EARLY ECONOMIC POLICIES, POST-INDEPENDENCE CHALLENGES, AND MACROECONOMIC STABILITY IN THE NORTH MACEDONIA

Arbresh RAVENI

Assist. Prof. Dr., Faculty of Economics, Mother Teresa University, Skopje, North Macedonia, arbresh.raveni@unt.edu.mk, DOI: http//doi.org/10.51331/EB08AR

INTRODUCTION

North Macedonia is a small open economy that has successfully overcome the early phase of transition by implementing several structural reforms and achieving macroeconomic stability in the early years after its state independence. However, the country still struggles to become a functional and fully-fledged market economy and suffers from persistent macroeconomic imbalances structural in nature (Raveni, 2021). This chapter undertakes a rigorous examination of North Macedonia's economic evolution, with a primary focus on the early post-independence period following its secession from the former Yugoslavia in 1991. As the least developed republic within the socialist federation, North Macedonia was thrust into a position of acute economic vulnerability, confronted by the dual challenges of forging an independent state and transitioning from a centrally planned to a market-oriented economy. The chapter opens by situating North Macedonia's economic predicament within the broader regional and historical context, elucidating the profound structural weaknesses and external dependencies that defined its early post-socialist trajectory.

Central to this analysis is a detailed exploration of the economic policies that the newly sovereign state implemented in its bid to stabilize a collapsing economy. The chapter provides a thorough critique of the key policy measures adopted in the early 1990s, including the privatization of state-owned enterprises, the liberalization of trade regimes, and comprehensive monetary and fiscal reforms. These interventions, particularly the introduction of the Macedonian Denar and its initial peg to the Deutschmark, were pivotal in attempting to restore macroeconomic stability in an environment characterized by hyperinflation, fiscal deficits, and widespread unemployment. However, the chapter engages with the complex and often contradictory outcomes of these policies, reflecting on their limited success in addressing deeper structural inefficiencies and fostering sustainable growth.

A key thematic concern of the chapter is the multifaceted challenges North Macedonia encountered in establishing a stable economic framework amidst significant external and internal disruptions. Externally, the disintegration of Yugoslavia, regional conflicts, and trade embargoes—most notably the Greek blockade—exacerbated the country's economic isolation and stunted its access to international markets. Internally, the country's economic landscape was marred by entrenched inefficiencies within its state-owned sectors, high unemployment, and an underdeveloped financial system, all of which significantly constrained the effectiveness of early reforms. The chapter meticulously unpacks these dynamics, demonstrating how political instability, ethnic tensions, and geopolitical isolation further complicate the task of macroeconomic stabilization.

At the core of this analysis is a critical evaluation of the interplay between economic policy and political context. The chapter contends that the economic reforms undertaken in the 1990s were shaped as much by the socio-political exigencies of the time as by technical considerations. The tensions between the need for rapid stabilization and the constraints imposed by political instability and external shocks are interrogated, offering a nuanced account of the limits of policy efficacy in such a volatile transitional context.

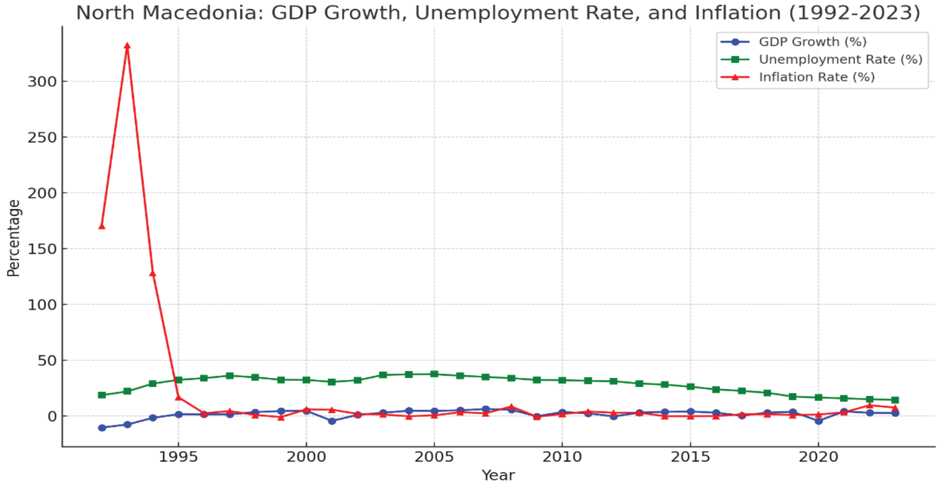
The principal aim of this chapter is to critically assess the efficacy of North Macedonia's early economic policies in achieving macroeconomic stability and charting a course toward sustainable development. By engaging with the successes and limitations of key reforms, the chapter provides a deeper understanding of how North Macedonia navigated the challenges of economic transition. Furthermore, it highlights the persistent structural imbalances that continued to impede the country's progress toward a fully functioning market economy. Through a rigorous examination of both policy decisions and their broader socio-economic impacts, the chapter contributes to the scholarly discourse on post-socialist transitions, drawing attention to the particularities of North Macedonia's experience while offering broader insights into the complexities of state-building and economic reform in post-socialist contexts.

The objectives of the chapter are therefore twofold: to provide a comprehensive evaluation of North Macedonia's early economic stabilization efforts and to critically analyze the enduring challenges that continue to hinder the country's full economic maturation. In doing so, the chapter offers an essential case study for understanding the interconnectedness of political, economic, and institutional reform in post-socialist economies, underscoring the necessity of sustained, coordinated efforts in addressing the deep-rooted legacies of socialist economic structures while navigating the exigencies of the global market system.

EARLY ECONOMIC POLICIES POST-INDEPENDENCE

North Macedonia shares a heritage of dramatic economic, political, and structural transformation. The initial stage of its transition to a market economy was marked by a deep recession, massive unemployment, excessive and persistent inflation rates, and unsustainable fiscal deficits caused by economic contraction. The decline in output during North Macedonia's early transition to a market economy was driven by a combination of factors, such as the breakdown of traditional economic structures, the fragmentation of trade networks, the disruptive nature of market reforms, and prevailing macroeconomic instability. Although these challenges were common across transitioning economies, North Macedonia's specific geopolitical and economic circumstances—particularly its dependence on trade with former Yugoslav republics and the complexities of establishing economic independence after gaining sovereignty—intensified the negative impact. Despite the severity of the downturn, this phase of economic contraction ultimately set the stage for future stabilization and reform in the North Macedonian economy.

Figure 1: North Macedonia Macroeconomic Indicators



Source: World Bank Data.

Following its declaration of independence on September 8, 1991, the Republic of Macedonia faced the formidable task of stabilizing an economy deeply affected by the disintegration of Yugoslavia. A key step in asserting economic sovereignty came on April 26, 1992, with the introduction of the Macedonian Denar (MKD), which replaced the Yugoslav Dinar at a 1:1 exchange rate. However, the Denar was introduced in an environment characterized by hyperinflation, a direct legacy of the economic mismanagement that had plagued the former Yugoslavia. Inflation rates exceeded 50 percent per month, fuelled by excessive money printing and the monetization of government deficits. Furthermore, the newly introduced Denar was not backed by gold or foreign exchange reserves, as these assets remained under the control of the Yugoslav central bank. The absence of reserve backing made it particularly challenging for Macedonia to establish credibility in its monetary policy.

