



# Weekly Briefing

**Macedonia Economy briefing:  
Macedonia's Plan for economic Growth**  
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## **Macedonia's Plan for economic Growth**

### **Background**

Macedonia is facing the challenge of achieving economic growth higher than the current projections of around 3% per year. The main ruling party, SDSM, in 2016 and 2017 has campaigned on the slogan of “bringing life back” in Macedonia, which in essence was a promise for an economic miracle. However, for a long time, there was an open question how exactly does the government envision this economic miracle. By the end of 2017, the government published a draft national Plan for economic growth. The Plan is believed to be a brainchild of Kocho Angjushev, the tycoon turned politician, who is currently Vice Prime Minister in the SDSM-DUI government. In February 2018, this plan was publicly presented to the private companies, and made the rounds in Macedonian media. Economy is paradoxically not a hot topic in Macedonia – however the Plan has initiated some debates about its merit, and the needs of Macedonia. This report quickly overviews the essence of the Plan, and provides a critical analysis.

The plan for economic growth is nominally based on several criteria and principles, such as the provision of equal conditions for both domestic and foreign investors (as opposed to the traditional favoritism of foreign investors demonstrated by previous governments); the establishment of transparent conditions and criteria, and open procedures when it comes to economic cooperation; the encouragement and active promotion of cooperation between domestic and foreign companies; the pro-active and generous support for micro, small and medium enterprises by the government; the boosting and maintenance of the trend of increase of the minimum and average wages through regulation and financial support for companies; the creation of new and better paid jobs; the establishment of research and development centers with the goal to promote and advance technological development and innovation of Macedonian

companies; and the guiding objective of boosting the international competitiveness of Macedonian companies as key to achieving economic growth.

### **“Industrial Policy Measures”**

The cornerstone of the governmental plan for economic growth are the so called “industrial policy measures” that foresee various forms of assistance for private companies that are to be allocated based on competitive criteria. In particular, the government targets companies that are on a rising trajectory. The two preconditions for application are that the company must have noted income in the last year that is higher than the average of the last three years; and it has maintained the same or increased the number of employees in the last year compared to the average of the last three years. The industrial policy measures (assistance) are targeting all companies that qualify, except public enterprises, companies operating in licensed activities; law, auditory and accounting companies; agricultural enterprises that receive agricultural subsidies; enterprises that are beneficiaries of some forms of concessions; financial companies such as banks, insurance companies, or funds.

### **Pro-active support for well-performing companies**

There are three pillars, or rather three groups of pro-active measures that government plants to undertake. Within these pillars, there are individual measures all of which foresee additional qualifying criteria. The first pillar concerns general measures for supporting well-performing companies (and stimulating them to improve). The first measure is financial assistance for the creation of new jobs for Macedonian citizens by domestic and foreign companies. This measure particularly concerns employers who pay wages that are higher than the average; and who employ previously unemployed workers, or take over workers from the public administration. The second measure is the support for foreign and domestic companies to establish and enhance the

cooperation with Macedonian suppliers, with the end goal being integrating, and eventually upgrading the role of Macedonian companies in international production supply chains. The measure therefore does not concern the usage of Macedonian utilities, or legal, accounting and consulting services, but strictly the cooperation between foreign firms and Macedonian production companies. This measure targets companies that operate in the Technological and Industrial Development Zones (TIDZs) and other industrial zones, greenfield investors and lessees of facilities that start new operations. The third measure foresees support for establishing technology research and development capacities, in particular for carrying out sustainable projects and employing highly qualified workers. This measure is targeting companies in the manufacturing sector that maintain or increase the number of employees.

The fourth measure financial support for foreign and/or domestic companies who implement investment projects that are of significant economic interest for the country. This is a measure that takes in consideration only large scale investment projects (20 million EUR or 4 million EUR and creation of at least 300 new jobs), and also foresees project-based special legislation in accord with the government policy. There are no other criteria that define what “significant economic interest” is – in other sense the significance is measured through the size of the capital invested and the number of jobs created.

The fifth measure is financial support for foreign and/or domestic companies who realize initial or additional investments, while not reducing the number of employees and committing to maintain the investment for at least 5 years after the project is completed. The measures are intended to contribute to the acquisition of machinery and equipment, or to contribute to the investment in the premises of operation or land development. The sixth and final measure of the first pillar foresees financial support for foreign and/or domestic companies that will acquire failed domestic companies with over 50 employees (through acquisition of assets after bankruptcy or liquidation), in particular in the area of manufacturing process renewal.

