DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/93/178

CONTAINS CONFIDENTIAL INFORMATION

August 13, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Former Yugoslav Republic of Macedonia - Recent Economic Developments

This paper provides background information to the staff report on the 1993 Article IV consultation discussions with the Former Yugoslav Republic of Macedonia, which was circulated as SM/93/171 on August 4, 1993.

Mr. Thomsen (ext. 38808), Ms. Gulde-Wolf (ext. 38995), or Mr. O'Brien (ext. 37812) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Recent Economic Developments

Prepared by a Staff Team Consisting of
Mr. J. Franks and Ms. A.-M. Gulde-Wolf (EUI),
Mr. K. Kurihara (FAD), Ms. A. Doughty (PDR),
and Mr. M. O'Brien (TRE)

Approved by the European I Department

August 11, 1993

Contents | Page

<u>Tables</u>

Charts

FYRM: Selected Economic and Social Indicators

	1990	1991	1992	1993 Est.
		(Change in percent)		
Real economy				
Real GSP	-9.9	-10.7	-14.7	-17.0
Industrial production	-10.6	-17.2	-16.1	-21.0
Retail prices				
(December over December)	608.4	114.9	1,690.7	435.0
Unemployment rate (average)	20.5	21.7	22.7	--
		(Percent of GSP)		
Public finance				
General government expenditures	--	40.4	34.0	38.0
General government revenues	--	36.8	28.1	22.9
Central government expenditures	--	18.2	17.9	21.2
Central government revenues	--	18.2	13.6	11.3
		(Change in percent)		
Money and credit				
Domestic credit				
(monthly average)	--	--	16.3	6.7 1/
Denar M2 (monthly average)	--	--	15.2	16.5 1/
Short-term lending rate (annual)	--	--	1,100-2,355 2/	1,150-1,772 1/
Discount rate	--	--	250.0 2/	392.0 1/
		(In millions of U.S. dollars)		
Balance of payments				
Total exports	650	759	858	890
Exports outside former SFRY	650	714	593	610
Interrepublican exports	--	45	265	280
Total imports	-1,295	-1,272	-1,078	-1,109
Imports outside former SFRY	-1,295	-1,182	-803	-819
Interrepublican imports	--	-90	-275	-290
Total trade balance	-645	-513	-220	-219
Gross official reserves	--	--	64	89
External debt excluding arrears	828	806	840	843 3/
Arrears	...	83	231	386 3/
Debt-service ratio 4/	21	13	17	17
Memorandum items:				
National accounts-based estimates of interrepublican trade:				
Exports	1,811	1,631	1,089	348
Imports	-1,708	-1,558	-870	-297
Exchange rate (averages)				
Official exchange rate:				
denar per U.S. dollar	11.3	19.7	509.1	1,250.8 1/
Parallel market exchange rate:				
denar per U.S. dollar	...	...	...	2,031.7 1/

Land area:	25.7 thousand sq. km
Population (1991):	2.039 million
Life expectancy at birth (in years) (1990):	male 70.1 female 74.0
Per capita GSP (1991): 5/	US$1,060

Sources: The FYRM authorities; and staff estimates.
1/ 1st quarter.
2/ 4th quarter.
3/ End-year data. Assuming the current suspension of debt-service payments continues through end-1993, and excluding penalty interest on arrears.
4/ Debt service in percent of exports of goods and services.
5/ Official estimate.

I. Introduction

The Former Yugoslav Republic of Macedonia (FYRM) declared independence in September, 1991, following a referendum, introduced its own currency in April 1992, and succeeded to the membership in the Fund of the former Socialist Federal Republic of Yugoslavia (SFRY) following a decision by the Board, on April 21, 1993, that the conditions for membership by succession had been met.

The FYRM was one of the least developed republics in the SFRY, with a per capita gross social product (GSP) of less than 70 percent of the national average in 1989, despite federal government programs in the post-World War II period aimed at equalizing the level of development throughout the SFRY. Already affected by the general economic decline seen in the SFRY in the 1980s, the FYRM has been particularly hard hit in the last three years by the crisis in the region, the loss of transfers from the federal government of the SFRY, the loss of traditional markets due to the break up of the SFRY and the CMEA, and problems with transshipment of exports and imports through neighboring countries. The consequent output contraction has opened up deficits in the public and social enterprise sectors.

Immediately following independence, the Government implemented a stabilization package incorporating a wage control law, reduced government borrowing from the banking system and a fixed exchange rate, in an attempt to control inflation. This was initially successful but parliamentary backing for the wage law could not be maintained and wage increases and inflation accelerated in the third quarter of 1992 as the ability of banks to rediscount credits to social enterprises with the National Bank allowed the monetization of enterprise losses. Inflation reached near hyperinflationary conditions in the first quarter of 1993 but then declined substantially in the second quarter as the parallel market exchange rate, through which most foreign exchange transactions were taking place, appreciated following the disbursement of a large loan from a private foundation and due to demand for local currency by newly arrived United Nations peacekeeping forces. The Government is presently moving towards the implementation of a more restrictive monetary policy. Ongoing discussions have also been taking place between the Government and labor unions regarding the possibility of reintroducing wage controls.

The fiscal imbalance in the FYRM has been widening as the contraction in economic activity and the loss of traditional markets have combined to shrink the tax base substantially, excessive inflation has eroded the real value of tax revenues, and the country has lost the transfers previously supplied by the federal government of the SFRY. Additionally, the budget has been faced with the costs of establishing the FYRM as a sovereign state. The contraction in budget revenues has limited the Government's ability to advance the process of structural reform. Little progress has been possible with bank rehabilitation in particular, however a privatization law was passed by the Parliament in June, 1993, which will allow a program of privatization of social sector enterprises to commence in the near future.

A loss of access to external financing and the loss of federal government transfers have combined to cause a sharp compression in imports and a reduction in the current account deficit, while the disappearance of traditional markets within the former SFRY and also in the CMEA have necessitated a redirection of trade to other countries. This redirection has, however, been hampered by the loss of transshipment routes through neighboring countries. Official debt servicing payments to all foreign creditors, except the Fund, have remained suspended since independence.

II. The Real Economy

1. Overview

The FYRM economy has been buffeted by a series of adverse external shocks including the collapse of the SFRY, the decline in trade to the former CMEA countries, and transshipment problems through neighboring countries. 1/ These shocks have combined to induce a dramatic fall in output which, in combination with an inadequate and rigid economic structure, has resulted in high and variable rates of inflation. Between 1989 and 1992, real gross social product (GSP) fell by about 30 percent and a further drop is expected in 1993. 2/

Although the share of the private sector in economic activity is on the rise, the bulk of the transition from socialism to capitalism has yet to occur. Private enterprises have been expanding strongly since 1989, when restrictions were substantially relaxed. 3/ 4/ However, the private sector remains relatively small, with official figures indicating that more than 80 percent of output is still produced by social sector firms whose worker-controlled management system produces extreme rigidity in the labor market. 5/

The FYRM inherited an industrial sector dominated by large firms in heavy industries, due primarily to a post-war industrialization initiative of the SFRY. Owing to the speed with which this industrialization was carried out, and also to a lack of coordination at times between the different republics of the SFRY, some of the investment in heavy industry which took place was not productive. Moreover, the Yugoslav self-management system led to an unduly strong role of labor in enterprise management. As a result of these influences, the FYRM has been left with many inefficient, oversized industries and a managerial structure which is virtually incapable of the labor shedding needed to restore productivity in the wake the sudden fall in the size of the domestic market that accompanied independence from

---

1/ For a discussion of the disruptions resulting from the various external shocks, refer to Appendix II of SM/93/171 (8/4/93).

2/ Statistics for GDP are unavailable. GSP differs for GDP in several respects, the most important of which is the exclusion of so-called "unproductive" services (e.g. health, government, education) from GSP.

3/ According to official statistics, more than 28,000 private firms were registered in 1991 and 1992, though most of these were microenterprises or mere nameplates.

4/ By 1992 employment in the private sector had reached nearly 15 percent of total non-farm employment, up from around 8 percent in 1989.

5/ In 1991, socialized firms accounted for 83 percent of GSP. A breakdown for 1992 is unavailable. These numbers probably overstate the share of the social sector, since coverage of the private sector in the official statistics is limited.

the SFRY. In addition, in many important industries the truncation of the market has left enterprises in monopoly or duopoly positions.

Industry remains the single most important sector of the economy despite a recent decline relative to other sectors. It comprised 42 percent of GSP in 1992, down from 53 percent in 1989. Next in economic importance is trade (23 percent of GSP) and agriculture (16 percent) (Table 2). Industry provides 40 percent of total employment, followed by the so-called "non-productive" sector including government, health, and education with 19 percent of all jobs. Nine percent of employment is in agriculture and ten percent in trade. The high employment in industry compared to its share of GSP suggests that the industrial sector has low labor productivity relative to the agriculture and commerce sectors. 1/

2. Recent developments in output and expenditure

National accounts data for the FYRM are subject to a great deal of imprecision because of data collection and analysis problems associated with independence from the SFRY, high and variable rates of inflation, and deficiencies in the socialist accounting system inherited from the SFRY. Extreme care must therefore be exercised when interpreting the data. These statistical problems are discussed in Appendix I of SM/93/171 (8/4/93).

Despite these statistical difficulties, the general trends of the FYRM economy are not in doubt. The cumulative drop in real GSP between 1986 and 1992 was roughly 35 percent, most of which occurred after 1989 (Table 1). All indicators for the first few months of 1993 suggest that the sharp decline is continuing. Data on industrial output for the first quarter suggest a drop in GSP of 8-10 percent in 1993, even if there is no further contraction during the remainder of the year. The impact of intensified sanctions against the Federal Republic of Yugoslavia imposed in April 1993 may well exacerbate this decline.

The national accounts data indicate that domestic absorption has fallen over recent years from 104 percent of GSP in 1989 to 95 percent in 1992 (Table 2). 2/ This decline reflects a forced contraction in the deficit in the foreign balance due to the loss of financing. Previously, foreign

1/ Industry constitutes 49 percent of "productive" employment, yet generates only 42 percent of GSP.

2/ The exact magnitude of the contraction in absorption must be regarded as being particularly imprecise as consumption is measured as a residual item, and therefore incorporates all errors and omissions in the other components of GSP. Data regarding transactions with countries outside the former SFRY, as well as interrepublican transactions, have wide margins for error because of data collection difficulties. The interrepublican trade data are staff estimates based on partial data provided by the Social Accounting Service (SOK).

deficits were indirectly financed in part by transfers from the SFRY federal government.

No clear trends are apparent in the shares of consumption and investment over the past five years. Investment has fluctuated between 14 and 18 percent of GSP, with consumption absorbing between 52 and 54 percent. These numbers are distorted, however, by the rising ostensible role of stock-building in the national accounts. Stock-building has supposedly grown from 13 to 28 percent of GSP between 1986 and 1992, an obvious reflection of the distortions inherent in the Yugoslav accounting system. 1/

Comparing investment activity with that prevalent in the 1970s and early 1980s, it becomes evident that there has been a dramatic decline. Capital formation averaged between 38 and 42 percent of GSP in the 1970s, so the current rate is less than half of that prevailing two decades ago. In real terms, the level of investment has fallen roughly 35 percent since 1988, and the authorities estimate that the current level is insufficient to sustain the existing capital stock. 2/ The causes of the decline are: (i) the decline of domestic demand in the 1980s compounded by the political and economic crises of the region over the last two years; (ii) the inherent tendency of self-managed enterprises to attempt to maintain real wages at the expense of investment and profitability, especially during times of economic contraction; (iii) the loss of transfers from the SFRY Development Fund, which formerly provided a net flow of investment funds of around 3.5 percent of GSP; (iv) the difficulties of long-term investment in an environment of high and variable rates of inflation; and (v) the liquidity crisis in the banking system, which has restricted the credit available for new investment.

3. Sectoral developments

a. Industry

The industrial sector has been hard hit by the economic crisis. With a manufacturing structure concentrated on heavy industrial goods produced primarily for the Yugoslav market as well as for the CMEA countries, the sector was particularly exposed to the disruption of trade that has occurred. This is reflected in the data presented in Table 3, which show a

---

1/ The Statistical Office produces an index of the physical volume of stocks which shows that industrial stocks have declined by 10 percent over the 1986 to 1992 period, a striking contrast to the positive contribution to GSP attributed to stock-building in the national accounts.

2/ This assertion finds support in the data available on capacity utilization. Despite the huge drops in industrial output in recent years, the rate of capacity utilization has been virtually unchanged: from 80 percent in 1989, it fell to 78 percent in 1992, suggesting that capacity is declining sharply as a result of insufficient investment.

drop of 38 percent in overall industrial output between 1989 and 1992, with output of capital goods suffering a decline of 68 percent. Monthly industrial output data for the first three months of 1993 show the industrial output index at only 55 percent of its 1989 level, confirming a further decline from the 1992 average level. Output of refined petroleum has dropped sharply, as has that of basic chemicals, and iron and steel. All of these products were previously exported in large quantities through the North-South transport corridor which has been severely restricted by the regional crisis. Textiles and leather products have also suffered substantial declines in production, in part because of the lack of access to external markets and problems in importing raw material inputs. In addition to the transshipment problems, exports of many FYRM industrial goods have been hampered by the collapse of markets in the former CMEA and the breakup of the former SFRY.

b. Trade, catering, and tourism

Wholesale and retail commercial activities have increased their share of GSP in recent years, from 15 percent in 1989 to 23 percent in 1992. In addition to this recorded rise, there has been an increase in small private commercial activity which is believed to be incompletely captured by official statistics. As would be expected tourism, while not a fully developed sector in the FYRM, has been particularly severely affected by the regional crisis. Internal tourism, including that from the other former republics of the SFRY, has dropped substantially, and tourism from other countries has virtually disappeared.

c. Transport and communications

The transport and communications sector has been severely hurt by the regional crisis, with a drop of 56 percent in real terms reported between 1989 and 1992. Transportation infrastructure is heavily geared towards North-South transit from Greece to the Federal Republic of Yugoslavia. The Greek port of Thessaloniki and the rail, river and highway connections through the Federal Republic of Yugoslavia combined to provide the outlet for roughly 84 percent of FYRM trade with the rest of the world. 1/ Transit trade through Greece was disrupted at times over 1992-93. Trade with and through the Federal Republic of Yugoslavia has been severely limited by UN sanctions. Together, these transshipment problems and the decline in general economic activity have drastically curtailed output in the transportation sector. Communications also suffered from the fact that much of the telecommunications infrastructure was tied to Belgrade. These difficulties seem to have been ameliorated recently by the use of satellite links.

1/ The only railway through FYRM is in the North-South corridor, and highways through this corridor are much more developed than those available for East-West transport.

d. Agriculture, forestry, and fishing

Agriculture in FYRM is concentrated in fruits and vegetables, wine, livestock, and tobacco (Table 4). While there is domestic production of corn, wheat, and milk, the country is a net importer of these goods. In contrast with the rest of the economy, the agricultural sector has fared relatively well in recent years. With the exception of a drop in 1990 due to adverse weather conditions, agricultural output has been fairly stable in real terms during the economic crisis. This reflects that the sector has little dependence on imported inputs for production, and is largely in the hands of the private sector (78 percent of output is private). As a result of this relatively good performance, the agricultural share of GSP has climbed to 16 percent of GSP since 1988. Forecasts for 1993 suggest a slight real decline in agriculture, but the share in GSP should increase further due to more severe drops in other sectors. Continuing transshipment problems could harm agricultural output over the medium term, however, since fruits, vegetables, and tobacco were all major export crops whose markets have been cut off by the regional crisis.

e. Construction

The construction sector has suffered a complete collapse in the wake of the economic crisis. Value added in the sector has fallen by 53 percent since 1989. This fall comes on top of a 21 percent drop between 1986 and 1989, giving a cumulative 65 percent decline in activity. Clearly, the collapse of investment is one of the major causal factors in this decline. In addition, the prospect of privatization of housing and commercial property has undoubtedly created an environment of uncertainty about property ownership and prices which has stalled potential construction projects. Finally, the FYRM was a net exporter of construction services to other parts of the world, particularly in the Middle East, and political difficulties there have provoked a substantial drop in this export activity. 1/

4. Energy

The FYRM is a net energy importer. In energy terms, well over half of consumption is from imported sources (Tables 5 and 6). There is mining of brown coal (lignite), but this is supplemented by high energy coal imports for use in the coal-fired thermoelectric plants which supply the bulk of the country's electricity. There is also some hydroelectric capacity and one oil-fired electrical plant which is little used because of high operating

---

1/ In particular, FYRM had a number of construction projects in the Persian Gulf region, including in Iraq, which were interrupted by the outbreak of the Gulf War in 1991.

costs. Substantial excess generating capacity exists, according to the authorities. 1/

The country has no domestic sources of oil, and so is completely dependent on imports for local consumption. Transshipment problems disrupted the flow of crude oil imports in late 1992, forcing rationing of petroleum products for a period as well as the importation of refined petroleum via non-traditional routes. Refining capacity is in excess of current domestic needs as the FYRM formerly refined petroleum products for the Federal Republic of Yugoslavia. Natural gas consumption has traditionally been almost nil, though plans exist for imports from the former Soviet Union (FSU) via a pipeline from Bulgaria. These plans are currently on hold due to lack of external financing.

5. Employment and wages

In the Yugoslav system of self-managed enterprises employment, once gained, was virtually guaranteed. Layoffs were banned by law unless they were voluntary on the part of employees or an enterprise became bankrupt. Labor shedding in times of economic contraction therefore tended to fall short of the reduction in economic activity thereby giving rise to falling labor productivity. Unemployment was nevertheless substantial in most regions. The principal sources were new entrants into the labor market and labor migration, involving both migration within the SFRY, from the rural environment to the cities, as well as the return home of Yugoslavs working in other countries; the latter was significant during the economic slowdown in Europe in the early 1980s.

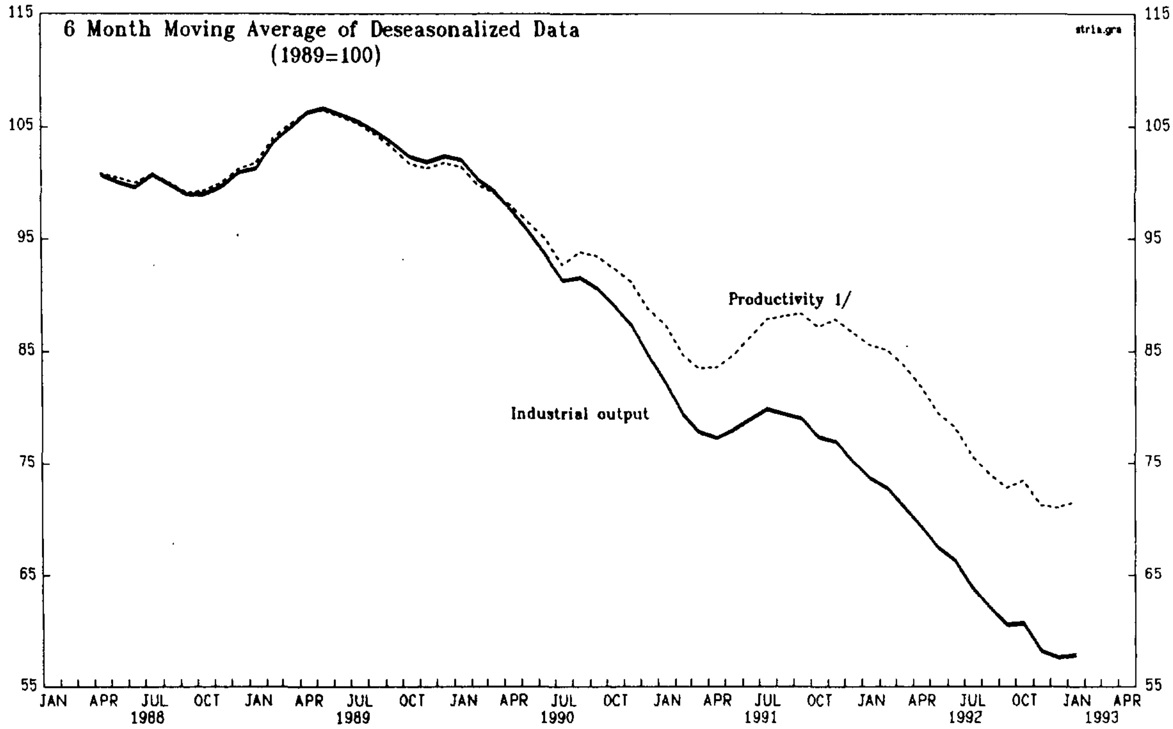
a. The current level and structure of employment

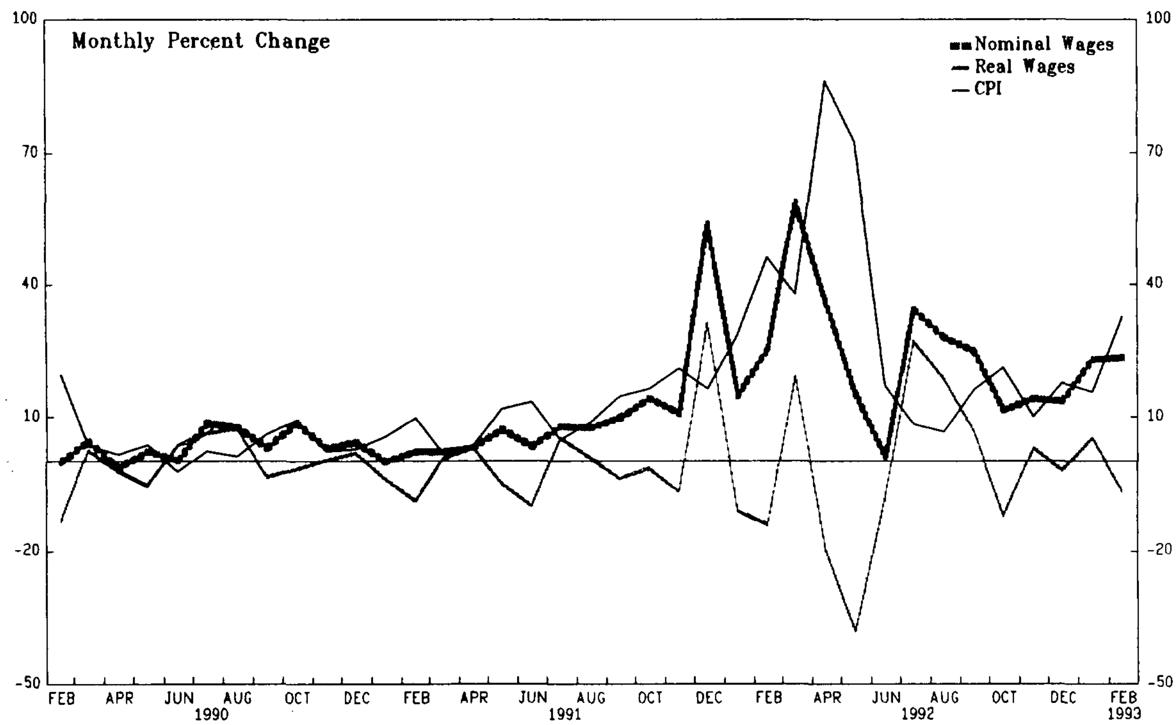
In 1992, the FYRM's domestic labor force comprised about 840,000 out of the FYRM's population of just over two million (Table 7). As the economic reforms instituted in late 1989 led to some labor shedding in the socialized sector, the share of the labor force employed in the socialized sector fell from around 70 percent in 1989 to below 60 percent in 1992. Due to the continued tendency of self-managed enterprises to preserve employment, this labor shedding has however fallen seriously short of the contraction in output that has occurred with the result that industrial productivity in the socialized sector has fallen by 30 percent since 1989 (Table 8) (Chart 1). Although the 1989 reforms provided the basis for rapid growth in the private sector, it remains relatively small, employing around 10 percent of the

---

1/ Only about 40 percent of electrical generating capacity is currently in use.

