



De-euroization in Macedonian economy: recent trends and ongoing activities

Aneta Krstevska

Chief Economist

krstevskaa@nbrm.mk

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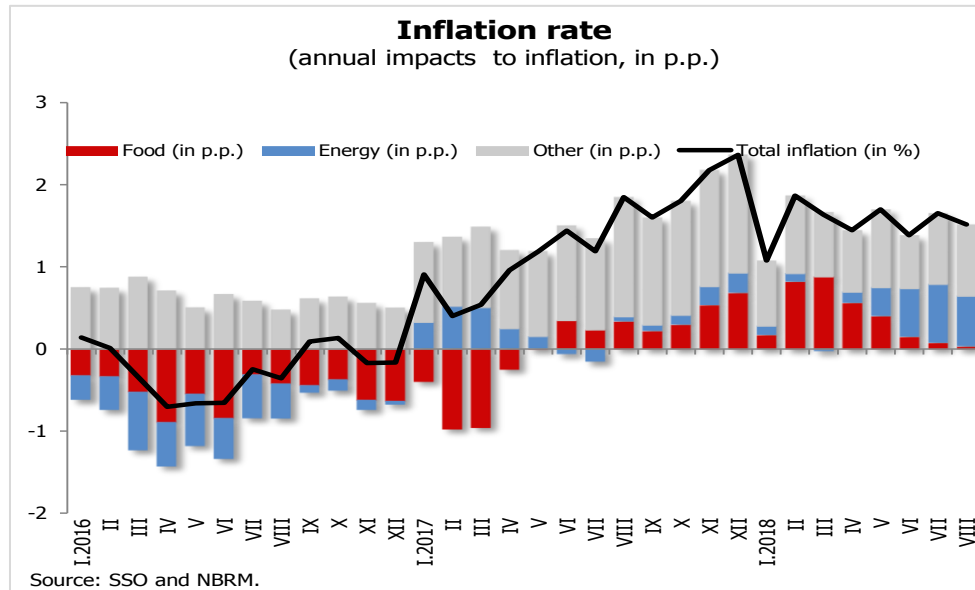
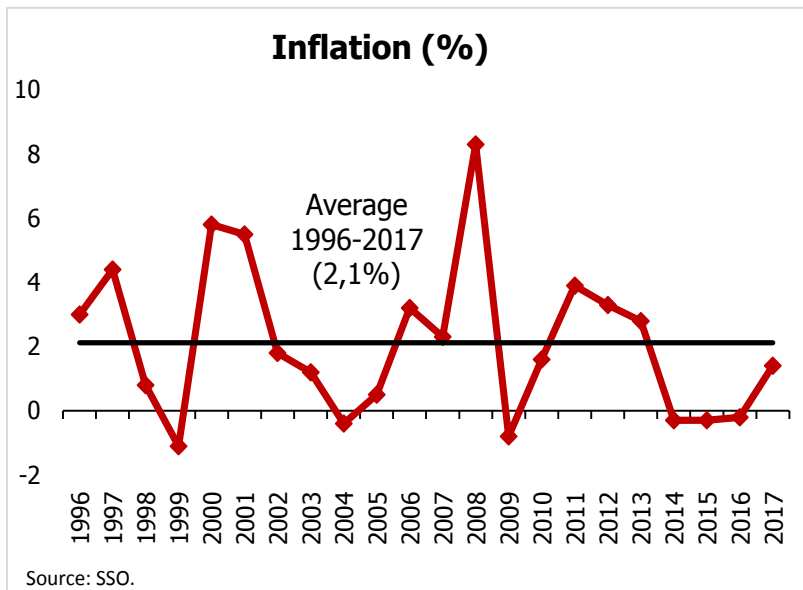


Content:

- **Macroeconomic environment and de-euroization;**
- **Developments in the banking sector;**
- **Interest rates in the economy;**
- **Draft-Strategy for de-euroization.**



