



Formulaire CH@WORLD: A754

Représentation suisse à Skopje	
Pays: République de Macédoine	Date de la dernière mise à jour: 12 juillet 2017

Macedonia – Economic report 2016

1. Economic problems and issues

In 2016, the Macedonian economy paid the price of political uncertainty: as the country went through a protracted political crisis, public and private investments slowed down significantly. As a result, GDP growth fell from 3.8% in 2015 to 2.4% in 2016.

Construction, in particular public investments in infrastructure such as highways, remained an important contributor to GDP growth. Consumption gained however in relative importance as contributor to GDP growth on the back of stable employment, higher wages, pensions and transfers. The government's active labour market policies helped bring down the unemployment rate, which remains however high at 25.4%.

Exports grew by 11.5%, driven by exports from industries typically recipients of Foreign Direct Investments, while imports grew by 7.6%, further reducing the trade deficit to 18.8% of the GDP in 2016. The current account deficit, which remained small at 3.1% of the GDP, was fully absorbed by the FDIs net inflows, standing at 3.6% of GDP.

Credit expanded, driven by household lending, while corporate lending declined. The banking sector remains stable, liquid and well-capitalized, and Non-Performing Loans declined.

The fiscal deficit declined to reach 2.6% of the GDP, largely due to under-execution of capital spending, and despite an increase in spending on social benefits, including pensions. Public debt continued to increase, driven by government's borrowing and guarantees to State-Owned Enterprises, reaching 47.8% of the GDP.

The National Bank pursued its informal peg of its currency (MKD) to the Euro. In May 2016, it raised its reference rate from 3.25% to 4% to respond to pressures on the foreign currency market and banks' deposit bases due to the political crisis. Since then, it reduced it back to 3.25%.

Looking ahead, the National Bank projects a slightly higher GDP growth rate at 2.5% in 2017 and 3.2% in 2018. However, the important challenges facing the Macedonian economy should not be underestimated. In the short term, the country will need to restore political stability following years of crisis. The new government inaugurated in May 2017 will also need to launch structural reforms, as well as intensify efforts to increase transparency and ensure the rule of law.

In the medium term, the government will also need to reassess the growth model of the Macedonian economy. A reliance on public spending as driver of economic growth and a focus on attracting FDIs to low value-added export-oriented sectors may have brought benefits in the short-term (in particular in terms of employment), but might not be sustainable in the long-term. The government will need to consider stepping up investments in human capital, in particular through meaningful education reforms. The government will also need to stimulate private spending through business-friendly reforms and the enforcement of the rule of law. Credible fiscal consolidation will also need to be a priority going forward, as important financing needs are expected to arise in 2020-21.

When planning its reforms, the government will be able to rely on the recommendations from the European Commission's Report on Macedonia ("Progress Report") dated November 2016 as well as the joint conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey dated May 2017. According to the Progress Report, the Macedonian economy still features an uncompetitive domestic private sector, "hampered by weak contract enforcement, the large informal economy and difficult access to finance". Although the report acknowledges that the economy was sustained by major public infrastructure spending and FDIs, it finds flaws in the management of public finances. In 2016 the government's failure to pass public finance reforms resulted in a substantial cut in EU funding. The report notes that the government failed to reduce the fiscal deficit in recent years and that the "rising financing needs of State-Owned Enterprises managing the government's investment agenda are driving up public debt levels".¹

2. International and regional economic agreements

2.1. Country's policy and priorities

Macedonia's main foreign policy objective is its integration into the Euro-Atlantic institutions. As such, full participation to the EU single market is a key priority when it comes to international and regional economic agreements.

