

## Macedonia



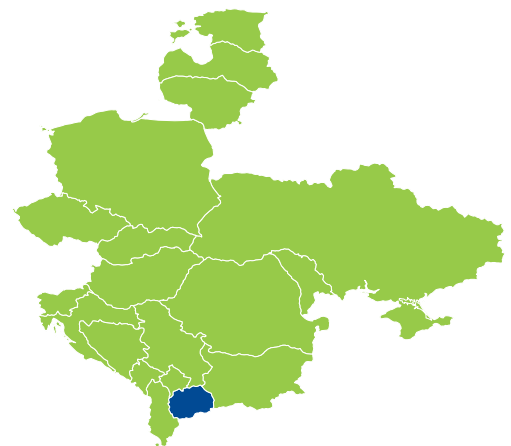
For the last decade, the dominant political force in Macedonia has been VMRO-DPMNE, led by Prime Minister Nikola Gruevski. The party won both the presidential and local authority elections held in March and April 2009 respectively, building on its success in 2008's parliamentary elections. However, although it is the dominant political force in Macedonia, VMRO-DPMNE could not form the government on its own. It therefore sought a coalition partner, finding it in the Democratic Union for Integration (DUI), the largest ethnic Albanian party in Macedonia. The coalition has a clear mandate to govern until 2012. The most important political boost of recent years occurred in 2005 when Macedonia was officially granted EU candidate status recognised as a major step towards political stability in the country and the wider region. However, since 2005 insufficient reforms have been introduced to start the EU accession talks.

The 2002 census indicated that ethnic Macedonians made up around 64% of the population and ethnic Albanians approximately 25%. The census also indicated a population decline of 0.6% from 2001. While life expectancy fell after 1990, owing to deterioration in health services and living standards, it has recovered somewhat in recent years with data from the WHO from 2006 indicating life expectancy at 71 for men and 76 for women.

The Macedonian government has decided not to seek a replacement programme for the three-year stand-by arrangement, granted by the IMF that ended in 2008. The government is determined to push ahead with tax breaks and capital investment to counter the economic downturn and to support construction, steel and other

industries that are facing a sharp slowdown in demand. On the other hand, the IMF has urged fiscal discipline due to Macedonia's deteriorating balance of payments, as demand for exports contracts and remittances from Macedonian people working abroad decline. Risks to the country's macro-economic stability have become more evident recently as the current account deficit has grown; the government's revised budget for 2009, adopted in April, envisages a near doubling of the deficit against the 2008 target and a 9% cut in expenditure. Although the government is continuing to use a vigorous publicity campaign and generous tax incentives to attract FDI, inflows into Macedonia are likely to decline sharply in 2009 due to the current global economic climate.

After several years of stability, the outlook for public finances looks gloomier in 2009 as a decline in tax receipts is a logical consequence of recession. Along with plans for increased public-sector spending on



capital investment, this has prompted the government to increase its budget deficit target from 1.5% of GDP in 2008 to 2.8% in 2009. Although the government has revised budget and cut expenditure to match the expected shortfall in revenue, it has kept the planned deficit unchanged.



Monetary policy is managed within what is essentially a currency peg to the Euro. Until recently, capital inflows enabled Macedonia to raise its international reserve coverage, using part of this to pay some of its external debt obligations ahead of schedule. However, the 2008 surge in the current-account deficit could put the Macedonian Denar under pressure in the near future. Inflation surged in the first half of 2008, with consumer prices in March 2008 rising by more than 10% for the first time since 2000. They began to fall back after the middle of the year, declining to 0.2% year-on-year growth by March 2009 due to smaller increases in food prices and the drop in global oil prices. The National Bank of the Republic of Macedonia (NBRM) is determined to maintain the exchange-rate peg as part of its monetary policy strategy in 2009 - 2010. In March, NBRM raised its key repo rate for lending to other banks from 7% to 9% in a bid to stabilise the Denar.

The current account deficit in 2008 increased four-fold compared with 2007, amounting to the equivalent of 13.1% of GDP. This surge was caused by a credit-driven import boom, a loss of export competitiveness, initially high global oil prices and a slowdown in foreign remittances.

The latest package of approximately 70 measures was adopted by the government to mitigate the impact of the downturn. It may be divided into three components: the revised budget; credit support to companies; and a range of other measures, chiefly comprising support for business. Credit support consists of the EIB credit line, worth EUR 100 million, to help SMEs. This includes the co-financing of long-term investment and other credits, along with the provision of subsidised interest rates and credit guarantees.

Other forms of support for businesses include measures for simplifying customs procedures, reducing red tape and finishing specific infrastructure projects. The new set of measures is based on an initial package, introduced in November 2008, offering around EUR 300 million in assistance, mostly to companies with liquidity problems. The second package was announced in early March, when the authorities adopted an ambitious seven-year programme, worth EUR 8 billion for infrastructure projects. Much of that programme will now need to be postponed, in view of the sharp economic downturn and subsequent deterioration in public finances.

Industrial output continued to fall year-on-year in March 2009, largely attributable to lower output in the production of basic metals (down by 53.1%), vehicles (down by 58.5%), other transport equipment (down by 46.6%), leather (down by 25.4%) and textiles (down by 21.6%). There was also a significant decrease in recycling (down by 70.3%) and the manufacture of wood (down by 48.9%). The publishing industry grew (up by 123.6%), as did the manufacture of fabricated metal products (up by 40.8%) and the tobacco industry (up by 66.4%). Early 2009 saw a 10.8% year-on-year decrease in industrial output affecting most sectors, with the largest falls in metals and textiles, Macedonia's two main export commodities.

Macedonia	2005/2007 Average Values	2007-2008	2008
	Change (%)	Change (%)	
Population (mil.)	0.1	0.0	2.0
Average monthly gross wage (EUR)	6.9	11.0	461.2
EUR Exchange rate vis-à-vis	-0.1	0.3	61.4
USD Exchange rate vis-à-vis	-2.8	3.9	43.3
	Real change (%)	Real change (%)	EUR mil.
GDP	4.6	5.0	6,491
Private consumption	4.4	5.8	5,148
Public consumption	3.9	2.0	1,233
Gross fixed capital investments	9.0	14.3	1,311
Exports (goods and services)	14.3	15.8	3,412
Imports (goods and services)	12.1	15.9	5,101
	Nominal change (EUR mil.)	Nominal change (EUR mil.)	EUR mil.
Trade balance	-85	49	-499
Current account balance	64	-680	-851
General government balance	1	-132	-97
General government gross debt	-34	-54	1,428
External debt	-66	-43	1,259
Foreign currency reserves	246	-64	1,352
	Percentage point change	Percentage point change	%
Economic activity rate	1.4	0.6	66.1
Unemployment rate	-1.1	-1.2	33.5
CPI rate (previous year = 100%)	2.7	-2.0	4.1
Central bank interest rate	0.0	0.0	6.5
1-year yield on Treasury Bill	1.8	1.5	7.0
10-year yield on Treasury Bond	n/a	n/a	n/a

Sources used: Reuters EcoWin Pro

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