

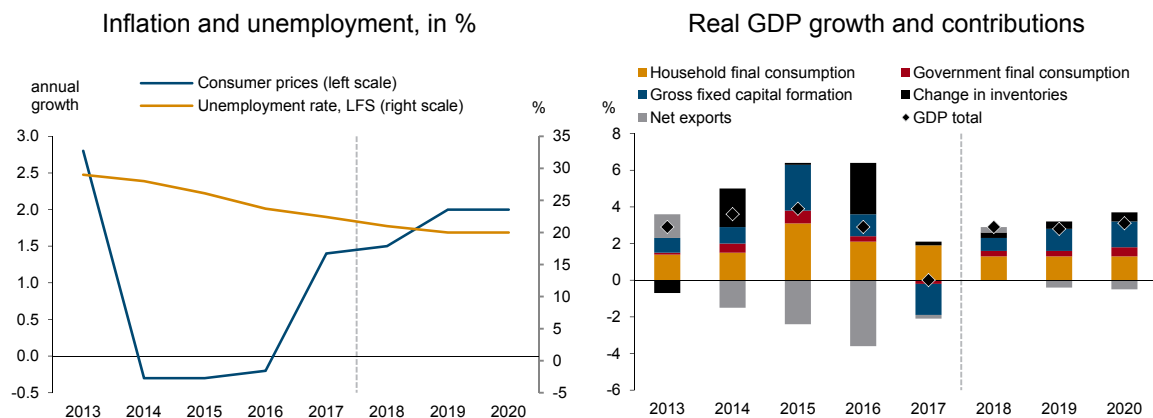


## MACEDONIA: Name disputes prolong uncertainty and delay hopes for growth-boosting connectivity

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The Macedonian economy started to recover in 2018 owing to a strong revival of industry and solid export performance. Real GDP is projected to grow by about 3% per year in the medium term, although the chances of political instability suggest significant downside risks. The failed referendum on the country's 'name issue' on 30 September will prolong the political crisis and may destabilise the country again with adverse economic consequences, regardless of the new name's endorsement by the parliament in October.

Figure 48 / Macedonia: Main macroeconomic indicators



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

**After stagnation in 2017, the Macedonian economy started to recover in 2018 owing to a strong revival of industry and solid export performance.** However, construction continued to shrink in the first half of the year and investments most likely contracted as well. Curiously, apparently neither last year's crisis nor the current instability have had any effect on employment, which increased, and the rate of unemployment has declined further (though the unemployment rate remains close to 20% as of end-June 2018). After last year's parliamentary elections, the new government led by Social Democrat Prime Minister Zoran Zaev has made great strides in improving fiscal transparency and in tackling the issue of unpaid public sector liabilities. Internal political stability was partly restored towards the end of 2017 and domestic conditions supporting the economic recovery were thus established. Some progress has also been achieved in external political relations as the new government signed an agreement with Bulgaria and approached Serbia as well. Most importantly, some progress was achieved in negotiations regarding the 'name issue' with Greece.

**However, the failed referendum on the country's 'name issue' (lumped together with approving NATO and EU memberships) prolonged the political crisis** and may even lead to new parliamentary elections.<sup>30</sup> Although the overwhelming majority (92%) of votes cast in the 30 September referendum were in favour, the low turnout (37%) made the referendum invalid (it only had a consultative role anyway). Eventually, the name change was adopted by the parliamentary majority on 19 October (80 votes in favour out of 120). Nevertheless, after last year's violent street protests and clashes in the parliament, a repetition of a political crisis cannot be ruled out owing to numerous contrasting internal and external interests in this small Balkan country. Not only Greece, the EU, NATO and the USA, but also Russia have attempted to influence Macedonia's geopolitical orientation.<sup>31</sup>

**The European Commission already recommended in April 2018 to open accession negotiations with Macedonia**, even prior to any resolution of the 'name issue', anticipating Greek consent. Similarly, NATO General Secretary Jens Stoltenberg already formally invited Macedonia to launch accession negotiations<sup>32</sup> in July 2018. The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 25 May 2018 provided a number of policy recommendations. Macedonia should develop a proper medium-term fiscal consolidation strategy, stabilise the public debt ratio, streamline social spending and agricultural subsidies, reduce public sector payment arrears, develop an arrears prevention strategy, improve tax collection, conduct monetary policy consistent with the exchange rate peg (to the euro) while using available space within this framework in line with safeguarding price stability, etc. In addition, a number of labour market related recommendations were suggested.<sup>33</sup> However, in light of sustained primary fiscal deficits and continued financing needs of state-owned enterprises, public debt stabilisation remains a challenge. In fact, the debt-to-GDP ratio is projected to increase a bit in 2018, followed by a moderate decline afterwards.

