

Ana Mitreska: Address – celebrating the World Savings Day

Address by Ms Ana Mitreska, Vice Governor of the National Bank of the Republic of North Macedonia, at the celebrating the World Savings Day, organised by the Macedonian Banking Association, Skopje, 29 October 2021.

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Dear Minister of Finance, Mr. Fatmir Besimi,

dear Director of the Deposit Insurance Fund, Mr. Amir Shabani,

dear President of the Macedonian Banking Association, Ms. Maja Stevkova Sterieva,

Dear colleagues,

Thank you for the invitation and the opportunity given on behalf of the central bank to address this event, which marks the World Savings Day. Looking back at the genesis and essence of the celebration of this day, it is interesting to see that the understanding of "savings as a manifestation of the maturity of individuals, but also societies as a whole", is in its basis. Many aspects are founded in this thesis, such as the financial literacy of each individual, the confidence in the institutions, the development of the economy and the capacity to save, the responsibility of those who manage savings and direct them to productive goals to increase the potential of the entire economy.

For the second consecutive year, we are celebrating the World Savings Day in pandemic conditions and from there I will address several main issues that are especially relevant due to the prolonged health crisis.

First, what are the consequences of the pandemic on the volume of savings and its structure?

Second, do the new circumstances change the investment behavior of the population and what consequences may it have on the financial stability?

Third, what are the processes that accelerated and surfaced due to the pandemic, and which are also an opportunity for productive use of savings and financial support of sustainable projects by the financial sector?

Unlike other crisis episodes, the pandemic has actually increased savings and this process is a global phenomenon. In the developed countries, the estimated excess savings in 2020 was nearly 7% of GDP, showing that savings were higher in the pandemic, than in normal circumstances. In the region of the Western Balkans, the rates of domestic savings measured as the difference between the generated income and the total private sector and government consumption registered a slight decrease of around 3 percentage points of GDP, but in conditions of a strong fiscal consumption for support of the economies. This means that private sector savings, despite the great recession, it is very likely that they remained relatively stable or grew. There are three reasons that contribute to this phenomenon. First, despite the recession, disposable income did not decrease, partially due to the fiscal impulse for support of wages and

jobs. Furthermore, given the nature of the crisis, the restrictive measures and the movement limitation, part of the population faced a forced reduction of the consumption, primarily the consumption of different services, which is characteristic for persons with higher income and with greater capacity and propensity to save. Third, given that all future economic flows are determined by the extremely uncertain epidemiological curve, in such an environment, the precaution motive has a great role in the depositors' behavior. The European Commission surveys for both our country and for the countries of the Western Balkans also show that the respondents' perceptions in 2020 and in 2021 are in favor of the view that due to the economic situation in this period, savings are more favorable decision, compared to recent years. At the same time, the surveys of our Statistical Office show a decrease in the utilization of savings as a source of income during 2020.

What has been happening to the savings in the banking system in our country from the beginning of the pandemic onwards? The deposit potential is increasing with a relatively solid intensity of over 8% on an annual basis, whereby the dynamics of increase is very similar to that of the period 2018 - 2019. Such dynamics does not resemble a bit the developments during the global financial crisis, when in a short time the deposit growth slowed down, which from around 20%, reduced to around 7% on an annual level. These trends show that the propensity to save and retain the funds in the banking system remains high. Household savings are growing dynamically, within the historical trends. However, the unique character of the crisis has implications on its structure. Given the unpredictability, the propensity for long-term savings is decreasing, while the share of these deposits in the total household deposits from April last year until now reduced by five percentage points. On the other hand, in the corporate sector, the growth rates are significantly above the historical average, with restraint from investment activity and growth of assets. The past crisis episodes were characterized by a reduction in corporate deposits, which shows that the corona-crisis prompts different behavior. The pandemic increases the propensity to hold liquidity and save, in conditions of pronounced and prolonged unpredictability.

Besides the growth of savings in banks, in conditions of a pandemic, there is an increasing propensity of households to invest in real estate. Actually, in conditions of low interest rates, relatively stable disposable income, reduced possibilities and needs for consumption, change in the models of work, globally there is an increase in the demand for real estate and in the real estate prices. Unlike most economic indicators, which collapsed during the pandemic, real estate prices are increasing. In the EU countries, in the first half of this year, real estate prices registered an average growth of nearly 7%, compared with the growth of around 4% in the past few years. In our country, the price growth is more moderate of about 4.4% during this year, but with signs of acceleration. In the entire region and in our country, housing lending is accelerating and the growth rates are more dynamic compared to the growth of consumer loans. It appears that currently in our country the real estate market developments are in accordance with the shifts in the supply and demand, and the price pressure exists, but it is not that pronounced, as it is in the European Union countries. However, this "pandemic syndrome" should be carefully monitored, given that the exposure of the banking system to the real estate market is increasing more and more. Hence, there is a need for enhanced monitoring also of this part of the portfolio and keeping of the banks' capacity to deal with the possible future shocks.

The banking systems in both the region and in our country are passing the test imposed by the pandemic crisis well, and the challenge for maintaining the capacity for credit support and also maintaining stability will remain in the next period. The indicators of solvency, liquidity, profitability of banks and the quality of the credit portfolio remain stable, and some of them further improved. But, the crisis is getting a prolonged dimension and may have lasting consequences and impose a need for restructuring in some of the sectors of the economy. At the moment, the disruption of the global value chains globally and the growth of costs are creating interruptions in certain industries and are one of the major risks to the expected economic recovery. Hence, timely monitoring of all risks and their timely identification is a current priority, in order to reduce the burden on the banks' balance sheets. According to the latest EIB survey, some of the banks in the wider CESEE region expect a certain increase in non-performing loans in the period ahead. Upward shifts are also possible in our country, but for the time being the stress tests show sufficient resilience of the banking system, in conditions of a strong regulatory framework, cautious behavior of banks and signs of economic recovery. The central bank's policy is currently relaxed, thereby contributing to favorable conditions of financing and economic recovery, in circumstances when we have enough comfort in the foreign reserves to respond to possible shocks. Of course, given the uncertain environment, we constantly and carefully follow the trends of all indicators, relevant to the monetary policy.

At the moment, almost in all countries, the growth of savings increases the sources of funding for banks and their capacity to support the economy, especially at the points that will meet the new post-pandemic requirements and will increase the growth potential. The transition to a green economy is undoubtedly one of the issues that with the pandemic has moved from the margins to the core of priorities. The preferences of both consumers and investors are changing globally and the "appetite" for the so-called green technologies and business models is growing. Amid such fundamental, global structural changes, our competitiveness as an economy will also depend on the ability for rapid transition to infrastructure that will provide "green stamp" products. On the contrary, the possibility to be competitive in both the product markets and in the access to financing will be small, and the costs high. The financial support from the banking system can significantly accelerate this transition and help in increasing the competitiveness of the domestic economy. Probably faster than expected, the world found itself at crossroads when it should accelerate the structural changes, accelerate the transition to a digital and green economy, enable sustainable, post-pandemic global recovery. The role of the financial sector in this respect is great, since the capacity of the entire economy to deal with the new challenges will largely depend on its stability and readiness for financial support.

Finally, on behalf of the National Bank, allow me to congratulate the Savings Day, and to send special congratulations to this year's plaque winners - recognitions for achieved special results in the performance of the work tasks.

Thank you!