

# *U.S. Embassy - Skopje*

## **ECON NEWSLETTER 6/2003**

### **FOREIGN TRADE IN JANUARY-APRIL AROUND US\$ 1.12 BILLION**

According to data from the State Statistical Office, the foreign trade of the Republic of Macedonia in the period January-April amounted to US\$ 1.12 billion with the export taking up 36.6 percent, while the import 63.4 percent. The coverage of the import with the export was 57.6 percent, while the balance is negative and amounted to US\$ 302 million.

Finished products had the largest share in the export with 36 percent, products classified according to the material accounted for 32.3 percent, while beverages and tobacco 7.8 percent. In regards to the import, transactions and other goods participated with 21.2 percent, machines and transport goods with 17.8 percent and mineral fuels with 17.2 percent. The EU member countries and the states of the former Yugoslavia were still the major trading export destinations. On the other hand, EU member countries, countries of Central and Eastern Europe and former USSR had the majority of the import.

### **AVERAGE SALARY IN MARCH - DENAR 11,500**

The average net-salary in March 2003 was Denar 11,500, which is nominal and real increase of 1.2 percent in comparison to February. State Statistics Bureau informed that the highest increase of 140.8 percent was registered in the air traffic sector. Compared to March 2002, the average net-salary is nominally higher by 5.3 percent, i.e. by 5.6 percent in real values. However, 25.2 percent of the workers did not receive their salaries in March.

### **WORLD BANK PUBLIC SECTOR ADJUSTMENT CREDIT**

Macedonia received US\$ 17.1 million from the World Bank Public Sector Management Adjustment Credit. The credit is granted under favorable IDA conditions, with the repayment period of 35 years and grace period of ten years, without interest rates and provision of the withdrawn funds of 0.75 percent. The credit is for servicing Macedonia's liabilities towards foreign

creditors and will be used in the next few days. With the Public Sector Management Adjustment Credit, the Macedonian Government has committed to continue the structural reforms in the public sector, which would create a more efficient public administration.

#### **FARMERS WILL BE ABLE TO USE IFAD2 THROUGH SEVERAL BANKS**

Funds from the Project for Financial Services in Agriculture IFAD2 will be available to farmers through Tutunska banka, Komercijalna banka and Invest banka, as well as through the savings houses Moznosti and the Financial Services for People in Macedonia. "There are no legal, factual and financial obstacles for realization of project IFAD2", Minister of Agriculture, Forestry and Water Supply Slavko Petrov stated after signing the agreement with the three banks in the Finance Ministry. The credit is worth US\$ 8 million and will be allocated according to the category of users.

As informed by the project manager Lidija Cadikovska, a minimum of US\$ 2,000 and a maximum of US\$ 75,000 will be given according to the needs. The smallest credits of US\$ 2,000-5,000 are intended for the underdeveloped rural areas, which are within the so-called first category; US\$ 25,000 will be given to the second category users, who deal with primary production, while the last two categories, or the companies for processing and trade can use up to US\$ 75,000. "The interest rates for the first two categories will be 6 percent, while for the other two categories 7 percent", manager of IFAD2 informed.

The project for financial services in agriculture IFAD2 is the second intervention of the International Fund for Agricultural Development, after the implementation of the IFAD1 in 1997. IFAD1, which goal was rural development of the south and east regions of the country, should officially end on June 30, with around US\$ 3 million of unused credit. According to the Macedonian Government, this project should continue for additional two years in order to use the funds left. The objective of IFAD2 is to improve the living standard of the population in the rural areas through increased economic activity and reduce the unemployment of the active rural population.

#### **PARLIAMENT ADOPTS GOVERNMENT PROJECT ON SMALL BUSINESS AND ENTREPRENEURSHIP**

Macedonian Parliament adopted the government proposal for preparing a Law in support of small businesses and entrepreneurship. The MPs had many objections to the

text and offered their suggestions in order to make this law applicable. The Government offers a definition on which legal and physical entities will have status of small business, defines the objectives for developing the small businesses and proposes establishment of Entrepreneurship Agency. In his address, Minister of Economy Ilija Filipovski said that the entrepreneurship should be decentralized and institutions should be established for supporting the development of small businesses.

