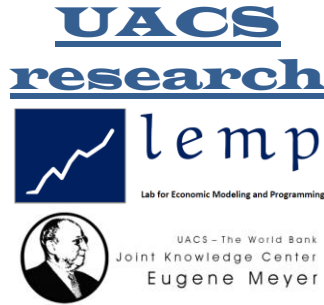




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# Quarterly Outlook

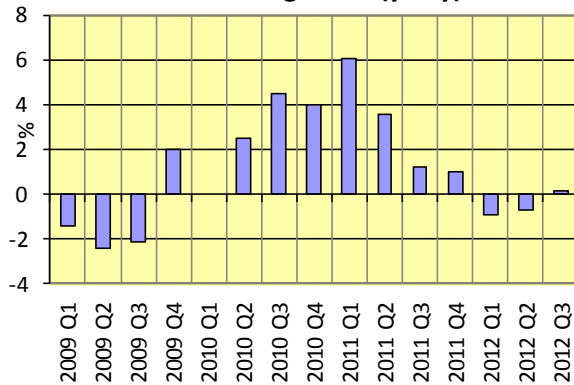
Volume 3, Issue 3, Q3-2012

## 1. The real economy<sup>1</sup>

In Q3-2012, Macedonian economy continued its weak and decelerated performance. There has been a small positive growth of 0.2% in the respective quarter. The weakness of the economy reflects the weak external demand as well the hesitation of the domestic consumption and investment. The growth rate is in line with the UACS Quarterly Outlook projection of 0% for the respective quarter, highlighting that the assumed risks for the economy were at the stage with pronounced strength.

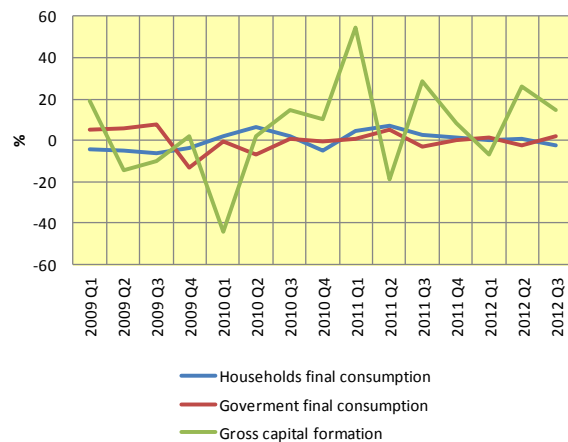
The economic activity weakness and consumer confidence hesitation further determined declining household consumption growth by 2.4% in Q3-2012. Households consumption vacillation has been somehow compensated by the positive spending of the government, which in Q3 rose by 2.3% (chart 2). The start-up of some foreign investment announced earlier continued to affect the gross capital formation in this quarter also, as it increased by 14.6% at the annual level. Investment behaviour is likely in line with our earlier projection that investment may be taking on a more stable component.

Chart 1. GDP growth (y-o-y)



Source: State Statistical Office (SSO)

Chart 2. Growth of GDP and its components

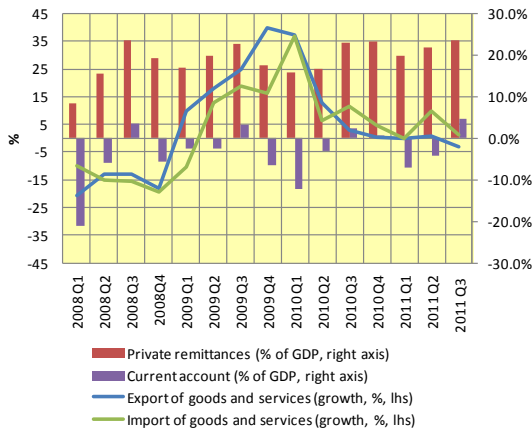


Source: State Statistical Office (SSO)

<sup>1</sup> **DISCLAIMER:** As educational and research institution, UACS does not formulate its own opinions on the economic policy. Hence, although by far balanced, any opinions expressed herein are solely those of the editorial team and not of UACS.

The realisation of some foreign investment dragged import up by 1.2% in Q3-2012, but export declined by 2.3%. Private remittances strengthened (23.5% of GDP) than compared to the previous quarter, which in turn contributed to closing the large trade deficit and determined positive current account balance of 4.7%. Nevertheless, the 'wait-and-see' attitude in the European Union and the other global uncertainties create the largest risk for the future engine of Macedonian export, given the large openness of the Macedonian economy (127.4% of GDP in Q3-2012).

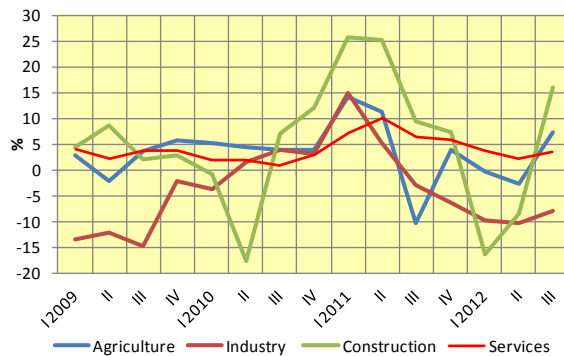
Chart 3. Foreign trade



Source: SSO and National Bank of Macedonia (NBM)

The sectoral overview of Q3-2012 suggests that the overall low growth has been mainly driven by the industry decline of 8.1%. The other sectors – agriculture, construction and services – grew, whereby the growth of construction is notable, 16% and is likely due to the intensification of the government construction activities..

