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WORKING PAPER I

The Competitiveness of the Economy

of the former Yugoslav Republic of Macedonia

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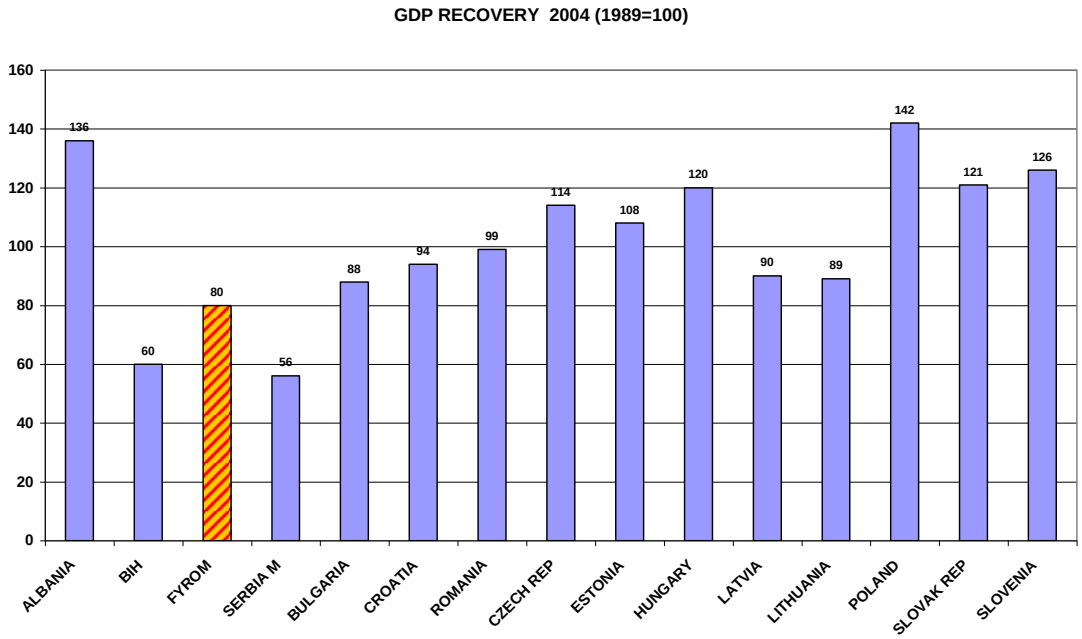
1. Introduction

The slow growth and the large external imbalances of the former Yugoslav Republic of Macedonia raise questions about the competitiveness of the economy. The country has one of the lowest recovery rates of GDP since the start of the transition. The GDP in 2004 was only 80% of that in 1989. The only countries in South East Europe (SEE) and Central Europe and Baltic (CEB) areas that have a worse record are Serbia Montenegro (56%) and Bosnia Herzegovina (60%)[1].



The current account deficit has fluctuated widely from a low of 0.88% of GDP in 1999 to a high of 9.44% in 2002 and 7.7% in 2004. The trade balance has sharply deteriorated in the late '90s

[1] See EBRD (2005), Transition Report Update 2005, Macroeconomic Performance Tables, p.13.

to reach 21.2% in 2002. These deficits are partly compensated by migrant remittances and donors funding. The exports of goods amounted to $ 1673 millions in 2004 or about 34% of the GDP which is above the average for the SEE area. However, imports have exploded to $2903 millions or 59% of GDP pushing the trade deficit to a record high of close to 25% of GDP[2].

The break up of Yugoslavia and the ensuing civil war has destabilized the productive system of the country. The manufacturing system has developed within the division of labour of Yugoslavia and as a result the operations of large vertical enterprises were badly affected by the disruption of trade between the former republics of Yugoslavia. Industry has declined as a percentage of GDP from 45% in 1990 to about 30% in 2004. Furthermore, manufacturing comprised mainly of activities of low value added, heavily relying on imported inputs (semi finished products). Hence, an increase in manufacturing activity and exports resulted in corresponding increases in imports (two thirds of imports in 2004 were industrial inputs[3]).

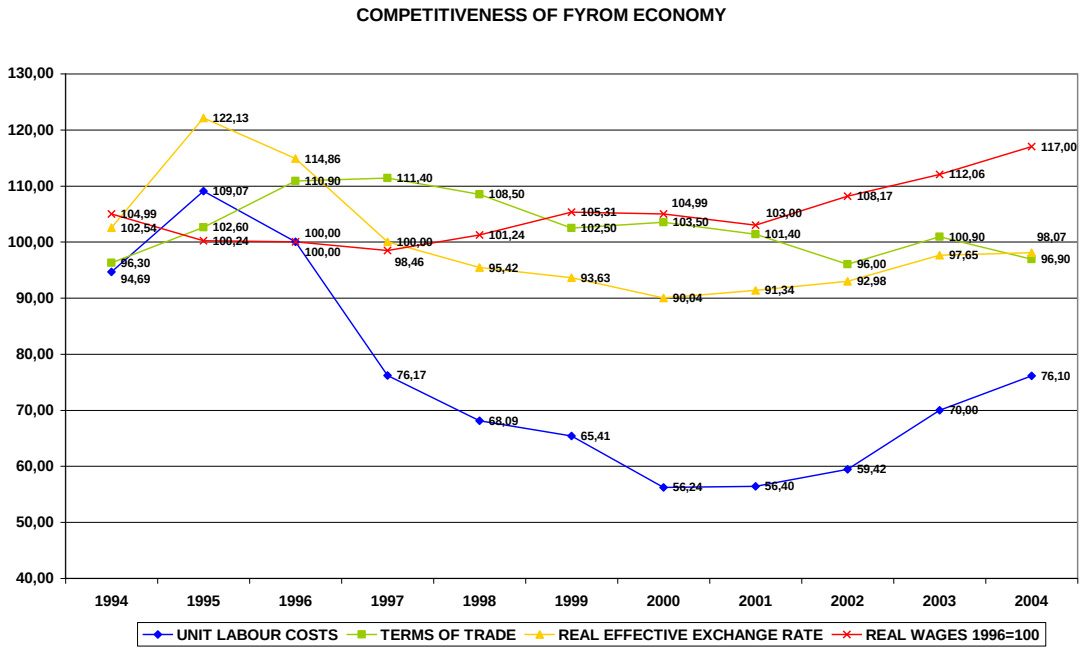
The direction of imports has considerably changed with the EU countries strengthening their position by almost 5% from 2001 to 2004 while the share of the former Yugoslav republics has declined by 6%. Similar trends are observed in export directions. The EU countries were absorbing in 2004 56.4% of the exports of the former Yugoslav Republic of Macedonia up form 48.7% in 2001[4]. However, its market share of exports to EU and USA has declined in contrast to other neighbouring countries[5].