CHART 1
FORMER YUGOSLAV REPUBLIC OF MACEDONIA
PRODUCTION, PRODUCTIVITY, AND THE WAGE-PRICE SPIRAL





Sources: The FYRM authorities; and staff estimates.
1/ Measured as output per worker.

domestic labor force in 1992. Consequently much of the labor shedding in the socialized sector resulted in increased unemployment. 1/

The unemployment rate in the FYRM was traditionally higher than the Yugoslav average and was disproportionately comprised of younger people. The high unemployment rate reflected in part the historical regional economic disparities in the SFRY, which persisted despite attempts to reduce them by means of investment in the lesser developed regions financed by transfers via the Development Fund from the more developed regions. The concentration of younger people in the ranks of the unemployed arose as jobs in the socialized sector were highly secure, and with the lack of economic growth in recent years, new entrants to the labor force tended to have difficulty finding work despite being generally well educated. By 1992, unemployment had reached around 23 percent in the FYRM, up from around 20 percent in 1989.

b. Wage formation and incomes policy

The system of wage determination in the FYRM is prone to the same wage-price spiralling that was characteristic of the Yugoslav self-management system. The inherent tendency to produce spiralling inflation in the SFRY arose, especially in times of economic contraction, as nominal wage rises could be funded in large part through arrears to enterprise controlled banks. These arrears could, in turn, be monetized as the banks could discount credits to enterprises with the central bank. Real wages ultimately fell in line with national income, e.g., real net personal incomes in the socialized sector in the SFRY were 17 percent lower in 1990 than in 1986, 2/ but only as rapid increases in nominal wages were more than offset by even more rapid increases in prices. Periodically, attempts to break the inflation cycle, by limiting nominal wage growth, were instituted but the political resolve to maintain wage controls tended to break down after relatively short periods in the face of falling real wages.

Following monetary independence in April 1992, the FYRM Government attempted to break the hyperinflationary trend that had developed in the previous few months by freezing wages, after first allowing for increases of 25-35 percent. However, this freeze could not be maintained and further wage increases of 15 percent and 26.5 percent were permitted in July and September, respectively (Table 9) (Chart 1).

1/ The domestic labor force is defined as the employed, the self-employed, the active agricultural population and the registered unemployed. Due to the overlap of some categories, reportedly in large part because some of those registered as unemployed are also working in the private sector or are in the active agricultural population, the domestic labor force total in Table 7, which is independently estimated from census data, is generally smaller than the sum of the categories which comprise it.

2/ See SM/91/44 (2/27/91), p. 49.

From January 1993, wages have been determined in accordance with a collective agreement which covers both private and public sectors. Because the Government was unable to obtain the agreement of labor unions to regulate maximum wage rates, the agreement specifies minimum wages only. 1/ In terms of the agreement, minimum wages are being increased monthly by only 90 percent of the previous month's increase in the cost of living index. In this way, incomes policy is aimed at achieving a reduction in minimum wages in real terms. Enterprises are free to pay wages above the minimum levels but many are not currently doing so because of the loss of income, and liquidity problems, arising from the sanctions on the Federal Republic of Yugoslavia and the impact of transportation difficulties on foreign trade. The present collective agreement is due to expire and its replacement is currently being negotiated.

6. Financial discipline and institutional reform

The Government has embarked on a privatization program aimed at changing the structure of capital ownership to one appropriate for a market economy, and at reducing the financial indiscipline of enterprises that was characteristic of the Yugoslav system of self-management. The Government has also begun a program of the privatization of socially-owned apartments and intends to privatize socially-owned commercial buildings.

a. Financial discipline

A significant factor in the financial indiscipline in socially-owned enterprises is the lack of effective management, brought about by the absence of clear ownership or control of capital and reinforced by the lack of hard budget constraints. To combat this indiscipline, a program of privatization was instituted as part of the reforms introduced in the SFRY in late 1989. While this program resulted in rapid growth in the small private sector in the FYRM, it tended to reinforce the existing problems in the large socially-owned enterprises. Under the program, existing socially-owned enterprises could be partially or wholly privatized through the issuance of so called 'internal' shares to employees and, to a limited extent and on less favorable terms, to other individuals and pension funds. Internal shares could be used as part payment of wages and a significant number of enterprises in the FYRM issued some of these shares. The issuance of internal shares further strengthened the role of labor in enterprise management and resulted in a continuation of the tendency for enterprises to attempt to preserve real wages at the expense of profitability and investment.

The system of enforcement of financial discipline in the FYRM is based on the SOK, through which all inter-enterprise transactions are required to

---

1/ Wages can be paid at as much as 20 percent below the legal minimum level if an enterprise is in financial difficulty.

be cleared. 1/ The SOK is obliged to apply to the courts to initiate bankruptcy proceedings against enterprises which are suffering from ongoing illiquidity problems. 2/

On March 31, 1993, 1,108 enterprises, employing around 63,000 people, were classified as illiquid (Table 12). This total included all enterprises which were illiquid on that date, not only those who had been illiquid for the extended periods which act as triggers for the commencement of bankruptcy procedures. In the month of March 1993, 170 applications for bankruptcy proceedings were made by the SOK. For 1992 as a whole, 2,092 such applications were made in respect of 1282 enterprises. Multiple applications were made in respect of some enterprises in part because work pressures on the courts meant that proceedings were not commenced immediately and the SOK is required to continue to make applications to the courts until either proceedings commence or the firm's problems cease.

There are various options open to the courts when dealing with a bankruptcy proceeding. In general, socially-owned enterprises and enterprises with mixed ownership, which tend to be large, have not been liquidated but instead have been rehabilitated in some way, e.g., with bank financing, by merger with another enterprise or by a negotiated restructuring of debts. Private sector enterprises, which are generally smaller, have been more likely to be liquidated. Of the 1282 enterprises for which bankruptcy application were commenced in 1992, conclusions were reached in respect of 940. In 442 of these cases, the enterprises were declared bankrupt. No action was taken in respect of the remaining enterprises as they had overcome their liquidity problems or had been rehabilitated in the interim.

b. Institutional reform

The principal institutional reform being prepared in the FYRM consists of a privatization program. The program has the objective of creating an efficient private sector and recognizes that significant changes must be made to the manner of control and management of existing socially-owned enterprises. Under the Privatization Law, passed by the Parliament in June 1993, control of each enterprise privatized should be passed to a single dominant shareholder.

1/ The authorities claim that the recent difficult economic situation has led some enterprises to make payments outside the SOK clearing system, either due to a lack of liquid resources or so as to avoid payroll taxes and contributions to the self-managed funds which are determined on the basis of wage payments through the SOK.

2/ An enterprise is judged to be illiquid if the funds available in its accounts with the SOK are insufficient to cover payments currently due from those accounts. Should an enterprise remain illiquid for 60 days consecutively, or be illiquid for any 60 days in a 75-day period, the SOK is obliged to apply to the courts for the initiation of bankruptcy proceedings.

Under the Law, during an initial period 1/ the management of an enterprise will be responsible for formulating a privatization plan, including necessary restructuring, for approval by the Privatization Agency. 2/ Only if an enterprise fails to submit an acceptable plan within the relevant time period will the Agency take charge of formulating a plan. Various methods of privatization are envisaged in the Law, but it is expected that small enterprises will generally be able to be sold relatively quickly by auction. Larger enterprises will go through an independent valuation process, and possibly be broken up into constituent parts, before being put up for sale. No estimates exist regarding the possible costs of restructuring large loss-making enterprises prior to sale.

The principal purchaser of a socially-owned enterprise must offer to purchase at least 51 percent of the social capital. In order to overcome the perceived shortage of investment funds in the FYRM, the principal purchaser may purchase the shares in tranches over several years. Effective control of enterprises will be vested immediately, however, as the unpaid shares will be not have voting rights attached to them until the due date of sale. Fifteen percent of the shares in each enterprise will be transferred to the Pension Fund at no charge. These shares will not have voting rights attached. Up to twenty percent of the shares will be made available for sale to employees at discounts related to length of service. The remaining shares, if not purchased by the principal purchaser, will be offered for sale to the public by auction or through the to-be-formed stock exchange.

Under the Privatization Law, internal shares issued in terms of the privatization program instituted in 1989 will convert to ordinary shares in those cases where it can be shown that the original issuance of the internal shares was done completely in accordance with the law. Where this conversion results in more than half the capital of an enterprise being already privately held, 15 percent of the capital will be issued to the Pension Fund free of charge and the remaining shares offered for public sale by auction or through the stock exchange. Employees will not have any automatic rights to shares in these cases.

It is not currently envisaged that natural resources or monopolies, especially natural monopolies such as utilities, will be privatized. 3/

1/ The period is one year for small and medium enterprises and two years for large enterprises. About 1,450 enterprises are expected to be covered by the program of which about 150 are classified as large, 300 as medium sized and the remainder as small. Some of these enterprises have already been partially privatized through the issuance of internal shares.

2/ The Privatization Agency will be staffed and managed by the existing Development Fund.

3/ Many large self-managed enterprises are, however, actually conglomerations of independent operating units and it may be possible to privatize some of these component operating units while leaving the monopolistic part of the enterprise under social ownership.

The Privatization Law gives foreign citizens equal rights to residents in purchasing shares in enterprises. The Law also allows the previous owners, or their heirs, of enterprises which were nationalized after World War II to reclaim their former property.

An important aim of the privatization program is to facilitate the rehabilitation of the banking sector by accepting blocked foreign currency deposits with the commercial banks as payment for shares, at face value. As these deposits are freely transferable and trade at a discount, it is expected that these blocked deposits will be the principal medium of payment for shares. Where payment for shares in enterprises is made with liquid funds, rather than with blocked deposits which are illiquid, the intention is that these proceeds may be applied to the social costs of restructuring the economy, e.g., to fund unemployment benefits. Nevertheless, the Government does have the aim of minimizing increases in unemployment. For this reason, it is currently envisaged that where competing offers for an enterprise are similar in other respects, preference will be given to the offer which proposes a greater retention of the existing labor force.

As part of the privatization program instituted in 1989, a number of other changes to the legal framework of the economy were made in the SFRY which simplified the legal procedures for establishing private enterprises, abolished the monopoly of social ownership by making all forms of ownership equal before the law, and to some extent curbed the rights of workers' councils. The authorities in the FYRM have built on these changes by instituting a securities commission law and are preparing an antimonopoly law, an accounting and auditing law and a companies act.

c. Privatization of land and buildings

Private ownership of agricultural land and residential property is common in the FYRM; about 85 percent of agricultural land is privately held. Nevertheless a significant number--about 50,000--of residential apartments were socially-owned, either by the socially-owned enterprises or by the Government, at the time of independence. A program to sell these apartments to their residents commenced in late 1992. Payment can be effected using foreign currency, blocked foreign currency deposits at Macedonian banks or in denars. Varying discounts apply depending on the medium of payment. The proceeds of sale of enterprise-owned apartments are remitted to the state in exchange for long-term government bonds. By early May 1993, around 22,000, or about 40 percent, 1/ of these apartments had been sold for the equivalent of about DM 220 million, the majority of which came from blocked foreign currency accounts.

1/ About 14,000, or around half of the state-owned apartments and about 8,000, or around 40 percent, of the enterprise-owned apartments have been sold.

The Government also intends to sell commercial buildings currently owned by the state. These will not attract discounts to the same extent as those which were applied to apartments and their sale is expected to generate the equivalent of about DM 200 million. There is currently no intention to sell socially-owned commercial land. Instead, this land will be leased on a long-term basis to the owners of commercial buildings. The privatization of socially-owned agricultural land is not considered a priority because only a relatively small proportion of agricultural land is involved.

7. Prices

a. Pricing policies

During the 1980s, prices in the SFRY were mostly freely determined except during periods of economic adjustment when controls were implemented. As part of a stabilization program which was launched in late 1989, a price freeze was instituted covering about 15 percent of the items included in the retail price index and 24 percent of the items in the industrial producers price index. The controls were gradually lifted, starting early in 1990, and by July of that year the system was almost completely dismantled, leaving only oil and oil derivatives, which accounted for about 6 percent of the producers price index, subject to controls. As the economic situation worsened and the inflation rate accelerated, controls were reestablished on a wide range of goods and services. At the time of monetary independence of the FYRM in April 1992, these controls covered approximately 40 percent of the items in the retail price index.

The policy of the Government is that prices should be determined freely except where competition is monopolistic and, in accordance with this policy, the authorities began to liberalize many prices following monetary independence. At present, however, prices remain controlled for a range of goods and services which are considered of vital importance and for which normal market conditions have been disrupted by the regional crisis. 1/ These goods and services comprise about 17.4 percent of retail prices and 15.5 of wholesale prices, so that the extent of price controls is now similar to that applying in the SFRY in early 1990. When the crisis in the region is more fully resolved the intention is to continue the process of liberalizing prices.

The current controls cover electricity, petroleum products, flour and bread, milk, drinking water, postal and telegraph services, heating of dwellings and rents. Prices for petroleum products are based on import prices and other costs, including depreciation, together with an allowance for profits. There are no price controls on meat or public transportation.

1/ These disruptions also led to the rationing of petroleum products for a period last winter.

In addition to the existing price controls, producer subsidies exist for bread, milk, flour, wheat, sugar beet, sunflower and oilseeds in order to encourage self-sufficiency in these products. For bread, the subsidy is equal to 14 percent of the official fixed bread price. In the cases of milk, flour, and wheat these subsidies amount currently to 20 percent of the relevant producer prices while for the remaining products the subsidies amount to 15 percent of producer prices. The bread subsidy is claimed by bakers on production of appropriate documentation while for other products the subsidies are paid by the purchaser and subsequently reimbursed by the Government. Subsidies also apply to the total interest bill on selected loans financing the purchase of certain agricultural products 1/ while certain industries, primarily agricultural, are charged below market interest rates on credits which are eligible for rediscounting with the central bank.

b. Price developments

The stabilization program introduced in the SFRY in late 1989 resulted in a rapid slowdown in inflation. Monthly producer price inflation, which had averaged over 30 percent in 1989, was negative in the second quarter of 1990 (Table 14). As the Yugoslav authorities increasingly resorted to monetary emission to finance the budget deficit, and the wage controls which had been instituted could not be maintained, inflation once again began to accelerate. By April 1992, monthly producer price growth had reached 103 percent.

Following monetary independence of the FYRM, when wage controls were introduced and credit conditions tightened, the rate of inflation quickly dropped. In July 1992, producer prices grew by only 3.6 percent. However, as the wage controls were relaxed over the remainder of the year, monthly producer price inflation resumed an upward trend, reaching 30.8 percent by February 1993. Despite the lack of wage controls, inflation again fell sharply thereafter. This fall apparently resulted from a combination of the extreme illiquidity of many enterprises, an appreciation in the parallel market exchange rate at which the bulk of transactions in the FYRM took place, the postponement of price increases for some important public sector prices, e.g., electricity, and normal seasonal falls in food prices which were exaggerated by surpluses of some exportable perishable items due to transportation difficulties.

1/ Tobacco (15 percent of interest bill), the domestic production of wheat, sunflower, oilseeds, sugarbeet, dairy products, meat and the storage of wheat (40 percent of interest bill).

III. The Financial Sector

1. The financial system

a. Overview

The FYRM has a simple financial system, consisting of the National Bank, the commercial banks and the Postal Savings house. Interbank payments, including payments between banks and the National Bank are settled through the SOK.

The official financial system is extremely weak. As a result, a large part of financial transactions take place outside the formal market. In particular, the older commercial banks face serious economic difficulties and have relied heavily on direct injections of liquidity from the National Bank. The National Bank's effectiveness in rehabilitating the banking system has been hampered by insufficient supervisory capabilities and a lack of necessary expertise. 1/ The National Bank has recently started licensing a number of small new commercial banks.

b. The National Bank

(1) Legal base and operational procedures

The Act on the National Bank provides the legal basis for the National Bank's operations as the central bank. It was adopted on April 26, 1992, concurrent with the FYRM's decision to leave the Yugoslav dinar zone. The Act stresses "safeguarding the value of the currency" among the tasks of the National Bank and it ascribes to the central bank the functions of ensuring the liquidity of the economy and supervising the banking system. The Act retains the same limitations on monetary policy conduct as had been placed on the National Bank of Yugoslavia, in particular the requirement that Parliament approves monetary policy. 2/ Parliament must also endorse the list of sectors eligible for selective credits. The National Bank is required to report bi-annually to Parliament on the implementation of monetary and exchange rate policy. The Act prescribes that the National Bank be governed by an eight member board of directors, of which the National Bank Governor is the managing director. All other directors are appointed by Parliament from outside the National Bank.

Within the framework set by law, the National Bank conducts monetary policy by setting quarterly money and inflation targets and implementing policy through an appropriate mix of monetary instruments, including the refinancing quota for selective credits. On an operational

---

1/ Prior to independence, the National Bank was a subsidiary of the National Bank of Yugoslavia (NBY).

2/ After discussion in the National Bank board, the annual inflation and narrow money (M1) targets are submitted to Parliament for approval.

level, a liquidity commission meets daily to monitor the situation in individual banks. The National Bank participates as an observer in a range of parliamentary subcommittees, most importantly in the monetary committee. Given the important role of agricultural finance in the National Bank's credit activities, one important guiding principle for determining quarterly monetary targets has also been related to the seasonal financing needs of this sector.

(2) Instruments of monetary policy

(a) Refinancing facilities (selective credits): Selective credits are the main channel for liquidity injection. The vast majority (95 percent) of all selective credits go to the agricultural sector, the remainder to exports. 1/ Banks can refinance credits granted to agriculture and exports with the central bank, at the prevailing discount rate. Quotas for individual banks are determined on the basis of their past share in selective credits and the size of a bank's capital. The discount rate is set by the Board of the National Bank and currently is 40 percent.

In Spring of 1993, Parliament decided to phase out selective credits by May 7, 1994 and to replace them by market determined instruments of monetary control. However, no policy guidelines have been set for the conduct of credit policy in the interim period, and the necessary preparation for the introduction of a money market have not yet been undertaken. 2/

(b) Reserve requirements: Reserve requirements are not used extensively for purposes of liquidity management. The last change took place in October 1992. The requirements are currently 15 percent for denar deposits up to three months, and 5.5 percent for deposits with a longer maturity, based on deposit holdings on the 10th, 20th, and last day of the previous month. Reserve requirements are held in special blocked accounts with the SOK and the National Bank pays interest on these funds, amounting to 30 percent of the discount rate for required reserves on deposits up to three months and 70 percent of the discount rate for deposits with a longer maturity. The penalty rate for not meeting the reserve requirement is 200 percent of the discount rate. Due to the substantial penalty costs, the compliance with reserve requirements is high.

(c) Minimum liquidity of banks: This instrument is designed to smooth the seasonal oscillations in banks' short term assets. Banks are required to hold a fixed percentage of their short-term resources, measured at the end of the previous month, in accounts with the National Bank. At

---

1/ Most of agricultural credits go to socially owned combinats, including the important agroindustrial complex.

2/ It is planned to replace some of the subsidies to the sector contained in preferential interest rates by budgetary subsidies. However, the current budget does not contain any appropriations for this purpose.

monetary independence the minimum liquidity rate was 5 percent. It was increased to 7 percent in May 1992 and has since remained unchanged.

(d) National Bank bills: At monetary independence "voluntary" and "compulsory" National Bank bills existed. In June 1992 the National Bank suspended the issuance of voluntary bills, but the Act on the National Bank permits a re-introduction if needed for open market operations. Compulsory National Bank bills are essentially another form of reserve requirements, but there is no penalty rate if they are rediscounted during the month. The required rate banks have to hold in National Bank bills was increased from 4 percent of total deposits at monetary independence to 5.5 percent in May 1992. The National Bank pays interest on these bills amounting to 51 percent of the discount rate.

(e) Special liquidity credits: The National Bank stands ready to provide troubled banks temporary credit for 10 days per month currently at an interest rate of 187 percent of the discount rate. Only the most distressed institutions have been using this credit.

(f) National Bank interest rate policy: Interest rates on bank deposits and loans are set freely. The Board of the National Bank sets the discount rate. At monetary independence, the discount rate was set at 60 percent per year but it was changed soon after when the anti-inflation program was implemented. 1/ Consistent with an annual inflation target of 8.2 percent per month, the discount rate was set at 8.5 percent per month to ensure a positive real rate. Following the relaxation of incomes policy in the third quarter of 1992, the discount rate policy was changed to be more accommodating. 2/ In September, the discount rate was set at 410 percent annually, below the expected rate of inflation.

c. The commercial banks

(1) Institutional setup

The commercial banking sector in the FYRM consists of six traditional banks and 11 new institutions licensed in 1993. Additionally, the Post Office acts as a savings institution. Among the group of traditional banks Stopanska Banka a. d., Skopje is by far the most important institution. It has an extended branch network across the entire country and holds about 50 percent of all assets, and more than 60 percent of the liabilities, of the commercial banking system. The remaining banks are much smaller and more regionally oriented. All traditional banks are joint stock companies, with socially owned enterprises as the main shareholders. One bank (Ljubljanska Banka) is 49 percent foreign owned. The eleven newly

---

1/ At the time inflation was running at 86 percent per month.

2/ Inflation first dropped sharply (to 6.6 percent in August of 1992), before increasing from September onwards.

licensed banks are generally very small, with capital averaging only around DM 600,000. A number of these institutions are partly foreign owned. Some of the new banks are fully privately owned.

