



SECOND INTERNATIONAL SCIENTIFIC-BUSINESS
CONFERENCE LEADERSHIP & MANAGEMENT:
INTEGRATED POLITICS OF
RESEARCH AND INNOVATIONS

LIMEN 2016

December 15, 2016.

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CONFERENCE PROCEEDINGS



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***Leadership & Management:
Integrated Politics of Research and Innovations***

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PREFACE

The organizing is an evolutionary phenomenon, distinctive because of laws of existence and maintaining all structures in all processes of their functioning. As such, it is a civilizational phenomenon also that occurs as a component of human, individual and social activities and as a factor in the overall development of man and society. On the other hand, as a deliberate human activity, organizing involves seeking solutions to problems that occur on the way to achieving specific goals. No goal can be achieved without appropriate or necessary, or at least minimal organization of conditions, factors and processes needed for goal achievement. However, the modern era requires new types of leaders and managers, and new forms of organization; demands those who are willing and able to lead the company / corporation / state, in a distinct competitive environment, with all the good and bad sides brought by the globalization of world economy.

The organizers of the LIMEN 2016 conference - *Faculty of Engineering Management - Belgrade, Modern Business School - Belgrade, Faculty of Business and Management Sciences - Novo Mesto, Slovenia, Faculty of Business Management and Informatics - Novo Mesto, Slovenia, Business Academy Smilevski - BAS, Skopje, Macedonia, BAS Institute of Management, Bitola, Macedonia and Association of Economists and Managers of the Balkans headquartered in Belgrade - Serbia* – have recognized the problem that nowadays exists in most modern organizations: *so much management and too little of leadership*; so they organized Second International Scientific-Business Conference titled: *Leadership and Management: Integrated Politics of Research and Innovations - LIMEN 2016* in Belgrade on December 15, 2016 at the Hotel Moskva.

Bearing in mind the challenges of a dynamic engagement in contemporary organizations, it is clear that within the analysis of these two important subjects should be applied interdisciplinary approach. For this reason, the main theme of the conference LIMEN 2016 was processed through the following key topics.

- Leaders and Leadership
- Entrepreneurship, Innovation, Creativity
- Management of Small and Medium-sized Enterprises
- Contemporary Strategic Management
- Financial Management and Banking
- Marketing Management
- Project Management



- GREEN Management
- Natural Resource Management
- Quality Management
- Management of New Technologies
- Management Information Systems
- Education Management
- Intercultural Management
- Public Sector Management
- Human Resources Management
- Organizational Behavior
- Business Ethics
- Labour Law
- Business Law

The aim of this year's conference is also achieved - bring together the academic community of the Balkans region and other countries and publication of their papers with the purpose of popularization of science and their personal and collective affirmation. The unique program combined presentation of the latest scientific developments in these areas, interactive discussions and other forms of interpersonal exchange of experiences.

The conference was opened by: **Prof. dr Karmen Erjavec**, Vice-Dean of the Faculty of Business Management and Informatics - Novo Mesto, Slovenia; **Prof. dr Vladimir Tomašević**, Dean of the Faculty of Engineering Management – Belgrade and a member of the Scientific Committee of the conference, **Prof. dr Goran Dašić**, Assistant Director of the Modern Business School from Belgrade and a member of the Scientific Committee of the conference and **Uroš Mirčević**, President of the Association of Economists and Managers of the Balkans.



Participation in the conference took a total of **192 researchers with the paper** representing:

- 16 different countries,
- 36 different universities,
- 37 eminent faculties,
- 5 scientific institutes,
- 9 colleges,
- various ministries, local governments, public and private enterprises, multinational companies, associations, etc.

In the Conference Proceedings of the LIMEN 2016 conference **97 papers** have been published on more than **800 pages**.

