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What Is in the Name?
Risk Assessment of Macedonia

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Summary

This paper assesses the possible political and economic risks of Macedonia failing to be invited to join NATO in the near future due to a Greek embargo. Three possible outcomes of the current negotiations are discussed and some narrowing down of differences is noted. It may, however, not be possible to arrive at a compromise in a short period of time and thus some negative consequences cannot be excluded. Those will be immediate, though mild, if the negotiations break down; in the medium and long run perhaps significant benefits will be lost due to higher risks to investment and overall higher uncertainty. Contrary to that outcome, an agreement and Macedonia's accession to NATO, and later to the EU, would have immediate and long-term positive effects. A continuation of the negotiations and some progress on integration would have beneficial political and economic impacts and may even have some positive effects on the chances for an eventual agreement on the name of the Macedonian state.

Keywords: *Macedonia, security, stability, integration*

JEL classification: *F51, F52, F53*

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Introduction

Macedonia has been facing political and security risks since it became an independent country in 1991. Some of the risks have disappeared over time, or have declined substantially, but some have persisted. Out of the three most pressing ones – border issues with Kosovo, inter-ethnic relations within the country, and the conflict over the name of the state with Greece – the latter one is probably the least damaging to the security of the country, but is proving to be the more pressing one at the moment. Currently, it is increasing in importance because it may turn out to be an obstacle to Macedonia's further integration with NATO and even the EU. That may in turn have negative consequences for the two other much more enduring political and security concerns.

In this paper, the chances for a resolution of the conflict will be assessed, the risks that a failure to find a solution may bring will be looked into, and the secondary effects on overall stability and security of Macedonia will be considered. Finally, economic consequences of these risks will be assessed.

The name issue

At the moment of independence, Macedonia continued to use the name it had used as a state in federal Yugoslavia: Republic of Macedonia.[1] The only change was that it was now not a name of a state within federal Yugoslavia, but the name of an independent state.

Greece objected to that on the grounds that this is the name of a wider region and indeed three of its provinces have the name of Macedonia too.[2] That reflects the fact that the historical region of Macedonia is divided between Greece, Macedonia and Bulgaria, though the precise extension of this region has varied through historical time. This objection proved to be an obstacle for Macedonia to join the United Nations and to be recognized by the European Union. Eventually, a compromise proposal to refer to the country as the former Yugoslav Republic of Macedonia was adopted by the Security Council and the General Assembly of the United Nations, and Macedonia joined the UN in 1993. This is a provisional solution and not on the name but on the way to refer to the state within the UN (and by implication in all other international organizations). Individual countries are free to recognize the country under its own name if they so decide.

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[1] The full official name was 'Socialist Republic of Macedonia'. Immediately after World War II it was 'People's Republic of Macedonia'.

[2] Which are: West Macedonia, Central Macedonia, and Eastern Macedonia and Thrace.

At this moment, 122 member states of the UN have recognized the country under the name of Republic of Macedonia. Among those are the permanent members of the Security Council of the UN: the USA, Russia and China. However, most of the EU member states have refrained from doing so. Only Slovenia, Bulgaria, and most recently Poland have formally recognized the state by the name of the Republic of Macedonia. The former two before they joined the EU, and only Poland as already an EU member state. The other EU countries have postponed their decisions until an agreed-on solution is found in deference to Greek interests and objections.

What is the issue? There is no point in going into the contentious issue of the name itself in any detail, as that brings no political enlightenment whatsoever and would anyway require a separate paper. On a diplomatic level, it boils down to the possible confusion that its use may create. To see this, it is enough to realize that there are three Greek provinces with the name Macedonia and there is also the Republic of Macedonia. That may be a source of confusion, it may be argued. More than that, Greece has argued that the Republic of Macedonia, by using the name of Macedonia without geographic specification, is implicitly making a claim on the whole territory of Macedonia, which includes the three parts that are in Greece.[3] Beyond spreading confusion, Greece has argued that the name carries with it certain threats to its security. Over the years – the dispute is as old as the Macedonian state – the security threats mentioned have included implicit territorial claims on Greece and an instigation of secession of the Greek Macedonian provinces. These issues have proved to be serious enough to play quite an important role in internal Greek politics.

The problem is that there is no good diplomatic solution to this problem, even if it is seen as a purely diplomatic problem, that is as a problem of how to avoid possible confusion and diplomatic disputes. For instance, adding an adjective, such as Northern Macedonia or Independent Macedonia, does not do much more to dispel the confusion than the fact, reflected in their official names, that the one is a Republic and the others are Provinces. Not to mention the fact that the fora where the confusion could arise are not the international ones and thus not the diplomatic ones, as the Greek Macedonian provinces are not sovereign entities.

If the issue is seen as one of possible security threats, that is another matter. But it does seem that over time these concerns have mostly subsided. One indication is that Greece has, as will be discussed below, accepted that the name Macedonia may be used, but not without qualification. This is good news because it suggests that security issues are not so prominent any more. Initially, that was the reason why Greece was unhappy with any use of the word Macedonia in the name of its northern neighbour. Both countries have expressed interest to maintain good relations and have made it clear that they have no

[3] And also the part that is in Bulgaria.

territorial claims on each other. This fact should in normal circumstances help the two parties to come to an arrangement or to a compromise solution. This possibility is somewhat complicated by disputes over history and culture, which tend to play a role in the public debates in both countries. In Macedonia, it is an issue of the national identity of the Macedonian people – of the population that identifies itself ethnically as Macedonians. In Greece, it is the issue of the ancient Macedonian history being part of the Greek historical heritage.

Thus, the dispute is a complex one and involves diplomatic aspects, security issues, and claims to identity. Rather than trying to understand in detail what the dispute is about, it is more profitable to ask, what is the state of the name issue now? The answer is relatively straightforward. Greece has agreed to accept a compromise name that would contain the word Macedonia, but only if it is qualified. Northern Macedonia would be acceptable, as would be Upper Macedonia. It is unacceptable to Greece, however, that the state is simply called Macedonia.

The other, Macedonian, side seems ready to accept to change its name to, e.g., Democratic Republic of Macedonia. It does not look as if it is ready to go beyond that – in part because it has already been recognized as Republic of Macedonia by close to two-thirds of UN member states (122 out of 193); that majority is required for the General Assembly to adopt a resolution and recognize Macedonia as its member country under that name. It is not altogether clear whether the Security Council would be able to stop that, but it is unlikely that it would want to do so as it is in fact the General Assembly that is entrusted to decide on issues of membership. Thus, Macedonia has little incentive to compromise this late in the game.

The state of the name issue, then, is as follows: Greece insists on Macedonia qualifying its name in such a way as to refer to its specific part of the overall Macedonian region, while Macedonia is ready to amend it so that it will further specify the character of the state. Of course, there are other, subsidiary issues to solve, which have to do with diplomacy and with national identity.

The most recent proposal

On 21 February 2008, a new proposal by United Nations Special Envoy Matthew Nimitz was leaked to the Greek press and then appeared in the Macedonian translation. The English original is not publicly available. The authenticity of the document seems not in dispute. Whether the leaked version is complete and whether it is accompanied by annexes and letters that could be useful for interpretation is not known, but is highly likely. However, what is publicly known is useful in order to review the various issues discussed above and to form an expectation of the possible reactions by the two sides.

The document starts with the proposal that it should be recognized that two parts of the Greek Macedonia (one assumes the Western and the Central) and one part of the Republic of Macedonia are parts of the historical Macedonia. It is then proposed to recognize that the constitutional name of one of the sides in dispute is Republic of Macedonia. It is then suggested that, despite of that, (i) the official name, yet to be agreed on, will be used as official international name, (ii) will be immediately recognized by the United Nations, (iii) will be used in the passports, and (iv) in bilateral communications (one assumes between Greece and Macedonia). The name Macedonia, by itself and without qualifications or specifications, will not be recognized as the official name either for Macedonia or for any other country. Also, it is suggested that no country will have exclusive rights to the name Macedonia or to the adjective Macedonia. The name can be used for commercial purposes in accordance with the international conventions. Finally, Macedonia will start proceedings to change the name of its Skopje Airport, which currently carries the name of Alexander the Great.

Nimitz suggests five possible names, at least according to the newspaper reports: Constitutional Republic of Macedonia, Independent Republic of Macedonia, Democratic Republic of Macedonia, New Republic of Macedonia and Republic of Upper Macedonia. The two sides can of course make other suggestions.

According to the news reports, Macedonia is ready to accept as its official name both the Democratic and the Independent Republic of Macedonia alternatives. Greece is reported to be ready to accept the name Upper Macedonia (and perhaps New Republic too). The other proposals will also be commented on by both sides, but it is not known what the precise comments are going to be. For the Macedonian side, the suggestion that the name Macedonia and the adjective Macedonian cannot be used exclusively by anyone will probably be unacceptable. In one sense, Macedonia claims exclusivity of that name: it is the ethnic name of the Macedonian nation. Greece will have disagreements of its own, though these are not yet known at this moment. Finally, Macedonia has indicated that it will want to hold a referendum on whatever comes out as a compromise proposal.

Thus, though the two sides do not seem to be too far apart from each other, it does not seem as if a compromise is at hand.

The integration incentive

Macedonia wants to join NATO and the EU and the process of integration has been going on for a long time now. Both NATO and the EU have been involved from the very beginning in the support of Macedonia's security. In both these organizations decisions on the new membership have to be taken unanimously, so Greece as a member state of both has the veto power. Greece threatens that it will use that power if there is a prospect of

Macedonia advancing further in the process of accession to either NATO or the EU or both with the dispute over the name not resolved.

