

## I. World Economic Developments

Globally speaking, 2000 was a very successful year for the world economy. The growth rate of the world economy increased by 1.3 percentage points compared to the previous year, thus reaching 4.7%<sup>1</sup>. This is a result of the continuation of the upward trend in the domestic demand in the developed economies, increase in labor productivity and the reduced unit labor costs. Analyzed by regions, the increase in the real Gross Domestic Product (GDP) is widespread. In 2000, the growth rate of the US economy was preserved at a high level, the economic activity in the European Union and Japan picked up and the economies of Asia and Latin America consolidated following the crisis in these regions in 1997 and 1998. Following the moderate increase in the previous two years, there was a rapid expansion in the world trade, with the growth rate equaling 10.0%.

Table 1

Selected indicators of the world economy

	1996	1997	1998	1999	2000
Real GDP growth rate	4.1	4.1	(in %) 2.6	3.4	4.7
Growth in the world trade	6.7	9.8	4.3	5.1	10.0
Inflation rate					
Developed countries	2.4	2.1	1.5	1.4	2.3
Developing countries	15.3	9.7	10.1	6.6	6.2
Prices					
Oil	18.4	-5.4	-32.1	37.5	47.5
Primary products	-1.2	-3.2	-14.7	-7.1	3.2
Industrial products	-3.1	-7.8	-1.2	-1.2	-5.3
Saving rate	23.4	23.9	(% of GDP) 23.3	23.2	23.8
Investment	24.0	24.1	23.4	23.2	23.7

Source: IMF World Economic Outlook, October 2000

In 2000, there was a significant annual increase in the price of oil of 47.5%. At the same time, following a decline in the previous years, the prices of primary commodities increased by 3.2%. These developments resulted in certain inflationary pressures, however without any significant disturbance of the price stability.

### 1.1. Developed Countries

The real growth rate of GDP in the developed countries reached 4.2% in 2000, which is by 1.0 percentage point more compared to 1999 and also represents the highest growth rate registered in the last ten years. The increase is due to the increase in domestic demand and private consumption of 4.2% and 3.7%, respectively, the increased labor productivity by 4.7%, as well as the reduction in the unit labor costs of 1.2%. At the same time, the inflation rate in these countries, compared to 1999, increased by 0.9 percentage points and reached 2.3%, which is mostly due to the increase in the oil prices. The intense growth rate of GDP resulted in a reduction in the rate of unemployment of 0.4 percentage points, thus reducing it to 5.9% in 2000. As a result of the surge in domestic demand, the deficit in the current

<sup>1</sup> WEO estimate, October 2000.

account of the balance of payments of the developed countries reached US Dollar 176 million, entirely due to the developments in the US economy.

Table 2

Selected economic indicators for the developed economies

	GDP (real growth rate in %)			Inflation (retail prices increase in %)			Unemployment (in %)			Current account of the Balance of Payments (in US Dollar billion)		
	1998	1999	2000	1998	1999	2000	1998	1999	2000	1998	1999	2000
Developed countries	2.4	3.2	4.2	1.5	1.4	2.3	6.7	6.3	5.9	51	-134	-176
USA	4.4	4.2	5.2	1.6	2.2	3.2	4.5	4.2	4.1	-217	-332	-419
European Union	2.7	2.4	3.4	1.4	1.4	2.1	9.5	8.8	8.0	91	25	39
Germany	2.1	1.6	2.9	0.6	0.7	1.7	9.0	8.3	7.9	-5	-20	-4
France	3.2	2.9	3.5	0.7	0.6	1.5	11.7	11.3	9.8	39	39	36
Italy	1.5	1.4	3.1	1.7	1.7	2.5	11.8	11.4	10.7	20	8	11
Greece	3.7	3.5	3.5	4.5	2.2	2.5	10.8	11.7	11.5	-4	-5	-6
Japan	-2.5	0.2	1.4	0.6	-0.3	-0.2	4.1	4.7	5.0	121	107	121

Source: IMF World Economic Outlook, October 2000

The rate of growth of GDP in the European Union, which as a group of countries is the major trading partner of the Republic of Macedonia, equaled 3.4%, and was higher by 1.0 percentage point compared to 1999. The economic expansion in the European Union is due to the increased exports, stimulated by the under-valuation of the Euro and higher domestic demand. In addition, the rate of inflation in 2000 equaled 2.1%, compared to 1.4% in 1999, even though in mid-year the inflation reached 2.4%, mostly due to the surge in oil prices. At the same time, the trend of declining rates of unemployment continued in 2000 and it was reduced to 8.0%, labor productivity increased by 2.9% and the unit labor cost were higher by minimal 0.5%.

