THE IMPACT OF BANK MONEY DEPOSITS ON THE ECONOMIC DEVELOPMENT OF THE REPUBLIC OF NORTH MACEDONIA (Theoretical Approach)

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ABSTRACT

This study examines the issue of the impact of bank money deposits on the economic development of the Republic of North Macedonia. Despite the fact that the debate on this issue has been open for a long time and it has been considered through the prism of several aspects, the topic is always relevant.

In that direction, the purpose of this study is to examine the activities of banks for money deposits, to examine the effects of bank money deposits on the economic development of the Republic of North Macedonia and to examine the relationship between bank money deposits and the economic development of the Republic of North Macedonia.

For this purpose, the research questions of this study will be aimed at considering what are the activities of money deposit banks, what are the impacts of money deposit banks on the economic development of North Macedonia and what is the relationship between money deposit banks and the economic development of North Macedonia.

The question to which we will try to give an adequate scientifically based answer is actually the hypothesis of this paper: "Is there a significant relationship between banks for money deposits and the economic development of the Republic of North Macedonia". In that context, the banking capacities for efficient mobilization will be considered of the free cash resources and their placement in the form of loans to the private sector as a source for financing the investment projects of the companies, as a support for the domestic economy, and in that direction we will answer what is the influence and relationship of bank deposits on the economic growth of the Republic of North Macedonia.

The result of this study will educate the general public about the relationship between money deposit banks and the economic development of North Macedonia.

This research will be a unique contribution to the scientific literature in the area of the effect of personality traits on the academic performance of the student, which will constitute the empirical literature for future research in the subject area.

This study will cover the impacts of money deposit banks on the economic development of North Macedonia.

Keywords: Banks, Deposits, Money, Economic Development, Republic Of North Macedonia.

1. INTRODUCTION

Both practice and theory have proven that countries with high domestic savings are simultaneously fast-growing economies. In economies in transition, there is a great dependence of enterprises on banks.

The North Macedonian economy belongs to the transition economies. The trends are slow growing, almost stagnant. One of the reasons for the slow dynamics of economic development is the high cost of capital which can be the result of poor financial intermediation and inefficient capital market or unfavorable international finance such as unfavorable credit rating, unattractiveness for foreign direct investment or unfavorable conditions in international markets of capital.

The low level of liquidity on the capital market, the low level of competition and the insufficient efficiency of the banking sector as well as the high credit risk are only some of the factors that negatively affect the economic development of the country.

1.1. Theoretical background of the problem

The question of the impact and relationship of bank cash deposits and the financial sector in general and economic disruption and development has long been open to theoreticians. The topic is current and, given its timeless dimension, always interesting for a new approach and new interpretation. In that direction, John Hicks stated that the financial system played a key role in the process of industrialization in England through the success in mobilizing the capital necessary to finance large infrastructural and capital investments. Joseph Schumpeter confirmed that a well-developed banking system encourages technological innovation by identifying and finding those entrepreneurs with the best chance of successfully implementing their business ideas.

More recent theoretical and empirical literature has reached a consensus on the issue of the positive influence of finance (mining sector and financial markets) on economic development. Namely, Greenwood and Jovanovic, Levine, Bencivenga and Smith have created theoretical models in which efficient financial markets direct financial resources to investment projects with the highest rates of return, improve the financial performance of firms, increases access to finance, thus promoting economic development.

In general, there are multiple channels through which bank money deposits affect economic development. Financial intermediaries (commercial and investment banks,н insurance companies and pension funds) and financial markets (capital markets and stock markets) can increase the saving rate, reduce information and transaction costs, can improve resource allocation and investment efficiency by improving risk and liquidity management, scanning and monitoring, hedging, etc. (King and Levine; Levine).

