



Vladimir Gligorov

Macedonia: Stable recovery, rising political tensions

Unlike most other countries in the Balkans, Macedonia did not experience either an investment or a credit boom before the crisis. The contraction of foreign trade was strong in 2009, but so was the recovery in 2010. Overall, the decline of GDP was less than 1% and the recovery will also be less than 1% in 2009 and 2010 respectively. More importantly, employment did not decline and in fact has been increasing, though the unemployment rate at above 30% is still catastrophically high.

Economic policy is anchored in the fixed exchange rate, which has proved to be biased towards stability rather than growth. However, given that foreign money has avoided Macedonia and given that for the most part wage increases have been subdued, the real exchange rate is probably not too overvalued and thus does not stand too much in the way of export recovery and growth based mostly on external demand. Indeed, some recovery of domestic demand, both private and public, is expected without significant threats to macroeconomic stability. Some speed-up of inflation is expected due primarily to rising food and energy prices.

Given the adopted policy mix – fixed exchange rate and balanced or slightly negative fiscal balance – growth depends on that in the main trading partners. Some of those are the immediate neighbours, who are mostly experiencing rather slow recovery. Thus, growth is constrained by the speed of recovery in the major exporting markets. Official expectations are for 3% growth in 2011, while a more realistic assessment would be in the vicinity of 2%. In any case, macroeconomic stability should not present a major problem.

Political stability, however, may be at risk because of the rather bad relationship between the two main ethnic Macedonian parties (parties tend to be organized along ethnic, mainly Macedonian and Albanian, lines but there are also parties of other ethnic groups) with the opposition Social-Democrats recently walking out of Parliament protesting the harassment of opposition media. Increased political tensions could lead to early elections, which would have an impact on the economy – though not necessarily a negative one. Early elections may prove stabilizing because of the growing tensions between the two ethnic

communities. The recent spike of tensions has been triggered by mainly symbolic issues, first of all connected with religious differences, but the underlying causes are all of a social nature. Stagnation has in the past and will in the future lead to social problems and tensions and these will result in problems along ethnic lines. As a rule, in Macedonia, political conflicts are intra-ethnic while social tensions are inter-ethnic. Given that, early elections may be one way to try to politically resolve some of the social tensions, at least for a while.

Another political issue that has been plaguing the country is the long-standing dispute with Greece over the name of the country. This dispute is standing in the way of both NATO membership and the progress in negotiations with the EU. Macedonia has been a candidate country since 2005 and the European Commission has asked for the start of negotiations for two years now, but this cannot go past the Greek veto so far. There are no signs at this time that an agreement between Macedonia and Greece on this issue is any nearer now than it has been any time in the last twenty years.

In the short run, some speed-up of growth can be expected as external demand continues to improve and that feeds into investment and consumption. At the same time, some deterioration of external balances could be expected, but that should not threaten the exchange rate and the macroeconomic stability. Some growth of employment is also likely, though not enough to make a noticeable dent in the rate of unemployment.

In the medium run, a significant speed-up of growth cannot be expected. The policy mix is heavily geared towards stability and the external environment cannot improve all that much in order to spur a notable acceleration of growth. Indeed, continued weakness of growth and stability in the neighbouring Greece and the possible need to stabilize the Serbian economy will probably constrain growth and development in the medium run.

