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**НОК НА ИСТРАЖУВАЧИ**  
 27 СЕПТЕМВРИ 2013



# Quarterly Outlook

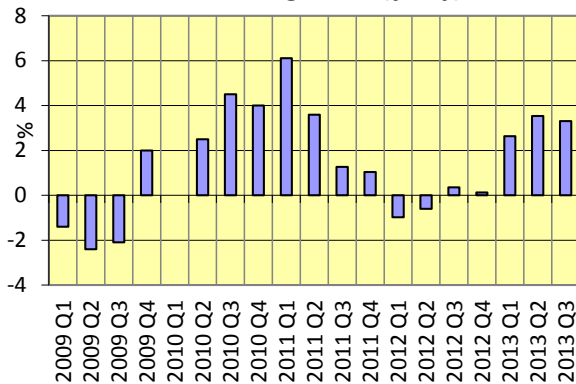
Volume 4, Issue 3, Q3-2013

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

The economy further grew in Q3-2013, by 3.3% compared to the same quarter of 2012. The intensified construction activity at home, stemming from the execution of the government capital expenditure and the establishment of the foreign investment gave further impetus to domestic growth. The growth rate is largely inline with the UACS Quarterly Outlook projection of 3% for Q3-2013.

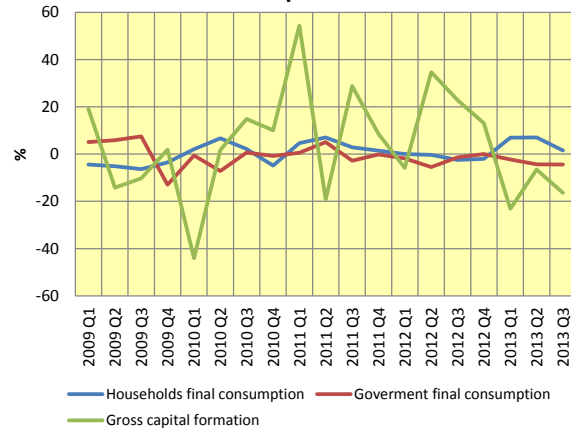
While promising, the growth in Q3-2013 has been accompanied by benign or declining consumption and gross investment. Despite government-supported construction and foreign investment establishment, gross capital formation declined by 16.4%. In addition, consumers are further still on hold, as household consumption is still held back (growth of 1.6%), while government consumption further declined (-4.4%).

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



Source: State Statistical Office (SSO)

**Chart 2. Growth of GDP and its components**

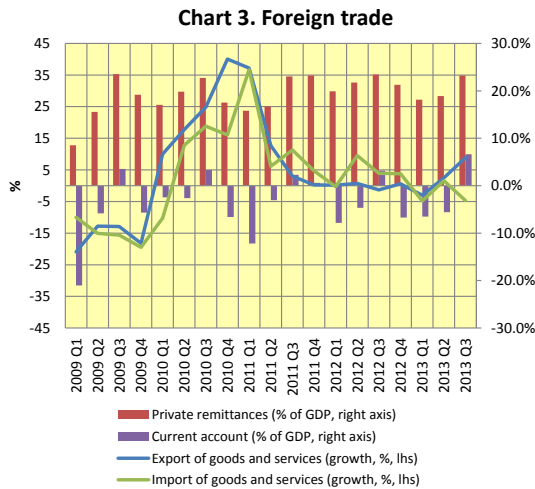


Source: State Statistical Office (SSO)

**The foreign trade as a pooling factor intensified in Q3-2013.** Export grew by 8.8%, while import declined by 4.7%, significantly contributing to GDP expansion. In addition, the promising net export growth in this quarter may suggest that the foreign demand – predominantly the European demand – takes more stable fundamentals. Private remittances soared at

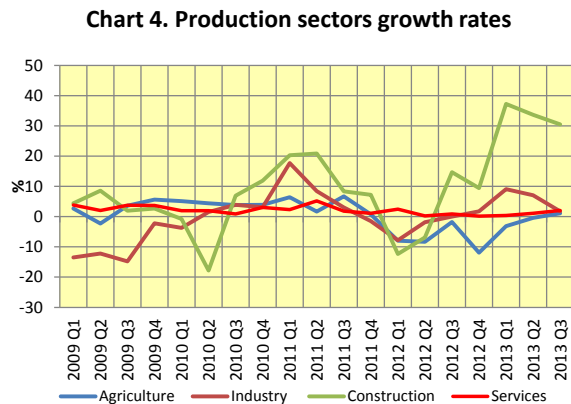
<sup>1</sup>**DISCLAIMER:** As educational and research institution, UACS does not formulate its own opinions on the economic policy. Hence, although by far balanced, any opinions expressed herein are solely those of the editorial team and not of UACS.

