

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Communication from the Former Yugoslav Republic of Macedonia

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**I. POLICY REVIEW**

The Former Yugoslav Republic of Macedonia despite the difficult conditions and external limitations has continued activities aimed at preserving peace and stability, broadening the international recognition and affirmation of the country, stabilizing the economic flows, and carrying out economic reforms with the final goal of creating a market economy environment and building a political system on a democratic basis.

With the admission to the United Nations and the membership in the international institutions under the system of the United Nations; the admission to the IMF, the World Bank and the European Bank for Reconstruction and Development; by acquiring the status of a special guest in the European Council, observer in CSCE and the membership in the Central European initiative, the Former Yugoslav Republic of Macedonia is obtaining its international legitimacy and is marking out the route for setting up diplomatic relations with countries all over the world.

The Former Yugoslav Republic of Macedonia has been recognized by fifty countries as an independent and sovereign State and has established diplomatic relations with fifteen of them. In December 1993, six country members of the European Union (Great Britain, Germany, France, Holland, Italy and Denmark) established diplomatic relations with the Former Yugoslav Republic of Macedonia at embassy level, which is a significant step towards the process of including the country in the European associations and gradually solving the outstanding problems in the Balkans. After this, the process of recognition accelerated as recognition followed from the Nordic countries, Japan and Poland while other countries in the world announced their recognition as well.

The international recognition of the Former Yugoslav Republic of Macedonia and its integration in the world's association is of historical and political importance creating an environment and preconditions for establishing a real democratic development as well as a total reform of the economic system and transition towards a market economy.

Following independence, the Former Yugoslav Republic of Macedonia has been undergoing a process of rounding-up the normative institutional framework and has been alleviating economic problems with macroeconomic management.

For achieving macroeconomic stability as a primary goal of macroeconomic policy, measures were undertaken above all in the field of monetary and fiscal policy, foreign-exchange rate policy and partly income policy. In 1993 inflation decreased considerably, but the danger from hyper-inflation still remains because the primary generators of inflation, mainly structural distortions and cumulative deficits in the balance-of-payment of the fiscal and real sectors have not yet been discarded.

In order to reduce negative conditions in the country, in December 1993, the Government of the Former Yugoslav Republic of Macedonia has passed the Stabilization Programme whose principles are coordinated with the International Monetary Fund and the World Bank.

The Assembly of the Former Yugoslav Republic of Macedonia has approved a "package" regulations proposed for carrying out the Programme. The labour unions have stated certain concerns on questions mainly concerned with the policy of wages and working legislation. With these regulations, the Former Yugoslav Republic of Macedonia continued the radical changes in the economic system primarily directed towards completing the economic-system framework by passing a great number of laws and their application. However, in the Assembly frequent blockages and slow-paced operations occur due to the support of individual and narrow party interests.

In the political context democratic activities are continuing and questions are solved within the institutions of the system, and in an atmosphere of civil and nationality tolerance and respect while securing human rights and freedom.

## **II. MACROECONOMIC TRENDS**

In the country's economy long term cumulated problems and negative tendencies were especially intensified with the application of the UN Security Council sanctions towards Serbia and Montenegro. In a state of infra-structural - business - financial and other isolations the economy is suffering disastrous consequences. For 1992 and 1993 the damages from the sanctions are estimated to be around US\$ 3 billion, amounting only in 1993 to around US\$ 1.8 billion.

In extremely negative material - financial conditions and surroundings a further decline of economic activity is happening at present. In 1993 GDP is estimated to have decreased by around 15%. The basic macroeconomic aggregates in 1993 are at a real level considerably lower than the one attained in 1989 (i.e. from the period prior to intensifying the political crisis in the area of former SFRY). These are the following: GDP around 42%, industrial production around 50%, total fixed investments for around 45% (economic investments even 47%); employment in the social sector around 17% and salaries of people employed in the social sector 40%. The inflation in this period increased nearly 490 times. Due to such trends, GDP per capita is decreased from US\$ 1.197 in 1989 to US\$ 587 in 1993 (according to the methodology of material production).