Though the country has made some early progress in this regard, integration has hampered since 2009 by the conflict with Greece about the name of the country. A Stabilisation and Association Agreement (SAA) between Macedonia and the EU entered into force in April 2004. The objectives of this agreement were among others to promote economic relations and develop gradually a free trade area between Macedonia and the EU. In December 2005, the European Council granted Macedonia the status of EU member candidate country. In October 2009, the Commission made recommendations to the Council to open negotiations with Macedonia and to move to the second phase of SAA implementation. These recommendations were reiterated every consecutive year since 2010. The Council has not yet positively decided on the Commission's proposals because of the Greek opposition because of the name issue. The Greek opposition does not prevent however Macedonia to participate in the Stabilization and Association process.

In December 2009, visa liberalisation for citizens of Macedonia travelling to the Schengen area (including Switzerland) entered into force, allowing easier traveling for Macedonian businesspeople.

A High-Level Accession Dialogue, launched in March 2012, was supposed to provide an impetus to the process of reforms towards EU integration, without overriding the standard pre-accession procedures. It focuses on five key areas, three of which are directly relevant to the functioning of the Macedonian economy: strengthening the rule of law and fundamental rights, reforming public administration, and developing the market economy. The dialogue has been however put on hold for over a year now because of the political crisis. It is expected to restart following the inauguration of the new government on 31 May 2017.

In the meantime, the EU continues to provide support to Macedonia through its financial assistance under the Instrument for Pre-Accession Assistance (IPA). The IPA II programme for the period 2014 to 2020 foresees funding of EUR 664 million for programmes in 8 priority sectors, all of which relevant to the functioning of the Macedonian economy: democracy and governance, rule of law and fundamental rights, environment and climate action, transport, competitiveness and innovation, social development (education, employment, welfare system), agriculture and rural development, regional and territorial cooperation.

Although full participation to the EU single market is a key priority for Macedonia, the country has also concluded trade arrangements with a number of other countries. In January 2001, bilateral agreements with Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro, Kosovo and Moldova were replaced by membership in the Central European Free Trade Agreement (CEFTA). Since May 2002, Macedonia has bilateral free trade agreements with Ukraine, Turkey, and the

¹ EIU (Economist Intelligence Unit) Country Report Macedonia – 10.02.2017

European Free Trade Association (EFTA - Switzerland, Norway, Iceland, and Liechtenstein). In 2003, Macedonia became a member of the World Trade Organisation (WTO).

Despite membership in CEFTA, regional economic trade is far from being integrated. There are still non-transparent non-customs barriers in trade among CEFTA members, such as complicated procedures at border crossings due to inspection work, as well as technical barriers such as sanitary and phyto-sanitary measures and veterinary control. Despite the common public procurements market among CEFTA countries, there remains a lack of transparency in public procurements.

In addition to trade arrangements, Macedonia also has concluded agreements to promote and protect FDIs with Albania, Austria, Bosnia and Herzegovina, Bulgaria, Belarus, Belgium, Luxembourg, Germany, Egypt, Iran, Italy, India, Spain, Serbia, Montenegro, People's Republic of China, Republic of Korea, Malaysia, Poland, Romania, Russia, Slovenia, Turkey, Ukraine, Hungary, Finland, France, the Netherlands, Croatia, the Czech Republic, Switzerland and Sweden.

2.2. Outlook for Switzerland

Since May 2002, Switzerland's trade relations with Macedonia are regulated by the Macedonia-EFTA agreement. A second session of the mixed Committee, held in Geneva in November 2008, contributed to further improving framework conditions. Among EFTA member states, Switzerland has closer economic relations with Macedonia than Norway, which even closed its diplomatic representation office. Macedonia remains however a modest trade partner for Switzerland in terms of volume with a total bilateral trade volume between Macedonia and Switzerland hovering around CHF 110 million in the last three years (2014: CHF 120 million; 2015: CHF 107 million; 2016: CHF 109 million).

Other important bilateral economic agreements include:

- Bilateral trade and economic cooperation agreement (in force since 1.09.1996);
- Bilateral investment promotion and protection agreement (in force since 6.05.1997);
- Bilateral double taxation avoidance convention (in force since 27.12.2000);
- Bilateral arrangement related to trade in agricultural products (in force since 1.05.2002)
- Bilateral aviation agreement (in force since 1.03.2010).

