

LEGAL AND INSTITUTIONAL FRAMEWORK OF THE DEPOSIT INSURANCE SYSTEM IN THE REPUBLIC OF MACEDONIA

Abstract

The main purpose of this paper is to analyze the Macedonian legal and institutional framework on the deposit insurance system. The paper consists of the following five sections:

- 1.Introduction;
- 2.Institutional structure of the Deposit Insurance Fund of the Republic of Macedonia;
- 3.International legislation – Deposit Guarantee Schemes Directive of the European Union;
- 4.Legal framework of the deposits in the Republic of Macedonia vis a vis Deposit Guarantee Schemes Directive of the European Union; and
- 5.Conclusion.

In the introduction, we define the term “risk” according to the Banking Law of the Republic of Macedonia and the Decision on risk management, established by the National Bank of the Republic of Macedonia (NBRM). We also explain the reasons that produce the systemic risk.

In the second part “Institutional structure of the Deposit Insurance Fund of the Republic of Macedonia”, we explain the reasons for the creation of this Fund, as well as its organizational structure today.

In the third part “International legislation – Deposit Guarantee Schemes Directive of the European Union”, we analyze in detail the legal framework of the European Union that regulates the issue of the deposit insurance system in its Member States - the Deposit Guarantee Schemes Directive of the European Union.

In the fourth part “Legal framework of the deposits in the Republic of Macedonia vis a vis Deposit Guarantee Schemes Directive of the European Union”, we analyze the legal framework regulating the deposit insurance system in our country. It is compared with the Directive of the European Union for Deposit Guarantee Schemes, in order to see what we have implemented of this Directive. In addition, we suggest what measures should be taken in future in order to harmonize the Macedonian legal framework of deposit insurance system to the law of the European Union.

In the fifth part: "Conclusion", we provide the basic conclusions resulting from our paper.

We expect this paper to allow the drawing of a clear picture of the position of the current Macedonian legal system for managing systemic risk in the banking sector, as well as the deposit insurance

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system. We also offer specific guidance on the direction in which it should develop in future.

Keywords: *deposit, directive, insurance, risk, bank, fund, deposit insurance.*

1. Introduction

In literature, the term “risk” indicates the opposite of the notion of profit. We may explain it symbolically as a coin with two sides – the first one is profit and the other one is risk. It is a question of the existence of uncertainty in providing of profit or the state of uncertainty to achieve the desired results of any action. In this particular case, it indicates the uncertainty related to the commercial banks.

There are in theory countless definitions of the term “risk”. Therefore, the possibility of absolute or relative loss in terms of expectations is called risk.² The term “risk” is defined as uncertainty that is associated with expense, loss or any damage.³ The term “risk in finance” is the potential financial loss from trading or from the investor's portfolio over time.⁴ The risk is a threat that an event or activity will affect someone, contrary to the bank's ability to maximize profits and to achieve goals.⁵

According to our legal system, the term “risk” in banking operations is an activity or event that has a direct negative impact on the bank and/or the underlying assets. Therefore, it results in difficulties in achieving its goals.⁶

Namely, in order to manage successfully the risks to which commercial banks are exposed to in their operations, the National Bank of the Republic of Macedonia, as a central financial institution in the country, provided the legal framework for managing different types of risks. In that way, it firstly defined the term of risk in banking and then it explained the types of risks that commercial banks face daily. Beside the Law on the National Bank of the Republic of Macedonia and the Banking Law, which are the key acts and a central pillar of the Macedonian legal banking system, the basic bylaw in this segment provided by the National Bank of the Republic of Macedonia is the Decision on risk management in banking.

Therefore, according to chapter 2, paragraph 3 of the Decision on risk management, all risks under our regulations are grouped into two groups - measurable and immeasurable risks. The basic criteria for this

²*Oxford Dictionary of Finance and Banking* (2005), Oxford University Press, 2005, p. 357.

³Hoffman S. L. (2001) *The Law and Business of International Project Finance*, Second Edition, Transnational Publishers, Inc. and Kluwer Law International, p. 96.

⁴Dempster M. A. H. (2002) *Risk Management: Value at Risk and Beyond*, University of Cambridge, Cambridge University Press, 2002, p. 1.

⁵Darlington A., Grout S, Whitworth J. (2001) *How safe is safe enough – An introduction to risk management*, The Staple Inn Actuarial Society, p. 3.