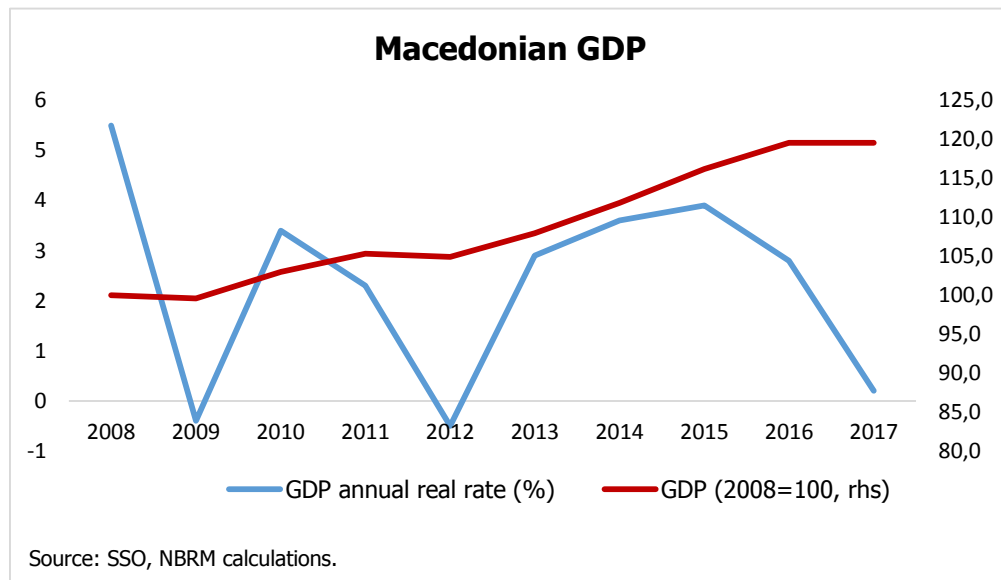
I. Inflation developments



- Macroeconomic stability crucial for the confidence in the local currency;
- Macedonian economy: stable exchange rate MKD / EUR and low average inflation (fluctuations mainly driven by supply side factors).



