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**The former Yugoslav Republic of Macedonia 2018 Report**

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## **1. INTRODUCTION**

### **1.1. Context**

The Stabilisation and Association Agreement between the former Yugoslav Republic of Macedonia and the 4EU entered into force in April 2004. Since 2009, the Commission has recommended to the Council to open accession negotiations with the former Yugoslav Republic of Macedonia, a candidate country since 2005. The recommendation was made conditional, in 2015 and 2016, on the continued implementation of the "Pržino Agreement", which was facilitated by the Commissioner for European Neighbourhood Policy and Enlargement Negotiations and three Members of the European Parliament in 2015, and on substantial progress in the implementation of the "Urgent Reform Priorities".

Following the early parliamentary elections in December 2016, which resulted in the change of government in May 2017, the country has finally overcome its deep political crisis. The new government has shown commitment and political will to advance the EU reform agenda. Most elements of the "Pržino agreement" have been continuously and largely implemented or are, by now, overtaken by subsequent events. Substantial progress has been made in the implementation of the "Urgent Reform Priorities".

### **1.2. Progress on meeting the conditions for opening accession negotiations**

#### **Pržino Agreement**

The "Pržino Agreement"<sup>1</sup> was a major breakthrough. It was reached against a background of increasing polarisation and state capture, affecting the functioning of democratic institutions and key areas of the society. SDSM<sup>2</sup>, as opposition party, returned to Parliament in September 2015 and chaired the Committee of Inquiry, created to establish the political accountability of the wiretaps as well as the existing parliamentary committees on intelligence oversight and interception of communications. The Special Prosecutors' Office was also created to establish the legal accountability for the wiretaps. A meeting of the High Level Accession Dialogue took place in September 2015. The party leaders agreed, at Pržino, to the unprecedented step of a sitting government and Prime Minister, with a secure electoral majority, stepping down to be replaced by a technical government, including opposition party members as Ministers and Deputy Ministers. An agreement was also reached on early parliamentary elections in December 2016, with a new composition of the State Election Commission. Whatever the challenges, the political resilience involved in reaching, and then implementing, the "Pržino Agreement" should not be underestimated as it enabled the country to overcome a deep political crisis and return to its EU path.

As part of the "Pržino agreement", the early parliamentary elections were held in December 2016 and resulted in a change of government in May 2017. Politics and society are undergoing significant change, with a renewed spirit of hope and openness. Steps are being taken to address state capture, to consolidate democracy, restore the rule of law and trust in institutions. Efforts are being made to ensure the inclusiveness of reforms by reaching out to the opposition, to civil society organisations, businesses and other stakeholders. The transparency of decision-making has increased and proper checks and balances on the power

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<sup>1</sup> The June/July 2015 "Pržino Agreement" covers the return of the opposition to parliament, establishing political and legal accountability for the wiretaps, establishment of a technical government to organise early parliamentary elections, the holding of those early parliamentary elections, implementing the Ohrid Framework Agreement (*see section 2.1.1.*), good neighbourly relations (*see section 4*), a commitment to implement EU recommendations on systemic rule of law issues and the holding of a High Level Accession Dialogue meeting.

<sup>2</sup> *Social Democratic Union of Macedonia*

of the executive by Parliament and civil society are gradually being restored. The harsh rhetoric, pressure and targeted investigations against civil society have receded. In their September 2017 report, the Senior Experts' Group on systemic Rule of Law issues made clear that the mistakes of the past should not be repeated.

Positive progress was made in regard to relations with neighbouring Member States and bilateral relations were improved, in particular with Bulgaria and Greece (*see regional issues and international obligations*). In a few months, the country has become a factor of stability in the region. Relations with the EU have intensified as the new government immediately committed to implement urgent and overdue reform commitments, as a serious partner.

### **The Urgent Reform Priorities**

In light of the revelations in the wiretaps, in summer 2015, the Commission tasked a group of independent senior rule of law experts to prepare a report and concrete recommendations, which fed into the Commission's "Urgent Reform Priorities"<sup>3</sup>. The same senior rule of law experts prepared a second report, in September 2017, assessing implementation of their previous recommendations and providing guidance to the new government. Significant progress has been made by the new government to address the "Urgent Reform Priorities" and the recommendations of the Senior Experts' Group on systemic Rule of Law issues since mid-2017.

Decisive steps have been taken to start restoring the **independence of the judiciary** and reverse the backsliding of previous years. The most notable step was the adoption of a credible new judicial reform strategy, which aims to address the "Urgent Reform Priorities" and the recommendations of the Venice Commission. Its implementation is underway and the relevant Venice Commission recommendations concerning the discipline and dismissal system for judges were addressed through the adoption of the first set of amendments to the law on the Judicial Council and the abolition of the Council for Determining Facts. Implementing the planned reforms is a long term process and requires a continuous change in behaviour. *For more details, see chapter 23.*

Since mid-2017, work is ongoing to address the "Urgent Reform Priorities" related to the **interception of communications**. From a legal point of view, work is well underway with sets of amendments having been enacted by Parliament and remaining laws are in parliamentary procedure. These legal steps pave the way for the establishment of a new institution, which will be an intermediation body, removing this function from the Bureau of Security and Counterintelligence (UBK) and its access to the switches enabling the activation of interception of communications. Its establishment aims at removing the possibility for a recurrence of the abuse, which led to the wiretapping scandal. Steps have also been taken to strengthen internal control within the UBK and reinforce civilian and parliamentary oversight mechanism. *For more details, see chapter 24.*

The priority is to secure the legally defined autonomy of the **independent regulatory, supervisory and oversight bodies**, not only in theory but also in practice. The Law on the Ombudsman was amended in 2016 with a view to fulfilling the Paris principles. The Parliament approved in November 2017 a set of measures for implementing recommendations of the Ombudsman's 2016 report and the government committed to their timely implementation. *For more details, see chapter 23.*

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<sup>3</sup> The "Urgent Reform Priorities" cover rule of law and judiciary, de-politicisation of public administration, electoral reform, recommendations of the committee of inquiry into the events of 24 December 2012 and media: freedom of expression.

The work of the Special Prosecutor's Office is an important contribution to the fight against high-level **corruption**. There are now several high level corruption cases before the courts. While a track record on corruption cases was created years ago, more efforts should be made on investigation, prosecution and conviction on such cases. Following consultation of the Venice Commission, the Law on the protection of whistle-blowers was adopted. Law enforcement authorities and relevant agencies should continue to tackle corruption, which would contribute to restore citizens' trust in one rule of law for all. *For more details, see chapter 23.*

Action was taken to end **lustration** in August 2015 and the new government has committed to annulling the measures taken against individuals who were lustrated.

Concerning **public administration reform**, there was good progress over the reporting period. The Public Administration Reform Strategy and Action Plan for 2018-2022 and the Public Financial Management Reform Programme 2018-2021 were both adopted. This increased commitment on public administration reform should contribute to strengthening the principle of merit-based recruitment and tackling the de-politicisation of public administration. Civil society and other stakeholders are increasingly being involved in the policy-making and legislative processes. Access to information, for the public as well as journalists, is improving, with a presumption of accessibility unless data is specifically classified. Government agendas and minutes are now published online. Amendments to the Law on administrative servants were adopted in January 2018. *See section 2.1.2. Public Administration Reform.*

Following the early parliamentary elections in December 2016, the Office for Democratic Institutions and Human Rights of the Organisation for Security and Cooperation in Europe (OSCE/ODIHR) concluded that, as a result of the "Pržino Agreement", significant improvements had been made to the **electoral legislation**, addressing most of the OSCE/ODIHR and Venice Commission recommendations. Confidence in the **voters' list** has also increased. Work should continue, well in advance of the next election cycle, to address the remaining recommendations from OSCE/ODIHR and Venice Commission. *See section 2 on Elections.*

Although overshadowed now by the more serious attack on Parliament on 27 April 2017, there was an earlier incident on **24 December 2012**. Work on the recommendations of the cross-party **Committee of Inquiry**, established with EU expert support, has restarted. *See section 2 on Parliament.*

The climate for **media freedom** and **freedom of expression** has improved, with more open political debate and critical media reporting. There has been a decrease in pressure on journalists. Reporting on both recent electoral campaigns has been more balanced, as acknowledged by the OSCE/ODIHR and other observers. Government advertising has ended. Further efforts are needed to improve the independence of the public broadcaster. It is essential that the authorities demonstrate zero tolerance towards all incidents of physical and verbal abuse or threats against journalists and that these are effectively followed up by the relevant authorities. There has been extensive stakeholder consultation on changes to media legislation. *For more details, see chapter 23.*

### 1.3. Summary of the report<sup>4</sup>

Concerning the **political criteria**, the country has finally overcome its most severe political crisis since 2001. The difficult process of government formation reached a critical point during the 27 April 2017 attacks in Parliament, which were condemned in the strongest terms by the international community. Since May 2017, the new reform-oriented government has taken steps to address state capture by gradually restoring checks and balances, strengthening democracy and rule of law. The country is undergoing fundamental changes in a more inclusive and open political atmosphere. The municipal elections in October 2017 confirmed the support of citizens for the EU-oriented policies of the government coalition. The Parliament has continued functioning with opposition parties chairing key committees. The Parliament needs to enhance its oversight and legislative functions, including by limiting the extensive use of shortened procedures.

While the inter-ethnic situation was fragile, the situation remained calm overall. The review of the implementation of the Ohrid Framework Agreement, which ended the 2001 conflict and provides the framework for the inter-ethnic relations, needs to be followed up in a transparent and inclusive manner. The government has shown commitment to increase trust among communities.

Civil society continued to play a constructive role in supporting democratic processes and ensuring greater checks and balances. Since the second half of 2017, the climate in which civil society organisations operate has improved and the government has shown commitment to dialogue and inclusion.

The country is moderately prepared with the reform of its **public administration**. Good progress has been made with the adoption of the public administration reform strategy and the public financial management reform programme. Concrete efforts have been made towards increasing transparency and accountability and involving external stakeholders in policy-making. The capacity of the Ministry of Information Society and Administration to drive and coordinate public administration reform needs to be improved. Strong political commitment to guarantee the professionalism of the public administration, especially on senior management appointments, and the respect for the principles of transparency, merit and equitable representation in line with the spirit and the letter of the law, remains essential.

The country's **judicial system** has reached some level of preparation and good progress was made, notably in the latter part of the reporting period. The backsliding of previous years has started to be reversed through decisive steps taken in recent months, notably to start restoring the independence of the judiciary. The country adopted a credible new judicial reform strategy which lays the basis for further reform in this field, and key pieces of legislation have been amended in line with recommendations of the Venice Commission and the "Urgent Reform Priorities". The Special Prosecutor's Office faces less obstruction from the courts, allowing it to work more effectively. To address outstanding recommendations and to ensure the judiciary can function without undue influence will require sustained efforts.

As regards the **fight against corruption**, the country has achieved some level of preparation. The legislative and institutional framework is in place, as well as a track record on both prevention and prosecution, although final court rulings on high level corruption cases remain limited. Corruption remains prevalent in many areas and continues to be a serious problem.

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<sup>4</sup> This report covers the period from October 2016 to February 2018. It is based on input from a variety of sources, including contributions from the government of the former Yugoslav Republic of Macedonia, the EU Member States, European Parliament reports and information from various international and non-governmental organisations.

The capacity of institutions to effectively tackle corruption has shown structural and operational deficiencies. Political interference remains a risk.

In the **fight against organised crime**, the country has reached some level of preparation. The legislative framework is broadly in line with European standards, and efforts to implement strategies must continue. The country has taken steps towards reforming the system of interception of communications and to address the related "Urgent Reform Priorities". More needs to be done to effectively fight certain forms of crime such as money laundering and financial crimes. Coordination among all relevant stakeholders is essential. A track record on investigations, prosecutions and convictions in the fight against organised crime needs to be improved. The number of convictions remains low.

The legal and institutional framework for protection of **fundamental rights** is largely in place and reforms have enhanced compliance with European human rights standards. Full implementation requires sustained efforts. It is positive that the country ratified the Convention on preventing and combating violence against women and domestic violence (also known as the Istanbul Convention), initiated the necessary legal reforms for establishing an external oversight mechanism of the law enforcement authorities and that the amendments to the framework for non-discrimination were prepared in an inclusive manner. The situation in prisons and psychiatric institutions must be addressed, cases of hate crime and hate speech must be followed up and bodies involved in protecting and promoting human rights must be strengthened. More efforts are needed as regards **Roma**<sup>5</sup> inclusion. As regards **freedom of expression**, the country has achieved some level of preparation and made good progress, notably through an improved climate for the media and decreased pressure on journalists. The country needs to address remaining challenges, including reform of the public broadcaster.

With regard to **regional cooperation**, the country maintained its good relations with other enlargement countries and participated actively in regional initiatives. Decisive steps have been taken to improve good neighbourly relations, including through the entry into force of the bilateral treaty with Bulgaria. The "name issue" needs to be resolved as a matter of urgency. Talks on the "name issue" have intensified under the auspices of the United Nations. Constructive discussions at Prime Ministerial and Foreign Minister levels positively assessed progress in the implementation of the confidence building measures. The joint announcement by the Prime Ministers of Greece and the former Yugoslav Republic of Macedonia in January 2018, involving the renaming of Skopje airport and a highway and proceeding with some delayed EU initiatives, were concrete signs of strengthening mutual trust.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia has made some progress and is at a good level of preparation in developing a functioning market economy. Despite the political stalemate in the first half of the year, noteworthy improvements took place, in particular in public finance management and transparency. Key weaknesses of the economy remain. These include shortcomings in the business environment, such as weak contract enforcement and a large informal economy. Structural problems of the labour market are reflected in low activity and high unemployment rates. The macroeconomic environment deteriorated in the first half of 2017, as the lengthy political crisis took a toll on investment. Fiscal policy is geared towards short-term measures and lacks a durable consolidation plan.

The economy has made some progress and is moderately prepared to cope with competitive pressures and market forces within the EU. Further progress was made towards diversification

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<sup>5</sup> All these groups are considered under the wider "Roma" umbrella term under the EU Framework for National Roma Integration Strategies.



of exports and higher-value added output in the manufacturing sector. Trade and investment relations with the EU continued to intensify. The economy still suffers from weaknesses in education curricula, low innovation rates and important investment gaps including in particular public infrastructure.

As regards its ability **to assume the obligations of membership**, the country is moderately prepared in most areas, including in the areas of competition, transport and energy. The country shows a good level of preparation in areas such as company law, customs union, trans-European networks and science and research. Further efforts are needed across the board, in particular in those few areas where the country is at an early stage of preparation, such as freedom of movement of workers. More focus is also needed on administrative capacity and effective implementation. The country has continued to improve its alignment with the EU declarations and Council decisions on Common Foreign and Security Policy.

The former Yugoslav Republic of Macedonia continued to manage the effects of the **migration and refugee crisis**. The country is in the process of negotiating with the European Union the status agreement on actions to be carried out by the European Border and Coast Guard Agency in the country. The former Yugoslav Republic of Macedonia has made efforts to improve its legal framework. Work on amending the Law on Foreigners is ongoing. The country continued to implement its Resolution on Migration Policy. The country maintained its efforts to improve its asylum system and migration management. Systematic registration of migrants and protective-sensitive profiling, to guarantee that those individuals' needs are addressed, is still needed. In this context, the former Yugoslav Republic of Macedonia needs to put in place a return mechanism for irregular migrants, which is in line with the EU *acquis*, as well as to align its visa policy progressively with the EU's. The country continued to cooperate with neighbouring countries and Member States, in particular at technical level, and made substantial efforts to provide shelter and humanitarian supplies, primarily with EU support.

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

### **2.1. Functioning of democratic institutions and Public Administration Reform**

The country has finally overcome its deep political crisis, which arose from the 2015 revelations of widespread illegal interception of communications (wiretaps). The political agreement (also called "Pržino Agreement") has been largely implemented and substantial progress has been made in the implementation of the "Urgent Reform Priorities".

#### *2.1.1. Democracy*

The period following early parliamentary elections in December 2016 ("Pržino Agreement") was marked by a tense atmosphere and negative rhetoric, mainly from senior officials of VMRO-DPMNE<sup>6</sup>, who criticised the State Election Commission and accused some civil society organisations and some representatives of the international community of interference. The transition of power was delayed by the refusal of President Ivanov to give the mandate to form a government to the leader of SDSM, who had the support of the majority in the Parliament, due to political and legalistic considerations. This delayed the election of the new President of the Parliament until 27 April 2017. His election triggered violent attacks in Parliament, which were strongly condemned by the international community.

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<sup>6</sup> *Internal Macedonian Revolutionary Organisation – Democratic Party for Macedonian National Unity*

The new government<sup>7</sup> was finally elected by Parliament on 31 May 2017. In July 2017, the European Commission sent again the independent Senior Experts' Group to assess progress in addressing its previous findings. The Group also formulated recommendations to enable the new government and other institutions to address persistent shortcomings in several rule of law areas. The new government has taken steps to address state capture, restore proper checks and balances, and consolidate democracy and rule of law. The country is undergoing changes in a more open political atmosphere. Efforts have been made to restore a culture of compromise by reaching out to all stakeholders, including the opposition, in an inclusive and transparent manner. The government has taken noticeable steps to advance the implementation of the "Urgent Reform Priorities", including through its "3-6-9 plan" for the initial phase of reforms. It has shown political will to bring the country firmly back on its EU path.

## Elections

Some progress has been made on addressing the recommendations of the Office for Democratic Institutions and Human Rights of the Organisation for Security and Cooperation in Europe (OSCE/ODIHR) and restoring citizens' trust in electoral processes ("Urgent Reform Priorities"). The State Election Commission (SEC) should be formed in a timely manner. It should be provided with the mandate and resources to carry out its work in an impartial, professional and transparent manner in view of increasing public confidence. The remaining recommendations of OSCE/ODIHR and Venice Commission should be addressed well ahead of the next election cycle. The Electoral Code would further benefit from a complete review, in an inclusive, transparent and timely manner, to ensure the coherence of the electoral legal framework. Despite growing confidence in the voters' list ("Urgent Reform Priority"), the state institutions and bodies, notably the Ministry of Interior and the State Election Commission, should ensure its sustainable updating. More efforts are needed to prevent and fully investigate any form of intimidation of voters.

**Early parliamentary elections** were held on 11 December 2016 following the decision reached by the political parties in July and August 2016 on the further implementation of the "Pržino Agreement". OSCE/ODIHR assessed that the elections were an important step in resolving the serious political crisis. Prior to the elections, the main political parties agreed to institutional and legal arrangements for providing a level playing field. Underlying issues (e.g. the updating of the voters' list and media coverage of the electoral campaign) need to be addressed in a more sustainable manner. The campaign was assessed as competitive, but it took place in an environment characterised by public mistrust in the political establishment and institutions and by allegations of voter intimidation. The work of the State Election Commission encountered some delays, but the election day was generally well administered and took place without major incidents. Voter turnout was high (66.8 %). VMRO-DPMNE, DUI<sup>8</sup> and DPA lost seats, whereas SDSM saw an increase as well as BESA and Alliance for Albanians.<sup>9</sup> Following the replacement of Members of Parliament (MPs) who became mayors or ministers, the number of women MPs rose to 45 (37.4 %), 3 more than in the previous Parliament. The ethnic representation of elected Members of Parliament largely reflects the ethnic composition of the population.

<sup>7</sup> The government coalition initially included SDSM, DUI and Alliance for Albanians – see section 2 on Governance.

<sup>8</sup> Democratic Union for Integration

<sup>9</sup> Results of the December elections - VMRO-DPMNE obtained 38.1% of the votes (51 seats in Parliament out of 120), SDSM 36.7% (49 seats), DUI 7.3% (10 seats), BESA 4.9% (5 seats), coalition Alliance for Albanians 3% (3 seats) and DPA 2.6% (2 seats).

Delays in the process of government formation led to the postponement of the **municipal elections** to 15 October 2017. The Electoral Code was amended accordingly. The mandate of the municipal councillors ended before these elections and those of the mayors were limited, which affected services provided by municipalities to citizens.

OSCE/ODIHR assessed that, despite some irregularities, both rounds of the municipal elections (15 October and 29 October)<sup>10</sup> were competitive, and the respect for fundamental freedoms contributed towards the conduct of democratic elections. Progress was made towards a more balanced media reporting compared to the previous elections. Efforts were made to facilitate the participation of people with disabilities in the elections, notably with the availability of braille ballots in many polling stations. There were cases of voting across ethnic lines. SDSM and DUI cooperated in some municipalities. For the second round, the Alliance for Albanians and BESA announced that they would support each other's candidates in some municipalities. Overall, the election days were well managed. SDSM saw an increase in support, DUI stabilised its votes, whereas VMRO-DMNE lost support in a large number of municipalities.<sup>11</sup> Six female mayors were elected (out of a total of 81). The number of women councillors remains however very low. Before the announcement of the results, the leadership of VMRO-DPMNE stated that the party will not recognise the elections due to perceived allegations of irregularities, some of which were not substantiated. Their mayors and councillors, however, did not return their mandates. In December 2017, all members of the State Election Commission, except the BESA representative, resigned following public criticisms and accusations of non-transparent and unethical behaviour.

## Parliament

The violence perpetrated in Parliament in April 2017 was an attack on democracy. The accountability for those who have orchestrated these incidents should be established. Security related issues in Parliament need to be addressed as a matter of urgency. Despite the challenges it has faced, the new Parliament has made efforts to gradually restore checks and balances on the executive power, to focus its activities on long overdue reforms, to enhance its oversight capacity and increase its transparency. Parliament has continued functioning with opposition parties chairing key committees. Its work has been marked by filibustering and occasional interruption of parliamentary activities by the main opposition party. Parliament still needs to improve its performance as a forum for constructive political dialogue and enhance its legislative function by limiting the extensive use of shortened legislative procedures. A credible track record on the functional oversight of the work of government and the intelligence services, as well as the capacity to monitor the protection of human rights and fundamental freedoms in the country should be improved. Any form of obstruction or abuse of procedures, which prevent Parliament from functioning properly, should be avoided. Political parties also need to enhance their internal democratic processes, which could lead to more democratic political processes in the country.

After summer 2017, Parliament has gradually restored its legislative and oversight functions, continued with appointments under its competences and maintained international contacts. The institution has shown resilience, despite the political events that hampered its work until the second half of 2017. The election of the President of the Parliament was delayed by the refusal of President Ivanov to recognise the existing parliamentary majority and the

<sup>10</sup> Mayors were elected in 2-round majoritarian contests and councillors under a 1-round proportional system.

<sup>11</sup> SDSM candidates for mayor won in 57 municipalities, DUI in 10, VMRO-DPMNE in 5, Alliance for Albanians in 3, BESA in 1, DPA in 1, Party of Turks (DPTM) in 1 and independent candidates in 3 municipalities. As a result of the complain process, a re-run was organised in one polling station, which did not alter the election results.

filibustering of VMRO-DPMNE in Parliament. The first ethnic Albanian President of the Parliament was elected on 27 April 2017. This triggered violent attacks by people demonstrating in front of the Parliament, who were allowed to enter the building by some Members of Parliament and physically assaulted politicians, including leaders of political parties, and journalists. The law enforcement authorities failed to prevent these attacks and provide adequate protection to the Parliament and its Members. Disciplinary procedures against police officers were launched of whom 11 were dismissed. 28 people were indicted by the Public Prosecutor's Office, including five VMRO-DPMNE MPs, whose immunity was lifted on 1 December 2017 (charges against a sixth suspected MP were dropped). VMRO-DPMNE criticised the actions of law enforcement authorities, in particular before the lifting of immunity. The Ombudsman raised the issue in his 2017 annual report. In reaction to these developments and the following court decisions, VMRO-DPMNE has suspended its parliamentary activities from December 2017 to April 2018. During this period, the party was engaged in the work of Parliament on certain occasions such as the President Ivanov's address, international visits and important legislation.