⁶National Bank of the Republic of Macedonia, “Decision on the risk management”, *Official Gazette of the Republic of Macedonia* No. 42/2011, March 31, 2011.

division is whether the impact of these risks on the profit and the bank's own funds can be measured (measurable risks) or it is based solely on assessment (immeasurable risks).

Therefore, certain types of risks that are covered, i.e. defined in the normative framework in the Republic of Macedonia are the credit risk, liquidity risk, market risk, currency (foreign exchange) risk, interest rate risk, operational risk, legal risk, country risk, reputational risk and strategic risk.

In theory, the mentioned risks in our legislation are grouped in different ways. What is common in these titles is that they categorize the risks into three groups, as follows:

- Financial risks include the credit risk, liquidity risk and market risk consisting of currency (foreign exchange) risk and interest rate risk;
- Operational risk includes: legal risk, risk of money laundering and terrorist financing as well as risk of non-compliance of information systems;
- Strategic risk covers political risk or country risk and reputational risk.

Regardless of the way in which we group certain types of risks, the fact remains that the essence of banking is not only taking deposits and extending credits, but also collection and processing of information that are important and used in order to manage risk in the commercial banks. Therefore, the commercial banks in the modern banking institutions take risks in order to make profit. Their success or failure depends mainly on the competence of management or the organizational structure of any bank, i.e. their ability to identify and quantify certain risks, establish a system for their control and implement an appropriate strategy with the ultimate goal to maximize profits at an acceptable level of risk.

The world economic (financial) crisis is an excellent example of the fact that poor risk management can lead even to the bankruptcy of the entire banking system of a country. Given the fact that the world economic (financial) crisis produced a systemic risk, we can see the prevention of this risk in the special section that includes the European Union Directive on Deposit Guarantee Schemes.

2. Institutional structure of the Deposit Insurance Fund of the Republic of Macedonia

After the monetary independence of the Republic of Macedonia, the need to introduce a system of deposit insurance arose. It resulted from the problem of payment of the so-called "frozen" foreign currency deposits, because of the restructuring of the banking system as well as the insolvency of the banking sector, which resulted in sharp loss of confidence in the domestic financial system. Because of all of that, the special Fund was institutionalized. Its basic task was and still is providing adequate protection of deposits in banks and savings banks. In 1996, the amendments of the Law on the National Bank of the Republic of Macedonia required the commercial banks to create a Fund for insurance savings.

The Fund was established in January 1997 under the name "Savings Deposit Insurance Fund Inc., Skopje", pursuant to the then valid Banks and Savings Houses Act. The Fund was established as a limited company, run by 17 banks and 15 savings banks. However, in this period happened the scandal of the saving house - "TAT" from Bitola, where the depositors lost over 100 million German marks. This is a typical example of destroying the trust of the citizens in the Macedonian banks and savings banks or, in other words, the emergence of systemic risk in the Macedonian economy. Because of this event, in July 2000 our country adopted the Law on Deposit Insurance Fund and, since March 2001, the Fund is a state institution named "Deposit Insurance Fund Skopje", a legal successor of the "Savings Deposit Insurance Fund Inc., Skopje".⁷

Today, the Deposit Insurance Fund in the Republic of Macedonia comprises of 16 banks and 8 savings houses.

The institutional structure of the Deposit Insurance Fund in the Republic of Macedonia consists of the Managing Body that counts five members. Among these, three members are proposed by the Minister of Finance of the Republic of Macedonia, one member is proposed by the Governor of the National Bank of the Republic of Macedonia, and another one by the Banking Association. The Government of the Republic of Macedonia appoints the Managing Board members and the Government of the Republic of Macedonia appoints the Fund's Director.⁸

The resources of the Deposit Insurance Fund amount to at least 4% of the total deposits in the banks, foreign bank branches and savings houses in the Republic of Macedonia. The resources of the Deposit Insurance Fund imply the funds from the accounts of the Fund in the National Bank of the Republic of Macedonia, the funds from the accounts of the Fund in commercial banks, the funds invested in securities and the funds invested in financial derivatives.⁹

The resources of the Deposit Insurance Fund are composed of the founding capital, collection of premiums for insurance of deposits and revenues from investments. The resources of the Deposit Insurance Fund might be invested in:¹⁰