3. Foreign trade

3.1. Development and general outlook²

Export growth continued in 2016, to reach a total of EUR 4.33 billion. While this growth was mostly driven by German demand and an increase in manufacturing capacity, the weaker domestic currency (MKD) also helped boost exports to non-euro zone countries.

Germany continues to be by far the most important destination for Macedonian exports. In 2016, Macedonian exports to Germany reach EUR 2.034 billion, or roughly 47% of total exports. Other important destinations for Macedonian exports include Bulgaria, Serbia, Greece, Belgium, and Italy. Eight from the top 10 destinations for Macedonian exports are EU countries. Switzerland is ranked 23rd according to Macedonian statistics. For Macedonian exporters, the Swiss market remains difficult to access among others because of the high requirements of Swiss importers.

The main exports of Macedonia are machines and automotive parts, chemical products, food, beverages, tobacco, textiles, miscellaneous manufactured products, ferro-nickel, iron, steel (flat-rolled products). On the service side, the most common exports include commercial services, manufacturing on physical inputs owned by others, transport, travel, other business services, telecommunications, computer/IT services, construction, personal/cultural and recreational services.

² See Annex 3 for trade statistics from the Macedonian statistical office

Imports reached a total of EUR 6.1 billion, supported by the growth in private consumption and low oil prices contributing to lower import prices.

Germany is the most important origin for Macedonian imports, though the gap with the next countries is not as big as for exports. Imports from Germany reached EUR 750 million, or 12% of the total imports. Beside Germany, Macedonia is mostly importing from Great Britain, Serbia, Greece, and China. Turkey and the USA are also included in the top 10. Switzerland is ranked 24th according to Macedonian statistics.

Main imports in Macedonia are machinery and equipment, automobiles, chemicals, fuels, electricity and food products. On the service side, most common imports include commercial services, transport, other business services, construction, travel, telecommunications/computer/information.

3.2. Bilateral trade

According to Swiss statistics, bilateral trade between Macedonia and Switzerland remained almost at the same level as in 2015, reaching CHF 109 million or a modest increase of 1.8%. Imports from Switzerland to Macedonia decreased slightly by -0.9% to reach CHF 41 million, whereas exports from Macedonia to Switzerland increased by 2.7% to reach CHF 68 million.

Main exports from Macedonia to Switzerland are textile products and apparels, representing almost 68% of the total, followed by edible vegetables, artificial materials, furniture, linens, precious stones and metals, footwear, electrical and non-electrical machines.

Main imports from Switzerland are pharmaceuticals, electrical and non-electric equipment, textile and clothing, automotive (other than railway and tramway), optical medical instruments, watchmaker's goods, and artificial goods.

4. Direct investments

4.1. Development and general outlook

FDI inflows to Macedonia in 2016 amounted to a total of EUR 358 million. An important part of this flow (EUR 203 million) consisted of reinvested earnings or part of debt capital towards parent companies in originating countries. This large amount comes from the fact that the government introduced taxation on profits that will not be reinvested in the country.

In spite of the heavily advertised campaigns and a long list of incentives, Macedonia continues to attract less FDI in comparison with other Southeast European countries. According to Macedonian statistics, the countries with the highest FDI are Germany, the Netherlands and Turkey.

Macedonia continues to be well ranked among the top reformers worldwide according to the Doing Business report³. Still, there are a number of challenges that investors face once they decide to invest. Foreign investors in Macedonia typically complain about the uncertainties which were brought by the political crisis, the lack of rule of law, heavy bureaucracy, unfair treatment, corruption, and the difficulty of getting skilled and productive workers.

FDI inflows are not expected to show a significant increase in 2017. The end of the political crisis might however stimulate the interest of foreign investors for the country in the months to come.

