

# *U.S. Embassy - Skopje*

## **ECON NEWSLETTER 05/2005**

### **RESTART OF BUCIM MINE**

Copper mine Bucim near Radovis has started operations again on May 6, 2005, after being bought by Russian businessman Aleksander Borshtein earlier this year. Macedonian President Branko Crvenkovski and Borshtein formally set the mine into work. "The mine is not significant only for Radovis. In its good times, the mine was making a profit of US\$ 20 million for Macedonia," Prime Minister Vlado Buckovski said at the re-opening of the mine. In addition to the EUR 4 million invested in the mine so far, additional EUR 250,000 is planned for environmental projects. Bucim mine employees 480 workers.

### **STRENGTHENING INSTITUTIONAL CAPACITY FOR CREATING ECONOMIC GROWTH**

Macedonia is at the end of the difficult and long-term transition process, which brought a series of political and economic changes that oftentimes were difficult to carry out. Some consequences as the high level of unemployment we feel today, but our economy is stable now and the results of the reforms are our main goal - Minister of Finance Nikola Popovski said on May 6, addressing the participants at the 5<sup>th</sup> meeting of the supervisory board of the Center of Excellence in Finance (CEF).

He said that Macedonian economy in this period is enjoying high price stability, stability of the denar, consistent maintenance of external and internal liquidity, exceptionally low central government deficit, as well as GDP annual growth of 3 percent. Popovski added that average wages increased by 4 percent, leading to unfavorable trend of personal consumption. In 2004, the external sector remained problematic with the deficit in the current account reaching 7.7 percent causing the interest rates to go up.

The Governor of the National Bank of the Republic of Macedonia Petar Gosev said that the institutional capacity of the region in creating economic growth is weak. "Institutional capacity is the most important

element in creating economic growth. Eight countries, CEF members with total population of 56 million citizens, in 2003 created a GDP worth US\$ 142 billion. As a comparison, in the same year, Greece's GDP was US\$ 172 billion, and Portugal's GDP was US\$ 142 billion. Both countries have approximately 10 million citizens. So, the most important thing is accumulating knowledge and building capacities in leading institutions, which would lead to economic growth," Gosev said.

Deputy Prime Minister Radmila Sekerinska said that this is the real opportunity for the countries from the region to discuss this very important issue - public finance management. "I expect talks to be focused on public finance reforms and equality of the policies led by the World Bank, as well as the conditions set for our EU membership. This is real proof to be on the road to integration and better public finance management," Sekerinska said.

The initiative to establish The Center of Excellence in Finance (CEF) was framed within the Stability Pact for South-East Europe to provide the participating countries with on-the-job training, exchange of experience, technical assistance and support in the implementation of their public finance reforms.

#### **STEPS AGREED FOR DISTRIBUTION OF FORMER YUGOSLAVIA'S MONETARY GOLD**

After a two-day meeting in Skopje, on May 6 the Committee on the Distribution of Financial Assets and Liabilities of the former Yugoslavia agreed on steps to be taken in dividing 8.5 tones of monetary gold, valued at US\$ 118 million, among the successor states. The funds will be distributed according to a previously determined succession model, under which Macedonia will receive 7.5 percent.

It was agreed that 2.7 tones of the gold from the French central bank would be deposited with the Bank for International Settlements (BIS) if the Basel-based bank agrees, after which the BIS would distribute the funds to the accounts of the successor states. The remaining 5.7 tones of gold, deposited in the Swiss commercial bank Credite Suisse, will be distributed after each successor state embassy in Switzerland gives the bank an approval for the reimbursement of the assigned amount.

Despite expectations, the committee failed to reach an agreement on the distribution of deposits of the former

Yugoslav federation with commercial banks. According to official documents dated 25 April 2005, US\$ 221 million is deposited in 38 banks in 14 countries. A resolution on the distribution of these funds will be discussed at the next meeting in Ljubljana in late June 2005.

#### **MINISTER OF FINANCE MEETS IMF, WORLD BANK REPRESENTATIVES**

Another IMF arrangement would assist Macedonia in providing a framework regarding the macroeconomic and structural policies in the upcoming 2-3 years, Head of IMF Mission Franek Roswadowski stated on May 10 after the first round of discussions with the Macedonian Minister of Finance Nikola Popovski. The World Bank Mission reps also attended the meeting, which tackled the Programmatic Development Policy Loan (PDPL).

"Macedonia does not need much funds in regard to the balance of payment support. Certain funds are required, but this is not the basic reason for the arrangement", Roswadowski said, expressing satisfaction from the judiciary and labor market reforms. "Macedonia's development is not at the required level. Development has been too slow, while the unemployment rate has been high. This situation has come as a result of the political instability and lack of structural reforms", Roswadowski stated.