Thus, Greece intends to use its ability to stop Macedonia's advance towards NATO and possibly the progress towards EU integration in order to pressure it to compromise on the name issue. Until now, this lack of willingness to compromise has led to the continuous use of the provisional name in both the EU and NATO. Macedonia has signed the Stabilization and Association Agreement (SAA) under the provisional name and it has been participating in the NATO programme Partnership for Peace (PfP) in the same way. Thus, Macedonia's cooperation with the EU and NATO has not been impeded by the name issue – that is so far. The same solution applies to the UN and all the UN-related agencies and to Macedonia's participation in and cooperation with those.

Also, this conflict has not proved to be an obstacle to economic and other cooperation between Greece and Macedonia. After the Greek embargo in 1994 – which was prompted by the Greek dissatisfaction with Macedonia choosing to put the sign of Phillip of Macedon on its official flag – which ended with Macedonia agreeing to change its flag in autumn of 1995, Greece has very much increased its economic penetration in Macedonia. It is a very important trading, financial and investment partner of Macedonia.[4]

Macedonia, on the other hand, has been preparing for NATO membership for quite some time now. It is a member of the Adriatic Group – consisting of Croatia, Albania and Macedonia – that coordinates their activities with the common goal of acceding to NATO. Their activities have been very much supported by NATO and that has been seen as a stepping stone to full membership. At the moment, this whole process has come to the point when two of these countries, Albania and Croatia, had been invited to join NATO during the NATO Annual Meeting in Bucharest in April of this year. The remaining obstacle for Macedonia to have been invited on that occasion was the name issue.

Similarly, Macedonia has been negotiating with the EU to move the process of integration along. It is now a candidate country, but a date for the start of negotiations has not been set yet. The initial expectations were that the EU may be ready to set that date during the Slovenian presidency in the first half of this year, but it now seems more likely that this will be considered seriously during the French presidency in the second half of 2008. The name issue is an obstacle for that too, though it is certainly not the only remaining obstacle (the latest report by the European Commission cited many deficiencies in the institutional, political and economic development of Macedonia),[5] but it is the most intractable one.

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4 On that more below. See also the data on trade and investment in the appendix.

5 See European Commission (2007).

From this it can be concluded that the name issue is increasingly becoming if not the only then certainly the most difficult obstacle to further advances of Macedonia towards NATO and possibly the EU too.

The relative bargaining positions

Greece can use its veto power to block Macedonia's entry into NATO and its further advance towards the EU, but it is not altogether clear what is going to be achieved with that. On the other hand, it is clearly in Macedonia's political and economic interest to speed up its integration with both the EU and NATO, but it is questionable whether there is any sense of urgency on its part. So, it is not easy to judge the distribution of relative power in the respective bargaining positions of the two parties in dispute.

As is often the case in bargaining, the two sides have locked themselves into positions that make compromise difficult to reach, mainly in order to project the sense of unshakable credibility of their bargaining positions. As a consequence, both the Greek and the Macedonian governments would face strong opposition in the public and in the parliament if they were to contemplate an unfavourable compromise on this issue. The current Greek government would be most probably voted out of office and the same is true, though it is less obvious, for the Macedonian one. Thus, their respective bargaining positions lack the necessary flexibility that would be needed if a compromise solution were to be found. Over time, of course, they have evolved, but none is still ready to make the decisive concession.

Theoretically, the problem is about the credibility of the respective bargaining positions and strategies that the two parties have taken. Greece assumes that the Macedonian position is not credible because the stakes are too high: Macedonia needs NATO and EU integrations and it is not to be believed when it says that it will not accept any unfavourable compromise over the name issue. This lack of credibility is also based on Macedonian behaviour in the past. Macedonia was ready to compromise in order to join the UN and also to get the Greek embargo lifted. The benefits of future EU integration are certainly much larger and Macedonia is not expected to forgo these benefits if a massive and concerted effort is exerted to make it aware of the future consequences of its current stance, if it does not change it.

Similarly, the Greek position is not seen as very credible either because it can be argued that, if there is no compromise, then the current arrangement, i.e., the use of the provisional name, should be continued. Indeed, there were reports that just such a proposal had been made to both parties by NATO and by the USA more specifically. Macedonia, it was suggested, should be invited to join NATO as planned, but the actual date of accession could depend on the agreement being reached. It is believed in some quarters, though not convincingly after the Greek veto in the Bucharest meeting of NATO at the beginning of April, that Greece will be in no position to reject that compromise, or something similar to it, and that will make it possible to continue the process of Macedonia's integration.

The proposals for a compromise are coming from third parties, which means from NATO or member states of NATO and also from the United Nations. Though Macedonia is a small and politically not very influential country even in its own region, this is not the best moment for NATO to show that it has internal problems and cannot move its own agenda forward. The moment is especially awkward because NATO and the EU, as well as the UN, are under fire for their role in a number of Balkan countries or territories. Indeed, a major decision has just been taken about the EU mission in neighbouring Kosovo, and Macedonia's accession to NATO would be helpful because it would contribute to region's stability. In fact, a renewed conflict between Greece and Macedonia over the name of the latter country could be destabilizing for Macedonia, and could conceivably have negative consequences for the stability of the region.

Thus, it is not only the credibility of Greece and Macedonia that is at stake, but also the credibility of NATO.

What are the options?

There are basically three possible outcomes and thus three options for the parties in dispute to choose from:

- One is to go ahead with Macedonia's advance to NATO and EU integration without an agreement on the name issue.
- Another is that Macedonia's accession to NATO is delayed or put on hold because of a lasting Greek veto, or the threat of a veto.
- The third is that there is an agreement, temporary or permanent, between Greece and Macedonia.

These three possible outcomes are not altogether independent of each other and could possibly be combined. The first outcome means that the parties have chosen the status quo over the possible alternatives. That means that Macedonia will continue to seek recognition from still more countries. Eventually, the overwhelming majority of the countries in the world will choose to refer to Macedonia under its name, and that would mute Greek objections and blunt its pressure on the remaining countries. Greece may still continue to use the provisional name in the bilateral relations, which is something that Macedonia does not object to anyway.

Thus, the second option is not independent of the first, because if Greece does not continue to use its veto in those organizations where it has the veto right, it will be losing its bargaining power and therefore the influence over or a say on the final outcome. However, the use of veto power does not come free of charge: Greece would have to take the brunt of the criticism that it has frustrated NATO's efforts to expand in the Balkans and to bring security to that region and to the rest of Europe.

The third option would certainly be the best for all concerned, but a compromise solution is hard to work out. Theoretically, the compromise needed is one after which both parties are better off. This theoretical statement has clear operational meaning. It can be seen in the following way:

If one were to try to find an outcome that would reflect the bargaining positions of the two parties on the assumption that they were taking the reality as the starting point for the formulation of the compromise and were acting with the aim to get the best deal that is realistically attainable, the compromise outcome would have to take into account at least three main aspects of the dispute over the name.

The first aspect is the one that has security implications, as explained above. That means that the territorial reference of the name should be such that it should reassure the other side or sides. In the above-mentioned proposals by Nimitz, the name Upper Macedonia or any name with a geographical specification would perhaps satisfy that requirement.

The second aspect is that the name should not threaten the identity of the Macedonian nation. A proposal regarded as not respecting the Macedonian ethnic identity would have no chance to be accepted by the Macedonian public. For this reason, names such as Democratic Republic of Macedonia or Independent Republic of Macedonia would be acceptable, as they clarify the character of the country being a republic and not the identity of the nation state.

The third aspect is about the use of the name. Given that changing the constitution is not an easy process even if an acceptable compromise is found, the use of the current constitutional name would have to coexist, as it already does with the provisional name, with the international name and the name that might be used in bilateral communication. This also takes into account the interests of third parties and international organizations.

The Nimitz proposal presented above covers all these aspects and is certainly a good starting point. The problem is that further ingenuity will be necessary to agree on a solution that satisfies all three requirements. One possibility is to combine the interests of all those concerned by adopting a solution that respects the most important concerns of Greece, Macedonia, and of others, i.e., of NATO, the EU and the UN. In other words, a compromise solution is one that satisfies the most paramount interests of all the parties (at the expense of the subordinate interests). Indeed, the final proposal by Nimitz is to use the name Republic of Macedonia – Skopje, and that is one way to satisfy all the requirements. However, it has turned out to be unacceptable to both parties, at least so far.

Without going into possible solutions, it makes sense to discuss the respective strategies of the parties involved and to determine how realistic those are. The underlying idea is that, in order for all the parties in dispute to accept to compromise in such a way that their most important interests are satisfied, the alternative strategy, which is to maximize the overall outcome, will have to be seen as unrealistic or infeasible. That goes to the issue of whether there are incentives that the two parties have to compromise.

How realistic is the Greek strategy?

The main interest of Greece is that the name of its northern neighbour does not present external or internal security threats. How realistic these threats are is a separate issue and cannot be treated here. For the purposes of this paper it is enough to assume that the Greek public and its government assess that they exist. Certainly, the stability of the government is at stake and that may be enough of a problem by itself given that it is the government that is negotiating.

The main instrument that Greece can use is to threaten to block Macedonia's accession to NATO and the EU. In the worst case, it can stop any progress that Macedonia could make in its contractual relations with these two organizations. Thus, the Greek strategy is to use the threat of veto to persuade Macedonia to compromise. The question is, how realistic is that strategy?