The work is well underway on establishing a **Code of Ethics** of the Parliament, which is a GRECO<sup>12</sup> requirement, and revising **the Rules of Procedures** involving all political parties. Work on the recommendations of the committee of inquiry into the events of 24 December 2012 ("Urgent Reform Priority") has restarted. The preparations are ongoing for the holding of the "Jean Monnet Dialogue", initiated by the European Parliament, aiming at strengthening the culture of compromise among the Members of the Parliament.

The **law making process** has been delayed, including by the filibustering of the main opposition party, which created 10 political groups. The opposition chairs 10 committees out of 21 and maintains a majority in 6 committees. While the number of laws adopted in shortened or urgent procedure has decreased from around 67 % in 2016 to 60 % in 2017, it remains still high.

Some progress was made by Parliament in holding the new executive accountable through regular weekly question and answer sessions. The opposition chairs the committees for Protection of Civil Freedoms and Rights, for supervising the work of the Security and Counterintelligence Bureau and the Intelligence Agency and for **oversight** of the interception of communications ("Pržino agreement") – *see Chapters 23 and 24*. Technical assistance by the Geneva-based Centre for Democratic Control of Armed Forces (DCAF) has been provided to the relevant committees to strengthen their expertise in the area of interception of communications. Parliamentary oversight over government spending could be improved, including by monitoring the budgetary impact of government proposals and making full use of the State Audit Office's external reports. All appointments under the responsibility of the Parliament need to be completed in a timely manner, in line with the law as well as the principles of transparency and meritocracy.

**Political parties** are cooperating on the implementation of the GRECO recommendations on transparency of party funding. Further efforts are needed to fully implement these recommendations. The legislation provides for a pluralistic political environment.

## Governance

Democratic governance has improved. The new government has taken steps to address state capture by gradually restoring proper checks and balances and increasing the transparency of its work. It has shown its political will to advance the EU reform agenda, in an inclusive and
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<sup>12</sup> The Group of States against Corruption – Council of Europe.

transparent manner. Independent, regulatory, supervisory and advisory bodies have begun to carry out their functions more effectively.

The inter-ethnic situation remained fragile. The situation continued to be calm overall, but occasional incidents and statements fuelled tensions. The new government has committed to addressing the challenges, improving the overall inter-ethnic situation and implementing the Ohrid Framework Agreement.

The new Macedonian government was elected by Parliament on 31 May 2017 and is composed of 5 Deputy Prime Ministers, 20 Ministers and 15 Deputy Ministers. Following the municipal elections, the Alliance for Albanians left the government. The total representation of women in the appointed functions and decision-making, management and governing bodies is 13 %, out of which 4 Ministers (16 %).

The new government has made significant progress in moving forward the EU reform agenda, including the "Urgent Reform Priorities", by reaching out to the opposition, civil society and other stakeholders. Its "3-6-9 plan" prioritises measures to be adopted in the initial phase of reforms, ahead of this enlargement package. Challenges remain for coordinating the reform processes.

Inter-ethnic relations remained fragile, but the situation continued to be calm overall. The joint declaration of ethnic Albanian parties created controversies. The new government continued to pursue good relations among communities. The Ohrid Framework Agreement (OFA), which ended the 2001 conflict, provides the framework for preserving the multi-ethnic character of society. The review on social cohesion of the OFA, completed in 2015 with international support, needs to be followed up. Ethnic Albanian political parties consider the law on the use of languages as an important legislative element contributing to the implementation of OFA. Following the refusal of President Ivanov to sign the decree for its promulgation, this law was adopted again by Parliament in March 2018, amid tense scenes.

Decentralisation has been a commitment since the OFA was signed in 2001. A dialogue between authorities to address lack of funding and lack of local public delivery of services has been strengthened, including a 6.4% increase in the 2018 budget transfer to municipalities. The government adopted an Action Plan for decentralisation and regional development 2018-2020. The funds dedicated for regional development have further increased.

## **Civil society**

The environment in which civil society operates has substantially improved under the new government. Good progress has been made in consulting civil society organisations (CSOs) and involving them in policy making and legislative processes. Both governmental and non-governmental actors should ensure that safeguards are in place to restore proper checks and balances. An improved legal, financial and policy framework is still needed to provide an enabling environment for civil society.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by state institutions. The difficult environment and the climate of fear in which CSOs operated culminated in December 2016 with calls for the process of "de-Sorosisation" of society by the former leader of VMRO-DPMNE. At that time, civil society became increasingly polarised. Some civil society organisations reported increased pressure, inspections and investigations by law enforcement agencies between December 2016 and in 2017.

Since the formation of the new government, the involvement of civil society in dialogue,

policy development as well as legislative drafting has increased and the transparency of the process has improved. The progress made should be translated into more structured, comprehensive and predictable consultative process, involving all stakeholders. CSOs have also played an important role in identifying the priorities of the "3-6-9 plan". Some civil society activists took up posts in the new government.

In November 2017, the Decision for establishing the Council for cooperation between government and civil society was amended through inclusive consultations, as one of the main objectives of 2012-2017 Strategy for cooperation with civil society. This included cancelling the previous selection of Council members from civil society and launching a new public call with a view to a more transparent selection.

The state needs to strengthen the enabling environment for civil society with relevant legal, financial, policy and administrative frameworks. The 2012-2017 Strategy for cooperation with civil society was partially implemented. As of 2018 onwards, the government needs to build a long term strategic framework for cooperation with civil society as well as binding rules for state financing of CSOs.

### 2.1.2. *Public Administration Reform*

The country is **moderately prepared** with the reform of its public administration. There was **good progress** over the reporting period as some of the European Commission's 2016 recommendations were implemented. The public administration reform strategy and the public financial management reform programme were both adopted. Concrete efforts were also made to increase transparency, accountability and the involvement of external stakeholders in policy-making. The capacity of the Ministry of Information Society and Administration to drive and coordinate public administration reform needs to be improved. In summer 2017, the government dismissed or ended the mandates of all public board members and top managers in 85 public institutions on the grounds of obstructing the transfer of power and taking procurement decisions which potentially damaged the budget. The appointment of new managers of those institutions with a full mandate began in January 2018. Strong political commitment to guarantee professionalism of the public administration, especially on senior management appointments, and the respect for the principles of transparency, merit and equitable representation remains essential.

In the coming year, the country should in particular:

- ensure full respect of merit-based recruitment for public service positions;
- avoid the use of excessive temporary, service or other types of recruitments that bypass the merit principle and use instead open competitions for all recruitments;
- start to implement the public administration reform strategy and the public financial management reform programme, and ensure a coordinated monitoring and reporting system, which systematically engages with external stakeholders;
- provide extensive training to central and local government administrations and raise public awareness to ensure implementation of the Law on General Administrative Procedures.

### Policy development and coordination

The political will to embark on EU-related reforms has been restored by the new government ("Pržino Agreement" and "Urgent Reform Priorities"). The legal framework and institutional structures for a coherent **policy-making system** are in place. This policy-making system is sufficiently developed to manage the process of EU integration. However, policy implementation suffers from lack of proper coordination among the key institutions. Both policy planning and central coordination need to be improved. There are no minimum

requirements or guidance for sector planning by ministries. As a result, sector planning remains weak, as also demonstrated by incomplete and only on paper financial planning. The quality of the European integration coordination system for both policy measures and assistance implementation remained low.

Data gathering and data quality continue to be a major shortcoming. This shortcoming hampers proper **evidence-based policy and the drafting of laws**. Also, the government has made extensive use of shortened legislative procedures, which limit the quality of draft laws. While the response time for public consultations on policies and legislation was increased from 10 days to 20 days, no institution is responsible for the quality control of the public consultation process. This is a critical weakness. The obligatory inter-ministerial consultations have remained a formality, as there is no minimum duration requirement. Also, institutions do not need to prepare any overview of comments received during consultation. Regulatory impact assessments are well regulated, their use has slightly increased and their quality has started to improve. Financial impact assessments for some laws are either missing or they are not comprehensive. There is still a problem of institutions either not responding to impact-assessment comments or being unwilling to incorporate feedback from the impact assessments.

**Public scrutiny over government work** has improved in the second part of 2017, as the government publishes the agendas and the minutes from its meetings. The number of published government reports and documents has increased. However, these reports still focus more on quantitative outputs than on qualitative assessment of achieved policy objectives.

#### Public financial management

The **public financial management reform programme** was adopted in December 2017, following a government-led inclusive policy dialogue. The programme identified several areas where improvements are needed. These areas include strengthening the fiscal framework, revenue mobilisation and budget planning. Other goals identified by the programmes include establishing an integrated financial IT system, improving the efficiency and effectiveness of public investment and public procurement systems, reducing the amount of payment arrears and strengthening public internal control, and improving external oversight and fiscal transparency. Preparations for a medium-term budgetary framework are advanced.

Under the previous government, the 2017-2018 fiscal strategy and the 2017 budget did not undergo sufficient parliamentary debate. However, the new government improved significantly the communication on its draft budget for 2018. **Budget transparency** under the new government also improved with the publication of a citizens' budget (providing simple word explanation on what budgetary resources are spent on) and publication of more budgetary data.

#### Public service and human resources management

The 2015 Law on Administrative Servants is not systematically applied to ensure **merit-based recruitment and promotion** of civil servants. There are even some laws, for example the Law on Internal Affairs, which have been adopted after the Law on Administrative Servants that allow employees to be excluded from the application of the Law on Administrative Servants. This results in inconsistent rules for public-sector employees and should be remedied.

The recent amendments to the 2015 Law on Administrative Servants have led to some changes in merit-based recruitment and promotion procedures. Psychological and integrity tests are no longer required for employment in the public service. Also, the amendments have

introduced a "fast track" possibility for an administrative servant to be rapidly promoted and move up several grades on the career ladder at once, which might be problematic in terms of increased subjectivity and lack of transparency. Middle management positions were re-introduced in many ministries, hence a number of these positions were filled with internal transfers following this amendment. There is no clarity on the extent of the use of temporary, service or other types of recruitments in the public administration which raises concerns over the application of the merit principle. The government has not provided statistics on all recruited administrative servants and temporary and service contracts since 1 January 2017.

The representation of women has increased in the public service, including at middle and senior management level (54 %). Figures on equitable representation remained largely unchanged, but are not balanced across the public sector. The lack of gender balance is especially visible in institutions where the head of the institution is from the biggest non-majority community. Smaller communities of ethnic minorities are still underrepresented in the public service. There is a long-standing situation where a large number of state employees is paid without showing up for work. Fair representation of men, women and ethnic groups should be applied across the public sector.

The criteria for appointment of senior management positions are not clearly regulated. A large number of **dismissals** and appointments of new managers followed both the parliamentary and the local elections. The grounds for dismissal need to be made more transparent and be better substantiated. In addition, the appointments of top managerial positions and other high-ranking public officials need to be done in open competition. Government and senior officials need to lead by example and prevent any recruitment that is not based on merit.

The Ministry of Information Society and Administration, as a central coordination body, does not have sufficient capacity and leverage to support and monitor the **management of human resources** across the public administration. The human resources information system does not work properly. This is due to a lack of commitment by employees in the human resource services to fill in the requested data. The report on employees in the public sector (one of the "Urgent Reform Priorities") published in March 2017 provided more analysis on public employments, but lacked data and clarity on temporary, service and other types of recruitments. The **remuneration system** across the public sector remained non-uniform, leading to inconsistent levels of pay and reduced mobility.

**Professional development** of public servants is limited to classroom type of training. A centralised database of the training offered by various institutions is not yet established. The amended legislation on appraisals does not impose any requirements on the minimal percentages of staff that will be awarded for excellent appraisals or penalised for poor appraisals. **Integrity in the public** service is sufficiently regulated, but there is no data available on how integrity mechanisms are implemented in practice.

#### Accountability of the administration

Organisation of the state administration is fragmented. This is because the Law on the Organisation and Operation of State Administrative Bodies does not provide a clear distinction between different types of institutions. The **lines of accountability** between and within institutions are not clear. Managerial accountability within institutions is not systematically implemented and there is little delegation of responsibility to middle management. Numerous agencies are directly subordinate to the Parliament. Some state institutions continue to report in parallel both to their "line" ministry (the ministry responsible for their activities) and government. At present, 67 state institutions (out of a total of 1 291 institutions) mainly at local level, operate with less than five employees. As part of the new public administration reform strategy, the government should prepare and implement a review



to assess the effectiveness of the organisation of the Macedonian public administration. (See Chapter 32 — *Financial control*)

The internal and external oversight mechanisms ensuring **citizens' right to good administration** are in place, but their quality and impact needs to improve. The Ombudsman continued to work efficiently, but the first attempt in the Parliament to ensure systemic follow-up to his repeated recommendations did not obtain the necessary votes and it was only passed on the second attempt ("Urgent Reform Priority").

**Citizens' right to access public information** is safeguarded in legislation, but broad exceptions hamper efficient implementation of this right. The government declassified and published several documents and agreements signed with foreign investors. This declassification and publication had been one of the European Commission's "Urgent Reform Priorities". Fees charged to the public to receive public information were also decreased, and public information provided electronically is now free of charge. Although there has been a slight drop in the volume and quality of information published by local government, each ministry and other state institutions are now required to more proactively publish standard sets of information. The Commission that reviews appeals does not have sufficient capacity to monitor compliance with the requirement for proactive disclosure of information. It must be given the power to impose penalties and to encourage public information providers to systematically enforce the relevant legislation.

On the **right to administrative justice**, the appeals procedure is still complex and lengthy, comprising several appeal layers. There are still delays in enforcing Administrative Court rulings. There is a **right to seek compensation** and public authorities are liable in cases of wrongdoing. However, there is no data available on compensation for damages.

#### Service delivery to citizens and businesses

**User-oriented administration** has not been developed in the past few years. This is mainly due to a lack of coordinated efforts and political commitment for government-wide reforms. The interoperability framework functions with only a few state institutions. There has been more focus on digitalisation of services for businesses than for the public. Very few services are provided to the public through the country's e-government portal. Equal access to public services is not in place. Some quality management tools are being implemented, but user satisfaction surveys are not systematically used to ensure that services respond to user needs.

The Law on General Administrative Procedures, which entered into force in August 2016, has aimed to **simplify administrative procedures**. However, it is not systematically applied by the administration, even though considerable efforts were made to harmonise 169 special laws with the law. The Ministry of Information Society and Administration has so far not provided systematic training or organised public awareness campaigns to inform people of their rights and obligations.

#### Strategic framework for public administration reform

A comprehensive 2018-2022 **public administration reform** strategy and a sequenced **action plan** to implement this strategy were adopted in February 2018 after an inclusive consultation process. The strategy sufficiently addresses all core areas of public administration, including de-politicisation and professionalisation of the public administration. The government should now focus on implementing the strategy. A key concern is the capacity of the Ministry of Information Society and Administration to efficiently coordinate and monitor implementation of the strategy with other state institutions affected by the strategy. The government established a high-level Public Administration Reform Council in December 2017 to ensure **political support** and strategic guidance for the reforms. Strong political commitment from

the highest political leadership is necessary to ensure full understanding and enforcement of the reform priorities. The reform also needs to be made more **financially sustainable**, as the costing of the strategy is not reflected in the 2018 annual budget and the medium-term expenditure framework. Implementation of the reform strategy relies heavily on external donor funding.

## 2.2. Rule of law and fundamental rights

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

*The EU's founding values include the rule of law and respect for human rights. A proper functioning judicial system and an effective fight against corruption are of paramount importance, as is the respect for fundamental rights in law and in practice.*

The country has **some level of preparation** to apply the *acquis* and European standards in this area. The new government has shown political will to address the "Urgent Reform Priorities", recommendations of the Venice Commission and the Senior Experts' Group on systemic Rule of Law issues. This led to **good progress** in addressing the recommendations of 2016, through the adoption of strategic documents and amendments to the legal framework, particularly in the area of judiciary, to address police impunity and improve the climate for freedom of expression and the media. The obstruction faced by the Special Prosecutor's Office (SPO) has diminished following the change in political environment and the dismissal of the former State Public Prosecutor. This enabled the office to successfully file several indictments and have a first judgement handed down in one of its cases. Beyond the SPO, other relevant institutions need to demonstrate a much more proactive attitude to effectively fight corruption. Fundamental rights continue to be largely enshrined in law, but as in all other areas, implementation will require sustained commitment to reforms. Competent independent and regulatory bodies need to be further strengthened, with adequate budget and skilled staff. The functional independence of these bodies must be guaranteed in practice.

In the coming year, the country should in particular:

→ adopt and implement measures envisaged in the judicial reform strategy, including by reforming the systems for appointment, promotion, discipline and dismissal of judges and prosecutors, and demonstrating that the independence of the judicial system is respected and promoted at all levels;

→ adopt and implement measures to strengthen the institutions in charge of preventing and fighting corruption and encourage, from the highest political level, a more proactive attitude on the part of all actors engaged in this area;

→ take concrete steps to improve the situation in prisons and other places of detention and take measures to promote an enabling environment for freedom of expression to foster professionalism and accurate reporting, including through strengthened independence of the public broadcaster.

### Functioning of the judiciary

The country's judicial system has **some level of preparation**. There has been **good progress** in this area, with a notable improvement in the latter part of the reporting period. The backsliding of previous years has started to be reversed through decisive steps taken in recent months to start restoring the independence of the judiciary. The most notable progress was the adoption of a credible new judicial reform strategy and action plan and the amendment of certain key pieces of legislation in line with the recommendations of the Venice Commission and the "Urgent Reform Priorities". There was also an improvement in the work of courts and in the follow-up to the work of the Special Prosecutor's Office. In general, sustained efforts

are needed to fully implement the strategy and address outstanding recommendations so that the judiciary can function free of undue external and internal influence. Implementing the planned reforms will take time and require a change in behaviour. A sustainable solution must be adopted to ensure legal accountability for criminal offences surrounding and arising from the content of the wiretaps. The country has fulfilled the recommendations from 2016 regarding the Special Prosecutor, reform of the discipline and dismissal system for judges and the justice reform strategy. The strategy itself foresees measures to address outstanding recommendations.

In the coming year, the country should in particular:

→ adopt and implement measures included in the judicial reform strategy on appointment and promotion systems in the judiciary, and shield the judiciary from political interference;

→ adopt and implement reforms to the Judicial Council and Council of Public Prosecutors, ensuring that they fulfil their respective roles in protecting the independence of judges and prosecutors;

→ ensure that all reforms, notably those concerning institutions, are based on robust analyses of gaps and needs, that they are properly planned, sequenced, budgeted and follow an inclusive process of consultation with all relevant stakeholders.

### Strategic documents

The government adopted a **strategy for judicial reform** (2017-2022) and related action plan in November 2017, following consultations that included outreach across party lines. The strategy's measures aim, in particular, to address the "Urgent Reform Priorities" and pending recommendations by the Venice Commission and the Senior Experts' Group on systemic Rule of Law issues. The process of amending key pieces of legislation, as envisaged by the strategy, is underway. Compliance with outstanding Venice Commission recommendations is expected to increase with further changes to the Law on Courts and to the Law on the Judicial Council envisaged in the judicial reform strategy. Timely allocation of financial resources is key for the successful implementation of all reforms.

### Management bodies

The judicial reform strategy envisages reform of the management bodies to address their structural shortcomings, including as regards the professionalism and independence of their members. There was strong criticism of the work of the **Judicial Council** in the 2017 report of the Senior Experts' Group on systemic Rule of Law issues. The group recommended a review of the role and accountability of the Judicial Council, covering its composition, introduction of a non-renewable mandate and whether it should remain a full-time body. Changes in this vein, to be applied to the Judicial Council and the Council of Public Prosecutors, are included in the judicial reform strategy.

The **Council of Public Prosecutors** remains underfunded and under-staffed and it lacks both appropriate IT support and a website. The State Public Prosecutor exercises a hierarchical role over the prosecutorial system and his powers undermine the independence of the Council of Public Prosecutors. The role and nomination procedure of the State Public Prosecutor will, in due time, need to be revised to bring them into line with European standards. It is essential that both councils do not wait for the outcome of legislative reforms to address criticisms and show independence and a pro-active approach to improve their performance.

### Independence and impartiality

A positive step towards restoring separation of powers was taken with the Constitutional Court's decision in November 2017 to revoke the law on determining the level of sentences which interfered with the independence of the judiciary. However, further efforts are needed to reverse the effects of the past period and guarantee the full independence of the judiciary in practice. The risks of political interference in the judiciary persist. It is particularly crucial that the Judicial Council effectively fulfils its mandate to protect judges' independence and shield them from undue external and internal pressure.

The judicial reform strategy envisages to increase specialisation of judges and to limit the possibility of reassigning judges to different departments within courts, a practice that has been frequently used in Skopje Basic Court I and in the Supreme Court. The Association of Judges took an active role in preparing the reforms and was vocal in advocating for the independence of judges. The practice of **selective justice** in certain politically sensitive cases, which also saw some judges avoiding such cases due to the pressure they might come under, has declined in recent months.

The **Special Prosecutor's Office (SPO)** continued its work and filed several indictments and the first judgement on a case brought by the SPO was handed down in November 2017. Up to a certain period, the SPO continued to face resistance from criminal courts when it came to granting precautionary measures and admitting wiretaps as evidence. However, this changed in recent months, with the court approving all indictments but two. The Court of Appeal in Skopje accepted the admissibility of wiretaps as evidence.

For the first time, the Ministry of Justice took the initiative to carry out an inspection of the application of the **automated court case management information system (ACCMIS)**. This was a result of concerns expressed, *inter alia* by the Senior Experts' Group on systemic Rule of Law issues, and indications that the random assignment of cases was not systematically used. This inspection was carried out in Basic Court Skopje I, the Skopje Court of Appeal and the Supreme Court. The resulting report was sent to the Judicial Council and the Public Prosecutor's Office for further processing. The inspection needs to be rolled out and the envisaged audit conducted on a regular basis. Swift appropriate legal action needs to be taken should any manipulation of the system be proven.

#### Accountability

The duty of the Judicial Council is to protect the independence of the judiciary as a whole by performing functions such as appointments, evaluations and disciplinary proceedings in accordance with the law. Currently, its members cannot be held to account by any institution should they fail to perform these duties responsibly. The curriculum of the Academy for Training of Judges and Prosecutors includes courses on ethics and deontology. A new **Council on Judicial Ethics** was established in January 2018. Monitoring of compliance with the codes of ethics for judges and prosecutors needs sustained attention. In 2017, the Academy of Judges and Prosecutors organised 5 training sessions on ethics, ethical behaviour, preventing conflicts of interests and anti-corruption measures for presidents of the courts, public prosecutors, judges, and judicial officers and prosecution expert associates.

The Council for Determining Facts was abolished in January 2018 and the Law on Judicial Council amended to restore the Judicial Council's responsibilities over discipline and dismissal of judges, in line with the 2015 Venice Commission opinion. Following these changes, it will be essential to build up a track record of impartial decisions on breaches of integrity rules and disciplinary cases free from political considerations. The Judicial Council lifted the immunity of five judges from the Administrative Court implicated in cases of the Special Prosecutor's Office for their alleged involvement in irregularities during 2013 local elections. Out of 4 dismissal procedures initiated in 2017, one decision for dismissal was

handed down but is not final yet, one was stopped and two are underway. A new State Public Prosecutor was appointed in December 2017 following the Parliament's dismissal of the previous office holder for inapt performance of duty in August 2017. Public awareness of existing complaint mechanisms should be further raised.

### Professionalism and competence

Measures to change the system of appointment, promotion and professional evaluation, in line with the "Urgent Reform Priorities" and recommendations of the Venice Commission, are included in the new judicial reform strategy.

The Judicial Council decides upon the **appointments and promotion** of judges and public prosecutors are elected by the Council of Public Prosecutors. In 2017, the Judicial Council appointed 5 judges and filled long-standing vacancies for 10 presidents of courts. There have been shortcomings in respect for transparency, procedures and the qualification of candidates in the appointment of some presidents of courts. Meritocracy was not always preserved in the election of judges and public prosecutors. The Council of Public Prosecutors appointed 4 prosecutors and provided its opinion on the merits of 23 candidates for the new State Public Prosecutor. The judicial reform strategy plans to amend the system for appointment of first-time judges upon graduation from the Academy in line with recommendations of the Senior Experts' Group on systemic Rule of Law issues. It should also remedy the absence of a procedure for the establishment of merit-based criteria or for objective assessment of the quality of candidates. The amendments to the Law on the Judicial Council enacted in December 2017 introduce reasoning in the process of election of candidates to the judicial position. It also introduces the possibility for appeals to be lodged to the Supreme Court.

