



European  
Commission

# The former Yugoslav Republic of Macedonia Progress Report



October 2014

*Enlargement*

*In its Communication 'Enlargement Strategy and Main Challenges 2014-15'<sup>1</sup>,  
the Commission put forward the following  
**conclusions and recommendations on the former Yugoslav Republic of Macedonia:***

The EU accession process for the former Yugoslav Republic of Macedonia is at an impasse. Failure to act on the Commission's recommendation to the Council means that accession negotiations have still not been opened. At the same time, the government's failure to deliver sufficiently on a number of key issues damaged the sustainability of reforms, with backsliding evident in some areas.

Some further progress has been made as regards reform of the public administration, as well as active regional and international police cooperation. The country maintains a high level of alignment with the *acquis* relative to where it is in the accession process. The EU agenda remains the country's strategic priority.

However, over the past year, there have been serious concerns about increasing politicisation of state institutions and government control over media, including in the context of elections as reported by OSCE/ODIHR. Trust in state institutions is being progressively eroded. There are growing concerns about selective justice. The situation on media freedom continued to deteriorate. Recent political crises between government and opposition parties showed that party interests are increasingly prevailing over national interests. It is the responsibility of both government and opposition to ensure that political debate takes place primarily in parliament and to contribute to creating the conditions for its proper functioning. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes. No meeting of the High Level Accession Dialogue was held over the past year. As regards the inter-ethnic situation, greater trust between the communities needs to be built. The review of the Ohrid Framework Agreement still needs to be completed and its recommendations implemented.

It remains essential that decisive steps are taken towards resolving the 'name issue' with Greece. The failure of the parties to this dispute to reach a compromise after 19 years of UN-mediated talks is having a direct and adverse impact on the country's European aspirations. Resolute action is required, as well as proactive support from EU leaders. The Commission recalls its view that, if the screening and the Council discussions on the negotiating framework were under way, the necessary momentum could have been created which would have supported finding a negotiated and mutually accepted solution to the name issue even before negotiating chapters were opened.

Overall, given the cumulative progress the country has achieved, the Commission considers that the political criteria continue to be sufficiently met and maintains its recommendation to open accession negotiations but regrets the backward steps of the past year. The Commission urges the authorities to take decisive action to address concerns about increased politicisation and growing shortcomings with regard to the independence of the judiciary and freedom of expression so that its recommendation can be sustained in future years. The Commission remains committed to assisting the country's efforts, including through an inclusive High Level Accession Dialogue process, in addressing all EU-related reforms so that the full potential of relations can be achieved.

\*\*\*

---

<sup>1</sup> COM(2014)700 final of 8.10.2014

*Summary of findings of the  
2014 Progress Report on the former Yugoslav Republic of Macedonia*<sup>2</sup>

Overall, the country continues to sufficiently meet the **political criteria**. The country has completed the bulk of its reforms as regards the judicial system and the public administration and has made progress since becoming a candidate country in 2005. The level of legislative alignment is high in relation to where the country stands in the accession process. However, serious challenges persist, and in some areas have increased. These relate, in particular, to the increasingly divisive political culture, serious concerns about increasing politicisation and government control over state institutions and media, and a still fragile inter-ethnic situation.

The presidential and early parliamentary elections of April 2014 were assessed by the OSCE/ODIHR as efficiently administered, but affected by lack of separation between state and party activities and biased media reporting. Concerns about the blurring of state and governing parties are eroding trust in the public institutions. Lack of dialogue and persisting divisions between the parties led to a renewed political crisis, arising out of allegations in relation to the elections, which saw the main opposition party absent itself from parliament. The main political parties make insufficient efforts to engage in constructive politics in the interest of the entire electorate and the country as a whole. Government and opposition should take steps to restore political dialogue in parliament. The government needs to ensure that the opposition has the possibility to fully perform its democratic control function. At the same time, the opposition also needs to engage constructively in the democratic processes.

Politicisation of the public administration, at both central and local level, is a serious concern. The principles of transparency, accountability, and merit are not yet fully applied. OSCE/ODIHR furthermore reported on credible allegations of pressure having been exerted on public sector employees during the April 2014 elections. These issues should be addressed, including through the new legislative framework.

The independence and competence of courts also needs to be further enhanced and more focus placed on the quality of justice provided to the citizen. The country's high level of legislative and technical advancement in this area is overshadowed by growing concerns about selectivity of justice. Track records are being developed, but corruption remains prevalent in many areas and continues to be a serious problem. The anti-corruption framework needs to be more effectively implemented.

Further improvements were made in the areas of police cooperation and combating organised crime and human trafficking. Efforts should continue to build up a track record of investigations, prosecutions and convictions in organised crime and corruption cases. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

The overall framework for the protection of fundamental rights is in place but more focus needs to be placed on its effective implementation. Continued efforts are needed to address concerns about prejudice and discrimination against the Roma population and to counteract intolerance against lesbian, gay, bisexual, transgender and intersex (LGBTI) persons.

The situation on media freedom continued to deteriorate. Government influence on media output is exercised through, *inter alia*, state-financed advertising. There is a scarcity of truly independent reporting and lack of accurate and objective information being made available through mainstream media to the public, and a lack of informed public debate.

As regards inter-ethnic relations, the Ohrid Framework Agreement, which brought an end to the 2001 conflict, provides the framework for guaranteeing the multi-ethnic character of the

---

<sup>2</sup> Annex to COM(2014)700 final of 8.10.2014

society. However, a lack of trust between the communities prevails. Tensions can be easily sparked by events or incidents. A more proactive and joint approach to promoting an inclusive multi-ethnic society is needed. The review of the Ohrid Framework Agreement still needs to be completed and its recommendations implemented.

The country generally maintains good relations with other enlargement countries and plays an active role in regional cooperation. A constructive approach to relations with neighbouring EU Member States remains important. Actions and statements which negatively impact on good neighbourly relations should be avoided.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia remains well advanced and, in some areas, made some further progress in the establishment of a functioning market economy. To cope with competitive pressures and market forces within the Union in the medium-term, the country needs to address important challenges through determined implementation of structural reforms.

The economic recovery continued to progress, but it remains narrowly based on the external sector, and has had limited impact on unemployment which remains high especially among young people. Reforms addressing the structural rigidities of the labour market have progressed only hesitantly. Financial stability was preserved and FDI inflows increased. Fiscal discipline as well as transparency and quality of government spending deteriorated.

Prospects for growth and employment depend largely on the business environment of the domestic private sector. To support this, there is a need to further facilitate licensing procedures, also with a view to encouraging backward linkages between domestic and foreign firms; to speed up market exit procedures; and, generally, to ensure a level-playing field for all companies when enforcing business regulation. Access to finance will need to be improved, including by repairing the bank-lending channel. A better alignment of workers' skills with labour demand needs to be tackled through further reforms of the education system, including the implementation of the vocation training strategy. Regarding public finances, the renewed deterioration of fiscal discipline in 2013 and 2014 calls for improved budget planning procedures and better consistency of annual budget execution with the medium-term fiscal strategy. The quality of public spending should be improved, by shifting the composition of capital expenditure towards growth-enhancing investment.

The former Yugoslav Republic of Macedonia has made further progress in improving its **ability to take on the obligations of membership**. The country continues to be engaged in the Stabilisation and Association Process and to fulfil its commitments under the Stabilisation and Association Agreement.

The country has wide-ranging cooperation with the EU across all areas of the *acquis* and is at an advanced level of legislative alignment, at strategic and institutional level. The country's level of alignment is sufficient to move to the next stage of the accession process. The focus should now be on administrative capacity and effective implementation.

In the field of the internal market, a good level of legislative alignment has already been achieved for capital movements, postal services and company law. In the area of justice and home affairs, the country is well advanced in its preparations on visa policy, external borders and Schengen, as well as police cooperation. On the other hand, further efforts are needed in particular on regional policy, environment and climate change, social policy and education. Public internal financial control also needs to be further strengthened and developed across the public administration.

The Council has not yet decided on the Commission's 2009 proposal on passage to the second stage of the Association, under Article 5 of the Stabilisation and Association Agreement.



Brussels, 8.10.2014  
SWD(2014) 303 final

**COMMISSION STAFF WORKING DOCUMENT**

**THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA  
2014 PROGRESS REPORT**

*Accompanying the document*

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Enlargement Strategy and Main Challenges 2014-2015**

{COM(2014) 700 final}

## TABLE OF CONTENTS

1.	Introduction .....	3
1.1.	Preface .....	3
1.1.	Context .....	3
1.2.	Relations between the EU and the former Yugoslav Republic of Macedonia.....	3
2.	Political criteria .....	5
2.1.	Democracy and the rule of law .....	5
2.2.	Human rights and the protection of minorities .....	12
2.3.	Regional issues and international obligations .....	13
3.	Economic criteria .....	15
3.1.	The existence of a functioning market economy .....	16
3.2.	The capacity to cope with competitive pressure and market forces within the Union .....	20
4.	Ability to take on the obligations of membership .....	22
4.1.	Chapter 1: Free movement of goods .....	22
4.2.	Chapter 2: Freedom of movement for workers .....	23
4.3.	Chapter 3: Right of establishment and freedom to provide services .....	24
4.4.	Chapter 4: Free movement of capital .....	24
4.5.	Chapter 5: Public procurement.....	25
4.6.	Chapter 6: Company law .....	25
4.7.	Chapter 7: Intellectual property law .....	26
4.8.	Chapter 8: Competition policy .....	27
4.9.	Chapter 9: Financial services .....	27
4.10.	Chapter 10: Information society and media .....	28
4.11.	Chapter 11: Agriculture and rural development.....	29
4.12.	Chapter 12: Food safety, veterinary and phytosanitary policy .....	30
4.13.	Chapter 13: Fisheries.....	31
4.14.	Chapter 14: Transport policy .....	32
4.15.	Chapter 15: Energy .....	32
4.16.	Chapter 16: Taxation.....	34
4.17.	Chapter 17: Economic and monetary policy .....	34
4.18.	Chapter 18: Statistics.....	35
4.19.	Chapter 19: Social policy and employment .....	36
4.20.	Chapter 20: Enterprise and industrial policy.....	37
4.21.	Chapter 21: Trans-European networks.....	38
4.22.	Chapter 22: Regional policy and coordination of structural instruments .....	39

4.23.	Chapter 23: Judiciary and fundamental rights .....	40
4.24.	Chapter 24: Justice, freedom and security .....	49
4.25.	Chapter 25: Science and research .....	53
4.26.	Chapter 26: Education and culture .....	53
4.27.	Chapter 27: Environment and climate change .....	54
4.28.	Chapter 28: Consumer and health protection .....	56
4.29.	Chapter 29: Customs union .....	58
4.30.	Chapter 30: External relations .....	58
4.31.	Chapter 31: Foreign, security and defence policy .....	59
4.32.	Chapter 32: Financial control .....	59
4.33.	Chapter 33: Financial and budgetary provisions .....	60
	Statistical Annex .....	61

## 1. INTRODUCTION

### 1.1. Preface

The Commission reports regularly to the Council and Parliament on the progress made by the countries of the Western Balkans region towards European integration, assessing their efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process.

This progress report, which largely follows the same structure as in previous years:

- briefly describes the relations between the former Yugoslav Republic of Macedonia and the European Union;
- analyses the situation in the former Yugoslav Republic of Macedonia in terms of the political criteria for membership;
- analyses the situation in the former Yugoslav Republic of Macedonia on the basis of the economic criteria for membership;
- reviews the former Yugoslav Republic of Macedonia's capacity to take on the obligations of membership, i.e. the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the European Union.

This report covers the period from October 2013 to September 2014. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the government of the former Yugoslav Republic of Macedonia, the EU Member States, European Parliament reports<sup>3</sup> and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding the former Yugoslav Republic of Macedonia in its separate communication on enlargement,<sup>4</sup> based on the technical analysis contained in this report.

### 1.1. Context

The European Council granted the status of candidate country to the former Yugoslav Republic of Macedonia in December 2005. The Stabilisation and Association Agreement between the former Yugoslav Republic of Macedonia and the EU entered into force in April 2004.

### 1.2. Relations between the EU and the former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia is participating in the **Stabilisation and Association Process**.

The country has been implementing its commitments under the **Stabilisation and Association Agreement** (SAA) with the EU, including all those relating to the first stage of implementation of Title V ('Movement of workers, establishment, supply of services, capital'). The Council has not yet decided on the Commission's 2009 proposal on passage to

---

<sup>3</sup> Until 1 July 2014, the rapporteur for the former Yugoslav Republic of Macedonia was Mr Richard Howitt. The current rapporteur is Mr Ivo Vajgl.

<sup>4</sup> Enlargement Strategy and Main Challenges 2014-15, COM(2014) 700.



the second stage of the Association, under Article 5 of the SAA. The protocol on the adaptation of the SAA, to take account of Croatia's accession to the EU, was signed in July 2014; pending its ratification, the protocol is applied on a provisional basis with effect from 1 July 2013.

Regular political and economic dialogue between the EU and the country has continued through the structures set up by the SAA. Meetings of the Stabilisation and Association Committee and the Stabilisation and Association Council took place in June and July 2014, respectively. Experts met in seven sub-committees and in a special group on public administration reform. The former Yugoslav Republic of Macedonia is engaging in the reinforced multilateral economic dialogue with the Commission and with EU Member States, in order to prepare for participation in multilateral surveillance and economic policy coordination under the EU's Economic and Monetary Union. No meetings of the **High Level Accession Dialogue** took place during the reporting period.

**Visa liberalisation** for citizens of the former Yugoslav Republic of Macedonia travelling to the Schengen area has been in force since December 2009. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by Frontex. The Commission has regularly submitted its post-visa liberalisation monitoring reports to the European Parliament and the Council. The next report will be presented by the end of 2014. A visa-waiver suspension mechanism entered into force in January 2014. On this basis, EU Member States can request the Commission, in an emergency situation and as a measure of last resort, to examine the possibility of temporarily suspending the visa waiver for third-country nationals. A **readmission agreement** between the European Union and the former Yugoslav Republic of Macedonia has been in force since 2008.

Over the period 2007-13, the EU provided **financial assistance** to the former Yugoslav Republic of Macedonia under the Instrument for Pre-accession Assistance (IPA). It has allocated a total of €610 million to the country, complemented by IPA multi-beneficiary programmes. The 2012-13 IPA National Programme, worth €56 million, will help to modernise the country in a several areas that are critical to its accession process, including the justice system, the economy, the agricultural sector and the environment.

Of this overall amount, the national authorities are directly responsible for managing about €470 million under the decentralised implementation system. There have, however, been delays in procurement under that system, resulting in the loss of more than €21 million by the end of 2013. There continue to be concerns that limited national capacity to programme and absorb IPA funds under the decentralised implementation system (DIS) may cause further losses in the future. The authorities therefore need to demonstrate greater commitment to increasing the capacity of the administration, in order to accelerate implementation and increase the impact of financial assistance.

Under IPA II, the country will continue to benefit from pre-accession assistance over the period 2014-20, with total indicative funding of €664 million. The Commission drafted an indicative strategy paper for this timeframe, in consultation with the national authorities and other stakeholders, which was adopted in August 2014. IPA II assistance will be directed towards supporting reform efforts in the areas of the rule of law and governance, and competitiveness and growth. Bilateral IPA II assistance will continue to be complemented by IPA II multi-beneficiary assistance. The National Programme for 2014 addresses the sectors of democracy and governance, rule of law and fundamental rights, competitiveness and innovation, transport and environment and agriculture.

The former Yugoslav Republic of Macedonia participates in the following **EU programmes**: the Seventh Research Framework Programme, Progress, the Competitiveness and Innovation Framework Programme, Culture, Europe for Citizens, Customs, and Fiscalis. The country has also recently concluded or is in the process of concluding new agreements for a number of programmes, including: Horizon 2020, Erasmus+, Competitiveness of Enterprises and Small and Medium-sized Enterprises, Creative Europe, and Employment and Social Innovation.

## **2. POLITICAL CRITERIA**

This section examines the progress made by the former Yugoslav Republic of Macedonia towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, respect for human rights and respect for and protection of minorities. It also covers regional cooperation, good neighbourly relations with other enlargement countries and Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia.

### **2.1. Democracy and the rule of law**

Since independence in 1991, democracy has been consolidated. Inter-ethnic relations, which remain fragile, continue however to pose a challenge for the country. The Ohrid Framework Agreement, which brought to an end the conflict of 2001, provides the framework for preserving the multi-ethnic character of the society. There continues to be a lack of trust between the communities, however, and further initiatives to proactively promote an inclusive multi-ethnic society are needed. In recent years, an increasingly divisive political culture has resulted in two political crises and a breakdown in political dialogue. Parties in government have also blurred the line between the state and party, thus eroding trust in public institutions. There are serious concerns about government control over public institutions and the media. Issues — which also feature in last year's report — about freedom of expression and the media, independence of the judiciary and quality of justice need to be addressed.

#### *Constitution*

In July 2014, the government proposed to the parliament a package of seven constitutional changes in a broad range of areas. These included the expansion of the system of constitutional complaint and the safeguarding of the independence of the Central Bank and the State Audit Office. However, the package of amendments was prepared in a very short time and without the necessary implementing legislation. Its compatibility with the EU *acquis* and European standards is being assessed. Moreover, any amendments to the Constitution need to be based on broad consensus.

In November 2013, a majority of the Constitutional Court judges elected a new President from among their number, following the retirement of the incumbent President. The Constitutional Court also moved into fully equipped, modern premises. Its work remains hampered, however, by inadequate human resources, in particular a shortage of expert associates. The number of constitutional challenges received and handled annually remained on a par with previous years, but there have still not been any steps taken to improve legal certainty as regards legislation which has been annulled due to unconstitutionality, and this often creates gaps in the legal framework. The executive and legislative branches need to ensure a more systematic follow-up procedure to address this. There are also concerns that changes in the composition of the Constitutional Court in recent years have affected its independence, and that it has started to delay and compromise on decisions. In January 2014, it rejected an initiative to examine the constitutionality of the controversial 2013 budget, only after considerable delay and on technical grounds. In April 2014, the Constitutional Court

rejected an initiative to examine the constitutionality of the controversial Lustration Law, despite having already asked for, and received, the opinion of the Venice Commission.

### *Elections*

Presidential elections took place in April, together with early parliamentary elections.

In the presidential elections, President Ivanov, from the ruling party VMRO-DPMNE,<sup>5</sup> was re-elected for a second five-year term. He won the second round with 55 % of the vote against 41 % for the candidate from the main opposition party, SDSM.<sup>6</sup> Two ethnic Albanian parties, one in government (DUI<sup>7</sup>) and one in opposition (NDR<sup>8</sup>), contested his legitimacy. DUI had proposed to have a ‘consensual’ presidential candidate, acceptable to all communities and, when this was not accepted, exerted what the OSCE’s Office for Democratic Institutions and Human Rights (OSCE/ODIHR) considers undue pressure on its voters not to vote. These parties and SDSM, were absent from the President’s inauguration.

Parliamentary elections were held alongside the second round of presidential polls on 27 April, 14 months before the end of the government term. The VMRO-DPMNE led coalition won 61 seats (out of a total of 123), DUI 19 seats, the SDSM-led coalition 34 seats, DPA<sup>9</sup> seven seats, minor parties GROM<sup>10</sup> and NDR one seat each. As polls closed, the main opposition party SDSM announced that it would not recognise the results of the presidential or parliamentary elections, alleging a series of irregularities, including vote buying, intimidation, phantom voters, and bias on the part of the national broadcaster.

The results increased the number of seats for both VMRO-DPMNE and DUI, which again formed a coalition. This reinforced mandate came against the backdrop of observations by OSCE/ODIHR that both elections were efficiently administered, that candidates had been able to campaign without obstruction and that freedom of assembly and association had been respected. They noted, however, that the governing parties did not provide for a level playing field due to a lack of adequate separation between the party and state and that allegations of voter intimidation persisted throughout the campaign. OSCE/ODIHR media monitoring showed that the majority of monitored media, including the public broadcaster, was biased in favour of the ruling party, and that the media often failed to distinguish between the coverage of officials in their capacity as ministers and as candidates. The State Election Commission met almost all of its obligations and held regular sessions, but continued to be divided along party lines on contentious issues. Concerns were also raised about the management and accuracy of the voters’ list. During summer 2014, two working groups tasked with the implementation of recommendations of the OSCE/ODIHR resumed their activities.

### *Parliament*

A new parliament was formed and took office on 10 May 2014, although without MPs from the SDSM opposition bloc. The ruling coalition maintained a stable majority. Out of the 34 MPs from the SDSM-led coalition, 3 have accepted their mandates. The remaining mandates have not yet been procedurally rejected. At the end of August, after an altercation between DPA and DUI MPs, DPA temporarily withdrew from parliament. The absence of most opposition MPs raises concerns about the inclusive nature of parliament’s work.

The parliament remained active prior to the elections, adopting legislation, and conducting debates, including on Euro-Atlantic integration. Opposition parties participated in the work of

---

<sup>5</sup> Internal Macedonian Revolutionary Organisation — Democratic Party for Macedonian National Unity.

<sup>6</sup> Social Democratic Union of Macedonia.

<sup>7</sup> Democratic Union for Integration.

<sup>8</sup> National Democratic Revival.

<sup>9</sup> Democratic Party of Albanians.

<sup>10</sup> Citizen’s Option for Macedonia.

the parliament until the elections. There was broad cross-party consensus on amendments to about 60 laws, including to the Electoral Code and the Criminal Code, but not on amendments to the laws relating to the media. The parliament held debates on three motions submitted by the opposition.

The working group on the implementation of the recommendations made by the Committee of Inquiry into the events of 24 December 2012, when a large number of MPs and journalists were forcibly removed from the plenary hall, was active until October 2013, when SDSM members suspended their participation in protest at the arrest of the chair of Skopje Centar municipal council. As a result, the working group did not manage to complete its work on the Committee's recommendations, and in particular on changes to parliament's rules of procedure.

The **Committee for EU Affairs** reviewed all 19 laws enacted under the National Programme for the Adoption of the *Acquis*, and conducted an evaluation of the use of IPA funds, with the participation of the executive, academia and civil society organisations. Before the elections, the **National Council for EU Integration** met only twice, the Committee on Inter-Ethnic Relations once and the Permanent Oversight Committee on Human Rights did not meet. Of the 399 laws adopted during the reporting period, the shortened procedure was applied to 175.

The Parliamentary Institute provided training and support to the newly elected MPs (45 out of 123).

*Overall*, the functioning of parliament continued to be hindered by the lack of constructive political dialogue and the ongoing deep divisions between the political parties. The absence of most opposition MPs from parliament hampered its work on adopting new reforms, and its ability to provide the necessary checks and balances on the activities of government. It is the responsibility of both government and opposition to ensure that political debate takes place primarily in parliament and to contribute to creating the conditions for its proper functioning. The recommendations made by the Committee of Inquiry should be implemented.

#### *Government*

The new government formed in June 2014 is again a multi-ethnic coalition with VMRO-DPMNE and DUI as the main partners. The government work programme for 2014-18 remains largely the same as under the previous two governments: increasing economic growth, integration into the EU and NATO, fighting corruption and economic crime, maintaining good inter-ethnic relations on the basis of the Ohrid Framework Agreement and investment in education and science. The government also committed itself to implementing EU-related reform priorities. In general, the Macedonian government needs to function better as a unit in order to take proactive joint measures to increase trust between communities.

With respect to EU integration activities and EU assistance, the office of the Deputy Prime Minister for European Affairs plays a key role.

The use of administrative registries is being considered as an alternative methodology to a population census, which was not carried out in 2011 due to disagreements about the methodology for counting citizens abroad. The use of an alternative methodology would require broad cross-party consensus.

