

## MACROECONOMIC MOVEMENTS IN MACEDONIA: THE EXISTENCE OF FUNCTIONAL TRADE ECONOMY

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### ABSTRACT

The recent macroeconomic movements in the economy of Macedonia, in a monetary aspect, are relatively affordable. The maintenance of macroeconomic stability and the establishment of economic growth of sustainable basis, as well as the retention of coordinated fiscal and monetary politics, remains imperative even in the following period. In the period to come, macroeconomic politics will focus on the further improvement of business environment, tax and customs policy of direct foreign investments and the stimulation of investment activity, as well as human capital development and state economic infrastructure, which are among the main economic criteria for the existence of functional trade. Such a policy to follow represents warranty for stable economic growth in the Republic of Macedonia through the stable level of public debt and the provident level of budgetary deficit in combination with stable exchange rate. Such an economic recuperation continues even in the first and second quarter, whereupon GDP has attained growth, while attains of the third and fourth quarter instruct or suggest keeping/retention of the economy in the zone of solid annual growth commensurate the designed.

**In this research paper** we will present macroeconomic movements, domestic production data according to the productive method in the real sectors for the last two periods.

**KEYWORDS:** Macroeconomics, Development, Sustainability, GDP, Recuperation

### INTRODUCTION

The recuperation of economy in Macedonia continues from the first to the second quarter, whereupon GDP has reached growth. From September until now, the key macroeconomic parameters in the domestic economy have moved pursuant the expectations. The achieved growth is a little more powerful than the expected one in the two quarters, thus reflecting the best achievements at the investment demand and the most powerful positive contribute of net-export. The new indicators of the economic activity show that there exists the possibility for GDP to remain in the zone of positive degrees of growth during the third quarter. It is expected that the recuperation will not be as powerful as to cause big pressures in the economy through the demand channel.

Macedonia's government is optimistic that will be able to achieve the positive growth forecasts. The reason for this kind of optimism is the improvement of economic situation in euro zone, which in the previous 18 months has been in recession. Having in mind that Macedonian economy is directly related to the economy of Eurozone, respectively, 90% of the export in direct or indirect way is oriented towards Eurozone, this means that in the second part of the year we expect good results for Macedonian economy, meantime being aware that the growth in Eurozone and in European Union is still very low and sensitive, but yet, on the other hand, according to the available data the indicators of Eurozone's economy are moving positively. It is proved by the fact that the outcomes from Macedonian statistics show that Macedonian economy in the second quarter has a growth of 3.9% while in the first one 2.9%. These numbers overpass government's forecasts,

those of the national bank, and IMF, in relation to the negative rate of 0.1% of the previous year. Sectors which have mostly contributed in this economic growth in the second quarter are: building construction with 33.2%, traffic with 7.5% and mining with 4.1%. The economic growth of 3.9% represents a good indicator, while the Economic chamber of Macedonia is expected to achieve a minimal growth of 2%, having in mind the economic growth in the second quarter of the year – a growth that has to do with the outflow of the migrants capital, as Macedonia is known as a country that has a considerable workforce in European places and all around the world.

Our expectations related to the gross domestic production for this year are to achieve more than 3%, where after 6 quarterlies with negative results, finally it has reached a growth. Experts estimate that as a challenge for the biggest growth of the economy of this place and its sustainability remains the increase of domestic and foreign investments as well as the capital ones, which in the last decades were often shortened by the budgetary rebalances, export and reindustrialization, in accordance with market demands.

The gradual stabilization of global financial operations, reduction of uncertainty and the improvement of the perceptions of foreign investors, are those factors that will operate towards the private financial outflow growth. In a consequent manner, the direct foreign investments are expected to gradually grow up, thus approaching to the characteristic level of the years with the best performances in this aspect. Such a dynamics represents a mature growth of direct foreign investments until 2014 for nearly 2% of GDP, compared to 2011. With the recovery of domestic economy, it is also expected the corresponding level of indebtedness in the private sector, whereupon the private sector during the period 2012-2014 is expected to achieve mature growth.

