

# *U.S. Embassy - Skopje*

## **ECON NEWSLETTER 11/2003**

### **MACEDONIA OUGHT TO PREPARE FOR FREE TRADE WITH ROMANIA**

The Macedonian businessmen ought to engage maximum effort to utilize the advantages of the Free Trade Agreement between Macedonia and Romania that will be enforced starting from 2004, the representatives of the Ministry of Economy and the Macedonian Chamber of Commerce concluded at the meeting held on November 4. The Romanian market is very attractive for the Macedonian exporters, but one has to keep in mind that it operates according to European regulations and demands quality products, Olivera Cvetanovska from the Ministry of Economy said. The participants also pointed out that the Free Trade agreement would open possibility for reducing the trade deficit of US\$ 7.7 million with Romania.

### **PRIME MINISTER ADMITS ECONOMIC FAILURE, BUT PROMISES ECONOMIC BOOM IN 2004**

In his expose of the one-year work of the GOM, the Prime Minister Branko Crvenkovski publicly admitted that there has been a failure in the fight against the greatest economic problems in Macedonia - the unemployment, the attraction of foreign and domestic investments and the economic development of the country. Contrary to his favorite phrase "the results of this GOM's activities cannot be felt immediately", the Prime Minister finally had to admit the failure stating "we must clearly and openly admit that there were sectors in which we were less successful, or fully unsuccessful.

He also said that in the past year, the GOM on many occasions gave the impression of being indecisive, slow and unprepared to undertake risks. "Oftentimes, the GOM gave the impression that its highest priority was not to attain a certain result, but to avoid committing mistakes", he added. In spite of that, he promised economic boom in 2004 committing to attract US\$ 200 million more FDIs than this year.

### **SWISS GRANT FOR ASSOCIATION OF THE UNITS OF LOCAL SELF-GOVERNMENT**

Switzerland granted to the Association of the Units of Local Self-government (ZELS) about 170,000 euros for strengthening municipalities' capacities for more efficient implementation of the Law on Local Self-government. Chairman of ZELS Goran Angelov and Swiss Ambassador to Macedonia Stephan Nellen signed the agreement.

The project will be implemented in several phases, supporting the municipalities in the decentralization process. Municipality's administration, cooperation with media, building public conscience for the need of decentralization, as well as supporting the capacities of ZELS, will be main goals of the training. The project should be realized in the next 14 months.

#### **WORLD BANK STRATEGY FOR ASSISTANCE TO MACEDONIA PRESENTED**

The amount of the loans that the World Bank is going to approve to Macedonia with the three-year Country Assistance Strategy (CAS) for Macedonia will depend on the quantity of reforms that the GOM implements, Sandra Bloemenkamp, the World Bank representative in Macedonia said at the presentation of the World Bank strategy in the Macedonian Chamber of Commerce on November 11. She explained that currently the World Bank is working according to the so-called base case scenario, meaning it approves loans for investments in certain number of carefully selected sectors.

"The amount of loans that will be given in the next three years basically reaches about US\$ 90 million, but I hope that in the next few years we will be able to exceed the so-called base case scenario, which will enable the amount of the loans to increase," she said, pointing out that about 35 percent of these funds would be used as support to the budget. In order to use the assistance from the World Bank, Macedonia will have to offer satisfactory macroeconomic framework, to improve the transparency in the public sector and to continue with the combat against the corruption.

#### **LEGISLATION FOR MONEY TRANSFER ADOPTED**

According to the newly suggested law on money transfer, a newly created company "Providers of services for swift money transfer" is going to transfer money between individuals from different countries in period of one hour after the deposit is made. This activity will be also carried out by the so-called "sub-agents" who will make the transfer on their own accounts, but on behalf of

the service provider with whom they had signed a contract. The money transfer will be carried out electronically, exclusively among individuals of different countries. The maximum amount that can be transferred is Euro 2,500 for money going from Macedonia to abroad and Euro 5,000 for money coming to Macedonia from abroad.

#### **RESTRICTIVE BUDGET AND CUTTING OF ADMINISTRATION**

The 2004 budget remains restrictive with a deficit of 0.9 percent, Minister of Finance Nikola Popovski said on November 20 at a press conference on a two-day negotiations with the IMF Mission. "We have reached an overall agreement on the budget for the next year, which has been the priority of the IMF Mission for the last two days," Popovski said. He added that the public administration would be reduced for 4 percent, which does not refer to the army and police.

