Anita Angelovska Bezhoska: Perspectives for young people from the full membership of the country in NATO and EU - impacts on monetary policy, business and the capital market

Speech by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of Macedonia, at the debate forum, organized by the Institute for Business and Management "Heidelberg", Skopje, 18 October 2018.

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Dear Ladies and Gentlemen,

Let me express my gratitude and appreciation for inviting me today, to be part of the eminent speakers at this debate forum, organized by the Institute for Business and Management HEIDELBERG Skopje. The matter that this event addresses is an important dimension of the prospects of our society, economy and the overall wellbeing. “Every cloud has its silver lining”, and joining a large, diverse and prosperous community, such as the European Union, should be our “silver lining” when facing difficulties in paving the way for stronger and faster economic and social convergence.

The European Union has been an important institutional, economic and political anchor for the region ever since the beginning of the transition. The accession process provides important tools that enhance the overall reform processes in the country, making it well prepared and better founded when the moment for full–fledged membership comes. My role today is to shed some light on what the EU entrance might imply for the monetary policy in general and for us as monetary policy makers, in particular. One angle of this issue is how the membership might impact the overall economy, and hence what challenges as policy makers we could face. The second angle is more specific, as the economic integration is the stepping – stone towards the monetary integration, and the adoption of the Euro as a single currency.

Observing the first angle, one should probably try to draw conclusions from the experience of other peer economies that already went, through this process. Entering the EU, for these countries provided confidence anchor and significant reduction of their risk premiums. It enabled strong influx of capital, which underpinned their real and financial convergence. In some of these countries, the finance flows went to productive and tradable segments, making the economies more resilient to shocks and less vulnerable. But, in some of them the allocation of capital was less conducive to sustainable growth, it created excessive imbalances, high leverage and less room for policy makers. The occurrence of the global crisis was a “natural halt” and painful correction of this unsustainable economic matrices. At this juncture, with the global crisis behind us and all the lessons learned, I think as policy makers we are more knowledgeable to reap the benefits of the EU entrance more wisely, and to better deal with the challenges ahead. At this point I must say, that Macedonian economy is already well integrated both in terms of trade and finance with the EU. More than 70% of the total trade is with EU countries, the foreign owned banks are mostly of EU origin, and the bulk of financial flows comes from EU. Very importantly, these financial flows went in export–oriented and more productive segments, that fortified the fundaments of the economy, provided impetus to growth and did not add to inflationary pressures, or pressures on foreign reserves. And, this model should actually be the proper way to proceed after the EU entrance, as well. Less reliance on short-term volatile financial flows, and import of longer term capital is the only way to enhance the productivity of the economy and improve its competitiveness. Very often, the entrance on the large EU common market of goods, services, capital and labor, not only is connected to faster growth and real convergence, but also to convergence in price levels. As wages start to increase, and gradual shift towards consumption of more expensive services occurs, the price level might elevate as well, thus posing challenges for monetary policy. These price pressures can be avoided by boosting the productivity, thus creating more favorable environment for the monetary policy, without pressures on the interest rates.

The second angle that should be pinpointed is the implication that EU entrance does have on the further monetary integration, the adoption of the Euro as a single currency and the role that the national central bank would have in this context. Entering the EU, for the NBRM would automatically mean participation in the European System of Central Banks (ESCB). In this manner, we are getting much closer to Europe in the field of central banking. The staff of the central bank becomes part of many committees, subcommittees and working groups of the ESCB, which is crucial ingredient for strengthening the institutional capacity for policy making. And this is vital for the future steps, as the EU membership, for small and open economy, with high level of euroization and fixed exchange rates would inevitable imply need for very serious preparations for the Euro adoption. It requires passing the so-called test period, staying in the ERM 2 mechanism for at least two years and delivering stable currency, inflation and long term interest rates comparable with those in the EU, and disciplined and prudent public finance. All of these are Euro convergence criteria that at the end boil down to having safe and sound economy and disciplined monetary and fiscal policy, as a precondition for smooth monetary integration.

Hence, entering the EU not only will facilitate trade and finance, and make movement of people much easier, but it will also open the doors to gradually move towards a single currency. The benefits of adopting the Euro are well known, in particular for a country that already has the exchange rate as a target, which means smoother transition. The single currency eliminates the currency risk and transaction costs, and thus facilities trade of good and services. It can also reduce the costs of financing, enabling easier access to finance and better opportunities for business decisions. The single currency and the participation in the monetary union provides the country with a backstop in case of financial difficulties and disabled access to international markets through the so-called European Stability Mechanism. Of course, adopting the single currency would mean giving up on the monetary policy independence, which is already limited given the exchange rate peg, and would not require major adjustments. This cost is lesser compared to the benefits that the single market and single currency would bring, under the assumptions that all the policies would be in place and prudent enough to secure sound fundaments and stability of the economy.

To recap, the EU integration is a process, which will provide boost and will shape reforms in many areas, underpinning the process of real, social and institutional convergence of the country. It will also impact the monetary policy making, both before and after the final stage of complete monetary integration. The challenges for the central bank are of a multidimensional nature– macroeconomic, institutional, and operational. Steering the wheel properly would require strong institutional capacity and awareness of all the policy makers that smooth integration requires healthy economy, absence of imbalances and sound policies.

Thank you.