According to Popovski, this year's monetary and fiscal policy has been rather stable, accompanied by a price stability, stable Denar, no additional surpluses in the public sector, with a constant annual growth rate of 2-3 percent. "We have a good perspective if we continue to realize the planned activities, along with the fulfillment of Euro-Atlantic aspirations. I am an optimist and I hope that Macedonia will not make a huge economic or political error that could derail us from this path", the Minister of Finance emphasized.

Head of World Bank Mission Bruce Courtney assessed that the planned reforms should result in accelerated development and more jobs. According to him, judicial reforms were comprehensive, making Macedonia a regional leader regarding this issue.

#### **MINISTRY OF ECONOMY, WORLD BANK LAUNCH NEGOTIATIONS ON BERIS PROJECT**

The Ministry of Economy and the World Bank Mission started negotiations on May 11 on the project for Business Environment Reform and Institutional

Strengthening (BERIS) in Macedonia. "This project is one of the main prerequisites for more dynamic development of Macedonia's economy, i.e. for necessary reforms that should boost the economic growth," Minister of Economy Fatmir Besimi said.

The project includes four components: improving the quality of business legislation; enhancing and modernization of the national system for meteorology, standardization, testing and quality; promotion of competitiveness policy; and better access to information on credit capability and financial performance of companies. The project is to be completed by 2009.

#### **IMF PUSHES FOR A NEW LABOR RELATIONS LAW**

The Labor Union of Macedonia (SSM) and the IMF diverge in their position regarding the Law on Labor Relations, SSM leader Vanco Muratovski said after the May 11 meeting with the IMF Mission Head to Macedonia Franek Rozwadowski. Muratovski explained that the SSM's position was that the law shouldn't be changed and there was no need of reducing the workers' rights. IMF considers the opposite, because it is an obstacle for attraction of foreign investments and economic development.

Rozwadowski said that the draft Law on Labor Relations, prepared by the Government, would modernize the present law, harmonize it with the EU practice, and would also offer a balance of protection of workers' rights. "The Law should have two positive aspects. It should improve the business climate and the economic growth. The Law would also reduce the causes of gray economy", Rozwadowski said.

#### **PM BUCKOVSKI PRESENTS GOVERNMENT'S ECONOMIC PROGRAM**

The basic objective of the Government Economic Program is resolution of the three key problems of Macedonian economy - insufficient economic growth, unemployment, and the deficit in the trade and current account balance. Presenting the program on May 20, the Prime Minister Vlado Buckovski voiced his expectation that the measures would lead to employment of 60,000 people, as well as to 4 - 5 percent GDP annual growth.

"The main goal of the measures is higher economic growth that creates new jobs, which can be achieved through improvement of the general labor ambience, enhanced restructuring of the enterprise and financial sector,

direct support for small and medium enterprises, new benefits for export-oriented companies, elimination of the most commonly mentioned investment barriers, and engaging active measures for increased employment", PM Buckovski pointed out.

"The Government and the economic experts agreed that the country's economic growth should be slightly higher than the one in the mature EU market economies. This is necessary in order to overcome the gap in the level of economic development, in the time when Macedonia is getting closer to EU membership", he added. Buckovski emphasized that the implementation of measures would be in cooperation with the key international financial institutions (IMF, World Bank), as well as relevant EU organizations.

He announced that businesses climate would improve with the introduction of the one-stop shop for business registration. "The improvement of the business climate will help us search for concrete foreign investors. We are encouraged by the announcements of German giant Siemens for signing a cooperation memorandum, the decision of Russian company Lukoil for construction of gas stations in the country, as well as the readiness of several foreign investors to invest their capital in infrastructure projects", the Macedonian PM stated.

Buckovski emphasized that the implementation of economic measures require capable, creative public administration, and efficient institutions. Special attention in the upcoming period would be paid to the so-called regulatory institutions for citizens' protection from possible abuse by enterprises, as in the case of telecommunications, energy, and transport.

#### **MACEDONIA'S COOPERATION WITH EBRD**

"Cooperation of the Republic of Macedonia with the European Bank for Reconstruction and Development (EBRD) has experienced continued growth, while success has been mutual, but also has had wider regional significance", Prime Minister Vlado Buckovski emphasized in the address at the annual assembly of EBRD Board of Governors, which was held in Belgrade on May 22 - 23. Buckovski reminded that in the past decade EBRD has supported a number of national and regional projects in the field of public infrastructure, privatization of large infrastructure systems and financial institutions, but also in the development of the newly created private sector.