*Decentralisation of government* is a central part of the Ohrid Framework Agreement, but one municipality has still not completed the second phase of fiscal decentralisation. Some municipalities, such as Centar, were subject to a disproportionate number of inspections by state inspectorates. There has been insufficient follow-up by the authorities to the attacks and vandalism on the buildings of the municipality of Centar.

Extra efforts are required to ensure the transparent distribution of capital grants to the municipalities and to ensure that they have the necessary financial sustainability to carry out the responsibilities transferred to them. The relevant laws on regional development have not yet been fully implemented. The regional development budget remains insufficient.

*Overall*, the coalition government needs to work in a more integrated, coordinated and transparent manner, in order to take proactive measures on national, inter-community and EU-related issues. Actions should be taken to address OSCE/ODIHR concerns about the blurring of state and governing parties. Adequate resources are needed to complete the process of decentralisation of government and to support local development.

#### *Public administration*

The country has engaged in wide-ranging reforms of public administration. The Special Group on public administration reform, the oldest in the region, continued its work. Over the years, the Macedonian public administration has built up skilled staff who need to be retained. However, politicisation at both central and local level remains a serious concern. Confidence in the independence of state institutions is low due to widely-held perceptions that the public administration is politicised and lacks transparency. As reported by OSCE/ODIHR, credible allegations have been made that pressure was exerted on public sector employees during the April elections.

A public administration reform strategy, in place since 2010, provides a comprehensive **strategic framework for public administration reform**. It aims to improve the legislative and administrative framework, in order to increase the capacity, efficiency and transparency of public administration and to improve the service provided to the general public. The Ministry of Information Society and Public Administration is formally in charge of coordinating this reform process, while major policy decisions remain with the Prime Minister's office.

Procedures for **policy development and coordination** across the sectors are well defined, but are not always efficiently implemented. Thorough analysis and assessment of policies is often lacking. Procedures for monitoring and reporting on government performance have also only been partially implemented. The use of the single Electronic Register of Legislation has improved.

With regard to **public service and human resources management**, employment in the public sector continued to increase, in particular in public enterprises. The routine practice of creating new posts on social or political grounds has artificially inflated the public service, undermining the principle of merit and the overall goal of an efficient public administration. Prior to the 2014 elections, the ruling party announced plans to fill a number of vacant posts at all levels, including managerial, in municipal and public offices and enterprises.

Some improvement has been seen in the representation of minorities, but smaller minorities continue to be under-represented. Efforts to meet targets for equitable representation must also take account of institutions' real staffing needs.

A new legislative framework for civil service and public employment was adopted in February 2014 and is scheduled to be fully implemented in 2015. This is a step towards ensuring a unified, transparent and accountable public administration, by introducing common principles to be respected by all state employees and by creating a common regulatory framework. The legislative framework streamlines recruitment for both majority and non-majority communities, putting more emphasis on merit. The new legislative framework will require detailed data on public sector employees to be made publicly available, which should contribute to improving transparency.

The full assessment of the new laws will only be possible once all implementing rules, including key regulations on defining and fulfilling targets for equitable representation, are in place and applied. A number of exceptions allow staff in some institutions to be partially or totally regulated by special laws or general labour law and collective bargaining. There continue to be concerns about the transparency of the staff dismissal and mobility procedures, and about the methodology of the testing phase in the selection process.

As part of improving **service delivery**, the government continued to promote and develop e-government and one-stop shops as useful tools for providing services to the general public. The interoperability framework needs to be completed. The principle of tacit administrative approval continued to be implemented inconsistently, with complex appeal procedures and fees causing uncertainty and delays. The state commission for administrative appeals is still insufficiently equipped and understaffed, despite the scope of its work and its responsibilities having been increased. The new draft legal framework on general administrative procedures needs to bring major changes to the approach taken, to the proceedings themselves, the remedies used in cases where appeals are upheld and the enforcement of decisions.

With regard to **accountability**, the enforcement of the Law on Free Access to Public Information remains inadequate. A Law on Use of Public Data, adopted in February 2014, is expected to increase transparency and encourage public institutions to publish data. The number of complaints received by the National Commission for Protecting Access to Information, primarily against state administrative bodies, local authorities and the judiciary, decreased by more than half in 2013. As was the case in the previous year, three quarters of the complaints related to the failure to respond promptly to requests. For the law to be enforced efficiently, the National Commission needs to have the capacity and the power to impose penalties for misdemeanours.

The essential elements of the legal framework for **public financial management** are in place, but progress in implementation has been limited and patchy. There is not yet a public financial management reform programme to address more systematically the necessary reforms in the different parts of the public financial management system. A public finance review is under way and could be used as a starting point for preparing such programme. Strategic planning and budgeting needs to be strengthened and a medium-term budgetary framework established. To address some of the challenges, compulsory recording of multiannual commitments in the treasury system has been introduced. Annual budget planning and execution needs to be improved, in order to avoid cuts in growth-enhancing investment spending, under-execution of capital expenditure and an accumulation of arrears. The Law on financial discipline, dealing with late payments, was amended to extend its scope to the public sector. However, outstanding arrears from the delayed payment of VAT refunds and obligations for public contracts still exist. There is a lack of transparency around the full extent of public debt. The legal framework for awarding public contracts is relatively advanced but uses lowest price as the main criterion for selection, as opposed to best value for money, which may have a negative effect on the quality of public spending. The procedure for awarding contracts needs to be made more transparent. Implementation of public internal financial control is still at an early stage. The State Audit Office performs all types of audits, and performance audit is gradually being developed. Its resources are not sufficient to fully cover its mandate.

*Overall*, public administration remains fragmented and subject to political influence, despite progress on legislation. Additional efforts are needed to ensure that the principles of transparency and accountability, merit and equitable representation are applied. The basic structure and processes of a public financial management system are in place, but fiscal

transparency needs to improve. There are also weaknesses in the implementation of public financial management systems, and a more comprehensive approach to reform is needed.

### *Ombudsman*

The Office of the Ombudsman was established in 1997 and has built up a significant practice of monitoring and reporting. It is mandated by the Constitution and the Law on the Ombudsman to protect citizens' rights. In 2013, the Office received 3 780 complaints (a decrease of 27.5 % compared to 2012). Violations were confirmed in 1 174 cases, most of which concerned the judiciary, consumer rights and property rights. Increased numbers of violations were confirmed in the areas of anti-discrimination and prisons, among others. As in previous years, the level of acceptance and follow-up of the Ombudsman's recommendations by state bodies remained high, at around 80 %. More efforts are still needed from the Ministries of Health and Finance, as well as local self-government bodies, to follow up on pending recommendations. The Office continued actively to pursue its role as National Preventive Mechanism under the Optional Protocol to the Convention against Torture. The Law on the Ombudsman needs to be amended in order to ensure full compliance with the Paris Principles relating to human rights bodies, notably to extend the Office's mandate to human rights promotion and to secure its financial independence. A legislative proposal has been presented to the government; however this has not been acted upon.

### *Civil society*

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by the government. There have been formal improvements in terms of legislation and consultation mechanisms, but civil society organisations continue to express concern about the difficult climate in which they operate and the limited government commitment to dialogue.

The Secretariat for European Affairs took steps to improve consultation of and coordination with civil society organisations. The government's second Strategy and Action Plan for cooperation with civil society was inadequately implemented, due to a lack of political commitment, administrative capacity and resources. Preparations for setting up an advisory council on cooperation with civil society, one of the main obligations in the government Strategy and the open government action plan, have not yet started. The code of good practice for participation of civil society organisations in policymaking processes has been applied inconsistently, with the result that the consultation process has largely continued to be a formality.

Granting of state funds to civil society organisations has not yet been fully regulated, leaving the sector largely dependent on donor funding. The relevant laws related to financing and tax incentives for the civil sector remain complex and inconsistent. The new law on money laundering and financing terrorism no longer imposes an obligation on civil society organisations to prepare annual programmes, or stipulates fines disproportionate to their annual budgets. Civil society in rural areas remains underdeveloped.

Civil society organisations have started to coordinate more with one another on specific topics, such as IPA II, and have proposed more structured mechanisms for consulting with the government, based on the sectoral approach.

### *Judicial system*

The legislative framework governing the country's judiciary, as well as its physical and technical infrastructure, has developed considerably as a result of the comprehensive reforms carried out over the past decade. Many of the overarching issues facing all candidate countries have been tackled, including the elimination of court backlogs, the establishment of the

Academy for Judges and Prosecutors, the formal independence of the judicial governance body (the Judicial Council), the introduction of a system of administrative justice and improvements to both civil and criminal procedure legislation. As a result, the country is now in an advanced phase requiring more complex and challenging improvements. These relate to the need to secure not only structural but functional independence of judges, improving the quality of justice and standards of service to the citizen, increasing the cost-effectiveness and value of the court system, better strategic planning, increased use of non-judicial remedies and alternative dispute resolution and improved access to justice for more vulnerable members of society.

One of the main challenges is the growing concern voiced about the selectivity of, and influence over, law enforcement and the judiciary. The basic rule of law principle, that justice must not only be done but must also *be seen to be done*, is not fully understood or respected by the authorities in terms of law enforcement actions targeted at specific persons or sectors. Questions continue to be raised both inside and outside the country about possible political influence over certain court proceedings. Although the court structure is formally independent from external influence of the parliamentary and executive branches, individual judges must also appear to be acting independently of any form of pressure, otherwise public trust will be lost and the rule of law called into question. Systemic improvements to the quality of justice are also needed, notably clearer reasoning and transparency of court judgments (to increase public trust and address concerns about independence); greater and more consistent use of superior court and ECHR case-law (to improve the predictability and legal certainty for individuals and businesses using the courts) and more widespread implementation of the existing Codes of Ethics. Strengthened safeguards are also needed to ensure that judicial appointments and promotions are merit-based.

For a detailed analysis of the developments in the judicial system, *see Chapter 23 — Judiciary and fundamental rights*.

#### *Fight against corruption*

The legal and institutional framework is in place and the country is steadily building a track record of investigations, prosecutions and convictions. Data has been gathered on several hundreds of corruption cases initiated since 2009 and over 30 high-level corruption cases initiated since 2004, all of which are now subject to continuous monitoring from investigation until final sentencing. However, more concrete results need to be seen in practice, both in terms of reduction and deterrence of corruption. The human and financial resources of the various enforcement bodies and supervisory agencies remain weak and their powers, status, independence and visibility need to be strengthened in order to engage in effective operations. Inter-agency cooperation and communication still needs to improve further and data exchange and sharing is limited. Problems include the lack of IT interconnectivity between the courts and the prosecution service and the absence of a central register of public officials, which hampers the supervisory work of the State Commission for the Prevention of Corruption. The lessons learned from past anti-corruption policies and measures need to be put to use much more effectively. There is currently little strategic planning in this area, and future policies should be better targeted towards the real problem areas, including public procurement, political corruption and high-level corruption. Awareness-raising measures and greater political commitment are urgently needed. Claims of selective enforcement and political influence in this area persist, and a more proactive stance is needed to eliminate these serious concerns. Public trust in anti-corruption bodies remains low. As is the case elsewhere in the region, corruption remains prevalent in many areas and continues to be a serious problem.

For a detailed analysis of the developments in the area of anti-corruption policy, *see Chapter 23 — Judiciary and fundamental rights*.



### *Fight against organised crime*

The legal and institutional framework is in place and there is active regional and international cooperation, including through Eurojust and Europol. The country gained access to Europol's SIENA platform in 2013, which considerably strengthened information exchange with EU law enforcement bodies. As was the case in previous years, a number of successful police operations against organised groups were carried out, notably cutting off international routes for drug trafficking and smuggling of migrants. A track record has been developed of all organised crime and corruption cases initiated by the Ministry of Interior (Department for Suppression of Organised and Serious Crime) since 2008, but more efforts are needed to monitor all cases from investigation until final sentencing, including through improved feedback and information exchange between law enforcement, the prosecution service and the courts. The capacity to fight organised crime remains hampered by the fact that neither the National Coordination Centre for the Fight against Organised Crime nor the National Intelligence Database has yet become operational, and delays persist in setting up the Investigative Centres foreseen under the new Law on Criminal Procedure.

For a detailed analysis of the developments in the fight against organised crime, *see Chapter 24 — Justice, freedom and security.*

#### **2.2. Human rights and the protection of minorities**

The overall framework for the protection of fundamental rights is in place but more focus needs to be placed on its effective implementation.

The situation as regards freedom of expression continues to be highly problematic. This is in spite of the introduction of comprehensive new media legislation at the end of 2013, following extensive public consultations and advice from international organisations.

There is indirect state control of media output through government advertising and government-favoured (and favourable) media outlets. The public broadcaster does not fully play its role as the provider of balanced and informative media content, and its political bias was noted by OSCE/ODIHR during both this year's and last year's elections. This results in a scarcity of truly independent reporting and a lack of accurate and objective information being made available to the public by the mainstream media. Poor journalistic standards and ethics contribute to the situation. A positive development has been the establishment of a self-regulatory body, set up in December 2013 by media actors themselves. This should be supported in order to become operational as soon as possible. In September 2014, the government made data on government advertising, including partial figures, publicly available; however it is still unclear which media outlets are the primary beneficiaries of such campaigns and according to what criteria public funds are disbursed. Defamation actions continued to be raised by journalists against other journalists (highlighting the low level of solidarity within the profession), by politicians against journalists (creating a chilling effect on the freedom of expression) and by politicians against other politicians (in the place of open public debate). Court judgments upholding claims of defamation have been relatively low in number and have been relatively conservative in their award of damages; however there are exceptions, including cases involving public figures. This sends a damaging message, both as regards the freedom of expression and the impartiality of the courts. Non-judicial means for resolving such cases should be developed and strongly promoted by the government and by journalists and public figures should lead by example.

As regards the rights of lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, the violent incidents against the LGBTI Support Centre have not been repeated. Nevertheless, the perpetrators of these incidents are yet to be prosecuted. Considerable efforts are needed to increase awareness of and respect for diversity within society, and to counteract the

intolerance perpetuated through the media and social networks. Data on the reporting, investigation and prosecution of hate speech and hate crime is not collected systematically and training of law enforcement, prosecutors and judges needs to be stepped up. The Law on Prevention and Protection against Discrimination still needs to be aligned with the EU *acquis* as it does not prohibit discrimination on the grounds of sexual orientation.

Progress on the protection of minorities continues to be hampered by insufficient financial and human resources and inadequate cooperation between the authorities concerned. A more proactive approach is needed to guarantee the ethnic, cultural and linguistic identities of all communities.

The Roma community continues to live in deep poverty and to suffer from poor social and economic conditions. Prejudice and discrimination against Roma persists, particularly in the area of employment. Projects are ongoing in several priority areas, but they are driven mainly by donor funding as state budget allocations remain unchanged. A new Roma strategy was adopted recently by the government.

The main priorities of the Ohrid Framework Agreement continued to provide a basis for inter-community relations. There is room for improvement in the areas of non-discrimination, fair representation, and the use of languages and education. The Law on Use of Languages and the Law on Use of Flags of the Communities have still not been properly implemented. Local committees for relations between the communities are suffering from a lack of resources. A review of the implementation of the Ohrid Framework Agreement is still incomplete and the resulting recommendations have not yet been published. The budget of the Secretariat for the implementation of the Ohrid Framework Agreement has been increased, mostly to take account of the salaries of around 1 700 civil servants who are yet to be assigned to the state administrative bodies. The Secretariat and the Secretariat General continued recruiting civil servants from non-majority communities, but without specifying defined posts or job descriptions, often at the expense of the principle of merit. In 2013, the overall proportion of civil servants coming from non-majority communities increased slightly to reach 19%. Measures to address the underrepresentation of smaller minorities, such as the Roma, Turks and others, remain inadequate. Increased political support and state funding are necessary for efficient implementation of the Strategy on Integrated Education.

Major protests by the ethnic Albanian community started in July after the court verdict on the so-called ‘Monster’ case relating to murders carried out in 2012. The murder of a teenager in the Skopje municipality of Gjorče Petrov in May, while not ethnically motivated, triggered protests and increased inter-ethnic tension, again exposing the lack of trust between communities. The coalition partners made joint efforts to calm the protests but some political leaders from both communities continued to use ethno-centric and divisive language, particularly during election campaigns. More effort is needed, under the Ohrid Framework Agreement, to proactively promote positive inter-community relations.

For a detailed analysis of developments in the area of human rights and the protection of minorities, *see Chapter 23 — Judiciary and fundamental rights*. For developments in the areas of trade union rights, anti-discrimination and equal opportunities, *see also Chapter 19 — Social policy and employment*.

### **2.3. Regional issues and international obligations**

The former Yugoslav Republic of Macedonia continued to cooperate fully with the **International Criminal Tribunal for the former Yugoslavia**. There are no remaining cases or appeals pending in The Hague.

The former Yugoslav Republic of Macedonia still maintains a 2003 bilateral immunity agreement with the United States, granting exemptions for US citizens from the jurisdiction of

the **International Criminal Court**. In doing so, it is not complying with the EU Common Positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. The country needs to align with the EU position.

As of 1 January 2014, there were a total of 2074 **refugees** in the former Yugoslav Republic of Macedonia, of which 955 were Roma refugees from Kosovo\* and 229 **internally displaced persons**. In 2013, 82 persons were voluntarily repatriated to Kosovo and Serbia. The Ministry of Employment and Social Policy continues to provide financial support to families for rented housing and utilities, in accordance with the Strategy for Integration and the Law on Asylum and Temporary Protection. A committee was formed to represent Roma refugees. Some social housing units were provided. Roma refugees continue to live in poverty, in substandard living conditions, with a high level of unemployment. Access to education, housing, health and employment continues to be a concern. Court procedures concerning internally displaced persons, in relation to claims for damages resulting from the 2001 conflict, are still ongoing and the majority of those affected remain housed with host families.

**Regional cooperation and good neighbourly relations** form an essential part of the country's process of moving towards the EU. The country has continued to actively participate in regional initiatives, including the South-East European Cooperation Process, the Regional Cooperation Council, the Energy Community Treaty, the European Common Aviation Area Agreement and the Central European Free Trade Agreement, which it is chairing in 2014. The country is continuing to contribute to the EUFOR ALTHEA mission in Bosnia and Herzegovina.

On 29 September 2014, the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Montenegro and Serbia signed an agreement on reducing the prices of roaming services on public mobile communications networks.

The former Yugoslav Republic of Macedonia has continued to play a generally constructive role as regards **bilateral relations with other enlargement countries and neighbouring EU Member States**. A bilateral convention on regional cooperation, under Article 12 of the SAA, has not yet been concluded with Serbia.

Good bilateral relations with *Albania* continued. Short-lived tensions following demonstrations and statements in July due to the verdict in the 'Monster' case did not interrupt the frequent high-level bilateral visits, which continued throughout the year. In March, the two countries signed a memorandum of cooperation in the field of tourism.

Relations with *Bosnia and Herzegovina* continued to develop well. Amendments to a number of agreements were ratified. Rescue teams were sent and funds collected to support relief efforts following the May floods.

Cooperation with *Montenegro* was further strengthened. The countries signed an agreement on sharing diplomatic and consular services and a protocol on cooperation in the area of military training. The former Yugoslav Republic of Macedonia also signed agreements on legal assistance in civil and criminal matters, on mutual enforcement of court rulings, and on cooperation in the field of information and communication technologies with both Montenegro and Serbia.

Relations with *Serbia* remained good. A joint centre for police cooperation was opened at the Tabanovce border crossing point and a protocol on cooperation between Ministries of the Interior was signed. The two countries also signed agreements on the exchange and mutual

---

\* This designation in no way affects positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the International Court of Justice Opinion on the Kosovo declaration of independence.

protection of classified information, on mutual recognition of diplomas, and on mutual sharing of premises for diplomatic and consular offices. They also signed a protocol for cooperation in the field of tourism. The dispute relating to the Orthodox churches in both countries remained unresolved but did not prevent closer political cooperation. Rescue teams were sent and funds collected to support relief efforts following the May floods.

Cooperation with *Kosovo* continued to improve. Agreements on mutual recognition of pensions and on strengthening cultural cooperation entered into force. An agreement for the opening of a new joint border crossing point at Belanovce-Stančik was ratified.

Close relations with *Turkey* were maintained. The countries ratified agreements on cooperation in the fields of employment, social security and employment, and on activities linked to setting up cultural centres. Foreign direct investment from Turkey has grown steadily in the past few years, reaching 4 % of the country's total FDI stock in 2013.

Relations with *Bulgaria* remain affected by differences primarily concerning interpretation of history. A number of high-level visits took place. In December, consultations on EU-related issues were held at official and expert level. Negotiations on a bilateral agreement on good neighbourly relations continued. There was also an exchange of letters between Presidents Ivanov and Plevneliev on this subject. However, open issues remain. The countries continued to cooperate on defence issues, and cross-border, sectoral and trade relations continued, with good cooperation including on infrastructure priorities. People to people contacts continued normally.

Good relations with *Croatia* continued, promoted by high-level visits. An agreement on the Euro-Atlantic Partnership entered into force. Amendments to the agreement on economic cooperation and trade were signed, as was the joint declaration on the adoption of the regional strategy for research and innovation development for the period 2014-20.

Relations with *Greece* continued to be affected by the name issue. Formal talks on the name issue, under the auspices of the UN and led by the UN Secretary General's Personal Envoy Matthew Nimetz, included visits to both Athens and Skopje, and three rounds of talks in New York, but did not bring a resolution of the dispute. High-level visits took place including a visit by Foreign Minister Venizelos, in his capacity as chair of the Council of Ministers of the EU. The respective Ministries of Defence signed a cooperation protocol. Economic and trade relations continued normally.

*Overall*, the former Yugoslav Republic of Macedonia is participating actively in regional cooperation and further developing bilateral relations with its neighbours. The name issue continues to affect relations with Greece. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential. Open issues remain in the negotiation of a bilateral agreement with Bulgaria. A constructive approach to challenges with neighbours is important and actions and statements which negatively impact good neighbourly relations should be avoided.

### **3. ECONOMIC CRITERIA**

In examining economic developments in the former Yugoslav Republic of Macedonia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

Monitoring of the economic criteria needs to be seen in the context of the increased role of economic governance in the enlargement process, as welcomed by the General Affairs

Council of 17 December 2013. To this end, the ECOFIN Council in May adopted targeted policy guidance for the country, based on its Pre-accession Economic Programme.

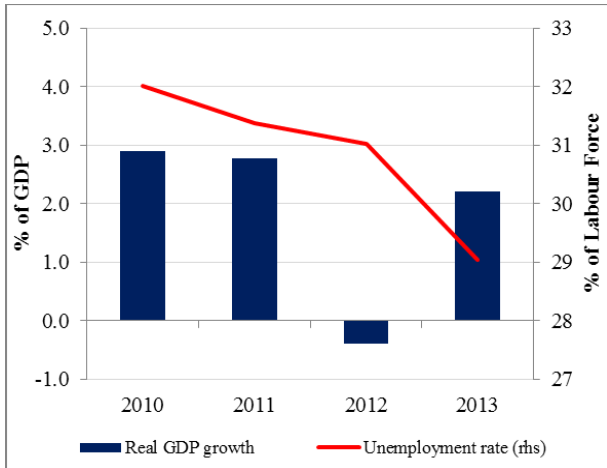
**3.1. The existence of a functioning market economy**

Driven by a strong external sector and foreign direct investment, the economic recovery progressed and external imbalances declined somewhat. Yet, structural rigidities continue to impede the proper functioning of the labour market, and fiscal discipline and transparency suffer from being driven by short-term, ad hoc concerns. While the involvement of the state in the economy remains moderate, in terms of its share in productive capital and its intervention in price setting, the development of a competitive private sector is hampered by difficult contract enforcement, frequent legal changes without adequate consultation of stakeholders, and uneven enforcement of regulatory compliance requirements. Implementation of reforms to improve the business environment remains sluggish. The development of the domestic economy depends on building better linkages between foreign investment companies and local businesses which, in turn, requires government and local businesses to work on better skills-matching and investment in higher-productivity activities. Improvements in market entry and exit would also help.

