



Is monetary policy only one to tackle the challenges?

Global perspectives and the case of Macedonia

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Vice Governor

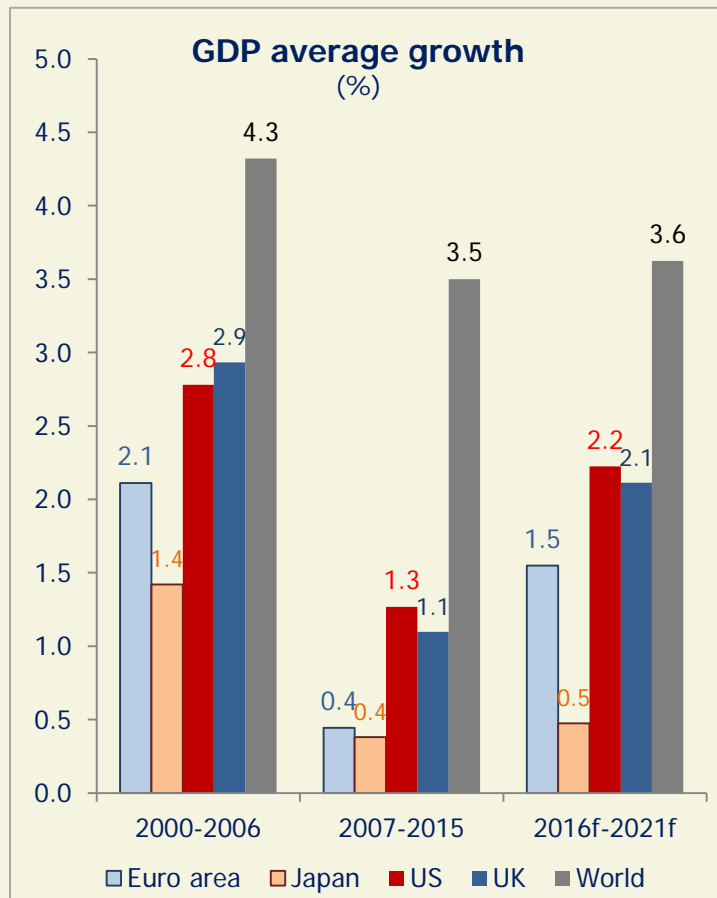
4th ERSTE Investors' Breakfast

Skopje, September 2016



Real GDP – global growth is in trap

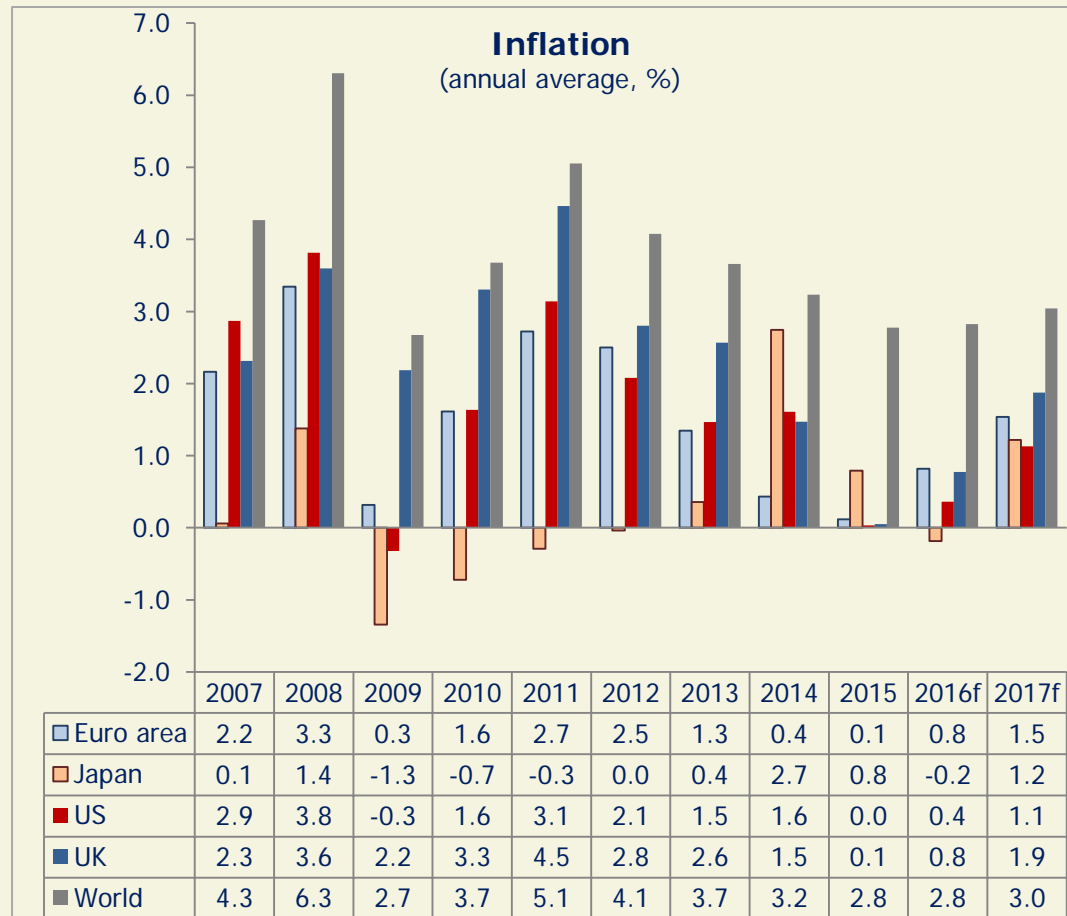
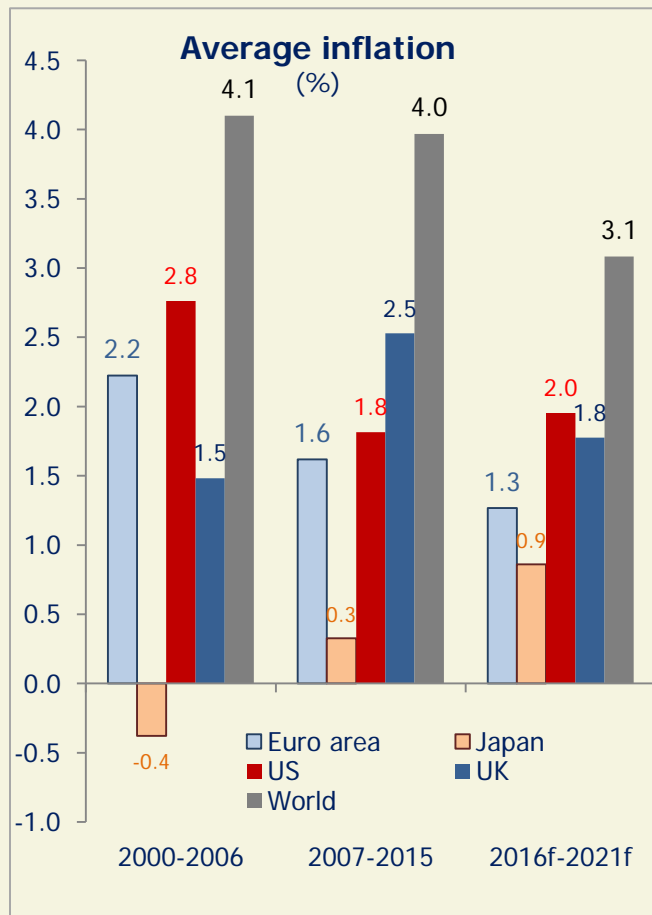
- **Slow pace of economic growth in advance economies**
 lower GDP growth rates than before the global financial crisis (GFC)
 expectations for only modestly higher growth rates than in the last few years





Inflation – abated price pressures after the GFC

- Inflation is well below monetary policy target (2%)
 - Euro area is facing exceptional challenges in the last couple of years
 - should central banks target higher inflation rates to boost inflation expectations?

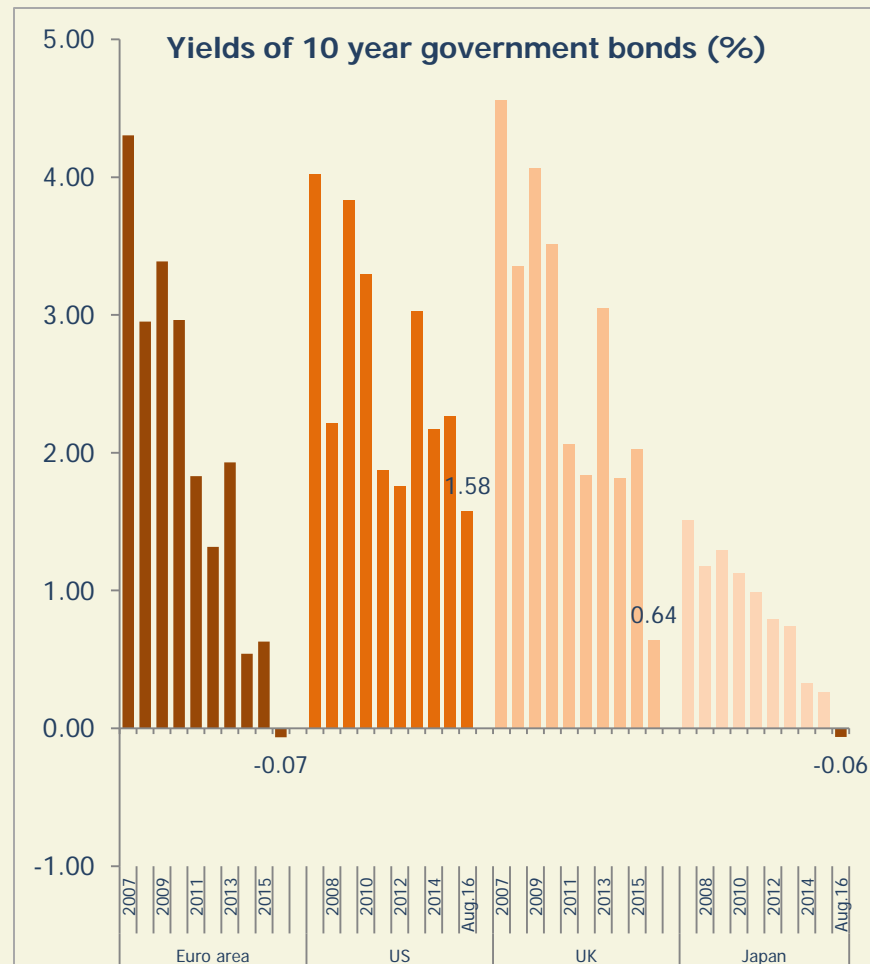
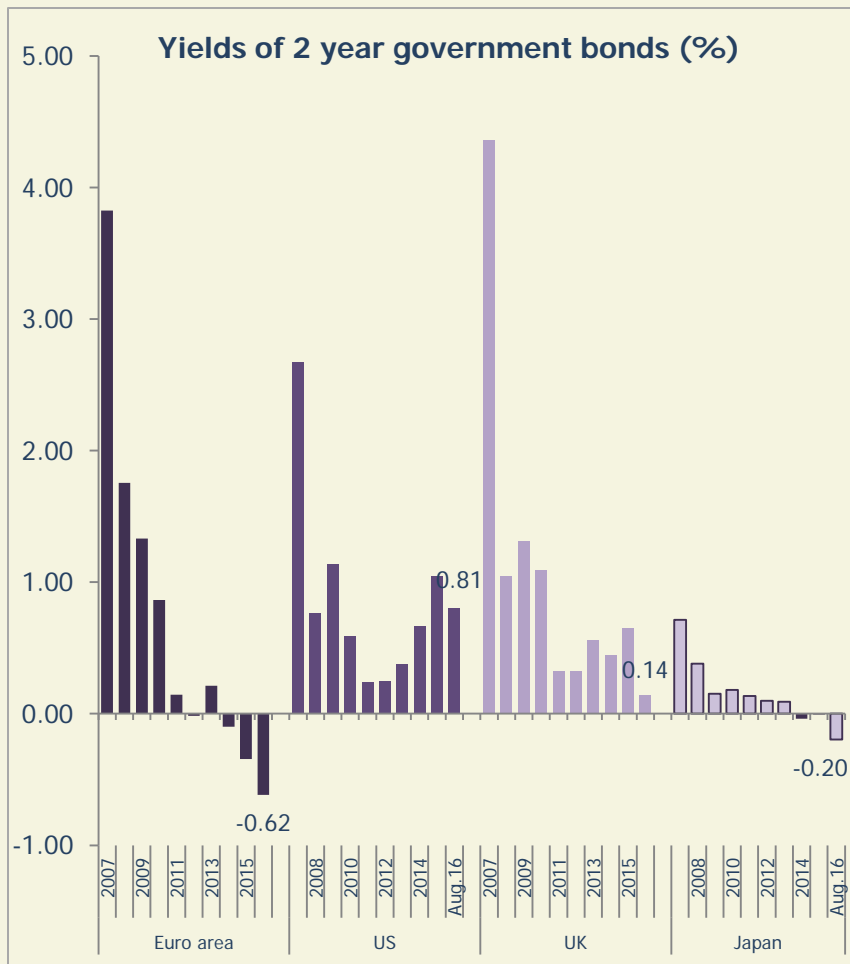




Interest rates – new, lower, levels of real “natural” rates

➤ Interest rates – how LOW, and for HOW LONG?

