



Republic of North Macedonia Macroeconomics and Banking System Developments

May, 2019

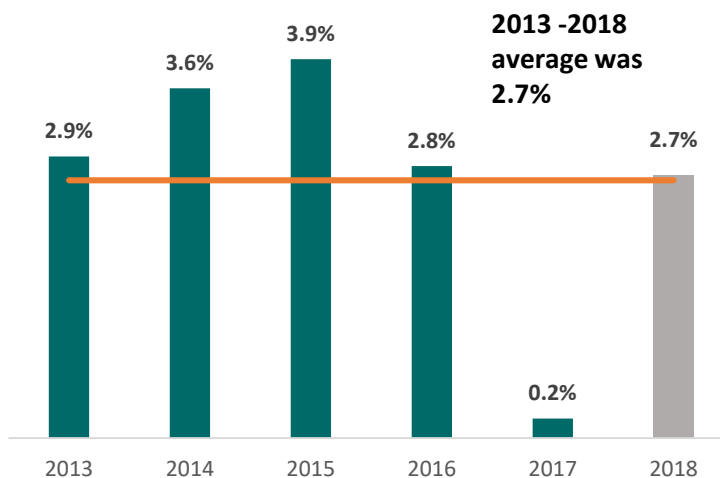
The table below presents an overview of the country's main macroeconomic indicators

Macro indicators	2013	2014	2015	2016	2017	2018
GDP (real growth rate)	2,9	3,6	3,9	2,8	0,2	2,7
Inflation (annual average)	2,8	-0,3	-0,3	-0,2	1,4	1,5
Industrial production (cum. growth)	3,2	4,8	4,9	3,4	0,2	5,4
Current account balance (% of GDP)	-1,6	-0,5	-2,0	-2,9	-1,0	-0,3
Export (annual growth)	4,6	15,8	8,2	11,2	12,1	16,9
Import (annual growth)	-1,1	10,8	6,1	8,4	8,3	13,0
FDI (% of GDP)	3,1	2,4	2,4	3,5	1,8	5,8
Private transfers (% of GDP)	18,1	17,3	16,8	15,4	15,9	15,8
Public debt (% of GDP)	40,3	45,8	46,6	48,8	47,8	48,5
Fiscal balance (% of GDP)	-3,8	-4,2	-3,5	-2,7	-2,7	-1,8
Unemployment rate (annual average)	29,0	28,0	26,1	23,7	22,4	20,7

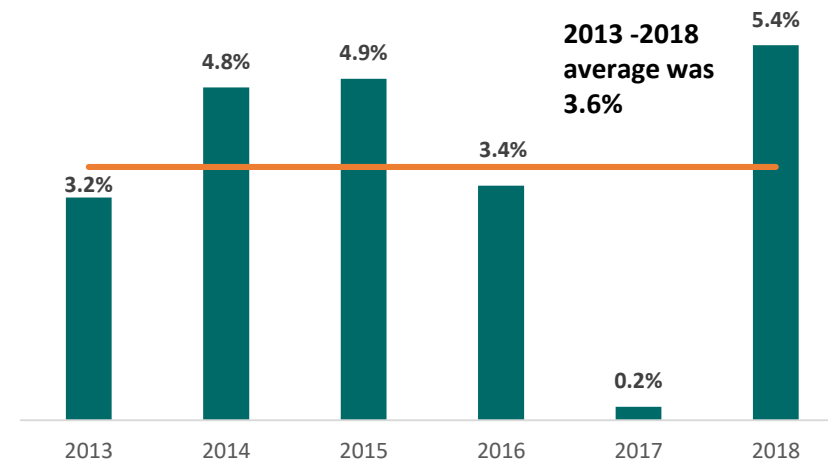
Macroeconomic Overview

- Macedonian economy recorded robust growth between 2013-2016.
- Real GDP growth along with industrial production experienced a stagnation in 2017 as a result of prolonged political crisis.
- However, upon political normalization, the economy started to improve with expectations to continue so in the upcoming years.
- Labor market has been improving, and unemployment is expected to decline further.