The first stabilization package launched by Macedonia in 1992 was a comprehensive response to the hyperinflationary crisis, combining both orthodox and heterodox policies to restore macroeconomic stability. A key element was the adoption of a fixed exchange rate regime, pegging the Macedonian Denar to a basket of foreign currencies, particularly the Deutschmark, to establish monetary credibility and discipline demand management (Bishev and Petkovski, 2004). Monetary targeting became the central strategy, with gradual reductions in money supply to avoid contractionary shocks to the real economy. In addition to monetary controls, the program included heterodox measures such as wage and price freezes, designed to halt inflationary pressures. A significant reduction in government expenditure reinforced the fiscal side of the stabilization effort. To ensure long-term stability, institutional reforms were also enacted, granting the central bank greater political independence and imposing legal limits on the government's borrowing from it. The phased elimination of selective credits, which had previously allowed special sectors like agriculture and foreign trade to access privileged financing, marked another significant reform aimed at ensuring the sustainability of monetary policy (Petrevski, 2005). This combination of policies reflected an effort to curb inflation while laying the institutional foundations for a more disciplined economic framework.

The initial outcomes of the stabilization program appeared encouraging, and inflation began to decelerate significantly. However, the program soon encountered severe challenges due to political and economic pressures. By August 1992, interest groups from the agricultural and industrial sectors exerted significant influence on the government, forcing it to loosen its monetary policies. The Central Bank was compelled to finance agricultural sectors, such as wheat and tobacco production, through selective credit allocation. This reactivation of targeted monetary policy undermined the broader stabilization effort, reintroducing inflationary pressures into the economy. Moreover, the wage freeze was lifted, leading to substantial wage hikes which further eroded the gains made in controlling inflation. These developments weakened the stabilization program significantly. By the end of 1992, the country's economic indicators painted a grim picture. The exchange rate was devalued by 66.7 percent, and inflation soon surged back into double digits. In response, the inflation target was revised upward, and monetary policy was further relaxed to accommodate the renewed inflationary pressures. The Denar was devalued again in December 1992, underscoring the government's difficulty in maintaining a stable currency in the face of internal economic disruptions and external pressures (IMF Country Report, 1995). These figures reflect the severe challenges Macedonia faced in attempting to stabilize its economy during this turbulent period. Although the stabilization program succeeded in establishing the Denar as the legal tender and provided the framework for future monetary policies, the inability to maintain fiscal and monetary discipline, exacerbated by political instability and the influence of special interest groups, led to a resurgence of inflation and further economic contraction.

The early phase of the transition to a market economy (1991-94) in North Macedonia was characterized by unsustainable fiscal deficits. Large fiscal deficits can be attributed to a sharp decline in revenues and increases in social expenditures.

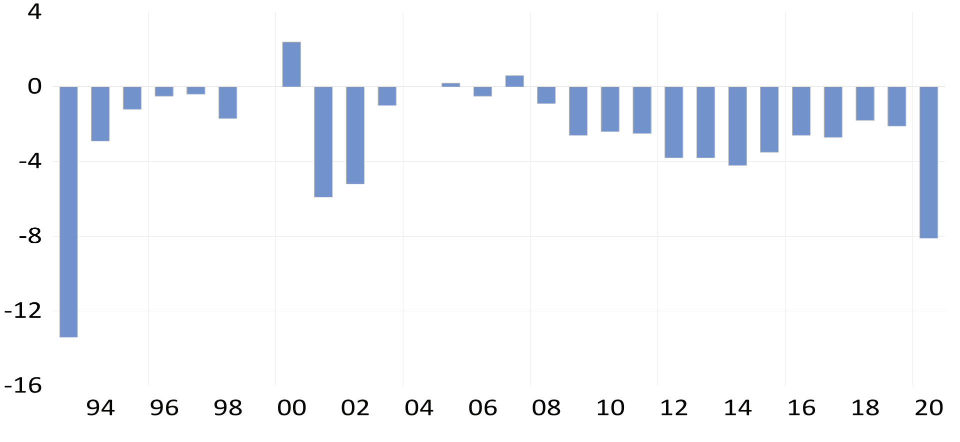
Budget revenues declined due to the shrinkage of the tax base because of economic contraction and a fall in tax collection due to improper and inexperienced tax administration and widespread tax evasion. On the other hand, social expenditures increased due to the falling economic activity, the institutional and structural reforms. In addition, the inability of the Macedonian economy to achieve fiscal balance reflected the existing regime of soft budget constraints: 'socially-owned´ enterprises had almost unlimited access to credit because the National Bank of the Republic of North Macedonia (NBRM) was required to rediscount loans provided by commercial banks, which were not operated on commercial principles' (IMF Country Report, 2004:61). Consequently, this fiscal policy regime relying mostly on seigniorage revenues fuelled excessive inflation rates and led to widespread insolvency in the financial system. The central government deficit in 1993 was the highest recorded, at 13.4 % of GDP.

Following the collapse of the first stabilization program, the North Macedonian government sought to adjust its policies and restore macroeconomic stability. In 1993, the government phased out the selective credit policies of the Central Bank, a significant step toward reducing distortions in the credit market. Moreover, the government converted many of the selective credits issued to the agricultural sector into long-term, interest-free loans, alleviating some of the pressures on public finances. A critical turning point in North Macedonia's economic recovery came in 1993 when the country gained international recognition and was admitted to the UN, the IMF, and the World Bank. Membership in these organizations allowed North Macedonia to access external financial assistance and receive technical support in its economic reform efforts. Consequently, in 1994 North Macedonia started a huge monetary and fiscal adjustments process supported by an IMF Systemic Transformation Facility (STF) arrangement, which included a sharp deceleration of monetary expansion associated with an abrupt tightening of fiscal policy and limitations on credit expansion to state enterprises (IMF Country Report, 2004: 59).

Between 1994 and 1997, North Macedonia underwent a significant transformation in its monetary policy, shifting its focus toward exchange rate targeting as the main strategy for controlling inflation and stabilizing the economy. Pegging the Macedonian denar (MKD) to the German Deutschmark (DM) and later to the Euro served as a key mechanism for stabilizing inflation expectations and reducing price volatility. The rationale behind exchange rate targeting was to "import" monetary credibility from Germany, a country known for its stable currency and disciplined monetary policy. This peg aimed to curb inflationary pressures while signalling the government's commitment to macroeconomic stability, particularly in a small, open economy heavily reliant on imports. The National Bank of the Republic of Macedonia (NBRM) complemented the exchange rate peg with a tight monetary policy, targeting key monetary aggregates like M1 and M2 to restrict liquidity and suppress inflationary pressures. From 1994 to 1996, this policy resulted in a significant monetary contraction, with M1 shrinking by 3% and M2 growing by only 1%, driving inflation down to single digits by 1996. Nonetheless, the exchange rate peg, while successful in curbing inflation, significantly limited the NBRM's ability to respond to internal economic disruptions. Maintaining the fixed exchange rate required the central bank to prioritize the peg over other monetary policy tools, such as interest rate adjustments, to address domestic economic imbalances. This trade-off became particularly evident in 1997 when the denar was devalued by 16% to rectify the internal imbalances that had developed due to the constraints of the fixed exchange rate. This devaluation underscored the challenges of maintaining an exchange rate peg when domestic economic conditions diverged from the external anchor.

