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**Does Macedonia Have to Abandon Its Fixed Exchange Rate of the Denar or Devalue It?**

**Introduction**

We are in the world economic crisis' swirl and the economies in transition are intervening in order to protect their currencies from devaluation, concretely Macedonia. Our research treats the issue if, in the actual crisis conditions, Macedonia has to keep its fixed exchange rate of denar or to pass into another exchange rate regime. The research also treats the alternative if Macedonia has to do an eventual devaluation of denar, in order to protect its economy from the actual world crisis.

Because of its fixed exchange rate regime of denar, it is recommended a restrictive monetary policy in order to be ignored the possible risk of loaning as a result of giving loans without cover up from the banks of the second level. This can cause serious damages in the banking system of Macedonia. A restrictive monetary policy also means an increase of interest rates in short terms which will have effects in decreasing the credits. This policy, in one hand, will affect negatively the components of Aggregate Demand (decreasing them), but will generate positive effects in keeping safe the banking system of Macedonia from any influence of the crisis, in the other hand. Macedonia, through a fixed exchange rate of denar, will eliminate the possible importation of inflation from other countries. One of the elements that influences in the current account is the possibility of speculation as a result of possible fluctuations of inflation and interest rates. Based on the Balance of Payments and the effects of global financial crisis on the most important macroeconomic indicators we conclude that Macedonia needs to continue keeping its currency exchange rate fixed.

An eventual devaluation of denar can cause deterioration of the denars' fluctuation and worsening the situation of the commercial banks. In a case of increasing the need for denar for daily purposes, the public and enterprises will replace their deposits in foreign currencies for denars with a high exchange rate. Obviously, this affects negatively the banks' liquidity of denar. The only positive effect of the eventual devaluation can be the fact that Macedonia will have cheaper exports. But keeping in mind the fact that the world financial crises has attacked also the most important importers of Macedonia, EU countries ( up to 50% of foreign trade Macedonia realizes with these countries), this cheapening of the Macedonian exports will not have a significant effect in the current account.

## **The exchange rate policy in The Republic of Macedonia and other economies in transition**

Since the beginning of the years 1970 with the collapse of the Bretton Woods system, the determination of the process of the exchange rate for the countries in development has been substantially different than the industrial countries. The majority of the industrial countries have followed a policy of variation management, in which the trade forces determine the exchange rate, even though with a frequent intervention of The Central Bank. As contrast, the majority of the countries in development didn't relinquish the policy of determination of the exchange rate of their currency. So, for the countries in development the exchange rate has remained a political instrument.

The regimen of the fixed exchange rate is a kind of system, where the government or the monetary observer authority holds the convertibility of their coin in a fixed exchange rate. A coin is convertible if the Central Bank will buy or sell that amount of coins that the citizens want to exchange in a fixed exchange rate.

**In the system of a fixed exchange rate, the monetary authority interferes to maintain unchanged the exchange rate. If the cost of the coin increases, the monetary authority can sell native currency or decrease the interest rates.**

The fixed exchange rate has its advantages and disadvantages. Firstly, one of the advantages of this exchange rate stands in the way that it creates stability for the enterprises and families because it encourages investments and trade. Throughout these fixed rates, the varieties of the currency rate are eliminated and as a result it also eliminates competitive ability of the native enterprises. The enterprises are safer with their capital investments as a result of the stability of the interest rates.

Secondly, the fixed exchange rates can act as limiters of the native inflation. This happens because they eliminate the possibility for an inflation to be imported from other countries. **Finally**, the fixed exchange rates prevent speculations, because there is no need since the system is fixed. One of the elements that influence the Current accounting is the possibility of speculations as a result of the possibilities for variation of the inflation and interest rates.

However the fixed exchange rates have their disadvantages. The main critic is that the government should have sufficient stocks to maintain the fixed price of their coin. At the same time, the enterprises of a country can be noncompetitive if the exchange rate is fixed too high. An exchange rate above the world level would decrease the competitive ability of native enterprises and as a result the decrease of

exports and increase of imports, causing a chain reaction. On the other behalf, the monetary authority should interfere in exchange rate, where it could happen that it could undertake policies that damage the native economy. For example, *to maintain a fixed rate, the government can increase the interest rates and as a result can decrease the demand in the country.*

The volume of imports increases when native currency is valued. This makes foreign goods cheaper in compartment to those native. That's why the offer of native currency connects in a positive way with the exchange rate when it is measured with the first method and the opposite for the second method.

