

Anita Angelovska Bezhoska: Address – Ministerial Dialogue on the Economic Reform Programmes of the Candidate Countries

Speech (via video conference) 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-Skopje, 12 July 2021.

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Dear Ministers, representatives of the European Commission, the ECB and Eurostat,

It is a great pleasure to be part of this dialogue. It serves as a foundation for important multilateral discussions and accentuates our mutual consensus on the importance of candidate countries to become fully fledged member states. It is for the second time that we meet virtually, an unambiguous reminder that the storm is not over, but fortunately, we are navigating through it on a stronger footing and with greater knowledge than it was the case a year ago.

The flattening of the health curve globally inevitably prompted flattening of the recession curve as well. Similar is the state of the Macedonian economy, which has been heading for a recovery. The fast restoration of the global supply chains provided strong and fast impetus to the export sector. Despite the worries for lasting scarring on consumption due to risk aversion and worries on contagion, as the containment measures were lifted, consumers adjusted their behavior swiftly and boosted demand. The recovery has been underpinned by strong, prolonged and well-coordinated accommodative macroeconomic policy mix. In fact, this is the first crisis episode when the initial reaction of the National Bank was loosening and not tightening the MP. This time, despite the strategy of de facto fixed exchange rate, solid fundamentals and strong official reserve buffers allowed for loosening of the monetary policy and adopting regulatory flexibility. Also, our initiative for access to the ECB backstop facility, which was also supported by other central banks in the region, and the positive ECB response, allowed for wider space for accommodative policies. The symbiosis of these actions has enabled conducive financial conditions, i.e. decline of borrowing interest rates at historically low levels and uninterrupted credit flows growing at a rate of 6% annually, double than in the EU, that helped "ring –fencing" of the labor market, preserving wages and jobs.

Where do we stand now, what are the major challenges ahead and is it time for complacency? A common denominator for all policy makers at the moment is the lingering uncertainty. Many scenarios are in place, from smooth and orderly recovery, through strong rebound with price pressures, ending to stalled recovery amidst new and more virulent strains. From a central bank perspective, our advantage is that there is still policy room for maneuver, although narrowed. Our policy rate is still in a positive territory at a level of 1.25%, alternative instruments are available for targeted actions, the level of foreign reserves remains comfortable and the banking system stable with NPLs ratio of only 3.4%, despite the pandemic shock and closure of a bank in the midst of the pandemic. Of course we have to be vigilant, and not only of conventional side effects of "too loose for too long" stance, but also of the possible adverse feedback

loop between real and financial sector, as well as of the so called "zombification" risk. As complacency is not an option, shielding against those risks asks for further strengthening of the financial safety net, which will remain one of our priorities.

Thus, although still overwhelmed with the current challenges and the need for further policy support, we must not remain oblivious to the pre – pandemic strivings to increase the potential to grow faster, but in a sustainable and inclusive way. This requires gradual shifting of the focus back to the pre-crisis structural bottlenecks such as the quality of institutions, strengthening the rule of law, investing in human capital and in the potential to innovate, as well as to new structural hurdles that will be left as a legacy of the pandemics, which might not be even well known at the current juncture. Clearly, we as central banks cannot play a main role in these segments, but perhaps a supporting one. In this context, despite many burning issues, we have managed to keep the focus on more structural issues such as digitalization by working on the first national fintech strategy, and on green finance by becoming a member of the international Network for Greening the Financial System and conducting the first survey on the current status of the green finance.

All these should ensure sustainable and inclusive recovery, while confirming our strong commitment to adopting the EU standards and best practices that should enable faster convergence.

Thank you!