

Petar Goshev: Alleviating the negative effects of the financial crisis

Welcome address by Mr Petar Goshev, Governor of the National Bank of the Republic of Macedonia, at the World Bank event, Skopje, 15 March 2010.

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Distinguished ladies and gentlemen,

It is my honor to give a welcome address at this important World Bank event that it is taking place at a critical transitional stage when it seems that the strongest impact of the severest crisis since the Great Depression is behind us and the global economy is beginning to grow again. Still, although we believe the worst is behind us, the global crisis has had strong negative effects that will continue to be felt in the years to come. Because of that, the efforts of the national authorities and international financial institutions for mitigating the negative effects have to continue. In this regard, the enhanced role of the international financial institutions, including the World Bank, is vital.

The economic, social and human implications of the global crisis have further emphasized the World Bank's mission of eliminating poverty, enhancing growth and providing inclusive and sustainable development. Achieving Millennium Development Goals (MDGs), as a set of priorities for the World Bank, is becoming more challenging. As stated in the World Bank Annual Report 2009 "targets that it would have been difficult to reach even before the crisis are now considered implausible, and a real risks exists that the financial and economic crisis that begun in United States may develop into a humanitarian, political, and security catastrophe in the world's most vulnerable regions."

The ECA Region was the hardest hit region by the global crisis. The decline of external demand, unfavorable terms of trade, decline in capital flows, as well as spillover effects to the domestic demand resulted in a fall of region's GDP in 2009 of about 6%. With the real sector of the economy contracting and financial flows being constrained, unemployment and poverty have risen. Although all countries in the region faced with challenges during this turbulent time, still the crisis has had a disproportionate impact on the vulnerable in the less developed countries calling for bigger assistance to mitigate social impact.

The World Banks' assistance was of a paramount importance in the past and will continue to be. It is not only about the financial support, but the support and guidance in implementing structural reforms. The mix of the World Bank programs aimed at creating broader based growth, efficient public sector and social protection, has yielded in decrease of the poor or vulnerable population in the region (18% of the total population has exited this group, since 1999).¹ The region has grown quite rapidly, reaping the benefits of increased productivity, to a large extent being explained by the restructuring of the enterprises, technological improvements, enhanced infrastructure and investments in human resources. The cross regional comparison indicates that the ECA region is a leader in terms of the GNI per capita. What is even more important is the sharp growth of the GNI per capita from 6.265 current international \$ in 2000 to 12.229 current international \$ in 2008, thus giving the region a feature of a leader in improving living standards.

However, the region is quite a diverse with GNI per capita ranging from 1860 current international \$ in Tajikistan to 18420 current international \$ in Croatia. This points to the fact that there are big disparities that need to be tackled to speed up the process of convergence which will mean less political and social tensions, less poor and homeless people, and less desperate migrations conducive to expression to different sorts of

¹ The World Bank Annual Report, 2009.

prejudices and frustrations. For many subregions the role of the World Bank is of a crucial importance, in particular for the Western Balkan, which is heavily lagging behind the leading countries in the region, faced with the problems of undeveloped infrastructure, poor health care systems, high unemployment and socially desperate people, i.e., faced with different forms of dehumanization of the living standards, including problems of climate change. Some parts of the subregion sometimes have problems with floods, but in many parts there is permanent lack of even drinking water.

Macedonia's track record within the relations with the World Bank, can be assessed as quite successful. The World Bank has been one of the most important partners in the process of designing and implementing important structural reforms. The strong focus of the World Bank programs on the financial and the enterprise sectors, public administration, and business environment, has proved to be an important trigger and contributor to the productivity gains and real convergence of the economy.

Personally, I am deeply grateful to the World Bank and the IMF for the contribution they have made in overcoming our existential problems. It is my personal opinion, however, that our need for the cooperation with and support of the World Bank is more than necessary. We have made some progress, but we have also encountered a lot of problems. The global crisis emphasized a number of structural issues that are bottleneck for the growth of the Macedonian economy. A comparative analysis shows that Macedonia has pretty low level of investments (on average about 15% of GDP during 1997–2007). Thus, further support which will lead to higher investments and higher stock of capital will play an important role for the long-term growth. We substantially lag behind those we want to keep up with. The unemployment rate is still staggering (32.4%). Income per capita is only half of the highest GNI in the group, or only 33% of the average GDP per capita (PPP terms) of the 27 EU countries. We have a strong need of funds and permanent technical assistance in order to continue with and accelerate our structural reforms. The Greek example is a newest lesson. European and other funds, without all the painful and grave structural reforms, could not protect the country from facing the present crisis. However, it seems that, without structural reforms, they just boost the illusion.

The recent crisis has highlighted the need for the international financial institutions to have adequate level of resources and flexible, innovative and swift technical infrastructure. It is a prerequisite for a well targeted, timely, coordinated and efficient response to global shocks. The strong increase of IBRD disbursements, policy based lending and advisory services in 2009, the dominance of social protections programs, on the background of the social implications of the crisis, pinpoint the rapid and well targeted adjustments in the lending policy and expertise provided by the World Bank. The share of the World Bank financial support to the region in the total WB financing in 2009 rose to 20% (compared to the average of 16% for the previous three years). Significant weight was put on the enhanced social protection, regulation adjustment for the purpose of trade promotion, financial sector reforms and improved governance.

Dear guests,

Let me once more repeat that looking forward, the role of the World Bank becomes even more pronounced. Unprecedented policy support has yielded in tangible results reflected in improved global financial conditions and improved economic prospects. However, financial conditions are far from normal and growth prospects are highly uncertain and dependent on a policy support. The fiscal room has substantially narrowed and access to private financing is uncertain amidst high budget deficits and rising public debt.

To be able to respond to the demand for its services a capital increase and reconsidering priorities in the region seems inevitable. Although current situation calls for immediate assistance to protect poor and vulnerable people from the hardship they are faced with, the support in implementing structural reforms is of a vital importance. Structural reforms should not stall as they are crucial for paving a way for long-term sustainable growth

and higher living standards, which is one of the main missions of the World Bank. Financial and technical assistance by the World Bank will play a key role in this process. Rising unemployment and growth in poverty asks for more “aggressive” role when it comes to social issues. But, also supporting reforms aimed at improving competitiveness, as well as addressing the issue of “climate change” should be priority on the agenda. Given the diversity of ECA region, assistance tailored to the specifics of the different groups within the region, remains important.

It is my personal opinion that the World Bank should increase its contribution to the accomplishment of global financial stability. It is rare to find another institution with such an experience. Preservation of global financial stability proved to be an issue of utmost importance to both the growth and the fight against poverty. Basel II has been definitively transforming into Basel III. There is a lot of work to be done to promote the micro-prudent and the macro-prudent frameworks. World Bank’s contribution through its participation in FSB and other international bodies and its cooperation with countries which use its financial and technical assistance is indispensable.

I will finish my address with quoting the leaders of the Group of Twenty from the meeting in London, 2009: “We start from the belief that prosperity is indivisible; that growth to be sustained, has to be shared; and that our global plan for recovery must have at its heart the needs and jobs of hard-working families, not just in developed countries but in emerging markets and the poorest countries of the world, too; and must reflect the interest not just of today’s population, but of future generations, too.”

Thank you for your attention and I wish you a fruitful discussion and a pleasant stay in Skopje.