

Are there some effects from ECB non –standard measures on the SEE6?

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НБРМ-NBRM

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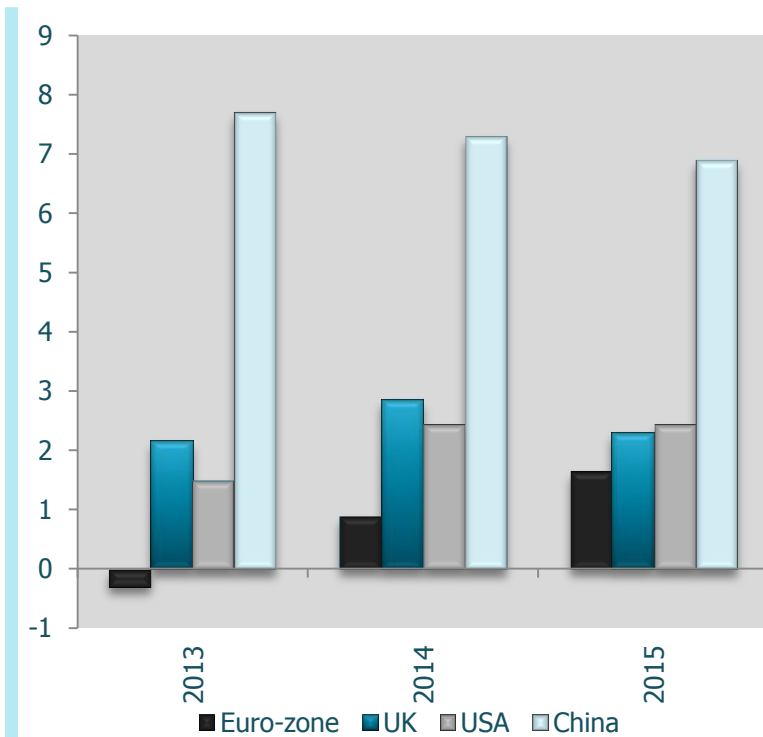
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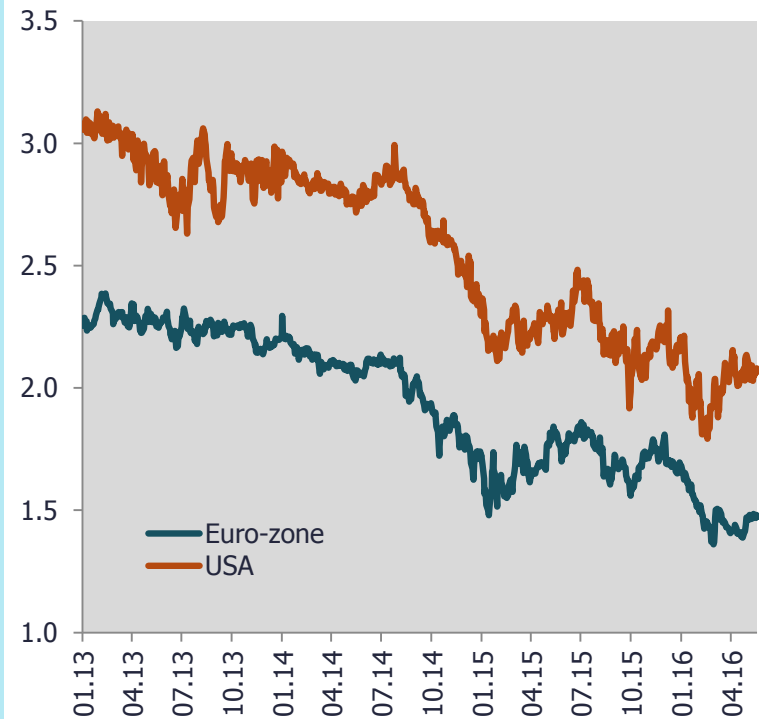
Euro system's economic conditions

- ▶ In Euro-zone, slow economic growth and subdued inflation pressures in last couple of years

Growth rates (real GDP, %, yoy)



5y5y Inflation Swap Rate (%)



Euro system's monetary policy actions

President Draghi in April 2014 made statement on ECBs reaction function*

- Unwarranted tightening of the monetary policy stance due to
 1. renewed tensions in short term money markets
 2. developments in global bond markets that unduly spill over
 3. continued appreciation of the exchange ratethat ECB will address with variety of conventional measures
- Further impairments in the transmission of monetary policy stance via bank lending channel..

addressed by employment of LTRO targeted towards encouraging bank lending or an ABS PP

A first series of TLTROs was announced on 5 June 2014 and a second series (TLTRO-II) on 10 March 2016

- Worsening of the medium-term outlook for inflation due to broad based weakening of the aggregate demand or a substantial positive supply shock.
objective here would not be to defend the current stance, but rather to increase meaningfully the degree of monetary accommodation = the context for more broad based asset purchase programme

* Speech by M. Draghi: Monetary policy communication in turbulent times, Amsterdam, 24 April 2014

