

Anita Angelovska Bezhoska: Building trust - a foundation for stronger savings

Speech by Ms Anita Angelovska Bezhoska, Governor of the National Bank of the Republic of North Macedonia, at the celebration marking the World Savings Day "Building Trust - a Foundation for Stronger Savings", Skopje, 30 October 2023.

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Dear attendees,

Ladies and gentlemen,

It is my pleasure to address today's event marking the World Savings Day, which this year is celebrated under the motto "Conquer your Tomorrow through savings", which clearly highlights the importance of savings, both for the personal well-being of each individual and for the overall economy.

Undoubtedly, saving is one of the key "engines" of economic growth, and an important driver of income convergence in the developing countries. The higher the domestic savings, the higher the opportunities for investment and increasing the volume of physical capital, which currently in our country (similar to the entire Western Balkans) amounts to merely about 30% of the average EU capital, clearly highlighting the need for intensifying the investment cycle. Usually, however, the level of domestic savings in less developed economies (like ours) is lower than the investment needs, and the gap is bridged over through the import of foreign savings, including in the form of foreign loans. This, in turn, implies growth of external borrowing and an increase in vulnerability of economies. In particular, in the current context of tight international financial markets as a result of the most synchronized and intensive monetary policy tightening in the past 50 years.

Hence, our efforts must be aimed at encouraging domestic savings, but also channeling it through the financial system. Some surveys show that in the Western Balkans there is a significant amount kept in cash, outside the financial system and therefore cannot be seen as a contributor to the economic growth. Thus, it is estimated that the household foreign currency savings in cash in the region average about Euro 246 per capita, while, in the Macedonian economy, this amount is higher, amounting to about Euro 403 per capita in 2021¹.

The level of savings in an economy is conditioned by several fundamental factors, such as income and consumption levels, demographic factors, the setting of tax system, the health and pension system, macroeconomic and political stability in the country, etc. **Yet, it is often determined by certain specific factors.** Such an exceptional episode was the pandemic, when in most of the countries household savings increased to unusually high levels, compared to some previous crisis episodes. Analyses² of the euro area and the US economy, for example, show that in the period 2020-2022, the accumulated excess saving increased to 11.3% and 13.2%, respectively, of the trend value of the gross disposable income. In fact, spending of these savings in the subsequent period has been considered one of the factors that

contributed to acceleration of inflation, more so in the United States than in the euro area, where the excess savings were lower, a dominant part was directed to investments in real estate, stocks and bonds, and less to the most liquid assets, and where the largest part of the excess was concentrated among the wealthiest 10% of the population, whose marginal propensity to consume is lower.

How does the dynamics of savings in the Macedonian economy look like? Similar to other countries, the pandemic led to accumulation of additional excess savings. Thus, the financial assets of the households increased by 7 pp. of GDP recording the fastest growth in the past two decades. At the same time, most of the excess savings were placed in the form of deposits, whose share in GDP in 2020 increased by 3.3 pp, which is three times higher than the average increase in the previous few years. However, in the past few years, the growth of deposits in GDP has decreased, indicating a gradual depletion of these excesses. This also corresponds with the developments in the real estate market, amid increased channeling of the deposits into real estate, which is actually a global post-pandemic phenomenon. This is also seen in the increase in real estate sales, which according to the available data is by about 35% higher on average in the three years since the pandemic, compared to the pre-pandemic period (2017-2019).

The overall amount of household deposits in the banks has increased by more than 20% in the years since the pandemic. Households, as traditionally the largest depositors in our banks, have currently entrusted the banks with Denar 340 billion, composing about 62% of the households' total financial assets. The remaining portion of about 22% are investments in private pension funds, while investment in securities, shares and life insurance policies accounts for only 8% of financial assets.

It is worth noting, however, that in recent period, household savings has undergone favorable structural changes, both in terms of currency and maturity structure of the deposits. The pandemic outbreak and the subsequent shocks interrupted the multi-year trend of permanent denarization of deposits in banks, but since the second half of 2022, **the share of denars in total household deposits** has been following an upward trajectory, currently amounting to about 48%. Amidst growing yields and stable expectations, **long-term household deposits are also growing**, after a long period of reduction, so that at the end of September 2023 their annual rate reached almost 24% - a record high in the last ten years. In fact, the National Bank has taken several measures aimed at such structural changes, mainly through the reserve requirement instrument that stimulates banks to offer more attractive interest rates on deposits in local currency.

The fact that deposits at banks and savings banks are still growing even amid high uncertainty and significant accumulation of external shocks, which perhaps occurred only once in the last hundred years, is an acknowledgement of the high confidence of the population in the banking system. This is not surprising, considering that the system has remained safe, sound, highly capitalized and liquid throughout the entire period, showing capacity to cope with shocks. A survey by the Austrian Central Bank³, lists our economy among the countries with the highest trust in the banking system from the CESEE region. According to the latest measurements, the trust of the population has increased to 40.5% as of 2021 (35.5% on average in CESEE). According to the latest National Bank survey on the assessment of risks to

financial stability (from 2023), which surveys the opinion of financial institutions and economic analysts, all respondents have expressed confidence in the financial system, most of which (61%), high confidence.

The National Bank is committed to strengthening the safety and soundness of the banking sector, which has been and remains our top priority and stake in supporting savings. Thus, in the past few crisis years, we have continued to strengthen the banking system resilience, by increasing capital requirements, including through the first introduction of a countercyclical capital buffer. We have also introduced **borrower-based macroprudential measures** for the first time, with the purpose to prevent any excessive household debt amid hiking inflation and growing interest rates. **Important systemic solutions for further strengthening of financial stability include the recently adopted Law on Financial Stability and Law on Bank Resolution**, which strengthen the mechanisms for prevention as well resolving banks that face serious challenges, without disrupting financial stability. Also, the implementation of the **first National Bank's Medium-Term Climate Risk Management Plan** is expected to contribute to a better understanding and capacity building both of the central bank and of the banks to manage one of the most important modern challenges – the climate risks, and improving the banking system capacity to support the transition of economy towards green and sustainable development. **The results of these efforts are visible** - in the past five years, the banking system capital has doubled, the capital adequacy ratio has hit a record high in the past 15 years, the capital quality is the highest, and the share of non-performing loans is historically the lowest.

Dear all,

We are living in uncertain times, when crises have become a commonplace, and uncertainty is the "new normal". This new reality emphasizes even more the need for a long-term rather than a short-term standing, as well as strengthening the resilience to potential future shocks, including the strengthening of the domestic savings for a better and secure future. As Aesop said, "It is thrifty to prepare today for wants of tomorrow".

I wish you a Happy World Savings Day!

Thank you!

¹ Source: OeNB Euro Survey.

² The consumption impulse from pandemic savings – does the composition matter?, ECB Economic Bulletin , Issue 4/2023.

³ OeNB Euro Survey.