

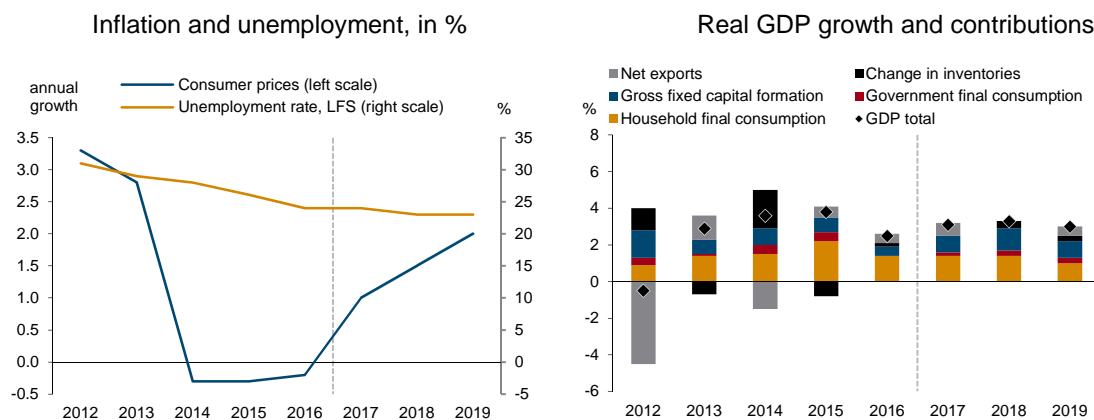


## MACEDONIA: Temporary slowdown

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The Macedonian economy is expected to return to growth of 3% in 2017 and the medium term. In 2016, growth slowed temporarily, due to the underperformance of investments. The labour market continued to improve, although the unemployment rate remains exceptionally high. Stability was more of a concern than growth, as the country headed towards an electoral resolution to the political crisis. Looking ahead, political stability could push potential growth closer to 4%.

Figure 45 / Macedonia: Main macroeconomic indicators



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

**The political crisis has exerted a negative influence on economic activity.** Throughout 2016, the date for early elections kept being postponed, and the caretaker government remained in office. Finally, elections were held in December. The vote was split across the major parties on both the Macedonian and the Albanian sides of the electorate. As such, the result has been seen as a defeat for the ruling coalition. The chances are that the erstwhile opposition party – the Social Democratic Union – will form a coalition with the Albanian parties, although another round of early elections is likely some time down the road, perhaps in a year or so. As a resolution to the crisis kept being postponed, investments started to be delayed and overall economic activity slowed.

**Net exports also deteriorated somewhat.** Exports continued to grow, but imports started to catch up. The Macedonian economy is more open than most others in the Balkans. Indeed, economic policy has

been geared towards export and investment-led growth since the mid-1990s. After the 2008-2009 crisis, exports improved significantly, and the economy performed better than most others in the region – and indeed in Europe.

**Investments are likely to continue.** Despite the slowdown in 2016, investments are expected to continue to grow. On the public investment side, infrastructure needs are clear, while private investments rely on relatively low labour costs and supportive economic policy. It is not thought likely that the new government will change investment policies much.

**Monetary policy has been supportive.** The central bank is mindful of the fixed exchange rate, and so monetary policy tends to be somewhat restrictive. In the past few years, the policy rate was first cut to 3.25%, before being hiked back up to 4%. With inflation around zero, this is still too restrictive. Improved political stability and renewed confidence, plus a quickening of inflation (due in part to growing energy prices), should support some easing of monetary policy (at least in the sense of the policy rate not going up).

**Fiscal policy has been under scrutiny.** Both the public and international financial institutions have warned that the fiscal policy stance is somewhat risky. The government may choose to heed the warnings and get the fiscal deficit down to around 2% of GDP. However, sustainability is not much of a concern, as public debt is not too high and is not growing any faster than GDP. If there is a country in need of development policies, it is Macedonia, with its huge unemployment.

**The overall public sector is small.** Public spending, at around 17% of GDP, is relatively low by regional standards. That has consequences for education, health and other social and community services. The new government may choose to strengthen the social safety net and invest more in education and active labour market policies.

**Overall macro-balances are stable.** Apart from the labour market, which is improving but is still highly distorted, the macro-balances and financial markets are sustainable. This is why growth prospects are favourable in the medium term. Unlike most other economies in the region, Macedonia's is not in any urgent need of adjustment either in terms of its exchange rate or in terms of debt – public, private or foreign. Growth can be supported by both private and public consumption – both of which, indeed, are growing.

**Industrial production continues to grow.** Manufacturing contributes as much as agriculture to GDP. Both have been growing, and industrial production in particular is expected to continue to improve in the medium term. In addition, just as across most of the region, there is strong growth in service exports, mainly tourism (close to 70%, comparing 2008 and 2016).

**Growth prospects are good in the medium run.** With political stabilisation, household consumption and renewed investments should push growth back to around 3% in the medium term. Risks are on the up side, given relatively benign macro-balances, with potential for growth in consumption and investment.