### Is Macedonia immune from the crisis?

Considering that Europe has officially entered **recession**, which means increase of unemployment and the creation of many problems for our country (problems that will be pointed out later during the structural analysis of the balance sheet of payments of RM):

- **Firstly**, the demand for Macedonian exports will decrease as a result of the general demand decrease;
- **Secondly**, foreign investments will be restrained, and the interest for privatization by European investors will decrease;
- **Thirdly**, will the increase of unemployment, the income of emigrants will be afflicted negatively reducing their entrances in the country;
- **Fourthly**, the predicted EU funds for the non-member countries (like our country) will decrease in the projects for aid, infrastructure, public services etc.
- **Fifthly**, there will be implications in the variation of all basic macroeconomic indicators such as economic increase, exchange rate, monetary offer, inflation, interest rate, unemployment, the deficit of the KORRENT and budgetary accounting, profit of the enterprises, etc.
- **Sixthly**, it will influence the increase of financial cost of the debt, if the Government will enter the market for long-term funding in currency;
- **Seventhly**, there is risk of imported inflation in a second phase.

*The country should observe the possibility to increase currency stocks for an unexpected stroke of the coin by the devaluation to limit the damages in the economy. The calls for investments encouraged in the most inappropriate conjuncture should not be allowed, because it will end with unserious investors, in sale of the national values with low prices etc. Experience tells us that if the interfere and feedback by the authorities is late, the cost that the country will confront will be higher.*

## II. How does the monetary policy influence the Macedonian economy ?

### IS-LM Model

In this model, „IS,, shows the different combinations of incomes and interest rates where the market of goods is in equilibrium; „LM,, shows the combinations of interest rates and incomes where the market of money is in equilibrium.<sup>1</sup> Since in economy every study begins with assumptions, we cannot depart from this fact also in our analysis of the “IS-LM” model, as a key element to receive a desired answer (How does the monetary and fiscal policy influence the economy of RM?).

We suppose that the government has specified as objective to stabilize the revenues in the point  $Y^*$  and this could be achieved with expansive fiscal policy and restrictive monetary policy. The equilibrium in point E1 where LM 1 and IS 1 intersect, implies high interest rates and low level of investments and consumption of the private sector in PBB where that kind of policy is followed.

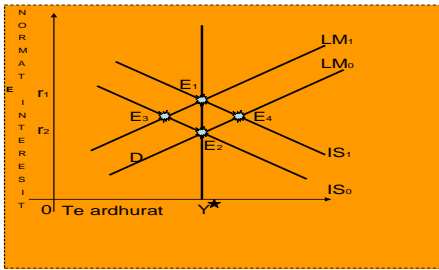
*Seeing on behalf of the other side, with a expansive monetary policy and restrictive fiscal policy, the equilibrium in point E2 which implies an intersect of LMO and ISO is still accomplishing the targeted revenue ( $Y^*$ ) but with lower rates of interest  $r_0$ . the participation of investments and consumption in the private sector of PBB will be higher than in point E1. If the government chooses restrictive monetary policy and restrictive fiscal policy it will result with a restrictive policy exertion which in the graphic is the point E3*

*If the government chooses expansive monetary policy and expansive fiscal policy it will result with a expansive policy exertion which in the graphic is the point E4, and*

The possible alternatives (points E1, E2, E3 and E4) in the graphic suggest that it is ideal to follow a restrictive fiscal policy and a expansive monetary policy point (E2), but momentarily by the economists it is applied and recommended point E1 to confront the crisis that is argued and analysed in the last session of the Central Bank.

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<sup>1</sup> “Economics for Managers”, Paul Farnham, pg.303-333; “The Economy Today”, Bradley Schiller, pg.80-100; “The return of depression economics and the crisis 2008”, Paul Krugman, pg. 47-52.



