ECONOMIC AND MONETARY UNION

I. MONETARY AND EXCHANGE RATE ISSUES

A. Legal convergence

1. Please provide a copy of the central bank law and possibly of other important monetary and financial laws (in one of the official EU languages).

The following laws in English are enclosed:

1. Law on the National Bank of the Republic of Macedonia, "Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004, see 11_Annex_01,
2. Banking Law "Official Gazette of the RM" No. 63/2000, 103/2000, 37/2002, 51/2003 and 85/2003, see 11_Annex_02,
3. Law on Foreign Exchange Operations "Official Gazette of the RM" No. 34/2001, 49/2001, 103/2001, 54/2002 and 51/2003, see 11_Annex_03,
4. Law on Payment Operations "Official Gazette of the RM" No. 32/2001, 50/2001, 52/2001, 103/2001, 37/2002, 41/2002, 61/2002 and 42/2003, see 11_Annex_04,
5. Law on Investment Funds "Official Gazette of the RM" No. 9/2000, see 11_Annex_05,
6. Law on Taking Over Joint Stock Companies "Official Gazette of the RM" No 4/2002 and 37/2002, see 11_Annex_06,
7. Law on Establishing the Macedonian Bank for Development Promotion "Official Gazette of the RM" No. 24/1998 and 6/2000, see 11_Annex_07,
8. Law on Micro-Financing Banks "Official Gazette of the RM" No. 61/2002, see 11_Annex_08,
9. Law on Deposits Insurance Fund "Official Gazette of the RM" No. 63/2000, 29/2002, 43/2002 and 49/2003, see 11_Annex_09,
10. Law on Leasing "Official Gazette of the RM" No. 4/2002 and 49/2003, see 11_Annex_10,
11. Law on Default Interest Level "Official Gazette of the RM" No. 65/1992 and 70/1993, see 11_Annex_11,
12. Law on Supervision of Insurance "Official Gazette of the RM" No. 27/2002, 84/2002, 98/2002 and 33/2004, see 11_Annex_12,
13. Law on Mandatory Fully Funded Pension Insurance "Official Gazette of the RM" No. 29/2002, 85/2003 and 40/2004, see 11_Annex_13

2. What are in your view the necessary reforms in national legislation (central bank law, laws on insurance companies, pension funds, social security funds, compensation funds, banking sector, interest rates, exchange rate law, etc.) with a view to EU membership requirements? Which reforms are already underway?

The following reforms should be implemented with a view to meeting the EU membership requirements:

CENTRAL BANK

The Law on the National Bank of the Republic of Macedonia, ("Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004) adopted in early 2002, along with the amendments that followed to June 2004 inclusive, is largely compliant with the European regulation pertaining to the objective and the organization of the central banks in the European Union member states, primarily with the Statute of the European System of Central Banks and the European Central Bank.

The Draft Law on the National Bank of the Republic of Macedonia is subject to discussion, which should enter into a parliamentary procedure in the second half of 2005. The new law, inter alia, shall include:

- further designing and specification of the four types of independence of the National Bank of the Republic of Macedonia (functional, institutional, personal and financial) as a fundamental prerequisite for achieving its primary objective, that is the price stability.
- possibility for the Governor, or the Vice Governor, acting in the capacity of a Deputy Governor to attend the sessions of the Parliament of the Republic of Macedonia and to express their opinions and views whenever the Parliament of the Republic of Macedonia adopts laws pertaining to the achievement of the primary objective and the performance of the functions of the National Bank;
- further specification of the provision pertaining to the protection against any conflict of interest of the National Bank Council members;
- redefinition of the provisions specifying the capital and the reserves, the revenues and the expenditures, in accordance with the accounting rules, standards and principles of the European Central Bank;
- regulation of the relation of the National Bank with the European Union, by introducing provisions which state that on the date of accession of the Republic of Macedonia to the European Union the National Bank will become an integral part of the European System of Central Banks and it will carry out its tasks in accordance with Article 43 of the Statute of the European System of Central Banks and the European Central Bank which apply to the member states with a derogation; the Governor of the National Bank will be a member of the General Council of the European Central Bank and the National Bank will cooperate with the European Central Bank in accordance with the Statute of the European System of Central Banks and the European Central Bank with regard to recording, compiling, processing and publishing data and information.

BANKING SECTOR

The reforms of the banking sector are underway and in an advanced stage. As a result, most of the national legislation is harmonized with the one of the Union.

In 2004, the Project on Technical Assistance to the banking sector in the Republic of Macedonia was delivered, supported by the CARDS Program, within which an analysis was made on the banking sector harmonization degree. The analysis and the Reports on the Project Delivery also indicate high degree of compliance of the domestic legislation in the area of banking sector.

The following reforms should be implemented with a view to meeting the EU membership requirements:

- provision enabling of unrestricted banking services in the Republic of Macedonia through branches (without a status of a legal entity) by banks from member states and non-member states. The opportunity to open branches will also transpose the regulation for insurance schemes of home member state, for annual accounts, for reorganization and winding up of credit institutions. Completion period: January 1, 2008;
- regulation of electronic money institutions. Completion period: end-2007;
- implementation of the Capital Adequacy Directive (Directive 93/6/EEC) with regard to the market risk. Completion period: end-2005;
- strengthening of the regulation for reorganization of banks facing difficulties in their operations. Completion period: end-2005.

<u>Reforms in the banking sector which are underway, and which will be completed by the end of 2005</u>

1. Preparation of amendments to the Banking Law is underway, which will govern:

- the procedure and the measures against banks facing difficulties in their operations (receivership - reorganization, rehabilitation) by strengthening the role of the supervisory authorities;
- the legal ground for market risk regulation and management;

- the banks will be released from the restriction for investing in financial institutions (compliance with Article 51 (2) of Directive 2000/12/EC)
- the initial capital for founding a bank will increase to Euro 5 million (compliance with Article 5(1) of Directive 2000/12/EC);
- the definition of affiliates by fully accepting the method of defining affiliates in accordance with the European Directive 2000/12 which pertains to founding and operating credit institutions (Article 1, item 25 of the Directive);
- the non-performance of banking operations by the bank in a period exceeding 6 months, instead of 1 year as specified previously, to be a criterion for revoking the bank founding and operating license (compliance with Article 14, sub-item a) of the Directive 2000/12/EC);
- the definition of the type of financial activities which may be performed by the banks in accordance with Annex 1 to the Directive 2000/12/EC.

2. Preparation of the regulation, which will set forth the status of the savings houses, is underway. Completion period: end-2005.

INSURANCE

More relevant reforms in the national legislation in the area of insurance were made by the adoption of the Law on Supervision of Insurance in April 2002 ("Official Gazette of RM" No. 27/2002, 84/2002, 98/2002, 33/2004). The following activities are planned to be performed, for full acceptance and implementation of the acquis communautaire and the IAIS standards and principles:

- amendment to the Law on Supervision of Insurance aimed at strengthening the supervisory function and increasing the independence of the supervisory body;
- adoption of a new law on obligatory car insurance with the aim of implementing the IV Directive of the European Union in the area of motor third party liability (MTPL) and improving the compulsory insurance system efficiency. Completion period: end-2005
- adoption of by-laws which regulate precise specific issues regarding the insurance companies' operations (solvency requirements, technical requirements, fit and proper requirements, etc.). Completion period: end-2005

CAPITAL MARKET

A new Securities Law has been drafted which should enter into a parliamentary procedure in early 2005. The new law requires large compliance with the four European Directives 93/6/EEC, 93/22/EEC, 89/298/EEC and 2001/34/EC as follows: it specifies the procedure for issuing new securities by a public offer, it simplifies the procedure for issuing new securities by private placement, it standardizes the self-regulating function of the authorized depositories and stock exchanges, it determines the forbidden investments and activities of the authorized depositories and stock exchanges, it specifies the grounds and the documentation underlying the transfers of securities which are not made by trading, it strengthens the minimum criteria and introduces a legal requirement regarding the adherence to the rules for listing on the authorized stock exchanges, it sets the allowed methods of trading on the authorized stock exchanges, it specifies the services related to securities that may be provided by the brokerage firms and the banks, it allows the subsidiaries of foreign brokerage firms / banks to provide services related to securities in the Republic of Macedonia, with a permission given by the Securities and Exchange Commission, it specifies the procedure for granting an operating license to individual brokers and determines their responsibilities, it specifies the obligations regarding disclosure of data on the joint stock companies which are maintained at the Registry of the Securities and Exchange Commission, it defines the reports submitted by the joint stock companies to the Securities and Exchange Commission, including special reporting requirements, it precisely defines the forbidden activities in the operations with securities, it specifies the manner of operation of the Securities and Exchange Commission and it strengthens its supervisory function and independence.

In the first half of 2005, amendments to the Law on Investment Funds (“Official Gazette of RM” No. 9/2000), will be adopted with the aim of further harmonizing with the European directives which regulate the investment funds operations, and it will enter into force.

FOREIGN EXCHANGE OPERATIONS

The legal ground for the reforms of the foreign exchange operations are incorporated in the Law on Foreign Exchange Operations ("Official Gazette of RM" No. 34/2001, 49/2001, 103/2001, 54/2002 and 51/2003). The law stipulates the pace of the capital transfers liberalization in accordance with the Stabilization and Association Agreement. The dynamics of the liberalization is elaborated in details in the answers to the questions 04_I_2, 04_I_3 and 04_I_4.

PENSION SYSTEM

The reform of the pension system in the Republic of Macedonia, in the light of introducing multipillar pension system was established by the Law on Amending the Pension and Disability Compensation Insurance Law, adopted in March 2000 ("Official Gazette of RM" No. 24/2000). Furthermore, the Law on Mandatory Fully Funded Pension Insurance, adopted in May 2002 ("Official Gazette of RM" No. 29/2002) more closely and systematically specified the mandatory fully funded pension insurance.

The structure of the future multipillar pension system is based on three types (pillars) of insurance as follows:

- mandatory pension and disability compensation insurance based on generation solidarity (first pillar). This type of insurance will provide exercising of rights arising from the pension and disability compensation insurance in the case of old age, disability and decease, meaning that a part of the old-age pension, disability pension, family pension and the lowest amount of pension is paid;
- mandatory fully funded pension insurance (second pillar) which will ensure payment of a part of the old-age pension;
- voluntary fully funded pension insurance (third pillar) which will provide insurance of the persons not covered with the mandatory pension and disability compensation insurance, and it also gives an opportunity for higher pension for insurers who, besides the mandatory contribution for pension and disability insurance, will decide, voluntarily, to allocate additional funds from their income.

The European Union Directives contain no special requirements for the mandatory fully funded pension insurance design. There is a Directive 2003/41/EC of the European Parliament and of the Council from 03.06.2003 on the activities and supervision of institutions for occupational retirement provision which pertains to the occupational pension schemes, the features of which do not require a level of mandatory insurance in a manner in which the system of mandatory fully funded pension insurance in the Republic of Macedonia is designed in line with the Law on Mandatory Fully Funded Pension Insurance.

The non-mandatory (voluntary) nature of the fully funded pension insurance (third pillar) in the Republic of Macedonia, the grounds of which are established by the legal framework in accordance with the Law on Amending the Pension and Disability Compensation Insurance Law ("Official Gazette of RM" No. 80/93, 3/94, 14/95, 71/96, 32/97, 49/97, 24/00, 96/00, 50/01, 85/03, 50/04, 4/05), is not conflicting the directives of the European Union. A special law is planned to be adopted on voluntary fully funded pension insurance taking account of the recommendations of the European Union which pertain to such type of insurance.

B. Central bank independence

Institutional independence

1. What are the objectives and tasks of the central bank, as defined by its statutes and in practice?

In accordance with the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004) hereinafter referred to as: Law, the main objective of the National Bank is to maintain the price stability (Article 3, paragraph 1 of the Law). The National Bank supports the economic policy of the country and the financial stability of the country without jeopardizing the realization of the main objective, and adhering to the principles of the market economy (Article 3, paragraph 2 of the Law).

The National Bank performs the following functions (Article 10 of the Law):
- establishes and conducts the monetary policy;
- regulates the general liquidity of the banking system;
- regulates the liquidity in the international payments;
- establishes and conducts the Denar exchange rate policy;
- holds and manages the foreign exchange reserves;
- regulates the payment system in accordance with a law;
- coordinates the payments and settlement of accounts among banks and distributes cash;
- grants founding and operating license to a bank and a savings house and supervises the banks and savings houses;
- grants a license for performing services of prompt money transfer and supervises the operations of the entities performing services of prompt money transfer in accordance with a law;
- grants operating license to foreign exchange bureaus and supervises their operations in accordance with a law;
- acts as a custodian of the pension funds, in accordance with a law;
- issues banknotes and coins;
- purchases rare and original coins found on the territory of the Republic of Macedonia;
- performs activities for the account of the central government and the government administration bodies;
- represents the Republic of Macedonia in the international financial institutions in accordance with this Law;
- establishes an IT system; and
- establishes and maintains a Data Registry of the credit exposure of legal entities and natural persons to banks and savings houses founded in the Republic of Macedonia.

