

REPUBLIC OF MACEDONIA

**Speech
of**

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of Republic of Macedonia**

at

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Topic: the influence of the financial crisis over the labor market in small and open economy

Dear Chairman, dear colleagues, ladies and gentlemen,

First I would like to thank the organizer for selecting this very current and significant topic at the moment. The fact is that the world is in the middle of one of the biggest economic crisis, for which there are ongoing discussions, which in some way contribute towards writing world economic history.

The profile, dimensions and character of this crisis deny and surpass all the famous theories and models which can be used to explain the occurred crisis and to find measures for its overcoming. So in a way we are in a phase of learning from the crisis and looking for solutions for coming out of it, including Republic of Macedonia.

Dear participants, in my address today first I would like to inform you for the economic situation of Republic of Macedonia, and then I would talk about the influence of the crisis over the Macedonian economy and the measures we undertake to overcome it.

Republic of Macedonia is small landlocked economy. If you look at the map of the world, you can see that Macedonia is a country that connects the East with the West, the North with the South. As a landlocked country, all the disadvantages that result from that can also present advantage because of its geographical location in the center of the Balkan Peninsula.

The basic goals that Republic of Macedonia makes effort to achieve are the Euro-Atlantic integrations and aspirations which have influence on the improvement of the living standard of the population, increasing of the employment, developing the democracy and political stability of the country.

The Macroeconomic policy that we lead in the country is in the function of achieving more dynamic economic development.

The indicators for Republic of Macedonia lead towards constant growth of the GDP in the last 5 years from 2,9% in 2003 to 5,9% in 2007. For 2008, because of the world events the growth of the GDP will be between 5-5,3% while in real conditions, the projections of the average growth rate of GDP should flow between 6 and 8%.

The inflation rate flows from 1,2% in 2003 to 2,3% in 2007. because of the influence of the external factors , the increase of the prices for food

products and energy sources in the first half of 2008 contributed for the inflation rate to be 8,7% while in the last quarter of the year the growth came down to 5%. For a longer period Republic of Macedonia maintains stable low one-cipher inflation, i.e. high price stability. That is important presumption for dynamic and sustainable economic growth and development and public welfare for the benefit of all the citizens of the country. Striving towards low unemployment rate is a significant macroeconomic goal set in front of Republic of Macedonia.

The fiscal policy in Republic of Macedonia is in compliance with the Maastricht criteria, in order to follow the EU policy, from the aspect of tax and customs reform, where we introduced flat tax rate of the personal tax and income tax, zero tax rate on the reinvested profit, decrease of the VAT rate from 18% to 5% for significant number of the agricultural repro-materials and mechanization and etc.

The social policy we lead is in the direction of decreasing the unemployment and improving the living standard. The activities are in accordance with the revised Lisbon strategy for decreasing the unemployment of EU until 2010.

Republic of Macedonia as a small economy has its participation in the total world trade, where in conditions of transition, it became market oriented economy and in that directions made the following steps:

- First from the countries in the region signed the Stabilization and association agreement with EU in 2001.
- Became a member of WTO in 2003,
- Acquired status of country candidate for EU accession in Decemeber 2005,
- Signed multilateral and bilateral free trade agreements with the EFTA countries, CEFTA countries, Turkey, Ukraine, which are an overall framework for developing regional cooperation and beyond connected with the political and economic criteria for EU integration.

Today, Republic of Macedonia applies free trade agreements with 41 country in the world, where the trade with this countries is 87%, and 80% without customs duty. With that, the market is expanded from a market for the needs of 2 million citizens to a market of 650 million citizens.

The measures we undertake as a country for economic development are directed towards the increase in the enterprise competitiveness, increase in the investments in knowledge and technology, attracting foreign and domestic investments, raising the quality of the working force, strengthening of the labor market and lowering the unemployment rate.

The competitiveness flows in the direction of adjusting the Macedonian economy to the global competitiveness, for which we elaborated proactive industrial strategy for development of the industry for the period to 2020, by the example of several European and world stories for successful industrial policy.

The intention of the Macedonian strategy is to create horizontal frame where it should connect the business climate, foreign investments and innovations in the knowledge. This influences the creating of a new structure of export and import.

Today, the metal and textile industry, connected with the hard and labor intensive activity, like the steel and textile industry dominate in the export. That kind of structure provides coverage of the import with the export by 65% and a trade deficit of around 20% of GDP. The record trade deficit in 2008 and the decrease of the coverage of the import with the export by 58% is due to the external shocks which are reflection of the significant fall of the prices on the world stock markets which influences the decrease of the value of export and postpones the already agreed orders of the foreign partners. This results in lower industrial production and laying off or firing of the employees in these industries.

The unemployment is one of the most difficult macroeconomic problems faced by our economy, where with active social policy we make efforts to improve the condition, especially in those sectors with production potentials and capacities.

The unemployment rate in Republic of Macedonia flows from 36,7% in 2003, 37,2% in 2004, 37,3% in 2005, 36% in 2006 and 34,9% in 2007. The last data for the fourth quarter of 2008, show that the unemployment rate is 33,5%. Compared with the same quarter of the previous year there is a decrease of 1,2%. The trend of decreasing in the last 3 years is still a reflection of the increased economic activities and policies applied on the labor market.