*Economic policy*

The government remains committed to growth and employment-enhancing policies focusing on foreign investment and the development of the domestic private sector. The labour market situation improved somewhat, but unemployment remains persistently high, in particular among the young. Fiscal discipline and transparency deteriorated further, affecting growth-enhancing capital spending. In January 2014, the authorities submitted the eighth Pre-accession Economic Programme (PEP), outlining key economic, fiscal and structural reforms for the period 2014-2016. Its macroeconomic and fiscal framework is somewhat optimistic with gradually increasing growth averaging close to 4%, driven by domestic demand, and a gradual reduction in the general government deficit ratio to 2.6% in 2016. The country would need to step up its efforts, in line with the Conclusions of the Ministerial Dialogue between the Economic and Finance Ministers of the EU and the Candidate Countries from May 2014, in order to strengthen medium-term budget planning and execution and to improve the employability of workers. In line with the same Conclusions, further efforts will be needed to improve the business environment, in particular market exit procedures and access to finance. ***Overall, the political consensus on the fundamentals of a market economy was maintained, but economic policy and public expenditure management remain driven by ad hoc concerns rather than the long-term requirements of the economy.***

**Figure 1 Real GDP growth and unemployment**



*Macroeconomic stability*

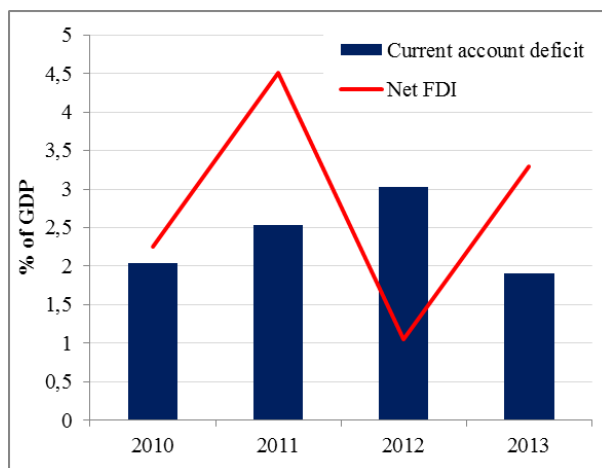
The economic recovery that began cautiously in the second half of 2012 has gained firmer ground. Driven by the external sector, output expanded by 2.9% in real terms in 2013. Growth increased to 3.9% year-on-year in the first half of 2014. Investment activity slowed down considerably in 2013, improving temporarily in the first quarter of 2014, before slowing thereafter. Private consumption contributed positively to GDP growth in 2013, and remained resilient in 2014. Industrial production has picked up significantly since the fourth quarter of 2013, mainly due to a

strong recovery in manufacturing. GDP per capita remains at about 35 % of the EU average.

The current account deficit narrowed in 2013 to 1.8% of GDP, as the merchandise trade balance improved, and in spite of a drop in current transfers. In the same period, foreign direct investment (FDI) inflows strengthened— in 2013, they accounted for 3.5 % of GDP, and stayed at the same level in the first half of 2014. For

the same period the current account deficit declined, by 1.7% in annual terms, on the back of a renewed pick-up in transfers, and in spite of a widening deficit in foreign trade. Increased government borrowing abroad and a surge in foreign loans to public enterprises were the main forces behind the gradual increase of gross external debt. At the end of the first quarter of 2014, it stood at 66 % of projected GDP, and increased further since then, as a result of the government's €500 million Eurobond issue in July. Looking ahead, as transfer inflows are expected to remain volatile, foreign investment and

Figure 2: External position



government external borrowing will have to carry the brunt of financing the current account deficit, which is likely to widen somewhat in the short term, given the substantial import needs arising from public infrastructure projects and the establishment of the new foreign entities. This is expected to be followed by a pick-up in export activity starting in 2015, when the new capacities are taking up operations. **Overall, output growth needs to be more broadly based, and external imbalances are likely to widen again temporarily in view of investment-related imports.**

Labour market conditions improved marginally, but remained challenging. The unemployment rate fell gradually, to 28.2 % in the second quarter of 2014, from an average of 29 % in 2013. However, youth unemployment remains at over 50 %, and four out of five registered unemployed have been so for a year or more. In 2013 employment rate remained relatively low at 50.3 % while labour force participation rate was 70.4 %. While employment was 1.3 % higher in the second quarter of 2014 than a year earlier, a large share of the new jobs, as in previous years, was in low-productivity sectors in the informal economy and — spurred by public subsidies — in agriculture, as well as in the public sector, aided by a significant increase in active labour market measures. More recently, the employment impact of the new foreign entities became visible in a pick-up in manufacturing jobs. Although complete information on public sector employment has not been provided or published, it is estimated that its share of total employment remained at about 20 %. The labour market remains marked by structural rigidities such as low labour force participation, a lack of mobility of workers between sectors, a skills mismatch and slow reforms of the training and education system, subdued innovation activity by firms, and low labour productivity. **Overall, reforms to tackle the structural rigidities of the labour market have made only limited progress. The employability of workers should be improved through structural measures as well as through better targeting of the active labour market measures.**

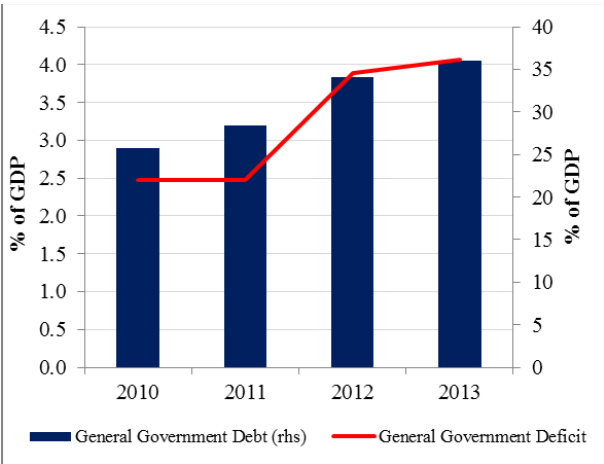
Monetary policy remained successful in defending the currency peg. The inflation environment remained benign, creating room for monetary policy to stimulate sluggish credit growth. The increase in the consumer price index (CPI) averaged 2.8 % in 2013, down by about 0.5 percentage points since 2012 and fell further in spring 2014, mainly due to declining prices for food and housing and utilities. Following a three-month long deflation, consumer prices rose again in July, as regulated electricity prices for households were raised

and food prices stopped falling. After several cuts in the key monetary policy rates in January and July 2013, and an adjustment of reserve requirements to incentivise bank lending in local currency, the Central Bank reduced remuneration on banks' required reserve deposits to zero in November 2013, but loan and deposit rates declined only slowly.

Fiscal discipline and the quality of public spending deteriorated further in 2013 and 2014. In both years, the government was again forced to adopt a supplementary budget due to pressures arising from revenue shortfalls and repayment of accumulated arrears owed to private companies in the first half of the year. The 2013 central government deficit target was raised from 3.6% to 3.9% of GDP, accounting for a substantial increase in pension payments and for the arrears, while the actual deficit, at 4.1%, exceeded even the revised target. With a budget rebalance the planned budget deficit for 2014 was raised from 3.5% of GDP, to 3.9%. Spending was heavily concentrated in the pre-electoral period, and by end-July about 85% of the original deficit target had been reached. Furthermore, capital expenditure makes up a relatively small part of overall spending — it accounted for 12% of total expenditure in the 2013 supplementary budget — and is prone to under-execution, with only four fifths of budgeted sums executed.

The government's medium-term strategy for 2014-2016 foresees a gradually declining general government deficit, to reach 2.6% in 2016. However, the government's stated goal of current expenditure-based consolidation is not sustained by policy measures. Pensions and agricultural subsidies were raised in spring 2014, and increases in public wages are planned. Deficiencies in public financial management led to a marked decline in fiscal transparency and fiscal discipline in recent years. To address these shortcomings, government budget users have been required, since January 2014, to record multi-year liabilities and to respect multi-year expenditure ceilings. In July, the government proposed the introduction of constitutionally-anchored ceilings on the central government deficit and on public debt, but did not provide adequate implementation details ensuring a sound, rules-based application of these provisions. An amendment to the Law on financial discipline, dealing with late payments, extended the law's scope to the public sector, which could possibly alleviate the problems of government payment arrears to the private sector. However, the law contains a

**Figure 3 Fiscal developments**



number of derogations and delayed entry into force for government entities, thus impeding its effectiveness. **Overall, fiscal discipline needs to be improved, and there is significant scope for enhancing fiscal transparency. The government's fiscal consolidation plans need to be underpinned by concrete measures.**

The general government debt ratio, still comparatively moderate, has been rising continuously since 2008, mainly on account of increasing primary budget deficits. Central government debt stood at 40.8% of GDP at end-July 2014 — before the launch of the Eurobond — compared to 34.1% at

end-2012 and 20.6% at end-2008. Debt accumulated by public enterprises, and related contingent government liabilities due to debt guarantees — estimated at some 8% of GDP — are a particular concern, as the government has shifted a large share of its spending on road construction off-budget to a new public enterprise. Hence, total public debt stands at close to 50% of GDP, and is likely to rise further in the short- to mid-term, given the considerable financing needs related to planned investment projects. **Overall, the continued increase in the**



*levels of government and public debt gives rise to concern about its long-term sustainability. The government needs to take steps to stabilise debt levels.*

#### *Interplay of market forces*

The economic importance of the public sector remained largely unchanged, with the private sector share in total assets of the economy at 85 %. While the overall number of enterprises with government participation decreased by 2, the number of enterprises in full state ownership remained unchanged, at 15, as did the level of capital in the five companies — mainly public utilities — with the largest share of state participation. In addition a Public Enterprise for State Roads started operations in January.

Administered and regulated prices account for some 13 % of the CPI basket. Regulated prices — about 12% of the basket — usually cover production costs. Administered prices, such as for water and waste, account for only about 1 % of the basket and usually do not cover costs. ***Overall, the state's share in the economy's assets and in price setting remains moderate.***

#### *Market entry and exit*

The 'regulatory guillotine' project of the government has made some progress in facilitating market entry, focusing on the reduction of administrative burdens and on measures for small and medium enterprises. However, business still faces difficulties in obtaining licenses and permits — the 'one-stop shop' procedure is advancing only slowly, and needs to be extended to business activities beyond construction permits. Obstacles to setting up a private business are a particular concern, as they tend to hamper the establishment of (import substituting) supply chains between the more technologically advanced foreign entities, and the domestic private economy. Improvements in market exit procedures remain even more limited. The number of bankruptcy procedures and deletions from the trade registry decreased in 2013 — between September 2013 and May 2014 it was lower by over 40 % compared to a year earlier. Despite previous reforms to speed up proceedings, only 20 % of bankruptcy procedures were concluded in 2013, significantly less than in 2012 (35 %). In order to further strengthen market exit procedures, the legislation was amended to introduce shorter deadlines for bankruptcy procedures and allow out-of-court settlement in case of insolvency.

Regarding the free economic zones, domestic companies do not enjoy a level playing field with foreign companies as regards incentives. Conditions for obtaining public support implicitly favour (bigger) foreign firms, as local firms can rarely meet the required investment size. Government arrears still pose a problem for business' liquidity, despite the recently tightened legal requirements. ***Overall, while setting up a business has become slightly easier, difficulties remain as regards obtaining permits. Market exit remains lengthy, although the government has taken some reform steps in the right direction.***

#### *Legal system*

The government continued to implement judicial reforms aimed at speeding up procedures and improving capacities, notably by upgrading information and electronic delivery systems. At the end of 2013, the number of pending cases had been reduced by 9%. Contract enforcement remains difficult for private companies, with lengthy and costly legal procedures, inefficient licensing procedures, and often uneven application of laws. The large size of the informal economy continues to hamper competition and the development of a formal private sector. There is little available information on the Labour Ministry's 2013 action plan for reducing the shadow economy, and the Minister presented a similar plan for 2014 without clear evidence of a results-based assessment of previous measures.

Business is still burdened by frequent new legislation without sufficient public consultation. Only 44.5 % of draft laws were published on the national electronic register in 2013 as



opposed to 61.3% in 2012. ***Overall, the legal system for a functioning market economy is largely in place, but inefficiencies arise in practice from lengthy procedures hampering enforcement of laws. Frequent changes of laws create legal uncertainty.***

#### *Financial sector development*

The country's financial system is dominated by the banking sector, about 89% of the system's total assets, while the insurance sector, including fully-funded pensions, represents roughly 4% of total assets. The size of banks' financial intermediation is important, with the assets-to-GDP ratio having risen gradually over recent years to about 80% by the end of the first quarter 2014. On the positive side, concentration in the banking sector diminished somewhat, though 60% of total assets are still owned by the three largest institutions. Banks are mainly funded by deposits, which recorded a sound annual growth rate of 7% in the first quarter.

Financial stability indicators are resilient. Regulatory capital has diminished slightly, but is still far above levels required by banking regulation, and liquidity of banks remains ample. Profitability indicators point to strong performance, in particular in the second half of 2013 and beyond. The quality of loan portfolios has improved gradually since summer 2013, yet the ratio of non-performing to total loans to non-financial entities remains elevated, at 11.1% at the end of March 2014. However, non-performing loans do not appear to pose a systemic risk, and are fully provisioned for. Private sector credit growth picked up again since the summer of 2013, after having declined since May 2012. Loan growth to companies began increasing only towards the end of 2013. Even though the share of domestic currency in total loans is increasing, about 50% of loans are still denominated in foreign currency, posing potential market risks in case of adverse foreign exchange developments. A further risk might arise, in the mid-term, from potential parent-led restructuring, with negative impact on two of the biggest banks in the country, which together account for about 40% of the sectors' assets. The capacities of supervisory bodies were strengthened through amendments, in March 2014, to the Law on Insurance Supervision and to the Securities Law, tightening selection criteria for members of the supervisors' decision-making bodies. ***Overall, the financial system remains stable, and supervisory capacities have been further strengthened. However, access to finance continues to be difficult, and the non-banking segments of the market need to be further developed, with a view to widening funding opportunities for the private sector. Measures should continue to be taken to repair the bank lending channel, including by fostering the clean-up of non-performing loan portfolios.***

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

#### *Human and physical capital endowment*

Low labour market participation, in particular of women, and limited job opportunities in advanced industrial sectors restrict the opportunities for developing the skills of the workforce. The level of education and training of the workforce does not correspond adequately to the needs of the economy. Recent improvements in access to education have produced good results, as the number of early school leavers dropped, and the rate of pre-school enrolment increased. The number of graduates from tertiary institutions dropped in 2013, but the overall share of workers with tertiary education has risen by 4pp to some 18% of the workforce between 2009 and 2013. However, one quarter of them is unemployed, as most of the job creation in recent years took place in low-productivity sectors.

Labour productivity remains low at about 18.4% of the EU average and has not recovered since the crisis-related drop in 2008/2009, in particular in manufacturing. The sectoral structure of employment is stagnant — the economy remains focused on agriculture (19% of

total employment) and trade, the much-needed transition to higher-earnings jobs has not yet taken place. Foreign companies, many of which are active in higher-end manufacturing activities, often face difficulties in finding the necessary skills in the workforce or set up supply chains with local companies to substitute for imports. The government continues to address the labour market challenges primarily through a wide variety of active labour market measures, including subsidised employment schemes and grants for start-ups. These measures are insufficiently prioritised on the basis of performance evaluation, and do not adequately address the underlying structural causes of unemployment. The variety of measures and the number of workers covered by these schemes has increased significantly in 2014. While the government has adopted a number of strategies addressing structural rigidities in the labour market, such as a vocational training plan, actual implementation is lagging.

Capital investment remains modest — in 2013, gross capital formation amounted to about 29% of nominal GDP, which is below the levels of the preceding two years. There is an emerging dichotomy in the country's capital stock, with foreign investment increasingly focused on higher-productivity, technology-intensive sectors, while the capital stock in the local economy remains low and relatively outdated. The state of transport and energy infrastructure hampers economic development in many areas — the government is addressing this obstacle through large-scale public investment projects, co-financed by international donors and commercial banks. The share of foreign direct investment in GDP remained relatively low, and only 40% of the inflows took the form of greenfield investment in 2013. The overall stock of FDI is also relatively low at about 50% of GDP. Yet its recent change in structure — from services and utilities to machinery and transport equipment — makes a small, but positive contribution to updating the capital stock. ***Overall, the government has made some progress in addressing the prevalent shortcomings in the country's human and physical capital endowment, but the challenges of the investment required to accelerate labour productivity growth and the structural transformation of the economy remain very large. The government should continue to improve the composition of spending, by prioritising investment projects according to their productive potential on the basis of cost-benefit evaluations.***

#### *Sector and enterprise structure*

There was no notable change in the sectoral structure of the economy. At 36%, trade, together with automotive-related services, dominated the enterprise sector. The share of agricultural output in the economy remains stagnant at about 10%. Mainly due to the hesitant recovery of the manufacturing sector in 2013, the share of mining, manufacturing and utilities declined from about 21% in 2011 to 16% in 2013. The construction industry gained in importance, accounting for about 10% of gross value added in 2013, up from 7% in 2011, driven to some extent by public infrastructure investment, and by foreign investment.

In terms of size, the economy remains dominated by micro- and small enterprises, which accounted for more than 98% of all companies in 2013. The number of large companies more than doubled, induced by the establishment of companies with foreign investment, even though their share remained well below 1%. Small and medium enterprises accounted for over 80% of total employment, with the share of large companies diminishing slightly to below 20%. ***Overall, the sectoral and enterprise structure of the economy remains stagnant and focused on low-productivity activities. The recent increase in the number of large companies suggests that the share of more advanced manufacturing activities in the economy might strengthen somewhat in the coming years, but a genuine sectoral transformation remains elusive.***

### *State influence on competitiveness*

The state's ownership of economic assets remained relatively moderate at about 15 % of GDP. The legal framework for state aid was strengthened by the adoption of regulations on regional aid, horizontal aid and Services of General Economic Interest, transposing the relevant EU legislation into national law. There is limited reporting on state aid. In the course of the second phase of the deregulation of the electricity market, which began in April 2014, 222 medium and large companies and started to purchase electricity on the open market. However, notwithstanding these developments, there is a wide range of policy instruments through which the government increasingly has an impact on the economy's — and on different sectors' and companies' — competitiveness, such as direct subsidies and tax exemptions, in particular for foreign investors; on-site firm inspections and fines; involuntary rescheduling of payment contracts; public guarantees for loans to state-owned enterprises; public infrastructure projects; and active labour market programmes. ***Overall, against the overall background of a low share of the state in the economy's assets, improved state aid legislation, and further deregulation of the electricity market, the state's influence on competitiveness through the implementation of other policy instruments seems to have increased.***

### *Economic integration and convergence with the EU*

Total trade in goods and services remained high at about 126 % of GDP with exports totalling 54 % of GDP. In 2013, about 70 % of total exports went to the EU, some 7 % more than in 2012, and some 60 % (+2pp) of imports originated there. CEFTA was the second most important trading partner, at some 20 % of exports — less than in 2012 — and some 12 % of imports. Exports remain highly concentrated — 48 % of exports consisted of iron and steel, chemicals, and clothes. Yet, diversification continued, mainly on account of foreign investors, supporting a gradual shift to higher value-added products, such as machinery and transport equipment — its share in total trade increased to more than 13 % in 2013, from less than 5 % in 2008. Companies from the EU accounted for some 80 % of total FDI stock at end -2013. GDP per capita remained at about 35 % of the EU average in 2013. ***Overall, trade linkages with the EU have increased further in 2013, both on the export and import side, and the EU continues to account for the bulk of foreign direct investment.***

## **4. ABILITY TO TAKE ON THE OBLIGATIONS OF MEMBERSHIP**

This section examines the former Yugoslav Republic of Macedonia's ability to take on the obligations of membership — that is, the *acquis*, as expressed in the Treaties, the secondary legislation and the policies of the European Union. It also analyses the country's administrative capacity to implement the *acquis*. The analysis is structured according to the list of 33 *acquis* chapters. For each of these, the Commission assesses the progress achieved during the reporting period and summarises the country's overall level of preparation.

### **4.1. Chapter 1: Free movement of goods**

As concerns **general principles**, three additional measures relating to fulfilment of Articles 34 to 36 of the Treaty on the Functioning of the European Union were implemented. A further nine legislative amendments (out of a total of 42 identified as necessary) still need to be made.

Regarding preparations for an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA), further efforts are required.

With regard to **horizontal measures** for *standardisation*, the country continued to adopt European standards, maintaining the high volume of the previous year. The Institute of Standardisation issued 25 773 standards and standardisation documents (as compared with

22,552 a year earlier) of which 23 110 are European standards. Five national standards (for waste, geotechnical equipment, gas equipment and tobacco products and liquid petroleum gas) were issued. The capacity of the Institute is sufficient and six additional staff members were appointed. The Institute operates 26 technical committees all of which act as observers in EU standardisation bodies. Six legal entities conduct *conformity assessments* in regulated areas, mainly of lifts, pressure equipment, machines and cable transport devices.

In accordance with the new national legal framework on *accreditation*, all public administration bodies were obliged to introduce quality management systems based on international or local standards. The ISO 9001 standard is a minimum requirement. The Law on Accreditation, however, only recognises certificates issued by bodies accredited by the relevant national institute, and not those issued by EU certification bodies, which distorts competition and raises concerns about the implementation of the obligations under the Multilateral Agreement on Mutual Recognition of Certifications. The capacity of the Institute of Accreditation is sufficient. The Institute had accredited a total of 136 conformity assessment bodies and has withdrawn 13 accreditations. The Institute started the accreditation procedure for a medical laboratory in accordance with the new standard, ISO 15189:2010. The capacity of the Metrology Office was significantly strengthened by the appointment of 9 new employees, a 30% increase in staff numbers.

During 2013, the State Market Inspectorate conducted 147 *market surveillance* inspections relating to the Law on Product Safety (less than half as many as in 2012) and 360 inspections relating to the Law on Construction Products (an almost four-fold increase on the previous year). These inspections identified, respectively, five and 23 misdemeanours. A total of 978 inspections were conducted relating to the application of the Law on Metrology and 87 abuses were identified.

In the area of **‘Old Approach’ product legislation**, a list of prohibited chemicals and a list of high concern chemicals were published. There were some new developments regarding the **‘New and Global Approach’ product legislation** and **procedural measures**, where the country is already at an advanced stage, with 58 Eurocodes endorsed and translated.

#### *Conclusion*

Little progress was made in this chapter. The creation of a legal framework for the introduction of ISO quality systems in the public administration is the most notable development. There are concerns over the limits imposed on the recognition of certificates, as this distorts competition. Overall, preparation in the area of free movement of goods remains at an advanced stage.

#### **4.2. Chapter 2: Freedom of movement for workers**

As regards **access to the labour market**, EU citizens are still not permitted to occupy public service posts. Preparations have begun for participation in the cooperation network European Employment Services. The time allowed for the Employment Agency to issue its opinion on a foreign worker’s request for a work permit was reduced from 45 to five days.

In the area of **coordination of social security systems**, an agreement with Kosovo on the contribution period entitling individuals to pension rights came into force in November 2013. Negotiations were launched with Slovakia on a bilateral social security agreement and with Hungary on the use of the European Health Insurance Card.