2. What is the degree of functional independence of the central bank from public authorities (President, Government, especially Ministry of Finance, Parliament, etc.)? What is the specific role of those actors in the functioning of the central bank? Describe the present situation both in legal terms (information based on the central bank law) and in practice.

The National Bank of the Republic of Macedonia enjoys a high degree of functional independence guaranteed under the Constitution of the Republic of Macedonia and the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004, (hereinafter referred to as: Law).

In accordance with Article 60 of the Constitution of the Republic of Macedonia, the National Bank is independent and responsible for the stability of the currency, for the monetary policy and for the general liquidity of domestic and international payments.

In accordance with Articles 4 and 5 of the Law, the National Bank is independent in performing its functions, enjoying financial and administrative independence.
When performing its functions, the National Bank and the members of the decision-making bodies neither require nor get instructions from the central government and the administrative bodies (Article 4 of the Law).

The National Bank determines the instruments and measures for performing its functions (Article 11 of the Law).

The National Bank independently determines its own interest rates (Article 17 of the Law).

The National Bank may carry out deposit operations, placement and trading with securities, payment operations and other financial activities for the account of the central government and government administration bodies (Article 50 of the Law).

According to the Law, the National Bank represents the Republic of Macedonia in the international financial institutions (Article 53 of the Law).

The Parliament of the Republic of Macedonia appoints the Governor and the external members of the National Bank Council upon proposal of the President of the Republic of Macedonia (Article 60 of the Law).

The relation between the Parliament of the Republic of Macedonia and the National Bank is governed by the following legal provisions:

The National Bank Council as well as each of its members are responsible to the Parliament of the Republic of Macedonia for performing the functions and tasks of the National Bank (Article 61 of the Law).

- The Governor and the Vice-Governors are responsible for their operations to the Parliament of the Republic of Macedonia (Articles 71 and 74 of the Law).
  - If the National Bank Council fails to pass a decision and the Governor of the National Bank estimates that it may lead to serious disturbances in the accomplishment of the main objective, the Governor submits a report to the Parliament of the Republic of Macedonia containing the opinions of each individual member of the National Bank Council, and adopts the decision on which consent was not reached (Article 67 of the Law).
- The competent commissions in the Parliament of the Republic of Macedonia, convene a meeting with the Governor at least once in six months, in order to be informed on the National Bank operations (Article 55-a of the Law).
- The National Bank submits the following reports to the Parliament of the Republic of Macedonia, in order to keep it informed (Article 55 of the Law):

1. semi-annual and annual report on its' operations;
2. semi-annual and annual report on the supervision and the undertaken measures against banks and savings houses;
3. semi-annual and annual report on managing the foreign exchange reserves.

The relation between the Government of the Republic of Macedonia and the National Bank is governed by the following legal provisions:

- To increase the initial capital of the National Bank prior approval of the Government of the Republic of Macedonia is required (Article 8, paragraph 2 of the Law).
- The Minister of Finance and the Governor of the National Bank conclude an agreement for handling and managing the foreign exchange reserves of the Republic of Macedonia (Article 27 of the Law).
- The National Bank, in compliance with the balance of payments projection, monitors international credit relations. If certain divergence from the balance of payments projection is identified, the National Bank informs the Government of the Republic of Macedonia and proposes measures for preventing or eliminating the causes that contribute to the divergence from the balance of payments projection (Article 19 of the Law).

- The National Bank notifies the Ministry of Finance, in writing, on granting and revoking a license for founding and operating a bank and a savings house and on status changes, within 7 days after the date of the effectiveness of the Decision on granting, i.e. revoking a license (Article 30-a of the Law).
- The Minister of Finance may participate in the National Bank Council sessions and discussions, without being entitled to vote (Article 63 of the Law).

In practice, the National Bank is in constant cooperation with the Ministry of Finance in order to implement the legal regulations from the area of finance and banking continuously and unabridgedly.

For the purpose of efficient implementation of the set macroeconomic policy of the Republic of Macedonia, the Budget of the Republic of Macedonia and the Decision on the objectives of the monetary policy of the National Bank, i.e. coordination of the fiscal and monetary policies, the Ministry of Finance and the National Bank signed a Protocol, under which a Committee for coordination of the fiscal and the monetary policies is established.

The cooperation between the Governor of the National Bank and the Minister of Finance is carried out also through informal meetings, depending on the need for bidirectional informing about key issues from the macroeconomic policy, which is based on the established tradition.

3. Does the central bank act provide for the following prohibitions for third parties:
a) to give instructions;
b) to approve, suspend, annul or defer decisions;
c) to censor decisions on legal grounds;
d) to participate in decision-making bodies of the central bank with a voting right;
e) to require ex-ante consultation on the central bank's decisions?

a)
The National Bank is independent in performing its functions, in accordance with the Constitution of the Republic of Macedonia, "Official Gazette of RM" No. 50/91 and the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004) (hereinafter: Law). When performing their functions, the National Bank and the members of the decision-making bodies neither require nor get instructions from the central government and the administrative bodies (Article 4 of the Law).

b)
There is no provision in the Law that pertains to this issue. However, the prohibition for third parties to approve, suspend, annul or defer decisions is implicitly specified by Article 4 paragraph 1 of the Law, according to which the National Bank is independent in performing its functions.

c)
There is no provision in the Law that pertains to this issue. However, the prohibition for third parties to censor decisions is implicitly specified by Article 4 paragraph 1 of the Law, according to which the National Bank is independent in performing its functions.

d)
The Law explicitly specifies the National Bank's decision-making bodies and no third party takes part in the decision-making process of the National Bank with a voting right.
The Minister of Finance may participate in the sessions of the Council of the National Bank and participate in the discussions, without being entitled to vote (Article 63 of the Law).

e)
There is no provision in the Law that pertains to this issue. However, the prohibition for third parties to require ex ante consultations with respect to the decisions of the National Bank is implicitly specified by Article 4 paragraph 2 of the Law, according to which the National Bank and the members

of the decision-making bodies shall neither require nor get instructions from the central government and the administrative bodies.

4. Does the central bank have any ex-ante reporting obligations towards other authorities regarding its monetary policies?

The National Bank has no ex-ante reporting obligations towards other bodies and institutions regarding its monetary policy. The National Bank designs and conducts the monetary policy and determines the monetary policy measures and instruments (Articles 10 and 11 of the Law on the National Bank of the Republic of Macedonia, “Official Gazette of RM” No. 3/2002, 51/2003, 85/2003 and 40/2004). The National Bank Council decides on the monetary policy objectives with two-thirds majority of votes of all its members (Article 67 paragraph 3 of the Law). The National Bank submits the decision on the monetary policy objectives and the monetary policy projection to the Parliament of the Republic of Macedonia and publishes them two months after they are adopted by the National Bank Council at the latest (Article 54 of the Law).

5. How is the management of the central bank organised (composition and responsibilities of the governing bodies, in particular the managing board)?

The bodies of the National Bank of Macedonia (the Central Bank) are: the Council of the National Bank and the Governor of the National Bank (Article 56 of the Law on the National Bank of the Republic of Macedonia, “Official Gazette of RM” No. 3/2002, 51/2003, 85/2003 and 40/2004).
The Council of the National Bank of Macedonia consists of the Governor of the National Bank, two Vice-Governors and six external members (Article 57 of the Law).

The Council of the National Bank (Article 64 of the Law):
1. adopts the decision on the monetary policy objectives;
2. adopts the measures and instruments for conducting monetary policy and monitors its implementation;
3. determines the Denar exchange rate policy;
4. adopts the National Bank Financial Plan and Annual Financial Statement;
5. adopts the National Bank Statute;
6. decides on the issuance and putting into circulation of new denominations of banknotes and coins as well as their withdrawal from circulation;
7. determines the manner and conditions for purchasing and selling gold and other precious metals;
8. decides on establishing a numismatic collection of rare and original coins found on the territory of the Republic of Macedonia;
9. prescribes rules and standards of pursuing control and prudent banking supervision;
10. determines the types of instruments for securing credits extended to banks and savings houses and the conditions for their usage;
11. decides on the amount, purpose and the manner of usage of the initial capital;
12. decides on the foreign reserves management policy;
13. adopts the Annual and Semi-Annual Reports;
14. decides on the uniform tariff for levying charges for the services rendered by the National Bank;
15. selects an authorized auditing entity and adopts the auditing report on the National Bank operations;
16. adopts an operation plan for the Internal Audit Department;
17. appoints and dismisses the manager of the Internal Audit Department and decides on the termination of the employment of the manager;
18. monitors the operations of the Internal Audit Department and adopts the reports on the Department’s operations;
19. decides upon appeals against decisions taken by the Governor;
20. adopts the Annual and Semi-Annual Reports on Supervision and the undertaken measures;
21. adopts the Annual and Semi-Annual Reports on handling the Foreign Exchange Reserves, and
22. decides on other issues, which according to the Law are considered as issues within the competence of the National Bank, and are not within the competence of the Governor of the National Bank.

In case of appeal against the decision of the Governor, the Council of the National Bank shall decide in absence of the Governor and the Vice-Governors (Article 67 of the Law)

The Governor of the National Bank represents the National Bank. The Governor of the National Bank takes decisions and adopts other general acts on the National Bank operations, which, according the Law, are not within the competence of the National Bank Council and informs the National Bank Council on the decisions taken and general acts, adopted, in the first subsequent session (Article 68 of the Law).

The Governor of the National Bank is authorized to adopt manuals for uniform implementation of by-laws adopted by the National Bank Council (Article 69, paragraph 1 of the Law).

The Governor of the National Bank manages and organizes the operations of the National Bank and takes decisions related to employment issues and financial operations, in accordance with his/her authorizations (Article 76 of the Law).

The Governor independently decides on the employment, promotion, reassignment, training, determination of the salary and other benefits, rewards for special engagement in work, imposing discipline measures, financial liability of the employees and termination of the employment (Article 78 of the Law).

The Law on the National Bank of the Republic of Macedonia and the Statute of the National Bank of the Republic of Macedonia, see 11_Annex_14, stipulate that the Governor shall authorize one Vice-Governor between the Vice-Governors-members of the Council of the National Bank, to act in the capacity of a Governor, with all rights and duties in managing of the operations of the National Bank.
In accordance with the Article 17 of the Statute of the National Bank of the Republic of Macedonia, employees with special rights and responsibilities in the National Bank are the Secretary General and the managers of departments.

6. Which provisions ensure democratic accountability and transparency of the central bank?

The democratic accountability and transparency of the National Bank of Macedonia is ensured through the following legal provisions:

- The National Bank is a legal entity in the sole ownership of the state, with financial and administrative independence (Article 5 of the Law on the National Bank of the Republic of Macedonia, "Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004);
- The Governor, the Vice-Governors and the external members of the Council are responsible to the Parliament of the Republic of Macedonia for their acts (Articles 61, 71 and 74 of the Law);
- Appointment and dismissal of the Governor, the Vice-Governors and the external members of the National Bank Council (Articles 60, 70, 72 and 73 of the Law);
- The competent commissions in the Parliament of the Republic of Macedonia, at least once in six months, convene a meeting with the Governor in order to be informed on the National Bank operations (Article 55-a of the Law);
- The Decisions of the Council of the National Bank are adopted in sessions, with majority of votes of all members of the National Bank Council. The National Bank Council decides on the decision on the monetary policy objectives with a two-thirds majority (Articles 63 and 67 of the Law);
- The decisions of the National Bank Council are obligatorily published in the "Official Gazette of the Republic of Macedonia", except for the decisions referred to in items 5, 16, 18, 19 and 21 of Article 64 of the Law. (Article 65 of the Law);
- The Governor of the National Bank informs the National Bank Council on the decisions taken and other general acts adopted. The manuals and other regulations adopted by the Governor, which pertain to the operations of banks are published in the "Official Gazette of the Republic of Macedonia" (Articles 68 and 69 of the Law);

- The National Bank submits the decision on the monetary policy objectives and the monetary policy projection to the Parliament of the Republic of Macedonia and publishes them two months after they are adopted by the National Bank Council (Article 54 of the Law).
- The National Bank submits the following reports to the Parliament of the Republic of Macedonia: semi-annual and annual report on the operations of the National Bank; semi-annual and annual report on the supervision and the undertaken measures against banks and savings houses; and semi-annual and annual report on handling the foreign exchange reserves. The National Bank is obligated to publish the reports at the latest six months from the expiration of the period they refer to (Article 55 of the Law);
- The National Bank Council selects an independent authorized auditing entity, which examines and assesses the Financial Statements of the National Bank and adopts the auditing report on the National Bank operations (Article 64 paragraph 1 item 15 and Article 93 of the Law);
- The Annual Financial Statements of the National Bank are prepared in accordance with the International Accounting Standards and accounting regulations (Article 91 of the Law). The Annual Financial Statements of the National Bank are an integral part of the Annual Report of the National Bank, which is published. (Article 92 of the Law). The National Bank publishes the auditing report of the authorized auditing house and it prepares and publishes monthly financial statements (Article 94 of the Law);
- The National Bank gathers, processes, publishes and distributes data and information, relevant for performance of its function (Articles 40 and 41 of the Law);

After each session of the National Bank Council, a press release is posted on the web site of the National Bank in order to inform the public on the operations of the National Bank Council. The web site of the National Bank enables the public to obtain information on the following: the agendas and the conclusions from the sessions of the National Bank Council, the press releases regarding conducting the monetary policy (explaining the measures and changes); the quarterly reports, the quarterly bulletins, the annual report of the National Bank, the monthly reports, the economic researches, as well as the open invitations for public procurements realized for the needs of the National Bank.

