CAS Progress Report FYR Macedonia

I would like to thank Staff for preparing the Progress Report, which provides a good overview on the impact of the Kosovo crisis on the FYR Macedonia. We fully support the aims of the Bank's strategy to promote private sector growth, to enhance the efficiency of the state, to alleviate poverty and to develop the country's human capital.

We agree with the Report's analysis of the intricate political environment, including the reshuffling of the cabinet. Although the arrival of several new and reform-minded ministers has to be commended, we are somewhat concerned about the increased size of the cabinet, which in itself could present an obstacle to reform. It will require some time for the newly created ministries to become operational and to find their place among the existing ministries. We call upon the Government to ensure a smooth transition.

We greatly welcome FYR Macedonia's participation in and support for the Stability Pact. This sends a positive signal for the surrounding countries and will help further peace and stability in South Eastern Europe.

We fully agree that social cohesion is a key factor for sustainable development. Ethnic cohesion in FYR Macedonia is still very fragile and requires particular attention. Therefore, we welcome the focused and systematic approach presented by the Government in the Interim Poverty Reduction Strategy Paper, which will hopefully provide the entire population with equal access to public services and economic opportunities. We regard this as a precondition for economic and political reform.

The country will only be able to grow if it succeeds in developing a thriving private sector and attracting foreign direct investment. The creation of a sound legal and regulatory framework are particularly important for both, foreign investors and the small and medium sized companies that form the backbone of the Macedonian economy. Therefore, we urge the Government to endorse the recommendations recently made by FIAS. IFC, FIAS and MIGA will need to cooperate closely to bring the WBG's full weight to bear upon the on-going capacity building effort for a better business environment.
Despite of the Government's weak institutional capacity, it needs to be firm in its commitment to close down insolvent state-owned companies and to create conditions that are conducive for the viable state institutions to move towards increased independence, capacity and competition.

We take note of the high and low case scenario developed in the Report for the country's economic outlook. We concur with Staff that the high-case scenario is not out of reach. However, this will require a concerted effort by the Government to undertake the planned reforms in the public, financial and enterprise sectors.