The first test of the Greek veto strategy came this spring, in early April in fact, with the decision on Macedonia's membership in NATO. The Greek strategy was to threaten to veto Macedonia's accession to NATO and induce the other NATO member states and the organization itself to put pressure on Macedonia to compromise on the name by succumbing to Greek demands. After it turn out that the veto had to be envoked, the question is, are NATO and its member states ready to do that?

A comparison with the EU is useful here. Though most EU countries and the EU institutions are referring to Macedonia by its provisional name, they do not pressure the country to change its name. It would be hard to imagine the EU making Macedonia's accession conditional on it accepting Greek demands. Though language to justify such a move could be found, the rationale could not, and in any case there would be no will on the part of many states to do something like that. Thus, a Greek veto would stop the process, but it should not be expected to convince anybody.

Arguably, the willingness in NATO to do something like that, i.e., to pressure Macedonia to change its name, is even less probable. It would be unusual to bring up that issue at this late stage and make it an issue with the intent to put pressure on Macedonia to cooperate on the name issue. NATO will have to think about its image as it may not be happy to be seen as an instrument of its member states to interfere into internal and even international affairs of other states, especially if these are political rather than strictly security issues.

So, though Greece seems determined to continue to use its veto power to try to influence Macedonia's decision, it is unlikely that either the EU or NATO will be ready to do the same. Without, however, that kind of pressure, it is unlikely that Greece will achieve much more than a delay in Macedonia's advance towards integration with these organizations.

How realistic is the Macedonian strategy?

The key Macedonian interest is that its national identity is not threatened. That would be destabilizing and would not be accepted by the public anyway. The main instrument of Macedonia is to work for recognition in the UN by getting two-thirds of the member states to recognize it by its current name. The main risk is that it will not be able to accede to NATO and the EU and that may prove politically and economically costly, and that cost clearly has security implications as well.

How realistic is that strategy? If Macedonia's accession to NATO is frustrated, what will be the possible political consequences? The answer depends on the assessment of the political stability of that country. That assessment in turn depends on a number of considerations, of which the most important are:

- the state of the constitutional reform,
- the level of democratization, and
- the stability of the government.

The key to Macedonia's stability are the inter-ethnic relations, i.e., the relations between the ethnic Macedonians and ethnic Albanians. Those have been set on a more stable footing with the Ohrid Agreement from 2001, which basically requires significant constitutional changes in order to improve the legitimacy and functionality of the multiethnic state. The implementation of the Ohrid Agreement has been slow at times, but significant changes have actually been made. Without going into details which are not important here anyway, all the indications are that the inter-ethnic relations have improved and that there is a commitment on both sides to work out their differences through a political and peaceful process. In any case, inter-ethic stability depends much more on the developments in Kosovo and Serbia, which is the main regional risk and the main challenge for Macedonian diplomacy.

Thus, though constitutional issues remain to be a source of disputes and discussions between and among the ethnic groups, they do not pose a serious threat to the security. Also, the current set-up seems stable enough, so it should not suffer easily from any further delays in Macedonia's integration into NATO and the EU.

In addition, democracy seems to have taken root in the country. There have been three peaceful changes of government. Usually, that is enough to stabilize a democratic system. It can be argued that Macedonia may need to have even longer experience in this respect to be sure that democracy has stabilized, but there is no doubt that the experience so far has been positive.

The current government, also, does seem to be stable. Though there are problems within the coalition, the opposition appears not to be in a position to challenge the government effectively. So, even after early elections in June, which mainly aim to strengthen the governing coalition, the stability of the government should not be a major problem. On top of that, the pressure on the name issue tends to solidify the government and to increase its stability.

Thus, the chances for political destabilization due to the continuation of the conflict over the name issue are rather low.

The interests of NATO

The third party to this is NATO, which has significant responsibilities in the Balkans. The accession of the Adriatic Group would be helpful. It would shore up its position vis-à-vis Serbia and perhaps others that might try to achieve their aims via destabilization. In that, NATO needs to project determination and efficiency. Thus, it is in its interest to bring in those countries that can be helpful in the region.

However, NATO cannot pressure either of the two countries because that would risk their destabilization. The interest that a solution is found is high, but the instruments to influence the outcome are lacking.

Given the position of all the three actors, it can be concluded that the incentive structure is not strongly supportive of a speedy resolution of the name issue.

The economic risks

The more important question is that of the economic risks due to adverse international political developments. In other words, will the risk of doing business in Macedonia increase if the process of NATO and EU integration is delayed or put on hold?

The answer depends on the current economic developments in Macedonia and on the macroeconomic vulnerabilities its economy might face. The vulnerabilities are of two types. One set of vulnerabilities are short-term and refer to indicators such as inflation, public deficit, and short-term foreign debt. The other set of indicators suggest medium-run vulnerabilities and are mostly those about macroeconomic balances: the external balance, the fiscal balance, and the labour market balance. Structural indicators could be added too, as they may be pointing to the sustainability of growth, and those have to do with the available productive factors and with their use in various sectors of the economy. The overall indicators, of course, are those of stability and growth.

When it comes to stability, this has been the main preoccupation of the successive Macedonian governments and of the monetary authorities. The main pillar of stability has been the fixed exchange rate. With restrictive monetary policy, this has kept the prices stable and inflation has started to accelerate somewhat only last year, partly because there has been an increase in public sector wages (for inflation and wages as well as all the other indicators of competitiveness see Table 1).

Table 1

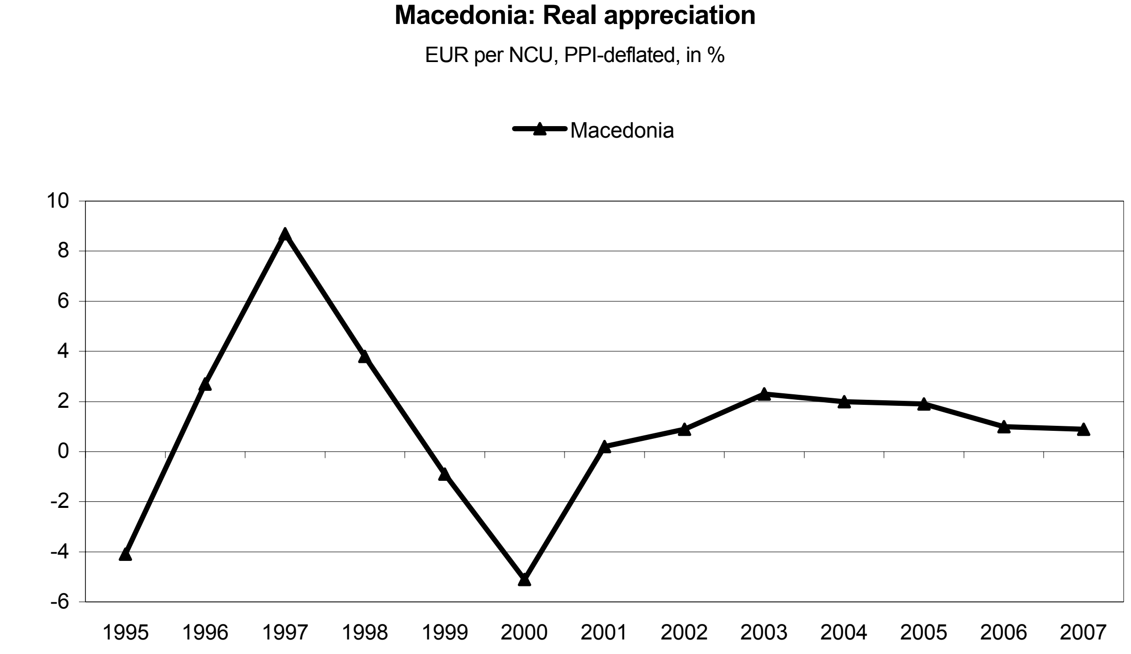
Macedonia: Key indicators of competitiveness

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007 Prel.**
Producer price index, 2000=100	100.0	102.0	101.1	100.8	101.7	104.9	109.7	111.5
Consumer price index, 2000=100	100.0	105.5	107.4	108.7	108.2	108.8	112.3	114.8
GDP deflator, 2000=100	100.0	103.6	107.2	107.5	108.9	113.0	117.3	120.2
Exchange rate (ER), MKD/EUR	60.73	60.91	60.98	61.26	61.34	61.30	61.19	61.18
ER, nominal, 2000=100	100.0	100.3	100.4	100.9	101.0	100.9	100.8	100.7
Real ER (CPI-based), 2000=100	100.0	102.9	102.5	101.3	98.6	97.1	98.2	98.2
Real ER (PPI-based), 2000=100	100.0	100.5	100.1	98.8	97.3	96.2	96.1	95.3
PPP, MKD/EUR	22.77	23.15	23.38	23.42	22.66	22.53	22.83	22.81
Price level, EU27 = 100	37	38	38	38	37	37	37	37
Average monthly gross wages, MKD	17,958	17,886	19,025	19,950	20,771	21,330	23,036	23,900
Average monthly gross wages, EUR (ER)	296	294	312	326	339	348	376	391
Average monthly gross wages, EUR (PPP)	789	773	814	852	917	947	1,009	1,048
GDP nominal, MKD mn	236,389	233,841	243,970	251,486	265,257	286,619	308,772	332,000
Employed persons - LFS, th., average	550	599	561	545	523	545	570	590
GDP per employed person, MKD	429,919	390,185	434,620	461,351	507,189	525,662	541,322	562,712
GDP per empl. person, MKD at 2000 pr.	429,919	376,587	405,486	429,324	465,791	465,104	461,330	468,269
Unit labour costs, MKD, 2000=100	100.0	113.7	112.3	111.2	106.8	109.8	119.5	122.2

Source: wiiw Database.

