Macroeconomic Outlook for the Western Balkans in the Context of the Global Economic Crisis With a Focus on the Republic of Macedonia

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Abstract

The global economic crisis in the past five years has underlined the need for all countries to fundamentally review and strengthen their economic governance. Perhaps no other region in Europe is experiencing greater economic shocks than the Western Balkans, which continues to battle a decline in economic output and an increase in unemployment.

In this article, we assess the macroeconomic outlook for the Western Balkan region, including Croatia, Serbia, Albania, Kosovo, Bosnia-Herzegovina, Macedonia, and Montenegro in the years 2012-2013. We use macroeconomic variables that compose economic macro-stabilization hexagon – the real growth rate of gross domestic product, the rate of inflation, the rate of unemployment, the public conventional deficit over GDP, the public debt over GDP, the current account deficit over GDP. Secondary analysis of previous quantitative data and published studies, combined with our own qualitative study in the field, has provided a reliable and convincing basis for analysis.

Reducing the negative influence of the crisis on the economies and improving the economic situation of the populations in the respective countries is vital to popular support for, and the advance of, their European perspective. At the same time, despite the severe economic impact of the crisis on these countries, on their economies and the living standards of their populations, this study clearly shows and confirms the pro-European orientation of the Western Balkan countries.

The paper considers different studies in view of economic development of the Western Balkan countries during the global economic crisis using statistical macroeconomic analysis. It is also based on the data for economic development of these countries provided by statistics from the IMF's World Economic Outlook in April 2013 and in particular on recent reports of the European Commission for EU Candidate and Pre-Accession Countries presented in October 2012 and April 2013.

Key words: Western Balkans Countries (WBC), economic crisis, unemployment, inflation, budgetary deficit, public debt

1. Introduction

Although it has been more than five years since the global financial crisis first struck, economies around the world continue to struggle toward recovery. Among those hardest hit by this ongoing crisis have been the countries in the **Western Balkans – Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, Croatia[1] and Serbia**. The recent economic crisis caused a severe blow to the fragile economies and labour markets of the region, halting the positive development trends of the last decade and highlighting the need for these countries to use this opportunity to improve their investment climates and reduce public debt, while simultaneously eliminating payment arrears in the public sector, which will help improve financial discipline in the overall economy of each country.

The consequences of the crisis for the Western Balkans have not been of the typical sort for a financial crisis, but rather consist of an economic turbulence and recession resulting from the global impact of the crisis on the developed economies in Western Europe and the United States.

In other words, the crisis penetrated into the region 'from outside'. Among the causes of its severe impact on the Western Balkan countries are the lack of demand on the world markets for their local products, reduced trade in general, limited access to funding, reduced direct foreign investment and last but not least the decreased amount of remittances flowing back into the region from migrant workers.[2]

When considering the countries in the Western Balkan region, we must keep in mind that these are small economies and not very large markets.[3] In 2012, the economies in the region, with few exceptions, suffered from more or less the same problems: declining rates of GNP and high unemployment. For example, unemployment in Kosovo, Bosnia and Herzegovina, and the Macedonia, is the highest in Europe.[4] At the same time, employment rates also remain low. This is

[1] In this study, we present data before 1 July 2013, the period when Croatia becomes the 28th Member State of the European Union

[2] See also Gallup Balkan Monitor in Partnership with the European Fund for the Balkans, The Effects of the Financial and Economic Crisis (May 2011).

[3] Statistics on population size are highly doubtful, due to the lack of recent census in some of the countries we are discussing, but, in any case, the region's common market encompasses little more than 20 million people.

[4] European Commission, Albania 2013 Progress Report; European Commission Bosnia and Herzegovina 2013 Progress Report; European Commission, Montenegro 2013 Progress Report; European Commission, Opinion on Serbia's Application for Membership of the EU; European Commission, Opinion on the Application for

especially true for women and young people, for whom labour force participation rates in almost all the countries in question remain very low. These two groups are especially vulnerable and, as a rule, are often the main sources for the informal economy, which is widespread in this region.

In addition, the Western Balkan economies are highly interconnected and interdependent, which presupposes a high sensitivity of most of them when a single one is hit by economic difficulties.[5] The recent global financial crisis and the present difficulties of the euro zone have highlighted the interdependence of national economies both within and beyond the EU. These events emphatically show the importance of further consolidating economic and financial stability and fostering growth, including in the enlargement countries. The European institutions in charge of enlargement have declared that they are using it as a powerful tool to that end.[6]

The objectives of the economic policy, which compose the economic macro stabilization pentagon, are the following:

- obtaining economic growth;
- price stability;
- decreasing the unemployment rate;
- obtaining sustainability of public finance (sustainable budgetary deficit and public debt);
- decreasing the current account deficit over GDP, even a surplus.

