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IMPLEMENTATION COMPLETION REPORT

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

FINANCIAL AND ENTERPRISE SECTOR ADJUSTMENT CREDIT

(Credit No. 2721-MK)

June 2, 1997

Industry, Trade and Finance Division
Country Department 1
Europe and Central Asia

CURRENCY EQUIVALENTS

Currency Unit = Macedonian Denar (MKD)

		1991	1992	1993	1994	1995
US$1.00	=	00.20	05.10	23.30	43.26	37.80

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR OF BORROWER

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

BRA	=	Bank Rehabilitation Agency
CAS	=	Country Assistance Strategy
CMEA	=	Council of Mutual Economic Assistance
ERL	=	Economic Recovery Loan/Credit
FESAC	=	Financial and Enterprise Sector Adjustment Credit
GSP	=	Gross Social Product
IBRD	=	International Bank for Reconstruction and Development
ICR	=	Implementation Completion Report
IFC	=	International Finance Corporation
IFI	=	International Financial Institutions
IMF	=	International Monetary Fund
LDP	=	Letter of Development Policy
MKD	=	Macedonian Denar
SDR	=	Special Drawing Rights
SFRY	=	Socialist Federal Republic of Yugoslavia
SRTAP	=	Social Reform and Technical Assistance Project
SRP	=	Special Restructuring Program
STF	=	Structural Transformation Facility

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Preface

This is the Implementation Completion Report (ICR) for the Financial and Enterprise Sector Adjustment Credit (FESAC) in the former Yugoslav Republic of Macedonia, for which a credit in the amount of SDR 54.7 million (US$85 million equivalent), was approved on May 16, 1995 and made effective on June 30, 1995.

The credit was closed on September 30, 1996 or six months later than scheduled. The first tranche of SDR 27.35 million was made available upon effectiveness and the second tranche was fully disbursed on October 18, 1996.

The ICR was prepared by Charles Woodruff (Principal Financial Specialist) of the Central Vice Presidency for Finance and Private Sector Development and reviewed within the Country Department I of the Europe and Central Asia Region. The Borrower provided comments in a letter to the Bank dated May 26, 1997 which is appended to the ICR.

Preparation of this ICR was begun on November 13, 1996. It is based on material in the project file. The Borrower contributed to the preparation of the ICR by commenting on the draft ICR.

IMPLEMENTATION COMPLETION REPORT

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

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[Credit No. 2721-MK]

Evaluation Summary

Introduction

1. Situated in the middle of the Balkans, the former Yugoslav Republic of Macedonia is a small, landlocked and largely mountainous country of about 26 thousand square kilometers and two million people. Since independence in 1991, the former Yugoslav Republic of Macedonia has struggled for international political recognition. Its admission to the United Nations in the spring of 1993 and subsequent diplomatic recognition by several European countries and the U.S.A. have bolstered its international standing. Despite major threats to political stability brought about by hostilities to the north, a recently ended blockade by Greece in the south and tensions with its neighbors, the country has been peaceful and politically stable.

2. Macedonia inherited a weak economy that resulted from decades of the incoherent macroeconomic polices of the former Yugoslavia. The breakup of Yugoslavia and the collapse of the CMEA trading system resulted in precipitous drops in output, employment and living standards in the country during 1991-1994. Most socially owned and mixed enterprises were incurring losses: for 1992 total losses by 3,688 enterprises were equivalent to 8.6 percent of GSP, of which losses of around 7.2 percent of GSP, or 84 percent of the total losses, were concentrated in the 20 largest loss-making enterprises, all of which were either socially owned or had mixed ownership.

3. The banking sector, dominated by Stopanska Banka, had a culture of politically motivated lending to loss-making socially owned enterprises who also owned the banks. Although the insidious influence of bad borrowers/owners was eliminated before Macedonia's independence, banks were not solely profit oriented and bad loans accumulated. Stopanska was also illiquid due to the rapid accumulation of non-performing loans resulting from the crisis in the enterprise sector and the loss of foreign exchange deposited with the National Bank of Macedonia which, in turn, had been deposited with the central bank of Yugoslavia. Sixty percent of the banking sector loans and guarantees denominated in foreign exchange were due from 13 of the largest loss-makers and the default rate on these loans was close to 100 percent. The default rate on denar denominated loans was running around 50 percent. Most of the foreign exchange denominated deposits of households and enterprises in the banking system were frozen.

4. The Financial and Enterprise Sector Adjustment Credit (FESAC) was the second adjustment operation for the former Yugoslav Republic of Macedonia. The first was the Economic Recovery Loan/Credit (ERL), a single tranche operation, which was approved on February 8, 1994 and fully disbursed by July 25, 1994. The ERL also supported reforms in the enterprise, banking and social sectors and its outcome was assessed as highly satisfactory.

5. Under the Country Assistance Strategy, approved on April 19, 1995, the main objectives of the Bank Group were to assist the Government in tackling the major policy issues in the areas of enterprise reform, financial intermediation and maintenance of an adequate social safety net during the period of transition. The FESAC was the primary instrument for implementing this strategy.

Project Objectives

6. The FESAC supported the Government's efforts to reduce the quasi-fiscal deficit by stemming the flow of enterprise losses. This complimented the macroeconomic program supported by the International Monetary Fund (IMF) Stand-by Arrangement. Specifically, the FESAC addressed four major issues: (a) the slow pace of privatization; (b) the losses incurred by 25 politically sensitive enterprises; (c) the adverse social impact of labor shedding in those 25 enterprises; and (d) the illiquidity of 80 percent of the banking system.

7. Building upon the legal and institutional framework created under the ERL, the FESAC supported the actual implementation of the various reforms in the enterprise, banking and social sectors, including strengthening of the legal framework for each of the sectors.

8. Significant progress in actual implementation of the above described program was a condition of Board presentation, while completion of the program was a condition of second tranche release.

Implementation Experience and Results

9. Initial project implementation of the Special Restructuring Program (SRP) for the 25 large loss-makers was highly satisfactory, with agreed actions taken promptly, including: (i) the shedding of around 15,000 surplus workers on a voluntary basis with severance payments covered by the fiscal budget; and (ii) implementation of the agreed adjustments in electricity and railway tariffs. However, with one exception, the Government failed to follow through on its commitment to close and liquidate the unviable enterprises or business units among or within the 25 enterprises.[1] Instead, it decided to privatize unviable enterprises/business units along with the viable enterprises or business units.

10. Stopanska Banka was downsized, recapitalized and several of its branches were spun-off and privatized. Though it had been privatized by the end of the program, efforts were still under way to find a foreign bank to act as a strategic investor and provide the private governance necessary to truly change the culture of the bank. Also, the Central Bank was again forced to address renewed liquidity problems at Stopanska.

11. Finally, the Government had to request a waiver to the condition which required adoption of the Law on Denationalization and Restitution. Based on the satisfactory overall completion of the FESAC program, the condition was waived.

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1 The assets of the main loss-making business units of the Agro-kombinat Red Star, including a winery, were sold at auction in December 1995.

