OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

FAIR USE POLICY

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

21908

15p.

The Vienna Institute for Comparative Economic Studies (WIIW)

FYR Macedonia: Private Sector Development Study
Review, amendments and updates

prepared for

THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION (UNIDO)
for Project No. TS/MCD/96/001, under the Purchase Order No.: 15-7-1068U

by

Vladimir Gligorov, WIIW
Leon Podkaminer, WIIW

Vienna, April 1997

General observations

The Report identifies the main macroeconomic and institutional developments that influence and constrain the performance of the private sector in Macedonia. It also points to the need to put considerable effort into the strengthening of the financial and legal structure in order to help the take-off of private sector activity. The picture the Report gives of the private sector in Macedonia, as well as of the macroeconomic and microeconomic environment, is adequate and accurate. The Report should prove to be a useful initial guide to The World Bank and other assistance programmes in this area. Some improvements could be made, however. We will suggest some changes, amendments and additions to the general claims, specific statements, data and conclusions.

Some rather general and at points rather consequential remarks refer to some repeated statements on the development of the Macedonian economy and its institutions. We will mention the following.

1. At places the Macedonian economy in its pre-transitional phase is characterized as a 'command economy', a 'centrally planned economy', and compared with the other socialist economies (specific instances will be pointed out below). Here, it is necessary to be careful. The economy of former Yugoslavia was not centrally planned since around the mid-sixties and it responded to the market much more than to commands.

   One concrete example where this leads to some serious confusion is when it is argued, at several places, that the private sector was developed in former Yugoslavia, and thus in Macedonia, and provided the public sector with some competition. In fact, outside of agriculture, the private sector was rather small, especially in manufacturing, but also in services. Indeed, the main competition was between the so-called socially-owned companies precisely because there was no central planning. The development of the private sector gained real speed only in the late eighties and early nineties.

2. At a number of places it is suggested that Macedonia's main foreign trading partners in the pre-transition period were the states of former Yugoslavia and the Soviet Union. In fact, the main foreign trading partner at the time of the break-up, 1991, was the European Union. Of course, the trade shocks associated with the dissolution of Yugoslavia and the Soviet Union were huge, but those of the sanctions against Yugoslavia and the Greek embargo were also extremely significant because of both the already high level of trade with the European Union and the need to shift foreign trade which was made impossible by these measures.

3. Finally, at a number of places it is said that the German mark has become the shadow currency in Macedonia after the Macedonian currency had lost its credibility due to the default on foreign currency savings and due to the hyperinflation that the country went through after gaining independence. It is true that the German mark is the shadow currency, it is true that the banking system in Macedonia has low credibility, but it is also

true that the German mark was used as a store of value for quite some time before the break-up of Yugoslavia and the introduction of the new Macedonian denar. The fact that there is a history of people thinking of the German mark when they think of money seriously constrains the monetary policy of the Macedonian government.

Proposed amendments:

Executive Summary

Paragraph 1. Here it is said that private business remained a recognizable and sizeable form of ownership in former Yugoslavia. This is not accurate as pointed out above. The paragraph could run as follows:

1. Unlike the situation prevailing in most of Eastern Europe, central planning was abolished in former Yugoslavia in the mid-sixties, commercial banking was introduced at the same time, and the market was relied on to allocate goods. In addition, in the second half of the eighties, together with trade liberalization, the setting-up of private businesses was permitted and even encouraged that saw their ranks swell. Finally, the ongoing privatization programme, that affects more than 50 per cent of the total workforce and productive assets in the Macedonian economy, has significantly boosted the share of the private economy.

Paragraph 2. The number of employed in Macedonia was 356,617 in 1995 and 339,003 in October 1996. The number of those registered as unemployed was 216,222 in 1995 (the same figure is given in the Report) and 239,344 in September 1996. However, the figures do not include many that are employed in the private sector and most of those who are self-employed. Thus, in Table 6 in Appendix 1 the numbers for total employment include those that are self-employed.