Achieving these objectives simultaneously is almost impossible, even in the case of the developed countries. It represents an ideal case, the equilibrium toward which the economy tends, but this steady state is obtained only for a short period. In this context, economic policy decisions might chose between this set of objectives, one of them being priorities, the others being sacrificed.

This is the case of Western Balkan countries in the context of the current economic and financial crises. Obtaining economic growth and protecting the population, through reduction of inflation and measures for limitation of the

Accession to the European Union by the Republic of Croatia; European Commission, Former Yugoslav Republic of Macedonia 2013 Progress Report.

[5] Jeleva Rumiana (2012),"The Impact of the Crisis on the EU Perspective of the Western Balkans", The Centre for the European Studies

[6] Same, See also European Commission, Enlargement Strategy and Main Challenges 2011–2012; European Commission, Albania 2013 Progress Report; European Commission, Bosnia and Herzegovina 2013 Progress Report; European Commission, Montenegro 2013 Progress Report; European Commission, Opinion on Serbia's Application for Membership of the EU; European Commission, Opinion on the Application for Accession to the European Union by the Republic of Croatia; European Commission, Former Yugoslav Republic of Macedonia 2013 Progress Report.

unemployment phenomenon, are considered to be priorities. Budgetary deficit and public debt are the instruments the state can use to achieve these major objectives. The Maastricht criteria of nominal convergence for public finance are no longer considered in the short run, only in the medium and long run. In the context of the decline of the private consumption, decreasing the current account deficit is another issue of these crises.

The decline of economic activity in most neighboring states, the post-recession situation in Europe, the crisis in the euro zone, the debt crisis, decrease in the foreign investment and the increase in energy prices seriously have affected the Macedonian economy, which is characterized by post-recession trends.

2. The evolution of GDP

New growth projections published in the IMF's World Economic Outlook in April 2013 show a further decrease for the euro zone area (EU 17) in comparison to the autumn 2012 estimates - from -0.3% to -0.6% for 2012 and from +0.2% to -0.3% for 2013.

The EU 27 is now also estimated to be in recession, with projections downgraded from 0% to -0.2% for 2012 and from +1.3% to +0.5% in 2013. The main reasons for the further downgrades for the EU are continued weaknesses in so called "euro area periphery" (mostly Italy and Spain) and a slowdown in the largest core EU economies (including Germany and France), resulting from still weak demand of private consumption, fiscal adjustments and financial fragmentation. The IMF projects a very gradual recovery of the euro area activity.

Turning to transition economies and specifically those of the Western Balkans (WB), ***Table 1*** compares the latest 2012-2014 projections for the WB to the projections made in autumn 2012. Macroeconomic trends in the WB are still significantly more negative that those of the overall Central and Eastern European region (CEE).

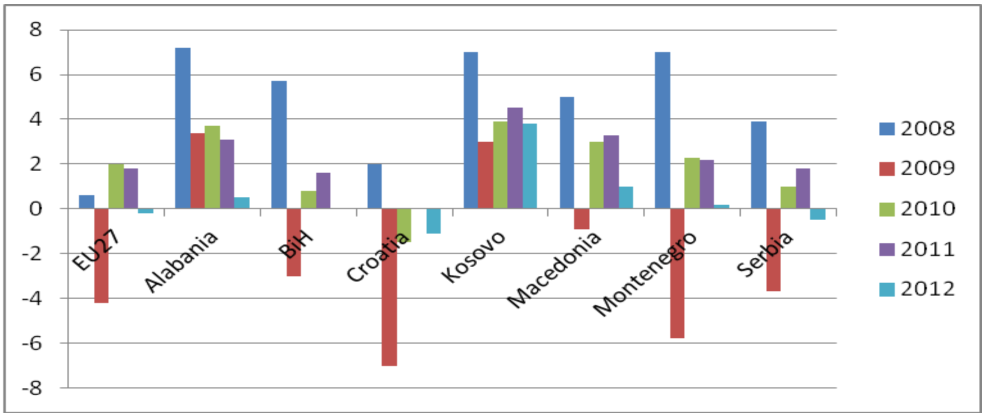
Table 1: **Real GDP growth rate in WBC**

