

HOW CAN MACEDONIAN EXPORTS INCREASE?

## EXPORTS ARE AN ISSUE OF SURVIVAL

*The quality of products has to be achieved and sustained in order to keep the buyers' interest. On the other hand, on the home market, which is constantly opening to technologically highly developed and quality products from the EU and on which the preferential treatment to the Macedonia-made products is being abandoned, competition rises and becomes fiercer. The pressure can be withstood only by those making timely investments in their technology, advancement and personnel and keeping the level of high quality of their products, Dragan Tilev, State Counselor at the Secretariat for European Affairs of the Macedonian Government, told MIC, explaining the importance of exports for the Macedonian economy.*

In circumstances of an open global market and gradual toppling of all trade barriers, the only recipe for survival is production of competitive products of good quality, continuous modernization and investment in personnel and research. This applies equally to both firms and the State. "The issue of one's capacity to export is, in fact, an issue of survival closely related to the issue of quality. The quality of products has to be achieved and sustained in order to keep the buyers' interest. On the other hand, on the home market, which is constantly opening to technologically highly developed and quality products from the EU and on which the preferential treatment to the Macedonia-made products is being abandoned, competition rises and becomes fiercer. The pressure can be withstood only by those making timely investments in their technology, advancement and personnel and keeping the level of high quality of their products," Dragan Tilev, State Counselor at the Secretariat for European Affairs of the Macedonian Government, told MIC, explaining the importance of exports for the Macedonian economy.

Experts have long been arguing that the Macedonian exports are anemic and that their structure relies only on few products (apparel, steel, tobacco and wine) with a small added value. "Macedonia is not making any serious steps to improve its trade balance, which results in a high trade deficit. Therefore, measures have to be taken to foster the competitiveness of the Macedonian companies, particularly of those whose output is intended for export. We should focus on export-oriented foreign investments," Branko Azeski, president of the Economic Chamber of Macedonia, adds.

Cutting down on transaction costs for export and import, faster administrative procedures and proper training for those conducting them, new fiscal tools for export promotion and modern customs procedures are only a small portion of the solutions to the problems of the Macedonian export economy. They emerge from the base, which struggles to impose itself on the fastidious global market, and should push their way to the decision-makers to boost competition and scope of exports. "It is clear to everyone that without exports Macedonia is unlikely to go forward," the president of the Chamber adds.

The Macedonian Government shares the businessmen's view. Counselor Tilev says that exports are the only way out of Macedonia's lasting economic slump, as a result of which we have a towering unemployment rate and low standard of living. Tilev explains that on the choosy European market goods can be exported only by the rules of the internal market and in adherence with the prescribed standards of quality.

"By introducing the new European legislation and the new European standards at a rate dictated by the Stabilization and Association Agreement with the EU and the Government's policy as well, the State will exert pressure on the business community to adjust, reorganize, restructure, and make technological and staff improvements. At the same time, the business community will pressurize the State to simplify and rationalize the legal environment, step up efficiency and transparency, invest in institutions, provide adequate technical and financial support and be a genuine partner in the production of quality and competitive products by which Macedonia will be recognized in the region, in Europe and beyond," Tilev says.

The European Union is Macedonia's main trade partner. Over 53 percent of Macedonia's foreign trade in 2005 was with the EU. On the other hand, Macedonia makes up only 0.1 percent of the EU's foreign trade. Figures speak volumes of the poor competitive capacity of the Macedonian products on the home and particularly on the European market.

The exporters' problems are not the same. Every industry faces different barriers, says Savka Dimitrova from Evropa. However, what most of those barriers have in common is the lack of quality financial support.

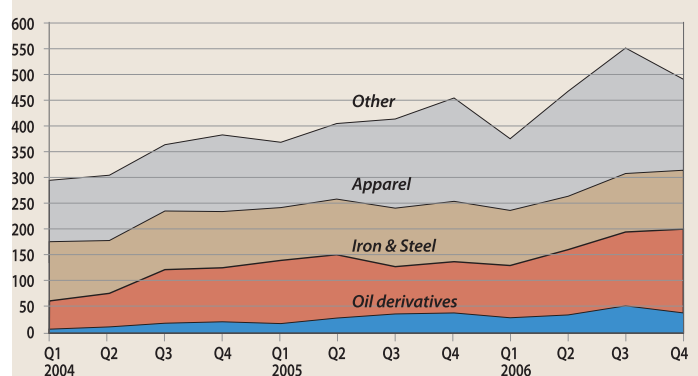
"So as to encourage exports, not only firms, but also banks and insurance companies should get involved, particularly as far as financing and guaranteeing exports is concerned," Chamber officials say.

Promotion of Macedonian exports abroad has been particularly emphasized recently. To experts this means creating a brand "Macedonia" and advertising it broad, providing regular and effective assistance in establishing communication with foreign firms, garnering information on tender competitions abroad and distributing promotional material on Macedonia's export potentials on foreign markets.

### INSIDE :

2. GOVERNMENT TO REPAY PREMATURELY ANOTHER \$137 MN.
4. MACEDONIA SETS STAGE FOR ENTRANCE OF FOREIGN BANKS
5. SLOVENIANS LAUNCH INVESTMENT OFFENSIVE IN MACEDONIA
6. ONLY AUTHORIZED ECONOMIC OPERATORS WILL EXPORT
7. MACEDONIAN COMPANIES WORK ON THE WEB
7. MAJOR POWER CONSUMERS TO PROVIDE ONLY 45% OF POWER FROM MEPSO
8. FARMING SUBSIDIES TRIPLE THIS YEAR

Exports by group of products (in million euro)



## GOVERNMENT TO REPAY PREMATURELY ANOTHER \$137 MN

Macedonia will prematurely repay 137 million dollars to the World Bank and the European Investment Bank, thus entering the group of countries with low indebtedness.

Together with the debt of 103 million dollars repaid to the Paris Club of Creditors last month, 240 million dollars are being prematurely repaid, Prime Minister Nikola Gruevski said.

This portion of Macedonia's debt will be repaid with the surplus in the foreign currency reserves of 1.8 billion euros. Macedonia's foreign debt totals 1.6 billion euros.

With the premature debt repayment, 20 percent of the country's total debt to the World Bank and 6 percent of the debt to the European Investment Bank will be covered and over 37 million dollars, due for payment by 2021, will be saved. Thus, Macedonia's total foreign debt will decline by 20 percent.

