

TOURISM IN MACEDONIA - BEFORE AND AFTER THE CRISIS

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Abstract: For many decades, tourism in the world has been experiencing continuing growth, being interrupted by the global financial crisis. This paper attempts to describe the effects of the world economic crisis on tourism in Macedonia and the consequences to the overall economic development. Therefore, some of the commonly used economic parameters are assessed in order to present an overview of the main indicators which identify tourism industry in Macedonia. In this respect, the study is based on various analyses made upon available secondary data collected through desk-research on descriptive statistics. In the line of providing more accurate results of crisis impacts, the applied data set is divided into two sub-periods. The first period starts from 2002 to 2007 and covers a six-year horizon before the world crisis emerges. The second refers to the period from 2008 to 2010 as a short-term interval for summarizing the crisis outcomes. The results point out that Macedonia, as most tourism-oriented countries, was not immune to the negative shocks. Finally, the paper urges the need for identifying effective framework for mitigating the impact of the past crisis, but also for reducing the chances of having a similar one in the future.

Key words: Tourism; World economic crisis; Economic development; Macedonia.

INTRODUCTION

Tourism is a dynamic industry which boosts economies by generating income, employment, investment and exports, thus stimulating economic growth. But, at the same time, it generates valuable spin-off benefits, either by developing infrastructure that other industries can use or by creating positive publicity for individual countries and destinations. Simply through its own existence, tourism boosts trade, skills and investment in other unrelated industries. Moreover, everyone identifies tourism industry as a significant catalyst for the economic and social transformation of less resource-rich countries and communities. Additionally, tourism is fundamental to international relations, business and cross-cultural understanding, promotion of global community, international understanding and peace, improved living standard, local commerce and industry, preservation of heritage and tradition etc. (Goeldner *et al.*, 2000). So, a strong mechanism for creating tourism development policy in terms of a document must be prepared (Williams and Shaw, 1991; Frechtling, 2001), which sometimes might be destructed by lack of identified development priorities (Gunn, 1993; Hall, 2005).

Tourism was faced with many different events in the first decade of the 21st century. Some of them were driven by the emerging markets and the rapid advances in technology, particularly in digital and social media, but also by the economic environment. From the variety of new challenges, some had a profound effect on the world tourism industry, like the devastating terrorist attack (9/11) in 2001; the combined effect of three significant factors in 2003: the Iraq crisis, the SARS outbreak and a persistently weak global economy; and the global economic recession that started in the second half of 2008.

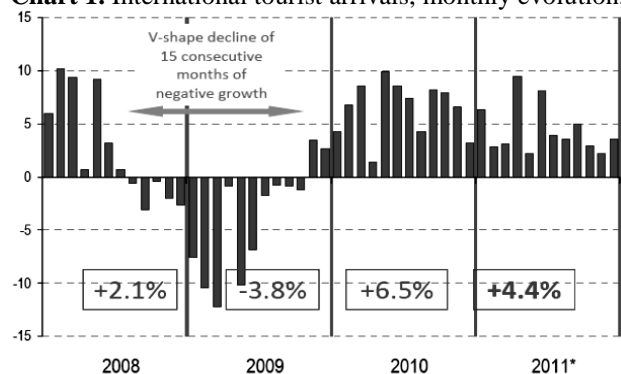
In this respect, this paper makes an attempt to present whether world tourism industry has weathered its fair share of the world financial crisis. Moreover, the research tries to disentangle the effects of the world recession over the Macedonian tourism.

1. BACKGROUND MATERIAL

Due to the fact that generally, the world-wide countries are interested in economic impacts of tourism in the first place, numerous researchers by variety of techniques tried to identify and quantify tourism economic effects. Most of them make an effort in defining tourism contribution to the economy of a specific region (Crompton, 1993; Lundberg *et al.*, 1995), by applying different methods, like visitor spending surveys, analysis of secondary statistical data, economic base models, input-output models and multipliers (Frechtling, 1994).

Despite the point that tourism in the world has been experiencing continuing growth and initiated positive economic development in majority of tourism-oriented countries, the progressive trend was interrupted by various negative events. Among all, the global financial crisis starting in 2008 and erupting in 2009 had the most negative impacts thus infecting all travel and tourism-related areas. In this respect, the Chart 1 clearly describes the destructive effects which were spread over fifteen consecutive months in terms of international tourist arrivals.

