

**National Bank of the Republic of North Macedonia**



**STRATEGIC PLAN**  
**OF THE NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**  
**FOR THE PERIOD 2020 - 2022**

May 2019



Pursuant to Article 47 paragraph 1 item 9 of the Law on the National Bank of the Republic of North Macedonia (Official Gazette of the Republic of Macedonia No. 158/10, 123/12, 43/14, 153/15, 6/16 and 83/18), and Article 12 of the Rulebook on strategic and operational planning No. 02-15/I-1/2016 of 28 January 2016, the National Bank of the Republic of North Macedonia Council adopted the following

**Strategic Plan**  
**the National Bank of the Republic of North Macedonia**  
**for the period 2020 – 2022**

**(revised text - unofficial)<sup>1</sup>**

**I. GENERAL PROVISIONS**

1. The Strategic Plan of the National Bank of the Republic of North Macedonia (hereinafter: the National Bank) is laid down on the basis of the mission, the vision and the organizational values of the National Bank, taking into account the macroeconomic environment and key challenges and contains the main strategic goals for the next three years.
2. <sup>2</sup>

**II. MANDATE AND RESPONSIBILITIES**

3. The main objectives of the National Bank are set out in the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of North Macedonia No. 158/10, 123/12, 43/14, 153/15, 6/16 and 83/18), according to which the main objective of the National Bank is achieving and maintaining price stability. Another objective, subordinate to the main objective, is to contribute to maintaining a stable, competitive and market-oriented financial system, while the third objective is to support the general economic policy without jeopardizing the achievement of the main objective and in accordance with the principle of open market economy with free competition.

**III. MISSION, VISION AND VALUES**

4. The mission arises from the statutory objectives and expresses the National Bank commitment to maintain price stability through the implementation of the adopted monetary

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<sup>1</sup> This consolidated text includes the Strategic Plan of the National Bank of the Republic of North Macedonia 2020 - 2022 SP No. 02-15/VI-1/2019 of 30 May 2019 and the Decision amending the Strategic Plan of the National Bank of the Republic of North Macedonia 2020 - 2022 D No. 02-15/VI-2/2020 of 28 April 2020 and the Decision amending the Strategic Plan of the National Bank of the Republic of North Macedonia 2020 - 2022 D No. 02-15/XVIII-2/2020 of 28 December 2020.

<sup>2</sup> Item 2 was deleted with a Decision amending the Strategic Plan of the National Bank of the Republic of North Macedonia 2020 – 2022 D No. 02-15/VI-2/2020 of 28 April 2020.

strategy of maintaining a stable exchange rate of the denar against the euro. Also, the National Bank will continue to contribute to maintaining financial stability and increasing economic prosperity and living standards of citizens.

5. The vision of the National Bank is to be recognized as an independent, responsible, professional and transparent institution that enjoys high credibility and public confidence.

6. The values of the National Bank are developed and built by employees in collaboration with the management and are perceived in the decision-making, setting priorities, daily operations and operational performance of goals and tasks, by strengthening the organizational culture, increasing the operating effectiveness, regulation of mutual relations of employees, developing responsibility and awareness of the work obligations and by creating a supportive environment.

#### **IV. NATIONAL BANK'S STRATEGIC OBJECTIVES**

7. In the next three-years, the National Bank will seek to achieve the following strategic objectives:

##### Strategic objective 1

#### **Maintaining price stability through a stable exchange rate of the denar against the euro**

In the next three years, it is estimated that the environment for the implementation of the National Bank activities will be stable, but with protracted uncertainty, especially in relation to the external environment. The uncertainty of the external environment is particularly pronounced, reflecting the effect of several factors. The current trade tensions, which affect consumer and investor confidence, the volatility of financial conditions, the ongoing uncertainty over Brexit negotiations, and geopolitical tensions are factors that could affect the expected path and growth dynamics of the global economy. Current estimates of global growth show that it would continue in the period ahead, at a slightly slower pace though, with similar expectations for the euro area, as one of the key trade and financial partners of the domestic economy. Despite the assessments for recovery of the euro area, it would however mean a slowdown in growth and a slower recovery than previously expected. Such assessments are also embedded in the monetary policy of the European Central Bank, which announced continuation of the period of low interest rates and reintroduced quantitative easing measures. In the medium run, global risks, lower productivity, and structural constraints in the euro area are assessed as factors that may adversely affect the sustainability of the recovery. Regarding the risks associated with the prices of primary commodities, they are extremely volatile, which creates an uncertain environment for the Macedonian economy, given their effect on the terms of trade and domestic inflation. In domestic context, after a longer period of political upheavals, significantly more stable environment is expected for the coming period, as well as improvement of the prospects for accelerating the process of integration in the European Union and NATO. The possible non-fulfillment of these assumptions can certainly influence the environment and the achievement of the strategic objectives of the National Bank.

