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Statement by Mr. Posthumus on the
Former Yugoslav Republic of Macedonia
Executive Board Meeting 93/115
August 25, 1993

Just four months after the FYR of Macedonia has become a member of the Fund, the first Article IV consultations will be held. Staff has certainly moved very quickly with the preparations for today's Board discussions. As my FYR Macedonian authorities attach great importance to cooperation with the Fund, they are very grateful for the priority which the Fund has given them in starting to establish relations with their country.

FYR Macedonia is in the midst of a political, social and economic transition which measures up to that of many of the other transition countries. The collapse of the CMEA, the falling apart of the former Socialist Federal Republic of Yugoslavia, the failure of its social and economic system, the wars in the former Yugoslavia which only FYR Macedonia escaped but which led to large trade problems and, last but not least, the UN sanctions against the Federal Republic of Yugoslavia are substantial disruptions. Footnote 3 on page 1 of the staff report says it all.

Since independence in September 1991 and the ratification of the constitution in November 1991, FYR Macedonia introduced the denar as its own currency in April 1992. In May 1993, the official exchange rate, which had been repeatedly adjusted but which was of limited importance because of the dominant parallel market, was floated. Official reserves have been built up, though they are still at a low level. Monetary policy has, however, so far been severely hampered by the National Bank's rediscounting of banks' credits to inviable enterprises. The rediscounting policy will be terminated, but this obviously requires rehabilitation of insolvent banks and the introduction of enterprise financial discipline. An important privatization law has been approved by Parliament, which is a significant step towards the required financial discipline of enterprises.

It should be realized that the former Yugoslavian system of social ownership of enterprises and the linkages of enterprises with banks and the banks' linkages with the National Bank present unique problems for the reform effort. Enterprises which were neither government-owned nor part of a centrally planned production and distribution system also were, and are, not commercially operated enterprises. The ease with which losses could be financed and in fact shifted to banks and to the society at large ("socialization of losses") is an indication of this. The role of federal and republican governments in "arranging" enterprise relations was another form

of non-commercial intervention. The authorities are keenly aware of this, and the privatization law, therefore, aims at specific types of ownership. At the same time, banks have to adjust to new, more commercial ways of enterprise as well.

The FYR Macedonian authorities broadly share the analysis and the recommendations of the staff as presented in the appraisal. My discussions with the authorities have convinced me that there is a wide recognition of what has to be done and how it has to be done. However, the size of the problems is indeed staggering, and the available resources, both human and financial, to tackle them is limited. It is, therefore, hoped that the Fund would continue attaching a high priority to cooperation with FYR Macedonia and that it will be possible to quickly move to a Fund-supported program. This would also enable FYR Macedonia to clear its arrears with the World Bank, for which a Fund-supported program is a precondition in the view of donors and the World Bank Board.

The restructuring of the large external debt and payments arrears of FYR Macedonia will, of course, ultimately require an upper-credit tranche arrangement. However, the FYR Macedonia will certainly need financial support urgently to help it begin both internal and external adjustment. My Netherlands' authorities have taken the view that a concerted international effort of financial support with the participation of a number of bilateral and multilateral agencies will be required. The first priority will be to meet financial obligations in the short to medium term, particularly the clearance of arrears to the World Bank in the context of an agreed program, which is a condition for World Bank membership. This, in turn, is crucial for the financing and implementation of a recovery program. The Netherlands authorities are, therefore, ready to assume the donor coordination role in a Support Group framework; they hope to organize an informal Support Group meeting in September at the time of the Annual Meetings. The Netherlands' Government would be ready to make a generous financial contribution, the exact amount of which will be determined once greater insight into the financial requirements related to a program becomes available.