

THE EFFECTS OF GLOBAL CRISIS ON MACEDONIA

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Abstract

This research paper has to do with the global crisis and its impacts on the economy of Macedonia. In the paper will be included a detailed explanation of the beginning of the global crisis which arises from 2008 when mortgage market in America failed and caused a big drop in the stock market. Reviewing the policies of the regional countries we will compare the results with Macedonian indicators. The goal is to show how Macedonia faces and what kind of policies uses during the last four years to fight back. Analyzing macroeconomic indicators and grey economy, corruption and high rate of unemployment we will see how the government tries and what kind of policies uses to prevent or better say to survive this period of global financial and social crisis. Greek's political and economic as well as Bulgarian political impact will be reviewed in detail. In the end of the paper, we will give some recommendations of our own, how to respond in such situations like Macedonia is faced with.

KEY WORDS:

Macedonia, Global crisis, Macroeconomic indicators, Policy, Goals

How the crisis began

The financial therefore the economic crisis that hit the world during these last 5 years has a lot of theories build up for itself. The opinions of analysts are almost the same they differ only in the interpretation.

We all agree that the main problem that led to this crisis is the mortgage problem in the USA. Approximately 6% of all the mortgages are in default now, but the fact is that before they were somewhere between 2% and 0.25%. As we see the difference is quite evident. Huge proportion of these mortgages were categorized as "sub-prime" loans. Most of these kind of loans have been made to borrowers with poor credit ratings and Alt-A's. And one would ask what are those "sub-prime" loans and Alt-A's? sub-prime loan is called the loan that is made to people who may have difficulty maintaining the repayment, while Alt-A's short for Alternative A-paper are loans which are riskier than A-paper or "prime" and less risky than "sub-prime". However it is good to know that 25% of the sub-primes and Alt-A's are in default. These loans increased dramatically as a 9/30/99 New York Times article explained, "In a move that could help increase homeownership rates among minorities and low income consumers, the Fannie Mae Corp. is easing the credit requirements on loans that it will purchase from banks and other lenders." We see that in the above citation is mentioned Fannie Mae Corp. The Federal National Mortgage Association (FNMA; [OTCQB: FNMA](#)), commonly known as Fannie Mae, was founded in 1938 during the [Great Depression](#) as part of the [New Deal](#).

It is a [government-sponsored enterprise](#) (GSE), though it has been a publicly traded company since 1968¹. First let us see why the banks made such risky loans. According to James F. Davis the Clinton administration had a "noble liberal idea" to help the poor people become owners of homes which they couldn't afford. The banks were also threatened to pay fines even to 10000 \$ for refusing to give such a credit. The thread was made my Clinton Justice Department. "To allow Fannie Mae to make more loans, President Clinton also reduced Fannie Mae's reserve requirement to 2.5%. That means it could purchase and/or guarantee \$97.50 in mortgages for every \$2.50 it had in equity to cover possible bad debts. If more than 2.5% of the loans go bad, the taxpayers (us) have to pay for them. That is what this bailout is all about. It is not the government paying the banks for the bad loans, it is us!"² And how did this all worked. Well the Federal Reserve of USA kept the interest rates artificially slow, therefore the loaners could pay in time the repayment, while the prices for houses were really high. This lasted till 2005-2006 when house prices started to go down and peaked.

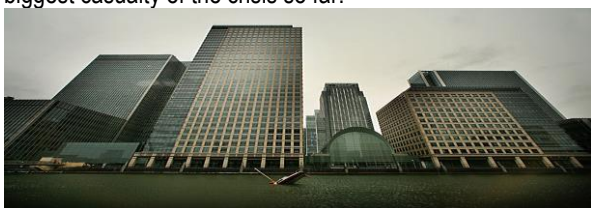
If we resume we could see as follows: **Larry Elliott, economics editor, said:** "As far as the financial markets

¹Pickert, Kate (2008-07-14). *"A Brief History of Fannie Mae and Freddie Mac"*. Time. <http://www.time.com/time/business/article/0,8599,1822766,00.html>.

²The Cause of the 2008 Financial Crisis, James F. Davis — October 14, 2008

are concerned, August 9 2007 has all the resonance of August 4 1914.

It marks the cut-off point between 'an Edwardian summer' of prosperity and tranquility and the trench warfare of the [credit crunch](#) – the failed banks, the petrified markets, the property markets blown to pieces by a shortage of credit". As we see from this statement of Larry Elliot, the crisis "officially began" on August the 9-th 2007. About a month later British bank Northern Rock faced problems with the liquidity and asks for help from British national Bank and also asks the clients to start to withdraw their savings, it was the first run on a British bank for 150 years. As the crisis continued to spread around January 2008 analysts announce the largest single-year drop in US home sales in a quarter of a century. Then on March 2008 the investment bank Bear Stearns is bought out by JP Morgan. It is the biggest casualty of the crisis so far.



