

Another risky year: the world economy's domino effect over Macedonia

Just when it was believed that the financial crises met its end and that a year of growth is to be expected, a range of events announced a new challenging year for the world's economy especially in the energy sector. Firstly, the revolutions in the Arab world had huge implications over the oil markets. Then, the Japanese serial of earthquakes and tsunami produced one of the biggest nuclear crises and almost ruined the third largest economy in the world. These recent events introduced a very sharp misbalance in the energy demand with profound consequences for the oil prices and the domestic inflation for the countries around the globe. As an open economy and a highly import dependent country, Macedonia is no exception.

As the petrol prices in the world reached the highest value in the last three years, the Energy Regulatory Commission of Macedonia (ERC) made a decision to increase the price of petrol and diesel fuel in Macedonia. Since oil is an important input in the economy, a rise in the price of oil, leads to a rise in the price of the end products. In this line, the practice shows that whenever the price of the oil is increased, it comes to a chain of increases in the basic products - bread, cooking oil, milk, meat etc. Regarding this question, the National Bank of Republic of Macedonia announced that there will be a further rising of the basic products' prices. The Government intervened with 40,000 tons of wheat and thereby tried to protect the price of bread. This intervention did not have the expected outcome and so the price of the food products rose again. As a result, the Government was forced to make another move i.e. the Ministry of Agriculture banned the export of wheat and flour to mid-September with the purpose of providing sufficient quantities of this essential commodity in the domestic market. For reminder the rise of the oil price means a rise of inflation. Both the rise of oil prices and the subsequent increased inflation have undoubtedly a negative effect on the gross domestic product (GDP) as higher prices mean less to spend on goods other than essentials.

Despite the Government's wheat intervention, the statistics showed that inflation rate will exceed the projected level of 3%. Besides the mentioned possible solution through commodity stocks intervention which is to be considered mainly as a short-term solution, there is range of other solutions

proposed by various affected parties and experts. Namely, the Economic Chamber of Macedonia (ECM) suggested reducing or abolishing the excise duty on oil and oil derivatives following the example of Croatia. Furthermore, the ECM asked for improvement in the gas network since natural gas is a cheaper source of energy. Alternatively, some experts claimed that a new temporally lower rate of value added tax (VAT) on oil and oil derivatives should be introduced to reduce the cost of derivatives. The contra-argument to this was that the Government by doing so would give up significant stable revenues. Simultaneously, the Association for agricultural technology in Macedonia proposed an initiative to subsidize oil and oil derivatives for agricultural use. Nevertheless, the Government firstly was on a stance that the inflation and the oil prices are problems that go beyond the capabilities of a small country like Macedonia to handle it and that no single intervention can solve the problems in the long term. Eventually, with the aim of decreasing the effect of oil price and protection of the citizens' standard, the Government one week ago reached a decision for reduction of the excise duty on unleaded gasoline and diesel. At the same time the Government's press service informed that the compensation of the obligatory reserve of the oil is reduced too, so the price of oil and oil derivatives is mitigated.

As we can see the energy market has the power to create a vicious circle. However, through a proper coordination of the monetary and fiscal policies, a partial prevention of the increase of the general price level is possible. Some other actions that the Government could undertake are advising citizens how to reduce consumption of oil for example by reducing the speed while driving or checking their cars tire pressure, to opt out for public transport, going by foot, to ride bicycles instead of driving cars etc. Most important are however the long term practiced actions and policies. For example, in the long run the Government should strive to promote using energy in a most efficient way and utilizing renewable sources of energy in the households as well as in all economy branches by replacing the oil as an input.

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