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Signs of recovery? The Macedonian economy in 2013

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By Ana Kotevska

In an attempt to forecast the business climate in Macedonia in 2013, on the eve of the coming year, the well renown Macedonian business magazine "Kapital" published an article titled "Unlucky 2013", alluding to the symbolism of the number 13 as unlucky and thus putting forward a grim forecast for the economic situation in the country. In the past year (2012) Macedonian GDP had stagnated, with a meager growth of 0.3 percent (as projected by the European Bank for Reconstruction and Development), in spite of the much higher estimates of the government and the World Bank economists (4.5 percent). In fact, GDP growth in the country in 2012 had been the lowest since the peak of the Euro zone crisis in 2009. Indeed, with the prolonged Euro zone crisis, many analysts adopt pessimistic forecasts for the coming year, expecting an economic growth similar to that in 2012. Furthermore, the World Bank has reported that "growth expectations for 2013 are cautiously optimistic at 1 percent." Yet the Chairman of the Macedonian Central Bank, Dimitar Bogov, maintains an economic growth of 2.2 percent; even so, he notes that growth in Macedonia is contingent upon the stabilization of the European financial markets, as well as, export demand in the Euro zone.

With the early results of the first quarter of 2013 under our belt, we take another look at the Macedonian economy, accounting for the early indicators of the economic situation in the country. Several economic indicators point to a positive return to growth in the first quarter of 2013. For one, the Macedonian Bureau of Statistics recently reported that industrial output in the country in April 2013 rose by 4 percent compared to industrial output in April 2012. This growth in industrial production has, in fact, experienced a positive trend for the past 3 months: the industrial production index in the period January – April 2013 was 3.1 percent higher in comparison with the same period the previous year. Higher industrial output is mainly driven by growth in the mining and quarrying industries. Some skeptics, however, point out that output in the first quarter of 2012 was particularly negatively affected by an extraordinarily severe winter. Thus, they maintain that economic indicators from that quarter provide an unrealistically low base against which to compare industrial output in 2013. Even so, while the current upheaval may partly be a result of this phenomenon, the ongoing trend in increased industrial production, following a prolonged period (17 months) of its stagnation, indicates that the Macedonian economy is indeed showing signs of a recovery.

Economic growth in Macedonia further hinges upon the level of foreign trade. Ever since becoming a member of the World Trade Organization (WTO) in 2003, the country has achieved higher foreign trade liberalization through several free trade agreements with some of its major trade partners. Macedonian foreign trade, and in turn, growth, is especially contingent upon export demand in the Euro zone. Indeed, most Macedonian exports are intended for the German market, while in turn, the German economy is forecasted to grow at a mere 0.5 percent this year. Thus, with the ongoing Euro zone crisis, Macedonian exports have dropped 10.2 percent in the year 2012 (April 2013 World Bank report). According to the National Bureau of Statistics, exports in March 2013 were USD 948,053, a comparable amount to USD 940,395 in March 2012. Hence, in light of the uncertain pace of the recovery in the Euro zone, the Macedonian authorities have been forced to be proactive about seeking out alternative markets for the country's exports (other than the Euro zone's).

Furthermore, efforts have been made to attract foreign direct investments (FDIs) as well: recently, government delegations have traveled to several South American and Middle Eastern countries, inviting their companies to invest in Macedonia. These delegations, led by the Macedonian Prime Minister Nikola Gruevski, presented the business benefits the small Balkan country offers at several economic forums. Namely, Macedonia currently has four technology and industrial zones: 2 near Skopje, and one near Tetovo and Stip each. Investors in these zones benefit from various tax exemptions (VAT, custom duties, etc.) and 10-year tax holidays for profit tax and personal income tax. Furthermore, monetary policy of the Macedonian Central Bank is committed to maintaining price stability, as well as, low and stable inflation rate and Denar exchange rate, creating a favorable macroeconomic environment for economic development.

Fiscally speaking, the projected government deficit for 2013 is 3.5 percent of GDP, a higher and more realistic amount than the one initially projected for the previous year. Expenditure in the first quarter was elevated due to higher election-related spending, agricultural subsidies, and higher social transfer spending; hence, the deficit thus far has reached almost three quarters of the planned yearly deficit. The Finance Minister, Zoran Stavrevski, however, maintains that all spending is as planned, and the yearly budget deficit will not exceed the predicted amount. The deficit is to be financed solely through the large loans the government has already taken on from Deutsche Bank and the World Bank as well as through domestic borrowing. Some fear that with the increased domestic borrowing in the first quarter, there will be little left over for public capital investments, such as, large scale infrastructure undertakings. This remains, in fact, one of the major challenges for the Macedonian government in 2013: supporting public capital investments, which in turn, would drive the much coveted economic growth, without exceeding the projected government deficit for 2013.

Yet, while surely, all citizens benefit from their country's increased production (as measured by GDP growth), most care more about the standard of living and their social well-being: their level of comfort, health, wealth, and necessities on a day-to-day basis. According to the National Bureau of Statistics 27.3 percent of the total population in 2010 was at risk of poverty; this statistic is much higher than the European average of 16.4 percent. To address the rampant poverty, the government has pledged to increase social benefits and transfer payments. In fact, pension payments have increased for flat 550 Denars (USD 11.46) each since March 2013 (this, in fact, is one of the reasons for higher Q1 spending, as discussed above). While transfer payments have increased at the beginning of 2013 too, the existing system of social security in the country suffers from several weaknesses. Namely, administration is often poor (in particular, the storing of beneficiaries' records and reports); many facilities are of low quality; and social assistance programs tend to be numerous but underdeveloped (as opposed to a couple well established ones). (Note: the author of this article interned at the Center for Social Work – Skopje in August 2010.)

Another task for the small Balkan country has been lowering its unemployment rate. Reported to be 30.6 percent in 2012, the unemployment rate in Macedonia has somewhat improved from previous years, yet it still is one of the highest in Europe. Indeed, newspapers abound with articles on the struggles of young graduates facing a tough job market, reporting the bleak prospects they often face. At the same time, there is a fundamental problem with the higher education system in the country, for it fosters a culture where acquiring a university diploma is more important than attaining the skills necessary to succeed in a job. Hence, there are limited job training, internship, and volunteer opportunities for undergraduates and recent graduates; in fact, it is quite uncommon for an undergraduate to hold a summer internship or part-time job in order to gain work experience. The National University "St. Cyril and Methodius" still holds the primate as the largest and most prestigious university in the country, yet it is far from immune to outdated curricula and teaching methods, and rampant corruption. In recent years, several new private universities have sprung up, their quality - yet to be determined. The government has made strides to address this problem, implementing many mandatory job-training sessions, and increasing educational opportunities, as well as, supporting scholarship abroad.

Thus, Macedonia in 2013 projects a hopeful picture of an early recovery: the industrial output slump appears to have ended, while the amount of trade remains uncertain, for it is dependent on the export demand in the Euro zone. Domestically, the Macedonian government has several opportunities for spurring growth in the coming year, some of which the government is already pursuing. Seeking out alternative markets for Macedonian exports, and working to attract FDIs from other countries' businesses, is one. Furthermore, growth hinges upon large public capital investment and the development of human capital in the country. What I mean by this is that a larger portion of government spending could be allocated towards public capital projects – building and repairing hospitals, highways, railways, prisons, gas and electric facilities, etc. – for such infrastructure investment would drive economic performance, and improve social well-being for the citizens. Finally, the government ought to invest more in human capital development – improving educational opportunities, promoting internships and volunteer opportunities, creating job training programs, etc. – for knowledge and competence of the labor force will improve its productivity and its ability to produce economic value.

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