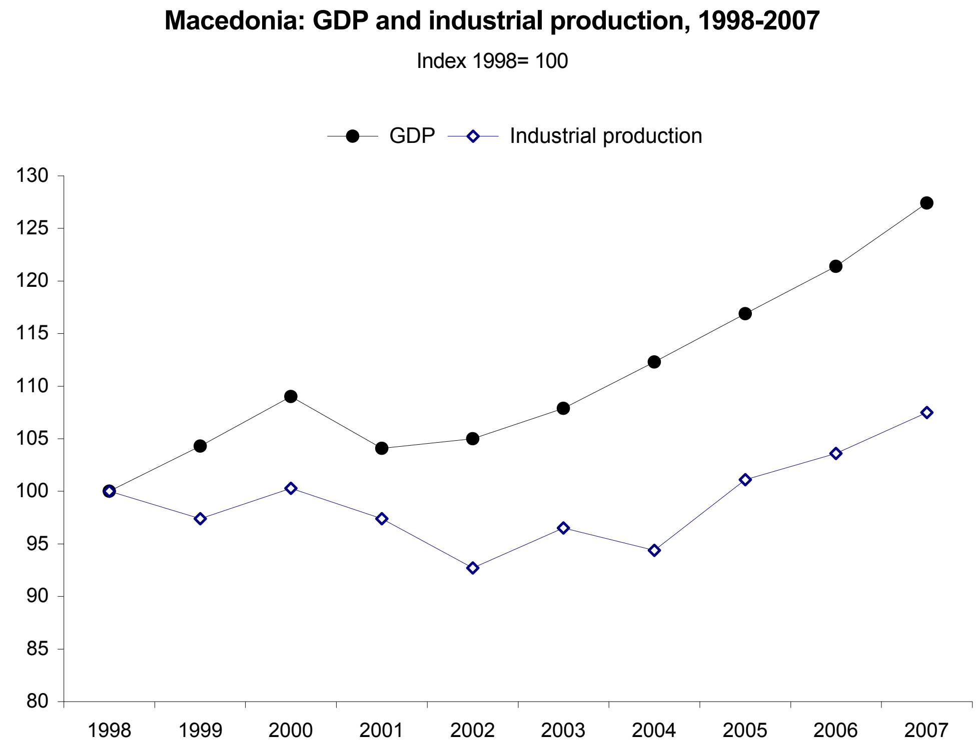
Thus, stability of prices and of the exchange rate does not seem to present problems in the short run and even in the medium run.

Figure 1



Source: wiiw Database.

Figure 2



Source: wiiw Database.

When it comes to growth, the Macedonian economy has been showing significant improvement in the past couple of years. Its transition was characterized by slow and unsustainable growth until a few years ago.[6] Since 2004, however, the economy started to grow and growth has accelerated last year. Though growth rates over the past four or so years have not been as impressive as in most other countries in the region, they have averaged around 4% per year. Last year close to 5% growth was recorded and this year further acceleration is expected. This growth should be sustained over the medium run. For GDP growth and growth of industrial production see Figure 2 and Table A.11.

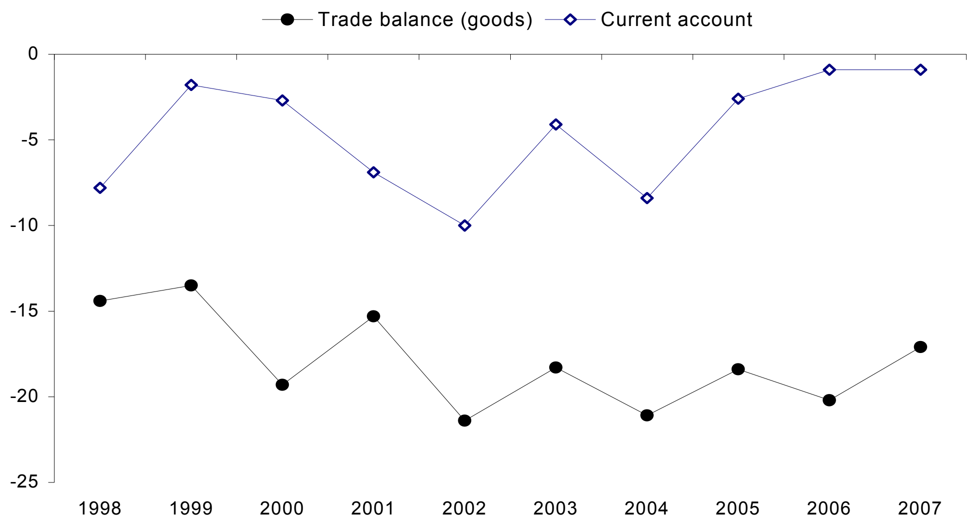
The sustainability of growth is premised on two things: one is the sustainability of macroeconomic stability, the other is the speed-up of reforms. The former is especially important if possible political and security shocks are assessed. Here, macroeconomic balances are quite important.

Unlike most other countries in the region, Macedonia has been able to balance its current account of the balance of payments in the past two years (see Figure 3 and Figure A.1 in the appendix). This is the consequence of the speed-up of growth of exports of goods and services and also of the increased inflow of remittances and other private transfers.

Figure 3

Macedonia: Current account and trade balance, 1998-2007

in % of GDP



Source: wiiw Annual Database incorporating national statistics.

6 See Gligorov and Mojsovska (2005).

Thus, Macedonia does not face challenges that other countries in the region face, which is that they may have problems with the financing of the current account deficit if the investments and business climate worsens.[7]

Also, Macedonia has been fiscally prudent for quite some time now and continues to cover its public expenditures with public revenues without running into a deficit or with very small deficits: around 1% of GDP in 2007, and a similar deficit is expected this year (see Table A.9 in the appendix). Because of that, there are few fiscal risks. The government is more than capable of financing its obligations. This has been achieved with the significant lowering of taxes on corporate earnings and also on income and even the VAT.

Thus, Macedonia is a low-tax country with a balanced budget. Fiscal vulnerability to external shocks is also low.

The main problem in Macedonia is the high level of unemployment, around 35% according to the labour force survey, and the low level of employment. Some growth of employment has been recorded in the past couple of years though (see Table A.1 in the appendix). Sustained growth will lead to an improvement of the situation, but that will take time. In the meantime, social tensions are possible if the economy suffers due to political or security risks. However, in all the challenges that social cohesion has had to face in the past decade or so, social conflicts have been contained and have not created too many problems. They tend to be suppressed especially when there is an outside political or security pressure or threat. Thus, social vulnerability will not be aggravated by the possible increase in tensions with Greece and by the possible rise in uncertainty.

Overall, economic risks should be judged as being mild and not vulnerable to deterioration due to renewed or prolonged political disputes with Greece. The stability and growth of the economy has been achieved under much worse circumstances than those that the country is facing now or is likely to face if its accession to NATO and to the EU are delayed due to a Greek veto. The sources of growth are mostly in rising exports and growing investments and they will only improve in the short run. Stability is due to improved economic policies and firmer commitment to reforms and these factors will not change in the short term. So, the impact of the delay of Macedonia's integration in the short run should be rather small, if there is any.

The investment effect

Stability being sustainable, that leaves the issue of reforms. The key policy strategy of the current government of Macedonia is to attract foreign investment. Various policy measures

[7] See Sorsa et al. (2007).

have been taken to that end, and have started to yield some results. Undoubtedly, the speed-up in NATO and EU accession would be beneficial for investment risks and would accelerate growth, support reforms, and improve the social situation. It is to this that a Greek veto may do the most damage. In the past, foreign investors have not shown very strong interest in Macedonia, as can be seen from Tables A.1 to A.5 and Table A.8 in the appendix. Greece is one of the main investors.

Thus, it is not so much the short- or medium-run costs of the possible delay of Macedonian integration in NATO and the EU, but it is the lost benefits that should be expected. Arguably, costs have already been internalized, while lost benefits are the real costs of the lack of agreement with Greece on the name issue.

The negative impact on foreign investment of the delay of NATO integration is hard to assess. Here, the reason for the delay, if it comes to that, may help Macedonia when it comes to the risks that existing investors may feel they are facing. The reason is that it will be clear that the delay is due to the name issue and not to security or political problems of Macedonia. Most investors, it can be expected, will anticipate that this is only a postponement rather than a permanent setback. So, the negative effect, on the existing investments, if there is any, will be rather small and temporary.

In addition, the investment risks that are increasing throughout the Balkans are not present in Macedonia, because the credit boom was less pronounced here and so were the increases in real estate and asset prices. As a consequence, the financial market is probably sounder than most other markets in the region. This should be conducive to foreign investment (see Tables A.6 and A.7 in the appendix).

The key problem is that the delay in NATO integration and in EU negotiations, together with possible delays in the liberalization of the visa regime, may deter investors due to the fact that medium-term risks may be seen as being higher than they would otherwise be. It has been true for practically all countries in transition that an improvement of chances for NATO and EU integration has decreased overall risks and thus spurred foreign investment. This is because investors are assured that reforms will continue and in fact speed up. Also, the risk and uncertainty decline due to the clear idea as to what is the end result of that process. NATO tends to stabilize political and security risks and the EU tends to remove uncertainties about the institutional and structural reforms.

Thus, the delay of NATO or EU integration may lead to lower overall investment over the long run and thus to significant lost benefits for the economy.

Economic risks under alternative outcomes

As argued above, there are three likely outcomes of the dispute over the name issue. Those have different economic consequences. The key issues are the prospects for foreign investments and their influence on growth, stability, and development (on the structure of the economy).