Table MK

Macedonia: Selected Economic Indicators

	2005	2006	2007	2008	2009	2010 ¹⁾	2011	2012	2013
	Forecast								
Population, th pers., average	2036.9	2040.2	2043.6	2046.9	2050.7	2100	2054	2056	2060
Gross domestic product, MKD mn, nom. ²⁾	295052	320059	364989	411728	413351	427900	450000	477000	506000
annual change in % (real) ²⁾	4.4	5.0	6.1	5.0	-0.8	0.5	2	3	3
GDP/capita (EUR at exchange rate)	2300	2500	2900	3200	3300	3300	.	.	.
GDP/capita (EUR at PPP - wiiw)	6600	7200	7700	8500	8500	8400	.	.	.
Consumption of households, MKD mn, nom. ²⁾³⁾	227944	250309	279880	330399	316830	330000	.	.	.
annual change in % (real) ²⁾³⁾	5.9	7.5	8.1	7.4	-3.1	2.5	2	3	3
Gross fixed capital form., MKD mn, nom. ²⁾	48868	56485	71557	86403	81872	84000	.	.	.
annual change in % (real) ²⁾	-6.1	7.7	17.1	5.4	-2.0	0	3	4	4
Gross industrial production ⁴⁾									
annual change in % (real)	7.1	3.6	3.7	5.5	-7.7	-4.3	3	5	5
Gross agricultural production									
annual change in % (real)	0.3	4.8	-3.0	5.4	4.6	5.0	.	.	.
Construction industry									
annual change in % (real)	-20.5	-11.9	9.7	-9.6	-2.1	5	.	.	.
Employed persons - LFS, th, average	545.3	570.4	590.2	609.0	629.9	633	640	650	660
annual change in %	4.3	4.6	3.5	3.2	3.4	0.5	1.5	1.5	2
Unemployed persons - LFS, th, average	323.9	321.3	316.9	310.4	298.9	305	.	.	.
Unemployment rate - LFS, in %, average	37.3	36.0	34.9	33.8	32.2	32.5	33	33	33
Reg. unemployment rate, in %, end of period
Average gross monthly wages, MKD ⁵⁾	21330	23036	24136	26229	29922	30000	.	.	.
real growth rate, % (net wages) ⁵⁾	2.0	3.9	5.5	1.9	25.0	1.5	.	.	.
Consumer prices, % p.a.	0.5	3.2	2.3	8.3	-0.8	1.7	3	3	3
Producer prices in industry, % p.a. ⁶⁾	3.2	7.3	2.5	10.3	-6.5	8.5	.	.	.
General governm. budget, nat.def., % GDP ⁷⁾									
Revenues	34.2	32.5	32.8	33.1	31.1	32	.	.	.
Expenditures	34.0	33.0	33.2	34.1	33.7	35	.	.	.
Deficit (-) / surplus (+)	0.2	-0.5	0.6	-0.9	-2.6	-3	-2	0	-1
Public debt, nat.def., in % of GDP	46.9	39.9	33.3	28.7	32.0	34	35	34	33
Central bank policy rate, in %, p.a., Dec ⁸⁾	8.5	5.7	4.8	7.0	8.5	4.1	.	.	.
Current account, EUR mn	-122.5	-23.4	-421.2	-853.3	-483.3	-100	-300	-400	-400
Current account in % of GDP	-2.5	-0.4	-7.1	-12.7	-7.2	-1.4	-4	-5	-5
Exports of goods, BOP, EUR mn	1642.9	1914.0	2472.2	2684.2	1920.9	2400	2600	2900	3200
annual growth rate in %	22.2	16.5	29.2	8.6	-28.4	24.9	10	10	10
Imports of goods, BOP, EUR mn	2501.4	2915.5	3653.3	4434.9	3471.9	4000	4200	4600	5300
annual growth rate in %	10.7	16.6	25.3	21.4	-21.7	15.2	5	10	15
Exports of services, BOP, EUR mn	416.2	477.3	594.5	686.3	618.3	680	700	800	800
annual growth rate in %	14.4	14.7	24.5	15.4	-9.9	10.0	5	10	5
Imports of services, BOP, EUR mn	440.8	455.0	569.4	681.9	590.3	620	700	800	900
annual growth rate in %	8.3	3.2	25.2	19.8	-13.4	5.0	5	10	10
FDI inflow, EUR mn	77.2	344.8	506.0	399.9	181.0	150	200	200	250
FDI outflow, EUR mn	2.3	0.1	-0.9	-9.5	9.1	0	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1028.0	1311.3	1400.1	1361.0	1429.4	1500	.	.	.
Gross external debt, EUR mn	2528.2	2503.4	2841.1	3304.2	3839.4	4100	.	.	.
Gross external debt in % of GDP	52.4	47.8	47.6	49.3	56.8	58.9	.	.	.
Average exchange rate MKD/EUR	61.30	61.19	61.18	61.27	61.32	61.52	61.2	61.2	61.2
Purchasing power parity MKD/EUR	21.96	21.93	23.14	23.57	23.78	24.25	.	.	.

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

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