

# *U.S. Embassy - Skopje*

## **ECON NEWSLETTER 5/2002**

### **WORLD BANK EXECUTIVE DIRECTOR STECK HOLDS PRESS CONFERENCE**

The purpose of a two-day visit of World Bank Executive Director Peter Steck to Macedonia was to meet with the country's officials and representatives of the opposition in order to learn more about the situation in the country, Macedonian Finance Minister Nikola Gruevski said on May 7, at a press conference. He reminded that recently the World Bank approved the PSMAC arrangement to Macedonia for reform of the public administration and should soon release the second tranche of the FESAL 2 arrangement, at amount of US\$ 20 million, for reform of enterprises and the finance system.

Saying that he has been in charge of Macedonia for a long period, Steck said that standard of citizens was worse than five years ago. However, many requirements were met, Steck said, mentioning the adoption of money laundering law and completing of the strategy for transition support. Referring to the strategy priorities, Steck underlined the necessity of judicial reform, as "the efficiency of courts is at very low level." In that respect, he also underlined the necessity for independency of judges.

"The Government has almost completed the strategy for poverty reduction, "Steck said in regard with the structure and level of social protection, which would be subject of negotiations between the Government and the World Bank. In regards to the bankrupted companies, Steck said that their closing doe not mean that there are no possibilities for their selling or restarting. The status of those companies was part of the conditions for withdrawal of the FESAL third tranche, while almost all conditions for withdrawal of the second one were met, Steck said. The International Monetary Fund should present its approval, and therefore its mission was to visit Macedonia next week to assess the macroeconomic situation in the country.

He said that the World Bank was concerned about the proposal for granting pension to employees of loss-making

companies with 25-year of working experience. Great concern was also expressed at Steck's meetings with the Macedonian officials about the high level of corruption in the country. 'The Government is aware of this problem and is working on its reduction', Steck said. Referring to the compensation of depositors in the pyramid savings houses, Steck said it was an internal issue and expressed hope that the WB and IMF would have no comments on this matter.

#### **ANNOUNCEMENT FROM MACEDONIAN GOVERNMENT**

EU Commissioner for External Relations Christopher Patten submitted the Budget in amount of €130.5 million on April 24 to the Vice-Premier and national coordinator for foreign assistance Zoran Krstevski. This is part of the long-standing indicative program for the period 2002-2006, which is focused on democracy and rule of law, economic and social development, justice, internal affairs, environment and natural resources. The program is in the framework of the strategic CARDS document, which the Macedonian Government adopted on February 26 2002.

The four priority areas are based on the principles of the stabilization and association process, which began its implementation on April 9, 2001, after Macedonia had signed the EU Stabilization and Association Agreement.

A total of €68 million will be provided for the promotion of the economic and social development of the Budget for 2002-2004. Another €29 million will be donated for the promotion of an independent and efficient judicial system, reforms in the police, strengthening of border controls and thwarting of crime and money laundering. These funds are to be implemented in the following 3 years. The Budget for protection of the environment and natural resources through encouragement of the sustainable development amounts to €4 million.

#### **FALL OF INDUSTRIAL PRODUCTS PRICES**

The prices of the producers of industrial products are higher by 1.2 percent in April in relation to the previous month, and compared to the average from 2001 are lower by 0.2 percent, State Statistical Office data reads. On annual basis (April 2002 / April 2001), the prices of the producers of industrial products are lower by 1 percent.

#### **STATEMENT OF HEAD OF IMF MISSION TO MACEDONIA**

The goal of the new IMF's mission in Macedonia is to review the Staff-Monitoring Program with the Government and to negotiate a new program within the stand-by arrangement, Head of the mission to Macedonia Franek Rozwadowski said on May 15, before the beginning of the new round of negotiations. Asked if he is an optimist regarding a new arrangement between IMF and Macedonia, he answered: "The IMF arrangements are always hard to negotiate, because of being part of the financial program policy." "We will discuss the financial policy a few weeks, but I am an optimist, and I believe that the Government has both the capability and the will to introduce a good program." he said further more.