The employees in the National Bank perform their duties and assignments in accordance with the Code of Conduct of the Employees of the National Bank, which is based on the following principles: principle of integrity, principle of objectivity, principle of professional competence, principle of efficiency, principle of professional conduct, principle of priority of interests, principle of protection of property, principle of esteeming clients and business partners, principle of confidentiality of data, principle of ban on receiving gifts and treats; principle of limiting the external activities, principle of limiting the disclosure of information, public appearance and publicity, and principle of independence.

Personal independence

7. What are the appointment and removal conditions and procedures for the central bank governor and the other members of the decision-making bodies of the central bank?

In accordance with Article 70 of the Law on the National Bank of the Republic of Macedonia, “Official Gazette of RM” No. 3/2002, 51/2003, 85/2003 and 40/2004, (hereinafter: Law), the Governor of the National Bank is appointed and relieved from office by the Parliament of the Republic of Macedonia, upon proposal of the President of the Republic of Macedonia, for a term of seven years, and is eligible for one more consecutive appointment.

The National Bank appoints three Vice-Governors.

The Vice-Governors are appointed by the Parliament of the Republic of Macedonia upon proposal of the Governor, for a term of seven years, and are eligible for one more consecutive appointment (Article 72 of the Law).

The Parliament of the Republic of Macedonia appoints the external members of the National Bank Council, for a term of seven years, upon proposal of the President of the Republic of Macedonia, without being eligible for consecutive appointment (Article 60 of the Law).

The longer term of office of the Governor, the Vice-Governors and the National Bank Council external members, relative to the term of office of the Government and the President of the State, ensures their personal independence.

The members of the National Bank Council are citizens of the Republic of Macedonia and have a Higher Education in the area of economics or law and working experience of at least five of the last ten years prior to the appointment, in the area of finance, banking or academic activity in the area of economics.

The term of office of the Governor, the Vice-Governors and the external member of the National Bank Council terminates (Articles 60, 70 and 73 of the Law):
- after the expiration of a seven-year period from the date of his/her appointment;
- in case of decease;
- in case of his/her resignation;
- in case of relieving from office.

A Governor, a Vice-Governor and an external member of the National Bank Council may be relieved from office:
- in the case she/he is sentenced to imprisonment for a criminal act, as follows:
  a) in the period from the effectiveness of the sentence to the day of serving out the sentence, and five years after the sentence is being served out, in the case of effective court sentence of up to three years of imprisonment;
  b) in the period from the effectiveness of the sentence to the day of serving out the sentence, and ten years after the sentence is being served out, in the case of effective court sentence of over three years of imprisonment;
- if the court imposed a security measure for ban on practicing a profession, performing activity or duty as a manager in an institution;
- in case of a long-lasting serious disease, which prevents him/her from performing the obligations;
- if she/he losts her/his business abilities; and
- if she/he performs the function and the competence entrusted to her/him by the Law dishonestly, non-conscientiously, irresponsibly, unprofessionally and untimely.

A Governor, a Vice-Governor and an external member of the National Bank Council are relieved from office in an identical procedure as for their appointment.

8. Do the statutes of the central bank comply with the following requirements:
a) minimum term of office of the Governor should be at least 5 years (indicate the current term of office);
b) grounds for dismissal of the Governor may not be different from the following: if the Governor no longer fulfils the conditions required for the performance of his/her duties or if he is guilty of serious misconduct;
c) security of tenure of other members of decision-making bodies of the central bank (how long is the term of their office?) and grounds for their dismissal should be similar to those here above mentioned
d) membership of a decision-making body involved in the performance of the central bank's tasks is incompatible with the exercise of other functions that might create a conflict of

interest (are members authorised to hold part-time jobs?);
e) right of judicial review of any dismissal decision by independent national courts?

a)
Pursuant to Article 70 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM", No. 3/2002, 51/2003, 85/2003 and 40/2004) hereinafter referred to as: the Law, the term of office of the Governor of the National Bank is 7 years.

b)
The grounds for dismissal of the Governor are prescribed in Article 60 paragraph 4 of the Law, as follows: 1) in the case she/he is sentenced to imprisonment for a criminal act, if the court imposed a security measure for ban on practicing a profession, performing activity or duty, in case of a long-lasting serious disease, which prevents him/her from performing the obligations, and if she/he lost her/his business abilities which implies revocation because the Governor no longer fulfills the terms for performing the function; and 2) if she/he performs the function and the competence entrusted to her/him by the Law dishonestly, non-conscientiously, irresponsibly, unprofessionally and untimely, which implies relief from office due to violation of his/her business authorizations. The terms for the relieve from office of the Governor are explained in details in the answer to question 11_I_B_7.

c)
The external members of the National Bank Council are appointed by the Parliament of the Republic of Macedonia, upon a proposal of the President of the Republic of Macedonia for a term of seven years. Regarding the dismissal of the external members of the National Bank Council, the provisions of Article 60 of the Law are applied, according to which the external member of the National Bank

Council may be dismissed:
- in the case she/he is sentenced to imprisonment for a criminal act, as follows:
  a) in the period from the effectiveness of the sentence to the day of serving out the sentence, and five years after the sentence is being served out, in the case of effective court sentence of up to three years of imprisonment;
  b) in the period from the effectiveness of the sentence to the day of serving out the sentence, and ten years after the sentence is being served out, in the case of effective court sentence of over three years of imprisonment;
- if the court imposed a security measure for ban on practicing a profession, performing activity or duty as a manager in an institution;
- in case of a long-lasting serious disease, which prevents him/her from fulfilling the obligations;
- if she/he lost her/his business abilities; and
- if she/he performs the function and the competence entrusted to her/him by the Law dishonestly, non-conscientiously, irresponsibly, unprofessionally and untimely.

d)
The members of the National Bank Council may not perform duties which lead to a conflict of interests. Pursuant to Article 58 of the Law, a member of the National Bank Council may not be:
- a member of a bank or savings house bodies;
- employee in a bank or savings house;
- person holding managing position in a bank or a savings house against which a bankruptcy proceeding has been initiated;
- official that manages a government body, public enterprise or local government;
- a person against whom the court imposed a security measure for ban on practicing profession and performing activity or duty;
- a member of trade union administrative bodies;
- net debtor or representative of a net debtor in a bank or savings house;
- manager of a company which is a major owner of a bank;
- shareholder who owns more than 10% of the shares with managing right in a bank or savings house; and
- a person sentenced to imprisonment for a criminal act, as follows:

a) in the period from the effectiveness of the sentence to the day of serving out the sentence, and five years after the sentence is being served out, in the case of effective court sentence of up to three years of imprisonment;
b) in the period from the effectiveness of the sentence to the day of serving out the sentence, and ten years after the sentence is being served out, in the case of effective court sentence of over three years of imprisonment;

A member of the National Bank Council and the Vice-Governor who is not a member of the National Bank Council may not be members of the management bodies of a bank or a savings house, may not be employed by or establish a bank or a savings house during the term of office and two years after the expiration of their term of office or their dismissal. (Article 58 paragraph 3 of the Law)

A person who is a member of a political party may be a member of the National Bank Council only if she/he voluntarily withdraws from the party during her/his mandate in the National Bank Council (Article 58 paragraph 4 of the Law).

The National Bank Council members are required to give a statement on conflict of interests, if any, at least once at the beginning of every year. If the objectivity of a National Bank Council member is at stake due to the conflict of interests, the Council member is obliged to give a statement prior to the process of deciding on that issue and to be excluded from the decision-making (Article 62 of the Law).

The Governor and the Vice-Governors are employed in the National Bank on a full-time basis, while the external members of the National Bank Council do not have a status of employed persons of the National Bank. The external members of the National Bank Council receive remuneration from the funds of the National Bank (Article 62 of the Law).

e)
The Law does not contain any provision referring to this issue.

Financial independence

9. Is the central bank in a position to avail itself of the appropriate means to ensure that its tasks can be properly fulfilled? Does a consultation on and/or right exist for a third party to amend or approve the central bank's draft budget and annual accounts?

The National Bank of Macedonia has a full financial and administrative independence (Article 5 of the Law on the National Bank of the Republic of Macedonia, "Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004).

The Financial Plan (draft budget) and the Financial Statements of the National Bank of the Republic of Macedonia are adopted by the National Bank Council (Article 92 of the Law on the National Bank of the Republic of Macedonia).

There are no consultations or rights for a third party to modify or approve the Central Bank's draft budget and the annual accounts.

The following provisions of the Law on the National Bank of the Republic of Macedonia governs its financial position:
- The capital of the National Bank consists of initial capital and reserves. The capital of the National Bank is neither transferable nor subjected to any encumbrance whatsoever (Article 7 of the Law)
- The Law on the National Bank of the Republic of Macedonia specifies the initial capital of the National Bank, which may increase by allocation of the net income. To increase the initial capital of the National Bank, prior approval of the Government of the Republic of Macedonia is required (Article 8 of the Law)

- The National Bank establishes general and revaluation reserves. General reserves are established by allocation of 20% of the annual net income, until the level of the initial capital is reached. General reserves are intended for covering the general risks in the operations of the National Bank. Revaluation reserves are established from the non-realized revenues arising from changes in the exchange rate and the prices and are intended for covering the non-realized expenditures arising from changes in the exchange rate and the prices (Articles 84-88 of the Law)

The amount of the net calculated revaluation revenues in the year is allocated from the income and is carried forward to the revaluation reserves. The net income, after the allocation of the amounts for initial capital and for reserves, constitutes the revenue of the Budget of the Republic of Macedonia (Articles 89 of the Law).

The loss of the National Bank is covered from the general reserves of the National Bank, and if they are insufficient, the loss is covered with funds from the Budget of the Republic of Macedonia or by issuing government securities.

Preparation of a new Law on the National Bank of the Republic of Macedonia is underway, and it will be in full compliance with the European legislation for the central banks. The new law will further specify the financial independence of the National Bank.

10. What are the provisions governing the distribution of the central bank's profits?

The distribution of the National Bank's profits is regulated by Articles 8, 84, 86 and 89 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004):

- The initial capital of the National Bank may be increased by allocation of the net income after obtaining prior approval of the Government of the Republic of Macedonia (Article 8 of the Law);
- The National Bank establishes general and revaluation reserves. An amount of 20% of the annual net income is allocated to the general reserves, until the level of the initial capital is reached (Articles 84 and 86 of the Law).
- Revaluation reserves in the amount of the net calculated revaluation revenues in the year are allocated from the gross income. The net income of the National Bank, after the allocation of the amounts for initial capital and for general reserves, is regarded as revenue of the Budget of the Republic of Macedonia (Article 89 of the Law).

11. Does the ex-post review of the central bank's accounts reflect adequate safeguards to prevent it from infringing on the bank's independence?

The Annual Financial Statement of the National Bank of the Republic of Macedonia is adopted by the Council of the National Bank of Macedonia (Article 92 of the Law on the National Bank of the Republic of Macedonia, "Official Gazette of RM" No. 3/2002, 51/2003, 85/2003 and 40/2004).

The Annual Financial Statements of the National Bank are an integral part of the Annual Report of the National Bank of the Republic of Macedonia, which is made public (Article 92 of the Law on the National Bank of the Republic of Macedonia).

The National Bank submits the Annual Report of the National Bank to the Parliament of the Republic of Macedonia not later than six months after expiration of the period it refers to. (Article 55 of the Law on the National Bank of the Republic of Macedonia). The Annual Report of the National Bank is submitted to the Parliament of the Republic of Macedonia in order to keep informed the Parliament.
Current legislation does not contain explicit provisions for conducting ex-post review and, so far, such form of analysis of the National Bank's operations has not been used for infringing on the National Bank's independence.

C. Prohibition of monetary financing and privileged access

1. Please provide a copy of laws and regulations (in one of the official EU languages) governing the access of government to financial institutions (e.g. laws and other regulations governing the asset allocation of banks, savings and co-operative banks, insurance companies, social, pension and special funds, other institutional investors, investors compensation schemes, tax laws, etc.).

Copies, in English, of the following laws that govern the access of the Government to the financial institutions are attached as follows:

1. Law on Budgets ("Official Gazette of RM" No. 79/1993, 3/1994, 71/1996, Decision of 15/1999 - Decision of Constitutional Court, 46/2000, 11/2001, 93/2001, 46/2002, 24/2003, 85/2003 and 96/04), see 11_Annex_15,
2. Securities Law ("Official Gazette of RM" No. 63/2000, 103/2000, 34/2001, 4/2002, 37/2002, 31/2003 and 85/2003), see 11_Annex_16

2. Please indicate the respective provisions in these documents, as well as any other elements, which might constitute privileged access of the government to financial institutions.

