

U.S. Embassy - Skopje

ECON NEWSLETTER 3/2002

INTERNATIONAL TENDER FOR SALE OF "MAKEDONKA" FROM STIP

The Government Body for structural reforms made a decision to open a tender for selling "Makedonka" textile factory from Stip. Vice Premier Zoran Krstevski, who visited Stip, said that "according to the decision, the Government will sell all stock holding companies, except "Jeans" due to the dispute on the ownership of that company, which could take longer period of time to be resolved."

According to Krstevski the Government has accepted to cooperate with the World Bank and the Syndicate of the factory in order to provide the transparency in the selection of best offers.

AVERAGE NET SALARY IN DECEMBER WAS 10,592 DENARS

According to the data from the Macedonian Statistical Office, the average monthly net salary per capita in December 2001 was 10,592 denars, which is nominal decrease by 3.9 percent, and real decrease by 4.1 percent in comparison with November. Compared to December 2000, the net salary nominally increased by 0.6 percent, but in real values decreased by 3.0 percent.

MEETING OF WORKING GROUP ON AGRICULTURE BETWEEN MACEDONIA AND EU

In the headquarters of the European Commission in Brussels the fourth meeting of the Working group on agriculture was held between Macedonia and the European Union, the Macedonian Ministry of Foreign Affairs announced on Tuesday. Macedonian delegation led by Elizabeta Angelova, the director of the Administration within the Ministry of Agriculture, Forestry and Water Supply and the EU delegation led by Alexander Azbil from the General Directorate on agriculture within the European Commission have reviewed several issues from the field of agriculture and veterinary.

Both delegations agreed that within the implementation of the provisions from the Agreement on cooperation and the Interim agreement on trade relations they have indicated high level of cooperation. The representatives from the European Commission have pointed out on the importance from the implementation of the Stabilization and Association Agreement and welcomed the initiatives represented by the Macedonian delegation. They showed special interest in the Macedonian legislation in the field of winery. Other activities for statistical analyzes of the turnover and the foreign trade procedures have been agreed at the meeting.

They also discussed on further expert and technical assistance in the harmonization of the legislation in this very important area, and reviewed some current Macedonian requests for placing the meat and the milk on the markets in the European Union.

RETAIL PRICES 0.3 PERCENT HIGHER IN FEBRUARY

Retail prices in February 2002, were by 0.3 percent higher than in the previous month, stated the Statistical Office of Macedonia. The biggest growth of the price index in February in relation to the previous month of 0.8 percent is registered in the group of industrial-food products. Price index is increased in the group of beverages by 0.6 percent, while the non-food industrial products prices increased by 0.4 percent due to the growth of the prices of oil derivatives by 1.3 percent. Retail Price index in February in relation to the same month last year is higher by 1.6 percent.

The prices of the goods and services measured by the costs of living in February in relation to January 2002, were higher by 0.1 percent and in relation to February last year by 3.2 percent. Growth is realized in the groups of tobacco and beverages by 0.7 percent, the shoes and clothes by 0.3 percent, housing by 0.2 percent and means of transport and services by 0.3 percent.

MEETING BETWEEN GOVERNMENT BODY FOR STRUCTURAL REFORMS AND WORLD BANK MISSION

Members of the Government Body For Structural Reforms met with the representatives of the World Bank Mission in Macedonia. The meeting was focused on the fate of the 22 priority companies from the list of bankrupt companies. It was agreed at the meeting that a tender for international consultants will be open, who would work together with the company managers on the sale of the

companies' property. As Minister of Economy Besnik Fetai said, the expenses for hiring of consultants would be covered by the Dutch government. There was a proposal that NIP Nova Makedonija be excluded from the list and to be replaced by Struzanka company from Struga, which, as Minister Fetai said, is realizable because the debts of the two companies are similar.

AGREEMENT ON CONSTRUCTION OF HYDROPOWER PLANT "KOZJAK" IS CANCELLED

The Macedonian part has cancelled the Agreement with the Chinese company "Heinen" for construction of hydropower plant "Kozjak," the Macedonian Economy Minister Besnik Fetai said after the meeting with Chinese delegation, led by Xiaowei He, assistant Minister in the Ministry of Foreign Trade and Economic Cooperation. According to Fetai, the main reasons for breaking up the agreement are the huge losses that public enterprise "Elektrostopanstvo na Makedonija" (ESM) suffers because the agreement is not realized.

