



MACEDONIA: Growth and instability

VLADIMIR GLIGOROV

Growth has been speeding up, yet is bound to flatten somewhat in the current year as well as in the medium term. This is primarily due to a slowdown in public investments and growing concern over political stability. Additional risks are linked to the crisis in Greece, despite their not being easy to forecast. Nonetheless, barring major economic improvements in the region, growth should settle down at around 3%.

Growth in 2014 has turned out better than expected due to both increased consumption and investment. It should slow down gradually in the medium term because of a deceleration of public investment in particular. Also, a possible increase in political instability will impact negatively on economic prospects.

Unlike most other countries in the Balkans, the Macedonian government has had enough room to pursue a cautiously expansionary economic policy, with an initial hike in wages in 2009 and a continuous flow of public investments. In addition, it has accelerated various structural reforms in order to accommodate foreign investments in particular. The latter have not been as plentiful as hoped for, but did not dry out as in some neighbouring countries. With this policy mix, growth has been supported and the record for the past five years as well as for the last and in all probability this year has been better than in most of the other transition countries.

The policy mix was accommodative and will remain so. Monetary policy has been especially accommodative, with the policy rate declining to just above 3%, which is low given the central bank's traditional concern over the stability of the exchange rate. There is scope for continued monetary relaxation, given deflationary tendencies, but this is unlikely to happen. Also, fiscal policy has been accommodative, especially given the traditional commitment to balanced budget policies. Again, some fiscal tightening with decreased public investments can be expected.

As in most other countries in the region, which import practically all oil and gas that they use, the fall in oil prices will be very supportive of the trade balance and also of domestic consumption. It will also relax the foreign borrowing requirements, which are significant due to a relatively large foreign debt. The energy bill is large in Macedonia as in most other less developed countries in the Balkans, so the positive effect of the fall of energy prices will be larger than in more developed countries.

The situation in the labour market continues to improve, which is exceptionally important because the unemployment rate has been very high for a very long time now. With continued recovery, even though

at moderate growth rates, employment should continue to increase, which will certainly contribute to social stability.

Political stability, however, is another matter. There have been several early elections during the crisis period, all of which were won by the government coalition. Still, the long duration of the same governing coalition is fuelling dissatisfaction in the public and with the opposition. This is neither extraordinary nor cause for undue concern. The government, however, seems to be taking the growing assertiveness of the opposition as a threat not only to its power but to the well-being of the state, which may prove additionally destabilising.

In summary, short-term prospects are for continued recovery, partly supported by the decline in oil prices and by continued growth of investment. For 2015 we expect GDP to grow by 3.5%, the same rate as in 2014. In the medium term, some growth moderation can be expected due to a slowdown in public investments and a possible flare-up of political uncertainty. The growth trend will centre somewhere below 3%. The current forecast does not differ substantially from the previous one, though 2014 turned out to be better in terms of GDP growth than forecasted.