None of the mentioned documents, nor any other document contains provisions that might constitute privileged access of the government to financial institutions.

3. In particular, the following questions have to be addressed:
a) Are there national legal provisions requiring or encouraging (through tax or other advantages) banks, insurance companies, pension funds, social security funds, investor compensation fund or other financial institutions to invest (e.g. a certain portion of their assets) in domestic government securities or other government liabilities?
b) To what extent has the central bank contributed to the financing of the public sector? Describe the present situation both in legal terms and in practice. Describe the rules governing central bank credit to the government (limits, repayment, maturity, etc.), if such rules exist?
c) Is the central bank authorised to buy public debt instruments directly on the primary market?

a)
There is no national law that contains provisions which require from the financial institutions to invest in government securities, nor there are provisions that provide tax relieves or other benefits for investing in government securities.

b)
Article 51 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" no. 3/02, 51/03, 85/03 and 40/04), hereinafter: Law, explicitly prohibits lending to and financing of the public sector. The National Bank does not guarantee for the assumed liabilities of the central government and the administrative bodies.
Exception to the restriction of the funding of the central government and the administrative bodies are the loans and borrowings with up to one-day maturity, with no possibility to be renewed or extended (Article 52 of the Law).

c)
The National Bank may not purchase directly (on the primary market) public debt instruments (Article 51 paragraph 2 of the Law on the National Bank of the Republic of Macedonia).

D. Monetary and exchange rate policy

1. What are the final objectives, the intermediate targets and the operational targets of monetary policy?

Pursuant to Article 3 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM", No. 3/02, 51/03, 85/03 and 40/04) the main objective of the National Bank is the maintenance of the price stability. From the aspect of the strategy, the monetary policy of the National Bank of the Republic of Macedonia has been based on the application of the strategy of targeting the nominal Denar exchange rate against the Euro since October 1995. Thus the ultimate monetary objective is the maintenance of the price stability, while the intermediate objective is the maintenance of the stability of the nominal Denar exchange rate against the Euro. Having in mind the underdeveloped financial markets in the Republic of Macedonia, as well as the moderate elasticity of the interest rates in the banking system, the operational procedures of the NBRM are not focused on the explicit operational target. Therefore, the National Bank of the Republic of Macedonia uses a combination of variables as an operational target - the banks' reserves and the interest rate on the Money Market, constantly monitoring their influence on the movements on the foreign exchange market.

2. Is the maintenance of price stability the primary objective of the central bank? Without prejudice to that objective, does the central bank support the general economic policy objectives of the government?

The Law on the National Bank of the Republic of Macedonia explicitly defines the price stability as a main objective of the National Bank (Article 3 of the Law on the National Bank of the Republic of Macedonia, “Official Gazette of RM” No. 3/2002, 51/2003, 85/2003 and 40/2004). Also the second paragraph of this Article stipulates: "The National Bank shall support the economic policy of the country and the financial stability of the country without jeopardizing the realization of the main objective, and adhering to the principles of the market economy".

3. Is the central bank act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and acting in compliance with the principles set out in Article 4 of the EC Treaty?

The second paragraph of Article 3 of the Law on the National Bank of the Republic of Macedonia (“Official Gazette of RM” No. 3/2002, 51/2003, 85/2003 and 40/2004) stipulates: "The National Bank shall support the economic policy of the country and the financial stability of the country without jeopardizing the realization of the main objective, and adhering to the principles of the market economy." which, essentially, is in accordance with the principles of Article 4 of the European Community Treaty.

4. Do the basic tasks of the central bank include the following: definition and implementation of monetary policy, conduct of foreign exchange policy, holding and management of the official foreign reserves of the country, and promotion of the smooth operation of payment systems?

The functions of the National Bank fully cover the areas listed in the question. Some of the functions of the National Bank are the following: definition and implementation of monetary policy, conduct of foreign exchange policy, holding and management of the official foreign reserves of the country.

The Law on the National Bank of the Republic of Macedonia, “Official Gazette of RM” No. 3/2002, 51/2003, 85/2003 and 40/2004 (hereinafter referred to as: Law) does not contain an explicit provision regulating smooth operation of the payment systems. In accordance with Article 10 of the Law, the National Bank regulates the payment system according to a law.

The National Bank ensures smooth operation of the real time gross settlement system – MIPS (Macedonian Interbank Payment System).

5. How is monetary policy carried out (reserve requirements, refinancing facilities, open market operations, major central bank interest rates, other monetary instruments)? What have been the main recent developments in the use of monetary instruments? To what extent have direct instruments of monetary control (such as credit ceilings, interest rate controls, etc.) been replaced by indirect, market-based instruments (such as open market operations, financing facilities, etc.)? Is the framework for monetary policy sufficient to allow policy makers to conduct successful stabilisation policies?

After the monetary independence of the Republic of Macedonia proclaimed on 26.04.1992, the NBRM carried out significant changes and adjustments to the operational framework, in order to provide sound and efficient implementation of the monetary policy. Namely, during the transition path of the monetary instruments, the NBRM succeeded in the gradual abandoning of the direct instruments and transferring to the complete application of the indirect instruments. The last direct monetary instrument (the credit ceilings) was abolished in April 2000.

The current set of instruments of the NBRM encompasses:

1. Reserve requirement
- Reserve requirement in Denars
- Reserve requirement in foreign exchange
2. Open market operations
- Issuance of CB bills
- Credit operations (credit auctions)
- Foreign exchange swap operations
3. Lombard credit

The reserve requirement is a traditional monetary policy instrument of the NBRM, requiring from the banks and the savings houses in the Republic of Macedonia to allocate funds on the accounts with the Central Bank. Thus a control over the supply of money by the Central Bank and its indirect influence on the credit multiplication level is enabled.

All banks in the Republic of Macedonia are required to allocate 7.5% of the deposits encompassed in the basis for calculating the reserve requirement, while this ratio equals 2.5% for the saving houses. The basis of the reserve requirement is determined as an average of the balance of the deposits for each calendar day of the previous month. The period of maintaining the reserve requirement starts on the 11th day of the current month and lasts up till the 10th day of the following month.

The banks fulfill the reserve requirement in Denars on average level, having right of a daily use of funds from the reserve requirement up to 80% of the requirement. The demand deposits on the banks' accounts with the NBRM and the cash in vaults of the banks are used as eligible assets for meeting the reserve requirement.

The saving houses allocate the reserve requirement on the special account with the National Bank, maintaining it on a fixed level.

The banks' reserve requirement in foreign exchange is allocated on special foreign exchange accounts of the National Bank abroad and it is maintained in Euros. The banks' reserve requirement in foreign exchange is maintained in a fixed amount.

The remuneration rate for the allocated funds in the reserve requirement in Denars currently equals 2%, while for the allocated funds in reserve requirement in foreign exchange the NBRM pays remuneration in the amount of the interest rate of the sight deposits abroad.

Open market type operations

The main monetary instrument the NBRM applies to compensate the influence of the autonomous factors that cause changes in its balance sheet are the CB bills. The dominance of this instrument over the other monetary instruments of the NBRM originates from the influence of the autonomous factors on the banks' liquidity. Having in mind that starting from the mid-1999, the changes of these factors have been acting towards increasing the liquidity in the banking system on a net basis, the NBRM acts towards sterilization of the excess liquidity in the banking system through the CB bills issuance.

The issuance of CB bills is conducted through auctions held twice a week, on a regular basis (on Wednesdays and Fridays). The CB bills are sold at a discounted value, and on the maturity date, the NBRM pays the face value of the CB bills. There are two types of CB bills auctions, volume tender and interest rate tender. Currently, the NBRM applies the volume tender, offering for sale an unlimited amount of CB bills with maturity of 7 and 28 days with fixed interest rates at the level of 6.0% and 9.0%, respectively.

The NBRM signalizes its intentions by changing the official interest rates. The interest rate of the CB bills plays the key role as an official interest rate of the NBRM.

Credit operations were the main instrument of the monetary policy of the NBRM in the period after the monetary independence until the second half of 1999. However, the increased foreign exchange inflow in the country after the cessation of the Kosvo crisis led to an increase in the liquidity in the banking system, decrease in the banks' indebtedness based on utilization of credits from the NBRM and to a gradual increase in the interest in purchasing CB bills.

The credit operations are conducted through auctions, applying volume tender or interest rate tender. When approving credits through the auctions, the NBRM accepts the CB bills and the Treasury bills as collateral. The pledged securities amount to 105% of the credit.

Currently, due to the structural excess of liquidity in the banking system, the NBRM does not apply this monetary policy instrument.

The foreign exchange swap operations are rarely used as an instrument by the NBRM, and their main objective is to mitigate the unexpected liquidity shocks caused by the influence of the autonomous factors through issuing or withdrawing Denar liquidity in the banking system.

The foreign exchange swap transactions may be executed through auctions or on a bilateral basis. Their maturity and frequency are not standardized. This monetary instrument was more frequently applied in 2001 when a temporarily larger demand for foreign exchange on the foreign exchange market was registered.

The Lombard credit is a short-term collateralized credit, available at discretion of banks facing a shortage of liquidity at the end of the working day. The CB bills and the Treasury bills of the RM are used as collateral for granting a Lombard credit. The pledged securities amount to 105% of the credit. The interest rate on the Lombard Credit currently equals 11%, representing also a ceiling for the market interest rate fluctuations.

Generally, the framework of instruments of the NBRM enables smooth implementation of its stabilization monetary policy, which is evident from the low rates of inflation during the last decade, close to the rate of inflation registered within the EU.

For the purpose of further adjustment of the NBRM's set of instruments to the monetary instruments of the EMU, the NBRM considers the possibility of introducing deposit facility in order to create a corridor of the market interest rates movement.

Simultaneously, by developing and reviving the Government securities market, further improvement of the open market operations through the introduction of repo operations with Government securities is planned.

The introduction of the repo transactions in the Republic of Macedonia will broaden the set of instruments for liquidity and risks management, not only regarding the monetary authorities, but also regarding the other participants in the market, it will increase the demand for securities and consequently, it will enhance the development of the financial markets.

6. Which factors hinder the conduct of monetary policy (e.g. elasticity of loans and domestic expenditure to interest rates, competition in the banking sector, changes in the structure of financial markets)?

The monetary policy is based on the implementation of the exchange rate targeting strategy, which corresponds with the relevance of the exchange rate as the most direct and fastest channel of the monetary transmission in the Republic of Macedonia. Hence the monetary policy design is basically directed towards maintaining the exchange rate stability which largely contributes towards maintaining the price stability.

Basically, the NBRM monetary policy is conducted by a combination of direct interventions on the foreign exchange market and a change in the CB bills interest rate (short-term NBRM securities in domestic currency). The aim of the second instrument is to act towards changing the attractiveness of the domestic currency (i.e. the structure of the currency of denomination of the banks' portfolio), and thus to affect the supply of and the demand for foreign currency on the foreign exchange market. Also, the change in the CB bills interest rate (for example its increase) means an increase in the yield of such risk-free investment alternative, thus acting towards changing the banks' portfolio structure (such as lower credit supply, etc). One of the channels for realization of such effects is also the change in the banks' interest rate policy (as a reaction to the changes in the monetary policy) which would influence the demand for credits. The above also acts towards reducing the potential demand for foreign currency. Nonetheless, the monetary transmission through the interest rates channel is relatively restricted.

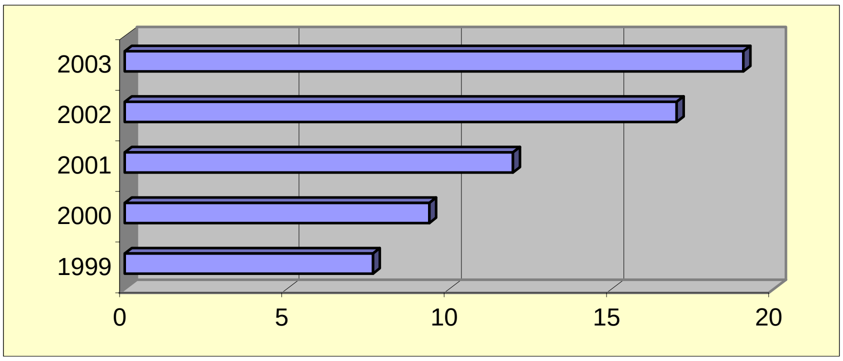
Principally, there are several factors that limit the monetary transmission process through the interest rates channel:

- Insufficient development of the financial markets and insufficient diversification of the financial instruments portfolio;
- Rigid banks' interest rate policy (as a result of the effect of the factors of structural and fundamental nature);
- Structural excess liquidity in the banking system, where the Central Bank does not create liquidity in the banking system and its active influence on the banks' interest rates is restricted;
- Relatively small elasticity of the demand for credits to households to the changes in the interest rates;
- High degree of gray economy;
- Factors of non-economic nature;
- High degree of euroization (dollarization);
- The insufficient development of the financial markets and the poor financial instruments portfolio is one of the major factors that hinder the monetary policy conduct. The shallow and underdeveloped financial markets do not have sufficient capacity for adequate monetary signals absorption and transmission. Having an insufficiently diversified securities portfolio and non-operational secondary market, the Central Bank is not in a position to actually perform open market operations, which significantly decreases the monetary policy efficiency.
- The rigid banks' interest rate policy (where in early 2003 the non-responsiveness of the banks' interest rates gradually loses the intensity) was one of the key monetary transmission hindering factors. The nominal lending interest rates of the banks remained relatively high for a longer time period, with their dynamics not corresponding with the changes in the monetary policy design.

