Economic Policies of FYROM Towards the EU—Are They Efficient?

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Abstract This paper makes the claim that, instead of economic policymaking based on economic cycles, the current and previous Governments of the Former Yugoslav Republic of Macedonia (FYROM) have made policymaking based on political cycles to suit the needs of individual elites while not focusing on the priority of eventual EU integration, leading to a decade long failure of creating priorities for eventual EU accession. The correlation of economic policy based on political consequences is presently threatening FYROM's attempt to create institutional reforms needed to transform its economy into an efficient market economy. This "populistic" approach of the national political elites gives Brussels additional reasons to offer FYROM the cold shoulder, since national EU harmonization in economic issues have been frozen. Through a comparative and benchmark analysis, the paper will examine the present economic situation in FYROM and what is needed to intensify the process of economic policy harmonization to EU standards. It finds that the lack of sufficient economic policy outcomes from Skopje may lead the EU to regard this as a retreat from its obligations. The current economic national strategy of reforms by moving one step forward and two steps back will leave FYROM out of the EU enlargement agenda.

Keywords EU integration • FYROM • Economic/political cycle

JEL Classification Codes H11 • H21 • O11

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1 Introduction

One of the key debates among political scientists and economists is based on the relationship of policymaking (governance as it relates to politics) and policy outcome (economic performance as it relates to economics). To oversimplify—both sides work in parallel: politics cannot function without economics nor can economics function without politics.

However, politics and economics can be seen as a trade-off—a government should drive the national economy based on economic cycles. Accordingly, this necessarily means that a Government should execute the State budget based on what is good for the State, and not what is good for the political party leading the government.

We do not, however, live in ideal conditions. Studies show that, more often than not, governments do add political gain to economic policymaking, creating opportunistic politicians (Alesina and Perotti 1995b). Such examples include allocating revenue among rents to suit political elites and their future potential to continue in office (Persson and Tabellini 2000).

Moreover, game theory studies have proven that political institutions make economic policy suit the needs of political elites (Persson 2002). Some go even further to claim that, despite the need to create policy based on economic needs, political groups create policy based on the political business cycle, both temporarily and long-term policymaking, via "partisan political cycles" (Alesina and Roubini 1992) without completely rejecting "opportunistic political cycles".

This type of expansionary policymaking does not support the ideal notion of trade-offs mentioned above. Moreover, policymaking based on political cycles instead of economic cycles cannot be avoided in transition countries, including those in the South East Europe (SEE). For the SEE countries, one of the most important policymaking goals is aligning and harmonizing EU policy to the candidate country or potential candidate country by convergence. However, this process may be deceiving after a closer examination.

Instead of creating political cycles, the SEE countries have to closely measure the costs of heterogeneity in converging to EU norms and practices, as mentioned by the Czech President, Vaclav Klaus.[1] Klaus (2012) even notes that new EU member states are becoming agents and the EU has taken on the role of the agent. This new principal-agent relationship illustrates the need for the transition economies to align economic policy based on EU economic policy, not on *de jure* political cycles.

This paper makes the claim that, instead of economic policymaking based on economic cycles, the current and previous Governments of the Former Yugoslav Republic of Macedonia (FYROM) have made policymaking based on political cycles tailored to the needs of individual elites, and not focusing on the priority

[1] In his book, "Europe: The Shattering of Illusions," Klaus asserts that Governments need to examine the costs of convergence.

of eventual EU integration. The correlation of economic policy based on political consequences is presently threatening FYROM's attempt to create institutional reforms needed to transform its economy into an efficient market economy. This "populistic" approach of the national political elites gives Brussels additional reasons to push FYROM further away, since national EU harmonization in economic issues have been frozen.

In short, the paper is divided into two parts: (1) a historical and comparative economic analysis of FYROM is presented to show the road already travelled; and (2) by illustrating the current FYROM economic model and highlighting *restrictive* monetary policy and *populistic* fiscal policy the paper shows specific cases in which economic policy has been a function of political cycles.