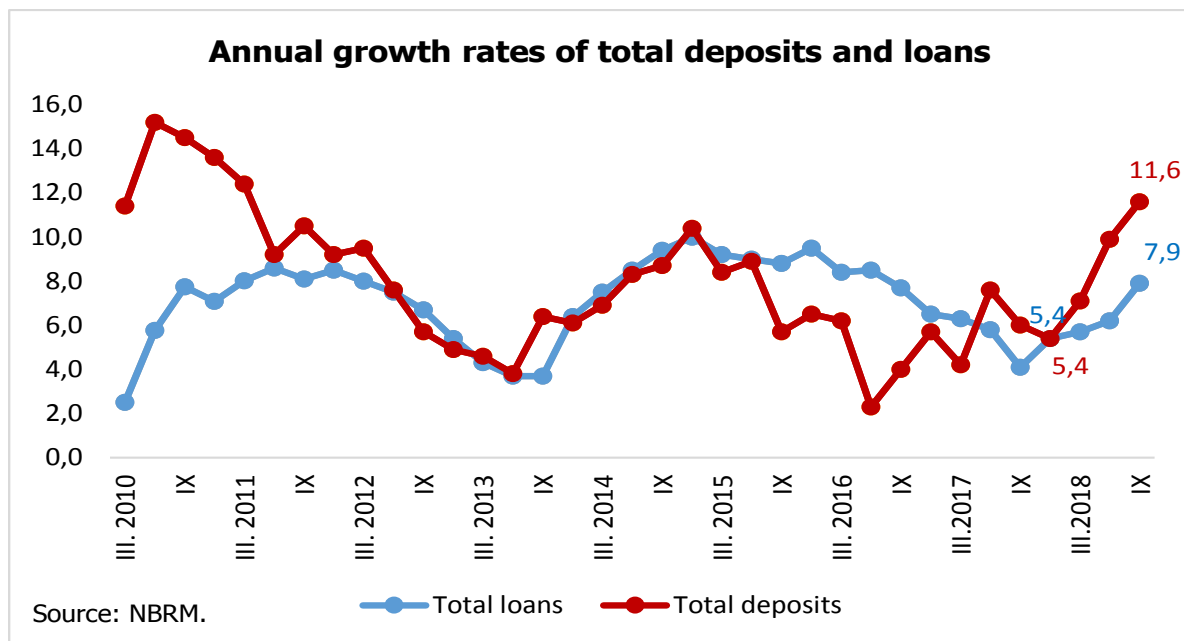
Macedonian GDP



- In 2009 and 2012 global crisis shocks;
- In 2017 internal shock - political instability, in the first half of 2018 real GDP growth of 1,6% (lower than expected);
- Private transfers – regular inflows in foreign currency;
- Continuous efforts against informal economy.



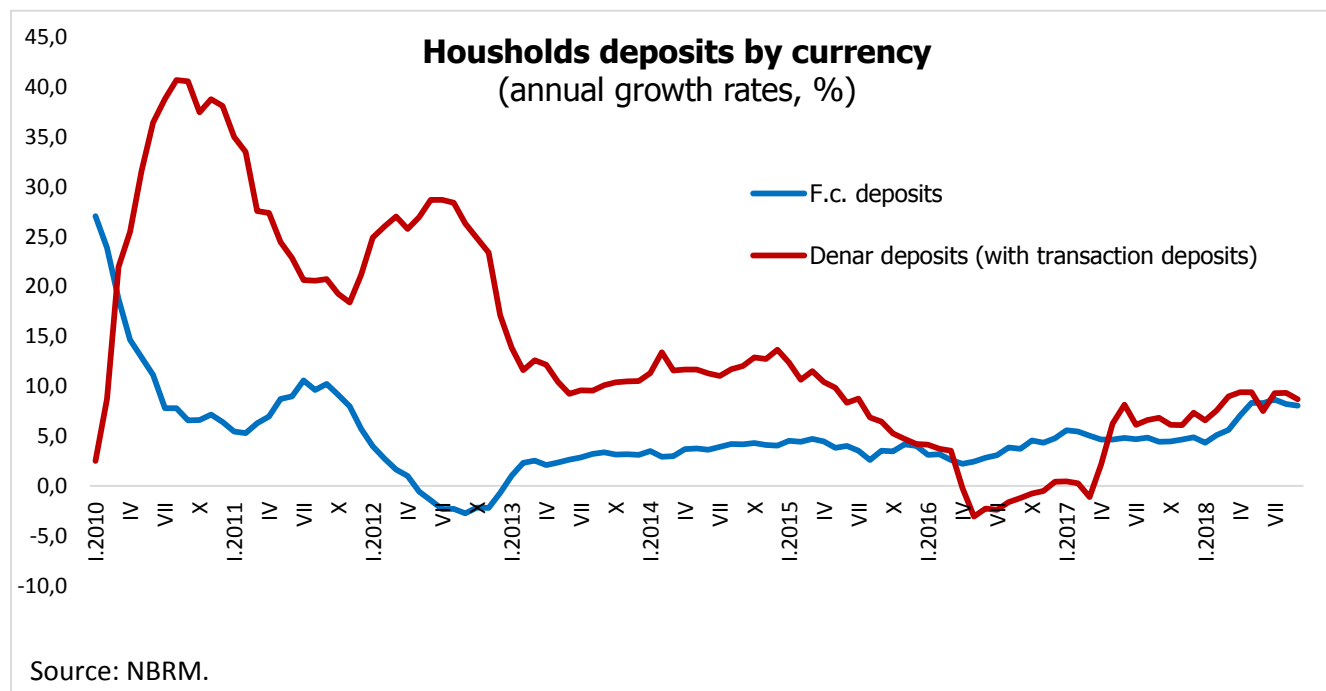
II. Deposits and credits growth



- Continuous deposits and credits growth during global crisis;
- Sound banking system, with capital adequacy ratio of around 16%.