The paragraph could read as follows:

2. In mid-1996 there were about 90,000 firms employing a total of around 350,000 workers. A survey in the same period found that only some 32,881 firms were in operation, employing a total of 313, 903 workers. More than 90 per cent of these firms were private sector-owned. While the number of firms has steadily increased since 1989, employment levels have been dwindling over the same period. In September 1996, there were 340,450 employed and 239,344 registered unemployed. About half of the unemployed were unskilled workers, while the other half had technical skills or at least secondary education.

Paragraph 3. It is difficult to see why boosting the demand would have to take priority over investment.

Suggested version of paragraph 3:

3. To some extent output and employment are constrained by low domestic and foreign demand for Macedonian products. Higher levels of domestic demand may certainly somewhat alleviate the unemployment situation through better utilization of the existing production capacities. Also, lower interest rates on, and greater availability of, credit financing working capital should be conducive to higher output and employment, in at least some branches. Without substantial upgrading and expansion of the stock of fixed assets, the competitiveness of Macedonian products is unlikely to rise sufficiently to allow sustainable growth of output and employment.

Paragraph 4. The foreign trade figures get revised all the time. However, the distribution in the relevant years was roughly as follows: In 1991 exports, 23% to the Soviet Union and 43% to the European Union. In 1996 exports, 41% to the ex-Yugoslavia states, 4% to Russia, 34% to the European Union.

The paragraph could read as follows:

4. The fragile economy of FYR Macedonia experienced severe trade shocks because of the break-up of Yugoslavia, the sanctions against Yugoslavia, the Greek embargo and the dissolution of the Soviet Union. In 1991, the trade with FSU accounted for about 24% of the country's total foreign trade, while that with the EU for about 42%. In 1996, the trade with Russia was only about 6% while that with the EU was about 37%. However, the share of trade with the former Yugoslavia states has recovered, accounting for more than 30% in 1996.

Paragraph 6. As mentioned above, Yugoslavia had a long history of socialism co-existing with the market, but not of a private sector co-existing with the public sector. Thus, the whole argument depending on that is doubtful. The entire paragraph should be dropped.

Paragraph 8. The retail trade prices were up 3.1% year on year.

Paragraph 11. The last sentence could read as follows:

In 1996, the short and long term rates for working capital and small-scale industry varied between 19-30% with virtually no inflation in the economy.

Delete the subtitle (...are dampened by cumbersome access to foreign exchange ...) on p. ii.

Change the next subtitle on p. ii: (...are dampened by structural etc. ...)

Paragraph 12. Delete the second sentence and replace the first sentence with the following:

The denar is internally convertible; there is near full current account convertibility.

Paragraph 13. As mentioned above, the German mark is the traditional store of value in Macedonia as was the case in former Yugoslavia and is indeed the case in all the successor states.

Paragraph 13 could read:

13. As the German mark played the role of the store of value for a long time in former Yugoslavia and because of the high inflation of the recent years and a general loss of confidence in the domestic banking system, the Macedonian denar could not establish itself as a credible store of value for which the German mark is still used.

Paragraph 20. Stopanska banka holds about 25% of the total assets of the banking sector.

Paragraph 30. It is not obvious why export-oriented firms should benefit from a privileged access to the available resources (raw materials are mentioned as well as imports, foreign exchange, finance, technology and skills). The whole paragraph is difficult to understand. It should be dropped.

Paragraph 31. Replace the first two sentences with the following ones:

As for the second goal, the economic dislocations entailed by the adjustment programme are likely to exacerbate high unemployment. Low demand for Macedonian goods and services restricts the utilization of the existing production capacities. Unless these capacities are properly upgraded, through a restructuring and introduction of competitive technologies, the measures aimed at boosting domestic demand will have yet a limited impact on reducing unemployment. The domestic market is limited and the only alternative goes, here also, through encouraging the export-orientation of private firms.

Chapter 1

1.1. The same claim about the private and public sectors in former Yugoslavia is repeated. It should be substituted, as already suggested, by the statement that former Yugoslavia was a socialist country relying on the market rather than on central planning. The best thing to do is to repeat the suggested wording of paragraph 1 here also.

1.3. In Table 1.1. it is difficult to see why there are no medium-size firms. Either zeros should be put in or some explanation should be given, otherwise the reader may be tempted to think that the difference between the total number and the number of small and large enterprises is the number of medium enterprises and may try to calculate, only to arrive at the number zero.