1. Albania
2. Austria
3. Bosnia and Herzegovina
4. Bulgaria
5. Croatia
6. Czech Republic
7. Latvia
8. Macedonia
9. Montenegro
10. Romania
11. Russia
12. Serbia
13. Slovakia
14. Slovenia
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16. Turkey



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6. Zagrebačka škola ekonomije i menadžmenta, Zagreb, Hrvatska
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8. Ekonomska šola Celje, Višja strokovna šola, Celje, Slovenija
9. The College for Applied Science in Management and Business Communication, Sremski Karlovci, Serbia

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3ZEN d.o.o., Ljubljana, Slovenia; Air Serbia, Serbia; Association of Economists and Managers of the Balkans, Belgrade, Serbia; Avtohiša Malgaj, Slovenia; Avtohiša Škorjanc, Celje, Slovenia; Bauwerk Parkett AG, Switzerland; EPEA Switzerland, Switzerland; Hotel "Majestic", Beograd; Hrvatska gospodarska komora Zagreb, Hrvatska; LogiMan, s.r.o., Praha, Czech Republic; Ministarstvo financija, Porezna uprava, Zagreb, Hrvatska; Ministarstvo za finansije, Skopje, Makedonija; Ministarstvo za prosvetu, nauku i tehnološki razvoj, Srbija; NCR d.o.o., Beograd, Srbija; Odbor za kulturu i informisanje Narodne skupštine Republike Srbije, Srbija; Siemens, Beograd, Srbija; Služba za poslove sa strancima, Sarajevo, Bosna i Hercegovina; Sparkasse Bank, Macedonia

EXCHANGE RATE REGIME AND ECONOMIC GROWTH: THE EVIDENCE FOR REPUBLIC OF MACEDONIA

РЕЖИМОТ НА ДЕВИЗЕН КУРС И ЕКОНОМСКИОТ РАСТ: СЛУЧАЈОТ НА РЕПУБЛИКА МАКЕДОНИЈА

Gligor Bishev⁶⁸
Tatjana Boshkov⁶⁹
Zarko Radjenovic⁷⁰

Abstract: *Determining the equilibrium exchange rate and factors that determine it, will contribute for taking actions for increasing economic growth. Improving the terms of trade tends to increase the welfare of the country, its domestic demand and prices of non-traded goods, with real appreciation of the domestic currency (effect of welfare). According these, real exchange rate as a monetary instrument, can detect the performances for export growth, increase in aggregate demand, in this way increasing economic growth. Developed countries where increasing in economic growth rely on exports growth, could be example for Macedonia that exchange rate is not only instrument for maintaining price stability. Exchange rate is an instrument for improving exports performances, increasing economic growth as strengthening the stability of financial system. The research will examine the relationship between nominal effective exchange rate with other macroeconomic aggregates applying the ordinary least squares method. These estimations will underline the impact of exchange rate on economic growth in Macedonia.*

Key words: *Exchange rate, economic growth, Macedonia, MLS method, stability.*

Апстракт: *Детерминирањето на рамнотежниот девизен курс и факторите кои го детерминираат истиот, ќе допринесе за потенцијални акции кои ќе го зголемат економскиот раст. Подобрувањето на условите на трговија има тенденција да ја зголеми благосостојбата на земјата, домашната побарувачка и цените на неизменливите добра, и реална апрецијација на домашната валута (ефект на благосостојба). Согласно ова, реалниот девизен курс како монетарен инструмент, може да ги детектира перформансите за економски раст, зголемување на агрегатната побарувачка а на таков начин и зголемување на економскиот раст. Развиените земји каде зголемувањето на економскиот раст се должи на растот на извозот, може да биде пример за Македонија дека девизниот курс не е само инструмент за подобрување на извозните перформанси, зголемувајќи го економскиот раст како и зајакнување на стабилноста на финансискиот систем. Истражувањето ја детерминира врската меѓу номиналниот ефективен девизен курс со другите макроекономски агрегати применувајќи метод на најмали квадрати. Овие естимации ќе го потенцираат влијанието на девизниот курс врз економскиот раст на Македонија.*

Клучни зборови: *девизен курс, економски раст, Македонија, MLS метод, стабилност.*

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1. INTRODUCTION

The impact of exchange rates on trade in a given country, as in Macedonia, example for small and open economy, should be seen in the context of continued integration of supply chains. Exports generally include high import content and impact of foreign currency-exchange appreciation or depreciation on any finished product because it is complex. If the depreciation of the exchange rate makes its exports of finished products "cheaper", it makes imported components "expensive" for domestic producers.