The measures for lowering the unemployment which I especially want to emphasize are the legalization of the working relation of the employees that work in the grey economy and the lowering of the unloyal competition, supporting the self-employment of unemployed persons and young people, support of first employment of young people up to 27 years old, engagement in public works in the municipalities, subsidies for employing single parents, people with disabilities and orphans, pre-qualification and qualification of those capable for work, improvement of the knowledge and skills, education for computers and foreign languages, compulsory secondary education and the appliance of the principle "life-long learning".

These measures are part of creating economic stability by attracting foreign investments in several sectors: information technology, automotive industry, pharmaceutical industry and processing industry.

Mainly, the sectors in Republic of Macedonia are presented by small and medium sized enterprises, important for the economic growth and the increase of employment. According to the available data more than 90% of the total number of enterprises are small enterprises with 15 employees.

The possibility for foreign investments that lead towards increase of the employment is connected with the removal of the barriers for investing in Republic of Macedonia: creating international rating, ranking on the 4th place on list of best reformers for 2008 among 178 countries in the world (according to the Doing Business report of the World Bank), fast firm registration, long-term macroeconomic stability, excellent infrastructure, lowering the rates for social contributions, existence of technological industrial development zones etc.

The influence of the global economic crisis in Republic of Macedonia

I introduced to you in short the actual situation in Republic of Macedonia and the measures we undertake for maintaining the economic situation and stability in the country.

In the next part of my speech I will refer to the influence of the world economic crisis over the Macedonian economy.

The world economic crisis didn't pass by Republic of Macedonia, and from the end of 2008 it hit the real sector. We are sure that we will not stay immune to the external shocks.

From the recession of the euro zone and the neighboring countries, which are our main trading partners, the situation spilled over into the Macedonian companies and had direct influence over the trade exchange and the balance of payments.

I would mention that in Republic of Macedonia several sectors feel greater influence from the crisis, first of all the metal industry due to the fall of the prices of metals and raw materials in the world.

This industrial branch, as well as the textile industry, is the basic exporters. From the total number of 11.000 employees in the metallurgy around 1.400 are laid off or fired, and in the textile industry each day the number is increasing, and the last data show that from 39.000 employees, around 1.800 have been fired.

The main problem of our economy is the fall of the external demand in the industrial sector, where the physical scope of the industrial production in the last quarter of 2008 marks annual fall of 7,6% and in the first month of 2009 it reached 16,7%. This is contributed by the cancellation of the agreed orders of the foreign partners from 30% to 50%.

The global financial crisis created additional delay of the foreign investments in the risk areas and of course the developing countries and countries in transition are also in the risk areas. The capital flows have also changed, they don't flow towards the undeveloped countries, the developing countries or countries in transition, but they flow backwards to the native countries, so I think that the lack of foreign investments presents serious problem for our country.

The measures that Republic of Macedonia undertakes in conditions of world economic crisis

We carefully analyze the economic movements and policies in the other countries in order to undertake measures timely and appropriately to support the Macedonian economy. If the optimistic scenarios come true, improvement is expected in the second half of this year of the economy on global level. That kind of signal is given with the stopping of the downward trend of the prices of metals on the world stock markets due to which improvement is expected to the conjuncture of this branch.

With the support of the business community we prepared set of measures for alleviating the consequences of the financial crisis. I will consider only the measures which directly refer to the labor market:

- Decrease of the customs duties in the export of raw materials and repro materials necessary for maintaining the economy.
- Companies are exempted from profit tax, except in the case when the profit is allocated as a dividenda.
- Completely writing off the interest on the basis of personal income, profit tax, VAT, property tax and contributions for pension insurance if the tax payers pay the major part (bulk) until 31 April 2009, for 75% if they do it until 31 August and up to 50% if they pay the debt until the end of this year.
- Lower taxation of the agriculture workers on selective basis, i.e. those who have profit up to 5.000 Euros will be completely exempted from tax, those up to 20.000 will pay only 400 Euros income tax.

- One year delay of the entering into force of the provisions of the Law on payment operations, which forbided payment for firms who had blocked accounts.
- Reprogramming of the tax liabilities, i.e. firms that have difficulties in their work can pay the tax debt on installments, on 36 installments the most. As a guarantee they will have to give bank guarantee in the amount of 100% of the debt or mortgage in the amount of 250% of the debt.
- Four year stagnancy or writing off of the firm liabilities on the basis of contributions for compulsory health insurance, after which if the current liabilities are regularly serviced, that debt will be completely written off.

Message

I would like to emphasize, and I'm sure that at the end of the discussion all participants in the panel will agree, that the key answer to how much the crisis will last and how quick the Macedonian economy will come out of it depends, initially of all of the events that occur in the world.

Republic of Macedonia is carefully following the world events which change from week to week and will react real fast. The Macedonian economy depends on what is happening on global level and there are different scenarios for overcoming the crisis depending on its duration. As a key generator of the economic growth is the unloosing of the external demand that we expect to emerge from the economies of the European countries, from America and from the countries of the region.

We should see the crisis as an opportunity for greater reforms in the sectors which are mostly affected, for their restructuring in order for them to be more competitive.

That is a segment in which we can do nothing but hope that this coordinated activity of the governments of many countries, will still succeed, and will at least lower the intensity of the crisis and shorten its duration. Of course one can not eliminate completely the consequences, but with joined forces we can do more and we have to.

That is expected from us.