In such an environment, the National Bank activities for fulfillment of the objective of maintaining price stability will be further aimed towards continuous improvement of the analytical work and the process of forecasting and modeling. This is to ensure continuous increase in the capacity for timely risk detection, perception of future trends and expected monetary policy changes, which will contribute to an effective and flexible response. As before,

in the next period, changes in the activities for improving the analytical infrastructure will contribute to approximation to the best practices of the central banks. In this context, a great emphasis will be placed on further improving the econometric modeling framework, i.e. developing and adjusting the existing model, which is the basis for making monetary decisions, as well as expanding the portfolio of macroeconomic models for the purposes of monetary policy.

At the same time, given the commenced Euro-Atlantic integration processes, as well as expectations for a significantly more stable domestic political environment and the start of the EU accession negotiations, there are increasing perceptions of higher foreign exchange inflows that will further increase the long-accumulated structural excess liquidity in the banking sector.

To maintain monetary equilibrium, the National Bank will continue to use reserve requirement and open market operations in liquidity management, allowing banks to use loan and deposit facilities. For greater efficiency of the operational framework, there will be constant analysis of the effects of the current setup of instruments and proposal of measures for their adjustment or for introduction of new instruments depending on the changes in the environment, with a special focus on the possibility of more appropriate sterilization of the structural excess liquidity. In accordance with the measures defined in the Denarization Strategy, in the process of monetary policy implementation, the National Bank will continue with the active promotion of Denar savings (mainly through reserve requirement), and thus lending in domestic currency and will support the use of other financial instruments in denars. Also, there will be activities for the implementation of the recommendations of the WB and IMF FSAP for the Republic of North Macedonia – assessment of the financial stability to expand and strengthen the conditions under which banks could borrow from the central bank as a lender of last resort, which will require amendments to the laws and bylaws.

## Strategic objective 2

### **Maintaining stable and reliable banking system as the main prerequisite for financial stability and sustainable economic growth of the country.**

It is expected that the environment of banks' operations in the coming period will be stable, amid external risks that are not expected to have a significant influence. Satisfactory capitalization and liquidity would continue to be the strongest aspects of the banking system. This indicates a solid banks' capacity to absorb potential risks and thus to deliver higher credit growth in the domestic economy. Banks will continue to apply the traditional business model with a main focus on lending and accepting deposits from the domestic entities, which provides sustainable profitability in the short and medium term. However, increased competition among banks and from non-banking financial institutions and the introduction of new technologies into financial operations requires adjustment of their business models. Banks will be further challenged by the implementation of increasingly comprehensive and complex prudential regulations, as well as regulations related to consumer protection and their market behavior. The new regulatory environment in particular, as well as the increased competition among banks should be an additional incentive for faster consolidation of the banking system.

In such conditions, the National Bank will continue to apply consistent and efficient banking prudent supervision, which will contribute to maintaining a stable and reliable banking system. The intensity of supervisory regime will further depend on the risk profile and the systemic importance of institutions. The supervision will continue to be based on the traditional risks: credit risk, operational risk, money laundering and terrorist financing risk, liquidity risk, interest rate risk in the banking book, but will also be focused on the identification and assessment of new risks arising from the application of modern technologies, climate change and the information security risks.

Supervision priorities remain unchanged: timely and comprehensive risk identification and the banks' solvent and liquidity position as well as taking timely supervisory corrective measures, if necessary.