[2] See Annex 3.
[3] According to the National Bank of the Republic of Macedonia. Bulletin 1/2005, production materials accounted for 65% of total imports in 2004.
[4] See Annex 3.
[5] Loko B. A. Tuladhar (2005) p. 4.

The specialization of trade has remained the same since the pre independence era. Miscellaneous manufactured products including textiles (49.3%) and intermediate production materials (48%) dominate export activity. The export sector has been unable to diversify into new product lines as in other transition economies.

2. Price Competitiveness

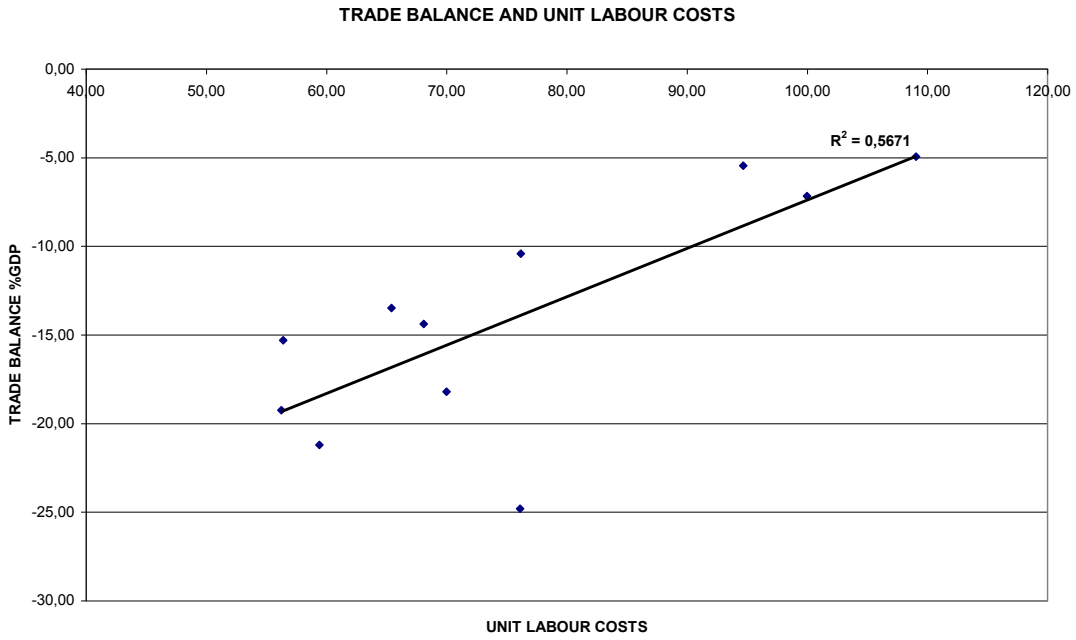
Competitiveness has declined since 2000, with real wages and unit labour costs increasing and the real effective exchange rate appreciating, but the benefits from the 1997 devaluation - although limited- have not been eroded[6]. The terms of trade have deteriorated, from 103.6 in 2000 to 96.9 in 2004. The unit labour cost has declined sharply from a high in 1995 (109.07) until 2000 (56.24) but since then following upward trends in real wages, ULC have increased rapidly to reach 76.1 in 2004[7].



[6] The denar was devalued by about 16% in 1997.
[7] The credibility of ULC data has been questioned but real wages data are more reliable.

Labour productivity growth over the past decade has been lagging behind by comparison to other neighbouring countries[8]. Some improvement in productivity is largely due to labour shedding throughout the last decade[9].

We have plotted trade balances with ULC for the period 1995-2004, and it seems that there is a positive relationship between the two variables with an R square of 0.5671.



The developments in price competitiveness do not fully explain the export performance and the persistently large and growing trade deficit. Structural weaknesses of the economic system and possibly to a lesser extent, procedural bottlenecks adversely affect foreign trade.

[8] Loko B., A. Tuladhar (2005) Labour Productivity and real Exchange Rate: The Balassa-Samuelson Disconnect in the former Yugoslavian Republic of Macedonia, IMF Working Paper, WP/05/113.

[9] Total employment declined by nearly 100 thousands or by 28% in the period 1995 to 2004.

3. Long-term Trends and Structural Deficiencies

The inherited industrial structure, the weak entrepreneurial base of the economy, the low technological content of products and the continuing, despite improvements, poor quality of the business environment and the overall investment climate may have imposed on the private sector additional constraints for development and export activities.

The investment climate and the quality of governance in the country have significantly improved since the signing of the Ochrid agreement and especially after 2004 when Standards and Poors rated for the first time the former Yugoslav Republic of Macedonia. The legal framework for a modern market economy based on competition has been established. The basic commercial legislation regulating the activity of the enterprise sector is also in place. However, the principal challenge for the country remains to ensure prompt and just enforcement of the enacted regulations and in general improve the image of the country in the world markets.

The flows of FDI in the country remain low, resulting in a total stock of FDI of only $ 1.1 billion since independence. Furthermore, FDI was not mainly directed to export oriented sectors and as a result, the export activity has not benefited as in other transition countries. Some privatisation related FDI is likely to have a positive impact on productivity in telecoms, banking and mining. But some major investments in retail activity may have increased imports of consumer goods and especially packaged and semi processed food products undermining domestic production.

An analysis of the structure of the enterprise sector also reveals certain weaknesses. The business sector is dominated by SMEs with only 194 enterprises classified as large (over 250 employees)[10]. However, entrepreneurship is not as strong as in other transition economies with the number of SMEs per thousand inhabitants well below that of the more advanced countries of the region and especially the CEE countries. In the former Yugoslavian Republic of Macedonia SMEs account for 99% of firms and are responsible for 61% of the total employment. By comparison to other countries in the area medium size enterprises are fewer (7% compared to 33%). In more developed countries, medium size enterprises account for as much as 33% (Croatia) or even 49% (Romania) of the total enterprises. But others like Bulgaria have a similar structure to the former Yugoslav Republic of Macedonia[11].

