

HIGHER SCHOOL OF INSURANCE AND FINANCE - SOFIA



DOCTORAL DISSERTATION

ABSTRACT

**THE INFLUENCE OF THE EUROPEAN CENTRAL BANK ON
THE MONETARY POLICIES OF THE MEMBER STATES OF
THE EUROPEAN UNION AND THE REPUBLIC OF
BULGARIA AND THE REPUBLIC OF NORTHERN
MACEDONIA**

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**The influence of the European Central Bank on the monetary policies
of the member states of the European Union and the
Republic of Bulgaria and the Republic of Northern Macedonia**

CONTENT

I GENERAL CHARACTERISTICS OF THE DOCTORAL DISSERTATION	4
INTRODUCTION	4
METHODOLOGICAL APPROACH TO RESEARCH	4
1. 1. SOCIAL JUSTICE FOR STUDYING THE TOPIC	4
2. SUBJECT OF RESEARCH	4
3. PURPOSE OF THE RESEARCH	5
4. HYPOTHESIS	5
5. RESEARCH METHODS	6
II. SCOPE AND STRUCTURE OF THE DISSERTATION	7
III BRIEF JUSTIFICATION OF THE DOCTORAL DISSERTATION	7
PART ONE: INSTITUTIONAL FRAMEWORK FOR IMPLEMENTATION OF A SINGLE MONETARY POLICY IN THE EU AND THE EUROSISTEM	7
1.1. GENERAL FRAMEWORK OF THE EUROPEAN UNION MONETARY POLICY	7
1.1.1. Monetary policy decision making	8
1.1.2. Implementation of monetary policy	9
1.1.3. Monetary policy strategy	10
1.2. EUROSISTEM MONETARY POLICY INSTRUMENTS	10
1.2.1. Open market operations	11
1.2.2. Permanent capacities	11
1.2.3. Minimum required reserve	12
1.2.4. Asset Purchasing Programs (APP)	12
1.2.5. Pandemic Emergency Purchase Program (PEPP)	12
1.3. EUROSISTEM MONOPOLY SUPPLIER ON MONEY BASIS	13
1.3.1. Issuance and circulation with the euro	13
1.3.2. Circulation of the euro in the euro area	13
1.3.3. Circulation of the euro outside the euro area	14
1.3.4. The cash cycle of the euro	14
PART TWO: THE ROLE OF THE EUROPEAN ECONOMIC AND MONETARY UNION AND THE EUROPEAN CENTRAL BANK IN THE EU MONETARY POLICY	14
2.1. FORMATION OF THE EU ECONOMIC AND MONETARY UNION	14
2.1.1. History of Economic and Monetary Union	15
2.1.2. Way of functioning of the European Monetary Union	15
2.1.2.1. <i>Economic activities included in EMU</i>	15
2.1.2.2. <i>The role of national governments</i>	16
2.1.2.3. <i>Single currency to support the single market</i>	16
2.1.2.4. <i>Monetary policy</i>	16
2.1.3. Eurozone	16
2.2. THE ROLE OF THE EUROPEAN CENTRAL BANK	17
2.2.1. History of the European Central Bank	17
2.2.2. Organizational structure of the ECB	18
2.2.3. Functions of the European Central Bank	18
2.3. THE NEW MONETARY POLICY STRATEGY OF THE EUROPEAN CENTRAL BANK	18
2.4. THE ROLE OF MONETARY POLICY AND THE BENEFIT OF PRICE STABILITY	19
2.4.1. Price stability and monetary balance	19
2.4.2. Price stability in the Eurosystem	20
2.4.3. Risks for price stability in the ECB monetary policy	20
2.4.4. The impact of climate change and climate policy on the ECB's goal	20

The influence of the European Central Bank on the monetary policies
of the member states of the European Union and the
Republic of Bulgaria and the Republic of Northern Macedonia

	of price stability	
PART THREE: ECB POLICY TOWARDS EU MEMBERS OUTSIDE THE EUROZONE AND MONETARY POLICY OF THE REPUBLIC OF BULGARIA		21
3.1.	COUNTRIES OUTSIDE THE EUROZONE	21
3.1.1.	INFLATION CONTROL MEASURES	21
3.1.2.	CURRENCY DEVALUATION	22
3.2.	CURRENCY DEVALUATION	22
3.2.1.	Characteristics of EU member states outside the Eurozone	23
3.2.2.	Characteristics of the monetary policy of the Republic of Bulgaria	23
3.2.2.1	<i>The role of the National Bank of Bulgaria in creating and implementing monetary policy</i>	24
3.2.2.2.	<i>The banking system of the Republic of Bulgaria</i>	24
PART FOUR: ECB POLICY TOWARDS COUNTRIES CANDIDATES FOR EU MEMBERSHIP AND MONETARY POLICY OF THE REPUBLIC OF NORTHERN MACEDONIA		25
4.1.	COUNTRIES CANDIDATES FOR EU MEMBERSHIP	25
4.2.	REPUBLIC OF MACEDONIA CANDIDATE FOR EU MEMBERSHIP	25
4.2.1.	The monetary policy of the ECB towards Macedonia	26
4.2.2.	The role of the National Bank of the Republic of Northern Macedonia	27
4.2.3.	Position of the monetary policy of the Republic of Northern Macedonia	27
4.2.3.1.	<i>Monetary policy stance</i>	28
4.2.3.2.	<i>Monetary policy objectives</i>	28
4.2.3.3.	<i>Interest rate policy and transmission mechanism</i>	28
4.2.4.	Implementation of the monetary policy of the National Bank of the Republic of Northern Macedonia	28
CONCLUSION		29
IV USE OF THE SCIENTIFIC AND PRACTICAL RESULTS		30
LIST OF PUBLICATIONS RELATED TO THE DISSERTATION		31
LIST OF SELECTED LITERATURE		31
DECLARATION OF ORIGINALITY AND TRUST		37

I GENERAL CHARACTERISTICS OF THE DOCTORAL DISSERTATION

INTRODUCTION

METHODOLOGICAL APPROACH TO RESEARCH

1. SOCIAL JUSTICE FOR STUDYING THE TOPIC

The European Central Bank (ECB) is the main component of the Eurosystem and the European System of Central Banks (ESCB), as well as one of the seven institutions of the European Union. It is one of the most important central banks in the world.

The ECB creates the monetary policy for the euro area and the European Union, manages the foreign reserves of the EU member states, engages in foreign exchange operations and defines the average monetary targets and the basic interest rate of the EU. The Executive Board of the ECB implements the policies and decisions of the Governing Council and may direct national central banks in doing so. The ECB has the exclusive right to authorize the issuance of euro banknotes. Member States may issue euro coins, but the volume must be approved in advance by the ECB. The Bank also manages the TARGET2 payment system.

The ECB was established by the Amsterdam Treaty in May 1999 to guarantee and maintain price stability. On 1 December 2009, the Lisbon Treaty entered into force and the bank gained official status as an EU institution. When the ECB was created, it covered an eleven-member eurozone. The ECB is directly regulated by European Union law. Its capital, worth 11 billion euros, is owned by all 27 central banks of the EU member states as shareholders. The shares in the ECB are non-transferable and cannot be used as collateral.

The ECB prepares and publishes reports on the activities of the ESCB at least quarterly. The ESCB consolidated financial statements are published weekly. From the outset, the ECB Monthly Bulletin provides an in-depth analysis of the economic situation and price growth prospects. The ECB submits an annual report on the activities and monetary policy of the ESCB for the previous and current year to the European Parliament.