In the next three years, the National Bank will pay special attention to the implementation of the recommendations of the recently implemented FSAP mission to further strengthen the institutional capacity and regulatory framework in the country. The National Bank will continue to make efforts to harmonize the regulatory framework with the international standards and the European banking legislation. Basel III is expected to be fully implemented in the next three years by introducing liquidity rates as well as preparing for the prescription of the new prudent capital adequacy requirements, published by the Basel Committee in December 2017. The completion of institutional and regulatory bank resolution framework in compliance with the EU legislation is yet another future challenges for the National Bank.

Undoubtedly, all these activities of the National Bank, as the single supervisory and regulatory authority for banks, contribute to strengthening the soundness and safety of the banking system, but also of the financial system as a whole. Having in mind its mandate to take care of and contribute to financial stability, the National Bank will continue to build its capacity to identify the risks to financial stability in a timely manner. For that purpose, the National Bank will define more clearly its role of a macro-prudential regulator. Hence, the enhanced cooperation with other supervisory authorities responsible for individual segments of the financial system will continue to be one of the National Bank top priorities. The period ahead will be marked by activities related to the implementation of the Non-Performing Loan Resolution Strategy (in coordination with other competent institutions) which should provide systemic solutions in this area and further contribute to maintaining a sound banking system.

Considering the fact that the banking system is predominantly foreign owned, mainly by banks seated in the European Union, the regular and smooth cooperation with foreign supervisory authorities, and above all with the European Central Bank and the European Banking Authority is of crucial importance for the banking system stability. Also, the procedures for analyzing the impact of bank risks will also include risks arising from climate change. For that purpose, the period ahead will be focused on identifying and obtaining data from the banks.

In the aftermath of global financial crisis, financial education became a new challenge and activity of the central banks. For several years now, the National Bank has been involved in financial education mainly aimed at the youngest, and in recent years has begun to focus on the elderly population. Financially literate population is more aware of the advantages from using various financial services, which ultimately ensures greater inclusion in the financial flows and easier access to finance. The need for greater financial literacy is particularly pronounced in the context of the rapid growth of the fintech industry, which provides easy access to new, more competitive financial products or forms of financing for the households and small businesses. The greater financial inclusion in various segments of the financial system also requires joint engagement - of regulatory institutions in terms of education and regulation, but also of private financial institutions in terms of ensuring greater availability and better information about the financial services offered, including the accompanying risks. The preparation of a national financial education and inclusion strategy (in cooperation with other financial regulators) should contribute to further capacity building for the development of financial education and further promotion of financial inclusion.

The need for greater financial literacy is particularly pronounced in the context of the rapid growth of the fintech industry, which provides easy access to new, more competitive financial products or forms of financing for the households and small businesses. Therefore, in the coming period, the National Bank will be committed to raising awareness of the

importance of new technologies, risks and benefits of their application in the central bank and beyond, among other financial system participants and regulators. For that purpose, a special working body for financial technologies was recently established within the National Bank, which, *inter alia*, will act as an innovation hub, and will focus on the development of a special strategy for the application of financial technologies.

### Strategic objective 3

#### **Foreign reserves management under the safety and liquidity principles and return-optimization.**

Over the next three years, the foreign reserves management will face challenges of maintaining their value and securing returns amid low and negative returns on instruments in the euro area, in which they are mostly invested. Due to the limitations of the negative effects of investing and providing returns, investments in euros will be adjusted by optimally balancing credit and interest exposure. Given the low revaluation reserves for exchange rate differences, foreign reserves will mainly be kept and invested in euros, carefully exploring the possibilities for investment in other currencies of countries with positive yields and stable economic developments. For the needs of decision making and risk management, comparative analyzes will be performed on various aspects of the investment process and the movements on the international financial markets will be actively monitored. During this period, the National Bank will continue to strengthen the institutional capacity for reliable foreign reserves management, maintaining the required liquidity and providing optimal return.

### Strategic objective 4

#### **Increasing the efficiency of banknotes and coins supplying and processing system and increasing the quality and functionality of currency in circulation**

Within its responsibilities, the National Bank is the only institution responsible for the supply of banknotes and coins as a legal tender in the Republic of North Macedonia. Hence, using the acquired experiences and the best European practices, it will continue improving the efficiency of the established cash supply system. It is also expected that the further equipment and regional expansion of the cash centers will further encourage competitive conditions in the paper and coins supply chain. During the next period, efforts will be made to expand the functionality of the established electronic cash operations system by providing timely exchange of data for the needs of cash supply between the National Bank and banks.

