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Macedonia: Stagnating on

In the short run, some recovery can be expected in Macedonia due to some pick-up in investments, public and private, and the continuing positive contribution of net exports. In the medium run growth should speed up a bit on the assumption that both the EU and the local markets will improve. Additional fiscal consolidation is not contemplated, though fiscal stimulus is not to be expected either. The policy-makers will continue to take care of internal stability and wait for the tide, when and if it comes, to lift their boat too.

The crisis has been as prolonged as in other countries, but the recession was shallower both in 2009 and last year. In part this has been the case because the country has been in more or less prolonged stagnation for about two decades. This is better indicated by the persistent high unemployment rate than by temporary speed-ups of growth, which have happened in some of the years preceding the eruption of the crisis. Also, the country is not as dependent on foreign financing even though the successive governments have made policies to attract foreign investments the cornerstone of their policy strategies. Finally, private and public debts are not high and reliance on credit is not as pervasive as in other countries.

This has made it possible for the government to rely somewhat more on public spending than is traditional for this country. As it relies on a hard peg to the euro, fiscal policy has traditionally been either balanced year on year or over the medium term. In the current crisis the government has allowed for some deficit financing which is probably responsible for the stability in the labour market and for on average positive real growth throughout the crisis. However, private consumption is not increasing, nor is investment.

The policy framework has been, since the stabilisation in the mid-1990s and the introduction of the strict fixed exchange rate, to rely on net exports for growth. This has delivered rather low growth rates, on average, and has not performed better during the crisis. In particular, it has not contributed significantly to the increase of the tradable sector, which continues to rely on agricultural products and on extraction. In about the past five

years, as in some neighbouring countries, industrial production has declined and is below the 2007 level still.

Political, social, and ethnic stability has been preserved, though there have been challenging moments throughout the crisis. The main opposition party has attempted several times to unseat the government in elections and in non-parliamentary actions, but has not been successful. The governing coalition has strengthened the hold on power and on the public opinion. It also sees no reason to significantly change its economic policy.

In the short run, some recovery can be expected due to some pick-up in investments, public and private, and the continuing positive contribution of the net exports. In the medium run growth should speed up a bit on the assumption that both the EU and the local markets will improve. Additional fiscal consolidation is not contemplated, though fiscal stimulus is not to be expected either. The policy-makers will continue to care for internal stability and wait for the tide, when and if it comes, to lift their boat too.