A number of empirical studies analyze the relationship between the financial sector and economic development (Levine 1997; Thiel 2001; Wachtel 2001). For example, King and Levine identified positive effects of financial sector development (measured by banking sector development) on economic development by applying cross-country regression analysis to a group of 80 countries, while Atje and Jovanovic identified a significant positive effect of development of the capital market on economic development by extending the basic MRW (Mankiw et al. 1992) model to include the annual value of capital market trading as a percentage of GDP for a group of 94 countries over the period 1970-1988. No less significant are the studies of Demirguc-Kunt and Levine (1996a), Singh (1997), Levine and Zervos (1998), Beck et al. (2005, 2008) who also confirmed the positive correlation between bank money deposits and economic development using panel techniques.

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2. REVIEW OF THE LITARATURE

In theoretical models of growth, investment capital is recognized as the fundamental factor that determines growth from both perspectives: aggregate supply and aggregate demand. An increase in the investment capital (total supply) causes output to increase. An increase in output causes an increase in income and consumption, that is, an increase in aggregate demand. In turn, an increase in aggregate demand stimulates investment and promotes growth. Therefore, a lack of investment capital is often seen as a major obstacle to accelerating economic growth. Investment capital is also a decisive factor in improving infrastructure and promoting the application of technological advances. Domestic investment capital is mainly mobilized from households and entities with idle capital in the economy, which is then allocated to the business sector for developing investment projects or expanding business activities. This financial system helps the processes of capital mobilization and allocation to take place through two main channels: the banking system and the stock market. Thus, the financial system has a special role in the growth process. The ability to raise capital and allocate capital depends on the level of development of the financial system and its components.

The banking system is an integral part of the financial system. Therefore, the nature of the impact of banking system development on economic growth can be clarified on the theoretical ground of the concept of financial development and its role in economic growth. Levine (2005) believes that financial development is the process by which financial intermediaries, financial markets and financial instruments perform well in processing information, minimizing transaction costs, and ensuring the execution of financial transaction contracts so that the financial system can best perform its functions. Levine (2005) puts forward five important criteria for financial development. First, economic entities can easily find information about potential investment projects and allocate capital efficiently. Second, economic entities can monitor and control investment activities. Third, economic entities can carry out economic transactions and diversify and manage risks. Fourth, there are appropriate channels to mobilize savings. Fifth, the financial system supports and promotes the purchase and sale of goods and services. By performing these functions, the financial system affects saving and investment, thereby promoting economic growth. In addition to the definition of financial development by Levine (2005), there are other definitions of financial development in the literature. Indeed, all of these definitions commonly imply financial development in such a sense that the financial system operates more efficiently and performs its functions well (through the operation of financial institutions and financial markets), helping economic entities to access financial resources, invest their savings and satisfy other financial needs as per their functions and roles. A banking system that develops, operates and performs its functions well contributes to the healthy and efficient operation of the financial system, thereby promoting economic growth. Intuitively, financial markets and financial institutions can hardly perform their functions if the banking system is primitive and underdeveloped. For example, if the banking system does not perform well as an intermediary for payments and money creation, financial transactions may slow down and financial assets may become illiquid. Similarly, inappropriate credit decisions and asymmetric information may also adversely affect the process of capital flow in financial markets. The banking system itself, if well developed and able to better perform its functions, will directly affect economic activities and promote economic growth. First, the banking system helps to improve the allocation of scarce financial resources by providing credit to the most efficient businesses or investment projects.

