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Macedonia: promising figures

This year has started better than most other recent years. GDP increased by 7% in the first quarter over the same period last year. After a long period of primary concern with stability, the new government, elected in 2006, seems bent on promoting growth. At the moment, the growth that has been recorded is more due to the fact that the improved regional environment is lifting the Macedonian economy too. The government's programme does target structural reforms, but their effects should be expected only in the coming years.

The reported growth, which is probably the fastest for any quarter in recent history, is mostly the consequence of the improved performance of the external sector. Exports increased by over 40% in the first quarter, almost twice as much as imports. Investments are also reported to have grown by almost 11%, though this is only investment in machinery and equipment. Overall domestic trade has increased by 13.6%, which indicates that consumption is also contributing significantly to growth of GDP.

On the supply side, industrial production has posted a strong growth of 11.6%, which is rather high historically, but is still from a very low level. Similarly, banking services have grown by 12.5%, but their contribution to GDP is of course rather limited. More importantly, agriculture does not seem to be doing all that well, with only 3.5% growth in the first quarter. Finally, construction has expanded by 5.8%, which is not really impressive by regional standards.

Public expenditures have been lower than in the first quarter of last year while revenues have increased by almost 20%. In addition, the government decided to pay back some of the foreign debt ahead of time and use the foreign investments from 2006 in that way. Macedonia's external financial position has improved significantly in the past couple of years due to an increased inflow of remittances and some significant privatizations last year. Foreign reserves at the central bank have doubled, from around EUR 660 million at the end of 2004 to over EUR 1300 million at the end of the first quarter of this year.

Apart from increased receipts from foreign investments, this also reflects the improvement in the current account. Unlike most other countries in the region, Macedonia had almost a balanced current account last year and has reported a surplus of close to EUR 40 million in the first quarter of 2007. Given that the trade deficit was around EUR 200 million in the first quarter, inflows of remittances have certainly been quite significant. That is an indication of the improved perception of the country risk, which used to be one of the chief problems of Macedonia in the past.

Political stability has improved after last year's elections, though the largest Albanian party – which did not get into the government – boycotted the parliament for about half a year. The smaller Albanian party, however, is member of the coalition government. There is a conflict of two principles that has created this problem. On the one hand, there are a number of ethnic Macedonian and ethnic Albanian parties in Macedonia and they tend to form cross-ethnic competing coalitions. On the other hand, the constitutional agreement, called the Ohrid agreement, requires that the majority of each ethnic community has to vote for certain laws in order for those to be adopted. Thus, if a minority party from one of the ethnic communities is in the governing coalition, by virtue of being in an electoral coalition with the majority party from the other community, the laws that require majority of the votes from both communities cannot be passed without the consent of the majority ethnic party, which is in opposition. Therefore the parliamentary and the government coalitions may not be the same. That can create problems in the functioning of both the parliament and the government, as it did in Macedonia.

Still, it is a sign of the increased political stability that this problem was solved through negotiations, in which there was, as usual, international mediation. Thus, both internal players in Macedonia show growing democratic maturity, but the persistent role of the international actors also illustrates the need for this country to be well integrated with the international structures. When it comes to the EU, Macedonia is a candidate country and is expecting to start negotiations for full membership during the Slovenian presidency in the first half of next year. That process is absolutely crucial for its stability and development. In addition, Macedonia expects to be among the countries that will be invited to join NATO at the next round of its enlargement, perhaps as soon as next year.

The prospects are better than they have been in many years. This year's growth may top 4% and if that turns out to be the case, next year it could even accelerate if negotiations with the EU and NATO membership materialize. The government is also determined for these are only intentions, but an improved economic environment may help in their realization.