1.6. Suggested formulation:

Employment in productive enterprises (the so-called productive activities as distinguished from the non-productive activities) dropped from 427,060 in 1989 to 272,006 in 1995 and to 253,994 in October 1996 (the last month for which the figures are available). From 1989 to 1995 the employment dropped by 37.3% and by 40.5% in October 1996. In the same period (1989-1995), the GSP (Gross Social Product) declined by about 47%. Appalling as these figures are, they reveal that the productivity has declined also.

1.8. Substitute the first sentence with the following:

Industry and mining provided 136,577 jobs in 1995 and 128,287 in October 1996. In 1995, that was 38.2% of total employment and in October 1996 it was 37.8%.

1.9. The figures for the labour force are not necessarily accurate, so the conclusions based on those are doubtful. According to a recent (April 1996) survey, the labour force in Macedonia was 780,419. Suggestion: drop the whole passage.

1.12. Suggested version:

1.12. The strong decline in domestic absorption and in exports, which has been caused by many factors, may suggest vast underutilization of existing production capacities. To some extent the utilization of these capacities is low because of depressed households' income and domestic demand. Provided disposable incomes rise and housing credit becomes more available, employment in the housing construction sector (and the related industries) could probably be higher without significant expansion of the stock of fixed assets. Higher disposable incomes may similarly stimulate, through increased consumption, higher production of some domestically produced foodstuffs. Because of the overmanning in agriculture and food processing, it is doubtful yet whether higher domestic demand for foodstuffs would meaningfully increase employment in the food-and-agriculture sector.

Additional points suggested, following paragraph 1.12.:

1.13. A comparison of historical and present levels of production for specific sectors and firms may generally be misleading for assessing the levels of production capacities that can be actually put back in operation with little or no additional effort. No doubt such capacities should exist and be operational once the demand is higher and/or the interest rates on working capital much lower. Stronger demand and availability of cheaper short-term credit will not yet restore the viability of firms and sectors operating equipment requiring non-competitively high inputs of raw materials (and particularly of energy) per unit of output. Under changed relative prices many existing production capacities, even if technologically still operational, can be used only at a loss implying permanent subsidization.

1.14. The break-up of former Yugoslavia and the USSR have had far-reaching consequences for Macedonia's traditional export industries. The kinds of Macedonian products sold in former Yugoslavia and the USSR will, in general, not find buyers anywhere in the world, no matter how low their prices. The long absence of traditional Macedonian export products from other markets (the result of trade disruptions due to the dispute with Greece and the Yugoslav embargo) will make the return to these markets costly.

1.15. Rising competitiveness of goods which can be produced with the existing fixed assets remains an important task. No doubt some competitiveness gains may be made by mere organizational and managerial improvements, more rational use of inputs, changes in design, packaging and marketing. Also, the easy access to higher-quality imported components should help upgrade some products. The direct job-creating effects of these measures seem rather limited, though they may – and should – be conducive to improved competitiveness, better prices received, and higher profits. In so far as increasing competitiveness of goods that are currently produced (or can be produced) requires much higher direct labour productivity, this will actually stimulate substantial dishoarding of labour and, in effect, a further massive rise in unemployment.

1.16. Expanding investment in fixed assets which will be capable of producing competitive goods is a precondition for alleviating unemployment. (In the short run the investment activity will have a positive employment effect primarily through stimulating higher demand for the output of the construction and assembly firms.) In the medium run the new production capacities will absorb a part of the existing excess labour supply.

Renumber paragraphs 1.13.-1.16. (pp. 5-6) as 1.17.-1.20.

We continue with the numbering as it is in the report.

1.13. As already mentioned, the trade with the EU was very significant, and it deteriorated too. This can be seen from Table 11 of Appendix 1 referred to in this passage, as well as from 1.16. below (where only trade with Germany is discussed – which gives a somewhat distorted impression). The suggested formulation of paragraph 4 of the Executive Summary should be inserted here too.

1.16. Suggested formulation:

The EU is Macedonia's main trading partner. In 1996, 34% of Macedonian exports and 38% of imports came from that region. The states of the former Yugoslavia accounted for 21% of imports and 41% of exports, the former CMEA area for 21% of imports and for 14% of exports. Apart from FR Yugoslavia, Germany was Macedonia's main trading partner in 1996, though its shares in Macedonian exports and imports were 21% and 17% respectively in 1991, while only 13% and 15% in 1996.