Second, the banking system assists households in planning and implementing appropriate consumption through savings and bank borrowing (Allen and Gale 2001). Third, the banking system provides liquidity to the economy by transforming short-term liabilities into long-term assets (Diamond and Dybvig 1983). Through this activity, the banking system helps savers manage their liquidity risks while providing capital for long-term investment projects. Fourth, the banking system helps to speed up the flow of goods and services, accelerate the payment process, and promote the speed of capital flow, thereby supporting economic growth as well. From the perspective of macroeconomic policy management, the banking system is a channel that the central bank can use to carry out the transmission of monetary policy and achieve its policy targets for each period. There are two main views on the nexus between financial development and growth. The supply-leading view considers financial development to be the driving force behind economic growth. The demand-following view holds that financial development results from the real needs of the economy. Based on these two views, many empirical studies with different datasets and methods have been carried out in past decades, but they have not yet yielded consensus conclusions about the direction and channel of interaction between financial development and growth. Many studies provide evidence that supports the view that financial development plays a driving role in growth, while others support the view that growth drives the development of the financial system as the latter develops to respond to the needs of the real economy. Meanwhile, a number of studies provide evidence of a two-way cause–effect relationship. Several recent studies have documented the nonlinear impact of financial development on economic growth and the important role of financial stability (Prochniak and Wasiak 2017; Bucci and Marsiglio 2019; Nguyen and Pham 2021).

Several reasons can be put forward to explain the differences in empirical findings. While there are many studies focusing on the relationship between financial development and growth in general, few studies have been conducted to present empirical analyses of the influence of banking development on growth. The studies taking into consideration the influence of banking development are either based on a cross-sectional sample of data collected from a group of countries or a sample of time series data from a given country. Overall, these studies report two main findings. First, banking development has a positive impact on growth, in which banking development is measured by criteria such as money supply to GDP ratio, bank credit to GDP ratio, and deposit to GDP ratio (Levine 1997; Fukuda 2001; Koivu 2002; Beck and Levine 2004; Dawson 2008; Abubakar and Gani 2013). Second, bank performance has a positive effect on growth (Al-Khulaifi et al. 1999; Cole et al. 2008).

A conclusion drawn from the review of the literature is that empirical studies providemixed and inconclusive findings on the interaction between financial development and economic growth.

3. BANKING SECTOR AND BANK MONEY DEPOSITS IN THE REPUBLIC OF NORTH MACEDONIA

The money supply covers the total amount of money in an economy. The main creators of that total amount of money are the banks in the economy, namely: the central bank, which places money in the economy through its primary issue, and commercial banks, which, by converting citizens' deposits into loans, increase the amount of money in circulation (1) Petrevski Goran, Management of banks, Faculty of Economics, Skopje, 2008, p.37.

The main and only so-called "controller" of the money supply in oneeconomy is the Central Bank.

In R. North Macedonia, it is the National Bank of the Republic of North Macedonia (NBRM), whose main goal is to maintain price stability, while it is independent in the performance of its functions (2) National Bank of the Republic of North Macedonia, www.nbrm.mk. NBRM supports economic and financial policy 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 NBRM designs and implements the monetary policy. For the sake of achieving price stability, as a primary goal of monetary policy, the NBRM has various instruments for monetary regulation. Considering that there is a complex and indirect connection with a time delay between the instruments and the ultimate goal of the monetary policy, the NBRM monitors the movement of certain economic variables - operational and intermediate goals. Operational goals are easier to control but are further away from the ultimate goal, while intermediate goals are more difficult to control but are closer to the ultimate goal. Through the management of the level of interest rates, and thus the level of liquid assets in the banking system, as an operational goal, the NBRM tries to influence the level of the exchange rate, as an intermediate goal of monetary policy.

Of the NBRM instruments, the most flexible are the operations of the open market, which, depending on the liquidity situation in the entire banking system, can be implemented through the issuance of securities of the NBRM - auctions of treasury bills, or through the purchase or sale of securities on a temporary or definitive basis.

A standard instrument is the mandatory reserve through which the NBRM directly affects the supply of money and credits. To overcome the short-term liquidity shortage of banks at the end of the day, the NBRM approves Lombard loans overnight.

The basic function of the pawnshop loan is overcoming the the liquidity problems of individual banks, which contributes to the stabilization of the liquidity of the money markets and the fluctuations of short-term interest rates. There is also an intraday loan, the main function of which is to overcome the liquidity imbalances at the banks that occur as a result of greater outflows than inflows during the day.

The entire banking system depends on the central bank.