(2) Economic problems of banks and bank rehabilitation

The FYRM's banking system suffers from the legacies of unsound financial practices in the former SFRY. Due to close ownership relations between banks and enterprises, credits were granted liberally even to loss makers. Preliminary audits suggest that a sizeable share of banks' assets are impaired. On the liabilities side, commercial banks have incurred major foreign currency liabilities from two sources--foreign loans for development projects which were channeled through commercial banks and residents' foreign currency deposits which were redeposited with the National Bank of Yugoslavia. After independence, these latter liabilities--amounting to around US$2 billion--have been assumed by the Government. This measure has, however, not succeeded in unburdening banks as the Government has failed to service these debts and they remain essentially frozen.

The Government is committed to undertake rehabilitation efforts, however to date banks have not been fully audited and plans for bank rehabilitation remain to be formalized. One step towards relieving banks from their obligations has been to privatize socially-owned apartments, through the use of frozen foreign currency deposits; this has reduced the outstanding stock of these deposits by US$150 million. It is expected that the planned privatization of business real estate and enterprises will be linked to a reduction of the remaining foreign currency deposits.

2. The currency reform

The FYRM declared independence in October 1991 but did not introduce its own currency until April 1992, after the withdrawal of the federal troops stationed on its territory. On April 26, Parliament adopted the necessary laws for monetary independence, including the Act on the National Bank and the law on the usage of the currency. 1/ The process of "regular" exchange of the currency, at an exchange rate of one-to-one, started on April 27 and lasted for three days. 2/ The cash exchange took place at all post offices, banks, offices of the SOK and the National Bank. Meanwhile all bank accounts and all financial contracts were converted automatically. After the initial three day period, the conversion continued in SOK offices for the whole month of May 1992. However, with inflation

---

1/ The latter law also specified that within one year Yugoslav coins, which remained legal tender, would have to be replaced by local currency.

2/ During this period FYRM residents could exchange cash holdings of up to Yugoslav dinar 50,000 for FYRM denar value coupons. Fearing a cash shortage, holdings above Yugoslav dinar 50,000 could only be credited to banks accounts. Non-residents living in FYRM (e.g., foreign students) had to apply to the National Bank for exchange privileges.

running higher in the dinar area than in the FYRM, it took place at an appreciated rate for the denar of denar 0.8 Yugoslav dinar. During the month of June the exchange continued in the National Bank only. By the end of June the process was considered completed.

The National Bank exchanged a total of 13,568 million dinar (about US$40 million) into denar. This exceeded officially recorded dinar currency in circulation in March 1992 by nearly 90 percent. The money was retired to Belgrade, giving rise to a claim of the National Bank against the National Bank of Yugoslavia. Currently it is accounted for on the National Bank accounts under "other assets", and the final solution to this claim remains to be found.

In Spring of 1993, the National Bank acquired the printing technology to produce better quality and higher security banknotes, which are to replace the value coupons in circulation. In May 1993, concurrently with the introduction of 10, 20, 50 and 100 (new) denar notes, a currency reform took place with one new denar equal to 100 old denars.

3. Recent monetary and interest rate developments

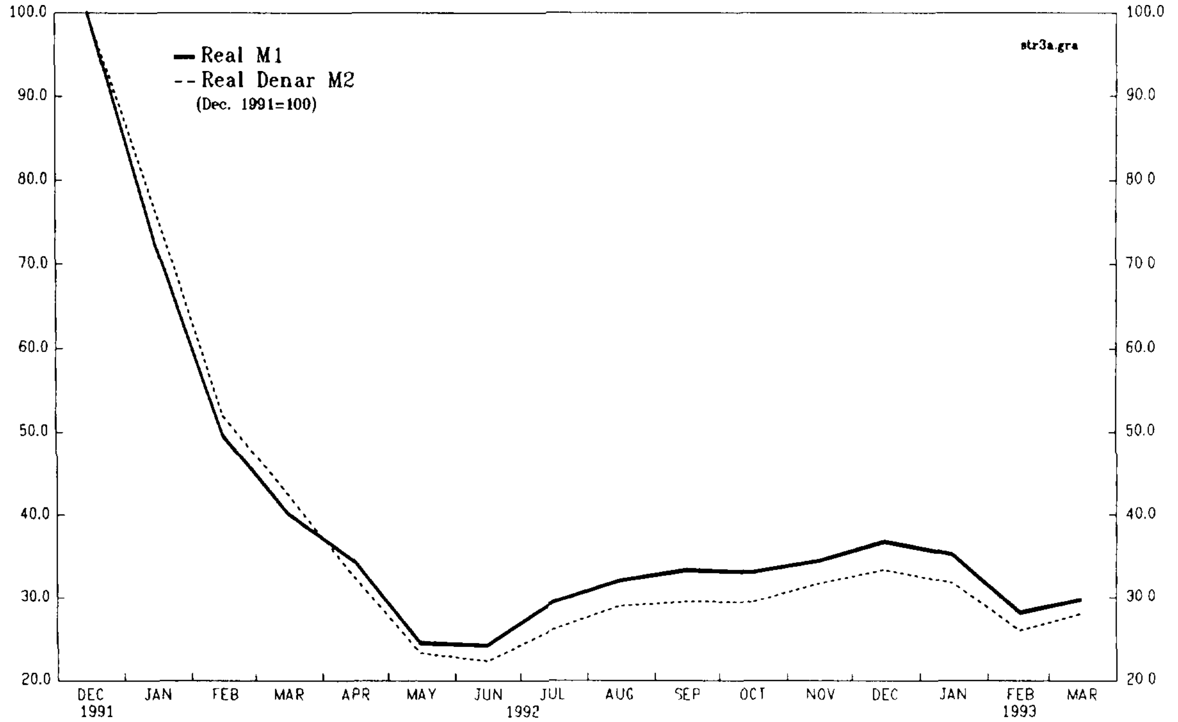
a. Monetary developments

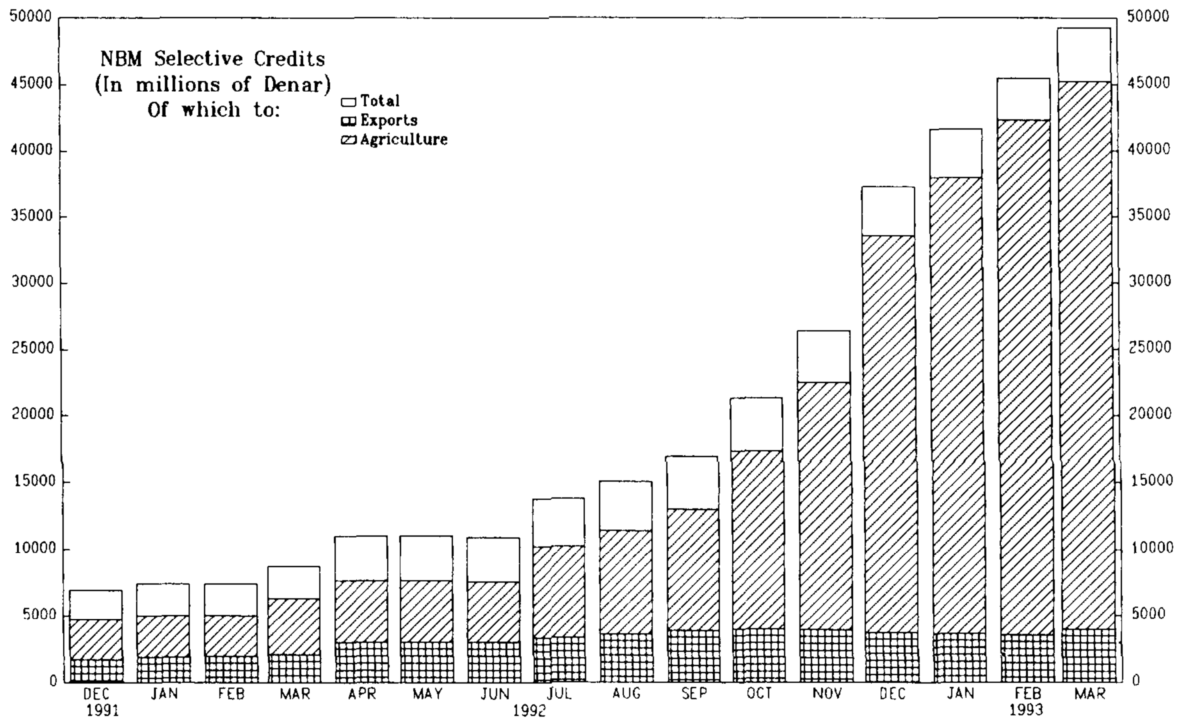
Money demand in the FYRM has been adversely affected by a prolonged period of high and variable inflation and uncertainty regarding the soundness of the financial system. Demand for denar as a store of value therefore has all but vanished, leaving only a residual transactions demand for domestic currency. 1/ This transactions demand for money has been highly responsive to the rate of inflation; real money balances decreased sharply during the high inflation period prior to monetary independence. In April 1992, at the time of currency conversion, real M1 amounted to less than half of the December 1991 value and continued to decline through June 1992, when real balances reached their lowest value--around 25 percent of the December 1991 (Table 15) (Chart 2). Developments in 1992 reflected the initial success in curbing inflation after the currency reform. In the event, real M1 recovered through December 1992, reaching about 40 percent of December 1991 base. However, as inflation picked up later in the year and in early 1993, eventually the prior recovery in real balances was fully reversed.

On the supply side, monetary developments have been dominated by the National Bank's legal obligation to grant selective credits to priority sectors, sharply limiting its ability to control domestic credit.

1/ The freezing of foreign currency deposits has contributed to the erosion of confidence in the financial system and fostered households' clear preference for foreign currency notes as a store of value. There are no data on currency substitution available, however the deutsche mark (DM) circulates widely and visibly plays the role of a parallel currency.

CHART 2
FORMER YUGOSLAV REPUBLIC OF MACEDONIA
MONETARY AND CREDIT DEVELOPMENTS





Source: The FYRM authorities

Furthermore the National Bank lacks appropriate instruments to sterilize the monetary effects of foreign exchange inflows. The National Bank's monetary policy has had two distinct periods: (i) the heterodox stabilization program immediately following independence; and (ii) the period after August 1993, characterized by a relaxation of monetary policy.

Concurrent with the introduction of the denar, the authorities embarked on a heterodox stabilization program. 1/ Contrary to the intended tightening of monetary conditions, the initial effect of the monetary reform was a sharp increase in nominal liquidity as more dinars were presented for exchange than had originally been issued through the National Bank. 2/ In April, currency in circulation increased by more than 130 percent, while base money grew by some 50 percent, fueling the persistence of high inflation early after the introduction of the denar. In the following months, however, the National Bank's resolve to counteract further uncontrolled expansion in the monetary base showed some results. Following a relative tightening of monetary conditions--the discount rate was raised from 60 to above 90 percent; total reserve requirements were increased from 36.2 to 42.5 percent; and, most importantly, quotas for each bank on the formerly unlimited refinancing of selective credits were introduced--the increase in denar credit from end-April to end-June was limited to around 35 percent and base money growth slowed to 20 percent (Table 16).

In the third quarter of 1992, following parliamentary approval of significant wage increases, the National Bank changed its policy stance by accommodating enterprises' increased demand for credit at negative real interest rates. 3/ Denar based credit more than doubled in the last quarter of 1992 and base money expanded in the same period by nearly 70 percent (Tables 17 and 18). Almost half of the increase in base money resulted from selective credits to agriculture and agroindustry (Table 19). A second channel for injection of liquidity was the accumulation of foreign reserves, which during this period nearly doubled. 4/ In the first quarter of 1993, the National Bank's policy stance remained accommodating,

1/ Elements of the program included quantitative limits on selective credits, a fixed exchange rate of denar to the DM (at denar 360 per DM), selective price controls and a law severely restricting wage growth.

2/ The last exchange of currency has only taken place in December 1991; even in the absence of reliable statistical information on the trade balance between the FYRM and the rest-dinar area, the excess is unlikely to only reflect export surpluses. In part it is likely to originate from capital inflows in anticipation of monetary reform.

3/ Credit ceilings on individual banks were preserved but the quotas were increased to a level were they were no longer binding.

4/ Since most transactions were taking place in the black market the predominant source for official reserves were receipts from the 30 percent surrender requirement for exporters and some limited revenues of exchange bureaus. Apparently, the National Bank also acquired some reserves at the parallel market exchange rate.

but the overall increase in base money slowed to about 25 percent, reflecting seasonally lower demand for agricultural credits in the first part of the year and a fixed nominal exchange rate.

b. Interest rates

There are no legal or administrative limitations on interest rates. 1/ Instead, rates are negotiated freely between banks and their customers. The National Bank collects and publishes data on maximum and minimum realized nominal deposit and lending rates but does not calculate transaction weighted interest rates. 2/

At monetary independence real interest rates on both the deposit and lending side were strongly negative (Table 20). However, as the National Bank tightened monetary conditions, nominal interest rates moved up while inflation declined and by mid-1992, real interest rates turned positive. In the last part of the year nominal interest rates increased by far more than the hike in inflation, leaving ex-post real rates in the first quarter of 1993 strongly positive. Furthermore, there is a very large spread between deposit and lending rates, reflecting the overall economic situation, in particular the weak economic position of enterprises and banks. Lending rates are high, because a very significant part of banks' assets are impaired and banks demand high risk premia. At the same time the lack of hard budget constraints permits enterprises to borrow at costs that greatly exceed the returns on those borrowed funds. On the deposit side, rates are widely disbursed with the higher end of the spectrum usually paid by some new small banks. Those banks lack the option to refinance themselves with the National Bank through credits and, hence, compete very aggressively for the limited amounts of deposits.

1/ An earlier Yugoslav requirement to index contracts had been abolished prior to independence.
2/ This complicates the analysis because those rates may reflect marginal rates of small banks.

IV. The Public Sector

1. Institutional arrangements and working of the public sector

a. Structure of the public sector

General government in the FYRM consists of central government, the extrabudgetary funds, and local government. General government revenues were equivalent to about 28 percent of GSP in 1992 while expenditures were equivalent to about 34 percent of GSP. Central government and the extrabudgetary funds each accounted for about half of general government while the activities of local governments were of only minor significance. Before the independence of the FYRM in September 1991, there were numerous extrabudgetary funds but most of these have since been integrated into the central budget. The major funds still operating outside the central budget are the Pension and Disability Fund, the Health Care Fund, the Employment Fund, the Road Fund and the Goods Reserve Fund. 1/

In the former SFRY, the self-management communities for collective consumption dominated the public sector. The governing council of each community comprised consumers and producers of the services in question. These communities were responsible for providing a range of services from infrastructure to social services. Each self-management community was allowed to levy its own taxes on enterprises operating in the relevant jurisdiction. As a result, enterprises were levied multiple charges with a high variance. The autonomy of the self-management communities meant that the central government was unable to effectively control the use of resources in the public sector.

The system of self-management communities has largely disappeared as the Government consolidated most of the communities into the republican budget or the local government budgets. Multiple charges were also consolidated into a simpler centralized tax structure.

b. The revenue and expenditure system

Total general government revenue in 1992 accounted for 28.1 percent of GSP (Tables 21 and 22). Central government revenue amounted to 13.6 percent of GSP of which the largest share came from the sales tax (5.5 percent of GSP). The other major revenue sources were personal income tax (4.4 percent), import duties (2.2 percent), and the profit tax (1.1 percent). Non-tax revenue was only 0.3 percent of GSP. The revenues of extrabudgetary funds accounted for a little more than half of the total general government revenue, or 14.4 percent of GSP. Of this total, the Pension and Disability

---

1/ Socially-owned enterprises still account for approximately 85 percent of nonagricultural employment. However, these firms are controlled by workers and management and therefore, unlike traditional public enterprises, are not subject to direct government control.

Fund revenues were equal to 6.8 percent of GSP; those of the Health-Care Fund to 4.1 percent of GSP and those of the Employment Fund to 0.3 percent of GSP. The major revenue sources for these three funds are contributions levied on enterprise payrolls. Local government revenues accounted for less than 0.2 percent of GSP in 1992 and derived from property tax, property income tax, taxes on real estate income, and public utilities fees, as well as 0.3 percent of sales tax revenue transferred from the central government budget.

The SOK is responsible for collecting taxes from enterprises, including the personal income tax on employees and payroll contributions to the extrabudgetary funds. The Ministry of Finance is responsible for collecting revenue from individuals, predominantly the self-employed, including those taxes levied by local governments.

In 1992, general government expenditure amounted to 34.0 percent of GSP (Tables 21 and 23). Of this total, payments accounting for around 5.9 percent of GSP were in arrears at year-end. At the central government level, current expenditures accounted for 17.2 percent of GSP. Major expenditure items were wages (5.5 percent) and transfers to enterprises and individuals (4.7 percent). Capital expenditure was very small, amounting to only 0.6 percent of GSP. Expenditures of the extrabudgetary funds were equal to around 15.9 percent of GSP, of which Expenditures of the Pension and Disability Fund accounted for around 8.1 percent of GSP, those of the Health-Care Fund for around 4.3 percent of GSP and those of the Employment Fund for around 0.4 percent of GSP. Local governments spent an amount equivalent to around 0.2 percent of GSP in 1992.

Expenditure control is lax as individual ministries are authorized to disburse their budgets within the allocated amounts, even when the actual funds have not been distributed to the ministries, and are not required to report their actual liabilities to the Ministry of Finance. Under this system, payment arrears by individual ministries to enterprises are possible although these apparently have been kept at a low level to date.

c. <u>The levels of government</u>

(1) <u>Central government</u>

The republican budget not only covers the expenditures of individual ministries but also independent organizations such as schools (for teachers' salaries), cultural organizations, and research institutions. These organizations differ from the independent self-management communities of the previous system as they are not allowed to raise their own revenue, except through fees, and must submit their budgets to the Ministry of Finance for approval. There are 52,000 people on the payroll of the republican budget of which 18,000 people work for central government.

(2) Extrabudgetary funds

As mentioned above, the five major extrabudgetary funds still remaining are the Pension and Disability Fund, the Health-Care Fund, the Employment Fund, the Road Fund, and the Goods Reserve Fund. The Pension and Disability Fund relies mainly on contributions levied on enterprise payrolls for its revenue. The rate of the contribution is 18 percent of wages, the revenue from which accounted for about 91 percent of the total revenue of the Fund in 1992. The Fund had a deficit of 1.3 percent of GSP in 1992 financed primarily by arrears in payment of entitlements.

Currently, 190,000 persons are receiving support from the Fund. In 1992, about 82 percent of expenditures were paid as pensions, 12 percent for health insurance for pensioners and 2 percent for handicapped persons. The Fund also provides some support to those whose pensions, for various reasons, have fallen in real terms below a minimum level and to pensioners whose children are students. Some pensions, such as those for employees of Ministry of Defense, Ministry of Internal Affairs, and penal institutions, are presently provided out of the republican budget.

Full pensions are payable to men and women after 40 and 35 years of employment, respectively. For a person qualified for a full pension, pensions are based on 85 percent of the average wage of the most favorable ten years of employment. The average full pension presently equals about 55 percent of the final year's wages. This ratio reflects in part the normal upward trend in an individual's earnings over time as well as the fact that pensions are indexed to wages with a one month lag. In an environment of lower inflation, the ratio of average pension to final year wages would be somewhat higher.

The Health-Care Fund raises most of its revenue from the payroll contributions at a rate of 8.6 percent of wages. These contributions comprised about 94 percent of the Fund's total revenue in 1992. In addition, there was a transfer from the republican budget that accounted for 5 percent of the Fund's revenue. This Fund had a deficit amounting to 0.1 of GSP in 1992, funded primarily by deferral of payments, especially wages.

Within the health system, organizations providing health services are largely autonomously administered and are funded principally by the Health-Care Fund. Other funding comes from payments for services not covered by the Health-Care Fund, such as health care for residents not covered by health insurance (only about one percent of the population) and for foreigners. In addition to funding the organizations providing health services, the Health-Care Fund directly finances some health services (e.g., essential treatment in other countries for FYRM residents) as well as some medical research.

The Employment Fund is funded from payroll contributions at a rate of 0.8 percent. The Fund provides unemployment compensation but only to those workers who have had contributions to the Fund made on their behalf and who have subsequently been made redundant, although the Fund does provide health insurance coverage to all registered unemployed. Those who have never worked, have not had contributions made to the Fund on their behalf, or are receiving severance benefits under other supporting schemes do not qualify for benefits from the Employment Fund. As a result, only 15,000 people, out of a total registered unemployed figure of around 170,000, are currently covered by the Fund. Despite the small number of beneficiaries, the Fund is running a deficit of about 18 percent of its total expenditures, due to its limited financing.

Eligible unemployed persons are paid the higher of either 50 percent of their previous wage or 80 percent of the minimum wage. The length of time for which benefits are paid depends on the length of previous employment: if an unemployed person has been previously employed for less than 25 years, he/she will receive benefits up to 30 months; if the person has been employed more than 25 years, the Fund pays the benefits until he/she finds a new job.

Expenditures of the Road Fund, which is responsible for construction and maintenance of roads, were equal to 1 percent of GSP in 1992. Its revenue derives mainly from a charge on oil products and toll fees. Expenditures of the Fund for Goods and Reserves were equal to 1.2 percent of GSP in 1992. This Fund is responsible for storing basic foods, such as wheat, and oil and its revenue also comes from a charge on oil products.

(3) The local governments

Local governments play only a limited role as their total outlays of only 0.2 percent of GSP in 1992 indicate. There are presently 35 municipalities, whose populations range from about 15,000 to 150,000. Their responsibilities are limited to municipal affairs, the provision of local public utilities, education, culture, sports, garbage collection, maintenance of parks and so forth. Even within this range of responsibilities the activities of local government are limited as some expenses, e.g., teachers' wages, are paid from the republican budget. Furthermore, in many areas local government must follow the standards set by central government.

2. Recent developments: 1991-92

a. Overview

The fiscal situation of the FYRM has become precarious since the breakup of the former SFRY. The contraction in economic activity and the loss of traditional markets have combined to shrink the tax base substantially while excessive inflation has eroded the real value of tax revenues due to normal lags in payments. Seemingly widespread tax evasion has also contributed to the decline in tax revenues. Having been a net recipient of transfers from the federal government before independence, the loss of these transfers has also had a negative impact on the budget. As a result of all these factors, general government revenues decreased to about 28 percent of GSP in 1992 from around 37 percent in 1991 (Table 21). On the expenditure side, the budget has been burdened with the costs of nation-building linked to independence.