**The economy already returned to growth towards the end of last year. In 2018, real GDP is projected to increase by close to 3% and the growth will stay at this level in the coming years** – subject to obvious uncertainties related to the unstable political situation. In the baseline scenario, GDP growth will be stimulated by both domestic demand and the positive contribution of net exports. Private consumption will grow by about 2% per year thanks to rising wages, social transfers and remittances. Investments are expected to rebound strongly as well – provided political stability is maintained. With the recent completion of a 30 km highway corridor to the Greek port of Thessaloniki in April 2018, the improved connectivity in the Western Balkans and Macedonia should benefit industry, exports, tourism and employment. Inflation will stabilise at close to, or a bit above, 2% per year, with the nominal exchange rate remaining stable as well. Simultaneously – as mentioned above – a new outburst of political instability cannot be dismissed. The fragility of the new government persists and the 'name issue' remains disputed after the failed referendum. It will dominate the forthcoming early elections demanded by the opposition as diverse views on the 'name issue' between the opposition and the current government coalition persist. Notwithstanding the parliamentary confirmation of the country's new name (North Macedonia), there are still nationalist forces in Greece who oppose the suggested name compromise, the preliminary agreement between Mr Zaev and his Greek counterpart, Alexis Tsipras, from 12 June 2018 notwithstanding.

<sup>30</sup> <https://wiiw.ac.at/macedonian-referendum-results-back-to-square-one-n-343.html>

<sup>31</sup> <https://wiiw.ac.at/what-s-in-a-name-the-case-of-macedonia-n-342.html>

<sup>32</sup> [https://foreignpolicy.com/2018/09/13/for-macedonia-is-joining-nato-and-the-eu-worth-the-trouble/?wpmm=1&wpisrc=nl\\_todayworld](https://foreignpolicy.com/2018/09/13/for-macedonia-is-joining-nato-and-the-eu-worth-the-trouble/?wpmm=1&wpisrc=nl_todayworld)

<sup>33</sup> See: <http://www.consilium.europa.eu/en/press/press-releases/2018/05/25/western-balkans-and-turkey-joint-conclusions-of-the-economic-and-financial-dialogue/>