Maintaining growth and reducing the unemployment in a small and open economy such as Macedonia depends from improved performance of exports. Improving the performance of exports can also help to preserve macroeconomic stability by closing the gap in the current account to avoid wasting supplies and to stop the growth of external debt. Improving performance requires improving export competitiveness. In the short term, competition may be related to the level of the real exchange rate, which provides internal and external balance. The appreciation of the real exchange rate with respect to its equilibrium level reduces the incentives and the ability of manufacturers to compete in foreign markets, since a significant part of production costs paid in local currency. In the long run, real exchange rates are assumed to converge to its equilibrium level, and competitiveness is more related to the productivity of the economy.

The existence of the real exchange rate in Macedonia, the products whose price in the country is a low cost can be exported effectively and import products whose price is relatively higher in the country in terms of abroad. In addition to the events and challenges for Macedonia, membership in the EU can improve the industrial situation in Macedonia only if the access largely makes Macedonia location from which foreign investors can serve EU markets if the domestic industry, with aid of FDI, can take the necessary changes to its output, an issue explored in greater detail in the section of the industry. These long-term structural shifts in employment and output, which can be

Dr. Gligor Bishev, was born on 5 of April, 1958 in Strumica, R. Macedonia. With his 29 years of experience he was appointed as the President of the Board of Sparkasse Bank, Makedonija since 06.06.2013. His career began in 1984 at the National Bank of Republic of Macedonia, first as a junior economist, and later in 1993 as General Manager. In 1994 he was appointed to be Vice-governor and in the period from 1997 to 2000 he was also Vice Governor of the National Bank of Macedonia. Since 2000, Gligor Bishev, PhD was serving as General manager in Stopanska banka AD Skopje.



Besides the professional engagement, Dr. Bishev is active in the field of economic sciences: Professor at the Faculty of Economics - Prilep, State University "St. Kliment Ohridski" – Bitola, R. Macedonia

Professor on Faculty of Economics "St. Cyril and Methodius" – State University in Skopje and the -Professor on Institute of Economics "Ss. Cyril and Methodius" - Skopje.

After completing his doctoral studies in 1991, Dr. Bishev continued with his specialization in the London School of Economics and Political Science in 1995 and as a guest researcher at the Vienna Institute for Comparative Economic Studies in 1997.

Today is active as a Vice president at the Economic Chamber of Macedonia and he is a member of the Council of the Faculty of Economics in Ljubljana.

Dr. Bishev has published two books, more than 312 articles and he has taken part in many discussions and research studies in professional and scientific journals in the country and the region.

accelerated through accession of Macedonia to the EU, sectoral change can be an important

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During Ms. Boskov education, as one of the best students of the Faculty of Economics, she has the experience in students exchange with Faculty of Economics in Belgrade and Zagreb. Also in 2006 aside from the Faculty, she completed the course of Integrated Marketing Communication held by Robert Lauterborn, PhD, University of North Carolina at Chapel Hill USA. During the period 2007-2009 Boshkov worked on Faculty of Economics in Prilep, St. Clement Ohridski, University – Bitola. In 2009, as participant in TEMPUS project, Boshkov realized researcher visit on Wirtschaftsuniversität – Wien. Since 2010, she is employed as Assistant at the Faculty of Tourism and Business Logistics, Goce Delcev University – Stip. In 2015 Boshkov is Professor at the Faculty of Tourism and Business Logistics.

driver of change in aggregate factor productivity and income of workers in different sectors of the economy (Boshkov and Bishev, 2015a).

Given the large gap in prices and income per capita between Macedonia and the EU, the price will be accepting an important source of inflationary pressure, and facing the existing price distortions in the energy, municipal services, etc. Before access can move this later inflationary factor as driver for access around the time when the effect of inflation on real convergence is combined with the negative short-term effects of EU accession on fiscal balance, falling interest rates and so on. This will require careful management of the exchange rate. That is, if the Macedonian real growth accelerates, Macedonia will be more attractive candidate for EU membership, and it will faces with intense pressures on the exchange rate regime and macroeconomic policies.

2. LITERATURE REVIEW

This section presents several studies that use the variable nominal effective exchange rate. Also, here is provided an overview of methods used by these studies (Table 1).

