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МИНИСТЕРСТВО ЗА ФИНАНСИИ



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE

South East Europe: What is the current path for integration and growth?

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“A New Normal? The Global Economic Expansion, Inflation Dynamics, Financial Stability and Its Meaning for Global Assets Management”

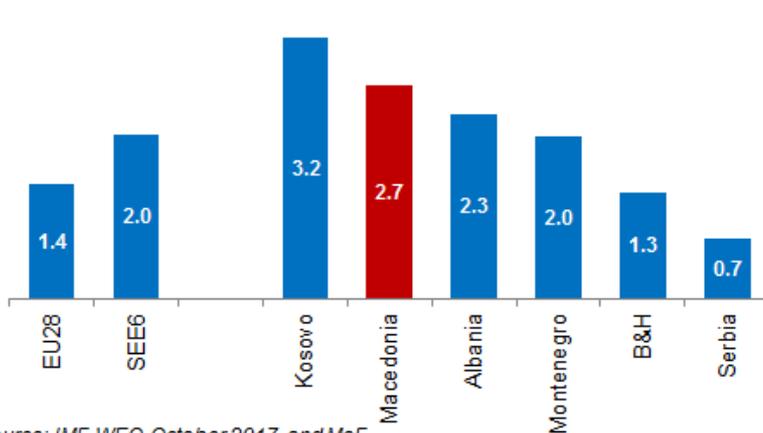
The National Bank of the Republic of Macedonia and Reinventing Bretton Woods Committee

16 February 2018, Skopje

Regional economic performance

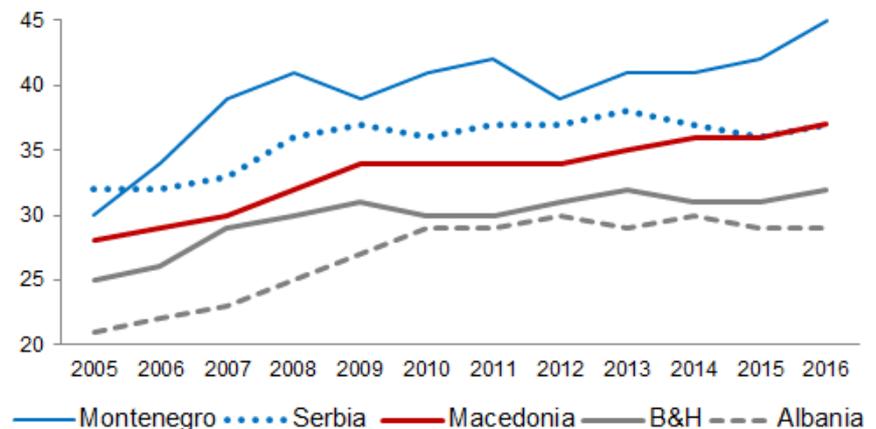
- In the post crisis period, the region had a considerably stronger GDP growth than the EU...
- ... but we still lag far behind European income levels
- Macedonian GDP per capita is somewhere in the middle, with 37% of EU28 average → clear indication that thorough changes need to be made – Otherwise the income convergence will take very very long

**Average real GDP growth rates,
2010-2016**



Source: IMF WEO October 2017, and MoF

GDP per capita in PPS (EU28=100)



