# Anita Angelovska Bezhoska: Navigating industrial policy

Opening speech by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the presentation of the EBRD Transition Report 2024-25, organised by the European Bank for Reconstruction and Development (EBRD), Skopje, 19 May 2025.

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Distinguished Mr. Turkmenoglu, Mr. Tabak, ladies and gentlemen,

It is a great pleasure to open today's event organized by our partners from the European Bank for Reconstruction and Development (EBRD), who will present their latest Transition Report. But before that, allow me to share a few reflections to set the stage for the central theme of this year's report, Navigating Industrial Policy, i.e., policy interventions designed to reshape the production structure of an economy.

**This year's report arrives at a time when governments worldwide are more than ever revisiting the use of industrial policies.** Namely, a striking surge in industrial policy measures has been noted, with the number of such policies in the EBRD regions roughly doubling over the last couple of years (2019–2022), and public spending on these policies in many economies now ranging between 1% and 5% of GDP, a scale comparable to national education budgets. And, given the current geopolitical context, the surge of industrial policies may further accelerate. While the rationale behind the use of industrial policies varies across countries, most commonly they are aimed at addressing a range of pressing structural challenges, such as boosting productivity, fostering innovation, supporting green transition, integrating more deeply into global value chains, or in some cases enhancing strategic security.

**However, as the report points out, not all industrial policy measures prove effective.** It is evident that only a well-designed industrial policy can complement markets and successfully correct market failures. On the other hand, poorly implemented policies risk distorting competition and undermining private investment and innovation. This only underscores the critical role of institutional quality and sound governance in delivering successful industrial outcomes.

**Zooming in on the Western Balkans, industrial policies have been widely used in different forms such as subsidies, tax incentives, tariffs or free economic zones, with an objective of fixing structural issues and lifting the living standards in the region.** Despite the progress, **income** levels in the region are only 43% of those in the EU, and this gap will not close without a renewed commitment to transition reforms. The EBRD's report, which assesses the progress in transition through 6 dimensions, makes it clear that the gaps are particularly large in the areas of competitiveness, green and resilience, with smaller, although still significant differences, in governance, inclusiveness and integration.

**Against this backdrop, allow me to turn next to the Macedonian economy**.

**Macedonian journey on structural reform has been mixed, marked by both achievements and challenges on the path to a sustainable market economy.** The latest assessment in the report provides a clear picture of where we currently stand. **Our average score is 5.6 out of 10, which is slightly above the Western Balkans average, but still significantly lagging behind the EU's advanced transition economies. The lowest scores** are observed in the areas of competitiveness, resilience and governance. **Competitiveness** score of just 5.1 highlights the need for deeper reforms to boost productivity, strengthen skills, increase participation in global value chains, and improve the business environment, especially for SMEs. The low **governance** score (5.6) on the other hand, reflects persistent challenges in government effectiveness, rule of law and the fight against corruption. **On the positive side,** our country scores relatively well in **integration** (6.4), reflecting the high openness to trade and investment and relatively high level of ICT infrastructure.

**With regard to productivity, as a key pillar of long-term growth, the gap is still large.** Macedonian labor productivity is less than half the EU average, with significant disparities across sectors. This is related to the structure of the economy, with highly productive capital-intensive foreign firms operating in the free zones on the one side, and a domestic SME sector marked by lower levels of productivity and innovation on the other. Namely, World Bank estimates (2025) indicate that (in 2022) labor productivity of manufacturing firms operating within the zones was approximately 1.5 times higher than that of domestic manufacturing firms. **Bridging this productivity gap is essential for convergence.**

**Clearly, the free economic zones, as a core industrial policy tool, have played a positive role in attracting foreign firms, creating jobs and increasing productivity in the Macedonian economy.** They have attracted above 1 billion EUR in FDI over the past decade, they account for about 50% of total exports and are home to some of the most productive firms in the country. It is also evident that these companies have positive effects on the balance of payments, generating net foreign exchange inflows of 17.8% of GDP in the last decade (2014-2023) according to NB estimates.

**But the connections between foreign investors and local businesses remain limited.** World Bank analysis (2022) factually corroborates this, showing that zone-based firms source only about 10% of their inputs from Macedonian local firms and tend to operate more independently of domestic production networks, which may also reflect missing proactive supplier development programs that connect foreign investors with local businesses. **Knowledge transfer and technological diffusion are also a critical bottleneck.** While the free zones have facilitated some transfer of skills and technology, the broader impact is limited by persistent skills shortages and gaps in digital infrastructure. **The EBRD's digitalization index** shows that North Macedonia scores 59% on digital preconditions and 48% on the actual use of digital technologies, figures that, while close to the regional average, are still far below the frontier of 100. On a positive note, although still low, the export of services has been rising, reaching close to 7% of GDP, i.e., tripling in the last decade. Hence, boosting digital skills and infrastructure is essential for further leveraging the opportunities of digitally enabled, tradable services, which have become key drivers of productivity growth in advanced economies.

**This holds true not only for the large firms and foreign investors, but for SMEs as well, which form the backbone of our economy. Their capacity to innovate, export, or scale remains constrained.** Although SMEs account for 92% of the number of enterprises involved in international trade, their share in the value of exports is only 27.5%, the lowest in the region. **The gap in innovation is also evident.** Macedonian SMEs perform at about 50% and 74% of the 2024 EU average in the area of introducing product and business process innovations, respectively. And their productivity is 3.5 times lower than the EU MSMEs' average.

**The OECD SME Policy Index**, as a benchmarking tool designed to monitor and evaluate the progress of policies that support SMEs, highlights the strengths but even more so the weaknesses that need to be addressed to foster their growth. According to the latest Index (2022), our country scores 3.4 out of 5 on average across all policy dimensions, with the weakest areas being enterprise skills, entrepreneurial learning and women's entrepreneurship. On the other hand, the most progress was made in the area of support services for SMEs, public procurement, access to finance, innovation policy and internationalization of SMEs. In particular, access to finance for companies has benefited from growing credit support, underpinned by policy measures to strengthen the resilience of the banking system.

**Finally, regarding GVC integration, our country is more integrated than most of its regional peers, as reflected by one of the highest scores in the region, thanks to its strong export performance in automotive components and electrical equipment.** However, much of this integration is still shallow and focuses on lower value-added activities. International experience shows that real progress comes not just from being present in global chains, but from moving up to more sophisticated stages.

**To sum up, the latest EBRD Transition Report reminds us that reform is not a one-time activity, but rather a continuous process that can no doubt be supported by carefully designed and implemented industrial policies**. Yet, the way forward requires not only the continuation but also a significant acceleration of structural reforms, especially in boosting productivity, supporting SMEs, strengthening institutions, and fostering digitalization and innovation. By implementing these reforms, we can lay a solid foundation for reinvigorating our economic potential and ensuring that growth is both sustainable and inclusive. In this context, I would like to take this opportunity to thank the EBRD for its continued support in advancing structural reforms in our country, including its valuable support to the National Bank in developing a resilient financial sector.

With that, I thank you all for your attention, and I look forward to the presentation of the report.