

# ***U.S. Embassy - Skopje***

## **ECON NEWSLETTER 08/2005**

### **SEE TO APPLY SINGLE FREE TRADE AGREEMENT**

Heads of Governments of the Southeast European countries decided on August 3 in Salzburg to replace bilateral free trade agreements with a single one for the entire region, Romanian agency Rompres reported. The document should enter into force in the near future, meeting one of the conditions for accessing the Central European Free Trade Agreement (CEFTA). Accordingly, ex-Yugoslav countries will be able to join this organization.

Prime Ministers Vlado Buckovski of Macedonia, Ivo Sanader of Croatia, Salin Popescu-Tariceanu of Romania, Milo Djukanovic of Montenegro and Vojislav Kostunica of Serbia met in Salzburg to consider the strengthening of economic cooperation and possibilities of increasing foreign investment, as well as to exchange views on the European prospects of the countries in the region. The special coordinator of the Stability Pact for Southeast Europe, Erhard Busek, called on the countries to improve conditions for foreign investment and to replace 29 bilateral agreements on free trade with one for the entire region like the Central European Free Trade Agreement. In 2004, EUR 8 billion were invested in the SEE countries, although 70 percent of the amount went into Romania and Bulgaria.

### **ESM, MAKEDONIJA PAT, TO WRITE OFF INTEREST ON MUNICIPAL DEBT**

On August 5, the Macedonian Prime Minister Vlado Buckovski met with the president of the Union of Local Self-Government Units (ZELS), Andrej Petrov, the Director of Macedonian Power Company (ESM) Pande Lazarov, and the Director of Makedonija Pat, Dufe Kukoski. The interlocutors agreed on the writing off the interest on the overdue municipalities' debt. Furthermore, the principle is to be settled in 6-10 monthly installments to ESM and 3-6 monthly installments to Makedonija Pat. The total amount of interest amounts to EUR 1 million.

### **MACEDONIA'S EXPORT TO GREECE GROWING**

According to the data from the Greek Agency for Statistics and the Eurostat, Greece's export to Macedonia in the first half of 2005 was EUR 127.8 million, while the import was at about EUR 68 million, the press service of the Greece Liaison Office in Skopje told MIA news. Compared to 2004, Greece's export to Macedonia is higher by EUR 4.7 million, while the import has increased by EUR 28 million.

The Greece Liaison Office in Skopje also says that Macedonia's higher export rate is a result of moving Greek clothing companies to Gevgelija, Bitola and Strumica, for cutting down the production costs, as well as of importing Macedonia's marble. However, Greece re-exports most of the products, imported from Macedonia, the Office says.

#### **LUKOIL KICKS OFF OIL BUSINESS IN MACEDONIA**

Prime Minister Vlado Buckovski formally opened the central warehouse of Russian oil giant Lukoil in Stip on August 17, thus beginning the liberalization of the Macedonian oil market. "Although many thought that Lukoil announcements for investments in Macedonia three months ago were not serious, the truthful intentions of the Russian leader in the oil business have been confirmed. Today's opening is a proof that large projects can be successfully and efficiently realized in Macedonia through good management", PM Buckovski said at the ceremony. Lukoil announced the opening of 40 gas stations throughout the country, with at least 600 new jobs available.

Lukoil Macedonia representatives stressed that local production resources, labor and materials would be used for the construction of the facilities in Macedonia. The entire investment project is worth over Euro 50 million. Activities of Lukoil Macedonia encompass trade with oil derivatives and other services within the delivery of different types of oil derivatives at the Macedonian market.

#### **VERO WINS REPEATED AUCTION FOR SKOPJE BUILDING SITE**

Greek company Veropoulos acquired the state-owned building site across from the Macedonian National Bank at August 17 repeated public auction, bidding EUR 510 per square meter. The public auction included the participants from the first bidding - Vero, the Slovenian Mercator, the Serbian Delta M and the domestic

Interinzenering. The site stretches at 10,772 m2, intended for construction of a commercial building.

#### **STEERING GROUP COMMITTEE ON AML/ATF ESTABLISHED**

On August 18, the Macedonian Government decided to set up a Steering Group Committee for combating money laundering and terrorism financing, and appointed Vladimir Naumovski, Director of the Directorate for Money Laundering Prevention its chairman. Membership of this Steering Group Committee include reps from the National Bank of Macedonia, Public Revenues Office, Customs Administration, Ministry of Interior, Public Prosecutors' Office, Tax Department of the Ministry of Finance, Financial Police and Ministry of Justice.

#### **WEIGEL: MACEDONIA DESERVES EU CANDIDATE STATUS**

"Through the completion of the Framework Agreement and judicial reforms, Macedonia can expect a positive 'avis' from the EU and a candidate-status by the end of 2005", Theodor Weigel, the economic adviser of Macedonian Prime Minister, said on August 23. "With its brave answers to the European Commission's questionnaire, Macedonia has deserved the EU candidate status," he added.

During his two-day visit to Macedonia, Weigel had meetings with the country's leadership and representatives of the parliamentary parties, briefing them on his engagements since late April 2005. "I have contacted with all European institutions and people in charge of Macedonia's accession to the EU, including the German authorities and the international financial institutions. It has been agreed for the Bavarian Government to grant assistance to the Macedonian Government related to financial and tax policies, as well as to improving the legal system, internal security and combat against corruption," Weigel said.