Source:

http://www.time.com/time/photogallery/0,29307,1845923_1774401,00.html

The sculpture of a sinking boat which sits in London's Thames River in front of the city's business center, Sept. 30, 2008, seemed an apt metaphor for state of the global financial market.

Continuing with the chronology of the crisis next to mention is when on September 2008 the US government bails out Fannie Mae and Freddie Mac – two huge firms that had guaranteed thousands of sub-prime mortgages. Being on and off with the ups and downs the crisis catches 2009. This year is characterized with Greece. After Papandreou was selected he told that the situation was much worse than he thought and so the Greek crisis began. Then, through 2010 we can mention some bails on Greece, and trials to save it from bankruptcy. We have also the case of bailing out Ireland, and then Portugal in 2011. During 2012 Greece passes its most severe austerity package yet, the number of unemployed Europeans reaches its highest ever level and, the level of Spanish borrowing reaches a record high.

Heavily exposed to the sub-prime mortgage market, the American bank Lehman Brothers files for bankruptcy, prompting worldwide financial panic.³

On the other hand another analyst Jonathan Swift thinks that private sector's drive for short-term profit was behind the crisis. He states that more than 84% of the "sub-primes" in 2006 were issued by private lending. Non-bank underwriters made more than 12 billion sub-prime mortgages with value of 2 trillion dollars. Later in the article he states:

How then could the Mayor of [New York](#), [Michael Bloomberg](#) say [the following](#) at a business breakfast in mid-town [Manhattan](#) on November 1, 2011?

"It was not the banks that created the mortgage crisis. It was plain and simple, Congress who forced everybody to go and give mortgages to people who were on the cusp. Now, I'm not saying I'm sure that was terrible policy, because a lot of those people who got homes still have them and they wouldn't have gotten them without that. But they were the ones who pushed Fannie and Freddie to make a bunch of loans that were imprudent, if you will. They were the ones that pushed the banks to loan to everybody. And now we want to go vilify the banks because it's one target, it's easy to blame them and Congress certainly isn't going to blame them."⁴

Economic and social situation in Macedonia

The agency for credibility Standard & Poor's in 2010 has raised the rating from BB to BB+, which is the same rating as she had before the global crisis. The same did the FITCH agency for 2010. This changed the situation from negative to stable, thanks to good fiscal practice, public finance stability, low level of debt and keeping the foreign currency reserves in a stable level.

According to Nano Ruzin a professor at University Cyril and Methodius – Skopje, there is too much people unemployed and poor, but the state is not being able to answer to the needs of the population that lives so poor.

Beside of the name problem with Greece from one side, and identity problem with Bulgaria on the other side, Macedonia has also inner problems, being those problems with ethnicities or economical. The number one problem is high rate of unemployment, then the transfer of the work force, privatization process, bankruptcy processes, and redundancy.

Literal is 89% of the population, around 70% are with high school education, 14.7% are with faculty education and 50% are employer on industry. It is very interesting to mention that the percentage of higher education have employers rather than the people who work (33% of the unemployed have faculty education).

Poverty continues to be a raising problem for Macedonia. Approximately 40 % of the population barely survives the transition process and worsening the life conditions. Around 10 % of the population takes social help.

The new investors in free zones are released from paying taxes 5%-20% of the import of the goods of materials and equipment.

Countries like Macedonia, Albania, and Serbia have lots of economical as well as political benefits. Some zones have

⁴[Patrick Kingsley](#) *The Guardian*, Tuesday 7 August 2012

opened some new places for work because the work force is very cheap for Foreign Direct Investment (FDI). The constructing sector has a big growing rate, hoping the same to continue in the future. In Macedonia for now there are four industrial zones: one in Bunardzik, one in Skopje, in Stip and in Tetova. Investors in these zones do not pay taxes and are free on paying taxes for incomes and personal incomes for the next 10 years.

The investors see the economic zones like shelter investments where possibility to get a free production is. Macedonia is a place with all the possible options; it is a country between the east and the west of Europe and USA.

Grey economy

The grey economy in Macedonia is about 40%. Expand of the grey economy is very large, so the number that shows it is the maximum achieved. The reasons of having such a big percentage of the grey economy are many, among them is: corruption, poverty, transition, social problems, low rates of GDP growths, according to the Central Bank of Macedonia the grey economy also is indicated by illegal trading employing without paying the needed compensation and taxes, not paying the taxes by businesses etc.