4.2. Bilateral investment flows

According to Macedonian statistics, Switzerland was the 15th most important country in terms of source of FDI in 2016 with EUR 2.02 million, equivalent to 1.3% of total FDI in 2016. Liechtenstein fared slightly better, reaching the 9th place with EUR 8.4 million, equivalent to 5.4% of total FDI in 2016. The only new Swiss investment the Embassy is aware of is one in the Technological Industrial Development Zone of Kichevo, which was the object of an investment agreement with the Macedonian Government.

³ <http://www.doingbusiness.org/reports/global-reports/doing-business-2017>

There are over 35 Swiss companies present in the Macedonian market⁴. The few larger Swiss investments in Macedonia are in the mining sector (IMR – Feni Industries, Fusion Capital AG), steel sector (Duferco – Makstil) and Tobacco (Socotab Frana SA). There are still ongoing activities for the expansion of the Rontis production plant near Veles. Other, smaller Swiss investments can be found in the areas of transport (Kuehne & Nagel), construction and supporting materials (City Beton and Daniel Ruchti AG) and software services (Netcetera and Inside Solutions AG). Other Swiss companies are represented either through their representation offices or third parties representing their interests. Swiss firms employ an estimated >4500 employees including some seasonal employees.

Swiss companies interested in investing in Macedonia can obtain comprehensive information at the Government agency “Invest Macedonia” - www.investinmacedonia.com, which also has offices abroad. Their International office in Austria is covering Switzerland (austria@investinmacedonia.com).

5. Trade, economic and touristic promotion

5.1. Foreign economic promotion instruments

Switzerland enjoys a very good reputation in Macedonia, among others thanks to its substantial cooperation programme. One of three main domains of the cooperation programme is employment and economic development. Through the various projects implemented in this domain, the Embassy has developed an extensive network of contacts in the public and private sectors of direct relevance to potential Swiss companies. Signing and opening ceremonies of the various projects usually receive significant media coverage, thereby contributing to enhancing the visibility of Switzerland as an economic partner.

In Switzerland, the Swiss-Central Europe chamber of commerce (SEC) in Zurich is the relevant chamber for companies interested in Macedonia. The Embassy invites Swiss and Swiss-Macedonian companies presently doing business in Macedonia to economic or business related events. The Embassy has also been engaged in facilitating contacts with the local authorities and, to a limited extent, to local counterparts. When it is made aware of specific opportunities, the Embassy also transmits Macedonian public tenders to Switzerland Global Enterprise (S-GE) and specialized associations.

Promotion material from Presence Suisse and Switzerland Tourism is available at the Embassy for display to visitors or distribution at specific events.

5.2. Interest for Switzerland as a location for tourism, education and other services, potential for development

Switzerland is of modest importance as a tourist destination for Macedonia, except for relatives of members of the Macedonian diaspora in Switzerland. Switzerland Tourism is accordingly not represented locally. The main destinations for Macedonian tourists are the neighboring countries (Greece, Bulgaria, Serbia and Albania). The daily flights and regular bus-lines connecting Macedonia and Switzerland are mostly used by members of the Macedonian diaspora in Switzerland visiting Macedonia or their relatives in Macedonia visiting them in Switzerland. There is however significant interest for the Swiss expertise in the tourism and hospitality sector. The transfer of such expertise is facilitated among others in the framework of projects of the Swiss cooperation programme.

In the education sector, Swiss expertise in skills development is used through the establishment of cooperation between Swiss and Macedonian education institutions. Currently, such cooperation is established in forestry, product design and tourism and hospitality with a potential to expand to other areas as well.

Switzerland is rarely chosen for periods of training and related services; however, research, doctoral and post-doctoral fellowships granted by the Federal Commission for Scholarships encounter significant interest among Macedonian students.

