THE RISKS ARE CREATED OUTSIDE THE BANKING SECTOR
Mr. Bishev, the timing for this interview could not be better. There is a whole series of very topical issues on which the public would like to know your opinion. These are difficult times for everyone, especially our southern neighbor. Greece is facing a major challenge to drastically reduce the budget deficit in a relatively short period. Greece should provide budget revenues amid expected reduced economic activity and decline in consumer spending caused by the reduction of wages and layoffs in the public sector that follow. What are your assessments?

G. Bishev: Reduction of the budget deficit is the first measure of the comprehensive package of measures for restructuring of the Greek economy. The ultimate goal of the reforms in Greece should be to increase the competitiveness and efficiency of the Greek economy that will ultimately contribute the economic growth to be predominantly driven by the export consumption, rather than by the domestic consumption, as it has been the case so far. From that point of view, the Greek economy will have to go through a process of reforms to increase competitiveness and efficiency, in a longer period of time, reforms which in the long run are the only road that leads to sustainable economic growth, creating new jobs and high standard of living. Moreover, given that Greece is an EU Member State, it is realistic to expect that the reform process in Greece will be accompanied by increased foreign investment. In this way, the region that Greece belongs to, will become more competitive globally and a climate will be created for achieving sustainable economic growth.

How long will it take the Greek economy to sail into calmer waters? There is considerable uncertainty about what the future brings, and also foreign creditors look less patient.

G. Bishev: Unfortunately, the world, especially the Euro zone is not facing large debt and budget deficit in only one country (Greece). Spain, Italy, Ireland and Portugal are also on the list of overindebted countries. In such conditions, coordinated action is necessary to reduce public spending, but it also requires economic restructuring towards improving competitiveness as a fundamental prerequisite for sustainable economic growth in the long run and relative reduction of the public debt to GDP ratio. That will make the economy of the Euro zone more competitive and more dynamic relative to the economies of Brazil, India, China, USA. Of course, the process of restructuring will not happen overnight, it is a long and difficult game with permanent accommodation. However, in the past, the European economy has shown that it has the capacity and knowledge to do it.

Could Greece really exit the Euro zone? Since the beginning it was known that the Euro zone did not meet all the theoretical assumptions for an optimum currency area, but this was compensated by the strong political support of the project. The exiting of Greece from the Euro zone would be a massive blow to the whole project of unification in the EU.

G. Bishev: As one prominent politician has said, the EU is not an entrance to a hotel with a revolving door, so that
countries may go in and out whenever they want. The creation of the euro was a long and painstaking process based on economic criteria, where the benefits from the introduction of the euro have significantly outweighed the costs of conversion. This situation has not changed. From that point of view, neither Greece nor any other country have any economic interest to abandon the euro. Of course, the costs of adjustment for Greece are high in the short run and the benefits are long-term. We, as economists, are oriented in our analysis to take into account long-term effects and this by the rule means a period of 5 to 20 years. Observed from this perspective, reforms in each EU country and in the EU as a whole are inevitable and cost effective. It is an acceptable price for a long-term dynamic economic growth and high living standard. But what is obvious to economic analysts sometimes is not obvious to those who take economic and political decisions. In economics, politicians are said to be short-sighted because they are oriented to results in the short run, for the length of the political election cycle.

**Let us turn now to the latest developments in the National Bank of Greece (NBG), the group that Stopanska Banka AD Skopje belongs to, where you are CEO and President of the Board. The NBG has undergone major personnel changes in top positions in the Bank. What happened?**

**G.Bishev:** As in the other countries affected by the current economic crisis in the EU, in Greece, reforms of the economy mean a reform of the financial sector. Given that the National Bank of Greece (NBG) is a Bank of systemic importance to the country, it is normal to expect that the reforms of the Greek economy will embrace NBG. Recent personnel changes in the Bank should be observed from that point of view.

**How does NBG deal with the challenges posed by the current situation in Greece regarding the level of deposits, lending, collection of loans, profitability, etc.?**

**G.Bishev:** The rescheduling of the government debt of Greece by replacing the existing government bonds with new securities, has caused loss to the holders of these bonds by about 75% of the nominal value of the debt. Such a cleanup of the Bank’s balance sheets from toxic assets resulted in a negative financial result of the Group in 2011 and early 2012. Moreover, in order to offset the effects of writing off the government debt, the Bank has made recapitalization of Euro 7.5 billion through the program of the Financial Stability Fund. In this way, despite writing off about 75% of the Greek debt in its balance sheets, NBG was able to maintain capital adequacy above the prudential supervisory standards (8.1%) and remains a key pillar of stability of the Greek and European financial sector.

