

INTRODUCTION

In 2000, the reforms of the Macedonian banking and its institutional framework continued, directed towards sound, stable and effective banking system, which is to be a guarantee for stable and sustainable development of the Macedonian economy. In that light, special attention should be paid to the adoption of the new Banking Law which led to further compliance of the legislative with the European Directives in the area of banking and so-called 25 Core Principles for Effective Banking Supervision. It is expected this Law and adequate by-laws to result in:

- increased attractiveness of the banking system of the Republic of Macedonia for foreign investments, especially by foreign banking institutions;*
- strengthened prudent standards and practices in the banks operations;*
- strengthened corporate governance in banks and improved efficiency in the banking operations;*
- Strengthened banking supervision, especially in the area of corrective actions undertaken against banks with identified problems in their operations, which endanger their stability and soundness.*

In the second half of 2000, based on the adopted Banking Law, intensive activities for revising the supervisory by-law aimed at its Basle supervisory standards.

Additionally, in the area of the legal framework of overall banking and financial system, attention should be paid to the adoption of several laws such as the Securities Law, Deposit Insurance Fund Law, Law on Consensual Mortgage and the Law on Amendments to the Law on Executive Procedure.

The new Banking Law together with the other laws in this area, creates solid basis for improvement of the banking and overall financial system of the Republic of Macedonia and increase in the confidence of the citizens in the domestic savings. The effective usage of domestic savings through the intermediary function of the banking system gives strong impulse to the growth and development of each national economy. Hence, the successful implementation of the reform of the banking system is one of the pillars of the success of the reforms of the Macedonian economy and society, as a whole.

In 2000, the banks in the Republic of Macedonia registered upward trend in the overall performances, due to the implemented reforms in the banking area, strengthened supervisory standards and activities, stable macroeconomics environment, as well as the further revival of the economy. Thus, improvement was registered in one of the basic difficulties the banks are facing with in their operations – level of high-risk credit placements. In 2000, the basic indicators for banks' assets quality improved and at the end of 2000 they almost reached the level prior to the Kosovo crisis, which interrupted the upward trend from the previous year. At the end of 2000, the share of placements classified as C, D and E equaled 34.8% of the total credit exposure, which was by 10 percentage points lower compared to the maximum level reached immediately after the Kosovo crisis. It should be underlined that such an improvement in the banks' credit portfolio in 2000 was achieved

under conditions of increased credit placements by 10.5%, which indicate improvement in the banks' internal credit procedures and practices.

In 2000, the most significant feature of the banking system of the Republic of Macedonia was the foreign strategic investments in several Macedonian banks. The total amount of foreign capital invested in the Republic of Macedonia equaled DEM 216.7 million, DEM 97.3 million of which were investments for further capitalization of the banks, while the remainder was used by the foreign investors to buy out the shares of the existing shareholders. Therefore, 2000 was a year with the highest foreign investments in the banking system since the independence of the Republic of Macedonia.

The final capitalization of the banks in 2000 contributed to further strengthening of their solvency. As of December 31, 2000, the capital adequacy ratio of the Macedonian banks equaled 36.7%, which is by 8 percentage points higher compared to the same period of the previous year. The solvent position of the Macedonian banks makes the high credit risk relative, expressed through the high level of the banks' non-performing placements, which is a guarantee of their stability and soundness.

Moreover, in 2000 the liquidity of banks improved, which primarily was due to the further capitalization of the banks and increased deposit potential. Special attention should be paid to the increase in the households' deposits of 41%, which indicates the gradual return of confidence of the citizens in the banks in the Republic of Macedonia. This was primarily due to the new law on deposit insurance, the strengthened banking supervision, as well as the steps undertaken for solving the old foreign exchange savings of the citizens by issuance of government bonds and partially, their advanced payment.

This is to confirm that the reforms undertaken in the banking system in the Republic of Macedonia and investment of foreign capital in the banks are real presumption in the near future, more effective banking system can be expected with higher confidence of the citizens in the domestic savings. It should provide further decrease in the interest rates and higher and low-cost credit potential for support and development of the Macedonian economy.