### Comment:

On behalf of the economists it is recommended a restrictive monetary policy and expansive fiscal policy to confront the crisis. We talk about point E1 in the above graphic. Momentarily the country is in deflation, where even the deflation itself imposes costs in economy (lack of liquidity in market). In the situation where there is general decrease of the level of prices there can be a decrease of profits of businesses, decrease of earnings, and also increase of unemployment. In this case the borrowers loose and lenders gain.<sup>2</sup>

According to economists, even though deflation is more suitable for the clients rather than inflation, since for the same amount of money they can buy more goods, for the producers it can be devastating because it decreases their revenues. The longer and frequent presence of deflation can have negative effects for the whole economy and in these frames even for its consumers.<sup>3</sup>

To confront the crisis the government took several measures that were announced on 22 April 2009, and that: restriction of hiring in public administration, a delay in increase of earnings of 10%, a decrease in public expenses in some sectors, and a strict controle of the managers compensations in public enterprises.<sup>4</sup> But in the other side the government is taking stimulating measures for the development of the industrial branches in the country. The minister of economy Fatmir Besimi said that the Government with 90.000 Euro has subsidied the food industry, the wood industry,

<sup>2</sup> "Economics for Managers", Paul G. Farnham, Georgia State University, Upper Saddle River, New Jersey 07458, pg.303-333.

<sup>3</sup> <http://alsat-m.tv/ekonomi/index.9.html>

<sup>4</sup> <http://alsat-m.tv/ekonomi/15661.html>

textile and wine.<sup>5</sup> According to the EU representative Andrea Forti, the key to development of the industry in Macedonia is the promotion of entrepreneurship.<sup>6</sup>

Actually CBRM is following a restrictive monetary policy, where today this is also considered as reasonable on behalf of the economic experts even though in the beginning of November the Parliamentary Commission requested point E4 to be followed (expansive monetary and fiscal policy). This kind of request in reality presents a paradox because it confronts the objective of the Government (maintaining the earnings in a stable level  $Y^*$ ). The Government cannot ask CBRM to follow an expansive monetary policy when the world is facing a financial-economical crisis, where an increase in the monetary offer will cause the decrease of the interest rates which will cause the increase of credit-lending while having no cover backup. In this moment it seems that in the times of global economical crisis, the devaluation of denar (caused by the increase in monetary offer) will be antiproductive with negativity rather than positive results. A positive effect by this devaluation would be the expensive imports and cheaper exports (increase of competitiveness). However in today's entrepreneurship conditions and surrounded by a huge number of controversies and the world's economic crisis, there aren't many possibilities that these positive changes will last for a longer period and for them to have a meaningful effect for the Current Accounting of the country.

On the other side, threats by the negative effects of the devaluation in today's conditions can be proven and identified easily. So, during a devaluation of the denar, the buying force of denar tools which the citizens and the enterprises own will decrease the percentage of the devaluation, when they will want to buy goods whose price is specified with a foreign currency clause (for example apartments, cars, etc). This means that their demand will continue to decrease, with which will appear negative phenomena in the real sector (decrease of production, increase of unemployed, and vigorous trends of deflation, and with this recession of the economy).

The eventual devaluation will cause a big problem for the families and for the enterprises that are obliged with credit in banks based on the agreement that contains a clause of foreign currency. In this case, everyone that should secure more denaric tools to pay back their credits, which will influence even more negatively in the demand, and with this even in the economic increase. An additional problem for the enterprises will be how to secure denaric tools to purchase foreign currencies with which they have to pay financial credits and goods that they have taken outside

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<sup>5</sup> <http://alsat-m.tv/ekonomi/15661.html>

<sup>6</sup> <http://alsat-m.tv/ekonomi/15661.html>

the country in the previous period, and which have to be paid in this year or the next, years that are considered years stoke by the global economic crisis.<sup>7</sup>

The devaluation will even risk the realization the budget of Republic of Macedonia. For the return without payment of the credits taken previously outside the country and for the payment of annuities euro and obligations which expire in this year or the next, in the budget there should be separated denaric tools for the purchase of the needed foreign currencies with which would make the payment of the credits. This will put in risk the realization of this years activities planed by the Government of Macedonia, especially the realization of the activities by the capital investors.

