



MACEDONIA: Steady improvement

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GDP growth at 3% in 2013 has exceeded expectations. The economy should continue to expand at that rate in the next few years. Acceleration is possible only if investments and exports improve significantly, substituting for the slower growth of consumption, both public and private.

Unlike other countries in the region and more generally, the Macedonian government supported employment and investments. Wages were hiked early in the crisis, in 2009, and though they have been decreasing slowly in real terms ever since, that shock seems to have been sufficient to keep private consumption on a higher level. In addition, public investments have continued, which probably accounts for growing employment. The unemployment rate is still very high and the labour market remains depressed, but the crisis has not brought mass layoffs as in some neighbouring countries.

Foreign trade follows a similar pattern to that in most countries in the region. Exports are increasing, though not dramatically, while imports are falling behind the pre-crisis levels. As in other countries, the main constraint on exports is limited supply of tradable goods. The economy is competitive in terms of wages and the exchange rate, which has been fixed at the current exchange rate to the euro since 1997, but investments seem to have been limited, especially from abroad, mainly because of a less than attractive location. Macedonia is landlocked and is a small economy with neighbouring markets either in persistently depressed state or inaccessible due to poor infrastructure. This will change only slowly and over the longer run.

The government has secured political stability by the two of its key parties, one Macedonian and the other Albanian, winning in regular and early elections. Also, this bi-ethnic coalition has been able to steadily calm down inter-ethnic conflicts even though the two communities live largely parallel lives. However, politically and possibly socially, there are more severe intra-ethnic than inter-ethnic conflicts, which is in fact conducive to overall stability even though the social situation remains grim.

The data are not altogether reliable, which is not unusual, but it seems that remittances have preserved their countercyclical character, which is to say that those have not declined and may have even increased at the height of the current crisis. This can be observed in most of the region, which indeed remains extremely dependent on these private transfers. Those also support the banking sector, as they are mostly responsible for the deposits. The country does not have a high level of private debts, corporate or that of the households, though the overall foreign debt has climbed up to about 70% of GDP. Still, there is hardly any sign of bubbles, except in the number of public monuments in and around the main square of the capital city of Skopje.

Monetary policy has been rather relaxed at least if judged by the policy rate, which is low by historical standards. Also, inflation is slowing down and the exchange rate, which is the main target variable for the central bank, has not been under pressure. Given the low reliance on debt and traditionally scarce foreign investments, the economy is insulated from the ongoing monetary turbulences in the emerging market economies.

Macedonia has been a candidate country for quite some time now. The European Commission keeps recommending the immediate start of accession negotiations, but that goes nowhere in the European Council due to the Greek veto. Similar is the situation regarding NATO. Given that progress in these two integrations is presumed on coming to terms with Greek demands, prospects for a breakthrough are slim to non-existent.

Performance has surprised on the upside for most of the crisis, which was due primarily to increased flexibility of economic and especially fiscal policy. Further acceleration is hard to expect given that some fiscal consolidation will be necessary and the contribution of net exports should turn negative. With gradual improvement of investments, GDP should continue to grow by 3% in the medium term with the unemployment rate continuing to decrease slowly albeit from a very high level.

