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GOVERNMENT OPENS TENDER FOR SUPPLY OF UNLEADED FUEL TO STATE RESERVES

The government has opened a tender for the supply of 20,000 tones of ecological, unleaded fuel products for the needs of the state commodity reserve, according to the press reports over the weekend. The supplies should be carried out in line with the new regulations for quality of fuels and environment-friendly fuel production that have been enforced since mid-January.

The replacement of leaded fuels in the state reserves with the ecological oil derivatives should be completed by end-April 2004. The future contractors are expected to be either direct producers of oil derivatives or distributors with at least 80 filling stations in the country that according to the press comments restricts the choice to the main two players - Makpetrol and Okta.

The general strategy of the government envisages a full ban over the sales of leaded fuel in a few years - supposedly in 2006, in line with the EU requirements.

ROUNDTABLE ON DECENTRALIZATION PROCESS IN OHRID

"Challenges in Decentralization Process" was the topic at the two-day roundtable in Ohrid, which was attended by more than 60 domestic and foreign experts, mayors, representatives of the Association of Local Self-Government Units (ZELS) and deputies. The Council of Europe and the Macedonian Ministry of Local Self-Government organized the roundtable.

In his address, Minister of Local Self-Government Aleksandar Gestakovski emphasized the firm determination of the Government to continue with the reforms and decentralization process. He added that it is prepared to compromise when it comes to the territorial division, which means taking into consideration the citizens' opinion presented at referendums, in order to find the optimal solution for efficient and effective local self-government.

ZELS Chairman Goran Angelov expressed his doubt in the financial possibilities of the new municipalities, if they received around Euro 9 million from the personal tax and Value Added Tax. Representative of the Council of Europe Jasper Thompson stressed that Macedonia is one of the most centralized countries in Europe, "while the road to Europe passes through Ohrid, i.e. through the full application of the Framework Agreement and creation of a strong local democracy".

Referendums in 32 municipalities have been held so far, while 700,000 citizens have declared their determination for preservation of the current municipal borders.

LOWER VAT COLLECTION, GOVERNMENT PANICS

The new daily newspaper "Vreme" reports that the lower than projected collection of the VAT was the main reason for the financial controls undertaken by the Internal Revenue Service, the market inspection and the Ministry of Interior. According to "Vreme", IMF calculated a total collection of 21.2 billion denars, seven percent less than the revised projection for 2003.

Authorities from the Ministry of Finance explained the lesser VAT collection with the high gray economy existing in the country. In addition, they also stated that the at the time of projection the value of the dollar was eight per cent higher than today. As a result, the VAT collection on imported products was smaller than planned. The justification also insists that last year the VAT refunds were 7.5 billion denars, which is 17 per cent more than in 2002.

PARLIAMENTARY INITIATIVE FOR A NEW BRANKO'S LAW

A number of SDSM representatives in Parliament have proposed the passing of a new Branko's Law that would exempt the employers from paying taxes and contributions for all newly employed on indefinite term. The new law would relate only to unemployed individuals, welfare beneficiaries, as well former employees of bankrupt firms and technological surplus, recorded as such in the Employment Bureau by December 31, 2003.

In accordance with last year's Law for stimulating employment, the state refunded employers who had paid monthly contributions for salaries of 8,000 denars. According to the SDSM representatives, the implementation of the new proposal would encourage the employers to

accept new employees, while the administrative procedure will be rendered simpler compared to that in 2003.

EUR 0.8 MILLION UTILISED UNDER IDAD 2 CREDIT LINE

A total of 32 loans worth EUR 0.8 million have been extended under the second credit line of the International Fund for Agricultural Development's (IFAD) program for Macedonia since the latter became operational last November.

According to the project coordinator Lidija Cadikovska EUR 0.5 million were IFAD 2 funds, while local banks provided the remainder, participating in the project. A total of 21 smaller loans were extended through Tutunska Banka and 11 bigger ones through Invest Banka, while Komercijalna Banka, which is the third domestic participant in the IFAD 2 program, is still expected to provide loans.