- ✓ Securities issued by the Republic of Macedonia and the National Bank of the Republic of Macedonia with a due date up to six months from the moment the Fund has purchased them;
- ✓ Debentures issued by foreign countries, central banks or public international financial institutions, rated in at least two internationally acknowledged agencies for credit risk assessment, with one of the two highest grades, up to the level of insured foreign currency deposits;
- ✓ Futures, options and forward contracts with deposit institutions rated by at least two internationally acknowledged agencies for

⁷<http://www.fodsk.org.mk/eng/profile.asp>

⁸<http://www.fodsk.org.mk/eng/managing.asp>

⁹Law on Deposit Insurance Fund, *Official Gazette of the Republic of Macedonia*, No.63/2000, 29/2002, 43/2002, 49/2003, 66/2003, 81/2008, and 158/2010, Article 5.

¹⁰Law on Deposit Insurance Fund, *Official Gazette of the Republic of Macedonia* No.63/2000, 29/2002, 43/2002, 49/2003, 66/2003, 81/2008, and 158/2010, Article 6.

credit risk assessment with one of the two highest grades, up to 2% of the resources of the Fund.

The resources from the Fund can be used only for reimbursement of the insured deposits and for coverage of operational costs of the Deposit Insurance Fund.

From the establishment of the Deposit Insurance Fund until May 31, 2012 - a period of 15 years of the existence of the Deposit Insurance Fund in the Macedonian environment - 10 risk events have occurred among the Fund's members i.e. 4 banks and 6 savings houses. To the Fund, this meant a potential liability for savers' reimbursement in a total amount of 1.5 billion denars. Most of that (86.68%) or 1.3 billion denars of the total liability amount is the calculated reimbursement for the savers of the Macedonian bank AD Skopje under liquidation. With its own sources of funds, the Deposit Insurance Fund managed to reimburse (up to the total deposits by bearers, within the legal framework) all the savers that showed up at the premises of the paying-banks and that have chosen the way they want to dispose with their own resources from the reimbursement. Until May 31, 2012 from the total number of savers of 121,887 of 10 members of the Deposit Insurance Fund where a risk event occurred, 20,825 savers have been reimbursed up to the amount of 1.4 billion denars. From the total number of savers, 17.08% have been reimbursed, but from the total amount of calculated reimbursement in denars, 93.74% has been carried out. The difference to the total reimbursement amount mostly refers to savers with small balance accounts (between 100.00 and 1,000.00 denars), as well as to a small group of savers from the Macedonian bank under liquidation with large balance accounts, which, from the beginning of its reimbursement period until now have not chosen the way they want to dispose with their outstanding claims from the Deposit Insurance Fund by virtue of reimbursement.¹¹

3. International legislation – Deposit Guarantee Schemes Directive of the European Union

The systemic risk¹² actually means that the failure of a commercial bank can result in a collapse of the entire banking system. In order to prevent its occurrence, in practice the banks provide liquidity amid the financial crisis by the Central bank or they have a deposit insurance system and prudential regulation and supervision.¹³

The systemic risk in the banking business was registered in the past, but the world economic (financial) crisis where its presence was evident is still fresh in our memory. In order to protect the banks from the collapse of the banking system, the European Union adopted a number of measures, rules, standards, guidelines, etc. One of them is particularly associated with systemic risk, i.e. concerning the prevention

¹¹<http://www.fodsk.org.mk/eng/payment.asp>

¹²Kern A., Rahul D., Eatwell J. (2006) *Global Governance of Financial Systems: International Regulation of Systemic Risk*, Oxford University Press 2006, pp. 14-34.

¹³Janssen S. (2009) *British and German Banking Strategies*, Palgrave Macmillan, p. 243.

of this type of risk is exactly the Directive of the European Union for Deposit Guarantee Schemes.

The Deposit Guarantee Schemes Directive¹⁴ was first adopted in 1994, in order to protect the small depositors (savers) and their deposits and to discourage the banks in the Member States of the European Union that had an obligation to provide minimum depositary insurance fund of EUR 20,000, funded by the banks. The minimum fund had optional 10 percent (10%) coinsurance that included foreign exchange deposits. Under this Directive, the branches located outside the host country can also work under the scheme of the host and otherwise are under the jurisdiction of the home state. The host country decided whether to join the branches from countries that are not members of the European Union.

The world economic (financial) crisis and the systemic risk that was its product imposed the need to change the existing Directive, in particular the previously prescribed level of coverage and the period for compensation to depositors of the bank fallen into crisis. Therefore, on July 12, 2010 the European Commission adopted a legislative proposal for a new Directive for Deposit Guarantee Schemes.¹⁵ The emphasis was placed on harmonization (alignment) and simplifying the procedure for deposit insurance, their faster payment and improved financing schemes.