#### *Conclusion*

Some progress has been made in the area of freedom of movement for workers. Overall, preparations are still at an early stage.

#### 4.3. Chapter 3: Right of establishment and freedom to provide services

With regard to the **right of establishment**, an electronic online application system for registration of companies is increasingly being used. Waiting times for obtaining permits were shortened and costs reduced. All construction-related permits for companies are issued electronically by the Ministry of Transport.

As regards **freedom to provide cross-border services** the regulations on veterinary medicine, private education, construction, tourism and regulated professions still contain restrictions that are not in line with the *acquis*.

Liberalisation of the universal **postal services** was postponed until 2017. The national regulatory authority has sufficient capacity and systematically monitors the quality of universal services, including delivery times and complaint handling. There continue to be concerns over the unlimited period set for designating the universal service provider and over the financing of the net costs of the universal service obligation.

A number of authorising bodies still do not apply the principle of **mutual recognition of professional qualifications** as required by the Professional Qualifications Directive. Legislation on commercial agents and professional use of toxic products has not yet been aligned with the *acquis*.

##### *Conclusion*

Limited progress was made in this chapter. Further action is needed to fully align national legislation with the *acquis*, particularly as regards the mutual recognition of professional qualifications and the services directive. Overall, in the areas of the right of establishment and freedom to provide services the country remains on track.

#### 4.4. Chapter 4: Free movement of capital

The country already meets the requirements of the first stage of the Stabilisation and Association Agreement in the field of **capital movements and payments**. There are, however, restrictions on capital movements not allowed by the EU *acquis*. EU citizens are not allowed to purchase agricultural land. Further liberalisation of capital movements and payments is foreseen after the transition to the second stage of the SAA.

The National Payment System Council adopted an action plan for the implementation of the 2013-17 strategy for the development of **payment systems** and the working groups in the area of payment card operations have stepped up their activities.

As regards the **fight against money laundering**, the Law on the Prevention of Money Laundering and Financing of Terrorism was amended, improving compliance with the recommendations of the Financial Action Task Force. The number of suspicious transactions referred to the Financial Intelligence Unit fell from 239 in 2012 to 169 in 2013, which represents a drop of 29%. In 2013 the Financial Intelligence Unit submitted to law enforcement institutions 25 notifications relating to money laundering and financing of terrorism, which is 31% less than the previous year. There were 3 prosecutions against 25 persons for money laundering and final convictions in 4 cases against 41 persons.

##### *Conclusion*

Limited progress was made in this chapter. The main developments were related to payment systems and to the institutional capacity for combating money laundering and financing of terrorism. Overall, preparations in the area of free movement of capital remain on track.

#### 4.5. Chapter 5: Public procurement

As concerns **general principles**, the 2014-18 strategy for public procurement systems was adopted. The Law on Public Procurement has been amended on a number of occasions to bring the requirements for providers and subcontractors of transport services into line with the *acquis*. National legislation has not yet been aligned with the EU Directive on Defence and Sensitive Security Procurement.

Legislation on the **awarding of public contracts** requiring tender documents to be published in an electronic form and free of charge has increased the transparency of the public procurement process. A new oversight body, the Public Procurement Council, became operational. The Law on Public Procurement stipulates that, in general, the 'lowest price' criterion must be used when awarding contracts. The most economically advantageous tender can only be chosen with the approval of the Public Procurement Council. This system is not in line with the *acquis*. The obligation for contracting authorities to obtain consent from the Public Procurement Council prior to publishing a contract notice creates an unnecessary administrative burden. Irregularities were also suspected in the 'Skopje 2014' project, a government-funded urban project. The municipality of Centar, where the project is mainly located, commissioned a report, which found the decisions taken on works tenders to have been biased. To date, neither the State Audit Office, nor the State Commission for Prevention of Corruption or the Public Prosecutor's Office has taken any action in response to the findings of the report. Supplements to works contracts are very frequent, as the Law on Public Procurement does not make technical dialogue a mandatory requirement prior to awarding contracts. Tender requirements do not facilitate wide participation on the part of small and medium-sized enterprises. The administrative capacity of the Ministry of Economy remains insufficient to ensure effective implementation of the Law on Concessions and Public-Private Partnerships. The Public-Private Partnership Council is not yet operational.

The human and financial resources of the State Appeals Commission, part of the **remedies** system, remain insufficient. The total number of cases further decreased from 585 in 2012 to 553 in 2013; resolution rate remains stable at 95 %. Contracting authorities placed about 40 economic operators on the negative reference list in 2013, of which 11 submitted an appeal. The use of the negative reference list has not yet been aligned with Case C-465/11 of the Court of Justice of the EU. Prison sentences from one to five years were introduced for illegal profits and professional misconduct. Where violations of procurement procedures were identified, these were not followed up systematically, and resulted in only one conviction for abuse of public procurement or public-private partnership procedures. National legislation has not yet been fully aligned with the EU Directive on Remedies.

#### *Conclusion*

Progress in the area of public procurement was only limited during the reporting period. There are concerns about the overall quality of implementation of the laws. Greater efforts need to be made to ensure that the use of public funds is efficient and transparent. From a legislative point of view, preparations remain at an advanced stage.

#### 4.6. Chapter 6: Company law

The legislative framework for **company law** was further amended to enforce mandatory submission of annual accounts by inactive companies and to introduce mandatory e-submission of annual accounts by large and medium-sized companies. The e-registration system established by the Central Registry was made mandatory for start-ups, and there are now around 200 registration agents. In 2013, the Academy for Judges and Prosecutors provided training courses to 176 judges in the area of company law and to 45 judges in the area of international company law. Specialised training was given to 15 newly appointed

judges dealing with civil matters and business-related disputes. Alignment with the Directive on cross-border mergers remains to be completed.

As regards **corporate accounting**, the validity of temporary certificates for accountants and certified accountants was extended from 24 to 48 months. Some 3 000 permanent and 7 300 temporary licences were issued by the Ministry of Finance. The Institute of Chartered Accountants is not yet operational and responsibility for licensing remains with the Ministry of Finance. There have also been delays in providing continuous training to professional accountants.

With regard to **auditing**, the Institute of Chartered Auditors became a full member of the International Federation of Accountants. The Council for Audit Promotion and Supervision adopted the implementing legislation on recognition of auditors' qualifications obtained abroad, and those qualifications were recognised by the institute.

#### *Conclusion*

Good progress was made in the area of company law, especially as regards auditing. The Institute of Chartered Auditors joined the International Federation of Accountants. Recognition of auditors' qualifications obtained abroad was regulated. The Council for Audit Promotion and Supervision is operational, but the Institute of Chartered Accountants has not yet assumed its responsibilities. Overall, preparations in the area of company law are advanced.

#### **4.7. Chapter 7: Intellectual property law**

The Law on **copyright and neighbouring rights** was amended to regulate phonogram rights and to ensure alignment with the World Intellectual Property Organisation Performances and Phonograms Treaty. The government appointed the members of the commission for mediation in the field of copyright and neighbouring rights. The capacity of the unit for copyright and neighbouring rights (part of the Ministry of Culture) remains insufficient. Cooperation among the institutions responsible for industrial property needs to improve.

The Law on **industrial property rights** was amended to regulate intellectual property rights, in accordance with the Strategy on Innovation. A system for electronic filing of patent applications became operational. In 2013, the Academy for Judges and Prosecutors delivered nine training programmes to 205 members of the judiciary on protection of intellectual property rights. The State Office for Industrial Property does not have sufficient staff to ensure a quality service vis-à-vis businesses and to support innovations. Training for small and medium-sized enterprises on protection and enforcement of intellectual property rights is limited.

As regards **enforcement**, the Coordination Body for Intellectual Property launched 16 actions in 2013 and seized approximately 2,000 counterfeit items. There were 24 criminal prosecutions and 11 charges for misdemeanours relating to intellectual property rights. The State Market Inspectorate carried out around 120 inspections. Only 1% of the fines imposed were collected in 2013. The Agency for Audio and Audiovisual Media Services issued 18 banning orders to broadcasters to prevent further violations of copyright and neighbouring rights. Cooperation between the Ministry for the Interior and Interpol on uncovering regional counterfeit channels resulted in the seizure of 70 000 counterfeit items, closure of a number of factories producing counterfeit goods and detention of 330 people. The overall number of controls and seizures is falling however, and commitment to combating violations of intellectual property rights is not improving. Counterfeit foodstuffs, cosmetics, toiletries, medicines, toys, technical and electronic equipment continued to be sold on stalls in streets markets and in outlets. Awareness of violations of intellectual property rights and of the threats to health and safety remains limited. Training for small and medium-sized enterprises

on protection and enforcement of intellectual property rights is limited. The three public laboratories are not legally authorised to detect counterfeit medicines and their analyses are not accepted as expert evidence by the courts. Counterfeiting is not considered to be organised crime and efforts to combat it remain insufficient. Data on investigations, prosecutions and trials for offences relating to intellectual property rights have been collected systematically since 2013, but the State Statistical Office has not yet produced a reliable enforcement record.

#### *Conclusion*

Some legislative progress was made in the area of intellectual property law. Enforcement efforts by all institutions continue, but the complexity of the enforcement system impedes effective protection of intellectual property rights. A track record of investigations, prosecutions and trials for offences relating to intellectual property rights is not yet available and public awareness remains limited. Overall, preparations in this area are at a moderately advanced stage.

#### **4.8. Chapter 8: Competition policy**

In the area of **anti-trust and mergers**, the Commission for the Protection of Competition took two decisions on anti-competitive agreements, four on abuses of dominant position and 18 on market concentrations. A further nine procedures are ongoing. The Administrative Court overruled seven decisions made by the Commission for the Protection of Competition for procedural reasons, six of which were subsequently confirmed by the Higher Administrative Court. The Criminal Code was brought into line with the Law on Protection of Competition, allowing leniency measures to be applied. Guidelines on vertical restraints and on horizontal agreements were adopted, ensuring further alignment of the competition *acquis*. A market analysis of the banking sector was carried out in 2013. The Commission for the Protection of Competition, in cooperation with the Academy for Judges and Prosecutors, delivered training in specialist areas to judges and court staff of both the Administrative and the Higher Administrative Courts. Since 2012, the Commission for the Protection of Competition has not issued any rulings on cartels. Its operational budget remains limited and it continues to make insufficient use of administrative capacity in the area of anti-trust and mergers.

The Commission for the Protection of Competition adopted six decisions approving the granting of **state aid** (for both schemes and individual aid), of which two were for regional state aid. The capacity of the state aid department was further strengthened and staff numbers remain adequate. Awareness among state aid providers of the systems for reporting on its use remains low, undermining the monitoring mechanisms which are in place. The *de minimis* threshold of €200000 is too high and disproportional to the country's market and presents a risk for competition distortion. Overall, the legislative framework on state aid remains stable, but transparency regarding the details and amounts of state aid granted needs to be improved.

#### *Conclusion*

Good progress was made in the field of competition policy. Legislation was further aligned with the *acquis* and the Criminal Code was brought into line with the Law on Protection of Competition. The country maintained its record in terms of enforcing laws. The Commission for the Protection of Competition continues to operate with an insufficient budget, while staff numbers are sufficient. Overall, preparations in this area are at an advanced stage.

#### **4.9. Chapter 9: Financial services**

In the area of **banks and financial conglomerates**, the Central Bank developed a new methodology for assessment of Bank's Internal Capital Adequacy Assessment Process (ICAAP). Regulations on capital adequacy requirements were amended to include



performance guarantees and to align with the EU Regulation on prudential requirements for credit institutions and investment firms. The amended legislation on the credit registry expanded the use of IT tools to improve availability of information. The scope of external audit of banks was expanded to comply with Basel principles for external audit of banks. Guidelines on liquidity risk management allow the establishment of funds to support longer-term lending. The modest number of complaints submitted indicates a low level of awareness of consumer rights, which remains a concern.

New regulations on standards for statistics and IT systems in **insurance** and reinsurance companies were adopted. New stickers certifying the registration and insurance of vehicles were introduced. The Ministry for the Interior has still however not produced reliable data on uninsured vehicles. Reliable data is needed in order to keep a better record of the enforcement of measures taken to combat uninsured driving. The planned liberalisation of the motor insurance market was postponed to protect the insurance industry. Current legislation, which authorises the Ministry of Finance to set premiums for motor vehicle insurance, is not in line with the EU *acquis* and prevents competition in the largest segment of the insurance market.

Amendments to the Law on Fully-Funded Pension Schemes further upgraded the requirements for **pension** funds agents. The relevant agency continued to increase its overall enforcement capacity, and thus its leverage over the institutions it supervises. The 50% limit on investing in non-domestic securities is not in line with the EU *acquis*.

The legislation on **financial market infrastructure** is only partially aligned with the Financial Collateral Directive (2003/47/EC), while alignment with the Settlement Finality Directive (98/26/EC) has not yet begun.

In the area of **securities markets and investment services**, the Securities Law was amended to extend the definition of private offers of securities and to extend the reporting obligations placed on securities depositories so as to include shareholders owning more than 5% of shares in a company. The capacity of the Securities and Exchange Commission to regulate and supervise has improved.

#### *Conclusion*

Overall, there was some progress in the area of financial services. Legislation relating to banks, securities, investment funds, and fully-funded pension schemes has been improved. Good quality statistics are needed in order to keep a record of measures taken to combat uninsured driving. Legislation on the financial market infrastructure has not yet been aligned with the *acquis*. The regulatory and supervisory capacity of both the Agency for Supervision of Fully-Funded Pension Schemes and the Securities and Exchange Commission has improved. Preparations in the area of financial services are at a moderately advanced stage.

#### **4.10. Chapter 10: Information society and media**

In the area of **electronic communications and information and communications technologies** a new Law on Electronic Communications was adopted in February, in order to align national legislation with the 2009 EU regulatory framework. New regulations were adopted to increase competition and improve consumer rights. The regulator, the Agency for Electronic Communications, established minimum network quality principles and 4G network access became available. It is now equipped with quality measurement and radio frequency spectrum monitoring equipment enabling it to monitor the quality of services provided by operators more closely. Fixed broadband penetration reached a level of 16% of the population in 2013, as compared with the EU average of 29%. The regulator issued a manual, which sets internet-broadband targets. The administrative charges and fees imposed on operators are still above the level necessary to finance the functioning of the regulator. The use of the regulator's surplus funds for purposes other than development of electronic communications

continued, undermining its credibility. Coordination between the regulator and the competition authority over the imposition of sanctions is poor. The administrative capacity of the Ministry of Information Society and Administration remains insufficient. The 112 emergency phone number has not yet been introduced.

As regards **information society services**, the Law on the Academic Research Network was amended to allow it to become the regulator of domain names, and eight companies signed contracts to act as registrars of the national domain. This completes the process of liberalisation of the domain name market. The process for setting up a national computer emergency response team continued.

In the field of **audiovisual policy**, the Laws on Audio and Audiovisual Media Services was adopted, in part in order to align national legislation with the Audiovisual Media Services Directive. Setting up the institutional framework required by the new law is underway and it remains to be seen whether these will function effectively in practice. Amendments to the law were adopted in July and September with only limited consultation with stakeholders.

The renamed media regulatory authority, the Agency for Audio and Audiovisual Media Services, continued monitoring the content of programmes, media ownership and market concentration. It extended its monitoring activity to include regional television. There continue to be concerns about the fairness, objectivity and transparency of its approach. Its political and financial independence and that of the public service broadcaster is not yet firmly established. (*see Chapter 23 — Judiciary and fundamental freedoms*)

#### *Conclusion*

Good progress was made as regards the alignment with the *acquis* in the area of information society and media. New legislation on electronic communications and audiovisual policy are in place. Steps need to be taken to guarantee the independence of the public broadcaster and the media regulator. Overall, preparations in this area are on track.

#### **4.11. Chapter 11: Agriculture and rural development**

As concerns **horizontal issues**, the preparations for establishing an integrated administration and control system are at an advanced stage. The land parcel identification system (LPIS) was further developed and digitisation of agricultural parcels completed. The land parcel identification system is now ready to be used for monitoring national area-based direct payments. Understaffing of the unit responsible for the system is putting the regular maintenance, updating and overall quality of the system at risk. The agricultural market information system has become the exclusive source of market data. The quality of the data from the farm accountancy data network still needs to be improved.

A Law on Consolidation of Agricultural Land Parcels was enacted, providing for the implementation of land consolidation programmes. Access to quality advisory services for farmers and small agricultural businesses needs to be further improved, particularly in view of the strategic importance of this issue. Effective use and maintenance of irrigation facilities remains an area of concern.

The 2014 budget for agriculture and rural development was fixed at a level similar to that of 2013 (approximately €155 million), representing 5% of the national budget. Approximately two thirds of this amount represent direct payments to farmers. For some agricultural products, financial support remains linked to production. The impact of these direct payments on the viability, productivity and competitiveness of the farms remain to be assessed. Cross-compliance requirements have been partially introduced.

There has been limited progress on common market organisation for commodities.

The national programme for **rural development** was implemented in 2013, through seven public calls for applications. The budget for this programme increased substantially in 2014 (by 125% as compared with the 2013 budget). The capacity of the Agency for Financial Support of Agriculture and Rural development was strengthened.

In 2013, a total of €11.5 million of funding awarded by the Instrument for Pre-accession Assistance for Rural Development (IPARD) remained unused and was returned to EU budget. The overall design of the programme — from the eligibility and financing rules and the types of investment allowed through to the monitoring stages — needs to be improved. An external evaluation of the programme was launched in order to identify specific recommendations for its overall improvement. National authorities made progress in fulfilling conditions for accreditation of ‘technical assistance’ activities under IPARD. The eighth public call was issued following the fourth modification of IPARD, allowing for the purchase of tractors. The number of applications submitted increased substantially.

Preparations are on track in the area of **organic farming** and **quality policy**, and the focus should be now on implementation. In December 2013, the 2013-20 national plan for organic production was adopted. Provisions were introduced to financially support farmers who had signed up to organic production schemes. The administrative capacity to manage organic farming needs to be strengthened.

### *Conclusion*

Some progress was made in the area of agriculture and rural development, especially in the fields of integrated administration and control systems, rural development, organic production and quality protection. Improvements in the structure of farms and in the provision of advisory services are necessary to increase competitiveness. The inefficient implementation of the pre-accession rural development programme is an area of serious concern. Overall, preparations remain at a moderately advanced stage.

#### **4.12. Chapter 12: Food safety, veterinary and phytosanitary policy**

As regards **general food safety**, the institutional capacity of the Food and Veterinary Agency has been strengthened, with additional employees being appointed in accordance with the staffing plan, but remains insufficient.

In the area of **veterinary policy**, implementing legislation has been adopted in order to bring national regulation further into line with the *acquis*. The legislation focused on the improvement of animal health status in aquaculture and on monitoring programmes, the trade of live animals, semen, ova and embryos; on control measures of animal diseases; on prohibited substances and on the monitoring of residues from veterinary drugs. Control systems for imports and import requirements for live animals and animal products have been regularly updated by the Food and Veterinary Agency. Four risk-based monitoring plans for consignments during import were adopted and are being implemented. Rulebooks were issued on the identification and registration of bees, ovine and caprine animals. A system for identification and registration of pigs has not yet been set up. Systems for checking animal identification, registration and movement still need to be more effectively implemented. The Food and Veterinary Agency continues to implement the programme for oral vaccination of foxes against rabies. Delays in payments to authorised private veterinary practices continue to cause problems for the implementation of the animal health programme.

Rulebooks were issued on animal by-products, with the aim of bringing national legislation on the **placing on the market of food, feed and animal by-products** into line with the relevant EU legislation. The necessary collection and treatment systems have not yet been set up.

The implementing legislation on ionising radiation and on food contact material was revised in accordance with the changes made to the *acquis*. The annual monitoring programme for **food safety** was not fully implemented due to lack of funds. The risk-based classification of food establishments dealing with food of non-animal origin has been further developed and the planning of inspections has also progressed. The human resources capacity of the food inspectorate remains insufficient.

Some implementing legislation on **specific rules for feed** was adopted.

In the area of **phytosanitary policy**, monitoring programmes for harmful organisms and plant protection products were adopted, but have only been partially implemented. Implementing legislation has been adopted on plant health and on the quality of seeds and propagation equipment. Plans for conducting official controls on import, registration, labelling and the use of plant protection products have not been adopted. Staff numbers, training and expertise are still insufficient. Coordination between the competent authorities in the sector remains poor and ineffective. The capacity of the State Phytosanitary Laboratory was strengthened, and the volume of sampling and analysis performed has increased, but is still insufficient to provide reliable results. A phytosanitary information system has not yet been established. Preparations in this area are not advanced.

Further implementing legislation was adopted on **genetically modified organisms (GMOs)**.

#### *Conclusion*

Further progress was made in the area of food safety and veterinary policy, notably as concerns the efforts made by the Food and Veterinary Agency to implement the applicable laws, and the upgrading of the risk-based system for official checks. Preparations in the area of food safety and veterinary policy are at an advanced stage. Preparations in the phytosanitary area remain at an early stage.

#### **4.13. Chapter 13: Fisheries**

Fish production is based on aquaculture and commercial fishing in lakes, therefore, a large proportion of the *acquis* on **resources and fleet management, inspection and control**, is only marginally applicable.

New procedures relating to the concessions awarded for commercial fishing were prepared. The law relating to inspection supervision was modified in order to increase efficiency. The number of checks carried out doubled in 2013, as compared with 2012.

The unit of the Ministry of Agriculture, Forestry and Water Economy, responsible for fisheries and aquaculture, regularly updates databases related to **market policy** on production and trade in fresh fish and fish reproductive materials.

As regards **state aid**, the 2014 allocation for financial support for fisheries and aquaculture remains stable at € 1.5 million.

There are no formal **international agreements**. Informal working arrangements with Greece and Albania cover management of resources in the three lakes they share.

#### *Conclusion*

A large proportion of the *acquis* in the area of fisheries is not relevant for landlocked countries. Progress has been made in the area of inspection of aquaculture and commercial fishing in lakes.

#### 4.14. Chapter 14: Transport policy

In the area of **road transport**, road safety legislation needs further alignment with the *acquis*. Road safety campaigns by the Road Safety Council focused on reducing child fatalities. Further strengthening of the administrative and operational capacity is also needed.

In the field of **rail transport**, the Law on the Railway System was amended in November 2013, further regulating the certification of rolling stock, railway inspectors and railway transport. One rulebook was adopted in December 2013, in order to further align national legislation with the *acquis*. Additional efforts are needed to bring infrastructure charges for international freight to competitive levels. The railway market remains closed for licensed operators. However, amendments to the railway law allow for licensed railway undertakings to operate for own purposes and transit. The Rail Safety Authority continued to carry out inspections, but its capacity needs to be strengthened. Procedures for safety certification were improved slightly. The Accident Investigation Committee remains understaffed. The cross-border agreement with Serbia has not yet been concluded.

As regards **inland waterways transport**, the Law on Inland Waterway Navigation was amended in November 2013, further regulating the recognition of certification and transportation of goods in inland waterways. The safety inspections plan has not yet been fully implemented. The licensing process is pending finalisation.

In the area of **intermodal transport**, a strategic study on multi-modal nodes was completed in January 2014, and one potential location has been selected. The country needs to recognise the development of a balanced environmentally-friendly and competitive transport and mobility system with special focus on de-carbonising the economy as a priority.