The devaluation can cause a wosening in the liquidity of the denar and of the commercial banks. In case of increase of the need for denare for everyday needs, the citizens and enterprises will replace the deposits of foreign currencies for denars with a higher exchange rate. This normaly has a negative effect in the liquidity of the denar in the banks, and with this even in the union of credits for the economical sector.<sup>8</sup> The banks that in the previous period have created debts towards the foreigners will have to divide a higher amount of denars to purchase foreign currencies for the payment of credits, which will worsen their denaric liquidity. Meanwhile, for the percentage of the eventual devaluation of the denar, the founders of a part of the banks have to secure additional financial means, denars, to secure the socalled adequate capital of their banks. This, off course, will decrease the liquidity of the founders and will make the banks capital more expensive. All this will cause increase the interest fee of the banks, will decrease the support of the developmental activities of the enterprises and lower consumption of the citizens.

According to this the eventual devaluation today, is obvious that will be something painfull. Thas why, the answer to the question whether the denar should devaluate in the existing economic conditions of the country, is NO. The regime of the fixed exchange rate can remain as it is for a predicted future, especially since the flow of international capital is limited.

### **The last session of the Council of the Central Bank**

In the last session, The Council of Central Bank of RM debated the reports of the four trimesters of 2008. The report determined that the last trimester of 2008 is the one where the economy of Macedonia started to feel the consequences of the global

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<sup>7</sup> Tome Nenovski, professor, author of the article, "Devaluation yes or no"?, pg.1, 2

<sup>8</sup> Petar Goshev (Governator of Central Bank of Macedonia), <http://alsat-m.tv/ekonomi/15709.html>

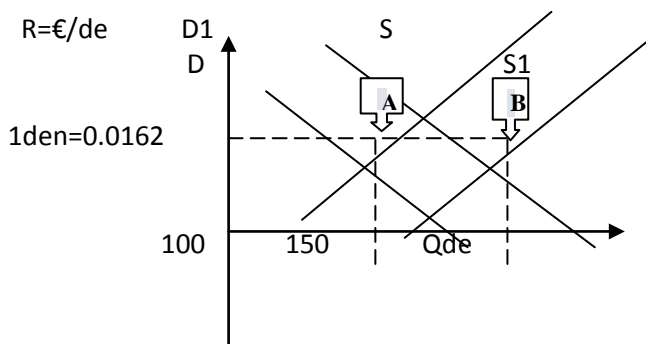
economic crisis, and that in the foreign market and investments. The same trend has continued even in the first trimester of the 2009, giving a small decrease in the exports opposite the imports of the goods.

The market deficit continues to keep high levels, which in the conditions of a high insecurity as consequences of the world crisis in the economy of the country and the decrease of the internal flow of the capital from abroad and the increase of the demand for foreign assets. These kinds of transactions increase the offer of the native currency which creates pressure for the devaluation of the native currency. This kind of pressure was overcome by the Central Bank of RM except for the interference in the currency trade, reacted even with the increase of the main rates of interest from 7% to 9% in the end of March 2009. So the economic growth for 2009, for which the last projections were from 3% to 4,4% was reviewed by FMN to be -0.4%, with a significant decrease of the expected internal demand in the second trimester of the same year. The expected inflation rate for 2009 is 0.6%, which is a lower level from the one projected previously.<sup>9</sup>

### Comment:

Through an example and a hypothesized graphic we will argue how BPRM intereres in the currency market to maintain stable the exchange rate while taking into consideration the pressure that is usually upon the native currency:

We suppose that BPRM wants to maintain the exchange rate in 1 den=0.01626 euro (expressed with the direct method) or 1euro=61.5 denar (indirect method). We have to mention that the demand for native currency ( $D_e$ ) is connected negatively with the exchange rate when it is measured with the direct method but the offer for native currency ( $S_e$ ) is connected positively with the exchange rate. In this example we will manipulate with the exchange rate measured with the first method (direct).