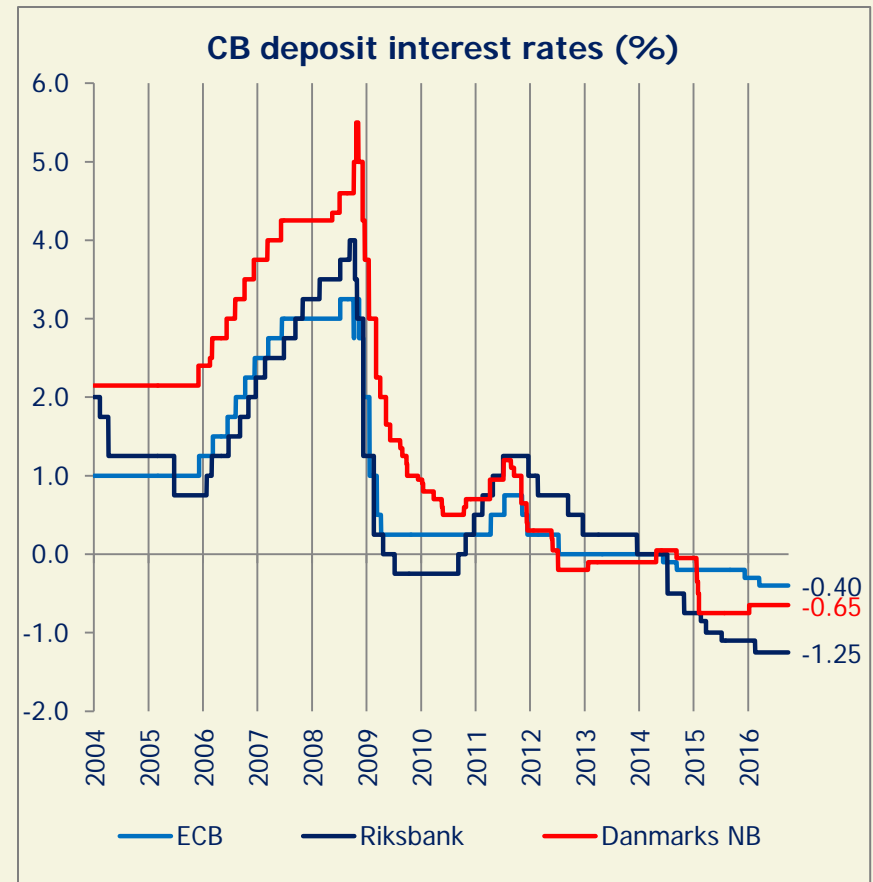
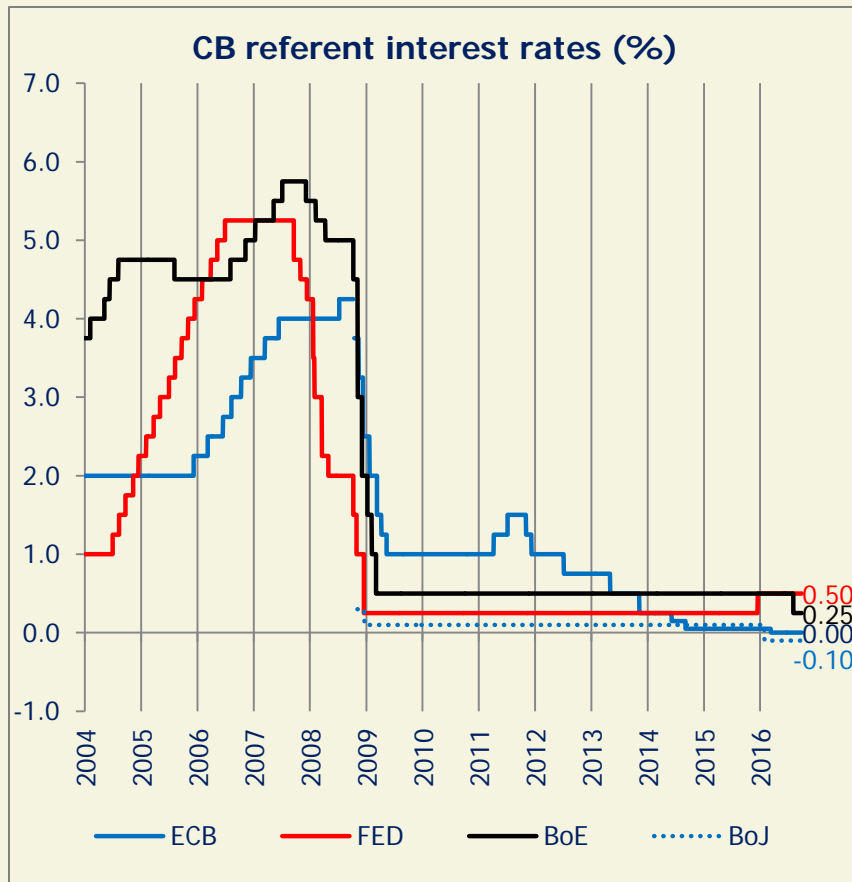
- Currently, short-term rates in most AE are close to zero and in some, they are negative
- long term yields are generally well below the level of nominal GDP growth





Conventional monetary policy measures- decreasing interest rates

- Lowering main monetary policy rates and implementing forward guidance
 - introduction of negative deposit interest rates – crossing to “unchartered” waters





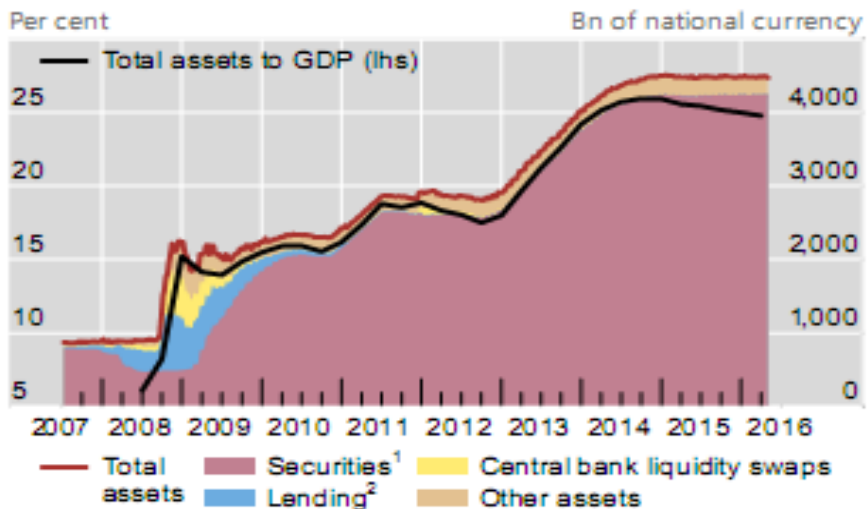
Time line of “unconventional” monetary policy measures

ECB	FED	BoJ	BoE
2008 - Fixed rate full allotment	2008 - Term Auction Facility (TAF), Term Securities Lending Facility (TSLF); Primary Dealer Credit Facility - PDCF; Asset Backed CP MMMF Liquidity Facility; Commercial Paper Funding	2008 - Securities lending Facility; Outright purchases JGBs; CP repo operations - expansion, outright purchases; Special Funds Supplying operations to facilitate corporate financing	2009 - Asset purchase facility establishment (APF); QE1 announced by purchase of "majority" long-term gilts
2008/2009/2011 - Long Term Refinancing Operations (6m, 1y, 3y) -LTRO			2011 - QE2 announced
2009/2011/2014 - Covered Bonds Purchase Programme - CBPP			2012 - QE announced; State contingent guidance
2012 - Outright Monetary transactions (announcement) - OMT			
2013 - Forward Guidance	2009 - Term Asset Backed Securities Loan Facility - TALF; Liquidity to credit markets - consumer, small business	2009 - Outright purchases Corporate Bonds	<u>2016 - Corporate Bond Purchase operations announced, term Funding Scheme</u>
2014 - Targeted Long Term Refinancing Operations – TLTROs; ABS and Covered Bond Purchase Programme - ABSPP, CBPP	2008/2010/2012 - Large scale Asset Purchases - QE1, QE2, QE3	2010 - Asset Purchases Programme	
2014 -		2012 - Loan Support Programme; State contingent guidance	
2015/ <u>2016</u> - Expanded Asset Purchase Programme - Public and <u>Corporate Sector Purchase Programme</u>	2008/2011/2012/2014 - Forward guidance (qualitative and quantitative)	2013 Quantitative and Qualitative Monetary Easing (QQE); <u>2016 - Yield curve targeting</u>	

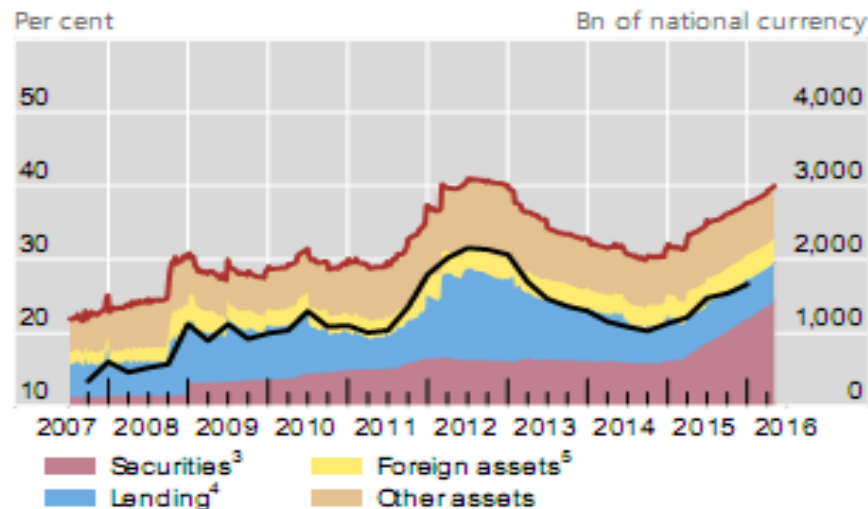


Non-standard measures were supposed to be exceptional and temporary – hence the term “unconventional”

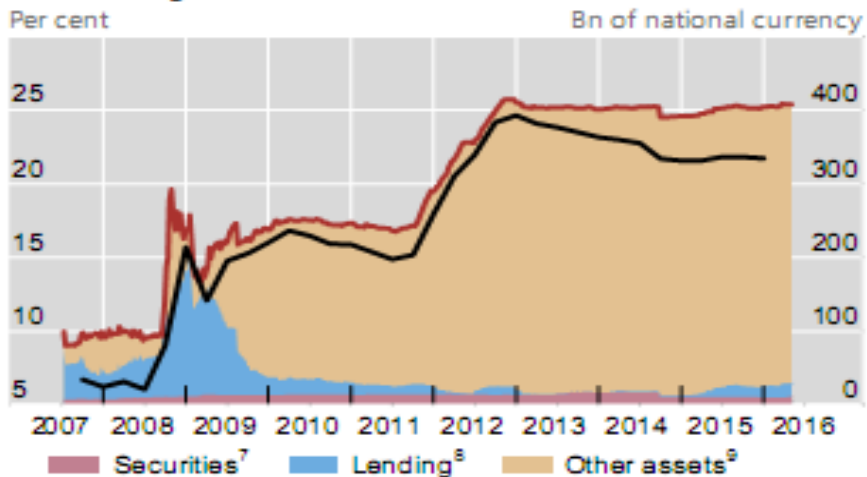
Federal Reserve



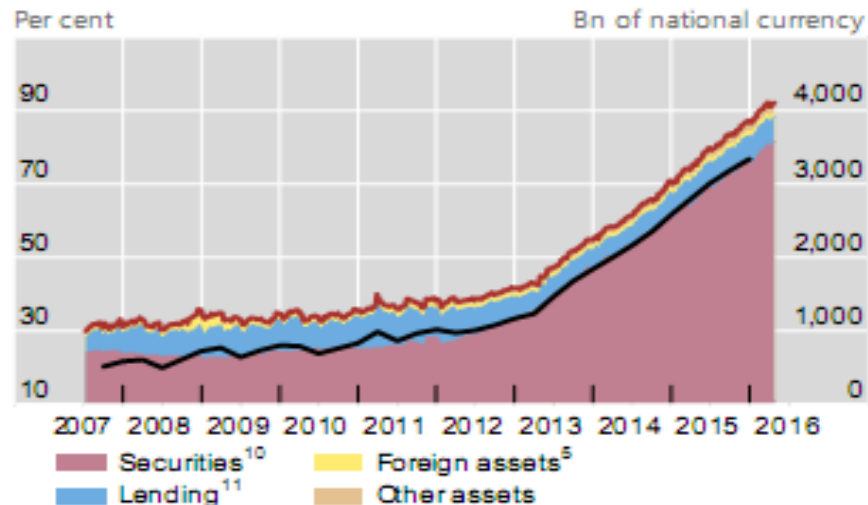
Eurosystem



Bank of England⁶



Bank of Japan (100 bn)





Non-standard measures were supposed to be temporary – hence the term “unconventional”

➤ **Post-crisis global central banks have adopted a broad range of measures that reflect not just evolving challenges but also the structure of financial system.**

➤ In the capital markets based US system, large scale asset purchases played dominant role, whereas in the bank-based euro area system, liquidity provision through banks was the main type of operation

➤ **The unconventional measures have changed the size and structure of central bank balance sheets beyond recognition**

➤ balance sheets have ballooned: Eurosystem by factor 3, and others by factor 4

➤ on the asset side, securities account for the lion's share of the increase in the US, UK and Japan, while in the euro area loans have played a bigger role

➤ on liability side, in all cases, the bank reserves have surged.