The changes envisaged by the judicial strategy are expected to introduce qualitative criteria in the system of **professional evaluation**. Up until now this system remains largely based on quantitative criteria.

The Academy for Judges and Prosecutors organised a total of 201 in-service **training** sessions.

### Quality of justice

As recommended by the Senior Experts' Group on systemic Rule of Law issues, the **Academy for Judges and Prosecutors** remains the sole point of entry to the judicial profession. Following allegations of forged language proficiency certificates, procedures for the enrolment of 60 candidate prosecutors under reduced merit requirements were delayed and finally cancelled after expiry of the timeframe. The country is an observer in the European Judicial Training Network.

The Supreme Court continued its efforts to improve the consistency of judgements. The Supreme Court and Judicial Council, who have the responsibility for reviewing the quarterly and annual reports of the courts, need to be more proactive in following up the systemic challenges identified, in particular with regard to court budgets and human resources management.

An IT strategy for the justice sector was adopted in February 2018. The IT situation in public prosecutors' offices continued to improve. However, the **IT** system in courts remains largely donor funded, in constant need of renewal and its maintenance is hampered by lack of funds and staff.

A new portal for **online access to jurisprudence** aimed to improve transparency and "searchability", with a view to addressing one of the "Urgent Reform Priorities". However, the information uploaded onto this database differs depending on the court and its

consistency, including as regards statistical data available, needs improvement. No further progress was made in improving the reasoning of court judgments. Although the "Urgent Reform Priorities" encouraged secondment to the European Court of Human Rights, none has taken place. It is still the case that parties in disputes rarely resort to **alternative dispute resolution**, on which more awareness raising and promotion is required.

### Efficiency

Almost all courts have maintained a **clearance rate** of 100 % or higher and **backlogs** have not been an issue for several years. Problems with the **overall length of court proceedings** now only concern a limited number of cases under the old procedural rules.

Provisions of the Law on the **Special Prosecutor's Office** set a deadline of June 2017 for the SPO to file indictments on the basis of the wiretap material it received in December 2015. While most of its investigations resulted in indictments before the expiry of the deadline, there remains a lack of clarity over its current competencies over the wiretap material. The SPO has continued its analysis of the material and continued to initiate new investigations. A legal solution must be found to ensure legal accountability for criminal offences surrounding and arising from the content of the wiretaps. This requires amending legislation to ensure that the work undertaken by the SPO can be pursued.

As reported by the country, the 2017 **budgets** for courts stand at EUR 14.9 per capita and EUR 3.51 per capita for prosecution offices. These funding levels remain significantly lower than the per capita European average. The country reports that it has 27 judges and 8 prosecutors per 100 000 inhabitants, compared to the 2014 European average of 21 judges and 11 prosecutors per 100 000 inhabitants (as reported by the European Commission for the Efficiency of Justice).

Efficiency and appropriate allocation of resources is required for the proper implementation of the new judicial reform strategy. The preliminary work to develop a comprehensive human resources management strategy is being initiated with substantial delay. Following the criticism over the last amendments to the Laws on Notaries and Bailiffs, further changes are planned. The implementation of the new Law on Misdemeanours reduced the number of proceedings before the court.

### **Fight against corruption**

The country has **some level of preparation**. The legislative and institutional framework is in place and there is a track record on both prevention and prosecution. However final court rulings on high level corruption cases remain limited. There is **some progress** on last year's recommendations. There are several high level corruption cases before the courts and the fact that the Special Prosecutor's Office is being allowed to pursue its role could be a turning point in the fight against high level corruption under certain conditions. The amendments to the Law on the protection of whistle-blowers are also a positive step. Corruption is prevalent in many sectors and remains a serious problem. The capacity of state institutions to effectively tackle corruption has shown structural and operational shortcomings. It is necessary to reform the general institutional framework so the State Commission for Prevention of Corruption has clear powers and sufficient resources and can work in full independence. It is essential that the Public Prosecutor's Office against Organised Crime and Corruption genuinely and systematically conducts investigations. It is also essential that the Special Prosecutor's Office is empowered to continue its work. The mandate and interaction framework for all State institutions have to be precisely set out.

In the coming year, the country should in particular:

- reaffirm its political will to fight corruption by providing institutions active in the prevention and repression of corruption with the necessary autonomy, resources and specialised staff hired on the basis of merit;
- further improve its track record on investigations, indictments and final convictions in high level corruption cases, including through financial investigations in line with Financial Action Task Force on money laundering standards and the seizure and confiscation of criminal assets;
- take all necessary measures to integrate the Special Prosecutor Office within the prosecutorial system on a permanent basis to complete the establishment of the legal accountability of the wiretaps.

### Track record

While a track record on corruption cases was created years ago, there has been weak investigation, prosecution or convictions for high-level and political corruption. Until December 2017, 6 investigations had been opened by the Public Prosecutor's Office against Organised Crime and Corruption against officials. Five of these cases were for abuse of official position and authorisation, and one case was for accepting a reward for unlawful influence for which an indictment was issued. Since its establishment in September 2015 as per the "Pržino Agreement", the Special Prosecutor's Office has opened 26 investigations, and indictments were confirmed in 17 cases. On 8 November 2017, a sentence of one and half years' imprisonment was pronounced in one case against one defendant. It has been a challenge for the State Commission for Prevention of Corruption (SCPC) to play a leading role in preventing and fighting corruption, considering criticism about its lack of independence, and its weak mandate and powers. The SCPC was active during the election period by providing interpretations of legal issues. In March 2018, five out of seven members of the SCPC, including its President, resigned following public reactions to the findings of the State Audit Office on alleged financial irregularities. The Public Prosecutor's Office (PPO) is investigating the case.

On **conflict of interests** and verification of assets, figures indicate a slight renewed activity from the SCPC. Apart from systematic verification of statements of interest received from newly elected and appointed officials, the SCPC made regular verifications of 459 statements of interest sent by various categories of public officials between January and November 2017 (against 627 in 2016) and a conflict of interest was established in 67 cases so far (17 cases are still pending final conclusions). A misdemeanour procedure was initiated against 1 official, resulting in a public warning. The procedure for determining the existence of a conflict of interest was launched in 149 cases, 62 upon SCPC initiative (41 in 2016) while the rest was upon requests submitted by officials, their superior or anonymous complainants. A total of 77 cases were closed. In one case the initiative to remove the official from office was launched.

The SCPC initiated 4 proceedings for disciplinary proceedings (only 1 in 2016). On **verification of assets**, the number of requests sent to the Public Revenue Office to check assets discrepancies has slightly increased (20 in 2017 including 18 from the SCPC against 15 in 2016). There are an increasing number of requests by SCPC to the Public Prosecutor's Office to launch misdemeanour proceedings for failure to declare assets (48 in 2017 against 26 in 2016). Between December 2016 and February 2018, 116 criminal proceedings for corruption related offenses were initiated by various institutions such as Ministry of the Interior, financial police or basic public prosecution office. There are no initiatives by the SCPC. The SCPC played a minor role in monitoring election campaign financing together

with the State Audit Office, the State Election Commission, the Public Revenue Office and law enforcement bodies.

Internal measures are implemented in state institutions to prevent and fight corruption. The Anti-Corruption Programme of the Ministry of the Interior for 2018 was adopted together with an action plan for the implementation of the said programme. It sets up the values, policies and procedures to be applied for detection of corruption in the Ministry of the Interior, and their sanctions. In the course of 2017, the Department for Internal Control, Criminal Investigations and Professional Standards started 15 individual disciplinary procedures (7 in 2016) including request for removal from office against 7 employees. The Unit also initiated criminal proceedings on 13 corruption-related charges against those (8 criminal charges against 8 employees in 2016). The charges were dropped in one case, fines were pronounced against 6, the remaining proceedings are not completed yet. A decision to establish an external oversight mechanism of the Ministry of the Interior was taken.

### Institutional framework

#### *Prevention measures*

It is still a challenge for the SCPC to implement a meaningful policy of corruption prevention. Without investigative powers, the SCPC is limited to the administrative verification of data on conflicts of interest and assets. Nevertheless, the SCPC could refer the cases to the Public Prosecutor's Office for further investigation. To facilitate the control of assets and statements of interest, the SCPC may also use the electronic register of elected and appointed officials which finally became operational this year. Establishing a central register of such officials was an "Urgent Reform Priority" but for those who failed to submit statements of conflict of interest or declaration of assets, the verification procedures and the system of penalties is still fragmented and inefficient.

The State Programme for prevention and repression of corruption and prevention and reduction of conflict of interest 2016-2019 and the relevant action plan are being implemented albeit hampered by lack of funding.

Efforts are currently underway to improve the transparency and accountability of public institutions and state enterprises and public expenditure through the Public Finance Management dialogue. They should be complemented by an effective and timely control mechanism of public procurement, concessions, public-private partnerships and execution of public contracts. This mechanism should include an administrative penalty system. The State Audit Office's IT infrastructure has been improved but it is still not interconnected with other relevant institutions. In addition, the roles of relevant institutions need to be clarified to enable control of political party donors and assets received and owned by political parties. The track record on control of party and campaign financing remains almost unchanged. Existing penalties under the Law on the prevention of corruption and the electoral code need to be applied in a more systematic and visible manner.

Access to public information improved during the reporting period. The National Commission for the protection of the right to free access to public information stated in its annual report that the number of complaints increased to 758 in 2017 (960 in 2015, 619 in 2016). The authorities began to disclose information in areas such as budget expenditure, procurement, the operation of law enforcement authorities and the judiciary. But the National Commission for the protection of the right to free access to public information is still criticised for its lack of functional independence.

#### *Law enforcement*

As regards law enforcement, specialisation exists within the Ministry of the Interior by the



department for serious and organised crimes. Reforms are undertaken to strengthen the efficiency of the unit for the fight against corruption. A specialised Public Prosecutor Office against organised crime and corruption exists within the Basic Public Prosecutor's Office. Discussions have begun on how best to integrate the Special Prosecutor's Office (established in 2015 to investigate the illegal wiretaps and their content) into the Basic Public Prosecutor's Office against organised crime and corruption, to strengthen the fight against corruption.

The SCPC's activities increasingly focus on training sessions on anti-corruption and conflicts of interest. These training sessions are given to civil servants of different departments, judges, public prosecutors and court administrators. The SCPC has continued to introduce anticorruption content to all levels of education.

In cases of repression, it is very often the police who refer the cases to the Public Prosecutor who then leads investigations. But the leading role of the Public Prosecutor needs to be strengthened in a systemic manner through the establishment of investigative centres, as required by the Law on Criminal Procedure. The Public Prosecutor's Office must also be more pro-active in pursuing cases referred by the SCPC, the State Audit Office and other institutions. The electronic case management system at the Public Prosecutor's Office is in place but must become more efficient. Law enforcement authorities have a credible track record of investigation, prosecutions and convictions against officials, but it is limited or protracted when addressing cases involving senior officials. Investigations of corruption in public procurement and concessions are becoming more frequent due to the SPO's activities. Financial investigations and asset confiscation are rarely used in investigations. The powers and resources of the police, the Public Prosecutor's Office, the courts and the Agency for Management of Confiscated Property need to be strengthened to allow seizure and confiscation of criminal assets, including in the early stages of criminal investigations.

However, there is a noticeable change due to the commitment and work conducted by the Special Prosecutor's Office. Positive steps have been taken already after the courts significantly changed their approach following the political change and started cooperating more systematically with the SPO. In one case, the court issued the first verdict against 7 defendants including one prison sentence. During the reporting period, 17 indictments raised by the SPO were confirmed by the courts and proceedings are ongoing. There are discussions to include the SPO within the Basic Public Prosecutor Office against Corruption and Organised Crime, which will enshrine these changes in practice, thus strengthening the fight against white collar crime.

In the customs administration, control mechanisms have been strengthened: procedures for corruption risk assessment were improved; new methods to report cases of unprofessional and corrupt behaviour have been introduced; new sets of internal rules including a code of conduct were adopted and anti-corruption training sessions were conducted. The customs administration carried out 74 internal investigations. As a result of 16 disciplinary procedures in the reporting period, one customs officer was dismissed for corruption-related violations. No criminal charges for corruption were brought against customs officers. The customs administration still needs to acquire the technical equipment so that it can independently carry out anti-corruption special investigative measures.

### Legal framework

The legal framework for the **fight against corruption** is broadly in place. The Criminal Code penalises a wide range of corruption-related offences. To strengthen its effectiveness, it is necessary to clearly lay down the respective control and investigative powers and responsibilities of the State Audit Office, the SCPC, the State Election Commission and law enforcement agencies.

Financing of political parties and campaigns is regulated mainly by the 2004 Law on the Financing of Political Parties and the 2006 Electoral Code. The 2015 amendments to the Electoral Code were not sufficient to address all legal shortcomings. Party financing from the state budget has been suspended in a handful of cases since 2014 but this did not have the expected deterrent effect. Amendments must still be made to the Electoral Code on election campaign financing and on political parties to address previous OSCE/ODIHR and GRECO recommendations.

The recent amendments to the Law on the protection of whistle-blowers, enacted in 2018 in line with the recommendations of the Venice Commission, could contribute to reinvigorating interest of citizens and civil servants in denouncing corruption.

Political parties remained excluded from the list of holders of information about whom information could be requested by the public.

### **Fundamental rights**

The legal framework is broadly in line with European standards, but further efforts are needed for full and adequate implementation. Reforms have been undertaken to enhance compliance with European human rights standards. The country took an important step towards its gradual alignment with EU standards in the area of fundamental rights by becoming an observer in the Fundamental Rights Agency. The country ratified the Istanbul Convention, improved the climate for media, worked towards upgrading the legislative framework for non-discrimination and started creating the legal conditions for establishing an external oversight mechanism of the police. However, concerns remain over the situation in prisons and psychiatric institutions. There is a need to ensure legal follow-up of cases of hate crime and hate speech, to counter gender stereotyping and strengthen the bodies involved in protecting and promoting human rights. Weaknesses in the implementation of human rights standards and policy documents continue to affect primarily the most vulnerable and marginalised groups in society, including persons with disabilities and Roma.

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

- turn commitments to improve the situation in prisons and other places of detention into concrete actions, effectively addressing outstanding recommendations of the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment and ensuring appropriate follow-up of all cases of alleged ill-treatment;
- continue reforming the public broadcaster and take measures to encourage the development of an enabling environment for media by promoting objective and accurate reporting;
- adopt and start implementing the draft Law on protection and prevention against discrimination, ensure harmonisation of other laws, and improve the follow-up to all cases of discrimination, hate crime and hate speech.

The country has ratified most **international human rights instruments** and in December 2017 it ratified the Council of Europe Convention on preventing and combating violence against women and domestic violence (also known as the Istanbul Convention). The Ombudsman was appointed as an observer to the Fundamental Rights Agency in September 2017, following long delays.

Since September 2016, **the European Court of Human Rights (ECtHR)** has found violations of the European Convention on Human Rights (ECHR) in 8 cases (out of 10) relating mainly to the right to a fair trial, freedom assembly and association, right to life, freedom of expression, and respect for private and family life. During the reporting period,

461 new applications were registered by the Court. On 1 February 2018, the total number of applications pending before the Court was 325. The country has reduced the number of ECtHR judgments still to be executed to 42, of which 2 are under the enhanced monitoring procedure. The Bureau for Representation before the ECtHR has been instrumental in improving execution, despite being insufficiently staffed.

The Ombudsman's Office remains the key oversight institution for **promotion and enforcement of human rights**. Its impact was heightened by Parliament's approval in November 2017 of measures for implementation of recommendations of the 2016 report and the government's commitment to timely implementation of these measures. While nearly all the recommendations of the Office have been 'handled' by the state institutions, the level of effective implementation remains unclear ("Urgent Reform Priority"). Despite its persistent lack of adequate staff, the Ombudsman's Office is striving to fulfil its mandate as the main institution for protection of human rights. It is essential that the Ombudsman is able to recruit the expert staff needed, notably in light of its foreseen responsibilities to conduct external oversight of the police.

The new government has committed itself to addressing the recommendations of the European Committee for the Prevention of Torture and to making progress on the **prevention of torture and ill-treatment**. A strategy for zero tolerance of ill-treatment was adopted and training sessions took place. Part of the legislative and institutional framework for establishing an external oversight mechanism over the work of the police and the prison police has been enacted, while two draft laws remain in parliamentary procedure. This framework foresees an external oversight role for the Public Prosecutor's Office, the Ombudsman and civil society organisations.

Urgent measures must be taken to remedy the inhumane conditions which persist in a number of penitentiary and detention facilities, police stations, social care facilities and psychiatric facilities. The National Preventive Mechanism against torture is still hampered by a lack of staff. The low number of complaints for ill-treatment filed to the Directorate for Execution of Sanctions is not representative of the true situation and is an indication of the low level of trust in complaint mechanisms. The Ombudsman's Office received 3 complaints of ill-treatment in prison and 11 by police. The Unit for Internal Control and Professional Standards at the Ministry of Interior received 38 complaints, out of which only one was confirmed as justified, while the others were dismissed as being unfounded or lacking evidence. The number of criminal charges against police and prison officers for cases of ill-treatment remains very low, strengthening the perception of impunity and lack of accountability.

The Strategy for the Development of the Penitentiary System continued to be implemented. However, the situation in the **prison system** remains critical. It remains heavily underfunded, understaffed and mismanaged, in spite of steps to redress this situation. It is essential that the concern stated by the Prime Minister leads to tangible improvements in prisoners' human rights. Serious overcrowding continues. The provision of healthcare professionals has started but healthcare in prisons remains largely inadequate and the transfer to the Ministry of Health as legally required is not yet finalised.

Probation is being piloted in the territory of Skopje Basic Court I, but there are substantial delays in rolling out probation throughout the country. Developing the use of alternatives to detention is fundamental to alleviate overpopulation. Priority must be given to allocation of adequate human and financial resources and training of judges on probation. By the end of January 2018, the December 2017 Law on Amnesty permitted the release of 795 inmates convicted to imprisonment of up to six months or who benefitted from a 30 % sentence

reduction. The law excludes certain categories of convicts such as those serving life sentences or those convicted for murders, election-related crimes or crimes against the state and public order. No risk assessment was carried out and no measures for supervising beneficiaries accompanied their release. There is a crucial need to address the situation of prison overcrowding as there are 4 025 convicted persons currently waiting to serve their sentences.

A corruption mitigation plan was adopted in March 2017 to address this endemic phenomenon in penitentiary institutions. Measures have been adopted to address discrimination in prisons and inter-prisoner violence. However, these measures are yet to yield results. Proper education and other re-socialisation services are yet to be provided to prisoners especially juveniles in detention.

On **protection of personal data**, the country has ratified Convention 108 of the Council of Europe on the Protection of Individuals with regard to Automatic Processing of Personal Data and its additional protocol. In 2016, the Directorate for Personal Data Protection received 359 complaints and carried out 308 inspections. Most complaints concerned alleged abuse of personal data on social networks, notably the creation of fake profiles. More use should be made of administrative sanctions in cases of breach of personal data protection legislation. Adequate resources are needed for the effective performance of the Directorate's tasks. Following past criticism of its slow reaction to the wiretap scandal, the Directorate has been more active. It carried out controls at the Bureau for Security and Counterintelligence in 2016 and 2017 and in July 2017 launched an inspection to check implementation of its recommendations. The Directorate has publicly stated that all its recommendations have been addressed. The Directorate has provided trainings on data protection rules, including to personnel of law enforcement and judiciary on the Police Directive. Further efforts need to be undertaken to align the personal data protection legislation with the General Data Protection Regulation 2016/679 and Directive 2016/680.

**Freedom of thought, conscience and religion** continued to be guaranteed. The overall relations between religious communities remain calm. In November 2017, the European Court for Human Rights found that the state violated Article 11 in light of Article 9 (freedom of assembly and freedom of thought, conscience and religion) of the Convention by refusing to register the Orthodox Ohrid Archbishopric as a separate religious entity.

### **Freedom of expression**

The country has **some level of preparation** in the area of **freedom of expression** and there was **good progress** since mid-2017. The legislative framework is broadly aligned with both the *acquis* and international standards. Amendments to the Law on Audio and Audio-Visual Media Services were prepared in consultation with relevant stakeholders. There is an improved climate for media and journalists are more ready to criticise misbehaviour of officials and censorship. Challenges remain in the sector, and there must be zero tolerance towards physical and verbal abuse or threats against journalists. The public broadcaster in particular needs to be reformed and its independence strengthened. The country has partly addressed the recommendations from the 2016 report, notably by abolishing government advertising and decreased pressure on journalists and media outlets, which allowed for more balanced reporting.

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

- continue its reforms of the public broadcaster, strengthening its independence;
- take measures to support the promotion of objective reporting and diversity of viewpoints in the mainstream media, encouraging professional conduct of all media stakeholders;
- ensure the appropriate follow-up by law enforcement and judicial authorities of all

## instances of violence against journalists.

The situation and the political climate for media improved in the second half of 2017. The government made efforts to be more transparent and journalists are now granted access to information and documents free of charge ("Urgent Reform Priority"). The new government made supportive statements during the October 2017 local elections. This needs to be followed up through measures promoting an enabling environment for freedom of expression.

### Intimidation of journalists

There has been a decrease in pressure on journalists with the improved political climate. The government has concluded an agreement with an association of journalists to conduct follow-up investigations on attacks against them in December 2017. However, registration of attacks on journalists remains inadequate and very few investigations have been launched. It is essential that the authorities demonstrate zero tolerance towards all incidents of physical and verbal abuse or threats against journalists and that these are effectively followed up by the police and Public Prosecutor's Office. There were 21 new reported cases of intimidation of journalists and 13 court proceedings involving journalists. Several journalists were among those injured during the violent incidents in Parliament on 27 April. The Agency for Audio and Audio-visual Media Services noted unprofessional reporting by the public service broadcaster and a private national television channel with regard to these incidents.

### Legislative environment

Amendments to the Law on Audio and Audio-Visual Media Services adopted by the government in February 2018 following extensive stakeholder consultations are in Parliamentary procedure. However, some stakeholders have expressed their dissatisfaction with some of the amendments to the Law, for instance regarding funding from the state budget. The legal framework on hate speech is generally in line with international standards, but its implementation needs to be improved and online hate speech remains unregulated. Plans to amend the defamation legislation to bring fines down to a symbolic value are included in the action plan of the judicial reform strategy.

### Implementation of legislation/institutions

The Agency for Audio and Audio-visual Media Services has been exercising its supervisory role more efficiently, including in the electoral context. The Agency initiated procedures for unbalanced reporting and violation of limits on paid political advertising.

The quality of reporting by some private TV improved, however, low professional standards persisted at some media outlets, undermining objective reporting. The monitoring by the Council of media ethics shows that further work is needed to improve respect for ethical standards. Investigative reporting remained limited. There is a decreasing trend in defamation cases being brought against journalists with 13 new lawsuits registered in 2017.

### Public service broadcaster

The coverage of the electoral campaigns by the public service broadcaster (MRT) was more balanced than in the past and contestants were provided with free air-time. MRT adopted a code of ethics. Additional efforts are needed to improve MRT's independence and objectivity of reporting. A long-term strategy is also needed to ensure its financial sustainability.

A new system was adopted for financing the public broadcaster, the regulator and the broadcasting public enterprise. The broadcasting fee was replaced with a direct contribution from the State budget, amounting to 0.5 %. This percentage is foreseen to increase with the amendments to the Law on Audio and Audio-Visual Media Services. The implementation of reforms needs continuous attention to prevent direct or indirect undue political influence that

would undermine independence and to ensure a stable, predictable and sustainable provision of funds.