"Such premature debt repayment rarely happens. Only Russia, Brazil, Argentina, Peru and Mexico in the recent past did it, thus sending out a signal to the global financial markets of turning over a new leaf in their economic policy. The premature debt repayment is a signal to investors that the country is conducting a sound and stable economic policy and will have a positive effect on the country's credit rating, business and overall public debt portfolio in terms of its currency and interest structure," the Prime Minister explained. The Government is considering premature debt repayment to other institutions too and the IMF is next on its list.

Macedonia will save millions and improve its credit rating with the early repayment of its debt of about 37 million euros to the International Monetary Fund, experts say. They further add that by doing so Macedonia will show that it conducts a sound economic policy and will attract more foreign investments.

Marjan Nikolov, expert from the Center for Economic Analysis, has a positive view of the Government's move for early repayment of the debt to the IMF.

"In this way, a clear signal will be sent that Macedonia is capable of repaying credits and its credit rating will improve. This is a good way to attract foreign investments to whom this economic parameters may be decisive in reaching a decision whether to come to invest or not," Nikolov says.

Over the past few years, experts and politicians debated Macedonia's cooperation with the IMF. Some thought that the IMF dictated a restrictive economic policy that checked the economic growth, while others believed the cooperation was essential for a stable macroeconomic policy.

## SHORT-TERM MACROECONOMIC INDICATORS

**GROSS DOMESTIC PRODUCT** - in the fourth quarter of 2006 increased for 2.6% in relation with the corresponding period of 2005.

In this period the increase is realized in most economic sectors, in production as well as in services sectors.

**GROSS FIXED CAPITAL FORMATION-MACHINERY AND EQUIPMENT** - Investments in machinery and equipment according to the commodity flow method for IV quarter 2006 has gone up by 13.4% compared to the same quarter in 2005.

At the same time, the investments in machinery and equipment for 2006, have risen by 18.0%, compared to 2005.

**GENERAL GOVERNMENT CONSUMPTION BUDGET REVENUES AND EXPENDITURE AND FUNDS BUDGET** - The General Government Consumption in the fourth quarter of 2006 amounted to 15167 million denars and compared to the same period of 2005 increased by 3.5%. In 2006 the total General Government consumption amounted to 57466 million denars and increased by 6.4% compared to the same period in 2005.

The Revenues of the Central Budget in the fourth quarter of 2006 increased by 6.7% compared to the same period in 2005 amounted to 19345 million denars. The increase of revenue is a result of increase of taxes and contributions by 6.4%. Non-taxes revenues in the fourth quarter of 2006 decreased by 0.7% compared to the fourth quarter of 2005.

The Budget Expenditure in the fourth quarter of 2006 increased by 7.6% compared to the same period in 2005 and amounted to 21999 million denars. In the fourth quarter of 2006 the Central Budget had a deficit amounted to 2654 million denars and at the annual level had a deficit amounted to 531 million denars.

**FOREIGN TRADE EXCHANGE AND BALANCE OF PAYMENTS** - Export of goods and services in the fourth quarter 2006 nominally increased by 17.8% compared with the fourth quarter 2005. Export of goods increased in nominal terms by 13.3%, and export of services increased by 38.7%.

Import of goods and services in the fourth quarter 2006 shows nominal increase by 15.5%, compared with the same period 2005. This increase is result of import of goods, nominally increased by 16.5%, and import of services increased for 9.7%.

Export of goods and services in 2006 nominally increased by 18.1%, and imports of goods and services nominally increased by 17.0% compared with the previous year.

### Macedonian Business Montly

April 2007, No.66 Vol. VII

Editor: Sonja Kiridzjevska  
Contributors: Aleksandra Ilievska  
Sonja Efremova  
Translation: Aleksandra Ilievska



MACEDONIAN INFORMATION CENTRE  
www.micnews.com.mk  
e-mail: contact@micnews.com.mk mic@mt.net.mk

Director: Dragan Antonov  
Editor-in-Chief: Mircela Dzuvalkovska - Casule

Address: Naum Naumovski Borce 73, 1000 Skopje, Republic of Macedonia  
Phone/Fax: +389 2 311-78-76  
+389 2 311-78-34  
+389 2 322-18-42

2007 © MIC, All rights reserved.

No parts of this publication may be reproduced in any form without permission from the Macedonian Information Centre. The content published in the Macedonian Business Monthly do not necessarily represent the views of the publisher. The publisher is not liable for errors.

### WORLD BANK APPROVES PDPL 2 OF \$30 MN

The Board of Directors of the World Banks approved a US\$30 million Second Programmatic Development Policy Loan (PDPL 2), which is the second in a series of three loans for development policies over a period of three to four years created to provide support for the government efforts in improving Macedonia's investment climate and public sector governance, reforms that are required for European Union integration.

According to WB officials, the Macedonian Government's macroeconomic policy yielded the anticipated stability. Over the past decade, inflation remained at the lowest level compared with the other countries of the region, as foreign and public debts stayed on a medium level and have recently declined to 40 percent of GDP.

However, WB officials say they identified certain specific barriers in the private sector development, emphasizing the inefficiency of the judicial system, limited access to credits, constraining regulations, including those of the labor market, political risk, corruption and unpredictable policies. The World Bank and the IMF positively appraise the Macedonian economy, said Finance Minister Trajko Slaveski, who had a series of meetings with WB and IMF officials in Washington. The IMF and the WB voiced no objections to Macedonia's intention to prematurely

repay its debts of 37 million euros to the IMF and 137 million dollars to the World Bank and the European Investment Bank.

According to the IMF, however, the Macedonian Statistical Office does not include all the economic movements, in agriculture, tourism and construction in particular, having an effect on GDP, as a result of which the real economic growth is higher than that produced by the Statistical Office. The IMF therefore offered to help the statistical institution remove the problems.

### TWO NEW GRANTS APPROVED

The World Bank approved to Macedonia two grants for poverty reduction and corporate and financial reporting. The first grant of 650,000 euros is from the Japanese Government and the second grant of 4.5 million euros is from the Netherlands and the Austrian Development Agency. Macedonian Finance Minister Trajko Slaveski and World Bank Resident Representative to Macedonia Sandra Bloemenkapm signed the grant agreements. The first grant represents preparation for the new project for conditional transfers of funds that should improve the skills and capacities of the beneficiaries of welfare payments. The second grant will be used for increasing the level of transparency in the financial reports of the companies and promoting revision.