2 A Historical Overview of FYROM's Economic Policies: The Road Already Travelled

Usually, economic phenomena are non-linear and contain fluctuations that are known as business cycles. Economic fluctuations correspond to the changes in business environment and conditions. When GDP increases and when growth is sustained, the national economy expands and contrary to this, when GDP declines in at least two consecutive quarters, a national economy is considered to be in recession. Moreover, recessions can be both frequent, such as the United States economy in 1980 and 1982, and few and far between, such as the U.S. economy during the 1990s.

In geographical aspects, business cycles could be regionally related and in other cases globally related, such as the cases of South East Asia and Russia in 1997 and the global crisis in 2007 respectively.[2] Today, in such a global era, all national economies are very frequently related and interdependent. The most recent case that proves this notion is the global economic crisis, in which many national economies were impacted by financial crises with various intensity depending on the openness and economic structure of each national economy towards the much more developed part of world. As the Nobel Prize Laureate for Economics Joseph Stieglitz has stated, the crisis was exported from the United States to the whole world.[3]

During and especially after negative economic cycles, researchers of the field examine the causes and the reasons of such cycles. They attempt to define the measures taken in both the short-term and long-term reactions in order to stabilize economic cycles.

Specifically, Auerbach and Gale (2009) discuss the impact of recent tumultuous economic events and policy intervention on the federal fiscal picture for the

[2] For more, see Soros (2002).

[3] Hugh and Kochan (2008).

immediate future and for the longer run.[4] Auerbach and Gale (2009) have developed their arguments based on their previous research in this field.[5]

Moreover, Farrokh Langdana (Langdana 2011) analyzed debt burdens and found avenues to escape these traps and find that, "budget deficits, both in the U.S. and in Europe, are poised to get larger very fast. This is not only because of rapid increases in spending, but due to the impending sharp drop in the tax base".[6] In the case of FYROM's economy, twin deficits exist during the entire transition period, however, from 1997 there has been relatively high monetary discipline which as consequence, has generated more fiscal expansion during the last 7 years.

More relevant research was carried out by Alesina and Perotini (1995a), on the question: why are some countries more inclined than others to have budget deficits and why are budget deficit reductions so difficult to manage? Based on Alesina and Perotini (1995a) the answer to these questions is: we have concluded that it is difficult to explain these large differences in deficit levels among countries only through economic arguments. They argue that institutional and political factors are crucial to partially understand budget deficits and fiscal policy in general. While the OECD country economies are relatively similar, their institutions, such as: electoral laws, party structures, budgetary laws, central banks, the degree of centralization, political stability and social polarization, are quite different.[7] Moreover, in a another similar study they have found that coalition governments, are almost always unsuccessful in adapting efforts, being unable to maintain a strong fiscal position due to conflicts between members of the coalition.

In the beginning of 2008, Western Europe and above all Great Britain seriously started to "reshape" its current economic policy and the same was followed by many other countries from SEE. How did the governments in SEE countries react? In October 2008, the Government of the Republic of Serbia made revised estimations for 2009, *inter alia* concerning the projected GDP growth from 6.5 %, on the basis of which projection planned its fiscal policy (budget). However, in less than 1 month—in November, the Serbian Government realized that the crisis would have a full swing in their economy, and therefore changed the growth rate to 3.5 % and proportionally the projected fiscal policy – Budget for 2009.[8] Other

[4] Alan J. Auerbach and William G. Gale, The Economic Crisis and Fiscal Crisis: 2009 and Beyond, February 2009.

[5] See more: Aurebach and Gale (1999, 2001), Auerbach et al. (2003), Auerbach, Furman and Gale (2007, 2008).

