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THE IMPACT OF PANDEMIC CRISIS ON THE FINANCIAL STABILITY OF THE BANKING SECTOR IN REPUBLIC OF NORTH MACEDONIA

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ABSTRACT

The pandemic crisis, even though primarily is a health crisis, of course it affected the whole economy and especially it impacted the banking sector. This shock to the banking industry and the economy came as a result of a combination of several factors, the pandemic and the governmental and social responses to it. More specifically, the research is concerned on how the pandemic crisis affected the financial stability of the banking sector in North Macedonia by analyzing four financial indicators, capital adequacy ratios, non-performing loan ratios, return on average equity and liquidity indicators and by comparing these with the financial indicators in Italy, being one of the countries which was hit the hardest during the beginning of the crisis. It further focuses on the measures undertaken by the National Bank of North Macedonia and whether these measures have had an impact on remaining financial stability, as well as, whet the role of the banking sector in the recovery of the economy is.

KEYWORDS

FINANCIAL STABILITY, PANDEMIC CRISIS, BANKING SECTOR, FINANCIAL INDICATORS

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1.INTRODUCTION

The pandemic crisis, even though it started as a health crisis, the government measures in order to contain the virus and not let it spread such as lockdown, moving restrictions and reduction in working hours or complete shut-down on some sectors of the economy, led this health crisis to become a financial crisis.

Banks throughout the world, entered this crisis more stable and more resilient than they entered the global financial crisis, since over the years, banks started to significantly increase their capital buffers which led them to have stronger capital levels and be able to support the economy during these hard times, and provide loans at more convenient terms to the affected sectors.

Banking system in North Macedonia was very stable and solvent, since banks had high capital adequacy ratios and high liquidity which were crucial to protect against the negative consequences that might be caused by any unexpected turn of events such as the COVID-19 pandemic outbreak. The effects of the pandemic crisis on the banking sector were not felt so much in the beginning of the outbreak and the crisis did not have a very big impact on the financial stability of the banking sector in 2020. However, the negative effects are expected to be felt more in the upcoming periods in terms of reduced profitability and increase in the non-performing loans. The capital adequacy ratio and the non-performing loans indicators in North Macedonia were compared with these indicators in Italy as one of the countries hit the hardest during the beginning of the pandemic.

The financial markets and banking sector were very important to ensure cash flows and support the real economy. Since banks in North Macedonia are the major financial intermediaries, the National Bank responded very quickly ever since the beginning of the pandemic by undertaking several measures to raise liquidity for the banks in order them to provide credit at more favorable terms to support the affected sectors. Banks have a crucial role in helping the economy revive by increasing loans to the customers hit by the crisis, but in doing so the concerns that the borrowers will not be able to return the loans in the future periods increased as well.

2.FINANCIAL STABILITY OF THE BANKING SECTOR

The financial sector is very important because it plays a crucial role in the economy, since it ensures the flow of funds from savers to investors. This is very important, because by ensuring financial intermediation the investors who lack the necessary resources, now will be able to obtain the funds and in this way the financial institutions channel savings into investments, thereby supporting innovation and economic growth. The financial sector needs to be stable in order to be able to function properly.

Financial stability refers to the case when the whole financial system, the financial institutions and financial markets are stable, meaning that they are resistant to economic shocks and are fit to continue smoothly fulfilling its basic functions. Maintaining financial stability essential for the healthy development of the economy in one country and in order to maintain price stability, or else there will be heavy consequences for the economy, since because if the price volatility in the financial market increases, financial institutions might collapse and corporations can go bankrupt.

Banking industry financial stability is a situation when banks are sound enough to carry out their financial intermediation function adequately on their own, without assistance from any external institutions. In Europe, as well as, in North Macedonia, banks are considered to be the main financial intermediaries, and therefore it is important for the countries to have an efficient activity of the banking sector, as a main factor of maintaining stability. The most important task of the national bank and banking supervision authorities is to ensure financial stability of the state banking system.

In order to promote and preserve stability in the banking sector, the supervisor authorities encourage banks to manage their risks appropriately, in order to ensure that proper safeguards are put in place to limit their vulnerabilities. The capital base of the banking sector, with capital adequacy ratio at 16.5% in 2018, and 16.3% in 2019, indicates that the banking sector had capacity and was stable, making it quite resilient to external shocks.