Several studies and surveys confirm the weakness of the competitive environment in the enterprise sector[12]. Three factors in particular have a negative impact on the competitiveness of the enterprise sector. The first is the provision of infrastructure the second is access to credit and other outside sources of capital and the third informality.

Regarding infrastructure the former Yugoslav Republic of Macedonia is facing problems both in terms of service provision and tariffs. The main problems in terms of operations are concentrated in road and railway networks[13]. The energy sector is also not fully reliable in delivering services although tariffs are

[10] EBRD (2004) Spotlight on South Eastern Europe.
[11] EBRD (2004) Spotlight on South Eastern Europe.
[12] OECD (2003) and OECD (2004).
[13] World Bank (2004) Business Environment reform Project, Aide Memoire.

low[14]. Service provision is not uniform across the country with customers outside the capital facing more difficulties[15]. In terms of telephony services the country has one of the most advanced infrastructure in south-eastern Europe but 'the service is expensive and of poor quality'[16]. Furthermore, the cost of internet services is also prohibitive for the users discouraging access (fewer than 10% of households have internet access)[17].

As far as access to credit and other outside sources of capital difficulties persist especially for SMEs. Despite the recent growth in credit expansion the former Yugoslav Republic of Macedonia has one of the lowest bank intermediation levels in the world. But without bank credit, investing in new production processes is becoming increasingly difficult and as a result enterprises cannot attain an optimum scale required to compete in international markets.

Enterprises in key sectors are also facing distorted competition having to compete with other enterprises operating in the informal economy. Informality lowers productivity through a number of different channels. Firstly, avoiding payment of social security contributions makes labour cheaper relative to capital and as a result investing in equipment is discouraged in these firms delaying the introduction of production innovations. Secondly, the operation of informal enterprises undermines the growth of more efficient formal ones. The former have a higher profit margin by avoiding taxation and they are encouraged to

[14] World Bank (2004) Building market institutions in South-eastern Europe, identifies difficulties facing some industrial enterprises with the electricity supplier, p/169.
[15] Opcit p. 180.
[16] Payne J., J. Brodman (2005), Information and communications technology Assessment for USAID, p. 3.
[17] Opcit p.4.

remain subscale in order to avoid detection leading to fragmentation in several sectors of the economy[18].

These three limitations have to be addressed by concerted government action if the competitiveness of the private sector is to be strengthened[19].

The weak competitive situation is confirmed by the low ranking that the former Yugoslav Republic of Macedonia has attained in the World Economic Forum indices. With a score of 3.34 in the composite Growth Competitiveness Index, the former Yugoslav Republic of Macedonia is only 84th among 104 countries with only Serbia and Montenegro achieving a lower ranking. The position of the country has deteriorated slipping three positions since 2003.

The worst ranking has been recorded in the Public Institutions component (92nd). It is not incidental that the country is ranked 97th in the world by Transparency International in the 2004 Corruption Perceptions Index, with the same score as Serbia Montenegro. Better positions have been achieved in the Macroeconomic Environment (77th) and the Technology component (76th).

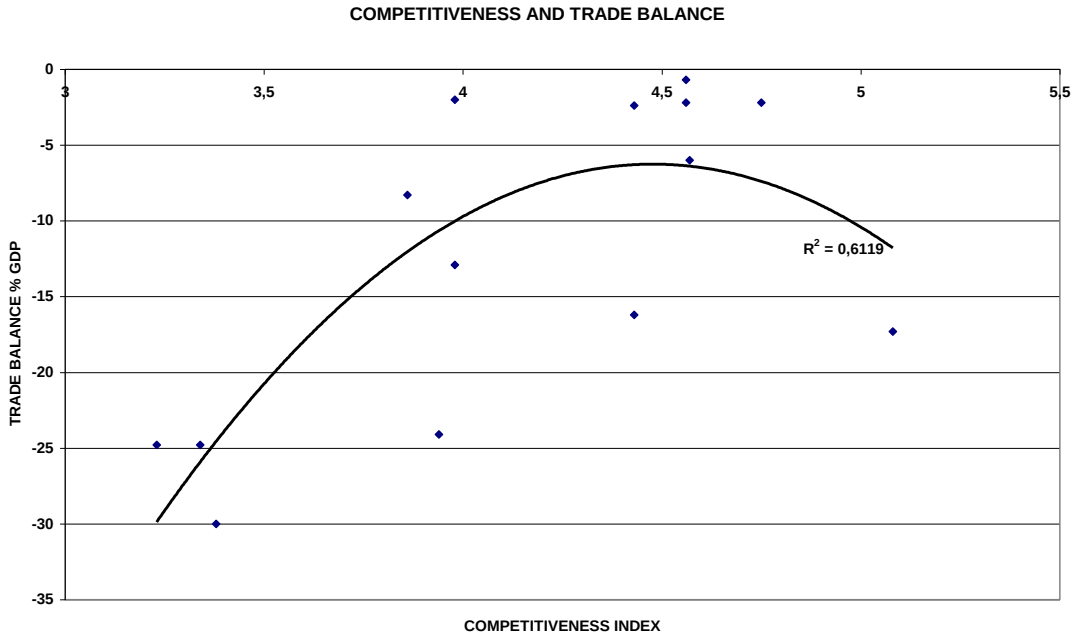
In terms of the Business Competitiveness Index the former Yugoslav Republic of Macedonia is ranked 83rd with company operations and strategy 84th and quality of the business environment 82nd. In the Networked Index Rankings, reflecting

[18] In Portugal the main barrier (accounting for 24% of the country's gap with the best practice countries) to improved productivity is the level of informal economy which is only 23% of the GDP, see Pietrachi B. et al (2004).

[19] There are also other factors that affect the competitiveness of the private sector such as the size of the economy or low per capita income, but governments can do little about them in the short run.

