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CURRENCY IN CIRCULATION

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***C*ONTENTS:**

ABSTRACT

INTRODUCTION

***1. CAUSES OF HIGH LEVEL
OF CURRENCY IN CIRCULATION***

2. MEASURES FOR REDUCING THE SCOPE OF CASH TRANSACTIONS

ABSTRACT

Currency in circulation, together with demand deposits, is a component of narrow money which movements are of special interest for policy makers. There are several relevant indicators showing the relative significance of the currency in circulation in particular economy, among which the most important ones are: 1/ share of currency in circulation in money supply; and 2/ ratio of currency in circulation in nominal gross domestic product.

Dynamic analyses of these indicators in the Republic of Macedonia shows high degree of cash utilization in performing everyday nominal transactions. The cross country analysis confirms significant role of currency in circulation in the Republic of Macedonia, not only compared to developed countries, but also in terms of countries in transition with similar macroeconomic performances.

In order to eliminate factors that determine high degree of cash transactions, several activities have to be operationalized:

1. Launch of more organized and more active modern non-cash payment instruments is essential. This could be done through a comprehensive project for introduction of a unique payment card, either on the level of whole economy, or at least with participation of several largest commercial banks in the country. The card should be used for both, domestic and international payments. This project can follow the already existing projects in three largest banks, by converging separate projects into one, which will include participation of some small commercial banks. Besides, banks should install more ATM machines (cash points) and should broaden the spectrum of international credit cards and checks. The quality of bank services should also improve, stimulating some household groups to work with checking accounts, etc.;

2. The existing regulation on use of cash should be revised. The most important in this context is to put stricter restrictions on the use of cash by legal entities for making payments. Also, a necessary control should be strengthened and appropriate policy for violation of the regulation should be prescribed; and

3. A reduction of cash payments of salaries and pensions is necessary, as well as a reduction of cash payments for purchased agricultural products. Simultaneously, the orientation to more active use of banks' services and payment through checking accounts should be stimulated.

INTRODUCTION

The monetary aggregates have a dual function: a/ they are indicators of monetary conditions and b/ they are an instrument for monetary policy realization. Since the monetary independence (April 1992) until the last quarter of 1995, monetary policy in the Republic of Macedonia was realized through a strategy of monetary aggregates targeting, where the Denar exchange rate was an indicator of the monetary policy stance. Starting from the last quarter of 1995, the strategy of explicit Denar exchange rate targeting was implemented, whereas the money supply became an endogenous variable.

Within such strategy, the main monetary aggregate monitored by the National Bank of the Republic of Macedonia is money supply M1, comprising currency in circulation and non-Government demand deposits. The narrowest money supply definition in fact represents operationalization of the transactional approach in the definition of money.

Currency in circulation, together with the demand deposits, represents a component of the money supply - narrowest definition, monitoring of which is of a special interest for the monetary policy authorities in every country. This is due to the fact that currency in circulation share in the monetary base is over 90%, and it is controlled by the Central Bank. Through monetary multiplication, monetary base determines the money supply dynamics. According to that, the monetary base and in that context, currency in circulation is an early indicator of the volume of transactions and of the future consumption,¹ and consequently, of the expected price dynamics in the next period.

There are several relevant indicators for quantification of the relative importance of the currency in circulation in every economy, of which the most important are: 1/ the share of currency in circulation in money supply; and 2/ the share of currency in circulation in the nominal gross domestic product (GDP).

The analysis of these indicators in the Republic of Macedonia shows that the level of the currency in circulation in the economy for performing nominal transactions of the economic agents, in the period since the monetary independence has been extremely high. Comparison of these indicators in the Republic of Macedonia with the relevant ones in other countries, shows that the amount of using cash for transactions in the economy is significantly above the cash transactions in other countries. Therefore, the use and significance of the currency in circulation in the Republic of Macedonia is important compared with the developed market economies, as well as compared with the transition countries with similar macroeconomic performance, as the Republic of Macedonia.

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¹ Although this view is more relevant for broader monetary aggregates, such as M4, it is well known that currency in circulation is conventionally used for transactions regarding consumption.