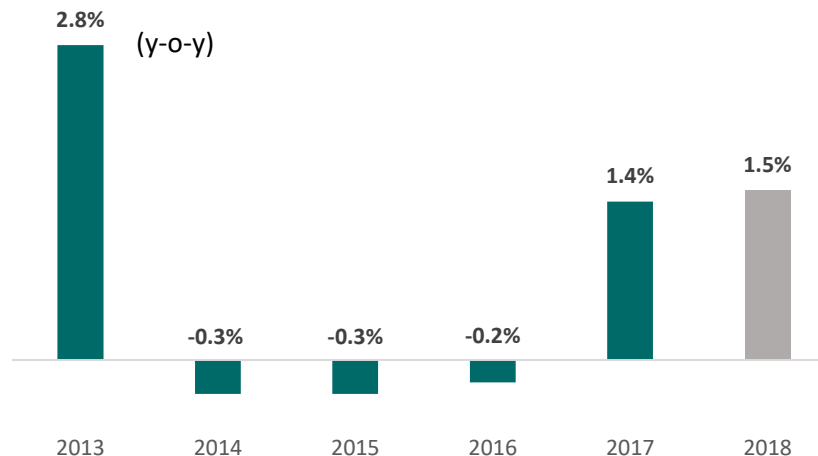
Real GDP growth



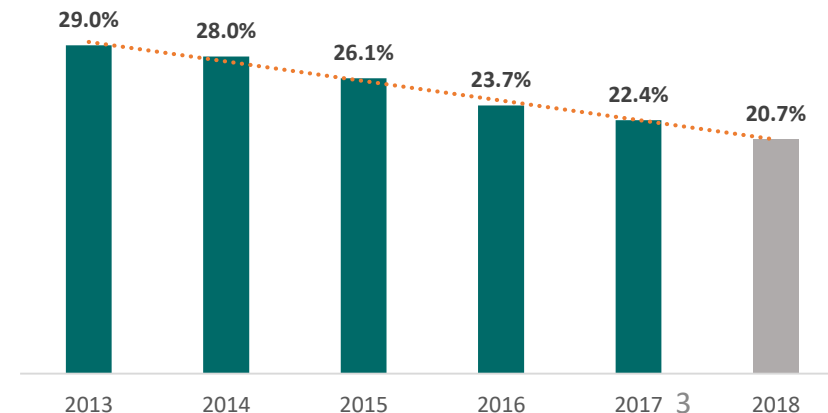
Industrial Production



Consumer Price Index (average)