2.1 Impact of COVID-19 on the economy

What distinguishes the pandemic crisis from other financial crisis that have happened in the past is the fact that it didn’t originate from failures of the financial system or the economic system, but from a combination of the pandemic, governmental and social responses to it which resulted in shocks to the supply and demand, have affected sectors of the economy in a highly unusual way. The Covid-19 crisis, even though is a health crisis, of course it has an impact on the whole economy and on the banking sector. This shock, the outbreak, the new measures taken by the governments around the world in order to contain the virus, and not let it spread have affected individuals, businesses and have created disruptions in almost all of the worlds' economies, since this induced a sharp decline in economic activity and a surge in job losses. As a result of the undertaken measures, many businesses were required to either work with reduced hours, completely shut down for a defined period, or try and adopt their business activities to this new situation. Firstly, there was a slowdown of the business activities and companies started to have lower revenues, and therefor lower profit, while they continued to incur costs.

In order the whole economy not to crash, all affected countries started to undertake initiatives and implement several programs such as business grants, tax cuts, wages subsidies and put measures to incentivize banks to increase firms access to credit, make them more easily available to small businesses and have more favorable terms.

2.2 How did banks around the world enter the Pandemic crisis?

The banking industry it is indirectly affected, but this sector is very crucial to help the economy survive, for example, by providing loans to businesses that have suffered. Banks entered into the pandemic crisis with a Tier 1 capital ratio much higher than before, when they entered the global financial crisis. The global financial crisis taught the banks a lesson, and they started to increase their capital buffers. As a result of this, banks entered this period of pandemic crisis more resilient and due to the strong capital levels which allowed them to support the economy during by providing loans during these times of distress. In Europe the majority of the largest banks are well capitalized, where 84.5% of the banks have Tier 1 capital ratio higher than 13%. The financial sector in North Macedonia is resilient to the crisis. Most of the banks have high capital adequacy ratios and high liquidity to weather the crisis. The National Bank on North Macedonia ever since the beginning of pandemic crisis took different measures, to allow and encourage banks to restructure loans temporarily, extend the period for which a loan would be considered non-performing and by giving grace periods for the newly approved loans in order to easing the situation for the borrowers. The system was prepared to deal with the corona crisis due to prudent regulations of financial regulators, largely harmonized with the European regulations, which have contributed to the system being able to cope with the shock caused by this pandemic.

3. INDICATORS OF FINANCIAL STABILITY IN THE BANKING SECTOR

Some of the indicators used in assessing the soundness of the banking system are the ratio of non-performing loans to total loans, the capital adequacy ratio (CAR), the average return on equity (ROE) and liquid assets to total assets.

Non-performing loans. In a banking system with traditional activities, such as in North Macedonia, the loan portfolio has a crucial role, because loans are the main source of bank's revenues, but at the same time they can be the main loss generator for banks, so it is very important for banks to ensure the quality of the loans, because problems in the loan portfolio result in problems in all the other areas of the bank's operations such as low profitability, liquidity problems or use of capital to cover credit losses. Non-performing loans are the most essential part of loan portfolio which have direct implications for the profitable and solvent position of the banks. (Jolevski, 2017). Banks use the NPL ratio to measure how effectively the bank is receiving repayments on its loans. The NPL ratio is calculated by dividing the amount of nonperforming loans and the total loans that the bank has issued. When the ratio is higher, it means that the quality of the assets it is not good and there is higher expected losses. In order a loan to be considered non performing, is when the installment and interest rate are not paid within a period of 90 days. The reason why this period is taken into account when calculating non-performing loans is that the chances of loan repayment decrease significantly after 90 days, which is why this period is used to identify if a loan becomes non-performing. Loans become non-performing when a borrower defaults on the loan, meaning that the borrower fails to pay back the debt according to the initial arrangement, several installment payments have been missed over a period of time or when the borrower declares bankruptcy or loses the income he/she needs in order to repay the debt.