<sup>9</sup> <http://www.nbrm.gov.mk/default-en.asp?ItemID=D8A490DBD776A24AA976262C2D2D2966>



The displacement of  $S_0$  in  $S_1$  is a result of the increase of the offer of the native currency and the displacement of  $D_0$  in  $D_1$  is a result of the selling of the currency stocks (realized by BPRM to maintain fixed the exchange rate). The equilibrium of the balance sheet of payments is remade by this political action:

$$BP = (X - M) + K + RA = (100 - 150) + 0 + 50 = 0$$

### Short term analysis of exchanging rate

*As far as in the long term period is the export-import of goods and services the one that assigns the exchange rates, in the short term period are the incomes on the investments (norms of interests) that represent the assignment factor of the exchanging rate.*<sup>10</sup>

According to the modern theory of market assets, the exchanging rate expresses the prize of deposits in local currency in terms of bank's deposits in foreign currency. The most important factor that affects the demand for deposits in denar and deposits in Euro is the **expected return in these deposits (actives) compare to each other**. When this return is higher for deposits in denar then for these deposits it will increase, whilst for deposits in dollars will decrease. So, if supposing that the deposit in Euro has an interest of 1.5% it is expected that Euro will be assessed 0.13%, than the expected return of deposits in Euro ( $IRR^e_{euro}$ ) will be 1.63%.

The condition of parity of the interest's norm, which confirms that the internal norm of interest is equal with foreign norm of interest minus the expected assessment of local currency. This condition can be expressed in another way: the internal norm of interest is equal with the foreign norm of interest plus the expected assessment of the foreign currency.

$$I_{den} = I_{euro} - (E_{t+1} - E_t) / E_t, \text{ this condition supports the fact that deposits}$$

$$IRR^e_{den} = IRR^e_{euro}$$

are in complete substitution with each other and also represents the condition of market currency balance.

We start the analysis with how the expected returns for deposits in Denar and Euro change with changing of the exchanging rate.

1. Expected returns for the deposits in denars ( $IRR^e_{den}$ )- always are equal to the interest rate of these deposits despite of the exchange rate. Thus, the curve of

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<sup>10</sup> "Currency market and international institutions", lecture of Prof. Dr. Sulo Haderi at postgraduate programm (finances) at SEE University, Tetove, September 2008.

expected returns for the deposits in denars, which we denote as  $IRR^e_{den}$ , will be vertical.

2. Expected returns for the deposits in dollars-  $IRR^e_{euro} = i_{euro} - (E^e_{t+1} - E_t) / E_t$ .<sup>11</sup>

In 2007 the interest rate of the deposits in euro is 1.2% and the expected exchange rate for 2008 is  $E^e_{t+1} = 0.0163224267 \text{ euro} / \text{den}$ , (we suppose that in this exchange rate the currency market is in equilibrium). Whereas the current exchange rate (2007) is  $E_t = 0.0163441957$ , as result, the expected devaluation of the denar will be:

$$(0.0163224267 - 0.0163441957) / 0.0163441957 = -0.001332 * 100 = -0.1332\%$$

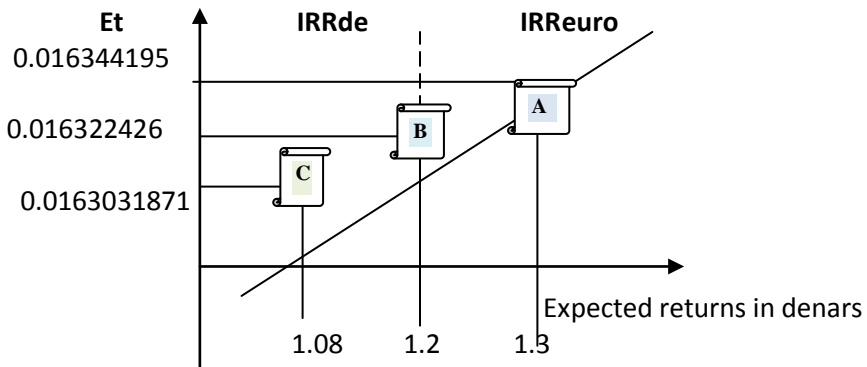
1. In this way, the expected return for the deposits in euro expressed in denars will be  $1.2\% + 0.1332\% = 1.3332\%$ . Since it is expected a devaluation of the domestic currency, the demand for the deposits in euro will increase, where:  $IRR^e_{euro} > IRR^e_{denar}$ , ( $1.3\% > 1.2\%$ ). The following graph presents the curve of expected returns in euro, which we denote as  $IRR^e_{euro}$ . It's slope is positive, which shows that with the expected devaluation of the denar /euro, the expected returns of the deposits in euro will decrease in order to fulfill the condition of the interest rate parity (Point A).
2. Keeping in mind the effects of global-financial crisis in the end of 2008-continuation of 2009 the monetar authority doesn't allow a further devaluation of the denar.
3. Assume the pressure that the denar had and still has for a further devaluation is  $E_t = 0.0163031871$  dhe  $E^e_{t+1} = 0.0163224267 \text{ euro} / \text{den}$ .