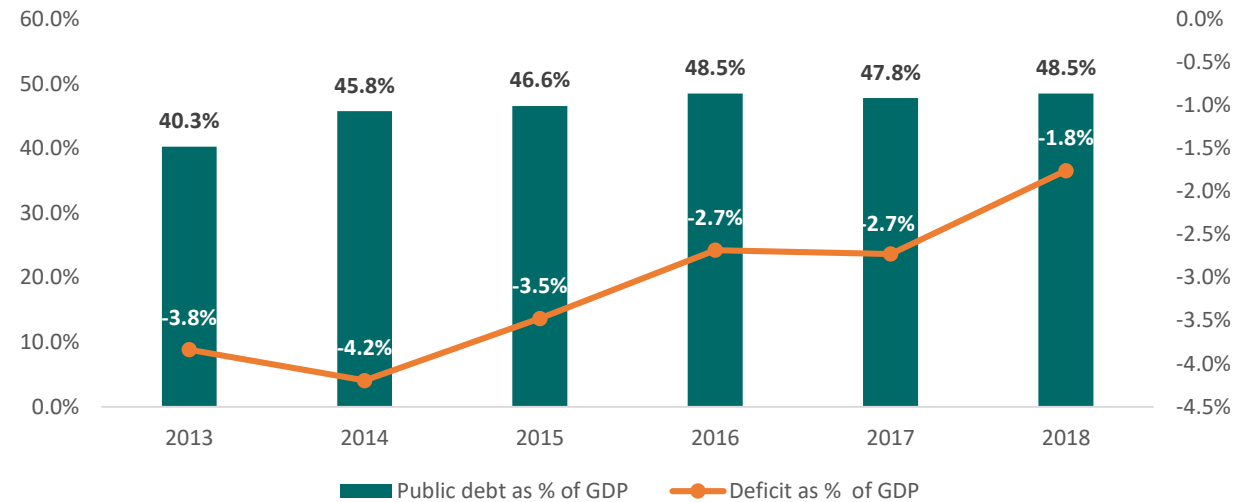


Unemployment rate

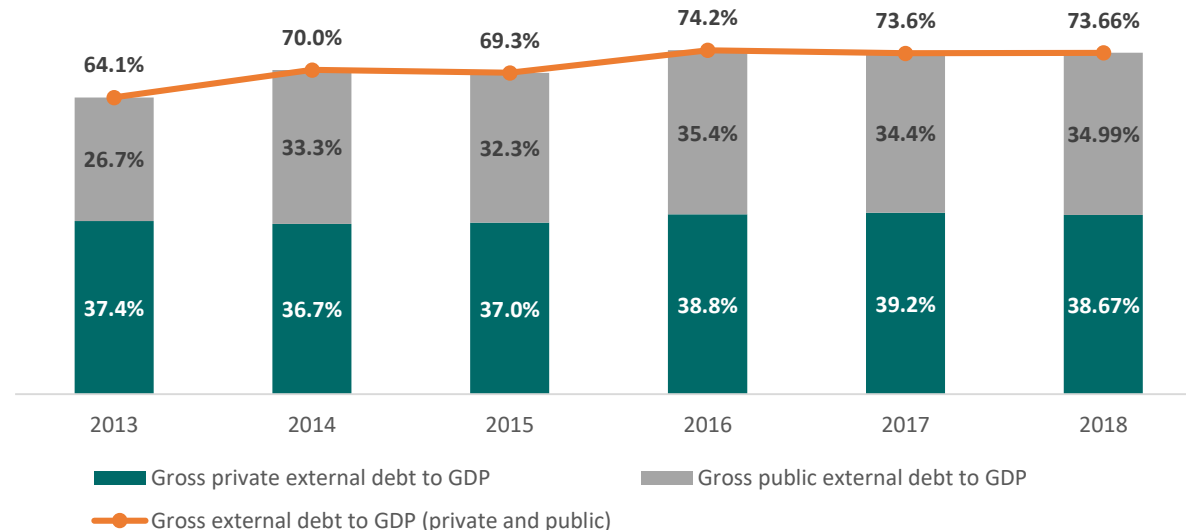


- During the past decade, the Macedonian public debt followed a dynamic increasing trend.
- The dynamic of country's borrowing has been put under stabilization since 2017. Yet, the public debt level calls for caution in debt management.
- Along with the progressive increase of public debt in the recent years, gross external debt has been increasing as well.
- The share of public external debt in total external debt of the country has increased from 2013 on. Still, more than half of country's gross external debt belongs to the private external debt.

Budget Deficit & Public Debt as % of GDP



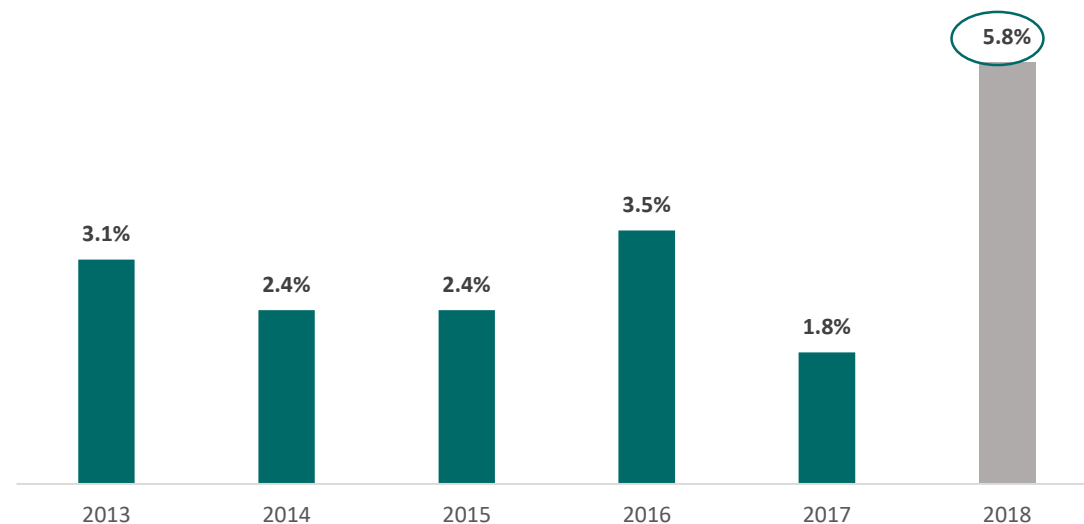
Gross external debt to GDP (private and public)



- Increase of exports from the free economic zones, has contributed to favorable movements of the trade deficit, expected to improve in future as well.
- Stable export growth has been also result from strong trade integration with the EU, which is expected to drive economic activity in the future.
 - EU is the largest trade partner of Republic of N. Macedonia.
- Current account deficit has been improved in 2017. Robust export growth is expected to keep the current account check despite rising imports.