Table 1

Currency in Circulation in Developed Countries

	1991	1992	1993	1994	1995
	as % of GDP				
Belgium	6.2	5.9	6.0	5.2	5.3
Canada	3.1	3.3	3.4	3.4	3.4
France	3.7	3.6	3.5	3.4	3.7
Germany	6.0	6.5	6.7	6.8	6.9
Italy	5.4	5.7	5.8	5.9	5.5
Japan	9.4	9.0	9.5	9.7	10.4
Netherlands	6.8	6.5	6.5	6.3	6.0
Sweden	5.3	5.1	5.3	5.0	4.7
Switzerland	8.0	8.0	7.9	7.9	7.7
Great Britain	2.7	2.9	2.8	2.8	2.8
USA	4.6	4.8	5.0	5.2	5.2
Ø	5.6	5.6	5.7	5.6	5.6
Macedonia	n.a.	7.6	4.6	3.5	4.6*
	as % of money supply /1				
Belgium	31.2	31.5	29.6	27.1	27.2
Canada	46.1	47.0	44.0	44.2	42.8
France	15.8	15.9	15.3	15.1	14.0
Germany	28.4	29.9	29.2	29.6	29.1
Italy	14.2	15.7	15.5	16.0	16.3
Japan	33.1	31.2	31.1	30.7	29.2
Netherlands	28.6	27.4	25.1	25.0	22.1
Sweden	11.5	10.8	10.7	10.7	10.5
Switzerland	21.8	21.6	19.7	19.7	18.0
Great Britain	5.6	4.8	4.5	4.6	4.6
USA	29.5	28.5	28.5	30.7	33.0
Ø	24.2	24.0	23.0	23.0	22.4
Macedonia	n.a.	45.2	47.1	45.2	49.3*

Source: BIS Statistics on Payment Systems in the Group of Ten Countries, 1996.

1/ Narrowest definition of money supply (M1), excluding Sweden (M3) and Great Britain (M2)

*/ Data for 1997

In the period April 1992 - August 1997, the average share of currency in circulation in money supply M1 in the Republic of Macedonia amounted to 46.3%, being twice more than the respective share in the developed countries, 5 percentage points above the average share in the developing countries, and by 2.5 percentage points above the respective share in the countries in transition.² Analyzed by years, in the first year of the monetary independence (April - December 1992), average share of currency in circulation in money supply M1 amounted to 45.2%, and in 1993 it increased to 47.1%.

In 1994, and especially in 1995, as a result of the significant curbing of inflation, the real money demand for Denars increased, which determined deceleration of the currency in circulation velocity. Implicitly, that meant as well, a decrease of the currency in circulation share in the money supply, from 45.2% (average monthly share) in 1994, to 43.4% in 1995, as a lowest share of M1.

² In comparison to most advanced countries in transition (Czech Republic, Poland, Slovakia, Slovenia and Croatia), which currency in circulation share in money supply amounts to 33.7%, on average, the respective share in the Republic of Macedonia is higher by 10 percentage points.

Table 2

Currency in Circulation in the Countries in Transition and Developing Countries

	Currency in circulation/Money supply	Currency in circulation/GDP
Macedonia **	49.3%	4.6%
Belarus	36.7%	3.4%
Croatia	40.2%	4.1%
Czech Republic	26.3%	8.4%
Estonia	37.6%	9.2%
Hungary	43.7%	9.4%
Latvia	59.9%	9.5%
Poland	47.8%	6.8%
Romania	56.5%	4.4%
Russia	51.8%	4.6%
Slovakia	25.1%	7.5%
Slovenia	33.9%	2.6%
Ukraine	62.4%	5.0%
∅ Countries in Transition	43.9%	6.1%
Argentina	61.5%	4.0%
Brazil	34.7%	1.9%
Chile	30.9%	2.9%
Peru	24.6%	2.2%
Uruguay	55.3%	3.5%
∅ Developing countries	41.4%	2.9%

*/ Source: IFS, Monetary Statistics, 1997.