"ESM has made an advance payment to Heinen of around \$4.5 million for production and delivery of the equipment. The company did not realize that on time, and the penalties are around \$2.78 million. We should consider the fact that hydropower plant "Kozjak" has not opened in the past two years and the damages to ESM are estimated to approximately \$20 million". These losses are covered by the state budget and therefore no compromise is accepted, Fetai explained.

According to him, the both parties agreed with the assessment that "Heinen" is not qualified for construction of "Kozjak" hydropower plant, as the company is collapsing. Fetai's proposal was to break the agreement and the Chinese part to cover all expenses. The Chinese part has offered another Chinese corporation to take over the realization of "Kozjak" project, but the Macedonian part has refused that offer. Fetai announced that new tender will be open for selecting the company that would construct "Kozjak" plant.

MACEDONIA WILL RECEIVE \$760,000 FROM US DONATION TO UNHCR

Macedonia will receive US \$760,000 as an assistance for the displaced persons and the refugees from the initial donation of \$125 million that US has provided for the Annual Program of the UN High Commissioner for Refugees (UNHCR) for 2002. From the total funds provided from US, US \$23 million were intended for Europe, out of which US

\$14 million are for the Balkan region. It is expected UNHCR to provide assistance for around 21 million of refugees throughout the world, which are under their protection.

MACEDONIA'S FOREIGN DEBT CONTINUOUSLY REDUCES

Macedonian Ministry of Finance announces that in January 2002 the tendency on reducing Macedonia's foreign debt, on the grounds of using the medium-term and long-term credits and loans, has continued. According to the Ministry, the foreign debt is US \$1,357 billion and is reduced by 1.5 percent in comparison with December 2001. London Club creditors with US \$268 million and the International Agency for Development (IDA) with US \$253 million continue to be Macedonia's largest creditors.

The decrease of the foreign debt in January 2002 comes as a result of the reduced employment of credits and loans and increased reimbursement towards the foreign creditors. Also the negative differences in the exchange rates, which amounted to US \$11.4 million in January have contributed towards decrease of the debts. Most of the creditors - 70 percent are official creditors and the others are private.

MACEDONIA RECEIVES €307 MILLION AT THE DONORS' CONFERENCE

On Tuesday March 12, Macedonia received €307 million at the Donors' Conference in Brussels, attended by representatives of 38 countries and 19 financial institutions. The donors pledged €173 million to meet the urgent needs of the country in macro-economic support, €85 million for reconstruction of the conflict-affected areas and €49 for implementation of the Framework Agreement. The donors announced additional €271 million for an overall economic development in 2002.

Reinhardt Priebe, Director of the Directorate General on External Relations at the European Commission, Christian Portman, Coordinator for Macedonia and World Bank Regional Coordinator for Southeast Europe and Central Asia, and Amin Awad, Chief of Mission at the UN High Commissariat for Refugees (UNHCR) in the country were co-chairmen of the conference. Ministers of Finance Nikola Gruevski and Minister of Labor and Welfare Bedredin Ibraimi were members of the Macedonian delegation to Brussels, led by Prime Minister Ljubco Georgievski.

"The purpose of this conference is to help Macedonia to return at the road it has been before the conflict and to

continue with implementation of the Stabilization and Association Agreement," Priebe said in his address at the conference. "This meeting is an expression of the strong and constant support of Macedonia and its people, offering a chance for prosperity," he added.

Macedonia should continue with the economic reforms in order to improve the living standard of its citizens and to heal the wounds from the recent crisis, Poortman said. "Long-term economic development will be a significant element for the country's integration and the World Bank is willing to help Macedonia to achieve this goal," Poortman said.

At a press conference, Macedonian Minister of Finance Gruevski extended his gratitude for generosity of the donors that pledged more funds than expected in order to bring the country back at the road it was before the crisis. He gave credit to the donors' support of the Macedonian Government efforts to implement the Framework Agreement, restore peace and continue to work on the economic development. Gruevski also expressed hope that this would be the last Donors' Conference for Macedonia. "The next one is going to be an investment conference, focused on presentation of favorable conditions for investing in the country," Gruevski said.