External Sector	2013	2014	2015	2016	2017	2018
Trade Deficit to GDP	-22.9%	-21.7%	-20.1%	-18.8%	-17.9%	-16.2%
Current account balance	-1.6%	-0.5%	-2.0%	-2.9%	-1.0%	-0.3%

Foreign Direct Investments



Banking Sector Overview

Banking soundness indicators (in EUR mill. unless otherwise stated)	2013	2014	2015	2016	2017	2018
Total Assets	6,007	6,511	6,878	7,233	7,513	8,187
Total Deposits	4,215	4,668	4,971	5,250	5,518	6,038
- Retail Deposits	3,082	3,359	3,498	3,596	3,818	4,180
- Corporate Deposits	988	1,150	1,301	1,469	1,504	1,642
Total Loans (gross)	3,741	4,115	4,506	4,570	4,839	5,205
- Retail Loans	1,495	1,676	1,897	2,059	2,258	2,492
- Corporate Loans	2,198	2,389	2,553	2,459	2,529	2,647
NPL Ratio *	11,5%	11,3%	10,8%	6,6%	6,3%	5,2%
Capital Adequacy Ratio (CAR)	16,8%	15,7%	15,5%	15,2%	15,7%	16,5%
Return on Equity (ROE)	5,7%	7,4%	10,4%	13,6%	13,5%	16,0%
Return on Assets (ROA)	0,6%	0,8%	1,1%	1,5%	1,4%	1,7%
Loans to Deposits Ratio	89,7%	89,4%	91,9%	87,8%	88,0%	85,9%
Cost to Income Ratio	60,6%	55,5%	51,6%	49,8%	48,7%	46,2%
Net Interest Margin	3,4%	3,4%	3,5%	3,5%	3,4%	3,2%

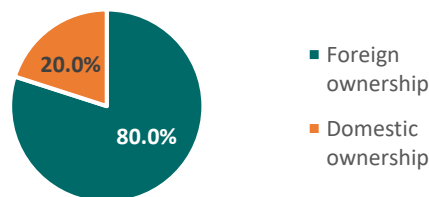
* The decline of the NPL in 2016 is a result of write-offs stemming from the decision of the Central Bank

Banking Sector Overview

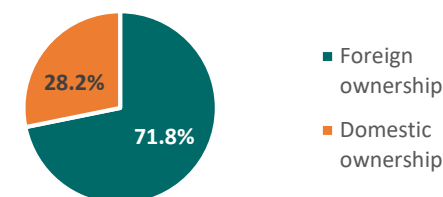
- Macedonian banking system comprises of 15 banks, 14 of them are privately owned while MBDP is the only state owned bank.
- 11 of the Banks have foreign ownership capital, while 4 of them are domestically owned (including MBDP as state owned bank).
- One of the main features of the Macedonian banking sector is self funded and stable, which makes it quite resilient to external shocks.
- The total share of foreign capital equates to 71.4% of the total equity in the sector.
- Number of pan-regional and pan-European banks are present in the country (NBG, NLB, Erste/Sparkasse etc.)

Top 5 Banks		
Name	Total Assets (EURm)	Ownership
Stopanska Banka	1,493	NBG (95%)
Komercijalna Banka	1,861	Diversified shareholder structure
NLB Banka	1,334	Nova Ljubljanska Banka (87%)
Halk Bank	767	Halk Bank (99%)
Ohridska Banka	644	Societe Generale (70%)

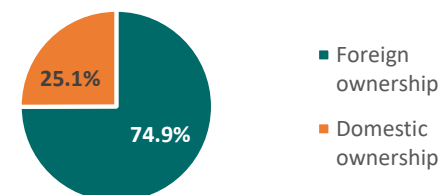
Ownership Structure by Total Loans



Ownership Structure by Total Deposits



Ownership Structure by Total Revenues

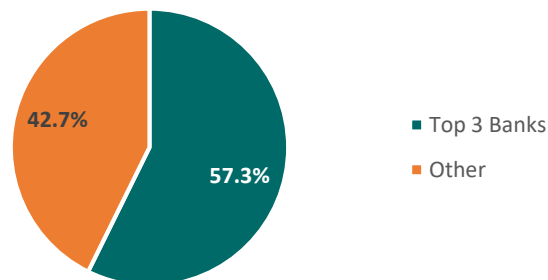


The dominance of foreign capital is most evident in terms of **credit activity**

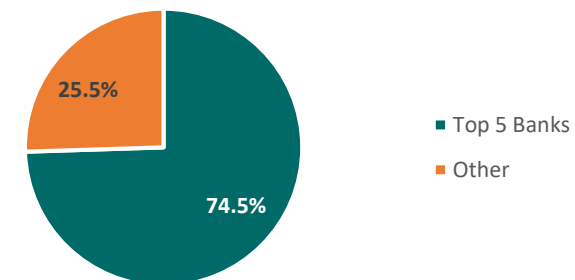
Banking Sector Overview

- Macedonian banking sector is relatively concentrated, with top 3 banks holding 57.3% of total assets.
- The penetration rate in the sector is moderate, with loans-to-GDP ratio at 48.8% in 2018, which implies further growth potential.
- Loans/ Deposits ratio on the other hand in 2018 was 85.9% which provides room for further lending activities of the banks.