2. SUBJECT OF RESEARCH

The content of the paper is conceived in a way that will first present a complete picture of the role of the European Central Bank in the creation of EU monetary policy and its implementation.

The role of the ECB in shaping the monetary policy of EU member states outside the Eurozone, such as Bulgaria, and candidate countries for EU membership, such as Macedonia, is also the subject of the paper. Then, an overview of the institutional framework for the introduction of the single monetary policy in the EU will be given.

A special part of the paper will be dedicated to the monetary policy strategy of the European Central Bank (ECB), i.e. the general principles and main elements, a risk analysis for price stability and an overview of the ECB monetary policy strategy.

Also, the focus of this is the implementation of the strategy, the liquidity of the Central Bank and the liquidity needs of the banking system.

3. PURPOSE OF THE RESEARCH

The European Union (EU) is a supranational and intergovernmental community of 27 democracies. The European Central Bank (ECB), based in Frankfurt, is the central bank of the Eurozone and is responsible for the monetary policy of the European Union member states that use the euro as their currency.

The European Central Bank is responsible for managing the euro and the EU monetary policy. The tasks of the European Central Bank are defined by the Treaty establishing the European Community. The primary objective of the Bank is to maintain price stability and to support the main economic policies of the Community.

The purpose of the study is to confirm the significance and role of the Bank's core tasks which are:

- defining and implementing monetary policy in the euro area;
- maintenance and management of the foreign exchange reserves of the euro area countries and
- promotion of the functioning of payment systems.

4. HYPOTHESIS

Basic (general) hypothesis:

The paper starts from the assumption that "without a good monetary policy free financial flows in conditions of globalization there is no successful economic development."

First special hypothesis:

What are the main issues related to the monetary policy making of the Eurozone member states, the EU member states outside the Eurozone and the candidate countries for EU membership.

Second special hypothesis:

Ensuring an appropriate monetary policy to support the development financial and price stability of EU member states and candidate countries

Third special hypothesis:

A stable economic system enables countries, their governments and institutions to plan and direct economic development activities in terms of their expansion and strengthening across countries around the world in order to achieve the highest possible level of price stability.

Auxiliary hypothesis:

- What are the new strategies for proper economic development in a pandemic KOVID 19.

5. RESEARCH METHODS

The preparation of the doctoral dissertation is based on data provided by international literature which allows to see the theoretical foundations for the formation and formation of the European Union, and within that of the European Central Bank. , articles and papers by several authors.

In the part of the monetary policy strategy of the European Central Bank (ECB) and the implementation of the policy itself, data available via the Internet are used.

For the purpose of successful processing and elaboration of the topic of the doctoral dissertation that requires a multidimensional approach, a number of research methods are used, which are:

- **historical** - applying this method historically determines the beginnings of the creation of the EU and the ECB, its growth and development and impact on the economy in EU countries;
- **content analysis** - using this method, the results of the economic functioning of the ECB are analyzed
- **comparative method** (comparative) - the application of this provides a comparative view of the experiences, methodology and differences of the impact of the ECB monetary policy on the economics of the EU member states;
- **statistical method** - by applying this method, the effectiveness of the monetary policy measures implemented by the EU is processed.
- **synthesis** - with the help of this method the data obtained with the help of the previous methods are combined.

The preparation of the doctoral dissertation is based on data provided by international literature, which allows one to perceive the theoretical foundations and practical functioning of the European Central Bank and the conduct of monetary policy.

The part of the study uses data available on the internet and with research conducted by competent authorities as well as the author's own observations.

II. SCOPE AND STRUCTURE OF THE DISSERTATION

The dissertation has been developed in the volume of 161 pages, and the content is structured according to the set goal of the research and specific tasks and is in accordance with the subject of the research.

Structurally, the work consists of an introduction, main text in three chapters; conclusion; used literature 107 sources in total, 102 in - English and language,

- ✓ reference to major contributions;
- ✓ statement of authenticity and originality.

III BRIEF JUSTIFICATION OF THE DOCTORAL DISSERTATION

PART ONE: INSTITUTIONAL FRAMEWORK FOR IMPLEMENTATION OF A SINGLE MONETARY POLICY IN THE EU AND THE EUROSISTEM

1.1. GENERAL FRAMEWORK OF THE EUROPEAN UNION MONETARY POLICY

Since 1 January 1999, the European Central Bank (ECB) has played an active role in establishing and implementing the Eurosystem's monetary policy:¹

- The primary goal of monetary policy is to maintain price stability in the euro area. The Eurosystem, consisting of the ECB and the National Central Banks (NCBs) of the countries that have adopted the euro, defines and implements the monetary policy for the euro area according to this goal.
- The Maastricht Treaty established the completion of the Economic and Monetary Union (EMU) as a formal goal and set a number of convergence criteria. The EMU monetary policy is guided by the Eurosystem consisting of the ECB and the NCB of the EU member states whose currency is the euro.
- Following the Maastricht Treaty, the central banks of the 15 member states of the European Union and the newly created European Central Bank (ECB) became members of a supranational institution: the European System of Central Banks (ESCB).

Monetary policy concerns the decisions taken by a central bank, within its mandate, to influence the cost of borrowing and the amount of money in the economy:²

- In the euro area, the most important decision of the European Central Bank (ECB) is usually to set the key interest rates. If necessary, the ECB may decide to use other instruments.
- Monetary policy is used to influence changes in the prices of the goods and services which are consumed.

¹ General framework for European monetary policy | nbb.be, (2021), <https://www.nbb.be › general.>, p. 1

² What is monetary policy and what is it used for? (2022), <https://www.bportugal.pt › w.>

- The ECB's primary objective is to maintain price stability in the euro area. This means making sure prices do not increase a lot or have large fluctuations, i.e. ensuring that inflation is low and stable.
- The ECB sets monetary policy aiming for 2% inflation over the medium term.

The European System of Central Banks (ESCB) comprises the ECB and the national central banks of all the EU Member States. The primary objective of the ESCB is to maintain price stability. In order to achieve this primary objective, the Governing Council of the ECB bases its decisions on an integrated analytical framework and implements both standard and non-standard monetary policy measures:³

- The main instruments of ECB standard monetary policy are:
 - ✓ open market operations,
 - ✓ standing facilities and
 - ✓ holding of minimum reserves.
- As a response to the global financial crisis, the ECB has also changed its communication strategy by providing forward guidance on the future path of the ECB's interest rate policy conditional on the outlook for price stability and has taken a number of non-standard monetary policy measures. These include the purchases of assets and sovereign bonds on the secondary market, with the aim of safeguarding price stability and the effectiveness of the monetary policy transmission mechanism.

1.1.1. Monetary policy decision making

The conduct of the Eurosystem monetary policy is based on two principles:

- ✓ Decisions are made centrally by the Governing Council of the ECB,
- ✓ Decisions are implemented on a decentralized basis by the national central banks.

The ECB has three decision-making bodies:⁴

- **Governing Council** - The Governing Council is the main decision-making body of the ECB. It consists of six members of the Executive Board of the ECB, plus the governors of the national central banks of the 19 euro area countries. The Governing Council assesses economic, monetary and financial developments and makes its monetary policy decisions every six weeks. At other meetings, the Council discusses mainly issues related to other tasks and responsibilities of the ECB and the Eurosystem. To ensure that monetary policy and other tasks of the ECB are separated from.

³ European monetary policy | Fact Sheets on the European Union, (2022), <https://www.europarl.europa.eu/factsheets/sheet/eu>.

