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НОК НА ИСТРАЖУВАЧИ
 27 СЕПТЕМВРИ 2013

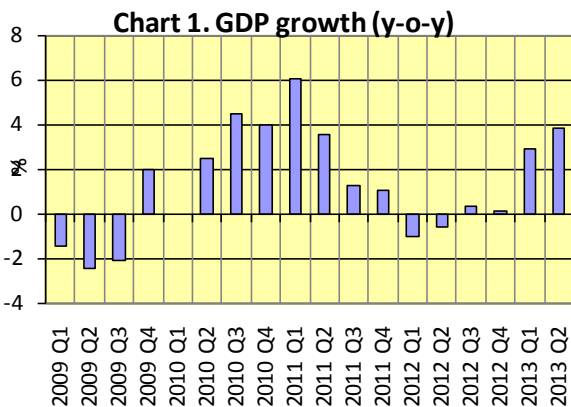


Quarterly Outlook

Volume 4, Issue 2, Q2-2013

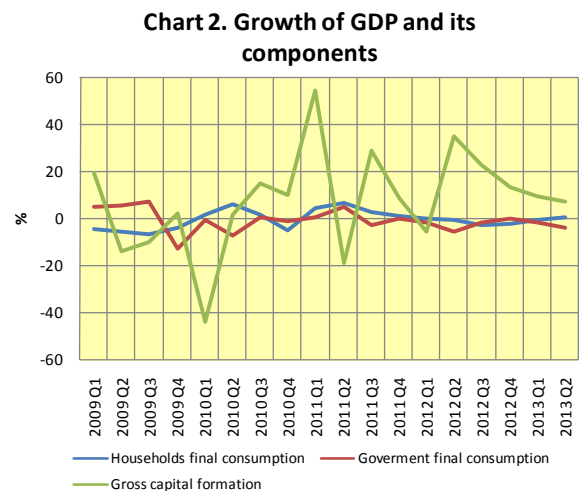
1. The real economy¹

The economy experienced a growth of 3.9% in Q2-2013, giving further impetus to the recovery that started a quarter ago. As suggested earlier, more robust upturn may be on the stage now, with important downside risks being mainly subdued. The growth rate is slightly above the UACS Quarterly Outlook projection of 3% for Q2-2013 mainly due to the better than expected regional- and European-economy performance.



Source: State Statistical Office (SSO)

While promising, the growth in Q2-2013 is predominantly a result of the increased gross capital formation by 7% compared to the same quarter a year ago and the strengthening of export performance. The former continues to be driven by the government construction activities spanning throughout the crisis, but also by the intensification of the setting of the new FDIs in the economy. However, consumers are merely still on hold, as household consumption is still held back (growth of 0.7%), while government consumption further declined (-3.6%), despite the friendly stance of fiscal policy in the respective quarter.



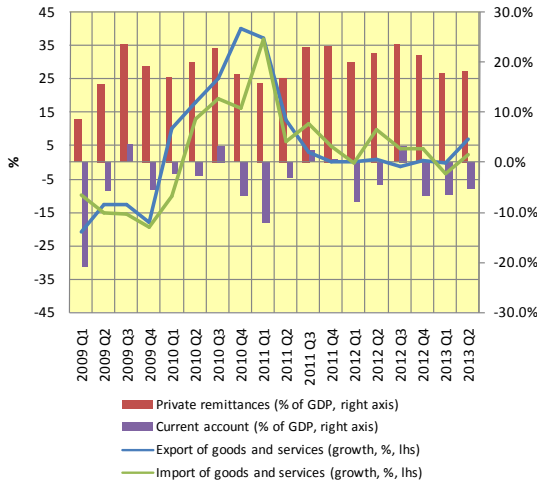
Source: State Statistical Office (SSO)

¹ **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.

After quarters of benign growth rates, foreign trade is another important pulling factor of the economy in Q2-2013: export grew by 6.8%, while import growth

is still lagging behind, 2.3%. Private remittances maintained their level at 18.3% of GDP, which then again contributed to closing the large trade deficit and determined a current account deficit of 5.4%. Despite somehow large, the latter is still in line with the perceptions of sustainable deficit. However, the promising export growth in this quarter may be softening the concerns that the recovery could be retarded by the pull-back of the foreign demand.

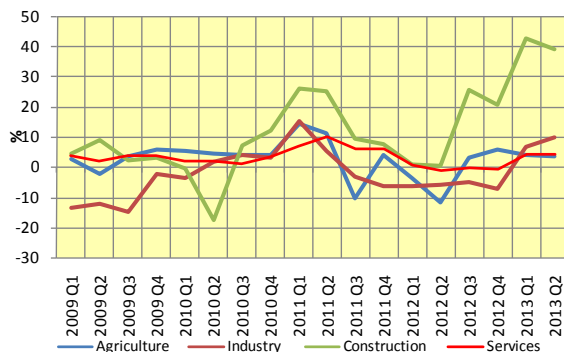
Chart 3. Foreign trade



Source: SSO and National Bank of Macedonia (NBM)

While the upsurge has been mainly driven by the construction boom (growth of 38.7%), other sectors grew as well. After the recovery of the other three sectors aside construction in Q1-2013, the upsurge in Q2-2013 continued, so that the growth pace of agriculture (3.4%), industry (9.4%) and services (4%), remains satisfactorily intensified.