### Economic factors

The media regulator and other institutions do not have the capacity to identify and prevent collusion between media owners and political figures. This collusion influences editorial lines.

The new government put an end to government advertising in the form of commercial advertisements on commercial broadcasters (except on social media and at the local level) in August 2017, following the previous moratorium in place since July 2015. To achieve one of the "Urgent Reform Priorities", the new government also published figures on government advertising expenditure from 2008-2015, albeit with some data missing. The extent to which government advertising had been a tool to exercise influence over broadcasters and to which the previous system had been distorting the market was reflected in the market's reaction to the loss of this revenue source, which has already had a financial impact in the broadcasting sector and has led private media to seek to measure viewership due to the need to compete for listeners and advertising.

The number of print media outlets has decreased drastically in 2017 compared to 2016. After the closure of Media Print company, there are now 6 daily newspapers in the print media market, including 2 in Albanian.

### Internet

Legislation prohibits internet service providers from controlling internet traffic, except to protect network connections against overload. This legislation is being applied in practice.

Political polarisation is mirrored in online media, where most hate speech and violations of the journalistic code of ethics have been noted. According to the Council of Media Ethics, most violations, including fake news and unprofessional reporting, take place online.

### Professional organisations/professional conditions

There was no improvement in the union protection or labour conditions of journalists. As a result, journalists still practice self-censorship. Negotiations on signing a collective union agreement are at an early stage. Journalists continued working under temporary contracts.

*(See also Chapter 10 — Information society and media)*

Freedom of association and freedom of assembly are both guaranteed by the constitution. The Law on Assemblies sets out what constitutes a public assembly, and when a public assembly can be restricted or stopped. This law also stipulates obligations for organisers of assemblies and sanctions for noncompliance with these obligations. On freedom of association, the Law on Associations and Foundations (last amended in 2011) lays down the conditions for freedom of association, and it does not contain undue restrictions. Following the previous period of intense pressure on civil society, there was substantial improvement and the overall situation can be deemed as satisfactory. Amendments to the Law on Police that prohibit the use of rubber bullets and stun guns have been adopted. However, a serious legal shortcoming remains as the Criminal Code offence of 'participating in a crowd which commits a crime' is still applicable without safeguards. In the reporting period, protests have been largely peaceful but hate speech against political figures was common. Several Members of Parliament were injured in the violent incidents in Parliament on 27 April 2017. A total of 28 people, including 5 MPs, are indicted for 'terrorist endangering of the constitutional order' pursuant to Article 313 of the Criminal Code for these incidents.

The implementation of the legal framework regulating **property rights** is hampered by the absence of strategic documents. The Cadastre Office resolved 98 % of the cases in 2017, but it needs to improve its follow up of requests from the Ombudsman and respect relevant court decisions to provide more legal certainty on property rights. Most cases handled by the Ombudsman's Office concerned the slow and complex process of denationalisation. Restitution, compensation or legalisation processes exist, but remain very slow and cumbersome and there is a very low resolution record. The registration process for properties is complete, with a land register covering 100 % of the country's territory and digitalised mapping in place.

There has been progress towards improving the legal framework on **non-discrimination**. Work on the draft Law on Prevention and Protection against Discrimination has been inclusive. Once this law is adopted it should improve alignment with European standards and the EU *acquis*. It is essential for the law to also include sexual orientation and gender identity as grounds for discrimination and for the draft to be amended in line with the Opinion of the Venice Commission. Changes made will also need to be reflected in other laws, including the Criminal Code, to ensure consistent application of these provisions. Appropriate budget allocations are needed to implement the National Strategy for Equality and Non-Discrimination 2016-2020. Implementation of the Strategy remains weak at present, particularly at municipal level.

Persistent deficiencies in the work of the Commission for Protection from Discrimination should be addressed, including with regard to its impartiality and independence. The Commission's premises, capacity, staffing and financial resources remain inadequate. The public has little trust in this Commission and the Ombudsman's office receives many complaints on discrimination. The number of resolved cases confirming discrimination is still insignificant. Hate crime is a substantive offence in the Criminal code and can also be a motive for penalty enhancement. However, the bias motivation for such crimes is not recorded by law enforcement. There is no systematic collection of data on hate speech and hate crime and such crimes are not adequately pursued. Several cases of alleged hate speech transmitted by the Agency for Audio and Audio-Visual Media Services have not been followed up by the Commission for Protection from Discrimination or the Public Prosecutor's Office.

Some progress was made on **equality between women and men**, notably through ratification of the Council of Europe's Istanbul Convention in December 2017. The existing laws on gender equality are largely in line with the EU *acquis* but challenges remain when it comes to implementation. Collection of sex-disaggregated data is systematic in certain sectors such as social policy, employment, education or population statistics relating to births and deaths. There are 4 regional centres being established for victims of domestic violence and the new Government is currently setting up three new crisis centres for rape victims and a new shelter for victims of sexual harassment and violence. Further efforts are needed to address domestic and gender-based violence. Women continue to risk resorting to illegal abortions due to restrictive procedural rules in the Law on Termination of Pregnancy. There remains low public awareness of gender equality and gender stereotyping still persists. The gender equality unit of the Ministry of Labour and Social Policy remains under-resourced.

The **rights of the child** are enshrined in law but further efforts are needed to implement existing legislation on this issue. There has been no follow-up to the Action Plan for Children which expired in 2015. Roma children and children with disabilities still suffer from stigma, discrimination and segregation, especially in education and other service sectors. Although some progress has been made in recent years, there is limited coordination in preventing and responding to violence against children. There is no unified data collection and monitoring

system (on most aspects related to the situation of children). There is also very little state capacity to provide support, protection and care to children. Child protection services are fragmented and an integrated child protection system that places the child at the centre of the system is urgently needed. The Ombudsman's Office confirmed 50 violations of child rights in 2017. Measures and resources for preventing violence and bullying in schools are still insufficient. There has been a reduction in the number of children in institutional care due to efforts to ensure alternative care for these children. However, no institution has been closed. The Law on Juvenile Justice covers perpetrators, victims and witnesses in criminal proceedings. The resources of the State Council for Prevention of Juvenile Delinquency are insufficient. There is a lack of education, health and social services for detained children.

Implementation of the UN Convention on the **Rights of Persons with Disabilities** remains slow, and the required monitoring body has not been established. Implementation of the 2010-2018 National Strategy on Equal Rights for Persons with Disabilities remains inadequate and lacks resources. Persons with disabilities continue to experience discrimination. The situation for children and adults living in residential institutions remains very poor. In 2016, the Ombudsman's Office reported 17 complaints related to discrimination against children with disabilities in the pre-school and regular primary and secondary school system.

*(See also Chapter 19 — Social policy and employment).*

On the rights of **lesbian, gay, bisexual, transgender and intersex** (LGBTI) persons, in 2017, important progress was made. The new prime minister and the political leadership have publically expressed support for the rights of LGBTI persons and committed to making progress in this area. In Parliament, an inter-party group consisting of 13 MPs was formed to advocate the rights of LGBTI persons in February 2018. However, societal prejudice continues and hate speech is prevalent against LGBTI persons in the media, internet and social media. Incitement to homophobic/transphobic hatred and violence is not effectively prevented or punished by the authorities. Previous attacks on the LGBTI support centre have yet to be effectively investigated. The legal framework does not allow for official recognition of same-sex couples. A step was taken towards legal gender recognition with the Administrative Court's decision to allow a change in the sex marker and personal identification number of two transgender women. However, legal gender recognition procedures are not regulated by law. Furthermore, access to healthcare for transgender persons remains limited.

Issues of **labour and trade union rights** are covered in Chapter 19.

The Law on Criminal Procedure guarantees the **procedural rights** of suspected and accused persons and victims of crime. People who are questioned or detained by the police receive information on the reasons for their detention, on the charges against them, on their right to remain silent and their right to inform a third person and/or diplomatic or consular authorities. No detailed written procedures and mechanisms exist to provide a lawyer to a suspect when interrogated by the police. Access to legal aid for the most vulnerable people (including children) is hampered by restrictive criteria in the law. Only 50 % of the already low number of applications for legal aid are approved. The system for legal aid in criminal cases is regulated by the Law on Criminal Procedure and this system is hindered by insufficient budget. The presumption of innocence is protected by the constitution and the Law on Criminal Procedure. The legal framework on compensation of victims of crimes has yet to be adopted.

The overall framework for the protection of **minorities** is in place. The 2001 Ohrid Framework Agreement and relevant constitutional amendments frame inter-ethnic relations. However, relevant institutions remained weak in implementing minority-related policies. This



was due to the institutions' unclear mandate, an absence of interinstitutional cooperation, a lack of resources and a lack of political will. Minorities representing less than 20 % of the population are not sufficiently included in policy-making and decision-making at the national level. Minorities continue to be stereotyped in the media and on the internet. Systemic measures to address separation along ethnic lines, notably in education or youth, are still lacking, which continues to affect social cohesion. The country needs to address the recommendations issued by the Advisory Committee of the Framework Convention on National Minorities in its last report of December 2016.

Much still needs to be done on **Roma** inclusion. Implementation of the Roma inclusion strategy (2014-2020) and corresponding action plans for education, employment, health, housing and Roma women is poor. As regards education, some progress has been achieved. However, Roma enrolment in pre-school education is low and must become a priority. There has been a clear increase in enrolment and completion of compulsory education, 78 % of the Roma school age children enrol in compulsory education and 69 % complete compulsory education. This is one of the best results for Roma in the region. But segregation in schools remains a problem.

It is crucial to address in a systemic manner the persistent phenomena of child begging and child marriages among Roma. On access to other basic services, even if the Roma Information Centres provide good support, these efforts have to be institutionalised. Budgets must be ensured sustainable. Access to health insurance for Roma is the best in the region as regards coverage, although it needs improvement. Roma health and education mediators must work better. Solutions are needed to tackle housing and employment issues. Informal employment is high (39 %) but this rate is clearly decreasing. Special attention is needed for Roma without identification documents, including those returning from western European countries. For these Roma, it is especially difficult to access justice and complex administrative systems. In November 2017, the national authorities showed commitment in setting out newly defined priorities on Roma related policy for the next two years. These priorities include strengthening of inter-ministerial cooperation. No new cases were registered of Roma being prevented from leaving the country at its borders. 50 allegations for infringement of the right to equality entered in court proceedings. Some 150 Roma refugees from Kosovo\* continue to live in poverty. Overall, segregation, stereotyping and other forms of discrimination remained prevalent.

#### 2.2.2. Chapter 24: Justice, freedom and security

*The EU has common rules for border control, visas, external migration and asylum. Schengen cooperation entails the lifting of border controls within the EU. There is also cooperation in the fight against organised crime and terrorism, and in judicial, police and customs cooperation.*

The country is **moderately prepared** to implement the *acquis*. It made **good progress** by taking substantial steps to reform the system of interception of communications in line with the "Urgent Reform Priorities". It also kept up its efforts in the areas of asylum and migration management. Systematic registration of migrants and protective-sensitive profiling, to guarantee that their needs are addressed, is still needed. The decision to establish an external oversight mechanism of police marks progress towards ensuring accountability of law enforcement and restoring the rule of law. However, some gaps identified by the previous report still exist. Measures to fight against terrorism need to be stepped up.

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

In the coming year, the country should in particular:

- develop a strategic approach towards financial investigations, including by (i) adopting the FATF concept on financial investigations; (ii) automatically implementing financial investigations when dealing with organised crime, terrorism, money laundering and serious corruption cases; (iii) starting financial investigations from the very start of the criminal investigation; and (iv) applying a multidisciplinary and proactive approach to financial investigations;
- implement the new legal and technical framework on interception of communications (as per the "Urgent Reform Priorities");
- make further efforts to ensure the proper registration and profiling of migrants arriving in the country and referral of those in need of protection to the appropriate national services;
- ensure that all necessary measures to prevent and fight terrorism are adopted and implemented and that the coordinator's office can effectively perform its mandate.

### **Fight against organised crime**

The country has **some level of preparation** in the fight against organised crime. The legislative framework is broadly in line with European standards, and efforts to implement strategies against organised crime must be continued. **Some progress** was also made at the operational level, but more needs to be done to improve the effectiveness of law enforcement in fighting certain forms of crime, such as money laundering and financial crimes. Coordination remains crucial for all stakeholders involved in fighting organised crime.

In the coming year, the country should in particular:

- improve its track record on investigating, prosecuting and convicting instances of organised crime and money laundering;
- improve cooperation between the various law enforcement agencies by making the National Coordination Centre for the Fight against Organised Crime fully operational;
- show tangible results in the fight against trafficking in human beings and smuggling of migrants.

### Institutional set-up and legal alignment

There are 209 uniformed police officers per 100 000 inhabitants in the country. In 2017, 603 new police officers were employed. The structural efficiency of the Public Security Bureau is under evaluation. It aims at improving information exchange and coordination.

There are specialised police departments within the Ministry of the Interior that deal with different types of organised crime. In addition to this, two specialised units deal with financial crimes: the financial police under the Ministry of Finance and the Financial Intelligence Unit under the Ministry of the Interior. This separation creates unnecessary confusion of tasks.

The police is generally well equipped. A division for computer crime was set up in the Department for Criminal Police. The Police Training Centre within the Ministry of the Interior provides both initial and vocational training. For the time being, only one of the planned three sectors for Training, the Sector for Basic Training, is functional. The Training Centre is implementing the Working Arrangement between the Ministry of the Interior and the European Police Academy (CEPOL) signed in August 2017.

On the legal framework, a working group has been established regarding amendments to the Law on Witness Protection.

The Criminal Code is broadly in line with European standards and criminalises trafficking in human beings, online child pornography, computer crime and drugs trafficking.

A package of amendments to several laws and a new law on an Operational Technical Centre, to reform the system for intercepting communications were adopted by the government in December 2017. The amendments to the Law on Electronic Communication and the Law on Classified Information were enacted by the Parliament. The remaining laws are in parliamentary procedure. These legal steps pave the way for the establishment of a new independent institution, the Operational Technical Agency (OTA). The OTA will be an intermediation body between the telecom operators and the authorities authorised to intercept communications for protection of the interest of security and the defence of the state and for the purpose of criminal investigations. Each authorised authority will intercept communications under its competences, following a court order. These authorities, including the OTA, will not be able to autonomously activate or deactivate the interception of communications. These reforms are in line with the "Urgent Reform Priorities" as they remove the intermediary function from the Bureau for Security and Counterintelligence and its direct access to the switches.

The Law on the Freezing, Confiscation and Management of Criminal Assets has yet to be further amended. The legal status and functions of the Agency for Management of Confiscated Property need to be strengthened.

Anti-money laundering legislation must be amended to fully comply with the *acquis*. The National Strategy for Prevention of Money Laundering and Financing Terrorism (together with an action plan to implement this strategy) was adopted in November 2017.

In March 2017, the National Strategy for Combating Trafficking in Human Beings and Illegal Migration (2017-2020) was adopted together with an action plan to implement this strategy. The National Commission for Combating Trafficking in Human Beings and Illegal Migration is responsible for monitoring the implementation of the Strategy. The decentralisation of the National Commission, through the creation of local commissions at the municipal level, has yet to prove its effectiveness.

The action plan for implementation of the 2016-2020 Police Development Strategy was adopted in November 2017. A Strategy on Preventing and Countering Cybercrime should be developed. Strategic planning capacities within the Ministry of the Interior and the Public Prosecutor's Office still need to be strengthened.

#### Implementation and enforcement capacity

A track record of investigations, prosecutions and convictions in the fight against organised crime is in place since 2008. In 2017 there were final judgements against 83 people, against 25 individuals for smuggling migrants related activities, against 12 persons for trafficking in human beings and related offences, against eight people for being part of an organised criminal group, against five persons for money laundering, against 23 people for unauthorized manufacture and release for sale of narcotic drugs, psychotropic substances and precursors, against one person for computer forgery, against one person for illegal influence of witnesses against eight individuals for participation in a foreign army, police, paramilitary or para-police formations.

The country's enforcement capacity was further strengthened through the decision to establish an external oversight mechanism to ensure the independent supervision of law enforcement authorities and address potential abuses. This reform is in line with fundamental human rights requirements. Amendments to the relevant laws allowing the creation of this external oversight mechanism were adopted by the government in December 2017 and in January

2018.

The National Coordination Centre for the Fight against Organised Crime is not fully operational although it was equipped and staff were nominated. The centre has not yet been connected to the Customs Administration and the Public Revenue Office and given access to their databases. This would improve interconnectivity and coordination among relevant institutions. Currently, there is no connection with the Financial Police Directorate.

The Forensic Department gained ISO accreditation. The quality system in three laboratories (for documents, for toxicology and drugs and for biological tests and DNA identification) is now in line with European standards. There is a national main DNA database and the exchange of DNA profiles with other countries can be done directly through Interpol. There is also a general fingerprints data base.

Relations between prosecutors, the police and other relevant bodies and agencies need to be improved so that the prosecution service can fully play its lead role in the investigations. Only one of the planned investigative centres under the direction of the Public Prosecutor has been set up and it is still not properly staffed and equipped. There is no electronic interconnection between the police and the Public Prosecutor's Office. The implementation of the merit-based recruitment policy and career system enshrined by the law requires continuous attention. The Basic Public Prosecutor's Office against Organised Crime and Corruption still does not have enough public prosecutors, only 10 out of the planned 13 positions have been filled.

Special investigative measures were used in 18 organised crime cases (20 in 2016). Reforms have to continue to enable the separation of criminal investigations from interception of communications for security purposes. On the whole, the level of sentencing by courts appears to be appropriately strict. However, efforts are still needed to ensure greater consistency. Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

Regarding trafficking in human beings, very few victims have been identified, both among migrants and among nationals. This is despite the fact that the country is a country of - origin, transit and destination and that there are organised criminal groups actively involved in the country in trafficking and smuggling. There was a decrease in the number of recognised victims of trafficking in human beings in 2017 (2 persons compared to 6 in 2016). In 2017, only 13 persons were identified as potential victims while in 2016 there were 125 persons. Existing structures need to be strengthened by a more proactive policy for prevention and identification. In recent years, a number of criminal networks and routes have been dismantled, in particular relating to people smuggling and drug trafficking. This reflects the country's location on the Western Balkans trafficking routes. There has been more coordination to fight illegal migration and trafficking in human beings. Four mobile teams, composed of social workers, police officers, and non-governmental organisations will be set up to identify victims of trafficking in human beings among the vulnerable categories. A memorandum of understanding between the Ministry of the Interior and the Ministry of Labour and Social Policy was signed in January 2018. Sustained efforts by the institutions in charge to counter trafficking in human beings and smuggling must continue. Continuous attention must be paid to unaccompanied minors who are at risk of becoming victims of trafficking, in particular given the mixed migration flows passing through the country. Cross border cooperation remains fundamental.

In 2017, there was one second instance final conviction against five individuals for **money laundering**. All relevant institutions must still properly implement anti-money laundering legislation. Only a few cases are prosecuted (2 prosecutions against 12 individuals in 2017), and the necessary data collection, processing and analysis should be stepped up. Both the

Financial Police and the Financial Intelligence Unit have weak resources and weak capacities. Law enforcement and prosecution bodies must still build capacity and specialist knowledge to conduct **financial investigations** in a systemic manner. Despite some progress, there is still a need to further improve coordination, operational capacity and the systemic exchange of data.

Confiscation of criminal assets should become a strategic priority in the fight against organised crime, terrorism and high level corruption in the country. Criminal groups engage in an increasingly wide range of profitable illegal activities, and reinvest substantial profits into the economy. Today, the country's tools for freezing, managing and confiscating criminal assets are not effective enough. It should therefore develop and implement a more comprehensive and coherent legal and policy framework for the confiscation of proceeds of crime. Such a framework should in particular focus on implementing rules on extended confiscation, on third-party confiscation and on non-conviction based confiscation. It should also allow the competent authorities to make greater use of precautionary freezing. In addition, to facilitate effective execution, it is crucial that financial investigations on a person's assets are allowed to continue for years after a criminal conviction in order to fully execute a previously issued confiscation order. Finally, the country should urgently step up its asset management capacity.

During the first semester of 2017, no destroying of arms has been undertaken.

There is well-established cooperation between the country and Europol following the conclusion of a strategic agreement in 2007 and an operational agreement in 2011. A liaison officer from the country has been posted in Europol headquarters in The Hague since 2015. In 2017, four multilateral actions with Europol were carried out under the European Multidisciplinary Platform against Criminal Threats (so-called EMPACT). The country intensified the exchange of operational information within the Europol analysis work files. Close cooperation continued with international and regional bodies in the fight against organised crime. Participation in joint investigation teams and continuous exchange of operational and strategic information are to be further developed. With the expansion in 2017 of the communication network Interpol I/24-7 in the Ministry of the Interior, exchanging data will be facilitated. The National Board System was connected to i-ARMS application of INTERPOL firearms data base.

## **Fight against terrorism**

### Institutional set-up and legal alignment

In July 2017, after the post had been vacant for more than a year, the new National Coordinator for Counter-Terrorism and Countering Violent Extremism was appointed. This post was reinforced by creating two deputy posts responsible for prevention of violent extremism and for the fight against terrorism. The National Committee for the Prevention of Violent Extremism and the Fight against Terrorism was also created and is headed by the National Coordinator. The National Committee is in charge of monitoring and analysing the situation related to the prevention of extremism and fight against terrorism. It is responsible for coordinating the activities of relevant institutions. The Office of the National Coordinator and the National Committee, are partly operational. It is necessary to ensure full cooperation between law enforcement agencies, intelligence services and relevant key state institutions (education, health, and social services) as well as with local communities and civil society organisations. The legal framework is largely aligned with the EU *acquis* and international instruments on anti-terrorism. Terrorism-related issues are regulated by the Criminal Code which was amended in 2014 in line with UN Security Council Resolution 2178/2014.

The National Counter-Terrorism Strategy (2016-2019) was not implemented. Therefore, the

new government decided to revise and modify it to prepare a new National Strategy for the Suppression of Violent Extremism with relevant action plans. These two strategies have been adopted by the government in March 2018.

#### Implementation and enforcement capacity

There have been no anti-terrorist operations since November 2016. Following the police operation "Cell 3", five people were convicted on the charges of participation in foreign military, police and paramilitary formations. The country cooperates with Europol within the frame of its Agreement on Operational and Strategic Cooperation. The country was part of a joint regional operation, together with Albania and Kosovo, in November 2017, two persons were arrested for planning terrorist attacks in the country.

It is estimated that around 155 (with only 2 persons in 2017) of the country's citizens left for conflict zones (Syria and Iraq) since 2012. Around 80 have since returned to the country, with around 30 still in Syria and 30 having been killed there. The rest are believed to have returned to different countries (where they have dual citizenships).

The Bureau for Security and Counterintelligence is responsible for internal security and counterintelligence, including foreign fighters' returnees, but it needs further strengthening. The intelligence agency is also involved although in a lesser extent since it is competent to collect data and information of significance for the security and defence of the country including data on terrorist activity. There are no prevention and anti-radicalisation measures. It is necessary to invest in de-radicalisation measures and re-socialisation measures in the society and in prisons.

### **Legal and irregular migration**

#### Institutional set-up and legal alignment

The authorities have been working towards improving the legal framework but the Law on Foreigners has yet to be adopted. The crisis situation at the country's borders was extended until 30 June 2018 and continues to be managed by the Crisis Management Centre.

There is a fragmentation of tasks between the institutions dealing with migration. For example, responsibilities are shared between the Ministry of the Interior's Unit for Border Affairs and Migrants (which deals with security aspects and management of the borders), the Ministry of Labour and Social Policy (which manages access to services and socioeconomic integration of migrants and refugees) and the Department for Serious and Organised Crime's specialised unit fighting trafficking in human beings and people smuggling.

#### Implementation and enforcement capacity

There continues to be a lack of reliable data on the scope and structure of migration flows. The border police have filled over 60 % of the foreseen posts. With the assistance of the army, and deployment of guest officers from EU Member States and Serbia at the southern border, effective control at that border has been ensured.