The budget has been balanced on a cash basis, and recourse to the banking system has been avoided so far, but only through accumulating domestic and foreign payment arrears and slashing much needed capital expenditures. The domestic arrears have principally taken the form of unpaid entitlements payments. These amounted to about 7 percent of expenditures, or 1.3 percent of GSP, in 1992. The Ministry of Finance is presently unable to quantify arrears by individual ministries to enterprises in respect of purchases of goods and non-factor services, but they are believed to have been relatively small to date. Foreign debt servicing arrears amounted to US$28 million, or about 0.9 percent of GSP, in 1992. Moreover, the Government has taken over the responsibility for servicing the frozen foreign currency deposits with commercial banks but has not allowed withdrawals except in certain special cases, nor paid interest on them; these interest payments would have cost around 3 percent of GSP in 1992. The extrabudgetary funds have also accumulated payment arrears amounting to around 1.5 percent of GSP in 1992. Consolidating central government and the extrabudgetary funds, and restating the consolidated budget on an accruals basis, results in a deficit for 1992 equivalent to about 5.9 percent of GSP. 1/

b. Revenue

Central government revenues decreased by 4.6 percentage points to 13.6 percent of GSP in 1992 (Table 22). Taxes continued to be the main source of revenues for central government, accounting for 98.0 percent of total revenues in 1992 up from 94.7 percent in 1991. Due to the severe contraction in the tax base, tax evasion and erosion of the real value of tax revenues by inflation, the ratio of tax revenue to GSP declined by 4 percentage points to 13.3 percent in 1992 from 17.3 percent in 1991.

By far the most severe revenue drop was recorded by the sales tax. Although this tax was still the largest revenue source for central government, it decreased to 5.5 percent of GSP in 1992 from 8.6 percent in 1991. Under the previous Yugoslav system, sales taxes were levied at both the federal and republican levels, at the rates of 20 percent and 14 percent, respectively. In May 1991, the two levels of sales tax were consolidated by the FYRM into one for each category of goods and services, with a basic rate of 42 percent. Although the list of exempted items is not extensive, the number of tax rates, 21, is unusually large, which

1/ This figure excludes any arrears which may have been incurred by individual ministries to enterprises.

complicates compliance by taxpayers and increases the possibility of tax evasion.

The authorities are now considering introducing an EC-type value added tax. As a preparatory step, in November 1992, the authorities started taxing all beverages and tobacco not only at the retail stage, as is the case for other taxable goods, but also at the manufacturing stage. At present wholesalers are included in the chain of taxation but they are paying sales tax on their services only at the rate of 5 percent, regardless of the goods that they sell and the sales tax rates applied to these goods at other stages of distribution.

Personal income tax was also a significant revenue source, accounting for about one-third of the total tax revenue. The tax rates are proportional, rather than progressive, and as a result personal income tax revenues dropped to 4.4 percent of GSP in 1992 from 5.5 percent the previous year, or by about 35 percent in real terms, in line with the drop in real wages.

Several features of the present personal income tax make it complex and inequitable. First, employees, self-employed persons and farmers are subject to differing taxation rates, with farmers in particular seeming to receive favorable treatment. The average tax rates (un-weighted) for employees and self-employed persons were 12.7 percent and 25 percent respectively in 1992, whereas farmers were exempt from income taxation (they were taxed at 2.5 percent in 1991). Second, the personal income tax on employees has a large number of differentiated rates in a narrow range: there are 13 rates in a range from 9.6 percent to 15.6 percent. Lastly, the basic deduction for the tax, at 60 percent of the average wage, is quite high.

Due partly to the fact that the FYRM relies heavily on international trade, the share of customs duties is significant, accounting for about 17 percent of total tax revenue in 1992, or 2.2 percent of GSP. Since customs duties were collected by the federal government before the breakup of the SFRY, the FYRM is in the process of establishing customs operations of their own with customs houses currently being built along the northern border. At present, the authorities are still using the tariff schedule of the former SFRY. Import duties range from 0 to 25 percent, goods in shortage in the FYRM being taxed at a zero rate.

The profit tax raised a relatively small amount of revenue, only 0.8 percent and 1.1 percent of GSP in 1991 and 1992 respectively, due to the fairly wide range of deductions and exemptions. During 1991 and 1992, the profit tax was levied on value-added by companies, that is, the sum of profits, wages and some depreciation. The rates varied from 1.5 percent to 13.5 percent: the lowest rate being applied to medical institutions, cultural organizations, and other services while the highest rate was applied to traders, banks, and insurance companies.

The contributions to each extrabudgetary fund decreased in real terms by around 32-34 percent in 1992, which was more or less in line with the drop of wage payments in real terms.

c. Expenditures

The expenditures of central government, on an accruals basis, decreased by 0.3 percentage point of GSP to 17.9 percent in 1992 (Table 23). This decrease was recorded despite the newly assumed responsibilities for servicing foreign debt and foreign currency deposits, amounting to around 3.4 percent of GSP--to date these servicing payments have not actually been made. Most other current expenditures were in decline except for defense spending. The ratio of wage payments remained constant vis-à-vis GSP, while expenditures on other goods and services decreased by 3 percentage points of GSP, or by 69 percent in real terms. Transfers to enterprises and individuals in the form of subsidies, pensions for military personnel etc., unemployment benefits for certain redundant workers, and benefits under social programs were also substantially cut. In aggregate these expenditures accounted for 4.7 percent of GSP in 1992, down from 6.8 percent in 1991, a 45 percent reduction in real terms despite the fact that some items, e.g., pensions for soldiers, were included in the budget for the first time in 1992. If the additional expenditures incurred for these items are excluded, total transfers decreased by almost 60 percent in real terms. Subsidies to agriculture also saw a 60 percent cut.

Expenditures on defense increased five-fold in 1992, to 1.8 percent of GSP, as a result of the costs associated with nation-building and the unstable security situation in the region. Parliament has set a ceiling on defense spending of 3 percent of GSP.

Fixed investment by central government, which excludes construction and maintenance of roads, was kept constant in 1992. However, not only was the level of investment very low, at 0.6 percent of GSP, but it predominantly related to nation-building expenditures such as the establishment of border posts, customs houses, and information systems within the government. Excluding these one-time expenditures, the government spent considerably less than 0.1 percent of GSP on infrastructure programs. The construction and maintenance of roads is carried out by the extrabudgetary Road Fund. Expenditures on roads were slashed to 1 percent of GSP in 1992 from 2.2 percent the previous year, a drop of more than 60 percent in real terms.

As to social safety nets, 5 percent of central government expenditures were directed to helping poor families, lump sum severance payments and retraining allowances. A poor family with a monthly per capita income of less than DM 35 is eligible for payments to lift the per capita income to the DM 35 floor. At present, unemployed persons who have previously worked are eligible for a redundancy payment of up to 24 times the average monthly wage of their enterprise in the last three years if they elect not to receive retraining or unemployment benefits from the Employment Fund. These lump sum redundancy payments are intended to facilitate the establishment of private sector enterprises. Under the present system, the Government pays 60 percent of a lump sum redundancy payment, while the previous employer pays the remaining 40 percent. Because of the drop in real wages, there has been a substantial decline in the amount of payment, to the equivalent of around DM 3,000 on average in 1992 from DM 8,000-10,000 several years ago, and as a result the present lump sum payment scheme is not regarded as very attractive: only 1,300 unemployed persons chose to receive lump-sum payments in 1992, compared to 2,200 that selected retraining.

Overall expenditures of the three main extrabudgetary funds decreased by more than 40 percent in real terms, or by 4.7 percent of GSP in 1992. The Health-Care Fund halved its expenditures by cutting payments for treatments severely, though expenditures of the other two funds also decreased by one-third.

3. Developments in 1993

a. Changes in 1993

The authorities have commenced a major overhaul of their tax system. In January 1993, three changes were made in the profit tax. The tax base was changed so as to include only enterprise profits, i.e., to exclude wages, and the tax rates were raised in order to compensate for the smaller tax base. The number of tax rates was simplified so that now, besides the basic rate of 20 percent, there are only three rates, namely, 4.5, 17, and 30 percent. Finally, the number of exemptions was reduced from 26 to 10. As for 1994, the authorities are preparing a draft law on profit tax, which aims to unify the rate at 30 percent for all enterprises.

As to the personal income tax, a draft law has been submitted to the Parliament that will integrate various separate taxes into one and introduce progressive tax rates as opposed to the present proportional ones. If adopted as proposed, the tax rate will be 20 percent for those who earn up to twice the average wage; 23 percent for those who earn more than twice but not more than 5 times the average; and 30 percent for those who earn more than this amount.

The authorities are now drafting a new law to change the sales tax to a European type value added tax. This will be done by gradually extending the tax base to the manufacturing and wholesale levels. The tariff schedule is also under consideration for revision because it presently reflects the industrial structure of the former SFRY, from which it was adopted, rather than that of the FYRM. One major institutional change is a planned transfer of the taxation function of the SOK to the Ministry of Finance in 1994.

b. Budget for 1993

The budget for 1993 was finally approved by the Parliament mid-year. The budget approval is normally finalized in two stages, with the aggregate budget being considered first, followed by the allocation of total expenditures to individual expenditure items.

Total revenues for 1993 have been budgeted at around the same level as 1992 revenues, at around 27 percent of GSP, and the budget is expected to be balanced under the cash based budgeting system employed in the FYRM. However based on macroeconomic developments during the first half of 1993, the fiscal imbalance for the full year is projected to widen to around 15 percent of GSP, in comparison with 6 percent of GSP in 1992. The projection for 1993 is discussed in detail in SM/93/171 (8/4/93).

V. External Sector

1. Exchange rate developments

Between independence in September 1991 and the introduction of its own currency at end-April 1992, the FYRM remained part of the Yugoslav dinar monetary zone. During 1991 and January-April 1992, when the SFRY was in its final stages of dissolution, the near-hyperinflationary conditions had led to successive depreciations of the dinar against the deutsche mark to which it was pegged. Following monetary independence, the FYRM maintained the practice of basing exchange rate policy on a peg to the deutsche mark. For almost six months the deutsche mark exchange rate was held constant (Table 24). While this policy helped in reducing inflation, a relaxation of wage controls in August 1992 led to rising inflation and increasing downward pressure on the official exchange rate. The margin between the official deutsche mark exchange rate and the increasingly important unofficial exchange rate widened to over 60 percent by September 1992, from close to zero following the introduction of the denar.

Increasing pressure on the availability of foreign exchange in the official market, caused by the diversion of reportedly 70-90 percent of foreign exchange transactions to the parallel market, led the authorities to devalue the official rate in early October 1992. At the same time, the system of fixing the exchange rate to the deutsche mark was abandoned in favor of fixing the rate against a basket of seven currencies (six European currencies including the deutsche mark, together with the U.S. dollar). The resulting depreciation in the official exchange rate amounted to around 45 percent (Table 24).

However, a substantial premium between the parallel market and official rates remained following the devaluation, and with domestic price inflation accelerating, this widened further during the last quarter of the year. The authorities' concerns over the increasing marginalization of the official exchange market led to a further 30 percent devaluation of the official exchange rate against the basket in December 1992. This second devaluation similarly failed to halt the widening margin between the official and parallel market rates. The margin peaked in February 1993, at almost 80 percent, before an influx of foreign exchange during February-March led the exchange rate to stabilize and ultimately appreciate in both markets over March-May 1993. The foreign exchange inflow had two sources: the arrival of UN peacekeeping forces in the country; and the disbursement by a private foundation of a US$25 million short-term loan to the FYRM to assist with purchases of oil and other priority imports. The resulting appreciation in the unofficial exchange rate amounted to more than 15 percent over March-May (Table 24).

In May 1993, the Government abandoned the fixed exchange rate policy in favor of a flexible exchange rate both in order to improve the efficiency of foreign exchange allocation and to facilitate current account adjustment to the external shocks. Since floating, the official exchange rate has depreciated to virtually close the gap to the parallel market rate, which had itself depreciated by around 30 percent in the period between the float and mid-June 1993. The floating exchange rate has been accompanied by measures to introduce new exchange market arrangements for enterprises and households. 1/

Despite the successive devaluations and subsequent floating of the exchange rate, the real exchange rate has appreciated by around 50 percent since monetary independence (Table 5) (Chart 3). As noted, however, the appreciation largely reflected the disbursement of a short-term loan. This loan is due to be repaid before the end of 1993. In the May 1992-January 1993 period, prior to the loan disbursement, the real exchange rate in the parallel market was broadly stable with some decline recorded in the last quarter of 1992--a pattern consistent with the external shocks experienced by the FYRM.

2. Current account developments

The FYRM has traditionally run a sizeable current account deficit with both CMEA and other trading partners outside the former SFRY ("external trade"), while trade with other former republics of the SFRY ("interrepublican trade") is estimated by the staff (on a national accounts basis) to have recorded a modest surplus over the late 1980s. 2/ The FYRM's external current account deficit averaged around 6 percent of GSP over 1986-89, but deteriorated substantially to over 20 percent of GSP in 1990-91 with the trade liberalization and consumption boom that took place in the SFRY during this period. These external deficits were largely financed through sizeable transfers both from the federal Development Fund and other federal sources (amounting to some 5-6 percent of GSP), and through the FYRM's access to large-scale central bank credits as part of the SFRY.

Over the period since 1990, the FYRM's trade both within the former SFRY and with non-SFRY trading partners has been significantly affected by a series of adverse external shocks: the collapse in 1990-91 of the former

---

1/ These arrangements, together with other aspects of the exchange and trade system, are discussed in detail in Appendix II.

2/ The FYRM's trade with other former republics of the SFRY began to be measured and included in the balance of payments on an incomplete basis in 1991 and 1992, as they successively broke away from the SFRY. In order to overcome the resulting discontinuity in the balance of payments data, the description of current account and trade developments in the following sections relates primarily to developments with countries outside the former SFRY. Where interrepublican trade is described, a distinction is made between staff estimates of this trade based on national accounts data (which, although subject to high margins of error, provide a continuous time series for this trade over recent years), and the incomplete estimates of this trade incorporated by the authorities in the balance of payments.

CMEA trading area and disruption to traditional Eastern European markets; the break-up of the former SFRY in 1991 and subsequent outbreak of war within some of the successor states; the introduction in 1992, and recent intensification, of UN trade sanctions against the Federal Republic of Yugoslavia; and, the diplomatic dispute with Greece (an important transhipment route) over the FYRM's name. 1/

The cumulative impact of these shocks was reflected in a significant compression in the FYRM's external current account deficit in 1992, to around 12 percent of GSP (Table 25). In large part this reflected the substantial decline in imports (over one-third) from outside the former SFRY which resulted from the loss of federal financing following the collapse of the SFRY. Exports to countries outside the former SFRY appear to have remained broadly unchanged in 1992 as the increased supply of exportables resulting from the loss of markets within the former SFRY appears to have largely offset the impact of transshipment problems and the loss of markets in the former CMEA.

Independence, together with the external shocks, has created serious statistical problems that severely hamper analysis of external developments. 2/ As previously noted, trade with the SFRY's successor states began to be recorded on only a very approximate and incomplete basis from 1991. 3/ Other trade data, including the breakdown between CMEA and non-CMEA trade, are similarly approximate due both to the lack of good-quality customs information in the period following independence and to methodological problems, particularly regarding the inclusion of service items in the trade account. 4/ Transfers and remittances are both under- and mis-recorded--most private transfers (traditionally an important source of foreign exchange for the FYRM) took place on a cash basis through the

---

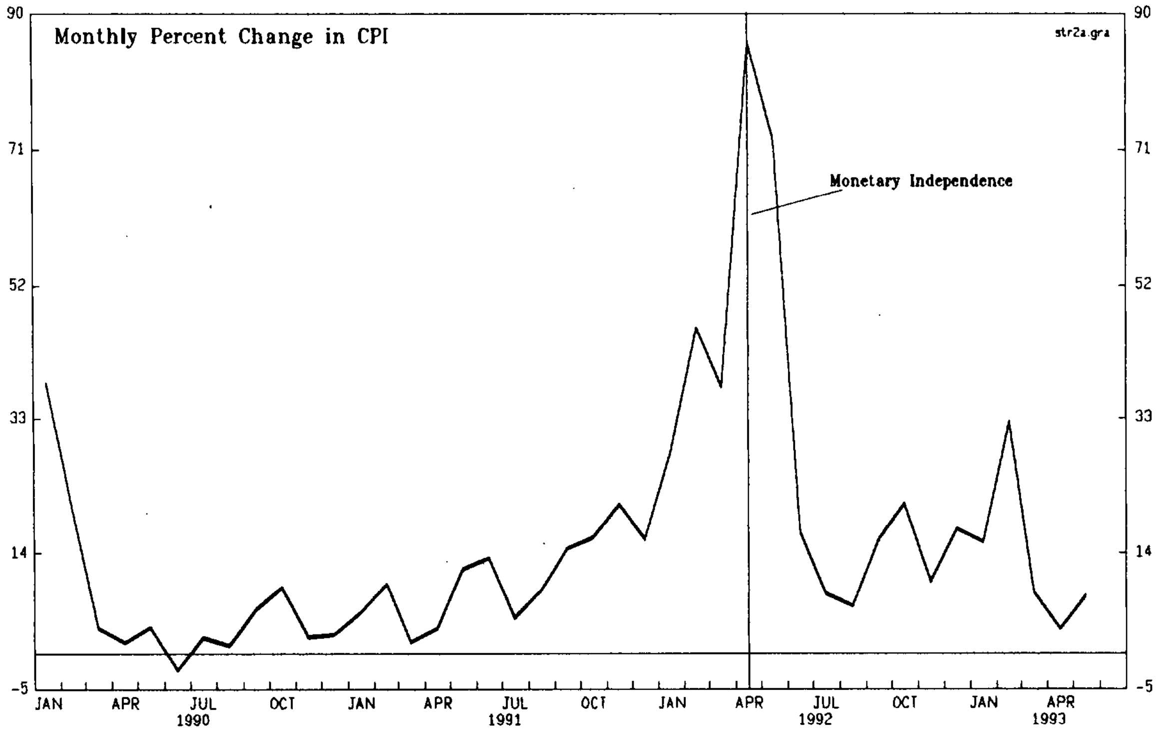
1/ See Appendix II of SM/93/171 (8/4/93) for a more detailed discussion of these shocks.

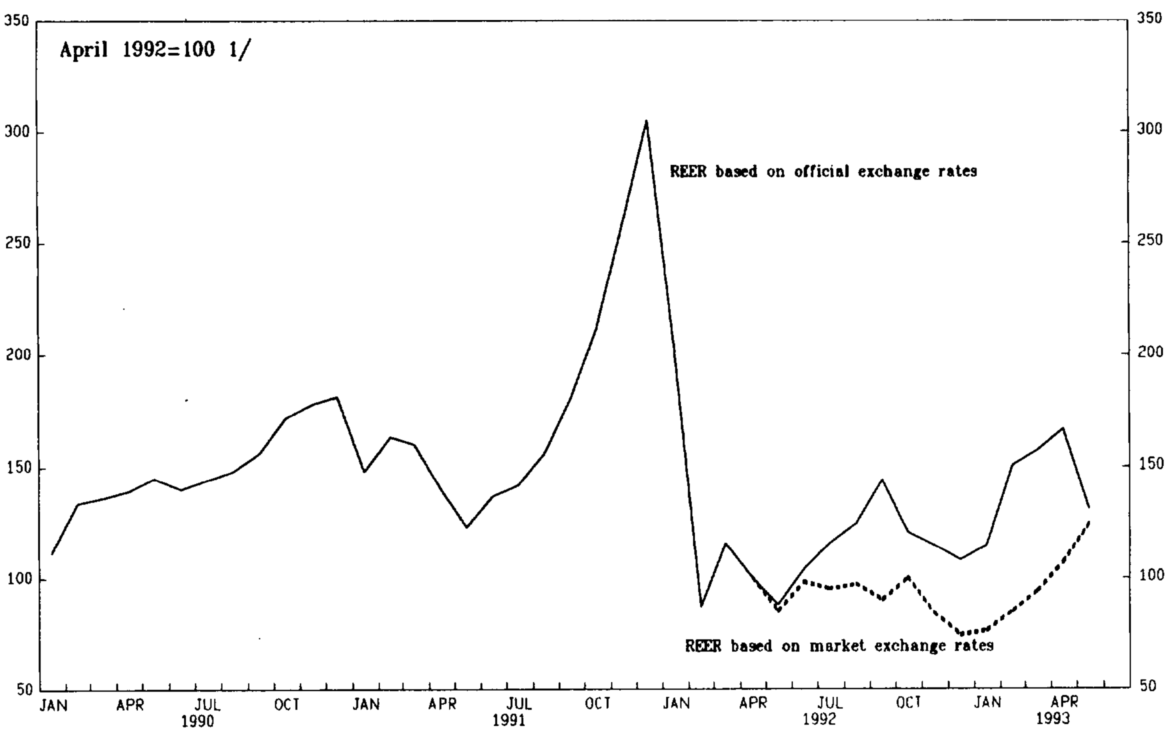
2/ All balance of payments data for 1992-93 are preliminary estimates/ projections that are subject to future revision. See Appendix I of SM/93/171 (8/4/93) for a discussion of statistical problems.

3/ See Appendix II of SM/93/171 (8/4/93) for a discussion of staff estimates of interrepublican trade on a national accounts basis. These estimates, which are subject to high margins of error, suggest that such trade, which used to amount to 150 percent of the FYRM's GSP, fell by around 45 percent over 1990-92.

4/ The most serious problem in the services area relates to the inclusion in exports and imports of goods of the gross value of goods and materials "imported" for processing and then "exported" to the originating country, despite no transfer of ownership taking place in the great majority of these transactions. The value of the goods affected by these transactions amounted to almost one half of the gross value of exports and around one third that of imports in some years. Estimates of these "imports" and "exports" were provided by the authorities and have been removed from the trade data presented, unless otherwise noted.

CHART 3
FORMER YUGOSLAV REPUBLIC OF MACEDONIA
INFLATION AND REAL EXCHANGE RATES





Sources: The FYRM authorities; and staff estimates.
1/ Deflated by relative consumer prices. An increase in the index denotes an appreciation.

unofficial foreign exchange market over recent years, and a significant proportion of transfer flows are believed to have been recorded as tourism flows. Furthermore, data are currently unavailable for official transfers, flows of humanitarian and other assistance. In the capital account the sizeable federal transfers received from the former SFRY, and which largely financed the FYRM's external deficits prior to independence, are not captured in balance of payments data for that period. The deficiencies in the balance of payments statistics are reflected in the extremely large net positive errors and omissions item.

a. Exports

The FYRM's exports to countries outside the former SFRY have traditionally comprised manufactured goods (particularly ferrous metal components, iron, steel, buses, textiles, footwear and clothing), chemicals, food and tobacco products (Table 26). The markets accounting for the bulk of exports to countries outside the former SFRY were the FSU and other CMEA countries (exports of steel, iron, buses, footwear, and clothing, for example), and the EC (textiles, footwear, clothing, and buses) (Table 27). As noted, the FYRM was also significantly involved in export processing under contract with firms in other countries. These activities were concentrated in the ferrous metals sector (in particular, involving the FYRM's large iron works), and the textiles and clothing sectors. With the collapse of CMEA and SFRY trade, many of these processing activities involving both former SFRY and other partners have declined in importance as a source of income (Table 28).