### **1. Supply and demand**

In the second half of 1993 continued the tendencies towards creating global supply at a significantly low level. This results primarily from the further declining of economic activity, insufficient imports, presence of deficits in the country and in the external relations.

Along with negative conditions and numerous restrictions the industrial production has continued to realize high negative dynamics. In addition, the monthly rate of decrease in the last few months of 1993, is over 20% in relation to the average monthly production from 1992. The industrial production in 1993 is estimated to have decreased by 15% in relation to the previous year. The production will be reduced in nearly all industrial branches. A great part of the industrial capacities are used with interruptions depending on the supply of raw materials and production materials and especially on the markets for the distribution of production.

These conditions are not only influenced by the problems connected with the supply and distribution but also to a great extent by the absence of financial support from abroad and the lack of own resources, the presence of expensive bank credits, great disturbances in the balance-of-payments, high insolvency and further existence of protection measures from certain countries. The economic subjects were forced to organize the production with extremely high total working costs.

Even with reduced production of certain products, the relatively small domestic market cannot absorb the supply. The orientation towards other markets with the use of alternative transportation means, significantly increases the transportation costs in the price of the products which additionally reduces their ability for competition.

The supply of crude oil and oil derivatives in the second half of 1993 was quite stable, while the supply of electric energy especially in the winter period is highly unsatisfactory.

Agricultural production has an important place in the supply. The Former Yugoslav Republic of Macedonia is one of the larger producers and exporters of tobacco, rice, garden cultures, grapes, fruit and lamb meat.

The long lasting drought in 1993 which had the character of natural disaster, as well as the low temperatures in the winter period have lowered the agricultural production by around 20% in relation to 1992<sup>1</sup>.

The conditions in cattle raising have become more complicated due to the blockades for export of meat and livestock in the European Union<sup>2</sup>

, and the reduced import of fodder components intended above all for the poultry and hog raising. This results in lowering the number of live-stock.

In the construction sector because of decreased investments in the country and restricted possibilities for engaging the construction market of former Yugoslav republics/States, as well as in other foreign markets. This condition which has lasted several years, continued the decline of the

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<sup>1</sup>In 1993 production of wheat was around 250 thousand tons or 16.6% less than in 1992, corn 101 thousand tons or 3.4% less, rice husk 10.4 thousand tons or around 22% less, sunflower 18.9 thousand tons or 50% less, sugar beet 40 thousand tons or 10.3 % less, grapes 127.9 thousand tons or 51.6% less and fruit 130.5 thousand tons or 19.2% less than in 1992.

<sup>2</sup>As a result of this the export of 885 tons of lamb and 876 tons of bullock meat was left out on the basis of which around US\$ 7 million foreign exchange inflow was not realized.

construction works. In 1993, the activity in construction is estimated to have fallen down to around 15% in relation to 1992.

Despite the measures undertaken and the payment of obligations from abroad, a great number of obligations remained unpaid which brought up the problem of liquidity in many construction enterprises and limited the possibility for further engaging the construction capacity.

The transportation is in an exceptionally difficult situation due to the circumstances of lower economic activity, disturbances in the functioning of the transportation systems, especially with the prohibition of transit transportation through the territory of Serbia. The orientation towards other transportation routes has increased transportation costs because of the duration of travelling, high taxes, insurance etc. In 1993, transportation services are expected to decrease by around 20% in relation to 1992.

After several years of decline of the turnover in tourism, an increase is expected in 1993, due to the growing number of overnight stays from domestic tourists. The number of overnight stays by foreign tourists from former Yugoslav Republics has significantly decreased while overnight stays by foreign tourists from other countries have increased noticeably. For 1993 the foreign exchange inflow on the basis of foreign tourism, for 1993 is estimated to be around US\$13 million, which is over 70% less than the one realized in 1990.

The aggregate demand in 1993 was not in accordance with the level of global supply. Besides the investment consumption which is constantly falling, the other types of consumption showed real growth and caused an increase in the aggregate consumption.