[6] Farrokh Langdana, has also analyzed the twin deficits phenomena $G - T = (I - S) - (I - Ex)$ and he notes: budget deficits are $G - T > 0$. Here, T is tax revenues, given by $T = tY$, where "t" is the tax rate, and Y is national income. If national income (Y) falls here and in Europe as the mature economies sink into a slowdown or another recession, the tax revenues (T) will fall fast, and as unemployment benefits (G) increase, the deficits will shoot up rapidly. See more: Manuscripta No. 69, January 2010-BERG series.

[7] See more: Alesina A., and R. Perotti (1995a), Fiscal Expansions and Adjustments in OECD Countries, Economic Policy, n.21, 207–247.

[8] See: Memorandum of Budget and Economical Fiscal Policy for 2009 with Projections for 2010, 2011.

Table 1 Revised growth rates of the world and regional economies 2007–2009 (as % of Δ in GDP)

	Realization 2007	Estimation 2008	Projection 2009
World economy	5.0	3.7	2.2
Developed countries	2.6	1.4	−0.3
USA	2.0	1.4	−0.7
EU	3.1	1.5	−0.2
Japan	2.1	0.5	−0.2
Countries in development	8.0	6.6	5.1
China	11.9	9.7	8.5
Russia	8.1	6.8	3.5
Central and Eastern Europe	5.7	4.2	2.5
Serbia	7.1	6.0	3.5
Croatia	5.6	3.5	3.0
Bulgaria	6.2	6.5	4.5
FYROM	5.1	5.3	5.5

Source: IMF, World Econonic Outlook, November 2008

countries in the region had similar projections. The data in Table 1 illustrates the revised rates of growth of the world and regional economies[9]:

Policy makers in FYROM maintained irrational expectations for mere political reasons—parliamentary elections were very near (June 2008). Some policymakers even saw an opportunity for FYROM during the global economic crisis. The analysis of the first quarter of the following year (2009) shows a more significant decline in comparison to some optimistic economic projections. Namely, the analysis shows a decrease of world economic growth to 3.2 %, whereas projections of 2009 in its entirety show a decline in global economic activity from −0.5 % to −1 % whereas its revival was expected to be during 2010.[10]

The data in Table 1 illustrates that FYROM not only entered 2009 with its macroeconomic projections with "irrational enthusiasm", (Alan Greenspan) but continued to adhere to them whilst not wanting to recognize the reality of the impact of the global economic crisis that was evident by the "outward observers" of the states during the first quarter of the year.

In November 2008, the Macroeconomic Policy Department of the FYROM Ministry of Finance prepared and submitted information to the competent Commissions of Parliament on the effects of the global financial crisis to the FYROM financial system and on the real economy.[11] This information was necessary in order to undertake appropriate measures for over passing the eventual

[9] Data for Regional Economies, including FYROM taken from: Economic Commission – Economic Projections, November 2008, Brussels.

[10] NBRM (2009).

[11] Ministry of Finance (2009).

unfavourable states towards the FYROM economy in which the basic parameters for expansive fiscal planning in 2009 were posed without taking into account the real economic power of the country after the influence of the crisis on the real sector of the economy.

During November 2008, the Analysis of the Draft Budget for 2009 was completed and the presentation and debate was organized with all interested parties from the prism of the central budget where all "irrational expectations" of the budget projections were categorically and explicitly pointed out, by the incomes and expenditures, specifically in the coming election months of the year. Time quickly certified the analysis of experts against fiscal governmental "enthusiasts".[12] A round table debate was organised in the beginning of 2009 by the Memorial Centre Nikola Kljusev Foundation. The topic of the debate was "F.Y.R.O.M. and the World Economic Crisis" and on that debate the ambitious fiscal projections of the Government were shown, along with the high fiscal risk of the Government that would soon have consequences. A few months later the states were certified to a high extent of preciseness of the projections given by the experts (above €200 million higher projections, out of which €175 million were corrected at the first rebalance of the budget).[13]