The three possible outcomes are:

(i) no agreement and a delay in Macedonia's integration;

(ii) no agreement and Macedonia's integration in NATO (and a start of negotiations with the EU early next year);

(iii) a compromise and a speed-up of the process of integration.

The important consequences are those over the short run, but medium- and long-run consequences are also of significance given that the main channel of influence is that of the expected level of investments.

Out of the three alternatives, the second one, i.e., Greece not continuing to use its veto to stop Macedonia's integration into NATO, is the least realistic. Greece has indicated that it will use its veto and that threat has to be taken seriously given the political constellation in Greece. The first alternative, i.e., a delay in Macedonian integration, is quite realistic given that there is not enough time to negotiate an agreement. The delay may be temporary, as long as there is no solution, which seems most probable. It may also be indefinite if the negotiation break down, which does not seem to be what the two sides want and is certainly not what NATO and the EU are looking for. The third outcome, i.e., a compromise, does not carry zero probability given that the two sides are not all that far apart. The problem is, as argued above, that the incentive structure is not very supportive of a compromise and the issue is somewhat complex. In any case, it is realistic to expect that negotiations will continue for some time. Whether the process of integration will be parallel to it is hard to say. That depends on the atmosphere in the negotiations and on the understanding of the parties involved that they are looking for a compromise at some point down the road. If that were the atmosphere, then the process of integration could be an incentive to compromise. Perhaps the key in any negotiations is the judgment when it is appropriate to move from threats to offers, i.e., from negative to positive incentives. It is hard to say whether the negotiations are at that point already. Certainly, in that assessment, the wider considerations, those that take into account the interests of NATO and the EU, should play a certain role.

Thus, short of the complete breakdown of negotiations and the actual use of the Greek veto, the above three alternatives boil down to (i) a temporary delay, (ii) a parallel process of negotiations and integration, and (iii) a quick compromise. These three alternatives bring along the following risks: to investment, reforms, growth, stability, and employment. The short-term risks are dominated by the possible shock effect, e.g., no integration in NATO. The medium-run developments are influenced by the expectations of risks, e.g., that delay in integration will mean political or social instability. The long-run risks depend on the perception of uncertainty, e.g., whether Macedonia will succeed in integrating with NATO and the EU at all: in the negative case it is not easy to gauge where the country is heading and thus the uncertainty. In Tables 2 to 4 an assessment of the possible effects of these three alternative outcomes is given.

Table 2

Alternative 1: temporary delay

	Short run (shock effect)	**Medium run (risk factor)**	**Long run (uncertainty)**
investment	some slowdown	underperformance due to higher risk	suboptimal due to higher uncertainty
reforms	no speed-up	low support	possible derailment
growth	negligible effect	lack of acceleration	slow convergence
stability	no effect	low risk	low risk
employment	no improvement	slow improvement	social tensions

Table 3

Alternative 2: parallel process of negotiations and integration

	Short run (shock effect)	**Medium run (risk factor)**	**Long run (uncertainty)**
investment	no immediate change	speed-up	still suboptimal due to remaining uncertainty
reforms	improved governance	EU harmonization process	residual lack of reforms
growth	negligible improvement	speed-up	some issue of sustainability
stability	no effect	improvement	no effect
employment	no immediate improvement	improvement	some problems

Table 4

Alternative 3: quick compromise

	Short run (shock effect)	**Medium run (risk factor)**	**Long run (uncertainty)**
investment	increase in short-run inflows	speed-up	catching-up with the more advanced
reforms	improved governance	EU harmonization	EU membership
growth	speed-up	convergence growth	convergence growth
stability	improvement	secured sustainability	euro adoption
employment	no immediate improvement	higher employment	efficient labour market

These are qualitative assessments of the impact of shocks, risks, and uncertainties on the indicators chosen. Clearly, Alternative 3 is the best in terms of expected benefits. Alternative 1 is the worst in terms of immediate costs as well as lost benefits, though the loss of benefits dominates the immediate costs. Finally, Alternative 2 is the most moderate, but it contains an element of residual uncertainty as to the final outcome.

Conclusion

A Greek veto can set Macedonia back in its progress to full NATO membership and may further delay the start of negotiations with the EU. The political consequences should be mild, certainly compared to those that other regional shocks may bring. The economic costs, in terms of lost benefits, may be quite considerable, but those appear only further in the future, in the medium and long run. Thus, the incentives to forge an agreement sooner rather than later is not very strong. On the other hand, the two sides have narrowed the gap and the contours of a compromise are visible, at least in principle. Unfortunately, the two sides are faced with the commitment problem and may have to take time to compromise. Certainly, the urgency is on the side of Macedonia rather than of Greece, given the former country's social situation. The need for investments and thus development is overwhelming. In addition, NATO and then also the EU have an interest in the dispute being resolved and Macedonia joining them. Overall, even if there is only an agreement to maintain the process of negotiations in good will, that should be conducive to the economic development of Macedonia.

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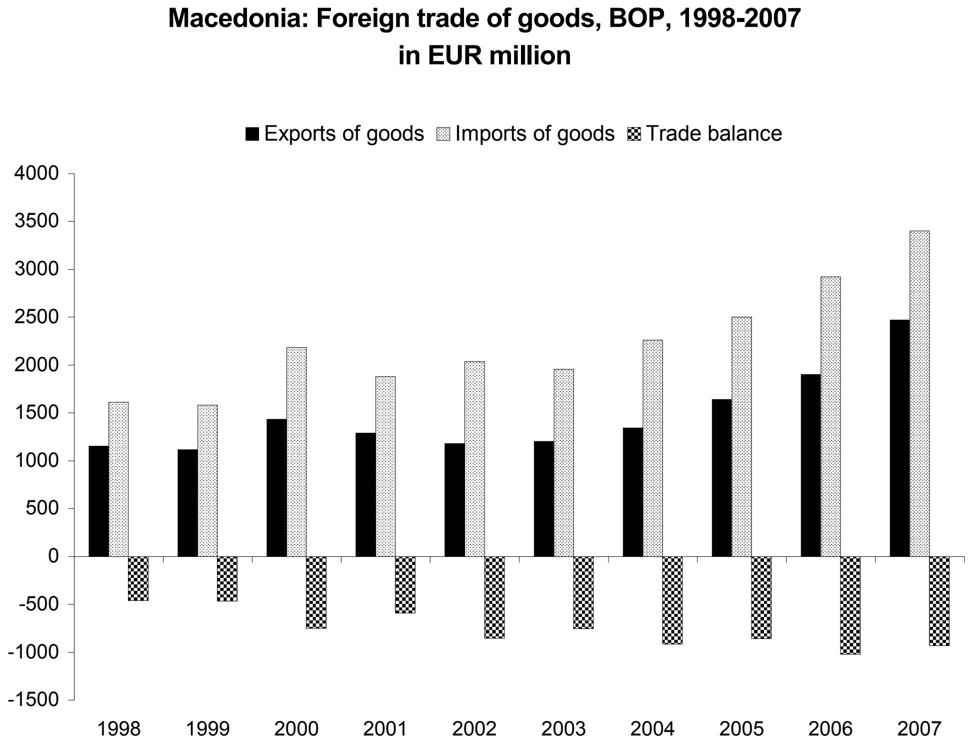
Appendix: Figures and Tables

Figure A.1



Source: wiiw Annual Database incorporating national statistics.

Table A.1

Overview of FDI in Central, East and Southeast Europe

	FDI inflow, EUR million						Per capita inflow EUR	Per capita stock EUR
						forecast		
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2006**	**2006**
Czech Republic	9012	1863	4007	9374	4752	5000	463	5719
Hungary	3185	1888	3633	6099	4874	4000	484	6170
Poland	4371	4067	10292	7703	11093	12000	291	2361
Slovakia	4397	1914	2441	1694	3324	3000	617	3338
Slovenia	1722	271	665	445	303	400	151	3133
New Member States-5	**22687**	**10002**	**21039**	**25315**	**24346**	**24400**	**370**	**3571**
Estonia	307	822	776	2349	1282	1300	954	9232
Latvia	269	270	513	582	1303	1300	569	2515
Lithuania	772	160	623	826	1426	1300	420	2462
New Member States-8	**24034**	**11254**	**22950**	**29071**	**28357**	**28300**	**389**	**3590**
Bulgaria	980	1851	2736	3103	4104	4000	533	2047
Romania	1212	1946	5183	5213	9082	7000	421	1432
New Member States-2	2192	3797	7919	8316	13186	11000		
New Member States-10	**26226**	**15051**	**30869**	**37387**	**41544**	**39300**	**407**	**3019**
Albania	143	158	278	224	259	300	82	603
Bosnia and Herzegovina	282	338	534	421	338	400	88	676
Croatia	1197	1785	990	1425	2838	2500	639	4577
Macedonia	83	84	126	80	279	200	137	1028
Montenegro	76	44	53	393	644	600	1031	1943
Serbia	504	1204	777	1265	3504	3500	471	1119
Southeast Europe	**2285**	**3612**	**2759**	**3808**	**7862**	**7500**	**365**	**1693**
Belarus	262	152	132	245	282	300	29	214
Moldova	89	65	120	160	177	200	45	250
Russia	3660	7041	12422	10258	23047	25000	162	1160
Ukraine	734	1260	1380	6263	4148	5000	89	370
European CIS	**4745**	**8518**	**14053**	**16926**	**27654**	**30500**	**136**	**914**
Central and Eastern Europe	**33255**	**27180**	**47682**	**58121**	**77060**	**77300**	**236**	**1625**

Source: National banks of the respective countries and wiiw calculations.