Table 23 / Macedonia: Selected economic indicators

	2014	2015	2016	2017 <sup>1)</sup>	2017 January-June	2018	2018 Forecast	2019 Forecast	2020
Population, th pers., average	2,067	2,070	2,072	2,075	.	.	2,095	2,100	2,100
Gross domestic product, MKD bn, nom.	527.6	559.0	598.9	619.8	294.2	309.2	647.0	679.0	714.0
annual change in % (real)	3.6	3.9	2.9	0.0	-0.7	1.6	2.9	2.8	3.1
GDP/capita (EUR at PPP)	9,900	10,500	10,900	11,000	.	.	.	.	.
Consumption of households, MKD mn, nom.	363.6	380.2	390.3	407.3	200.1	207.3	.	.	.
annual change in % (real)	2.1	4.5	3.1	2.9	3.0	2.1	2.0	2.0	2.0
Gross fixed capital form., MKD mn, nom.	123.5	133.3	143.5	144.1	.	.	.	.	.
annual change in % (real)	4.0	10.5	5.1	-7.0	.	.	3.0	5.0	6.0
Gross industrial production <sup>2)</sup>									
annual change in % (real)	4.8	4.9	3.4	0.2	1.2	5.1	5.0	4.0	6.0
Gross agricultural production <sup>3)</sup>									
annual change in % (real)	1.7	5.2	5.2	4.0	.	.	.	.	.
Construction industry									
annual change in % (real)	-3.4	40.8	7.2	-27.2	-27.7	-18.2	.	.	.
Employed persons, LFS, th, average	690.2	706.0	723.6	740.6	737.0	752.5	750	770	780
annual change in %	1.7	2.3	2.5	2.4	2.7	2.1	1.5	2.0	1.5
Unemployed persons, LFS, th, average	268.8	248.9	225.0	213.6	217.2	204.6	200	190	200
Unemployment rate, LFS, in %, average	28.0	26.1	23.7	22.4	22.8	21.4	21.0	20.0	20.0
Reg. unemployment rate, in %, eop	23.4	22.1	21.2	20.1	20.5	19.5	.	.	.
Average monthly gross wages, MKD	31,325	32,171	32,821	33,688	33,292	35,102	35,200	37,000	38,500
annual change in % (real, gross)	1.3	3.0	2.2	1.2	1.4	3.8	3.0	3.0	2.0
Average monthly net wages, MKD	21,394	21,904	22,342	22,928	22,652	23,922	24,000	25,200	26,200
annual change in % (real, net)	1.5	2.7	2.2	1.2	1.3	4.0	3.0	3.0	2.0
Consumer prices, % p.a.	-0.3	-0.3	-0.2	1.4	0.9	1.6	1.5	2.0	2.0
Producer prices in industry, % p.a.	-1.9	-3.9	-3.1	4.8	5.3	1.9	3.0	3.0	3.0
General governm. budget, nat.def., % of GDP									
Revenues	29.7	31.0	30.3	30.9	.	.	31.0	31.0	32.0
Expenditures	33.9	34.4	33.0	33.7	.	.	33.0	33.0	33.0
Deficit (-) / surplus (+)	-4.2	-3.4	-2.7	-2.8	.	.	-2.0	-2.0	-1.0
General gov.gross debt, nat.def., % of GDP	45.7	46.6	48.4	47.5	45.4	46.1	48.0	47.0	46.0
Stock of loans of non-fin.private sector, % p.a.	10.0	9.6	-0.1	5.4	4.1	6.1	.	.	.
Non-performing loans (NPL), in %, eop <sup>4)</sup>	10.9	10.4	6.4	6.2	6.6	5.0	.	.	.
Central bank policy rate, %, p.a., eop <sup>5)</sup>	3.25	3.25	3.75	3.25	3.25	3.00	3.25	3.50	3.50
Current account, EUR mn	-43	-177	-275	-103	-226	-128	-80	-110	-120
Current account, % of GDP	-0.5	-2.0	-2.8	-1.0	-4.7	-2.6	-0.8	-1.0	-1.0
Exports of goods, BOP, EUR mn	2,784	3,047	3,529	4,074	1,957	2,237	4,640	5,200	5,880
annual change in %	17.2	9.4	15.8	15.4	19.4	14.3	14.0	12.0	13.0
Imports of goods, BOP, EUR mn	4,640	4,870	5,342	5,861	2,837	3,126	6,360	6,930	7,620
annual change in %	9.5	5.0	9.7	9.7	11.4	10.2	8.5	9.0	10.0
Exports of services, BOP, EUR mn	1,304	1,378	1,390	1,439	644	711	1,510	1,650	1,820
annual change in %	12.9	5.7	0.9	3.6	-0.5	10.4	5.0	9.0	10.0
Imports of services, BOP, EUR mn	920	1,029	1,049	1,062	504	490	1,120	1,230	1,350
annual change in %	18.0	11.8	2.0	1.3	7.1	-2.8	5.0	10.0	10.0
FDI liabilities, EUR mn	37	262	495	351	254	446	500	.	.
FDI assets, EUR mn	-160	59	179	171	180	121	120	.	.
Gross reserves of NB excl. gold, EUR mn	2,221	2,049	2,370	2,097	2,159	2,405	.	.	.
Gross external debt, EUR mn	5,992	6,291	7,217	7,372	7,705	8,433	8,000	8,400	8,700
Gross external debt, % of GDP	70.0	69.3	74.2	73.2	76.6	79.9	76.0	76.0	75.0
Average exchange rate MKD/EUR	61.62	61.61	61.60	61.57	61.6	61.5	61.3	61.3	61.4

1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) wiiw estimate in 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.