

Dimitar Bogov: Around a decade after the crisis - heading to the new global cycle and monetary policy normalization

Opening speech by Mr Dimitar Bogov, Governor of the National Bank of the Republic of Macedonia, at the 7th Annual Research Conference: Around a Decade after the Crisis: Heading to the New Global Cycle and Monetary Policy Normalization, Ohrid, 12 April 2018.

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Honorable Governors, Your Excellences,

Dear representatives of central banks,

Ladies and gentlemen

Let me welcome you all to our 7th Annual Research Conference this year in the beautiful city of Ohrid. Considering the current global surrounding, this year's conference "Around a Decade after the Crisis: Heading to the New Global Cycle and Monetary Policy Normalization" addresses a relatively long period since the onset of the global crisis and the need to face new challenges. At this point, the questions to ask ourselves and to discuss during the conference would be: how strong and sustainable is the ongoing global recovery, what are the reasons behind the subdued inflation, what should be the pace of monetary policy normalization, are the banks now more resilient, are we better prepared to prevent the risks? Maybe they are simple questions, however, like in many other cases in real life and a real economic framework, there are no simple answers.

The current global economic recovery is broadly spread across different regions in the world and associated with positive economic sentiment indicators. Along with the ongoing monetary policy normalization in the US economy, the new US fiscal package and its impacts on the economy also absorbs attention. In the EU, as already clearly announced, the accommodative monetary policy, although with lower amount of assets purchase, is expected to apply by September this year or beyond and interest rate changes to take place later. However, the positive global outlook has still been surrounded by various risks, including the still pending outcome of Brexit negotiations, geo-political risks and the possible protectionism measures by the US administration.

However, besides the sound and wide spread recovery, an important feature of the global environment is the generally subdued inflation, not always in line with the model-based forecasts and standard empirical findings. In this view, the flattening of the Phillips curve based on current economic data, points to possible altering of the standard relation between the economic cycle and inflation, raising discussion on one of the basic empirical findings in the macroeconomics in the academic and central banking community. The subdued inflation nowadays is mainly due to global factors that are not exclusively related to the commodity prices fluctuations, but also to the impacts of the globalization of production and digitalization of trade worldwide, both having impact on competition and prices in each economy. In such surrounding of prolonged lower inflation, the re-assessment of the time lag in affecting the inflation as well as the inflation measurement, the outlook of inflation expectations and their possible de-anchoring are to be considered.

The current economic developments and outlook point to new a global cycle and the need of gradual normalization of monetary policy. Gradual approach is required to avoid the so-called "taper tantrum" episodes that financial markets have already experienced during the US tapering. A stronger and clear monetary policy communication should be in favor of preparing market agents for the future monetary policy changes and smother reaction when they take place.

The monetary policy normalization in advanced economies could produce different impacts for emerging economies and their monetary policy. Any capital outflows would be highly dependent on the size and structure of the financial liabilities, especially regarding the existence of interest rate sensitive capital flows, that is not always the case in emerging economies with lower level of financial integration, where more usual are the direct investment, trade credits and banking sector capital flows. On the other hand, the more restrictive financial conditions in advanced economies in a medium run could eventually lead to lower external demand in the emerging economies. The impacts on the fiscal policy are more serious, implying stricter conditions for external budget financing, signaling the need to start or continue with fiscal consolidation, in the emerging economies where it has already started. Having in mind country specific reasons, monetary policy normalization in emerging economies may come with different lag.

Speaking about the Macedonian economy and countries from Western Balkan region in terms of facing the new global cycle, we have to mention some strong points and some still existing weaknesses. Generally, sound and stable banks have additionally strengthened due to the new capital requirements during the last several years, as well as due to the stronger efforts for better nonperforming loans management and resolution. Current account deficit region-wide has reduced as a result of the favorable price impact, in line with commodity prices slowdown and in the Macedonian case, due to the contribution of new companies with foreign capital that significantly changed our export structure into higher value added products. We have seen positive results in the dealing with unemployment as one of the main problems in the region. In Macedonia, it has significantly reduced due to new jobs creation, measures against informal economy and active labor market measures.

However, the countries of the region should continue strengthening their potential growth, productivity and competitiveness. The total factor productivity growth in many emerging economies registered a slowdown during the crisis mainly reflecting the slower growth and technological progress in advanced economies. However, the emerging economies must strengthen their activities towards higher efficiency on all levels of operation, building institutional capacity and further implementation of structural reforms that all together should improve total factor productivity contribution and boost the overall convergence towards advanced economies. The public debt and fiscal consolidation are still an area that requires additional vigilance by the policymakers in emerging economies, especially in light of changing financial conditions in the upcoming period.

Around a decade after the global crisis, we have seen that the banks, globally, are in a quite better shape. However, the reforms and Basel requirements should be fully implemented in order to build resilient banks. The digitalization is yet another interesting phenomenon of today's life and unavoidable element of the current global environment. Fintech in banking industry provides new revolutionary approach to the supply of banking services, as a response of the banks to the changing habits of their clients. This creates new opportunities, but also risks that regulatory authorities must be aware of. Therefore, globalization and innovation in financial sector call for deepening the international cooperation between authorities in different fields of operation.

This conference is just one of the possible forms of this international cooperation. Today, we will discuss the empirical findings from the research papers received upon our Call for papers, on different and very important central banking issues, while tomorrow we will have panel discussions on policy issues with high-level representatives from central banks and international institutions. I believe that all together, we will make contribution by answering the pending economic questions that I mentioned earlier and exchanging experiences that will enable us to better cope with the future challenges.

I wish you interesting conference, fruitful discussion and pleasant stay in Ohrid!

Thank you.