US PLEDGES OVER US \$116 MILLION IN ASSISTANCE TO MACEDONIA

The United States pledged US 116,381 million in assistance to Macedonia at the Donors' Conference in Brussels, announced the US Embassy in Skopje, Macedonia in a press release. "The US total contribution includes a pledge of US \$39,618,424 against the needs sought for this conference; US \$55,081,997 in economic development assistance; US \$11,550,000 in 2001 funds supportive of the Framework Agreement; and US \$10,130,483 in humanitarian assistance," the press release reads, quoting excerpts from Donors' Conference statement by Ambassador William Taylor, US Coordinator for Assistance in Europe and Asia.

The US specific pledge against the needs sought for this conference consists of: US \$16,500,000 in balance of payments support; US \$12,153,424 for reconstruction and rehabilitation in conflict-affected areas; and US \$10,965,000 to support implementation of the Framework Agreement. "The United States remains committed to joining with others in the international community to ensure that the promise of the Framework Agreement-

enduring peace and stability as the basis for a renewal of democratic and economic reforms of the international community's resolve to do its part to support Macedonia's sovereignty, territorial integrity, and economic self-sustainability, and to promote its integration into Europe and Euro-Atlantic institutions," Taylor said.

The US would work along with the Macedonian Government and all of Macedonia's citizens to see that each element of the Framework Agreement was implemented. "This must include, with equal leadership and resolve, the rejection of all who call for violence as a means to resolve political differences. By such measures, by such political stamina and courage, the Macedonian Government and all of Macedonia's residents are making an invaluable contribution to the global war on terrorism-they are embracing peace, progress and prosperity within their own country," Taylor said.

SEMINAR ON MONEY LAUNDERING PREVENTION

A five-day seminar on prevention of money laundering and other kinds of financial crime and corruption was held on March 11-15, 2002 in Skopje, the US Embassy to Macedonia said in a press release. Public Prosecutor Stavre Dzikov opened the seminar. Referring to its goals he said that the seminar was aimed to assist Macedonia in applying of the new Law on money laundering prevention, which came into force on March 1, 2002.

Over 40 representatives of the Ministries of Interior, Finance, Justice, the Public Prosecutor's Office, the Public Revenue Department and the National Bank attended the seminar. The Directorate for money laundering prevention within the Macedonian Finance Ministry is the main organizer of the seminar - sponsored by the Macedonian Government, US Ministry of Finance and the US Embassy. The US Embassy welcomed the efforts of the Macedonian Government to restore its banking, financial and law system and offered its assistance in that direction.

PRIME MINISTER GEORGIEVSKI AND MINISTER GRUEVSKI ON DONORS' CONFERENCE

"The Donors' Conference is a new approach towards Macedonia and this is the first serious political and economic step of the international community towards our country since the beginning of the crisis," Macedonian Prime Minister Ljubco Georgievski said late Tuesday upon his arrival from Brussels. Stating that Netherlands,

Germany and Japan were the greatest donors for Macedonia, Georgievski stressed out that it was not important which country gave more or less, because Macedonia has friendly relations with all countries. Explaining the "generosity" of Netherlands, he said that we are in the same group with Netherlands in the World Bank and the International Monetary Fund and it favors Macedonia because "it recognizes the results we have achieved."

Explaining the aim of the additional € 271 million, Minister of Finance Nikola Gruevski said that these funds should assist the implementation of various projects. "This is usually money for certain projects they have reviewed, have been already financed or they will begin to finance them. For better implementation of these projects, the assistance from the GOM and first of all from the Transport Ministry, the Finance Ministry and the Office for European Integration is necessary. The projects include Studencica, Lisice and other water supply capacities, roads and infrastructure facilities," Gruevski informed.

VICE PRIME MINISTER KRSTEVSKI ON DONATIONS FOR ECONOMIC DEVELOPMENT OF MACEDONIA

Vice Prime Minister Zoran Krstevski explained donations for Macedonian recovery and economic development. In addition to €307 million, pledged at the Brussels Donors' Conference of March 12, Macedonia was promised €271 million for economic development. Spain has pledged €14 million for water supply projects, while the Netherlands would grant €23 million for intensifying the trade cooperation between Macedonian and Dutch companies and for agricultural, energy and educational projects. Greece promised €14.6 million, as part of its €80 million package, granted for infrastructure projects. Italy pledged €17 million, i.e. €10 million credit for support of small and medium size companies and grant of €7 million. The European Agency for Reconstruction and Development promised a credit of €50 million in support to the private sector, while the SOROS Foundation pledged €4 million in support to the education sector. Sweden pledged €2.5 million, Norway - €7.1 million, Japan - US \$10 million, and France - €4 million in reconstruction projects in the crisis regions.