The grey economy has its positive and negative sides. As a positive effect one could mention the some extra incomes that the people involved could earn or the incomes for living in special cases when one cannot assure work in "the official economy". On the other hand, there are the negative sides of the grey economy, which is the loss that the state and its institutions suffer, this means that lowering the payment of contributions and taxes there is less money for the budget and therefore less funds, lower wages, lower social help, less everything which is part of the budget.

The grey economy mostly appears in construction sector (behind which are all the service branches). Less appears in industrial production and government institutions. If in case happens the country to be on a deep recession, then the grey economy increases because the people try to compensate the lost part of the incomes by working in the grey economy. During recession, always the grey economy has growing trend.

For calming the situation in the cases when the grey economy phenomena is largely present the government should take measures for lowering the taxes, and it should facilitate the procedures of the documentation (simpler regulations). It is very important also to start initiating growth of the official economy.

The global crisis didn't overpass Macedonia, but the consequences weren't as catastrophic as they were mentioned to be in the beginning. The reason for that is that Macedonian economy is small and adjustable; also the

small businesses do not earn more than 150 billion euros per year.

The reasons/ missteps of Macedonian economy

Macedonia has a big trade exchange deficit with -2.2 billions of dollars in 2010; the rate of unemployment is 32%, poverty according to data of 2010 shows that 33% of population lives with 2.5 euro per day⁵.

Macedonia we could say that is a poor country with transitional problems and also over weighted with interethnic complications and socio-economic problems. All these have a negative consequence on the international sphere. Bulgaria believes that Macedonia chooses only well-known famous history personalities of hers, personalities who are known for their bravery during the war against Ottoman imperia during 19 and beginning of 20-th century. Prime minister of Bulgaria Bojko Borisov blames Shkupi that steals from Bulgarian history and states that Macedonia isn't ready for starting negotiations with EU.

Greece

The economy of Greece was classified as advanced economy with huge incomes, and it was one the most developed economies of the Balkans. Greece was one of the cofounder of Organization for Economic Cooperation and Development- OECD), and Organization of the Black Sea Economic Cooperation BSEC. Greece is also member of Monetary Fund and World Trade Organization. Until 2002 the national currency was drachma, after when Greece became a member of the European Union euro became its national currency. The economy of this country has advantages and disadvantages. As advantages one could mention: high standard of living, index of human development, index of qualitative life; on the other hand as disadvantages are: dysfunction of bureaucracy, fiscal evasion, and high global competition. Greece started to have problems before the crisis, and those problems were related to fiscal undisciplined and high level of tax evasion. All of this led to bigger structural problems. In order to be well used as an official currency euro, it should have fulfilled some specified conditions.

Nowadays the Greece economy is the 32-th in the world according to its volume with 312 milliards of dollars of nominal GDP, and the 37-th according to parity of purchase power with 309 milliard dollars.

Even though they were aware of the consequences that the place like Greece doesn't fulfill economic conditions, they still agreed and accepted Greece on the European Union. This way was made a big minus because the politics should never be present in such situations. These facts suggest that Greek crisis could not be so simply

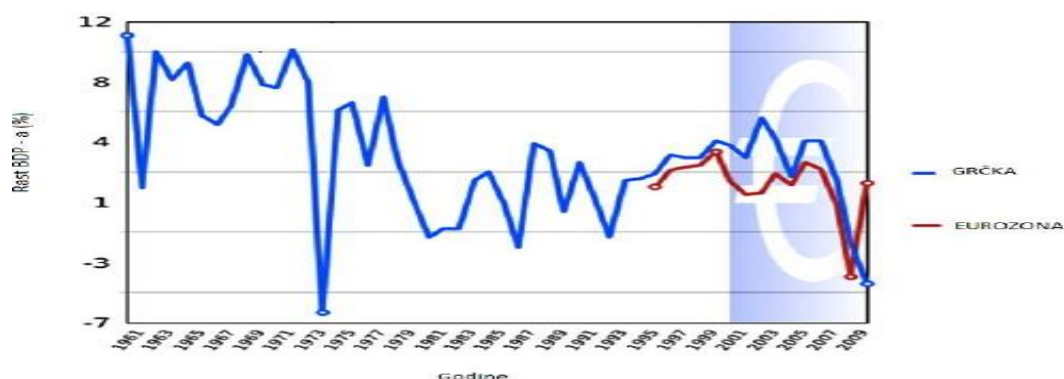
⁵<http://www.stat.gov.mk/>

erased. All this leads to the fact that Greece first of all should solve its inner problems of its politic circles and then it could expect investments. As a problem one could mention the impact of Greek crisis on the countries that helped it.

However, it is important to mention that with all of the problems that exist, the perspective is that Greece could become and be a country with a strong economy. It is important that Greece to stay with politics toward welfare of the state and to the people.

