Report No. 14576-MK

Former Yugoslav Republic of Macedonia
An Introductory Economic Report

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Country Department I
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

Currency Unit = Denar[a] (MDen)

Period Average Exchange Rates
(New denars per US dollar)

1990	1991	1992	1993	1994
0.113	0.197	5.091	23.297	43.259

[a] The external value of the denar is determined freely in the exchange market. Buying and selling rates for transactions between authorized banks and enterprises are reported to the National Bank, which calculates an average daily rate. Based on this rate and cross rates on the international market, the National Bank publishes rates for 22 currencies. At the end of each week, the average of the daily published rates is established for customs valuation purposes for the following week. There is no tax on the purchase or sale of foreign exchange, and banks are free to set commissions for their services. Forward foreign exchange contracts for trade transactions are permitted.

FISCAL YEAR

January 1 - December 31

This report is based on the findings of economic missions which visited Skopje, in stages, during February-April, 1995. The report was prepared by a team comprising Hassan Fazel, Salvatore Schiavo-Campo, Massimo Quattrocchi (Consultant), Naveen Sarna (Consultant) and Daniel Tomassi (Consultant). The sections in Chapter III on remaining policy issues in agriculture, environmental management, and financial and enterprise sectors were provided by, respectively, Charles Antholt, Marjory-Anne Bromhead and Joseph Pernia. Mr. Jaber Ehdaie was Peer Reviewer of the report. At the time this report was prepared, Mr. Ruben Lamdany was Lead Economist, and Ms. Rachel Lomax was Director, EC1.

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
AN INTRODUCTORY ECONOMIC REPORT

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ABBREVIATIONS AND ACRONYMS

ACU	Aid Coordination Unit
AMU	Aid Management Unit
BNT	Bank for Foreign Trade
BRA	Bank Rehabilitation Agency
CMEA	Council for Mutual Economic Assistance
DCAS	Development Cooperation Analysis System
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EU	European Union
FSU	Former Soviet Union
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNP	Gross National Product
GSP	Gross Social Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
LMI	Lower Middle Income
MFA	Ministry of Foreign Affairs
MIGA	Multilateral Investment Guarantee Agency
MOD	Ministry of Development
MOE	Ministry of Economy
MOF	Ministry of Finance
MT	Metric ton
OECD	Organization for Economic Co-operation and Development
OSCE	Organization of Security and Co-operation in Europe
PIP	Public Investment Program
PSEP	Protection of Socially Endangered Population
SACF	Synthetic Atlas Conversion Factor
SFRY	Socialist Federal Republic of Yugoslavia
SOK	Social Accounting Office
SRP	Special Restructuring Program
STF	Systemic Transformation Facility
UN	United Nations
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
WTO	World Trade Organization

Former Yugoslav Republic of Macedonia
Country Data Sheet

GNP Per Capita (1994) /a/ US$ 790

Area	Population	Density
25713 sq. km	2.08 million (1994 estimate)	80 per sq. km. (1993)
	Growth rate (1990-94): 0.68% p.a.	

Population Characteristics	1993	Health	1993
Crude Birth Rate (per '000)	15.7	Population per Physician	397
Crude Death Rate (per '000)	7.5	Hospital Bed per '000 inhabitants	6
Infant Mortality (per '000)	30.0		

Access to Safe Water	1993	Access to Electricity	1993
% of Urban Population	..	% of Urban Population	..
% of Rural Population	..	% of Rural Population	..

Nutrition	1993	Education	1993
Calorie Intake per capita per day	..	Adult Literacy Rate (%)	94.2
Per Capita Protein Intake (g/day)	..	Primary School Enrollment (%)	92.0
Food Production per capita	..		

Gross Domestic Product (1994)

	US$ Million	% of GDP	Annual Rate of Growth (Constant prices) 1991	1992	1993	1994
GDP /b/	2971	100%	-11%	-13%	-14%	-6%
Gross Domestic Investment	534	18%	-21%	-25%	-44%	-4%
Consumption	2849	96%	-9%	-12%	2%	-7%
Current Account Balance	-327	-11%				
Exports of Goods &NFS	1226	41%	-2%	1%	-5%	9%
Imports of Goods &NFS	1638	55%	-15%	-13%	6%	5%

Output, Employment and Productivity (1994)

	Gross Social Product US$ Million	% of GSP	Labor Force Thousand Persons	% of Total	GSP Per Worker US$	% of Average
Agriculture	644	19%	74	15%	8658	127%
Industry	1468	43%	238	48%	6166	90%
Services	1278	38%	184	37%	6964	102%
Total/Average	3390	100%	496	100%	6835	100%

General Government Finance

	(In Denar Million) 1992	1993	1994	(Percentage of GSP) 1992	1993	1994
Current Receipts	4384	23766	60846	27%	33%	41%
Current Expenditure	2800	17081	32421	17%	24%	22%
Current Surplus	1584	6685	28425	10%	9%	19%
Capital Receipts	0	0	0	0%	0%	0%
Capital Expenditure	2607	14609	31894	16%	20%	22%
Overall Balance	-1023	-7924	-3469	-6%	-11%	-2%

Former Yugoslav Republic of Macedonia
Country Data Sheet

Money, Credit and Prices

	(Denar Million, end of period)			
	1991	1992	1993	1994(p)
Money Supply (M3)	420	14584	53921	61111
Bank Credit to Public Sector	..	..	11594	10836
Bank Credit to Private Sector	..	..	33575	65244
	(Percentage or Index number)			
M3 as a percentage of GSP	37.0	91.1	75.4	41.7
Retail Price Index (1990=100)	214.9	3848.2	17309.3	38392.0
Annual Percentage Change in :				
Retail Price Index	115%	1691%	350%	122%
Bank Credit to Public Sector	..	..	..	-7%
Bank Credit to Private Sector	..	..	..	94%

Balance of Payments

	(US$ million)				
	1990	1991	1992	1993	1994(p)
Exports of Goods & NFS	1192	1200	1259	1138	1226
Imports of Goods & NFS	1630	1402	1236	1298	1638
Resource Balance	-438	-202	23	-160	-412
Net Factor Income	-55	-29	-72	-75	-95
Net Current Transfers	84	-28	30	119	137
C.A.B. Before Off. Grants	-409	-259	-19	-116	-370
Net Official Grants	0	0	0	28	43
C.A.B. After Off. Grants	-409	-259	-19	-88	-327
Capital Account	-51	-206	-162	15	-18
Medium and Long-Term Capital	-61	-107	-96	-2	-89
Direct Investment	0	0	0	0	5
Disbursements	60	14	9	57	112
Amortization	121	121	105	59	96
Repayments of Arrears	0	0	0	0	110
Net Short Term Capital	10	-99	-66	17	71
Errors and Omissions	444	424	87	61	218
Overall Balance	-16	-41	-94	-12	-127
Financing	16	41	94	12	127
Changes in Net Foreign Assets	0	0	-61	-60	-29
Assets	0	0	-60	-60	-46
IMF	0	0	-1	0	17
Arrears	16	41	155	72	156

Merchandise Exports

	(Avg. 1990-94)	
	(US$ Mn.)	% of Total
Food Products	98.9	9%
Other Primary Goods	152.9	14%
Manufactured Goods	439.7	39%
Capital Goods	422.3	38%
Total	1113.7	100%

External Debt, 1994 /c/

	(US$Mn.)
Official Creditors	559.4
Private Creditors	547.9
Total Outstanding & Disb.	1107.3

Debt Service Ratio, 1994

	(Percent)
Accrual basis	24.7
Cash basis	12.3

IBRD Lending, June 1995

	(US$ Mn)
Outstanding & Disbursed	177.4
Undisbursed	70.0
Total	247.4

Rate of Exchange

	Annual Average (Denar per US$)				
	1990	1991	1992	1993	1994(p)
Exchange Rate	0.1	0.2	5.1	23.3	43.3

/c/ Includes working assumption about the country's share of the unallocated debt of the former SFRY; also includes estimated penalty interest on arrears.

EXECUTIVE SUMMARY

Background

i. The former Yugoslav Republic of Macedonia became an independent state in September 1991, and a member of the World Bank in December 1993. Since this is the first Economic Memorandum on the country as an independent state, it provides some background information in Chapter I. In Chapter II, the report notes the institutional legacy from the Yugoslav Federation and then reviews economic developments since 1990. Chapter III presents the country's reform program for 1995-96, identifies some areas for further policy action and estimates external financing requirements for the medium term. Finally, Chapter IV examines the institutional framework for economic management and recommends actions to improve policy formation, public expenditure management and aid coordination.

ii. Situated in the center of the Balkan peninsula, this is a small, landlocked and largely mountainous country of about 26 thousand square kilometers and two million people. The rate of growth of population is just under one percent per year and the country's income per capita was US$790 in 1994, as estimated by the Bank's Atlas methodology for the former centrally planned economies.

iii. Although overshadowed in recent years by the difficult process of transition to a market economy, the former Yugoslav Republic of Macedonia possesses a diversified and potentially sound economic base. Nearly half the area of the country is devoted to agriculture, split about equally between cultivated area and pastures. Industry is the dominant sector, accounting today for 43% of GSP and 48% of total employment, despite having shrunk a little in recent years with changes in its markets and its domestic policy environment. Pre-independence policies had promoted a wide range of vertically integrated, autarkic industries, which were outright inefficient and which are undergoing socially painful restructuring these days as the former Yugoslav Republic of Macedonia attempts to phase out the old policy-induced distortions in its economy.

iv. The country's economy is supported moderately with basic infrastructure for transport, communications, water supply and power, but these services need to be managed better with efficient pricing policies and developed further with new and more modern facilities. With primary school enrollment and adult literacy rates exceeding 90 percent, a life expectancy of 72 years and an infant mortality rate of 30 per thousand live births, the state of human resources development in the former Yugoslav Republic of Macedonia appears quite favorable against comparator countries in the region and the group of lower middle-income countries. However, there are indications of disparities within the country and incidents of earlier gains reversed by, possibly, the economic hardships of recent years.

Recent Economic Developments

v. Against the backdrop of the loss of markets and finance as the CMEA and the Yugoslav Federation broke up, attempts to stabilize the economy of the former Yugoslav Republic of Macedonia during 1992-93 failed owing to a rapidly shrinking revenue base and

a growing wage-price spiral. In 1994, however, the government implemented strict budgetary discipline, and conducted strong incomes and monetary policies to turn the economy back from the brink of hyperinflation.

vi. Thus, the fiscal deficit, which had averaged 12 percent of GDP in 1992-93, was cut to 3 percent of GDP in 1994. The rate of (December-over-December) inflation, peaking at 1,925 percent in 1992, was brought down to 230 percent in 1993 and 55 percent in 1994. At the same time, payment delays on government expenditures were shortened, wage increases came under some control, and foreign exchange inflows from private remittances and regional trade improved the country's reserve position. Maintaining this progress, the financial program for 1995 has targeted further reductions in the fiscal deficit (to 2.7 percent of GDP) and the rate of inflation (to 18 percent).

vii. The country has made significant progress to date in normalizing its external debt situation. During 1993-94, it became current in servicing its debts to the IMF and the IBRD, and reached agreement in April 1995 to settle arrears with the IFC; but arrears to other creditors persisted, in part owing to the precarious asset position during most years since independence and, in part, owing to the legal and accounting difficulties of identifying and agreeing to various liabilities of the country. At the end of 1994, the country's external debt (including estimated penalties on arrears) amounted to US$1,107 million, equivalent to around 40% of GDP and 90% of exports. Of the total debt, US$460 million (42 percent of the stock) represented arrears built up since 1990.

viii. The country's economy experienced major dislocations during 1990-94: real GDP fell nearly 35 percent, recorded trade flows dropped by about 10 percent, and total investment in 1994 was only a third its 1990 level. The rate of registered unemployment increased from 17 percent in 1990 to 20 percent in 1994, and a large share of the working-age population dropped out of the labor force. Not surprisingly in view of the rising unemployment, real consumption fell by 5 percent per year during 1990-94.

ix. The government enacted basic laws in 1993-94 to begin dismantling the country's grossly inefficient socially-owned enterprise and financial sectors, and reforming the social safety net. It also established the institutional machinery--the Bank Rehabilitation Agency and the Privatization Agency--necessary to effect structural changes. Structural reforms gathered pace during the first quarter of 1995 when, along with further stabilization measures, the government began accelerating its adjustment program to improve the prospects for economic recovery over the medium term.

The Structural Adjustment Program

x. On the domestic front, economic recovery and growth will depend on implementing vigorously the stabilization and structural reforms programmed for 1995-96 and, furthermore, on policy actions needed to strengthen the incentives for production and trade. Externally, in addition to the progressive restoration of regional geo-political stability,

the country will need capital inflows and technical assistance to support its policy reforms and undertake essential long-term investments.

xi. Economic Reforms for 1995-96. These reforms seek to accelerate the process of financial stabilization and to enhance structural adjustments, especially in the enterprise, banking and social sectors. The main objectives of the stabilization program are to achieve further reductions in inflation and build up foreign reserves. The program's anti-inflationary thrust relies on a tight monetary policy, strict budgetary discipline and wage control, along the lines of policies implemented during 1994.

xii. Reforms in the enterprise sector are focusing on restructuring 23 of the largest loss-making enterprises and the two largest utilities (power and railways), accounting for about 55 percent of total losses in the enterprise sector and 20 percent of registered employment. These socially-owned enterprises are implementing detailed cost-cutting programs, including plans for shedding surplus labor, spinning off non-core businesses and liquidating non-viable units. Over the next year or so, out of around 1,200 enterprises, the Privatization Agency will have overseen divestiture of 791 enterprises, 45 of them large, 141 medium and 605 small units. Concerned with the very difficult social and political issues involved in downsizing the largest loss-makers, the Government has identified sufficient budgetary resources to alleviate the anticipated social costs of enterprise reforms.

xiii. In the banking sector, a major effort has been mounted to restructure Stopanska Banka, the chronically distressed dominant bank. The restructuring consists of three sets of measures which are taking place almost simultaneously: first, financial restructuring to clean the bank of problem accounts and restore its liquidity; second, break-up into smaller banks, and third, change of ownership and management through privatization.

xiv. The reform of the social safety net, aims to: facilitate labor adjustment through appropriate income support and development of active labor market services; restructure incentives under social assistance programs; and improve the short-and long-term financial sustainability of social insurance. To facilitate labor adjustment, the relevant regulations have been altered to reduce advance notification of termination to one month for individual and small-scale layoffs, and to three months for large-scale layoffs. To ease the hardships associated with layoffs, the Government will contribute to a fund for labor adjustment services, including counseling, placement, small business development and retraining.

xv. The Government is also moving to put in place the legislative and regulatory framework to ensure the proper functioning of a market economy. To that end, Parliament has approved legislation governing securities, concessions, banks and savings institutions, accounting and financial standards, labor relations, foreign investment, and customs. In addition, the first reading of a new Commercial Code has taken place in Parliament, a new Bankruptcy Code has been prepared, and Laws on Denationalization and Restitution and on

the Governance of Public Enterprises have been drafted. These are all expected to be enacted by the end of 1995.

The Remaining Policy Agenda

xvi. To complement the above reforms, the Government will need to address some remaining issues, including the course of real wages in the economy, completion of trade reforms, phasing out agricultural price interventions, domestic resource mobilization, further financial sector and pension reforms, and environmental management. This is by no means an exhaustive list; rather, it represents matters arising from reviews, works in progress and dialogue being pursued by Bank staff. Thus this agenda of further policy reforms is likely to be refined and to evolve further.

xvii. Circumstances and policy in recent years have forced a reduction of real wages, it is not clear that the reductions have been sufficiently in line with the loss of transfers from the former federal center. Nor is it clear if real wages now are at levels that could reduce the substantial unemployment in the country. At the end of 1994, real wages were high compared to labor productivity in industry. In part, this reflected the high real appreciation of the denar in terms of unit labor costs for two years running, in 1993 and 1994. The real appreciation of the denar did stabilize in mid-1994 as the implementation of the Wage Control Law took hold. The central challenge for policy now would be to ensure that real wages remain flexible. If changes in real wages were to exceed improvements in productivity for long, the profitability of many firms and the country's export competitiveness would be eroded. This indeed would be unfortunate as the country's very survival in the long term depends on enhancing, not eroding, its prospects for trade creation.

xviii. Another issue would be to complete the rationalization of trade policy. While it has removed outright quantitative restrictions, the former Yugoslav Republic of Macedonia still maintains seasonal quotas, albeit auctioned, on the exports of about 130 products to ensure sufficient supplies locally, and on imports of 120 food, raw materials and industrial products to protect domestic producers. These quotas need to be removed for the trade regime to provide appropriately efficient signals to producers, especially in agriculture.

xix. Agricultural policy, moreover, remains complicated by selective special import levies (on wheat, wheat flour, milk and cheese), reference prices and production and credit subsidies directed mainly at wheat, sunflower, sugarbeet, rapeseed oil and fluid milk. Export taxes have also been proposed for wine, lamb and fruit and vegetables, but have not yet been accepted. At the same time there is a 4 percent export subsidy on lamb and grapes/wine and 3.2 percent on fruits and vegetables.

xx. The main, though not the sole, beneficiaries of the protection and the variety of subsidies seem to be the socially-owned enterprises in the sector. These enterprises, also referred to as agro-kombinats, remain active in agricultural production, processing and marketing and would be subject to privatization only after passage of the draft Law on

Denationalization scheduled for consideration by the end of 1995. The enactment of this draft law on schedule and the removal of the above-mentioned price interventions will be important requisites to encouraging efficient investments and growth in the medium to long term.

xxi. To finance investment requirements, the country must also induce domestic savings, which declined in recent years as output and employment dropped. Savings also could not grow when real deposit rates remained negative. Monetary policy, therefore, will need to foster competition among banks to make savings attractive to the private sector. The public sector too, will need to raise its savings. It would be more efficient to mobilize public savings by containing current spending since the ratio of public revenues to GDP is already very high. Specialist studies, notably by the IMF, have indicated there is scope for further reductions in agricultural and export subsidies, pensions and public sector employment.

xxii. The privatization or liquidation of the 23 largest loss-makers must be pursued to completion beyond 1995-96. Here, worker lay-offs and the attendant costs will have to be provided for. With regard to the two large utilities (power and railways) and other utilities that will remain for some time in State hands, work on their medium-term restructuring will have to be pursued in the context of the Law on Public Enterprises, which will spell out the State's responsibility for governance as owner, and in regulations enforcement as regulator. Government will also need to focus soon on actions to follow up the ongoing enterprise and financial sector adjustment program. On completion of the current enterprise reform program (see para. xii), 400 socially-owned enterprises will remain to be privatized. Many of these remaining entities are not attractive to private investors, and some of them will need to be closed down.

xxiii. In the legal framework affecting enterprises, a major outstanding issue is the absence of a system by which land can be transferred or assigned from one economic agent to another to allow the land to be used by the most efficient operator. Whether the country opts for a system of freehold or leasehold is not as important as the creation of a market system that would allow the use of land to be transferred or assigned.

xxiv. The ongoing banking reforms (see para. xiii) , when completed, will have privatized all banks, with about five relatively larger banks competing in the system under the prudential supervision of the National Bank (NBM). One or two banks could have major foreign investors providing proper governance. It is important that the NBM continues to strengthen its bank supervision capacity and its ability to enforce regulations, including the ability to impose penalties on violators. The NBM also needs to consolidate the banking system by promoting the merger of smaller banks and, if necessary, closing down "pocket banks" that merely serve the banking needs of its owners. As the payments system is transferred from the Social Accounting Office (SOK) to the banking system, the NBM would have to take the lead in creating a payments system in the banking sector.

xxv. As the need for non-bank financial intermediation grows, and the trading of equities increases, Government will need to develop a framework for securities markets by creating an independent regulatory and supervisory agency pursuant to the securities law. Similarly, contractual savings institutions in the private sector (insurance companies and pension funds) need to be promoted and properly regulated. The legal framework will have to be established and regulatory oversight organized. The state pension fund needs to be reviewed to reduce crowding out of the private sector and promote complementarity between a compulsory system and voluntary savings.

xxvi. There has not yet been an integrated analysis of the environmental impact of economic development and polices in the former Yugoslav Republic of Macedonia. There are indications, however, of several deficiencies that will need to be addressed quickly. Air and water quality problems, for instance, are quite evident. Use of low quality fuel for power generation, together with leaded gasoline, have contributed to poor air quality in several cities. Subsidized electricity prices have also contributed to lack of energy conservation. Human health has been affected by air pollution and studies have indicated elevated levels of lead in human tissue.

xxvii. River and groundwater quality in the country has suffered from discharge of untreated sewage, while arrangements for disposal of hazardous waste and solid waste are unsatisfactory, as are arrangements for monitoring groundwater quality. Poor land use practices, including lack of conservation tillage, and insufficient funding for watershed protection, have contributed to soil erosion. Water management and allocation problems have arisen as extensive water development investments have coincided with two decades of low rainfall. In this situation, there must be more extensive use of water conserving irrigation practices, and the system of protected area management needs to be strengthened.

xxviii. In the face of the above problems, responsibilities for environmental management and monitoring are currently very decentralized, each sectoral ministry, municipality or industry having control of its own environment-related activities, without clear definition of responsibilities. It is imperative, therefore, to establish clearer institutional responsibilities for environmental monitoring and enforcement, and to improve coordination among the different agencies dealing with the environment. The Government has started preparing a National Environmental Action Plan (NEAP), with assistance from the Bank. The NEAP should provide a framework for institutional and policy reform in the sector, and identify priority investments.

xxix. Economic growth in 1995-99 could feasibly average about 3 percent per year, enabling a modest growth of real incomes and consumption per capita to take place. The growth of total consumption, however, should remain below that of domestic income in order to raise domestic savings, which will need to be strong to finance critical investments, meet projected debt service payments and restrain external borrowing requirements.

xxx. The former Yugoslav Republic of Macedonia will still need considerable recourse to foreign savings over the next several years as it will take time for the export sector to raise its competitiveness and gain acceptance in new markets. Also, essential imports, compressed in the recent past, will need to grow to satisfy consumer requirements and to obtain inputs for production, including for exports.

xxxi. The current deficit of the balance of payments, before official grants, is projected to decline over the medium term, from about US$460 million (12 percent of GDP) in 1995 to about US$225 million (5 percent of GDP) in the year 2000. At the same time, capital repayments would become more manageable, assuming successful rescheduling of arrears to official creditors. Without rescheduling of official debt (and deferral of commercial debt), the debt service ratio would be between 35 percent and 40 percent in 1995, and between 10 percent and 15 percent a year in 1996-2000. With rescheduling (and deferrals), the debt service ratio is projected to be 9 percent in 1995, and between 6 percent and 7 percent a year in 1996-2000, provided new capital disbursements are largely in the form of grants and concessional loans.

xxxii. A review of capital requirements and projected disbursements, taking into account expected disbursements from past and some assumed future commitments (e.g., from the World Bank and the E.B.R.D.) indicates financing gaps of around US$90 million in 1995, and of about $40 million in 1996 and 1997. These estimates were made, however, assuming a successful rescheduling of pre-cutoff Paris Club debt. Since rescheduling negotiations had not been finalized when this report was prepared, the estimates presented here are subject to revisions later to take into account the outcome of rescheduling agreements after these are concluded. Providing the needed assistance to Macedonia is an important challenge for the donor community at the present critical juncture in the country's sustained and peaceful transition.

xxxiii. Over the next couple of years, Macedonia will need to <u>strengthen its institutional framework and practices</u> in: (a) the design and implementation of macroeconomic policies; (b) the programming, monitoring and execution of public expenditures; and (c) the coordination and management of external assistance. These three areas will remain among the core economic management functions of the central government even as the state is reoriented from directing to facilitating economic activity.

xxxiv. At present, several central government institutions are involved in the above three areas, with either unclear or split responsibilities and no recognized coordinating entity. This situation could impede effective programming, monitoring and execution of public expenditures and the associated external assistance in the coming years. The former Yugoslav Republic of Macedonia is just starting to build up its public expenditure and external assistance programs, and is well placed to make a sound start. Accordingly, Chapter IV explores the policy, expenditure and aid management issues, and provides recommendations for appropriate action. Initial improvements in the programming of public investment have taken place this year, and a major streamlining of the fragmented aid management arrangements is envisaged in the immediate future.

CHAPTER I: BACKGROUND AND SETTING

Introduction

1.1 After 45 years in the Socialist Federal Republic of Yugoslavia (SFRY), the former Yugoslav Republic of Macedonia held multiparty elections in November 1990 and went on to become a sovereign independent state on September 8, 1991. Soon after, the newly independent country began consolidating its parliamentary democracy and transforming its economy from the old Yugoslav system of Workers' Self-Management[1] towards one organized along market principles. This report discusses the country's transition thus far and suggests some further reforms in economic policies and management. Since this is the Bank's first Economic Memorandum on the former Yugoslav Republic of Macedonia, it begins with background information on the country in the rest of this chapter. Chapter II reviews economic developments since 1990, followed by presentations of reforms being carried out in 1995-96, additional policy proposals and external financing estimates in Chapter III. Finally, Chapter IV examines the institutional framework for economic management and recommends actions to strengthen policy formation, public expenditure management and aid coordination.

1.2 On April 8, 1993, the former Yugoslav Republic of Macedonia became the 181st member of the United Nations (UN). It has also acquired special guest status in the Council of Europe and an observer status in the Organization for Security and Cooperation in Europe (OSCE). To complement its efforts at transforming and developing the economy, the former Yugoslav Republic of Macedonia sought bilateral collaboration with a number of European and non-European countries and, following its admission to the UN, enacted laws to become a successor state to the SFRY in international financial institutions. It was declared a successor to the SFRY in the International Monetary Fund (IMF) on April 21, 1993 (effective December 14, 1992), paving the way for succession to membership in the World Bank Group.