The exchange rate targeting regime was part of a broader stabilization effort that included fiscal and structural reforms aimed at reinforcing the central bank's objectives. Fiscal prudence was key to controlling inflation, as it restrained government spending and reduced fiscal deficits that could have undermined the credibility of the exchange rate peg. Wage controls were also introduced to prevent inflationary pressures from escalating due to rising labour costs. Meanwhile, structural reforms were implemented to enhance the efficiency of the economy, providing a more stable macroeconomic environment.

Figure 2: Central Government Deficit for the Period of 1993-2020



Source: NBRM statistics.

The consolidation of fiscal finances led to a significant reduction of the fiscal deficit to 2.9% of GDP in 1994. The IMF and World Bank remained engaged in Macedonia with a Stand-By Arrangement (SBA) in 1995 and an ESAF/PRGF arrangement in 1997, which supported the reforms related to the privatization of state-owned enterprises, reforms in the financial sector and trade reforms to reduce tariff rates and abolish non-tariff restrictions (IMF Evaluation report, 2003). The implemented reforms, albeit piecemeal and considerably slower than envisaged, and the consolidation of fiscal finances resulted in restoring macroeconomic stability and keeping a prudent fiscal position with fiscal deficits below 3% of GDP in the following years until 2001. However, the public finances suffered from several structural weaknesses: weak expenditure control[1], the inappropriate structure of revenues (high labour income taxation)[2] and expenditures (high share of nondiscretionary spending[3]).

The IMF approved an EFF/PRGF blend arrangement in 2000 to support the government initiatives on reducing structural weaknesses: a value-added tax (VAT) was introduced in 2000 in place of the sales tax; a projected reduction of income tax rates in 2001; the integration of off-budgetary accounts into the budget and introduction of the central treasury system; privatization or closure of largest loss-making enterprises; and banking sector reforms.

The armed conflict in 2001 contributed to a significant deterioration of the fiscal position, owing to new outlays on security operations and weak revenues, leading to a large expansionary fiscal swing. The spending surges on military equipment and security personnel of around 6.5 % of GDP and lower than anticipated tax receipts resulted in a fiscal deficit of around 6% of GDP. The conflict led to a 4.5% contraction in GDP due to disrupted economic activity, and reduced foreign investment, while inflation spiked to 5.5% as a result of supply chain disruptions and rising costs. In the aftermath of the crisis, the government cancelled the PRGF/EFF arrangements, postponed revenue-reducing measures projected for 2001, and introduced a new tax on financial transactions (IMF Country Report, 2011).

Despite progress in restoring a sustainable fiscal position and maintaining macroeconomic stability, the Macedonian authorities have shown a weaker commitment to structural reforms. Not addressing structural weaknesses – such as poorly functioning institutions, restrictive labour market regulations, a difficult

1 Line ministries could use self-generated revenues without any constraint.

2 Around 50% of tax revenues.

3 Social transfers and wages amounted to 65% of general government expenditures,

business environment, and dysfunctional courts – led to stagnant/slow growth, high unemployment, and persistent current account deficits (IMF Country report, 2005:5). Against this background, the authorities engaged in a 3-year IMF Stand-by agreement to support their program of structural reforms, which includes reforms to strengthen competitiveness, reforms of the labour market and courts, reforms of the Health Insurance Fund, reforms of tax administration and measures to improve budget planning and execution. The budget overperformed the projected target in 2005, reaching a small surplus of 0.2% of GDP, due to the under-execution of planned expenditures, restraint in public employment, procurement delays, and the extraordinarily high telecom monopoly dividend (around 1% of GDP) (IMF Country report, 2006).

During 2006 a new government was elected. Despite pre-election spending on tobacco subsidy payments, increased health sector wages and an emergent 0.3% of GDP transfer to the energy sector to cover losses, the government managed to meet the deficit target of 0.6% of GDP mainly due to the under-execution of capital expenditure, stronger direct taxes, especially corporate income tax, and the introduction of a new tobacco tax. The new government's economic program was focused on accelerating structural reforms and increasing public investment, hence increasing slightly the fiscal deficit target to 1% of GDP in 2007 and 1.5% of GDP over the medium term. In 2007 the government introduced flat and lower personal and corporate income tax rates at 12% while broadening the bases of these taxes to contain revenue losses[4] (Stojkov et al., 2008). The reform agenda also included measures such as a new zero income tax for reinvested profit, transition to the second pillar of the pension system, lower tariffs, and legislation harmonizing social contributions bases[5], a 10% increase in public wages and reducing the supply of subsidized electricity to large industrial users (IMF Country Report, 2007). The establishment of a large taxpayer office and other implemented tax administration reforms achieved success by increasing collections substantially.

In 2008 fiscal policy turned increasingly procyclical. The projected fiscal deficit of 1.5% of GDP included further reduction of personal and corporate income tax rates from 12 to 10 percent; a 10% public sector wage increase for the second year running; a 15% increase in pensions and changes in pension indexation;

4 The tax base was broadened by abolishing some existing exemptions from the corporate income tax, as well as eliminating the double deduction for investment in fixed assets from the corporate income tax law.

5 Aligning minimum health fund contributions with the employment and pension funds.

selective VAT cuts; increased subsidies in agriculture; expenditures supporting the second phase of decentralisation and the significant increase in public investments. The government, after its successful re-election in June, planned a further fiscal expansion, through increased spending on public wages, pensions, agriculture, and education, as well as substantial cuts in social security contributions, intending to raise the budget deficit even further in the following years. This expansionary stance represents a 'paradigm shift' in fiscal policy, reversing the significant progress towards fiscal consolidation made by North Macedonia in the first half of the 2000s under several fund-supported programs (IMF, 2009b: 14, Cocozza et al., 2011).

The spillover effects of the global crisis started to impact the North Macedonian economy in the fourth quarter of 2008, resulting in a significant drop in export demand and a significant reduction in external financing and remittances, which led to a mild recession in 2009 consequently, the central bank foreign exchange reserves were significantly reduced. Unlike many other central banks, the NBRM initially responded to the global financial crisis by tightening its monetary policy and raising interest rates to maintain exchange rate stability, a stance it held until March 2009, before keeping rates steady for the rest of the year and eventually shifting toward gradual easing as economic conditions stabilized and inflationary pressures eased (Kabashi, 2014). The fiscal sector was also affected through a decline in corporate profit tax revenues, and lower VAT and import taxes due to economic contraction. The government largely allowed automatic stabilizers to work, implementing a few anti-crisis measures such as increasing capital expenditures and reducing taxation[6]. In the face of declining revenues, the government revised the 2009 budget and curtailed expenditures, including a freeze on public sector wages and employment, in order to meet the deficit target of 2.6% of GDP, which was roughly neutral in cyclically adjusted terms (IMF Country report, 2010).

In 2011 Macedonia engaged in a two-year arrangement under the IMF Precautionary Credit Line (PCL) to insure its vulnerable economy against possible adverse external shocks arising from low prospects of growth in the EU and turbulent developments in the region (World Bank, 2011). In the face of revenue shortfall, mainly due to over-optimistic projections of non-tax revenues, the projected

6 Capital expenditures increased by 14 per cent compared to 2008 and the following tax reductions were implemented: i) exempted from taxation, as of January 2009, retained earnings and invested profits of enterprises, ii) reduced custom tariffs on raw materials, and iii) decreased taxes for farmers. The government introduced in 2009 a reform of the gross wage system that included the gradual reduction of social contributions (Mojsoska-Blazheski,2012).

reduction of social contributions rates to 22% was postponed; public sector wages and employment were frozen for a second year and spending, including capital spending[7], were under-executed. The main sources to finance the budget deficit were a PCL purchase on March 2011 and an external bank loan of €130 million, supported by a World Bank guarantee (World Bank, 2011). The PCL was used in response to a domestic rather than external shock, reflecting the country's impaired access to external markets, mainly due to elections uncertainties and an underdeveloped domestic debt market (IMF Country Report, 2012).

