

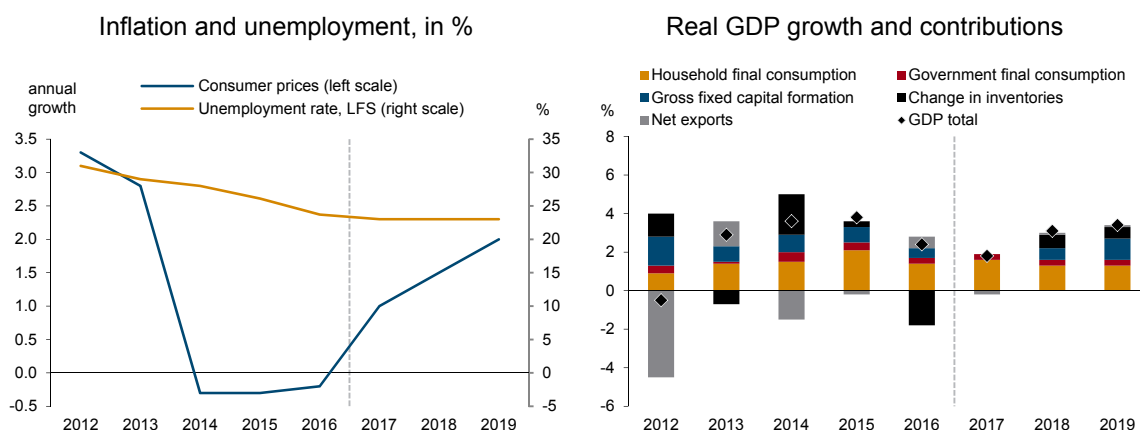


MACEDONIA: Democratisation is not costless

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This year's disappointing growth of at most 2% is due to the prolonged political crisis. Medium-term prospects have improved, though they are dependent on the political ability of the new government. Assuming that stability is preserved, next year should see growth of 3%, which should edge up towards 3.5% in the medium run, driven mostly by investment, both private and public.

Figure 42 / Macedonia: Main macroeconomic indicators



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

Growth slows down sharply, recovery is expected. Over the last few years, growth was headed towards 4%, which is probably the potential growth rate given the unemployment rate and the potential of development policies to speed it up. This year, however, growth has all but disappeared due to prolonged political crisis, which has now been resolved at least for the moment. The country democratised once again, but the uncertainty took a toll especially when it comes to investments. Indeed, initially, i.e. at the height of the crisis, there was some outflow of money and some growth of consumption, the latter boosting imports more than domestic sales. Thus, growth was flat in the first quarter and probably for the first half of the year. It is expected to recover in the second half, but it is hard to expect that overall growth for the year will reach 2%. And that would be a significant decline over the expected 3% or so before the crisis. Next year should see a recovery and in the medium term, the economy is well placed to reach its potential growth rate.

There is no authoritarian alternative for Macedonia. There are lessons to be learned from the recent Macedonian experience. One is that a country with a sizeable minority is hard to run in an authoritarian manner. In the recent crisis, the president of the Republic, who does not have executive power, tried to influence the coalition-making process in the parliament by refusing to appoint the prime minister from the majority coalition on the ground that their programme threatens the very existence of the state. This is usually enough to introduce a state of emergency. As it turned out, that was impossible. The possible pretext would have been ethnic clash, which however did not materialise – for the reason that both key ethnic groups, the Macedonians and the Albanians, have pluralistic polities. There is political competition, a multiparty system, within both dominant ethnic groups. So, neither ethnic group had much to gain from a conflict because that would lead to the collapse of the party system to which the country seems well attuned to. So, the attempt to disrupt the democratic decision-making went nowhere.

