

Kyobe for MIA: The National Bank has demonstrated resilience in managing challenges, however, the fight against inflation needs to continue

**Skopje, 7 May 2025 (MIA)** - NBRNM's monetary policy setup is robust and effective in maintaining exchange rate stability and curbing inflation, says Annette Kyobe, *IMF Mission Chief to the Republic of North Macedonia*.

In an interview for MIA, Kyobe indicates that the National Bank has demonstrated resilience in managing challenges such as the energy cost shock triggered by Russia's invasion of Ukraine. However, she says, the fight against inflation needs to continue until inflation is firmly on a downward path, which could be aided by lower international food and energy prices and easing core inflation.

- The NBRNM has demonstrated resilience in managing challenges such as the energy cost shock triggered by Russia's invasion of Ukraine. In response to inflation peaking at nearly 20% in 2022, the NBRNM implemented decisive policy rate hikes, anchoring inflation expectations. By August 2024, inflation had dropped to 2.2%, thanks to effectiveness of monetary tightening and lower global commodity prices. Since September 2024, the National Bank has cautiously started normalizing monetary policy, following the European Central Bank's lead, says Kyobe.

Kyobe assesses North Macedonia's banking sector as stable and resilient to shocks, maintaining historically high capital adequacy ratios and robust liquidity ratios, which have been critical in ensuring stability amid global and regional challenges.

- Non-performing loans are at historical lows (NLPs of 2.6%) and well-provisioned, reducing risks to banks' balance sheets. Profitability has been solid and stress tests conducted by the central bank have confirmed that the banking sector as a whole is resilient to a range of adverse scenarios, emphasizes the IMF Mission Chief to our country.

Kyobe forecasts that escalating tariffs could sharply slow global growth, with projections revised downward to 2.8% in 2024 and 3% in 2025 - a cumulative 0.8 percentage point drop from earlier forecasts.

She further adds that the effects will vary by country depending on trade exposure, though some may benefit from trade diversion - a rerouting of commerce as tariffs redirect imports to non- or less-targeted partners.

- The broader risks include retaliatory tariffs, which could escalate into full-blown trade wars, destabilizing international relations. Over time, reduced competition from protected markets may dampen innovation and incentivize rent-seeking, eroding productivity. Compounding these challenges is trade policy uncertainty, which - coupled with financial market volatility - could further undermine investor confidence. Businesses may delay capital expenditures or shift operations to hedge against unpredictable trade rules, amplifying the drag on global growth. While trade diversion offers limited relief to some economies, it fails to counterbalance systemic losses, as reshuffled supply chains often create inefficiencies, highlights Kyobe.

For North Macedonia, Kyobe expects the direct trade impact of tariffs to be limited, however, the indirect effects through the North Macedonia's exposure to the European Union - particularly Germany - could be more consequential.

Overall, North Macedonia remains vulnerable to shifts in global trade patterns due to its relatively high trade openness, with goods exports projected at about 44% of GDP in 2024 - or about 63% when including services, says Kyobe for MIA.

According to the IMF Mission Chief, SEPA membership will enable faster, cheaper, and safer euro-denominated cross-border payments for our country, critical for an open economy with high remittance flows.

**1. How does the IMF assess the current monetary policy setup of the National Bank, particularly regarding the maintenance of exchange rate stability and the fight against inflationary pressures?**

The IMF comments the central bank's *excellent track record* in maintaining price and exchange rate stability. The NBRNM has demonstrated *resilience in managing challenges* such as the energy cost shock triggered by Russia's invasion of Ukraine. In response to inflation peaking at nearly 20% in 2022, the NBRNM implemented *decisive policy rate hikes*, anchoring inflation expectations. By August 2024, inflation had dropped to 2.2%, thanks to *effectiveness of monetary tightening* and lower global commodity prices.

Since September 2024, the National Bank has *cautiously started normalizing monetary policy*, following the European Central Bank's lead. However, the fight against inflation needs to continue until inflation is firmly on a downward path, which could be aided by lower international food and energy prices and easing core inflation.

Today's *Article IV consultation report* highlights the need for the *central bank to remain vigilant* to risks from domestic factors like fiscal policies, buoyant credit conditions, and second-round effects, as well as external factors such as fragmentation and commodity price volatility. The *IMF supports the NBRNM's cautious and data-driven approach*, balancing economic activity support with the imperative of firmly anchoring inflation expectations and ensuring sustained and broad-based disinflation.

**2. Central bank independence is a crucial element for effective monetary policy. How does the IMF assess the institutional and operational independence of the National Bank of North Macedonia?**

The International Monetary Fund has consistently emphasized the *crucial importance of central bank independence* for effective monetary policy. This independence depends on both institutional and operational aspects, each vital for the central bank's ability to function without external interference.