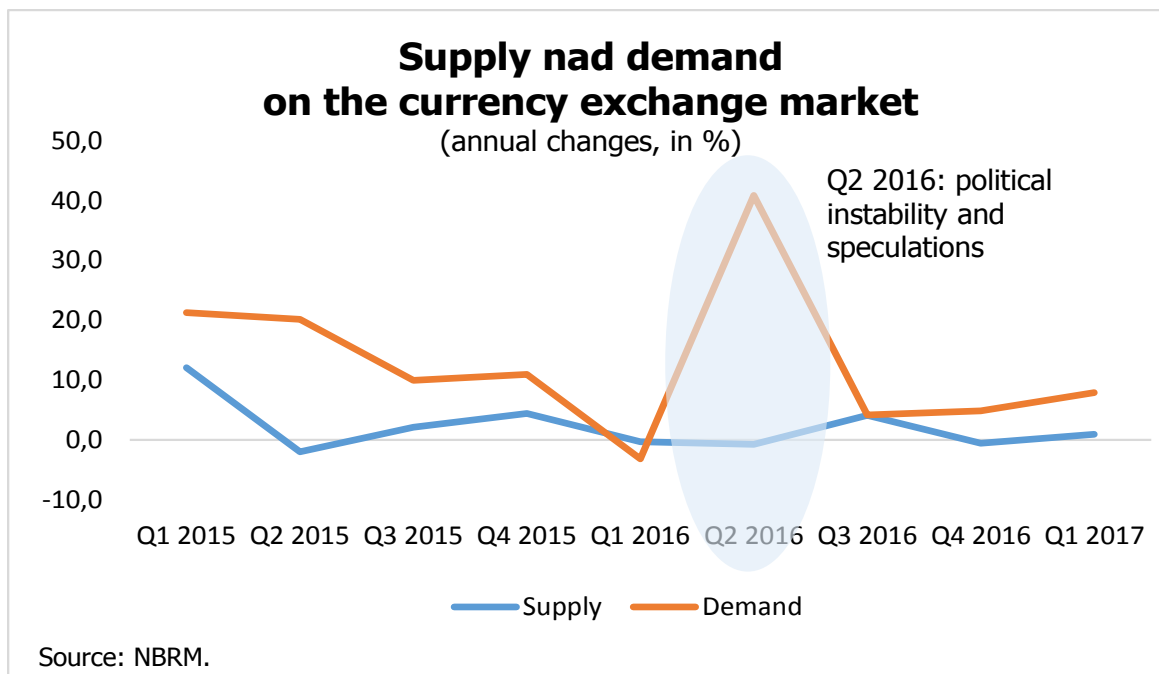
Households' deposits



- During global crisis stronger increase in Denar deposits of households;
- However, households Denar deposits sensitive to shocks.