Euro system's non-standard measures

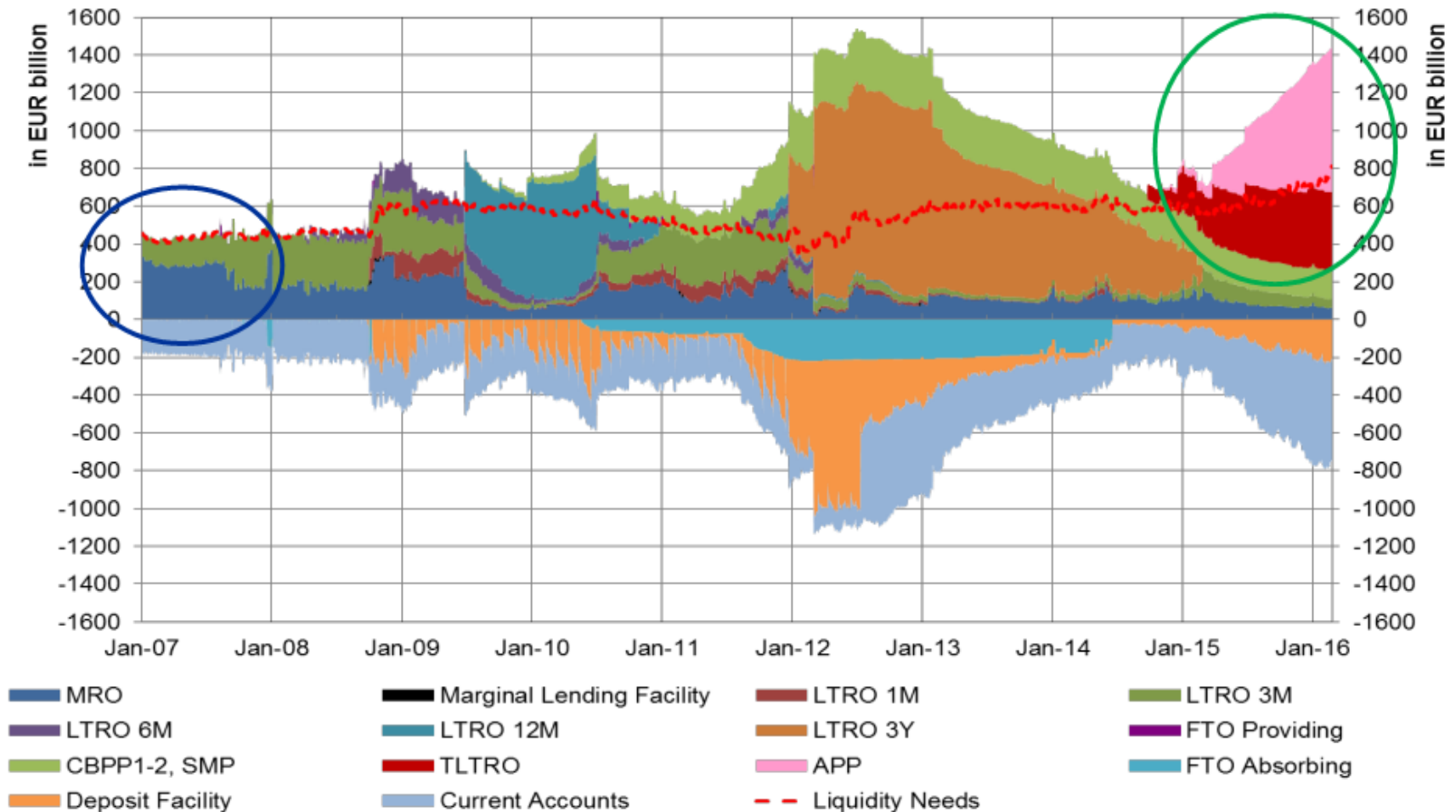
- ▶ Announcement of 22 January 2015 – **Expanded Asset Purchase Programme**
- ▶ **Objectives:**
 - fulfill the ECB's price stability mandate (given historical low inflation)
 - provide monetary stimulus to the economy, in the context of policy interest rates being already at their lower bound.
- ▶ **The EAPP comprises:**
 - The Covered Bond Purchase Programme (CBPP3)
 - The Asset Backed Securities Purchase Programme (ABSPP)
 - The Public Sector Purchase Programme (PSPP)
 - **Corporate sector Purchase Programme (CSPP)- from June 2016**
- ▶ **Purchase pace and duration:** intended EUR 80bn/month (from March 2015 until March 2016 this figure was EUR 60bn/month) until at end of March 2017

Eurosystem holdings under the expanded asset purchase programme (bn. euros)

	ABSPP	CBPP3	PSPP	APP stock	Change
December 2014	1,744	29,632		31,376	
March 2015	4,624	63,606	47,356	115,586	84,210
December 2015	15,322	143,340	491,215	649,877	534,291
May 2016	19,060	177,809	806,194	1,003,063	353,186

Euro system's non-standard measures

- ▶ ECB balance sheet expansion mainly driven by long term refinancing operations and asset purchases

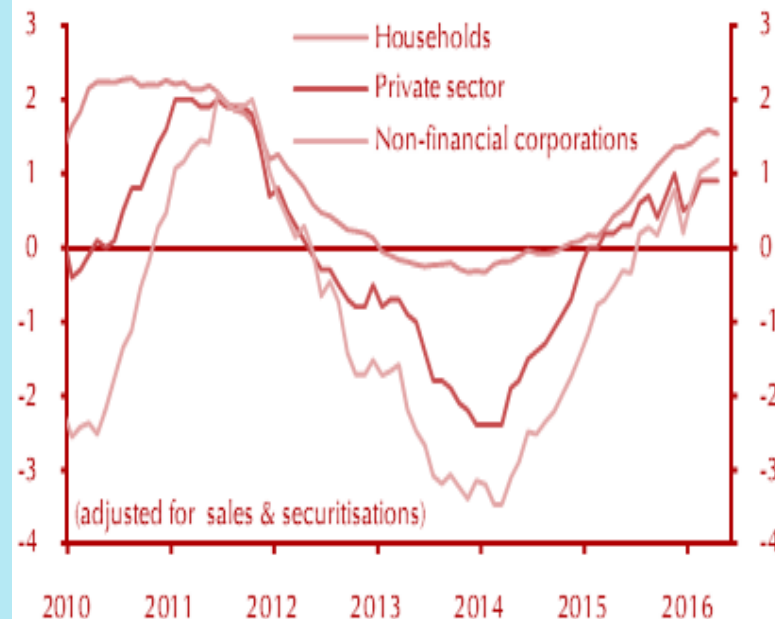


Euro system's non-standard measures initial effects

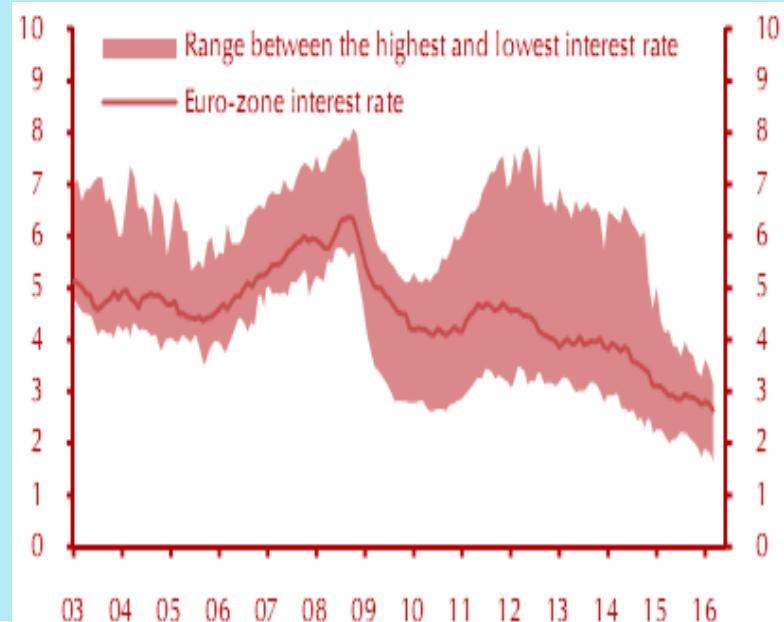
▶ Early evidence shows measures have been effective

- lending support to corporate sector accelerated (from -0,5% in April 2015 to 1,2% in April 2016)
- Bank Lending Survey from April 2016 suggests that negative interest rates have incentivized banks to increasing lending
- Significant narrowing of interest rate spreads

Private sector lending (% , yoy)



Interest rate on lending to firms (%)



