

Global financial crises impact on Macedonian economy

CEA

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What is behind the financial crisis:

- Large macroeconomic imbalances
- Excessive household and government indebtedness in the „rich“ world
- Securitisation and distribution of risky debt („toxic“ assets) at a global scale
- Distortion of asset prices and lack of transparency via „structured“ products

Result:

- The rich world is already in recession
 - Unemployment, foreclosures, corporate bankruptcies, falling prices, liquidity trap risk
- Other economies will be dragged in through:
 - reduced FDI, liquidation of local assets, weaker net exports, lower remittances, exchange rates
- Macedonia can escape economic and social consequences?

Structure of the presentation

- Current situation in Macedonian economy
 - Financial sector
 - Real sector
- Expectations for Macedonian economy
 - Financial sector
 - Real sector
- Specific points

Financial sector (current)

- Financial sector in Macedonia is composed of banks, insurance companies and stock exchange. The share of bank assets is 90% of the total assets,
- Macedonian banks are well capitalized
 - Capital adequacy ratio 15% as of September 2008 (Basel II standards minimum 8%),
 - Only 2.8% of total liabilities account for liabilities on the basis of borrowings from foreign banks,
 - Only 7.5% of granted credits are risky in a sense that can be considered as non-performing loans.

Real sector (current)

- Decline in aggregate demand (foreign and domestic),
 - Q4:2009, 7.6% decline in industrial production compared to the same Q4:2008, of which
 - Biggest share from the exporting iron&metal industry (50% decline same period)
 - Q4:2009, Export decline 15.7% compared to the same Q4:2008
- Unemployment higher for about 5000 person in January 2009 (around 1.5% of total unemployed)

Expectations

- Scenario
 - No information how deep the global financial crisis is,
 - Global Economic nationalism and inefficient global coordination,
 - Within this scenario for Macedonia causality is important,
 - The crisis in Macedonia might canalize from real sector to financial sector i.e. it will be unidirectional from the real sector to financial sector due to possible lower liquidity and creditworthiness and thus,
 - Possible need for “second wave” IMF arrangements

Expectations (model results)

- Expected GDP growth in 2009 of 2%
 - Industry production decline of 8% (mainly in the elastic sectors)
 - Agriculture – small growth of 1-2% - thanks to subsidies and maybe IPA funds
 - Service sector – will have small positive growth 1-2% (due to strong consumption and higher wages)
 - IT and high tech sector might benefit as companies are moving to low cost countries – Johnson Controls

Specific points

- Budget 2009 at risk?
- Revenues side: at the moment performing well because:
 - VAT is around 50% of the total tax revenues of the budget,
 - Export sector is not significant VAT taxpayer,
 - Second round effects can cause significant revenue collection decline

Specific points

- Budget 2009 at risk?
- Expenditure side:
 - Expected lower revenues will put pressure for supplementary budget
 - Expected low performance of capital expenditures (two shortcomings: one from the weak historical performance and second from the lower liquidity)
 - Risk for crowding out because government capital expenditure is substitute for private capital expenditure in an environment of weak institutions

Specific points

- Local governments can be affected:
 - Macroeconomic channel (lower VAT transfer)
 - Will to take LSG as partner
 - Pressure for increased expenditures
 - Previous underinvestment in infrastructure
 - Previously deferred and inadequate maintenance
 - Geographical and other distinctions among various LSG jurisdictions

Specific points

- LSG can:
 - Find internal sources of funding from improved efficiency in providing services to citizens
 - Intensify the dialogue with the central government to secure an orderly budgeting process
 - Less ethically, also, postpone payments of invoices for goods and services and additionally worsen the already popular "LSG debt" position
 - Reduce the quality of services.

Specific points

- Given the nature of the crisis and the specific Macedonian economic performance:
 - Short term policies targeting real sector
 - Policies should be focused on securing financing and know-how for the small and medium enterprises
 - GoM announced arrangement with EIB for 50 mln euros with lower interest rates to SMEs in Macedonia

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