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LNM GROUP TO ACQUIRE LADNA VALALNICA AND POLUKONTI

LNM Group, the second steel producer in the world, announced that LNM Holdings N.V. signed an agreement with Balkan Steel for the acquisition of majority stakes in Ladna Valalnica and Polukonti. Those facilities represent a cold rolling mill with an annual capacity of 1 million tons and a hot-strip mill with an annual capacity of 1.2 million tons.

Daily Dnevnik reported that the price for the two Macedonian companies was USD 100 million. LNM Group agreed to extend a bridge loan to the companies to help them pay wage arrears and social contributions.

That loan paid three salaries at Polukonti and two salaries at Ladna Valalnica. The buyer also already secured the support of the Ministry of Economy according to Dnevnik. The trade union at Polukonti stopped the strike there as the employees were satisfied with the promise of the new owner to repay the five past due salaries. According to the announcements, it is expected that the strike at Ladna Valalnica will also be stopped.

TELECOM PAYS EUR 20 MILLION DIVIDEND TO GOM

The state will receive a dividend of MKD 1.2 billion (EUR 19.6 million) from the Macedonian Telecom. Minister of Finance Nikola Popovski said that privatizing a 51 percent stake in the Telecom was a mistake because of losing the ability to manage it. A consortium led by Hungaria's MATAV holds 51 percent in the Telecom.

RETAIL PRICE INDEX UP 1.5 PERCENT ON ANNUAL BASIS

The Statistical Office said that the index of the retail prices stood flat on monthly basis, but rose by 1.5 percent annually in March 2004. The consumer price index, which is a relevant measure of inflation, dropped by 0.1 percent compared to February, but was higher by 1.6 percent than in March last year. The basket of food and beverages for a four-member family, measured in terms of retail prices, was by 0.4 percent cheaper than in February.

USD 30 MILLION WB ARRANGEMENT INITIALIZED

Minister of Finance Nikola Popovski confirmed that the contract with the World Bank (WB) for the USD 30 million PSMAL 2 arrangement is already initialized. The arrangement implies meeting 31 conditions in the economy, administration, health care, etc.

The World Bank expressed satisfaction with completing the PSMAL negotiations with the GOM. Upon achieving the arrangement a USD 17 million Dutch grant will also be released. The PSMAL 2 arrangement is included in the high-case lending scenario of the WB's Country Assistance Strategy. The GOM is insisting on getting that case which envisages total funding of USD 165 million over 2004-2006.

EXPERTS CLAIM MACRO ECONOMY IS DETERIORATING

The macroeconomic policy implemented in Macedonia is growing increasingly inefficient and is unprepared to provide space for increasing investments and exports, and thus accelerate economic growth. This is the stand espoused by the greatest number of economic experts, who participated at the scientific congress held on April 5, organized by GTZ Project for support of the private sector, the Ministry of Economy and the Sustainable Development Association.

They suggested that Macedonia should concentrate on a more flexible macroeconomic policy. "Macedonia should implement a medium-term strategy as soon as possible, because it will create grounds for conceptualizing the macroeconomic policy, not as an end in itself, but as a prerequisite for enhancing economic growth", Boris Blazeovski, Ph.D. said.

"I believe it is positive that the question of replacing the fixed foreign currency rate with a flexible one has been opened. I'm a supporter of the flexible rate, because it increases the exports and reduces the imports", Professor Jovanovski said.

Stopanska Banka's General Manager Gligor Bisev, Ph.D. believes that the key to success does not depend on the foreign currency rate regime, but the creation of macroeconomic institutions. "Great attention should be paid to establishing healthy monetary and fiscal institutions, which will generate low inflationary expectations. Therefore, a greater part of the monetary

aggregates' growth could be transformed into production", Bisev stated.

Marija Zareznavkova, Ph.D. from the Ministry of Economy stressed that stability must be in function of development, not an end in itself. "I believe that the restrictive monetary policy in Macedonia should be once and for all changed with a stimulating credit policy", Zareznavkova added. The recommendations of the scientific gathering will be sent to the authorized institutions.

LOSS MAKING COMPANIES' PRIVATIZATION SUCCESSFUL

Representatives from the Ministry of Economy and the foreign consulting houses judged the privatization of the loss making companies successful, even though only 3,600 of the total 16,000 employees were reemployed.

So far, the state has collected a total of 10 million euro from the sale of these firms, and spent 130 million euro for welfare packages and lagging contributions for the employees in the last two years. Stevco Jakimovski, Minister of Economy, announced that additional 6.2 million euros are expected in the process of loss making companies' privatization.

"Even though the selling of these firms was supposed to end by April, it will be extended. Understandably, the economy will be influenced. The basic goal of the privatization is restarting the production process, without the obligation to maintain the same product. The market conditions will show whether there will be some changes", Jakimovski declared.