  The rigid banks' interest rate policy was a result of the effect of several factors:

  1. Low level of savings in the banking system until 2002 perceived through the low share of the total deposits in the GDP. Nevertheless, this share permanently increases, reflecting the stabilization of the overall surrounding, the relatively high security which arises from the deposit insurance scheme, as well as the strengthened credibility of the banking system (particularly once its resistance to several shocks of non-economic nature was being confirmed).

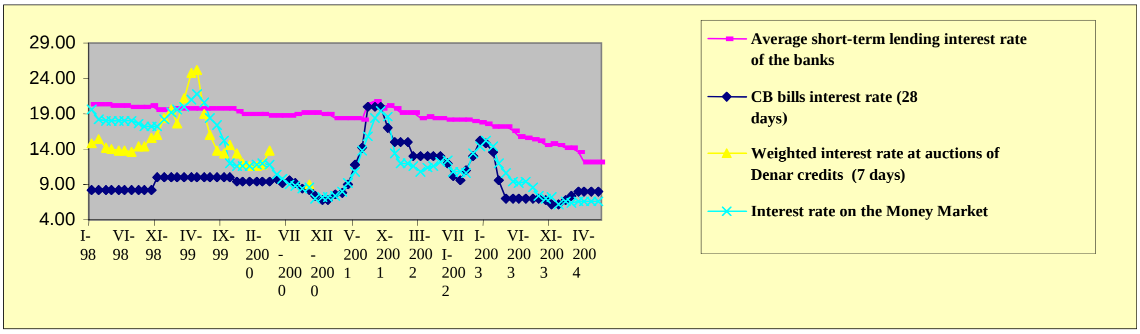
Share of the total deposits in the GDP (in %)



2. Maintenance of a relatively high percentage of so-called "bad loans" in the total banks' credit portfolio;
3. Low degree of high-quality competition in the banking system, partially evident through the maintenance of wide interest rate spreads until 2003 (for more details see II_VI_B_3). However, the entrance of foreign capital in the Macedonian banking system and the more active business policy of most of the banks resulted in a gradual increase in the degree of competitiveness, with the responsiveness of the banks to the changes in the monetary policy being gradually increased;
4. Inefficient and long procedures for foreclosure which result in the need of incorporating additional premium in the interest rates.

The gradual exhaustion of the effect of these factors resulted in a downward trend of the banks' interest rates in mid 2003 and larger responsiveness to the Central Bank signals shown in the chart below.

Interest rates (in %)



– One of the rationales behind the poor responsiveness of the banks' interest rates to the monetary signals is also the structural excess liquidity in the banking system. The excess liquidity is partially caused by the high foreign exchange inflows and their purchase by the NBRM in late 1999, i.e. after the Kosovo crisis. It is also illustrated by the lower interest of the banks in using NBRM credits (through the credit auctions) in this period, with the last credit auction being conducted in April 2000. Under such circumstances, the CB bills were given the role of a major monetary instrument, through which the excess liquidity is absorbed. Thus the Central Bank is not a source of financing the needs of the banks, and the absence of a shortage of liquidity in the system does not allow active "dictating" of the interest rates by the Central Bank. The main channel through which the Central Bank affects the banks' interest rate policy are the CB bills auctions, thus sterilizing a portion of the excess liquidity or increasing the supply of foreign exchange on the foreign exchange market by offering higher yield of such risk-free short-term securities. Taking into account the poor supply of financial instruments in which the excess liquidity could be invested, these liquid funds represent a potential demand for foreign exchange on the foreign exchange market, which means a larger burden for the monetary policy (given the de facto fixed exchange rate strategy).

- The poor elasticity of the credits to households to the changes in the interest rates is an additional factor that impedes the monetary policy conduct. In 2003, the banks started lending intensively to the households, when the banking loans regained the role of additional source of purchasing power of this sector after a longer period of time. Thus, at the end of June 2004, compared to the end of 2002, the banks' total placements with the households were twice higher. Taking into consideration the short time period in which the banking credits are used as a source of financing the personal consumption, in this period the demand for such credits is relatively inelastic to the changes in the interest rates.
- The negative effect of the gray economy on the monetary policy conduct is reflected through the high amount of currency in circulation outside the banks (Denar and foreign exchange), the channeling of which in the banking system would also mean higher financial intermediation and more efficient monetary policy conduct;
- The factors of non-economic nature, primarily the security crisis in the neighboring countries (the Kosovo crisis in 1999) and in the country (2001) resulted in an environment of uncertainty and restraint of the economic agents. In such conditions, the banks compensated the risk caused by these factors by incorporating higher risk premium in their interest rates. Consequently, they responded very slowly to the gradual decrease in the Central Bank interest rates. Given the gradual stabilization of the overall developments, and consequently, the exhaustion of the relevance of such factors, larger responsiveness of the banks' interest rate policy to the changes in the Central Bank interest rates was evident in early 2003.
- One of the factors that contributed towards lower efficiency in the monetary policy conduct is the relatively high degree of euroization of the Macedonian banking system. The high inflation rates at the beginning of the monetary independence considerably disturbed the confidence in the domestic currency, which resulted in evident preferences to save in foreign currency. Thus from 1999 to September 2001 (prior to the beginning of the Euro conversion and the intensive depositing of the foreign currency, which were previously outside the banking channels, in the banking system) the average share of foreign exchange deposits in the total banks' deposit potential equaled 49,8%, while from October 2001 to June 2004 it equaled 65,7%. Also, in addition to the portion of the credits extended to the private sector, denominated in foreign currency, part of the Denar credits is with a foreign exchange clause aimed at hedging against the exchange rate risk. Thus if the amount of the Denar credits with foreign exchange clause is added to the total amount of foreign exchange credits, the share of these credits in the banks' total placements amounts to 33,6%, on average, from January 2003 to June 2004.

Notwithstanding all the above hindering factors, the NBRM quite successfully preserves the price stability, as a primary monetary objective.

7. Describe the major characteristics and objectives of your exchange rate regime and policy: anchor, choice of the central rates, width of the fluctuation bands, etc.

According to the regulations, the Denar exchange rate is freely formed on the market, pursuant to Article 33 of the Law on Foreign Exchange Operations ("Official Gazette of RM" No. 34/01, 49/01, 103/01, 54/02 and 53/03), while in the practice, the NBRM conducts a de facto pegged exchange rate policy. Since October 1995, the NBRM has been applying a monetary strategy of targeting the nominal exchange rate of the Denar (until the Euro conversion in 2002 against the Deutsche Mark, and later, against the Euro).

The determination of the Republic of Macedonia to use the exchange rate as a nominal anchor is primarily due to the nature of the Macedonian economy. The Macedonian economy is small and open, with an average share of the foreign trade in the GDP of 80,8% in the 1999 - 2003 period, while the share in the world trade is 0,025%. Also, typical for Macedonia is the high export concentration, as well as the relatively high degree of euroization of the economy (which is continuously monitored through the currency substitution). The pegging to one currency rather than to a currency basket is due to the dominant position of the Euro in the economy. Thus, around 69% of the total foreign trade is Euro-denominated (since the EU is a dominant trading partner - in the first six months of 2004, the foreign trade with the EU accounts for 53,6% of the total foreign trade of the RM), in 2003 and 2004, the turnover in Euro on the foreign exchange market and on the exchange offices market on average accounts for 70% and 56,5% of the total turnover, respectively, and also, the Euro is the dominant currency in the banks' balance sheets (at the end of March 2004, the share of the Euro on the assets side and the liabilities side of the banks equaled 82,2% and 80,7%, respectively).

8. How is the exchange rate policy implemented? What are its instruments (interventions, monetary policy, fiscal policy, capital control)? What is the intervention policy – if any – (currencies used, financing, sterilisation)?

The maintenance of the exchange rate stability, and hence the price stability is based on a combined use of the National Bank of the Republic of Macedonia direct interventions on the foreign exchange market, indirect monetary policy instruments, coordination between the monetary and the fiscal policy and partial liberalization of the capital flows.

The policy of stable exchange rate, when used as a nominal anchor requires frequent National Bank of the Republic of Macedonia direct interventions in the foreign exchange market. The interventions are contingent upon the seasonal movements and are aimed at meeting the demand and accumulation of the excess foreign exchange. The exchange rates the National Bank of the Republic of Macedonia quotes and the interventions are conducted by using the exchange rates currently prevailing on the market. The National Bank of the Republic of Macedonia quotes and the carried out interventions are usually in Euro.

Major monetary instrument aimed at efficient liquidity management by the National Bank of the Republic of Macedonia are the CB bills auctions. Hence, the excess liquidity created through the foreign exchange transactions (and the other autonomous factors) is sterilized through the CB bills. Basically, the CB bills should provide an optimum liquidity level which will not potentially destabilize the foreign exchange market and the exchange rate stability.

Setting the budget at a relatively low level in line with the balance of payments and the need of building an optimum level of foreign exchange reserves is also a prudential policy in the maintenance of a stable exchange rate. The coordination between the monetary and the fiscal policy ensures that the Denar issuance by the Government through its Treasury Account is in line with the developments on the foreign exchange market and the banking system liquidity. The Treasury bills issuance and introduction by the Ministry of Finance also contributed towards improving the liquidity management, and consequently, conducting a policy of stable exchange rate.

The capital transactions liberalization process in the Republic of Macedonia is gradual and carried out in stages, which is consistent with the applied exchange rate policy (for more details see 04_I_4).

9. Are any reforms of the exchange rate policy envisaged? If yes, why? What part does the prospect of EU accession play in this respect?

The analysis of the features of the Macedonian economy (for more details see 11_I_D_7) points to the large significance of the exchange rate, primarily from the aspect of its effect on the inflation dynamics. Thus for the institutions responsible for conducting monetary policy, the exchange rate is a variable of great importance.

On the other hand, the process of liberalization of the capital flows and the foreign exchange regime as a whole, imposes the issue of a possible change of the current exchange rate regime. Having in mind the gradual liberalization of the movement of the short-term capital, the need for changing the current strategy of exchange rate targeting is not deemed necessary in near future.

From the aspect of the alternatives of the current exchange rate regime, the features of the Macedonian economy allow gradual introduction of limited exchange rate flexibility, which compared to the current regime would also enable more flexible implementation of the monetary policy and distribution of the absorption of possible pressures through the exchange rate (within the limited flexibility) and through the domestic interest rates. The transition to a larger exchange rate flexibility would not be completed if the assumptions for successful change in the exchange rate regime were not fulfilled (stable foreign exchange market, fiscal consolidation, adequate prudent regulations of the banks for appropriate exchange rate risk management, etc.).

The accession of the Republic of Macedonia to the European Union, hence acquiring a status of a member-state with derogation, would basically not result in a change in the exchange rate policy directions. Namely, the imposed criterion for a stable exchange rate (part of the Maastricht criteria for nominal convergence) and compulsory membership in ERM 2 for a two-year period (with permitted margins of ±15%) completely corresponds to the current exchange rate strategy, as well as with the future directions for its layout.

Within this framework, it is important to mention that basically, the Republic of Macedonia has been meeting the criteria for nominal convergence (Maastricht criteria) for a longer period of time, as a presumption for joining the EMU (except for the criterion for the long-term interest rates, having in mind the fact that the development of the financial markets and the long-term financial instruments is in its initial phase, so there is no comparable long-term interest rate).

10. Are there any attempts to measure equilibrium (real) exchange rates? What has been the recent evolution of the equilibrium real exchange rate?

The NBRM compiles and monitors the real effective exchange rate (for more details see II_I_1). No attempt has been made so far to measure the equilibrium real exchange rate. Nevertheless, one of the planned projects (expected to be launched in 2005) is also the measurement of the equilibrium real effective exchange rate. Considering the features of the data time series in the economies in transitions (short time series with several structural breaks), the measurement would be based on a non-structural approach.