SEE6 region



Economic developments in SEE6

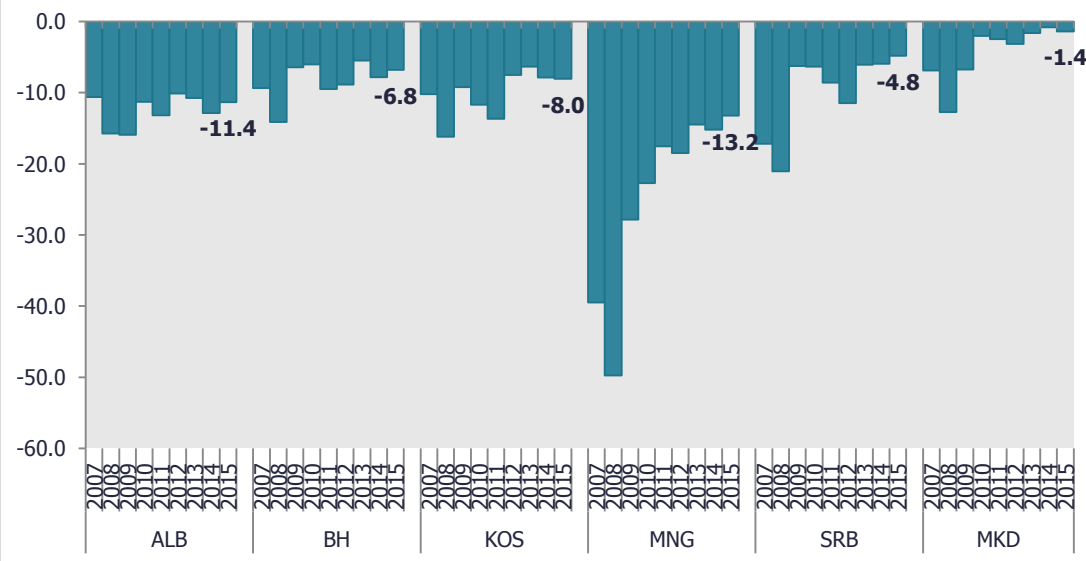
In 2015 the SEE6 region (Albania, B&H, Serbia, Macedonia, Montenegro, Kosovo)

- **Rebalancing growth to more durable sources of growth** –domestic and foreign investments and exports/ **shift from unsustainable pre-crisis model of consumption** fueled by capital inflows and remittances
- Higher growth brought **new jobs** in the private sector, and **helped poverty reduction** to resume, but **unemployment is still entrenched;**
- **Fiscal deficits continued to narrow** (except Montenegro);
- **Inflation at historic lows - accommodative monetary policy** supported growth and credit to the economy began to grow.

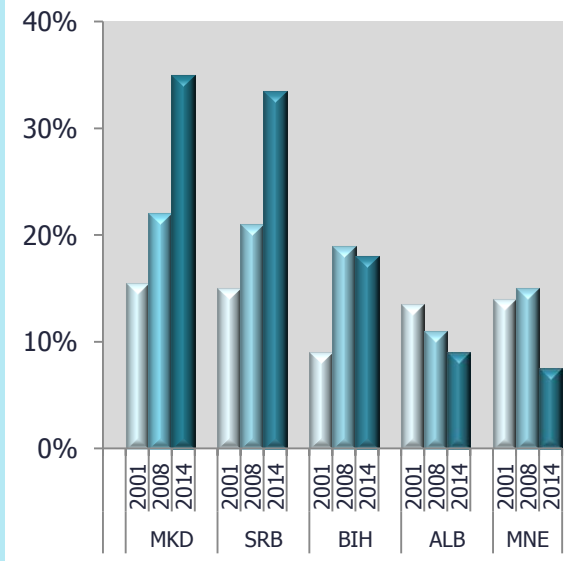
Foreign trade and exchange rate channel

- **Strongest channel of EU integration is foreign trade** (for about 63% of SEE6 exports; above 80% of total exports in Macedonia, Albania and Bosnia; strong bilateral connection to specific EU countries -Germany, Italy, Greece)
- **Improved external demand in 2015 (EU recovery) had a leading role in good export performance**
- **Current account deficits are improving in recent years**, but on a regional level CAD is still around **6% (as of 2015)**
- **In Macedonia, CAD is substantially improved due to reduced trade deficit** - FDI financed manufacturing exports (automotive parts industry and machinery and equipment industry in TIDZ) contributed for CAD reduction – exports to Germany

CAD (% of GDP)



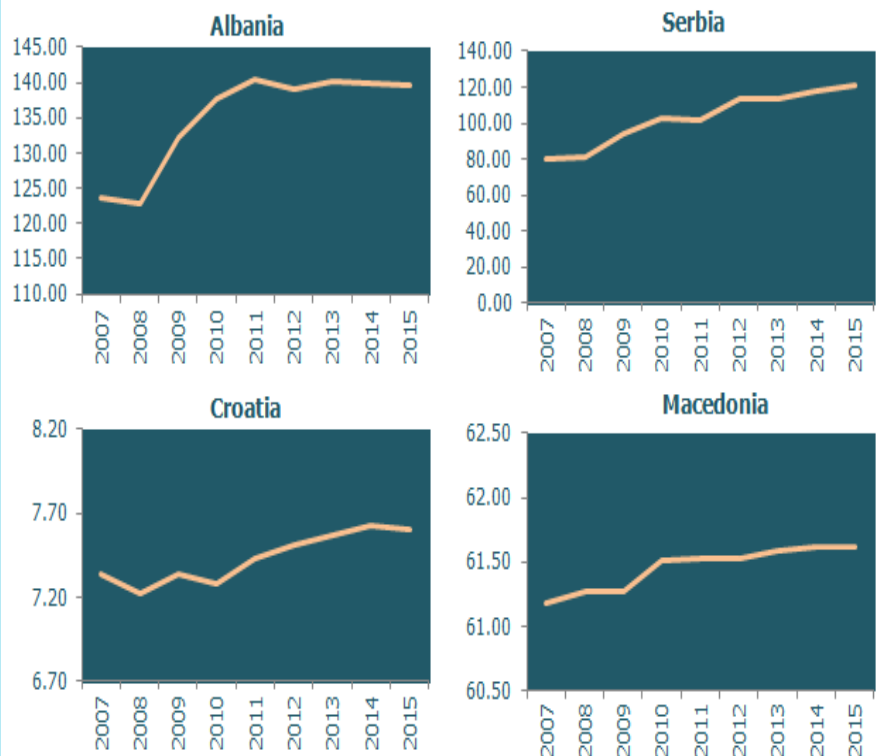
Share of high and medium tech goods exports (% of total)



