Anita Angelovska Bezhoska: Speech at the Ministerial Dialogue on the Economic Reform Programmes of the Candidate Countries

Speech by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the Ministerial Dialogue on the Economic Reform Programmes of the Candidate Countries, Brussels, 17 May 2019.

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Dear Ministers,

Dear representatives of the European Commission, European Central Bank and Eurostat,

It is always a great pleasure to be part of the regular Ministerial Dialogue, having the opportunity to reflect on important issues that are in the spotlight of the economic agenda. At the same time it as an excellent occasion to express our appreciation on the provided assessments of the Economic Reform Programme. The main takeaways from these assessments have been important guidelines, mapping our policy actions, enhancing our capacity, and providing for faster closure of the existent gaps.

Now, let me briefly reflect on the topic of Structural reforms for attracting foreign direct investment and increase resilience. There is no doubt that investments are one of the key ingredients for increasing the long-term potential of an economy. When it comes to emerging economies, commonly there is a need for additional cross – border capital, which can complement the insufficient domestic saving. The more these flows are comprised of FDIs, the higher the positive impact on productivity and competiveness. In the regional context, pre-crisis investments were an important growth driver, reaching close to 30% of GDP, while in the post-crisis period investment ratios has plunged. North Macedonia stands out as an outlier, as the share of investments continued to increase, and it is one of the rare economies with investment level currently well above the pre-crisis one. This reflects stable and resilient domestic financial system, and rising inflows of FDIs, mostly in the tradable sector, that persisted despite the global crisis. This process was driven by the investment supportive policies and reforms, that significantly improved the business environment, as visible through the high ranking on the WB's Doing business - improvement of 22 positions in ten years, currently ranked tenth. It diversified the structure of the economy, making it more resilient to external shocks, and leading to positive shifts in the export base towards higher value added products. The outcome of this process was visible improvement of the external position of the economy, and further increase of official reserves, thus creating room for accommodative monetary policy, given the de facto fixed exchange rate. Clearly, we are a good example that reforms pay off and we remain committed to their implementation.

The best contribution that we as central bank can and do make is to maintain price stability and assure and strengthen the soundness of the financial system. Macroeconomic and financial stability is the basis of the investment climate that when in place significantly reduces the country risk premium and attracts foreign investors, but also boost domestic savings.

In this light, in recent period, we have undertaken a number of measures to assure for the soundness and resilience of the banking system. Capital buffers, introduced in line with EU Capital Requirements Directive and Basel 3 capital requirements, allows for better linking banks' capital base with the level of systemic and macro-financial risks. This assures for maintenance of adequate capital adequacy ratio of about 16% and strong resilience to shocks. **Changes in regulation to strengthen banks' corporate governance were also introduced**, recognizing the crucial importance of the corporate governance culture and values for a proper functioning of banks. Several aspects are tackled, related to the perimeter of the role of the

Supervisory Board, mechanisms for regular internal review of capacity of Supervisory and Management Board members and other key function holders, enhancement of the remuneration requirements, as well as enhancement of the role of control functions. **A number of measures were also undertaken to further improve the quality of banking system assets**, including a Strategy for NPL resolution that has led to tangible results- NPls to about 5%, one of the lowest in the region. **The euroization**, although declining to around 40% of total loans and deposits, and being among the lowest in the region, is being tackled through many measures, with more systematic approach employed as well, through the "Denarisation Strategy". This also adds to reduction of possible risks from financial stability perspective.

Notwithstanding all the efforts, challenges remain ahead and we will continue to address them with an aim to increase the stability and resilience of the banking system, as the key pillar of the financial system and thus contribute to stronger, but sustainable financial support of the real sector. In this light we will proceed with strengthening the supervision on systematically important banks, enhancing our macro – prudential capacity, modernizing the organizational and analytical infrastructure for crisis preparedness and resolution, contributing toward further development of alternative financial instruments, innovative financing, deepening of financial markets, and encouraging non-disruptive entrance of fintech services.

Last but not least, let us not forget that investors' decisions are information and data based. A strong portfolio of high – quality data, in line with the data international standards, is a prerequisite for investors to make their first steps in making due diligence and decide on the comparative advantage of the country. Our adherence to the highest IMF SDDS Plus standard this year, made us part of a small pool of 18 countries globally, assuring for the quality of our data and contributing to the health of the overall business environment.

Of course, there are many gaps on the structural front that should be addressed, to allow for faster growth and convergence. I am more than confident that with strong commitment of all stakeholders involved, in conjunction with accelerated EU accession process, we will achieve our milestones, contributing to the wellbeing of the overall society.

Thank you.