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North Macedonia 2020 Report

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1. INTRODUCTION

1.2. Context

The Stabilisation and Association Agreement (SAA) between the Republic of North Macedonia and the EU entered into force in April 2004. Since 2009, the Commission has continuously recommended to the Council to open accession negotiations with North Macedonia, a candidate country since 2005. In its June 2018 Conclusions, the Council acknowledged the progress achieved and set out the path towards opening accession negotiations in June 2019. In line with the Council Conclusions, the Commission started the preparatory work, including through the technical explanation of chapters of the EU *acquis*. In light of the progress achieved and the conditions set unanimously by the Council in June 2018 having been met, the Commission recommended to open accession negotiations in May 2019. In June 2019, the Council postponed its decision to no later than October 2019. The European Council decided in October 2019 to ‘revert to the issue of enlargement before the EU-Western Balkans summit in Zagreb in May 2020’.

The Commission has continued to closely monitor developments in North Macedonia and reported in March 2020 that North Macedonia has increased its efforts and delivered further tangible and sustainable results in the key areas identified in the Council Conclusions of June 2018 such as the judiciary, fight against corruption and organised crime, intelligence services reform and public administration. In its update on North Macedonia published in March 2020, the Commission confirmed that the bases of the Commission’s 2019 recommendation to open accession negotiations with North Macedonia remain valid. On 26 March 2020, the European Council endorsed the Council’s decision to open accession negotiations with North Macedonia¹. The authorities continued to demonstrate publicly their commitment to advance on their EU path.

The COVID-19 pandemic is a global shock that has not spared the Western Balkans. The final extent of its footprint in terms of loss of human lives and damage to the economies is still difficult to assess, but early estimates foresee a drop of between 4 and 6% of Gross Domestic Product (GDP) in the region. Thousands of citizens are at risk of losing their jobs, and temporary government support measures (unemployment benefits, deferrals/waivers to tax and social security contributions, etc.) have an important fiscal impact.

While the EU is itself heavily affected by the pandemic, it has spared no time and effort to provide essential and unparalleled support to the Western Balkans. This includes financial support of more than EUR 3.3 billion for countries in the region to address the immediate health crisis and resulting humanitarian needs, as well as longer term and structural impact on their societies and economies. Given the European perspective of the Western Balkans, the EU is also treating the region as privileged partners by associating them with the Union’s mechanisms and instruments. These include the Health Security Committee, Joint Procurement Agreements, Union Civil Protection Mechanism, Solidarity Fund, consular assistance in repatriation or exemption from temporary EU export restrictions of medical equipment. These and other measures have provided immediate relief and are a clear message of the EU’s political commitment towards the region.

Due to the COVID-19 outbreak, the President of the Republic declared a state of emergency from March until June 2020. Restrictive measures were put in place to protect the citizens

¹ <https://www.consilium.europa.eu/media/43076/26-vc-euco-statement-en.pdf>

and contain the pandemic (e.g. curfews, limitation of non-essential movement or gatherings, freezing of air traffic and closing of borders, suspension of procedural deadlines in judicial procedures and the move to online education). These were gradually phased out beginning of May, with a three-phase plan. The authorities have also taken measures to mitigate the socio-economic impact of the crisis. In summer, the country struggled with a second wave of infections, which severely stretched the capacities of the health system.

The European Commission recommended that emergency measures taken in the context of the COVID-19 pandemic are proportionate, restricted to what is necessary and limited in time so that rule of law and democratic and human rights standards are respected.

1.2. Summary of the report

Concerning the **political criteria**, North Macedonia continued to implement EU-related reforms throughout the reporting period. Efforts continued to strengthen democracy and the rule of law, including by activating existing checks and balances and through discussions and debates in key policy and legislative issues. Opposition parties remained engaged in the Parliament and supported key issues of common national interest, such as EU-related reforms and the NATO integration process, which North Macedonia joined in March 2020. Following the outcome of the European Council in October 2019, political parties decided in common agreement to hold early parliamentary elections on 12 April 2020. In line with the national legislation, a technical government, with Ministers and Deputy Ministers from the main opposition party, was appointed in January 2020. Following the outbreak of the COVID-19 pandemic, a state of emergency was declared between March and June 2020, which enabled the technical government to rule by decree. The early parliamentary elections were postponed to July 2020. The Office for Democratic Institutions and Human Rights at the Organisation for Security and Cooperation in Europe (OSCE/ODIHR) assessed that these elections were generally well run and the campaign was genuinely competitive, but legal stability was undermined by substantial revisions of the legal framework and subsequent government decrees. During the reporting period, the Parliament improved its role as the primary forum for constructive political dialogue and fulfilled its legislative functions, including by adopting key EU-related laws. However, the significant increase of the use of fast track procedures raises concerns and should be limited. The Parliament operated in greater transparency and used its oversight functions, restoring checks and balances over the executive. The Parliament dissolved in February 2020, in anticipation of early elections, and the Speaker's view was that it could not reconvene. Following the July 2020 elections, the newly constituted Parliament elected the government in August 2020. The inter-ethnic situation remained calm overall. Efforts were made to strengthen inter-ethnic relations and to implement the Ohrid Framework Agreement, which ended the 2001 conflict and provides the framework for preserving the multi-ethnic character of the society.

Civil society remains active and plays a key role in policy and decision-making processes. Measures have been taken to implement the 2018-2020 Strategy and Action Plan for the Cooperation between Government and Civil Society. However, efforts are needed to ensure a more meaningful and timely consultation process.

The ongoing reform of the intelligence services resulted in the setting up in September 2019 of the National Security Agency, designed as an independent state body without police powers, unlike its predecessor the Bureau for Security and Counterintelligence (UBK). This is in line with recommendations of the Senior Experts' Group on systemic rule of law issues. The Operational Technical Agency continued to function. Further efforts are needed to ensure that it has access to all necessary tools to fulfil its mandate. The capacity for parliamentary oversight over the intelligence services needs to be strengthened.

North Macedonia is moderately prepared with the reform of its **public administration**. Some progress was made in improving transparency, with the adoption of the 2019-2021 Transparency Strategy, the operationalisation of the open government data portal and the publication of data on government spending. The monitoring reports on implementation of the Public Administration Reform Strategy and the Public Financial Management Reform Programme were produced and accompanied by adequate visibility actions. Ensuring respect for the principles of transparency, merit and equitable representation remains essential. The State Commission for Prevention of Corruption continued to address allegations of nepotism, cronyism and political influence in the process of recruitment of public sector employees. A proper follow-up to the reports and recommendations of the State Commission needs to be ensured.

The **judicial system** of North Macedonia has some level of preparation/is moderately prepared. There was good progress in the implementation of the judicial reform strategy, thereby addressing the 'Urgent Reform Priorities' and recommendations from the Venice Commission and the Senior Experts' Group on systemic Rule of Law issues. Efforts are still needed to ensure systematic implementation of the updated action plan of the judicial reform strategy. Judicial institutions are implementing new rules for appointment, promotion, discipline and dismissal of judges and the Judicial Council has been exercising its role more pro-actively. As a result of its reform efforts in recent years, North Macedonia has established mechanisms to ensure judicial independence and accountability, such as rules on merit-based appointments, checking assets and conflicts of interest and disciplinary procedures. It should ensure their determined and consistent use before envisaging further changes in this area. The Law on the Public Prosecutor's Office entered into force in June 2020. The purpose of the law is *inter alia* to ensure a sustainable solution for the cases of the Special Prosecutor's Office and to establish accountability for the crimes arising from and surrounding the illegal wiretaps. The revised Law on the Council of Public Prosecutors was also adopted. Effective implementation of the legal framework as well as increased efforts by all stakeholders to demonstrate their exemplarity will contribute to increasing public trust in the judiciary.

As regards the **fight against corruption**, North Macedonia has some level of preparation/is moderately prepared. Good progress was made through consolidating its track record on investigating, prosecuting and trying high level corruption cases. The State Commission for Prevention of Corruption has been particularly pro-active in preventing corruption and opened a high number of cases, including those involving high-level officials from across the political spectrum, in line with last year's recommendation. Efforts continue to move forward with the Special Prosecutor's Office cases and establish accountability for the illegal wiretaps. The former Chief Special Prosecutor was convicted in June 2020 in the first instance verdict in the so-called 'racket case' concerning alleged extortion and abuse of office in relation to a case of the Special Prosecutor's Office. Corruption is prevalent in many areas and a more proactive approach from all actors engaged in preventing and fighting corruption needs to be ensured.

The country has some level of preparation in the **fight against organised crime**. The legislative framework is broadly in line with European standards, and efforts to implement strategies against organised crime must continue. Some progress was made in meeting last year's recommendation to establish an asset recovery office in line with the EU *acquis*. The office will now have to demonstrate its capacity to support a proactive policy of asset confiscation. The country is engaged in threat assessment at the regional level, and will have to broaden its scope in line with the EU practices. There is some progress at the operational level, but more needs to be done to improve the effectiveness of law enforcement in fighting specific forms of crime, such as money laundering and financial crimes. The cooperation

with Europol is increasing across the different criminal areas. Coordination remains crucial for all stakeholders involved in fighting organised crime.

Some progress has been made in the fight against terrorism and preventing/countering violent extremism in line with the objectives set out in the Joint Action Plan on counter-terrorism for the Western Balkans and the bilateral implementing arrangement.

The legal framework on the protection of **fundamental rights** is largely in line with European standards. The deinstitutionalisation process is under way and resettlement of children to community-based care is being carried out. The Ministry of Labour and Social Policy is investing in community services, including to support victims of gender-based violence. It is essential that these services continue to be made available. Additional efforts are needed to address recommendations of European and international human rights bodies, particularly regarding the treatment of detained and convicted persons. The Constitutional Court's decision to repeal the Law on Prevention and Protection against Discrimination on procedural grounds means that the country currently lacks a comprehensive legal framework on non-discrimination and an equality body. This serious gap needs to be addressed by the new legislature. It is also important for the country to enhance implementation of the legislation on hate speech and of the national action plan for implementation of the Istanbul Convention. While the set-up of the external oversight mechanism of the police is complete, the absence of genuinely independent investigators may impede the work of the unit to effectively address police impunity. The country should take urgent measures to further improve the situation in prisons and to support alternatives to detention.

The country has some level of preparation / is moderately prepared in the area of **freedom of expression** and has made limited progress during the reporting period. The overall situation and climate in which media operates remain generally conducive to media freedom and allow for critical media reporting, although there have been some increased tensions during the COVID-19 crisis and in the context of the elections. Self-regulation efforts need to be intensified to support advancement in professional standards and the quality of journalism. It is important to ensure greater transparency of media advertising by state institutions, political parties and public enterprises. Sustainable solutions to ensure the public service broadcaster's independence, professional standards and financial sustainability are needed. It is essential to continue supporting media pluralism, promoting professionalism, unbiased reporting and investigative journalism, and building resilience to effectively combat disinformation. The financial sustainability of independent media and working conditions of journalists remain a challenge.

With regard to **regional cooperation**, the country maintained its good relations with other enlargement countries and participated actively in regional initiatives. It is important to continue implementing bilateral agreements, including the Prespa agreement and the Treaty on Good Neighbourly Relations with Bulgaria.

North Macedonia continues to play an active and constructive role in the management of **mixed migration flows**. It remains on one of the main transit routes for mixed movement. It cooperates effectively with neighbouring countries and EU Member States, including with guest officers from the EU Member States on the ground. Considerable efforts to ensure basic living conditions and services for all migrants staying in the country continued. The registration of migrants and adequate protection-sensitive profiling improved but needs to be carried out in a more systematic manner. The Status Agreement with the European Border and Coast Guard Agency has not been signed yet. The problem of frequent smuggling activities at the northern border needs to be further addressed.

As regards the **economic criteria**, North Macedonia is at a good level of preparation in developing a functioning market economy but made limited progress during the reporting period. Economic growth accelerated in 2019 as investment picked up, but, since April 2020, the COVID-19 crisis has left its mark on the economy and on public finances. The authorities have taken a range of measures supporting companies and households, to mitigate the economic and social impact of the crisis. In the reporting period, fiscal transparency was further improved. However, fiscally significant reforms of income taxation and the pensions system, introduced at the beginning of 2019, were reversed. Moreover, public capital expenditure implementation remained markedly low, and public debt stabilisation is not yet secured. Before the COVID-19 crisis, unemployment rates declined further, also for young workers, and informal employment decreased slightly. However, the impact of the COVID-19 crisis will likely reverse those positive trends. Participation rates remain low, even though the share of women in the labour market increased. The financial sector remained robust and lending to the private sector strengthened. The business environment continues to be impeded by a high share of the informal economy.

North Macedonia has made some progress and is moderately prepared to cope with competitive pressures and market forces within the EU. Integration with the EU in trade and investment deepened further. Exports and manufacturing output diversified further towards higher-value products. However, skills shortages, reflecting shortcomings in the education system and the outflow of skilled workers, as well as infrastructure investment gaps impair labour productivity and the competitiveness of the economy. While measures to mitigate the immediate adverse impact of the COVID-19 crisis on growth and employment are currently prevalent, addressing these structural needs in a timely manner would support a swift post-crisis economic recovery.

As regards its ability to assume **the obligations of membership**, the country continues to be moderately prepared in most areas, including in the areas of competition, public procurement, statistics, financial control, transport, energy. The country shows a good level of preparation in areas such as company law, customs union, trans-European networks and science and research. The country is at an early stage of preparation in areas such as free movement of workers as well as financial and budgetary provisions. Over the coming period, more focus is also needed on administrative capacity and effective implementation. The country has continued to improve its alignment with the EU common foreign and security policy.

2. FUNDAMENTALS FIRST: POLITICAL CRITERIA AND RULE OF LAW CHAPTERS

2.1. Functioning of democratic institutions and Public Administration Reform

2.1.1. Democracy

The reporting period was marked by the historic decision to open accession negotiations with the EU and by the accession to NATO. North Macedonia has increased its efforts and continued to deliver tangible results in implementing key EU reforms, in particular in the areas identified in the June 2018 Council Conclusions². Efforts continued to strengthen democracy and the rule of law, including by activating existing checks and balances and through a broad public outreach, discussions and debates on key policy and legislative issues. Opposition parties remained engaged in Parliament and the main opposition party joined the technical government from January to July 2020. Due to the COVID-19 outbreak, the President of the Republic declared a state of emergency from March until June 2020. Measures were taken to protect the citizens and contain the pandemic.

² <https://www.consilium.europa.eu/media/35863/st10555-en18.pdf>

Elections

Overall, the legal framework is conducive to the organisation of democratic elections. **Some progress** was made in addressing and implementing the recommendations of OSCE/ODIHR. Due to the COVID-19 outbreak, the early elections initially foreseen on 12 April were postponed to 15 July 2020. The comprehensive review of electoral legislation should be finalised to address the previous and upcoming recommendations of the OSCE/ODIHR and of the Venice Commission, in a timely and inclusive manner. The state institutions and bodies, notably the Ministry of the Interior and the State Election Commission, should make further efforts to systematically update the voters' list.

Following the outcome of the European Council in October 2019, all political parties decided to hold early parliamentary elections on 12 April 2020. Due to uncertainties posed by the COVID-19 outbreak and the announcement of the state of emergency in March 2020, the government, supported by the political party leaders, including the opposition, decided by decree to suspend the electoral activities. Following protracted negotiations, an agreement was reached among the political parties and the early elections were rescheduled for 15 July 2020. Given the restrictions due to the COVID-19 pandemic, the OSCE/ODIHR deployed a Special Assessment Election Mission. The team assessed that the election day proceeded smoothly, despite technical challenges in publishing results and longstanding issues related to the voter registration. However, the constant changes in legislation led to uncertainties. The campaign, although negative in tone, was genuinely competitive and participants could deliver their messages despite the limitations due to the COVID-19 situation. The turnout was 51.34 %. The coalition of SDSM³ and BESA Movement obtained 46 seats in Parliament out of 120, VMRO-DPMNE⁴ 44 seats, DUI⁵ 15 seats, the Alliance for Albanians and Alternative 12 seats, Levica 2 seats and DPA⁶ 1 seat. The number of women Members of Parliament dropped to 45 (37.5 %), two less than in the previous Parliament.

The elections were well administered, including by the **State Election Commission (SEC)**, which carried out its duties within legal deadlines, despite complications caused by the suspension of the electoral process during the state of emergency. To ensure the stability and professionalism of the SEC, a sustainable solution should be found concerning its composition and the length of its mandate in a transparent and inclusive manner. Despite improvements of the voters' list, the relevant authorities need to make further efforts to update and harmonise all relevant databases to ensure the continuous accuracy of the list.

The **legal framework** supports the conduct of democratic elections. In February 2020, substantial amendments were made to the Electoral Code. These partially addressed previous recommendations from the OSCE/ODIHR, in particular regarding registration of voters whose IDs expired after the announcement of the elections and extending possibilities to appeal against campaign violations. A day prior to the dissolution of Parliament and the call for early elections, amendments relating to key elements of the electoral process, including constituency boundaries and the redistribution of certain responsibilities among election administration and state agencies, were passed hastily and with limited consultation. The OSCE/ODIHR assessed that the legal stability was undermined by substantial revisions of the Electoral Code and subsequent ad hoc regulations enacted during the state of emergency. The reform of the electoral legislation needs to be finalised ahead of the next election cycle to implement the outstanding OSCE/ODIHR recommendations. These include, *inter alia*, the

³ *Social Democratic Union of Macedonia*

⁴ *Internal Macedonian Revolutionary Organisation – Democratic Party for Macedonian National Unity*

⁵ *Democratic Union for Integration*

⁶ *Democratic Party of Albanians*

harmonisation of the Electoral Code internally and with other relevant laws through a comprehensive and inclusive review.

Parliament

The Parliament improved its role as the primary forum for constructive political dialogue and it fulfilled its **legislative functions**, including by adopting key EU-related laws. However, the use of the shortened procedure needs to be limited. Parliament continued to restore checks and balances over the executive, by using its **oversight functions** and operating in greater transparency. All parties contributed to two successful rounds of the ‘Jean Monnet Dialogue’ with the European Parliament. The accountability for those who orchestrated and committed violence on the 27 April 2017 continued to be established. Parliament promoted the protection of human rights and deepened cooperation with the external oversight actors. The new legislature is expected to work in an inclusive manner to build upon previous achievements, while further improving its functioning. Political parties need to enhance their internal democratic processes and improve transparency of their funding.

Parliament was dissolved in February 2020, ahead of the early elections initially planned for April 2020. Following the COVID-19 outbreak, the Speaker’s view was that the Parliament could not reconvene and forwarded the proposal of the technical government to declare the state of emergency to the President of the Republic. The Constitutional Court did not accept the request to examine the legality and constitutionality of the decision to dissolve the Parliament. The lack of a sitting Parliament delayed the adoption, in many sectors, of laws and strategies that had been prepared. Following the July 2020 elections, the constitutive session of the new Parliament took place in August 2020.

Over the reporting period, the Parliament’s role as the main institution for **political dialogue** improved, with the active participation of all parliamentary parties in its work and political debates on key policy and legislative issues, including in the area of rule of law. It continued to adopt EU-related laws, with the support of the opposition in some cases which required 2/3 majority votes. The appointment of members of the Programme Council of the Public Broadcasters and the Media Agency remain outstanding as cross-party compromise could not be reached. It is positive that a State Auditor was elected in December 2019.

The Parliament faced challenges in better planning and coordinating its work to ensure a more predictable **law-making process**. Over the reporting period, Parliament adopted over its sessions a total of 86 laws, including 22 in regular legislative procedure and 11 ratifications, including the ratification of the North Atlantic Treaty. The number of laws adopted by a shortened procedure, mostly upon proposal of Members of Parliament, rose significantly during the reporting period, which is an issue of concern – see 2.1.2. *Public Administration Reform*. There should be limited use of fast track procedures as they prevent proper participation of the relevant stakeholders in the legislative processes and democratic debates.

Progress was made in implementing the Parliament’s 2018-2022 strategic plan. Its **oversight** of the executive improved, including through parliamentary questions and interpellation. The Parliament also strengthened its relations with external oversight actors. In February 2020, the Parliamentary Budget Office was launched to improve parliamentary financial oversight.

All political parties participated in two rounds of the ‘Jean Monnet Dialogue’ held in June 2019 and February 2020. In January 2020, the amendments to the Law on Parliament strengthened the independence of the Parliament’s human resources. The political parties reached an agreement on key amendments to the **rules of procedure**, which are due to be adopted by the newly composed Parliament. These include rules on the constitutive session,

strengthened governmental oversight, public hearings, the budgetary calendar and procedures for EU-flagged laws.

The Parliament helped to monitor the **protection of human rights** and fundamental freedoms. The Club of Women Members of Parliament supported several human rights initiatives across their political affiliation. The Parliament also adopted a cross-party declaration on the right of persons with disabilities to participate in the political processes.

The accountability for the violent attacks in Parliament in **April 2017** continued to be established. The trial of those indicted for organising the attacks started in February 2020.

Work should continue on improving the efficiency of the democratic system, including transparency on **the funding of political parties**, along the recommendations of the Group of States against Corruption (GRECO) – *see Chapter 23 – Judicial and fundamental rights*. Political parties also should improve their internal democratic processes.

Governance

Democratic governance continued to be consolidated, with a focus on the EU reform agenda and NATO membership. Despite occasional tensions, the technical government fulfilled its mandate to organise early elections, while dealing with the consequences of the COVID-19 pandemic, including during the state of emergency. Existing mechanisms to ensure checks and balances were activated during this period, including by the Constitutional Court. The new government is expected to work together with all parts of society to further advance the EU reforms and priorities, while addressing the consequences of the COVID-19 crisis. The inter-ethnic situation remained calm and efforts continued to strengthen inter-ethnic relations and to implement the Ohrid Framework Agreement.

A government reshuffle, involving all coalition partners, took place in summer 2019. A new Ministry for Political System and Relations among Communities replaced the Government Secretariat for Implementation of the Ohrid Framework Agreement. Following the outcome of the October 2019 European Council, the President of the Republic convened a meeting with all political party leaders, who agreed initially to hold early parliamentary elections on 12 April 2020. In line with the national legislation, Prime Minister Zaev resigned and a technical government, with the participation of two Ministers⁷ and three Deputy Ministers from the main opposition party (VMRO-DPMNE), was appointed on 3 January 2020. Despite occasional tensions, the core responsibility of the technical government was to organise early elections, while ensuring the implementation of reforms necessary for EU and NATO integration. The total representation of women in the technical government was 23%, including Ministers and Deputy Ministers. Due to the COVID-19 crisis, the President of the Republic declared the state of emergency from March until June 2020, which enabled the technical government to rule by decree with the force of law. Control mechanisms were activated during the state of emergency, including by the Constitutional Court and the Ombudsman's Office. The Constitutional Court suspended or annulled several decrees, insisting on the separation of powers, respect for the rule of law and principles of proportionality and necessity. The Ombudsman issued recommendations on protection of vulnerable categories, children and prisoners and detainees.

The new government, led by Prime Minister Zaev, was elected by Parliament in August 2020 and is composed of four Deputy Prime Ministers and 15 Ministers. There are four women Ministers (20%).

⁷ The VMRO-DPMNE Minister of Labour and Social Policy Minister was dismissed in February 2020 over the refusal to use the new name of the country. No replacement was proposed and the post remained vacant.

The **inter-ethnic situation** remained calm overall. A pre-electoral coalition across the ethnic lines was formed for the first time by SDSM and BESA Movement. The proposal by DUI of an ethnic Albanian candidate for Prime Minister triggered debates both within and between ethnic communities. An agency was created, along with an inspectorate to oversee the overall implementation of the law on the use of languages.

The country has been committed to **decentralisation** since the signature of the Ohrid Framework Agreement in 2001. In 2019, municipalities had improved their financial management and collection of local taxes. The government initiated, in partnership with municipalities and the Association of the Units of Local Self-Government (ZELS), a process to reform the legislation on the local self-government system, in order to grant municipalities additional powers and financial resources.

Civil society

The environment in which civil society operates has continued to improve, including with the implementation of the 2018-2020 Strategy and Action Plan for the Cooperation between Government and Civil Society. Civil society remained active and played a key role in policy and decision-making processes. However, efforts are needed to ensure a more meaningful and timely consultation process. Both governmental and non-governmental actors should ensure that conditions are in place for proper checks and balances. The legal and financial frameworks still need to be improved and implemented in practice.

An empowered civil society is a crucial component of any democratic system and is recognised as such by the state institutions.

The legal framework guarantees the rights of freedom of expression, assembly and association and it paves the way for an enabling environment for civil society organisations. Since the adoption of the 2018-2020 Strategy and Action Plan, good progress has been made on the work of the Council for Cooperation between Government and Civil Society. Meetings between members of the Council are more frequent. Involvement of civil society in policy and decision-making processes has continued to improve after the adoption of the 2018-2020 Strategy, although practices differ among Ministries. Further efforts are needed to ensure a more meaningful and timely consultation process.

The Law on Associations and Foundations specifies that organisations may receive funds from the state budget and the budgets of the municipalities. However, adequate administrative capacity and proper organisational set-up is needed in the Government unit for NGO Corporation, including sufficient state funding to ensure proper implementation of the 2018-2020 strategy. To ensure financial sustainability and improve the institutional framework of civil society organisations, the focus should continue to be on establishing a fully functional legal framework, by implementing the 2018-2020 strategy and harmonising the related fiscal legislation.

Civilian oversight of the security/intelligence sector

The ongoing reform of the intelligence services resulted in the setting up of a Council for coordination the security intelligence community which has met twice in 2020 and, most importantly, in the establishment of the National Security Agency (NSA) in September 2019. The Agency has completed its recruitment procedures. Its mandate is to gather intelligence for guaranteeing state security. Unlike its predecessor, the Bureau for Security and Counterintelligence (UBK), the NSA has been designed to be an independent Agency located outside of the Ministry of Interior and without police powers. This is in line with recommendations of the Senior Experts' Group on systemic Rule of Law issues. It is essential

that the reform be fully completed and implemented, ensuring a non-partisan operation of the intelligence services. Legislation governing the Intelligence Agency and the Military security and intelligence agency still need to be revised.

The Operational Technical Agency (OTA) continued to function. Further efforts are needed to ensure that it has access to all the necessary tools to fulfil its mandate.

Parliamentary oversight over the intelligence services has improved, notably in the area of interception of communications, but it needs further strengthening to be efficient. The relevant parliamentary oversight committee performed several inspections and visits to the relevant institutions related to the intelligence and security sector in 2019. Nevertheless, the procedure for hiring technical experts to assist the work of the committee over interception of communications is not completed, thereby impeding its work. The capacities of all three intelligence committees in Parliament should be reinforced.

The president of the Citizen Oversight Council in Parliament and his deputy resigned in June 2020 over the lack of financial resources allocated to this body. There is an urgent need to ensure required resources to make the Council fully functional. Civilian oversight of the security/intelligence sector needs to be ensured as this will also have a positive impact on alleviating public mistrust in the intelligence institutions. All relevant laws need to be swiftly implemented, in cooperation with NATO and strategic partners.

2.1.2 Public administration reform

North Macedonia is **moderately prepared** with the reform of its public administration. **Some progress** was made in improving transparency, with the adoption of the 2019-2021 Transparency Strategy, the operationalisation of the open government data portal and the publication of government finances data. The monitoring reports on implementation of the Public Administration Reform Strategy and the Public Financial Management Reform Programme were produced and accompanied with adequate visibility actions. The public consultation process improved, with an increasing number of comments to draft regulations and greater involvement of civil society in policy-making. Ensuring respect for the principles of transparency, merit and equitable representation remains essential. The State Commission for Prevention of Corruption continued to address cases of nepotism, cronyism and political influence in the process of recruitment of public sector employees. A proper follow up to the reports and recommendations of the State Commission needs to be ensured. In terms of accountability, after a long delay, the heads of the Directorate for Personal Data Protection, the Agency for Free Access to Public Information and the State Audit Office were finally appointed at the end of 2019 and in January 2020. The new government should ensure that the public administration reform remains a priority, demonstrate full respect for the public administration reform principles and follow on the reform efforts of the previous government. Further efforts are needed to address some of the 2019 recommendations.

In the coming period, the country should, in particular:

- put in place a legislative framework that ensures full respect of merit-based recruitment for senior civil service and other positions;
- finalise the horizontal functional review and start implementing it to ensure clear accountability lines between institutions;
- ensure full implementation of the Law on General Administrative Procedures.

Strategic framework for public administration reform

A number of state institutions and civil society organisations were pro-active in the implementation, monitoring and reporting of the 2018-2022 **public administration reform strategy** and the 2018-2021 **public financial management reform programme**. The high-level Public Administration Reform Council and the Public Financial Management Council continued to ensure the **political support** for and supervision of reforms. The Ministry of Information Society and Administration's capacity to drive the reform at technical level improved. The Ministry of Finance's involvement in the overall reform coordination increased, also thanks to a greater focus on managerial accountability (see *Chapter 32 – Financial Control*). The public administration reform is costed as a separate budget programme in the state annual budget but the PAR budget was decreased as a result of reallocation of resources to economic measures in response to the COVID-19 crisis.

Policy development and coordination

The legal framework and institutional structures for a coherent **policy-making system** are in place. The responsibilities of some policy-making institutions need to be clarified and revised to ensure there are no overlaps. New negotiating structures to manage the process of EU integration were set up in July 2019. At technical level, the quality of the EU integration coordination system for policy measures and providing assistance needs to improve. Policy planning needs to be strengthened and to be consistent with the medium-term budgetary planning. The central coordination and quality control role of the General Secretariat remains insufficient.

Evidence-based policy and legislative development continue to be partially ensured. Administrative data collection improved but this data needs to be more consistently used in the decision-making process. Regulatory impact assessments were regularly prepared for all laws that the government sent to Parliament in regular procedure until autumn 2019, when a number of laws were promulgated by Parliament without impact assessments and public consultations. The quality of regulatory impact assessments needs to be further improved, and the budgetary impact assessments are either missing or are not comprehensive. Inter-ministerial consultations at various levels increased, but they still need to be properly integrated in the process. Inclusive participation in **public consultations** continued to be encouraged through the national electronic consultation system. The quality control of the public consultation process needs to improve. The number of laws adopted under shortened procedures, mainly upon proposals of Members of Parliament, significantly increased standing at 61.6% in 2019, compared to 20% in 2018, which raises concerns (see 2.1.1. *Democracy*). These laws did not undergo a proper public consultation process and were not regularly underpinned by impact assessments. The quality of legislative drafting also remains an issue.

Public scrutiny of government work continued to improve thanks to an increase in published government monitoring reports and improved communication.

Public financial management

The national authorities continued to implement the 2018-2021 **public financial management (PFM) reform programme** and 2019 Action Plan. The 2019 annual progress report on the implementation of the programme was adopted and published on the Ministry of Finance's website. The PFM Council meets twice per year in order to monitor the implementation of the programme. There have been considerable delays in finalising and adopting of the new Organic Budget Law.

The 2020-2022 fiscal strategy was adopted following a parliamentary debate. It was supplemented by a comparative analysis of the mid-term projections made by national authorities and international institutions. In addition, data was provided on the main financial indicators for state-owned public companies for 2018 (transfer of funds from the budget to public enterprises as well as paid gains and dividends in the budget of public enterprises and joint stock companies in state ownership). Efforts were made to increase domestic revenue mobilisation and to improve public procurement procedures (*see also Chapters 5, 16 and 29*).

There has been some progress on improving **budget transparency** in the management of public finances. Various monthly and quarterly budgetary reports and data are regularly published on the Ministry of Finance's website, including the 2019 citizens' budget. The 'citizens' budget' web application gives users access to and an overview of the budget through an interactive interface. It provides information on budget planning, distribution and income. The 'open finance' portal also went live, providing the general public with detailed information on all budget users' transactions (at central level).

The process to prepare the 2020 budget was improved and included open public consultation. The budget was amended twice in the first half of 2020 to meet the costs arising from the COVID-19 crisis. Parliamentary scrutiny on budget preparation and execution needs to be improved. Transparency and accountability of management of public funds has to be ensured through efficient monitoring mechanisms both by the executive and by the Parliament. This includes following up on the State Audit Office's recommendations. *See also Chapter 32.*

Public service and human resources management

The Law on Administrative Servants and the Law on Public Sector Employees ensure **merit-based recruitment and fair promotions and dismissals**. However, they are not systematically applied across the administration. The Law on Internal Affairs includes contradictory rules that allow employees to be excluded from the provisions of the Law on Administrative Servants. Procedures for temporary or service employment contracts, with lower criteria, are still frequently used, bypassing the criteria set in the Law on Administrative Servants. The grounds for dismissals should be made more transparent. The State Commission for Prevention of Corruption published the results of its investigations into some of the cases involving public allegations of appointments of family members by the previous governments. It also issued proposals for further changes in the recruitment processes of public institutions to make them more transparent and merit-based. Its findings and recommendations need to be systematically followed-up by the concerned institutions. *See Chapter 23 – Judiciary and fundamental rights.*

The Ministry of Information Society and Administration reinforced its coordination and monitoring role for the **management of human resources** across the public administration. The willingness and capacity of all involved institutions need to be increased to ensure the legislation is applied systematically. Line institutions' use of the human resources management information system increased, although it could be further exploited. The **remuneration system** needs to be revised to ensure more consistent levels of pay and to promote mobility.

The representation of women in the public service is over 50%, including in middle management. Women are, however, less represented in top management positions. Equitable representation of minorities remains inconsistent across the public sector and across all categories of civil servants. There is still a higher representation of some minorities in the institutions whose hierarchy includes that minority. Smaller ethnic minorities remain underrepresented in the public sector. The number of public employees without a formal

assignment, who were recruited years ago and continue to receive a salary without having to show up for work, went down slightly, as a number of them were finally assigned jobs in 2019. A decision on the final job assignment for the remainder of these employees needs to be taken by the relevant institutions, as this long-standing issue undermines the principles of merit and effectiveness. The principle of equitable representation and fair representation of men, women and ethnic groups should be applied across the public sector.

Professional development is still not systematic. There is no centralised database of the training offered by various institutions. **Integrity in the public service** is well regulated, including whistle-blower legislation. However, no data is available on how the integrity mechanisms, including whistle-blower legislation, are implemented in practice, nor on whether and how whistle-blowers are protected against retaliation actions.

Accountability of the administration

The functional review of 128 central government institutions was launched. The development of a proposal for reorganisation of functions per policy area was postponed as a result of the COVID-19 outbreak. The reorganisation should improve the administration's efficiency and **lines of accountability**. Some institutions still report to both their line ministry and to the government in parallel. Steps were taken at both central and local level to improve managerial accountability and to delegate responsibility to various management levels although delegation of decision-making authority to middle management remains limited. Further efforts are needed to efficiently mainstream managerial accountability across the whole public administration (*see Chapter 32 - Financial Control*).

Legislation ensures that **citizens' right to good administration** is protected by the independent institutions, especially the Ombudsman and the State Audit Office. Systematic follow-up to their recommendations is not yet ensured. **Citizens' right to access public information** further improved thanks to the 2019-2021 transparency strategy adopted in November 2019, which includes setting up an open government data portal and publishing data on government finances. To ensure the system's smooth functioning, all institutions need to regularly provide and update the data. A new Law on Free Access to Public Information, adopted in May 2019, authorises the Agency for Protection of Free Access to Public Information to monitor compliance with the rules on proactive disclosure of information, and reduces the grounds upon which requests for public information can be refused. The Agency's capacity to implement the new law needs to be strengthened. Being without a director from May 2018 until January 2020, the Agency did not respond to appeals during that period, leading to an increase in unanswered requests for public information from public information providers. The director and deputy director were finally appointed in January 2020. The COVID-19 crisis has led to further delays in responding to requests for public information by many institutions.