Studies	Title	Methods
Baxter, M., and Stockman, A. (1989).	Business Cycles and the Exchange Rate Regime: Some International Evidence	Correlation analysis
Bollerslev(1989)	Modeling the coherence in short run nominal exchange rates: A multivariate generalized ARCH model	SUR, ARCH and GARCH model

Flood,Rose(1992)	Fixing exchange rates : A virtual quest for fundamentals	Ordinary least squares method
Oskooee(2001)	Nominal and real effective exchange rates of middle eastern countries and their trade performance	Dickey-Fuller Unit Root Tests, Engle-Granger cointegration test and Johansen cointegration test
Lai, Lowinger(2002)	Nominal effective exchange rate and trade balance adjustments in South east Asia countries	VECM
Tenreyro(2004)	On the trade impact of nominal exchange rate volatility	Poisson pseudo maximum likelihood model
HarbingerC, Wijeweera(2005)	Albert Nominal Exchange Rate Neutrality: The Case of Australia	VAR model

Table 1. Review of methods used in studies, which analyze nominal effective exchange rate.

3. METHODOLOGY

Building models with the presence of bilateral causal relationship between two variables, is more complex. The analysis uses the method of ordinary least squares. This method is used for estimation of unknown parameters in the ordinary linear model. This method minimizes the sum of squared vertical distances between observed responses in the data set and the answers provided by the linear approximation. This method characterized estimated ratios that are consistent when regressions are exogenous and there is no perfect multicollinearity. This method can examined linear dependence between phenomena and general model can have one dependent and one or more independent variables. Regressions with the method of least squares, produced highly statistically significant parameters, but the presence of autocorrelation question poses the question whether MNC models are robust.⁷¹ (Bishev and Boshkov, 2015a).

4. DATA

For analysis, we use quarterly data which cover the period from 1993 the first quarter, to 2013, first quarter. Data are for the Macedonian economy. Time series are: the nominal effective exchange rate (near)⁷², observations for this variable are 1993q1 to 2013q1, or 81 observations in total. For real effective exchange rate⁷³, we have 81 observation, further Macedonian gross domestic product, which also has quarterly observations from 1993 to 2013. Purchasing power parity⁷⁴ is included in the data but this variable has 78 observations for the period 1994q1, first quarter to 2013q1, first quarter. The interest rate as a time series for the Macedonian economy

⁷¹ While in the presence of autocorrelation of estimated coefficients by the method of least squares remain impartial, consistent and asymptotic normally distributed, they are no longer effective (Gujarati, 2003).

⁷² The nominal effective exchange rate is unadjusted weighted value of the currency of the country to the currencies of all countries with which trade is usually expressed as an index, an index of the currency pool.

⁷³ The real effective exchange rate is the average of the country's currency to the index basket of other major currencies adjusted for inflation.

⁷⁴ PPP (Purchasing power parity) purchasing power parity is a technique used to detect the relative value of currencies which calculates how big is the change that is needed for the exchange rate to be equal to the purchasing power parity of each currency.

is represented by the rate of borrowing, and the cover data for it is from 1994q2 (second quarter) to 2013q1 (first quarter), or in total 77 observations. Exports and imports account maximum number of observations, i.e. 81. The data on monetary aggregates M2 and M4 are shorter series

Žarko Rađenović rođen je 23.05.1989. godine u Leskovcu. Osnovnu i srednju školu- Gimnaziju završio je u Leskovcu prosečnom ocenom 5,00. Ekonomski fakultet, Univerziteta u Nišu upisuje 2008. godine. Na pomenutom fakultetu, diplomirao je 2012. godine prosečnom ocenom 9,38 i iste godine upisao master studije. Master tezu odbranio je 2013. godine kada postaje master ekonomista sa prosečnom ocenom 10,00. 2013. godine upisuje doktorske studije takođe na Ekonomskom fakultetu, Univerziteta u Nišu. Kao student doktorskih studija uspešno je položio i odbranio sve ispitne obaveze sa prosečnom ocenom 9,73 i prijavio disertaciju na temu „Razvoj i implementacija sistema za podršku elektronskom poslovanju zdravstvenih organizacija“. Od 2014. godine, kao doktorand, stipendista je Ministarstva prosvete, nauke i tehnološkog razvoja Republike Srbije. Član je Društva ekonomista grada Niša. Školske 2015/16 godine kao i 2016/17 godine postaje saradnik u nastavi na predmetu Informatika, na Ekonomskom fakultetu, Univerziteta u Nišu. U međuvremenu završava druge po redu master studije na Mašinskom fakultetu, Univerziteta u Nišu. Autor je brojnih radova kako u časopisima tako i u zbornicima domaćih i stranih konferencija i redovni učesnik naučnih skupova.



