

U.S. Embassy - Skopje

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CENSUS 2002: MACEDONIA HAS 2,022,547 CITIZENS

According to the State Statistical Office announcement, the Census of Population, Households and Dwellings 2002 results show that a total of 2,022,547 persons live in Macedonia. A total of 1,297,981 or 64.18 percent are Macedonians, 509,083 or 25.17 percent are Albanians, 77,959 or 3.85 percent are Turks, 53,879 or 2.66 percent are Romas, 35,939 or 1.78 percent are Serbs, 17,018 or 0.84 percent are Boshniaks, 9,695 or 0.48 percent are Vlachs and 20,929 or 1.04 percent are members of other ethnic communities.

International experts group, which monitored the census data processing has concluded that it is successfully and professionally conducted obeying the international standards. They have assessed that the data have been announced quickly having in mind that it was a large operation.

TRANSFORMER STATION "SKOPJE 5" PUT INTO OPERATION

On December 2, the Minister of Economy Stevce Jakimovski put into operation a new 400 kV transformer station "Skopje 5", which will provide safe electricity supply to consumers. "This investment is of significant importance in resolving the great technical issue and will improve the flow of electricity at the highest 400 kV level and transformation of the energy at new feeder point," ESM General Manager Pande Lazarov said. ESM provided 6 million Euro and 4 million Euro were provided by the European Investment Bank as a loan.

IMF PUBLISHES FINANCIAL SYSTEM STABILITY ASSESSMENT FOR MACEDONIA

Based on the joint work and findings of the IMF and WB teams in May and June 2003, the IMF assessed the financial system as still very small with a limited role as mediator of financial flows. The IMF-WB missions noted that the banking system has been improving in recent years, as a core group of banks with fairly sound policies has been strengthening.

Regarding the recommendations highlighted by the IMF, the need of efficient measures to fight corruption, money laundering, as well as enforcement of laws was stressed. More specifically, recommendations referred to strengthening the regulatory framework for banking, improving banking supervision toward risk-based assessments and liquidity management practices, creating an emergency lending at the central bank, establishing a government securities market and insurance market supervisory capacity and developing a second pension pillar system.

NOVEMBER CONSUMER BASKET ESTIMATED AT 10,241 DENARS

The Living Standard Sector at the State Statistical Office reported that in November a Macedonian household with family of four had to allocate 10,241 denars for food. This is a 1.8 percent rise compared to October, but is about the same level as in November 2002..

TUTUNSKA BANKA CUTS INTEREST RATES AS OF MID-DECEMBER

The third largest bank Tutunska Banka cut interest rates by an average of 3 percentage points from Dec 15. According to the statement, interest rates on loans for legal entities that are currently between 9 and 17 percent were reduced to 6 - 15 percent. Interest rates on housing loans were decreased from 11 - 15 percent to 9 - 11 percent, while rates on consumer loans from 17 - 18 percent to about 14 percent.

MACEDONIA RECEIVES LICENSED MICROSOFT SOFTWARE

Macedonian Vice-Prime Minister Radmila Sekerinska and Microsoft's Senior Vice President Jean-Philippe Courtois signed an agreement for strategic partnership on December 3. According to the agreement, Microsoft is obliged to open a local office in Macedonia, while the Macedonian Government will apply the company's technology into state institutions. "Microsoft will invest US\$ 6 million in Macedonia in the next four years. It is one of the first global information companies that enters into Macedonia, and I hope it will attract other similar companies," Courtois said. "We signed an agreement with one of the world's giants of information technology," Sekerinska said, adding that legalization of the Government institutions software is Macedonia's obligation for protecting the intellectual property rights.

Macedonia will receive 6,200 licensed copies of Microsoft software, free service and software training. The

licensed copies cost US\$ 3.9 million and will be paid on four equal installments with no interest. According to the agreement on strategic partnership, Macedonian Government in the next four years will have the right to upgrade the last versions of Microsoft software systems. The agreement will also provide for business users to legalize Microsoft software in a three-month period, starting from February 1, 2004.

