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Macedonia: Stability preserved

The crisis has had a milder effect than in most other countries in the region. GDP decline was only 0.9% in 2009. Recovery was also unremarkable: GDP growth of only 0.7% in 2010. Some acceleration, about 2%, is expected for 2011. Unlike most other countries in the region, employment has been on the increase throughout the crisis, although the unemployment rate remains at a very high level: some 30%. In summary, the real economy creates the impression of stability, albeit at a low level of activity.

The crisis had a milder effect than in most countries in the region. GDP decline was only 0.9% in 2009. The recovery was also unimpressive with GDP growth of only 0.7% in 2010. Some speed-up, of about 2%, is expected for 2011. Industrial production has started to recover after registering negative growth for two years in a row. Similarly, exports have been growing strongly and faster than imports so that the trade deficit and especially the current account narrowed last year though it is expected to widen somewhat this year. Unlike in most other countries in the region, employment has been growing throughout the crisis though the unemployment rate stays at a very high level of about 30%. Altogether, the real economy shows a picture of stability, albeit at a low level of activity.

The government's reaction to the crisis has been to rely more than usually on public consumption. As the country follows a strict peg with the euro, the policy usually followed is one of balanced budget. Since the eruption of the crisis, fiscal deficits have been somewhat below 3% of GDP and this relatively mild fiscal stimulus has had positive stabilization effects. Prices have also been increasing very slowly with some speed-up at the beginning of this year. Public debt has been increasing, but the level, about 34% of GDP, does not present serious worries. Foreign debt is somewhat higher, about 64% of GDP, and is set to grow due to the expected widening of the current account and because of new borrowing from the IMF. Credit growth and thus private debt have never been all that high and are not expected to increase in the short term.

Prospects in the near future are of slow recovery because the contribution of net exports will diminish and consumption will continue to be subdued. Investment growth has never been very strong, and there are no significant domestic or foreign resources forthcoming to change that. Thus, the overall picture is one of macroeconomic stability, with some issues with the growth of foreign debt, and slow recovery.

Politically, the mildness of the crisis has benefited the current government that was re-elected in the early elections at the beginning of June. This election is an indication of growing political stabilization. Inter-ethnic conflicts have ceased to be a major source of insecurity, and intra-ethnic conflicts, previously visible during the general elections, have also been subdued. The remaining major problem is that of finding an accommodation with the Greek opposition to the name of Macedonia which stands in the way to the start of negotiations for membership in the EU. There are no signs at present that progress is being made in these negotiations. The re-election of the right-wing Macedonian party will not advance them while the economic problems that Greece is facing have not been conducive to a more conciliatory stance on the Greek side. Whether the speed-up of EU prospects of the neighbouring Serbia and Montenegro will have positive effects on Macedonian prospects remains to be seen.

During the crisis and in the short run, the Greek crisis has not affected the Macedonian economy significantly. In the longer run, a stagnating Greek economy will be a drag on Macedonia's growth prospects too. Clearly, a banking crisis in Greece, if it were to erupt, would have major consequences due to the fact that the largest bank in Macedonia is owned by the National Bank of Greece. Barring that, continuous financial and political problems in Greece will not have a positive effect on the Macedonian economy. The dependence of the real economy on the Greek economy is small, however, so the negative effects should not be too large.

