



MACEDONIA: Growth versus stability

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Macedonia continues to do better than most other Balkan countries. It does so by riding on the back of the country's public investment and export performance. This should continue over the medium term. Political risks are increasing owing to the current government having been so long in office. Moreover, the fact that EU integration has stalled hardly helps. The Russian connection does not play much of a role; hence, the current tensions are mainly inconsequential.

Growth accelerated in the first half of the year and the risks are on the upside of the forecasted rate of 3% for 2014. Practically all elements of demand are contributing positively, with the possible exception of net exports. In particular, private consumption is expanding with continued addition to public investments. There is a positive outlook for the medium term too with the growth rate possibly surpassing 3%. That may depend in part on regional developments as well as on internal political stability.

Macedonia practices what other countries in this region preach. The strategy is to rely on export-led growth with support by domestic demand mainly driven by public investments. The latter are responsible for the strong performance of construction, which is otherwise in the doldrums throughout the Balkans. The government has made an effort to welcome foreign investments, which seems to have paid off, even though the numbers are not too impressive. In any case, these investments seem to have gone into production for exports, which has also provided the necessary stability to the strictly fixed exchange rate to the euro. In turn, monetary policy has been uncharacteristically relaxed, which again has provided space for credit growth, again rather uncharacteristically for a country that has relatively low household and corporate debt. The growth of the former has been supportive of rising private consumption. The constraint to these positive developments may prove to be the external debt, which will restart to increase if imports outpace exports and the current account deficit widens. That may turn out to be a challenge in the medium term.

These positive growth prospects have been associated with rising employment. This is certainly the key policy issue as the unemployment rate continues to be one of the highest anywhere. Still, 28% is lower than 32% or more that was characteristic before the crisis. Indeed, this is one relatively rare case where unemployment declined during the crisis. With growing incomes and credits to households, that has certainly contributed to social stability, which in turn is important for political stability. Since independence, the latter has been the main concern for all the successive governments and this continues to be one risk that is paramount in the mind of the public.

There are two aspects to political stability: the domestic one, which has some new shades, and the external one, which is the issue of EU and NATO integrations and of regional relations. Domestically, the issue is that of a change in government. The currently ruling coalition has been around for too long, which prompts queries of how democratic the system is. The government has been successful in winning the early elections, which has played a stabilising role, but there are also some concerns that the democratic game has been rigged. At some point, change will be needed in order to support the process of democratisation and improve political stability. Otherwise, internal, mostly interethnic political conflicts may grow.

Externally, there is growing realisation that no advance in EU and NATO integration is possible due to the Greek veto. This is not weighing as heavily as it used to because the whole enlargement process for the remains of the Balkans has been rather slow, but this tends to dim the realisation that an external political anchor is fundamental for this small, landlocked and multicultural country. The positive element is improved relations with Serbia, which used to be a problem in the past.

All in all, growth this year may surprise on the upside while it should stay at a relatively elevated level in the medium term too. Given that regional developments play an important role, improvements in Greece and in the other neighbouring countries will be supportive to growth and stability. The emerging trade regime in Europe, with sanctions and countersanctions, are not consequential for Macedonia, which has kept a low profile in the current Europe-wide conflicts, though the country shadows the foreign policy of the EU.