Apart from domestic experts, public and other relevant institutions highlighted on time that the projections were too ambitious as stated also in the Country Report about the doubtfulness of these projections that could lead to delusion at the economic agents in the country.[14] The IMF and European Bank for Reconstruction and Development (EBRD) were even more sceptical in comparison to the stated report for the 2009 projections. In the regular IMF (2009a) Country Report, the risk of the "growing budget deficit" is implicitly highlighted, noting that it can generate "additional macroeconomic pressures" in the country.[15]

Furthermore, 2 years after developed countries had turned on their alarms for the coming of the biggest crisis after the Great Economic Depression of the 1930s, in FYROM, competent institutions wanted to show this situation as "a comparative advantage" and as a "chance" for attracting all investments that would run from developed markets and will be directed to the less developed and "unavailable" markets for crisis, including FYROM. Several months later it was seen that this naivety and illusion would not last, because the first consequences of the crisis were evident at the end of 2008. Certain authors interpret this tendency as a consequence of "the advantage of the economic backwardness" of the country.[16]

Besides this and apart from all suggestions that were given by numerous economic experts, competent institutions in light of their irrational optimism

[12] Bexheti (2008).

[13] Foundation – Memorial Center Nikola Kljusev (2009) pp. 38–42.

[14] Country Report Macedonia, Economic Intelligence Unit (2008) p. 7.

[15] IMF Country Report No. 09/XX, Former Yugoslav Republic of Macedonia: Selected Issues, p. 11 February 2009.

[16] See: Shukarov (2009).

"designed and brought" the Draft-Budget and Macroeconomic Projections. The intensity of the worsening of the state of the FYROM economy (and some other economies in the region) was very high and forced authorities to "recognize" the reality and to redraw "cocktail measures" with which they would oppose the crisis that seriously metastasized a great number of branches of FYROM economy. Hence, there was a great need and necessity for a deeper analysis of the current state and applied measures for the alleviation of the state and the commencement of the "economic revival."

The lesson of this retrospective suggests that there is a need for timely and real projections of the State—especially during the global crisis that was evident for more than a year. It is better to recognize the truth even though it is unfavourable, than to hope that it would not attack the economy. Ordinarily, global crises attack at the periphery of the strike where it is the strongest and it is difficult to conduct reparations.

The current problems in the Euro-zone and especially those in Greece led to an even more negative impact on FYROM's economy given that it is one of the main trade partners of the country (over 60 % of the export-import). Particularly, with the crisis in Greece, in 2009 FYROM attracted over $57 million and today this figure does not even reach $20 million. Simultaneously, in 2008, exports from FYROM to Greece reached $536 million and today this figure is less than half (since 2011 $215 million, and in 2012 even less).[17] This will directly impact the national economy considering that the country's largest bank (Stopanska bank) has 85 % of its capital by the NBG (National Bank of Greece) and that the ownership of the petroleum refinery is Greek (Hellenic Petroleum), which is the only manufacturer of Titan cement.

3 Economic Policies in Function of Political Cycles

3.1 Economic Policy and Cycles in FYROM—Underperformance from the Beginning of Transition Until Today

Proportionally to economic cycles, appropriate anti-cyclical economic measures should be designed in such a way that they would influence the alleviation and shortening of the period of national economic decline on one side, and fastening and maintaining growth on the other. This is the fundamental objective of every national economy that can be accomplished with the optimal combination of different economic measures.

[17] NBRM Database sources (www.nbrm.mk.com—FDI and External Sector).