Table MK

Macedonia: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 1st quarter	2011	2011 Forecast	2012 Forecast	2013
Population, th pers., average	2043.6	2046.9	2050.7	2054.0	.	.	2060	2065	2070
Gross domestic product, MKD mn, nom. ²⁾	364989	411728	409100	423862	90709	.	445000	472000	501000
annual change in % (real) ²⁾	6.1	5.0	-0.9	0.7	-1.7	.	2	3	3
GDP/capita (EUR at exchange rate)	2900	3200	3300	3400	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	7700	8500	8400	8600	.	.	.	.	.
Consumption of households, MKD mn, nom. ²⁾³⁾	279880	330399	312022	319975	73	.	.	.	.
annual change in % (real) ²⁾³⁾	8.1	7.4	-3.1	2.5	0.6	.	2	3	3
Gross fixed capital form., MKD mn, nom. ²⁾	71557	86403	81872	84000	.	.	.	.	.
annual change in % (real) ²⁾	17.1	5.4	-2.0	0.0	.	.	3	4	4
Gross industrial production ⁴⁾⁵⁾									
annual change in % (real)	3.7	5.5	-7.7	-4.3	-9.2	13.8	5	5	5
Gross agricultural production									
annual change in % (real)	-1.5	4.1	3.0	5.0	.	.	.	.	.
Construction industry									
annual change in % (real)	9.7	-9.6	-2.1	5.8	1.6	8.7 ^{Jan}	5	5	5
Employed persons - LFS, th, average	590.2	609.0	629.9	637.8	615.9	.	650	660	670
annual change in %	3.5	3.2	3.4	1.3	-0.4	.	1.5	1.5	2
Unemployed persons - LFS, th, average	316.9	310.4	298.9	300.4	309.6	.	.	.	.
Unemployment rate - LFS, in %, average	34.9	33.8	32.2	32.0	33.5	.	31	31	31
Reg. unemployment rate, in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD ⁴⁾⁶⁾	24136	26229	29922	30225	29879	30212	.	.	.
real growth rate, % (net wages) ⁵⁾	5.5	1.9	25.0	1.4	2.8	-2.1	.	.	.
Consumer prices, % p.a.	2.3	8.3	-0.8	1.6	0.5	4.1	3	3	3
Producer prices in industry, % p.a. ⁴⁾⁷⁾	2.5	10.3	-6.5	8.5	7.3	13.6	.	.	.
General governm. budget, nat.def., % GDP ⁸⁾									
Revenues	32.8	33.1	31.1	30.9	.	.	.	.	.
Expenditures	32.2	34.1	33.7	33.3	.	.	.	.	.
Deficit (-) / surplus (+)	0.6	-0.9	-2.6	-2.5	.	.	-2	-1	-1
Public debt, nat.def., in % of GDP	33.3	28.7	32.0	34.0	.	.	35	35	33
Central bank policy rate, in %, p.a., Dec ⁹⁾	4.8	7.0	8.5	4.1	7.3	4.0	.	.	.
Current account, EUR mn	-421.2	-862.2	-449.3	-191.1	-81.8	-204.4	-300	-400	-400
Current account in % of GDP	-7.1	-12.8	-6.7	-2.8	-6.0	.	-4.1	-5.2	-4.9
Exports of goods, BOP, EUR mn	2472.2	2692.6	1920.9	2492.8	482.4	681.2	2700	3000	3300
annual growth rate in %	29.2	8.9	-28.7	29.8	20.5	25.4	10	10	10
Imports of goods, BOP, EUR mn	3653.3	4455.1	3472.0	3960.6	779.2	1145.1	4200	4600	5300
annual growth rate in %	25.3	21.9	-22.1	14.1	-8.0	21.4	5	10	15
Exports of services, BOP, EUR mn	594.5	688.1	618.3	692.9	134.5	180.2	700	800	800
annual growth rate in %	24.5	15.7	-10.1	12.1	-5.1	16.2	5	10	5
Imports of services, BOP, EUR mn	569.4	682.3	590.3	633.0	128.2	156.9	700	800	900
annual growth rate in %	25.2	19.8	-13.5	7.2	-10.1	0.6	5	10	10
FDI inflow, EUR mn	506.0	399.9	145.0	221.4	50.9	204.1	200	200	250
FDI outflow, EUR mn	-0.9	-9.5	8.1	1.5	0.8	0.3	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1400.1	1361.0	1429.4	1482.7	1426.9	1678.3	.	.	.
Gross external debt, EUR mn	2841.1	3304.2	3780.4	4299.3	3809.0	.	.	.	.
Gross external debt in % of GDP	47.6	49.2	56.7	62.4	55.3	.	.	.	.
Average exchange rate MKD/EUR	61.18	61.27	61.32	61.52	61.40	61.51	61.2	61.2	61.2
Purchasing power parity MKD/EUR	23.14	23.57	23.79	24.09	.	.	.	.	.

1) Preliminary. - 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) Quarterly data according to Nace Rev.2. - 5) Enterprises with 10 and more employees. - 6) From 2009 including allowances for food and transport, no comparable growth rates available. - 7) Domestic output prices. - 8) Refers to central government budget and extra-budgetary funds. - 9) Central Bank bills (28-days).

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