

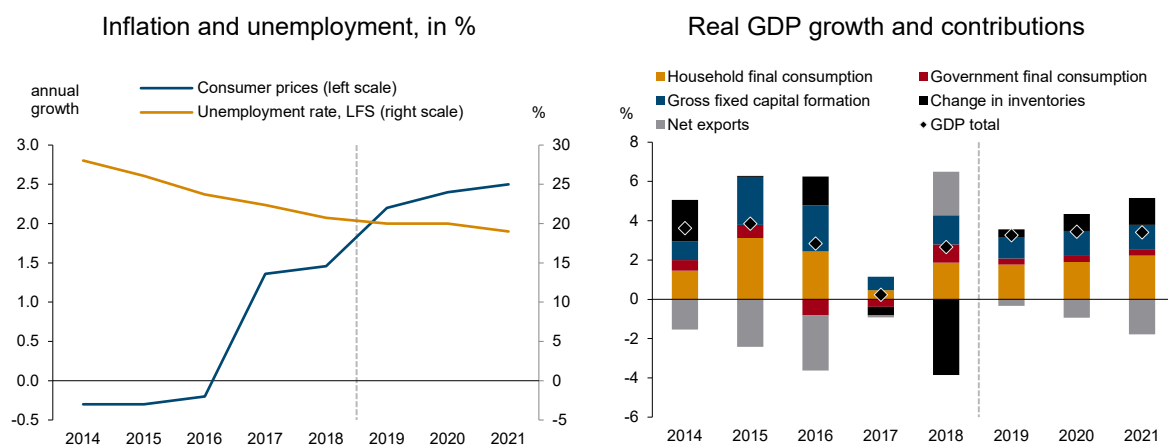


NORTH MACEDONIA: Recovery underway

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The economy is recovering after its growth came to a halt during the political crisis two years ago. The potential growth rate is around 4%, at least as long as there is large slack in the labour market. Growth should be above 3% this year, and increase further in the medium run. The delayed start to EU accession negotiations could yet have negative repercussions for domestic politics.

Figure 5.15 / North Macedonia: Main macroeconomic indicators



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

The economy remains broadly in recovery mode, having expanded by at least 3% year on year in every quarter since Q2 2018. However, after reaching 4.1% in Q1 2019, the rate of growth slowed to 3.1% in April-June, suggesting negative spill-overs from the weakness in the Euro Area. The initial breakdown released by the statistics office for Q2 indicated that the key reason for the weaker momentum was net exports. Household consumption rose by 3.1%, up from 2.6% in the previous quarter. Gross capital formation, meanwhile, expanded by a robust 11.1% year on year in Q2, up from 9.9% in the previous three months.

Unlike most neighbouring economies, the North Macedonian one is pretty much adapted to the policy environment which aims for export led growth. Monetary policy targets the hard fix of the exchange rate and fiscal policy is supportive of that aim. Over time, that has increased the openness of the economy and supported the growth of the production of tradable goods. External imbalances have proved manageable and foreign debt is at a comparatively low level.

Also, unlike many other economies in the region, public spending is relatively low, as is taxation.

In addition, inflation has been slow and the expectations well anchored at the rate which does not erode the economy's competitiveness.

All this has made it possible to cautiously change the public investment and the income policies to more expansionary ones. This turnaround started after the global crisis of 2008-2009 and has continued cautiously ever since. The new government has continued to support wage growth as well as public investments. The expectation is that the more active policy measures supporting growth and employment will continue in the medium term.

North Macedonia is a landlocked economy which depends on its neighbours, although over time the sources of export demand have been diversified. Dependence on neighbours has not been all that beneficial in the past because of uncertain growth prospects for most of them, most importantly Greece. Somewhat improved prospects regionally are proving helpful to exports and investment, but industry has also been able to reorient itself significantly towards non-regional sources of demand, particularly Germany. The recovery of the Greek economy will be supportive of North Macedonian economic growth during the forecast period.

The main target of North Macedonia politics has been stability, both internally and externally.

With the change in government and the agreement with Greece, the latter making it possible for North Macedonia to join NATO in the near future, external threats to stability have been minimised. In addition, renewed efforts to improve inter-ethnic relations have contributed to internal stability. These efforts to keep the country stable will continue.

Prospects for EU integration hang in the balance. The hope was that with the newly concluded agreement with Greece on a new country name, the path to the start of the negotiations for membership would be opened. The agreement has caught the EU less than ready for this step and the European Council decided against that for the time being. This is in part dependent on the overall EU strategy towards the Western Balkans which is unclear at the moment. It is to be expected though that the EU will eventually come around to starting the accession negotiations with North Macedonia which will certainly be stabilising for the country and for the region.

Quite recently, Albania, North Macedonia and Serbia have agreed to work for Schengen-like liberalisation measures. It is unclear exactly what is contemplated, but it is likely to be a net positive from the perspective of stability and security. Relations with Serbia are close and those with Albania are developing rapidly in a positive direction. For North Macedonia, Serbia is an important economic partner and any improved economic prospects there will spill over to the North Macedonian prospects almost immediately.

Overall, growth should top 3% this year and should tend towards 4% in the medium run. The start of negotiations with the EU would help as will the improved relations in the region. With the recent agreement with Greece, North Macedonia has taken itself out of the regional crisis area at least to the extent that it itself can help it.

