

MACEDONIA



Polity: Parliamentary democracy

Economy: Mixed statist (transitional)

Population: 2,000,000

GNP per capita at PPP \$ (1999): 4,339

Capital: Skopje

Ethnic Groups: Macedonian (66.6 percent), Albanian (22.7 percent), Turkish (4 percent), Roma (3 percent), Serb (2 percent), other (4 percent)

Size of private sector as % of GDP (mid-2000): 55

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	3.90	↓ 3.95	↑↑ 3.44	↓↓ 3.75
Rule of Law	na	na	4.63	4.63
Economic Liberalization	4.50	↓ 4.67	↑ 4.58	4.58

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita (\$)	1,742.0	2,267.0	2,225.0	1,856.0	1,752.0	1,701.0	1,685.0
Real GDP growth (% change)	-1.8	-1.2	1.2	1.4	2.9	2.7	5.1
Inflation rate	126.5	16.4	2.5	1.5	0.6	-1.3	9.2
Exports (\$ millions)	1,086.0	1,204.0	1,147.0	1,237.0	1,292.0	1,192.0	1,367.0
Imports (\$ millions)	1,272.0	1,425.0	1,464.0	1,623.0	1,711.0	1,600.0	1,968.0
Foreign Direct Investment (\$ millions)	24.0	12.0	12.0	18.0	175.0	27.0	169.0
Unemployment rate	31.4	37.7	31.9	36.0	34.5	32.4	32.1
Life Expectancy (years)	71.4	71.9	72.2	72.3	72.6	72.8	73.0

INTRODUCTION

The Republic of Macedonia (known at the United Nations as the former Yugoslav Republic of Macedonia) is a successor state of the former Socialist Federated Republic of Yugoslavia. The only republic to secede from Yugoslavia without war, Macedonia has been considered a model country in transition. But this reputation is only partially warranted. Since voting for independence in 1991, Macedonia has been a parliamentary democracy in which Macedonians and Albanians (the major ethno-linguistic communities) have shared power. Internal and regional conflicts, however, have punctuated Macedonia's statehood. Domestically, Macedonians and Albanians fundamentally disagree whether Macedonia should be a unitary or a binational state. Ethnic Macedonians insist on the former; ethnic Albanians demand the latter. Regionally, Greece and Bulgaria have opposed Macedonia's political and national existence. Athens refutes Macedonia's statehood and claims an exclusive right to the name *Macedonia*. Although Bulgaria quickly recognized Macedonia's independence, it claims that Macedonia's inhabitants are ethnic Bulgarians.

Macedonia has weathered its crises with little violence or threat of collapse, but some events have tested its stability: President Gligorov's attempted assassination in 1995, the operation of a semilegal Albanian-language university in Tetovo, and police violence in Gostivar and Tetovo in July 1997. Most recently, the Kosovo war from March to June 1999 and the influx of 360,000 refugees into Macedonian homes and camps seriously threatened the country. The war compelled Macedonia's citizens to consider essential questions about their identities. Are they primarily members of their ethnic community, regardless of its political borders? Or are they members of their country, with all its ethnic, religious, and linguistic diversity? The war's short duration and the refugees' quick repatriation obviated Macedonians' need to probe these matters thoroughly.

Macedonia, unlike Croatia and Serbia, retains the Titoist social ideology that recognizes national minorities and their rights. Even though some communities are dissatisfied with the implementation of rights, Macedonia is the most tolerant Balkan society. This has been particularly evident in the growth of the media since 1991. Whereas only state-controlled media existed previously, private print and broadcast media now abound. Newspapers and magazines are published in Macedonian, Albanian, Turkish, and Serbian. There are also 120 television and radio stations, including some that broadcast fulltime in languages other than Macedonian. The state-run Macedonian Radio and Television produces programming in all languages. The Nova Makedonija group produces Albanian and Turkish papers, in addition to Macedonian publications.

Despite favorable assessments from the World Bank and the International Monetary Fund (IMF), Macedonians believe that their economic situation has worsened. An unfavorable tax environment, unreliable banking institutions, widespread corruption, and a questionable privatization regime have discouraged foreign investments. Indeed, the opposition coalition proved victorious in the 1998 parliamentary election because it had promised economic recovery and massive foreign aid—neither of which has materialized. Consequently, Macedonia's economic and sociopolitical survival now hinges on two factors: a thriving informal economy and remittances of hard currency by *pechalbari*, people living and working abroad.

Since the Kosovo war, social and political acrimony have been increasing, more within communities than between them. The presidential election in 1999 and the municipal elections in 2000 provoked intra-ethnic accusations that the governing parties were selling out the “national” interests of their constituencies. As the Albanians engage more actively in formal politics, Macedonians worry about their influence as the “swing vote” on key issues facing the country. Macedonians are also increasingly resentful of perceived Albanian benefits derived from the Kosovo war, whether refugee relief subsidies or political concessions in higher education.

Until 1999, despite various setbacks, Macedonia had the political and social momentum to stay the course. However, although the final effects of the war are still unclear, the Kosovo war has challenged domestic economic and political assumptions. As Macedonia grapples with its domestic problems, regional instability continues to influence the country's future. Kosovo is still the greatest immediate variable, but events unfolding in Belgrade, former Yugoslavia, could soon affect the Balkans, and thus Skopje, in unpredictable ways.

Macedonia is a country in transition, but its destination is not entirely clear. Macedonians have their own state, but one poorer than the former Yugoslavia. Macedonia issues passports, but its citizens encounter visa restrictions, especially when traveling to the West. Despite having the institutions of a participatory and representative democracy, the country is still locked in domestic disputes over political legitimacy and in regional disputes over national identity. While declaratively supporting a free-market economy, Macedonia has yet to eliminate nepotism and corruption in order to facilitate its entry into the world market. And although it subscribes to international conventions on minority rights, Macedonia cannot reconcile its society as both pluralistic and integrated. For now, neither Macedonians nor Albanians can foresee concrete improvements in the short- to mid-term future. Each community continues to hold the other responsible.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
3.50	3.50	3.50	3.75

Defining and implementing democracy underpinned Macedonia's difficulties in making substantive political changes between 1991 and 1998. The Macedonian-Albanian coalition of the Social Democratic Union of Macedonia (SDS) and the Party for Democratic Prosperity (PDP) was regarded universally as continuing the former Yugoslav regime. Its inability to bridge interethnic political or social divides left Macedonians and Albanians feeling that their interests had been ignored. Widespread dissatisfaction with the coalition's handling of domestic and regional matters led to an overwhelming opposition victory in 1998. The "ultranationalist" Internal Macedonian Revolutionary Organization (VMRO) surprisingly invited the "ultranationalist" Democratic Party of Albanians (DPA) to join the government along with its other Macedonian partner, the Democratic Alternative (DA). Once struck, this "unholy alliance" promised the greatest political stability in Macedonia since independence. There was a broad consensus that if the two ethno-political extremes could find a *modus vivendi*, so could their constituencies.