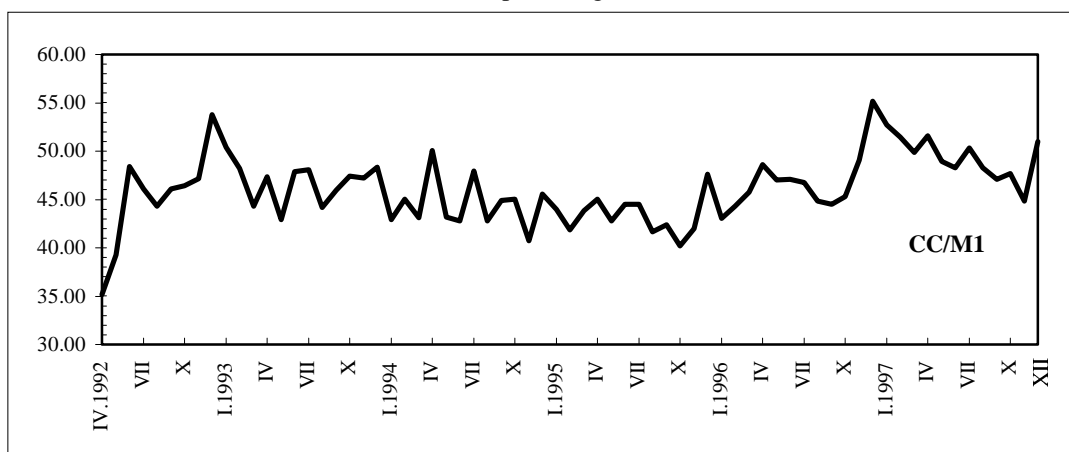
As on 31.12.1996, with some exclusions.

**/ Data for 1997.

In the succeeding two years, again unfavorable tendencies in the money supply structure arose, manifested as increasing currency in circulation share in terms of demand deposits. Thus, in 1996, currency in circulation amounted to 46.9% of the narrowest money supply definition, on average, and in 1997, the respective ratio increased to 49.3%. By the end 1997, currency in circulation share in money supply M1 amounted to 51.0%.

Chart 1

Currency in Circulation Share in Money Supply M1
(in percentage)



Opposite to the currency in circulation to money supply ratio, the other comparative indicator - currency in circulation share in GDP, displays a different conclusion. Namely, in the period 1992 - 1997, the average coefficient of currency in circulation to GDP in the Republic of Macedonia amounted to 4.8%, being below the average share in the developed countries and in the countries in transition. Nevertheless, compared with the developing countries average, currency in circulation share in GDP in the Republic of Macedonia is higher by 2 percentage points. Similar situation is present in terms of other SFRY successor countries, for which data is available (Slovenia and Croatia), where the currency in circulation share to GDP is lower than the respective share in the Republic of Macedonia by 1 to 2 percentage points.

I. CAUSES OF HIGH LEVEL OF CURRENCY IN CIRCULATION

In fact, several main factors could be differentiated as main sources for constant maintenance of high level of currency in circulation in the Republic of Macedonia, i.e. for their significant share in the money supply:

1. *Insufficient development of non-cash payment instruments*, such as credit cards, debit cards, ATM machines (automatic teller machines for cash - cash points), digital cash, “electronic vaults” and etc. Comparative advantage of these financial innovations in terms of currency in circulation is due to safer, cheaper and simpler realization of payments through banking system channels. Simultaneously, contemporary non-cash payment instruments induce and enable to economize the amount of cash in the economic agents’ portfolio. Finally, the development of non-cash payment instruments is important for commercial banks and the economy as well, due to provision of the means for increasing the banks’ deposits potential through utilization of cheaper, low-interest bearing assets, as base for increase of the economy’s credit support.

However, in spite of the fact that the utilization of payment cards in modern economies is accepted long time ago, and they have almost completely replaced cash transactions, in the Republic of Macedonia the utilization of these non-cash payment instruments is still in an initial phase. Except the three largest banks, which have embodied first non-cash payment cards in their working practice, the rest of the commercial banks are not yet sufficiently equipped (technically organized and staffed) for implementation of contemporary non-cash forms of payment, except for the checking accounts.