This deposit guarantee scheme is a kind of safety net for bank account depositors (savers) in the event of bank failure, which serves to compensate for the account of clients (depositors) of the bank up to a certain level of coverage. This enhances the confidence of depositors and ensures a long-term financial stability.

The Deposit Guarantee Schemes Directive, adopted in March 2009, imposed the rule according to which the coverage of deposits increased from the minimum level of at least EUR 20,000 to EUR 50,000 by June 2010 and rise to the level of EUR 100,000 by the end of 2010. The deposits covered by these schemes apply to all accounts a holder (individual) has on its account in the same bank, but also protects all deposits held by individuals and small companies (legal entities) in all currencies. Until the adoption of the new Directive, the period for compensation to depositors was 3 months in case of failure of the bank. However, by the end of 2010, the legally prescribed period was 7 days.

¹⁴European Parliament and Council Directive 94/19/EC on Deposit-Guarantee Schemes, *Official Journal of the European Communities*, May 31, 1994, L135/5, p. 5.

¹⁵See: European Parliament and Council Directive, 2009/14/EC amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay, *Official Journal of the European Union* L 68/3, pp. 1-5; Eisenbeis R. A., Kaufman G.G. (2007), *Cross-Border Banking: Challenges for Deposit Insurance and Financial Stability in the European Union*, Federal Reserve Bank of Atlanta, Working Paper 2006-15a, January 2007, pp. 13-25; Hardy D. C., Nieto M. J. (2008) *Cross-Border Coordination of Prudential Supervision and Deposit Guarantees*, IMF WP/08/283, pp. 3-23; Fonteyne W., Bossu W., Cortavarria-Checkley L., Giustiniani A., Gullo A., Hardy D., Kerr S. (2010) *Crisis management and resolution for European banking system*, IMF WP/10/70., pp. 16-17.

In addition, in order that these schemes for deposit insurance have sufficient funds to reimburse depositors in such an undesirable scenario, the commercial banks under this Directive will have to pay regular contributions and these ex-ante funds will make up 1.5% of the insured deposits in the scheme. These new funding rules will ensure that each scheme has sufficient resources to deal with bank failure. Banks with higher risks will pay higher contributions to schemes in comparison with those banks that will operate successfully.

According to the new supervisory structure, the European Banking Authority will facilitate the functioning of the schemes for deposit insurance. Therefore, the European Banking Authority will be included in the stress tests and review the schemes, in order to help overcoming possible objections and provide a consistent assessment of contributions based on the risk of each commercial bank.

The Member States of the European Union had to pass laws in accordance with this Directive of the European Parliament and the Council before the end of 2012. In 2013, the 7 days period for payment to depositors enters into force, while the year 2027 is the time of the entry into force of the improved funding mechanism, which should be achieved in all Member States in the European Union until then.

4. The legal framework of the deposits in the Republic of Macedonia vis a vis Deposit Guarantee Schemes Directive of the European Union

After (we can say) the “horrrifying” episodes of savings and loss of trust in the banking system, the Republic of Macedonia created the Deposit Insurance Fund, which is a state-owned body protecting small depositors and covering only household deposits. Pursuant to the Law on Deposit Insurance Fund, subject to insurance in the Fund are the following deposits of depositors-physical persons:¹⁶

- denar and foreign currency deposits and transaction accounts of physical persons in banks, foreign bank branches and savings houses established in the Republic of Macedonia;
- deposits related to payment cards issued by banks and foreign bank branches established in the Republic of Macedonia; and
- foreign currency inflows of physical persons in banks and foreign bank branches established in the Republic of Macedonia.

From the date of accession of the Republic of Macedonia to the European Union, the deposits of the legal entities considered as small-scope commercial entities in accordance with the Company Law will also be insured.

According to the Law of Deposit Insurance Fund of the Republic of Macedonia, the Fund shall not reimburse the following deposits:¹⁷

- deposits of depositors extended under privileged interest terms, other than the ones published by the bank, foreign bank branch or the savings house;

¹⁶ <http://www.fodsk.org.mk/eng/depins.asp>

¹⁷ <http://www.fodsk.org.mk/eng/depnot.asp>

- deposits of depositors owners of over 5% of the voting shares in a bank, foreign bank branch or savings house;
- deposits of members of managing bodies of the bank, foreign bank branch or savings house;
- deposits of family members of direct lineage of first degree of the persons referred to in items 2 and 3, spouses and children; and
- deposits related to transactions used for money laundering if the perpetrator has been convicted and the sentence is effective.