4. THE CONDITIONS IN THE BANKING SYSTEM IN NORTH MACEDONIA, BANK MNEY DEPOSITS AND ECONOMIC DEVELOPMENT

The banking system in developing countries, including North Macedonia, is underdeveloped and relatively small, compared to those in highly developed countries. The volume of banking intermediation between domestic and foreign depositors and potential investors in the real economy remains low. The range of services and banking products offered is also small. The characteristic of a few large banks dominating the banking sector is best known for countries in transition. Banking efficiency remains low. (3) Buiter Willem, Taci Anita- "Capital account liberalization and financial sector development in transition countries"

The financial crisis, despite the underdevelopment of the financial markets, has profound effects on the North Macedonian economy and on the operations of the banks. The turbulent movements in the world have an impact on the North Macedonian economy, on certain segments, on the size and structure of the financial system. In general, there was a slow growth in the size of the financial system, a slowdown in the entry of foreign capital into the ownership structure of individual financial institutions, and a slow growth in the assets of the banking sector.

The crisis had a strong impact on the sharp decline of deposits in commercial banks, significantly

lower indicators of profitability and credit growth, and deterioration of the banks' credit portfolio. However, one should take into account the fact that the banks still remained in a good liquid and solvent position, and did not need direct financial support from the government.
The banking system maintained its stability and reliability, thanks to several factors, such as the increased caution and conservatism of North Macedonian banks to take risks in their operations, the NBRM's measures to reduce the risks that resulted from the high credit growth, the high closedness of the banking system and its orientation towards activities with residents, as well as weak correlation with global financial markets, performance of traditional banking activities, and almost non-existent off-balance sheet activities (such as complex and toxic financial instruments), which proved fatal for highly developed economies.
At the time of the outbreak of the crisis, the North Macedonian economy was characterized by relatively solid economic indicators, namely low public debt, GDP growth in the first three quarters and a stable banking system, so the first impact of the crisis passed without serious economic or fiscal consequences, but from this aspect, in the long term, it caused significant consequences on economic development.
The challenge for North Macedonian economic policy is to maintain economic stability, to encourage growth, while maintaining a fixed exchange rate. In fact, as with other countries in transition, maintaining financial stability and reducing the vulnerability of the financial system are the key challenges faced by financial institutions in North Macedonia.
Banks as financial institutions are significant because they provide vital services to almost all sectors of the economy. The main areas of specialization of the banks include: information services, liquidity services, lending, transfer of funds abroad, intermediation in denominations, and payment services. Failure to provide these services, or their interruption, can have a costly impact on households and companies. Precisely because of this, deposit institutions are regulated at the state level, to ensure the protection of the economy and society as a whole.
Despite the security of the banks, the situation is dramatic in terms of cash deposits. The fact of the situation in the Republic of North Macedonia in relation to bank cash deposits is overwhelming. Cash deposits are kept locked up instead of being invested in new businesses that will spur economic development.

5. ROLE OF BANKS IN THE ECONOMIC DEVELOPMENT OF A COUNTRY

The banking system plays an important role in the modern economic world. Banks collect the savings of the individuals and lend them out to business- people and manufacturers. Bank loans facilitate commerce.
Manufacturers borrow from banks the money needed for the purchase of raw materials and to meet other requirements such as working capital. It is safe to keep money in banks. Interest is also earned thereby. Thus, the desire to save is stimu-lated and the volume of savings increases. The savings can be utilised to produce new capital assets.
Thus, the banks play an important role in the creation of new capital (or capital formation) in a country and thus help the growth process.
Banks arrange for the sale of shares and debentures. Thus, business houses and manufacturers can get fixed capital with the aid of banks. There are banks known as industrial banks, which assist the formation of new com-panies and new industrial enterprises and give long-term loans to manu-facturers.

