

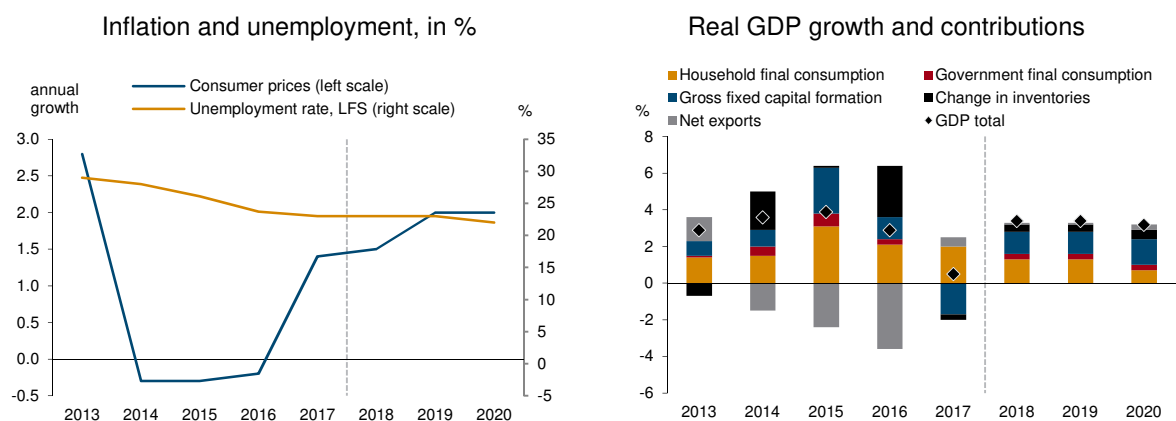


MACEDONIA: Political crisis and recovery

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Recovery of growth to around 3% should lead to growth accelerating to 3.5% and even 4% in the medium term under more positive external developments. Investments and net exports should contribute. External shocks, primarily within the region, can have a strong influence and that can go either way, which is why the risks are more often than not on the downside. In that, the agreement with Greece on the 'name issue' is crucial.

Figure 52 / Macedonia: Main macroeconomic indicators



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

There was barely growth in 2017. The country was going through a prolonged political crisis after an inconclusive election. It took almost half a year of protests in the streets and clashes in the parliament for the opposition Macedonian party to form a coalition government. It took another quarter or more until the local elections for voters to decisively swing in favour of the new government and in particular towards the Social Democrats, the key party in the governing coalition. As a result, the first three quarters were lost to growth, with recovery starting in the last quarter of 2017.

During the political crisis, investments declined strongly, both public and private. Consumption held up and net exports contributed positively to growth of GDP, but that was barely enough to maintain the existing level of production. In the fourth quarter, from the data that are available, it appears that investments recovered rather strongly suggesting that recovery should be also expected in 2018. In addition, the new government has adopted a programme of continued support for public investments

and some support for employment and consumption, the latter by an increase in the minimum wage. And exports have continued to perform well even during the crisis year, so they too should support the recovery.

With political stability having such an important contribution to economic activity, the much improved support for the government after the local election should provide for the needed political framework in the medium term. The new government's programme is pro-growth and pro-employment as it intends to continue to support foreign investments but also local entrepreneurship and to shift public investments from government buildings and historical monuments to infrastructure and various types of support for exports and human capital accumulation. In the medium term, if employment continues to grow, which should be possible given the still very high unemployment rate of over 20%, and with productivity improving too due to investments in the tradable sector, potential growth of GDP should be close to 4%. Improving regional and EU economic prospects should prove helpful.

Internal political stability has improved markedly after the resolution of the political crisis. The new government has taken steps to implement some of the outstanding commitments under the Ohrid Agreement from 2001, which ended the violent internal ethnic conflict. The intention of the government is to improve inter-ethnic political equality e.g. in the right to use the Albanian language more extensively and equally with the Macedonian one. In general, democratisation has proved supportive of continued improvement in inter-ethnic relations. This should also improve the rule of law, one of the key priorities of the new government. Finally, that should provide the basis for the decline of corruption, which was one of the main reasons for the dissatisfaction with the previous government and led to the political change.

External stability is as important as the internal one given the unresolved issues with the neighbours. The new government has initiated improved relations with all its neighbours. It signed an agreement of good neighbourly relations with Bulgaria and has reassured the Serbian government, which was suspicious of its intentions initially. Most important is the willingness to settle the so-called name issue with Greece. The aim is to unlock the process of EU integration, which is premised on the solution to the disagreements with Greece. The Macedonian government would like to have an agreement with Greece until June of this year to become eligible for membership in NATO and to start negotiations with the EU.

Stability has been the key goal of economic policy for more than two decades now. Monetary and fiscal policies have been geared towards the stability of the exchange rate with the interest rate and thus investments and ultimately growth being dependent on the perceived risks to political and economic stability. That has meant, more often than not, that growth has been lower than it could have been under a different policy regime. The policy framework will not be changed, as the economy has adjusted to the exchange rate fix and to monetary dominance over fiscal policy, thus the importance of improved internal and external stability. In that, regional stability is important, but Macedonia can do little to improve it beyond working for the normalisation of its relations with its neighbours. Even that is conditional on EU integration and integration in the collective security agreement that is NATO. This should be possible as the country has no open issues with any of the big powers or with any of the EU countries except for Greece.

That is why the agreement in the name issue with Greece is so crucial. If an agreement is reached, prospects for the medium term and even beyond should be positive. Initially, recovery of growth to around 3% should lead to growth accelerating to 3.5% and even 4% under more positive external developments. External shocks, primarily within the region, can have a strong influence and that can go either way, which is why the risks are more often than not on the downside.

