THE IMPACT OF THE MONETARY POLICY ON THE ECONOMIC GROWTH AND THE DEVELOPMENT OF THE REPUBLIC OF MACEDONIA

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Abstract: Upon the monetary independence of the country from the previous joined state, it began with the creation (construction) of new own monetary system and implement its own authentic monetary policy. Besides the implementation of the projected primary monetary objectives (maintenance of price stability and stability of the purchasing power of money, i.e. internal and external value of the denar), the monetary authority cares for the realization of other basic goals of macroeconomic policy, such as: providing a higher rate of economic growth, increased foreign trade, especially exports, increasing the employment and improving the balance of payments positions. The realization of these macroeconomic objectives is possible if, with the measures of macroeconomic policy, and in this framework, monetary policy measures, are created the: favorable conditions for management(expansion of production capabilities, better utilization of available resources, adequate location and prompt reallocation of resources), improving economic relations and trade cooperation, aimed at increasing foreign trade, especially exports and improve the current account positions, and thus the position of the balance of payments.
Keywords: monetary policy, economic growth, development.

INTRODUCTION

If we consider the factor that, the realization of the bigger part of the previously mentioned objectives requires comprehensive engaging of all players (business sector, authorities and the government institutions) responsible for the realization of economic objectives (economic, development, exporting), higher level of coordination and cooperation between business sector, authorities and institutions, engaging the larger volume of funds, in function at increasing the productive capacity of the domestic economy, and the need of the relatively long period of time, so the effects of undertaken measures will reflect the value of the macroeconomic indicators. If we consider the fact that, economic reforms implemented in the previous period, especially so-called structural reforms, are seen as insufficient and delayed success. Then, lack of funds for investments, in function of increasing commodities of physical and human capital, in the whole period after economic independence, led to further deepening of the so-called distance in the technical and technological development of the domestic economy.

In such circumstances, the major part of the task, to secure better business conditions, while in a function of reforms of the domestic economy, fell on the monetary and fiscal policy. If we consider the fact that, the effects of measures and instruments of monetary and fiscal policy cannot completely cover the failures and disadvantages in the implementation of other policies (production, development and export policy, the primary distribution of income tax and other), then the implementation of sustainable and efficient monetary and fiscal policy, according to the needs and demands of the domestic economy, may partially successfully and in the short term, to resolve disadvantages, weaknesses and obvious limitations of the domestic economy. Of course, in the economic theory there are other views and opinions, often conflicting, in view of the role and importance of monetary policy on economic growth and development. Thus, according to them, restrictive monetary policy is the main limiting factor to reduce the production activity in the country. In addition to the previously mentioned attitude, the author lists the following arguments:

- Through quantitative restrictions on credit growth, banks, respectively monetary institutions have limited the access of the enterprises to the working capital, which was necessarily required to finance current production;
- Restrictive monetary policy is the reason, respectively one of reasons for the deterioration of liquidity of the economy;
- Restrictive monetary policy led to increased interest rates;
- Restrictive monetary policy led to the establishment of intercurrence value of denar, i.e. exchange rate of denar, on a higher level in terms of real value of money, which had a negative impact on the competitive ability of domestic exporters.

Although the foregoing arguments stand, we still believe that the monetary policy together with fiscal policy had a significant impact on economic trends. The measures of monetary and fiscal policy for a relatively short time, it was managed to achieve a higher level of price stability, stability of the purchasing power of money and stability of the exchange rate of national currency, which is essential precondition for creating a stable macroeconomic environment. The failure, i.e. partial success in implementing the reforms, particularly the so-called structural reforms, the failure in improving the economy structure, insufficient allowance for investment, unfavorable structure in the primary distribution of earned income, are the reasons for the unfavorable development of real economic trends. In such a situation, measures of monetary and fiscal policy can partly influence the actual economic flows, but not completely changing direction (development tendency) to actual economic flows. The character of monetary policy (restrictive, expansive or neutral) basically depends primarily on the state of national economy and the objectives of macroeconomic policy.