MIC INTERVIEW WITH BLAGICA NOVKOVSKA,  
DIRECTOR OF THE STATE STATISTICAL OFFICE

## THE OBJECTIVITY OF STATISTICS DEPENDS ON THE SOURCE

*As an experienced statistician and director of the State Statistical Office, I believe that the statistics we produce reflect Macedonia's economic and social situation. However, the extent to which a statistical data is true greatly depends on the source from which the statistical information is garnered. Building "statistical literacy" is a long-term process in which population of diverse ages should be included. This means that the Statistical Office in the future will try to improve the situation by way of taking a number of activities. I believe that with the Euro-integration processes and the full realization of the coordination role of the State Statistical Office in the statistical system of the country, we will succeed in creating conditions for full application of the European standards in the Macedonian statistical system.*

**- On returning from Washington, Finance Minister Trajko Slaveski said that the IMF believed that Macedonia's economic growth was higher than that presented by the State Statistical Office. Do you agree?**

- The basic function of the Statistical Office is to measure processes in society through closely defined statistical methods. As an experienced statistician and director of the State Statistical Office, I believe that the statistics we produce reflect Macedonia's economic and social situation. However, the extent to which a statistical data is true greatly depends on the source from which the statistical information is garnered. As for the GDP figure, I have to say that its relevance is measured by applying European and international methodologies that include diverse sources of data from a number of areas at the institution itself and from other administration sources as well. In this period, the State Statistical Office produces quarterly GDP data, which are largely based on indicators that the Office has at its disposal. At the end of the year, when the annual statistics are produced and the quarterly GDP figures are revised, we can state with certainty if the previously presented data on the quarterly GDP growth are correct or no. The difference between the definitive and early GDP data does not indicate miscalculation. It is a result instead of the corrections made when including data that improve the exhaustiveness of the GDP figures.

**- A change in the GDP methodology is being announced. Are the calculations really flawed?**

- As I already stated, we are making the GDP calculations by fully applying the international (SNA 93) and the European (ESA 95) methodologies and for these reasons I totally disagree with the allegation that the methodology is improper and that it needs to change. We constantly improve the exhaustiveness of the data by including and excluding sources of data and the technique of the calculations that realistically reflect the situations in the Macedonian economy. The Statistical Office has conducted this process independently or with assistance from more experienced international experts in the field.

**- You announced a series of activities to strengthen the "statistical literacy" and improve the communication with customers. What have you achieved in this respect?**

- Building "statistical literacy" is a long-term process in which population of diverse ages should be included. This means that the Statistical Office in the future will try to improve the situation by way of taking a number of activities. Our experts have so far delivered a few lectures to students about statistical methodologies and statistical properties. As a director and expert in a number of statistical areas, I myself held two lectures before students at the New York College and the Faculty of Economics of the University of Ss. Cyril and Methodius. We organized two symposiums too about informing the broader public on the activities of the Statistical Office and redesigned our press releases in order to better their intelligibility and make them simpler for use by our customers. The new press releases will start early next year.

**- Do you still hold to your position that the lack of information on the application and the EU's demands for introducing European standards with all the participants in the statistical system, as well as the lack of information on the significance of having relevant and quality data, are potential threats to your institution's capacity to track the changes occurring in the processes of integration?**

- A strategic commitment of the State Statistical Office is producing statistics about the Republic of Macedonia that are comparable with the European and the international ones. The obstacles you mentioned do not mean that we will give up these processes. They only make the process of applying European standards more difficult. At this point I have to say that as Macedonia's Euro-integration processes intensify, the awareness of the participants in the statistical process of the need for and significance of statistics grows. Therefore, I believe that with the Euro-integration processes and the full realization of the coordination role of the State Statistical Office in the statistical system of the country, we will succeed in creating conditions for full application of the European standards in the Macedonian statistical system.

**- The importance of the statistics in the process of creation of home policies and the integration with the EU is indisputable. The European Commission appraised the statistics of the Statistical Office as the most competent, yet called for harmonization of the data of the Ministries with those of the Statistical Office. Where exactly the lack of coordination has been noted?**

- It's true that the EU gave us and is still giving us high grades of the statistics we produce. However, the other participants in the statistical system have to keep up with the process of harmonization too, while certain ministries were encouraged to use exclusively the statistics produced by the Statistical Office in making their analyses. This underlined the importance that they simultaneously use the harmonized definitions and standards in following the phenomena of their respective areas and the uniform classifications instead of certain non-valid records of assorted internal and external sources.

**- The language of numbers is merciless and they always show the country's real progress, while European bureaucrats take them into account first. Can statistics free themselves from narrow partisan influence?**

- Statistical production in Macedonia is free from partisan interests. In Macedonia, partisan influence is seen through the use and abuse of the statistics we produce for pursuing a variety of daily partisan goals. I cannot really say when and if the use of statistics for pursuing partisan goals stops. What I can say with certainty is that as the Macedonian economy and democracy rise, the accuracy of numbers will be less and less debated. Numbers will become a reason for discussing progress achieved in a given area instead. In this regard, I believe that through our intensified activities for improving the statistical culture in the country, we will help diminish the use of statistics for justifying certain political activities.

**- You also said that inflation indicators would no longer be kept a business secret, because you are resolved to amend the image of the institution. How do you plan to do that?**

- First of all, I did not say that the inflation indicators would not be a secret, because the State Statistical Office does not calculate the inflation rate. It calculates a retail price index and a costs-of-living index instead. What I did say was that the Office would start announcing ponders in the calculation of certain indexes. This procedure is already being applied in calculating the industrial production index, while ponders in calculating other indexes will be announced early next year.

**- How far has the making of the agricultural register gone?**

- The agricultural register will be made from 1 to 15 June and we are working hard to carry it out successfully. We realized all the activities from the professional and methodological point of view. We prepared a methodology and compiled questionnaires and instructions, while activities relating to a number of public procurements, the informing of the population about the making of the register and the organization are underway.

## MACEDONIA SETS STAGE FOR ENTRANCE OF FOREIGN BANKS

*The goal is to create conditions for attracting respectable, internationally active foreign banks, which will contribute with their presence to strengthening competition, raising the level of quality of services and reducing the value of capital," Finance Minister Trajko Slaveski says.*

The liberalization of the market by letting big foreign banks open up subsidiaries in Macedonia is the crucial change in the new banking draft law that the Government adopted. Finance Minister Trajko Slaveski, speaking about the draft in detail, said that market liberalization did not mean letting uncontrolled and unselective entrance of foreign banks. The draft gives access through subsidiaries only to top-class banks with a rating of at least BBB or BAA2 in order to check the influx of capital with dubious origin.

It will be the National Bank Governor to issue a license to a foreign bank to open up a subsidiary provided all the conditions have been met and the conditions include a deposit of at least 120 million denars in accounts of Macedonia-based banks, a license from an authorized supervision body, a list of shareholders with a qualified share of the founder bank, as well as data on the persons to be managing the subsidiary.

