

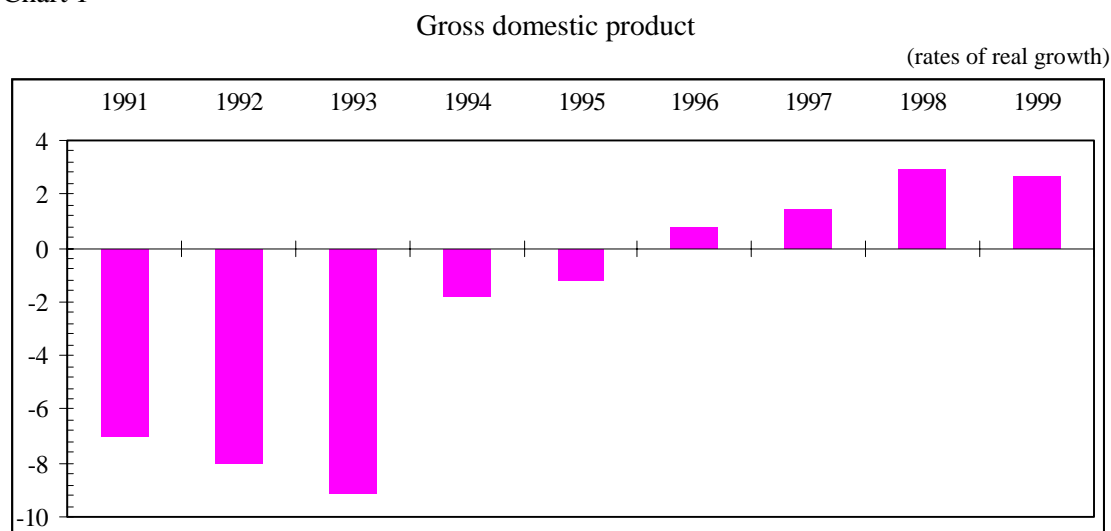
II. Economic developments in the Republic of Macedonia

2.1. Gross domestic product

In 1999, the Macedonian economy was faced with a strong external shock caused by the escalation of the crisis in FR Yugoslavia. The shock was reflected on both the supply side and the demand side and resulted in a revision of the initial estimates for the growth of the real gross domestic product in 1999. Hence, instead of the projected growth of real GDP by 6.5% in 1999, it was expected that the economic activity in the Republic of Macedonia would decline by 4.0%. In addition, the uncertainty regarding the beginning and the duration of the military action in FR Yugoslavia was the main factor limiting the degree of accuracy of the revised projection for the GDP in the Republic of Macedonia in 1999.

Contrary to the pessimistic forecasts for contraction of the economic activity, the real GDP in the Republic of Macedonia increased by 2.7%. The registered economic growth is not due to the intensified structural reforms in the real and financial sphere, but rather to the greater utilization of the existing capacities and the increased production in the second half of 1999. The main factors which contributed to the positive growth rate of the real GDP in 1999 are: a) the short-term influence of the negative effects from the war in FR Yugoslavia over the Macedonian economy; and b) the responsiveness of the supply to the increased demand by nonresidents staying in the Republic of Macedonia and Kosovo. The achieved real growth rate of GDP of 2.7% represents a continuation of the three-year trend of accomplishing modest, but positive growth rates. In nominal terms, the GDP in the Republic of Macedonia in 1999 equaled Denar 195,284 million³ and is by 2.3% higher relative to 1998. The registered nominal GDP is equivalent to US Dollar 3.4 billion⁴ and the GDP per capita equals US Dollar 1,801. The positive growth rate is of significant importance if one takes into account the extremely unfavorable circumstances under which it was achieved.

Chart 1



With respect to structure, from the supply side, except for the industry and mining, where a 2.5% contraction in the economic activity was registered, all other components registered an increase in the value added. The main generators of the registered growth of GDP in 1999 were transport and telecommunications (13.7%) and construction (12.2%), resulting from the intensified activities related to the road infrastructure in the country,

³ Preliminary data from the Statistical Office of the Republic of Macedonia.

⁴ The average market exchange rate of the Denar against the US Dollar for 1999 was used in the transformation.

catering and tourism (9.2%), as a result of the increased presence of nonresidents in our country, and trade (6.7%). Hence, the unfavorable developments in the industry and mining, caused by the worsened operating conditions due to the influence of the external shock were not only fully compensated with the increase in the tertiary activities, but also there was an increase in the value added.

From the aspect of final GDP use, the 1999 increase was determined by the increased net exports of goods and services by 3.9%. In addition, the exports of goods and services increased its share in GDP by 0.5 percentage points reaching 44.0% of GDP. On the other hand, the share of the imports of goods and services in GDP in 1999 declined by 3.4 percentage points, and was brought down to 54.4%.