**Table 16 / Macedonia: Selected economic indicators**

	2012	2013	2014	2015	2016 <sup>1)</sup>	2017	2018	2019
						Forecast		
Population, th pers., mid-year	2,061	2,064	2,067	2,070	2,085	2,090	2,095	2,100
Gross domestic product, MKD mn, nom.	466,703	501,891	527,631	558,240	572,000	596,000	625,000	657,000
annual change in % (real)	-0.5	2.9	3.6	3.8	2.5	3.1	3.3	3.0
GDP/capita (EUR at PPP)	9,000	9,300	10,000	10,500	10,700	.	.	.
Consumption of households, MKD mn, nom.	340,875	355,959	363,629	377,683	384,500	.	.	.
annual change in % (real)	1.2	1.9	2.1	3.1	2.0	2.0	2.0	1.5
Gross fixed capital form., MKD mn, nom.	109,071	119,003	123,549	129,095	127,700	.	.	.
annual change in % (real)	6.5	3.5	4.0	3.6	2.0	4.0	5.0	4.0
Gross industrial production <sup>2)</sup>								
annual change in % (real)	-2.7	3.2	4.8	4.9	3.4	5.0	5.0	4.0
Gross agricultural production <sup>3)</sup>								
annual change in % (real)	-5.6	6.4	1.7	3.0	6.0	.	.	.
Construction industry								
annual change in % (real)	8.1	43.1	-3.4	40.8	12.0	.	.	.
Employed persons, LFS, th, average	650.6	678.8	690.2	706.0	720.0	730	740	750
annual change in %	0.8	4.3	1.7	2.3	2.0	1.0	1.0	2.0
Unemployed persons, LFS, th, average	292.5	277.2	268.8	248.9	230.0	220	200	220
Unemployment rate, LFS, in %, average	31.0	29.0	28.0	26.1	24.0	24.0	23.0	23.0
Reg. unemployment rate, in %, end of period	25.8	22.8	23.4	22.1	21.0	.	.	.
Average monthly gross wages, MKD	30,670	31,025	31,325	32,171	32,750	33,400	34,200	35,200
annual change in % (real, gross)	-3.0	-1.6	1.3	3.0	2.0	1.0	1.0	1.0
Average monthly net wages, MKD	20,902	21,145	21,394	21,904	22,300	22,700	23,300	24,000
annual change in % (real, net)	-2.9	-1.6	1.5	2.7	2.0	1.0	1.0	1.0
Consumer prices, % p.a.	3.3	2.8	-0.3	-0.3	-0.2	1.0	1.5	2.0
Producer prices in industry, % p.a.	1.4	-1.4	-1.9	-3.9	-2.4	0.0	2.0	2.0
General governm. budget, nat.def., % of GDP								
Revenues	32.1	30.1	29.7	31.0	31.0	31.0	31.0	31.0
Expenditures	36.0	34.1	33.9	34.4	33.0	33.0	33.0	33.0
Deficit (-) / surplus (+)	-3.9	-4.0	-4.2	-3.4	-2.0	-2.0	-2.0	-2.0
Public debt, nat.def., % of GDP	38.3	40.2	45.7	46.6	50.0	50.0	50.0	50.0
Stock of loans of non-fin.private sector, % p.a	5.3	6.4	9.9	9.5	1.0	.	.	.
Non-performing loans (NPL), in %, Dec <sup>4)</sup>	10.4	11.3	11.1	10.7	6.5	.	.	.
Central bank policy rate, %, p.a., end of period <sup>5)</sup>	3.73	3.25	3.25	3.25	3.75	4.00	4.00	5.00
Current account, EUR mn	-240	-134	-43	-187	-185	-390	-410	-430
Current account, % of GDP	-3.2	-1.6	-0.5	-2.1	-2.0	-4.0	-4.0	-4.0
Exports of goods, BOP, EUR mn	2,307	2,375	2,784	3,041	3,223	3,380	3,550	3,730
annual change in %	-3.7	2.9	17.2	9.2	6.0	5.0	5.0	5.0
Imports of goods, BOP, EUR mn	4,315	4,238	4,640	4,867	5,110	5,370	5,640	5,870
annual change in %	0.3	-1.8	9.5	4.9	5.0	5.0	5.0	4.0
Exports of services, BOP, EUR mn	1,067	1,155	1,304	1,370	1,452	1,520	1,600	1,680
annual change in %	2.1	8.2	12.9	5.1	6.0	5.0	5.0	5.0
Imports of services, BOP, EUR mn	757	780	920	1,028	1,079	1,130	1,190	1,250
annual change in %	10.5	2.9	18.0	11.8	5.0	5.0	5.0	5.0
FDI liabilities, EUR mn	265	302	37	262	400	.	.	.
FDI assets, EUR mn	134	73	-160	59	250	.	.	.
Gross reserves of NB excl. gold, EUR mn	1,918	1,803	2,221	2,049	2,370	.	.	.
Gross external debt, EUR mn	5,172	5,220	5,992	6,291	7,430	7,600	7,700	8,100
Gross external debt, % of GDP	68.2	64.0	70.0	69.4	80.0	78.0	76.0	76.0
Average exchange rate MKD/EUR	61.53	61.58	61.62	61.61	61.60	61.5	61.5	61.5

1) Preliminary and wiiw estimates. - 2) Enterprises with 10 and more employees. - 3) From 2015 wiiw estimate. - 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.