Real GDP Growth	**April 2013 Projections**			**October 2012 Projections**			**% point difference between projections in October 2012 and April 2013**		
	012	**013**	**014**	**012**	**013**	**014**	**2 012**	**2 013**	**014**
Albania	,3	,8	,5	,5	,7	,5	0 ,8	0 ,1	
BiH	0,7	,5				,5	- 0,7	- 0,5	0,5
Croatia	2	0,2	,5	1,1		,5	- 0,9	- 1,2	
Kosovo	,1	,9	,3	,8	,1	,2	- 1,7	- 1,2	,1
Macedonia	0,3		,1			,5	- 0,03	0	0,4
Montenegro		,2		,2	,5		- 0,2	- 0,3	
Serbia	1,8			0,5		,5	- 1,3	0	0,5
WB average	0,2	,5	,5	,6	,9	,5	- 0,8	- 0,4	
EU 27	0,2		,3	0,2	,5	,5	0	- 0,5	0,2
EU17	0,6	0,3	,1	0,4	,2	,2	- 0,2	- 0,5	0,1
CEE	,6	,2	,8		,6	,2	- 0,4	- 0,4	0,4

Source: IMF, World Economic Outlook (October 2012 and April 2013)

Due to the negative external environment and internal structural weaknesses, the 2012 weighted average growth rate for the WB is now estimated to have fallen by - 0.8% as compared to previous forecasts of broad stagnation. The 2012 growth estimates are lower for all countries in comparison to previous projections. As we may see from *Figure 1*, the WB GDP in 2012 is estimated to have still been below the 2008 level. The downgrades in the estimates are for Croatia, Kosovo, Bosnia and Herzegovina (BiH) and Montenegro. According to data for 2012, only Albania and Kosovo showed some growth (at 1.3% and 2.1% respectively), Montenegro's economy stagnated, while all other economies saw reductions in GDP (between -0.3 and - 2.0%), with Croatia and Serbia each showing the decrease at around 2% each.

Figure 1 **– Real growth rates in Western Balkan countries, 2008-2012**



Source: IMF, World Economic Outlook, October 2012

Projections for 2013 have also been downgraded, from +1.8% to +1.4% on average. Current 2013 projections are weakest for Croatia, which is now expected to record a further GDP fall of -0.2%. Bosnia and Herzegovina is expected to show slight growth at 0.5%, Montenegro is expected to grow at 1.2%, while Serbia, Macedonia and Albania are expecting growth of around 2% each. The economy of Kosovo is again seen to record the strongest growth at +2,9%.

Projections for 2014 remain broadly unchanged, with all economies expected to grow (with weighted average growth at 2.2% in comparison to previous projection of 2.4%), in line with the growth expectations in the EU. At +4.3%, Kosovo has the highest growth projections, while all other economies are expected to grow at a rate between +1.5% and +3%, with Croatia at the lower end of the scale.

However, it should be noted that the most recent data published by the national Statistics Agencies of the Western Balkans show positive trends in the first quarter of 2013 in terms of growth of exports and industrial production for most of the countries, which may result in higher than expected economic activity in 2013.[7]

Table 2 shows evolution of the real growth rates of the GDP in Macedonia over a longer period (1993-2013).

[7] WBIF,*"Outlook for Macroeconomic Development in the Western Balkans: IFI Coordination Office",* Data update May 2013

***Table 2*: Real GDP growth rates in Macedonia (1993-2013)**

GDP (real growth rates)																						
993	**994**	**995**	**996**	**997**	**998**	**999**	**000**	**001**	**002**	**003**	**004**	**005**	**006**	**007**	**008**	**009**	**010**	**011**	**012**	**013 1**	**013 2**	**013 3**
7,5	**1,8**	**1,1**	**,2**	**,4**	**,4**	**,3**	**,5**	**4,5**	**,9**	**,8**	**,6**	**,4**	**,0**	**,1**	**,0**	**0,9**	**,9**	**,8**	**0,3**	**,9**	**,9**	

Source: National Bank of the Republic of Macedonia

In the terms of economic growth, according to this data, Macedonia is less affected by the crisis than the majority WB countries (*see Table 1*). The economy has recovered gradually since the 2012 and in the second quarter in 2013, so GDP growth reached 3.9% compared to a year earlier. This was carried by strong increases in investment, even though its growth slowed down, from an average 16% in 2012, to an average 8.2% in the first half of 2013.[8] The available data for the third quarter of 2013 point to a continuation of the solid growth in the first quarter, according to projections from April, with positive changes in some of the key economic sectors. Overall, the renewed growth of the economy remains narrowly based on investment, with only gradual strengthening of the external sector and also marginal support from private consumption.

