

**National Bank of the Republic of Macedonia**



**STRATEGIC PLAN  
OF THE NATIONAL BANK OF THE REPUBLIC OF MACEDONIA  
FOR THE PERIOD 2019 - 2021**

May 2018



Pursuant to Article 47 paragraph 1 item 9 of the Law on the National Bank of the Republic of 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 paragraph 3 of the Strategic and Operational Planning Regulation Reg. No. 02-15/I-1/2016 of 28 January 2016, the National Bank of the Republic of Macedonia Council adopted the following

**Strategic Plan**  
**of the National Bank of the Republic of Macedonia**  
**for the period 2019 - 2021**

**I. GENERAL PROVISIONS**

1. The Strategic Plan of the National Bank of the Republic of 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. The Strategic Plan is revised annually and constitutes the basis for preparation of the Plan of Activities, which underlie the annual programs for achievement of strategic goals.

The Strategic Plan includes the following annexes:

- Projected balance sheet for the current year and the next 3 (three) years;
- Three-year plan of operating costs; and
- Three-year framework of planned investments.

**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 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 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**

It is estimated that the National Bank activities in the next three years will take place in a more stable and more favorable environment, but with the presence of prolonged uncertainty and unfavorable risks. In global terms, there are still expectations for continuation of the economic recovery, further strengthening of the confidence, increasing productivity and further improving the financial market sentiment. However, at the same time, the unfavorable risks still prevail in the medium run. The main risks in this context refer to the prospect of creating financial vulnerabilities, as a result of the long period of relaxed financial conditions, the increase in protectionism in global trade, which could jeopardize the further global economic and financial integration, and analyzing the risk map, geopolitical risks continue to be prominent and important. Regarding the euro area, the estimates indicate that the strong recovery of the economy will continue, supported by the stimulating monetary policy and mainly improved external conditions. However, in the medium run, global risks, low productivity, and structural constraints in the euro area are assessed as factors that may adversely affect the sustainability of the recovery. Regarding the risks related to the prices of the primary commodities, their growth is expected to continue in the next period, which is certainly a challenge for the Macedonian economy, which is an importer of these commodities. Regarding the domestic context, after a longer period of political turbulence, in the next period, a significantly more stable environment is expected, as well as improvement of the prospects for accelerating the process of integration into the European Union. 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.

Given the macroeconomic environment, the National Bank will continue to properly use monetary instruments so that it will ensure efficient liquidity management of the banking system and maintain balance of the foreign exchange market, for the purposes of further maintaining a stable value of the denar against the euro. Maintaining foreign exchange rate stability is still a top priority for which the National Bank holds adequate level of foreign reserves and an efficient set of monetary instruments. The expected improvement of the political environment in the country, together with the favorable global environment, can positively affect the export activity, foreign investments in the country and other inflows of foreign currency from abroad. Against such backdrop, the combination of monetary instruments or the introduction of new monetary measures will provide flexibility and opportunity for adjustment to the emerging conditions, and for the purpose of achieving the strategic objective. In the following period, the National Bank will continue to promote denar savings, i.e. take measures that will encourage banks to develop deposit products that stimulate the savings in domestic currency, and thus the lending in domestic currency, and will also support the use of other financial instruments in denars. Thus, the National Bank will continue to support the process of deeuroization of the domestic economy and will strengthen the transmission mechanism of monetary policy.

#### Strategic objective 2

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

The National Bank will continue to apply effective and consistent banking supervision. Guided by the principle of proportionality in the implementation of the supervisory activities, the intensity of the supervisory approach with individual banks will be determined depending on their systemic importance and the risk profile. The supervisory priorities in the next three years are unchanged: regular assessment of the risk profile and the required level of capital of individual banks and timely taking of an appropriate supervisory action, if necessary.

The traditional types of risks in the banks' operations, primarily the credit risk, will continue to be subject to supervisory assessment. In this domain, the assessment of the banks' capacity to deal with non-performing loans, but also of the application of the new credit risk management regulation which is in compliance with IFRS 9<sup>1</sup> and the European standards for non-performing and restructured exposures, will be in the focus of the supervisory attention. The operational risk, and within its framework, especially the risk arising from the information system security and the risk of money laundering and financing of terrorism, remain the priority risks in the supervisory cycle of on-site examinations. Undoubtedly, a special challenge for the supervisors will be the identification and assessment of new risks arising from the application of modern technologies. The aggregate supervisory assessment for each bank will also be based on the assessment of the corporate governance and the sustainability of the banks' business models in the short and medium run.