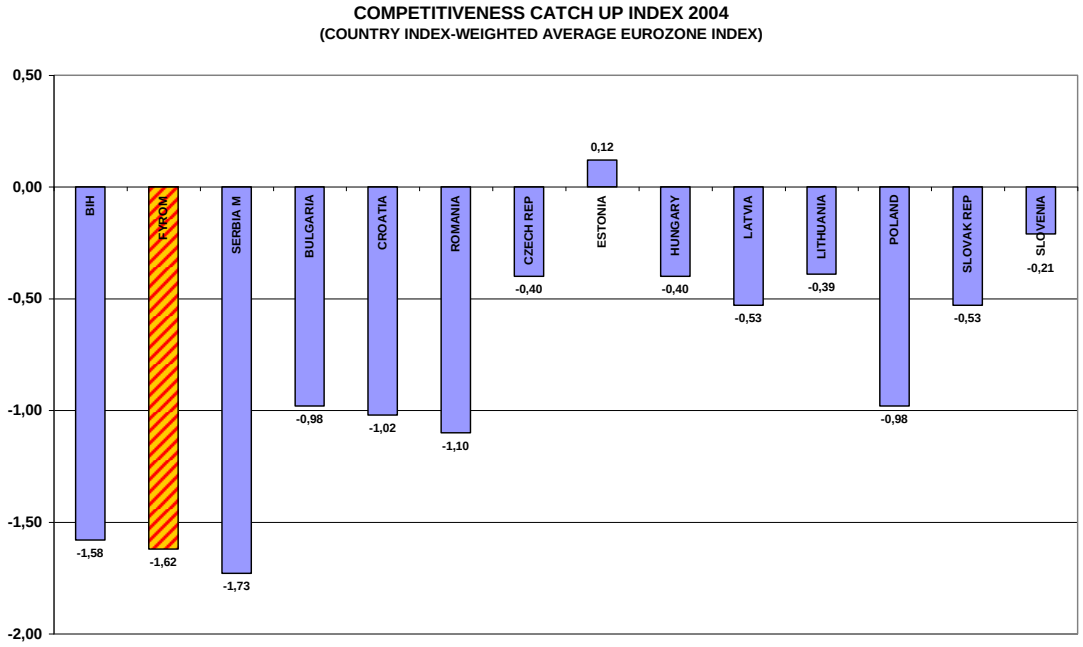
its ability to absorb information and communication technologies the former Yugoslav Republic of Macedonia ranks 85th out of 104 countries.

We have plotted the trade deficits of 12 SEE and CEB countries with their Growth Competitiveness Index scores and we found a positive and significant relationship: the lowest the score in GCI the highest the deficit. There are of course some outliers, which have an impact on the R square (mainly Estonia). It seems that the non price factors do play a significant role in the transition countries external trade. A positive but less robust relationship exists between the current account balance and the GCI.



The catching up process for the former Yugoslav Republic of Macedonia is going to be tedious and prolonged. From the 14 countries of CEB and SEE areas only Estonia has overtaken the Euro-zone average score of 4.96 and another 4 countries are below 0.5 of reaching it. The former Yugoslav Republic of Macedonia has to cover the longest distance (1.62), with the

exception of Serbia and Montenegro, to converge with the Euro-zone average[20].



In terms of procedures there is a strong need to speed up the flow of goods, standardize cross border procedures, decrease waiting on the border line and coordinate the work of the state authorities and inspections on the border[21].

4. A new path towards growth: Raising Productivity, Creating Competitive Advantages, Attracting FDI to Develop Outsourcing

The relationship between reform performance and growth rates is complex and in general there is a positive influence of reforms on subsequent growth. However, recent evidence suggests that

[20] In the 2005 rankings, the former Yugoslav Republic of Macedonia slips further in the world tables to the 85th place (one down compared to 2004) with a score of 3.26 down from 3.34 in 2004. Serbia Montenegro gains 9 places to reach 80th place. The worst performer in SEE is Bosnia Herzegovina which lost 14 positions in one year to end up in 95th place.

[21] See USAID (2005) Assessment of the Enabling Environment for Business in the republic of Macedonia, p. 7.

other factors are also important such as 'fiscal discipline, catch up, oil prices, trade links and initial conditions'[22]. Countries in transition should now focus on elaborating comprehensive competitiveness strategies by looking into the weaknesses of the real economy and try to exploit opportunities in the world market.

Increasing the long term trend in productivity requires a higher level of investment and the establishment of conditions for competitive markets especially in sectors where informality reigns. The savings ratio of the economy at 14% is too low to sustain a high level of investment. Raising and sustaining investment to over 25% of GDP (currently about 20%) can only come about in the short run, by increased public spending in infrastructure and by introducing a new system of investment incentives, compatible with state aid guidelines. However, both actions will lead to higher debt levels. Therefore, attracting foreign investment is the only option open to the government at this conjecture.

The former Yugoslav Republic of Macedonia has to confront the issue of the informal economy following the example of other European countries such as Portugal and Spain creating a level playing field for all enterprises. Measures should include both incentives for the informal firms to register and join the formal economy and restrictive actions to force them to comply (for recommendations see Annex 1).

Clusters and networks can become the basis for enhancing productivity innovation and competitiveness of SMEs. The

[22] Falcetti E., T. Lysenko, P. Sanfey (2005) Reforms and growth in transition: re-examining the evidence, EBRD Working Paper 90.

country has already adequate experience in creating competitive advantage in a number of sectors as part of a pilot project to develop clusters supported by the USAID[23]. However, the country needs to develop a strategic approach on cluster development policies. Furthermore, a cluster approach should be implemented on top or rather within a horizontal framework addressing the needs of the whole enterprise sector. Incentives similar to those actions for SMEs envisaged by the European Regional Development Fund should be introduced. The elaboration of this framework is already included as a priority in the strategic plan of the Ministry of Economy.

In terms of cluster policy the emphasis should be directed to the sectors with the highest export potential trying also to involve larger enterprises. The latter can take the lead in new investment and the introduction of new processes and act as coordinators within a cluster or network. The ICT sector still represents the best area for further developing competitive advantage in anticipation of the introduction of information technology in the public sector and the possibilities for outsourcing that may develop as the country participates in the new world division of labour.

The EU has recently analysed the European and national experience of cluster policy suggesting that the public sector should be playing a 'catalytic role'. The report concludes that 'A policy on clusters should provide a framework for dialogue and inter-firm cooperation, as well as for co-operation between small enterprises, higher education and research institutions, public and non-public organisations at local, national, European and

[23] USAID within the Macedonia Competitiveness Activity has already supported the development of five clusters.

international level[24]. But the experts also suggest that, 'although public funds should not be systematic and should comply with the State aid regulations, experts recognise that they are often needed to support start-up projects, networking, information, research, education, and specialised infrastructure. This is all the more true in countries in economic transition where businesses are not yet mature. But these should decrease as the cluster starts functioning'[25].

Attracting FDI should continue to be a policy priority and to that end a radical improvement of the business environment is required, removing the final obstacles to the functioning of the market. Of crucial importance is the comprehensive judicial reform that all major donors and multilateral organisations have identified as a major precondition for improving the investment climate[26].

