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Macedonia: Shaky stability

The Macedonian economy is more dependent on the neighbouring countries, as this is a small and landlocked country. So, as long as domestic demand remains subdued and the regional environment remains depressed and unstable, sluggish recovery, not fundamentally different from stagnation, will prevail.

The adoption of the budget for this year triggered a conflict between the two largest Macedonian parties, which are the parties of the ethnic Macedonians. Ethnic Albanians have their own inter-party disagreements, but those surface mainly around election time. The Social Democrats, who are in opposition, walked out of the Parliament dissatisfied with the ruling Revolutionary Party throwing out all their amendments on the proposed budget law. Then they staged street protests and declared that they would not return to the Parliament before the government had resigned and presumably early elections were called. The likelihood of their extra-parliamentary protest succeeding is slim.

However, these political tensions are representative of the growing economic and social problems. The Macedonian pre-crisis policy strategy was to rely on a fixed exchange rate regime and tight income policy, including a balanced budget for the most part, with growth expected to be driven by net exports. This policy has succeeded in providing stability, but growth proved elusive – basically because the desired foreign capital inflows did not materialize and growth of exports was not as strong as intended. By and large, the country exports what it always did in perhaps larger quantities.

In the crisis, however, the government introduced a change in the form of somewhat increased reliance on public spending, primarily in development projects, but also in support of wages. In that, it proved to be highly selective, at least according to the opposition. It favoured and still favours party members and sympathizers to the detriment of the people supporting the opposition parties. Still, as a consequence of the somewhat supportive policies, there has been some improvement in the labour market and the decline of GDP has been rather shallow – as has the recovery been too. And last year, the economy fell into recession again. The government proposed a budget that the opposition thought was reckless and misguided and the political crisis erupted.

Still, with a somewhat more relaxed fiscal policy, the policy strategy has not really been changed. In fact, in the short and medium run, it can be expected that the stimulus that could come from public spending will be either small or non-existent. Apart from concerns with macroeconomic stability, i.e. mainly with the sustainability of the exchange rate, the borrowing costs continue to be punishingly high. So, even though the public debt to GDP ratio is low by most standards, the refinancing costs are unsustainable given the growth record so far and the expectations of sluggish recovery. As a consequence, short-term prospects are not encouraging, with perhaps some small positive growth rate this year. In the medium run, some modest acceleration can be expected on the assumption that the region as a whole will also do better. Macedonia's economy is more dependent on the neighbouring countries, as this is a small and landlocked country. So, as long as domestic demand remains subdued and the regional environment remains depressed and unstable, sluggish recovery, not fundamentally different from stagnation, will prevail.

