

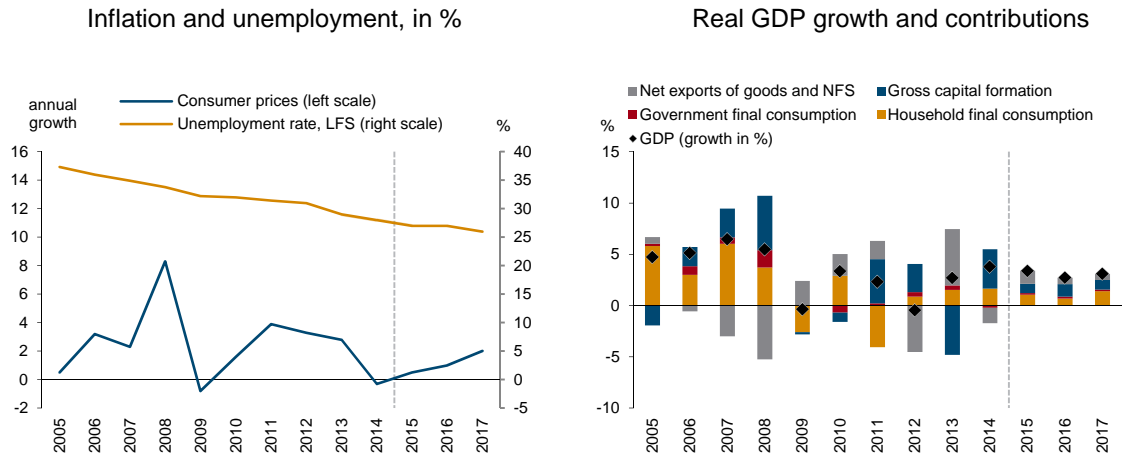


MACEDONIA: Growth and stability trade-off, again

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The current year's growth may turn out to be disappointing owing to a slowdown in both consumption and investment. Nonetheless, the growth rate should prove to be among the highest in the region. Assuming the maintenance of political and social stability, the growth rate should remain at around 3% over the medium term. Faster growth is possible, if political stabilisation is assured after the early elections in April next year and significant economic improvements are achieved in the region.

Figure 51 / Macedonia: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Stability has been the key word since the country has achieved independence almost a quarter of a century ago. Certainly since 1994 and after the near civil war in 2001, stability has been the main target to which growth prospects were subservient. This changed somewhat after the 2009 crisis as it allowed for more relaxed fiscal and monetary policies. In addition, ahead of the crisis and in the early year or two into it, wages in the public sector were hiked, which had a positive effect on overall economic activity.

With all that, an important adjustment has taken place in the last few years. Exports have increased substantially faster than imports, and the current account deficit has shrunk considerably. In addition, investments have shot up, both public and private. Saving has also increased and final consumption has declined. This has gone together within a fixed exchange rate regime and low inflation, which has flirted with deflation occasionally. In the first year of the crisis, 2009, wages increased by about 10%, which

however did not have negative effects on the trade balance, with exports increasing by about 40% in current euros between 2009 and 2014 (imports rose by about 20%).

So, Macedonia is an example of a country that has pursued a wage policy consistent with the fixed exchange rate regime and thus avoided loss of competitiveness, which, while depressing growth ahead of the crisis, proved to be a boon during the crisis as it allowed a looser wage policy and strong export performance. In addition, fiscal austerity before the crisis allowed for an expansion of capital spending without worrisome developments of the public debt, which despite doubling as a share of GDP remains at slightly above 40% only.

The concern with stability translated into an austere policy mix of fixed exchange rate, restrictive monetary policy and balanced budget. That depressed the growth rate in the period between 1994 and 2006. The strategy was to preserve external and fiscal stability and the stability of prices, with growth expected to come from net exports. That proved hard to achieve and cost the country dearly as unemployment stayed stubbornly above 30%. This proved sustainable because political concerns trumped the social ones. In the period after the outbreak of the global financial crisis, expansionary economic policy led to some increase in employment and to a fall in the rate of unemployment, even though it has come down to the very high level of around 27%. Political stability, however, was preserved through the readiness to hold early elections whenever the loss of legitimacy of the government came to be seen as probable. So, in the crisis, concerns with growth, employment and welfare have trumped the concerns with stability on the back of stabilising policies ahead of the crisis.