In the field of **air transport**, one rulebook on air traffic inspections was adopted, bringing national legislation further into line with the *acquis*. Further steps need to be taken to align national legislation with the revised Annex I to the European Common Aviation Area (ECAA) Agreement. A national provision allowing the financing of air operators by providing for a financial incentives scheme for airlines is a point of concern for the application of requirements under phase I of the Agreement. The air navigation services provider signed a loan agreement with the European Bank for Reconstruction and Development (EBRD) to finance the improvement and strengthening of its technical and administrative capacity. The work of the body responsible for investigating aviation accidents and incidents is not yet sufficiently transparent.

#### *Conclusion*

Some progress was made in the area of transport policy. Road safety and railway legislation needs further alignment with the *acquis*. The railway market remains closed to EU railway undertakings except transportation for own purposes. The administrative capacity of both the Rail Safety Authority and the Accident Investigation Committee for rail transport needs to be strengthened. Overall, preparations in this area are moderately advanced.

#### 4.15. Chapter 15: Energy

In the area of **security of supply**, oil reserves increased slightly, and are now equivalent to 57 days' average consumption. The Law on Compulsory Oil Reserves, adopted in September 2014, aims at aligning with the EU *acquis* in this area. A loan of €25 million was secured from the European Bank for Reconstruction and Development for modernisation of the Bitola-Florina (Greece) section of the electricity transmission network. Tendering procedures for the construction of two large hydropower facilities, Lukovo Pole and Boškov Most are underway, raising some concerns about the potentially detrimental effect on the environment. The Intergovernmental Agreement (IGA) signed with Russia in 2013 regarding the South

Stream pipeline is not compatible with the *acquis*. The former Yugoslav Republic of Macedonia has contributed to the energy security stress test carried out by the European Commission in the framework of the European Energy Security Strategy.

The 2014-18 energy balance for the **internal energy market** projects significant growth in the consumption of natural gas and geothermal energy. The electricity market for medium-size consumers was opened up to competition on 1 April 2014, and a full market opening for all consumers, including households, is scheduled for 1 January 2015. New electricity market rules, a tariff system, and rules for purchasing electricity to cover network losses entered into force. The electricity distribution grid code was amended to allow market opening. Changes to bring legislation into line with the third Internal Energy Market package are ongoing. The most vulnerable households continue to benefit from subsidies.

The Energy Regulatory Commission established market rules for the natural gas market and amended the rulebook on regulated prices for transmission, distribution and supply of natural gas, necessary for further opening up of the natural gas market. The government adopted decisions to start activities for public-private partnerships for constructing supply and distribution gas networks. The state-owned gas transmission operator signed an agreement for construction of the gas transmission pipeline, Klečovce-Štip-Kavadarci. The government launched a tender procedure for a public-private partnership for the distribution and supply of gas to companies and small consumers in the city of Skopje. A dispute over the ownership of the gas transmission pipeline has not been resolved, holding back the development of the sector. The market for the distribution and supply of natural gas remained highly concentrated, although two new public enterprises were licensed.

The national action plan for **renewable energy** sources has not been adopted by the government and the deadline for submission to the Energy Community has not been met. National legislation has not yet been amended to reflect the Energy Community's binding target of 28% of gross final consumption from renewable sources, or the requirements for cooperation mechanisms. Award of concessions for small hydropower plants in 80 locations is underway. The maximum allowed capacity for feed-in tariffs for electricity produced from biogas was increased from 2 MW to 7 MW, but criteria for the sustainable production and import of liquid biofuels have not been implemented. Changes to national legislation to align it with the EU Directive on Renewable Energy need to be accelerated.

As regards **energy efficiency** the second energy efficiency action plan was drafted and discussed with stakeholders, but still needs to be adopted by the government. The 2013 target commitment of 4% energy savings was not met. The national Energy Agency adopted implementing legislation on the energy performance of buildings and on energy audits. The first group of trained and licensed energy auditors started work. Four new members of staff have been appointed to the Energy Agency but its capacity remains insufficient.

The Radiation Safety Directorate adopted the 2014-16 strategic plan on **nuclear safety and radiation protection**, and prepared a report on the implementation of the code of conduct on the safety and security of radioactive sources.

### *Conclusion*

Some progress has been made in the energy sector, notably as concerns the further opening of the electricity market, the efforts to open up and widen the natural gas market and the action taken to improve security of supply. Measures related to renewable energy sources and energy efficiency have not been fully implemented and the 2013 targets were not met. The regulator needs to have more power to enforce its decisions and licensed businesses need to better meet the obligations placed on them. Efforts to fully transpose and implement the Third Energy Package need to be reinforced. Preparations in this area are moderately advanced.

#### 4.16. Chapter 16: Taxation

In the area of **indirect taxation**, the *value added tax* (VAT) Law was amended to introduce the reverse charge system. The VAT rate for animal food, baby products and school supplies was decreased from 18% to 5%. Regarding *excises*, the rates increased; however, some still remain lower than the minimum required by the *acquis*. Further alignment is required in this area.

In the area of **direct taxation**, the Law on Personal Income Tax was amended to introduce the concept of self-assessment for sole traders and the self-employed, and clarified procedures for the application of double taxation agreements. The system for taxing gains from games of chance and betting was also simplified. The Law on Special Zones for Technological and Industrial Development is not compliant with the EU Code of Conduct for Business Taxation.

As regards **administrative cooperation and mutual assistance**, the double taxation agreement with Bosnia and Herzegovina was ratified and the Phase 2 Peer Review Report, part of the peer review process set up by the OECD Global Forum on Transparency and Exchange of Information for Tax purposes, was published.

In the field of **operational capacity and computerisation** the use of electronic filing of tax returns and electronic services was further extended, improving the operational capacity of the tax administration in these areas. The Public Revenue Office has not yet conducted an analysis of gaps and needs regarding EU interconnectivity and interoperability. The mandate of the Office was further extended to include supervision of the implementation of the Law on Fiscal Discipline for late payment in commercial transactions and forensic analysis of financial accounting. The Office published several guidelines and procedures for strengthening implementation. Inspections further increased, in particular on issuance of fiscal receipts and enforced collections. The Office has started publishing a list of unpaid debts and late-paying debtors. Reducing the size of the informal economy remains a challenge. There continue to be delays in the payment of VAT refunds, which can affect the liquidity of businesses.

#### *Conclusion*

Some progress has been made in the area of taxation. Legislation on both direct and indirect taxation needs to be aligned more closely with the *acquis*. More needs to be done by way of preparation for interconnectivity and interoperability with the EU. The Law on Special Zones for Technological and Industrial Development is not yet compliant with the EU Code of Conduct for Business Taxation. The country needs to develop a good track record of paying out VAT refunds promptly. Further efforts are needed to combat tax fraud, tax evasion, and the informal economy. IT infrastructure needs to be improved. On the whole, preparations in the area of taxation are at a moderately advanced stage.

#### 4.17. Chapter 17: Economic and monetary policy

On **monetary policy**, the Central Bank strengthened its mechanism for liquidity management in the banking sector and took further steps to increase compliance with the requirements of the European System of Central Banks.

The 2014-16 Pre-accession Economic Programme was submitted on time. The range of information in the macroeconomic and fiscal frameworks is good, but it is unclear how the planned **economic policy** targets would be achieved. Inconsistencies in the data presented, non-compliance with the European System of Accounts (ESA) standards and the lack of fiscal notification create obstacles to using this pre-accession economic programme as a central policy document. The structural reform agenda needs to be compatible with the fiscal strategy and to address the structural constraints on growth. The fiscal strategy was not adopted within

the legal deadline. The transparency and management of public finances need to be improved through the preparation of a medium-term budgetary framework and by updating the public investment plan. Some steps were taken to improve the institutional capacity of central government, but capacity for strategic policy formulation and implementation capacity needs to be substantially improved at all levels of administration in order for effective results to be delivered. Significant efforts will be needed to align national legislation with Directive 85/2011 on the requirements for budgetary frameworks of Member States, including the requirement that a fiscal rule be introduced.

### *Conclusion*

Limited progress was made in the area of economic and monetary policy. Tackling structural problems in the economy will require a significant improvement in institutional capacity in the field of economic policy formulation and implementation. The transparency and quality of public financial management remain a concern. Overall, preparations in the area of economic and monetary policy are at an advanced stage.

## **4.18. Chapter 18: Statistics**

In the field of **statistical infrastructure**, an amendment of the law on statistics defining the selection and appointment procedure of the head of the State Statistical Office was adopted. Improvements to the IT systems at the State Statistical Office and the Central Bank have improved secure storage and data collection and management. The State Statistical Office conducted pilot surveys on innovations, real import-export prices, the environmental costs of passenger mobility and organic production. Six statistical surveys had to be postponed due to lack of resources at the State Statistical Office. The volume of data transmitted to Eurostat increased and procedures for providing secure access to micro-data for scientific and research purposes were defined.

In the area of **classifications and registers**, further progress was made in the transition to the NACE Rev. 2 statistical classification of economic activities. The system for nomenclature of territorial units was aligned with the national territorial organisation.

As regards **sectoral statistics**, national accounts statistics were brought more closely into line with the *acquis*. Historical national accounts data were revised. The first estimation of seasonal adjustments of quarterly and annual national accounts data was prepared for the period 2004-2013. An action plan for implementing ESA 2010 (European System of Accounts) was elaborated and the State Statistical Office published first data series according to ESA2010. However, further, significant efforts are necessary to comply with the new requirements and should proceed according to the action plan agreed with Eurostat. The Central Bank made improvements to its statistics on interest rates and to its external statistics, and to the statistics used in the compilation of financial accounts. Balance of payments and international investment position statistics have been aligned with the new Balance of Payment Manual (BPM6) and annual, quarterly and monthly time series for 1998 -2014 data have been published. Regional agricultural statistics were published and labour force data were revised. Alignment with the *acquis* improved as regards social statistics through implementation of the Survey on Income and Living Conditions (SILC) and transmission of data to Eurostat. The lack of up-to-date population data continues to have a negative impact on statistical accuracy in a wide range of areas.

### *Conclusion*

Good progress was made in the field of statistics, especially in statistical infrastructure and in the alignment of sectoral statistics with the *acquis*. Insufficient human and financial resources have, however, slowed progress in this area. Preparations in the field of statistics are at an advanced stage.



#### 4.19. Chapter 19: Social policy and employment

There has been limited progress as regards **labour law**. Cooperation between the relevant institutions charged with the enforcement of employment law has not improved.

Rulebooks were adopted on risks related to electromagnetic fields and on establishing a price list for services related to **health and safety at work**. The implementation of the strategy and associated action plans for occupational health needs to be speeded up. Coordination between the relevant authorities also needs to be improved. The National Council for Occupational Health and Safety remains inefficient, meeting irregularly and without a follow-up. There were no improvements in the capacity for carrying out inspections concerning health and safety at work.

The Economic and Social Council has continued to lead the tripartite **social dialogue** between the government, employers and trade unions. Tripartite social dialogue is only modestly developed at local level. General awareness of the importance of the bipartite social dialogue is poor, with both trade unions and employers' organisations struggle to attract new members. Some trade unions report difficulties in establishing a presence in some companies. Overall, the capacity of social partners remains weak and their participation in the policymaking remains limited.

Unemployment is still high despite a marginal decrease in the second quarter of 2014. Some specific measures have been adopted to tackle youth unemployment as part of the country's **employment policy**, but their effect is yet to be seen. The public sector remains the main employer. Labour market participation remains very low, especially among women and Roma. The government adopted the 2014 operational plan for active employment programmes and measures. The national budget for active employment programmes and measures has somewhat decreased in 2014 however, and is not sufficient to meet the needs of the labour market. Little progress was made on the long-term process of modernising the Employment Service Agency. Some steps were made by the Ministry of Labour and Social Policy responsible for fighting informal economy in order to reduce the level of undeclared work.

IPA co-financed projects preparing the country for participation in the **European Social Fund** continue to be implemented. Local institutions with a lead role in managing IPA funds are lacking motivation and commitment. Weak administrative capacity and insufficient cooperation between institutions have both been detrimental to the implementation of projects. (*See Chapter 22 — Regional policy and coordination of structural instruments*).

The government action on **social inclusion** included the employment, in the State administration, of 1600 beneficiaries of social assistance and 300 people with disabilities. The real impact of this employment raises questions, however, about adequate preparation, such as training, for their integration in the workplace as well as about the principle of merit (*See Political criteria — Public Administration Reform*). Progress in implementing the revised national strategy for alleviating poverty and social exclusion and the corresponding action plan for 2014 was limited. The poverty rate remains high and the institutions responsible for implementing policies and strategic actions do not have sufficient capacity. Data on poverty, including child poverty, has not been regularly updated, making it difficult to ensure the poverty reduction target. Actions were taken to reduce the drop-out rate from primary education among Roma children, but this remains an issue. The number of Roma without official personal identification documents continues to be a problem, with more than 530 cases recorded to date in 2014, out of which only about one quarter obtained documents. Administrative capacity in the field of social inclusion has not been improved, and is most notably inadequate at local government level. Coordination among the institutions involved in implementing social inclusion policies remains inadequate.

Limited progress was made in implementing the 2010-18 national strategy on equal rights for people with disabilities. New communal houses providing social services for people with disabilities were opened, as were new day-care centres for children with disabilities. The existing policies for improving labour market access for vulnerable groups, including people with disabilities, are still insufficient. The national coordinating body responsible for monitoring implementation of the UN convention is inactive.

The amended Law on **Social Protection** increased benefits by 5% and gave vulnerable groups additional rights to claim benefits. Benefit administration has been simplified and improved. Reform of the pension system continued. Legislation was amended to provide for a linear increase in pensions of 5% per annum, starting in March 2014. The administrative capacity of the institutions in charge of implementing the Law on Social Protection has not been improved.

Implementation of the 2011-15 **anti-discrimination** strategic plan is progressing with mostly promotional and publication activities. Implementation of the actions to raise awareness set out in the 2013-15 communication strategy has started with a number of public debates held on selected topics. The Commission for Prevention and Protection against Discrimination signed memoranda for cooperation with the Secretariat for Implementation of Ohrid Framework Agreement, and with the Association for Social and Multicultural Development of Women. It engaged in promotion activities by publishing guidance and reports on different topics and organising press conferences. It continues, however, to have insufficient financial and human resources to properly fulfil its mandate. The Law on Anti-Discrimination is still not in line with the *acquis*, as it does not explicitly prohibit discrimination on the ground of sexual orientation in the area of employment and occupation. Data collection and analysis has improved, but is still limited. (*See Chapter 23 — Judiciary and fundamental rights*).

Additional funds were allocated to the Ministry responsible for **equal opportunities**, in order to provide an operational budget for measures relating to gender equality. The Law on Conditions of Employment was amended to give employees additional rights to unpaid leave for childcare. The inter-sectoral consultative and advisory group for equal opportunities for women and men is now active. The capacity of local commissions for equal opportunities has improved. The Commission for Prevention and Protection against Discrimination, responsible for dealing with complaints, has continued its work focused primarily on gender equality issues. The female participation and employment rates remain very low compared with the EU average, and despite some improvement, the Department for Equal Opportunities still lacks appropriate resources. Measures targeting Roma women were limited. Discriminatory customs, traditions and stereotypes remain widespread, notably in rural areas. (*See Chapter 23 — Judiciary and fundamental rights*).

### *Conclusion*

Limited progress was made in the area of social policy and employment. The unemployment rate has fallen somewhat but remains very high. The major challenges of long-term unemployment, high levels of youth unemployment, very low participation of Roma and women in the labour market and high levels of informal employment still need to be addressed. Social dialogue and the capacity of social partners need to be further strengthened. Social inclusion strategies have to be better implemented. In the area of social policy and employment, preparations are moderately advanced.

## **4.20. Chapter 20: Enterprise and industrial policy**

Developments relating to **enterprise and industrial policy principles** included the creation of the National Council for Entrepreneurship and Competitiveness. The country continued to implement the principles of the Small Business Act. The Agency for Promotion of

Entrepreneurship remains poorly funded and is not fully integrated into government initiatives for private sector development.

Concerning **enterprise and industrial policy instruments**, the Law on financial discipline was amended, in order to encourage prompt payment of liabilities and to improve businesses' liquidity. Alignment with the Late Payment Directive remains to be confirmed. The Law on Out-of-Court Reconciliation introduced shorter out-of-court procedures for debtors' liabilities, which can be used before bankruptcy proceedings are formally initiated. A fund for innovation and technological development was set up with a budget of €9 million for the first four years. The Council of Foreign Investors and the Agency for Foreign Investments and Export Promotion signed a cooperation agreement to improve communication and coordinate activities. A unit has been set up within the Agency for Foreign Investments and Export Promotion to offer additional services to foreign investors. It has begun implementing programmes linking up foreign investors with local businesses. The budget allocated to the implementation of the innovation strategy and the national policy for attracting foreign investors was increased. An agreement on participation in the EU Programme 'Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) was signed. More still needs to be done to facilitate access to finance for all businesses, and for small and medium-sized enterprises in particular, and to keep them well informed about changes to legislation.

As regards **sector policies**, the budget for the Agency for Tourism, including subsidies for attracting foreign tourists, was significantly increased in 2014. The total number of tourists increased by 5.8% in 2013, as compared with the previous year.

#### *Conclusion*

Little progress was made in the field of enterprise and industrial policy. Measures were adopted to improve financial discipline and encourage prompt payment of liabilities. Funding for attracting foreign investors and developing tourism was increased. More needs to be done to improve access to finance. Preparations in this area are at a moderately advanced stage.

#### **4.21. Chapter 21: Trans-European networks**

In the area of **transport networks**, the country continued to participate in the development of the South-East Europe Regional Transport Network, in accordance with the memorandum of understanding on this project. Attention should be paid to the development and prioritisation of projects on the routes defined in the indicative extension of the TEN-T to the Western Balkans region. Upgrading road and rail links included in the South-East Europe Transport Observatory (SEETO) comprehensive network remains a priority.

The government adopted the 2013-17 road investment programme. The construction work, co-financed by IPA funds, on the motorway section located along Corridor X of the South-East Europe Transport Observatory network is progressing. Construction of the rail Corridor VIII towards Bulgaria began in March 2014, financed by a loan from the European Bank for Reconstruction and Development and by the Western Balkans Investment Framework. The administrative and technical capacity of all of the institutions and bodies involved needs to be further strengthened.

In the area of **energy networks**, construction work continued on the 400 KV electricity interconnection Štip-Niš (Serbia). Funding was obtained from the Western Balkan Investment Framework for the preparation of technical documents relating to the transmission line Bitola-Elbasan (Albania). A loan of €25 million was secured from the European Bank for Reconstruction and Development for modernisation of the Bitola-Florina (Greece) section of the electricity transmission network. The state-owned gas transmission operator signed an agreement for the construction of the gas transmission pipeline Klečovce-Štip-Kavadarci.

As regards telecommunications networks, the 4G network became available at the beginning of 2014, in a limited area.

#### *Conclusion*

Some progress was made in the area of trans-European networks. The country continued to participate actively in the South-East Europe Transport Observatory and the South-East Europe Energy Community. Overall, development of transport, energy and telecommunications networks is progressing. Preparations in this area are advanced.

#### **4.22. Chapter 22: Regional policy and coordination of structural instruments**

As regards the **legislative framework**, the provisions on channelling funds from the central budget, as set out in the Law on Regional Development, have still not been fully implemented. Capital investments of ministry-run projects need to be made more transparent. The capacity for co-financing EU-funded projects at local level needs to be improved. The introduction of a medium-term budgetary framework would allow flexibility in setting budgets, and multiannual programming.

Improvements are needed in the preparation and implementation of programmes relating to the **institutional framework**. Interministerial coordination and stakeholder consultations also need to be improved. Management and monitoring systems need to be strengthened in order to ensure effective implementation within the timeframes allowed.

The institutions involved in implementing the IPA still lack the necessary **administrative capacity** to absorb the available EU funds and to ensure their efficient and effective management. Motivation and retention of staff and working conditions remain an issue.

The capacity for **programming** and project preparation needs to be further improved. The development of mature projects needs to be completed in order to mitigate the increasing risk of de-commitment and recoveries of funds.

Management procedures for **monitoring and evaluation**, used alongside the regular IPA Sectoral Monitoring Committees, were improved and a good track record of implementation is being developed. The Management Information System needs to be exploited fully. More needs to be done to ensure that evaluation recommendations and project and programme indicators are acted upon, and that results are sustainable. Communication around and visibility of the IPA needs to be improved.

Administrative capacity in the area of **financial management, control and audit** needs to be further improved (*see Chapter 32 — Financial control*). Efforts need to be made to further strengthen the financial management, audit and control procedures by means of improvements to operating structures. The country needs to further develop its capacity in this field, in order to ensure sound financial management of EU funds.

#### *Conclusion*

Limited progress was made in the area of regional policy and coordination of structural instruments. There continue to be concerns around the functioning of the decentralised implementation system as a whole. If problems are not addressed as a matter of urgency, the risk of de-commitment of EU funds will increase further. Greater efforts are needed to ensure that procurement procedures involving EU funds are carried out correctly and within the stipulated timeframes. Overall, preparations in this area are not very advanced.

#### 4.23. Chapter 23: Judiciary and fundamental rights

##### *Judicial system*

The main reforms in this area have already been largely completed, but improvements are needed to ensure the correct implementation of European standards relating to independence and quality of justice.

Defects in the current career system for judges have still not been addressed, despite the potential threat they pose to judges' **independence**. Security of tenure needs to be more robustly safeguarded by amending the legislation relating to discipline and dismissal, which is overly complex and insufficiently precise and predictable. The practice of the Judicial Council in relation to discipline and dismissal proceedings needs to be more proportionate and transparent. Poor performance by judges should be addressed through remedial measures such as organisational improvements and training, rather than resulting in dismissal. Dismissal should be limited to serious and persistent misconduct and should only be imposed following recourse to less severe disciplinary penalties, such as warnings and salary reductions, which are rarely used at present.

In the area of **impartiality**, the provisions relating to conflicts of interest contained in the civil and criminal procedure legislation continue to function smoothly. Judges in the basic courts and appeal courts made 2419 requests to recuse themselves in cases of potential conflicts of interest, of which 1818 were accepted. The Judicial Council received 77 complaints from parties alleging biased court proceedings, but none were sufficiently well founded to trigger a disciplinary procedure. Claims of indirect political influence on the conduct and outcome of high-profile court proceedings persist, especially in respect of organised crime and corruption prosecutions, as well as cases involving political personalities and the media.

As regards **professionalism and competence**, amendments to the Law on Courts, which entered into force in 2013, have not in practice led to any significant strengthening in the merit-based recruitment and promotion of judges. In 2013, the Judicial Council failed to comply with the legal requirement that all new first instance judges must have completed the training of the Academy for Judges and Prosecutors, by appointing numerous candidates who had not. The legal requirement for higher court judges to have prior judicial experience was also circumvented by a number of appointments being made immediately before the amendment entered into force and even ignored in some appointments made after its entry into force. This continues to cast doubt on the commitment to merit-based recruitment. The appointment process of the Judicial Council, in particular the evaluation of candidates' respective merits, needs to be made more transparent.

The Academy for Judges and Prosecutors continues to play a central role in promoting the competence and lifelong learning of judges, prosecutors and court staff. It further expanded its *in-service training* activities in 2013 to include 4151 judges, 1256 prosecutors and 1929 expert associates and other participants. The number of training programmes increased to 272, including 63 provided outside the capital through the decentralised training system. A new generation of 13 candidate judges and prosecutors started their 2-year *pre-service training* in December 2013. This is the fifth generation of candidates to participate in the Academy's initial training programme since 2009, but also one of the smallest. Of the 80 candidates who have graduated in the last five years, 76 have been appointed as judges or prosecutors. Despite numerous publicity campaigns and preparatory measures undertaken during the past year, the 29 available places for the current academic year could not be filled. Improvements have been made, including introducing preparatory training for the entrance exam, a new exam-question structure and method of assessment. Sustained efforts should continue, including close cooperation with universities, to bring more candidates up to a sufficient level that they are able to fulfil the entrance requirements. It also remains difficult to motivate young

professionals to view the judiciary and prosecution service as an attractive career option and the relevant authorities need to examine the underlying reasons for the current low level of interest and to address the fear of nepotism, excessive productivity pressures and political interference, which may be dis-incentivising potential candidates.