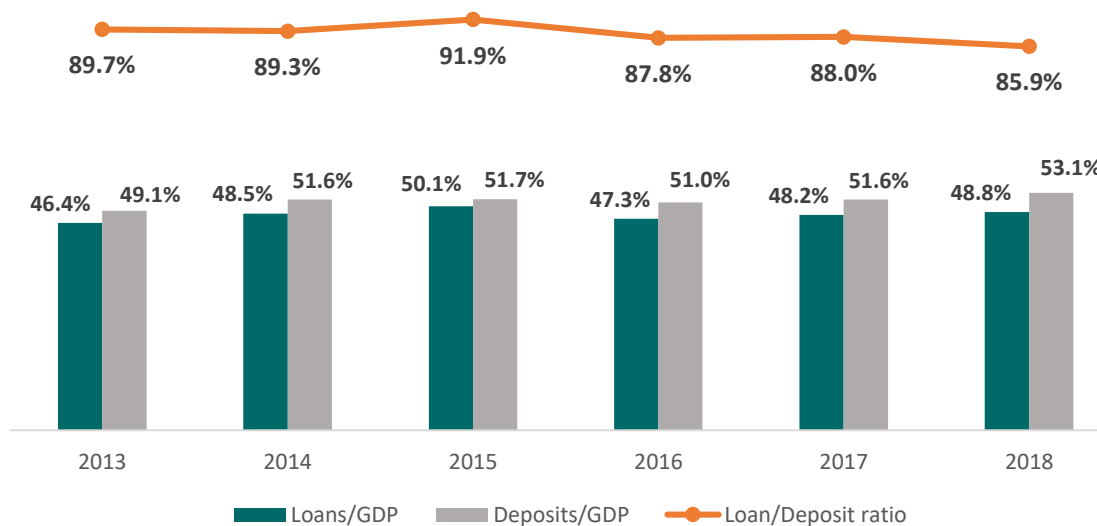
Market Share of Top 3 Banks by Total Assets