Furthermore, activities will be implemented for further harmonization of the domestic with the European legislation in this area, as a basic precondition for the country's EU integration.

The established controls for protection of the integrity of domestic currency and for maintaining the standard quality of cash in circulation, coupled with regular training of the employees in the banks and cash centers and their training in fast and efficient recognition of counterfeit money remain a priority of the National Bank, given that such trained workers are the front line in preventing counterfeiting and its further spread. Efficiency in the fight against counterfeiting will be enhanced by further strengthening of the cooperation between all stakeholders and enabling the flow of information through the use of data from the database created by the National Bank.

The introduction of polymer banknotes in a denomination of 10 and 50 denars, as the state-of-the-art in money printing technology, will further contribute to raising the quality and improving the functionality of cash in circulation.

In period ahead, the National Bank will continue issuing collector coins, making significant contribution to the promotion of the national, historical, cultural and spiritual values of the Republic of North Macedonia, as well as meeting the demand of both domestic and foreign numismatists and collectors.

#### Strategic objective 5

### **Reliable and efficient payment systems operation and development of payment services market.**

The next three-year period will be marked by intensive activities for the application of the new payment services and payment systems regulations which would be adopted by the end of 2019. The new regulation harmonizes our legislation with that of the European Union, creating conditions for the entry of new payment service providers in the market and increased competition, expanding payment services and increasing transparency requirements, which would lead to better payment service users protection and greater payment involvement of the population. Also, there are expectations for further harmonization of the conditions for domestic and international payments. In addition, the implementation of the regulation is expected to contribute to greater use of efficient and reliable non-cash payment instruments that reduces transaction costs in the economy and increases digitalization of the Macedonian society.

The new legislation expands the obligations and competencies of the National Bank in the field of licensing of payment systems, payment institutions and issuers of electronic money, as well as in the field of payment instruments and payment accounts, for which in the next period will work on preparation and enactment of the bylaws and raising the institutional capacity to implement the increased obligations. At the same time, there will be activities for setting up a system for comparative presentation and publishing of the fees charged by payment service providers according to the provisions of the new regulation. Also, significant focus will be placed on the direct and immediate supervision of payment systems in support of the safe and efficient execution of payments and further compliance with international standards and requirements in this area.

Activities for further improvement of back-office operations in accordance with the ECB operating practices and standards and strengthening the operating procedures and systems relevant for anti-money laundering and combating the financing of terrorism will also continue.

Alongside, the analytical capacities will be developed for the use of the new data on the payment statistics and its further harmonization with the standards of the European Central Bank and the Bank for International Settlements in Basel in this area.

#### Strategic objective 6

### **Supporting the development of domestic financial markets.**

The National Bank will continue to actively support the development of domestic financial markets with the participation of a senior representative in the National Capital Market Development Council and by operational contribution to the work of multisectoral working groups to develop new draft regulations for financial markets, instruments and prospects, with a high compliance with EU legislation. At the same time, in order to understand the conditions



and needs for further development, the trends and movements in the markets will be constantly analyzed, with special attention to the responsiveness of interest rates on the money market in relation to monetary policy signals. Also, some of the activities will be aimed at undertaking activities for introducing a reference rate on the money markets in accordance with the Directive on indices used as benchmarks in financial instruments and financial contracts (EU 2016/1011).

#### Strategic objective 7

### **Promotion and further development of research activity in areas crucial for efficient achievement of the National Bank's objectives.**

The research activity will further contribute to the decision-making process by encompassing and elaborating multiple research issues of relevance to the policies. The research projects in the next three years will focus on: regular and in-depth analysis of monetary transmission channels, real economy, macro-financial relations, inter-sectoral financial relations, regular financial market analysis, research in the field of financial stability, analysis for the needs of new banking regulations and other analyzes in other areas of operations. In modern research, there is an increasing need for deeper and structural perception of the conditions in the economy, which requires increasing use of detailed micro databases and so-called big data in the research process. *Green finance* is also an area of research that is becoming increasingly important and is related to the strategic role and vision of the National Bank as a socially responsible institution, given the importance and relevance of green and sustainable growth worldwide. This will be a feature of some of the researches that will be prepared in the next period in the National Bank. At the same time, the further development of the econometric tools will be a basis for further development of the researches.