Chart 1. International tourist arrivals, monthly evolution, World (% change)

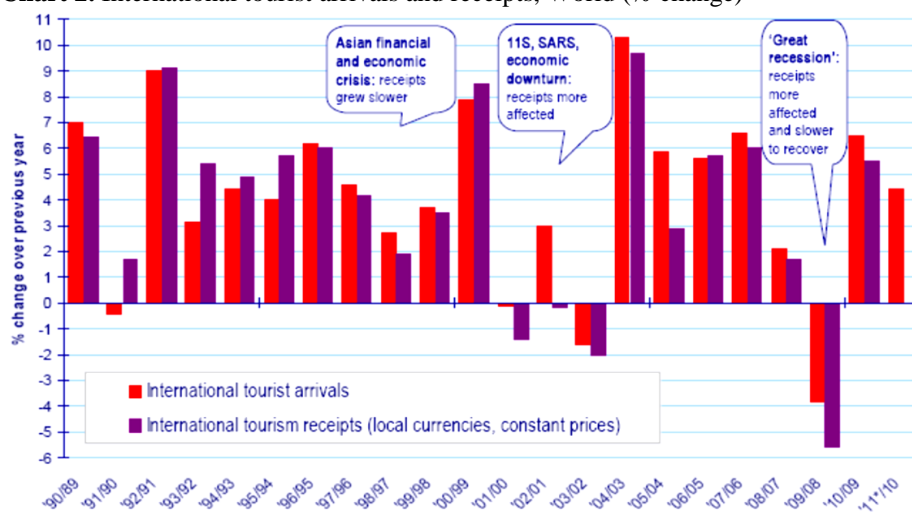


Source: UNWTO. (2012). *World Tourism Barometer, Statistical Annex*, Vol. 12, pp. 5.

Note: *projected values

As mentioned previously, variety of unexpected challenges had deep impacts on the world tourism industry. The Chart 2 gives a glance of the most significant damaging events in the past 2 decades. As visually presented, the global financial crisis is legitimately identified as the most profound attack on the world tourism development. It can be seen that the growth in receipts closely follows the growth in tourist arrivals with extensive upward trend, particularly in 2009.

Chart 2. International tourist arrivals and receipts, World (% change)



Source: UNWTO. (2012). *World Tourism Barometer, Statistical Annex*, Vol. 12, pp. 5.

Note: *projected values

Additionally, it should be pointed out that the historic shock inflicted by the global financial crisis, has led in many countries in the world to unsustainably high levels of public debt, distressed private-sector balance sheets and a surge in unemployment. With regards to Macedonia, after a moderate output decline of 0.9% in 2009, the recovery in 2010 was weaker than expected, with the gross domestic product (GDP) increasing by only 0.7% instead of the expected 1.3%. Inflation accelerated markedly during the year, accelerating from close to zero percent at the beginning of the year to 3.7% in December, leading to an annual average inflation rate of 1.6% in 2010, compared to -0.8% in 2011. Overall, the average annual inflation accelerated, from -0.8% in 2009 to 1.6% in 2010. (European Commission, 2011).

2. METHODOLOGY

The paper is reach on secondary and primary sources based on desk-research, whereas different types of analyses are performed. Generally, comparable quantities are analysed with descriptive statistics on economic parameters for the international tourist arrivals, the GDP, employment in tourism, the net flows of tourism services, as well as some aspects of the fiscal policy. In the line of providing more accurate results of crisis impacts on Macedonian tourism, the applied data set is divided into two sub-periods. The first period starts from 2002 to 2007 and covers a six-year horizon before the world financial crisis emerges. The second refers to the period from 2008 to 2010 as a short-term interval for summarizing the crisis outcomes. Given that the

quantitative analyses do not always disentangle key facts necessary for pointing out concluding remarks regarding particular issues, analysis based on qualitative approach are additionally introduced.