Rozwadowski is accompanied by the former Head of the IMF Mission to Macedonia, Bishvaxit Banerjee, who stated that the greatest success of our state during his three years term within the Mission was the Donors Conference which brought to Macedonia more money than expected. "I am also impressed by the improvement in the way of handling the public administration, the treasury system and the National Bank. All of this is a big success of Finance Minister Nikola Gruevski. The micro-economic policy was completely carried out." Banerjee said.

#### **CREDIT LINE OF €6.5 MILLION FOR SMALL AND MEDIUM ENTERPRISES**

The German - Macedonian Fund, supported by the German Ministry for Economic Cooperation and Development, provided a credit line from the German Bank KfW of €6.5 million for small and medium enterprises. The Macedonian Bank for Development Promotion will be in charge of the German-Macedonian Fund. "Tutunska Banka" and Export Credit Bank from Skopje will take part in the realization of this credit line.

#### **"ALKALOID" PUTS IN USE FIVE MODERN PLANTS FOR PRODUCTION OF MEDICAMENTS**

AD "Alkaloid" put on May 15 in use five new plants for production of medicaments, which are part of the project entitled "Penetration to world markets", worth total of €28,030,000. Out of that, €19,980,000 were provided by Alkaloid, and the remaining €8,050,000 were provided as compatible investment by the European Bank for Reconstruction and Development and the International Financial Corporation.

Trajce Mukaetov, Alkaloid's general director, said that this investment was one of the largest in the past 20 years. "We have showed that we can survive under any circumstances, especially having in mind the last year's crisis. We have managed to oppose the European norms at the Macedonian market," he said, adding that medicaments export was one of the Alkaloid's objectives.

**INTERVIEW WITH US AMBASSADOR TO MACEDONIA BUTLER FOR "KAPITAL" WEEKLY**

"It might sound strange, but since the beginning USA has supported and still supports the idea for united and stronger Europe, in which every state would not have any other choice but to continue the path towards integration within the European Union," US Ambassador to Macedonia Lawrence Butler said in his interview for "Kapital" weekly.

Butler assesses that Macedonia, besides being a member of the SEE Stability Pact, "succeeded to sign an exceptional Stabilization and Association Agreement with EU." "It will also enhance the democracy and the economy, based on the free market regulations, according to the European standards and laws as well as the principles of the international relations," Butler thinks. According to him, "Macedonia has to avoid the entrapment, in which many countries were caught - to become dependant on the foreign assistance regardless whether it is a financial assistance or security guarantee."

"In the past three months, the time being here in Macedonia, I learnt that Macedonia is a state that can take care of its own security, while the foreign participation is only additional contribution for the state security," Butler says. He thinks that some time is still necessary in order to see whether the deployment of the European troops in Macedonia would be required after the departure of NATO forces within "Amber Fox" mission. According to Butler, the Macedonian Army is capable of performing its function, especially after certain steps were undertaken within NATO's Membership Action Plan. He believes that Macedonia is still "on the middle of the road marked in Ohrid."

"Probably the delay is four or five months considering the initial agenda, but I think that there should be tolerance in order to pick up the fruits from Ohrid. The good news is that no one went astray, and we should not be afraid by the fact that the progress foreseen initially was not so fast, because it is better to do the

things right instead of working in a wrong direction that would take more time and could 'erupt'," Butler says in his interview.

He does not share the pessimism of majority of the population regarding the Macedonia's perspectives.

"Macedonia is a country with excellent location, beautiful places and the citizens are clever and diligent," Butler says. According to him, "the perception of the people that think of Macedonia as a bad place for investments should be changed, because that is not right." Butler explains that "Macedonian businessmen should be stimulated in order to present their own advantages."

He assesses that the approach to the world trading system is of special interest for Macedonia, reminding that the final multilateral negotiations will be held next week in Geneva between Macedonia and the World Trade Organization. "If your negotiating team do the job well, several bilateral meetings will follow and WTO will open its doors to Macedonia in September," Ambassador Butler adds.

According to him, second important moment for Macedonia is "the coordination of the Macedonian legislative with the European one as well as conveying fair and democratic elections in September. "The international community and the businessmen will monitor the situation. Along with the good news, business opportunities will be created," Butler says.