The most utilized non-cash payment instrument by households in the Republic of Macedonia is check, although the share of check payments in the whole payment system is significantly below in terms of respective share in developed countries. That is due to the numerous restrictions which do not exist (or not to that extent) in the working practice in other countries, where this non-cash instrument is used. Thus, the main obstacles restricting the wider utilization of this non-cash payment instrument are:

a/ too restrictive limitation of the number of checks, which could be obtained from the commercial banks. From practical reasons, this measure is implemented by the banks in order to reduce the possibility for going into negative balances on the checking accounts by economic agents (households), which has a treatment of forced crediting. There is no doubt that the lowered households living standard has caused a severe lack of financial discipline by checking account holders, meaning that undertaken measures by commercial banks to protect their interest from micro aspect are justified and have given the wanted and expected results. Nevertheless, on the other hand, the limited number of checks means increased rationality by households in checks utilization in the everyday payment practice, i.e. abstention from checks utilization on small amounts for every day food expenses and etc. Besides this, in the Republic of Macedonia, the real function of the check is derogated, i.e. it is transformed from payment into a credit instrument, which is used mostly for gaining some favorable conditions in the process of payment, (such as postponed payment or payment "by installments"), which is not its primary function;

b/ restriction on the minimum amount on the check for transactions in the (retail) trade, which also gives impetus for cash utilization for smaller amount payments, and

c/ restriction on check payment issued by one bank in another bank, or in the post office, where such transactions are burdened with additional costs (commission fees etc.). All these factors have a contra productive and destimulating influence on development (progress) with checks utilization for payments, as potential, and in the Republic of Macedonia most developed non-cash payment instrument within households.

Although, in developed countries payment cards and cash points utilization, instead of currency in circulation, has been present for over two decades, in the Republic of Macedonia in this regard still the first steps are being undertaken. Thus, in 1994, the first domestic payment card in the Republic of Macedonia was introduced by Stopanska Banka a.d. Skopje. By mid October 1997, 1,614 persons were users of this card, with the possibility for paying in 90 legal entities with approximately 300 selling sites, for which purpose contracts are concluded. With this card cash could be obtained only from the bank windows with limit up to 3,000 Denars (for ordinary card), i.e. up to 20,000 Denars (for special payment card). The Bank has not yet installed cash points, which would serve for obtaining cash. According to the last information from the Bank, 5 machines are ready to be installed for this purpose, and simultaneously the Bank works on introducing VISA card, for payments within the country and abroad.

Table 3

Number of payment cards and cash points

	Card with cash function	Card with credit/debit function	Card with check function	Card for retail trade	Cash-dispenser machines (ATM)
	per 1,000 citizens				per 1,000,000 citizens
Belgium	931	931	457	120	360
Canada	1,405	533	...	4,209	595
France	432	409	395
Germany	...	909	470	59	436
Italy	241	357	29	...	378
Japan	2,077	1,891	...	471	1,013
Netherlands	1,062	97	47	...	355
Sweden	699	537	267
Switzerland	795	847	545	...	532
Great Britain	1,433	1,014	822	223	358
USA	...	2,475	...	2,233	467
Macedonia	4	4	...	4	7*

* Data for 1997.

In mid 1997, Komercijalna banka a.d. Skopje, as well, introduced to the market EUROCARD/MASTERCARD for domestic and international payments. The holders of domestic payment card are 349 persons, who could use it on 140 sales sites in the country. This Bank has 7 cash points, out of which 4 are in Skopje. The maximum cash amount which could be obtained with this card is 10,000 Denars.

The efforts of the three biggest banks in the Republic of Macedonia³ concerning the introduction of the credit cards as non-cash instrument for collection, even though positive, are still insufficient for more serious affirmation of these instruments in the payment trade. The implementation of the credit card and its larger utilization by the population and in the sales network is undoubtedly expensive investment, seeking for investing significant assets from all the participants: banks should invest in obtaining the right to use credit card with appropriate brand name (for example: EUROCARD/MASTERCARD), securing the implementation of the world-wide accepted standards for working with credit cards prescribed by the international institutions, building in an appropriate hardware and software, purchasing cash-dispenser machines, protection against forgeries, etc.; trade organizations need investments for terminals, and so on.