Recovery will take time, though the macroeconomic set-up and trade policy should be supportive. The political crisis lasted for almost half a year, and uncertainty prevailed during that period. It does not seem that macroeconomic balances and the institutional set-up have suffered too much. Monetary policy needed to be tightened somewhat in order to stop the outflow of money. Also, the trade deficit widened rather strongly, which suggests precautionary consumption due to uncertainty. However, macro balances are sustainable and overall the macro set-up has been in place for almost two decades now so the economy is well adjusted to the fixed exchange rate and the relatively low fiscal deficit. In addition, the financial sector is in better shape than in most Balkan countries, e.g. in terms of nonperforming loans. Finally, the open trade regime has also been functional since at least the beginning of the century and Macedonian external balances have proved sustainable in that entire period. Indeed, the growth strategy is one of export-led growth, which has proved supportive of relatively better post-crisis performance than in most other countries in the region.

The new government aims to boost wages and investments. The economic programme of the new government, a coalition of Macedonian Social-Democrats and three Albanian parties, is to increase minimum wages and possibly wages in the public sector as well as to support investment and exports. There is no doubt that investments in infrastructure would be helpful. Other development policies, e.g. centred on education and innovation, would help too. There is clearly a lot of opportunity for the new government to make a difference especially in the labour market, which is still characterised by an unemployment rate of above 20%. The programme, which initially relies on increased consumption, may not be without merit because the share of final consumption has declined in the last several years and is probably in part behind the dissatisfaction with the previous government.

International support is important in the medium term and in the long term too. The key barrier and the main source of uncertainty is the stalled EU accession process. The chances for improved relations with Greece and the EU are there, but it is not clear that those will be realised. The EU is concentrated on moving Serbia along, while Greece does not seem interested in new initiatives to resolve the dispute over the name of Macedonia. Clearly, the investment and export strategy would benefit from the boost of greater certainty when it comes to EU negotiations and integration.

Medium-term prospects have improved, though dependent on the political ability of the new government. Democratisation offers chances in the short run, and there is the effect of the recovery due to improved risks and expectations. Assuming that stability is preserved, e.g. after the upcoming local elections, next year should see growth of 3%, which should edge up towards 3.5% in the medium run, driven mostly by investment, both private and public.