Capital adequacy Ratio. The capital adequacy ratio or the regulatory capital ratio is a measurement of a bank's available capital which is expressed as the percentage of a bank's risk-weighted credit exposures and it Is used to protect depositors and promote stability and efficiency of financial systems (Hayes, 2020). When calculating the CAR ratio both Tier 1 and Tier 2 capital are included. The capital adequacy ratio is very important, since it ensures that banks have the ability to handle external shocks and have the capacity to absorb a reasonable amount of losses before it becomes insolvent and consequently lose the depositor's funds. Banks need to have sufficient capital in order to be able to absorb any losses that might result from the risks with which the banking system is faced. This ratio ensures the efficient stability of the banking system by lowering the risk of banks becoming insolvent. If a bank has a good capital adequacy ratio, it means that it has enough capital to absorb future potential losses. When the ratio is higher it means that there is a higher degree of protecting the depositor's assets. High capital adequacy ratios are considered to be the ratios which are above the minimum requirements under Basel II and III, which are 8% and 10.5%. This indicator is very important for judging the strength and soundness of the banking system. Banks with reasonable capital adequacy ratios can absorb the unexpected losses easily without it affecting the performance of the bank. Tier 1 Capital ratio measures only the bank's core equity capital which is compromised of the bank's common stock, retained earnings and noncumulative perpetual preferred stock against its total risk-weighted assets. Tier 1 capital is consisted of common equity tier 1(CET) which includes common shares, stock surpluses, retained earnings and of additional Tier 1 capital which includes instruments that are not common equity such as contingent convertible or hybrid security. (Grant, 2020)

Return on Average Equity. The return on equity (ROE) is an indicator of banks' overall profitability. It relates the banks' net income to total capital. A high ROE suggests that banks are in a good position to increase their capital buffers. This ratio measures how well a bank's management is using its capital to create profits and provides useful insights into the financial health and the overall performance of the banking sector. This FSI provides an average income that can be used to cover losses in relative to capital (Kozaric and Zunic, 2014, p.62). This ratio is calculated by dividing the net income and the shareholder's equity ending value on the balance sheet, however this might not accurately reflect the actual return over a period of time since it might include last minute stock sales and dividend payments. As explained by Investopedia (2020), the return on average equity as an adjusted version of ROE can provide a more accurate picture of the profitability especially if the value of shareholders' equity has changed during the fiscal year since it takes into consideration the average return of the equity at the beginning and end of the year. In case the shareholders' equity doesn't change or changes very little during a fiscal year then the ROE and ROAE will be very similar.

Liquid assets to total assets and liquid assets to short-term liabilities. This ratio is a liquidity ratio and it is an indicator that measures the available liquidity of banks to meet expected and unexpected demands for cash. This indicator tells the percentage of the assets which are highly liquid in relation to the total loans. A high level of liquidity suggests that the deposit taking institutions are able to withstand shocks to their balance sheets. The liquid assets to short-term liabilities ratio measures the ability of the banking system to cover their short-term obligations which include deposits and other liabilities with a contractual maturity of one year or less.

4. SAMPLE DATA AND METHODOLOGY

For the purpose of understanding the impact of the pandemic crisis on the financial stability of the banking sector, financial indicators were analyzed, the capital adequacy ratios, non-performing loans, liquidity ratios and return on average equity. The data used are secondary, in this case financial indicators, published by NBRM, Bank of Italy and IMF, which were obtained from annexes given in Excel, made available in their websites. The obtained data were used to create charts, in order to better follow how these indicators changed during these years. The indicators were analyzed quarter to quarter to see for how much they increased or decreased, as well as be compared with the adequate quarters of 2019, just to have a better understanding on how the pandemic crisis affected these indicators in 2020.By using a comparative analysis, the capital adequacy ratio and the non-performing loans were analyzed and compared between North Macedonia and Italy, being one of the countries hit the hardest in the beginning of the pandemic, in order to better see on how the pandemic impacted the financial stability of the banking sector.