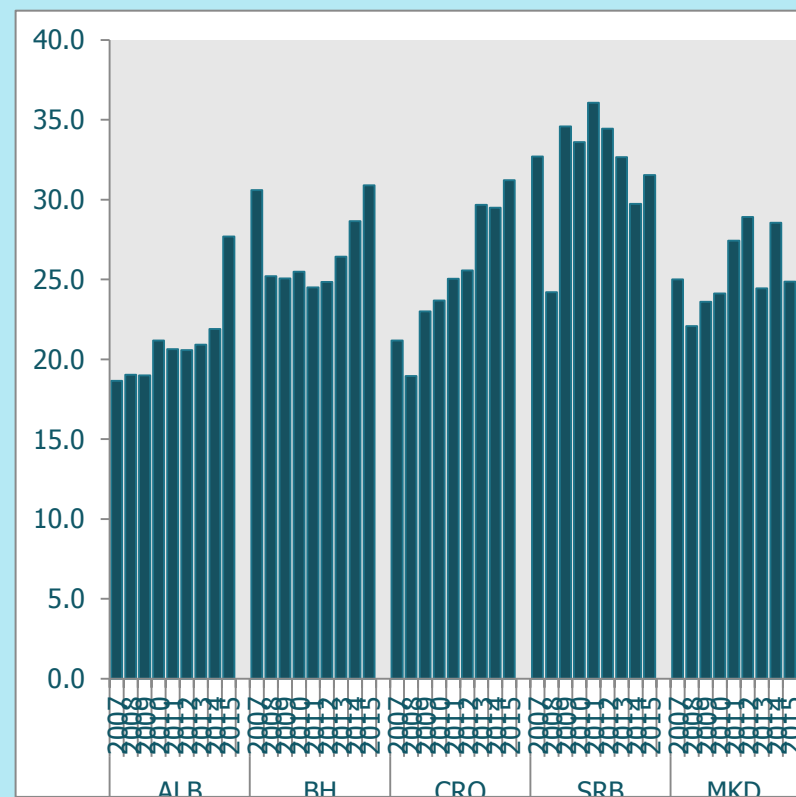
Foreign trade and exchange rate channel

- Stable movements of the FX rates in most of the countries
- FX reserves maintained at stable level of above 25% of GDP, on regional level

Nominal exchange rates
(national currency per EUR)



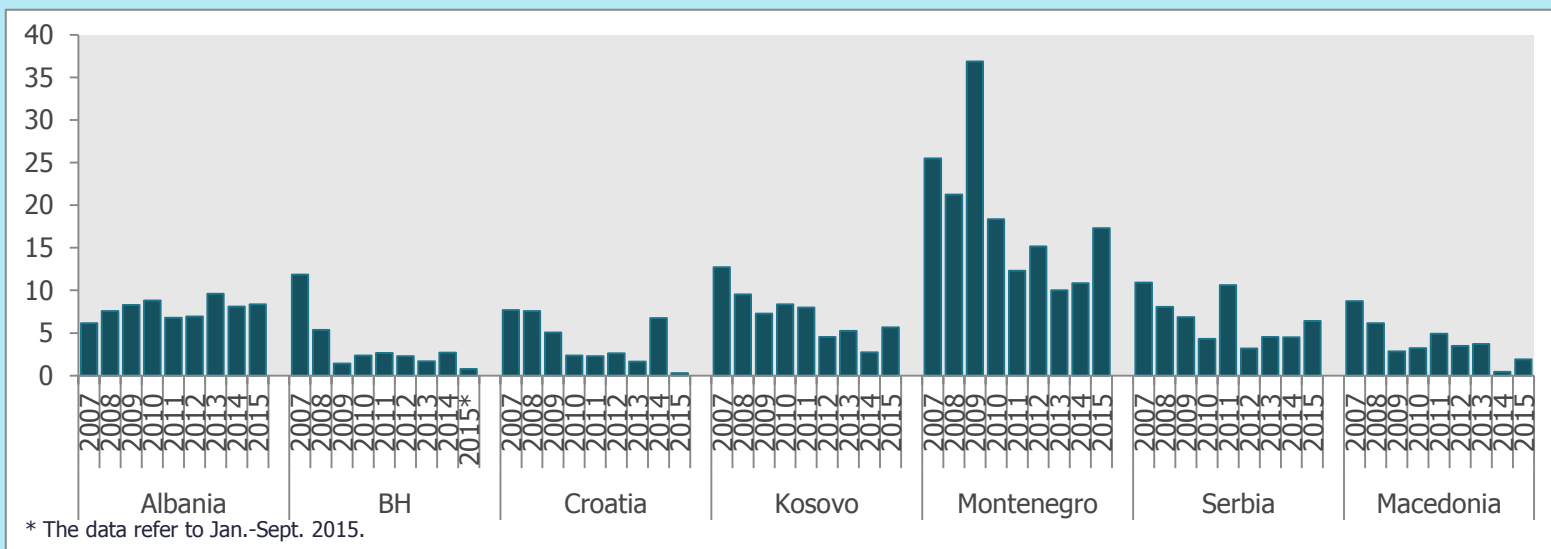
FX reserves (% GDP)



FDIs and remittances

- **EU FDI account for more than 80% of total FDI in regional countries**
FDI directed to domestic banking sector –61% of presence of EU banks into regional banking system
- FDI inflows slowed after the crisis, partly as result of the process of deleveraging by cross border bank groups
- **FDI increased through 2015 in number of countries, as result of positive economic conditions in EU**
 - however, in future, tighter liquidity conditions on global level might make it harder to compete for external financing

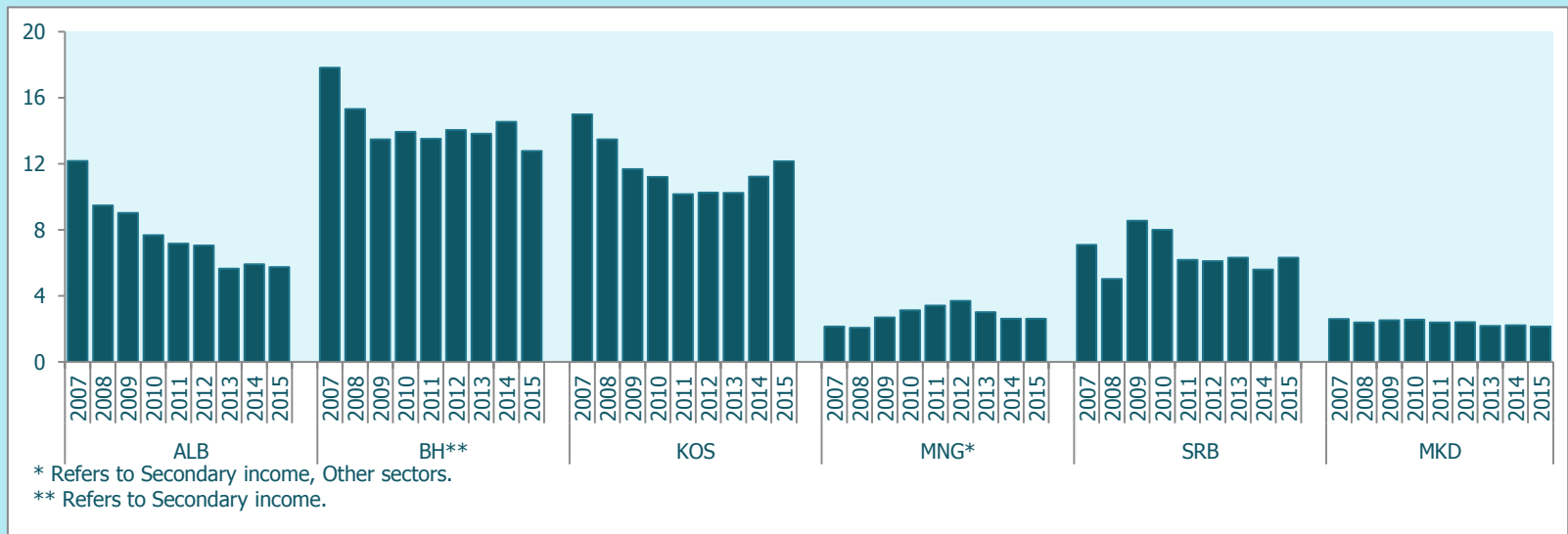
FDI (% of GDP)



