

National Bank of the Republic of Macedonia



**STRATEGIC PLAN
OF THE NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
FOR THE PERIOD 2018-2020**

May 2017

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 and 6/16), 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 2018 - 2020

I. GENERAL PROVISIONS

1. The Strategic Plan of the National Bank of the Republic of Macedonia (hereinafter: 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, 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, 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 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 against the background of continuous uncertainty and unfavorable risks. This characteristic marks both the global and the domestic economic environment. In global terms, there are still expectations for economic recovery and further improvement of the financial markets conditions. However, adverse risks still surround these assessments, which are additionally pronounced in this period. The UK's decision to leave the European Union (Brexit), the uncertainty about the future policies of the new US administration and the prospect of increasing protectionism in global trade and migration constraints are factors that can, as assessed, adversely affect global growth and global productivity, and thus financial markets. In addition, analyzing the risk map, geopolitical risks continue to be prominent and important. Regarding the euro area, the estimates indicate that the recovery of the economy will continue, but the possibility of prolonged weak economic growth remains, albeit reduced as a result of the measures of the European Central Bank. Global risks, political turmoil in the euro area, and structural constraints in the euro area are factors that influence such assessments. Regarding the risks related to the prices of the primary commodities, after the longer period of reduction, in the next period, a change of these trends and a rise in prices is expected, which is certainly a challenge for the Macedonian economy, which is an importer of these commodities. Despite the exceptionally uncertain external environment, the continuation of political crisis and unfavorable domestic political context are also essential factors that can greatly influence the environment and the achievement of the strategic objectives of the National Bank.

In such an uncertain environment, the National Bank activities for achieving 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 policy changes, which will contribute to effective and flexible response. As before, in the next period, changes in the activities for improving the analytical infrastructure will be aimed towards 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.

Given the macroeconomic environment, the National Bank will continue to properly manage monetary instruments in a way that will ensure efficient liquidity management of the banking system and maintain the balance of the foreign exchange market, for the purposes

of further maintaining a stable exchange rate of the denar against the euro. Maintaining foreign exchange rate stability remains a top priority for which the National Bank holds adequate level of foreign reserves and an efficient set of monetary instruments. Having in mind the present uncertainty, the monetary policy conduct in the coming period will be aimed at early recognition of risks and prompt and effective response through monetary instruments in order to insure successful achievement of the monetary goals. In the following period, the National Bank will continue to promote denar savings, i.e. take measures to encourage banks to develop deposit products that stimulate savings in domestic currency, and thus lending in domestic currency. Thus, the National Bank will continue to support the process of deeurization of the domestic economy in recent years, in part due to the adopted monetary measures.

Strategic objective 2

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

Within its mandate for implementing micro-prudential and macro-prudential supervision, the National Bank will continuously monitor the operations of each commercial bank and the overall banking system and will take the necessary measures in order to further strengthen their stability. In this light, there will be a continuous strengthening of the supervision capacity for monitoring and assessment of the level and manner of managing bank risks, as well as of the banks' capital requirement depending on the aggregate risk profile of the banks. Moreover, the process of harmonization of banking supervision and regulatory framework with the new Basel principles for efficient banking supervision will also continue. In the next three years, the so-called Basel III - regulatory package and relevant European regulations will be fully implemented. It is expected the effects of the regulatory framework for banks' solvency, adopted recently, to be fully experienced in the forthcoming period, through further strengthening of the level and quality of banks' capital. In addition to the required regulatory capital that each bank has to maintain depending on its risk profile, with the recently introduced so-called capital buffers, further strengthening is expected of the capacity and resilience of banks and the banking system for systemic risk management. The second pillar of the so-called Basel III, i.e. the introduction of new liquidity ratios, will contribute to strengthening banks' resilience to sharp hypothetical liquidity shocks and will improve the maturity restructuring of the banks' balance sheets. The third pillar of the so-called Basel III further improves corporate governance in banks, which, *inter alia*, is expected to strengthen the risk management function and promote good corporate practices and values in banks. In the period ahead, the National Bank will take part in the establishment of a new institutional and regulatory framework for "dealing with and solving problem banks" and will apply innovations in the International Financial Reporting Standards (primarily IFRS 9). All these regulatory reforms are expected to further strengthen the safety and soundness of the banking system, thus keeping the primacy of one of the healthiest segments of the Macedonian economy.

Of course, this is also a result of the behavior of the banks and their caution in taking risks as well as their capacity to identify and measure risks and fight off challenges arising from the turbulent external environment.

The banks' challenges related to the application of the new regulatory standards are expected to affect their business models as well. Growing competition between banks should further increase their efficiency, in particular by using the benefits of new financial technologies. At the same time, enrichment of the supply of financial products and services is expected, followed by greater transparency of the banks in the supply of financial services in terms of price and quality.

Exactly the new regulatory environment, as well as the increased competition among banks should 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 nonbanking 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 by banks headquartered in the European Union, the regular and smooth cooperation with the foreign supervisory authorities, and above all with the European Central Bank, 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 line with the domestic and international conditions, respecting the principles of safety, liquidity and profitability. Challenges in the field of foreign reserves management in the next period are related to the effects of the further normalization of the monetary policies of global central banks on the growth of returns on financial instruments and the valuation of investments. Geopolitical developments are additional risk factor that can cause volatility in the financial markets. 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 through diversification of foreign reserves investments towards financial instruments and currencies with positive yields and more stable economic outlook. In this light, we will continue with the diversification to different markets, and will analyze possibilities for investments in currencies, other than the euro and the US dollar, for which there is a trend of investment by the central banks. Moreover, the National Bank will continue to strengthen the institutional capacity for foreign reserves management through participation in the World Bank's Reserves Advisory and Management Program (RAMP). This program includes activities for further improvement of the foreign reserves investment, risk management, increase of the efficiency of the foreign reserves management by applying new trading strategies, providing technical assistance, exchange of experiences and continuous trainings of employees of the organizational units involved in the foreign reserves management and investment process.