"The goal is to create conditions for attracting respectable, internationally active foreign banks, which will contribute with their presence to strengthening competition, raising the level of quality of services and reducing the value of capital," Minister Slaveski stressed.

The banking draft raises the minimum for establishing a bank from three to five million euros, but at the same time increases the scope of financial activities that banks with small authorizations may perform, such as external payment operations, trading in foreign currency, etc.

The idea is to gradually abandon completely the double capital threshold, as a non-standard mechanism for protection against risky activities and move on to providing an appropriate level of internal funds depending on the volume of activities and risk exposure.

The draft stipulates full cancellation of the present limitation on bank investments in other financial institutions, which enables ownership restructuring of the financial sector. The draft also sets out measures for effective and efficient supervision, stricter fit and proper criteria and also rules for efficient monitoring of the banks' entire operations.

Minister Slaveski says that the banking draft has been adopted after a long public debate, which included banks, the bank union, the International Monetary Fund and other relevant institutions, some of whose suggestions were accepted.

In developing the draft, corresponding regulations of the EU member countries were used, while one of the reasons for developing the draft is the harmonization of Macedonian laws with the EU legislation. The

Stabilization and Association Agreement set Macedonia the task to create conditions for setting up subsidiaries of foreign banks as of 1 January 2008. Minister Slaveski publicly asked bank representatives at the Economic Chamber of Macedonia in October last year whether it was necessary to wait for another year and whether it was not better to carry out the liberalization at the start of 2007. "Who may have anything against it?" he asked.

Macedonia's three major banks, Stopanska banka, Komercijalna banka and Tutunska banka are now dictating the banking business, tailor the interest rate policy and have an impact on the economic growth.

This set-up, according to Minister Slaveski, does not promote business competition. The macroeconomic stability of the country is futile unless crediting gets easier, businessmen say too and it is the access-to-capital criterion exactly that places Macedonia among countries, such as Pakistan or Kenya, as evidenced by the study of the Milken Institute in the United States.

## TRADE

### MACEDONIAN EXTERNAL TRADE DEFICIT STAYS HIGH

The deficit in Macedonia's external trade is still high. By 1 January 2007, it reached 1.37 billion dollars. The deficit is the highest in Macedonia's trade with Bulgaria, Romania, Russia, Turkey and Ukraine, amounting to 1.2 billion dollars, which is nearly 50 percent of Macedonia's total exports last year. According to the statistics, Macedonia exported goods of 236.81 million dollars to these countries and imported six times more.

"As a small country, Macedonia has a relatively open economy. Over 90 percent of its GDP, whose growth rate last year stood at about 4 percent, is due to its external trade. The measures the Government takes, primarily to attract foreign investments, aim to create new jobs and raise the competitiveness of the home production, which is expected to drive up GDP per capita and help Macedonia move further away from the countries with lowest GDP in Europe, such as Albania and Montenegro," economic analysts told *Vecer* daily.

With about 570 million dollars, Russia is on the top of the list of countries, which Macedonia imports from. Next on the list is Germany with 370, Greece with 320 and Serbia and Montenegro with 283 million dollars. Last on the list is Malta with only 10,000 dollars. "Oil and oil derivatives make up a substantial percentage of the total imports. In addition, the country had extra costs for power imports, which kept the trade deficit from going down," analysts say.

Macedonia exported 2.4 billion dollars in 2006, the greatest portion of which, or 1.4 billion dollars, was exported to the developed countries and the European Union. As much as half of the exported products was iron, steel and textile.

### MBDP GUARANTEES EXPORT CREDITS

The Macedonian Bank for Development Promotion (MBDP) started issuing guarantees so that domestic firms may more easily take credits from banks to fund exports. A few guarantees have already been issued. The Bank guarantees 50 to 60 percent of the total value of the credits.

The modifications to the law on establishing MBDP of December 2005 created the possibility for the Bank, in addition to its other activities, to issue instruments for securing payments and to temporarily team forces with other banks in issuing guarantees for investments abroad exceeding one million euros. The idea is to help businesses boost their exports. MBDP accepts to ensure payments at a ratio of least 1:1.2 of the value of the guarantee, where the annual commission stands at 2 percent. In addition, a one-time commission is charged for management at the time the guarantee, which may be valid for a period of up to 10 years, is issued.

MBDP officials expect the new instrument to considerably strengthen the financial aid for promotion of the Macedonian economy. MBDP's total placements last year increased by over 60 percent, peaking at a level of about 40 million euros.

### FARMERS CALLING FOR HIGHER TOBACCO BUYOUT PRICE

The tobacco price is on the slide and tobacco production is declining too, which puts the survival of the entire tobacco industry at stake, tobacco farmers say and complain about the attitude of buyers and the fact that their crops have not been paid for yet.

"Last year a kg of tobacco cost 123 denars and this year 118 denars. Buyers have an unfair attitude to farmers. It is a matter of question if there are any cooperation relations at all," says Eftim Saklev, president of the Federation of Macedonian Farmers.

Saklev says that the Federation will appeal for an increase in the average buyout price by at least 20-30 percent, from the present 118 to 140 denars per kg.

According to Tome Petrusovski, secretary of the Alliance of Associations of Tobacco Farmers, it is not true that the buyout went without any problems whatsoever and that the price of 118 denars per kg is satisfactory.

"The quality of the tobacco of last year's crops was better than the quality of 2005, so the quality is by no means the reason for driving down the average price," Petrusovski emphasized. From the projected 23 million-kg of tobacco

in 2006, 19,650 tons were bought out by 31 March inclusive at an average price of 118.14 denars per kg.

### GERAS CUNEV OF STRUMICA EXPORTING APPAREL TO THE U.S.

The apparel-producing company Geras Cunev of Strumica produced over 60,000 production units over the past three months. Almost 95 percent of its whole ready-made apparel lohn production have been exported to the United States, generating profit of about 750,000 dollars.

However, in spite of these production results, the company has recently grappled with serious problems, because of the U.S. dollar depreciation against the euro and other currencies. Consequently, its real financial effects from exports dropped by almost a fifth. The management of Strumica's largest textile firm and one of the most prolific exporters in southeast Macedonia tries to promote its production line to the EU member states, primarily to Germany, in addition to its commitment to long-term business cooperation with United States partners.

According to Geras Cunev's business plan, about 250,000 apparel units will be put out this year and exports will most likely amount to about 3 million dollars.