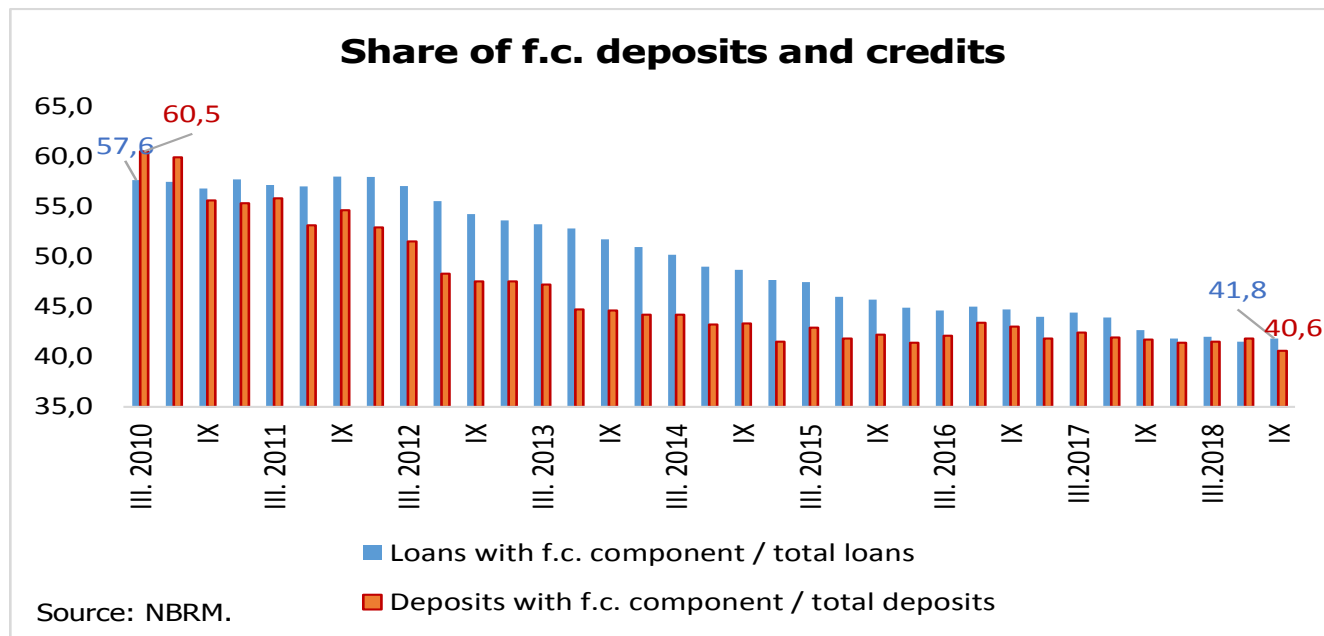
Currency exchange market



- In addition, cash holdings in foreign currency of the households also sensitive to shocks.



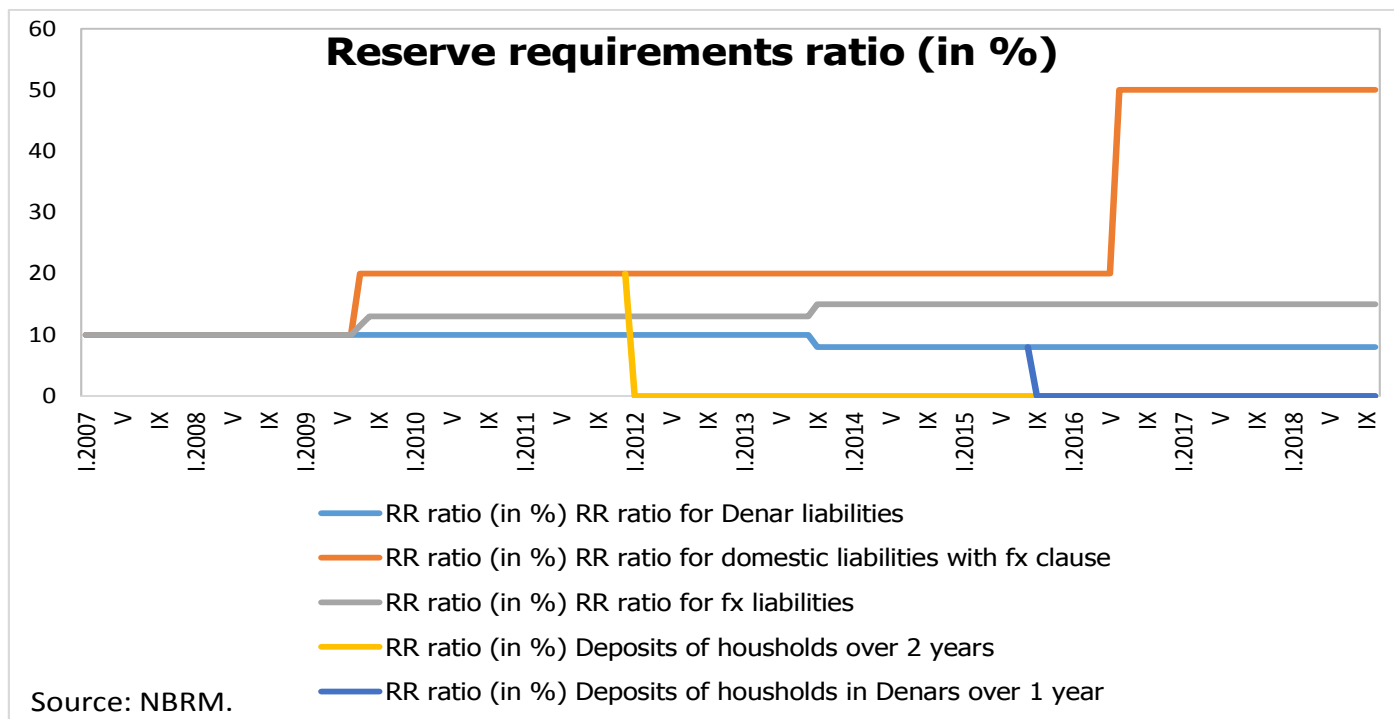
De-euroization in the banks' deposits and credits