In the Euro-zone<sup>2</sup>, which represents a sub-group of the EU, the registered economic developments were almost identical to the corresponding ones in the EU. The growth rate of the real GDP in these countries equaled 3.5%, on average, thus significantly exceeding the growth rate in the previous year (by 1.1 percentage point). The rate of inflation equaled 2.1%, which is by 0.7 percentage points more compared to 1999, and slightly above the level of 2.0%, defined as price stability by the European Central Bank.

With respect to individual countries, in 2000, high growth rates of GDP were registered in all member - countries of the EU. Among these, Germany and Greece are of exceptional importance for Republic of Macedonia, as a result of their share in the total foreign trade (23.3%). The rate of growth of real GDP in Germany, which traditionally represents one of the most important markets for Macedonian exports, reached 2.9%, compared to 1.6% in 1999. The increase in GDP in Germany is due to the maintenance of the domestic demand at a high level, the increase in labor productivity (by 2.4%), as well as the surge in exports (by 11.4%). In addition, the level of prices in Germany increased by 1.7%, which is by 1.0 percentage point more compared to 1999, whereas the rate of unemployment continued to decline, thus reducing to 7.9%, compared to 8.3% in the previous year.

In Greece, which was the largest foreign investor in the Republic of Macedonia in 2000 and at the same time the third largest trading partner, the trend of intensive economic expansion continued. In addition, the rate of growth of real GDP equaled significant 3.5%, identical to the corresponding one registered in 1999. At the same time, the price level increased by 2.5%, which is by 0.3 percentage points more compared to 1999. Following the fast increase in the rate of unemployment in 1999 (by 0.9 percentage points), in 2000 it fell by 0.2 percentage points and equaled 11.5%.

<sup>2</sup> Member countries of the European Monetary Union.

The economic expansion in the USA, which represent an important market for Macedonian exports of textile and iron and steel industry products, continued even more vigorously in 2000. The growth rate of real GDP equaled 5.2%, which is by 1.0 percentage point more compared to the corresponding one in 1999. The increase is due to the exceptionally high growth rate of domestic demand (by 5.9%), the modification of the fundamentals of the US economy and the rise of the so-called "the New Economy", and the development of electronic and internet technologies of business management. Consequently, despite the appreciation of the US Dollar, the labor productivity increased by 6.2% and the unit labor costs fell by 1.8%. The strong US Dollar had a negative effect on the current account of the balance of payments, which resulted in a record high deficit in 2000 in the amount of US Dollar 419 billion. However, this deficit was financed by the exceptionally high inflow of funds from abroad, attracted by the favorable developments on the American equity markets induced by the outstanding result of the corporate sector. The rate of inflation in the USA in 2000 reached 3.2%, which is by 1.0 percentage point more compared to 1999. Despite the increase in the rate of inflation, the overwhelming majority shares the view that this is not an indicator of the "overheating" of the economy, but a consequence of the developments in the prices of oil and other raw materials at the World markets. On the other hand, the rate of unemployment registered a minimal decline and was reduced to 4.1%.

## 1.2. Developing Countries

In 2000, the growth rate of the real GDP in the developing countries reached 5.6%, which is by 1.8 percentage points more compared to 1999. This is due to the favorable movements in the developed economies and the increase in the prices of raw materials on the world markets, taking into account the most of the inflow of foreign exchange in these countries is based on the export of primary commodities.

Table 3

Selected economic indicators for developing economies

	1996	1997	1998	1999	2000
GDP growth rate	6.5	5.7	(in %) 3.5	3.8	5.6
Inflation rate	15.3	9.7	10.1	6.6	6.2
Exports	12.1	8.2	-7.7	9.5	20.4
Imports	9.4	6.6	-4.6	1.5	15.1
Current account balance	-74.3	-57.7	(US Dollar billion) -93.6	-24.1	21.1
Foreign direct investment	108.7	128.7	126.4	126.6	116.2

Source: IMF World Economic Outlook, October 2000

Contrary to 1999, in 2000, the economic activity was rapidly expanding in all groups of developing countries. The fastest average growth rates of the real GDP was again registered in Asia, where it equaled 6.7%, while in South and Central America it equaled 4.3%.

In 2000, the trend of lowering the inflation rate continued, thus reducing the inflation rate to 6.2%, or by 0.4 percentage points below its level in 1999. Contrary to the deficit registered in the previous years, in 2000 the current account of the balance of payments of the developing countries registered a surplus, mostly due to the developments in Russia. The

surplus in the current account of the balance of payments of these countries is primarily due to the surge in oil prices.