⁴ General framework for European monetary policy - Monetary policy decision-making| nbb.be, (2022), <https://www.nbb.be/general>.

- **ECB Executive Board** - The Executive Board of the ECB consists of the President of the ECB, the Vice-President and four other members. All members are appointed by the European Council, acting by a qualified majority. The Executive Board of the ECB is responsible for the day-to-day management of the ECB and prepares the meetings of the Governing Council. He is responsible for implementing the monetary policy decisions made by the Governing Council and for that purpose gives the necessary instructions to the national central banks of the euro area.
- **General Council** - The General Council consists of the President and Vice-President of the ECB plus the Governors of the National Central Banks (NCBs) of the 28 EU Member States. As a rule, it meets four times a year and will continue to exist as long as there are EU member states that have not yet introduced the euro. It deals with topics related to both the monetary union and other EU member states.

1.1.2. IMPLEMENTATION OF MONETARY POLICY

In order to achieve its primary objective of maintaining price stability for the euro area as a whole, the Eurosystem uses a set of monetary policy instruments and procedures. These provide the operational framework for the implementation of monetary policy decisions in practice:⁵

- The monetary policy instruments are:
 - ✓ open market operations, aiming to steer interest rates, regulate the money supply in the financial market and signal the monetary policy stance;
 - ✓ standing facilities, aiming to provide and absorb overnight liquidity;
 - ✓ minimum reserve requirements (the minimum amount of reserves a commercial bank must hold with their central bank),
- The Eurosystem open market operations are executed through tender procedures and may either involve tenders or be bilateral procedures, where the central bank deals directly with only one or a few counterparties.
- Counterparties to the Eurosystem's monetary policy operations must fulfil the following criteria to participate in these operations:
 - ✓ meet the minimum reserve requirements;
 - ✓ be supervised by competent authorities according to Directive 2013/36/EU on prudential supervision of credit institutions and investment firms (see summary) and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (see summary);
 - ✓ be financially sound;

⁵ Implementation of the Eurosystem monetary policy framework, (2022), <https://eur-lex.europa.eu> > im.

- ✓ satisfy all the contractual requirements specified by the European Central Bank (ECB) or the national central bank.

1.1.3. Monetary policy strategy

The monetary policy strategy of the ECB is both guided and bound by its mandate conferred by the Treaty on European Union and the Treaty on the Functioning of the European Union:⁶

- The primary objective of the ECB is to maintain price stability in the euro area. These include:
 - ✓ balanced economic growth,
 - ✓ a highly competitive social market economy aiming at full employment and social progress, and
 - ✓ a high level of protection and improvement of the quality of the environment.
- The new monetary policy strategy incorporates two innovations that warranted an update to our forward guidance on interest rates:
 - ✓ first, the redefinition of price stability objective as a symmetric two per cent inflation target over the medium term; and,
 - ✓ second, a conditional commitment to take into account the implications of the effective lower bound when conducting policy in an environment of structurally-low nominal interest rates.
- The two per cent inflation target is intended to provide a sufficient safety margin to protect the effectiveness of monetary policy in responding to disinflationary shocks.
- The conditional commitment to take into account the implications of the effective lower bound when conducting policy in an environment of structurally-low nominal interest rates reflects the asymmetric nature of the constraint imposed by the effective lower bound. While central banks can technically raise nominal interest rates without limits, there is only limited space to lower rates into negative territory, owing to the lower bound on cash.

1.2. EUROSISTEM MONETARY POLICY INSTRUMENTS

Maintaining price stability is the primary objective of monetary policy. In order to achieve that its primary objective, the Eurosystem uses a set of monetary policy instruments and procedures in which the national central banks perform a key role:⁷

⁶ Lane, R. P., (2021), The new monetary policy strategy: implications for rate forward guidance, <https://www.ecb.europa.eu> ›

⁷ Monetary policy instruments - | nbb.be, <https://www.nbb.be> › monetary-policy › monetary-policy.

- In accordance with the principle of an open market economy which encourages free competition and an efficient allocation of resources, the Eurosystem operates mainly via transactions with euro area credit institutions. It does not apply any regulations such as exchange controls or credit restrictions.
- The reserve requirements are the only regulatory instrument. The reserves all bear interest, which means that interest is payable on (the main refinancing operations rate for the required reserves and on the deposit facility rate for excess reserves,) and no credit is granted on preferential terms, so that the monetary policy operating framework does not offer any scope for implicit taxation or subsidies.

1.2.1. Open market operations

Open market operations play an important role in steering interest rates, managing the liquidity situation in the market and signalling the monetary policy stance:⁸

- Five types of financial instrument are available to the Eurosystem for its open market operations. The most important instrument is the reverse transaction, which may be conducted in the form of a repurchase agreement or as a collateralised loan. The Eurosystem may also make use of outright transactions, issuance of debt certificates, foreign exchange swaps and collection of fixed-term deposits.
- Open market operations are initiated by the ECB, which decides on the instrument and the terms and conditions. It is possible to execute open market operations on the basis of standard tenders, quick tenders or bilateral procedures.
- Open market operations may differ in terms of aim, regularity and procedure.

1.2.2. Permanent capacities

Permanent facilities aim to provide and absorb overnight liquidity, signal the general monetary policy stance and constrain overnight market interest rates. Two standing facilities, which are administered in a decentralised manner by the NCBs, are available to eligible counterparties on their own initiative:⁹

- Marginal lending facility - Counterparties can use the marginal lending facility to obtain overnight liquidity from the NCBs against eligible assets. The interest rate on the marginal lending facility usually provides a ceiling for the overnight market interest rate.

⁸ Monetary policy instruments - Open market operations -| nbb.be, (2022), (2022), <https://www.nbb.be › monetary-policy › monetary-policy>.

⁹ Monetary policy instruments - Standing facilities -| nbb.be, (2022), (2022), <https://www.nbb.be › monetary-policy › monetary-policy>.

- Deposit facility - Counterparties can use the deposit facility to make overnight deposits with the NCBs. The interest rate on the deposit facility usually provides a floor for the overnight market interest rate.

1.2.3. Minimum required reserve

Minimum reserves are an integral part of the operational framework of monetary policy in the euro area:¹⁰

- The intention of the minimum reserve system is to pursue the aims of stabilising money market interest rates, creating (or enlarging) a structural liquidity shortage and possibly contributing to the control of monetary expansion.
- The reserve requirement of each institution is determined in relation to elements of its balance sheet. In order to pursue the aim of stabilising interest rates, the Eurosystem's minimum reserve system enables institutions to make use of averaging provisions. This implies that compliance with the reserve requirement is determined on the basis of the institutions' average daily reserve holdings over a maintenance period of about six weeks. The reserve maintenance periods start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the assessment of the monetary policy stance is pre-scheduled. The required reserve holdings are remunerated at a level corresponding to the average interest rate over the maintenance period of the main refinancing operations of the Eurosystem.

1.2.4. Asset Purchasing Programs (APP)

A central bank's large-scale asset purchases are intended to bring down risk premiums and/or term premiums. In practice, this means that the purchases exert downward pressure on long-term interest rates, even if short-term rates have reached their lower bound. Via this effect on long-term interest rates, monetary policy continues to exert very direct influence over the investment and consumption expenditure of firms, households and government, as decisions on consuming or investing in durable goods generally concern the medium or long term.¹¹

1.2.5. Pandemic Emergency Purchase Program (PEPP)

The existing asset purchase programmes are complemented by a new, temporary programme for the purchase of private and public sector securities, namely the Pandemic Emergency Purchase Programme (PEPP). The PEPP is intended to counter the serious risks

¹⁰ Monetary policy instruments - Minimum reserves -| nbb.be, (2022), (2022), <https://www.nbb.be › monetary-policy › monetary-policy>.