Because of this, the partial approach of our biggest banks in which they separately work with their clients, resulted in small number of places where one can use the credit card to pay, as well as in very small number of cash-dispenser machines for collecting money, and also resulting in insufficient interest by the population to obtain and work with credit cards. The smaller banks, because of the weaker financial power can not start the process of preparation and issuance of the credit card by themselves. Thus, this results in small size of utilization of modern non-cash instruments in the payment trade of the Republic of Macedonia, that determined the existence of large number of cash transactions with all negative consequences.

2. Weaknesses of the existing regulation for working with cash. The successfully implemented legal regulation in each area, and in the area of working with cash as well, is the crucial precondition for elimination of the problems, or at least their minimization. This area in the Republic of Macedonia is regulated with the Law on Financial Operations (Official Gazette of the Republic of Macedonia, number 42/1993) and the Manual for the conditions and the way of collection, disposal and payment with cash (Official Gazette of the Republic of Macedonia, number 76/1993). With the article 7 from the Law on Financial Operations, an obligation is predicted for the economic agents to deposit all the cash payments on their accounts, at the same day. By exception, if the place of collection is far from the headquarters of the Payment Operations Bureau, of the bank or the post office, the economic agent may decide to deposit the received money on his account in specified intervals, which can not be longer than five days. The economic agent may draw money from his account for payment in cash and may keep cash in vaults up to the level of the treasury maximum. The level of the treasury maximum is determined by the economic agent with his own legal document.

With the directions from the Manual for the conditions and the way of collection, disposal and payment with cash, the economic agents may pay in cash for the following needs: payment of wages and pensions; payment of other personal revenues; payment of revenues to foreign authors, payment for agricultural and cattle-raising products bought by the farmers and citizens; advance payments for travel expenses and per diem allowances; taxes on consular and diplomatic representative bodies; purchase of effective foreign currency, bank and travelers checks; payments for products and services with individual value in Denar counter-value of DEM 200. The economic agents are obliged to issue

³ Since October 1997, Makedonska Banka a. d. Skopje launched at the market the Atlas American Express Card, for payments in the country and abroad.

appropriate document as a proof for the performed collection. Simultaneously, this Manual specifies the determination of the treasury maximum, which is an obligation of the economic agents, which level depends on the nature of the economic agents work, the distance from the Payment Operations Bureau, and on other unspecified conditions. The treasury maximum does not include the cash drawn for the purpose of paying advance payments for travel expenses and per diem allowances, unless they are not in the treasury longer than five days, etc.

Obviously, the Manual for working with cash is brought in much different macroeconomic relations compared to those that exist right now in the Republic of Macedonia. The Manual concerns only the one side, i.e. the possibilities for paying with cash (collection is not treated at all), includes too wide a range of possibilities for working with cash, leaves too big room for arbitrary explanations, and what is most important, does not predict detailed control and punishment policy in case of neglecting the predicted possibilities for working with cash. Only in the Law on Financial Operations a penalty for the legal entities that do not deposit the cash on the specified account, as well in case when there is money in the treasury exceeding the treasury maximum, is predicted. In practice, such imprecise and incomplete legal regulation results in disrespect of the predicted legal provisions, i.e. finding of many "ways around the target" for disrespecting the legal obligation.

3. *The organization of the payment system.* The Payment system in the Republic of Macedonia is organized in such a way where the realization of the payment orders is performed on net basis. This means that the payment order is issued on the basis of the *expected* inflow of assets on the economic agent's account during the day, resulting in very high money velocity of the demand deposits. That decreases the deposit money demand, implicitly creating high coefficient of cash in relation to the demand deposits.

