

Anita Angelovska Bezhoska: Opening and closing address - presentation of the EBRD Transition Report 2021-22

Opening and closing address by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the presentation of the EBRD Transition Report 2021-22, Skopje, 24 March 2022.

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Opening address

Dear colleagues, ladies and gentlemen,

At the beginning let me thank you for the kind invitation to address you at the launch of the latest Transition Report that analyses and measures the progress of transition economies on their way towards higher income levels. It is indeed my privilege.

For us, in the transition world, the Report has always been an important guideline, both with respect to advices on how to address the deep-seated structural issues, but on cutting edge matters as well. In the current context, it even gets more prominence by providing valuable insights in the extent to which the unprecedented shock have derailed policymakers from structural agenda, which is a key precondition for faster transition.

Similar to most of the countries in the world, the emergence of the pandemic has hit Macedonian economy severely. Although it caught us on a strong footing with solid economic fundamentals and absence of any significant disequilibria, the economic activity plunged by 6%-which has not been observed in the last two decades.

Despite the rebound during last year, not all economic losses were recovered. The economy is still below the pre-pandemic level, and even more importantly, the growth outlook is under new threat in the midstream of the recent upheavals in Ukraine. Subsequent shocks and the need to respond in crisis management mode increase the risk of distancing from structural policies that provide impetus to a faster transition and more productive growth.

However, growth decomposition exercise reveals that even before the health crisis, the growth of the Macedonian economy, similar to the growth of other CESEE transition economies, was not predominantly driven by innovative and efficient sources. The average growth in the decade preceding the pandemics gravitated around 2.5%, somewhat above the CESEE average, with the contribution of total factor productivity (TFP), as a measure of economic efficiency and innovation, being relatively marginal. Although two thirds of growth dynamic was capital driven, the impact of the ICT capital was rather small. Labour had also positive contribution to the growth, but it was predominantly due to labour quantity, and less due to labour quality. During the pandemics, the bulk of the adjustment in fact went through the TFP which declined close to 5%, as the overall context was barely conducive for innovative decisions.

In this context, global competitiveness index in terms of innovation capabilities and ICT adoption locates us at the 97th and 70th rank (out of 152 countries), similar to Western Balkans peers, but much further from the advanced Europe. Jointly with several countries in the region, we were positioned in the group of efficiency enhancers, meaning that reforms must be intensified to increase the growth efficiency and quality. Increasing the technological readiness was one of the identified priorities.

Thus, in the last decade, the Macedonian productivity level has been staggering to around 40% of the level of advanced economies, such as German economy.

This clearly points that if we want to grow at stronger pace and in a more sustainable, green and inclusive way, we need to continue intensively addressing the structural hurdles for the key long-term determinants of the growth: labour, capital and productivity.

Let me focus on productivity. At this point, I think I can bring in the highlight of the latest Transition Report, i.e., innovation and digitalisation of the economies. The adoption of digital technologies can unleash productivity revival and possibly counteract some forces that act as drag on growth, such as adverse demographic and emigration trends that dampen the labour supply.

What is the pace of digitalization of the Macedonian Economy?

The new EBRD digitalization index points to a progress in both segments that are captured by the index – first, the preconditions for the use of digital technologies (digital infrastructure, skills, regulation, provision of government services), and second, the actual use of digital technologies by individuals and companies. The progress is particularly visible in the area of regulation and provision of government services, where score has more than doubled. Still, overall we are scored about 59% for digital preconditions and 48% for the actual use of digital technologies, which is close to the regional score, but still far from the frontier of 100.

I think that the scores are useful guidelines on where the policies should be focused on. In our case, it is clear that efforts should be concerted in setting a more adequate digital infrastructure, but even more in raising digital skills. On the latter, as noted in the report, significant efforts should be employed in enhancing digital training by employers and limiting digital brain drain. The more limited digital skills are, the more difficult it is to use new technologies and more limited are the growth prospects, in the world of rising digital intensive sectors.

In this overall context, as a central bank we have our eyes laid on the financial sector. Obviously, advancement in technology opens the door to innovative financial services, but to unlock its true value for businesses and consumers, we as regulators have a role to play. Against this background, we have embarked on many activities in this area, including setting up an Innovation Hub in 2019, which interacts and supports companies that are willing to pursue innovative business. Last year we conducted a broad based survey, with an aim to map the ecosystem, as a base for policy calibration. The survey revealed that 90% of the respondents recognize the need for digital innovation in the financial sector and 72% are already in the process of implementing some form of

digital transformation. There is an agreement among respondents that regulation can sometimes be a barrier for a swifter innovation. To eliminate regulatory barriers, a new Law on Payment Systems has been prepared and is currently undergoing a parliamentary procedure. We have already drafted the First National FinTech Strategy, which will soon be shared with other stakeholders. Tomorrow, under our initiative, all financial regulators will sign a Memorandum for setting up a FinTech Committee with a view of promoting digitalization in the financial sector.

To recap, there are no doubts that faster and inclusive income convergence calls for strengthened efforts to lift the growth potential, and perhaps even more importantly to lift the quality of growth. In this context, we would like to express our gratitude to EBRD for supporting us for almost three decades with more than EUR 2 billion total investment to date aimed at supporting competitiveness, trade integration and green transition.

Despite the current headwinds which put economic growth at risk and require immediate policy focus, we should not lose sight of a longer term structural agenda, including digitalization. As Andy Rooney said, "Everyone wants to live on top of the mountain, but all the happiness and growth occurs while you're climbing it." So, let us keep climbing.

Thank you.

Closing address

At the end, let me thank the colleagues from the EBRD for the highly insightful presentations on the state of the economy and the main challenges of the WB region as well as the main findings of the Transition Report, which primarily focuses on digitalization.

This does not come as a surprise knowing that digitalization has been significantly boosted during the pandemics, bringing a number of benefits to the societies, including support for faster transition and income convergence.

Despite the efforts, income gap of the Western Balkan economies in comparison with the EU still remains wide - regional income is only about 38% of the European income. This largely correlates with the level of productivity in the region that significantly lags behind the EU productivity. And, the increase in productivity can be achieved only by structural and institutional reforms, including digitalization that can lead to more efficient allocation of resources.

Thank you.