

## I. World Economic Developments

### 1.1. Developed countries and developing countries

Regional economic crises in Russia and Asia were the most remarkable economic events during 1998. They had a strong effect on world economy, slowing down its growth to a great extent. The growth of gross domestic product (GDP) of the world economy in 1998 was 2.2%<sup>1</sup> and is far below the average growth of about 4% since 1970. The unfavorable global economic developments were also partly caused by the deteriorated economic condition in Brazil, as a result of the deficit in the public sector. Although the different economic groups of countries weren't equally affected by the economic crisis, the events in 1998 impressively illustrated the high level of world economy globalization, where it is difficult to completely isolate the spreading of the problems of one region into other parts of the world. The unfavorable effects from the crises in Asia and Russia in 1998 were softened by the following measures: a/ stabilization programs initiated in Asian countries, directed towards overcoming the problems in financial sector, balance of payments, and low domestic demand. Supported by activities for exchange rate stabilization, the undertaken measures have resulted in gradual returning of the trust of international investors in these countries; and b/ reduction of the interest rates, done by the central banks of most developed countries.

Table 1  
**Selected Macroeconomic Indicators**  
**- developed countries and developing countries -**

|                      | Real GDP growth<br>(in %) |     |      | Inflation (retail<br>prices increase in %) |     |      | Unemployment<br>(in %) |      |      | Current account of the<br>balance of payments<br>(in billion USD) |      |      |
|----------------------|---------------------------|-----|------|--|-----|------|------------------------|------|------|---|------|------|
|                      | 1996                      | 97  | 98   | 1996                                       | 97  | 98   | 1996                   | 97   | 98   | 1996  | 97   | 98   |
| World economy        | 4.3                       | 4.2 | 2.2  | -  | -   | -    | -                      | -    | -    | -   | -    | -    |
| Developed countries  | 3.2                       | 3.2 | 2.0  | 2.4  | 2.1 | 1.6  | 7.3                    | 7.0  | 6.9  | 35  | 72   | 44   |
| USA                  | 3.4                       | 3.9 | 3.6  | 2.9  | 2.3 | 1.6  | 5.4                    | 4.9  | 4.5  | -135  | -155 | -231 |
| European Union       | 1.8                       | 2.7 | 2.8  | 2.5  | 1.9 | 1.5  | 11.2                   | 11.0 | 10.2 | 90  | 123  | 100  |
| Germany              | 1.3                       | 2.2 | 2.7  | 1.5  | 1.8 | 1.0  | 10.4                   | 11.5 | 10.9 | -14   | -4   | 3    |
| France               | 1.6                       | 2.3 | 3.0  | 2.0  | 1.2 | 0.7  | 12.4                   | 12.7 | 11.7 | 21  | 39   | 31   |
| Italy                | 0.7                       | 1.5 | 1.3  | 3.9  | 1.7 | 1.7  | 12.1                   | 12.3 | 12.2 | 41  | 34   | 29   |
| Greece               | 2.7                       | 3.5 | 3.3  | 8.2  | 5.5 | 4.8  | 10.3                   | 10.3 | 10.2 | -   | -    | -    |
| Japan                | 5.0                       | 1.4 | -2.8 | 0.1  | 1.7 | 0.4  | 3.3                    | 3.4  | 4.2  | 66  | 94   | 128  |
| Developing countries | 6.5                       | 5.7 | 2.8  | 14.1                                       | 9.2 | 10.2 | -                      | -    | -    | -74   | -66  | -95  |

Source: WEO, Interim Assessment, December 1998

From the point of view of the different groups of countries, in 1998 the economic growth of developed countries was slowed down and was lower by 1.2 percentage points compared to the last year. That is primarily a consequence of the Japan's negative economic

<sup>1</sup> Estimation, WEO, Interim Assessment, December 1998.

growth rate of 2.8%, caused by the problems in its financial sector and by the crisis in the region, in which this country has the main role. At the same time, the unemployment rate in Japan has increased, but it was still the lowest one in the group of developed countries.