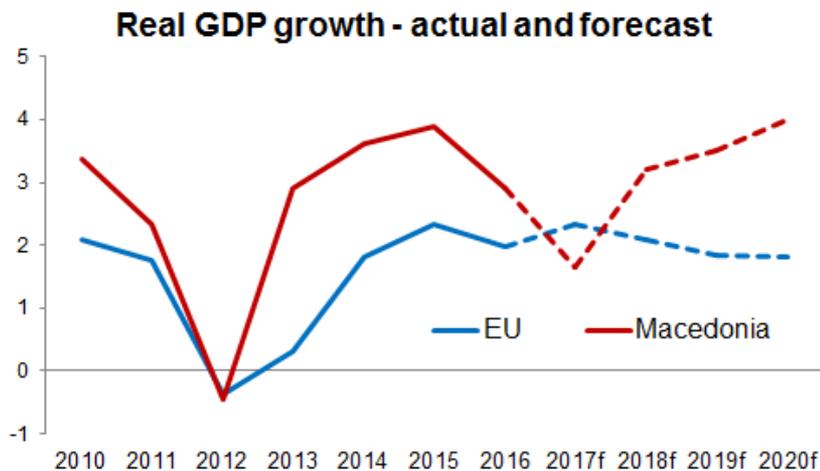
Source: Eurostat

Key priorities of the Government

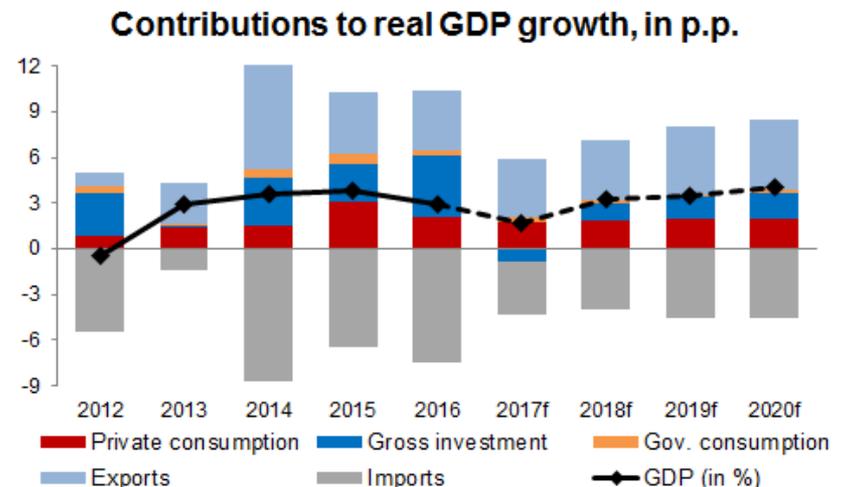
- The achievement of the key priorities of the new Government will contribute towards faster income convergence to EU levels:
 - Disciplined, efficient and transparent fiscal policy
 - Higher rates of productive employment
 - Judiciary reform and rule of law
 - Higher level of social justice
 - Supporting domestic and foreign companies
 - Investments in public services and infrastructure and
 - Intensifying the NATO and EU integration processes

Economic performance

- In the first three quarters of 2017, the economy contracted by 0.4% - primarily reflecting the decline in investment due to the prolonged political uncertainty, as opposed to stable private consumption and exports
- Signs of recovery since late 2017 as political stability is restored - Growth should intensify to 3.2% in 2018, and reach around 4% in the medium term
- GDP growth will be driven by continuously strong exports and higher public and private investment - Also solid private consumption