➤ **The monetary policy measures that the central banks have adopted in the wake of the financial crisis were regarded to be unconventional: almost a decade on, they have become commonplace**

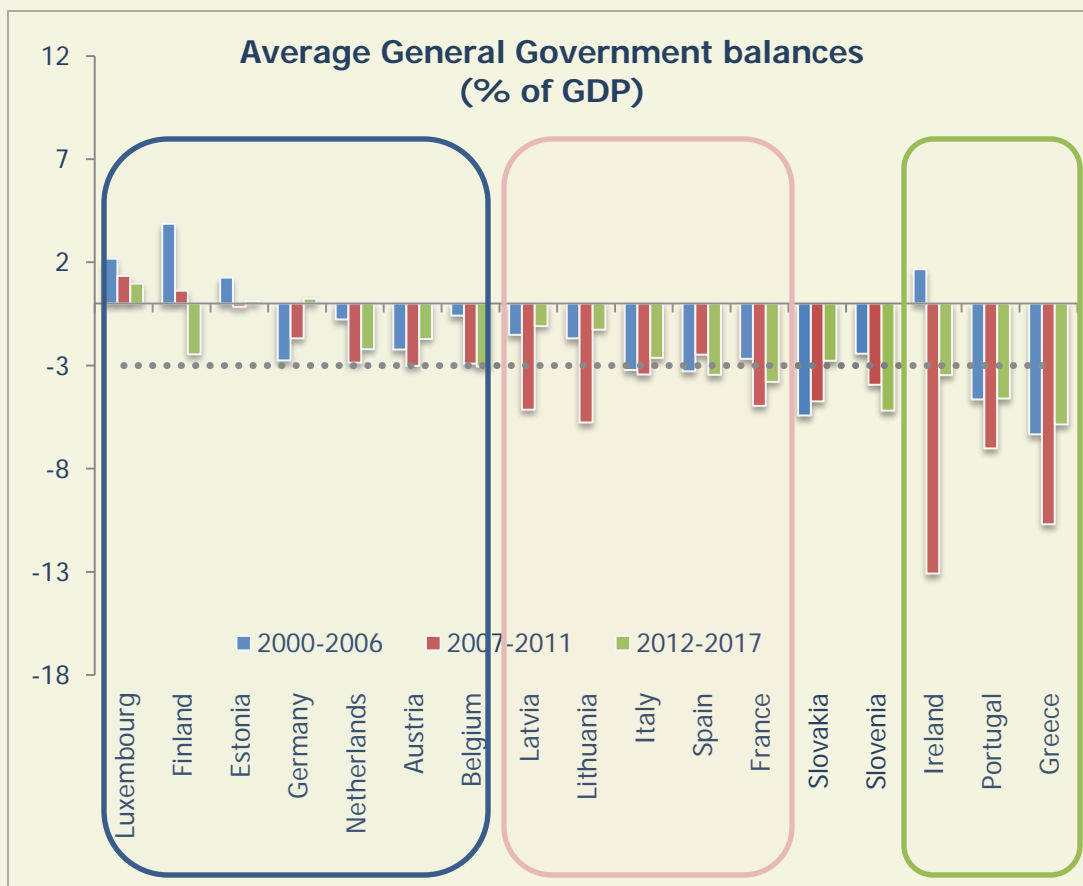
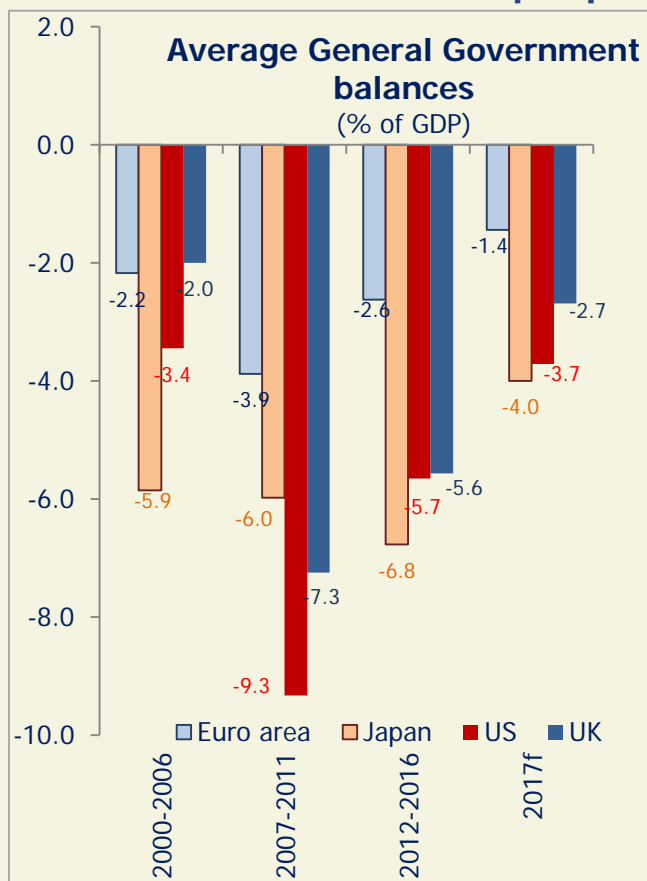
➤ **This development is a risky one, and result from the unbalanced post-crisis policy mix, which made the monetary policy carry the bulk of the burden**



Fiscal policy – is there space for more active approach?

➤ In the aftermath of the GFC, the US and the UK reacted more decisively with fiscal measures

➤ In the euro area, as a region, there is room for more fiscal stimulus, but the situation by countries differs – the “periphery” is still in deficit, the “core” is reluctant to spend more

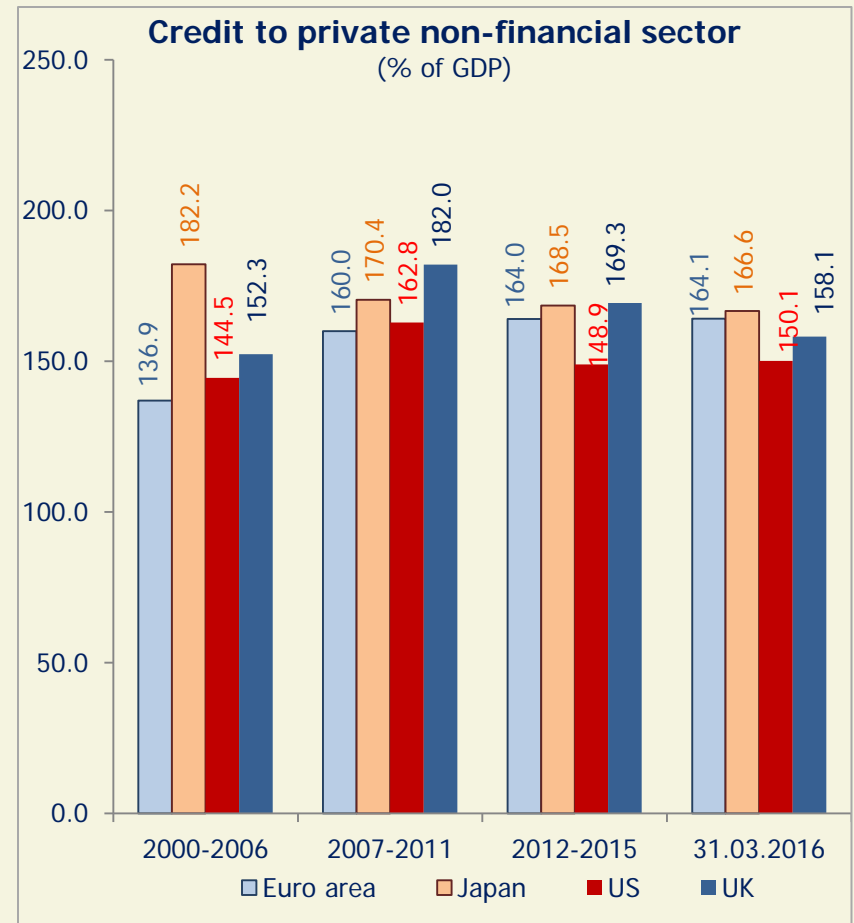
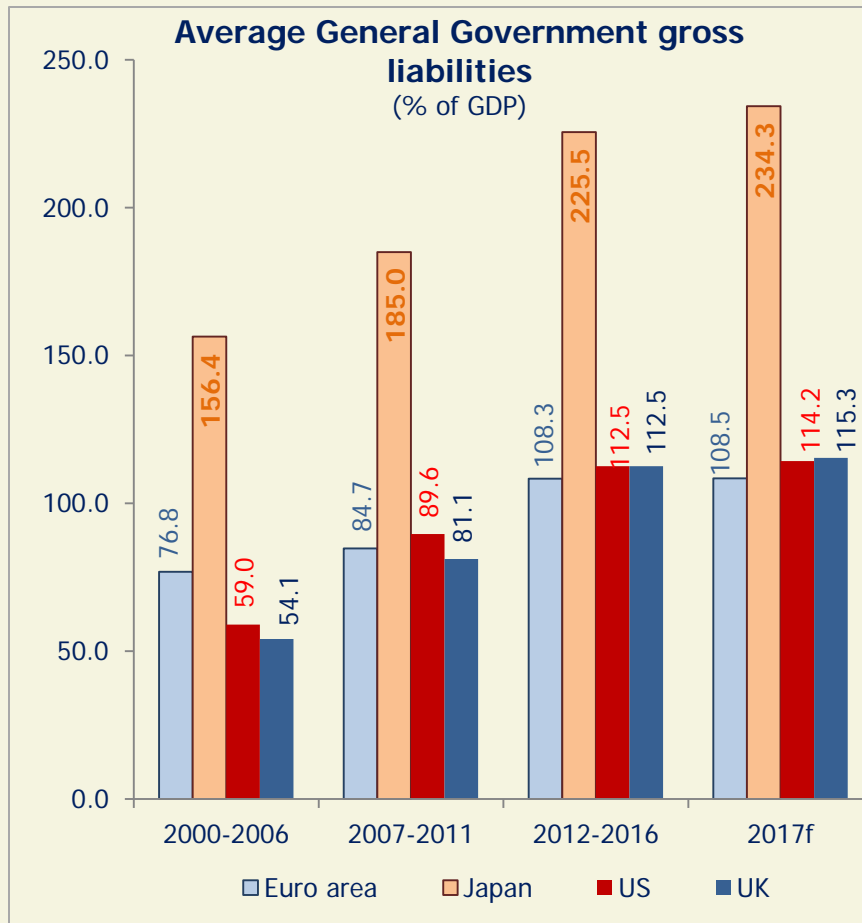




Fiscal policy – public debt is still high

➤ Surge in public debt after the GFC, while private credit has more stable development

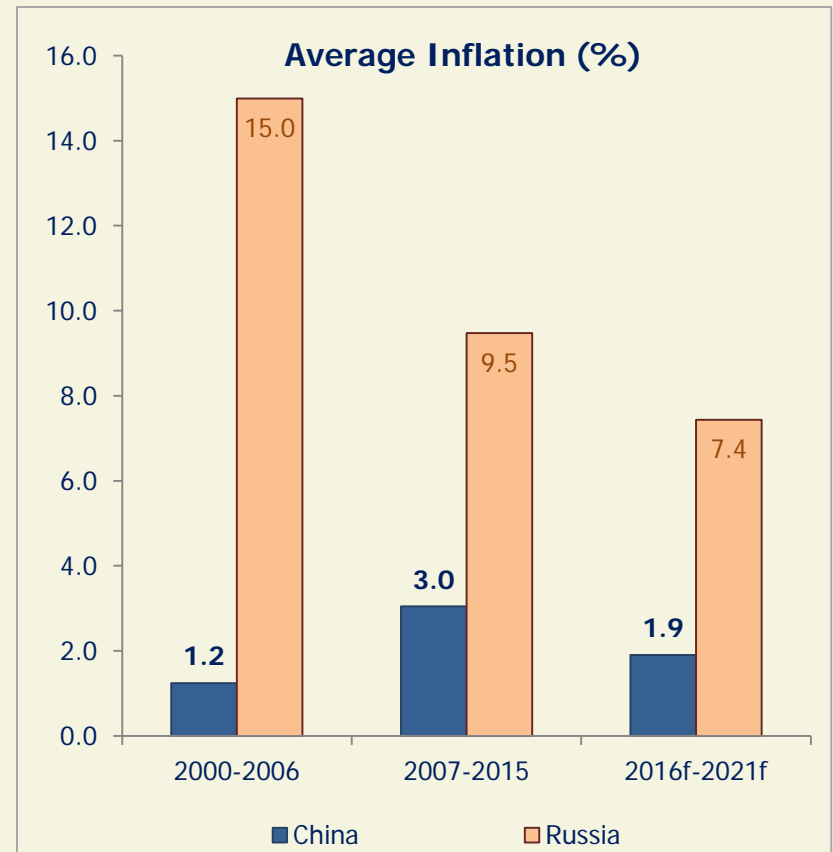
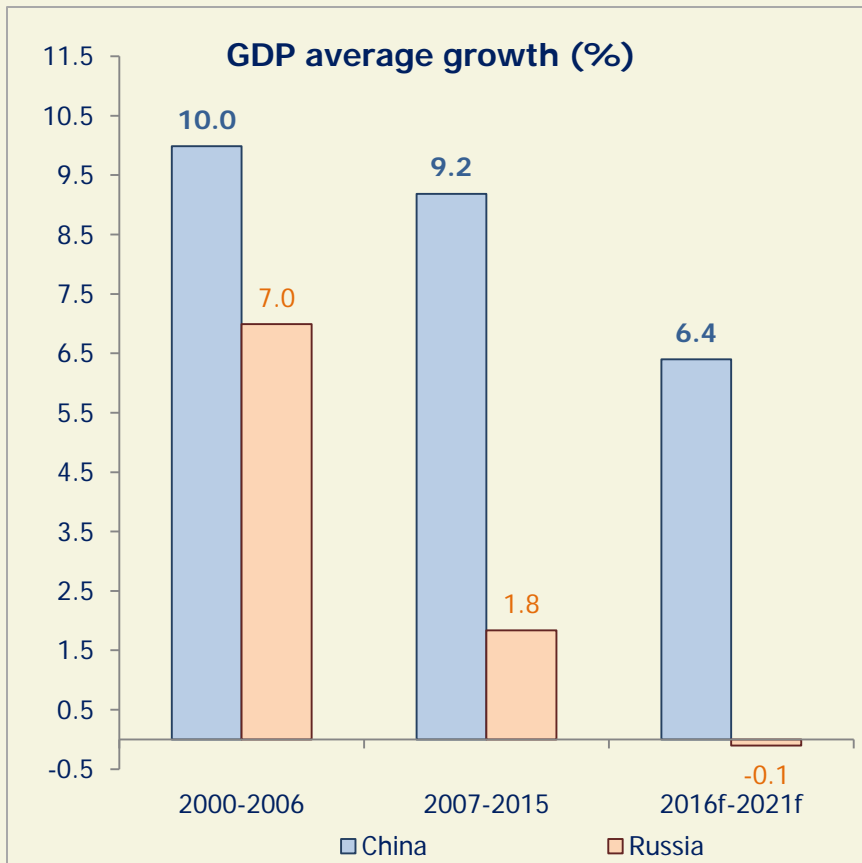
➤ In the US, there was even deleveraging of the private sector, in the period 2012-2015