12. Although the reform program was designed with the help of the Bank, the Government took ownership of the program and devised the temporary legal framework for the SRP. The authorities understood that the stabilization and structural reform measures supported by the ERL and the FESAC were critical to turn around an economy that was suffering from the vestiges of the policies and institutions of former Yugoslavia amid a very hostile external environment.

Sustainability of Results and Future Operations

13. The reforms supported by the ERL and the FESAC have so far been successful. Sustainability on these reforms will depend on the Government's ability to stick to the agreed macroeconomic path and pursue the various structural reforms to be supported by the proposed follow-up adjustment operation, a Structural Adjustment Loan/Credit (SAL/C).

14. Under the proposed SAL/C, the next phase of the Government's economic reform program will focus on: (a) further liberalization of the trade regime; (b) reforming the agricultural policy; (c) privatizing the socially owned enterprises in the agricultural sector which were excluded from the main privatization program supported by the FESAC; and (d) completing the privatization of enterprises covered by the main program, including, in particular, the privatization or liquidation of the SRP enterprises.

15. Beyond the SAL, adjustment operations would support reforms in the social sector, additional measures in the financial sector and forestry and land reforms. The most likely operation following the SAL is a planned Social Sector Adjustment Credit to support incremental short run social costs of economic adjustment while laying the framework for deeper social sector reforms critical for achieving sustained economic growth.

Summary of Findings, Future Operations, and Key Lessons Learned

16. The Government was fully committed to fundamental structural reform in the enterprise and banking sectors, and the FESAC was instrumental in assisting the Government to design a realistic and effective program for that purpose. However, in the case of privatization, the circumstances of the country (i.e., blockades, embargoes and strife in other former Yugoslav republics were a deterrent to the participation of foreign strategic investors who might have brought with them new capital, technology and markets) favored the transfer of ownership of enterprise assets to insiders. As a result most of the enterprises in the program were purchased by their owners and managers.

17. In dealing with the largest and most politically sensitive loss-making enterprise, the Government, with one exception, found it impossible to martial the political will to actually close and liquidate such enterprises. This may have been due, at least in part, to a leftward shift in the balance of political power which took place during the implementation of the SRP. Whatever the cause, the largest loss-makers are still operating, and completion of their privatization has already resulted in delaying Board presentation of the follow-up SAL/C.

18. In the case of the reform program for Stopanska Banka, discrepancies between the wording of the President's Report, that of the policy matrix annexed to the Report and that of the Loan Agreement resulted in misunderstandings on the part of both Bank staff and the Macedonian authorities as to what actions needed to be carried out prior to the release of the

second tranche. The Government's Program as described in the President's Report, states that "Privatization (defined as at least 51 percent of shares being in private hands, and governance being controlled by private owners, with the board and management independent of the Government and government-controlled entities) of the core STNB is also a condition of the Second Tranche."[2] The policy matrix stated that release of the second tranche would require "Core Stopanska [to be] fully recapitalized and privatized (51 percent), including expected EBRD share, and private governance established."[3] However, the Loan Agreement required "Completion of privatization of Stopanska Banka with a Board of Directors and management independent of the Borrower or any Agency of the Borrower,"[4]

19. The Borrower held that the conditions in the Loan Agreement relating to second tranche release had been fully met. These required that Stopanska be privatized with a board of directors and management independent of the Borrower or any agency of the Borrower. The Bank initially took the position that the local private investors which held the majority of Stopanska's shares were not capable of providing the type governance required since this investor group was largely made up of the recently privatized enterprises which had founded Stopanska. In the end, given the Government's sincere efforts at bringing in a foreign bank as the controlling shareholder of Stopanska, the Bank agreed that the tranche release conditions had been met.

20. The preparation and implementation of the FESAC have provided several key lessons:

(a) **Agreement on reforms without credible up front actions is insufficient.** The arrears clearing feature of the earlier ERL led the Macedonian authorities to think that agreement on reforms without any actual implementation would suffice for the Bank to provide further assistance. In hindsight, the ERL and the FESAC should have been designed as a single two-tranche operation, but the time needed to design the SRP, etc. did not allow this approach.

(b) **Even when a government is committed to reforms in principle, specific actions generate opposition and, therefore, legal commitments ("conditionality") are important.**

(c) **Agreeing to specific actions, even in good faith, does not mean they will automatically be carried out because of administrative and technical constraints.** Frequent supervision with considerate but consistent reminders and assistance, when needed, are necessary.

(d) **Using expatriate experts to carry out diagnostic studies of enterprises and design enterprise-specific cost-cutting programs is very expensive. Therefore, this approach can be used only when the number of large complex enterprises is small and when trust funds are available.**

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2 President's Report, page 25, para. 85.

3 President's Report, Annex 2, page 3.

4 Schedule 3, para. 4 of the Loan Agreement.

(e) **The reluctance of the central bank to freely discuss their qualms or reservations about the real situation of the banking sector, both under the ERL and the FESAC, prevented problems from being corrected sooner.**

(f) **To avoid misunderstandings concerning the necessary actions prior to tranche release, it is extremely important to have consistency in wording among the body of the President's report, the policy matrix and the Loan Agreement.**

IMPLEMENTATION COMPLETION REPORT

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

FINANCIAL AND ENTERPRISE SECTOR ADJUSTMENT CREDIT
[Credit No. 2721-MK]

PART I. PROJECT IMPLEMENTATION ASSESSMENT

A. Introduction

1. Situated in the middle of the Balkans, the former Yugoslav Republic of Macedonia is a small, landlocked and largely mountainous country of about 26 thousand square kilometers and two million people. Since independence in 1991, the former Yugoslav Republic of Macedonia has struggled for political recognition by the international community. Its admission to the United Nations in the spring of 1993 and subsequent diplomatic recognition by several European countries and the U.S.A. have substantially bolstered its international standing. Despite major threats to political stability brought about by hostilities to the north, a recently ended blockade by Greece in the south and tensions with its neighbors, the country has been peaceful and politically stable.

2. The former Yugoslav Republic of Macedonia's economic problems originated from policies and institutions inherited from the former Socialist Federal Republic of Yugoslavia (SFRY). The causes of poor economic performance were rooted in the Yugoslav system of enterprise self-management. The stabilization programs of the 1980s were successful in generating current account surpluses for Yugoslavia, but did not reduce inflation or restore growth due to their failure to solve the persistent and widespread imbalances at the microeconomic level. Enterprise governance was vested in worker councils and all important business decisions, including the selection of managers, were made by these councils. Since capital was owned by society at large, there was no effective advocate for its preservation and growth. The primordial concern was employment and wages, resulting in the decapitalization of unprofitable enterprises. Enterprises were poorly run and incurred losses which were financed with credits from the banks that they owned and controlled. Banks, in turn, were supported by subsidized credits from the central bank. These resulted in large quasi fiscal-deficits that led to a loss of monetary control and sharply increasing inflation.

3. The initial macroeconomic conditions inherited by the former Yugoslav Republic of Macedonia provided the Government with little room for economic policy-making. The country had to make the transition from a system that allowed it to be a net recipient of large external savings (about 20 percent of Gross Social Product (GSP) until 1991) to one with a very limited capacity to finance a current account deficit. In the 1991-93 period, support from the international community was almost absent. The only source of external financing was through running arrears on repayment obligations. By the end of 1993, the former Yugoslav Republic of Macedonia's external debt stood at some US$780 million, equivalent to 30 percent of GDP. There were, in addition, an estimated US$300 million of SFRY debt in dispute and unallocated at the time.