Accession to Bank Group Membership

1.3 The former Yugoslav Republic of Macedonia was declared a member of the IBRD, IDA and IFC on December 30, 1993 (effective February 25, 1993), and a member of MIGA on June 29, 1994 (effective March 19, 1993). In succeeding to membership in the IBRD, the country assumed an agreed portion of the loans the Bank had disbursed to the former Yugoslavia and also undertook to eliminate arrears in the servicing of the loans it assumed. The loans it assumed totaled US$295 million for 21 operations: 12 in infrastructure, 7 for lines of credit in agriculture and industry, and 2 in agricultural development. Of those old loans, nearly US$270 million have been repaid, including US$109 million which had been in arrears and which the former Yugoslav Republic of Macedonia settled early in 1994 under a plan involving: (a) contributions by a Support Group of bilateral donors led by the

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[1] See the next chapter for a description of the Workers' Self-Management system.

Netherlands,[2] (b) drawings from the IMF, (c) use of the country's own foreign exchange reserves, (d) a short-term private loan and (e) a bridge loan arranged by the Central Bank of the Netherlands.

1.4 While the plan for settling arrears to the Bank was being devised, basic country data were collected, and initial computations made, to assign the former Yugoslav Republic of Macedonia to an income category for Bank analytical and operational purposes. According to those computations, refined with additional and more recent data, the former Yugoslav Republic of Macedonia's GNP per capita was US$890 in 1992, US$820 in 1993 and US$790 in 1994.[3] At these levels of income, the former Yugoslav Republic of Macedonia is classified a lower middle-income (LMI) country.[4]

Location and Natural Endowments

1.5 The former Yugoslav Republic of Macedonia is a small, landlocked and largely mountainous country of 25,713 sq km, bordered by four countries: the Federal Republic of Yugoslavia (Serbia/Montenegro) to the north, Bulgaria in the east, Greece to the south and Albania in the west. Only 20% of the country's total area consists of plains less than 1,000 m above sea level, the rest being high plains and plateaus, and mountains, of which there are 16 with peaks exceeding 2,000 m, including ones with famous ski slopes, such as the Sar, Mavrovo, Pelister, Radika and Mount Galicica. The last one, in the south-west corner, straddles Lakes Ohrid and Prespa, the larger of the country's three tectonic lakes; the third tectonic lake, Dojran, is in the south-east corner. There are, in addition, 15 artificial and 25 glacial lakes dotting the country.

1.6 Lake Ohrid, and the town of Ohrid on its shore, have been designated a world heritage by UNESCO for the astonishing beauty of this 349 sq km body of indigo blue water (of which 118.9 sq km belongs to Albania) described by one writer as "a piece of the

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[2] The other donors included Austria, Belgium, Italy, Luxembourg, Sweden, Switzerland, Turkey and the United States.

[3] The per capita income estimates were obtained using a methodology referred to as the "Synthetic Atlas-type Conversion Factor" (SACF) for computing GNP per capita in US dollars. The SACF was designed by Bank staff to enable comparison of incomes per capita of the FSU and other members of the CMEA with those of other economies. The methodology and the results can be found in: (a) Socio-Economic Data Division, International Economics Department, Measuring the Incomes of Economies of the Former Soviet Union, World Bank Policy Research Working Paper, no. 1057 (Washington, D.C.: World Bank, December 1992); (b) Secretary's Department, Estimating Dollar per Capita Income for the States of the Former Soviet Union, Circular SecM 93-589 (Washington, D.C.: World Bank, June 15, 1993). A report describing the method, the data and the results as applied to the former Yugoslav Republic of Macedonia is available upon request from the Bank's Socio-Economic Data Division, International Economics Department or the Country Operations Division, Europe and Central Asia Department I.

[4] By the definition employed in the Bank in 1995, a lower middle-income country is one with a 1993 GNP per capita in the range US$696-US$2,785, calculated using the World Bank Atlas method. See World Bank, Global Economic Prospects and the Developing Countries 1995 (Washington, D.C., April 1995), 95.

Dalmatian Adriatic transplanted into high wooded hills".[5] The picturesque towns located along the lake and the cultural sites and traditions of the region attract many tourists to this area.

1.7 Three major rivers run through the former Yugoslav Republic of Macedonia: the Vardar, commanding a watershed of 20,535 sq km, almost bisects the country in a north-west to south-east direction to empty into the Aegean Sea. The Crn Drim, with a watershed of 3,350 sq km, is close to the western border and the Strumica, with a watershed of 1,535 sq km, runs close to the eastern border to cross into Bulgaria. The Vardar and Strumica valleys have temperate Mediterranean climate, while the interior of the country has a moderate continental climate, with warm dry summers and cold wet winters. The combined influence of the Mediterranean and continental climates over the country leads to insufficient rainfall (500 mm to 700 mm annually), badly distributed throughout the year. Temperatures can vary widely in the plains, with maximum summer temperatures up to 40^{0}C and minimum winter temperatures -30^{0}C. The capital city, Skopje, at 245 m above sea level, has an average summer temperature of 23^{0}C (maximum 38^{0}C) and an average winter temperature of 2^{0}C (minimum -12^{0}C).

1.8 Mineral endowments of the former Yugoslav Republic of Macedonia include energy resources such as lignite (about 1.5 billion tonnes located mostly in the western part of the country), oil shales and geo-thermal reserves (estimated potential: 250 MW, of which 60 MW are currently used). The country produces 2 percent of the world output of lead and zinc, and has small deposits of copper, gold and chromium. In the country's complex geological structure, a variety of stones and clays are available, as for example, marble, travertine, gypsum, quartz, opalite and feldspar. The former Yugoslav Republic of Macedonia also has nearly 950 thousand hectares (equivalent to 37% of the area of the country) of forests providing fuel, construction materials and other means of livelihood for the country's population.

Population and Human Resources

1.9 The former Yugoslav Republic of Macedonia has a multi-ethnic population of around 2 million people, 67% Macedonians, 23% Albanians, and the rest, Turks, Serbs, Rhomas and Vlachs.[6] The long-term rate of growth of population is about 0.9 percent per year, close to the average for Europe and Central Asia (ECA) countries (1 percent p.a.) and half the rate in LMI countries (1.8 percent p.a.).

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[5] Stoyan Pribichevich, Macedonia: Its People and History (University Park: Pennsylvania State University, 1982), 18.

[6] The first results of the latest population census, held on June 20, 1994, gave a count of 1,936,877 persons. The Statistical Office has also indicated that, using the definition of total population strictly similar to previous censuses, gives the 1994 population as 2,075,196 persons. Statistical Office of Macedonia, Census '94 - Data for the Present and the Future: First Results (Skopje, November 14, 1994), pages 3 and 28.

1.10 Partly owing to its relatively low population growth, the former Yugoslav Republic of Macedonia has a favorable age dependency ratio (0.48 in 1991) compared to ECA countries (0.56 in 1992) as well as the LMI countries (0.66 in 1992), despite sizeable past migration of working age population. A 1993 estimate indicated there were 150,000 migrants from the former Yugoslav Republic of Macedonia in the United States; 120,000 in Canada; another 150,000 in various western European countries and over 150,000 in Australia.[7]

1.11 The large majority of the population in the former Yugoslav Republic of Macedonia lives in urban areas. Nearly 55% live in the five large towns[8] of over 100,000 people each; another 25% live in the seven towns of between 50,000 and 100,000 people. At just over 540,000 persons, Skopje makes up 28% of the total population of the country.

1.12 The state of human resources development in the former Yugoslav Republic of Macedonia appears quite favorable against comparator countries in the region and the group of LMI countries, although there are indications of disparities within the country and incidents of earlier gains reversed by, possibly, the economic hardships of recent years. Notwithstanding some disadvantage in health infrastructure,[9] the country compares favorably in relation to life expectancy at birth (72 years, compared to 70 years in ECA and 68 years in LMI countries), child mortality rates (35% of children 1-5 years, compared to 38% in ECA and 59% in LMI countries) and infant mortality rates (in 1991, 29 per thousand live births, compared to 30 in ECA and 45 in LMI countries).

1.13 Infant mortality rates vary significantly, however, between different parts of the country: at around 20 in Strumica in the east and Gevgelija in the south, they are lower than the national average; whereas the rates of 32 at Kriva Palanka in the north, 36 in Debar in the west and 39 in Titov Veles in the center are above the national mean. Skopje with a rate of 30 is close to the national mean. Perhaps pointing to recent economic hardships, the national crude death rate was recorded to have increased, from 6.9 in 1989 to 7.8 in 1992, the level recorded in the early 1970s. Also, infant mortality rates, which had declined virtually each year from 48.7 in 1983 to 29 in 1991, rose to 30.6 in 1992.

1.14 The provision of education is generally well advanced. There is universal coverage of primary education and the primary pupil:teacher ratio of 20 in 1991/92 was superior to the average of 25 in LMI countries. Secondary school enrollment ratio was 36% in 1991/92. This was lower than the LMI average of 55%, but close to the rate in some countries with much higher per capita incomes, e.g., Brazil, Venezuela and Thailand. Tertiary enrollment

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[7] Velko Andreev et al., The Republic of Macedonia, trans. F. Korzenski (Skopje: GIT Goce Delcev, 1993), 119.

[8] Skopje, Tetovo, Kumanovo, Gostivar and Bitola, in descending order of population size.

[9] Population per physician in the former Yugoslav Republic of Macedonia is nearly 400, compared to 378 in ECA; and population per hospital bed is 188, compared to 134 in ECA.

rate in the former Yugoslav Republic of Macedonia was 17% in 1991, very nearly equal the 18% for LMI countries.

1.15 In gender comparisons, the former Yugoslav Republic of Macedonia was close to the average for high-income OECD economies. Thus, in 1991, there were 94 females per 100 males in primary education (compared to 95 in high-income countries) and 97 females per 100 males in secondary education (98 in high-income countries). In employment in the former Yugoslav Republic of Macedonia, women comprised 37% of the labor force in 1992, compared to 38% in the high-income OECD economies.

Economic Base and Heritage

1.16 Although overshadowed in recent years by the difficult process of transition to a market economy, the former Yugoslav Republic of Macedonia possesses a diversified and potentially sound economic base. Nearly half the country, by area, is devoted to agriculture (1.308 million ha in 1992), split, half-and-half again, between cultivated area and pastures. Only about 10% of the cultivated area is irrigated. Two of the country's industrial crops, tobacco and poppy seeds, are of worldwide fame. The tobacco, grown in the plains around the town of Prilep, is used for blending with the Virginia tobacco in brand-name American cigarettes. The opium poppy, grown for medicinal extraction in areas around Kumanovo, Strumica and Gevgelija, is of the highest quality in the world, and is the basis for a prosperous pharmaceutical industry. Both tobacco and poppy seeds, in addition to the above-mentioned horticultural products, continue to be exported to central and western Europe and Japan. The country's pastures provide another major agricultural export, lamb, and also sustain livestock for domestic consumption and use.

1.17 Between 35% to 40% of the area of the former Yugoslav Republic of Macedonia is covered by forests and nature preserves. This rate of coverage is similar to Bulgaria (33%), Croatia (36%), Germany (31%), Norway (31%) and Switzerland (30%). In the former Yugoslav Republic of Macedonia, forests are a source of game and also provide wood, largely for fuel (78% of wood harvested in 1990-92 was used for this purpose), and some timber for the construction and mining industries.

1.18 Industry in the former Yugoslav Republic of Macedonia is the dominant sector, accounting today for about 43% of GSP and 48% of total employment, despite having shrunk a little (from 46% of total output in 1988-90) in recent years with changes in its markets and its domestic policy environment. Past policies of the SFRY had promoted a wide range of vertically integrated, autarkic industries in its constituent republics in a long-range effort at equalizing regional incomes. The less developed regions, of which the former Yugoslav Republic of Macedonia was one, received large direct transfers for industrial investment, on top of subsidized credit, fiscal incentives, preferential allocations of foreign exchange and input supplies, and earmarked markets within the former Yugoslavia and the CMEA countries.

1.19 Consequently, through 1990, the former Yugoslav Republic of Macedonia built up an industrial sector comprising iron and steel, nonferrous metallurgy, buses and motor cars, electrical goods and domestic appliances, paper and paper products, animal feed, chemicals, building materials, furniture, textiles and garments, tobacco, leather goods, rubber, pharmaceuticals, porcelain and enamelware, petroleum refining and food processing. In general, the industries were inefficient, were so diagnosed in past World Bank reports,[10] and are forcing wrenching restructuring as the former Yugoslav Republic of Macedonia attempts to phase out the old policy-induced distortions in its economy.

1.20 The country's economy is supported moderately with basic infrastructure for transport, communications, water supply and power, but these services need to be managed better and developed further with efficient pricing policies and new and more modern facilities. Paved road density in the former Yugoslav Republic of Macedonia (428 km per million persons, in 1993) is below the average for middle-income economies (1,335 km per million persons, in 1990), but the density of its railway network (36 km of track per thousand s km, in 1993) compares favorably to those of Greece (21 km/Th s km) and Turkey (11 km/Th s km) and adequately to that of Portugal (39 km/Th s km). The country is also well advanced in telecommunications; it had 166 telephone main lines per thousand persons in 1993, compared to 81 per thousand persons for middle-income economies in 1990. Per capita energy consumption in the country (1,177 kg of oil equivalent in 1991) is above that in neighboring Albania (421 kg of oil equivalent), but below that in Greece (2,173 kg of oil equivalent) and Bulgaria (2,422 kg of oil equivalent) and also below the average for the LMI countries (1,882 kg of oil equivalent).

1.21 This chapter has provided some background information on the former Yugoslav Republic of Macedonia. This is a small, lower middle-income economy, which became independent four years ago. The following chapter describes the country's economic situation at independence and reviews its principal reforms and performance since that time.

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[10] For instance, two economic reports that were widely published, one in mid-1970 and another in mid-1980. World Bank, Yugoslavia: Development with Decentralization (Baltimore: Johns Hopkins University Press, 1975), 113-151; and World Bank, Yugoslavia: Adjustment Policies and Development Perspectives, A World Bank Country Study (Washington, D.C.: World Bank, 1983), 233-277 and 335-343.

CHAPTER II: RECENT ECONOMIC POLICIES AND PERFORMANCE

A. Policy Environment

Overview

2.1 Since its inception nearly four years ago, the former Yugoslav Republic of Macedonia has been transforming its economic policy regime systematically from socialist to market orientation. The process of transformation, still in progress, has involved widespread changes in the country's institutional as well as incentives frameworks. This chapter highlights some of the more important policy changes implemented during 1990-94 and, to the extent possible with the evolving database, analyzes the principal macroeconomic trends in the same period. The pace of policy reforms was accelerated significantly during the first quarter of 1995 in the context of new stabilization and structural adjustment programs supported, respectively, by the IMF and the World Bank. Some measures taken in 1995 under the new programs are mentioned in this chapter to indicate that progress is under way. But the complete description of those programs is set out in the next chapter.

2.2. During the period reviewed here, in common with other countries undergoing transition to market economies, the former Yugoslav Republic of Macedonia experienced major dislocations in production, employment and social welfare. On top of these, economic management was complicated by external constraints stemming from the regional military conflict and bilateral political differences. The country is persevering, nevertheless, towards its goal of altering the largely inefficient economic policy environment that had been the legacy of its past association with the SFRY.

The Yugoslavian Legacy

2.3. In the 1980s, the former Yugoslav Republic of Macedonia received large federal transfers, which were used to finance current consumption and were invested to develop infrastructure and promote industry in a region where agricultural activities had long dominated the local economy. Like the rest of the SFRY, the country adopted a unique economic system described as "Market Socialism", designed to preserve the socialist orientation of the federation while at the same time avoiding the rigidities of central planning. Under this system of "social ownership", capital was owned by society at large while enterprise governance was entrusted to workers' councils. All important decisions, including personnel appointments, were taken by the councils. The institutional structure of enterprises, with its absence of clear-cut ownership, induced workers to be concerned with increasing employment and the level of wages rather than profits, investment and the preservation or growth of the capital base. Enterprises suffered high and sustained losses, making them dependent on subsidized credit from banks that were owned and controlled by enterprises.

2.4. By the late 1980s, the enterprise system was in deep crisis. Large budget deficits became the norm; and the availability of cheap credit from the banking sector caused high and persistent inflation, coupled with low and stagnant growth. Serious structural problems, which had begun to emerge in the late 1970s, were veiled by large inflows of foreign savings, whose availability, however, was substantially reduced in the early 1980s. Several reform programs were initiated during the 1980s, and though successful at generating surpluses in the current account balance, failed to reduce inflation, stimulate growth and tackle some of the more pressing structural deficiencies of the economy.

2.5. The last attempt at reform was initiated by the SFRY in 1990 and aimed to address microeconomic distortions particularly in the banking sector and at the enterprise level, while taking steps to stabilize the macroeconomic environment. Loss of central government authority, however, precipitated an inflationary crisis as the federal government, starved of resources, resorted to monetary financing. Economic instability further hastened the break-up of the SFRY in 1991 when Slovenia, Croatia and the former Yugoslav Republic of Macedonia declared their independence. The former Yugoslav Republic of Macedonia began to conduct its own economic policy in April 1992, when the Macedonian denar was introduced as legal tender, following the withdrawal of the last Yugoslavian troops. At the outset, however, the conduct of economic policy was immensely constrained by adverse external shocks.

2.6. The former Yugoslav Republic of Macedonia has undergone four main shocks resulting in loss of assets and income over the years it has been in existence. First, annual transfers from the former federal government, totaling 5-10 percent of GSP on a net basis were discontinued. Second, foreign exchange reserves totaling over US$1 billion held at the National Bank of Yugoslavia in Belgrade were lost. Third, valuable export markets were lost with the disbanding of the Council of Mutual Economic Assistance (CMEA), the dissolution of the Yugoslav federation and the economic sanctions imposed by the UN on Serbia and Montenegro, the country's principal commercial partners. Fourth, the unilateral blockade announced by Greece in February 1994, has disrupted trade through the port of Thessaloniki and imposed additional costs, further limiting the export capacity of the country.

Economic Reform

2.7. To expedite the transition and reverse the decline in economic activity, the government of the former Yugoslav Republic of Macedonia introduced a stabilization plan in tandem with a structural adjustment program. The stabilization plan was implemented in 1992 immediately after the introduction of a separate currency. The exchange rate was initially allowed to depreciate and then fixed at the prevailing market rate; wages and public sector prices were frozen; and strict monetary and fiscal policies applied. Inflation was not brought under control, although hyperinflation was halted. Continued credit expansion from the banking system to troubled enterprises, burgeoning government expenditures on social security, and political pressure against tight wage control policies all contributed to undermining the success of the stabilization plan. The government then introduced a second

stabilization plan in early 1994. The plan, which was successfully completed during 1994, was supported by an IMF Systemic Transformation Facility (STF) and involved the reduction of inflation from a monthly 12-15 percent in early 1994 to a level of 2-3 percent in mid-1994. Unlike the previous attempt, the stabilization plan relied heavily on tight credit ceilings to the banking sector, and the use of market based instruments for credit allocation. Other critical components of the plan included wage controls to break the wage-price inflationary spiral, further cuts in government expenditure and tax reforms to increase the revenue base.

2.8. Complementing economic stabilization, a structural adjustment program was adopted, aimed at addressing the wider microeconomic constraints and creating an appropriate framework to favor private sector development, speed up the restructuring of the social enterprise sector and achieve sustainable growth in the long term. The main components of the program were: (i) streamlining and speeding up the privatization process; (ii) strengthening the legal and regulatory environment to suit the emerging market economy, including the introduction of a commercial code; (iii) liberalizing prices and foreign trade; (iv) enhancing mobility in the labor market; and, (v) reforming the enterprise and banking sectors.

2.9. While the Government remained committed to undertake structural reforms, program execution was initially slow, in part because of exhaustive consensus building and practical preparations that were required. As the main accomplishments through 1994, a privatization law was passed and an agency to handle and expedite the privatization process was created in June 1993. Most prices were freed, import tariffs lowered and non-tariff barriers to trade removed. Some reforms were introduced in the enterprise and banking sectors to cap the expansion of credit and hasten the restructuring of the enterprise sector. Labor market reforms were also initiated as were reforms in the social safety net.

2.10. These initial changes set the stage for the deeper enterprise, financial and social sector reforms the government adopted at the outset of 1995, along with a program of additional stabilization measures. The program for 1995 will be described later in Chapter III of this report. At this point, the following sections elaborate the policy measures implemented through 1994 and indicate the impact of those measures on economic outturn in recent years.

B. Recent Economic Developments

Macroeconomic Trends

2.11. Over the period 1990-94, the economy of the former Yugoslav Republic of Macedonia underwent a sustained contraction, leading to sharp falls in per capita income and private consumption. Apart from the fall in output, investment in the former Yugoslav Republic of Macedonia dropped significantly both in absolute terms and as a percentage of

the shrinking output base, as transfers from the former federal Yugoslav government were discontinued and the level of domestic savings declined.

TABLE 1: MACROECONOMIC BALANCES, 1990-94
(percentage of GDP)

	1990	1991	1992	1993	1994 [a]
Foreign Savings					
Current account balance	-7.9	-5.6	-0.8	-3.4	-5.7[e]
Private Sector [b]					
Gross Domestic Investment [c]	--	14.6	10.1	16.8	15.3
National Savings	--	13.3	18.0	26.5	12.5
Investment minus Savings	--	1.3	-7.9	-9.7	2.8
Public Sector					
Gross Domestic Investment [d]	--	0.8	0.9	0.9	2.7
National Savings	--	-3.5	-7.9	-12.3	-0.2
Current Revenues	--	43.8	37.5	39.4	47.3
Current Expenditures	--	47.4	45.4	51.7	47.5
Investment minus Savings	--	4.3	8.8	13.2	2.9
Public and Private					
Gross Domestic Investment	31.9	15.4	10.9	17.6	18.0
Gross National Saving	24.1	9.7	10.1	14.2	12.3
Investment minus Savings	7.9	5.6	0.8	3.4	5.7
Memorandum Item:					
Share of Gross Domestic Investment financed by Foreign Savings	24.7	36.7	7.6	19.3	31.8

a Provisional.

b Includes socially-owned enterprises.

c Includes changes in stock.

d Central Government capital expenditures.

e Adjusted for unrecorded exports.

Source: Statistical Appendix tables 2.1, 3.1 and 5.1.

2.12. Gross domestic investment declined from about 32 percent of GDP in 1990 to around 18 percent in 1993-94. This was a result of the uncertainties facing the economy, especially during 1991-92. In addition, as the crisis in the banking sector intensified, investment decisions became difficult because of high and variable rates of inflation. Investment financed by the central government stagnated below 1 percent of GDP during 1991-93 and only rose to 2.7 percent in 1994 when resource mobilization efforts succeeded in lowering current deficits. Private sector gross investment, including the socially owned enterprises, averaged 14 percent in 1991-94. In the same period, national savings remained well below 25 percent, the estimated long-run savings rate of the economy. This was a result, in part, of declining real incomes over the period and the attempts to maintain real consumption standards.

Output and Employment

2.13. Since independence, the former Yugoslav Republic of Macedonia has experienced a sharp and sustained fall in output. Output declined by a cumulative 40 percent between 1990 and 1994, reducing real GSP to below half 1989 levels. Industry and mining, whose share of GSP averaged 43 percent in 1994 recorded a 42 percent fall in real terms between 1990 and 1994. Heavy industry in particular was disproportionately affected by the loss of secure export markets (in the SFRY and the CMEA area) and the severing of traditional links with sources of supply. The construction sector suffered a complete collapse due to the loss of overseas markets for construction services and the sharp decline in domestic investment. Value added in the sector fell by 46 percent in real terms between 1990 and 1994, in addition to the 21 percent drop in activity over the period 1986-89. Sectors directly affected by regional tensions, such as trade, tourism, transport and communication also contracted in real terms, by 36, 15 and 48 percent, respectively, over 1990-94.

TABLE 2: REAL GROWTH RATES OF GSP AND OTHER INDICATORS, 1990-94
(Annual Percentage Changes)

	1990	1991	1992	1993	1994 [a]	Av. Growth (1990-94)
GDP	-9.7	-9.8	-12.4	-12.0	-5.7	-10.4
Industry and Mining	-13.2	-16.8	-15.7	-14.4	-10.5	-14.6
Agriculture forestry and fishing	-19.4	17.3	0.0	-20.0	7.9	-3.3
Trade	-18.8	-14.7	-19.4	-12.0	-7.6	-14.9
Catering and Tourism	-8.8	-15.4	-9.1	20.0	-8.3	-4.3
Construction	-15.0	-18.6	-14.3	-13.3	-11.5	-14.9
Transport and Communication	-18.9	-19.4	-20.0	-15.0	-11.8	-17.4
Crafts	-4.5	0.0	-23.1	0.0	-10.0	-8.9
Other	0.0	-4.3	-13.6	-10.5	-11.8	-8.7
Total Consumption	10.0	-9.5	-12.3	2.3	-6.6	-4.6
Private	11.6	-10.3	-12.2	2.2	-7.5	-4.7
Public	-5.8	0.0	-14.0	4.0	3.2	-3.5
Gross Investment	-10.8	-21.4	-25.2	-44.5	-4.9	-25.0
Exports GNFS	-31.0	-1.5	0.6	-4.7	8.5	-5.4
Imports GNFS	12.4	-14.5	-13.5	6.5	5.2	-3.4

a Provisional.

Source: Statistical Appendix Tables 2.3 and 2.4.

2.14. The fall in output is yet to be halted or reversed and unemployment rose markedly during 1990-94. Employment in socially owned and mixed enterprises fell from 507,000 to 396,000 between 1990 and 1994. While employment in the private sector nearly doubled from 60,000 to 100,000, it was not sufficient to offset the decline in socially-owned and mixed enterprises. As a result, registered unemployment increased steadily from 17 percent in 1990 to about 20 percent in 1994. This occurred while labor force participation also fell. Of the unemployed, about 50 percent are new entrants to the labor force and a

high proportion have been unemployed for more than 3 years. With the implementation of additional measures announced by the government to deregulate the labor market, unemployment is expected to increase rapidly by as much as 40,000 in 1995 alone.