Conditions in emerging and developing economies

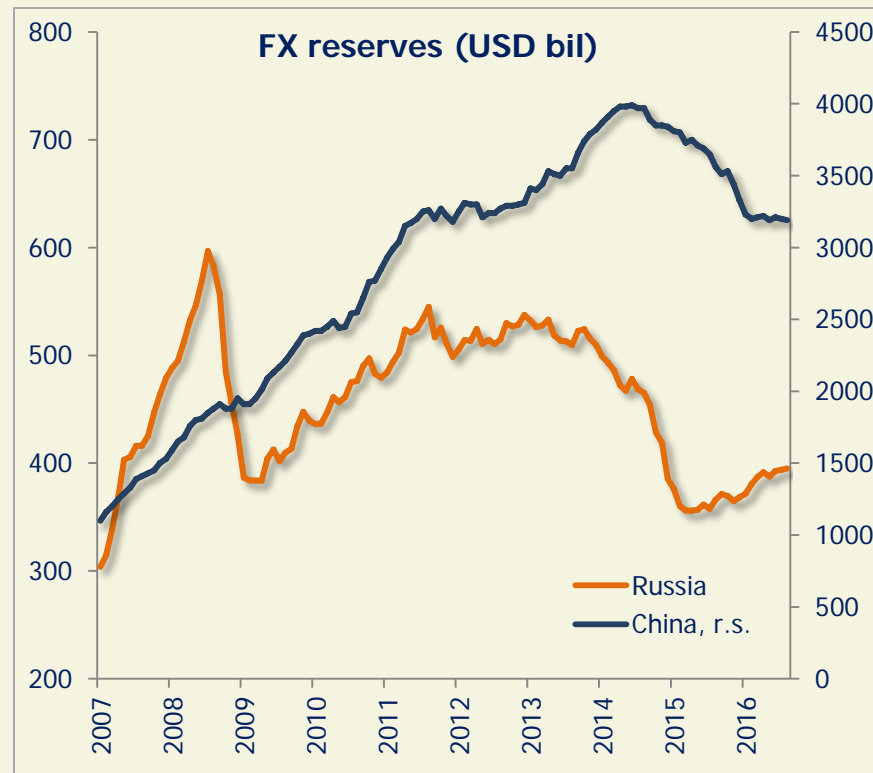
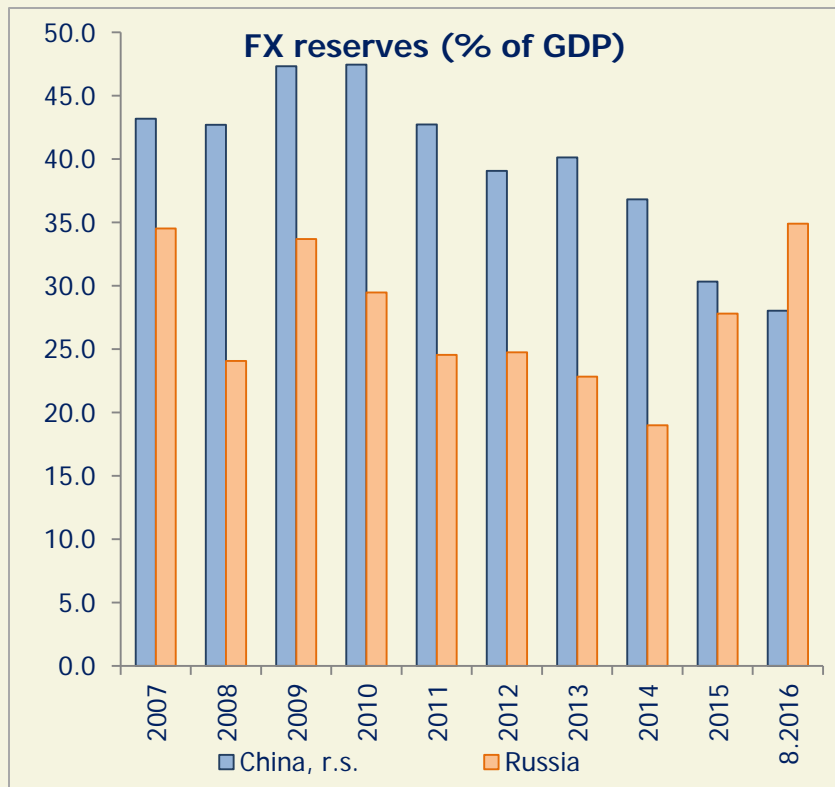
- **Stronger than expected activity in China, reflecting policy stimulus**
- **Stabilization in Russia following the rebound in oil prices, but subdued prospects of a strong recovery given the longstanding structural bottlenecks and the impact of sanctions on productivity and investment**





Conditions in emerging and developing economies

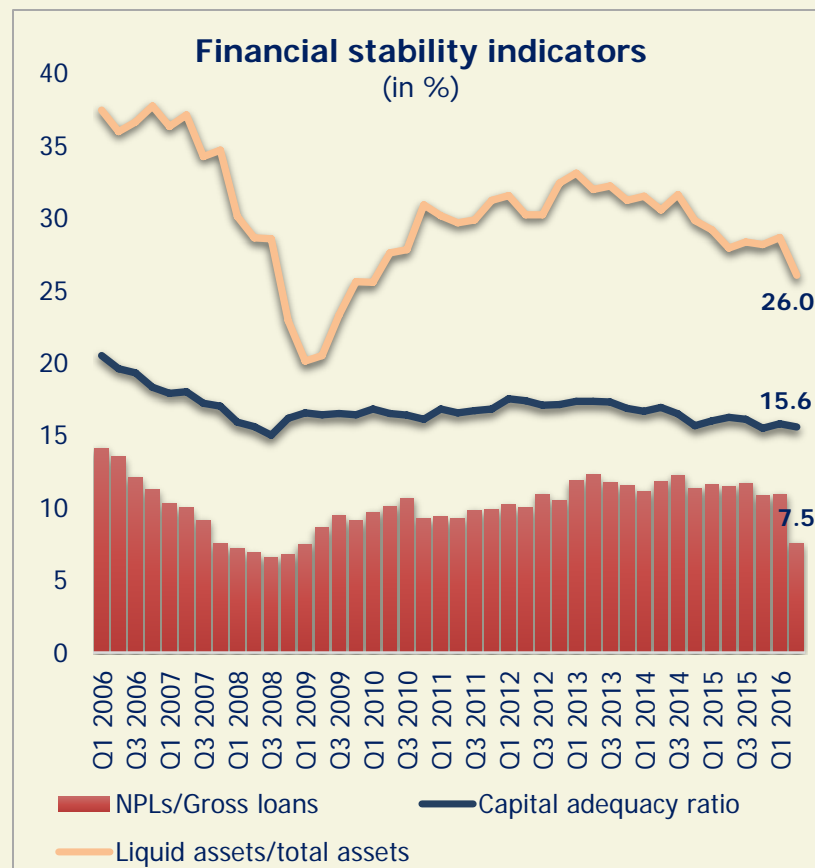
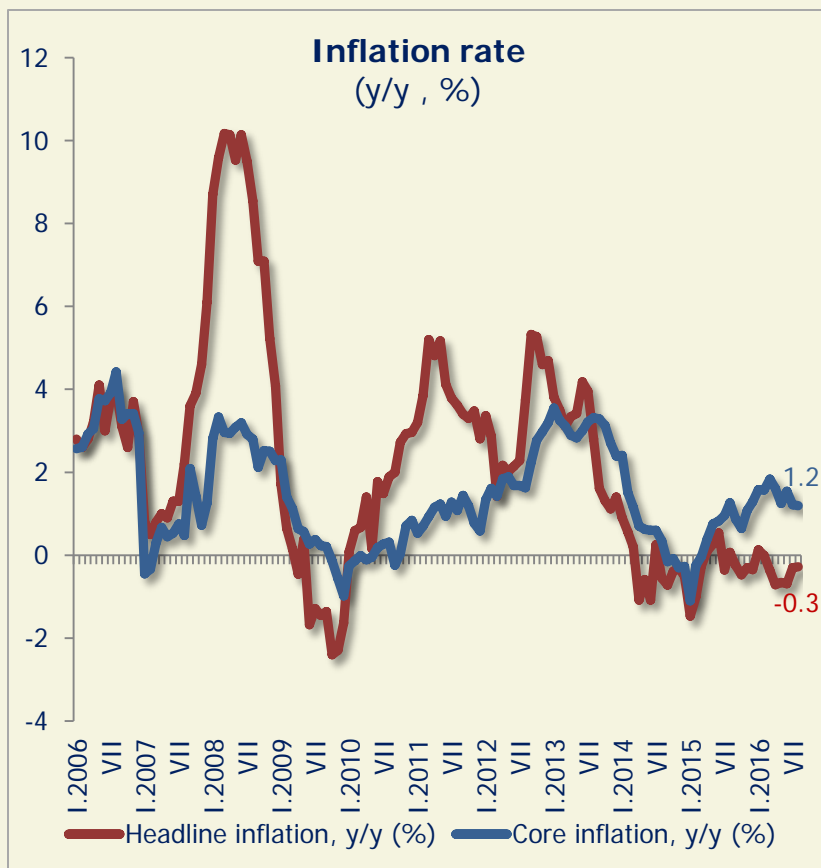
- In 2014, Russia lost 24.4% of the FX reserves, and in 2015 additional 4.4%. FX reserves rose by 7.3% in 2016.
- China felt pressures on FX market at the end of 2014, that intensified in 2015 when it lost 13.3% of the FX reserves. In 2016, China continues to intervene (FX reserves are lower by additional 4.2%)





The case of Macedonia – efficient fulfillment of monetary objectives

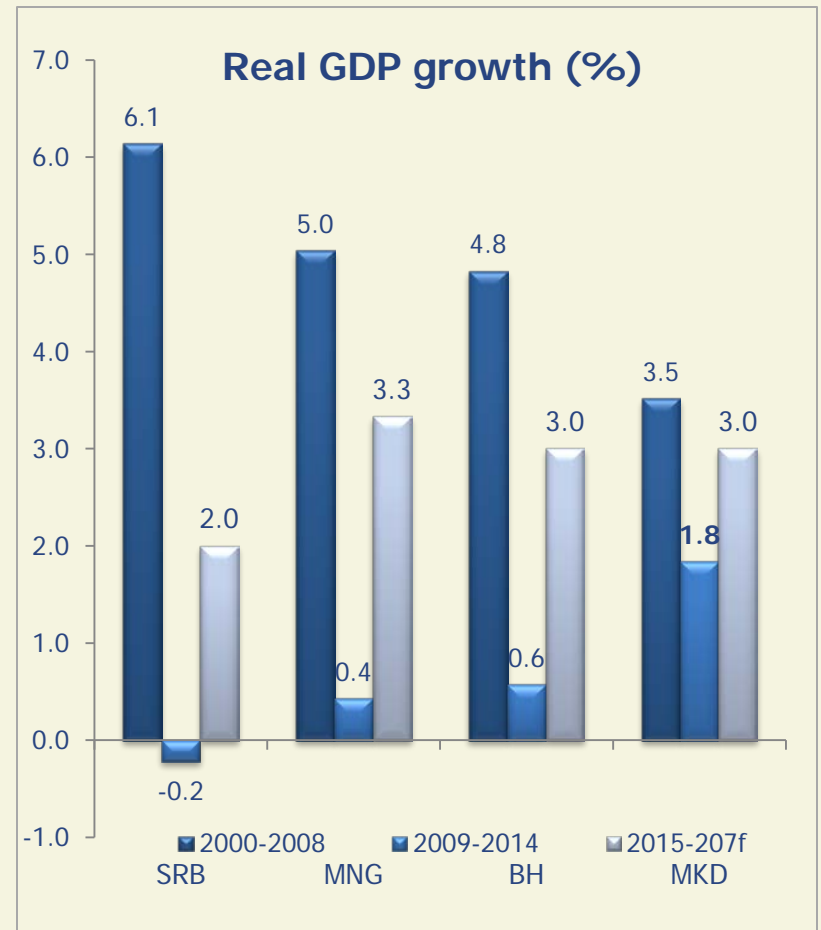
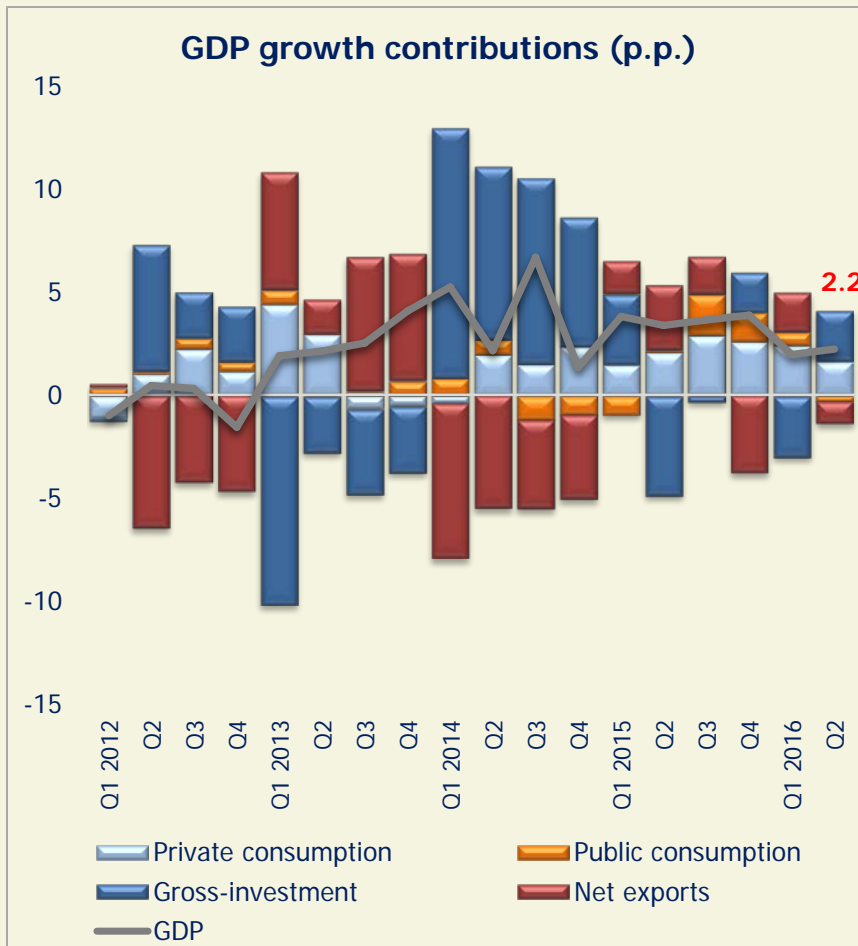
- NBRM is efficiently accomplishing the lawful monetary policy objectives: maintaining price stability and enabling stable and competitive financial system
 - in 2016 low inflation pressures due to energy and food prices





