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PARLIAMENT PASSED THE LAW ON TRADE COMPANIES

On April 30, the Macedonian Parliament passed the Law on Trade Companies. For almost a year members of the drafting committee from the Ministry of Economy, the USAID Corporate Governance and Company Law Project and EU consultants from the Draft Trade Laws Project have worked together to develop this law.

After the passage of the law at first reading, there were 25 unprecedented public consultations. The law introduces far greater transparency, heightened shareholder protection, streamlined business registration, and accounting requirements in line with international financial reporting standards. The law complies with the EU Company Law Directives thereby supporting Macedonia's EU legal approximation objectives.

A framework is established that will reduce the lead time and processing time for business registrations. In addition, the law mandates the enactment of regulations in support of a one-stop shop. The purpose is to consolidate business licensing and application requirements so that the steps required for a business to become operational are minimized.

MACEDONIA SEES INDUSTRIAL OUTPUT RISE ON DUTY REMOVAL

Macedonia expects its industrial production index to rise above the 2003 average as of May, when customs duties on imported intermediary goods will be removed. "The GOM has approved the proposal to lift customs duties on intermediary goods not produced in the country, now averaging 14 percent," Ministry of Economy Spokesman Goce Pacemski told the media. Statistics showed that the country's industrial output for the first quarter of this year was 26.1 percent below last year's level for the same period.

Pacemski said that "the fall of the industrial output was due to GOM's measures to close large state-owned loss-making companies, because of their inefficient operation". The largest industrial capacities, including lead and zinc mines Sasa, Zletovo and Toranica, copper

plant Bucim, steel strips factory Polukonti, the cold rolling mill of former steelworks Zelezarnica Skopje, and the lead smelter Zletovo, are closed.

"The revenue loss from lifting the customs duties is not expected to be significant," the Pacemski said. Seven industrial sectors are expected to benefit from the measure, including the food, chemical, leather, metal processing and textile sectors. Those seven sectors employ 60 percent of the country's workers and represent 70 percent of the industrial output.

MACEDONIA Q1 TRADE GAP WIDENS

Macedonia's trade gap widened to US\$ 246.3 million in the first quarter of 2004, compared to US\$ 236 million in the same period of 2003, the State Statistical Office said on May 5. The office announced that the country's trade turnover in Q1 amounted to US\$ 963.55 million. Imports accounted for 62.8 percent and exports for 37.2 percent of total turnover.

Macedonia exported mainly finished products, manufactured goods, alcoholic beverages and tobacco in the first three months of 2004. Imports included mainly machines and vehicles, and fuels and lubricants. Macedonia's exports went mainly to the European Union and to countries of the former Yugoslav Federation. The country's imports came mostly from the EU, central and eastern Europe and the republics of the former Soviet Union.

SLOVENIA INTERESTED FOR INVESTMENTS IN MACEDONIAN TOURISM AND ENERGY

Slovenia's entrance in the European Union on May 1 does not mean that the cooperation with Macedonia will cease, but that it will be intensified, Slovenian Minister of Economy Matej Lahovnik stated at a press conference after the meeting with his Macedonian counterpart Stevco Jakimovski on May 7. The Slovenians are interested for investments in energetic and tourism, especially in the spa capacities. As Jakimovski stated, in regard to the energetic sector, there were discussions on investments for construction of small plants, with placement of Slovenian equipment in Macedonia, while domestic construction capacities would be used on projects in Slovenia.

LNM PAYS US\$ 5 MILLION FOR TWO MACEDONIAN STEEL MILLS

Anglo-Dutch LNM Holdings had acquired nearly 60 percent of steel strips factory Polukonti and over 50 percent of cold rolling mill Ladna Valalnica for a total of US\$ 5 million in three block transactions on the Macedonian Stock Exchange (MSE) on May 12," MSE spokesman Milco Kupev confirmed. LNM representatives have said that the company was looking to acquire 100 percent in both mills, which have been idled since the beginning of 2004.

Ministry of Economy spokesman Goce Pacemski said that LNM group had taken steps to revive the 1.2 million-tonne hot-strip mill Polukonti and the one-million-tonne cold-rolling mill Ladna Valalnica. Representatives of LNM had pledged to pay wage arrears to the workers and restart the plants soon, local media have reported. Precise data on the outstanding debt of the two steel mills is unavailable, but estimates put debt at over US\$ 120 million, mainly to foreign partners, domestic banks, the GOM and the employees.