BUNARDZIK IN SEARCH OF RESPECTABLE INVESTOR

An international tendering procedure for attraction of foreign investor - founder of the free economic zone Bunardzik, was announced on December 3 and published in "Financial Times", as well as all printed media in the country. It is expected that offers from foreign investors with financial credibility and experience in the establishment of free economic zones will be received by February 23, 2004 deadline.

Bunardzik is offered for a period of 50 years, with a possibility for a 25-year extension. Minister of Economy Stevce Jakimovski believes that it will be one of the engines for economic growth, greater standard and new employment in the country. In case the international tender for a founder fails, the GOM will turn it into an industrial zone with a complete proper investment for construction of infrastructure.

According to Viktor Delov, Deputy Director of the Free Economic Zone, the zone will allow all production activities, except textiles. Customs and tax levies will be provided for the investments in the free economic zones, while the beneficiaries will be exempted from paying contributions, taxes and other duties for utilities or construction land.

ADDITIONAL 11 LOSS-MAKING COMPANIES TO BE SOLVED IN 2004

In the latest agreement reached with the World Bank, the Government promised to resolve the status of ZIK Kumanovo, Lozar, Tarinci, Agro Izvorski, Vinojug Oranzerii, ADMS, Atom, Zito Oriz, Vinojug Miravci, Iskra Inzineriing and Mosa Pijade in 2004.

According to the Minister of Finance Nikola Popovski, the 11 loss-making companies, originating from the agricultural sector mostly, accumulated losses that equal 2 percent of the GDP. The Government strategy for structural reforms, which includes the new loss-making

companies, will receive a budgetary support in accordance with the FESAL 2 Arrangement with the World Bank.

GOVERNMENT APPROVES PACKAGE OF LAWS ON FISCAL DECENTRALIZATION

On December 10, the GOM approved package of laws on fiscal decentralization, which sets the principles for financing of the municipalities, Minister of Economy Nikola Popovski said at a press conference. The package of four laws would enter into force on January 1, 2005, Popovski said, adding that the process will be conducted in two stages. "Budget funds of Denar 13 billion will be transferred to municipalities. In that manner they will have own budget revenues, as well as subsidies from the Central Government," Popovski said. The municipalities will also receive one percent of the value-added tax under strictly determined standards. They are allowed to take short and long-term loans from local and foreign banks under strict supervision of the state.

MACEDONIA WILL HAVE 71 MUNICIPALITIES

Draft-laws on territorial structure of the local self-government say that Macedonia will have 71, while the capital Skopje will function as a separate unit. "Nine municipalities of planned 71 are part of Skopje. The average number of population of the municipalities will be 28,000," Minister of Local self-government Aleksandar Gestakovski said. He also added that the GOM offered three alternative solutions for the status of Aracinovo, Lipkovo and Vevcani. In addition to Macedonian, the language spoken by at least 20 percent of the population will be used in 27 municipalities.

The Government drafts were aimed at creating municipalities that would nourish the citizens' traditions and meet their democratic and economic needs, Gestakovski said. The drafts are part of the governmental operation program on power decentralization, set in accordance with the European Charter on local self-government.

RAMSTORE MALL - LARGEST TURKISH INVESTMENT IN MACEDONIA

On December 12, the Macedonian Prime Minister Branko Crvenkovski and the Honorary Chairman of Koc Holding Rahmi Koc signed a memorandum of understanding for construction of the Ramstore Mall Macedonia in Skopje. The Koc Holding will invest US\$ 30 million in the three-store mall of 25,000 sq. meters, which is to be located

near the old Railroad Station. The project also includes construction of opened and closed parking lots, supermarkets, shops and restaurants.

"It is very significant that a reputable company, such as Koc Holding, stands behind this large investment. I hope that this project will send direct message to all investors that this is the right time for investing in Macedonia," Crvenkovski said after the signing ceremony.