The case of Macedonia – economic growth besides uncertain conditions

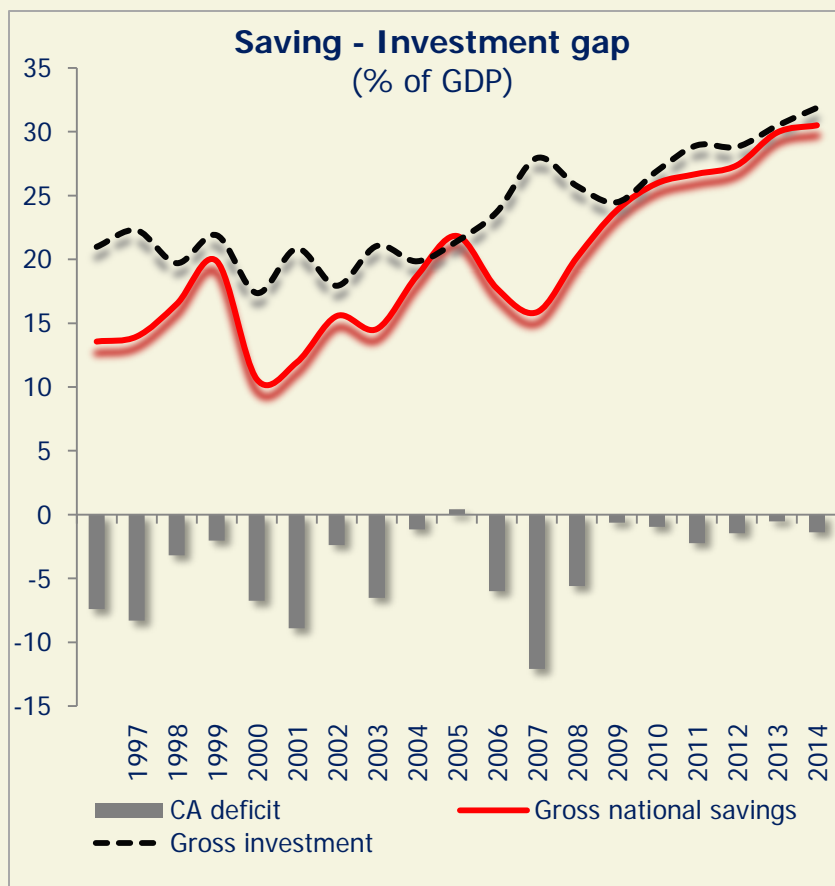
- After couple of years of solid economic growth, 2016 will be somewhat slower
 - mild increase of economic activity due to higher investment





The case of Macedonia – savings are compensated through higher public debt

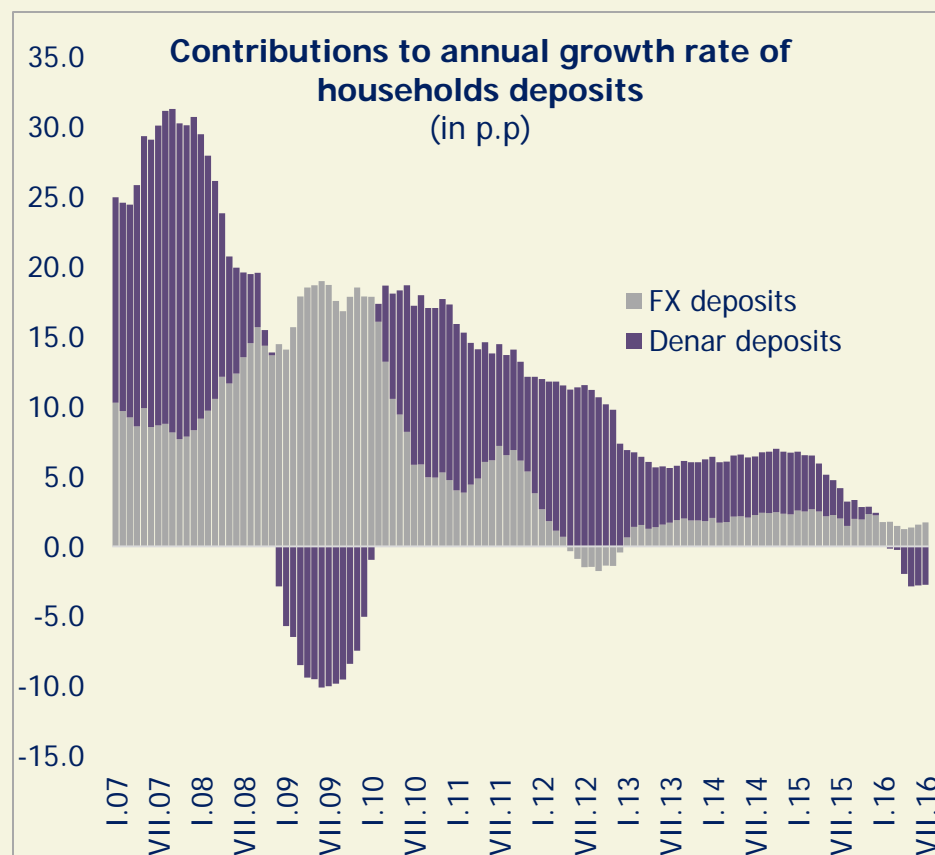
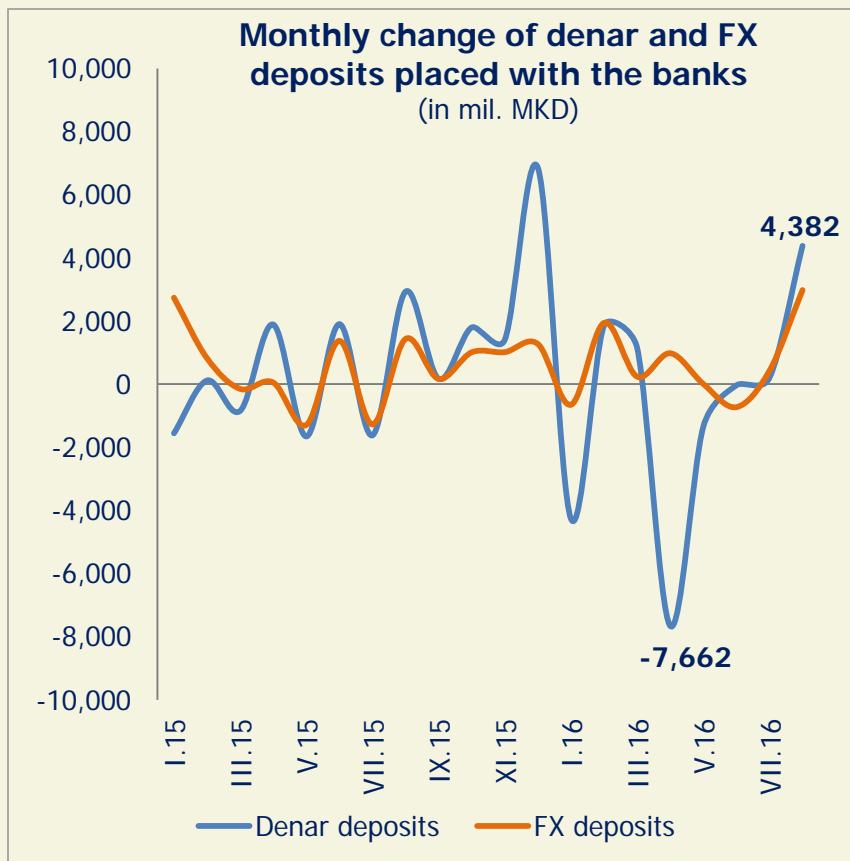
- **Shrinking of the S-I gap** in light of rising national savings and ongoing domestic investments
- **Private debt** has moderate developments, while public debt has increased in the last four years, thus enabling public spending for infrastructure projects





The case of Macedonia – challenges for the monetary policy in H1 of 2016

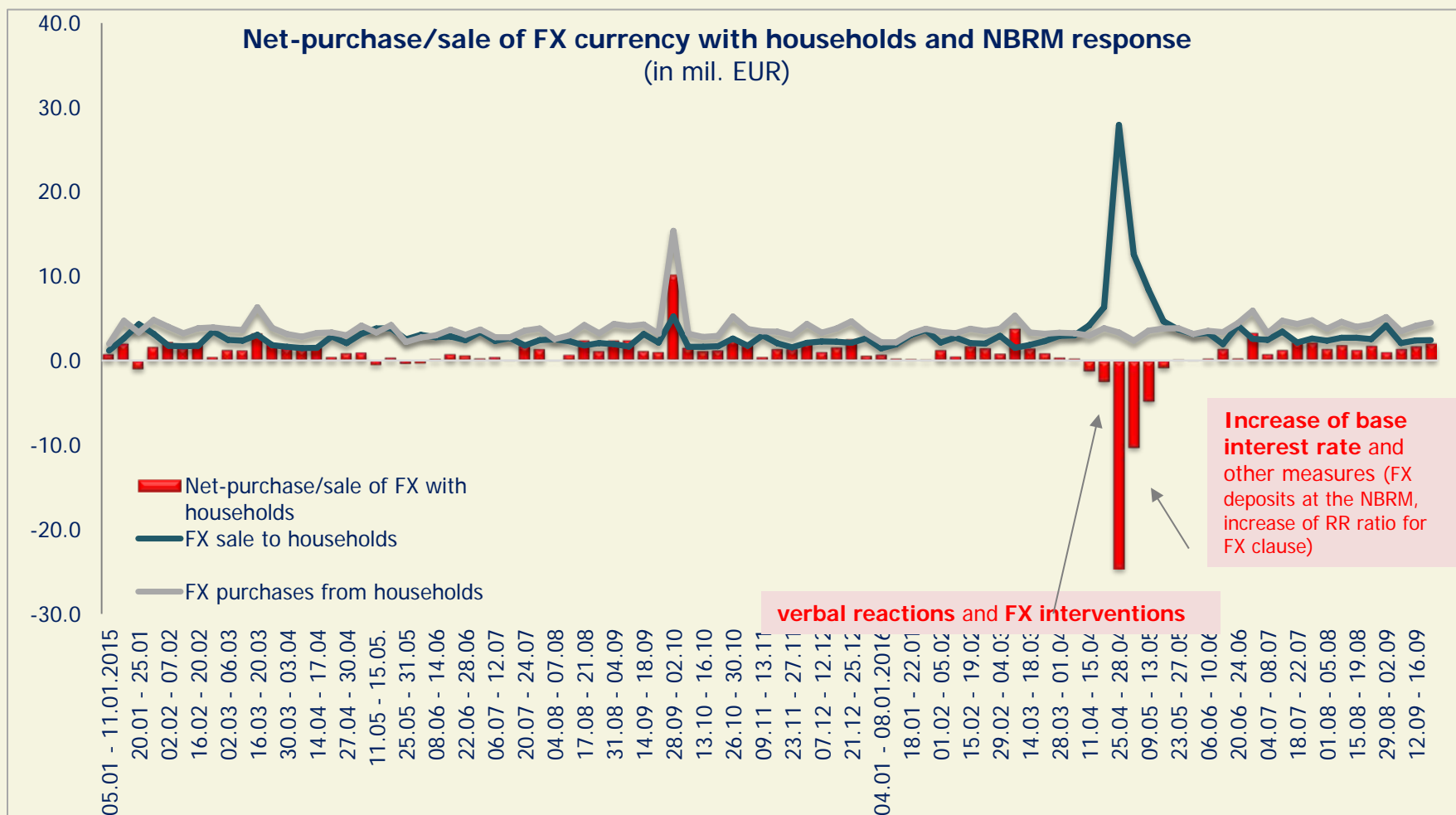
- Speculation over the stability of the banking system resulted in deposit outflows in April/May, especially outflows of denar deposits of households (around 4% of the household deposit base)
 - in summer period, stabilization of developments in the deposit base