2.15. The system of wage determination in the former Yugoslav Republic of Macedonia, as in the former SFRY, had produced spiralling inflation as self-managed enterprises granted large nominal wage increases unrelated to changes in productivity. Following monetary independence in April 1992, the Government attempted to break the inflationary trend by freezing wages, after first allowing increases of 25-35 percent. However, this freeze was maintained for only two months. Average real wages increased by 40 percent in the first 9 months of 1993. A new wage control law was introduced in December 1993, and has been more successful than previous measures to restrain nominal wages. The law contained a formula whereby monthly wages in the non-economic sector increased by 2.5 percentage points below targeted inflation, with an additional increase of 50 percent of any unanticipated inflation. For the economic sector, the formula stipulated wage increases 1.5 percentage points below targeted inflation. It is important to sustain this income policy to close the gap that still exists between real wages and labor productivity.

Public Finance

2.16. The public sector in the former Yugoslav Republic of Macedonia consists of the central government, the extrabudgetary funds and local government[11]. Central government comprised the largest share of general government, accounting for over 60 percent of general government revenue and 55 percent of general government expenditure in 1994. Extrabudgetary funds made up about 39 and 44 percent of general government revenue and expenditure, respectively, while local government accounted for less than 1 percent of both general government revenue and expenditure. The major source of revenue for the central government budget in 1994 was tax revenue, contributing 93 percent of central government revenue while non-tax revenue contributed 7 percent. Central government spending covers the various ministries together with expenditures earmarked for schools and autonomous organizations such as cultural centers and research institutes. In 1994, approximately 64,000 people were on central government payroll, of whom 18,000 were direct central government employees.

2.17. Operating outside the central government budget are four extrabudgetary funds: the Pension and Disability Fund, the Health-Care Fund, the Employment Fund and the Road Fund. Numerous other extrabudgetary funds were in existence before the disintegration of the SFRY, but have since been merged with the central budget.

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[11] Social enterprises, unlike traditional public enterprises, are not classified in official accounts as being part of the public sector. These enterprises are not directly controlled by the government and are run independently by workers and appointed managers.

2.18. The Pension and Disability Fund administers pension benefits to enterprise employees and pension entitlements to war veterans, farmers, and former members of the police force. It also covers health insurance for pensioners and benefits to handicapped people. The large part (72 percent in 1994) of the revenues of the Pension Fund come from enterprise payroll contributions, now 20 percent of realized wages; another important source of revenues consists of transfers from the central government (17 percent in 1994).

2.19. The Health Care Fund provides most of the financing for services rendered by autonomously administered health management organizations. Revenues for this fund come primarily from 8.6 percent payroll contributions (71 percent in 1994) and from inter-fund transfers (in 1994, 25 percent from the Pension Fund and 4 percent from the Employment Fund).

2.20. The Employment Fund pays out unemployment benefits to workers for whom payroll contributions were made when they were employed. This fund also provides health insurance coverage for all the registered unemployed. Revenues for the fund come from 1.5 percent payroll contributions (87 percent) and transfers from the central government (13 percent).

2.21. The Road Fund and the Railway Fund are responsible for the construction and maintenance of roads and railway lines. Revenues for these funds come from user fees and from levies on oil products. Until 1993, there was also the Fund for Goods and Reserves, responsible for storing basic foods (e.g., wheat and oil). This fund has been abolished now and its operations integrated into the central government budget. The Road and Railway Fund should also be merged with the central government budget.

2.22. Local government activities are small and confined to the supply of municipal services, including solid waste collection and provision of local public utilities. Revenue is derived primarily from property tax, taxes on real estate income, public utility fees, and 0.3 percent of central sales tax receipts transferred from the central government. Total revenues and expenditures each totaled 0.3 percent of GSP in 1994.

2.23. Responsibility for tax revenue and payroll contribution collection is currently being transferred to the treasury department under the Ministry of Finance. Previously, revenue collection functions were split between the Social Accounting Office (SOK) and the Ministry of Finance with the former responsible for collecting taxes from enterprises, including personal income tax and payroll contributions, and the latter for collecting revenue from self employed individuals and taxes levied by local governments.

TABLE 3: SUMMARY OF GENERAL GOVERNMENT OPERATIONS, 1991-94
(In Percentage of GSP)

	1991	1992	1993	1994 [a]
Total Revenues	34.9	27.4	33.2	41.5
Central Government	18.2	13.8	18.7	25.9
Extrabudgetary Funds	16.4	13.4	14.2	15.3
Pension Fund	7.7	6.6	8.5	9.8
Health-care Fund	3.9	3.3	3.4	4.1
Employment Fund	0.4	0.3	0.5	0.6
Other Funds	4.4	3.2	1.8	0.7
Local Budgets	0.3	0.2	0.3	0.3
Total Expenditure and Net Lending	38.3	33.8	44.3	43.9
Central Government, of which:	18.2	18.2	24.7	24.7
Current Expenditure	17.3	17.5	23.9	22.1
Capital Expenditure	0.6	0.6	0.7	2.2
Extrabudgetary Funds	19.8	15.4	19.4	18.9
Pension Fund	8.1	7.4	11.9	11.3
Health-care Fund	7.0	4.4	5.0	5.4
Employment Fund	0.4	0.4	0.6	0.5
Other Funds	4.4	3.2	1.8	1.7
Local Budgets	0.3	0.2	0.3	0.3
Overall deficit (accrual)	-3.4	-6.4	-11.1	-2.4
Central Government	0.0	-4.4	-6.0	1.2
Extrabudgetary Funds	-3.5	-2.0	-5.1	-3.7
Pension Fund	-0.4	-0.8	-3.4	-1.5
Health-care Fund	-3.1	-1.1	-1.6	-1.3
Employment Fund	0.0	-0.1	-0.1	0.1
Other Funds	0.0	0.0	0.0	-1.0
Memorandum item:				
GSP (Denar Mn, current prices)	1136	16016	71526	146656

a. Provisional.

Source: Stat. Appendix tables 2.1 and 5.1

2.24. The fiscal situation of the former Yugoslav Republic of Macedonia is characterized by a number of difficulties which has compounded the government's task of attaining fiscal balance. In recent years, contraction of economic activity has shrunk the tax base and revenues have been eroded by high inflation and poor tax collection capacity. The economic transition is weighing heavily on the government's budget because of increased social expenditures and costs associated with restructuring ailing social enterprises. Burgeoning government expenditure resulted in worsening fiscal deficits, increasing from 3.4 percent of GSP in 1991, to 6.4 percent in 1992, and 11.1 percent in 1993. Much of the budget gap was financed by accumulation of arrears on domestic and foreign debt. Arrears were also accumulated on agricultural and export subsidies and on certain social transfers (e.g., child

allowances and payments related to the Social Assistance Program). The extrabudgetary funds, notably the Pension Fund and the Employment Fund, also financed part of their deficits by delaying transfer payments. In the context of the 1994 stabilization program, however, the deficit was successfully reduced to 2.4 percent of GSP and payment delays shortened, through a combination of revenue enhancing and expenditure cutting measures.

2.25. The government's revenue enhancement policy introduced in the course of early 1994 focused on a number of tax reforms designed to broaden the tax base and boost annual revenue by an additional 7.3 percent of GSP. This was achieved by reducing exemptions, simplifying and unifying tax rates, and strengthening tax collection through the creation of an internal revenue service (para 2.23). Personal income tax rates were reduced from nine bands to one and a number of tax exemptions eliminated; the number of sales tax rates were reduced from 21 to 3, the general rate fixed at 25 percent with a 5 percent rate applying to food and other essentials, and a rate of 10 percent applying to most services; sales taxes on imports were to be collected upon entry rather than at the point of sale; and excise duties were raised on petrochemical products, alcohol, cigarettes and automobiles. These measures were successful in raising tax revenue from 16.4 percent of GSP in 1993 to 24.2 percent in 1994.

2.26. Following various reforms in the social security system, revenue of extrabudgetary funds also rose in 1994. Increases in payroll contributions to the Employment Fund, from 0.8 to 1.5 percent of gross wages, and to the Pension Fund, from 18 to 20 percent of gross wages, together with measures to ensure greater compliance have raised revenue significantly. Pension fund revenues increased from 7.7 percent of GSP in 1992, to 8.5 percent in 1993 and 9.8 percent in 1994. Employment fund revenues remained stagnant over 1992-93 at 0.4 percent of GSP, increasing marginally to 0.6 percent in 1994. The relatively small change was due to increased unemployment and, possibly higher evasion by the informal private sector. In aggregate terms, revenue from extrabudgetary funds, which averaged about 13.8 percent of GSP in 1992-93, rose to 15.3 percent in 1994.

2.27. The former Yugoslav Republic of Macedonia clearly made an extraordinary effort at raising general government revenues during 1994 and is maintaining this effort during 1995. While this has helped to cut fiscal deficits dramatically, it should be pointed out that the general government by now captures a substantial portion of the country's gross social product (see Table 3 above). At around 40 percent, the revenue to GSP ratio is undoubtedly burdensome. From hereon, therefore, fiscal policy ought to stress expenditure reduction as a major means to eliminating public sector deficits, and eventual reduction in taxation.

***TABLE 4:* COMPOSITION OF CENTRAL GOVERNMENT REVENUE, 1991-94**
(Percent of total revenue)

	1991	1992	1993	1994
Total Revenue	100.0	100.0	100.0	100.0
Tax Revenue	94.7	97.2	87.6	93.4
Personal income tax	30.4	32.9	31.6	24.1
Profit tax	4.3	8.4	4.3	6.2
Sales tax	47.3	40.8	34.3	18.3
Excises	0.0	0.0	0.0	29.6
Import duties	11.6	14.0	15.2	15.2
Other taxes	1.0	1.2	2.2	0.0
Non-tax revenue	5.3	2.8	12.4	6.6
Memorandum item:				
Total Revenues (Denar Mn.)	207	2214	13411	37993

Sources: Statistical appendix table 5.2.

2.28. The rise in general government expenditure, from 38.3 percent of GSP in 1991 to 44.3 percent in 1993 prompted the government in early 1994 to announce a program of restraining expenditure growth. This included a 50 percent reduction in agricultural subsidies for exports, fertilizers and seeds. A public sector wage freeze limited wage increases to 22 percent (18 percent lower in real terms than 1993 levels) and discretionary expenditures, particularly health and education services were cut. Current expenditures declined from nearly 24 percent of GSP in 1993 (after experiencing 3 years of growth) to 22.1 percent in 1994. Increases in capital expenditures, from 0.7 percent in 1993 to 2.4 percent of GSP in 1994, however, more than compensated for the fall in current expenditures, maintaining central government expenditure at 24.7 percent of GSP in 1994.

2.29. Until very recently, the government policy of containing and prioritizing spending had not been applied to extrabudgetary funds. Since 1991, social expenditures have grown rapidly as a result of worsening economic conditions. Over 50 percent of general government spending in 1993-94 was earmarked for the social sectors, of which nearly two-thirds was on social security and welfare, about a fifth on education and a fifth on health services. The bulk of social spending (excluding education) is derived from extrabudgetary funds whose revenues have been unable to cover expenditures. The gap between expenditures and revenues, much of it financed from the central government budget, however, declined from over 5 percent of GSP in 1993 to roughly 3.5 percent in 1994, as structural reforms (particularly in the pension system) were gradually implemented in 1994. This gap is still large, however, and cannot be sustained. In recognition of this issue, the government is committed to implement more reforms of extrabudgetary operations in the short to medium term, as elaborated in the next chapter.

Money and Banking

2.30. The financial system of the former Yugoslav Republic of Macedonia is relatively simple and recognizably similar to systems prevailing in market economies. It consists of the National Bank of Macedonia (the country's central bank), independently run commercial banks and the Postal Savings Bank. The National Bank of Macedonia is responsible for maintaining the stability of the national currency--it controls the money supply and supervises the banking system.

2.31. Banks dominate the financial system with other financial institutions having a limited role. Capital markets are non existent and the only securities are non-tradable bonds issued by the central bank and, until the end of 1993, compulsorily held by commercial banks at below market rate yields. Through 1994, the banking sector was extremely concentrated, with four commercial banks accounting for 95 percent of the sector's balance sheet. In total, about 25 banks are in operation, of which 15 were established since the country attained independence. About 10 of these are private banks, many joint-ventures between local investors and foreign banks. Stopanska Banka was by far the largest bank, controlling 65 percent of deposits and having the widest geographic coverage with its 24 branches. Other prominent banks included the Bank for Foreign Trade (BNT),[12] Komercijalna Banka whose majority ownership is private, and Ljubljanska Makedonska Banka. Interbank payments, including payments with the National Bank are settled through the Bureau of Payment (previously handled by the SOK) where cheques and payment orders are cleared efficiently.

2.32. Monetary developments during 1991-1994 saw growth in broad money supply decline from over 3300 percent in 1992 to 270 percent in 1993 and 13 percent in 1994 as tough anti-inflationary policies gained momentum. During 1992, liquidity growth increased at a higher rate than nominal GSP, increasing the ratio of broad money to GSP from 37 percent in 1991 to 90 percent in 1992. The ratio declined thereafter to 75 percent in 1993 and 42 percent in 1994.

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[12] BNT was forced by the National Bank of Macedonia to cease operation in December 1993 because of its illiquidity and insolvency.

TABLE 5: MONETARY SURVEY, 1991-94
(In millions of denars, end of year)

	1991	1992	1993	1994 [a]
Broad Money (M3)	420	14,584	53,921	61,111
Money Supply (M1)	225	1,807	6,140	11,946
Quasi-Money	154	5,660	22,126	21,051
Nonmonetary Deposits	41	7,117	25,655	28,096
Net Foreign Assets	(162)	(11,609)	(13,591)	(6,010)
Net Domestic Credit	435	9,453	45,169	76,080
Government	--	--	11,594	10,836
Social and Private Sectors	--	--	33,575	65,244
Other Domestic Assets (Net)	147	16,741	22,343	(8,959)
Offsets to Expansion of Broad Money		(Percentages)		
Net Foreign Assets	-39	-80	-25	-10
Net Domestic Credit	104	65	84	124
Other Domestic Assets (Net)	35	115	41	-15

a Provisional

Source: Statistical appendix 6.1.

2.33. The task of reducing money growth and attaining monetary stability has been complicated by the relatively unsophisticated monetary management instruments available to the National Bank. Until their abolition at the end of March 1994, the rediscounting of selective credits was the main vehicle for liquidity injection in the economy. Banks could refinance credits to enterprises at the prevailing discount rate which was determined by the National Bank. Market based instruments (auctions of National Bank bills and deposits) have since been introduced but credit increases continue to be limited by the imposition of tight credit ceilings.

2.34. Notwithstanding the rudimentary nature of monetary instruments, significant progress has occurred towards stabilizing the economy. The conduct of monetary policy changed markedly last year when refinancing of selective credits by the NBM was abolished. Previously, the automatic refinancing of commercial bank credits had undermined attempts at financial stabilization. With the abolition of selective credits the focus of monetary policy was able to shift away from sectoral support and toward inflation control. From 1994, the financial program recognized reserve money of the NBM as the primary intermediate target of monetary policy. Monthly reserve money targets were set on the basis of assumptions about velocity, but movements in the exchange rate were also monitored as an ongoing indication of the appropriateness of these assumptions and, ultimately, of the monetary stance. In particular, a tendency of the exchange rate to depreciate was interpreted as an early indication that monetary policy was too lax, and that reserve money should be reduced below its target level.

Prices

2.35. Most prices in the former Yugoslav Republic of Macedonia are determined freely. The country inherited a price system from the former Yugoslavia based largely on principles of a free market economy. Worsening economic circumstances and accelerating inflation in the early 1990s, had prompted the former Yugoslav federal government to institute a price freeze on a wide range of goods and services. At the time of independence, price controls in the former Yugoslav Republic of Macedonia covered approximately 40 percent of items in the retail price index. Within the framework of the structural adjustment program the government has removed a variety of price controls. In late 1994, direct price controls covered 19 percent of items included in the retail price index, down from 22 percent in 1993 and 24 percent in 1992. At present, price controls cover mainly public utilities. Items not subject to direct price controls, but closely monitored by the government include milk, heating, urban transport, and automobile insurance.

TABLE 6: CHANGES IN COST OF LIVING, 1990-94
(Percentage change over preceding year)

	1990	1991	1992	1993	1994
Total	596.6	110.8	1511.3	362.0	128.3
Goods	568.2	106.5	1632.0	338.4	118.8
Food	540.1	104.5	1593.0	345.8	--
Tobacco and Beverage	540.3	105.6	1649.9	335.0	--
Clothing and Footwear	572.8	77.8	1945.0	321.1	--
Housing	676.9	110.4	1180.5	443.4	--
Services	857.3	137.8	835.0	579.7	186.9

Source: Statistical appendix table 9.2

2.36. Inflation has declined steadily since the establishment of monetary independence in April 1992. Conditions of hyperinflation were brought to a halt and inflation was reduced drastically from a monthly peak of 80 percent in early 1992, to an average of 20 percent subsequent to the introduction of the stabilization plan in April 1992. Inflation during the second half of 1992 and through 1993, however, remained high and variable, reaching a monthly peak of 30 percent in early 1993. As described above, the relatively loose monetary policy, together with the absence of a credible incomes policy undermined the foundations of the first stabilization plan. In 1994, after the implementation of the second stabilization program, monthly inflation fell from 22 percent in January to 2 percent in March and remained around that level for the rest of the year. Apart from the tighter monetary stance adopted by the NBM, stability was enhanced by the increased supply of goods, primarily imports for general consumption, greater humanitarian and economic assistance, increased supply of domestic agricultural products and exchange rate stability. Unlike other economies in transition, price reform and liberalization have not constrained the government's ability to substantially reduce inflation.

Trade and Balance of Payments

2.37. Exports from the former Yugoslav Republic of Macedonia have typically comprised semi-processed manufactured goods, such as ferrous metal components, iron, steel and textiles and consumer manufactures, primarily footwear and clothing. Merchandise exports averaged US$1.2 billion per year in 1992-94. Consumer goods (food, beverage and tobacco) accounted for 22 percent of the value of goods exported in 1992-94; minerals and manufactures were close to 65 percent; and the rest, 12 percent, were machinery and capital goods. The loss of export markets in eastern Europe and the Middle east has been largely responsible for the disproportionate fall in manufactured exports while exports of food have risen as markets in western Europe gained greater importance.

2.38. The changing external environment and the trade reforms initiated by the SFRY and carried through by the former Yugoslav Republic of Macedonia have drastically altered the composition of imports in recent years. Total merchandise imports averaged US$1.39 billion during 1992-94; of that total, consumer goods accounted for roughly 20 percent; minerals and manufactures for roughly 65 percent; and capital goods for 15 percent. This contrasts with import shares of 6-8 percent for consumer goods, over 80 percent for minerals and manufactures and 12 percent for capital goods in the late 1980s.

2.39. Currently, most trade barriers have been removed and 90-95 percent of goods of various categories are freely traded. Tariffs are low, averaging 10 percent and ranging from 0-25 percent with a large number of zero-rated items. Restrictions continue to apply mainly on agricultural and metal products, which are subject to higher import tariffs. Further reduction in formal and informal trade barriers are envisaged by the government when the tariff code and outstanding restrictions are reviewed.

2.40. Under the SFRY, the former Yugoslav Republic of Macedonia experienced significant current account deficits with countries outside the federation, estimated at around 6 percent of GSP over 1986-90. During 1990 to 1991, the current account balance deteriorated markedly, to over 20 percent of GSP, as a result of trade liberalization and a consumption boom prevailing in the SFRY. The external deficit was largely financed by federal government transfers amounting to 5-6 percent of GSP and through access to central bank credits. Trade with other republics in the SFRY, on the other hand, was roughly balanced and recorded a modest surplus during the late 1980s.

2.41. The external situation described earlier (para 2.6) has significantly influenced the trading relations of the former Yugoslav Republic of Macedonia. Lack of finance forcibly reduced the country's current account deficit to 0.8 percent of GSP in 1992. The steep fall was due largely to the decline of imports (by over 30 percent in real terms) from outside the former SFRY. In 1992, total imports of goods and non factor services were US$1.23 billion, down from US$1.63 billion in 1990. During 1993 imports rose marginally to US$1.3 billion, increasing to US$1.64 billion in 1994. Export earnings averaged US$1.2 billion per year during 1990-94, even though "domestic markets" in the former SFRY and

secure markets in the CMEA trading area were lost. Volumes of exportable commodities to non-traditional export destinations have increased and appear to have compensated for the loss of traditional markets and the additional transit costs associated with the Greek blockade. Notwithstanding the decline in imports during 1992-93, the government has found it increasingly hard to finance the current account deficit and make capital repayments on past loans. Consequently, large payment arrears were accumulated on foreign debt.

TABLE 7: BALANCE OF PAYMENTS, 1990-94
(US$Million)

	1990	1991	1992	1993	1994[a]
Exports of Goods & NFS	1192	1200	1259	1138	1226
Merchandize (FOB)	1113	1150	1199	1055	1050
Non-Factor Services	79	50	60	83	176
Imports of Goods & NFS	1630	1402	1236	1298	1638
Merchandize (FOB)	1531	1375	1206	1227	1483
Non-Factor Services	99	27	30	71	155
Resource Balance	-438	-202	23	-160	-412
Net Factor Income	-55	-29	-72	-75	-95
Net Current Transfers	84	-28	30	119	137
Curr A/C Bal Before Off. Grants	-409	-259	-19	-116	-370
Net Official Grants	0	0	0	28	43
Curr A/C Bal After Off. Grants	-409	-259	-19	-88	-327
Capital Account	-51	-206	-162	15	-18
Medium- and Long-Term Capital	-61	-107	-96	-2	-89
Direct Investment	0	0	0	0	5
Disbursements	60	14	9	57	112
Amortization	121	121	105	59	96
Repayments of Arrears	0	0	0	0	110
Net Short-Term Capital	10	-99	-66	17	71
Errors and Omissions	444	424	87	61	218
Overall Balance	-16	-41	-94	-12	-127
Financing	16	41	94	12	127
Changes in Net Foreign Assets	0	0	-61	-60	-29
Assets	0	0	-60	-60	-46
IMF	0	0	-1	0	17
Arrears	16	41	155	72	156

a Provisional.

Source: Statistical appendix table 3.1.

External Capital Flows and Debt

2.42. After breaking from the SFRY, the former Yugoslav Republic of Macedonia was compelled to suspend servicing external debt because of its precarious balance of payments

and reserves positions, and because of the difficulties in allocating external liabilities of the SFRY among the individual republics. Then, during 1993, the former Yugoslav Republic of Macedonia resumed payments to the IMF, and began making current payments to the IBRD after agreements were reached on apportioning part of the debt of the SFRY among the republics according to the residency of the original borrower. By this criterion, the former Yugoslav Republic of Macedonia also accepted some debt owed to other official and private creditors. Arrears to the IBRD were cleared early in 1994, and arrangements to settle those of the IFC were agreed on in April 1995. But arrears continued to accumulate against other official and private creditors.

TABLE 8: EXTERNAL DEBT AND DEBT INDICATORS, 1990-94
(US$Million)

	1990	1991	1992	1993	1994 [a]
Total Debt Stock [b]	827.5	806.4	842.1	1080.0	1107.3
of which: Arrears	42.0	73.0	206.0	410.0	460.0
Debt Service Accrued	174.2	126.1	167.4	95.0	309.8
Debt Service Paid	158.2	85.1	12.4	23.0	153.9
		(Percentages)			
Debt-to-GDP Ratio	15.7	17.5	36.6	40.0	37.3
Debt-to-Exports Ratio	60.8	66.1	66.6	93.2	88.3
Debt Service Ratios					
Accrual Basis	12.8	10.3	13.2	8.2	24.7
Cash Basis	11.6	7.0	1.0	2.0	12.3
Memorandum Items:					
GDP (US$ mn) [c]	5256.1	4617.3	2300.3	2698.0	2971.1
Exports G&S (US$ mn) [d]	1360.5	1220.3	1263.8	1158.9	1254.5

a Estimate.

b Includes public and publicly guaranteed debt, private nonguaranteed debt, and use of all IMF credits. Data before 1993 do not include disputed and/or unallocated debt.

c GDP values are Bank staff estimates obtained by adjusting GSP values for overestimation of stock values and then including value added of sectors not included in GSP.

d Exports of goods and services, including workers' remittances.

Sources: Statistical Appendix Tables 3.1, 4.1; NBM; and Bank staff estimates.

2.43. At the end of 1994, the country's external debt amounted to US$1,107 million, of which, US$460 million (42 percent of the stock) represented arrears built up since 1990. The total stock of debt included a portion of the so-called unallocated debt of the former SFRY and also liabilities that the former Federal Government had taken on under a special law in 1989. Until very recently, the Government of the former Yugoslav Republic of Macedonia had declined to assume any portion of this debt. It has now accepted, as an interim solution, a portion of the unallocated debt and the relevant debt under the 1989 law. In doing so, however, the Government of the former Yugoslav Republic of Macedonia made

a very difficult choice because of the absence, as yet, of an agreement on the division of the foreign assets of the former SFRY.

TABLE 9: COMPOSITION OF EXTERNAL DEBT OUTSTANDING AT THE END OF 1994

	US$ MN	% of Total
Official Creditors	559.4	50.5
Multilaterals, of which:	233.7	21.1
IBRD	91.0	8.2
IDA	42.3	3.8
Bilaterals, of which:	325.7	29.4
Paris Club pre-cut-off [b]	251.7	22.7
Paris Club post-cut-off	74.0	6.7
Private Creditors	547.9	49.5
Suppliers [c]	73.6	6.6
Commercial Banks	474.3	42.8
Total	1107.3	100.0

a Includes working assumption about the country's share of the unallocated debt of the the former SFRY, and includes estimated interest on arrears.

b i.e., pre-1982, the cut-off date in the last rescheduling accorded the former SFRY.

c Includes EUROFIMA.

Sources: Statistical Appendix Table 4.1, NBM, and Bank staff estimates.