Table 4

The use of the real GDP

	Indices (previous year = 100)			Structure in %		
	1997	1998	1999	1997	1998	1999
Gross Domestic Product	101.4	102.9	102.7	100.0	100.0	100.0
Domestic consumption	103.0	103.2	98.9	113.3	114.4	110.4
Final consumption	102.0	103.6	100.5	90.9	91.4	89.4
Private consumption	103.1	103.4	101.0	73.7	73.8	72.4
Public consumption	97.6	104.1	98.6	17.2	17.6	17.0
Gross investments	107.5	101.9	92.5	22.4	23.0	21.0
Investments in fixed assets	95.7	101.5	101.2	17.4	17.8	17.9
Inventories	182.8	103.1	62.4	5.0	5.2	3.1
Exports of goods and services	129.3	118.9	101.5	36.9	43.5	44.0
Imports of goods and services	126.4	115.3	94.3	50.2	57.8	54.4

In 1999, the domestic consumption (which comprises the final consumption and gross investments) declined by 1.1%, which is primarily due to its considerable contraction in the first half of the year, as a result of the uncertainty and risk during the crisis in the region. The main generator of the decline in domestic consumption were gross investments, which decreased by 7.5% in 1999, thus reducing their share in GDP from 23.0% in 1998 to 21.0% in 1999. The decline is entirely due to the decline in inventories in 1999 (by 37.6%) compared to the previous year. In addition, as a result of the investments in road infrastructure (i.e., in the construction), investments in fixed assets increased by 1.2%, but their share in GDP remained on a relatively low level of 17.9%.

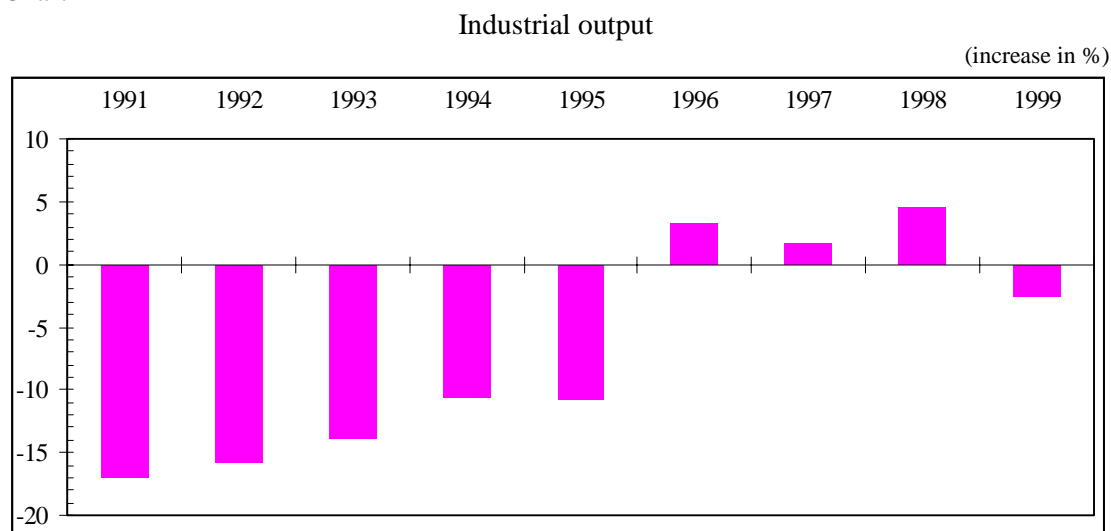
In 1999, final consumption was by 0.5% higher compared to the previous year, but in spite of that, its share in GDP decreased by 2.0 percentage points. From the point of view of the final consumption components, in 1999 private consumption increased by 1.0%, but its share in GDP fell by 1.6 percentage points. At the same time, public consumption decreased by 1.4%, which caused its share in GDP to decline by 0.6 percentage points.

2.2. Domestic output

Contrary to the period 1996-1998, in 1999 the GDP growth in the Republic of Macedonia was not determined by the increased production activity in the industrial sector. Thus, the volume of the industrial output in 1999 is lower compared to 1998 by 2.6%. The fall of the industrial output was exceptional in the January - May 1999 period, when compared to the same period of 1998 a decline of 12.5% was registered. That is due to the following factors: a) limited access of the iron and steel industry products to certain foreign markets due to announcements for imposing anti-dumping measures from EU and the USA for exports of those products; b) the implementation of administrative measures by FR Yugoslavia in the second half of 1998 and in 1999, limiting the flow of Macedonian products to and through this country; c) escalation of the crisis in the region, culminating in military

activities in Kosovo. For the Republic of Macedonia, it meant loss of the market of the second most important trade partner, as well as hindering exports of Macedonian products in other countries due to the closed transport corridor through FR Yugoslavia. Discouraged by the lost possibility for imports of the necessary raw materials, as well as considerably deteriorated exports of finished products, the domestic industrial producers considerably slowed down their production activity.

Chart 2



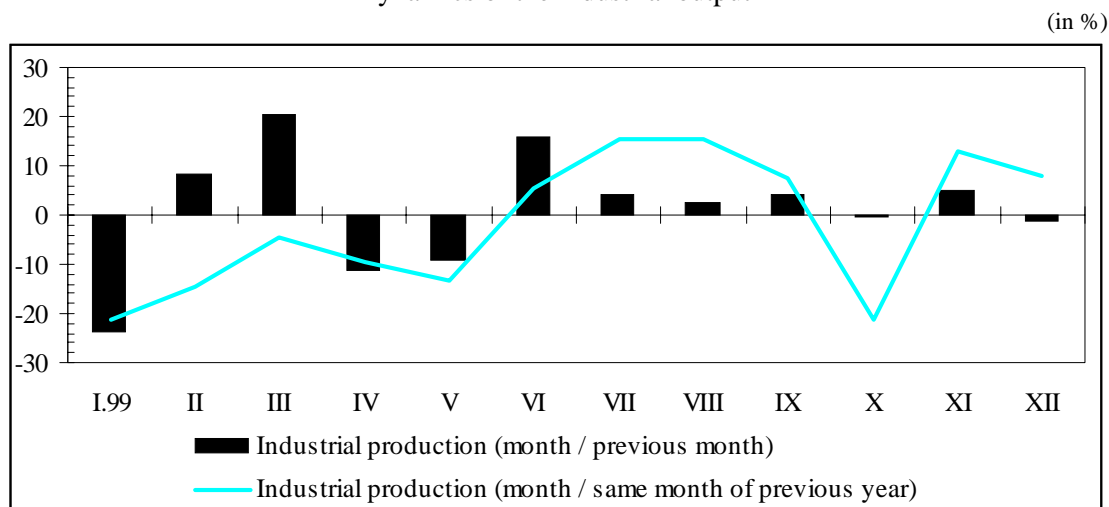
After the end of the war in FR Yugoslavia, favorable environment for a revival of the industrial output in the Republic of Macedonia was created. Thus, in the June - December 1999 period, the fall of the industrial output was considerably relented. That was a result of: a) decline of the political risk and uncertainties with the domestic producers; b) intensified export activity toward the Yugoslav market after the end of the military activities in Kosovo; c) re-established access to the transport corridor through FR Yugoslavia; d) facilitated supply of the producers with raw and reproduction materials; e) access to foreign markets for certain products, which contributed in re-opening of the production capacities in iron and steel industry, taking into consideration that the announced implementation of anti-dumping measures did not occur.