3. ANALYSIS, RESULTS AND DISCUSSION

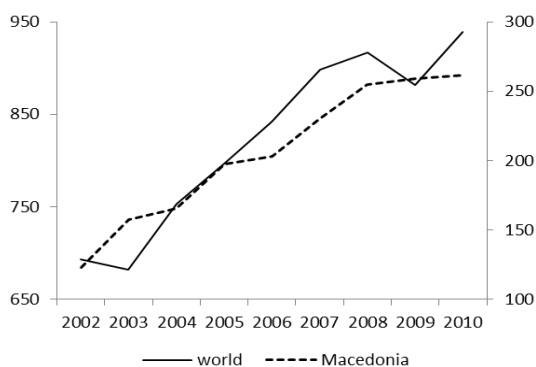
During the research, we were faced with obstacles regarding the official statistical data representing the tourism industry in Macedonia. Namely, all applied statistical data refer only to the hotels and restaurants in Macedonia, thus being a crucial limiting factor for more in-depth analysis. In this respect, it should be noted that the findings that discuss the number of employees in tourism industry, do not address the employees in tourist agencies, tour-operators and other tourism mediators. More precisely, in Macedonia, it is very often case that the term tourism is equal to the term hotel industry, which results into “neglecting various, even more significant effects compared to those produced within the hotel industry” (Sinclair and Stabler, 1997: 36).

3.1. International tourist arrivals

Tourism demand can be measured in a variety of units, including a national currency, arrivals, nights, days, distance travelled, passenger-seats occupied etc. In order to perceive what was happening in the past decade, we used the international tourist arrivals as a variable to match the world tendency towards the trend line of Macedonia.

As presented in the Chart 3, the international tourist arrivals of both observed samples have similar trend line. Namely, during the entire first analyzed period, covering 2002-2007, the World and Macedonia represent continuous upward trend. The exception is seen in the World’s trend in 2003 due to the negative impacts of the Iraq crisis and the SARS outbreak. These events had negative effects on Macedonia as well, but they were postponed for the year to follow, so the number of foreign tourists stagnated in 2004.

Chart 3. International tourist arrivals: World vs. Macedonia, 2002-2010



Source: Authors’ own calculations based on: State Statistical Office. *Statistical Yearbook of the Republic of Macedonia*, Skopje, various years; UNWTO. (2012). *World Tourism Barometer, Statistical Annex*, Vol. 12, pp. 5.

However, the general conclusion that the financial crisis had superior negative impacts over the world economy starting from 2008, cannot be shared with Macedonia as well. Namely, as the Chart 3 describes, during the second analyzed period, 2008-2010, Macedonia was not faced with intensive negative shocks in the national tourist market in terms of international tourist arrivals. Moreover, an upward line, but in a slight manner was noted up to 2010. In order to gain more sustainable facts for this first impression regarding the absence of negative influence over the Macedonian tourism, we perform additional analysis and overviews.

3.2. GDP and employment in tourism

When one wants to analyze the economic importance of tourism, than firstly addresses the issue of tourism contribution to the overall economic activity. In other words, it analyzes two important economic indicators, the GDP and the employment, both addressed in tourism. For the reasons explained previously, the Table 1 presents the GDP and the employees only for the hotel and restaurant sector in Macedonia, during the sample period.

As performed in Table 1, the first analyzed sub-period that covers the interval 2002-2007, generally performed growth, which was yet, very volatile. However, it has to be pointed out that the negative growth rate is partially due to the war conflicts in Macedonia and the region. For example, in 2000 Macedonia noted extreme fall of tourism activity, which can be interpreted as a consequence of the Kosovo war, bomb attacks on Serbia and refugee crisis in 1999. On the other hand, such conclusion throws a shade on unexpected extremely

high growth of tourism in 2002 (when actually all these negative shocks still had an influence), which can be elaborated as an outcome of abstinence of domestic population for travelling abroad i.e. an increase in domestic tourism demand. Further on, a fall of the GDP is noted in 2004, which can be provoked by increased interest for travel abroad, caused by the recovered economic activity and the rising consumer lending. In the rest of the analyzed sub-period, the tourism industry shows a slight growth with uneven intensity.