The Law on Administrative Disputes was adopted in May 2019. In practice, the appeal procedure for **citizens' right to administrative justice** remained onerous, complex and lengthy, comprising several appeal layers and numerous repetitions of procedures. Most of the decisions are not based on merit, but on procedural considerations. There were delays in enforcing administrative court rulings, which were themselves rarely decided on merit. The legislation defines the **citizens' right to seek compensation** and the liability of public authorities in cases of wrongdoing. In 2019, courts awarded compensation for damages in nine cases.

Service delivery to citizens and businesses

The national e-portal for services was upgraded to create a more **user-friendly administration**. The portal aims to serve as a single digital contact point with the state administration, enabling equal access for all. More commitment by all state institutions is needed to exploit the full potential of the e-portal. The population register became operational, serving as a basic source of information about the interaction of both state institutions and the public with the administration. The COVID-19 crisis has proved the importance of digitalising the public administration and strengthening the provision of online services to citizens and businesses through the e-portal. A Law on Electronic Management and Electronic Services was adopted in May 2019. Quality management tools, such as standards for services and guidelines for optimising services, were introduced. The interoperability framework increased in scope, but political will and funding are needed for it to reach its full potential.

Simplifying administrative procedures has been difficult and the Law on General Administrative Procedures is not yet systematically implemented across the administration. The government adopted a decree-law allowing for some legal deadlines set in the Law to be extended during the state of emergency resulting from the COVID-19 outbreak. Further training and awareness-raising are needed to ensure legal certainty for citizens and businesses.

2.2 Rule of law and fundamental rights

2.2.1 Chapter 23: Judiciary and fundamental rights

The EU's founding values include the rule of law and respect for human rights. An effective (independent, quality and efficient) judicial system and an effective fight against corruption are of paramount importance, as is the respect for fundamental rights in law and in practice.

The country **has some level of preparation / is moderately prepared** to apply the EU *acquis* and European standards in this area. Overall, **good progress** has been made, including through strengthened judicial independence and addressing instances of police impunity. New reforms have been adopted, including the Law on the Public Prosecutor's Office, ensuring accountability for the crimes arising from and surrounding the illegal wiretaps. The implementation of previously adopted measures under the judicial strategy is under way. The State Commission for Prevention of Corruption has used its reinforced powers and continued to deliver results, including on high-level cases. Corruption is prevalent in many areas and remains an issue of concern. There was limited progress on fundamental rights. As regards the legal and policy framework, following its repeal by the Constitutional Court, the priority for the new legislature will be to re-adopt the Law on Prevention and Protection against Discrimination and establish the Commission for Prevention and Protection against Discrimination. The Ombudsman's Office has additional staff and funding to exercise its role. Sustained efforts are needed to further improve the human rights situation in practice. It is essential to complete the appointment of members of independent and regulatory bodies based on merit. The functional independence of these bodies must be guaranteed at all times, including through appropriate allocation of funds.

Functioning of the judiciary

The judicial system of North Macedonia has **some level of preparation/is moderately prepared**. There was **good progress** in the implementation of the judicial reform strategy, thereby addressing the 'Urgent Reform Priorities' and recommendations from the Venice Commission and the Senior Experts' Group on systemic Rule of Law issues. Efforts are still

needed to ensure systematic implementation of the updated action plan of the judicial reform strategy. Judicial institutions are implementing new rules for appointment, promotion, discipline and dismissal of judges and the Judicial Council has been exercising its role more pro-actively. As a result of its reform efforts in recent years, North Macedonia has established mechanisms to ensure judicial independence and accountability, such as rules on merit-based appointments, checking assets and conflicts of interest and disciplinary procedures. It should ensure their determined and consistent use before envisaging further changes in this area. The Law on the Public Prosecutor's Office entered into force in June 2020. The purpose of the law is *inter alia* to ensure a sustainable solution for the cases of the Special Prosecutor's Office and to establish accountability for the crimes arising from and surrounding the illegal wiretaps. The revised Law on the Council of Public Prosecutors was also adopted. Effective implementation of the legal framework as well as increased efforts by all stakeholders to demonstrate their exemplarity will contribute to increasing public trust in the judiciary.

In the coming year, the country should, in particular:

- continue the consistent implementation of the judicial reform strategy and the updated action plan in an inclusive manner, and demonstrate firm commitment to the independence of the judicial system, shielding it from any risk of political interference, including by using available mechanisms to verify the professionalism and integrity of judges and prosecutors;
- finalise and start implementing the human resources strategies for the judiciary and prosecution, and improve the automated court case management information system (ACCMIS) to ensure that it is fully functional and reliable;
- continue implementing the new legal framework related to reform of the Judicial Council and the Council of Public Prosecutors and the new law on the Public Prosecutor's Office.

Strategic documents

Implementation of the **Strategy on Judicial Reform** (2017-2022) continued. Importantly, the Law on the Public Prosecutors' Office and the amendments to the Law on the Council of Public Prosecutors entered into force. However, there were delays in the adoption of some legislative measures. To address this and ensure effective implementation, an update to the Action Plan was approved in October 2019. Efforts to implement the latter should be stepped up. The Council for Monitoring the Implementation of the Judicial Reform was not able to meet due to the COVID-19 crisis and has yet to adopt the second annual implementation report.

Management bodies

The Parliament elected three new members of the **Judicial Council**, in line with the Law on Judicial Council and meeting the requirement of equitable representation. Another member was elected by judges. In December 2019, the Judicial Council took further steps to ensure its effective functioning by adopting rules of procedure and other implementing legislation. The Council has demonstrated an increasingly proactive attitude in delivering on its mandate as guardian of the independence and impartiality of judges. The President of the Council was the main contact point with the media and the public was regularly informed on the ongoing work via press releases.

Six members of the **Council of Public Prosecutors** were elected, one by the Parliament and one each by the prosecutors from the Higher Public Prosecutor's Office of Štip, Skopje, Bitola and Gostivar areas, as well as from among the prosecutors from non-majority communities. The amendments to the Law on the Council of Public Prosecutors adopted in

February 2020 provide for strengthened competences, streamlined procedures for appointment and promotion, accountability of its members and procedures for their recusal, introduce competences with regard to disciplinary proceedings against public prosecutors, and provide for financial independence of the Council. The Council, in line with the amended law, needs to provide reasoning of its decisions on appointments. In order to enforce the new measures, the Council needs to adopt a rulebook on the procedure for establishing liability of public prosecutors. A positive step is the publication of agendas for sessions and Council decisions on its website. The Council still lacks the human and financial resources necessary to perform its tasks effectively.

Independence and impartiality

The Constitution guarantees judicial independence. Implementation of measures under the judicial reform strategy is ongoing and have contributed to improving the independence of the judiciary but some of the reforms have yet to bear all their fruits. Full implementation of the principles of independence and transparency needs to continue notably to curb any criticism of the judicial system succumbing to the executive, including by ensuring appointments are fully based on merit and competence. It remains essential to ensure the judiciary is shielded from any risk or perception of political interference. The Judicial Council has played an active role by stepping up its efforts to protect judges' independence and to strengthen the sector's resilience against potential external or internal pressure, for instance by publicly condemning derogatory statements or threats in two cases. The Association of Judges has also been active in this regard. The Association continued to actively support reforms.

The Chief Special Prosecutor's mandate expired in September 2019 and cases were transferred to the State Public Prosecutor. After her arrest in August 2019, the Chief Special Prosecutor resigned in September and was subsequently formally dismissed by Parliament. She was indicted for accepting bribes and misuse of office in October in the so called 'racket case' concerning alleged extortion and abuse of office in relation to a case of the Special Prosecutor's Office. In a significant development, she was convicted in first instance to seven years' imprisonment in June 2020. Efforts need to continue to put an end to corruption at all levels. In establishing accountability, the manner in which the SPO trial cases are handled and ultimately closed will be an important signal to restore trust in the system and end impunity. The prosecutors from the Special Prosecutor's Office formally returned to their original Public Prosecution Offices and continued to be in charge of their cases. Due to the inconsistency of proceedings during the transition period, some cases reached the statute of limitations and some trials had to restart. Following intensive discussions, a new Law on the Public Prosecutor's Office was adopted in February 2020, ensuring sustainability of the SPO's work and accountability for the crimes arising from and surrounding the wiretaps. The law aims to provide a basis for a professional and impartial prosecutorial system, which is more resilient to political and other pressures, but a lot will depend on proper implementation.

On court case management, the inspections of the **automated court case management information system** (ACCMIS) continue and have yielded initial results. In August 2020, the former president of the Skopje Criminal Court was sentenced at first instance to 3.5 years in prison for manipulation of ACCMIS. Deficiencies identified previously in the system, such as reliability of statistics, remain to be addressed. The Law on court case management was adopted by Parliament in February 2020, providing safeguards to ensure a smooth functioning of the system, including by mandatory use of ACCMIS in assigning and managing the flow of cases. Continued commitment is needed to ensure the system's capacity

to produce automatically reliable statistical data (in line with the recommendations and methodology of the CEPEJ) about the performance of both judiciary and prosecution.

Accountability

The Judicial Council lifted the immunity of one of its members who is the main suspect in a case concerning the illegal privatisation of construction land, but did not allow for his detention, and of one judge. A new Council for Judicial Ethics was established under the new Code of Ethics and met for the first time in February 2020. Breaching of the Code of Ethics is not listed as a ground for disciplinary procedure in the law. In 2019, the Academy for Judges and Prosecutors organised 11 training sessions on ethics, ethical behaviour, and anti-corruption measures for 200 professionals in the judiciary.

The Judicial Council received 107 requests for determining the responsibility of a judge/president of court in 2019, filed mainly by parties in court cases. It dismissed the President and two judges of the Supreme Court, as well as 3 other judges, including the former President of the Basic Criminal Court in Skopje for tampering with the case management system. Demonstrating accountability for wrongful acts will help foster a culture of independence, and impartiality in the judiciary.

Professionalism and competence

In line with the new legal framework, the Judicial Council changed the system of **appointment and promotion** and has yet to approve qualitative criteria in the **professional evaluation** of judges. In the reporting period, the Judicial Council appointed 28 judges and 16 Presidents of courts, and allowed 32 retired judges to perform their tasks for an additional year. The Council of Public Prosecutors appointed 18 graduates from the Academy for Training for Judges and Prosecutors to serve as prosecutors in Basic Public Prosecutors Offices, appointed heads of four Basic Public Prosecutor's Offices and allowed 12 retired prosecutors to perform their tasks due to staff shortages. The two Councils appointed 31 out of 37 graduates of the 6th generation at the Academy for Judges and Prosecutors. The appointment process was completed in line with the new requirements of the Law on the Judicial Council, whereas the new legal framework for the Council of Public Prosecutors entered into force in June 2020 and implementing legislation is being prepared. No complaints or appeals on these appointments were lodged. Both Councils improved transparency, procedures, and respected the principle of meritocracy in appointments and promotions. The Academy for Judges and Prosecutors organised a total of 253 in-service training sessions for 5,661 professionals.

Quality of justice

The Academy for Judges and Prosecutors continued to improve its operation, by strengthening its curricula for basic and continuous training. The draft Law on the **Academy for Judges and Prosecutors**, which incorporates several key recommendations from a peer review mission on judicial training and reaffirms the Academy as the sole point of entry to the judiciary, is due to be adopted by the new composition of the Parliament. The Academy is an observer to the European Judicial Training Network (EJTN) but is not proactively benefiting from the expertise of the network. The post of Deputy Director remains vacant since the establishment of the Academy in 2006. The initial programme for 60 candidates of the 7th generation – a significant increase in numbers – will start in autumn 2020. It is essential to further consolidate the Academy, including by guaranteeing adequate human resources as well as appropriate office and training space.

The Supreme Court, in cooperation with four Courts of Appeal stepped up its efforts to improve the **consistency of judgments** and to harmonise court practice. Some courts

improved their consistency in uploading judgments onto the central database, allowing for greater online access to jurisprudence. It is essential that this is done in a systematic manner.

The allocations of the 2020 **state budget** saw an increase of approximately 6% for the courts and a decrease of 15% for the Public Prosecution Office. According to CEPEJ data, the budget expenditure for courts and prosecution offices remains lower than the Western Balkan average, at EUR 21 per inhabitant while the Western Balkan average for the judicial system (courts, prosecution services and legal aid) is EUR 41.4. There are respectively 496 professional judges in the country (23.88 per 100 000 inhabitants), 198 men and 298 women and 190 prosecutors (9.15 per 100 000 inhabitants), with 89 men and 101 women. A total of five new members of staff were hired in courts and 106 under temporary contracts, and 37 in the Public Prosecutors' Offices. It remains essential to ensure an adequate assessment of the needs, notably in the prosecution service and evidence-based human resource strategies, currently under preparation, should be adopted. It is equally important to ensure adequate staffing, including expert associates, and the provision of funds to renew and properly maintain the IT infrastructure in the judiciary. The implementation of the IT strategy for the justice sector is heavily dependent upon foreign assistance and funding. Three new IT staff were recruited in the Public Prosecutor's Offices but none in the courts. The recruitment of IT staff is difficult due to uncompetitive salaries.

Efforts are needed to further promote the use of **alternative dispute resolution**, including through the relevant chambers. The number of mediation cases has decreased over recent years, notably as regards labour disputes.

Efficiency

Nearly all courts continued a positive trend by maintaining a **clearance rate** of 100% or higher, with the exception of misdemeanour and second instance administrative cases. Overall, only unfinished cases under the old procedural laws suffer from protracted proceedings, impeding their resolution. In its Opinion on the Law on Use of Languages, the Venice Commission invited the legislator to re-examine the law and to take into account, in consultation with all parties concerned, its recommendations, including on provisions related to bilingualism in judicial proceedings.

The average salaries of judges and prosecutors are slightly below the Western Balkan average. Judges are yet to receive all supplements to their salaries related to complexity and sensitivity of cases they handled. The claims in the judicial administration, including for career advancement, are pending. The delayed preparation of comprehensive human resources strategies for the judiciary and public prosecution is negatively affecting proper planning and allocation of human and budgetary resources, including the revision of court and Public Prosecutor's Office networks in the country.

Bailiffs reacted to the reduced tariffs for their services by organising public protests and threatening to leave the profession. The overall cost and duration of **enforcement** procedures should be addressed in all layers of the enforcement chain, not solely at the bailiffs' level. The mandatory presence of an attorney, including for payment orders procedures and for inheritance cases, is restricting or impeding access to justice for the poorest citizens. In May 2020, the Constitutional Court annulled the article in the Law on enforcement on payment of interest rate from the debtor's account. The Ministry of Justice started to publish its annual plan for regular inspections of enforcement agents as well as the final decisions of the disciplinary committee of the Chamber of private enforcement officers on its website, to increase transparency. However, the monitoring with specific indicators should be further enhanced.

Following the outbreak of COVID-19, the government adopted a decree suspending all deadlines for initiating and ongoing criminal, civil and non-contentious court cases, administrative disputes, misdemeanours, and proposals for enforcement or securing of claims until the end of the state of emergency. Exceptions were made for cases close to reaching statute of limitations. Based on this decree, courts published lists of urgent cases which were set to continue, including ones involving detention. Courts also implemented preventive health measures and introduced hearings via online communication tools, whenever possible. Following the decree and instructions from the Judicial Council, a majority of the courts adopted internal acts to regulate their work but there is an absence of clear and precise regulation. The Judicial Council instructed the courts to prioritise cases dealing with domestic violence. A majority of the judges donated 20% of their April and May salaries to the fund for fighting against COVID-19. In June, courts started to gradually resume their regular functions. Among the lessons learned from the crisis, it appears necessary to have measures in place for the organisation and work of courts, as well as for communication of the judiciary with the wider public during states of emergency. Additionally, IT connections need to be prioritised, including full digitalisation of cases and summoning, ensuring training for judges and judicial staff.

Fight against corruption

North Macedonia has **some level of preparation/is moderately prepared** in the prevention and fight against corruption. **Good progress** has been made as the country consolidated its track record on investigating, prosecuting and trying high level corruption cases. The State Commission for Prevention of Corruption has been particularly pro-active in preventing corruption and opened a high number of cases, including those involving high-level officials from across the political spectrum, in line with last year's recommendation. Efforts continued to move forward with the Special Prosecutor's Office cases, thereby establishing accountability for the illegal wiretaps. The so called 'racket' case has raised serious concerns. The former Chief Special Prosecutor was convicted in June 2020 in the first instance verdict. After expiry of the mandate of the prosecutors of the Special Prosecutor's Office, cases were transferred.

In the coming year, the country should, in particular:

- implement the new legislation transferring some of the prerogatives of the former Special Prosecutor's Office to the Office of the Public Prosecutor for Prosecuting Organised Crime and Corruption and regulating the status of the wiretaps so that accountability for the crimes arising from and surrounding the wiretaps continues;
- increase the track record of final convictions in high-level corruption cases including by further confiscating criminal assets;
- demonstrate political will to fight corruption by supporting relevant bodies with further financial and human resources and by providing clear policy guidance to all state institutions on how to tackle corruption in line with the State Commission for Prevention of Corruption's recommendations.

Track record

The State Commission for Prevention of Corruption (SCPC) has been pro-active in preventing corruption and opened a high number of cases. Progress in investigating, prosecuting and trying corruption cases has continued, including targeting high level officials. There were some new high level corruption cases. After the expiry of their mandate, the prosecutors of the Special Prosecutor's Office (SPO) were transferred back to their Public

Prosecutor's Office of origin. They retained competence over their SPO cases. Since autumn 2019, a total of 25 cases involving 178 persons were transferred from the Special Prosecutor's Office to the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption. Most of them concern abuse of office or position, falsification or forgery of documents, embezzlement, money laundering and fraud. There were **final convictions** in three cases against four defendants. A former Minister of the Interior was sentenced to six years imprisonment. In the second case, the court found a businessman and one of his associates guilty of forging documentation for winning a tender from the state-owned electricity generation company. The legal entities involved in the case were also found guilty. The asset confiscation verdict was confirmed on appeal. In the third case, the accused received a suspended sentence of six months' imprisonment with two years' probation. Trials are ongoing in 10 cases, with several dozen hearings throughout the year. Due to inconsistency of proceedings, some cases reached the statute of limitations while others were forced to restart.

The **Public Prosecutor for Prosecuting Organised Crime and Corruption** has opened ten new investigations involving 55 individuals and one legal entity in high-level cases (compared to five cases involving seven suspects in 2018)). In total, there are **six ongoing cases involving 38 individuals and one legal entity**. Some cases involve high-level officials such as the former Chief Special Prosecutor who was convicted in first instance to seven years imprisonment. The court issued first instance judgments against seven of the accused. The trend of investigating and prosecuting high-level cases needs to continue.

Regarding investigations of **other officials** such as administrative Directors, the Public Prosecutor for Prosecuting Organised Crime and Corruption ordered 24 new investigations involving 78 suspects. In 11 cases involving 41 individuals, investigations were closed (half of the cases initiated in 2017).

In 2019, the State Commission for Prevention of Corruption received 7275 declarations of assets. As regards conflict of interest, the State Commission may initiate a procedure for determining the facts ex officio, or at the request of a third party. From February 2019 until 31 March 2020, the State Commission opened investigations over allegations of nepotism in the public administration in 82 cases. It closed 40 cases because no conflict of interest was determined or because the conflict of interest was removed. In two cases, the cases were transferred to the Public Prosecutor's Office. In 16 cases, the competent institutions were requested to act on the State Commission's recommendations and in 11 cases, the procedure is still ongoing. Due to some legal requirements and deadlines (e.g. to obtain information from other bodies), not all cases could be resolved yet. In addition, the State Commission received requests for opinions from officials themselves or institutions on whether or not there is a potential conflict of interest. There are 213 requests still pending while 84 are closed. In 2019, the department for internal control criminal investigations and professional standards brought charges against six law enforcement officers for allegations of corruption. All are under investigation.

In 2018, the Council of Europe Group of States against Corruption (GRECO) had concluded in its compliance report on the ethics and integrity of parliamentary members, judges and prosecutors, that out of 19 recommendations, six were satisfactorily implemented, eight were partially implemented and five were not implemented. The recommendations which were fully implemented concerned mainly the judiciary and legal amendments adopted in the Law on judicial council and the Law on courts. Those recommendations which were not implemented concerned mainly prevention of conflict of interest, contacts with lobbyists, and sanctions for misconducts. In 2019, the country has undertaken key reforms further

addressing those recommendations by revising the legal framework for prevention of corruption and conflict of interest and appointing a new State Commission for Prevention of Corruption vested with additional powers. As regards ethics, progress was made with the adoption of a new Code of Ethics for Judges and Lay Judges as well as guidelines for its implementation, and adoption of amendments to the Code of Ethics for Public Prosecutors. Along the recommendations of GRECO on prevention of corruption and promotion of integrity at the central government and the law enforcement agencies, the government adopted a new Code of Ethics for members of the government and holders of public functions appointed by the government.

Institutional framework

Prevention measures

A new State Commission for Prevention of Corruption was appointed in February 2019. In accordance with the new law, selection criteria for all members are stricter and require increased experience and a proven track record in the detection and prevention of corruption. The Commission is vested with additional powers that reinforce its capacity to verify statements of interest and assets and reinforce its authority. The State Commission for Prevention of Corruption has announced its intention to look into allegations of misuse of authority and funds during the COVID-19 crisis, including in the area of public procurement. The work of the State Commission in this respect is important to maintain the trust of the citizens in the institutions. The Commission has the right to initiate misdemeanour procedures. Its budget has steadily increased. The State Commission deserves to be further consolidated and continue to be supported with an appropriate methodology and resources.

There are several codes of ethics in place in various state institutions. Efforts continue to improve transparency of public institutions. However, they need to be complemented by an effective and timely control mechanism for public procurement, concessions, public-private partnerships and execution of public contracts. There is a need to be able to apply administrative penalties to contracting authorities in case of breach of the procurement law.

The State Audit Office's IT needs to be connected with other relevant institutions.

Law enforcement

The main institutions dealing with law enforcement are the Department for Serious and Organised Crime within the Ministry of the Interior and a specialised Public Prosecutor's Office for Prosecuting Organised Crime and Corruption within the Public Prosecutor's Office. The newly established investigative centre/judicial police in the Prosecutor's office must demonstrate its capacity to support the office in stepping up its investigations. It also needs to improve a comprehensive strategic approach to fight corruption. A new law on the Public Prosecutor's Office has been adopted to enable the Public Prosecutor for Organised Crime and Corruption to inherit some of the prerogatives of the Special Prosecutor's Office thus ensuring long-term accountability for the crimes arising from and surrounding the illegal wiretaps.

The Public Prosecutor's Office must demonstrate its capacity to be proactive in pursuing cases referred by the State Commission for Prevention of Corruption, the State Audit Office and other institutions.

The electronic case management system at the Public Prosecutor's Office is in place but must become more efficient. In addition to the positive trend of adopting temporary measures for freezing bank accounts and property, the seizure and confiscation of criminal assets need to be increased.

Legal framework

North Macedonia is party to all international anti-corruption conventions, including the United Nations Convention against Corruption. The 2018 Law on Prevention of Corruption and Conflict of Interests has increased the powers of the State Commission for Prevention of Corruption.

The Law on the **Financing of Political Parties** stipulates the manner and procedure for providing financial means to political parties and ensure their management. Rules on the financing of pre-electoral campaigns are set out in the Electoral Code. The State Audit Office exercises ex-post control. In 2019, the audit of regular operations of five political parties was initiated. The State Audit Office is also currently conducting an audit of electoral campaign expenses of candidates for the 2019 presidential elections. In the course of 2018 and 2019, 21 final audit reports were submitted to the Public Prosecutor's Office and two were submitted to the State Commission for Prevention of Corruption on suspicion of a misdemeanor offence. The State Commission can carry out inspections on party financing.

The **law on free access to public information** can be utilised to obtain information on public financing of political parties.

The **Law on lobbying** adopted in 2008 regulates lobbying activities, the registration of lobbyists and includes a supervision mechanism. Its implementation needs to be stepped up. The country needs to regulate rules of engagement between members of Parliament and lobbyists as recommended by GRECO.

The Law on the Protection of **Whistle-blowers** requires further alignment with the new EU *acquis*.

Strategic framework

The State Programme for Prevention and Repression of Corruption and Reduction of Conflict of Interests, with a multiannual action plan (2016-2019), is the fifth strategic document. The SCPC has adopted a new national strategy for 2020-2024 with an analysis of the sectors with the highest risks for corruption and prioritisation of these sectors for future action. The strategy was drafted in an inclusive process, involving relevant stakeholders and experts. It needs to be adopted by the Parliament.

Fundamental rights

The legal framework on the protection of fundamental rights is largely in line with European standards. The deinstitutionalisation process is under way and resettlement of children to community based care is being carried out. The Ministry of Labour and Social Policy is investing in community services, including to support victims of gender-based violence. It is essential that these services continue to be made available. Additional efforts are needed to address recommendations of European and international human rights bodies, particularly regarding the treatment of detained and convicted persons. The Constitutional Court's decision to repeal the Law on Prevention and Protection against Discrimination on procedural grounds means that the country currently lacks a comprehensive legal framework on non-discrimination and an equality body. This serious gap needs to be addressed by the new legislature. It is also important for the country to enhance implementation of the legislation on hate speech and of the national action plan for implementation of the Istanbul Convention. While the set-up of the external oversight mechanism of the police is complete, the absence of genuinely independent investigators may impede the work of the unit to effectively address police impunity. The country should take urgent measures to further improve the situation in prisons and to support alternatives to detention.

In the coming year, the country should, in particular:

- swiftly re-adopt the Law on the Prevention and Protection against Discrimination, ensuring it is in line with the EU *acquis* and European standards on non-discrimination and that provisions of the previously adopted law, including the list of protected grounds, be preserved, and establish the Commission for Prevention and Protection against Discrimination;
- accelerate efforts to address recommendations of international monitoring bodies, notably with regard to the rights of persons in detention/prison; promote, protect and guarantee rights of persons with disabilities, children, and women;
- improve community services to identify children at risk and to support children victims of violence, Roma⁸ children and adults, and children with disabilities, including by improving inter-agency cooperation.

North Macedonia has ratified most **international human rights instruments**. In January 2020, the country acceded to the 1961 UN Convention on the Reduction of Statelessness. The country needs to make additional efforts to ensure recommendations of international monitoring bodies are addressed. In April 2020, following the declaration of the state of emergency in the context of the COVID-19 crisis, the country informed the Council of Europe that, pursuant to article 15 of the European Convention on Human rights, it would exercise its right to derogate from its obligations under the Convention, thereby suspending or restricting certain human rights and fundamental freedoms guaranteed under the Constitution. In order to curb the spread of the disease, the government introduced measures restricting freedom of movement and assembly. Control mechanisms have been activated. The Constitutional Court has a mandate to review any decree adopted by the government and it has been actively performing its prerogatives.

In 2019, the **European Court for Human Rights** found violations of the European Convention on Human Rights in 9 out of 12 cases, relating mainly to right to a fair trial and property rights. In 2019, new applications allocated to a decision-making decreased further to 262, from 305 the previous year. At the end of 2019, there were 345 cases pending before the Court. The country reduced the number of judgements still to be executed to 36, of which five are under enhanced supervision. The Council of Europe Committee of Ministers' Deputies closed its examination of the execution of the judgment in the *El Masri* case.

The **promotion and enforcement of human rights** continued to be strengthened with a new competence granted to the Ombudsman who, in December 2019, became the National Rapporteur on Human Trafficking and Illegal Migration. The Parliament appointed three new Deputy Ombudspersons. The Office's budget was increased by 19% compared to 2018, and an additional 8 staff were recruited. Out of 3,453 complaints received in 2019, the highest number concerned the judiciary (notably bailiffs) followed by consumer rights, labour relations, penitentiary institutions and children's rights. The highest number of violations was confirmed in the judiciary, followed by children's rights, finances, health protection and consumer rights. The authorities need to improve their responsiveness to the Ombudsman's recommendations.

As regards the **prevention of torture and ill-treatment**, the government continued to report to the European Committee for the Prevention of Torture (CPT) every quarter on its action plan to address the Committee's recommendations. However, despite high-level commitment

⁸ In line with the terminology of European institutions the umbrella term 'Roma' is used here to refer to a number of different groups without denying the specificities of these groups.

and regular dialogue, many of the outstanding recommendations from previous CPT reports have yet to be implemented. Progress on the ground is very slow, in particular as regards the detention conditions in some prison sections and the dysfunctional healthcare system. It is imperative that the authorities turn commitments into real change. All outstanding and future recommendations of the CPT need to be thoroughly addressed. Training sessions on human rights for prison staff were organised throughout 2019 and new staff members were trained on the Code of Conduct for Prison Staff based on the European Code of Ethics for Prison Staff, and on the proper conditions for and methods of coercion. However, the Prison Training Centre in Idrizovo still lacks a structured training curriculum for initial and continuous professional trainings.

The external oversight mechanism for the police, including prison police, is in place. The mechanism for civil control has been established in the Ombudsman's Office and became operational in July 2019. Three civil society members were selected for the civil control mechanism in December 2019. Despite the lack of fully independent investigators assigned within the dedicated section in the Public Prosecutors' Office for the Prosecution of Organised Crime and Corruption, the system is functional. There were 248 cases against 446 persons with police powers or members of the prison police submitted to this section upon suspicion of criminal offence. As a result of investigations, six police officers have been put in custody and 18 have been indicted. There were first-instance verdicts against seven of them, including four imprisonment sentences. Two police officers were handed one-year prison sentences in first instance, one police officer was handed 26 months' imprisonment, one police officer a five-month prison sentence and three police officers were handed 2-years suspended sentences.

Systematic implementation of safeguards against ill-treatment by police needs to be ensured, in line with the Standard Operating Procedures for the Detention of Persons Deprived of their Liberty. In 2019, 62 complaints were filed with the Directorate for Execution of Sanctions, including three complaints for ill-treatment. In these cases, extraordinary oversight was organised, which confirmed the indications of abuse in one case, but the disciplinary committee rejected the disciplinary procedures, finding no grounds for responsibility of the prison police officers. The Ombudsman's Office received 12 complaints for torture or ill-treatment in prisons and five complaints against the police on similar grounds. The Department for Internal Control and Professional Standards at the Ministry of the Interior handled 65 complaints on the use of physical force by police officers in 2019, out of which 26 were found to be ungrounded and 38 had no evidence. In one case, criminal charges for severe bodily injury and an initiative for a disciplinary decision were filed against one police officer, but the case was dismissed. The Department has submitted 97 notifications to the Section for the investigation and prosecution of criminal acts committed by individuals with police authority. The Department has filed seven criminal charges against ten police officers for nine criminal acts, including for five crimes of abuse of official position and authority, one crime of severe bodily injury and one crime of torture or other inhuman or degrading treatment or punishment. The external oversight mechanism for the work of the police, including the prison police, has raised citizens' expectations, and more cases have been reported directly to the Public Prosecution Office.

Work to improve conditions in detention facilities is progressing unevenly. It is essential to urgently address the poor conditions persistent in some prisons, police stations, social care facilities and psychiatric institutions. The Ombudsman has reported allocation of adequate resources for the activities of the National Preventive Mechanism against Torture and the civil control mechanism in 2019, while visits to places of deprivation of liberty were suspended during the COVID-19 outbreak. In March 2020, the National Preventive

Mechanism issued recommendations for the treatment of persons deprived of their liberty under the circumstances of the COVID-19 pandemic and reiterated the absolute prohibition of torture and ill-treatment, even in cases of emergency.

While construction and refurbishment in the **prison system** continues, conditions in the closed section and ‘ambulanta’ of the Idrizovo Penitentiary-Correctional Facility remain inhumane. The authorities should urgently transfer convicts out of the most derelict buildings and accelerate the rehabilitation of unsuitable facilities. The new Law on the execution of sanctions entered into force in May 2019, with legal improvements to strengthen the system of management and supervision of prisons. Despite the implementation of the 2017 corruption mitigation plan, regular supervision is essential to curb the persistent issue of corruption in prisons. The strategy for the development of the penitentiary system continued to be implemented, yet preparations for releasing convicted persons back into the community remains insufficient. Despite recruiting new prison officers, the penitentiary sector remains understaffed and underfunded. The payment of health insurance for convicted people to the Health Insurance Fund started in June 2019. However, healthcare in prisons remains an issue of serious concern, including with regard to juveniles and to treatment of drug addictions.

Training for the probation officers and activities to develop the probation system increased in 2019. Throughout 2019, 165 probation cases were recorded, most of which were for supervision of convicted persons conditionally released from prison and for cases of suspended sentences with protected supervision. A further 34 cases were recorded in 2020. Cooperation between the public and private sector and civil society exists and it should be further developed. There has been progress in interagency cooperation. However, coordination between probation officers, judges, public prosecutors, prison staff and other institutions before the release of a convicted person should also be reinforced. The emphasis should remain on developing alternatives to detention in order to avoid overcrowding and to improve the resocialisation and rehabilitation of convicts with the aim of decreasing instances of re-offending. The level of purposeful activities (educational, recreational, vocational) on offer is insufficient for sentenced and inexistent for remand prisoners. Educational and resocialisation services, as well as treatment programmes, should be reinforced in all penitentiary facilities and especially in educational-correctional facilities.

On the **protection of personal data**, in December 2019, the country signed the 2018 Protocol amending the Convention for the Protection of Individuals with regard to the Automatic Processing of Personal Data of the Council of Europe. A new Law on Personal Data Protection was adopted in February 2020, to align with the General Data Protection Regulation 2016/679, expanding the tasks and powers of the new Personal Data Protection Agency. Thirteen bylaws were adopted in May 2020. There was no concrete progress on alignment with Directive 2016/680 (Law Enforcement Directive).

The Personal Data Protection Agency was consulted on the preparation of the ‘StopKorona’ contact tracing application to ensure its compliance with the new legislation. The Agency has published recommendations for personal data protection in the context of COVID-19 pandemic on its website.

The absence of a director and deputy director has impeded the proper functioning of the Directorate for Personal Data Protection, after the resignation of its Director in May 2019. A new director and deputy director were elected by Parliament at the end of December 2019. In the reporting period, the Directorate received 463 complaints and carried out 213 inspections, both of which are a decrease compared with 2018 due to the absence of a director. All supervisions were suspended in March due to the COVID-19 pandemic. The Agency conducted an ex officio extraordinary inspection to investigate a possible breach of the safety

of personal data processed by the State Election Commission (SEC), following an incident on the SEC website on the 15 July election day. Unplanned inspections upon citizens' requests increased in 2019, including at the Ministry of the Interior, establishing some breaches of personal data protection legislation, which were later corrected. Most complaints concerned allegations of violation of personal data protection rights on social networks, video surveillance in apartment buildings, alleged unlawful direct marketing and processing of personal identification numbers. Thirteen misdemeanour cases for breach of data protection laws were acted upon in the reporting period, eight of which dated from 2018, which resulted in eight misdemeanour fines, which remains low. In the reporting period, the Directorate gave 17 opinions and recommendations to other institutions on harmonising sectoral legislation with the Law on personal data protection. However, these recommendations are not fully implemented by the institutions concerned and not all laws and by-laws regulating personal data processing are submitted to the Directorate before adoption. The Directorate continued to provide training to personal data controllers and processors.

Freedom of thought, conscience and religion continued to be guaranteed and discrimination on grounds of religion prohibited. The country still needs to implement the April 2018 ruling by the European Court of Human Rights on the refusal to renew the registration of the Bektashi Community.

Freedom of expression

The country has **some level of preparation / is moderately prepared** in the area of freedom of expression and has made limited progress during the reporting period. The overall situation and climate in which media operates remain generally conducive to media freedom and allow for critical media reporting, although there have been some increased tensions during the COVID-19 crisis and in the context of the elections. Self-regulation efforts need to be intensified to support advancement in professional standards and the quality of journalism. It is important to ensure greater transparency of media advertising by state institutions, political parties and public enterprises. Sustainable solutions to ensure the public service broadcaster's independence, professional standards and financial sustainability are needed. It is essential to continue supporting media pluralism, promoting professionalism, unbiased reporting and investigative journalism, and building resilience to effectively combat disinformation. The financial sustainability of independent media and working conditions of journalists remain a challenge.

