

## **Petar Goshev: Promotion of the European Fund for Southeast Europe – EFSE in the Republic of Macedonia**

Welcoming speech by Mr Petar Goshev, Governor of the National Bank of the Republic of Macedonia, at the first official presentation of the European Fund for Southeast Europe in the Republic of Macedonia, Skopje, 1 March 2007.

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Distinguished ladies and gentlemen!

Allow me to express my pleasure, more precisely the pleasure of all employees of the National Bank of the Republic of Macedonia for being hosts of the first official presentation of the European Fund for Southeast Europe in the Republic of Macedonia. Therefore, I greet the representatives of the European Fund for Southeast Europe, wishing them a warm welcome to our country, where, I sincerely assure them, they could fully, equally, safely and more ambitiously offer their financial services to the market of the highly open Macedonian economy, also encouraged, of course, from their previous positive experience they acquired through their cooperation with the Export and Credit Bank, AD Skopje.

I would also like to especially welcome all of you that responded to the invitation by attending this presentation, thus de facto showing respect and interest in yet another new financial initiative in the Republic of Macedonia. Certainly, there is a deep reason for such respect and interests. Namely, we are hosts of one of the world's largest development finance funds, established with a capital support of the European Union, the governments of Germany, Switzerland and Austria, as well as many international financial institutions such as the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the German Development Bank (KfW) and the Netherlands Development Finance Company (FMO). This means that we have partners and institutions labeled by the Republic of Macedonia at its list as "vital interest".

Their primary objective is, and they will present it better than me though, to finance the development of the Southeast Europe, particularly focusing on the financing needs of micro and small enterprises (MSEs) and private households. Actually we are honored to have the leaders of the European Fund for Southeast Europe to provide details on its structure and objectives, on extending long-term funds and the wide range of financial instruments designed to support the development of the countries throughout our region. I have no doubts that these financial instruments will make you interested and take initiative for forthcoming potential cooperation with the European Fund, and hence with other qualified intermediaries, besides the already established cooperation with the Import and Credit Bank AD Skopje.

Dear guests,

The fact that the leaders of this Fund offered to present their financial services in the Republic of Macedonia, the Central Bank certainly encouraged and supported this initiative, shows that these important partners consider the Republic of Macedonia a friendly environment for launching various mutually beneficial business initiatives and projects. Yet, we do not forget though, that some of these institutions had no doubts whatsoever about the Republic of Macedonia even in the most difficult periods for us after gaining the independence, since when nobody else was coming, they were here. We certainly appreciate that.

Regardless of all above, we still have many reasons that urge us to notice and convince others why is it good to invest in the Republic of Macedonia and to develop partnership with our economic agents and, of course, to inform on the activities that all of us in our country perform, directed towards increasing the attractiveness of the Republic of Macedonia as investment destination. Hence, we definitely need such financial offers. The economic growth could be accelerated by more investments, competitive offer of financial instruments and products, which are likely to eventually bring about lower costs for borrowing capital.

The potential investors should be aware that the Macedonian financial sector is booming, but that the room for investments is yet to be opened. The gross national savings is low, not more than 12-17% of GDP, over the recent several years. The gross domestic savings have been even lower over the last five years, swinging around 2.5% of GDP, on average. Since 1995, the gross investments have virtually never exceeded 20% of GDP. The foreign investments, except in the years of large

privatizations by foreign companies, are also low, barely 2% of GDP, on average, in the last 4 years. The total bank assets, even though registering a fast growth over the last years, making up roughly 50% of GDP, still shows low level of financial intermediation in the country.

The above figures were target of a deep impact of the external shocks the country suffered, besides, of course, the inexcusable delay of many essential reforms of the vital sectors of the country. But, eventually, the potential investors and creditors have to believe that:

- the political and security shocks in the region and inside the country are behind us,
- the economy accelerates its growth, which over the recent years is not below 4% real GDP growth,
- we preserve high macro-economic stability that implies exceptionally disciplined monetary and fiscal policies, which in turn result in low inflation, stable exchange rate and foreign exchange market, sustainable trade and current account deficits and strictly controlled public debt and that these policies for maintaining macro-economic stability will be further conducted, as a prerequisite for good business,
- the price stability policy will be further implemented,
- the growth will accelerate registering rates higher than before,
- serious structural reforms are underway under the leadership of the government in cooperation with the World Bank and the IMF. The tax policy has undergone reforms by reducing the tax burden. The administration has undergone reforms for increasing its capacity. Additional reforms in the financial sector and improvement of the financial market operations have been underway. There are reforms in the cadastre. The conditions for foreign direct investments have been improving. The process of economy deregulation has been underway. The judiciary reforms have improved the efficiency in the contract execution. The ownership rights have been protected.

The bank soundness and safety have been strengthening. The depositors feel that and repay with over 20% deposit growth over the last several years. And now, we are truly challenged by the further increase in the bank competition, and deeply confident that this process will considerably accelerate very soon. The experience, however, shows that the best come only in well regulated financial sector, in a banking governed by regulations based on the European directives and the world best practices. In this light, the forthcoming new Banking Law allows for further strengthening of the bank corporate governance; minimizing or eliminating all possibilities for non-transparent shareholder structures; increasing the efficiency of the procedure for exclusion from the banking system in the Republic of Macedonia, of shareholders that lack reputation and integrity, thus compromising the stability not only of their bank but across the banking system. Therefore, it allows for establishing proper risk management systems and internal control systems, thus facilitating the gradual migration to risk-based supervision, which is already encompassed in the assignment related to the implementation of the New Capital Accord (so-called BASEL II), over the next several years. All things considered, we could send a message, without any hesitation, to the potential investors and providers of financial services and products that the Republic of Macedonia is a safe place to invest and fructify the capital and that the creation of good, friendly business environment, with competitive advantages compared to others, has been permanently improving.

I wish the European Fund for Southeast Europe a successful business and good cooperation with our financial intermediaries. The room for its policies directed towards micro and small business, household finance, rural sector finance is even wider. Thousands of micro and small enterprises, thousands of families have no access to financial services and products whatsoever, and most of those who do, cannot borrow under the existing borrowing costs and required collaterals. Some has already noticed: "one micro-financing loan could change the future of a family, few could change the future of a local community and thousands of such credits could make an enormous contribution to the development of the overall economy". This Fund will make its contribution to this purpose, since it offers long-term source of financing and because it is aimed at target groups the access of which to the financial injection is most difficult. Let us encourage them by noticing that they have wide opportunities to help them accomplish their mission. And, profit and development for the region.