

# *U.S. Embassy - Skopje*

## **ECON NEWSLETTER 01/2004**

### **REORGANIZATION INSTEAD OF PRIVATIZATION**

Taip Jakupi, the Director of the "Macedonian Post" announced that the company will be transformed into a joint stock enterprise in public ownership. He added that there is no intention to privatize Macedonian Post, but to create conditions for its successful performance. "It is a fact that there is over-employment in Macedonian Post, but we do not intend to lay-off employees", Jakupi said, announcing that the over-employment problem will be solved with the extension of postal services and engagement of all employed.

The key to Macedonian Post's success is not the Canadian Post, but the quality of services it offers", Jakupi explained. He informed that the present policy of the company continuously reduces the losses produced by the enterprise previously. However, he did not give any information regarding the present financial condition of the enterprise, promising to do that by the end of February.

### **BANK OF AUSTRIA NOT INTERESTED IN MACEDONIAN KOMERCIJALNA BANKA**

Komercijalna Banka Skopje has denied the information recently provided by Macedonian daily Dnevnik, that it was in talks with the Bank of Austria for the sale of a 49 percent of the shares. Komercijalna Banka also confirmed that four years ago its management board approved a long-term strategy for a sale of controlling package to a foreign investor provided it was one of 20 largest banks in Europe. The bank posted a gross profit of 172.9 million denars (US\$ 3.5 million) for 2002. Its 2002 net profit rose by 60.3 percent year-on-year to 161.2 million denars (US\$ 3.3 million). Komercijalna Banka was awarded by UK's The Banker magazine the best bank in the country in 2000 and 2001.

### **1.2 PERCENT INFLATION IN 2003**

The costs of living in the past year, an indicator of inflation in the past few years, have risen by 1.2 percent in comparison to the previous year. The retail

prices, instead, underwent a 2.4 percent growth, the Macedonian Statistical Office informed recently. In 2003, deflation was recorded in three months, i.e. in February, June and July, when the agricultural and food products are traditionally less expensive.

The increase of costs of living in the past year is due to the 4.4 percent increase of heating and electricity expenses. The transport services grew by 4.2 percent, the water supply and services underwent 1.4 percent growth, while the hygiene and health expenses increased by 4.8 percent. In comparison to previous years, the inflation was at a relatively low level and thus welcomed by the exporting enterprises and the macroeconomic stability, but discouraging for the importers.

#### **NBM BOARD REVOKES LICENCE OF EXPORT-IMPORT BANKA**

The National Bank of Macedonia's (NBM) Council revoked the operational license of Export-Import Banka. The NBM Governor is likely to decide on opening a liquidation procedure for the bank, as well as appointing a receiver. This measure follows one year of attempts to rehabilitate Export-Import Banka, owned by a controversial local businessman, Metodi Smilenski. The bank was placed under a provisional administration at the start of 2002. The outstanding liabilities of Export-Import Banka allegedly reached 30-35 million euros. According to local media, another reason for the decision to liquidate the bank is the lack of interested investors to take over.

The Central bank's board now expects that all claims toward the insolvent Export-Import Bank would be honored, including NBM's claims for previous guarantees worth a total of US\$ 21 million on loans extended by foreign financial institutions to the bank. The list of creditors also includes the Deposit Insurance Fund, the State Commodities Bureau and the Ministry of transport and communications.

#### **BELGIUM RATIFIES EU-MACEDONIA STABILIZATION AND ASSOCIATION AGREEMENT**

The Belgian Ministry of Foreign Affairs announced it had completed the procedure for ratification of the Stabilization and Association Agreement (SAA), signed between the European Union and Macedonia. Accordingly, Macedonia is the first country of the SA process, whose agreement has been ratified by all EU members. Macedonia was also the first country that signed the agreement with the EU.