4. *The importance and the structure of the agricultural production.* The agricultural production has a significant role in creation of the GDP in the Republic of Macedonia (10.5% of the GDP in 1996), which is much higher than the same indicator in the most of the other transition economies. Significant amount of the agricultural production belongs to products that are sold and paid in cash (fruits, early products, vegetables, etc.). That requires higher usage of cash, on contrary to the cereals production-that can be completely bought and paid in large quantities, i.e. through transferring money on the accounts of the producers. But, even for purchasing and paying these agricultural products, the possibility of paying through the banking system is not used (on current accounts of the individual producers), but almost completely the payment is in cash, in Denars or in foreign currency.

5. *Payment of wages and pensions with cash.* From the total amount of paid net pensions, about 73% are paid with payment orders (in cash). In the first group of pensioners, with lowest pensions, this percent reaches 93%, in the second group 68%, and in the third group about 43% of the pensions are paid in cash. Because of the low living standard of this segment of the population, very small part of the pensions paid in cash is deposited in the banks as deposits, and the biggest part enters in the circulation channels in cash. Beside this, there is a wide practice of paying the wages in cash, both between the economic agents from the private sector and the public sector institutions.

6. Cash utilization in the cross-border trade. As a result of the long-term instability in the regional environment and the shortage of certain products in some neighboring countries, on the one hand, as well the stability of the internal and external value of the Denar and the more affluent supply of goods on the Macedonian market, on the other hand, large part of the population from the neighboring countries that live in the border areas have Denars that they use for purchasing goods in the Republic of Macedonia;

7. Existence of a significant scope of so called "gray economy". The cash is the most suitable means of payment that leads no trace when the economic agents are trying to hide part of their working activities in order to decrease the tax base, or in case when they perform certain illegal transactions. This phenomenon is present in the retail trade, where in order to avoid the recording of the part of the trade transactions, the payment is made with cash. The situation in this sphere is more serious if one adds the payments with foreign currencies to the amount of the cash transactions in Denars (the degree of "markization" and "dollarization" of the economy is about 30%), which is especially present in performing payments on higher amounts.

Within this factor one should take into account the additional work in the afternoon, which is more and more present in the economy because of the worsened living standard of the population in the Republic of Macedonia. Hence, in order to avoid any record and obligation to pay taxes, the payment of wages for this kind of work is almost completely paid in cash.

This problem also includes the working of the self-employed workers-owners (small craftsmen, shops and the micro-enterprises). These agents have drawing-accounts in the commercial banks. Having in mind the fact that the commercial banks have drawing accounts counters only in the bigger cities and in the headquarters, the owners of these accounts in most cases deposit the daily cash inflow on the counter of the Payment Operations Bureau, that is only one for clients from more cities. The same is the case when the economic agents should draw money from their accounts. This type of relations determines certain expenses for these economic agents as not sufficient utilization of the time, expenses concerning the security, etc. That creates initiative for the economic agents not to deposit their inflow as demand deposits, but rather to prefer keeping them in cash. This situation is encouraged by the intention to avoid payment of taxes and contributions. Because of these reasons, in practice, the accounts of these agents (as well as of many other smaller enterprises and firms) are almost always on "zero", except in the periods (days) of payment of wages and travel expenses, i.e. payment of taxes and contributions, when simultaneous daily inflow and outflow of the accounts occurs.

8. Low opportunity cost for holding wealth in a form of cash, which is a result of low nominal interest rates on demand deposits, as alternative form for holding liquid income. Due to inflation in the past, households (savers) in the Republic of Macedonia are used to high (double and more digit) interest rates, so that current demand deposits are considered as unattractive and non-worthwhile form of holding money in commercial banks (although, in developed countries on demand deposits either no interest rate is paid, or it is minimal). Namely, with stable inflation rate and low demand deposits interest rates (4.0% year per year), the lost income of invested assets in form of cash instead on giro account is relatively low in terms of advantages obtained from working with cash, such as high degree

of liquidity, possibility for cost-free transfers from one to another economic agents (which is the case with checks); maximum degree of anonymity, which makes cash an attractive form for financing illegal activities, and etc.

