FINANCIAL STABILITY COMMITTEE

MACROPRUDENTIAL POLICY STRATEGY OF THE REPUBLIC OF NORTH MACEDONIA

April 2023

Pursuant to Article 5 paragraph 1 item 1 of the Law on Financial Stability (Official Gazette of the Republic of North Macedonia No. 173/22), the Financial Stability Committee, at the meeting held on 19 April 2023, adopted the following

Macroprudential Policy Strategy
of the Republic of North Macedonia

1. Authorities competent for implementing the Macroprudential Policy Strategy in the Republic of North Macedonia (hereinafter: macroprudential strategy) include: the National Bank of the Republic of North Macedonia; the Ministry of Finance; the Securities and Exchange Commission of the Republic of North Macedonia; the Insurance Supervision Agency and the Agency of Supervision of Fully Funded Pension Insurance.

2. The macroprudential strategy shall be implemented by the competent authorities in accordance with the Law on Financial Stability and the relevant laws.

3. The Financial Stability Committee ensures the implementation of the macroprudential strategy.

4. The Financial Stability Committee, at own discretion or at the suggestion of the Subcommittee for Monitoring Systemic Risks and Proposing Macroprudential Measures, periodically re-evaluates the macroprudential strategy, and may amend it depending on the movements in the financial system and its structural changes, the financial institutions' business model, the financial system development level, the emergence of new or mitigation of the importance of certain risks, as well as changes to the respective international standards.

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1. Introduction

One of the key lessons learnt from the 2007-2009 global financial and economic crisis was the necessity for a macroprudential approach to the analysis and prevention of financial sector risks, which, if materialized, could affect the financial sector stability. Therefore, policy creators embarked on designing a macroprudential policy as a special set of activities aimed at maintaining financial stability. **The macroprudential policy focuses on systemic risks** that are common to the financial system as a whole and its relevant segments and can emerge independently of the risks and stability of each financial institution. **The macroprudential policy provides for systemic measures that are focused on one financial segment or more and on maintaining stability and strengthening the resilience of the overall financial system.** This distinguishes it from supervisory and regulatory policies, which are primarily aimed at maintaining safety and soundness of each financial institution and are therefore known as microprudential policies. **Another important feature of macroprudential policy is its preventive nature**, i.e. it is dedicated to timely identification of systemic risks and prevention against their accumulation on financial institutions' balance sheets, as well as to timely strengthening of the financial sector preparedness for dealing with shocks and mitigating potential risks. **This contributes to maintaining financial stability, which is the ultimate objective of the macroprudential policy**.

The financial stability in the Republic of North Macedonia has been successfully maintained. This is due to the individual efforts of financial system regulators, who, within their mandate, ensure constant risk monitoring, reducing of vulnerabilities in the financial segments and strengthening of the resilience of financial institutions. **Inter-institutional activities also played their role by strengthening cooperation and coordinating systemic risks monitoring aimed at maintaining financial stability.** In order to improve cooperation, an informal inter-institutional financial stability body was established in 2007, which included all financial system regulators in the country that share a common interest in maintaining financial stability. In 2009, a Memorandum of Cooperation was concluded establishing the first Financial Stability Committee, composed of the National Bank and the Ministry of Finance, authorized to monitor financial stability. In early 2020, a new Memorandum of Cooperation was concluded between all financial system regulators and supervisors in the Republic of North Macedonia, with an aim to strengthen cooperation among regulators in monitoring the financial system conditions and timely and efficient systemic risks identification and taking measures and actions to prevent and mitigate their impact on the financial system. This Memorandum, *inter alia*, enhanced the role and extended the composition of the Financial Stability Committee to all financial system regulators, namely, the National Bank, the Ministry of Finance, the Insurance Supervision Agency, the Agency of Supervision of Fully Funded Pension Insurance and the Securities and Exchange Commission, as well as the Deposit Insurance Fund, whenever necessary.

The Law on Financial Stability adopted in July 2022, outlined the institutional framework of macroprudential policy in the Republic of North Macedonia. The Law legally framed and institutionalized the Financial Stability Committee and assigned competences to the financial system regulators. **The Macroprudential Policy Strategy of the Republic of North Macedonia (hereinafter: macroprudential strategy) lays down the operational framework for implementing the macroprudential policy** by the Financial Stability

Committee and competent authorities. The macroprudential strategy outlines the intermediate objectives of macroprudential policy and links them to the main indicators of systemic risk identification and monitoring and the relevant macroprudential instruments, defines the cycle of implementing the macroprudential policy and adopting macroprudential measures, the transparency and the method of communicating measures to the public, as well as the cooperation and policy coordination. Each competent authority can further regulate the implementation of macroprudential policy within its jurisdiction and adjust it to the specifics of the respective segment of the financial system, observing the principles provided for in the macroprudential strategy. The macroprudential strategy incorporates the recommendations of the European Systemic Risk Board while taking into account the IMF Staff Guidance Note on Macroprudential Policy[1] and the specifics of the domestic financial system. The macroprudential strategy is periodically reassessed, and can be amended depending on the movements in the financial system and its structural changes, the financial institutions' business model, the financial system development level, the emergence of new or mitigation of the importance of certain risks, as well as changes to the respective international standards.