Table 2 Growth rates in % of GDP of FYROM and Central and Eastern Europe

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[a]
% of real GDP (FYROM)	4.5	−4.5	0.9	2.8	4.1	4.1	4.0	5.9	5.0	−0.9	3.3	2.4
Average (CEE)	–	–	–	–	–	6.0	6.6	5.4	2.9	−3.7[b]	2.7[b]	–

Source: Ministry of Finance of FYROM (2009) and IMF-World Economic Outlook (2009)
[a]Estimation-Presentation of the Governer of the NBRM-Graz, Austria
[b]Taken from IMF (April 2009, and October 2011)

In the last two decades, the FYROM economy notices typical cyclic development—with significant decreases in the initial years of transition (until 1995 with negative growth) and in 1996 a positive mild growth with the "record" of 4.6 % in 2000. In the following year, this percentage "melted" in the same corresponding negative growth rate (−4.5 % as a result of the conflict in 2001). The growth rates for the last decade of the FYROM economy and the countries of Central and Eastern Europe are shown in Table 2 with data provided by the FYROM Ministry of Finance (2009) and the IMF (2009c).

The average economic growth of the FYROM economy for two decades (1988–2007) is not significant (about 1.2 %; according to data, in 1985 GDP per capita in FYROM was $2,210 whereas in 2007 it was only $2,646 or increased by only 20 %[18]) and represents the lowest rate in the region after Kosovo, since Montenegro and Bosnia and Herzegovina were in a better position. Compared to the beginning of the transition period (1991), today, the level of GDP in FYROM is still about 15 % under the beginning level of transition. The reasons for this are complex and there is not enough space to elaborate them here. The aim is to focus on the cohesion of the economic measures against global economic crisis with special emphasis on their analysis in the case of the FYROM economy.

3.2 *Insufficient Reforms—A Treatment of the Existing Economic Model and Searching for an Alternative*

Balcilar (2002) and De Mello (1999) noted that economic, political and institutional reforms varied widely across transition countries and this gave rise to transition patterns in terms of GDP and other economic and social outcomes.

The FYROM economy still experiences serious shortcomings related to the functioning of its real economic sector in circumstances of a deteriorated business climate as result of insufficient reforms such as: inefficient functioning market economy, judiciary system, public administration and other democratic pillars such as an independent media. Previous research sees these and other institutional

[18] Australian Macedonian Weekly: www.australianmacedonianweekly.com/edition (April 2012).

Table 3 Cyclic regulated fiscal balance for FYROM

Description	2008	2009
Actual GDP (billion denars)	387.1	422.7
Potential GDP (————————,————————)	384.2	420.8
Difference (gap) of GDP (the percentage cyclical regulated GDP)	0.8	0.5
Budget balance (% of GDP)	−1.5	−3.0
Cyclical regulated fiscal balance (% of GDP)	−1.8	−3.2

Source: IMF (2009b) Country Report, IMF Officers, p. 12, 2009

weaknesses as reasons for a low level of competitiveness of the economy on the international market (Micevska et al. 2002). Moreover, the IMF (2009c) analysis highlights that the average real growth rate of FYROM is clearly below that of its peers in SEE. This weak performance is explained by very low investments and low productivity growth as shown in Table 3, including disturbing fiscal balances for 2009 in comparison with 2008, as noted by the IMF (2009b). FYROM continues to have the lowest share of investment in GDP (less than 17 % as a gross rate) while its unemployment rate is one of the highest in region (IMF 2009b).

In such circumstances, responsible policymaking institutions in FYROM, joined by economic chambers and associations continue to ask for a “specific model” of sustainable economic growth. Many current studies[19] confirmed previous findings that the “Macedonian model” is mainly based on total factor productivity (TFP), approximately 42 % of its contributions to GDP growth. The periodical data series from 1998 to 2008 shows that GDP growth was 3.1 % based on contributions as follows:

Capital	1.2 % (38.71 %)
Labor	0.6 % (19.35 %)
TFP	1.3 % (41.94 %)
Total:	**3.1 % (100.00 %)**

The TFP sectors vary and are expressed with extreme fluctuations, such as the largest contributor of GDP growth in the FYROM economy, the agriculture sector (200 %), followed by the service sector (43.24 %) and industry sector (28.6 %).