The fiscal position in Macedonia has deteriorated since 2008 when the country reversed its fiscal strategy by loosening the fiscal policy in the aftermath of the crisis and this fiscal stimulus continued up also to 2014 projecting a budget deficit of 3.5% including an acceleration off large capital expenditures on railways, gasification, and hospitals. Consequently, this expansionary fiscal strategy and low revenue efficiency resulted in worsening the country's public debt position, going from the country with the lowest stock of public debt in emerging Europe in 2008, to doubling of public debt reaching 43.3% of GDP in 2014 (Petrevski et al., 2016). Against this background, and considering the IMF recommendations, the authorities adopted a medium-term fiscal strategy that predicts a decrease in the fiscal deficit from 3.9 percent of GDP to 2.6 percent of GDP over the period 2013-2016, to stabilize the public debt. The fiscal deficit continued to decline in the following years until the COVID-19 crisis.

The experience of North Macedonia during the early period of transition illustrates the critical importance of building strong political institutions, securing broad-based support for economic reforms, and maintaining fiscal discipline in the face of external pressures. With the assistance of international financial institutions, North Macedonia eventually managed to stabilize its economy, but it continued to face significant challenges, including persistent unemployment, sluggish growth, and a reliance on external financing.

POST-INDEPENDENCE CHALLENGES: EXTERNAL SHOCKS AND INTERNAL REFORMS

Unlike many of its neighbours, North Macedonia's independence was peaceful, but its journey toward political stability and economic development was anything but straightforward. The early post-independence years were shaped by severe external shocks and internal challenges, including the breakup of Yugoslavia,

7 Capital spending were lower than projected, increasing only 15,5% relative to 2010.

regional conflicts, economic sanctions, ethnic tensions, and the slow pace of crucial economic reforms.

The dissolution of the Socialist Federal Republic of Yugoslavia in 1991 was the first major external shock to North Macedonia's economy. The breakup abruptly severed the region's integrated economic ties, cutting off critical markets for North Macedonia. As the least developed republic of Yugoslavia, North Macedonia relied heavily on intra-Yugoslav trade. Over 75% of its goods were sold within the federation, and the sudden loss of this market precipitated a sharp contraction in economic activity (Bishev and Petkovski, 2004). The country's industrial output plummeted, and the economy contracted by over 30% in the early 1990s, pushing unemployment to unprecedented levels. By 1993, the unemployment rate had soared to 24%, exacerbating social unrest and economic dislocation (Gligorov and Mojsovska, 2005). North Macedonia also inherited a vulnerable economic structure, with weak industrial capacity and an underdeveloped private sector. The economy had been largely dominated by state-owned enterprises (SOEs), which were ill-equipped to compete in a market-oriented global economy. Without access to the broader Yugoslav market, North Macedonia's nascent industries faced severe challenges in generating export revenues and attracting foreign investment. The immediate post-independence years were also marked by the absence of international recognition, which delayed the country's access to financial markets. The lack of foreign exchange reserves, coupled with hyperinflation, further hampered the government's ability to stabilize the economy. This economic isolation resulted in an urgent need for external assistance, and North Macedonia became heavily reliant on international financial institutions, particularly the International Monetary Fund (IMF) and World Bank, to manage the early stages of its economic transition.

In the wake of the Yugoslav wars, North Macedonia's economic struggles were compounded by international sanctions imposed on its northern neighbours, Serbia and Montenegro, which further restricted the country's access to key trade routes. As a landlocked country, North Macedonia relied on Serbia for transit access to European markets, and the United Nations sanctions on Serbia from 1992 to 1995 severely limited North Macedonia's ability to export goods. The disruption of trade routes through Serbia, combined with the collapse of Yugoslav trade networks, further deepened North Macedonia's economic isolation. The situation worsened when Greece imposed a trade blockade on North Macedonia from 1994 to 1995 due to a dispute over the country's name. Greece was one of North Macedonia's primary trade partners and a key transit route for accessing international markets. The embargo had a devastating impact on

North Macedonia's economy, reducing imports of essential goods such as oil and disrupting industrial production.

The blockade resulted in significant shortages, inflationary pressures, and a further contraction of economic activity. The 1999 Kosovo refugee crisis placed considerable pressure on North Macedonia's already fragile economy. The sudden influx of around 350,000 refugees, equivalent to nearly 17% of the population, stretched public services and infrastructure to their limits. With scarce fiscal resources, the government diverted funds from development projects to manage the crisis. This economic burden, coupled with political instability, weakened investor confidence, stagnated foreign direct investment (FDI), and further isolated North Macedonia from global markets, hindering recovery (Bishev and Petkovski, 2004).

The 2001 conflict in North Macedonia had significant economic consequences, disrupting growth and deepening the country's structural vulnerabilities. The conflict destabilized key economic sectors, deterring both domestic and foreign investment at a critical stage of the post-socialist transition. Infrastructure damage, coupled with the diversion of public funds towards security and conflict management, constrained fiscal capacity and delayed essential reforms. The political uncertainty surrounding the conflict further eroded investor confidence, leading to capital flight and a decline in foreign direct investment (FDI). Additionally, the strained fiscal environment increased public debt, while unemployment surged as businesses downsized or shuttered. The brief 2001 conflict was resolved with the Ohrid Framework Agreement, which introduced constitutional reforms to address ethnic tensions. Macroeconomic stability was restored soon after, enabling the country to refocus on economic recovery and development.

The staggered implementation of structural reforms during North Macedonia's early transition years critically impeded its economic growth by fostering an environment of inefficiency, weak competition, and institutional fragility. The flawed privatization process, incomplete liberalization and deregulation efforts, and persistent institutional weaknesses created significant obstacles to the development of a competitive, market-oriented economy. These issues were compounded by the underdevelopment of the financial sector, which limited access to capital and hindered private sector growth.

The privatization process in North Macedonia has had far-reaching implications for the country's economic trajectory. While it successfully transferred ownership of many SOEs, the inefficacies of the process severely limited the potential for economic revitalization and growth. Many privatized firms remained uncompetitive, suffering from poor management practices, lack of reinvestment, and ineffective restructuring strategies (Zalduendo, 2003). This stagnation in productivity was coupled with high levels of unemployment, which peaked at around 36% in the late 1990s (World Bank, 2003). The privatization process in North Macedonia exhibited significant drawbacks, primarily stemming from the dominance of insider privatization and a lack of external capital inflow. By 1998, around 87% of privatized firms were owned by insiders, predominantly former managers and employees (Slavevski, 1997). This concentration of ownership to a small elite, often with political connections, stifled competition, limited foreign direct investment (FDI), and constrained innovation. Insider ownership, though initially intended to democratize the privatization process, instead resulted in monopolistic control over key economic assets, limiting broader public participation and reducing the competitive dynamics that drive market economies.

