Anita Angelovska Bezhoska: Building stronger partnerships for economic growth

Keynote address by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the Balkan Alumni Summit, Skopje, 27 May 2025.

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Ladies and gentlemen,

It is a pleasure to join you today at this important event organized by the Macedonian American Alumni Association. On this occasion, allow me to share some insights on the topic of regional economic collaboration and its potential to unlock new opportunities for sustainable growth in the Western Balkans region.

Let me begin my address with a dose of realism. **Despite 3 decades of transition, economic convergence in the Western Balkans remains low - income is less than half of the EU income, and the progress has been particularly slow since the GFC.** In our case, the income level stands at 41% of the EU average. This remains one of the most pressing challenges across the region. **In addition, let me add a dose of honesty**. This slow progress cannot be attributed solely to recent external shocks. Indeed, the crises of the past few years, such as the global pandemic, energy disruptions, and inflationary pressures, have all undoubtedly taken their toll. **These shocks, however, did not create our vulnerabilities, they only exposed them and amplified structural weaknesses that have already existed.** Data clearly show that the slowdown in convergence was already in motion well before the recent crises, reflecting cyclical downturns as well as deeper structural challenges. **Over the past two decades, the region's potential growth has nearly halved, from about 5% during 2000-2008 to just 2.5% between 2009 and 2024.** Macedonian potential growth fell even more sharply, from 3.1% to 2.3%. It is a fact that the potential growth of the EU economy has declined as well, but less than ours (2.9% to 1.8%), pointing that future convergence may be even more challenging.

What explains the decline in potential and actual growth across the Western Balkans?

The analysis shows that it is broad-based, stemming from weaker contributions from all three key drivers of long-term growth: productivity, labor, and capital. **First, productivity has stalled, with productivity levels remaining at approximately half the EU average.** This is due to the fact that innovation, technological diffusion, and digital transformation have not kept pace with global shifts. For example, the Global Innovation Index (2024) ranks North Macedonia at the 58th position out of about 130 countries, with the lowest ranking in the R&D segment, where we have invested 10 times less than advanced economies. **Second, labor input is weakening too.** One in five people born in the WB region is now living abroad, and one in three considers leaving the country (OECD Survey). **And finally, the stock of capital remains low at only about 30% of the EU stock, reflecting insufficient investments both in terms of size and quality.**

These are not just economic figures. They highlight the persistent gap between the economic achievements so far and the still untapped potential within our economies.

And this is precisely where the power of regional partnership can be harnessed, creating a clear path to accelerate growth. Indeed, empirical research shows that multilateral free trade agreements and regional cooperation can contribute to growth directly, through trade and FDI flows[1], and indirectly, through increased productivity[2]. **For example,** some studies[3] find that CEFTA led to increased trade among members by at least 74%. In addition, evidence[4] shows that its implementation has not only deepened trade ties but also contributed to the economic growth of its members.

So, where does the WB region stand today in terms of trade and financial integration?

Well, regarding trade, data shows that despite the progress, regional integration remains low. As of 2024, total intra-regional trade stood at about 11% of the total WB trade, and continued to follow the downward trend that began after the pandemic crisis. In the Macedonian case, trade with WB peers makes up only 14% of our total exports and 9% of imports. **These are modest shares indicating significant room for expansion** by making trade easier, faster, and cheaper.

When it comes to FDIs, intra-regional FDI flows also remain limited, with a significant portion of investment coming from outside the region, mainly from the EU. In the Macedonian case, investment originating from WB countries accounts for only around 3% of the total FDI inflows over the last decade, which is among the lowest shares in the region. **In this context, boosting intra-regional FDI could help diversify investment sources, promote knowledge and technology transfer, and deepen economic linkages in the region.** And a more integrated regional market, through the economy of scale, can be a more attractive destination for investments outside the region.

Looking forward, what can be done to further strengthen regional integration and growth prospects?

It appears that there are **a couple of priorities. First, intensify reforms** to address common structural issues such as low productivity, capital investments, but also tight labor markets. Recent findings from the Balkan Barometer (2024) indicate that 70% of WB businesses call for public policies specifically designed to keep talent within the region. Then, **continue aligning regional regulations and standards, and eliminating administrative obstacles** to address market fragmentation and increase regional competition. As an example, trucks spend 28 million hours waiting at borders every year – a burden that costs 1% of the region's GDP. Of course, this has to be done in a way that means aligning with **European standards and practices**. As the 2024 OECD's competitiveness data show, since 2018 the policy environments across the WB countries have steadily converged toward EU standards, but the pace of convergence varies across different dimensions and countries. No country has so far reached EU standards in any of the 15 policy dimensions assessed.

One important area, which is within the remit of the central banks, **is improving the efficiency of cross-border payments,** which can act as engines of growth by facilitating trade, commerce, and tourism. In this regard, a significant milestone was reached earlier this year when our country officially joined the Single Euro Payments Area (SEPA).

No doubt, all these reform efforts are costly, but the EU's Growth Plan for the Western Balkans introduces a 6 billion EUR facility in grants and concessional loans, aimed at supporting them. In fact, a Common Regional Market initiative is one of the key pillars of the Growth Plan and is expected to be a catalyst for the deeper integration of 18 million people. Some estimates show that this initiative, through increased harmonization, could add 10% to the GDP of the economies in the region[5].

Still, to effectively use the provided funding and implement reforms, the **quality of institutions is of key importance**. According to the World Bank institutional quality indicators, our country ranks slightly above the average for the WB region, but if we compare the entire region with developed countries, a significant gap is evident. Empirical research has shown that in lower-income countries, strengthening institutions has a significant positive contribution to higher economic growth.

To conclude, the path to sustainable and inclusive growth in the Western Balkans does not lie in isolation, but in collaboration. As the well-known Japanese poet Satoro wisely said, "Individually, we are one drop. Together, we are an ocean."

Thank you.

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[1] Bond et al. (2005), Alvarez et al. (2013), Didier and Pinat (2017).

[2] Seghezza and Baldwin (2008).

[3] Petreski (2018).

[4] World Bank (2018), WIIW (2023).

[5] Gomez Ortiz Maria Del Mar; Zarate Vasquez,Roman David; Taglioni,Daria. The Economic Effects of Market Integration in the Western Balkans (English). Policy Research working paper; no. WPS 10491 Washington, D.C.: World Bank Group: The Economic Effects of Market Integration in the Western Balkans