3. The labor market under pressure

Another indicator, which is used to evaluate the impact of the economic crisis, is the unemployment rate. Increasing rate of unemployment has been one of the main negative aspects affecting development in many industrialized countries and in Western Balkan countries, due to the lack the "automatic stabilizers". The unemployment data indicate that the Western Balkans had serious unemployment levels even before the crisis, and they became even worse after 2008. All countries had higher unemployment rates than the EU. Whereas few countries worldwide have unemployment rates above 25%, four of the six countries in the Western Balkans are now suffering from rates above this figure. Both Serbia and Bosnia and Herzegovina now have unemployment rates higher than 25% and the Macedonia has a rate of about 31%. Kosovo leads the region, with 45% of its workforce currently out of work.

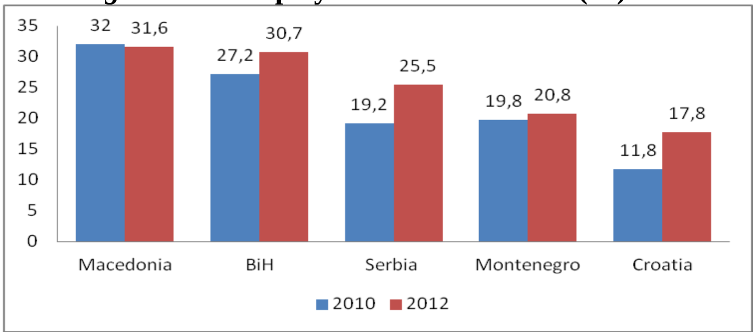
However, after the crisis became intense in 2009, almost all these countries continued to have higher unemployment rates than the EU average. For example, in

[8] European Commission, Former Yugoslav Republic of Macedonia, 2013, Progress Report

Serbia the unemployment rate increased after the crisis and was expected to reach 19.6% in 2011 and 23,1% in 2012. In Albania the unemployment was high at 13% in 2010, the same as a year earlier. According to some analyses, the employment rates may be expected to grow, providing the EU economy improves, only after 2013. Therefore, the efforts to return to the pre-crisis employment levels and create new jobs are essential for the Balkans. According to experts and analysts, any significant job loss would translate into substantial social problems, including rise in some forms of crime and the grey economy, political tensions, and, in many of the countries, inter-ethnic issues.

These data reveal that unemployment has reached higher proportions in the Western Balkans than even in the countries of the EU periphery worst affected by the eurozone crisis. In the eurozone as a whole, the unemployment rate reached 10.5% in 2012.[9]

***Figure 2*: Unemployment rates in WBC (%) 2010-2012**



Source: National Statistical Offices, Labour Force Survey data

***Table 3:* Unemployment rate 2012-2013**

Unemployment rate (%)	**2012**	**April 2013 projections**
Albania	15	12,8
BiH	28,6	28
Croatia	15.9	19.1
Kosovo	45	35.1
Macedonia	31,3	30.5

[9] Eurostat, online data, variable code [tsdec450]

Montenegro	19,6	19.3
Serbia	23,1	24
WB average	**25.5**	**24.1**

Source: Author calculations

Unemployment rate in Macedonia, particularly youth and long-term unemployment, remained persistently high, pointing to deep-rooted structural impediments in the labour market. There was some gradual improvement in the official employment and unemployment rates. In June 2013, total unemployment stood at 28.8%. The recorded employment creation derives, to a large part, from an increase in part-time and self-employed occupations, and from a rise in public sector employment. Overall, in spite of some incremental improvement in the official labour market figures, labour market policy has had limited success in addressing the persistently high unemployment. Structural challenges in the labour market remain to be tackled.

4. The public finances under pressure

4.1. The deficits of public national consolidated budget are growing up

Public finances are another important indicator of the growth and development of a country and it is evident that the economic crisis will have a negative impact on the budget deficit, since the economic downturn will be reflected in decreasing of tax revenues as well. The public finances of WB countries were strongly affected by the economic crisis. This deterioration was determined by the automatic stabilizers and by the discretionary policies adopted to support the real economy. In addition, this deterioration reflects an abnormal reduction of public revenues, as a reaction of GDP contraction.