4. With the collapse of export markets in the former Council of Mutual Economic Assistance (CMEA) area, the loss of "domestic" markets following the dissolution of the Yugoslav Federation and the imposition of international sanctions on Serbia and Montenegro, the economy went into a recession. Real GSP in 1993 declined to 50 percent of its 1990 level. The sharp drop in output was not accompanied by a commensurate increase in unemployment because of formal restrictions on layoffs and a built-in bias against them under the self-management system. Labor redundancy increased enterprise losses and rendered them increasingly unable to meet their domestic and foreign financial obligations. Enterprise arrears caused severe portfolio problems for the largest banks. On the fiscal side, a narrowing tax base reduced revenues from 48 percent of GSP in 1990, to 37 percent in 1991 and to 28 percent in 1992, although major fiscal efforts reversed the trend to 37 percent in 1993. Only the accumulation of substantial arrears on Government expenditures prevented monetization of the resulting deficits.

5. Despite these difficulties, the Government started to take measures to restore stability and to address underlying structural problems. In April 1992, the Government implemented currency reforms and initiated stabilization measures that enabled the former Yugoslav Republic of Macedonia to avoid the hyperinflation of the Yugoslav dinar area. By the summer of 1993, the Government had also started to dismantle the complex trading system of the past, which incorporated several quotas. The number of goods subject to import quotas was reduced to 4 percent from 16 percent under the previous regime. Import tariffs were kept low and ranged from 0 to 25 percent.

6. The former Yugoslav Republic of Macedonia also made important progress in reducing the number of commodities subject to price control. By the end of 1993, the scope of price control was reduced through the further liberalization of, or the imposition of only a notification requirement for, the prices of milk, municipal rents and services, water supply, central heating and motor vehicle insurance. In late 1993, the real prices of electricity and oil derivatives were increased. The share of commodities with controlled prices were reduced by these actions to 14 percent in value.

B. Initial Bank Involvement and Activities

7. The Financial and Enterprise Sector Adjustment Credit (FESAC) was the second adjustment operation for the former Yugoslav Republic of Macedonia following its accession to Bank membership on December 30, 1993 as a successor state to the SFRY. Under the Country Assistance Strategy approved on April 19, 1995, the main objectives of the Bank Group were to assist the Government in tackling the major policy issues in the areas of enterprise reform, financial intermediation and maintenance of an adequate social safety net during the period of transition. The FESAC was the primary instrument for implementing this strategy.

8. The first operation, the single tranche Economic Recovery Loan/Credit (ERL), was approved in February 1994 and was fully disbursed by end-July 1994. The ERL, which facilitated clearance of IBRD arrears inherited from the former Yugoslavia, required very few reforms in the enterprise and banking sectors. As the overriding concern was arrears clearance, monies were provided in exchange for empty general promises.

9. Despite the Government's commitment to proceed with bank and enterprise reforms, it was hamstrung by three factors: (a) the technical expertise required to design and implement the reforms was not readily available; (b) implementation of these reforms was patently more socially painful and, therefore, politically more difficult in an election year; and (c) neither the large loss-making enterprises nor the Government had the financial means to provide the severance payments associated with the inevitable labor shedding which would accompany the downsizing or closure of these enterprises. Thus actual implementation of banking sector and enterprise sector reform did not progress very far, and in reality the FESAC and the ERL represent a single operation.

10. Preparation of the FESAC, however, was not without problems. The willingness to accept, in the ERL, "initial measures" as a basis for an adjustment operation provided a bad precedent. It, therefore, required a number of difficult discussions before the authorities understood that the FESAC was to support actual implementation of reforms. However, once this had been accomplished, the FESAC program was implemented with the full agreement and support of the Government.

C. Project Objectives

11. The FESAC aimed at supporting the former Yugoslav Republic of Macedonia's program of stabilization and structural reforms, agreed under the ERL, by helping to finance the costs associated with the restructuring of the enterprise and financial sector. The macroeconomic program was also supported by the International Monetary Fund (IMF) through a drawing on a Stand-by Arrangement. The FESAC program supported structural reforms in the enterprise and banking sectors by addressing the four major obstacles to changing the governance of enterprises and banks and imposing financial discipline. These were: (a) the slow pace of privatization; (b) politically sensitive loss-making enterprises which could not be closed or downsized for political and social reasons; (c) the illiquidity of 80 percent of the banking system; and (d) the adverse impact on workers.

12. Moving beyond the agreements reached under the ERL, the FESAC supported the actual implementation of the various reforms in the enterprise, banking and social sectors, including strengthening of the legal framework for each of the sectors.

13. In the **enterprise sector**, the FESAC program supported:

(a) a Special Restructuring Program (SRP), aimed at stemming the flow of losses (about 7.2 percent of GDP) in 23 large industrial enterprises plus the railways and the electric utility by:

(i) shedding labor (about 16,000 of 57,000 employees);

(ii) spinning-off and privatizing non-core business units;

(iii) increasing tariffs (in the cases of the railways and electric utility);

(iv) isolating the 23 industrial enterprises from the banking system; and

(v) privatizing or liquidating all 23 industrial enterprises

(b) the privatization of:

(i) 800 of the 1,217 small, medium and large socially owned enterprises covered by the Privatization Law; and

(ii) 100,000 square meters of State-owned business premises.

(c) additions to the legal framework, including:

(i) a new Commercial Code;

(ii) a Law on Denationalization and Restitution of Confiscated Properties;

(iii) a new Bankruptcy Code; and

(iv) a Law on Public Enterprises.

14. In the **banking sector**, the FESAC program focused on the largest bank in the system, Stopanska, which would be: (a) recapitalized with liquidity restored; (b) downsized through the spin-off and privatization of several large branches; and (c) privatized, including the expected participation of EBRD, with private governance established. The banking program also provided for the removal, from the balance sheets of the banks, of all foreign credits extended by Paris Club creditors prior to April 30, 1992 and the development and implementation of a scheme to allow individuals to exchange their frozen foreign exchange deposits in banks for shares in enterprises or to acquire the rights to State-owned business premises, or to sell them to others who would use them for such purposes. Finally, the program included the completion of the prudential regulatory framework and enhancement of central bank enforcement powers.

15. In the **social sector**, the FESAC focused on: (a) provision of severance payments for workers made redundant under the SRP; and (b) clearance of arrears in payments under the social assistance and unemployment compensation programs. Additions to the legal framework for the sector included a new Law on Labor Relations with provisions making it easier and less costly to terminate surplus workers; and revisions to the social safety net legislation so that the unemployed, working poor and pensioners would all be provided equal social assistance payments and insurance coverage would be extended to the self employed who hitherto were not eligible for any assistance.

16. Significant progress in actual implementation of the above described program was a condition of Board presentation, while completion of the program was a condition of second tranche release.

