

Maja Kadievaska-Vojnovik: Macedonia's central bank reserve management strategy

Opening remarks by Ms Maja Kadievaska-Vojnovik, Vice-Governor of the National Bank of the Republic of Macedonia, at the RAMO – Reserve Management Advisory Programme, Skopje, 7 September 2015.

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Ladies and Gentlemen,

On behalf of the National Bank of the Republic of Macedonia, it is my pleasure to welcome you all, colleagues from 21 different countries, at the beginning of the Workshop on Settlement and Custodian Relations, organized by the World Bank as part of this year workshop agenda within the RAMP.

It is a great honor for the National Bank of the Republic of Macedonia to host this workshop, as our institution joined the RAMP "family" very recently, in second half of 2014. We, at the NBRM, see World Bank Reserves Management Advisory Program as an unique opportunity to enhance investment management framework and operations on a sustainable basis. Additionally, RAMP facilitates sharing knowledge with other fellow participants in the Program, either by meeting on workshops and other events, as well as in direct communication between each other. But, organizing workshops in different countries enables also, meeting different cultures and enriching our knowledge in different ways.

In that respect, allow me to briefly introduce our country, Macedonia. Located in the center of the Southern Balkans, the history of Macedonia tells how Macedonians were distinct nation, ethnically, linguistically and culturally different from our neighbors. The name "Macedonia" is the oldest existing name of a country on the European continent. Macedonia had its glory days during the build-up of its ancient empire ending with the sudden death of the Alexandar III of Macedonia (also known as Alexander the Great). Afterwards, the Romans established the province of Macedonia, which in time of Diocletian was divided between Macedonia Prima ("first Macedonia", on the south) and Macedonia Secunda ("second Macedonia" on the north). Most of the country's modern boundaries fell within the latter, with the city of Stobi as its capital. We will have the opportunity to take a brief look on this period of the Macedonian ancient history on Wednesday afternoon, when we take you to visit Stobi archeological site. The history of Macedonia later on was influenced by other great empires in which the country was part of, creating a treasury-trove of Byzantine, Slav and Turkish history, with a host of forgotten monasteries, mosques and castles. After the II World War, the Republic of Macedonia was one of the six republics that have formed Yugoslav Federation. As sovereign parliamentary democracy, we have gained our independence in 1991, and the monetary independence in 1992, with Denar as a national currency.

Part of the rich history of Macedonia can be seen in Skopje, the capital city of the country. In that respect, the old fortress Kale, that overlooks the modern city center, offers an insight in the first Neolithic settlements, while Old Bazaar, with its narrow streets and craftsman shops, is a snapshot of the Ottoman rule. This part of the city survived the 1963 earthquake, when nearly all the city's beautiful neoclassical 18th and 19th century buildings were destroyed. After the earthquake, international financial aid poured into Skopje in order to rebuild the city. Today, Skopje is seeing a makeover in buildings, streets and shops, and many projects (Macedonian Struggle Museum, the Archeological Museum of Macedonia, National Archive, Constitutional Court, New Philharmonic Theatre) were finished in order to return some of the looks and spirit of the city.

In economic aspect, being many times since 2006 on the list of 10 best reformers by the Doing Business rank of the World Bank, proves that Macedonia has undergone considerable economic reforms. It has developed as an open economy with the trade accounting more

than country's GDP in recent years. Although the environment was highly difficult, first with the global financial crisis, afterward with euro area crisis and more recently, with Greece crisis, our GDP growth was on average above 3% for whole this period, which is one of the highest in Europe, and for 2015 it is expected to be around 3.5%. The unemployment from a very high level, throughout this period is on declining path, by implementing many structural reforms and ALMP. The government strategy to attract foreign investments and establishment of a good business environment for the development of small and medium-sized enterprises (SMEs) was paid off. To attract foreign investors, the Macedonian authorities offer a favorable tax environment (flat tax system with low rates), undertake the necessary infrastructural investments and create favorable business environment. It was allowed by the fiscal space before the crisis, and although the trend of the public debt is rising, now it is 43% of GDP, still being one of the lowest in Europe and broadly. Government's policies and efforts for attracting FDIs resulted in an establishment of local subsidiaries of several world leading manufacturing companies, especially from the automotive industry. This strategy of products' export diversification helped a lot in time of economic difficulties of our main trading partner - that is Europe. This strategy of strengthening the export base has also contributed to lower trade deficit and CAD (falling to below 2% of GDP), which on turn helped for monetary accommodation under the chosen monetary strategy of exchange rate targeting. This monetary strategy, the NBRM is conducting since the 1995 with fixed exchange rate of Denar, first with Deutsche Mark, and afterward with Euro. It delivers low inflation environment, which is the primary objective of the NBRM specified by law. Having in mind that the exchange rate of the domestic currency has not been changed since 1997, the selected monetary policy strategy demonstrates the high credibility of the central bank.

However, this strategy underlines the importance of reserve management function within the central bank. Management of reserves, as we are all aware of, is a complex and time-consuming business. It requires clear objectives, extensive decision-making delegation, strong control systems, open and transparent reporting and a realistic appreciation of the constraints faced. If conducted properly, openly and successfully it will greatly strengthen the public's respect for and confidence in official policy, and make a material contribution to successful macroeconomic management.

When we speak about reserve management strategy, we face the challenges of the new low yield environment, but at the same time, one should have in mind the constraints set by the country-specific factors like the foreign exchange regime, the domestic capital markets size and depth, the reserve volume and the currency of the country's liabilities. In that regard, main building block in the reserve management process is naturally the strategic asset allocation, set in a manner that ensures achievement of the key goals of the reserves management, that is: capital preservation, liquidity and at the end - return. In respect to the last goal of the reserve management process, as we are in the middle of the second decade of 21st century, competition for return has intensified, reaching new levels, as the global economy enters increasingly challenging times. In that regard, operational functions of the reserve management can contribute as well, having in mind that like never before the most important goal of operational conduct of the transaction is to deliver the most value at the lowest cost in the least amount of time.

During the following week, the focus of the Workshop will be exactly on the operational, back office activities, in the process of reserve management. No transaction can take place without the back office. It provides a vital service to the front office by ensuring that all funds flow in a timely and correct manner and all the necessary documentation is completed. Inaccurate or untimely trade capture can have implications for the P&L and risk management process. If the central bank does not capture the correct transaction, then position and reported credit exposure might be incorrect. Having in mind the importance of the back office service to the reserve management process, one of the goals of the workshop will be to provide best practices in the area of settlements, then different services provided by the

custodians, and the importance of appropriate IT tools to perform secured and efficient settlements. All the aspects cover over this week will enable to improve and make more efficient and controlled environment for the conduct of the reserve management transactions. In this regard, although back office activities should be separated from front and middle office activities, it does not mean that operations should be considered as separate from the business. On the contrary, the closer operations management is the pulse of the business, and the better communication channels between all the areas in reserve management function, the more responsive operations to changes in the business. Ultimately, the overall reserve management process will be better controlled.

To conclude, I wish all of you a fruitful and efficient participation in the workshop, with hopes that you will have incentive to take out the maximum from all the issues to be discussed with the distinguished lecturers from the World Bank, as well as between each other during the exercises. Have a nice week during this workshop, in Skopje.

Thank you.