2. Legal and institutional layout of the macroprudential policy in the Republic of North Macedonia

In the Republic of North Macedonia, the mandate and competences for the implementation of macroprudential policy are governed by the Law on Financial Stability[2], which entered into force on 9 August 2022. This Law establishes the Financial Stability Committee as an inter-institutional body responsible for monitoring the implementation of macroprudential policy in the Republic of North Macedonia and for coordinating activities when identifying and monitoring systemic risks in certain financial segments, when taking macroprudential measures and when preparing for and managing financial crises. The Committee aims to contribute to achieving and maintaining financial stability in the country. For this purpose, the Committee:

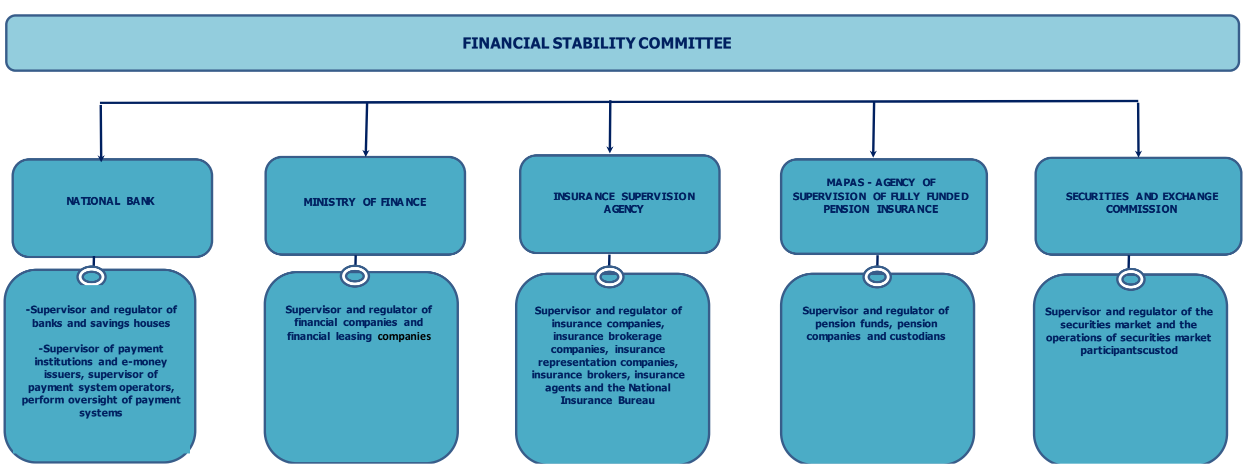
- adopts the Macroprudential Policy Strategy including its amendments, and ensures its implementation,
- monitors and assesses the situation in the financial system,
- issues warnings and recommendations to prevent or reduce systemic risks and maintain financial stability and monitors their implementation,
- examines the macroprudential measures taken by other relevant authorities and evaluates their effects,
- provides guidelines for the work of subcommittees and examines analyses, reports, proposals and minutes submitted by the subcommittees,
- assesses the need for improving essential laws and by-laws,
- assesses the preparedness of the competent authorities and the Deposit Insurance Fund to deal with financial crises,
- coordinates the cooperation among competent authorities when there is no financial crisis,
- decides on the existence and termination of financial crisis,

[1] IMF Staff Guidance Note on Macroprudential Policy, December 2014.
[2] Official Gazette of the RNM No. 173/22.

- coordinates the cooperation among the competent authorities and the Deposit Insurance Fund in times of potential or actual financial crisis for the purposes of proper financial crisis management,
- cooperates with relevant bodies or other foreign macroprudential policy bodies and with international financial organizations, and
- performs other activities to achieve objectives and perform tasks.

The Committee consists of representatives of all financial system regulators: the National Bank Governor, the Minister of Finance, the President of the Council of Experts of the Insurance Supervision Agency (ISA), the President of the Council of Experts of the Agency of Supervision of Fully Funded Pension Insurance (MAPAS), the President of the Securities and Exchange Commission (SEC), five representatives of the National Bank appointed by the Governor and three representatives of the Ministry of Finance appointed by the Minister. The Director of the Deposit Insurance Fund or other experts in the subject matter discussed at the meetings may also be invited. The Committee is presided by the National Bank Governor, or in times of financial crisis, by the Finance Minister, if the Governor and the Minister so decide. The committee meets at least twice a year, at meetings that are closed to the public. Committee members with voting right include the Governor, the Minister of Finance, the President of SEC, the President of the Council of Experts of ISA and the President of the Council of Experts of MAPAS. The committee decides with a majority vote of the members with voting right and makes conclusions and provides warnings and recommendations in written form. Depending on the nature, the conclusions may be contained in the minutes of the Committee's meetings or passed as special acts. At the meetings held in times of (potential) financial crisis, decisions are passed with the consensus of the Governor and the Minister. The Ministry of Finance plays a special role in times of potential financial crisis and involves in assessing the macroeconomic situation in the country, assessing possibilities for using budget funds to deal with the financial crisis, reporting to the Government of the Republic of North Macedonia on the estimated need to use budget funds, etc.

