

## **Financial markets continue to develop**

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Following the collapse of communism in central and eastern Europe, all countries from this region, including Macedonia, were faced with a very difficult task: to overcome the legacy of the inefficient socialist economy and adopt market principles. The challenges were enormous. The legal and political uncertainty, weak infrastructure, poverty, lack of market principles and basic market institutions plus internal conflict made this task not at all easy.

Because of the Republic of Macedonia's history as part of the Former Republic of Yugoslavia, some financial institutions with a long history in other countries (such as a stock exchange, brokerage houses and securities commissions) have only recently been introduced and established (in the past 10 years) in Macedonia. Since their establishment, these institutions are in the process of continuous development. Following changes in the business environment, the government is in the process of introducing necessary amendments of related laws which will allow institutions a more efficient operating environment.

The government intends to open up the financial market to foreign investors. The prerequisite for realising this objective is to provide suitable and attractive conditions for foreign investors and specific guarantees for the safety of foreign investments. The plan is also to become a member of the EU and to ensure that Macedonian legislation is in line with EU laws.

## **Banking and insurance**

One of the main intentions in the banking and insurance sector is to ease foreign banks' and insurance companies' market access in the territory of the Republic of Macedonia. Thus, the new Law on Banks (enacted on June 1

2007) and the new Law on Insurance Supervision already contain provisions giving banks and insurance companies from EU member states direct access to the Macedonian market, avoiding the long establishment and licensing procedures.

At this point, it is important to mention that these incentives for EU countries will be in full force and effect after Macedonia acquires full EU membership. Until then, a licence is required for performing banking or insurance activities.

As a result of the liberalisation process, the number of foreign banks or insurance companies entering the Macedonian market has increased. The participation of foreign banking and insurance companies comes mostly through the acquisition of domestic banks and insurance companies.

## **Corporate activities**

During the last year, important changes have come about in corporate activities. All of these changes in the Company Law seek to simplify the procedure for the establishment of companies in terms of procedure, documentation, time and costs.

At the moment, a company can be established and registered in the Central Register for only one to two days. The fees for registration of the company in the Central Register have fallen by 50%. Furthermore, the latest amendment of the Company Law, of July 2008, abolished the requirement for notarisation of the establishment documents. Investors are provided with additional incentives through the taxation system by a decrease in tax rates. As of January 1 2008, the corporate profit tax rate is only 10%.

## **Financial market**

Amending the law on securities and the law on investment funds, the financial market in Macedonia has seen an increase in the number and activity of financial institutions. The law on investment funds introduced private funds and private fund management companies. The first

companies of this kind already operating, as well as their clients, have shown an interest in them. The establishment of private funds and fund management companies was without the consent of the Securities and Exchange Commission. Private funds are established for a limited period of at least eight years with committed capital of minimum e500,000. The maximum number of investors in a private fund is 20.

Private funds are managed by private fund management companies, which can be established as limited-liability companies or jointstock companies with core capital of at least e50,000 if managing one private fund or e25,000 for each next fund, if they manage more than one.

### **Mergers and acquisitions**

The commission for the protection of competition will be notified of a concentration if:

- the aggregate turnover of all undertakings participants, generated by sale of goods and/or services on the world market, is more than e10 million in denar equivalent, by the current rate of the day of closing the annual financial statement, realized during the business year before the concentration and provided that at least one participant is registered in the territory of the Republic of Macedonia;
- the aggregate turnover of all undertakings participants, generated by sales of goods and/or services in the territory of the Republic of Macedonia, is more than e2.5 million in denar equivalent, by the current rate of the day of closing the annual financial statement, realized during the business year before the concentration;
- the participation of one of the undertakings is more than 40% or their joint participation on the market is more than 60%; or
- the law provides for suspension of concentration before obtaining clearance from the commission, as well as certain exceptions to this rule.

The abovementioned amendments in the regulations are only part of the governmental activity and effort to create a sound and stable legal and business environment; positive changes are also afoot for other institutions. We sincerely hope that the experiences of the foreign investors already present in the market, as well as the incentives provided for investors through the legislation, will give positive signals to other investors who may find Macedonia an attractive venue for investment.

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