Table 17 / Macedonia: Selected economic indicators

	2013	2014	2015	2016 ¹⁾	2016 January-June	2017	2017 Forecast	2018 Forecast	2019
Population, th pers., mid-year	2,064	2,067	2,070	2,072	.	.	2,090	2,095	2,100
Gross domestic product, MKD mn, nom.	501,891	527,631	558,240	607,452	290,674	299,384	624,000	653,000	689,000
annual change in % (real)	2.9	3.6	3.8	2.4	2.7	-0.9	1.8	3.1	3.4
GDP/capita (EUR at PPP)	9,300	10,000	10,500	11,100	.	.	.	.	.
Consumption of households, MKD mn, nom.	355,959	363,629	377,258	391,479	193,414	202,352	.	.	.
annual change in % (real)	1.9	2.1	3.1	2.1	2.9	3.4	2.5	2.0	2.0
Gross fixed capital form., MKD mn, nom.	119,003	123,549	129,095	128,517	.	.	0.0	3.0	5.0
annual change in % (real)	3.5	4.0	3.6	2.0	.	.	.	.	.
Gross industrial production ²⁾									
annual change in % (real)	3.2	4.8	4.9	3.4	5.6	1.2	3.0	5.0	4.0
Gross agricultural production									
annual change in % (real)	6.4	1.7	5.2	6.0	.	.	.	.	.
Construction industry									
annual change in % (real)	43.1	-3.4	40.8	8.0	41.8	-26.1	.	.	.
Employed persons, LFS, th, average	678.8	690.2	706.0	723.6	717.6	737.0	730	740	750
annual change in %	4.3	1.7	2.3	2.5	2.7	2.7	1.0	1.0	2.0
Unemployed persons, LFS, th, average	277.2	268.8	248.9	225.1	229.6	217.2	220	200	220
Unemployment rate, LFS, in %, average	29.0	28.0	26.1	23.7	24.3	22.8	23.0	23.0	23.0
Reg. unemployment rate, in %, eop	22.8	23.4	22.1	21.2	21.3	20.5	.	.	.
Average monthly gross wages, MKD	31,025	31,325	32,171	32,821	32,553	33,292	33,500	34,300	35,300
annual change in % (real, gross)	-1.6	1.3	3.0	2.2	2.5	1.4	1.0	1.0	1.0
Average monthly net wages, MKD	21,145	21,394	21,904	22,342	22,165	22,652	22,800	23,400	24,100
annual change in % (real, net)	-1.6	1.5	2.7	2.2	2.5	1.3	1.0	1.0	1.0
Consumer prices, % p.a.	2.8	-0.3	-0.3	-0.2	-0.3	0.9	1.0	1.5	2.0
Producer prices in industry, % p.a.	-1.4	-1.9	-3.9	-2.4	-4.1	3.9	0.0	2.0	2.0
General governm. budget, nat.def., % of GDP									
Revenues	30.1	29.7	31.0	29.9	.	.	31.0	31.0	31.0
Expenditures	34.1	33.9	34.4	32.5	.	.	33.0	33.0	33.0
Deficit (-) / surplus (+)	-4.0	-4.2	-3.4	-2.6	.	.	-2.0	-2.0	-2.0
Public debt, nat.def., % of GDP	40.2	45.7	46.6	47.7	45.4	46.1	48.0	48.0	47.0
Stock of loans of non-fin.private sector, % p.a	6.4	9.9	9.5	0.9	-0.5	0.0	.	.	.
Non-performing loans (NPL), in %, eop ³⁾	11.3	11.1	10.7	6.5	7.5	6.7	.	.	.
Central bank policy rate, %, p.a., eop ⁴⁾	3.25	3.25	3.25	3.75	4.00	3.25	3.25	3.25	3.50
Current account, EUR mn	-134	-43	-177	-265	-258	-218	-100	-90	-80
Current account, % of GDP	-1.6	-0.5	-2.0	-2.7	-5.5	-2.2	-1.0	-0.8	-0.7
Exports of goods, BOP, EUR mn	2,375	2,784	3,047	3,471	1,617	1,882	3,870	4,300	4,770
annual change in %	2.9	17.2	9.4	13.9	11.6	16.4	11.5	11.0	11.0
Imports of goods, BOP, EUR mn	4,238	4,640	4,870	5,279	2,529	2,783	5,780	6,240	6,740
annual change in %	-1.8	9.5	5.0	8.4	9.1	10.0	9.5	8.0	8.0
Exports of services, BOP, EUR mn	1,155	1,304	1,378	1,395	648	690	1,490	1,590	1,720
annual change in %	8.2	12.9	5.7	1.3	1.9	6.5	7.0	7.0	8.0
Imports of services, BOP, EUR mn	780	920	1,029	1,048	470	505	1,130	1,190	1,290
annual change in %	2.9	18.0	11.8	1.8	-0.5	7.5	8.0	5.0	8.0
FDI liabilities, EUR mn	302	37	262	495	341	271	300	.	.
FDI assets, EUR mn	73	-160	59	179	170	174	90	.	.
Gross reserves of NB excl. gold, EUR mn	1,803	2,221	2,049	2,370	1,899	2,159	.	.	.
Gross external debt, EUR mn	5,220	5,992	6,291	7,217	6,861	7,781	7,900	8,100	8,500
Gross external debt, % of GDP	64.0	70.0	69.4	73.2	69.7	76.8	78.0	76.0	76.0
Average exchange rate MKD/EUR	61.58	61.62	61.61	61.60	61.68	61.60	61.5	61.5	61.5

1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) The decline in the loans in 2016 was due to the write-off of doubtful and contested claims on loans. - 4) Central Bank bills (28-days).

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