#### **GOVERNMENT TO DECREASE NUMBER OF EMPLOYEES BY 4 PERCENT**

The Macedonian Government debated on the program for rationalization of its employees, confirming the position for a 4 percent reduction. This number does not include persons that will be transferred to the municipality level and the self-financing bodies. Furthermore, a financial plan will be prepared, which will include calculation of the funds needed for severance payments of persons, whose jobs will be annulled.

The Government also adopted the report on the final calculation of the 2002 Budget, with a deficit of Denar 6,890 million, i.e. 2.8 percent of GDP. At the proposal of the Ministry of Finance, the Government adopted the directions for preparation of a draft-budget calculation for 2004.

#### **TENDERS FOR HEMTEKS AND NOKATEKS ANNOUNCED**

The GOM announced international tenders for sale of another two loss-making companies - Hemteks and Nokateks. Interested parties can submit bids until July 7. No minimum price is set, and the companies are offered in packages. The potential investors can bid for one or more packages, and have no obligations to commit to any future employment or investments. Hemteks is a chemical factory from Skopje that specializes in the production of polyester fibers. Nokateks, which is located in Veles, is textile factory producing wide range of textile products.

#### **THIRD INSTALMENT OF EU ASSISTANCE TO MACEDONIA APPROVED**

The European Commission disbursed the loan of Euro 10 million to Macedonia, which is part of the funds pledged at donor's conference for the support of the balance of payment, Macedonian Minister of Finance Petar Gosev told at the press conference on June 4, 2003. The funds are part of the third installment of the EU macro-financial

assistance to Macedonia. This installment also includes Euro 10 million grant that were transferred to Macedonia last week. The funds come as a results of the EC's assessment that Macedonia has stable macroeconomic policy, which was also confirmed with the approval of the new stand-by arrangement by the IMF's Board.

EU has granted Euro 98 million for the balance of payment support out of which Euro 50 million were released during 2000 and 2001. The last installment amounting to Euro 26 million should be approved by the end of the summer, but as Gosev explained it would depend on the assessment of the ongoing reforms in the public administration and financial sector and the execution of IMF arrangement. Gosev announced that a mission of the European Union would visit Macedonia in July in order to assess the realization of Macedonia's obligations.

#### **REFORMS IN EMPLOYMENT SERVICES**

The European Union started a program on restructuring the employment services. The project worth Euro 2.5 million will support the Ministry of Labor and Social Policy in developing national policy on employment and action plan by providing technical assistance, training, pilot projects and equipment.

Furthermore, a continuous process of dialogue and consultations will be held with the Economic Chamber and the trade unions. The program also foresees reforms in the National Employment Bureau and its network of 30 local offices in order to meet the requirements of their clients and to offer more efficient services. The project will be also focused on developing National Action Plan on Employment in accordance with the social partners, ministries and governmental agencies.

#### **MACEDONIA AND RUSSIA SIGN PROTOCOL ON ECONOMIC COOPERATION**

Macedonian Minister of Economy Ilija Filipovski and representative of the Russian Government Yuri Schevchenko signed a Protocol on economic cooperation. The two ministers expect that this will not only boost the volume of mutual trade, but will also qualitatively improve the cooperation. "For the Macedonian part this will mean specification of Russian investments in the country," Filipovski said, adding that the meeting was mainly focused on this issue.

Macedonian Deputy Agriculture Minister Besir Jasari and Russian Deputy Minister of Rural Economy Belan Kamchiev signed an Agreement on cooperation in the field of agriculture and food industry. Also, agreements on quarantine, plant protection and cooperation in veterinary have been initialed.

#### **AGREEMENT ON REPROGRAMMING MACEDONIAN DEBT TO JAPAN**

Macedonian Ambassador to Austria Ognen Maleski and Japanese Ambassador Hiroshi Hashimoto on June 10 in the Japanese Embassy in Vienna signed an Agreement on reprogramming the Macedonian debt to Japan within the Paris Club of Creditors amounting to Euro 800,000. After the signing ceremony, Maleski emphasized that Japan continuously granted support and assistance to Macedonia.

