



Vladimir Gligorov

Macedonia: The Greek shadow

The short-term prospects point to some growth in Macedonia that should pick up speed over the next few years, unless the crisis in Greece deteriorates to such an extent that the Greeks will be forced to leave the eurozone. In the medium term, Macedonia should enjoy some measure of recovery, but the country's potential growth rate will hardly exceed 3% given the institutional and regional fundamentals.

Any expectations of this year seeing moderate growth will be dashed. The first quarter recorded a GDP decline of 1.5%. Over the same period, industrial production plummeted by more than 8% and activities in the construction sector dropped by more than 13%. Similarly, imports went into decline, as did exports - albeit to a somewhat lesser degree. Foreign investments performed worse than last year, but that has never really been the strong side of the Macedonian economy. Wages dipped slightly in line with inflation, which has remained low. The prospects for 2012 hint at some rebound in the second half of the year; it may suffice to nudge growth into positive territory. However, the risks are significant owing to the crisis unfolding in neighbouring Greece.

Macedonia is a landlocked country. It depends to a very large extent on its immediate neighbours, two of which, Serbia and Greece, are not faring well. Moreover, the latter country is a partner of some importance as the National Bank of Greece owns the largest Macedonian bank, Stopanska banka, in addition to being a major investor in other sectors of the economy. Serbia is a major export market and the drop in demand in that country has certainly hurt Macedonia. Bulgaria and Albania are less prominent partners; Kosovo, however, is the only neighbouring country enjoying a positive economic development of some substance for Macedonia.

The turbulent developments in Greece undoubtedly exert a major influence, even though their impact is not easy to quantify. In addition to a general rise in uncertainty, there is every risk that the Greek banking sector will be reduced to bankruptcy – with significant consequences for the Macedonian financial system. Neither the central bank of Macedonia nor the government can do much to change things.

The influence of Greece extends still further. Regardless of the political turmoil and the shifts in government, Greece has continued to block Macedonian accession to NATO and the EU. The European Commission has repeatedly recommended that negotiations be taken up with Macedonia, yet the European Council is unable to override the Greek veto. Matters proceed in very much the same vein in NATO, thus hardly contributing to Macedonia's political and economic stability.

The short-term prospects point to some growth that should pick up speed over the next few years, unless the crisis in Greece deteriorates to such an extent that the Greeks will be forced to leave the eurozone. In the medium term, Macedonia should enjoy some measure of recovery, but the country's potential growth rate will hardly exceed 3% given the institutional and regional fundamental characteristics.