There has been a substantial decrease in migration flows. However, the number of people in transit in the country is assessed as being much higher than the official figures. The country remains one of the main transit routes for irregular mixed migratory movements. There were around 70 detected irregular arrivals per week in January 2018, down from an average of 100 per week in the autumn of 2017. In 2017, economic migrants represented a significant portion of the overall migration flow through the country, with a majority originating from Pakistan (49 %) and Afghanistan (24 %).

Illegal border crossings have decreased. In 2017, a total of 4 129 attempted irregular border

crossings were prevented, the vast majority at the border with Greece. As of February 2018, the number of stranded persons in the country is around 115. Criminal charges were submitted against 36 people, including 6 foreign nationals, for smuggling of migrants. Combatting smuggling networks needs to be a priority.

A task force to fight illegal migration and trafficking in human beings is being set up in the Ministry of the Interior. It aims at strengthening the coordination of relevant stakeholders and at increasing their effectiveness. It should include representatives of relevant institutions such as the Public Prosecutor Office and the border police. A Memorandum of Understanding between the Ministry of the Interior and the Public Prosecutor Office was signed in January 2018.

The Resolution on Migration Policy adopted by the government in 2015 is the main policy document in this field. One of its strategic priorities is to identify migrants, profile them and refer them to the appropriate protection system. There is a need to further strengthen implementation and systematic registration of migrants and protective-sensitive profiling need to be ensured.

The capacity of the reception and transit centres is sufficient for current needs. A total of 95 persons applied for asylum while detained in the reception centre for illegal foreigners in Gazi Baba. The country continued to arbitrarily detain a number of persons apprehended in irregular movements, in order to ensure their witness statements in court cases against smugglers. The transit centres for migrants near Gevgelija and Tabanovce are now nearly empty. Neither centre is suitable for long-term stays, and the authorities are reluctant to provide for more than a temporary stay.

The readmission agreement with the EU is being implemented in a satisfactory manner. Implementing protocols have been signed with nine Member States, and negotiations are ongoing with four EU Member States. In 2016, 5 975 nationals of the former Yugoslav Republic of Macedonia were ordered to leave the EU territory and the return rate was excellent reaching 128%.

In 2017, the number of persons returned to their country of origin remained low. Assisted voluntary returns procedures were carried out for nine migrants. The country needs to put in place a return mechanism for irregular migrants, which is in line with the EU *acquis*.

## **Asylum**

### Institutional set-up and legal alignment

Alignment of the legal framework with the *acquis* continued and a new Law on International and Temporary Protection is in parliamentary procedure to improve the concept of safe third country and family reunification. Standard operating procedures on unaccompanied children and on vulnerable categories of foreigners are in use.

Institutions and procedures to handle asylum claims are in place, with a three-level decision system. There is also an accelerated procedure for cases of manifestly unfounded applications.

The 2017-2027 Integration Strategy for Refugees and Foreigners has not yet been adopted. Urgent measures are needed to counter xenophobia and address negative public attitudes towards migrants and refugees.

### Implementation and enforcement capacity

The Ministry of the Interior began to upgrade the existing database on foreigners by developing a new asylum module to provide a much needed case-management tool for processing asylum claims. However, coordination between the various authorities involved in

the process still needs to be improved.

The length of time it takes to process asylum applications has improved and arbitrary practice on access to asylum is no longer a concern. However, the quality of decision-making on asylum procedures remains inadequate. The Section for Asylum is still not fully staffed. The capacity to evaluate the merits of asylum applications is still weak. Difficulties persist in providing interpretation during interviews with asylum seekers.

Cases of *refoulement* at the borders are still being reported. Migrants are not systematically registered. There continues to be insufficient protection-sensitive screening mechanisms to identify and refer those who may be in need of protection.

In the absence of an adequate system for orderly management of irregular movements, in particular effective readmission arrangements with neighbouring countries, illegal returns continued. Since January 2017, international organisations recorded 3 726 persons returned irregularly to Greece.

In 2017, 163 applications for asylum were submitted, 4 persons were awarded subsidiary protection and no refugee status was granted. Most cases were discontinued after the applicants disappeared before the decision was taken. Most decisions taken were for denying or revoking asylum. Decisions on the cessation of the right of asylum affected mainly Kosovo refugees, whose status was discontinued after 18 years of residence in the country. Kosovo Roma were particularly affected. In 2017, subsidiary protection was lifted in 82 cases affecting 162 individuals, including four cases on grounds of threat to national security.

Services in the main reception facility for asylum seekers in Vizbegovo need improvement, especially food services. In September 2017, in agreement with the European Asylum Support Office, the authorities endorsed a roadmap to set up an asylum system in line with EU standards.

## **Visa policy**

Legislation is largely aligned with the EU *acquis* and efforts should continue to align the visa policy progressively with the EU's, including with the EU lists of countries whose citizens require a visa and those who are exempted. Since 2009 there has been an operational link between the country's diplomatic and consular missions, the national visa information system N-Vis and the Visa Centre at the Ministry of Foreign Affairs.

Overall, the implementation of the visa-free travel regime with the EU continued smoothly. The national authorities continued cooperation to tackle unfounded asylum applications made in Schengen members and associated countries. The number of applications decreased in 2017. In the first semester of 2017 criminal charges were brought against seven individuals for abuse of visa free regime with EU and Schengen Associated countries.

## **Schengen and external borders**

### Institutional set-up and legal alignment

The Department of Border Affairs and Migration is a specialised unit at strategic level within the Ministry of the Interior. The Border Police is structured into four regional centres, within which police stations for border surveillance and police stations for border checks operate. There is a mobile unit deployed in accordance with the risk assessment.

The legislative framework for the management of external borders is largely aligned with EU standards. The Integrated Border Management strategy (2015–2019) is aligned with the 2006 EU concept on Integrated Border Management. It is essential to put in place a border security system that makes use of risk analysis. A new Concept of Risk Management for the Border



Police was adopted and is in line with EU standards. This regulates the management and implementation of risk analysis by the border police.

The Schengen action plan, adopted in 2008, must be upgraded. The National Coordination Centre for Border Management was established to achieve efficient coordination, data-exchange, information-sharing and greater efficiency of the integrated border management system. It is not yet fully operational.

#### Implementation and enforcement capacity

The border police have 1 624 staff. Mixed police patrols are being deployed on the southern border involving members of the border police of Austria, Croatia, the Czech Republic, Hungary, Poland, Serbia, and Slovakia, to manage risks of increasing migration flows. The national authorities cooperate extensively with the European Border and Coast Guard Agency (EBCGA) including as observers in joint operations. Negotiations with the Commission enabling the deployment on its territory of team members of the EBCGA are well-advanced. A National Plan for the Implementation of the Common Core Curriculum for border and coast guard basic training implemented in Member States was adopted. Staff training continued with 4 288 participants. The training modules were focused on migration management and protection of vulnerable groups of migrants, detection of forged documents, intelligence-led policing, interviewing techniques, fight against trafficking in human beings, migrant smuggling, vehicle smuggling and risk analysis.

The 2015-2019 Integrated Border Management Strategy and the action plan are at an early stage of implementation. The Strategy focuses on identified security threats (namely from irregular migration and cross-border crime), and challenges in the area of border control and border surveillance. Although the National Coordination Centre for Integrated Border Management prepares regular reports on risk analysis, its institutional and operational capacity still need to be strengthened. IT and technical expertise must be stepped up, as a matter of priority.

Some investments have been made in border surveillance and infrastructure along the land border, especially in response to the increased migration influx. Further investments are needed, including along the water border.

Inter-agency cooperation between border guards, customs and other bodies was improved through the establishment of the National Coordination Centre for Border Management. However these agencies still do not have mutual access to databases and there is no formalised and secure information exchange arrangement with the appropriate security services. There is continued detection of false or fraudulent documents (232 in 2017). A track record of detection, investigation and prosecution of cross border crime remains to be established.

There continued to be good cooperation with neighbouring countries. The Border agreements with all neighbouring countries are being implemented smoothly. An agreement has not been concluded with Greece so far, but bilateral cooperation has further improved especially at technical level. Joint border patrols continued to be conducted with Albania, Bulgaria, Kosovo, and Serbia and the joint contact centres with these countries continued to function.

#### **Judicial cooperation in civil and criminal matters**

On judicial cooperation in civil matters, the country has still not acceded to the 1996 Hague Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Cooperation in Respect of Parental Responsibility and Measures for the Protection of Children. Nor has it acceded to the 2007 Convention of 23 November 2007 on the International Recovery of Child Support and Other Forms of Family Maintenance.

The country in 2017 issued or received 3 851 requests for mutual legal assistance in civil and criminal matters.

The country issued 125 extradition requests and received 21. There were 21 requests for transfer of sentenced nationals back to the country and 12 new requests for the transfer of sentenced foreign nationals to their respective countries of origin.

The country has a cooperation agreement with Eurojust in force since 2010. The national focal point was not appointed. In 2017, four Eurojust cases concerned the country (six in 2016).

### **Cooperation in the field of drugs**

The National Drug Strategy 2014-2020 is aligned with the EU drugs strategy (2013-2020) and its first action plan (2017-2020). It relies on two pillars: reducing supply and reducing demand. Both public health and security concerns are fundamental and the Strategy encompasses activities related to prevention, re-socialisation of prisoners with a drug addiction, as well as judicial and police cooperation, confiscation of criminal assets, investigations and border management. There is a State inter-sectorial committee to monitor the activities defined in the Action Plan for implementation of the Drugs Strategy. Coordination and implementation have to be stepped up.

Drug trafficking is a major security threat for the country. The fight against illicit drug trafficking has become a strategic priority for the Ministry of the Interior. There is a good level of cooperation with neighbouring countries including on a case by case basis. Following one joint operation with Albania nine people were arrested in Albania for illicit drug trafficking. Following a joint investigation with Albania and Greece 27 people were arrested, and drugs seized. Border controls are being strengthened with positive results. In 2017, 464 criminal offenses were detected by the police on unauthorised production and release of narcotic drugs, psychotropic substances and precursors, involving 532 perpetrators, 88 acts of enabling use of narcotic drugs involving 97 perpetrators. During the first 9 months of 2017, there was an increase in seizure of illegal substances. Altogether over 364 kilogrammes of different narcotic drugs were seized.

In 2017, good cooperation and exchange of information and data through the EMCDDA continued.

In the course of 2016 and during the first semester of 2017, no destruction of seized and confiscated drugs took place.

### **Customs cooperation**

The customs administration took part in nine international operations to combat the illicit trade in counterfeit and pirated goods, drugs, weapons, dangerous waste and high-risk chemicals.

Cooperation continued with the regional intelligence offices of the World Customs Organisation, the United Nations Office on Drugs and Crime, ZKA Balkan Info, OLAF and Europol. Information about seized goods was regularly entered into their respective databases. Cooperation and exchange of intelligence with the customs authorities of neighbouring countries continued. Bilateral agreements with seven EU Member States on cooperation on customs matters are now in place. Customs systematically cooperated with the Southeast European Law Enforcement Centre and with Interpol, by taking part in operations related to crimes against the environment, including illegal cross-border movements of hazardous waste and chemicals, arms, stolen vehicles and spare parts.

Real-time data on transport of customs goods is exchanged electronically with customs

authorities in the region through the Systematic Electronic Exchange of Data application. Customs used the Anti-Fraud Information System, as a tool for assessing risk and combating fraud in transit, e.g. by analysing data to detect abnormal transit patterns.

(See also Chapter 29-Customs union).

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

### 3. FUNDAMENTALS FIRST: ECONOMIC DEVELOPMENT & COMPETITIVENESS

Key economic figures	2015	2016	2017
Gross domestic product per capita (% of EU28 in PPS)	36	37	n/a
GDP growth (%)	3.8	2.9	0.0
Unemployment rate (female; male) (%)	26.7; 25.1	24.4; 22.7	21.4; 22.5 (Q4)
Economic activity rate for persons aged 15–64: proportion of the population aged 15–64 that is economically active (%)	64.4 (Q4)	64.8 (Q4)	65.2 (Q4)
Current account balance (% of GDP)	-2.0	-2.7	-1.3
Foreign direct investment (FDI) (% of GDP)	2.2	3.3	2.3

Source: Eurostat/State Statistical Office

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

The monitoring of these economic criteria should also be seen in the context of the increased importance of economic governance in the enlargement process. In 2017, enlargement countries were again asked to prepare Economic Reform Programmes (ERPs), which set out a medium-term macro-fiscal policy framework together with key structural reforms. The ERPs are the basis for country-specific recommendations jointly adopted by the EU and the Western Balkans and Turkey at ministerial level in May each year.

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

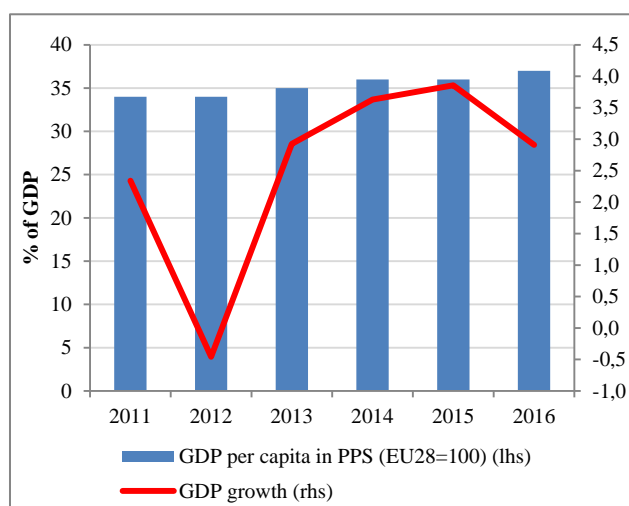
The former Yugoslav Republic of Macedonia has made **some progress** and is at a **good level of preparation** in developing a functioning market economy. Despite the political stalemate in the first half of the year, noteworthy improvements took place, in particular in public finance management and transparency. Key weaknesses of the economy remain. These include shortcomings in the business environment, such as weak contract enforcement and a large informal economy. Structural problems of the labour market are reflected in low activity and high unemployment rates. The macroeconomic environment deteriorated in the first half of 2017, as the lengthy political crisis took a toll on investment. Fiscal policy is geared towards short-term measures and lacks a durable consolidation plan.

In order to support long-term growth, the former Yugoslav Republic of Macedonia should pay particular attention to:

- developing a medium-term budget framework and pursuing fiscal consolidation including by better targeting of transfer spending;
- improving contract enforcement and reducing informality;
- enhancing labour market participation and employment, especially for women and youth.

### Economic governance

**Figure 1 The former Yugoslav Republic of Macedonia: GDP growth**



Source: Eurostat, national sources

The government remains committed to market-based economic policies even though it is now embarking on fiscal stimuli to subsidise investment and employment. Economic policy continued to focus on export growth through (i) foreign direct investment; (ii) raising private sector competitiveness through public infrastructure spending, and (iii) boosting employment through active labour market policies and employer subsidies. The new government, which came to power in June 2017, remains committed to these three policy pillars. It is also redesigning a number of them to improve their effectiveness. In particular, the government plans to increase subsidies for investment and employment in the private sector, and to apply a "same subsidy" policy to foreign and domestic companies alike. It also intends to expand the range and coverage of active labour market policies, and to increase social transfers. It has raised minimum wages. Moreover, the government has started to improve the efficiency of public administration and the judiciary, fight corruption, and increase transparency in public finance. The policy guidance jointly adopted in May 2017 has been partially implemented.

### Macroeconomic stability

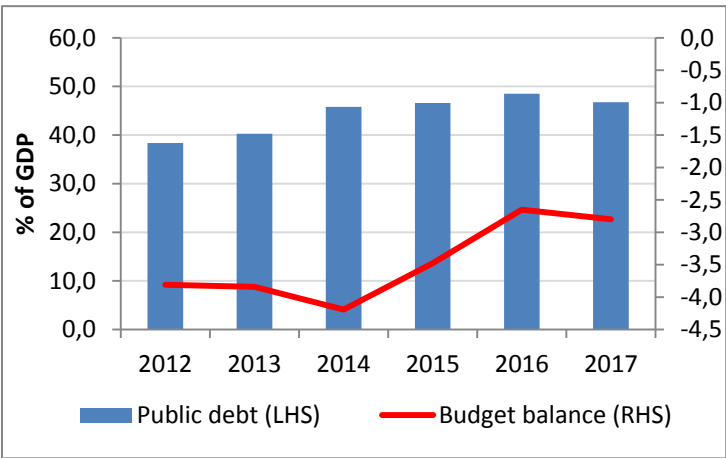
**The extended political crisis took a toll on investment and growth.** The economy did not grow in 2017, according to a first estimate from the national statistical office. Exports provided stimulus to the economy, increasing by 9.2 %, but their effect was more than offset by the decline in investment and public consumption. Investment spending fell by 4.5 % compared to one year earlier, impacted by a decline in confidence resulting from the prolonged political crisis. In particular, the construction sector, which was the fastest growing industry in the preceding 6 years, slumped in 2017. Household consumption, however, continued to increase at a solid pace of nearly 3 %. The growth outlook is positive, as the political crisis has abated and economic fundamentals remain sound. Monetary policy remains accommodative. Convergence with EU income levels remains sluggish. Real GDP per capita has increased from 34 % of the EU-28 average in 2012 to 37 % in 2016.

**Dynamic exports bolster the external position, and vulnerabilities remain contained.** The current account deficit has remained moderate in recent years. In 2017, it stood at 1.3 % of estimated GDP, down from 2.7 % in 2016. This development was due to the continued improvement in the trade balance, in spite of a decline in private transfers from abroad. Inflows from foreign direct investment (FDI) decreased in 2017, compared to the previous year, amounting to 2.3 % of estimated GDP. External debt has been rising rapidly between

2009 and 2017 (+20pps), as a result of public sector financing abroad and rising cross-border intercompany liabilities. At the end of September 2017, it stood at some 75 % of GDP, about one quarter of which is short-term, unchanged from previous years. Foreign exchange reserves dropped in 2017, as the government repaid sizeable external loans, yet their import coverage remained satisfactory at about 4-5 months. In January 2018, reserves were temporarily replenished through the issuance of a EUR 500 million Eurobond. At the same time, the government lowered its high upcoming refinancing needs by a partial early redemption of the 2015 Eurobond.

**The monetary policy stance remained appropriate, and supported price stability and the currency peg.** In 2016, consumer prices declined for the third year in a row. Inflation picked up in 2017 (+1.4 % on average compared to 2016), driven in particular by secondary effects of recent fuel price increases, and by rising wages in the services sectors. Commercial bank deposits rose again after a temporary, speculation-induced drawdown in spring 2016, and foreign currency markets stabilised. This prompted the central bank to lower the key interest rate by 75bps in three consecutive steps between December 2016 and February 2017 back to the level prevailing before the tightening of May 2016 (3.25 %). The bank effectively stimulated the "denarisation" of loans and deposits, with the share of loans in foreign currency falling to 19 % of total loans, compared to 21 % one year earlier. Still, the high level of unofficial "Euroisation" remains a risk to financial stability and poses a challenge to monetary policy. Given the subdued price developments, sluggish corporate lending, and a negative output gap, the current stance of monetary policy seems in line with economic fundamentals.

**Figure 2 The former Yugoslav Republic of Macedonia: fiscal developments**



Source: Eurostat, national sources

which makes up over 60 % of total expenditure, could not be secured. The 2018 budget foresees a significant fiscal stimulus, including higher pensions and subsidies, and funds to cushion the rise in minimum wages, and the extension of employment measures. However, the government has not presented consolidating measures to offset this rise in current expenditure. Public debt, which had been increasing continuously since 2009, stood at 46.7 % of GDP at end-2017, which is nearly 2 percentage points lower than a year earlier. This came as a result of both, a decline in public enterprise debt, and lower general government debt, which dropped by 0.3pp to 39.3 % of GDP.

**The government is committed to improving the transparency and management of public finances.** Public information on the fiscal situation in terms of extent and quality of data and

**Sustainable fiscal consolidation measures are needed.** In 2017, the general government fiscal deficit remained at about pre-year level (2.8 % of estimated GDP). In the preceding two years, it had narrowed consecutively, but largely as a result of underexecuted capital expenditure and reduced spending on goods and services. Each year, the government resorted to a budget rebalancing. This was because revenue (in particular VAT collection) remained under target, and financing of the rapidly increasing expenditure on pensions and other transfers,

timeliness has been enhanced noticeably since the new government took up office. In late summer 2017, it published a first compilation of unpaid public sector liabilities, and is working on a clearance strategy. It published a "Citizens' Budget" for 2017 and 2018, and started reimbursing blocked VAT refunds to the private sector. Covering a number of issues highlighted in respective reports from international organisations, the government adopted a Public Financial Management Reform Programme in December 2017, which contains plans for the introduction of fiscal rules by 2019 and the establishment of a fiscal council.

**The success of the current policy mix depends critically on structural reforms.** The expansive fiscal stance, accompanied by accommodative monetary policy, is largely suitable for the current economic environment. However, it carries risks to fiscal sustainability, long-term economic growth and external stability. These risks can be mitigated through increased competitiveness of labour and product markets. To that end, structural reforms need to play a bigger role, and be better integrated in the economy's growth model. The government should support, in particular, public infrastructure as well as private corporate investment, and human capital skills development. Fiscal consolidation must be pursued with sustainable measures.

### Product markets

#### *Business environment and market institutions*

**Contract enforcement remains problematic but the government is taking steps to improve it.** Institutional capacity to enforce the law remains weak, and resolving a commercial dispute through a court is time-consuming and costly. In recent years, the legal infrastructure has been improved and the number of cases handled by the courts has gone up. However, political interference with the courts frequently led to inefficient outcomes and has undermined trust. The new government is committed to increasing the effectiveness and the impartiality of the legal system, and has adopted measures to achieve this (such as the "3-6-9 plan"). Non-transparent inspections and para-fiscal fees remain an issue.

**The shadow economy remains a large obstacle to business.** The informal share of the economy remains large, impacting on the competitiveness of the formal private sector, although it is declining in terms of gross value added and employment. In surveys, the informal economy is consistently referred to as an obstacle to doing business in the country. Estimates on its size range from some 20% of total output (State Statistical Office) to about 40%, depending on the method applied. This creates obstacles to investment and serious problems of competition for registered companies.

#### *State influence on the product market*

**The public sector's share in the economy remains limited, and the new government is committed to fair and equal treatment of private companies.** In 2016 (latest available figure), the number of companies in which the government held a stake declined compared to the previous year. Full state ownership in 2016 was kept in 16 companies, the same as one year earlier. As a result, the value of state assets as a percentage of GDP dropped by 1.5pps to 11.7 %. However, throughout most of the reporting period, the government continued to be involved in the private sector through uneven application of rules and regulations, inspections, public procurement procedures and state aid. This often imposed great costs on private enterprises. The new government seems committed to transparent and equal enforcement of rules in the private sector. It also plans to extend subsidies to foreign and domestic companies on equal terms. There was little information published during the reporting period on amounts and beneficiaries of state aid and ex post evaluations. The large share of state-owned land remains an obstacle to the development of the agricultural sector, and restricts its use as

collateral by private owners seeking a bank loan. The governance of SOEs remains short of internationally-agreed good practice.

### The financial market

#### *Financial stability*

**The banking sector remains well-funded, liquid and profitable, but the share of non-performing loans remains elevated.** The financial sector is dominated by banks which account for about 90 % of the system's assets. Concentration remains high and unchanged compared to previous years, with some 58 % of assets held by the three biggest banks. There are 15 banks in total, most of which are foreign-owned. Liquidity was abundant, partly reflecting banks' sluggish lending and their diminished appetite for government securities. The capital adequacy ratio rose further in 2017, and at end-year amounted to more than double the regulatory minimum of 8 %. Banks' profitability continued to increase, yet more slowly than in preceding years. To support banks' solvency, the Basel III capital standards were adopted in October 2016 and came into force in March 2017. The quality of banks' assets improved slightly in the second half of the year: the share of non-performing loans (NPL) in total loans to the non-financial sector amounted to 6.3 % end of 2017 (0.4pps lower than in mid-2017). However, not including the mandatory write-offs since 2016, the NPL share remains at about 10 %. The central bank took further measures in 2017 to resolve the NPL problem, including the clarification of what constitutes a write-off. However, the high share of NPL on banks' balance sheets remains an obstacle to credit extension and to the transmission of monetary policy. Further measures are necessary to address this problem.