In accordance with projected movements of outflow and financial account, gross audit resources for the period 2012-2014 are expected to achieve a continuing growth and the same to be held in a level of almost 4 months of coverage of goods and services import of each of the following years. Such a level of audit resources is in function of the support of strategy for the targeting of foreign currency exchange (audit resources 2012). The capital income projecting in the following 3 months is related to a high uncertainty having in mind the high conditioning of movements and global financial markets sentiment in an extraordinary sensitive period after the biggest financial concussions.

## **THEORETICAL APPROACHES**

Macroeconomics as a field of economy in its politics aims at achieving its objectives which influences the increase of population's welfare. The economic policy deals with a group of activities which enable the increase of global and national economic size indicators (Pollozhani, 2011). The first macroeconomic objective is the procurement of steady developmental rates. Steady developmental rates are measured by the dynamics of gross domestic production, the last being the most important economic indicator (Endru B. Abell, Ben S. Bernank, 2009). Instruments are means by which macroeconomic policy objectives, that are in government's hands, are achieved.

By researching facts in the positive economy, it is understood that it determines **GDP's** growth, the dynamics of working performance, inflation, investments and accumulations based in numbers. The average annual growth of **GDP** for each habitant in the transitional countries in the period 2000-2009 was 4.4% (Transition report, London, 2009, pg.21) or those in the same period have achieved an average annual deficit of payments balance of 4.4%. The real **GDP** is aggregate gauge of the value of all final products produced in an economy (Mancellari A, Pere E. 2000).

The GDP measures the value of an economy's production of goods and services (output, for short) over some interval of time (David A., 2005). The study of macroeconomic theory is important for several reasons. It provides us with tools by which we can judge the performance of an economy. The performance of an economy is judged by the Gross

National Product (GNP) of the economy. It is generally assumed that the objective of the government in any country is to raise the material well being of the country (Khawaja N. Haider, 2009). Macroeconomics is primarily concerned with developing models for understanding with managing national economies (Paul K. Julie L., 1998).

The macroeconomics aggregate is not naively a mother of addition or multiplication or averaging of microeconomics variables (Gupta, Mandal, 2008).

## METHODOLOGY

With the improvement of global GDP, like in 2013, it is expected to extend for 2.2%, 3% for 2014 and 3.3% for 2015, then, the economy of southern-eastern European countries for the following years is expected to get improved. Domestic production is based in the data from annual calculations of the main register, from state statistic researches, from ministries of finances and other sources.

Annual gross production with its actual prizes according to the productive method is the final production of resident productive unit activities and represents the sum of the given gross value by specific sectors. Annual production data **through the productive method** indicated for real sector in percentage will be presented in the following table 1:

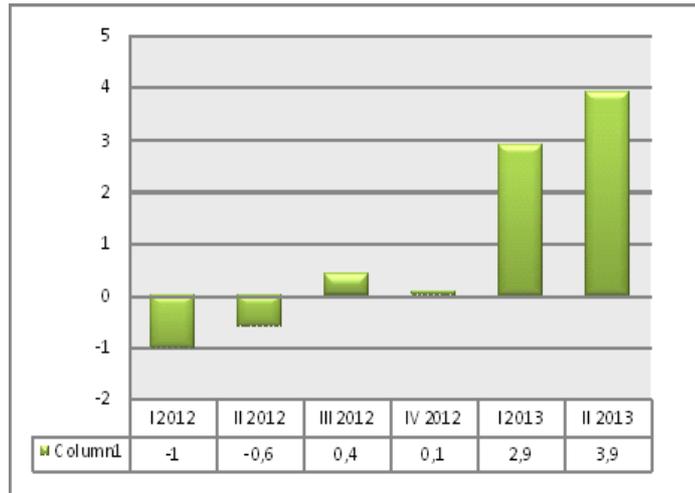
**Table 1: Gross Domestic Product by Production Approach, at Constant Prices - Reference Year 2005 in Million Denars**