According to the consultants included in the selling of the twenty-two loss-making companies, Grand Thornton and Lions Bridge, 80 percent of the objects sold have been restarted and currently produce for the EU market. "The most successful privatization is that of Astibo from Stip. Around 1,500 people have been reemployed in the company. It is a proof that there must be perseverance in the structural reforms, because economic growth is impossible if the large capacities are not restarted", Jakimovski stated.

OIL PIPELINE AMBO WILL PROVIDE ANNUAL PROFIT OF US\$20-30 MILLION TO MACEDONIA

Functioning of oil pipeline Albania-Macedonia-Bulgaria AMBO will provide an annual profit of US\$20-30 million to Macedonia, long-term jobs, and development of other

accompanying industries, Chairman of corporation AMBO, Ted Ferguson stated on April 7. For these countries, AMBO will mark the entrance in a new era for mutual integration in the European Union, added Ferguson, who took part at the Forum for Investments in Energetic, which was held at the Skopje Fair.

A total of US\$ 1.2 billion are necessary for full construction of the oil pipeline. Several significant companies from the oil industry and large banks have already promised support in amount of US\$ 700 million. The other funds will be provided from private investors, and will be returned with the oil transport, and according to Ferguson, interest by some of the renowned oil companies is of essential significance for these projects.

Besides the financial support, a significant point in the beginning of activities of the AMBO project will be the signing of an agreement for construction among Macedonia, Albania and Bulgaria, which text is being coordinated at the moment. "If the agreement with the AMBO project is signed, we can perform before the investors and begin with the work", Ferguson stressed, expecting that the agreement will be signed in two months at most. If everything goes according to plans, the building of the oil pipeline could begin in 2005. According to Ferguson, its finalization will require 2.5 years. Out of the 900 km of the oil pipeline 350 km should pass through Macedonia.

AVERAGE YIELD ON TREASURY BILLS REACHED 9.1 PERCENT

The average yield on treasury bills reached 9.11 percent at the April 6th tender. The last tender witnessed strong demand. The GOM offered bills worth MKD 350 million (EUR 5.7 million), the largest amount offered in one tender so far. Total demand reached MKD 389.8 million, absorbing the entire offer. This is in contrast to the preceding three tenders when the GOM could not sell all bills on offer. Experts commented that the demand is expected to rise further due to the banks' good liquidity position.

EURO 45 MILLION AGREEMENT REACHED WITH EBRD FOR PRE-PRIVATIZATION OF ESM

On April 8, the Minister of Economy Stevco Jakimovski successfully ended in London the negotiations with the European Bank for Reconstruction and Development (EBRD) for debiting in amount of Euro 45 million for the pre-

privatization period of Macedonian Power Company (ESM). "Funds in amount of Euro 45 million in 7 different instalments are intended for the privatization of ESM", Minister Jakimovski stated.

According to him, if GOM finishes the privatization process, these Euro 45 million will become shares of EBRD in ESM, and if it backs down, it would be obliged to return the funds with an interest rate. As Jakimovski stated, EBRD's participation automatically heightens the credibility and value of ESM. "We expect that its entrance in the pre-privatization period will turn larger attention of interested investors for buying of ESM parts", Jakimovski said.

The GOM should review the agreement, followed by its review by the EBRD Board. The means will be available after the Parliament's approval. The first instalment amounts at Euro 9 million.

Macedonia has pledged to full liberalization of trade in the power generation and distribution sectors by end-2005. ESM's restructuring will involve the closure of all units that are not related to power generation and distribution in order to raise ESM's value ahead of sell-off.

The company will also invest in upgrading its largest mining and generation complex REK Bitola and will complete repairs of hydro power generation units and construction of new facilities. The state may hike electricity prices to raise funds for keeping ESM in good technical shape ahead of planned privatization, local media say.

TAX REVENUES EXCEED TARGET BY 1.7 PERCENT IN Q1

The collected taxes amounted to about EUR 182 million in Q1, exceeding the target by 1.7 percent. Profit and value added taxes had the largest contribution for the overall revenue hike. The good collection rate for the value added tax creates expectations that the overall fiscal performance this year would outperform the full-year budget projections.

Collected taxes in Q1

	Target MKD million	Revenue MKD million	Deviation from target (%)
VAT	5,880	6,100	3.7
Excises	2,346	2,349	0.1
Profit tax	897	958	6.8

Personal tax	1,830	1,790	-2.2
Total	10,960	11,148	1.7

Source: Ministry of Finance

GOVERNMENT DOUBTS OKTA PUMPS MONEY OUT

The Public Revenue Office (PRO) has been reviewing the books of the sole refinery in the country OKTA after it released the official results of last year activities, demonstrating an 8 million euro loss. The loss, according to the Greek investor in OKTA is a result of the acquisition of more expensive Norwegian oil drilled at the North Sea and the inappropriate implementation of the OKTA investment agreement by the second partner - the GOM.

