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Statement by the Hon. **NIKOLA GRUEVSKI**,
Governor of the Bank for the **FORMER YUGOSLAV**
REPUBLIC OF MACEDONIA,
at the Joint Annual Discussion

**Statement by the Hon. Nikola Gruevski,
Governor of the Bank for the former Yugoslav Republic of Macedonia,
at the Joint Annual Discussion**

Distinguished Chairman, Governors and delegates

Distinguished Ladies and Gentlemen

Allow me first of all to greet you and express my gratitude to the Government of the Czech Republic and Prague for their hospitality and excellent organization of the Fifty-fifth Annual Meetings of the Board of Governors in the World Bank and IMF.

During their fifty-five years of existence, the World Bank and IMF, as the most influential international financial institutions, have supported the development of the transition countries and have considerably contributed to the progress of their market economies. The Republic of Macedonia, since its independence up to now, is constantly supported and assisted by these financial institutions and there is no doubt that they will continue their tradition to be reliable, constructive and long-lasting partners to the Government of the Republic of Macedonia.

The Government of the Republic of Macedonia has a complex and comprehensive program of reform activities which will be carried out in the coming mid-term period. The fast and serious implementation of the structural reforms is the key factor for the dynamic of the economic growth, and it is also important from a perspective of the preparations for association with the European Union.

The priority objectives of the macroeconomic and the institutional plan in the coming mid-term period are as follows:

- ◇ maintenance of the achieved price stability on permanent basis;
- ◇ acceleration of the structural reforms;
- ◇ realization of high rates of economic growth;
- ◇ high level of social protection; and
- ◇ harmonization of the legal regulation with the EU standards.

Projected macroeconomic goals for the forthcoming mid-term period are:

- ◇ Targeted average growth rate of the GDP of 5% - 6 % per annum;
- ◇ 7% - 8% export increase per annum;
- ◇ Labour productivity to increase at annual average rate of 3% and overcome the wage increase;

- ◇ Inflation to remain on an annual level of 5%;
- ◇ Downsizing the public revenues and expenditures participation in the GDP from the actual 36%-37% to 33%-34%;
- ◇ On a long-term basis, the central budget will be generally balanced, the public sector deficit will not exceed 1% of the GDP in average. In the short term, some deviations of the balance are possible;
- ◇ The Current account deficit of the balance of payments, which in the period 1995-1998 was in average 8% of the GDP, is forecasted to be lowered under 5% of the GDP by 2005;
- ◇ The gross investments are expected to increase from the actual 21% of the GDP to 27% of the GDP, and similar increase is expected at the gross domestic savings.

Monetary and Fiscal Policy

The main goal of the monetary policy so far, but also in the future, is maintaining a low inflation level that would not exceed 3% - 4% per annum. The exchange rate of the Denar is expected to remain the main intermediary target of the monetary policy, with a possibility of careful introduction of some more flexibility with respect to the existing - practically fixed regime of the exchange rate.

The development of the banking system has been determined by the banks rehabilitation and reconstruction and breaking up the banking system oligopoly structure. The entrance of a foreign strategic investor in few of the Macedonian banks, the announcement for sale or merger of banks, are huge steps in direction of reforming the banking system, increasing its efficiency and creating a sound competition. A stronger competition among the banks and the expected increase of the savings will enable the reduction of the active interest rates, and faster growth of the investments and the economy as a whole.

Reform Activities

The main goals of the reform activities in the coming mid-term period are:

1. ***Completion of the privatization process*** and creating a dynamic, efficient and fast growing private sector;
2. ***Progressive liberalization of the trade policy*** oriented towards integrating into the common European market and more dynamic inflow of foreign capital; and
3. ***Creating efficient and contemporary legislative and institutional framework*** that will be harmonized with the European standards.

In order to achieve these goals, it is indispensable to carry out a set of compatible reforms in the three key sectors of the economy: (1) monetary sector, foreign exchange system and banking, (2) fiscal and (3) real sector.

(1) Main objectives of the reforms in the **monetary sector, foreign exchange system and banking** are:

- ◇ introducing an up-to-date banking system to perform effective allocation of the financial resources;
- ◇ strengthening and promoting the competition in the banking system by giving incentives to the entrance of foreign banks;
- ◇ high level of liberalization in the foreign exchange operations;
- ◇ increased domestic savings, as a condition for higher investments;

Anticipated reform activities are:

- ◇ Adopting a new modern **Banking Law**, that will be in compliance with the EU directives and the International accounting standards.
- ◇ A big step forward regarding re-gaining and strengthening the savers' confidence has been made by enacting the **Law on Frozen Foreign Exchange Savings Deposits, frozen in the National Bank of Yugoslavia**. Still, this will not be the only measure for re-gaining savers' confidence. An upgrading of the **deposits insurance system (fund) – the Law on state owned deposit insurance fund has already been enacted**, and also a complete reconciliation of the supervision standards of the National Bank of the Republic of Macedonia with the Basel principles is planned, as well as strict application of the **supervision standards** by the National Bank, especially towards the banks which operate in a risky manner with the citizens and companies' funds.
- ◇ Adoption of new **Law on foreign exchange operations** is anticipated.
- ◇ New **Law on Foreign Trade Operations** and new **Law on Foreign Credit Relations** will be included in the reform packet.
- ◇ **Payment operations reforms** by which payment operations of the economic entities will be transferred in the banks.