D. Achievement of Project Objectives

Macroeconomic Framework

17. The stabilization program supported by the ERL and the IMF's STF was successfully implemented. The economy was stabilized more rapidly than expected, with inflation in 1994 of 55 percent, compared with the target of 70 percent and an inflation in 1993 of 230 percent. The freely floating exchange rate has remained stable in nominal terms and the black market premium disappeared. The country succeeded in maintaining net international reserves at the agreed level despite the outflows related to the clearance of arrears with the Bank. Wage controls reduced real wages in 1994 by an average of 14 percent.

18. Monetary and credit growth targets agreed under the STF were met. As agreed with the IMF and the Bank and in accordance with the Central Bank Act, selective credits were phased-out as of March 31, 1994, enabling a sharp decline in reserve money growth and in subsidies to agro-industry. Fiscal performance was better than expected with the reduction in agricultural subsidies, public sector wages and entitlements under the social programs (pension fund), increase in sales tax, excise tax and customs duties, and implementation of tax reform.

Structural Reforms

19. A PHRD (Japan) grant for the preparation of the FESAC and the accompanying Social Reform and Technical Assistance Credit (SRTAC) provided the Government with the needed technical support to design and start implementing enterprise, banking and social safety net reforms. The ruling coalition party's victory at the polls in December 1994 gave the Government the political capital to proceed with the reforms. An interesting feature of the SRP was the self-selection of the largest loss-making enterprises for participation in the program. These enterprises apparently presumed that joining the program would give them access to funds from the Bank.

20. In mid-January 1995, the rather bold enabling legislation for the SRP was adopted. The SRP Law, which would be in effect until December 31, 1995, abolished worker's councils in the socially owned enterprises and suspended provisions of the Labor Code providing for workers' collective bargaining rights and their right to advance notice of termination of employment. The Law also gave the Government control of the enterprise boards of directors. During the effective period of the Law, enterprises were accorded a moratorium on the service of their debts outstanding at the end of 1994 but would be required, with certain exceptions, to operate on a cash basis in their dealings with suppliers. In exceptional cases, the Government might provide guarantees on specific transaction based, self-liquidating trade credits, linked to purchase orders from creditworthy customers. The total amount of such guarantees was capped at US$10 million. Prior to Board presentation around 6,000 surplus workers were shed, on a voluntary basis, with severance payments equal to one month's wages for every year of service up to a maximum of 12 months wages.

21. An interministerial committee was charged with responsibility for the overall implementation of the SRP. Day to day management of the program was the responsibility of a Head Trustee who supervised the trustees placed by the committee in every enterprise.

A full time Project Advisor was recruited by the Bank and paid from PHRD trust funds. An international consulting firm was hired under the TA component of the SRTAC in order to provide industrial specialists and financial specialists familiar with bankruptcy and liquidation procedures.

22. By August 1996 the entire FESAC program had been completed except for the adoption of the Law on Denationalization which had been delayed, in part, as a result of comments made by IDA on a draft of the law dated August 1995. The comments, which suggested that former owners of developed parcels of land receive financial compensation in lieu of restitution, were incorporated in a new draft which was presented to Parliament in November 1995. However, adoption of the law was stalled because the Government was unable to quantify the fiscal cost of compensation. During 1996, a survey was conducted and it was determined that the fiscal cost of compensation would be too high and, therefore, a new draft law emphasizing restitution is being prepared but cannot be adopted before the end of 1996.

23. In the course of the SRP, the 23 large loss-making industrial enterprises shed about 15,000 of 45,000 workers and were broken up into around 122 successor enterprises, each with a core business. Even though only about 40 of 110 of these enterprises, for which 1995 financial results were available, appeared to be viable, the Privatization Agency approved privatization plans for all of them, thereby satisfying the second tranche release condition that these enterprises be in the process of privatization or under liquidation. Furthermore, since the potential fiscal cost related to loan guarantees was kept well below the US$10 million cap, the ongoing losses in the majority of SRP successor enterprises were financed neither by the budget nor by bank loans, but largely by wage arrears. However, a small number of very large indivisible enterprises like the steel works and a smelter, who were also very large consumers of electricity, were permitted to accumulate substantial accounts payable with the electricity utility demonstrating that some enterprises could still escape financial discipline and accumulate arrears which might someday have to be covered by the budget. Finally, while the breakup of the complex industrial enterprises provided for a clear separation of the viable from the unviable business units within them, the Government, with one exception, was unable to follow through on its pledge to close and liquidate unviable enterprises, preferring, instead, to try and sell them to creditors or employees. Nonetheless, the SRP largely accomplished the Government's primary objective of neutralizing the power of the large enterprises to oppose structural reforms in the enterprise sector. Completion of privatization in the cases of three of the six largest loss-makers became a condition of Board presentation for a Structural Adjustment Loan/Credit (SAL/C) negotiated in September 1996.

24. The results for the two utilities were also disappointing. The electric utility, possibly because it has always had considerable political power and possibly because the tariff increases implemented under the FESAC restored its financial viability, was able to resist shedding 400 workers through lay-offs and another 600 through the spin-off of non-core businesses such as hotels, workshops, construction units and catering services. The layoffs took place about one year after those in the industrial enterprises and required the firing and replacement of the General Manager. The new General Manager has subsequently been dismissed, in part, because he failed to implement the spin-offs of non-core businesses. These spin-offs, which were not explicit conditions for release of the second tranche of the

FESAC, are now covered by conditions under the SAL/C. In the case of the railways which operate in a competitive market, losses could not be eliminated by tariff increase. However, 870 jobs were eliminated by layoffs and rotating furloughs, and another 630 workers will be shed under the SAL/C by spinning off non-core business units.

25. While the privatization targets were readily met, it is not surprising, given Macedonia's limited appeal to foreign strategic investors due to regional strife, embargoes and blockades, and the limited financial resources of domestic investors, that employees and managers became the new owners of most enterprises. Thus, it is not clear whether fundamental improvements in governance will occur on a widespread basis or if the workers' councils will simply be replaced by the annual general assemblies of shareholders. Preliminary indications are that governance is improving in those enterprises which are forced to compete on world markets. While employee ownership undoubtedly lessened employee resistance to privatization, it will not bring with it many of the benefits associated with transferring ownership to strategic investors, including access to new capital, technology or markets.

26. While the Government was able to advise the Bank that all conditions in the Loan Agreement related to Stopanska Banka had been met, it was clear that the objectives of the program for Stopanska had only been partially met. While the majority of Stopanska's share capital was in private hands, none of the owners was equipped to provide the type of governance required. In fact, many of the larger, now private, shareholders were the enterprises that had originally founded the bank in order to have preferential access to credits, a practice contributed to the bank's decapitalization and the need for the subsequent costly recapitalization by the Government. On the positive side, the Government is actively seeking the equity participation in Stopanska of a foreign bank along with IFC.

27. All FESAC conditions related to the creation of a social safety net were met, including the creation of a Labor Redeployment Fund. However, most of the programs under the Social Reform and Technical Assistance Project were not operational until at least one year after the large scale layoffs had occurred in the SRP enterprises. Thus, it is too early to assess their impact on minimizing the social cost of retrenchment. Also, it is too early to tell if the efforts made to eliminate arrears in payments from the social assistance fund and unemployment fund will be sustained. In fact, this condition was relaxed to require that such payments be made no later than the payment of civil service salaries.

