

## Anita Angelovska Bezhoska: The importance of savings for investment growth

Speech by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of Macedonia, on the occasion of the World Savings Day - celebration of the Macedonian Banking Association, Skopje, 30 October 2018.

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Dear Guests,

Ladies and Gentlemen,

It is a great honor and pleasure for me to address you at today's event marking the World Savings Day - a day that banks and financial institutions around the world dedicate to promoting saving and raising awareness of the public about the benefits it brings. The saving is undoubtedly important from the aspect of both, individual and overall economic progress and maintenance of the macro financial stability. For each individual, or family, it is the principal and the most important step towards providing financial stability in a long run. By saving, we protect ourselves from unpredictable changes in the personal income dynamics, we more efficiently plan the long-term investments and we build sound foundations for maintaining stable finances throughout the lifetime.

Saving is also beneficial for the entire society, as it is one of the key factors which the economy's investment level depends on, which is a prerequisite for boosting the long-term economic potential. Usually, a significant portion of the savings is channeled into the banking system thus providing stable sources of financing to domestic banks, which is particularly important for the bank-centric financial systems, such as the Macedonian one, where the banks act as major financial intermediaries. At the same time, solid domestic savings rates rationalize the needs of the economy for external funding, which means reduced exposure to sudden changes in the capital flows dynamics, i.e. reduced sensitivity to shocks from the external sector. The latest economic crisis clearly illustrates the risks of excessive indebtedness and excessive dependence on external financing, which further emphasizes the importance of domestic savings, which has proven to be a more stable source of funding.

Having in mind all the benefits of saving, it is my pleasure to conclude that Macedonian citizens are cultivating a savings culture in the banking sector. In the last 10 years, total deposits have grown at a rate of around 8%, on average, on an annual basis, which contributed to an increase in savings<sup>1</sup> by about 10 p.p. at the level of 55% of GDP in 2017. The fact that the deposit growth was registered in conditions of the global crisis and more economic and political shocks proves the high confidence of the citizens in the banking sector, which remained stable, sound, highly capitalized and liquid throughout the entire period, showing high capability for successful handling of shocks. Higher growth in the denar deposits and the acceleration of growth of the long-term savings is especially positive, which strengthens the banks' capacity for long-term placements and the support for investment projects. The deposit growth provided a solid basis for increase in the lending activity and deepening of financial intermediation<sup>2</sup> by around 8 p.p. in the past ten years to the level of 48% of GDP in 2017.

However, despite the positive trends, the need for further increase in the total domestic savings is evident, which is a common feature of the CESEE countries. Thus the IMF analysis of May 2016<sup>3</sup> mainly indicates "insufficient" domestic savings<sup>4</sup> in CESEE countries, i.e. the average savings rate (as a difference between gross domestic product and consumption) of about 20% of GDP, which is lower than the current investment rate, lower than the estimated optimal rate of investment (25% of GDP), as well as the rate in countries with a relatively faster process of real convergence in the past (28% of GDP). The rate of total domestic savings is particularly low in

the SEE countries, where in 2017, on average, it is 17% of GDP, including in the Republic of Macedonia where it is close to the average in the region.

The relatively low domestic savings are an obstacle for stronger investment support, partly explained by the fact that, even after more than 25 years from the beginning of the transition, the level of accumulated capital per capita in most CESEE<sup>5</sup> countries is still relatively low, corresponding to about one-third of the levels in developed European economies. In RM the capital level per capita is lower than the average of the EU-28 countries, and it equals around 24%. Moreover, as in most countries, even in our country the gap is deeper in the part of the private accumulated capital than in the public capital.

However, according to the dynamics, a characteristic of the Macedonian economy is that, unlike most of the economies in the region which registered significantly reduced investments (an average of about 10 p.p. in GDP) in the post-crisis period, until 2017 in our country their share registered an increase. This was underpinned by the stable inflow of foreign direct investment, the country's investments in infrastructural projects, and more important, through relatively solid and sound credit support. The credit support, however, was enabled through the continuous, albeit gradual, growth of the total domestic savings, including savings in the banking system.

Looking ahead, there is no doubt for a need of investment growth, meaning an undisputed necessity for encouraging domestic savings in order to reduce the gap between domestic savings and investments. Otherwise, the gap will need to be financed to a significant extent by external sources, although such conditions are not unusual for developing countries, which, in conditions of limited domestic resources, are directed towards the use of external sources for supporting investment and economic growth. It is also important that the lack of domestic savings in one part is compensated by the high inflows of private transfers, which are maintained at a relatively high level in the Macedonian economy, which is close to the level of the domestic savings rate. In addition, the structure of financial flows from abroad shows larger funding through FDI inflows, which mitigates the risks to external sustainability. However, debt financing is also mounting, attributed by both public and private sector. Although, according to most indicators of external indebtedness, Macedonia is still in the "safe zone", the growth of external debt is undoubtedly a signal for additional vigilance by policy-makers, which is especially true for developing countries.

Bearing in mind that, despite the positive developments, the domestic savings rate in the Macedonian economy remains below the average and among the lower rates in the CESEE countries, an active contribution from all counterparties is necessary. For banks, this means continuous improvement of the offer of savings products, which will be price-competitive, but also adjusted to the needs of the "ordinary" depositor and keeping-up with the challenges of the modern life. In this context, I would also mention the savings that are still out of the official channels and whose attraction and channeling into official financial channels can significantly increase financial intermediation. Let's not forget the potential of the non-banking financial sector, which through a more active promotion and financial education of citizens on alternative forms of saving, can contribute to the mobilization of additional savings from the households. The development of the institutional investors creates a base for the development of the domestic capital market and increasing its importance as a financial intermediary in the economy. The role of the institutions is also important. We, as the National Bank, within our competencies, will continue to support the savings in the future period as well, by further maintenance of the macro-financial stability and prudent regulations, maintaining a safe and sound banking sector, contributing to maintenance of the confidence in the financial system, which is a key prerequisite for domestic savings.

Finally, let me congratulate you all the employees in the banking sector in the Republic of Macedonia on the World Savings Day, 31 October, and wish you a success in future by attracting more deposits and their efficient channeling in productive investments that will bring

benefits to the society as a whole.

Thank you!

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- <sup>1</sup> Measured by the share of the total deposits of the non-financial entities in the GDP.
- <sup>2</sup> Measured by the share of total gross loans of non-financial entities in GDP.
- <sup>3</sup> IMF Regional Economic Issues, Central Eastern and Southeastern Europe – How to Get Back on the Fast Track, May 16.
- <sup>4</sup> Refers to the total domestic savings calculated as a difference of GDP and consumption, expressed as a percentage of GDP.
- <sup>5</sup> Slovenia and the Czech Republic are exception.