**Balance in the market currency.** – the meeting point of the two above curves shows the point of balance where the expected returns for the two kinds of deposits are equal, so the condition of parity norm of interest is fulfilled and we also have the balance of currency market.

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<sup>11</sup> These rates are calculated as average of all interest rates for deposits in euro ( for the 12 months of the year 2007 and 2008) ;

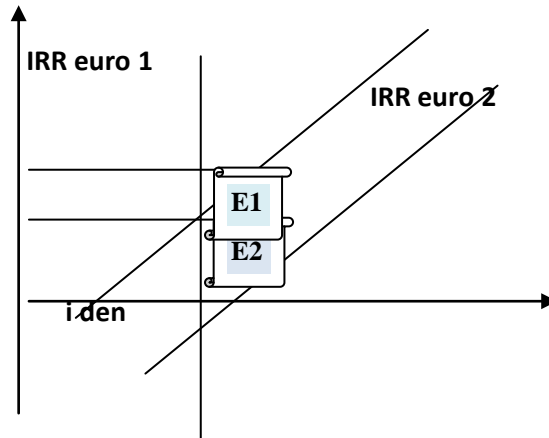
<http://www.nbrm.gov.mk/defaulten.asp?ItemID=5E3B5CA79135FE49B0E5121BBAA68CC9>;  
National Bank of the Republic of Macedonia  
Statistics Department  
Monetary Statistics Division



**Comment:** To analyze the mechanism of suitability towards balance, we took the year of 2007,  $E_t = 0.0163441957 \text{ euro/denar}$ , over the one of balance. As it can be seen on figure, the expected returns for deposits in Euro (point A) are mere than the deposits in denars (point B). As long as the two kinds of deposits are both preferable people would like to sell the deposits in denars in order to by deposits in Euro offering denars in changing with Euros (offering deposits in denars changing with deposits in Euro). So, exactly this happened in 2008 in RM, where the surplus of offers of deposits of denars made the exchanging rate of denar with Euro to go down until the balance of expected returns of the two deposits (parity conditions of norms of interest).

For such kind of devaluation the CBRM sold local currency in exchange for Euro. The last quarter of the 2008 and the other coming quarters of the 2009 are characterized by keeping the exchanging rate within the assigned borders. So, to avoid further devaluation of the denar CBRM intervenes in the currency market by selling Euro in exchange for denars until the balance of expected returns for the two deposits is reached. In less developed countries, like our country the dominating factor for the daily changings of the exchanging rates is the change in expected exchanging rates for the future period ( $E^e_{t+1}$ ). The expected fall of the exchanging rate drives to devaluation of local currency (denar) the curve of expected returns for deposits in Euro will be removed to the right.

IRR den



## V. Overview of the balance sheet of payments of RM

### V.1. What does the balance sheet of payments present?

*The balance sheet of payment is a system of accounts that serves for the registration of all transactions that are based in the movement of goods or funds between countries with the other part of the world. So, BoP presents economical and financial actions of a country with the rest of the world:*

- His trade in goods, services,
- Puchase and selling of financial fortunes,
- Other important transactions, as foreign aids, payment for damages etc.

Transactions that are registered in BoP, based on their economic nature are classified in three groups:

- *The first Group* involves transactions that have as object goods, services and revenues between residents and nonresidents.
- *The second Group*, financial transactions that are rights/obligations of residents and nonresidents.
- *The third Group* is refered to the balance elements that maintain equilibrium in both sides of the balance sheet of payments.