Some of last year's recommendations remain valid. In the coming year, the country should, in particular:

- prioritise the reforms of the public broadcaster, ensuring its financial viability and independence and finalise appointments for the public service broadcaster's programme council and media regulator's council;
- increase efforts to fight disinformation and build up resilience of media outlets;
- ensure the swift and effective follow-up by law enforcement and judicial authorities of all instances of physical and verbal violence against journalists.

The overall situation and political climate in which the media operates remained generally conducive to the promotion of freedom of expression. The government showed a proactive stance in combating disinformation and allocated additional financial support for print media. Authorities also ensured support to media outlets in the context of the COVID-19 pandemic. Challenges remain in the implementation of the Law on Audio and Audiovisual Media

Services. Additional measures are needed to support more overarching media reforms with the engagement of all relevant stakeholders through a genuine consultative process.

Intimidation of journalists

Since January 2019, 10 cases of intimidation of journalists were reported to the Ministry of the Interior, marking an increase from the previous year. In the beginning of 2020, the Association of Journalists registered four new cases of female journalists being insulted and /or threatened. Law enforcement authorities and the Public Prosecutor's Office effectively follow up incidents involving journalists, but further improvements are needed, especially in instances involving politicians. Media associations acknowledge the authorities' commitment to the safety of journalists. Better coordination between different institutions is needed to act faster on reported violations. Politicians and public officials still need to demonstrate a higher level of tolerance towards criticism and promote freedom of expression. Training to improve procedures for police conduct towards journalists was organised as part of the cooperation between media associations and the police. Old cases concerning the most serious physical attacks against journalists (13) have still not been resolved.

Legislative environment

The legislative framework has been subject to frequent amendments which have impacted the legal certainty for media outlets. The Law on Audio and Audiovisual Media Services was last amended in February 2020. Following the request of national TV stations related to respect of intellectual property rights in the transmission of foreign channels, the amendments imposed an obligation for cable operators, in order to register TV channels, to submit *inter alia* a signed statement under moral, material and criminal responsibility. The government adopted several decrees between March and June 2020, in an effort to resolve the dispute between TV channels and cable operators but a sustainable solution has yet to be reached. Appointments of the new members of the public service broadcaster's programme council and media regulator's council were delayed in Parliament, thereby impeding the anticipated positive effects of the reform on their independence. The law provides an option for authorities to limit the allocation of funds to the regulator, the public broadcaster and the public enterprise for broadcasting. The legal framework will need to be further aligned with the EU audiovisual media services directive. The electoral code was amended prior to the 2019 presidential elections, removing the monitoring of online media broadcasting of paid political advertisement by the State Election Commission. It was amended once more in February 2020 as well as through decrees during the state of emergency, prior to the start of the campaign for the 15 July early parliamentary elections. The possibility for political parties to use state funding for political advertising in the media generated concern among media associations about possible influence on media independence. Hate speech is illegal both online and offline but remains prevalent online.

Implementation of legislation/institutions

As part of the media monitoring during the 2019 presidential elections, the Agency for Audio and Audiovisual Media Services initiated four misdemeanour procedures notably for exceeding the limit for paid political advertising, violating election silence and broadcasting paid political advertising in an informative programme. The regulator intensified its engagement with civil society organisations and media outlets on promoting media literacy. It opened an investigation on hidden media ownership and published several reports on the respect for human rights and gender equality in the media. The financial stability and independence of the media regulator need to be further ensured. In 2019, the Council of Media Ethics received 83 complaints for disrespect of ethical standards, notably online

76,5%. The Association of Journalists reported 30 ongoing court cases of insult and defamation involving journalists.

Public service broadcaster

The reform of the public service broadcaster is at an early stage and it needs to be prioritised. According to the Law on Audio and Audiovisual Media Services, the amount of public funding for the public broadcaster is defined as a percentage of the state budget, with a gradual increase over time (up to 0.8% in 2019; up to 0.9% in 2020; 1% as of 2021). Due to the authorities' discretionary rights envisaged by the law, the transfer of funds continued to be executed at a lower percentage (around 0.6%). In spite of this, additional channels were opened in early April 2020. The financial independence and sustainability of the public broadcaster, therefore, remain a question. It is equally important to find solutions for the public service broadcaster's old debts towards state institutions. Additional efforts are required to improve the quality of its reporting and to modernise its working procedures and its technical equipment. The public service broadcaster became a member of the Council of Media Ethics. It is essential to ensure the independence of the public broadcaster. A longer-term strategic reform is under preparation and it needs to be developed in consultation with stakeholders. During the COVID-19 outbreak, the public broadcaster cooperated with relevant institutions to convey timely and accurate information, including through establishing 11 correspondence centres around the country. Programmes destined to children were broadcast on two national channels, as a remedy to the disruption of the educational process.

Economic factors

The media landscape has a high number of media outlets considering the rather small consumer base. The Agency for Audio and Audiovisual Media Services reported that advertising budgets are shrinking. The imbalance between media outlets and available funding raises concerns on the financial viability of media outlets and over media integrity and independence. Given the economic situation, it is important to continue supporting professional and investigative journalism. Greater transparency on media ownership and possible illegal media concentration is needed. The media agency is continuing its efforts in this area. At the local level, efforts are needed to ensure independence of media from political forces.

Government advertising on commercial channels is banned. The possibility for political parties to use state funding for advertisement in the media generated concern among media associations about possible political influence on editorial lines. There are five daily newspapers, including two in Albanian language. The authorities allocated an additional EUR 800,000 to support the print media in 2020. During the COVID-19 pandemic, the authorities introduced several measures supporting the media sector, including both traditional and online media.

Internet

Online media is not regulated by law and diverging opinions continued on the need to regulate the work of the internet media (especially related to disinformation). The establishment of self-regulation mechanism has been proposed. In December 2019, the Association of Journalists and Council of Media Ethics established a registry of online media (promedia.mk) which is voluntary and sets a number of minimum professional requirements. Disinformation, hate speech, disrespect of professional standards and violations of intellectual property rights are frequent in online media. In July 2019, authorities presented an action plan for decisive action against disinformation. It is essential that professionals and

the public at large understand and become resilient against disinformation efforts. Media associations praised the authorities' proactive stance on counteracting 'fake news', but also warned about possible risks of censorship. The editor-in-chief of an online media outlet was handed a six-month suspended sentence for disclosing an official secret. Media associations condemned the procedure whereby three journalists were questioned by the police requesting to disclose their sources and asked authorities to investigate those responsible for the unauthorised audio recordings. The journalists were deprived of a complaints mechanism by the Agency on Free Access to Public Information, due to the Parliament's delay in appointing its Director, which finally happened in December 2019.

Professional organisations and working conditions

Journalists' working conditions, especially their labour and social rights, need to improve significantly, especially at local level. Some dismissals and resignations of journalists and editors-in-chief took place as a consequence of disagreements with media owners. Due to poor labour conditions, journalists and media workers are vulnerable to self-censorship. The independent union of journalists and media workers negotiated and signed a collective union agreement with the state-owned information agency. In consultation with the Independent Trade Union of Journalists, the authorities adopted a decree on subsidising social security contributions for journalists/media workers for a period of three months, requiring as a pre-condition that the media outlets be registered as legal entities, to have transparent ownership and a minimum of three employees.

(See also Chapter 10 - Information society and media)

The right to **freedom of assembly and association** is guaranteed by the Constitution. During 2019 there were no restrictions on the exercise of these rights, including in terms of location. Occasional gatherings were held peacefully to draw attention to various social issues. These gatherings did not give rise to concerns in terms of use of force. On freedom of association, the Law on associations and foundations remains unchanged.

Issues of **labour and trade union rights** are further covered in *Chapter 19 - Social policy and employment*.

Regarding **property rights**, a lack of coordination among relevant institutions, due also to the absence of strategic documents, still causes lengthy and expensive procedures. This leads to delays in updating registers, particularly at municipal level. The Cadastre Office maintained a high rate of over 90% of resolved cases in 2019. Registration of land and properties has been completed and laser scanning has been conducted on the entire territory. The administrations that handle restitution, compensation, and legalisation processes still struggle to manage their caseload. Approximately 6,500 (against 7,000 in 2018) denationalisation cases remain to be resolved.

In May 2020, following the challenge presented by the former Commission for Protection from Discrimination, the Constitutional Court repealed the Law on the Prevention and Protection against Discrimination adopted in 2019. The Court annulled the law for procedural reasons as in the repeated vote in Parliament following the former President of the Republic's veto, the required majority of MPs had not been reached and, as such, the adoption was unconstitutional. Given that the Parliament had been dissolved ahead of the elections and that no new vote could be scheduled, the country thus was left without a comprehensive legal framework on **non-discrimination**. This repeal also annuls the election process of the new anti-discrimination commission which had been seriously delayed and leaves the country without an equality body. It is essential that the Law on the Prevention and Protection against Discrimination is re-adopted by the new legislature. This Law had been deemed in line with

the EU *acquis* and European standards on non-discrimination and its provisions, including the list of protected grounds covering sexual orientation and gender identity, need to be preserved.

Weaknesses in terms of budgetary allocations and implementation of the 2016-2020 national strategy for equality and non-discrimination remain. The Ombudsman's Office received 60 complaints on discrimination and issued 24 opinions. Amendments to the Criminal Code adopted in December 2018 clarified provisions on hate crime and expanded the protected grounds. However, people are still not adequately protected against hate speech and discriminatory speech. Non-systematic collection of data on hate speech remains an issue. The country should make better use of its observer status in the Fundamental Rights Agency in this regard. The increasing trend of hate crime cases, registered in the civil society database, continued in 2019. The Agency for Audio and Audiovisual Media Services continued to react proactively to alleged hate speech and discrimination incidents. The role of the National Non-discrimination Coordination Body in implementing the law has been praised by civil society organisations. The Ministry of Labour and Social Policy has, in cooperation with NGOs, started training state officials on how to tackle discrimination and hate speech.

Some progress was made on **equality between women and men**. The legal framework is largely in line with the EU *acquis* but it still needs upgrading following the ratification of the Istanbul Convention. A Law on prevention and protection against violence against women and domestic violence, drafted in January 2020, was not adopted by the Parliament before its dissolution. North Macedonia published its first Gender Equality Index in October 2019, which indicated improvements regarding equality in decision making. Yet the gender gap in this field making remains significant.

In accordance with UN Resolution 1325 on Women, Peace and Security, a gender perspective was integrated into the strategic documents of the Ministry of Defence and the Army. A National Action Plan has been developed for the first time. Amendments with reference to promotion of gender equality have been included in the Law on Defence and in the Law on Service in the Army in January and February 2020. However, the action plan for implementing the Resolution has not yet been adopted.

The Ministry of Labour and Social Policy has continued to invest in community services to support victims of gender based violence, including by establishing a team of experts available 24 hours a day to act in cases of domestic violence and gender based violence. Domestic violence cases were among the exceptions still being processed by the courts during the state of emergency. Thirteen new services for victims of gender-based violence were established during the reporting period. There are six shelters, three in Skopje and three in the Pelagonia, Vardar and East Region, leaving four regions without access to such services. The shelters still do not meet the minimum standards of the Istanbul Convention and most are not accessible for women with disabilities. Systematic data gathering on gender-based violence is lacking. The action plan for the Istanbul Convention lacks specific funding for its effective implementation. The implementation of the Law on Termination of Pregnancy requires access to medical procedures, contraception and information on sexual and reproductive health throughout the country. Gender stereotyping persists, as do attacks on women. Women in public life are susceptible to particularly vicious attacks through social media.

The legal framework for the **rights of the child** largely complies with international standards. The Law on child protection was amended in May 2019, further strengthening the social protection of children. The UN Committee on the Rights of the Child recommends

implementing the current legal framework rather than reforming it. Mechanisms to address structural barriers are insufficient, and challenges persist, such as a lack of investment, an ineffective use of available resources, a lack of staff and insufficient inter-sectoral coordination. There is also a need to improve transparency, accountability and planning. A national strategy to promote and protect children's rights needs to be prepared, accompanied by an appropriate budget, and the identification of sectoral models that will provide effective services for children, including at local level.

The statutory body responsible for overseeing the implementation of the Convention on the Rights of the Child is no longer operating. In December 2019, the government signed the 1996 Convention on Child Protection, the 2005 Convention on Choice of Court Agreements, the 2007 Convention on Child Support and Family Maintenance as well as its Protocol on the Law Applicable to Maintenance Obligations. The government also signed the pledge to join the Global Partnership to End Violence Against Children. A national strategy to end violence against children (2020 – 2025) was developed, including an action plan for 2020-2022.

Data collection on the incidence, prevalence and typology of violence involving children, as well as baseline data on child protection issues, is limited. Data on vulnerable groups such as children with disabilities or children from the Roma community need to be further improved to allow for solid policy analysis. Further efforts are needed in raising awareness on violence against children and increasing the professionals' capacity to identify and report violence against children. Stakeholders should make the best interest of the child their guiding principle.

With emergence of the COVID-19 crisis, the Ministry of Labour and Social Policy released from work duties one parent of children aged 10 years or below. The Ministry also distributed personal hygiene parcels to the most vulnerable families and provided online psychosocial support to children with disabilities.

The deinstitutionalisation process is under way and conditions for children settled into community based care homes are generally satisfactory. This process has led to the closure of three residential institutions. Ensuring quality of service delivery through effective monitoring is essential. Additional community services are needed to identify children at risk and to support Roma children and children with disabilities who are victims of discrimination and segregation.

The National unit for the suppression of human trafficking and migrant smuggling identified six victims of trafficking in human beings in 2019, four of whom were children who were trafficked victims for forced marriage, sexual and labour exploitation. The Ombudsman's Office registered a significant increase in the number of complaints of violations of child rights. The Office confirmed 139 violations of childrens' rights in 2019.

The application of the Law on juvenile justice needs to be improved, particularly the rules on access to justice, legal representation and the capacity of public officials involved in the handling of children victims, children witnesses and children in conflict with the law. There were no improvements in the material conditions and availability of education and resocialisation activities for detained children. The juvenile educational-correctional facility near Tetovo is still not open resulting in juvenile detention in the adult prison in Ohrid under inadequate conditions and ill-treatment. The role of the State Council for the Prevention of Juvenile Delinquency should be strengthened, as should the capacity of the local councils.

There was some progress in improving the **rights of persons with disabilities**. The national coordination body for implementing the UN Convention on the Rights of Persons with Disabilities meets regularly and is guided by the national action plan on the Convention. The

national monitoring body for the UN Convention began its work in 2019 with some delay, but it does not systematically communicate and engage with organisations supporting persons with disabilities. The new Law on social protection and the new Law on protection of patients' rights adopted in 2019 recognise disability as a ground for discrimination and require personal assistance for such persons. The disability allowance has been extended to a wider group of persons with disabilities. The new Law on primary education emphasises inclusive education and transforming special needs schools into resource centres. A lack of resources and inadequate teacher training remain obstacles to inclusive education. In 2019, 87 children were resettled from residential institutions into community-based homes. The moratorium on admitting new residents to the Special Institute of Demir Kapija is still in effect but conditions in this institution remain very poor. Persons with disabilities continue to face considerable discrimination, both direct and indirect, due to infrastructure-related barriers, a lack of information and services, discriminatory attitudes and social exclusion. In 2019, the Ombudsman's Office reported 24 complaints of discrimination against children with disabilities. *(See also Chapter 19 – Social Policy and employment)*

Following the decision of the Constitutional Court repealing the Law on prevention and protection from discrimination, the rights of **lesbian, gay, bisexual, transgender and intersex** (LGBTI) persons are no longer protected in the legal framework. It is essential that the Law, when it is put up for re-adoption in the new Parliament, includes sexual orientation and gender identity as protected grounds. The Ministry of Labour and Social Policy has shown consistent support for LGBTI persons. In June 2019, the authorities enabled the successful organisation of the first Pride Parade in the country (with presence of members of Parliament, government and other officials participating), which took place without incidents and enjoyed wide media coverage. However, an LGBTI activist was attacked on two occasions in 2019 and 2020. Hate speech online was prevalent and derogatory terms for LGBTI persons occasionally crept into the public debate. Investigations of the 2012, 2013 and 2014 attacks on the LGBTI support centre have not progressed. Societal prejudice, hate speech, discrimination and widespread intolerance against LGBTI persons continue to be prevalent. Efforts are needed to increase the capacity of law enforcement officers and legal professionals to prevent and prosecute all instances of violence, hate crimes and hate speech more effectively. The legal framework does not allow for the official recognition of same-sex couples. Transgender persons' access to healthcare remains limited. Little concrete progress was made towards establishing legally regulated gender recognition procedures, following the ECtHR judgment from January 2019.

The only development in **procedural rights** was the enactment of the new Law on legal aid. Primary legal aid is provided by the Ministry of Justice, authorised civil society organisations or legal clinics in the form of counselling, information and assistance with procedures. Secondary legal aid is for civil and administrative procedures, and sometimes for procedures with notaries and bailiffs. The legal framework provides for the presumption of innocence and right to communicate with a lawyer. There have been no developments regarding victims' rights and the Law on compensation of victims of crime has still not been adopted.

On the **protection of minorities**, in December 2019, the Venice Commission issued its Opinion on the Law on the use of languages, in which it invited the authorities to re-examine some provisions of the new law. A new law clarifying the role and mandate of the Agency for Communities Rights Realisation was adopted in Parliament in January 2020. Under the new law, the Agency will have improved competencies to monitor and guide public institutions in upholding their legal obligations towards minorities. The new Ministry of Political System and Inter-Community Relations is responsible for the 'one society for all' strategy adopted in September 2019. The Ministry needs to show that it is actively implementing the strategy and

to cooperate closely with stakeholders to establish social cohesion. However, implementation and monitoring structures for this strategy are still pending and interinstitutional cooperation between relevant stakeholders is weak. In the context of implementation of the strategy, particular attention is needed to ensure the rights of smaller non-majority communities are respected and that their underrepresentation is addressed. The institutions in charge of minority-related policies remain understaffed, insufficiently funded and politically and ethnically divided. Without clear political actions to manage ethnic divides at national and local level, communities will remain divided along ethnic lines. Recommendations by the Advisory Committee of the Framework Convention on National Minorities have still not been addressed sufficiently nor their implementation monitored.

Roma inclusion is receiving increased attention from both the national and the local authorities, though much still needs to be done. Implementation of the Roma inclusion policies is slow and lacking sufficient capacity for implementation, coordination and monitoring. The government has increased funding for Roma integration policies but poor absorption of funds remains a problem.

Roma people have limited economic opportunities and many fail to earn a living. Only 3% of those benefiting from active labor market policies are Roma. The housing situation is dramatic, with a high proportion of Roma living in illegal settlements and/or substandard and unhygienic environments. The Law on persons without regulated civil status, enabling access to mainstream services for the 750 Roma identified to be without an ID document, was adopted but its implementation is hindered. The 1961 UN Convention on Reduction of Statelessness has been ratified, creating prospects for a systemic solution for birth and civil registration of all undocumented persons. The Declaration of Western Balkans Partners on Roma Integration within the EU Enlargement Process (Poznan Declaration) was endorsed by the government, but no steps have been taken to implement it. The 2019 Roma Seminar conclusions are yet to be implemented.

Despite the existence of legal frameworks protecting human rights, Roma are often victims of racism, discrimination and segregation. Systematic measures to address the issue of street children are lacking, and child beggars including young mothers and babies are recorded on the streets. There is no comprehensive approach on Roma asylum seekers and returnees. The Ministries of Health and Education continue to support Roma mediators. Effective actions for capacity building helped Roma NGOs to develop a strong core of well-trained activists ready to handle challenges in their communities. The authorities, in cooperation with donors and civil society, acted during the COVID-19 pandemic to support the most vulnerable, including the Roma. The Roma community is particularly vulnerable in the context of the COVID-19 crisis and it is essential to guarantee full access to health services in order to control the spread of the virus. Overall, many Roma continue to live in poverty, and face unemployment and substandard living conditions. Their access to education, housing, health and employment and justice remains a concern. Roma children are especially at risk, as poverty and discrimination act as further barriers to receiving education.

EU citizens' rights

Since December 2012, North Macedonia has introduced a modification in the law allowing the **acquisition of citizenship for special economic interest**. The migratory and security risks this scheme could pose to the EU are being closely monitored.

2.2.2 Chapter 24: Justice, freedom and security

The EU has common rules for border control, visas, residence and work permits, external migration and asylum. Schengen cooperation entails the lifting of border controls within the

EU. EU Member States also cooperate with North Macedonia in the fight against organised crime and terrorism, and in judicial, police and customs matters and are supported by the EU Justice and Home Affairs Agencies.

North Macedonia is **moderately prepared** to implement the EU *acquis*. **Good progress** was made including in meeting last year's recommendation to effectively implement some of the institutional reforms of the security sector as well as the reform of the intelligence services. The operational capacities of law enforcement agencies also improved. Efforts need to continue in implementing the strategy for Strengthening the Capacities for Conducting Financial Investigations and Confiscation of Property. Migration management efforts continued. The status agreement with the EU for cooperation with the European Border and Coast Guard Agency has not been signed yet. Registration of migrants and protection-sensitive profiling still needs to be carried out in a more systematic manner. Measures to counter violent extremism and fight terrorism need to continue.

In the coming year, the country should, in particular:

- ensure that institutional reforms of the security sector (criminal police, financial units, intelligence services, National Coordination Centre for the Fight against Organised Crime) are translated into a proactive policy of implementing the strategic documents and achieving further tangible results;
- ensure implementation of the priorities of the Joint Action Plan on Counterterrorism and effective performance of the Coordinator's office.

Fight against organised crime

The country has **some level of preparation** in the fight against organised crime. The legislative framework is broadly in line with European standards and efforts to implement strategies against organised crime must continue. **Some progress** was made in meeting last year's recommendation to establish an asset recovery office in line with the EU *acquis*. This office will have to demonstrate its capacity to support a proactive policy of assets confiscation. The country is engaged in participating in threat assessment at the regional level, and will have to broaden its scope in line with the EU practices. There is some progress at the operational level, but more needs to be done to improve the effectiveness of law enforcement in fighting specific forms of crime, such as money laundering and financial crimes. Efforts are still needed to establish a centralised bank account register, in line with the 5th EU Money Laundering Directive. Coordination remains crucial for all stakeholders involved in fighting organised crime.

In the coming year, the country should, in particular:

- further bolster the track record of investigations, prosecutions and convictions for organised crime and money laundering, and demonstrate the ability to effectively dismantle large organised criminal networks;
- increase the use of confiscation of the proceeds of crime by the courts;
- increase the functionality and capacity of the investigative centres set up in the prosecution.

Institutional set-up and legal alignment

The country has 213 uniformed police officers (including cadets) per 100 000 inhabitants compared with the EU average of 326 per 100 000 people in 2017 according to Eurostat. In

2019, 533 new police officers were employed. One new public vacancy was announced for the recruitment of 600 police officers.

Major restructuration was undertaken to improve the institutional setup in the security sector. Key **institutions** in the fight against organised crime are specialised police sectors within the Ministry of the Interior. Each of them deals with different types of organised crime and financial investigation. The Financial Intelligence Unit under the Ministry of Finance is also involved in financial investigations. It collects information and helps identify suspicious transactions. New specialised financial investigation units were set up within the Custom Administration and within the Financial Police. They need to step up their performance.

Some police units are well equipped and trained. The Police Training Centre within the Ministry of the Interior provides both initial and vocational training.

Intelligence services reforms continued. As a result, the Ministry of the Interior underwent restructuring. The Bureau for Security and Counterintelligence (UBK) ceased to exist. A new independent National Security Agency, in charge of counterintelligence, was set up in September 2019. The Agency needs to change its premises, separate from the Ministry of the Interior. The recruitment process for the Agency which was carried out in line with the law, is complete. Former employees of the Bureau for Security and Counterintelligence were entitled to apply. The police competences of the former Bureau for Security and Counterintelligence have been transferred to the Directorate for the Suppression of Organised and Serious Crime within the Ministry of the Interior.

The system for interception of communications was reformed, resulting into the establishment of the Operational Technical Agency (OTA). The remaining three out of six authorised bodies i.e. Public Prosecution Office, the Financial Police and the Customs Administration still need to be connected to the OTA. The technical conditions for a proper functioning of the system need to be ensured.

An Asset Recovery Office was set up within the Public Prosecution Office. The National Cyber Security Council was established in July in accordance with the national cyber security strategy (2018-2022). The Council is composed of the Minister of Defence, the Minister of the Interior and the Minister of Information Society and Administration. The Council is responsible for coordinating and monitoring the implementation of the strategy, and providing strategic guidance.

Regarding the **legal framework**, the Criminal Code is broadly in line with EU standards and criminalises trafficking in human beings, online child pornography, computer crime and drug trafficking. The Law for the prevention of money laundering and financing of terrorism was amended authorising cash payments of up to EUR 3000 compared to EUR 500 previously.

On the **strategic framework**, the country is currently developing a regional threat assessment on serious and organised crime aiming to identify common priorities between members of the Southeast European Police Chiefs Association. It needs to be updated to ensure consistency with the Europol policy cycle/EMPACT, a four-year policy cycle set up by the European Union in order to create a greater measure of continuity for the fight against serious international and organised crime. There is a national strategy for prevention of money laundering and financing of terrorism (with an accompanying action plan) for 2017-2019. The strategy for strengthening capacities to conduct financial investigations and to confiscate property for asset recovery is being implemented including through institutional and operational reforms within the Ministry of the Interior.

There is also a 2017-2020 national strategy and an action plan for combating trafficking in human beings and illegal migration. The National Commission for Combating Trafficking in

Human Beings and Illegal Migration is responsible for monitoring the implementation of the Strategy. The decentralisation of the National Commission, through the creation of local commissions at the municipal level, has yet to prove its effectiveness. The 2016-2020 police development strategy and the action plan, as well as the 2017-2020 national small arms and light weapons control strategy and action plan and a 2018-2022 national cybersecurity strategy and action plan are all being implemented.

Implementation and enforcement capacity

In 2019, North Macedonia's track record for fighting organised crime improved further. There is a steady increase in the number of criminal investigations opened against organised crime groups, especially against groups involving many suspects, i.e. up to 21 individuals charged for smuggling migrants. Until 31 March 2020, 19 new investigations were launched against 108 people, and two investigations from 2018 against 15 suspects continued. The investigations mainly concern migrants' smuggling or drugs related offences. 31 trials were held during the last 2 years, resulting in first instance convictions for 71 individuals (including plea bargaining). In 2019, there were 56 final convictions.

So far, 99 individuals have been indicted (up from 37 in 2017 and 69 in 2018) for various crimes such as falsification of documents, fraud, money laundering, smuggling or trafficking in human beings.

The **external oversight mechanism** is set up. The Special Department in the Public Prosecutor's Office for investigation and prosecution of crimes committed by persons with police powers and members of the prison police is missing 9 investigators. The department received 248 reports of brutality or other crimes by 446 police officers and prison police officers. Such reports include charges reported from other prosecutions offices, from the Ministry of the Interior, from individuals and anonymous reports. Six suspects were put in custody. Indictments were filed for 18 officers and first-instance verdicts were handed down against seven of them, including four with imprisonment. The selection of three NGOs members for the functioning of civil control mechanism within the Ombudsman is finalised. Their role is to assist and support the victims.

The **National Coordination Centre for the Fight against Organised Crime** has improved its operational capacity. All relevant institutions assigned their representatives and are connected to the Centre. All participating authorities have access to their respective databases. The Centre is focused on the inter-institutional exchange of information and not inter-institutional cooperation as such. Working in multidisciplinary teams has to be encouraged to make full use of the Centre's capabilities.

The Basic Public Prosecutor's Office against Organised Crime and Corruption still does not have enough public prosecutors. Only 9 out of the planned 15 positions have been filled. Aside from insufficient human resources, there is also a lack of financial resources for expert services. Specialisation within the Office is needed, as well as a more proactive approach in pursuing the cases.

Investigative centres were set up in the Basic Public Prosecution Office in Skopje, Kumanovo and Tetovo and in the Basic Public Prosecutor's Office for Organised Crime and Corruption. Their purpose is to improve **relations between prosecutors, the police and other relevant bodies**. They need to have sufficient staff including experts and adequate equipment to become operational.

The country participates in **international police cooperation** through the main cooperation channels. Cooperation with Europol is well established following the conclusion of a strategic agreement in 2007 and an operational agreement in 2011. There is operational

cooperation in the fight against trafficking of human beings, weapons, and drugs. A secure communication link for information exchange (SIENA) was established. Compared to 2018, in 2019, the number of new cases increased by 17% and the number of exchanged messages increased by 13%. Cooperation and data exchange can be further improved through a more proactive approach in information sharing. A liaison officer from North Macedonia has been posted in Europol headquarters in The Hague since 2015. In 2019, the country participated in five international operations to detect and dismantle organised criminal networks and participated in five joint action days with Europol. The Training Centre is implementing the Working Arrangement between the Ministry of the Interior and the European Police Academy (CEPOL) signed in August 2017. MoI and CEPOL signed a Training Cooperation Plan for the period 2019-2020. This plan stems from CEPOL's commitment to increase co-operation with third countries and EU candidate countries. The country needs to continue being responsive by using opportunities offered by CEPOL, despite its budgetary constraints.

On **financial investigations**, the law enforcement units and prosecution bodies should boost operational capacity. More active use of multidisciplinary cooperation between them is needed. Establishing a central bank account register, the access to which would significantly contribute to the quality of financial investigations, is pending finalisation and adoption of the new law on payment services.

In 2019, confiscation of criminal assets was limited to 21 people. It included confiscation of real estate in three cases. **Confiscation of criminal assets** should become a strategic priority in the fight against organised crime, terrorism and high level corruption in the country. The country's tools for freezing, managing and confiscating criminal assets are not effective enough. There is a need for systematic use of the confiscation or extended confiscation for a limited list of offences. A real focus on the proceeds of crime is needed.

A dedicated task force for fighting **trafficking in human beings and illegal migration** that includes representatives from the Ministry of the Interior and two prosecutors from the Basic Public Prosecutor's Office for Prosecuting Organised Crime and Corruption is operational. In 2019, there were six identified victims of trafficking, all are females and four are children (two victims of forced marriage, one of sexual exploitation and one of forced labour, one of whom is foreign). There were final convictions including plea bargains against 23 individuals for trafficking in human beings or migrants smuggling. In the first quarter of 2020, five individuals were indicted for trafficking of human beings and 11 individuals were indicted for smuggling of migrants. In 2019, there was one final conviction for **money laundering**, against one individual. Indictments were brought against five individuals. All relevant institutions must still proactively implement anti-money laundering legislation.

On **small arms and light weapons**, there are tangible results with 100 pieces of firearms seized. In 2019, more than 600 pieces of weapons were destroyed. In 2019, 138 criminal offences on illegal production, possession and trading in weapons or explosives were detected, for which 153 perpetrators were criminally charged. There are specific rules for the import and sale of weapons and ammunition including specific regimes and procedures for four separate categories. Two of the five EU Policy Cycle / EMPACT action days concerned firearms trafficking. Four employees of the Minister of the Interior were nominated as focus point for firearms.

Regarding **cybercrime**, a total of 56 computer crimes were detected in 2019 (105 in 2018). No cases of production and distribution of child pornography were reported. Steps were taken to support the implementation of the strategy on cybercrime, including monitoring the darkweb. North Macedonia should continue to strengthen its law enforcement focusing on detection, traceability and the prosecution of cyber criminals.

Proactively fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

Cooperation in the field of drugs

Institutional set-up and legal alignment

The law on drug and psychotropic substance control needs to be revised to be fully aligned with the EU *acquis* and provide an early warning system for detecting new psychoactive substances. A National Drugs Observatory exists since 2007 in the Ministry of Health. The 2014-2020 national drug strategy is aligned with the 2013-2020 EU drugs strategy.

Implementation and enforcement capacity

Until the 31 March 2020, the track record of North Macedonia for seizing drugs and dismantling organised crime groups continued to improve. There was an increase in the detection of drug-related criminal offences and in the number of perpetrators. 16 criminal charges were pressed against 28 individuals. Altogether, 986 kilogrammes of various narcotics were seized (1,538 kilogrammes in 2018) by the Ministry of the Interior. The largest share was marijuana (977.2 kilogrammes), followed by heroin (5,687.22 grammes), cocaine (1853.3 grammes), and hashish (5,419 grammes). The Custom Administration seized 410,663.72 grammes of marijuana. Investigations resulted in the dismantling of six organised criminal groups (8 in 2018). Cooperation with neighbouring countries is good, including ad hoc cooperation.

The operational capacity of the National Drugs Observatory still needs to be strengthened so it can implement its drug-monitoring tasks. Data collection, analysis and reporting in line with the European Monitoring Centre for Drugs and Drug Addictions' requirements and methodologies requires further strengthening. There is still no national early warning system in North Macedonia.

The lack of secure storage for drugs and drug precursors prior to destruction remains an issue of concern.

Fight against terrorism

Institutional set-up and legal alignment

There is a national coordinator for counter-terrorism and countering violent extremism and two deputies (one position is vacant) responsible for prevention of violent extremism and for the fight against terrorism. They are responsible for coordinating interinstitutional cooperation. The coordinator is the head of the National Committee for the Prevention of Violent Extremism and the Fight against Terrorism where key institutions are represented. Some of them rightfully allocated funds for activities to prevent and counter violent extremism. The Office of the National Coordinator and the National Committee have been allocated two temporary staff by the International Organisation for Migration which improved the Office's capacities.

Part of the terrorism-related competences of the dissolved Directorate for Security and Counterintelligence (UBK), were transferred to the Department for the suppression of organised and serious crime located in the Ministry of the Interior. A sector for the fight against terrorism, violent extremism and radicalism was created and it is responsible for criminal investigations.

The **legal framework** is largely aligned with the EU *acquis* and international anti-terrorism instruments. Terrorism-related issues are regulated by the Criminal Code which was amended in 2014 in line with UN Security Council Resolution 2178/2014 according to which all States

must ensure that their legal systems provide for the prosecution, as serious criminal offences, of travel for terrorism or related training, as well as the financing or facilitation of such activities.

North Macedonia has a national counter terrorism **strategy** (2018-2022) and a strategy for countering violent extremism (2018-2022) both with related action plans.

In October 2019, the country and the EU signed a bilateral implementing arrangement outlining concrete measures to be accomplished in the framework of the joint action plan on counter terrorism. North Macedonia has submitted its first interim report on the implementation of the arrangement in July 2020. The finalisation of amendments to the Code on Criminal Procedure has been an important step in the implementation of the action plan. Work on the implementation of all five objectives of the joint action plan should continue, especially as regards the creation of a joint terrorism threat assessment.

In March 2020, the government adopted the national risk assessment on money laundering and financing of terrorism.

Implementation and enforcement capacity

There were no anti-terrorist operations or court cases in 2019. Four people, from among 23 who were convicted on charges of participating in foreign military, police and paramilitary formations in 2016, were released from prison in 2019. In total, 10 people were released so far (six in 2018). Nine are still serving their sentences.

An estimated 156 of the country's citizens left for conflict zones (Syria and Iraq) since 2012: of these, 76 have returned, 37 have been killed and 17 are still in conflict areas (plus around 23 children). No one left in 2019. In February 2020, one foreign terrorist fighter was deported from Turkey and was charged with participation in a foreign army, police or paramilitary formations. In March, one woman and two children were repatriated from the refugee camp in Turkey.

There is regular exchange of information through Europol. A collaboration with the Europol Internet Referral Unit (IRU) has started for dealing with terrorist content online. The roll out of CT SIENA to the country increased the opportunities for direct and secure CT information exchange. Cooperation between law enforcement agencies, intelligence services and relevant key state institutions (education, health and social services) continued. There is need to step up efforts to make an inter-institutional joint threat assessment. Local mechanisms for prevention and countering of violent extremism have been set up in some municipalities. Community action teams have been set up in the most sensitive areas namely Cair, Gostivar and Kicevo. In addition, the local preventive council has been reactivated in Kumanovo and similar actions are planned for other places. These mechanisms need to demonstrate their capacity to contribute to the early identification of radicalisation.

