

Teuta Qerimi Sadiku<sup>1</sup>  
Blerta Kondri<sup>2</sup>

UDC: 338.121:336.71(497.7)

**NDIKIMI I SEKTORIT BANKAR NË ZHVILLIMIN EKONOMIK NË  
REPUBLIKËN E MAQEDONISË SË VERIUT**

**ВЛИЈАНИЕТО НА БАНКАРСКИОТ СЕКТОР ВРЗ  
ЕКОНОМСКИОТ РАЗВОЈ ВО РЕПУБЛИКА СЕВЕРНА  
МАКЕДОНИЈА**

**THE IMPACT OF THE BANKING SECTOR ON ECONOMIC  
DEVELOPMENT IN THE REPUBLIC OF NORTH MACEDONIA**

**Abstract:**

This research examines the role of the banking sector in economic development in the case of North Macedonia, as a small developing economy located in Southeastern Europe.

Drawing on a comprehensive review of existing literature and empirical findings, the study uses a comparative framework to analyze the role of banks in fostering economic development. Despite progress in financial sector reforms and integration efforts, North Macedonia faces challenges in promoting sustainable economic development and financial stability. The research analysis relies on quantitative and qualitative methods and examines the dynamics of banking sector development and its implications for economic performance in North Macedonia. Considering factors such as financial intermediation, credit insurance, risk management and technological innovation, the research aims to provide policymakers and practitioners with valuable insights into strategies for enhancing the role of banks in fostering inclusive growth in the economy of North Macedonia.

---

<sup>1</sup> Department of Finance and Accounting, Faculty of Economics. Corresponding author e-mail: teuta.qerimi@unite.edu.mk

<sup>2</sup> Department of Finance and Accounting, Faculty of Economics.

**Keywords:** *Banking sector, economic development, financial stability, economic growth.*

## **Introduction**

The banking sector plays crucial role in the economic development of any country by mobilizing savings, allocating capital efficiently, and supporting investment and consumption through credit. In the case of North Macedonia, the banking sector has undergone significant transformation since the country's independence in 1991 and the shift from a centrally planned economy to a market-oriented system. This transformation has included structural reforms, privatization of state-owned banks, the entry of foreign capital, and the gradual adoption of modern banking practices aligned with European Union standards.

Despite being a small, developing economy in the Western Balkans, North Macedonia has made notable progress in stabilizing its financial sector. The National Bank of the Republic of North Macedonia (NBRNM) has played a key role in maintaining monetary stability, supervising banking activities, and fostering confidence in the financial system. At the same time, commercial banks have expanded their role in financing the private sector, particularly small and medium-sized enterprises (SMEs), which constitute the backbone of the national economy.

However, several challenges persist. The financial market remains relatively shallow, access to credit is still limited for certain categories such as startups and rural businesses, and the level of financial inclusion is below the European average. Additionally, external shocks such as the COVID-19 pandemic and the global inflation crisis have exposed vulnerabilities within the system.

This paper aims to examine the role of the banking sector in promoting economic development in North Macedonia, focusing on its structure, performance, and contribution to GDP growth, investment, and financial inclusion. The paper also identifies major constraints facing the sector and proposes policy recommendations to enhance its effectiveness in supporting sustainable development.

## **Literature Review**

The relationship between the banking sector and economic development has been widely studied in economic literature. Classical

and contemporary economic theories agree that financial intermediation, particularly through banks, plays a vital role in mobilizing resources, reducing information asymmetries, and facilitating investment and innovation. According to Schumpeter (1911), financial institutions are fundamental in financing entrepreneurial activities, thereby fostering innovation and economic progress.

More recent empirical studies have strengthened the argument that a well-developed banking system positively influences long-term economic growth. Levine (1997) emphasized that banks enhance growth by improving resource allocation, facilitating capital accumulation, and enabling technological innovation. Similarly, King and Levine (1993) found that countries with more developed financial systems experience faster rates of economic growth.

In developing and transition economies, banks often play a disproportionately large role due to underdeveloped capital markets. According to the World Bank (2020), in economies with limited access to equity financing, banks serve as the main conduit for capital to the private sector, particularly to small and medium-sized enterprises (SMEs). This is especially relevant for North Macedonia, where bank credit constitutes over 90% of all formal financing.

The literature on Southeast Europe and the Western Balkans also highlights the importance of banking sector reforms. Bartuška and Cegar (2018) argue that successful banking sector liberalization and the entry of foreign banks have led to improved efficiency and financial stability in the region. However, challenges such as low financial inclusion, limited financial literacy, and high non-performing loans (NPLs) have hindered the full potential of the sector.

Specifically for North Macedonia, empirical studies are limited but growing. Dimitrievska and Jovanovic (2020) found a strong correlation between credit growth and GDP, emphasizing the role of banks in stimulating investment and consumption. Meanwhile, a report by the National Bank of the Republic of North Macedonia (NBRNM, 2023) highlights the stability of the banking system and its increasing digitalization, while pointing out structural limitations such as concentration of credit in certain sectors and limited credit access for new businesses.