¹¹ Monetary policy instruments - Asset purchase programmes -| nbb.be, (2022), (2022), <https://www.nbb.be › monetary-policy › monetary-policy>.

to the monetary policy transmission mechanism and the outlook for the euro area arising from the outbreak and rapidly increasing spread of the coronavirus.¹²

1.3. EUROSISTEM MONOPOLY SUPPLIER ON MONEY BASIS

Euro banknotes and coins are money but so is the balance on a bank account. Modern economies, including the euro area, are based on money.¹³

- Money, whatever its form, has three different functions:
 - ✓ Money is a medium of exchange – a means of payment with a value that everyone trusts.
 - ✓ Money is also a unit of account allowing goods and services to be priced.
 - ✓ Money is a storing of value.
- The ECB acts as a bank for the commercial banks and this is also how it influences the flow of money and credit in the economy to achieve stable prices. Commercial banks, in turn, can borrow money, i.e. central bank reserves, from the ECB, usually to cover very short-term liquidity needs. The ECB's main tool for controlling the quantity of "outside" money, and hence the demand for central bank reserves by commercial banks, is setting very short-term interest rates – the "cost of money".

1.3.1. Issuance and circulation with the euro

The ECB and the central banks of the eurozone countries have the legal right to issue euro banknotes. In practice, only national central banks physically issue and withdraw euro banknotes (as well as coins). The ECB has no cash register and does not handle cash in any way. As for the euro coins, the legal issuers are the eurozone countries. The European Commission coordinates all coin issues at the euro area level.¹⁴

1.3.2. Circulation of the euro in the euro area

Euro banknotes (and coins) circulate widely in the euro area, mainly due to tourism, business travel and cross-border shopping. To a much more limited extent, national banknotes, before the introduction of the euro, were also "moved" across borders and then had to be "repatriated", mainly through the commercial banking system, to the central bank that issued them. Such yields are not necessary with the euro. However, because large quantities of euro banknotes do not remain in the country where they were issued, but are carried to other euro countries and spent there, central banks must redistribute them to

¹² Monetary policy instruments - Pandemic Emergency Purchase Programme (PEPP) -| nbb.be, (2022), (2022), <https://www.nbb.be › monetary-policy › monetary-policy>.

¹³ What is money? - European Central Bank, (2017), https://www.ecb.europa.eu › html › what_is_money.en.html.

¹⁴ Issuance and circulation - European Central Bank, (2021), <https://www.ecb.europa.eu › i>,

avoid a shortage of banknotes in one country and a surplus in another. These mass transfers are centrally coordinated and funded by the ECB.¹⁵

1.3.3. Circulation of the euro outside the euro area

Introduced in 1999, the euro has gradually become the single currency of 19 of the European Union's 27 Member States, which together make up the euro area. Within the Eurosystem, more than 300 million citizens use the euro on a daily basis to make or receive payments in exchange for goods and services, to save or to make investments. But the use of the euro is not just limited to the euro area – it also extends beyond the region's borders.¹⁶

1.3.4. The cash cycle of the euro

National Central Banks (NCBs) are responsible for issuing banknotes and for maintaining confidence in the currency. The production of banknotes is performed by NCBs or by specialized manufacturers on behalf of NCBs. The transportation of cash between retailers, commercial cash centres and NCBs, as well as internal cash management processes, are widely outsourced to professional cashhandling companies.¹⁷

PART TWO: THE ROLE OF THE EUROPEAN ECONOMIC AND MONETARY UNION AND THE EUROPEAN CENTRAL BANK IN THE EU MONETARY POLICY

2.1. FORMATION OF THE EU ECONOMIC AND MONETARY UNION

The European Monetary Union is in fact only one part of a grand vision of an integrated Europe. The Formation of the European Monetary Union has been a long process of an immense historical significance. Signing the Paris and Rome conventions, European leaders have founded the European Union's legal basis:¹⁸

- One of the most significant achievement is the establishment of common market, including free movement of people, goods, and capital.
- The European Monetary Union implies changes within the system of different national currencies into the single European currency (the euro), with separated National Central Banks, and with separated National

¹⁵ Issuance and circulation - European Central Bank, (2021), <https://www.ecb.europa.eu> › i,

¹⁶ International role of the euro | Banque de France, (2021), <https://www.banque-france.fr> › analysing-and-anticipating.

¹⁷ European Payments Council, (2020), Understanding the cash cycle for banknotes: a high-level description of the generic model and some observations, <https://www.europeanpaymentscouncil.eu> ›

¹⁸ Stanković, M., (2022), The Advantages of Being a Member of the European Monetary Union, <http://www.vps.ns.ac.rs> ›

- Monetary policies altogether with a single European system of Central Banks, and single European Monetary policy. The adoption of the single currency is one of the most courageous attempts ever done, so that big and diverse group of sovereign states could earn a variety of profit using the single currency.
- The EMU contributes both symbolically and practically to the formation of a single, democratic Europe, where national differences are constructively agreed, and within them exist the free movement of people, commodity and investments. The EMU is a developmental method of coexistent monetary arrangement without contradictions in Europe. It implies common monetary policy, common currency, euro and coordination between economic and financial policy. Being an EMU member is of an immense significance for each member state.

2.1.1. History of Economic and Monetary Union

The Economic and Monetary Union (EMU) is the result of progressive economic integration into the EU. It is an expansion of the EU's single market, with common product regulations and the free movement of goods, capital, labor and services. A common currency, the euro, has been introduced in the eurozone and currently covers 19 EU member states. All EU member states - with the exception of Denmark - must adopt the euro once they meet the convergence criteria. A single monetary policy is set by the Eurosystem (composed of the Executive Board of the European Central Bank and the governors of the euro area central banks) and is complemented by fiscal rules and varying degrees of economic policy coordination. There is no central economic government within the EMU. Instead, responsibility is shared between member states and various EU institutions.¹⁹

2.1.2. Way of functioning of the European Monetary Union

Economic and Monetary Union (EMU) is not an end in itself. It is a means of ensuring stability and stronger, more sustainable and inclusive growth across the euro area and the EU as a whole to improve the lives of EU citizens.²⁰

2.1.2.1. Economic activities included in EMU

The operation and management of the Economic and Monetary Union (EMU) are designed to support sustainable economic growth and high employment through economic and monetary policy. This includes four main economic activities:

- implementation of an effective monetary policy for the euro area in order to stabilize prices,

¹⁹ History of economic and monetary union | Fact Sheets on the European Union, (2021), <https://www.europarl.europa.eu › factsheets › sheet › hi>.

²⁰ How the Economic and Monetary Union works, (2021), <https://ec.europa.eu › info › business-economy-euro › ho>.

- coordination of economic and fiscal policies in EU countries,
- ensuring the smooth functioning of the single market,
- supervision and monitoring of financial institutions.