## SLOVENIANS LAUNCH INVESTMENT OFFENSIVE IN MACEDONIA

Slovenian investors are one of the most active and strongest players on the Macedonian Stock Exchange. Slovenia has so far invested about 150 million euros in Macedonia. Its investments totaled 65 million euros by 2003. This ranks Slovenia among the top five investors in Macedonia. In fact, all the most prominent Slovenian companies, such as Gorenje, Fruktal, Krka, Lek, Merkator, Tus, Era, the NLB Group, Merkur, Intereuropa, Pristop, Iskratel, etc. are present in Macedonia. Slovenian investors are most interested in power, finance, trade, pharmacy and food.

When it comes to Greenfield investments in Macedonia, Slovenian investors are most interested in building hydroelectric power stations and supermarkets.

"Holding Slovenske Elektrane is interested in the Macedonian hydro- and thermoelectric power stations, as is the investment fund Poteza, which together with a Slovenian power company, entered the tender competition for building small hydroelectric power stations. Then we have the trade chain Merkator, which is interested in building a shopping center in Skopje," Petar Skvarca, economic advisor at the Embassy in Slovenia, told *Vreme*.

Slovenians are keen on doing business on the Macedonian stock market too. The stock market houses in Slovenia are offering, what are known as, "Balkan packages" which are very attractive and conducive to making big profits.

"The 'Balkan packages', of which Macedonian shares are also part, are the most interesting at the moment to the Slovenian investment funds. The interest over the past period was great and it is expected to remain so in the period to come too," says Dajana Gutesa, public relations consultant at Pristop. In her view, the presence of Slovenia's 180 strongest companies at the Slovenian-Macedonian business forum in Skopje last month shows how big the interest in the Macedonian market is.

"Slovenians are interested in every profitable investment. With the new economic situation and the Government's initiative to ease the entrance of foreign investors to Macedonia, Slovenia is by all means interested in capturing the market where it is regarded as a quality producer and investor. Certain Slovenian brands, such as Fruktal and Gorenje, have been present on this market for years and they will make effort to keep the tradition going," Gutesa says.

A good indicator of the interest and cooperation between the two countries is the Slovenian-Macedonian Business Club established in 2004 and joined by more than 50 firms with mixed Slovenian and Macedonian capital.

### KB PRVO PENZISKO DRUSTVO TO INVEST ABROAD

The pension insurance company, KB Prvo penzisko drustvo, having over 70,000 members, made profit of 20 million denars, or 325,000 euros, last year, part of which will be invested in shares abroad this year. The list of shares that this fund wants to invest in has been provided to the Agency for Supervision of the Fully Funded Pension Insurance (MAPAS).

Under the law, the pension fund may invest 20 percent of the money it has at its disposal in companies in Europe, the United States and Japan and 40 percent in domestic companies, the number of which has recently been increased to eight.

The pension insurance company currently has about 900 million denars of net funds. The news of its intention to make investments in foreign companies, trading on the world's most prestigious stock markets, such as the stock markets of New York and London, comes in the wake of the change of its ownership structure.

The European Bank for Reconstruction and Development (EBRD) invested 8 million euros in Prva pokojninska druzba of Ljubljana, Slovenia, the Mother Company

of KB Prvo penzisko drustvo, thus taking hold of 20 percent of the Slovenian fund.

Established fifteen months ago, the private pension funds, KB Prvo penzisko drustvo and NLB Nov penziski fond, have so far invested their insurees' money only in domestic securities.

"Home securities are more interesting to us than foreign shares," Kristijan Pavlovski, director of NLB Nov penziski fond, has recently stated.

"We make long-term plans and in line with certain analyses of the risk that a given security poses, we reach the decision whether to invest in it or not," said Janko Trenkovski, manager of KB Prvo penzisko drustvo.

Both the funds announce investments abroad very soon.

"KB Prvo penzisko drustvo and NLB Nov penziski fond have already stated the percentage of their return on investment in 2006.

"NLB Nov penziski fond's return stood at 5.93 percent and KB Prvo penzisko drustvo's return at 6.27 percent. It is by this much that their insurees' payments increased in a year. MAPAS, the Agency for Fully Funded Pension Insurance, says that investments fared better than expected.

"Although some firms, members of our Club, are strong enough to pursue their interests on their own, we are stronger together. The Club is an institutionalized group, which may stand behind the interest of its members at any time, if they get threatened. On the other hand, by way of socializing with each other, we inform one another about matters related to the business climate," says Damir Kuder, president of the Slovenian-Macedonian Business Club.

In his view, the Slovenian investments are of great relevance to the Macedonian economy, because they provide great capital input and jobs for 1,500 citizens. Kuder says that the best proof of the successful cooperation between the two countries is the fact that investments did not stop even in 2001.

## REQUESTS FOR ACCESS TO SHAREHOLDER BOOKS RISE

Shareholders' requests for access to shareholder books of companies of which they hold shares have increased at the Central Depository over the past month. Central Depository officials peg this tendency to the huge interest of physical persons in trading in securities, the augmented scope of trade and the excessive turnover rise on the Macedonian Stock Exchange. This is evidence that the Macedonian capital market is getting increasingly attractive to securities investors and particularly to citizens perceiving an opportunity in stock market trading for making profits.

Moreover, according to all the recent analyses of the shareholding in Macedonia, it is evident that shareholders are getting increasingly aware of the legal possibility to get informed about the situation of their own securities.

Now that the holding of shareholder's assemblies is in full swing, in parallel with these activities, the scope of work of the Central Depository increased also as regards the issuance of shareholder book to companies, which are necessary for the holding of the assemblies.

Over the past few months, the Central Depository has also approximated its regulations to the new Securities Law.

### TRADING THROUGH UNCOMPETITIVE BIDS

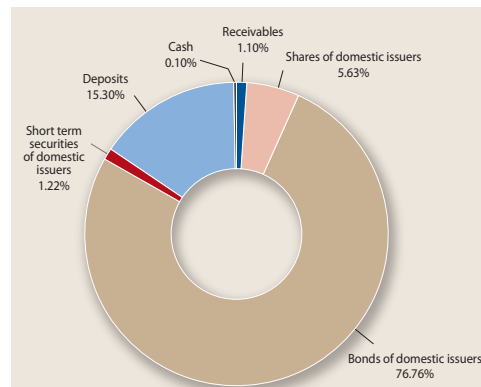
A new way of buying shares was introduced on the Macedonian Stock Exchange recently, according to which bidders will offer only the amount of shares they want to buy without setting a price. Shares will be sold at the average price fetched at the auction.

The Ministry of Finance informed that the uncompetitive bids had been introduced to simplify the procedure of participation in auctions, which demands that participants have better knowledge and information about the way interest rates are defined.

In this way the Ministry of Finance wants to reach to smaller investors. In the beginning this will refer only too physical persons.