Table MK

Macedonia: Selected Economic Indicators

	2009	2010	2011	2012 ¹⁾	2012 1st quarter	2013	2013	2013	2014	2015
								Forecast		
Population, th pers., mid-year	2050.7	2055.0	2058.5	2065.0	.	.	2070	2075	2080	
Gross domestic product, MKD mn, nom. ²⁾	410734	434112	459789	460587	102228	104789	480100	505400	534100	
annual change in % (real) ²⁾	-0.9	2.9	2.8	-0.2	-1.0	2.9	1.2	2.2	2.6	
GDP/capita (EUR at exchange rate)	3300	3400	3600	3600	.	.	.	.	.
GDP/capita (EUR at PPP)	8500	8700	8900	8900	.	.	.	.	.
Consumption of households, MKD mn, nom. ²⁾³⁾	314376	324096	345262	348473	81395	83085	.	.	.	
annual change in % (real) ²⁾³⁾	-4.7	2.1	2.9	-1.2	0.1	-0.1	0.0	0.0	1.0	
Gross fixed capital form., MKD mn, nom. ²⁾	81872	82968	94698	104500	.	.	.	.	.
annual change in % (real) ²⁾	-4.3	-2.7	3.2	7.0	.	.	2.0	4.0	5.0	
Gross industrial production ⁴⁾										
annual change in % (real)	-8.7	-4.8	6.9	-2.7	-6.0	5.9	4.0	5.0	5.0	
Gross agricultural production (EAA)										
annual change in % (real)	-2.3	8.2	2.0	0.0	.	.	5.0	3.0	3.0	
Construction output, hours worked										
annual change in % (real)	-2.1	5.8	14.2	-11.6	-13.1	30.8	5.0	5.0	5.0	
Employed persons, LFS, th, average	629.9	637.9	645.1	650.6	643.7	.	654	664	674	
annual change in %	3.4	1.3	1.1	0.8	-0.9	.	0.6	1.5	1.5	
Unemployed persons, LFS, th, average	298.9	300.4	295.0	292.5	297.4	.	.	.	.
Unemployment rate, LFS, in %, average	32.2	32.0	31.4	31.0	31.6	.	31.0	31.0	30.0	
Unemployment rate, reg., in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD ⁵⁾	29922	30225	30602	30669	30634	30973	.	.	.	
annual change in % (real, net) ⁵⁾	25.0	1.4	-2.4	-2.9	-1.5	-2.3	.	.	.	
Consumer prices, % p.a.	-0.8	1.6	3.9	3.3	2.5	3.5	3.0	3.0	3.0	
Producer prices in industry, % p.a. ⁶⁾	-7.2	8.7	12.4	4.6	5.1	2.9	.	.	.	
General governm. budget, nat.def., % of GDP ⁷⁾										
Revenues	31.3	30.4	29.8	30.0	31.1	28.6	.	.	.	
Expenditures	33.9	32.9	32.3	33.8	35.5	39.5	.	.	.	
Deficit (-) / surplus (+)	-2.7	-2.4	-2.5	-3.9	-4.4	-10.9	-2.5	-2.0	-1.0	
Public debt, nat.def., % of GDP ⁸⁾	31.7	34.8	35.0	36.0	.	.	36.0	36.0	36.0	
Central bank policy rate, %, p.a., end of period ⁹⁾	8.50	4.11	4.00	3.73	4.00	3.42	3.5	3.5	3.5	
Current account, EUR mn	-457.1	-143.6	-224.3	-291.4	-130.0	-109.3	-310	-490	-520	
Current account, % of GDP	-6.8	-2.0	-3.0	-3.9	-7.8	-6.4	-4.0	-6.0	-6.0	
Exports of goods, BOP, EUR mn	1932.6	2530.1	3178.9	3092.6	708.8	717.6	3190	3350	3580	
annual change in %	-28.2	30.9	25.6	-2.7	-0.5	1.3	3.0	5.0	7.0	
Imports of goods, BOP, EUR mn	3492.2	3977.9	4860.6	4877.0	1118.5	1093.8	4880	5030	5280	
annual change in %	-21.6	13.9	22.2	0.3	-4.7	-2.2	0.0	3.0	5.0	
Exports of services, BOP, EUR mn	617.6	681.4	805.8	828.9	170.4	172.4	862	914	987	
annual change in %	-10.8	10.3	18.3	2.9	-4.2	1.2	4.0	6.0	8.0	
Imports of services, BOP, EUR mn	601.1	644.6	707.7	806.3	182.9	166.4	806	830	872	
annual change in %	-12.0	7.2	9.8	13.9	15.7	-9.0	0.0	3.0	5.0	
FDI inflow, EUR mn	145.0	160.0	336.8	104.8	80.2	53.0	200	300	300	
FDI outflow, EUR mn	8.1	1.4	0.0	-6.0	0.6	0.1	0	0	0	
Gross reserves of NB, excl. gold, EUR mn	1429.4	1482.7	1801.9	1769.0	1796.4	1957.5	.	.	.	
Gross external debt, EUR mn	3780.4	4105.7	4846.6	5163.2	4950.3	.	.	.	.
Gross external debt, % of GDP	56.4	58.2	64.9	69.0	66.1	.	.	.	.
Exchange rate MKD/EUR, average	61.27	61.52	61.53	61.53	61.50	61.59	61.5	61.5	61.5	
Purchasing power parity MKD/EUR	23.65	24.15	25.19	25.16	.	.	.	.	.

Note: Gross industrial production and producer prices refer to NACE Rev. 2. Gross agricultural production refers to Economic Accounts for Agriculture (EAA).

1) Preliminary. - 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) Including allowances for food and transport. - 6) Domestic output prices. - 7) Refers to central government budget and extra-budgetary funds. - 8) In 2011 and 2012 wiw estimates. - 9) Central Bank bills (28-days).

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