Macedonia may expect €68 million from the Stability Pact, in addition to €130 million for construction of road network around Skopje, for projects in relation with the gas pipeline and the Corridor 8. Krstevski expressed great satisfaction from the assistance that Greece had

promised, as it would contribute to intensifying the regional cooperation, particularly in construction of the Corridor 10 and the road network for the forthcoming Olympic Games 2004 in Athens.

MEETING OF MINISTER GRUEVSKI WITH EXIM BANK DIRECTOR FOR SEE

Minister of Finance Nikola Gruevski met on Friday, march 15, 2002 with Margaret Kostic, Director of the Initiative for Southeast Europe of the U.S. EXIM bank. As the Ministry of Finance reported, great interest was shown at the meeting for launching direct foreign investment lines in several fields of the economy and projects for support to the small and medium-sized enterprises. Minister Gruevski stressed that direct investments in the textile industry would be of special importance, as well as in the steel and chemical industry. Gruevski expressed gratitude for the U.S. and EXIM's readiness to provide strong support to the development of the economy in the country.

MACEDONIA'S FOREIGN TRADE IN JANUARY 2002

The National Bureau of Statistics published that the foreign trade of Macedonia in January 2002 was over US \$278 million, i.e. 24.4 percent - export; and 75.6 percent - import. Accordingly, the deficit has reached over US \$142 million. The increased import rate is due to the Japanese humanitarian aid of US \$60 million, the Bureau says in its report. Most of the Macedonian products were exported in the European Union - 52.3 percent and in the former Yugoslav countries - 28.1 percent. Most of the imported goods in Macedonia came from developed countries - 30 percent, Central and Eastern European countries and the former USSR countries - 24.4 percent.

MEETING OF FINANCIAL COMMITTEE ON SUCCESSION OF FORMER YUGOSLAVIA'S PROPERTY

The representatives of the Financial Committee referring to the implementation of the Agreement on succession of former Yugoslavia's property announced the estimations at the joint press conference on Tuesday, March 19, 2002. The net-liabilities of SFRY's successor countries from the former Soviet Union are estimated to 1,292 billion clearing dollars, while the liabilities of the former Soviet Union's countries from SFRY's countries are 140 million of clearing dollars.

According to Vice Governor of the National Bank of Republic of Macedonia Dusanka Hristova the meeting also focused on determining the balance of former Yugoslavia's accounts. "We agreed to establish expert group comprised from the representatives of all successor countries, which will meet on April 4 in the National Bank of Yugoslavia and whose main task will be to prepare a report based on the documents available in this institution regarding the liabilities towards the former Soviet Union," Hristova said.

The rate of the debt of the former federation towards the Soviet Union as well as the issues necessary for the negotiations with the Russian part were also determined at the meeting. The material, which will be used in the negotiations, will be verified by the Financial Committee. The next meeting will be held in Slovenia and will be focused on the other open issues from Annex C of the financial part of the Agreement on Succession.

Hristova informed that the first meeting in Sarajevo was focused on the allocation of the monetary gold, the strategy of the clearing balance was discussed at two meetings, while another open issue is the deposits of the National Bank of former SFRY in the joint venture and commercial banks. Yugoslav representative Veroljub Dugalic, said that the liabilities of SFRY towards former Soviet Union will be reviewed once again. Regarding the deposits in the joint venture banks, he said that it was agreed to find out where the funds are and what was the legal justification for spending them. According to representative of Bosnia and Herzegovina Kemal Kozaric only Macedonia and Bosnia and Herzegovina have ratified the Agreement on succession.

IFC APPROVED LOAN WORTH US \$5.3 MILLION TO "TETEKs" COMPANY

The World Bank International Finance Corporation, supporting the private sector development, will provide a loan worth US \$5.3 million to "Teteks" company from Tetovo. The investment aims to increase the export and improve the efficiency of the company in socially acceptable way as well as to provide protection of the environment. "Macedonia has to keep the main companies in the private sector such as 'Teteks', now when the country recovers from the consequences of the recent conflict," the IFC Director of SEE and Central Asia, Khosrow Zamani said.

