

Preparing small countries for economic expansion

This is a pleasure and privilege to have the opportunity to share with you today some thoughts and address the challenging topic related to “Preparing small countries for economic expansion”.

In the financial turmoil we are facing today, small economies like Macedonia try hard to adjust the sailing route according to the new winds. In the last decade Macedonia went through a tough period of turbulence. We succeeded to lend safely and show remarkable growth of 5-6% over the years 2007 and 2008. But the global storm hit us. Industries that heavily suffer from the economic slowdown are metal industry, textile industry and building construction. Due to the fact that these industries are export oriented and are labor intensive, deterioration of trade balance is inevitable as well as massive layoffs, respectively. Financial sector does not have a direct impact from the financial burst, because market operated conservatively with main focus on collection of deposits and granting loans. However, significant decline in real economy results in less transactions and borrowings, thus generating less interest income for the banks. Banks and saving houses are under severe scrutiny of the Central Bank, which fully adopted BASEL II agreement and IFRS reporting, therefore leaving no room to put the bank in jeopardy without being aware of previous threats. The country has also strengthened its financial regulatory systems which has reduced the risk of financial crises and scandals. From political point of view, the key issue on the horizon is NATO accession and setting a date for the start of European Union accession negotiations. The country is now a candidate for EU membership and is awaiting for a formal invitation to join the NATO alliance.

Macroeconomic stability remains unchanged and denar peg to Euro guarantees foreign exchange rate to stay fixed even in this turbulent times. Relatively stable political risk environment, solid macroeconomic fundamentals and tax heaven, make Macedonia to be proud of one of the most favorable regulatory environments for foreign investors within emerging Europe region, that we expect this to begin paying dividends soon.

This is briefly the current situation of Macedonian economy.

Besides the grey clouds on the horizon, countries in the region are making joint efforts to keep the economy running and preparing it for the next decade. The main pillars for boosting the economy in 2009 are strong infrastructural projects being in the pipeline. They entail building highways, railways, electric, gas and renewable energy power plants, airports and further liberalization in the telecommunications sector. The next pillar that has high growth potential is the agricultural sector and tourism. Food industry and agriculture are important pillar to have a stable economy and healthy people. In this segment, small and medium enterprises play an important role because they are key drivers of growth and job creation, operating mainly on a regional basis. Promotion of Macedonian wine, honey, vegetables, hot springs and thermal waters can boost exports, provide more jobs for people living in the country and better allocation of national resources. IT businesses also bring value added products which could be counted as a significant driver and think-thank of the economy. They provide solutions that make our life easier.

Small Places Can Change the World

This means that we don't sit and wait things to happen by chance. In the world of change, regional organizations must foster innovation and master the art of change, otherwise they'll become candidates for extinction. Victory will go to those that maintain their flexibility, continually improve quality and beat their competition on the marketplace with a constant stream of innovative products and services.

And small economies have exactly these features. They are more vulnerable but with higher degree of elasticity to adjust on the new circumstances. The last two decades, new technologies and new business models were causing us to blindly run the full speed toward unknown. And the hot breath of treats and risk was on our neck all the time. We are used to live constantly under siege.

I welcome any thoughts you might have and thank you for your involvement.

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