By regular publishing of employees' research works, hosting and attending public scientific events, in the future, the National Bank will make efforts to be present and to influence the scientific and expert public, to contribute to the transferring of knowledge in the society, and promoting the institution abroad.

#### Strategic objective 8

### **Providing quality statistical data, fully consistent with international and European statistical standards, taking into account the reporting burden and their effective, timely and easy dissemination to users.**

In the area of statistics, in the post crisis period, the awareness increased for the significance of high quality, detailed and timely macroeconomic statistics when adopting and taking measures by the economic policy makers. Moreover, the need for easier access to these data to the public is also evident. In addition, having in mind the upward trend of the trade and financial integration of our country into the global economic flows, as well as the accelerated process of accession to the European Union, the challenges mainly relate to the implementation of the international statistical standards and harmonization with the European requests regarding the scope and the quality of the macroeconomic statistics.

Hence, the successful attainment of this objective implies continuation of activities to improve the quality and scope of the current external and monetary statistics in line with the international and European statistical standards. This is also supported by compilation of current as well as new data for the highest statistical standard - SDDS Plus for disseminating IMF data as well as gradual adjustment of the external statistics databases as a result of the stronger process of liberalization of the foreign exchange regime and harmonization with the

EU payment systems regulation. It will also continue with targeted activities aimed to widen the scope of available statistical data with new statistic researches, primarily financial account statistics and securities statistics. Creation of a single statistical data warehouse within the National Bank, as well as the new internal analytical tools and the statistical web portal for external users will significantly enrich the statistical data set and simplify the public access. The enriched scope of statistics, along with the detailed methodological explanations will further support the decision-making process of macroeconomic policy makers, and will contribute to better public informing, in general.

#### Strategic objective 9

### **Preparation of the National Bank for joining and membership in the European System of Central Banks.**

The orientation of the Macedonian economy to the European Union imposes a need for engaging all institutions, including the National Bank, in various types of reform undertakings that in the medium and long run improve the capacity of the institution, i.e. the economy, to join the European Union. Besides the engagement regarding the implementation of various types of European directives and operating standards, the National Bank will continue to contribute to the development and implementation of the regular national reform programs and other strategic documents. Also, the National Bank will pursue conducting activities for meeting the operational and institutional requirements for membership in the European System of Central Banks. The possible progress in the Euro-integration processes may affect the intensity of all these activities.

In the next medium-term period, the technical cooperation with other central banks and international financial institutions and the use of opportunities provided within the available EU instruments will continue to advance.

#### Strategic objective 10

### **Further improvement of corporate governance, transparency and social responsibility of the institution.**

With the rapid technological change that is reshaping the global economy, central banks are facing the introduction of a growing number of new types of services and products that are replacing traditional business models. The growth and spread of new technologies and the digitalization of services have been accompanied by a steady increase in cybercrime. The National Bank, as a modern central bank and an institution that manages critical infrastructure, monitors technological innovations, trends in central banking and constantly upgrades its operations. In the coming period, the National Bank will continue to take measures to strengthen the management mechanisms for internal control regarding risks, cyber-resistance of the information system, data protection, as well as ensuring business continuity. Hence, in the next three years, the National Bank will work on the implementation of the National Cyber Security Strategy 2018-2022. Also, the National Bank will continue to develop good corporate governance by improving coordination and exchange of information and experiences between all organizational units in the bank, as well as raising awareness among employees regarding operational risks. In order to improve transparency and social responsibility, the National Bank will continue to work to improve the services, quality and scope of data and information available to external users.