The limited involvement of outsiders, especially foreign investors, meant that privatized companies did not benefit from the much-needed injection of capital, managerial expertise, or technological know-how. Without these inputs, enterprise restructuring remained superficial, and many firms remained economically stagnant. Corruption played a central role in undermining the potential benefits of privatization. The sale of state assets often lacked transparency, with many SOEs sold at below-market prices to politically connected elites. This resulted in the concentration of wealth among a small group of insiders, further entrenching the oligarchic structures that characterized the post-socialist Macedonian economy. The prioritization of personal gain over the equitable distribution of resources contributed to public dissatisfaction and diminished trust in the economic reform process. The legal and institutional frameworks underpinning the privatization process were also inadequate. Property rights were weakly protected, and the judiciary could not effectively enforce regulations, deterring potential investors. North Macedonia's failure to establish a transparent and predictable legal environment limited the success of privatization. North Macedonia's weak regulatory oversight allowed for significant procedural irregularities and discouraged new owners from investing in their acquisitions, further perpetuating economic inefficiencies.

In the early phase of North Macedonia's economic transition, the country faced substantial challenges stemming from its trade structure, trade liberalization, and limited foreign direct investment (FDI). The trade structure was heavily reliant on low-value-added exports, which lacked diversification and failed to capture higher-value global market segments. This unfavourable export profile constrained the country's ability to leverage international trade opportunities, even as trade liberalization began. While the government reduced tariffs and pursued agreements like WTO membership to stimulate growth, the immediate impact was an influx of imports rather than a boost in exports. This imbalance contributed to widening trade deficits, highlighting the weak competitiveness of domestic industries. Compounding these issues was the limited inflow of FDI, essential for upgrading industries and fostering innovation. Due to regional instability and an unappealing investment environment, North Macedonia struggled to attract the foreign capital necessary to modernize its industrial base and improve export capacity. The combination of a poorly structured export sector, insufficient FDI, and a liberalized trade regime without adequate institutional support posed significant obstacles to sustainable economic growth in the early transition period.

Institutional weakness was another critical factor that undermined the effectiveness of North Macedonia's early transition reforms. As a newly independent state, North Macedonia had to build its legal and administrative institutions virtually from scratch, lacking both institutional memory and the human capital required to manage a market economy effectively. The absence of a strong rule of law framework severely constrained the country's ability to enforce property rights, contracts, and creditor protections, all of which are essential for the proper functioning of a market economy. Without these legal protections, businesses operated in an environment of uncertainty, which discouraged both domestic and foreign investment. The judicial system, in particular, was underdeveloped, inefficient, and often subject to political influence. As a result, it was unable to provide the legal security required to underpin market transactions. The enforcement of creditor rights was particularly problematic, with weak bankruptcy laws allowing insolvent firms to continue operating, thereby distorting competition and diverting resources from more productive uses. This lack of legal and institutional reform was a significant barrier to the creation of a dynamic private sector capable of driving sustained economic growth (Havrlylyshyn and Rooden, 2000).

The financial sector also suffered from delayed and fragmented reforms, further hindering economic growth. In the early years of the transition, North Macedonia's banking system was dominated by state-owned banks with poor corporate governance and limited capacity for financial intermediation. These banks were often inefficient, burdened by non-performing loans, and unable to allocate credit effectively to the private sector. The slow pace of banking sector reforms meant that the financial system remained underdeveloped throughout much of the 1990s, providing limited support for private sector development. It was not until the entry of foreign banks in the early 2000s that significant improvements were made in terms of governance, competition, and financial stability. The arrival of reputable foreign financial institutions introduced modern banking practices, improved risk management, and increased competition, which helped stabilize the sector and facilitate economic growth. However, the delayed reforms meant that the financial sector had already failed to play its crucial role in the early transition years, depriving the economy of much-needed capital and exacerbating the challenges faced by SMEs, which were particularly reliant on external financing for growth and expansion (Bishev and Petkovski, 2004).

MACROECONOMIC STABILITY: SUCCESSES AND FAILURES

The transition from a centrally planned economy to a market-based system in North Macedonia, following the disintegration of Yugoslavia, posed significant challenges. At the heart of this transformation was the necessity to craft a sound macroeconomic policy mix that could manage both stabilization and growth objectives in a highly uncertain environment. North Macedonia's experience has been shaped by a policy framework that prioritized price stability and external balance, often at the cost of output growth and employment. The combination of fiscal restraint and tight monetary policy anchored by a fixed exchange rate regime has brought mixed results. While inflation was successfully contained, the country struggled with persistently high unemployment, sluggish growth, and vulnerability to external shocks. This section critically examines the appropriateness of the macroeconomic policy mix in North Macedonia, analyzing both its successes and failures, and explores the feasibility of using monetary and fiscal policy as active tools for output stabilization in the early transition period.

In terms of monetary policy, maintaining the exchange rate peg to the euro was crucial for preserving macroeconomic stability, a strategy the IMF advocated for extending over a longer period. Several factors contribute to the stability-oriented exchange rate policy in North Macedonia. As a small, open economy with limited influence on global GDP and trade, the exchange rate plays a crucial role in shaping price trends and inflation expectations. North Macedonia's marginal market power restricts its ability to impact global prices, positioning it as a price taker where external shocks are likely to quickly affect the domestic economy. To protect against macroeconomic instability and inflationary pressures, especially during the early years of transition, the country's monetary authorities opted to peg or manage the exchange rate against the currency of its primary trading partner with a credible record of inflation control. Additionally, the economy's high level of openness causes domestic wages and prices to respond swiftly to fluctuations in the nominal exchange rate. The substantial degree of euroization further amplifies the exchange rate pass-through, linking the prices of goods and services to the exchange rate, which places added pressure on the central bank. This challenge is heightened by the absence of a forward market, limiting banks' ability to manage exchange rate risks effectively (Velickovski, 2013). The adoption of a strict exchange rate peg in 1994, first to the German mark and later to the euro, provided a credible nominal anchor that helped bring inflation under control. Disinflation was rapid and sustained, with annual inflation falling from triple digits to single digits by the late 1990s.

The major failure of North Macedonia's stabilization efforts has been the inability to stimulate output growth and reduce unemployment. By prioritizing inflation control and exchange rate stability, the policy mixes largely sidelined the objective of stimulating aggregate demand. As a result, North Macedonia experienced what can be described as "jobless growth," where modest GDP expansion did not translate into meaningful employment gains (Petrevski, 2005). The elusive nature of economic growth can be attributed to the sluggish implementation of structural reforms, compounded by a series of adverse external shocks. During the transition to a market economy, North Macedonia experienced a notably more severe and prolonged economic downturn compared to other transition economies in Central and Southeastern Europe and the Baltics. While many countries emerged from the "transitional recession" within two to four years, North Macedonia's output declined for five consecutive years, with a cumulative drop of 21.2%. Several factors contributed to this extended recession, including a protracted disinflationary process, slow structural reforms of enterprise and financial sector, the weak performance of institutions and rule of law, unfavourable consumption structure, and low and declining domestic savings and investment (Bishev and Petkovski, 2004).

Unemployment rates remained alarmingly high throughout the transition, reaching over 30% in the 1990s and staying persistently above 20% well into the 2000s. The labour market in North Macedonia is notably distinct from other Southeast European transition countries, marked by low participation, low employment rates, high unemployment, and a significant mismatch between the skills workers possess and those demanded by employers. Research analysing the reasons for high unemployment in the country points to several contributing factors: (i) an unfavorable starting point, with high unemployment carried over from the socialist era; (ii) the privatization process favouring insiders; (iii) an incomplete economic transition marked by sluggish growth; (iv) substantial emigration of skilled workers; (v) legal and institutional challenges; and (vi) relatively high labour taxes (Rutkowski and Walewski, 2007; Mojsoska-Blazevski et al., 2009; IMF Country Report, 2013). A significant portion of the unemployment is structural, stemming from the inefficiency of state-owned enterprises that struggled to adapt to a market-based economy.