As a result of the break-up of the SFRY and the eruption of war in some of the successor states, exports to the former SFRY countries are estimated by the staff (on a national accounts basis) to have dropped by around 40 percent over 1990-92 (Table 25). One effect of this shock has been a significant increase in the supply of goods available to be exported to destinations outside the former SFRY. This increased supply of exportables to non-SFRY markets is believed to have acted to largely offset the impact of the transhipment problems experienced in the wake of the UN sanctions, and the disintegration of the former CMEA trading area. The share of CMEA exports in exports to countries outside the former SFRY has declined sharply, falling from an estimated 30 percent in 1990 to around 19 percent in 1992 (Tables 25 and 27).

Information available for the first half of the year suggests that total exports (including exports to other former SFRY republics) will remain broadly flat during 1993, with exports to the other former SFRY republics stabilizing and further substitution away from CMEA trading partners and toward other markets taking place.

b. Imports

Around 80 percent of imports from outside the former SFRY have traditionally comprised industrial supplies, particularly raw materials and semi-manufactured inputs for further manufacturing and processing (Tables 29 and 30). However, the liberalization of trade that took place in the SFRY in 1990-91 led to a marked rise in the share of consumer goods in the FYRM's imports from countries outside the SFRY, from less than 10 percent over 1988-89 to 20-25 percent, a level much closer to the typical share of such imports in developed economies. Consistent with the under-investment characteristic of the self-management system of the former SFRY, the share of investment goods in the FYRM's imports from countries outside the former SFRY has traditionally been very low (around 10 percent). Around 40-45 percent of imports from countries outside the SFRY were sourced from EC markets over 1990-91, while 25-30 percent continued to originate from former CMEA countries (Table 31).

Oil, an important import requirement for the FYRM, was traditionally supplied by the FSU. However, following the collapse of the CMEA trading system, the FYRM now purchases its oil on the open market. Oil deliveries through Greece were interrupted during late 1992 and early 1993, but have since reportedly been normalized.

Following independence, the loss of federal transfers and credits has forced a sizeable adjustment (over one-third over 1990-92) in the level of imports from countries outside the former SFRY, albeit from the peak level reached following trade liberalization in 1990 (Table 25). Imports from CMEA countries fell sharply in both 1991 and 1992 following the disintegration of the CMEA trading area. However, the slump in non-CMEA imports (excluding imports from republics of the former SFRY) during 1992--which reflected transshipment problems and trade disruption--was proportionately greater than the decline in CMEA imports in that year. As a result, the share of CMEA imports in imports from countries outside the former SFRY rose in 1992 to close to its 1990 level of 30 percent (Tables 25 and 31). The loss of interrepublican imports due to the break-up of the former SFRY has been even more dramatic than that seen in imports from outside the former SFRY--almost 50 percent (estimated by the staff on a national accounts basis) over the 1990-92 period.

Trends observed over the first half of 1993 suggest that total imports (including imports from republics of the former SFRY) will stabilize in 1993. Demand for importable goods from outside the former SFRY and CMEA areas appears to be increasing to replace both the loss of interrepublican imports and the continuing decline in imports from the former CMEA area. This increased demand for importable goods from outside the former SFRY appears to be broadly offsetting the effect of transshipment problems and the demand-reducing impact of the fall in domestic output.

3. Capital account and reserves 1/

Over the second half of the 1980s, the FYRM recorded net capital outflows averaging around US$50 million per year. These net outflows largely reflected that annual repayments on medium- and long-term debt were higher than new disbursements. Over 1991-93, the size of the FYRM's negative net capital account position has grown, with new medium- and long-term capital disbursements dwindling to virtually zero over this period, while amortization obligations on existing debt have remained high (Table 25). Reflecting the suspension of debt servicing payments, the FYRM accumulated approximately US$230 million of arrears during 1991-93. Small but steady net outflows of short-term capital have also been experienced since 1989-90. A US$25 million loan disbursed by a private sector foundation in February-March 1993 is due for repayment before the end of 1993 and thus does not affect the net short-term capital balance for the year.

As noted, the large positive net errors and omissions item in the balance of payments reflects significant under-recording of both net current and capital inflows that have been financing the bulk of the recorded current and capital account deficits. However, over 1991-92, the external debt service arrears have also been a significant source of financing (Table 25).

In the period between monetary independence (April 1992) and December 1992, the FYRM accumulated official foreign exchange reserves of approximately US$64 million--from a level of zero at independence (Table 32). At this level, official reserves' coverage of imports stands at just over two weeks. The main source of the reserves accumulation was a 30 percent surrender requirement applied to exporters' foreign exchange earnings.

4. External debt and debt service

Of the US$15.1 billion medium- and long-term debt of the former SFRY at the end of 1991, US$12 billion represented liabilities that could be allocated to individual republics according to the residence of the original borrowers. The FYRM estimates its share of this allocated debt to be approximately US$846 million at end-March 1993 (Table 33). Of this total, around 30 percent is owed to multilateral institutions including the Fund (with more than half of the debt to multilateral creditors owed to the IBRD), 24 percent to Paris Club creditors, and 46 percent to commercial banks and other creditors. The authorities estimate that approximately one third of the FYRM's allocated debt is made

1/ The data available on capital account flows is currently incomplete. In particular, reliable estimates of direct and portfolio investment flows, and of movements in the banking sector's foreign assets and liabilities are still being compiled by the authorities.

up of official external obligations (direct or guaranteed) of the Government, while the remaining two thirds represents external debt of other entities and enterprises (Table 34). The Government has taken over responsibility for servicing a significant share of these remaining debts but has not formally guaranteed them.

The FYRM's share of the former SFRY's debt that cannot be allocated according to the residence of the borrower remains to be negotiated with creditors. However, if this debt were allocated according to the key used to divide the former SFRY's liabilities to the Fund, the FYRM's share would amount to less than US$200 million.

Debt servicing payments to all creditors, except the Fund, have remained suspended since independence. As a result, the authorities estimate that the FYRM had accumulated external arrears of US$290 million by end-March 1993 (Table 33). Discussions are underway between the authorities, the World Bank, and a Donor Group chaired by the Netherlands on the clearance of arrears to the Bank and the mobilization of additional external financing. The authorities recently initiated contact with the Paris Club and indicated their desire to open rescheduling discussions; they intend to initiate similar discussions soon with London Club creditors. Including arrears, identified medium- and long-term (allocated) debt is estimated to amount to around US$1.1 billion (approximately 57 percent of GSP).

The FYRM's outstanding debt to the Fund relates to its share of the former SFRY's obligations under a Fund Stand-by arrangement. This debt amounted to US$7 million at end-March 1993, and scheduled repayments extend through 1997. As of March 1993, the FYRM was completely current in respect of its obligations to the Fund.

Debt service obligations (excluding penalty interest on arrears) on medium- and long-term allocated debt are estimated to have amounted to US$156 million in 1992 (around 17 percent of export receipts), of which US$67 million comprised interest (Table 35). Debt service payments owed in 1993 are currently estimated to amount to US$163 million (around 17 percent of projected export receipts), while debt service obligations over 1994-98 (at current interest rates on the existing stock of debt only) are estimated to average approximately US$100 million per annum. Of this total, interest payments are expected to comprise US$30 million per annum on average.

Table 1. FYRM: Gross Social Product by Sector

	1985	1986	1987	1988	1989	1990	1991	1992 (Est.)
			(In millions of denars, current prices)					
Manufacture and mining:	29.1	56.8	136.6	436.6	6,673.7	23,758.6	45,127	688,500
Of which:								
Energy	1.7	5.1	14.9	42.6	386.1	2,842.7	5,892	...
Basic metals	4.8	7.9	14.4	61.6	688.6	2,853.7	6,518	...
Equipment and construction durables	4.5	9.1	23.1	72.5	1,170.3	3,756.6	7,034	...
Nonmetallic mineral and construction materials	2.3	4.3	9.1	28.4	453.2	1,908.7	4,702	...
Chemicals	2.5	4.1	9.8	32.8	423.8	2,092.7	3,928	...
Other	13.3	26.3	65.3	198.7	3,551.7	10,304.2	17,054	...
Agriculture, forestry and fishing	9.4	19.6	37.4	94.4	1,831.6	8,170.6	16,239	267,553
Trade	13.0	24.7	40.0	124.8	1,967.1	10,892.0	28,040	375,147
Catering and tourism 1/	--	2.1	4.9	14.2	218.5	1,318.4	2,436	36,540
Construction	4.7	9.9	19.4	42.9	728.8	4,349.0	8,064	100,848
Transport and communication	3.5	6.6	13.7	36.5	573.5	3,064.7	6,511	89,754
Crafts	4.3	2.8	5.6	18.9	225.3	1,250.3	2,473	34,127
Other 2/	--	4.4	9.1	32.7	405.4	2,267.1	4,755	57,812
GSP	63.9	126.9	266.7	801.0	12,623.9	55,070.7	113,646	1,650,281
Of which:								
Socialized sector	57.1	113.6	243.6	733.9	11,420.6	47,191.6	94,707	...
Private Sector	6.8	13.3	23.0	67.0	1,203.2	7,878.9	18,940	...
			(In millions of 1990 denars, constant prices)					
Manufacture and mining:	23,197.1	24,775.3	25,545.3	25,036.9	25,813.3	23,758.6	19,839	16,704
Agriculture, forestry and fishing	8,235.2	9,851.7	9,318.0	8,735.7	9,074.5	8,171.0	9,510.0	9,584.0
Trade	14,913.4	15,197.4	13,646.6	13,168.7	12,654.7	10,892.0	9,334	7,934
Catering and tourism	1,727.7	1,618.3	1,551.6	1,527.8	1,342.2	1,318.4	1,118	894
Construction	5,913.2	5,972.0	5,330.0	4,846.3	4,733.3	4,349.0	3,457	2,212
Transport and communication	3,169.0	3,286.4	3,646.3	3,455.9	3,609.8	3,064.7	2,452	1,594
Crafts	1,504.5	1,356.7	1,143.9	1,276.9	1,279.9	1,250.3	1,271	1,144
Other	2,379.0	2,490.8	2,527.0	2,500.7	2,609.3	2,267.1	2,182	1,862
GSP	61,039.1	64,548.6	62,708.8	60,548.9	61,116.9	55,071.1	49,163.0	41,928.0
Real GSP growth rate:		5.7	-2.9	-3.4	0.9	-9.9	-10.7	-14.7

Sources: Statistical Office; Ministry of Development; and staff estimates.
1/ Catering and Tourism included with Trade 1985.
2/ Other included with crafts in 1985.

Table 2. FYRM: Gross Social Product and Aggregate Demand

(In millions of denars)

	1986	1987	1988	1989	1990	1991	1992 (Est.)
Private consumption	64.9	140.5	411.5	6,375.7	28,909.8	60,119.0	846,891
Public consumption	8.9	17.2	59.0	655.6	3,600.4	7,392.0	113,909
Gross investment	22.0	41.9	147.9	1,675.2	9,741.1	20,726.0	282,700
Growth in stocks	16.6	40.1	123.9	3,156.0	12,996.7	27,122.0	453,180
External balance including former Yugoslavia	2.1	-0.8	-27.7	-521.0	-3,826.2	-3,752.0	73,643
Commodity exports to other Yugoslav Republics	105.6	195.9	617.3	8,457.9	38,971.4	79,738.7	899,247
Commodity imports from other Yugoslav Republics	93.9	189.2	594.2	8,382.5	36,750.8	76,186.9	718,696
Interrepublican trade balance	11.7	6.7	23.1	75.4	2,220.6	3,551.8	180,552
Foreign balance excluding former Yugoslavia	-9.6	-7.5	-50.8	-596.4	-6,046.8	-7,303.8	-106,909
Exports of goods and services	21.5	52.0	190.9	2,382.6	7,879.2	13,643.0	329,889
Goods	19.4	47.1	172.4	2,200.8	6,554.7	11,871.1	301,890
Services	2.1	4.9	18.5	181.8	1,324.5	1,771.8	28,000
Imports of Goods and services	31.1	59.5	241.7	2,979.0	13,926.0	20,946.8	436,798
Goods	29.7	57.6	223.2	2,797.2	12,601.5	19,174.9	408,798
Services	1.4	1.9	18.5	181.8	1,324.5	1,771.8	28,000
GSP demand side estimate	114.5	238.9	714.6	11,341.5	51,421.8	111,607.0	1,770,323
Statistical discrepancy	12.4	27.9	74.9	1,154.6	3,648.8	2,039.0	-120,042
GSP	126.9	266.8	789.5	12,496.1	55,070.6	113,646.0	1,650,281
Memorandum Items:							
Average exchange rate denar/U.S. dollar	0.0379	0.0735	0.2520	2.8806	11.3206	19.6868	509.0885
GSP implicit deflator	0.1966	0.3885	1.3227	20.6552	100.0	231.2	3936.0

Sources: Data provided by the FYRM authorities, and staff estimates.

Table 3. FYRM: Industrial Output

	1985	1986	1987	1988	1989	1990	1991	1992
				(Index 1985=100)				
Total industrial production	100	108	110	108	113	101	83	70
Capital goods	100	103	82	86	98	67	45	31
Intermediate goods	100	108	111	102	106	96	82	70
Final goods	100	107	114	123	128	115	97	83
Electricity	100	116	118	108	131	161	161	169
Petroleum products	100	118	127	125	128	118	87	55
Crude iron	100	107	81	20	51	7	--	--
Iron and steel products	100	112	101	101	113	96	85	54
Nonferrous metal products	100	114	91	94	88	101	78	52
Nonmetal mineral products	100	104	110	111	116	90	63	49
Electrical machinery	100	112	114	101	110	75	63	55
Basic chemical products	100	101	110	108	92	79	59	47
Wood products	100	119	108	110	119	105	87	75
Textiles	100	106	116	115	117	93	60	50
Leather and fur products	100	102	88	90	98	89	79	60
				(Output of specific industrial products)				
Electricity (MWHrs)	3,576,142	4,159,000	4,226,000	3,870,991	4,686,098	5,754,351	5,770,137	6,046,223
Petroleum products (k tons)	1,015	1,201	1,293	1,267	1,297	1,199	884	556.1
Sheet steel (tons)	424,166	524,202	359,416	417,394	527,256	506,569	514,989	...
Buses--manufacture of frames (tons)	11,853	11,939	11,968	14,595	9,517	9,501	12,091	6,063
Agricultural machines (tons)	...	...	...	1,966	1,950	1,360	521	301
Refrigerators (units)	205,089	193,898	220,008	215,228	213,648	156,327	135,972	138,937
Micro motors (KW)	84,902	132,204	130,196	57,054	57,684	49,319	22,926	21,517
Cement (tons)	684,265	690,016	748,103	780,871	769,241	639,019	605,735	516,053
Wool yarn (tons)	...	...	...	17,014	17,637	13,956	8,089	7,007
Cotton fabric (k m2)	66,424	70,684	68,585	76,728	77,468	61,344	37,677	29,009
Leather footwear (k pairs)	4,676	5,571	5,922	6,030	6,063	6,028	3,566	3,303
Cigarettes (millions)	14,813	15,044	15,773	17,173	15,545	16,328	17,248	14,013

Sources: Statistical Office; and Ministry of Development.

Table 4. FYRM: Agricultural Output

	1986	1987	1988	1989	1990	1991	1992 (Est.)
	(In thousands of tons)						
Production of selected commodities							
Wheat	314.6	292.2	295.4	313.7	231.4	340.7	299.5
Corn	123.6	95.4	74.0	136.7	79.5	135.0	130.2
Sugar Beets	86.7	117.6	64.3	152.6	150.0	71.3	60.0
Sunflowers	41.3	32.9	20.8	46.3	13.4	38.7	37.7
Tobacco	35.0	28.6	22.3	27.5	16.4	25.2	26.5
Meat	41.9	44.1	46.0	43.0	37.5	35.3	42.0
Of which:							
Beef	10.7	10.5	9.5	10.7	9.5	8.2	11.0
Pork	10.7	10.8	11.7	10.3	9.7	9.9	10.0
Poultry	6.7	8.5	7.6	5.8	2.3	2.4	7.0
Lamb/mutton	12.0	12.4	15.3	11.4	14.4	13.1	12.0
Milk (million liters)	157.7	180.2	173.0	179.3	179.9	179.5	180.0
	(Volume index 1985=100)						
Total Agricultural production:	118.3	112.4	103.5	107.9	97.0	114.4	115.3
Socialized sector	124.0	116.3	106.8	106.8	96.4	96.6	...
Private sector	116.7	111.5	102.9	109.8	98.3	123.0	...
Production of selected commodities:							
Wheat	109.1	101.3	102.4	108.8	80.2	118.1	103.8
Corn	156.1	120.5	93.4	172.6	100.4	170.5	164.4
Sugar beets	80.4	109.0	59.6	141.4	139.0	66.1	55.6
Sunflowers	211.8	168.7	106.7	237.4	68.7	198.5	193.3
Tobacco	114.0	93.2	72.6	89.6	53.4	82.1	86.3
Meat	93.3	98.2	102.4	95.8	83.5	78.6	93.5
Of which:							
Beef	97.3	95.5	86.4	97.3	86.4	74.5	100.0
Pork	89.2	90.0	97.5	85.8	80.8	82.5	83.3
Poultry	87.0	110.4	98.7	75.3	29.9	31.2	90.9
Lamb/mutton	100.0	103.3	127.5	95.0	120.0	109.2	100.0
Milk (million liters)	103.0	117.7	113.0	117.1	117.5	117.2	117.6
	(Share of agricultural production)						
Socialized sector	28.5	30.7	36.1	37.4	28.7	31.0	30.0
Private sector	71.5	69.3	63.9	62.6	71.2	69.0	70.0

Sources: Data provided by the Statistical Office; and Ministry of Development.

Table 5. FYRM: Primary Energy Production and Consumption 1/

	Unit	1986	1987	1988	1989	1990	1991	1992	1993 (Proj.)
Coal (including cooking coal)	1000 tons								
Production		3,823	4,704	4,745	5,762	6,715	6,922	6,494	7,205
Imports		256	133	258	264	248	230	225	303
Exports		28	58	59	74	69	150	35	20
Consumption		4,051	4,779	4,944	5,952	6,894	7,002	6,684	7,488
Crude petroleum	1000 tons								
Production		--	--	--	--	--	--	--	--
Imports		1,222	1,286	1,359	1,380	1,235	920	760	900
Available for refining		1,222	1,286	1,359	1,380	1,235	920	760	900
Hydroelectric power	mil.kWTh								
Potential		1,455	1,053	717	865	490	870	834	730
Total primary energy Production 2/		43.7	50.2	48.8	59.6	69.7	56.9	53.7	58.6
Imports 2/		57.5	59.2	63.7	61.3	58.1	42.2	35.4	42.7
Exports 2/		0.3	0.6	0.6	0.7	0.7	1.2	0.3	0.2
Consumption 2/		100.9	108.8	111.9	120.2	127.1	97.9	88.8	100.8

Source: Data provided by the FYRM authorities.

1/ Consumption encompasses all forms of use, including further transformation, additions to stocks, and non-energy uses.
2/ Thousands of terajoules (10^{15} joules).

Table 6. FYRM: Secondary Energy Production and Consumption

	1986	1987	1988	1989	1990	1991	1992	1993 (Proj.)
	(In thousands of terajoules) 1/							
Electric energy (hydro and thermal)								
Production	14.4	15.4	14.1	14.4	18.7	23.1	20.1	20.9
Imports	6.8	6.2	7.1	6.5	2.7	1.1	1.5	2.0
Exports	0.4	0.6	0.6	0.5	1.9	1.5	1.0	0.2
Consumption	20.8	21.0	20.6	20.5	19.4	22.2	20.7	22.8
Petroleum products								
Production	49.7	55.9	52.8	59.0	53.1	40.4	20.9	38.2
Imports	15.5	6.2	10.4	4.8	3.5	7.7	15.0	5.4
Exports	8.2	8.4	7.1	9.7	7.1	4.4	--	1.4
Consumption	57.0	53.7	56.1	54.1	49.5	43.7	35.9	42.2
Coke								
Production	--	--	--	--	--	--	--	--
Imports	6.6	5.5	4.0	3.8	3.8	2.8	3.0	3.4
Consumption	6.6	5.5	4.0	3.8	3.8	2.8	3.0	3.4
Gas 2/								
Production	--	--	--	--	--	--	--	--
Consumption	1.2	0.3	--	--	--	--	--	--
Total secondary energy								
Production	64.1	71.3	66.9	73.4	71.8	63.5	41.0	59.1
Imports	28.9	17.9	21.5	15.1	10.0	11.6	19.5	10.8
Exports	8.6	9.0	7.7	10.2	9.0	5.9	1.0	1.6
Consumption	85.6	80.5	80.7	78.4	72.7	68.7	59.6	68.4
Memorandum item:								
Energy imports/ consumption 3/	1.01	0.95	1.06	0.97	0.94	0.78	0.92	0.78

Source: Data provided by the FYRM authorities.

1/ 10^{15} joules.
2/ Gas from coal.
3/ Primary plus secondary energy imports relative to secondary energy consumption.