### **1.3. Transition Countries**

In 2000, in most of the countries from the former Eastern block, the process of transition from centrally planned to market - oriented economies entered its tenth year, which is a considerable time period for the evaluation of the effects of the implemented reforms in these countries. Despite the expansion of the economy, compared to 1989, the level of GDP in the countries in transition<sup>3</sup> in 2000 is lower by 29%, which emphasizes the depth of the problems in the beginning years of the transition reforms. At the same time, there are great discrepancies between the achieved results among the countries in transition, with the countries, which are geographically closest to the EU achieving the best results. Namely, in 2000, for the first time since the start of reforms, the GDP in the Central and Eastern Europe exceeded its level from 1989 i.e. it was higher by 1.0%. On the other hand, in the Commonwealth of Independent States (the former USSR excluding Latvia, Lithuania and Estonia), the GDP in 2000 was lower to the corresponding one in 1989 by 42%, on average. The large differences in the transition results can be attributed to four different influences: a) the existing economic structure in the beginning of the transition process; b) the political development in the transition period; c) the undertaken reforms and d) the implemented macroeconomic strategies. Despite the specific character of each of these transition economies, the best economic results were registered in those countries that committed themselves mostly to the process of reforms.

In 2000, the growth rate of real GDP in the countries in transition equaled 4.9%, on average, and was higher by 2.5 percentage points compared to the previous year. The growth is due to the favorable economic environment, the intensified economic activity in the EU and the consolidation of the Russian economy following the financial crisis in 1998. At the same time, the level of prices in the transition economies increased by 18.3%, which represents a considerable reduction from its level in 1999 (by 25.5 percentage points). As a result of the continuously improving economic achievements in the transition economies, the foreign direct investments in these countries reached US Dollar 22 billion in 2000, which is the highest level registered so far.

---

<sup>3</sup> Eastern and Central Europe countries, Baltic countries and the Commonwealth of Independent States (CIS).

Table 4

## Selected economic indicators for transition economies

	GDP (real growth rate in %)			Inflation (in %)			Current account of the Balance of Payments (% of GDP)		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Countries in transition	-0.8	2.4	4.9	21.8	43.8	18.3			
Central and Eastern Europe	2.0	1.3	3.1	18.7	20.6	18.8	-6.4	-6.1	-5.8
"EU accession countries"	2.4	-0.3	4.1	35.6	25.8	23.2	-2.9	-3.9	-4.7
Poland	4.8	4.1	5.0	11.8	7.3	9.5	-4.4	-7.5	-7.4
Hungary	4.9	4.5	5.5	14.3	10.0	8.3	-4.9	-4.3	-4.5
Czech Republic	-2.2	-0.2	2.3	10.6	2.1	4.9	-2.4	-2.0	-3.4
Slovenia	3.9	4.9	4.5	8.0	6.1	7.5	0.0	-2.9	-2.3
Estonia	4.7	-1.1	4.0	8.2	3.3	3.0	-9.2	-6.1	-5.9
Bulgaria	3.5	2.4	4.5	22.3	2.1	7.9	-0.5	-5.4	-4.6
Romania	-5.4	-3.2	1.3	59.1	45.8	40.2	-7.2	-3.8	-3.9
Slovak Republic	4.4	1.9	2.4	6.7	10.7	12.1	-10.4	-5.7	-4.7
Latvia	5.1	-4.1	2.5	5.1	0.8	1.6	-12.1	-11.2	-7.4
Lithuania	3.9	0.1	4.0	4.7	2.4	3.5	-10.1	-9.7	-8.6
Other countries									
Croatia	2.5	-0.3	3.5	5.7	4.2	6.5	-7.1	-7.6	-4.1
Macedonia	2.9	2.7	5.1	0.8	-1.1	5.8			

Source: IMF World Economic Outlook, October 2000

In the so-called "EU accession countries"<sup>4</sup> group, the growth rate of real GDP equaled 4.1% on average, compared to the negative growth rate of 0.3% in the previous year. In 2000, the real growth rate of GDP in Republic of Macedonia was above the average for this group of countries and equaled 5.1%<sup>5</sup>. Out of this group of countries, only Hungary registered a higher growth rate.

Additional positive achievement of this group of countries in 2000, is the further reduction in the average inflation rate. Namely, in 2000, compared to 1999 it was reduced by 2.6 percentage points and it equaled 23.2%. With respect to individual countries, in most of the countries the inflation rate in 2000 was higher to the corresponding one in the previous year. However, the stabilization of the price levels in few countries, which were previously registering relatively high rates of inflation (Turkey, Romania and Hungary), resulted in the reduction of the average inflation rate in this group of countries. The rate of inflation in Republic of Macedonia, measured through the average increase in the costs of living, equaled 5.8% in 2000. Despite the negative effects of the non-monetary factors, the rate of inflation in Republic of Macedonia was below the average inflation rate in the EU accession countries. The deficit in the current account of the balance of payments in the EU accession countries equaled 4.7% of GDP on average in 2000, thus continuing its upward trend (2.9% in 1998, 3.9% in 1999).

<sup>4</sup> Transition countries in AGENDA 2000 excluding Cyprus, Malta and Turkey.

<sup>5</sup> Estimate of the Bureau of Statistics of Republic of Macedonia.