The banking system can create money. When business expands, more money is needed for exchange transactions. The legal tender money of a country cannot usually be expanded quickly. Bank money can be increased quickly and used when there is need of more money. In a developing economy (like that of India) banks play an important part as supplier of money.
The banking system facilitates internal and international trade. A large part of trade is done on credit. Banks provide references and guarantees, on behalf of their customers, on the basis of which sellers can supply goods on credit. This is particularly important in international trade when the parties reside in different countries and are very often unknown to one another.
Trade is also assisted by the grant of loans by discounting bills of exchange and in other ways. Foreign exchange transactions (the exchange of one currency for another) are also done through banks.
Finally, banks act as advisers, counsellors and agents of business and indus-trial organisations. They help the development of trade and industry. In that direction, bank cash deposits greatly influence the economic development of the country.

6. MONETARY AGGREGATS – MONEY SUPPLY AND ITS COMPONETS

The money supply M1 includes ready money in circulation and deposit money. The money supply M2 (liquid assets) includes the monetary aggregate M1 and short-term deposits. The money supply M3 (standard definition of the money supply) includes the monetary aggregate M2 and long-term deposits with maturities of one to two years. The money supply M4 (total deposit potential of the monetary system) includes the monetary aggregate M3 and long-term deposits over two years, in denars and foreign currency. The monetary aggregate M3 represents an internationally harmonized definition of the money supply of the Republic of North North Macedonia.

6. DEPOSITS WITH BANKS AND SAVINGS BANKS

Deposits with banks and savings banks of the non-state sector include deposit money (current accounts), demand deposits, overnight deposits, time deposits and restricted deposits. Deposits are shown according to sector, currency and maturity structure.
According to the data of the NBRM in connection with the latest achievements, data is obtained that the money supply (monetary aggregate M3), in November 2022, achieved a monthly growth of 1.8%. The annual growth is 5.4% and mostly results from the higher short-term deposits, with an additional positive contribution of the deposit money, and in the conditions of the observed decline in the long-term deposits up to two years.
In November, total deposits increased by 1.7% on a monthly basis and it is almost entirely a reflection of the growth of corporate sector deposits. Analyzed on an annual basis, the total deposits recorded a growth of 5.0%, which, in terms of the increase in deposits in both sectors, is more pronounced in the "households" sector.

8. CONCLUSION

In that direction, bank deposits, savings deposits are financial instruments with a small denomination, which allows savers with a lower income the opportunity for capital allocation, the immobilization of savings deposits includes exceeding the transaction costs associated with collecting savings deposits from a large number of different entities and overcoming information costs associated with depositors' trust in the financial institution, as well as their sense of control over savings. In other words, to reduce these costs, the bank takes advantage of economies of scale, when she uses one piece of information she has for several clients. A typical example is the so-called delegated supervision, when the bank exercises control over the investments of the companies it finances, instead of individual savers do. If this is to be done by individual savers, then each saver will have to be analyzed by the company again, which will accumulate huge costs. Hence, by exploiting economies of scale, banking systems increase efficiency in mobilizing savings from individuals, and thus enable a faster allocation of resources, support of investment projects and technological innovations and thus influence the economic development.

Banks, by collecting deposits (through the accumulation of free money from individuals), make an adequate allocation of them and invest them in projects that enable the revival of industry and the stimulation of the economy.

The banking system in the Republic of North Macedonia consists of: Capital Bank AD Skopje, Komercijalna Bank AD Skopje, NLB Bank AD Skopje, ProKredit Bank AD Skopje, Development Bank of North North Macedonia AD Skopje, Silk Road Bank AD Skopje, Stopanska Banka AD Bitola, Stopanska Banka AD Skopje, TTK Bank AD Skopje, Universal Investment Bank AD Skopje, Halk Bank AD Skopje, Central Cooperative Bank AD Skopje and Sparkase Bank AD Skopje.

Bank money deposits have a directly proportional effect on economic development, the larger the deposits, the more they are aimed at new investments and economic development. However, the relationship between bank money deposits and economic development cannot be ascertained in its entirety, a comprehensive analysis and extensive study is required.

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