Table A.2

Macedonia: Inward FDI stock by economic activities

	2003	2004	2005	2003	2004	2005
		EUR million			in % of total	
NACE classification:						
A_B Agriculture, hunting, forestry, fishing	9.8	23.1	23.0	0.8	1.4	1.3
C Mining and quarrying	15.5	22.4	39.3	1.2	1.4	2.2
D Manufacturing	490.4	664.9	775.3	37.9	41.3	43.8
E Electricity, gas and water supply	0.7	5.2	6.2	0.1	0.3	0.4
F Construction	65.9	64.5	61.1	5.1	4.0	3.5
G Wholesale, retail trade, repair of veh. etc.	106.2	113.7	118.9	8.2	7.1	6.7
H Hotels and restaurants	21.6	23.8	27.7	1.7	1.5	1.6
I Transport, storage and communication	372.8	445.4	425.5	28.9	27.7	24.1
J Financial intermediation	174.6	202.3	232.8	13.5	12.6	13.2
K Real estate, renting & business activities	20.0	29.0	40.1	1.5	1.8	2.3
L_Q Other services	7.3	7.9	9.4	0.6	0.5	0.5
Other not elsewhere classified activities	7.3	8.1	9.9	0.6	0.5	0.6
Total by activities	**1292.1**	**1610.2**	**1769.0**	**100.0**	**100.0**	**100.0**
D Manufacturing industry						
DA Food products, beverages and tobacco	173.7	182.6	187.1	35.4	27.5	24.1
DB Textiles and textile products	15.0	18.2	21.9	3.1	2.7	2.8
DC Leather and leather products	.	.	.	.	.	.
DD_DE Wood, pulp, paper, publishing	9.1	9.6	10.3	1.9	1.4	1.3
DF Coke, ref.petroleum prod. & nuclear fuel	25.9	55.0	64.3	5.3	8.3	8.3
DG Chemicals, prod. & man-made fibres	26.4	35.7	37.7	5.4	5.4	4.9
DH Rubber and plastic products	1.4	1.8	2.8	0.3	0.3	0.4
DI Other non-metallic mineral products	.	.	.	.	.	.
DJ Basic metals & fabricated metal prod.	115.1	188.2	287.4	23.5	28.3	37.1
DK Machinery and equipment n.e.c.	0.3	0.5	0.9	0.1	0.1	0.1
DL Electrical and optical equipment	0.5	0.5	3.0	0.1	0.1	0.4
DM Transport equipment	7.2	19.6	20.4	1.5	2.9	2.6
DN Manufacturing n.e.c.	115.8	153.1	139.5	23.6	23.0	18.0
D Manufacturing industry total	**490.4**	**664.9**	**775.3**	**100.0**	**100.0**	**100.0**

Note: Inward FDI stock refers to equity capital, reinvested earnings, loans.

Source: National Bank of Macedonia.

Table A.3

Macedonia: Inward FDI stock by home countries

	2003	2004	2005	2003	2004	2005
	EUR million			in % of total		
1 Hungary	313.4	354.4	350.0	24.3	22.0	19.8
2 Greece	223.0	264.1	279.2	17.3	16.4	15.8
3 Netherlands	69.7	103.2	213.3	5.4	6.4	12.1
4 Switzerland	101.9	143.9	164.2	7.9	8.9	9.3
5 Cyprus	141.1	150.5	160.8	10.9	9.3	9.1
6 Slovenia	84.7	101.8	106.8	6.6	6.3	6.0
7 Germany	57.3	70.6	64.1	4.4	4.4	3.6
8 Austria	42.8	62.3	57.7	3.3	3.9	3.3
9 United Kingdom	34.7	38.4	38.2	2.7	2.4	2.2
10 Italy	15.0	32.1	37.7	1.2	2.0	2.1
11 Serbia and Montenegro	29.1	29.5	32.8	2.3	1.8	1.9
12 United States	42.2	25.6	29.8	3.3	1.6	1.7
13 Bulgaria	23.3	24.3	27.4	1.8	1.5	1.5
14 Turkey	18.9	26.5	25.1	1.5	1.6	1.4
15 Croatia	10.9	15.7	20.3	0.8	1.0	1.1
16 Luxembourg	2.2	10.8	15.2	0.2	0.7	0.9
17 Virgin Islands, British	11.3	8.7	11.8	0.9	0.5	0.7
18 Albania	2.0	4.4	3.6	0.2	0.3	0.2
19 Ukraine	0.2	0.6	3.6	0.0	0.0	0.2
20 Panama	13.3	3.0	3.2	1.0	0.2	0.2
21 Sweden	2.0	2.5	2.5	0.2	0.2	0.1
22 Liechtenstein	22.0	1.5	2.5	1.7	0.1	0.1
23 Australia	2.1	2.1	2.1	0.2	0.1	0.1
24 France	15.2	19.6	1.5	1.2	1.2	0.1
25 Russia	1.3	1.4	1.3	0.1	0.1	0.1
Other	12.5	112.6	114.4	1.0	7.0	6.5
Total by countries	**1292.1**	**1610.2**	**1769.0**	**100.0**	**100.0**	**100.0**
of which EU-15	461.9	603.6	709.3	35.7	37.5	40.1

Note: Inward FDI stock refers to equity capital, reinvested earnings, loans.

Source: National Bank of Macedonia.

Table A.4

Inward FDI stock in SEE-4 by economic activities

as of December 2005, share in %

	AL	BA	HR	MK	SEE-4
A_B Agriculture, hunting, forestry, fishing	0.5	.	0.3	1.3	0.4
C Mining and quarrying	1.2	.	3.3	2.2	2.6
D Manufacturing	36.3	41.2	33.4	43.8	36.0
E Electricity, gas and water supply	0.2	.	0.8	0.4	0.6
F Construction	5.6	.	0.6	3.5	0.9
G Wholesale, retail trade, repair of veh. etc.	9.6	9.4	9.5	6.7	9.1
H Hotels and restaurants	3.0	1.5	6.6	1.6	5.1
I Transport, storage and communication	36.9	0.5	15.7	24.1	14.8
J Financial intermediation	2.4	39.8	26.3	13.2	26.3
K Real estate, renting & business activities	3.3	.	2.6	2.3	2.2
L Public administr., defence, comp. soc. sec.	.	.	0.1	.	0.1
M Education	0.1	.	0.0	.	0.0
N Health and social work	0.1	.	.	.	0.0
O Other community, social & pers. services	0.9	.	0.7	.	0.5
Other not elsewhere classified activities	0.1	7.6	.	1.1	1.3
Total by activities	100.0	100.0	100.0	100.0	100.0
Total by activities, EUR mn	**298**	**2253**	**9921**	**1769**	**14241**

AL: Albania, BA: Bosnia and Herzegovina, HR: Croatia, MK: Macedonia, SEE: Southeast Europe.

Source: wiiw Database.

Table A.5

Inward FDI stock in SEE-6 by major home countries

as of December 2005, share in %

	AL 2004	BA	HR	MK	ME	RS	SEE-6
Austria	2.3	34.8	32.7	3.3	13.9	12.4	26.6
Belgium	.	.	0.3	0.1	0.3	0.4	0.3
Croatia	0.9	14.0	.	1.1	0.2	2.4	1.8
Cyprus	.	.	0.2	9.1	1.3	4.5	1.7
France	.	.	1.0	0.1	2.1	5.3	1.5
Germany	1.0	8.9	17.5	3.6	7.2	11.3	14.0
Greece	48.1	.	0.0	15.8	2.7	9.7	3.8
Hungary	.	.	7.4	19.8	26.3	1.2	7.2
Italy	30.0	1.7	6.1	2.1	1.1	1.6	4.8
Liechtenstein	.	.	3.2	0.1	0.2	-0.9	1.6
Luxembourg	.	.	5.0	0.9	0.4	3.0	3.6
Netherlands	.	2.6	7.0	12.1	0.2	21.3	9.0
Russia	.	.	0.1	0.1	2.8	0.7	0.2
Serbia and Montenegro	0.3 [1)]	1.9	0.0	1.9	1.8 [1)]	.	0.3
Slovenia	.	11.2	4.7	6.0	9.7	6.5	6.0
Sweden	.	.	0.6	0.1	0.2	.	0.4
Switzerland	.	2.0	1.8	9.3	5.3	2.6	2.7
Turkey	4.8	1.1	0.0	1.4	.	.	0.3
United Kingdom	.	.	3.7	2.2	12.7	4.4	3.5
United States	2.0	.	4.1	1.7	1.4	2.1	3.1
Other countries	10.6	21.7	4.6	9.3	10.4	11.4	7.5
EU-15	82.4	.	75.2	40.1	41.9	69.5	63.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total, EUR mn	**298**	**2253**	**12277**	**1769**	**570**	**3229**	20102

AL: Albania, BA: Bosnia and Herzegovina, HR: Croatia, MK: Macedonia, ME: Montenegro, RS: Serbia, SEE: Southeast Europe.

1) Serbia.

Source: wiiw Database.