Post-election optimism ended only months later, however, when NATO's Kosovo war strained the political establishment almost to the breaking point. Ethnic Macedonians, daunted by the influx of 360,000 mostly Albanian refugees from Kosovo, feared a tilt of Macedonia's ethnic ratio in favor of Albanians. Some Macedonians considered reconfederation with the former Yugoslavia—something otherwise anathema, since Serbia still considers Macedonia its southernmost province. Unprepared for this crisis, the VMRO government went into near paralysis for several weeks. Political stability, recently so promising, quickly became a vacuum filled by Western military authorities and multinational humanitarian agencies. While ethnic Albanians are grateful for the presence of foreigners, ethnic Macedonians increasingly resent their agenda, which does not necessarily match their own. Average Macedonians are convinced that there is a hidden power behind the elected government. Stability is therefore the byproduct of regional foreign intervention, rather than of genuine domestic participatory politics.

Article 20 of the constitution gives citizens the right to form political parties. Between 1994 and 1995, the number of parties peaked at 70. Today there are only 27, and of these only three are serious: the VMRO-Democratic Party of Macedonian Unity (DPMNE), the SDS, and the Liberal Democratic Party (LDP). Minor parties include the Socialist Party and the Movement for All Macedonian Action (MAAK). Macedonia's Albanians belong predominately to the DPA and PDP. Minor parties include the National Democratic Party (NDP) and the Party for Democratic Action-True Path. Other ethnic communities have formed

parties such as the Democratic Union of Serbs, the Party Democratic Progressive Party of Romas, and the Democratic Party of Turks.

The Democratic Alliance (DS) was formed in 1999 when former Minister of the Interior Pavle Trajanov abandoned the SDS. This party has yet to have a political impact. Another intra-Macedonian fissure occurred when six members of parliament from the VMRO-DPMNE unilaterally formed an alternate party called the VMRO-*Vistinska Makedonska Revolucionarna Opcija* (VMRO-VMRO). Although members of parliament may switch parties legally, this action provoked vehement, and at times violent, reactions. Beyond questioning their ethics—especially since VMRO-VMRO is not registered—some VMRO-DPMNE loyalists branded the parliamentarians as traitors and attacked their homes and families.

Various parties participate at all levels of government. The mayor of metropolitan Skopje, for example, is from the LDP, but the mayors of the capital's five municipalities are split between the VMRO and the LDP. Throughout the country, at least two Macedonian and Albanian parties have held power as mayors and city councilors. Nonetheless, actual political party membership is unknown. Polling data are generally unreliable because Macedonians mistrust such information-gathering exercises. Party rosters are not indicative of membership since parties deliberately inflate the figures. Many ethnic Macedonians do not identify strictly with any party, and most ethnic Albanians identify with one of their two major parties.

Despite growing political cynicism, voter participation has ranged between 70 and 80 percent. In the 1998 parliamentary elections and the 1999 presidential election, voter turnout was approximately 78 percent. That number fell to less than 60 percent of the total electorate in the September 2000 municipal elections; turnout for Albanians was less than 40 percent.

Women generally participate in politics at a disproportionately low level, even though they constitute more than half of the population. Nongovernmental organizations (NGOs) such as the Organization for the Emancipation, Solidarity and Equality of Women (ESE), the Center for Multicultural Understanding and Cooperation, and the American Bar Association's Central and East European Law Initiative (ABA-CEELI) have tried to raise women's political awareness and bolster their participation. Nonetheless, the role of women in politics remains marginal, and few women occupy positions of power, especially at the national level. After the 1998 elections, Dosta Dimovska of the VMRO and Radmila Kiprianova of the Democratic Alternative (DA) were appointed vice presidents. Since then, Dimovska has become the minister of interior and Kiprianova has been nominated Macedonia's ambassador to Washington, DC. Only 3.8 percent of all members of parliament were women between 1994 and 1998. Although this number doubled in 1998, the ESE maintains that Macedonia's level of female political participation is among the lowest in Europe.

Unlike voting, advocacy and lobbying are relatively uncommon in Macedonia. Several international NGOs such as the STAR Project have conducted training in developing interest groups and implementing interest-group strategies. In addition to forming political parties, citizens may strike at the workplace and hold public demonstrations. Since the collapse of pyramid schemes such as Bitola (TAT) and the closure of factories such as the Makedonka textile plant (Štip), the number of public demonstrations has increased. Defrauded TAT investors not only demonstrated but also formed an anticorruption political party. Pensioners have their own party, too.

Constitutionally, parliament is Macedonia's only effective rule-making body. It is authorized to pass laws, amend the constitution, and elect the government (prime minister), as well as to appoint the head of Macedonia's national TV and radio network. Legislative powers rest with the parliament and the prime minister, who heads the government. The president, who is chosen through direct elections, is the head of state and thus uninvolved in rule-making procedures.

As noted, the 1998 elections demonstrated Macedonia's dissatisfaction with the coalition that had governed the country since 1991. Once the VMRO, led by Ljubco Georgievski, joined forces with the Democratic Alternative (DA), led by Vasil Tupurkovski, the electorate overwhelmingly supported the opposition. Of the 120 seats in parliament, 49 went to the VMRO, 13 to the DA, and 11 to the DPA, led by Arben Xhaferi. The SDS, led by former Prime Minister Branko Crvenkovski, won 27 seats. The Party for Democratic Prosperity, the SDS's Albanian coalition partner until 1998, won 14 seats; the Liberal Democratic Party (LDP) gained 4 seats; the Socialist Party 1 seat; and the Party for the Complete Emancipation of the Roma 1 seat. Parliament elected Georgievski as prime minister; neither Tupurkovski nor Xhaferi holds a ministerial post. Most ministries are in the hands of the VMRO, but compared with the previous government, the number of Albanians at higher levels of government has increased. Members of the DPA, for example, hold important positions in the interior and education ministries.

Macedonia's parliamentary and presidential elections are staggered. Members of parliament are elected to four-year terms and the president to a five-year term in office. Eligible candidates need either signatures from 10,000 registered voters or support from 30 members of parliament. In 1999, six candidates qualified: Tupurkovski (DA), Trajkovski (VMRO), Andov (Liberal Party), Petkovski (SDS), Nexhipi (DPA), and Halili (PDP). For a first-round victory, a candidate must receive a majority of the votes cast. Otherwise, the two candidates with the most votes enter a runoff, and the one who receives a majority of votes is elected. If voter turnout falls below the legal threshold of 50 percent, though, the election must be repeated.