This year, however, political stability was threatened by the rapid loss of trust in the government that has been in power since 2006. Both main coalition parties, the Macedonian and the Albanian one, faced crises of legitimacy as allegations of corruption, electoral manipulation and human rights valuations surfaced. An escalation was avoided with the help of EU (and US) mediation which ended up in the promise of yet another early election by the beginning of April next year at the latest. This has calmed things down for the time being.

Still, these political developments have brought the issue of stability of the country to the fore. There are also social issues to be faced given that employment is still quite scarce and unemployment plentiful. Initial expectations were that the political crisis would not have significant negative economic consequences. That remains to be seen, but the data for the first half of the year are encouraging, with GDP posting growth of 2.9% compared to the first half of the previous year. With a similarly strong second half, growth should top 3% for the year as a whole.

The main issue is additional growth of investment. Government, household and total final consumption shares in GDP have already adjusted by about 10 percentage points all in all while investments have gone up together with the improvement in net exports (though it is bound to deteriorate this year and going forward as growth persists). On the supply side, industrial production has increased its otherwise low share at the expense of services. Further adjustments on the demand side could only mean some additional increase in government consumption and continued strong investment performance while growth of industry can only be quite slow. With that, growth around 3% is sustainable in the medium run.

One factor that may change things is an improved prospect for the start of negotiations with the EU. If a breakthrough is achieved by the end of next year, which is not terribly likely, but is not impossible depending on the outcome of the Macedonian elections and of the policy of the new Greek government, that should prove conducive to an acceleration of the growth rate.