Efforts were made to introduce de-radicalisation programmes in prisons. Prison staff received training and multi-faceted teams were set up in five prisons to work with radicalised prisoners on a daily basis. More needs to be done on reintegrating and resocialising returnees.

North Macedonia actively participates in the implementation of the Western Balkan Counter Terrorism initiative (WBCTi).

Legal and irregular migration

Institutional set-up and legal alignment

The **legal framework** is largely in line with EU standards. The crisis situation at the country's borders was extended, authorising continued deployment of the army.

The Ministry of the Interior is the main actor in the field of migration. The fragmentation of tasks between the **institutions** dealing with migration persists, making management less effective. Progress was made on implementing the standard operating procedures (SOPs) for unaccompanied and separated children and for vulnerable categories of foreigners. The National Commission for Combating Trafficking in Human Beings and Illegal Migration organised training for a large number of first line civil servants to help them implement the SOPs.

The Resolution on Migration Policy adopted by the government in 2015 is the main policy document in this field. Although the new **strategy** for integration of refugees and foreigners was prepared three years ago, it is still pending adoption as there is no political will to move it forward.

The country ratified the 1961 Convention on the Reduction of Statelessness.

Implementation and enforcement capacity

The country continues to play an active role in the management of mixed migration flows. It remains on one of the main transit routes for irregular mixed movement. The contingency plan to manage large migratory flows still needs to be finalised and agreed upon. With the support of guest officers from EU Member States, effective control at the southern border has been ensured.

The country has still not set up a fully fledged protection sensitive migration management system. Registration of all individuals apprehended in irregular movement for migration management purposes still needs to be carried out in a more systematic manner. Registration should be followed by systematic protection-sensitive profiling and referring anyone identified as being in need of international protection to national protection mechanisms. In the absence of a proper system for managing irregular movements, the practice of returning migrants outside of a legal and/or procedural framework reportedly continued. There is a systematic substantial discrepancy between the figures of reported illegal crossings and presence in the transit centres, which are often almost empty.

Irregular movement through the territory continued at an increased pace compared with the previous two years. The official number of irregular arrivals in 2019 stands at 20314, a 16% increase compared with 2018. However, the real number of arrivals in 2019 is estimated to be much higher. Movements are predominantly northward, from Greece towards Serbia.

The migrant profile remained largely the same as in the previous two years, with nationals of Pakistan (35%) and Afghanistan (23%) constituting the largest groups, predominantly single males. People in irregular movement remain targets of organised criminal groups engaged in people smuggling, that often extort money and abuse them in various ways.

The number of detected smuggling attempts has increased, and although police operations and some arrests took place, smuggling continues on a large scale. As of December 2019, around 119 people were stranded in the country. 82 criminal charges were filed against 64 individuals for smuggling migrants. There were convictions against 23 individuals. The number of migrants smuggled remains high and combating smuggling networks must be improved and be a priority.

Both reception and transit centers on the southern and northern borders provide short-term accommodation for a total of 971 persons. Neither of the transit centres are suitable for long-term stays, and the authorities continue to be reluctant to allow for more than a temporary stay.

The readmission agreement with the EU is being implemented in a satisfactory manner by the country. According to EUROSTAT, 3,850 citizens of North Macedonia were ordered to leave in 2019 (3,500 in 2018). There were 3,005 returned following an order to leave (a return rate of 78%) in 2019 against 3,470 in 2018 (99%). Assisted voluntary returns procedures were carried out for 25 migrants towards third countries. Attention should be given to successful reintegration of returnees.

Kosovo* Roma refugees estimated at 343, remain in limbo, with an uncertain status. Except for a limited number (16) of recognised refugees, the rest have either subsidiary protection (198) or no status (129), and are just tolerated in the country. After two decades of living in the country, with various statuses, they need the authorities to find a sustainable solution.

Asylum

Institutional set-up and legal alignment

The Law on international and temporary protection, adopted in April 2018 is largely aligned with the EU *acquis*. By-laws deriving from the law on international and temporary protection were adopted. A gap remains in the area of detention for people in irregular movements, as the current legislation does not provide alternatives to detention. The law provides the right for family reunification. Recognised refugees can benefit from it immediately but concerns remain on delayed family reunification for people under subsidiary protection, for 2 years following status recognition. Since subsidiary protection is becoming a prevalent form of protection granted in the country, including for unaccompanied children, such delays may significantly affect the right to family unity and, in the case of children, contravene the principle of the best interest of the child.

A new Law on foreigners entered into force in May 2019. Among other benefits it grants long-term residence to people who have enjoyed international protection, thus facilitating their local integration. However, they must still present proof of regular income and a registered place of residence to benefit from this provision. Given the extreme vulnerability of some applicants, there is a risk that this new provision remains only theoretical. Such requirements are especially difficult for Kosovo Roma who are still under subsidiary protection. Their status is reviewed every year and prevents them from acquiring long term employment.

Implementation and enforcement capacity

The asylum procedure still needs to be implemented fully in line with the EU *acquis*. Regular reception capacity remained unchanged and is adapted to current needs. The arbitrary detention of people apprehended in irregular movements in the reception center for foreigners in the Gazi Baba municipality to ensure their testimony as witnesses in court cases against smugglers continued. As of the end of November 2019, a total of 214 asylum seekers (48% of all asylum applications) were detained in the centre for foreigners in Gazi Baba before being released and admitted to the reception center for asylum seekers in Vizbegovo (close to Skopje). The safe house, previously operated by the Jesuit refugee service under the supervision of the Ministry of Labour and Social Policy, is no longer available.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Consequently, the practice of generally not detaining women and children for migration related purposes changed and, as of the end of November 2019, a total of three women and 32 children, including 29 unaccompanied children, were detained in Gazi Baba, although for a short period of time. An alternative housing solution needs to be found for the most vulnerable. However, due to the COVID-19 crisis, the Government decided that all new asylum seekers are to be quarantined for an initial period of 25 days in the transit center Vinojug, at the Southern border.

Access to the asylum procedure continued to be ensured. In 2019, 490 applications for asylum were submitted (163 in 2017 and 299 in 2018), out of which 121 (27%) were from Pakistan, 112 (25%) from Afghanistan and 50 (11%) from Syria. Asylum claims were promptly registered and processed. The existing database on foreigners, still needs to be upgraded through the development of a new asylum module, which should provide a case-management tool for processing asylum claims. There is no backlog of asylum cases, although the majority of cases are discontinued, due to the high rate of claim abandonment. With the exception of a subsidiary protection status granted in 2019 on humanitarian grounds to one person from Kosovo, there have been no positive decisions for granting asylum since December 2018. Decisions on status determination are usually accompanied by an automatic ruling of expulsion without quality assessment of whether an individual may be subject to persecution upon return. The quality of asylum adjudication remains a concern, also at the appeal level. The judicial review is administrative, and the Administrative and High Administrative Courts deliver decisions on technical rather than on substantial grounds. However, the new Law on administrative disputes should improve some critical points.

In 2019, the Sector for Asylum continued the practice of terminating international protection for refugees from Kosovo who were granted subsidiary protection. Between January and December 2019, 22 Kosovo Roma (14 cases) lost subsidiary protection. Such practices undermine the possibilities of finding a durable solution for the remaining refugees from Kosovo and closing the long standing issue. Legal aid under the amended Law on free legal assistance, remained ineffective. No individuals undergoing an asylum procedure were granted state-funded free legal aid. A positive development is the enrolment of asylum seeking children in the local schools, as of september 2019. This is in line with the new Law on primary education, which specifically provides for inclusion of refugees and asylum seekers in the national education system and sets up measures to facilitate such integration.

Further improvements of the asylum system are still needed. Following a period when it was relatively high on the government's agenda, developments are left mainly to the technical level in the relevant Ministries. The country cooperates with the European Asylum Support Office (EASO) on the basis of comprehensive roadmaps. The first Roadmap to support the establishment of asylum and reception systems in line with EU standards was implemented between 2017-2019, a new roadmap for the period 2020-2022 is being finalised.

Visa policy

There is an operational link since 2009 between the country's diplomatic and consular missions, the national visa information system N-Vis and the Visa Centre at the Ministry of Foreign Affairs.

The visa regime is largely aligned with that of the EU. The Commission's third Report under the Visa Suspension Mechanism of July 2020 concluded that North Macedonia continues to meet the visa liberalisation benchmarks. Short stay visas have been unilaterally abolished for nationals of third countries who are national holders of a permanent or temporary residence permit issued by an EU/Schengen Member State as well as for nationals of third countries

who are in possession of valid multiple US, Canadian and UK visas. The visa-free regime between North Macedonia and Ukraine entered into force.

Visa policy needs to be further aligned for a number of countries currently on the EU white list, whose nationals are still required to have a visa to enter North Macedonia. These include Vanuatu, Kiribati, the Solomon Islands, Dominica, Grenada, Marshal Islands, Micronesia, Palau, Samoa, Saint Lucia, Saint Vincent and the Grenadines, East Timor, Tonga, Trinidad and Tobago, and Tuvalu. Negotiations are ongoing for Georgia. The visa-free travel regime with the EU continued to work smoothly. The national authorities continued their cooperation to tackle unfounded asylum applications made in Schengen members countries and associated countries. The number of the first time asylum applications from the country in the EU and Schengen associated countries was 2,695, it fell by 20 % in comparison to the year 2018.

Visa policy is not fully in line with the EU list of countries whose nationals require a visa. North Macedonia exempts nationals from Russia and Azerbaijan. There are ongoing negotiations with authorities of both countries on future conditions of mutual travels for their nationals. North Macedonia does not require entry visa either for citizens of Botswana, Cuba, Kosovo, and Turkey.

Schengen and external borders

Institutional set-up and legal alignment

The Department of Border Affairs and Migration is a specialised unit within the Ministry of the Interior. The border police is structured into four regional centres, within which police stations for border surveillance and for border checks operate.

The legislative framework for the management of external borders is largely aligned with EU standards. The 2015–2019 integrated border management strategy is aligned with the 2006 EU concept on integrated border management. A new strategy is needed as well as clarification on who is responsible for guiding the process. A risk management concept and methodology for border operations is in place. It regulates the management and implementation of risk analysis by the border police.

The Schengen action plan, adopted in 2008, must be upgraded and adapted to recent EU *acquis* developments. The National Coordination Centre for Integrated Border Management, set up for efficient coordination, data-exchange, information sharing and greater efficiency, needs to be strengthened.

Implementation and enforcement capacity

Mixed police patrols are being deployed on the southern border involving members of the border police of Austria, Croatia, Czechia, Hungary, Poland, Serbia, Slovenia and Slovakia, to manage migration flows. The national authorities cooperate extensively with the European Border and Coast Guard Agency (Frontex), including as observers in joint operations. The text of the status agreement between the EU and the country that would allow for deployment by Frontex of European border and coast guard teams on the territory of North Macedonia at its common borders with neighbouring EU Member States was initialled in July 2018. Pending the signature and ratification of the agreement, the country cooperates with Frontex on developing an operational plan, so the teams can be deployed in the country rapidly.

Although the National Coordination Centre for Integrated Border Management prepares regular reports on risk analysis, its institutional and operational capacity still needs to be strengthened. IT and technical expertise must be stepped up. North Macedonia participates in the Western Balkans Risk Analysis Network led by Frontex.

Border guards, customs and other bodies still do not have mutual access to databases and there is no formalised and secure information exchange arrangement with the appropriate security services. A specific track record of detection, investigation and prosecution of cross border crime is yet to be established. Equipment is satisfactory.

Cooperation with neighbouring countries continues to be good. There is a smooth implementation of border agreements with most of the neighbouring countries. A formal agreement has not yet been concluded with Greece, but bilateral technical cooperation works in practice. Joint border patrols with neighbouring countries and the joint police contact centres continued to regularly exchange information. There are currently two common border-crossing points for local traffic with Serbia and Albania. The existing border crossing point with Serbia on the northern border has become a joint crossing point also for international traffic. North Macedonia and Serbia signed an agreement on the opening of a new border-crossing at Lojane-Miratovac. The new border-crossing will first be open to local traffic and later will be upgraded to handle international traffic.

Judicial cooperation in civil and criminal matters

Progress was limited regarding the legal framework on cooperation in *civil and commercial matters*. In December 2019, the Minister of Justice signed the following Hague Conventions: 1996 Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Cooperation in Respect of Parental responsibility and Measures for Protection of Children; 2005 Choice of Court Convention; 2007 Convention on the International Recovery of Child Support and Other Forms of Family Maintenance and its Protocol for the Law Applicable to Maintenance. The procedures for accession and ratification are to be completed. The new Law on International Private Law to apply as of February 2021 is harmonised with relevant EU regulations. The country issued 142 and received 478 requests for civil cases.

The country issued or received 3,484 requests for mutual legal assistance in civil and criminal cases, out of which 2,484 concern criminal cases and 1,000 concern civil cases. The country sent 70 and received 21 requests for the transfer of sentenced nationals back to their country of origin. It issued 244 and received 78 extradition requests.

Staff in the Ministry of Justice Department of International Legal Assistance attended language courses.

The country continues to have good cooperation with EUROJUST through a liaison prosecutor posted to EUROJUST and six contact points. EUROJUST was involved in 21 cases, of which five were opened by the liaison prosecutor.

All aspects of customs cooperation are now covered under Chapter 29 – Customs Union.

3. FUNDAMENTALS FIRST: ECONOMIC DEVELOPMENT AND COMPETITIVENESS

Table :	2011-16 average	2017	2018	2019
North Macedonia - Key economic figures				
GDP per capita (% of EU-28 in PPS)	35.3	36.0	37.0	38.0
Real GDP growth	2.6	0.2	2.7	3.6
Economic activity rate of the population aged 15-64 (%) , total	64.6	65.3	65.4	66.3
<i>female</i>	51.7	51.7	52.2	54.8
<i>male</i>	77.2	78.4	78.3	77.3
Unemployment rate (%) , total	28.4	22.5	21.0	17.4
<i>female</i>	27.9	22.0	20.1	18.6
<i>male</i>	28.7	22.9	21.5	16.6
Employment (annual growth %)	2.0	2.4	2.5	5.1
Nominal wages (annual growth %)	1.4	2.6	5.8	5.1
Consumer price index (annual growth %)	1.5	1.4	1.4	0.8
Exchange rate against EUR	61.58	61.57	61.51	61.51
Current account balance (% of GDP)	-2.2	-1.1	-0.1	-2.8
Net foreign direct investment, FDI (% of GDP)	2.8	1.8	5.6	2.6
General government balance (% of GDP)	-3.5	-2.8	-1.1	-2.1
General government debt (% of GDP)	35.3	39.4	40.6	40.2

Notes :

Source: Eurostat and national sources

In line with the conclusions of the European Council in Copenhagen in June 1993, EU accession requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

Economic governance has become even more central in the enlargement process in recent years. The Commission's monitoring takes place in two processes: the Economic Reform Programme exercise and the below assessment of compliance with the economic criteria for accession. Each enlargement country prepares an annual Economic Reform Programme (ERP), which sets out a medium-term macro-fiscal policy framework and a structural reform agenda aimed at ensuring competitiveness and inclusive growth. The ERPs are the basis for country-specific policy guidance jointly adopted by the EU and the Western Balkans and Turkey at ministerial level in May each year.

3.1. The existence of a functioning market economy

North Macedonia has made **limited progress** and is at a **good level of preparation** in developing a functioning market economy. Economic growth accelerated in 2019 as investment picked up, but, since April 2020, the COVID-19 crisis has left its mark on the economy and on public finances. The authorities have taken a range of measures supporting companies and households, to mitigate the economic and social impact of the crisis. In the reporting period, fiscal transparency was further improved. However, fiscally significant reforms of income taxation and the pensions system, introduced at the beginning of 2019, were reversed. Moreover, public capital expenditure implementation remained markedly low, and public debt stabilisation is not yet secured. Before the crisis hit, unemployment rates declined further, also for young workers, and informal employment decreased slightly. However, the positive trend is likely to be reversed due to the COVID-19 crisis. Participation rates remain low, even though the share of women in the labour market increased. The financial sector remained robust and lending to the private sector strengthened. The business environment continues to be impeded by a high share of the informal economy.

In order to improve the functioning of the market economy, North Macedonia should in particular:

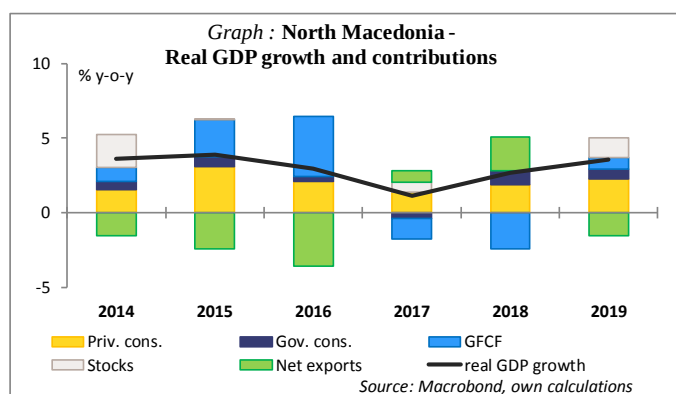
- ensure fiscal space to support post COVID-19 crisis recovery by improving revenue collection, implementing more growth-inducive public infrastructure spending, and improving the management of public investments;
- strengthen fiscal governance, transparency and sustainability by establishing fiscal rules, a proper medium-term budget framework, and a fiscal council;
- continue implementation of the 2018 Strategy and Action Plan for formalising the informal economy, and address underlying incentives for informal employment;
- improve the effectiveness and transparency of state aid.

Economic governance

The government has reinforced its policy focus on social cohesion, and reversed some recent reforms amid political challenges. Important reforms of personal income taxation and pensions indexation, which were introduced in 2019 to support fiscal consolidation, were reversed. Investment and employment subsidies for private companies were stepped up further. The authorities have bolstered the management and the transparency of public finances by consistent implementation of the 2018-2022 Public Administration Reform strategy and other measures. Since March 2020, the government has adopted a number of temporary measures to cushion the impact of the COVID-19 crisis on employment, companies' liquidity, and household income, including wage subsidies and tax deferrals. These will temporarily set back the envisaged fiscal consolidation and debt reduction. To address the increased financing needs in 2020, the government was granted assistance under the IMF's Rapid Financing Instrument, as well as macro-financial assistance by the EU, and funding from the World Bank. The policy guidance jointly agreed at the May 2019 Economic and Financial Dialogue between the EU and the Western Balkans and Turkey has been partially implemented.

Macroeconomic stability

Economic growth rebounded in 2019 as domestic demand strengthened. Fuelled by a sizeable fiscal stimulus to households and companies, GDP growth accelerated to 3.6% in 2019, from 2.7% in 2018, on account of strengthening domestic demand.⁹ Private consumption, boosted by rising wages, social transfers, remittances from abroad, and household credit rose faster than in the preceding year, and contributed positively to growth. Annual investment growth, which had been weak in the past two years and remained flat in the first half of 2019, picked up markedly in the second half. The increase in exports was less pronounced than one year earlier, while import growth accelerated, driven by demand for investment-related intermediate goods. In sum, net exports detracted from annual GDP growth, like in almost each of the past five years. Convergence with EU income levels

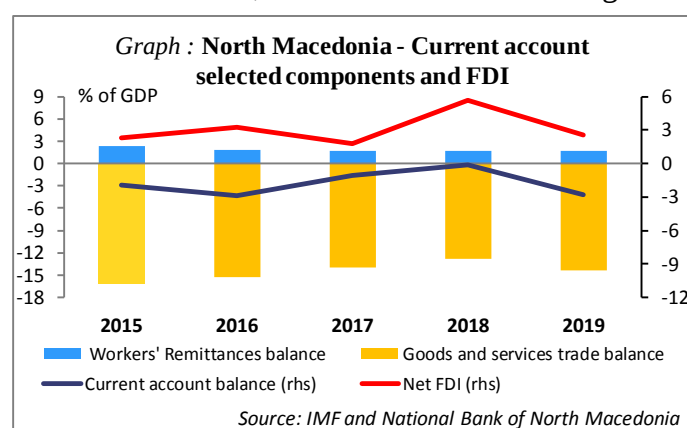


⁹ According to a first estimate from the national statistical office.

remains sluggish. Real GDP per capita has increased only marginally in the past five years, from 36% of the EU-28 average in 2014 to 37% in 2018.

Beginning in early spring, the COVID-19 crisis started to leave a mark on economic performance. The upswing ended abruptly in March, when the COVID-19 crisis required a massive lockdown of the economy, and similar measures in the main trading partners led to trade disruptions. Shop and factory closures and curfews on households hit both domestic activity and external trade, while travel bans impacted on tourism and transport. Exports are severely hit, in particular production by foreign companies that are integrated in global value chains and receive most of their inputs from abroad. Moreover, as a net exporter of iron and steel and metal ores, and a net importer of non-ferrous metals, the economy is sensitive to commodity price fluctuations. On account of these repercussions, the economy is likely to slide into a recession in 2020. In the first quarter 2020, GDP growth slowed to 0.2% y-o-y. Only household and government consumption contributed to growth. Since March, the government has adopted three packages of measures to support the economy, totalling EUR 500 million.

The current account deteriorated in 2019, but remained moderate. Driven by a higher deficit in merchandise trade, the current account deficit widened in 2019, compared to 2018, to 2.8% of GDP (2018: -0.1%). The inflow of private transfers from abroad strengthened, but, as a share of GDP, remained below its average of the past 5 years. Incoming foreign direct



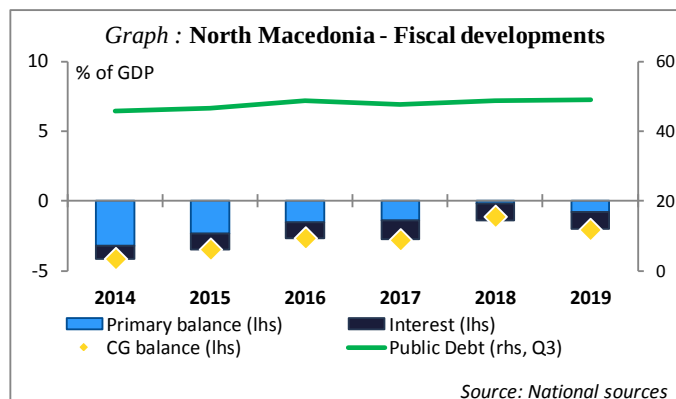
investment recovered over the summer of 2019, after a sluggish start into the year, amounting to 2.6% of GDP for the full year, which is below the average share of the preceding 5 years (3.1%). Yet, there was a marked increase in FDI in the first quarter of 2020. External debt, which increased by almost 10pps between 2013 and 2018 on the back of both, public sector borrowing abroad and intercompany debt, decreased slightly

in 2019 (-1.1pps y-o-y to 72.2% of GDP), as external public sector debt declined by more than the rise in private sector debt. At end-May, the government issued a EUR 700 million Eurobond to help cover crisis-related financial needs. This has further boosted foreign exchange reserves, which at end-July were 19% higher compared to the same month one year earlier, covering over 4 months of prospective imports.

Monetary policy remains accommodating amidst a benign price environment. Consumer prices rose more moderately in 2019 than in the preceding year, by 0.8% compared to 1.5%. In the first seven months of 2020, the increase slowed down further, to 0.7%, on average. The moderation in inflation came mainly on the back of a drop in food, energy and transport prices. Core inflation also remained muted. The central bank continued its accommodative policy stance. Since summer 2018, it has lowered the key policy rate in six consecutive steps of 25bps to the historic low of 1.50%. It reacted swiftly to the onset of the COVID-19 crisis and adopted targeted measures to support the economy. In particular, it provided additional liquidity; reintroduced the non-standard measure which allows for reducing banks' base for reserve requirements by the amount of newly approved and restructured loans to companies affected by the pandemic; and granted banks more flexibility for contractual terms of loans to households and companies. The currency is in a stable, de-facto pegged exchange rate regime with the Euro. Overall, the monetary policy stance is in line with current economic

fundamentals, moderate inflation dynamics, and the heightened domestic and external risks due to the COVID-19 crisis.

Amidst rising risks, fiscal balances had improved further before the COVID-19 crisis hit. The central government fiscal deficit has been declining, in terms of GDP, each year since 2014, falling below the authorities annual targets. This came largely on the back of heavy under-execution of budgeted capital expenditure. In 2019 fiscal performance improved further, supported by the economic recovery and by recent revenue and expenditure measures. At 2.1% of GDP, the general government deficit remained below target (3%), as capital expenditure was under-executed at 78% compared to the supplementary budget. However, shortcomings in revenue collection and a large number



of tax exemptions eroding the tax base have contributed to a decline in public revenue ratios in recent years, adding to fiscal risks from a rising pension deficit, large indebtedness of public enterprises, and significant budget arrears, which the authorities started clearing in 2018. In the first two months of 2020, revenue continued to rise, in annual terms (+4.3% on average). Yet, the sudden halt in economic activity in response to the onset of the COVID-19 crisis and the crisis-related fiscal response sharply increased the budget deficit thereafter. Altogether, in the first seven months of 2020, tax revenue dropped by 10.8%, compared to the same period one year earlier, while expenditure rose by 11.3%. In May, the government revised the 2020 budget, cutting planned revenue by 11.5% and increasing the projected central government deficit to 6.8% of GDP. Earlier in spring, it had reallocated funds from capital expenditure to financing the crisis-related support measures.

The composition of public spending has become less growth-friendly. The structure of government expenditure is tilted increasingly towards current expenditure and income support, at the expense of growth-enhancing investment. After marked increases between 2009 and 2012, the share of capital expenditure in total central government expenditure dropped from 12% (2012) to 6% in 2018, and increased marginally to 8.2% in 2019.¹⁰ The implementation of budgeted capital expenditure remained low in 2019, amounting to only 78% of the revised budget. This came after historically low execution rates in the preceding two years, which were due to project review and implementation issues. On the other hand, the government raised the share of current expenditure by bolstering social spending, including pensions, public sector wages, and firm-level support. In 2019, social transfers, including pensions, rose by 7.6%, in annual terms, which is over half of total expenditure.

Recently introduced fiscal measures were reversed in 2019. In the autumn of 2019, the government backtracked on fiscally important policy changes it had introduced in early 2019. It suspended the introduction of a second, higher rate for personal income taxation, and it reversed the restriction of pensions indexation to the inflation rate only. It also put on hold higher taxation of capital gains, which was planned for 2020.

¹⁰ However, this does not account for capital expenditure carried out by off-budget entities, the most significant one being the PESR, which is implementing a sizable investment program of over EUR 1 billion. In 2018, central and local government accounted for only about one third of total public sector investment.

Debt stabilisation remains a challenge exacerbated by the pandemic. Primary fiscal deficits have improved since 2014, but still not enough to ensure debt stabilisation. Public debt has increased continuously since 2013, rising by 8.6pps to 48.9% at the end of 2019 (with the ratio of government debt along at 40.2%). This includes the debt of public enterprises (for the most part backed by state guarantees), which stood at 8.7% of projected full-year GDP at the end of 2019. The share of public debt denominated in foreign currency has increased in past years, and remains elevated, at some 77%, some 14pps above its level of end-2013. A large share of public debt consists of short-term maturities. The floating rate-share (about 35%) has been decreasing in recent years due to increased Eurobond issuing. COVID-19 crisis-related financial needs have contributed to a marked rise in debt levels in the first half of 2020. At end-June, public debt was higher by almost 18% compared to end-2019, on account of an increase in government debt resulting mainly from the May Eurobond issue. **The transparency of public finances improved further.** In line with the December 2017 Public Financial Management Reform Programme, the authorities have taken further measures to increase the transparency of public finances. The government has published information on the finances of public enterprises in the 2020-2022 Fiscal Strategy (May 2019), including amounts transferred from and to the central government budget. Following a 2019 amendment of the Public Debt Law, the non-guaranteed debt of public enterprises, amounting to some 0.3% of GDP in 2018, is now included in the definition of public debt. The authorities also established an application for citizens to track the implementation of capital expenditure. However, North Macedonia is the only country in the region that does not yet have fiscal rules, and the new Organic Budget Law (OBL), which is meant to provide for such rules, as well as for an independent fiscal council, and a comprehensive medium-term fiscal framework has not yet been put to public consultation. Moreover, the government has not yet taken steps to include off-budget entities into the general government sector where warranted by international statistical standards. This concerns, in particular, the Public Enterprise for State Roads.

The policy stance needs further adjustment to address economic and fiscal challenges. The pre-pandemic policy mix of slow fiscal consolidation and accommodating monetary policy has supported economic recovery amid low inflation, but failed to firmly secure debt stabilisation. This should be addressed once the COVID-19 crisis related measures have taken effect and the post-COVID-19 economic recovery is ensured. The increase in income support and state aid, the reversal of recent reforms to pensions indexation, and the lack of durable measures to substantially improve revenue collection increase fiscal risks amidst an already restricted fiscal space and sizeable debt repayments ahead. Moreover, recent wage increases pose a challenge for external competitiveness, amidst sluggish labour productivity and skills shortages.

Functioning of product markets

Business environment

Financial discipline in commercial transactions and enforcement of contracts remain weak. Delays in VAT returns and timely collection of receivables from public bodies, late payments in commercial transactions, and problems to enforce their right to collect delayed payment penalties continue to impact negatively on companies' liquidity. In June 2019, an amendment to the Law on Financial Discipline was adopted to further align it with the respective EU Directive on combatting late payment in commercial transactions. Institutional capacity to enforce the law should further improve, and resolving a commercial dispute through a court is time-consuming and costly. The government is committed to reducing the number of unannounced inspections and the complexity of parafiscal charges. The new Law

on business inspections, expected to ensure transparent unselective inspections was adopted in 2019. The national e-services portal became operational at the end of 2019, but it does not include a register of parafiscal charges. The new bankruptcy law, intended to facilitate market exit by reducing the cost and time of procedures, is still under preparation.

A large informal economy weighs on the competitiveness of the formal private sector.

The large shadow economy and corruption remain major constraints for private companies to conducting business and impact negatively on investment behaviour. The size of the informal economy, estimated by the national statistical office (SSO) at about 17.4% of total output in 2016 (latest figure available), is, in fact, possibly much bigger, according to other studies and methodologies.¹¹ According to the SSO, the share of informal employment has decreased by 3.9pps between 2013 and 2017, to 18.1%, but remains significant, especially for the low-skilled. The average tax wedge is highly regressive in North Macedonia at the bottom of the income distribution, meaning that the average contribution rate is higher for low-income workers. Implementation of the government's 2018-2020 Strategy for formalisation of the informal economy is ongoing. In spring 2019, the government increased the threshold of maximum permissible cash payments following earlier reduction. To encourage the issuance of fiscal receipts, in December 2019 the government started reimbursements under the "MyVAT" scheme, which refunds citizens' VAT payments, but is costly and administratively burdensome.

State influence on the product market

State aid to private companies was increased, while transparency remains opaque. In 2019, the government stepped up firm-level support for investment, exports, innovation and employment by private firms. However, shortcomings in the rules and institutions of state aid have not been addressed, amplifying existing concerns about its efficiency and transparency. A large share of firm-level support is funding firms' working capital rather than enhancing their capabilities to compete through productivity improvements, or to increase domestic value added. Aid schemes are managed by a multitude of institutions leading to frequent overlap. The criteria on which firms are selected to receive aid leave ample room for discretion. In January, a draft law on Strategic Investments was presented without properly consulting the Commission for Protection of Competition (CPC) and without appropriate public consultation. To better tackle state aid control, the CPC – dented in its capacities on account of staff and resource shortages – would benefit from technical assistance from international partners, but the government has so far not responded positively to its requests. In particular, as a first step, an updated, complete and transparent state aid inventory, which would allow for better monitoring of the effectiveness of state aid, is still missing.

Privatisation and restructuring

Liberalisation of the electricity markets is almost complete. In 2019, the regulation of electricity prices for the main electricity producer (state-owned company ELEM) was abolished. The Energy Law, in force since January 2019, liberalised the electricity market for micro and small companies and households. However, based on the number of customers eligible to choose a supplier, liberalisation amounts to only 47.26% of total. Furthermore, secondary legislation as regards price deregulation and protection of vulnerable customers needs to be implemented. The number of companies in which the government held a stake remained the same in 2019 as in the three preceding years (16 companies in full state ownership and 40 companies in partial ownership, most of these with a state ownership share

¹¹ The IMF estimates the share of the informal economy at around 38% of GDP, according to its 2019 Article IV Report.

of below 1% of issued capital.). The total value of state ownership in enterprises remained at 10.7% of GDP, according to government data.¹²

Functioning of the financial market

Financial stability

Risks to the financial sector remained contained in 2019, but increased in light of the economic impact of the COVID-19 crisis. The banking sector remains well capitalised and liquid. The capital adequacy ratio has remained stable in the past five years (end-2019: 16.3%) and well exceeding the regulatory minimum. Liquid assets account for one third of total assets and cover more than half of short-term liabilities. The quality of the loan portfolio has been improving gradually since end-2014, with the ratio of non-performing to total loans dropping by 6.2pps to 4.6% at the end of 2019, and provisioning for loan losses remains high (over 70% of Non Performing Loans (NPL) are covered). The central bank is on track with the implementation of its December 2018 NPL strategy, which foresees a number of regulatory measures to improve banks' management of bad loans. The central bank further implemented its strategy of 'denarisation' of banks' balance sheets, aiming at increasing the share of local currency-denominated loans and deposits in banks' portfolios, and hence mitigating risks arising from potential currency mismatches. At end-2019, the share of foreign currency-denominated to total loans stood at 43.8%, which is lower by 3.4pps compared to five years earlier. However, given the COVID-19 crisis-induced large-scale production halt and liquidity squeezes of companies, it is likely that asset quality has deteriorated since spring 2020, and that banks' capital conditions as well as credit supply conditions tightened in the second quarter.

Access to finance

Bank lending picked up further in 2019 and beyond. In 2019, credit to the private sector expanded at a faster pace than one year earlier, at 7.3% y-o-y, on average. It continued to grow at a robust pace in the first four months of 2020. Growth in household credit, accounting for the bulk of the rise, decelerated, while credit extension to non-financial private companies accelerated, even though it lost some speed compared to the preceding year. However, as a share of GDP, bank loans accounted for little more at the end of 2019 than five years earlier (48.7% compared to 48.1%). Lending to SMEs, which account for only one third of all business loans, remained subdued in recent years. Loan seekers point to strict collateral requirements and complex application procedures as problems for financing, which is likely to be exacerbated by the COVID-19 crisis. The existing credit guarantee scheme offered by the North Macedonia's Development Bank has little uptake. To support bank lending in view of the COVID-19 crisis, the central bank has lowered the key interest rate in two steps of 25bps each since March and eased conditions for loan restructuring by banks.

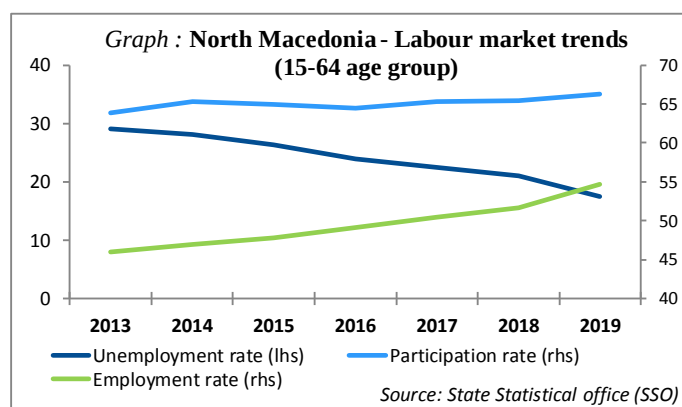
Financial deepening progressed further, but financial diversification and intermediation stagnate. While banks' assets stood at close to 80% of GDP at the end of 2019 (+7pps compared to five years earlier), banks' dominance of the financial sector is receding slowly: at end-2018 (latest available figure), banks accounted for 82% of sector assets, compared to 87% five years earlier. Stock market capitalisation has remained stagnant over the past 5 years, at about 26% of GDP. Private bond markets are almost non-existent. There is hence ample scope for developing alternative sources of financing, in particular capital markets-based funding.