Nevertheless, we consider the FYROM economic growth model not to be the main problem. The main issue according to our opinion is the inconsistency of policymaking based on short- term political cycles instead of objective analysis and research. The main arguments are in the analysis showing relevant research that inconsistent structural and reform measures result in poor outcomes such as in the agriculture sector. For instance, although the budget in the last 4 years has increased more than fivefold, the outcomes (GDP and employment) have decreased (Bexheti 2010) and the public consumption structure has had a negative impact on GDP (Bexheti 2009).

Moreover, uncoordinated monetary and fiscal policies during the financial crisis have caused a permanent increase of the basic interest rate, negatively impacting

[19] Rexhepi (2012) p. 133.

investment and consumption in the FYROM economy. In 2009, the main negative impact to contributions to GDP growth was private consumption; in 2010 gross investment was the key negative impact to GDP growth, followed by government consumption in 2011.[20] All these policy and economic measures have been taken for political reasons—every 2 years premature parliamentary elections have been organized, so that the same government could continue for a longer term.

3.3 Restrictive Monetary Policy Versus Populistic and Unproductive Fiscal Policy

We noted above that the ineffective fiscal expansion due to price stability has forced restrictive monetary policies which shifted interest rates to higher margins because of uncoordinated monetary policies. Besides, the cohabitation of political power with monetary policy has cost the real sector with a reduction of investment and private spending that "dehydrated" the real economy and has momentarily resulted in the most extreme non-liquidity.

During November 2008, the Analysis of the Draft Budget for 2009 was completed and the presentation and debate was organized with all interested parties from the prism of the central budget where all "irrational expectations" of the budget projections were categorically and explicitly highlighted by incomes and expenditures, specifically in the coming election months of the year. Time quickly certified the analysis of experts against fiscal governmental "enthusiasts."[21]

An increased deficit of the paid balance of the country forced the National Bank of FYROM (NBRM) to tighten monetary policy even more through the basic interest rate and increased the compulsory reserves of commercial banks. When the NBRM basic interest rate reached 7 %, commercial loans were placed with the average interest rates from 9 % to 9.5 %. With conditions of significantly decreased income in the central budget, the Ministry of Finance, on behalf of the Government of FYROM, announced the selling of State bonds on the "record" annual rate from 9 % forcing the NBRM to react with an increase of the basic interest rate of treasury bills from 7 % to 9.1 %. This "overrun" was "very strong" and forced the Government to stop with the "continuing competition" in this process but this enormously increased interest rates of the loan negotiations towards the economy (on average from 11 % to 13 %) and with higher dynamism of negotiations for consumer loans of citizens (on average from 13 % to 15 %). This led to a consumption decline (negative trend from −0.5 %) and a decline of investments (negative trend from −20.8 %) in the country in relation to the same period of the previous year, that

[20] Bogov (2012).

[21] Bexheti (2008).

apart from exports are the main factors that determine the economic growth of the FYROM economy.[22] The economic cycles of the FYROM economy need cyclic "regulatory fiscal equilibrium," where[23]:

$$FB^{*} = PI^{*} - PO \tag{1}$$

Where:

FB* = Cyclic regulated fiscal balance
PI* = Cyclic regulated public incomes and
PO* = Cyclic regulated public outcomes

Public incomes and public outcomes should be regulated (projected) proportionally on the basis of the ratio of potential GDP (potential economy) and factual (actual) GDP that are determined by their flexibility, so as:

$$PI^{*} = API \times (GDP^{*}/GDP)\alpha \text{ and } PI^{*} = APO \times (GDP^{*}/GDP)\beta \tag{2}$$

Where:

API = Actual public incomes,
APO = Actual public outcomes,
GDP * = Potential GDP
GDP = Actual GDP
α = Flexibility of public incomes
β = Flexibility of public outcomes

On the basis of estimations provided by the IMF (2009b) (made on the basis of the "Hodrick-Prescott Time Series Filtering Method") for the 2009 cyclic regulated fiscal balance for FYROM is as follows:

