



*Vladimir Gligorov*

## **Macedonia: Stability preserved**

For some time before the current crisis, Macedonia was implementing the growth model that is now being recommended to most troubled European economies: it was keeping domestic demand down and expecting external demand to spur and sustain GDP growth. Even though fiscal policy was quite prudent and the monetary policy was restrictive in order to support the fixed exchange rate and keep the inflation rate low, growth was disappointing. Shortly before the crisis erupted, the government switched towards a more active economic policy with increased public spending and a more relaxed monetary policy. It continued with that policy stance during the course of the crisis, with the fiscal deficit increasing to almost 3% of GDP and with the intention to keep relying on public spending to support recovery. This probably accounts for the relatively mild recession last year and the expected slow recovery this year. In addition, industrial production does not account for too much and thus its sharp and continuing decline has likewise not contributed too much to the recession. Also, the inflow of remittances seems to have been sustained, reflected in the slower decline of imports than of exports last year. Thus, it is only this year that exports are growing while imports continue to decline and the trade balance is improving. So, GDP growth is driven by improvements in net exports and by sustained public spending.

These sources of growth may not prove to be enduring. Though competitiveness has improved slightly, with prices falling by almost 1% last year, the hard peg to the euro is a constraint on a sharper relative exchange rate adjustment. Also, the pre-crisis change of growth strategy was accompanied by increases in wages, which cannot be easily reversed. Finally, employment even grew last year, if statistics are to be believed, and the trend may very well be continuing this year, so productivity gains cannot be expected. Thus – although growing external demand remains the hope on which expectations of a growth speed-up are based – it is in fact support for domestic demand, mostly through public spending, that is preserving the macroeconomic stability and providing for some slow recovery.

The financing of the fiscal deficit is not proving to be easy. An attempt to borrow in the international commercial market turned out to be too expensive this spring, probably because of the impact of the Greek crisis. It is not clear whether the attitude in the financial markets will change for the better given the global and EU stress on early fiscal consolidation. Unlike most other countries in the Balkans and in the South of Europe, private debts are not all that high. Credit expansion was subdued and private debt overhang is not a big problem. The banks, however, seem reluctant to increase their activities and the central bank is also not very supportive, obsessed as it is with the stability of the exchange rate. So, even though inflation is all but non-existent, the policy rate of the central bank has been hiked to 8.5% in the first quarter of this year. This may make it difficult for both the public and the private borrowers to take loans.

The IMF is hoping for an export-led recovery which should speed up growth to 2% this year and 3% or 4% in the medium term. This seems a bit optimistic. The recovery in the main trading partners is going to be slower than previously expected and some of the markets may be more difficult to access, such as the Serbian one, due to loss of competitiveness. Overall, stability has been preserved, but growth remains elusive.