2.1.2.2. The role of national governments

Monetary and fiscal policy are two important tools to keep the economy healthy. Both influence the economy, but in different ways. Monetary policy is about keeping the prices of the goods and services we buy stable. It is the central bank's job to make sure that inflation – the rate at which the overall prices for goods and services change over time – remains low, stable and predictable. Fiscal policy refers to the economic decisions that governments take. Governments can decide to spend money to provide public services, support the economy and reduce inequalities. They can collect this money via taxes or by borrowing from financial markets.²¹

2.1.2.3. Single currency to support the single market

In addition to the benefits of economic stability, EMUs and the single currency also support a more effective single market that benefits people and businesses. If national economic policies discourage the free movement of goods, services, capital and labor, then these benefits, including jobs and growth, would be diminished. Therefore, the creation of economic policy in EU countries acts to support the single market.

2.1.2.4. Monetary policy

Unlike many other areas of policy in the EU, monetary policy is completely centralised. The EU Treaties stipulate that it is determined and implemented by the European Central Bank (ECB), with the primary objective being price stability. According to the Central Bank's interpretation of this term, price stability is achieved when annual inflation is just under two per cent.²²

2.1.3. Eurozone

The eurozone, officially known as the euro area, is a geographic and economic region that consists of all the European Union countries that have fully incorporated the euro as their national currency. As of 2022, the eurozone consists of 19 countries in the European Union (EU): Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal,

²¹ Fiscal and monetary policy in a monetary union, (2022), <https://www.ecb.europa.eu> ›

²² Ederer, S., (2022), The EU's Monetary Policy - The European Illusion, <https://the-european-illusion.eu> ›

Slovakia, Slovenia, and Spain. Approximately 340 million people live in the eurozone area.²³

2.2. THE ROLE OF THE EUROPEAN CENTRAL BANK

Role of European Central Bank (ECB) is to manage the euro, keep prices stable and conduct EU economic and monetary policy. The European Central Bank (ECB) manages the euro and frames and implements EU economic & monetary policy:²⁴

- **Main aim** of ECB is to keep prices stable, thereby supporting economic growth and job creation. What does the ECB do:
 - ✓ sets the interest rates at which it lends to commercial banks in the eurozone (also known as the euro area), thus controlling money supply and inflation
 - ✓ manages the eurozone's foreign currency reserves and the buying or selling of currencies to balance exchange rates
 - ✓ ensures that financial markets & institutions are well supervised by national authorities, and that payment systems work well
 - ✓ ensures the safety and soundness of the European banking system
 - ✓ authorises production of euro banknotes by eurozone countries
 - ✓ monitors price trends and assesses risks to price stability.
- **The mission of the ECB:**
 - ✓ The European Central Bank and the national central banks together make up the Eurosystem, the central banking system of the Eurozone. The main objective of the Eurosystem is to maintain price stability: to protect the value of the euro.
 - ✓ The European Central Bank is responsible for the prudential supervision of credit institutions located in the euro area and non-euro area member states, within the framework of the Single Supervisory Mechanism, which also includes national competent authorities. It thereby contributes to the safety and stability of the banking system and the stability of the financial system within the EU and each participating member state.

2.2.1. History of the European Central Bank

The European Central Bank (ECB) was established in June 1998, following the Amsterdam Treaty, which amended the Treaty on European Union. The Bank inherited the European Monetary Institute (EMI), which was set up in the second phase of the Economic

²³ Kenton, W., (2022), European Economic and Monetary Union (EMU) - Eurozone - Investopedia, (2022)<https://www.investopedia.com> ›

²⁴ European Central Bank (ECB), (2022), https://european-union.europa.eu/ecb_en.

and Monetary Union (EMU) to deal with the transitional issues of adopting the euro as the European Union's common currency.

The ECB first exercised its full powers on 1 January 1991 after the introduction of the euro as the official currency of the euro area. During that time, the national central banks of the 11 EU member states shifted their function to the ECB's monetary policy. Other EU countries later joined, with Greece, Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia and Lithuania joining the EU between 2001 and 2015. The expansion broadened the bank's reach and marked a turning point in the complex EU integration process.

2.2.2. Organizational structure of the ECB

There are four decision-making bodies of the ECB that have a mandate to achieve the goals of the institution. These bodies include: ²⁵

- Board of Directors,
- Executive Board,
- General advice.

Also, there is a Supervisory Board as a body.

2.2.3. Functions of the European Central Bank

The European Central Bank is the central bank of the European countries, which has the single aim of maintaining the price stability of the Euro, which is adopted by all the member states. It aims to control inflation by monitoring the monetary policy and controlling the money supply in the market through interest rates. The European Central Bank is managed and monitored by the team of the European central bank. The team members are amongst representatives of the member states as decided and agreed mutually. The bank functions according to the predefined rules and regulations, and all the decisions are taken on the majority basis after surveying the market situations and conditions.²⁶

2.3. THE NEW MONETARY POLICY STRATEGY OF THE EUROPEAN CENTRAL BANK

The Governing Council of the European Central Bank (ECB) launched a review of its monetary policy strategy adopted in 1998 and some of its elements clarified in 2003:²⁷

- Since 2003 the euro area and the world economy have been undergoing profound structural changes. Slowing productivity growth, an ageing population and the legacy of the financial crisis have driven interest rates down, reducing the scope

²⁵ European Central Bank (ECB), (2022), https://european-union.europa.eu/ecb_en.

²⁶ Srivastav, K. A., (2022), European Central Bank - Functions, How does it Work?, <https://www.wallstreetmojo.com>

²⁷ ECB Monetary Policy Strategy Review - Suomen Pankki, (2021), <https://www.suomenpankki.fi>

for the ECB and other central banks to ease monetary policy by conventional instruments in the face of adverse cyclical developments. In addition, inflation and inflation expectations have fallen below the ECB's price stability target. The threat to environmental sustainability, rapid digitalisation, globalisation and evolving financial structures have further transformed the environment in which monetary policy operates, including the dynamics of inflation.

- The ECB announced that it is willing to accept a transitory period of moderate inflation overshoot in its efforts to push inflation upwards after a long period of undershooting its target. The results point to the conclusion that the average inflation rate over the business cycle consolidated about one percentage point below the ECB's target rate. A temporary asymmetry of the ECB's monetary strategy seems therefore justified to realign inflation and inflation expectations with the target rate.²⁸

2.4. THE ROLE OF MONETARY POLICY AND THE BENEFIT OF PRICE STABILITY

Economy works best when there is price stability. That means that economy is need to guard against an inflation rate – the rate at which the overall prices for goods and services change over time – that is either too low or too high. Price increases should be small enough not to create the problems that come with high inflation for people and businesses. But they should be large enough to avoid bad scenarios that may unfold if inflation falls too low. When inflation is low, stable and predictable, it helps people and businesses to better plan their savings, spending and investment. That helps the economy to grow, in turn creating jobs and prosperity:²⁹

2.4.1. Price stability and monetary balance

The ECB's main task is to keep prices stable. This is the best contribution central banks can make to improving people's individual welfare:³⁰

- Stable prices means that prices should not go up (inflation) significantly, and an ongoing period of falling prices (deflation) should also be avoided. Long periods of excessive inflation or deflation have negative effects on the economy. Whereas stable prices help to ensure that the economy is growing, jobs are safe and people can feel confident that the money in pocket will be worth roughly the same tomorrow as it is today.
- If the prices of many items that people buy go up, they lose purchasing power. In other words, the money people have – their income and savings – does not buy as much as it used to. This can lead to a spiral of increasing prices.

²⁸ Hennecke, P., (2022), The ECB's New Monetary Policy Strategy - Intereconomics, <https://www.intereconomics.eu> › year › number ›

²⁹ Benefits of price stability - European Central Bank, (2022)<https://www.ecb.europa.eu> › i.