***Table 4*: General Government Fiscal Balance**

General Government Balance, % GDP	**April 2013 Projections**		**October 2012 Projections**		**% point difference between projections in October 2012 and April 2013**	
	201	**20**	**20**	**20**	**2012**	**20**
Albania	-	-	-	-	0.4%	0.7
BiH	-	-	-	-	0.0%	1.6
Croatia	-	-	-	-	0.3%	0.5

Kosovo	-	-	-	-	0.1%	-
FYR of	-	-	-	-	-1.3%	-
Montenegro	-	-	-	-	1.1%	-
Serbia	-	-	-	-	-0.4%	0.4
WB simple	-	-	-	-	0.0%	0.2
WB weighted average (using 2012 GDP for weights)	**-4.5%**	**-4.0%**	**-4.5%**	**-4.4%**	**0.0%**	**0.5%**
EU 27	-	-	-	-	-0.2%	-
EU 17	-	-	-	-	-0.3%	-
CEE	-	-	-	-	0.1%	-

Source: IMF, World Economic Outlook (October 2012 and April 2013)

Data shows that keeping the budget deficit under control has always been an important part of the macroeconomic stabilization for the Western Balkans. In 2008, except for Albania, all other countries have had a very sustainable deficit. But 2009 noticed a significant increase of budget deficit as a percentage of GDP, which has reached -6.8% in Albania; -8,0% in Kosovo; and -4,1 in Croatia and Serbia. The intention to overcome this negative increasing is not easy, because it is combined with a decline of GDP treated above, which brought an increase of the negative ratio of budget deficit to GDP.

In 2012, the projected fiscal balance remained the same, on average, in line with broadly unchanged average levels of expenditure (the slight increase on average expenditure by 0.2% or GDP was offset by an increase of revenues in the same amount). Country-based data shows a worsening fiscal position for 2012 in comparison to previous 2012 estimates for the Macedonia and Serbia.

For 2013, fiscal deficit projections (shown in *Table 4*) are improved in comparison to previous projections, with an expected average deficit of 4% of GDP (a reduction from 4.5% in 2012). The latest public debt data (*Table 4*) point to some further shrinkage of fiscal space, with the 2013 figures now being 1.3% points higher than the projections from autumn 2012. Regarding these data, we observe that four of the seven WB countries have the highest level of conventional public deficit over the limit of 3% over GDP imposed by the Maastricht Treaty.

For Macedonia, the estimated value is 3,6 % over GDP, with 0.2 percentage points higher than the average of the EU 27. The structural budget balance refers to the general government balance, cyclically adjusted for nonstructural elements beyond the economic cycle. These include temporary financial sector and asset price movements as well as one-off, or temporary, revenue or expenditure items.

4.2. The public debt is growing

The latest public debt data (*Table 5*) point to some further shrinkage of fiscal space, with the 2013 figures now being 1.3 % points higher than the projections from autumn 2012.

While increasing continuously (and almost doubling at the regional level in absolute values since 2006), total public debt of the WB region is still relatively moderate at around 55% of GDP (weighted average).[10] However, there are considerable variances among the countries. The debt levels of Serbia, Albania and Croatia are at or above 60% of GDP and Montenegrin debt now reach 53% of GDP.

Levels of public debt in the Western Balkans combined with the pressures on public finance due to increased demand for social assistance and sluggish revenue growth further limit the fiscal space on the budget for further expanding infrastructure investments. At the same time, the region is still lagging behind in terms of its capital stock, both private and public, so further investment is needed.[11]

In these conditions, debt public over GDP will continue grow up in 2013-2014. The EU-27 average is 55.3% in 2013. In 2013, the public debt over GDP grows up, comparative with 2012, for all member states of EU-27, EU 17 and all Western Balkans countries. The smallest variation is estimated Albania -3.3%, for BIH and Serbia - 0.8, comparative with a value for this indicator in 2012 and the biggest in Macedonia with a 4,6% difference between the projections.

Table 5: **General Government Public Debt**

General Government Debt, % GDP	**April 2013 Projections**		**October 2012 Projectio ns**		**% point difference between projections in October 2012 and April 2013**	
	2012	**201**	**201**	**2013**	**2012**	**201**
Albania	60.6%	61.	63.	65.1	-	-
BiH	44.3%	42.	43.	41.3	0.6%	0.8
Croatia	56.3%	59.	54.	57.0	2.0%	2.5

[10] WBIF, "*Outlook for Macroeconomic Development in the Western Balkans: IFI Coordination Office",* Data update May 2013

[11] WBIF Strategy, "*Meeting the challenges of realizing the Socio-economic Investments in Western Balkans",* Discussion paper, IFI Coordination Office, May 2013

Kosovo	17.0%	17.	15.	17.9	2.0%	-
	33.3%	34.	30.	29.7	2.4%	4.6
Montenegr	51.1%	52.	53.	53.6	-	-
Serbia	63.7%	64.	63.	63.9	0.6%	0.8
WB simple	46.6%	47.	46.	46.9	0.2%	0.6
WB weighted average (using	**53.8 %**	**55. 3%**	**52. 9%**	**54.0 %**	**0.9 %**	**1.3 %**
EU 27	87.0%	89.	87.	88.7	-	0.3
EU 17	92.9%	95.	93.	94.9	-	0.1
CEE	45.4%	45.	45.	45.0	0.1%	0.6

Source: IMF, World Economic Outlook (October 2012 and April 2013)

From this point of view, Macedonia is situated at the middle of the values of 2012 compared to the WBC and significantly lower than the average EU-27 and EU-17. The value for this indicator is still small for Macedonia, comparative with the Maastricht nominal criteria, 60% of GDP: in 2013, it is expected that the value of public debt over GDP to be 34.3%.