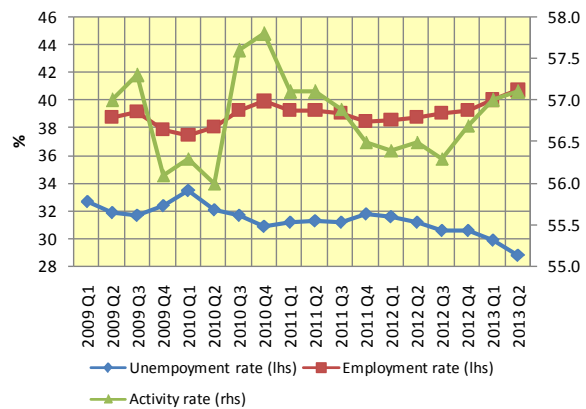
Chart 4. Production sectors growth rates



Source: State Statistical Office (SSO)

Following the positive economic developments in Q2-2013, unemployment registered further reduction to 28.8%, suggesting that the steady decline over the crisis may not be random. As a matter of concern, however, the decline is selective and some sectors, predominantly agriculture and trade, faced further layoffs in Q2-2013 compared to the previous quarter. Young workers remain the most vulnerable group in terms of their job prospects, despite their unemployment rate declined by significant 3.2 percentage points to 51.7% compared to the same quarter of the last year.

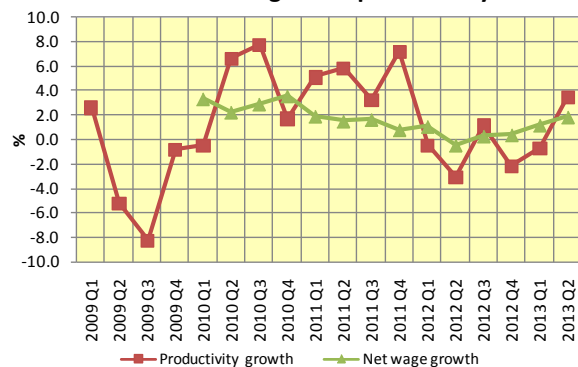
Chart 5. Labour market



Source: State Statistical Office (SSO)

Productivity increased by 3.4% in Q2-2013 due to the faster growth of production than that of employment. Nominal net wage growth in the same quarter accelerated at 1.8% at the annual level. Both developments may be in line with the robustness of the recovery undergoing in the economy in the respective quarter.

Chart 6. Wages and productivity

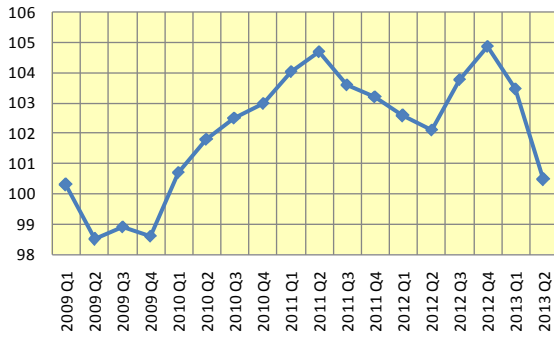


Source: State Statistical Office (SSO)

2. Inflation

Further favorable trend easing the social strain to the average citizen has been stable prices, as inflation in Q2-2013 increased by only 0.5% at the annual level. This may be associated with the fading of the level effect of the food price shock last year, but also due to the absence of other types of price shocks (oil, regulated prices etc.) over the respective quarter.

Chart 7. Consumer price index

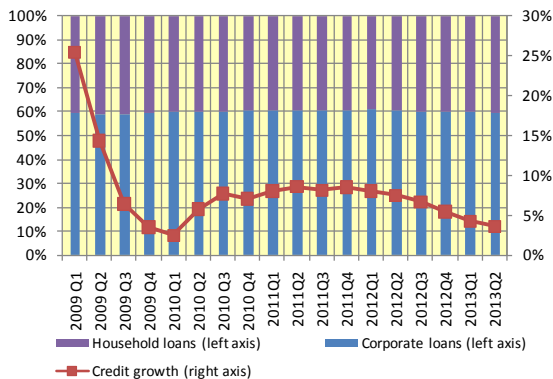


Source: State Statistical Office (SSO)

3. Financial intermediation and interest rates

In contrast to the overall performance, financial intermediation further decelerated to 3.7% in Q2-2013 and became further uneven. Namely, corporate loans growth further lost pace (annual growth of only 1%), while consumer loans hastened (annual growth of 7.5%) (chart 8).