In 1993 the National Bank of the Former Yugoslav Republic of Macedonia ensured the control over movements of monetary aggregates, which directly influenced the formation of aggregate demand. Money mass (M1) in total remained within the projected parameters and affected the maintenance of macroeconomic balance positively.

In the last quarter of 1993, the National Bank considerably decreased the selective credits for support of agricultural production. This was followed by the introduction of procedures and instruments for market allocation of credits and accounting notes. After the first buying at an auction of securities (accounting notes) organized in May 1993, two other auctions of credits were organized, where satisfactory results were attained.

The discount rate of the National Bank was determined at a real level of around one percentage point above inflation. In correlation to this, monthly adjustments are made according to the movement of prices. Interest rates of banks were set freely, but at a high real level outside the influence of inflation and the discount rate. However, the market interest rates did not provide efficient allocation of credits due to the inferior assets and weak financial discipline of enterprises.

In spite of slowing down the growth of salaries and other social incomes in the second half of 1993 in relation to the first half of the year, for the whole of 1993 they demonstrated a relatively high real increase which had an appropriate influence over the formation of aggregate consumption in this year. In 1993 the private consumption grew in real terms by around 3% in relation to 1992. The share of private consumption in GDP has increased to 52.1% in 1993 compared to 49.5% in 1992.

In the second half of the year 1993, in spite of the lack of control, salaries were paid with slower dynamics, comparing to their significant growth in the first half of the year, above all because

of financial exhaustion of economic subjects, the budget and separate funds. The high real growth of salaries realized in the first half of the year of 43.5% determined the annual rate of their real growth of 26.5% in 1993, which is in divergence with the negative trend in the material sector.

Salaries in the economic sector continued to be paid with price adjustment towards increased costs of living. Lacking real material possibilities they were often paid with credit obligations, by transforming the real financial property of enterprises - that is into salaries.

Along with the legal prohibition of certain economic subjects continued payment in kind on part of the salaries, from the daily market etc.

The drop of investments of around 15% in 1993 caused their share in GDP to decline from 16.5% to 14.3% in 1993. The level of investments is low because of the still present great risk from investing, lack of own resources and high price of credits, as well as because of the lack of foreign credits and other forms of deposits.

## **2. Internal balance**

After the stabilization of inflation in the middle of the year, it intensified in the last quarter of 1993. The average increase in the period March-September was around 6% average monthly, increasing in the following months to around 13%. This is a result of the depreciation of the exchange rate of the denar and the decreased supply of goods on the market, the real increase of salaries and the correction of prices of products and services which are directly controlled.

Yearly inflation measured by retail prices (December 1993 in relation to December 1992) is estimated to be 230% compared to 1925.2% in 1992. Average monthly inflation has decreased from 28.5% in 1992 to approximately 10.6% in 1993.

In 1993 the employment was under the direct influence of the process of market transformation.

The working force market in 1993 which is still uncontrolled is characterized by structural problems and a considerable gap between the global supply and demand of the working force. A high registered unemployment is present (around 175,000 people), over employment in the social sector, temporary and permanent employment abroad (around 63,000) and relatively small demand for new employments.

Total employment in 1993 had a decreasing tendency (1.9%) which caused the number of employed to decrease to 514,000 individuals. At the same time, noticeable is the decrease of the employed in the social, cooperative and in many enterprises by 4.5% in relation to 1992, while in the private sector the increase was nearly 13%.

In the circumstances, a part of the employed are forced to go on vacation or to work with reduced working hours and a great percentage of workers are part-timed employed.

In the first half of 1993 year revenues for financing the public sector showed an increase in real terms<sup>3</sup>. This resulted in increase of the share of resources for public consumption in GDP from 28% in 1992 to around 33% in 1993 which is in accordance with the determined policy. In addition, due to the increased expenditures, as well as the loss of transfers from the former Federation, resources are not enough to secure the financing of growing public expenditures.