Presidential elections took place in October 1999. Incumbent president Kiro Gligorov, who had survived an assassination attempt in 1995, chose not to seek reelection. Vasil Tupurkovski, a former member of the post-Tito rotat-

ing federal presidency of Yugoslavia, had been considered Gligorov's natural successor. Absent from party politics since 1991, Tupurkovski formed the DA in 1998 and was responsible for developing cooperation in the VMRO-DA coalition government. When he failed to deliver on promises of Taiwanese aid, though, he quickly receded as a serious presidential contender. Tupurkovski lost in the first round of the election, and Trajkovski of the VMRO defeated Petkovski of the SDS in the second round. As expected, Albanians cast first-round ballots for the Albanian candidates but realized neither could win. Since the DPA and the VMRO are coalition partners, Albanians supported Trajkovski in the second round. His victory is directly attributable to Albanian voters.

Lacking issues on which to focus their campaigns, Macedonian opposition parties latched onto the DPA's support for an independent Kosovo. As a result, the election became a referendum on the future status of Kosovo, a matter over which Macedonian politicians have no influence. Trajkovski, whom the DPA supported, was portrayed as a dupe of the Albanians. And the VMRO, once considered the party that would foment civil war between Macedonians and Albanians, was accused of caving in to Albanian pressure. The second round of balloting only confirmed the opposition parties' suspicions that the Albanians had stolen the election. Polling-station monitors, including the Organization for Security and Cooperation in Europe (OSCE), reported numerous irregularities in western Macedonia, primarily with Albanian voters. Even though the National Election Commission and the Supreme Court required new voting in 230 districts, many ethnic Macedonians felt that President-elect Trajkovski had been co-opted by the Albanians.

Branko Crvenkovski, a former prime minister and the leader of the SDS, accused Trajkovski of stealing the election and stated that Petkovski had achieved a "moral," if not a legal, victory. The SDS's implicit message was that "Albanian" votes are irrelevant when electing a "Macedonian" candidate. If only "Macedonian" votes been counted, Petkovski would have been the victor. Macedonian opposition parties contend that since the Albanian swing vote can affect the outcome of close contests, Albanians have effectively "taken over" Macedonian politics. Rather than abating, this sentiment escalated during the September 2000 municipal election campaigns.

Civil Society

1997	1998	1999-2000	2001
3.75	3.75	3.50	3.75

Civil society is a contentious concept in former Communist states. Unfortunately, in the case of Macedonia and other newly emerging countries, development agencies and their governments frequently fail to recognize the discrepancies between Western ideals of civil society and the socioeco-

conomic realities on the ground. The fundamental schism is over civil society's role as mediator between government and society and society's ability to afford the time and resources that Western-style civil society requires. The various debates on this topic (see Janine R. Wedel, *Collision and Collusion*, 1998) often focus on the connection between civil society and NGOs. Namely, do NGOs create civil society, or does civil society create NGOs? Briefly, civil society creates the conditions that allow NGOs to emerge and function. Reciprocally, NGOs reinforce the vitality of civil society. In Macedonia, neither condition prevails.

Philanthropy and volunteerism, prerequisites for a vital nongovernmental sector, are alien concepts in Macedonia. Self-help is traditionally the domain of families or villages. Low levels of concern across traditional lines of personal responsibility constrain the development of civil society in Macedonia and, consequently, the development of nongovernmental, voluntary, and charitable organizations. Many NGOs are vestiges of Yugoslav-era organizations, which were "of" but not necessarily "for" citizens. Economic conditions and tax legislation also impede the growth and sustainability of voluntary organizations. Average Macedonians are too preoccupied with survival to work voluntarily. Furthermore, a 23-percent tax on philanthropic contributions, intended to thwart money laundering through nonprofit organizations, discourages businesses from contributing to them. A few truly voluntary organizations do exist: SOS Telephone in Skopje and Kumanovo; Daja and Majka, two Roma women's NGOs in Kumanovo; the Association of Single Mothers in Štip; and the Organization of Macedonian Women in Gostivar. Overall, Macedonians view NGOs as potential employers, particularly since foreign sources fund most of them.

In their rush to jump-start democratization, international donors insist on aid monies to seed NGOs and stimulate civil society. Macedonia's NGO sector, however, presents employment opportunities for individuals who have or are able to acquire the skills sought by international donors. Rather than promoting social cohesion around common causes, NGOs simply compete for the means to keep their members employed. The Kosovo war aggravated this tendency when international organizations shifted their operations from Kosovo to Macedonia and replaced staff that were unable to relocate. NATO and United Nations (UN) bodies such as the UN Commission on Human Rights (UNHCR) recruited heavily in Macedonia—especially among Albanians—and become one of the country's largest employers. People with previous NGO experience left domestic NGOs for the more lucrative international sector. Thus, the West's prolonged presence in Kosovo will determine, in part, when and if Macedonia's NGOs will become an engine that drives civil society.

The precise number of active NGOs in Macedonia is unknown. According to the Macedonian Center for International Cooperation's 1998 *Guide to Non-governmental Organizations in Macedonia*, approximately 300 international and domestic organizations are registered. The Basic Court, which is responsible for recording such registrations, reports

closer to 2,600 NGOs. Some of the organizations that relocated from Kosovo to Macedonia have remained registered only in Kosovo, while others have registered in Macedonia as well. Some have retained their local presence in Kosovo so that they can continue to work there. Many NGOs came directly from third countries but left Macedonia once the refugee crisis had abated.

Like political parties, NGOs inflate their membership. For example, umbrella organizations such as the Organization of Women of Macedonia claim to have thousands of members, including subgroups that represent specific ethnic communities. In reality, many groups only have only a handful of active members.

The scarcity of local donors seriously limits the organizational development of NGOs, which typically bid on projects once funding is available. Without sustained funding, NGOs are often dormant. International NGOs, including the STAR Project that worked on developing women's NGOs from 1995 to 1998, have found it difficult to convince people that cultivating capacity-building skills will prepare them to create and lead future NGOs. Still, donors like the U.S. Agency for International Development (USAID) conduct training programs and support organizations like the Institute for Sustainable Communities, which has created a group of local mentor-trainers to consult with NGOs on core organizational development problems. STAR, the Institute for Sustainable Communities (ISC), the National Democratic Institute (NDI), and other groups have issued brochures, handbooks, training primers, and other materials.