Table 1 / Macedonia: Selected Economic Indicators

	2010	2011	2012	2013	2014 ¹⁾	2015	2016	2017
						Forecast		
Population, th pers., mid-year	2,055	2,059	2,061	2,064	2,075	2080	2085	2090
Gross domestic product, MKD mn, nom. ²⁾	437,296	464,187	466,703	499,559	515,500	541,700	569,000	595,000
annual change in % (real) ²⁾	3.4	2.3	-0.5	2.7	3.5	3.5	2.9	2.6
GDP/capita (EUR at exchange rate)	3,500	3,700	3,700	3,900	4,000	4,200	4,400	4,600
GDP/capita (EUR at PPP)	8,900	9,100	9,200	9,500	9,900	.	.	.
Consumption of households, MKD mn, nom. ²⁾³⁾	330344	343080	344852	359204	363500	.	.	.
annual change in % (real) ²⁾	3.8	-5.4	1.2	2.1	1.5	1.5	1.5	2.0
Gross fixed capital form., MKD mn, nom. ²⁾	100851	109219	109071	117382	121500	.	.	.
annual change in % (real) ²⁾	-4.0	13.3	6.5	4.8	5.5	4.0	4.0	4.0
Gross industrial production ⁴⁾								
annual change in % (real)	-4.9	6.9	-2.7	3.2	4.8	5.0	5.0	5.2
Gross agricultural production ⁵⁾								
annual change in % (real)	8.2	-0.4	-5.6	5.0	3.0	3.0	3.0	3.0
Construction output, hours worked								
annual change in % (real)	15.2	28.1	8.3	43.2	-5.0	5.0	5.0	5.0
Employed persons, LFS, th, average	637.9	645.1	650.6	678.8	689.0	700	710	720
annual change in %	1.3	1.1	0.8	4.3	1.5	1.5	1.0	1.0
Unemployed persons, LFS, th, average	300.4	295.0	292.5	277.2	268.0	260	260	250
Unemployment rate, LFS, in %, average	32.0	31.4	31.0	29.0	28.0	27	27	26
Reg. unemployment rate, in %, end of period
Average monthly gross wages, MKD	30,225	30,602	30,669	31,025	31,100	31900	32900	33900
annual change in % (real, gross)	-0.6	-2.6	-3.0	-1.6	0.5	1.0	1.0	1.0
Average monthly net wages, MKD	20,553	20,847	20,902	21,145	21,200	21700	22400	23100
annual change in % (real, net)	1.4	-2.4	-2.9	-1.6	0.6	1.0	1.0	1.0
Consumer prices, % p.a.	1.6	3.9	3.3	2.8	-0.3	1.5	2.0	2.0
Producer prices in industry, % p.a. ⁶⁾	8.7	11.9	1.4	-1.4	-1.9	1.0	2.0	2.0
General governm. budget, nat.def., % of GDP								
Revenues	32.4	31.7	32.1	30.2	31.0	31.0	31.0	.
Expenditures	34.8	34.2	36.0	34.2	35.0	34.0	32.0	.
Deficit (-) / surplus (+)	-2.4	-2.6	-3.9	-4.0	-4.0	-3.0	-2.0	-2.0
Public debt, nat.def., % of GDP	34.6	32.0	38.3	40.4	46.0	46.0	46.0	46.0
Central bank policy rate, %, p.a., end of period ⁷⁾	4.11	4.00	3.73	3.25	3.25	3.25	3.25	3.50
Current account, EUR mn ⁸⁾	-144	-189	-224	-147	-170	-350	-370	-390
Current account, % of GDP	-2.0	-2.5	-2.9	-1.8	-2.0	-4.0	-4.0	-4.0
Exports of goods, BOP, EUR mn ⁸⁾	1,981	2,396	2,307	2,370	2,725	2,920	3,100	3,260
annual change in %	46.7	21.0	-3.7	2.7	15.0	7.0	6.0	5.0
Imports of goods, BOP, EUR mn ⁸⁾	3,513	4,301	4,315	4,228	4,650	4,880	5,120	5,380
annual change in %	13.6	22.4	0.3	-2.0	10.0	5.0	5.0	5.0
Exports of services, BOP, EUR mn ⁸⁾	747	1,045	1,067	1,140	1,254	1,354	1,435	1,507
annual change in %	-5.7	39.8	2.1	6.8	10.0	8.0	6.0	5.0
Imports of services, BOP, EUR mn ⁸⁾	616	686	757	779	896	941	988	1,037
annual change in %	4.8	11.4	10.5	2.9	15.0	5.0	5.0	5.0
FDI inflow (liabilities), EUR mn ⁸⁾	229	370	261	306	200	300	300	300
FDI outflow (assets), EUR mn ⁸⁾	72.0	25.7	143.7	42.0	-50.0	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1,483	1,802	1,918	1,803	2,221	2,200	2,300	2,400
Gross external debt, EUR mn ⁸⁾	4,106	4,847	5,172	5,220	6,500	6,600	6,700	6,800
Gross external debt, % of GDP	57.8	64.2	68.2	64.3	77.7	.	.	.
Average exchange rate MKD/EUR	61.52	61.53	61.53	61.58	61.62	61.50	61.50	61.50
Purchasing power parity MKD/EUR	23.83	24.84	24.60	25.39	25.16	.	.	.

1) Preliminary and wiiw estimates. - 2) According to ESA'10. 2014 estimated by wiiw. - 3) Including NPISHs. - 4) Enterprises with 10 and more employees. - 5) 2013 and 2014 wiiw estimates. - 6) Until 2010 domestic output prices. - 7) Central Bank bills (28-days). - 8) BOP 6th edition. Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.