Even though government debt in R. Macedonia is still at a moderate level, the increases over the last years give rise to concern. Central government debt stood at 33.6% of GDP by the end of July 2013, compared to 27.8% at end of 2011. Moreover, as the budget of the newly created public enterprise for state roads was excluded from the central budget as of 2013, its debt is no longer included in central government debt. Overall, fiscal governance and fiscal discipline deteriorated and would benefit from the implementation of a medium-term strategy.

5. The inflation

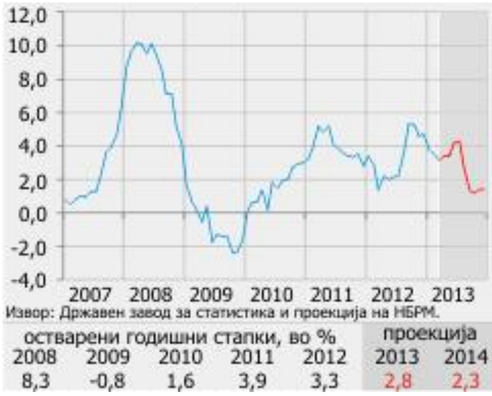
The values of inflation rate in 2012 and estimated for 2013 indicates a stability of purchasing power of population in this difficult and very insecure period.

Table 6: **Change of inflation rate 2009 – 2012**

Inflation	2009-2012	012	2013
%	average		projections
Albania	2,8		2,1
BiH	4,9	,9	1,7
Croatia	2,3	,4	3,4
Kosovo	2,7	,3	2,5
Macedonia	2	,3	2,8
Montenegro	2,8	,6	2,7
Serbia	8,2	,3	8,5
WB average	3,24	3,54	3,38

Source: Author calculations

Figure 3: **Inflation rate in Macedonia 2008-2014**



Source: National Bank of theRepublic of Macedonia

In some cases (e.g. in Bosnia and Herzegovina, Montenegro, Kosovo), the deceleration of inflationary pressures might to some extent positively impact real disposable incomes. In others, inflation has been rising (Macedonia) and it remains high in Serbia. BIH, Kosovo, Montenegro and Serbia will reduce the inflation rate in 2013 comparative with 2012, conserving and increasing the purchasing power of population. The highest reduction of inflation rate is expected in Serbia.

In Macedonia consumer price inflation was markedly higher than a year before, with an average inflation in the first eight months of 2013 of 3.5%, compared to 2.5% in the same period a year earlier. Higher prices for electricity and food, but also higher administrative prices were the main drivers bringing year-on-year inflation to above 4% in the last months of 2012. With energy costs abating, more recent inflationary pressures derived mainly from domestic factors, in particular adverse climate conditions impacting on food prices. Overall, monetary policy remained stability-oriented.

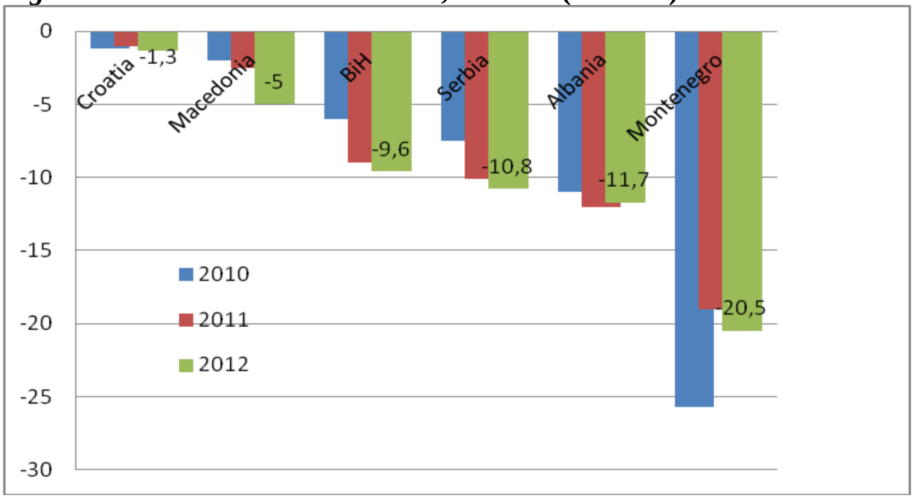
The reduction of inflation rate in Macedonia is expected to be 0,5% in 2013. Despite the estimates for the revival of the economic activity, however, the current macroeconomic scenario indicates a slow recovery, with the expectation of closing the negative output gap in the second half of the 2014. Such developments suggest retaining the assumptions of absence of the substantial domestic demand pressures on inflation in the following period. On the other hand, the latest information on the expected dynamics of the global food prices in the period ahead show reduced pressures from import prices, which together with lower inflation achieved in the first quarter, compared with the January projection, leads to downward revision of the inflation rate in 2013. So now, assessment of the annual rate of inflation in 2013 is 2.8% (3.2% in January), while in 2014 and still expected to approximate its historical average, so it would be 2.3% on an annual basis.