Table 1. GDP and employees in tourism in Macedonia, 2002-2010

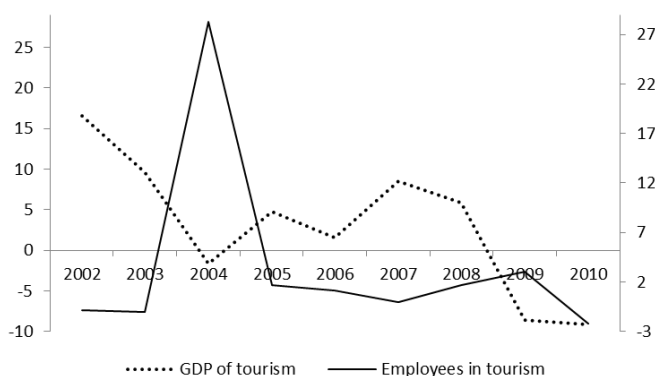
Year	GDP tourism annual growth (%)	% of total GDP	Employees in tourism	Employees in tourism annual growth (%)	% total labor
2002	16.6	1.7	9 982	-0.9	3.6
2003	9.6	1.8	9 880	-1.0	3.7
2004	-1.7	1.7	12 672	28.3	3.1
2005	4.8	1.7	12 892	1.7	3.1
2006	1.5	1.6	13 040	1.1	3.0
2007	8.5	1.7	13 040	0.0	3.0
2008	5.9	1.7	13 265	1.7	3.1
2009	-8.6	1.6	13 668	3.0	3.2
2010	-9.2	1.4	13 371	-2.2	3.1

Source: Authors' own calculations based on: State Statistical Office. *Statistical Yearbook of the Republic of Macedonia*, Skopje, various years; National Bank of the Republic of Macedonia. *Quarterly Reports*, Skopje, various years.

Generally speaking, it can be noted that the economic importance of tourism in 2003 reached its peak of 1,8 % in the total GDP. In the same line, during the sample period 2002-2007 the tourism, in average, generated 1.7% of the GDP. Compared to the world average of 3.2% in 2009 (WTTC, 2009a) lead us to conclusion of very modest tourism contribution. On the other hand, the impression is completely opposite when making comparison with the average for Central and Eastern Europe (CEE) of 1.6% (WTTC, 2009b).

With regards the second sub-interval, 2008-2010, it is noticeable a structural breakdown as a result to the financial recession. The Chart 4, showing the annual growth of the GDP and employees in tourism in Macedonia, visually supports the statistical glance. Actually, this is a period when we confirm that the world economic crisis really had intensive negative influence over the tourism industry in Macedonia. This conclusion is additionally supported with another complementary analysis, referring the number of employees in tourism. Moreover, this overview assisted us in finding out whether tourism can contribute to job creation, thus acting as a factor for decreasing the high unemployment rate of approximately 35%. However, the lack of appropriate statistical data appeared as a serious obstacle and a crucial limiting factor for more in-depth analysis.

Chart 4. GDP and employees in tourism in Macedonia, 2002-2010 (annual growth %)



Source: Authors' own calculations based on: State Statistical Office. *Statistical Yearbook of the Republic of Macedonia*, Skopje, various years.

The Table 1 represents data regarding annual growth of employees in tourism in Macedonia and their percentage in total labor. In this respect, the percentage of tourism employees to the total workforce is almost unchanged in both sub-intervals, which may be interpreted as a constant relationship. Another characteristic feature of the data is the relatively constancy in the number of employees. Despite the fact that the official data regarding the employment should be analysed with caution (for ex. the extremely high rates of growth of

tourism employees in 2004 are in close correlation with the official recording system), yet, it is clearly that the number of employees in tourism grew with higher intensity than the total employment. The average percentage of tourism employment in total labor during the data set is 3.2 %. Although this result might seem moderate, it should be pointed out that the tourism in Macedonia has a higher influence on the entire employment in comparison to the wider region. Namely, the national average is more than twice bigger than the average of the CEE being 1.4% in 2009 (WTTC, 2009b).

If referring the second sub-interval as an extract, than the Chart 4 confirms the above noted conclusions. Yet, the applied official statistical data must be interpreted with a high caution since it does not include unregistered employees in tourism.

3.2. Balance of payments

Further step in disentangling the global recession effects on tourism flows in Macedonia is the analysis of balance of payments. So, the Table 3 presents the net inflows of tourism services during the sample period.