In summary, existing literature underscores the significance of the banking sector as a driver of economic development, particularly in emerging economies like North Macedonia. Nevertheless, the literature also identifies key weaknesses that must be addressed through sound

policy and regulatory frameworks in order to maximize the sector's contribution to growth and financial resilience.

### Methodology

A linear regression analysis was conducted to assess the impact of Return on Assets (ROA) on GDP growth, using data from all banks in the Republic of North Macedonia for the period 2004–2024. The independent variable is ROA, while GDP growth serves as the dependent variable. The data were obtained from the World Bank and the National Bank of the Republic of North Macedonia, and consist of annual observations.

The model is described by the following equation:

$$Gdpgrowth = \beta_0 + \beta_1 ROA + ui$$

### Empirical part

Table 1 presents a statistically significant model that explains a substantial portion of the variance in GDP growth. The independent variable ROA is statistically significant at the 5% level.

The  $R^2$  value of 0.215 indicates that approximately 21.5% of the variation in GDP growth can be explained by the variation in the independent variable.

The ROA has a positive and statistically significant impact on ROA, with a standardized coefficient of  $\beta = 0.46$ . This implies that higher returns on assets (ROA) in banks are associated with higher GDP growth.

Table 1. R2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.464 <sup>a</sup>	.215	.174	1.603
a. Predictors: (Constant), ROA				

Table 2. Statistical significance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.396	1	13.396	5.216	.034 <sup>b</sup>
	Residual	48.796	19	2.568		
	Total	62.191	20			
a. Dependent Variable: GDP						
b. Predictors: (Constant), ROA						

Table 3. Beta coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.652	.888		1.859	.079
	ROA	1.544	.676	.464	2.284	.034
a. Dependent Variable: GDP						

## Discussion and Conclusion

The regression analysis confirms that banking sector performance has a statistically significant impact on economic development in North Macedonia. The positive relationship between Return on Assets (ROA) and GDP growth suggests that profitable banks contribute directly to economic expansion through more efficient financial intermediation, improved credit allocation, and stronger support for investment.

These findings are consistent with earlier studies [1–3] emphasizing the vital role of banks in stimulating growth, particularly in economies where capital markets remain underdeveloped. In North Macedonia, where bank credit accounts for the vast majority of formal financing, profitability in the sector is an essential driver of macroeconomic performance.

At the same time, the relatively low  $R^2$  value (0.215) indicates that other factors beyond banking profitability also influence economic growth. Structural weaknesses, such as limited financial inclusion,

concentration of credit in specific sectors, and restricted access to finance for startups and rural enterprises, remain significant constraints. External shocks, such as the COVID-19 pandemic and the global inflation crisis, have further demonstrated the vulnerability of the financial system.

To enhance the contribution of the banking sector to sustainable development, policy measures should focus on improving financial inclusion, diversifying credit portfolios, and encouraging innovation in digital banking services. Strengthening regulatory frameworks and maintaining monetary stability through the National Bank of the Republic of North Macedonia will remain essential in safeguarding resilience and supporting growth.

**Conclusion:** The study demonstrates that while the banking sector plays a crucial role in promoting economic development in North Macedonia, its potential is not fully realized. Continued reforms are needed to expand access to finance, foster innovation, and strengthen the resilience of the sector. By addressing these challenges, the banking system can more effectively support inclusive and sustainable economic growth.

**Reviewers:**

**Doc. Dr. Sindise Salihi**

**Doc. Dr. Edrina Emini**

**References:**

Bartuška, A., & Cegar, M. (2018). *Banking sector development in the Western Balkans: Effects of reforms and EU integration*. World Bank Working Paper Series.

Dimitrievska, J., & Jovanovic, T. (2020). The impact of bank credit on economic growth in North Macedonia. *Journal of Economic Development Issues*, 18(2), 45–58.

International Monetary Fund (IMF). (2024). *Republic of North Macedonia: Staff Concluding Statement of the 2024 Article IV Mission*. <https://www.imf.org>

King, R. G., & Levine, R. (1993). Finance and growth: Schumpeter might be right. *The Quarterly Journal of Economics*, 108(3), 717–737. <https://doi.org/10.2307/2118406>

Levine, R. (1997). Financial development and economic growth: Views and agenda. *Journal of Economic Literature*, 35(2), 688–726.

National Bank of the Republic of North Macedonia. (2023). *Financial Stability Report 2022*. <https://www.nbrm.mk>

National Bank of the Republic of North Macedonia. (2024). *Quarterly Report on Risks in the Banking Sector: Q3 2023*. <https://www.nbrm.mk>

National Bank of the Republic of North Macedonia. (2025). *Banking Sector Developments – Monthly Bulletin (March 2025)*. <https://www.nbrm.mk>

National Bank of the Republic of North Macedonia. (2025). *Monetary Policy Report – December 2024*. <https://www.nbrm.mk>

National Bank of the Republic of North Macedonia. (2024). *Annual Report 2023*. <https://www.nbrm.mk>

Schumpeter, J. A. (1911). *The theory of economic development: An inquiry into profits, capital, credit, interest, and the business cycle*. (R. Opie, Trans.). Harvard University Press. (Original work published 1911)

World Bank. (2020). *Banking in Transition: Reforms and the Role of State-Owned Banks*. <https://www.worldbank.org>