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Macedonia: external imbalances return

Unlike other Balkan countries, Macedonia was running a near-balanced current account in about the last two years. This year, however, exports are sluggish while imports are growing strongly; the trade deficit has widened and so has the current account deficit. Exports are expected to rebound later in the year and imports to decrease, but this is not going to be enough to bring the trade and current account deficits down by much.

Inflation is contributing to these developments. Macedonia has a fixed exchange rate with the euro and the eurozone countries are its most important trading partners. Therefore, a higher real exchange rate is having an influence on the competitiveness of Macedonian exports while imports are being helped by it. In the second quarter of 2008 inflation seems to be slowing down. This is partly a season effect, because the price of food is declining. It is also for the reason that Macedonian inflation has been fuelled by wage increases, which are now over. Real wages have been declining and their growth may have turned negative lately.

Another reason that may be contributing to the widening of external deficits is increased foreign direct investment in the first quarter of the year. At about EUR 200 million, FDI has been almost as high as for the whole last year. It is, however, not likely that foreign investments will continue coming in at that rate in the future.

GDP and industrial production should continue to grow at a rate of about 5% per year in the medium run. The boost to growth from domestic consumption should decline in importance, and investments and exports should again take over. Because of the firm peg to the euro, Macedonia cannot afford high inflation rates. Also, persistent external imbalances are risky. Therefore, growth has to rely on exports. The prospects should be good given the structure of exports, which is dominated by raw materials, metals and food, and given the growth prospects of major trading partners in the region (Serbia and Kosovo).

Political stability has continued to improve even though the early parliamentary elections in June have proved to be turbulent because of the conflicts between the rival Albanian parties. The governing coalition of Macedonian parties has secured the majority of seats in the parliament and could govern alone, though it is expected that it will form a coalition with one of the Albanian parties.

This election result will also strengthen the government in its negotiations with Greece over the name of this state. Greece blocked Macedonia's entrance into NATO and is threatening to do the

same when it comes to the start of negotiations with the EU. A strengthened Macedonian government will be hard to pressure to accept an unfavourable compromise. For the time being that should have no perceptible negative economic effects. In the medium term it could prove to be a problem because all other countries in the Balkans should make advances in EU integration and Macedonia would be left behind.

Table MK

Macedonia: Selected Economic Indicators

	2004	2005	2006	2007 ¹⁾	2007 1st quarter	2008	2008 2009 2010 Forecast		
Population, th pers., mid-year ²⁾	2032.5	2036.9	2040.2	2045	.	.	.	.	.
Gross domestic product, MKD mn, nom.	265257	286619	310915	339258	75106	.	378000	413000	451000
annual change in % (real)	4.1	4.1	4.0	5.1	6.8	.	5	6	6
GDP/capita (EUR at exchange rate)	2128	2296	2491	2712	.	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	5760	6250	6680	7280	.	.	.	.	.
Gross industrial production									
annual change in % (real) ³⁾	-2.2	7.1	3.6	3.7	11.6	5.8	5	5	5
Gross agricultural production									
annual change in % (real)	6.8	0.3	0.5	5.1	.	.	.	.	.
Construction output, value added									
annual change in % (real)	7.4	0.9	11.3	5.0	.	.	.	.	.
Consumption of households, MKD mn, nom.	209075	222726	243131	.	.	.	.	.	.
annual change in % (real) ²⁾	8.0	5.7	6.0	5	.	.	6	7	7
Gross fixed capital form., MKD mn, nom.	47286	48868	56485	.	.	.	.	.	.
annual change in % (real) ²⁾	10.9	-5.4	11.6	6	.	.	8	8	8
LFS - employed persons, th. avg.	523.0	545.3	570.4	590.2	579	.	.	.	.
annual change in %	-4.1	4.3	4.6	3.5	3.5	.	.	.	.
Reg. employees in industry, th pers., avg. ⁴⁾	101.5	125.7	125.4	.	92.4	88.4	.	.	.
annual change in % ⁴⁾	-4.9	-3.1	-0.3	.	-2.2	-4.4	.	.	.
LFS - unemployed, th pers., average	309.3	323.9	321.3	316.9	323.3	.	.	.	.
LFS - unemployment rate in %, average	37.2	37.3	36.0	34.9	35.8	.	35	34	33
Reg. unemployment rate in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD	20771	21330	23036	24136	23138	25145	.	.	.
real growth rate, % (net wages)	4.4	2.0	6.0	5.5	5	6.7	.	.	.
Consumer prices, % p.a.	-0.4	0.5	3.2	2.3	0.7	9.5	6	3	3
Producer prices in industry, % p.a.	0.9	3.2	4.5	1.7	1.0	10.5	3	.	.
Central governm. budget, nat.def., % GDP ⁵⁾									
Revenues	33.2	35.2	33.5	35.3	35.2	.	.	.	.
Expenditures	33.2	35.0	34.0	34.6	32.1	.	.	.	.
Deficit (-) / surplus (+), % GDP	0.0	0.3	-0.6	0.6	3.1	.	-1	-1	-1
Public debt in % of GDP	.	.	.	.	.	.	.	.	.
Discount rate, % p.a., end of period	6.5	6.5	6.5	6.5	6.5	6.5	.	.	.
Current account, EUR mn ⁶⁾	-362.7	-121.3	-44.9	-170.9	41.0	-188.0	-200	-200	-200
Current account in % of GDP	-8.4	-2.6	-0.9	-3.1	3.3	.	-3.2	-3.0	-2.7
Gross reserves of NB, excl. gold, EUR mn	665.2	1041.4	1329.2	1417.3	1322.3	1396.6	.	.	.
Gross external debt, EUR mn	2070.6	2518.1	2495.2	2711.5	2469.6	.	.	.	.
Gross external debt in % of GDP	47.9	53.7	49.1	48.9	.	.	.	.	.
FDI inflow, EUR mn	260.7	77.2	344.8	239.3	18.2	204.1	200	.	.
FDI outflow, EUR mn	1.0	2.3	0.1	-0.8	.	.	0	.	.
Exports of goods, BOP, EUR mn	1345.0	1642.9	1902.7	2441.5	558.7	611.0	3200	4000	5000
annual growth rate in %	11.8	22.2	15.8	28.3	49.3	9.4	30	25	25
Imports of goods, BOP, EUR mn	2259.3	2501.4	2923.1	3614.3	769.7	982.0	4300	5200	6200
annual growth rate in %	15.5	10.7	16.9	23.6	29.1	27.6	20	20	20
Exports of services, BOP, EUR mn	363.7	416.2	477.3	580.0	.	.	700	800	1000
annual growth rate in %	8.5	14.4	14.7	21.5	.	.	20	20	20
Imports of services, BOP, EUR mn	407.2	440.8	455.1	550.0	.	.	600	700	800
annual growth rate in %	19.3	8.3	3.2	20.9	.	.	15	15	15
Average exchange rate MKD/USD	49.41	49.29	48.79	44.71	46.7	40.95	.	.	.
Average exchange rate MKD/EUR (ECU)	61.34	61.30	61.19	61.18	61.18	61.29	61.2	61.2	61.2
Purchasing power parity MKD/USD, wiiw	19.06	19.06	19.20	19.21	.	.	.	.	.
Purchasing power parity MKD/EUR, wiiw	22.66	22.53	22.83	22.80	.	.	.	.	.

1) Preliminary. - 2) 2007 wiiw estimate. - 3) Enterprises with more than 10 employees, - 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.

Source: wiiw Database incorporating national statistics; wiiw forecasts.