The IMF Mission Chief Franek Rozwadowski said that the next year budget is in accordance with the IMF Stand-By arrangement. All negative implications from the crisis period are eliminated, making the budget a base for solid fiscal and monetary policy. The issue on new Macedonia's arrangement with the IMF was not discussed at this negotiating round, Rozwadowski said.

#### **ROUND TABLE ON PUBLIC-PRIVATE PARTNERSHIP FOR CREATING SUSTAINABLE JOBS**

Persistent work on making the Macedonian economy internationally competitive is our only option, which requires partnership and dialogue between the public and private sector, Minister of Economy Stevce Jakimovski said at the round table on "Public-Private Partnership for Creating Sustainable Jobs". Addressing the need for urgent improving of the business climate, the GOM prepared a Program for stimulating investments, whose realization calls for an active engagement of all state institutions, private sector, as well as expert and technical assistance of international organizations. "The program is based on several principles, such as creating open and competitive economy, stable macroeconomic environment, fight against corruption and efficient and transparent judicial system," Jakimovski said.

Participants in the round table, organized by the UN Development Program (UNDP), agreed that a partnership between the public and private sector in any form was

welcomed and useful, as it would upgrade the efficiency of projects' realization and the quality of services. Kalman Mizsei, the UN Assistant Secretary General and Director of UNDP Regional Bureau for Europe, said that Macedonia could overcome the problems by conducting courageous reforms, in cooperation with the international community, and by lifting of legal barriers. Macedonia could achieve significant progress in developing small companies, but it should get rid of the complicated provisions, inherited from the former system, he said.

#### **GERMANY GRANTS EURO FIVE MILLION TO MACEDONIA**

Germany will grant Euro five million to Macedonia in 2004 for supporting 20 - 25 projects in accordance with the Protocol on financial and technical cooperation for 2003/04, signed by the Macedonian Minister of Finance Nikola Popovski and the representative of the German Ministry of Economic Cooperation and Development Leo Kreuts.

"The cooperation with Macedonia is good, but there have been certain difficulties in realization of the financial cooperation, as significant part of the German financial assistance (about 70 million euros) for projects in Macedonia has not been withdrawn yet," German Ambassador to Macedonia Irene Hinrichsen said. Some projects that were supposed to be funded by the German funds had not even started, while the others were initiated but not concluded due to various reasons.

#### **TREASURY BILLS TO BE ISSUED FROM 2004**

By the beginning of the upcoming year, the GOM will promote the so-called treasury bills, i.e. short-term securities for financing the current budget deficit. The issuance of these bills practically implies State encumbrance with domestic banks in financing the budget deficit.

The GOM decided to undertake this step due to the fact that there will be less foreign donations and credits in the future. Their total value will amount to 2 billion denars, or 33 million euros. The GOM will pay 2 million euro interest for the 33 million euro worth bills.

#### **DEBT RISES TO US\$ 1.64 BILLION**

Macedonia owes the foreign creditors US\$ 1.64 billion. According to official data from the National Bank of Macedonia the country's external debt recorded US\$ 1.64

billion. Compared to the end of last year, the debt has increased by US\$ 122 million. Officials from the Bank claim that the debt increment was a result of the change in exchange rates between the euro and the dollar. According to them, Macedonia still belongs to the medium indebted countries.

#### **MACEDONIAN MINES ATTRACT GLENKOR**

According to GOM sources, the multinational company Glenkor wishes to buy the three Macedonian lead and zinc mines Sasa, Zletovo and Toranica. The Switzerland based consortium has recently engaged a British consulting house to scan the condition in the mines. As the daily "Dnevnik" learns, the British consulting company, accompanied by experts in mining and geology, was asked to prepare a report on the mines. The experts evaluated the condition of the lead and zinc ore excavations, the level of ore exploitation, the amount of ore that could be still exploited with no further excavations, the quality of ore and the condition of the mining equipment. The report was also presented in the Ministry of Economy. Experts claim that the elaborated document matched the report presented by the Macedonian experts.

At the moment, the lead and zinc price at the world markets is very low. Most probably, the investors will delay presentation of offers for acquisition of the mines until the increase of market price, Viktor Todorov, Bankruptcy Manager of the Sasa Mine, stated.