Despite all the difficulties, NBG has not withdrawn the profit that Stopanska Banka AD Skopje made in 2011 in Greece. Instead, profits were reinvested, which increased the capital base of Stopanska Banka AD Skopje and created greater opportunities for further increasing the activities of the Bank. What was the reason for that?

**G.Bishev:** Trust in the business strategy and the positive long term prospects of the bank are usually the main reasons contributing to the shareholders’ decision to reinvest the profits made in Stopanska Banka. Also, it is perceived that macroeconomic policies in the Republic of Macedonia will remain sound and the region will offer opportunities for investment. Observed from that perspective, our ambition is Stopanska Banka to become a regional banking supermarket that will render services to the
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investors. Accordingly, Stopanska Banka may note that not only in 2011, but all profits made since 2003 have been preserved in the Bank in the form of increased capital that serves as a guarantee for safety and soundness of the Bank. This strategy of our dominant shareholder contributed today Stopanska Banka to be the Bank with the largest capital strength and thus the most reliable financial partner in the country.

It is good for the banking sector, and for the Macedonian economy in general, that the crisis in Greece has not affected the public confidence in banks operating in our country. Confidence in banks has remained high. What probably many people in our country are interested to know is whether the possible deterioration of the crisis in Greece could in any way adversely affect the operation of Stopanska Banka and the safety of deposits? Stopanska Banka AD Skopje is still a separate legal entity.

G. Bishev: Stopanska Banka has an independent and balanced financial structure with a deposit base consisted entirely of domestic deposits. The capital that NBG has invested in Stopanska Banka is of irreversible and permanent character, i.e. it cannot be withdrawn as it is equity. The
Bank is not exposed to debt instruments of any EU country and therefore it is not directly exposed to the negative impacts of possible escalation of the debt crisis in Greece.

How in the given circumstances Stopanska Banka AD Skopje maintains its position in the domestic market? Do you have or prepare new products and services this year? To what extent is it helpful that the Bank is part of the large NBG Group?

G. Bishev: In its mission statement Stopanska Banka AD - Skopje defines that “it will offer a broad range of innovative

How is Stopanska Banka AD Skopje standing as part of the NBG Group?

G. Bishev: As in the past, also in 2012, the Bank continued to make excellent results in its operations, achieving balanced growth of loans and deposits while maintaining above average loan portfolio quality. As a result, in the first half of 2012, the bank achieved a net profit of Euro 6.6 million, which represents growth of about 64% relative to the same period last year. Stopanska Banka remains the safest and most stable bank with highest capital strength in the country that ensured capital adequacy of 18.25%. These results make Stopanska Banka a key pillar of financial stability, both domestically and in the NBG Group.
products and services totally oriented toward the needs of the client, it will be a reliable partner for its customers, supporting their growth and satisfying their needs in an easy and effective way in order to enable the realization of their potential and maximum life achievements, from day to day." The Bank remains a leader on the Macedonian financial market in the modern environment that is constantly growing and moving, where personal needs and expectations are rising, and where customers know more, seek more and do more. New products and services are developed and implemented consistently throughout the year in all fields of activity. In the last six months the Bank has introduced several innovations such as:

- Foreign currency payments for legal and natural persons through e-banking service
- Six-month term deposit with a guaranteed interest rate in Denars
- Consumer credit without collateral with foreign currency clause
- Participation in the project of the Government "Buy a house, buy an apartment" that enriched the range of housing loans
- Electronic submission of monthly reports and notifications to customers
- Personal banker for each client

In the process of preparation are services available via mobile phone, new incentives for car loans and certainly improved procedures and processes in the branches and business centers of the Bank. The alternative channels under the brand i-Bank are constantly supplemented with new services that allow 24-hour interaction of customers with the bank and their accounts and products. The access to i-Bank services will be increased by installing additional ATMs. The number of ATMs only in the next five months will increase by 30.

Our strategic partner, NBG, with its rich experience in the banking sector of South Eastern Europe is also a leader in innovation and introduction of banking products and services. Stopanska Banka continually receives information, shares knowledge, resources and technologies in order to implement the modern banking trends in our business in a timely manner, to customers' satisfaction.

**Your Bank participates in the Government project "Buy a house buy an apartment."** The public gained the impression that the project has yielded smaller results than initially expected. Why is this so?