From the structural point of view, in 1999, decline in the industrial output was registered in all three components. The most significant decline was registered in the production of means of production (by 8.6%), while the production of reproduction materials and the production of consumer goods decreased by 2.5%, and by 2.0%, respectively.

The fall of the industrial production in 1999 is comprehensive, considering that in 23 out of 32 analyzed industrial branches, the output in 1999 is lower than in 1998. The industrial branches that reduced their output account for 72.8% of the total industrial output. With respect to the most important industrial branches, the fastest decline of 21.0% is registered in the production of base chemical products, which is primarily due to the dependence of this industrial branch on the market in FR Yugoslavia, as a source of raw materials and as a sales market. Considerably impeded exports, especially in the first five months, caused the production of beverages in 1999 to be lower by 16.2% than the respective one in 1998. Considerable decline is registered in the non-ferrous metal production and in the iron and steel industry, equaling 15.1% and 10.6%, respectively. On the other hand, the most significant increment in 1999 relative to 1998 is registered in the: production of construction materials (25.1%), as a result of the enhanced exports demand in FR Yugoslavia (primarily in Kosovo) in the process of reconstruction after the war; tobacco industry (24.1%), which is due to opening of the Yugoslav market after the war; and chemical products industry (10.7%).

Chart 3

Dynamics of the industrial output



In respect to dynamics, the most significant monthly fluctuations in the industrial output were registered in January (a decline of 23.6%), March (an increment of 20.6%) and June (an increment of 15.9%). The decline of the industrial output in January is due to seasonal factors, as well as to uncertainties concerning the outcome of the crisis in the region. Substantially high monthly increment of the industrial output in March 1999 is a result of the increased tobacco production due to the delayed tobacco purchase, while the June increment is because of the end of the war in Kosovo, resulting in relaxed uncertainties of the producers and re-established access to the Yugoslav market and to the transport corridor for exports of Macedonian products.

In 1999, the volume of agricultural output in the Republic of Macedonia was by 0.5% higher than in the previous year. The main generator of the realized increment is fruit processing, which in 1999 compared to 1998 increased by 25.5%. In 1999, an increment is registered in the livestock breeding (of 1.2%), while in the husbandry and vine-yarding the output declined by 0.6%, and 3.0%, respectively.

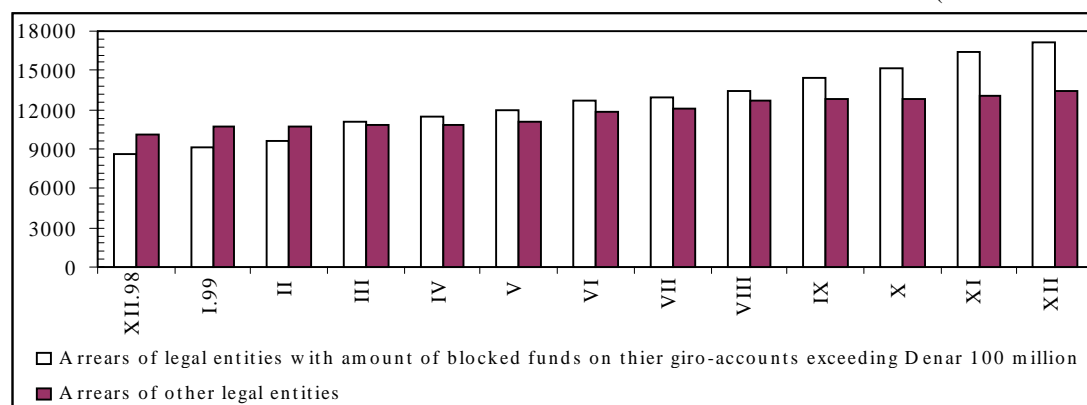
Having in mind the minimal fluctuations in the labor market in the industrial sector, the labor productivity in industry in 1999 followed the developments in the industrial output. Thus, the divergent developments in the industrial output in the first and the second half of the year had the same effects on the labor productivity in industry. The unfavorable external factors in the first half of 1999 led to substantial decline of the labor productivity in industry, and in the January - May 1999 period, compared to the same period of the previous year, it was lower by 8.4%. The positive developments after the end of the war in FR Yugoslavia mitigated the fall of the labor productivity in industry, but it was not fully neutralized. Thus, on average, the labor productivity in industry in 1999 relative to the previous year, decreased by 1.3%. In 1999, the reduced labor productivity in industry and the wage increment caused the real unit labor costs to increase by 4.4% on average, compared to 1998, which unfavorably affected the enterprises' competitiveness on the domestic and foreign markets.