Strategic objective 4

Supporting the development of domestic financial markets.

Concerning domestic financial markets, in the next med-term period, the National Bank will continue to take active participation in, and support, the development of domestic financial markets by engaging in activities for implementing the European regulatory framework in the domestic financial markets regulation, improving the infrastructure framework and supporting the development of new financial instruments, which will increase the domestic financial markets efficiency. Furthermore, the National Bank will continue to

actively support the process of reforming SKIBOR, as well as the process of transferring expertise to conclude ISDA agreements for the needs of domestic commercial banks.

Strategic objective 5

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

The National Bank has an exclusive right to issue banknotes and coins and is responsible for the supply of banknotes and coins that are legal tender in the Republic of Macedonia. Using the highest international standards, the National Bank will continue to improve the quality and development of the security features of cash in circulation. Having in mind the development of new money counterfeiting techniques that could endanger the security of the national currency, the National Bank will be committed to further development of innovative security protection and promotion of banknote printing and coin minting techniques.

The uncertainties arising from the external environment, the continuation of the political crisis and the unfavorable domestic political environment emphasize the need for proper management of the stock of banknotes and coins, as well as adjustment of the logistics to the current trends. In this context, the National Bank will continue to develop and introduce mechanisms for effective monitoring, planning and maintenance of an optimal denominational structure in accordance with the best international experiences and practices.

In the next medium-term 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, promoting cross-border payments and accelerating the digitization process of the domestic economy.

Concerning payment systems, a key challenge is the adoption of a new regulatory framework in accordance with the European Union, which is expected to contribute to emergence of new payment instruments, payment institutions 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 2¹ 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 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. In the following medium run period, the 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

¹ Payment system for settlement in euros in real time on gross basis operated by the Eurosystem.

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, 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 is expected to 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.

Conducting monetary policy and maintaining financial stability in a highly open economy in a process of structural reform is relatively complex. Hence, the research activity will continue to contribute to the decision-making process in the National Bank, by encompassing and elaborating more 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, regular analysis of financial markets, further analyzes of sectoral links in the economy, further improvement of macroeconomic modeling and forecasting, modernization of analytical and research instruments (including greater use of microdata), research in the area of financial stability, analyzes for the needs of the new banking regulations and other analyses in other areas of operation. 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 sharing 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 devising 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 strategic commitment for EU membership, the challenges mainly relate to the implementation of the international statistical standards and gradual 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. In this light, we would mention the latest initiative for joining the Republic of Macedonia to the highest statistical standard - SDDS Plus for disseminating data of the International Monetary Fund. 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 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 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 National Bank will pursue conducting activities for meeting the operational and institutional requirements for membership in the European System of Central Banks. In that regard, activities will be taken for further harmonization with the European legislation and the best practices of the central banking operations, as well as the continuous strengthening of the administrative capacities of the National Bank. In the next med-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

Following the trends in central banking, strengthening the resilience to changes in the environment, effective risk management in all working segments, ensuring business continuity and information security, improving transparency and social responsibility of the institution.

In the forthcoming medium-term period 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.

The internal political situation and uncertainty, the political upheavals in the immediate neighborhood of the Republic of Macedonia and globally, as well as the growing computer crime create dynamic and changing environment and require frequent risk monitoring and timely detection and dealing with new risks, strengthening of the information system security measures and the measures for ensuring business continuity in the National Bank.

Changes in the environment and their impact on the National Bank operations emphasize the importance of strategic planning, that is, real and objective business prioritization, performance monitoring and evaluation, taking into account the human potential, financial assets and risks. In this light, the National Bank will continue to promote corporate governance and enhance the value system in line with the modern central banking practices. When employing new staff, special attention will be paid to the equitable representation of ethnic communities and a balanced gender structure, respecting the principles of quality, professionalism and competence.

Changes to the regulations, as well as the recommendations of the audits and controls, require continuous monitoring and control of the legal risk. In this light, the NBRM compliance will be improved, thus increasing the efficiency and reliability in the execution of the processes.

During the regular business processes, the National Bank will continue to maintain the existing working conditions in line with the business requirements, standards and norms established in the country. In this regard, the National Bank will ensure safe and efficient implementation of the information technology through further continuous improvement of the information systems in accordance with the best international practices in the field of managing IT services. At the same time, within the activities for construction of the new facility, in the next med-term period, the construction of the new business facility will continue, which, as expected, should increase the efficiency in the daily functioning of the National Bank and 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 follows the trend of transparent implementation of contract award procedures fully employing electronic procurement, with continuous improvement of the process, simplification of procedures and development of new and upgrade of the existing software solutions. This is to achieve efficiency and streamlining of the available funds.

V. TRANSITIONAL AND CLOSING PROVISIONS

8. This Plan shall enter into force on the day of its adoption and shall apply from 1 January 2018.
9. With the entry into force of this Plan, the Strategic Plan of the National Bank of the Republic of Macedonia S.P. No. 02-15 /VII-1/2016 of 26 May 2016 shall cease to be valid.

SP No. 02-15/IV-1/2017
25 May 2017
Skopje

Governor
and Chairman
of the National Bank of the Republic
of Macedonia Council
Dimitar Bogov