2001 q1 (first quarter) to 2013q1 (first quarter). The data for the index of inflation or the consumer price index where 2005 = 100, all from 1993q1 to 2013 q1, or 81 observation in total. Data were collected from the databases of the International Monetary Fund (IMF) and EconStatsTM (Boshkov and Bishev, 2015b).⁷⁵

5. EMPIRICAL RESEARCH AND RESULTS

For empirical analysis of the ratio of the nominal effective exchange rate with all other previously mentioned variables in the model, we use quarterly data for Macedonia covering the period from 1993 to the first quarter 2013, first quarter. All variables we put in logarithmic form (logneer, logreer, loggdp, logppp, logm2, logm4, logcpi, loginterstrate). This is done because the functional form of log-log can examine the elasticity of variables. We agree that coefficients estimated with the method of least squares can not consider statistically robust because MLS method has the ability to capture cointegrating ratio variables between two or more variables (Bishev and Boshkov, 2015b).

MLS regressions/dependent variable	t-statistics (of constant and independent variable)	Ramsey test	Breusch - Godfrey LM test
$\logneer_t = 7.077 - 0.5497 * \logreer_t$	t-value = { 8.71-3.15 }	0.0003	0.0000
$\logneer_t = 5.091 - 0.15083 * \logppp_t$	t - value = { 13.77 -1.58 }	0.6077	0.0000
$\logneer_t = 4.57 - 0.17 * \logGDP_t$	t - value = { 63.19 -0.85 }	0.0000	0.0000

⁷⁵ Website for this quote: http://www.econstats.com/ifs/NorGSc_Mac2_Q.htm

$\log\text{neer}_t = 3.2723 + 0.1200 * \log\text{M2}_t$	t - value = { 23.9240 9.8070 }	0.3258	0.0000
$\log\text{neer}_t = 3.3364 + 0.1089 * \log\text{M4}_t$	t - value = { 62.29 23.85 }	0.0013	0.0000
$\log\text{neer}_t = 5.1119 - 0.217 * \log\text{interestrate}_t$	t - value = { 161.029 -19.63 }	0.0000	0.0000
$\log\text{neer}_t = 3.28 + 0.188 * \log\text{imports}_t$	t - value = { 20.75 7.83 }	0.0000	0.0000
$\log\text{neer}_t = 3.21 + 0.214 * \log\text{exports}_t$	t - value = { 19.50 7.99 }	0.1303	0.0000
$\log\text{neer}_t = 3.82 + 0.35 * \log\text{cpi}_t$	t - value = { 13.69 2.49 }	0.0000	0.0000

Table 1. MLS models with logarithm of the nominal effective exchange rate as a dependent variable

Note: The null hypothesis in Ramsey RESET test is that the model hasn't rejected variables, while the null hypothesis in Breusch-Godfrey test is that there is no serial correlation.

From Table 1 we notice that all models suffer from autocorrelation in whose presence the coefficients are still has the best linear unbiased coefficient (BLUE-BEST LINEAR UNBIASED ESTIMATOR), but they are not efficient, which means they have a great variance (standard error), although all coefficients and the constant are statistically significant. The functional form is the best model for the logarithm of the nominal effective exchange rate with the purchasing power parity and the monetary aggregate M2, which is consisted of financial assets that are less liquid than the aggregate M1. The coefficients are interpreted in the usual way, for example, for M2, if the money supply M2 (in Macedonia) grow by 1%, the nominal effective exchange will grow 0.12% (Boshkov and Bishev, 2015c).