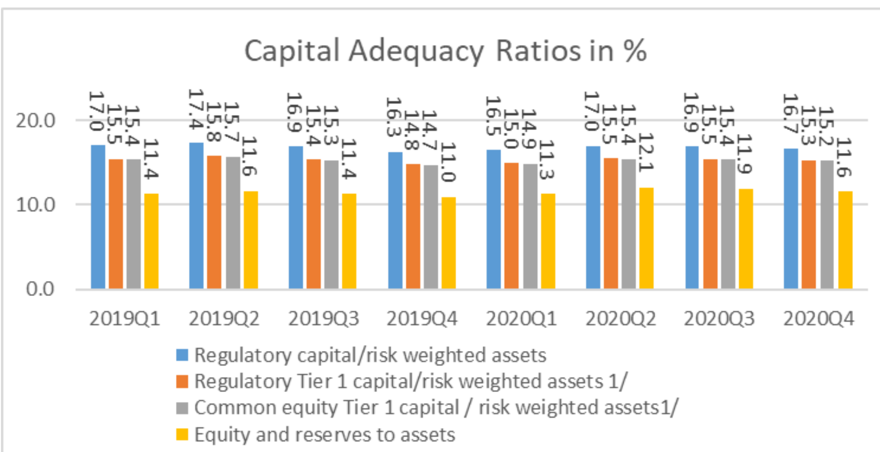
5. FINDINGS

Following are the findings from the indicators of financial stability in the banking sector.

5.1 Capital Adequacy ratios

As of March 31,2020 the capital adequacy ratio was 16.5%, which is more by 0.2 percentage points when comparing with the end of 2019. The rate of regulatory tier 1 capital was 15% and the rate common equity tier 1 capital was 14.9%, while the ratio of capital and reserves to total assets reached 11.3%. Analyzed by individual banks, the capital adequacy ratio in the 1st quarter, at fourteen banks was higher than 14%. (NBRM,2020).

Figure 1. Capital Adequacy Ratios, expressed in percentages



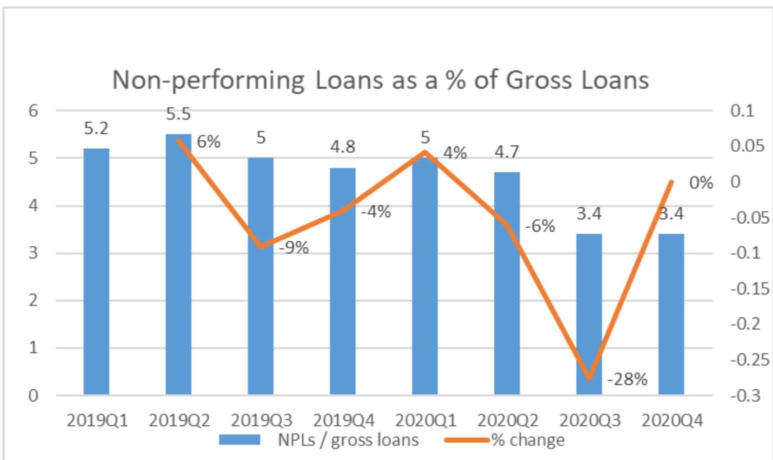
Source 1NBRM (created by author)

In second quarter, the solvency of the banking system improved. The capital adequacy ratio was higher for 0.5 percentage points, being at 17%. The rate of regulatory Tier 1 Capital was 15.5%, which increased for 0.5 percentage point compared with the previous quarter, while the rate of common equity Tier 1 capital was 15.4%. The indicator for solvency of the banking system in the third quarter remained at similar levels as in the previous quarter, decreasing only for 0.1 percentage points, being 16.9%. The rate of regulatory Tier 1 Capital and Common Equity Tier 1 capital remained at the same levels as in the previous quarter, 15.5% and 15.4%, which are more than twice higher than the minimum of 6% and 4.5%. The capital adequacy ratio in the fourth quarter was 16.7%, which when compared with the same quarter of 2019, is higher for 0.4 percentage points. The growth of own funds, primarily as a result of reinvested earnings and the issue of new shares in two banks, had the largest contribution to increasing the adequacy ratio of capital. (NBRM, 2020). During the last years, all these ratios maintained at a way higher level than the minimum requirements, indicating that the banking sector had strong capital positions, and would be able to withstand shocks. Even after the pandemic outbreak, it can be witnessed that these ratios have remained at similar levels, indicating that the banking system continues to remain stable.