6. The sold of current account

Since the crisis befell the Western Balkans, the current account deficits have fallen slightly or have been narrowing down in almost all the countries (see *Figure 4*). This is mainly due to decreased demand for imported goods, rising exports and new loans obtained from abroad. The current account balance measuring the ratio between imports and exports is very important for the future perspectives of the region, as it indicates decreased confidence of foreign investors. In the context of decrease of consumption, increase of investors risk aversion and the migration of external capitals to their countries, the current accounts were adjusted by massive limitations of imports and small increase of exports, where it was possible.

Current account deficits have continued to increase in 2012 (see *Figure 4*) despite the fact that they are in crisis, mostly due to high government spending and political inability to curb it. Since FDI has been falling in most countries (but not all) the increased deficits were more often than not financed by the additional government borrowing, which has led to an increase in external debt to sometimes prohibitively high levels (especially during the crisis). The high levels of the current account deficits in Montenegro and Albania have been sustained by a continuing inflow of FDI into those countries, albeit at a lower level than before the onset of the crisis. In Croatia and Macedonia current account deficits fell to relatively low levels in relation to GDP, which was in line with the lower levels of FDI inflows into those two countries. The high current account deficits in Bosnia and Herzegovina and in Serbia were partly financed by IMF loans supplemented by funds from the World Bank and the EU.

Figure 4: **Current Account Deficits, 2010-12 (% GDP)**



Source: Candidate and Pre-Accession Countries Economic Quarterly, 2012 Quarter 2, European Commission ECFIN Unit D-1, 6th July 2012 and ECFIN (2012b); World Bank Macedonia country report No. 12133; data for 2012 are latest estimates

Table 7: **Current account – 2012, 2013 (%GDP)**

Curent account % BDP	**2012**	**April 2013 projections**
Albania	-10,4	-9,6
BiH	-9,4	-8,5
Croatia	0,1	0.8
Kosovo	-20,3	-18.2
Macedonia	-4	-3,6
Montenegro	-18,3	-15,2
Serbia	-10,6	-8,5
WB average	**-10,4**	**-9**

Source: **Author calculations**

External imbalances in Macedonia increased in 2012, with the difficult global environment leaving its mark on the current account deficit, which increased to 4% in 2012, up from 3% in 2011. This was mainly due to a widening erchandise trade deficit, which reached 24% of GDP.

Within the framework of the external sector, estimates are reserved for current account deficit of the balance of payments of around 3.6% of GDP in 2013, which is expected to be fully funded from the anticipated capital flows, allowing moderate growth of foreign exchange reserves. Compared to the previous year, this projection means little expansion of the current account deficit, resulting from the reduction of the relative importance of remittances in 2013. January forecast predicted slightly stronger expansion of the current account deficit in 2013, considering previous estimates for a lower deficit in 2012, compared to the realized.[12]