Table 2. Balance of payments in Macedonia - Tourism services (mil. EUR)

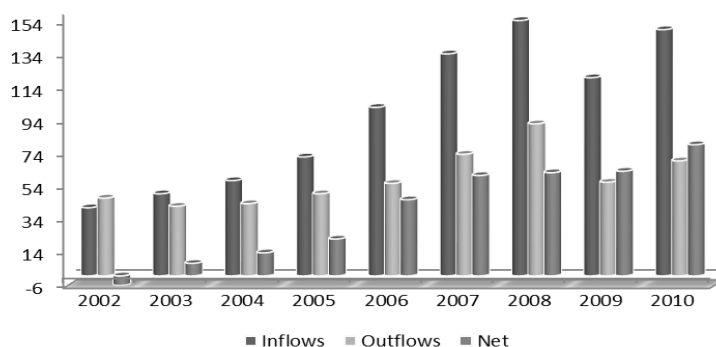
Year	Inflows	Outflows	Net
2002	41.4	47.3	-5.8
2003	49.9	42.3	7.6
2004	57.9	43.9	14.0
2005	72.3	49.9	22.4
2006	102.4	56.2	46.3
2007	134.9	73.9	61.0
2008	155.2	92.4	62.7
2009	120.4	56.9	63.6
2010	149.6	69.9	79.7

Source: Authors' own calculation based on National Bank of Macedonia, Various publications.

In order to have a clearer general picture for the tourism inflows in Macedonia, it should be pointed out that in 2009 they represented 26% of total inflows of services and 8% of exports of goods. Simultaneously, in 2009, the tourism inflows were 20% higher than the foreign direct investments in Macedonia. Within the framework of services, tourism inflows were the second biggest item (just a little bit lower compared to the inflows of transport services), which is 1.3 times higher than the inflows of business services and 2.4 times larger than communication services inflows. When calculated on net-basis, the tourism inflows are by far the most important item in the sub-balance of services (Petrevska, 2010a and 2010b).

Despite the fact that in the past years the tourism inflows were almost 3 times higher compared to the beginning years of the sample period, yet, the importance of tourism in the balance of payments in Macedonia is much reduced by the tourism outflows. Actually, Table 2 represents that in the beginning of the first sub-interval, the tourism inflows are almost identical with the outflows. Hence, for some significant net foreign exchange effect of tourism can be discussed only in the middle of 2000s as a result to the more representative inflows of foreign tourists. More precisely, as of 2006, the tourism inflows in Macedonia gain in importance, when they finally exceeded EUR 100 mil.

Chart 5. Balance of payments - Tourism services in Macedonia, 2002-2010



Source: Authors' own calculation based on National Bank of Macedonia, Various publications.

Consequently, in 2010, they were approximately the same amount as in 2008, meaning that the same level was reached as before the global financial crises. On the other hand, it is worth mentioning that the average annual net tourism inflows are approximately EUR 39 mil., meaning that tourism in Macedonia started to note first significant results.

To the same conclusions, but based on visual point of view, leads us the Chart 5. However, it is obvious that in 2009, the inflows are reduced for 30% and the outflows even for 40%, meaning that the foreign and domestic tourists were affected by the crisis. This might lead us to false conclusion about increasing the net tourism flows in Macedonia in times of world recession.

3.3. Fiscal policy

Governments of different countries took a particularly active role in supporting tourism impacts for achieving overall economic development in times of the world financial crisis. The Table 3 gives an overview of state intervention regarding tourism taxes in 2009. Some positive examples can be seen in the cases of Great Britain, Czech Republic, France and Belgium when taxes were reduced for 2-15%. In these cases the governments decided to assist their tourism industries to easier and quicker recovery by decreasing the taxes referring to tourism and hospitality services. However, the bottom rows in the Table 2 present some negative examples in terms of tax increasing. Namely, due to the shocks of the global crisis, the governments of Estonia, Lithuania, Latvia and Hungary decided to increase their taxes in order to help the national economies in their recovery.

Table 3. Government intervention on tourism taxes in selected countries, 2009

Country	Tourism taxes before the crisis (%)	Tourism taxes after the crisis (%)
Great Britain	17.5	15
Czech Republic	19	9
France	19.5	5.5
Belgium	21	6
Estonia	5	9
Lithuania	5	19
Latvia	5	21
Hungary	20	25

Source: Author's own notes based on www.hotrec.eu

In the case of Macedonia, the government recently decreased the VAT rate from 18% to 5%. However, this measure was scheduled and introduced just after the parliamentary elections and despite the positive impacts on tourism development, provoked negative reactions in public being labeled as populist policy.