GOVERNMENT DECIDES TO RETURN DISPUTABLE ASSISTANCE OF EUR 0.8 MILLION TO EC

The GOM decided to return to the European Commission a disputable financial assistance of EUR 0.8 million that was granted to Macedonia to cover expenses related to Kosovo refugees in 1999. The fate of the money has been recently surrounded by a spate of allegations, as the media rumored that the EC criticized the Macedonian authorities for having inappropriately spent the funds, while representatives of the previous administration explicitly denied the accusations.

WB EXTENDS LOAN FOR MODERNIZATION OF MACEDONIA'S EDUCATION SECTOR

According to an official press release, the World Bank has endorsed a US\$ 5 million loan for the Education Modernization Project in Macedonia. The loan will be extended under IBRD terms and has a 17-year maturity and a 5-year grace period. The total value of the project amounts to US\$ 19.3 million, whereby US\$ 5 million are the World Bank loan, US\$ 11.4 million allocated from the Netherlands' Government and US\$ 2.9 million provided from the central Budget. The project will be aimed at improving the quality of learning and decentralization and efficiency of the education system. The WB has allotted over US\$ 600 million assistance to Macedonia since 1994.

JAKA 80 ALLEGEDLY BUYS 45 PERCENT IN MAKEDONSKA BANKA AT THE STOCK EXCHANGE

The Radovis-based pharmaceutical company Jaka 80, owned by the former Yugoslav "tobacco boss", Jovica Stefanovic-Nini, is the alleged buyer of a 45 percent stake in Makedonska Banka at the Macedonian Stock Exchange (MSE). The price of the deal was 50,7 million denars (EUR 0.8 million). According to media comments, this deal would bring more transparency in the ownership structure of the bank, which was named by the WB as one of the problematic

banks in the country, as the four offshore companies that hitherto controlled the stake withdraw.

The National Bank of Macedonia (NMB) approved the transaction. Makedonska Banka's losses stood at 350 million denars (EUR 5.7 million) last year, when the bank was in the red for a third consequent year. Nini is also owner of Rado Bank, as well as Zito Skopje baking company. The new owner announced to invest EUR 4 million fresh capital through acquisition of the additional shares emission, approved by the Securities and Exchange Commission.

EU FINANCES 10 PILOT PROJECTS FOR NEW EMPLOYMENT

The National Action Plan for Employment 2004/2005 that the GOM has been preparing in the last few months was adopted by the Economic-Social Council and is expected to be implemented by next March. This is a document, part of the CARDS Program, prepared by the Ministry of Labor and Social Policy, EU experts, representatives from the Ministries of Education, Economy, Finance and Local self-government, the Employment Bureau, the Syndicate and the Economic Chamber.

The realization of this document foresees the preparation of at least 10 pilot projects financed by the European Agency for Reconstruction that will produce real employment in the country in the future. "This is practically a new matrix, passed in July 2003, that the countries that wish to become EU members should follow. The document holds concrete measures for increasing the employment, deadlines and ways for their implementation, depending on the country's proper capacity to realize in practice what has been planned", Jovan Manasievski, Minister of Labor and Social Policy, explained.

EC RELEASED 26 MILLION EURO IN MACRO-FINANCIAL ASSISTANCE

The European Commission disbursed on December 23, the EUR 18 million loan component and EUR 8 million grant component of the EUR 26 million fourth tranche of the EC macro-financial assistance to the Republic of Macedonia. The loan foresees that there will be no capital repayment for 11 years. The release of this fourth and last tranche of the EC macro-financial assistance follows a positive review by experts from Brussels on the Macedonian fulfillment of the economic policy conditions on structural reforms agreed in September 2002.

