

Dimitar Bogov, Governor, NBRM

Opening speech

6th Annual Research Conference:

Central Banking Under Prolonged Global Uncertainty: The Latest Lessons While Searching for the “New Normal”

5 April 2017, Skopje

Honorable Minister of Finance, Your Excellences,

Dear representatives of central banks,

Ladies and gentlemen,

It's my great pleasure to welcome you again to our regular Annual Research conference that is traditionally organized to mark the anniversary of the country's monetary independence. As you already know, on April 26 this year, we celebrate the 25-year jubilee of the monetary independence and the Conference will label this jubilee more specifically with the discussion within the introductory high-level policy panel. We are especially honored that this jubilee year, our Conference is organized as a joint event with the London School of Economics - Research on South Eastern Europe that I believe will contribute to enlarging the discussion issues valid for the region and beyond. In light of the Conference topic and our jubilee, I will just briefly mention some important issues that I believe will be discussed in more details during the high-level policy panel and the next two days.

One could find the title of this year's Conference highly descriptive for the current global macroeconomic environment. Central banks still operate under prolonged global uncertainty, trying to define and move towards the “new normal” while recognizing and implementing the latest lessons arising from the global crisis. During this crisis period, we all passed through a relatively long process of correcting the shortcomings from the past, learning new experiences and strengthening capacities to better cope with the future challenges. While global economy is gradually recovering, it still faces uncertainty, although of different nature. The world attention is now focused on the rising probability of entering into a new protectionism era, the implication of Brexit and the growing EU skepticism as well as the geopolitical risks that are still present. The general economic debate brings to the fore implications of these risks for the global economic recovery and, as far as the first issue is concerned, it is predominantly against trade barriers worldwide. The expansion of global trade significantly contributed to the global economic growth prior to the global crisis. At the same time, the principle of free movement of people, goods and services, capital and payments is one of the main pillars of the EU and so far, it has contributed to boosting EU economy. Speaking about

the EU, it seems to be in a specific stage of reinventing itself. In general, without going into details, the world is obviously on a crossroad - a phase where both stronger internal consolidation and international cooperation are more than needed.

Regarding policy setup, the subdued inflation due to low commodity prices and the accompanying easing cycle of the monetary policy in the developed economies ended or have been approaching the end. While the US economy seems to be close to its "new normal", for the EU economy it will probably happen a bit later. This would mean a return to monetary policy normalization and upward shift of the yield curves. Although the situation could differ across countries, the bottom line is that the world economy used to live under low interest rates for relatively long period of time that is over or close to an end. Monetary policy supported the economic recovery under very specific circumstances, however sustainable economic growth must be grounded on profound structural reforms. Therefore, the policymakers need to be bold in implementing reforms focused on flexible labor markets, higher productivity, stronger competition and innovation. This would be a task not only for developing, but also for developed economies, although at different initial position. The "bell is ringing" also for the fiscal policy, which in many countries has become quite comfortable in low interest rates environment. It also needs to prepare for tightening of financial conditions that will make fiscal consolidation more challenging.

In the financial system, the regulatory authorities across the world are facing challenges arising of new capital requirements under Basel III, aimed at preserving the soundness and stability of the banking system not only in normal times, but also in times of stress. In Macedonia, we have just launched this new package of regulation and are looking for its smooth implementation, considering the already strong capital position of the banking system. In the age of globalization, and digital technologies entering into financial services, there are growing challenges for the regulatory authorities. One of the lessons of the last global crisis is that the development of the financial system must go hand in hand with the establishment of proper risk mitigation and crisis management mechanisms.

Such a dynamic and complex surrounding is even more challenging for the emerging economies that are undergoing structural reforms, which are key precondition for faster convergence towards higher income levels. Now, when we celebrate 25 years of monetary independence in Macedonia, we can say that we have experienced different situations, we dealt with couple of shocks – both internal and external, we learned a lot - from the others and from ourselves, we accomplished many goals and finally, realized that we need to work even harder to perform better in the future. I would also briefly mention that at the beginning of transition, we faced with hyperinflation, low foreign reserves, macroeconomic imbalances, need of restructuring of banks and companies, and additionally, unilateral embargo by one neighboring country. We are proud to say that in the last twenty years, we have managed to maintain price stability with impressive 2% average inflation and stable exchange rate as well as sound banking system that survived many "real time stress tests". While trying to protect the economy in the booming stage prior to the global crisis, we experienced the opposite situation–

we provided monetary stimulus to the economic recovery after the impact of the global crisis, by using both conventional and unconventional measures. We believe the monetary policy was and will continue to be a reliable counterpart of the macroeconomic policy mix in the country, contributing to maintenance of the overall macroeconomic stability. This environment proved to be supportive to the structural reforms implementation which in the last years provided visible results through changing the economic structure into production and export of higher value added products and continuous reduction in the unemployment rate, even during the global crisis. It is extremely important to mention that all these years, the National Bank of the Republic of Macedonia has been continuously strengthening its institutional capacity in all areas of operation, as a main precondition for facing new and different tasks arising from the above described global environment.

The transition process was a process of learning about market principles and simultaneously implementing them in practice. I believe that all countries that have been going through this process have experienced successful and less successful, satisfactory, not satisfactory, and undergoing reforms. Many years after the start of transition, it is useful to look back and consider the overall progress, to separate areas where the transition is over or close to an end, and others, where transition is lagging behind. We need to face the current standpoint and to speed up reforms in the future.

Apparently, there are many and different issues related to the transition, especially in light of the changing global economy. However, I would stop here and leave the stage for discussion within the high-level policy panel.

It is my great honor that today we have a distinguished key lecturer to introduce the topic of the panel devoted to the transition process of the region – that is Mr. Poul Thomsen, Director of the European Department at the IMF and the first Mission Chief for Macedonia, back in 1993, who provided valuable support in coping with different shocks that our economy faced at the onset of the transition. Other participants of the panel are: Mr. Peter Sanfey, Deputy Director for Economics, Policy and Governance, European Bank for Reconstruction and Development, who is highly involved in the activities of the EBRD in the region, and professor Vassilis Monastiriotis from LSE, Research Unit on South Eastern Europe (I will also join them in the discussion). Moderator of the panel will be Mr. Gligor Bishev, former Deputy Governor of the NBRM and one of the main counterparties of Mr. Thomsen back in 1993.

It is also my great pleasure that our Minister of Finance, Kiril Minoski has joined us today. I will first invite the Minister of Finance to take the floor with his opening remarks on the occasion of the 25th anniversary, and then Mr. Thomsen with his keynote presentation. At the same time, allow me to express our deep gratitude for their presence today.

At the end, let me just wish you fruitful and interesting discussion during the Conference and pleasant stay in Skopje.

Thank you!