This trend promises certain pensions, but experts explain that more concrete analyses cannot be made before 2009.

The experience of the countries, which carried out the entire reform, shows that the achieved investment results can be analyzed more precisely in three years. The two pension insurance funds have a total of 133,000 insurees.



## CUSTOMS

### MACEDONIA ADOPTING INTERNATIONAL CUSTOMS STANDARDS

## ONLY AUTHORIZED ECONOMIC OPERATORS WILL EXPORT

*Under the new standards, companies wanting to export to the EU will have to provide a customs declaration, an invoice and all the other required documents in the electronic form on the day of departure so that the EU customs authorities may perform all the safety and other check-ups while the goods travels.*

The Macedonian companies that want to export to the EU will have to possess an authorized economic operator certificate. These provisions are part of the new modernized customs law, which have been provided to the Parliament for consideration. Under the new standards, companies wanting to export to the EU will have to provide a customs declaration, an invoice and all the other required documents in the electronic form on the day of departure so that the EU customs authorities may perform all the safety and other check-ups while the goods travels. Unless documents are sent in the electronic form, customs authorities have the right to keep trucks at borders for ten days in order to perform all check-ups. Experts say that Macedonia has no other choice, but to accept the new provisions due to its

### ONE STOP SHOP FOR IMPORT AND EXPORT OF GOODS

The Government developed a strategy for introducing one stop shop for export, import and control of goods at border crossings in order to simplify customs procedures.

Government spokesperson Ivica Bocevski said that the one stop shop would accelerate the flow of goods at border crossings and cut costs of firms and institutions.

The required documents will still be filed to all the competent institutions, but goods will be controlled once and in one place. Bocevski says that multiple bodies controlled goods at customs terminals, which was an obstacle to promoting Macedonia's foreign trade and economy.

"The one stop shop makes access to information easier. It will expedite and alleviate the flow of information between the public and the private sectors. The system is intended to help firms rather than the public administration," spokesperson Bocevski explained.

Businessmen have recently requested of the Customs to introduce integrated border management and one stop shop to accelerate the flow of goods and services. They also asked Customs Director Vanco Kargov to provide clear and transparent procedures and just collection of import duties. Director Kargov set the start of the one stop shop for early next year.

intention to join the European Union. Macedonian companies will have to make huge information technology investments in order to comply and be able to export.

"The Customs Administration of the Republic of Macedonia and the other customs services are constantly faced with the dilemma trade-safety/trade-liberalization. Macedonia accepted the importance of the authorized economic operator, as part of the Framework of standards for safety and liberalization of international trade of the World Customs Organization, in order to alleviate the flow of goods across state borders. The authorized economic operator is an entity in the international flow of goods being granted a certificate by the Customs Administration that it meets WCO and EU safety standards. Authorized economic operators can be manufacturers, exporters, importers, transporters, storages and distributors," Vanco Cargov, Customs Administration Director, told MIC.

Goran Andreev from the Customs Administration of Macedonia explains that the application of the new standards takes time and Macedonia must not be isolated from the global trade.

"Our country is catching pace with the rest of the world. It takes time for companies to accept the changes, and we are economically connected to region and the rest of the world. The authorized economic operator is the first step on our way to accepting the international customs standards," Andreev told MIC, adding that the first pilot firms to be working as authorized economic operators would start next year. In Slovenia, for example, the first pilot exporting firms, going through the certification procedure, have already been identified. Larry Barton, expert from the World Customs Organization, says that the world customs services would be implementing the new standards taking one step at a time.

However, most of the home exporters are insufficiently informed about these changes. "In order to have the support and cooperation of the private sector, it is very important that the conditions and required documents for being granted the status of an authorized economic operator are understood. The support from the private sector is very important so that the additional costs to be created in the process of sharing goods safety information may be understood and justified, the director of the Macedonian Customs told MIC.

European experts keep saying that the Macedonian firms should constantly invest in their systems of keeping records and accounting so that they can be properly controlled, as in the EU member countries. "The Macedonian companies should invest in the education process, while the economic chambers should inform them about what they should know or do in order to make their operations easier and apply European standards," experts say.

### PROCESS OF INTRODUCING THIRD PENSION INSURANCE PILLAR BEGINS

The process of introducing the third pension insurance fund in Macedonia has gone underway.

The Government adopted the report on establishing privately held voluntary pension insurance funds as part of the third pension pillar, developed by the steering committee of the Ministry of Labor and Social Policy.

According to the Government Spokesperson Ivica Bocevski, the drafting of the law on voluntary private insurance has gone underway too.

"The primary goal of establishing the voluntary pension insurance fund is providing pensions for those who have not been encompassed by the obligatory pension insurance system, such as unemployed married couples, persons who have been unemployed for years and those working on projects or in foreign missions. The fund is expected to provide greater income after retirement to insurees who are in a position to pay greater pension contributions with the aim of sustaining a higher standard of living after retirement too," he explained.

"The pension fund will be an investment fund established by joint stock companies for management of pension funds. The role of banks will be the same as in the second pillar. They will be the pension fund's founders and providers of investment products," Bocevski emphasized.

Labor Minister Ljupco Meskov has recently stated that the third pension pillar would start taking effects by the middle of 2008.

### NUMBER OF EMPLOYEES IN INDUSTRY AND MINING DROPS

#### 4.8%

The number of employees in the sector of industry and mining in the Republic of Macedonia in February 2007 dropped by 4.8 percent from the average of 2005, the State Statistical Office said.

The number of employees declined by 5.8 percent in the sector of mining and quarrying and by 4.5 percent in the manufacturing sector, or more specifically in the production of food and beverages, apparel, chemicals and chemical products, products of other non-metal

minerals, basic metals, electrical machines and apparatuses not mentioned elsewhere.

In the sector of power, gas and water supply, the number of employees in February 2007 climbed down by 5.8 percent compared with the average of 2005.

### KIRO DANDARO PRINTING HOUSE RECEIVES ECO CERTIFICATE

After being granted the ISO 9001 quality management standard certificate, the Kiro Dandaro printing house received the ISO 14001:2004 environmental management standard certificate.

The Bitola printing house is one of the few production facilities in Macedonia in possession of this certificate, in the implementation of which it has invested about 220,000 euros and procured new machines for recycling waste until full destruction, which are environment-friendly.

Kiro Dandaro started selling the recycled materials to firms processing plastic and other materials.