Figure 1. Institutional layout of the macroprudential policy in the Republic of North Macedonia



Two subcommittees operate within the Committee as auxiliary bodies to the Committee: Subcommittee for Monitoring Systemic Risks and Proposing Macroprudential Measures and Subcommittee for Preparation for Financial Crisis Management. The subcommittees meet at least once every three months. They consist of representatives of all financial system regulators, while the Subcommittee for Preparation for Financial Crisis Management also includes representatives of the Deposit Insurance Fund. The **Subcommittee for Monitoring Systemic Risks and Proposing Macroprudential Measures (hereinafter: SSR)** monitors risks that may cause systemic risk; discusses the results of stress testing of financial system resilience to assumed shocks; analyzes macroprudential measures planned or taken by the competent authorities and informs the Committee thereon, and monitors their implementation and effects; reviews the National Bank reports on systemically important payment systems; drafts proposals for recommendations or warnings to the Committee; examines laws and by-laws that may affect the financial stability or proposes amendments thereto; monitors macroprudential measures of other countries, especially if they affect our country; drafts proposals to the Committee for changing the systemic risks indicators set by the competent authorities and the macroprudential instruments defined in the macroprudential strategy, drafts proposals for amending the macroprudential strategy and performs other tasks assigned by the Committee aimed to achieve the Committee's goals and tasks. **The Subcommittee for Preparation for Financial Crisis Management** reviews laws and by-laws applicable in times of financial crisis and gives an opinion on the need for their amendment; designs financial crisis management exercises and coordinates the institutions involved; examines the procedures of each competent authority and the Deposit Insurance Fund for dealing with financial crisis; drafts procedures for coordinating the competent authorities and the Deposit Insurance Fund in the event of financial crisis and other tasks assigned by the Committee aimed to achieve the Committee's goals and tasks.

The Committee informs the public about the meetings held, unless it considers that such information may have an adverse effect on the public confidence in the financial system or on the financial stability. The National Bank Governor (i.e. the Minister of Finance in times of financial crisis, if the Governor and the Minister so decide) is responsible for public communication management and for mutual coordination among the competent authorities and the Deposit Insurance Fund in this field. In times of financial crisis, the Governor and the Minister of Finance issue joint press releases. The Law on Financial Stability also prescribes activities in the event of a financial crisis, authorizing the Committee to decide on financial crisis management measures and actions.

3. Definition, scope and objectives of the macroprudential policy in the Republic of North Macedonia

Macroprudential policy is a set of activities that contribute to the achievement and maintenance of financial stability. The macroprudential policy focuses on the financial system as a whole and its links with the real economy. Macroprudential policy includes systemic risk monitoring and assessment, macroprudential measures to prevent or reduce systemic risks and strengthening of the resilience of financial institutions and thus maintaining financial stability. **Financial stability** is a state in which all financial segments operate uninterruptedly and are robust enough to withstand potential shocks. Financial stability implies that the financial system is safe and sound in all its segments, able to make payments safely and efficiently and to ensure uninterrupted financial intermediation with the non-financial sector, while demonstrating prudent risk assessments and management and preparedness for dealing with shocks.

Ultimate objective of the macroprudential policy of the Republic of North Macedonia, established by law, is to contribute to achieving and maintaining financial system stability by preventing and reducing any accumulation of systemic risk, strengthening the financial system resilience and making sure that it sustainably contributes to economic growth. The ultimate objective is achieved **through intermediate objectives** of macroprudential policy using all available macroprudential instruments in the protection against systemic risk. Macroprudential policy and its instruments and measures cannot completely eliminate the systemic risk, but they act preventively against excessive risk accumulation and reduce any risk materialization. **Systemic risk** is a risk of financial system disruptions that tend to trigger serious negative consequences for the financial system and the overall economy. There are two dimensions of systemic risk: cyclical and structural. **The cyclical dimension of systemic risk** is concerned with the procyclicality of financial institutions, that is, the tendency to take higher risks when the economy is expanding and to increase risk aversion in times of recession. Risk accumulation and materialization unfolds over time, which makes it the time dimension of systemic risk. The cyclical dimension of systemic risk includes risk of excessive credit growth, rise in property and financial asset prices, debt growth, maturity mismatches in financial institutions' balance sheets, etc. These risks usually accumulate in times of economic expansion and increased optimism, which brings imbalances and risk materialization in financial institutions in the turn of the financial cycle. Hence, it is important that financial institutions strengthen their shock absorbing capacities in the "good times", which will make them well prepared for management and more resilient in times of crisis. Managing the cyclical dimension of systemic risk implies appropriate safeguard mechanisms that will act countercyclically, thus preventing any emergence and accumulation of systemic risk. **The structural dimension of systemic risk** concerns risk distribution in the financial sector. The development and materialization of this risk dimension unfolds at a given time and includes various financial sector segments, which makes it the intersectoral dimension of systemic risk. Structural systemic risk is associated with systemically important financial institutions that are large and/or mutually/intersectorally related, so that shocks to one or several financial institutions is a threat to the stability of the entire financial sector. Structural systemic risk also materializes through mutual exposure of financial institutions, either direct or indirect. Its prevention requires reduced risk concentration, interruption of contagion mechanisms and transfer of shocks, and strengthening the resilience of systemically important financial institutions.