One of the critical shortcomings of the stabilization program in North Macedonia has been its failure to address external imbalances, particularly concerning the persistent current account deficits that have plagued the country since 1994. These deficits are largely driven by substantial trade deficits in goods and services, which reflect deeper structural issues within the economy. A particularly concerning aspect for policymakers has been the country's weak export performance. Between 1994 and 2003, export growth was sluggish, primarily due to an unfavourable mix of raw materials and semi-processed goods. The lack of diversification and improvement in export composition reflected minimal progress in enhancing the competitiveness of the sector. This stagnation highlights the poor international competitiveness of Macedonian companies, which has been a key contributor to the enduring external imbalances. Several factors have hindered the country's export competitiveness. First, the privatization process, which favoured insiders, did not lead to significant restructuring efforts within companies, as management focused more on consolidating control than on market expansion. Second, until recently, domestic companies were shielded by relatively high tariffs, such as the 14% trade-weighted average tariff rate in 2001, limiting exposure to foreign competition. Furthermore, Macedonia's underdeveloped banking sector restricted access to foreign trade finance, further hampering export growth. Compounding these issues was the country's inability to attract significant foreign direct investment (FDI), which could have brought much-needed technology and managerial expertise to help modernize companies. From this perspective, it becomes evident that while macroeconomic stabilization policies aimed at controlling inflation and maintaining monetary stability may have been partially successful, they did not address the structural weaknesses in the export sector that continue to fuel external imbalances (Bishev and Petkovski, 2004).

Throughout North Macedonia's transition to a market economy, persistently high interest rates were a defining feature, shaped by a mix of macroeconomic instability, structural weaknesses, and institutional inefficiencies. Initially, high interest rates were a strategic tool employed by the central bank to combat hyperinflation, a critical issue following the collapse of Yugoslavia and the economic disarray of the early 1990s. In the absence of strong monetary policy credibility, high real interest rates were seen as necessary to anchor inflation expectations and stabilize prices. This approach, while effective in reducing inflation, had long-lasting consequences that extended beyond the period of price stabilization. Even as inflation was brought under control, interest rates remained elevated, reflecting ongoing vulnerabilities within the economy. One of the central reasons for the persistence of high interest rates was the structural fragility of North Macedonia's financial sector. The banking system, characterized by limited competition and low operational efficiency, struggled to adapt to the demands of a market economy. This lack of competition allowed banks to maintain high lending rates, as there was little pressure to reduce costs or improve services. Furthermore, commercial banks were reluctant to lower rates due to the significant credit risk they faced. Weak legal and institutional frameworks made contract enforcement difficult and increased the perceived risk of default, leading banks to charge substantial risk premiums. In addition, the underdevelopment of capital markets further limited financing options for firms, increasing their dependence on bank loans, which remained costly. The situation was exacerbated by broader macroeconomic challenges. The devaluation of the Macedonian denar in 1997, a key moment in the country's monetary history, eroded confidence in the stability of the exchange rate regime. To defend the exchange rate peg and stave off further devaluation, the central bank was compelled to keep interest rates high. This exchange rate-targeting strategy, while necessary for short-term monetary stability, came at the expense of economic flexibility. By maintaining high interest rates to protect the currency, the central bank effectively limited its ability to pursue a more accommodative monetary policy that could stimulate growth. This approach reflected the inherent tension between exchange rate stability and economic growth during the post-transition period. The implications of these high interest rates for economic growth were profound. Elevated borrowing costs curtailed both business investment and household consumption, two vital drivers of economic expansion. For businesses, particularly those emerging from the privatization process, high interest rates restricted access to affordable credit, limiting their ability to invest in new technologies, expand production, or enter new markets.

This hindered productivity improvements and dampened competitiveness, particularly in the export sector, which was essential for growth in a small, open economy like North Macedonia. The cost of borrowing also stifled entrepreneurship and innovation, as new firms struggled to secure financing, slowing the emergence of a more dynamic private sector. On the household side, high interest rates reduced the demand for credit, constraining consumption and limiting investment in housing and other durable goods. The high cost of credit, combined with low income levels, further suppressed demand in key sectors such as construction and retail, stalling potential areas of growth. Moreover, the inability of the central bank to lower interest rates in the face of these challenges meant that economic recovery remained slow, as there was little monetary stimulus available to encourage borrowing, spending, or investment. Over time, the persistence of high interest rates contributed to North Macedonia's sluggish economic performance throughout its transition period, as the high cost of credit stymied both supply and demand-side drivers of growth.

The macroeconomic policy mix adopted during North Macedonia's early transition, though effective in achieving price stability, has faced scrutiny for its broader impact, as the pace of economic recovery remains slow and several ongoing challenges continue to vex policymakers, prompting widespread debate about the adequacy of the government's approach. The persistence of North Macedonia's fixed exchange rate regime, while instrumental in achieving price stability during its post-transition period, imposes notable limitations on the flexibility of monetary policy, particularly in addressing external and domestic economic shocks. In a fixed exchange rate system, the central bank's capacity to engage in discretionary monetary interventions, such as interest rate adjustments or open market operations, is significantly constrained by the need to defend the currency peg. This rigidity is especially problematic in periods of economic distress when the economy requires counter-cyclical measures to mitigate downturns. For instance, during the global financial crisis of 2008-2009, North Macedonia experienced a severe contraction in external demand for its exports. However, to maintain the currency peg and avoid speculative pressure on the denar, the central bank was compelled to pursue procyclical policies, including keeping interest rates elevated. This constrained domestic liquidity and investment at a time when expansionary policies were necessary, exacerbating the recessionary conditions. Such examples highlight how the prioritization of exchange rate stability in a fixed regime inherently limits the ability of the monetary authority to respond flexibly to real economic shocks, hampering efforts to stabilize output and employment. Abandoning the fixed exchange rate regime in favour of a more flexible exchange rate arrangement would allow for greater monetary policy autonomy, enabling the central bank to tailor its interventions more effectively to domestic economic conditions. However, the shift toward flexibility introduces significant risks, chief among them being heightened exchange rate volatility. For an economy as small and open as North Macedonia, increased volatility in the exchange rate could introduce significant uncertainty for businesses and investors, who rely on predictable exchange rates for trade and financial planning. Exchange rate fluctuations could lead to abrupt changes in the cost structure of imports and exports, potentially undermining the competitiveness of domestic industries in international markets.