According to the IMF (2009b) estimations, the cyclical behaviour of the fiscal balance of FYROM shows that *"a positive fiscal impulse represents one regulated cyclical contraction."*[24] Precisely, 2009 illustrates that fiscal impacts through automatic fiscal stabilizers had a negative reflection on the potential GDP, whereas forced discretionary fiscal policies did not succeed to reimburse that because they have crowded the business. According to the same methodology projections for 2010 on the basis of the effects of these policies are more optimistic because it is expected that the cyclical behaviour of the fiscal balance will generate a *minimal but positive effect* on the potential GDP (+0.7 % from discretionary fiscal policies and −0.3 % from automatic stabilizers), resulting in a 0.4 % increase.

[22] SIS State Statistical Office DZS National Account GDP-Publication Number 3.1.9.05.18 Sept 2009, Skopje, FYROM.

[23] Bexheti (2010).

[24] See: IMF (2009b).

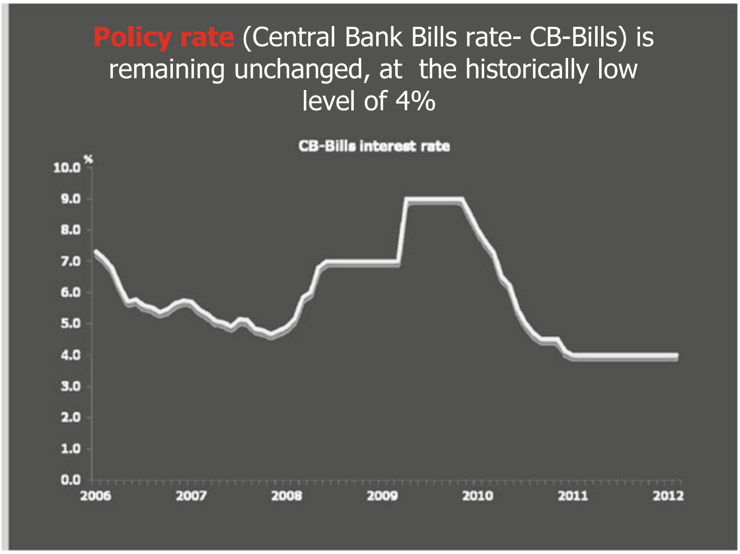

Fig. 1 FYROM's policy interest rates (Source: NBRM)

Monetary policies have been much more focused on the macroeconomic stability than on economic growth. According to Soros (2002), even the IMF insists that emerging countries create "pro cycles" policy—"the IMF is turning countries in recession insisting to increase interest rates and decreasing public expenditures, which is contrary to policies done, for example, by the United States."[25] The case of FYROM will stay an issue for debate, since there is no dilemma about the needed macroeconomic policies and is strongly defined in the main responsibilities of the NBRM in law. Policy interest rates, especially during global financial crisis, were extremely high—maximum 9.1 % (2009–2010) as Fig. 1 illustrates:

Regarding FYROM's ability to fulfil the EU convergence criteria of price stability, we can say that the country has a relatively good performance and achieved considerable monetary stability.[26] Nevertheless, a permanent increase in growth rates cannot be achieved with monetary policy which exclusively focuses on defending a fixed exchange rate. The predominant and main objective of the NBRM is long-term price stability, while production stability is its second objective—which should be followed unless it is in conflict with the first objective.[27] Monetary sterilization took place during 2008 and 2009 in the case of FYROM as a "response" to the expansion of fiscal policy, causing very negative

[25] Soros (2002) pp 68.

[26] Commission of the European Communities, "The Former Yugoslav Republic of Macedonia 2009 Progress Report," {Comm 2009 553}, Brussels, 2009.

[27] For more detail see also Bexheti (2010) and NBRM (2008).