The macroprudential policy of the Republic of North Macedonia is dedicated to monitoring and preventing/reducing the two dimensions of systemic risk.

Considering the complex nature of systemic risk, for the purposes of achieving the ultimate objective of macroprudential policy, the Financial Stability Committee outlines intermediate objectives of macroprudential policy. In accordance with the recommendations of the European Systemic Risk Board and the structure and specifics of the domestic financial sector, **the intermediate objectives of the macroprudential policy of the Republic of North Macedonia are as follows**:

1) **Prevention and reduction of systemic risk of excessive credit growth and leverage.** Excessive credit growth, especially when accompanied by growing indebtedness, is one of the main triggers of financial imbalance;

2) **Prevention and reduction of risks of excessive maturity mismatch on the financial institutions' balance sheets and exposure to liquidity risk.** Significant

reliance on short-term and volatile funding sources tend to create liquidity problems for financial institutions and spillover of risks into the system during shocks and turn of financial cycle phases;

3) **Prevention and reduction of concentration risk, either direct or indirect.** High exposure concentrations tend to increase financial system sensitivity to a shock. Shock transmission channels can be direct, through exposures in the financial institutions' balance sheets, or indirect, through immediate sale of assets and spillover of risks into the system;

4) **Prevention and reduction of misaligned incentives and moral hazard.** This intermediate objective is aimed at reducing risks associated with systemically important financial institutions and increasing their resilience to shocks.

5) **Strengthening the financial system resilience**. This intermediate goal is aimed at strengthening the resilience of the financial system and its segments to shocks by creating capital buffers and generally improving financial system solvency. This improves the financial institutions readiness to deal with risks and absorb losses, without jeopardizing their stability and ability to lend to the private sector. Resilient financial systems require resilient users of financial services, which implies maintaining a prudent debt level and proper debt servicing capacity.

6) **Strengthening the resilience of financial market infrastructure.** This intermediate objective is primarily aimed at reducing credit, liquidity and operational risks in payment systems and securities settlement systems.

7) **Reduction of euroization rate**. High euroization rate on the financial institutions' balance sheets increases exposure of bank clients to currency risk and to currency-induced credit risk among banks.

The intermediate objectives of macroprudential policy are common to all competent authorities. When implementing the macroprudential policy, the competent authority follows the intermediate objectives applicable to the financial segment under its jurisdiction. The Financial Stability Committee periodically reevaluates the intermediate objectives of macroprudential policy, and may amend them in accordance with the developments in the financial system, its structural changes, the financial institutions' business model, the financial system development level, the emergence of new or reducing the importance of certain risks, as well as changes to the respective international (EU) standards.

4. Implementation of macroprudential policy

Authorities competent for implementing the macroprudential policy in the Republic of North Macedonia include the following financial system regulators: the National Bank of the Republic of North Macedonia; the Ministry of Finance; the Securities and Exchange Commission of the Republic of North Macedonia; the Insurance Supervision Agency and the Agency of Supervision of Fully Funded Pension Insurance. The Law on Financial Stability defines activities for each competent authority by which they contribute to the achievement of the ultimate objective of the macroprudential policy, that is, maintenance of financial stability. These activities include monitoring of systemic risk indicators of the financial segment under their jurisdiction, identifying risks that could spread from the financial segment under their jurisdiction and/or create systemic risk, defining macroprudential instruments and taking macroprudential measures in accordance with the Law on Financial Stability and relevant laws, contributing to the development of macroprudential strategy and its implementation for the financial segment under their jurisdiction, etc. Additionally, the Law entrusts the National Bank with the leading role both in terms of preparation of the macroprudential strategy and chairmanship of the Committee and subcommittees, as well as the systemic risks identification and monitoring across the financial system and preparation of an annual financial stability report. When implementing the macroprudential policy, the competent authorities act according to their competences provided for in the Law on Financial Stability and the relevant laws.

The macroprudential policy will be implemented in phases that constitute the macroprudential policy cycle, as follows:

1) **Risk identification and assessment** that includes monitoring and analysis of systemic risk indicators and timely detection of potential vulnerabilities in the financial segments, in relation with the intermediate objectives of macroprudential policy;

2) **Selection of macroprudential instruments** and definition of their specifics and objectives;

3) **Introduction of macroprudential measures** such as making decisions on the levels of the selected macroprudential instruments as well as other measures and instruments required for systemic risk prevention, reduction or elimination;

4) **Assessment of the effects of macroprudential measures** that includes assessment of the impact and effects of macroprudential measures, assessment of their contribution to the achievement of the intermediate objectives of macroprudential policy and assessment of the need for amendment/abolition of macroprudential measures.