Table MK

Macedonia: Selected Economic Indicators

	2002	2003	2004	2005	2006 ¹⁾	2006	2007	2007	2008
						1st quarter			
Population, th pers., mid-year ²⁾	2020.2	2026.8	2032.5	2036.9	2040	.	.	.	.
Gross domestic product, MKD mn, nom.	243970	251486	265257	284226	303305	.	.	325000	348000
annual change in % (real)	0.9	2.8	4.1	3.8	3.1	2.0	7.0	4	4
GDP/capita (EUR at exchange rate)	1981	2025	2128	2277	2430	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	5200	5330	5660	6100	6510	.	.	.	.
Gross industrial production									
annual change in % (real) ³⁾	-4.8	4.1	-2.2	7.1	2.5	0.5	11.6	5	5
Gross agricultural production									
annual change in % (real)	-2.3	4.5	6.8	0.3	0.5	.	.	.	.
Construction output, value added									
annual change in % (real)	0.6	13.3	7.4	-4.2	0.7	.	.	.	.
Consumption of households, MKD mn, nom.	188179	191873	209075	222890	.	.	.	.	.
annual change in % (real)	12.5	-1.5	8.0	.	.	.	.	.	.
Gross fixed capital form., MKD mn, nom.	40448	42110	47286	48868	.	.	.	.	.
annual change in % (real)	17.6	1.1	10.9	.	.	.	.	.	.
LFS - employed persons, th. avg.	561.3	545.1	523.0	545.3	570.4	559.7	.	.	.
annual change in %	-6.3	-2.9	-4.1	4.3	4.6	6.1	.	.	.
Reg. employees in industry, th pers., avg. ⁴⁾	110.9	106.7	101.5	125.7	.	.	.	.	.
annual change in % ⁴⁾	-9.5	-3.8	-4.9	-3.1	.	-3.8	-2.2	.	.
LFS - unemployed, th pers., average	263.5	315.9	309.3	323.9	321.3	318.1	.	.	.
LFS - unemployment rate in %, average	31.9	36.7	37.2	37.3	36.0	36.2	.	35	35
Reg. unemployment rate in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD	19025	19950	20771	21330	23036	22558	23138	.	.
real growth rate, % (net wages)	5.0	3.6	4.4	6.4	4.0	4.8	5.0	.	.
Consumer prices, % p.a.	1.8	1.2	-0.4	0.5	3.2	2.7	1.0	3	3
Producer prices in industry, % p.a.	-0.9	-0.3	0.9	3.2	4.5	5.6	0.9	2	3
General governm. budget, nat.def., % GDP ⁵⁾									
Revenues	34.9	33.4	33.2	35.5	34.3	.	.	.	.
Expenditures	40.0	34.5	33.2	35.3	34.9	.	.	.	.
Deficit (-) / surplus (+), % GDP	-5.0	-1.1	0.0	0.3	-0.6	.	.	-1	-1
Public debt in % of GDP	.	.	.	.	.	.	.	.	.
Discount rate, % p.a., end of period	10.7	6.5	6.5	6.5	6.5	6.5	6.5	.	.
Current account, EUR mn ⁶⁾⁷⁾	-379.9	-132.1	-334.2	-65.5	-18.9	-36.6	39.7	-100	-100
Current account in % of GDP	-9.5	-3.2	-7.7	-1.4	-0.4	.	.	-1.9	-1.8
Gross reserves of NB, excl. gold, EUR mn	692.8	718.4	665.2	1041.4	1329.2	1130.1	1322.3	.	.
Gross external debt, EUR mn ⁸⁾	1513.2	1439.4	1475.7	1849.1	1782.5	1752.1	1711.7	.	.
Gross external debt in % of GDP	37.8	35.1	34.1	39.9	36.0	.	.	.	.
FDI inflow, EUR mn ⁷⁾	82.6	83.8	126.5	80.3	279.5	242.4	15.2	.	.
FDI outflow, EUR mn ⁷⁾	0.1	0.3	0.9	2.2	0.2	0.1	-1.9	.	.
Exports of goods, BOP, EUR mn ⁷⁾	1180.8	1207.8	1347.2	1640.2	1910.5	374.3	534.3	2300	2750
annual growth rate in %	-8.5	2.3	11.5	21.7	16.5	1.9	42.8	20	20
Imports of goods, BOP, EUR mn ⁷⁾	2034.8	1959.4	2243.1	2490.6	2935.2	-596.1	-730.4	3530	4220
annual growth rate in %	8.3	-3.7	14.5	11.0	17.9	16.2	22.5	20	20
Exports of services, BOP, EUR mn ⁷⁾	268.8	289.6	328.6	379.3	479.4	.	.	580	700
annual growth rate in %	-1.6	7.8	13.4	15.4	26.4	.	.	20	20
Imports of services, BOP, EUR mn ⁷⁾	292.3	298.7	372.4	406.5	459.3	.	.	530	610
annual growth rate in %	-0.8	2.2	24.7	9.2	13.0	.	.	15	15
Average exchange rate MKD/USD	64.74	54.30	49.41	49.29	48.79	51.07	46.70	.	.
Average exchange rate MKD/EUR (ECU)	60.98	61.26	61.34	61.30	61.19	61.23	61.18	62	62
Purchasing power parity MKD/USD, wiiw	20.03	19.69	19.46	19.19	19.20	.	.	.	.
Purchasing power parity MKD/EUR, wiiw	23.23	23.27	23.08	22.87	22.84	.	.	.	.

Note: The term "industry" refers to NACE classification C+D+E.

1) Preliminary. - 2) 2006 wiiw estimate. - 3) Enterprises with more than 10 employees, from 2004 new methodology, from 2007 new methodology and weighting system. - 4) From 2005 re-weighted data with information from pension and invalid insurance funds. Quarterly data are unweighted. - 5) Refers to central government budget and extra budgetary funds. - 6) Including grants. - 7) Converted from USD with the average exchange rate. - 8) Medium- and long-term debt.

Source: wiiw Database incorporating national statistics; wiiw forecasts.