In 1999, the problem of global lack of liquidity of the Macedonian enterprises expanded, which is reflected in the high increase of the inter-enterprise arrears. At the end of 1999, relative to the end of 1998, the enterprises' arrears were higher by 62.6%, thus reaching Denar 30.542 million. In addition, in 1999 they were continuously increasing, on average by Denar 980 million, or by 4.1% per month.

Chart 4

Enterprises' arrears

(in Denar million)



However, for more precise analysis one should take into account the structure of enterprises with arrears. Thus, the total dynamics of the enterprises' arrears in 1999 was influenced by approximately fifty legal entities. Those are economic subjects with amount of blocked funds on their giro-accounts exceeding Denar 100 million each, which account for 56.0% of the total arrears. In this group of enterprises, the arrears in 1999 grew with accelerated dynamics (on average by 5.9% per month), and on annual basis (December 1999 / December 1998) the increment equaled 97.1%. Apart from them, the arrears of the enterprises with amount of blocked funds on their giro-accounts less than Denar 100 million each, grew on average by 2.4% per month in 1999, or by 33.0% on December basis.

2.3. Prices

In spite of the extremely unfavorable external influences on the Macedonian economy, caused by the escalation of the crisis in FR Yugoslavia, the price stability in the Republic of Macedonia was maintained in 1999. Thus, on annual basis (December 1999 / December 1998) the inflation rate, measured through retail prices, equaled 2.3%. On average, in 1999, compared to 1998, a deflation, i.e. negative annual rate of inflation, of 1.1% was realized. In addition, the inflation rate was characterized with divergent movements in 1999, caused by the different working conditions in the first relative to the second half of 1999.

In the first half of 1999, the deflationary developments continued, caused by: a) the fall in the prices of raw materials on the world stock markets which lowered the prices of the imported inputs; b) the explicit contraction of aggregate demand (private and investment) and increased risk and uncertainty of households and enterprises. With the supply level unchanged, the reduced demand determined the fall in prices; c) increased supply on the domestic market and the fall in the prices of agricultural products, (as one of the major determinants of retail prices developments), as a result of the inability to export them on traditional foreign markets.

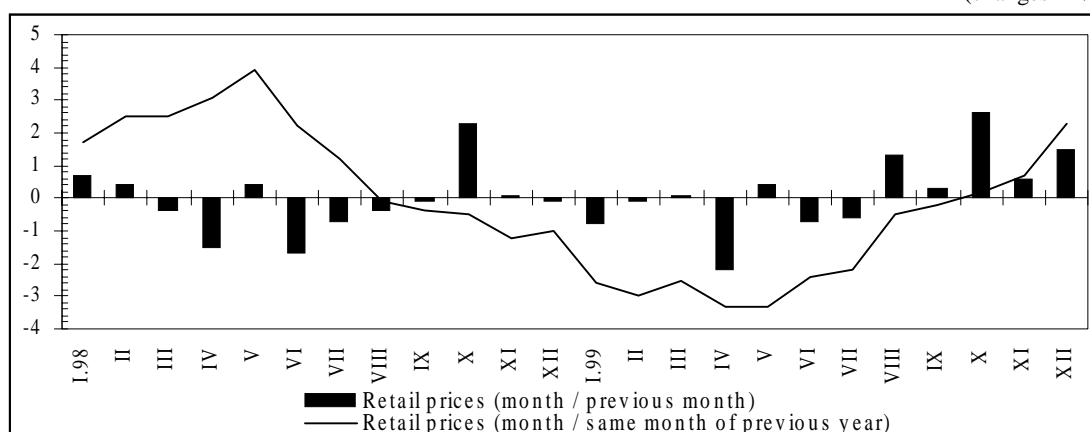
After the end of military activities in FR Yugoslavia, in the second half of the year more favorable working conditions were created, which mitigated the deflationary trend in the Republic of Macedonia. Namely, in that period as a result of the reopening of the market in FR Yugoslavia and re-established access to the transport corridor through FR Yugoslavia, the export demand for agricultural and food products increased considerably. Herewith, the supply on the domestic market decreased, and consequently, the prices of produced goods and services increased. Related to this is the increment in the non-food industrial products in the second half of 1999, initiated by the increase in the prices of oil products, which is due to the higher crude oil prices on the world market.

In respect to dynamics, in five months of the year a deflation was registered, while in the other seven months the retail prices realized positive growth rates. The most emphasized fluctuations of the retail prices were registered in April (fall of 2.2%), October (growth of 2.6%) and December (growth of 1.5%). The April and October fluctuations were a result of seasonal factors when usually there is a change in the electricity tariff, while the December growth is due to the more expensive oil products stemming from the increase in the prices of crude oil on the world market, as well as from the seasonally increased demand for goods and services before and during the New Year holidays.