Market Share of Top 5 Banks by Total Assets



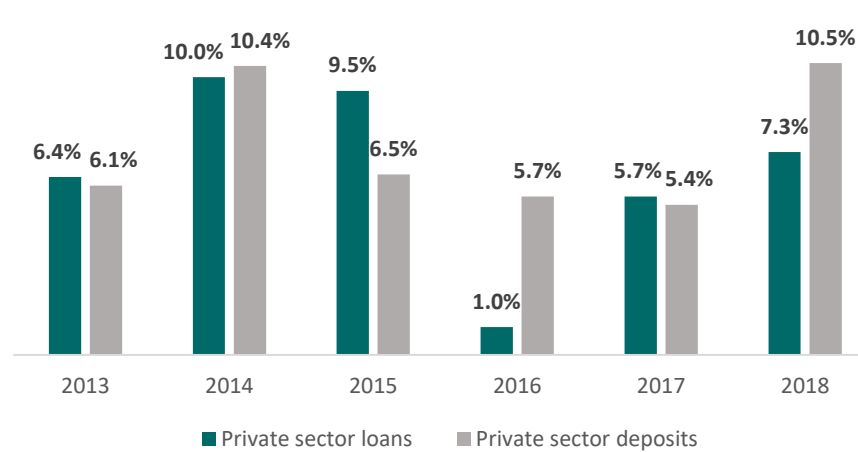
Loans & Deposits to GDP



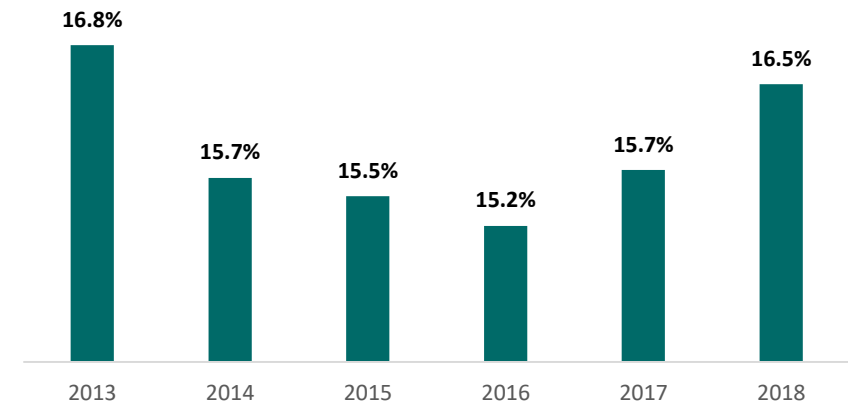
Banking Sector Overview

- Loans and deposits growth rates, have experienced a slow down in 2016 as a result of the political crisis and uncertainty, but have been recovering since 2017.
- The capital base of the banking sector, with capital adequacy ratio at 16.5% in 2018, underlines its capacity to undertake adverse developments.
- NPL ratio has been decreasing at 5.2% in 2018, which is below the NPL average for the region. Furthermore, the NPL portfolio is well covered, with NPL coverage ratio 110.2% in 2018.

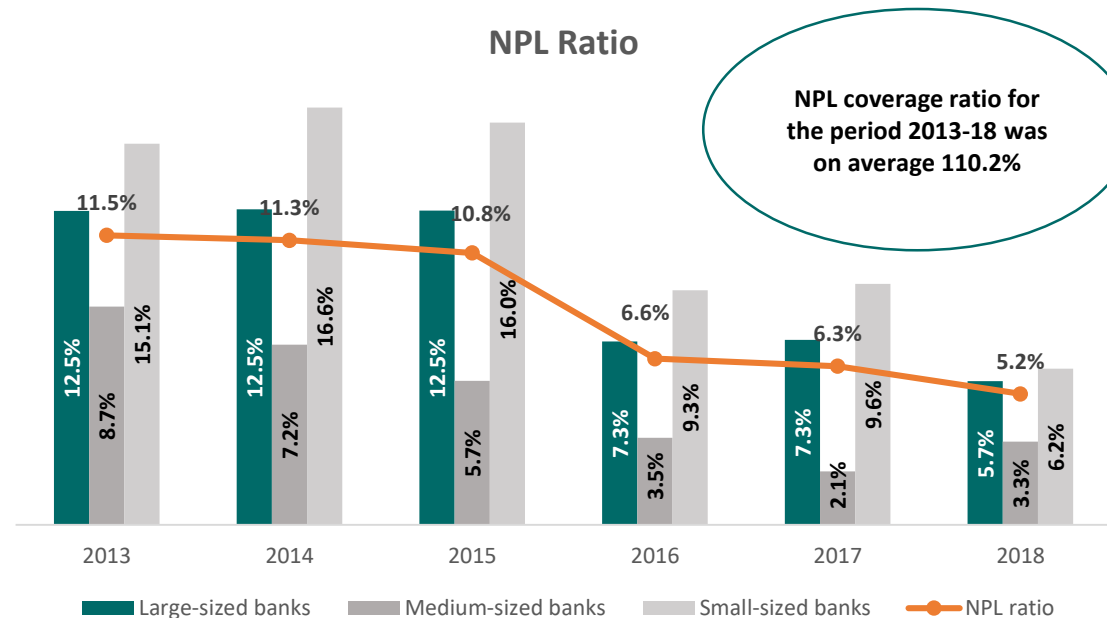
Loans & Deposits (annual growth)