**The first and the third group of trasactions combine in a socalled Current account, and the second group appears in the capital and financial account.**

The main principle for the recoring of transactions in the balance sheet of payments is the one of the double system registration. all the payments of nonresidents ar called entrances or registrations in credit and are market with the sign

(+), meanwhile payments from residents are called exits or registrations in debit and are marked with the sign (-).

**V.2. Structural analysis of the Balance of Payments in Macedonia (in millions of euro)<sup>12</sup>**

	v.2006	2007	2008	2006 %	2007 %	2008 %
GDP	5.082	5.782	6.507	100	100	100
I. Current Account	-44,92	-414,83	-851,16	-0,88	-7,17	-13,08
1. Goods, neto	-1.020,43	-1.174,82	-1.736,67	-20,08	-20,32	-26,69
a) Exports	1.902,65	2.441,45	2.684,20	37,44	42,23	41,25
b) Imports	-2.923,08	-3.616,27	-4.420,87	-57,52	-62,54	-67,94
2. Services, neto	22,15	25,54	-0,04	0,44	0,44	0,000614
3. Incomes, neto	-28,44	-277,67	-93,39	-0,56	-4,80	-1,44
4. Current Transfers, neto	981,80	1.012,11	978,94	19,32	17,50	15,04
a) Official	58,73	23,94	47,92	1,16	0,41	0,74
b) Private	923,07	988,17	931,02	18,16	17,09	14,30
II. Capital and financial Accounting	37,97	447,64	852,62	0,74	7,74	13,10
Capital Accounting	-0,82	3,68	-12,84	-0,02	0,06	-0,20
1. Capital transfers, neto	-0,82	1,23	-1,64	-0,02	0,02	-0,03
a) Official	0,00	0,00	0,00	0,00	0,00	0,00

b) Private	-0,82	1,23	-1,64	-0.02	0.02	-0.03
2. Purchases, nonfinancial assets	0,00	2,45	-11,20	0,00	0,04	-0.17
<i>Financial Asstes</i>	38,79	443,96	865,46	0,76	7,68	13,30
3. <i>Direct investments</i>	344,65	506,85	422,02	6,78	8,77	6,49
4. Portfolio investments	73,13	114,39	-50,64	1,44	1,98	-0,78
5. <i>Other investments</i>	-81,39	-75,52	442,44	-1,60	-1.31	6,80
a) Commercial loans	2,92	-28,98	24,62	0,06	-0.50	0,38
b) Loans, neto	-22,28	-128,70	172,44	-0,44	-2,23	2,65
c) Currencies and deposits, neto	-83,74	5,93	207,44	-1,65	0,10	3,19
• Monetary authorities	-5,74	-0,17	16,04	-0,11	-0,003	0,25
• Comercial Banks	-10,42	68,45	234,62	-0,21	1,18	3,61
• Individuals, neto	-67,59	-62,34	-43,21	-1,33	-1,08	-0,66
d) Others, neto	21,71	76,22	37,94	0,43	1.32	0,58
6. <i>Official reserves, bruto</i> (- = increase) / 3	-297,60	-101,76	51,64	-5,86	-1,76	0,79
III. Errors and oblivion	6,94	-32,81	-1,47	0,13	-0,57	-0,02

<sup>1</sup> Source, the link:

<http://www.nbrm.gov.mk/default-en.asp?ItemID=16C5679A8986CE4391D1F76413410999->

### **The Current account:**

The negative state and the movements in the market balance sheet in our country have been the main reason for the growing deficit and of the Current account in the balance sheet of payments, which was 13.08% of GDP of Macedonia in 2008. In this result has influenced the decreasing trend of the private transfers – revenues from abroad, not from the goods sold abroad but from the nonresidents. In the conference for organized export by the American agency USAID, the experts and businessmen of the government requested suventions for the textile industry, agriculture with the purpose of growth of the export of the products in the foreign countries. According to the expert analysis if measures aren't taken fast, the country will have to confront with high consequences in economy as a result of spending the foreign currencies stocks. "Since dhe export in 2009 has marked a decreas of 30%, this means that the foreign currencis stocks are melting to maintain an currency equilibrium, and if this trend continues in the future the situation may be extremily bad", declared Irena Kikerkova, economic expert.