The expansion of public functions and the popular illegal tax evasion which was manifested primarily in the private sector brought further strengthening of the imbalance in the fiscal sector. The balancing of the Budget and financial plans was done, by not fulfilling obligations, with partial financing or not financing certain purposes. Total deficits in 1993 are estimated to be around 7.2 billion denars or approximately 10% of GDP (not counting uncovered deficits from 1992).

### **3. External balance**

The foreign - trade exchange, in coexistence with the balance-of-payments situation, limited export possibilities and lack of foreign exchange, was maintained at a considerably low level in relation to the previous year. The establishment of relatively balanced relations is secured first of all by the decrease of imports. This had negative effects over the supply of the economy and the market with certain raw materials, production materials and food products which influenced the reduction of production and total supply.

After the growth realized in the first half of the year, the foreign- trade exchange showed a significant fall in the third quarter in both import and export of goods.

The export of goods in 1993 is estimated to have the value of approximately US\$ 1 billion which is around 15% less than in 1992. The import of goods is expected to realize the value of US\$ 1.1 billion which means a decrease of around 10%.

Exports to the countries of former SFRY have noticeably declined, mainly as a result of the sanctions towards Serbia and Montenegro, as well as the export on the basis of "lone" contracts with countries members of the former CMEA. A lot of difficulties and problems are present in the exchange with Western countries because of the low export-import quotas and other restrictive measures.

As a result of system changes, especially with the application of the flexible foreign exchange rate, commencement of the foreign exchange market liberalized exchange works and free handling of foreign exchange resources, the effective foreign exchange inflow has been increased<sup>4</sup>. But it is still on a very low level.

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<sup>3</sup>In the period January-November 1993 revenue for financing the public sector was 28.6% higher in real terms in relation to the same period of the previous year. The same rate occurred in the payment of revenues for budget financing as well as for financing social funds.

<sup>4</sup>In the period January-September 1993 foreign exchange inflow from current transactions with abroad was US\$ 559 million which is an increase of around 106% in relation to the same period of the previous year. The foreign exchange inflow from export of goods is US\$ 306 or approximately 44% from the regular export of goods. At the same time the foreign exchange outflow from current transactions abroad was US\$ 518 million which means an increase of approximately 88%. The outflow of foreign exchange was US\$ 390 million i.e. around 54% of the regular import of goods.

The export of goods and services and the realization of foreign exchange inflows on all basis are uncertain, first of all, by the policy of the exchange rate of the denar, which is formed freely in accordance with the movement of supply and demand of foreign exchange in the foreign exchange market, as well as by the return of customs and other import duties, by monitoring the export of certain agricultural and food products and by the provision of means for tourist - informative propaganda.

The Former Yugoslav Republic of Macedonia, even in these difficult conditions, in 1993 serviced a part of the foreign debt towards IMF, and from October towards the World Bank as well. At the same time obligations on medium-term credits were totally fulfilled.<sup>5</sup>

### III. STABILIZATION PROGRAMME

The year 1994 started along with numerous cumulated economic and social problems and negative movements with high macroeconomic imbalance and inflation tendencies. The situation is highly unsatisfactory regarding the dimensions and the character of macroeconomic imbalance, existing structural problems and the influence of external surroundings which have not been solved. Internally, the rounding up of the economic system has been intensified, however, the process of structural changes is slow, especially privatisation of enterprises, and restructuring of enterprises and banks.

Therefore, in 1994 the Government of the Former Yugoslav Republic of Macedonia passed the Stabilization Programme which will help create conditions for achieving macroeconomic balance and for lowering inflation.

Taking into consideration the character and dimensions of the macroeconomic imbalances and existing structural problems, the basic goals and assignments of the Stabilization Programme are leading the economy from the border of hyper-inflation as a necessary precondition for successful structural reforms. For the realization of the anti-inflation character of the Programme, it has been decided on the establishment of the control of salaries; the direction of monetary policy from sectorial support toward inflation control and the ambitious package of fiscal measures aimed towards reducing certain legal rights which remained untenable because of the sudden decrease of economic activities and because of the loss of transfers from former Yugoslavia; and creating a firm basis for steady growth of GDP and production through the significant drop of inflation and by the realization of the Programme for structural reforms with accent on the privatization of the banking sector and on the foreign exchange system.