#### **FINANCE MINISTRY NOT SATISFIED WITH THE NUMBER OF FISCAL CASH REGISTERS**

The Public Revenue Office can charge a mandatory penalty between Denar 5,000-50,000 to legal and physical entities, which have not set fiscal cash registers in the determined deadline. This has been regulated with the changes in the Law on registration of cash payment. According to the Minister of Finance Petar Gosev, the objective of the law is to increase the percentage of fiscal cash registers in the country, which amounts about 25 percent. "Although this percentage has been doubled since October 2002, we are still not satisfied ", Minister Gosev stated, adding that the number of fiscal cash registers at the moment is around 10,000, rising from 4,567 registers in October 2002. According to Minister Gosev, the small percentage of fiscalization does not come as a result of the price of the fiscal cash registers, but due to the practice of avoiding obligations.

#### **STATE WANTS TO SAVE THE NPC PROJECT**

The destiny of the "National Payment Card" (NPC) will be known in 15 days, when the dominant owners Balkanska Banka and Makedonska Banka are to determine the conditions for inclusion of other banks in the country in this shareholders' association. "The state, which owns 20 percent of NPC, is interested in finding a solution for the National Payment Card, which was on the agenda of the meeting with representatives of the banks that participate in this project", the Minister of Finance Petar Gosev stated.

At the meeting, the bank officials asked the dominant owners for equal principles when entering the NPC, i.e. return of the shares to the state, which owned the NPC, and their re-offer for sale. According to Minister Gosev, this is possible if Makedonska Banka and Balkanska Banka are interested in this project.

#### **INTERVIEW OF FINANCE MINISTER PETAR GOSEV FOR "CAPITAL"**

Some of the six banks that are seen as problematic will be saved, and some could be liquidated, Macedonian Finance Minister Petar Gosev stated in the interview for weekly "Kapital". Gosev emphasizes that if the banks fail, "there is no room for panic, because the state has enough funds for reimbursing deposits according to its legal obligation". The Finance Minister stresses that domestic saving must be mobilized, to create a business and political climate for attraction of foreign investments, thus creating conditions for increased economic growth in the country.

"We do not have an economic growth, because we have a weak private sector. Our economy has proved to be very dependent of the tenders of the state, and once the fiscal contraction is applied, the businessmen say there is no money. Thus, the Government's concept is strengthening the private sector, which we have shown with the decrease of the tax burden and the total public expenses of Euro 100 million or from 41.4 to 35.7 percent of GDP", Gosev says for the "Kapital".

#### **OFFICIAL START OF SECOND MOBILE OPERATOR "COSMOFON"**

The second mobile operator in the country "Cosmofon" started its activities at the Macedonian commercial market on June 12, 2003. Chief executive director of "Cosmofon" Nikolaos Avgerinos emphasized that their prices will be 30 percent lower than the ones of the competing mobile operator. They will offer the pre-paid users payment by seconds, direct connection, 12-month connection without supplementation of the account, same tariffs for calls within the network or outside, while post-paid users' monthly subscription will amount at Denar 375. The additional services, such as call identification, diverting, roaming, conference link, detailed account etc. are free. There is roaming for Albania, Greece and Bulgaria.

"Cosmofon" will open eight shops by the end of the year. Its vision is to make the mobile telephony accessible for everybody, through the offer of high-quality and original

services, and become the leading mobile operator in the country, Avgerinos stated, adding that communication is necessity, and not luxury.

#### **NATIONAL COUNCIL ON ENTREPRENEURSHIP AND COMPETITIVENESS ESTABLISHED**

Finding common solutions of the state and the private sector for development of the Macedonian economy is the basic function of the National Council on Entrepreneurship and Competitiveness, which was established on June 12. Council Chairman and Minister of Economy Ilija Filipovski stated at the press conference that there is a partnership relation among the private sector, civic society and the Government, which will identify the obstacles in the development of the private sector.

Co-chairman of the National Council and General Director of Skopje Brewery Svetozar Janevski emphasized that the private sector can lead the economic development of the country with new strategies, investment in innovative products for the global market, thus creating new possibilities for employment. Janevski stated that finished products present a small part of the structure of the Macedonian export, while raw materials and services dominate.

The Council has 23 members, the majority of whom are representatives of the private sector, several members of the civic society, along with the Ministers of Economy, Finances, Labor and Social Policy, Agriculture, Forestry and Water Supply, as well as Transport and Communication.