Risk identification and assessment. The competent authorities regularly monitor developments in the financial sector under their jurisdiction and evaluate their exposure to risks and resilience to shocks. The competent authorities should monitor and assess risks according to established systemic risk indicators, using well developed tools and models, with an aim of early detection of vulnerabilities and identification of risks that could spread from the financial segment under their jurisdiction and/or create systemic risk. Table 1 below provides an indicative overview of selected indicators of systemic risk monitoring and assessment. Each competent authority elaborates and adjusts indicators of the financial segment under its jurisdiction and publishes an overview of indicators on its website. Once the indicators are published, the competent authorities may, at their own discretion or at the proposal of the Committee, amend them depending on the movements in the financial segment under their jurisdiction, the macroeconomic developments, the overall financial system situation, and the need for macroprudential policy. When monitoring systemic risks, the competent authorities also take into account the indicators of general macroeconomic movements in the country and globally that may affect the financial system and especially the segment under their jurisdiction. The competent authorities may use additional tools and methods to assess systemic risk, depending on the specifics of the financial segment under their jurisdiction. One of the key tools is the stress test that assesses the resilience of financial institutions to shocks, that is, the ability to cover losses from materialization of extreme, yet probable shocks originating from the macroeconomic environment or the financial system. Stress-testing can be done using various methods, such as sensitivity tests, scenario analysis, reverse stress-tests and other methods suitable for the specific financial segment. To assess the structural dimension of systemic risk, if relevant for the respective financial segment, the competent authorities carry out a financial system correlation analysis and contagion analysis.

Table 1
Indicative overview of selected indicators of systemic risk monitoring and assessment

Intermediate objective of the macroprudential policy	Indicator
Prevention and reduction of systemic risk of excessive credit growth and leverage	Indicators of volume and dynamics of financial intermediation Indicators of quality of assets of financial institutions Indicators of solvency and capitalization of financial institutions Indicators of debt level of financial institutions Indicators of credit demand quality (DSTI, LTV, TDTI) Indicators of corporate and household debt Indicators of real estate market development Indicators of profitability of financial institutions Indicators of changes in financial services prices (interest rates, commissions, etc.) Other indicators specific to the respective financial segment
Prevention and reduction of risks of excessive maturity mismatch on the financial institutions' balance sheets and exposure to liquidity risk	Indicators of structure of financial institutions' funding sources Indicators of financial institutions' liquidity Indicators of assets and liabilities maturity structure Indicators of exposure to market risk Indicators of financial market movements Other indicators specific to the respective financial segment
Prevention and reduction of concentration risk, either direct or indirect	Indicators of total claims, by sector Indicators of large exposures Indicators of intersectoral exposure of financial institutions Indicators of geographical exposure of financial institutions Other indicators specific to the respective financial segment
Prevention and reduction of misaligned incentives and moral hazard	Indicators of financial institutions' relative size, by assets-to-GDP and other indicators Indicators of concentration in the financial system Indicators of intersectoral connectedness Other indicators specific to the respective financial segment
Strengthening the financial system resilience	Indicators of solvency and capitalization of financial institutions Indicators of quality of assets of financial institutions Indicators of profitability of financial institutions Indicators of credit demand quality (DSTI, LTV, TDTI) Other indicators specific to the respective financial segment
Strengthening the resilience of financial market infrastructure	Indicators of resilience of the financial market infrastructure to credit, liquidity and operational risks Other indicators specific to the respective financial segment
Reduction of euroization rate	Indicators of claims with FX clause-to-total claims of financial institutions Indicators of liabilities with FX clause-to-total liabilities of financial institutions Indicators of exposure to currency risk Other indicators specific to the respective financial segment

During the systemic risk assessment process, the competent authorities may use additional analyses and reports, prepared for internal use. They can also conduct occasional and regular surveys to collect additional information on financial institutions' activities and risks. The use of different sources of information is important for informed monitoring of risks, and assessment of the need for macroprudential measures. The competent authorities inform the public about the conditions and risks to the financial segment under their jurisdiction through regular reports and/or other publications on their website. The National Bank prepares and publishes an annual financial stability report that analyzes the overall financial sector, including risks that could undermine financial stability. The competent authorities constantly improve the framework for monitoring and assessing systemic risk, and improve existing and develop new tools and models, thereby contributing to more efficient systemic risk identification and protection of the financial sector against its adverse effects. If the competent authority identifies existence and/or accumulation of risks to the financial segment under its jurisdiction, it will inform the SSR at the next meeting or initiate an extraordinary meeting of the Subcommittee.