Source: IMF WEO October 2017, and MoF

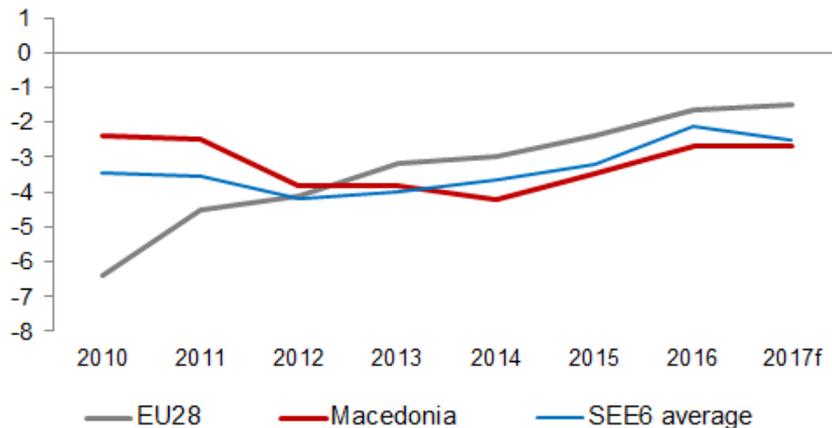


Source: SSO and MoF forecasts

Fiscal performance

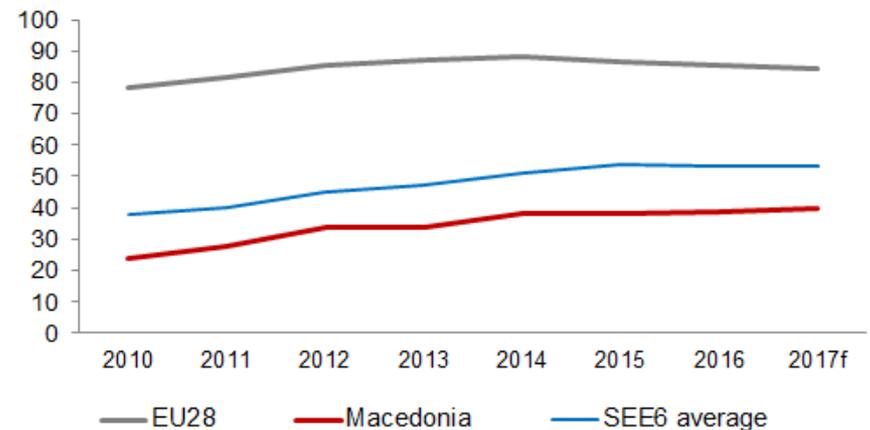
- 2017 budget deficit of around 2.7% of GDP, below the planned 2.9% - With the Budget adopted in December, 2018 deficit is planned at 2.7% of GDP
- Macedonia's end-2017 general government debt-to-GDP ratio stood at 38.7% (public debt at 46.7% of GDP) and remains one of the lowest in CEE/SEE – also far below EU debt levels
- We plan a gradual fiscal consolidation to a deficit of around 2% in 2020 – This will also help stabilize the debt level at a ratio that is sustainable for Macedonia

General government balance (% of GDP)



Source: IMF WEO, October 2017 and MoF

General government debt (% of GDP)



Source: IMF WEO, October 2017 and MoF

Public debt management

- Combination of financing on the domestic securities market + foreign sources
- Stable domestic demand – continuous lengthening of average maturity – also yields on domestic primary market lowered recently
- A month ago Macedonia successfully issued a 7-year benchmark Eurobond with a historically lowest coupon rate of 2.75% - Demand was 7 times higher than the offer
- Early this month Fitch revised Macedonia's outlook from negative to positive, affirming the credit rating at BB
- These are all solid proofs that foreign investors believe in a future stronger growth of the Macedonian economy and the long-term stability of the country