23.2% of GDP from 18.3%, amid the diaspora return in the country over the summer. This again contributed to closing the trade deficit and determined a current account surplus of 6.6%.



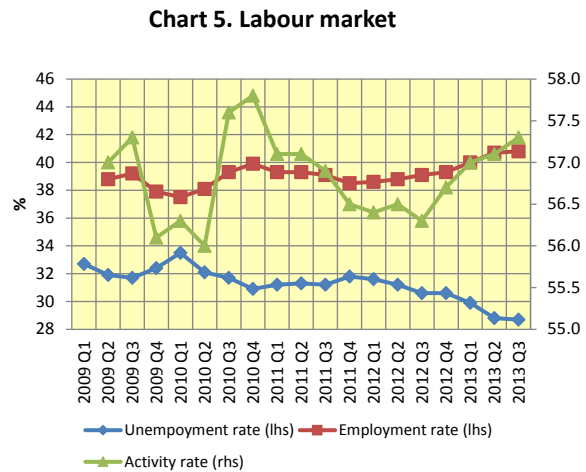
Source: SSO and National Bank of Macedonia (NBM)

While the upsurge has been mainly driven by the construction boom (growth of 30.5%), other sectors grew as well. However, the growth pace of the other sectors has been quite modest, suggesting that the recovery, if not supported by construction activity, would have been significantly retarded. In Q3-2013, agriculture grew by 1.1%, industry by 1.7% and services by 2.1% than compared to the same quarter of the previous year.



Source: State Statistical Office (SSO)

Following the positive economic developments in Q3-2013, unemployment registered further reduction to 28.7%, suggesting that the steady decline over the crisis has not been random. Compared to previous quarters, it is notable that the employment growth is at a broader basis, whereby all big-sector employers except construction experience considerable employment growth compared to the same quarter of the previous year. Expectedly though, young and low-skilled workers remain the most vulnerable groups in terms of their job prospects, as their unemployment rates remain high and persistent.



Source: State Statistical Office (SSO)

Productivity slightly declined by 0.9% in Q3-2013 while wage growth is further modest. Nominal net wage growth in the same quarter decelerated at 1% at the annual level. Both developments, though, may be in line with the robustness of the recovery undergoing in the economy in the respective quarter.

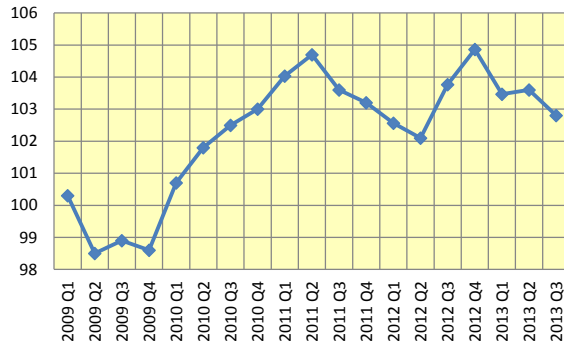


Source: State Statistical Office (SSO)

## 2. Inflation

Prices further subsided at 2.8% in Q3-2013 from 3.6% a quarter ago. The deceleration of prices growth resulted from the food and energy prices decline, despite partially compensated by the other components of the price index. As new shocks to food prices are absent, while the geopolitical events also relaxed the pressure onto oil prices, it is expected prices to maintain their downward trend.

Chart 7. Consumer price index

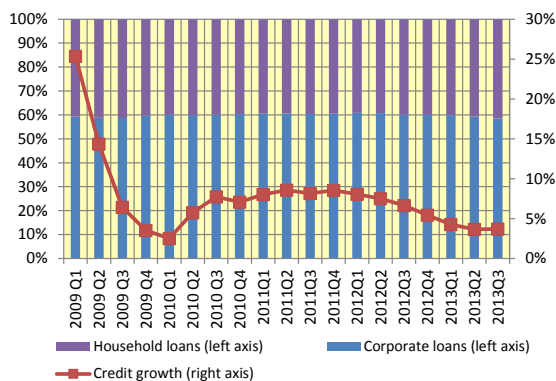


Source: State Statistical Office (SSO)

## 3. Financial intermediation and interest rates

In contrast to the overall performance, financial intermediation moderates as growth was maintained at 3.7% in Q3-2013 similarly as a quarter ago. In addition, it befitted further uneven as corporate loans growth further lost pace (annual growth of only 0.6%), while consumer loans hastened (annual growth of 8%) (chart8).