WORLD BANK APPROVES US\$ 49.8 MILLION FOR THREE PROJECTS

On May 13, the Board of Directors of the World Bank approved US\$ 49.8 million for Health Management Sector Project, Public Sector Management Project and Social Protection Implementation Project. "The goal of the three projects is to support the efforts for improving the quality of people's life," WB Country Representative to Macedonia Sandra Bloemenkamp stated.

The loan to the Health Management Sector Project amounts to US\$ 10.0 million, to the Public Sector Management Project US\$ 30 million and to Social Protection Implementation Project US\$ 9.8 million. These projects are part of the Country Assistance Strategy for Macedonia discussed by the Board of Director in September 2003, which identifies efficient public resources management, fight against corruption and health and social sector reforms as the main problems for country's development.

EU TO FINANCE SMALL-SCALE INFRASTRUCTURE PROJECTS

In the past two days the European Union has signed US\$ 20 million worth of agreements with 42 Mayors to fund a series of small-scale infrastructure projects throughout the country. The projects will improve the public health and environmental protection through the construction of 18 water supply and 15 waste water systems, while nine projects will involve construction of local roads.

The selection criteria focused on three goals, improving public services in undeveloped regions of the country, supporting cooperation between municipalities, and transferring authorities towards local administrations for bringing governance closer to citizens. Last year the European Union launched similar water, sewerage and road construction projects, worth a total of US\$ 13 million.

POSITIVE ASSESSMENT OF MACROECONOMIC POLICY, REMARK ON STRUCTURAL REFORMS

Reviewing the cooperation between Macedonia and the International Monetary Fund in the past 10 years and opening up the issue for new arrangement of the country were the main topics of talks between GOM and IMF teams led by Minister of Finance Nikola Popovski and Head of IMF Mission in Macedonia Franek Roswadowski.

"A positive element is that Macedonia has always had good results in the area of macroeconomic management. The fixed exchange rate of the denar, and the cautious budget policy have contributed to the preservation of the macroeconomic stability, even in the most difficult period of regional crises, but there were also issues, such as structural reforms, where a lot was done in the first three years of independence, but the work is not finished yet", Roswadowski assessed.

According to him, the authorities should concentrate on the preservation of the macroeconomic stability and speeding up structural reforms, i.e. establishment of policies that would enable the economy a long-term growth of 4-5 percent annually, along with a decline of the unemployment rate, which would be the base for the future arrangement.

As the Minister of Finance Popovski said, the cooperation with IMF should continue due to the unsolved problems in the part of the structural reforms and the public administration. It should consist mostly of technical assistance for creation of future policies, especially fiscal and monetary.

As announced by Roswadowski and Popovski, the negotiations for the new arrangement would probably begin in September, with several options for the type of the arrangement to be considered. "There is an option for an arrangement of policies and technical support, without any financial assistance, because Macedonia could realize that element by itself", Minister Popovski said. He

added that the obligations of the current Stand-By Arrangement have been fulfilled, except for the rationalization measure, which should finish by July, laying off additional 600 redundant workers in the public administration.

EUROPEAN COMMISSION TO PREPARE OPINION ON MACEDONIA'S APPLICATION FOR EU MEMBERSHIP

The European Union Council of Ministers has asked the European commission on May 24 to prepare opinion on Macedonia's application for the EU membership, Macedonian Minister of Foreign Affairs Ilinka Mitreva said. "It is a recognition for the progress made so far, as well as an impetus for the future hard work," she added.

Mitreva said that Macedonia would soon receive about 2-3,000 questions from the EC, mainly related to the political system, legislation, administration, economy and social affairs, in accordance with the Copenhagen criteria. She stressed out that Macedonia acquired a new dimension in the cooperation with the EU with the Stabilization and Association Agreement by scheduling the first meeting of the Stabilization and Association Council in Brussels in July.

DECENTRALIZATION LAW MUST BE ADOPTED BY END OF 2004

The reform of the local self-government must finish by the end of the year, and the law on territorial organization of the local self-government units should function from January 1, 2005, Minister of Local Self-Government Aleksandar Gestakovski said on May 25. "The normative part of the decentralization laws should be finished by the end of June or beginning of July, while the entire law should be prepared by the local elections, which should be held on October 17.

On the draft-law on territorial organization, Gestakovski said that the Government would review the remarks acquired after the first stage, emphasizing that the 40 referendums in several municipalities were not binding, except for a national referendum. "We will do everything not to allow the decentralization to arouse interethnic tensions", Gestakovski added.