Table 22 / Macedonia: Selected economic indicators

	2013	2014	2015	2016	2017 ¹⁾	2018	2019	2020
						Forecast		
Population, th pers., mid-year	2,064	2,067	2,070	2,072	2,090	2,095	2,100	2,100
Gross domestic product, MKD mn, nom.	501,891	527,631	558,954	598,881	610,000	640,000	675,000	711,000
annual change in % (real)	2.9	3.6	3.9	2.9	0.5	3.4	3.4	3.2
GDP/capita (EUR at PPP)	9,300	9,900	10,500	10,900	10,900	.	.	.
Consumption of households, MKD mn, nom.	355,959	363,629	380,240	390,345	407,500	.	.	.
annual change in % (real)	1.9	2.1	4.5	3.1	3.0	2.0	2.0	1.0
Gross fixed capital form., MKD mn, nom.	119,003	123,549	133,254	143,496	133,500	.	.	.
annual change in % (real)	3.5	4.0	10.5	5.1	-7.0	5.0	5.0	6.0
Gross industrial production ²⁾								
annual change in % (real)	3.2	4.8	4.9	3.4	0.2	5.0	4.0	6.0
Gross agricultural production								
annual change in % (real) ³⁾	6.4	1.7	5.2	6.0	4.0	.	.	.
Construction industry								
annual change in % (real)	43.1	-3.4	40.8	8.0	-25.0	.	.	.
Employed persons, LFS, th, average	678.8	690.2	706.0	723.6	731.0	740	750	760
annual change in %	4.3	1.7	2.3	2.5	1.0	1.0	2.0	1.0
Unemployed persons, LFS, th, average	277.2	268.8	248.9	225.1	220.0	220	220	210
Unemployment rate, LFS, in %, average	29.0	28.0	26.1	23.7	23.0	23.0	23.0	22.0
Reg. unemployment rate, in %, eop	22.8	23.4	22.1	21.2	20.1	.	.	.
Average monthly gross wages, MKD	31,025	31,325	32,171	32,821	33,600	34,400	35,400	36,800
annual change in % (real, gross)	-1.6	1.3	3.0	2.2	1.0	1.0	1.0	2.0
Average monthly net wages, MKD	21,145	21,394	21,904	22,342	22,900	23,500	24,200	25,200
annual change in % (real, net)	-1.6	1.5	2.7	2.2	1.0	1.0	1.0	2.0
Consumer prices, % p.a.	2.8	-0.3	-0.3	-0.2	1.4	1.5	2.0	2.0
Producer prices in industry, % p.a.	-1.4	-1.9	-3.9	-2.4	3.5	2.0	2.0	3.0
General governm. budget, nat.def., % of GDP								
Revenues	30.1	29.7	31.0	30.3	31.0	31.0	31.0	32.0
Expenditures	34.1	33.9	34.4	33.0	33.0	33.0	33.0	33.0
Deficit (-) / surplus (+)	-4.0	-4.2	-3.4	-2.7	-2.0	-2.0	-2.0	-1.0
General gov.gross debt, nat.def., % of GDP	40.2	45.7	46.6	48.4	48.0	48.0	47.0	46.0
Stock of loans of non-fin.private sector, % p.a.	6.4	9.9	9.5	0.9	5.7	.	.	.
Non-performing loans (NPL), in %, eop ⁴⁾	11.3	11.1	10.7	6.5	6.3	.	.	.
Central bank policy rate, %, p.a., eop ⁵⁾	3.25	3.25	3.25	3.75	3.25	3.25	3.50	3.50
Current account, EUR mn	-134	-43	-177	-265	-20	0	10	-120
Current account, % of GDP	-1.6	-0.5	-2.0	-2.7	-0.2	0.0	0.1	-1.0
Exports of goods, BOP, EUR mn	2,375	2,784	3,047	3,471	3,817	4,240	4,710	5,130
annual change in %	2.9	17.2	9.4	13.9	10.0	11.0	11.0	9.0
Imports of goods, BOP, EUR mn	4,238	4,640	4,870	5,279	5,650	6,100	6,590	7,120
annual change in %	-1.8	9.5	5.0	8.4	7.0	8.0	8.0	8.0
Exports of services, BOP, EUR mn	1,155	1,304	1,378	1,395	1,535	1,640	1,770	1,890
annual change in %	8.2	12.9	5.7	1.3	10.0	7.0	8.0	7.0
Imports of services, BOP, EUR mn	780	920	1,029	1,048	1,174	1,230	1,330	1,420
annual change in %	2.9	18.0	11.8	1.8	12.0	5.0	8.0	7.0
FDI liabilities, EUR mn	302	37	262	495	300	.	.	.
FDI assets, EUR mn	73	-160	59	179	90	.	.	.
Gross reserves of NB excl. gold, EUR mn	1,803	2,221	2,049	2,370	2,096	.	.	.
Gross external debt, EUR mn	5,220	5,992	6,291	7,217	7,700	7,900	8,300	8,700
Gross external debt, % of GDP	64.0	70.0	69.3	74.2	78.0	76.0	76.0	75.0
Average exchange rate MKD/EUR	61.58	61.62	61.61	61.60	61.57	61.5	61.5	61.5

1) Preliminary and wiiw estimates. - 2) Enterprises with 10 and more employees. - 3) From 2016 wiiw estimate. - 4) The decline in the loans in 2016 was due to the write-off of doubtful and contested claims on loans. - 5) Central Bank bills (28-days).

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