5.2 Non-performing loans

When comparing the percentage of non-performing loans from the beginning 2019 and the third quarter of 2020, it can be noticed that these loans have been decreasing. The non-performing loans in the first quarter of 2020 increased by 0.2 percentage points in comparison with the fourth quarter of 2019, reaching a level of 5% as a share in the total credits. According to NBRM Reports (2020), the NPLs when analyzed by sectors, the growth of NPLs was fully concentrated in the corporate sector, where these loans increased by 6.1%, and when analyzed by individual activities, most of the growth of NPLs arises from customers who dealt with production of metals, machines, tools and equipment, trade activities and in the textile industry. The reason for this is that the effect of the pandemic crisis was felt in certain economic activities, even before the health crisis started to expand in our country (due to disruptions of supply chains, reduction of prices of primary products, changes in consumptions and other habits of the subjects from the affected regions) and it's a consequence of the inability of customers to cope with the negative effects and pressures of covid-19 pandemic.

Figure 2 Non-Performing loans as a percentage of Gross Loans



Source 2 NBRM (created by author)

In the second quarter the non-performing loans decreased, making 4.7% of total loans. This might be due to the fact that one of the changes made by the NBRM was to extend the time period for which a loan would be considered non-performing, from 90 days this period was extended to 150 days and because of mandatory write-offs. Most of the decline in the non-performing loans was in the corporate sector, having a 4% decrease, while in the household sector having a 3.1% decrease.

In the third quarter the non-performing loans decreased by 28%, their share in total loans decreasing by 1.3 percentage points to the level of 3.4%. The decline in non-performing loans was more significant in corporate loans (-31.2%) and in households (-14.1%). The reduction of non-performing loans is influenced by the regulatory measure for mandatory write-off of fully reserved non-performing loans, but in this quarter is largely due to the exit of Eurostandard Bank out of the banking system. Also they are influenced by the regulatory measures that NBRM took ever since the beginning of the outbreak. In the fourth quarter the non-performing loans remained at the same level, at 3.4% of total loans.

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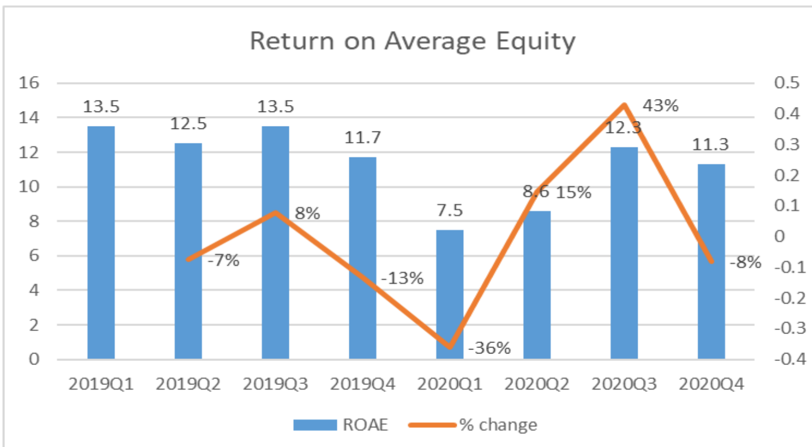
5.3 Return on Average Equity

The banking system in the first quarter of 2020 continued by registering positive but very low levels of profitability. Return on average equity declined significantly, compared with last quarter of 2019, where it decreased for 4.2 percentage points making it 7.5%. In the second quarter the return on average earnings increased to 8.6%, but when comparing it with the second quarter of 2019, there is a significant difference as in second quarter of 2019 it was 12.5%, which is significantly lower, indicating that the pandemic has had an impact on ROAE. However, this indicator does not deviate more significantly than its 10-year average, which is slightly lower (by 0.3%). The modest growth of profit was not sufficient to improve the rate of return on average equity and to bring it at the level at which it was on the third quarter of 2019. This was due to higher growth of the average assets, capital and reserves in comparison with profit growth. Even though, in the third quarter there has been an improvement on the ROAE, since it increased to 12.3%, comparing it with 8.6% on the second quarter. The return on average equity in the fourth quarter of 2020, decreased to 11.3%, decreasing for 0.4 percentage points when compared to the fourth quarter of 2019.The crisis and its consequences are expected to be more visible in the upcoming periods in the banking system, since it is expected to have further reduction in the banking activities and consequently in the returns.