The National Bank continues to make efforts to follow and harmonize the regulatory framework with the international standards and the European legislation in the field of banking. In the next three years, the Banking Law is expected to be fully harmonized with the relevant European directive and the so-called Basel III will be fully implemented. The effects of the recently introduced capital requirements as part of Basel III will be especially experienced in the future period, through further strengthening of the banks' resilience, but

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<sup>1</sup> International Financial Reporting Standard.

also their position to deliver higher credit growth. The full completion of the institutional and regulatory framework for “dealing with and solving troubled banks” in compliance with the European legislation is yet another of the National Bank’s challenges in the following period.

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.

Of course, banks themselves also contribute to the achievement of this strategic objective, with their vigilance in taking risks, but also their capacity to manage risks. Growing competition among them, but also the increased regulatory requirements, are just some of the challenges that they will face with in the following period. This should lead to an appropriate adjustment of their business models and further increase in their efficiency, in particular by using the benefits of new financial technologies. At the same time, this will be an additional incentive not only for faster consolidation of the banking system, but the ownership changes, as well.

Financial stability in the country will be influenced by the performance of the non-banking financial sector, primarily pension funds and insurance companies, which in recent years have become increasingly important for the financial market. Regular cooperation with other supervisory authorities in charge of certain segments of the financial system will continue to be one of the main priorities of the National Bank. Considering the fact that the banking system is predominantly foreign owned, mainly owned by banks with headquarters in the European Union, the regular and smooth cooperation with the foreign supervisory authorities, and above all with the European Central Bank and the European Banking Authority, is of crucial importance for the stability of the banking system.

### Strategic objective 3

#### **Efficient management of the foreign reserves of the Republic of Macedonia relying on the optimal balance of the principles of safety, liquidity and return on investment.**

Foreign reserves management will be in accordance with the domestic and international conditions, by respecting the principles of safety, liquidity and profitability. Challenges in the field of foreign reserves management in the next period are related to the geopolitical developments and the uncertainty about the growth of returns on financial instruments, determined by the dynamics of normalization of the monetary policies of leading central banks. Against such backdrop, the National Bank investment strategy for the coming period will be aimed at ensuring optimal balance between the return and the risk of investing foreign reserves by maintaining the euro as the most common currency and careful diversification of foreign reserves investments towards financial instruments and currencies with positive yields and more stable economic outlook. Moreover, the National Bank will continue to strengthen the institutional capacity for foreign reserves management through further improvement of the processes for managing and investing foreign reserves in accordance with the best world practices.

### Strategic objective 4

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

In the following medium-term period, as well, the National Bank will continue to actively participate in and support the development of domestic financial markets by engaging in activities for implementing the European regulatory framework in the regulation of the domestic financial markets, improvement of the infrastructure framework and support of the development of new financial instruments, which will increase the domestic financial markets efficiency.

#### Strategic objective 5

### **Maintaining a stable cash supply system and ensuring standard quality and functionality of banknotes and coins in circulation.**

The National Bank will continue to improve the quality of banknotes and coins in circulation that are legal tender in the Republic of Macedonia. Monitoring modern trends in the banknote printing and coin minting techniques, the development of the innovative security protection, as well as monitoring and prevention of the development of new money counterfeiting techniques that could endanger the national currency, will continue to be a part of the core activities of the National Bank in the following period.

Also, we will continue to control the implementation of cash operations standards and criteria in banks and cash centers, which will enable the National Bank to constantly monitor the operations of individual banks and cash centers in the area of cash operations and to take all necessary measures for the purpose of further improving and preserving the quality of banknotes and coins in circulation.

In the next period, 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 Macedonia, as well as meeting the demand of numismatic collectors in the country and abroad.

#### Strategic objective 6

### **Maintaining the highest level of safety, soundness and efficiency of domestic payment systems and promoting cross-border payments and accelerating the digitization process of the domestic economy.**

One of the key challenges for the National Bank is the adoption of the new regulatory framework in accordance with the European Union, which should contribute to emergence of new payment instruments, new providers of payment services and payment systems in the country and to increase competitiveness, efficiency, transparency and protection of users of payment services. At the same time, activities will be undertaken for continuous improvement of the functioning and promotion of the cross-border payments in euros through the Macedonian Interbank Payment System of the National Bank (MIPS) which was connected to TARGET 2<sup>2</sup> through the Bank of Italy, in 2016. This project has ensured higher levels of payment integration of the Republic of Macedonia into the payment infrastructure of the European Union and it represents a major step towards convergence of the operating standards of the National Bank to the operating standards of the central banks of the European Union member states. At the same time, in the next period, the control system of cross-border payments will be strengthened. In the following medium run period, the National Bank will consider the possibilities for possible regional connection for the purpose of enabling faster and cheaper cross-border payments in euros for domestic banks. Also, the

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<sup>2</sup> Payment system for settlement in euros in real time on gross basis operated by the Eurosystem.