What is some times not adequately explained is that attracting foreign investment is not only dependent on the domestic economic environment which is influenced or even guided by the government policies. Over the last decade competition among countries to attract FDI has increasingly determined the outcome of relocation decisions and specialisations of host countries. The Czech and Slovak Republics have specialised in the assembly of automobiles while Poland in white goods production. The former Yugoslav Republic of Macedonia has to monitor what her immediate competitors are doing and accordingly adjust strategy.

[24] European commission, Enterprise Directorate General (2003) Final Report of the Experts Group on Enterprise Clusters and Networks, p. 11.
[25] Opcit p. 12.
[26] IMF (2005) Executive Board Press Release,

The main question is whether the country can participate in the international restructuring taking place with major corporations moving their sourcing and production to emerging economies. This relocation is mainly the result of five forces underpinning globalization: the growth of markets in emerging economies, the cost and capital advantage of emerging countries, the existence of a highly skilful workforce, the migration of customers to the emerging economies and the gradual emergence of emerging economies based global competitors[27]. These factors influence a relocation of production away from the core. China may hold the cost advantage on large batch production (although that is also disputed[28]) but when it comes to small production batches especially for up market products CEE and SEE areas clearly have the overall advantage. Under these circumstances the main factors affecting location decisions are the already established industrial landscape and the existence of a highly skilled workforce.

The former Yugoslav Republic of Macedonia has a handicap in terms of market opportunities and clearly needs to specialise and focus in attracting selected activities initially of a small batch production from neighbouring countries. Medium scale enterprises and clusters in mature European countries are facing difficulties in managing a global supply network and especially organise production in China[29]. The former Yugoslav Republic of Macedonia can specialise in this market segment of fashion related products (clothing, leather, accessories). In any case the country would benefit from radically improving the skills of its

[27] The Boston Consulting Group (2005) The Central and Eastern European Opportunity: Creating Global Advantage in Serving Western Europe.
[28] Opcit p.5 and 6.
[29] See J. Gapper's article 'Italy's clusters lose lustre' in Financial Times, 25.05.2005.

labour force (especially language and information technology skills) and upgrade infrastructure in key areas (for recommendations see Annex 2).

5. Conclusion

The competitiveness of the country is undermined by a number of non price factors related to the inherited economic structure low investment, informality and the overall investment climate. Focusing on the needs of the real economy and elaborating a comprehensive competitiveness strategy should be high on the government agenda. Policies should concentrate on enhancing productivity growth by encouraging domestic investment and attracting FDI. Within this context the government should spend more on education and transport infrastructure. Improving the functioning of telecom and energy markets should also be high on the agenda as both sectors affect the competitiveness of the whole economy.

ANNEX 1: Confronting Informality

Informality is high and rising in most areas of the world accentuating social problems, creating inequalities and undermining competitiveness and public finances[30]. In the former Yugoslav Republic of Macedonia estimates of informality vary between 36% to 45% of GDP.

The extent of informality varies from sector to sector and even from one enterprise to another as we may encounter instances of limited or partial informality within perfectly legal enterprises. Informality is in general more prevalent in labour intensive of sectors in service or industry. Informality, according to several experts[31], stifles economic growth and competitiveness in two ways. First, higher profit margins, from tax avoidance and the violation of regulations, creates incentives for companies to stay in the informal economy and thus remain 'subscale and unproductive'. Second, the cost advantages of tax avoidance and non-compliance help informal companies undercut formal competitors.

Several studies have addressed the issue of informality in the SEE region or specific countries in the area[32] and made concrete recommendations. However, little progress has been achieved. The exact knowledge of the specificities of each economy is a precondition for elaborating a comprehensive strategy to tackle the issue of informality. Such a strategy should be based on a combination of incentives to comply, tailored made sectoral measures and stronger enforcement institutions.

[30] Schneider F. (2005).
[31] Farrell D. (2004).
[32] OECD (2004b) for Albania and Pohl (2004) for the region as a whole.

Few attempts have been made to estimate the benefits arising from a reduction in informality. A recent study for Egypt[33] indicates formalisation is likely to produce a gain of about 1.7% of GDP for entrepreneurs, 0.7% for workers and 1.3% for the treasury. Consumers stand to lose 1.7% of GDP due to the payment of value added taxes.

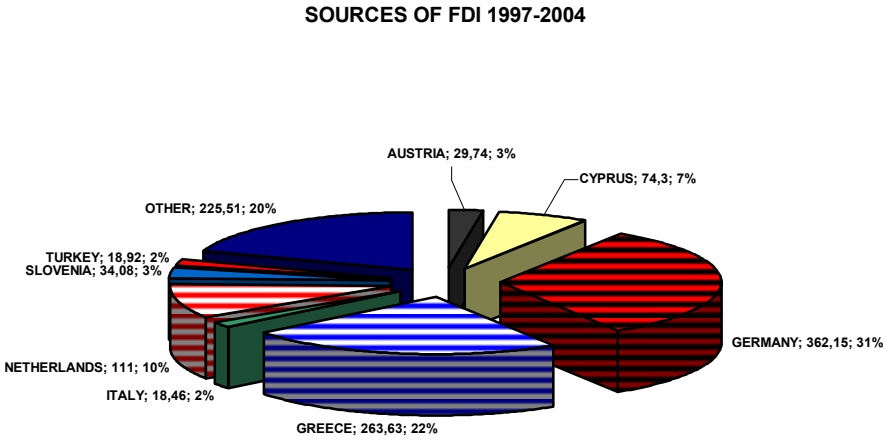
Recommendations

- **Improve statistics and GDP estimation, establish a more accurate estimate of the informal economy by main sector.**
- **Strengthen monitoring of regulatory framework and estimate the average cost of compliance for SMEs, provide assistance for compliance.**
- **Strengthen enterprise support agencies and broaden the geographic coverage in order to effectively assist formal SMEs and reduce partial informality.**
- **Use the starting up of the 'one-stop-shop' in 2006 to entice registration of enterprises operating fully in the informal sector.**
- **Integrate existing data bases (tax, social security, labour, municipality, banking) to cross check activities and enforce compliance.**