This risk is exacerbated by the potential for short-term speculative attacks on the denar in the initial stages of the transition. Market participants, anticipating further depreciation, could engage in capital flight, thereby increasing the demand for foreign exchange reserves and amplifying pressures on the currency. The depletion of foreign reserves could further destabilize the economy, forcing the central bank into a defensive posture, and undermining confidence in the financial system. Inflationary pressures also pose a significant challenge in the event of abandoning the peg. A depreciation of the denar following the transition to a flexible exchange rate would likely lead to an increase in the price of imported goods, particularly essential commodities such as energy, which play a central role in domestic consumption. This would exert upward inflation pressure, particularly if inflation expectations are not well-anchored. A spike in inflation could erode household purchasing power, disproportionately affecting lower-income groups, and potentially leading to social and political instability. The central bank, in response, might be forced to tighten monetary policy to rein in inflation, potentially through higher interest rates, which could have contractionary effects on the economy, slowing growth and investment during a period of adjustment. Beyond these immediate economic risks, there are also serious concerns regarding the credibility of North Macedonia's monetary policy framework in the event of a transition. Having relied on the fixed exchange rate as a nominal anchor for over a decade, the sudden abandonment of this strategy without a credible alternative could severely undermine market confidence. The fixed exchange rate has provided a clear and transparent policy framework for maintaining price stability; its removal would necessitate the introduction of a robust alternative, such as an inflation-targeting regime, to serve as the new anchor for expectations. Without such a credible anchor, market participants may lose faith in the central bank's ability to control inflation and ensure macroeconomic stability, triggering further capital outflows, currency depreciation, and financial instability. The erosion of credibility could lead to a vicious cycle of depreciation and inflation, destabilizing the broader financial system and complicating the country's economic adjustment process.

Additionally, transitioning to a flexible exchange rate regime would place significant demands on the institutional capacity of North Macedonia's central bank. Effective management of a flexible exchange rate requires technical expertise in a range of complex tasks, including active foreign exchange market intervention, inflation forecasting, and the development of financial instruments to stabilize the domestic currency. Any deficiencies in these areas could lead to a disorderly transition, heightening the risk of speculative attacks and destabilizing capital flows. The central bank would also need to ensure adequate levels of foreign reserves to cushion against excessive volatility in the exchange rate, while gradually building the institutional credibility necessary to manage inflation in an increasingly open and integrated global market. In the context of North Macedonia's gradual integration into international capital markets, the need for exchange rate flexibility becomes even more pressing. Under conditions of free capital mobility, the defence of a fixed exchange rate peg becomes increasingly costly and unsustainable. The experience of many emerging market economies indicates that maintaining a currency peg in the face of open capital accounts requires perpetually high interest rates, which can stifle domestic investment and growth. North Macedonia has already faced the consequences of maintaining unusually high real interest rates over an extended period, driven in large part by the need to defend the fixed exchange rate. As the country becomes more integrated into global financial markets, the costs of defending the peg will likely increase, exposing the economy to growing speculative pressures and necessitating higher interest rates, further constraining domestic economic activity.

Was there any scope for using monetary and fiscal policy as tools for short-term economic stabilization during the early phase of North Macedonia's transition? In the following section, we will explore this question by examining the specific economic features and constraints that shaped the country's policy options during that critical period.

Fiscal policy in the first period, especially in the first years of transition was focused on consolidating public finances to achieve macroeconomic stability, hence, the possibility to be used as a short-term stabilization tool was severely limited. The role of fiscal policy was confined to the work of automatic stabilizers. However, the low level and coverage of unemployment benefits, the low level of social assistance and its inability to react swiftly to changes in incomes, as well as the predominance of indirect taxes, which are pro-cyclical, are the main factors that make automatic stabilizers largely ineffective in North Macedonia (Mojsoska-Blazheski, 2012). An additional constraint on the usage of fiscal policy for stabilization purposes was the monetary strategy of a fixed exchange rate regime. Because Macedonia is a small open economy, and the insufficient level of foreign exchange reserves in the first years of transition this would translate into coordinating fiscal policy to not disrupt the maintenance of the fixed exchange rate, therefore, additionally limiting any room for using fiscal policy as an output stabilization tool. For most of the early period of transition North Macedonia was using IMF arrangement to stabilize its economy. Therefore, during these years, the macroeconomic policy mix was set up mutually by the Macedonian government and IMF staff approval, giving priority to the monetary policy objective of maintaining the fixed exchange rate and, consequently, setting small budget deficit targets or even surpluses, hence limiting the possibility of using fiscal policy as a stabilization tool. The usage of fiscal policy as a stabilization tool was also constrained by the availability of financial sources, the underdeveloped domestic securities market, and not having of access to international capital markets, especially in the first years of transition. Fiscal policy in North Macedonia experienced a paradigm shift, turning from a prudent use mainly as a subordinate measure of monetary policy objective to a more proactive use as an output stabilization tool. Several actions in terms of fiscal shocks, albeit small in magnitude, were implemented in 2008 to tackle the negative consequences of the global financial crisis in the North Macedonian economy. Additionally, from 2008, a higher budget deficit in the medium term was targeted. The improved macroeconomic stability situation, the improved access to financial sources, and improved foreign exchange deposit coverage contributed to increasing the possibility of using fiscal policy as a stabilization tool in the period after 2008.

Monetary policy was also limited to boosting output due to exchange rate pegs, underdeveloped financial markets, low levels of foreign currency reserves, high levels of euroization, and excess liquidity (Velickovski, 2013; Jovanovic et al., 2015). Empirical research highlights that monetary policy tends to have a limited impact on output in transition economies like North Macedonia (Starr, 2005; Jovanovic & Petreski, 2014). Excess liquidity means that commercial banks have minimal reliance on central bank borrowing, making the central bank's policy interest rate more of an opportunity cost than a real cost of financing. This, in turn, weakens the transmission of monetary policy, particularly through the interest rate channel, which serves mainly as a signalling mechanism rather than directly impacting financing costs. Therefore, adopting an interest rate targeting strategy would likely be ineffective in North Macedonia as an alternative to exchange rate targeting. The limited pass-through effect of interest rates has been consistently observed in studies on the Macedonian economy (Jovanovski et al., 2005; Velickovski, 2006; Krstevska, 2008). Although more recent findings indicate a stronger transmission of interest rates to deposits and household lending, the overall effectiveness of interest rate targeting for economic stabilization remains uncertain due to its minimal influence on aggregate demand and sector-specific indicators (Jovanovic et al., 2015).

CONCLUSION

The case of North Macedonia's economic transition offers important lessons about the complex interplay between macroeconomic stabilization and long-term growth. The most significant lesson learned is that achieving price stability alone is not enough to foster sustainable economic development. While the country successfully controlled inflation and established a fixed exchange rate regime, this focus on monetary stability came at the cost of economic flexibility, leading to sluggish growth and persistently high unemployment. The policies implemented, though effective in stabilizing prices, failed to generate the supply-side reforms necessary to stimulate productivity, investment, and overall economic expansion.

Several fundamental problems emerged during Macedonia's transition. First, the macroeconomic policy mix, particularly the rigid exchange rate regime and restrictive monetary policies, constrained the economy's ability to respond to external shocks and internal imbalances. High interest rates, maintained to defend the currency peg, stifled investment and consumer spending, leaving the economy with limited capacity for recovery. Second, the process of trade liberalization was delayed and poorly managed. The reduction of tariffs led to increased imports but failed to drive export growth, exposing the weaknesses in Macedonia's competitiveness and reinforcing its dependence on external markets.

The privatization process, which was central to the country's transition, was another critical problem. Instead of fostering a competitive market economy, privatization was marred by insider control, corruption, and inefficiency. Ownership of key assets remained concentrated in the hands of politically connected elites, preventing meaningful restructuring and limiting foreign direct investment. As a result, many privatized firms remained unproductive, and unemployment remained stubbornly high.

Institutional weaknesses further compounded these issues. Macedonia's legal and regulatory frameworks were underdeveloped, with weak enforcement of property rights, ineffective governance, and political interference in the judiciary. These institutional deficiencies undermined business confidence, deterred investment, and slowed the pace of reforms. Delayed integration into international organizations such as the European Union, along with insufficient progress in institutional development, further limited Macedonia's ability to fully implement the structural changes required for long-term growth.