**G.Bishev:** Buying a house or an apartment is one of the most important life decisions for a family and as such it is not made overnight. From that point of view it cannot be expected that in the first stage of the "Buy a house buy an apartment" project there will be a large number of applications. It should be a long-term project of the Government that will give an opportunity to a larger number of families to obtain their own home. Stopanska Banka actively participates in this project and since the beginning we have approved 21 applications.

**The number of ATMs only in the next five months will increase by 30.**

Since the beginning of 2012 banks in our country are facing pressure from the public that comes through two channels. First, banks to increase their credit support. Second, banks to reduce interest rates. What is your opinion on this?

**G.Bishev:** For quite some time, Macedonian economy has been growing at rates below its potential and companies and the population dispose of scarce resources and sparse saving. In such conditions it is expected the economic agents to continually seek additional sources of funds, i.e., credits. What is characteristic of our banking sector is that it happens in circumstances when banks have stronger lending potential than they are actually lending. This condition is short-term, and currently it is a big advantage. High risks and uncertainties associated with future economic activity, globally and on a local level, are the main reason for the restraint of banks. In the long run, this is not characteristic of an economy with low domestic saving and high private investment. The acceleration of credit growth requires reduction of the risks and uncertainty. Banks are really specialized in assessing and managing risks, but the risks are created outside the banking sector. Seen from that perspective, the acceleration of the current credit activity requires from all economic actors - the real sector, the government and banks together to devise methods and instruments for reducing risks. Banks alone cannot do it. Here, the contribution of the private sector and the carriers of economic policies is very important.
Let us return to the big picture. The global economy is not doing well, forecasts are worsening. Europe is struggling with the debt crisis and all the consequences it has for the economic growth. The economic growth in the emerging countries of the East decelerates. Nouriel Roubini, the economist known for having predicted the global financial crisis in 2008, gives a pessimistic forecast for the U.S. economy, saying that we should expect economic growth below the trend, for a period of several years in the future. He says that the Fed, despite the third quantitative easing this year, will not be able to be the savior, because long-term interest rates are already very low and their further reduction will not stimulate spending. What are your expectations?

G.Bishev: The U.S. economy managed to somewhat stabilize the economic recovery but economic growth is still fragile. The European Union faces a debt crisis and the news from China create uncertainty. It is obvious that the monetary instruments cannot solve the structural problems of the world economy. A new model of growth is needed on both national and global basis. The global crisis has shown that only the definition of measures is not enough, but it is necessary to take an internationally coordinated action to deal with the crisis, increased international cooperation, a new model of corporate governance, new values and regulatory bodies.

In such circumstances, what will happen with the Macedonian economy? It seems that the worst is yet to come. What should we do as a country, in economic terms, in order to go through this difficult time more easily?

G.Bishev: As a small and open economy we are inevitably exposed to global trends. Reduced foreign effective demand has been keeping domestic industrial output in the negative zone for ten months. Despite the great uncertainty about the recovery of the world economy, expectations of improved global demand in the second half of 2012 are predominant in the relevant international institutions, which gives optimism that the worst is behind us. However, global reforms aimed at improving productivity, efficiency and competitiveness, are reforms which the Macedonian economy will need to go through. That is certainly a long and difficult process, but as I previously mentioned, it is the only road to sustainable economic growth and higher living standard in the long run.

Besides being a CEO of a bank, for a long period of time you have been a university professor and you have an insight in the situation in university level education. What is your assessment and what do you think should be done to improve it?

G.Bishev: One of the key factors for sustainable economic growth and competitiveness is a trained, professional and qualified labor. High unemployment rate is a fact indicating that Macedonia does not use the key resource for economic growth - labor, or that Macedonia does not have a skilled workforce that creates added value. The truth probably is a combination of both. From that point of view, the Macedonian educational system does not create workforce that may be employed and used as a factor of economic growth. It imposes the need for fundamental reforms in the educational system and especially a reform of the university level education, which must be completely adapted to fit the needs of business. Also, the continuous training and re-training of the already employed workers will increase the productivity of labor and economy, enabling exit from the vicious circle of a middle-income country.

Finally, how do you cope with the pace and the stress that the work brings? What gives you pleasure outside the office?

G.Bishev: My way to deal with stress is actually very simple, I am happy that I work what I really like and from that point of view I do not think my work is difficult. You should not do anything you do not want to do and that does not make you happy, so I have always enjoyed the work and the challenges that work brings. Beside the profession to which I devote most of the day, I spend my leisure time to relax with my family, friends and a good book. I play table tennis, ride a bike or walk along river Vardar.

Thank you for the interview.