From all developed countries, Macedonian economy has the most developed economic relations with EU and USA, where in 1998, 57.5% of the Macedonian exports was directed. In the member countries of the EU, in 1998 compared to the previous year, an acceleration of the real GDP growth was registered and it reached 2.8%. At the same time, the slowing of inflation rate has continued and the inflation rate was brought down to 1.5% p.a., while the unemployment rate was still over the single digit level (10.2%). From the member countries of the EU, Germany, Italy and Greece are of great importance for Macedonian economy, and represent a market for 35% of the exported Macedonian goods. In 1998, with the domestic demand growing, the GDP of Germany increased by 2.7%, which is by 0.5 percentage points faster than in 1997. At the same time, although the unemployment rate decreased from 11.5% to 10.9%, it is still among the highest rates in the group of developed countries. In 1998, retail prices in Germany increased by 1.0%. In Italy, in 1998 the GDP had real growth of 1.3%, which is by 0.2 percentage points slower compared to the previous year. Contrary to Germany, Italy registered a decline of domestic demand. The growth of retail prices in Italy in 1998 was the same as in 1997 and equaled 1.7%. In Greece, in 1998 the GDP had real growth of 3.3%, which is by 0.2 percentage points slower than the previous year, while the inflation decreased from 5.5% in 1997, to 4.8%.

The USA are important trading partner of the Republic of Macedonia, with which a surplus of USD 73.5 million was realized in the foreign trade in 1998. In 1998 the American economy continued its growth, which began in 1991, where the real GDP growth was 3.6% and it is the fastest growth in the group of developed countries. At the same time, the decreasing trend of the unemployment rate continued, and the unemployment rate was brought to the exceptionally low level of 4.5%. In 1998, the inflation in USA was 1.6%, which was by 0.7 percentage points lower compared to 1997.

In 1998, developed countries had a surplus in the current account of their balance of payments in amount of USD 44 billion. Compared to 1997, surplus decreased by USD 28 billion, or by 38.9%. The highest surplus in the current account is registered in Japan (USD 128 billion) and EU (USD 100 billion), while USA had deficit in the current account in the amount of USD 231 billion.

The regional crises in Asia and Russia in 1998, as well as the drastic decline of the prices of raw materials on the world markets, most severely affected the developing countries, and their real GDP growth of 2.8% is half of the level achieved in 1997. In addition, the most remarkable decline is registered in Asian developing countries, where the real GDP growth rate slowed down from 6.6% in 1997 to 2.6% in 1998, and from 5.1% to 2.5% in countries from the western hemisphere. The unfavorable economic achievements of developing countries were not of particular importance for Macedonian economy, because

in 1998 only 2.5% of the total exports of Republic of Macedonia were realized on these markets. In 1998, the average inflation rate in these countries accelerated again to a double digit level, and the deficit in the current account of their balance of payments increased by USD 29 billion compared to the previous year and reached USD 95 billion.

## 1.2. Countries in transition

Countries in transition, especially countries from Central and Eastern Europe (excluding the countries from former Yugoslavia), do not represent a particularly important market for Macedonian products, because their share in the Macedonian exports equals 8.3%. However, the economic results of countries in transition are important, because they give a good basis for comparing the achievements of Macedonian economy.

In 1998 the countries in transition had negative real GDP growth rate of 0.8%.<sup>2</sup> That is primarily a consequence of the economic crisis in Russia, which severely affected not only this country (anticipated GDP decline of 5.7%), but also other countries in the region that have developed trade and financial relations with Russia.