Table 7. FYRM: Labor Force, Employment, and Unemployment

(Annual average)

	1988	1989	1990	1991	1992	January-February 1993	1988	1989	1990	1991	1992	January-February 1993
	(In thousands)						(Percent change)					
Employment in socialized sector	515.0	516.5	507.3	468.4	446.1	434.3	-0.2	0.3	-1.8	-7.7	-4.8	-2.9
Economic activities	425.9	427.1	417.5	381.9	361.4	349.5	-0.5	0.3	-2.2	-8.5	-5.4	-3.5
Industry, including mining	211.4	213.5	206.2	188.9	176.6	173.0	-0.6	1.0	-3.4	-8.4	-6.5	-4.9
Agriculture and fishing	42.7	43.5	38.1	35.3	34.1	29.8	5.1	1.8	-12.3	-7.2	-3.6	-0.3
Forestry, water supply	7.2	7.0	6.5	6.6	6.5	6.3	2.4	-3.1	-7.8	2.2	-2.6	-0.2
Construction	48.0	46.5	47.6	42.5	39.7	37.8	-6.4	-3.0	2.4	-10.8	-6.6	-6.4
Transportation	25.8	25.8	26.2	24.2	22.5	22.3	2.3	0.2	1.5	-7.8	-7.0	-2.6
Trade	50.6	50.7	51.8	47.2	45.2	43.9	-0.9	0.2	2.3	-9.1	-4.2	-1.8
Catering, tourism	10.3	10.2	11.7	10.4	10.0	9.3	2.5	-1.1	14.5	-11.2	-3.6	-4.7
Arts and crafts	5.6	5.0	7.0	5.7	6.0	5.9	-7.2	-9.6	37.7	-17.2	3.8	10.5
Public utilities, housing	9.0	9.4	8.0	7.9	7.9	8.4	0.8	4.3	-14.6	-0.8	-0.4	7.1
Financial and other services	15.3	15.5	14.4	13.2	12.9	12.8	2.1	0.9	-7.0	-8.5	-1.9	-2.9
Noneconomic activities	89.1	89.4	98.8	86.4	84.7	84.8	1.0	0.4	0.4	-3.8	-2.0	-0.3
Education and culture	36.1	36.0	36.7	35.8	35.1	34.9	0.4	-0.2	1.8	-2.0	-2.2	-1.4
Health and social services	31.9	33.5	33.9	33.8	34.3	34.0	2.5	4.6	1.5	-1.0	1.5	-0.9
Government sector	21.1	19.9	19.2	16.6	15.3	15.9	-0.4	-4.8	-3.5	-13.2	-8.1	-3.9
Total socialized sector												
Employees in private nonagricultural sector	29.9	42.9	60.0	68.6	78.0	90.0 1/	12.0	43.5	40.0	14.3	13.7	--
Self-employed (nonagricultural)												
Active agricultural population	142.0	141.0	141.0	140.0	140.0	--	0.0	-0.7	0.0	-0.7	0.0	--
Workers temporarily employed abroad	58.0	58.0	58.0	58.0	58.0	--	0.0	0.0	0.0	0.0	0.0	--
Registered unemployment	140.3	150.4	156.3	164.8	172.1	--	-0.6	7.2	3.9	5.4	4.4	--
Economically active population (midyear estimate) 2/	796.0	800.0	805.0	811.0	817.0	--	0.6	0.5	0.6	0.7	0.7	--
Domestic labor force 3/	738.0	742.0	747.0	753.0	759.0	--	0.7	0.5	0.7	0.6	0.8	--
Memorandum items:												
Registered unemployed (in percent of total labor force 4/)	25.7	26.9	27.6	30.7	32.9							
Registered unemployed (in percent of domestic labor force)	19.6	20.3	20.5	21.7	22.7							

Source: Data provided by the FYRM authorities.

1/ Estimate.

2/ These data are independently derived from census figures and are generally less than the sum of the employed, the self-employed, the active agricultural population and the registered unemployed, reportedly due to overlap between these subcategories. In particular, some registered unemployed are said to be also included in the active agricultural population or the private sector.

3/ Economically active population minus workers temporarily employed abroad.

4/ Defined as the economically active population.

Table 8. FYRM: Output, Employment and Unit Labor Costs in Industry

(Annual percent change)

	1985	1986	1987	1988	1989	1990	1991	1992
Industrial production 1/	3.0	7.3	2.4	-1.7	4.3	-10.6	-17.2	-15.9
Employment	5.1	5.4	2.0	-0.6	1.0	-3.4	-8.4	-6.5
Labor productivity	-2.0	1.8	0.4	-1.1	3.3	-7.4	-9.6	-10.0
Net personal income per employee	64.7	100.1	101.4	169.1	1,699.1	461.3	84.3	981.2
Industrial producer prices	88.4	70.3	93.5	191.3	1,357.4	393.8	112.0	2,198.2

Sources: Data provided by the FYRM authorities.

1/ In constant prices.

Table 9. FYRM: Nominal and Real Net Personal Income Per Worker in the Socialized Sector 1/

	Net personal income per worker in the socialized sector		Real net personal income per worker in the socialist sector	
	Denars per month	Percent change 2/	Index 1985=100	Percent change 2/
1986	59,254	100.1	105.7	5.7
1987	119,347	101.4	98.9	-6.5
1988	321,158	169.1	91.1	-7.8
1989	5,681,578	1,699.1	118.2	29.6
1990 3/	3,188	461.3	95.2	-19.4
1991	5,877	84.3	83.2	12.6
1992	63,544	981.3	55.9	-32.9
1992				
1st quarter	19,400	368.8	79.9	-10.5
2nd quarter	41,741	804.5	50.5	-39.5
3rd quarter	74,921	1,226.5	57.3	-28.0
4th quarter	118,625	1,227.3	55.9	-30.3
1992				
January	13,738	239.3	83.5	-11.8
February	17,207	315.8	71.2	-19.2
March	27,285	545.5	84.9	-2.4
April	39,120	797.7	69.4	-24.0
May	42,858	817.3	42.9	-49.7
June	43,268	796.2	39.3	-48.7
July	58,058	1,015.2	49.8	-38.1
August	74,316	1,226.8	59.1	-27.2
September	92,779	1,408.8	63.0	-19.1
October	103,497	1,373.5	55.3	-27.9
November	118,064	1,416.2	55.8	-20.4
December	133,995	1,019.0	55.6	-40.5
1993				
January	164,723	1,099.0	61.0	-27.0
February	203,297	1,081.5	56.5	-20.7

Source: Data provided by the Statistical Office.

1/ Actual take home pay of employees.
2/ Change from corresponding period of preceding year.
3/ On January 1, 1990 the new dinar, equal to 10,000 old dinars, was introduced.

Table 10. FYRM: Net Personal Income Per Employee, By Sector 1/

	Percent of Employment in Socialized Sector, 1992	1987	1988	1989	1990 2/	1991	1992	1986	1987	1988	1989	1990	1991	1992
		(In dinars per month)						(Annual percentage change)						
Total socialized sector	100.0	119,347	321,158	5,681,578	3,188	5,877	63,544	100.1	101.4	169.1	1,669.1	461.3	84.3	981.2
Economic sector	81.0	116,615	313,782	5,538,607	3,050	5,472	60,713	99.3	101.5	169.1	1,665.1	450.5	79.4	1,009.5
Of which:														
Industry (including mining)	39.6	120,359	326,129	5,778,311	3,084	5,525	65,421	97.4	99.9	171.0	1,671.8	433.6	79.2	1,084.1
Agriculture	9.1	99,969	256,365	4,322,349	2,652	4,518	52,214	105.8	100.8	156.4	1,586.0	513.6	70.4	1,055.7
Construction	8.9	110,350	302,146	5,615,591	3,041	4,703	49,902	105.3	106.3	173.8	1,758.6	441.1	54.7	961.1
Transport	5.0	123,700	324,847	5,849,674	3,428	6,432	65,860	98.5	106.0	162.6	1,700.7	486.0	87.6	923.9
Trade	10.1	117,444	317,968	5,381,307	2,980	5,758	55,437	101.9	103.4	170.7	1,592.4	453.9	93.2	862.8
Catering, tourism	2.2	93,864	253,434	4,184,185	2,606	4,418	48,684	91.9	111.6	170.0	1,551.0	523.4	69.5	1,001.9
Handicrafts	1.3	126,500	344,785	6,325,461	3,171	5,859	57,405	97.6	92.9	172.6	1,734.0	400.9	84.8	879.8
Public utilities, housing	1.8	108,986	284,899	4,984,954	3,017	6,187	53,208	99.8	110.2	161.4	1,649.7	505.8	105.1	760.0
Financial, other services	2.9	137,788	379,184	6,797,521	3,704	7,748	75,928	90.8	91.2	175.2	1,692.7	444.7	109.2	880.0
Noneconomic sector	19.0	133,917	359,726	6,422,739	3,854	7,785	76,442	103.3	100.7	168.6	1,685.5	500.3	102.0	881.9
Education and Culture	7.9	127,832	345,306	6,063,114	3,735	7,246	74,931	96.7	104.1	170.1	1,655.9	516.3	94.0	934.1
Health, social security	7.7	135,322	358,169	6,479,991	3,869	7,919	75,614	108.4	100.8	164.7	1,709.2	497.1	104.7	854.8
Government and other	3.4	142,137	387,482	6,963,363	4,041	8,629	81,663	106.2	94.9	172.6	1,697.1	480.6	113.5	846.4
Memorandum item:														
Cost of living index	--	--	--	--	--	--	--	94.2	115.3	191.9	1,264.5	596.6	110.8	1,511.3

Source: Data provided by the Statistical Office.

1/ Actual take home pay of employees.
2/ On January 1, 1990 the new dinar, equal to 10,000 old dinars, was introduced.

Table 11. FYRM: Income and Outlays of Households

	1986	1987	1988	1989	1990	1987	1988	1989	1990
	(In millions of new dinars/denars)					(Percentage change)			
Personal income from employment (gross)	56.8	111.4	317.1	5,470.4	32,782.4	96.1	184.6	1,625.1	499.3
Income from collective consumption funds	1.2	1.4	5.7	160.5	557.9	16.7	307.1	2,715.8	247.6
Net interest income	9.3	23.4	100.4	4,392.0	785.1	151.6	329.0	4,274.5	-82.1
Social security related transfers	9.6	20.1	53.1	1,001.9	6,273.9	109.4	164.1	1,786.8	526.2
Transfers from abroad, net	8.4	18.8	70.7	1,206.1	6,170.4	123.8	276.1	1,605.9	411.6
Unrecorded income (residual)	--	--	--	--	-2,721.2	--	--	--	--
Total household income	85.3	175.1	547.0	12,230.9	43,848.5	105.3	212.4	2,136.0	258.5
Taxes, contributions, etc.	2.3	5.6	14.4	354.5	2,841.0	143.5	157.1	2,361.8	701.4
Disposable household income	83.0	169.5	532.6	11,876.4	41,007.5	104.2	214.2	2,129.9	245.3
Consumption	64.9	140.2	411.5	6,375.7	28,909.8	116.0	193.5	1,449.4	353.4
Saving	18.1	29.3	121.1	5,500.7	12,097.7	61.9	313.3	4,442.3	119.9
Housing, other fixed investments	2.7	6.8	41.2	637.7	3,938.9	151.8	505.9	1,447.8	517.7
Financial savings (exclusive of revaluation of foreign exchange accounts)	15.4	22.5	79.9	4,863.0	8,158.8	46.1	255.1	5,986.4	67.8
Memorandum items:									
Cost of living index (1988=100)	100.0	315.3	1,235.7	18,096.2	144,154.7	215.3	291.9	1,364.5	696.6
Real personal income from employment (1988=100)	100.0	93.5	86.2	111.7	90.1	5.7	-6.5	-7.8	29.6

Source: Data provided by the FYRM authorities.

Table 12. FYRM: Enterprises Experiencing Liquidity Problems

(End-of-period)

	Illiquid enterprises 1/	Number of Employees
1990		
June	258	70,742
September	312	61,955
December	716	139,301
1991		
March	913	129,198
June	1,115	105,518
September	1,135	87,647
October	1,082	27,454
1992		
March	873	25,264
June	784	51,121
September	761	39,467
December	768	46,576
1993		
March	1,108	62,684

Source: Data provided by the Social Accounting Service.

1/ Those enterprises whose accounts with the SOK do not contain sufficient funds to cover payment obligations as at the last business day of the period.

Table 13. FYRM: Profits and Losses
of Enterprises in 1990-92

	1990	1991	1992
	(In millions of denars)		
Aggregate income of enterprises reporting profits	1,995	7,323	84,125
Aggregate loss of enterprises reporting losses	3,157	4,487	137,434
Net position	(1,202)	2,836	(53,309)
	(In percent)		
Shares of losses			
Social sector and mixed ownership	99	91	91
Private sector	1	9	9

Source: Data provided by the Social Accounting Service.

Table 14. FYRM: Price Developments

(Percent change)

		Retail prices		Industrial Producer Price		Agricultural Producer Prices		GSP Deflator
		Annual Growth	Monthly Growth	Annual Growth	Monthly Growth	Annual Growth	Monthly Growth	Annual Growth
	1985	72.0	75.5	88.4	95.4	84.0	166.1	
	1986	86.3	88.5	70.3	59.3	97.0	41.3	74.1
	1987	115.1	168.5	93.5	158.0	77.7	96.2	85.7
	1988	195.6	235.7	191.3	259.9	180.4	220.5	112.9
	1989	1,246.0	2,763.4	1,357.4	2,857.8	1,486.1	2,433.8	210.2
	1990	608.4	120.5	393.8	41.8	644.4	103.8	1,446.6
	1991	114.9	229.7	112.0	281.5	67.2	182.9	384.7
	1992	1,690.7	1,925.2	2,198.2	2,148.6	1,698.0	1,858.1	129.3
1990	Jan.		38.1		16.4		87.0	
	Feb.		19.5		3.2		17.7	
	March		3.5		2.3		16.9	
	April		1.5		-1.5		50.9	
	May		3.6		-1.0		-5.3	
	June		-2.4		-1.5		-17.2	
	July		2.2		0.1		-26.5	
	Aug.		1.1		1.2		-18.0	
	Sept.		6.1		6.6		-4.5	
	Oct.		9.2		9.0		4.8	
	Nov.		2.3		2.1		7.7	
	Dec.		2.6		-0.2		2.2	
1991	Jan.	68.6	5.7	28.4	5.6	91.6	77.3	
	Feb.	54.8	9.7	37.1	10.2	47.8	-9.2	
	March	51.9	1.6	39.4	4.0	68.6	33.3	
	April	54.9	3.5	43.8	1.6	19.9	7.3	
	May	67.2	11.8	65.3	13.8	90.1	50.2	
	June	94.1	13.3	86.8	11.3	59.4	-30.6	
	July	99.2	4.9	94.8	4.4	35.1	-37.7	
	Aug.	114.4	8.8	106.0	7.0	58.1	-4.0	
	Sept.	131.7	14.7	128.6	18.3	49.4	-9.8	
	Oct.	146.6	16.2	150.0	19.2	80.7	26.8	
	Nov.	194.4	20.9	220.3	30.8	107.4	23.6	
	Dec.	229.5	16.0	282.2	19.1	183.1	39.5	
1992	Jan.	300.3	28.4	439.3	49.0	156.3	60.5	
	Feb.	432.7	46.0	697.6	63.0	311.5	45.8	
	March	621.5	37.6	1,021.3	46.2	405.3	63.7	
	April	1,197.2	86.1	2,142.6	103.2	646.5	58.7	
	May	1,900.4	72.4	3,047.1	59.7	440.2	8.7	
	June	1,965.7	17.0	2,948.8	7.8	693.2	1.9	
	July	2,032.6	8.3	2,924.8	3.6	1,449.5	21.7	
	Aug.	1,989.5	6.6	2,888.0	5.7	1,541.5	1.7	
	Sept.	2,013.2	16.0	2,602.6	7.0	1,938.2	12.0	
	Oct.	2,100.5	21.0	2,573.1	17.9	2,139.2	39.3	
	Nov.	1,902.1	10.0	2,211.4	13.1	2,115.6	22.3	
	Dec.	1,928.0	17.5	2,149.3	15.9	1,850.4	22.8	
1993	Jan.	1,725.8	15.6	1,587.7	11.8	1,583.0	38.5	
	Feb.	1,557.0	32.5	1,254.3	30.8	--	--	
	March	1,206.6	8.5	866.2	4.3	--	--	
	April	625.9	3.4	414.0	8.1	--	--	
	May	354.8	8.0	--	--	--	--	

Source: Data provided by the FYRM authorities.

Table 15. FYRM: Recent Monetary Developments

(In millions of denar, end of month)

	1991	1992						1993		
	12	3	6	9	10	11	12	1	2	3
Base money	19,797	28,510	53,444	68,179	78,050	93,492	115,730	123,313	128,254	145,415
Of which:										
Currency in circulation	7,036	7,200	29,553	42,735	50,914	62,179	89,315	90,628	89,597	90,802
M1	22,466	31,222	65,737	106,149	119,375	145,915	180,749	193,913	202,273	222,924
M2	37,879	101,255	322,282	508,307	537,436	703,643	760,241	777,574	772,054	794,146
Quasi money	15,413	70,033	256,545	402,158	418,061	557,728	579,492	583,661	569,781	571,222
Denar quasi money	6,766	11,673	13,418	16,207	18,808	29,008	32,554	34,047	41,862	50,975
Foreign currency M2	8,647	58,360	243,127	385,951	399,253	528,720	546,938	549,614	527,919	520,247
Nonmonetary deposits										
Denar	3,921	4,857	8,448	11,408	10,052	12,158	15,531	30,333	24,142	25,421
Foreign currency	12,433	80,442	331,909	321,379	518,668	534,780	703,507	736,585	730,983	718,244
Memorandum items:										
Denar M2	29,232	42,895	79,155	122,356	138,183	174,923	213,303	227,960	244,135	273,899
Real M1 (12/91=100)	100.0	40.2	24.2	33.3	33.0	34.4	36.7	35.2	28.1	29.7
Real M2 (12/91=100)	100.0	77.3	70.4	94.7	88.1	98.3	91.7	83.7	63.5	62.7
Real Denar M2 (12/91=100)	100.0	42.5	22.4	29.5	29.4	31.7	33.3	31.8	26.0	28.0

Source: Data provided by the National Bank.

Table 16. FYRM: Recent Monetary Developments--Monthly Rates of Growth

	1992						1993		
	3	6	9	10	11	12	1	2	3
Base money	39.5	24.6	3.1	14.5	19.8	23.8	6.6	4.0	13.4
Of which:									
Currency in circulation	-14.2	40.2	12.2	19.1	22.1	43.6	1.5	-1.1	1.3
M1	19.8	6.7	11.7	12.5	22.2	23.9	7.3	4.3	10.2
M2	24.2	-1.8	44.1	5.7	30.9	8.0	2.3	-0.7	2.9
Quasi money	26.2	-3.8	56.1	4.0	33.4	3.9	0.7	-2.4	0.3
Denar M2	22.6	-9.4	-3.4	16.0	54.2	12.2	4.6	23.0	21.8
Foreign currency M2	27.0	-3.4	60.3	3.4	32.4	3.4	0.5	-3.9	-1.5
Memorandum items:									
Inflation	47.4	7.8	7.0	13.7	17.3	15.9	12.0	30.8	4.3
DM/denar (black market rate) 1/	...	2.9	24.4	19.5	17.1	31.2	11.2	17.6	-3.9

Source: Data provided by the National Bank.

1/ A negative sign stands for an appreciation.

Table 17. FYRM: Base Money

(In millions of denar, end of quarter)

	1991	1992						1993		
	12	3	6	9	10	11	12	1	2	3
Net foreign assets	--	--	5,603	17,465	21,160	29,883	39,927	42,725	48,425	56,795
Net domestic assets	19,797	28,510	47,841	50,714	56,890	63,609	75,803	80,588	79,829	88,620
Credit to banks	8,318	11,478	15,521	21,348	27,317	32,405	44,136	48,466	50,243	53,606
Rediscount credits	6,959	8,722	10,907	16,914	21,303	26,368	37,275	41,607	45,489	49,212
Agriculture	4,747	6,338	7,580	12,953	17,330	22,455	33,559	37,954	42,307	45,247
Exports	1,690	2,078	3,011	3,872	3,960	3,888	3,695	3,633	3,522	3,945
Other rediscount credit	522	306	316	89	13	25	21	20	-340	20
Liquidity credit	18	--	--	--	1,589	1,615	2,465	2,465	--	--
Other bank credit	1,359	2,756	4,614	4,434	6,014	6,037	6,861	6,859	4,754	4,394
Other assets	11,479	17,032	32,320	29,366	29,573	31,204	31,667	32,122	29,586	35,014
Base money	19,797	28,510	53,444	68,179	78,050	93,492	115,730	123,313	128,254	145,415
Currency in circulation	7,036	7,200	29,553	42,735	50,914	62,179	89,315	90,628	89,597	90,802
Deposit money banks' cash	303	890	744	992	1,355	1,111	1,829	1,756	1,501	2,732
Deposit money banks' deposits	12,243	20,199	23,147	24,452	25,781	30,202	24586	30929	37156	51,881
Deposit money banks' giro accounts	7,412	6,086	4,946	6,050	9,316	12,881	4827	8662	13386	25,659
Compulsory reserves	2,448	4,958	12,018	14,075	11,708	12,346	12696	15277	19362	21,418
Treasury subscription	2,383	9,155	6,183	4,327	4,757	4,975	7063	6990	4408	4,804
-- voluntary	1,730	8,000	3,000	--	--	--	--	--	--	--
-- compulsory	653	1,155	3,183	4,327	4,757	4,975	7063	6990	4408	4,804
Other liabilities 1/	215	221	--	--	--	--	--	--	--	--

Source: Data provided by the National Bank.

1/ Refers to payments in turnover.

Table 18. FYRM: Sources of Growth in Base Money

(In percent of base money outstanding at the beginning of quarter)

	1992				1993
	Q1	Q2	Q3	Q4	Q1
Base money	44.0	87.5	27.6	69.7	25.7
Of which:					
Currency in circulation	0.8	78.4	24.7	68.3	1.3
Net foreign assets	--	19.7	22.2	32.9	14.6
Net domestic assets	44.0	67.8	5.4	36.8	11.1
Credit to banks	16.0	14.2	10.9	33.4	8.2
Rediscount credits	8.9	7.7	11.2	29.9	10.3
Agriculture	8.0	4.4	10.1	30.2	10.1
Exports	2.0	3.3	1.6	-0.3	0.2
Other rediscount credit	-1.1	--	-0.4	-0.1	--
Liquidity credit	-0.1	--	--	3.6	-2.1
Other bank credit	7.1	6.5	-0.3	3.6	-2.1
Other items	28.0	53.6	-5.5	3.4	2.9

Source: Data provided by the National Bank.