In case a depositor has liabilities toward the bank, foreign bank branch or savings house, the total amount of the deposits of the depositor will be reduced by the amount of the liabilities of the depositor toward the bank, foreign bank branch or savings house. In cases of joint deposits, the shares of the depositors are considered equal, unless otherwise regulated with a contract.

As we can see, the key legislation that builds the legal framework in our country on the issue of protection of bank deposits is the Law on Deposit Insurance Fund.¹⁸ Its goal is to contribute towards increasing trust in the banking sector and provide legal protection to depositors in banks, branches of foreign banks and savings. Insuring the deposits in banks, foreign bank branches and savings houses, the Deposit Insurance Fund contributes to provide stability and public trust in the banking and financial system of the country. According to this Law, banks and savings banks in the country that have received permission from the National Bank of the Republic of Macedonia to collect deposits must be members of the Deposit Insurance Fund. Therefore, they have an obligation arising from this Law to insure the deposits of individuals that will be reimbursed together with interest accrued contractual funds.

The deposit insurance system of the Republic of Macedonia has applied coinsurance of 10 percent until 2010. By the end of 2010, the Deposit Insurance Fund had a duty to indemnify depositors faced with financial loss of their deposits later than 3 months after the period of suspension of the license for the bank as follows: 100% of the amount to EUR 10,000, and 90% of the amount between EUR 10,000 and EUR 20,000. With the amendment of the Law on Deposit Insurance Fund of 2010, coinsurance was excluded. The amendments to the Law of December 17, 2010 replaced the two levels of compensation with introducing compensation of all deposits of physical persons amounting to EUR 30,000. In addition, a change was made in the period in which savers can again dispose of its assets, which meant giving the obligation of the Deposit Insurance Fund to start the reimbursement of the insured deposits of individuals within 20 days after the day the decision of the Governor of the National Bank of the Republic of Macedonia becomes final.¹⁹

We evaluate positively the above amendments that were adopted in the conditions of the world economic (financial) crisis, as they theoretically lead to an increase of the volume of bank deposits and the rate of their growth. However, at that time, in the Republic of Macedonia

¹⁸Law on Deposit Insurance Fund, *Official Gazette of the Republic of Macedonia* No.63/2000, 29/2002, 43/2002, 49/2003, 66/2003, 81/2008, and 158/2010.

¹⁹<http://www.fodsk.org.mk/eng/guarant.asp>

there were circumstances of withdrawal of the deposits from domestic commercial banks, resulting from the financial crisis and tightening of bank investment in loans. By contrast, today these two categories tend to grow constantly.

The changes in deposit insurance can affect the moral hazard problem, the premium assessment base and the potential financial commitment of the deposit insurance institution. The changes in the deposit insurance regulation of the Republic of Macedonia did not affect the premium assessment base, but the potential financial obligation of the deposit insurance institution was increased. Regarding the moral hazard problem mitigation, the Deposit Insurance Fund in our country should consider risk-based premium introduction.

In future, due to the entry of the Republic of Macedonia into the European Union and the adoption of the Deposit Guarantee Schemes Directive, we will have to harmonize the legal framework for insurance of deposits. In other words, we will have to provide the amount of compensation to EUR 100,000 and we believe that the Macedonian banking system is still not ready for that. In fact, such a move would create a risk of moral hazard in commercial banks and it will reduce the competition. Therefore, we may expect worsening of their activities, as the depositors in the country will find it no matter in which commercial bank they will save. As their reliability funds will be fully refunded, depositors will invest in those institutions that offer the most favorable conditions, whether taken with the highest risk or not. For these reasons, we believe that the optimal situation is reversed - through deposit insurance up to a certain amount, but not entirely, as is the current solution in the Republic of Macedonia.

Also, the positive solution of the Macedonian legislative framework is the legal change that shortens the period of the reimbursement of deposits (from 3 months – to 20 days), but in order to harmonize with the Deposit Guarantee Schemes Directive of the European Union, the period of reimbursement will not exceed 7 days.