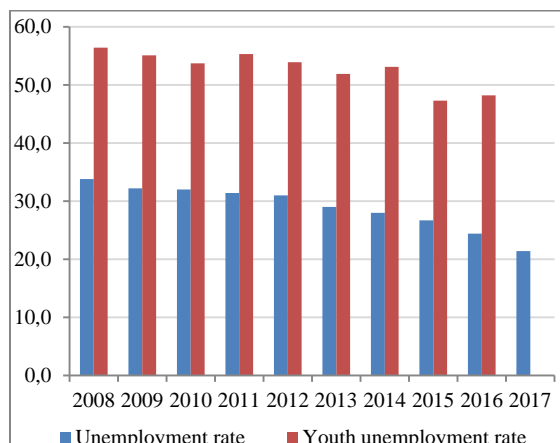
#### *Access to finance*

The level of financial intermediation increased further with assets, credit and deposits rising as a share of GDP. Bank lending to the non-financial private sector has picked up since spring 2017, and at end-year the amount of outstanding loans was some 5.6 % higher than one year earlier. Corporate credit, which had been declining, in annual terms, since summer 2016, bottomed out in autumn 2017 and has picked up progressively since then. Commercial bank loans remain by far the main source of financing for small and medium-sized businesses, which are generally hesitant about funding their financial needs on the capital markets. While corporate bond and venture capital markets remain underdeveloped, opportunities for equity funding were strengthened in 2016 through the setup of stock market linkages with other exchanges in the region ("SEE link"). The legal framework for investment funds has been harmonised with EU regulations.

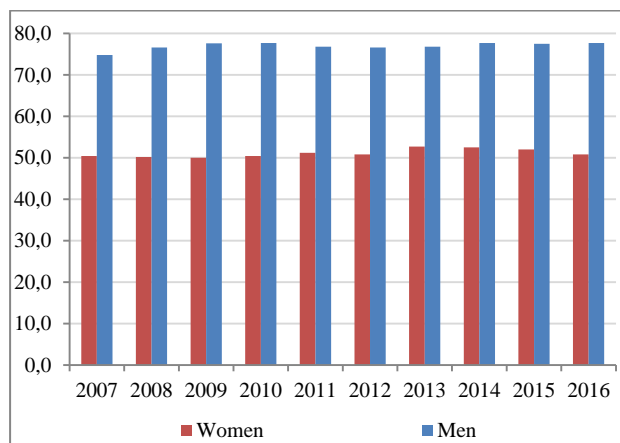
### The labour market

**The economy has created a large number of jobs in recent years.** Driven by vast government employment programmes, the labour market has posted solid, though decreasing employment gains, amounting to some 2.8 % on average each year between 2012 and 2016. In the last quarter of 2017, employment increased by 1.9 % in annual terms. Foreign direct investors receiving government support for recruitment also expanded employment. As a result, amidst a declining labour force, the overall unemployment rate dropped further, by 1.2pps, in the last quarter of 2017, compared to the same period one year earlier.

**Figure 3 Unemployment in the former Yugoslav Republic of Macedonia (% of Active population)**



**Figure 4 Participation rates in the former Yugoslav Republic of Macedonia (% of Labour Force)**



Source: Eurostat, national sources

**But labour market distortions restrain growth potential.** The decrease in unemployment partly reflects the low and declining activity rates. Moreover, the gender gap remains significant, with about 78 % of men participating in the labour market, compared to 52 % of women. The overall employment rate has increased gradually, from 48 % in 2012 to about 53 % in 2016 (age 20-64), but remains at a low level. Given the low female participation rates, women of working age are less likely to be in employment than men. Long-term unemployment has been declining somewhat in the last five years, but remains high, at 19.2 % of the labour force (2016). Youth unemployment has been slowly, but steadily declining in recent years, but remains high, at some 46 % in the last quarter of 2017. Large-scale emigration of skilled workers and low levels of enrolment in post-secondary education have left the economy struggling to rebuild a qualified young workforce. This holds back potential growth and delays the structural transformation of the economy, as it impedes the reallocation of resources towards sectors with higher productivity.

**Employment in the informal economy is declining, but remains high.** According to the national Statistical Office, about 18 % of total employment in 2016 took place in the informal economy. This share has decreased steadily from 28.6 % in 2008, supported by government measures incentivising formal employment by subsidising labour costs in recent years. Informal work is distributed unevenly among population groups, with a particularly high share for young workers, women and the long-term unemployed. High and flat social security contributions likely pose a disincentive for workers to leave informal work.

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

The economy has made **some progress** and is **moderately prepared** to cope with competitive pressures and market forces within the EU. Further progress was made towards diversification of exports and higher-value added output in the manufacturing sector. Trade and investment relations with the EU continued to intensify. The economy still suffers from weaknesses in education curricula, low innovation rates and important investment gaps including in particular public infrastructure.

In order to support long-term growth, the former Yugoslav Republic of Macedonia should pay particular attention to:



- improve the employability of graduates by reforming education curricula and increasing labour market participation;
- stimulate growth-enhancing investments, in particular in research and development and digitalisation;
- strengthen links between foreign investors and the local economy.

### Education and innovation

**The educational system is slow in addressing the skills mismatch.** While public expenditure on education, at about 4 % of GDP, is only slightly lower than the EU average, enrolment and completion rates in secondary (about 87 % completion) and post-secondary education have risen only marginally in the past five years, and remain below EU average. The gap between the skills of graduates and the needs of private companies narrows only slowly. The required move from traditional facts-based learning to the acquisition of general, transversal skills necessitates wider inclusion of the business sector in profiling and implementing programmes. The government has adopted many strategic documents addressing these challenges, but implementation remains partial. The Skills Observatory, intended to map and update graduates' competencies and labour market needs, developed jointly with the World Bank, has yet to be implemented. These shortcomings hamper the employability and productivity of graduates. The new government tackles some of these issues in its "Economic Growth Plan", adopted in December 2017.

**Innovation rates in the private sector remain low.** Expenditure on research and innovation remains modest, compared to the EU average, at 0.4 % of GDP (2015), only slightly higher than in 2010. The bulk of this expenditure is accounted for by public spending, which has increased in recent years. Even though the share of technology-intensive products in exports has risen (due to production by established foreign companies), innovation and technological development in private companies remains at a low level. Grants provided by the Innovation Fund, which started disbursements in 2015 to stimulate R&D in SMEs, have had a slow take-up. Hence, a stronger orientation towards a knowledge-based growth model requires an important boost in the innovative capacity of the country. The government's "Economic Growth Plan" has identified and addressed obstacles to faster innovation, such as weak absorption capacities of companies, and the lack of cooperation between academic research and companies. The plan foresees increased public funding for R&D departments in manufacturing companies.

### Physical capital and quality of infrastructure

**Weaknesses in the economy's capital stock are hampering competitiveness.** Private and public investment spending remains insufficient in view of the shortcomings in the country's infrastructure and production potential. Investment expenditure has remained largely constant at around 24 % of GDP between 2012 and 2016. Some 70 % of investment was carried out by private enterprises (domestic and foreign), while the remainder is public investment financed via the general government budget, international financial institutions and public enterprises. In 2016 and early 2017, public investment was largely blocked in the run-up to elections. Private investors lost confidence in the business environment given the prolonged political crisis. The quality of the existing capital stock is generally low, even though foreign direct investment boosted the modernisation of production plants in some sectors. Modernisation needs accumulate in transport, energy, health and education infrastructure. These shortcomings contributed to the decline in labour productivity in recent years and hold back the economy's potential for growth. In the energy sector, too, there is an important investment gap. Low capacity for power production leads to frequent outages. Losses from power

transmission and distribution diminish efficiency. The economy relies heavily on power from lignite and coal, and needs to develop renewable sources of energy.

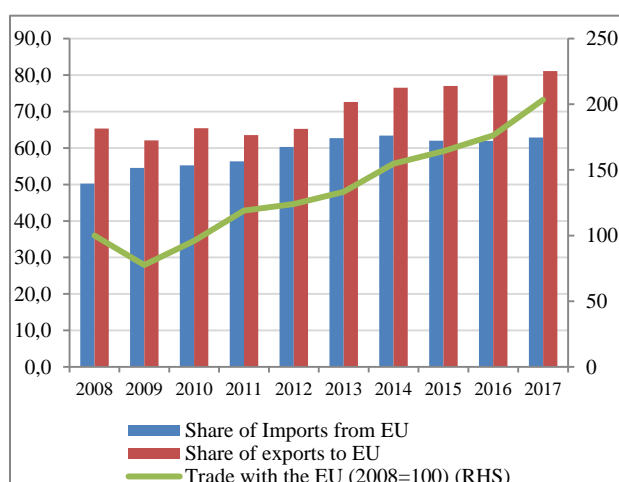
**Regional connectivity in transport and energy remains limited.** Road and rail connections to neighbouring economies are advancing. The last part of the Corridor X motorway in the country is about to be completed in 2018, while the rail connection upgrading is sluggish, as is Corridor VIII related road works. The ongoing construction of a joint railway border crossing to Serbia is projected to be completed in 2021. The implementation of projects is often protracted due to issues such as cumbersome procurement procedures and poor performance of contractors. The establishment of a cross-border power exchange, as foreseen in the energy reform measures, is hampered by continued price regulation in the national electricity market. Distribution of cross-border transmission capacities is operational with Greece, and system operators in Serbia and Bulgaria are expected to follow.

**The digitalisation of the economy is progressing fast.** The percentage of households with internet access at home has increased by 17pps between 2012 and 2016 (75.3 %), and mobile broadband penetration is also expanding further. However, fixed broadband penetration is comparatively low and not improving, impacting negatively on business competitiveness.

#### Sectoral and enterprise structures

**The structural transformation of the economy has been slow and has remained driven by foreign investment.** The sectoral structure of the economy has remained largely unchanged in the past five years. At some 60 % of estimated gross value added, services accounted for the largest share of gross value added also in 2017 (-5pps compared to 2012), with agriculture adding over 10 %. Industry contributed 19.5 % (+1.5pps compared to 2012). Mainly on account of foreign companies, the share of higher-value manufactured goods (machinery and equipment, chemical products) in industry output rose at the expense of basic manufactured goods such as iron, steel and clothing. Services provide half of the economy's jobs, followed by industry and construction (27 %) and agriculture (24 %), without significant changes since 2012. Over 99 % of all companies are SMEs, providing over 76 % of value added and an almost equal amount of employment.

**Figure 5 The former Yugoslav Republic of Macedonia: trade integration with the EU**



Source: Eurostat, national sources

**The importance of the EU as a trade and investment partner continues to grow.** The value of merchandise trade with the EU has increased progressively in the past decade and amounted to 71 % of the country's total trade in 2017. EU member states received 81 % of the country's exports in 2017 (+1.2 pps y-o-y), and provided 63% of the country's imports (+0.9 pps y-o-y). Trade with other CEFTA countries also increased in 2017 (exports and imports increased by 9 %). However, due to the stronger growth of trade with the EU, the CEFTA share in total trade declined slightly (by 0.5 pps, to 10.5 %). However, compared to the same period in 2012, exports to this region more than doubled. The share of the stock of EU investments in total foreign investment increased in 2016 to 79 %, while it had

remained stagnant in the preceding five years. FDI stock per capita remains low. The development of a Regional Economic Area based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth.

**Improved external competitiveness depends on diversification of the export structure.** The economy posts a high and growing degree of trade openness. The total value of trade in goods and services amounted to 124 % of GDP in 2017 (+10pps y-o-y). The composition of exports diversified further in 2017. The shares of iron and steel products, and clothing in total exports have fallen further, to the benefit of chemicals and machinery and transport equipment, which account for over 60 % of total exports. This supported the structural transformation of the economy, which, however, in general is proceeding slowly. The international cost competitiveness of the economy deteriorated slightly in 2016 and 2017, as the increase in gross wages outpaced labour productivity growth. The real effective exchange rate (CPI-based) has remained stable in the past 5 years.

#### 4. REGIONAL ISSUES AND INTERNATIONAL OBLIGATIONS

The country still maintains a bilateral immunity agreement with the United States, granting US citizens exemptions from the jurisdiction of the **International Criminal Court**. In doing so, it does not comply with the EU common positions on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. As mentioned in the previous report, the country needs to align with the EU position.

In September 2017, there were 529 Roma refugees from Kosovo registered in the country, of whom 18 were recognised refugees, 138 whose asylum applications were rejected and 373 were under subsidiary protection. There were 120 internally displaced persons (30 families). The Ministry of Labour and Social Policy continued to provide support to 80 families for rented housing and utilities, under the integration strategy. By September 2017, 90 persons have been assisted to return to Kosovo and more returns are expected in the coming period.

**Regional cooperation and good neighbourly relations** form an essential part of the country's process of moving towards the EU. They contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past. The new government has had a very positive approach to regional cooperation and good neighbourly relations. The country has continued to participate actively in regional initiatives such as the South East European Cooperation Process, the Regional Cooperation Council, CEFTA, the Western Balkans Six, the Energy Community Treaty, the European Common Aviation Area Agreement, the Central European Initiative, the Regional Initiative for Migration and Asylum, RECOM and the "*Brdo-Brijuni process*".

The impetus given through the '**Berlin process**' and the Western Balkan Six initiative, particularly on the connectivity agenda, continued to foster increased regional cooperation. The new Government engaged actively and hosted a ministerial meeting ahead of the Sarajevo Summit. It also participated at the Trieste WB6 Summit. The Government also engaged on regional cooperation in the area of migration.

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

Bilateral relations with *Albania* have intensified since the new government took office. The President of Albania visited the country in November 2017. The government of the former Yugoslav Republic of Macedonia provided financial support and humanitarian aid for the areas in Albania affected by floods. A joint governmental session took place in December 2017 in Pogradec. It was followed by the signature of bilateral agreements aimed at improving cooperation between the two countries.

Prime Minister Zaev paid a visit in July and November 2017 to *Bosnia and Herzegovina* and an agreement on mutual recognition and replacement of driving licenses were signed in September 2017. Parliament ratified the Cooperation agreement on the process of accession to the EU.

Relations with *Kosovo* continued to develop. Prime Minister Zaev visited Pristina in December 2017. In August 2017, the two signed an implementation protocol to open the new crossing point at Stancic – Belanoc. Both agreed to hold joint governmental meetings on an annual basis. Some tensions arose as a result of the verdicts related to Kosovo citizens participation in the 2015 Kumanovo events.

Relations with *Montenegro* remained good. The President of the Parliament visited Montenegro and the Prime Minister, Foreign Minister and Minister of Defence of Montenegro visited Skopje during the reporting period.

Relations with *Serbia* remained overall good. Sporadic tensions, such as those in August 2017, were swiftly resolved. Prime Minister Zaev visited Belgrade in November 2017.

Relations with *Turkey* developed, including through high level contacts. Prime Minister Zaev and President Ivanov visited Turkey in February 2018.

Relations with *Bulgaria* have improved with the new Government and were dominated by the entry into force of the Agreement on Friendship, Good-neighbourliness and Cooperation in February 2018, which addresses open issues between the two countries. The conclusion of the bilateral agreement was preceded by numerous bilateral meetings including a Government-to-Government session in Strumica in November 2017.

Relations with *Greece* have improved since the second half of 2017. Formal talks on the name issue restarted in December 2017, under the auspices of the UN. The two Foreign Ministers met on several occasions in bilateral and multilateral formats. Prime Minister Zaev

visited Thessaloniki on 30 December 2017 and met with the city's mayor. Constructive discussions continued in assessing positively progress in the implementation of the confidence building measures, which were launched after the visit of the Greek Minister in 2015. The announcements by both Prime Ministers in January 2018, and the renaming of Skopje airport and a highway, were concrete signs of strengthening mutual trust. These are to be followed by the unblocking of the stage 2 of the Stabilisation and Association Agreement and the membership in the EU Strategy for the Adriatic and Ionian Region. Economic and trade relations continued normally.

## 5. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

### 5.1. Chapter 1: Free movement of goods

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

The country is **moderately prepared** on the free movement of goods. There was **no progress** made in the reporting period. Last year's recommendations related to further approximate its legislation to the EU *acquis* remain valid.

In the coming year, the country should in particular:

→ complete the adoption of measures to remove non-tariff barriers to trade;

→ complete alignment on the General Products Safety Directive and ensure adequate administrative capacity to enforce the legal framework.

#### General principles

The country has a well-established institutional framework for **production, distribution and marketing of industrial products**. However, alignment with the EU *acquis* in the area of general product safety has not advanced. Plans to further **align the legislation with the *acquis*** are set out in the National Plan for Adoption of the Acquis and individual strategic documents for standardisation, metrology and accreditation.

#### Non-harmonised area

The action plan aimed at removing non-tariff barriers to trade, to comply with **Articles 34-36** of the Treaty on the Functioning of the European Union (TFEU), is being implemented, but nine identified legal obstacles to trade still need to be removed.

The Ministry of Economy is the competent authority to ensure the **obligation to notify the Commission on technical regulations** at the draft stage following the applicable EU requirements and international agreements.

#### Harmonised area: quality infrastructure

The legal basis and administrative structure for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance are in place. However, due to changes in the *acquis* the national legislation is no longer aligned in the areas of general product safety and market surveillance.

The Institute of **Standardisation** is a full member of the European Committee for Standardisation/European Committee for Electro-technical Standardisation (CEN and

CENELEC), adopted 23.686 European standards and standardisation technical documents as national standards. The Institute is implementing its 2016-2020 strategy for development of standardisation in the country. The national accreditation following ISO/IEC 17021 is under way.

There are 206 **conformity assessment** bodies in the country for calibration, testing, medicinal laboratories, product and process certification and inspection. The Institute of Accreditation has signed agreements with the International Accreditation Forum, the European Cooperation for Accreditation and the International Laboratory Accreditation Cooperation. The recognition of certificates for ISO 9001 is under way. In 2017, the Institute of Accreditation continued to work on accrediting laboratories operating within state funded higher education facilities and public health institutions. Accreditation schemes for the certification of personnel and the organisational set-up of skills testing have not yet been developed.

The Bureau of Metrology is the country's official **metrology** body. It has been a member of the European Association of National Metrology Institutes since 2007 and has signed an agreement with the General Conference on Weights and Measures. The Bureau has published its calibration and measurement capabilities in the fields of mass, volume and flow and thermometry. In 2017, the technical capacity of the staff working in laboratories in the field of electrical quantities, dimension and gas flow, were strengthened with the help of EU assistance.

On **market surveillance**, the law on general product safety is still not aligned with the *acquis*.

In 2017, the State Market Inspectorate conducted more than 752 inspections in connection with the Law on general **product safety** (an increase from 500 in 2016), mostly on household appliances, certain construction products, toys and children's clothing and 524 inspections on construction products (an increase from 261 in 2016). The Inspectorate coordinates its surveillance activities with other inspectorates and the customs authorities. The Staff numbers and training are insufficient. The equipment and vehicles are outdated. Budget limitations prevent to conduct effective market surveillance operations and proper testing. It has withdrawn 4 different harmful products from the market as disclosed on the website of the inspectorate.

Harmonised area: sectoral legislation.

On the '**New and Global Approach**' **product legislation**, the level of alignment with the EU *acquis* is uneven. The country has already adopted legislation designed to be aligned with the EU *acquis* in many sectors, particularly toys, gas appliances, machinery and medical devices. However, no progress was made on alignment with the latest *acquis* in these areas or in the area of conformity with civil explosive standards.

The national legislation has been designed to be aligned with almost all of the '**Old Approach**' **product legislation**. On the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and the legislation on chemicals, classification, labelling and packaging of substances and mixtures and the good laboratory practices, some harmonisation with the *acquis* up to 2010 has been achieved. However, further progress is needed to align its legislative framework and to enhance its administrative capacities in this area. The *acquis* on relevant **procedural measures** (including firearms, textiles, footwear and crystal glass) is incorporated into the national legal framework. Public authorities that control and supervise implementation of the laws are in place and are fully operational.

However, in the reporting period, no progress was made on further aligning the 'Old Approach' *acquis* on the return of cultural goods.. As such, further action is required in order to align national legislation with the latest EU *acquis* in the area.

The licensing, monitoring and controlling systems for economic operators dealing with **drug precursors** and **civil explosives** are in place. The categories of **fertilisers** covered by national legislation are designed to be fully aligned with the *acquis*.

## 5.2. Chapter 2: Freedom of movement for workers

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

Preparations in the area of freedom of movement for workers are still at an **early stage**. There was **no progress overall** in the reporting period.

In the coming year, the country should:

→ continue to adapt the legal framework in line with the EU *acquis* on access to the labour market, in particular regarding non-discrimination on grounds of nationality against EU workers;

→ start to take steps in coordinating social security systems to identify which administrative measures (strengthening the administrative capacity) would have to be introduced in preparation for future accession.

As regards **access to the labour market**, employment of foreign workers is regulated in law. Responsibilities of institutions are clearly divided concerning work permits for foreign workers. The current institutional set up allows a foreign worker to obtain a single permit upon submitting a single application to a single authority. EU citizens do not have access to posts in public administration. No efforts were undertaken to further transpose EU *acquis* into the national legislation and a distinction between a foreigner and an EU citizen has not yet been introduced into the domestic legal framework. EURES (the European network of employment services) is not widely used.

There are 22 bilateral agreements on **coordinating social security systems**, 11 of which are with EU Member States. No new agreement was ratified in 2017. There are nine agreements on the use of the **European Health Insurance Card** between the country and Member States. No new agreement was ratified in 2017.

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

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

The country is **moderately prepared** on the right of establishment and freedom to provide services. As **no progress** was made during the reporting period, the 2016 recommendations remain valid.

In the coming year, the country should in particular:

→ continue aligning national legislation with the EU *acquis*, mainly with the Services Directive and on the mutual recognition of professional qualifications;

→ establish a single point of contact for 'one-stop shops' for company registration in line with the Services Directive;

→ complete the liberalisation of the universal postal service.

There were still no developments on the **right of establishment**. The horizontal law, approximating to the Services Directive, has not yet been adopted. The point of single contact, as required by the Services Directive, has not yet been established. As regards the **freedom to provide cross-border services**, foreign companies still cannot offer ISO 9001 certification to national public administration bodies on quality assurance. This remains an impediment to the free movement of services.

The **postal services** market liberalisation was delayed further, with 31 December 2018 as the new deadline for the abolishing the reserved area for postal monopoly. The Law on postal services still needs to be amended to ensure that the opening of the postal services market is fully completed. The Postal Agency's functioning was hampered by the delayed adoption of its annual work plan. The Postal Agency is sufficiently staffed with a total of 17 employees, 5 of which are supervising the implementation of the Law on postal services. During 2016, 33, and in 2017, 31 licensed postal service providers actively operated on the postal market, with licences for different types and scopes of services and geographic operating areas. The universal service is provided by *AD Macedonian Post*. The Postal Agency is monitoring the introduction of a separate accounting system, which is still at a preparatory phase and needs to address outstanding issues on the financing of net costs of the universal service obligation.

As regards **mutual recognition of professional qualifications**, the Professional Qualifications Electronic Register has been created, but still needs to be further developed and data on validated and accredited professional qualifications to be inserted. An updated and transparent list of all regulated professions is still pending. The institutional set-up for the mutual recognition of professional qualification needs to be revised and strengthened. The expertise and powers of the inter-ministerial working group on recognition of professional qualifications also needs to be strengthened.

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

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

In the area of free movement of capital, the country is **moderately prepared**. Some progress was made by enhancing stability of the payment system.

In the coming year, the country should in particular:

- adopt and implement the new legislation on payment services;
- take measures for the further gradual application of the free movement of capital;
- demonstrate a sound track record in fighting money laundering and the financing of terrorism, and further align with the EU *acquis* in this area.