- Significant de-euroization in the banks' balance sheets during global crisis: higher return on Denar financial instruments, risks in the Euro area, reserve requirements changes by the NBRM;
- Stagnation in the de-euroization trend in the last years amid political uncertainty;
- OeNB Euro Survey: similar dynamics in Euro cash holdings in Macedonia - decline during global crisis, increase in the period of domestic political instability.



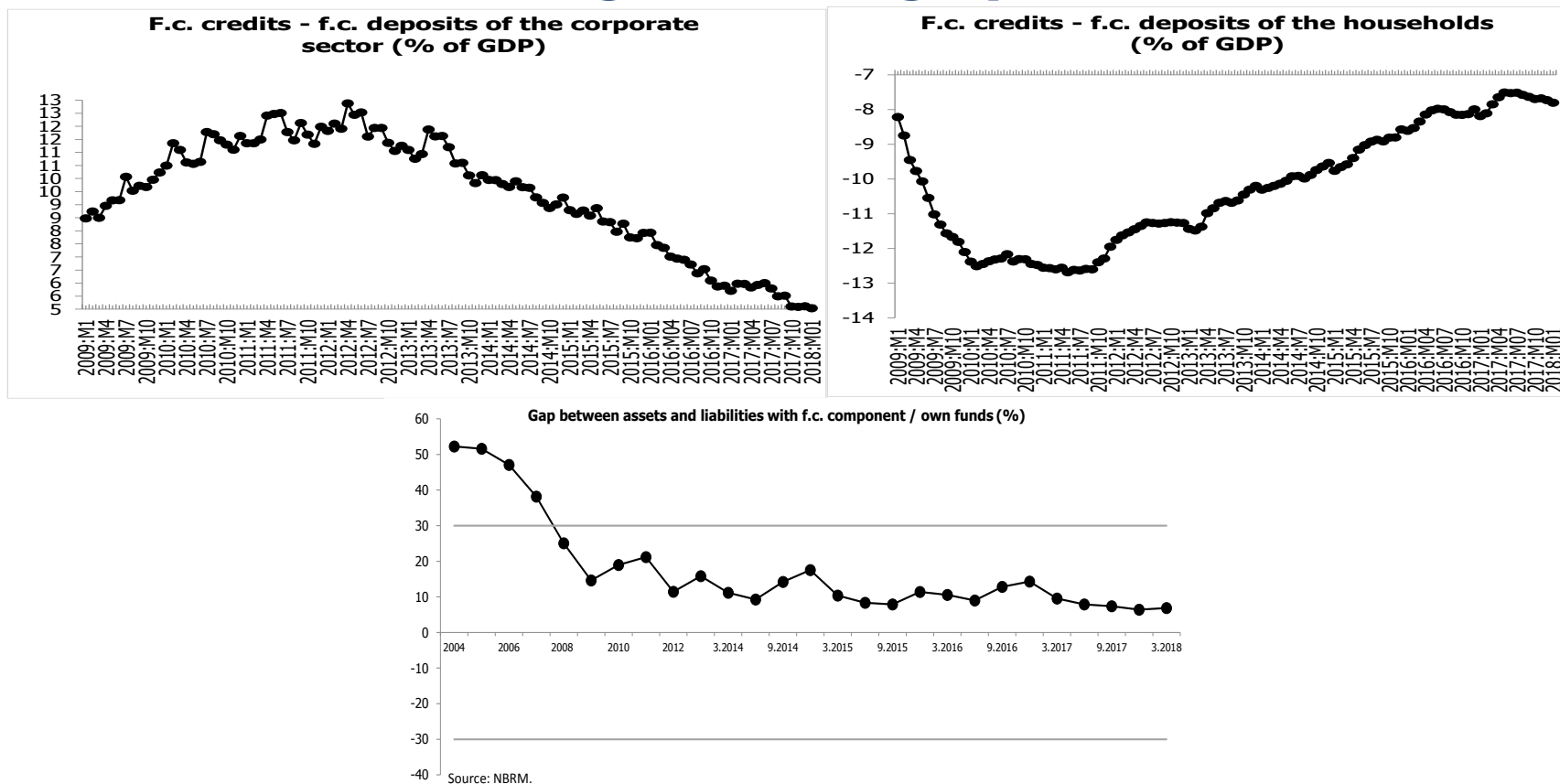