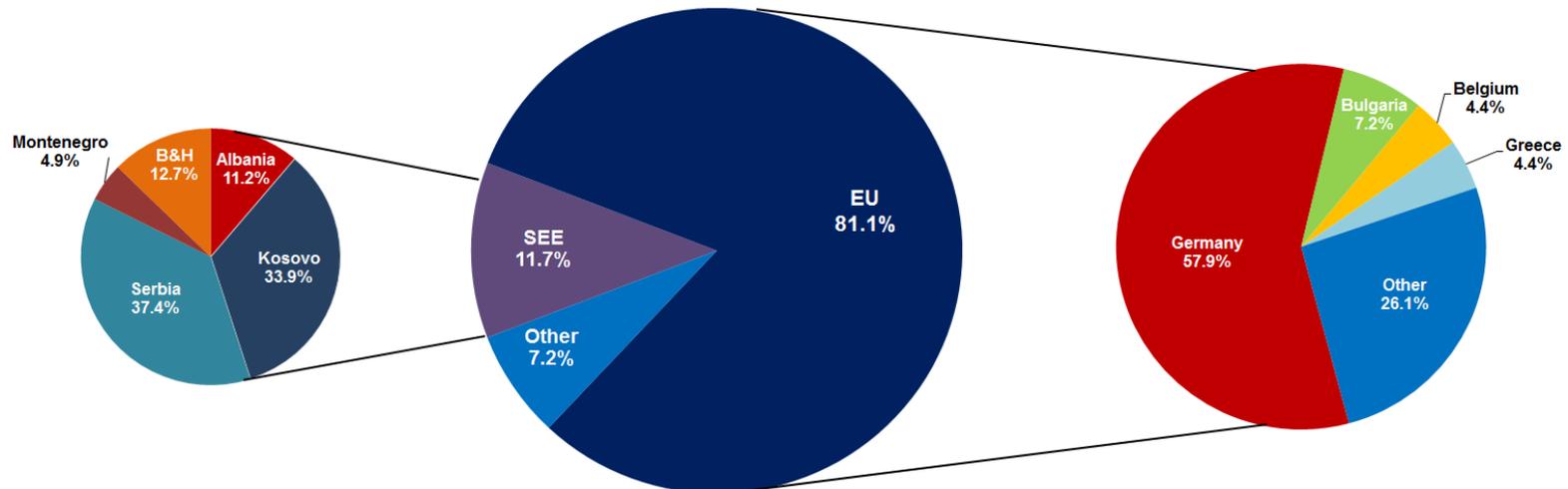
Key MoF policies ahead

- One of our first steps was to radically improve fiscal transparency – Key ingredient for accountability and responsible public spending:
 - Done: Citizen's Budget, public debates on the budget, publication of detailed time series on budget execution of various levels of government, publication of annual budget reports and procurements of all public institutions, publication of unpaid obligations of all public institutions...
 - Planned: Software and law for continuous registration and publication of all unpaid obligations, real-time Treasury on the web...
- Responsible fiscal policy: improved revenue collection, higher efficiency of public spending (especially social transfers and agricultural subsidies), cutting of less-productive spending...
- Introduction of (mild) progressivity of personal income tax – more equitable + help finance spending on public services (especially health and education)
- Public Financial Management Strategy:
 - New Organic Budget Law and integrated MoF IT system → better budget planning, execution, control, accountability and transparency
 - New law on public procurement, better public finance oversight mechanisms...

Macedonia's economic partners

- EU is our largest foreign trade partner, with a share in total export rising from 65.3% in 2012 to 81.1% in 2017 – Almost half of total exports to Germany
- This increase is primarily related to greenfield investment projects in manufacturing that produce goods for export to the EU
- Export share of SEE countries decreased from 22% in 2012 to 11.7% in 2017
- Nearly 80% of FDI stock from EU countries – EU banks also own around 75% of the banking system assets

Export structure of Macedonia in 2017



Future integration and growth

- We expect gradual intensification of GDP growth in the country to continue, in the wake of political stabilization – 4% growth in the medium term
- The structure of growth should also resemble the pre-political crisis structure - **Exports and investment driven growth** – This is a more sustainable growth model, and will also have positive effects on potential growth
- Latest EU Strategy notes the EU perspective for the region and mentions 2025 as a possible accession date for some countries – but still dependent on strong country progress on reforms
- Macedonia is an EU candidate country from 2005 – we expect recommendation to start accession negotiations this year
- Economically, we are already closely connected to the EU – strong trade links, FDI, bank ownership...

Future integration and growth

- Strong regional cooperation, to be enhanced in the near future – will also directly and indirectly add to economic growth:
 - Better infrastructure links – e.g. highways and railways under construction (Corridor X, parts of Corridor VIII), planned new highways (to Kosovo and Albania) and railways (to Albania)
 - Freer flow of goods, services and capital - e.g. joint customs controls with Serbia
 - Regional cooperation on product, market and tax regulations
 - Joint endeavors in third markets
 - Cross-border projects, etc.
- However, we do not view this as a a tool for keeping us in the “waiting lobby” or as a substitute for EU membership - On the contrary, we see it as a stepping stone towards our final aim, which is higher income standards and accession to the EU

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Thank you for your attention!