

VOLUME 10 NUMBER 3 Aug 2018

**ISSN 2076-9202 (Print)
ISSN 2218-046X (Online)**

International Journal of Information, Business and Management



ELITE HALL PUBLISHING HOUSE

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ISSN 2076-9202 (Print)

ISSN 2218-046X (Online)

ECONOMIC AND POLITICAL IMPLICATIONS OF CREDIT EUROIZATION: THE CASE OF MACEDONIA

Tatjana Boshkov¹

Abstract

Removal of all obstacles to international trade and financial flows, and the development of communications and Internet technology contribute to the direct connection of all financial centers and markets in the world. Thus they become internationally integrated, which use different currencies as a result of the exchange process. The constant currency exchange is carried out with various arrangements and exchange rates. While movements in exchange rates have significant effects on the same and can be left its profound effects on sales, costs, profits. So the choice of exchange rate regime is an important aspect of economic development of the competitiveness of a country, macroeconomic stability. Considering the exchange rate experience of Macedonia, it's likely to remain significantly euroized country for an extended period. IMF considers that the appropriate strategy is the one which provides support for the gradual de-euroization for maintaining macro-prudential policy, development of the domestic market and maintain prudent policies that mitigate the risks of foreign currency. The investigation indicates that macroprudential policies are becoming an important driver of de-euroization. In terms of other drivers of euroization the findings of this analysis support the conventional view that deposit euroisation and the interest rate differentials were the main determinants of credit euroization in Macedonia. Also, this paper analyzes political implications of credit euroization in Macedonia.

Key Words: euroization, political implications, foreign currency, economy, growth.

1. Introduction

Western Balkan governments are known for their views that these countries have a prospect of joining the European Union. But support from the Brussels bureaucracy and politicians from EU Member States have somehow been undermined. After thirty years, the prospect of accession has become a political means of calming this part of Southeast Europe. But its credibility will largely disappear, and the poorest people give up hoping for improvement and achieving a dignified life.

It is inevitable to mention that this region is characterized by economic stagnation and the political crisis. The first Western Balkan Conference, sponsored by the German government, took place in Berlin. Political and business leaders in the region, the European Union and Member States met with the primary

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Prudential regulations should remain in place until settlement of euroisation. This will help ensure the management of foreign exchange risks and provide shock absorbers, and will be given a soft initiative for de-euroization. Macedonia may also consider prudential improvement policies with measures taken by other countries, including 1) higher liquidity requirements for foreign currency deposits (Angola and Uruguay) or foreign currency loans (Croatia), 2) greater capital and the provision of foreign currency terms loans in particular to uninsured borrowers (Angola, Honduras and Vietnam) and 3) a lower credit value ratio in order to improve buffers of foreign currency loans that are denominated (Hungary).

7. Conclusion

In this paper the main reasons for Euroization in Macedonia were analyzed as the political implications from it. High credit euroization in Macedonia seems to be managed by inflation instability, including current volatility and memories of the past of hyperinflation; the low instability of the exchange rate and potential implicit guarantees are seen under the fixed exchange rate, along with the increased demand and supply of Euros, when Macedonia becomes more integrated in the region as in the trade and financial flows.

Even with initiatives to de-euroize, Macedonia is likely to remain euroized for a long time. Both literature and evidence suggest that it is difficult to deal with reverse Euroization, which is constant, even when macro stability is well established. In addition, some regional models of euroization appear to emerge, Europe remains highly evolved in the last two densities despite significant progress in achieving macro stability and efforts to de-euroization. This is probably related to regional economic integration with the EU and aspirations to joining the Eurozone.

De-euroization is desirable to provide a safety valve for potentials and future risks, although the benefits are somewhat limited by the fixed exchange rate. The main advantage of de-euroization in Macedonia is to reduce the balance sheet risk that can be made by the banking system vulnerable to larger exchange rate movements. De-euroization will allow the "safety valve" to work when the circumstances guarantee. Other advantages of de-euroization, such as avoiding the loss of the difference between the value of money and the costs of their production and improving the effectiveness of monetary policy are limited in Macedonia. Especially in line with the fixed exchange rate, there is a limited amount of monetary autonomy for de-euroization.

Maybe the best strategy is to provide incentives and support the macro-financial context for gradually reducing euroisation through prudent policies and maintaining macro stability and developing the domestic debt market. Macedonia implements prudent macro policies and has achieved macro stability in the coming decade, including the time of the global financial crisis. Maintaining such policies is a prerequisite for de-euroization. Given the fixed exchange rate and the restriction of the scope of monetary policy to respond to inflation, fiscal policy can play a greater role, including improving public debt management and reliance on longterm loans in Denars. This will be an important step to de-euroized the balance sheet of the public sector and to continue the yield curve, encouraging the development of the domestic debt market. A deep and liquid capital market can provide more opportunities for investing in

denars as a substitute for FX-denominated assets and thus helping de-euroization.

The high degree of credit euroisation is usually considered a policy challenge. Euroization is a balance sheet of the state of the risks to the economy, as well as to FX debtors, but with local currency earnings and assets that are susceptible to sudden changes in the exchange rate. As a result, currency risk can be converted into an indirect credit risk. In addition, high euroization reduces the efficiency of the transfer of the monetary policy of the central bank to affect the rate of local currency through its interest rate, but has a small effect on foreign currency rates.

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