Capital Adequacy Ratio

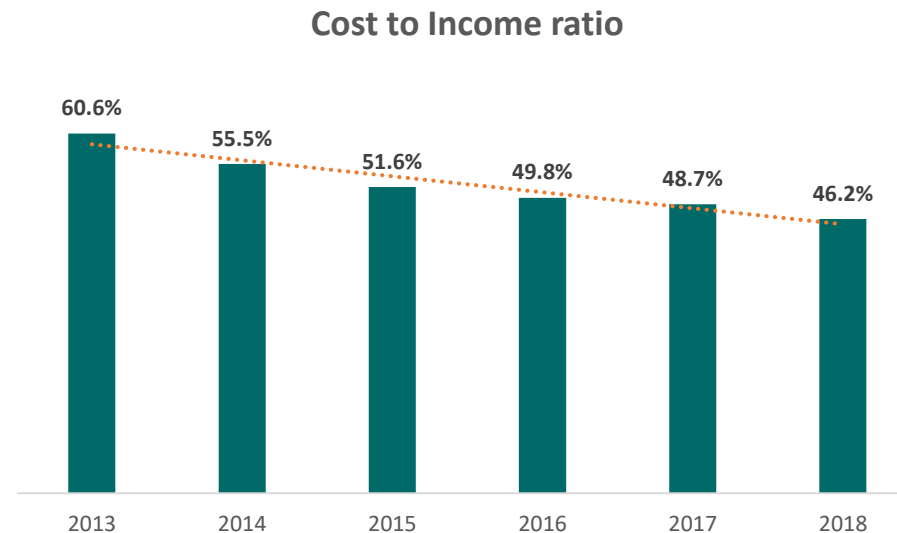
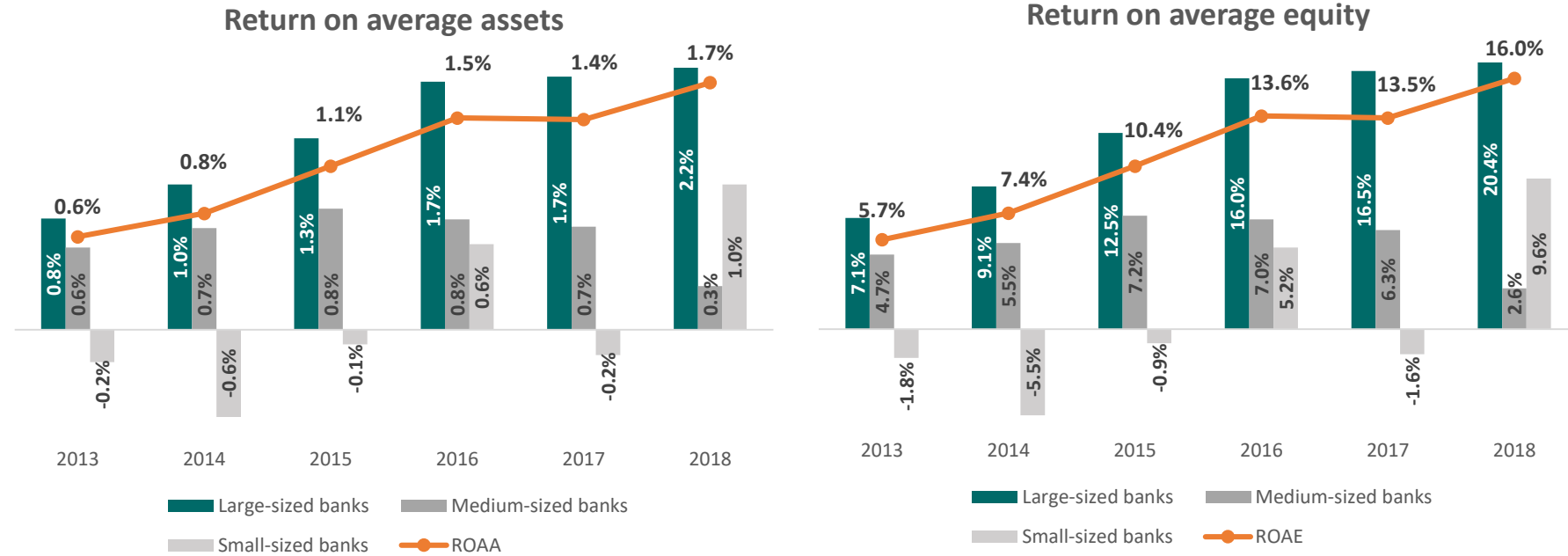


NPL Ratio



Banking Sector Overview

- In 2018, only 1 out of 15 banks in Macedonia recorded a loss, while all other recorded profit.
- The return on assets reached 1.7% in 2018.
- The return on equity for 2018 was 16%.
- Both return on assets and return on equity were highest for the large-sized banks.
- Cost to income ratio also has been following a downside trend through the years.



Two new members have joined Macedonian Banking Association since July 2018

- Clearing House Clearing Interbank Systems AD Skopje
- Macedonian Credit Bureau AD Skopje

Macedonian Banking Association has signed Memorandum of Cooperation in the field of financial education and financial inclusion with:

- The National Bank of the Republic of North Macedonia,
- The Ministry of Education and Science of the Republic of North Macedonia and
- The Securities and Exchange Commission of the Republic of North Macedonia;
- The Macedonian Stock Exchange AD Skopje;
- The Central Securities Depository AD Skopje;
- ACI Macedonia – Financial Market Association

The Committees of the Macedonian Banking Association have significantly contributed in the communication with the relevant State institutions related with the preparation of the laws as follows:

- the Law on Amending the Banking Law;
- the Law on Prevention of Money Laundering and Financing of Terrorism;
- the Law on Amending the Law on Profit Tax;
- the Law on Personal Income Tax;
- the Law on Amending the Law on Consumer Protection;
- the Draft Law on Bankruptcy;
- the Draft Law on Personal Data Protection;
- the Draft Law on Amending the Law on Enforcement;
- the Draft Law on Amending the Law on Notary Public;
- The Draft Law on Payment Services and Payment Systems

Macedonian Banking Association Activities

European Money Quiz 2019

Although The European Money Quiz was held in our country for the first time it was attended by over 3,000 primary and secondary school students.