The case of Macedonia – challenges for the monetary policy in H1 of 2016

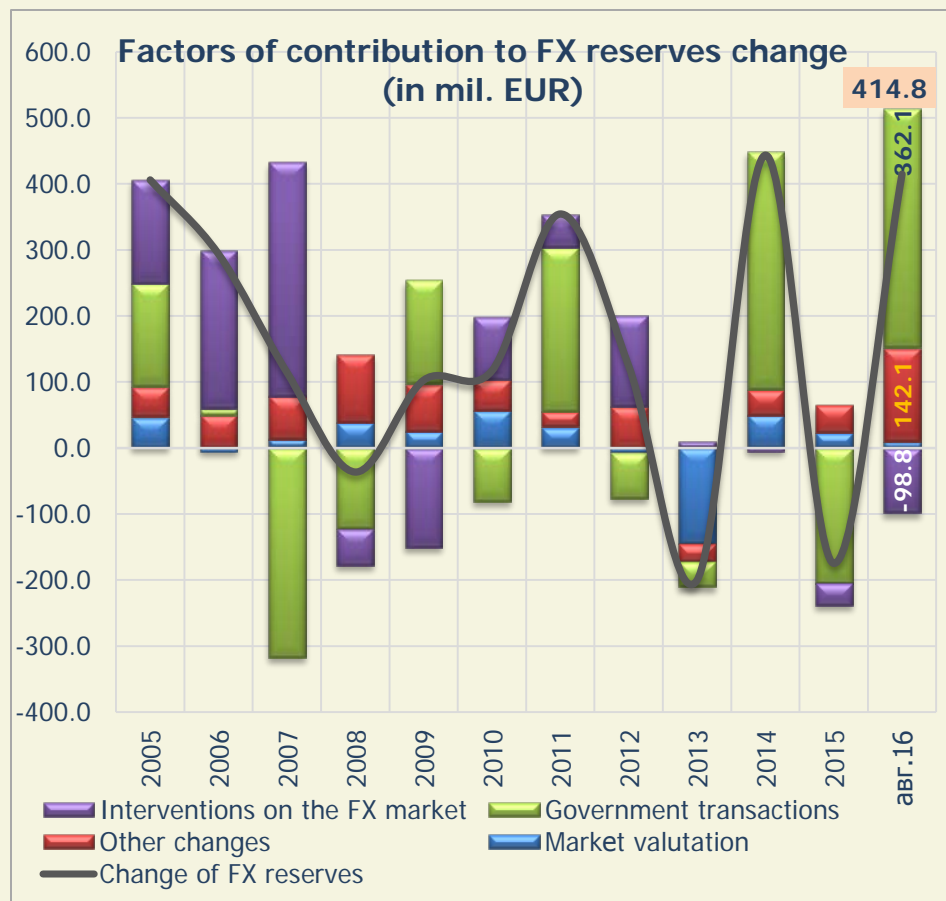
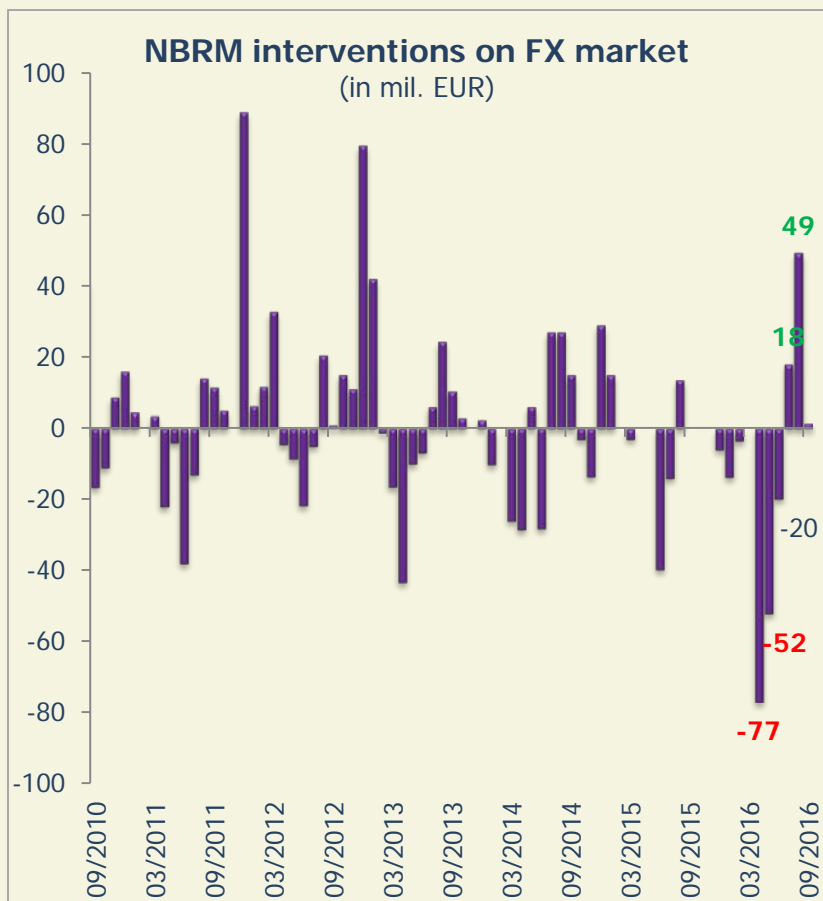
- Speculation over the stability of the domestic currency resulted in increased demand by households on the FX market





The case of Macedonia – challenges for the monetary policy in H1 of 2016

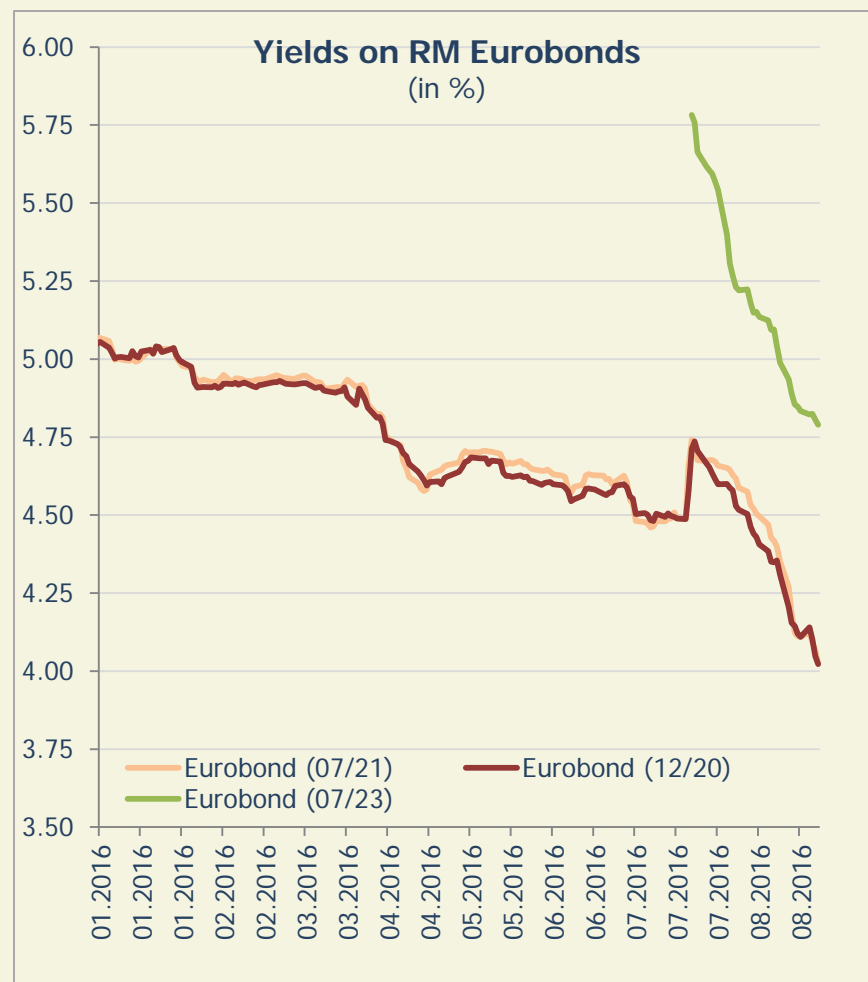
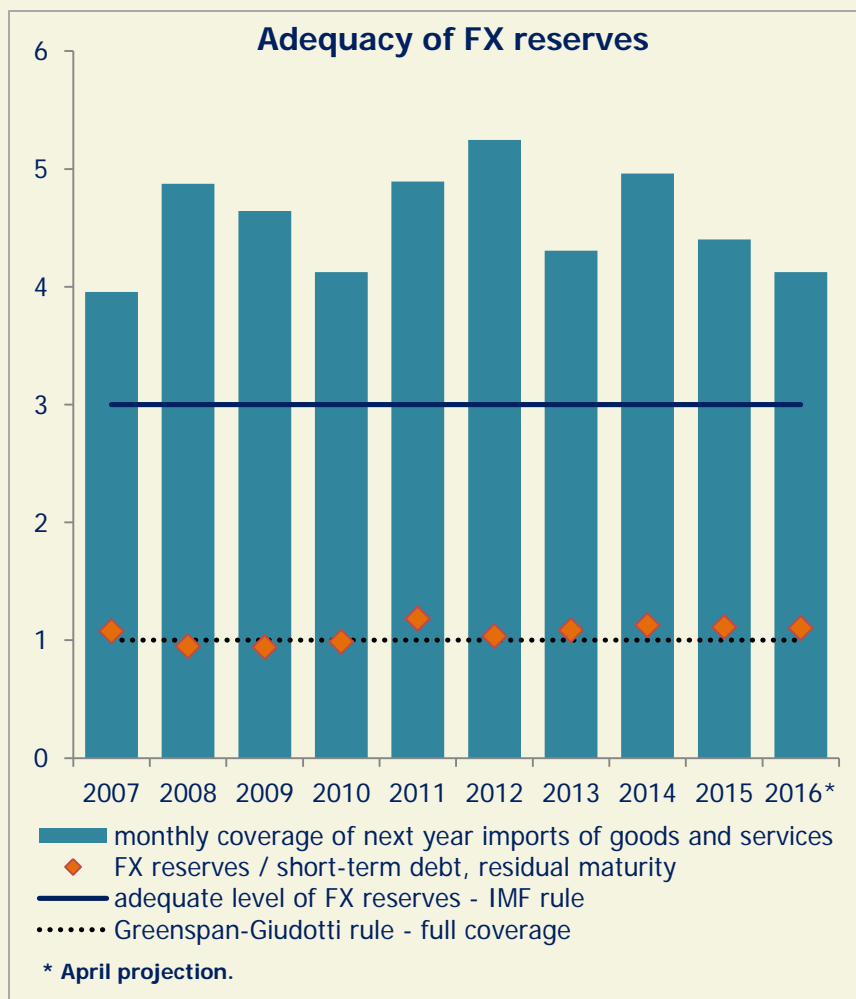
- **The NBRM successfully defended the domestic currency stability in spring**
 - half of the sold FX was compensated by purchases during summer, when FX supply increased
 - FX reserves increased by significant amount from FX deposits of the banks and EB





The case of Macedonia – challenges for the monetary policy in H1 of 2016

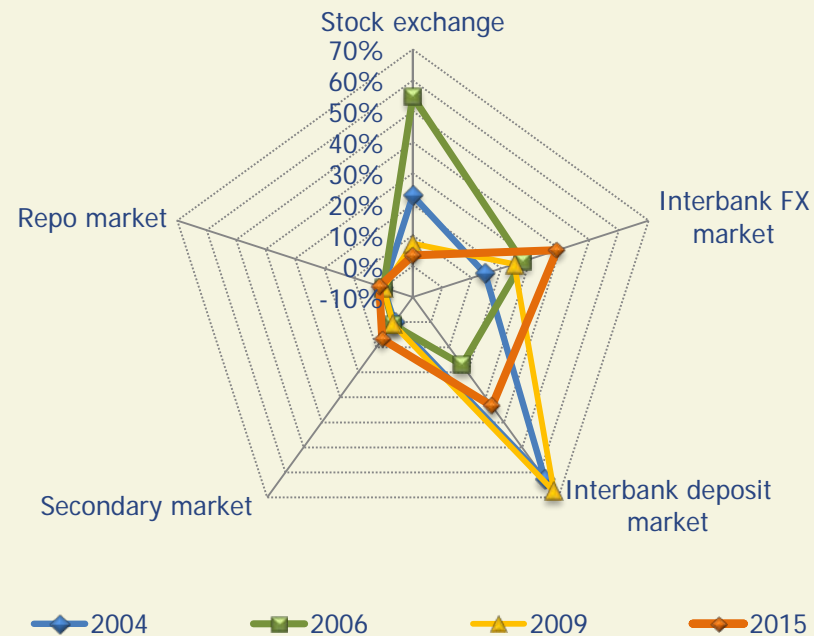
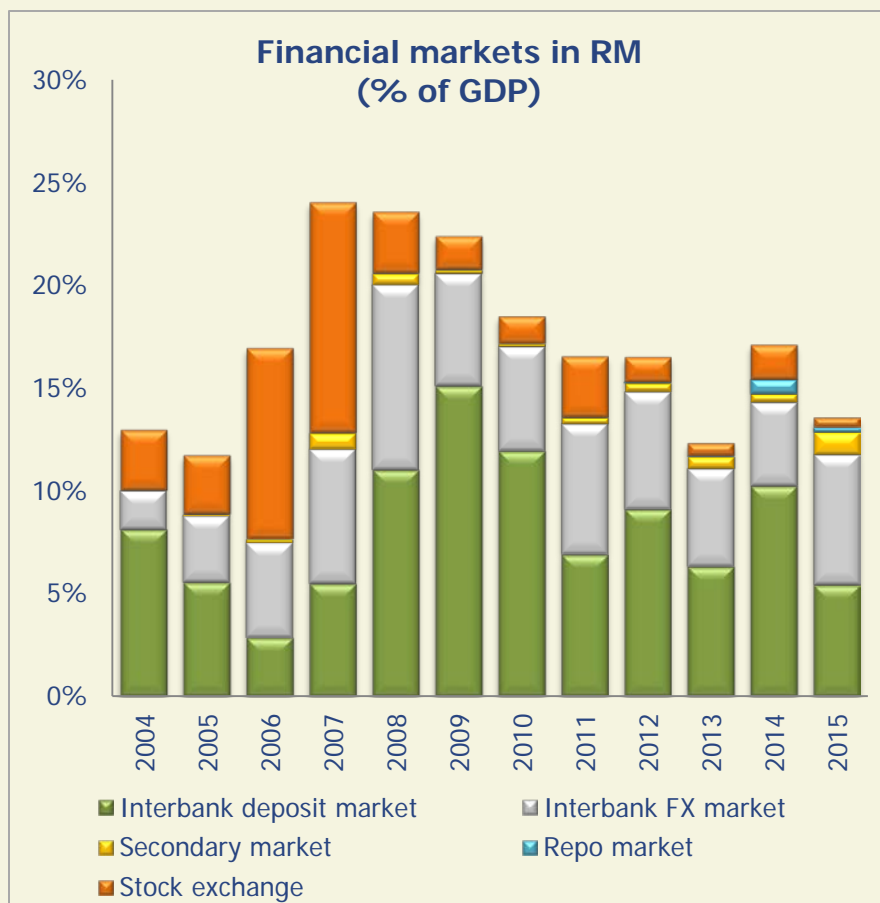
- FX reserves still on adequate level – credibility to the peg
 - foreign market participants have not reacted to internal market developments