Table MK

## Macedonia: Selected Economic Indicators

	2006	2007	2008	2009 <sup>1)</sup>	2009 1st quarter	2010	2010	2011	2012
							Forecast		
Population, th pers., average	2040.2	2043.6	2046.9	2050.0	.	.	2052	2054	2056
Gross domestic product, MKD mn, nom.	310915	354322	398491	406651	91366	.	411000	432000	458000
annual change in % (real)	4.0	5.9	4.8	-0.7	-0.9	.	1	2	3
GDP/capita (EUR at exchange rate)	2500	2800	3200	3200	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	6900	7700	8200	8000	.	.	.	.	.
Consumption of households, MKD mn, nom. <sup>2)</sup>	243131	273269	321020	318000	71797	.	318000	334000	351000
annual change in % (real) <sup>2)</sup>	6.0	9.8	8.1	0.2	3.9	.	0	2	2
Gross fixed capital form., MKD mn, nom.	56485	71557	86500	83000	.	.	83000	88000	94000
annual change in % (real)	11.6	13.1	4.0	-3.0	.	.	0	3	4
Gross industrial production <sup>3)</sup>									
annual change in % (real)	3.6	3.7	5.5	-7.7	-10.8	-9.4	-5	3	5
Gross agricultural production									
annual change in % (real)	4.8	-3.0	5.4	4.6	.	.	.	.	.
Construction industry									
annual change in % (real)	-11.9	9.7	-9.6	-2.1	17.4	.	.	.	.
Employed persons - LFS, th, average	570.4	590.2	609.0	629.9	618.2	.	630	640	670
annual change in %	4.6	3.5	3.2	3.4	2.9	.	0	1.5	1.5
Unemployed persons - LFS, th, average	321.3	316.9	310.4	298.9	300.8	.	.	.	.
Unemployment rate - LFS, in %, average	36.0	34.9	33.8	32.2	32.7	.	33	33	33
Reg. unemployment rate, in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD <sup>4)</sup>	23036	24136	26229	29922	29540	27305	.	.	.
real growth rate, % (net wages) <sup>4)</sup>	3.9	5.5	1.9	10.5	26.1	2.8	.	.	.
Consumer prices, % p.a.	3.2	2.3	8.3	-0.8	1	0.5	0	3	3
Producer prices in industry, % p.a. <sup>5)</sup>	7.3	2.5	10.3	-6.5	-6.2	-7.5	.	.	.
General governm. budget, nat.def., % GDP <sup>6)</sup>									
Revenues	33.5	33.8	34.2	33.2	34.3	.	.	.	.
Expenditures	34.0	33.2	35.2	36.0	36.4	.	.	.	.
Deficit (-) / surplus (+)	-0.5	0.6	-1.0	-2.8	-2.1	.	-4	-2	0
Public debt, nat.def., in % of GDP	39.9	33.3	28.7	32.0	32	32.7	35	35	34
Discount rate of NB, % p.a., end of period	6.5	6.5	6.5	6.5	6.5	8.5	.	.	.
Current account, EUR mn	-23.4	-421.2	-853.3	-483.1	-345.6	-74.0	-400	-450	-500
Current account in % of GDP	-0.5	-7.3	-13.1	-7.3	-23.0	.	-6	-6	-7
Exports of goods, BOP, EUR mn	1914.0	2472.2	2684.2	1921.0	400.3	482.1	2000	2100	2300
annual growth rate in %	16.5	29.2	8.6	-28.4	-34.6	20.4	5	5	10
Imports of goods, BOP, EUR mn	2915.5	3653.3	4434.9	3472.0	846.8	778.8	3470	3600	4000
annual growth rate in %	16.6	25.3	21.4	-21.7	-14.1	-8.0	0	5	10
Exports of services, BOP, EUR mn	477.3	594.5	686.3	618.3	141.7	.	600	630	700
annual growth rate in %	14.7	24.5	15.4	-9.9	-1.6	.	0	5	10
Imports of services, BOP, EUR mn	455.0	569.4	681.9	590.2	142.7	.	600	600	700
annual growth rate in %	3.2	25.2	19.8	-13.5	-0.6	.	0	5	10
FDI inflow, EUR mn	344.8	506.0	399.9	181.0	56.7	.	150	200	200
FDI outflow, EUR mn	0.1	-0.9	-9.5	9.1	0.2	.	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1311.3	1400.1	1361.0	1429.4	1116.0	1427.0	.	.	.
Gross external debt, EUR mn	2503.4	2841.1	3304.2	3839.4	3339.0	.	.	.	.
Gross external debt in % of GDP	49.3	49.1	50.9	57.8	50.2	.	.	.	.
Average exchange rate MKD/EUR	61.19	61.18	61.27	61.32	61.51	61.40	61.2	61.2	61.2
Purchasing power parity MKD/EUR	21.93	22.51	23.86	24.90	.	.	.	.	.

1) Preliminary. - 2) Including NPISHs. - 3) Enterprises with 10 and more employees. - 4) From 2009 including allowances for food and transport. - 5) Domestic output prices. - 6) Refers to central government budget and extra-budgetary funds.

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