There is no tradition of civic activism in Macedonia outside governmental control. As a result, from the perspective of both the government and organizations, the role of NGOs in society remains ambiguous. Under pressure from international donors and many European organizations in which Macedonia seeks membership, the government tolerates NGOs. Accordingly, although NGOs face few procedural obstacles like registration requirements, they are neither encouraged nor considered beneficial. Having retained a centralist style of administration, Macedonia's successive governments have regarded information as the provenance of their state and have reluctantly and even unwillingly released information to NGOs and the public. NGOs have few expectations of government and rarely try to make their presence known. Whether it is a cause or an effect of these attitudes, NGOs rarely get involved in politics or lobby for legislation. However, the Movement of Ecologists of Macedonia has advocated greater environmental protection and has contributed to Macedonia's National Environmental Action Plan. Likewise, the ESE has lobbied for maternity-leave rights and other legislation in family law. Government, in both instances, has taken their advocacy seriously.

The Soros Foundation and the Macedonian Center for International Cooperation have established NGO resource centers that focus on legal and regulatory matters. Nonetheless, NGOs remain fairly passive in this area. Organizations like the Soros Foundation, the UNHCR, and the Red Cross

have received attention, especially during and after Kosovo war. Otherwise, few NGOs make a public impact. The media are apathetic toward NGOs, which are equally uninterested in educating the media. When NGOs stage public events such as protests against industrial pollution, the media cover them. But the two rarely cooperate on matters of general public concern.

The inability of Macedonian society to afford voluntary participation in NGOs remains a crucial and unsolvable problem. Without international support, many domestic NGOs would fold. Although they may levy membership fees, they collect symbolic amounts at most. Otherwise, NGOs are restricted in their ability to generate income. By law NGOs are required to report income and expenses. However, to avoid paying taxes, they typically reveal the former but not the latter. NGOs receive limited tax concessions; otherwise their income is taxed. Creating and using false receipts to write financial reports is commonplace. The myriad examples of questionable financial management have contributed to a general sense of public skepticism about the integrity of NGOs and, thus, about their importance in developing civil society.

Other interest groups and trade unions, which fall under the jurisdiction of the Ministry of Labor, are faring similarly. Unemployment and the recent growth of small businesses have diminished the role of trade syndicates. Privatization and a declining industrial sector (namely, an 80 percent fall in textiles and a 60 percent reduction in heavy machinery exports since the Kosovo war) also have created worker redundancy and smaller union membership, which unofficially is estimated at 240,000. Although Western countries are spending almost DM 400 million annually in local procurements, largely for foods and textiles, Macedonia's agricultural sector has not recovered from the war. Farming has been private since collectivization was rescinded in the 1950s. Since agribusinesses are rare, most Macedonian farmers are still private producers. International NGOs such as VOCA, a USAID contractor that specializes in agriculture, have attempted to establish commodity-based farmers' associations but with little success. Likewise, Macedonia does have professional and business associations, but they are not yet active in developing the private business sector.

Independent Media

1997	1998	1999-2000	2001
4.00	4.00	3.75	3.75

Macedonia has among the highest per capita rates of electronic media in Southeast Europe. For a population of 2.2 million people, there are 120 radio and television stations. Only 20 percent have licenses and operate legally. In contrast, readership of print publications is relatively low. There are fewer newspapers in circulation in Macedonia than in neighboring countries.

The government controls the state-run television and

radio network MRTV, which until the late 1990s was the only network with national coverage serviced by stations throughout the country. No plans exist to reform MRTV, despite demands from independent media for "public service broadcasting" that resembles the British Broadcasting Corporation. NIP Nova Makedonija publishes the daily Macedonian-language papers *Nova Makedonija* and *Vecer*, the Albanian daily *Flaka e Vëllazërimit*, the thrice-weekly Turkish paper *Birlik*, and the Macedonian weekly *Puls*. The government controls it, and approximately one-third of its shares are state owned. Since positions of responsibility in these media outlets are assigned politically rather than professionally, they are by definition "pro-government," irrespective of the party in power.

Even though all other media are privately held, some display political bias or are, in fact, the property of political parties. The pro-LDP Makpetrol Company, for example, owns TV Telma in Skopje. And until 2000, Lj. Ivanov, the president of the Socialist Party, owned Sitel TV in Skopje. The Broadcast Council has attempted to regulate broadcasting since 1998 by enforcing the licensing law. Regulations notwithstanding, unlicensed television and radio stations continue to operate without consequence. Most significantly, the licensing process has allowed two private stations, A1 TV and Radio Kanal 77, to gain national coverage.

Two Macedonian dailies (*Makedonija Denes*, which was preceded by its weekly *Denes*, and *Utrinski Vesnik*) and one Albanian paper (*Fakti*) began publishing between late 1999 and early 2000. In mid-2000, *Vest*, another independent Macedonian daily, also appeared. *Kapital*, a relatively new weekly, focuses on economic issues.

The circulation of political publications such as *Makedonsko Sonce* and *Delo* is tiny, making them insignificant players. Due to low readership, daily papers with a circulation of more than 50,000 are considered successful. Among NIP Nova Makedonija's papers, only *Vecer* reaches this level. *Nova Makedonija* claims a daily circulation of 20,000, which is doubtful, and *Flaka* only prints about 3,000 copies. Among private papers, *Dnevnik* and *Utrinski Vesnik* have a daily circulation of around 50,000 copies each. Since *Vest* is so new, accurate circulation figures are not yet available.

Macedonia has two types of television stations: several local stations that are both successful and professional, and even more stations that rebroadcast downloaded satellite signals. The first category includes A1 TV (Macedonian, Skopje), TV ART (Albanian, Tetovo), TV KISS (Serbian/Macedonian, Tetovo), TV TERA (Macedonian, Bitola), TV Festa (Albanian, Kumanovo), TV IRIS (Macedonian, Štip), and TV VIS (Macedonian, Strumica). In Skopje alone there are two fulltime Albanian stations (TV ERA and TV TOSKA), eight Macedonian stations (A1, Sitel, Telma, TV Skopje, KRT, TV 5, Amazon, Skynet), two Roma stations (BTR and Šutel), and one Serbian station (TV 96).

The airwaves are also overcrowded with radio stations that specialize in entertainment. Many local television stations have affiliated radio stations. Only Kanal 77 has na-

tional reach. In Skopje, Radio Uno, 103.7 FM, Radio Noma, and Radio Ravel are popular among Macedonians. Albanians tend to listen to Radio Vati, which played an important part during the Kosovo war by disseminating refugee-related information, especially with regard to family reunification.