¹² Calculations by the EBRD show that shareholder funds in state-owned enterprises with state ownership above 25 per cent were at 27 per cent of GDP in 2016.

Concentration in the banking sector is declining slowly: about 57% of assets are held by the 3 biggest, out of 15 banks, compared to 61% five years earlier. The share of foreign in total equity has been consistently high in the past five years, at about 75%.

Functioning of the labour market

In spite of structural deficiencies and supported by fiscal stimulus, the labour market improved further before the onset of the COVID-19 crisis. Job creation remained buoyant in 2019, with employment higher by 5.1% than one year earlier. In the first quarter of 2020,



annual employment growth slowed to 2.7%, but still exceeded the average of the preceding five years (2.4%). However, many new jobs hinge on government support, in the form of public sector employment, active measures or employer subsidies. The unemployment rate declined to 16.2% at the end of the first quarter 2020, from 21% in 2018. The labour force increased somewhat in 2019 and beyond, compared to 2018, as more

women entered the labour market, surpassing the decline in the male workforce. Yet, structural problems continue to impair the economy's potential to raise productivity. Participation rates remain low, especially so for women, even though the gender gap has narrowed further in 2019, to 21.2pps (76.7% of men participating in the labour market, and 55.5% of women), compared to the average of the preceding 5 years (30pps). Youth unemployment has slowly, but steadily declined in recent years, dropping by over 12pps between 2015 and the first quarter of 2020, to 34.9%, largely on account of emigration, but also supported by the government's Youth Guarantee scheme. The employment rate has increased further, but remains low. Around 80% of unemployed are long-term unemployed, largely reflecting the skills mismatch.

Wage pressures are mounting as productivity remains muted. Wage growth accelerated in 2019 and further in the first quarter of 2020, fuelled by several increases in minimum wages and public sector wages, as well as subsidies to private employers to soften the impact of salary increases. Minimum wages are now at about half of average wage levels, which poses a challenge for competitiveness given sluggish labour productivity.

3.2. The capacity to cope with competitive pressure and market forces within the Union

North Macedonia has made **some progress** and is **moderately prepared** to cope with competitive pressures and market forces within the EU. Integration with the EU in trade and investment deepened further. Exports and manufacturing output diversified further towards higher-value products. However, skills shortages, reflecting shortcomings in the education system and the outflow of skilled workers, as well as infrastructure investment gaps impair labour productivity and the competitiveness of the economy. While measures to mitigate the immediate adverse impact of the COVID-19 crisis on growth and employment are currently prevalent, addressing these structural needs in a timely manner would support a swift post-crisis economic recovery.

In order to improve competitiveness and long-term growth, North Macedonia should in particular:

- reform the education system with a view to improving skills in line with labour market needs;
- improve the quality of road infrastructure through improved reconstruction and maintenance, with a view to enhancing domestic and cross-border transport links and integrating domestic companies in global value chains;
- step up work to diversify energy sources towards renewable energy and increase energy efficiency, notably through the establishment of the Energy Efficiency Fund and the implementation of Energy Efficiency Law.

Education and innovation

Reforms of the education system are at an early stage. Public expenditure on education, at some 3.7% of GDP on average over the last 5 years, remains below the OECD average. Enrolment and completion rates in secondary and post-secondary education have risen only marginally in this period. Education outcomes are below most regional peers, even though the PISA 2018 results indicate improvement in all three assessed subjects: reading, mathematics and science. Efforts were made to ensure the smooth functioning of the Agency for Quality Assurance in Higher Education, although it is still early to have a proper assessment of the results. The systems for collecting data on labour demand and forecasting future skills needs are at an early stage of development, constraining policy-making. The government has recently established its Skills Observatory as a department within the Ministry of Education and Science, as well as a project to establish a web platform with information on education programmes. However, the practical use of this platform is held back by a lack of data harmonisation and inter-institutional cooperation. At the same time, the skills gap remains sizeable, as does large-scale emigration of high-skilled labour, calling for an integrated approach combining different policy areas.

Innovation activity remains low. At 0.4% of GDP, the economy's expenditure on research and innovation has not increased over recent years, and remains significantly below the EU average. Only a fourth of total R&D expenditure is accounted for by private companies, which are generally slow in adopting new technologies or taking advantage of public innovation support. The country remains a modest innovator, according to the 2019 European Innovation Scoreboard. Firm-level R&D support by the government is mainly through state aid schemes, and increasingly managed by the Fund for Innovation and Technological Development, which was set up in 2013. Funds increased significantly in 2019, but had a slow take-up.

Physical capital and quality of infrastructure

Gaps in transport connectivity are impeding trade. The quality of transport infrastructure and trade logistics remains low, including delays at border customs. Road Corridor VIII needs further upgrading to highway level. The start of works on the Corridor X connection from Skopje to Kosovo is delayed. The modernisation of cross-border rail connections and the facilitation of crossings, in particular the planned Joint Railway Border Station with Serbia, is slow. Maintenance and service of roads and rails need improvement. As a result, the potential for companies to engage in trade and global production chains is diminished. The bad state of most local roads increases the cost of companies in rural areas to participate in trade.

The digitalisation of the economy progressed further, but remains low compared with the EU. The percentage of households with internet access at home has increased by 11pps between 2014 and 2018 (79.3%) and mobile broadband penetration is at 61% of population.

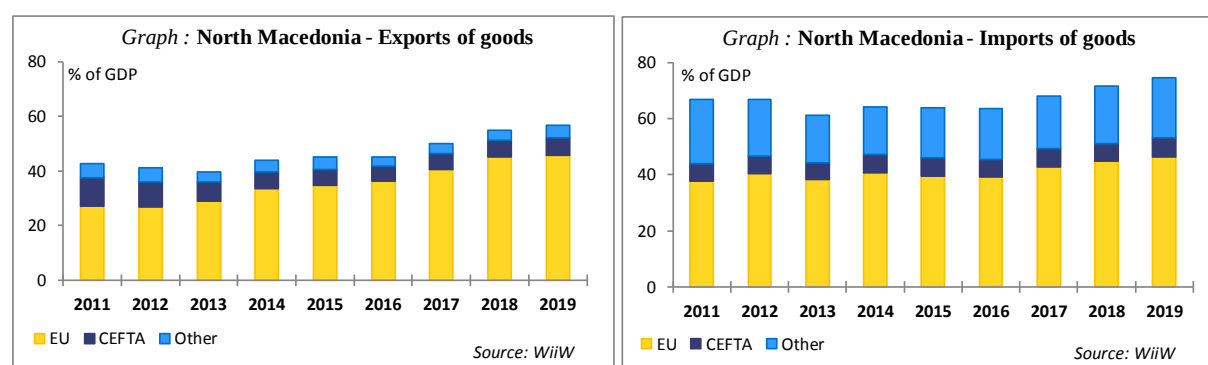
Companies still face restrictions regarding fixed broadband access (19.4% in 2018 compared to 17.2% in 2014).

Improvements in energy efficiency and diversification remain slow. The economy is characterised by high energy intensity and low efficiency in production and consumption, an aged production system, and high dependence on coal and imports. The construction of a national gas distribution system continues, while connection to regional gas pipelines progresses slowly. Plans for a gas interconnection with Greece, to support diversification of natural gas sources and facilitate access to transit pipelines, are lagging behind schedule. At end-2019, the government adopted the 2018-2040 National Energy Strategy, in line with the Energy Community requirements. The integration of the system into pan-European electricity networks is slow. The construction of an electricity transmissions interconnector with Albania, providing the missing link in an East-West electricity transmission corridor uniting 5 countries, is still in the preparatory phase. The government pursues annual targets for raising the share of renewables in energy consumption.

Sectoral and enterprise structures

The share of manufacturing in the economy's output is growing. The sectoral and business structure of the economy has been transformed gradually, but slowly, in the past 5 years. At over 60%, services accounted for the largest proportion of gross value added in 2019, about the same as in 2013. Industry contributed 24%, up from 19% in 2014, at the expense of agriculture, which accounted for 10% in 2019 (remainder is construction). Mainly due to foreign companies, industry's share of higher value-added manufactured goods (machinery and equipment, chemical products) rose at the expense of basic goods (iron, steel and clothing). Yet, in 2019, domestic companies in these sectors contributed an increasing share to total exports. Over half of the economy's jobs were accounted for by service industries in 2019, which is only slightly more than 5 years earlier, followed by industry (31%, compared with 30% in 2014) and agriculture (16%, down from 19% in 2014). Over 99% of all companies are SMEs, providing over 77% of value added in the economy and an almost equal amount of employment. The government is supporting SMEs through the Competitiveness, Innovation and Entrepreneurship Programme, and the 2017 Economic Growth Plan. Yet, the impact of these schemes remains insufficiently evaluated.

Economic integration with the EU and price competitiveness



The importance of the EU as a trade and investment partner continues to grow. The economy posts a high and growing degree of trade openness, at over 130% of GDP at the end of 2019, compared with 105% in 2013. In the reporting period, exports to the EU, which accounted for 86% of total exports, increased by 12% y-o-y, and imports from the EU were higher by 9%. While trade volumes with other Western Balkan countries continued to increase in the year to date, their share in total trade declined further (-0.8pps to 10.2% of total exports, and -0.8pps to 8% of imports). EU firms gradually increased their stake in the

country's stock of foreign investment, accounting for almost 90% of total at the end of 2019. The economy's structural transformation remains driven by foreign investors active in higher value-added production. However, integration of domestic companies in global production networks remains scarce, mainly due to the type of products manufactured by the FDIs, and the position of FDIs in the structure of global value chains (i.e. upstream or downstream), but also on account of technological and productivity shortcomings of local firms, low innovation dynamics and skills mismatches. The international cost competitiveness of the economy deteriorated somewhat further in the year to date. Even though the increase in gross wages relented somewhat, it continued to outpace the sluggish growth in labour productivity. The real effective exchange rate (CPI-based) remained stable between 2014 and 2018, and depreciated somewhat in 2019, on account of favourable changes in relative prices.

4. GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION

Good neighbourly relations and regional cooperation form an essential part of the country's process of moving towards the EU. They contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past. The government has taken a positive approach to regional cooperation and good neighbourly relations. North Macedonia has continued to participate actively in regional initiatives such as the Central European Free Trade Agreement (CEFTA), Energy Community, Transport Community, South East European Cooperation Process (SEECP), the Regional Cooperation Council, RECOM and the Regional Youth Cooperation Office (RYCO)¹³. In April 2020, North Macedonia became a member of the EU Strategy for the Adriatic-Ionian Region (EUSAIR).

During the COVID-19 crisis, inclusive regional cooperation has proven essential. The establishment of green lanes within the region has proven the capacity of the region to address common challenges swiftly and efficiently. Inclusive regional organisations - the Regional Cooperation Council, the Transport Community, and the CEFTA - have been instrumental in responding to the COVID-19 crisis. These achievements need to be turned into sustainable improvements.

Building on the results of the previous summits with the region, the Western Balkans summit in Poznan focused on strengthening regional cooperation in the fields of economy and trade, the digital agenda, connectivity, security, fight against corruption, promoting reconciliation and youth. The summit endorsed a number of achievements in these fields, in particular the Clean Energy Transition Declaration signed in Podgorica, the Regional Roaming Agreement signed in Belgrade, a substantial connectivity package and the Roma Integration Declaration. It was also the occasion to kick-start the preparation of a Green Agenda for the Western Balkans. Bulgaria and North Macedonia are co-chairing the Berlin Process in 2020, aimed at stepping up regional cooperation in the Western Balkans.

North Macedonia demonstrated its commitments to provide a renewed impetus to regional cooperation and enhanced regional ownership at the Summits in Novi Sad, Ohrid and Tirana. It is important that regional initiatives include all partners in the Western Balkans and are based on EU rules, building on commitments previously taken in the framework of CEFTA, the Regional Economic Area (REA) or the Transport Community Treaty. Many commitments and decisions have already been taken in these regional frameworks and they need to be swiftly implemented.

¹³ North Macedonia also participates in the 'Brdo-Brijuni process', Central European Initiative, the European Common Aviation Area Agreement, the Regional Initiative for Migration and Asylum, the Regional School of Public Administration (ReSPA), etc.

At the Zagreb Summit on 6 May 2020, EU and Western Balkans leaders agreed that deepening regional economic integration has to be a prominent part of recovery efforts of the Western Balkans. To do so, North Macedonia needs to play a constructive role in building a common regional market, which will be critical to increase the attractiveness and competitiveness of the region. It will help North Macedonia to speed up the recovery from the aftermath of the pandemic – notably by attracting investors looking for diversification of supply and shorter value chains. Such a common regional market has to be inclusive, based on EU rules and built on the achievements of the regional economic area multiannual action plan.

The country remained constructively committed to **bilateral relations** with other enlargement countries and neighbouring EU Member States.

Bilateral relations with **Albania** intensified. During the reporting period, the two sides agreed to establish a commission for joint management of natural and cultural heritage of the Ohrid region, and to improve implementation of UNESCO recommendations. Frequent bilateral visits took place during the reporting period. In October 2019, President Pendarovski paid his first official visit to Albania in the context of the Southeast Europe Peace Summit. In November 2019, Albania opened an Honorary Consulate in Bitola. In the context of the COVID-19 crisis, the Presidents of both countries had a telephone conversation in February 2020 and the Ministers of Foreign Affairs also maintained close communication.

Bilateral relations with **Bosnia and Herzegovina** are good and several agreements are in place, including on cooperation on EU integration. In January 2020, a Presidency member paid a visit to Skopje, where he met President Pendarovski.

Relations with **Kosovo** continued to develop. In April 2019, an agreement between Kosovo and North Macedonia on the mutual recognition of driving licenses entered into force. Police from Kosovo and North Macedonia signed a protocol for establishing a joint task force. In May 2020, the Prime Ministers discussed their cooperation during the COVID-19 crisis.

Relations with **Montenegro** remained good. A Joint Session between the governments of both countries was held in Podgorica at the end of May 2019 and saw the signing of a number of agreements (Agreement on the Mutual Protection of Classified Information; Protocol of Collaboration between the Ministries of Interior in the Area of European Integration; Agreement on Environmental Cooperation between the Ministries of Tourism; Memorandum of Understanding in Healthcare between the Ministries of Health). The President of Montenegro visited North Macedonia and the Prime Minister of North Macedonia visited Montenegro in the autumn 2019.

Relations with **Serbia** are good, including through frequent communication at ministerial level. In August 2019, Prime Ministers Zaev and Brnabić inaugurated the Tabanovce-Presevo joint border crossing. President Pendarovski paid an official visit to Belgrade in November 2019. In May, the two Foreign Affairs Ministers exchanged experiences in the fight against the COVID-19 pandemic and information on the epidemiological situation.

Turkey ratified in July 2019 the protocol for the accession of North Macedonia to NATO. In the context of the COVID-19 crisis, Turkey provided assistance, including with medical equipment.

During the reporting period, there was a particular focus on the Treaty of Friendship, Good Neighbourliness and Cooperation with **Bulgaria**. Prime Minister Borissov paid a visit to Skopje in August 2019 on the occasion of the second anniversary of the treaty. Earlier in June 2019, the first meeting of the Joint Intergovernmental Commission was held in Sofia and was co-chaired by the Foreign Ministers of both countries. During the reporting period, both sides

signed several agreements including a protocol on cooperation in combating human trafficking, as well as a memorandum for cooperation in the area of transport and cross-border teamwork. Several meetings of the Joint Multidisciplinary Commission on Educational and Historical Issues took place during the reporting period. Bulgaria provided support to the country in the context of the COVID-19 crisis, including by providing medical equipment and supporting the repatriation of stranded citizens.

During the reporting period, there was a particular focus on the Prespa Agreement with **Greece**, including with increased cooperation between the two countries in the areas of trade and economy, energy, defense and cross-border cooperation. The Joint inter-Disciplinary Committee of Experts on historic, archaeological and educational matters was established and held four meetings during the reporting period. Concerning commercial names and trademarks, the international group of experts was established and held its first meeting in June 2019. In addition to that, the seventh meeting of the Standing Joint Border Committee was also held in June 2019 in Skopje. In line with the Prespa agreement, the first Greek Ambassador to North Macedonia handed his credentials to the President of North Macedonia in September 2019. High level political contacts continued. Greek Foreign Minister Dendias visited Skopje in November 2019. The two Ministers of Health met in Athens in May 2020 to exchange experiences on access to treatment and prevention of COVID-19, as well as the challenges the countries were facing due to the pandemic.

5. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

5.1 Chapter 1: Free movement of goods

The free movement of goods ensures that many products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules, the principle of the free movement of goods prevents these creating unjustified barriers to trade.

North Macedonia is **moderately prepared** on the free movement of goods. National legislation to allow that products must be traded freely is well established and mostly following the EU legislation. There was **no progress** on last year's recommendations. Non-tariff barriers to trade remain and have not been removed yet and market surveillance capacity remains insufficient. Last year's recommendations remain valid. In the coming year, North Macedonia should:

- intensify efforts to remove non-tariff barriers to trade;
- complete alignment with the General Products Safety Directive;
- strengthen the administrative capacity to enforce the legal framework.

General principles

The institutional framework for the **production, distribution and marketing of industrial products** is in place. Plans for further **aligning the legislation with the EU *acquis***, as set out in the national plan for adoption of the EU *acquis*, and in individual strategic documents for standardisation, metrology and accreditation, are slowly being implemented. As a response to COVID-19 and upon a joint initiative by the Permanent Secretariat of the Transport Community and the CEFTA Secretariat, North Macedonia alongside all the other governments in the Western Balkans has successfully implemented measures to facilitate the transport and trade of essential goods within the region.

Non-harmonised area

The Ministry of Economy is the main body in charge of the follow-up and implementation of compliance with **Articles 34-36** of the Treaty on Functioning of the European Union (TFEU). Nine non-tariff barriers to trade have still not been removed.

Harmonised area: quality infrastructure

The legal basis and administrative structure are in place and fully operational for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance. The Law on general product safety and the Law on technical requirements of goods have been drafted but not yet adopted.

The national **Standardisation** Institute, a full member of the European Committee for Standardisation (CEN) and European Committee for Electro-technical Standardisation (CENELEC), adopted 25 032 European standards as national standards.

There are **232 conformity assessment** bodies for calibration, testing, medicinal laboratories, product and process certification and inspection. The **Accreditation** Institute is a member of the International Accreditation Forum, the European Cooperation for Accreditation and the International Laboratory Accreditation Cooperation (IAF MLA). In 2020, the Accreditation Institute extended the IAF MLA Occupational Health and Safety Management Systems Certification. There are no national accreditation schemes for the certification of personnel and skills testing.

The Bureau of **Metrology**, as the official metrology body, is an official member of the European Association of National Metrology Institutes and of the General Conference on Weights and Measures.

On **market surveillance**, in 2019 the State Market Inspectorate carried out 359 inspections under the general **product safety law** (down from 680 in 2018) and 573 inspections under the construction products law (up from 225 in 2018). Following these inspections, the Inspectorate withdrew **35** harmful products from the market, mostly toys and children's clothing. The Inspectorate's market surveillance operations have been hampered by a lack of inspectors, outdated equipment and insufficient funds to carry out product sample tests. Joint inspections, under the umbrella of a coordinating body, continued to take place. The State Market Inspectorate had a crucial role in the actions against the COVID-19 pandemic by prudent surveillance of the measures introduced to prevent the spreading of infections.

Harmonised area: sectoral legislation

For the '**new and global approach**' to **product legislation**, the level of alignment with the EU *acquis* remains uneven. Some progress was made in aligning national legislation with the latest EU *acquis* in the area of machinery, low voltage devices, pressure equipment and portable pressure equipment, as 11 pieces of implementing legislation were drafted in this area. The national annexes to the EUROCODES have not yet been adopted. Alignment in other areas, notably vehicles, toys and medical devices, remained a challenge.

While some national legislation under the '**old approach**' to **product legislation** was designed to align with the EU *acquis*, there was no progress on the EU Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH). Nor was there progress on chemicals, classification, labelling and packaging of substances and mixtures, good laboratory practices, or **fertilisers** and **detergents**. While the national legal framework is designed to align with the EU *acquis* on **firearms**, no progress was made on strengthening administrative capacity in this area.

On **procedural measures**, the Ministry of Economy and the Standardisation Institute are responsible for the **notification procedures** for standards and technical regulations. Public

authorities responsible for the relevant checks and supervision are in place and fully operational. The licensing, monitoring and control systems for businesses dealing with **drug precursors** and **civil explosives** are also operational. The legislation on returning **cultural goods** unlawfully removed from a Member State is designed to align with the EU *acquis*. There is no **external border check for** conformity with product safety rules on products imported from non-EU countries.

5.2 Chapter 2: Freedom of movement for workers

Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.

North Macedonia is at an **early stage** in the area of freedom of movement for workers. **No progress** was made in the reporting period and last year's recommendations still stand. In the coming year, the country should:

- continue to adapt the legal framework in line with the EU *acquis* on access to the labour market, in particular regarding non-discrimination on grounds of nationality against EU workers;
- take steps in coordinating social security systems to identify which administrative measures would have to be introduced in preparation for future accession.

Foreign workers' **access to the labour market** is regulated by law. There was no progress in aligning national legislation with the EU *acquis*. No distinction is made between a foreigner and an EU citizen in the domestic legal framework and EU citizens do not have access to public administration posts. Every year, the country decides on a maximum quota of various types of work permits for foreigners. Work permits for foreign workers may be acquired by submitting a single application to a single authority. This process was further simplified by the amendments to the Law on Foreigners, which entered into force in May 2019. No measures were taken to prepare for joining the European network of employment services (EURES) upon accession.

The country has 23 bilateral agreements on the **coordination of social security systems**, 14 of which are with EU Member States. There are, in total, 18 agreements for mutual health insurance that allow people from one country to use health-care services in other country. Of these, 12 agreements are with EU Member States. In 2020, the country adopted guidelines for regulating temporary stay of referred workers in accordance with the bilateral agreements for social insurance. There are still 9 agreements between North Macedonia and EU Member States on the use of the **European Health Insurance Card**.

5.3 Chapter 3: Right of establishment and freedom to provide services

EU natural and legal persons have the right to establish themselves in any Member State and to provide cross-border services. For certain regulated professions, there are rules on mutual recognition of qualifications. Postal services are gradually being opened up to competition.

North Macedonia is **moderately prepared** on the right of establishment and on the freedom to provide services. **Some progress** was made during the reporting period to revise national legislation in the area of services so that companies and legal persons from North Macedonia and the EU can provide cross-border services. First steps for an easy and direct access to the market for companies were initiated. However, the opening of the postal market was postponed again limiting the provision of quality services to citizens and businesses. More efforts are needed to further align with the EU *acquis* on recognition of professional qualifications. Last year's recommendations were partly addressed and remain valid. In the

coming year, North Macedonia should in particular:

- continue aligning national legislation with the EU *acquis*, notably on services and mutual recognition of professional qualifications;
- establish a point of single contact, including for company registration, in line with the Services Directive;
- continue aligning national legislation with the EU *acquis* on postal services and complete the liberalisation of the postal market.

On the **right of establishment** and **freedom to provide cross-border services**, the country updated its action plan to address non-compliance of sectoral laws with the new Law on services, adopted in 2019. It started the preparations for a point of single contact, as required by the Services Directive, but these are still at an early stage. It also upgraded its e-services portal to include a catalogue of services and provide better information to citizens and businesses on existing services. Certification on quality assurance of national public administration bodies by foreign companies can still not be offered, impeding their freedom to provide services.

The liberalisation of the **postal services** market was again delayed with 1 January 2021 set as the new deadline to abolish the postal monopoly. The Post of North Macedonia, the designated provider of the universal service, covers more than 90 % of the postal market. The Law on postal services needs to be further aligned with the EU *acquis*, including with the Regulation on cross-border parcel delivery services. A system for cost accounting and accounting separation is being prepared and needs to be put in place at the universal services provider. The authorities should guarantee the independence of the postal regulator, which in turn should further strengthen its administrative capacities. In 2019, 43 licensed postal service providers were active on the postal market, with licenses covering different services and geographical areas. The latest audit report from the State Audit Office on the Post of North Macedonia indicated findings of recurrent irregularities.

Limited progress was made on the **mutual recognition of professional qualifications**. The Law on recognition of professional qualifications designed to align with the EU *acquis*, is under revision but has not been adopted. The authorities need to adjust national law to comply with the minimum training requirements outlined in the EU Directive. The data validation of the professional qualifications electronic register still needs to be finalised and the accredited professional qualifications included. An updated and transparent list of all regulated professions, including their justifications, needs to be prepared. The institutional capacity of the Ministry of Education and Science's section dealing with mutual recognition of professional qualifications also needs to be strengthened.

5.4 Chapter 4: Free movement of capital

In the EU, capital and investments must be able to move without restriction and there are common rules for cross-border payments. Banks and other economic operators apply certain rules to support the fight against money laundering and terrorist financing.

North Macedonia is **moderately prepared** in the area of free movement of capital. In the last few years, the country adopted measures to reduce restrictions on free movement of capital and to facilitate cross-border payments, but the country needs to do more. North Macedonia is taking steps in the right direction to detect doubtful sources of money. **Some progress** was made by starting to implement the strategy and strengthen the track record on the fight

against money laundering and the financing of terrorism. In the coming year, the country should, in particular:

- prepare a road map with actions and timelines to apply EU rules in the area of free movement of capital;
- adopt and implement the new legislation on payment system and services;
- strengthen the capacity of relevant stakeholders in fighting money laundering and the financing of terrorism, to ensure the systematic conduct of financial investigations in criminal cases, and further align with the EU *acquis* in this area.

On **capital movements and payments**, the country reduced restrictions to free movement of capital, allowing investment in foreign securities and the purchase of real estate abroad. However, other restrictions on capital movements remain. For example, residents cannot hold a bank account abroad although foreigners can open a bank account in the country. Foreigners cannot own agricultural land in the absence of a reciprocity agreement. Furthermore, there is still no registry of real owners of legal entities.

The oversight of **payments systems** is regularly carried out by the National Bank. The new Law on payment systems and services that aim to align domestic legislation with the EU *acquis*, is still to be adopted.

On the **fight against money laundering and the financing of terrorism**, more effort is needed to align with the EU *acquis*. Implementation of the strategy to fight money laundering, which follows a risk-based approach, has started, and its coverage has been extended to the non-governmental sector. It is still necessary to raise the law enforcement authorities' awareness on the possible exposure and involvement of legal entities in money laundering. Financial investigations should be conducted more systematically. The national risk assessment of the fight against money laundering and the financing of terrorism was adopted and will serve as a basis to revise the strategy. The National Bank adopted its manual on risk assessment for banks and non-banking institutions. However, it still needs to establish a central register of accounts and a registry of real owners of legal entities. The Financial Intelligence Office increased its staff and upgraded its software to detect money laundering cases. In 2019, the Office reported 293 of suspicious transactions, an increase on the 194 submitted in 2018. The Office sent 54 reports (46 in 2018) of money laundering and terrorism financing cases and 172 notifications (183 in 2018) of other cases to the law enforcement bodies. As a result, five people were indicted and one convicted for money laundering or terrorism financing. (See also *Chapter 23 - Judiciary and fundamental rights* and *Chapter 24 - Justice, Freedom and Security*).

5.5 Chapter 5: Public procurement

EU rules ensure that the public procurement of goods, services and works in any Member State is transparent and open to all EU companies on the basis of non-discrimination and equal treatment.

North Macedonia is **moderately prepared** in the area of public procurement. **Some progress** was made with the adoption of the law on public procurement in the area of defence and security and of relevant implementing legislation to the Law on Public Procurement. The capacity of the main bodies that implement public procurement needs to be strengthened and its e-procurement platform completed. The country needs to increase efforts that prevent irregularities and corruption during the procurement cycle and that ensure a more effective public procurement system, following the principles of transparency, equal treatment free competition and non-discrimination. The Commission's recommendations from 2019 were

not fully implemented and remain valid. In the coming year, the North Macedonia should in particular:

- ensure implementation of the public procurement law, including the upgrade of the e-procurement portal with new modules, and further align with the EU Directives on concessions;
- ensure that reports of public procurement irregularities are properly investigated and offenders penalised;
- strengthen with adequate staff the administrative capacity of the Public Procurement Bureau, the State Appeals Commission and the Supreme Audit Office for the oversight and monitoring of public procurement, and of the Ministry of Economy for the management of concessions and public-private partnerships.

Institutional set-up and legal alignment

The **legal framework** on public procurement is broadly aligned with the EU's 'classical' and 'procurement for utilities' Directives of 2014. Companies can no longer be excluded from future tenders due to professional misconduct ('blacklisting') during the contract implementation phase, but still during the procurement phase. Their number slightly decreased with the application of the new law. The practice of excluding companies is not in line with the European Court of Justice jurisprudence. Some progress was made to align with the 'defence and sensitive security' procurement Directive. The legislation on public-private partnerships and concessions needs to be aligned with the EU Directives. All legal and financial instruments used in the area of public procurement and concessions, including inter-governmental agreements concluded with non-EU countries for the implementation of joint projects, should comply with the principles of transparency, competition, equal treatment and non-discrimination.

Public procurement, as an integral part of the 2018-2021 reform programme on public finance management (see section on *Public Administration Reform*), is being regularly monitored based on performance indicators.

The **Public Procurement Bureau**, the principal pillar of the public procurement system, lacks staff with adequate competences for its expanded oversight and monitoring mandate. Cooperation between public procurement bodies and stakeholders, including the State Appeals Commission, the State Commission for Protection of Competition and the State Commission for Prevention of Corruption, remained limited.

The public procurement portal was upgraded and adjusted to the new legal framework. Awarded contracts, linked to contract notices, are now electronically available. More public procurement plans are published by contracting authorities, which increases transparency and reduces the risk of deviation in the post-contracting phase. To upgrade the e-procurement portal, sections on e-appeals, e-market for small value procurements and e-catalogues are being developed.

Implementation and enforcement capacity

The **public procurement market** represented 11 % of the country's GDP and 24.79 % of the state budget in 2019. Central government institutions mostly comply with the requirement to publish their annual procurement plans. Municipalities and smaller contracting authorities need to increase transparency and prepare the procurement cycles better through annual plans. On the **monitoring of contract award and implementation**, the proportion of the overall value of public procurement awarded to SMEs continued to decrease, falling to

61.44% in 2019. The use of negotiated procurement procedures with and without prior publication, increased to 9.08% of the total value of procurement in 2019. These negotiated procedures were mainly used by a few large contracting authorities. Tender cancellations slightly increased, reaching 18.23%. Within its new prerogatives in the framework of the COVID-19 crisis, the government issued a decree amending the Law on public procurement to respond to emergency needs and the Public Procurement Bureau issued a notification on urgent procurement procedures. Contracting authorities can use the negotiated procedure without publication and without requesting prior opinion from the Public Procurement Bureau. Following the launch of these emergency procurements, 71 contracts were signed until April 2020 for a total amount of EUR 1.5 million. To mitigate the risks of fraud, it is especially important to maintain audit trails. Posting all procurement information related to COVID-19 on government portals will enhance transparency and trust. The authorities established an e-procurement tool with data on public contracts connected with the COVID-19 crisis, increasing transparency and accessibility. Certificates of public procurement officers that expired were extended until after the expiry of the state of emergency. The use of e-auctions and the lowest price as the sole award criterion continued, although they are no longer mandatory. Only a few contracting authorities opted to use the best-price-quality ratio. Training and clear guidelines on applying these criteria are still lacking following the introduction of the new legal framework, as are templates of tender documents.

Centralised purchasing remains limited to few goods and services of common interest. Framework and multiannual agreements are scarcely used for repetitive procurements. Separation into extremely small lots makes tendering non-attractive to bigger operators and risks to limit competition. The focus should be on tenders of an adequate size and repetitive contracts signed for periods of more than a year. Some tenderers have been excluded from tender evaluations for minor administrative omissions. There is considerable scope for improvement in the quality of tender specifications and the practice of dividing them into lots. Strengthening internal audit measures remains vital to improve contract implementation and monitoring (see *Chapter 32 – Financial control*).

The Ministry of Economy, responsible for concessions and public-private partnerships, only has two members of staff dealing with these matters. There is no adequate register on concessions or public-private partnerships and data are insufficient. The Skopje airport and Skopje city concessions are not accessible to the public.

The **capacity to manage public procurement processes** is still uneven and is particularly challenging for smaller contracting authorities. The professionalisation of contracting authorities needs to be improved in line with the new legislative framework.

The regulatory and institutional systems on **integrity and conflict of interest**, put in place to identify and address corruption, collusion and fraudulent practices, need to be vigorously applied. A proper risk alert system that signals potential integrity problems in the procurement process still needs to be developed. The State Commission for Prevention of Corruption launched several cases on potential abuse of duty in the area of public procurement. The number of integrity-related reports is still very low and follow-up investigations and proper penalties are missing.

Efficient remedy system

The legislation on the **right to legal remedy** is formally in line with the EU *acquis*. The **implementation capacity** of the State Appeals Commission increased thanks to new case-handlers. The number of appeals rose from 737 in 2018 to 902 in 2019. The resolution rate remained stable at 94 % in 2019. Most of the case reviews looked at administrative and legal

aspects without analysing the substance of the appeal (technical specifications). Efforts are being made to improve access to the Commission's decisions and link them to the e-procurement system. Less than one tenth of all of the Commission's decisions are appealed before the courts. The capacity of the courts to review and decide procurement cases on merit needs to be strengthened.

5.6 Chapter 6: Company law

The EU has common rules on the formation, registration and disclosure requirements of a company, with complementary rules for accounting and financial reporting, and statutory audit.

North Macedonia has a **good level of preparation** in the area of company law. The country is well advanced following the EU rules on the formation, registration, merger and division of companies. **Some progress** was made on further harmonising the company Law with the EU *acquis* during the reporting period, but more alignment with the latest EU *acquis* on corporate accounting and statutory audit is still needed. The Law on accounting and the Law on audit are still to be adopted. The financial independence of the Council for Advancement and Oversight of Audit, who acts as an independent supervisory body, needs to be strengthened. As last year's recommendations were partly addressed, in the coming year, North Macedonia should in particular:

- adopt the latest amendments to the company Law;
- adopt the Law on accounting and the Law on audit and align it with the latest EU *acquis* on corporate accounting and statutory audit.

On **company law**, amendments to the company Law aimed at aligning the legislative framework with the EU Directive on cross-border mergers still need to be adopted. The National Banking law includes a corporate governance code for the banking sector and for a few joint stock companies listed on the Stock Exchange. An amendment to the company Law has been prepared to extend this code to all listed joint stock companies. Further alignment of the legislation with the EU *acquis* is needed, including on shareholder rights and on transparency requirements for listed companies.

Both, the Law on accounting and the Law on audit are still to be adopted. **Corporate accounting** legislation is partly aligned with the EU Accounting Directive. International financial reporting standards (IFRS) apply to all companies with no reduced obligations for SMEs. Reporting requirements for non-financial information have not been met. On **auditing**, a law on investigations and sanctions still needs to be adopted. The Council for Advancement and Oversight of the Audit acts as an independent body, but more effort is needed to strengthen its financial independence. The Council promotes the interests of the accountants and auditors and serves as a bridge between both institutions and the government. The Institute of Certified Auditors is responsible for certifying and training auditors and for recognising their qualifications.

5.7 Chapter 7: Intellectual property law

The EU has harmonised rules for the legal protection of intellectual property rights (IPR), and for the legal protection of copyright and related rights. Rules for the legal protection of IPRs cover for instance, patents and trademarks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, computer programmes and broadcasting.