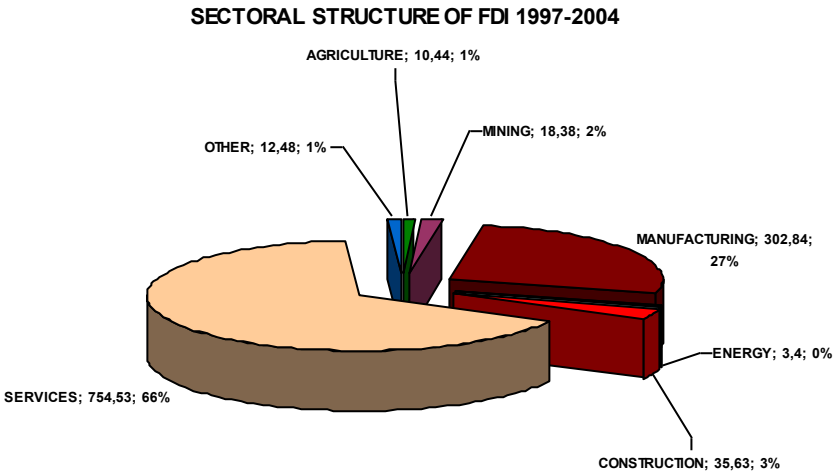
[33] Galal A. (2005)

ANNEX 2: The elusive foreign direct investment

By 2004 the total cumulative FDI in the Yugoslav Republic of Macedonia was about $1.1 billion. The main countries of origin were Germany and Greece. Germany has invested indirectly through Matav of Hungary in telecoms a total of 323 million dollars which is the largest single investment in the country. On the contrary Greek investors have multiple interests in the country in diverse sectors. Their largest investments have been allocated in oil refining and banking but they are also active in retailing marbles and textiles.



In terms of sector of activity, services have absorbed the largest part (66.6% of the total) of FDI with manufacturing lagging far behind (27%). Within services telecoms and financial intermediation activities have attracted most of FDI with all telecom operators and most large banking institutions directly controlled by foreign investors. In manufacturing food products, oil refining and metal products have absorbed the bulk of foreign investment. In textiles and apparel there is also considerable FDI activity but of low value in terms of committed capital.



Recent empirical studies have identified the 'predominance of gravity factors (host market size and geographical and cultural proximity between source and host country) in explaining FDI flows to Central and Southeastern Europe'[34]. They have also estimated the gap between actual and potential FDI which for the former Yugoslav Republic of Macedonia is 64% or just above $1 billion. This gap is largely due to the policy environment in the host country. Once a critical mass of FDI is established in a country a new wave of investors will be attracted by 'the degree of institutional development the quality of the business environment and the prosperity of the country'.

A study by the Ministry of Economy[35] has also analysed the strengths and weaknesses of the country in attracting FDI. The study downplays certain crucial parameters, such as the existing problems with law enforcement and the state of infrastructure.

[34] See Demekas D. et al (2005) p. 24.
[35] Ministry of Economy (2003).

These studies give useful insights into the FDI trends in the region. However, survey based studies offer a more comprehensive and real world understanding of the companies' strategies and their motives in taking location decisions. In the text, reference has been made to the Boston Consulting Group's recent study on the possibilities for outsourcing in Central and Eastern Europe countries[36]. The study identified five factors influencing location decisions. In another study by the McKinsey Global Institute a full account of the criteria that US companies use to take off-shoring location decisions is given[37].

Strengths and Weaknesses of countries in criteria of off-shoring location according to US companies (1=most attractive-5=least attractive)

Country	Cost 50%	Local suppliers 10%	Domestic Market 10%	Risk Profile 10%	Business Environment 10%	Quality of Infrastructure 10%	Location cost index
India	1.5	2.2	3.5	2.7	3.6	3.3	**2.3**
China	1.8	3.7	1.8	3.4	3.6	2.5	**2.4**
Malaysia	1.7	4.7	3.3	2.2	3.4	2.5	**2.5**
Philippines	1.5	4.5	3.5	3.9	3.7	2.8	**2.6**
Hungary	2.6	4.7	3.3	2.3	2.8	2.8	**2.9**
Czech Rep.	2.6	4.7	3.5	2.2	3.0	3.0	**2.9**
Poland	2.7	4.0	3.3	2.7	3.1	3.0	**3.0**
United St.	4.4	1.0	2.7	1.7	1.3	1.5	**3.0**
Russia	3.0	4.5	2.8	3.5	3.3	3.3	**3.2**

Source: Farell D. et al (2005) p. 101.

It is worth noting that in both studies the former Yugoslav Republic of Macedonia is not included in the sample of low cost countries.

Although cost accounts for 50% other parameters taken together play also an equally important role in a location decision. India, China, Malaysia and Philippines have the lowest labour costs but as

[36] See Boston Consulting Group (2005b).
[37] See McKinsey Global Institute (2005).

other parameters are taken into consideration CEE countries come strongly into play. Furthermore, the weighting changes by type of activity and companies will not just follow the herd. The McKinsey study recommends host countries to 'target the sectors and companies whose needs most closely match what it can already offer and then hone these attractive features'[38]. Host countries should also improve labour skills, reduce bureaucratic interference, upgrade local infrastructure, increase tax competitiveness and strengthen intellectual property laws.

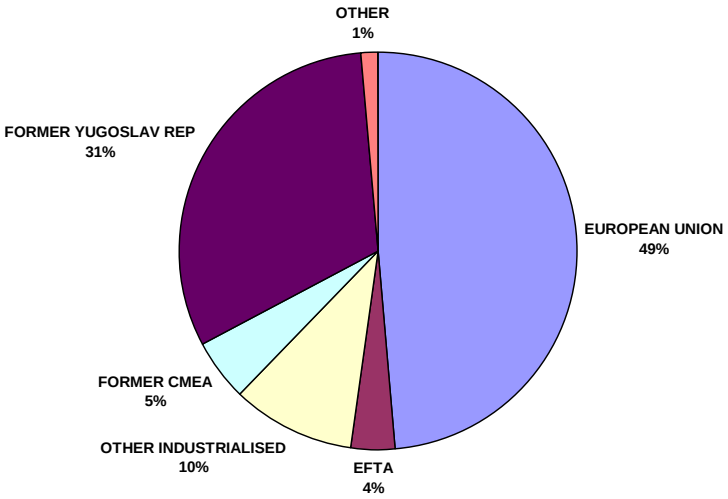
Recommendations

- **Assign an investment review with specific analysis of opportunities by sector and possible interested parties.**
- **Organise promotion of the investment opportunities in countries of possible origin and talk directly with interested parties.**
- **Concentrate mainly to countries that have already a strong presence in the former Yugoslav Republic of Macedonia either as investors (Germany, Greece, Netherlands) and/or trading partners (especially Italy).**
- **Invest more in education, developing especially IT and technology related higher education courses.**
- **Strengthen business education in partnership with the private sector and with foreign academic institutions.**
- **Plan public investment spending in infrastructure focusing on airport road and rail networks with prime economic centres.**
- **Engage in dialogue with existing foreign owned enterprises and investment banking institutions that are active in the country.**