9. Cyclical moment is a factor that determines the composition of costs in the framework of households personal consumption, and consequently the currency in circulation velocity. From the economic theory it is known that responsitivity of various costs to real income level is different and has cyclic elements. Thus, during recession when economic agents income is drastically decreased, non essential costs are reduced to a minimum (purchase of expensive and luxurious commodities, such as houses, cars and etc., as well as costs for services), while purchases of vital products (usually goods with small value, such as food products etc.) are maintained to relatively unchanged level (in short term). Having in mind that for small value transactions cash is used with no exception, during recession the relative share of cash holdings in terms of other payment instruments holding (checks, credit cards etc.) is increased. In other words, low income determines the existence of demand for money as transaction medium (where cash dominates), instead as a financial wealth. At the same time, low income determines a low level of savings, which regarding the nonexistence of other financial instruments results in a long-term saving (time deposits and long-term securities).

Such a scenario is also typical for the economic environment in which Macedonian households work and spend in the last few years, meaning that cyclical moment is a significant determinant in households personal consumption composition. As result of this, in the choice of a liquid form of maintaining their funds (the so called portfolio structure) the economic entities prefer cash to non-cash payment instruments.

II. MEASURES FOR REDUCING THE SCOPE OF CASH TRANSACTIONS

Causes which determine high level of cash utilization in the every day practice of the economic agents and their high share in the money supply, simultaneously reveal the main directions for the economic policy measures to be focused, in order to reduce the cash based operations of the economic entities in the Republic of Macedonia. Some of the activities (measures) could be achieved in short term, while some of them are of a long term character:

1. To modernize bank services with full promotion of non-cash payment instruments, meaning more intensive use of checking accounts, credit and debit cards, installment of cash points, as some other financial innovations used in developed countries. In this context, several obstacles should be eliminated, such as:

a/ regarding the checking account practice, more elastic approach should be adopted in terms of their issuance, where the commercial banks interest would be protected by the penalty rate for the negative balances instead by the number of issued checks. This is necessary as in the present circumstances, the neat checking account users are forced to come too often at the commercial bank head office or in some of the few branches to obtain checks. In this regard, commercial banks should upgrade technical possibilities of branches in order to provide households with checks not only at the bank's head office, or at most in one or two branches in the central town area, as it is the case in the moment. Consequently, this would lower the costs for checking accounts users in terms of wasted time, travel costs, and etc., i.e. would stimulate more frequent utilization of checks as payment instrument for smaller amounts in the retail trade. At the same time, the check administration in other banks or post offices rather than the issuing one, should be on full amount, with no obstacles and regulated with mutual contract among these agents in order to eliminate provisioning of such services.

b/ regarding the payment cards, in the Republic of Macedonia there is a segmented approach, where each bank (few that have payment cards in their variety of non-cash instruments) participates in the market separately, with its own card and own contracted sites for card use. Such segmented approach has destimulative effects on the interested parties for cards utilization, as the number of enterprises involved in such "closed cycle" is relatively small and unattractive. According to that, a unified approach is needed, which will enable commercial banks with economized expenditures to have payment card, for domestic and international use, i.e. to be incorporated in the worldwide known EUROCARD or MASTERCARD systems. In other words, that is a precondition for increasing its attractiveness, i.e. increasing the households interest for card obtaining and utilization.

c/ recently in the Republic of Macedonia the first cash points were installed. Extremely low number of cash points (dispensers), as well as their allocation in the core center of Skopje and border zones, makes cash points not frequently utilized, as well as nonfunctional from the point of their purpose. Therefore, parallel with the efforts for payment cards promotion, the number of cash points at disposal to households should

increase, as well as their optimal allocation in terms of their allocation in larger suburbs of Skopje, and other towns in the country.