North Macedonia remains **moderately prepared** in this area. There was **some progress** with raising awareness about the fight against counterfeiting, smuggling and import of counterfeit goods including an increase of seized goods. The recommendations from 2019 were not fully implemented and remain valid. In the coming year, North Macedonia should in particular:

- establish an information platform for law enforcement institutions to exchange data on IPRs;
- further improve the legal framework on intellectual property, notably the collective rights management system, by aligning with the Collective Rights Management Directive and the industrial property rights by aligning with the Enforcement Directive and with the Trade Secrets Directive.

Amendments to the legal framework on **copyright and neighbouring rights** to protect the rights of those concerned have been further delayed. Consequently, authors' rights are still managed by only one organisation, the Association of Music Artists Rights, issuing collective management licenses. However, under the current legal framework parallel organisations collect fees from authors without an authorisation from the Ministry of Culture. The relevant unit in the Ministry remains understaffed.

For **industrial property rights**, the State Office for Industrial Property has further intensified its cooperation with the EU Intellectual Property Office, maintaining good cooperation with the European Patent Office and with the World Intellectual Property Office. This cooperation raises awareness about counterfeit goods and facilitates exchanges of good practices on enforcing of IPRs.

Some key activities planned under the current strategy on industrial property rights did not take place. The Law on industrial property is still not aligned with the EU *acquis* on trade secrets, which further increases companies' mistrust.

The absence of an information platform for law enforcement bodies to exchange IPR-related data is an obstacle to the creation of a credible **enforcement** record and to gathering reliable statistics on the institutional handling of IPR infringements. The coordination body for the protection of intellectual property has not been established.

The fight against counterfeiting and piracy and protection of right-holders' rights has advanced somewhat. The country's track record for seizing counterfeit goods produced nationally as well as imported from Turkey and China has improved.

5.8 Chapter 8: Competition policy

EU rules protect free competition. They include antitrust rules against restrictive agreements between companies and abuse of dominant position, and also include rules on concentrations between companies which would significantly impede competition. EU rules also set out a system of State aid control. Governments are only allowed to grant State aid if restrictive conditions are met, with a view to preventing distortion of competition.

North Macedonia is **moderately prepared** in the field of competition policy. The main legislative framework of State aid and anti-trust & mergers is broadly harmonised with the EU rules, but needs to be amended on implementing legislation covering various areas and sectors. The Commission for the Protection of Competition (CPC), as the national competition authority, lacks administrative and enforcement capacity, both in terms of staff and budget. Significant efforts are needed on enforcement. **No progress** was made in this field during the reporting period. Therefore, the recommendations of last year remain valid. In the coming year, North Macedonia should in particular:

- improve the independence and strengthen the capacity of the national competition authority to step up their enforcement record, including on the most problematic cases mentioned below;
- increase the transparency of State aid granted by the government;
- further align implementing legislation in the area of State aid.

Antitrust and mergers

North Macedonia's **legislative framework** is broadly aligned with the EU *acquis* in the area of antitrust and mergers, though some remaining pieces of implementing legislation have yet to be aligned. On antitrust, there is no leniency policy towards whistle-blowers.

On the **institutional framework**, the Commission for the Protection of Competition (CPC) is responsible for implementing the Law on the protection of competition. The CPC, albeit not developed to its full extent (see below), is an operationally independent authority with the right to adopt enforceable decisions on antitrust and mergers. It has the competence to investigate ex- officio and handle complaints and notifications. It can impose fines, propose remedies or issue an opinion, if competition rules are breached. The CPC may approve mergers, with or without conditions, or prohibit them. It submits opinions on draft legislation that may affect competition. Its opinions are not legally binding. However, its decisions are binding and can be subject to an appeal before the Administrative Court.

The CPC's **enforcement capacity** is limited as it is not adequately staffed and training is needed to increase its level of expertise. In addition, its annual budget is insufficient (it has the lowest percentage of GDP among Western Balkan countries) and varies each year. This impedes an effective expansion of its competences and raises concerns on independence and sustainability of operations. The capacity of national courts dealing with antitrust and merger cases also needs to be strengthened.

On **implementation**, the number of merger decisions decreased from 61 in 2018 to 49 in 2019 and the number of decisions adopted on cartels and abuse of dominant position dropped from 5 in 2018 to 3 in 2019. The CPC should improve its enforcement record by increasing on-site inspections and by using the leniency instrument more often. It should also continue to make full and transparent use of the possibility of fining, if applicable. The lack of capacity of the CPC and of courts dealing with anti-trust cases hinders proper enforcement.

State aid

The **legislative framework** on State aid broadly reflects Articles 107 and 108 TFEU and its corresponding provisions in the Stabilisation and Association Agreement (SAA). The Law on State aid and implementing legislation on certain forms of aid and for specific sectors, including the regulation for granting aid of minor importance (*de minimis*), need to be further aligned with the EU *acquis*. The regional aid map is outdated and the State aid inventory lacks transparency.

On the **institutional framework**, the CPC is also responsible for implementing the Law on State aid. State aid grantors must notify the Commission of their plans to grant new State aid or alter existing State aid so that it can assess its compatibility. The Commission issues non-binding opinions and binding decisions on State aid. If an aid measure is not notified, it has the power to investigate it ex-officio, and can order its recovery. However, the Commission has not exercised this power so far.

To improve its **enforcement capacity**, the staff of CPC dealing with State aid control and enforcement increased to four, but this is still insufficient. Budget constraints and outdated equipment hamper its operational capacity. Further training on the EU *acquis* is also needed.

With regard to **implementation**, the CPC issued 21 decisions and 14 opinions on State aid in the reporting period, none of them negative or conditional. The European Commission expressed concern on three cases. First, the scheme financed under the Law on Support for Financial Investments is not in line with the EU State aid *acquis* and needs to be amended. Second, the financial incentive scheme for Skopje and Ohrid airports that grants financial support to domestic and foreign airline companies needs to be revised to confirm that it complies with the EU State aid *acquis* and the SAA. The third and most recent concern was about the hasty adoption of a Law on strategic investments, without prior notification to the CPC. From April to June 2020, the government published three separate calls to support businesses and citizens in overcoming the COVID-19 crisis.

Liberalisation

Anti-trust and State aid rules also apply to state-owned undertakings and undertakings entrusted with special or exclusive rights, except when applying them would obstruct the performance of the particular tasks assigned to them. Until now, the country has submitted no enforcement record on public companies. There is no evidence on the existence of commercial monopolies within the meaning of Article 37 TFEU.

5.9 Chapter 9: Financial services

EU rules aim to ensure fair competition between financial institutions and their stability, namely rules on banking, insurance, supplementary pensions, investment services and securities markets. They include rules on authorisation, operation and supervision of these institutions.

In the area of financial services, the country is **moderately prepared**. **Limited progress** was made on capital adequacy guidelines and liberalisation of capital markets in accordance with the second stage of the Stabilisation and Association Agreement (SAA). Therefore, the recommendations of last year remain valid. In the coming year, the country should in particular:

- continue to implement Basel III requirements and complete the activities for designating a bank resolution authority;
- collect data on unregistered and uninsured vehicles;
- adequately address consumer protection.

For **banks and financial conglomerates**, implementation of Basel III rules is ongoing. The rules on liquidity risk management and on exposure limits have been upgraded. Banks are now required to integrate the internal liquidity adequacy assessment process into their risk management system. Progress was made on amending capital adequacy guidelines to allow for a more appropriate treatment of the settlement risk and counterparty credit risk. The macroprudential policy framework is not yet in place. Further efforts such as educational activities and information sharing were made to protect consumers and prevent unfair banking practices. The legal provisions on the bank resolution authority are not yet in place.

In response to the COVID-19 crisis, the National Bank has taken different measures in Spring 2020, amongst them a revision of its credit risk regulation, to encourage banks to restructure loans temporarily, and a relaxation of the loan classification standards for non-performing loans.

On **insurance and occupational pensions**, the insurance market continued to grow, as did consumer protection activities. The adoption procedure for the law aligning national rules with the Solvency II Directive has not yet begun. With the second stage of the Stabilisation and Association Agreement entering into force in 2019, an EU based insurance company is allowed to open affiliation in the country but the licence for its operation still has to be obtained from the insurance market regulator and supervisor. The legislation that authorises the Ministry of Finance to set premiums for motor vehicle insurance, which is contrary to the EU *acquis*, is still in place. There are no relevant data on the proportion of vehicles that are uninsured. According to the analysis provided by the National Insurance Bureau, which manages the guarantee fund for uninsured vehicles, annual insurance is not renewed in time for about half of all insured vehicles. Measures are needed to combat uninsured driving. The 50 % limit on investing in non-domestic securities by pension funds is still in place, contrary to the EU *acquis* and the second stage of the SAA.

There was no development regarding **financial market infrastructure**. The alignment and the Financial Collateral Directive and with the Settlement Finality Directive is still not complete. On **securities markets and investment services**, the Law on capital markets aiming to align national legislation to the EU *acquis* has still not been adopted. This includes the provisions on liquidity and solvency ratios for brokerage houses.

5.10 Chapter 10: Information society and media

The EU supports the smooth functioning of the internal market for electronic communications, electronic commerce and audio-visual services. The rules protect consumers and support universal availability of modern services.

The country is **moderately prepared** in the field of electronic communications and information society. **Some progress** was made during the reporting period as the country is advancing in preparations for the long-term information and communication technology (ICT) strategy, established a national Broadband Competence Office (BCO) and enhanced e-government services. The national population register and the national e-portal for services became operational, offering digital access and electronic services to citizens and businesses.

As some of the 2019 recommendations have not been fully implemented, in the coming year the country should in particular:

- finalise the long-term information and communication technology (ICT) strategy ;
- strengthen the independence and capacity of the media regulator and the public service broadcaster;
- continue to implement the action plan for introducing the 112 emergency number and allocate the necessary financial resources.

As part of the Digital Agenda for Europe, the country continued to implement the priorities set in the 2019-2023 national broadband strategy and the 2018-2022 national cybersecurity strategy. The public benefited from decreased roaming prices resulting from the Regional Roaming Agreement. Preparations are under way to introduce the 112 European emergency number.

On **electronic communications and information technology**, the fixed broadband penetration slightly increased. Mobile broadband, including 2G/3G/4G, increased to 62.70%. Investment in developing electronic communications continued at a similar pace as in 2018. Amendments to the Law on Electronic Communications adopted in May and July 2019, as well as a decree adopted in June 2020 further regulated the funding of the new Operational

Technical Agency (OTA). Concerns remain over the independence of appointments to the board and to the management of the Regulatory Commission. The Law on Electronic Communications and the Law on Audio and Audio-visual Media Services need to be further aligned with the EU *acquis*.

There were no relevant developments on competitive safeguards during the reporting period. Further efforts are needed to improve competition in the telecom sector.

Regarding **information society**, a long-term information and communication technology (ICT) strategy is under preparation. The drafting of the strategy on the development of digital skills has started and digital literacy is a priority in the new education strategy. Electronic signatures can be used in the country's new e-portal for services by both individuals and businesses. The use of the interoperability system slightly increased during the reporting period, although many institutions do not use it despite having installed equipment and software. Preparations for a general e-government framework and services continued. Greater efforts by and improved coordination between institutions are needed to modernise and digitalise the public administration. During the COVID-19 pandemic, a few new e-services have been offered by the institutions, such as issuance of lockdown moving permits for citizens and businesses during the curfew. E-commerce increased by more than 20% compared with the previous year. The threshold for imports of small value items increased to EUR 90.

On **audio-visual policy**, the failure of the Parliament to appoint the members of the media regulator and the public broadcaster councils has delayed the implementation of the amended Law on Audio and Audio-Visual Media Services. The Law was further amended in February 2020 to introduce a requirement for cable operators to submit statements under moral, material and criminal liability on regulated intellectual rights. During the COVID-19 state of emergency, the government adopted several decrees in an effort to resolve the issue but a sustainable solution has yet to be reached. The media regulator continued to be proactive in issuing warnings for inflammatory or discriminatory language, hate speech, unprofessional journalistic reporting, but also on pressure and threats on journalists and media outlets. Promotion of media literacy also continued to be a priority. The regulator continued to monitor transparency of ownership of media outlets. However, the launch of procedures about hidden ownership and illegal media concentration demonstrates that inter-institutional cooperation needs to be further improved. The government introduced an action plan to fight against disinformation and started a process to improve media literacy in the education system. Both are at an early stage and require extensive inter-institutional cooperation.

During the COVID-19 crisis, the Government decided to give access to its press conferences to all broadcasters and print media registered in the media regulator's register and to online media registered in a non-formal register established by the Association of Journalists and Media Ethics Council. This decision has been subject of criticism by the media regulator and some media associations. As a response to the COVID-19 state of emergency, the Agency for Audio and Audio-visual Media Services provided financial assistance to broadcasters for the purchase of protective equipment and for the production and procurement of programmes.

Changes to the electoral code introduced prior to the 2019 presidential elections, which scrapped the monitoring of online media broadcasting of paid political advertisement by the State Election Commission and paid political advertisement financed from the state budget, continued to apply. In February 2020, the electoral code was further amended to include provisions regulating media work during elections. The authorities made several changes via decrees adopted during the state of emergency, including changes on the last day before the start of the election campaign, defining the distribution of increased timing for paid political

advertising among political parties. The amendments have been criticised by the regulator and media associations. The independence and financial stability of the public service broadcaster still need to be ensured. This will also increase the effectiveness of its operations and management. The audio-visual sector continued to benefit from the country's participation in the 'Creative Europe' media sub-programme with five projects being supported.

5.11 Chapter 11: Agriculture and rural development

The common agricultural policy (CAP) supports farmers and rural development. This requires strong management and control systems. There are also common EU rules for quality policy and organic farming.

North Macedonia remains **moderately prepared** in the area of agriculture and rural development. **Good progress** was made in the reporting period, in particular as regards the implementation of the Instrument for Pre-Accession Assistance for Rural Development (IPARD II) and the Farm Accountancy Data Network (FADN).

As not all 2019 recommendations were implemented, in the coming year the country should in particular:

- take strategic decisions on the decoupling of the direct payments and strengthen the role and capacity of the paying agency concerning the integrated administrative and control system (IACS);
- implement actions for further institutional and legal alignment with the EU *acquis* in the area of common market organisation;
- increase the administrative capacity of the IPARD Managing Authority and IPARD Agency to ensure full implementation of the available IPARD II funding.

On **horizontal issues**, the functional review of the agriculture institutions was completed, setting out recommendations for institutional reorganisation. Structural reforms on land consolidation and agriculture cooperatives advanced. Direct payment schemes remained coupled to production with limited application or enforcement of cross-compliance rules. North Macedonia continued to apply complex coupled direct payment schemes combined with input subsidies and premium payments, as well as additional payments for mountainous areas, young farmers and organic production. The annual budget allocations for direct payments remained stable, at around EUR 100 million. In 2019, a new scheme for fuel subsidies to farmers was introduced, as was a new voluntary 'small farmer' scheme. Further commitments are needed on decoupling at policy level and on simplifying the heavy procedures of the paying agency.

Good progress was made in aligning the farm accountancy data network (FADN) with the EU *acquis*, in improving its quality and increasing its use. An increase in human and financial resources is needed to sustain the FADN system. Public advisory services lack sufficient capacity and resources to collect farm accountancy data. Key elements are in place for the integrated administration and control system (IACS), in line with EU *acquis* requirements. The geospatial aid application is delayed as the system is still based on cadastral information. The use of the land parcel identification system (LPIS) is limited to on-the-spot controls. Some strengthening of the paying agency's capacity was noted, particularly for managing IT systems. Additional efforts are needed to complete the legislative framework for transferring the farm register and land parcel identification system to the paying agency and to finalise the IACS software.

Reforms to the farm advisory system were further delayed because the co-existence of private and public advisory services needs to be assessed. The public advisory service continued to be understaffed and insufficiently financed to properly support farming development.

Good progress was made in aligning to EU rules on **common market organisation** registered, with the preparation of commodity-specific regimes for dairy products, fruit and vegetables and pork meat. Additional efforts are needed to implement further institutional and legal alignment with the EU *acquis* in the areas of common market organisation, especially in recognising Producers' Organisations for agricultural products, Associations of Producers Organisations and Inter-branch Organisations.

In the area of **rural development**, good progress was made in implementing the pre-accession assistance programme for rural development (IPARD II). Some progress was made to increase in the number of staff at the Paying Agency, although more staff is needed at the agency and the Managing Authority to ensure the successful absorption of IPARD funds in the next programming period. North Macedonia continued to provide national support with most of its funding allocated to the construction of large irrigation schemes. In 2019, a pilot LEADER-type programme was supported with national funding. Progress is still needed to adapt the rural development strategies and align the management and implementation of the national rural development policy with the relevant EU *acquis*.

On **quality policy**, the basic legislation is in place. However, efforts are still needed to implement and control the policy, and to further develop and promote quality schemes.

On **organic farming**, the legislation is in place. The competent authority, the control bodies and the accreditation and certification system are established and operational. In 2019, a third certifying body was accredited. Further efforts are needed by the competent authority and the designated control bodies to ensure strict control and enforcement of organic rules and regulations.

5.12 Chapter 12: Food safety, veterinary and phytosanitary policy

EU hygiene rules for food production ensure a high level of food safety. Animal health and welfare and the safety of food of animal origin and animal nutrition are safeguarded together with quality of seeds, plant protection material and protection against harmful organisms.

The country has a **good level of preparation** in the area of food safety and veterinary policy. **Good progress** was made, particularly on improving control of animal diseases of harmful organisms in the country.

However, as not all 2019 recommendations were implemented, in the coming year the country should in particular:

- further align the legislation on official control with the EU *acquis*;
- strengthen capacities for data analysis on food safety;
- adopt and implement legislation on plant protection control.

On **general food safety**, the Law on food safety was amended to align it with the new EU Regulation on official controls. The National Council for Food and Feed Safety continued to provide scientific and technical support to the Food and Veterinary Agency's activities. A new methodology on risk identification and risk registers was developed. A strategy on animal health is yet to be adopted. The national rapid alert system for food and feed is operational, as are the Agency's internal audit and training systems. The Agency actively

participates in European Food Safety Authority scientific networks. A flexible process for implementing the food safety rules was launched.

On **veterinary policy**, the implementing legislation on the internal market control system and on the non-commercial movement of pet animals was aligned with the EU *acquis*. On the control system for imports, the agency provides regular updates on the safeguard measures of imports and import requirements for live animals and animal products. The Agency amended the rules on veterinary checks on pet imports of pet animals and identified and registered horses and other equidae animals during the reporting period.

Good progress was made on control measures for animal diseases. The Agency continued to vaccinate foxes against rabies and bovine animals against lumpy skin disease. The mandatory vaccination against classical swine fever ceased with the successful implementation of control and eradication measures. Control and biosecurity measures related to African swine fever were introduced. The Agency continued with activities to upgrade biosecurity measures on the pig holdings. The Agency also provided the national centre and local centres for disease control with necessary equipment. Contingency plans on classical swine fever, sheep pox and goat pox and on aquaculture diseases were adopted. The official control of aquaculture needs to be improved.

The Agency continued to implement the monitoring programme on antimicrobial resistance. The 2019 national monitoring programme on control of residues of veterinary medicinal products and contaminants in live animals and food stuffs of animal origin is in line with the EU *acquis* on cattle, sheep, pigs, poultry, aquaculture, milk, eggs and honey. The agency continued to implement the animal welfare action plan. The control of stray dogs was not properly managed in all municipalities. Micro-chipping when registering pets is a standard practice in the country. The capacity to further align with and implement the EU *acquis* on zoo-technical issues needs to be improved.

Good progress was made in the **placing of food, feed and animal by-products on the market** with the adoption of implementing legislation to align with the EU *acquis*. The Law on animal by-products was revised in order to cover the planned operation of the rendering plant for animal by-products, but is yet to be adopted. The government adopted the roadmap of activities and responsibilities for establishing the country's animal by-products system.

The Agency continued its programme for dairy farms in full compliance with the health and hygiene standards of raw milk.

Good progress was also made on **food safety rules**. Legislation was aligned with the EU *acquis* on labelling, food for particular nutritional uses, quick-frozen foodstuffs and ionising radiation. However, checks were not systematically carried out according to EU standards. Procedures were simplified for the authorisation of health claims and the placing on the market of food supplements and food for special nutrition use. The Agency continued to implement a program to monitor food safety, but the data needs to be further analysed.

Regarding **specific rules for feed**, the legislation was aligned with the EU *acquis* on the placing on the market and use of feed, feed additives and undesirable substances. The implementation of the programme to improve the safety of feed needs to be improved.

Some progress was made to align with EU **phytosanitary** standards. For example, the country's pest status was regularly updated and the Phytosanitary Directorate updated the list of harmful organisms in line with the new EU *acquis*. A law on plant protection products is yet to be adopted. The system for controlling the use of pesticides is weak, but the phytosanitary inspection began to introduce pests eradication measures through the monitor and control programmes. Contingency plans for two harmful organisms were prepared and

work started on a phytosanitary information system. The Phytosanitary Directorate increased its capacity to analyse collected data by involving universities and scientific bodies in the monitoring programme. Coordination between the relevant authorities improved.

The Law on **genetically modified organisms** was aiming to be aligned with the EU *acquis*, but the ban on production, placing on the market and import of genetically modified organisms food and feed prevent full alignment before accession. The country records the authorised genetically modified organisms.

5.13 Chapter 13: Fisheries

The common fisheries policy lays down rules on fisheries management, protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules on markets and aquaculture and support for fisheries and coastal communities.

The country is **moderately prepared** in the area of fisheries. **Limited progress** was made in the sector with implementation of structural actions to support investment in fisheries. The fight against illegal, unreported and unregulated fishing continued. In the coming year, the country should in particular:

- step up its efforts to further align and implement the relevant fisheries *acquis*;
- improve the data collection system and reporting;
- set-up multiannual support programmes for structural measures.

As North Macedonia only has inland fishing in lakes and aquaculture, a large part of the fisheries *acquis* is not applicable. The national legal framework has not been reflecting the changes to the common fisheries policy.

Administrative capacities for **resource and fleet management**, and **inspections and control** of fisheries policy remain insufficient, as does the capacity to control illegal fishing.

Some **structural measures** have been put in place, to support investments in aquaculture. Measures to increase fish stocks have been limited due to the decrease in funding of the annual fisheries programme.

No progress was made on **market policy**. Policy measures to align to the EU Eel Regulation are pending.

There were no major developments during the reporting period on market policy, State aid or international agreements.

5.14 Chapter 14: Transport policy

The EU has common rules for technical and safety standards, security, social standards, state aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport.

The country is **moderately prepared** in the area of transport. **Limited progress** was made in the reporting period but only in relation to connectivity. Increased political commitment is still required to deliver on necessary sectoral reforms and more efforts are needed to strengthen the administrative and operational capacity for all modes of transport. There was no progress in completing key sector reforms and the 2019 recommendations remain valid. In the coming year, the country should:

- strengthen the operational and administrative capacity of the inspection bodies and develop enforcement capacity to reduce fatalities along road and rail infrastructure;

- implement the connectivity reform measures on rail reform and open the rail transport market, set up a national system to continuously collect data on road crashes, and finalise pending border crossing agreements/protocols;
- adopt legislation on Intelligent Transport Systems (ITS) and combined transport, and make further efforts to produce a strategic framework for implementing ITS and the core networks.

On **general transport** *acquis*, the key strategic documents for transport and its sub-sectors are already in place. The 2018-2030 national transport strategy does not yet have a dedicated action plan. There was no progress in strengthening the operational and administrative capacity for all modes of transport. The Law on air and railway accident investigation is already in place. However, there are still delays in setting up the independent rail accident investigation body. Further efforts are needed to implement the EU passenger rights legislation in all modes of transport. Further efforts are also needed to fully transpose the Intelligent Transport System (ITS) Directive and introduce the relevant national laws. An overall strategy for ITS with accompanying resources is needed.

The legal framework for **road transport** is broadly aligned with the EU *acquis*. The legislation on dangerous goods is aligned with the EU *acquis*. No progress was made on the conformity assessment of the existing equipment for the transport of dangerous goods. Further efforts are needed to align with the social and safety EU *acquis*. Additional efforts are also needed to establish a national system for continuous road crash data collection. The action plans on road safety inspection and audit need to be followed up and implemented. The State Transport Inspectorate needs to strengthen its enforcement and technical capacities. Further harmonisation is needed on penalties for infringing the European Agreement on the work of crews of vehicles engaged in international road transport (AETR). No progress was made on transposing the legislation on clean energy and energy efficient road transport vehicles, and intelligent transport systems, or on approving of the five-year road and rail maintenance plans.

On **rail transport**, the main requirement of the EU *acquis* - make the national infrastructure management independent from the state-owned railway company – has been met. The country's railway sector still needs to be transformed and there are delays in separating accounts for passenger and freight operations. Further harmonisation and transposition of large parts of the single European railway area *acquis* were delayed. No progress was made in the opening up of the rail market to the Orient East/Med corridor. Railway safety legislation is harmonised, but further efforts are needed to implement it correctly. The cross-border railway cooperation agreement with Greece is yet to be signed and the one with Kosovo needs to be fully implemented. The accident and investigation body has not been set up yet. In November 2019, the railway authorities signed the Declaration on European Railway Safety Culture, which aims to raise awareness and promote a positive safety culture throughout the industry.

On **maritime transport**, the country is a party to all basic transport conventions of the International Maritime Organisation.

In the area of **inland waterway transport**, the country is aligned with most of the EU *acquis*, except for the Regulation on the recognition of certification and transportation of goods and passengers. There is no law on merchant shipping, as no goods are transported on the inland waterways. The country continues to participate actively in the International Commission of Sava river basin, but not in the EU strategy for the development of the Danube Region.

On **aviation**, North Macedonia has maintained a good level of alignment with the EU *acquis* and has partially aligned with the aviation safety legislation. EU support is helping the Civil

Aviation Authority comply with requirements of the European Common Aviation Authority Agreement. Alignment and implementation of the Single European Sky legislation still needs to be verified by the European Aviation Safety Agency (EASA). Further efforts are needed to facilitate the EASA standardisation inspections.

On **combined transport**, progress is needed in setting up a multimodal node near Skopje and in adopting specific legislation aligned with EU rules.

5.15 Chapter 15: Energy

EU energy policy covers energy supply, infrastructure, the internal energy market, consumers, renewable energy, energy efficiency, nuclear energy and nuclear safety, and radiation protection.

The country continued to be **moderately prepared** in this area. **Good progress** was made, notably through the adoption of implementing legislation in relation with the third energy package. In the coming year, the country should in particular:

- finish unbundling the gas transmission system operator;
- increase the number of staff as well as the technical/engineering capacity of the Energy Department in the Ministry of Economy and the Energy Agency;
- adopt and implement the Energy Efficiency implementing legislation.

The national energy strategy that runs until 2040 has been adopted. It reflects the EU energy and climate policy priorities and 2030 targets, as well as the integrated energy and climate strategy.

Concerning **security of supply**, the availability of coal for the Bitola thermal power plant still needs to be urgently addressed, including by investing in new resources. The entry into force on the Law on compulsory oil reserves has been postponed again, this time until 2021. Oil stocks correspond to 74 days of average daily consumption, but the method for calculating them is inadequate. The adoption of implementing legislation and action plans that comply with the Oil Stocks Directive has also been delayed. The oil industry is compensated for holding emergency oil stocks.

The construction of a new 400kV electricity transmission interconnector line with Albania is under way. On gas interconnections, the government has taken measures to ensure the necessary funding for the construction of an interconnection line with Greece and Serbia. A feasibility study on the interconnection line with Kosovo is being prepared. The electricity transmission system operator participates in the regional auction office in Southeast Europe. The roadmap for electricity coupling with Bulgaria is pending the establishment of a day-ahead market in North Macedonia.

On the **internal energy market**, good progress has been made in further aligning the country with EU's third energy package in gas and electricity. The electricity and gas markets are open for competition and the country is well on the path to adopt the corresponding implementing legislation. North Macedonia's electricity transmission system operator has completed ownership unbundling and is certified. The gas transmission system operator is not unbundled, as required by the third energy package, due to the ongoing dispute on the ownership of the gas transmission pipeline, which needs to be resolved soon. The electricity distribution system operator is legally and functionally unbundled, and the possibility has been introduced to exempt a gas distribution system operator from unbundling when there are less than 100.00 customers is implemented.

The National Electricity Market Operator of North Macedonia (MEMO), established as a spin-off of the transmission system operator, became operational on 1 October 2019. The Energy Regulatory Commission approved new market rules. In October 2019, the government adopted a decree on the operation of the organised market operator and designated MEMO as an organised electricity market operator.

The new balancing mechanism is fully market oriented.

The retail market was liberalised on 1 July 2019. Universal supply and supply of last resort is performed by the supplier selected through competitive procedures.

Third-party access to natural gas is in line with the EU *acquis*, but transparency needs to be improved. Works are under way to build the gas transmission pipeline between Negotino-Bitola and Skopje-Tetovo-Gostivar.

The Energy Regulatory Commission is operational, but its independence is hampered by political interference.

On **hydrocarbons**, the Law on mineral resources aims to align with the EU Hydrocarbon Licensing Directive.

The amended national **renewable energy** action plan aims to meet the revised binding target of 23% of energy coming from renewable energy sources by 2020 and 24% by 2025. In 2018, the country achieved only an 18.12% share.

The country's energy Law is fully aligned with the EU Renewables Energy Directive, following adoption of several pieces of secondary legislation to implement the renewable energy rules.

Feed-in-tariffs remain in place, and premiums have been introduced under a support scheme for solar power plants. In 2019, the first auctions for 62 MW of solar power plant took place. The contracting and building of small hydro power plants is not systematic or transparent.

Provisions on the sustainability of biofuels are still not aligned with the EU *acquis*.

The capacity cap per type of renewable energy technology has to be removed for the 2020 renewable energy target to be met. Investments in hydropower should be aligned with the relevant environmental EU *acquis*.

The fourth action plan on **energy efficiency** has not been adopted. A new Law on energy efficiency that aims to align with the EU energy efficiency and the energy performance Directives, has been adopted. The current legislation needs to be enforced. Adopting implementing legislation remains a challenge, due to limited human and technical resources at the Ministry of Economy's energy department and the Energy Agency.

Financing to promote energy efficiency should be increased, including by setting up the Energy Efficiency Fund. Household heating is a serious problem and has a major impact on air pollution. Municipalities should take steps to fully respect their obligation to develop and implement municipal energy efficiency programmes.

For **nuclear energy, nuclear safety and radiation protection**, the country has ratified the relevant international conventions on nuclear safety and radiation protection and is a full member of the European Community Urgent Radiological Information Exchange system. The government adopted a national policy for radioactive waste management. There is still no long-term and safe radioactive waste storage facility in the country.

5.16 Chapter 16: Taxation

EU rules on taxation cover value-added tax, excise duties and aspects of corporate taxation. They also deal with cooperation between tax administrations, including the exchange of information to prevent tax evasion.

The country is **moderately prepared** in this area. **Some progress** was made in adopting the law on excise duties and ratifying the OECD Convention on mutual administrative assistance in tax matters. However, the reforms introduced in 2019 on personal income taxation are now put on hold. As not all recommendations of the 2019 report were implemented in the coming year, the country should in particular:

- improve the capacity of the central and local tax administration by adopting and efficiently implementing the tax system strategy;
- develop a new integrated IT tax model for the Public Revenue Office, improve its risk management through automated processes and further extend e-services for tax payers.

On **indirect taxation**, while the Law on value added tax (VAT) still contains certain exemptions which are not in line with the EU *acquis*, VAT refunds are processed quicker and delays, if any, are shorter. Progress was made on excise duties with a new law entering into force on 1 January 2020. It provides for electronic control of the movement of excise goods under duty suspension. The law includes electricity, gas and coal in its scope and excludes motor vehicles, thus further aligning it with the EU *acquis*.

Regarding **direct taxation**, most of the reforms to personal taxation introduced in 2019 are now suspended. From 1 January 2020 and for the next 3 years, all types of personal income (with the sole exception of games of chance winnings) are again taxed at the rate of 10% rather than subject to progressive rates of 10-18% as foreseen previously. Interest on savings and capital gains on securities are once again exempt.

On **administrative cooperation and mutual assistance**, North Macedonia has signed 50 double taxation agreements to date including with all EU Member States except Portugal, Greece, Cyprus and Malta. A peer review report by the Global Forum on Transparency and Exchange of Information for Tax Purposes rated the transparency and exchange of information as largely compliant with the international standard. In September 2019, the country ratified the OECD Convention on mutual administrative assistance in tax matters. North Macedonia remains committed to implementing the OECD Inclusive Framework on Base Erosion and Profit Shifting minimum standards.

Regarding **operational capacity, computerisation and the informal economy**, the Public Revenue Office (PRO) still has to improve its business processes, implement a new integrated IT tax model, improve risk management through automated processes and further extend e-services. Internal promotions and new staff recruitments took place in 2019, including an increase in staff of the country's large taxpayers office. The tax system strategy, covering fair taxation, revenue collection, tax transparency, quality of services and green taxation, has yet to be adopted. The PRO supports voluntary compliance by issuing pre-filled annual tax returns on its electronic personal tax platform. It is combating the informal economy and improving tax collection by providing a monetary incentive for customers to require invoices and tickets on their purchases and by participating in joint inspections with other national bodies to identify unpaid tax liabilities and unregistered taxpayers.

5.17 Chapter 17: Economic and monetary policy

EU rules require the independence of central banks and prohibit them from directly financing the public sector. EU Member States coordinate their economic policies and are subject to fiscal, economic and financial surveillance.

The country remains **moderately prepared** in the area of economic and monetary policy. **Some progress** was made in transparency and accountability of budget expenditure. The 2019 recommendations were partially implemented. In the coming year, North Macedonia should take further measures to:

- amend the civil service law to grant the central bank full independence;
- adopt the new organic budget law that includes fiscal rules, arrangements for an independent fiscal council and introduces a proper comprehensive medium-term budgetary framework;
- ensure the implementation and the assessment of economic, social and environmental impact of the measures introduced to support the businesses affected by the COVID- 19 crisis, in particular micro, small and medium-sized enterprises and self-employed.

On **monetary policy**, the alignment of the country's legal framework with the EU *acquis* is at an advanced stage. No progress was made, however, on further aligning legislation to fully ensure the central bank's financial and institutional independence. According to the Law on the central bank, monetary financing of the public sector is prohibited and the public sector does not have privileged access to financial institutions. Price stability is the central bank's principal objective, which is fully in line with the primary objective of the European System of Central Banks. The central bank adequately responded to the COVID-19 induced crisis by cutting its monetary policy rate and implementing regulatory changes to encourage banks to restructure debts of high-quality borrowers affected by the pandemic.

Regarding **economic policy**, the work on sound budgetary policies and to further align fiscal policy with the Directive on Requirements for Budgetary Frameworks has advanced with the preparation of the draft organic budget law, whose adoption is pending. The draft organic budget law foresees the establishment of fiscal rules, an independent fiscal oversight body and a medium-term budgetary framework. Progress was achieved in the transparency and accountability of budget transactions that are disbursed by the Treasury with the introduction of the new web platform 'Open Finances'. The definition of public debt has been broadened to include the non-guaranteed debt of public enterprises and joint stock companies fiscal reporting and notifications under the excessive deficit procedure are in line with the European System of National and Regional Accounts 'ESA 2010'. The 2019 action plan of the 2018-2021 public finance management reform programme was partially implemented.

The 2020-2022 **Economic Reform Programme** was submitted on time. The country was among the best performers for the implementation of the 2019-2021 Economic Reform Programme. To select the most appropriate structural reform measures, the country needs to further develop the capacity to assess the economic and social impacts.

5.18 Chapter 18: Statistics

EU rules require that Member States are able to produce statistics based on professional independence, impartiality, reliability, transparency, and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.