On **capital movements and payments**, the country continued to meet the first stage requirements of the Stabilisation and Association Agreement (SAA). Restrictions on capital movements remain, namely for resident citizens who acquire real estate and securities abroad or hold a bank account abroad. Foreigners can maintain a bank account in the country, but they cannot own agricultural land.

On **payments systems**, the Central Bank adopted a policy document on the oversight of payment systems in order to strengthen their stability and efficiency. Banks contributed to setting up a guarantee fund held at the Central Bank.

On the **fight against money laundering and financing of terrorism**, further work is needed in order to align with the EU *acquis* in this field and to participate in the regular



MONEYVAL follow-up procedure. The national risk assessment is under implementation. Cooperation between law enforcement agencies, intelligence services and relevant key state institutions needs to be stepped up.

In 2017, the Financial Intelligence Office reported a minor increase from 228 to 232 of suspicious transactions submitted. The Office sent 35 reports (28 in 2016) of money laundering and terrorism financing cases and 201 notifications for other actions to the law enforcement bodies. Also 19 people were indicted and 12 people convicted for money laundering or terrorism financing.

## 5.5. Chapter 5: Public procurement

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

The country is **moderately prepared** in this area, which is particularly vulnerable to corruption. **Some progress** was made with the launch of the reform of the public procurement legal framework. Some of the recommendations of the 2016 report were implemented. However, substantial efforts are still needed to ensure a stable, transparent, efficient and effective public procurement system. Further efforts are needed to prevent irregularities and corruption during the procurement cycle. Investigations into allegations of serious conflicts of interest and abuse of public office need to be followed up.

In the coming year the country should in particular:

- step up efforts to finalise the reform of the public procurement system by approximating to the 2014 EU Directives on public procurement especially by reconsidering the mandatory use of e-auctions;
- ensure that reports of irregularities related to public procurement in general are properly investigated and offenders are sanctioned;
- strengthen the administrative capacity of the Public Procurement Bureau regarding oversight and monitoring of public procurement and of the Ministry of Economy regarding management of concessions and public-private partnerships.

### Institutional set-up and legal alignment

The public procurement reform was launched with the abolition of the Public Procurement Council in November 2017, which alleviated the procurement process, both administratively and financially. The **legal framework** on public procurement broadly approximates to the 2004 EU Procurement Directives, but needs to address the exclusive use of the 'lowest price' criterion and the 'mandatory' e-auctions. Also, companies continue to be excluded from future tenders due to professional misconduct ('blacklisting', which is not in line with the European Court of Justice case law). The approximation with the EU Directive on Defence and Sensitive Security Procurement and the 2014 EU Directives on public procurement is also still pending.

EU-based companies are still offered less favourable conditions for registration in the e-procurement system. The unequal treatment compared to the national companies continues, despite the fact that the SAA provides for access under the same conditions as the national companies. The Public Procurement Bureau continued to be the pillar of the public procurement system. However, the Bureau has yet to gain oversight and monitoring powers, so it can reach its full potential in order to trigger more efficient cross-cutting cooperation among public procurement actors and stakeholders. Eliminating corruption during the procurement process remained theoretical and little was done to increase the cooperation with

the State Commission for Protection of Competition and the State Commission for Prevention of Corruption.

The 2016-2018 **strategy** on public procurement is not inclusive and limits itself to the Public Procurement Bureau's strategic priorities. It contains no overall supervision or reporting mechanisms, budgets or detailed timelines for implementation. Centralised purchasing is limited and overall supervision of the award and execution of public contracts is still lacking.

#### Implementation and enforcement capacity

The **public procurement market** increased and represented 10 % of the country's GDP and 30% of the state budget both in 2016 and 2017. The mandatory use of the e-procurement system helped reduce costs by 25 %. However, the mandatory use of e-auctions is not in line with the *acquis*. The e-procurement system allows the linking of awarded contracts to their annexes as of 2016, but contracts awarded under the 'Skopje 2014' project remain untraceable. The prior approval by the Public Procurement Council, combined with the exclusive use of lowest price criterion, largely reduced the competition, with 19 % of tenders annulled in 2016 and 22 % in 2017, because no bids were submitted.

The contracting authorities should be legally obliged to publish their procurement plans, to increase transparency and allow planning and preparation on an annual basis. 78 % of the overall value of public procurement in 2016 and 70 % in 2017 were awarded to small and medium-sized enterprises.

6 % of the contracts awarded were not consistent with the respective contract notices because the latter were amended after being published (risk of deviation in the post-contracting phase). The use of negotiated procurement procedures without prior publication remained at 4 % in 2016 and raised to 6.5 % of the total value of procurement in 2017.

Investigations by the Special Prosecutor's Office into the 'Skopje 2014' project, and into certain large infrastructure and health contracts and grave professional misconduct are further being dealt with by the courts. The strengthening of the internal audit function remains vital to improving contract implementation and monitoring (see chapter 32 – Financial control).

The Ministry of Economy remains competent for concessions and public-private partnerships with only two employees. There is no register on concessions or on public-private partnerships and data is patchy. The Skopje Airport and Skopje City concessions are lacking. The Public-Private Partnership Council is not operational.

**The capacity to manage public procurement processes** is uneven between contracting authorities and is particularly challenging for small contracting authorities. The regulatory and institutional framework on **integrity and conflict of interest** exists but its implementation is not effective. The e-procurement system was upgraded with 'red flags' to signal potential problems with integrity and to link contract notices with awarded contracts. The number of integrity-related reports remained low, however follow-up investigations and proper penalties are missing.

#### Efficient remedies system

The structure and the independence of the legal remedy system, remains formally compliant with the *acquis*. However, full alignment with the Remedies Directive, in particular related to a standstill period and time limits, has not yet been achieved. The number of appealed tenders remained at 3 % both in 2016 and 2017, and the State Appeals Commission upheld complaints in about half of the cases. The resolution rate remains stable at 97 % both in 2016 and 2017. Penalties for misdemeanours that occur during the review process remain disproportionate and render the decision-making of the State Appeals Commission highly

formalistic. Its **implementation capacity** and that of the courts needs to be strengthened and appointments need to be freed from political interference. Improving access to the Commission's decisions and web browsing tools are necessary to increase transparency.

## 5.6. Chapter 6: Company law

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

In the area of company law, the country remained at a **good level of preparation**. **Some progress** was made by making the Institute of Chartered Accountants operational.

In the coming year, the country should pay particular attention to:

→ continue efforts to align company law with the latest *acquis* on corporate accounting and statutory audit.

The legislative framework for **company law** was amended to provide for the protection of minority shareholders' rights. Alignment with the EU Directive on cross-border mergers remains incomplete. The Central Register maintains a public register for company e-registration and disclosure of financial statements; financial disclosure is obligatory for each registered company, regardless of size. A corporate governance code has yet to be established.

In the area of **corporate accounting** and **statutory audit**, a cooperation agreement was signed between the Institute of Chartered Accountants and the Institute of Chartered Auditors regarding the implementation of international standards and continuous education. International Financial Reporting Standards (IFRS) and the IFRS for small and medium-sized enterprises are applied; concerning the latter, attention should be paid to the simpler system that applies to smaller companies under the EU's accounting *acquis*. The Council for Audit Oversight and Promotion continues to develop its international cooperation. The Institute of Certified Auditors is responsible for certifying and training of auditors, as well as the recognition of an auditor's qualifications obtained abroad. A statutory audit is performed according to adopted international auditing standards. Public-interest entities are defined in the audit law, however there are currently no specific requirements on their statutory audit. An effective system of investigations and sanctions has yet to be established. Overall, further efforts are needed to align with the *acquis* on corporate accounting and statutory audit.

## 5.7. Chapter 7: Intellectual property law

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

The country is **moderately prepared** in this area. **Some progress**, although limited, was made in improving the legal framework on copyright and on protected designation of quality.

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

→ step up efforts to investigate and prosecute infringements of intellectual property;

→ strengthen the collective management system;

→ improve coordination among the law enforcement institutions, establishing an information platform for exchange of data and raise public awareness on the importance of protecting intellectual property rights according to EU best practices.

As regards **copyright and related rights**, following the licence revocation in 2016, the collective management of related rights exists only for music rights. The fees for the rights that are owed by the phonogram producers are no longer collected. The unit responsible in the Ministry of Culture remains understaffed. Both national and international cooperation remains very limited.

In the area of **industrial rights**, the State Office for Industrial Property continued the strategic cooperation with the European Patent Office, the World Intellectual Property Office and the European Union Intellectual Property Office. The 2016-2018 strategy on industrial property was adopted following delays but without an update of the relevant action plan, which risks undermining its credibility. Information campaigns were launched on the threats that counterfeit goods can cause to public health. However, their organisation lacked ownership and relied heavily on donor-funding. The State Office for Industrial Property declined to set up the information platform for the exchange of IPR-related data among law enforcement institutions. There are still challenges as regards providing good quality services to the public.

Infringements of intellectual property rights are frequent, but the absence of reliable statistics on their handling by the law enforcement institutions prevents a credible **enforcement** record from being established. Measures taken by the Coordination Body for Intellectual Property are rare and mostly target infringement of trademarks. This body lacks political support and its funding remains insufficient to fulfil its mandate, raise public awareness or educate the right-holders about the importance of intellectual property rights.

## 5.8. Chapter 8: Competition policy

*EU rules protect free competition. These include antitrust rules against restrictive agreements between companies and abuse of dominant position, and also include rules on concentrations between companies which would significantly impede competition. EU rules also prevent governments from unduly granting state aid which distorts competition.*

The country is **moderately prepared** in the area of competition policy. **No progress** has been made in this field during the reporting period. As none of the last report's recommendations have been addressed, they remain valid. Significant efforts are needed on enforcement.

In the coming year, the country should pay particular attention to:

- step up efforts to strengthen the enforcement record of the Commission for the Protection of Competition (CPC);
- increase the transparency of State aid granted by the government.

### Antitrust and mergers

The **legislative framework** remains broadly aligned with Articles 101 (restrictive agreements) and Article 102 (abuse of dominant position) of the TFEU and with the corresponding provisions of the SAA. It also provides for *ex ante* control of mergers, following the principles of the Merger Regulation. Some gaps in secondary legislation have yet to be filled.

On the **institutional framework**, the CPC is responsible for implementing the Law on Protection of Competition. The CPC is formally an operationally independent authority whose four members and President are appointed by Parliament. It acts upon complaints, notifications (e.g. for mergers) or on its own initiative. It can issue requests for information or carry out unannounced on-site inspections. If competition rules are breached, it can accept remedies and impose fines. A leniency policy towards self-reporters of cartels is in place, but has not yet been used. The CPC may approve mergers, with or without conditions, or prohibit

them. It provides opinions on draft legislation that may affect competition. Its decisions may be subject to an appeal before the Administrative Court.

On **administrative capacity**, the CPC's level of expertise needs to improve. Its level of funding varies each year, and raises concerns about its independence. On **implementation**, the number of mergers assessed rose from 31 in 2016 to 50 in 2017 and the number of decisions adopted on cartels and abuse of dominant position remained at 7 in both years. The maximum 10% cap on fines was applied for the first time in 2017. The CPCs' enforcement policy has yet to be strengthened, with the increased use of on-site inspections and the active use of leniency policy. Concerns remain over the lack of independence and the capacity of courts in dealing with anti-trust cases.

#### State aid

On the **legislative framework**, the national Law on State aid control broadly reflects Articles 107 and 108 of the TFEU and the SAA. However, the implementing legislation on certain forms of aid and specific sectors still needs to be aligned with the *acquis*. The State aid inventory and the regional aid map have not yet been put in place.

On the **institutional framework**, the CPC is also responsible for the implementing the Law on State aid. State aid providers must notify the CPC of their plans to grant new or alter the existing state aid so that it can assess its compatibility. If an aid measure is not notified, the CPC has the power to investigate it *ex post*. If it finds that the aid given is incompatible with the Law on State aid, it can order its recovery.

The CPC's **administrative capacity** to deal with state aid remains inadequate with only three staff, outdated equipment and budget constraints.

As regards **enforcement**, the number of decisions adopted further dropped from 13 in 2016 to 6 in 2017. State aid represented 0.2 % of the country's GDP both in 2016 and 2017. The increased number of requests for opinion and notifications, notably from the Ministries, implies rising awareness of state aid rules. Safeguards to ensure that state aid measures are free from conflict of interest still need to be put in place. State aid continued to be provided for air transport without being notified to the CPC and its compliance with the applicable rules needs to be clarified.

#### Liberalisation

Anti-trust and state aid rules apply to state-owned undertakings and undertakings with special or exclusive rights, except when applying them would obstruct the performance of the particular tasks assigned to them. However, the country still needs to demonstrate that these rules are actually being enforced.

There is no evidence concerning the existence of monopolies of a commercial character within the meaning of Article 37 of the TFEU.

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

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

The country remains **moderately prepared** in the area of financial services. **Some progress** was made as regards the implementation of regulations and strengthening the enforcement capacity of financial market regulators. As the 2016 recommendation to address the issue of consumer protection has not been implemented, this should remain a priority.

In the coming year the country should:

- continue to implement the Capital Requirements Directive IV package and designate a bank resolution authority;
- collect data on unregistered and uninsured vehicles.

On **banks and financial conglomerates**, the implementation of the Capital Requirements Directive IV package has started, notably regarding capital adequacy standards. Related to this, a new methodology was introduced for calculating the current leverage ratio. The legislation does not yet designate a bank resolution authority. Whereas strong policy measures by the Central Bank in 2015 were crucial in preserving banking system stability, efforts made towards protecting consumers and preventing unfair banking practices need to continue, as no progress has been made.

On **insurance and occupational pensions**, new licences were issued for life insurance companies. Motor vehicle insurance accounts for about half of all premiums. There is no relevant data on the proportion of uninsured vehicles. A measure to introduce stickers for vehicles to demonstrate that these are registered and insured has not been implemented effectively. The legislation authorising the Ministry of Finance to set premiums for motor vehicle insurance and the provision setting a 50 % limit on investing in non-domestic securities by pension funds remain contrary to the *acquis*. There are no longer delays in transferring funds from the state pension insurance fund to private funds, which had previously led to a breach of the legislation on management of deposits.

Concerning **financial market infrastructure**, a reserve guarantee fund for small interbank payments was established. These reserves are sufficient to settle the possible daily negative net exposure of banks. The rules by the Central Securities Depository prescribe when transactions are final and irrevocable but their alignment with the Settlement Finality Directive is yet to be finalised. Alignment with the Financial Collateral Directive remained incomplete. There were no developments on **securities markets and investment services**. There is a need to finally adopt and implement a new law on capital markets which aims to align legislation to the *acquis*, and which also includes legislation prescribing liquidity and solvency ratios for brokerage houses.

#### 5.10. Chapter 10: Information society and media

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

The former Yugoslav Republic of Macedonia is **moderately prepared** in the field of electronic communications and the information society. **No progress** was made during the reporting period.

As the 2016 recommendations have largely not been implemented, in the coming year, the country should in particular:

- prepare a Long-term Information Communication Technology (ICT) Strategy and a National Cybersecurity Strategy;
- strengthen the independence and capacity of the media regulator and the public service broadcaster;
- complete the action plan for the implementation of the introduction of the 112 emergency number, and allocate the necessary financial resources.

In the area of **electronic communications and information and communications technologies**, the fixed broadband penetration remained at almost 18 % of the population, while mobile broadband, including 2G/3G/4G, reached 60 %. Expansion of the 4G mobile network continued. Prices for regional roaming services further decreased on 1 July 2017 in line with the 2014 agreement with Bosnia and Herzegovina, Montenegro and Serbia. In November 2017, the country signed a memorandum of understanding with Bulgaria encouraging mobile operators to sign mutual agreements to reduce roaming charges. A broadband strategy has not yet been prepared.

The European emergency number 112 has not yet been introduced. Investments in developing electronic communications increased. Public consultation procedures with operators continued satisfactorily, but concerns remain about the regulator's ability to act independently. The use of Agency for Electronic Communications funds, previously abused for political purposes, should be limited to regulatory and monitoring activities in the field of electronic communications.

As regards the **information society**, a long-term digital agenda and a separate digital skills strategy have not yet been developed. The new Education Strategy includes digital literacy among its priorities. A national cybersecurity strategy has not been yet developed or the resources found for its implementation. Application of electronic signature is limited to a few institutions providing services to businesses. The interoperability system is used by only a few (four) institutions, despite the equipment and software having been provided. E-government is at an early stage of preparation. Barriers to e-commerce still have to be removed, including customs duties and VAT on imports for small value items.

In the field of **audio-visual policy**, the regulator continued to be proactive in reminding media outlets of their legal obligations and enhancing its cooperation with civil society organisations. In several cases, the regulator and media association continued to report inflammatory, discriminatory and hate speech, as well as unprofessional journalistic reporting. On behalf of the *ad hoc* body for media monitoring of the 2016 parliamentary elections' campaign, pursuant to the Przino Agreement, the media regulator submitted 68 cases to courts. Courts demonstrated an inconsistent reading of laws and delayed verdicts.

The media regulator initiated a network for media literacy involving state and non-state actors. Development of a more systematic approach and cooperation among the stakeholders on media and digital literacy is needed.

Concerns over the public service broadcaster's lack of editorial and financial independence remained. As of October 2016, *Macedonian Radio and Television* is no longer funded by broadcasting fees but from the state budget. Delays in transfers from the budget to the public service broadcaster, the Agency for audio and audio-visual media services and the public enterprise for broadcasting, should be avoided. The country participates in the Media sub-programme of 'Creative Europe', with the National Film Fund as national contact point.

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

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

The country is **moderately prepared** in the area of agriculture and rural development. **Some progress** was made on alignment with the common agricultural policy.

In the coming year, the country should in particular:

→ increase efforts to absorb IPARD II funds;

- improve the process of alignment of the **Farm Accountancy Data Network**;
- intensify policy alignment in the area of **common market organisation**.

As regards **horizontal issues**, decisions on the five-year national programme for direct payments and rural development support and the functional review of the sector institutions have been delayed. Further alignment of national support schemes should be considered to upscale the continued national and EU investments in management, administration and control systems. The process of alignment of **Farm Accountancy Data Network (FADN)** is ongoing, although its poor quality prevents its effective use in policy design. Further alignment with EU policies requires decoupling of payments from production and introduction of cross-compliance standards.

Development of an **Integrated Administration and Control System (IACS)** – i.e. farm register and Land Parcel Identification System (LPIS) – has continued with EU support. No progress has been made to improve data quality and relevance of the farm register and LPIS. Current structures and resources at the Ministry of Agriculture, Forestry and Water Economy, and the Agency for financial support in Agriculture and Rural Development remained insufficient to operate and maintain a robust control system. The country needs to clarify the role of the Ministry of Agriculture Forestry and Water Economy and of the Agency for financial support in Agriculture and Rural Development for operation and maintenance of the **IACS**.

On **common market organisation (CMO)**, some improvements in the collection of agriculture market information have been made. Market measures and risk management measures, applied for individual agriculture products, need to be better justified. Further alignment with common market measures could be better exploited to enhance sector competitiveness.

In **rural development**, the first EU pre-accession programme for agriculture and rural development (IPARD I) has been concluded with 17 % of the available funds paid during the period 2007-2013. The entrustment of budget implementation tasks for the IPARD II programme was granted by the Commission and the first call for applications was launched. Ability to absorb funding under IPARD II remains challenged by incomplete applications and lengthy contracting process. The constant decrease and high turnover of staff in the Managing Authority and in the IPARD Agency continue to be an issue of serious concern. There is little improvement in the provision of advisory services.

In the area of **quality policy**, some progress has been noted as one product ('Ohrid cherry') has been registered as geographical indication. The legislation in the sector is aligned with the *acquis* but additional efforts are needed in implementing the relevant rules.

In the area of **organic production**, the legislation is aligned with the *acquis*. Ministry of Agriculture, Forestry and Water Economy is the competent authority. It put in place a system of accreditation of control bodies and a system of certification of organic production.

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

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

The country is at a **good level of preparation** in the area of food safety and veterinary policy. **Some progress** was made on veterinary policy and food safety.

In the coming year, the country should in particular:



- increase the activities to improve hygiene, animal welfare and biosecurity standards on farms and maintain the ability to control vector-borne diseases;
- establish an action plan to collect and treat animal by-products;
- determine the plant pest status in the country.

On **general food safety**, an emergency decision was adopted on compulsory examination of radionuclides in consignments of food and feed originating in Japan. On **veterinary policy**, the Food and Veterinary Agency provides regular updates on the control system of imports and import requirements for live animals and animal products. In order to assess the risk of West Nile fever, traps for vectors have been placed in different epidemiological parts of the country. The Agency is vaccinating foxes against rabies and is implementing vaccination against lumpy skin disease. Rulebooks were issued on animal disease notification, on animal welfare and on eradication of swine vesicular disease. The reliability of the animal identification and registration system should be improved. The identification and registration system for horses still needs to be established. The Food and Veterinary Agency was equipped with new field inspection equipment, IT equipment and vehicles.

Regarding the **placing on the market of food, feed and animal by-products**, a rulebook was issued on animal by-products and on the food safety microbiological criteria. The Agency is implementing a programme for full compliance of dairy farms with the health and hygiene standards. The country has been authorised to export poultry meat, bovine meat and fish products to the EU market. A collection and treatment system for animal by-products has not yet been established. Some progress has been achieved on **food safety rules**. Implementing legislation on recycled plastic materials intended to come into contact with food was adopted. As regards **specific rules for feed**, two rulebooks were adopted on feed safety monitoring.

No progress can be reported on **phytosanitary policy**, which remains at an early stage. Capacities of the Phytosanitary Directorate to provide a credible analysis of collected data and to define corresponding programs for pest control and eradication are limited. The effectiveness of the phytosanitary inspections should be improved. International standards for determining the pest status in the country are not implemented. A phytosanitary information system has not yet been established. Coordination between the competent authorities remains poor and ineffective.

The legislative framework on **genetically modified organisms (GMOs)** is aligned with the *acquis*. However, production, placing on the market and import of genetically modified food and feed is banned until EU accession. The Food and Veterinary Agency is the competent authority for genetically modified food and feed. Control and monitoring activities are carried by the food inspectors.

### 5.13. Chapter 13: Fisheries

*The Common Fisheries Policy protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules for aquaculture as well as support for fisheries and coastal communities.*

The country is **moderately prepared** in the area of fisheries. **No progress** was made on aligning market policy with the *acquis*. Some improvement in fish stocks management of trans-boundary lakes is noted.

In the coming year, the country should:

- further align its market policy with the *acquis*.

The *acquis* on catch quotas, managing fleet capacity, inspection and control is of limited

applicability as the fisheries sector is based on commercial lake fishing and aquaculture.

The country should concentrate its efforts on further aligning its **market policy and standards** with the relevant *acquis*. Distortive **state aid** measures, such as the provision of premium subsidies (per kilo of marketed fish) to aquaculture producers, should be discontinued or gradually phased out.

**A data collection system** needs to be set up to ensure data accuracy, reliability, availability and timeliness. Coordination of data collection activities with other neighbouring countries (Albania and Greece) needs to be expanded.

#### **5.14. Chapter 14: Transport policy**

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

The country is **moderately prepared** in the area of transport policy. **Some progress** has been made with the signature of the Transport Community Treaty. However, increased political commitment is required to deliver on necessary sectoral reforms and more work is needed to strengthen administrative and operational capacity for all modes of transport.

As most 2016 recommendations have not been implemented, in the coming year the country should in particular:

- strengthen the operational and administrative capacity of the inspection bodies and develop enforcement capacity to reduce fatalities along road and rail infrastructure;
- focus on implementing the connectivity reform measures on rail reform and the opening of the rail transport market for at least domestic and regional undertakings as well on setting-up a national system for continuously collecting data on road crashes;
- adopt legislation on intelligent transport systems (ITS) and combined transport, and make further efforts to produce a strategic framework for implementing ITS and the core networks.