1.THE IMPACT OF MONETARY POLICY ON THE ECONOMIC GROWTH

Period after economic and monetary independence from the previous joint state union is characterized by worsened economic situation (negative rates of economic growth, high unemployment and the state of economic instability) and the unfavorable tendency of development of economic flows. The main reasons for the deteriorating condition of the domestic economy, as previously mentioned are: the failure, that partial success in implementing economic reforms, especially the so-called structural reforms, then the inability of the domestic economy to face foreign competition, lack of funds for investment and failure in attracting foreign investments (in function at changing the existing economic structure and function of increasing freight of physical and human capital) prolonging transformation of capital (process privatization and restitution). Also, a great impact on the situation and unfavorable development of economic trends in the past have the so-called external shocks on the domestic economy (military actions in the premises of former Yugoslavia, Greek blockade to us, blockade of the UN towards Serbia, military actions in the country during 2001, etc.).

The literature in the field of monetary theory and policy can be met different views and attitudes regarding the impact of various factors, and in this framework, the impact of monetary policy measures. In the early stage of transition in all former socialist countries, there was a decline in economic activity, and in extreme cases, the real decline in GDP in those countries are reduced to only 50.0% of the level reached before the transition[175]. The main reasons for the entry of these economies in the so-called transformation recession period are[176]: the autonomous movements in demand as a result of liberalization, the collapse of the former joined markets, and breaches occurred in the supply of goods of domestic origin, the failure of previous generation capacities and insufficient investment to build new ones. Also, the opinion of a larger number of domestic economic theorists is that the stabilization policy is one of the reasons for the decline in economic activity in the country. Restrictive approach to the conduct of monetary policy leads to: decrease the amount of funds on behalf of credit loans, deterioration of liquidity, growth of the interest rates and condition of an overestimated exchange rate of national currency, causing growth of cost of production, and thus reduction of the competitive ability of the domestic economy, in the internal and external markets.

2. THE IMPACT OF THE MONETARY POLICY ON FOREIGN TRADE EXCHANGE

Measures of the macroeconomic policy, and in this framework the monetary policy measures, have an impact on the development of foreign trade. Every economy seeks to increase the volume of foreign trade, in order to better supply the domestic market with necessary goods and services on the one hand, and to increase exports of goods and services from domestic production in the foreign market. The basic question that imposes during the performance of foreign trade is the way of calculation and execution of payments, when each national economy has its own national currency and its own policies determining the exchange rate of national currency. The answer to this question, or dilemma, is the following: national monetary units are a tool of payment in the internal market, while in the foreign trade, as a tool of payment are used the currencies of economically developed countries, such as: the U.S. dollar, euro, Japanese yen, British pound, Swiss franc, Russian ruble and others.

Of particular importance in the pursuit of the foreign trade is receiving adequate equivalent in goods or money, in order to preserve the material substance of the domestic economy. This is achieved by determining the parity value of the national currency unit or its intercurrence value. Monetary authority shall establish and monitor

[175] Dr. Goran Petrevski, Politika monetare, Shoqata për zhvillim socio-ekonomik, Shkup, 2005, page 283
[176] Dr. Goran Petrevski, Monetary policy, Association for socio-economic development, Skopje, 2005, page 287.

the changes of the intercurrence value, i.e. the exchange rate of national currency, the purpose of realization of the basic macroeconomic objectives, and in that context and function of realization the purposes of foreign trade policy of the country. Depending on the state of the national economy (level of economic development, stage of economic cycle, the level of development of relations in foreign trade) and the system of targets that are expected to be realized, the exchange rate of national currency can be set at realistic grounds, be undervalued or overvalued. In market conditions, the change in exchange rates of national currencies depends on their supply and demand of foreign exchange market. When the supply and demand of foreign currencies in the foreign exchange market are not balanced relation, it comes to a deviation in the direction of increase or decrease of the real exchange rate in relation to the official exchange rate. The change in the exchange rate leads to a change of parity, i.e. the ratio of the value (intercurrence) of separate currencies. In order to sustain the stability of the established exchange rate of the national currency, the interventions of monetary authorities in the foreign exchange market are often, by using a number of monetary instruments at its disposal.