#### **US\$ 4 MILLION CREDIT FOR PRODUCTION RESTRUCTURING**

The firm that holds the nucleus of the Skopje Steelworks and Plate Mill, Makstil, announced a new long-term investment cycle worth US\$ 15.6 to US\$ 19 million. This is the final goal to be reached with the new so-called mini Steelworks, which is to produce 700 tons of steel products. Makstil signed a loan agreement with Alpha Bank - Skopje, amounting to US\$ 4 million under favorable conditions. "We were offered inexpensive interest rates, three times lower than the lowest interest allocated by any bank in the country", Makstil GM Minco Jordanov said.

#### **EBRD CREDIT FOR HIGH-POWER ELECTRICAL TRANSMISSION LINE TO BULGARIA**

General Manager of Electric Power Company of Macedonia Pande Lazarov and EBRD Energy Business Group Director Peter Reiniger signed a loan agreement on construction of 400 kW High-Power Electrical Transmission Line between

Macedonia and Bulgaria worth 40 million euros. The project will contribute in high-quality connection between Macedonia and Bulgaria, as well as reducing the losses and more efficient use of transmission systems. The project is to be finished by the end of 2006, while Euro 49,99 million are needed for its completion.

#### **KFW BANK SHAREHOLDER IN PROCREDIT BANK**

In accordance with the financing agreement the German development bank KfW became a shareholder in the ProCredit Banka - Skopje, purchasing 25 percent of the shares. The Chief of Delegation of the Federal Ministry for Economic Cooperation and Development Leo Kreutz expressed an utter satisfaction regarding the results achieved by ProCredit Banka. Four months after initiation of operations, the Bank has already gathered over a thousand credit clients with a total value of over 5.6 million euros.

#### **TURKISH SAMSA OFFERS THE HIGHEST PRICE FOR HEMTEKS**

Out of the four bidders that submitted offers in the international tender for the property of Hemteks, the Turkish Samsa has offered the highest price of 1 million euros. The government sells the property of the chemical plant, which was liquidated in 2002, without obligations for restoring production or job openings for the future owner. Regarding other property not related to Hemteks' core activity, one individual offered 31,000 euros. The GOM is the largest creditor of Hemteks, whose debts in 2002 reached 12 million euros. The receivers' Committee is expected to select a preferred buyer.

#### **UNITYRES SELECTED AS PREFERRED BUYER FOR FAS BUS MAKER**

The Macedonian Unityres has been selected as the preferred buyer for FAS 11 Oktomvri out of the three companies that submitted bids in the international tender for the Skopje bus maker, said a representative of Unityres. Unityres has offered to pay 1.2 million euros. The Board of Trustees is expected to officially approve the deal. Meanwhile, trade unions at FAS insist also to be included in the decision-making, threatening to obstruct the deal otherwise.

#### **OPERATION CENTER AND PHONE LINE FOR COMBATING ILLEGAL TRADE AND CORRUPTION**

On November 27 the Customs Administration opened an operation center and phone line as additional measures

for combating illegal trade and corruption. The phone line will be opened 24 hours a day enabling citizens to report trafficking in drugs, arms and goods, as well as cases of corruption. The calls are anonymous and free of charge. "Such measures will contribute to elimination of the corruption and illegal trade despite the fact that fight against these evils will be long and difficult," Minister of Finance Nikola Popovski said. The project is realized with the Dutch and Swiss financial support.

#### **DRAFT CHANGES ENVISAGE FORCIBLE COLLECTION OF SOCIAL CONTRIBUTIONS**

Draft changes in the law on pension and disabled insurance that are currently prepared at the Ministry of Labor and Social policy envisage that the state pension fund would be entitled to collect forcibly unpaid social contributions. The amendments are aimed at improving the collection rate of social security contributions. The overall debt on unpaid contributions was 215 million euros as of early October 2003. In order to resolve the problem, the government has also decided to allow companies to sign agreements with the pension fund for payment of outstanding contributions under certain terms.

#### **MINISTRY OF ECONOMY IMPLIES FESAL II DEADLINE FOR SOME COMPANIES MIGHT NOT BE MET**

According to daily "Dnevnik" the Ministry of Economy has implied that the year-end deadline for resolving the status of some loss-making companies included in the FESAL II list might not be met. Under the US\$ 50 million agreement with the WB, the GOM should sell or liquidate a number of problematic enterprises by the end of 2003, so that the third tranche of US\$ 20 million could be withdrawn.