Macedonians increasingly are using the Internet, but precise figures are unavailable. The high cost of computers still limits their use in the home. Internet cafes, once only found in Skopje, have become commonplace. Access to the Internet is unrestricted, with several providers in commercial competition: Ultra Communication's Unet, Informa, Macedonia On Line, and the postal service. University personnel have noncommercial access through Marnet, while the Soros Foundation offers NGOs free access through its own server.

Macedonia's moribund Union of Journalists is a continuation of the Yugoslav-era journalists' organization. In 1995, the International Research and Exchanges Board supported the Journalists' Club for Interethnic Dialogue as an alternative for young progressive journalists, but the group folded after several months. Since younger journalists tend to avoid membership in professional organizations, the number of journalists in Macedonia is unknown. Women account for more than half of working print and broadcast journalists, though they rarely hold positions of authority. However, both TV TERA in Bitola and AI in Skopje have had women editors in chief, and the head of the Union of Journalists, Maria Dimovska, is a woman.

In its 1999 *Annual Survey of Press Freedom*, Freedom House rates Macedonia as "partly free." Defined as free of government intervention, Macedonian media are largely editorially independent. Private media, however, generally reflect their owners' politics. Journalists rarely differentiate between reporting and editorializing. Thus, a medium's slant is evident both in its commentaries and in its coverage of events. Media under direct or indirect government control make no pretense of editorial independence. Parliament appoints MRTV's general director, and changes in government are reflected in national television and radio. It is also common for government to articulate its wishes to state-affiliated papers—protestations of editorial independence notwithstanding. Interventions like these usually do not affect newsgathering per se but, rather, its tone.

Chapter II, Article VI of the constitution guarantees freedom of the press and freedom of speech. It also provides protection from censorship. Despite the availability of penalties for libel, slander, and the spread of misinformation, the media have not been harassed or censored. During the Kosovo war, for example, the government publicly accused two Skopje television stations, AI and Sitel, of "irresponsible journalism" (i.e., anti-state activities), but it took no legal action. Opposition print and broadcast media also vociferously attacked VMRO during the presidential and local elections in 1999 and 2000, accusing the party of colluding with Albanians and harboring plans to dismem-

ber Macedonia. While the government refrained from legal recourse, it did resort to para-legal action. Conveniently, it discovered *Makedonija Denes's* failure to pay taxes, which necessitated the daily's closure. After a few days, public outcry forced the government to let the paper reopen.

Left to survive on circulation and advertisements, most private media would go bankrupt. The broadcast media market is oversaturated and cannot support hundreds of players. The government offers limited support to independent media by annually redistributing approximately DM 3 million that it collects in television and radio taxes. Independent media complain, however, of unfair disbursement practices. How much of this fund is disbursed, and to whom, remains a question. Generally, financially viable broadcast media are owned by individuals who can subsidize them. MRTV offers artificially low advertising rates and, thus, impedes fair competition for revenues with independent broadcast media. MRTV's financial dominance was challenged in 2000 when Hellenic Telecom purchased Sitel TV (Skopje), which the Socialist Party owned at the time. Even though major political actors own many Greek media conglomerates, Greek media differ from Macedonian media in their focus on profit. Insufficient time has passed since this sale to judge its impact.

Dnevnik is the only profitable newspaper in Macedonia. Its closest competitor, *Vecer*, is published by NIP Nova Makedonija and therefore need not show a profit. *Utrinski Vesnik* is growing in popularity and is becoming the second financially viable Macedonian-language paper. *Vest* is too new for meaningful financial analysis.

There are two national distribution networks in Macedonia. NIP Nova Makedonija owns the larger network, which caters to progovernment publications. The second, Tutun, is privately owned but also tends to be progovernment. *Dnevnik*, due to obstacles it encountered distributing an "opposition" paper, launched a virtual army of street hawkers and lowered its price from 30 to 5 *denari*. The current price is 10 *denari*. At 30 *denari*, the monthly cost of buying daily papers represented nearly 10 percent of an average salary. NIP Nova Makedonija and competing private papers also lowered their prices. Now all papers are sold on the street. The combination of street sales and lower prices has led to substantially higher circulation rates for all daily papers.

Governance and Public Administration

1997	1998	1999-2000	2001
4.00	4.00	3.00	3.75

Transparency has not been a pressing topic in Macedonia, because citizens commonly do not voice opinions on government processes—only on results. Transparency International rates Macedonia in the top 40 percent of corrupt societies. This organization measures perceptions rather than empirical indicators, and in Macedonia perceptions usually

outweigh statistics. For example, local and national elections are generally equally free and fair. Nonetheless, parties that receive less-than-expected support quickly make accusations of fraud, even when international observers have declared the voting free and fair. Macedonians generally assume that the local party in power cheats because it has access to voter rosters or registration cards. The fact that multiple parties are represented on city councils, however, is one indication that fraud, which undoubtedly does occur, is not as pervasive as the accusations might indicate.

Although parliament operates transparently, it is not particularly accessible. Parliamentary sessions are open to the public, but the public is not encouraged to attend or observe. By law, draft legislation must be announced in the *Sluzben Vesnik* (Parliamentary Gazetteer) so that the public may read and comment on it. Once legislation is in its second draft, public comment is precluded. Since average citizens seldom read the *Sluzben Vesnik*, public input on legislation is rare. The media, however, do report regularly on both the legislative and executive branches of government.

Macedonia has received criticism for increased centralization, despite legislation that devolves power to the country's 123 *opštini* (municipalities), each with its own mayor. Constitutionally, municipalities are self-administered units that are authorized to act on issues such as utilities, urban planning, and "other fields determined by law." For various reasons, though, conflicts have arisen over the exercise of this authority.

First, city councilors from opposing parties might fail to reach consensus. In Skopje, for example, one party runs the Municipal Sanitation Department but another party administers the sanitary landfill. Consequently, Skopje's solid waste goes not into the sanitary landfill but to a plain-earth landfill run by the same party heading the sanitation department. The absence of effective municipal government is often cited as the source of rural underdevelopment. The Resen municipal government is a case in point. Its failure to collect garbage from villages in its district has led to problems with water pollution and to delays in developing tourism.

Second, municipalities also have only limited access to funds. They levy and collect taxes locally and are constitutionally authorized to engage in "issues of local relevance." But they are required to remit all tax revenues and to submit budgets for financing municipal initiatives to Skopje. Local governments, consequently, complain that Skopje exercises too much control.

Lastly, observers of the Macedonian government agree that the development of a professional civil service is indispensable to the work of local governments. This, in turn, would contribute substantially to citizens' overall confidence in government. With the exception of persons who work for branches of national ministries, local civil servants are exclusively employees of local government. As with higher levels of government, people complain that local civil servants refuse to provide services without compensation. Over the past two years, several internationally sponsored workshops have been

conducted to improve the quality of local government, as well as to elevate the level of understanding and cooperation between local government and domestic NGOs.