Complement Chapter 1.3 with the following paragraphs (1.21. - 1.23.):

1.21. In some other transition countries (e.g. in Poland in 1990), the initial phase of strong contraction of domestic absorption was associated with a marked improvement in foreign trade performance, leading to an expansion of exports, contraction of imports and very high foreign trade surpluses. Rising net exports somewhat moderated the overall output decline. This development was due to strong devaluation of the domestic currencies, complete liberalization of exports, and the revealed ability of domestic economies to compete on foreign (primarily West European) markets. The fact that in Macedonia the decline in domestic absorption has been associated with weakening exports and growing trade deficits can, to some extent, be explained by the extraordinary circumstances (relations with Greece, break-up of Yugoslavia). And the initial difficulties facing the Macedonian exporters may have been much greater than elsewhere. (They had the disadvantage of coming from a new state with unproved credibility and uncertain prospects.)

However, the trends in trade have, in all probability, also much to do with the revealed low ability of the economy to compete on foreign markets (outside the now defunct Yugoslavia or the USSR). The question whether or not a higher devaluation of the denar would have made a difference is now of limited importance. For many reasons a strong devaluation of the denar does not seem to represent, at this moment, an attractive policy option. (Such an option may be considered inconsistent with the preservation of the remarkably low inflation achieved at a very high cost and may also undermine the shaky confidence in the domestic currency. Besides, it would greatly complicate the issue of domestic debt denominated in foreign currencies, i.e., the 'frozen assets'.)

1.22. In the immediate future an eventual acceleration of the recovery in Macedonia (on account of its internal economic stabilization) is very likely to be followed by a strong rise in the demand for imports with at best sluggish growth of exports. A yawning trade gap is very likely to develop and persist. The necessary intensification of investment activity will particularly contribute to the rising demand for imports: the new industrial equipment, installations and transport vehicles will have to be, nearly exclusively, imported, primarily from the West. Unlike other, much bigger and industrially versatile transition countries, Macedonia has not developed its own capital-goods industries capable of producing the kinds of up-to date equipment which will have to be imported. And, even the traditionally most industrially advanced transition countries, e.g. the Czech Republic, turn out now to rely heavily on imports of capital goods.

1.23. The growing trade gap will contribute to rising pressures on the current account. Because Macedonia's foreign reserves are extremely low and the country is burdened by a relatively large foreign debt (and the domestic debt denominated in foreign currencies), even a modest recovery may soon hit the current account barrier. It will be of crucial importance to secure possibly high foreign exchange revenues from tourism and exports of construction services. These two types of activities may well deserve particular attention from the Macedonian authorities and the foreign agencies involved in Macedonian economic affairs. Capital inflows, primarily foreign direct investment, will have to be actively encouraged. Credits and grants from international financial institutions extended with a view to financing rising investment needs of the dynamic part of the private sector may play a very important role in overcoming the obstacles which otherwise are quite certain to restrict the economy's performance relatively soon.

1.4. This whole sub-chapter is based on the assumption of a long-term competition of the public and private sectors in Macedonia which, in fact, did not exist (as already mentioned above). Thus, the conclusion drawn in 1.21. cannot stand. Indeed, precisely the opposite may very well be true. The private firms discussed came, for the most part, into existence in the late eighties. Also, in 1993, the public sector as a whole may have still recorded some profits, though this depends on how profits were calculated. In any case, the apparent equilibrium between the private and public sectors in terms of their production functions is most probably the figment of the shortness of the period observed and of bad statistics. The usual understanding is that in that period as well as afterwards the public sector produced net losses while the private sector produced net profits. This is also reflected in the significant difference in the productivity of these sectors as discussed in 1.19. Probably the most important distinction that could be made is that between the new private firms and the privatized firms (some firms were privatized already before 1993). Suggestion: either drop the whole section or at least change the title and add:

1.4. Public vs. private firms in the industrial sector

Drop paragraph 1.17. (the claim that 'a fast-track scenario towards measurable competitiveness gains is expected to result from privatization' is not really justified by the Report.)