Table 1 / Macedonia: Selected Economic Indicators

	2009	2010	2011	2012	2013 ¹⁾	2014	2015	2016
						Forecast		
Population, th pers., mid-year	2050.7	2055.0	2058.5	2061.0	2070.0	2075	2080	2085
Gross domestic product, MKD mn, nom.	410734	434112	459789	458621	485600	515200	546600	579900
annual change in % (real)	-0.9	2.9	2.8	-0.4	3.0	3.0	3.0	3.0
GDP/capita (EUR at exchange rate)	3300	3400	3600	3600	3800	.	.	.
GDP/capita (EUR at PPP)	8500	8900	9000	9000	9400	.	.	.
Consumption of households, MKD mn, nom. ²⁾	314376	324096	345262	342809	362900	.	.	.
annual change in % (real) ²⁾	-4.7	2.1	2.9	-3.0	3.0	1.0	1.5	1.5
Gross fixed capital form., MKD mn, nom.	81872	82968	94698	105443	106500	.	.	.
annual change in % (real)	-4.3	-2.7	3.2	7.0	2.0	4.0	4.0	4.0
Gross industrial production ³⁾								
annual change in % (real)	-8.7	-4.8	6.9	-2.7	3.2	5.0	5.0	5.0
Gross agricultural production								
annual change in % (real)	-2.3	8.2	-0.5	0.0	5.0	3.0	3.0	3.0
Construction output, hours worked								
annual change in % (real)	-2.1	5.8	14.2	-11.6	20.0	5.0	5.0	5.0
Employed persons, LFS, th, average	629.9	637.9	645.1	650.6	675.0	685	695	702
annual change in %	3.4	1.3	1.1	0.8	3.8	1.5	1.5	1.0
Unemployed persons, LFS, th, average	298.9	300.4	295.0	292.5	278.0	.	.	.
Unemployment rate, LFS, in %, average	32.2	32.0	31.4	31.0	29.2	29.0	28.0	28.0
Reg. unemployment rate, in %, end of period
Average monthly gross wages, MKD	29922	30225	30602	30669	31000	.	.	.
annual change in % (real, gross)	15.0	-0.6	-2.6	-3.0	-1.7	.	.	.
Average monthly net wages, MKD	19957	20553	20847	20902	21000	.	.	.
annual change in % (real, net)	25.0	1.4	-2.4	-2.9	-2.3	.	.	.
Consumer prices, % p.a.	-0.8	1.6	3.9	3.3	2.8	3.0	3.0	3.0
Producer prices in industry, % p.a. ⁴⁾	-7.2	8.7	11.9	1.4	-1.4	.	.	.
General governm. budget, nat.def., % of GDP ⁵⁾								
Revenues	31.3	30.4	29.8	30.1	28.9	30.0	30.0	30.0
Expenditures	33.9	32.9	32.3	34.0	32.9	32.0	32.0	32.0
Deficit (-) / surplus (+)	-2.7	-2.4	-2.5	-3.9	-4.0	-2.0	-2.0	-2.0
Public debt, nat.def., % of GDP ⁵⁾	31.7	34.8	35.0	36.0	36.0	36.0	36.0	36.0
Central bank policy rate, %, p.a., end of period ⁷⁾	8.50	4.11	4.00	3.73	3.25	3.5	3.5	3.5
Current account, EUR mn	-457.1	-143.6	-189.1	-225.7	-160.0	-340	-360	-380
Current account, % of GDP	-6.8	-2.0	-2.5	-3.0	-2.0	-4.0	-4.0	-4.0
Exports of goods, BOP, EUR mn	1932.6	2530.1	3210.9	3106.9	3200.0	3360	3600	3820
annual change in %	-28.2	30.9	26.9	-3.2	3.0	5.0	7.0	6.0
Imports of goods, BOP, EUR mn	3492.2	3977.9	4859.2	4863.5	4865.0	5010	5260	5520
annual change in %	-21.6	13.9	22.2	0.1	0.0	3.0	5.0	5.0
Exports of services, BOP, EUR mn	617.6	681.4	797.2	818.9	852.0	903	975	1034
annual change in %	-10.8	10.3	17.0	2.7	4.0	6.0	8.0	6.0
Imports of services, BOP, EUR mn	601.1	644.6	700.5	772.8	811.5	836	878	922
annual change in %	-12.0	7.2	8.7	10.3	5.0	3.0	5.0	5.0
FDI inflow, EUR mn	145.0	160.0	336.8	72.1	200.0	300	300	300
FDI outflow, EUR mn	8.1	1.4	0.0	-6.0	0.0	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1429.4	1482.7	1801.9	1917.8	1802.7	.	.	.
Gross external debt, EUR mn	3780.4	4105.7	4846.6	5171.7	5500.0	.	.	.
Gross external debt, % of GDP	56.4	58.2	64.9	69.4	69.8	.	.	.
Average exchange rate MKD/EUR	61.27	61.52	61.53	61.53	61.58	61.5	61.5	61.5
Purchasing power parity MKD/EUR	23.69	23.83	24.83	24.60	24.90	.	.	.

1) Preliminary and wiiw estimates. - 2) Including NPISHs. - 3) Enterprises with 10 and more employees. - 4) Until 2010 domestic output prices. - 5) Refers to central government budget and extra-budgetary funds. - 6) In 2011-2013 wiiw estimates. - 7) Central Bank bills (28-days).

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