E. Implementation Record

28. Initial project implementation was satisfactory, with agreed actions taken promptly, including the politically difficult and socially painful action of eliminating around 15,000 jobs. Completion of implementation, while still considered satisfactory, was delayed by about five months (August rather than March 1996) due to delays associated with: (a) labor shedding by the electric utility; (b) development of the legal framework, including the new Commercial Code, Bankruptcy Code and Law on Public Enterprises; (c) completion of the privatization program; (d) adoption of the Law on Denationalization and Restitution; (e) approval of privatization plans for the SRP successor enterprises; (f) privatization of Stopanska Banka; and (g) elimination of the arrears in social assistance and employment fund payments. In the end, the Government had to request a waiver to the condition which

required adoption of the Law on Denationalization and Restitution. Based on satisfactory overall completion of the FESAC program, the condition was waived.

29. Although the reform program was designed with the help of the Bank, due to limited institutional capacity in the country, there was clear ownership on the part of the Government. The Government also took the initiative to put in place the temporary institutional arrangements for the implementation of the SRP. The authorities understood that the stabilization and structural reform measures supported by the ERL and the FESAC were critical to turn around an economy that was suffering from the vestiges of the policies and institutions of former Yugoslavia amid a very hostile external environment.

30. The Government, while fully committed to the agreed principles, was unable, with one exception, to follow through on the liquidation of unviable enterprises under the SRP. Also due to lack of time, it was unable to assure the establishment of private governance for Stopanska Banka.

F. Project Sustainability

31. The reforms supported by the ERL and the FESAC have so far been successful in stabilizing the economy. The basic legal, regulatory and institutional framework for the workings of a market economy is now in place. Full fruition on these reforms will depend on the Government's ability to stick to the agreed macroeconomic path and pursue the various structural reforms to be supported by the SAL/C. Sustainability will, to some extent, also depend on how quickly the economy begins to grow again.

G. Bank Performance

32. The Bank's performance in the design and Supervision of the FESAC was satisfactory overall. The Bank was able to mobilize PHRD (Japan) trust funds to cover the cost of retaining the international consultants who carried out diagnostic studies of the SRP enterprises prior to the launch of the program and identified the labor shedding measures incorporated in the program. The Bank also recruited a long term consultant, also financed by PHRD, to act as advisor to the Government for the implementation of the SRP. The accompanying Social Reform and Technical Assistance Credit financed the contract with the international consultant which provided the "shadow trustees" and "shadow managers" to assist both the Government and the SRP enterprises in the implementation of the program. The Bank, however, failed in consistently supervising the banking reforms.

33. In the case of the reform program for Stopanska Banka, discrepancies between the wording of the President's Report, that of the policy matrix annexed to the Report and that of the Loan Agreement resulted in misunderstandings on the part of both Bank staff and the Macedonian authorities as to what actions needed to be carried out prior to the release of the second tranche. The Government's Program, as described in the President's Report, states that "Privatization (defined as at least 51 percent of shares being in private hands, and governance being controlled by private owners, with the board and management independent of the Government and government-controlled entities) of the core STNB is also a condition

of the Second Tranche."[1] The policy matrix stated that release of the second tranche would require "Core Stopanska [to be] fully recapitalized and privatized (51 percent), including expected EBRD share, and private governance established."[2] However, the Loan Agreement required "Completion of privatization of Stopanska Banka with a Board of Directors and management independent of the Borrower or any Agency of the Borrower,"[3] The Borrower held that the conditions in the Loan Agreement relating to second tranche release had been fully met. The Bank took the position that the local private investors which held the majority of Stopanska's shares were not capable of providing the type governance required since this investor group was largely made up of the recently privatized enterprises which had founded Stopanska. In the end, given the Government's sincere efforts at bringing in a foreign bank as the controlling shareholder of Stopanska, the Bank agreed that the tranche release conditions had been met.

H. Borrower's Performance

34. The Borrower faithfully pursued the commitments made in the LDP, both in letter and in spirit. The only commitments which proved impossible to follow through on were the commitment to adopt a Law on Denationalization and Restitution (the delay was, in part, due to the Bank's actions and adoption of the Law is now expected to take place in early 1997), the commitment to close and liquidate unviable enterprises participating in the SRP program (these will be dealt with by creditors and the new owners), the commitment to spin-off and privatize non-core business units in the electric utility and the railways (these spin-offs will be conditions under the proposed SAL/C) and the commitment to have private governance established for Stopanska Banka (the Government is actively pursuing sale of a majority stake in the bank to a foreign bank). Elsewhere, implementation of agreed actions was usually timely and was pursued vigorously. Such commitment and ownership of the reform program were remarkable considering the adverse conditions which prevailed during most of the program, including the trade embargo with Yugoslavia, the closure of the Greek border and the difficulties associated with laying off a large number of workers during a period of extremely high unemployment.

35. The Borrower was a willing client. Cooperation was excellent throughout preparation and into implementation. The Borrower was convinced that the measures required by the ERL and the FESAC were critical not only in laying the basis for economic recovery, but also in achieving their political goal of recognition by the international community.

I. Assessment of the Outcome

36. The FESAC's outcomes are only somewhat less than expected at appraisal. It greatly advanced structural reform in the enterprise sector through privatization and the downsizing and restructuring of the large politically sensitive loss-making enterprises. In the banking sector, all banks are now privately owned, a prudential regulatory framework is in place and

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1 President's Report, page 25, para. 85.

2 President's Report, Annex 2, page 3.

3 Schedule 3, para. 4 of the Loan Agreement.

the central bank now has the power and institutional capacity to enforce the regulations. Finally, all the main components of a social safety net are now in place. However, due to a hostile external environment, the country continues to suffer declining output and increasing unemployment. Sustainability of economic reforms will depend, to a large extent, on the restoration of economic growth.

J. Future Operations

37. The Bank's future operations in the former Yugoslav Republic of Macedonia have been planned against the backdrop of the country's efforts--sustained for three years now--at stabilizing and transforming its economic system. In particular, it has successfully implemented the stabilization measures and structural reforms supported by Fund programs and Bank adjustment operations since 1994. As a result, there are indications that the steep decline in output began to bottom out during 1996 as: (a) the traditional, more economic transshipment routes were opened; (b) works began on several foreign-financed infrastructure investments (power, telecommunications, Skopje airport rehabilitation, gas pipeline); and (c) production began recovering in some industrial subsectors (leather and fur, beverages, construction materials, electricity, transport equipment). However, with layoffs in enterprises undergoing restructuring, unemployment continued to grow during 1996 and is now nearly 25 percent of the economically active population.

38. A major challenge facing the country in the medium term is to revive the economy and stem the growing rate of unemployment. To meet this challenge, the Government is pressing on with structural reforms in the enterprise, banking and social sectors. Also, given the country's small domestic market, as well as its location and resource endowments, the Government has rightly identified trade and agriculture as having major potential to spearhead economic growth. It realizes, at the same time, that growth in these sectors is impeded by serious policy and institutional deficiencies. It has, therefore, chosen to focus the next stage of reforms on these sectors and the Bank has negotiated a SAL/C to support implementation of trade and agricultural policy reforms and the extension of privatization to socially-owned enterprises in agriculture.