Chart 8. Credit



Source: National Bank of Macedonia (NBM)

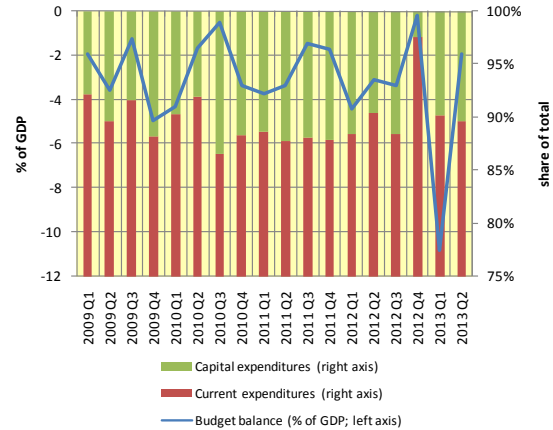
Monetary policy retained its relaxed stance in conditions of stable money market and foreign-exchange market conditions. The reference interest rate has declined further at 3.3% at the end of Q2-

2013, while also enabling other macro-prudential instruments to assist the recovery. Both Denar- and forex-loan interest rate further declined at 8.1% and 6.6%, respectively, following the stance of the monetary policy, but still reflecting the pertaining micro-risks in the economy.

4. Fiscal behavior

The profligate stance of fiscal policy a quarter ago has been curbed in Q2-2013 as budget deficit narrowed to 1.9% of GDP. Spending reversed, as current government expenditures were cut (decline of 1.2%), while capital expenditures expanded (growth of 7.2%) (chart 9).

Chart 9. Government finance



Source: Ministry of finance (MoF)

5. Near-term economic outlook

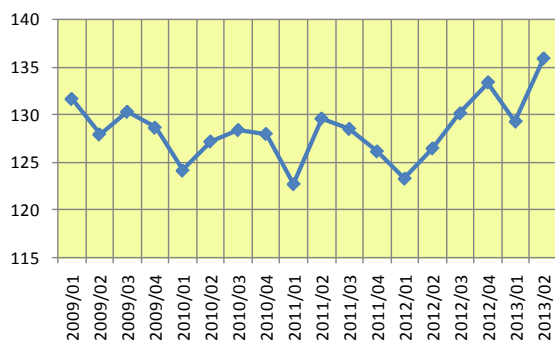
Despite promising growth at home, global growth is projected to remain passive at slightly above 3% in 2013. Domestic demand may remain weaker in several key emerging market economies, as well as a more protracted recession in the euro area. Downside risks to global growth prospects are still around: while old risks remain, new risks have emerged, including the possibility of a longer slowdown in emerging markets. Stronger global growth will require additional policy action. Major advanced economies should maintain a supportive macro-policy mix, combined with credible plans for reaching medium-term debt sustainability and reforms to restore balance sheets and credit channels. Many emerging and developing economies face a trade-off between macroeconomic policies to support weak activity and those to contain capital outflows.

As demand pressures continue to be absent, inflation rates will remain generally under control, although unemployment rates are typically low in many countries, current account balances are falling, credit is buoyant, and asset prices are high. Global inflation is projected to stay around 3% through the rest of 2013 and over 2014. Food and fuel supply developments will help contain upward pressure on prices of major commodities despite the expected reacceleration in global activity.

Nevertheless, the construction activity at home will hold up the recovery of the Macedonian economy in the near term. A pertinent risk may be the non-robust recovery of the external demand though. Overall, the positive developments in the first half of 2013 may be illuminating a faster upturn in the second half of the year. Policies will remain accommodative as pressures on the foreign exchange market are absent, while debt pressures are still considered sustainable.

The leading index of the Macedonian economy, **UACS LeadEcon** predicted the current recovery and now predicts further recovery in the remaining part of 2013 and early-2014. In Q2-2013, the index increased by 9.4 index points annually and 6.6. index points quarterly (chart 10).

Chart 10. UACS LeadEcon



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

The easing of labor market pressures and household credit may relieve the strains on consumption and give a kick to household consumption. In addition, the fade-out of the level effect on prices and the absence of new food-price shocks on the global market will be a positive circumstance for the budget of the average Macedonian citizen.

Net external trade's contribution to growth may be reversing, as global economy moderately stabilizes while important factories elevated at home may launch production. The upsurge of industrial production has robust elements and will likely continue over the remaining part of the year.

Inflation will likely subside. The effects of droughts and floods in parts of the world that dragged prices up seem to have faded out. However, the full return of prices to the pre-shock level may be unwarranted.

Overall, prospects may now be further optimistic than a quarter ago, with the downside risks present earlier gradually easing. The quarters ahead will be pulled up by the launching of foreign factories, the continued intensified construction activity, but potentially constrained by the mild recovery of the external demand. Consumers' confidence will be restored steadily. Monetary and fiscal policy responses at present remain appropriate.

Overall, the upsurge of economic activity in the first semester of 2013 allows for elevating the overall growth forecast at 2.3% for 2013, while Q3-2013 is expected to be around 3%.