⁴ See Annex 6, Module CH@WORLD : A357

5.3. Interest for Switzerland as a financial location, potential for development

The Macedonian business elite are well aware of Switzerland as a financial location. It is likely that some of the FDIs originating from Switzerland are actually Macedonian funds channelled through Swiss financial institutions. In 2016, FDIs originating from Switzerland were at a very low level, however there have been years in the past when this number was significantly higher, e.g. 2015 with almost 20 million EUR, or 15% of the total FDI. The same goes for Liechtenstein: in 2016, 8.41 million EUR FDI originated from Liechtenstein, or 5.4% of total FDI. These flows are likely Macedonian investments channelled through Switzerland and Liechtenstein as financial locations.

6. Useful internet links

Official Government website (with information about ongoing tenders)	http://www.vlada.mk/
Statistical Office of the Republic of Macedonia	http://www.stat.gov.mk/Default_en.aspx
National Bank of Macedonia	http://www.nbrm.mk/
Invest Macedonia	http://www.investinmacedonia.com/
Secretariat of European Affairs, Government of the Republic of Macedonia	http://www.sep.gov.mk/
Ministry of Economy	http://www.economy.gov.mk/
Ministry of Finance	http://www.finance.gov.mk/view/naslovna
Economic Chamber of Macedonia	http://www.mchamber.org.mk/
Central European Free Trade Agreement (CEFTA)	http://www.cefta.int
International Monetary Fund (IMF)	http://www.imf.org/external/country/MKD/index.htm
The World Bank	http://www.worldbank.org/en/country/macedonia
The Vienna Institute for International Economic Studies (WIIW)	http://www.wiwi.ac.at/
American Chamber of Commerce in Macedonia	http://www.amcham.com.mk/
British Business Group – Macedonia	http://www.bbqm.co.uk/
Delegation der Deutschen Wirtschaft in Mazedonien	http://mazedonien.ahk.de/
Dutch Chamber of Commerce in Macedonia	http://www.kvkmk.org/index_uk.htm
European Business Association in Macedonia	http://www.eba.mk/home
Latest European Commission Progress report on Macedonia (November 2016)	https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_the_former_yugoslav_republic_of_macedonia.pdf

ANNEXE 1

Economic structure ⁵

Distribution of GDP (%)	2015	2016
Primary Sector	10.2 %	11.2 %
Manufacturing	24.9 %	26.3 %
Services	64.9 %	62.5 %

Distribution of Employment	2013	2014
Primary Sector	18.1 %	18.0 %
Manufacturing	30.6 %	30.6 %
Services	51.2 %	51.4 %

⁵ CIA World Factbook and European Commission 2016 Progress Report

ANNEXE 2

Key Data⁶

	2016	2017 ^{proj}	2018 ^{proj}	CH 2016
GDP (billions USD)	10.90	11.17	11.53	662.48
GDP /capita (USD)	5'237	5'350	5'648	79'577
Growth (% GDP)	2.4	2.5	3.2	1.0
Inflation (%)	-0.2	1.3	2.0	-0.4
Unemployment (%)	25.4	24.8	24.3	3.5
Budget Balance (% GDP)	-2.6	-3.5	-3.5	-0.3
Public Debt (% GDP)	47.8	49.9	52.5	44.7
Current Account Balance (% GDP)	-3.1	-2.4	-2.2	11.0
Foreign Currency and Gold Reserves (billions USD)	2.613.4	2.593	2.918	699.03 ⁷

⁶ World Bank, International Monetary Fund, National Bank of the Republic of Macedonia

⁷ [Swiss National Bank](#)