Selection of macroprudential instruments and definition of their features and objectives. Each competent authority defines macroprudential instruments for the financial segment under its jurisdiction. When defining the macroprudential instruments, the competent authorities make sure that the selected macroprudential instruments cover the most important aspects of the macroprudential policy, such as: origin and nature of systemic risk and macroprudential instruments used to prevent/reduce them, i.e. intermediate objectives to be achieved using macroprudential instruments; purpose of macroprudential instruments, i.e. whether they aim to strengthen the financial institutions resilience or smoothen the financial cycle; as well as economic, regulatory and cross-sectoral effects of the macroprudential instruments. When designing macroprudential instruments, the competent authorities are guided by the principle of effectiveness and efficiency of macroprudential instruments. **Effectiveness** is the ability of macroprudential instruments to prevent and reduce systemic risk and achieve the intermediate objective and the ultimate objective of macroprudential policy. A macroprudential instrument is considered effective if there is a robust transmission mechanism to achieve the intermediate objective of the macroprudential policy and quickly and successfully reduces and protects against risks. **Efficiency** is the ability of macroprudential instruments to prevent and reduce systemic risk and achieve the intermediate objective and the ultimate objective of macroprudential policy with minimum costs and limited side effects. A macroprudential instrument is considered efficient and if it is harmonized with other macroprudential measures and instruments, as well as with the objectives of the monetary, macroeconomic and financial policies, and does not pose an excessive administrative burden for the affected parties. It is therefore crucial to have **coordination** among the competent authorities that should define the macroprudential instruments in a consistent manner and avoid the use of any macroprudential instruments that are contradictory to, or reduce the effect of, macroprudential instruments of other competent authorities or trigger risk transmission from one financial segment to another. Systemic risks are complex and their management sometimes requires macroprudential regulation in several financial segments, which once again points to the need for consistence of macroprudential instruments and coordination among competent authorities. **Clarity and transparency** of macroprudential instruments is yet another important principle that implies that they must be clear and comprehensible to ensure unimpeded implementation by the affected financial institutions and a clear understanding of the objectives and reasons for taking macroprudential measures. When defining macroprudential instruments, the competent authorities observe the recommendations of the European Systemic Risk Board and international standards, but may adjust them to the specifics of the domestic financial sector and domestic regulations; they also design and introduce their own macroprudential instruments for preventing/reducing systemic risks that are specific to the domestic financial sector.

For the implementation of macroprudential policy, competent authorities use at least the following macroprudential instruments:

- Capital buffers;
- Exposure limits;
- Risk management;
- Leverage (of financial institutions or borrowers);
- Systemically important financial institutions;
- Concentration risk;
- Other instruments to increase resilience to financial shocks and to prevent any disturbance to the financial segments.

Table 2 below provides an indicative overview of selected possible macroprudential instruments, grouped by intermediate objectives of macroprudential policy, that is, risks to be prevented/reduced by taking macroprudential measures. Each competent authority uses this indicative overview to define macroprudential instruments for the financial segment under its jurisdiction and publishes reports on its website. Competent authorities may change and adjust, as well as introduce new macroprudential instruments depending on the movements in the financial segment under their jurisdiction, the general macroeconomic developments, the overall situation in the financial system, changes to international standards and the needs of the macroprudential policy. Competent authorities may also design other macroprudential instruments, besides those provided for in Table 2, if considered appropriate for preventing the identified systemic risk and maintaining financial stability.

Table 2
Indicative overview of the possible macroprudential instruments

Intermediate objective of the macroprudential policy	**Macroprudential instrument**
Prevention and reduction of systemic risk of excessive credit growth and indebtedness	Countercyclical capital buffer Macroprudential capital requirements for exposures to specific sectors or financial assets Macroprudential regulation of credit demand quality indicators Macroprudential regulation of credit risk exposure indicators Macroprudential regulation of financial institutions’ leverage ratio Other macroprudential instruments specific to the respective financial segment
Prevention and reduction of risks of excessive maturity mismatch on the financial institutions’ balance sheets and exposure to liquidity risk	Macroprudential regulation of exposure to liquidity risk Macroprudential limitation of financial institutions’ funding sources Macroprudential restriction of less stable funding sources of financial institutions Other macroprudential instruments specific to the respective financial segment
Prevention and reduction of concentration risk, either direct or indirect	Macroprudential limits on large exposures Other macroprudential instruments specific to the respective financial segment
Prevention and reduction of misaligned incentives and moral hazard	Capital buffer for systematically important financial institutions Other macroprudential instruments specific to the respective financial segment
Strengthening the financial system resilience	Countercyclical capital buffer Systemic risk capital buffer Macroprudential capital requirements for exposures to specific sectors or financial assets Macroprudential regulation of credit demand quality indicators Other macroprudential instruments specific to the respective financial segment
Strengthening the resilience of financial market infrastructure	Macroprudential regulation of exposure to credit, liquidity and operational risks Systemic risk capital buffer Other macroprudential instruments specific to the respective financial segment
Reduction of euroization rate	Macroprudential adjustment of reserve instrument Macroprudential regulation of claims and liabilities with FX clause Other macroprudential instruments specific to the respective financial segment

Introducing macroprudential measures. Competent authorities undertake macroprudential measures within their competences, in accordance with the law. Macroprudential measures are taken in relation to the macroprudential instruments needed to prevent, reduce or eliminate systemic risks in each financial segment or in the overall financial system. Macroprudential measures apply to the macroprudential instruments defined by a competent authority for the financial segment under its jurisdiction.