145 teams participated on the National Competition which took place on 27th of March 2019.

Marko Ingjilizov and Viktoria Panova, students of Koco Racin High School from Veles won the National Competition and succeeded in the final competition of the European Money Quiz in Brussels to take the 2nd place in the race of 28 countries.



- **Realisation of collateral**
 - **Enforcement of court decision processes – procedure, legal base, technical issues – how auctions are held (digital platform or other)**

Starting from 2005, the Republic of North Macedonia has implemented the model of enforcement conducted by independent enforcement agents who hold public authorization and are appointed by the Ministry of Justice.

The enforcement procedure is conducted pursuant to effective executive titles as follows:

- notary deed with an executable clause (it refers mainly to secured claims with established mortgages, pledges and issued bills of exchange),
- enforceable court decision, court settlement and enforceable notary payment order (it refers to unsecured claims).

Procedure is conducted with a number of different enforcement actions against one or several solidary debtors and is directed towards all available debtor assets (bank account funds, immovable property, movables, shares, securities).

Apart of taking funds from debtor's bank account based on enforcement order, the enforcement agents usually proceed against immovable and movable property of the debtor.

Enforcement proceeding against immovable property is conducted on the following manner:

- by issuing an enforcement order over the real estate and registering a ban at the Agency of Cadastre,
- by appraising the value of the real estate through engaging external licensed appraiser;

- by selling the real estate through public auctions at the enforcement agent's office, which is characterized by the following:
 - Auctions should be previously announced in at least one daily newspaper as well as on the web site of the Chamber of Enforcement Agents;
 - Maximum number of auctions is three,
 - First public auction is always held at a starting price not lower than the officially appraised value;
 - In case of unsuccessful first auction, a second auction is scheduled at the starting price which may be reduced up 1/3 of the initially appraised value;
 - The same terms of the second auction refers to the third auction;
 - In case of: three unsuccessful auctions, no direct settlement for selling the property to interested buyer, as well as no foreclosure of the real estate by the creditor, the procedure shall be terminated according to the law and the creditor can initiate a new enforcement procedure following the same steps as it is explained above.
- After first unsuccessful auction, alternatively to proceeding with further auctions, there is a possibility the enforcement agent to proceed with a direct settlement with an interested buyer for the purpose of selling the real estate;

The enforcement proceedings against movable property is conducted by the enforcement agent on the following manner:

- by issuing of enforcement order for pre-noting the movables,
- by appraising the value by engaging an external licensed appraiser,
- by seizing the movables upon creditor's instructions, and
- by selling movables on the same manner as it is explained above regarding immovable property, with the following differences: maximum number of auctions is two, starting price for the second auction can be reduced up to 50% of the initially appraised value.

Latest developments

Upon the proposals from the Macedonian Banking Association, following aspects have been regulated in the latest Law amendments from December 2018:

- Possibility for conducting enforcement proceeding against not finalized buildings under mortgage registered in pre-issue list;
- Possibility for conducting enforcement against immovable property owned by the debtor which is not registered in the Cadastre with ownership right.

- **Digitalisation of collateral**

General discussion related to digitalization, innovations in payment ecosystem

The right to mortgage/pledge can be acquired by concluding a mortgage/pledge contract verified or composed by a notary public and registration of the mortgage/pledge in a public book (cadastre/pledge register).

Although there is a legal basis for conclusion of mortgage/pledge agreement as notary deeds in electronic form, in practice, it's still done through physical presence of parties and direct signing in a paper form at a notary public office.

Compared to the past, there are significant developments in the following aspects:

- Each notary public office provides services of registration and deletion of mortgages/pledges electronically;
- Agency of Cadastre provides several electronic services as obtaining official title deeds, historical overview of cadastre parcels, monitoring of all changes in each real estate etc;
- The Official Central Register for the companies provides several electronic services as obtaining trade register excerpts for each company, financial reports, monitoring of all statutory and data changes etc.

Thank you for your attention