Table MK

Macedonia: Selected Economic Indicators

	2008	2009	2010	2011 ¹⁾	2011 1st quarter	2012	2012 Forecast	2013	2014
Population, th pers., mid-year	2046.9	2050.7	2055.0	2060	.	.	2065	2070	2075
Gross domestic product, MKD mn, nom. ²⁾	411728	410734	434112	463393	103000	103951	486400	516000	549000
annual change in % (real) ²⁾	5.0	-0.9	2.9	3.1	6.3	-1.4	1.9	3	3.3
GDP/capita (EUR at exchange rate)	3300	3300	3400	3700	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	8400	8500	8900	9500	.	.	.	.	.
Consumption of households, MKD mn, nom. ²⁽³⁾	330399	314376	321524	345410	80093	81709	.	.	.
annual change in % (real) ²⁽³⁾	7.4	-4.7	1.3	4.0	4.5	0.7	0	2	2
Gross fixed capital form., MKD mn, nom. ²⁾	86403	81872	82968	94800	.	.	.	.	.
annual change in % (real) ²⁾	5.4	-4.3	-2.7	10	.	.	0	4	4
Gross industrial production ⁴⁾									
annual change in % (real)	5.1	-8.7	-4.8	3.3	13.8	-8.4	-2	3	5
Gross agricultural production (EAA)									
annual change in % (real)	5.4	-2.3	8.0	.	.	.	.	.	.
Construction output, hours worked									
annual change in % (real)	-9.6	-2.1	5.8	14.2	12.7	-13.1	5	5	5
Employed persons - LFS, th, average	609.0	629.9	637.9	645.1	649.6	643.7	650	660	670
annual change in %	3.2	3.4	1.3	1.1	5.5	-0.9	0.8	1.5	1.5
Unemployed persons - LFS, th, average	310.4	298.9	300.4	295.0	294.6	297.4	.	.	.
Unemployment rate - LFS, in %, average	33.8	32.2	32.0	31.4	31.2	31.6	31	31	31
Unemployment rate, reg., in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD ⁵⁾	26229	29922	30225	30602	30383	30634	.	.	.
real growth rate, % (net wages) ⁵⁾	1.9	25.0	1.4	-2.4	-2.1	-1.5	.	.	.
Consumer prices, % p.a.	8.3	-0.8	1.6	3.9	4.1	2.5	3	3	3
Producer prices in industry, % p.a. ⁶⁾	10.1	-7.2	8.7	11.1	13.6	5.1	.	.	.
General governm. budget, nat.def., % GDP ⁷⁾									
Revenues	33.1	31.3	30.4	29.6	30.5	30.6	.	.	.
Expenditures	34.1	33.9	32.9	32.1	34.1	34.9	.	.	.
Deficit (-) / surplus (+)	-0.9	-2.7	-2.4	-2.5	-3.6	-4.4	-1	-1	-1
Public debt, nat.def., in % of GDP	27.9	31.7	34.8	35	.	.	34	33	32
Central bank policy rate, %, p.a., end of period ⁸⁾	7.00	8.50	4.11	4.00	4.00	4.00	4	4	4
Current account, EUR mn	-862.2	-457.1	-150.4	-201.1	-200.3	-99.7	-450	-400	-400
Current account in % of GDP	-12.8	-6.8	-2.1	-2.7	-12.0	-5.9	-5.7	-4.8	-4.5
Exports of goods, BOP, EUR mn	2692.6	1932.6	2492.8	3178.9	712.4	693.5	3340	3670	4220
annual growth rate in %	8.9	-28.2	29.0	27.5	47.7	-2.7	5	10	15
Imports of goods, BOP, EUR mn	4455.1	3492.2	3960.7	4860.5	1174.0	1088.5	4860	5350	6150
annual growth rate in %	21.9	-21.6	13.4	22.7	50.7	-7.3	0	10	15
Exports of services, BOP, EUR mn	692.0	617.6	693.8	799.9	177.3	171.0	840	924	1016
annual growth rate in %	15.9	-10.8	12.3	15.3	31.6	-3.6	5	10	10
Imports of services, BOP, EUR mn	682.8	601.1	644.4	702.5	158.0	180.8	773	850	952
annual growth rate in %	20.0	-12.0	7.2	9.0	21.2	14.4	10	10	12
FDI inflow, EUR mn	399.9	145.0	159.1	303.5	202.0	59.8	200	250	300
FDI outflow, EUR mn	-9.5	8.1	1.4	1.6	0.3	0.6	0	0	0
Gross reserves of NB, excl. gold, EUR mn	1361.0	1429.4	1482.7	1801.9	1678.3	1796.4	.	.	.
Gross external debt, EUR mn	3304.2	3780.4	4133.8	4800.0	4496.0	.	.	.	.
Gross external debt in % of GDP	49.2	56.4	58.6	63.7	59.7	.	.	.	.
Exchange rate MKD/EUR, average	61.27	61.27	61.52	61.53	61.51	61.50	61.5	61.5	61.5
Purchasing power parity MKD/EUR	23.93	23.59	23.83	23.63	.	.	.	.	.

Note: Gross industrial production and producer prices refer to NACE Rev. 2. Gross agricultural production refers to Economic Accounts for Agriculture (EAA).

1) Preliminary. - 2) According to ESA'95 (FISIM reallocated to industries, including non-observed economy, real growth rates based on previous year prices). - 3) Including Non-Profit Institutions Serving Households (NPISHs). - 4) Enterprises with 10 and more employees. - 5) From 2009 including allowances for food and transport. - 6) Domestic output prices. - 7) Refers to central government budget and extra-budgetary funds. - 8) Central Bank bills (28-days).

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