The findings of this analysis point to a clear set of issues: while early stabilization policies were necessary to control inflation, the broader economic strategy did not sufficiently address the structural problems impeding growth. The reliance on rigid macroeconomic tools, such as the fixed exchange rate and restrictive monetary policies, created a trade-off between stability and growth, ultimately leaving the economy vulnerable to external shocks and internal stagnation. The delayed pace of institutional reforms and the flawed privatization process were key factors that hindered Macedonia's transition to a competitive, market-based economy.

Given these findings, several recommendations emerge. First, Macedonia might consider shifting away from its rigid exchange rate regime and adopting a more flexible monetary policy that allows for greater responsiveness to economic conditions. This would enable the central bank to better manage domestic demand and external shocks. Second, trade policy must focus on improving export competitiveness and reducing the reliance on low-value-added goods. Strengthening the export sector will require investment in innovation, technology, and integration into global value chains.

Third, the government must accelerate institutional reforms, particularly in the areas of governance, rule of law, and regulatory oversight. Strong institutions are critical for fostering a business environment that attracts investment and encourages competition. Reforms that enhance the enforcement of property rights and reduce corruption will be essential for creating a more dynamic economy. Additionally, the financial sector must be further developed to support private sector growth, particularly for small and medium-sized enterprises (SMEs), which are vital for job creation and economic diversification.

In conclusion, the primary lesson from North Macedonia's economic transition is that macroeconomic stability, while necessary, is not sufficient for long-term growth. Addressing the deeper structural challenges—through institutional reform, financial sector development, and a more flexible policy framework—is critical for unlocking the country's growth potential. Macedonia's future success will depend on its ability to balance the need for stability with the imperative of fostering a dynamic, competitive, and resilient economy.

REFERENCES

Bishev, G., & Petkovski, M. (2004). Understanding Reforms in Macedonia. *Wiiw Balkan Observatory Working Paper,* No. 042.

Cocozza, E., Colabella, A., & Spadafora, F. (2011). The Impact of the Global Crisis on the South-Eastern Europe. *IMF Working Paper,* WP/11/300.

Gligorov, V., & Mojsovska, S. (2005). Macedonia: Search for Stability Without Growth. *Wiiw Current Analysis and Country Profiles.*

Havrylyshyn, O., & van Rooden, R. (2000). Institutions Matter in Transition, But so do Policies. *IMF Working Paper,* WP/00/70.

IMF. (1995). *IMF Country Report,* No. 95/50, June.

IMF. (1998). *IMF Country Report,* No. 98/82, August.

IMF. (2001). Macedonia—*Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding,* December 24.

Imf. (2002). Public İnformation Notice: Imf Concludes 2001 Article IV Consultation with the Former Yugoslav Republic of Macedonia. *Public Information Notice,* No. 02/25.

IMF. (2003). *Evaluation Report: Fiscal Adjustment in IMF Supported Programs.* ISBN 1-58906-274-4.

IMF. (2003). *IMF Country Report,* No. 03/131, May.

IMF. (2004). *IMF Country Report,* No. 04/276, August.

IMF. (2004). *IMF Country Report,* No. 04/309, September.

IMF. (2005). *IMF Country Report,* No. 05/339, September.

IMF. (2006). *IMF Country Report,* No. 06/188, May.

IMF. (2007). *IMF Country Report,* No. 07/257, July.

IMF. (2008). *IMF Country Report,* No. 08/107, March.

IMF. (2008). *World Economic Outlook,* October.

IMF. (2009). *Annual Report: Fighting the Global Crisis.*

IMF. (2009a). *IMF Country Report,* No. 09/60, February.

IMF. (2009b). *IMF Country Report,* No. 09/60, February.

IMF. (2010). *IMF Country Report,* No. 10/20, January.

IMF. (2011). *IMF Country Report,* No. 11/280, September.

IMF. (2012). *IMF Country Report,* No. 12/133, June.

IMF. (2013). *IMF Country Report,* No. 13/178, June.

IMF. (2014). *IMF Country Report,* No. 14/231, July.

IMF. (2015). *IMF Country Report,* No. 15/242, September.

Jovanovic, B., & Petreski, M. (2014). Monetary Policy, Exchange Rates and Labor Unions in SEE and The CIS During The Financial Crisis. *Economic Systems, 38*(3), 309-332.

Jovanovic, B., Krstevska, A., & Popovska-Kamnar, N. (2015). Can Monetary Policy Affect Economic Activity Under Surplus Liquidity? Some Evidence From Macedonia. *Working Paper No. 2015-03*, National Bank Of The Republic Of Macedonia.

Kabashi, R. (2014). Effects of the Global Crisis on Macedonia: A Counterfactual Analysis. *Economic Analysis*, National Bank of the Republic of Macedonia, Skopje.

Krstevska, A. (2008). The Effectiveness of the Transmission Channels of the Monetary Policy in the Republic Of Macedonia. *International Journal of Economic Policy in Emerging Economies*, Vol. IV.

Mojsoska-Blazevski, N., & Kjosev, S. (2009). Labour Market in the Former Yugoslav Republic of Macedonia. A Study For the European Commission Employment, *Social Affairs and Equal Opportunities DG. Skopje*: Euro-Balkan Institute.

Mojsoska-Blazevski, N., & Kurtishi, N. (2012). The Macedonian Labour Market: What it Makes so Different? *MPRA Paper, 42045*, University Library of Munich, Germany.

Petrevski, G. (2005). Macedonia: A Decade of Stabilisation Policy. *South-East Europe Review For Labour and Social Affairs*, 01, 97-115.

Petrevski, G., Et al. (2016). Fiscal and Monetary Policy Effects in Three South Eastern *European Economies. Empirical Economics, 50*(2), 415-441.

Raveni, A. (2021). The Determinants of Fiscal Multipliers in Transition Countries: A Panel VAR Model. *South East European Journal of Sustainable Development, 5*(3), 132-147.

Rutkowski, J., & Walewski, M. (2007). Taxation of Labor. In Ch. Grey, T. Lane, & A. Varoudakis (Eds.), Fiscal Policy And Economic Growth: Lessons For Eastern Europe and Central Asia (Pp. Xx-Xx). *Washington, DC: World Bank*.

Slaveski, T. (1997). Privatization in the Republic of Macedonia. *Eastern European Economics*, January-February.

Starr, M. A. (2005). Does Money Matter in the CIS? Effects of Monetary Policy on Output and Prices. *Journal of Comparative Economics, 33*(3), 441-461.

Stojkov, A., Et Al. (2008). Flat Tax Policy Assessment in Macedonia. *Centre For Economic Analysis*, September.

Velickovski, I. (2006). Monetarna Transmisija Preku Kanalot Na Kamatni Stapki İ Finansiski Pazari Vo Makedonija: Sto Napravivme, Sto Ostvarivme İ Sto Naucivme? *NBRM Working Paper, Skopje.*

Velickovski, I. (2013). Assessing İndependent Monetary Policy in Small, Open and Euroized Countries: Evidence From Western Balkan. *Empirical Economics*, 45, 137–156.

World Bank. (2011). *The Former Yugoslav Republic of Macedonia*. Report No. 59914-MK.

Zalduendo, J. (2003). Enterprise Restructuring and Transition: Evidence From the Former Yugoslav Republic of Macedonia. *IMF Working Paper, WP/03/136*, IMF, Washington, DC.