2.44. Although the stock of debt grew between 1990 and 1994, it still equalled a manageable 37 percent of GDP and 88 percent of exports of goods and all services at the end of 1994. By these indicators, the former Yugoslav Republic of Macedonia appears only moderately indebted. The difficulty it faced then was essentially a liquidity problem, which grew as arrears mounted. It was in view of the tight liquidity position that the former Yugoslav Republic of Macedonia sought a rescheduling arrangement with its Paris Club creditors in mid-1995. Such an arrangement would enable the country to begin normalizing relations with external creditors and hence obtain support for its reform program which, among other objectives, is also intended to preserve an open and liberal exchange and trade system.

Summary of Achievements

2.45. After a financially chaotic separation from the SFRY, attempts to stabilize the economy of the former Yugoslav Republic of Macedonia largely failed in 1992-93. In 1994, however, the government implemented strict budgetary discipline and conducted strong incomes and monetary policies to turn the economy back from the brink of hyperinflation. At the same time, payment delays on government expenditures were shortened, wage increases came under some control, and foreign exchange inflows from private remittances and regional trade improved the country's reserve position. External payments, however,

were not completely normalized. The country became current in servicing its debts to the IMF and the IBRD, and reached agreement to settle arrears with the IFC; but arrears to other creditors persisted, in part owing to the precarious assets position during most of 1990-94 and, in part, owing to the legal and accounting difficulties of identifying and agreeing to various liabilities of the country.

2.46. There were major dislocations in production, employment and social welfare between 1990 and 1994 in the process of transition from a planned to a market economy. This process is still going on, but there were indications of some recovery in imports and capital formation during 1994. Notwithstanding the hardships associated with the transition and the series of adverse external shocks, the government enacted basic laws in 1993-94 to begin adjusting the enterprise, financial and social sectors. It also established the institutional machinery--the Bank Rehabilitation Agency and the Privatization Agency--necessary to effect structural changes.

TABLE 10: KEY ECONOMIC VARIABLES, 1990-94

	1990	1991	1992	1993	1994
Incentive Indicators					
Real Effective Exchange Rate					
Index (1990=100)[a]	100	110.5	66.3	89.5	106.5
Annual Change	..	10.5%	-40.0%	35.0%	19.0%
Real Interest Rates					
Short Term Deposit Rate	..	-13	-62	-5	-21
Short Term Lending Rate	..	24	-22	27	4
Index of Real Wages					
Net Personal Income Index (1990=100)	100	87.4	58.7	75.6	68.5
External Trade Indicators					
Manufactured Exports					
Real Growth Rate	..	-0.9%	-11.7%	-12.1%	-8.9%
Value as a Share of Total Exports	42.1%	41.1%	37.3%	38.8%	38.1%
Commodity Terms of Trade					
Index (1990=100)	100.0	103.1	103.6	104.8	103.0
Annual Change	..	3.1%	0.5%	1.2%	-1.7%

a An increase in the index represents an appreciation.
Source: Statistical appendix tables 2.3, 2.4, 3.2, 6.2, 6.3, 9.3, IMF and Bank staff estimates.

2.47. As elaborated in the next chapter, structural reforms gathered pace during the first quarter of 1995. In the coming years, it will be important to maintain this pace and to buttress the reforms with clear incentives for efficient mobilization and allocation of resources in the economy. The need to strengthen such incentives is argued in the following chapter, together with other policy issues for the medium term.

CHAPTER III: MEDIUM-TERM PROSPECTS

Introduction

3.1. This chapter first describes the stabilization and structural reform programs under way for 1995-96, and follows with suggestions for various measures to complement the ongoing reforms. The chapter then presents projections of macroeconomic and balance of payments for the medium term, and provides estimates of external capital commitments needed to meet the country's financing requirements in 1995-97.

3.2. As yet, the former Yugoslav Republic of Macedonia has only a small pipeline of undisbursed commitments of capital assistance. Commitments therefore will need to be built up in these early years to provide sufficient future disbursements for the country to implement its development projects and finance structural adjustments being carried out in the reform program for 1995-96.

Economic Reforms in 1995-96

3.3. The country's reforms in 1995-96 seek to accelerate the process of financial stabilization and to enhance structural adjustments, especially in the enterprise, banking and social sectors. The main objectives of the stabilization program are to achieve further reductions in inflation and build up foreign reserves. The program's anti-inflationary thrust will rely on tight monetary policy, strict budgetary discipline and wage control, along the lines of policies implemented during 1994. Important objectives of fiscal policy in 1995 include the elimination of outstanding central government arrears, avoiding recourse by public sector entities to the banking system, and the balancing of current revenues and expenditures of the Pension Fund.

3.4. Structural adjustments in the enterprise sector are being governed by the Privatization Law of 1993 and procedural improvements--e.g., for valuation and sales--adopted most recently to expedite the divestiture of socially-owned enterprises. Over the next year or so, the Privatization Agency will have overseen divestiture of 791 enterprises (45 of them large, 141 medium and 605 small units) out of around 1,200 socially-owned enterprises in the country. The Government is concerned, however, that the privatization process involves potentially very difficult social and political issues, especially when it comes to downsizing and restructuring some of the larger socially-owned enterprises. It has, therefore, devised suitable means under its Special Restructuring Program (SRP) for dealing with such large firms, and has identified sufficient resources to alleviate the anticipated social costs of enterprise reforms.

3.5. The SRP is to restructure 23 of the largest loss-making enterprises and the two largest utilities (power and railways), accounting for about 55 percent of total losses in the enterprise sector and 20 percent of registered employment. All of these enterprises have been prohibited from borrowing from the banking system, except for fully collateralized short-

term trade credits. They have also been required to implement detailed restructuring programs, including plans for shedding surplus labor, spinning off non-core businesses and liquidating non-viable units. A total of about one-third of the workforce at these enterprises--16,500 persons--is expected to be laid off by the end of 1995. Enterprises failing to complete their approved restructuring measures within a year are to be placed in bankruptcy. The utility companies are to be allowed to increase their tariffs in stages, but only in conjunction with the introduction of cost-cutting measures.

3.6. The Government is simultaneously moving to put in place the legislative and regulatory framework to ensure proper functioning of a market economy. To that end, Parliament has approved legislation governing securities, concessions, banks and savings institutions, accounting and financial standards, labor relations, foreign investment, and customs. In addition, the first reading of a new Commercial Code has taken place in Parliament, a new Bankruptcy Code has been prepared, and Laws on Denationalization and Restitution and on the Governance of Public Enterprises have been drafted. These are all expected to be enacted by the end of 1995.

3.7. Banking reform began with audits of all major banks and the establishment of a Bank Rehabilitation Agency (BRA). The bank rehabilitation program now will seek to: (a) safeguard liquidity in the troubled banks, (b) ensure that banks do not extend further bad loans before adequate private control can be established, (c) eventually liquidate or completely recapitalize and privatize these banks, and (d) promote competitiveness by eliminating the dominance of Stopanska Banka, the largest institution in the banking system.

3.8. Stopanska Banka, comprising 65 percent of the deposit base, is already undergoing restructuring. The non-performing loans of this bank have been transferred to the BRA and replaced by government bonds. In addition, Stopanska Banka has been split into six separate successor banks. The successor banks that were spun off from the core Stopanska Banka have been privatized through management buy-outs while representatives of the BRA and the National Bank have been placed on the governing board of the core bank. The recapitalization and privatization of at least 51 percent of the core bank is to be completed by the end of 1995 or early in 1996. The Bank for Foreign Trade, comprising 15 percent of the deposit base, has been closed and the process of its liquidation begun. This bank will be run as a depository until such time as its assets can be distributed to creditors.

3.9. The reform of the social safety net aims to: facilitate labor adjustment through appropriate income support and development of active labor market services; restructure incentives under social assistance programs; and improve the short- and long-term financial sustainability of social insurance. To facilitate labor adjustment, first, the relevant regulations have been altered to reduce advance notification of termination to one month for individual and small-scale layoffs, and to three months for large-scale layoffs. Second, as noted above, the Government has provided severance pay from the budget to redundant workers involved in the SRP. Third, the Government will contribute to a fund for labor adjustment services, including counseling, placement, small business development and retraining.

3.10. An important element of the social assistance program, the program for the Protection of the Socially Endangered Population (PSEP) was recently reformed to equalize benefits under a uniform schedule of means-tested income support payments open to all families. The prior program provided benefits only to workers, pensioners and persons registered as unemployed. Consequently, it had discouraged necessary layoffs and the launching and registration of private sector activities. The Government intends to further refine the PSEP to introduce, during 1996, a new social protection scale (adjusted for household size and urban/rural cost of living differentials) based on construction of a poverty line rather than on average wages.

3.11. In social insurance, the Government has adopted measures to balance the current financial flows of the Pension Fund in 1995. In the short run, it will reform the benefits structure and eligibility requirements, attempting, at the same time, to protect low-income pensioners by avoiding further erosion of minimum pensions in real terms. Efforts are also under way now to improve the medium- to long-term financial viability of the Pension Fund. These efforts include strengthening registration and compliance with the payroll tax among the growing private sector in order to improve revenue collection, and developing a permanent capability for actuarial modeling, which will allow continual, incremental adjustment of pension policies to take into account changing demographic and economic parameters.

3.12. The stabilization and reform agenda described above, in addition to the measures presented in Chapter II, are commendable policy initiatives to induce an economic recovery of the former Yugoslav Republic of Macedonia over the medium term. But, to ensure such recovery, the Government will need to go beyond that to address other policy issues, such as the course of real wages in the economy, completion of trade reforms, phasing out agricultural price interventions, domestic resource mobilization, further financial sector and pension reforms, and environmental management.[13] These remaining policy issues are elaborated below.

Remaining Policy Issues

3.13. Considering real wages first, the country inherited an enterprise system wherein employees had strong incentives to raise their own real earnings and, presumably, to limit employment so as not to share the income stream from the assets of the largely socially-owned firms. While circumstances and policy in recent years forced a reduction of real wages, it is not clear that the reductions have been sufficiently in line with the loss of transfers from the former federal center. Nor is it clear if real wages now are at levels that could reduce the substantial unemployment in the country. Compared at least to labor productivity in industry, real wages were still high at the end of 1994. Also, the base wage

[13] This is by no means an exhaustive list; rather, it represents matters arising from reviews, works in progress and dialogue being pursued by Bank staff. Thus this agenda of further policy reforms is likely to be refined and to evolve further.

in the former Yugoslav Republic of Macedonia (US$250 per month at the end of 1994) was more than twice that in Bulgarian state enterprises (US$95 per month), and five to 10 times more than in Albania, Belarus, Ukraine or Moldova (US$25 to US$50 per month in those countries).

3.14. Among other effects, the high real wages in the former Yugoslav Republic of Macedonia were also reflected in the high real appreciation of the denar in terms of unit labor costs for two years running, in 1993 and 1994. The real appreciation of the denar did stabilize in mid-1994 as the implementation of the Wage Control Law took hold, showing that the central challenge for policy now would be to ensure that real wages remain flexible. If real wages were to exceed productivity for long, the profitability of many firms and the country's export competitiveness would be eroded. This indeed would be unfortunate for the country's very survival in the long term depends on enhancing, not eroding, its prospects for trade creation.

3.15. Another issue would be to complete the rationalization of trade policy. While it has removed outright quantitative restrictions, the former Yugoslav Republic of Macedonia still maintains seasonal quotas, albeit auctioned, on the exports of about 130 products to ensure sufficient supplies locally, and on imports of 120 food, raw materials and industrial products to protect domestic producers. These quotas need to be removed for the trade regime to provide appropriately efficient signals to producers, especially in agriculture.

3.16. Agricultural policy, moreover, remains complicated by selective special import levies (on wheat, wheat flour, milk and cheese), reference prices and production and credit subsidies directed mainly at wheat, sunflower seeds, sugarbeet, rapeseed oil and fluid milk. Export taxes have also been proposed for wine, lamb and fruit and vegetables, but have not yet been accepted. At the same time there is a 4 percent export subsidy on lamb and grapes/wine and 3.2 percent on fruits and vegetables. The instrument applied most effectively appears to be the special levy. These levies are set at levels which ensure that processors and distributors take up all domestic production before importing.

3.17. Wheat provides a good example. There is a low 5 per cent tariff on wheat imports; but then, a special levy of US$162/MT is imposed to bring the cost of imported wheat close to the desired local farmgate price (US$324/MT in 1994). The special levy on flour imports at US$310/MT ensures that local mills will import wheat rather than flour. In 1994, the net effect of such policies was to maintain the farmgate price of wheat at more than twice the average import price (US$ 135/ton), and five times the September 1994 price of Bulgarian wheat.

3.18. The main, though not the sole, beneficiaries of the protection and the variety of subsidies seem to be the socially-owned enterprises in the sector. These enterprises, also referred to as agro-kombinats, farm about 30 percent of the arable land and account for about 25 percent of total production, but have dominated marketing and processing and currently account for about 55 percent of marketed surplus. There are about 217 agro-kombinats, 121 food processing enterprises and 6 animal feed enterprises. Agro-kombinats have been and

remain important purchasers of privately grown wheat, milk, lamb and grapes for wine. They are the only purchasers of oilseeds, sugarbeet and tobacco, but buy only a small proportion of fruit and vegetables, forage, maize, pigs and cattle. The agro-kombinats used to dominate the supply of seed, fertilizer and pesticides, but this pattern has started to change, with the retail distribution of vegetable seed, fertilizer and pesticides moving toward the private sector over the last three years, prompted by the withdrawal of subsidized input credits through the extension service.

3.19. Privatization of the agro-kombinats has the potential to foster competition in input supply, marketing and processing and thus reduce costs. This can proceed only after passage of the draft Law on Denationalization scheduled for consideration by the end of 1995. The enactment of this draft law on schedule and the removal of the above-mentioned price interventions will be important requisites to encouraging efficient investments and growth in the medium to long term.

3.20. To finance investment requirements, the country must also induce domestic savings, which declined in recent years as output and employment dropped. Savings also could not grow when real deposit rates remained negative. Monetary policy, therefore, will need to foster competition among banks to make savings attractive to the private sector. The public sector too, will need to raise its savings. It would be more efficient to mobilize public savings by containing current spending since the ratio of public revenues to GDP is already very high in the country. Specialist studies, notably by the IMF, have indicated there is scope for further reductions in agricultural and export subsidies, pensions and public sector employment.

3.21. Government will also need to focus soon on actions to follow up the ongoing enterprise and financial sector adjustment program. The enterprise reform program, when completed, will have privatized two-thirds of the socially-owned enterprises slated for privatization, initiated the privatization or liquidation of the 23 industrial and agro-industrial enterprises included in the SRP, put the 2 SRP utilities on sounder financial footing, and established the main elements of the legal framework for the efficient workings of the private sector.

3.22. Of the 400 socially owned enterprises that remain to be privatized, many would be less attractive to private investors. Some of them will need to be closed down. Since these enterprises might not be able to afford severance payments and unemployment benefits, the Government might have to step in to facilitate their closure.

3.23. The privatization or liquidation of the 23 SRP enterprises must be pursued to completion beyond 1995-96. Here again, worker lay-offs and the attendant costs will have to be provided for. With regard to the two utilities and other utilities that will remain for some time in State hands, work on their medium-term restructuring will have to be pursued in the context of the Law on Public Enterprises, which will spell out the State's responsibility for governance as owner, and in regulations enforcement as regulator.

3.24. As far as the legal framework is concerned, the biggest outstanding issue is the absence of a system by which land can be transferred or assigned from one economic agent to another to allow the land to be used by the most efficient operator. Whether the country opts for a system of freehold or leasehold is not as important as the creation of a market system that would allow the use of land to be transferred or assigned at efficient prices.

3.25. The banking reforms, when completed, will have privatized all banks, with about five relatively larger banks competing in the system under the prudential supervision of the NBM. One or two banks could have major foreign investors providing proper governance. It is important that the NBM continues to strengthen its bank supervision capacity and its ability to enforce regulations, including the ability to impose penalties on violators. The NBM also needs to consolidate the banking system by promoting the merger of smaller banks and, if necessary, closing down "pocket banks" that merely serve the banking needs of its owners. As the payments system is transferred from the SOK to the banking system, the NBM would have to take the lead in the creation of the payments system in the banking sector.

3.26. As the need for non-bank financial intermediation grows, and the trading of equities increases, Government will need to develop a framework for securities markets through the creation of an independent regulatory and supervisory agency pursuant to the securities law, amended as needed. Similarly, contractual savings institutions in the private sector (insurance companies and pension funds) need to be promoted and properly regulated. The legal framework will have to be established and regulatory oversight organized. The state pension fund needs to be reviewed to reduce crowding out of the private sector and promote complementarity between a compulsory system and voluntary savings.

3.27. There has not yet been an integrated analysis of the environmental impact of economic development and polices in the former Yugoslav Republic of Macedonia. There are indications, however, of several deficiencies that will need to be addressed quickly. Air and water quality problems, for instance, are quite evident. Use of low quality fuel for power generation, together with leaded gasoline, have contributed to poor air quality in several cities. Subsidized electricity prices have also contributed to lack of energy conservation. Human health has been affected by air pollution and studies have indicated elevated levels of lead in human tissue.

3.28. Except for Ohrid, sewage effluent is discharged untreated, while arrangements for disposal of hazardous waste and solid waste are unsatisfactory, affecting river and groundwater quality. Agricultural input subsidies are being phased out, but may in the past have led to excessive use and infiltration of chemicals into the water table; groundwater quality monitoring arrangements are unsatisfactory. Poor land use practices, including lack of conservation tillage, and insufficient funding for watershed protection, have contributed to soil erosion. Water management and allocation problems have arisen as extensive water development investments have coincided with two decades of low rainfall. Thus there is need for more extensive use of water conserving irrigation practices, and the system of protected area management needs to be strengthened.

3.29. Responsibilities for environmental management and monitoring are currently very decentralized, each sectoral ministry, municipality or industry having control of its own environment-related activities, without clear definition of responsibilities. The Department of Ecology within the Ministry of Urbanism, Construction and Ecology has a staff of only 4, with 10 in the regions. There is a need for a clearer system of institutional responsibilities regarding environmental monitoring and enforcement, and better coordination among the different agencies with environmental responsibilities. Environmental considerations are included in 120 different laws and regulations, many of which are not enforced. A revised environment law is under consideration. A clearer system of environmental monitoring and enforcement will have to be introduced, together with realistic environmental standards which allow for improvement over time.

3.30. The government recognizes the need for an assessment of priority environmental issues and development of an action plan for addressing them. It has started preparation of a National Environmental Action Plan, with assistance from the Bank. A draft document will be prepared by the end of the year. This should provide a framework for institutional and policy reform in the sector, and would identify priority investments. Government has also requested assistance under the Global Environment Facility (GEF) to improve management of two lakes in the south of the country, Ohrid and Prespa, which have unusual ecosystems and are important sources of income from tourism.

Economic Growth and Balance of Payments

3.31. The economic transition occurring in the former Yugoslav Republic of Macedonia over the past four years has involved sharp drops in output, employment and domestic absorption each year. This trend may persist in 1995 as further adjustments are implemented, in particular, to scale back employment and expenditures in those enterprises and activities no longer protected by budget subsidies and easy access to bank credit. To the extent, however, that such adjustments free up resources for more efficient activities elsewhere, the economic outlook should improve sufficiently for a modest economic recovery starting in 1996. This scenario is reflected in the economic indicators provided in Table 11.

TABLE 11: RECENT AND PROJECTED MACROECONOMIC INDICATORS

	Real Growth Rates (%)					Shares of GDP (%)			
	1995	1996	1997	1998	1999	1990	1994	1997	1999
Gross Domestic Product [a]	0.8	2.0	3.0	5.0	5.0	100.0	100.0	100.0	100.0
Consumption	1.1	1.5	2.1	4.1	3.7	76.5	95.9	93.0	91.5
Private	1.2	1.5	2.1	4.2	3.7	70.4	88.7	88.1	87.5
Public	0.0	2.0	2.0	3.0	3.0	6.1	7.2	4.9	4.1
Gross Domestic Investment	-0.8	5.4	6.3	8.3	5.0	31.9	18.0	15.4	15.9
Exports, GNFS	0.5	3.0	6.9	8.3	8.9	23.1	41.3	37.1	42.1
Imports, GNFS	0.7	2.8	5.1	6.8	5.3	31.5	55.1	45.5	49.6
Gross Domestic Savings						23.5	4.1	7.0	8.5

Memorandum Items:	1994-1999	1999-2004
Real per Capita Growth of:		
Gross National Income (% per year) [b]	2.49	4.33
Private Consumption (% per year)	1.75	1.73
Marginal Savings Rates Coefficients		
Domestic	0.51	0.43
National	0.54	0.38
ICOR (5-year) [c]	4.87	3.64
Import Elasticity	1.34	0.90

a Base year (1994) GDP and GNP were estimated using official data to approximate value added of sectors not included in GSP.

b Gross national income is GNP adjusted for changes in terms of trade.

c ICOR denotes Incremental Capital Output Ratio. The ratios shown here are 5-year averages and are computed lagging investment by one year.

Sources: Statistical Appendix Tables 2.3, 2.4, 3.1, and Bank staff estimates.

3.32. The major impetus to growth over the medium term would come from the private sector in agriculture, light manufacturing, trade and transportation. While still small, the private sector has been vibrant lately, accounting, according to official data, for 17 percent of GDP in 1993 (up from 12 percent in 1990) and 20 percent of formal employment in 1994 (up from 10 percent in 1990). The growth of the private sector is being further facilitated by a number of recent initiatives to strengthen the incentives, legal and regulatory frameworks pertaining to private enterprise. Such initiatives include ongoing reviews and revisions of the Commercial Code and the Foreign Investment Law.

3.33. There seems to be potential in the former Yugoslav Republic of Macedonia for horticulture, lamb and livestock by-products (leather and leather goods), wood products, tobacco, and textiles, the last three very recently investigated by prospective foreign private investors. Before the break-up of the SFRY, firms in the former Yugoslav Republic of Macedonia were well-known for design, engineering and construction services abroad, especially in north Africa and the Middle East. These firms still exist and, under peaceful conditions, could compete for reconstruction and development works in central Europe and

Asia. Under more settled conditions, there is scope also for employment and earnings from tourism as, prior to the dissolution of the SFRY, the former Yugoslav Republic of Macedonia used to receive 14 million transit tourists[14] a year, accounting for 8% to 10% of the country's annual earnings from exports of goods and nonfactor services.

3.34. The products and services named above are illustrations only of the activities now attracting the private sector in the former Yugoslav Republic of Macedonia. Ultimately, to find and exploit its growth potential, the country will need to sustain the macroeconomic incentives and legislative frameworks it has managed to improve with recent and ongoing reforms. It will also need to phase out some remaining distortions outlined earlier in this chapter and implement additional fiscal and monetary measures to mobilize domestic resources.

3.35. Whereas prudent fiscal and monetary policies are expected to induce domestic savings to finance essential maintenance and renewal investments and repay outstanding debt, the former Yugoslav Republic of Macedonia will still need considerable recourse to foreign savings over the next several years (see the projected current account balance in Table 12 below). First, it will take time for the export sector to raise its competitiveness and gain acceptance in new markets. Second, essential imports, compressed in the recent past, will need to grow again not only to satisfy consumer requirements, but also to obtain inputs for overall, and especially export, production.

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[14] Tourists from northern and western Europe passing through Macedonia, and staying a night or two, on their way to the Yugoslav and Greek coasts.

TABLE 12: RECENT AND PROJECTED BALANCE OF PAYMENTS
(US$ million at current prices)

	Est.			Projected			
	1994	1995	1996	1997	1998	1999	2000
Resource Balance	-412	-503	-493	-331	-357	-318	-292
Exports, GNFS	1226	1285	1344	1464	1618	1799	2004
Imports, GNF	1638	1788	1837	1795	1975	2117	2296
Net Factor Income	-95	-98	-101	-111	-115	-117	-118
Receipts	8	9	11	12	14	16	20
Payments, of which:	103	107	112	123	129	134	138
Interest [a]	103	81	112	123	128	133	137
Net Current Transfers	137	143	172	176	179	183	187
Receipts, Private	366	222	215	220	224	230	235
Payments	229	79	43	44	45	47	48
Current Account Balance (Before Grants)	-370	-458	-422	-266	-293	-252	-223
Capital Account	350	451	503	336	334	336	327
Direct Investment (net)	5	10	15	20	30	30	30
Official Grants [b]	43	40	40	40	40	40	40
MLT Loan Disbursements	130	139	131	60	70	65	55
Bilaterals	30	0	0	0	0	0	0
Multilaterals [c]	100	139	131	60	70	65	55
Scheduled Repayments	207	351	99	56	67	62	73
Bilaterals	32	260	39	18	17	2	3
Multilaterals [c]	135	49	28	11	19	32	43
Commercial Creditors [d]	40	42	32	28	31	28	28
Debt Rescheduled, Official	0	205	2	0	0	0	0
Debt Deferred, Commercial	90	95	89	87	93	94	97
Other Capital, net [e]	289	313	325	185	168	170	178
Overall Balance	-20	-7	81	70	41	84	104
Reserves and Related Items	20	7	-81	-70	-41	-84	-104
Of which: Arrears [f]	66	14	0	0	0	0	0
Net Change in Reserves [g]	-46	-95	-101	-70	-65	-100	-130

a Interest due to official and commercial creditors. Includes estimated interest on reschedulings and on capital to fill financing gaps.
b For projected years, the amounts shown assume that new commitments will be made to generate the disbursements shown in this table.
c Includes estimated disbursements from potential new commitments.
d These are maturing repayments. Arrears, which totalled US$160 million at the end of 1994, have been set aside, pending future discussions on settlement of commercial debt.
e Includes short-term capital and errors and omissions.
f New arrears to official creditors.
g A minus sign denotes increase in reserves.
Note: Transactions projected in this table still leave residual financing gaps. For 1995-97, these gaps are indicated in Table 13.

Sources: Statistical Appendix tables 2.1, 4.1, 4.2, NBM, and Bank staff estimates.

