

Vladimir Gligorov

Macedonia: EU perspective sought

After the near civil war that had caused a significant decrease of growth and fiscal destabilization, with a sharp increase in the public deficit in 2001 and stagnation in 2002, growth returned in 2003. GDP was growing, perhaps at an accelerated pace in the second half, by close to 3% for the year as a whole. Industrial production increased as well, by about 5%. Exports were rising, while imports declined. These positive developments were accompanied by a significant fiscal adjustment, as public expenditures were more than 10% lower than in the previous year.

The cost has been an increase in unemployment. This has been very high for a very long time and the unemployment rate has now reached 37% according to the labour survey. The increase is mostly due to the contraction of public employment. Fiscal adjustment is to continue in the coming years, so more loss of public employment can be expected. The expansion of the private sector may compensate for that, but the inevitable lag may prove to be politically and socially stressful.

The monetary policy is still rather cautious, after it had to be tightened significantly during the 2001-2002 crisis in order to prevent a collapse of the exchange rate. Macedonia has a fixed exchange rate regime – the denar is pegged to euro – and the main worry was that fiscal destabilization would lead to a destabilization of the monetary policy and eventually to a sharp depreciation of the currency. To prevent these developments, the central bank hiked interest rates quite considerably. Last year, those have started to go down, albeit slowly. Thus, the money market interest rates are around 15% while inflation is around 1-2%. Producer prices were in fact falling for most of the year. Clearly, there is room for a more relaxed monetary policy and it is expected that the adjustment will continue in the next couple of years.

Foreign direct investments have also been slow in coming back. In the period before the crisis in 2001, FDI inflows had been steadily increasing. Last year, less than USD 50 million of FDI was recorded. There are signs that this year there will be more FDI and certainly the government is expecting that. Indeed, an increase in investments is the key element in the government's economic policy for the current year. There is a sense of urgency because further growth of unemployment may threaten the still fragile stability of the country.

As the recovery has started, the prospect for its sustainability is crucial. GDP growth of about 4% is expected in the next couple of years and it is not impossible that it will in fact be higher. The main sources of growth will be increased investments and exports.

Consumption cannot grow all that much, though wages are rising, but employment is not. Public consumption will continue to decrease, as fiscal adjustment will continue and perhaps also because there will be some increase in public investments.

Export prospects depend also on the regional economic developments. Though the EU is Macedonia's main trading partner, and neighbouring Greece takes a growing share, Serbian and Kosovo markets are also quite important. The developments in these countries or territories are not encouraging, and that may affect Macedonian foreign trade negatively. Other countries in the region are less important, though that may change over time. This is constantly a problem for Macedonia, as it is very vulnerable to external shocks. Thus, continuing stabilization of the region and its economic reconstruction and recovery are very important for the sustainability of growth in Macedonia itself.

Since its independence, Macedonia has been struggling with internal stability. It has relied on outside help to achieve it. Especially important have been its relations with the EU. At the moment, Macedonia has a stabilization and association agreement with the EU, which is yet to be ratified by all EU member states. So far, this agreement has had limited impact on political developments in the country. More important is the growing feeling in the political public that Macedonia is being left behind in the process of EU integration. There is no doubt that the prospect of integration is crucial for the stability and economic development of this country. After Croatia has submitted its application for membership last year, Macedonia has decided to do the same at the end of February this year. A constructive response from the EU would be helpful both politically and economically. It would structure the political agenda in the country and would help improve investment sentiment domestically and, more importantly, abroad.