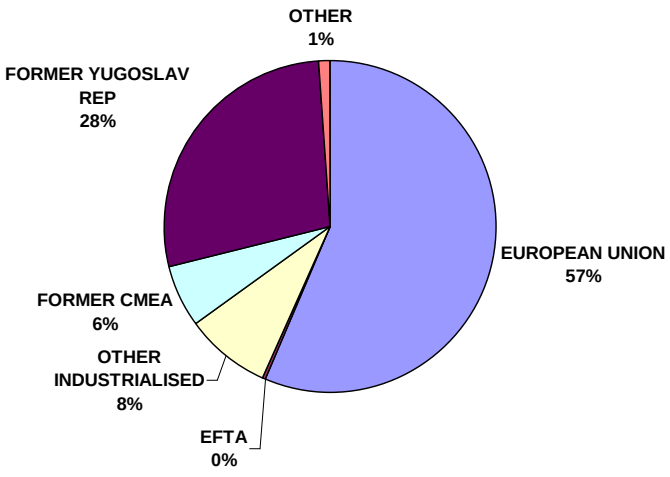
[38] See Farrell D. (2005) p. 103.

ANNEX 3: Trade data

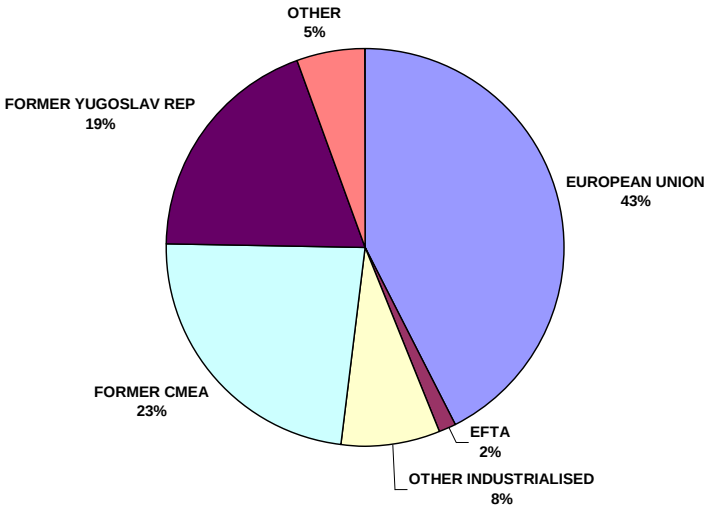
DIRECTION OF TRADE: EXPORTS 2001



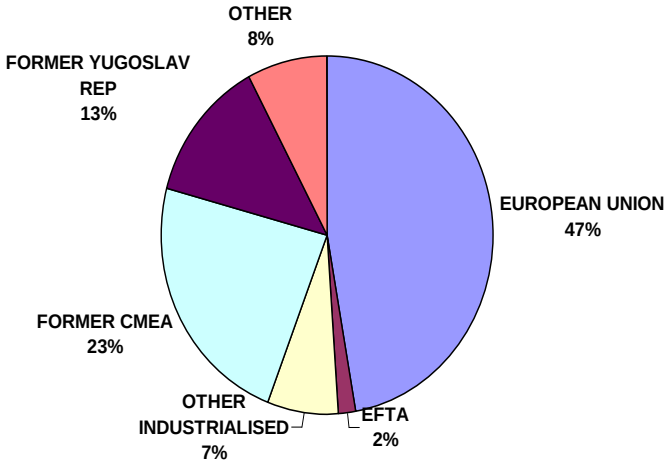
DIRECTION OF TRADE: EXPORTS 2004



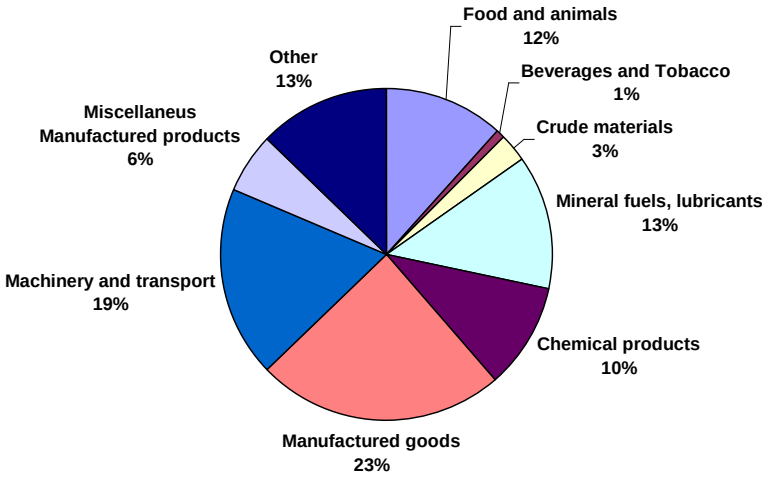
DIRECTION OF TRADE: IMPORTS 2001



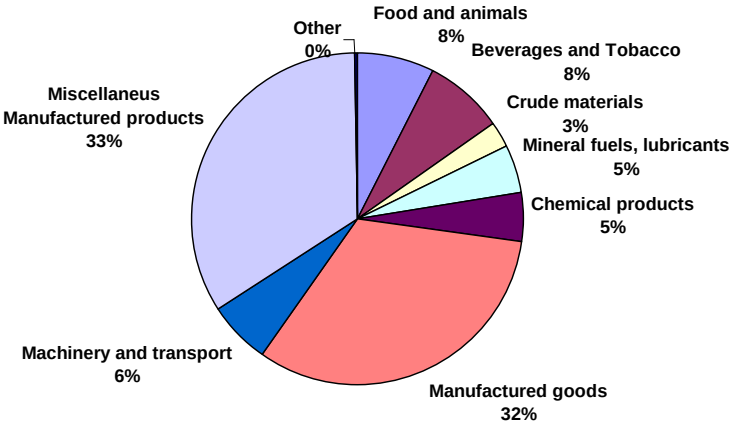
DIRECTION OF TRADE: IMPORTS 2004



STRUCTURE OF EXPORTS 2004



STRUCTURE OF IMPORTS 2004



	2004		2001	
IN MILLION $	**IMPORTS**	**EXPORTS**	IMPORTS	**EXPORTS**
EUROPEAN UNION	**1369**	**943**	716	563
EFTA	**47**	**7**	26	41
OTHER INDUSTRIALISED	**204**	**136**	134	116
FORMER CMEA	**679**	**102**	393	56
FORMER YUGOSLAV REP	**383**	**468**	327	362
OTHER	**222**	**17**	92	17
TOTAL	**2903**	**1673**	1688	1155