11. What is the link between the exchange rate policy and monetary policy?

When using the exchange rate as a nominal anchor, the correlation between the monetary policy and exchange rate policy is extremely high. Actually, the implementation of the strategy of exchange rate targeting implies a contemporaneous conduct of the monetary and exchange rate policies. The reasons for using the exchange rate as a nominal anchor originate from the features of the Macedonian economy. The factors of higher importance contributing to a larger significance of the exchange rate when creating and conducting the monetary policy, are the following:

- Size and openness of the Macedonian economy. The Macedonian economy is small and open, with the average share of the foreign trade in the GDP in the 1999 - 2003 period equaling 80,8%, while the share in the international trade equals 0,025%.
- Currency concentration of the total foreign trade, i.e. the dominance of the Euro in the total trade. Thus the share of the Euro in the foreign trade currency structure in 2003 equaled 69,4%. Thus larger fluctuations of the Denar - Euro exchange rate may imply larger distortions in the total foreign trade.
- High export concentration. The low diversification of the export also implies a danger of distracting the total export activity in case of larger exchange rate fluctuations.
- High correlation between the changes in the exchange rate and the movement of the inflation, with the research showing that about 20% of the price variations being generated from the changes in the exchange rate.
- High level of euroization of the Macedonian economy. Thus in the first half of 2004, the average share of the foreign exchange deposits in the total money supply M4 equals 44,8%.

The utilization of the exchange rate as a nominal anchor of the monetary policy generates permanent successful results in maintaining the price stability, as the most favorable environment for a long-term economic development. Hence, the exchange rate and the monetary policies are two complementary segments, with the layout of the first policy being in function of successful realization of the objectives of the second.

12. How will the liberalisation of capital movements affect the monetary and exchange rate policies? How vulnerable is your economy to a significant appreciation or depreciation of the currency?

The liberalization of the capital movement should basically reflect on the correlation between the demand and the supply on the foreign exchange market, which in case of using the exchange rate as a nominal anchor may cause a distortion of its stability. In case there is a de facto fixed exchange rate, the higher inflows or outflows would have a direct effect on the monetary policy conduct through changing the interest rates of the NBRM and through interventions on the foreign exchange market.

If larger exchange rate flexibility is accepted, after the initial depreciation or appreciation of the exchange rate (within the limited flexibility), re-stabilization of the movements on a medium-run can be expected (through the Money Market and foreign trade mechanism). Thus if the inflows and the outflows cause no deviation of the exchange rate from the set margins, no effects of higher significance on the monetary and exchange rate policies can be expected.

The effects of the capital inflows and outflows are presented normatively, since the Macedonian economy has not faced larger problems in this area, yet. Having in mind that full liberalization of the short-term capital has not been performed, and that there are also certain implicit limitations to the already liberalized short-term transactions (for more details see 04_I_4), no larger changes in the monetary and the exchange rate policies in the following period are expected.

The exposure of certain sectors in regard to the economy's vulnerability to the changes in the exchange rate is different. Hence, the banking sector has long open currency position, because of which it is more vulnerable to the appreciation of the exchange rate. However, the performed stress-test to the banking system (the stress-testing is prepared in the NBRM on a quarterly basis, in order to monitor the safety and the soundness of the banking system) more efficiently shows that the banking system is highly resistant to larger fluctuations of the exchange rate. The results from the stress-test analysis show that the Macedonian banking system is relatively stable and resistant to the foreign exchange risk, as well as to the combination of the individual risks (credit risk, foreign exchange risk, interest rates risk). Also in such a combination of shocks to the banking system, no larger problems in maintaining the capital adequacy ratio are noticed. The previous experiences (the Kosovo crisis in 1999, the security crisis in the Republic of Macedonia in 2001) also prove this, when despite the significant negative shocks, a systemic banking crisis was avoided.

On the other hand, the banks face with an indirect credit risk, originating from the currency structure of the corporate sector balance sheets (higher vulnerability to depreciation, which can be even larger in case of liberalization in using foreign loans by the enterprises - further increase in their foreign exchange liabilities). However, having in mind that the credit risk was also included in the stress-testing, the banking sector proved to be relatively resistant also to this type of risk.

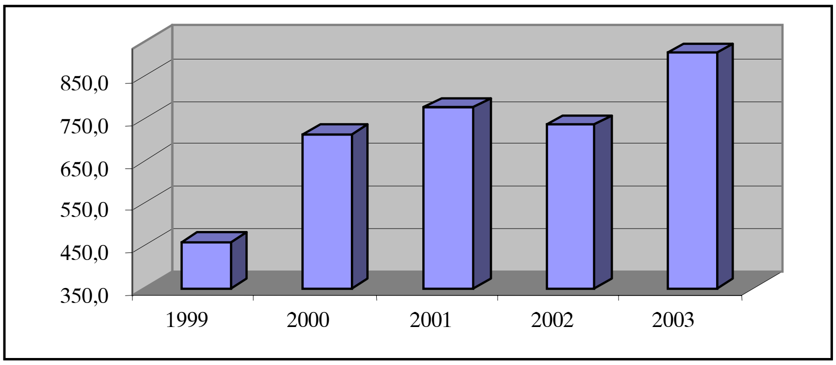
The "households" sector is the main holder of the foreign exchange savings, while its share in the total foreign exchange loans is insignificant. Thus on 30.06.2004, the share of the foreign currency households' deposits in the total foreign currency deposits equals 77,5%, while the share of the households' foreign exchange loans in the total foreign exchange loans is insignificant. Thus the households sector is more vulnerable to appreciation of the exchange rate.

Regarding the external sector, the effects of changing the exchange rate would rather be felt in the imports than in the exports, which is characterized with large dependence on the imports and production concentration, with the final effect being uncertain. Thus the possible depreciation of the domestic currency will initially imply negative effects upon the exports due to more expensive raw materials. In addition, the export is being dominated by products (iron and steel, textile and tobacco) with which the Macedonian economy does not have comparative advantage on the international market and the production of which is more rigid, thus hampering the restructuring of the facilities as a reaction to the positive shocks to the competitiveness (such as the depreciation of the Denar). This statement can be proved by the single devaluation of the Denar in July 1997. Namely, analyzing the devaluation effects on the competitiveness of the Macedonian economy, no clear effect towards higher export, nor reduced import of goods immediately after the devaluation can be registered. An improvement in the current account (almost balanced) of the balance of payments was registered in 1999, with no significant improvement in the trade balance being registered.

13. What is the situation of foreign exchange reserves? Are there any targets for the size of these? How are the reserves managed?

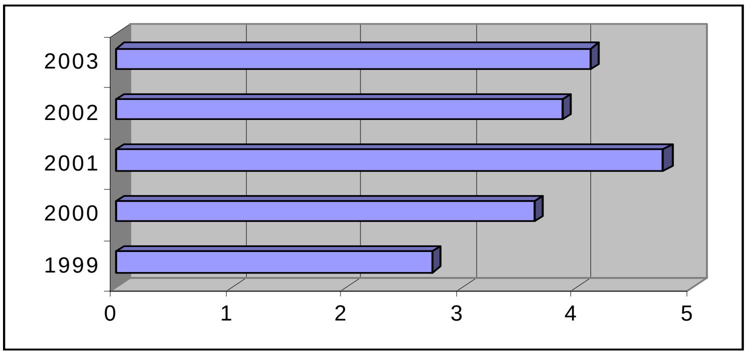
Having a still limited access to the international capital market and a simultaneous implementation of a de facto pegged exchange rate, the gross foreign exchange reserves adequacy is estimated at about four-month coverage of the import of goods and services. The analysis of the gross foreign exchange reserves from the aspect of this criterion indicates a reasonable international liquidity.

Gross foreign exchange reserves (in US Dollar million)



Source: NBRM

Gross foreign exchange reserves (in months of coverage of the import of goods and services)



Source: NBRM

The foreign exchange reserves of the Republic of Macedonia are managed by the National Bank of the Republic of Macedonia (Articles 25 and 26 of the Law on the National Bank of the Republic of Macedonia, “Official Gazette of RM” No. 3/2002, 51/2003, 85/2003 and 40/2004). In their management, the National Bank of the Republic of Macedonia follows the liquidity, security and profitability principles (Article 28 of the Law on the National Bank of the Republic of Macedonia). The National Bank of the Republic of Macedonia Council sets the Policy of Foreign Exchange Reserves Management (Article 64 of the Law on the National Bank of the Republic of Macedonia). The Policy defines qualitative and quantitative limits which ensure adherence to the aforementioned principles in the foreign exchange reserves management. The above principles are adhered to by managing certain risks such as:

- The credit risk is managed by placing the foreign exchange reserves in instruments of foreign central banks, international institutions and commercial banks enjoying one of the two highest short-term credit ratings given by at least two internationally recognized rating agencies. The foreign exchange reserves are held in the form of deposits, monetary gold, cash and checks in convertible foreign currency, foreign exchange and foreign exchange deposits, special drawing rights, notes, certificates of deposits, bonds and other debt securities in convertible foreign currency, forward and repo agreements. Investment in shares and other equity securities, debt instruments of private corporations and derivative instruments is not allowed.
- The liquidity risk is managed by determining the basic maturity structure. The share of the funds at immediate disposal and the funds with maturity of up to 30 days is the largest. The maturity structure determination results from the exchange rate policy and from the need of National Bank of the Republic of Macedonia interventions on the foreign exchange market.
- The currency risk is managed by using the basic structure of currency of denomination, determined by the structure of the currency of denomination of the liabilities. This structure is dominated by the Euro, followed by the US Dollar, whereas the share of other convertible currencies is irrelevant. A portion of the foreign exchange reserves is in the form of monetary gold.
- The interest rate risk in the securities portfolio is controlled by determining its basic duration.

14. How has the gross external debt stock developed? Please indicate the main sources of growth and its structural elements (e.g. maturity, creditor, currency composition etc.)? What will the past debt accumulation mean in terms of medium- and long-term growth of amortisation? How has the servicing of the external debt been managed?

As of 30.06.2004, the amount of the external debt of the Republic of Macedonia totaled US Dollar 1.801,20 million or 34,80% of the projected GDP for 2004. The external debt of the General Government amounts to US Dollar 1.247,84 million or 24,10% of the projected GDP for 2004.

After gaining its independence, the Republic of Macedonia was not in a position to service the due liabilities to foreign creditors regularly due to several political and economic factors: the unresolved issues regarding the distribution of assets and the liabilities after the disintegration of the former SFRY, the low level of foreign exchange reserves, the loss of markets in the former Yugoslavia and the fall in the export inflows, the sanctions towards SRY, the decline in the domestic output, the trade embargo imposed by Greece, the political issues regarding the non-recognition of the country and the inheritance of the membership rights in the international financial institutions.

In 1994, the process of determining and regulating the liabilities towards foreign creditors started alongside the process of regulating the relations among the successor countries of former SFRY. At the same time, the Republic of Macedonia concluded its first arrangement with the IMF and started to service its liabilities to the international financial institutions (the IMF and the IBRD) regularly.
In 1995, the Republic of Macedonia assumed a total debt of US Dollar 396,88 million towards the member states of the Paris Club of Creditors. A larger portion of this debt in the amount of US Dollar 313,06 million is a debt of debtors operating on the territory of the Republic of Macedonia, while US Dollar 83,82 million is the debt assumed from the former SFRY, which constitutes 5,40% of the total debt of the former SFRY.

This percentage has been set according to the distribution of the quota of the former SFRY in the IMF between the successor states. Amount of US Dollar 324,50 million out of the total assumed debt is rescheduled, with the amount of US Dollar 222,19 million being rescheduled with maturity of 15,5 years, and US Dollar 102,31 million are with maturity of 6,5 years. The remaining part of the debt in the amount of US Dollar 72,38 million was not encompassed in the rescheduling, i.e. repayment according to the current terms was agreed.

In March 1997, as agreed, the Republic of Macedonia assumed 5,40% or US Dollar 228,73 million of the total debt of the former SFRY to the London Club of Creditors. This amount was covered with the issuance of C bonds, the repayment of which is divided in 30 semi-annual installments.

With the liabilities to the Paris Club and the London Club of Creditors being regulated, the process of determining and regulating the liabilities based on external debt of the Republic of Macedonia assumed from the former SFRY was completed.

Parallel to the process of determining and regulating the relations with the international financial institutions, the Paris Club and the London Club of Creditors, the Republic of Macedonia was extended new loans and credits by the official creditors, primarily intended for balance of payments support, stimulating the private sector development, structural reforms in certain activities from the social and health care area, as well as for improving the infrastructure, i.e. the road network and the energetic systems.

In 1999, due to the negative economic consequences of the Kosovo crisis, the Paris Club of Creditors approved restructuring of the liabilities of the Republic of Macedonia, maturing in 01.04.1999 – 31.03.2000 period. In order to mitigate the consequences of the crisis, credits intended for the balance of payments support were used once more during this period.

