Dimitar Bogov: Challenges of bolstering growth rates and ensuring their sustainability

Opening statement by Mr Dimitar Bogov, Governor of the National Bank of the Republic of Macedonia, to the Bank for International Settlements Working Party on Monetary Policy in Central and Eastern Europe, Skopje, 11–12 February 2016.

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Dear colleagues, dear guests,

It is my honour to welcome you for the Annual Meeting of the BIS Working Party on Monetary Policy in Central and Eastern Europe, hosted by the National bank of the Republic of Macedonia. I look forward to discussions on the key issues the policymakers are currently facing. Many of the economies in our region have strong trade and financial linkages with the rest of the world. Therefore, a natural starting point would be to assess how conducive the global environment is for our key goal of bolstering growth rates and ensuring their sustainability.

Unfortunately, almost a decade after the acute stage of the crisis, it seems that the global environment is still fragile. Although the world economy is recovering, growth rates do not seem to be strong enough, and what is even more problematic, this “low growth mode” might be here to stay. The frequent downward revisions of global growth prospects indicate that uncertainty is weighing on growth. Global growth rates are staggering slightly above 3%, on average, and the medium-term prospects do not seem to differ much. Growth is also uneven, with the short-term prospects more favourable for the group of the advanced economies, and paler for the emerging and developing world. The risks in the latter group, which accounts for almost 60% of the global GDP and has contributed with more than 80% of the global growth since 2008, seem to be large and strong enough to constrain the growth of the world as a whole.

It is not only the relatively slow global recovery that is worrisome. The fact that downside risks to the baseline growth scenario are prevalent, accentuates the uncertainty and fragility of the growth outlook. What are the main risks that should be pinpointed? First, there is the economic transformation and rebalancing in China, which is moving away from the previous model of export- and investment-led growth based on manufacturing towards a larger reliance on private consumption and services. Second, we are observing a large fall in oil and commodity prices, often reflecting concerns over the subdued global demand. Third, there is the gradual normalisation of Fed policy rates as opposed to the continued quantitative easing in most other advanced economies and the divergent monetary policy in emerging and developing economies.

From a medium-to-long term perspective, all these trends could have a positive effect. Still, they also have short-term consequences, which pose significant downward risks for the global economy. It is highly likely that the Chinese rebalancing will in the short term lead to slower economic growth, which could spill over to other economies via the well known trade, financial and confidence channels. In particular, the early evidence indicates that the Chinese slowdown is having stronger than expected effects on lower imports and lower commodity prices. In addition, such downward effects could be magnified by the possible accompanying turbulences in global foreign exchange and other financial markets. Second, the falling oil and commodity prices (and the expected persistence of low prices) could have negative effects on exports and economic growth in commodity-exporting emerging economies. This could also be reflected in further currency depreciations in these economies, which might in turn magnify corporate balance-sheet weaknesses, thus reinforcing negative growth feedbacks. Finally, divergent monetary policy moves between the US and most other economies that contribute to US dollar appreciation may have negative effects, with higher borrowing costs for dollar-denominated borrowing by emerging market companies and sovereigns.

Geopolitical tensions regarding Ukraine and the Middle East also imply continuous uncertainty, which increases borrowing costs and makes investment decisions more difficult. Related to this, the refugee crisis represents an additional political and systemic challenge in our countries. This applies particularly to fiscal costs and possible political instability arising from refugee accommodation and integration, which might affect macroeconomic policy and wider European political and economic integration projects.

Given the trade and financial linkages of this region with the European economy, it is of interest to also shed some light on the Europe's growth prospects. It is encouraging that the economic recovery is expected to proceed in the monetary union, at a growth rate of slightly below 2%. It is to be supported by the ECB's monetary policy measures, by the earlier progress made with fiscal consolidation and structural reforms, and low oil prices as well. However, similar to the global outlook, the economic recovery in the euro area is moderate and downside risks prevail. They pertain to the global uncertainties that were mentioned previously, as well as to broader geopolitical risks.

It seems that the possibility of prolonged slow growth is high, and this could affect the potential to grow, as well. This asks for policies of supporting long-term economic growth, which typically calls for structural measures – more innovation; technology sharing; support to the global regulatory reforms in order to improve the resilience of the financial system; investments in human capital, education, health and infrastructure.

At the end, let me once more wish you a pleasant stay in Macedonia and a successful meeting. I hope that you will have a chance to see Skopje and that you will enjoy it.