The policy of macroeconomic stabilization is expected to be achieved with the combination of a strong incomes policy, a restrictive monetary policy and a comprehensive fiscal reform, directed towards decreasing the deficits.

#### 1. Incomes policy

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<sup>5</sup>In the period January-September 1993 payment of principal on medium and long term credits was the amount of US\$ 6.5 million from which US\$ 5.9 million for obligations towards IMF; US\$ 0.4 million towards commercial banks; US\$ 0.1 million towards bilateral creditors (Paris Club) and US\$ 0.1 million for remaining credits. Interests were paid on used medium term and long term credits in the amount of US\$ 1.4 million from which 1.2 towards IMF. In the fourth quarter of 1993 obligations were fulfilled in the amount of US\$ 8.5 million from which towards the World Bank US\$ 7.7 million and towards IMF US\$ 0.8 million.

The incomes policy and in this framework the control of salaries and pensions will be important elements for measuring the aggregate demand with a purpose of establishing global economic stability in 1994. Taking into consideration the movement of real salaries in 1993, the Government of the Former Yugoslav Republic of Macedonia has decided to establish the legal control of salaries and pensions through a limited indexation in relation to the cost of living costs with which support is provided to the anti-inflation monetary policy. The control of salaries will be applied only to the individuals employed in firms with social capital, where 83% from the total number of employed are working. Among other things, this is providing a greater motivation for accelerating the process of privatization. The policy of salaries in certain sectors is carried out differently, will be more favourable for those employed in the economic sector compared to the noneconomic activities and pensions.

In agreement with the stabilization policy, the prices of products and services will be freely formed according to the market conditions, and the direct control of prices of products will be reduced<sup>6</sup>.

For directly controlled products, the Government will determine the real level of prices which will cover the costs (in the case of certain energy products) or will provide revenue necessary for setting financial maintenance and allowing the functioning of institutions and other public enterprises.

## **2. Financing of public needs**

The fiscal policy for 1994 is directed towards the consolidation of the fiscal sector and decreasing the deficit by discarding the existing causes for imbalance between costs and revenues. Priority is given to the measures for increasing revenues and decreasing costs in the short term<sup>7</sup>. The fiscal policy consists of numerous measures with the purpose of expanding the sphere of taxation and improving the collection of taxes. Restriction of expenditures in the State budget is predicted for the large budget consumers like the State administration and judiciary, defense and public order and security.

For accelerating the process of privatization in the Budget for 1994 a significant increase of public resources is provided for the support of structural reforms and social security of citizens.

At the end of 1993, a new system laws were brought up in the fiscal sector for the rationalization of the existing tax system.

The tax system is based on the personal income tax, the profit tax and the sales tax supplemented with excise taxes on alcohol, coffee, tobacco, oil derivatives automobiles and luxury products. The personal income tax substitutes the existing nine types of taxes on revenue. The profit tax is unified and will be collected with a uniform rate. The existing 21 different rates of the sales tax were brought down to 3 with a general rate of 25%, a rate of 5% for food products, children's clothes, liquid gas and electric energy, and rate of 10% for certain services. Also, a great number of exemptions were cancelled and payment of sales tax on imports was introduced when products came into the country, and not at the moment when they were sold in the domestic market.

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<sup>6</sup>Under direct control are included only the prices for: flour - type "500" and bread from that flour, electric energy, oil derivatives, railroad transportation and PTT services.

<sup>7</sup>With the measures of economic policy an increase of revenue is expected in the amount of 4% of GDP and a decrease of expenditure of 5.4% of GDP. On this basis resources will be supplied in the amount of 2.5% from GDP for social programmes, for compensations to the unemployed and for the rehabilitation of the banking system. These measures will limit the projected deficit of public consumption to nearly 6.0% of GDP in 1994.