Measures contained in the sectoral laws and intended for individual financial institutions (supervisory measures), can be used to achieve the intermediate objectives and the ultimate objective of the macroprudential policy, in accordance with the Law on Financial Stability.

The competent authorities found their decisions on macroprudential measures on in-depth analyses of systemic risk assessment, which include an analysis of indicators of systemic risk monitoring and assessment and other information and indicators, such as the results of stress tests, early warning systems, prescribed methodologies for introducing certain macroprudential instruments etc., as well as expert judgment that takes into account all available information, such as information from the wider macroeconomic environment of the financial system. Expert judgment can be particularly important in cases where indicators and tools provide unclear and/or conflicting information about the level and accumulation of systemic risk. Such a system of combined approach in the decision-making using quantitative indicators and expert judgment corresponds to the principles of the so-called guided discretion, which is consistent with the recommendations of the relevant international institutions[3]. Expert judgment is also recommended because the macroprudential policy is a relatively new approach, whose analytical fundamentals are still under development and the quantitative indicators may not always be able to show the level of systemic risk reliably. Furthermore, the financial system is a dynamic category that changes and develops over time, including under the influence of innovations. This requires an expert judgment to detect and monitor new and volatile risk types.

The macroprudential measures are preventive in nature. When introducing macroprudential measures, the competent authorities try to intercept risks and prevent their accumulation in the financial institutions' balance sheets and strengthen the financial system's resilience to deal with shocks. The timely introduction is as equally important as the timely relaxation of macroprudential measures, through their easing or abolition, if necessary for maintaining financial stability and ensuring sustainable contribution of the financial system to economic growth, which is one of the main objectives of macroprudential policy. Competent authorities may decide to relax macroprudential measures once they fulfill their purpose and contribute to reducing or eliminating systemic risks for which they were introduced. Some macroprudential measures need to be relaxed when a systemic risk starts to materialize in order to prevent such risk from deepening or spilling over other financial segments and economic activity. This especially applies to capital buffers that need to be built at "good times" and relax when risks begin to materialize. This helps financial institutions to more easily absorb losses and maintain credit activity. Otherwise, it could increase risks to financial sector through the negative feedback that exist between the financial and real sectors. Decision making in such events may be more complex and require additional analyzes using different indicators than those used during the introduction of macroprudential measures. This results from the different signaling power of the indicators at different stages of

[3] The ESRB handbook on operationalizing macroprudential policy in the banking sector.
IMF Staff Guidance Note on Macroprudential Policy, December 2014.

the financial cycle. Thus, the same indicators that are effective for early identification of the upward phase of the financial cycle and the beginning of the accumulation of vulnerabilities may have much weaker predictive power when it comes to assessing the turn of the cycle that can lead to systemic risk materialization. For early identification of the start of systemic risk materialization, the IMF recommends[4] using market data and monitor flows rather than stock of key indicators. Examples of early warning indicators that can be used to assess the need to relax macroprudential measures, primarily capital buffers, include[5] increased stock and bond market volatility indices, widened interest spreads, sharp slowdown in lending activity, start of NPL increase and other indicators showing that higher capital requirements are beginning to have a limiting effect on lending. It is, however, essential to monitor the situation closely and to critically analyze indicators, including an expert assessment that takes into account the overall macroeconomic context, especially when there is high uncertainty and unclear signals from the key indicators.

When making decisions to relax macroprudential measures, competent authorities take into account the purpose of macroprudential measures and the nature of systemic risk. For example, measures taken to strengthen financial system resilience to cyclical risks, such as the countercyclical capital buffer, are usually more frequently reassessed and modified in both directions, unlike measures targeted to structural risks that persist over a longer period of time, such as the systemic capital buffer. Besides, competent authorities continue to make sure that the total solvency level of financial institutions is further maintained at a prudent level to ensure financial system stability and resilience to shocks.

The competent authorities are independent in taking macroprudential measures. However, each competent authority is required, within five days after the introduction, modification or abolition of the macroprudential measure, to inform the SSR, after which the SSR submits information with an opinion to the Committee. The competent authority is not required, but allowed to notify in advance the SSR of the intention to introduce, modify or abolish certain macroprudential measure; the SSR then submits information and opinion thereon, to the Committee.

The Financial Stability Committee discusses the macroprudential measures taken by each competent authority and monitors and evaluates their effects. The committee makes conclusions and issues warnings and recommendations to the competent authorities, together with a reasoning. The Committee issues warnings when there is a need for close monitoring of certain activities or movements in the financial system, in each financial segment or in one or more financial institutions as they may represent a potential source of systemic risk. The *recommendation* identifies the need for designing, undertaking, modifying or abolishing macroprudential measures and/or instruments that are under jurisdiction of certain competent authority, in order to prevent or reduce any identified systemic risk. When giving a recommendation, the Committee sets fulfillment periods, and may specify specific measures and instruments for its application. The Committee monitors the fulfillment of the given recommendation, and sets deadlines within which the competent authority is required to inform it about the implementation and the effects of the recommendation. The Committee issues the warnings and recommendations on own discretion or at the SSR's proposal.