Table MK

Macedonia: Selected Economic Indicators

	1997	1998	1999	2000	2001	2002	2003 ¹⁾	2004 forecast	2005 forecast
Population, th pers., mid-year	1996.9	2007.5	2017.1	2026.4	2034.9	2044.0	.	.	.
Gross domestic product, MKD mn, nom.	186018	194979	209010	236389	233841	243970	256820	275000	292000
annual change in % (real)	1.4	3.4	4.3	4.5	-4.5	0.3	2.8	4	4
GDP/capita (EUR at exchange rate)	1658	1590	1709	1921	1887	1917	2040	.	.
GDP/capita (EUR at PPP - wiiw)	5170	5420	5700	6010	5850	6120	6400	.	.
Gross industrial production									
annual change in % (real) ²⁾	1.6	4.5	-2.6	3.6	-3.0	-5.3	5	5	5
Gross agricultural production									
annual change in % (real)	1.1	4.3	1.0	1.0	-9.8	-5.2	.	.	.
Goods transport, mn t-kms ³⁾	1175	1302	1219	1303	2773	.	.	.	.
annual change in % ³⁾	10.1	10.8	-6.4	6.9	112.8	.	.	.	.
Gross fixed capital form., MKD mn, nom.	32236	33982	34710	38332	34716	.	.	.	.
annual change in % (real)	-4.3	-2.6	-1.4	-3.2	-8.6	.	.	.	.
Construction output, value added									
annual change in % (real)	0.2	7.7	10.4	-1.1	-14.4	-7.5	.	.	.
Dwellings completed, units	4300	3253	4479	5316	4431	.	.	.	.
annual change in %	-19.5	-24.3	37.7	18.7	-16.6	.	.	.	.
Employment persons total - LFS, th. avg	512.3	539.8	545.2	549.8	599.3	561.3	545.1	.	.
annual change in %	-4.7	5.4	1.0	0.8	9.0	-6.3	-2.9	.	.
Employees in industry, th pers., average ²⁾	117.6	113.6	119.8	114.4	122.5	110.9	108.3 ^{I-VIII}	.	.
annual change in % ²⁾	-7.9	-3.4	5.5	-4.5	-4.8	-9.5	.	.	.
Reg. unemployed, th pers, end of period	257.7	258.9	354.7	366.2	360.3	374.1	.	.	.
Reg. unemployment rate in %, end of period	42.1	.	.	.	.	.	.	.	.
LFS - unemployment rate in %, average	36.0	34.5	32.4	32.2	30.5	31.9	36.7	36	35
Average net monthly wages, MKD	9063	9394	9664	10193	10552	11279	11811 ^{I-X}	.	.
annual change in % (real, net)	0.2	3.8	3.6	-0.3	-1.9	5.0	4.3 ^{I-X}	.	.
Retail trade turnover, MKD mn ⁴⁾	32482.8	33215.6	38247.9	50208.6	45975.8	48882.3	40859.1 ^{I-X}	.	.
annual change in % (real, calc.)	4.1	1.5	16.4	12.1	-13.0	4.7	10.9 ^{I-X}	.	.
Retail prices, % p.a.	4.4	0.8	-1.1	10.6	5.2	1.4	2.4	3	2
Producer prices in industry, % p.a.	4.2	4.0	-0.1	10.7	2.0	-0.9	0.0 ^{I-XI}	2	2
Central government budget, MKD mn									
Revenues	41398	42655	50478	63097	63109	67571	54728 ^{I-XI}	.	.
Expenditures	41393	42623	49761	57689	68885	71692	54468 ^{I-XI}	.	.
Deficit (-) / surplus (+)	4	32	717	5408	-5776	-4121	260 ^{I-XI}	.	.
Deficit (-) / surplus (+), % GDP	0.0	0.0	0.3	2.3	-2.5	-1.7	.	.	.
Money supply, MKD mn, end of period									
M1, Money	13983	15178	19694	22388	25324	26406	24862 ^{Nov}	.	.
M2, Money + quasi money	22724	26003	33720	41957	69785	64222	72696 ^{Nov}	.	.
Discount rate, % p.a., end of period	8.9	8.9	8.9	7.9	10.7	10.7	6.5 ^{Sep}	.	.
Current account, EUR mn ⁵⁾	-254.0	-240.0	-30.0	-79.0	-272.0	-345.0	-250	-250	-250
Current account in % of GDP	-7.7	-7.5	-0.9	-2.0	-7.1	-8.8	-6.0	-5.5	-5.3
Gross reserves of NB, excl. gold, EUR mn	232.6	260.5	428.0	461.5	845.5	692.8	.	.	.
Gross external debt, EUR mn ⁶⁾	1023.8	1190.3	1431.9	1545.2	1638.3	1486.3	1438.4 ^{Sep}	.	.
Exports total, fob, EUR mn ⁷⁾	1090.6	1170.2	1116.7	1431.4	1292.3	1180.6	1200	1300	1350
annual change in %	20.5	7.3	-4.6	28.2	-9.7	-8.6	1	8	4
Imports total, cif, EUR mn ⁷⁾	1568.3	1709.5	1664.9	2266.1	1890.8	2111.5	2030	2200	2300
annual change in %	22.2	9.0	-2.6	36.1	-16.6	11.7	-4	8	5
Average exchange rate MKD/USD	49.83	54.45	56.90	65.89	68.04	64.73	55.25 ^{I-X}	.	.
Average exchange rate MKD/EUR (ECU)	56.20	61.07	60.62	60.73	60.91	60.98	61.27 ^{I-X}	61	62
Purchasing power parity MKD/USD, wiiw	16.45	16.48	16.70	17.70	17.91	18.04	18.24	.	.
Purchasing power parity MKD/EUR, wiiw	18.02	17.93	18.19	19.41	19.64	19.51	19.58	.	.

Notes: 1) Preliminary. - 2) Excluding small enterprises; from 2001 according to NACE. - 3) Excluding air, from 2001 new methodology. - 4) From 2000 according to NACE. - 5) Including grants. - 6) Medium- and long-term. - 7) Converted from USD to EUR using the ECB EUR/USD foreign exchange reference rate.

Source: wiiw Database incorporating national statistics; wiiw forecasts.