MLS regressions/dependent variable	t-statistics (of constant and independent variable)	Ramsey test	Breusch - Godfrey LM test
$\log\text{reer}_t = 5.57 - 0.203 * \log\text{neer}_t$	t - value = { 19.15 -3.15 }	0.0000	0.0000
$\log\text{ppp}_t = 4.81 - 0.21 * \log\text{neer}_t$	t - value = { 8.00-1.58 }	0.0000	0.0000
$\log\text{GDP}_t = 4.57 - 0.18 * \log\text{neer}_t$	t - value = { 63.19 -0.85 }	0.9653	0.0000
$\log\text{M2}_t = 3.2723 + 0.1200 * \log\text{neer}_t$	t - value = { 23.92 9.81 }	0.0000	0.0000
$\log\text{M4}_t = 3.3364 + 0.1089 * \log\text{neer}_t$	t - value = { 62.290 23.85 }	0.0002	0.0000
$\log\text{interestrate}_t = 5.12 - 0.217 * \log\text{neer}_t$	t - value = { 161.029 -19.63 }	0.0000	0.0000
$\log\text{imports}_t = 3.28 + 0.188 * \log\text{neer}_t$	t - value = { 20.75 7.83 }	0.0000	0.0000
$\log\text{exports}_t = -3.31 + 2.088 * \log\text{neer}_t$	t - value = { 19.50 7.99 }	0.0000	0.0000
$\log\text{cpi}_t = 1.03 + 0.2055 * \log\text{neer}_t$	t - value = { 2.77 2.49 }	0.0000	0.0000

Table 2. MLS models with logarithm of the nominal effective exchange rate as a independent variable

Note: The null hypothesis in Ramsey RESET test is that the model hasn't rejected variables, while the null hypothesis in Breusch-Godfrey test is that there is no serial correlation.

According Ramsey test, the best model is, where t statistics are t-значности = { 63.19-0.85 } (Table 2). All models also suffer from serial correlation. The coefficients are almost all highly statistically significant, but statistically ineffective because of the presence of serial correlation. In the following two tables we present the above functional forms but with differentiated variables (first difference) (Tables 3 and 4).

MLS regressions/dependent variable logneer	t-statistics (of constant and independent variable)	Ramsey test	Breusch - Godfrey LM test
$\Delta \log neer_t = 0.011 - 0.847 * \Delta \log reer_t$	t - value = { 0.22 7.38 }	0.0000	0.0000
$\Delta \log neer_t = 0.0068 - 0.062 * \Delta \log ppp_t$	t - value = { 11.79 - 0.74 }	0.0067	0.9182
$\Delta \log neer_t = -0.0029 + 0.0066 * \Delta \log GDP_t$	t - value = { -0.42 0.47 }	0.8553	0.0000
$\Delta \log neer_t = 0.0039 - 0.004 * \Delta \log M2_t$	t - value = { 2.76 - 0.35 }	0.2384	0.4548
$\Delta \log neer_t = 0.0033 + 0.016 * \Delta \log M4_t$	t - value = { 2.07 0.70 }	0.3055	0.5282
$\Delta \log neer_t = 0.006 - 0.072 * \Delta \log interest_rate_t$	t - value = { 1.90 - 4.32 }	0.1538	0.0246
$\Delta \log neer_t = -0.0022 - 0.02 * \Delta \log import_t$	t - value = { -0.37 - 0.48 }	0.0003	0.0000
$\Delta \log neer_t = -0.0035 + 0.025 * \Delta \log export_t$	t - value = { -0.50 0.48 }	0.8235	0.0000
$\Delta \log neer_t = 0.011 - 1.53 * \Delta \log cpi_t$	t - value = { 2.02 - 8.53 }	0.0000	0.0000

Table 3 MLS models with first difference of logarithm of the nominal effective exchange rate as a dependent variable

Note: The null hypothesis in Ramsey RESET test is that the model hasn't rejected variables, while the null hypothesis in Breusch-Godfrey test is that there is no serial correlation.

