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Macedonia: lack of clarity

Available data suggest that recession is on the way in Macedonia. This is in contrast to the official proclamations, which are still rather positive. In that sense, Macedonia is an outlier: the governments in most other countries are coming out with increasingly realistic and objective assessments of the developments in their economies. Recently, the IMF has suggested that Macedonia's GDP will decline by 2%, while the government is still expecting growth of 1% this year. We have been forecasting a decline of 2% for some time now, but prospects are deteriorating and a revision may be needed soon.

As in other countries, industrial production and exports are the main victims of the current crisis. The contribution of industry to GDP is not so high, thus the sharp decline may not translate into too much GDP lost. Exports are more important and they have been falling quite strongly. Like most other countries in the Balkan region, Macedonia exports just a few products and mostly those that are the hardest hit by the crisis – metals and raw materials. Other exporting goods, such as textiles, are also having a hard time on the European and regional markets.

The deterioration is perhaps coming with a delay because the government intended to pursue a countercyclical policy with large increases in public expenditures, mainly aiming at investments in infrastructure and other development projects. This has led to a slower decline of imports than in most other countries, so that the trade deficit is actually increasing. This is probably a development supported by the steady inflow of remittances so far. Though data are not available and not all that reliable anyway, it does not seem that there has been a significant decline in the inflow of remittances as yet. Usually, remittances increase in the time of domestic crisis, but this crisis is different because of the recession in most of the major immigrant countries. Thus, at some point, a slowing down of the inflow of remittances may have to be reckoned with.

Labour markets are responding as expected, with falling employment and rising unemployment. This negative development is exacerbated by the decline of demand for migrant labour in the region, mainly in Montenegro, but also in other neighbouring countries. There was significant seasonal migration, for work in construction and in tourism, but those jobs may prove not to be available this summer.

The policy response has been somewhat slow and shifting. The central bank has been weary of the continuous loss of reserves and has suggested that an IMF programme may prove helpful. Macedonia has a hard peg regime with the euro and cannot afford to lose reserves, which are not

plentiful to begin with. The government has been opposed to the idea, but seems to be slowly moving in that direction. The latest official position is that if the situation continues to deteriorate, a programme with the IMF may prove to be useful. It is possible that with the next budget revision, e.g. in the early autumn, Macedonia may decide to ask the IMF for support.

Short-term prospects are worsening with GDP set to decline by 2% if not more. First quarter data are still not available, so it is hard to make a forecast with any reliability. Stabilization and recovery cannot be expected to happen soon. Thus, prospects for the next year are also negative with further GDP decline of 1%. In the medium run, a recovery of exports will be crucial, but that may prove to be hard to obtain. It certainly has been a problem when external demand was high and it will be much more of a daunting task if external demand remains weak as currently forecasted.