## MACEDONIAN COMPANIES WORK ON THE WEB

*In the course of last year, 92 percent of the firms with over 10 employees used computers, 72.3 percent had access to the Internet, while 48.2 percent had a website, which they used mostly for advertising their products.*

Companies make use of the computer technology and the Internet increasingly more. Firms particularly use communication, payment, advertising and sale through the Internet with a larger number of employees. The State Statistical Office calculated that in 2006, 92 percent of the firms with over 10 employees used computers, while 72.3 percent had access to the Internet. The use of computers and the Internet by firms, grouped by the size of their workforce, scales down from the major ones with 250 or more employees to the smaller ones.

All the major firms use computers and 95.8 percent of them have access to the Internet too, while about 90 percent of the smaller firms use computers and 70.3 percent have access to the Internet.

Last year 48.2 percent of the firms with more than 10 employees had their own website. The highest percentage of owners of Internet space (69.9 percent) has been noted with the major firms with 250 and more employees. They used their websites mostly for advertising their products. More accurately, 44.8 percent of the smaller firms and 61.6 percent of the companies with 250 or more employees used their websites to this end.

In 2006, 37.9 percent of the firms with 10 or more employees used LAN and 10.5 percent used wireless Internet access, while 36.2 percent had internal computer infrastructure, intranet, and 6.9 percent used external access to their network, extranet.

The firms with 10 or more employees used a variety of possibilities for getting connected to the Internet. The most broadly used ways for Internet connection were ISDN (44.7%) and dial-up (39.7%).

DSL technologies were used by 32.6 percent and 17.8 percent connected to the Internet through a cable or a rented line. 63.3 percent of them used the Internet for market research and 61.8 percent for banking and financial services.

The research of the State Statistical Office showed that the business entities of the financial sector used computers and the Internet to a large extent too. As much as 98.4 percent of them used computers, 85.9 percent had access to the Internet, while 61.8 percent had a website.

## FARMERS TO BE CERTIFIED BY EUREPGAP SYSTEM

Macedonian farmers will have to respond to 210 control points of a questionnaire, or a checklist, compiled by an authorized Certification Body to be granted a certificate for applying the EUREPGAP system in producing fruit and vegetables. The questions are closely related to the criteria for the standard that farmers applying for this certificate should meet.

The checklist contains 47 primary and 98 secondary control points and 65 recommendations. In order to be EUREPGAP approved, a farmer should meet the requirements of all the primary control points, of 95 percent of the secondary control points and of as many recommendations as possible, for which there is no defined minimum. The certificate is issued to both individual farmers and farming companies.

Certified produces are those being in compliance with the precise technical specifications, which means that they meet the basic elements of the EUREPGAP general regulations for the farm-to-market process, which is the most important precondition for the guarantee for safe and sustained agriculture.

The EUREPGAP system is a combination of the principles of good agricultural practices, the application of which in the individual growing of fruit and vegetables in Macedonia has already begun, of monitoring and of the HASSP system.

Good agricultural practices in Macedonia are not regulated by a separate document. The laws and rulebooks on a variety of agriculture-related issues encompass them instead.

## MACEDONIANS PREFER HOME PRODUCTS TO FOREIGN-MADE

The products with the "Sign of Quality" are getting increasingly more attractive on the Macedonian market and their sale noted an annual rise of over 15 percent.

"The 'Sign of Quality' is recognized by 80 percent of the interviewed consumers, while 94 percent of them use these products in their everyday life," Ljubomir Drenkovski, president of the Association of Producers of Meat and Dairy Products, said.

He added that Macedonia-made meat and dairy products account for 70 percent, while foreign-made make up 30 percent of the retail market.

## MAJOR POWER CONSUMERS TO PROVIDE ONLY 45% OF POWER FROM MEPSO

Macedonia's major power consumers will hereafter provide from MEPSO, the power transmission system operator, only 45 percent of the electricity they need and supply the remaining 55 percent at a market price, which currently stands at about 70 euros per MWh on average.

MEPSO director Atanasko Tunevski told the representatives of Macedonia's nine major power consumers, Feni, Silmak, Makedonski zeleznici, Makstil, Skopski leguri, Mittal Steel, Bucim, Okta and Titan-Ulje, about MEPSO's offer.

The percentage was defined based on the determined criteria for the average amount of electricity spent in 2005 and 2006 on the one hand and the companies' power requirements for 2007 on the other hand.

Skopski leguri complained that in their case the 2-year average cannot be taken into account given that they had been operating with a new owner since April last year. Silmak too complained, saying the offer was selective and discriminatory.

According to Mr. Tunevski on the other hand, the offer discriminated against no one considering that the same criteria would apply to all the major consumers. "The 45 percent that the major consumers will supply from MEPSO will be offered at a regulated price of 29.6 euros per MWh. If they decide to supply electricity from MEPSO, they should provide their demand to MEPSO, so that the company may know how much electricity it should procure at the tender competition," Tunevski said.

## ELEM TO PAY EUR 5 MN FOR INSURANCE

The power-producing company Elektrani na Makedonija (ELEM) announced an international tender competition for selecting an insurance company that will insure its assets as of 2008. The tender competition has been developed based on strict criteria, considering that the company's entire assets - power stations and equipment - will be insured. The insurance sum will be 5 million euros a year, Vecer daily reports.

The tender competition has been prepared by a team of professionals from ELEM and will evolve in two stages. The deadline for entering the race is 8 May. The winning bid will be selected by November this year. The official agreement that should apply for a period of two years will be signed at the end of 2007.

The companies that will enter the race will have to provide evidence of their solvency and financial and economic stability. They should also submit a certificate that they have been paying taxes regularly and that no ban has been placed on their right to doing business. The companies should also provide a balance of profit and loss for last year in evidence of their total revenues based on premiums, which should not be smaller than 400 billion denars.

The "Sign of Quality" campaign continues in 2007 too, with an objective of expanding the brand in the other branches of the food industry.

## TUS OF SLOVENIA INVESTS IN MARKET IN KUMANOVO

Tus of Slovenia and a Macedonian-Bulgarian company are going to open up two markets in Kumanovo. According to the announcements of the local authorities, the investments should be realized in a month and will contribute to subduing local unemployment, given that 100 jobs will be created in Tus' mini-market and another 65 in the market of the mixed Macedonian-Bulgarian company.

Tus' market will be built on an area of 3,000 square meters and will have a parking lot of another 5,000 square meters.

Moreover, the local authorities expect a new economic zone to be established at the Karpos military barracks after the obligations of the agreement with the Ministry of Defense stop. Numerous investments, domestic and foreign alike, are expected to flow into the zone, where at least two or three major factories offering jobs to 300 locals will be constructed.

## FARMING SUBSIDIES TRIPLE THIS YEAR

The allocation for agricultural subsidies this year has been projected at 1.2 billion denars, which is three times last year's amount. The funds will be realized through four assistance programs - for encouraging agricultural development, for development of organic agricultural production, for funding primary tobacco production and for rural development.

