



Center for Economic Analyses

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*The Center for Economic Analyses (CEA) is a think tank of economists who share a common vision for the Republic of Macedonia as an emerging new European economy integrated in the regional and worldwide market.*

*The Mission of CEA is to continuously research economic development and economic policy in the Republic of Macedonia and to offer recommendations, suggestions and measures where it is deemed appropriate.*

## PRESS RELEASE

### New CEA analysis on credit expansion in Macedonia

This analysis was prepared in the project on credit expansion in the region led by the Serbian research institute FREN (Foundation for the Advancement of Economics). The sample of countries under investigation comprised Bulgaria, Croatia, Macedonia, Montenegro, Romania and Serbia. CEA was responsible for conducting the research on Macedonia. The common product is available on the FREN website ([www.fren.org.yu](http://www.fren.org.yu)).

#### **Main findings**

Investigation of the credit expansion in the region indicates that it is the result of successful macroeconomic stabilization and restructuring of the banking system. The lending boom followed the arrival of reputable foreign banks. All the countries faced similar threats and the effectiveness of the monetary policy measures applied was limited.

Rapid credit growth may also be associated with higher inflation and growing trade and current account deficits. Serbia in particular and perhaps Romania too, have experienced increased inflationary pressures due to credit growth, while Croatia and Bulgaria have had substantial problems with their trade and current account deficits.

In the absence of the exchange rate instrument, central banks might try to use interest rates to manage the inflationary pressures and current account problems they face. Macedonia has done that to a degree. Another measure applied is reserve requirements. As Croatia has shown, reserve requirements can be put on almost anything. Several of our cases show that banks will find ways around the restrictions. Thus it seems that the credit growth problem will be with us for the foreseeable future.

Given the low starting point it is both necessary and desirable for lending to grow faster than GDP. However, consistent, deep economic reform to raise output and productivity is crucial to allowing the supply side to catch up.

In case of Macedonia the credit expansion observed in 2003-2005 was driven by households borrowing and by credit in foreign currencies to enterprises. The central bank responded by increasing reserve requirements and mopping up the excess liquidity with issue of securities. This policy has to date been effective in constraining the rate of credit growth.