At the same time, a Law on Property Tax was passed in which were integrated three present types of taxes (property tax, inheritance and gift tax and sales tax of estates) but with significant changes in the base, rates, deductions and exemptions.

Fiscal reforms were followed by reforms in tax administration. Present functions of the Social Accounting Service and the Ministry of Finance for collecting taxes are now integrated into one Administration for Public Revenue within the Ministry of Finance.

### **3. Monetary policy**

In conjunction with the slowing down of the growth of inflation, the monetary policy will be directed from sectorial support towards inflation control.

For realizing these tasks, a restrictive monetary policy will be carried out in 1994, which will influence the reduction of aggregate demand and induce savings. The basic mechanism for providing liquidity of banks will be the placement of credits of the National Bank of the Former Yugoslav Republic of Macedonia at auction.

In the first three months of 1994 selective credits in the sphere of agriculture, decreased noticeably and after 31 March, they will be fully cancelled. Agriculture will be supported by bank credits with real interests. The state budget will provide resources up to 1.8% of GDP for subsidizing interest rates and for other purposes (bonuses etc)

Until the establishment of the auction system for placement of credits, the discount rate of the National Bank of the Former Yugoslav Republic of Macedonia, will be determined at a real positive level, under certain methodology and in accordance with the affected average two-month inflation. The interest rates of commercial banks (assets and liabilities) will be set at a real positive level on the basis of the rate of inflation and in correlation with the discount rate.

### **4. External sector policy**

The balance-of-payments projections for 1994 assume a lower deficit in the trade and current balance, a noticeable inflow of long term capital from abroad and a further increase of foreign exchange reserves. The stability of the balance-of-payments is based on the assumption of the normalization of relations with external creditors on time and receiving foreign financial support which is the key for success of stabilization policy. On this basis, it is estimated that it will be possible to create a balance in the foreign exchange market and to maintain a real effective foreign exchange rate. In accordance with this, in 1994 will be implemented the policy of a flexible and market determined exchange rate which will simultaneously affect exports. The National Bank will not intervene in the foreign exchange market in case of greater disturbances.

Due to the expected unfavourable influence of external factors and expected fall of GDP in 1994, exports and imports are projected at a lower nominal (dollar) level of over 3% in relation to 1993. In terms of such projection of exports and imports in the trade balance, in 1994 a deficit is expected of around US\$ 85 million. Positive results are estimated to be realized in the exchange on the basis of services and transfers (official and private) due to which the deficit from current transactions will amount to approximately US\$ 44 million or around 2% of the value of GDP. The projected deficit in the trade balance is based on the assumption that there is no more space for further reduction of

imports and that it is not realistic to expect an increase in exports in circumstances of lower supply and unsatisfactory external surroundings.

Solving the question of unpaid credit obligations in the amount of US\$ 380 million is of utmost importance for the balance-of-payments, as well as the normalization of relations with external creditors in order to be able to receive financial support. It is estimated that unpaid obligations towards multilateral creditors by the end of December 1993 of around US\$ 137 million will be paid before the end of January 1994. The Government will also start discussions for clearing obligations with European Investment Bank and EUROFIMA, as well as with the official bilateral creditors and with commercial banks for reprogramming, and possibly for writing-off a part of credit obligations.

In 1994 it is estimated that the Former Yugoslav Republic of Macedonia will realize positive relations in capital transactions with abroad in the amount of approximately US\$ 78 million. Total inflow of medium and long term capital, including also the resources of the donors and credits for refinancing from IMF on the basis of STF arrangement is estimated to approximately US\$ 300 million.

#### **IV. STRUCTURAL REFORMS**

In parallel with the measures undertaken by the stabilization macroeconomic policy in 1994 structural changes will be intensified.

Structural reforms will be realized and coordinated in the banking sector and in the enterprises. Meanwhile, the process of privatization will be intensified and certain reforms will take place in the working force market and in the social sector.