In principle, each national economy seeks to determine the exchange rate of national currency on the real basis, aware of the benefits of this way of determining the parity of the national economy. Under the real exchange rate it implies such a relationship in foreign exchange, which allows, purchase of the same amount of goods and services in the internal market, with one or 100 units of national currency, as you can buy the equivalent amount of money stated in foreign currency. For example, the exchange rate is considered a real set, if for 61 denars you can buy a certain quantity of goods in the domestic market, as you can buy for one euro on the foreign market.

Determining the real exchange rate provides equity in foreign trade, because each side gets an appropriate equivalent in cash (foreign currency or other goods). Participation in each national economy, in such conditions, only depends on the competitive ability and not by manipulation with the exchange rate. There's a need to distinguish between fixed and real exchange rate because the exchange rate of national currency can be fixed on real level, under or above the real level, depending on the macroeconomic goals or objectives of the monetary policy. Real exchange rate represents the value of national currency at some point, while its maintenance in effect depends on the accuracy and timeliness in compliance with changes in value (purchasing power) of the national currency and the currencies of major economies (for example U.S. dollar and euro). In the period after the monetary independence, exchange rate in terms of U.S. dollar and German mark (and then the euro) was mostly overvalued or undervalued.

Table 1: Periods of overvalue and undervalue of the course of denar in relation to the dollar and euro

Periods	Denar/dollar	Denar/mark-euros
1992-1996	overvalued	overvalued
1997-1998	undervalued	undervalued
1999-2000	overvalued	overvalued
2001-2002	overvalued	overvalued
2003-2004	overvalued	real
2005	real	real
2006-2008	overvalued	overvalued
2009	overvalued	undervalued
2010-2012	overvalued	overvalued

Source: Own calculations based on the source data

The stability of the exchange rate of denar in the previous period, especially in relation to the U.S. dollar is unrealistic, for the reason that: the changes of exchange rate of denar did not followed fully and timely the changes in the exchange rate of the dollar and the changes of the rate of inflation. For these reasons, major deviations of the exchange rate against the U.S. dollar were noted. This led to a state of overestimated exchange rate against the U.S. dollar in the period after the monetary independence (apart from 1997, 1998 and 2005). Against the euro, the exchange rate indicates a higher level of stability in the period after the monetary independence (except for the period 1997-1998), primarily as a result of applying the strategy of targeting the exchange rate in relation to the euro.

3. THE IMPACT OF MONETARY POLICY ON THE INTERNAL AND EXTERNAL BALANCE

Monetary policy has a major impact on the maintenance, or reestablishment of the internal and external balance. No economy is not completely immune from the state of imbalance, but the difference between them is that both (the developed economies) often succeed in a short time to re-establish a state of equilibrium, compared to other economies (the underdeveloped and developing countries). The state of internal imbalance often causes distortion and external balance and the opposite. As the most frequent reasons (factors) that lead to a state of imbalance are mentioned:

- the impact of factors of material nature;
- the impact of factors of monetary nature.

If within a national economy there is an insufficient supply of goods and services of domestic origin, then it is forced to reduce the amount (value) of domestic demand or to increase the import. In conditions of a liberalized market, that lack of sufficient supply of goods and services of domestic origin shall be filled by increased imports. If a national economy is set to limit the demand on the level of domestic offer, it is possible that it will come to a disruption of internal balance, as a consequence of imbalance between commodity and purchase funds.

Table 2:The state of internal (non) equilibrium

in million denars

Elements	2006	2007	2008	2009	2010
Domestic supply	320.059	364.989	411.728	410.734	423.882
Domestic demand	377.137	432.289	515.892	499.290	514.186
- Final demand	308.328	342.361	405.487	392.912	409.064
- Gross investments	68.809	89.928	110.405	106.378	105.122
Difference	57.078	67.300	104.164	88.556	90.304

Source: Ministry of Finance, Bulletin of the Ministry of Finances in years

From the data presented in Table 2, it can be concluded that: the offer of goods and services originating in internal market is insufficient to cover the total needs of the domestic demand. The lack of sufficient supply of goods and services of domestic origin shall be filled by increasing the import. Otherwise it might lead to a disruption of internal balance, due to higher purchase funds in terms of available department funds. Reestablishing the equilibrium is possible if offer of goods and services of domestic origin is big or by reducing the purchase funds (monetary factors).