Additionally, starting from 2010, the government, through the Ministry of economy provides financial support for tourist and travel agencies which promote Macedonia as a tourist destination by incoming tourism. More precisely, subsidies are introduced for attracting organized groups of ten tourists with minimum 3 overnights at categorized accommodation capacities. An alternative is set for the round-tours which have organized tourist arrival and departure by plane, bus or train with minimum 2 overnights in different destinations within Macedonia. Due to the fact that foreign tourists from neighbouring countries are dominant, it is normally to have the lowest subsidy of EUR 10 for tourists from Albania, Bulgaria, Serbia, Greece, Montenegro and Bosnia and Herzegovina. In the line of expanding the international tourist market, the subsidies increase to EUR 20 per tourist when coming from Turkey, Romania, Hungary, Slovenia and Croatia. These kinds of measures and activities have long tradition in many countries in line of supporting tourism development.

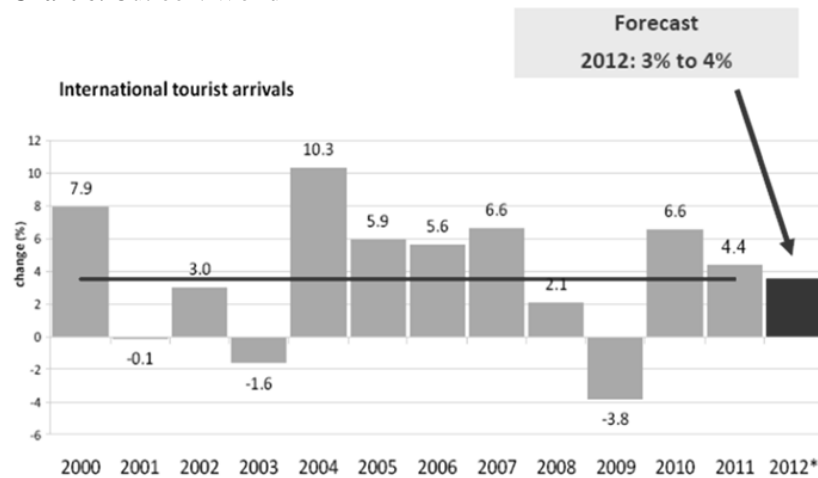
4. FUTURE CHALLENGES

In order to reduce the risks of decisions for future, forecasting of tourism demand is helpful as a foundation on which all tourism-related business decisions ultimately rest (Song and Turner, 2006). Moreover, the forecasts are applied to predict the economic, social, cultural and environmental consequences of tourists and travelers (Frechtling, 2001). Yet, there are varieties of changes in the surrounding which often cannot be envisaged, like financial crises, terrorist attacks, war conflicts and crisis, epidemics etc. Even when an ideal forecasting model is identified, it can only serve as an approximation for complex tourists' behavior, for it is possible that tourists' decisions change reflecting the changes in preferences, motivation or economic shocks (Hall, 2005).

The updated analyses of the world leading tourism experts confirm confidence weakening, but still with positive patterns. In this respect, the projection for the full year 2012 for the international tourism in the

world is foreseen to decline from 4,4% in 2011 (WTTC, 2011b) to 3-4% in 2012 (Chart 6). In absolute figures, it is expected that in 2012, 1 billion tourists will be involved in travel and tourism activities around the world. Furthermore, in these frames, the Europe is forecasted to mark the sharpest decline from 6% in 2011 to 2-4% in 2012.

Chart 6. Outlook: World



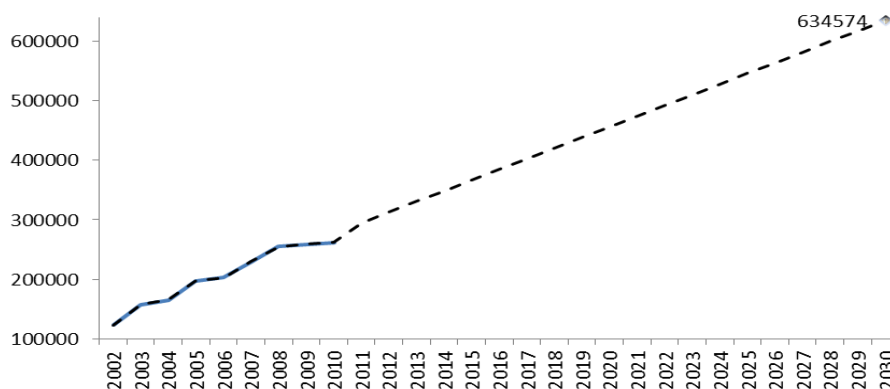
Source: UNWTO. (2012). *World Tourism Barometer, Statistical Annex*, Vol. 12, pp. 6.