Chart 5

Retail prices

(changes in %)



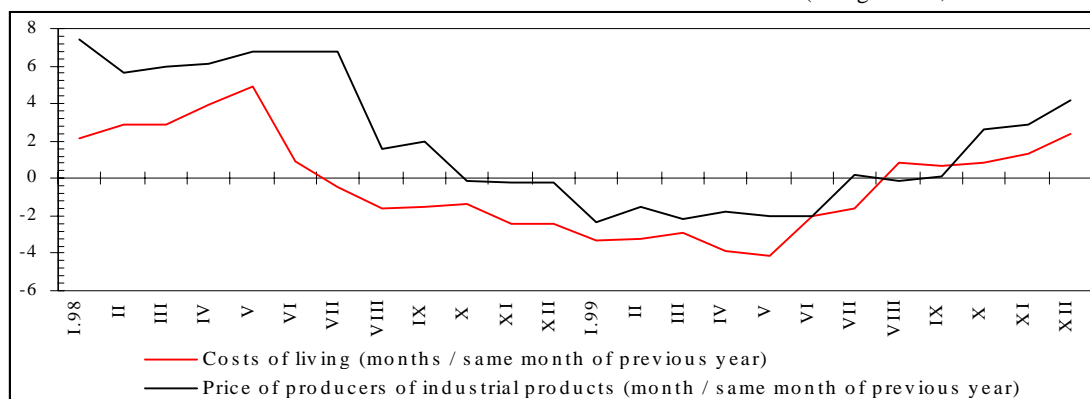
From the structural point of view, in 1999, compared to 1998, an increase was registered only in the prices of agricultural products (6.1%) and in the prices of services (0.3%). The prices of all the other groups of products decreased, with the most significant fall being registered in the prices of industrial-food products (4.0%) and the prices of beverages (3.1%).

Factors that determined the developments of retail prices had a decisive influence on the dynamics of the costs of living. Thus, the costs of living in 1999 compared to 1998, are lower by 0.7% on average, while on annual basis they increased by 2.4%. In addition, the most significant monthly changes of the costs of living are registered in April and October, which is due to the seasonal factor - the change in the electricity tariff.

Chart 6

Prices of producers of industrial products and costs of living

(changes in %, on annual basis)



The prices of producers of industrial products in 1999, relative to 1998, remained almost unchanged. However, this does not completely express their dynamics during the year. Thus, in the first half of 1999 the prices of producers of industrial products realized a negative growth rate of -2.0%. That is primarily due to a combined influence of unfavorable external factors that contributed to the increased supply of products on the domestic market. Contrary to that, in the second half of the year, the more favorable pre-conditions enabled the revival of the foreign trade. That led to an increased export demand, acting in direction of neutralizing the negative growth rate of the prices of producers of industrial products, bringing it to the 1998 level. From the point of view of different branches, on average, in 1999, compared to 1998, the biggest increment was registered in the prices of producers of beverages (by 4.0%), prices of producers in tobacco industry (by 3.6%) and the prices of producers of construction materials (by 2.5%). Actually, the producers in these branches reacted with a price increment to the significantly increased demand. The annual growth rate of the prices of producers of industrial products (December 1999 / December 1998) equaled 4.2%. This annual growth was initiated by the increment in the prices of oil products, which occurred in couple of occasions in the second half of 1999.

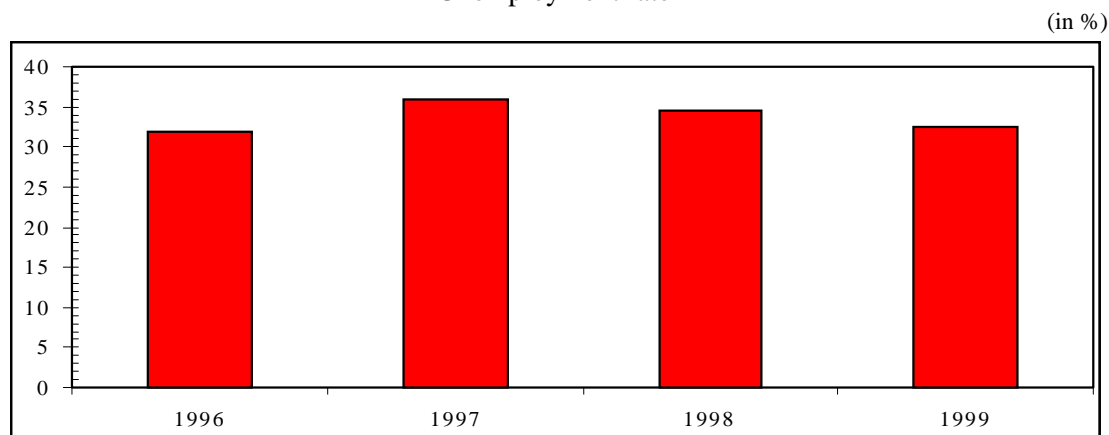
From the structural point of view, in 1999, the components of the prices of producers of industrial products realized divergent developments. Namely, the prices of means of production were by 1.7% higher than in 1998, the prices of producers of consumer goods decreased by 0.5%, while the prices of producers of reproduction materials remained unchanged.

2.4. Labor market

The declining trend in unemployment, which started in 1998, continued in 1999 as well. According to the Labor Force Survey⁵, the unemployment rate, calculated as share of unemployed persons in total labor force⁶, in 1999, compared to 1998, declined by 2.1 percentage points and equaled 32.4%. In spite of the positive developments in the labor market, the unemployment rate in the Republic of Macedonia in 1999 is still on a very high level. The high unemployment remains the biggest problem of the Macedonian economy. The structural aspect of this problem shows its long-term character and the need of its resolving together with successful restructuring of the Macedonian economy.

Chart 7

Unemployment rate



⁵ The Survey was conducted in the period April 26 - May 6, 1999 by the Statistical Office of the Republic of Macedonia. It is based on a sample of 7,200 households, and is in accordance with the standards of the International Labor Organization (ILO).