Reserve requirements



- Reserve requirements changes in favour of Denar deposits and long term savings.



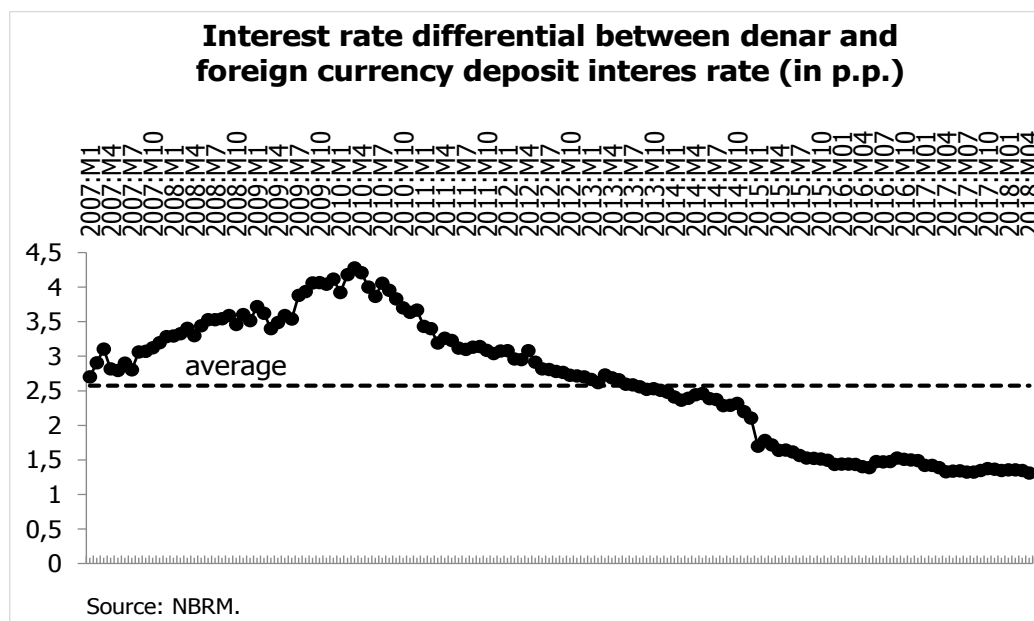
Net foreign exchange position



- Household sector with long fx position at the banking sector (deposits higher than credits from the banks with f.c. component);
- Corporate sector with short fx position at the banking sector – riskier for banks;
- Generally, banks with long net foreign exchange position, within given limits.