The above mentioned justifications compelled the GOM, minority shareholder of 16 percent of shares and co-owner, to review the company's final assessments, especially after OKTA decided to cover the loss by issuing new shares. The emission, however, could considerably decrease the share owned by the GOM in this company, to the benefit of Hellenic Petroleum, the controlling shareholder.

According to senior government sources, there are doubts that OKTA fabricates the data in order to conceal the enormous profit realized in Macedonia, which is on the brink of legality. There are fears that OKTA intentionally reports loss in Macedonia, while actually gaining profit. According to the authorities in the Ministry of Economy, at least US\$ 15 million net profit is realized with a one-way use of the oil pipeline system.

The second part of the enormous profit, oil experts from the Ministry of Economy indicate, is obtained by the methodology implemented in the measurement of oil retail prices, based on the price the brand reaches at the London Stock Exchange, even though OKTA never imported this extra-light and more expensive oil, but exclusively the hard and cheap oil from the Urals.

PART-TIME WORKERS ERASED FROM UNEMPLOYED LIST

The Employment Bureau will erase all individuals in part-time employment and the unreported with the Pension and Health Insurance Funds from the list of unemployed that the Labor Inspection will find in the firms. According to the amendments to the Employment and Insurance Law with regards to unemployment, adopted at the last

Government meeting, the Bureau will also be able to remove from the list of unemployed all individuals that will not accept offered working engagements.

"The main goal of the legal amendments is to regulate these individuals' unemployment status. A large part of them work, but are unreported with the Pension and Health Insurance Fund, and are thus deprived of health and pension contributions", sources from the Ministry of Labor and Social Policy say. According to Labor Law Professor at the Faculty of Law, Todor Kalamatiev, the legal amendments do not guarantee the most favorable solutions. "In a state of extensive unemployment, the working engagement of these individuals is merely a struggle for survival.

The sanctions for the employers should be increased. If the law-makers really wish to decrease unemployment, they should find modalities for revitalization of the economy", Kalamatiev believes. The engagement of people without reporting them with the Pension and Health Insurance Fund is also practiced in the public administration.

EXPORT-IMPORT BANKA OWES 65 MILLION EURO

Export-Import Banka owes its creditors a total of MKD 4 billion, or EUR 65 million. It is the total debt that Smilenski's bank incurred with approximately 380 creditors, including the Central Bank and the State.

The first bankruptcy hearing for Export-Import Banka was held at the Basic Court Skopje I on April 12, whereby Vladislav Tamburkovski was appointed bankruptcy manager. Over 200 creditor claims were heard at the court hearing, while the remaining 180 claims are expected in the issuing hearing.

The National Bank of Macedonia, with a claim of around 18 million euro, is the largest single creditor, followed by the Ministry of Transport and Communications, the Commodity Stock Reserves, Makedonska Banka and FZC Kumanovo.

MACEDONIA APPLIES FOR CEFTA MEMBERSHIP

On April 23, Macedonia submitted an application for CEFTA membership to the Bulgarian Minister of Economy and current holder of the CEFTA Presidency, Lidija Suleva. By the application, Macedonia is affirming its intention to become full-fledged member of the Central European

Free Trade Agreement, as it meets the necessary conditions or the standards of Poznan Declaration - full-fledged membership in the World Trade Organization, Agreement on Association with the European union and Free Trade Agreements with CEFTA member countries.

Macedonia's accession to CEFTA will contribute to creating larger free trade zone, intensifying the regional cooperation, improving the implementation of European standards in the country, bringing it to the future EU membership.

DEPUTY MINISTER OF FINANCE MEETS REPRESENTATIVES OF WORLD BANK, IMF, MIGA AND US TREASURY

Macedonian Deputy Minister of Finance Dimko Kokarovski on April 23 met with representatives of the World Bank, IMF, MIGA and the US Treasury, during the annual spring meetings of IMF and the World Bank in Washington.

At the meeting with Ad Melkert, World Bank Executive Director, Kokarovski stressed the GOM's determination to continue and accelerate the reforms aimed at creating conditions for more dynamic economic growth and opening of new jobs. Kokarovski and Melkert agreed on the World Bank further support of the structural reforms in the country by new projects. A special priority will be given to the project of judiciary reforms.

Kokarovski also met IMF European Department Director Michael Deppler, IMF Executive Director Jeroen Kremers and chief of the IMF mission in Macedonia Franek Rozwadowski. They welcomed the successful realization of the current stand-by arrangement.

The latest economic achievements in the fiscal and monetary sphere, conditions for improvement of the investment climate, the necessity of careful realization of the decentralization process and acceleration of the reforms in the judiciary, as well as successful finish of the arrangement with IMF and the World Bank's new projects were topics of the meeting with the US Treasury.