Chart 8. Credit



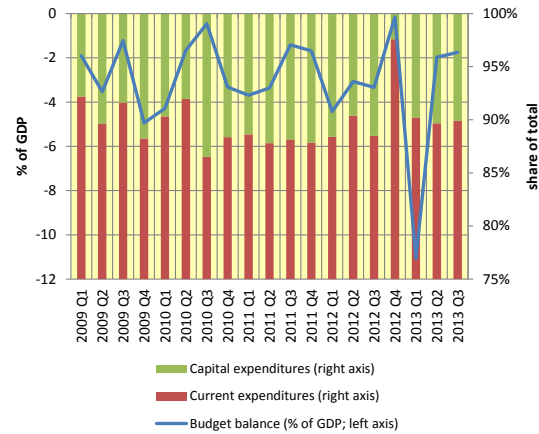
Source: National Bank of Macedonia (NBM)

Monetary policy retained its relaxed stance in conditions of stable money market and foreign-exchange market conditions. The reference interest rate maintained low at 3.25% at the end of Q3-2013, while also enabling other macro-prudential instruments to assist the recovery. Both Denar- and forex-loan interest rate further declined at 8% and 6.5%, respectively, following the stance of the monetary policy, but still reflecting the pertaining micro-risks in the economy.

## 4. Fiscal behavior

Budget deficit further narrowed to 1.7% of GDP in Q3-2013 reflecting a contractive fiscal stance after Q1-2013 consumed much of the fiscal space. Current government expenditures slightly increased (by 0.9%), while capital expenditures were cut (by 12.8%) (chart9).

Chart 9. Government finance



Source: Ministry of finance (MoF)

## 5. Near-term economic outlook

Contrasting the favorable developments at home, global growth is in low gear, the drivers of activity are changing, and downside risks persist. Emerging market economies are coming off cyclical peaks. Their growth rates are projected to remain much above those of the advanced economies but below the elevated levels seen in recent years. The United States has seen several quarters of solid private demand. Japan's economy is enjoying a vigorous rebound but will lose steam in 2014 as fiscal policy tightens. The euro area is crawling out of recession, but activity is forecast to stay tepid. In these three advanced

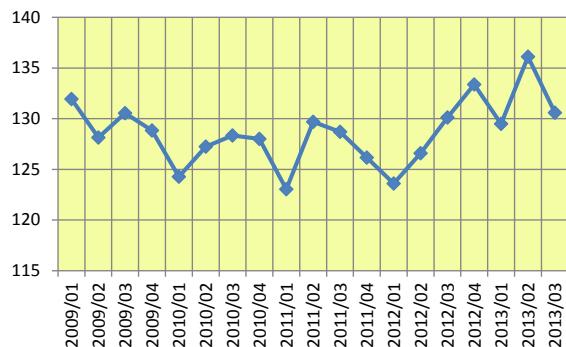
economies, much slack remains and inflation pressure is expected to stay subdued.

**Global activity is expected to strengthen moderately over 2014 but the risks to the forecast remain to the downside.** The impulse is projected to come from the advanced economies, where output is expected to expand at a pace of about 2% in 2014. Drivers of the projected uptick are a stronger US economy, an appreciable reduction in fiscal tightening and highly accommodate conditions. Growth in the euro area will be further heldback by the very weak economies in the periphery. Emerging market and developing economies are projected to expand by about 5% in 2014, as fiscal policy is forecast to stay broadly neutral and real interest rates to remain relatively low.

**The construction activity at home, triggered by government capital expenditures and the realization of the foreign investment, will hold up the recovery of the Macedonian economy in the near term.** The recovery's full potential may be held back by the euro area developments, though. Overall, the positive developments in the first three quarters of 2013 may be illuminating a faster upturn by the end of the year and in early-2014. Policies' accommodative stance, especially fiscal's one, should start reversing, as debt pressures may be tenacious.

**The leading index of the Macedonian economy, UACS LeadEcon predicted the current recovery, but now suggests that it will be modest over 2014.** In Q3-2013, the index increased by only 0.5 index points annually and declined by 5.5 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 will be further positive, as foreign factories establish production and export, while import moderates.** The upsurge of industrial production has robust elements and will likely continue over the remaining part of the year and early next year.

**Inflation will further subside.** The effects of droughts and floods in parts of the world that dragged prices up faded out. In addition, resolution of important geopolitical issues, like in Iran and Syria, withdrew hand onto prices of oil.

**Overall, prospects may now be further optimistic than a quarter ago, with the downside risks present earlier further easing.** The quarters ahead will be pulled up by the launching of foreign factories' production and export, the continued intensified construction activity, but potentially constrained by the mild recovery of the external demand. Consumers' confidence will be restored steadily. Monetary policy responses at present remain appropriate. Fiscal policy responses may be profligate so as a turnaround to prudent fiscal behavior may be now needed more than a quarter ago.

**Overall, the upsurge of economic activity in the first three quarters of 2013 allows for elevating the overall growth forecast at 3% for 2013, while Q4-2013 is expected to be around 2.5%. The forecast for 2014 is about 4%.**

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