

## **Dimitar Bogov: “The savings deposits soar also during crisis” – interview in *Radio Free Europe***

Interview with Mr Dimitar Bogov, Governor of the National Bank of the Republic of Macedonia, in *Radio Free Europe*, conducted by Mr Aleksandar Pesev on 29 September 2013.

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***Mr. Bogov, is the ending of the crisis in the Euro area going to have a direct impact on the boost of the economic growth in the Republic of Macedonia?***

Of course, the Euro area and the European Union are the largest trading partners of the Republic of Macedonia, the largest portion of our export is placed there, and as a result, the demand in the Euro area has large influence on the production in Macedonia. We were encouraged by the data for the second quarter of the year on the Gross Domestic Product, where after six quarters of negative results, positive growth rate has finally been registered. We expect that this will endure also in the following period, we are aware that this growth in the Euro area and the European Union is still very fragile, meaning, there are still risks, but we are optimistic, the indicators that emerge in the Euro area economy every day are mainly positive, so it is expected that it will reflect adequately on the Macedonian economy growth, as well.

***Can the recent trade war we had with the neighboring Kosovo somehow spoil the perceptions for this positive growth?***

Kosovo is one of our largest export markets, and it is, certainly, a significant market for Macedonia. This deadlock in the trade was relatively brief, so we will see the data on September when they will be available, but I hope that it will not disturb largely the economic activity in our country.

***It is forecasted that the growth will be around two, two and a half percents annually. How many percentages of growth are necessary to enable the citizens to feel the benefits of the economic growth of RM?***

Our projection for this year remains 2.2 percentages, but after the publication of the data on GDP for the second quarter, it will probably move upwards. We are now launching the new round of projections which will be finalized near end of October, but it can be expected that the increase in the Gross Domestic Product this year will be over 3%. The growth should be continuous, meaning a growth of 3, 4, and even 5 percents in a several year continuous period in order to be felt more substantially by all citizens, by each class and by all enterprises.

***According to the National Bank data, increase in the savings deposits was registered. If my data are right, the deposits increased by about Euro 87 million. What is the reason for such a trend?***

Yes, it is interesting that the deposits here are growing continually, even during the hardest times of the global financial crisis at the beginning of 2009, we had a deposit growth. It is sometimes hard to explain where this inflow comes from, but it indicates that in the economy there are sources that generate income, that create savings potential, meaning, the savings, although maybe not sufficient, is still substantial in our country and that deposit growth is just below the one in the good years, but it is positive and continuous, which is encouraging.

***Does this mean that the banks are more focused on collecting capital, than releasing money in the economy in form of credits?***

We can state that the deposit growth is higher than the one in the last several years, but the deposit growth is also a reflection of lack of enough alternatives for investments. You know

that the stock exchange is in standstill, we don't have some other developed financial markets where the citizens can place their savings, so every savings is mainly placed in form of banks deposit.

***Despite the inflation slows down, in the last several months, according to the NBRM estimations, it seems that the banks restrain over lending. Is this an indicator for the unfavorable conditions in the economy, or on the market, or is it a try for further reduction of the inflation?***

No, the inflation is not an issue, since it is on quite moderate level, 2.8 percentages is the latest data for August and we expect average inflation of about 2.8 percentages for the entire year, there is no probability for inflationary pressures in the following period. The banks restraint over crediting is a result of several factors. One is the economic crisis in the Euro area, the deceleration of our economy last year, the banks prudency, the rise of the bad placements. Another very important factor is the condition in the parent banks of some of the owners of our banks, you know that they mainly come from the Euro area, some of them have serious problems in their own countries and they face with serious challenges, although their banks in Macedonia have extremely good quality and they are in good condition, since the strategy is developed at the level of the group, the problems in the parent bank prevail so they can have conservative strategy also in our country.

***This exactly was the reason that caused panic in the public, that some banks have problems in their main offices. Has the situation been stabilized a little in this regard?***

The situation here is mainly stable. Although there are occasional rumors in the public, the data do not mirror that, and we did not have registered, in any moment, that the deposits plunged with the banks the main offices of which are facing with problems. The deposits, generally, were increasing during all these past several years. Clearly, we tried to explain to the citizens and I think that they understood well, that the deposits stay here in Macedonia, and that they are not taken abroad, they are invested in the Macedonian economy and there is absolutely no reason for fear for losing the deposits.