Table 19. FYRM: Summary Accounts of the Commercial Banks

(In millions of denars, end of period)

	1991	1992				1993
	12	3	6	9	12	3
Reserves	10,163	11,934	19,127	20,877	21,458	49,878
Currency	303	890	744	991	1,829	2,732
Deposits with NBM	9,860	11,044	18,383	19,886	19,629	47,146
Giro accounts	7,412	6,086	4,946	5,706	48,272	5,659
Required reserves	2,448	4,958	13,437	14,180	14,802	21,487
Foreign assets	676	5,087	28,856	32,875	105,294	104,832
Claims on the Government	2,383	9,155	6,183	4,327	7,067	4,774
Claims on public enterprises	--	--	--	--	--	--
Claims on the private sector	43,525	113,301	361,591	406,854	945,272	1,155,778
Denar credit	33,522	45,709	88,317	144,073	314,035	499,062
Short term	25,061	36,265	69,373	119,005	229,820	410,774
To business	21,610	30,930	58,561	106,712	213,424	392,255
Of which: covered by primary issue	11,011	14,052	19,074	40,502	71,923	83,214
Other	3,451	5,335	10,812	12,293	16,396	18,519
Long term	8,461	9,444	18,944	25,068	84,215	88,828
To business	7,882	8,875	8,942	8,995	33,159	65,701
Of which: covered by primary issue	2,047	2,138	1,947	2,211	26,046	51,814
Other	579	569	10,002	16,073	51,056	23,127
Foreign currency credit	10,003	67,592	273,274	262,781	631,237	656,716
Short term	265	1,225	11,559	17,150	52,008	64,545
Long term	9,738	66,367	261,715	245,631	579,229	592,259
To business	9,738	66,367	261,715	245,631	322,461	293,826
Other	--	--	--	--	256,768	298,433
Other assets 1/	30,436	144,976	722,782	786,730	1,633,721	1,883,663
Total assets	87,183	284,453	1,138,539	1,251,663	2,712,812	3,198,925
Total liabilities	87,183	284,453	1,138,539	1,251,663	2,712,812	3,198,925
Demand deposits	15,430	24,022	36,184	63,414	91,434	132,122
Time -, savings -, and foreign currency deposits	15,413	70,033	256,545	257,040	558,790	571,222
- in denar	6,766	11,673	13,418	16,207	32,554	50,975
- in foreign currency	8,647	58,360	243,127	240,833	526,236	520,247
Non-monetary deposits	16,354	68,906	340,357	332,787	719,038	743,665
- in denars	3,921	4,959	8,448	11,408	15,531	25,421
- in foreign currency	12,433	63,947	331,909	321,379	703,507	718,244
Credits	24,607	96,105	347,081	340,550	758,958	909,986
Foreign exchange credit	11,902	79,808	323,444	307,634	703,639	838,588
- Foreign resources	10,692	71,509	283,093	266,903	617,825	747,663
- Other financial institutions	1,210	8,299	40,351	40,731	85,814	90,925
Denar credit	12,705	16,297	23,637	32,916	55,319	71,398
- National bank	8,878	12,223	16,296	22,355	44,278	53,717
- Other sources	3,827	4,074	7,341	10,561	11,041	17,681
Other liabilities	15,379	25,387	158,372	257,872	584,592	841,930
Memorandum items:						
CPI (12/1991 = 100)	100.0	258.9	971.8	1,301.4	2,035.4	3,362.0
Official exchange rate (DM/denar)	13.0	84.8	360.0	360.0	722.6	800.0
Foreign currency deposits in DM	1,621.5	1,442.8	1,597.3	1,561.7	1,701.9	1,548.1
Total denar loans to business	29,492	39,805	67,503	115,707	246,583	457,956
Claims on business (real, 12/91=100)	100.0	52.1	23.6	30.1	41.1	46.2
Lending "covered by primary issue"	13,058	16,190	21,021	42,713	97,969	135,028

Source: Data provided by the National Bank.

1/ Determined residually.

Table 20. FYRM: Interest Rates (Annual)

	1991	1992				1993
	12	3	6	9	12	3
NBM interest rates:						
Discount rate	40	60	170	170	250	392
Interest on regular liquidity credit	40	138	489	489	719	1,127
Default interest rate	130	195	553	553	813	1,274
Interest on required reserves						
- sight dep. up to 3 years	12	18	51	51	75	118
- over 3 years	28	42	119	119	175	233
Commercial bank interest rates:						
Deposit rates						
Household sight dep.	14-35	20-42	35-125	40-208	81-152	61-207
Household time dep. (3-6 month)	35-334	46-436	380-885	380-1915	435-885	792-991
Enterprises sight dep.	14-35	16-42	35-106	35-208	61-152	61-207
Enterprises time dep. (3-6 month)	35-334	46-436	380-885	380-885	435-885	508-991
Lending rates						
Short term agricultural loans	101-221	190-270	987-1,200	987-1,200	1,200-1,220	1,044-1,364
Short term consumer credit	91-202	108-190	333-1,100	333-1,200	380-1,100	380-1,044
Long term working capital	131-240	217-333	1,100-2,355	1,100-2,355	1,100-2,355	1,150-1,772
Long term housing credit	25-43	25-100	181-1,686	181-1,686	310-1,686	290-2,096
Small scale industry	--	--	1,100	1,100	1,100	1,159
Memorandum item:						
Inflation (change in CPI, monthly)		44.1	10.3	17.0	15.8	8.3
Inflation (change in CPI, annualized)		7,940.3	224.2	558.4	481.5	160.3

Source: Data provided by the National Bank.

Table 21. FYRM: Summary of General Government Operations, 1991-93

	1991	1992	1993 Budget 1/	1993 Staff 2/	1991	1992	1993 Budget	1993 Staff
	(In millions of denars)				(In percent of GSP)			
Total Revenue and Grants	41,809	463,896	2,845,000	2,398,572	36.8	28.1	27.2	22.9
Central government	20,700	223,800	1,511,650	1,185,539	18.2	13.6	14.5	11.3
Tax Revenue	19,600	219,300	1,411,650	1,075,838	17.3	13.3	13.5	10.3
Non-tax revenue	1,100	4,500	100,000	109,701	1.0	0.3	1.0	1.0
Foreign grants	--	--	--	--	--	--	--	--
Extrabudgetary Funds	20,809	237,596	1,311,650	1,196,693	18.3	14.4	12.5	11.4
Pension Fund	9,653	111,601	638,950	546,376	8.5	6.8	6.1	5.2
Health-care Fund	5,596	68,315	388,100	359,417	4.9	4.1	3.7	3.4
Employment Fund	560	5,680	27,100	29,883	0.5	0.3	0.3	0.3
Local Budgets	300	2,500	21,700	16,340	0.3	0.2	0.2	0.2
Total Expenditure and Net Lending	45,920	560,938	2,845,000	3,968,798	40.4	34.0	27.2	38.0
Central Government	20,700	295,167	1,511,650	2,217,406	18.2	17.9	14.5	21.2
Current expenditures	19,686	283,767	1,448,300	2,153,966	17.3	17.2	13.9	20.6
Capital expenditures	714	10,000	52,900	52,900	0.6	0.6	0.5	0.5
Reserves	300	1,530	10,540	10,540	0.3	0.1	0.1	0.1
Extrabudgetary Funds	24,920	262,771	1,311,650	1,729,693	21.9	15.9	12.5	16.5
Pension Fund	11,416	133,675	638,950	883,700	10.0	8.1	6.1	8.5
Health-care Fund	7,894	70,196	388,100	548,353	6.9	4.3	3.7	5.2
Employment Fund	610	6,900	27,100	40,140	0.5	0.4	0.3	0.4
Local Budgets	300	3,000	21,700	21,700	0.3	0.2	0.2	0.2
Overall deficit (accrual)	-4,111	-97,042	--	-1,570,226	-3.6	-5.9	--	-15.0
Net Changes in Total Expenditure								
Arrears (increase: +)	4,111	97,042	--	1,570,226	3.6	5.9	--	15.0
Central Government	--	71,367	--	1,031,866	--	4.3	--	9.9
Extrabudgetary Funds	4,111	25,175	--	533,000	3.6	1.5	--	5.1
Pension Fund	1,763	22,074	--	337,324	1.6	1.3	--	3.2
Health-care Fund	2,298	1,881	--	188,936	2.0	0.1	--	1.8
Employment Fund	50	1,220	--	10,256	--	0.1	--	0.1
Local governments	--	500	--	5,360	--	--	--	0.1
Overall Deficit (cash)	--	--	--	--	--	--	--	--
Memorandum item:								
GSP	113,600	1,650,000	10,453,000	10,453,000				

Sources: Ministry of Finance; and staff estimates.

1/ The budget figures for 1993 are not comparable to figures for earlier years, as these earlier data have been adjusted to GFS methodology by the staff.

2/ Based on budget figures adjusted to an accruals basis and including interest on foreign currency deposits guaranteed by the Government, and increases in subsidies and unemployment benefits as discussed in SM/93/171 (8/4/93).

Table 22. FYRM: General Government Revenue and Grants, 1991-93

	1991	1992	1993 Budget 1/	1993 Staff 2/	1991	1992	1993 Budget	1993 Staff
	(In millions of denars)				(In percent of GSP)			
Total Revenue	41,809	463,896	2,845,000	2,398,572	36.8	28.1	27.2	22.9
Central Government	20,700	223,800	1,511,650	1,185,539	18.2	13.6	14.5	11.3
Total revenue (tax/non-tax)	20,700	223,800	1,511,650	1,185,539	18.2	13.6	14.5	11.3
Tax revenue	19,600	219,300	1,411,650	1,075,838	17.3	13.3	13.5	10.3
Taxes on income and profits	7,200	91,400	610,000	474,046	6.3	5.5	5.8	4.5
Personal income tax	6,300	73,100	500,000	361,614	5.5	4.4	4.8	3.5
Profit tax	900	18,300	110,000	112,432	0.8	1.1	1.1	1.1
Taxes on goods and services	9,800	90,300	550,000	451,394	8.6	5.5	5.3	4.3
Sales tax	9,800	90,300	550,000	451,394	8.6	5.5	5.3	4.3
Taxes on international trade	2,400	37,000	250,000	148,748	2.1	2.2	2.4	1.4
Import duties	2,400	37,000	250,000	148,748	2.1	2.2	2.4	1.4
Other taxes	200	600	1,650	1,650	--	--	--	--
Nontax revenue	1,100	4,500	100,000	109,701	1.0	0.3	1.0	1.0
Property income	500	3,000	--	--	0.4	0.2	--	--
Profits of public enterprises and financial institutions	500	3,000	--	--	0.4	0.2	--	--
National Bank	500	3,000	--	--	0.4	0.2	--	--
Other profits and dividends	--	--	--	--	--	--	--	--
Loan interest receipts	--	--	--	--	--	--	--	--
Other property income	--	--	--	--	--	--	--	--
Contribution from oil products	300	200	80,000	10,636	0.3	--	0.8	0.1
Administrative fees and charges	300	1,300	10,000	21,318	0.3	0.1	0.1	0.2
Other nontax revenues	--	--	10,000	77,747	--	--	0.1	0.7
Foreign grants	--	--	--	--	--	--	--	--
Extrabudgetary Funds	20,809	237,596	1,311,650	1,196,693	18.3	14.4	12.5	11.4
Social funds	15,809	185,596	1,054,150	935,677	13.9	11.2	10.1	9.0
Pension fund	9,653	111,601	638,950	546,376	8.5	6.8	6.1	5.2
Health care fund	5,596	68,315	388,100	359,417	4.9	4.1	3.7	3.4
Employment fund	560	5,680	27,100	29,883	0.5	0.3	0.3	0.3
Road fund	2,500	17,100	119,400	122,916	2.2	1.0	1.1	1.2
Goods reserves	1,400	20,000	130,000	130,000	1.2	1.2	1.2	1.2
Other	1,100	14,900	8,100	8,100	1.0	0.9	0.1	0.1
Local Governments	300	2,500	21,700	16,340	0.3	0.2	0.2	0.2
Sales tax (part)	--	300	1,800	1,358	--	--	--	--
Property tax	100	200	3,100	1,362	0.1	--	--	--
Royalty tax	--	300	4,700	2,043	--	--	--	--
Taxes on real estate income	100	1,100	7,500	7,491	0.1	0.1	0.1	0.1
Public utilities fees	100	600	4,600	4,086	0.1	--	--	--

Sources: Ministry of Finance; and Fund staff estimates.

1/ See footnote 1/, Table 21.
2/ See footnote 2/, Table 21.

Table 23. FYRM: General Government Expenditures, 1991-93

	1991	1992	1993 Budget 1/	1993 Staff 2/	1991	1992	1993 Budget	1993 Staff
	(In millions of denars)				(In percent of GSP)			
Total Expenditure	45,920	560,938	2,845,000	3,968,798	40.4	34.0	27.2	38.0
Central Government	20,700	295,167	1,511,650	2,217,406	18.2	17.9	14.5	21.2
Current expenditures	19,686	283,767	1,448,300	2,153,966	17.3	17.2	13.9	20.6
Goods and services	11,914	150,030	1,076,920	1,076,920	10.5	9.1	10.3	10.3
Wages and salaries	6,146	90,720	652,500	652,500	5.4	5.5	6.2	6.2
Other Goods and services	5,468	30,520	200,520	200,520	4.8	1.8	1.9	1.9
Defense	300	28,790	223,900	223,900	0.3	1.7	2.1	2.1
Transfers (to:)	7,772	77,063	371,380	738,701	6.8	4.7	3.6	7.1
Localities	--	--	1,000	1,000	--	--	--	--
Organizations	93	61	1,500	1,500	0.1	--	--	--
Enterprises	7,629	61,314	192,880	417,548	6.7	3.7	1.8	4.0
Individuals	--	14,858	173,000	313,000	--	0.9	1.7	3.0
Refugees	50	830	3,000	5,652	--	0.1	--	0.1
Guarantees	--	--	--	--	--	--	--	--
Other	--	--	--	--	--	--	--	--
Interest	--	56,674	--	338,345	--	3.4	--	3.2
Domestic	--	1,307	--	735	--	0.1	--	--
Foreign	--	55,367	--	337,610	--	3.4	--	3.2
Capital expenditures and net lending	714	10,000	52,900	52,900	0.6	0.6	0.5	0.5
Fixed investment	714	10,000	52,900	52,900	0.6	0.6	0.5	0.5
Net lending	--	--	--	--	--	--	--	--
Equity								
Capital transfer								
Reserves	300	1,400	10,540	10,540	0.3	0.1	0.1	0.1
Extrabudgetary Funds	24,920	262,771	1,311,650	1,729,693	21.9	15.9	12.5	16.5
Social funds	19,920	210,771	1,054,150	1,472,193	17.5	12.8	10.1	14.1
Pension fund	11,416	133,675	638,950	883,700	10.0	8.1	6.1	8.5
Health care fund	7,894	70,196	388,100	548,353	6.9	4.3	3.7	5.2
Employment fund	610	6,900	27,100	40,140	0.5	0.4	0.3	0.4
Road fund	2,500	17,100	119,400	119,400	2.2	1.0	1.1	1.1
Goods reserves	1,400	20,000	130,000	130,000	1.2	1.2	1.2	1.2
Other	1,100	14,900	8,100	8,100	1.0	0.9	0.1	0.1
Local Governments	300	3,000	21,700	21,700	0.3	0.2	0.2	0.2

Sources: Ministry of Finance; and staff estimates.

1/ See footnote 1/, Table 21.
2/ See footnote 2/, Table 21.

Table 24. FYRM: Exchange Rate Developments, 1990-93 1/

(Period averages)

	Official Exchange Rates 5/		Parallel Market Exchange Rates		Exchange Rate Indices 2/			
					Nominal Effective Indices 3/		Real Effective Indices 4/	
	Denar/US$	Denar/DM	Denar/US$	Denar/DM	Based on official rates 6/	Based on parallel market rates 7/	Based on official rates 6/	Based on parallel market rates 7/
1990 11.32	7.00	...	..	97.89	...	182.67	...	
1991 19.69	11.78	...	...	167.24	...	217.51	...	
1992 509.09	335.58	...	...	4,542.84	...	146.00	...	
1992: May-December	684.82	455.77	875.00	598.13	6,152.38	308.34	141.28	90.59
1991: I	13.77	9.00	...	...	122.53	...	193.26	...
II	21.01	12.09	...	...	175.23	...	163.67	...
III	22.69	13.00	...	...	188.86	...	196.15	...
IV	21.15	13.00	...	...	182.33	...	316.98	...
1992: I	105.05	64.29	...	...	903.58	...	166.31	...
II	485.00	300.94	...	...	4,201.18	...	119.70	...
II: May-June	576.38	360.00	601.00	380.00	5,009.59	203.22	118.12	91.57
III	528.12	360.00	708.67	497.33	4,805.46	253.25	157.50	94.37
IV	913.80	615.40	1,224.00	844.67	8,261.16	433.50	140.49	86.17
1993: I	1,250.83	784.02	2,031.67	1,317.67	10,891.26	696.48	172.89	84.85
1992: May	584.82	360.00	597.00	374.00	5,045.27	201.05	108.19	85.49
June	567.94	360.00	605.00	385.00	4,973.90	205.38	128.04	97.64
July	537.84	360.00	657.00	435.00	4,846.55	227.66	142.15	95.28
August	523.37	360.00	654.00	471.00	4,785.34	237.01	153.16	97.37
September	523.17	360.00	815.00	586.00	4,784.48	295.09	177.20	90.46
October	752.63	523.64	881.00	638.00	6,923.97	320.23	147.62	100.50
November	865.08	600.00	1,183.00	820.00	7,945.11	419.97	141.04	84.01
December	1,123.68	722.55	1,608.00	1,076.00	9,914.39	560.29	132.80	73.99
1993: January	1,240.25	768.49	1,798.00	1,196.00	10,735.67	624.55	140.67	76.14
February	1,206.68	791.29	2,148.00	1,406.00	10,756.45	739.88	185.29	84.82
March	1,305.54	792.27	2,149.00	1,351.00	11,181.66	725.00	192.71	93.58
April	1,200.71	806.74	1,948.00	1,218.00	10,841.62	655.38	204.94	106.74
May	1,713.05	1,066.54	1,817.29	1,123.95	14,864.55	608.03	161.04	123.96
June 8/	...	...	2,341.06	1,450.47	...	783.98	...	....

Sources: Data provided by the authorities; and staff estimates.

1/ Yugoslav dinar currency data prior to monetary independence on April 26, 1992.
2/ Staff estimates.
3/ An increase in the index denotes a depreciation.
4/ Deflated by relative consumer prices. An increase in the index denotes an appreciation.
5/ In January 1990, the new dinar, equal to 10,000 old dinars was introduced. In May, 1993 a further currency reform took place with a new denar, equal to 100 old denars, being introduced.
6/ December 1989 = 100.
7/ April 1992 = 100.
8/ Data to June 15.

Table 25. FYRM: Balance of Payments, 1990-92 1/

(In millions of U.S. dollars)

	1990	1991	1992 Est.
Current account	-590	-504	-23
Trade balance	-645	-513	-220
Trade outside the former SFRY	-645	-468	-90
Non-CMEA	-458	-341	-90
CMEA area	-187	-127	-120
Trade with the former SFRY	--	-45	-10
Exports	650	759	858
Non-CMEA exports	454	553	483
CMEA exports	196	161	110
Exports to the former SFRY	--	45	265
Imports	-1,295	-1,272	-1,078
Non-CMEA imports	-912	-894	-573
CMEA imports	-383	-288	-230
Imports from the former SFRY	--	-90	-275
Services, net	-39	37	-43
Processing	39	50	19
Travel	-23	3	4
Transportation	1	-4	-6
Interest 2/	-55	-25	-67
Other	-1	13	7
Unrequited transfers, net	94	-28	30
Private	94	-28	30
Official	...	...	...
Capital account	-51	-90	-102
Medium- and long-term capital	-40	-71	-86
Disbursements	65	12	3
Amortization	-105	-83	-89
Short-term capital, net	-11	-19	-16
Errors and omissions, net 3/	641	511	251
Overall balance	--	-83	-84
Change in official reserves (increase: -) 4/	...	...	-64
Change in arrears	...	83	147
Memorandum items:			
Trade balance (in percent of GSP)	-25.2	-22.1	-11.0
Current account balance (in percent of GSP)	-23.1	-21.7	-11.7
Import coverage ratio (in months of imports)	...	...	0.6
National accounts based estimates of interrepublican trade:			
Exports	1,811	1,631	1,089
Imports	-1,708	-1,558	-870

Sources: Data and estimates provided by the authorities; and staff estimates.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ Excluding penalty interest on arrears.

3/ The large size of the net errors and omissions item partly reflects the sizeable transfers from the former SFRY that allowed the FYRM to finance large external current account deficits through 1991.

4/ End of period.

Table 26. FYRM: Commodity Composition of Exports, 1988-92 1/

(In percent of total exports)

	1988	1989	1990	1991	1992
Exports 2/	100	100	100	100	100
Food and live animals	6	6	3	6	...
Beverages and tobacco	5	7	3	7	...
Crude materials, except fuels	9	6	5	5	...
Mineral fuels, lubricants and related materials	1	1	--	--	...
Animal and vegetable oils	--	--	--	--	...
Chemicals	6	8	6	4	...
Manufactured goods classified by materials	34	33	47	44	...
Machinery and transport equipment	19	18	9	10	...
Miscellaneous manufactured goods	20	21	27	24	...
Other	--	--	--	--	...

Source: Data provided by the authorities.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ Exports exclude exports to republics of the former SFRY, and include the gross value of export processing transactions. (No breakdown by commodity of exports excluding processing transactions is currently available.)

Table 27. FYRM: Destination of Exports, 1990-92 1/

(In percent of total exports)

	1990 Est.	1991 Est.	1992 Est.
Exports 2/	100	100	100
CMEA	30	23	19
Of which:			
FSU	18	16	...
Czechoslovakia	4	2	...
Bulgaria	3	3	...
EC	48	46	...
Of which:			
Germany	23	23	...
Italy	12	8	...
Greece	5	6	...
EFTA	6	5	...
Other developed countries	7	11	...
Of which: United States	3	5	...
Other developing countries	10	15	...

Sources: Data and estimates provided by the authorities; and staff estimates.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ Excluding exports to republics of the former SFRY, and including the gross value of export processing transactions. (No detailed breakdown by destination of exports excluding processing transactions is currently available.)

Table 28. FYRM: Services Account, 1990-92 1/

(In millions of U.S. dollars)

	1990	1991	1992 Est.
Processing, net	39	50	19
Receipts	40	50	20
Payments	-1	-1	-1
Travel, net	-23	3	4
Receipts	45	9	12
Payments	-68	-6	-8
Transportation, net	1	-4	-6
Receipts	8	5	6
Payments	-7	-9	-12
Other, net	-1	13	7
Receipts	24	26	18
Payments	-25	-12	-11
Total services excluding interest, net	16	62	24
Receipts	117	90	56
Payments	-101	-28	-32
Interest, net	-55	-25	-67
Receipts	--	--	--
Payments	-55	-25	-67
Total services, net	-39	37	-43
Receipts	117	90	56
Payments	-156	-53	-99

Sources: Data and estimates provided by the authorities; and staff estimates.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

Table 29. FYRM: Imports by Final Use, 1988-92 1/

(In percent of total imports)

	1988	1989	1990	1991	1992
Imports 2/	100	100	100	100	100
Industrial supplies	83	81	69	70	...
Raw materials and semi-manufactures	47	51	29	33	...
Supplies of finished goods	14	11	25	25	...
Fuel	22	20	14	11	...
Consumer goods	6	8	25	20	...
Food, beverages and tobacco	1	2	11	10	...
Clothing, shoes and textiles	--	1	7	6	...
Other consumer goods	5	5	6	4	...
Investment goods	11	11	6	10	...
Electrical and transport machinery	1	2	1	2	...
Other machinery and equipment	8	8	4	7	...
Other investment goods	2	1	1	1	...

Source: Data provided by the authorities.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ Imports exclude imports from republics of the former SFRY, and include the gross value of import processing transactions. (No breakdown of imports by final use excluding processing transactions is currently available).

