The Global Credit Crunch

The worst crisis since the great depression 1929

During the last two years the world finance markets where in constant trouble, which ended up in a world wide collapse of the finance sector. The crisis derived its origin from the lowering of the US prime rate to 1.0 % in 2003. This lowering was intended to stimulate the American economy, but it also encouraged citizens with low incomes to take out loans. Many of those credits where used to buy houses. The economic cool down 2005 in the USA and the increase of the prime rate to 5,25% in June 2006 caused a chain reaction. Many households weren't able to pay their loans anymore and tried to sell their houses. This ruined the prices in the housing market. As a result many of those Subprime-credits suffered from a serious depreciation. In the end the housing market collapsed and lead to a liquidity crisis among the finance sector. In 2008 this crisis took effect all over the world because the finance market was extensively interlocked. The aftermath of this crisis will expand successively to other economic sectors. What does this mean for national economies? Which challenges will occur for governments to provide an economic recession and do they have the resources to do that? **Analysing the effects on a small country like Macedonia, we will see in which ways the national economy could suffer from the credit crunch and, if possible, the alleviation of its impact.**

Macedonia's Challenges

The main impact of this world wide crisis on Macedonia will not primarily occur in the bank sector but in the export economy. More than half of Macedonia's exports are produced in metal plants and sold to Western Europe. With a decreasing demand of metals, like in the western automobile industry, the metal manufacturing sector will experience a serious decline in prices. Also the textile industry as the second biggest in Macedonia will be afflicted with lower demand on the world market. This contributes to the already very high trade deficit of more than 2 billion dollars this year. Furthermore this development will entail a cutback in work force.

The global recession will also reduce the foreign investments in Macedonia, which will have a serious backlash on the stock exchange. Without further foreign investment the structural problems of the country's economy will persist and Macedonia will also slide in economic recession.

Concerning the savings of Macedonian citizens in bank accounts, there were no signs of a threat to those savings like after the break up of Yugoslavia.

Quick facts:

GDP growth (first half 2008): about 6%
Inflation (first half 2008): 7,1%

(Source: Source: Ministry of Economy of Republic of Macedonia)

A Possible Response

While facing a crisis of a world wide scale there are still some things that can be done on a national level. On the part of the government many industrial leaders demand official help, like tax cutbacks. In this way tax payers will keep their jobs, the industry argues. During the SEE Summit in Ohrid at the 20th of November steps in that direction were already be announced. With a high unemployment rate of about 30 % Macedonia can not afford to jeopardise employment among its export sector. On part of the Macedonians there is little to do then try to keep the money in circulation. Putting the money under a pillow to save it will be harmful on both counts banking and
retailing.