³⁰ Why are stable prices important? - European Central Bank, (2022), <https://www.ecb.europa.eu> › s.

2.4.2. Price stability in the Eurosystem

The primary objective of the ECB's monetary policy is to maintain price stability. This means sure that inflation – the rate at which the prices for goods and services change over time – remains low, stable and predictable:³¹

- To help keep prices stable, ECB need to have the right tools available. Interest rates are the primary instrument that ECB use for monetary policy. In recent years ECB have added new instruments to toolbox in response to big changes and large shocks in the economy that have made hers task of maintaining price stability more challenging.
- Objectives include balanced economic growth, a highly competitive social market economy aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment – without prejudice to the objective of price stability.

2.4.3. Risks for price stability in the ECB monetary policy

To achieve its goal of price stability and improve the transmission of monetary policy, the ECB announces its assessment of the balance of risks to price stability and growth:³²

- The decline in economic activity puts downward pressure on prices outside the short-term impact of falling commodity prices. This leads to concerns that the euro area may not enter a situation that will lead to a sustainable and wide decline in the aggregate price level, i.e. deflation. The European Central Bank (ECB) is responding to developments by rapidly reducing its key interest rates to historically low levels in order to support aggregate demand and prevent further loss of confidence:
- Forecasts are a central element in the thinking of monetary policy makers regarding the outlook for the economy and the calibration of the monetary policy stance. However, accurate forecasts fail to convey the great uncertainty regarding unforeseen events and happenings over the forecast horizon. Basic forecasts include a wider range of data and cover different models and perspectives.

2.4.4. The impact of climate change and climate policy on the ECB's goal of price stability

The ECB will incorporate climate change considerations into its new monetary policy strategy. To this end, the ECB has prepared an action plan setting out adjustments to macroeconomic modeling and statistics to gain a better understanding of the impact of

³¹ Introduction - European Central Bank, (2022), <https://www.ecb.europa.eu> › i.

³² Risks to price stability, the zero lower bound and forward Guidance, (2013), <https://www.ecb.europa.eu> › scpwps › ecwp1582, p. 5 - 6

climate change on the economy and the financial sector. Furthermore, the ECB will explicitly take into account the climate change risks inherent in its financial market operations, such as the purchase of corporate bonds. The ECB will also identify the risks of climate change to which it is exposed. These measures send an important signal for financial market participants to follow suit.³³

PART THREE: ECB POLICY TOWARDS EU MEMBERS OUTSIDE THE EUROZONE AND MONETARY POLICY OF THE REPUBLIC OF BULGARIA

3.1. COUNTRIES OUTSIDE THE EUROZONE

The formation of the European Union (EU) paved the way for a unified financial system with several countries under a single currency - the euro. While most EU member states have agreed to adopt the euro, few are sticking to their inherited currencies.:³⁴

- The European Union has 27 member states, of which eight are not in the eurozone - the unified monetary system used by the euro. Denmark is legally exempt from adopting the euro. All other EU countries must join the eurozone once they meet certain criteria. However, countries have the right to delay meeting the eurozone criteria and thus delay their adoption of the euro. EU countries that do not use the euro as their currency are Bulgaria, Croatia, the Czech Republic, Denmark, Hungary, Poland, Romania and Sweden.
- EU member states differ in culture, climate, population and economy. Countries have different financial needs and challenges to address. The single currency imposes a system of central monetary policy applied equally. The problem, however, is that what is good for one eurozone economy can be bad for another. Most EU countries that have avoided the eurozone are doing so in order to maintain economic independence. Here is a look at the issues that many EU countries want to address independently.
- As the European Central Bank (ECB) sets economic and monetary policies for all eurozone countries, there is no independence for an individual country to create policies tailored to its own conditions.

3.1.1. Inflation control measures

After a long period when inflation in the euro area was too low, it is now far too high. Inflation is being caused by a series of unprecedented shocks, which have led to turning points in the global economy. As a result, price pressures have proven much stronger and more persistent than originally projected:³⁵

³³ ECB includes climate change in monetary policy strategy, (2021), <https://www.dnb.nl> ›

³⁴ Seth, S., (2021), Why These European Countries Don't Use the Euro, <https://www.investopedia.com> ›,

³⁵ Monetary policy in the euro area - European Central Bank, (2022), <https://www.ecb.europa.eu> ›

- Monetary policymakers must ensure that inflation does not become entrenched and that it returns to target in the medium term:
 - ✓ In monetary policy strategy, the appropriate response to a deviation of inflation from target depends on three factors: the source, size and persistence of that deviation.
 - ✓ Typically, when the source of an inflationary shock is stemming mainly from demand, monetary policy will respond proactively to prevent the economy from overheating. And when faced with supply shocks, to the extent that such shocks are seen to have no lasting impact on inflation, central banks will “look through” and extend the medium-term policy horizon if necessary.
 - ✓ The euro area is seeing an increase in inflation driven by two unprecedented shocks. These shocks have constrained global supply, but they have also shifted demand and led to a large and persistent inflation response.

3.1.2. Currency devaluation

The euro's value has fallen sharply against the dollar in recent months. In the summer of 2021, one euro still cost \$1.20. By mid-July 2022, the European currency was worth just one dollar. This is the lowest exchange rate in 20 years. A weak euro helps European companies that sell their products in the US. But it also has serious disadvantages for the EU in the current economic situation. Above all, it accelerates inflation in the euro area.³⁶

3.2. REQUIREMENTS TO JOIN THE EUROZONE

To join the eurozone, EU member states are required to meet so-called "convergence criteria":³⁷

❖ The convergence criteria are set to measure progress in countries' readiness to adopt the euro and are defined as a set of macroeconomic indicators that focus on:

- Price stability,
- Solid public finances to ensure that they are sustainable,
- Exchange rate stability, to show that a Member State can manage its economy without resorting to excessive currency fluctuations,
- Long-term interest rates to assess the duration of convergence.

³⁶ A Weak Euro - What Does it Mean for Europe's Economy?, (2022), <https://globaleurope.eu › europes-future › a-weak-euro-w>.

³⁷ Countries using the euro - European Union, (2021), <https://european-union.europa.eu> ›, p. 1

3.2.1. Characteristics of EU member states outside the Eurozone

The formation of the European Union (EU) paved the way for a unified, multi-country financial system under a single currency—the euro. While most EU member nations agreed to adopt the euro, a few, such as Denmark and Sweden (among others), have decided to stick with their own legacy currencies. EU nations are diverse in culture, climate, population, and economy. Nations have different financial needs and challenges to address. The common currency imposes a system of central monetary policy applied uniformly. The problem, however, is what's good for the economy of one eurozone nation may be terrible for another. Most EU nations that have avoided the eurozone do so to maintain economic independence.³⁸

3.2.2. Characteristics of the monetary policy of the Republic of Bulgaria

Bulgaria has undergone a significant transformation over the past three decades, moving from a highly centralized, planned economy to an open, market-based, upper-middle-income economy securely anchored in the European Union (EU). In its initial transition to a market economy, the country went through a decade of slow economic restructuring and growth, high indebtedness, and loss of savings:³⁹

- The advancement of structural reforms, starting in the late 1990s, the introduction of a currency board, and expectations of EU accession unleashed a decade of exceptionally high economic growth and improved living standards. Yet, some legacy issues from that early period remain and, along with the global economic crisis of 2008 and the pandemic-induced crisis in 2020, have undone some of the gains achieved during the high-growth period.
- The long-term structural challenges facing Bulgaria include negative demographic trends, coupled with institutional and governance weaknesses. Strengthening institutions together with improved efficiency of public service delivery will support private sector expansion unlocking inclusive growth and shared prosperity.
- High rates of inequality of opportunity limit access to key public services, constraining the ability of individuals to escape poverty and thus leading to persistently high-income inequality. Poverty and inequality are reinforced by inadequacies in the targeting, coverage, and generosity of the social security system, limiting its role as a redistributive mechanism.