The internal imbalance by rule causes disorder to the state of the external balance as well. How the state of external balance of the domestic economy is, best is seen from the situation of the ledger balance of payments. According to the Ministry of Finance, the situation of balance of payments of the domestic economy by years is as follows:

Table 3: Balance of payments of the Republic of Macedonia in the period of 2006-2010

in million euro

Accounts of the balance	2006	2007	2008	2009	2010
Current account:					
1. Current transactions	-44,9	-414,8	-853,3	-483,3	-191,1
- Goods - net	-1 020,4	-1 174,8	-1 750,7	-1 551,0	-1.467,7
- Services - net	22,2	25,5	4,3	28,0	59,9
- Income - net	-28,4	-277,7	-90,9	-91,7	-149,2
- Current transfers - net	981,8	1 012,1	984,0	1 131,4	1.366,0
Capital account:					
2. Capital and financial transactions					
- Capital transactions - net	38,0	447,6	851,2	466,1	190,5
- Financial transactions - net	-0,8	3,7	-12,2	20,0	9,1
a. Direct investments - net	38,8	444,0	863,5	446,2	181,4
b. Portfolio investments-net	344,6	506,9	409,4	171,9	219,9
c. Other investments - net	73,1	114,4	-50,7	104,3	-63,6
d. Gross official reserves	-81,4	-75,5	453,2	239,3	66,1
	-297,6	-101,8	51,6	-69,4	-41,1
3. Errors and omissions	6,9	-32,8	2,1	17,1	0,5

Source: Ministry of Finance, Bulletin of the Ministry of Finance in years.

From the data presented in Table 3 it can be concluded that:

- Balance on the current account (balance of inflow and outflow of funds from current transactions) is negative, with a tendency to increase the deficit of -44.9 million euros in 2006 -191.1 million euros in 2010. The negative balance on current account would be even greater, if it came to increase of the net amount of funds on behalf of current transfers (981.8 million euros in 2006 to 1,366.0 million euros in 2010);
- balance of inflow and outflow of funds on capital account, on the name of the capital and financial transactions, shows tendency to increase (from 38.0 million in 1996 to 190.5 million euros in 2010. Biggest inflow of funds on the capital account are due to the increase of the balance on behalf of net income from financial transactions, while the net inflow of funds from capital transactions is minimal (9.1 million euros in 2010);
- to cover the deficit in the accounts of Balance of payments, often are used funds from foreign currencies reserves (297.6 million euros in 2006, respectively 41.1 million euros in 2010.
- From analysis of the data on individual accounts of Balance of payments of the country can be drawn a general conclusion that the external balance, and with that the solvency of the domestic economy is held, thanks to the: the positive balance of inflow and outflow of funds on behalf of current transfers, as well as to the positive balance from the inflow and outflow of so-called financial transactions.

CONCLUSION

Measures of the monetary authority in regard to the policy of lending to the commercial banking, then measures in the domain of policies for determining the discount rate, the amount of mandatory reserves, and the measures which give the opportunity to expand the scope of activities in the domain of the deposit and credit activity of bank institutions. As a result of the growth of the activities of the banking sector in the country, especially the deposit activity increasing the so-called core deposits in the banking sector. Although the growth of the deposit activity in the period 2005-2010 was several times higher (index 230.1), the credit activity of the banking sector during the same period was below the level of secured assets (credit potential of the banking sector). The dynamics of growth of credit activity in the banking sector in the investigated period (index 204.7) is lower than the dynamic growth of the deposit activity, leading to the increased liquidity in the banking sector, on one hand, and the declining level of cost-effectiveness and profitability in the operations of the banking sector, on the other hand. Consequently, some banks, especially the so-called large banks, they direct part of their credit potential the last few years towards purchase of securities (bonds and treasury bills).

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