# Dimitar Bogov: Addressing structural rigidities in view of monetary policy transmission effectiveness

Address by Mr Dimitar Bogov, Governor of the National Bank of the Republic of Macedonia, at the 4th Research Conference "Addressing structural rigidities in view of monetary policy transmission effectiveness", Skopje, 23 April 2015.

*      *      *

***Dear Governors, Your Excellences,***

***Ladies and Gentlemen, Dear guests,***

It is my pleasure to welcome you all, on our fourth Research Conference, entitled Addressing Structural Rigidities in View of Monetary Policy Transmission Effectiveness. Just like the previous years, we hope that the topic of this conference is both interesting and challenging to provide an interactive framework for discussion and research-based policy advices for the central bankers.

Structural rigidities, indeed, are related to a wide range of economic segments. Therefore, today we will try to tackle different economic issues, enlightening their importance for the monetary policy transmission effectiveness. Transition economies have undergone many structural changes in the ongoing reshaping of the economies, which to some extent have influenced the monetary policy decision making or monetary policy transmission channels. Globalization is yet another factor that tends to produce changes in the economic structure and at the same time, affects the markets functioning or economic agents' behavior. The labor market rigidities, wage and price settings, financial market imperfection, impact of foreign direct investments and many other issues must be appropriately taken into consideration in the monetary policy implementation and probably we have all put in a great deal of effort to accommodate our models to capture these specifics.

The last global crisis, with its overall severity, time length and countries coverage reactivated the importance of structural issues for the advanced economies too, pointing to the fact that not always same measure fits any situation, not always same risk affects in a same way and not always same threshold is valid for everyone. Nowadays, we speak about flexible and innovative monetary policy, designed on a broadly based information platform, incorporating structural features of the economies and all specifics of the monetary policy transmission mechanism. Since the onset of the crisis, we have tried to better incorporate financial stability aspects into monetary policy decision making. In addition, we learnt that zero lower bound rate in the advanced economies or historically lowest interest rates in emerging economies were not able to revive credit growth, until we moved towards renovating our toolkit. Non-standard monetary policy measures in different modalities have been widely used by the central banks around the globe during the crisis period, with the ultimate goal to capture countries' specific structural features. These tailor made measures proved to have ability for more effective monetary signals transmission, considering the additional impairments of the traditional transmission channels during the crisis.

Taking care about financial stability risks when conducting monetary policy, is one of the most important lessons learnt from the global crisis. In the highly globalized world, in practice, it means that we need to follow interlinks between domestic banking system and international financial markets in view of financing structure as well as its risk exposure considering traditional versus complex market products. Countries of the region, with relatively large share of foreign ownership in the banking system, probably to some extent experienced certain deleveraging pressure on the group level in the past years that unavoidably affected domestic subsidiaries' behavior. Strengthening of regulatory requirements and their implementation in practice, as well as restructuring processes of the

EU banks hit by the crisis, impose additional challenges to the financial stability and the monetary policy, as well.

On the backdrop of the lessons from the crisis and still fragile global environment, monetary policy should be designed carefully and implemented flexibly. Besides the traditional transmission channels, we must be aware of the expectations channel as well as the risk-taking channel. Therefore, in implementing our policy measures within the targeting horizon we need to take into account the market expectation as well as the risk perceptions of the economic agents. A mix of standard and non-standard instruments, intensified communication with the public, a broad overview of financial stability risks and the effects of macroprudential regulation, regular monitoring of the external factors' potential spillovers to the domestic economy, are probably the best options for securing effective implementation of the monetary policy.

Although being far away from the acute stage of the crisis, the current global environment is marked with relatively weak and uneven growth outlook, especially in the advanced economies, which led to different paths of their monetary policy stance. While ECB has just started its large-scale quantitative easing program, FED is just about to exit the accommodative monetary policy stance. These contrasting growth prospects of the leading economies underpin the risk of global financial markets volatility in view of eventual rebalancing positions between the main world currencies. On the other hand, there is a group of emerging economies with better growth performances and prospects for the future, including the Macedonian economy, which in the recent years has shown sound recovery, taking into account the significant ongoing structural changes in the economy as well as the fiscal space from the previous years. A common feature for the current surroundings are disinflationary or deflationary pressures around the globe in light of the fall of oil prices, with potential impact on the monetary policy cycle, additionally increasing uncertainty about external environment. At this point, monetary policy must broaden its scrutiny to involve every important aspect from the external environment, domestic economic cycle as well as structural features important for the future monetary policy stance.

The bottom line is that in a dynamic external environment we must take care about structural bottlenecks, regardless of whether they are related to the transitional stage of our economies or induced by the global crisis. I have tried to tackle some of them, which I believe will be discussed further on the high level Governors panel or additionally elaborated in the next sessions within the research papers. As I mentioned at the beginning, this is a broad topic, which is very important for the monetary policy transmission effectiveness. Therefore, I appreciate your attendance and contribution to our Conference, in sharing experiences and broadening our overall knowledge on these issues.

I wish you interesting conference and fruitful discussion!