Table 2  
**Selected Macroeconomic Indicators**  
**- countries in transition -**

|   | Real GDP <sup>1</sup><br>growth (in %) |      | Inflation <sup>1</sup><br>(in %) |      | Current account <sup>2</sup> of<br>the balance of<br>payments<br>(% of GDP) |       |
|---|--|------|----------------------------------|------|---|-------|
|   | 1997                                   | 1998 | 1997                             | 1998 | 1997  | 1998  |
| Countries in transition                     | 1.9                                    | -0.8 | 27.9                             | 21.0 | -   | -     |
| Central and Eastern Europe <sup>3</sup>     | 3.2                                    | 2.9  | 40.9                             | 16.4 | -6.2  | -7.1  |
| First group of candidates for EU membership |  |      |                                  |      |   |       |
| Poland                                      | 6.9                                    | 5.6  | 15.0                             | 12.0 | -3.2  | -4.5  |
| Hungary                                     | 4.4                                    | 5.2  | 18.0                             | 15.0 | -2.2  | -3.4  |
| Czech Republic                              | 1.0                                    | -1.5 | 8.0                              | 11.0 | -6.1  | -3.1  |
| Slovenia                                    | 3.8                                    | 4.4  | 9.0                              | 8.0  | 0.2   | -0.4  |
| Estonia                                     | 11.4                                   | 5.1  | 11.0                             | 11.0 | -12.0   | -10.6 |
| Other countries                             |  |      |                                  |      |   |       |
| Croatia                                     | 6.5                                    | 2.4  | 4.0                              | 5.0  | -12.6   | -8.6  |
| Bulgaria                                    | -6.9                                   | 5.0  | 1082.0                           | 23.0 | 4.2   | -0.8  |
| Romania                                     | -6.6                                   | -5.5 | 155.0                            | 60.0 | -5.7  | -6.4  |
| Slovak Republic                             | 6.5                                    | 4.0  | 6.0                              | 8.0  | -6.9  | -9.4  |
| Macedonia <sup>4</sup>                      | 1.5                                    | 2.9  | 4.4                              | 0.8  | -7.4  | -8.1  |

Source: 1/ WEO, Interim Assessment, December 1998

2/ EBRD, Transition Report 1998, projected value for 1998

3/ excluding Belarus and Ukraine, including the countries from the Baltic region

4/ final data or projected values of institutions in the Republic of Macedonia

<sup>2</sup> Estimation, WEO, Interim Assessment, December 1998.

In 1998, the countries in transition from Central and Eastern Europe (excluding Belarus and Ukraine) had an average real GDP growth rate of 2.9%, which is a decrease of 0.3 percentage points compared to the previous year. The average real GDP growth rate in this group of countries is the same as in the Republic of Macedonia. But, it should be taken into consideration the fact that in comparison with the countries in transition from the observed region, the Republic of Macedonia has an increasing dynamic of its growth.

Regarding price stability, in 1998 compared to the previous year, the inflation rate in transition countries from Central and Eastern Europe was halved and brought down to 16.4%. In the most prosperous countries from this region (excluding Slovenia) a low double digit inflation rate was registered. The inflation in the Republic of Macedonia in 1998 is far below the average inflation rate for the countries in transition from the observed region.

The high deficit in the current account of the balance of payments is one of the main characteristics of the countries in transition in 1998. On average, the deficit in countries in transition from Central and Eastern Europe reached 7.1% of GDP, which is an increment of 0.9 percentage points compared to 1997. In addition, in 1998, in 8 out of 13 observed countries from this region the deficit was higher than 5% of GDP, while the deficit in the 5 countries which are closest to the membership in EU equals 4.4%, on average. In 1998, the deficit in the current account of the balance of payments in the Republic of Macedonia reached 8.1%, which is by 1 percentage point higher than the average for the countries in transition from Central and Eastern Europe, and by 3.7 percentage points higher than the average for the most prosperous countries from the same region. Increased deficit in the current account of balance of payments is usual occurrence when a country goes through the process of economic recovery, as is the case with the countries in transition, because of the need for substantial growth of investments which isn't followed by a corresponding growth of saving.