Table 18 / Macedonia: Selected economic indicators

	2011	2012	2013	2014 ¹⁾	2014 January-June	2015	2015 Forecast	2016 Forecast	2017
Population, th pers., mid-year	2,059	2,061	2,064	2,068	.	.	2,080	2,085	2,090
Gross domestic product, MKD mn, nom. ²⁾	464,186	466,703	499,559	525,843	253,360	266,455	546,400	567,000	596,000
annual change in % (real)	2.3	-0.5	2.7	3.8	4.0	2.9	3.4	2.7	3.1
GDP/capita (EUR at exchange rate) ²⁾	3,700	3,700	3,900	4,100	.	.	4,300	4,400	4,600
GDP/capita (EUR at PPP) ²⁾	8,800	9,100	9,500	10,000	.	.	.	.	.
Consumption of households, MKD mn, nom. ²⁾³⁾	343,080	344,852	359,204	367,297	185,471	189,205	.	.	.
annual change in % (real)	-5.4	1.2	2.1	2.3	1.9	2.1	1.5	1.0	2.0
Gross fixed capital form., MKD mn, nom. ²⁾	109,219	109,071	117,382	121,500	.	.	.	.	.
annual change in % (real)	13.3	6.5	4.8	5.5	.	.	4.0	4.0	4.0
Gross industrial production ⁴⁾									
annual change in % (real)	6.9	-2.7	3.2	4.8	4.5	0.8	3.0	5.0	5.0
Gross agricultural production ⁵⁾									
annual change in % (real)	-0.4	-5.6	6.4	3.0	.	.	3.0	3.0	3.0
Construction output, hours worked									
annual change in % (real)	28.5	8.1	43.1	-3.4	9.1	16.4	5.0	5.0	5.0
Employed persons, LFS, th, average	645.1	650.6	678.8	690.2	686.9	698.4	700	710	720
annual change in %	1.1	0.8	4.3	1.7	2.0	1.7	1.5	1.0	1.0
Unemployed persons, LFS, th, average	295.0	292.5	277.2	268.8	271.2	259.4	260	260	250
Unemployment rate, LFS, in %, average	31.4	31.0	29.0	28.0	28.3	27.1	27	27	26
Reg. unemployment rate, in %, end of period	29.9	25.8	22.8	23.4	22.5	22.9	23	23	23
Average monthly gross wages, MKD	30,602	30,669	31,025	31,325	31,029	31,879	32,100	32,700	33,700
annual change in % (real, gross)	-2.6	-3.0	-1.6	1.3	0.3	3.0	2.0	1.0	1.0
Average monthly net wages, MKD	20,847	20,902	21,145	21,394	21,194	21,696	21,900	22,300	23,000
annual change in % (real, net)	-2.4	-2.9	-1.6	1.5	0.5	2.7	2.0	1.0	1.0
Consumer prices, % p.a.	3.9	3.3	2.8	-0.3	-0.2	-0.3	0.5	1.0	2.0
Producer prices in industry, % p.a.	11.9	1.4	-1.4	-1.9	-2.2	-3.2	-2.0	1.0	2.0
General governm. budget, nat.def., % of GDP									
Revenues	31.7	32.1	30.2	30.4	27.1	29.3	31.0	31.0	31.0
Expenditures	34.2	36.0	34.2	34.3	32.9	32.9	34.0	33.0	33.0
Deficit (-) / surplus (+)	-2.6	-3.9	-4.0	-3.9	-5.8	-3.6	-3.0	-2.0	-2.0
Public debt, nat.def., % of GDP	32.0	38.3	40.4	45.1	.	.	46.0	46.0	46.0
Central bank policy rate, %, p.a., end of period ⁶⁾	4.00	3.73	3.25	3.25	3.25	3.25	3.25	3.25	3.50
Current account, EUR mn ⁷⁾	-189	-240	-134	-69	-200	-98	-360	-370	-390
Current account, % of GDP ⁷⁾	-2.5	-3.2	-1.7	-0.8	-4.9	-2.3	-4.0	-4.0	-4.0
Exports of goods, BOP, EUR mn ⁷⁾	2,396	2,307	2,375	2,780	1,288	1,458	3,060	3,240	3,400
annual change in %	21.0	-3.7	2.9	17.0	16.1	13.1	10.0	6.0	5.0
Imports of goods, BOP, EUR mn ⁷⁾	4,301	4,315	4,238	4,635	2,207	2,317	4,870	5,110	5,370
annual change in %	22.4	0.3	-1.8	9.4	7.8	4.9	5.0	5.0	5.0
Exports of services, BOP, EUR mn ⁷⁾	1,045	1,067	1,155	1,277	582	658	1,380	1,463	1,536
annual change in %	39.8	2.1	8.2	10.6	16.4	13.0	8.0	6.0	5.0
Imports of services, BOP, EUR mn ⁷⁾	686	757	780	919	470	476	947	994	1,044
annual change in %	11.4	10.5	2.9	17.9	29.1	1.3	3.0	5.0	5.0
FDI liabilities (inflow), EUR mn ⁷⁾	370	265	302	37	106	108	300	.	.
FDI assets (outflow), EUR mn ⁷⁾	26	134	73	-160	1	-2	0	.	.
Gross reserves of NB, excl. gold, EUR mn	1,802	1,918	1,803	2,221	1,663	2,024	.	.	.
Gross external debt, EUR mn ⁷⁾	4,847	5,172	5,220	5,992	5,747	6,342	6,600	6,700	6,800
Gross external debt, % of GDP ⁷⁾	64.2	68.2	64.3	70.2	67.3	71.4	74.0	73.0	70.0
Average exchange rate MKD/EUR	61.53	61.53	61.58	61.62	61.65	61.59	61.50	61.50	61.50
Purchasing power parity MKD/EUR	25.58	24.98	25.60	25.52	.	.	.	.	.

1) Preliminary. - 2) According to ESA'10. - 3) Including NPISHs. - 4) Enterprises with 10 and more employees. - 5) For 2014 wiiw estimates. - 6) Central Bank bills (28-days). - 7) BOP 6th edition.

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