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# Quarterly Outlook

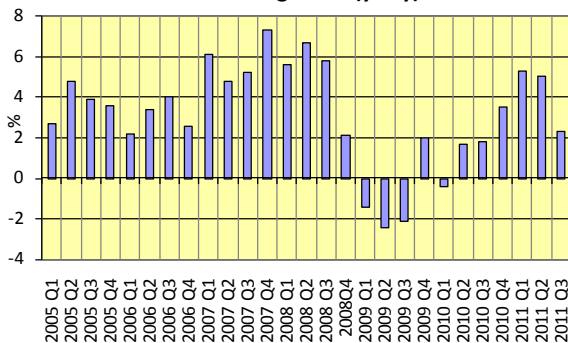
Volume 2, Issue 3, Q3-2011

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

**Macedonian economy slowed down to 2.3% in the Q3-2011 from 5.3% a quarter ago.** The slowdown reflects the higher calculation basis from the previous year, but also the current state of the foreign economy, mainly revealed in the possibility that the current European debt crisis further unfolds. The growth rate is slightly below the UACS Quarterly Outlook projection of 2.8%, as a result of the relatively weaker domestic demand, both by households and government. Still, the projection is in line with the expectation of pronounced downside risks.

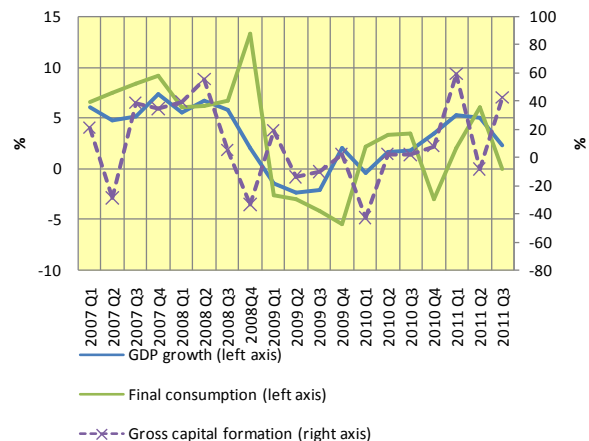
**Due to external uncertainties, the final consumption remained unchanged.** Household expenditure grew by 1.8%, while government stimulus continued to fade out (-8.9%) (chart 2). Government investment activity dragged up the entire investment by 42.5%. However, the still volatile growth of the capital formation yet highlights the still-present risk of double-dip of the economy and further generates substantial loss in confidence among both households and firms. The latter may in turn postpone any likely consumption and investment expenditure.

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



Source: State Statistical Office (SSO)

Chart 2. Growth of GDP and its components

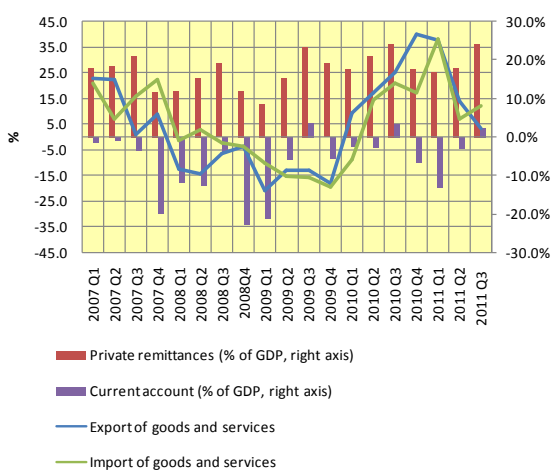


Source: State Statistical Office (SSO)

<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.

**Q3-2011 marks a current account surplus of 2.4% of GDP mainly due to the rebound of private remittances (by 6.3 percentage points).** However, the trade deficit deepened as a result of accelerating growth of import (12.3%) and decelerating growth of export (3.4%). The sharp rise in trade volumes in 2010 enabled world trade to recover to its pre-crisis level, but this recovery has been apparently non-robust. The newest uncertainty in the euro zone presently creates the largest risk for the future engine of Macedonian export, given the large openness of the Macedonian economy (125.8% of GDP in Q3-2011).

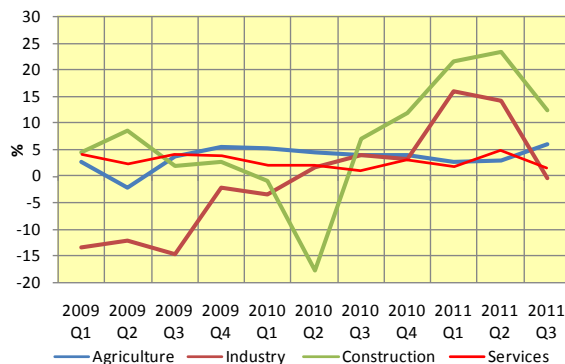
**Chart 3. Foreign trade**



Source: SSO and National Bank of Macedonia (NBM)

**Given the overall slowdown in Q3-2011, construction growth decelerated (12.3%), while industry went negative (-0.4%).** Agriculture somehow improved at 6%, mainly due to favourable price movements. However, apparently there is still number of significant risk factors that could potentially set back the economic recovery swiftly.