PM Buckovski pointed out that the economic activities should increase in 2005, along with a GDP growth of 3.8 percent. According to him, there are still large economic problems, such as the high unemployment rate and poverty, as well as the constant negative trend of foreign trade. "Reforms are pending in numerous areas for improvement of the business surrounding, judicial efficiency, increase of the labor market flexibility, improvement of the regulatory and supervisory framework of the banking sector, development of the securities market and the insurance sector, as well as continuation of the reforms in the public sector", Buckovski emphasized in his address.

He assessed that the private sector has an exceptionally important role in the process. "Therefore, the Government and international financial institutions, such as EBRD, should dedicate exceptional attention to the working conditions of the private sector. In this regard, we encourage EBRD's commitment to increase its investment portfolio in the private sector in Macedonia and the region", he added.

#### **KOMERCIJALNA BANKA - RECIPIENT OF EBRD AWARD**

Norin Doyl, first Vice-President of the European Bank for Reconstruction and Development (EBRD), presented awards to six most active banks in financing foreign trade in Southeastern Europe, including Macedonia's Komercijalna Banka. Serbia's Eksim Banka, Montenegro's Euromarket Bank, Bosnia/Herzegovina's Reiffaisen Bank, Moldova's Moldinkonbank and Ukraine's Aval Bank were also awarded.

EBRD awarded several banks for granting largest guaranties to foreign trade deals and consulting services - German Komerzbank - guaranties; American Express - guaranties and co-financing, Russian Sberbank - inter-regional trade and Vnestorbank - export support, as well as global giant ING IGA - consulting.

#### **MACEDONIA, IMF AGREE ON THREE-YEAR STAND-BY ARRANGEMENT**

Macedonia agreed to a three-year stand-by arrangement with the International Monetary Fund (IMF). It would enter into force this August after being approved by the IMF Board of Directors, Minister of Finance Nikola Popovski said on May 24 after completion of negotiations with the IMF Mission. The arrangement is aimed at stabilizing the growth rate and improving employment performances, Popovski said, adding that it supports

structural reforms in four spheres: health care, judiciary, labor force market and business climate.

IMF Mission Head Franek Rozwadowski said the arrangement would be crucial for Macedonia's road to the European Union, as the structural reforms it supports will boost the country's development.

#### **MACEDONIA TO ISSUE FIRST EUROBOND**

Macedonia will issue the first Eurobond in October 2005, Minister of Finance Nikola Popovski said after completing the negotiations with the International Monetary Fund (IMF) Mission on a new arrangement. Macedonia's credit rating enables issuing of the Eurobond with rather favorable interest rate for both the country and investors, he said. Popovski considered that the European capital market was in a good shape at the moment for such a move. He said 10 largest European banks would be invited to Macedonia in the next two-three weeks to present their offers.

#### **FRENCH COMPANIES SHOW INTEREST FOR INVESTMENTS IN MACEDONIA**

Several French companies showed interest for investments in Macedonia at the meetings with the Minister of Economy Fatmir Besimi in Paris on May 27. "I want to present Macedonia as a destination for successful business", Besimi said at the business-meeting with 30 representatives of French companies, accompanied by French Foreign Ministry representative Alain Le Roy, a former EU Special Envoy to Macedonia. Le Roy told the businessmen that Macedonia has achieved political stability and is on the right path to EU integration.

Besimi said that Macedonia and France were connected with friendly relations and high level of understanding and respect. Macedonia had political and economic support from France, such as donations of financial and technical assistance in many spheres, aiming at stable development of the country.

Since Macedonia's independence, Besimi said, the total flow of direct foreign investments in the country ranged at US\$ 1.2 billion, and France has invested about US\$ 5 million. Macedonian Minister said that French companies could invest in food-processing and leather industry, as well as textile industry, tourism and electricity. According to him, small French companies could invest in production of clothing, processing of milk and medicines.

Besimi told French businessmen that Macedonia's constitution guaranteed equal, i.e. national treatment of all investors and that the investments could be protected by a political risk, having in mind that Macedonia since 1994 has been a member of the Multilateral Investment Guarantee Agency (MIGA). He also informed French businessmen on Macedonia's activities for improving the investment climate in the country, such as creation of a stable economic ambience and enabling the private sector development.

The meetings also focused on the positive experience of companies that already operate in Macedonia, which is a clear signal for new investments. "We are aware that one meeting cannot achieve concrete results, but the important thing is to establish communication", the Macedonian Minister of Economy stressed.

Alcatel showed interest for participation in the telecommunication market, group of hotels Accor was interested in spreading its network, while supermarket chain Intermarche would create a network of 15 shops in several Macedonian cities, investing nearly EUR 5 million.