39. The current five-year lending strategy for the country proposes another three adjustment operations beyond the SAL, with the most likely next operation, a Social Sector Adjustment Credit (SSAC). Current thinking is that the planned SSAC would support: (a) a social protection program to enable timely, adequate and fiscally affordable levels of unemployment benefits, child allowances and social assistance payments, and to improve the long-run solvency of the pension system; (b) a social services program to help improve the quality of health and education services; and (c) reform of labor and employment legislation to promote a flexible and competitive labor market. Other prospective adjustment operations would aim to support a second round of financial sector reforms, structural changes in forestry and land reform.

K. Key Lessons Learned

40. The preparation and implementation of the FESAC have provided several key lessons:

(a) **The design weakness of the ERL, i.e., leaving implementation of agreed reforms to a "follow-up operation", the FESAC, made preparation of the FESAC more difficult than it otherwise might have been.** Preparation of the FESAC was initially hamstrung by the unrealistic expectations on the part of the Macedonian authorities generated by the ERL about the automaticity of the "follow-up operation" and the type of actions that would suffice to enable the Bank to provide further assistance. In hindsight, the ERL and the FESAC should have been designed as a single two-tranche operation, to clearly separate the two objectives, with the first tranche devoted to arrears clearance and the second to supporting economic reforms.

(b) **When dealing with a new member state, the Bank needs to be very careful about the signals it gives.** The lesson described above underscores the need for extra care in dealing with a new Bank member. Bank staff have to be very careful about the signals given and, just as importantly, about how those signals are received. In the long run, the quality of country relations depends on the clarity of how Bank policies are explained by Bank staff and understood by the Borrower.

(c) **When a country is committed to reforms, it will implement them with or without conditionality.** The ERL and the FESAC have demonstrated that when a country is committed to reforms, necessary measures are implemented whether or not they are covered by explicit conditionality. An example of this was the adoption of the SRP Law.

(d) **Difficult and painful reforms can be implemented only with strong political support.** During the preparation of the FESAC, the Bank tried to pursue implementation of the reform program as the basis for the first tranche of the FESAC. Since there was already agreement in principle on these reforms under the ERL, their implementation was the logical basis for the FESAC conditionality. The Macedonian authorities, however, could not deliver enough implementation progress to allow the Bank to proceed immediately with the FESAC. Preparation of the FESAC had to be interrupted accordingly. In retrospect, this inability to take action was due more to the political constraints in an election year rather than to a lack of commitment to reform. After elections, when the Government's mandate was renewed by the electorate, implementation of the reform program was resumed at full speed and the FESAC was quickly put in place.

(e) **Where institutions are weak, adjustment operations have to be accompanied by technical assistance to ensure that the country has the required expertise to implement agreed reforms.** Although the interruption in the implementation of reforms in late 1994 can be explained, to a large extent, by the political constraints of an election year, to some extent it was due to institutional weakness, as succeeding reform measures in the enterprise, banking and social sectors became more technical and required more expertise. With the help of PHRD funds from the Japanese Government, the Bank was able to provide focussed and timely technical assistance to help the

Macedonian authorities in program design and implementation. Such assistance, which was provided in parallel with the preparation of the FESAC, was partly responsible for the acceleration in reform implementation, leading to the early approval of the FESAC.

(f) **In spite of a government's best intentions, some measures prove to be too politically difficult to implement.** An example of this was the Government's unwillingness to push loss-making enterprises into liquidation even when there was clear evidence of their lack of viability. In the case of such enterprises, the conditionality of the FESAC was too weak in that they could escape closure and liquidation by entering the privatization process, thereby diverting the already overloaded institutional capacity of the Privatization Agency away from more productive activities.

(g) **To avoid misunderstandings concerning the necessary actions prior to tranche release, it is extremely important to have consistency in wording among the body of the President's report, the policy matrix and the Loan Agreement.** The Bank's failure to ensure consistency in the case of the conditions related to Stopanska Banka caused a major misunderstanding. From the Borrower's perspective it appeared that the Bank was questioning the Government's sincerity about resolving the problems of Stopanska.

PART II. STATISTICAL TABLES

Table 1: Summary of Assessments

A. Achievement of Objectives	Substantial	Partial	Negligible	Not Applicable
Macro Policies	☒	☐	☐	☐
Sector Policies	☒	☐	☐	☐
Financial Objectives	☒	☐	☐	☐
Institutional Development	☒	☐	☐	☐
Physical Objectives	☐	☐	☐	☒
Poverty Reduction	☐	☐	☐	☒
Gender Issues	☐	☐	☐	☒
Other Social Objectives	☒	☐	☐	☐
Environmental Objectives	☐	☐	☐	☒
Public Sector Management	☐	☐	☐	☒
Private Sector Development	☒	☐	☐	☐
Other (specify)	☐	☐	☐	☐

B. Project Sustainability	Likely	Unlikely	Uncertain
	☒	☐	☐

C. Bank Performance	Highly Satisfactory	Satisfactory	Deficient
Identification	☐	☒	☐
Preparation Assistance	☐	☒	☐
Appraisal	☐	☒	☐
Supervision	☐	☒	☐

D. Borrower Performance	Highly Satisfactory	Satisfactory	Deficient
Preparation	☒	☐	☐
Implementation	☐	☒	☐
Covenant Compliance	☐	☒	☐
Operation (if applicable)	☐	☐	☐

E. Assessment of Outcome	Highly Satisfactory	Satisfactory	Unsatisfactory	Highly Unsatisfactory
	☐	☒	☐	☐

Table 2: Related Bank Loans/Credits

Loan/Credit Title	Purpose	Year Approved	Status
Preceding Operations			
1. ERL	reform of banking enterprise and social sectors		
2.	NOT APPLICABLE		
Following Operations			
1. FESAC	reform of banking, enterprise and social sectors	1995	under implementation
2. SRTAP	technical assistance for labor redeployment and pension reform	1995	under implementation

Table 3: Project Timetable

Steps in Project Circle	Date Planned	Date Actual/ Latest Estimate
Identification (Executive Project Summary)		03/94
Appraisal		01/95
Negotiations		04/03/95
Letter of Development Policy		05/16/95
Board Presentation	06/22/95	05/16/95
Signing		06/27/95
Effectiveness		06/30/95
First Tranche Release (if applicable)		06/30/95
Mid-term Review (if applicable)	not applicable	not applicable
Second (and third) Tranche Release (if applicable)	not applicable	10/18/96
Loan Closing		09/30/96

Table 4: Loan/Credit Disbursements: Cumulative Estimated and Actual (US$ Thousand)

IBRD Fiscal Year	Appraisal Estimate	Actual[1/]	Actual As Percentage of Estimate
	(US$ millions)		
1995	42.50	nil	nil
1996	85.0	40.1	50
1997	85.0	80.0	n.a.

Date of Final Disbursement: October 18, 1996

1/ US$ amounts are at historical exchange rates.