Table MK

Macedonia: Selected Economic Indicators

	2008	2009	2010	2011	2012 ¹⁾	2013	2014 Forecast	2015
Population, th pers., mid-year	2046.9	2050.7	2055.0	2058.5	2065.0	2070	2075	2080
Gross domestic product, MKD mn, nom. ²⁾	411728	410734	434112	461730	474200	493300	516700	542800
annual change in % (real) ²⁾	5.0	-0.9	2.9	2.8	-0.6	1.0	1.7	2.0
GDP/capita (EUR at exchange rate)	3300	3300	3400	3600	3700	.	.	.
GDP/capita (EUR at PPP)	8400	8500	8700	8900	9000	.	.	.
Consumption of households, MKD mn, nom. ^{2,3)}	330399	314376	321524	345219	353000	.	.	.
annual change in % (real) ^{2,3)}	7.4	-4.7	1.3	3.9	-1.0	1.0	2.0	2.0
Gross fixed capital form., MKD mn, nom. ²⁾	86403	81872	82968	94537	104500	.	.	.
annual change in % (real) ²⁾	5.4	-4.3	-2.7	10.0	7.0	3.0	4.0	5.0
Gross industrial production ⁴⁾								
annual change in % (real)	5.1	-8.7	-4.8	3.3	-6.6	3.0	5.0	5.0
Gross agricultural production (EAA)								
annual change in % (real)	5.4	-2.3	8.2	2.0	0.0	5.0	3.0	3.0
Construction output, hours worked								
annual change in % (real)	-9.1	-2.1	5.8	14.2	-7.0	5.0	5.0	5.0
Employed persons, LFS, th, average	609.0	629.9	637.9	645.1	645.0	654	664	674
annual change in %	3.2	3.4	1.3	1.1	0.0	1.5	1.5	1.5
Unemployed persons, LFS, th, average	310.4	298.9	300.4	295.0	290.0	.	.	.
Unemployment rate, LFS, in %, average	33.8	32.2	32.0	31.4	31.0	31.0	31.0	30.0
Unemployment rate, reg., in %, end of period
Average gross monthly wages, MKD ⁵⁾	26229	29922	30225	30602	30600	.	.	.
real growth rate, % (net wages) ⁵⁾	1.9	25.0	1.4	-2.4	-2.7	.	.	.
Consumer prices, % p.a.	8.3	-0.8	1.6	3.9	3.3	3.0	3.0	3.0
Producer prices in industry, % p.a. ⁶⁾	10.1	-7.2	8.7	11.1	4.6	.	.	.
General governm.budget, nat.def., % of GDP ⁷⁾								
Revenues	33.1	31.3	30.4	29.6	29.1	.	.	.
Expenditures	34.1	33.9	32.9	32.1	32.9	.	.	.
Deficit (-) / surplus (+)	-0.9	-2.7	-2.4	-2.5	-3.8	-1.0	-1.0	-1.0
Public debt, nat.def., % of GDP ⁸⁾	27.9	31.7	34.8	35.0	36.0	36.0	36.0	36.0
Central bank policy rate, %, p.a., end of period ⁹⁾	7.00	8.50	4.11	4.00	3.73	4.0	4.0	4.0
Current account, EUR mn	-862.2	-457.1	-143.6	-224.3	-250.0	-400	-400	-525
Current account, % of GDP	-12.8	-6.8	-2.0	-3.0	-3.2	-5.0	-4.8	-5.9
Exports of goods, BOP, EUR mn	2692.6	1932.6	2530.1	3178.9	3115.0	3270	3600	3960
annual growth rate in %	8.9	-28.2	30.9	25.6	-2.0	5.0	10.0	10.0
Imports of goods, BOP, EUR mn	4455.1	3492.2	3977.9	4860.6	4910.0	5160	5680	6250
annual growth rate in %	21.9	-21.6	13.9	22.2	1.0	5.0	10.0	10.0
Exports of services, BOP, EUR mn	692.0	617.6	681.4	805.8	798.0	838	922	1014
annual growth rate in %	15.9	-10.8	10.3	18.3	-1.0	5.0	10.0	10.0
Imports of services, BOP, EUR mn	682.8	601.1	644.6	707.7	778.0	856	959	1055
annual growth rate in %	20.0	-12.0	7.2	9.8	9.9	10.0	12.0	10.0
FDI inflow, EUR mn	399.9	145.0	160.0	336.8	100.0	350	400	400
FDI outflow, EUR mn	-9.5	8.1	1.4	0.0	0.0	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1361.0	1429.4	1482.7	1801.9	1769.0	.	.	.
Gross external debt, EUR mn	3304.2	3780.4	4105.7	4846.6	5090.0	.	.	.
Gross external debt, % of GDP	49.2	56.4	58.2	64.6	66.0	.	.	.
Exchange rate MKD/EUR, average	61.27	61.27	61.52	61.53	61.53	61.5	61.5	61.5
Purchasing power parity MKD/EUR	23.93	23.65	24.15	25.19	25.61	.	.	.

Note: Gross industrial production and producer prices refer to NACE Rev. 2. Gross agricultural production refers to Economic Accounts for Agriculture (EAA).

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM reallocated to industries, including non-observed economy, real growth rates based on previous year prices). - 3) Including Non-Profit Institutions Serving Households (NPISHs). - 4) Enterprises with 10 and more employees. - 5) From 2009 including allowances for food and transport. - 6) Domestic output prices. - 7) Refers to central government budget and extra-budgetary funds. - 8) In 2011 and 2012 wiiw estimates. - 9) Central Bank bills (28-days).

Source: wiiw Database incorporating national statistics. Forecasts by wiiw.