FDIs and remittances

- **Connected to waves of emigration to EU member countries, remittances from EU are around 80% of total countries remittances on average**
- **Remittances are particularly important** for Albania, Bosnia and Kosovo, with primary sources of inflows from Greece, Italy, Switzerland, Austria and Germany

Remittances (% of GDP)

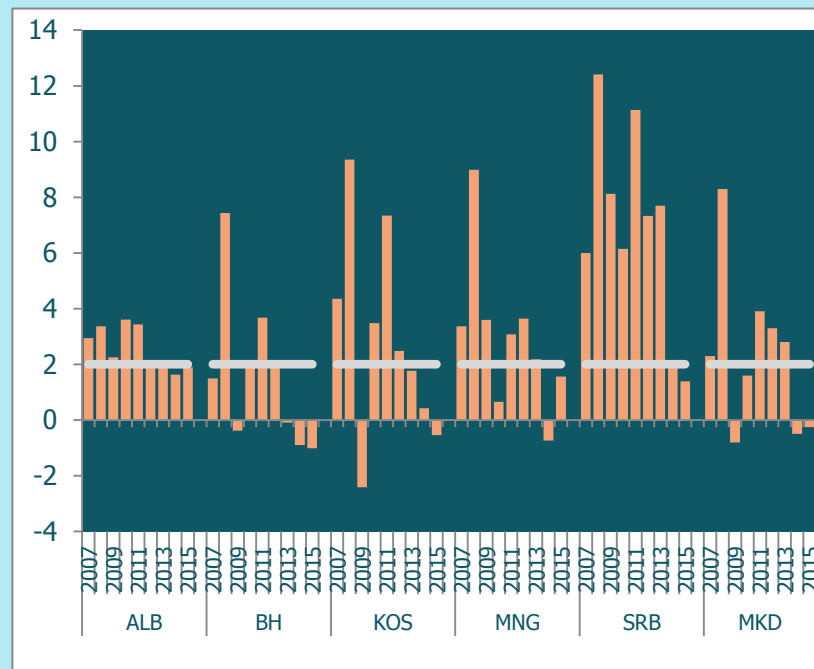


Source: IMF, Central bank web sites, NBRM calculations

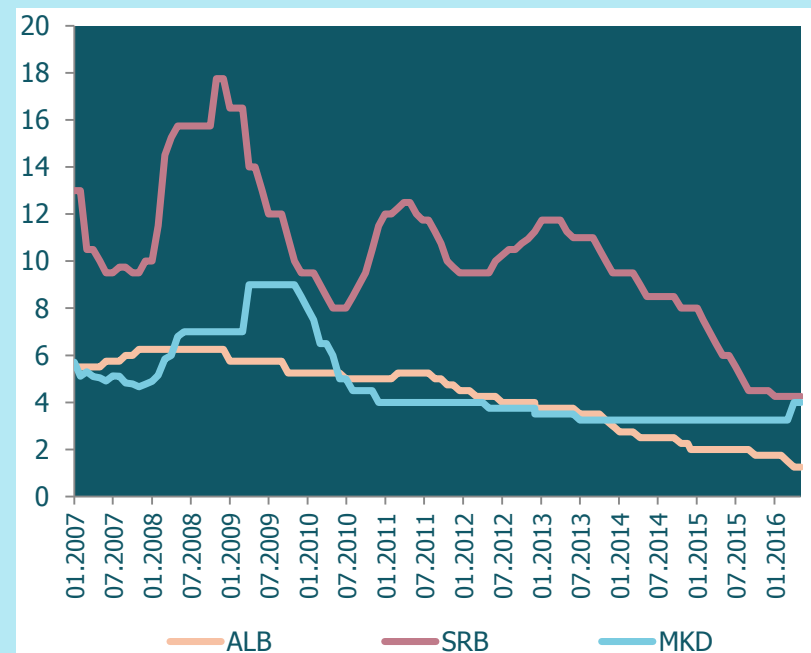
Interest rate channel

- Western Balkans experiencing period of historically low inflation
- Monetary policy stance is eased to historically low levels
- **Thus, double effect of ECB QE through monetary policy**

Inflation (%)



Interest rates of Central banks (%)