The country is **moderately prepared** in the area of statistics. **Good progress** was made, especially in implementing the pilot phase of the population census and testing the new census methodology that partly relies on administrative data. Improvements are noted in all

statistical areas and further aligning of sectoral statistics with EU standards. Continued efforts are needed to improve the scope and data quality of macroeconomic and social statistics. As the last year's recommendations were carried out, in the coming year, the country should in particular:

- adopt the legislation and ensure the necessary administrative capacities to carry out the population census in 2021;
- continue to align financial accounts and quarterly national accounts with the European System of Accounts 2010 (ESA 2010);
- ensure adequate staffing and sufficient financial resources for the State Statistical Office.

The legal framework for **statistical infrastructure** is broadly in line with the European Statistics Code of Practice. In 2019, the Parliament set up the Statistical Council and appointed its members. The coordination committee of national authorities responsible for conducting statistical surveys was set up. Resources of the state statistical system need to be further increased. Regarding other main statistics providers, the central bank is fully committed to the statistical standards' code of practice and is improving its capacity to apply it. The Ministry of Finance has not yet appointed a head of statistics. The IT systems are being upgraded to increase speed, interconnectivity and storage capacity. Dissemination tools were improved.

On **classifications and registers**, the main classifications comply with the EU *acquis* and are updated regularly. Progress was noted in the use of administrative data sources, including for preparing the population census. A population register was made operational. Data availability and quality improved but still need to be optimised. Data transmission to Eurostat further increased but remains incomplete.

The State Statistical Office (SSO) made good progress on **macroeconomic statistics**. Data on annual and quarterly GDP in current and constant prices are compiled and transmitted according to ESA 2010 guidelines, as are annual sector accounts. Seasonally adjusted quarterly national accounts should be transmitted to Eurostat. Annual sector accounts are produced in accordance with ESA 2010. Supply/use tables are regularly prepared. Progress was made in improving the government finance statistics (GFS) and the excessive deficit procedure (EDP) notifications. In the GFS and EDP data, taxes are now recorded on an accrual basis. In 2019, the financial accounts were prepared and submitted in experimental data form. The central bank produces statistics on the balance of payments and foreign direct investment according to the latest standards.

Structural **business statistics** and short-term statistics for the industry and construction sectors are well developed. The business register model is being revised and updated with a new delineation of enterprise groups. On foreign affiliates statistics (FATS), data for 2016 and 2017 were published for inward FATS. Statistics on research and development and on ICT are sufficiently aligned. For services statistics, turnover indices are now regularly produced, disseminated and transmitted to Eurostat in accordance with the regulation. On tourism, in 2019 the SSO set up a regular survey on travel by the domestic population and data are transmitted to Eurostat. Preliminary work to set up a tourism satellite account has started. Transport statistics have improved with the transmission to Eurostat of microdata on road freight.

Good progress was made on **social statistics**, with the successful completion of the pilot population census using the combined methodology and computer-assisted personal interview. However, the Parliament has yet to adopt the census law and the census is

postponed to 2021. The survey for statistics on income and living conditions is regularly carried out. Progress was achieved with improvements in social protection statistics. Migration statistics need to be further improved. Labour market statistics are largely aligned with the EU *acquis*. Activities are under way to improve statistics on crime, education and public health statistics. The harmonised index of consumer prices data are transmitted to Eurostat every month.

Agricultural statistics are only partly in line with the EU *acquis*. The farm structure survey continues to be conducted regularly. For the annual crop statistics, the EU methodology for surveys and the data-editing procedure was tested. For animal production statistics, it developed forecast and estimation models. Agro-monetary statistics are produced in line with the EU *acquis*. **Energy and environment statistics**, including environmental protection expenditure, waste, water, and environment-related taxes are mostly in line with the EU *acquis*. The country also provides short-term energy statistics and energy balances. Compilation work has begun for air emission accounts and physical energy flow accounts. Material flow accounts are generated, although material flow balances are not yet included.

5.19 Chapter 19: Social policy and employment

EU social rules include minimum standards for labour law, equality, health and safety at work and non-discrimination. They also promote social dialogue at European Union level.

The country remains **moderately prepared** in this area. There was **some progress** in the reporting period in reducing the unemployment rate and increasing the benefits of social assistance. The Youth Guarantee Scheme was successfully implemented on the territory of the whole country, including underdeveloped regions. The Employment and Social Reform Program is partially implemented. Implementation of the new Social Protection Act should reduce the poverty rate, which remains a serious problem. As a follow on to the COVID-19 crisis, the government of North Macedonia has taken a number of mitigating socio-economic measures.

As the previous year's recommendations were not fully implemented, they remain valid. In the coming year, the country should in particular:

- continue to implement activation measures for long-term and low-skilled unemployed people, including women, persons with disabilities and Roma;
- improve capacities of the State Labour Inspectorate and reinforce the bipartite social dialogue between employers and workers;
- continue provision of assistance to all vulnerable groups in society while addressing poverty and anti-discrimination.

The existing labour legislation allows for fair and equal treatment of workers and provides a relatively good protection in case of dismissal. However, enforcement of the legislation continues to lag behind in many areas. A consultation on the new **labour law** is under way. Amendments to the Law on Minimum Wages, which provide for a steady rise in the minimum wage, aiming to boost the economy through private consumption, were enacted. The professional performance of the State Labour Inspectorate remains low. There were no major issues regarding child labour.

On **health and safety at work**, the administrative capacity slightly improved with the recruitment of additional inspectors. However, the capacity is still insufficient to ensure that the legal provisions are enforced. The number of inspections intensified during the COVID-19 outbreak and focused primarily on protection of workers' health and compliance of

employers with recommended protective measures. The 2017-2020 Strategy on Occupational Health and Safety was partially implemented. A revision of the current Law on Safety and Health at Work was initiated. Inter-institutional coordination and co-operation was weak, as was the implementation of occupational health and safety legislation. According to civil society organisation reports, there were 141 reported injuries at workplace in 2019, of which 22 were fatal.

Limited progress was made on **social dialogue**. The Economic and Social Council was actively involved in the amendment of the Law on Labour Relations. Tripartite consultation structures were established in 12 municipalities. The bipartite social dialogue in the private sector remains poor, as does the commitment of social partners to reinforce the collective agreements. Trade union membership is decreasing, undermining workers' representation. Overall, workers' confidence in trade unions' capacity to function in an independent way is deteriorating. The implementation of the Law on Peaceful Settlement of Labour Disputes remains weak. Overall, social dialogue is inadequate and social partners' capacities remain weak. Out of 79 ratified International Labour Organisation Conventions, 77 are in force, with no new Conventions ratified during the reporting period. Concerns have been expressed that the new Law on Primary Education and the Law on Secondary Education contain provisions, allowing for the replacement of striking workers in primary and secondary education, that diverge from the International Labour Organisation Convention 87 on Freedom of Association and Protection of the Right to Organise.

On **employment policy**, the unemployment rate dropped to its lowest level since the country's independence at 16.2% in quarter one of 2020 before the onset of the COVID-19 pandemic. Women's labour market participation also slightly increased (55.5% of the 15-64 year-olds). These positive trends are however likely to be reversed as a result of the COVID-19 crisis. The employment of Roma, the long-term and low-skilled unemployed and persons with disabilities is supported by the guaranteed minimum assistance scheme introduced by the Law on Social Protection and expected to bring further reduction of poverty through higher coverage and larger benefit. Since March 2020, the government has adopted a number of temporary socio-economic measures to mitigate the impact of the COVID-19 pandemic on employment. The implementation of the 2018-2020 Action Plan on Employment, which addresses inclusion of vulnerable groups in the labour market, is progressing. The youth unemployment rate decreased compared with previous years to 35.6% in quarter four of 2019. It however remains a major concern, addressed with the further implementation of the Youth Guarantee Scheme on the whole territory of the country. Measures on undeclared work under the 2018-2020 Strategy for Formalisation of the Informal Economy were partially implemented. The occupational outlook was further developed with 45 occupation descriptions published by quarter one of 2020. The Employment Service Agency's capacity should be strengthened by recruiting additional staff, especially in light of the increased and diversified workload created by the newly adopted policy measures. Although the number of Roma benefiting from active employment measures increased, it is still 10 times lower than for non-Roma beneficiaries. The criteria for participating in active employment schemes should be reviewed to ensure increased participation of vulnerable people, including Roma.

The revised Economic and Social Reform Programme was adopted by the government in December 2019, following a consultation with relevant stakeholders.

Preparations for participating in the **European Social Fund** continued. The Sector Monitoring Committee to support education, employment and social policy was established.

Progress continued on **social inclusion and protection**. The new Law on Social Protection was adopted, marking the start of a reform of the social protection system. As a response to

the COVID-19 outbreak, a decree was adopted amending the Law on Social Protection in order to allow for people facing loss of earnings to be entitled to Guaranteed Minimum Assistance from the following month. The proportion of employed people at risk of poverty was 8.8%, while for pensioners it was 7.9%. The Gini coefficient to measure income distribution inequality was 31.9. Roma and persons with disabilities remain at the highest risk of poverty.

A social pension scheme was included in the new Law on Social Protection, providing assistance to people above 64. The capacity of the social work centres must be further strengthened to allow them to implement the newly adopted legislation, in line with the country's policy of de-centralisation of social assistance.

Implementation of the 2018-2027 National Strategy on **De-institutionalisation** has started and has already contributed to the inclusion of children with disabilities in the society. Re-settlement of children and adults from institutional care to foster families or community-based housing is ongoing. The relevant institutions are highly committed to the de-institutionalisation process but have underestimated the time needed to prepare the process and fulfil the preconditions. This has led to negative reactions by local communities where group homes have been set up. Conditions in residential institutions for adults with disabilities remain very poor.

On **equality between women and men in employment and social policy**, the first Gender Equality Index was published showing significant gender differences in participation and quality of work. Women are less likely to be employed fulltime than men. In 2019, the employment rate for men was 64.4% compared to 44.7% for women.

While there is the national Law on Protection against Workplace Harassment and training of public sector workers on gender equality to promote gender equality and eliminate sexual harassment in the workplace, there is no existing data on incidents of sexual harassment in the workplace or a system to investigate such incidents. According to the Law on Health Insurance, women need to work at least 6 months with the same employer to be entitled to maternity leave. Measures are being taken to increase childcare and pre-school capacity, which should help women return to the workplace. Both gender stereotyping and the gender pay gap persist.

On **non-discrimination in employment and social policy**, in May 2020, the Constitutional Court repealed the Law on Prevention and Protection against Discrimination on procedural grounds, thus depriving the country of a comprehensive legal framework on non-discrimination. The Ombudsman's 2019 annual report refers to 60 discrimination-related complaints, out of which the Ombudsman concluded discrimination in 24 cases. (See also *Chapter 23 — Judiciary and Fundamental Rights*)

5.20 Chapter 20: Enterprise and industrial policy

EU enterprise and industrial policy strengthens competitiveness, facilitates structural change and encourages a business-friendly environment that stimulates small and medium-sized enterprises (SMEs).

The country is **moderately prepared** in this area. **Some progress** was achieved in implementing the strategy to fight the informal economy, increasing financial support to companies and improving the structure of public dialogue with businesses. As not all recommendations from the previous year were fully implemented, in the coming year North Macedonia should:

- consolidate the institutional setup and further clarify the mandates of public bodies and ensure the effective implementation, monitoring and evaluation of adopted and implemented strategies and policy measures;
- continue implementing, assess and renew the strategy and action plan for formalising the informal economy, with specific attention to its business environment component;
- elaborate further productivity raising measures to increase competitiveness of domestic companies and facilitate their integration in global value chains.

Regarding **enterprise and industrial policy principles**, the economic growth plan (EGP) has become the country's main enterprise and industrial policy. Several other strategies and annual policy measures carried out by numerous public institutions are also relevant, though they generally have relatively modest funding. The Plan lacks impact indicators and systematic evaluation of past interventions as well as further productivity-rising measures for domestic companies, complementary to actions in other policy areas.

While an input-based monitoring mechanism has been set up in most public bodies, evaluation mechanisms are insufficient for most national strategies, and available indicators need reviewing. Little evidence can therefore be obtained as to whether the introduced measures contribute to overall competitiveness and economic growth. There are still numerous public bodies with overlapping and conflicting mandates. Some bodies largely use external contractors to carry out their tasks rather than increasing in-house resources. The management of public investments contributes to insufficiently high investment level leading to unfavourable consequences for competitiveness.

Some progress in addressing structural obstacles in the business environment was made with the implementation of the strategy and action plan for the formalisation of the informal economy. Frequent changes to the regulatory framework, such as increasing the minimum wage, introducing and then reversing progressive taxation and thresholds for cash payments, are made without sufficiently consulting businesses. The lack of transparency of para-fiscal charges, uneven enforcement of business regulations and skills mismatches in the labour market are still major obstacles to doing business.

The government's electronic system for consulting the private sector on proposed legislation is operational. However, it is infrequently used for business-related laws. A new energy strategy was adopted setting out measures to improve system efficiency in the manufacturing industry.

On **policy instruments**, the aspects of the Late Payment Directive that relate to public bodies' payment obligations are not yet fully aligned with the EU *acquis*. The Law on financial discipline should be amended to improve businesses prospects of collecting claims from public bodies.

Overall, public funding for business support measures increased further in 2019. Most of the funds, about EUR 40 million, were disbursed as grants to about 120 companies under the EGP. An additional amount of around EUR 27 million was awarded to the private sector for technology transfer and innovation. Although the distribution of grants under the EGP is made following public calls, the overall process of grant award is not sufficiently transparent. The new Law on strategic investments, that sets specific rules on financing strategic investment projects, was adopted without appropriate public consultations and without the required prior consultation with the State aid authority. The law's policy objective should be clarified. The Innovation Fund increased its number of full-time staff from four to eight.

Bank lending remains the main source of private sector financing, as other financing instruments are modest. In total, four investments were financed from the Enterprise Development & Innovation Facility (EDIF) and eight projects benefited from the programme for the competitiveness of SMEs (COSME) since these instruments were set up. Efforts are needed on raising the private sector's awareness on how to make better use of COSME and EDIF. Organisations from North Macedonia successfully participate in the COSME financed Enterprise Europe Network and Erasmus for Young Entrepreneurs.

On **sectoral policies**, a new national strategy for tourism development is under preparation. Three separate sets of programmes for tourism development are managed by Ministry of Economy, the Agency for Tourism, and the Cabinet of Deputy Prime Minister for Economic Affairs.

5.21 Chapter 21: Trans-European networks

The EU promotes trans-European networks in the areas of transport, telecommunication and energy to strengthen the internal market and contribute to growth and employment.

The country maintains a **good level of preparation** in the area of transport networks. **Limited progress** was achieved during the reporting period. There was no progress in completing sector reforms and the 2019 recommendations remain valid. In the coming year, the country should in particular:

- further strengthen the operational and technical capacity of all management and stakeholder institutions dealing with the development of both Trans-European Transport (TEN T) and Trans-European Energy (TEN E) networks, and harmonise the legal framework with the Trans European Network Regulation;
- mobilise sufficient resources to implement the Transport Community Treaty;
- sign the pending Railway Border Crossing Protocol with Kosovo.

On **transport networks**, the country actively participates in the Transport Community Treaty and is actively involved in its meetings. The authorities of North Macedonia authorities are encouraged to intensify cooperation under this Treaty. As a reaction to the COVID-19 pandemic, green corridors were established and are functioning effectively throughout the major corridors.

Road Corridor X is functional but works along Corridor X-d are delayed. The construction of the rail Corridor VIII towards Bulgaria is facing significant delays with only 28% completed. This will have serious consequences for opening the final section of the Orient/East Med Corridor. A serious effort is needed to accelerate progress in all phases of this corridor and other priority sections of the core network for both rail and road. The lack of a staff retention policy by institutions and bodies involved in large investment projects considerably hampers the completion of strategic projects. Staff retention policies therefore need to be substantially improved. Connectivity related reform measures also need more attention in order to ensure the sustainability of infrastructures. The railway border crossing agreement with Greece has not yet been finalised and no actions has been taken to sign the remaining border crossing protocol with Kosovo that need to be finalised without any further delay. Preparations to build an adequate infrastructure close to the Serbian border, at the Tabanovce railway border station, should start. No progress was made on adopting five-year road and rail maintenance plans.

On **energy networks**, preliminary works to build the Bitola-Elbasan (Albania) 400kV electricity interconnection section are under way. On gas interconnections, the government is

taking measures to ensure the necessary funding for the construction of an interconnection line with Greece and Serbia. A preliminary study on the gas interconnectors with Kosovo is ongoing. The state-owned gas transmission operator completed construction of the Klecovce-Štip gas transmission pipeline. Activities on the gas pipeline Stip–Negotino are ongoing.

5.22 Chapter 22: Regional policy and coordination of structural instruments

Regional policy is the EU's main investment policy for sustainable and inclusive economic growth. Member States bear responsibility for implementation, which requires adequate administrative capacity and sound financial management of project design and execution.

The country is **moderately prepared** in the area of regional policy and coordination of structural instruments. **Some progress** was made in strengthening the national capacity for strategic planning and sector-based programming and monitoring. The established management and control systems are functional and support the implementation of the Instrument for Pre-accession (IPA). In the coming year, the country should in particular:

- upgrade the administrative and technical capacity across the IPA operating structures, adopt a retention policy and improve the dynamics in implementation of the EU-funded projects, particularly in the areas of transport and environment;
- strengthen significantly the regional development policy, improve the financial instruments put in place for its implementation and improve the administrative capacity at central and local level;
- ensure the sustainability of project results.

On the **legislative framework**, some progress was made in harmonising national law with the EU *acquis* by creating preconditions for implementing existing and future EU structural funds. Improvement included laws on public procurement, on prevention and protection from discrimination and on NUTS classification. The introduction of a new medium-term budgetary framework, improved budgetary classification, new fiscal rules, financial control and internal audit is still pending.

In 2019, key strategic documents were adopted in support of economic and social cohesion with the EU, such as the economic reform programme and the revised economic and social reform programme. Although it is gradually increasing the annual spending on regional development policies, the country still needs to put in place an integrated planning, management and monitoring system for regional development. The purpose is to address the disparities among the NUTS 3 regions, and to tailor the policies to the specific needs of the areas suffering economic and demographic handicaps.

The **institutional framework** for managing the EU pre-accession assistance (IPA) has been set up and is operational. The country submitted the annual management declarations for year 2019 for all ongoing EU programmes certifying the reliability of the accounts, the use of the EU funds for the intended purpose and the legality and regularity of the underlying transactions.

Administrative capacity significantly deteriorated in 2019 and no progress was made on the staff retention policy. The high middle management turnover rate in the central financing and contracting department and line ministries considerably weakened the internal control functions and decreased the quality of procurement and contracting process. The role of the National IPA Coordinator (NIPAC) as principle coordinator and EU contact point for the management of EU funds needs to be strengthened. The IPA training centre has not yet proved its efficiency in monitoring the capacity building needs of the established structures

and proposing credible training programmes. There is a need to increase capacity across the whole system, which requires an urgent response by the authorities.

The IT capacity of the operating structures has increased. Thanks to an upgrade, the management information system now enables good tracking of the procurement and contract management.

On **programming**, the sectoral approach has had a positive impact. The framework for inclusive policy-making and reporting has proven effective in guiding national and donor investments. The current programming rate of the EU funds for the 2014-2020 financial framework stands at 104% and programming is entirely integrated into the national policy-making platforms. The National Investment Committee is operational. The single project pipeline is under revision. However, the capacity to manage capital and infrastructure investments needs significant improvement, particularly at the level of line ministries, which face serious delays in preparing mature and quality projects and ensuring the sustainability of results.

Some progress was made in the area of **monitoring and evaluation**. The country developed a sector-based performance assessment framework that allows for transparent policy-making and ‘on the ground’ reporting of clear outcome and impact indicators, as well as baselines and targets. All required IPA monitoring committees are operational and their effectiveness is increasing. However, the country needs to improve its monitoring and reporting on the implementation of the recommendations of the IPA Committee meetings and the related IPA Master plan.

As regards **financial management, control and audit**, the procurement and contracting of EU funds, although gradually improving, remain an issue of concern. The deficiency in the quality of the tender forecasts, procedures and documents and the weaknesses in the institutional set-up put the big EU investments around Trans-European Network Transport (TEN T) network at significant risk.

The external audit function is well established. The capacity of the Audit Authority improved, while the State Audit Office increased its involvement in auditing the EU programmes. Some progress was achieved also on internal audit, in particular internal auditors increased their knowledge and performance audit was introduced into the procedure. However, the regularity, coverage and quality assurance of the internal audit of EU funds need to be improved, and the number of competent internal auditors needs to be increased. Efforts are still needed to ensure that the anti-fraud coordination service within the financial inspection sector operates effectively. Transparency in the use of EU funds improved.

5.25 Chapter 25: Science and research

The EU provides significant support to research and innovation. All Member States can benefit from the EU’s research programmes, especially where there is scientific excellence and solid investment in research.

The country has a **good level of preparation** in the area of science and research. **Some progress** was made in the research and innovations capacities in the public and private sector and in the development of the Smart Specialisation Strategy. Out of last year’s recommendations, the country addressed investments in innovations in private companies and started the development of a Smart Specialisation Strategy (S3). Thus, in the coming year, the country should:

→ ensure a higher level of investment in research and intensify efforts to increase participation in the Horizon 2020 and future EU programmes for research and innovation;

→ continue to work on completing the S3 to underpin national research and innovation strategies and policies.

Some progress was made on **research and innovation**. The 2012-2020 innovation strategy continues to be the country's main policy document for improving innovation in private companies. Investment in research and innovation remains low and significantly below the EU average at 0.4% of GDP, with negligible but slightly improving private sector participation, which stands at 0.1% of GDP. There is a need for closer cooperation between academia and the private sector.

The country's performance in the Horizon 2020 **framework programme** continued to be low. Entities from North Macedonia have participated 95 times in 72 collaborative actions, Marie Skłodowska-Curie actions, European Research Council actions and Small and Medium-sized Enterprises Instrument actions of Horizon 2020, receiving EUR 10.6 million. The success rate of North Macedonia in Horizon 2020 was 11%, as compared to the overall average of 12%. No significant activities to promote the programme or support applicants were organised in 2019.

North Macedonia collaborates with the European Cooperation in Science and Technology Programme, the International Atomic Energy Agency, the Central European Exchange Programme for University Studies.

Regarding the **European Research Area**, the country's research capacity is low, compared with the EU average. The Centre for technology transfer and innovation, the business accelerator within the State University 'St. Kiril and Metodij', as well as the programme of subsidies for young researchers should improve the country's research prospects. The country started preparing the national roadmap for research infrastructure. North Macedonia is a member of the European Strategy Forum on Research Infrastructures (ESFRI). As of January 2020, North Macedonia participated in two ESFRI Landmarks¹⁴ and in two developing research infrastructure projects.

On **innovation**, the country was deemed a 'modest innovator' in the 2019 European Innovation Scoreboard, showing a decline compared with 2018. Its lowest indicator scores were for patent applications, design applications and public-private publications. The Fund for Innovation and Technological Development continued stimulating innovations through innovation grants and supporting start-ups and companies.

The country completed the first phase of the preparations for the **Smart Specialisation Strategy** (S3) and work is ongoing for the launch of the qualitative analysis of the six identified priorities with some delays as a result of the COVID-19 crisis. Once in place, the S3 will increase the country's research and innovation policy and improve its strategies in the field.

5.26 Chapter 26: Education and culture

The EU supports cooperation in education and culture through funding programmes and the coordination of Member State policy through the open method of coordination. The EU and the Member States must also prevent discrimination¹⁵ and ensure quality education for children of migrant workers, including those from disadvantaged backgrounds.

¹⁴ The Landmarks are METROFOOD-RI Infrastructure for Promoting Metrology in Food and Nutrition (HEALTH and FOOD) and METROFOOD-PP preparatory phase.

¹⁵ In EU law, equal treatment in the area of education is provided irrespective of racial or ethnic origin (see EU Directive 2000/43/EC of 29 June 2000) but not in relation to other possible grounds of

The country is **moderately prepared** in this area. **Some progress** was made with the adoption of the new Law on Primary Education and the new Law on Teachers and Associates in Primary and Secondary Schools and with reforms in Vocational Education and Training. The introduction of measures from the comprehensive 2018-2025 Education Strategy is progressing slowly. The recommendations of the 2019 report were only partially addressed and therefore, remain valid. In the coming year, the country should in particular:

- implement the new strategic framework for education, particularly the targets for pre-school education;
- increase support for teacher training and teacher professional development and ensure an effective assessment process;
- improve access to quality education for all, in particular preschool enrolment, children with disabilities and children from Roma communities.

Public spending on **education and training** was at 3.7% of GDP in 2019. As a result of the COVID-19 crisis, early childhood education and care activities were transferred to virtual broadcasts on a state TV channel 'TV classroom' and the teaching process for primary and secondary education was organised through distance learning.

Government investment in early childhood education and care increased and 1284 additional public pre-school places were made available in 2019. However, the overall level of enrolment remains low. Whereas the EU Education and Training target for 2020 on early childhood education and care attendance is set at 95%, only 40.2% of children from 3-6 years of age in North Macedonia were enrolled in licensed early childhood education and care institutions in the 2019/2020 school year.

A total of 185 955 pupils were enrolled in primary education and a total of 68 087 in secondary education in the 2019/2020 school year. The new Law on Primary Education and the new Law on Teachers and Associates in Primary and Secondary Schools aim to improve the quality of education. They include measures to make education more inclusive and to strengthen the professional development of teachers.

The results of the 2018 OECD Programme for International Student Assessment indicate an improvement in student performance. Of the participating countries, North Macedonia was the country in the region with the greatest improvement, ranking 11th from the bottom, compared with 4th from the bottom in the 2015 Assessment. Substantial improvement is still needed in the quality of primary and secondary education given the country's overall low ranking, also compared to its regional peers. North Macedonia participated in the 2019 Trends in International Mathematics and Science Study and started preparations to participate in the 2021 Progress in International Reading Literacy Study and 2021 Programme for International Student Assessment.

The education system is vulnerable to political influence and corruption. Access to mainstream education for children and students with disabilities remains poor with limited access to school buildings, lack of appropriate supplies and learning materials and insufficient support for teachers. Children and students from Roma communities continue to face barriers to regular and quality education and training. The new Law on Primary Education considerably strengthens the legal requirements for inclusive education. However,

discrimination. Regarding vocational training, EU law provides for equal treatment irrespective of racial or ethnic origin, sexual orientation, age, disability and religion or belief (see EU Directive 2000/43/EC and EU Directive 2000/78/EC of 27 November 2000).

government investment is also needed. As of January 2019, the cost for 400 Roma children enrolled in early childhood education and care is covered by the state budget through block donations to 20 municipalities. Separation along ethnic lines in education and training continues. Barriers to integrated education and training remain significant.

In higher education, the overall enrolment rate of students was 33.3% for the 2018/2019 academic year, 26.4% for males and 40.4% for females. However, the completion rate remains low. The National Agency for Quality in Higher Education, was established in December 2019.

Under the national qualifications framework system, three new standards of qualifications have been created since June 2019. A new National Qualifications Framework Board was formed in November 2019.

The revisions made to the Law on Vocational Education and Training (VET), adopted in December 2019, include explicit reference to the VET regional centres, thereby setting a base for investment. Throughout 2019, a reformed four-year VET programme was rolled out across all schools in the country. Additional efforts are needed to address the mismatch between skills required by the labour market and education and training outcomes. Establishing cooperation between VET schools and the labour market is a positive step in that direction. Increased government and private sector investment in VET and closer monitoring of VET outcomes, such as the labour market status of graduates, is still recommended. The country is an active member of the European Alliance for Apprenticeships (EAfA) and committed to implementing and monitoring the 2015 Riga Conclusions on Vocational Education and Training.

The country continues to actively participate in the Erasmus+ programme and, as a programme country, is on an equal footing with EU Member States. Successful applications from North Macedonia to the Erasmus+ programme have increased year after year. The National Agency for European Educational Programmes and Mobility is now a member of the European Youth Card Association.

The 2018-2022 national strategy for **culture** development is still at an early stage of implementation and work needs to intensify. The adoption of laws on culture and protection of cultural heritage, as well as the national strategy for protection of cultural heritage were further delayed. Awareness-raising, regular, and appropriate budget allocations are necessary to protect cultural heritage. Authorities must intensify inter-institutional cooperation in the protection of cultural heritage and prevent illegal constructions in places with a 'cultural heritage with particular importance' status, such as Ohrid and the Skopje Old Bazaar. Activities to implement the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions were further postponed to 2020.

The disbursement of funds under the annual programme for projects of significant national interest, which provoked criticism by numerous cultural operators about the Ministry of Culture's work and the political influence over its decisions, has not been clarified yet. The Ministry of Culture's capacity needs to be strengthened, in line with public administration principles, to ensure growth of cultural and creative industries and increase tolerance among communities. The country's level of participation in the Creative Europe programme continues to be satisfactory.

In December 2019, the National Agency for European Educational Programmes and Mobility launched the European Solidarity Corps, which specifically supports **youth** participation, social inclusion and volunteering. The local branch of the Regional Youth Cooperation Office continued to organise capacity building activities and training for civil society

organisations and schools, and participated in the legislative reform on youth and student standards.

The new Law on Primary Education requires that physical and health education in grades 1-5 is taught by teachers with specialised training. This should improve the quality of **sports** and physical education. The annual budget for sport in 2019 increased by 5% compared with the 2018 budget. Amendments were made to the income tax law and the Law on Sports which has helped increase the funding allocation for sport through a voucher system.

5.27 Chapter 27: Environment and climate change

The EU promotes strong climate action, sustainable development and protection of the environment. EU law contains provisions addressing climate change, water and air quality, waste management, nature protection, industrial pollution, chemicals, noise and civil protection.

The country is at **some level of preparation** in this area. **Limited progress** was achieved in nature protection, civil protection and climate change areas. However, implementation in all sectors is still lagging behind.

In the coming year, the country is encouraged to considerably step up ambitions towards a green transition and should in particular:

- improve inter-sectoral coordination and increase financial resources for reduction of air pollution at the local and national level;
- set up an integrated regional waste management system;
- implement the Paris Agreement, including by developing a comprehensive climate strategy and adopting a law, consistent with the EU 2030 framework, and develop a National Energy and Climate Plan, in line with Energy Community obligations.

Environment

On **horizontal issues**, administrative capacity at all levels remains weak and financial resources are still insufficient to implement existing legislation. There is a continuous dialogue with civil society, but further efforts are needed to improve access to information, public participation and consultations in decision-making processes. The country's first Aarhus Centre has been set up and will support public participation on environmental matters. Environmental impact assessment and strategic environmental assessment procedures need to be further improved. The quality of studies and public consultation processes, especially for projects related to hydropower, mining and infrastructure, needs to be further improved. The Law on environmental inspection is yet to be adopted. Some progress was made on the INSPIRE and environmental crime directives, but none was made in the area of environmental liability.

On **air quality**, insufficient coordination between central and local authorities as well as weak inter-sectoral cooperation limits the implementation of measures to reduce air pollution. Progress on the programme to reduce air pollution is slow. The national air quality monitoring network has been renewed with the replacement of few analysers, but it still requires considerable reinforcement. The number of pollutant exceedances remains well above the EU limits and air pollution is high in major cities during winter. Few cities have prepared an air quality plan but the pace of their implementation should be increased. There is an increased demand from the public for immediate and stricter measures against air pollution. The first lawsuit on air pollution and failure to protect citizens from the negative effects of pollutants has been filed with the Civil Court.

Regarding **waste management**, the laws on waste management and special waste streams have not been adopted yet. The process of establishing an integrated regional system for waste management continues to face delays due to insufficient administrative and financial resources, and it suffers from lack of ownership. Economic incentives to promote recycling and the prevention of waste generation remain limited. A systematic approach for remediation of environmental hot spots is not in place. This increases the risks to human health and the environment, as illustrated by the uncontrolled leakage of deposited methyl acrylate at former OHIS industrial site.

On **water quality**, limited progress was made. Further steps were taken to secure funds for the construction of the wastewater treatment plant in Skopje, and work on wastewater collectors is ongoing. Finalisation and implementation of river basin management plans shall be a priority. A system for monitoring quality and quantity of surface and groundwater is needed and more efforts are required to reduce non-revenue water. The country needs to make significant efforts to implement the EU *acquis* in this area. Administrative capacity and inter-institutional coordination need to be strengthened.

On **nature protection**, some progress was made on mapping natural habitats and identifying potential NATURA 2000 sites. Valorisation studies and management plans have been prepared for several protected areas but long term funding is still missing. A five-year national programme for biodiversity monitoring was developed. The implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora is still at an early stage. A national red list was developed for amphibians and reptiles and a conservation status has been determined for all 46 species. Some steps were taken to implement the UNESCO conclusions on the natural and cultural heritage of the Ohrid region. However, considerable efforts are still needed, notably to prevent it from being included on the danger list of world heritage.

On **industrial pollution and risk management** integrated permits continue to be issued. Insufficient enforcement of polluter accountability prevents the setting up of a system to prevent industrial and chemical accidents. Efforts are needed to align with the Seveso III Directive, EU Ecolabel regulations and environmental management audit system.

No progress was made in **noise** pollution during the reporting period. On **chemicals**, the Minamata Convention on mercury was ratified.

Some progress was made on **civil protection**. A national platform for disaster risk reduction was set up to improve disaster mitigation and response. A team of national protection and rescue experts was sent to Albania to assist the authorities following the November 2019 earthquake. Some steps have been taken to finalise the technical connection to the Commission's common Emergency Communication and Information System (CECIS). North Macedonia is strongly encouraged to implement recommendations of the 2018 Peer Review, including improving cooperation and coordination between the Protection and Rescue Directorate and Crisis Management Centre.

The COVID-19 highlighted the need to strengthen the legal framework and institutional capacities as well as human and financial resources of civil protection authorities also with regard to health emergencies. North Macedonia is encouraged to step up their cooperation in the framework of the Union Civil Protection Mechanism (UCPM), which was activated in the context of the COVID-19 crisis.

Climate change

The alignment of the legal framework with the EU *acquis* remains at an early stage. The preparation of a climate law and a comprehensive strategy on climate action, consistent with

the EU 2030 framework, is ongoing. More efforts are needed to implement the Paris Agreement. The fourth national communication is under preparation while the third biannual update report to the United Nations Framework Convention on Climate Change (UNFCCC) has been finalised. The preparation of the National Energy and Climate Plans in line with Energy Community obligation and on mainstreaming climate action into other sectors is in its final stage. The country is the first contracting party under the Energy Community that integrated the pillars of energy and climate approach into the national energy strategy. The Kigali amendment to the Montreal Protocol was ratified. Considerable efforts are still needed to align with the EU climate *acquis* and to strengthen technical and administrative capacity.

5.28 Chapter 28: Consumer and health protection

EU rules protect consumers' economic interests and in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, and medicines for human and veterinary use. The EU also ensures high common standards for upholding patients' rights in cross-border healthcare, and serious tackling cross-border health threats including communicable diseases.,

North Macedonia remains **moderately prepared** in this area. **No progress** was made on either consumer or health protection in the reporting period. In the coming year, the country should in particular:

- align the legal framework with the EU *acquis* on consumer protection, particularly with regard to the Law on Consumer Protection, and strengthen the operational structures serving consumer protection;
- intensify efforts on tobacco control;
- publish reports on the registers for cancer and individual rare diseases and ensure adequate funding and specialised knowledge for early detection and treatment, based on registers' data.

Consumer protection

There was no progress on **consumer protection** or on aligning national product safety rules with the EU *acquis*. The number of inspections carried out by the State Market Inspectorate and the State Sanitary and Health Inspectorate slightly increased. The planned web platform providing information on consumer protection has still not been developed. The mediation scheme is still expensive and difficult for consumers to access. Further efforts are needed with regard to the procedure governing consumers' appeals and means of compensation.