At the meeting with MIGA Vice President Luis Dodero, Kokarovski requested more active involvement of MIGA in issuing of guarantees to foreign investors and promotion of the possibilities and potentials for investments in Macedonia. Dodero expressed readiness for active MIGA support in attracting foreign direct investments to Macedonia.

CORRIDOR 8 REMAINS MACEDONIAN PRIORITY

The construction of the east-west transport corridor remains a priority for Macedonia, sources from the GOM claim, in answer to the media-released information that the European Union will favor other infrastructure projects in the period to 2020.

"We keep the Corridor 8 question open. It is not a closed issue. Macedonia will insist on infrastructure linking of the region", Ilinka Mitreva, Minister of Foreign Affairs, stated, following the European Parliament's decision to freeze the European financial assistance for Corridor 8. Radmila Sekerinska, Vice-Prime Minister in charge of Macedonia's integration in EU, said the GOM has already reacted to the report, requesting that the corridors that pass through Macedonia be included in the plan.

Nevertheless, she added that the provisions passed by the European Union are based on the priorities of EU member states, the accessing states and the candidate countries. "This confirms the notion that becoming a candidate country is a top priority that will lead to an improvement of the infrastructure and economic performances of our country", Sekerinska said.

FOUR MILLION EURO INVESTMENT IN BUNARDZIK

Owen Livelin, Director of the Welsh firm Glendor Estate, announced on April 25 that the firm plans to invest four million euro in the free trade zone Bunardzik in the upcoming year, 2.4 million more than the sum bid in the initial business plan presented to the GOM. According to the head of the Free Trade Zone Department, Xhemail Mehazi, it is expected that the agreement with Glendor Estate will be signed soon. The GOM binds the founder to invest at least 1.6 million euro in infrastructure in the first year. The Welsh firm procured a bank guarantee for 1.2 million euro. An additional requirement made to the investor is the attraction of a minimum 6 companies, future beneficiaries of the zone.

"The direct foreign investment will propel the opening of 15 to 22 thousand new job positions and investments amounting to 66 million euro. It will contribute to the rise of GDP, greater exports and foreign exchange earnings", Livelin said. According to Glendor Estate's business plan, 20 percent of the zone's capacity will be developed in five years, while the zone should be fully exploited in 20 years.

Livelin hinted at the possibility of entrance of firms from the automobile, air transportation and cosmetics industry. According to him, the telecommunications industry will be also included because it tends to open a large number of vacancies. "Two firms from the automobile sector have already declared their interest. One is a leading bus producer, while the other is a part of the taxi-industry based in Great Britain", Livelin pointed out.

"GLOBAL FINANCE": "KOMERCIJALNA BANKA", THE BEST BANK IN MACEDONIA

"Komeracijalna Banka" Skopje is the best bank in Macedonia according to New York magazine "Global Finance". This magazine announced the best banks in New Markets - Transition Economies - Eastern Europe and Central Asia. The exclusive research of the magazine will be published in the May edition, and the award to "Komeracijalna Banka" will be formally presented on October 4, 2004. "Global Finance" elects the best bank in Macedonia for the first time in its 70-year existence.

This is the 11th selection of "Global Finance" for best banks at the new markets, which according to magazine publisher and editor-in-chief Josef Jaraputo, attracted larger attention with the overhaul of the global economy. The magazine has 50,000 subscribers and over 253,000 readers in 158 countries, including chairmen of steering boards, general and finance directors, investors and strategic business decision-makers in large global companies.

MACEDONIA GETS HIGHER WINE EXPORTS QUOTA TO EU

Macedonia's duty free wine exports quota to the European Union has been raised to 395,000 hectoliters from 300,000 hectoliters, under amendments to the country's Stabilization and Association Agreement (SAA) with the European Union. The SAA agreement regulates quality standards, and enhances control and designation of geographical origin for Macedonian wine exports.

Local daily Dnevnik has earlier quoted local producers as saying that wines from Argentine and Chile were the most serious competitors of Macedonian wines in the EU markets. Local experts said that Macedonia considered its current wine export agreements with the EU not adequate to its capacity.

The country has held negotiations with EU authorities on setting up new framework of Macedonia's foreign trade with the 10 countries to join the union on May 1.

"Macedonia will gain new duty free markets of some 100 million consumers for its wine," Ministry of Economy spokesman Goce Pacemski said.

Eighteen wineries with a total capacity of 2,300 000 hectoliters of wine are currently operating in the country. Ten wineries have bottling facilities. The largest local wineries, including Povardarje, Tikves and Lozar, have invested in new packaging equipment and are now able to meet the European standards.

Macedonia will shortly start preparing a public register of the acreage, grape varieties and ownership of vineyards for securing a designated geographical origin status, which is a requirement for exports to the EU.