Table 30. FYRM: Commodity Composition of Imports, 1988-92 1/

(In percent of total imports)

	1988	1989	1990	1991	1992
Imports 2/	100	100	100	100	100
Food and live animals	3	4	10	10	...
Beverages and tobacco	1	1	3	3	...
Crude materials, except fuels	16	16	8	7	...
Mineral fuels, lubricants and related materials	22	20	14	11	...
Animal and vegetable oils	--	1	--	--	...
Chemicals	19	18	9	10	...
Manufactured goods classified by materials	19	19	18	19	...
Machinery and transport equipment	15	16	11	13	...
Miscellaneous manufactured goods	5	5	10	10	...
Other	--	--	17	16	...

Source: Data provided by the authorities.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ Imports exclude imports from republics of the former SFRY, and include the gross value of import processing transactions. (No breakdown by commodity of imports excluding processing transactions is currently available.)

Table 31. FYRM: Origin of Imports, 1990-92 1/

(In percent of total imports)

	1990 Est.	1991 Est.	1992 Est.
Imports 2/	100	100	100
CMEA	30	24	29
Of which:			
FSU	19	17	...
Bulgaria	3	3	...
Czechoslovakia	2	2	...
EC	43	45	...
Of which:			
Germany	19	21	...
Greece	8	8	...
Italy	6	7	...
EFTA	6	7	...
Of which: Austria	3	4	...
Other developed countries	10	9	...
Of which: United States	4	3	...
Other developing countries	11	15	...

Sources: Data and estimates provided by the authorities; and staff estimates.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ Excluding imports from republics of the former SFRY, and including the gross value of import processing transactions. (No detailed breakdown of the origin of imports excluding processing transactions is currently available.)

Table 32. FYRM: Official Gold and Convertible Foreign Exchange Reserves, April 1992-June 1993 1/

(In millions of U.S. dollars; end-of-period)

		Gold 2/	SDR Holdings	Reserve Position in the Fund	Foreign Exchange	Total
1992:	April	2.7	...	...	7.5	10.3
	May	2.7	...	...	13.2	15.9
	June	3.6	...	...	22.4	26.0
	July	3.9	...	...	24.8	28.7
	August	6.1	...	...	33.2	39.3
	September	7.2	...	...	39.8	47.0
	October	7.1	...	...	45.6	52.6
	November	6.9	...	...	50.6	57.5
	December	6.9	--	--	56.8	63.7
1993:	January	...	--	--	...	...
	February	...	--	--	...	...
	March	7.1	--	--	58.2	65.3
	April	...	0.1	--	...	...
	May	...	0.1	--	...	...
	June	...	0.1	--	...	...

Sources: Data supplied by the authorities; and staff estimates.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ At national valuation.

Table 33. FYRM: External Debt and External Arrears by Creditor as at March 31, 1993 1/ 2/

(In millions of U.S. dollars)

	Stock of Debt	Stock of Arrears			Total Debt and Arrears
		Principal	Interest	Total	
Official creditors	453	178	37	215	668
Multilateral	250	81	23	104	354
IMF	7	--	--	--	7
IBRD	150	66	16	82	232
EIB	52	8	4	12	64
EUROFIMA	25	2	2	4	29
IFC	9	4	1	5	14
European Fund for Reintegration	6	1	--	1	7
Bilateral	203	97	14	111	314
Paris Club rescheduled debt 3/	148	56	11	67	215
Paris Club non-rescheduled debt	55	41	3	44	99
Private creditors	393	31	44	75	468
Commercial banks	346	--	37	37	383
Others	47	31	7	38	85
Total	846	209	81	290	1,136
(In percent of GSP) 4/	(42.3)	(10.5)	(4.0)	(14.5)	(56.8)

Source: Data supplied by the authorities.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ Identified medium- and long-term debt only, excluding the FYRM's share of the unallocated debt of the former SFRY.

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

4/ In percent of estimated 1992 GSP.

Table 34. FYRM: External Debt by Debtor and Creditor as at March 31, 1993 1/ 2/

(In millions of U.S. dollars)

	Official Government Debt	Other Enterprises' Debt 3/	Total Debt
Official creditors	122	331	453
Multilateral	58	192	250
IMF	7	--	7
IBRD	51	99	150
EIB	--	52	52
EUROFIMA	--	25	25
IFC	--	9	9
European Fund for Reintegration	--	6	6
Bilateral	64	139	203
Paris Club rescheduled debt 4/	64	84	148
Paris Club non-rescheduled debt	--	55	55
Private creditors	164	228	393
Commercial banks	164	181	346
Others	--	47	47
Total	287	559	846
(In percent of GSP) 5/	(14.0)	(28.0)	(42.0)

Source: Data supplied by the authorities.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).

2/ Identified medium- and long-term debt only, excluding the FYRM's share of the unallocated debt of the former SFRY.

3/ Includes some loans to foreign creditors taken over by the Government but not legally guaranteed by the Government.

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

5/ In percent of estimated 1992 GSP.

Table 35. FYRM: External Debt Service Indicators, 1990-98 1/ 2/

	1990	1991	1992	1993	1994	1995	1996	1997	1998
	(In millions of U.S. dollars)								
Interest payments 3/	55	25	67	53	42	46	28	24	12
Official creditors	...	...	...	30	20	26	11	7	4
Multilateral	...	...	...	18	13	18	7	5	3
Bilateral	...	...	...	12	8	9	4	2	1
Private creditors	...	...	...	23	22	20	18	16	8
Amortization	105	83	89	110	92	82	74	55	52
Official creditors	...	...	...	102	59	53	47	29	26
Multilateral	...	...	...	64	37	30	30	15	13
Bilateral	...	...	...	38	23	24	17	13	13
Private creditors	...	...	...	8	33	29	27	26	27
Total debt service	160	108	156	163	134	128	102	79	64
	(In percent of exports of goods and services)								
Memorandum items:									
Interest payments	7.1	2.9	7.3	5.5	...	...	...	...	...
Total debt service	20.9	12.8	17.1	16.9	...	...	...	...	...

Sources: Data provided by the authorities; and staff estimates.

1/ The external data currently available are of a low quality and should be treated as estimates that are subject to future revision. For a description of statistical problems, refer to Appendix I of SM/93/171 (8/4/93).
2/ Debt service on the current identified stock of medium- and long-term debt only, excluding the FYRM's share of the unallocated debt of the former SFRY.
3/ Based on current interest rates, and excluding any penalty interest on arrears.

FYRM: Summary of Tax System, 1993

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Central Government			
1.1 Taxes on net income and profits 1.1.1 Profit tax	A tax on the profits of resident legal entities. By law an entity is a resident of the FYRM if it was established and registered in FYRM. Nonresident entities are liable to tax on their profits earned in the FYRM. By law a nonresident entity is one neither established nor registered in the FYRM. Shops--considered legal entities --are also liable to the tax, as are banks, other financial institutions, as well as property, life insurance, and reinsurance companies. The taxable base is the difference between total income and expenses. Resident taxpayers pay tax on their global earnings, nonresident taxpayers on what is earned in the FYRM. Deductible expenses include business, financial, and extra-ordinary expenses, as well as depreciation that does not exceed specific rates. Taxpayers make monthly advance payments based on the previous year's profits, adjusted for inflation. In June and December, adjustments are made based on actual profits.	Profits are exempt from taxation if they are earned and taxed abroad; invested in the FYRM; invested in the environmental protection-related businesses; earned by activities in under-developed regions; or earned by handicapped persons. 50 percent of the profits from activities in the mountain regions are exempt. Under the special incentive legislation, profits on exported goods are exempt from tax; the profits of joint ventures that correspond to the investment made by foreign partners are exempt for the first three years of operation; profits of foreign enterprises are exempt for the first three years of operation; the tax is reduced for companies that employ handicapped persons. 200 percent of any profits invested in underdeveloped areas are deductible, 100 percent if invested in the mountain region. Investments made by handicapped persons are deductible.	In January 1993, the number of rates were reduced to 4 from 13: Basic rate 20 percent Health, science, education 4.5 percent Most of industry (e.g., agriculture, forestry, mining, engineering, transportation) 17 percent Traders, banks, and insurance companies 30 percent

Tax	Nature of Tax	Exemptions & Deductions	Rates
1.2 Income tax on employees	A tax on the employment income of residents. The taxable base is their world-wide income. Nonresidents are liable to the tax on their income from employment within the FYRM. The taxable base is their FYRM-source income. The tax is withheld by the employer at source, along with the contributions to social funds.	Handicapped persons, pensioners, students, and heros of the World War II are exempt from the tax. Wages less than 60 percent of the average wage are exempt.	Rates vary according to the employee's line of work: General rate 14.800 percent Civil service 15.594 percent Industry, mining, common goods production, retail, wholesale, farming 14.244 percent Agricultural products trade 14.064 percent Iron mining, furniture and leather products production 12.954 percent Education (except for elementary schools), science, artistic works 12.874 percent Textiles (ready-made suits) 12.736 percent Handicrafts, other services 12.444 percent Textiles (all other) 12.046 percent Construction, research 11.584 percent Textiles (carpets) 11.366 percent Information processing, higher education 10.901 percent Elementary schools, social work 9.586 percent
1.3 Agricultural tax	A tax on the income of self-employed farmers. The government decides the average yield per hectare and price of individual crops, based on which the tax liability of each farmer is determined. Payments are made quarterly the following year in four equal installments in the following year with no adjustments for inflation.	Actual expenses for producing agricultural products are deductible. Income from producing fruit is exempt.	Those whose only income is from agriculture are exempt from taxation in 1992 and 1993; they were taxed at the rate of 2.5 percent in 1991. Those who have other income are taxed at 40 percent on total (including agricultural) income.

FYRM: Summary of Tax System, 1993

Tax	Nature of Tax	Exemptions and Deductions	Rates	
1.4 Income tax on self -employed persons	A tax on the income of self-employed persons (except for farmers). Each month, advance tax payments of one twelfth of the previous year's liability--adjusted for inflation--are made. The authorities inspect the taxpayers' books every three months. At year-end, the Government notifies the taxpayers of their actual liability based on which refund or additional payment will be made.	Actual business expenses are deductible. Self-employed persons, except professionals and those in the service sector, are exempt from tax in their first and second years of business; in the third year, 50 percent of their taxable income is exempt. Upon a request from a municipality and with government approval a small category may be exempt from taxation (e.g., those working in the production of endangered craft or in dentistry).	Income below the average wage Income above the average wage	20 percent 30 percent
1.5 Tax on gambling and lotteries	A tax on the winnings from gambling and lotteries. Withheld at source.		15 percent	

FYRM: Summary of Tax System, 1993

Tax	Nature of Tax	Exemptions & Deductions	Rates
2. <u>Taxes on goods and services</u> 2.1 <u>Sales tax</u>	A tax on the transfer of goods in their final state to the consumer, e.g., sales of all merchandise (unless otherwise stipulated in the law); retention of goods for own use or consumption; importation of merchandise for taxpayer's consumption; sale of beverages and other merchandise to catering organizations. However, preparatory to introduction of a multi-stage value-added tax, the authorities started taxing all beverages and tobacco in November 1992 not only at the retail stage but also at the manufacturing stage. Retailers are refunded for the amount of tax already paid by the manufacturers. Wholesalers are not included in this chain of taxation: they are taxed on their services at a different rate (5 percent) regardless of the goods they sell.	The following items are exempt from taxation--bread, milk, domestically-produced oil, lard, soup, detergent, water, stamps (including postage stamps), medicine, orthopedic devices, automobiles purchased by handicapped persons, supplies for the Red Cross, supplies for the armed forces and police, supplies for diplomatic and consular missions, exported goods, and some products of companies that employ handicapped persons.	<u>On products</u> General rate 42 percent Oil products Liquid oil Gas 3 percent (40 percent if used for Automobiles) Crude oil 10 percent (3 percent for industrial use) Jet fuel 20 percent Diesel oil 35 percent Oil 40 percent (15 percent if it is unleaded) Cigarettes Tobacco leaves and pipe tobacco 15 percent Other 40 percent High quality domestic cigarettes 50 percent Imported and licensed cigarettes 65 percent Beverages Alcohol (general) 10 percent Wine 17 percent Mineral water and juice 25 percent Coffee 50 percent Beer 57 percent Brandy and cognac 60 percent Other alcoholic beverages 90 percent Automobiles Displacement of up to 1.8 liters 30 percent Displacement of over 1.8 liters 55 percent

FYRM: Summary of Tax System, 1993

Tax	Nature of Tax	Exemptions & Deductions	Rates
			Basic necessities
			Children's shoes and clothing 7 percent
			Clothing and footwear 22.5 percent
			Furniture, TV sets, refrigerators, motor vehicle parts, washing machine 28.5 percent
			Luxury items
			Gold jewelry, perfume, cosmetics, carpets, precious stones, furs 72 percent
			Other products
			Equipment, agricultural machinery, agricultural products, food, computers, electricity, newspapers and periodicals, coal, books, chocolates 3 percent
			<u>On Services</u>
			Banking 3 percent
			Security services, import services, consignment sales, servicing and technical maintenance, transportation, gambling (other than special kinds), wholesale 5 percent
			Publication services 10 percent
			Commissions services, representation agent, special gambling 20 percent

FYRM: Summary of Tax System, 1993

Tax	Nature of Tax	Exemptions & Deductions	Rates
2.2 <u>Import duties</u>			The rates range from 0 to 25 percent. <u>Export quota</u> e.g., iron ore and products <u>Export permit</u> e.g., chemicals, silver, gold, weapons <u>Import quota</u> e.g., iron ore and products <u>Import permit</u> e.g., weapons, silver, gold
3. <u>Taxes on property</u>			
3.1 <u>Inheritance and gift tax</u>	A tax on inheritance and gifts. In general, recipients who are within the first degree of kinship (a spouse, child, or parent) are exempt. Those within the second degree of kinship (a grandchild, brother, or sister) are exempt only if they lived in the household with the donor at time of death or when the gift was given.	Those within the second degree of kinship but did not live with the donor 20 percent Others 25 percent	
4. <u>Contributions to Social Funds</u>	Employed persons are liable to compulsory monthly social fund contributions, which are withheld with the income tax at source. Self-employed persons make contributions with their monthly income tax payments.		Rates are the same for employed and self-employed persons: Pension and Disability Fund 18.0 percent Health Care Fund 8.6 percent Employment Fund 0.8 percent

Tax	Nature of Tax	Exemptions & Deductions	Rates
5. Local Government			
5.1 Taxes on net income 5.1.1 Tax on income from property	A tax on income from the rental or leasing of land, buildings or parts thereof, apartments or parts thereof, equipment and means of transportation, as well as income from some other properties.	30 percent of expenses are deductible.	(Net income in thousands of denars) Up to Den 800 — 30 percent Den 800 - 1,600 — 35 percent Den 1,600 - 3,000 — 40 percent Over Den 3,000 — 50 percent
5.2 Taxes on property 5.2.1 Tax on royalty	A tax on income from copyrights, patents, and technical improvements. The tax is withheld, but may--at the taxpayer's request--be assessed and collected according to actual realized remuneration.		Inventions, patents, discoveries — 10 percent Artistic performances (acting, singing, reciting, playing an instrument) — 15 percent Copyrights — 25 percent
5.2.2 Property tax	A tax on immovable property (e.g., houses, apartments, business premises) and movable property (e.g., motor vehicles, buses).	First 70 square meters are exempt from taxation. Exempt are: - apartments and dwellings inhabited by the owner or member of owner's immediate family; - auxiliary farm buildings to store agricultural products, machinery, and cattle; - buildings registered as historical monuments; - buildings housing foreign diplomatic or consular representatives; - buildings housing international organizations; - buildings used for religious purposes.	See table below

Sq. Mtr. (Over 70)	Residential (In denars)	Business (In denars)
Up to 60	400 (480) 1/	500
61 - 80	480 (550)	600
81 - 100	560 (640)	700
101 - 150	640 (720)	800
151 - 200	900 (1,000)	1,100
201 - 250	1,100 (1,200)	1,300
251 - 300	1,300 (1,400)	1,500
Over 300	1,500 (1,600)	1,700

(__) Numbers in parentheses denote a second house.

The External Trade and Payments System

1. Exchange Rate Arrangement

The currency of the FYRM is the denar. Since being floated in May 1993, the value of the denar has been determined freely in the exchange market by the interplay of demand and supply. There is no tax on the purchase or sale of foreign exchange, but banks are free to set commissions for their services. The exchange market has two levels--wholesale and retail. The wholesale level includes enterprises, commercial banks and the National Bank, all of which may buy and sell foreign exchange in this market in transactions with each other. Via the National Bank the Government also participates in this market. Enterprises repatriating foreign exchange have 4 days to use these funds or to sell them to other enterprises or to banks at freely negotiated rates. Alternatively, enterprises' foreign exchange may be deposited with a bank for a period of up to 90 days. Banks' net holdings of foreign exchange are limited in aggregate to a minimum of the equivalent of US$35 million and a maximum of the equivalent of US$38 million.

The retail level of the foreign exchange market consists of foreign exchange bureaus which are owned and operated by banks, enterprises, or natural persons. Exchange bureaus may hold overnight foreign exchange positions equivalent to 50 percent of the preceding day's foreign exchange purchases. Natural persons can purchase foreign currency from bureaus without limit, subject to the availability of the foreign currency within the bureaus. Since banks and enterprises may operate at both levels of the market, these arrangements are not expected to result in multiple exchange rates.

Buying and selling rates for transactions in the enterprise market have to be reported to the National Bank which calculates an average daily rate, published the next day for information purposes. At the end of each week the average of the daily published rates is established for customs valuation purposes for the following week. On August 10, the average published midpoint exchange rate for the U.S. dollar was 25.3502. There is no forward foreign exchange market, however provision for the development of such a market is allowed for in the legislation governing the foreign exchange market.

2. Administration of Control

The parliament is authorized to pass laws covering foreign exchange and foreign trade control. Some changes in the trade regime can be made through government regulation.

According to the Foreign Exchange Act and the National Bank Act, the National Bank is authorized to control the foreign exchange operations of the banks and other financial institutions. The Ministry of Finance is authorized to control the foreign exchange and foreign trade operations and the credit relations of enterprises abroad as well as other forms of business activities abroad, encompassing all enterprises that operate internationally. Certain foreign exchange control activities have been delegated to the participants in the foreign exchange market and the Customs Office.

According to the Foreign Credit Relations Act, long-term and mid-term loans have to be registered with the National Bank. This obligation does not apply to short-term loans, which are permitted automatically.

The Ministry of Foreign Relations monitors the Foreign Trade Act and the Foreign Investments Act.

3. Prescription of Currency

Residents of the FYRM may receive payments and transfers in any convertible currency.

4. Resident and Nonresident Accounts

Nonresidents may open foreign exchange accounts with authorized banks in the FYRM. These accounts may be credited freely with foreign exchange and debited for payments abroad or for buying denars.

Resident natural persons may open foreign exchange accounts in the FYRM. Foreign exchange balances prior to the Fall of 1990 have de facto been frozen. The problem of frozen deposits is being solved partially by allowing residents to use those funds to purchase socially-owned apartments, socially-owned business premises, or to purchase shares in enterprises as part of the privatization process. In special cases (for weddings, funerals, for payments of health care costs) depositors are allowed to make withdrawals from their frozen deposits up the denar equivalent of DM 1,000. Withdrawals in foreign currency may be paid to pay for medical treatment, purchase of medicaments, education, overseas airfares as well as some other purposes, on presentation of appropriate documentation. Resident natural persons may not maintain foreign exchange accounts abroad or hold other financial assets abroad. In specific cases (e.g., in the case of enterprises with foreign operations) enterprises can hold foreign exchange accounts abroad. Those accounts need approval by the National Bank.

5. Imports and Import Payments

Imports from the Federal Republic of Yugoslavia are banned in accordance with UN Security Council Resolutions 757, 787, and 820. In addition, transit trade through the Federal Republic of Yugoslavia is banned under Resolutions 787 and 820. The present import regime is largely inherited from the former SFRY, with only a few changes made since independence, in particular the liberalization of imports of wheat, flour, sugar, meat and some other products. Goods in ninety five percent of import categories are freely importable. Certain agricultural goods and metal products are subject to high tariff protection, but practically all other imports are free of import tariffs. About 1 percent of imports require import licenses (drugs, weapons, etc.).

Foreign exchange for import payments may be purchased freely by enterprises. Natural persons may make import payments with their holdings of foreign currency or, with appropriate documentation, of any amount by bankers draft.

6. Payments for Invisibles

Resident legal entities may purchase foreign exchange freely to pay for invisibles subject to the same restrictions as merchandise imports. Supporting documentation on the nature of the services bought abroad or transfers made, such as invoices and health declarations, must be provided.

7. *Exports and Export Proceeds*

Exports to the Federal Republic of Yugoslavia are banned under a UN Security Council Resolutions 713, 757, 787, and 820. In addition, transit trade through the Federal Republic of Yugoslavia is banned under Resolutions 787 and 820. Restrictions on the export of certain products (sugar, flour, wheat, soya) were adopted in the end of 1991 as a temporary measure due to shortfalls in domestic supply. A small number of items are banned for security and public health reasons.

Exporters have 4 business days to sell their proceeds to importers or believe at a freely negotiated exchange rate, to use the proceeds for payments abroad or to deposit them in banks for periods of up to 90 days. After that term, they must sell their proceeds in the foreign exchange market.

8. Proceeds from Invisibles

Proceeds from invisibles are subject to the same regulations as those from merchandise exports.

9. Capital

Borrowing and lending operations with foreign countries are not allowed for resident natural persons. Commercial credits received and extended by companies are free of restriction.

There are minimum and maximum limits on authorized banks' net foreign exchange positions of US$35 million and US$38 million, respectively.

Direct foreign investment in the FYRM is allowed with only a few exceptions (arms production, part of telecommunications). Foreigners are allowed to invest in existing firms, establish their own firms or establish joint ventures. Imports of raw materials, spare parts and equipment not produced domestically are free of custom's duty if the foreign share in the investment is at least 20 percent. For the first three years foreign investors are exempt from company income tax. All foreign investment is Government guaranteed and registered at the Ministry of Foreign Relations. There are no restrictions on the transfer abroad of profits and dividends from capital investments and construction work projects in the country, provided all obligations within the country have been met.

Inward portfolio investment is not yet regulated. Outward portfolio investment is not permitted for resident natural or legal persons.

Outward direct investment requires approval from and registration with the Ministry of Foreign Affairs.

10. Gold

The import and export of gold are regulated int he Foreign Exchange Law and require approval by the National Bank.

Bibliography

International Monetary Fund, International Financial Statistics, various issues.

International Monetary Fund, Yugoslavia--Recent Economic Developments, SM/91/44 (2/27/91).

Federal Research Division, U.S. Library of Congress, Yugoslavia--A Country Study, 1992.

Federal Statistical Office of Yugoslavia, Statistical Yearbook of the Socialist Federal Republic of Yugoslavia--1991, 1992.

Statistical Office of the Former Yugoslav Republic of Macedonia, Macedonia--basic Economic Data, February 1993.

National Bank of the FYRM: Bulletin, various issues.