He says that "USA does not have special economic interest on the Balkans." "The main goal of USA is a stabilization of the region, and the Balkans to become part of Europe. The business opportunities will come along, when your economies, which are expanding, will create job positions and customers as well as demand for the US products and services. That would attract the US investors that seek educated work force and a spot that is good for locating new factory," Butler says.

To a question, whether the Macedonian Power Supply Company (ESM) should be privatized prior or after the parliamentary elections, Butler says that he has no information about the course of the privatization process, but considering the size and the complexity he does not believe that ESM could be privatized prior to September 15.

"I say this considering my experience in the banking sector and my work on big projects such as ESM. It is important for Macedonia to achieve the best result from ESM sale in the interest of the customers and the foreign investor. The foreign investors should be convinced that this is a good place for business. But I do not have position whether the privatization should happen prior or after the elections," US Ambassador Butler said in the interview for "Kapital" weekly.

#### **GENERAL PROTEST OF THE PUBLIC ADMINISTRATION EMPLOYEES**

President of the Trade Union Federation of Macedonia Vanco Muratovski at a press conference held on May 27, assessed as positive the general strike of the employees in the public sector, which started last Monday morning and will end when their demands for determining the lowest salary are satisfied. "This first general strike of the public administration in the history of the Macedonian trade union movement is remarkably successful".

During the first three days the strike was held on the job positions and afterwards the employees of the public administration continued with public protests in front of the Government and the Parliament. The employees from the loss-making companies joined the protests of the public administration and blocked the main roads.

The Trade Union Federation leader Muratovski met with the Macedonian Prime Minister, Ljubco Georgievski and presented the demands of the trade unions. He also had a meeting with the Head of the IMF mission in Macedonia Franec Rozvadovski, to whom he told that "Macedonia is perhaps the only country in the world that has not determined the lowest salary." Muratovski said that the IMF representatives supported the demands of the Federation, stating that "all that is legitimate ought to be demanded, but having in mind the possibilities of the country to comply."

#### **NEGOTIATION ON MACEDONIA'S INTEGRATION WITHIN WTO CLOSE TO AN END**

Macedonian delegation led by Minister of Economy Besnik Fetai made the final contacts in Geneva regarding the integration of the country in the World Trade Organization (WTO). Macedonia's efforts for gaining membership in WTO began two and half years ago and were intensified last September.

The Macedonian delegation had bilateral meetings with the delegations of the European Union and Croatia, where the opened issues of joint interest were reviewed. Minister Fetai agreed on holding another meeting with Croatian representatives in order to finalize the issues on services, while the opened issues in the goods sector will be resolved through a mixed committee. EU representatives supported Macedonia's efforts for fully-fledged membership in WTO. Multilateral meeting referring to the agricultural sector was held on May 22.

#### **AVERAGE NET-SALARY IN MARCH 2002 - 10,961 DENARS**

The average net-salary in Macedonia in March 2002 was 10,961 denars, which is nominal growth of 2.8 percent, and real growth of 2.3 percent compared to February this year. According to the data from the State Statistics Bureau, the average net salary in March was nominally higher by 4.3 percent i.e. by 0.7 percent in real terms, on annual basis.

#### **INDUSTRIAL PRODUCTION IN APRIL LOWER BY 0.5 PERCENT THAN IN APRIL 2001**

According to the data from the State Statistics Bureau, the industrial production in April 2002 was lower by 0.5 percent compared with the same month of 2001. This decrease is due to the lower production in the energy sector by 55.2 percent, the general consumption products by 32.7 percent and the non-durable consumption products by 1.9 percent, which together participate with 48.8 percent in the overall production in Macedonia. Relative to the previous month, the industrial production in April 2002 was higher by 5.2 percent.

#### **GOVERNMENT ADOPTS A DRAFT-LAW ON CHAMBERS OF COMMERCE**

The Macedonian Government adopted a draft-law on chambers of commerce, which will soon be discussed in the Parliament, government spokesman Gjorgi Trendafilov said after the Government's regular session. According to this law, four chambers may be established in the country: industry-trade; agriculture-forestry; tourism and craft.