National Bank will pursue developing the back-office operations in line with the practice and operating standards of the European Central Bank, and the activities for improvement of the supervisory role of the National Bank in the payment systems operating area. The focus will be on the activities related to the digitization of the national economy as a strategic objective of the Republic of Macedonia to approximate the EU standards in this area. In this context, the National Bank will take active participation in the implementation of the Strategy for reducing the cash usage in the country, which includes specific measures for reducing the cash usage and consequently, increasing cashless payments, in accordance with the best world practices in this domain. It will be invested in continuous improvement and promotion of the e-banking system for conducting international payment operations for the needs of the government and government bodies that started operating in 2017 and should increase the quality and efficiency of the services, save time, as well as human and financial resources of the government institutions. Also, the project for electronic connection with enforcement agents for submitting orders for forced collection electronically to the National Bank and the banks will ensure further digitization of the activities in the domestic economy.

#### Strategic objective 7

#### **Development of the research activity in areas crucial for the efficient achievement of the National Bank's objectives.**

The conduct of monetary policy in a highly open economy which is going through the process of structural reform is a relatively complex process. Hence, for conducting effective monetary policy it is necessary to make numerous researches in order to better understand the monetary transmission, the real economy, the macro financial relations, the cross-sector financial relations and other areas which are crucial for efficient setting and implementation of the monetary policy. In the modern research activity, there is an increasing need for a deeper and structural perception of the conditions in the economy, which requires increasing use of detailed microdata bases, as well as of so-called big data in the research process. At the same time, the further development of the econometric tools will be a basis for further development of the researches. This will be a feature of some of the researches that will be prepared in the next period in the National Bank.

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 considering 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 the Republic of Macedonia 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 further



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; hence the joining of Macedonia to the highest statistical standard - the SDDS Plus for disseminating data of the IMF, as well as the gradual adjustment of the data sources in external statistics as a result of the stronger process of liberalization of the foreign exchange regime and the harmonization with the European regulation on payment systems. We will also continue taking activities aimed to widen the scope of available statistical data with new statistic researches, primarily financial account statistics and securities statistics. Creation of the 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 enhanced 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.**

The financial sector and within its framework, central banking, is a dynamic area, faced with changes and development in all areas of operation. As a modern central bank, the National Bank follows the trends in central banking and constantly upgrades its operations. Along with the modernization of operation, the risk management in all areas of operation is of crucial importance.

Changes to the regulations and the need for further harmonization with the European legislation require continuous monitoring and control of the legal risk. For that purpose, the National Bank will continue to improve the compliance, which will contribute to increasing the efficiency and reliability in the execution of the processes.

Changes and improvement in operation should provide protection and better perception of risks, improvement of services, quality and scope of data and information available for external users, for the purpose of improving transparency and social responsibility of the institution.

Taking into account the risks, human potential and financial assets, during the strategic planning, special attention will be paid to the real and objective business prioritization, performance monitoring and evaluation. Also, the National Bank will continue to develop and promote financial recording and reporting, which will enable more efficient financial management, dynamic planning and monitoring of the balance sheet of the National Bank. Effective management of the central bank's balance sheet, including control of operating costs and optimal utilization of operating income, will be the main pillar of the commitments of the National Bank. In the next medium-term period, we plan to replace the accounting and financial reporting software solutions, as well as the application for planning, preparation and reporting for the Financial Plan and the Investment Plan.

During the following medium-term period, as well, the National Bank will continue to promote public relations, in both communication with the media and direct communication with citizens and legal entities, adhering to the commitment to follow the best communication practices of the European Central Bank and the national central banks of the Member States of the European Union.

During the regular business processes, the National Bank will continue to maintain the working conditions in line with the business requirements, standards and norms established in the country, as well as upgrade the security measures and assets, strengthening and continuous training of employees and improving the internal regulation in this domain. 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 law 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.

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.**

Digitization and globalization of financial flows create new challenges for regulators. The growth and prevalence of digitization on a world scale are followed by a continuous increase in cybercrime and espionage. The National Bank, as an institution that manages critical infrastructure, which includes payment systems in the country, will continue to take measures for strengthening the cybernetic resistance of the information system, protection of personal data, as well as for ensuring business continuity. Furthermore, the National Bank

will continue to maintain and develop a reliable information system, through further continuous improvement in accordance with the best international practices and maintenance of the current equipment at a level of availability of 98% per annum.

**V. TRANSITIONAL AND CLOSING PROVISIONS**

8. This Plan shall enter into force on the day of its adoption and shall apply from 1 January 2019.

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/IV-1/2017 of 25 May 2017 shall cease to be valid.

**SP No. 02-15/X-1/2018**  
**31 May 2018**  
**Skopje**

**Governor  
and Chairman  
of the National Bank of the Republic  
of Macedonia Council  
Anita Angelovska Bezhoska, PhD**