The decentralization law envisages that municipalities collect part of the taxes, as well as determine the amount of the fees for property taxes and communal taxes, while the personal tax and VAT remain in the Central Government's authority.

"MERKATOR" MALL IN SKOPJE

Construction of the first mall of Slovenian company "Merkator" is to begin in autumn or spring, which depends on the realization of the buying agreement of the land and the weather conditions, administration chairman of business system "Merkator", Zoran Jankovic stated after the meetings with the President Branko Crvenkovski and Skopje Mayor Risto Penov.

"It is time for Merkator to come to Macedonia, but we will wait for the establishment of the new government in order to know whether we will go for a direct agreement or auction of the land. Our business policy is such, that one location is not enough, and we first enter into the country's capital city, and afterwards we spread our selling network", Jankovic said after the meeting with Crvenkovski.

Refusing to reveal the three locations offered for construction, Jankovic said that the conditions were acceptable, and the number of persons to be employed was 400. According to him, the objective of "Merkator" is to become the leading business chain in former Yugoslav republics. Such malls exist in Slovenia, Croatia, Bosnia-Herzegovina and Serbia, offering more than 500 products. Construction of a mall costs between Euro 25-30 million, while the most expensive is the one in Belgrade, which cost Euro 42 million.

NEW GOVERNOR'S STATEMENT

New Governor of the National Bank of Macedonia Petar Gosev gave a solemn statement on May 24 that he will work upon the Constitution and Laws, officially taking the position. He promised he would not make decisions without consultations with domestic and foreign experts, stressing the importance of the monetary policy for conducting the macroeconomic one in every country. "The monetary policy will keep the basic goal, i.e. maintaining the macroeconomic stability as an important condition for every market economy. Macroeconomic stability is a prerequisite for successful economic management", Gosev stated.

The denar would have to stay stable, regardless which exchange rate regime will be used, Gosev said, adding that the stability of the foreign exchange rate will be a long-term policy of the National Bank. He announced that

there is room for upgrading the bank's capacity, competence and professionalism.

CENTRAL GOVERNMENT BUDGET IN SURPLUS IN MARCH

The Central Government budget posted a surplus of MKD 797 million (Note \$1 = MKD 50) in March. In Q1 total budget revenues amounted to MKD 14,102 million, up by 10.3 percent on a year-to-year basis. Non-tax revenues had the highest growth due to dividend revenue. Total expenditures amounted to MKD 13,100 million, up by 5.2 percent on a year-to-year basis in Q1. The general government budget netted a surplus of MKD 646 million in Q1, according to data from the Ministry of Finance.

TENDER FOR OPERATORS OF PRIVATE PENSION FUNDS IN JUNE

In organization of the Ministry of Labour and Social Policy, a Bidding Conference was held in Skopje on May 25, at which potential interested parties for management of private pension funds were acquainted with the reforms in the pension system and the tender conditions, before the announcement of the international tender for acquiring operators' licenses in June.

"The tender will be announced by the end of June and will last one month. It includes a pre-qualifying and economic phase, and the complete procedure should finish by the end of 2004, with the revealing of the names of the two operators, which will begin to manage the two private pension funds from 2005", Minister of Labour and Social Policy Jovan Manasievski stated. He added that the second pillar would be obligatory for all employed after January 1, 2003, while those previously employed would be able to choose whether to allocate contributions only in the state fund, or in the private pension funds too.

"The reforms, i.e. the entrance of insurance companies and banks would enliven the financial market in Macedonia, which is the weakest spot in the entire economic system, along with the arrival of foreign investments", Manasievski said, adding that the important thing for Macedonia was the entrance of the so-called "brand companies", which would open the door for other investors.

A total of 21,2 percent from the gross wage is currently allocated for pension and invalid insurance. The capital financing pension insurance would result in allocation of 7.42 percent in the state fund i.e. the first pillar,

along with 13.78 percent in the private funds, i.e. second pillar.

GDP PROJECTED GROWTH UNCERTAIN

According to official statistics, industrial production in April 2004, compared to last year's average dropped by 19.3 percent. In the period January - April 2004, the production rate dropped by 24.2 percent in comparison to the same period of last year. However, it rose on monthly basis by 8.8 percent.

Sources from the Ministry of Economy inform that the decline would negatively impact the projected annual GDP growth of 4 percent. Industrial output's share in GDP is estimated at 24 percent. Other elements - public spending and services have also failed to increase.

Recently, Minister of Finance Nikola Popovski informed that the industrial output drop would almost certainly reflect on the first quarter GDP, hoping they will level out in the course of the year and reach the projected growth rate.