Note: *projected values

However, most worryingly, the last world tourism leading panel didnot propose anything to address the main short-term risk, pointing to the danger of a sovereign funding crunch in the early 2012. The potential crisis may spill over to the real economy as banks tighten credit standards and business confidence weakens. This is particularly referred to the Eurozone economy, which has potentially gone back into recession again and has a stagnation forecasts for 2012. This kind of economic backdrop is incredibly challenging environment for tourism. When addressing the challenges in a long-term perspective, a positive upward line is forecasted. Namely, based on linear trend, it is forecasted that the world’s international tourist arrivals from 1 bn. in 2012, will reach its highest point of 1,8 bn. in 2030 (UNWTO, 2012).

Despite the above noted negative effects, the forecasts referring tourism development in Macedonia are much more optimistic than the actual outcomes. Namely, the estimated results are encouraging and by 2021 it is expected that the direct contribution of tourism to the GDP will reach to 1.6 % thus bringing revenue of EUR 170 mil. according to the constant 2011 prices; the total contribution of tourism to GDP will rise to 6.0%; the visitor exports are expected to generate EUR 76 mil. (5.1% of total exports); and the investment in tourism is projected to reach the level of EUR 76 mil. representing 2.8% of total investment. Additionally, it is expected that the number of employees that indirectly support the tourism industry in Macedonia will have an upward trend and will reach 35000 jobs in 2021, representing 5.4% of the total workforce (WTTC, 2011a).

Chart 7. Forecast of international tourist arrivals in Macedonia by 2030



Source: Authors’ own projection.

Speaking about the international tourist arrivals, the upward trend is expected to continue (Petrevska, 2011a). So, when applying the same forecasting method as in the long-term projection for the world's international tourist arrivals by 2030, we can expect increasing of almost 2,5 times. In this line, we undertake the modeling with the time series with an upward trend in the period 2002-2010. When introducing the equation (1) for the projected linear trend, the number of foreign tourists in Macedonia in 2030 is expected to be 634574. The Chart 7 gives an overview of the forecasted values for international tourist arrivals in Macedonia for the following two decades.

$$y = 17867x + 116431 \quad (1)$$

This model may be used for forecasting tourism demand mainly because of its simplicity in the implementation. At the same time, its advantage lies in the ability to follow the linear trend of the original time series as well as to be used in long-run estimations. Still, the biggest disadvantage is the inappropriateness in forecasting time series with seasonality components, as tourism is. Likewise, it should be pointed out that the anticipated values for Macedonia must be taken in consideration with a large doze of precaution, since they do not indicate the reasons which affect the forecasted results (Petrevska, 2011b). Accordingly, this research underlines the fragile nature of tourism industry and its affection from strong negative events as the world financial crisis.

5. CONCLUSION

This study emphasized that tourism contributes to Macedonian economy and might be classified as important industry principally when compared to the average figures of tourism trends in the CEE. However, due to the variety of obstacles when ensuring comprehensive and reliable statistical data for tourism industry, the objective assessment of tourism influence on the economic development in Macedonia is very difficult, almost infeasible.

Additionally, the results point out that Macedonia, as most tourism-oriented countries, was not immune to negative shocks and it is normally to continue to face numerous and unexpected challenges in future. The undertaken in-depth analyses confirmed that tourism in Macedonia was infected by the world financial crisis. More specifically, the negative impacts were detected in the GDP created in tourism, as well as within the employees from tourism industry, thus producing series of damaging effects on the overall economy. In this line, the domestic tourists, as well as the foreign ones, were faced with rapid decrease in consumer landing which consequently led to reducing the tourist inflows and outflows for 30% and 40% respectfully. Although some governments decreased taxes referring tourism and hospitality services in the line of assisting their tourism industries easier and quicker to recover, that was not the case with Macedonia.

Despite the fact that there are varieties of changes in the surrounding which often cannot be envisaged, like financial crises, terrorist attacks, war conflicts and crisis, epidemics etc., the paper argues the justification of applying forecasting methods. The main aim is to be prepared in due time to cope with some future challenges. Finally, regardless the discouraging shocks of the last financial recession and the declined projections for the current year, the forecasts predict that the upward trend in tourism development in Macedonia will continue. Thus, the paper urges the need for identifying effective framework for mitigating the impacts of the past crisis, but also for reducing the chances of having a similar one in the future.

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