

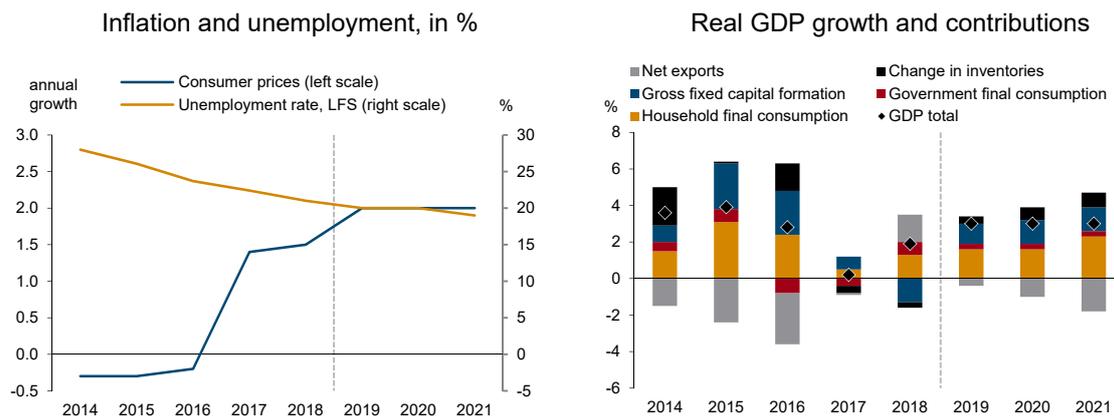


NORTH MACEDONIA: Solving name dispute to boost investor confidence

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The North Macedonian economy grew by 2.3% year on year in 2018 on the back of strong export growth and a pick-up in private consumption. The approval by the Greek Parliament of the new official name of North Macedonia was a major positive political development. Improved political stability will boost investor confidence and promote robust investment growth. Overall GDP will grow by about 3% p.a. during 2019-2021.

Figure 6.15 / North Macedonia: Main macroeconomic indicators



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

The North Macedonian economy grew by an estimated 2.3% year on year in 2018 on the back of solid export performance and a reasonable pick-up in private consumption. The result was much better compared with 2017 when growth had practically stalled. On the negative side, gross capital formation experienced a contraction in 2018 due to the postponement of infrastructure projects and the continuing fall in construction.

Merchandise exports grew strongly in 2018 (by about 14% year on year) in all the key export sectors apart from clothing. Particularly strong growth was recorded in electrical machinery, road vehicles, and furniture. Services exports demonstrated a robust performance as well – both in traditional transport and travel sectors, but also in computer services (35% increase year on year in the first three quarters of 2018) and other business services (11%). Strong growth was registered in exports to almost all destinations. Germany, which accounted for 47% of goods exports in 2017, saw an increase in imports from North Macedonia of 13.5% year on year in the first three quarters of 2018.

The slowdown in growth in the eurozone, primarily in Germany, will drag on export dynamics during 2019-2021. Nonetheless, we forecast rather robust export growth of 8-10%. The major risk to the forecast stems from an escalation of the trade war between the EU and the US, which could strongly hurt the German economy.

Private consumption has been on the rise owing to growth in employment, wages, workers' remittances and household credit. Real wages grew by 4.2% year on year in 2018 – the highest rate achieved since 2009, and remittances increased at a similar rate. The unemployment rate declined by 2.4 p.p., however, it still remains very high – at 21%. Household credit in December 2018 was 10.3% higher compared to the same month of the previous year. We expect that robust private consumption growth will continue over the forecast period on the back of positive labour market developments, and it will provide the biggest contribution to overall economic growth.

Bank credit has been growing rather dynamically both in the household and non-financial corporations' segments, supported by monetary policy easing, strong deposit growth and improving quality of loans portfolios. Moderate inflation and a stable foreign exchange rate allowed the National Bank to cut the policy interest rate in 2018 by 75 bps to 2.5%. The banking sector's liquidity improved, with the loan-to-deposit ratio reaching 0.86 by the end of the year.

However, the issue of loans' euroisation has not been resolved. Though denar-denominated loans have been growing faster than foreign exchange ones, the share of the latter still remains significant – 44.5% at the end of 2018. Deposits in foreign currency do not provide sufficient funding for banks that have to rely on external sources of financing. This situation might pose risks for the banking system in case of significant external shocks and necessitates implementing measures to decrease foreign currency lending.

A major positive political development was the approval by the Greek Parliament of the new official name of North Macedonia. This clears the path for the country to join NATO and potentially the EU, strengthening the West's position in the Balkans over Moscow's protests. The Greek Parliament has also ratified North Macedonia's accession to the NATO alliance, lifting a veto imposed more than a decade ago; this makes Greece the first of 29 NATO members to ratify the accession protocol signed by North Macedonia's foreign minister in February 2019. The country is expected to join the alliance in 2020.

Improved political stability will boost investor confidence. Prime Minister Zoran Zaev has announced that four large companies had decided on projects that would employ several thousand people, and a big European car company is considering a EUR 1 billion investment. We forecast strong investment growth during 2019-2021 at a rate of 5-6% per year.

Overall, we forecast GDP to grow by about 3% p.a. during 2019-2021. Robust private consumption and strong investment growth will be the main drivers of growth. Monetary policy is likely to remain accommodative against the backdrop of moderate economic growth and moderate inflation. Labour market issues – skills shortages and mismatches combined with high unemployment – will linger during the forecast period and will remain a main obstacle to growth.