ANNEXE 3

Trade partners⁸

In EUR million

Rank	Country	Exports	Share of total In %	Change in %	Rank	Country	Imports	Share of total In %	Change in %
1	Germany	2'033.97	46.98	2.68	1	Germany	750.20	12.28	-0.35
2	Bulgaria	222.99	5.15	-0.87	2	Great Britain	654.68	10.72	1.06
3	Serbia	194.25	4.48	-0.09	3	Serbia	459.75	7.52	-0.18
4	Belgium	170.94	3.94	0.76	4	Greece	449.73	7.36	-0.43
5	Italy	158.42	3.65	-0.38	5	China	381.53	6.24	0.14
6	Greece	147.74	3.41	-0.27	6	Italy	347.99	5.69	-0.33
7	Romania	121.80	2.81	0.42	7	Turkey	315.80	5.17	0.18
8	Spain	106.22	2.45	0.20	8	Bulgaria	281.63	4.61	-0.69
9	Croatia	80.71	1.86	0.08	9	Romania	192.86	3.15	-0.07
10	Bosnia and Herzegovina	74.12	1.71	0.06	10	United States of America	135.42	2.21	2.06
23	Switzerland	28.22	0.65	-0.30	24	Switzerland	54.63	0.89	0.05
	Liechtenstein	0.48	0.01	0.01		Liechtenstein	0.04	0.00	-0.003
	Total:	4'329.27	100			Total:	6'106.73	100	

⁸ State Statistical Office of the Republic of Macedonia

ANNEXE 4

Trade between Switzerland and Macedonia ⁹

	Exports (CHF million)	<i>Annual change</i>	Imports (CHF million)	<i>Annual change</i>	Balance (CHF million)
2007	46	12 %	17	+27 %	29
2008	66	43 %	34	+102 %	32
2009	54	-19 %	21	-37 %	33
2010	22	-12 %	22.4	+ 6 %	24.5
2011	51	8.4 %	46	+104 %	5
2012	55	7.9 %	74	+62 % ¹⁰	-19
2013	51	- 6.4 %	74	+0.7 %	-23
2014	44	-13.4 %	76	+2.6 %	-32
2015	41	-7.2 %	66	-13.6 %	-24.7
2016	41	-0.9	68	+2.7 %	-27

Main Swiss Exports in CHF million	2015	2016	Change in %	Share of total in %
Pharmaceutical Products	7.92	8.34	+5.3	20.4
Electrical and non-electrical machines	12.70	7.62	-63.8	18.6
Textiles and clothes	6.99	7.25	+3.7	17.7
Vehicles, Aircrafts	2.50	5.29	+111.1	12.9
Optical medical instruments	1.62	2.05	26.6	5.0
Watchmakers goods	1.70	1.61	-5.0	3.9
Artificial materials	0.90	1.03	+14.9	2.5

Main Swiss Imports in CHF million	2015	2016	Change in %	Share of total in %
Textiles and clothes	47.06	45.9	-2.5	67.7
Agricultural products	4.37	4.99	+14.2	7.4
Artificial materials	4.2	3.47	-17.3	5.1
Furniture, linens	2.12	3.1	+46.7	4.6
Precious stones, precious metals, bijouterie	0.16	2.55	**	3.8
Footwear	1.31	1.92	+46.5	2.8
Electrical and non-electrical machines	1.55	1.7	+15.95	2.5

⁹ Source: Swiss Customs Administration

ANNEXE 5

Main investing countries¹¹

In EUR million

Rank	Country	Total Investments in 2016	Share of total in %	Previous year flow (2015)
1	Germany	39.86	25.64	32.46
2	Netherlands	27.96	17.99	12.32
3	Turkey	24.61	15.83	17.10
4	Bulgaria	16.08	10.34	-0.44
5	United Kingdom	15.90	10.23	-45.42
6	Luxemburg	15.82	10.18	-21.71
7	Italy	14.99	9.64	12.67
8	Austria	12.54	8.06	18.01
9	Liechtenstein	8.41	5.41	-2.64
10	Cyprus	7.82	5.03	8.11
15	Switzerland	2.02	1.30	19.57
2	St. Vincent and the Grenadines	-1.01	-0.65	49.45
1	Bermuda	-67.33	-43.32	181.67
Total:		155.40	100	130.48
Undistributed - reinvested earnings and part of other capital		203.06		26.54
Total inward DI flows:		358.46		157.02

¹¹ National Bank of the Republic of Macedonia, March 2017