(2) Main objectives of the reforms in the **fiscal sector are:**

- ◇ Rationalization of the State functions and placing them within the frames that correspond with the economic possibilities of the country.
- ◇ Reduction of the public expenditures and creation of a greater space for the private sector.
- ◇ Creation of a small, modern and efficient public administration;
- ◇ Establishment of a modern tax system for development of the economy and creation of working places and higher economic growth;
- ◇ Reduction of the tax evasion and strengthening the tax control;

Anticipated reform activities:

The reforms of the public administration presents a complex project, which will be supported financially and technically by the World Bank, through the Public Sector Adjustment Loan Arrangement (PSAL). These reforms have become legitimate by enacting the Law on Civil Servants, Law on the Government of the Republic of Macedonia and the Law on organization and operation of the public administration bodies. At the same time, the following activities are set as priorities:

- ◇ **Reduction of the excessive number of employees in the public sector;**
- ◇ **Separation and privatization of specific activities and institutions from the public sector** that have enough special revenues, and are not of an essential importance for the function of the Ministries;
- ◇ Establishment of a complete control over the public expenditures by creating a **Treasury system;**
- ◇ **Pension system reforms** forecasting existence of a private system besides the mandatory state system;
- ◇ Macroeconomic unit and budget planning unit are established within the Ministry of Finance;
- **Tax system reform.** The initial and the most important step has been made with VAT introduction on 1st April 2000. The Government plans for the tax reforms to continue in direction of re-orientation from direct towards indirect taxes.

(3) Main objectives of the reform activities in the **enterprise sector are:**

- ◇ Creation of sound and dynamic private sector as a generator of the economic growth;
- ◇ Unemployment rate reduction, which is the key problem in the Macedonian economy;
- ◇ Protection of the ownership relations;

Anticipated reform activities are:

- ◇ **Protection of the ownership relations.** The Government has passed the two key systemic laws in this field: **Law on Denationalization** and **Law on payment of frozen foreign exchange savings deposits.** Thus, not only one-decade injustice has been redressed, but also clear signals to the international public have been sent that the private property in the Republic of Macedonia is guaranteed.
- ◇ **Private Sector Development and new employment.** If the forecasted labour productivity average growth of 3% is realized, it still leaves enough space for an average employment annual growth of around 2,5%.
- ◇ The process of selling/closure of **the loss making enterprises** is commenced, and it is an integral part of the FESAL Arrangement with the World Bank which is agreed and will be signed in November this year. At the same time, the Government supports the privatization process only of the enterprises that really experience on-going difficulties and make losses, but are estimated as profitable ones in the long term.

- ◇ With respect to financial discipline improvement, set of Laws have been passed: **Law on Bankruptcy, Law on modification and amendments to the Law on Executive Procedure, Law on Contractual Mortgage**; while the **Law on Money Laundering Prevention and the Law on Moveable Pledge** are in procedure. The **Central Register** is established, which, *inter alia*, will register the shares and the debts of the firms towards the banks and the collateral issued by them to each bank and similar.
- ◇ With respect to **simplifying the procedure for registering the enterprises**, modifications of the existing legal procedures are in progress. At the same time, the new electronic register of companies and trade associations will be put in function.
- ◇ The basic problem that **the small and medium enterprises** are faced with is the difficult access to financial funds. In order to solve this problem, apart from intensifying some special credit lines for small and medium enterprises, the Government makes efforts to agree with IFC and EBRD on establishment of a **special bank for credit support for micro and small enterprises**.
- ◇ The Government is not satisfied with the extent of **foreign direct investments** in the Republic of Macedonia so far, although the situation in the last two years is a bit more favorable compared to the period 1992-1997. In order to attract and promote investments, new solutions regarding the speed and the procedure for company's registration are planned, as well as protection of the industrial property rights and other ownership rights, while stimulating tax deductions have already been conveyed.

(4) Other reform activities are:

- ◇ **Pension system reform**, which anticipates establishment of two pension pillars: public (already existing) and private. The private pension fund will be in function by the end of 2001;
- ◇ **Capital market (the Stock Exchange)**. The **Law on Issuing and Trading with Securities** has been adopted, which, together with the **Law on Investment Funds** and settlement of the problem regarding the frozen foreign exchange savings through electronic records (bonds), will move the capital market.

Distinguished Ladies and Gentlemen,

Finally, allow me once again to express my pleasure from the World Bank and IMF activities in the Republic of Macedonia concerning the implementation of the reforms in the economy and to convey my gratitude to the host city, and the Bank and the Fund employees for the successful organization of the 2000 Annual Meetings.

Thank you