⁶ The total labor force includes employed and unemployed persons between the age of 15 and 80.

According to the Survey, the number of unemployed persons in 1999 equaled 261,452, which is by 22,612 persons, or by 8.0% less than in the previous year. In terms of the population structure by age, the highest unemployment rate of 62.9% is registered among the population aged between 15 and 24, although it is by 8.0 percentage points lower compared to 1998. From the gender structure point of view, in spite of the considerable fall of 4.3 percentage points, the unemployment rate of the female population of 33.3% is still higher than the one among the male population, which equaled 31.9%.

The number of employed persons in 1999 increased by 5,460 persons, or by 1.0% compared to 1998, and equaled 545,222. In spite of that, the employment rate calculated as share of the employed persons in the total population over 15 years of age remained on the level from the previous year and equaled 35.9%. That emphasizes the fact that the decline in unemployment was not followed with appropriate increase in employment, but it mainly resulted in an increment (of 4.7%) of the inactive population.

From the structural point of view, the increase in employment in 1999 is a result of the increased number of employed persons in the economic sector, while in the non-economic sector it remained on the 1998 level. Namely, according to the Labor Force Survey the number of employed persons in the economic sector at the end of 1999 reached 440,341, which is by 1.2% more than in the previous year. The majority of them were employed in industry and mining (151,063 persons, or 27.7% of the total number of employed persons) and in agriculture and fishing (111,071 persons, or 20.5% of the total number of employed persons). At the end of 1999, 103,948 persons were employed in the non-economic sector.

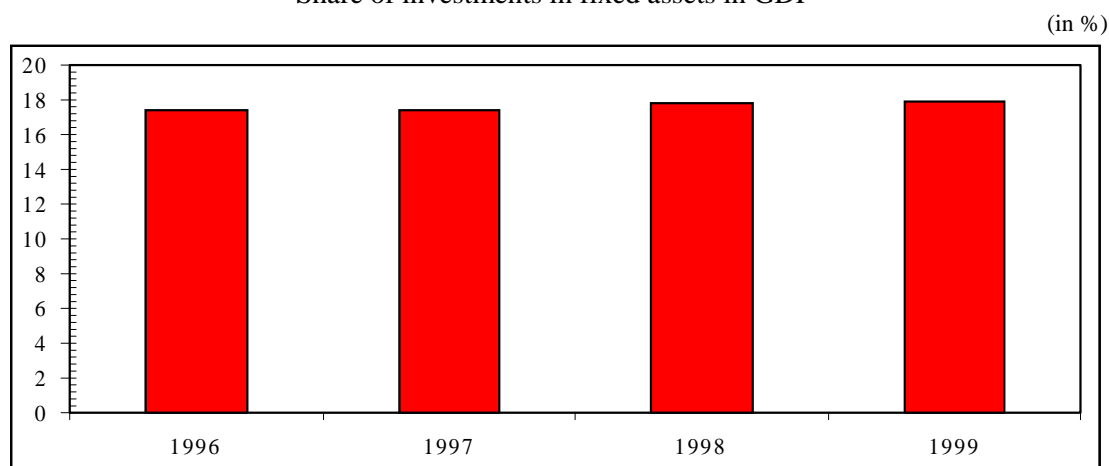
2.5. Investments

In 1999, a total amount of Denar 34,949 million was invested in fixed assets, which in comparison with the previous year is a nominal increment of 2.8%, and real increment of 1.2%. The intensification of the investments is relatively modest, which is due to the increased uncertainty with the economic subjects in the period during the war in FR Yugoslavia. However, in spite of the pessimistic expectations, investments in fixed assets in 1999 increased, as a result of the increased investment demand registered mainly in the period after the end of the war in FR Yugoslavia.

The growth of the investment activity resulted in a minimum increment of the share of investments in fixed assets in GDP from 17.8% in 1998 to 17.9% in 1999. Nevertheless, the level of investments in fixed assets is still low and insufficient for generating more dynamic economic growth. The low level of domestic savings and the high price of the domestic credits, fostered with the effect of increased political risk during the war in the neighborhood, were the main factors that determined the insufficient volume of investment activity in 1999. In this direction was the influence of the reduced inflow of foreign capital in terms of foreign direct investments.

Chart 8

Share of investments in fixed assets in GDP



Contrary to 1998, when considerable share of the investment activity was financed through foreign direct investments⁷, in 1999, a considerable contraction of this kind of investments was registered. Namely, in 1999, the foreign direct investments amounted to US Dollar 24 million, which compared to the previous year is a decline of US Dollar 94 million, or by 79.7%. The excessive fall of the foreign direct investments in 1999 is due to the increased political risk, determined by the escalation of the crisis in the region. The contraction of foreign direct investments caused their share in GDP to be reduced from 3.2% in 1998 to 0.7% in 1999.

2.6. Fiscal policy⁸

The fiscal policy is an integral component of the macroeconomic frame, whose successful implementation is of tremendous importance for realization of the projected macroeconomic goals in the Republic of Macedonia. In 1999, the fiscal policy makers in the Republic of Macedonia were faced with extremely unfavorable effects from the external shock, expressed through high and excessive burden on the Government budget. Namely, the enormous number of refugees, in some stage exceeding 10% of the Macedonian population, who came to the Republic of Macedonia during the war in FR Yugoslavia, imposed the need for financing their temporary stay from budget funds. Nevertheless, in spite of the unfavorable external influence, there were no considerable disturbances and the Central Government managed to maintain the budget balanced.

