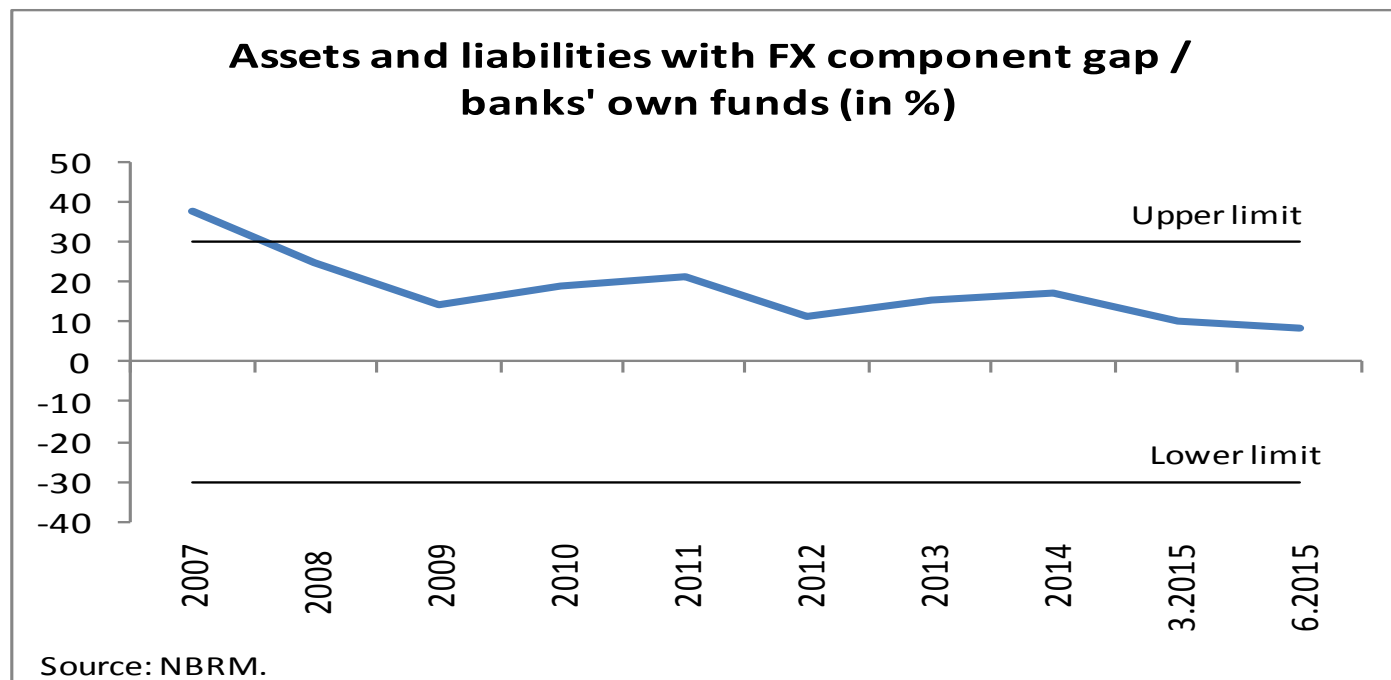
Banks' deposits and credits currency structure



- The changes in the currency structure on the liabilities side reflected on the assets side – dominant contribution of the Denar component