3.36. The current deficit of the balance of payments, before official grants, is projected to decline over the medium term, from about US$460 million (12% of GDP) in 1995 to about US$225 million (5% of GDP) in the year 2000. At the same time, capital repayments would become more manageable, assuming successful rescheduling of arrears to official creditors.[15] The balance of payments also indicates projected inflows from private and short-term sources, mainly prepayments for exports. This scenario, plus the projected additions to gross reserves to cover between two to three months of imports, has been used to estimate the country's external capital requirements in 1995-97 to be met from fresh commitments of assistance from official sources, in particular members of the Consultative Group for the former Yugoslav Republic of Macedonia.

External Assistance Requirements

3.37. Table 13 below provides estimates of capital disbursements needed from official sources in 1995-97, consistent with the macroeconomic and balance of payments scenarios depicted in Tables 11 and 12. As indicated in Table 13, the review of capital requirements and projected disbursements, after taking into account expected disbursements from past and some assumed future commitments (e.g., from the World Bank and the E.B.R.D.) shows financing gaps of around US$90 million in 1995 and US$40 million in 1996 and 1997. These estimates were made, however, assuming a successful rescheduling of pre-cutoff Paris Club debt. Since rescheduling agreements had not been finalized when this report was prepared, the estimates presented here will be updated later to take into account the outcome of the agreements after these are concluded.

3.38. Given that project aid disburses slowly, the financing gap for 1995 could be covered only with quick-disbursing balance of payments support and/or further debt relief. The gaps for 1996 and 1997 should be covered with a combination of disbursements from commitments of new project and quick-disbursing aid. The new commitments needed to cover these gaps will vary, depending on how much of each type of aid (project or BOP) is made available. The higher the proportion of quick-disbursing aid committed, the lower will be the total commitments needed to cover the estimated gaps, and vice versa. It is recommended that new commitments of aid be provided mostly in the form of grants or concessional loans so as not to strain the debt servicing capacity of the former Yugoslav Republic of Macedonia over the medium term.

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[15] Arrears and current debt service payments to commercial creditors are set aside in this report, pending future discussions on the settlement of commercial debt. But it should be noted that financing requirements and gaps would increase when net payments to commercial creditors are incorporated in the projections.

TABLE 13: ESTIMATED OFFICIAL CAPITAL ASSISTANCE REQUIREMENTS
(US$ million at current prices)

	1995	1996	1997
I. Total Disbursements Required	904	622	392
Current Account Deficit before Grants	458	422	266
Scheduled Repayments	351	99	56
Reserves Accumulation	95	101	70
II. Available from Reschedulings and Non-Official Sources	637	431	292
Reschedulings/Deferrals/Arrears	314	91	87
Direct Investment	10	15	20
Other Capital	313	325	185
III. Disbursements Expected from Existing Commitments [a]	179	116	20
MLT Loans [b]	139	96	20
Grant Aid [c]	40	20	0
IV. Disbursements from Potential New Commitments [d]	0	35	40
World Bank	0	35	30
EBRD	0	0	10
V. Residual Gap (I - II - III - IV)	88	40	40

a Meaning disbursements from commitments made through June 1995.

b IBRD Transit Project; IDA credits for FESAC & Social Reform: IMF Stand-by and Second STF; EBRD Loans for Airport, Telecommunications and Power projects.

c From undisbursed balances at the end of 1994. According to the Aid Coordination Unit, Skopje, there were undisbursed balances of capital and humanitarian grants of around $60 mn at the end of 1994. It is assumed that $40 mn of this would disburse during 1995, and $20 mn in 1996.

d Staff estimates of likely disbursements from planned new operations.

Sources: Table 12, Aid Coordination Unit, and Bank staff estimates.

External Debt and Creditworthiness

3.39. The consequences of the balance of payments and financing scenario illustrated above are depicted by the projected external debt indicators summarized in Table 14. The indicators therein assume successful rescheduling of official debt in mid-1995, and assume that the residual financing gaps in 1995-97 are covered by new commitments, and not by more arrears. Under such a scenario, the country's debt and debt service payments relative to GDP and export receipts would remain manageable in the medium term.

TABLE 14: PROJECTED EXTERNAL DEBT INDICATORS

	Est.			Projected			
	1994	1995	1996	1997	1998	1999	2000
				(US$ million)			
Debt Outstanding & Disbursed	1107.3	1295.4	1419.0	1520.5	1632.9	1742.0	1842.3
Debt Service Payments							
As scheduled [a]	309.8	432.0	184.1	179.1	207.6	208.1	225.0
After Rescheduling/Deferral [b]	153.9	119.0	94.8	92.6	114.4	114.5	127.5
				(Ratios to GDP, %)			
Debt Outstanding & Disbursed	37.3	35.4	37.1	38.6	39.8	40.8	39.9
Debt Service Payments							
As scheduled [a]	10.4	11.8	4.8	4.5	5.1	4.9	4.9
After Rescheduling/Deferral [b]	5.2	3.3	2.5	2.3	2.8	2.7	2.8
				(Ratios to Exports [c], %)			
Debt Outstanding & Disbursed	88.3	98.4	103.0	101.4	98.7	94.7	89.9
Debt Service Payments							
As scheduled [a]	24.7	32.9	13.4	12.0	12.5	11.3	11.0
After Rescheduling/Deferral [b]	12.3	9.0	6.9	6.2	6.9	6.2	6.2

a i.e., prior to rescheduling of official debt assumed for 1995 and the deferral of commercial debt assumed for 1995 and the other projected years. Note also that the scheduled payment for 1995 does not include the stock of commercial debt arrears of around $160 mn built up through the end of 1994.

b 1994 amount is net of arrears, not net of rescheduling or deferral.

c Exports of goods and services, including workers' remittances.

Sources: Statistical Appendix tables 2.2, 3.1, 4.1, 4.2, NBM, and Bank staff estimates.

3.40. Relative to GDP, the stock of debt is projected to remain below 50% while, relative to export receipts, it is projected to peak at around 100% in 1996-97 and decline steadily thereafter. Without the reschedulings assumed for 1995, and without deferral of commercial debt, the debt service ratio would have been nearly 35% in 1995 and would have ranged between 10% and 15% over the medium term. But with debt reschedulings and deferrals, the debt service ratio is projected to remain below 10% over the medium term.

3.41. The substantial financing requirements of the former Yugoslav Republic of Macedonia, especially to settle debt arrears, constitute serious constraints on its creditworthiness and thus imply a risky environment for creditors, including the Bank. This is tempered, however, by the country's distinct progress thus far in stabilization; its relatively low debt overhang, once the arrears are rescheduled; its solid agenda for structural reforms; and its strong human capital base. On balance, it would appear that, provided its

external environment does not deteriorate and its policy performance is sustained, the former Yugoslav Republic of Macedonia's medium-term solvency position should be sound, making it creditworthy for limited amounts of external borrowing at market terms.

3.42. In the end, though, a certain amount of risk must be acknowledged in all medium-term projection exercises. For the former Yugoslav Republic of Macedonia, there is first the risk arising from geopolitical considerations. Besides this, there are two important factors posing downside risks. One is domestic policy performance; the other, availability of external finance sufficient to generate sustained economic recovery.

3.43. On the domestic policy front, if the enterprise and financial sector adjustments are not carried through, the stabilization measures implemented thus far could be undermined. In particular, a failure to implement a hard budget constraint for the enterprise sector could rekindle inflationary pressures which, in turn, would erode incentives for longer-term growth- and export-related investments. This would perpetuate the country's external liquidity problem, reduce its growth prospects and discourage new commitments of external finance.

3.44. External finance will be crucial to the effective implementation of the stabilization and structural adjustment measures, as well as to the implementation of policies and investments to develop the economy in the long run. Should there be a significant shortfall in external support, the country's acute financial stress would be aggravated and its people would have to endure for a longer time the declining standards of living they have known since independence. To avoid such an outcome at the present critical juncture in the country's transition, the donor community should consider making special efforts to provide the necessary financial assistance to the former Yugoslav Republic of Macedonia.

3.45. The country, on its part, will need to strengthen its institutional framework and practices in: (a) the design and implementation of macroeconomic policies; (b) the programming, monitoring and execution of public expenditures; and (c) the coordination and management of external assistance. These three areas will remain among the core economic management functions of the central government even as the state is reoriented from directing to facilitating economic activity.

3.46. At present, several central government institutions are involved in the above three areas, with either unclear or split responsibilities and no recognized coordinating entity. Such a complex situation can only impede effective programming, monitoring and execution of public expenditures and the associated external assistance in the coming years. While this state of affairs is not at all unique to the former Yugoslav Republic of Macedonia, this country is just starting to build up its public expenditure and external assistance program, and is better placed to make a sound start. Accordingly, the following chapter of this report explores the policy, expenditure and aid management issues further and recommends appropriate action.

CHAPTER IV: ECONOMIC MANAGEMENT ORGANIZATION, PUBLIC EXPENDITURE AND AID MANAGEMENT

A. Overall Economic Organization

4.1. In the midst of the economic difficulties and policy transformation described earlier in this report, the former Yugoslav Republic of Macedonia has at the same time faced the challenge of institutional transformation. In this regard, because of the federal system of the former Yugoslavia, the country was in many ways in better shape than many other transition economies, and particularly the former Soviet republics. Yet, the core institutions of an independent state by definition did not exist, and neither did the all-important psychological element associated with such institutions--namely, the "propensity to decide".

4.2. The challenge of governance in general has been complicated in the former Yugoslav Republic of Macedonia by ethnic considerations. It is essential, however difficult it may be, for the country to remain anchored to both the principle of national integrity and the principle of non-discrimination. Indeed, in the long term, the two are complementary.

4.3. Concerning the overall organization of government, with 15 ministries and six central agencies, the country has resisted the common temptation of creating too many central government entities (see Annex) and urgent tasks have been dealt with by appointing ministers without portfolio. It is important to continue to resist the temptation to create additional ministries, in view of the costs and the overstaffing of government on the whole.

4.4. The mandates assigned to the various ministries are generally fairly standard and in keeping with those appropriate in a market-oriented economy (except for aid management and the Ministry of Economy--both discussed later). In particular, it is wise to have assembled regulatory responsibility for most directly-productive sectors in a single Ministry of Economy--thus lowering administrative costs and avoiding the formation of bureaucratic pressure groups pushing for the interests of one or another industry.[16] However, some overlaps in ministerial responsibilities do exist. More serious is the significant gap between formal mandates and actual practice: a sustained effort at capacity-building throughout the public administration is needed.

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[16] On the other hand, the need for a separate Ministry of Science is not clear. In addition to the universities' central role, legitimate state functions in this respect could easily be included into the MOD or the MOE. Alternatively, the device of appointing a Minister with such responsibilities but without creating a Ministry could be appropriate in this case. In the event that a Ministry of Science is to be kept, it may be useful to have it serve also as a clearing house and source of technical advice in information technology--for the sake of efficient systems as well as for cost-effective procurement of hardware. In this event, however, the Ministry should not function as information technology "czar", nor impose national standards, but function as a resource entity to provide practical technical assistance and up-to-date information to other entities of government, on request and in line with their respective programs and objectives.

4.5. In economic management organization, *the former Yugoslav Republic of Macedonia has made remarkable progress in a very short time under extremely difficult circumstances.* The country compares favorably to other new states--in the dedication and competence of its top economic leadership, initial organizational functioning and caliber of decisions. There has also developed a healthy practice of wide consultation on economic policy with the legislature and other concerned groups in the country. On the other hand: (i) the organizational structure shows overlaps and fluid division of responsibilities; (ii) capacity must be strengthened at levels below the competent top layers, especially in the sector ministries; and (iii) decision-making has been slowed by a persistent search for consensus. Thus, the Government should *move to a clarification of organizational mandates and greater individualization of responsibility, while still retaining collective decision-making mechanisms for strategic economic matters, and avoiding major changes in ministerial organization.* This process should begin with the core economic ministries--Finance, Development and Economy. This will in turn facilitate improvements elsewhere in public administration. This report does not cover the "vertical" aspects of organization--links between core and sector ministries, and between central and local government. Beyond this report, a comprehensive study of public administration is needed--as a basis, inter alia, for a serious and concerted effort at civil service rightsizing and reform.

B. The Organization of Macroeconomic Management

The Formulation of Macroeconomic and Development Policy

4.6. The Ministry of Development appears best placed to formulate macroeconomic and development policy proposals. Aside from the committees responsible for examining specific proposals, there already exists an informal interministerial group, chaired by the Prime Minister, which considers macroeconomic and development policy proposals. These informal arrangements have been working well. However, the Government might wish to consider establishing *at a later date* a more formal arrangement similar to that in other countries in transition. Such an arrangement would consist of establishing a Macroeconomic and Development Policy Committee, chaired by the Prime Minister and composed of the Ministers of Finance, Development, Economy and Labor--to consider macroeconomic and development policy proposals formulated by the Ministry of Development, and to present them to the Cabinet for approval. (See Chart 1 in the Annex.)

Coordination among the Core Economic Ministries

4.7. The three core ministries are Finance, Development and Economy. There is also the National Bank, whose well-defined tasks do not require comment here. *All three ministries must be preserved and strengthened, but become more focussed on their comparative advantage and essential functions.* As the division of labor is sharpened, it will become even more important to assure effective coordination.

4.8. It is recommended that: (i) the performance of ministers, and of their key staff, be evaluated partly on the basis of their capacity to cooperate with each other; (ii) the Ministers of Finance, Development and Economy formulate and present to the Prime Minister and the Cabinet a *joint* proposal for concrete ways by which to improve coordination and cooperation among them, and strengthen the linkages with the line ministries in the respective area of competence of each; and (iii) a working group composed of the three Deputy Ministers should be formed to agree clearly on the specific operational boundaries in all relevant areas.

Recommendations concerning Individual Ministries

4.9. Ministry of Foreign Affairs (MFA). Currently, the MFA has a mandate for external economic relations. (See Chart 2 in the Annex.) Generally, experience in other countries in transition shows that the MFA is not well placed to handle economic responsibilities--not because of lack of staff or resources, but principally of policy attention. Especially in the former Yugoslav Republic of Macedonia, the MFA has a particularly crucial role because of the difficult external political climate. As elsewhere, of course, the MFA must of course retain competence for negotiating broad framework aid agreements and participate in negotiating economic treaties. Specifically in the former Yugoslav Republic of Macedonia, the Minister of Foreign Affairs must also remain a key player in strategic decisions on external aid--possibly through the mechanism recommended in section IV below. Subject to the above qualifications, it is recommended that the Ministry of Foreign Affairs should concentrate on political relations, and the responsibility for foreign trade and external aid coordination devolve to other ministries as detailed below.

4.10. Ministry of Economy (MOE). The current mandate of MOE is hybrid, comprising both operational intervention, including price controls, and a regulatory function. (See Chart 3 in the Annex.) Many of MOE's operational responsibilities are not appropriate state functions in a market-oriented economy, and the MOE should move away from direct intervention as rapidly as possible. On the other hand, the broad regulatory function, which is appropriate, is currently weak; in particular, MOE has no role concerning foreign trade, an integral part of economic activity. Most countries have central entities with responsibility for a regulatory framework that facilitates private activity while protecting the public interest.

4.11. It is recommended that: (i) MOE should be expanded into a Ministry of Economy and Trade (including foreign trade), *provided* that its mandate is redefined as a mandate to coordinate and monitor a regulatory framework enabling private production and trade while protecting specific public interests (e.g., competitive markets), and moving away from direct operational intervention; (ii) in parallel, quantitative trade restrictions and licensing should be abolished as rapidly as possible; (iii) the MOE internal organization should be thoroughly revamped to fit the above extension of scope and limitation of mandate; (iv) the "organizational culture" of the Ministry should be changed toward enabling rather than controlling activity, through appropriate personnel actions, and staff training.

4.12. Ministry of Finance (MOF). The current organization of the MOF (see Chart 4 in the Annex) reflects the reorganization of Fall 1994, which benefited from IMF advice. The

responsibility of finance ministries varies widely in different countries. In this country, partly because of its small size and partly from the need to consolidate financial stabilization, the Ministry of Finance should have the entire competence for all central government revenue, expenditure and budget--except only investment programming. This is already a very expansive, very ambitious mandate. It would be inadvisable in the foreseeable future to create a "superministry" by adding even further responsibilities or by merging MOD into MOF. Such a solution has been followed in other countries in transition, in some cases successfully, in other cases less so. In any event, there is no clear-cut optimal organizational architecture that fits all countries. The substantial progress made on the stabilization front (see Chapter II) must not be jeopardized and needs to be consolidated. However, the time has come when a long-term development vision should be formulated and, when conditions permit, begin to be implemented. Thus, *the country needs an entity responsible to look out for the long run.* Just as the Ministry of Foreign Affairs is not well placed to pursue an economic agenda because of its overriding concern with political relations--similarly, the MOF is not well placed at the present time to pursue a development agenda because of its overriding concern with financial stabilization. After two or three years of experience with the present organization, the division of responsibility among the core economic ministries could be revisited.

4.13. It is recommended that: (i) MOF should acquire responsibility for coordination and management of *all* external aid--(see section IV below); (ii) the Ministry should strengthen its internal capacity to formulate detailed fiscal projections and carry out fiscal and expenditure analysis, and carry primary responsibility within the Government in this regard. However, MOF should not have the authority to formulate the overall integrated macroeconomic framework--only its detailed fiscal component (see the symmetrical recommendation below concerning the Ministry of Development); (iii) MOF should acquire responsibility for the day-to-day administration of counterpart fund accounts; however, the Ministry should not have the authority to decide on the sectoral or project allocation of such funds (see the symmetrical recommendation below concerning the MOD; (iv) budget formulation and execution should be further improved as recommended in section II; and (v) the internal organization and staffing of the MOF should be reviewed in line with the above.

4.14. The Ministry of Development (MOD). As elsewhere, the two key functions are: formulation of macroeconomic and development policy proposals; and coordination of development expenditures. (See Chart 5 in the Annex.) As noted, these will become increasingly important functions as the stabilization progress is consolidated. However, at present, the MOD is involved in operational matters (such as counterpart fund account administration) which are not its core responsibility and detract time, staff and attention from its primary tasks. Partly because of this, despite its dedicated and dynamic leadership, the Ministry is badly overstretched. In addition, the MOD should perform its guidance and direction role by stimulating the line ministries to themselves formulate sectoral strategies and programs in their areas of competence--rather than trying to do the job for them because

their capacity happens to be weak at this particular time. *By trying to do less by itself, the MOD can actually accomplish more*, and its role would be effectively enhanced.[17]

4.15. It is recommended that: (i) MOD should strengthen substantially its capacity to carry out macroeconomic analysis, maintain an economic management information system, and formulate overall macroeconomic projections and development policy proposals for the consideration of the interministerial group mentioned earlier. In parallel, it should encourage the MOF to make detailed fiscal projections, and accept MOF primary responsibility in this regard--similarly, it should encourage the National Bank to exercise primary responsibility for balance-of-payments analysis and projections; (ii) MOD should adopt a proactive stance in coordinating development expenditure, including the selection of investment projects for inclusion in the government investment program and the strengthening of linkages between itself and each line ministry--respecting the competence of the latter. Specifically, the MOD should have the authority to clear proposals for investment projects, or for other development expenditure, before they are included in the budget or presented to foreign donors for possible financing (see also section II); (iii) MOD should relinquish the day-to-day administration of counterpart fund accounts, but should retain authority to program their allocation, in consultation with the line ministry concerned (see also section II); and (iv) the internal organization and staffing of the MOD should be reviewed in line with the above. World Bank assistance through the Institutional Development Fund could be considered to help in this task, particularly for required training of MOD staff.

C. Public Expenditure Management

The Process of Budget Preparation

4.16. The MOD issues in July a report on macroeconomic policy, including a macroeconomic framework for the following year, with aggregate and sectoral production projections, inflation targets, fiscal projections and other macro-economic aggregates. Also in July, the Ministry of Finance prepares the report on the fiscal situation in the current year, including data on budget execution in the first six months--mainly based on the record of payments orders issued by the Budget Department. It proposes adjustments, if any, to the budget of the current year, as well as the directions and targets of fiscal policy and the main categories of estimated revenue and expenditures for the following year. The fiscal projections are based on the aggregate projections formulated by the MOD.

4.17. The macroeconomic framework and the report on the fiscal situation are submitted to the Cabinet. On the basis of the positions determined by the Cabinet, the Ministry of Finance prepares a budgetary circular. This circular is sent in August by the Ministry of Finance to "budget users", i.e., line Ministries and other spending decision units. It contains

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[17] Moreover, the placement into the MOD of the Agency for the Protection of Industrial Rights and Patents is anomalous. A more logical placement would be in the Ministry of Justice, or in the Ministry of Economy (in line with the earlier recommendation concerning the regulatory function of that Ministry).

guidelines to prepare budget requests and key parameters for this preparation. Standard tables for budget requests from spending agencies are attached to the circular.

4.18. Budget users send appropriations requests to the MOF September 15. Upon receipt, the Budget Department of the MOF scrutinizes the proposals and identifies corrections. Subsequently, the Ministry of Finance discusses the requests for budget appropriations with line Ministries and other budget users during October 15-November 15. The reconciliation with the users is performed at the technical level, and in the event of disagreement at the Ministerial level. The Minister of Finance submits to the Cabinet a draft budget by the end of November. If on particular points the reconciliation process has not been completed, the Minister of Finance submits a report on the points at issue to the Cabinet for a decision. Once approved by the Cabinet, the draft budget is submitted to Parliament for approval. In 1994, the budget for 1995 was adopted on December 28, and was effective on January 1, 1995. The new Budget Law adopted in 1994 states that the budgetary circular should be sent by July and the draft budget submitted to the Parliament in time for approval in November.

4.19. The budget preparation calendar is tight and does not allow time for analysis on public expenditure policy. Nevertheless, the budget has been in effect at the beginning of the fiscal year, which is the most important point in the context of a stabilization program, and a noteworthy achievement for an economy in transition. Budget preparation, however, does presents weaknesses that should be addressed soon. On the revenue side, the aggregate projections by the MOD are discussed with Public Revenue and Customs departments, but detailed tax projections remain notably insufficient. As noted in section II, it is recommended that the Ministry of Finance should carry out formal and detailed projections of revenues, which would complement the global projections already produced by the MOD. On the expenditure side, weaknesses in the budget preparation are inadequate budget coverage and monitoring, and investment programming. These are discussed next.

Budget Coverage

4.20. A new budgetary nomenclature was implemented in 1994, and will be complemented by end-1995 by a functional classification of expenditure, which will permit functional and functional and economic analysis to be carried out on international standards. Spending limits for extrabudgetary funds (notably, the Road Fund, the Health Fund, the Pension Fund and the Employment Fund) are established by a specific law, which completes the budget. These limits permit control of the total amount of expenditures of these funds. Nevertheless, the budget currently includes only some transfers to these funds, which complement the own-revenues of the funds. In addition, counterpart funds are generated by the sale of aid-in-kind. The expenditures financed by these funds are programmed and monitored in a process completely separate from the budgetary process, and are managed by the MOD.

4.21. It is recommended that: (i) the budget of extrabudgetary funds be annexed to the budget; (ii) expenditures made with counterpart funds be consolidated into the budget, in a way that takes into account the management procedures of these counterpart funds; (iii) new

special funds should not be permitted; and (iv) the budget preparation process should begin six weeks earlier to allow time for MOD review of proposed investment expenditure.

Budget Execution

4.22. Appropriations are released quarterly by the MOF, which notifies spending agencies of authorized expenditures about ten days before the beginning of the quarter. These quarterly ceilings define the limit for commitments for contracts for goods and services. The Ministry of Finance then divides the quarterly ceilings into monthly cash payments limits. The monthly amount of funds transferred from the budget account to the users' account cannot exceed these cash limits. Moreover, the funds transferred from the budget account in a given month may not exceed the amount of funds transferred the previous month.

4.23. When they need funds, line ministries and spending agencies send to the Budget Department a request for payment including a brief justification of the intended expense. The Budget Department verifies that the demand conforms to the budget appropriation and that funds are available within the monthly cash limits. When these verifications are completed, the Budget Department prepares a payment order. (The Budget Department issues payment orders within the limit of availability of funds.) This payment order is sent to the Institute for Payments Operations, which is the clearing house of all financial operations between legal persons in the former Yugoslav Republic of Macedonia. This Institute transfers the funds corresponding to the payment order from the budget account to the account of the concerned spending agency, and payments are made through the Stopanska Bank. The Institute for Payments Operations transmits to the Ministry of Finance daily statements on realized revenues and incurred expenses, which yield the balance of funds available in the current day. The role of the Institute for Payments' Operations in a new market-oriented economy should evolve as noted below, and recommended by the IMF.

4.24. The 1994 Law on the Budget authorizes spending agencies to transfer appropriation between budgetary items, except from personnel or interests expenditure to other items. Nevertheless, in practice these transfers are not systematically authorized, and controls for issuing payment orders are carried out by the Budget Department on a full detailed basis. This practice facilitates the monitoring of the different budgetary items, but, because the typical budget of a spending agency includes about thirty items, it also leads to excessive rigidity in budget execution. There is some confusion between the degree of detail needed for effective monitoring and analysis of expenditures, and the need for controls. While the monitoring should be done on a full detailed basis, the control system should allow transfers between goods and services items--except in specific instances. Currently, the main task of the Budget Department is the daily management of Budget execution (preparation of payment orders, control of requests from line Ministries, etc.). Not only is this an inefficient use of scarce MOF resources and centralized bureaucratic interference, it also dilutes financial accountability throughout the system. In any event, it is essential to respect and apply the law as it exists, and the MOF has a legal responsibility to do all it can in that direction.