Countries with healthy economy in crisis situations accumulate their debts and fear of hard financial situations; this shows any one connection between economies.

Chart1: Level of GDP in Greece during 1961-2009.

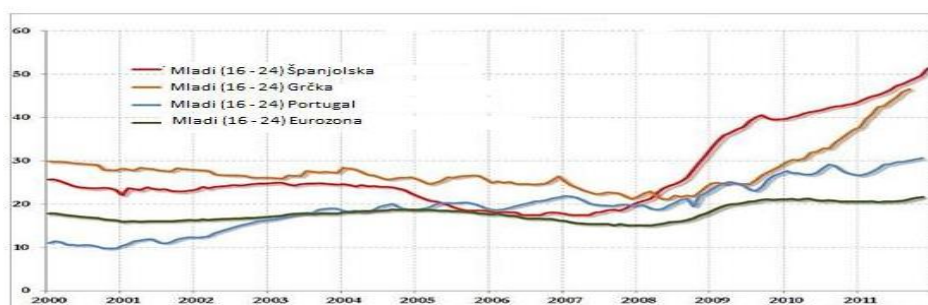


Source: World Bank, Eurostat, the GDP of Greece

The above graphic shows the GDP of Greece from 1961 till 2009. As we see Greece for years had had growing trends of GDP till 2008, the same year when it entered the recession and came to sudden fall of GDP above the average of Eurozone.

Greece and Spain in the end of 2011 have had youth unemployment of 57%. The data of the graph shows how the rate of unemployment in Greece has reached record 54%.

Chart 2. The rate of unemployment of youth in crisis countries during 2000-2011.



Source: World Bank, Eurostat, the GDP of Greece

3.1 Public debt and budget deficit of Greece

The table shows how the budget deficit for 2000-2012 periods is. In 2010 is bigger, and it was -15.6%, after that it had decreasing tendencies in 2012 with -9.1%.

The Greece crisis began the same time when the USA crisis began in the mortgage market. In that time mostly affected by the crisis where Portugal, Italy, Ireland Greece, Spain. Greece because of the globalization suffered a big chaos even though somewhere else the crisis had its roots.

Table 1: Macroeconomic indicators of Greece during 2007-2011.

	2007	2008	2009	2010	2011
GDP (in billions of dollars)	309,9	351,5	339.00	308,7	304,8
GDP per capita	28 480	32 100	30 856	28 077	27 900
Real growth rate of GDP	4,0	2,9	-2.70	3,9	-2.80
Export of stocks (billions euros)	17 445,5	812,9	15 318	081,5	20 233
Import of stocks (billions euros)	58 944,8	861,7	085,3	45 361	47 454
Inflation rate (%)	2,9	4,2	1,0	4,7	3,3
Unemployment rate (%)	8,3	7,7	9,4	12.00	20,7
Foreign direct investments	2,0	5,3	5,4	2,3	3,3
Public debt	89,5	97,4	113,4	144.00	165,4
Budget deficit (% of GDP)	-5.70	-6.50	-9.80	-15.60	-10.30

Source: Economist intelligence: unit www.indexmundi.com, www.investinggreece.gov.gr

According to the example mentioned in this research paper, one could give explanation how the crisis of a given country could have a big and deep national impact. The consequences didn't surface from the monetary crisis which is present for several years, but they have roots years before that. That thing that started as a financial crisis of a market in a country on the world very fast became global financial crisis in whole world.

Mostly affected were the small countries and less developed countries. It is useful to mention that that kind of

economies is under connected, in example we have the connection between greece, europe and eurozone.

Conclusions

We saw that all the crisis and dilemmas were the same for whole the world, since the crisis caught every country. Macedonia as a fairly small country with huge problems being those political and economic attempted to do some changes to adapt to the situation, but it failed. The best solution would be to start to make reforms on the administration and on the budget and budgeting. Experts expect more rational spending on the budget money. Secondly, as we all know there are a lot of problems with distributing the money and funds of the budget properly, there are a lot of projects that are useful for this period but still are being financed by the government. Furthermore Macedonia should try to reach its industrial production of 1990, a year before starting transition, which is still taking place nowadays. It is a known fact that even before the global crisis Macedonia was at half of its industrial production of 1990, there is been a fall in the industrial production the past 20 years. The GDP as a basic macroeconomic indicator, of our country has a lowest rate of growing in the region, and there are need to be done some changes on the fiscal as well as the monetary politics. To sum up, as many specialists suggested (like Taki Fiti), Macedonia should have always kept its inflation rate at higher but moderate level than it is now and ever since we got into transition. Monetary politics should help to the fiscal politics.

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