## **Improving competitiveness**

The second pillar is dubbed “measures for improving the competitiveness” of Macedonian companies, and it includes two measures of rewarding the companies that succeed internationally. The first measure is financial support for companies that will improve their competitiveness in new markets. The government will cover 10% of the costs for the improved competitiveness in new markets, and 20% of the costs for the improved competitiveness in the Western Balkans countries. The second measure envisions financial support for companies which will win new markets, and increase their sales in new markets. The government will cover 20% of the costs for winning new markets.

The third pillar of the strategy revolves around the idea of rewarding and boosting the development of micro and small domestic enterprises as well as startups. The first measure identifies and rewards the so called “gazelles” – Macedonian micro, small and medium enterprises (up to 250 employees) that are on a rapid growth trajectory, committing to increase their total annual income and the number of employees by 20% in the 24 months following the completion of the project.

The second measure foresees additional support for micro and small enterprises in the form of financial assistance of for investment in technological development. This includes the hiring of foreign experts for preparing strategic plans, training, preparation of development projects, enhancing the organization structure in order to meet the requirements for growth, management training, talent development, building capacity in planning and costs control, developing capacity for procurement, preparing special software in order to improve the organizational structure and the company’s performance as well as improving the operational processes in order to boost productivity and/or strategic planning.

The third measure foresees financial support for Macedonian micro and small enterprises in the field of innovation. This is one of the most generous measures whereby the government commits up to 70% of the direct costs that the company invests in innovation (usually, the other measures are within the

range of 10-30% of the costs). The financial support can be used to cover the costs for the elaboration of various technical-technological aspects in the processes of development and/or the introduction of new products as well as services; for a significant improvements in existing products or services; for the creation of new fashion collections; for development of industrial design and/or redesigning existing products; for creation of new packages; for the development of marketing plans; and for improvement of existing and/or introducing a completely new manufacturing process.

The fourth measure foresees the support for professional development of newly employed young workers. These include both professional training and practice within the company applicant/employer (such as Fast Track Management Programme) and training and practice in another company and/or vocational or other type of organization that can provide this type of service. The fifth measure foresees the creation of conditions and the preparation of legal bases for development of venture capital in Macedonia. The Fund for Innovations and Technological Development has committed to establishing Fund for equities and mezzanine, while the government has committed on taking care of funding investment.

### **Reception of the Plan**

Economic miracles are easier said than done. In the first year in power, the SDSM-DUI government has faced the unpleasant reality that much more governmental push will be needed to get Macedonia on a meaningful growth trajectory. To be able to catch up with the EU average in terms of GDP per capita, the Macedonian economy will need to grow with at least 5-6% annually over the course of the next two decades (currently the most optimistic projections revolve around 3%). In this sense, the Plan offered by the government is often seen as simply inadequate and insufficient for the purpose of significantly boosting growth. After all, the Plan is very much in continuity with the policies of the previous 25 years, and is based on the same hypothesis

that with a minimal assistance from the state, the market can achieve miracles on its own through the magical workings of its invisible hand.

To be fair, the Plan is an upgrade from the previous economic strategies that blindly relied on attracting FDI, without any strategy how to retain profits, increase Macedonia's human capital, and integrate Macedonian producers in transnational supply chains. However, while the new strategy tries to promote a particular vision, it has remained rather vague and unspecific regarding important questions such as what particular sectors would be the cornerstone of Macedonia's economic boom? Moreover, as the former Minister of Finance Prof. Trajko Slavevski argues, the Plan does not foresee investment in physical capital, in infrastructure (even though there are announcements for new projects), in human capital, nor discusses more comprehensive policy and legal reforms to inspire an economic boom.

In fact, many experts and former policymakers have argued that what is presented as a Plan for economic growth is in reality just a plan for supporting the private sector, with the particular mission of the government winning its loyalty and sympathy. Skeptics warn of crony capitalism too. The pro-free market voices, on the other hand, argue that this is a plan for the government to interfere in the private sector. Finally, the Plan for now remains a promise from the government – but the legal instruments that concern its implementation are yet to be adopted. Originally, the implementation of the Plan was supposed to start in March 2018, but it seems it will be postponed for some time – or will not meet the targets for allocation of funding in the first year.