Table 1: External debt by debtors 1999 – 30.06.2004 (In millions of US Dollars)						
	1999	2000	2001	2002	2003	30.06.2004
Total external debt	1.502	1.548	1.494	1.635	1.813	1.801
Public sector	1.296	1.343	1.229	1.321	1.487	1.461
General Government	1.029	1.074	1.050	1.135	1.257	1.248
Central Government	976	1.024	1.008	1.095	1.215	1.208
Public funds	53	49	42	40	41	40
NBRM	102	96	71	67	68	55
Public enterprises	164	173	108	119	162	158
Private sector	207	205	265	314	325	340
Private banks	101	83	87	110	86	64
Non-banking private sector	105	122	178	204	240	276
Total debt as % of the GDP[1]	40,90	43,10	43,50	43,40	38,80	34,80*
Government debt as % of the GDP[1]	28,00	29,90	30,60	30,10	26,90	24,10*
Servicing of liabilities as % of the Export of goods and services[2]	10,90	11,60	14,80	17,30	14,20	13,80
Source: NBRM Processed by: NBRM						
[1] Calculated according to the current GDP. [2] The indicator is calculated on the basis of the amount of serviced liabilities (it encompasses repayments of principal and interest based on the long-term debt and repayments of interest based on the short-term debt) and the amount of the export of goods and services for the respective period. *Based on the estimates of the GDP for 2004.						

Despite the assumption of part of the total debt of the Former SFRY and the new indebtedness, the Republic of Macedonia succeeded in preserving the external debt at a prudential and sustainable level. That is also proven by the indicators for the level of indebtedness of the Republic of Macedonia prepared according to the IBRD methodology at the end of 2003:

- the total external debt relative to the average GDP registered in the last three years equals 45,80%, according to which the Republic of Macedonia belongs to the group of moderately indebted countries;
- the total external debt according to the average export of goods and services in the last three years equals 122,18%, according to which the Republic of Macedonia belongs to the group of less indebted countries; and
- the total debt servicing according to the average export of goods and services in the last three years equals 16,12%, according to which the Republic of Macedonia belongs to the group of less indebted countries;
- total repayments of interest according to the average export of goods and services in the last three years equals 3,55%, according to which the Republic of Macedonia belongs to the group of less indebted countries.

Three of the aforementioned indicators show that the Republic of Macedonia is a less indebted country, and only the indicator total debt according to the GDP ranges the Republic of Macedonia in the group of moderately indebted country.

Table 2: External debt by debtors 1999 – 30.06.2004 (In % of the total debt)						
	1999	2000	2001	2002	2003	30.06.2004
Total external debt	100,00	100,00	100,00	100,00	100,00	100,00
Public sector	86,20	86,70	82,30	80,80	82,10	81,10
General Government	68,50	69,40	70,30	69,40	69,30	69,30
Central Government	65,00	66,20	67,50	67,00	67,10	67,10
Public Funds	3,60	3,20	2,80	2,50	2,30	2,20
NBRM	6,80	6,20	4,70	4,10	3,80	3,10
Public enterprises	10,90	11,20	7,20	7,30	9,00	8,80
Private sector	13,80	13,30	17,70	19,20	17,90	18,90
Private banks	6,70	5,40	5,80	6,70	4,70	3,60
Non-banking private sector	7,00	7,90	11,90	12,50	13,20	15,30
Source: NBRM Processed by: NBRM						

In recent years, moderate, although constant increase in the indebtedness of the private non-banking sector has been registered, which is due to several factors: a) more favorable terms for borrowings from abroad from the aspect of the price of capital than those of the domestic banks; b) adoption of a new legal framework in 2001, envisaging full liberalization in the indebtedness of the residents of the private sector, without limiting the purposes, thus abandoning the imperative for external financing only for the export-oriented projects, typical for the previous period.

Table 3: External debt by maturity and creditors, 1999 - 30.06.2004 (In millions of US Dollars)						
	1999	2000	2001	2002	2003	30.06.2004
Long-term debt	1.447	1.495	1.429	1.571	1.771	1.763
Multilateral creditors	702	720	689	757	921	941
IMF	102	82	71	67	68	55
IBRD	116	123	124	145	181	193
IDA	222	250	255	296	358	363
IFC	57	57	33	18	17	15
EIB	68	69	75	102	116	120
EBRD	72	74	62	32	34	51
EUROFIMA	17	17	14	12	8	7
CEDB	5	7	6	14	17	17
EU	41	37	44	65	112	110
IFAD	2	3	4	5	7	9
EAR	0	1	1	1	2	1
Bilateral creditors	320	332	284	277	273	248
Private creditors	425	443	456	537	577	573
London Club	245	253	262	254	243	238
Other	180	191	194	283	334	335
Short-term debt	55	53	65	64	42	38
Total external debt	1.502	1.548	1.494	1.635	1.813	1.801
Long-term debt - structure by the type of creditor - in percentages						
Multilateral creditors	48,50	48,10	48,20	48,20	52,00	53,40
Bilateral creditors	22,10	22,20	19,90	17,60	15,40	14,10
Commercial creditors	29,40	29,70	31,90	34,20	32,60	32,50
Source: NBRM Processed by: NBRM						

The maturity structure of the external debt is favorable, having in mind the fact that 97,9% of the total debt accounts for the long-term debt. The share of the credits extended by international financial organizations accounts for 53,34% of the total external debt, with the largest portion of the credits being extended by the IDA and the IBRD under standard terms, which means extended grace periods and maturities. The short-term debt completely accounts for the private sector.
Loans, trade and trade-related credits dominate the instrument structure of the external debt.
The currency structure of the external debt is dominated by the share of credits denominated in US Dollars, Euros and Special Drawing Rights (SDR).

Tabel 4: Currency structure of the external debt 1999 – 30.06.2004
(In % of the total debt)

	1999	2000	2001	2002	2003	30.06.2004
Total external debt	100,00	100,00	100,00	100,00	100,00	100,00
USD	48,00	49,10	48,30	41,30	35,70	34,50
SDR	21,70	22,60	22,70	22,80	24,20	24,10
EUR	6,70	11,90	17,10	33,60	38,70	39,30
Other currencies	23,60	16,40	11,90	2,20	1,40	2,10
DEM	16,40	10,80	7,30	0,00	0,00	0,00
CHF	2,30	2,20	1,80	1,60	1,00	1,70
GBP	0,30	0,30	0,30	0,10	0,10	0,10
JPY	0,50	0,50	0,40	0,40	0,20	0,20
Other	4,10	2,70	2,10	0,20	0,10	0,10

Source: NBRM
Processed by: NBRM

The Republic of Macedonia regularly services the liabilities arising from the public debt towards multilateral, bilateral and private creditors, which is a fulfillment of the strategic commitment of the Government for regular servicing of the liabilities based on external debt. The budget allocations for servicing of the external debt are obligatorily determined in the annual Budget of the Republic of Macedonia.

Table 5: Plan of repayment of principal based on external debt by debtors
(In millions of US Dollars)

	As of June 30, 2004	Until the end of 2004	2005	2006	2007	2008	2009	2010	Other years
Total external debt	1.801	102	141	129	138	139	155	138	787
Public sector	1.461	43	81	93	100	112	125	125	781
General Government	1.248	32	65	64	66	83	106	108	724
Central Government	1.208	30	60	60	61	77	103	105	713
Public funds	40	2	4	5	5	6	4	3	12
NBRM	55	8	10	10	16	9	1	1	0
Public enterprises	158	3	7	19	18	19	18	17	57
Private sector	340	59	59	36	38	27	30	13	5
Private banks	64	11	16	9	5	8	5	0	0
Non-banking private sector	276	48	43	27	33	19	26	13	5

Source: NBRM
Processed by: NBRM

For the purpose of efficient debt management, especially of the external debt, in 2001 the Ministry of Finance prepared a Public Debt Management Strategy, which was adopted by the Government of the Republic of Macedonia. Since its adoption, this strategy has been used in the indebtedness projections, as well as in the preparation of the annual Decisions on the macroeconomic policy and the Decisions on the foreign exchange policy and the balance of payments projection. The main purpose of the Public Debt Management Strategy is to prevent the external debt from exceeding the limit of 40% of the current GDP. The Strategy also envisages changes in the public debt structure i.e. reduced share in the external public debt at the expense of larger share of the domestic debt. Thus the Government plans to finance itself by issuing bonds with maturity varying from 2 to 10 years, initially only on the domestic market, which will probably happen in the second half of 2005. After 2006, the Government will commence preparations for issuance of long-term bonds on the international market, if needed. In order to be more efficient in managing the public debt, a separate Debt Management Office within the Ministry of Finance was established.

A preparation of the new Law on Public Debt is underway, the adoption of which is expected in the beginning of 2005. Thus, the legal framework in this area will be completed, enabling more precise definition of the key issues for successful management of the Government debt, including also the debtors, the criteria and the limits for domestic and external indebtedness, issuance of guarantees. The new Law on Public Debt provides for continuation of the practice of preparing and implementing medium-term strategies for public debt management, which will be approved by the Parliament and updated on annual basis.

II. COMPLIANCE WITH TREATY PROVISIONS

1. How do you assess compliance by your country of those Treaty provisions (see table in Annex) concerning countries with a derogation from introducing the euro?

Adjustments to the regulations, free capital flow

With the signing of the Stabilisation and Association Agreement between the Republic of Macedonia and the European Union in 2001, and in accordance with the European Union White Book recommendations, the Republic of Macedonia committed itself to conduct gradual liberalization of the flow of goods, services, people and capital. Its commitment to liberalization was proved with the enforcement of the Law on Foreign Exchange Operations (“Official Gazette of RM” No. 34/01, 49/01, 103/01, 54/02 and 51/03) in October 2002, envisaging gradual, i.e. liberalization of the capital transactions in stages. Firstly, the direct investments, the commercial credits, the long-term and the short-term financial loans and credits and partially, the portfolio investments were fully liberalized in the first stage of the SAA. After the expiration of the first stage of the SAA, full liberalization of the portfolio investments, the investments of residents in real estate abroad, as well as the deposits operations will be performed (for more details see 04_I_1).

Ban on direct financing of the public sector (NBRM) and ban on privileged access

Pursuant to Article 51 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM", No. 3/02, 51/03, 85/03 and 40/04), the ban on crediting and financing the state authorities and government administration bodies has been explicitly stated.

The National Bank does not give guarantees on the assumed liabilities by the state authorities and the government administration bodies and it does not directly purchase their debt instruments.

The exception from the limitation on financing the state authorities and government administration bodies is stipulated in Article 52 of the Law and it pertains to the approval of credits or loans with maturity of up to one day, without the possibility of being renewed and extended.

Independence of the central bank

Regarding the independence of the central bank, and related to Article 108 of the Treaty of the European Union and Article 7 of the Statute of the European System of Central Banks (hereinafter: ESCB) and the European Central Bank (hereinafter: ECB), in Article 4 of the Law on the National

Bank it is defined that when performing its functions, the National Bank and the members of the decision-making bodies will neither require nor get instructions from the central government and the government administration bodies.

Adjustment to the regulations

In order to be in compliance with Article 109 of the Treaty of the European Union, revision of the Draft of the Law on the National Bank of the Republic of Macedonia is underway (which will enter into procedure in the Parliament in the second half of 2005), envisaging a special chapter pertaining to the regulation of the relations between the National Bank and the European Union. This chapter will regulate that on the day the Republic of Macedonia joins the European Union, the National Bank will become an integral part of the ESCB, performing all the tasks prescribed under Article 43 of the Statute of the ESCB and ECB valid for the member-states with a derogation and the National Bank will cooperate with the ECB pursuant to the Statute of the ESCB and ECB regarding the recording, collection, processing and publication of data and information.

Economic policy, main objectives, coordination of the economic policies, economic policy guide, surveillance, participation in the Council - consultations with the ECB, participation in the economy and financials

The Stabilisation and Association Agreement between the Republic of Macedonia and the European Union defines the policies and the modalities of cooperation and exchange of information, i.e. possible coordination in the application of the EU directives related to the defining of the economic policy.

The Republic of Macedonia and the EU will facilitate the process of economic reform through the cooperation intended for improving the foundations of their economies and implementation of the economic policy in the market economies.

With the Stabilisation and Association Agreement between the Republic of Macedonia and the EU, the possibility for the following types of cooperation is envisaged:

- exchange of information on the macroeconomic results and projections, as well as on the development strategies; and
- joint analyses of the economic issues of mutual interest, including also the defining of the economic policy and the instruments for its implementation.

Simultaneously, the Stabilisation and Association Agreement envisages that if requested by the Republic of Macedonia, the EU may provide assistance in supporting the efforts of the Republic of Macedonia to introduce full convertibility of the Denar and gradual adjustment of its policy to the policy of the EMU. The cooperation in this area will include informal exchange of information that refer to the principles of functioning of the EMU and the European System of Central Banks.

Since the Republic of Macedonia and the European Union signed the SAA, representatives of the relevant ministries of the Republic of Macedonia have been participating in the operations of the Economic and Financial Committee, where the current macroeconomic situation in the country, as well as the future projections are presented.

Fiscal discipline, Ban on excess deficit

The Law on Budgets (“Official Gazette of RM” No. 46/00, 11/01, 93/01, 46/02, 24/03, 85/03 and 96/04) sets the procedure of preparation, adoption and execution of the Budget of the Republic of Macedonia, the budgets of the local Government units and the city of Skopje and the budgets of funds.

The budget document, representing a Law, sets the limit on the deficit of the general Government, as well as the annual increase in the total current debt for covering the budget deficit.