2.6.1. Public revenues

In 1999, the total public revenues in the Republic of Macedonia amounted to Denar 87,903 million, which is by Denar 1,946 million, or by 2.3% more than the public expenditures. In 1999, the projected revenues of the Central Government in the Republic of Macedonia, according to the supplementary budget in December 1999, amounted to Denar 50,300 million. During the year, Denar 50,477 million were collected, which is by 0.3% more than projected.

In 1999, the primary revenues (tax and non-tax revenues) accounted for the largest part of the revenues (88.6%) and reached Denar 44,727 million, which is by 3.2% more than

⁷ Foreign direct investments are investments of individuals and legal entities from abroad in our enterprises with long-term interest, whereas the foreign investor owns at least 10% of the total value of the domestic enterprise.

⁸ Data source: Ministry of Finance.

projected. From the structural point of view, 93.6% of the total primary revenues came from tax revenues. In 1999, they equaled Denar 41,851 million, and exceeded the projected level by 3.1%. In addition, except for the profit tax revenues, the budget revenues in all other categories were higher than projected. On the other hand, in 1999 the non-tax revenues amounted to Denar 2,877 million, which is by 4.8% higher than projected.

Among the most important tax revenues, in 1999, the excises had the most significant share in the total budget revenues of 21.1% (2.9 percentage points lower than in 1998). The revenues from personal income tax and sales tax in the total budget revenues accounted for 20.3%, and 19.7%, respectively. Among other important tax revenues, the custom duties participated with 16.4%, while the share of the profit tax revenues equaled 5.1%.

The enormous number of refugees from FR Yugoslavia, as a consequence of the military activities in this country, was a considerable burden on the budget in 1999. Additional funds in the budget for covering such expenditures caused by the crisis in the region and the large number of refugees, were obtained through borrowing from abroad, and on the basis of transfers and donations. Namely, these two items accounted for 11.3% of the total budget revenues, reaching total amount of Denar 5,718 million. In 1999, on the basis of borrowing from abroad Denar 3,331 million were collected, which is by 26.6% less than projected. Total transfers and donations in 1999 amounted to Denar 2,387 million and they were realized in the second half of the year.

Total revenues of the social funds in 1999 reached the amount of Denar 37,426 million. The largest share refers to revenues of the Pension and Disabled Insurance Fund, which amounted to Denar 21,229 million⁹ in 1999. From the structural point of view, the wage contributions, with a share of 67.4%, are the dominant financing source in this Fund. According to the volume of collected revenues in 1999, the Health Fund is the second, with revenues amounting to Denar 12,068 million. The largest share of the collected revenues in this Fund came from the health insurance contributions (61.0%). In 1999, the Employment Fund revenues equaled Denar 4,129 million, out of which Denar 3,066 million were revenues from the Government budget, and Denar 1,058 million were revenues from contributions.

2.6.2. Public expenditures

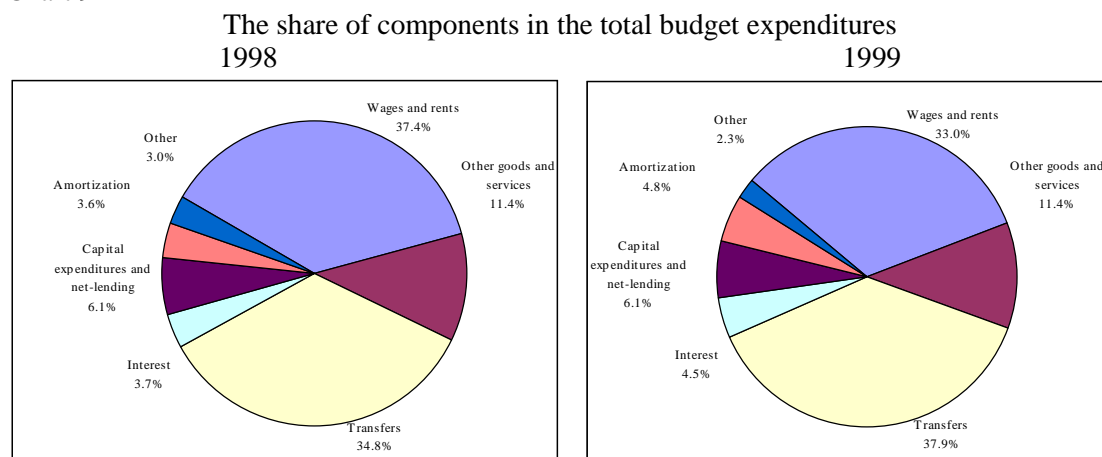
In 1999, in the Republic of Macedonia, from the Central Government budget and from the social funds' budgets a total amount of Denar 85,957 million was spent in the form of public expenditures. The total budget expenditures of the Central Government in 1999 amounted to Denar 48,461 million, and they were fully covered by the realized revenues. This is of an exceptional importance having in mind the pressure on the budget caused by the war in FR Yugoslavia. In 1999, as well as in the previous years, the unfavorable structure of the budget expenditures dominated by the current expenditures was maintained. In 1999, they equaled Denar 42,074 million, which is 86.8% of the total budget expenditures. More than a half of them (Denar 21,536 million) were a result of expenditures for goods and services. Out of that, 74.3% were expenditures for wages and salaries. In addition, in 1999 compared to 1998, a structural change of the budget expenditures components was registered, in direction of decreasing the share of the expenditures for wages and salaries (by 4.4 percentage points), primarily on behalf of the increased share of transfers (by 3.1 percentage points). Herewith, the structural change in 1999 did not result in qualitative improvement in the structure of the total budget expenditures.