Mayoral and city council elections took place on September 10 and 24, 2000. As noted, these elections were framed as a referendum on the performance of the VMRO-DA-DPA coalition. Specifically, the Macedonian opposition challenged the governing parties to demonstrate their patriotism by calling for early parliamentary elections if they lost support at the local level. Prime Minister Georgievski agreed to dissolve parliament if the coalition's support declined by more than 10 percent. This challenge set the stage for a month-long campaign that provoked ethnic sentiments absent since the 1998 general elections.

Framing the local elections in terms of national politics was partially due to the fact that the structures for local self-government remain underdeveloped. The 1995 Law on Self-government was followed by the 1996 Law on Territorial Division, which increased the number of municipalities from 34 to 123. Redistricting ostensibly was intended to facilitate proportional voting by creating more representative districts. Albanians, however, consider this gerrymandering because they inhabit more municipalities but in many have proportionately fewer votes. The Law on Self-Government limits the authority of municipal officials. These restrictions are not ethnically defined but, rather, affect all city governments similarly. Still, many ethnic Macedonians regard increased municipal autonomy as a step that inevitably will lead to Albanian separatism or possibly to Macedonia's outright federalization.

Consequently, the September 2000 elections reflected national, rather than local, politics. The opposition framed the debate around several issues. Foremost was the ephemeral notion that Macedonia's Albanians have enjoyed a disproportionate share of resources and opportunities since the end of the Kosovo war. One example is the compromise regarding Albanian-language university education. In December 1997, an Albanian-language university (commonly called Tetovo University) was opened in Mala Rechitsa. Although the SDS government forcibly closed this university, it has functioned para-legally ever since. At the heart of the dispute was the Albanian demand that Tetovo University should belong to the publicly funded state system of higher education—something the government rejected categorically. Because of constitutional disputes over private tertiary education, this solution also remained unavailable. Mediation efforts concluded in 2000 when Max van der Stoep, the OSCE High Commissioner for National Minorities, convinced the government to accept a private tri-lingual (Albanian, Macedonian, and English) university focusing largely on business and public administration. Rejecting this compromise, the Macedonian opposition pointed to the university as another example of the VMRO collapsing under Albanian pressure. In turn, the Albanian opposition PDP condemned the DPA for abandoning the idea of a publicly funded university in Tetovo. In other words, both the Al-

banian and the Macedonian challengers found common cause in denouncing the governing parties for betraying the interests of their ethnic constituencies.

During the campaign, the VMRO based its appeal to voters on the party's ability to attract international support, including for local government. The SDS asked citizens to reject the coalition due to Macedonia's "deteriorating national security." The Media supporting the SDS resorted to ethnically inflammatory rhetoric, accusing the VMRO and the DPA of planning Macedonia's dissection into "Albanian" and "Bulgarian" zones. Results of the first round on September 10 did not turn down the heat. The VMRO and the opposition both claimed victory, using different statistical methods to justify their conclusions. The SDS demanded that Prime Minister Georgievski call early parliamentary elections, but the VMRO insisted that it had exceeded the percentage needed to stay in government. After the second round on September 24, both parties again claimed victory. Unfortunately, the voting was marred by numerous irregularities and well-documented voter intimidation. Much of the intimidation was attributed to the VMRO's supporters, with or without its sanction. The SDS again claimed a moral, if not a legal, victory. As in the presidential elections, the SDS justified its demand for early elections by rejecting "Albanian" ballots in calculating the percentage of votes. If one counted only "Macedonian" ballots, the VMRO would lose approximately 6 percent of its support.

To summarize, Macedonia's local elections were characterized by heightened intra-ethnic conflicts with clear interethnic consequences. The SDS failed to mobilize ethnic Macedonians around issues that the VMRO did not address—unemployment, unfulfilled promises of aid following the Kosovo war, rising fuel and electricity prices, and unabated concern over corruption. Instead, it called on its supporters to reject the essential political reality that has characterized Macedonia since 1998; namely, the slow emergence of compromise and cooperation between the country's governing Macedonian and Albanian parties.

RULE OF LAW

Constitutional, Legislative, and Judicial Framework

1997	1998	1999-2000	2001
4.25	4.50	4.25	4.25

The Republic of Macedonia adopted its post-independence constitution in September 1991. Section V establishes a nine-member constitutional court to interpret the constitution. Parliament appoints judges to the constitutional court for nonrenewable nine-year terms. Cases may be brought directly to this court, or they may be heard upon appeal of lower court rulings.

Although the practice of law is not an elite profession,

enrollment in the Law Faculty is one of the highest at Skopje's University of Sts. Cyril and Methodius. About 300 lawyers graduate annually, and the number going into private practice is on the rise. Membership in the Macedonian Bar Association, which grants licenses to practice, is approximately 1000. According to the ABA CEELI office in Skopje, 70 percent of basic court judges, 25 to 30 percent of appellate court judges, 6 of 25 supreme court judges, and 1 of 7 constitutional court judges are women.

The state is supposed to provide public defenders, but it rarely does. Over the past five years, there have been attempts to make up for this deficiency. In 1995, for example, the OSCE and ABA CEELI invited lawyers to form a local NGO to perform this function pro bono, but their efforts failed due to skepticism and the lack of a volunteer tradition.

Macedonia replaced the Yugoslav-era criminal code in 1996 and passed the new Code of Criminal Procedure in 1997. Among its significant provisions are limitations on "informative talks" (a Yugoslav euphemism for interrogation), which the police still use with impunity. In addition to the constitutional right to the "inviolability of the home," a 1995 law prohibits police from searching homes without court-ordered warrants. Nonetheless, people still complain of unauthorized police searches. This was among the severest accusations against police following the July 1997 unrest in Gostivar, which led to calls for police training in human rights and community policing. The police have also been accused of unwarranted arrests and prolonged detention. In April 1998, for example, police arrested and held an Israeli businessman for 188 days before charging him with a crime. The man was a longtime resident of Macedonia.

International organizations such as Human Rights Watch have noted unchecked police abuse, on the street and in custody, in Macedonia. Non-Macedonians, particularly Roma, are disproportionately mistreated by police, who are usually Macedonians. There are anecdotal reports that police have beaten to death persons who were in custody. Albanian fatalities from police violence in Gostivar in 1997 were well documented. Albanians have also reported deaths from police violence in Skopje. Ethnic Macedonians are not immune from such violence, as in Bitola when police forcefully quelled a demonstration by angry TAT investors.