#### **EBRD LOAN FOR UPGRADING CIVIL AVIATION**

At May 28's session, chaired by Prime Minister Ljubco Georgievski, the Macedonian Government discussed and adopted a draft-law on Macedonia's indebtedness at the European Bank for Reconstruction and Development (EBRD) in compliance with the credit agreement for a project on

upgrading of the Civil Aviation Authority. The credit of €11.2 million is aimed at purchasing of navigation equipment for Macedonia's air space and modernization of the Ohrid Airport runway. The credit is to be paid in 12 years, including a three-year grace period. The project will improve air-traffic security and coordination of the flight-control systems in accordance with recommendations of the International Civil Aviation Organization (ICAO).

#### **MACEDONIAN GOVERNMENT AND IMF LAUNCHED NEGOTIATIONS FOR NEW ARRANGEMENT**

The International Monetary Fund is generally pleased by the application of the Staff monitoring program in the Republic of Macedonia in the first quarter of this year. As the Head of the IMF mission, Franec Rozwadowski, said the meeting with the Ministry of Finance focused on the realization of this program and on launching negotiations for a new program. According to Rozwadowski, "all parameters of the Staff monitoring program were satisfied, especially the implementation of the program that concerns the budget." This, as he said, is due to the good collection of the taxes, such as the VAT and the tax for financial transactions.

The Head of the IMF mission in Macedonia said that as a result of the good monetary management of the central bank, the foreign currency reserves have drastically increased. "Numerous structural reforms were also introduced last year, such as the cancellation of the Bureau for Payment Operations, which marked the end of Macedonia's transformation and proved its commitment for implementing a modern system of payment," Rozwadowski stated, adding that in the framework of the Ministry of finance, significant progress was achieved by the Treasury sector, which enabled enhanced control over the expenditures and better management with the cash.

"However, the decision of the government to pay reimbursement to the clients of the TAT savings bank and of two other banks was the largest obstacle in the negotiations with the mission," Rozwadowski estimated. This policy, in his opinion, "burdens the budget, which is the reason why this year it will surpass the limit agreed in the letter of intention." The position of the mission is that public funds should not be used for reimbursing the clients of the bankrupted banks.

Minister of Finance Nikola Gruevski said that despite the position of the IMF, the government intends to carry out

the decision that was previously announced referring to compensating the TAT's depositors.

"The negotiations are not completed yet, because they are in close connection with the macroeconomic projections that come out from the previous program," Rozwadowski said, adding that the mission would remain in contact with the Macedonian government in order to continue the negotiations. He expressed hope that the agreement for a new arrangement would be achieved by the end of this year.

According to Gruevski, "there are good chances the negotiations with the IMF for the second arrangement to be completed by October of this year." Ljube Trpevski, governor of the Central Bank, is also optimistic that the negotiations for the second arrangement with the IMF would be completed by October and that Macedonia would receive the funds approved at the Donors' conference and which refer to the arrangements. Governor Trpevski said that in the next period the Central bank would use all the instruments in order to carry out its task - maintenance of the price stability.

#### **GOVERNMENT AND SSM SIGNED AGREEMENT ON LOWEST SALARY IN PUBLIC SECTOR**

Prime Minister Ljubco Georgievski and leader of the Federation of Trade Unions of Macedonia (SSM) Vanko Muratovski signed late on May 29, an agreement on the lowest salary in public sector, putting an end to a few-day strike of employees in this sector. According to the agreement, the lowest salary in public sector will be at Denar 5,060.

"This is a historical moment, as it took a decade to determine the lowest salary in Macedonia, which presents a pillar of the state and trade union democracy. We should all be satisfied. This is not a victory of SSM and the Government, but of the citizens of Macedonia " Muratovski said after the signing ceremony.

Expressing satisfaction with signing of the agreement, Georgievski said that increasing of the lowest salary was done in a very difficult year for Macedonia. Such action would not mean new debts for the country, but was based on the Government's thrift and the financial surplus, registered in the first few months of 2002, he added. Georgeivski expressed hope that same agreement would be signed for the industrial sector.

He said that about Denar 2.3 million from the budget would be allocated for meeting of the agreement obligations, including the raising of pensions.