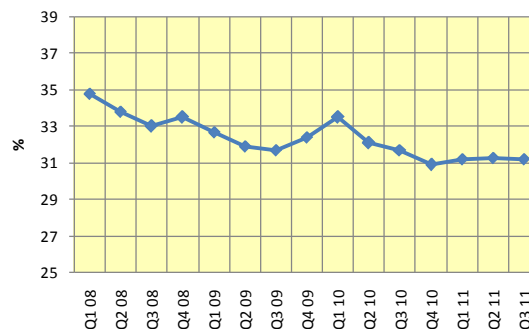
**Chart 4. Production sectors growth rates**



Source: State Statistical Office (SSO)

**Following growth deceleration, jobs growth was modest in Q3-2011 and fuelled a trivial quarterly decline in unemployment rate by 0.1 percentage points.** Private sector employed 74.4% of the total employed people. Employment in state and local government remained intact. The construction sector, given its still high growth, has added 2.983 new jobs in Q3-2011.

**Chart 5. Unemployment rate**

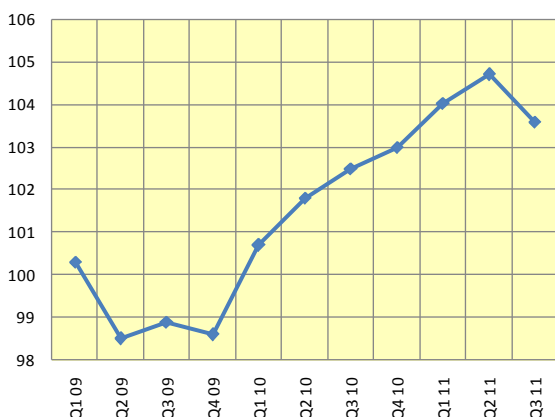


Source: State Statistical Office (SSO)

## 2. Inflation

**The effect of the price hike earlier this year subsided and Q3-2011 marks deceleration of the price increase at 3.6%.** Expectedly, the downward dynamics of the rate of inflation connects to the combined effect of stabilization of the prices of food and other primary products, the progress in the conflict resolution in Libya, as well the slowdown of economic activity.

**Chart 6. Consumer price index**

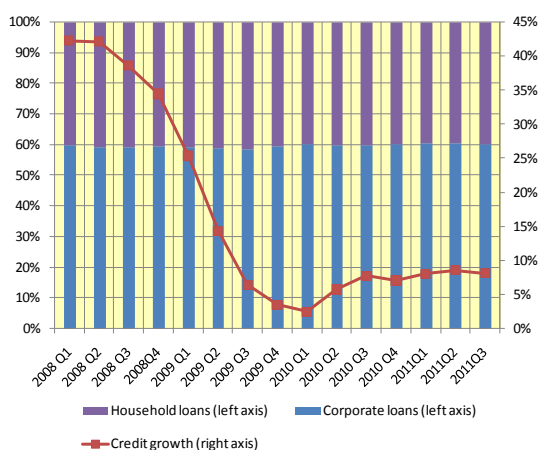


Source: State Statistical Office (SSO)

### 3. Financial intermediation and interest rates

Financial intermediation growth has been further maintained in Q3-2011, with an annual credit increase of 8.1%. The same distribution of growth is maintained through the corporate loans (8.6%) and consumer loans (7.4%) (chart 7).

**Chart 7. Credit**



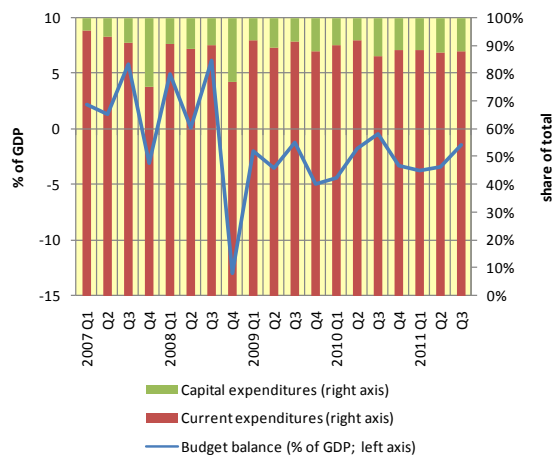
Source: National Bank of Macedonia (NBM)

Monetary policy retained its stance in conditions of stable money market and foreign-exchange market conditions. The reference interest rate of 4% has been further maintained through Q3-2011. Both Denar- and forex-loan interest rate stood at 8.8% and 7.4% on a quarterly basis, respectively.