#### **MACEDONIAN GOVERNMENT, RUSSIAN ITERA GROUP SIGNED COOPERATION MEMO**

On August 23, the Macedonian Prime Minister Vlado Buckovski and the Chairman of Board of Directors of the Russian ITERA Oil and Gas Company Igor Viktorovich Makarov, signed a memo of cooperation in investment projects, which will improve the infrastructure of Macedonia's electricity market. According to the memo, the Macedonian Government is obliged to create conditions for realization of projects proposed by ITERA letters of intention, and to provide timely acquiring of necessary

documents and licenses for those projects. ITERA on the other hand should realize energy projects in Macedonia, respecting environmental and construction standards. It should include Macedonian labor force and materials in the realization of the energy projects.

ITERA and Macedonian heating company Toplifikacija set up a joint company in December 2004 under the name TE-TO, for constructing a plant for combined production of electric and heating power with an advanced natural gas technology. The realization of this project, worth about EUR 120 million, should start this October and be completed in two years. Initial estimates are that the new plant will make 20 percent of Macedonia's annual electric power production and 50 percent of annual heating power production.

ITERA International Group of companies is one of the largest independent producers and traders of natural gas operating in the CIS (Commonwealth of Independent States) and the Baltic states. ITERA is a success in energy, gas processing, and construction works projects in Europe, Asia, and the USA.

#### **MACEDONIA'S CREDIT RATING UPGRADED**

London-based Standard & Poor's Rating Services, one of the three leading rating agencies in the world, assigned its 'BB+' foreign currency and 'BBB-' local currency sovereign credit ratings to Macedonia, Minister of Finance Nikola Popovski announced on August 23.

"Upgrading of Macedonia's credit rating is another confirmation of the country's stable macroeconomic policy. Expected progress gives a different image of Macedonia, as its rating has been upgraded for two years in a row, which is very significant before the start of issuance of the Eurobonds," he said, adding that representatives of "Fitch Ratings" will visit the country in mid-September and present their opinion two-three months afterwards.

#### **GTZ TO INVEST EUR 1.7 MILLION FOR SUPPORT OF EASTERN MACEDONIA**

German association for technical cooperation (GTZ) will invest EUR 1.7 million in development of Macedonia's eastern part in the next three years. Activities within the project for regional economic development in this part will be coordinated from the Stip main office, which has recently been opened. The first analyses were carried out in 2003, while implementation began in

January 2005. The project encompasses 19 municipalities such as Stip, Probistip, Sveti Nikole, Kocani, Vinica, Delcevo, Makedonska Kamenica, Berovo, Pehcevo, Strumica and Radovis, with a total population of 350,000 inhabitants.

Project coordinator Aleksandar Karaev said that GTZ chose the country's eastern part because it had economically decayed after the brake out of former Yugoslavia, while majority of factories were closed down. "There is a potential in this region, but first we must do analysis of our own capacities, while mayors will have to cooperate, regardless of their political affiliation", Karaev stressed. The project is implemented in coordination with the Ministry of Local Self-Government, along with the assistance from the local NGOs and the private sector.

#### **THE WORLD BANK CHECKING THE REFORMS**

On August 25, the Macedonian Prime Minister Vlado Buckovski met with Orsalia Kalantzopoulos, the World Bank Country Director and Regional Coordinator for South East Europe, discussing the cooperation between the GOM and the World Bank, and the implementation of structural reforms in the country. As PM's Cabinet press release reads, Kalantzopoulos positively evaluated the GOM's work and reform capacity.

They agreed that for the improvement of the country's investment climate, more attention should be paid on judiciary and public administration reforms and the implementation of the new Labor Law, as well as the SMEs development. Buckovski announced that the GOM would continue the privatization process of the Electric Power Company (ESM), taking into consideration the recommendations of the World Bank, EBRD and international financial factors.

#### **INDUSTRY ON THE GROWTH PATH**

The Macedonian industrial output in July 2005 has slipped by 5.1 percent on monthly basis, but rose by 4.4 percent on annual basis, State Statistical Office data reads. In the period January - July 2005 compared to the same period of the previous year, the industrial output increased by 8.6 percent. Except the production of durable consumers goods, all other groups of sectors had higher output. Analyzed by individual sectors, the highest growth was registered in the mining and quarrying, manufacture of non-metallic mineral products,

manufacture of basic metals, manufacture of fabricated metal products and manufacture of electric machinery, equipment and appliances.

#### **ESM PRIVATIZATION TO BE COMPLETED IN 2006**

Following the GOM's decision to divide the Electric Power Company of Macedonia (ESM) in two companies and to establish a new one for the thermo power plant TEC Negotino, ESM privatization process should be completed by the beginning of 2006, Minister of Economy Fatmir Besimi said on August 30 at a press conference. The process will be conducted in several stages in accordance with the energy system partnership document Macedonia has signed with the European Union. TEC Negotino and power distributing company would be privatized in the near future, followed by the power generation facilities, Besimi said, adding that the GOM together with the consultant Meinel Bank will set up the action plan.

In addition to the last year's establishment of an independent company for power transmission - MEPSO, the GOM decided to separate all power plants except TEC Negotino in a new company called ELEM. ESM still remains a legal entity in charge of the power distribution. ELEM will sell the entire power production to MEPSO under contracts approved by the Regulatory Energy Commission. MEPSO is in charge of balancing the supply and demand, and supplying the largest consumers. It is also to sell power to ESM, which should supply the smaller consumers.

Transforming the energy sector is in accordance with the EU directives of 1996 and 2003, aiming at accelerating the energy market liberalization, which should be completed by the middle of 2007.