By closing the ratification process, conditions had been met for official enforcing of the document, which will also send an important message to potential European investors, the Macedonian Ministry of Foreign Affairs said in a press release. By acquiring the status of an associative member, Macedonia's relations with the EU are entering a new phase, which means more intensified political dialogue and establishment of new institutions for monitoring the development of overall relations, the press release reads.

#### **OVERALL DEBT OF PUBLIC HEALTH INSTITUTIONS REACHES 52 MILLION EUROS**

The debt of public health institutions reached 3.3 billion denars (52 million euros), announced the Head of the Health Fund, Nikola Panovski, quoted by *Dnevnik*. He warned that the accounts of some institutions have been blocked due to arrears toward suppliers, while healthcare unions have already staged protests for unpaid holiday bonuses, totaling 2.5 million for about 30,000 employees.

#### **SEVERAL FOREIGN COMPANIES SAID TO SHOW INTEREST IN TENDER FOR SASA MINES**

Several foreign companies are said to manifest interest in the tender for sale of the property of Sasa mines, according to the receiver of the lead and zinc mining enterprise Vlasto Stoimenovski. No initial bidding price, investment commitments or obligations to maintain employment are required, due to the fact that several tender procedures for the mines have already failed. He specified that two foreign firms have already bought tender documentation, while five more are expected to follow.

Stoimenovski unveiled that representatives of three of the potential bidders have been to Sasa to conduct a due diligence. According to the official, the increased interest in the Macedonian company could be explained with the recent hike of lead and zinc on the world markets. He reminded that the bidding deadline expire on February 20, 2004.

#### **GREAT INTEREST FOR FIRST EMISSION OF TREASURY BILLS**

The first auction of short-term treasury bills organized by the Ministry of Finance ended on January 20 with the sale of the entire 100 million denars offered. The average interest rate was 7.53 percent, ranging from 6 to

8 percent during the auction. The Minister of Finance Nikola Popovski informed that the average interest rate matches the expectation, although he believes it will decrease in future auctions.

According to the auction rules, only banks participated at the auction. The Minister informed that some of them traded individually, while other through intermediaries, but refused to declare which banks became owners of the treasury bills. Popovski informed that the secondary market for the short-term treasury bills might start as early as January 21, whereby the banks can offer the bills acquired through the Macedonian Stock Exchange and the Money Market.

#### **BRANKO'S LAW MOST EFFICIENT BEFORE ABOLITION**

The Ministry of Labor and Social Policy summed up the results from the implementation of the Law for enhancement of employment, commonly known as Branko's Law, passed in April 2003 and implemented until December 31. The total number of new employments realized in the private sector in the above mentioned period is 14,840, provided by 5,486 employers.

According to the law, the persons are guaranteed a working place for a minimum of 48 months. The State vows to subsidize each employer with 1,800 denars per working place monthly, an amount smaller than the average social aid allocated by the State.

The number of new employments surprised even the Government, because the employers sustained from employing new individuals, making the Government's predictions for 17-20 thousand new working places quite unreal. Namely, until mid-December 2003, only 9,200 new employments were provided. However, the number of employments, surprisingly rose considerably in the last two weeks of the enforcement of the Law.

#### **NEGOTINO POWER PLANT ALLEGEDLY ATTRACTS HIGH INVESTOR INTEREST**

Negotino thermal power plant (TPP) seems to attract a lot of investor interest lately, despite the relatively expensive black oil-based electricity production of the plant. Recently it has become known that Greece is interested to buy electricity from Negotino during the Olympics this summer. According to this scenario, the Greek-owned Okta oil refinery could sign a leasing

contract for the plant and supply it with black oil, exporting electricity produced at Negotino to Greece.

Furthermore, during the visit of PM Branko Crvenkovski to Paris in January, French representatives have expressed interest on behalf of the two Macedonian industries, Feni nickel producer and Silmak chrome producer (owned by the French SCMM) for a concession or leasing contract for Negotino. The interest of Feni and Silmak in the TPP could be explained with its willingness to ensure a secure and stable supply of electricity.