### 4. Fiscal behavior

Fiscal policy remained prudent, with a budget nearly balanced in Q3-2011 (-0.1% of GDP). While the current government expenditures, including wages, contractual services and furniture, stood at last year level (0.2% annual growth compared to 12.5% a quarter ago), capital expenditures declined by 13.5%, following the very high spikes the quarters before (chart 8). Still, the level of capital investment has been somehow retained.

**Chart 8. Government finance**



Source: Ministry of finance (MoF)

### 5. Near-term economic outlook

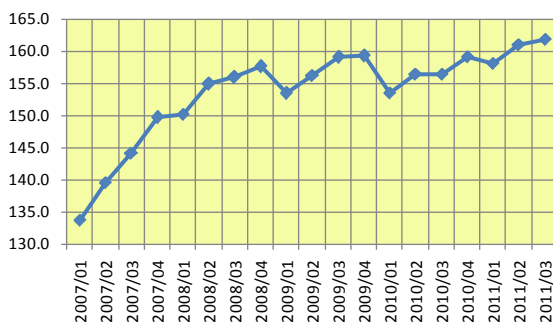
Following a barrage of unfavorable shocks in the first three quarters of 2011, global economic activity has weakened and has become more uneven. In particular, financial strains in euro area sovereign debt markets further deepened, again leaving Greece in the yard of severe bankrupt potential. Against this backdrop, projections for global growth have been revised further downward, especially for advanced economies. IMF projects real GDP growth worldwide at 4% for 2011 and 2012. Growth in emerging Europe is projected to remain unchanged from last year—at 4.4% in 2011—and then to decline to 3.4% in 2012, as rebounds run their course and the global slowdown makes itself felt.

Commodity and oil prices fully eased. The resolution of the Libyan conflict entirely exhausted the price pressure that existed earlier the year. At present, more importantly, the global slowdown acts as the most important downward engine of prices and is expected to prevail in the course of the next year.

**The deceleration of the global rebound, the pessimism spread over global financial markets and the pertaining fiscal problems on euro area's edge darken the economic outlook of Macedonia.** The currently undergoing hold-back of the external demand will most likely retard the near-term growth of the economy. On the other hand, the intensified government construction activity might compensate part of the threat stemming from the external developments.

**The leading index of the Macedonian economy, UACS LeadEcon predicted the current deceleration and predicts further stagnation.** In Q3-2011, the index increased by only 0.8 index points compared to the previous quarter (chart 9).

Chart 9. UACS LeadEcon



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

**The new investment cycle that started, and is being supported by the government investment activity, is likely to be sustained in the last quarter of 2011, but the risks for 2012 are significantly downward.** Foreign-investors' confidence in emerging markets might be threatened again, which might postpone or withdraw the announced investments in the country. Domestic investment will be, however, pulled through by the intensified government construction activities, although the deceleration of the external demand, the soak-up of (global) liquidity and the subsequent

deceleration of credit will cast gloom on investment activity at home (see Chart 7).

**As predicted before, consumption will be growing sluggishly if not enter the waning zone.** The fade-out of the price shock relaxes households' decisions to spend and improves consumer confidence, though. The net-wage and consumer-loan growth will be moderating amid the deceleration of the entire economic activity.

**Net external trade's contribution to growth will noticeably pull back in the near term, in the context of the global downturn.** As envisaged in the earlier UACS Quarterly Outlook, the growing trend of industrial production has been now halted and the situation will likely endure in the first months of 2012 at least.

**Core inflation is likely to remain subdued in the course of 2012, with food and oil prices settling back after global price shocks faded out.** Inflation outlook now fully eased after the conflict resolution in Libya and the apparently stagnating outlook of the global economy.

**Overall, downside risks for the growth are at the hike now and partially materialized in a drop of export demand.** The economic year ahead will be determined by the further foreign demand deceleration, further unfolding of the euro zone sovereign debt crisis and the magnitude of government construction activity. External risks are forcefully on the stage, mainly reflected into blurred euro area outlook given problems with its peripheral economies, one of which is a neighbor of Macedonia, the fourth trading partner and important investor in the financial sector. However, foreign investors may be in general pulled back from the market, given the timid outlook for the entire Europe. Policy responses at present remain appropriate, given inflation subsidies and budget remains prudent.

**Overall, Q3-2011 lays background for retaining growth forecast for 2011 at 3.5%, while the gloomy prospects for 2012 prevent devising forecast of above 3% for the entire year.**