Macedonian citizens avoid going to court for several reasons, including lengthy delays in the justice system. For example, trials do not continue daily until cases are settled. Rather, if a case is not closed on the day it is heard, the trial is scheduled to resume within 30 days and can continue over months or even years. Macedonian citizens also avoid the courts because they do not expect fair or impartial hearings from judges, most of whom are holdovers from the former Yugoslav period. This is particularly true for Albanians, who regard the courts as fundamentally biased against them.

The popular perception in Macedonia is that courts are subject to direct political influence. And, indeed, judicial selections reflect party politics since parliamentary-appointed councils nominate judges. This is manifest in several ways.

First, courts are an extension of the police and tend to serve the prosecution. The relationship between the court and the police determines the admission of evidence, the selection and questioning of witnesses, and, ultimately, the verdict. Secondly, the courts have conducted trials with an obvious political purpose and outcome. Among them are several trials in which Albanians have been sentenced for activities with political implications rather than for specifically criminal acts. In 1996, for example, a group of Albanians was convicted of smuggling arms even though the prosecution failed to produce the weapons as evidence. In September 1997, the Albanian mayors of Tetovo and Gostivar received seven- and fourteen-year prison sentences respectively for their role in the events preceding the violent police intervention of July 7. Domestic and international objections led to the reduction and eventual dismissal of these sentences.

The inconsistent enforcement of judicial decisions has encouraged a disregard for the law in virtually every domain of public and private life. For example, stations that broadcast illegally have not been sanctioned according to the 1998 law that regulates the use of public airwaves. In 1997, the constitutional court ruled that flying a foreign flag over governmental buildings was illegal, but it did not implement the law until it was necessary to deploy special police forces to do so. Although the Albanian-language university in Tetovo repeatedly has been declared illegal, it still functions with the knowledge of and tacit acceptance by national authorities.

The constitution specifies various human rights. These include freedom of religion or conscience, the right to privacy and assembly, and freedom of speech. The constitutional also explicitly guarantees “freedom of the market and entrepreneurship,” as well as the right to own and inherit property “under conditions determined by law.”

Reflecting its Yugoslav legacy, Macedonia constitutionally protects the right of minorities to preserve and express their cultural, linguistic, and religious identities. The European Council’s Convention on Minority Rights, which Macedonia has signed, also protects minority rights. Although gender discrimination is prohibited under the constitution and through legislation, activists assert that Macedonian women face serious, if subtle, discrimination in employment, political participation, and education.

At times, the effectiveness of minority-rights provisions has been the subject of acrimonious debate. The government, and the ethnic Macedonian majority generally, maintain that Macedonia’s minorities (i.e., Albanians) are the most privileged minority population in the Balkans. They thus interpret demands by minorities for greater rights as a pretext for ulterior political ambitions. Minorities, particularly Albanians, claim that their rights exist on paper but are curtailed in practice by a Macedonian majority that wants to create a unitary state. In this dialectic, questions of minority rights escalate into interethnic conflicts. For instance, the matter of an Albanian-language university in Tetovo mutated from the con-

sideration of quality primary and secondary Albanian education into accusations of latent Albanian irredentism. Education vanished from the discourse entirely. Despite these political disputes, Macedonia remains a country in which each community enjoys wide-ranging freedoms of cultural, religious, and linguistic self-expression.

Corruption

1999-2000	2001
5.00	5.00

“Ambient corruption” is so pervasive in Macedonia that it has become synonymous with normality. Citizens encounter corruption at every turn in private and public life. Official corruption is ubiquitous and permeates the government at most levels. Macedonia previously prided itself on being relatively free of corruption when compared to countries like Bulgaria and Russia that are plagued by organized crime or to a country like Albania that is characterized by anarchy. In Transparency International’s 1999 *Corruption Perception Index*, Macedonia rank 3.3 on a scale of 0 to 10 in which 0 means highly corrupt and 10 means very clean.

Although corruption and crime are related phenomena, they are not synonymous. Thus, the level of crime in Macedonia—especially violent crime—does not parallel the extent of corruption. In the past several years, a number of turbulent corruption scandals have rocked the country. The collapse of the TAT pyramid, in particular, was connected to illicit financial dealings by officials in the Ministry of Finance, some of whom resigned. Another scandal involved the diversion of arms and arms-procurement funds in the Department of Defense and in the Macedonian Army, which until then had been considered one of the few institutions immune from corruption. Throughout the period of the United Nations’ sanctions against Yugoslavia and Greece’s embargo against Macedonia, officials from the Ministry of the Interior were involved in taking contraband and collecting bribes for materials smuggled across the Serbian, Bulgarian, Albanian, and Greek borders.

Corruption can be said to occur at three levels: in obtaining civil services, in dealing with service providers, and in dealing with the government. The first two forms of corruption mostly affect individuals, while the third form has an impact on the health of Macedonian society as a whole.

Average citizens frequently pay bribes for civil services such as the installation of a phone line, the issuance of business licenses, or the approval of travel and residency documents. Such payments are often scaled according to a person’s ability to pay, rather than being set at a fixed amount. The bribe frequently constitutes no more than a pack of cigarettes or a bottle of alcohol offered as a “token of appreciation” for a service rendered in an expeditious manner. In other words, the payoff serves to accelerate, rather than accomplish, the service requested. Because the

average salary in Macedonia is only DM 330, bribes are considered a form of supplementary income, which people think would disappear if the economy were to improve. More serious examples of corruption can be found at higher levels of the civil service, especially in the courts. Using bribes to influence the judicial system is commonplace and often determines court decisions. The more important the case, the higher the price. Corruption in the judicial system is a serious obstacle to Macedonia's economic development, since foreigners are reluctant to invest in the country if their assets do not enjoy legal protection.

Virtually no service is immune from some form of bribe. Students pay bribes if not for university admission, then for professors to administer graduation exams. In 1999, the standard price was DM 500. Healthcare is another prime example. Patients must pay bribes for better rooms, for personal belongings or extra food from their families, or for drugs allegedly covered by their insurance but which somehow have become "scarce." Physicians, despite their above-average income, earn an average monthly salary of DM 800. For doctors, payoffs justify staying in Macedonia rather than joining the extensive "brain drain" and finding lucrative employment in the West.