III. Banks' interest rate spread on deposits



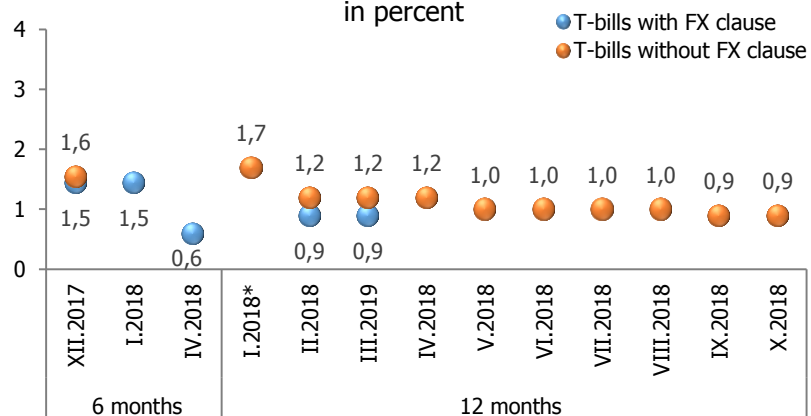
- Interest rate spread between banks' Denar and f.c. deposits at the beginning of the global crisis increased, afterwards decreasing tendency.



Interest rates on Government securities

Interest rates of T-bills

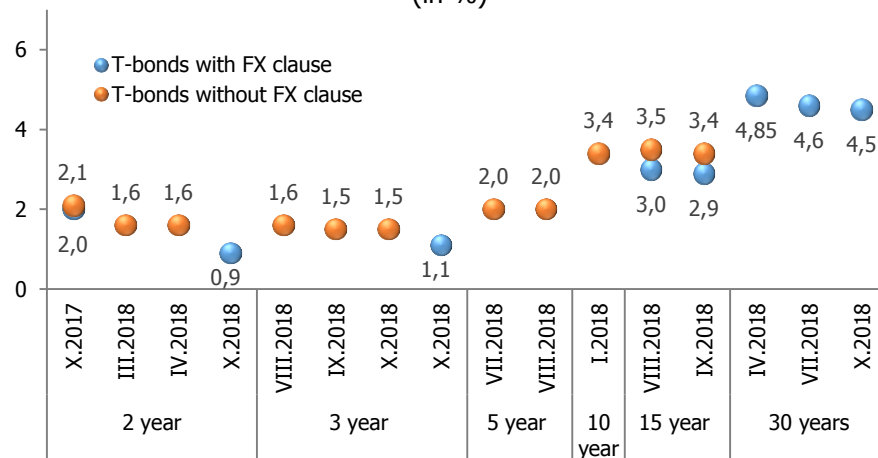
in percent



Source: Ministry of Finance.

Interest rates of T-bonds

(in %)



Source: Ministry of Finance



IV. Draft Strategy for de-euroization

- Recommendation from the EU institutions: comprehensive strategy for de-euroization by involving all relevant stakeholders;
- NBRM, Ministry of Finance and 4 other institutions;
- During 2018, the consultation process between institutions has been finalized, adoption and implementation to follow (some measures already in preparation/implementation).



Closing remarks:

- Euroization – long term, persistent phenomena;
- Stable macroeconomic and overall domestic environment of crucial importance;
- Under exchange rate targeting strategy, credibility in the domestic currency is essential;
- De-euroization trend in the banks' balance sheet during global crisis, supported by NBRM measures;
- Draft Strategy for de-euroization, with a broad scope of measures to deal with this issue.