"The Government stays the course of permanently increasing its direct agricultural assistance until Macedonia joins the EU. This policy aims to overcome the adverse structure of the agriculture, attain European quality and increase competition," said Deputy Prime Minister Zivko Jankulovski.

In Mr. Jankulovski's words, the implementation of the four programs is in fact preparing Macedonia's economy for the common European market and is taking the country closer to the EU standards for food quality and safety.

"The Macedonian agricultural and food products should adhere to the demands of the home and European markets in terms of price, quality and consumers' expectations," Mr. Jankulovski stressed.

Deputy Prime Minister Zoran Stavreski emphasized that through the subsidizing programs of 20 million euros, the Government fulfilled as early as now instead of 2010 its pre-election pledge for providing a substantially bigger financial aid for the agriculture.

## EXPORT NUMBERS FOR THE EU FOR MORE MILK COMPANIES

The Ministry of Agriculture and the Veterinary Administration of Macedonia will consider the possibility of increasing the number of milk companies exporting to the EU member states, Agriculture Minister Aco Spasenovski said following his meeting with farmers and representatives of milk companies.

Only the Bitola Milk Company has so far exported milk to Greece, but stopped its exports because of the rigorous measures the Greek authorities introduced.

"More Macedonian milk companies should be given export numbers for the EU. Our quotas for exporting sheep cheese are not used up. In order to resolve the milk crisis, we requested of smaller milk companies to increase their milk buyout. We also instructed the Association of Milk Producers to make lists and inform milk firms about the quantity of milk they can offer. "Ideal sipka, Zdravje Radovo and Bucen Kozjak are interested in greater buyouts," Minister Spasenovski said.

## QATAR NEEDS NURSES AND DOCTORS FROM MACEDONIA

Macedonia is going to export medical staff, construction workers and agricultural engineers to Qatar. The Government has already developed an agreement for exchange of workforce, defining the manner and conditions for sending workers and the institutions through which the cooperation will be carried out, Vest reports.

During their last visit to Macedonia, the Qatari officials said they needed most doctors and nurses. They were also interested in agricultural engineers for season work.

"The employments will be time-fixed, from three to nine months, and will be carried out through the Macedonian and Qatari employment agencies," Labor Ministry officials explain. The agreement also regulates the workers' social insurance.

Deputy Prime Minister for Agriculture and Education Zivko Jankulovski says that the Qatari did not set an exact number of workers they need from Macedonia.

"They are interested in our workforce, but do not have a specific number. They even want to take over entire construction firms from Macedonia. They need

construction workers for building about 40 skyscrapers," Mr. Jankulovski explained.

## GERMANY DONATES EUR 2MN FOR SEVERAL PROJECTS

The German Government approved irrecoverable financial aid of 1,530,000 euros to the Macedonian Government for the project "Cross-Border Biospheric Reservation Prespa-Park" and 500,000 euros for the project "Program for Irrigation of the Southern Vardar Valley".

Macedonian Finance Minister Trajko Slaveski and German Ambassador Ralf Andreas Breth signed the agreements for the financing of the two projects.

The first project provides financial assistance for the National Park Galicica, aiming to reduce the present and future negative effects on the ecosystem and create conditions for sustainable usage of the National Park's resources.

"In addition to promoting environment, this program will support cross-border cooperation among Macedonia, Albania and Greece," Ambassador Breth said.

In his view, the funding of the projects represents continuation of the German support for Macedonia's development, its social and economic sectors in

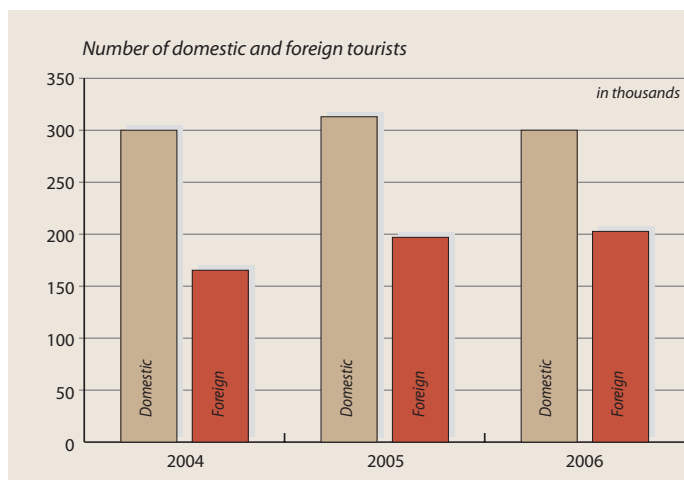
## TOURISM EARNS \$130 MN

The foreign currency influx in the sector of tourism last year, according to the statistics of the National Bank of Macedonia, totaled 129.17 million dollars and, compared with 2005, went up by 50 percent.

"The foreign currency influx in fact exceeded 200 million dollars," says Donco Tanevski, president of the Hotel Association of Macedonia (HOTAM).

In his view, the official records do not include the foreign exchange garnered from private accommodation, certain agencies and hotels and non-board consumption. He trusts that the situation in the tourism sector is encouraging and that after a decade-long standstill, invigoration and better effects have been noted.

According to the statistics of the European Hotel Association, Macedonia has about 15,000 hotel beds, 3,000 of which are in Lake Ohrid hotels.





**MIC**  
MEDIA PARTNER OF  
**GBG**  
Global Benchmarking Group Europe

**GBG, Global Benchmarking Group** conveys strategic International / Pan - European Forums for FT 500 companies. GBG provides business intelligence for senior executives in strategic positions at an international level.

[www.gbgeurope.com](http://www.gbgeurope.com)

particular. Minister Slaveski said that according to the program for irrigation of the southern Vardar valley, new irrigation systems will be built and the present ones will be reconstructed. The German Government approved a favorable credit of 6.6 million euros for this program in 2001.

## E-TICKETS TAKING PLACE OF PAPER ONES

Electronic tickets will replace paper tickets in air transportation in July this year. This means that agencies will not issue tickets to passengers as before and will only enter their information into a computer and forward it electronically to airports.

Identification of passengers at airports will be performed based solely on passports, the information of which will be compared to that of the computer, whereupon boarding passes will be issued. Introducing e-tickets will require making certain airport adaptations too. "Agencies will continue using the software Amadeus, the only difference being that instead of issuing paper tickets, passenger information will be fed into a computer," representatives of the agency HRG Macedonia explain. The International Air Transport Association (IATA) plans to introduce e-tickets worldwide by the end of 2007.