Table 5.15 / North Macedonia: Selected economic indicators

	2015	2016	2017	2018 ¹⁾	2018 January-June	2019	2019 Forecast	2020 Forecast	2021
Population, th pers., average	2,070	2,072	2,075	2,076	.	.	2,100	2,100	2,100
Gross domestic product, MKD bn, nom.	559.0	594.8	616.6	660.3	308.6	322.3	691	732	776
annual change in % (real)	3.9	2.8	0.2	2.7	2.0	3.6	3.3	3.4	3.4
GDP/capita (EUR at PPP)	10,400	10,800	10,800	11,600	.	.	.	.	.
Consumption of households, MKD bn, nom.	380.2	392.2	400.3	418.5	205.1	213.8	.	.	.
annual change in % (real)	4.5	3.6	0.7	2.9	1.9	2.9	2.8	3.0	3.5
Gross fixed capital form., MKD bn, nom.	133.3	145.0	135.3	140.0	.	.	.	.	.
annual change in % (real)	10.5	9.9	2.9	6.8	.	.	5.0	6.0	6.0
Gross industrial production ²⁾									
annual change in % (real)	4.9	3.4	0.2	5.4	5.1	4.7	5.0	4.5	6.0
Gross agricultural production ³⁾									
annual change in % (real)	5.2	5.2	-9.9	5.0	.	.	.	.	.
Construction industry									
annual change in % (real)	40.7	7.2	-27.2	-6.8	-18.2	3.1	.	.	.
Employed persons, LFS, th, average	706.0	723.6	740.6	759.1	752.5	791.9	795	810	820
annual change in %	2.3	2.5	2.4	2.5	2.1	5.2	4.5	1.5	1.5
Unemployed persons, LFS, th, average	248.9	225.0	213.6	198.6	204.6	169.8	180	170	170
Unemployment rate, LFS, in %, average	26.1	23.7	22.4	20.7	21.4	17.7	18.5	17.5	17.5
Reg. unemployment rate, in %, eop	22.1	21.2	20.1	19.3	19.4	19.8	.	.	.
Average monthly gross wages, MKD	32,171	32,821	33,688	35,626	35,102	36,753	37,200	38,900	40,700
annual change in % (real, gross)	3.0	2.2	1.2	4.2	3.8	3.5	3.0	2.0	2.0
Average monthly net wages, MKD	21,904	22,342	22,928	24,276	23,922	24,760	25,400	26,500	27,700
annual change in % (real, net)	2.7	2.2	1.2	4.4	4.0	2.3	3.0	2.0	2.0
Consumer prices, % p.a.	-0.3	-0.2	1.4	1.5	1.6	1.2	1.4	2.4	2.5
Producer prices in industry, % p.a.	-3.9	-3.1	4.8	0.9	1.9	0.6	2.5	3.0	3.0
General governm. budget, nat.def., % of GDP									
Revenues	31.0	30.6	31.0	30.4	29.4	29.8	31.0	32.0	32.0
Expenditures	34.4	33.2	33.9	31.5	30.8	32.0	33.0	33.0	33.0
Deficit (-) / surplus (+)	-3.4	-2.7	-2.8	-1.1	-1.5	-2.2	-2.0	-1.0	-1.0
General gov.gross debt, nat.def., % of GDP	46.6	48.7	47.7	48.4	47.9	46.8	47.0	46.0	46.0
Stock of loans of non-fin.private sector, % p.a.	9.6	-0.1	5.4	7.2	6.1	8.1	.	.	.
Non-performing loans (NPL), in %, eop ⁴⁾	10.4	6.4	6.2	5.1	5.0	5.4	.	.	.
Central bank policy rate, %, p.a., eop ⁵⁾	3.25	3.75	3.25	2.50	3.00	2.25	2.25	2.25	2.25
Current account, EUR mn	-177	-275	-105	-15	-110	-196	-160	-300	-390
Current account, % of GDP	-2.0	-2.9	-1.1	-0.1	-2.2	-3.7	-1.4	-2.5	-3.1
Exports of goods, BOP, EUR mn	3,047	3,529	4,075	4,881	2,264	2,596	5,370	5,800	6,380
annual change in %	9.4	15.8	15.4	19.8	15.6	14.7	10.0	8.0	10.0
Imports of goods, BOP, EUR mn	4,870	5,342	5,862	6,616	3,130	3,503	7,150	7,720	8,490
annual change in %	5.0	9.7	9.7	12.9	10.4	11.9	8.0	8.0	10.0
Exports of services, BOP, EUR mn	1,378	1,390	1,434	1,571	710	736	1,650	1,720	1,810
annual change in %	5.7	0.9	3.2	9.5	10.5	3.8	5.0	4.0	5.0
Imports of services, BOP, EUR mn	1,029	1,049	1,060	1,209	488	536	1,230	1,250	1,290
annual change in %	11.8	2.0	1.0	14.1	-2.8	9.7	2.0	2.0	3.0
FDI liabilities, EUR mn	262	495	351	539	421	339	500	.	.
FDI assets, EUR mn	59	179	171	-65	117	290	100	.	.
Gross reserves of NB excl. gold, EUR mn	2,049	2,370	2,097	2,619	2,405	2,653	.	.	.
Gross external debt, EUR mn	6,291	7,217	7,372	7,844	8,386	8,324	8,600	8,900	9,500
Gross external debt, % of GDP	69.3	74.7	73.6	73.1	78.1	73.8	76.0	75.0	75.0
Average exchange rate MKD/EUR	61.61	61.60	61.57	61.51	61.5	61.5	61.3	61.4	61.4

1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) wiiw estimate in 2018. - 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.