Table 1 / Macedonia: Selected Economic Indicators

| | 2010 | 2011 | 2012 | 2013 ¹⁾ | 2013 January-June | 2014 | 2014 Forecast | 2015 Forecast | 2016 |
|--|---------|---------|---------|--------------------|----------------------|---------|------------------|------------------|---------|
| Population, th pers., mid-year | 2,055 | 2,059 | 2,061 | 2,064 | . | . | 2075 | 2080 | 2085 |
| Gross domestic product, MKD mn, nom. ²⁾ | 434,112 | 459,789 | 458,621 | 473,019 | 236,475 | 256,410 | 489,600 | 511,900 | 537,800 |
| annual change in % (real) ²⁾ | 2.9 | 2.8 | -0.4 | 2.9 | 0.4 | 3.9 | 3.0 | 3.0 | 3.0 |
| GDP/capita (EUR at exchange rate) | 3,400 | 3,600 | 3,600 | 3,700 | . | . | . | . | . |
| GDP/capita (EUR at PPP) | 8,900 | 9,000 | 9,000 | 9,200 | . | . | . | . | . |
| Consumption of households, MKD mn, nom. ^{2,3)} | 324096 | 345262 | 342809 | 364665 | 184,150 | 188,771 | . | . | . |
| annual change in % (real) ²⁾ | 2.1 | 2.9 | -3.0 | 4.2 | 5.8 | 3.1 | 1.0 | 1.5 | 1.5 |
| Gross fixed capital form., MKD mn, nom. ²⁾ | 82968 | 94698 | 105443 | 106000 | . | . | . | . | . |
| annual change in % (real) ²⁾ | -2.7 | 3.2 | 7.0 | 2.0 | . | . | 4.0 | 4.0 | 4.0 |
| Gross industrial production ⁴⁾ | | | | | | | | | |
| annual change in % (real) | -4.9 | 6.9 | -2.7 | 3.2 | 4.7 | 4.5 | 5.0 | 5.0 | 5.0 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 8.2 | -0.4 | -5.6 | 5.0 | . | . | 3.0 | 3.0 | 3.0 |
| Construction output, hours worked | | | | | | | | | |
| annual change in % (real) | 15.2 | 28.1 | 8.3 | 43.2 | 57.2 | 9.1 | 5.0 | 5.0 | 5.0 |
| Employed persons, LFS, th, average | 637.9 | 645.1 | 650.6 | 678.8 | 673.7 | 686.9 | 689 | 699 | 706 |
| annual change in % | 1.3 | 1.1 | 0.8 | 4.3 | 4.3 | 2.0 | 1.5 | 1.5 | 1.0 |
| Unemployed persons, LFS, th, average | 300.4 | 295.0 | 292.5 | 277.2 | 279.4 | 271.2 | . | . | . |
| Unemployment rate, LFS, in %, average | 32.0 | 31.4 | 31.0 | 29.0 | 29.4 | 28.3 | 28.0 | 27.0 | 27.0 |
| Reg. unemployment rate, in %, end of period | . | . | . | . | . | . | . | . | . |
| Average monthly gross wages, MKD | 30,225 | 30,602 | 30,669 | 31,025 | 30,987 | 31,029 | . | . | . |
| annual change in % (real, gross) | -0.6 | -2.6 | -3.0 | -1.6 | -2.0 | 0.3 | . | . | . |
| Average monthly net wages, MKD | 20,553 | 20,847 | 20,902 | 21,145 | 21,128 | 21,194 | . | . | . |
| annual change in % (real, net) | 1.4 | -2.4 | -2.9 | -1.6 | -2.0 | 0.5 | . | . | . |
| Consumer prices, % p.a. | 1.6 | 3.9 | 3.3 | 2.8 | 3.6 | -0.2 | 0.5 | 1.5 | 2.0 |
| Producer prices in industry, % p.a. ⁴⁾ | 8.7 | 11.9 | 1.4 | -1.4 | -0.6 | -2.2 | . | . | . |
| General governm. budget, nat.def., % of GDP | | | | | | | | | |
| Revenues | 32.6 | 32.0 | 32.6 | 31.9 | . | . | 31.0 | 31.0 | 31.0 |
| Expenditures | 35.0 | 34.6 | 36.6 | 36.1 | . | . | 35.0 | 34.0 | 32.0 |
| Deficit (-) / surplus (+) | -2.4 | -2.6 | -4.0 | -4.2 | . | . | -4.0 | -3.0 | -2.0 |
| Public debt, nat.def., % of GDP | 34.8 | 32.3 | 39.0 | 42.7 | . | . | 42.0 | 42.0 | 42.0 |
| Central bank policy rate, %, p.a., end of period ⁵⁾ | 4.11 | 4.00 | 3.73 | 3.25 | 3.42 | 3.25 | 3.25 | 3.25 | 3.25 |
| Current account, EUR mn ⁶⁾ | -144 | -189 | -226 | -147 | -224 | -220 | -320 | -330 | -350 |
| Current account, % of GDP | -2.0 | -2.5 | -3.0 | -1.9 | -2.9 | -2.8 | -4.0 | -4.0 | -4.0 |
| Exports of goods, BOP, EUR mn ⁶⁾ | 1,981 | 2,396 | 2,304 | 2,383 | 1,111 | 1,275 | 2,620 | 2,800 | 2,970 |
| annual change in % | 46.7 | 21.0 | -3.9 | 3.4 | 1.6 | 14.7 | 10.0 | 7.0 | 6.0 |
| Imports of goods, BOP, EUR mn ⁶⁾ | 3,513 | 4,301 | 4,312 | 4,242 | 2,048 | 2,197 | 4,450 | 4,670 | 4,900 |
| annual change in % | 13.6 | 22.4 | 0.2 | -1.6 | -0.4 | 7.3 | 5.0 | 5.0 | 5.0 |
| Exports of services, BOP, EUR mn ⁶⁾ | 747 | 1,045 | 1,065 | 1,142 | 499 | 574 | 1,233 | 1,332 | 1,412 |
| annual change in % | -5.7 | 39.8 | 1.9 | 7.3 | 6.8 | 15.1 | 8.0 | 8.0 | 6.0 |
| Imports of services, BOP, EUR mn ⁶⁾ | 616 | 686 | 757 | 779 | 364 | 470 | 857 | 900 | 945 |
| annual change in % | 4.8 | 11.4 | 10.4 | 2.9 | 6.1 | 29.2 | 10.0 | 5.0 | 5.0 |
| FDI inflow (liabilities), EUR mn ⁶⁾ | 229 | 370 | 261 | 310 | 118 | 120 | 300 | 300 | 300 |
| FDI outflow (assets), EUR mn ⁶⁾ | 72.0 | 25.7 | 143.7 | 29.5 | 0 | -21 | 0 | 0 | 0 |
| Gross reserves of NB, excl. gold, EUR mn | 1,483 | 1,802 | 1,918 | 1,803 | 1,838 | 1,663 | . | . | . |
| Gross external debt, EUR mn ⁶⁾ | 4,106 | 4,847 | 5,172 | 5,220 | 5,605 | 5,742 | . | . | . |
| Gross external debt, % of GDP | 58.2 | 64.9 | 69.4 | 68.0 | 67.7 | 71.7 | . | . | . |
| Average exchange rate MKD/EUR | 61.52 | 61.53 | 61.53 | 61.58 | 61.62 | 61.65 | 61.50 | 61.50 | 61.50 |
| Purchasing power parity MKD/EUR | 23.83 | 24.84 | 24.60 | 25.39 | . | . | . | . | . |

1) Preliminary. - 2) Annual data according to ESA'95, half-year data according to ESA'10. - 3) Including NPISHs. - 4) Enterprises with 10 and more employees. - 5) Central Bank bills (28-days). - 6) BOP 6th edition.

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