Figure 3. Return on Average Equity 2019-2020

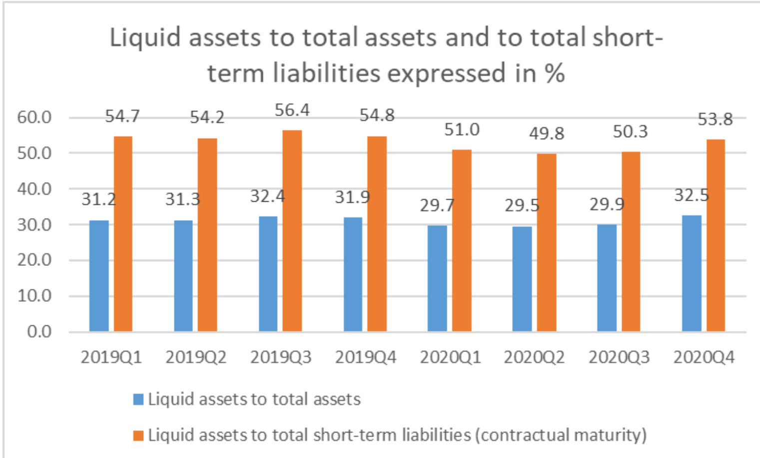


Source 3 NBRM (created by author)

5.4 Liquid assets to total assets and to total short-term liabilities

According to NBRM reports for the first quarter of 2020, the liquid assets of the banking system decreased during the first quarter of 2020. This was more pronounced in the first two months of the year and in part resulted due to the approval of governmental credit by several banks and usual seasonal decrease in deposits at the beginning of the year. With the beginning of the coronavirus outbreak in March, the liquidity of the banking system was partly affected due to deposit withdrawals. National Bank took measures in order to create liquidity in the banking sector. Even though the liquid assets decreased in the first quarter, in comparison with the last quarter of 2019, the share of liquid assets was very solid, at 29.7% of total assets. The coverage of short-term liabilities with liquid assets remained at satisfactory level of 51% This enabled the banks to properly manage the liquidity risk. In the following next two quarters, the share of liquid assets to total assets and the coverage of short term liabilities with liquid assets remained at similar but stable and satisfactory levels. When comparing these two indicators in the quarters of 2020 with the same quarters in 2019, it can be witnessed that there are differences, meaning that the pandemic crisis situation has had an impact on the liquidity of the banking sector, however, these ratios remain at satisfactory levels since even at the end of the third quarter the share of liquid assets is one-third of total assets, and the share of the coverage of short-term liabilities with liquid assets remains at 50.3%.

Figure 4. Liquid assets to total assets and to total short-term liabilities expressed in percentages



Source 4 NBRM (created by author)

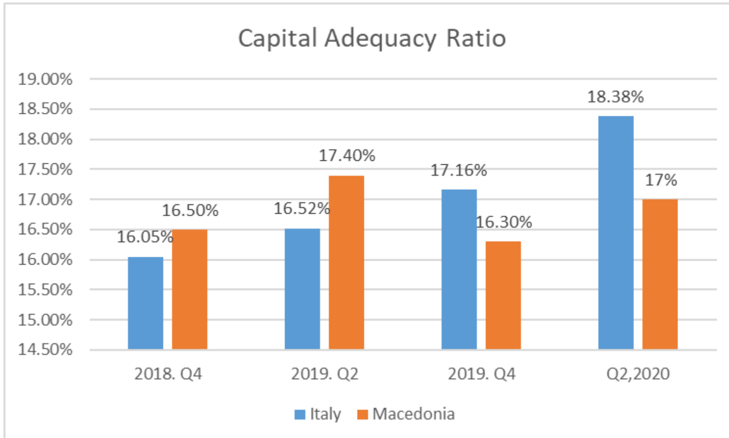
6. COMPARING THE CAPITAL ADEQUACY AND NON-PERFORMING LOAN RATIO FOR NORTH MACEDONIA AND ITALY