***Speaking of banks, the companies are those being less credited than the households. Does it mean that the banks do not trust the economy?***

It is fact that the last year, year and a half, the banks have been more focused on the households, and less to the companies. The main reason for that is the higher risk with the companies, because the bad placements with the enterprises got higher in the last two years, while with the households, they stagnate, or even decrease. It certainly has reflection on the bank perception and their behavior.

***However, with the introduction of the reserve requirement instrument, the rise in the savings deposits become evident, but can such instrument stimulate the credit growth, as well?***

Yes, in the recent 12 months, we have taken several measures, especially with the reserve requirement, which were directed towards: firstly, stimulation of the crediting and secondly, changes in the savings structure in favor of the Denar savings for the account of the Euro savings. Certainly, the measure which became effective in January where we reduce the reserve requirement for lending to net exporters and producers of electricity is already productive, we have already extended such loans worth approximately Euro 70 million this year, while the measure that should underpin the Denar savings for the account of the Euro savings became effective at the beginning of the year and we expect that the banks will adjust their interest rate policies to this measure in the following months.

***Did your forecast from the beginning of the year materialize, that the Government is not going to borrow much on the domestic market, at least in the first quarter?***

Within this period, since the beginning of the year, the Government is not borrowing much on the domestic market, because it has accumulated enough funds on their accounts with the

National Bank. Also, the funds it borrowed from abroad in the beginning of the year are still disposable on their account, because of which there was no need for additional debiting on the domestic market.

***However, some of the economists fear that exactly the foreign debiting is unfavorable, saying that it was made for unprofitable, unproductive purposes. How do you see this situation, is there a risk?***

Well, Macedonia has a lack of domestic savings, and as a country, we will need foreign savings for a long time, and that is the situation with most of the developing countries, if I may say. It means, the foreign savings is necessary, and part of it will pour through the foreign direct investments, while part through debiting. Of course, speaking from the viewpoint of the monetary policy, we would like to see the state to borrow also from abroad, not only on the domestic market, because it gives additional security and stabilization to the Macedonian economy. The level of debt is still moderate and causes no other unfavorable implications.

***So, whether like it or not, we must borrow, better abroad, in order to, if not else, cover also the current expenditures?***

Well, the state budget is structured in such a manner that it has a deficit, meaning a need of funding, but whether that funding is used for current or capital needs, it is hard to say, because it is one account of the Government from which all those needs are covered.

***If a problem regarding the repayment emerges, hypothetically, does it mean that the monetary policy can feel the consequences as well?***

The fiscal and the monetary policy are, of course, interleaving and the monetary policy is always adjusted in order to maintain the balance in the Macedonian economy. If we come to a situation when this balance is disturbed, the monetary policy will adequately react in order to restore the balance.

***The foreign reserves for a month "melted" by approximately Euro 80 million. Has these reserves been spent for maintaining the stability of the Denar, or for other purposes?***

No, the foreign reserves reduced in the first half of the year. The decrease amounted about Euro 150 million. The largest part was due to the changes in the gold prices and the US Dollar – Euro exchange rates. You know that that the gold was decreasing, and we have smaller accounting value of the gold price in Euros, as a result of which the foreign reserves reduced. However, we should know that in the previous period when the gold price was mounting, our foreign reserves were also increasing, for the same, purely accounting, reason. In the second quarter, we made a slight intervention, which is seasonally common because some large companies pay dividends, and then there is a lack on the foreign exchange market which is covered by the National Bank. However, in the third quarter, once again due to seasonal reasons, there are reverse movements, and we have already compensated those interventions we had in the second quarter. At the level of the entire year, the amount of foreign exchange that the National Bank has purchased on the foreign exchange market exceeds the amount of the foreign exchange it has sold. It means that the decrease in this moment is quite smaller than the one I have mentioned previously, which is totally due to the changes in the gold price.