The annual evaluation procedure for judges requires urgent review, as it is having a detrimental effect on both the independence and the **quality of justice**. It is used primarily as a tool for monitoring the productivity of judges rather than their competence and integrity, the quality of their work, and their service to the citizen and to the profession. It acts as a precursor to either dismissal or career advancement, based on purely quantitative criteria. The system places unnecessary pressure on judges and deprives them of the autonomy to manage their caseloads in the optimal way, indirectly fostering negative working methods. Evaluation should be separated from the disciplinary and dismissal system, and should focus more on appraising judges' core competencies, such as legal drafting and reasoning, organisational skills, participation in training activities and level of specialisation. The quantitative criteria currently used (number of cases processed, number of judgments overturned on appeal and number of procedural deadlines met) are more suitable for evaluating the justice system as a whole, rather than individual judges. A coherent system of quality evaluation and customer satisfaction for the courts still needs to be developed.

The **accountability** of state judicial bodies is monitored by means of multiple complaints mechanisms available to citizens. The Judicial Council, the Ministry of Justice and the Ombudsman's Office received 1 061, 339 and 732 complaints respectively in 2013, relating to the work of the judiciary. The most common grounds for complaint are the length of court proceedings, but increasingly also lack of impartiality or equal access to justice. The Supreme Court continued to receive claims for compensation for unreasonably lengthy court proceedings. It received 434 such claims (down from 676 in 2012) and awarded over €116 000 in compensation and costs. The country also agreed to pay out over €445 000 in friendly settlements, to applicants who had made claims before the European Court of Human Rights, most of which also related to the excessive length of court proceedings. As regards individual accountability, five judges were dismissed so far in 2014, on the catch-all grounds of 'unprofessional or unconscientious exercise of judicial office' and one judge resigned during an ongoing dismissal procedure. The Council of Public Prosecutors dismissed two prosecutors on the grounds of incompetence. Two high-level corruption investigations were concluded in autumn 2013 with the prosecution, conviction and imprisonment of a judge, two prosecutors, a former judge, a former investigative judge, an employee of the prosecution service and a lawyer. The State Commission for the Prevention of Corruption also initiated misdemeanour proceedings against 32 judges for failure to submit legally-required statements of interest.

As regards the **efficiency** of the court system, 23 out of the country's 27 basic courts maintained a positive clearance rate (meaning that they managed to process more cases during 2013 than they received) as did the four appeal courts, the Administrative Court and the Supreme Court. In terms of case-flow management, there are no backlogs to speak of. However, the equally serious issue of lengthy court proceedings still needs to be addressed. Whereas individual stages of the court procedure are generally concluded within the legal deadlines, the overall length of proceedings from initiation to final judgment remains one of the main causes of complaints and requests for compensation by citizens. The robust steps taken in recent years to address court backlogs, including the imposition of monthly targets and heavy emphasis on productivity in the annual evaluation process, risks a deterioration in the quality of justice, as a result of judges' limited ability to devote appropriate time and attention to preparing sound, fully reasoned judgments based on all available evidence. Rather than speeding up the overall proceedings, this may on the contrary be contributing to the long-

standing problem of repeated re-examinations and re-trials, and to longer overall proceedings. The Law on Mediation provides a legal framework for alternative dispute resolution, but in practice the system is still underdeveloped and more awareness-raising measures are needed to bring it into the mainstream. In early 2014, the Judicial Council and the Ministry of Justice took steps to identify ‘old cases’ using the courts’ automated case management system. Across all court instances, 3 155 cases were identified as having been in the court system for more than three years, of which 822 cases were more than five years old and 56 cases more than 10 years old. However, this review has thus far been limited to around 88 000 contentious cases and needs to be extended to cover the entire caseload of the courts, including procedural and non-contentious cases, which currently stands at around 180 000.

The 2014 court budget is € 30.83 million and the Public Prosecutor’s Office’s budget is € 7.25 million; both slightly increased from last year. The Academy for Judges and Prosecutors receives only € 0.68 million from the court budget, which given the scope of its training activities and its central role in the professionalism of the judiciary, should be increased. By far the largest part of the court budget is still spent on salaries and the ratio of the total number of judges to the size of the population remains over 50% higher than the European average. At the same time, the total number of court cases currently in active proceedings before the national courts has reduced drastically in the last four years, from almost 1 million at the end of 2009 to around 180 000 at the end of 2013, due to the reorganisation of competences in areas such as enforcement and succession. These factors underline the growing need for a rationalisation of the court system and a more efficient redistribution of financial and human resources.

As regards **access to justice**, the annual legal aid budget allocation has remained at € 50 000 and the number of lawyers registered to provide legal aid rose to 251. Of the 227 requests for legal aid submitted in 2013, 95 were granted so far while 128 were inadmissible. The highest numbers of requests were made in cases involving property issues, victims of family violence and child protection. Further improvements are needed to make the work of courts more accessible to the public. No steps have been taken to locate information desks at the entrances of courthouses. Physical access to Skopje II Basic Court, the busiest in the country, is inadequate, as there are no lifts and no provision made for people with special needs. No steps have been taken to introduce a user-friendly search function for judgments published on the court websites. Despite the legal obligation to ensure transparency by publishing all court judgments online within two days of drafting and signing, the most significant or controversial judgments, liable to be of public interest, do not appear to be published at all, which can lead to a lack of publicly verifiable information and distorted media reporting.

#### *Anti-corruption policy*

The Electoral Code was amended to address shortcomings highlighted by OSCE/ODIHR in relation to the financing of election campaigns, and the Criminal Code was amended to introduce the new criminal offence of illegal disbursement of state funds during elections. The Law on Management of Confiscated Assets was extended in scope to cover misdemeanour and administrative cases, and the rules on management of seized and confiscated assets were refined. GRECO carried out a fourth round of evaluation in late 2013, covering corruption prevention in relation to members of parliament, judges and prosecutors. The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions has not yet been ratified.

*Administrative capacity* was strengthened slightly, including through the employment of 34 legal and administrative support staff in the Public Prosecution Offices (PPOs) across the country and 5 new junior auditors in the State Audit Office’s Unit for supervision of political party and election campaign financing. The chief Public Prosecutor’s Office, Skopje Basic

PPO and the Skopje High PPO were all relocated to a new building with modern facilities. However, the relevant enforcement bodies and supervisory institutions remain understaffed, under-resourced and inadequately equipped in light of their responsibilities and workload, which presents a serious challenge to the effective fight against corruption. The Ministry of Interior's Anti-Corruption Unit was upgraded to the Sector for the Fight against Corruption but its status remains weak; only 19 posts are allocated to it, of which over a third still have to be filled. Substantial human and material resources are still needed in order for the prosecution service to ensure full implementation of the new Law on Criminal Procedure. Some basic PPOs still work in inadequate premises with insufficient IT support. The Investigative Centre within the PPO for the Fight against Organised Crime and Corruption, although formally established in 2011, has yet to become operational, and no further Investigative Centres have been set up. Only around 40% of the 45 posts foreseen within the State Commission for the Prevention of Corruption (SCPC) have been filled and it remains hampered by its limited powers. Although the Ministry of Interior's Sector for Internal Control and Professional Standards (SICPS) has been granted new powers in the area of integrity, it still lacks independence.

As regards *enforcement activities*, there was a 50% drop in convictions for corruption-related offences in 2013 (63 compared to 123 in 2012); 56 of the convictions related to abuse of public office, while only 3 related to bribery. The overall capacity of the courts to deal with corruption cases remains weak, in particular as regards high-level cases, where proceedings are lengthy and inefficient. The need for further improvements to the criminal procedure should be considered, in particular to counteract deliberate delay tactics by accused persons and their representatives. The fact that amendments, aimed at preventing repeated remittals of cases by appeal courts to lower courts for re-trial, are only applicable to new cases significantly hampers their effectiveness. The SCPC continued to receive low numbers of citizen complaints (201 in 2013, 177 in 2012). It filed 9 requests to the PPO to initiate criminal proceedings in 2013. Cases referred by the SCPC to the PPO have rarely led to successful prosecutions, and the PPO needs to provide more feedback on cases referred to it, to ensure a higher success rate. There was a sharp drop in confiscations of assets in corruption cases (10 cases in 2013 compared to 70 in 2012) and the use of special investigative measures in corruption cases remains rare.

The SCPC continued to carry out its corruption *prevention activities*. It initiated misdemeanour proceedings against 36 public officials in 2013 for failure to submit legally-required asset declarations and 9 officials were subsequently fined by the courts. The SCPC requested the Public Revenue Office to conduct asset examinations in 30 new cases in 2013, and the latter charged three officials with the 70% tax rate on undeclared assets, following the completion of asset examination procedures which had been initiated in previous years. As regards conflicts of interest, the SCPC received 1 459 statements of interests in 2013. It also carried out a systematic verification of the judiciary sector and initiated misdemeanour proceedings against 32 judges for failure to submit statements of interest. A total of 196 cases of potential conflict of interest were processed by the SCPC in 2013, and in 15 cases officials were given a public reprimand. The SCPC is not empowered to impose any other penalties for conflicts of interest, following annulment of parts of the Law on Conflicts of Interest by the Constitutional Court in 2010. The absence of a registry of elected and appointed officials continues to hamper effective control of assets and conflicts of interest. In cases where the SCPC initiates misdemeanour proceedings for failure to submit asset declarations or statements of interest, the courts' weak application of the available penalties undermines its work and fails to send a sufficiently deterrent message to public officials who abuse the rules.

The SICPS of the Ministry of Interior initiated corruption-related *disciplinary proceedings* against 12 police officers in 2013 and 6 were fined as a result. It also initiated criminal



proceedings in 6 corruption-related cases. The Customs Administration enhanced internal control measures, adopted a new code of conduct and organised anti-corruption training for staff. No corruption-related disciplinary proceedings were initiated against customs offices in 2013, but criminal charges were brought against two customs officers for smuggling. The Customs Administration needs to step up efforts to fight corruption and should acquire the technical capacity to independently carry out special investigative measures, which fall within its legal mandate.

As regards *political party and election campaign funding*, shortcomings persist in both the legislation and its implementation. The powers and resources of the State Audit Office need to be enhanced to enable effective control of the origin of donations. Rules on expenditure verification should be further strengthened. The closure of campaign bank accounts and the treatment of campaign debts are yet to be regulated to prevent abuse. Penalties for breaches of the relevant legislation have started being imposed in practice, but a credible track record has yet to be developed in this field and the lack of transparency and accountability of political parties in relation to party funding remains a concern.

Convictions under the Criminal Code for abuse of *public procurement* procedures dropped to just 6 in 2013, compared to 12 in the previous year. The Law on Public Procurement was amended to include criminal penalties (imprisonment) for violations of tender procedures, however their positive impact on the integrity of the procurement system, as well as their proportionality and enforceability, have yet to be demonstrated in practice. No administrative penalties are yet foreseen for milder violations of the law. There is still no institution assigned to ensure effective and timely control and supervision of public procurements, concessions, public-private partnerships and the execution of contracts. Corruption in public procurement remains a serious concern.

The Law on Free Access to Public Information and its implementation remain deficient. The enforcement mechanism for breaching this law is inefficient and penalties are not imposed in practice. Political parties remain excluded from the list of holders of information, releasing them from the enforcement regime. Public awareness of the National Commission for the Protection of the Right to Free Access to Public Information remains low. Transparency and accountability of public institutions and enterprises, and of public expenditure, continue to be insufficient.

In 2013, the SCPC and the Academy for Judges and Prosecutors organised anti-corruption *training activities* reaching more than 700 participants. However, much remains to be done as regards capacity building and raising citizens' awareness. The enforcement of anti-corruption legislation and its results remain largely invisible to the public. The internal control system in central and local administration remains weak and whistle-blowing mechanisms in public and private sectors have yet to be set up. The relevant anti-corruption bodies need to be more proactive and to focus on the systemic problems. Public trust in their effectiveness and independence needs to be improved to encourage citizens to resist and expose corruption, and greater independence of the judiciary and media freedom would reinforce anti-corruption efforts.

#### *Fundamental rights*

The country is already party to most of the **international human rights instruments**. Further progress was made with the ratification of the Third Additional Protocol to the European Convention on Extradition. The European Charter for Regional or Minority Languages has not yet been ratified. The UN General Assembly elected the country to be a member of the UN Human Rights Council for the period 2014-16.

During the reporting period, the **European Court of Human Rights** (ECtHR) found that the country had violated the European Convention on Human Rights (ECHR) in 6 cases, mainly concerning the right to fair trial and equality of arms, procedural rights relating to arrest and deprivation of liberty, as well as the reasonableness of pre-trial detention. In the same period, 407 new applications were allocated to a decision-making body. A draft action plan for implementation of the judgment in the *El Masri* case was submitted to the Committee of Ministers of the Council of Europe. The Bureau for Representation of the country before the ECtHR developed an action plan for execution of some 50 older judgments against the country, mainly concerning the excessive duration of court proceedings. However, a total of 92 judgments finding violations have still not been executed. The staff of the Bureau continued to provide training in the framework of the Academy for Judges and Prosecutors' training programmes. More attention needs to be paid to safeguarding procedural rights connected to arrest, detention and fair trial, in accordance with the country's obligations under the ECHR. Orders for pre-trial detention and extensions thereof need to be fully reasoned, in line with the case-law of the ECtHR. The new amendments to the Criminal Code, providing for chemical castration of repeat offenders convicted of child sex abuse, should be accompanied by appropriate safeguards ensuring that treatment is given on a purely voluntary and informed basis, in accordance with the prohibition on inhuman or degrading treatment or punishment.

The Ombudsman's Office continued to exercise its function of national prevention mechanism (NPM); playing a central role in the **prevention of torture and ill-treatment**. Although under-resourced, the NPM maintained a robust approach to identifying inhuman or degrading conditions in places of detention, and also integrated civil society organisations into its work. The NPM made 32 preventive visits in 2013 and warned against poor detention conditions in a number of facilities. However there has been limited follow-up to the recommendations made and degrading conditions persist. In 2013, there were 18 complaints filed with the Ombudsman's Office concerning ill-treatment or excessive use of force by the police, while the Ministry of Interior's SICPS received 57 complaints of excessive use of force by the police (compared with 73 in 2012). Criminal charges were raised against one policeman for ill-treatment. Concerns remain over the low number of completed investigations in ill-treatment cases. There is continued impunity relating to the actions of the security forces. As far as prisons are concerned, the number of inmates' complaints submitted to the Ombudsman Office continued to decrease with 247 complaints submitted in 2013 (278 in 2012), although 93 violations were confirmed, as compared to 84 in 2012. One prison officer was convicted of serious bodily harm and sentenced to prison, in a case initiated by the Ombudsman.

As regards the **prison system**, the Law on Execution of Sanctions was amended, introducing public-private partnerships and transforming the prison security service into a new body (the prison police). The duty to provide healthcare in penitentiary facilities was transferred from the Directorate for Execution of Sanctions to the national health care system in line with the recommendations of the European Prison Rules. The prison system's annual budget increased by 11% in 2014 and large-scale prison construction continued, however some prisons received reduced funding despite growing inmate populations and were unable to cover their basic maintenance costs. Staffing in the Directorate for Execution of Sanctions and in several penitentiary facilities increased slightly. Ad hoc training activities continued while initial and continuous programmes for prison staff are being prepared. The prison system remains seriously underfunded and understaffed. Despite the opening of the new Kumanovo prison, increases in the overall prison population mean that the system continues to suffer from overcrowding. Substandard conditions persist in some facilities, with juvenile facilities being of particular concern. More use needs to be made of alternative sanctions and non-custodial

pre-trial measures. Limited financial and human resources are hampering the provision of healthcare and there is an urgent need to ensure proper access to psychiatric services for prisoners suffering from severe mental illness. The managerial and administrative capacity of prisons remains weak. Effective inspection procedures, which could help to address persistent violations, have not yet been established. The powers of the Directorate for Execution of Sanctions should be expanded to ensure effective management and supervision of the prison system. Adequate measures to fight corruption among prison staff and inter-prisoner violence have yet to be taken. A national strategy for the prison system is yet to be developed. The probation service still needs to be introduced.

In the area of **freedom of expression** and the media, a new Law on Media entered into force in December 2013, regulating basic obligations, protections and freedoms relating to the media. The widespread use of defamation actions continues to impinge on the freedom of expression. Since the decriminalisation of defamation in late 2012, around 580 civil defamation claims have been raised in the courts, including against journalists and by politicians against other politicians, sending a negative message to the public and media alike. Many court actions are initiated and then subsequently dropped, raising concern about defamation actions being used as a means of exerting pressure. Both the Law on Civil Damages for Insult and Defamation and the new Law on Media contain negligible provisions for non-judicial remedies such as the right of reply or correction. Alternative mechanisms for solving these kinds of disputes need to be developed and promoted, in order to improve the media culture. Labour rights are still inadequately enforced in relation to media outlets, also contributing to the continuing problem of self-censorship. As regards public advertising, the transparency provisions in the Law on Audio and Audiovisual Media Services should be respected in full and greater care needs to be taken to ensure that public funds are used to provide information of genuine public interest, rather than to promote government activities. A self-regulatory body was established in December 2013 by media actors themselves, in the form of the Media Ethics Council, run by a seven-member board with broad representation of the media, media associations and the public, but it has yet to become operational and start considering complaints from the public. Investigative reporting is still weak and needs to be fostered through continuous education and training of journalists, including exposure to best practices in other countries. There were no reported incidents of violence against journalists in the reporting period. The media currently plays a negligible role in investigating and exposing corruption and organised crime.

In the area of **freedom of assembly and association**, the overall situation is satisfactory. There were no cases of misuse of the legislation or prohibited registrations.

**Freedom of thought, conscience and religion** is generally guaranteed by law and enforced. The number of registered religious entities remains at 31.

In the field of **women's rights and gender equality**, progress was made on the implementation of the 2013-16 national action plan for gender equality. The staff of the unit for gender equality in the Sector for Equal Opportunities Policy in the Ministry of Labour and Social Policy was increased slightly and the capacity of the local equal opportunity commissions was strengthened. There is increasing awareness in society of the need to combat and prevent domestic violence. However, much remains to be done to ensure a long-term impact on gender equality. Discriminatory customs, traditions and stereotypes persist, and socially regressive trends in society are fuelled by some parts of the media, as well as by some national policies and initiatives.

As regards **children's rights**, the Law on Child Protection was amended, among other things introducing professional exams for kindergarten staff. The Law on Justice for Children was adopted, replacing the Law on Juvenile Justice and strengthening protection in line with

international standards, especially as regards the treatment of child victims and witnesses, alternative sanctions and free legal aid for juvenile offenders. In spite of improvements in the legal framework, the poor material conditions, lack of basic education and systematic rehabilitation services for juveniles deprived of their liberty continues to be a matter of serious concern. The Centres for Social Work, working with juvenile offenders, remain seriously underfunded and understaffed. Although some training has been held for juvenile justice professionals, permanent continuous training programmes still need to be introduced. Insufficient attention is given to monitoring and to systematic data collection and analysis in the area of children's rights. Further efforts are still needed to improve children's health and nutrition, with Roma children being a particular concern. More also needs to be done to improve the inclusion of disadvantaged children, in particular children with disabilities, in the educational and social systems. Children with disabilities and children from the Roma community suffer the most from stigma, discrimination and segregation. Further efforts are needed to provide national institutions with the qualified staff and the appropriate infrastructure necessary to support the process of inclusion.

Inclusion of the **socially vulnerable and/or persons with disabilities** has not improved. Almost one third of the population are facing poverty. The national coordinating body set up to monitor the implementation of the UN Convention on the Rights of Persons with Disabilities has not met in 2014. Communal housing units for people with disabilities, which form part of the de-institutionalisation process, currently accommodate over 70 people. Implementation of the 2010-18 national strategy on equal rights for people with disabilities remains inadequate.

In the area of **anti-discrimination policies**, a review carried out by the Ministry of Labour and Social Policy confirmed the need to amend the anti-discrimination law. The professionalisation of the Commission for protection against discrimination, including the establishment of its technical secretariat, and the shifting of the burden of proof were identified as the most pressing issues. The Commission received 84 complaints in 2013. It made findings of discrimination in 4 cases on the grounds of ethnic origin, political affiliation, personal and social status and belonging to marginalised groups. The ongoing lack of funding and staff shortages continues to hinder its effectiveness. The Commission's work on processing complaints should be complemented by awareness-raising activities aimed at prevention and protection against discrimination and promoting better understanding of its work and of anti-discrimination policy in general.

As regards the **rights of lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons, the violent incidents of the previous reporting period have not been repeated. Nevertheless, the perpetrators of these incidents are yet to be prosecuted. Continued efforts are needed to increase awareness of and respect for diversity within society and to counteract intolerance perpetuated through the media.

**Labour and trade union rights** are generally respected. Trade unions have reported difficulties in becoming established in some companies. Both trade unions and employers' organisations struggle to attract new members and increase their influence.

Over a quarter of complaints filed with the Ombudsman's Office in 2013 (70 out of 261) related to **property rights**, relating both to the actions of the administrative bodies and the Administrative Court. Breaches of property rights were confirmed in 109 cases in 2013. 7 % of the fees charged by the Cadastre Office are not in line with the legally applicable rates and greater transparency is needed as regards the charging of administrative taxes.

Progress in relation to the protection of **minorities** and cultural rights has been hampered by insufficient financial and human resources, and inadequate cooperation between the authorities concerned. The Agency for the Protection of Minorities Representing less than

20% of the Population increased its staff numbers and continued to cooperate with the relevant state administrative bodies and civil society organisations; however, its activities remain limited due to the lack of state funding. There is also a persistent lack of funding for staff in the directorate for education in communities' languages within the Ministry of Education and Science, and for the directorate for the promotion of culture of the communities within the Ministry of Culture. Systemic measures to ensure the enjoyment of the ethnic, cultural and linguistic rights of all communities are insufficient and remain mainly donor-funded. The implementation of the Strategy on Integrated Education is also hampered by limited funding. Separation along ethnic lines in schools, and incidents of inter-ethnic violence in secondary schools, have continued. Ethnically divisive internet postings, as well as chanting at sports events and demonstrations continued, sometimes aggravated by unbalanced media reporting.

The unit for implementation of the **Roma** Strategy within the Ministry of Labour and Social Policy was reinforced with new staff; however coordination between the relevant authorities remains inadequate. Municipal action plans for the Roma are hampered by limited financial resources. Active labour market measures targeting the Roma population are ineffective due to administrative requirements that Roma cannot fulfil. Prejudice and discrimination against Roma persist, particularly in the area of employment. Curricula on Roma language and culture for elementary education were developed during the last year and textbooks were printed, however separation of Roma in schools continues and the number of Roma children in special schools is disproportionately high. Stereotyping occurs on social networks. Although projects in several priority areas are ongoing, they are driven mainly by donor funding as state budget allocations remain unchanged. In March 2014, the fourth follow-up meeting to the 2011 seminar on Roma and Roma refugees issued a comprehensive review of the policy recommendations and provided an opportunity for greater coordination of efforts and sharing of information. Little progress has been made since, to implement the meeting's operational conclusions, notably in the area of the legalisation and provision of social housing. Legislative changes are also needed to address issues relating to civil registration and obtaining personal identity documents for those rejected in the past.