Suggested version of paragraph 1.21. (now with the new numbering paragraphs 1.27. and 1.28.):

1.27. The 1993 data on the private and public sectors do not tell much about the real potential efficiency of either sector. The year 1993 is an early date considering both Macedonia's economic transformation and its independent (and difficult) nationhood. In the initial stages of transformation, the performance of individual firms and sectors in other transition countries was also often hard to assess. Sudden loss of foreign markets often painfully affected the export-oriented and potentially more competitive firms rather than the inherently inefficient ones. Firms and sectors producing goods requiring extended working capital credit were suddenly exposed to devastatingly high interest rates and hence economically discriminated vis-à-vis the fast-turnover types of activities. Quite often relatively modern firms with investment credits still to service suffered a heavy shock on having their debts revalued according to abnormally high interest rates, while the non-indebted ones, operating obsolete and usually written-off equipment, enjoyed inflationary bonanzas. It certainly takes time for the cloud of dust caused by the initial transformation turbulence to settle down. Only then the economic merits of any specific type of ownership in specific types of activities may be assessed with a greater degree of accuracy.

1.28. In Poland, which is generally considered the most successful transition country, it has taken about six years of transformation (and four years of sustained growth and gradual disinflation) for the private business sector (firms with over 50 employees in manufacturing and 20 employees in other activities) to overtake the public one in terms of net profitability (ratio of post-tax profit to all revenue). Importantly, despite lower profitability in the recent years, the private business sector has been much more dynamic than the public one in terms of output, exports, imports and investment (though not employment). There are no reasons to assume that the private business sector in Macedonia will not eventually reveal its superiority in terms of efficiency. Consolidation of the private firms, gaining experience and new skills, acquisition of financing for the new machinery and equipment is bound to take some time.

p. 10, last paragraph, spelling: (sectoral, not sectorial)

Chapter 2

Suggested title of Ch. 2 (p. 15):

2. Selected macroeconomic and legal issues

Suggested title of Ch. 2.1. (p. 15):

2.1. Some macroeconomic ramifications

2.1 After 1995 in the third sentence insert:

The retail prices went up by about 3.1% in 1996 while consumer prices actually fell by 0.7% December 1996 on December 1995. Producer prices fell by 0.6% year on year in 1996. The current government target for 1997 is 2%, but the actual inflation in 1997 may very well be higher because of a change in the monetary policy and possible devaluation.

2.5. The point made about the efficiency superiority of fiscal decentralization is in general correct. It is also true that the level of fiscal centralization is much too high. However, the following qualifier could be added at the end of the passage:

The level of fiscal decentralization has to take into account the needs of social and public services that are in distress and cannot actually afford, in many cases, to be financed locally.

Also: Delete the 'taxpayers money' and 'tax-payers money' (pp. 16, 17). It is obvious that budgetary expenditure primarily consists of money coming from taxation levied on the taxpayers. The term originally used smacks of an affected 'moral outrage'.

In any case: Delete the last sentence of paragraph 2.5., p. 17 (there is hardly any evidence that the delegation mentioned has achieved much in other transition countries).

2.6. Add two sentences at the end of the paragraph:

In any case, the transition from the present pay-as-you-go pension system to any funded one is always a long-term process. The budgetary pressures arising under the present system will therefore have to be somehow tackled in the foreseeable future.

2.7. The polemical point in this passage and in footnote 6 is somewhat outdated because the government now actually intends to continue with the tough stabilization policy as suggested in the passage. However, as we point out elsewhere, it is questionable whether this is feasible and indeed desirable. Anyway, footnote 6 should be dropped. The accompanying Table 2.2. should be updated. We append our standard Macedonia table that could be used for that purpose.

Proposed version of paragraph 2.7., p. 17:

2.7. Macedonia's stabilization in 1995-1996 has been an unquestionable success as far as inflation is concerned, even though many fiscal and quasi-fiscal problems have not, as discussed above, been addressed in a really systematic way. Further improvements on these problems are likely even if hasty and radical reforms are precluded by political, social and pragmatic considerations. Even if introduced at a relatively slow speed, the improvements will be conducive to the maintenance of macroeconomic stability.