Table MK

Macedonia: Selected Economic Indicators

	2005	2006	2007	2008 ¹⁾	2008 1st quarter	2009	2009	2010	2011
							Forecast		
Population, th pers., average	2036.9	2040.2	2045.0	2048.0	.	.	.	.	.
Gross domestic product, MKD mn, nom.	286619	310915	354322	398640	88012	89919.	402000	414000	435000
annual change in % (real)	4.1	4.0	5.9	5.0	5.6	-0.9.	-2	0	2
GDP/capita (EUR at exchange rate)	2300	2500	2800	3200	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	6400	6900	7800	8200	.	.	.	.	.
Consumption of households, MKD mn, nom.	222726	243131	273296	316121	70770	71797	326000	336000	353000
annual change in % (real)	5.7	6.0	9.8	7.8	6.4	3.5	0	0	2
Gross fixed capital form., MKD mn, nom.	48868	56485	71557	80600	.	.	81000	83000	88000
annual change in % (real)	-5.4	11.6	13.1	4.0	.	.	-2	0	3
Gross industrial production									
annual change in % (real) ²⁾	7.1	3.6	3.7	5.5	5.8	-10.8	-3	0	3
Gross agricultural production									
annual change in % (real)	0.3	4.8	-3.0	6.9	.	.	.	.	.
Construction industry									
annual change in % (real)	-20.5	-11.9	9.7	-9.6	-17.9	.	.	.	.
Employed persons - LFS, th, average	545.3	570.4	590.2	609.0	600.6	.	.	.	.
annual change in %	4.3	4.6	3.5	3.2	3.7	.	.	.	.
Unemployed persons - LFS, th, average	323.9	321.3	316.9	311.5	319.9	.	.	.	.
Unemployment rate - LFS, in %, average	37.3	36.0	34.9	33.8	34.8	.	34	33	33
Reg. unemployment rate, in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD	21330	23036	24136	26229	25146	29540	.	.	.
real growth rate, % (net wages)	2.0	3.9	5.5	1.9	0.9	26.1	.	.	.
Consumer prices, % p.a.	0.5	3.2	2.3	8.3	9.5	1.0	3	3	3
Producer prices in industry, % p.a. ³⁾	3.2	7.3	2.5	10.3	10.5	-6.2	.	.	.
General governm. budget, nat.def., % GDP ⁴⁾									
Revenues	35.2	33.5	33.8	33.3	37.6	.	.	.	.
Expenditures	35.0	34.0	33.2	34.2	32.9	.	.	.	.
Deficit (-) / surplus (+), % GDP	0.3	-0.5	0.6	-0.9	4.8	.	-2	-2	0
Public debt in % of GDP	46.9	39.9	33.3	28.2	24.5	26.5	.	.	.
Discount rate of NB, % p.a., end of period	6.5	6.5	6.5	6.5	6.5	6.5	.	.	.
Current account, EUR mn	-121.3	-44.9	-414.8	-851.2	-173.0	-340.7	-460	-540	-570
Current account in % of GDP	-2.6	-0.9	-7.2	-13.1	-12.0	-23.3	-7	-8	-8
Exports of goods, BOP, EUR mn	1642.9	1902.7	2441.5	2684.2	611.6	400.3	2400	2400	2500
annual growth rate in %	22.2	15.8	28.3	9.9	9.5	-34.5	-10	0	5
Imports of goods, BOP, EUR mn	2501.4	2923.1	3616.3	4420.9	982.6	844.3	4400	4600	4800
annual growth rate in %	10.7	16.9	23.7	22.2	27.6	-14.1	0	5	5
Exports of services, BOP, EUR mn	416.2	477.3	594.3	688.1	144.2	.	700	700	700
annual growth rate in %	14.4	14.7	24.5	15.8	21.8	.	-5	0	5
Imports of services, BOP, EUR mn	440.8	455.1	568.7	688.1	145.0	.	700	700	700
annual growth rate in %	8.3	3.2	25.0	21.0	21.2	.	-5	0	5
FDI inflow, EUR mn	77.2	344.8	506.0	412.5	117.6	.	.	.	.
FDI outflow, EUR mn	2.3	0.1	-0.9	-9.5	-12.5	.	.	.	.
Gross reserves of NB, excl. gold, EUR mn	1028.0	1311.3	1400.1	1361.0	1389.8	.	.	.	.
Gross external debt, EUR mn	2518.1	2493.8	2832.0	3318.4	2837.2	3372.3	.	.	.
Gross external debt in % of GDP	53.7	49.1	48.9	51.1	43.7	51.3	.	.	.
Average exchange rate MKD/EUR	61.30	61.19	61.18	61.27	61.29	61.51	61.2	61.2	61.2
Purchasing power parity MKD/EUR	21.96	21.94	22.28	23.85	.	.	.	.	.

1) Preliminary. - 2) Enterprises with more than 10 employees. - 3) Based on domestic output prices. - 4) Refers to central government budget and extra-budgetary funds.

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