The transfers were another significant item in the structure of the current expenditures in 1999, reaching the amount of Denar 18,385 million, i.e. a share of 37.9% in the total budget expenditures. Relatively higher share of these expenditures in the structure of the total

⁹ The projected value is used for December.

budget expenditures is due to the increased expenditures for refugees from Kosovo, after the escalation of the crisis in the region. Namely, for this purpose, in 1999, Denar 2,956 million were spent from the Government budget, which is 16.1% of the total transfers. At the same time, Denar 7,606 million were spent for social programs, so that these expenditures still account for the largest share (41.4%) in the total transfers. On the basis of paid interest, Denar 2,153 million were spent in 1999, which were completely intended for payment of interest on credits from abroad.

Chart 9



The capital expenditures and net lending from the Central Government budget in 1999 amounted to Denar 2,957 million, and accounted for 6.1% of the total budget expenditures. Their level is still low and insufficient to accelerate the economic growth more significantly. In addition, funds invested in railroads had the largest share in the structure of the total capital expenditures (55.2%).

With respect to other items, in 1999, Denar 2,323 million were paid on the basis of payment of principal of foreign debt, while the budget reserves amounted to Denar 107 million. At the same time, the Central Government budget deposited Denar 1,000 million in the Fund for Monetary Policy Support with NBRM. In addition, from June 1999 onwards, the obligation of the Government to deposit funds in the Central Bank was altered with the possibility for withdrawing the deposited funds, according to the inflow of funds from credits and donations.

The total expenditures of the social funds in the Republic of Macedonia in 1999 amounted to Denar 36,496 million. The Pension and Disabled Insurance Fund played the key role in the structure of the social funds' expenditures. In 1999, Denar 20,669 million¹⁰ were spent for the expenses of this Fund, out of which, the largest share (85.9%) was spent for pensions. The Health Fund spent Denar 11,692 million in 1999. At the same time, the expenditures of the Employment Fund equaled Denar 4,135 million. The largest part of them were intended for unemployment benefits (Denar 1,755 million), and for contributions for health insurance (Denar 1,347 million) of the unemployed individuals.

2.7. Wage policy

As in 1998, in 1999 the successful coordination of the wage policy with the fiscal and monetary policy continued, thus playing an important role in maintaining the price stability. Namely, the enforcement of the law restricting the growth of wages in all not entirely

¹⁰ The projected value is used for December.

privatized legal entities continued. Herewith, on one hand it had limiting effects on the private consumption, and on the other, it prevented the emergence of cost-push inflation and considerable deterioration in the competitiveness of domestic enterprises'.

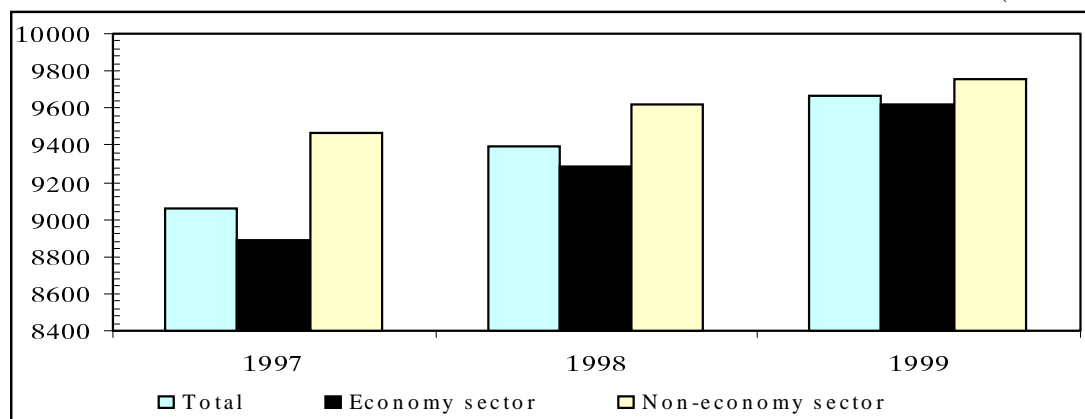
The nominal average net paid wage per worker in 1999 continued to grow, but less intensively than in 1998. In 1999, it reached Denar 9,664, which compared to the previous year is a 2.9% increment. In addition, more intensive growth of 3.6% was registered in the wages of the economic sector, than the wage increment of 1.4% in the non-economic sector. Herewith, the positive trend in reducing the discrepancy between the wages in the economic and non-economic sector continued.

In real values, the average net wage per worker in 1999 compared to the previous year increased by 3.6%. That is primarily due to the increment of the wages in the economic sector by 4.3%, while in the non-economic sector the increment equaled 2.1%.

Chart 10

Nominal average net paid wage per worker

(in Denars)



On annual basis (December 1999 / December 1998), the growth rate of the nominal average net wage paid per worker equaled 3.5%, which exceeded the average growth rate for 1999. In addition, the wages in the economic sector increased more significantly (by 4.5%) than in the non-economic sector (an increment of 1.3%). Relatively high annual inflation rate, registered in December 1999, caused the growth rate of the real net wage to be lower than the respective one of the nominal wage. Namely, the real net wage in December 1999 compared to the same month of 1998 was higher by 1.1%. This was due to the increased wage in the economic sector by 2.1%, while the wage in the non-economic sector decreased by 1.1%.