#### **ELECTRICITY PRICE FOR HOUSEHOLDS HIGHER BY 7 PERCENT**

The electricity price for households will be increased by 7 percent on July 1. Thus, 1kWh will cost Denar 2.28, instead of the present Denar 2.13. Macedonian Power Company informs that such a step was necessary in order to realize the projections and satisfy the requests from IMF and other international financial institutions. "Although we cured numerous financial and other misuses, there are still some expenses that cannot be decreased", company spokesman Saso Novevski stated. Despite the internal measures of saving at all levels, we cannot be sure if the projected income will be realized, having in mind that the company decreased the electricity price of households by 13 percent taking over the burden of the VAT increase from 5 to 18 percent.

Even after this correction of the electricity price, it is lower in comparison to the price in Croatia (7 Eurocents), Slovenia (9,4) and the EU countries (13,4), Novevski said.

#### **EU GREETES REFORMS IN MACEDONIA AND DECIDES TO INCREASE ASSISTANCE FOR WESTERN BALKAN**

At a meeting in Luxembourg, the Ministers Council of the European Union greeted Macedonia's progress in the stabilization of the situation, as well as the successful implementation of the Framework Agreement. The report of the meeting emphasizes that the full and enhanced implementation of the Framework Agreement is a precondition for EU accession. The EU Foreign Ministers require the Macedonian authorities to speed up the reforms in the administration, economy and security, pointing out the need for intensification of the combat against organized crime, corruption and human rights' protection.

The Ministers agreed to increase the financial assistance for the five countries of the Western Balkans (WB) by Euro 210 million. In the joint statement after the meeting, the Foreign Ministers of the 15 EU member-states stressed that they will continue to support the efforts of the governments in Skopje, Tirana, Sarajevo, Belgrade and Zagreb for sooner accession in the Union. The document emphasizes that the additional assistance for the Western Balkans is allocated for the period 2004-2006, adding that this amount is a supplementation to the Euro 7 billion, which the Union has given to the region since 1991.

#### **PROJECT ON CORPORATE MANAGEMENT**

The development of private sector in Macedonia through improving the legislation in the field of trade law and corporate management of Macedonian companies is the main objective of the Project on Corporate Management, which will be implemented in Macedonia in the next three years. The project will start with a research next week, which will analyze the data of 600 holding companies in Macedonia. Questionnaires in English, Macedonian and Albanian language will be submitted to the managers of these companies in order to assess the level of corporate management in Macedonia and to learn more about the principles and practices of this kind of management.

"The research will give us clear picture on how the managers understand the legislation in Macedonia and

which challenges and difficulties they face," Project Director Gregory Masen said. The gathered information will indicate in which areas the Macedonian managers need assistance and will contribute to better design of the future training on corporate management. Masen announced that the results would be published and submitted to all holding companies included in the Project, as well as to all state institutions in order to facilitate its implementation.

The Corporate Management Project is funded by the US Agency for Development (USAID), with support of the Ministry of Economy, Macedonian Stock Exchange, Commission of Securities and Macedonian Association of Lawyers.

#### **CHANGES TO LAW ON CASH PAYMENT DETERMINED**

The introduction of mandatory penalty, increased penalty fees and temporary closure if the facility does not have fiscal cash registry are the changes and supplements to the Law on Registering Cash Payments determined by the Finance and Budget Committee. Deputy Finance Minister Dimko Kokarovski said that the deadline for completing the fiscalization process has not been determined, but these changes were aimed at intensifying the process. The Committee adopted the changes and supplements to the Customs Law, according to which all projects financed by foreign donations, have been exempted from paying the taxes.

#### **AUCTION SALE OF STATE-OWNED SHARES CONTINUES**

The sale of state-owned shares through a public auction continues on June 13, when the stocks and shares of 12 companies with limited liability will be offered. The stocks and shares of these companies were offered at the first auction last week, but were not sold. If they are not sold after the third offering, then they will be transferred to the Pension and Invalidity Insurance Fund and the property to the Public Enterprise for Managing Residential and Business Property. At the first public auction the stocks in 19 companies and shares in 13 companies with limited liability were sold amounting to Euro 833,000.