The Directorate for **Personal Data Protection** further increased the number of inspections carried out, of which 60% were conducted in the private sector and 40% in the health sector and judiciary. Almost half of these inspections confirmed violations. The number of complaints to the Directorate remained stable at 404 in 2013, of which 62% related to the abuse of data on social networks. Overall, the number of detected and confirmed violations increased almost five-fold, from 56 in 2012 to 254 in 2013 as a result of the Directorate's proactive approach. Public awareness-raising activities also continued, resulting in a 30% increase in visitors to the Directorate's website. The number of data protection controllers and officers has increased and their training has been improved, but four staff also left. The Directorate submitted its first report to Eurojust on personal data protection in the public prosecution system. Sector-specific legislation is still not harmonised with data protection legislation and far greater efforts need to be made to ensure that the Directorate is systematically consulted on any new policies and draft legislation. Some further fine-tuning of the data protection legislation is also needed to bring it fully into line with the *acquis*.

### *Conclusion*

The country has already completed the majority of reforms and has established the necessary legal and administrative structures in this area. However, there is a risk of back-sliding in some areas, including the judiciary and the fight against corruption. Further efforts are needed to safeguard the independence of judges, to improve quality of justice and to facilitate access to justice. Far more focus needs to be placed on effective implementation of the existing

fundamental rights framework, notably as regards funding, staffing, awareness raising, inter-agency cooperation and strategic planning, in particular in the areas of prisons, children's rights, anti-discrimination, LGBTI rights and the Roma. The situation as regards the freedom of expression remains problematic and greater efforts are needed to improve the media culture.

#### **4.24. Chapter 24: Justice, freedom and security**

In the area of **migration**, the Law on Foreigners has been further aligned with the EU *acquis*, notably on common standards and procedures for readmission of third-country nationals, the right to family reunification, long-term residence and the conditions for admission of third-country nationals for the purposes of scientific research. The database on foreigners, covering asylum, migration and visas, has now been established and training has been given to end-users and administrators with a view to becoming operational during the autumn. Border controls have been strengthened and the number of irregular migrants detected increased by 66% in 2013 (to a total of 1 132), as compared with 2012 (682). The number of detected smuggling attempts also increased, by around 44%. The highest numbers of cases were detected at the border with Greece. Further efforts are still needed, especially at the borders with Greece and Serbia, which is the main onward transit route for illegal migration. In 2013, 1 328 persons were returned under the readmission agreement with the EU, which continues to be implemented smoothly. As regards accommodation and infrastructure, the physical conditions and administrative capacity of the Centre for Foreigners remain insufficient to cope with the increasing numbers of migrants transiting through the country. The capacity to develop migration policy remains weak, and further systematic efforts and proper strategic planning are still needed to manage migration flows. The country has insufficient capacity to detain and identify un-documented irregular migrants. This often thwarted the initiation of return procedures in the past, which has reduced the deterrent effect of border surveillance measures.

In 2013, 1 323 applications for **asylum** were made (a significant increase from 527 in 2012); however in 1266 cases (96%) the asylum procedure was discontinued because the applicants were considered to have implicitly withdrawn their application by leaving the reception centre. The refurbishment of the Centre for asylum is underway and its capacity has been improved slightly by the appointment of three additional members of staff. It continues to be targeted by organised crime groups involved in the smuggling of migrants, and more robust measures are needed to counteract this phenomenon. Cooperation between the asylum unit of the Ministry of Interior and the Centre for asylum needs to be strengthened in order to improve access to the asylum procedure. The Centre operates reception hours during which asylum-seekers can meet with the designated representative of the asylum unit, however these are limited to two hours twice weekly and there is no permanent representative within the Centre. The establishment of a database verifying the personal data, photographs and fingerprints of asylum-seekers is still progressing very slowly and difficulties still persist in providing interpretation during interviews with asylum-seekers. The Administrative Court continues to process asylum appeals largely on technical rather than substantive grounds. The asylum recognition rate remains very low. In 2013, refugee status was granted to 1 person, and in the first half of 2014 to 10 persons, all coming from Syria. There are currently 543 persons under subsidiary protection. As regards the availability of services, the asylum unit provided 54 asylum-seekers with identification documents in 2013 (an increase from 31 the previous year) and information brochures on the asylum procedure and reception have been prepared. A programme for integrating beneficiaries of international protection has been adopted and the Centre for integration of refugees and foreigners continued to implement the Integration Strategy, including through the construction of 20 social housing units. In 2013, 340 persons, including both recognised refugees and persons granted subsidiary protection,

used the right to free healthcare granted under the amended Law on Health Insurance. However, no asylum-seekers have yet been granted legal aid under the amended Law on Free Legal Assistance.

In the area of **visa policy**, the country has been well advanced for a number of years. The legislation is largely aligned and the link between diplomatic and consular missions, the national visa system N-Vis and the Visa Centre at the Ministry of Foreign Affairs has been operational since 2009.

The implementation of the visa-free travel regime with the EU has continued smoothly overall, but irregular migration flows increased in 2013. The national authorities continue to cooperate to tackle unfounded asylum applications made to Schengen members and associated countries. In addition to running public information campaigns, the authorities continued to carry out proactive border controls, surveillance patrols and risk analysis, as well as stepping up investigative measures and activities. In June 2014, the Constitutional Court ruled parts of the Law on Travel Documents, which provided for the revocation of travel documents of forcibly returned persons in certain circumstances, to be unconstitutional. During the reporting period, criminal charges were brought against 8 persons under the criminal provisions relating to facilitation of abuse of the visa-free regime. In spite of these activities, the number of asylum applications rose by 15 % between 2012 and 2013. Long-term policies and measures addressing the root causes of this phenomenon still require structural efforts and the investment of proper resources, particularly to improve the social and economic inclusion of the most vulnerable groups. In September 2014, the German parliament adopted amendments to the national asylum legislation for the inclusion of the country in the safe country of origin list.

As concerns **external borders and Schengen**, a joint contact centre was opened with Serbia and 404 joint patrols were carried out on the borders with Kosovo, Bulgaria, Albania and Serbia in 2013. Good cooperation and exchange of best practices with Frontex continued, including through joint operations for green border security, combating crime activities related to stolen vehicles and illegal migration, and the Western Balkans Risk Analysis Network (WBRAN). The staffing of the inland mobile unit was completed, and training and equipping improved. The border police were provided with additional surveillance equipment, however, six police stations for border surveillance still need to be connected to the central database of the Ministry of Interior. Further efforts are still needed to strengthen the management capacity of the National Coordination Centre for border management (NCCBM) as internal coordination and cooperation with related Ministries remains weak.

In the area of **judicial cooperation in civil and criminal matters**, the Third Additional Protocol to the European Convention on Extradition was ratified and entered into force on 1 March 2014. Also ratified were amendments to three bilateral agreements with Bosnia and Herzegovina on enforcement of criminal court decisions, extradition and legal assistance in civil and criminal matters. Two agreements were signed with Montenegro on mutual legal assistance in civil and criminal matters and on enforcement of criminal court judgments. In 2013, there were 1 809 requests made to the country for mutual legal assistance in criminal matters and 1 734 requests in civil matters. Requests were sent to other countries in 1 303 criminal matters and 931 civil matters. The country issued 114 extradition requests and received 12, as well as processing a total of 19 requests for transfers of sentenced persons. The country cooperated with Belgium, Hungary, Slovenia, Slovakia, Romania and Sweden in the framework of its cooperation agreement with Eurojust.

In the area of **police cooperation and the fight against organised crime**, regional and international law enforcement cooperation through Europol and Interpol continued. Some 225 international arrest warrants were issued in 2013. The SIENA connection for secure exchange

of sensitive and operational data with Europol became operational. A liaison officer has been assigned to Europol. Preparations for a formal Working Arrangement with the European Police College (CEPOL) are well advanced, with a view to making it possible for national law enforcement bodies to benefit from CEPOL's learning products.

Amendments to the Law on Internal Affairs introduced a merit-based career system for the police, based on job competencies. A strategy on human resources management and a merit-based recruitment policy were adopted. The Public Security Bureau at the Ministry of Interior was reorganised to strengthen capacities, improve police performance and to implement European standards. The reorganisation introduced a national intelligence model implementing criminal intelligence analysis at all levels applying the 5x5x5 methodology. A pilot project for the national intelligence model is being run by the Sector for Internal Affairs Skopje. New standard operating procedures and guidelines were issued in order to improve the standard of investigations carried out at regional, local and central level, and to ensure more effective and efficient sharing of information. New procedures for the submission of requests for special investigative measures were issued. The Law on Electronic Communications was amended, taking into account the Constitutional Court's 2010 annulment of certain articles relating to access to communication networks. In the framework of the new Law on Criminal Procedure, which started being applied from the end of 2013, training of police and public prosecutors has continued. A Protocol for cooperation in criminal procedures was signed between the Ministry of Interior, Public Prosecutor and Customs Administration but practical cooperation still has to be improved. A number of important legal acts related to the Law on Criminal Procedure have not yet been adopted. Since 2011, one decision establishing an Investigative Centre has been taken, but has not yet been implemented. The basic training of 330 police cadets which started in 2012 was completed with the recruitment of 318 new police officers. At the end of 2013, the Ministry for Interior appointed a further 400 police cadets, whose training is now underway. A robust, independent external oversight mechanism for the police force is still missing.

In 2013, the Department for the Fight against Organised Crime submitted 85 criminal charges against 603 persons to the specialised Basic Public Prosecutor's Office for the Fight against Organised Crime and Corruption. Staffing of the Department continued to improve. A number of successful operations were carried out against organised crime groups involved in drug smuggling, extortion, smuggling of migrants, facilitating abuse of the visa-free regime, falsification of passports and money laundering. Four operations succeeded in cutting off international marijuana trafficking routes and one cut off an international channel for smuggling migrants, also uncovering the involvement of a police officer and a resident of the asylum reception centre in Skopje. A 14-member criminal gang including 6 customs officers was detected and charged. In 2013, 271 orders were issued applying special investigative measures in 51 cases. However, the use of such measures by the Customs Administration and Financial Police still remains limited, partly due to inadequate human and technical resources. The government has appointed members of the National Coordination Centre for the fight against organised crime from different law enforcement bodies. However, it remains to be seen how this coordinating body will operate in practice. The National Criminal Intelligence Database is still not operational. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

In 2013, the Financial Intelligence Unit (FIU) reported 25 cases of suspicious transactions related to *money laundering* to investigating authorities and the prosecution service (compared to 29 in 2012). Also in 2013, convictions against 41 persons who were prosecuted in previous years became final, upon conclusion of the judicial proceedings.



A National Strategy and Action Plan for the fight against *trafficking in human beings* were adopted for 2013-2016. They were developed in cooperation with an inter-agency government working group, civil society organisations and international organisations, and focus particularly on combating forced labour. Programmes for the support and integration of victims of trafficking and for the support and reintegration of child victims of trafficking were adopted in February 2014. The Ministry of Interior launched a campaign for an integrated approach to the prevention of labour exploitation in countries of origin and of destination. The National Commission for the Fight against Trafficking in Human Beings and Illegal Migration conducted several public campaigns and workshops to raise awareness, in collaboration with its partner institutions. The Council of Europe's Group of Experts on Action against Trafficking in Human Beings (GRETA) published its first report on the country in 2014, finding that several important steps had been taken in this field, but that a number of challenges remain, including developing the multi-disciplinary approach to victim identification and assistance and further strengthening of the network of social workers. A total of 15 victims of trafficking were identified in 2013, an increase from eight the previous year. At local level, mobile teams responsible for early identification of risks, direct assistance and support to families continued their activities, including referring two victims to the Centre for victims of trafficking in human beings. The Centre, which is run jointly by the government and civil society organisations, accommodated nine victims in 2013. The current level of funding for medical care and reintegration is inadequate. The Centre has no facilities dedicated specifically to children and it does not have the capacity to handle male victims. In 2013, the Basic Court Skopje I convicted 85 persons of human trafficking. The country still remains a source, destination and transit country for human trafficking for sexual exploitation and forced labour. The national authorities, in cooperation with civil society, need to provide access to assistance, support and protection, including reintegration of victims into society.

The *Cybercrime* Unit located within the Department for Suppression of Organised and Serious Crime and the Forensic Department of the Ministry of Interior merged into a single Cybercrime and Digital Forensic Department, forming a more efficient and effective investigative unit.

As concerns the **fight against terrorism**, the FIU submitted two notifications of suspicious transactions regarding financing of terrorism to law enforcement agencies in 2013. The country will need to step up its capacity to prevent radicalisation, including developing adequate measures to address the phenomenon of foreign fighters.

As regards **cooperation in the field of drugs**, the new National Strategy on Drugs 2014-2020 and the Action Plan 2014-2017 were adopted in May 2014. Good cooperation continued between the national focal point and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) including participating in training. Successful joint cooperation between police and Customs Administration on drugs seizures have continued. The Illicit Drugs Department in the Ministry of Interior was reinforced by two new employees. Staffing was also increased at the local level.

There were positive developments in the area of **customs cooperation**. The customs administration took part in four international operations and two projects to detect illicit trade in counterfeit goods, drugs, explosives, and high-risk chemicals. Cooperation and exchange of intelligence with the customs authorities of neighbouring countries and wider region intensified. (*See Chapter 29 — Customs union*).

For measures against **counterfeiting of the euro**, *see Chapter 32 — Financial control*.

## *Conclusion*

The country has already reached a high level of legislative alignment in this area, and the administrative and judicial structures are at an advanced stage. Further improvements were made in the areas of police cooperation and combating organised crime and human trafficking. However, in some sectors progress remains slow as regards improving the infrastructure, capacity and strategic planning needed for full and effective implementation of existing policies. These include, in particular, migration and asylum. The absence of an independent system for external oversight of the police also needs to be addressed.

### **4.25. Chapter 25: Science and research**

The country's participation in the EU **framework programme** for research (FP7) continued to increase. The overall success rate is 15.9%, compared to the EU average of 21.6%. The number of small and medium-sized enterprises involved in FP7 research projects increased but the number of successful applicants for Marie Skłodowska Curie grants is still very low. The agreement associating the country to the new EU research and innovation programme Horizon 2020 (covering 2014-20) was signed in July 2014, allowing for retro-active participation of entities from the country as from 1 January 2014. Implementation of the agreement is on track, but increased efforts are necessary to meet the challenges of cooperation under Horizon 2020.

Very limited progress was made towards the headline **European Research Area** target of 3% of GDP being invested in research (with the country currently investing less than 0.30% of GDP). The 2014-20 national programme for higher education and scientific and research activities was adopted. An observer was nominated to the European Research Area Committee.

The country has developed the capacity to monitor implementation of the national strategy for innovation, drawn up in accordance with the **Innovation Union** initiative. A fund for innovation and technological development was created with the objective of providing technical assistance for start-up companies, grants for co-funding spin-offs and stimulating the transfer of technology. The Ministry for Education and Science has provided grants supporting publication of scientific articles in international publications. The administrative capacity to monitor implementation of the National Strategy for Innovation has been put in place. The country has been active in cooperating at regional level and co-signed the Western Balkans Regional R&D Strategy for Innovation adopted in October 2013.

## *Conclusion*

Good progress was made in the area of science and research. The administrative structure necessary for participation in Horizon 2020 is in place, but capacity should be strengthened. Further efforts are needed on actions relating to the European Research Area, and in particular the level of investment in research needs to be increased. Overall, preparations in the area of science and research are on track.

### **4.26. Chapter 26: Education and culture**

As regards European standards on **education, training and youth**, implementing legislation on primary and secondary education was revised. Access to services relating to early childhood development improved significantly as a result of improvements to institutions and infrastructure. However, progress in terms of participation remained modest, far below the EU target. Major discrepancies in early childhood development and pre-school education still exist between different ethnic groups and between urban and rural areas. The rate of early school leaving is gradually falling and the rate of completion of higher education is rising. The process of decentralisation in education is progressing.

The implementation of the 2013-20 strategy for vocational education and training has progressed slowly, but with increasing dynamism. Steps were taken to establish the institutional setting for the National Qualifications Framework for lifelong learning. The process of referencing to the European Qualifications Framework started in May 2014. Launching of new vocational and educational training programmes based on up-to-date labour market information continued in 2014, attracting hundreds of students.

The country signed an agreement with the EU allowing the country to participate fully in the new Erasmus+ programme. The Youth in Action programme involved an increased number of young people from the country in international activities.

In July 2014 participation in the new Creative Europe programme for **culture** (2014 – 2020) was signed. The country's involvement in the Ljubljana process continued to be centred on the restoration and revitalisation of its cultural heritage. An agreement on cultural cooperation was signed with Kosovo.

The administrative capacity of responsible institutions needs to be strengthened to ensure efficient implementation of adopted strategies and legislation, including policy monitoring. Better expenditure planning that takes into account strategic priorities and needs of participation in EU coordinating mechanisms is necessary.

### *Conclusion*

Some progress was made in the areas of education, training, youth and culture. Access to pre-school education was improved. Both the vocational education and training centre and the adult education centres benefited from strengthened human resources. Sustained commitment is necessary to ensure implementation of the adopted policies. Preparations in the areas of education and culture are at a moderately advanced stage.

## **4.27. Chapter 27: Environment and climate change**

As regards the **environment**, in the area of *horizontal legislation*, the Law on the National Spatial Data Infrastructure permits further alignment with the Directive on Infrastructure for Spatial Information in the European Community. The Law on the Ratification of the Protocol on Strategic Environmental Assessment was also adopted. Public consultation and coordination with civil society remain insufficient. Access to environmental information still needs to be improved.

Only limited progress has been made to date in implementing the national plan for the protection of *air quality*. Air pollution levels (PM<sub>10</sub>) significantly above EU limits were recorded during a sustained period last winter. The lack of sufficient financial resources continues to be an obstacle to the normal operation and maintenance of the national air quality monitoring network. Alignment with the *acquis* continued with the adoption of the Law on the Control of Volatile Organic Compound Emissions and of implementing legislation related to air quality assessment and emissions ceilings for pollutants. The country became a full Party to the Gothenburg Protocol.

Implementation of the integrated *waste management* system has begun. Regional waste management bodies have been set up and preparation of regional waste management plans has begun. The administrative capacity for implementing the legislation has been improved, but still remains insufficient at both central and local level.

Alignment with the *acquis* is less advanced in the area of *water quality*. Management structures for river basins have been set up, but are still not operational. The poor coordination between the competent authorities continues to hamper implementation of the legislation. The country needs to address the gaps in the water monitoring system. Preparation for infrastructure investment is lagging behind and the level of funding is insufficient to meet

current needs. Greater efforts are needed in applying the ‘polluter pays’ principle, and action also needs to be taken to set up an appropriate system for water pricing. The lack of progress in this area has continued to hamper the operation of water treatment facilities and puts investment in the sector at risk.

Alignment with the *acquis* on *nature protection*, specifically natural habitats and wild fauna and flora has been delayed. No progress has been made on the identification of future Natura 2000 sites. Management plans for protected areas have been developed and need to be implemented. Some efforts have been made to improve the financing of the implementation of management plans, but the measures in place are still insufficient. A national strategy and associated action plan on nature protection has not been finalised. Cross-border cooperation continued in relation to lake Dorjan.

Implementing legislation was adopted to bring national legislation on *industrial pollution control and risk management* into line with the Seveso II Directive. The procedures for integrated pollution prevention and monitoring are ongoing, but are well behind schedule.

In the area of *chemicals*, implementation of the Registration, Evaluation, Authorisation and Restrictions of Chemicals (REACH) Regulation progressed. Administrative capacity remains insufficient. New implementing legislation was adopted in the area of *noise*. The development and implementation of strategic noise maps is behind schedule however.

The country actively participates in the EU **Civil Protection** Mechanism. The 2014-18 national strategy for rescue and protection was adopted, together with an action plan for establishing the link with the EU Common Emergency Communication and Information System. Trilateral cooperation with institutions from Albania and Kosovo in the area of crisis and emergency situations has continued.

The country needs to develop a comprehensive policy and strategy on **climate change**, in accordance with the expected EU 2030 policy framework for climate and energy. The third national communication on climate change was submitted to the United Nations Framework Convention on Climate Change. The country regularly associated itself with EU positions in the international context, but has not yet put forward a mitigation commitment for 2020, as required by the Copenhagen Accord. The country needs to put forward by the first quarter of 2015 its intended nationally determined contribution to the 2015 Climate Agreement, consistent with those of the EU and its Member States.

Progress was made in developing the national adaptation plan: the indicators for vulnerability to climate change were designed for eight sectors, ten local authorities drafted their socioeconomic assessments of the vulnerability of the population and an early warning system for floods was set up. The Law on the Environment was amended in order to provide for the data collection and management system used for the preparation of national inventories of greenhouse gas emissions. Aligning national legislation with the Monitoring Mechanism Regulation should be a priority. Measures to raise awareness and promote cooperation between stakeholders were introduced, but need to be further strengthened.

The country participated regularly in the Environment and Climate Regional Accession Network project. The Interinstitutional Climate Change Working Group needs to be strengthened considerably in order for it to be able to address the need for more effective action on climate issues in a sustainable manner, not only on a project-by-project basis.

Negligible efforts were made to strengthen the administrative capacity for implementation and enforcement of legislation, which thus continues to be largely insufficient, both at national and local level. Coordination between the relevant bodies remains ineffective. Stakeholders are still not sufficiently involved in decision-making. Enforcement of legislation is not yet efficient. The environmental monitoring and information system is inadequate. Investment in

the sector remains low relative to current needs. Environmental protection and climate change requirements are still not sufficiently integrated into policymaking and policy implementation in other areas.

### *Conclusion*

Little progress was made in the areas of environment and climate change. Administrative capacity needs to be strengthened in all areas and the government needs to cooperate more with civil society and other stakeholders. Strategic planning and significant efforts are needed in order to ensure that national legislation is in line with the *acquis*, and that this legislation is implemented. Investment needs to be significantly increased, especially in the waste and water sectors. The country needs to put forward by the first quarter of 2015 its intended contribution to the 2015 Climate Agreement. Overall, preparations in the area of environment are at a moderately advanced stage while preparations in the area of climate change are at an early stage.

### **4.28. Chapter 28: Consumer and health protection**

As part of *horizontal legislation*, the budget for the biannual **consumer protection** programme was adopted for 2014-15 resulting in increased counselling and higher awareness on consumer rights throughout the country. The Ministry for the Economy signed good practice agreements with industry associations representing different branches with the aim of ensuring competition and protection of consumers in the respective markets. Local consumer councils were established in some areas including in Skopje. The Consumer Organisation has been moderately effective, continuing to offer educational and advisory activities and raising awareness of consumer issues. The allocation to consumer protection in the government budget increased by 10%, but funding is still insufficient. The lack of administrative and financial resources continues to hamper effective implementation of consumer protection policies.

All institutions involved in *product safety* (the State Sanitary and Health Inspectorate, the Food and Veterinary Agency and the State Market Inspectorate) have stepped up their market inspections, both regular inspections and those conducted following consumer complaints. Information campaigns, seminars and lectures for school students continued. (*See Chapter 1 — Free movement of goods*). The country's record in enforcing legislation in this area continued to improve and market supervision has been strengthened.

Some action has been taken to raise awareness of consumers' rights in relation to *non-safety-related issues*, specifically consumer credit and purchasing of holiday packages, and to alert consumers to unfair market behaviour. The regulatory bodies responsible for electronic communications and supervision of the insurance market are the only market regulators actively involved in consumer protection. The Consumer Organisation provided advice on services offered by public enterprises and network industries, the use of guarantees and rights to free-of-charge repair, banking, insurance and food-related issues. Market supervisors and other regulatory bodies are still in need of additional training in order to ensure effective consumer protection.

