

Dimitar Bogov: Towards recovery and sustainable growth in the altered global environment

Address by Mr Dimitar Bogov, Governor of the National Bank of the Republic of Macedonia, at the 3rd Research Conference “Towards recovery and sustainable growth in the altered global environment”, Skopje, 28–29 April 2014.

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Ladies and Gentlemen,

Your Excellences,

Dear guests,

It is indeed with great pleasure that I welcome you all to our third Research Conference! Just like in the previous years, we hope to have a fruitful discussion on the main topics from the current surrounding and the economic prospects of the region and the global economy.

This year’s conference will be focused on the recovery process in the wake of the long lasting global financial and debt crisis and making a floor for sustainable growth in the altered global environment. Today, we would like to talk with you about consequences from the crisis, the lessons learnt and the impact of the regulatory and institutional changes on the recovery process. To touch upon the issues: Why did it take so long to come to this point and how sound this recovery is? How close are we to the normalization of policies setup and the desirable growth rates? How successful the fiscal consolidation will be and is the financial system more resilient to shocks now? It is still difficult to judge on many of these issues, but we are here to identify the strengths and weaknesses, to express the pros and cons, to present our estimates and results that will certainly extend our mutual knowledge and wisdom for better guidance through the recovery process and beyond.

Changes in the global environment

Many changes in the regulatory framework, policy implementation, even in the way of reasoning and perceiving the actual developments, have taken place in the last seven years. The developed economies, besides zero bound lowered rates, also needed additional monetary policy accommodation through the quantitative easing. They also turned into using a kind of forward guidance framework as a tool for announcing monetary policy stance in a longer horizon than the usual one. Central banks around the globe, depending on the circumstances, were using a range of non-standard measures designed in a way to tackle specific drawbacks of the crisis. Exceptional conditions called upon exceptional measures, including “whatever it takes” approach in the euro zone in the peak of the debt crisis, which in total, mostly gave a positive feedback towards economic recovery.

Considering the fact that this crisis originated from the financial system, a comprehensive reform of the financial regulatory framework has been launched during the crisis through Basel III – new capital and liquidity requirements are waiting to be implemented in practice. In addition, the euro zone has undergone tremendous changes in the institutional settings by the establishment of the Single Supervisory Mechanism by the ECB, along with the Single Resolution Mechanism and other accompanied ongoing or upcoming reforms.

Another area of reforms in the European Union was the strengthening of fiscal and macroeconomic policy through the Fiscal Compact and accompanying macroeconomic surveillance mechanism, aiming at sound public finances and preventing from macroeconomic imbalances. What urgently came to our knowledge during the last crisis was the importance of the financial stability for the overall macroeconomic stability, but also the so-called “doom loop” between banks and sovereign that emerged from this crisis, adding yet another specific experience that we should all be aware of in the future.

On the recovery process and sustainable growth

The data since mid of the last year and the forecast for this year are pointing to an upturn of the global economy, although it is still fragile and surrounded by risks. The economic recovery of the European Union is crucial for stronger revival of the region, considering the trade relations, although due to specific factors, countries in the region differ in terms of their position in the economic cycle.

In 2013, the Macedonian economy grew by 3.1%, mainly driven by the strong net export and the strengthening of private consumption in line with curbing down of the unemployment. In this view, it is worth mentioning the positive contribution of the new FDI inflows in tradable sector, which contributed to both higher and more diversified net export and higher employment. In addition, economic recovery was supported by the fiscal stimulus as well as the accommodative monetary policy stance. Since July last year, the main policy rate is at the historical lowest level of 3.25%. Moreover, during the crisis period, a combination of standard and non-standard measures have been undertaken by the central bank aimed to give additional support specifically to the credit growth and accordingly, to the economic growth, while still preserving the price and financial stability in the economy. The outlook for this year is also positive. We expect GDP growth of close to 4%, and therefore we see economy going up on the cycle. What one can learn from our experience is the fact that the implementation of sound structural reforms can definitely move the economy upward – even during the crisis – that is an important message for the macroeconomic policy afterwards.

When discussing the recovery from the crisis, we need to point out some related issues that are dealing with the exit of non-standard policy measures and turning towards fiscal consolidation, currently being the topical issues between the policy makers worldwide. The tapering decision by the FED by the end of the last year somehow announced the need of this reversal that will eventually be recognized in other countries, too. We already acknowledged the benefits from all specific measures implemented during the crisis, but we should be aware of their transitory role and the need to get back to the standard policy tools. Of course, the signs of current recovery are pointing to different stages of the normalization path and therefore, this reversal in the policy settings will differ from country to country. The new threat of deflation in the advanced economies is yet another potential obstacle in this reversal.

From this point, that is already a challenging one, the next big challenge will be to return to a solid and sustainable growth. During this crisis, we experienced a lot and we learnt a lot. A number of weaknesses, mainly in the financial and fiscal areas, have been detected and addressed. Anyway, with the first signs of economic recovery, not everything has been fixed yet. There is still a need to repair banks' balance sheets, to squeeze central banks' balance sheets, to restore market confidence and to strengthen public debt management. The prolonged period of low interest rates has created a room for fiscal expansion and public debt increase, but the fiscal authorities must be aware that the end of this period is just about to come. The regulatory and institutional reforms undertaken in the last years should contribute to the soundness and stability of the financial systems. What has been done in this field in the last years should be fruitful on a longer horizon.

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To sum up, the global economy is on the recovery path although there is still a long way to go towards sound and sustainable growth. Reshaping of the banking and financial sector will definitely contribute in this regard and the contribution in the same direction is expected from the fiscal sector, too. The central banks worldwide have proven their flexibility, but the monetary policy must not be overburdened in the long run and should get back to its primary function. A sustainable growth needs sound policies and accelerating reforms towards building more competitive and more flexible economies.

Ladies and gentlemen,

I hope I have already triggered many issues to be discussed in details later on, during this conference. Considering the eminent keynote speakers that we have in the first session and the high quality research papers to be presented in the next sessions, I have no doubt that all together we will enlighten this complex “package” of issues related to the recovery in the aftermath of the crisis.

Thank you so much for attending our conference and thank you for your attention!