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Macedonia: EU prospects boost confidence

At the end of 2005, the European Union decided to issue a positive avis to Macedonia's application for membership and granted it a candidate status. This was somewhat surprising given the growing pessimism about the future enlargement of the EU after the negative results of the French and Dutch referenda on the EU constitutional treaty. Since then, the EU has taken a number of steps that suggest that it intends to honour the commitments to the Balkan countries. Certainly, for Macedonia this is very reassuring because 'Europeization' is its main strategy of economic development and institution building. It stabilizes the country at a moment when significant decisions have to be taken about the constitutional issues in the region that might have an impact on Macedonia.

In addition to its political position, Macedonia's economic situation is improving as well. GDP has continued to expand, though perhaps not as strongly as would be desirable for a transition economy. Also, industrial production is recording growth, though against the background of poor performance in the previous year. This growth is still not fast enough to make a dent in the very high level of unemployment, which certainly remains the key economic and social problem in Macedonia.

In 2005, exports expanded faster than imports and the current account recorded a remarkable adjustment. Rather than having a current account deficit of 6% to 7% of GDP, as usual, the deficit has shrunk to around 1% of GDP. The narrowing of the trade deficit is not enough to explain that improvement. Also, services have not reported a growing surplus, so the only possible explanation is that private transfers have increased remarkably. This may be an artefact of statistics, i.e., it may be that the inflow of remittances is better recorded now than was the case in previous years.

Foreign investments continue to under-perform. They tend to be larger than usual when there are some significant sales, otherwise green-field investments as well as portfolio investments are not very pronounced. But, this year and the next, the electricity sector is to be privatized and that should bring in significant resources. Given that Macedonia is a moderately indebted country, the proceeds could be used to finance investments, perhaps with a view to achieving certain development aims.

As in other countries in the region, credit expansion has been significant. Political stabilization and improved prospects for EU integration are boosting the confidence in the country and in the economy, so banks are more ready to offer credits to households and businesses. Also, Macedonia has continued to enjoy price stability, indeed to an extent that

the very firmly fixed denar is depreciating against the euro in real terms. The prospects for stability and modest growth in the medium run are quite good.

Apart from the problem with unemployment, there are still remaining structural weaknesses not only in the labour but also in the products market. On the one hand, there is little dynamism and perhaps significant rigidity, not to say monopolization, in the supply of products. On the other hand, Macedonia continues to be a less than attractive location for foreign firms because of the small size of its economy and somewhat under-developed infrastructure.

Macedonia is a landlocked country and depends more than other countries on the regional markets. This is especially true when it comes to trade, because Macedonia trades a lot with Serbia and Kosovo and it will continue to do so. A possible liberalization of trade and other economic relations in the region and especially closer integration of Kosovo in the regional economy would be helpful to Macedonia. Also, accession of Bulgaria to the EU, which should happen at the beginning of 2007, would further stabilize the political and economic relations in the region and would support economic recovery in Macedonia.

In the second half of this year, parliamentary election are to be held. If they prove to be free and fair and thus signal that democratization has stabilized, it can be expected that negotiations with the EU will start. That should be a further boost to Macedonia's economy.