Suggested paragraph 2.8., following paragraph 2.7.:

2.8. The successful inflation stabilization and structural/institutional changes introduced to date are to be followed by output recovery. The new phase of economic transition is fraught with new challenges. As earlier discussed, Macedonia may soon feel the effects of growing trade and current account deficits. If the denar is devalued, inflation may pick up. Hopefully, the inflationary effect of such a corrective devaluation will be temporary. Apart from responding to eventual difficulties over foreign equilibrium, the economic policy will have to address other issues. The continuous rehabilitation of banks which have accumulated apparently large stocks of non-performing assets is certainly an urgent task. As shown by the experience of neighbouring Bulgaria, a successful stabilization of inflation achieved under very high real interest rates sustained over an extended period of time, actually weakens the commercial banks and enhances the risk of a generalized crisis of the entire banking system. A certain relaxation of monetary policy, resulting in lower interest rates and higher growth of money stock, envisioned by the Macedonian government, should help alleviate the problems over bad debts. At the same time a somewhat more relaxed monetary policy may turn out indispensable for a sustained recovery of the economy which has long been deprived of adequate supply of reasonably priced credit for working capital (and, *a fortiori*, for meaningful investment). A more relaxed monetary policy certainly may contribute to slower disinflation, or even higher inflation. Generally yet, in the successful transition countries a gradual relaxation of monetary policy, while supporting recovery, has not obviously prevented continuing disinflation. In most countries the recovery supported with money stock growing much faster than output is associated with falling inflation. (Slovakia is the most striking case in point.) In effect the money velocity tends to decline significantly. Whether this tendency asserts itself in Macedonia cannot be claimed in advance. What seems clear yet is that sooner or later there must be a relaxation of the monetary policy. Otherwise the expectations of accelerated restructuring and rising investment, particularly in the private sector, may not come about.

2.8. (report numbering) As already mentioned several times, Macedonia's main trading partners were the former Yugoslavia and the EU. Some of the exporting industries were not specialized and monopolized (textiles, agriculture). Indeed, the main point here as elsewhere in the text has to be that Macedonia was a much more open economy before the break-up of Yugoslavia and the closing-down of the Serbian market and the Greek border. Of course, all that notwithstanding, the need for greater competition is well-worth asserting. Suggestion: drop the first two sentences.

Drop footnote 11 (p. 24).

2.41. It says SFR Macedonia, but what is meant is SR Macedonia.

Chapter 3

3.2. Add at the end of the second sentence '... and 1996'.

3.3. It is said that the 'private sector remains incomplete'. It is not clear what that means. Maybe it is better just to say that it faces a lot of difficulties and then to go on to discuss the latter (as it is in fact done).

3.4., 3.5. and 3.6. Figures for total revenue and expenditures for 1996 could be added (they can be found in the appended table). The improvement on the revenue side and consequently in the budget deficit is more an effect of disinflation than of tax reform and of general efforts to boost revenue (as claimed in 3.6.). Suggestion: Start 3.6. as follows:

As a result of disinflation, tax reform...

3.34. There was actually no government monopoly on foreign trade in Macedonia since the mid-sixties. Drop the second sentence.

Fig. 3.3., p. 41. The meaning of the Figure is not quite clear. 'Main constraints' – ON WHAT?. Firms in other transition countries (e.g. Hungary and Poland) are regularly asked to assess perceived constraints on HIGHER OUTPUT (or sales). Interestingly, the No. 1 constraint in both Hungary and Poland is INSUFFICIENT DEMAND, followed by shortage of liquidity, expensive, or unavailable credit etc.

Fig. 3.4., p. 42. lists 'Foreign exchange allocation' as an important item: 50% of firms surveyed 'expressed a constraint in terms of regulation of FE allocation'. What is meant by that? Is foreign exchange subject to administrative 'allocation' and not freely available (at least to importers) from the banks?

3.45. It is not obvious why it is believed that the tax evasion practices are not related to the tax rates. It is also not obvious why the lowering of the tax rates would lead to macroeconomic destabilization. Suggestion: drop the whole passage.