4.25. The current system for releasing budgetary appropriations and issuing payments orders has been built to achieve the main objective in the current period, i.e., the stabilization of public expenditure and the respect of macroeconomic constraints. However, the processing of payment orders is unnecessarily cumbersome. Paradoxically, the system may also be too permissive. While payment requests are processed in several steps, the payments orders are issued on a simple request without any certification that services have been rendered or goods delivered. There are internal controls within each line ministry, and Budget Department inspectors perform some ex-post verification. However, if internal ministry controls are not effective (the mission did not inquire into this aspect), the Budget Department inspection cannot suffice, as there are only two inspectors in the country. As a consequence, it is difficult for the Ministry of Finance to assess the correspondence between funds utilization and funds appropriations, as well as the actual destination of expenditure. Moreover, there is no financial control on contractual commitments entered into by spending agencies, except for loans. This state of affairs, in turn, hampers budget preparation.

4.26. Considering the need for keeping expenditures under control, the quarterly release of appropriations is an adequate measure and a monthly control of *personnel* expenditure is also appropriate. However, more flexibility in the monthly management of other expenditures should be introduced, without weakening controls. Moreover, arrangements defined in the budget law for easy transfers between non-personnel budgetary items should be applied.

4.27. For the budget preparation and execution, the Budget Department deals with 162 separate "budget users" (i.e., spending decision entities), who allocate funds and centralize request for payment with their agency. The budget users include the line ministries, major spending agencies and various other organizations--including some 100 Courts of Justice. The preparation and execution of the budget would be helped by streamlining this cumbersome system, as recommended by the IMF.

4.28. The MOF intends to implement a Treasury system. This will provide the opportunity to modernize the process of allocating funds to spending agencies. A modernization of budget execution processes should be carried out when implementing the Treasury system, with the aim of giving more flexibility to budget execution, while enhancing effective control.

4.29. It is recommended that: (i) Art.33 of the Budget Law be strictly applied, and transfers routinely authorized between budgetary items for goods and services expenditures; (ii) cash management be daily, but release of appropriations for non-personnel expenditures quarterly, without any additional monthly ceiling; (iii) the role of the Institute for Payments Operations, for government operations, evolve as recommended by the IMF; (iv) except for small sums, payments should be made directly to the supplier and against an invoice verifying service performance or goods delivery; and (v) with the establishment of a Treasury, the Budget Department would be relieved from daily payments' administration, and should accordingly focus its activities on the preparation and monitoring of the budget and expenditure policies.

Counterpart Funds

4.30. The programming of expenditure financed by counterpart funds is currently separated from budget preparation and the programming of other expenditures. Budgetizing these funds and strengthening the investment coordination function in the MOD (see below) will make these expenditures more consistent with overall expenditure policy. The day-to-day administration of these funds (bookkeeping, monitoring of receipts, etc..) is currently supervised by the MOD, which should instead be more involved in the selection and coordination of investment and not dissipate its efforts with management tasks. As noted earlier, the administration of counterpart funds should be placed under MOF responsibility.

Investment Programming

4.31. The budget gives only a partial picture of government capital expenditures, as it does not include grant-financed investment and development expenditures out of counterpart funds. The improvement in budget coverage, as recommended above, will make the budget a better instrument for analyzing capital expenditures. Nevertheless, this would not be sufficient to implement sound investment programming, which must be on a multi-year basis whereas the budget is annual. In May 1995, the Government prepared a Public Investment Program (PIP) for 1996-98. This is an important first step. Preparation of the PIP should be continued on a "rolling" basis and systematically linked to the budget preparation process.

4.32. The programming of investments of public enterprises, which must be included in the PIP, should consider the cost of the whole project and not be limited to its share financed by the central government budget. Programming of expenditures financed by counterpart funds and external aid needs generally to be on a multi-year basis, even if the expenditures are partly current expenditures in nature. (Moreover, it would not be realistic to carry out two separate programming exercises, one for current expenditures and another for investment.) Furthermore, the programming of technical assistance financed by external aid should be done jointly with the programming of physical investments. Naturally, investment programming must be well coordinated with current expenditures and the annual budget--one of the key topics to be included in the coordination arrangements to be proposed by the three economic ministries (see para. 4.8).

4.33. It is recommended that investment programming include: (i) capital spending by the central government and financed by the budget; (ii) capital expenditures of public enterprises partly financed by the Government (such as the East-West railway); (iii) capital expenditures financed by extrabudgetary funds (notably the Road Fund and Health Fund); (iv) all expenditures financed by counterpart funds; and (v) all expenditures financed by project aid.

4.34. The financial execution of the PIP should be closely monitored for all projects and the physical execution for large projects. For financial monitoring, MOD would centralize MOF data for the part of the project financed by the budget and spending ministries' data for other financing. Physical monitoring would be based on specific surveys.

4.35. It is recommended that the MOD department in charge of investment coordination be strengthened sufficiently to perform the following tasks, in cooperation with the line ministries and the MOF: (i) financial and physical monitoring of on-going projects; (ii) centralization of all financial data on investment projects (total costs, payments scheduled, etc.); (iii) setting up the list of all identified projects and selecting priority projects; (iv) providing the aid management organization (see section III) with the list of projects for which external financing is sought; (v) programming the use of counterpart funds; and (vi) review and approve proposals for investment expenditure and inform accordingly the Budget Department of the MOF for the preparation of annual budget for capital expenditures. Appropriate training should be provided to implement the above.

4.36. These investment programming and coordination tasks should be distinguished from actual investment expenditure management, which should be fully under the responsibility of the MOF and/or concerned spending agencies, as mentioned above. As indicated in section III, these tasks are also different from aid coordination, which involves relations with donors or lenders, or debt management. Nevertheless, links must be established between aid coordination and investment coordination unit. Notably, the management information systems used must be fully compatible. The investment coordination department will obtain from the aid coordination entity all data on existing agreements (commitments and disbursements). The UNDP Development Cooperation Analysis System (DCAS), can be easily expanded into a full aid management information system, and thereafter customized for the former Yugoslav Republic of Macedonia--at very low cost and in a short time. World Bank assistance could be considered to help implement the above recommendations.

D. Management and Coordination of External Assistance

The Current Situation

4.37. The Government established in 1993 the position of National Aid Coordinator, which was first intended for the Minister of Foreign Affairs, then assigned to a Minister without portfolio, and re-assigned in 1994 to the Minister of Development. When the outgoing Minister of Development became Minister of Science in 1995, she retained the function of National Aid Coordinator. In the Fall of 1994, a small aid coordination unit (ACU) was established in the Ministry of Foreign Affairs, with the assistance of EC-PHARE, to coordinate grants and humanitarian aid. In theory, the ACU also coordinates technical assistance, but in practice donors deal directly and bilaterally with individual line ministries. The ACU is headed by an Assistant Minister for Foreign Affairs, has a resident expatriate advisor, and is responsible to both the Minister of Foreign Affairs and the Minister of Science as National Aid Coordinator. At the same time, the MOF retains, by the Law on the Budget, the authority to handle all external borrowing including concessional borrowing.

4.38. These institutional arrangements are fragmented, roundabout and inefficient--and will become increasingly untenable as aid flows shift to non-emergency forms of assistance. So far--because of the efforts of an energetic local leadership, capable key staff and experienced

advisors, and the valuable support from EC-PHARE--relations with donors have been established and decisions have been reached to allocate external assistance. However, these results have been obtained *despite* the institutional arrangements. With a more efficient and streamlined organizational structure, the efforts of all involved and the external support from the EU will produce far better coordination, higher quality of decision-making, and greater national influence vis-a-vis external donors. This is especially important for the coordination of technical assistance, which in a new country presents risks as well as advantages.

Characteristics of Efficient Aid Management

4.39. The country's transition and reform process need commensurate external support in appropriate forms. However, external aid must be allocated and used effectively. Indeed, if it is not, it would be difficult to mobilize it in the first place. Thus, *a more efficient and accountable aid management system will be important for the mobilization of external assistance.*

4.40. The characteristics of efficient aid management emerge from the experience of other countries, and in particular that of new states and countries in transition.

First, because external resources must be integrated with overall resource utilization (in the context of a consistent macroeconomic framework), responsibility for aid management rests with the host government. However valuable, expatriate advice should be clearly subordinated to government direction and objectives.

Second, there should be *one* aid management unit (AMU), responsible for coordinating *all* external assistance--grants, loans and technical assistance.

Third, such a unit should be the sole focal point in the central government for contacts with donors, and must be systematically informed of on-going activities. This is often misunderstood as centralization of decisions and a monopoly on information and contacts. On the contrary, like a good traffic policeman, an aid management unit must **function to facilitate**--"function" by being well-staffed and resourced, to "facilitate" the work of line ministries and the "traffic" of donor delegations. If an AMU tries to obstruct or interfere unduly, it will find that line ministries (and donors) will go around it. Thus, a central AMU is quite compatible with a network of contact points in the line ministries (a mechanism currently under consideration by the Government--see the "Aid Coordination Unit Draft Proposal").

Fourth, an aid management unit must not interfere in project selection and spending decisions. There is currently a confusion in the country between the coordination of expenditure decisions (which are autonomous decisions, "above the line") and the coordination of aid (which is financing, "below the line"). Development expenditure decisions, as noted earlier, should be coordinated by the MOD. The possible availability of external financing is an important consideration in reaching these

decisions, but the availability of financing should not drive development decisions, nor should an aid management unit have any authority or responsibility over the decisions themselves (let alone concerning the formulation of sectoral strategies).

Fifth, experience shows that the appropriate location of an AMU should be either within the "finance function" or within the "development function".

Sixth, the preferred internal structure of an AMU is by type of donor (e.g., "UN desk", "Germany desk"), and not by the nature of assistance (e.g., "agricultural aid").

Finally, in order for the aid management system to be efficient, donors must cooperate with the Government in its implementation. To the extent that they have confidence in the functioning of the system, they should be expected and requested to do so. The organizational structure of an aid management unit (with specification of the links to other functions of government) is shown in Chart 6 in the Annex.

Recommendations

4.41. In the former Yugoslav Republic of Macedonia, partly because of the MOF statutory responsibility for external borrowing, the need for a single aid coordination unit necessarily implies its location in the MOF. However, there is a clear distinction between policy authority and operational work. The importance of aid for the country requires that major decisions involve MOD and MFA as well. The required linkages and their nature are indicated in Chart 6.

4.42. It is recommended that: (i) the operational responsibility for coordination of all external aid should be entrusted to the MOF; (ii) policy guidance should be exercised by an Aid Strategy and Policy Committee, chaired by the Minister of Finance and including the Ministers of Development and of Foreign Affairs; (iii) accordingly, the position of National Aid Coordinator should be abolished; (iv) the current aid coordination unit in the MFA, its staff and its external advisor, should be immediately moved to the MOF, headed by a Deputy Minister of Finance appointed for that purpose, adequately staffed as soon as possible by a minimum of five professionals, operate under specific procedures (to be elaborated) for consultation and two-way communication with other ministries, and continue to rely on assistance from the EU, which is appropriate and already under way; (v) as a transitional provision, both in order not to interrupt abruptly on-going donor relationships and to allow time to build the capacity of the aid coordination unit (and its procedures and links with the other ministries), the present National Aid Coordinator should retain her leadership function until after the Consultative Group meeting in September; (vi) however, the Government should reach quickly a decision on the new aid management arrangements and announce them to the international community; as noted, this could be important for aid mobilization.

Annex: Government and Macroeconomic Management Structure in FYR Macedonia

Central Government Entities

As noted in Chapter IV, the former Yugoslav Republic of Macedonia has resisted the temptation to create too many central government structures. As of mid-1995, the following ministries and central agencies existed:

Ministries and other Administrative Organs

Ministry of Defense	
Ministry of Interior	
Ministry of Justice	
Ministry of Foreign Affairs	
Ministry of Finance	Republic Commission for Relations with Religious Communities
Ministry of Economy	Republic Geodesy Department
Ministry of Development	Republic Statistics Institute
Ministry of Urbanism, Construction and Environmental Protection	Republic Weather Bureau
Ministry of Transport and Communication	Archive of Macedonia
Ministry of Agriculture	Republic Institute for Court Expertise
Ministry of Labor and Social Policy	
Ministry of Education and Physical Culture	
Ministry of Science	
Ministry of Culture	
Ministry of Health	

Organizational architecture for macroeconomic management

The overall coordination scheme recommended in Chapter IV is shown in Chart 1. The organizational structures of the Ministries of Foreign Affairs, Economy, Finance and Development are shown in Charts 2-5, respectively, and do not reflect any of the suggestions made in this report for organizational changes to streamline authority and accountability in macroeconomic management. Finally, Chart 6 shows the recommended organizational arrangements for the management of external assistance.