Taking into account the human potential and financial resources, the National Bank will focus on further advancing the strategic planning process through real and objective prioritization,

increasing efficiency, employee motivation and performance monitoring and evaluation. It is expected that the financial position and the realization of the income statement of the National Bank in the next three years will be influenced by moderately positive results of foreign assets management due to expectations for low and negative returns on financial markets in the euro area, further high monetary expenditures arising from the implementation of monetary policy and the constant costs of producing banknotes and coins. Amid low operating income, insufficient to cover operating expenses, the National Bank will continue to closely monitor and streamline operating costs. Also, depending on the changes in the environment and following the experience and practices of other central banks, the possibilities for introducing new sources of operating income will be considered.

During the next period, there will be activities related to the real estate of the National Bank, resolving property relations, analyzing their effect on capital and reserves. Also, an important activity is the construction of the new commercial building. If completed within the stipulated deadlines, there will be activities related to the assessment of the effects of the depreciation for future periods from the opening of the new commercial building and depreciation or possible damage to existing buildings that will depend on the status and purpose of the current commercial building. Such circumstances necessitate more frequent financial statements forecasts, preparation of analyzes and scenarios related to capital, reserves and costs, which will further automate accounting records, setting up of an integrated accounting system and improving the process of planning and preparation of the financial statements.

In the next three years, the National Bank will continue to work on improving the acts and operations of the bank and their appropriate harmonization with the changes in the national and European regulations, as well as with the international standards. The National Bank will also work to provide an integrated scope for monitoring the compliance of acts and operations in relation to the overall regulation, including the Code of Ethics and the Code of Business Appearance of Workers. To this end, the institutional capacity to carry out activities at the second defense line, the efficiency and effectiveness of human potential, coordination and exchange of information and experiences will be strengthened.

In addition, during the regular operations, the National Bank will continue to maintain the operating conditions in line with the business requirements, standards and norms established in our country, as well as update and upgrade the security measures and resources. The activities for construction of the new facility will continue in the next medium-term period, according to the construction dynamics. The new business facility will provide business premises which will meet all standards for optimum environmental, secure, and technical and technological workspace and equipment.

Concerning public procurement, the National Bank will continue to improve the process for planning and implementation of public procurements by following the novelties in the legislation and increasing transparency for the implemented public procurements. The existing software solution will be upgraded for the purpose of easier managing the procurement planning process in order to increase the efficiency and streamlining of the available funds. The changes made to the new law and the bylaws that came into force in April 2019 will be especially taken into account.

The National Bank will continue to develop and promote the museum, library and historical-archival activity for the further promotion of the national and social values of the country. Within that framework, activities for enrichment, storage, protection and promotion of the numismatic collection, the library fund and the historical-archival fund of the National Bank will be undertaken.

A key element for successful conduct of the mission of the National Bank and keeping pace with the changes in the environment is the development of human capital and institutional

maturity. For that purpose, one of the top priorities of the National Bank in the new strategic period is the further development of modern and competent human capital, improvement of the corporate governance and profound system of values in line with the central banking standards.

#### Strategic objective 11

#### **Maintaining stable information system and its upgrade in accordance with the existing capacities and international standards.**

Major changes in the field of information technology and constant introduction of new functionalities of information infrastructure systems lead to the emergence of new types of threats to the security of systems. Hence, manufacturers and other entities involved in the information industry are constantly introducing a number of updates and security patches, which require their active monitoring and application. In the coming period, the National Bank will focus on maintaining the quality of current IT services and increasing the security of the IT system through penetration testing, frequent testing of systems to identify potential vulnerabilities, introduction of a user accounts management system with high privilege rights, further introduction of two-factor confirmation of the credibility of users' identities in critical systems and regular testing of plans to ensure business continuity. At the same time, the National Bank will maintain and improve the quality of existing software solutions.

#### **V. TRANSITIONAL AND CLOSING PROVISIONS**

8. This Plan shall enter into force on the day of its adoption and shall apply from 1 January 2020.
9. With the entry into force of this Plan, the Strategic Plan of the National Bank of the Republic of Macedonia SP No. 02-15/X-1/2018 of 31 May 2018 shall cease to be valid.

**SP No. 02-15/VI-1/2019  
30 May 2019  
Skopje**

**Governor  
and Chairperson  
of the National Bank of the Republic  
of North Macedonia Council  
Anita Angelovska Bezhoska**