1. For the purpose of rehabilitation of the banking system, the basic Government strategy will be to perform inspections of banks balances until 30 April 1994, under international standards and to suggest rehabilitation of banks with problems. The question of changes in ownership structure is included in the strategy of rehabilitation of banks. The financial and ownership restructuring of the banks will be realized through the Agency for rehabilitation of banks which will be founded for this purpose.

Within the framework of carrying out the rehabilitation of the banking system a programme for the rehabilitation of banks is to be drawn, for which resources will be supplied by the budget and other sources.

Connected to this, the National Bank of the Former Yugoslav Republic of Macedonia and the Government will strengthen the regulations and control of the banking sector.

2. Within the reform in the sector of enterprises, activities will be directed towards advancement of a competitive market economy, with clearly defined ownership, better management and greater efficiency of enterprises. For this purpose the Government is entirely prepared to accelerate activities for: privatization, reform of public enterprises and the restructuring of enterprises.

In the rounding up of the economic system priority is given to the transition towards private ownership. The second half of 1993 introduced the completion of activities for carrying out the concept of privatization.

The Agency of the Former Yugoslav Republic of Macedonia for transformation of social capital was formed which according to the Law should perform the activities concerned with management, organization and control of the process for ownership transformation. A methodology for estimating the value of enterprises with social capital has been brought up as well.

It is estimated that total privatization, including enterprises partly privatized by the old Federal Law,<sup>8</sup> could be realized in all opened and in the largest number of medium and small enterprises<sup>9</sup>.

According to the strategy for orientation towards a market economy it is estimated that the restructuring of enterprises will be initiated by their new private owners.

The leading principle in the restructuring of the real sector will be the estimation of economic conditions and the survival of enterprises of their part, taking into consideration the separate conditions which have influenced or are still influencing their operation.

3. In the external sector, a liberal foreign exchange and customs system will be maintained with the aim to promote competition within the domestic market and to improve export. For this purpose, a export and import duties, the system of quotas and administrative procedures will be reviewed.

With the reform in the customs tariff, customs rates will be adjusted to the structure of the national economy, the number and level of customs rates will decrease progressively eliminating all exceptions and quotas. In the customs tariff, quantitative restriction on import (except drugs etc.) will not be included and the number of goods subject to quantity restrictions will decrease significantly to mainly agricultural products for certain periods of the year.

Even with a high level of liberalization in foreign-trade exchanges, the products of the economy are exposed to protection measures and other barriers in the markets of national individual developed countries. To alleviate this procedure, the Former Yugoslav Republic of Macedonia plans to start discussions with the European Union.

For products whose export and import are under the regime of quotas, the administration will gradually change (issuing licenses) and an auction system will start with its application.

4. With the reform in the sphere of working legislation and the market of working force, the transformation of the economy will be carried out, especially the privatization and restructuring of enterprise and social capital. Also, it will be made possible for the working force to move freely from sectors and enterprises where workers are in surplus according to the productive needs of sectors and enterprises with higher levels of economic activity. Connected to this, a balance will be established between the protection of the interests of workers with the possibility for employers to adjust the scope of engagement of the working force to changes in economic conditions.

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<sup>8</sup>In December 1993, 440 reports were received for realized privatizations according to the Law for social capital from former SFRY. From this number, a control was performed by an authorized institution over 28 reports and 16 are yet to be looked upon.

<sup>9</sup>On the basis of the Law, 600 small enterprises with around 30000 employees and 125 medium enterprises with around 35000 employees should submit to the Agency plans for privatization by the end of October 1994 while 30 large enterprises with around 50000 employees should submit such plans by the end of 1995. However, it is estimated that by the end of March 1994 at least 150 enterprises with around 50000 employees could submit their plans for privatization, excluding those enterprises regularly privatized pursuant to the former Federal Law.

With these changes, the working legislation was made compatible with the practice of a market economy in terms of the rights of employers independently to decide for dismissing the surplus workers and the rights of workers in case of being dismissed from work.

For providing social security to workers without work and for the purpose of carrying out the stabilization policy and structural reforms, a system for support for workers who without work will be established and reliable and real sources of means for alleviating social needs.