#### **US DONATION FULLY PAID TO MACEDONIAN GOVERNMENT**

USAID paid US\$ 4.5 million to the account of the Macedonian Government, Finance Ministry announced on June 19. The funds are part of the US\$ 16.5 million, which

the US Government donated to the Macedonian Government at the Donors' Conference for Macedonia in Brussels in 2002. The last payment completes the full amount of the donation. The funds are intended for the balance of payment support and for servicing Macedonia's debts towards international financial institutions, such as the World Bank, International Monetary Fund and the Paris Club of creditors.

#### **MASTER PLAN ON TOURISM DEVELOPMENT PRESENTED**

In order to utilize the tourism potentials, Macedonia should improve the accommodation capacities, to open this sector for international investments, to develop the domestic tourism when the foreign is being reduced, but also to develop cultural tourism, ski, hunting and health tourism. Improved tourist sector is also possible if the recent unrest in the country never repeats and Macedonia regains the reputation of peaceful and safe country. These efforts should be made by the state and the municipalities, while the private sector should develop the accommodation capacities and infrastructure. These are the main guidelines of the master plan on tourism development in Macedonia presented on June 20. The study, financed by the French Government, was developed by the French consulting company "Louis Berger," under supervision of the Ministry of Economy.

The income from foreign tourists in 2000 was only 1.1 percent of GDP, compared to 2.4 percent in the European countries, 4-8 percent in some neighboring countries and 14 percent in Croatia. Minister of Economy Ilija Filipovski said in his address that if the guidelines were followed the number of foreign visitors could increase by 6.5 percent and of domestic tourist by 5 percent by 2015. In addition, it is necessary to adjust the tax system in order to facilitate the investments, to establish partnership between the public and private sector for developmental projects and to promote the tourist potentials, particularly to foreign countries.

#### **PROTEST OF ESM EMPLOYEES**

The redundant employees protested in front of the administration building of the company, dissatisfied from the announcement of the lists of around 1,000 persons that will be fired. "Despite the fact that we are released from work, we have information that around 600 new employments have been realized in 2003", president of the initiative board Dimitar Radanski stated. Deputy-

general director of ESM Toma Grigorievski, confirmed that there were honorarium agreements signed with ESM in 2003.

The initiative board referred for assistance to several institutions and political parties in the state through a protest letter, in which they claim that the company's leadership violated several articles of the Law on employment and the Collective Agreement.

ESM officials reiterated the position that the announcement of the lists of redundant workers is part of the Program for economic and structural changes in the company, as well as the fact the selection was done in accordance with the Collective Agreement and the Law on employment. They also denied that the company hired 600 new employees. ESM Spokesman Saso Novevski informed that there have been only two new employments in Skopje and Kocani at positions acting director and assistant-director on information technology. Also, additional 24 honorarium agreements were signed with people that were engaged for collecting on the electricity bills in the crisis regions.

#### **CHANGES OF SEVERAL ECONOMIC AND FINANCIAL LAWS**

The full exemption from the profit tax for investments in movable and immovable property up to Euro 100,000 and additional 30 percent exemption for investments above this amount are the new proposed changes in the Law on profit tax. As stated by Finance Minister Petar Gosev, these changes come from the need for increase of production, stimulation of export and urge of development in the country.

The changes in the Law on the National Bank should secure greater independence of the Bank. From now on, the National Bank will be the only one to decide on the foreign exchange policy. According to the changes, the governor will propose the vice-governors in the future, and not the President. In order to prevent conflict of interest and avoid partiality in the decision-making of the Bank's bodies, the governor, the vice-governors and the members of the Council cannot establish a bank or a savings' bank, as well as be members of bank or savings houses management bodies during the mandate and two years after.

As Gosev stated, the changes in the Law on foreign exchange operations envisage the banks to approve credits in foreign currencies for all purposes and not only for export. The objective of these changes is future decline

of the interest rates and larger investments in the economy. Furthermore, the changes will allow the Deposit Insurance Fund, insurance companies, pension and investment funds to invest in foreign securities.

Responding to a journalist question, Minister Gosev said that the evaluations of the World Bank and the International Monetary Fund are that the banking sector is stable, but added that banks can go bankrupt in market conditions. He added that if a bank goes bankrupt, the state would obey its obligations towards bank's clients.