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[4]IMF Staff Guidance Note on Macroprudential Policy, December 2014.

[5]IMF Staff Guidance Note on Macroprudential Policy, December 2014.

In addition, the Committee can give warnings to government institutions and authorities in the Republic of North Macedonia, if the activities of those government institutions and/or developments in the segments under their jurisdiction, are potential sources of systemic risk and affect financial stability. A recommendation can also be given when there is a need for amendments to regulations.

The Committee may decide to inform the public about a recommendation, unless it considers that such notification can seriously undermine public confidence in the financial system or financial stability.

The assessment of the effects of macroprudential measures is one of the most important steps in the cycle of the macroprudential policy, as it provides information about the effectiveness and efficiency of the macroprudential measures and the success in achieving the intermediate objectives and the ultimate objective of the macroprudential policy. All competent authorities constantly analyze and monitor the effects of macroprudential measures under their jurisdiction and the response and the way of adjustment of the affected financial institutions. As stated above, the Financial Stability Committee discusses the macroprudential measures taken by each competent authority and evaluates the effects of these measures. The Financial Stability Committee monitors and evaluates the possibility of emergence of risks from the circumvention of macroprudential measures and/or spillover of risks within the financial sector due to measures taken in one of its segments. If appropriate, the Committee can make recommendations for additional measures to be implemented in other financial system segments, which will strengthen the already taken macroprudential measures and prevent spillover of risks. The information obtained from the phase of assessing the effects of the taken macroprudential measures can be used to improve analytical tools for monitoring systemic risks, improve the setup of macroprudential instruments, improve decision-making efficiency, etc., which all together contribute to the successful achievement of the ultimate objective of macroprudential policy, and that is the maintenance of financial stability.

7. Transparency and communication

Competent authorities ensure transparency in the implementation of macroprudential policy. Transparency is ensured by timely and regular public communication of the macroprudential policy activities. The competent authorities, on their website, publish information about the setup and implementation of the macroprudential policy in the financial segment under their jurisdiction. This information includes at least indicators of systemic risk monitoring and assessment, the selected macroprudential instruments and the introduced macroprudential measures. The decisions on introducing macroprudential measures are communicated through public releases and/or other means of communication, except in cases where the disclosure of these measures can undermine financial stability or in the case of confidential information. Competent authorities may use various tools for public relations and communication of macroprudential policy, such as regular and periodic reports about the situation in the financial segment under their jurisdiction as well as about the introduced macroprudential measures, analyses, presentations, press releases, press conferences, statements, interviews etc.

The transparency of the Financial Stability Committee is ensured by the provisions and actions defined in the Law on Financial Stability, given below:

- The Committee informs the public about its meetings, unless it considers that such information can seriously undermine public confidence in the financial system or financial stability
- The Committee may inform the public of any recommendation issued, unless it considers that such information can seriously undermine public confidence in the financial system or financial stability.

In the event of a financial crisis, the chairperson of the Committee (the National Bank Governor, or in the event of a financial crisis the Finance Minister, if the Governor and the Minister so decide), is responsible for managing public relations and for coordination among the competent authorities and the Deposit Insurance Fund, on issues concerning public relations. Moreover, in times of financial crisis, the Governor and the Minister of Finance issue joint press releases.

The Committee shall, no later than 31 March of the current year, submit to the Assembly of the Republic of North Macedonia an annual report for the previous year.

8. Cooperation and policy coordination

Macroprudential policy is closely related to other macroeconomic and financial policies, particularly the monetary policy, microprudential policy, crisis management and financial institution resolution policies, and fiscal policy. Each of these policies can, within its scope, contribute to the achievement of the ultimate objective of macroprudential policy, that is, to maintain financial stability, just as the introduced macroprudential measures can contribute to reduction of imbalances in other sectors and achievement of other macroeconomic objectives. Such policy nexus clearly underlines the necessity of coordination for successful achievement of macroeconomic goals. In some cases, the economy may encounter complex risks that can provoke conflicts among policy objectives in the short run. This further stresses the need for coordination among all stakeholders to ensure efficient overcoming of short-term imbalances and maintenance of long-term financial and macroeconomic stability, as a fundamental to sustainable economic growth. **During the implementation of macroprudential policy, the competent authorities seek to ensure efficient cooperation and compliance, by taking institutional, national and international actions.**

At the institutional level, the competent authorities seek to ensure the highest level of compliance of their competencies and functions.

At the national level, the competent authorities will maintain high level of cooperation and exchange of information required for the performance of tasks provided for in the Law on Financial Stability.

At the international level, the competent authorities will continue to promote cooperation with foreign supervisory authorities and authorities responsible for implementing macroprudential policies. Given the prevalent foreign ownership of the domestic financial system, with shareholders mostly from the EU countries, the competent authorities will primarily focus on strengthening the international cooperation with macroprudential authorities and supervisory authorities from the European Union. The cooperation is expected to deepen with the integration of the Macedonian economy into the European Union, which will create additional rights and obligations for both parties.