From the date of accession of the Republic of Macedonia to the European Union, the deposits of small-scope commercial entities shall also be insured. We believe that it is not a proper legal decision and, therefore, we propose amendments to the existing Law on Deposit Insurance Fund, in which the savings of small-scope commercial entities would be included now or in the near future, until the Republic of Macedonia becomes a Member State of the European Union.

Also, our criticisms are aimed at the legal separation solutions for the high premiums by the commercial banks in respect of insurance on savings deposits to Deposit Insurance Fund. We argue in favor of its faster charging with funds to the account of the fact that these allocations are useless for commercial banks, i.e. they do not bear interest and are non-refundable expense in their income statement. For these reasons and in order to comply with the European Union Directive for Deposit Guarantee Schemes, we propose the creation of a scheme under which the commercial banks will have different costs in this respect. These would be based according to their results, liquidity, and solvency, with those commercial banks that have higher scores would paying lower premiums than the commercial banks that are working with higher risk and that have worse outcomes. Therefore, the Deposit Insurance Fund

will contribute to the strengthening of the discipline of the banking system and reducing the moral hazard problem, while increasing the citizens' confidence.

Speaking of confidence, the European Union Directive for Deposit Guarantee Schemes significantly emphasizes the transparency in the operations of the institutions. Therefore, we recommend a higher transparency in the operations of the Deposit Insurance Fund of the Republic of Macedonia, so that it will publicly announce the rates of premiums that individual banks borrow. It can also increase the powers of the Deposit Insurance Fund, as it would allow that, besides the supervision of banks that implement the National Bank of the Republic of Macedonia, the Deposit Insurance Fund carries out control in the commercial banks, in order to protect the insured citizens of the Republic of Macedonia. Moreover, if it finds the business of a commercial bank risky, the Deposit Insurance Fund can take preventive measures to prevent an individual or a systemic banking crisis.

5. Conclusion

The world economic (financial) crisis was a clear signal that reforms in the global financial architecture are necessary, particularly in the enhancement of the international financial regulation and supervisory standards.²⁰ Finally, on June 6, 2012, the European Union adopted a framework that includes new management measures for preventing future banking crises.²¹ This common framework consists of rules and powers that should help Member States of the European Union to prevent unfavorable situations, i.e. to intervene appropriately in order to manage prudently the banks that face difficulties in their daily operations. The system requires prevention of all major banks that have to prepare plans for recovery. If the financial condition of the bank deteriorated and it could not be improved, the proposal ensures that the functions of the bank can be saved, while the bank's owners and creditors bear the costs of restructuring and resolving the failing banks, instead of the taxpayers, as it was the case before. Under this framework, the supervisors will have the power to appoint a special manager in the bank for a limited period, in case there is a significant deterioration in the financial condition and the prescribed measures and tools are not sufficient to remove the unfavorable situation.

The main duty of the manager will be to recover the stable financial position of the bank and to manage prudently its business. In order to deal with the risk faced by the banks operating in different Member States of the European Union, the framework enhances cooperation between the national supervisory authorities in the preparation phase and determines the measures to be taken and possible intervention. This framework is scheduled to come into force at the beginning of 2015, after which the Member States of the European

²⁰Mayes D.G., Wood G.E., (2007), *The Structure of Financial Regulation*, Routledge International Studies in Money and Banking, 2007, pp. 264-296.

²¹See: European Commission, (2012), "New crisis management measures to avoid future bank bail-outs" ([IP/12/570](#)), Brussels, 6 June 2012; http://ec.europa.eu/internal_market/bank/crisis_management/index_en.htm (MEMO/12/416).

Union will have to implement it. The Republic of Macedonia will also have to make changes in its legal framework in order to incorporate all suggestions indicated in the Directives of the European Union.

Otherwise, a well-prepared legislation that would be consistently implemented in practice is an extremely important assumption and a framework for prudent risk management in the banking sector. Therefore, we propose this work, which includes the study of the overall legislation of the Republic of Macedonia and the European Union in the field of managing systemic risk in the banking sector and the practical results of its implementation, in order to understand the real situation in this area and make suggestions for its improvement.

It should be noted that at present the Republic of Macedonia has a solid framework, which is a good basis for dealing with systemic risk. However, in the future period, we will have to take serious and comprehensive efforts to harmonize the Macedonian legislation with the legislation of the European Union, especially in the direction of full acceptance and implementation of the Directive of the European Union for Deposit Guarantee Schemes.

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