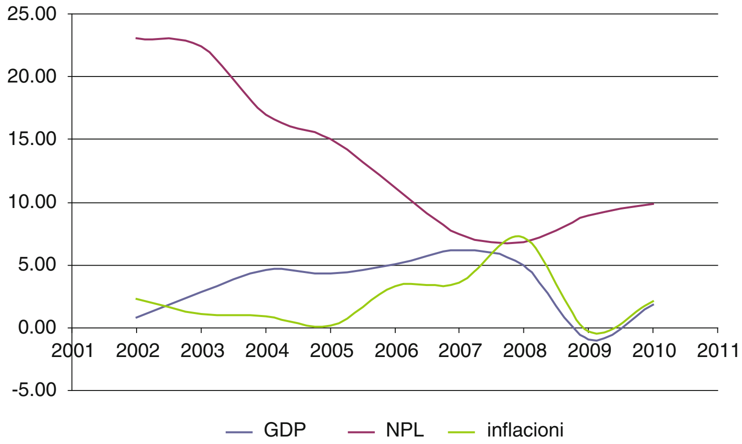

Fig. 2 Relationship among FYROM's GDP, NPL, and inflation (Source: Author's calculations based on NBRM data)

effects to the real sector although contributing to price stability. However, price stability has to be the precondition to achieve the main aim-sustainable GDP growth, which was not the case. In these circumstances, the financial sector becomes more fragile. Figure 2 illustrates this better, especially the relationship between GDP decline and the increase of nonperforming loans.

3.4 Agriculture Policy—Economically Inefficient, Socially and Politically Acceptable

FYROM has good climate and geographical conditions for the agricultural sector, at least to meet the needs with imported food products (such as milk and milk products, fruits and vegetables, and other related products). On average, there are approximately 270 days of sun in the country with a continental and Mediterranean climate and with average rainfall about 733 mm. Currently, 43 % of the population in FYROM is rural and 57 % is urban. Today the agriculture sector participates in less than 10 % of GDP, while a decade ago this figure was over 13.5 % of GDP. About 48% of total area of FYROM is designated as agricultural land (more than one million hectares) from which more than half considered arable land (520,000 ha).[28]

Agricultural Policy which supports the agricultural sector in FYROM pretends to follow the EU "model" and is oriented in two parallel types: (1) Direct payment measures and (2) policy to support rural development (National + Instrument for Pre-Accession for Rural Development [IPARD] + Rural Crediting Policy).

[28] FYROM Ministry of Agriculture, Forestry, and Water Works (2009).

Since 2005, fiscal policies have began to aggressively support the agriculture sector, from a mere €23 million in 2005 to €115 million in 2011 (a fivefold increase), with a forecast of €130 million in 2012. However, in terms of distribution, these policies have been inefficient and unfair in FYROM's territories. The relevant argument of the low efficiency and unfair agricultural policies is the low participation of agriculture in GDP, the decline of employability in this sector, and the increased imports and decreased exports in this sector.

On the other hand, the argument of unfair regional distribution of agriculture funds (based on a political—ethnic divide) include the records of budgets; for example, in 2010, Bitola received over €15 million, while Tetovo (with approximately equal proportions) received only €3.5 million. Another example is that, Kavadari received approximately €12 million in the same year, while Gostivar (with larger proportions) received less than €1.5 million.[29] Similar effects are found in rural development policy. In such circumstances, it turns out that the budget is used in a way that ineffectively redistributes economic, social, and political resources.

4 Conclusion

In the case of FYROM, political cycles have dominated the structure and content of policymaking. This paper has attempted to prove this by examining at least three cases: (1) Monetary policy, (2) Fiscal policy, and (3) Agriculture Policy.

As stated above, cyclical governance based on political preferences is not a new notion. Studies have proven that such policymaking does take place in many different countries, including advanced and transition countries. Nevertheless, transition countries that have EU convergence aims, such as the FYROM, cannot maintain a cyclical trend based on political preferences without considering one major tradeoff—EU approximation and eventual integration, at least in the medium term.

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