FINLAND RATIFIED MACEDONIA-EU STABILIZATION AND ASSOCIATION AGREEMENT

Macedonian Ministry of Foreign Affairs announced that on December 19, the Finnish Parliament adopted a law on ratifying the Stabilization and Association Agreement of Macedonia and the European Union. Belgium remains the only EU country that has not signed the agreement yet. However, the ratifying procedure in this country should be completed by the end of 2003, the Ministry said quoting Belgian Foreign Minister Louis Michel. Finalizing the ratification process will significantly upgrade the cooperation between Macedonia and the EU, the press release reads.

GOVERNMENT DEFINES MACROECONOMIC POLICY FOR 2004

Macedonian Government defined Monday the country's macroeconomic policy for 2004. The Government concluded that the macroeconomic results in 2003, presented by the growth of industrial production, fiscal consolidation, low inflation rate and lower interest rates, demonstrated gradual revival of Macedonian economy. The next year macroeconomic policy will be focused on opening new jobs and poverty reduction. Considering that meeting of these goals is directly connected with the economic growth, creation of conditions for such growth has been set as the Government's priority.

The Government will also focus its efforts on increasing investments, economizing, intensifying structural reforms, creating competitive private sector and improving the institutional framework for functioning of the market economy in accordance with the European Union standards.

The foreign exchange policy will be focused on maintaining the stable Denar- Euro exchange rate, foreign exchange reserves, continuation of the process of liberalization of Macedonia's economic relations with foreign countries, creating conditions for increasing the export of goods and services, attracting foreign capital and maintaining sustainable level of external debt.

IMF TO TRANSFER SECOND TRANCHE OF STAND-BY ARRANGEMENT

The National Bank of Macedonia (NBM) announced that on December 26 the International Monetary Fund transferred the second tranche of the stand-by arrangement amounting to US\$ 5.9 million. The World Bank also sent a letter to NBM, saying that all conditions have been met for

releasing the last tranche of the FESAL II arrangement worth US\$ 21 million, which is to be transferred to the NBM account in January. NBM also received the Dutch grant of EUR 17 million for support of Macedonia's balance of payment.

MACEDONIAN GOVERNMENT TO REVIEW AGREEMENT ON REGULAR AIRLINE

"The Ministry of Transport and Communications will submit an information with estimation of the Agreement on regular airline signed between MAT and the state, as well as the annex to the Agreement, aimed at defining the problems that are result of its application, and will try to resolve them immediately," Minister of Transport and Communications Agron Buxhaku said on December 26 at a press conference. He assessed that it is a harmful agreement signed by the former government, but it does not necessarily means that Macedonia will fail to meet its obligations for eliminating the monopolistic status.

Buxhaku also informed that the Agreement with the US Embassy on selling of 45 thousand squares meters construction site, located on Skopje's fortress, was signed. "The price is Euro 50 per a square meter and it is not a low price, considering the fact that the US is Macedonia's strategic partner," he said.

2004 BUDGET PASSED

The Parliament passed the Budget for the upcoming year at 1:15 a.m. on December 29. The 2004 Budget amounts to 59.512 billion denars, 0.5 percent higher that the previous Budget. In view of a consistent tax policy, the assets have been secured by proper revenues that are estimated at 57.065 billion denars, which creates a deficit of 2.447 billion denars. The deficit will be financed by credits and donations, as well as with the issuance of short-term treasury bills.

The largest part of the revenues, i.e. 52.785 billion denars, are tax money, 65.8 percent of which obtained from the value added tax and the excises. The non-tax revenues are estimated at 3.730 billion denars, while the capital revenues are 550 million denars. On the expenditure side, 20.938 billion denars are intended for salaries, rental fees and contributions, 22.391 billion denars for current transfers, 1.145 billion denars for structural reforms, and 922 million denars for the public administration reforms.

The capital expenditures in the Budget are secured with 6.191 billion denars, including the 1.6 billion denars capital transfers to the Roads Fund and the 300 million denars to the Macedonian Railway Company. Total of 350 million denars have been allocated to strategic policies, i.e. Macedonia's integration processes to EU and NATO, the third state university, as well as the employment of 600 members of ethnic communities. The decentralization process is incurred with 60 million denars, while between 200 and 250 million denars have been foreseen for the presidential and local elections that are supposed to be held next year.