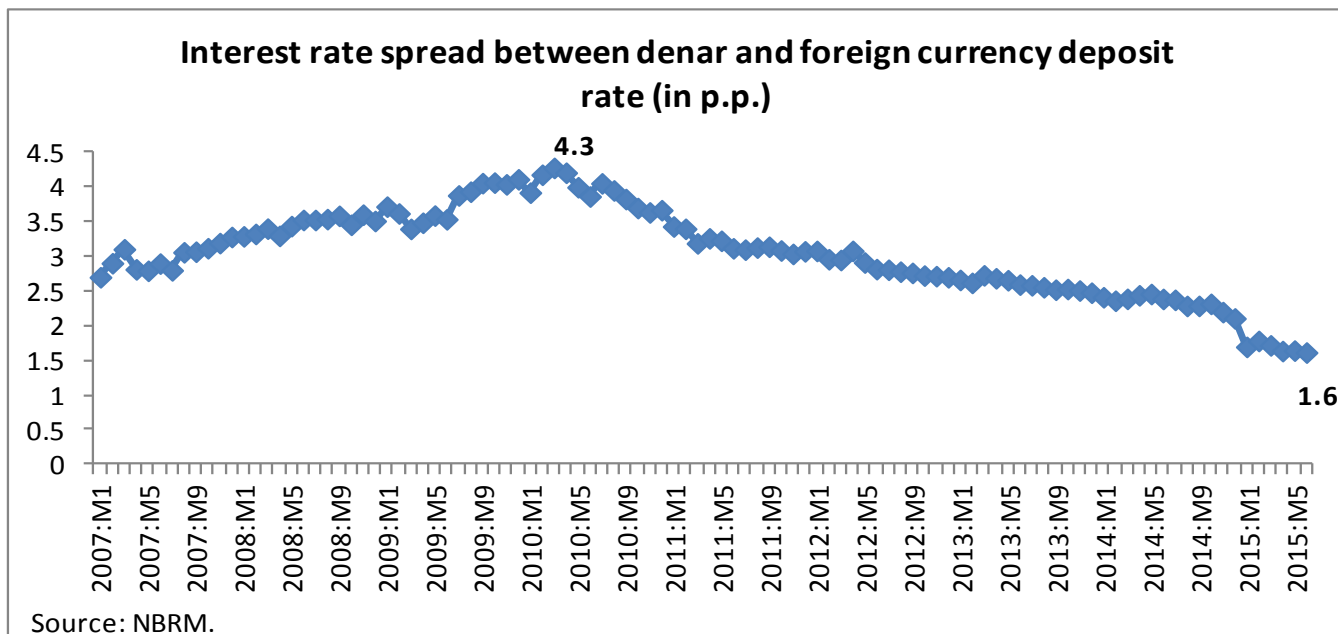
F/X risk



- Macedonian Banking system usually with long FX position;
- Foreign liabilities to nonresidents are usually small (less than 10% of the total liabilities).



Interest rate spread



- In the acute stage of the global crisis, banks widened the spread between the Denar and FX deposit interest rates, but in the last years a trend of gradual spread reduction;
- NBRM measures to support positive trend of de-euroization.



Reserve requirements ratio, in %

Year	RR ratio for Denar liabilities	RR ratio for domestic liabilities with fx clause	RR ratio for fx liabilities	Deposits of households over 2 years	Deposits of households in Denars over 1 year
2004	7.5	7.5	7.5	0	0
2005	7.5	7.5	10.0	0	0
2006	7.5	7.5	10.0	0	0
2007	7.5	7.5	10.0	0	0
2008	7.5	7.5	10.0	0	0
2009	10.0	20.0	13.0	0	0
2010	10.0	20.0	13.0	0	0
2011	10.0	20.0	13.0	0	0
2012	10.0	20.0	13.0	0	0
2013	8.0	20.0	15.0	0	0
2014	8.0	20.0	15.0	0	0

Source: NBRM.

- Since 2009: differentiation of the reserve requirement ratios and additional differentiation since mid-2013 in favor of liabilities in domestic currency;
- Since 2012: zero reserve requirements on deposits of households over 2 years to support long term savings;
- Since September 2015: zero reserve requirements on Denar deposits of households over one year to support long term savings in domestic currency



Concluding remarks:

- **Under exchange rate peg, confidence in the domestic currency is extremely important;**
- **Foreign currency holdings sensitive on economic and non-economic factors, increasing vulnerability of the economy;**
- **Regular monitoring of leading indicators in this field and proactive role of the Central Banks in managing eventual risks.**