Table MK

Macedonia: Selected Economic Indicators

	1999	2000	2001	2002	2003	2004	2005 ¹⁾	2006	2007
	forecast								
Population, th pers., mid-year ²⁾	2017.1	2026.4	2034.9	2020.2	2026.8	2030	2035	.	.
Gross domestic product, MKD mn, nom.	209010	236389	233841	243970	251486	265257	284027	301300	319600
annual change in % (real)	4.3	4.5	-4.5	0.9	2.8	4.1	3.6	4	4
GDP/capita (EUR at exchange rate)	1709	1921	1887	1981	2025	2130	2280	.	.
GDP/capita (EUR at PPP - wiiw)	4820	5160	5000	5210	5350	5680	5980	.	.
Gross industrial production									
annual change in % (real) ³⁾	-2.6	3.0	-2.9	-5.3	4.7	-2.2	6.7	5	5
Gross agricultural production									
annual change in % (real)	1.0	1.0	-10.2	-2.3	4.5	6.8	2.2	.	.
Construction output, value added									
annual change in % (real)	10.4	-1.1	-14.4	0.6	13.3	7.2	.	.	.
Consumption of households, MKD mn, nom.	145693	175965	163788	188179	191873	206610	.	.	.
annual change in % (real)	3.6	11.2	-11.6	12.4	-1.5	.	.	.	.
Gross fixed capital form., MKD mn, nom.	34710	38332	34716	40448	42110	47286	.	.	.
annual change in % (real)	-1.4	-1.5	-8.6	17.6	1.1	.	.	.	.
LFS - employed persons, th. avg.	545.2	549.8	599.3	561.3	545.1	523.0	540	.	.
annual change in %	1.0	0.8	9.0	-6.3	-2.9	-4.1	3.3	.	.
Reg. employees in industry, th pers., avg. ⁴⁾	119.8	114.4	122.5	110.9	106.7	101.5	98.5 ^{I-X}	.	.
annual change in % ³⁾	5.5	-4.5	-4.8	-9.5	-3.8	-4.9	-3.4 ^{I-X}	.	.
LFS - unemployed, th pers., average	261.5	261.7	263.2	263.5	315.9	309.3	330	.	.
LFS - unemployment rate in %, average	32.4	32.3	30.5	31.9	36.7	37.2	37.5	37	37
Reg. unemployment rate in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD	9664.0	17957.8	17886.0	19025.0	19950.0	20771.0	21250	.	.
real growth rate, % (net wages)	3.6	-0.3	-1.9	5.0	3.6	4.4	2.1	.	.
Consumer prices, % p.a.	-0.7	5.8	5.5	1.8	1.2	-0.4	0.6	2	2
Producer prices in industry, % p.a.	-0.1	10.7	2.0	-0.9	-0.3	0.9	3.4	3	3
General governm. budget, nat.def., % GDP ⁵⁾									
Revenues	42.1	43.9	34.4	34.9	33.4	33.2	32.7	.	.
Expenditures	41.1	41.5	40.8	40.0	34.5	33.2	31.7	.	.
Deficit (-) / surplus (+), % GDP	0.9	2.3	-6.3	-5.0	-1.1	0.0	1.0	.	.
Public debt in % of GDP	.	.	.	.	.	.	.	.	.
Discount rate, % p.a., end of period	8.9	7.9	10.7	10.7	6.5	6.5	6.5 ^{XI}	.	.
Current account, EUR mn ⁶⁾⁷⁾	-30.4	-78.5	-272.1	-379.9	-132.1	-334.2	-50	-200	-200
Current account in % of GDP	-0.9	-2.0	-7.1	-9.5	-3.2	-7.7	-1.1	-4.1	-3.9
Gross reserves of NB, excl. gold, EUR mn	428.0	461.5	845.5	692.8	718.4	665.2	765.5 ^{VIII}	.	.
Gross external debt, EUR mn ⁸⁾	1440.0	1606.8	1621.4	1507.9	1417.3	1442.7	1636.6 ^{XI}	.	.
FDI inflow, EUR mn ⁷⁾	30.7	189.4	493.2	82.6	85.4	126.5	100	.	.
FDI outflow, EUR mn ⁷⁾	0.3	-0.7	1.0	0.1	0.3	0.9	1.2	.	.
Exports of goods, BOP, EUR mn ⁷⁾	1117	1433	1291	1181	1208	1347	1500	1600	1700
annual growth rate in %	-3.0	28.3	-9.9	-8.5	2.3	11.5	11.3	6.7	6.3
Imports of goods, BOP, EUR mn ⁷⁾	1582	2182	1879	2035	1959	2243	2400	2450	2600
annual growth rate in %	-1.8	37.9	-13.9	8.3	-3.7	14.5	7.0	2.1	6.1
Exports of services, BOP, EUR mn ⁷⁾	256	344	273	269	290	329	400	.	.
annual growth rate in %	92.4	34.2	-20.5	-1.6	7.8	13.4	21.7	.	.
Imports of services, BOP, EUR mn ⁷⁾	217	291	295	292	299	372	420	.	.
annual growth rate in %	16.2	34.2	1.3	-0.8	2.2	24.7	12.8	.	.
Average exchange rate MKD/USD	56.90	65.89	68.04	64.74	54.30	49.41	49.28	.	.
Average exchange rate MKD/EUR (ECU)	60.62	60.73	60.91	60.98	61.26	61.34	61.30	62	62
Purchasing power parity MKD/USD, wiiw	18.36	19.44	19.67	20.00	19.71	19.56	19.70	.	.
Purchasing power parity MKD/EUR, wiiw	21.48	22.61	22.97	23.18	23.20	23.00	23.34	.	.

Notes: 1) Preliminary. - 2) From 2002 according to census November 2002; 2004-2005 wiiw estimate. - 3) Excluding small enterprises, from 2004 new methodology. - 4) From 2001 according to NACE. - 5) From 2001 revenues excluding privatization incomes, expenditures excluding financing items. 2005 data projected. - 6) Including grants. - 7) Converted from USD. - 8) Medium- and long-term debt.

Source: wiiw Database incorporating national statistics; wiiw forecasts.