Financial markets overview – the case of Macedonia

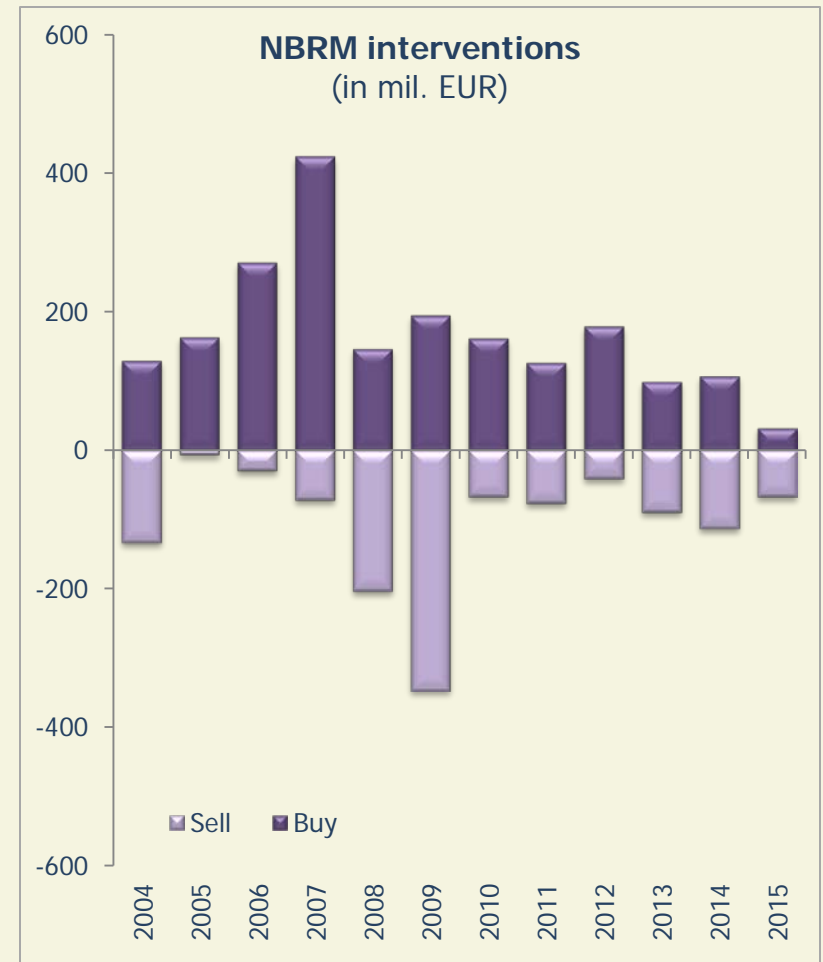
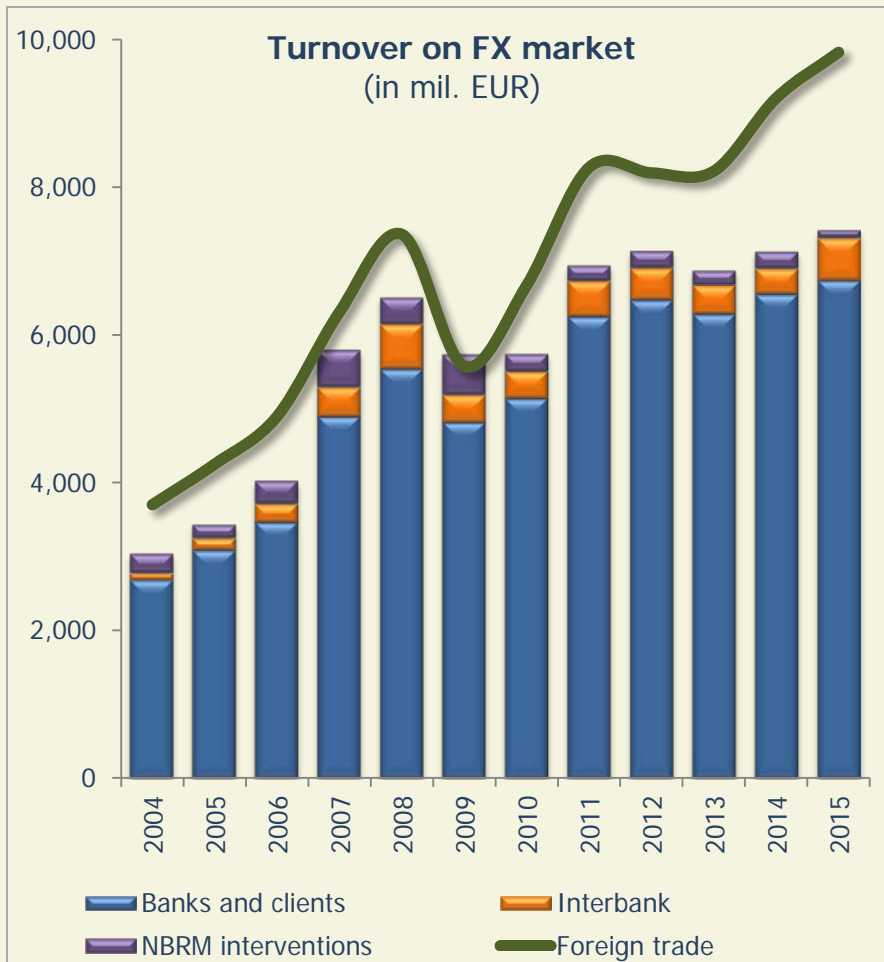
- **Stable role of the financial markets in financing the economic entities**
 - **increasing role of the FX interbank market as well as of the secondary market of securities**





Financial markets overview – the case of Macedonia

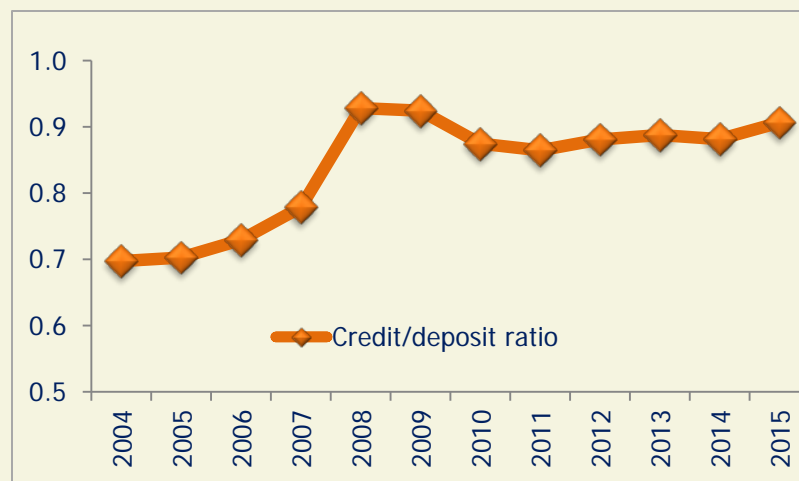
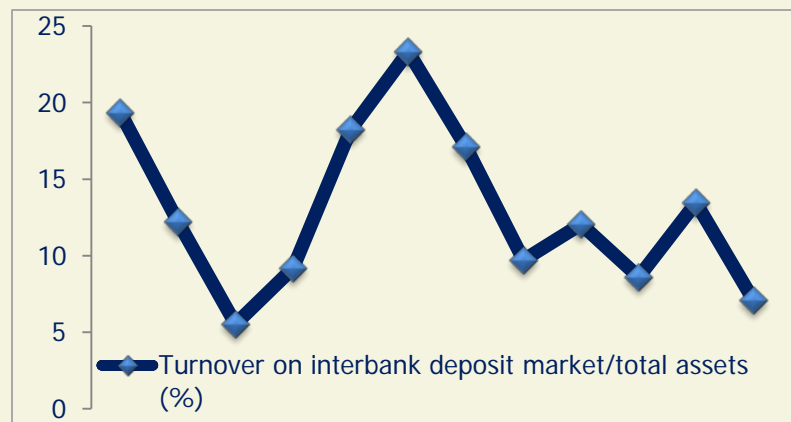
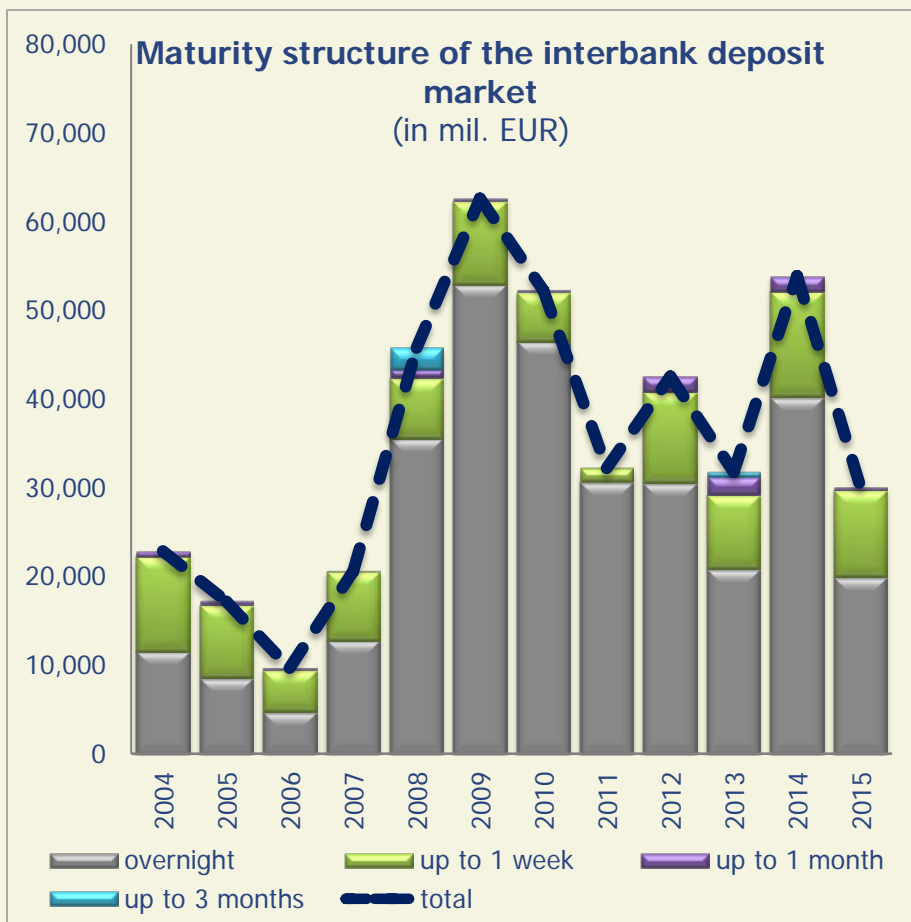
- On the FX market, turnover is following the developments in the foreign trade
 - decreased participation of the NBRM on the FX market