MLS regressions/dependent variable logneer	t-statistics (of constant and independent variable)	Ramsey test	Breusch - Godfrey LM test
$\Delta \log reer_t = -0.0035 - 0.48 * \Delta \log neer_t$	t - value = { -0.887.38 }	0.0000	0.0246
$\Delta \log ppp_t = -0.0023 - 0.1152 * \Delta \log neer_t$	t - value = { -0.45 - 0.74 }	0.1799	0.0316
$\Delta \log GDP_t = -0.021 + 0.42 * \Delta \log neer_t$	t - value = { -0.39 0.47 }	0.8864	0.1155

$\Delta \log M2_t = 0.0248 - 0.64 * \Delta \log neer_t$	t - value = { 1.30 -0.35 }	0.2814	0.5973
$\Delta \log M4_t = 0.033 + 0.629 * \Delta \log neer_t$	t - value = { 3.24 0.70 }	0.2827	0.8024
$\Delta \log interestrate_t = -0.024 - 2.78 * \Delta \log neer_t$	t - value = { -1.33 -4.32 }	0.0000	0.1718
$\Delta \log imports_t = 0.024 - 0.143 * \Delta \log neer_t$	t - value = { 1.33 -0.48 }	0.0843	0.0002
$\Delta \log exports_t = 0.019 + 0.114 * \Delta \log neer_t$	t - value = { 1.23 0.48 }	0.8494	0.4061
$\Delta \log cpi_t = 0.007 - 0.315 * \Delta \log neer_t$	t - value = { 3.51 -8.53 }	0.0000	0.0000

Table 4 MLS models with first difference of logarithm of the nominal effective exchange rate as a independent variable

Note: The null hypothesis in Ramsey RESET test is that the model hasn't rejected variables, while the null hypothesis in Breush-Godfrey test is that there is no serial correlation.

From the Table 3 it is notable that the functional form in regressions with differentiated series is much better than that when are in the level, *p* value is much greater than zero and this means that it is statistically significant. In addition, serial correlation 4 of 9 models is not a problem unlike the two previous tables where the serial correlation was a problem in any of the models. Table 4 presents models with the first difference of the nominal effective exchange rate. With models, where the nominal effective exchange rate is a dependent variable, in 6 of 9 models the functional form is good, which means models do not suffer from a bias to rejected variables. Serial correlation is a problem according Breusch-Godfrey LM test when the first difference of logarithm of the consumer price index is dependent variable and when the growth of exports is dependent variable. Other equations according this test don't suffer from serial correlation. In the table 5 based on the results of the above equations we present the causal tests of the nominal effective exchange rate with other variables for which we have data (Boshkov and Bishev, 2015d).

	Log-level	First difference
Nominal effective exchange rate (neer) and Real effective exchange rate (reer)	$\log neer_t \Leftrightarrow \log reer_t$ *	$\Delta \log neer_t \Leftrightarrow \Delta \log reer_t$ *
Nominal effective exchange rate (neer) and Purchasing Power Parity (ppp)	$\log neer_t \Leftrightarrow \log ppp_t$ *	$\Delta \log neer_t \Leftrightarrow \Delta \log ppp_t$
Nominal effective exchange rate (neer) and Gross Domestic Product (GDP)	$\log neer_t - \log gdp_t$	$\Delta \log neer_t - \Delta \log gdp_t$
Nominal effective exchange rate (neer) and M2 Monetary aggregate (m2)	$\log neer_t \Leftrightarrow \log M2_t$ *	$\Delta \log neer_t - \Delta \log M2_t$
Nominal effective exchange rate (neer) and M4 Monetary aggregate (m4)	$\log neer_t \Leftrightarrow \log M4_t$ *	$\Delta \log neer_t - \Delta \log M4_t$
Nominal effective exchange rate (neer) and interest rate (interest rate)	$\log neer_t \Leftrightarrow \log interestrate_t$ *	$\Delta \log neer_t \Leftrightarrow \Delta \log interestrate_t$ *

Nominal effective exchange rate (near) and imports (imports) $\log neer_t \Leftrightarrow \log import_t * \Delta \log neer_t - \Delta \log import_t$

Table 5. Models of causality in Macedonia based on the Method of Least Squares

Note: \Leftrightarrow show bilateral causal ratio, $-$ indicates lack of causality, $*$ denotes statistical significance of the relationship between the variables of 10%.

The previous tests of causality, we underline that undermines confidence autocorrelation disrupts the confidence in coefficients estimated by the Method of Least Squares, even it can destroy. However, the purpose of the regressions with the Method of Least Squares is testing the ratio of nominal effective exchange rate as a variable with other variables in the model, and can be concluded that there is causality (Boshkov and Bishev, 2015e).