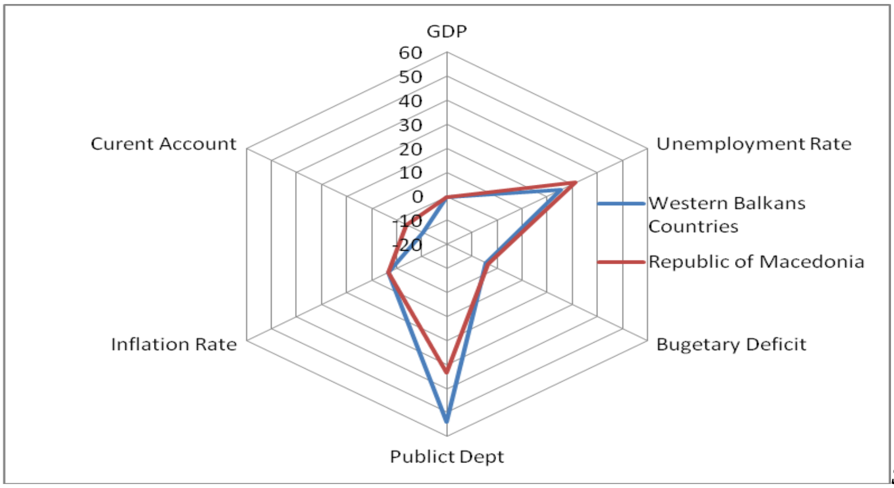
For the 2014 is estimated expanding of the current account deficit to 6% of GDP (5.4% of GDP in the January projection), under evaluated major import pressures caused by relatively strong investment growth, and additionally strengthened by the expected recovery of private consumption. However, for the 2014 the capital inflows were estimated to achieve a sufficient scale to ensure further growth of the foreign exchange reserves. As in previous projections, in both years, higher capital inflows are mainly expected from external government borrowing and foreign direct investments.

[12] National Bank of the Republic of Macedonia, October, 2013

CONCLUSIONS

After the comparative presentation of the main macroeconomic indicators and after the analysis of the main characteristics and evolutions of these indicators, in the context of actual economic and financial crisis, we synthesize the comparative analysis between Macedonia and WB Countries average with a hexagon graph *(Figure 5).*

Figure 5: **Macroeconomic context – comparison between Macedonia and WBC in 2012**



Source: Authors' Calculations

As we can see in the *Figure 5*, Macedonia has better performances of all indicators compared to WB countries, excepting the unemployment rate which is 6,5% above the WBC average. From the previous discussion, we conclude following:

1. The impact of the crisis on the Western Balkan countries follows the general European and global trends, but with a certain time lags of a year behind the development of the crisis in the EU and the subsequent stabilization and indications of recovery there. According to the provisional data, a general trend of recovery was evident in all the countries in 2011, but it depends mainly on the rate and level of recovery in these countries' main European and regional economic partners. In almost all countries concerned, there is still a real or projected GDP growth. One continuing problem is the very low starting level. Undoubtedly, all countries in the region need much higher, better quality and, most important, sustainable growth. Exports should be further stimulated.

2. Western Balkan countries must make greater efforts to ensure macroeconomic stability and continuously consolidate their fiscal policies in order to improve the negative trends arising from problematic levels of budget deficits in recent years. In the context of the global economic and financial crisis and considering their European integration, it is necessary to maintain prudent fiscal discipline and responsible public finances.

3. While all countries of the Western Balkans are making progress towards recovery, it is slower for some than for others. Kosovo and Macedonia were the two countries least influenced by the economic crisis: Kosovo has suffered minimal impact, due to that country's relative economic reticence, and the Macedonia experienced a small, short-lived recession, followed by a rapid recovery. However, Kosovo is not yet on a sure path of economic growth, due to its new and under-scaled public administration, the lack of a source of self-sustaining economy and the undertaking of a financially challenging infrastructure project. Macedonia, on the other hand, is yet to recover its labour market and to develop its public spending schemes. The country's general policy is sound, stability-oriented and supportive of recovery and businesses.

4. **Republic of Macedonia** was affected significantly by the Euro zone crisis, which weakened demand for exports and led to a drop in investment and remittances. As a result, GDP growth was marginally negative. However, the country has made strong efforts in recent years to improve the business environment and defy global trends by attracting much-needed FDI. These efforts should help growth to pick up this year and beyond.

The general policy mix in Macedonia is sound, as it remained stability oriented while trying to support the recovery. The recovery of the economy after the 2009 recession became affected in mid 2011 by the euro zone crisis, but the prospects for growth are still higher than in most of the other countries of the region. Fiscal policy was oriented towards achieving the fiscal target, despite lower than expected revenue performance. The quality of public finances has not improved significantly and the issue of high unemployment, in particular among the young, remains a major policy challenge.

In the future period Macedonia should undertake the following activities: recovering the labour market and reducing the number of unemployed; developing public spending schemes and further enhancing structural reforms; further attracting exports and foreign investment, further reducing the public debt and decelerating levels of FDI. Fiscal policy needs to be aligned with the country's structural reform priorities. A medium-term fiscal framework, multi-annual budgeting and strategic planning, as well as effective public financial management are required.

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