NBRNM's monetary policy setup is *robust and effective in maintaining exchange rate stability and curbing inflation*, with its recent Safeguards Assessment highlighting its strong institutional and operational independence, robust governance, and solid financial and risk management frameworks.

Moreover, the central bank's communication and accountability mechanisms, transparent practices, and operational autonomy *align with international standards*, as highlighted by the central banks high ratings in the IMF's 2022 Central Bank Transparency Code review.

In our recent report, we emphasized the importance of the NBRNM's operational and financial autonomy in underpinning its independence and credibility—both are essential for maintaining price and exchange rate stability and must be safeguarded.

**3. Over the past period, the National Bank has undertaken multiple (both microprudential and macroprudential) measures targeting the financial system. What is the IMF's assessment of the stability and resilience of the banking sector in North Macedonia?**

The IMF assesses North Macedonia's banking sector as *stable and resilient to shocks*, supported by the NBRNM's proactive regulatory and supervisory framework. The banking sector maintains *historically high capital adequacy ratios* (CAR of 18.9%) *and robust liquidity ratios* (LCR of 289.4 %), which have been critical in ensuring stability amid global and regional challenges. *Non-performing loans are at historical lows* (NLPs of 2.6%) and well-provisioned, reducing risks to banks' balance sheets. *Profitability has been solid and stress tests* conducted by the central bank have confirm that the banking sector as a whole is resilient to a range of adverse scenarios.

Over the past year, the National Bank of the Republic of North Macedonia (NBRNM) has achieved significant regulatory milestones to strengthen financial stability and align with international standards. A key focus has been the development of a robust regulatory framework for bank resolution, aligned with EU and international standards and best practices. In early 2025, the National Bank enacted a comprehensive package of twelve by-laws derived from the Bank Resolution Act – a significant step in strengthening the stability of the financial system and safeguarding the public interest.

Further, to strengthen the banking system's resilience and support the green transformation of the economy, the central bank has mandated the integration of climate-related risks into credit risk management starting in 2025. Additionally, from 2027, banks must comply with mandatory Environmental, Social, and Governance (ESG) disclosure requirements, harmonizing with EU regulations. These changes will boost transparency, raise risk awareness, and improve the quality and comparability of credit institutions' disclosures.

**4. Since March, we have joined SEPA. What is your opinion on this?**

North Macedonia's SEPA membership, effective March 2025, is an extraordinary step for a non-EU, non-EA country. It reflects the National Bank's success in aligning its robust legal and regulatory framework with EU standards, as recognized by the European Payments Council (EPC).

The demanding SEPA accession process, involving a detailed application, amendments to the Law on Payment Systems, enhanced Anti-Money Laundering measures, and technical alignment with SEPA payment schemes by October 2025, underscores the central bank's commitment to high regulatory standards. These reforms enhance the credibility of North Macedonia's financial system and position the country as a Western Balkan leader in terms of financial integration.

It is also a transformative achievement on many levels, supporting the country's economic ambition. SEPA membership will enable faster, cheaper, and safer euro-denominated cross-border payments, critical for an open economy with high remittance flows. This will reduce transaction costs, improve liquidity, and boost competitiveness, benefiting citizens, businesses, and diaspora communities.

**5. In light of the recent trends in global trade and protectionism, how does the IMF assess the potential global effects of increased customs duties (tariffs)?**

The IMF forecasts that escalating tariffs could *sharply slow global growth*, with projections revised downward to 2.8% in 2024 and 3% in 2025—a cumulative 0.8 percentage point drop from earlier forecasts. These tariffs risk *disrupting global value chains*, curbing trade volumes, and stifling business investment. Effects will vary by country depending on trade exposure, though some may benefit from *trade diversion*—a rerouting of commerce as tariffs redirect imports to non- or less-targeted partners.

The broader risks include retaliatory tariffs, which could escalate into full-blown trade wars, destabilizing international relations. Over time, reduced competition from protected markets may dampen innovation and incentivize rent-seeking, eroding productivity. Compounding these challenges is trade policy uncertainty, which—coupled with financial market volatility—could further undermine investor confidence. Businesses may delay capital expenditures or shift operations to hedge against unpredictable trade rules, amplifying the drag on global growth. While trade diversion offers limited relief to some economies, it fails to counterbalance systemic losses, as reshuffled supply chains often create inefficiencies.

For North Macedonia, we expect the *direct trade impact* of tariffs to be limited for North Macedonia, as exports to the United States accounted for only 1.4% of total projected goods exports in 2024 (however, this may depend on the final level of tariffs and any trade diversion effects). However, the *indirect effects* through the North Macedonia's exposure to the European Union—particularly Germany—could be more consequential. Around 60% of North Macedonia's exports are destined for the EU, with Germany alone absorbing roughly 40% of total exports. Overall, North Macedonia remains *vulnerable to shifts in global trade patterns* due to its relatively high trade openness, with goods exports projected at about 44% of GDP in 2024—or about 63% when including services.