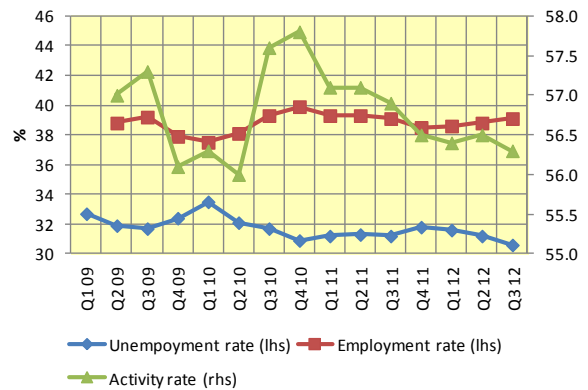
Chart 4. Production sectors growth rates



Source: State Statistical Office (SSO)

Despite growth hold-back, unemployment decreased by 0.6 p.p. while job creation increased by 0.3 p.p. compared to the previous quarter. Half of the sectors mark an increase of job creation in Q3-2012, suggesting that, opposite to the production growth, job growth is not sector-specific. Young workers remain the most vulnerable group in terms of their job prospects, but their unemployment rate slightly declined to 52.1% in Q3-2012 from 54.9% a quarter ago. Also, unemployment increases with the decrease of level of education.

Chart 5. Labour market



Source: State Statistical Office (SSO)

The weak economic activity reflects the slow net-wage and productivity growth. Nominal net wage in Q3-2012 increased by 0.2% at the annual level. In the same quarter, productivity increased by 1.1%. Nevertheless, both may be suggesting a turning point for the Macedonian economy toward more robust recovery.

Chart 6. Wages and productivity

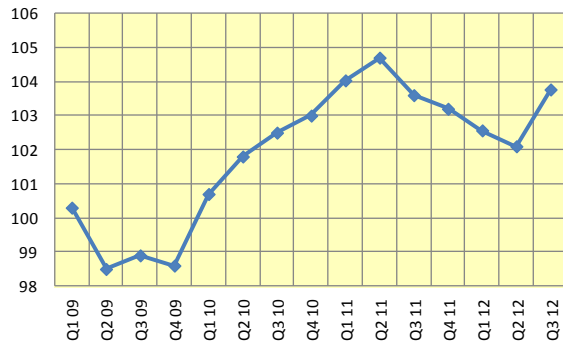


Source: State Statistical Office (SSO)

## 2. Inflation

**Despite low demand presses prices downward, inflation accelerated in Q3-2012 at 3.8% annually.** The restored upward dynamics of the rate of inflation reflects the effect of global moves of the prices of food and other primary products which again increased due to droughts and floods in parts of the world. Part of the inflation persistence is further maintained likely due to the upholding of oil prices, along with the developments in Syria.

Chart 7. Consumer price index

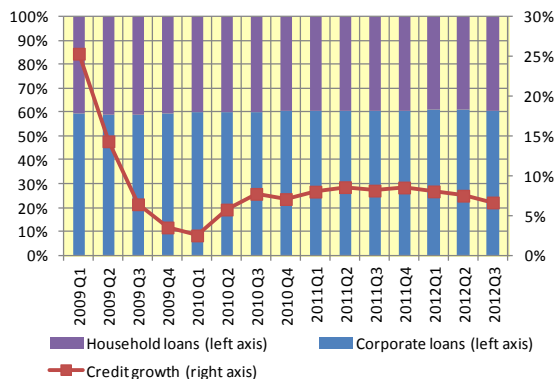


Source: State Statistical Office (SSO)

## 3. Financial intermediation and interest rates

**Financial intermediation growth decelerated in Q3-2012 at 6.3% annually.** The deceleration of credit may be dragging recovery behind, especially given it is present in both corporate loans (6.3%) and consumer loans (6.7%) (chart 8).

Chart 8. Credit



Source: National Bank of Macedonia (NBM)

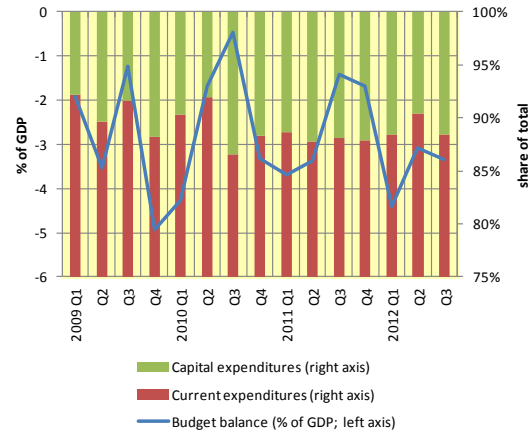
**Monetary policy retained its relaxed stance in conditions of stable money market and foreign-**

**exchange market conditions.** The reference interest rate has been maintained at 3.7% at the end of Q3-2012. Both Denar- and forex-loan interest rate slightly declined at 8.4% and 6.9%, respectively.