Italy was one of the countries hit the hardest in the beginning of the pandemic outbreak. The measures to contain the virus and not let it spread, such as lockdown and restriction of the movement of the population had an impact on the Italian economy. There was a decline on the economic activities and many businesses were affected by this situation. The Italian banking system entered the pandemic crisis at a stronger position than it entered the global financial crisis. The capital adequacy ratios have almost doubled and during the beginning there were no signs of weakening of depositor confidence in banks. (Banca de Italia, 2020). The monetary authorities took highly expansionary measures such as lowering the key policy rates, new refinancing operations and loosening the eligibility criteria for collateral. Italian banks have helped Italian businesses who were facing liquidity problems due to the pandemic crisis by providing them loans. This set of measures had the aim to support Italian enterprises through the banking system by providing access to credit and therefore support their liquidity. The banking sector during the first few months of 2020 was vulnerable. According to IMF (2020) during the beginning of the pandemic Italian banks were the largest users of European Central Bank's (ECB) Targeted Longer-Term Refinancing Operations (TLTRO), which provides substantial support to banks' liquidity and profitability. Many banks in Italian banking sector suffered from low capital levels, low profitability and weak asset quality. The average capital ratio of Italian banks remained below the euro area and the NPL ratios were among the highest in EU during the first quarter of 2020. During the second quarter of 2020 the recovery in the economic activities in Italy was greater than expected, however banks still were facing risks which were as a result of pandemic and included a decline in credit quality and a further decline in profitability. The pandemic affected the bank's profitability in the first six months of 2020.

6.1 Capital Adequacy ratio

When comparing the capital adequacy ratio between North Macedonia and Italy within the time period between the fourth quarter of 2018 and second quarter of 2020 it is noticed that Italy has been improving significantly the capital adequacy ratio, which was only 16.05% at the end of 2018, increased to 17.16% in the end of 2019 and in the second quarter of 2020 it further increased to 18.38%. The capital adequacy improved significantly, partly due to the capitalization of undistributed profits from the 2019 financial year. North Macedonia on the other hand, has maintained the capital adequacy at similar levels, but increasing in the second quarter of 2020 to the level of 17%. This increase was due to the growth of own funds which resulted primarily as a result of reinvested earnings and the issue of new shares in one of the banks in North Macedonia.

Figure 5. Capital Adequacy Ratios in North Macedonia and Italy

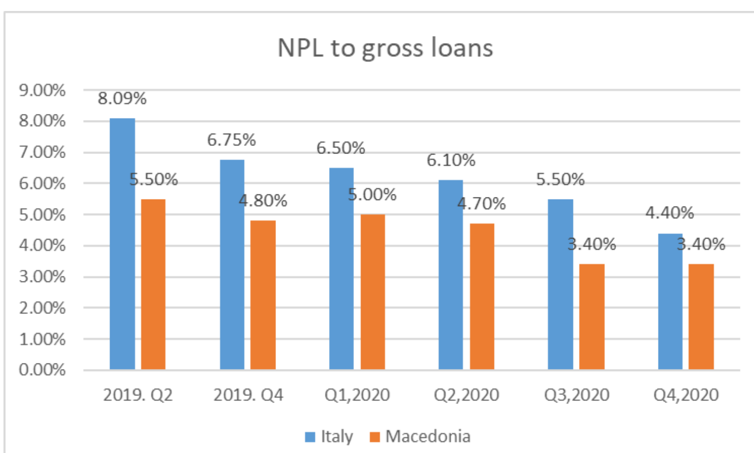


Source 5. IMF and NBRM (created by author)

6.2 Non-Performing Loans in North Macedonia and Italy.

Taking into consideration the non-performing loans to total gross loans, it can be seen that this ratio is significantly lower in North Macedonia, which during these periods maintained below 6% and decreasing to the level of 4.3% in the fourth quarter of 2020. Italian non-performing loans decreased as well within this period, being 8% in the second quarter of 2019, decreasing to 6.75% in the fourth quarter of 2019 and being 4.4% in the fourth quarter of 2020. Non-performing loans rate has remained low, comparing with historical trends, benefiting from the government measures to support credit. According to the Stability report conducted by the Bank of Italy, the performance of NPL rate is mainly due to the effects of the legislative moratoriums and private payment suspensions, the income support measures for households and business activity and the flexibility allowed under the rules for classifying loans.