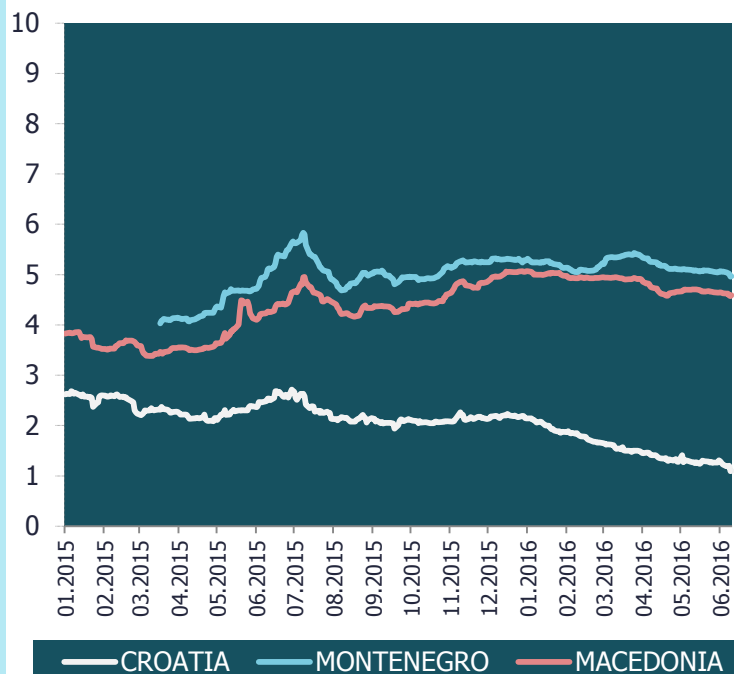


Source: IMF, internet pages of CB

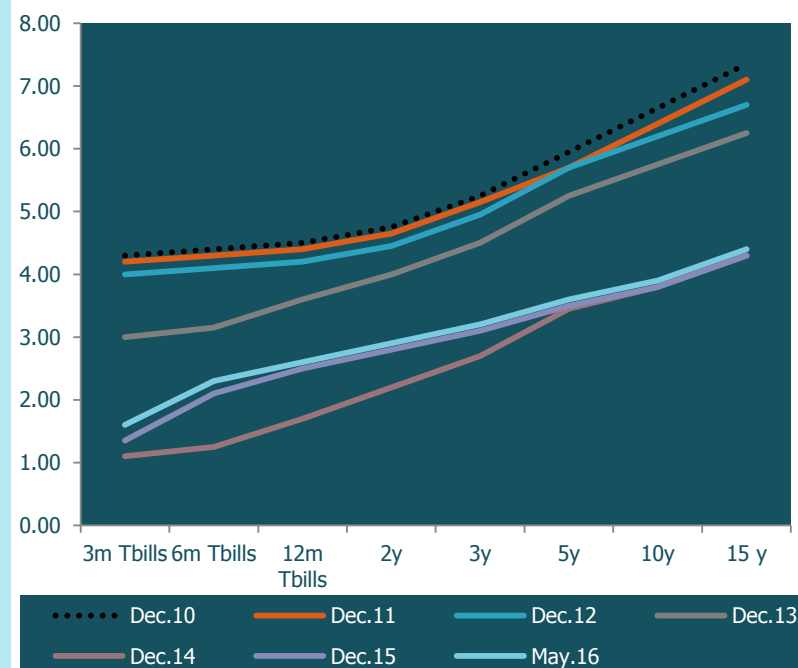
Interest rate channel

- **Stable/falling yields even on regional Eurobonds, as well as on domestic markets** (lower financing costs), but still attractive for investors

Yields on Eurobonds



Macedonian yield curve, in LCR

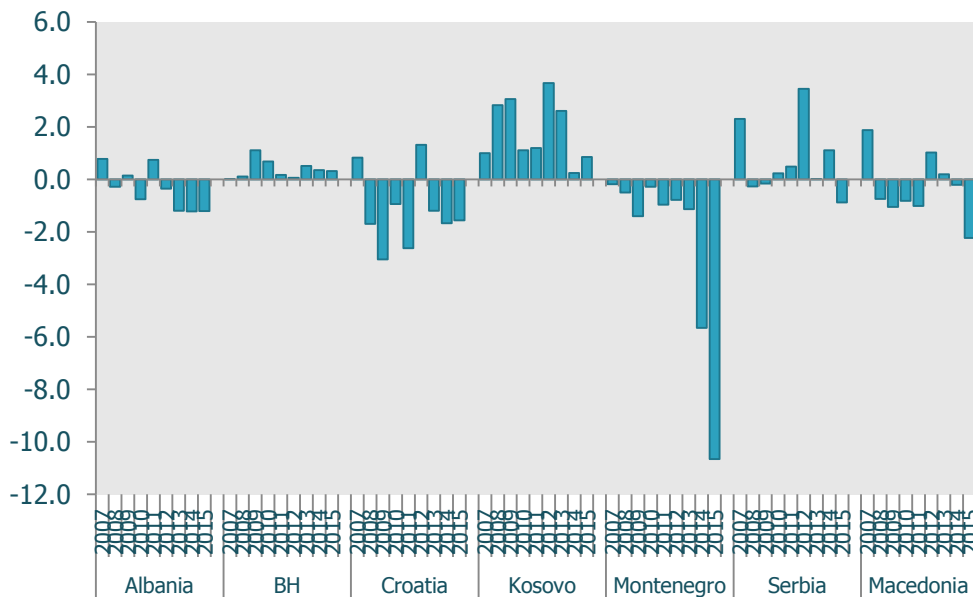


Source: NBRM

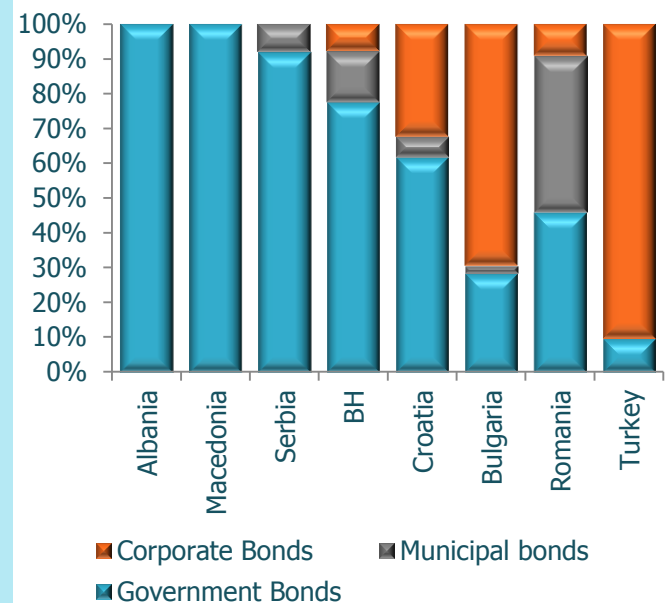
Portfolio channel

- **Search for yield on EU markets** resulted in downward trend of prices of all financial instruments - ***This is opportunity for WBs countries to attract portfolio inflows***
- However, **shallow domestic capital markets** are limiting factor for attracting portfolio inflows

Net Portfolio Investment (% of GDP)