Table 5: Status of Legal Covenants

Agreement	Section	Covenant Type	Present Status	Original Fulfillment Date	Revised Fulfillment Date	Description of Covenant	Comments
CREDIT	3.01, III	9	NC			Provides for progress and related reports.	
	3.03, III	1	C			Provides for maintenance of, Bank staff's access to, and end-of-year audits of, expenditures financed out of loan.	
LOAN	3.01, III	9	NC			Provides for progress review and related reports.	
	3.03, III	1	C			Provides for maintenance of, Bank staff's access to, and end-of-year audits of, expenditures financed out of loan.	

Covenant type:

1 = Accounts/audits
2 = Financial performance/revenue generation from beneficiaries
3 = Flow and utilization of project funds
4 = Counterpart funding
5 = Management aspects of the project or executing agency
6 = Environmental covenants
7 = Involuntary resettlement
8 = Indigenous people
9 = Monitoring, review, and reporting
10 = Project implementation not covered by categories 1- 9
11 = Sectoral or cross-sectoral budgetary or other resource allocation
12 = Sectoral or cross-sectoral policy/regulatory/institutional action
13 = Other

Present Status

C = covenant complied with
CD = complied with after delay
CP = complied with partially
NC = not complied with

Table 6: Bank Resources: Staff Inputs

Stage of Project Cycle	Planned		Revised		Actual	
	Weeks	US$	Weeks	US$	Weeks	US$
Preparation to Appraisal	0.0	0.0	127.0	396.7	326.2	1,080.4
Appraisal	39.5	156.3	27.4	92.9	26.4	147.4
Negotiations through Board Approval	7.5	20.3	3.0	7.9	17.7	55.0
Supervision	84.0	682.8	69.7	339.9	104.8	513.2
Completion	4.0	12.4	4.0	12.4		
Total	135.0	871.8	228.1	849.8	484.4	1,796.0

Table 7: Bank Resources: Missions

Stage of Project Cycle	Month/Year	No. of Persons	Days in Field	Specialization [1]	Performance Rating [2]		Types of Problems [3]
					Implementation Status	Development Objectives	
Through Appraisal	09/94	2	10	E,F			
	12/94	4	6	E,F			
	01/95	4	10	E,F			
Appraisal through Board Approval	N.A.						
Supervision	10/95	3	13	E,F	S	S	F,T,M
	3/96	4	6	E,F	S	S	
	6/96	4	11	E,F	S	S	
Completion	6/96	1	11	F	S	S	F,T,M
Total		16	38				

1 - Specialization

A = Agriculturalist
E = Economist
D = Education Specialist
F = Financial Analyst
H = Horticulturist
L = Livestock Specialist
M = Marketing Specialist
N = Engineer
R = Forester

2 - Performance Rating

1 = Minor problems
2 = Moderate Problems
3 = Major Problems

3 - Types of Problems

F = Financial
T = Technical
M = Managerial

PART III: BORROWER EVALUATION

REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE
- International Finance Department -

14, Dame Gruev St. 91000 Skopje Republic of Macedonia

Fax Cover Sheet

DATE: May 26, 1997

TO:	Mrs. Ellen Goldstein, Resident Representative Europe and Central Asia Region The World Bank Resident Mission in Republic of Macedonia	FROM:	Minister of Finance Dr. Taki Fiti
PHONE:	117-159	PHONE:	(389) 91 116-012
FAX:	117-627	FAX:	(389) 91 117-280

RE: Comments on Financial and Enterprise Sector Adjustment Credit (Cr. 2721 - MK) Implementation Completion Report

Number of pages including cover sheet: 1

Dear Mrs. Goldstein,

Forward to the receiving of the draft Implementation Completion Report (ICR) for the Financial and Enterprise Sector Adjustment Credit (FESAC) we would like to inform you that we do not have comments on it. In addition, we would like to say that the ICR is satisfactory. However, there are some technical issues that need to be cleared:

- page 4 - (b) (i) instead of number 1.100, the number of small, medium and large socially owned enterprise should be 1.217.
- page 15 - we believe that there is a printing mistake in Table 3, item "Second (and third) Tranche Release (if applicable)", because it is 100/18/96.
- page 16 - we believe that there is a printing mistake in Table 4 in the year, because it is 1197.

Looking forward to successful future cooperation, I remain
Sincerely,

Minister of Finance

Dr. Taki Fiti

STATISTICAL ANNEXES

Table 1
FORMER YUGOSLAV REPUBLIC OF MACEDONIA
MAJOR ECONOMIC AND SOCIAL INDICATORS

	1992	1993	1994	1995	Est. 1996
Economic Indicators					
(% annual change unless otherwise indicated)					
Real GDP	-7.7	-8.4	-4.0	-1.4	1.1
Real per capita Consumption	-13.6	-3.9	0.1	-3.7	3.5
Export Volume, GNFS	0.8	-18.5	-11.2	-16.4	-21.9
Import Volume, GNFS	-13.9	-8.0	-3.4	-12.6	-7.0
Consumer Price Index	1658.8	345.4	126.0	16.3	2.4
Ext.Current A/C, exc. grants (% of GDP)	-0.8	-0.5	-9.0	-7.5	-12.7
National Accounts					
GDP at Constant Prices (million denars) /a	12005	10996	10555	10407	10523
GDP at Current Prices (million denars)	12005	58145	123807	141971	147001
Gross Domestic Investment (% of GDP)	15.2	16.3	15.4	17.3	18.9
Gross Domestic Savings (% of GDP)	16.2	11.1	6.4	7.6	4.5
External Debt					
Outstanding Debt (US$ million) /b	776	863	1143	1275	1438
Debt Service Due (US$ million)	301	252	289	470	170
Debt Service Paid (US$ million) /c	146	180	220	73	105
Outstanding Debt/GDP (%)	33.0	34.4	40.0	34.2	39.2
Debt Service Due/Exports G&S (%)	23.9	22.0	22.8	33.4	15.6
Debt Service Paid/Exports G&S (%)	11.6	15.7	17.4	5.2	9.6
Fiscal Indicators					
Gen. Gov't Revenue/GDP (%)	38.6	40.9	51.0	45.3	44.1
Gen. Gov't Expenditure/GDP (%)	48.2	54.5	54.2	46.2	44.8
Current Expenditure/GDP (%)	47.4	53.6	50.4	42.8	41.8
Capital Expenditure/GDP (%)	0.8	0.9	3.8	3.4	3.0
Population Growth	0.8	0.8	0.8	0.8	0.8

/a At 1992 prices.
/b Public and publicly-guaranteed debt, including IMF credits and short-term debt.
/c Net of arrears and reschedulings.

Source: EC1CO, FYR Macedonia: An Updating Economic Report; December 20, 1996.