Quarter	GDP total	%	Agriculture, hunting, forestry and Fishing	%	Mining and quarrying, Manufacturing and Electricity, gas and water supply	%	Construction	%	Wholesale and retail sales	%	Hotels and restaurants	%	Transport, storage and communication	%	Financial intermediation, real estate and other business and service activities	%	Public administration and defense	%
			A+B		C+D+E		F		G		H		I		J+K+L		M+N+O+P	
2012Q <sub>1</sub>	79320	-1.0	6594	-1.5	12993	-11.8	2620	-12.4	11300	-0.1	878	-0.6	8229	5.8	14375	4.0	12112	1.4
Q <sub>2</sub>	89041	-0.6	8379	1.7	14000	-7.9	4500	-6.4	13666	-2.2	1166	3.5	8463	-1.2	14814	4.2	12134	1.5
Q <sub>3</sub>	92888	0.4	9628	0.4	13789	-7.3	5848	15.4	13062	0.9	1456	3.8	8806	2.5	14526	1.8	12089	1.7
Q <sub>4</sub>	99601	0.1	12008	2.4	14086	-6.1	6864	10.2	13945	0.4	1079	2.9	9289	-1.7	14807	2.5	12187	2.7
2013 Q <sub>1</sub>	81640	2.9	6659	1.0	13079	0.7	3585	36.8	11563	2.3	893	1.6	8431	2.5	14740	2.5	12176	0.5
Q <sub>2</sub>	92640	3.9	8411	0.38	14580	4.1	5993	33.2	13742	0.5	1153	-1.1	9098	7.5	15069	1.7	12153	0.1

**Resource:** State Statistical Office, No:3.1.13.05, date 13.09.2013 (www.stat.gov.mk)

Later on, this tabular data will be given graphically\*, GDP quarterlies for 2012 and two quarterlies of 2013 that present the production capacity of national economy, as it shows the dynamics of productions and final services for long periods of time.

Through this result, we see that the economic growth of the previous year with a negative value in the quarterlies of 2013 has a positive growth of 3.9% which means that the optimism for such an economic growth until the end of the year is between 2-2.7%, especially in the part of our export growth.



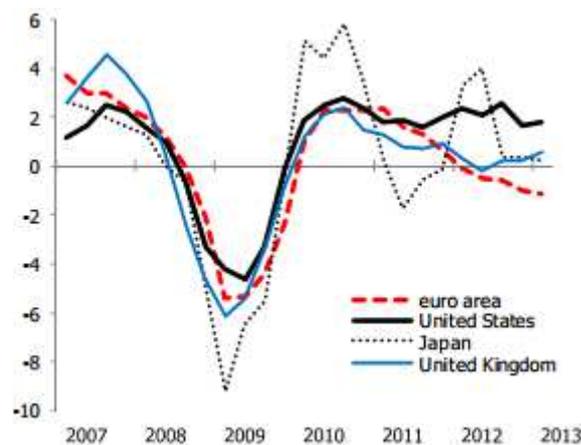
\*Resource: State Statistical Office, No:3.1.13.05, 2013

**Figure 1: Gross Domestic Product at Quarterly Level, Compared to the Corresponding Period of the Previous Year (Growth Rates %)**

Through this result, we see that the economic growth of the previous year with a negative value in the quarterly of 2013 has a positive growth of 3.9% which means that the optimism for such an economic growth until the end of the year is between 2-2.5%, especially in the part of our export growth.