The Minister of economy Fatmir Besimi said that the executive power is working in increasing the export of the native products in the foreign countries. "Since this period is nontypical because of the economic crisis, one of the biggest markets of Macedonia is the EU market and from there we have implications in the volume of our export", declared Fatmir Besimi, Minister of Economy.<sup>13</sup>

### **Capital and financial account:**

The inappropriate movements of the Current balance sheet haven't been followed with meaningful movements in the capital-financial balance sheet of the country. The revenues of the foreign currencies on an abroad basis, direct foreign investments, selling of the countries fortune to foreign investors and the like, have a meaningful importance after the deficit of the Current account in the balance sheet of payments of the country.<sup>14</sup> In these kinds of conditions, for the first time after a long time, in Macedonia there is that kind of a situation where the offer has a big importance staning behind the demand of the foreign currencies. The Central Bank of Macedonia, while securing the fixed exchange rate of the denar, in year 2008 according to the data in the balance sheet of payments intervned with 51.64 milion euro's and in last trimester of 2008 intervned with 194.79 milion euro's to maintain in equilibrium the currency market and in the first two months of 2009 has intervned permanently in the currency market making unusual expenses (in comparament with

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<sup>13</sup> <http://alsat-m.tv/ekonomi/15459.html>

<sup>14</sup> Tome Nenovski, professr, author of the article: "Devaluation yes or no?", pg. 2;



the previous periods in many years) to tie the offer with the demand for currency and in this way to keep stable the exchange rate of the denar. The expense of nearly 300 million euro's from the foreign currencies stocks in the last five months for securing the fixed exchange rate of the denar is one of the victims.

This question rises: How can the native authorities overcome the lack of foreign currencies stock to secure the fixed exchange rate of the denar (or to guarantee the stability of the denar)?

According to the economic expert Abdylmenaf Bexheti, the government with or without its will it has to sign an arrangement with the International Monetary Fund. "If we can't secure additional means, the country lacks 500-600 million euro's, and if we don't find other resources with similar conditions as those of FMN and The World Bank, it is required that the government does that and I think it will do it. I wouldn't say that until now it has tacticed, they thought that it wouldn't be necessary because the arrangements with FMN also mean active supervision of the economic policy, and not only consumption of financial means", highlighted Abdylmenaf Bexheti.<sup>15</sup>

The Ministry of Finance took in market papers with value which would be sold with foreign currencies' clause with which it plans to cash in 16 million euros. This will mean that these papers with value will be guaranteed with euro's, a new instrument which it seems that the Ministry of Finance was obliged to implement, because of the speculations that the value of denar may decrease.<sup>16</sup>

Except budgetary bonds which are produced by the Ministry of Finance, in the financial market of Macedonia are present Bonds of the Kitty which are produced by the Central Bank in Macedonia. The rise during the past months between these two institutions that who will sell more bonds, influenced in the increase of the interest fees of the bonds in almost 9%, but the interest fees that these two institutions specify, influence directly in the forming of the interest fees of commercial banks.

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<sup>15</sup> Interview with the expert of economy in Macedonia, Abdylmenaf Bexheti

<sup>16</sup> "Lajm", daily newspaper, Macedonia, 13-14 June, nr.1237;pg. 6

## Conclusion

According to our analysis of the Balance of Payments, we conclude that the present currency crisis is caused from the speculative attacks of the denar, compounded with the emphasized deficit of the current accounting and other problems of the macroeconomic stability.

The regime of the fixed exchange rate of Macedonia, for a predictable future, should stay as it is. The Central Bank of Macedonia should intervene in the currency market to support the denar even though it is necessary to use foreign reserves of exchange. A stable exchange rate ensures to Macedonia a low inflation and an economic growth.

NO – to the devaluation of the denar. An eventual devaluation can cause worsening of the liquidity of the denar of commercial banks. Thus, there will increase the need for denars, where the citizens and enterprises will replace the deposits in foreign currency for denars with a high exchange rate. This has negative impact in the denars' liquidity of the banks. A situation which at the actual conditions of the crisis Macedonia doesn't need at all.