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Macedonia: No growth stability

The key problem that the country faced was the threat to its foreign currency reserves. Macedonia has followed a strict peg to the euro for years now and the exchange rate policy is the main anchor to its stability. So, in times of crisis, the government tightens the monetary policy and keeps the necessary level of reserves in order to defend the peg. In the past, this has often had to be coupled with tight fiscal policy, and that policy mix has been responsible for the meagre growth performance for most of the past decade and a half.

This time around, however, the government has been able to capitalize on its prudent fiscal policy and permitted some increase in the fiscal deficit in order to allow the automatic stabilizers to work. This has supported consumption and as a consequence the current account deficit has not declined as much as in most other countries. On the other hand, this has led to a smaller decline of growth. GDP has shrunk by about 2%, though industrial production and exports have been hit hard as in most other countries.

The government has been able to borrow money to cover its deficit and is intending to do the same this year. As exports and investment are anticipated to improve, a positive growth rate is expected for this year. Both the decline and the recovery are in line with historical growth rates, so those forecasts look rather realistic. The government expects stronger recovery in the following years and that is more doubtful.

One reason why that might prove achievable is the fact that credit growth has not been excessive in the past. Thus, there is less need for deleveraging both by households and by corporations. Also, there is scope for increased public investments due to low public and foreign debt levels. Finally, increased support from EU funds may be forthcoming if there is a speed-up in the negotiations for EU accession.

The constraint, however, is weak external demand. Most regional partners will not be posting high growth rates and these are important markets for Macedonian exports. This has been a major constraint in the past and may prove to be an important constraint in the future. In addition, some regional partners have improved their competitiveness (e.g. Serbia) because they have been able to depreciate their currencies. So, export-led recovery may prove challenging.

Given the prospect for sluggish recovery, labour market imbalances cannot be expected to improve significantly. The low employment rate and high unemployment rate will continue to present main challenges for the foreseeable future.

Table MK

Macedonia: Selected Economic Indicators

	2004	2005	2006	2007	2008	2009 ¹⁾	2010	2011	2012
	Forecast								
Population, th pers., average	2032.5	2036.9	2040.2	2043.6	2046.9	2050.0	2052	2054	2056
Gross domestic product, MKD mn, nom.	265257	286619	310915	354322	398491	387000	399000	419000	445000
annual change in % (real)	4.1	4.1	4.0	5.9	4.8	-2	0	2	3
GDP/capita (EUR at exchange rate)	2100	2300	2500	2800	3200	3100	.	.	.
GDP/capita (EUR at PPP - wiiw)	5800	6400	6900	7700	8200	8100	.	.	.
Consumption of households, MKD mn, nom. ²⁾	209075	222726	243131	273269	321020	318000	328000	345000	362000
annual change in % (real) ²⁾	8.0	5.7	6.0	9.8	8.1	0	0	2	2
Gross fixed capital form., MKD mn, nom.	47286	48868	56485	71557	86403	83000	85000	90000	96000
annual change in % (real)	10.9	-5.4	11.6	13.1	4.0	-3	0	3	4
Gross industrial production ³⁾									
annual change in % (real)	-2.2	7.1	3.6	3.7	5.5	-9.7	0	3	5
Gross agricultural production							.	.	.
annual change in % (real)	6.8	0.3	4.8	-3.0	5.4	4.6	.	.	.
Construction industry							.	.	.
annual change in % (real)	-1.0	-20.5	-11.9	9.7	-9.6	-1	.	.	.
Employed persons - LFS, th, average	523.0	545.3	570.4	590.2	609.0	640	650	660	670
annual change in %	-4.1	4.3	4.6	3.5	3.2	5	1.6	1.5	1.5
Unemployed persons - LFS, th, average	309.3	323.9	321.3	316.9	310.4	330	.	.	.
Unemployment rate - LFS, in %, average	37.2	37.3	36.0	34.9	33.8	34	33	33	33
Reg. unemployment rate, in %, end of period
Average gross monthly wages, MKD ⁴⁾	20771	21330	23036	24136	26229	29900	.	.	.
real growth rate, % (net wages) ⁴⁾	4.4	2.0	3.9	5.5	1.9	10.5	.	.	.
Consumer prices, % p.a.	-0.4	0.5	3.2	2.3	8.3	-0.8	3	3	3
Producer prices in industry, % p.a. ⁵⁾	0.9	3.2	7.3	2.5	10.3	-6.5	.	.	.
General governm. budget, nat.def., % GDP ⁶⁾									
Revenues	33.2	35.2	33.5	33.8	34.2	33.2	.	.	.
Expenditures	33.2	35.0	34.0	33.2	35.2	36.0	.	.	.
Deficit (-) / surplus (+)	0.0	0.3	-0.5	0.6	-1.0	-2.8	-2	0	0
Public debt, nat.def., in % of GDP	42.6	46.9	39.9	33.3	28.7	30	33	31	29
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	-361.8	-122.5	-23.3	-421.2	-853.3	-440	-520	-550	-580
Current account in % of GDP	-8.4	-2.6	-0.5	-7.3	-13.1	-7.0	-8	-8	-8
Exports of goods, BOP, EUR mn	1345.0	1642.9	1914.0	2472.2	2684.2	1900	2000	2100	2300
annual growth rate in %	11.8	22.2	16.5	29.2	8.6	-29	5	5	10
Imports of goods, BOP, EUR mn	2259.3	2501.4	2915.5	3653.3	4434.9	3300	3500	3700	4100
annual growth rate in %	15.5	10.7	16.6	25.3	21.4	-26	5	5	10
Exports of services, BOP, EUR mn	363.7	416.2	477.4	594.5	686.3	650	700	740	800
annual growth rate in %	8.5	14.4	14.7	24.5	15.4	-5	0	5	10
Imports of services, BOP, EUR mn	407.1	440.8	455.0	569.4	681.9	650	700	700	800
annual growth rate in %	19.3	8.3	3.2	25.2	19.8	-5	0	5	10
FDI inflow, EUR mn	260.7	77.2	344.8	506.0	399.9	120	150	.	.
FDI outflow, EUR mn	1.0	2.3	0.1	-0.9	-9.5	-2	0	.	.
Gross reserves of NB, excl. gold, EUR mn	653.3	1028.0	1311.3	1400.1	1361.0	1200	.	.	.
Gross external debt, EUR mn	2080.2	2528.2	2383.6	2841.1	3304.2	3500	.	.	.
Gross external debt in % of GDP	48.1	54.0	46.9	49.1	50.9	55	.	.	.
Average exchange rate MKD/EUR	61.34	61.30	61.19	61.18	61.27	61.32	61.2	61.2	61.2
Purchasing power parity MKD/EUR	22.65	21.95	21.93	22.51	23.86	23.27	.	.	.

1) Preliminary and wiiw estimates. - 2) Including NPISHs. - 3) Enterprises with 10 and more employees. - 4) Until 2005 excluding employees in Ministry of Interior and Defence. From 2009 including allowances for food and transport. - 5) Domestic output prices. - 6) Refers to central government budget and extra-budgetary funds.

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