3.2.2.1. The role of the National Bank of Bulgaria in creating and implementing monetary policy

The Bulgarian National Bank is an independent institution of the State. It plays a key role in the Bulgarian economy and takes care of maintaining the stability of the

³⁸ Seth, S., (2022), Why These European Countries Don't Use the Euro <https://www.investopedia.com> ›

³⁹ Bulgaria Overview: Development news, research, data, (2022), <https://www.worldbank.org> ›

Bulgarian currency, and of strengthening and development of the banking and credit system in the country:⁴⁰

- The Bulgarian National Bank's major objective is to maintain price stability by ensuring the stability of the national currency.
- The Bank supports the creation and functioning of efficient payment systems and exerts oversight over these.
- The Bulgarian National Bank is the only issuing institution in Bulgaria and maintains the cash cycle.
- Bulgarian National Bank regulates and supervises the other banks' activities in this country for the purpose of ensuring the stability of the banking system and protecting depositors' interests.
- The Bank carries out research work, compiles, aggregates and analyses statistical data.

3.2.2.2. The banking system of the Republic of Bulgaria

The Bulgarian National Bank regulates and supervises other banks' activities, carries out research and compiles and analyzes statistical data. BNB is a member of the European System of Central Banks. BNB operates independently of the government and reports directly to Parliament. The Bulgarian currency is pegged to the euro; the fixed exchange rate is 1 EUR = 1.95583 BGN:⁴¹

- There are 25 commercial banks in Bulgaria; five are branches of foreign banks. Citibank and Bulgarian-American Credit Bank are the only U.S. banks with an office in Bulgaria.

While credit cards and e-banking are popular, personal checks are largely unknown and unused. The number of POS terminals in the country and the share of the non-cash transactions grew significantly in the past few years.

PART FOUR: ECB POLICY TOWARDS COUNTRIES CANDIDATES FOR EU MEMBERSHIP AND MONETARY POLICY OF THE REPUBLIC OF NORTHERN MACEDONIA

4.1. COUNTRIES CANDIDATES FOR EU MEMBERSHIP

Candidate country status is conferred by the European Council on the basis of an opinion from the European Commission, drawn up following an application for membership of the European Union (EU) by the country concerned:⁴²

⁴⁰ Bulgarian National Bank (BNB) - Sofia Guide, (20220, <http://www.sofia-guide.com> ›

⁴¹ Bulgaria - Banking Systems - Privacy Shield, (2022), <https://www.privacyshield.gov> ›

⁴² Candidate country (EU) | Practical Law - Thomson Reuters, (2022), <https://uk.practicallaw.thomsonreuters.com>›

- Candidate country status does not give an automatic a right to join the EU. The Commission scrutinises the application in the light of the accession criteria (Copenhagen criteria), while the accession process starts with the European Council decision to open accession negotiations.
- Depending on their circumstances, a candidate country may be required to institute a reform process to bring their legislation in line with the EU acquis and to strengthen their infrastructure and administration if necessary. The accession process is based on the pre-accession strategy, which provides instruments such as financial aid.
- Accession and membership of the EU depends on the progress made by the candidate country, which is regularly assessed and monitored by the Commission.

Recognized candidates for membership in the European Union are:⁴³

- Turkey (applied in 1987),
- Northern Macedonia (applied in 2004),
- Montenegro (applied in 2008),
- Albania (applied in 2009) and
- Serbia (applied in 2009). Everyone has started accession negotiations.

4.2. REPUBLIC OF MACEDONIA CANDIDATE FOR EU MEMBERSHIP

North Macedonia's application for EU membership was submitted on 22 March 2004.⁴⁴

- The Republic of Northern Macedonia was declared a candidate country in December 2005. Since October 2009, the Commission has continuously recommended open accession negotiations with Northern Macedonia. In 2015 and 2016, the recommendation was conditioned by the continuous implementation of the Przino Agreement and significant progress in the implementation of the "Urgent Reform Priorities". In March 2020, the General Affairs Council decided to open accession negotiations with Northern Macedonia. The decision was approved by the members of the European Council. In July 2020, the draft negotiating framework was presented to the Member States.
- Since October 2009, the Commission has continuously recommended open accession negotiations with Northern Macedonia. In 2015 and 2016, the

⁴³ EU candidate status for Albania and North Macedonia". European Commission. 25 March 2020. Archived from the original on 11 November 2020. Retrieved 25 March 2020., https://en.wikipedia.org › wiki › Potential_enlargement.

⁴⁴ North Macedonia - Consilium.europa.eu, (2022), <https://www.consilium.europa.eu › policies › enlargement>.

recommendation was conditioned by the continuous implementation of the Przino Agreement and significant progress in the implementation of the "Urgent Reform Priorities". In light of the progress made, the Commission reiterated its unconditional recommendation to open accession negotiations in April 2018. Given the significant progress made and the conditions met unanimously set by the Council in June 2018, the Commission recommended in May 2019 to open accession negotiations with Northern Macedonia.

4.2.1. The monetary policy of the ECB towards Macedonia

The monetary policy of the European Central Bank (ECB) has positive transmission effects on the Macedonian economy and in general, on the economies in our region:⁴⁵

❖ It allows:

- The public and private sectors should have unimpeded access to finance through international financial markets.
- It also contributes to a larger space for the implementation of a relaxed monetary policy by the National Bank, and thus to more favorable domestic financing conditions.

❖ At the onset of the crisis, international financial markets quickly tightened their grip, especially on emerging economies, but after the ECB and central banks reacted more strongly to more advanced economies, investor confidence increased, markets stabilized and interest rates fell. Compared to the global financial crisis, given the current faster and bolder reactions of central banks, the tightening of conditions in the financial markets was less, and the stabilization of financial conditions was faster. This was especially important for us and for other countries in the region.

4.2.2. The role of the National Bank of the Republic of Northern Macedonia

The National Bank of the Republic of Northern Macedonia is a bank that with flexible, appropriately designed and timely decisions, in a time of rapid change and digital transformation, contributes to a higher standard of living of citizens by creating an environment of sustainable and inclusive economic development:⁴⁶

❖ The mission, vision and organizational values of the National Bank are determined depending on the macroeconomic environment and key challenges:

- **Mission** - By fulfilling its mandate and competencies, the National Bank contributes to maintaining price and financial stability for sustainable and inclusive economic development and higher living standards of citizens. Contributes to maintaining a stable, competitive and market-oriented

⁴⁵ Монетарната политика на ЕЦБ има позитивни преносни ефекти врз македонската економија, (2020), <https://www.nbrm.mk/ns-newsarticle-soopstenie-0611>, p. 1

⁴⁶ Народна банка на Република Северна Македонија - Стратегија, (2021), <https://www.nbrm.mk>.

financial system resistant and flexible to rapid changes in the environment, which works in the best interest of consumers and the overall economy.

- **Vision** - The vision of the National Bank is to be recognized as an independent, responsible, professional, innovative and transparent institution that enjoys high trust and credibility in the public.
- **Values** - The National Bank operates in accordance with the following principles and values:
 - ✓ quality,
 - ✓ integrity,
 - ✓ loyalty,
 - ✓ transparency,
 - ✓ leadership,
 - ✓ innovation,
 - ✓ flexibility,
 - ✓ professionalism and
 - ✓ team spirit.