Public Health

Despite the amendments to healthcare law, which enable increased salaries and an improved retention policy, the **public health** sector still faces losses of medical staff, particularly specialists, who are leaving the country to work abroad. Advanced health equipment is still underused or not used at all, due to a lack of trained staff. Access to specialist doctors in the public health system remains problematic. Approximately one third of all health services are paid for by patients without being reimbursed, which increases social discrepancies.

The **tobacco control** situation has further deteriorated. Although North Macedonia signed the Protocol to Eliminate Illicit Trade in Tobacco Products in 2014 it has still not been ratified. Smoking in public areas, cafes and restaurants has increased and enforcement of the rules on smoking in public places has weakened.

On **communicable diseases**, the country adopted an action plan to strengthen communicable diseases surveillance, prevention and control following a recommendation in a 2016 technical assessment report. A new national strategy for anti-microbial resistance control was adopted for 2019-2023. However, further efforts are needed, notably to align to EU standards, to ensure sustainability of the surveillance and crisis management systems, including laboratory capacity, and to introduce the systems for electronic reporting and control of health care associated infections. Rapid measures were taken in 2019 to deal with the measles outbreak, with a vaccination campaign covering almost 30,000 children in schools and kindergartens. The Ministry of Health also secured 28,000 doses of the influenza vaccine, which was made available free of charge to elderly people, people with chronic diseases, children up to 5 years of age and pregnant women.

The authorities provided a swift initial response to the COVID-19 outbreak in March 2020, with a sufficient number of tests and restrictive measures such as curfew and quarantine on the entire territory of the country, targeting the risk categories of the population. The restrictive measures - social distancing, ban on public gatherings and religious ceremonies, on sports, cultural events and recreational activities and schools, restaurants, and cafés closed - were gradually phased out beginning of May, with a three-phase plan. In Summer, the country struggled with a second wave of infections, which severely stretched the capacities of the health system.

North Macedonia has positively responded to the EU's COVID-19 related support mechanisms. It became a member of the Joint Procurement Agreement and an observer in the EU Health Security Committee, which also gives them access to the EU Early Warning and Response System. It is also providing the JRC data collection system with data on COVID-19 and nominated a correspondent to the European Centre for Disease Control and Prevention.

The EU provided an immediate support of EUR 4 million to provide medical equipment and protective equipment to strengthen the capacity of the healthcare system to fight COVID-19.

There was no progress on **blood, tissues, cells and organs**. Proper funding and further commitment are still needed in order to align the national rules with the EU *acquis*. No progress was made on **patients' rights in cross-border healthcare** and national legislation is still not aligned with the EU *acquis*.

On **health inequalities**, the programme for active healthcare allows several target groups to access healthcare, including the Roma community, people living in remote areas, people living with HIV/AIDS, drug users and people with disabilities. The same programme also helps providing contraceptives to women from socially vulnerable groups, although distribution is done via hospitals. However, the government still needs to adopt a new multi-annual strategy to combat HIV.

Funding for **cancer screening** is insufficient. The data from the national and regional cancer registers are not publicly available. There is no national programme on breast and cervical cancer screening.

There was no progress in the reporting period on **medicines for human and veterinary use**. **Nor was there progress on mental health** there was no progress in the reporting period or on **health promotion, nutrition and physical activity**.

The national registers on **rare diseases** are operational but need adequate funding. The definition of a rare disease still needs to be harmonised with international standards.

5.29 Chapter 29: Customs union

All Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment as well as adequate implementing and enforcement capacity and access to the common computerised customs systems.

North Macedonia has maintained a **good level of preparation** on the customs union. **Good progress** was made in the reporting period. The country has completed, applied and maintained a new electronic system for processing customs declarations and excise documents. The newly built customs terminal with Albania became operational. One-stop border control operations were established with Serbia.

Last year's recommendations were implemented. In the coming year, the country should:

- continue consolidation and full application of its IT systems, ensure their upgrade and maintenance, and ensure business continuity;
- fully implement CEFTA Protocol 5 on Trade Facilitation.

The **customs legislation** is highly aligned with the EU *acquis*. The 2019 customs tariff was adopted to correspond with the latest changes in the EU combined nomenclature. The Customs Administration intensively promoted the concept of authorised economic operators (AEO) and 15 companies were AEO-certified. The country signed an agreement with Serbia to mutually recognise AEO certificates. North Macedonia is a member of the Common Transit Convention, applying the EU rules on transit movements and has chaired the annual joint committee meeting. The country needs to finalise the procedure for ratifying the Protocol on Elimination of Illicit Trade in Tobacco Products.

On **administrative and operational capacity**, the standards of professional integrity and quality controls were applied. Revenue collected by the Customs Administration rose by 5.4% in 2019 compared with 2018, largely thanks to the systematic application of automated risk management with more targeted controls and better inter-agency cooperation. This also facilitated the seizures of drugs and counterfeit goods.

The newly-built customs terminal at the main border crossing with Albania started operations. Progress was made on establishing a one-stop border control with Serbia in August 2019, at Tabanovce-Presevo crossing point. Preparations began on establishing a one-stop control with Albania, a measure that has received the official endorsement of both governments. Good progress was made with the finalisation of the new 'paperless' electronic system for processing customs declarations and excise documents and its application on 1 June 2019. The use of the integrated tariff environment (ITE) system increased. The number of declarations processed through the new computerised transit system (NCTS) rose by 25% in 2019. The Customs Administration signed maintenance contracts for the NCTS and ITE systems.

The Customs Administration took part in 14 international operations to combat illicit trade in drugs, counterfeit goods and medicines, excise goods, weapons, explosives, dangerous waste and chemicals, wildlife and plants, cultural goods, and to combat trafficking in people. Cooperation and exchange of intelligence with the customs agencies in the wider region continued. The country has so far concluded 24 bilateral agreements for customs cooperation, of which 12 are with EU Member States. North Macedonia hosted the 14th World Customs Organisation's 'Partnership in customs academic research and development' conference.

5.30 Chapter 30: External relations

The EU has a common trade and commercial policy towards third countries, based on multilateral and bilateral agreements and autonomous measures. There are also EU rules in the field of humanitarian aid and development policy.

North Macedonia is **moderately prepared** in the area of external relations and **some progress** was made in meeting the 2019 recommendations over the reporting period. The country continued its good cooperation with the EU, including within the World Trade Organisation (WTO). Institutional capacity to fully participate in the EU commercial, development and humanitarian policies is still insufficient. In the coming year, the country needs in particular to:

- enhance overall administrative capacity regarding trade policy, the Central European Free Trade Agreement (CEFTA) and work in the WTO framework, in particular to efficiently implement the multiannual action plan for the development of a Regional Economic Area (REA) in the Western Balkans;
- implement actions under the multiannual action plan for the development of REA: in particular, ensure the full implementation of CEFTA Additional Protocol 5 on trade in goods, ratify and implement CEFTA Additional Protocol 6 on trade in services, negotiate and ensure swift implementation of CEFTA Additional Protocol 7 on dispute settlement, adopt regional standards for international investment agreements, and pursue the implementation of the ‘individual reform action plan’ (IRAP) on investment.

Regarding the **common commercial policy**, North Macedonia continued to coordinate its positions and align its policies closely with those of the EU, including within the WTO. It completed the second trade policy review in July 2019, in the framework of the WTO. The country implemented most of the trade facilitation agreement provisions. The National Committee on Trade Facilitation met twice in 2019. The administrative capacity of institutions in charge of trade policy, in particular the Ministry of Economy, needs to be further strengthened.

North Macedonia continued its active participation in CEFTA. The country is yet to implement Additional Protocol 5, particularly based on the decisions taken by the CEFTA Joint Committee on Authorised Economic Operators (AEOs), fruit and vegetables, and the risk management strategy for customs. Swift ratification and implementation of the newly adopted Additional Protocol 6 on liberalisation of trade in services still needs to be completed. Regarding Additional Protocol 7 on trade dispute settlement, North Macedonia’s constructive role is important for ensuring the completion of negotiations in 2020. Within the framework of REA, standards on investment at regional level still need to be adopted to reflect the latest EU policy developments, which will be used when negotiating investment treaties with third countries and reflected in the Bilateral Investment Treaty (BIT) template under preparation.

The system for export control of **dual-use goods** and technologies is operational. The country aligned its list of dual-use goods with the 2018/1922 EU Regulation on exports, transfer, brokering and transit of dual-use items. There was regular outreach to keep the industry informed about legislative changes.

North Macedonia adopted the Law on control of foreign trade in rough diamonds in July 2019, which is aligned with the Council Regulation 2368/2002 on implementing the Kimberley Process certification scheme for international trade in rough diamonds. The number of **bilateral agreements with third countries** is 40, out of which 19 are with EU Member States. The country continued working on updating the existing model agreement for BITs.

There was no progress on **development policy** and **humanitarian aid**. The country is encouraged to establish a policy framework in the areas of development and international

cooperation as well as humanitarian aid towards non-EU countries in line with the applicable EU policies and principles.

5.31 Chapter 31: Foreign, security and defence policy

Member States must be able to conduct political dialogue in the framework of foreign, security and defence policy, to align with EU statements, to take part in EU actions and to apply agreed sanctions and restrictive measures.

The country continues to be **moderately prepared** in this area. **Some progress** was made during the reporting period, with continued participation in EU crisis management missions and operations. North Macedonia became a full member of NATO in March 2020. In the coming year, the country should in particular:

→ continue to improve alignment with the EU common foreign and security policy.

Regular **political dialogue** on foreign and security policy issues between the EU and the country continued with two meetings held together with the other Western Balkan partners in June and December 2019. The institutional framework enabling the country's participation in the common foreign and security policy (CFSP) and common security and defence policy (CSDP) is in place. On **common foreign and security policy (CFSP)**, the country aligned - when invited - with 84 out of 91 High Representative declarations on behalf of the EU and Council Decisions, representing an alignment rate of 92% in 2019. While the country continues not to align on restrictive measures against Russia, it did align with all other restrictive measures and declarations, including with those in view of Turkey's unauthorised drilling activities in the Eastern Mediterranean in December 2019.

North Macedonia still maintains a bilateral immunity agreement with the United States, granting US citizens exemptions from the jurisdiction of the **International Criminal Court**. In doing so, it does not comply with the EU common positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. Alignment with the EU position is therefore needed.

On **non-proliferation**, North Macedonia participates in the Proliferation Security Initiative and the Hague Code of Conduct but not in the Nuclear Suppliers Group, the Australia Group or the Missile Technology Control regime. The country is committed to meet the requirements to join the Wassenaar Arrangement.

North Macedonia remained actively engaged in the implementation of the 2018 Regional Roadmap for a sustainable solution to the illegal possession, misuse and trafficking of small arms and light weapons and their ammunition in the Western Balkans.

The country continued to actively **cooperate with international organisations** and aligned with EU statements delivered at international organisations (UN, OSCE and Council of Europe). The NATO accession protocol, signed in February 2019, was ratified by all NATO allies, and North Macedonia joined the alliance in March 2020. During the reporting period - apart from the state of emergency - the only **security measures** were those related to border security in the context of the migration and refugee crisis. The law on Classified Information, based on the 2013 Council decision, entered into force in January 2020.

The country continued to actively participate in the EU crisis management operations under the **common security and defence policy (CSDP)**, notably EUFOR Althea in Bosnia and Herzegovina (1 person). Participation in the military training mission in the Central African Republic (EUTM RCA) with two staff officers was approved by the PSC and the deployment is planned in 2020. The country continues to contribute to the NATO-led 'Resolute Support'

mission in Afghanistan with 44 people. The country continued to contribute to KFOR through the Host Nation Coordination Centre and aims to become an operational partner and deploy staff officers. Formal cooperation with the European Defence Agency continued.

A hybrid risk survey was launched with North Macedonia and the country responded to the questionnaire in July 2019 as part of a process aimed at identifying vulnerabilities to hybrid threats.

5.32 Chapter 32: Financial control

Based on international standards, the EU promotes the reform of national governance systems to improve managerial accountability, sound financial management of income and expenditure, and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the euro against counterfeiting.

North Macedonia is **moderately prepared** in this area. **Some progress** was made with the implementation of the new policy paper on public internal financial control and the national anti-fraud strategy. Improved internal control and effective follow-up of external audit recommendations have yet to be pursued. Financial inspection is still not efficient. The independence of the State Audit Office (SAO) is not yet constitutionally guaranteed.

As not all 2019 recommendations were implemented, in the coming year the country should in particular:

- ensure improved managerial accountability and transparency through the effective implementation of internal control standards in public-sector organisations' management processes;
- improve quality of external audit and follow-up of SAO recommendations by the government and Parliament;
- strengthen the role of the anti-fraud coordination service (AFCOS), establish the AFCOS network and improve management of irregularities through the Irregularity Management System.

Public internal financial control

The public internal financial control (PIFC) **strategic framework** is reflected in the 2019-2021 PIFC policy paper and in the 2018-2021 public financial management (PFM) reform programme and its annual action plans. The implementation is supervised by the PIFC Committee which meets twice a year and reports to the PFM Council chaired by the Minister of Finance. Two semi-annual progress reports on the implementation of the PIFC policy paper were adopted by the government. The formal adoption of a number of implementing guidelines and manuals prepared in 2019 is pending the adoption of a new PIFC law, which has been delayed due to the late finalisation of the new organic budget law. (*See also the section on Public Administration Reform*)

The adopted PIFC policy paper is a cornerstone for guiding the development of internal control with a particular focus **on managerial accountability**. Managerial accountability is not efficiently mainstreamed throughout the public administration and it is yet to be coherently applied in practice across the central and local level. There is limited delegation of decision-making authority to the middle management level. A new manual on managerial accountability has been prepared based on international standards and its adoption is pending the adoption of the new PIFC law.

The legal framework on **internal control**, is broadly in line with international standards, however it is not yet implemented efficiently. New manuals and guidelines on financial management and control (FMC) were developed but are yet to be adopted. Rulebooks and manuals on internal control need to be further updated and implemented by budget users at central and local level. Risk management registers have been adopted by most of the budget users but are not embedded in management processes. The administrative capacities for centralised budget inspection were strengthened at the Ministry of Finance. Methodological tools need to be developed to ensure that budget inspection complements internal audit. Further harmonisation of the legal basis on internal control and financial inspection is needed as is developing and implementing sound financial inspection practice throughout the entire public administration in order to ensure a more comprehensive approach. The 2019 annual report on the work of the financial inspection in public sector was prepared and submitted to the government for approval. Exceptional management and control procedures or derogations applied by the authorities during the COVID-19 crisis need to be well documented, accompanied by adequate safeguards and considered for special audits.

With regard to **internal audit practice**, some progress was made on implementing internal audit standards as new manuals and guidelines were developed but are yet to be adopted. The administrative capacities of internal audit units on central and local level are still limited. Most audit units have strategic and annual plans, but quality assurance remains a challenge.

The **central harmonisation unit (CHU)** should improve its monitoring and supervision of the public administration's overall system of internal control. Annual reporting on the PIFC system by the CHU as well as the structure, scope, process and quality of the annual PIFC report need to be improved. A new methodology for monitoring and quality checking of financial management and control and internal audit was elaborated, but is yet to be applied in practice. In addition, a quality assessment manual based on the public expenditure management peer assisted learning model was developed. Guidelines on the work of internal audit units in public sector under emergency situation caused by COVID-19 crisis were elaborated by the CHU and published on the Ministry of Finance's website.

External audit

The **State Audit Office (SAO)** law is broadly in line with International Organisation of Supreme Audit Institutions (INTOSAI) standards. However, the SAO's independence is not yet provided for in the constitution.

The SAO has sufficient **institutional capacity** to ensure its tasks, with 68 certified state auditors out of 90 auditors in total. The 2018-2022 SAO development strategy is being implemented as reflected in the annual 2020 SAO programme and is reported on in the annual SAO report. SAO has successfully finished the implementation of its 2019 annual programme. All final audit reports were developed, submitted to the Parliament and published on SAO's website. The 2019 annual report on performed audits and operation was submitted to the Parliament within the legally set deadline of June 2020, and is to be adopted by the new Parliament. A new public procurement audit program providing updated guidance and methodological tools for auditors when performing such audits was introduced by SAO. A new website was elaborated so as to promote SAO's work and conducted audits among key stakeholders and general public.

The **quality of audit work** improved in line with the INTOSAI standards. However, performance auditing needs to be further improved. In 2019, the SAO finalised six performance audits and initiated one more on IT which should be finalised in 2020. It carries

out a compliance audit on the final government accounts of the core budget by June each year. The audit coverage of the total audit expenditure was 54% in 2019.

On the **impact of the audit work**, the SAO's recommendations were not systematically implemented by the auditees. Parliamentary supervision of audit reports' findings still needs to be improved. Further efforts are needed for enhanced cooperation with the Parliament and in particular, on the follow-up of SAO reports in order to improve the rate of implemented recommendations.

Protection of the EU's financial interests

As regards EU **acquis alignment**, while the national legislation is to some extent harmonised, it still needs to fully align with the EU Directive on the fight against fraud to the EU's financial interests by means of criminal law. The **anti-fraud coordination service** (AFCOS) at the Ministry of Finance is now fully operational. Its capacity to play a key coordination role in the anti-fraud system have to be enhanced. The implementation of the 2019-2022 national anti-fraud strategy has started. The annual report on the work of public sector financial inspection and the implementation of the national anti-fraud strategy for the protection of the EU financial interests in 2019 was adopted by the government. However, the AFCOS network is yet to be established. **Cooperation with the Commission** improved with one joint investigation carried out in 2019 and 49 irregularities, of which 2 suspected fraud cases, reported through the irregularity management system, compared to one joint investigation and two reported cases in 2018, for a total of 73 until the end of 2019. A solid track-record on investigations and reporting of irregularities needs to be further developed.

Protection of the euro against counterfeiting

National legislation is to some extent **aligned with the EU acquis** as it sets the basis for the functioning of the overall system of fighting counterfeiting. Further development is needed, as is the efficient implementation of the relevant methodological tools. **Technical analysis** of counterfeit money is carried out by the National Bank. However, its capacities need to be increased to improve its detection rate, to efficiently update the relevant database and to promptly exchange information with national and international authorities.

There is still insufficient coordination among key institutions in the system. An **administrative cooperation arrangement** (ACA) was concluded in 2019 between the European Commission and the National Bank for the exchange of technical and statistical information on counterfeit euro coins, and for technical assistance and cooperation on training. No formal cooperation agreement is in place with the European Central Bank on banknotes. The country participates in the Pericles 2020 programme and the regional Balkan Network for Euro Protection initiative.

5.33 Chapter 33: Financial and budgetary provisions

This chapter covers the rules governing the funding of the EU budget ('own resources'). These resources mainly consist of: (i) contributions based on the gross national income of each Member State; (ii) customs duties; and (iii) a resource based on value-added tax. Member States must have the appropriate administrative capacity to adequately coordinate and ensure the correct calculation, collection, payment and control of own resources.

Preparations in this area are at an **early stage**. **Limited progress** was made under this chapter primarily relating to the legal framework for taxation, customs, statistics and financial control. A sound institutional set-up has not yet been established to enable the efficient functioning of the own resources system.

As not all 2019 recommendations were implemented, in the coming year the country should:

- further harmonise the legal basis for the underlying policy areas affecting the correct application of the own resources system;
- enhance the administrative capacities and co-ordination mechanisms among key stakeholders in the system.

No progress was made on the specific own resources administrative conditions, as laid down in the own resources regulations. This is valid for the three types of resources: **traditional own resources** (customs duties), **value added tax-based resource** (VAT), and **gross national income-based (GNI) resource**. Further efforts are needed to harmonise the legal framework in the underlying policy areas affecting the correct application of the own resources system, especially on customs, taxation, statistics and financial control. Some progress was made in the development of measures and tools for the fight against fraud, tax and customs evasion as well as the informal economy. However, their efficient implementation is to be progressively ensured. The process of aligning national accounts and gross national income (GNI) calculations with European system of accounts (ESA 2010) has started. *(For further information see developments under Chapter 16 - Taxation, Chapter 18 - Statistics, Chapter 29 - Customs union and Chapter 32 - Financial control).*

The **administrative infrastructure** needs to be set-up to enable for the efficient functioning of the own resources system as well as co-ordination mechanisms among all key institutions.

ANNEX I – RELATIONS BETWEEN THE EU AND NORTH MACEDONIA

North Macedonia has been participating in the **Stabilisation and Association process** since 1999. The Stabilisation and Association Agreement (SAA) with the EU, signed in 2001, sets the framework for relations with the EU, including political, economic and technical dialogue. Experts met in seven Subcommittees and one Special Group, according to schedule. The Stabilisation and Association Committee took place in July 2020. Discussions focused on the decision to open accession negotiations and the progress made in advancing EU reforms, in particular in the areas identified by the June 2018 Council Conclusions and the strengthening of good neighbourly relations.

North Macedonia is a candidate country since 2005, with consecutive recommendations by the European Commission to open accession negotiations since 2009. On 26 March 2020, the European Council endorsed the Council's decision to open accession negotiations with North Macedonia.

Visa liberalisation for citizens of North Macedonia travelling to the Schengen area has been in force since December 2009. A readmission agreement has been in force since 2008. The Commission's July 2020 third report under the visa suspension mechanism concluded that North Macedonia continues to meet the visa liberalisation benchmarks.

North Macedonia continued to increase its alignment with **EU common foreign and security policy** positions and declarations. North Macedonia continued to actively participate in EU crisis management missions and operations under the common security and defence policy.

The implementation of the **Instrument for Pre-accession Assistance II for 2014-2020 (IPA II)** is underway. The programming of the IPA II funds was successfully completed bringing the IPA package for the country to EUR 633 million. Of this amount EUR 214 million have been already contracted by end 2019.

As part of the response to the COVID-19 crisis, North Macedonia has benefited from EUR 4 million for urgent medical equipment, all of which has been delivered, and EUR 62 million for socio-economic recovery measures under IPA II. This package is being complemented by a macro-financial assistance (EUR 160 million in loans). In 2020, the EUR 50 million performance reward was re-directed towards responding to the health needs, to support the country in its EU integration efforts and to mitigating the economic and social effects of the crisis.

The EU supports with EUR 57.7 million the participation of the country in 12 **EU programmes**, including Erasmus+, Creative Europe, the programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), Horizon 2020, Customs 2020, Fiscalis 2020 and Europe for Citizens. North Macedonia is also an observer of the Agency for Fundamental Rights.

STATISTICAL DATA (as of 03.04.2020)
North Macedonia
Basic data

	Note	2007	2014	2015	2016	2017	2018
Population (thousand)		2 042	2 066	2 069	2 071	2 074	2 075
Total area of the country (km²)		25 713	25 713	25 713	25 713	25 713	25 434

National accounts

	Note	2007	2014	2015	2016	2017	2018
Gross domestic product (GDP) (million national currency)		372 889	527 631	558 954	594 795	618 106e	658 053p
Gross domestic product (GDP) (million euro)		6 095	8 562	9 072	9 657	10 038e	10 698p
GDP (euro per capita)		2 980e	4 140e	4 380e	4 660e	4 840e	5 150p
GDP per capita (in purchasing power standards (PPS))		7 380e	9 620e	9 980e	10 520e	10 670e	11 370p
GDP per capita (in PPS), relative to the EU average (EU-27 = 100)		30.1e	36.2e	36.4e	37.4e	36.5e	37.7p
Real GDP growth rate: change on previous year of GDP volume (%)		6.5	3.6	3.9	2.8	1.1	2.7p
Employment growth (national accounts data), relative to the previous year (%)		3.0	2.4	1.9	1.6	3.0	:
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)		3.4	1.2	2.0	1.3	-1.8	:
Unit labour cost growth, relative to the previous year (%)		-6.2	3.7	0.2	5.0	5.3	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2010 = 100)		1.0	1.6	2.2	9.1	10.8	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		44.3	43.4	43.2	44.2	42.6	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		10.4	11.7	11.1	10.6	9.1	9.8p
Industry (%)		17.1	18.3	19.3	19.7	20.5	21.4p
Construction (%)		6.8	8.0	8.1	8.0	7.5	6.2p
Services (%)		65.7	62.0	61.5	61.7	62.9	62.6p
Final consumption expenditure, as a share of GDP (%)		94.1	86.9	85.8	82.3	81.6	80.7p
Gross fixed capital formation, as a share of GDP (%)		22.7	23.4	23.8	24.4	22.5	19.8p
Changes in inventories, as a share of GDP (%)		1.0	6.8	6.5	8.1	9.7	12.1p
Exports of goods and services, relative to GDP (%)		44.1	47.7	48.7	50.7	55.1	60.6p
Imports of goods and services, relative to GDP (%)		62.0	64.9	65.0	65.5	69.0	73.2p
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

Business

	Note	2007	2014	2015	2016	2017	2018
Industrial production volume index (2015 = 100)		92.8	95.3	100.0	103.4	103.6	109.2
Number of active enterprises (number)		:	53 749	54 738	55 469	55 359	58 245p
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	10.6	10.3	10.4	9.2	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	10.8	8.8	9.7p	8.5p	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	75.0	74.4	75.4	74.3	74.2p
Value added by SMEs (in the non-financial business economy) (EUR million)		:	2 257	2 413	2 607	2 698	2 887p

Total value added (in the non-financial business economy) (EUR million)		:	3 460	3 740	4 031	4 252	4 562p
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Inflation rate and house prices	Note	2007	2014	2015	2016	2017	2018
Harmonised consumer price index (HICP), change relative to the previous year (%)		2.2	0.0	0.1	0.2	2.1	2.3
**Annual change in the deflated house price index (2015 = 100)		:	:	:	:	:	:

Balance of payments	Note	2007	2014	2015	2016	2017	2018
Balance of payments: current account total (million euro)		-421.2	-43.2	-177.1	-275.5	-105.2	-14.9
Balance of payments current account: trade balance (million euro)		-1 354.1	-1 855.7	-1 822.8	-1 812.9	-1 787.3	-1 734.9
Balance of payments current account: net services (million euro)		209.7	383.9	348.8	340.7	374.7	362.2
Balance of payments current account: net balance for primary income (million euro)		-280.8	-160.6	-286.1	-383.9	-397.5	-450.7
Balance of payments current account: net balance for secondary income (million euro)		1 004.1	1 589.2	1 583.0	1 580.6	1 704.9	1 808.5
Net balance for primary and secondary income: of which government transfers (million euro)	1)	24.3	110.5	54.3	90.8	112.8	109.1
**3 year backward moving average of the current account balance relative to GDP (%)		-3.3	-1.8	-1.4	-1.8	-2.0	-1.3p
**Five year change in share of world exports of goods and services (%)		:	:	:	22.5	42.4	52.4
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)		506.9	197.4	202.8	316.9	180.0	603.7
Foreign direct investment (FDI) abroad (million euro)		-0.9	7.7	13.9	21.6	1.8	10.4
of which FDI of the reporting economy in the EU-27 countries (million euro)		:	3.0	5.4	13.6	7.2	0.4
Foreign direct investment (FDI) in the reporting economy (million euro)		506.0	205.1	216.7	338.4	181.7	614.1
of which FDI of the EU-27 countries in the reporting economy (million euro)		:	-25.4	22.4	162.5	86.0	290.4
**Net international investment position, relative to GDP (%)		-39.4	-53.1	-56.0	-57.7	-58.0	-56.5
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)		11.0	6.5	2.3	-7.5	0.4	3.2

Public finance	Note	2007	2014	2015	2016	2017	2018
***General government deficit / surplus, relative to GDP (%)		0.6	-4.2	-3.5	-2.7	-2.7	-1.8
***General government gross debt relative to GDP (%)		23.5	38.1	38.1	39.9	39.4	40.6
Total government revenues, as a percentage of GDP (%)		32.1	27.7	28.8	28.5	29.1	28.6
Total government expenditure, as a percentage of GDP (%)		31.5	31.9	32.3	31.2	31.8	30.4

Financial indicators	Note	2007	2014	2015	2016	2017	2018
Gross external debt of the whole economy, relative to GDP (%)		46.6	70.0	69.3	74.7	73.4	73.3p
Gross external debt of the whole economy, relative to total exports (%)		107.9	146.6	142.2	146.7	133.8	121.6
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		798.3	1 433.4b	1 694.2	1 867.8	2 053.3	2 436.7
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		2 754.1	3 843.1b	4 130.8	4 395.9	4 564.2	5 103.4
Money supply: M3 (M2 plus marketable instruments, million euro)		2 898.4	4 593.4b	4 936.7	5 240.6	5 480.3	6 072.6
Total credit by monetary financial institutions to residents (consolidated) (million euro)		2 092.6	4 228.8	4 625.9	4 632.0	4 883.0	5 237.6
**Annual change in financial sector liabilities (%)		:	12.6	5.5	6.9	1.9	7.6
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)	2)	3.58	1.79	0.99	1.02	1.01	0.99

Lending interest rate (one year), per annum (%)	3)	7.50	3.75	3.75	4.25	3.75	3.00
Deposit interest rate (one year), per annum (%)	3)	:	0.50	0.25	0.25	0.25	0.15
Euro exchange rates: average of period (1 euro = ... national currency)		61.184	61.623	61.610	61.595	61.574	61.511
Trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)	3)	1 524.4	2 436.5	2 261.8	2 613.4	2 336.3	2 867.1

External trade in goods	Note	2007	2014	2015	2016	2017	2018
Value of imports: all goods, all partners (million euro)		3 834	5 505	5 801	6 177	6 825	7 676
Value of exports: all goods, all partners (million euro)		2 477	3 747	4 088	4 390	5 007	5 872
Trade balance: all goods, all partners (million euro)		-1 356	-1 758	-1 714	-1 786	-1 818	-1 804
Terms of trade (export price index / import price index * 100) (number)	4)	110.3	96.5	99.5	95.9	95.0	:
Share of exports to EU-27 countries in value of total exports (%)		67.9	75.1	76.0	78.8	79.7	80.3
Share of imports from EU-27 countries in value of total imports (%)		50.9	51.2	52.4	51.3	52.8	52.9

Demography	Note	2007	2014	2015	2016	2017	2018
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		1.5	1.9	1.3	1.2	0.7	0.8
Infant mortality rate deaths of children under one year of age (per thousand live births)		10.3	9.9	8.6	11.9	9.2	5.7
Life expectancy at birth: male (years)		71.8	73.5	73.5	73.4	74.1	74.6
Life expectancy at birth: female (years)		75.9	77.5	77.4	77.5	77.9	78.8

Labour market	Note	2007	2014	2015	2016	2017	2018
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		68.5	70.8	70.2	69.6	70.3	70.4
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		45.0	51.3	51.9	53.3	54.8	56.1
Male employment rate for persons aged 20–64 (%)		54.0	61.6	61.5	63.7	65.6	66.6
Female employment rate for persons aged 20–64 (%)		35.8	40.8	42.1	42.5	43.7	45.2
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		28.8	38.6	40.1	40.7	41.4	42.7
Employment by main sectors							
Agriculture, forestry and fisheries (%)		:	18.5	17.9	16.6	16.2	15.7
Industry (%)		:	23.4	23.4	23.1	22.5	22.6
Construction (%)		:	7.0	7.1	7.2	7.2	7.4
Services (%)		:	51.1	51.6	53.1	54.1	54.3
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	:	:	:	:	:
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	:	:	:	:	:
Unemployment rate: proportion of the labour force that is unemployed (%)		34.9	28.0	26.1	23.7	22.4	20.7
Male unemployment rate (%)		34.5	27.7	26.7	24.4	22.7	21.3

Female unemployment rate (%)		35.5	28.6	25.1	22.7	21.8	19.9
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		57.7	53.1	47.3	48.2	46.7	45.4
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		29.7	23.4	21.3	19.2	17.4	15.5
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED levels 0-2) (%)		41.2	31.0b	30.0	28.8	25.5	23.1
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)		18.7	19.6	18.9	17.6	17.1	16.6

Social cohesion	Note	2007	2014	2015	2016	2017	2018
Average nominal monthly wages and salaries (national currency)		14 584	21 394	21 906	22 342	22 928	24 276
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2010 = 100)		77.5	94.6	97.1	99.3	100.5	104.9
GINI coefficient		:	35	34	34	32	32
Poverty gap		:	36.1	33.1	32.9	37.3	37.7
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		19.9	12.5	11.3p	9.9	8.5	7.1

Standard of living	Note	2007	2014	2015	2016	2017	2018
Number of passenger cars relative to population size (number per thousand population)		121.8	179.8	185.5	190.7	194.5	200.0
Number of mobile phone subscriptions relative to population size (number per thousand population)		884.2	:	1 005.9	989.9	968.3	935.9
Mobile broadband penetration (per 100 inhabitants)		:	50.6	54.5	57.4	61.1	60.9
Fixed broadband penetration (per 100 inhabitants)		:	17.2	17.5	18.4	19.1	19.4

Infrastructure	Note	2007	2014	2015	2016	2017	2018
Density of railway network (lines in operation per thousand km ²)		28.1	28.1	28.1	27.4	27.4	27.4
Length of motorways (kilometres)		221	259	259	259	259	287

Innovation and research	Note	2007	2014	2015	2016	2017	2018
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.17	0.52	0.44	0.44	0.35	0.37p
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	:	:	:	:	:
Percentage of households who have internet access at home (%)		16.5	68.3	69.4	75.3	73.6	79.3

Environment	Note	2007	2014	2015	2016	2017	2018
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)	5)	150.8	70.2	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)		472.7	348.9	329.3	324.9	327.3	297.5
Electricity generated from renewable sources relative to gross electricity consumption (%)		11.2	15.5	24.9	27.0	17.1	26.1p
Road share of inland freight transport (based on tonne-km) (%)		88.4	94.7	96.0	96.9	96.4	97.2

Energy	Note	2007	2014	2015	2016	2017	2018
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Primary production of all energy products (thousand TOE)		1 552	1 331	1 266	1 111	1 153	1 133
Primary production of crude oil (thousand TOE)		0	0	0	0	0	0
Primary production of solid fuels (thousand TOE)		1 254	986	876	745	849	800
Primary production of gas (thousand TOE)		0	0	0	0	0	0
Net imports of all energy products (thousand TOE)		1 461	1 396	1 395	1 590	1 553	1 509
Gross inland energy consumption (thousand TOE)		3 100	2 707	2 656	2 696	2 750	2 572
Gross electricity generation (GWh)		6 498	5 374	5 646	5 630	5 600	:

Agriculture	Note	2007	2014	2015	2016	2017	2018
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		92.9	100.5	106.4	112.2	99.9	:
Utilised agricultural area (thousand hectares)		1 077.0	1 263.0	1 264.0	1 267.1	1 266	1 264.1
Livestock numbers: live bovine animals (thousand heads, end of period)		253.8	242.0	253.4	254.8	255.0	256.2
Livestock numbers: live swine (thousand heads, end of period)		255.1	165.1	195.4	202.7	202.2	195.5
Livestock numbers: live sheep and live goats (thousand heads, end of period)		:	821.7	821.6	825.0	832.1	844.4
Raw milk available on farms (thousand tonnes)		:	436.2	417.4	463.4	448.8	463.6
Harvested crop production: cereals (including rice) (thousand tonnes)		499.0	629.2	483.8	640.9	447.7	598.3
Harvested crop production: sugar beet (thousand tonnes)		7.8	0.0	0.0	0.0	0.0	0.0
Harvested crop production: vegetables (thousand tonnes)		562.1	775.8	844.9	810.0	769.6	792.9

Source: Eurostat and the statistical authorities in North Macedonia

: = not available

b = break in series

e = estimate

f = forecast

p = provisional

s = Eurostat estimate

u = low reliability

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

*** = The government deficit and debt data of enlargement countries are published on an "as is" basis and without any assurance as regards their quality and adherence to ESA rules.

Footnotes

- 1) Secondary income only.
- 2) Weighted averages. Data cover bilateral over-night transactions.
- 3) End of year (31 December).
- 4) Ratio of Paasche unit value indices (2015 = 100).
- 5) Part of the greenhouse gas inventory prepared in the context of the Third National Communication (UNFCCC).