Legislation on **public health** was amended and approximately 800 medical guidelines were updated. Cooperation and exchange of information between national and foreign medical institutions has been improved. Investment in new medical equipment, in refurbishing medical centres, and in training for health professionals continued. Work was begun on the construction of a new clinical centre in Skopje. E-health cards, e-prescription and e-appointment system are in place. Measures have been taken to ensure medical care by professional staff in rural areas without health centres. Sustainable implementation of the government's health policy continues to be held back by insufficient financial resources and

inadequately trained staff. The capacity to plan and implement public health programmes at local and regional level is still weak, hampering equal access to healthcare and limiting the effectiveness of decentralisation in the health sector.

The Law on Protection from Smoking was amended to allow the police and tax authorities to monitor the implementation of *tobacco control* (the smoking ban) alongside their regular inspections. Enforcement of the law remains satisfactory, and is generally better in urban areas than elsewhere.

The country's plans for crisis and pandemic emergency and response in relation to *communicable diseases* were endorsed by the government. The national early warning rapid alert system became operational. Multi-sector analysis on the preparedness to respond to health threats in accordance with international health regulations was prepared. Around 95 % of the population is covered by mandatory immunisation programmes. The annual programme on HIV/AIDS and the 2013-17 national strategy for fighting HIV/AIDS are being implemented, and molecular diagnostics tests have been introduced. Protocols for testing susceptibility were distributed to all microbiological laboratories as part of the national strategy for containing antimicrobial resistance. Laboratories' capacity for testing microbiological resistance should be further improved. Antibiotics are sold freely without medical prescription, in disregard of the strategic goal of reinforcing microbiological resistance.

The 2014 transplant programme (applying to *tissues, cells and organs*) was adopted. Budgetary funds (almost €0.5 million) will be used for setting up a central information system for sampling, processing, scrutiny of tissue matching, storage, replacement, transplantation, equipping of four health institutions and a public campaign.

Further efforts are needed to align national legislation with the *acquis* in the areas of *patients' rights in cross-border healthcare*, the recognition of medical prescriptions and serious cross-border health threats.

Financial allocation to *pharmaceuticals* increased and their administration improved, but a more strategic approach to their registration is needed.

The annual programme on healthcare for people with *mental health* disabilities was also adopted. It emphasises the importance of deinstitutionalisation and community-based mental healthcare. Staff levels and financial resources of mental health facilities remain inadequate. The sustainability of existing community mental health centres continued to be a serious concern.

Measures on *prevention of drug abuse* have focused particularly on training of health workers. Legislation on orthopaedic devices has been amended to increase the rights of people using these devices, as part of reducing *health inequalities*. *Screening* for early detection of breast, colorectal and cervical cancers has been provided to some of the at-risk age groups. The cancer registry remains partly operational. Cooperation with the State Statistical Office on mortality data has not yet been agreed upon. Sustainable funding for regular cervix, breast and colon screening still needs to be secured. In the field of *healthy environments including prevention of injury*, the assessment of the health risks from air pollution has not yet been completed, nor has the programme for testing for radon in soil and construction equipment, or the programme for human bio-monitoring. (See Chapter 27 — *Environment and climate change*). The capacity for preventing environmental health risks needs to be improved. There is limited funding for treatment of *rare diseases*.

### *Conclusion*

Some progress was made in the area of consumer and health protection, but the limited financial resources and the poor operational structures, particularly in the field of consumer protection, continue to hold back further developments. Adequate financial resources for the ongoing functioning of the healthcare system are needed in order to ensure its sustainability. Overall, preparations in this area are at a moderately advanced stage.

#### **4.29. Chapter 29: Customs union**

Notable amendments to **customs legislation** included the introduction of provisions on common transit, including for the submission of electronic transit declarations and transit guarantees, and the application of internationally developed criteria on risk identification and analysis. The 2014 customs tariff was adopted, in line with the latest changes to the EU's combined nomenclature. The first certificate for an authorised economic operator was issued. In the framework of CEFTA, since 1 April 2014, Serbia, Albania, Montenegro and the former Yugoslav Republic of Macedonia started applying the regional Convention on Pan-Euro-Med Preferential Rules of Origin.

As regards **administrative capacity and operational capacity**, the new computerised transit system, a precondition for accession to the Convention on a Common Transit Procedure, became operational. Maintenance of the system is yet to be secured and staff also require further training. Development of a new customs declaration processing system and integrated tariff environment system is still ongoing. New electronic systems were introduced to simplify customs procedures for businesses. The electronic exchange of data between the Customs Administration and the Public Revenue Office has made it possible to introduce a simplified procedure for submitting VAT returns for imports. The operational capacity for carrying out customs controls and combating cross-border crime was improved. Professional and integrity standards and internal control measures have been implemented systematically. Risk management and inter-agency cooperation were both further developed. Cooperation with the business community continued, and cooperation with the customs authorities of neighbouring countries and in the wider region has also been extended. Customs facilities at the Blace and Bogorodica entry points were upgraded.

### *Conclusion*

Progress was made in the area of customs union. The administrative capacity of the Customs Administration improved, although greater sustainability of financial resources is still needed. The priorities for the next year are accession to the Convention on a Common Transit Procedure and completion of the two IT systems currently under construction. Overall, preparations in this area are at an advanced stage.

#### **4.30. Chapter 30: External relations**

With regard to the **common commercial policy**, the country continued to coordinate its positions and align its policies closely with the positions and policies of the EU, including within the setting of the World Trade Organisation. The country is chairing the Central European Free Trade Agreement in 2014 and coordinates the work of its committees.

As regards **bilateral agreements with non-EU countries**, the country ratified an investment protection agreement with Azerbaijan. The number of ratified bilateral investment protection agreements rose to 39, of which 35 are in force and 18 are with EU Member States.

Preparations in the areas of **development policy** and **humanitarian aid** remain at an early stage.

### *Conclusion*

Progress was limited in the area of external relations, notably as regards the common commercial policy. The country's institutional capacity is still not sufficient for full participation in EU commercial, development and humanitarian aid policies. Preparations in the area of external relations as a whole are at a moderately advanced stage.

#### **4.31. Chapter 31: Foreign, security and defence policy**

The ongoing **political dialogue** between the EU and the former Yugoslav Republic of Macedonia on foreign and security policy issues continued. (For information on relations with other enlargement countries and EU Member States, *see Political criteria — Regional issues and international obligations*).

As regards the common foreign and security policy (CFSP), the country aligned itself, when invited, with 33 out of 45 EU declarations and Council Decisions (73% alignment). (As regards the International Criminal Court, *see Political criteria — Regional issues and international obligations*.)

The country did not align itself with the Council decisions introducing *restrictive measures* in response to Russia's illegal annexation of Crimea and events in eastern Ukraine. The country voted in favour of the UN General Assembly Resolution on the territorial integrity of Ukraine.

As part of measures on *non-proliferation* of arms, the country submitted a report to the UN on the implementation of the UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons. In line with the obligations under the Convention on Cluster Ammunition (Oslo Convention), and the related government decision, a number of munitions were destroyed. The country ratified the UN Arms Trade Treaty in March 2014.

The country continued to engage actively in *cooperation with international organisations*. The country was elected as a member of the UN Human Rights Council for the period 2014-16. (*See Chapter 23 — Judiciary and fundamental rights*).

The representatives of the Directorate for Security of Classified Information participated in study visits to their institutional counterparts in the Czech Republic, Poland and Slovakia.

The country continued to participate in civil and military crisis management operations under the **common security and defence policy** (CSDP). It currently has 156 army personnel deployed in the International Security Assistance Force mission in Afghanistan, and 11 in the EU military operation in Bosnia and Herzegovina, EUFOR ALTHEA. The country has been officially contributing to the 2014-20 European Union Battle Group since March 2014 and participated in the exercises Adjacent Lowlands 2013 and Quick Lion.

### *Conclusion*

The country continued to participate in civil and military crisis management operations. The country's alignment with EU declarations and Council decisions in the field of foreign and security policy deteriorated as compared with previous years and needs to be improved. Overall, preparations in this area are on track.

#### **4.32. Chapter 32: Financial control**

The 2015-2017 policy paper on **public internal financial control** was adopted in August 2014. The focus should now be on the implementation of the corresponding action plan with particular emphasis on enhancing managerial accountability. Additional efforts are also needed to complete the certification of internal auditors and to strengthen the implementation of internal audits. The Financial Management and Control Committee and the Internal Audit



Committee are required to meet on a quarterly basis but have not met since September 2012. Guidelines for the preparation of risk management strategies and for their implementation were issued but most institutions have not yet implemented them. The Law on Financial Inspection also needs to be implemented. The reform of public internal financial control needs to be better integrated into the ongoing process of reforming public administration.

The State Audit Office's resources for **external audit** have not been increased adequately relative to the additional obligations it has received. The strategy for implementing the standards set by the International Organisation of Supreme Audit Institutions is in the process of implementation. The State Audit Office's independence is not yet safeguarded in the Constitution and its financial independence, in particular, is not yet guaranteed in practice. The parliament does not yet have in place a formal procedure for reviewing the Office's audit reports. The Office, however, did continue to exercise its duties in a responsible and professional manner.

The National Authorising Officer submitted reports on 20 irregularities relating to **protection of the EU's financial interests**, of which two were referred to the Public Prosecutor for further review. The 2014-16 national strategy for protection of the financial interests of the EU has not yet been adopted.

In 2013, the authorities recorded eight cases (266 banknotes) of **counterfeiting of the euro**. The central office for preventing money counterfeiting cooperates with and participates in trainings held by the European Police Office. A new electronic database on counterfeiting has been set up and is being used by the Ministry of the Interior, but has yet to be made accessible to all other relevant institutions.

#### *Conclusion*

Some progress was made in the area of financial control with the adoption of a policy paper on public internal financial control and in the area of the protection of the euro against counterfeiting. Implementation of the managerial accountability principle remains limited in the area of public internal financial control. The State Audit Office's independence is not yet safeguarded in the Constitution and its financial independence, in particular, is not yet guaranteed in practice. Overall, preparations are at a moderately advanced stage.

#### **4.33. Chapter 33: Financial and budgetary provisions**

No progress was made in the areas of **traditional own resources**, the **value added tax-based resource** or the **gross national income-based resource**. Some progress was made, however, in the underlying policy areas affecting the correct application of the financing system. (*For developments in these areas, see Chapters 16 — Taxation; 18 — Statistics; 29 — Customs union; and 32 — Financial control*).

Some progress was made in improving **administrative infrastructure** in order to fight tax evasion and fraud and reduce the size of the informal economy, although addressing these issues remains a significant challenge. The administrative capacity of the institutions directly involved in the own resources system (customs, taxation, statistics and financial control) needs to be further strengthened. A fully operational coordination structure to ensure correct calculation, accounting, forecasting, collection, payment and control of own resources and reporting to the EU on the implementation of the EU's own resources rules will need to be set up in due course. Preparations in this area are at an early stage.

#### *Conclusion*

Limited progress was made in this chapter. The administrative framework for applying the own resources rules needs to be set up. Overall, preparations in the area of financial and budgetary provisions are at an early stage.

## STATISTICAL ANNEX

### STATISTICAL DATA

#### The former Yugoslav Republic of Macedonia

Basic data	Note	2001	2009	2010	2011	2012	2013
Population (thousand)		2 031	2 049	2 053	2 057	2 060	2 062
Total area of the country (km <sup>2</sup> )		25 713	25 713	25 713	25 713	25 713	25 713

National accounts		2001	2009	2010	2011	2012	2013
Gross domestic product (GDP) (million national currency)		233 840	410 734	434 112	459 789	458 621p	473 019e
Gross domestic product (GDP) (million euro)		3 839	6 703	7 057	7 473	7 454p	7 683e
GDP (euro per capita)		1 890	3 269	3 434	3 630	3 651p	3 726s
GDP (in Purchasing Power Standards (PPS) per capita)		4 955	8 453b	8 866	8 994p	9 045p	:
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)		25	36b	36	36	35	35
Real GDP growth rate: change on previous year of GDP volume (%)		-4.5	-0.9	2.9	2.8	-0.4p	2.9e
Employment growth (national accounts data), relative to the previous year (%)		-1.7	2.5	1.5	3.1	0.5p	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%)	1)	-2.9	-3.4	1.4	-0.3	-20.1p	:
Unit labour cost growth, relative to the previous year (%)		-0.8	9.9	1.8	-6.5	-0.7p	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		46.5	60.2b	58.3	:	:	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		:	:	11.5	10.9	10.3p	:
Industry (%)		:	:	21.5	21.6	17.8p	:
Construction (%)		:	:	6.3	7.4	7.9p	:
Services (%)		:	:	60.8	60.0	64.1p	:
Final consumption expenditure, as a share of GDP (%)		94.8	95.7	93.8	93.4	93.2p	94.6
Gross fixed capital formation, as a share of GDP (%)	2)	14.8	19.9	19.1	20.6	23.0p	24.3e
Changes in inventories, as a share of GDP (%)		4.2	6.3	5.8	5.6	6.4p	:
Exports of goods and services, relative to GDP (%)		42.7	39.2	46.6	54.9	53.6p	53.9
Imports of goods and services, relative to GDP (%)		56.6	61.0	65.3	74.5	76.3p	72.8

Industry	Note	2001	2009	2010	2011	2012	2013
Industrial production volume index (2010 = 100)		95.9	105.1	100.0	107.0	104.1	107.4

Inflation rate and house prices	Note	2001	2009	2010	2011	2012	2013
Consumer price index (CPI), change relative to the previous year (%)		5.5	-0.8	1.6	3.9	3.3	2.8

**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:
--	--	---	---	---	---	---	---

<b>Balance of payments</b>	Note	2001	2009	2010	2011	2012	2013
Balance of payments: current account total (million euro)	3)	-263	-457b	-144	-189	-226	-147
Balance of payments current account: trade balance (million euro)	3)	-588	-1 560b	-1 448	-1 648	-1 757	-1 584
Balance of payments current account: net services (million euro)	3)	-21	16b	37	97	46	78
Balance of payments current account: net income (million euro)	3)	-30	-47b	-100	-131	-148	-182
Balance of payments current account: net current transfers (million euro)	3)	377	1 133b	1 367	1 494	1 632	1 542
of which government transfers (million euro)	3)	55	35b	31	77	60	43
**3 year backward moving average of the current account balance relative to GDP (%)		:	-8.9	-7.2	-3.8	-2.5	-2.5
**Five year change in share of world exports of goods and services (%)	4)	:	19.4	12.9	23.1	-8.3	-7.2
Net inward foreign direct investment (FDI) (million euro)		499.0	136.9	158.6	336.8	110.7	252.7
Foreign direct investment (FDI) abroad (million euro)		1.0	8.1	1.4	0.0	-6.0	-1.2
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)	3)	500	145b	160	337	72	251
of which FDI of the EU-28 countries in the reporting economy (million euro)	5)	:	135.6	139.4	218.2	83.9	175.3
**Net international investment position, relative to GDP (%)		:	-53.9	-51.4	-53.1	-56.1	-59.5

<b>Public finance</b>	Note	2001	2009	2010	2011	2012	2013
General government deficit / surplus, relative to GDP (%)		:	-2.6	-2.4	-2.5	-3.8	-4.1
General government gross debt relative to GDP (%)		48.8	23.8	24.2	28.0	34.1	36.0

<b>Financial indicators</b>	Note	2001	2009	2010	2011	2012	2013
Gross foreign debt of the whole economy, relative to GDP (%)	6)	44.2	56.4b	58.2	64.9	69.4	67.7p
Gross foreign debt of the whole economy, relative to total exports (%)	6)	108.4	148.2b	127.8	120.9	131.7	127.7
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	7)	415	854b	933	997	1 072	1 138
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	7)	1 145	3 040b	3 277	3 523	3 540	3 545
Money supply: M3 (M2 plus marketable instruments, million euro)	7)	1 267	3 388b	3 781	4 147	4 330	4 558
Total credit by monetary financial institutions to residents (consolidated) (million euro)		620	2 913b	3 102	3 367	3 551	3 779
**Annual change in financial sector liabilities (%)		:	:	:	:	:	1.2
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:

Interest rates: day-to-day money rate, per annum (%)	8)	11.68	6.01b	3.78	2.17	2.10	1.86
Lending interest rate (one year), per annum (%)	9)	23.00	10.00	5.50	5.50	4.23	3.75
Deposit interest rate (one year), per annum (%)	9) 10)	:	:	:	:	1.00	0.75
euro exchange rates: average of period (1 euro = ... national currency)		60.913	61.273	61.515	61.529	61.524	61.566
Trade-weighted effective exchange rate index (2005 = 100)	11)	88.6	106.8	106.3	107.2	108.5	109.9
**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)		844	1 598	1 715	2 069	2 193	1 993

<b>External trade in goods</b>	Note	2001	2009	2010	2011	2012	2013
Value of imports: all goods, all partners (million euro)		1 884	3 616	4 130	5 034	5 068	4 969
Value of exports: all goods, all partners (million euro)		1 290	1 930	2 528	3 201	3 115	3 213
Trade balance: all goods, all partners (million euro)		-595	-1 686	-1 601	-1 833	-1 953	-1 757
Terms of trade (export price index / import price index * 100) (number)	12)	97	110	90	94	:	:
Share of exports to EU-28 countries in value of total exports (%)		58.4	61.9	65.5	63.7	65.2	72.6
Share of imports from EU-28 countries in value of total imports (%)		62.2	54.5	55.3	56.2	60.2	62.6

<b>Demography</b>	Note	2001	2009	2010	2011	2012	2013
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		5.0	2.3	2.5	1.6	1.7	1.9
Infant mortality rate deaths of children under one year of age (per thousand live births)		11.9	11.7	7.6	7.6	9.8	10.2
Life expectancy at birth: male (years)		70.9	72.3	72.9	73.1	73.0	73.2
Life expectancy at birth: female (years)		75.6	76.7	77.2	77.2	76.9	77.2

<b>Labour market</b>	Note	2001	2009	2010	2011	2012	2013
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	70.1	70.4	70.1	69.6	70.4
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	47.9	48.1	48.4	48.2	50.3
Male employment rate for persons aged 20–64 (%)		:	58.4	58.4	57.8	57.5	59.7
Female employment rate for persons aged 20–64 (%)		:	37.1	37.5	38.8	38.7	40.7
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		27.7	34.6	34.2	35.4	35.4	37.9
<b>Employment by main sectors</b>							
Agriculture, forestry and fisheries (%)		:	:	:	18.1u	17.3	18.7
Industry (%)		:	:	:	24.1u	23.6	23.5
Construction (%)		:	:	:	6.2u	6.3	6.9
Services (%)		:	:	:	51.6u	52.7	50.6
Unemployment rate: proportion of the labour force		30.5	32.2	32.0	31.4	31.0	29.0

that is unemployed (%)							
Male unemployment rate (%)		29.5	31.8	31.9	31.8	31.5	29.0
Female unemployment rate (%)		32.0	32.8	32.2	30.8	30.3	29.0
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		56.1	55.1	53.7	55.3	53.9	51.9
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		26.5	26.3	26.7	25.9	25.5	23.9

<b>Social cohesion</b>	Note	2001	2009	2010	2011	2012	2013
Average nominal monthly wages and salaries (national currency)		10 552	19 957	20 553	20 847	20 902	21 145
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)	13)	98.1	158.7b	160.8	157.0	152.3	:
*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 (%)		:	16.2	15.5	13.5	11.7	11.4

<b>Standard of living</b>	Note	2001	2009	2010	2011	2012	2013
Number of passenger cars relative to population size (number per thousand population)		152.1	137.7b	151.0	152.1	146.4	168.0
Number of mobile phone subscriptions relative to population size (number per thousand population)		109.0	948.4	1 098.2	1 104.9e	1084.6	1083.9

<b>Infrastructure</b>	Note	2001	2009	2010	2011	2012	2013
Density of railway network (lines in operation per thousand km <sup>2</sup> )		27	27	27	27	27	27
Length of motorways (kilometres)		145	251	251	259	259	259

<b>Innovation and research</b>	Note	2001	2009	2010	2011	2012	2013
Public expenditure on education relative to GDP (%)		3.6	3.6	3.7	3.5	4.0p	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.30	0.20	0.22	0.22	:	:
Percentage of households who have internet access at home (%)		:	42.0e	46.0	55.0	58.3	65.1

<b>Environment</b>	Note	2001	2009	2010	2011	2012	2013
*Index of greenhouse gas emissions, CO <sub>2</sub> equivalent (1990 = 100)	14)	92.6	73.6	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2000 constant prices)		720.4	575.7	573.3	606.7	578.5p	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		9.2	15.4	28.0	15.2	11.7p	:
Road share of inland freight transport (based on tonne-km) (%)	15)	87.0	89.0b	89.0	91.8	93.2	92.4

<b>Energy</b>	Note	2001	2009	2010	2011	2012	2013
Primary production of all energy products (thousand TOE)		1 642	1 607	1 616	1 736	1 518p	:
Primary production of crude oil (thousand TOE)		0	0	0	0	0	:

Primary production of hard coal and lignite (thousand TOE)		1 419	1 293	1 194	1 410	1 246p	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		1 011	1 273	1 271	1 435	1 450p	:
Gross inland energy consumption (thousand TOE)		2 677	2 810	2 879	3 131	2 974p	:
Electricity generation (thousand GWh)		6.4	6.8	7.3	6.8	6.3p	:

<b>Agriculture</b>	Note	2001	2009	2010	2011	2012	2013
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		90.2	102.9	107.7	96.8	94.7	103.0p
Utilised agricultural area (thousand hectares)		1 244	1 014	1 121	1 120	1 267	1 260
Livestock numbers: live bovine animals (thousand heads, end of period)		265	252	260	265	251	238
Livestock numbers: live swine (thousand heads, end of period)		189	194	191	197	177	167
Livestock numbers: live sheep and live goats (thousand heads, end of period)		1 286	849	854	839	796	807
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)		201	343	347	376	350	381
Harvested crop production: cereals (including rice) (thousand tonnes)		474	609	541	555	460	562
Harvested crop production: sugar beet (thousand tonnes)		38	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)		667	804	887	845	704	702

: = not available

b = break in series

e = estimated value

p = provisional

u = unreliable

\* = Europe 2020 indicator

\*\* = Macroeconomic Imbalance Procedure (MIP) indicator

Footnotes:

- 1) GDP in constant prices of the previous year.
- 2) 2013: data concern all gross capital formation, not just gross fixed capital formation.
- 3) 2001: converted using annual average exchange rates.
- 4) Data source used for world export of goods and services is the World Economic Outlook Database, April 2014.
- 5) Data on FDI flows by countries are produced only for the categories Equity capital and the Loans component of Other capital.
- 6) 2001: partial data coverage.
- 7) 2001: excluding data for savings houses.
- 8) The interest rates are calculated as weighted averages. 2001: data cover transactions with all maturities concluded on the Institutionalised Money Market. Other years: data cover bilateral overnight transactions.
- 9) End of year (31 December).
- 10) 2012: in 2012, the National Bank of the Republic of Macedonia introduced two deposit instruments for the banks — overnight and 7 day deposit. At the end of year the rate for overnight deposits was 1% and for 7 day deposits was 2%.
- 11) NEER (nominal effective exchange rate).
- 12) Index (previous year = 100) of the ratio of Paasche unit value indices.
- 13) Break in series caused by the introduction of a new concept of gross income.
- 14) Part of the greenhouse gas inventory prepared in the context of the Third National Communication (UNFCCC).
- 15) Break in series caused by inclusion of pipeline transport.