4.2.3. Position of the monetary policy of the Republic of Northern Macedonia

The position of the Monetary Policy of the Republic of Northern Macedonia is as follows:⁴⁷

4.2.3.1. Monetary policy stance

The National Bank of the Republic of Northern Macedonia is a central bank, whose main goal is to maintain price stability, and it is independent in performing its functions. Thereby, the National Bank supports the economic policy and financial stability of the country without jeopardizing the achievement of the basic goal, respecting the principles of the market economy. In accordance with the legally defined functions, the National Bank designs and implements the monetary policy. At the end of the current year, in accordance with the previously established macroeconomic policy framework, the National Bank prepares a Monetary Movement Projection for the next year, which is adopted by the National Bank Council.

4.2.3.2. Monetary policy objectives

Maintaining price stability is the main goal of the National Bank, determined by law. The setting of this goal is in line with the empirically confirmed knowledge that price

⁴⁷ Народна банка на Република Северна Македонија - Поставеност на монетарната политика, (2021), <https://www.nbrm.mk/>, p. 1

stability creates the most favorable macroeconomic environment for long-term sustainable economic development. As of 1999, inflation in our country was measured by the retail price index, and since 2000 it has been monitored by the cost of living index. In order to achieve the ultimate goal, the National Bank determines the intermediate goal of the monetary policy. Thus, from April 1992 to September 1995, the National Bank applied the strategy of targeting the M1 money supply, as an intermediate goal of the monetary policy. Starting from October 1995 onwards, the National Bank implements a monetary strategy of targeting the nominal exchange rate of the Denar against the German mark, and from January 2002 against the Euro. Therefore, maintaining the stability of the Denar exchange rate is an intermediate goal of monetary policy.

4.2.3.3. Interest rate policy and transmission mechanism

In conditions when the monetary policy is aimed at maintaining the stability of the Denar exchange rate, interest rates and money supply are dependent categories, determined by the achievement of the intermediate goal. Through its interest rate policy, the National Bank sends monetary signals to the banks and thus seeks to influence the amount of their active and deposit interest rates. Currently, the basic interest rate of the National Bank is the interest rate realized at the auctions of CB bills.

4.2.4. Implementation of the monetary policy of the National Bank of the Republic of Northern Macedonia

In order to achieve price stability, as a primary goal of monetary policy, the National Bank has various instruments for monetary regulation.:⁴⁸

❖ Having in mind that there is a complex and indirect connection between the instruments and the ultimate goal of the monetary policy with time lag, the National Bank monitors the movement of certain economic variables - operational and intermediate goals. Operational goals are easier to control, but farther from the end goal, while intermediate goals are more difficult to control, but closer to the end goal. By managing the level of interest rates, and thus the level of liquid assets in the banking system, as an operational goal, the National Bank seeks to influence the level of the exchange rate, as an intermediate goal of monetary policy.

❖ From the instruments of the National Bank, the most flexible are the open market operations, which, depending on the liquidity situation in the overall banking system, can be conducted through the issuance of securities of the National Bank - auctions of treasury bills, or by buying or selling securities from value on a temporary or definitive basis. A standard instrument is the required reserve through which the National Bank directly affects the money supply and loans. To overcome the short-term liquidity shortage of banks at the end of the day, the National Bank approves available overnight loans. In conditions

⁴⁸ Народна банка на Република Северна Македонија - Спроведување на монетарната политика, (2021), <https://www.nbrm.mk>

of short-term excess liquidity, banks can place funds with the National Bank in available deposits overnight and for seven days.

CONCLUSION

The main goal of the ECB is to maintain price stability in the euro area. To that end, the ECB uses interest rates - and from the crisis and other measures - to influence financing conditions in the economy. By regulating financing conditions, the ECB can influence the overall level of activity in the economy and can ensure that inflation is met.

The purpose of price stability refers to the general level of prices in the economy. That means avoiding both prolonged inflation and deflation.

Price stability contributes to achieving high levels of economic activity and employment by improving the transparency of the pricing mechanism.

Under price stability, people can recognize changes in relative prices (i.e. prices between different goods), without being confused by changes in the overall price level. This allows them to make well-informed consumption and investment decisions and to allocate resources more efficiently.

The European Central Bank is the sole issuer of banknotes and bank reserves. This means that it is a monopoly supplier of the monetary base. Based on this monopoly, it can set the conditions under which banks lend to the central bank. Therefore, it can also affect the conditions in which banks trade with each other in the money market.

In the short run, the change in interest rates on the money market, encouraged by the European Central Bank, launches a series of mechanisms and activities of economic entities. Finally, change affects the development of economic variables such as output or prices.

Each monetary policy decision by the Governing Council of ECB is based on an assessment of the monetary policy stance. The assessment of the monetary policy stance determines whether monetary policy is contributing to economic, financial and monetary developments in a way that maintains price stability over the medium term. The appropriate monetary policy stance is delivered by choosing and calibrating the appropriate monetary policy tools, both individually and in combination.

When making monetary policy decisions, the Governing Council systematically assesses the proportionality of its measures. These assessments include an analysis of the benefits and possible side effects of monetary policy measures, their interaction and their balance over time.

The ECB's main decision-making body, the Governing Council, sets monetary policy for the euro area. The Council consists of six ECB Executive Board members and the Governors of euro area national central banks. They assess economic, monetary and financial developments before taking monetary policy decisions. This happens every six weeks.

After the Governing Council makes monetary policy decisions, it is typically the national central banks which implement them. For example, the national central banks lend money to commercial banks through what we call refinancing operations.

IV USE OF THE SCIENTIFIC AND PRACTICAL RESULTS

Returns:

1. Proposal for the successful conduct of monetary policy in the candidate countries for EU membership in accordance with the policies of the European Central Bank.
2. A model of a system of measures and activities is proposed for the successful implementation of monetary policy in member and non-member countries of the Eurozone and candidate countries for EU membership, especially in the Republic of North Macedonia.
3. Proposal of activities for using the monetary policy to achieve economic development and inflation control for the purpose of price stabilization.
4. Proposal for improving the monetary policy and the impact of climate change
5. Developed measures to improve inflation control and price stability.
6. Proposed and designed activities for the promotion of business sectors in the EU countries and the candidate countries for EU membership.
7. The methods for implementing the stability policy have been researched and empirically proven.
8. Research was conducted to improve the coordination and cooperation between the competent authorities of the EU in the implementation of the monetary policy.

In order to constantly monitor the creation of the monetary policy of the European Central Bank, the data published as information provided by the bodies of the European Central Bank should be studied.

LIST OF PUBLICATIONS RELATED TO THE DISSERTATION

1. The role of the European Central Bank in shaping the monetary policy of the member states of the European Union
2. The role of the European economic and Monetary union and the European central bank in the EU monetary policy
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DECLARATION OF ORIGINALITY AND TRUST

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By **Abduljadi Shazimanoski, MSc**, self-study PhD student at the Finance Department of Higher School of Insurance and Finance (BCYΦ) - Sofia.

I declare that the dissertation presented by me on the topic, **The influence of the European Central Bank on the monetary policies of the member states of the European Union and the Republic of Bulgaria and the Republic of Northern Macedonia**, for awarding the educational and scientific diploma "Doctor" is an original paper and contains results obtained from my research, with the support and help of my supervisor.

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