Financial markets overview – the case of Macedonia

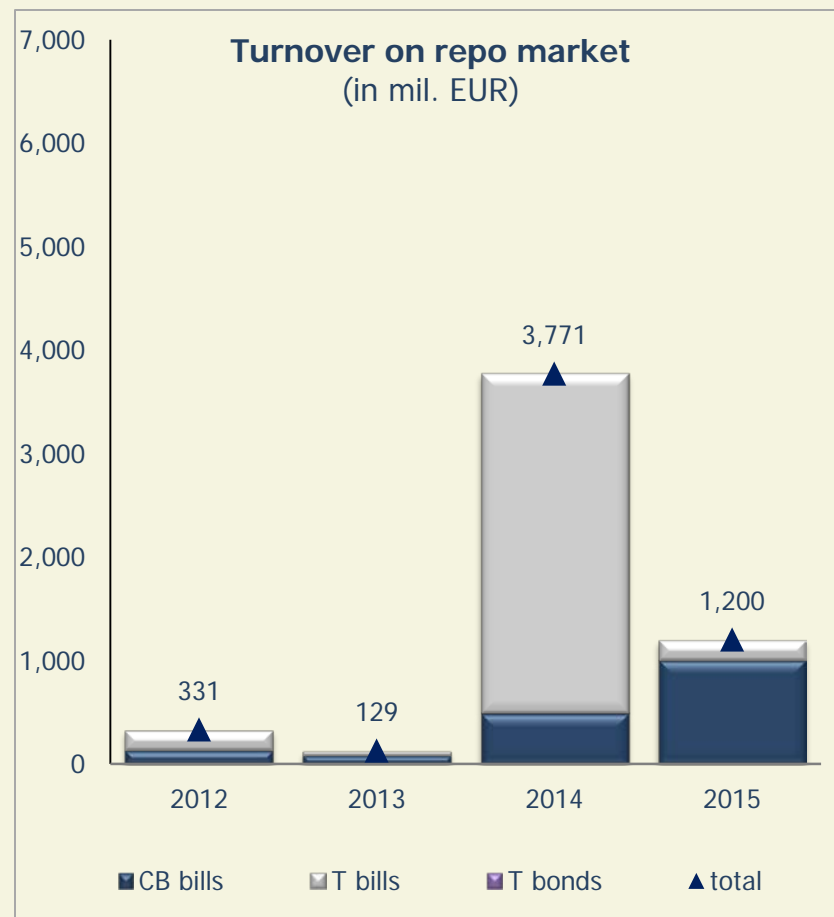
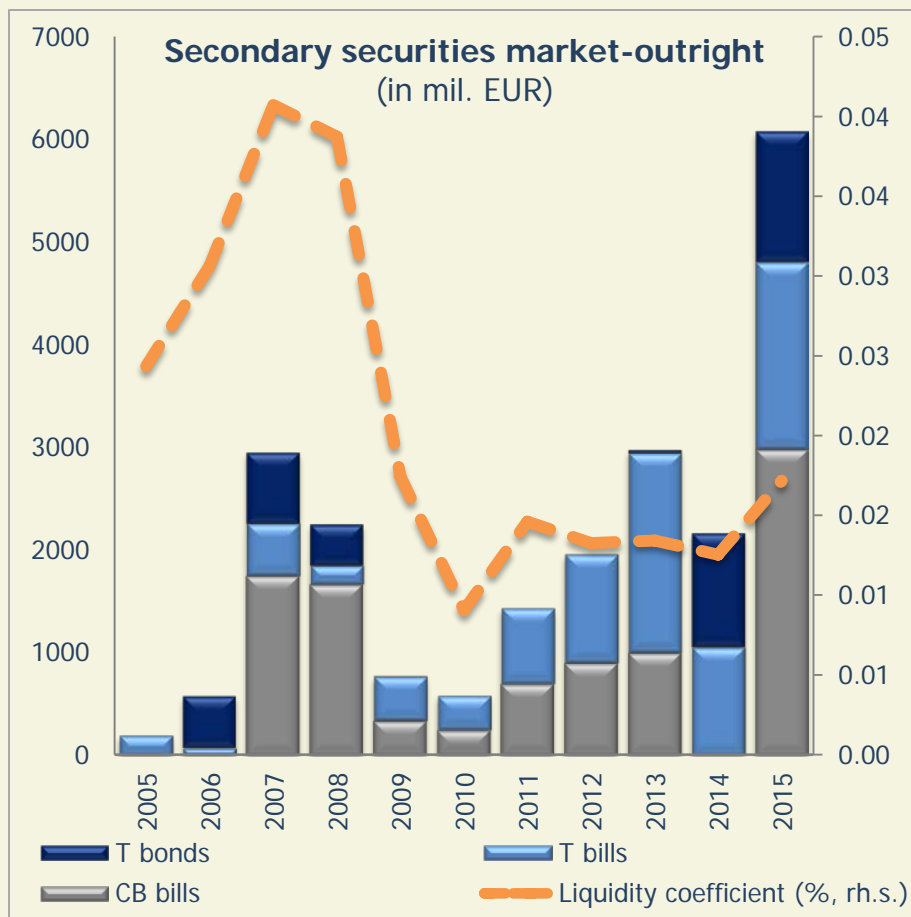
- Banks meet the liquidity needs mainly at interbank deposit market
 - however, there is no excessive leverage, as deposits are still main source of financing banks activities





Financial markets overview – the case of Macedonia

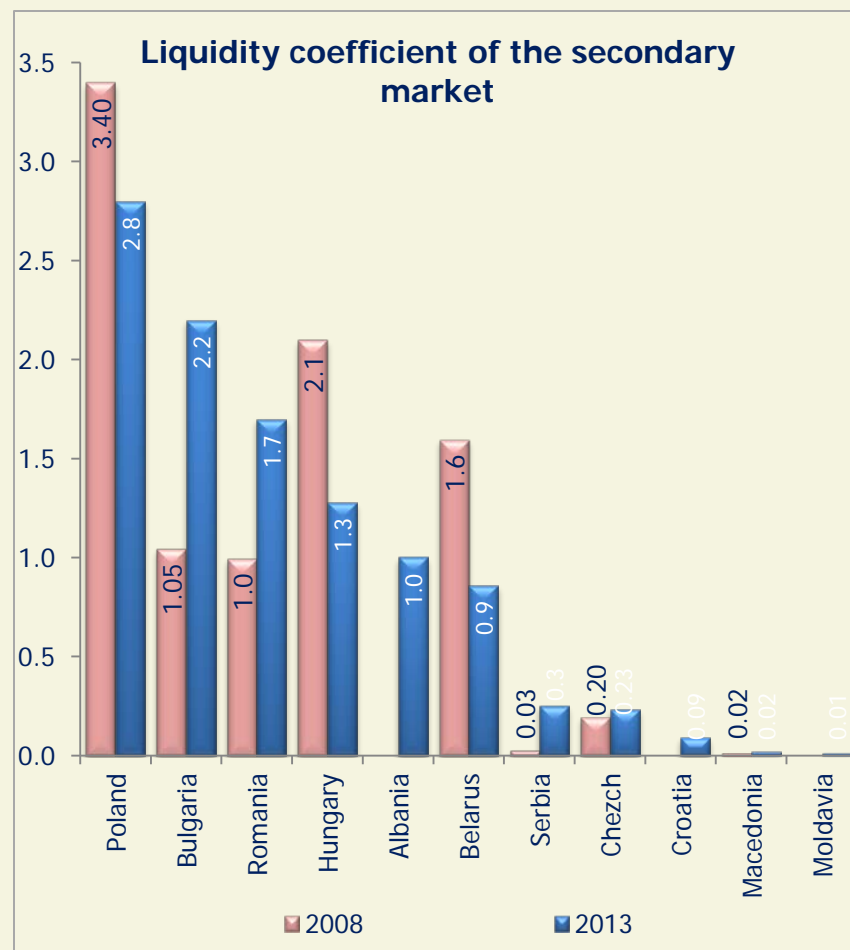
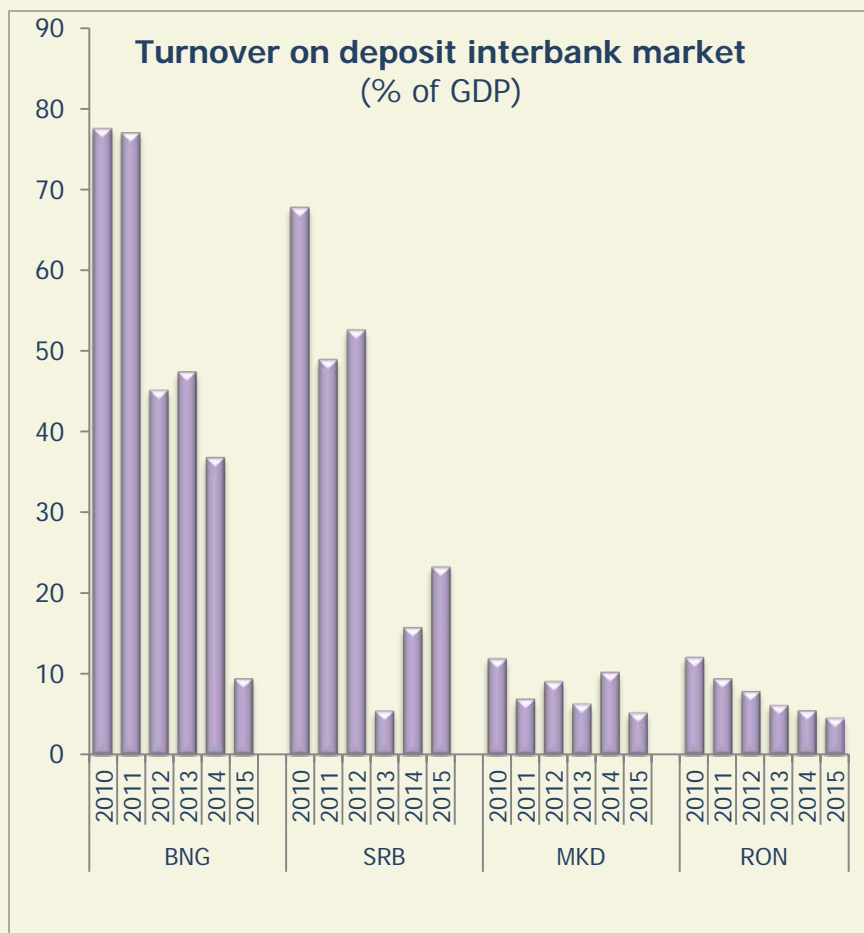
- Strengthening of turnover on both segments of the secondary market
 - ample room for development of collateralized trading





Financial markets overview – Regional outlook

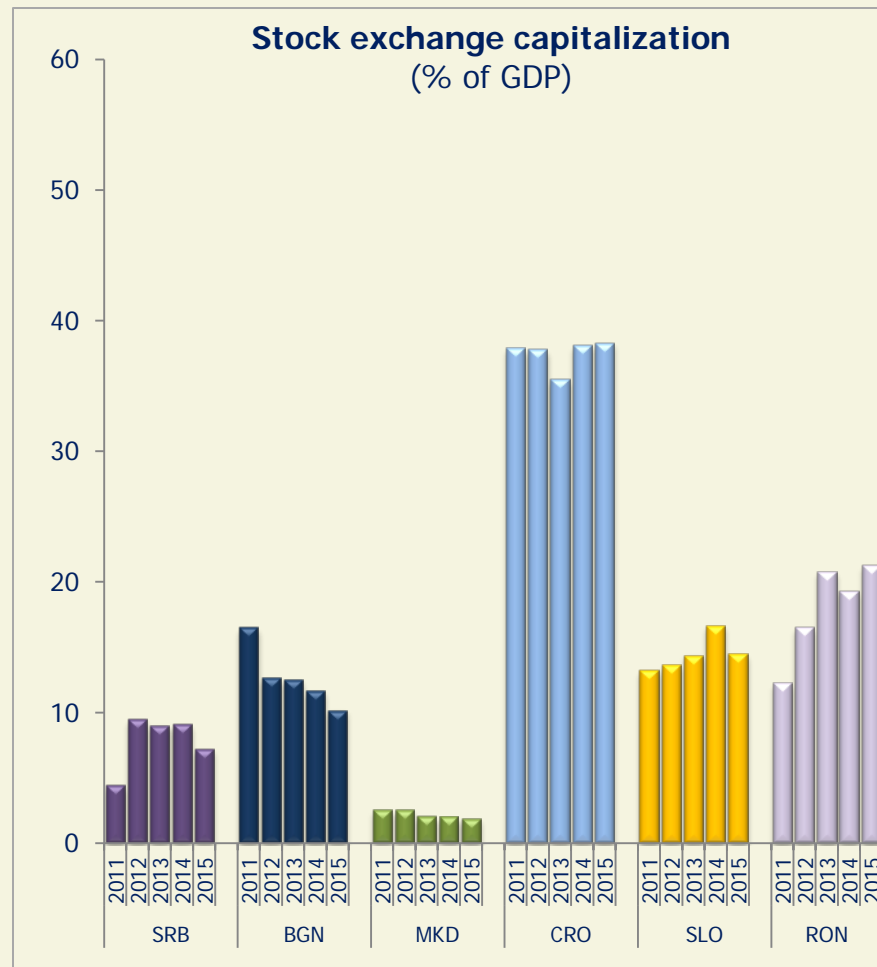
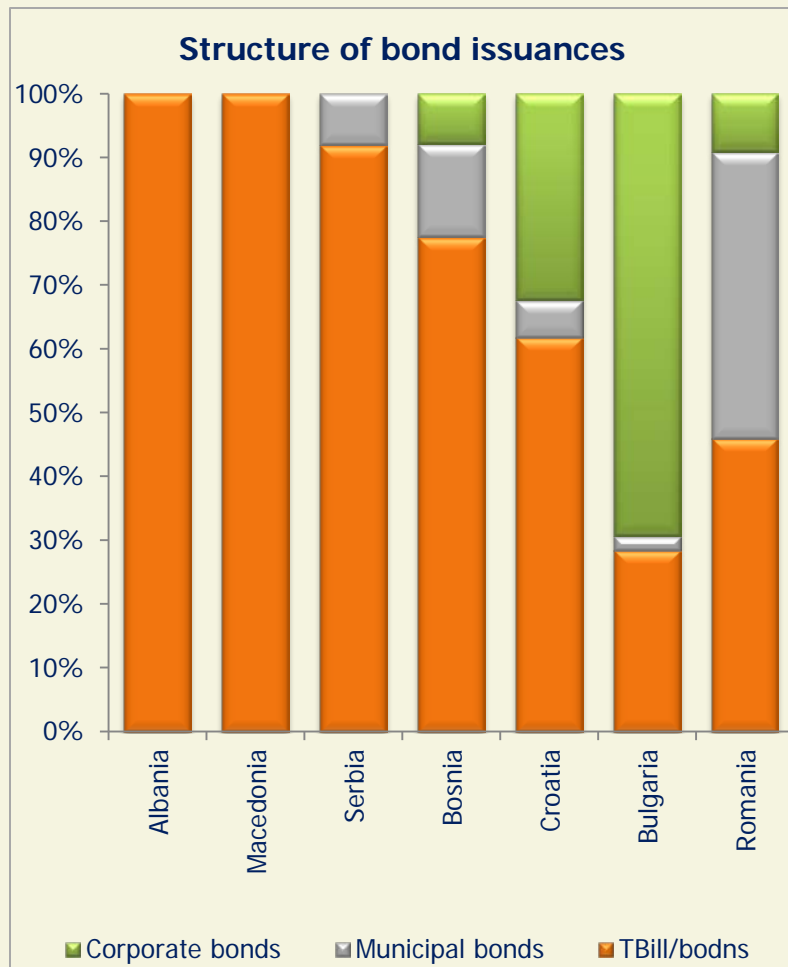
- In regional context, downward trend of the interbank deposit market activity
- Low liquidity on the secondary market in the region





Financial markets overview – Regional outlook

- There is room for issuance of corporate debt instruments
- Higher stock exchange markets turnover in some of the countries in the region





Conclusion – structural reforms relevant for better future performance

- **Challenges in global markets are numerous**
 - central banks are faced with narrow policy room for maneuver to deal with next recession
- **In the Macedonian case, maintaining stability of key macroeconomic variables is essential**
 - The NBRM focus will be on further support of measures to the process of denarization, as well as on financial markets advances
 - In broader scope, after solving the political gridlock, economic activity might accelerate again
 - Structural reforms are needed to increase both potential output and resilience to economic shocks



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