According to the official, another three banks and two savings houses - FULM and Moznosti - may also join the project in the coming months. IFAD 2 is set to be in place for five years.

RUSSIA TO PAY OFF IN MACHINES

The first phase of negotiations between Russia and Macedonia regarding the delivery of Russian equipment to the Macedonian mining and energy sector ended by signing a joint Memorandum on February 6. The delivery is part of the agreement on settlement of Russian debts to Macedonia. The chief of the Russian delegation and deputy-director of the Silovie Masini Concern, Vladimir Stepacenko, announced that in the upcoming weeks the two states would sign an agreement for delivery of equipment to Macedonia by all enterprises that compose the concern.

"Equipment for the thermoelectric power plant in Bitola and superficial mining valued at US\$ 20 million will be delivered to Macedonia", Stepacenco informed. He announced that, in accordance to the Memorandum signed, the negotiations for settlement of the remaining part of Russia's total debt, estimated at US\$ 42 million, will proceed in St. Petersburg.

TALKS WITH IMF FOCUSED ON FAILURE TO MEET VAT COLLECTION TARGET IN 2003

Negotiations with the IMF have reportedly focused on VAT revenues last year and the government's failure to meet

the VAT collection target, according to local media. Allegedly, the realized VAT revenues in 2003 were by MKD 1.6 billion (nearly EUR 30 million) less than the projected MKD 22.79 billion (EUR 370 million). According to the brief explanation of Minister of Finance Nikola Popovski, quoted by *Utrinski Vesnik*, the reasons for this dissatisfactory performance should be sought in the reimbursement of VAT to the corporate sector.

VAT reimbursement has been used to cover outstanding liabilities from previous years, which were by MKD 1 billion (EUR 16 million) more than initially planned. Popovski refused to comment the figures presented in the press, but stressed that the results of VAT collection since the beginning of this year have been very encouraging and the tendency is expected to continue.

He also denied rumours about a new increase of the VAT rate, adding that the IMF did not place such requests. Even if the IMF did insist on hike in VAT rates, the government was unlikely to accept them.

"KONFI NELIDE - LUGANO", NEW OWNER OF FACTORY "PORCELANKA" - VELES

On February 12, the board of trustees of Veles factory "Porcelanka" accepted the only offer that arrived at the international tender for sale of this factory. The new owner will be "Konfi Nelide - Lugano" from Switzerland, which offered EUR 800,000. The new owner bought "Porcelanka" without any debts, without an obligation to invest and re-employ the former workers. The factory has a usable space of 200,000 m², 84,000 of which are covered. A total of 675 employees worked in "Porcelanka" before its sale.

JAKIMOVSKI AND ROSWADOWSKI DISCUSS PROBLEMS IN MACEDONIAN ECONOMY

Problems in economy, which occur in customs during import of raw and processed materials, and export realized in dollars, were the focus of February 13' discussions between Macedonian Minister of Economy Stevco Jakimovski and the Head of IMF Mission to Macedonia Franek Roswadowski.

"We must think in several directions in order to make Macedonian economy more competitive, especially having in mind the fact that the foreign competition is fierce, and the absurd situation when finished products enter without customs, and raw and processed materials are burdened by

customs", Minister Jakimovski said. He added that the losses that enterprises experienced as a result of the dollar plunge reached US\$ 130 million.

According to Roswadowski, there should be analysis of the entire situation in economy, which has already begun. Regarding the deficit, Roswadowski said that although it is great, it has significantly decreased in relation to the 2002 one, while this year's should be even greater than the 2003 one, but again smaller than the deficit in 2002.

The meeting also focused on the envisaged decrease of the administration personnel, especially in the Ministry of Economy, where around 80 people are to be dismissed. The objective is to strengthen the State Inspectorate, which should release the corrupt individuals and ones that lack appropriate education. According to Minister Jakimovski, the reduction of personnel could also lead to increase of salaries, which are much lower than the ones of the other inspectors.