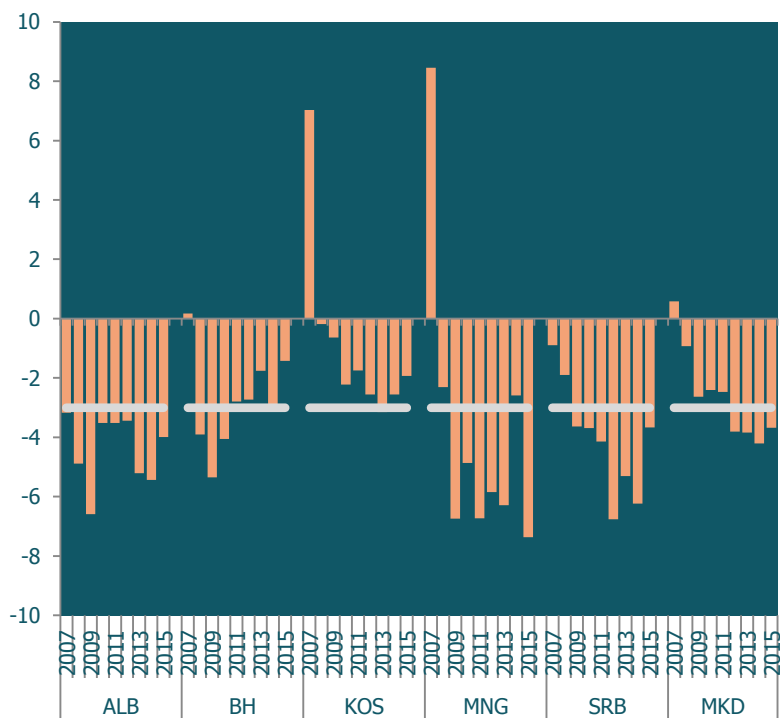
Structure of Capital Markets



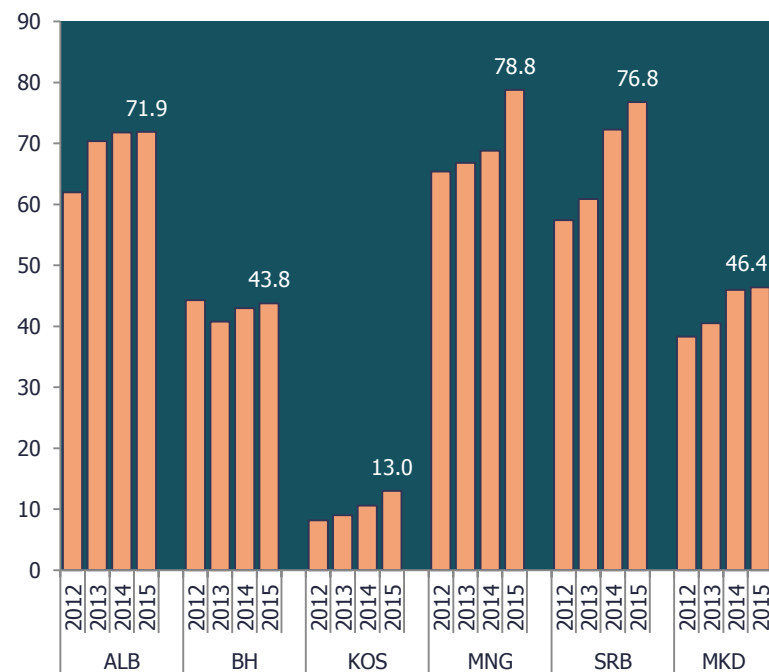
Public finances

- On the other hand, **fiscal space in region is limited** due to deficits and public debt levels
- **Kosovo, Macedonia and B&H have the lowest public debt levels**

Fiscal balance (% of GDP)



Public and publicly guaranteed debt (% of GDP)



Public finances

- ▶ Favorable market conditions for new issuances – **some countries in region exploited the opportunity**

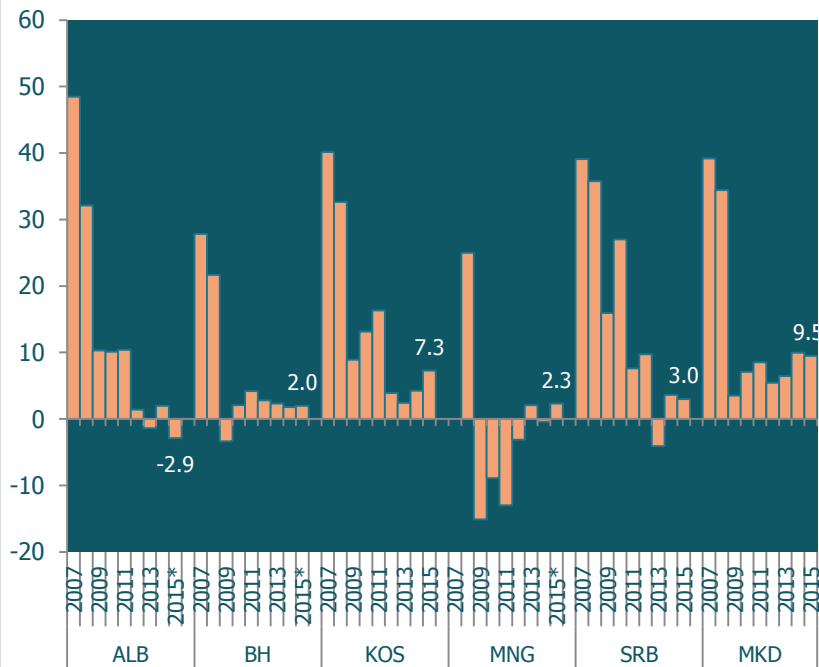
Issuances of Eurobonds				Ratings								
Country	Eurobonds issued beginning from 2009	Maturity	Coupon	2007	2009	2010	2011	2012	2013	2014	2015	2016
Albania	2010 - 300 EUR mil.	2015	7.500%	B1	B1	B1	B1	B1	B1	B1	B1	B1
	2015 - 450 EUR mil.	2020	5.750%			B+	B+	B+	B	B	B	B+
Serbia	2011 - 2.000 USD mil.	2021	7.250%									
	2012 - 750 USD mil.	2017	5.250%									
Croatia	2013 - 1.500 USD mil. and 1.000 USD mil.	2020 and 2018, respectively	4.875% and 5.875%, respectively			B2	B2	B3	B3	B3	B3	B3
	2009 - 750 EUR mil. and 1.500 USD mil.	2015 and 2019, respectively	6.500% and 6.750%, respectively				B+	B	B	B	B	B
	2010 - 1.250 USD mil.	2020	6.625%	Baa3	Baa3	Baa3	Baa3	Baa3	Ba1	Ba1	Ba1	Ba2
	2011 - 1.500 USD mil. and 750 EUR mil.	2021 and 2018, respectively	6.375% and 5.875%, respectively	BBB	BBB	BBB-	BBB-	BB+	BB+	BB	BB	BB
Montenegro	2012 - 1.500 USD mil.	2017	6.250%	BBB-	BBB-	BBB-	BBB-	BBB-	BB+	BB	BB	BB
	2013 - 1.500 USD mil. and 1.750 USD mil.	2023 and 2024, respectively	5.500% and 6.000%, respectively			Ba3	Ba3	Ba3	Ba3	Ba3	Ba3	B1
	2015 - 1500 EUR mil.	2025	3.000%	BB+	BB+	BB	BB	BB-	BB-	B+	B+	B+
	2010 - 200 EUR mil.	2015	7.875%						B1	B1	B1	B1
Macedonia	2011 - 180 EUR mil.	2016	7.250%									
	2013 - 80 EUR mil.	2016	float	BB-	BB-	BB-	BB	BB-	BB-	BB-	BB-	BB-
	2014 - 280 EUR mil.	2019	5.375%	BB-	BB-	BB-	BB-	BB-	BB-	B+	B+	B+
	2015 - 500 EUR mil.	2020	3.875%									
	2016 - 300 EUR mil.	2021	5.750%	BBB-	BB	BB	BB	BB	BB-	BB-	BB-	BB-
Macedonia	2009 - 175 EUR mil.	2013	9.875%	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+	BB+
	2014 - 500 EUR mil.	2021	3.975%									
	2015 - 270 EUR mil.	2020	4.875%									