## 4. Fiscal behavior

**Fiscal policy largely remains prudent, with largely maintained budget deficit to 3.3% of GDP in Q3-2012 compared to 3.1% a quarter ago.** Both current government expenditures and capital expenditures marked a robust increase of 9.8% and 6.2%, respectively. However, the growth of the latter has been likely insufficient to compensate their decline of 23.9% a quarter earlier and may cast further risk on the economic activity (chart 9).

Chart 9. Government finance



Source: Ministry of finance (MoF)

## 5. Near-term economic outlook

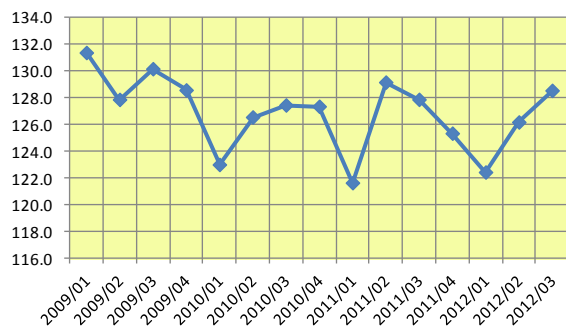
**The global recovery has suffered new setbacks, and uncertainty weighs heavily on the outlook.** A key reason is that policies in the major advanced economies have not rebuilt confidence in medium-term prospects. Tail risks, such as those relating to the viability of the euro area or major US fiscal policy mistakes, continue to preoccupy investors. IMF forecast thus sees only a gradual strengthening of activity from the relatively disappointing pace of early 2012. Growth is expected to stand at 3.3% and 3.6% in 2012 and 2013, respectively. Output is expected to remain sluggish in advanced economies but still relatively solid in many emerging and developing economies. Unemployment is likely to stay elevated in many parts of the world. And financial conditions will remain fragile.

**Commodity prices sparked again in mid-212, but are expected to ease somehow.** The oil price came back again at the pre-2011 level. Geopolitical risks to oil prices, mainly stemming from Iran and Syria, remain at the stage, though. Hence, these risks are expected to remain elevated for some time, and oil prices will ease only marginally further in 2012. For commodities, on the other hand, supply is expected to normalize and price pressures to fade out.

**The global murky prospects, the still fragile conditions in the euro area and the potential intensification of the transmission of the external developments on the domestic economy, cast a considerable shadow on the near-term economic outlook of Macedonia.** The hold-back of the external demand that started in 2011 will further retard the near-term growth of the economy, at least by early-2013. On the other hand, the accommodative stance of the policies might help in dragging the economy out of a deeper stagnation.

**The leading index of the Macedonian economy, UACS LeadEcon predicted the current deceleration, but now predicts slow recovery toward mid-2013.** In Q3-2012, the index increased by 2.3 index points at the quarterly level and by 0.7% at the annual level (chart 10).

Chart 10. UACS LeadEcon



Source: Trademark of UACS (based on data from SSO, Macedonian Stock Exchange, The employment agency and NBM)

**Despite some inflow of foreign investment realized in Q2 and Q3-2012 as well government construction**

**activity intensified, the risks for the next quarters remain on the downside.** Foreign-investors' confidence in emerging markets remains further threatened by the no-resolution of the sovereign debt market. The withholding of the external demand, the soak-up of (global) liquidity and the deceleration of credit will further cast gloom on investment activity at home (see Chart 8).

**As predicted before, consumption will be growing sluggishly or declining.** The elevation of prices of commodities has put additional burden on households' decisions to spend and this will determine consumption for a while. The net-wage and consumer-loan growth will be further moderating and only reinforcing this trend.

**Net external trade's contribution to growth will noticeably continue the pull-back in the near term, in the context of the slow external demand resume.** The moderating trend of industrial production will likely continue by early-next year, at least.

**Inflation will likely subside.** The droughts and floods in parts of the world dragged prices up again but it seems their effect now fades out. However, the return of prices to the pre-shock level may be unwarranted.

**Overall, similar as a quarter ago, the downside risks for the growth continue to be at the hike.** The quarters ahead will be mainly pulled back by the moderation of the external demand, the potential resolution of the debt crisis and the 'wait and see' attitude of investors. This may withhold domestic consumer and investor confidence. However, light in the tunnel may be the foreign investment which triggered some activity in the preceding two quarters and their positive effect may be endured. Overall, however, both domestic and external risks remain on the stage. Policy responses at present remain appropriate, both from the monetary and fiscal side, despite with very limited power.

**Overall, the dim prospects for the remaining part of 2012 drag forecast further down to 0% for the entire year with remaining downside risks, while the projection for Q4-2012 is around 1.5% growth. Presently, the shallow economic prospects withhold the projection for 2013 at no more than 1.5%.**