6. DISCUSSION

The main goal of National Bank of Republic of Macedonia is the maintenance of the price stability. Regarding this, the National Bank is committed to apply a strategy for maintaining stable nominal exchange rate against the Euro. The role of the exchange rate as a nominal anchor derives from the characteristics of the domestic economy, as a small and open economy that is highly dependent on the import of primary commodities (European Commission, 2007). Also, Macedonian exchange rate can be used as an instrument for export performances of the country.

Risks are present and persist also in 2016, which was typical for 2013, 2014 and 2015. The main characteristic for these past years is that Macedonia has made apparent separation of the dynamics of growth compared to that imposed by the growth of the countries that are our major trade partners. Indicated by the arguments, real GDP growth for 2014 was 3.8%. This growth was due to investment (public investment and FDI) and exports (increased exports and reduced trade deficit). In 2014 the unemployment rate decreased as a growth factor of labor productivity. Despite the complexity of the period, 2014 can be defined as the year with favorable monetary policy, especially with the trend of slowing inflation mainly due to the negative contribution of the prices of food and fuel. During 2014, monetary policy has maintained its flexibility in terms of the current environment and in terms of keeping the exchange rate stability and low inflation pressures determined by factors on the supply side, further endorsed credit growth, mainly through the use of non-monetary measures and changes in other instruments.

Although in terms of inherent risks and uncertainties, as the risk which stemming from internal political developments, last year, 2015, the Macedonian economy registered solid macroeconomic performance. Maintaining economic growth was due to structural changes in the domestic economy, the successful implementation of monetary policy. 2015 also characterized by low inflation and stable foreign exchange market movements. Early this year showed room for continuity of monetary policy by further reducing deposit interest rates and creating conditions for greater targeting of the available bank assets for lending the private sector. Growth of 3.7%, which Macedonian economy keep due to domestic consumption and export, i.e. new companies with foreign capital in the country on the export side, public infrastructure and the decline in the unemployment rate. Inflation in 2015 was negative by -0.3% due to lower fuel prices, which determine the inflation and globally. The deficit can not be regarded as constant, since last year is about 2% of GDP. The narrowing of the trade deficit in 2015 due to the contribution of new companies in the free zones, as well as positive price effect on energy imports and remittances remain relatively stable. Banking regulation is

improved in 2015 in accordance with the standards in statistics, payment systems, information structure and introducing a system for managing operational risks.

According to macroeconomic projections, 2016 is expected to end with solid macroeconomic performance, although these expectations are significantly burdened by constant threats from external and domestic environment. Monetary authorities are always ready to respond flexibly to all challenges in order to accomplish the objectives of monetary policy in terms of maintaining price stability and stable exchange rate, maintaining financial stability and support macroeconomic stability in the domestic economy.

CONCLUSION

In a situation where the competitive price is appropriate, further performance gains in exports may be hampered by structural factors. The real exchange rate depreciated steadily and Macedonian price level is low when it is compared to other countries with similar income. Although estimation of the equilibrium real exchange rate are challenging, measurements show that the exchange rate is generally in line with macroeconomic fundamentals. In contrast, direct comparison of wages between countries suggests problem with the cost competitiveness, while heterogeneity of data makes this comparison quite difficult. Macedonian producers fail to maintain or increase their share in exports (Boshkov and Bishev, 2015f).

According to results, we conclude that the test undermines confidence autocorrelation disrupts the confidence in coefficients estimated by the Method of Least Squares, even it can destroy. However, the purpose of the regressions with the Method of Least Squares is testing the ratio of nominal effective exchange rate as a variable with other variables in the model, and can be concluded that there is causality.

The impact of exchange rates on trade in a country like Macedonia, small and open economy, can be seen in the context of continued integration of supply chains

With support of the estimation we showed that in a small and open economy such as Macedonia, using real exchange rate as an instrument could be realized the opportunity for growth of export performances, increase aggregate demand and increasing economic growth thus speeding the convergence process to EU. So, exchange rate can be seen not only as an instrument for maintaining price stability but also as an instrument that will contribute for economic stability of Macedonia and strengthening the stability of the financial system.

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