Table A.6

Financial vulnerability indicators

	Current account, in % of GDP, 2007	Net FDI in % of current account deficit, 2007	Net portfolio investment in % of GDP, 2006	Short-term foreign debt in % of forex reserves, 2006
Czech Republic	-3.2	117.1	-0.8	43.8
Hungary	-4.6	17.0	5.9	88.9
Poland	-4.0	108.9	-0.8	38.8
Slovak Republic	-4.7	84.6	2.8	55.9
Slovenia	-4.8	-6.3	-4.7	76.3
Estonia	-16.2	20.0	-8.1	235.5
Latvia	-23.4	29.8	0.2	227.3
Lithuania	-12.3	37.7	-0.8	94.0
Bulgaria	-21.6	89.1	0.5	64.5
Romania	-14.3	41.3	-0.2	153.9
Croatia	-7.5	99.3	-1.6	114.3
Macedonia	-0.9	299.8	1.4	22.2
Turkey	-7.9	46.9	1.8	87.0
Albania	-8.9	55.7	0.4	36.5
Bosnia & Herzegovina	-13.4	116.4	0.0	40.2
Montenegro	-39.5	46.0	-0.2	.
Serbia	-15.7	18.8	.	.
Kazakhstan	-6.6	135.3	-3.5	57.5
Russia	5.9	-16.8	1.6	18.8
Ukraine	-2.5	252.0	3.4	43.4

Source: wiiw, World Bank, IMF and own calculations.

Table A.7

Financial bubbles indicators

	Bank credit to private sector, av. growth, '01-'06	Stock indices 08/01/07 vs 02/01/08, % change	Apartment [1] price level per square metre, 2007, EUR	Average annual growth in apartment prices, '02-'07	Average annual growth in housing rents, '02-'07	Average annual growth of CPI, '02-'07
Czech Republic	4.8	-11.8	2367	10.5 [2]	3.4	2.0
Hungary	20.9	-17.4	1792	15.6 [2]	7.5	5.4
Poland	6.4	-21.2	3292	12.3 [2]	4.1	2.0
Slovak Republic	6.4	6.2	1292	15.8 [2]	11.8	4.9
Slovenia	20.7	-12.4	2467		6.6	4.2
Estonia	40.2	-33.8	2383	26.0	10.5	3.8
Latvia	48.8	-24.3	3020	30.0	8.7	5.6
Lithuania	39.1	-19.4	3792	20.2	12.1	2.0
Bulgaria	38.3	-12.2	1487	25.9	4.5	5.8
Romania	58.5	-24.4	2350	19.3 [2]	23.7	11.7
Croatia	20.3	-11.2	2215	3.4 [2]	7.8	2.5
Macedonia	14.8	-11.2	1133		1.6	1.4
Turkey	37.3	-13.3	2467		23.3	17.9
Albania	42.4		1225		4.6	3.0
Bosnia & Herzegovina	15.0	-32.4	1250		0.6	2.3
Montenegro	67.9	-29.0	2350		10.2	5.6
Serbia	24.7	-19.0	1750		25.9	12.1
Kazakhstan	61.0	-5.5	2069	56.4		7.7
Russia	43.1	-3.1	11501	28.1 [2]	29.6	12.0
Ukraine	53.4	2.1	2807	40.1		8.4

1) 120 m² apartment in the centre of the most important city. - 2) Average over the period 2002-2006.

Source: wiiw, IMF, European Council of Real Estate Professions, European Mortgage Federation, Global Property Guide, national statistical offices, real estate agencies, Bloomberg, national stock exchanges and own calculations.

Table A.8

FDI inflow to SEE

EUR million

	2005	2006	2007 [1]	2008 forecast	2005	2006	2007	2008 forecast	2007 [1] stock
					FDI net, % of CA				EUR mn
Croatia	1,468	2,747	3,000	2,000	64	98	99	62	32,000
Macedonia	77	345	150	200	62	767	300	200	2,500
Turkey	8,286	15,765	15,000	15,000	41	57	3	0	100,000
Candidate countries	*9,831*	*18,856*	*18,150*	*17,200*	*43*	*62*	*12*	*7*	*134,500*
Albania	224	259	400	350	45	47	56	62	2,500 [2]
Bosnia and Herzegovina	478	564	1,630	600	30	58	116	44	5,000
Montenegro	393	644	800	800	247	91	46	56	2,500 [2]
Serbia	1,265	3,504	1,500	1,500	70	120	19	33	10,000 [3]
Potential candidate countries	*2,360*	*4,971*	*4,330*	*3,250*	*58*	*97*	*43*	*40*	*17,500*

Note: CA means current account deficit. FDI net is defined as inflow minus outflow.

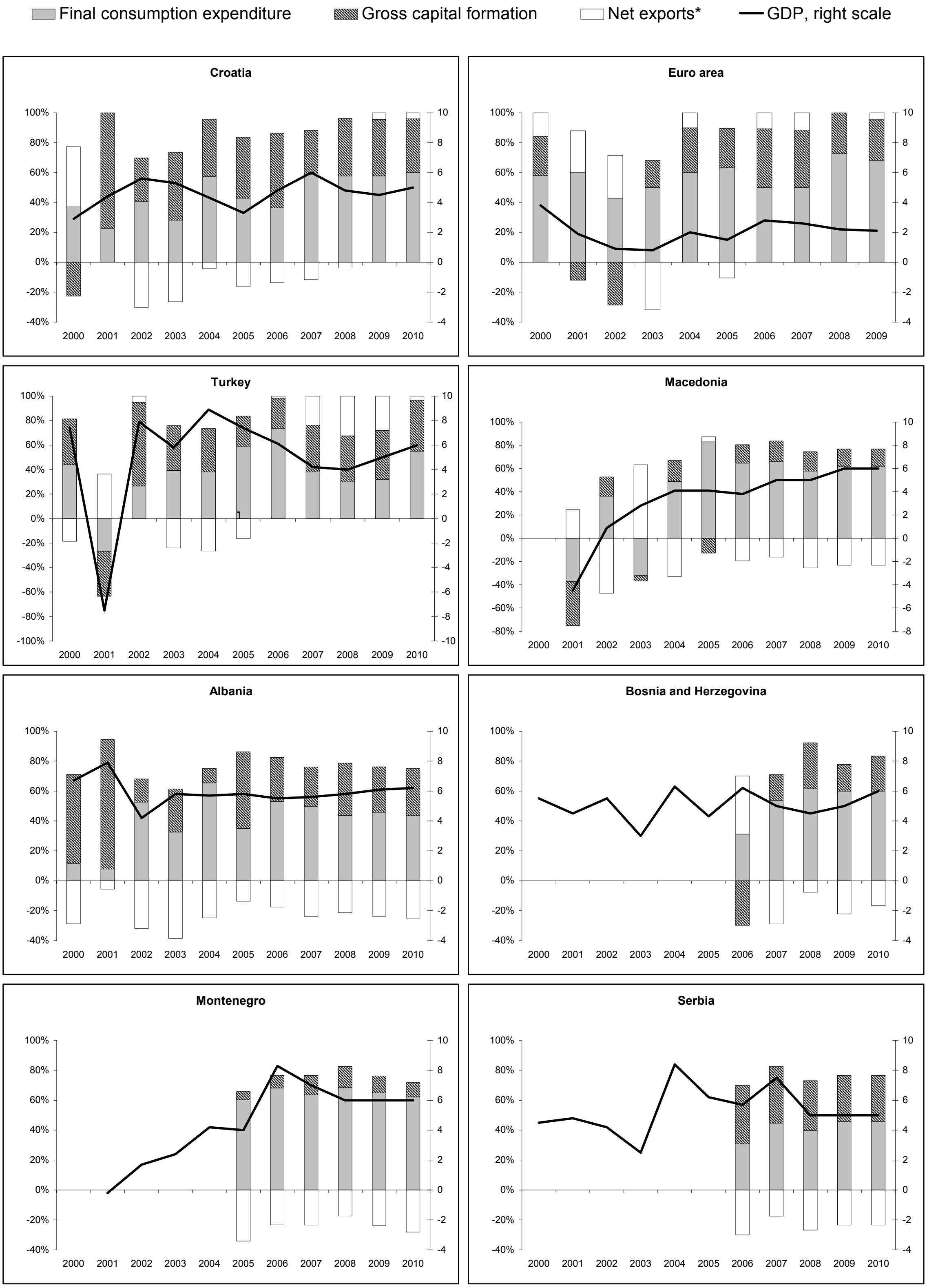
1) wiiw estimate. - 2) Cumulated flows. - 3) Cumulated FDI net flows.

Source: wiiw Database incorporating national bank statistics; wiiw forecasts.

Figure A.2

Drivers of GDP growth

contributions of main components to GDP growth (in %)



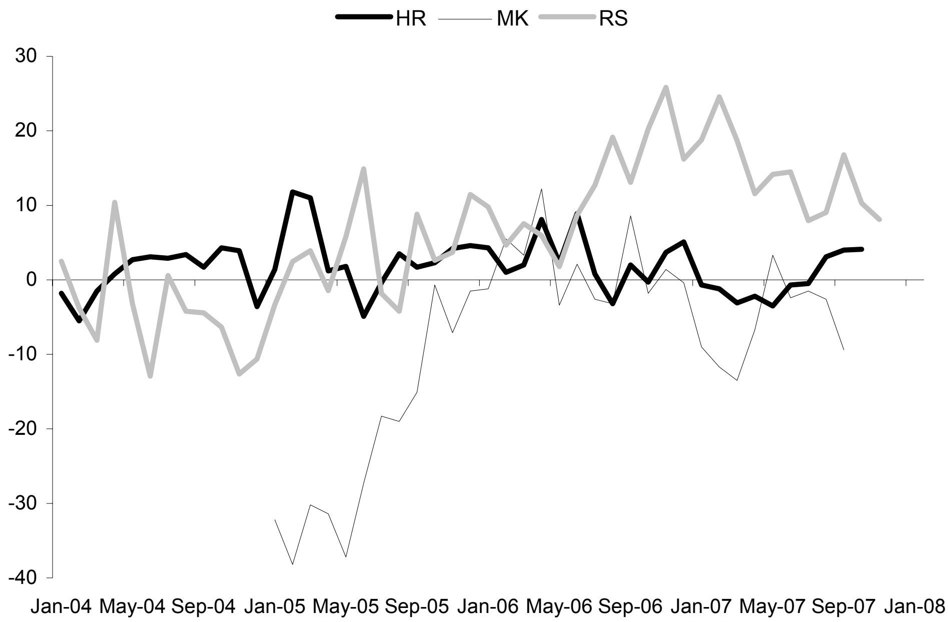
* Net exports including change in stocks and statistical discrepancies.