Feni and Silmak are the two biggest industrial consumers of power in the country and in order to meet their demand, the national power utility ESM is importing electricity. As a result of the operation, ESM suffers considerable losses, given that import prices are higher than what can be considered acceptable by the local market.

The contract between ESM and Feni is expected to expire in April 2004, and it is expected that ESM would insist on higher prices of electricity during the negotiations on a new agreement. It is worth noting that the French Alstom has expressed readiness to provide 0.4 million euros and elaborate the feasibility study for a project, which would provide Negotino with an opportunity to switch from black oil to coal.

For the time being, both the economy ministry and ESM have kept silent on the issue. Meanwhile, the plant has not been operational for more than a year, as the costs of production are very high and ESM prefers to import power, keeping Negotino as a reserve capacity.

#### **JAPANESE ASSISTANCE FOR IMPROVEMENT OF WATER SUPPLY IN SKOPJE SURROUNDING**

Macedonian Foreign Minister Ilinka Mitreva and Japanese Ambassador to Macedonia Hiroshi Hashimoto signed on January 26 notes for allocation of Japanese assistance for realization of water supply project in Skopje surrounding, worth Yen 53 million. As announced by Minister Mitreva, the funds are intended for improvement of the drinking water quality in the Skopje surrounding. She emphasized that the Japanese assistance is consisted of soft credits and grants, adding that one of the largest soft credit is the one for hydro-system Zletovica. "The realization of this project in the eastern part of Macedonia will allow access of over

100,000 people to water supply, which also means assistance for agriculture", she added.

The Japanese delegation also includes tourism experts, who reviewed the possibilities that Macedonia could offer for Japanese tourists, especially in light of the upcoming Athens Olympic Games. Ambassador Hashimoto expressed his satisfaction with the signing stating that "we want to strengthen our cooperation, so that the people in Macedonia and Japan can understand what we are trying to achieve in the area of economy".

#### **SWITZERLAND DONATES 12 MILLION FRANCS FOR ELECTRICITY NETWORK IN MACEDONIA**

The Swiss Government donated 12.1 million Swiss Francs (7.8 million euros) to Macedonia, intended for improvement of efficiency of the electricity network in the country. Minister of Economy Stevco Jakimovski and Swiss Ambassador to Macedonia Stephan Nelen signed the agreement on January 27. The funds will be used in the following 24 months, which according to Minister Jakimovski, will contribute to the improvement of the stability and quality of the electric-energetic system.

"This project is intended for solving the environment problem, increasing the capacity of the Macedonian Power Company of saving energy, as well as enabling the assistance in increasing the Company's value before its upcoming privatisation", Ambassador Nelen stated. The Macedonian Power Company ESM will take part in the entire project with 1.3 million Francs.

The realization of the activities will contribute in the decrease of the technical and commercial losses in the distribution electric-energetic network. It would also help decrease the harmful influences of permanent organic pollutants on environment, enhance the technology for treatment of permanent organic pollutants, as well as raise the consciousness among users on the possibilities and needs for efficient use of electricity.

#### **STATE ALLEGEDLY PLANS SELLING UP TO 49 PERCENT IN MBDP**

The state considers selling up to 49 percent in the Macedonian Bank for Development Promotion (MBDP), according to the daily *Utrinski Vesnik*, citing government sources. The privatization procedure will most likely be conducted via capital increase. According to the newspaper, the state plans to retain a majority stake in the bank, which is a major player as regards to credit

activities for SME and export-oriented businesses. Furthermore, it is not excluded that some restriction is introduced for foreign buyers that could acquire up to 30 percent in MBDP, while the remainder would be offered to domestic financial institutions.

The decision on partial privatization of the bank's capital would be taken at the recommendation of the IMF. As its implementation would require changes in the law on MBDP, the privatization process is expected to begin in June 2004 at the earliest, commented *Utrinski Vesnik*. MBDP was established several years ago as a 100 percent state-owned institution with 15 million euros capital.