ANNEX 4: Competitive Position Former Yugoslav Republic of Macedonia and SEE and CEB countries

	ALBANIA	BIH	FYROM	SERBIA M	BULGARIA
TRADE BALANCE 2004 (% GDP)	-18,8	-30	-24,8	-24,8	-12,9
CURRENT ACCOUNT 2004 (% GDP)	-7	-19,1	-6,8	-10,5	-7,4
COMPETITIVENESS INDEX 2004	NA	3,38	3,34	3,23	3,98
GDP GROWTH (AVERAGE 2002-04)	5,1	4,8	2	4,7	4,9
TRANSITION INDEX 2004	2,81	2,52	2,96	2,48	3,37
TECHNOLOGY INDEX 2004	NA	3,15	3,26	3,3	3,82
INSTITUTIONS INDEX 2004	NA	3,8	3,41	3,61	4,36
COMPETITIVENESS INDEX RANK 2004	NA	81	84	89	59
BUSINESS INDEX RANKING 2004	NA	93	83	85	75
CATCH UP INDEX 2004	NA	-1,58	-1,62	-1,73	-0,98
GDP RECOVERY 2004 (1989=100)	136	60	80	56	88

	CROATIA	ROMANIA	CZECH REP	ESTONIA	HUNGARY
TRADE BALANCE 2004 (% GDP)	-24,1	-8,3	-0,7	-17,3	-2,2
CURRENT ACCOUNT 2004 (% GDP)	-5,6	-7,5	-5,2	-14	-8,6
COMPETITIVENESS INDEX 2004	3,94	3,86	4,56	5,08	4,56
GDP GROWTH (AVERAGE 2002-04)	4,4	6	3,1	6	3,5
TRANSITION INDEX 2004	3,43	3,18	3,74	3,74	3,85
TECHNOLOGY INDEX 2004	4,15	4,13	4,88	5,01	4,66
INSTITUTIONS INDEX 2004	3,86	3,94	4,56	5,59	5,07
COMPETITIVENESS INDEX RANK 2004	61	63	40	20	39
BUSINESS INDEX RANKING 2004	72	56	35	27	42
CATCH UP INDEX 2004	-1,02	-1,10	-0,40	0,12	-0,40
GDP RECOVERY 2004 (1989=100)	94	99	114	108	120

	LATVIA	LITHUANIA	POLAND	SLOVAK REP	SLOVENIA
TRADE BALANCE 2004 (% GDP)	-16,2	-6	-2	-2,4	-2,2
CURRENT ACCOUNT 2004 (% GDP)	-9,6	-6,7	-1,5	-3	0,2
COMPETITIVENESS INDEX 2004	4,43	4,57	3,98	4,43	4,75
GDP GROWTH (AVERAGE 2002-04)	7,5	7,5	3,5	4,7	3,5
TRANSITION INDEX 2004	3,56	3,48	3,66	3,55	3,37
TECHNOLOGY INDEX 2004	4,46	4,51	4,19	4,67	4,71
INSTITUTIONS INDEX 2004	4,55	4,75	3,7	4,64	5,28
COMPETITIVENESS INDEX RANK 2004	44	36		43	33
BUSINESS INDEX RANKING 2004	49	36	57	39	31
CATCH UP INDEX 2004	-0,53	-0,39	-0,98	-0,53	-0,21
GDP RECOVERY 2004 (1989=100)	90	89	142	121	126

SOURCES: EBRD COUNTRY FACT SHEETS 2004, WORLD ECONOMIC FORUM REPORT 2004.

ANNEX 5: FDI activity by sector and country of origin

FDI BY SECTOR 1997-2004 in million $									
	1997	1998	1999	2000	2001	2002	2003	2004	1997-2004
AGRICULTURE	0	0,06	0,01	0	2,31	0,42	1,59	6,05	10,44
MINING	0,29	0,04	0,35	9,62	2,17	0,29	0,03	5,59	18,38
MANUFACTURING	21,35	100,18	22,66	34	35,23	24,67	14,64	50,11	302,84
ENERGY	0	0	0	0	0	0	0,84	2,56	3,4
CONSTRUCTION	0,01	0,2	0,27	18,9	12,32	4,01	0,01	-0,09	35,63
SERVICES	3,43	26,02	7,85	110,81	389,55	47,13	77,89	91,85	754,53
OTHER	5,01	1,23	1,56	1,2	-0,05	1,3	1,29	0,94	12,48
TOTAL	30,09	127,73	32,7	174,53	441,53	77,82	96,29	157,01	1137,7

Source: National Bank of the Republic of Macedonia, Bulletin 1/2005.

FDI BY COUNTRY OF ORIGIN 1997-2004 in million $									
	1997	1998	1999	2000	2001	2002	2003	2004	1997-04
AUSTRIA	6,75	9,16	8,43	2,19	2,85	0,3	2,64	-2,58	29,74
CYPRUS	0,1	61,58	1,58	2,85	1,39	4,98	0,15	1,67	74,3
GERMANY	3,15	3,57	5,22	11,27	327,42	0,63	4,81	6,07	362,14
GREECE	5,26	3,71	2,74	103,17	67,22	44,94	6,64	29,95	263,63
ITALY	2,62	1,35	0,63	2,5	2,71	0,4	0,82	7,43	18,46
NETHERLANDS	0,05	1,32	0	0,55	0,58	0,66	31,61	76,23	111
SLOVENIA	0,08	0,08	4,31	11,59	3,72	3,88	6,02	4,4	34,08
TURKEY	0,39	13,15	1,84	0,16	0,08	0,24	0,69	2,37	18,92
OTHER	11,69	33,81	7,95	40,24	35,65	21,79	42,91	31,47	225,51

Source: National Bank of the Republic of Macedonia, Bulletin 1/2005.

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