The legal framework pertaining to the fiscal discipline, and hence the control on the deficit consists of several laws, such as the Law on Budgets, Law on the Execution of Budget, Law on Limitation of Source Revenues for Financing Public Needs, as well as other by-laws regulating the area of treasury operations.

Besides that, the Government of the Republic of Macedonia adopts a three-year fiscal strategy on annual basis, determining the projected revenues and expenditures and the level of the deficit. This strategy, and especially the deficit level is in line with the macroeconomic projections for the following years, set together with the International Monetary Fund, with the quantification of the deficit depending on the projected deficit in the balance of payments, as well as on the maintenance of the indebtedness at the level of 40% of the GDP.

The deficit of the general Government consists of the deficit of the central budget and the deficit in the budget of the Road Fund, while the remaining extra budgetary funds and the local Government units should not present deficit in their budgets.

The adopted Budget represents the maximal amount of expenditures for the budget users, above which no assumption of liabilities and execution of payments is allowed. According to the Law on Budgets, the budget users are responsible for spending of the approved funds rationally and for the prescribed purpose.

The Budget is executed through the established treasury system, which represents a control mechanism for spending the budget funds appropriately and for the prescribed purpose. The concept of a Single Treasury Account (STA) is completely implemented. The STA has been opened with the National Bank of the Republic of Macedonia, and it is managed by the Treasury operating under the umbrella of the Ministry of Finance. Actually, the Treasury is responsible for the payment operations of the Budget and the budget users, i.e. it is a kind of "quasi bank" with approximately 3000 accounts (in the Treasury's General Ledger) of the budget users, accounts for collection of public revenues and other special accounts of the Government, which means direct collection of public revenues and centralized execution of the expenditures.

Pursuant to the Law on Budgets, only the Government of RM is entitled to take loans from natural persons and legal entities from the country and abroad in compliance with a law, for the purpose of covering the budget deficit, and to give guarantees for repayment of the liabilities on the basis of the loans taken for that purpose. The Government will decide on taking loans and giving guarantees upon proposal of the Minister of Finance.

The Parliament of the Republic of Macedonia guarantees for the liabilities of the public enterprises and trade companies with predominantly state-owned capital, on the basis of obtained domestic and foreign credits, which is in accordance with a law. The agreements for taken loans and for guarantees given to the public enterprises and trade companies with predominant state-owned capital from the country and abroad are concluded by the Government of the Republic of Macedonia on behalf of the Parliament.

Funds for the repayment of principal amounts and interests maturing during the fiscal year, based on previously concluded agreements and issued securities are provided in the Government Budget for the current year.

The local Government units prepare their budgets independently, on the basis of the macroeconomic aggregates and the instructions by the Ministry of Finance. Their budgets are balanced, i.e. they must not have budget deficit.

The local Government units may borrow from the financial institutions in the country and abroad. The local Government units may borrow abroad only if prior approval from the Government of the Republic of Macedonia is obtained, on the basis of opinion of the Ministry of Finance.

The local Government units may take long-term credits in order to finance capital assets and investments, only if the repayment of the debt is made in equal or decreasing annual installments approved by the council of the municipality after prior public discussion in the municipality. The total amount of the annual repayment of the debt based on long-term credits may not exceed 15% of the total revenues of the current operational budget of the municipality in the previous fiscal year.

The Government of the Republic of Macedonia may guarantee the liabilities based on long-term loans of the municipality, including also the public services established by the municipality, only in case the liability is assumed according to a law.

The municipality can guarantee and assume liabilities based on long-term loans of the public enterprises established by the municipality, upon a decision of the council.

Stability and Development Pact

The Law on Budgets and the Budget of the Republic of Macedonia for the current year regulates the amount of the deficit of the Budget of the Republic of Macedonia, encompassing the central budget and the budgets of the funds and the agencies.

The objective of the Government of the Republic of Macedonia for 2004 was registering a deficit of the Central Government in the amount of 0,80% of the GDP. Analyzed by years, the realized and the projected deficit of the General Government is the following:

1999	2000	2001	2002	2003	2004 plan
0,00%	1,80%	-7,00%	-5,50%	-0,60%	-1,90%

The projection for the deficit of the Central Government in 2005 equals 1%, the deficit of the general government is projected at -2,30%. The deficit is calculated in Denars/current prices of the GDP in Denars.

The deficit is presented pursuant to the IMF's accrual methodology, the so-called GFS 1986.

Referring to the amount of the public debt as a percentage of the GDP, it equaled 47,80% as 31.12.2003, while it is projected not to exceed the limit of 43,80% in 2004.

Financial assistance and assistance to the balance of payments, protective measures - problems with the balance of payments

The legislation of the Republic of Macedonia envisages a possibility of introducing special protective measures in case of a danger from larger disturbances in the balance of payments, but there has been no need for their implementation so far.

The possibility for introducing protective measures is regulated in Articles 37, 38 and 39 of the Law on Foreign Exchange Operations ("Official Gazette of RM" 34/01, 49/01, 54/02 and 53/03), according to which, in case of threat of significant distortions in the balance of payments and destabilization of the financial system of the RM caused by substantial outflow of capital from, or larger inflows of capital in the Republic of Macedonia, the NBRM can introduce special protective measures which must not be applied for a period longer than six months.

Also, pursuant to Article 43 of the Law on Trade ("Official Gazette of RM" 16/04), if a distortion in the balance of payments occurs due to the increased import of certain goods, the Government of RM may introduce protective measures in the form of limiting the quantity, or the amount of the import of those goods.

Such legal provisions are in full compliance with Article 65 paragraph 2 of the Stabilization and Association Agreement between the RM and the EU, according to which the Republic of Macedonia is enabled to adopt restrictive measures referring to the import, which are limited in time and they are strictly intended for improving the balance of payments, and which is in compliance with Article 120 of the Treaty on the Founding of the European Union.

Pursuant to Article 100 paragraph 2 and Article 119 of the same Agreement, after becoming a full member of the European Union, the Republic of Macedonia could use the measures intended for additional support to the balance of payments by the European Union, which will surely improve the current position of Macedonia regarding this issue.

Monetary policy, adoption of the primary and other price stability objectives and other objectives

Article 3 of the Law on the NBRM prescribes that "main objective of the National Bank is to maintain the price stability and that the National Bank supports the economic policy of the country and the financial stability of the country without jeopardizing the realization of the main objective, and adhering to the principles of the market economy", which indicate of high level of harmonization with this segment of the Treaty.

Nominal convergence

The macroeconomic performances of the Republic of Macedonia point to a relatively high level of nominal convergence.

- Accomplishing high level of price stability; this can be seen through a rate of inflation which is close to the average, or it does not exceed the average of the three member states registering the best inflation performances. Common feature of the Republic of Macedonia are the exceptionally favorable inflation performances. Thus the average rate of inflation in 2002 and 2003 equals 1,80% and 1,20%, respectively, indicating a high level of convergence in this domain.
- Sustainability of the financial position of the country; this can be seen in a budget position without excess deficit, pursuant to Article 104(6). In 2003, the Republic of Macedonia registered a rate of deficit of -1,00% of the GDP, and it is projected that the rate of deficit in 2004 will equal -1,40%, while it is projected that in 2005, 2006 and in 2007 it will not exceed -1,50% of the GDP, pointing to the sustainability of the financial position of the Republic of Macedonia.
- Having regular fluctuation bands in accordance with the exchange rate mechanisms of the European Monetary System, for at least two years, without devaluation against the currency of another member-state. Since October 1995, the National Bank of the Republic of Macedonia has been applying a monetary strategy of de facto Denar exchange rate targeting relative to the Deutsche Mark (i.e. relative to the Euro), with the exchange rate fluctuations being negligible. During this period, the only devaluation was made in July 1997. Thus there is full compatibility with the requirements within this segment.
- Durability of the convergence achieved by the member-state and of its membership in the exchange rates mechanism of the European Monetary System reflected through the level of the long-term interest rates. The development of the financial markets and the diversification of the financial instruments regarding the introduction of longer-term instruments in the Republic of Macedonia is in its initial stage, with no long-term rate comparable with the appropriate interest rate within the Monetary Union existing at the moment.

Regarding Article 1 and Article 45 of the Protocol (ESCB/ECB Protocol), the Draft of the Law on the National Bank of the Republic of Macedonia envisages a provision stipulating that from the day the Republic of Macedonia joins the European Union, the Governor of the National Bank will become a member of the General Council of the ECB.

Exchange rate policy

Competent institution for establishing and conducting the Denar exchange rate policy in the Republic of Macedonia is the National Bank of the Republic of Macedonia (Article 10 of the Law on the National Bank of the Republic of Macedonia). Having in mind the current regime of de facto pegged rate of the Denar relative to the Euro (previously relative to the Deutsche Mark), the Central Bank maintains the stability of the nominal exchange rate through interventions on the foreign exchange market. Through these interventions, the Central Bank reduces the fluctuations in the Denar exchange rate relative to the Euro. If the movement of the Denar exchange rate relative to the Euro is monitored, (previously relative to the Deutsche Mark), after the devaluation in July 1997, the exchange rate fluctuations are negligible, and they are within the limits prescribed under ERM 2. Having in mind the current policy of the Denar exchange rate, the monetary policy framework, as well as the environment and the orientation, the participation of the Republic of Macedonia in the ERM 2 would not be a problem and no amendments to the legal framework are needed.

2. What are the major reforms needed in order to comply with these Treaty provisions and the possible timetable for adoption?

A reform in the area of fiscal policy, by adopting the Law on Public Debt, is planned for the beginning of 2005.

The Law on Public Debt will set the manner and the procedure for the indebtedness of the Republic of Macedonia, the types and the purpose of the public debt, as well as its recording and management. The adoption of this Law will finalize the legal framework in this area, ensuring more precise definition of several key issues for successful public debt management, including the debtors and the issuance of guarantees. The Law will provide centralized approach to the debt management, which will practically mean concentration of the competencies regarding the management, i.e. the monitoring of the public debt with one institution, i.e. in the Ministry of Finance.

The legal framework regulating the foreign exchange operations is, to a certain extent, in compliance with the Treaty on the Founding of the European Union. The Law on Foreign Exchange Operations prescribes that the current international transactions are free. Besides the current transactions, the direct investments, the long-term and the short-term credit operations are free as well. Pursuant to Article 59 of the Stabilization and Association Agreement between the Republic of Macedonia with the European Union, envisaging gradual liberalization of the capital transactions regarding the portfolio investments, the investments of the residents in real estate abroad and the deposits, the Law on Foreign Exchange Operations contains transitional provisions which completely incorporate the gradual access prescribed under the SAA.

The cooperation between the Republic of Macedonia and the European Union is regulated by the Stabilization and Association Agreement between the Republic of Macedonia and the European Union. The Republic of Macedonia will establish a close cooperation with the EU in order to contribute to the development and the growth potentials of the Republic of Macedonia. Such a cooperation will strengthen the existing economic ties on the broadest basis, and for the benefit of both parties.

Having in mind the continuing successful maintenance of the price stability, its explicit setting as the ultimate monetary objective, as well as the high level of compliance with this criterion of nominal convergence, no special reforms in the domain of price stability are envisaged. However, the monetary policy will continue to be directed towards successful realization of the main monetary objective.

From the aspect of the exchange rate policy, its current setting completely corresponds to this segment of the nominal convergence criteria, where the possible changes in the exchange rate policy would not differ from the set criteria (for more details see 11_I_D_9).

The reforms towards further development and deepening of the financial markets, as well as further diversification of the securities portfolio will contribute to achieving gradual compliance with the interest rates criteria. The future steps are directed towards the introduction of longer-term Government securities, with the development of the long-term securities market also meaning a creation of a long-term interest rate, as a variable through which the meeting of this criterion will be monitored.

One may argue that there is a high degree of legal harmonization of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" No. 3/02, 51/03, 85/03 and 40/2004) with the Treaty of the European Union and the Statute of the European System of Central Banks (hereinafter: ESCB) and the European Central Bank (hereinafter: ECB), especially in the part pertaining to the price stability, the independence of the National Bank; ban on financing the state authorities and the government administration bodies and ban on privileged access of the state authorities and the government administration bodies to the funds of the National Bank.

Revision of the Draft of the Law on the National Bank of the Republic of Macedonia is underway (which will enter into procedure in the Parliament in the second half of 2005), envisaging:

- the right of the Governor, Vice-Governor, or external member of the NBRM Council after the final decision on their revocation to require legal protection in court procedures. This provision will enable the National Bank to be in full compliance with the provisions of the Treaty of the European Union and the Statute of the ESCB and the ECB in the part of personal independence.
- special chapter regulating the National Bank - European Union relations. This part will regulate that on the day the Republic of Macedonia joins the European Union, the National Bank will become an integral part of the ESCB and it will perform its tasks pursuant to Article 43 of the Statute of the ESCB and the ECB valid in the member-states with a derogation, the Governor of the National Bank will become a member of the General Council of the ECB and the National Bank will cooperate with the ECB in accordance with the Statute of the ESCB and the ECB regarding the recording, collection, processing and publishing of data and information.