Moody's S&P Fitch

Banking system

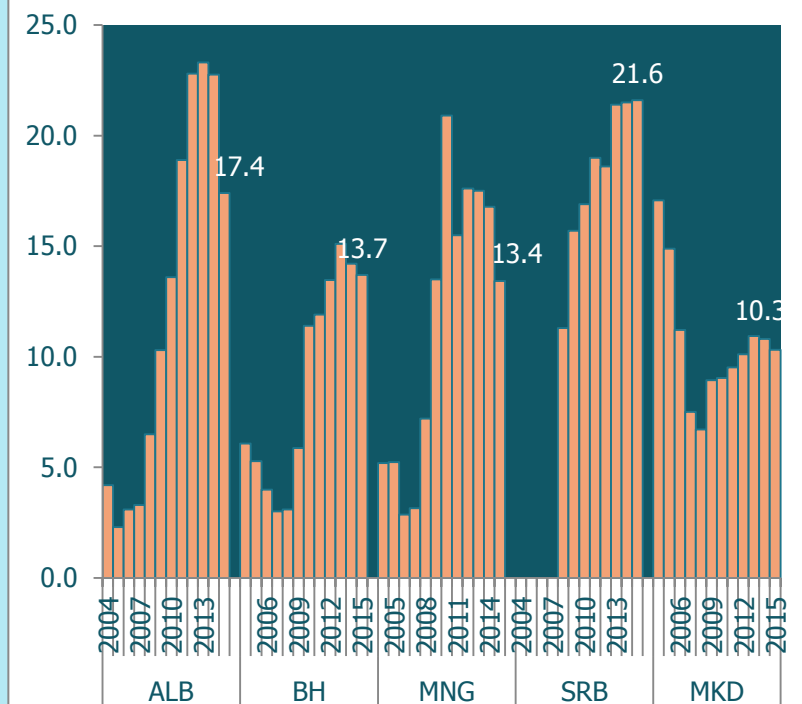
- With monetary policy rates at historic lows, lending rates in SEE6 countries declined, providing support to **tentative growth in private credit**
- **Macedonia has the strongest credits growth and lowest NPLs level**

Credit to private sector (%)



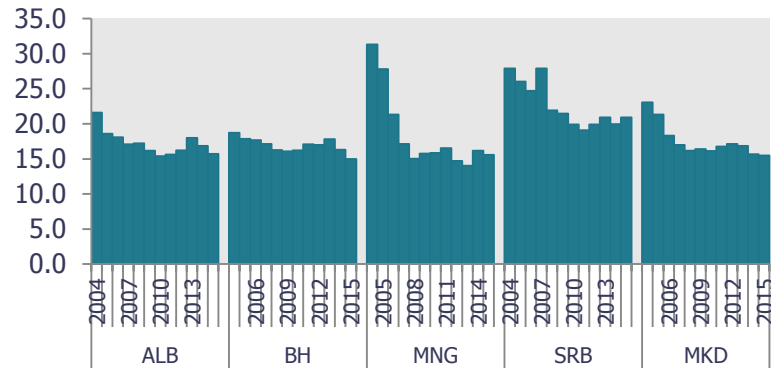
* IMF estimates.

NPLs(%)

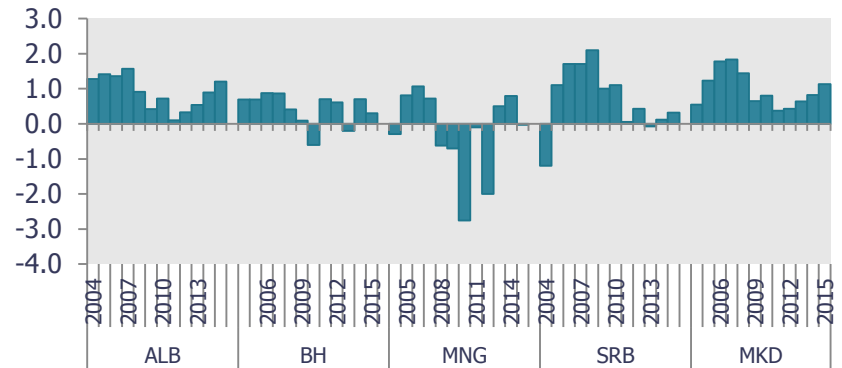


Banking system

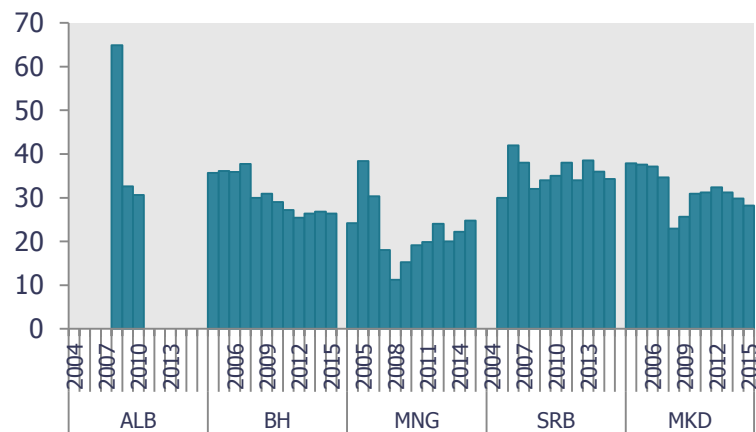
Capital to risk-weighted assets (%) is high



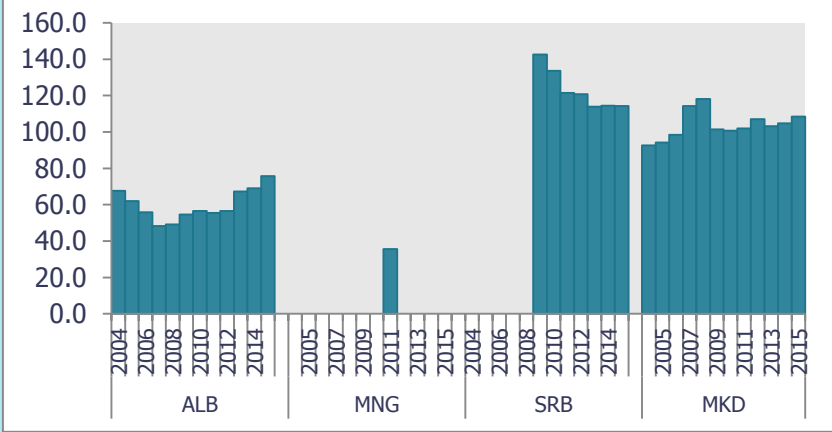
Return on assets (ROA, %) is recovering



Liquidity ratio (liquid assets to total assets) is high



Coverage of NPLs with provisions - fully



Structural Reform Priorities

▶ Looking ahead – What needs to be done?

- **Preserving macroeconomic stability** – optimal mix of monetary and macroeconomic policies is crucial
- **Addressing structural rigidities is crucial to pave the way for SEE6 productivity performance and economic potential and for increasing living standards of the population:**
 - ❖ eliminate disincentives and barriers to formal employment;
 - ❖ improve business climate and governance;
 - ❖ enhance the quality and efficiency of public services and social protection systems, while reducing the government footprint;
 - ❖ deepening regional and global integration;
 - ❖ ensure sustainable use of energy and natural resources and stewardship of the environment.

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THANK YOU FOR YOUR ATTENTION!

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