The ministry has informed that the launch of necessary procedures for the two most problematic firms - the Veles-based smelter plant MHK Zletovo and the Skopje-based shoemaker factory Gazela - would be impossible before April 2004. In both cases, the problem is said to emerge over unsettled ownership relations.

#### **WORLD BANK EXTENDS OHRID LAKE CONSERVATION PROJECT**

The World Bank Office in Skopje decided to extend the implementation of the Ohrid Lake Conservation Project for additional 12 months by the end of 2004. Several pilot projects for reducing the phosphorus entrance in the lake, the new agreement between Macedonia and Albania on

Ohrid Lake conservation and a new monitoring strategy should be realized by the end of 2004. World Bank decision comes after the achieved progress of inter-border co-operation and activities for Ohrid Lake Conservation and international credibility built in this project.

#### **NET AVERAGE WAGE UP IN SEPTEMBER**

The State Statistical Office announced that the average net wage per worker in September 2003 amounted to 12,015 denars. According to the statisticians, this is a nominal monthly increase of 0.5 percent, and a real jump by 0.3 percent. The September average wage is nominally higher by 4.2 percent than in the same month of 2002, while in real values, it rose by 2.2 percent.

#### **CABINET REJECTS UNION REQUEST FOR MINIMUM WAGE IN PUBLIC ADMINISTRATION**

The cabinet of the Minister of Labor and Social Policy Jovan Manasievski did not accept the request of trade unions to set up a minimum wage floor in the sectors of education, science and culture. Talking to the press after the meeting of the trilateral social-economic council, Manasievski said that such a demand could not be implemented this year because it would mean additional expenditures for the state budget of about 65 million euros and would not be welcomed by the IMF. According to those sectors representatives, the minimum salary of 5,060 denars agreed with the collective labor contracts is not applied for all categories of employees in the public administration.

#### **CENTRAL BANK REFUTES ALLEGATIONS ON EXCESSIVE INTERVENTION ON MARKET**

The National Bank of Macedonia (NBM) has refuted media allegations about an excessive intervention on the market. Reportedly, the Central Bank sold foreign currency reserves of about 15 million euros since the beginning of October, but has made efforts to preserve the official exchange rate of MKD/EUR 61.5 as well.

Dnevnik published a comment by former Minister of Finance and a leader of the major opposition VMRO-DPMNE, Nikola Gruevski, who believed that the intervention was related to the weakening of the Macedonian exports in the recent months, the worsening business climate and the lack of FDI's. NBM officials have not denied the alleged

intervention yet have stressed that the Central Bank remains committed to preserving a stable monetary policy.

#### **FOREX MARKET PRESSURES MELTED DOWN FOREIGN CURRENCY RESERVES**

The National Bank of Macedonia (NBM) has spent 12.4 million euros of the foreign currency reserves in the last two months in order to preserve the present denar exchange rate against the euro. This situation caused a certain pressure on the euro exchange rate, increasing this currency's offer on the market. The Central Bank officially continued to quote the same selling price as before - 61.50 to 62.52 denars per 1 euro.

However, if a bank wishes to buy euros from NBM, it could do so at 61.60 per euro. This means that the Central Bank engages in a double exchange rate policy. According to the analysts, NBM officially refuses to increase its euro-denar exchange rate fearing of psychological influences on the market and denar devaluation. Central Bank officials refuse to comment on their policy of double exchange rates. Following the release of the 12.4 million euros, the reserves are estimated at about US\$ 830 million.

#### **THE TENDER FOR SALE OF "MIKRON" FAILED**

The public international tendering procedure for the sale of the loss-making company "Mikron" from Prilep failed because the second bidder filed a complaint for violating the procedure of opening the tender documentation. The Creditors' Assembly declared the offers invalid and interrupted the selection. A second international tender will be announced in the near future.

As announced, the potential buyers of the factory were the Greek firm Vasidora, which offered 370,000 euros, and Kiril Mirceski, an individual who was prepared to pay 302,000 euros. According to the second ranked bidder Kiril Mircenski, Vasidora should be disqualified, because, contrary to the tendering requirements, its envelope was marked with three big stamps, which violated the equality procedure.