3.50. It may be added that:

Due to recent scandals with the pyramid schemes and central bank and government involvement in those, the need to fight crime and corruption was recognized by the government and one only hopes that the intentions will become policies.

Chapter 4

The title of Ch. 4 ('Monetary policy and private sector banking') does not correspond to the content of that Chapter. Suggested title: 'The banking system and the private sector development'.

4.2. The number of banks and savings houses changes. So, one could say 'by the end of 1996'.

4.6. As pointed out above, Stopanska banka's assets are about 25% of those of the banking system.

4.13 The sentence on internal convertibility (p. 50) should, perhaps, read as follows:

The denar is internally convertible: there is near full current account convertibility.

4.18. It should be added at the end of the passage that:

The Macedonian denar is, for all practical purposes, pegged to the German mark and has been pegged to it for almost three years now. Indeed, the central bank's monetary policy targets the exchange rate.

4.31. In the last but one sentence in the passage it is said that the injection of fresh capital into Stopanska banka should take place through foreign investment. It might be better to simply say that the government intends to sell more than 50% of Stopanska banka's shares to foreign banks in 1997.

4.59. It is certainly true that the credibility of the banking sector is low and that this is due to the fact that it defaulted on the foreign currency savings. Also, it is true, as mentioned before, that the German mark was 'the store of value' for a rather long time already (that is why the foreign currency savings were so significant). However, there are other reason why the banks do not attract too great an amount of savings. The following could be added at the end of the passage:

A prominent cause of low denar savings are the low interest rates on deposits especially given the inflationary expectations. Indeed, in the last year time deposit interest rates have been increased in real terms and there has been some increase in deposits too. However, the whole banking system has been shaken again because of the collapse of a large pyramid scheme with an estimated amount of DEM 114 million in deposits lost.

Chapter 5

5.2. The reference to the command economy in the first sentence should be avoided as the former Yugoslavia was relying more on markets than on commands, though it did not have a large private sector (both points have been made repeatedly above).

Chapter 6

6.11. Again, the reference to the centrally planned economies should be avoided.

Conclusion

The first paragraph is practically all wrong. Macedonia was not the poorest region in the former Yugoslavia and was not treated as such by the then federal government. There is no evidence of complacency that is mentioned in the second sentence. Hard budget constraint is more of a metaphor in the context of the former Yugoslav and Macedonian economy. And so on. It would be enough to just mention the following:

> The country has faced extraordinary trade shocks with the break-up of Yugoslavia, the demise of the Soviet Union and the sanctions and embargoes that made the EU market more distant rather than more close (as in many other transition economies). Indeed, the Macedonian economy had to work hard to avoid near autarky.

> Growth is also hindered by internal economic factors such as limited domestic absorption and the unsettled situation in the banking sector resulting in accumulation of bad debts, usurious interest rates on credit and low credibility of domestic banks with the general public.
>
> Another internal risk factor is that the aspirations of the large Albanian minority may, in the future, go beyond having a fair stake in economic and political life.

In the third paragraph, it would be important to substitute the last sentence with the following:

> Up to now, the vicinity of the EU market has not contributed to a faster and easier adjustment as in most Central European countries. Indeed, the share of the EU trade actually went down. This was primarily due to the EU and UN sanctions on the former Yugoslavia and to the Greek embargo. Thus, the eventual advantageous effects of the fact that Macedonia borders on a country that is an EU member depends on the readiness of the EU to upgrade its relations with this country. At the end of 1995, the Greek embargo was lifted, last year a co-operation agreement between Macedonia and the EU was signed, and this year further improvements can be expected.

p. 74, first paragraph: replace the word 'privileged' with 'free'.

p. 74, second paragraph: suggested version:

> As for the second goal, the economic dislocations entailed by the adjustment programme are likely to exacerbate high unemployment. Low demand for Macedonian goods and services restricts the utilization of the existing production capacities. Unless these capacities are properly upgraded, through a restructuring and introduction of competitive technologies, the measures aimed at boosting domestic demand will have yet a limited impact on reducing unemployment. The domestic market is limited and the only alternative goes, here also, through encouraging the export-orientation of private firms.

p. 74, third paragraph: replace 'faster access' with 'easier access'.

