Macronia: Country Overview

Macronia is a small middle-income country with a very dynamic, small, but open economy. Over the past three years, income per capita averaged slightly over 18,000 U.S. dollars.

Macronia has registered very robust growth rates since 2000. Domestic consumption and exports have constituted a strong basis for growth. In 2008 the economy was hit hard by an external crisis, which caused a decline in exports in both 2009 and 2010. However, the economy was quick to recover. Macronia's potential economic growth is estimated to be over 4 percent per year.

Its production base is fairly diversified. The agricultural sector, which accounts for about 20 percent of total production, is dominated by a few agricultural products (oranges, oil, and wine). Manufacturing has traditionally been the backbone of industrial production, which accounts for about 30 percent of total production, but over the last two decades pharmaceuticals and high-technology firms have risen in importance. The service sector, which accounts for the remaining 50 percent of total economic activity, is dominated by tourism, as Macronia is a country that enjoys an important historical heritage and impressive natural beauties.

Total trade accounts for a large share of Macronia's Gross Domestic Product (GDP); 80 percent of trade is with just a few large trading partners. Although its traditional agricultural products continue to represent a good part of exports, Macronia has diversified its export base over the years to include high-value-added goods and services. Tourism also constitutes a robust source of income. Macronia's main imports comprise food, petroleum products, machinery, and chemicals.

Since 2000, Macronia has become a very attractive destination for foreign investment, thanks to the availability of high-skilled labor, and a stable macroeconomic and legal environment. As a result, the number of new firms financed by foreign capital has rapidly increased. However, Macronia's financial sector is still not fully integrated with international financial markets, owing to a regulatory framework aimed at protecting domestic banks from foreign competition.

The size of Macronia's government sector is smaller than that of peer countries. The management of fiscal policy, however, is complicated by a number of factors: a complex tax system with a narrow tax base, generous subsidies, and a strong government presence in the economy through state-owned enterprises.

The financial system is quite developed, but regulations aimed at shielding the sector from competition have prevented the full development of a modern financial market. As a result, firms mostly rely on bank loans and foreign capital as a source of finance. The pre-crisis period is characterized by a very significant growth in private sector credit which was only shortly interrupted by the crisis and resumed since 2010.

Since 2000, Macronia has successfully confronted two main macroeconomic challenges. First, it has reduced inflation while maintaining high growth rates. Second, it managed to reduce significantly public debt. Thanks to a conservative monetary policy, inflation moderated from over 10 percent during 2006–2008 to around 5 percent during 2010–2011, while growth rates resumed to more sustainable levels. At the same time, the government managed to reduce public debt from more than 60 percent of GDP in 2006 to about 45 percent of GDP in 2011.

The crisis in 2008 brought to the surface some vulnerability. First, the government halted the fiscal consolidation in order to support economic activity, and it has not been able to restore the fiscal balance to pre-crises levels. Second, an increase in import prices combined with very weak external demand resulted in a deterioration of the external accounts and a loss of international reserves, which the central bank only gradually was able to restore in recent years. Third, the post-crisis rebound of the economy and low interest rates in other countries attracted large capital flows from abroad, which caused an appreciation of the exchange rate (which is freely determined), and a consequent slowdown in export growth. As a result, the current account has weakened further in recent years.

Macronia: Selected Economic Indicators, 2006-11

	2006	2007	2008	2009	2010	2011
	(in billions of national currency)					
Real Sector						
Real GDP growth, percent	8.8	6.5	2.4	-1.6	4.9	5.7
CPI inflation, percent	11.5	9.4	13.4	7.8	5.7	4.9
External sector						
Current account balance, in percent of GDP	-5.1	-5.5	-10.3	-1.6	-3.9	-6.2
External debt, in percent of GDP	33.8	33.4	32.0	28.7	25.7	25.5
Reserve assets, in millions of US dollars						
in millions of US dollars	3,115	4,114	3,799	4,066	4,630	4,758
in months of imports of goods and services	2.7	3.0	3.7	3.3	3.2	…
Nominal exchange rate, percent change 1/	-6.6	-1.0	-1.8	-8.2	9.0	3.8
Government sector						
Revenues, in percent of GDP	14.9	16.2	16.9	15.0	15.5	15.6
Expenses, in percent of GDP	15.9	15.4	15.9	18.2	20.8	19.6
Net operating balance, in percent of GDP	-1.0	0.8	1.0	-3.2	-5.3	-4.1
Government debt, in percent of GDP	59.3	47.5	41.7	42.9	43.9	44.1
Monetary accoutns						
Money growth, percent	…	20.5	17.4	8.0	0.8	7.3
Domestic credit growth, percent	…	37.5	31.6	5.3	4.9	12.4

Notes:

1/ U.S. dollars per national currency; (-) depreciation, (+) appreciation.