**RESULTS**

According to the estimated data, the growth rate of the Gross Domestic Product (GDP) in the second quarter of 2013 was 3.9%. In this quarter, an increase was registered in most of the sections. The biggest increase was recorded in the sections F - Construction by 33.2%, I - Transport, storage and communication by 7.5% and (C+D+E) - Mining and quarrying, Manufacturing and Electricity, gas and water supply by 4.1%. Household final consumption, including Non-profit institutions serving households, increased by 3.5% in nominal terms compared to the same period of 2012, and its share in the GDP structure was 75.9%. In the same period, Export of goods and services increased by 1.1% in nominal terms, while Import of goods and services also increased by 1.3%. From the national statistics in the first quarterly for 2013, the growth of global economic operation has been somehow weaker in proportion to the expectations and the same was 3%, compared to the expected growth of 3.3% per year. The outlooks for global economic operation are still optimistic, with an expected global growth of 3.1%, whereupon the downward risks around the projection are still dominated, while the revisions of values are in a downward direction, source Eurostat.



Source: Eurostat

**Figure 2: Real GDP Growth in Advance Economies (Year-on-Year Percentage Changes; Quarterly Data)**

In the beginning of 2013 the economic operation in euro-zone got decreased more than it was expected, whereupon it was performed a downward revision of the negative economic growth for 2013 of -0.4%, to -0.6%. On the other hand, the US economy underwent quarterly growth of GDP of 0.6%, confirming the continuity of the process of economic recovery. Thus, data about GDP in the USA show that it is higher than 3%, compared to the maximum of pre-crisis period. In 2013 it is expected that the US economy will increase for 1.7%, above all as a result of the growth of private sector activity and the increased domestic demand.

## CONCLUSIONS AND RECOMMENDATION

**Republic of Macedonia** has focused all its strengths and potentials in economic development and creation of favorable business environment. With long-year macroeconomic stability and low inflation rate of average 2% in the 10 last years, the country has a balanced public finances with low budget deficit, stable exchange rate and low public debt totaling 32,5% of the GDP. Within the last three years a list of reforms were conducted in the area of labor market, along with active employment measures, which contributed to decrease of unemployment for about 4%. Wide-ranging reforms have improved the overall business environment, leading to increased foreign direct investments which from 1998 to 2009 total EUR 3 billion. For these results achieved, during the last three years Macedonia was included among the top world reformers, according to the World Banks "Doing Business Report" and was also indicated as a most favorable country for business start up in Southeast Europe. Recommendations of Macedonian government for the following year have signals for a growth of economic activities, because indicators that continually outcome by the economy of Eurozone have recovering signals, so it is expected that this will be reflected even in the economic growth of the country. An argument showing the development of the state of the country and Eurozone is GDP's growth. This is a good signal for companies oriented towards export, as the highest percentage of our exports are realized with EU, and in this point it is good to know that the highest growth is in Germany, which meantime is the biggest trade partner.

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## APPENDICES

**Table 2: Gross Domestic Product by Production Approach, Current Price in Million Denars**

Quarter				Year	Quarter			
2012				2012	2013			
I	II	III	IV		I	II		
8144	10916	11917	14262	<b>45209</b>	8321	12149	A+B	Agriculture, hunting, forestry and Fishing
18758	20381	20174	20864	<b>80178</b>	19958	22502	C+D+E	Mining and quarrying, Manufacturing and Electricity, gas and water supply
3809	7197	9443	11244	<b>31693</b>	5692	9616	F	Construction
13781	17035	16227	17562	<b>64605</b>	14640	17570	G	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods
1042	1391	1744	1287	<b>5464</b>	1063	1393	H	Hotels and restaurants

Table 2: Contd.,

7096	7357	7632	8042	<b>30128</b>	7358	7858	I	Transport, storage and communication
19409	19913	19861	20397	<b>79580</b>	20602	21094	J+K+O	Financial intermediation, Real estate, renting and business activities, Other community, social and personal service activities (Imputed rents are also included)
17119	17245	17083	17233	<b>68680</b>	17310	17436	L+M+N	Public administration and defense, compulsory social security, Education, Health and social work
89129	101436	104081	110891	<b>405537</b>	94944	109618	Value Added	
13099	13098	15209	13606	<b>55013</b>	10594	14382	Net taxes on products	
102228	114534	119291	124497	<b>460549</b>	105538	124001	Gross Domestic Product	

**Resource:** State Statistical Office, No: 3.1.13.05, 2013