EUR EIGHT MILLION LOAN FOR ZITO LUKS

The European Bank for Reconstruction and Development (EBRD) disbursed a EUR 8 million loan to the bread producer Zito Luks AD Skopje for expanding company's activities, renovating capacities and increasing efficiency. The loan is extended on an eight years deferred payment.

The loan granted to Zito Luks, as a subsidiary of Elbisko Holding S.A. and part of Filipu Grouping, is the first in this credit line. The investment will improve the corporate working standards in Zito Luks and increase the efficiency through improvement of technology, marketing and production standards, EBRD's announcement informs.

IMF: SITUATION IN MACEDONIA IS POSITIVE

The situation in Macedonia is positive. The Macedonian economy is strengthening and after two years of slow growth, economic growth in 2003 was increased, while the projections for 2004 envisage speeding up, along with increase of employment. This is the estimate of the Mission of the International Monetary Fund (IMF), which conducted the second review of the implementation of the Stand-by arrangement, presented by the Head of IMF Mission to Macedonia Franek Roswadowski at the final press conference with the Minister of Finance Nikola

Popovski and the Governor of the National Bank Ljube Trpeski.

According to Roswadowski, the obligations of the program with this international financial institution set until December 31, 2003 are being fulfilled, and there is no need for a change of the current program. "The policies are the ones that required prior consent, but certain risk areas have been determined, such as the postponement of the measures for decrease of the amount of salaries in the public sector for 4 percent", Roswadowski stated, adding that the Government is aware of it, taking over appropriate measures and activities.

Finance Minister Nikola Popovski emphasized that the envisaged general policy with the Stand-by arrangement is to be implemented, with certain modifications that are carried out based on the achievements in 2003 or expected movements. "Monetary and fiscal policy in 2004 remain restrictive. The projected inflation of 2.8 percent remains, a fixed exchange rate of the Denar, as well as 4 percent growth", Minister Popovski said.

As Governor Trpeski pointed out, the fulfillment of the policy for maintaining the low inflation rate and the stable Denar exchange rate will be the focus of attention in 2004. "This year's fiscal policy will be within the projected one, it will not be more restrictive than the projected one, and will not allow us to be comfortable as in 2003, along with a necessary straining of the monetary policy", Trpeski said.

Minister Popovski announced that the Budget rebalance will be carried out in June based on previously determined policies. This refers to the decompression of salaries of civil servants, division of funds by departments for employment of ethnic minorities, as well as the funds for the obligations that come from the employment according to the law for stimulating employment, originally projected at 9,500, while 15,000 people were employed.

The following IMF check up of the realization of the set criteria according to the Stand-by arrangement will occur on March 31.

PUBLIC SECTOR EMPLOYMENT TO BE REDUCED

In April 2004, the Government will lay off 1,100 public administration servants and additional 340 employed in the Health Fund. By the end of the year, the number of

civil servants should be reduced by 2,200, as agreed in the negotiations with IMF representatives. Around 500 persons will be retired by the end of 2004, while the remaining will be transferred to private firms created with the privatization of unessential public administration sectors. This is the dynamics of the public administration rationalization proposed by the Minister of Finance Nikola Popovski.

The arrangement reached with the IMF obliges the Government to reduce the public sector employment by 4 per cent, which will save approximately EUR 13 million per year.

PROBLEMATIC BANKS LIST SHORTENED

Macedonia has improved in the area of problematic banks, the list of these institutions has been shortened, and the Macedonian banking system is generally strong. These are the evaluations brought by the International Monetary Fund mission during its official visit to Macedonia from February 4 - 18.

IMF's aim was to evaluate the GOM's successfulness in meeting the obligations from the Stand-by arrangement. "We reviewed all conditions present in the banking sector. They continue to be strong, indicating continuing decline of non-performing loans. As far as the list of problematic banks is concerned, I learn it has been shortened. It is good news for Macedonia. This is a dynamic process, whereby the banks are included on that list, but also exit from it", IMF Chief of Mission to Macedonia, Franek Rozwadowski, stated.