At the same time, the country openness to the rest of the world and developing correspondence relations of Macedonian commercial banks with high quality international financial institutions enables (and demands) more intensive and more complex practice of Macedonian banks with worldwide known and accepted credit cards and travelers checks⁴ (Visa, Diners Club, Tomas Cook, etc.). Currently, only few commercial banks in the country work with some of above mentioned credit cards, i.e. travelers checks;

2. *Change of legislative referring to cash usage and working.* Each more serious efforts for reducing cash usage as a transaction instrument in the Republic of Macedonia, underlines the need of revising the current legislative and its compliance with the current economic situation and international standards. With no intention this working material to elaborate on all needed adjustments in the legislative, we underline that following changes as most needed should be undertaken:

- First, to impose more restrictive limits (constraints) in terms of the amount used for cash transaction by legal entities.⁵ Simultaneously, it is necessary to predict (impose) and carry on penalty policy for non-compliance with this provision for not issuing certificates for cash transactions, as well as for non-compliance with all other situations determined by this legislation;

- Second, the possibility for obtaining cash by legal entities should be more precisely defined. Currently, it is de jure restricted with the cash in vault maximum which is predicted (determined) individually by every signal legal entity, and de facto, it is unlimited as under wages and travel costs (advances) it is obtained as much as wanted. A possible solution in this regard could be relating an obtained cash amount by legal entities with their financial performances;

- Third, a cash payment receipts by economic agents should be regulated as well as payment. Thus, a maximum amount should be foreseen for accepting cash receipts up to 1,000 Denars, with obligation next working day this amount to be transferred on economic agent account within the Bureau of Payment Operations;

- Fourth, a possibility for cash payments of wages and other personal payments (incomes) to be eliminated;

- Fifth, payment to agriculture producers for products purchase not to be in cash, but exceptionally through commercial banks, i.e. by transferring money to the checking (giro) accounts, and etc.

3. *Change of pension payments,* in terms of increasing payments through checking accounts up to a level such as in countries with modern banking systems. In addition, this

⁴ Some of these travelers checks and credit cards are already available for Macedonian households, although the scope of their utilization is still rather small.

⁵ According to the current regulation, a limit is prescribed only for cash payments for goods and services in Denar countervalue of DEM 200 (Denar 6,200 by the current exchange rate).

considers further diversification of banks' and postal' windows network in all larger residential places, as well as increasing the quality of banking services in this area;

4. *Payment system reform* which will increase the demand for demand deposits. Namely, with payment system reform, a change to a so called real time gross settlement system is expected. Accordingly, with this system payments could not be accomplished on basis of future incomes, as it has been practice up to now. This means a decrease in demand deposits velocity, i.e. increase in demand for demand deposits, and consequently, reducing the coefficient currency in circulation/demand deposits.

5. *Reducing the so called shadow economy* by enforced financial control, active engagement of fiscal policy, strict implementation of penalty provisions in this area, etc. The possibility of not recording certain transactions of doubtful character and the possibility for lowering the tax base, as well as payment for so called additional (secondary) afternoon work with cash are most significant factors for high degree of cash utilization in every day transactions in the country. This problem could be associated with other countries in transition, too, with difference in the intensity (lower or higher). In any case, overcoming, or more precisely, mitigation of this problem demands more complex activities of all relevant subjects in order to downsize unofficial transactions, as a one of main generators of cash transactions in the Republic of Macedonia.

6. *Revival of Macedonian economy* and overcome of long year recession, on permanent basis is the most important long term goal to which all macroeconomic measures should be focused. Besides, the importance of this goal in terms of increasing the households living standard, achieving this goal is relevant in regard to over utilization of cash in every day transaction, in terms of eliminating cyclic element of the distorted composition of consumption. This would create necessary preconditions for approaching the classical spectrum of household expenses, which means increased purchase of goods with larger value related to the current composition. That would lead to larger orientation of the economic subjects towards non-cash forms of payment (checks, credit cards, etc.) instead of the dominant use of cash as a means of payment. In this context, the Republic of Macedonia's exit from the zone of recession movements in 1996 (positive real growth rate of GDP of 0.7%), continuation of the positive movement in 1997 (GDP growth of 1.5%) as well as the intensive growth of the industrial production in the first four months of 1998 (11.2%) reflect acceleration of the economic activity and an upwards direction of the Macedonian economy.