Chart 1 - **PROPOSED ORGANIZATION OF ECONOMIC POLICY FORMULATION**

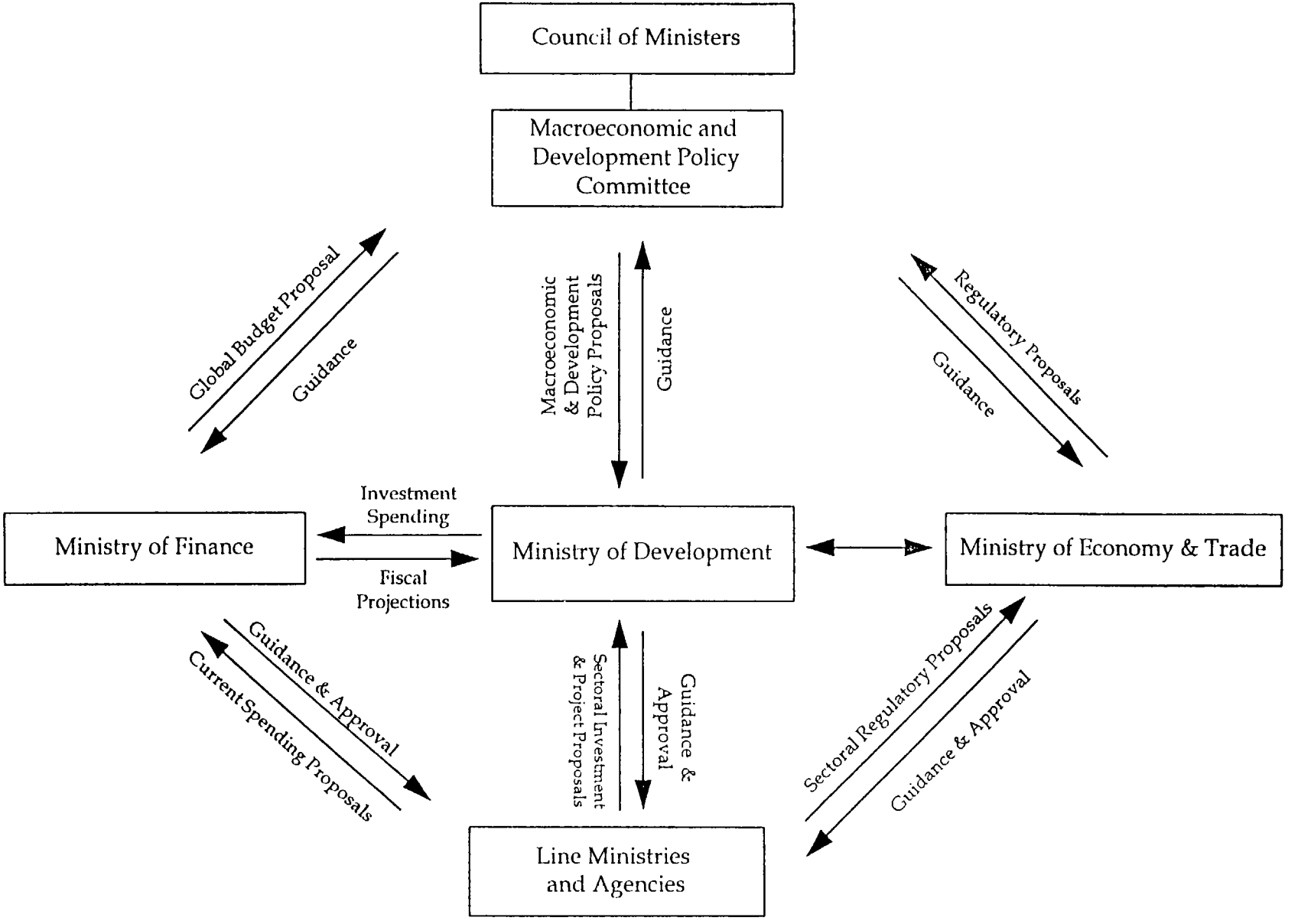


Chart 2 - MINISTRY FOR FOREIGN RELATIONS

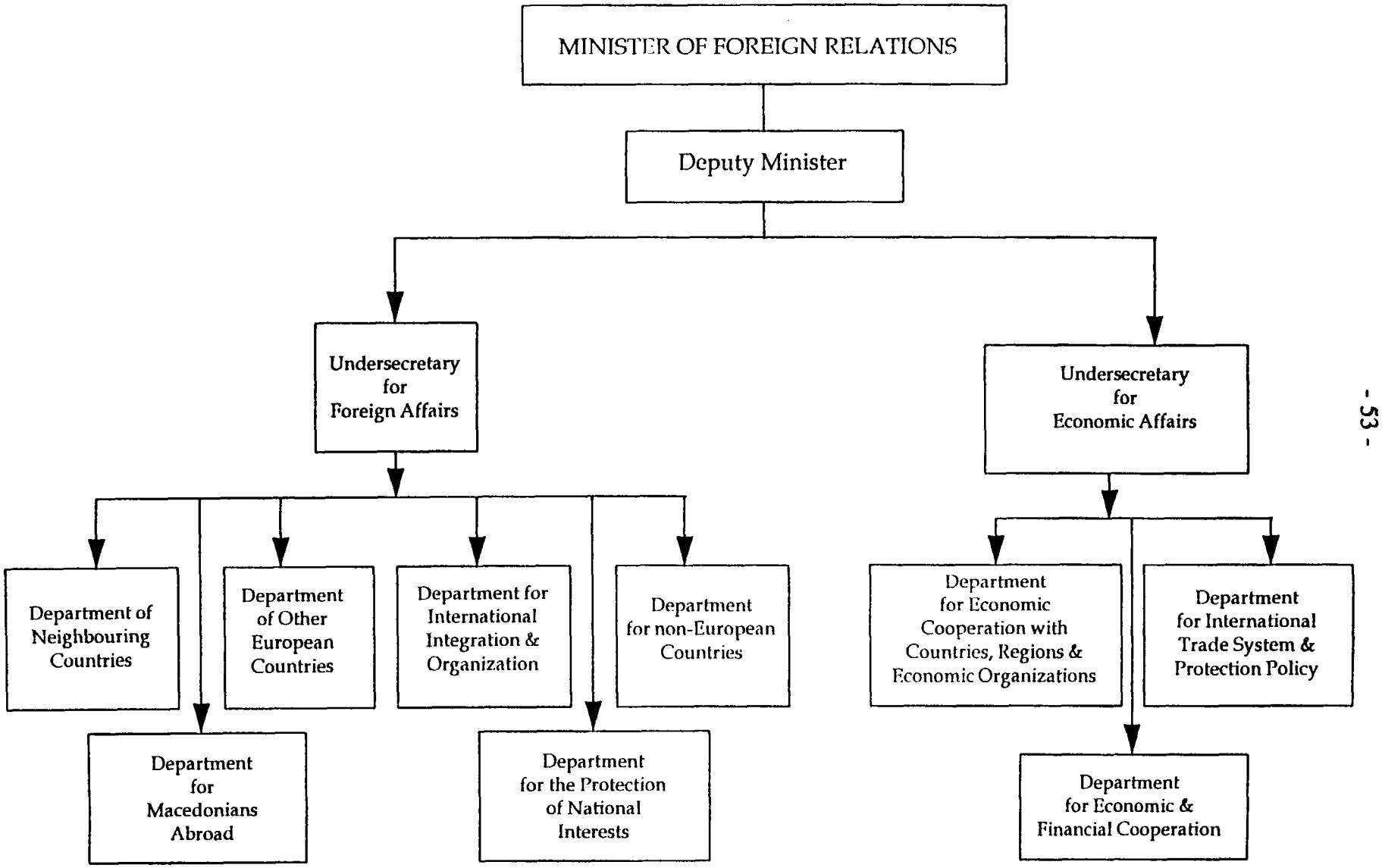


Chart 3 - **MINISTRY OF ECONOMY**

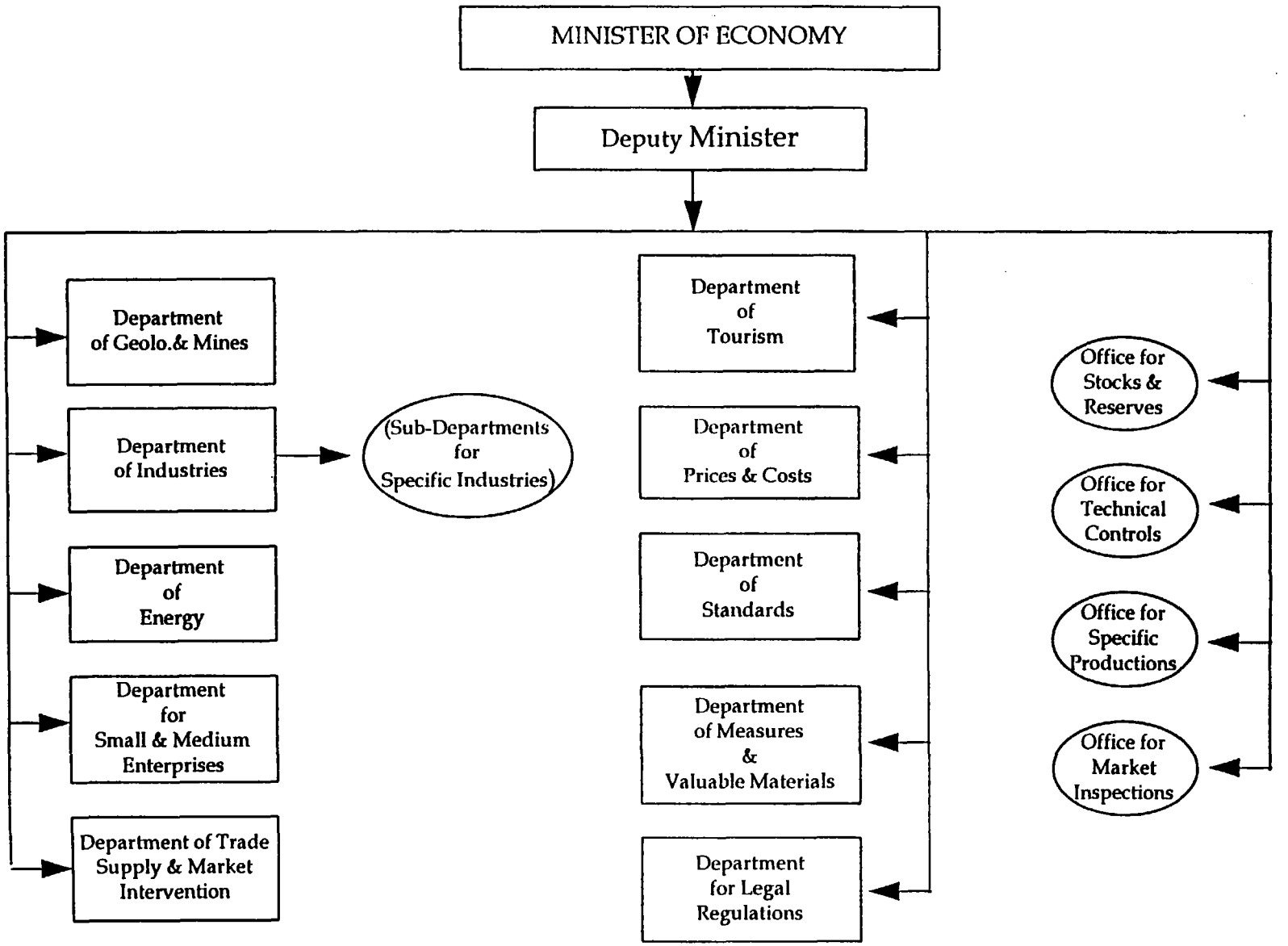


Chart 4 - ORGANIZATION OF THE MINISTRY OF FINANCE

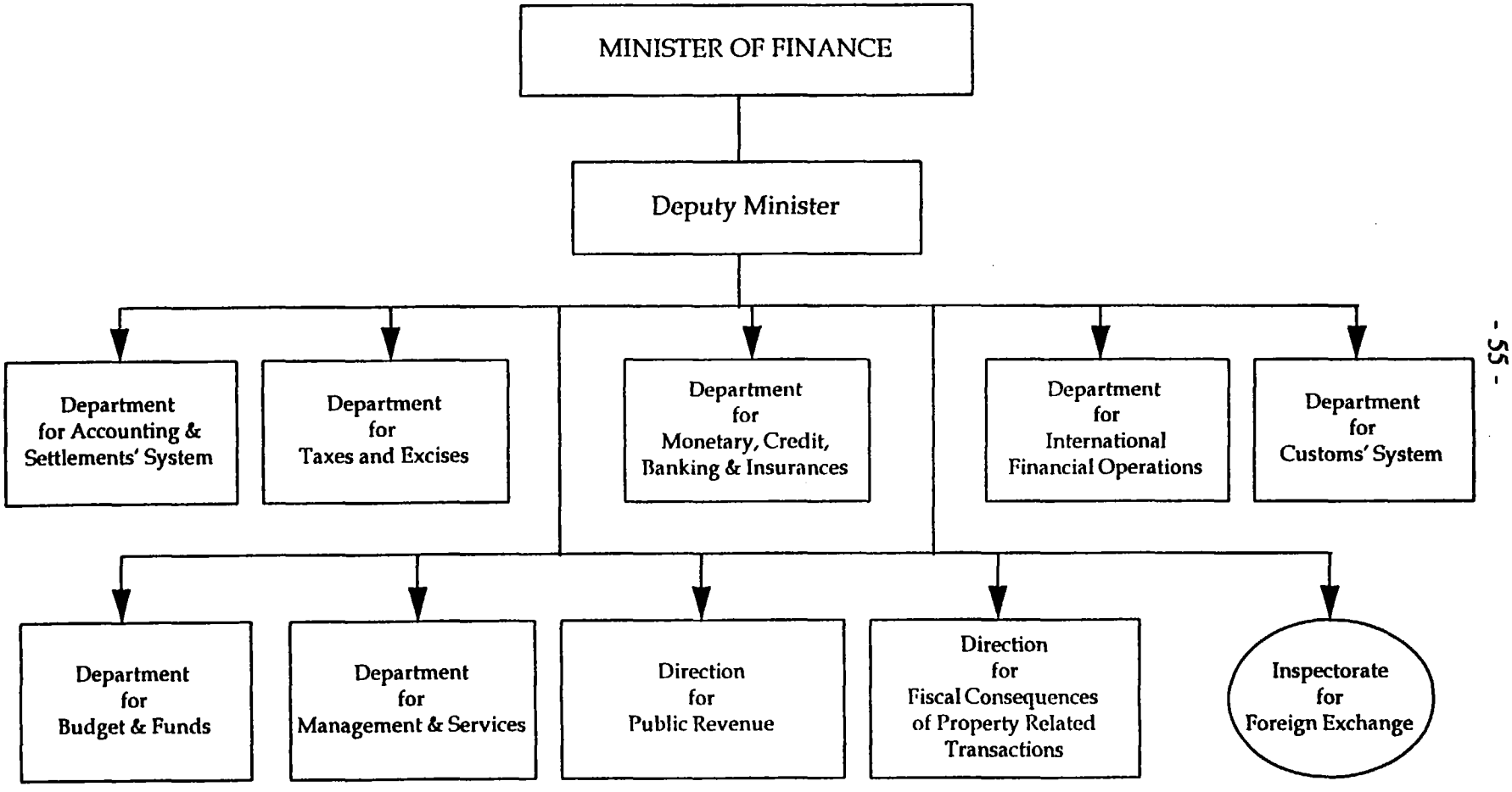


Chart 5 - **ORGANIZATION OF THE MINISTRY OF DEVELOPMENT**

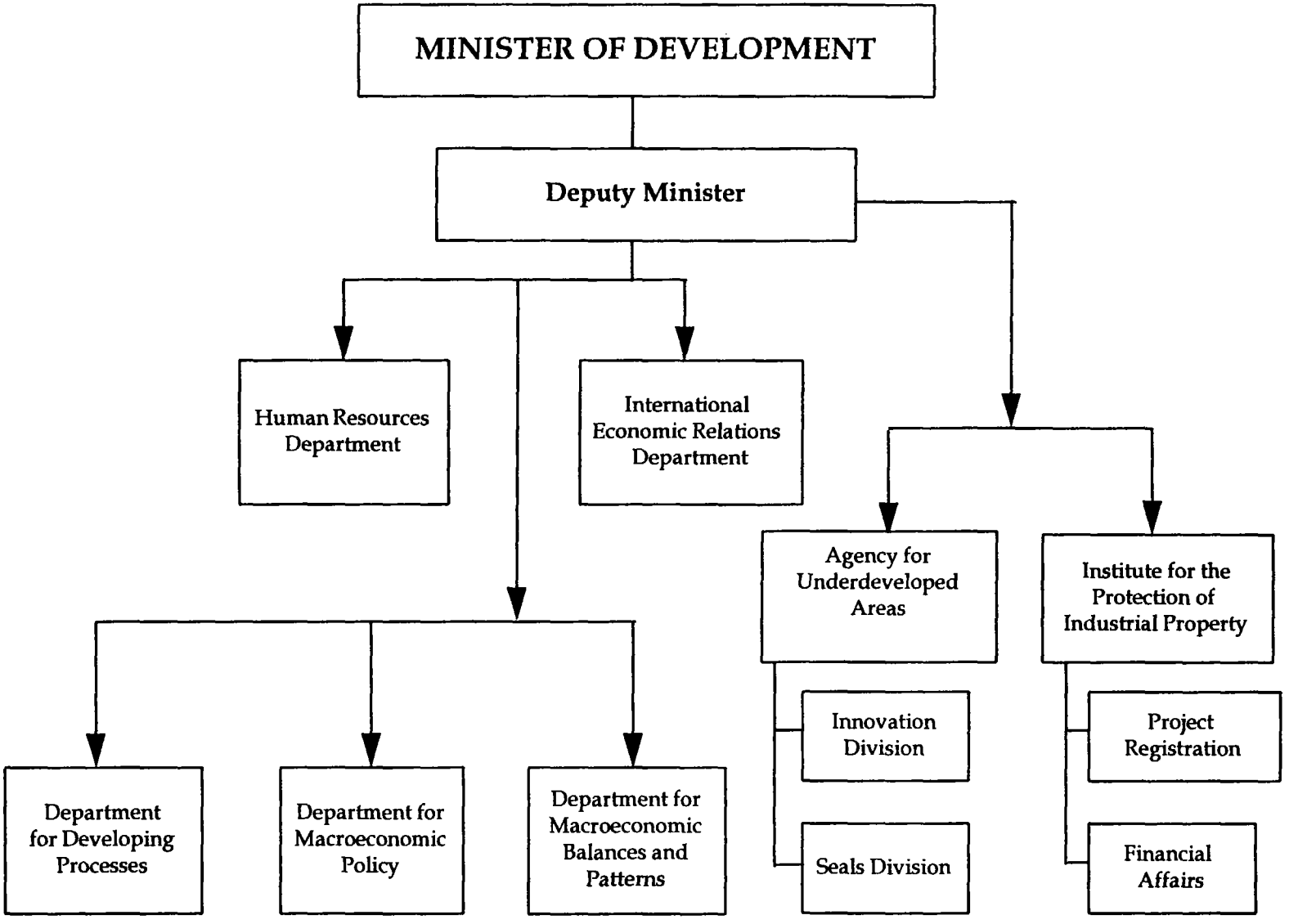
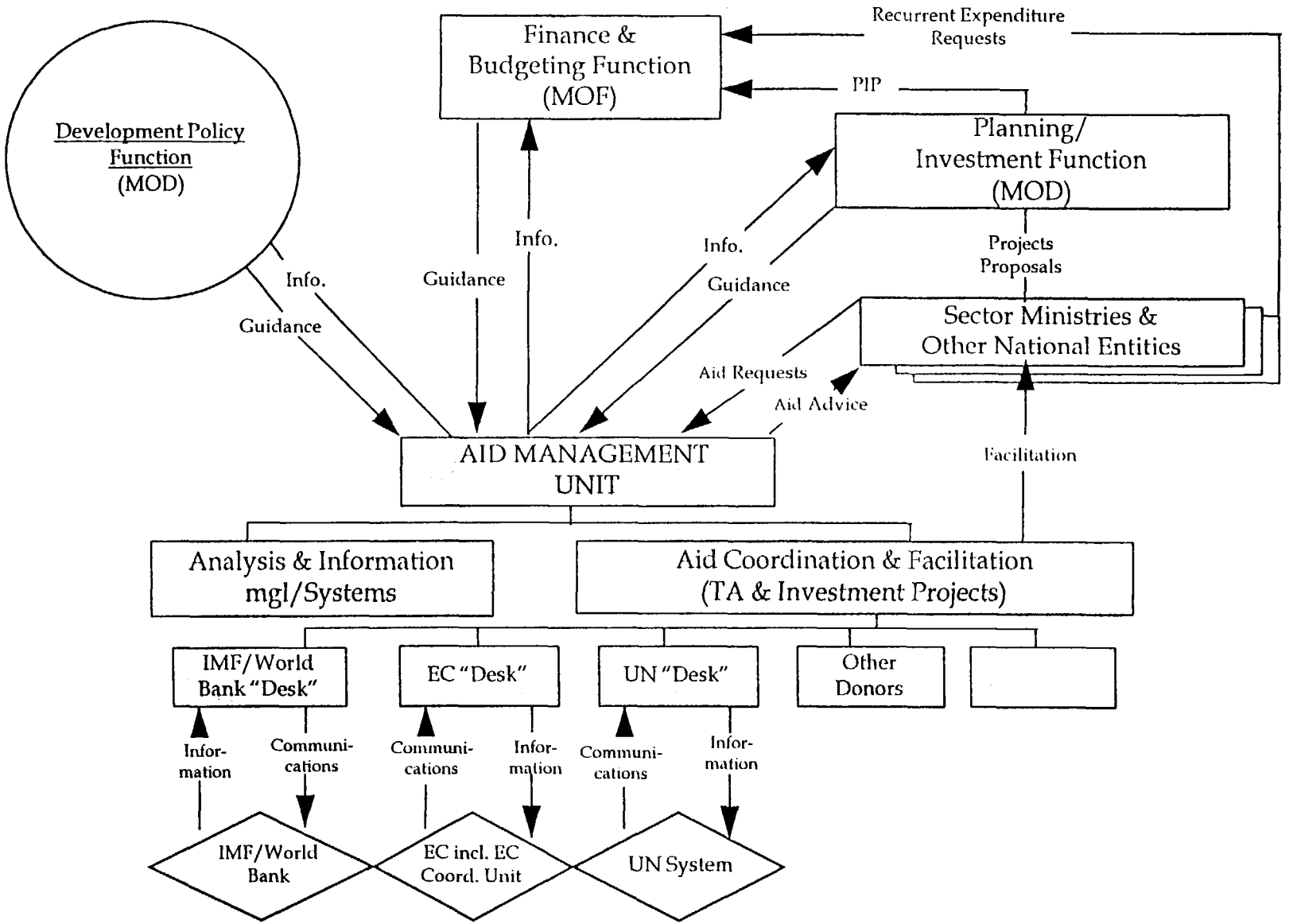


Chart 6 - PROPOSED ORGANIZATION OF THE AID MANAGEMENT FUNCTION



FORMER YUGOSLAV REPUBLIC OF MACEDONIA
COUNTRY ECONOMIC MEMORANDUM

STATISTICAL APPENDIX

Agriculture

Industry, Energy and Infrastructure

Prices

Education and Health

TABLE 1.1 : POPULATION, LABOR FORCE AND EMPLOYMENT

	1990	1991	1992	1993	1994
			(in thousand persons)		
Population	2,028	2,039	2,056	2,066	2,075
Economically Active Population	905	916	927	937	947
Total employed	567	537	524	514	508
Registered unemployed	156	165	172	175	185
Memorandum item					
Unemployment Rate (%)	17.3	18.0	18.6	18.7	19.5

Source: Statistical Office and Ministry of Development

TABLE 1.2: AVERAGE AGE AND SEX DISTRIBUTION OF POPULATION
(In Censal Years)

	1961	1971	1981	1991	1994
Mean Age					
Male	26.4	27.6	29.2	32.7	...
Female	26.9	28.1	30.0	33.9	...
Sex Distribution ('000 persons)					
Male	710	835	968	1,027	976
Female	696	813	941	1,007	961
Total	1,406	1,647	1,909	2,034	1,937

Source: Statistical Office

TABLE 1.3 : SECTORAL DISTRIBUTION OF EMPLOYMENT, 1990-94 /a/

	1990	1991	1992	1993	1994
Total	507324	468372	446117	421028	395686
Agriculture	44672	42052	40615	36882	36412
Agriculture and fisheries	38153	35389	34128	30363	30333
Forestry	4031	3916	3692	3849	3592
Water management	2488	2747	2795	2670	2487
Industry	253827	231365	216248	204064	191106
Mining and industry	206191	188873	176568	167551	157738
Construction	47636	42492	39680	36513	33368
Services	208825	194955	189254	180082	168168

/a/ Refers to Social, Co-operative and Mixed Enterprises only.

Source: Statistical Office

TABLE 2.1: GSP BY INDUSTRIAL ORIGIN AT CURRENT PRICES, 1990-94

	1990	1991	1992	1993 /1/	1994 /1/
			(Million denars)		
Industry and mining	238	451	7155	28254	63502
Agriculture, forestry and fishing	82	162	2850	12084	27865
Trade	109	280	2878	15521	26985
Catering and tourism	13	24	310	2146	3812
Construction	44	81	1056	5007	9093
Transport and communication	31	65	889	3505	6893
Crafts	13	25	306	1931	3226
Other	23	48	572	3078	5280
Gross Social Product	551	1136	16016	71526	146656
			(As percent of GSP)		
Industry and mining	43.1	39.7	44.7	39.5	43.3
Agriculture, forestry and fishing	14.8	14.3	17.8	16.9	19.0
Trade	19.8	24.7	18.0	21.7	18.4
Catering and tourism	2.4	2.1	1.9	3.0	2.6
Construction	7.9	7.1	6.6	7.0	6.2
Transport and communication	5.6	5.7	5.6	4.9	4.7
Crafts	2.3	2.2	1.9	2.7	2.2
Other	4.2	4.2	3.6	4.3	3.6
Gross Social Product	100.0	100.0	100.0	100.0	100.0

/1 / Provisional

Source: Bureau of Statistics

TABLE 2.2 : GSP BY INDUSTRIAL ORIGIN AT CONSTANT PRICES, 1990-94

	1990	1991	1992	1993 /1/	1994 /1/
		(Million denars at 1990 prices)			
Industry and mining	238	198	167	143	128
Agriculture, forestry and fishing	81	95	95	76	82
Trade	109	93	75	66	61
Catering and tourism	13	11	10	12	11
Construction	43	35	30	26	23
Transport and communication	31	25	20	17	15
Crafts	13	13	10	10	9
Other	23	22	19	17	15
Gross Social Product	551	492	427	366	344

/1/ Provisional

Source: Bureau of Statistics

TABLE 2.3 : NATIONAL ACCOUNTS BY EXPENDITURE AT CURRENT PRICES, 1990-94

	1990	1991	1992	1993	1994 /1/
			(Million denars)		
Consumption	448	805	10290	53352	123223
Private	412	750	9443	49342	113956
Public	36	55	847	4010	9267
Gross Investment	187	139	1278	10631	23117
Fixed Investment	97	208	2642	10214	21300
Growth in stocks /2/	90	-69	-1364	417	1817
Net export of GNFS	-50	-40	117	-3728	-17823
Exports GNFS	135	236	6410	26512	53036
Imports GNFS	185	276	6292	30240	70858
Gross Social Product	551	1136	16016	71526	146656
Gross Domestic Product /2/	585	904	11685	60256	128517
			(As percent of GDP /2/)		
Consumption	76.5	89.0	88.1	88.5	95.9
Private	70.4	83.0	80.8	81.9	88.7
Public	6.2	6.1	7.2	6.7	7.2
Gross Investment	32.0	15.4	10.9	17.6	18.0
Fixed Investment	16.6	23.0	22.6	17.0	16.6
Growth in stocks	15.3	-7.6	-11.7	0.7	1.4
Net export of GNFS	-8.5	-4.4	1.0	-6.2	-13.9
Exports GNFS	23.1	26.1	54.9	44.0	41.3
Imports GNFS	31.5	30.5	53.9	50.2	55.1
Gross Domestic Product /2/	100.0	100.0	100.0	100.0	100.0

/1/ Provisional

/2/ Bank staff estimate.

Source: Bureau of Statistics and Bank staff estimate.

TABLE 2.4 : NATIONAL ACCOUNTS BY EXPENDITURE AT CONSTANT PRICES, 1990-94

	1990	1991	1992	1993	1994 /1/
		(Million denars at 1990 prices)			
Consumption	448	405	355	364	340
Private	412	369	324	332	307
Public	36	36	31	32	33
Gross Investment	187	147	110	61	58
Fixed Investment	97	97	69	59	55
Growth in stocks	90	50	41	2	3
Net export of GNFS	-50	-25	-3	-18	-15
Exports GNFS	135	133	134	127	138
Imports GNFS	185	158	136	145	153
Gross Social Product	551	492	427	366	344
Gross Domestic Product /2/	585	528	463	407	384
Memorandum item:					
Real GDP growth	-9.7%	-9.8%	-12.4%	-12.0%	-5.7%

/1/ Provisional

/2/ Bank staff estimate.

Source: Bureau of Statistics

TABLE 3.1: BALANCE OF PAYMENTS, 1990-94
(US$ Million)

	1990	*1991*	*1992*	*1993*	*1994 /1/*
Exports of Goods & NFS	1192	1200	1259	1138	1226
Merchandise (FOB)	1113	1150	1199	1055	1050
Non-Factor Services	79	50	60	83	176
Imports of Goods & NFS	1630	1402	1236	1298	1638
Merchandise (FOB)	1531	1375	1206	1227	1483
Non-Factor Services	99	27	30	71	155
Resource Balance	-438	-202	23	-160	-412
Net Factor Income	-55	-29	-72	-75	-95
Net Current Transfers	84	-28	30	119	137
Curr A/C Bal Before Off. Grant	-409	-259	-19	-116	-370
Net Official Grants	0	0	0	28	43
Curr A/C Bal After Off. Grants	-409	-259	-19	-88	-327
Capital Account	-51	-206	-162	15	-18
Medium and Long-Term Capital	-61	-107	-96	-2	-89
Direct Investment	0	0	0	0	5
Disbursements	60	14	9	57	112
Amortization	121	121	105	59	96
Repayments of Arrears	0	0	0	0	110
Net Short Term Capital	10	-99	-66	17	71
Errors and Omissions	444	424	87	61	218
Overall Balance	-16	-41	-94	-12	-127
Financing	16	41	94	12	127
Changes in Net Foreign Assets	0	0	-61	-60	-29
Assets	0	0	-60	-60	-46
IMF	0	0	-1	0	17
Arrears	16	41	155	72	156

/1/ Provisional

Source: Ministry of Development.

TABLE 3.2: COMMODITY COMPOSITION OF EXPORTS, 1990-1994
(In millions of US$)

	1990	1991 1)	1992	1993	1994 2)
Total exports	1,113.5	1,150.4	1,197.8	1,055.3	1,067.5
Food and live animals	31.7	63.5	183.9	116.3	110.0
Beverages and tobacco	34.4	77.9	138.5	100.4	61.0
Crude materials, except fuels	52.4	54.4	58.2	64.6	78.6
Mineral fuels & lubricants	0.4	1.4	9.2	1.9	1.9
Animal and vegetable oils	0.0	0.1	0.1	0.5	0.9
Chemicals	61.8	38.8	44.8	47.5	47.5
Manufactured goods classified by material	525.6	481.8	361.3	362.5	390.0
Machinery and transport equipment	101.6	110.7	97.1	170.9	133.2
Misc. manufactured goods	305.6	265.9	304.5	190.6	242.4
Other	0.0	0.9	0.2	0.1	2.0
Not arranged	0.0	55.0	0.0	0.0	0.0

1) Includes an amount of US$ 55 million for exports to R. Slovenia and R. Croatia.

2) Preliminary data.

Source: Ministry of Development.

TABLE 3.3: DESTINATION OF EXPORTS, 1990-94
(Million of US$)

	1990	1991	1992	1993	1994
Former CMEA	452	356	204	246	359
of which:					
FSU	326	225	96	115	77
Czechoslovakia	50	30	24	17	10
Bulgaria	45	48	60	83	220
European Union	471	451	479	353	343
of which:					
Germany	228	225	240	148	145
Italy	113	78	84	94	126
Greece	50	62	36	50	13
EFTA	55	43	60	49	55
Other developed countries	66	110	108	120	84
of which:					
USA	33	47	72	62	40
Other developing countries /1/	69	190	347	287	226

/1/ Exports to former Yugoslav republics have been included since 1991.

Source: Statistical office and Fund estimates.

TABLE 3.4: COMMODITY COMPOSITION OF IMPORTS, 1990-94
(Million of US$)

	1990	1991 /1/	1992	1993	1994 /2/
Total Imports	1,531.0	1,375.2	1,206.1	1,199.4	1,441.5
Food and live animals	156.8	124.3	164.7	206.3	275.6
Beverages and tobacco	46.4	43.8	23.9	31.5	23.0
Crude materials, except fuels	115.7	90.7	106.9	66.7	73.2
Mineral fuels & lubricants	215.3	145.1	142.1	191.1	159.3
Animal and vegetable oils	3.0	4.2	11.9	1.7	1.5
Chemicals	135.2	123.0	156.9	186.2	191.4
Manufactured goods classified by material	291.9	262.5	205.8	203.9	198.1
Machinery and transport equipment	170.6	163.0	117.6	199.6	280.1
Misc. manufactured goods	158.3	127.1	123.2	79.1	138.9
Other	237.8	190.5	153.1	33.3	100.4
Not arranged	0.0	101.0	0.0	0.0	0.0

/1/ An amount of US$ 101million for imports from R. Slovenia and R. Croatia have been included.

/2/ Preliminary data.

Source: Statistical Office

TABLE 3.5: ORIGIN OF IMPORTS, 1990-94
(In millions of US$)

	1990	1991	1992	1993	1994
Former CMEA	618	476	398	320	361
of which:					
FSU	445	340	229	138	45
Czechoslovakia	47	33	24	15	28
Bulgaria	66	68	109	131	238
EC	564	473	398	378	494
of which:					
Germany	244	218	169	160	248
Italy	82	75	84	78	104
Greece	98	85	60	52	23
EFTA	80	79	72	52	66
Other developed countries	130	94	60	88	120
of which:					
USA	52	28	24	26	48
Other developing countries /1/	139	253	277	362	400

/1/ Imports from former Yugoslav republics have been included since 1991.

Source: Statistical Office and Fund estimates.

TABLE 3.6: IMPORTS BY FINAL USE CATEGORIES

(In millions of US$)

	1990	1991 /1/	1992	1993 /2/	1994 /3/
Total Imports	1,531	1,375	1,206	1,199	1,441
Products for reproduction	1,050	892	827	748	792
Products for investments & spare parts	98	121	85	132	189
Products for consumption	383	261	286	309	450
Not arranged	0	101	8	10	10

/1/ An amount of US$ 101 for imports from R. Slovenia and R. Croatia have been included.

/2/ Does not include assistance given by governments.

/3/ Preliminary data.

Source: Ministry of Development.

TABLE 4.1 : MEDIUM & LONG-TERM DEBT BY CREDITOR /1/, 1990-94
(US$ million)

	1990	1991	1992	1993	1994
Official Creditors	..	..	382.9	427.3	559.4
Multilateral	..	..	227.3	224.3	233.6
IBRD	..	..	150.0	150.0	91.0
IDA	..	..	0.0	0.0	42.3
IFC	..	..	8.9	9.0	12.4
IMF	..	..	10.4	7.0	19.7
EIB	..	..	51.7	52.0	60.9
EFR /2/	..	..	6.3	6.3	7.3
Bilateral /3/	..	..	155.6	203.0	325.7
Rescheduled /4/	..	..	..	148.0	251.7
Non-rescheduled	..	..	..	55.0	74.0
Private Creditors	..	..	459.2	418.7	547.9
Commercial banks	..	..	343.5	346.5	474.3
EUROFIMA	..	..	25.2	25.2	33.1
Others	..	..	90.5	47.0	40.5
TOTAL, of which:	827.5	806.4	842.1	846.0	1107.3
Arrears	42.0	73.0	206.0	209.0	460.0

" .." Means break-down of data not available.

/1/ Data before 1994 do not include disputed and /or unallocated debt.
For 1994, the data include staff estimates of penalty interest on arrears and working assumption about the former Yugoslav Republic of Macedonia's share of the unallocated debt of the former SFRY.

/2/ Denotes European Fund for Reintegration.

/3/ Paris Club creditors.

/4/ Debt rescheduled under the 1989 agreement between the Paris Club and the former SFRY.

Sources: National Bank of Macedonia Bulletins, various issues; IMF; and Bank staff estimates.

TABLE 5.1 : SUMMARY OF GENERAL GOVERNMENT OPERATIONS, 1991-94
(In millions of denar)

	1991	1992	1993	1994
Total Revenues and Grants	396	4384	23766	60846
Central Government	207	2214	13411	37993
Tax Revenue	196	2152	11754	35492
Non-tax revenue	11	62	1657	2501
Foreign grants	0	0	0	0
Extrabudgetary Funds	186	2145	10175	22400
Pension Funds	88	1052	6115	14441
Health-care Fund	44	527	2398	6032
Employment Fund	4	46	342	952
Other Funds	50	520	1320	975
Local Budgets	3	25	180	453
Total Expenditure and Net Lending	435	5407	31690	64315
Central Government	207	2914	17657	36152
Current Expenditure	197	2800	17081	32421
Capital Expenditure	7	100	527	3254
Reserves	3	14	49	190
Arrears clearance	0	0	0	287
Extrabudgetary Funds	225	2468	13853	27710
Pension Funds	92	1183	8513	16549
Health-care Fund	79	702	3556	7992
Employment Fund	4	63	464	734
Other Funds	50	520	1320	2435
Local Budgets	3	25	180	453
Overall deficit (accrual)	-39	-1023	-7924	-3469
Memorandum items:				
GSP (Denar Mn, current prices)	1136	16016	71526	146656

Source: Ministry of Development

TABLE 5.2 : COMPOSITION OF CENTRAL GOVERNMENT REVENUE AND GRANTS
(Millions of denars)

	1991	1992	1993	1994
Total Revenue	207	2214	13411	37993
Tax Revenue	196	2152	11754	35492
Personal income tax	63	728	4237	9174
Profit tax	9	186	581	2346
Sales tax	98	903	4597	6963
Excises	0	0	0	11231
Import duties	24	309	2038	5778
Other taxes	2	26	301	0
Non-tax revenue	11	62	1657	2501
Foreign grants	0	0	0	0

Source: Ministry of Development

TABLE 5: MONETARY SURVEY, 1991-94

	1991	1992	1993	1994 /a/
	(In millions of denars, end of year)			
Broad Money (M3)	420	14,584	53,921	61,111
Money Supply (M1)	225	1,807	6,140	11,964
Quasi-Money	154	5,660	22,126	21,051
Nonmonetary Deposits	41	7,117	25,655	28,096
Net Foreign Assets	(162)	(11,609)	(13,591)	(6,010)
Net Domestic Credit	435	9,453	45,169	76,080
Government	..	..	11,594	10,836
Social and Private Sectors	..	..	33,575	65,244
Other Domestic Assets (Net)	147	16,741	22,343	(8,959)
Offsets to Expansion of Broad Money				
Net Foreign Assets	-39%	-80%	-25%	-10%
Net Domestic Credit	104%	65%	84%	124%
Government	..	..	22%	18%
Social and Private Sectors	..	..	62%	107%
Other Domestic Assets (Net)	35%	115%	41%	-15%
Increase in Broad Money	100%	100%	100%	100%

/a/ Provisional

Source: Statistical appendix 6.1.