Table 2
FORMER YUGOSLAV REPUBLIC OF MACEDONIA
BALANCE OF PAYMENTS, 1992-96
(In millions of U.S. dollars)

	1992	1993	1994	1995	Est. 1996
Exports, GNFS	1259	1139	1258	1389	1059
Merchandise (FOB)	1199	1055	1086	1204	902
Non-factor Services	60	84	172	185	157
Imports, GNFS	1236	1250	1600	1824	1656
Merchandise (FOB)	1206	1012	1272	1439	1340
Non-factor Services	30	238	328	385	316
Net Factor Income	-72	-56	-94	-46	-49
Receipts	1	5	9	20	30
Payments	73	61	103	66	79
Net Private Current Transfers	30	155	179	200	180
Receipts	77	238	360	456	465
Payments	47	83	181	256	285
Current A/C Balance before Grants	-19	-12	-257	-281	-466
Official Transfers (Grants)	0	28	44	27	50
Current A/C Balance after Grants	-19	16	-213	-254	-416
Capital Account Balance	-198	-147	114	-79	328
Direct Investment	0	0	24	13	18
Net MLT Capital	-219	-191	-45	-301	16
Disbursements	9	0	141	103	107
Repayments due /a	228	191	186	404	91
Other Capital	-66	-53	36	165	284
Errors and Omissions	87	97	99	44	10
Overall Balance, financed by:	-217	-131	-99	-333	-88
Net Change in Foreign Assets /b	-62	-59	-30	-64	23
Gross Foreign Assets	-61	-59	-46	-101	9
Net IMF	-1	0	16	37	14
Accumulation of New Arrears	155	72	69	71	32
Debt Reschedulings	0	0	0	326	33
Memorandum Item:					
Gross Domestic Product	2353.9	2506.3	2859.3	3726.3	3665.8

/a of current maturities and arrears.
/b Minus sign denotes an increase.

Source: ECICO, FYR Macedonia: An Updating Economic Report; December 20, 1996.

Table 3
FORMER YUGOSLAV REPUBLIC OF MACEDONIA
SUMMARY OF GENERAL GOVERNMENT /a OPERATIONS, 1992-96

	1992	1993	1994	1995	Est. 1996
			(In million denars)		
Total Revenue and Grants	4,639	23,767	63,157	64,253	64,857
Tax Revenue	....	....	57,049	59,472	60,299
Nontax Revenue	....	....	6,108	3,997	3,985
Capital Revenue	....	....		122	440
Foreign Grants	....	....		662	133
Current Expenditure	5,691	31,163	62,348	60,771	61,449
Wages and Salaries	....	....	14,201	14,965	15,723
Other Goods and Services	....	....	5,516	6,969	5,515
Interest Expenses	....	....	5,161	2,783	3,530
Domestic	....	....	2,055	1,978	2,031
Foreign	....	....	3,106	805	1,499
Subsidies and Transfers	....	....	32,649	34,707	35,246
Other Current Spending	....	....	4,821	1,347	1,435
Current Budget Balance	-1,052	-7,396	809	3,360	2,968
Capital Expenditure	100	527	4,714	4,824	4,340
Overall Balance	-1,152	-7,923	-3,905	-1,342	-932
			(In Percent of GDP)		
Total Revenue and Grants	38.6	40.9	51.0	45.3	44.1
Current Expenditure	47.4	53.6	50.4	42.8	41.8
Current Budget Balance	-8.8	-12.7	0.7	2.4	2.0
Capital Expenditure	0.8	0.9	3.8	3.4	3.0
Overall Balance	-9.6	-13.6	-3.2	-0.9	-0.6

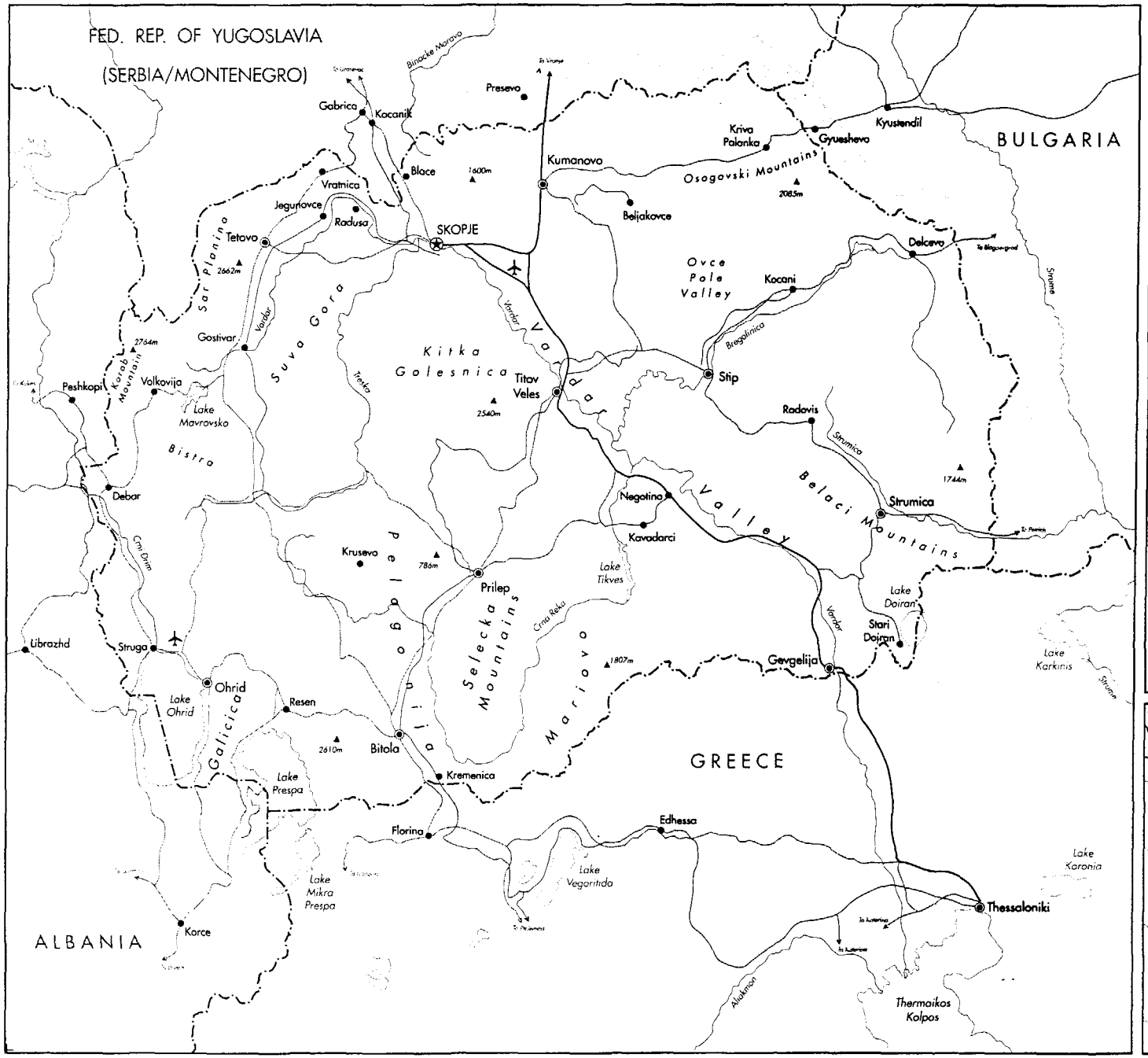
/a General government includes central government and the extrabudgetary funds, mainly the pension, health and unemployment funds.

.... means details not available.

Source: EC1CO, FYR Macedonia: An Updating Economic Report; December 20, 1996.

IBRD 25501R

FORMER YUGOSLAV REPUBLIC OF MACEDONIA



- 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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AUGUST 1996

IMAGING

Report No.: 16643
Type: ICR