Source: wiiw Annual Database incorporating national statistics.

Figure A.3

Unit labour costs in industry, 2005-2007

EUR-adjusted, year-on-year, growth in %



Source: wiiw Monthly Database incorporating national statistics.

Table A.9

SEE: General government budget [1)]

in % of GDP

Revenues

	2000	2001	2002	2003	2004	2005	2006 [2)]
Albania	25.0	25.0	24.8	24.1	24.5	25.0	25.1
Bosnia and Herzegovina	50.4	46.9	40.0	44.8	40.4	41.1	44.8
Bulgaria	41.4	39.8	38.7	40.6	40.8	42.0	40.8
Croatia [3)]	46.5	43.9	46.3	45.1	44.9	44.5	.
Macedonia [4)]	43.9	34.4	34.9	33.4	33.2	35.2	34.3
Romania	31.2	30.1	29.6	29.6	30.0	30.4	31.2
Serbia	.	35.3	39.9	40.3	41.2	.	.
Montenegro [5)]	.	17.8	17.7	24.2	22.6	24.1	29.4

Expenditure

	2000	2001	2002	2003	2004	2005	2006 [2)]
Albania	32.6	31.9	30.9	29.0	29.6	28.4	28.3
Bosnia and Herzegovina	56.9	50.2	40.1	44.0	38.8	38.7	41.9
Bulgaria	42.0	40.4	39.4	40.6	39.1	38.9	37.2
Croatia [3)]	54.0	50.8	50.6	50.1	49.5	48.3	.
Macedonia [4)]	41.5	40.8	40.0	34.5	33.2	35.0	34.9
Romania	35.2	33.3	32.2	31.8	31.5	31.2	32.9
Serbia	.	36.8	43.2	44.2	42.6	.	.
Montenegro [5)]	.	20.8	20.5	27.4	24.6	25.8	27.6

Deficit (–) / surplus (+)

	2000	2001	2002	2003	2004	2005	2006 [2)]	2007	2008
								forecast	
Albania	-7.5	-6.9	-6.0	-4.9	-5.1	-3.4	-3.2	-4.8	-8
Bosnia and Herzegovina	-6.5	-3.3	-0.1	0.8	1.6	2.4	2.9	0	0
Bulgaria	-0.6	-0.6	-0.7	0.0	1.7	3.1	3.6	4	2.5
Croatia [3)]	-7.5	-6.8	-5.0	-6.2	-4.8	-4.0	-3.0	-3	-2.5
Macedonia [4)]	2.3	-6.3	-5.0	-1.1	0.0	0.3	-0.6	-1	-1
Romania	-4.0	-3.2	-2.6	-2.2	-1.5	-0.8	-1.7	-3.5	-5.0
Serbia	.	-1.5	-3.3	-4.0	-1.4	1.4	-0.6	-2	-2
Montenegro [5)]	-6.0	-3.1	-2.8	-3.1	-2.0	-1.7	1.8	0	0

1) National definition. – 2) Preliminary. – 3) Until 2001 on cash basis, from 2002 on accrual basis. From 2002 deficit includes change in arrears and non-recorded expenditures. – 4) Central government budget and extra budgetary funds. – 5) Central government budget.

Source: wiiw Database incorporating national statistics, wiiw forecasts.

Table A.10

SEE: Employment, LFS definition, annual averages

	in 1000 persons	change in % against preceding year						Index 2000=100
	2007 1)	2002	2003	2004	2005	2006	2007	2007
Croatia	1,600	4.0	0.6	1.7	0.7	0.8	0.9	103.0
Macedonia	590	-6.3	-2.9	-4.1	4.3	4.6	3.4	107.3
Turkey	22,700	-0.8	-1.0	3.0	1.2	1.3	1.7	105.2
Candidate countries	24,890	*-0.6*	*-0.9*	*2.8*	*1.2*	*1.3*	*1.6*	105.1
Albania 2)	935	-6.9	-6.9	0.6	0.3	0.2	0.1	87.6
Bosnia and Herzegovina	850	.	.	.	.	.	4.8	.
Montenegro	175	2.9	.	.	-4.5	-0.3	-1.9	76.0
Serbia	2,600	-3.4	-2.7	0.4	-6.7	-3.8	-1.2	84.0
Potential candidate countries	4,559	.	.	.	.	.	*0.1*	.

1) Preliminary. - 2) Registered employment.

Source: wiiw Database incorporating national statistics.

Table A.11

Macedonia: Selected economic indicators

	2002	2003	2004	2005	2006	2007 1)	2008	2009	2010
								Forecast	
Population, th pers., mid-year 2)	2020.2	2026.8	2032.5	2036.9	2040.0	2045.0	.	.	.
Gross domestic product, MKD mn, nom.	243970	251486	265257	286619	310915	339258	358000	391000	427000
annual change in % (real)	0.9	2.8	4.1	4.1	4.0	5.1	5	6	6
GDP/capita (EUR at exchange rate)	1981	2025	2128	2296	2491	2712	.	.	.
GDP/capita (EUR at PPP - wiiw)	5170	5300	5760	6250	6680	7270	.	.	.
Gross industrial production									
annual change in % (real) 3)	-4.8	4.1	-2.2	7.1	2.5	3.7	5	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. 2)	188179	191873	209075	222726	239000	.	.		
annual change in % (real) 2)	12.5	-1.5	8.0	5.7	4	5	6	7	7
Gross fixed capital form., MKD mn, nom. 2)	40448	42110	47286	48868	56485	.	.		
annual change in % (real) 2)	17.6	1.1	10.9	-5.4	5	6	8	8	8
LFS - employed persons, th. avg.	561.3	545.1	523.0	545.3	570.4	590.2	.	.	.
annual change in %	-6.3	-2.9	-4.1	4.3	4.6	3.5	.	.	.
Reg. employees in industry, th pers., avg. 4)	110.9	106.7	101.5	125.7	125.4	.	.	.	.
annual change in % 4)	-9.5	-3.8	-4.9	-3.1	-0.3	.	.	.	.
LFS - unemployed, th pers., average	263.5	315.9	309.3	323.9	321.3	316.9	.	.	.
LFS - unemployment rate in %, average	31.9	36.7	37.2	37.3	36.0	34.9	35	34	33
Reg. unemployment rate in %, end of period	.	.	.	.	.	.	.	.	.
Average gross monthly wages, MKD	19025	19950	20771	21330	23036	24136	.	.	.
real growth rate, % (net wages)	5.0	3.6	4.4	2.0	3.9	5.5	.	.	.
Consumer prices, % p.a.	1.8	1.2	-0.4	0.5	3.2	2.3	3	3	3
Producer prices in industry, % p.a.	-0.9	-0.3	0.9	3.2	4.5	1.7	3		
Gentral governm. budget, nat.def., % GDP 5)									
Revenues	34.9	33.4	33.2	35.2	33.7	35.4	.	.	.
Expenditures	40.0	34.5	33.2	35.0	34.2	34.7	.	.	.
Deficit (-) / surplus (+), % GDP	-5.0	-1.1	0.0	0.3	-0.6	0.6	-1	-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	.	.	.
Current account, EUR mn 6)	-400.9	-168.2	-362.7	-121.3	-44.9	-170.9	-120	-130	-140
Current account in % of GDP	-10.0	-4.1	-8.4	-2.6	-0.9	-3.1	-2.0	-2.0	-2.0
Gross reserves of NB, excl. gold, EUR mn	692.8	718.4	665.2	1041.4	1329.2	1417.3	.	.	.
Gross external debt, EUR mn	1574.3	1472.9	2070.6	2518.1	2495.2	2711.5	.	.	.
Gross external debt in % of GDP	39.4	35.9	47.9	53.7	49.1	48.9	.	.	.
FDI inflow, EUR mn 7)	.	100.4	260.7	77.2	344.8	239.3	200	.	.
FDI outflow, EUR mn 7)	.	0.3	1.0	2.3	0.1	-0.8	0	.	.
Exports of goods, BOP, EUR mn	1180.8	1203.2	1345.0	1642.9	1902.7	2441.5	3200	4000	5000
annual growth rate in %	-8.5	1.9	11.8	22.2	15.8	28.3	30	25	25
Imports of goods, BOP, EUR mn	2036.1	1956.2	2259.3	2501.4	2923.1	3614.3	4300	5200	6200
annual growth rate in %	8.4	-3.9	15.5	10.7	16.9	23.6	20	20	20
Exports of services, BOP, EUR mn	.	335.3	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	.	341.4	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	64.74	54.30	49.41	49.29	48.79	44.71	.	.	.
Average exchange rate MKD/EUR (ECU)	60.98	61.26	61.34	61.30	61.19	61.18	61.2	61.2	61.2
Purchasing power parity MKD/USD, wiiw	19.98	19.78	19.06	19.06	19.20	18.65	.	.	.
Purchasing power parity MKD/EUR, wiiw	23.38	23.42	22.66	22.53	22.83	22.81	.	.	.

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

1) Preliminary and wiiw estimates. - 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.

Source: wiiw Database incorporating national statistics; wiiw forecasts.

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