Figure 6. Non-Performing loans as a percentage of Gross loans in Italy and in North Macedonia



Source 6 Bank of Italy and NBRM (Created by author)

The ratio of NPLs to total loans fell to 4.4% at the last quarter of 2020, comparing with the same quarter of 2019 where this share was 6.75%, a decline for 2.3 percentage points. In North Macedonia the share of non-performing loans has also decreased in pandemic times due to measures taken by NBRM when comparing with the second quarter of 2019, but this difference is not as high as in the Italian non-performing loans. In the last quarter of 2020, the non-performing loans remained at the same level as in the previous quarter in North Macedonia, while in Italy decreased for 20%.

7. REGULATORY RESPONSES OF NBRM

In the wake of the coronavirus outbreak, the National Bank of North Macedonia was quick to respond by making several regulatory changes in order to help the economy and not let it collapse.

During the beginning of the pandemic NBRM cut down the policy rate by 0.25 percentage points to 1.75%. Lowering the policy rate is a mechanism to boost the countries' economic activity since lower interest rates provide the commercial banks with more liquidity and lower credit cost. The intention was to provide liquidity in the banking sector in order the banks to be able to provide credit to the affected sectors by the COVID-19 pandemic. Many sectors were heavily impacted by the responsive measures to the pandemic such as lockdown, reduced working hours or complete shut-down of some companies for a defined period of time. By providing credit, banks would help these sectors survive the crisis and continue their operations. This rate was further cut in the second quarter by 0.25 percentage points to 1.5%.

The National Bank of North Macedonia also reduced the amount of CB bills that commercial banks can subscribe with the central bank. The funds released with the reduced CB bills offer were used to further support the economy by providing additional liquidity to the banks and maintaining credit flows in the banking system. (NBRM, 2020).

Another measure taken to give banks greater access to liquidity was expanding the scope of securities that the National bank would accept from the domestic banks in order to provide denar liquidity in the banking system. NBRM started to accept government bonds with longer maturities (15 and 30 years), and Eurobonds issued by the state on international financial markets owned by domestic commercial banks.

Banks and saving houses eased the financial burden on citizens and businesses which were affected by the corona crisis by extending the grace period for loan repayment, prolonging the loan repayment for an extended period, lowering interest rates and approving new, more favorable loans to refinance the existing ones.

The period for which a loan would be considered as non-performing was extended. Previously a loan would be considered as non-performing if the borrower is 90 days past due date. However, since the pandemic outbreak this period was extended to 150 days.

8. CONCLUSION

The Pandemic crisis originated from a combination of different factors such as the pandemic and the measures taken from the governments throughout the world in order to contain the virus and not let it spread. These measures triggered a series of events, such as the lowering of business activities due to lockdown, or complete shut-down of some sectors for a period of time and job losses. This led to a financial crisis and the banking sector was in part impacted. Banks throughout the world, and in North Macedonia as well, entered the pandemic crisis better prepared and better equipped. The Banking sector in North Macedonia is highly capitalized and highly liquid (the liquid assets being almost 1/3 of total assets). The liquidity and capital positions have been continuously strengthening, the capital adequacy ratio being 16.3% and the liquid assets being 31.9% of total assets at the end of 2019. The strong position of the banking sector, being well capitalized and liquid created room for it to be able to absorb any unexpected losses, which might result from different types of shock, in this case due to the impact of the corona virus, without compromising its financial stability. The banking system did not feel any big shocks, which would impact its financial stability. The capital adequacy ratio maintained at similar levels, ranging from 16.5% to 17%, the non-performing loans ratio actually decreased further during the pandemics times, but this was mostly as a result of the measures undertaken by the National Bank of North Macedonia. Liquid assets experienced a slight decrease, however they remained at satisfactory levels. Return on average equity experienced a slight decrease in comparison with the corresponding quarters in 2019. Banking system as main financial intermediary in North Macedonia was crucial to help revive the economy and not allow the crisis to deepen even more. The National Bank took several measures to provide liquidity to the banking system and support lending to the most affected sectors by the crisis in order to keep the economic activities moving. Although the crisis did not have a big impact on the financial stability of the banking sector in North Macedonia during 2020, its negative consequences are expected to be more visible in the upcoming quarters, in terms of reduced profitability ratios and increase in the non-performing loans.

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