5. In the pension system, changes were introduced in the legal regulations because of the introduction of measures for decreasing pension costs, gradually solving cumulative high deficit and improving the financial capacity of the pension fund.

Changes were made in the degree and the manner of current adjustments of pensions, in acquiring the right to a pension, by strengthening the conditions for retiring and increasing the rate of contribution from salaries to the pension fund.

6. With the Law for denationalization, which is in the process of preparation, normative conditions will be made for transformation - reprivatization of one part of social property created by taking away the property from citizens and legal subjects without compensation or symbolic compensation. With this it will be made possible for former owners to participate, that is, to have certain rights in the procedure for the privatization of social property.

## **V. OTHER SUBJECTS**

### **1. Cooperation with international financial institutions.**

The Government of the Former Yugoslav Republic of Macedonia acquired full membership in the International Monetary Fund, and had direct contacts and discussions with this institution. For this purpose the Former Yugoslav Republic of Macedonia received several missions from IMF and the World Bank for the adjustment of macroeconomic policy and the necessary structural reforms. By the end of December 1993, the Republic Macedonia became a member of the World Bank.

In December 1993, a credit in the amount of 46.5 million DEM for energy was approved by the European Bank for Reconstruction and Development.

At the same time, it has been announced that the European Bank will participate in the realization of several more projects in the second half of 1994.

It has been agreed to analyze by the end of June 1994 the fiscal position of the State budget in consultation with the IMF and to undertake corrective measures if needed, and in cooperation with the World Bank it has been agreed to analyze the use of the resources for rehabilitation of banks and the growing costs for social security and to suggest their distribution according to needs. On these basis, financial support is expected in the realization of stabilization measures, and in the second half of the year a "stand by" or some other similar financial arrangement for the support of the Stabilization Programme and the structural reforms will be concluded.

### **2. Foreign aid**

In 1993, even though less than it was expected, the Former Yugoslav Republic of Macedonia aid received from the European Union and several other countries. The aid was basically humanitarian and directly influenced the improvement of the supply of certain products. This is especially related to the received aid in medicines, equipment and sanitary material which significantly relieved the lack of these products in the health protection system. At the same time, aid was received in certain food products (wheat) as well as oil and oil derivatives.

Connected to the aid from European Union which is realized through the programme PHARE, activities for import are being prepared for critical raw materials, production materials, spare parts and equipment for certain capacities in the industry and agricultural complex.

For the UN Refugees Commission humanitarian aid was received (food, blankets, hygienic mens etc.). Aid was also received from certain donors, which has alleviated the problem of the care of refugees from Bosnia and Herzegovina.

Compensation for the damages that the Former Yugoslav Republic of Macedonia is suffering as a result of the actions towards Serbia and Montenegro has still not been received. The recommendation of the UN Security Council to the UN General Assembly in December 1993 is estimated to have had a positive effect in this direction.

## **VI. PROJECTION OF SEPARATE MACROECONOMIC INDICATORS**

Due to the consistent implementation of the measures of the stabilization policy, and the expected external financial support as well as the further normative and institutional rounding up of the economic system, the commencement of the process of reviving production is expected from the middle of 1994.

In 1994 the following macroeconomic results are expected: GDP will decrease in real terms by 8%, fixed investments will decrease in real terms by 6.8%, the employment will decrease by 1.2%, personal consumption will decrease in real terms by 10%. The export of goods nominally will decrease by 4.3% and imports by 4.6%. At the beginning of 1994 monthly inflation will decrease below 10%, in the middle of the year to 5% and at the end of 1994 to around 3% which will mean an annual inflation rate of nearly 70% (December to December). The share of expenditures for financing public needs (together with the payment of obligations on foreign credits) will increase to 41.1% of GDP.

In spite of a pessimistic prognosis, (which results from the negative rates and changes) it is estimated that these realistic estimates are taking into consideration the economic conditions, the surroundings and the time needed to diminish the tensions in the region, to move the rough the economy to a market system and to secure access to traditional markets and the traditional rational routes.