"Teteks" is founded 1951, as one of the biggest companies for wool manufacturing in Macedonia and is the only vertically integrated operation for wool textile in Europe. The activities of this company, which is fully privatized, include the production of wool, textile, knitted fabrics and ready - made clothing.

The credit is aimed to support the modernization program of the textile operations, to enhance the efficiency of the energy use and to protect the environment. Part of the loan, i.e. US \$300,000 will be used for realization of the program - Corporation Civil Initiative, established in order to assist to "Teteks" company to restructure its operations in a socially acceptable way. The program should finance small entrepreneurs, which will provide for some of the employees in "Teteks" to start their own businesses. This will help to alleviate the effects from the corporation restructuring. "Teteks" will invest US \$300,000 in addition to \$300,000 provided by the IFC, which will increase the overall amount for financing small businesses to US \$600,000. At the moment, Corporation requests grants for technical assistance and support of the Civil Initiative.

NEGOTIATIONS ON MACEDONIA'S MEMBERSHIP INTO WTO

Macedonian Minister of Agriculture, Water Supply and Forestry Marjan Gjorcev delivered a speech on March 20, 2002, about current developments and perspectives of the country's agriculture at the second round of negotiations in Geneva on Macedonia's membership into the World Trade Organization (WTO). "The Republic of Macedonia should be considered as a developing country in relation to agriculture, and therefore it needs solid budget support, Gjorcev said.

Part of the priority measures for reforming of the agriculture in compliance with the WTO standards referred to protecting prices of wheat and tobacco, subventions to producers of milk, sunflower and sugar beet and regress for seed, fertilizer, protecting means and oil, as well as for covering of traveling expenses. The WTO members would present their stance on Gjorcev's proposal at the next negotiating round, scheduled for May, 2002.

NEGOTIATIONS ON MACEDONIA'S MEMBERSHIP INTO WTO CONTINUE

Macedonian delegation led by the Minister of Economy Besnik Fetaj had two bilateral meetings on March 21, 2002, with the US representatives within the negotiations on Macedonia's membership into World Trade Organization

in Geneva. During the meeting, both parts expressed their satisfaction from the progress that Macedonia has made by adjusting the legislation to the WTO's principles and rules. Minister Fetai and Minister of Agriculture, Water Supply and Forestry Marjan Gjorcev informed the US representatives on the adopted laws on operation with foreign currency, payment turnover, trade companies and customs.

The domestic and international experts should review the draft-law on trade, according to which the antidumping prices should be cancelled, and three-year transition period was requested for canceling the fee of 0.1 percent, but the negotiators should consult their native countries first. Currently, one of the greatest barriers for that is WTO's rule to unify the import excise. Macedonian negotiating team considers that transition period of five years should be granted to the country, in which the domestic industry would get ready for the competition.

FINANCE MINISTER GRUEVSKI MEETS WITH WORLD BANK REPRESENTATIVES

Finance Minister Nikola Gruevski had a meeting on March 26, 2002 with representatives of the World Bank mission, focused on the municipality-developing project, worth US \$9.48 million. According to the plan, the World Bank has granted a soft loan of US \$5 million, while the rest is to be provided by donations. This is the first official mission for assessing of the project. Its task is to set up the technical details of the project, as a base for the negotiations in April. In the next two weeks, the mission should define the project elements and standards for selection of sub-projects.

MACEDONIAN AND ATHENS STOCK EXCHANGE SIGN MEMORANDUM FOR COOPERATION

The Macedonian Stock Exchange (MSE) and the Athens Stock Exchange (ASE) signed a memorandum for cooperation on Thursday, March 28, 2002. The Director of the MSE, Evgenij Zografski said, "this represents new stage in the cooperation between the two stock markets which will provide positive results and will strengthen the national economies.....This memorandum will help us attract more companies, and will enable the crossed trading and quotation of the stocks that are sold on both markets." He said that groups from the two countries would be created, which in the future will be focused on the implementation of the memorandum, when the timeframes for

crossed trading would be specified. The first meeting between these two groups will take place on April 14.

The Director of the ASE Panayotis Aleksis pointed out that the cooperation between the two stock markets is key element for their future success. He said that the two markets have different paths to development, though crucial is the vast market and the legislation that will provide transparency and safety of every transaction and clearing. "The Southeast Europe region has a strong potential and there is growing competition which is the reason why every stock market tries to be more reliable and modern," he said.