Table MA

FYR Macedonia: Selected Economic Indicators

	1991	1992	1993	1994	1995 [1]	1996 Jan-Sept	1996 estim.	1997 forecast	1998 forecast
Population, th pers., end of period	2034.0	.	.	1936.9	1950	.	.	.	.
Gross social product, MKD mn, nom.	1136.5	16016	60411	123989	140851	.	.	.	.
annual change in % (real)	-10.7	-13.4	-13.2	-3.9	-2.0	.	1.6	4.0	4.0
GSP/capita (USD at exchange rate)	2747	1498	1250	1479	1865	.	.	.	.
Gross industrial production									
annual change in % (real)	-17.2	-15.6	-13.9	-10.5	-10.7	3.6	3.1	5.0	5.0
Gross agricultural production									
annual change in % (real)	17.6	4.8	-19.1	1.6	4	.	-4.0	5.0	5.0
Goods transport, mn t-kms	2420	2002	.	.	.	.	.	.	.
annual change in %	-18.2	-17.3	-5	-3	-16	.	.	.	.
Gross fixed investment									
annual change in % (real)	-1.2	-29.1	-14.1	-6.8	7	.	10	10	.
Construction output, in effect. working time	29010	30495	28713	25678	25078	19350	.	.	.
annual change in % (real)	.	5.1	-5.8	-10.6	-2.3	5.1	.	.	.
Dwellings completed, th. units	2465	794	868	506	254	285	.	.	.
annual change in %	-26.0	-67.8	9.3	-41.7	-49.8	-23.2	.	.	.
Employees total, th pers., average	468.4	446.1	421.0	395.7	356.6	341.9	.	.	.
annual change in %	-7.7	-4.8	-5.6	-6.0	-9.9	-4.9	.	.	.
Employees in industry, th pers., average	188.9	176.6	167.6	157.7	136.6	128.6	.	.	.
annual change in %	-8.4	-6.5	-5.1	-5.9	-13.4	-7.3	.	.	.
Unemployed reg., th, end of period	166.9	173.4	177.2	196.3	229.0	239.3	.	.	.
Unemployment rate in %, end of period [2]	26.3	28.0	29.6	33.2	39.1	41.2	42	40	35
Average net monthly wages, MKD	59	635	3782	7754	8581	8758	8822	.	.
annual change in % (real, net)	-12.6	-32.9	28.9	-10.2	-4.3	-1.4	-1.3	.	.
Retail trade, MKD mn	423.3	3661.1	14895.7	29651.5	33744.4	31835	.	.	.
annual change in % (real, calc.)	-15.5	-51.7	-9.5	-10.3	-1.8	20.7	.	.	.
Retail prices, % p.a.	114.9	1690.7	349.8	121.8	15.9	3.6	3.1	6	10
Producer prices in industry, % p.a.	112.0	2198.2	258.3	88.9	4.7	-0.3	-0.7	4.0	.
General government budget, MKD mn									
Revenues	418	4639	23767	63157	64254	.	64445	64692	.
Expenditures	459	5791	31690	67061	66032	.	65096	62271	.
Deficit (-) / surplus (+)	-41	-1152	-7923	-3904	-1778	.	-652	2421	.
Money supply, MKD mn, end of period									
M0, Currency outside banks	.	.	.	4700	5960	.	6698	7217	.
M2, Money+ quasi money	.	.	.	19308	18785	.	18773	.	.
Discount rate % p.a., end of period	40	250	295	33	15	9.2	9.2	.	.
Current account, USD mn	-259	-19	-87	-181	-232	.	-437	-400	-300
Forex reserves of NB excl. gold, USD mn	.	59.7	119.5	165.4	257	231.5	249	250	.
Gross debt, USD mn	744	812	873	898	1115	1115	1176	.	.
Exports total, USD mn	1095.5	1198.6	1056	1086	1204	.	912	.	.
Imports total, USD mn	1374.2	1206.1	1227	1272	1439	.	1435	.	.
Average exchange rate MKD/USD	0.1969	5.09	23.57	43.3	37.7	.	40	45	.

Note: MKD: ISO-Code for the Macedonian denar.
1) Preliminary. - 2) Ratio of unemployed to employees total plus unemployed.

Source: WIIW Database incorporating national and international statistics.