Government officials and business are intimately connected. As demonstrated by scandals over the past several years, government officials at the ministerial level have had their hands in numerous enterprises, including those that have been proven highly corrupt. When striking deals with a government representative, for example, it is at least necessary to wine and dine the person being approached and to express one's gratitude when the "favor" has been extended. More often, however, access to the higher echelons of government comes at a price that excludes all but the major players. Although no specific information is available, much of the privatization process has been characterized either by insider management buyouts or by sales to outsiders at inordinately low prices. In both instances, government officials have benefited substantially. Much of the informal economy, particularly in the area of customs and duties, could not exist without overt official participation. Rare occurrences of violent street crime over the past several years have been identified as revenge killings among rival organized crime groups.

The previous SDS/PDP coalition faced so many accusations of corruption that the VMRO was able to win the 1998 general elections, in part, on a campaign of anti-corruption. Despite the surge of public outcries following the TAT affair and other scandals, parliament has not adopted anticorruption legislation that was proposed in 1998, even as a draft law. Macedonia operates under a Law on National Audit that applies to both the executive and the legislative bodies of government. According to the Macedonian Criminal Code, extortion is a crime; racketeering, however, is not explicitly addressed. Laws regulating financial disclosure and forbidding conflict of interest are seldom enforced. In fact, information regarding legal or

ethical boundaries between public and private sector activity is not available. Publicly prosecuted cases suggest that such laws are often enforced to achieve political, rather than legal, objectives.

Macedonia's geographical position has made it vulnerable to cross-border crime and corruption. In March 2000, the finance ministers of Macedonia, Albania, and Bulgaria agreed to work together on infrastructure projects, and this may open up Macedonia to further penetration by criminal groups that operate in its neighbors' territory. Macedonian President Trajkovski admitted in April that smugglers and drug traffickers from Bulgaria were infiltrating Macedonia. Perhaps in response, the interior ministers of Macedonia, Albania, and Bulgaria agreed in July to work together to combat organized crime. A month later, Macedonian police intercepted 100 kilograms of marijuana at a routine control stop outside Skopje. The marijuana was from Albania and bound for Kosovo. Its street value was \$46,000. The Balkan war also has given a boost to the illegal gun trade and migrant smuggling.

Besides Transparency International's corruption index, there are no polls that measure the public's intolerance for official fraud. Likewise, corruption is not a subject of public-education efforts in the media or in schools. Corruption is certainly a topic of everyday discussion, and public cynicism increases with each revelation of corruption at high levels.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization			
1997	1998	1999-2000	2001
4.00	4.00	4.00	4.00
Macroeconomic Policy			
1998	1999-2000	2001	
5.00	4.75	4.75	
Microeconomic Policy			
1998	1999-2000	2001	
5.00	5.00	5.00	

When comparing life in independent Macedonia to life in the former Yugoslavia, Macedonians see a "golden cage." That is, they have their own state, but they are poorer than before. Despite favorable World Bank and IMF assessments—especially of currency stabilization and control over inflation—Macedonians regard themselves as worse off. And the level of poverty continues to grow. According to some estimates, 20 percent of the population lives below the daily minimum of 170 denars (approximately \$3).

An unfavorable tax environment, unreliable banking institutions, widespread corruption, and a questionable privatization regime all have discouraged serious foreign investment. Indeed, in the 1998 general election campaign the opposition coalition proved victorious by promising economic recovery and massive foreign (Taiwanese) credits or investments. These have not materialized, and there is little indication they will. Consequently, Macedonia's economic survival hinges on two primary factors: the "informal" economy and large remittances of hard currency by *pechalbari*, people living and working abroad.

Macedonia traditionally exported raw agricultural products to the domestic Yugoslav market and imported raw materials through Thessaloniki, Greece. United Nations sanctions against Serbia during the Bosnian war and the Greek embargo from 1994 to 1996 suffocated Macedonia's economy. More recently, though, Skopje has concluded free trade agreements with all contiguous countries except Albania, and the economy has improved. The newest free trade agreement with Bulgaria went into effect on January 1, 2000. Skopje is also negotiating an agreement with Ukraine that is due to be signed in 2001. Having entered into an associative relationship with the European Union (EU), only 25 percent of Macedonia's foreign trade goes to the former Yugoslavia (compared to nearly 100 percent before the Kosovo war), and 55 percent to the EU.

Since the end of the war in Kosovo, Macedonia's economy has displayed two contradictory tendencies. The formal economy generally has declined due to a fall in major exports, a 16 percent annual trade deficit, and an unemployment rate of 50 percent of the available labor force (down from 70 percent during the war). In contrast, the country enjoys a much higher level of liquidity, which is manifest in the average annual sale of 12,000 new cars and 10,000 homes, and a 25-percent growth in overall retail sales. This same contradiction is evident when comparing the rates of inflation with the growth in gross domestic product (GDP). Following the Kosovo war, experts predicted an overall decline in GDP together with growing inflation. But by taking advantage of business opportunities in Kosovo's reconstruction, Macedonia experienced a growth of 2.7 percent in its GDP for 1999; the country is expecting a growth of 5.5 to 6.0 percent for 2000. Similarly, inflation measured by the consumer price index (CPI) was ten

percent in 1999. If measured by the cost of living, it rose only by 5 percent. The rise in the CPI was due to increased energy costs (i.e., electricity and oil) and to the introduction of the value added tax (VAT).

The new VAT has brought unprecedented revenues into state coffers. Although there is no quantifiable means to assess its impact, the VAT has reduced the overall scope of the gray economy. But the informal economy still closely rivals the formal sector, and Macedonian citizens engage in nontaxable cash transactions whenever possible. Macedonia's denar is still pegged to the Deutsche mark at a fixed rate, which overvalues the denar by 30 percent and overprices Macedonian exports and labor. If Macedonia were to devalue its currency, as its neighbors have done, the economy could recover more effectively from the shock of the Kosovo war and the quadrupling of oil prices during the period covered by this report. However, the Macedonian government has taken steps to reconcile the formal and informal economies. Significantly, personal income taxes were reduced from three brackets (with a maximum 33 percent), to two brackets (15 and 18 percent). This step and the VAT reimbursement system have stimulated greater participation in the formal economy and have contributed to the government's growing budgetary surplus.

The VMRO/DPA government has been fairly bold in promulgating new legislation to support a free market economy, including laws for the denationalization of property, anti-trust measures, the establishment of a securities commission, and the regulation of wholesale markets. Money-losing state enterprises such as Fenimak (with annual losses of DM 100,000) have been sold, and 5,000 to 8,000 people have been taken off the government payroll. In 2000, loss-producing enterprises still represented 3 percent of GDP. Fenimak, which was sold in 2000, is only one of twelve major loss-making enterprises slated for privatization over the next two to three years. Limited opportunities for reeducating a redundant labor force make unemployment the primary obstacle. Various experts recommended that Fenimak be closed, rather than sold, but the loss of 950 jobs swayed the government to privatize it.

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