Table 6.15 / North Macedonia: Selected economic indicators

	2014	2015	2016	2017	2018 ¹⁾	2019	2020	2021
						Forecast		
Population, th pers., average	2,067	2,070	2,072	2,075	2,095	2,100	2,100	2,100
Gross domestic product, MKD bn, nom.	527.6	559.0	594.8	616.6	638.0	670.0	704.0	739.0
annual change in % (real)	3.6	3.9	2.8	0.2	1.9	3.0	3.0	3.0
GDP/capita (EUR at PPP)	9,900	10,400	10,800	10,800	11,100	.	.	.
Consumption of households, MKD bn, nom.	363.6	380.2	392.2	400.3	414.0	.	.	.
annual change in % (real)	2.1	4.5	3.6	0.7	2.0	2.5	2.5	3.5
Gross fixed capital form., MKD bn, nom.	123.5	133.3	145.0	135.3	140.0	.	.	.
annual change in % (real)	4.0	10.5	9.9	2.9	-6.0	5.0	6.0	6.0
Gross industrial production ²⁾								
annual change in % (real)	4.8	4.9	3.4	0.2	5.4	5.0	4.5	6.0
Gross agricultural production ³⁾								
annual change in % (real)	1.7	5.2	5.2	4.0	5.0	.	.	.
Construction industry								
annual change in % (real)	-3.3	40.7	7.2	-27.2	-6.8	.	.	.
Employed persons, LFS, th, average	690.2	706.0	723.6	740.6	750.0	765	780	790
annual change in %	1.7	2.3	2.5	2.4	1.5	2.0	1.5	1.5
Unemployed persons, LFS, th, average	268.8	248.9	225.0	213.6	200.0	190	200	190
Unemployment rate, LFS, in %, average	28.0	26.1	23.7	22.4	21.0	20	20	19
Reg. unemployment rate, in %, eop	23.4	22.1	21.2	20.1	19.4	.	.	.
Average monthly gross wages, MKD	31,325	32,171	32,821	33,687	35,626	37,400	38,900	40,500
annual change in % (real, gross)	1.3	3.0	2.2	1.2	4.2	3.0	2.0	2.0
Average monthly net wages, MKD	21,394	21,904	22,342	22,928	24,276	25,500	26,500	27,600
annual change in % (real, net)	1.5	2.7	2.2	1.2	4.4	3.0	2.0	2.0
Consumer prices, % p.a.	-0.3	-0.3	-0.2	1.4	1.5	2.0	2.0	2.0
Producer prices in industry, % p.a.	-1.9	-3.9	-3.1	4.8	0.9	3.0	3.0	3.0
General governm. budget, nat.def., % of GDP								
Revenues	29.7	31.0	30.6	31.0	31.3	31.0	32.0	32.0
Expenditures	33.9	34.4	33.2	33.9	33.3	33.0	33.0	33.0
Deficit (-) / surplus (+)	-4.2	-3.4	-2.7	-2.8	-2.0	-2.0	-1.0	-1.0
General gov.gross debt, nat.def., % of GDP	45.7	46.6	48.7	47.7	48.5	47.0	46.0	46.0
Stock of loans of non-fin.private sector, % p.a.	10.0	9.6	-0.1	5.4	7.2	.	.	.
Non-performing loans (NPL), in %, eop ⁴⁾	10.9	10.4	6.4	6.2	5.1	.	.	.
Central bank policy rate, %, p.a., eop ⁵⁾	3.25	3.25	3.75	3.25	2.50	3.50	3.50	3.50
Current account, EUR mn	-43	-177	-275	-103	-80	-120	-270	-360
Current account, % of GDP	-0.5	-2.0	-2.9	-1.0	-0.8	-1.1	-2.4	-3.0
Exports of goods, BOP, EUR mn	2,784	3,047	3,529	4,074	4,640	5,100	5,510	6,060
annual change in %	17.2	9.4	15.8	15.4	13.9	10.0	8.0	10.0
Imports of goods, BOP, EUR mn	4,640	4,870	5,342	5,861	6,360	6,870	7,420	8,160
annual change in %	9.5	5.0	9.7	9.7	8.5	8.0	8.0	10.0
Exports of services, BOP, EUR mn	1,304	1,378	1,390	1,439	1,510	1,590	1,650	1,730
annual change in %	12.9	5.7	0.9	3.6	4.9	5.0	4.0	5.0
Imports of services, BOP, EUR mn	920	1,029	1,049	1,062	1,120	1,140	1,160	1,190
annual change in %	18.0	11.8	2.0	1.3	5.4	2.0	2.0	3.0
FDI liabilities, EUR mn	37	262	495	351	450	.	.	.
FDI assets, EUR mn	-160	59	179	171	180	.	.	.
Gross reserves of NB excl. gold, EUR mn	2,221	2,049	2,370	2,097	2,619	.	.	.
Gross external debt, EUR mn	5,992	6,291	7,217	7,372	8,000	8,300	8,600	9,000
Gross external debt, % of GDP	70.0	69.3	74.7	73.6	76.0	76.0	75.0	75.0
Average exchange rate MKD/EUR	61.62	61.61	61.60	61.57	61.51	61.3	61.4	61.4

1) Preliminary and wiiw estimates. - 2) Enterprises with 10 and more employees. - 3) wiiw estimate from 2017. - 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.