STABLE PRICES AND DENAR RATE IN 2004

The Council of the National Bank of the Republic of Macedonia passed the monetary policy goals and projections for 2004. The monetary policy measures will be directed to meeting the projected inflation rate of 2.8 percent and maintaining a stable exchange rate of the denar against the euro, as an indirect goal of the monetary policy. Favorable movements on the foreign currency market are expected for next year, which will enable the maintenance of the foreign currency reserves in the National Bank on the level of four months of import.

This is based on the expectations for a more intensive exports growth of 9 percent in regards to the import growth estimated at 4 percent in 2004. The upward trend of the deposits in banks is expected to continue in 2004, due to the restored faith in the banking system and the abolishment of limits for foreign currency disposal by legal entities. The increased dynamics of the economic growth in 2004 will be supported by the intensification of the banks' credit to non-government sector by 9 percent on annual basis.

5 BILLION DENARS HEALTH DEBT

The total debt incurred by the Health Insurance Fund amounts to 5 billion denars, while only 387 million denars have been saved from the 800 million denars savings foreseen with by the stand by arrangement. Regardless of all that, Nikola Panovski, the new Director of the Health Fund believes that this year the Fund's budget has not experienced an increased expenditures trend. In order to reduce the debt the Fund concluded contracts for zero-interest rate credits with Komercijalna and Stopanska Banka.

CRVENKOVSKI SAYS 2004 - YEAR OF ECONOMIC DEVELOPMENT AND INVESTMENTS

The next year will be focused on economic development and investments, Macedonian Prime Minister Branko Crvenkovski said on December 29. "The ongoing year has been focused on the country's stabilization and consolidation of the interethnic relations, which along with the implementation of the Framework Agreement, restoration of the relations with the international financial institutions, and maintenance of stable fiscal policy and regional cooperation, have created new image for Macedonia, presenting it as an attractive destination for investments," Crvenkovski said. He added that the new investments will contribute to alleviating the major problem Macedonia has been facing - high unemployment rate. Underlying the significance of the decentralization process, Crvenkovski said a package of laws on this issue should be adopted before submitting Macedonia's application for the EU membership.

MACEDONIA ENDS PRIVATISATION WITH EUR 2.3 BILLION REVENUE

State shares in 1,700 Macedonian companies have been sold for over EUR 2.3 billion since 1993 and privatization in the country has ended on December 31, 2003. The GOM sold residual shares in 203 companies over the last six months and failed to put in private hands shares in 132 companies, with a combined value of EUR 71.5 million. The unsold shares will be transferred to the Pension and Disabled Insurance Fund (PDIF). Another 194 companies will remain state-owned, out of which 139 are undergoing insolvency procedures and the remaining are loss-makers.

Although state shares were offered at discounts of up to 90 percent, mainly domestic companies were interested in the last round of the privatization, Milco Kupev from the Macedonian Stock Exchange said. The Privatization Agency will be closed down in March 2004. The agency staff of 55 will be moved to PDIF and various ministries and its property will be transferred to the public housing fund.

PENSIONS CONTRIBUTIONS TO BE PAID BY ACCOUNT BLOCKING

Starting with April 1, 2004, the Macedonian Pension Fund will be able to block the accounts of all legal entities that have failed to pay the contributions. This is one of the measures announced by the Fund's Director Bosko Kitanovski, in its attempt to secure a greater collection of the pension insurance contributions.

As Kitanovski explained, all obligations in 2003 have been realized, providing a 30 million denar savings. The projected budget for 2004 has been increased by 1 billion denars, and it will amount to 29.8 billion denars. There are estimations that it will cover all obligations and maintain the regularity and the established dynamics in the allocation of pensions. At present, there are about 261,000 pension beneficiaries.