INTEREST RATE INCREASE DANGER

There is a danger that the banks in Macedonia will increase the interest rates soon. This step is expected following the announced tightening of the monetary policy in 2004, agreed unanimously between the financial authorities in the country and the IMF mission.

According to the bankers, the National Bank of Macedonia approved this move because IMF requested an increase of the foreign currency reserves by additional US\$ 25 million until March 31. NBM already embarked on a process of tightening the monetary policy.

As a result, the interest rate paid on CB bills with 28-day maturity, increased from an annual rate of 6.5 percent to 8 percent. It is common knowledge that NBM's

CB bills rate is signaling the banks the way monetary policy will go. Unofficially, the bankers inform this is an utterly unpopular measure promoted by NBM, because it will propel another banking interest rates growth.

The largest banks in Macedonia refuse to increase their rates for the time being, but attempt to improve the efficiency in their activity instead. However, if this trend continues they will be compelled to take the interest rate increase into consideration. The smaller banks, on the other hand, are expected to implement the increase immediately.

AGENCY FOR FOREIGN INVESTMENTS TO CREATE INVESTMENT POLICY

The investment policy in the country will be created by an Agency for foreign investments that is to be established after the Parliament adopts the Government proposal. The Agency should provide foreign investor all services at one place. It will be focused on developing strategies for investments promotion, attracting foreign direct investments, presenting the country's potentials, initiating dialogue between the private and public sector, as well as improving the public opinion for foreign investment.

The establishment of such agency comes from the necessity of determining and observing the long-term development priorities, while continuing the structural reforms and maintaining the macroeconomic stability. The analysis of the development phase and factors of the development show that there is an objective necessity of foreign accumulation. According to the analysis, a gross investment rate of 24-25 percent is an optimal one for faster economic growth.

DIVISION OF ASSETS AND PROPERTY ENABLED

Croatia will finally ratify the former SFRY Succession Agreement, thus enabling it to enter into force. The successor states of former Yugoslavia signed the Succession Agreement in Vienna on June 29, 2001. The Agreement regulates the division of material property, real estate, diplomatic, consular and financial assets of the former federation.

The main reason why the Croatian government approved the ratification was due to the fact that the postponement of division reduces the possessions' value. Croatia has been postponing the ratification of the Agreement due to

the disappearance of SFRY's foreign exchange reserves, which, according to the bookkeeping value, amount to over US\$ 600 million. Serbian authorities claim that only US\$ 55 million were left on the National Bank of Yugoslavia's account in the joint venture banks worldwide. According to the succession key established, Macedonia will receive 7.5 percent of the total SFRY assets.

PANAMA-BASED FIRM OFFERS EUR 4.5 MILLION FOR THREE MINES

Assets Group from Panama is the sole bidder for the three lead and zinc mines - Sasa from Makedonska Kamenica, Zletovo from Probistip and Toranica from Kriva Palanka. The company offered EUR 4.5 million for the three. In case it becomes owner of Toranica mine, the firm will also accept the EUR 3.25 million mortgage. This was established on February 20 following the bid opening at the Ministry of Economy.

The highest bids were presented for Sasa - from Eklon Holdings from Nicosia, Cyprus offering EUR 400,000, the Austrian Raiffeisen offering EUR 2 million, while Assets Group is willing to pay EUR 4.05 million for this mine only. Even though six foreign and domestic firms collected the tendering documents for Zletovo, only Panama-based Assets Group submitted offer of EUR 250,000.

The identical scenario occurred in the case of Toranica, whereby Assets Group bided EUR 100,000. The three mines' Creditors Board should soon decide whether to accept the offers. Toranica Bankruptcy Manager Marinko Sazdovski announced that the creditors would state their final decision on March 3, while Sasa creditors will declare the new owner on March 9.