TABLE 6.2: INTEREST RATES

	1991	1992				1993				1994			
	December	March	June	September	December	March	June	September	December	March	June	September	December
NBM Interest Rates:													
Discount Rate	40	60	170	170	250	392	152	170	295	247	38	33	33
Interest on regular liquidity credit	115	173	489	489	719	1127	436	489	848	494	76	66	66
Interest on required reserves													
Sight and deposits up to 3 months	12	18	51	51	75	118	46	51	89	74	23	20	13
Time deposits tied over 3 months	28	42	119	119	175	233	106	119	207	173	23	20	13
Commercial Banks Deposit Rates													
Household													
Sight deposits	14-35	20-42	35-125	40-208	81-152	81-207	60-218	43-81	50-78	34-78	6-19	6-13	6-13
Time deposits (3-6 months)	35-334	46-436	380-885	380-1915	435-885	792-991	392-916	185-255	322-418	152-418	37-39	32-49	32-49
Business Enterprises													
Sight deposits	14-35	16-42	35-106	35-208	61-152	61-207	60-218	34-81	42-78	41-67	6-19	6-13	6-13
Time deposits													
Time deposits (3-6 months)	35-334	46-436	380-885	380-885	435-885	508-991	392-916	207-255	207-418	152-418	37-39	33-49	33-49
Commercial Banks Lending Rates													
Short-term													
Agriculture Loans	101-221	190-270	987-1200	987-1200	1200-1220	1044-1364	649-1410	201-474	275-675	245-575	77-97	77-93	77-93
Household Consumer	91-202	108-190	333-1100	333-1200	380-1100	380-1044	276-819	185-508	191-447	176-494	87-97	81-97	53-87
Long-term													
Working assets	131-240	217-333	1100-2355	1100-2355	1100-2355	1159-1772	1024-1915	300-474	474-675	344-602	87-98	88-98	88-98
Household housing loans	25-43	25-100	181-1686	181-1686	310-1686	290-2096	197-1915	127-508	191-602	113-602	87-109	81-162	81-162
Small-scale business	..	..	1100	1100	..	1100	1159	255-474	367-602	321-602	87-98	87-162	87-93

Source: National Bank of Macedonia

TABLE 7.1: AGRICULTURAL PRODUCTION, 1990-94

(in thousand of tons)

	1990	1991	1992	1993	1994 /1/
Wheat	231.4	340.7	299.5	249.8	336.1
Corn	79.5	135.0	104.5	101.1	133.2
Sugar beets	106.4	71.3	44.9	55.1	54.1
Sunflowers	13.4	38.7	17.5	18.8	17.9
Tobacco	16.4	22.5	22.7	21.1	20.7
Meat					
Beef	9.5	8.2	7.5	8.4	10.0
Pork	9.7	9.9	10.4	9.6	9.5
Mutton/Lamb	14.4	13.1	12.4	12.9	11.0
Poultry	2.3	2.4	2.3	1.9	3.0
Milk (millions of liters)	170.0	179.5	175.8	178.0	175.0

/1/ Provisional

Source: Statistical Office

TABLE 7.2: CULTIVATED AREA AND YIELDS OF MAJOR CROPS

	1990	1991	1992	1993	1994 /1/
Cultivated Area			(thousand hectares)		
Wheat	115	113	115	117	118
Corn	42	43	44	46	43
Rice	9	9	6	6	2
Barley	53	54	56	56	53
Tobacco	21	18	20	23	12
Sugar beet	5	2	2	2	2
Sunflower	33	29	25	32	21
Yield			(thousand kg./ha.)		
Wheat	2.0	3.0	2.7	2.1	2.9
Corn	1.9	3.2	2.9	2.3	3.1
Rice	3.1	4.3	5.0	1.8	1.0
Barley	1.5	3.0	2.3	2.0	2.4
Tobacco	1.1	1.4	1.2	1.0	1.4
Sunflower	0.5	1.4	1.2	1.0	0.8
Sugar beet	25.6	37.0	25.3	24.4	33.5

/1/ Provisional

Source: Ministry of Development

TABLE 7.3: USE OF ARTIFICIAL FERTILIZERS /1/
('000 nutrient tons)

	1990	1991	1992	1993	1994
Nitrogenous	16,202	11,408	12,083	..	..
Phosphates	48	3	32	..	..
Potassium	237	177	145	..	..
Mixtures	20,716	14,907	18,549	..	..

/1/ Includes public enerprises and agricultural cooperatives.

Source: Statistical Yearbook '93

TABLE 8.1: OUTPUT OF PRINCIPAL INDUSTRIAL PRODUCTS, 1990-94

	Unit	1990	1991	1992	1993	1994 /1/
Electicity	MWHrs	5,754,351	5,770,137	6,046,223	5,590,922	5,240,387
Petroleum products	000 tons	1,173	909	556	987	161
Sheet steel	tons	506,569	514,989	265,455	156,087	73,111
Buses (frames)	tons	9,501	12,091	6,063	4,362	2,792
Agricultural machines	tons	1,360	521	301	295	321
Refrigerators	units	156,327	135,972	138,937	109,022	105,865
Micro motors	KW	49,319	22,926	21,517	17,312	10,300
Cement	tons	639,019	605,735	516,053	499,093	486,450
Wool yarn	tons	13,956	9,399	7,007	5,858	5,107
Cotton fabric	000 m2	61,344	37,677	29,009	24,497	27,548
Leather footwear	'000 pairs	6,028	3,566	3,303	2,216	1,510
Cigarettes	millions	16,328	17,260	14,023	9,626	13,550

/1/ Provisional

Source: Statistical office

Table 8.2: Primary Energy: Production, Import and Consumption, 1990-94

	Unit	1990	1991	1992	1993	1994
Coal (incl. cooking coal)	"000 tons					
Production		6,715	6,922	6,494	7,706	6,830
Imports		248	230	225	250	238
Exports		69	150	35	10	0
Consumption		6,894	7,002	6,684	7,946	7,068
Crude Petroleum	"000 tons					
Imports		1,235	920	554	1,054	106
Available for refining		1,235	920	554	1,054	106
Hydroelectric Power	Mil. kwth					
Potential		427	845	822	521	686
Total primary energy	Thous. terajoules					
Production		54	55	54	62	55
Imports		57	43	27	49	7
Exports		1	1	0	0	0
Consumption		111	98	80	111	62

Source: Data provided by FYRM authorities

TABLE 8.3: SECONDARY ENERGY: PRODUCTION, IMPORT AND CONSUMPTION
(In thousands of terajoules)

	1990	1991	1992	1993	1994
Electric energy (hydro & thermal)					
Production	18.2	18.8	20.0	18.5	19.7
Imports	3.2	1.7	1.1	1.9	0.9
Exports	2.8	1.6	1.0	0.1	0.5
Consumption	18.6	18.9	20.1	20.3	20.1
Petroleum products					
Production	53.1	40.4	23.7	42.7	6.0
Imports	3.5	7.7	15.0	9.9	27.3
Exports	7.1	4.4	0.0	0.0	0.0
Consumption	49.5	43.7	38.7	52.6	33.3
Coke					
Production	0.0	0.0	0.0	0.0	0.0
Imports	3.8	2.8	3.0	2.6	2.2
Consumption	3.8	2.8	3.0	2.6	2.2
Total secondary energy					
Production	71.3	59.2	43.7	61.2	25.7
Imports	10.5	12.2	19.1	14.4	30.4
Exports	9.0	5.9	1.0	0.1	0.5
Consumption	71.9	65.4	61.8	75.5	55.6

Source: Data provided by FYRM authorities

TABLE 8.4: LENGTH OF ROAD AND RAIL NETWORKS

(In kilometers)

	1990	1991	1992	1993
Modernized Roads	5,091	4,876	4,820	4,901
Railroad Tracks	922	922	922	922

Source:Statistical office

TABLE 8.5: PASSENGER AND FREIGHT VOLUMES, BY ROAD, RAIL AND AIR, 1990-94

	Unit	1990	1991	1992	1993	1994 /1/
Road Transport						
Transported Goods	"000 tones	8,036	6,141	4,015	3,782	3,650
Transported Passengers	thousands	40,665	32,076	30,540	28,305	27,500
Railway Transport						
Goods turnover	"000 tones	6,499	5,641	3,995	3,698	2,150
Passengers transported	thousands	5,055	3,112	1,875	1,198	1,320
Air Transport						
Transported Goods	"000 tones	3,329	1,273	1,102	4,889	6,500
Transported Passengers	thousands	522	492	459	625	600

/1/ Provisional

Source: Statistical office

TABLE 9.1:MONTHLY PRICE DEVELOPMENT

(Base: December 1991=100)

		Retail Price Index	Percentage Growth	Consumer Price Index	Percentage Growth	Producer's Price Index	Percentage Growth
1990	Jan	19.0	38.1%			21.5	16.4%
	Feb	22.7	19.5%			22.2	3.2%
	Mar	23.5	3.5%			22.7	2.3%
	Apr	23.9	1.5%			22.4	-1.5%
	May	24.7	3.6%			22.1	-1.0%
	Jun	24.2	-2.4%			21.8	-1.5%
	Jul	24.7	2.2%			21.8	0.1%
	Aug	25.0	1.1%			22.1	1.2%
	Sep	26.5	6.1%			23.6	6.6%
	Oct	28.9	9.2%			25.7	9.0%
	Nov	29.6	2.3%			26.2	2.1%
	Dec	30.3	2.6%			26.2	-0.2%
1991	Jan	32.1	5.7%			27.6	5.6%
	Feb	35.2	9.7%			30.4	10.2%
	Mar	35.8	1.6%			31.7	4.0%
	Apr	37.0	3.5%			32.2	1.6%
	May	41.4	11.8%			36.6	13.8%
	Jun	46.9	13.3%			40.8	11.3%
	Jul	49.2	4.9%			42.5	4.4%
	Aug	53.5	8.8%			45.5	7.0%
	Sep	61.4	14.7%			53.9	18.3%
	Oct	71.3	16.2%			64.2	19.2%
	Nov	86.2	20.9%			84.0	30.8%
	Dec	100.0	16.0%	100.0		100.0	19.1%
1992	Jan	126.2	26.2%	127.2	27.2%	143.7	43.7%
	Feb	188.2	49.1%	191.0	50.2%	234.5	63.2%
	Mar	258.9	37.6%	275.3	44.1%	345.6	47.4%
	Apr	481.8	86.1%	483.6	75.7%	702.3	103.2%
	May	830.6	72.4%	857.5	77.3%	1,121.7	59.7%
	Jun	971.8	17.0%	945.8	10.3%	1,209.2	7.8%
	Jul	1,052.5	8.3%	999.7	5.7%	1,252.7	3.6%
	Aug	1,121.9	6.6%	1,079.6	8.0%	1,324.1	5.7%
	Sep	1,301.4	16.0%	1,263.2	17.0%	1,416.8	7.0%
	Oct	1,574.7	21.0%	1,606.8	27.2%	1,610.4	13.7%
	Nov	1,732.2	10.0%	1,783.5	11.0%	1,889.2	17.3%
	Dec	2,035.3	17.5%	2,065.3	15.8%	2,189.6	15.9%
1993	Jan	2,338.6	14.9%	2,370.9	14.8%	2,452.3	12.0%
	Feb	3,098.6	32.5%	3,141.4	32.5%	3,207.6	30.8%
	Mar	3,362.0	8.5%	3,402.1	8.3%	3,345.5	4.3%
	Apr	3,476.3	3.4%	3,473.5	2.1%	3,616.5	8.1%
	May	3,754.4	8.0%	4,032.7	16.1%	3,677.9	1.7%
	Jun	3,720.6	-0.9%	3,673.8	-8.9%	3,729.4	1.4%
	Jul	4,007.0	7.7%	4,019.1	9.4%	3,871.1	3.8%
	Aug	4,387.6	9.5%	4,412.9	9.8%	4,056.9	4.8%
	Sep	4,672.7	6.5%	4,810.0	9.0%	4,194.8	3.4%
	Oct	5,238.1	12.1%	5,478.5	13.9%	4,618.4	10.1%
	Nov	5,871.9	12.1%	6,097.5	11.3%	5,103.3	10.5%
	Dec	6,664.6	13.5%	7,054.8	15.7%	6,083.1	19.2%
1994	Jan	8,130.8	22.0%	8,381.1	18.8%	6,880.0	13.1%
	Feb	8,683.7	6.8%	9,026.4	7.7%	7,148.3	3.9%
	Mar	8,892.1	2.4%	9,197.9	1.9%	7,334.2	2.6%
	Apr	9,105.5	2.4%	9,437.1	2.6%	7,407.5	1.0%
	May	9,251.2	1.6%	9,654.1	2.3%	7,666.8	3.5%
	Jun	9,464.0	2.3%	10,011.4	3.7%	7,705.1	0.5%
	Jul	9,407.2	-0.6%	9,881.2	-1.3%	7,705.1	0.0%
	Aug	9,463.7	0.6%	9,920.7	0.4%	7,766.7	0.8%
	Sep	9,634.0	1.8%	10,188.6	2.7%	7,766.7	0.0%
	Oct	9,826.7	2.0%	10,453.5	2.6%	7,805.6	0.5%
	Nov	10,042.9	2.2%	10,652.1	1.9%	7,883.6	1.0%
	Dec	10,334.1	2.9%	10,939.7	2.7%	7,820.6	-0.8%
1995	Jan	10,664.8	3.2%	11,300.7	3.3%	7,867.5	0.6%
	Feb	10,686.1	0.2%	11,312.0	0.1%	7,961.9	1.2%
	Mar	10,857.1	1.6%	11,470.4	1.4%	7,985.8	0.3%

Source: Bureau of Statistics

TABLE 9.2:COST OF LIVING INDEX BY MAJOR CATEGORIES

(1990=100)

	1991	1992	1993	1994
Total	210.8	3396.6	15692.4	35825.7
Goods	206.5	3576.6	15679.7	34307.2
Food	204.5	3462.2	15434.4	..
Tobacco and Beverage	205.6	3597.8	15650.4	..
Clothing and Footwear	177.8	3636.0	15311.2	..
Housing	210.4	2694.2	14640.1	..
Services	237.8	2223.4	15112.7	43358.2

Source: Ministry of Development

TABLE 9.3: NET NOMINAL AND REAL AVERAGE WAGE

	Net Nominal Average Wage (Denar)	Percentage Change (Monthly)	Net Real Average Wage (Jan '92=100)
Jan 1992	137		100.0
Feb 1992	172	25.5%	86.0
Mar 1992	273	58.7%	102.6
Apr 1992	391	43.2%	83.6
May 1992	429	9.7%	51.8
Jun 1992	433	0.9%	47.4
Jul 1992	581	34.2%	60.2
Aug 1992	743	27.9%	71.3
Sep 1992	928	24.9%	76.1
Oct 1992	1035	11.5%	66.7
Nov 1992	1181	14.1%	68.6
Dec 1992	1340	13.5%	67.2
1992	636	24.0%	73.5
Jan 1993	1647	22.9%	70.7
Feb 1993	2033	23.4%	65.8
Mar 1993	2575	26.7%	77.0
Apr 1993	2946	14.4%	86.3
May 1993	3229	9.6%	81.4
Jun 1993	3487	8.0%	96.5
Jul 1993	3837	10.0%	97.1
Aug 1993	4079	6.3%	94.0
Sep 1993	4659	14.2%	98.5
Oct 1993	5156	10.7%	95.7
Nov 1993	5812	12.7%	96.9
Dec 1993	6315	8.7%	91.0
1993	3815	14.0%	87.6
Jan 1994	6708	6.2%	81.4
Feb 1994	7122	6.2%	80.3
Mar 1994	7490	5.2%	82.9
Apr 1994	7517	0.4%	81.1
May 1994	7775	3.4%	82.0
Jun 1994	7848	0.9%	79.8
Jul 1994	7904	0.7%	81.5
Aug 1994	8023	1.5%	82.4
Sep 1994	8090	0.8%	80.9
Oct 1994	8259	2.1%	80.5
Nov 1993	8105	-1.9%	80.3
Dec 1993	8424	3.9%	77.5
1994	7754	2.5%	73.9
Jan 1994	8444	0.2%	76.0

/1/ Real Wage = ((Nominal wage/Nominal wage, Jan. 1992) / CPI) *100

Source: Statistical Office

TABLE 10.1: NUMBER OF PRIMARY, SECONDARY AND HIGHER EDUCATION SCHOOLS AND TEACHERS

	1990	1991	1992	1993	1994
Primary Education					
Number of schools	1,087	1,067	1,053	..	..
Number of teachers	13,135	12,976	13,044	..	..
Secondary Education					
Number of schools	91	90	90	..	..
Number of teachers	4,154	4,227	4,267	..	..
Higher Education					
Number of schools	25	25	26	25	..
Number of teachers	1,367	1,032	1,108	1,085	..

Source: Statistical Yearbook 1993

TABLE 10.2: NUMBER OF STUDENTS BY EDUCATIONAL ESTABLISHMENTS, 1990-94
(In thousands)

	1990	1991	1992	1993	1994 /1/
Total number of students	365.5	360.7	355.2	352.9	347.6
Elementary education	270.9	268.5	262.7	262.0	257.7
Secondary education	71.7	70.9	70.4	69.0	67.6
Advanced education	22.9	21.3	22.1	21.9	22.3

/1/ Estimate

Source: Ministry of Development

TABLE 10.3: NUMBER OF PHYSICIANS, NURSES AND HOSPITAL BEDS, 1990-94
(In thousands)

	1990	1991	1992	1993	1994/1/
Total doctors and stomatologists	4,930	5,109	5,139	5,200	5,260
Inhabitants per doctor	411	399	400	398	397
Total number of Nurses	8,070	8,466	10,217	10,470	10,700
Inhabitants per Nurse	251	241	201	198	195
Total number of Hospital Beds	11,585	11,551	11,421	11,460	10,440
Per a thousand inhabitants	5.7	5.7	5.6	5.5	5.5

/1/ Estimate

Source:Ministry of Development

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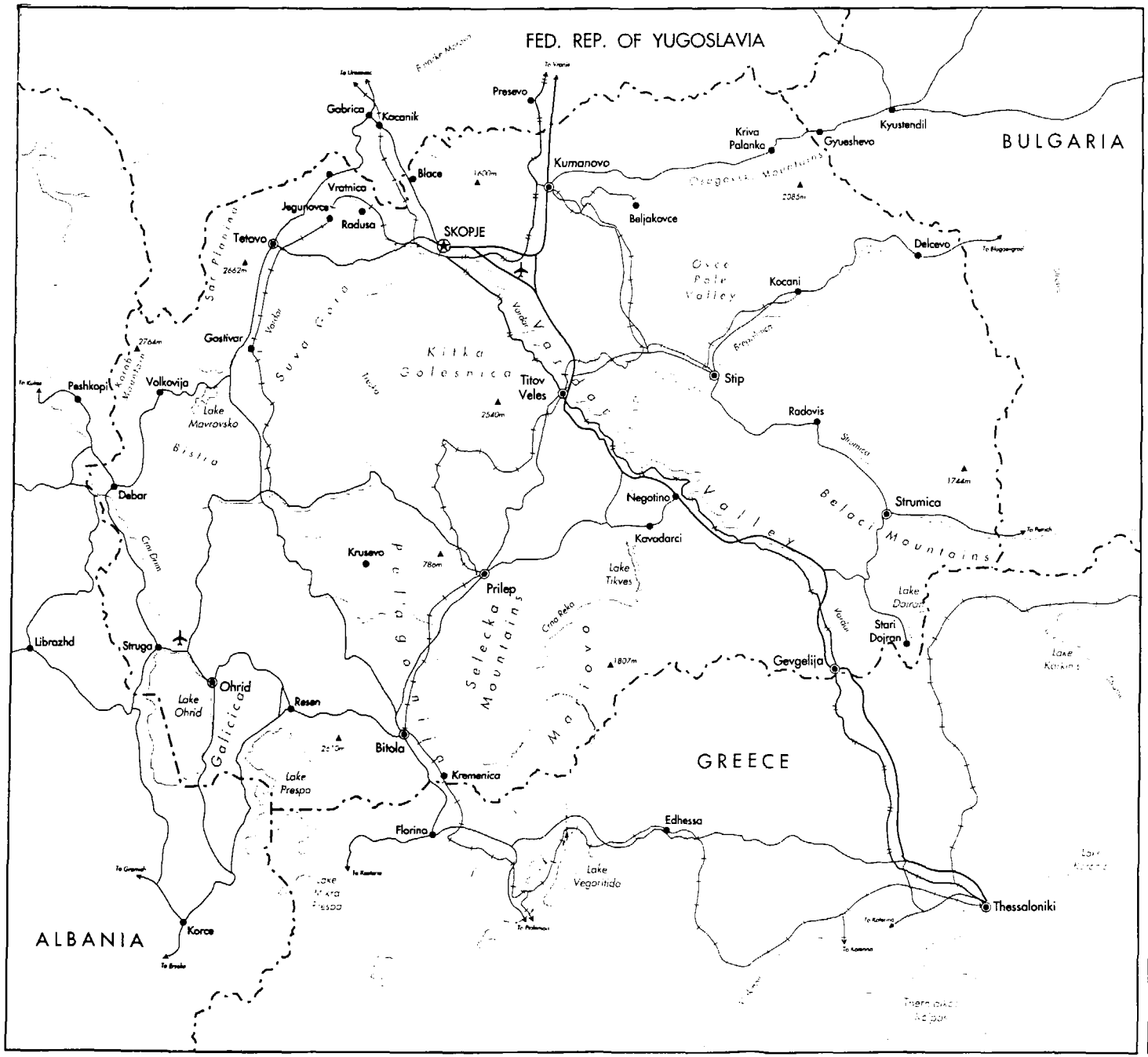

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- Major cities
- Selected cities
- National Capital
- Primary roads
- Secondary roads
- Electrified railroads
- Other railroads
- Airports
- Spot elevations in meters (2540m)
- Rivers
- International boundaries

0 15 30 KILOMETERS

0 15 30 MILES

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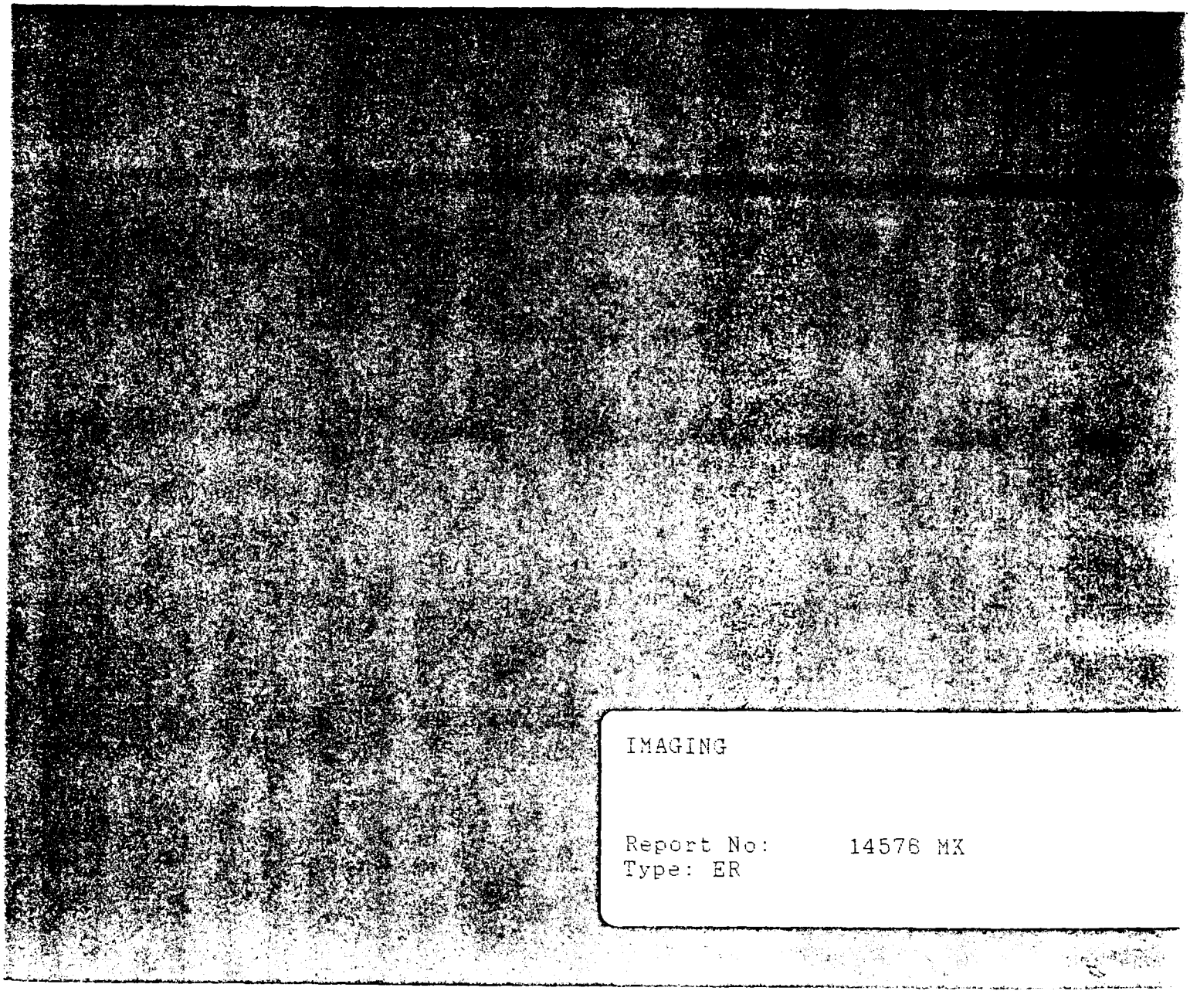

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