As regards the **general transport *acquis***, the key strategic documents for the transport sector and its related sectors are already in place. Domestic legislation is fully aligned with the *acquis* on arrangements for summertime. A new National Transport Strategy 2017-2030 has yet to be finalised and adopted. Operational and administrative capacity for all modes of transport remains low and needs to be strengthened. The law on air and railway accident investigation has been adopted but the independent rail accident investigation body has still not been established. The country should continue efforts to implement the EU passenger rights legislation in all modes of transport.

On **road transport**, the legal framework is overall broadly aligned with the *acquis*. Legislation on dangerous goods is aligned with the *acquis*. However, conformity assessment of the existing equipment for the transporting dangerous goods has yet to be introduced. The country needs to continue aligning with the social and safety *acquis* and improve education and training as well as enforcement capacity and strengthening in particular the administrative and technical capacity of the State Transport Inspectorate. Further harmonisation is required on penalties for infringing the provisions of the European Agreement concerning the Work of Crews of Vehicles engaged in International Road Transport (AETR). Legislation on clean energy and energy efficient road transport vehicles and on intelligent transport systems has not been transposed yet. The legislation on market access for goods, passengers and pricing is aligned with the *acquis*. The *acquis* on access to international markets for coach and bus services has already been transposed.

On **rail transport**, the country has already met a major requirement of the *acquis* by already unbundling the infrastructure management and railway operation of its state-owned railway company. However, there are delays in separating of the accounts of the national operator for passenger and freight operations and the transposing and applying large parts of the provisions of the Single European Railway Area are delayed. Further efforts are needed to fully open a rail market. Railway safety legislation is harmonised, but further efforts are needed to meet the requirements for implementing it. The cross-border railway cooperation agreement with Serbia and other neighbours (Greece and Kosovo) still needs to be fully implemented. The establishment of the accident investigation body and the safety and regulatory bodies need to be established.

On **maritime transport**, the country, despite being landlocked, is party to all basic transport conventions of the International Maritime Organisation. National authorities decided to postpone membership to the Paris Memorandum of Understanding.

In the area of **inland waterway transport**, relevant EU legislation has been transposed, with the exception of the Regulation on recognition of certification and transportation of goods and passengers. An authority responsible for inland waterways has been established a decade ago. The law on merchant shipping needs is not aligned due to the absence of transport of goods on the inland waterways. The country actively participates in the International Commission of Sava River Basin but does not participate to in the EU Strategy for the Development of the Danube Region. The country has signed the main international agreements on inland waterways, as well as several bilateral agreements with neighbouring countries.

On **aviation**, the country has achieved a good level of alignment with the *acquis* although aviation safety legislation is only partially aligned. The country should pursue efforts to comply with the requirements under the first transitional phase of the European Common Aviation Authority Agreement. Full transposition and implementation of the Single European Sky legislation remain to be verified by the European Aviation Safety Agency (EASA). The working arrangement with EASA covers all aspects of the *acquis* in civil aviation safety and environmental protection of products, organisations and personnel but further efforts should be made to facilitate EASA standardisation inspections.

The process of adopting specific legislation for **combined transport** remains incomplete. A location for establishing a multimodal node near Skopje has been pre-selected.

## 5.15. Chapter 15: Energy

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

The country is **moderately prepared** in this area. **Some progress** was made in particular with adoption of the third National Energy Efficiency Action Plan and revision of the National Renewable Energy Action Plan. However, no progress was made on the opening of the electricity market. Obligations undertaken in accordance with the Energy Community Treaty are not fully implemented.

As not all 2016 recommendations have been implemented, in the coming year, the country should in particular:

- transpose and implement the EU's Third Energy Package;
- complete the unbundling of transmission systems operators;
- improve the capacity of the Energy Department in the Ministry of Economy, as well as the Energy Agency.

The **National Energy Strategy** until 2035 is still not adopted. The availability of coal for the Bitola thermal power plant remains one of the issues that should be addressed urgently as this concerns security of supply. The 2014 Law on Compulsory Oil Reserves was supposed to be applicable from 1 January 2015, but 3 Laws Amending the Law on Compulsory Oil Reserves have postponed its application. It is now envisaged to enter into force as of 1 January 2019. Even though there are delays in the approval of necessary bylaws and action plans the country's oil stocks correspond to 70 days of imports.

The country continues making progress on developing **electricity transmission interconnectors**. Preparatory activities are under way for constructing a new 400kV electricity line with Albania. On **gas interconnections**, a Memorandum of Understanding was signed with the company in charge of constructing of the interconnection line with Greece. Construction of the Klecovce-Štip gas transmission pipeline has been completed and the activities on the gas pipeline section Negotino – Stip, Negotino – Kavadarci and Skopje-Tetovo-Gostivar are due to begin. On the development of a **power market with the neighbouring countries**, as of 2017, interconnection capacities with Greece are auctioned through the South East Europe Coordinated Auction Office. In August 2017, the country signed a Memorandum of Understanding with Bulgaria that provides for a feasibility study for a new gas link between the two countries.

The country has still not aligned its framework and implementing legislation with the EU's third energy package in gas and electricity. Starting from 1 July 2017, the electricity market opening was further extended for customers with an annual electricity consumption of above 500 MWh. Currently the percentage of total electricity consumption covered by the open electricity market is around 47 %. All remaining captive customers must be made eligible to switch their suppliers immediately. The Ministerial Council of the Energy Community adopted decisions that deemed that the country had breached its obligations due to its non-transposition of the Third Energy Package and for lack of opening of the electricity market. The natural gas market is fully liberalised. By-laws on electricity prices and tariffs determine the criteria for assessing how to ensure that the tariffs of regulated energy activities are **cost reflective**. However, introducing the two hour daily cheap electricity tariff for households is not in line with the market rules. Regulated prices apply to electricity generation in the state-owned utility.

**Third-party access to the natural gas** market is regulated in the energy law, which is aligned with the *acquis*. The transmission grid code and the gas market rules are aligned with the *acquis* requirements for capacity allocation and transparency, but are not detailed enough on cross-border issues nor assessing market demand for new investment. An entry-exit transmission tariff system, as required by the *acquis*, is not in place.

The full unbundling of transmission system operators (TSOs) is yet to be achieved. Unbundling requirements, based on the Third Energy Package, have not yet been adopted. The electricity TSO – MEPSO and GAMA – gas TSO – are not fully unbundled.

The **Energy Regulatory Commission** regulates the price of electricity for households and some small and medium enterprises as well as the price at which the incumbent generator ELEM sells electricity to the suppliers of last resort. This is harmful to the functioning of the wholesale market. To cover the complete set of regulatory powers and objectives provided for under the Third Energy Package, its powers need to be extended. Also a neutral committee for selecting board members should be introduced and dubious requirements for applicants to pass a psychological and integrity tests should be abolished.

In the area of hydrocarbons, the mineral resources law aims to align with the Hydrocarbon Licensing Directive. The country amended its **national renewable energy action plan** to take

into account updated biomass data. However, the plan is though not in line with the mandatory target of 28 % renewable energy sources by 2020 contrary to the Renewables Energy Directive.

The **Renewable Energy Directive has still been** only partially been adopted into national legislation. The feed-in tariffs to promote Renewable Energy Sources (RES) and support schemes for various technologies have been established in the country. However, caps on capacities imposed for several sources like wind, solar, biomass and biogas until 2020 prevent the country from reaching its targets in 2020. The process of simplifying and streamlining procedures for authorisation, permitting, licensing and connection to the grids has to continue. The Ministry requested a review of the 2020 target based on the reviewed biomass data. **Hydropower** investments should be in conformity with the relevant environmental acquis.

The country has adopted the third **National Energy Efficiency Action Plan**. The headline target is to have saved 9 % by 2018, which has not been achieved. The energy service market is not developed and the existing legislation should be amended to enable the contracting of energy service companies (ESCO). The Energy Efficiency Fund has not yet been set up. Human and technical capacities at the Energy Department of the Ministry of Economy and the Energy Agency are limited.

The legislation on energy efficiency is not fully aligned with the **Energy Efficiency Directive** and the **Energy Performance of Buildings Directive**. Moreover, the implementation of the Directive's provisions on existing buildings was postponed until the country's accession takes place. The country also failed to adopt an updated regulation on minimum energy performance requirements of buildings, a national calculation methodology, energy performance certification of buildings and inspection of heating and air-conditioning systems. A new Energy Efficiency Law is being drafted in cooperation with the Energy Community Secretariat, and is currently being discussed within a national inter-institutional working group.

On **nuclear energy, nuclear safety and radiation protection**, the Radiation Safety Directorate revised the 2017-2019 nuclear safety and protection strategic plan. Guidance on measures was issued in case a higher level of ionising radiation was to be detected on the border crossing points. The country has ratified relevant international conventions on nuclear safety and radiation protection and is a full member of the European Community Urgent Radiological Information Exchange (ECURIE) system. There is no safe, long-term radioactive waste storage facility. The Institute of Public Health carries out radon monitoring and prepares and constantly updates the radon map. The country has neither nuclear power plants nor any research nuclear reactors or fuel cycle facility. There are no plans to build a nuclear power plant soon.

## **5.16. Chapter 16: Taxation**

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

The country is **moderately prepared** in this area. **Some progress**, albeit limited, was made towards harmonising the legal framework and in building up the capacity of the Public Revenue Office to deliver modern citizen-oriented tax services.

As not all 2016 recommendations have been implemented, in the coming year the country should in particular:

→ improve the capacity of the tax system at central and local level through the development

and implementation of a tax system strategy to provide modern tax services to citizens;

→ bring fiscal provisions on technological development zones into line with the EU Code of Conduct for Business Taxation;

→ align the Law on Excise with the *acquis*.

On **indirect taxation**, the VAT law is not yet harmonised with the *acquis* regarding VAT exemptions. Concerning *excise duties*, the legal framework has to be further aligned with the *acquis*. The movement of excisable goods under duty suspension is not yet subject to electronic controls but is still dependent on paper-based verification.

Regarding **direct taxation**, the law on personal income tax needs to be improved in order to reduce the administrative burden on taxpayers, simplify the manner of calculating and paying personal income tax, and shorten the time for processing and calculating annual income tax. Certain tax advantages granted to the technological development zones would be assessed as harmful under the EU Code of Conduct for business taxation. The country committed to signing the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters, and to joining the Inclusive Framework to prevent Base Erosion and Profit Shifting (BEPS) both by the end of 2019. This framework provides for the implementation of a series of tax treaty measures to update the existing network of bilateral tax treaties and to reduce opportunities for tax avoidance by multinational companies.

On **administrative co-operation and mutual assistance**, during the reporting period the government signed new agreements with both EU Member States and non-EU countries to avoid double taxation and prevent fiscal evasion. Cooperation and mutual assistance agreements are in place, including with most EU Member States.

On **operational capacity and computerisation**, the Public Revenue Office's (PRO) re-organisation is still ongoing and intends to improve performance, align business processes with the criteria for a quality management system set out in ISO 9001/2008, and implement compliance risk management. The PRO's modernisation strategy was adopted in May 2017. Some progress has been made in developing a tax system strategy covering the whole tax system, including e-tax, compliance risk management, the fight against tax evasion, and IT system modernisation. The Office continued to participate in joint inspections with other government agencies to tackle the informal economy including through identification of unpaid tax liabilities and unregistered taxpayers and to encourage voluntary compliance.

## 5.17. Chapter 17: Economic and monetary policy

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

The country is **moderately prepared** in the area of economic and monetary policy. **Some progress** was made in budgetary transparency and consultation on economic policy.

As the 2016 recommendations have not been implemented, in the coming year the country should in particular:

→ set up a medium-term budgetary framework so as to further improve fiscal discipline and transparency;

→ introduce fiscal rules so as to improve public finance management.

On **monetary policy**, the alignment of the legal framework with the *acquis* remains well advanced. Further alignment is needed to ensure the central bank's functional and institutional independence. The Law on the Central Bank prohibits monetary financing of the public sector

as well as privileged access by the public sector to financial institutions. The law further sets price stability as the principal objective of the central bank, fully in line with the primary objective of the European System of Central Banks. The central bank actively uses the standard set of monetary instruments such as open market operations and minimum reserves, and maintains a currency peg of the Denar to the Euro. Foreign exchange reserves are maintained at appropriate levels.

Regarding **economic policy**, further alignment with the Directive on Requirements for Budgetary Frameworks is still necessary. There is still inadequate capacity at the Ministry of Finance to prepare sound macroeconomic and budgetary forecasts and cost-benefit analysis of policy options. Fiscal notifications and excessive deficit procedures are prepared according to the European System of Accounts (ESA 2010) but remain incomplete. Further efforts are needed to improve capacities in diagnostics, prioritisation and monitoring of economic policies. Fiscal rules for deficit and debt levels are not in place and an independent fiscal oversight body has not been established. The Ministry of Finance increased transparency by publishing the list and the amounts of arrear government payments and is developing a plan for clearing these arrears. The public finance management reform programme 2018-21 was adopted in December 2017 and aims to address the shortcomings indicated above as it provides for, among other things, the introduction of fiscal rules and the establishment of a fiscal council. The 2018-2020 Economic Reform Programme was submitted on time. Its analytical diagnostics further improved, as did consultation with external stakeholders.

#### **5.18. Chapter 18: Statistics**

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

The country is **moderately prepared** in the area of statistics. **Some progress** was made, especially in data collection efficiency and the further alignment of sectoral statistics with EU standards. Sustained efforts are still needed to improve data quality in the areas of macroeconomic and social statistics, as well as for full harmonisation with the *acquis*.

As not all 2016 recommendations have been implemented, in the coming year the country should in particular focus on:

- further strengthen human and financial resources of the State Statistical Office;
- prepare for a new population and housing census, partially based on administrative data;
- further align statistics with the ESA 2010 taking particular care of the delimitation of the general government sector as well as on transmitting a full set of tables for the Excessive Deficit Procedure to Eurostat.

In the area of **statistical infrastructure**, the legal framework remains broadly in line with the European Statistics Code of Practice. The professional independence of the State Statistical Office needs to be strengthened in practice, including through the provision of sufficient resources. As regards other main statistics providers, the central bank has statistical functions fully committed to Code of Practice standards and the Ministry of Finance needs to appoint a head of statistics and streamline statistical activities. The main classifications are in compliance with the *acquis* and updated regularly. The Office has further rationalised statistical production through using of administrative data sources but availability and quality of data remains a problem. Data transmission to Eurostat increased but remains incomplete.

Regarding **macroeconomic statistics** the Office provides data on annual and quarterly gross domestic product (GDP) in current and constant prices, aligned with ESA 2010, and prepares

annual sector accounts and supply/use tables. However, the required time series back to 1995 is not yet complete. In the area of government finance statistics, additional efforts are required for the delimitation of the general government sector. Excessive deficit procedure notifications are still only partly transmitted and financial accounts not supplied, although work to finalise these has intensified. The central bank provides statistics on the balance of payments and on foreign direct investment according to the latest standards. A full set of tables for the Excessive Deficit Procedure needs to be submitted to Eurostat

Structural **business statistics** and short-term statistics for the industry and construction sectors are well developed but require further improvements, including the introduction of short-term statistics for services and overall increased variables coverage. The business register represents a sound basis for sampling and data delivery but needs to be further expanded. Foreign affiliates' statistics are still not available. Further alignment in tourism and transport statistics with the *acquis* remains necessary. Data on research and development and on Information and Communication Technologies statistics are sufficiently aligned with the *acquis*.

As regards **social statistics**, the Office has been using a sample frame for social surveys using a new methodology to improve data quality. Preparations for a new population and housing census have started by examining more efficient methods and identifying a number of potential data sources in administrative registers and databases held by state bodies. Migration statistics need to be further expanded. The survey of income and living conditions is carried out but social protection statistics are still not being produced. Labour market statistics are generally aligned with the *acquis* but statistics on crime, education and public health are not.

**Agricultural production statistics** are partly produced according to the *acquis* and the farm structure survey continues to be regularly conducted. Agro-monetary statistics following the *acquis* are produced exception for supply balance sheets. Annual crop statistics need to be aligned with the *acquis*. **Energy statistics** are mostly in line with the *acquis*. Short-term energy statistics and energy balances are supplied. Similarly, statistics on waste, water, **environmental** protection expenditure, and environment-related taxes are published. Air emission accounts are not produced. Material flow accounts are generated but this does not yet include material flow balances.

## 5.19. Chapter 19: Social policy and employment

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

The country remains **moderately prepared** in this area. **Some progress** was made during the reporting period. Young people and the long-term unemployed still face difficulties in labour market inclusion. Poverty remains a serious problem, in particular for Roma people and persons with disabilities. The Anti-Discrimination Law is not yet aligned with the EU *acquis* and its implementation mechanisms were not strengthened.

As the 2016 recommendations have largely not been implemented, in the coming year the country should in particular:

- further improve the labour market conditions for young people, the long-term and unskilled unemployed people and socially disadvantaged groups; including by implementing the Employment and Social Reform Programme;
- strengthen the capacity of the Labour Inspectorate and promote collective bargaining between employers and workers;



→ ensure that appropriate institutional and financial resources are provided to address poverty and implement the social inclusion policies including the Roma action plans and the new Deinstitutionalisation Strategy and Action Plan.

Amendments to the labour law enabling the subsidised increase of the minimum wage were already enacted in 2016. Efforts made to improve cooperation have been insufficient and the capacity of relevant institutions tasked with effective enforcement of labour law. The key challenges for the State Labour Inspectorate remain its insufficient staffing and its insufficient capacity in terms of the number and qualification levels of its inspectors. There is no major issue with child labour in the country.

The general awareness of the employers and employees about issues concerning health and safety at work has slightly improved. However, the enforcement of legal provisions remains deficient as do administrative capacities. The Occupational Health and Safety Strategy has been updated covering the period 2017-2020, while the previous strategy was only partially implemented. There is no relevant body to oversee and enforce the implementation of occupational health and safety legislation. In 2017, according to CSO reports, there were 118 reported injuries at workplace of which 24 fatal.

There are adequate legal provisions to enable the functioning **of a social dialogue**, but the participation of social partners in formulating policy and in decision-making processes remains inadequate. The implementation of the law on peaceful settlement of labour disputes is at an early stage. The application of the bipartite social dialogue remains poor both among employers and employees. Collective agreements are either lacking or not complied with. The influence of the trade unions and employers' organisations is limited and their capacity remains weak.

The unemployment rate further decreased and is currently at 22 % (in Q3 2017). However, labour market participation of women (51.7 % of the 15-64 years old in Q3 2017), Roma and people with disabilities remained low. Employment policy continues to target youth and long-term unemployment as the highest priorities, and some progress was recorded. The revised youth action plan was adopted. The establishment of the national youth guarantee scheme was initiated and a budget was provided to implement it in three pilot municipalities. The country is the first in the Western Balkans to set up a youth guarantee scheme. The new law on internships has been drafted introducing relevant provisions for increased labour market participation of people with disabilities; its enactment is expected by the end of 2018. The share of informal employment in 2016 was 18.5 %.

The new Employment and Social Reform Programme was adopted in August 2017. The 2007-2013 operational programme for human resource development, which ended on 31 December 2017, increased skills, capacities and employment for disadvantaged people and long-term unemployed people in the country. (*See Chapter 22 – Regional policy and coordination of structural instruments*).

Some progress was made on social inclusion and protection. A new personal assistance scheme for people with disabilities was piloted. Although the amount of the basic cash benefit support for socially disadvantaged families adjusted to the cost of living it is still inadequate to cover their requirements. The capacity of state institutions remains insufficient and the implementation of national policy for social protection is limited. Social workers are predominantly tasked with administrative requirements, with insufficient time and attention provided for field level support to those in need of social services. The risk of poverty in 2016, considering the poverty threshold of 60 % of median equalised income, was 22 %. Poverty and exclusion remains high among Roma and people with disabilities. Social transfers that aim to reduce poverty remain insufficient. The implementation of the Roma

inclusion policies is slow. Children with disabilities often lack appropriate social protection. In response two distinct bodies are being created — a Commission to work on implementing the UN Convention on the Rights of Persons with Disabilities and another independent Commission responsible for its monitoring. Labour market access for people with disabilities remains limited.

Overall, there is need for an urgent, sustained and coordinated action is needed on deinstitutionalisation that involves concrete measures and continuous development of alternative community-based services. The Government has taken urgent action to improve to the living conditions in the Special Institution for Disabled People in Demir Kapija, but they remain extremely bad. The Ministry of Labour and Social Policy issued a moratorium on any new admissions to this Special Institution. The government has pledged to end placing children under 3 years of age in state institutions by 2020 in favour of community-based social care. Conditions for children and adults with disabilities living in residential institutions remain very poor.

On **equality between women and men in employment and social policy** both gender stereotyping and the gender pay gap persist. The amendments to labour law include measures to set a minimum income level which contributes towards closing the gender pay gap. Measures are still required to advance gender equality in the labour market.

Regarding **non-discrimination in employment and social policy**, the overall administrative capacity to support social inclusion should be strengthened at all levels. The new draft Law on non-discrimination includes references to gender identity and sexual orientation. The 2016 Ombudsman Annual Report shows an increase of 20 % discrimination cases, with the largest number being complaints related to discrimination in employment. In 2017 Ombudsman received 70 complaints based on discrimination grounds, but only in 22 cases the Ombudsman confirmed discrimination. (*See also chapter 23 — Judiciary and Fundamental Rights*)

## 5.20. Chapter 20: Enterprise and industrial policy

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

The country is **moderately prepared** in this area. **No progress was made** in the reporting period.

As the 2016 recommendations have not been implemented, in the coming year the country should:

- adopt a new industrial policy and strategies for SMEs, for women's entrepreneurship, and for tourism and include measures to facilitate SMEs to access to finance;
- introduce initiatives to increase the skills in companies, notably SMEs, to adopt new methods and technologies;
- develop measures to link foreign direct investment with local companies.

On **enterprise and industrial policy principles**, the government adopted a Plan for Economic Growth that aims to support the development of private companies, mainly based on subsidies for profitable export-oriented companies. However, it is unclear how this would contribute to industrial modernisation and raises concerns regarding fiscal sustainability, economic distortive effects and possibly its compliance with World Trade Organisation (WTO) rules and state aid *acquis*. It also might be problematic to monitor. Businesses continue to face difficulties enforcing contracts and have over EUR 360 million worth of

outstanding claims against the public sector. The Law on Financial Discipline and the Law on Obligations still need to be aligned with the EU Late Payment Directive.

Regarding **policy instruments**, most of the annual enterprise and industry programmes are poorly budgeted and co-ordinated, do not necessarily reflect companies' current needs and are not monitored or evaluated effectively. The Innovation Fund needs to improve its efforts, notably for start-ups and technology extension to support adoption of already existing technology, and to contribute to increasing the absorptive capacity of targeted firms.

The National Council for Entrepreneurship and Competitiveness effectively ceased to operate due to a lack of resources. Consequently, communication between government and the private sector has been irregular, although the systematic use of the legislation consultation system with stakeholders (National Electronic Registry of Regulations) improved in 2017. There are 25 foreign-owned companies operating in the eight technological industrial development zones. A cost-benefit analysis on policy to attract foreign direct investment, performed by the state authorities, has shown that the expected positive impacts on the local economy have not materialised. The tax system applied in the zones does not comply with the EU Code of Conduct on business taxation and the Customs Code.

Bank lending is the main source of private sector financing, with other financing instruments being modest or absent. An Enterprise Development & Innovation Facility (EDIF) guarantee facility has become available through one local commercial bank, and two EDIF equity investment agreements were signed. Overall, EU financing instruments for business development under the Programme for the competitiveness of SMEs (COSME) and EDIF remain under-utilised. A scheme to exploit environmental growth potential was not successful.

On **sectoral policies**, the country opted to focus mainly on tourism and the information and communication technology industry, as reflected in several measures in the country's 2017 Economic Reform Programme. There are annual support programmes for tourism development managed by the Ministry of Economy and the Agency for promotion and support of tourism. However, longer-term strategies have not yet been adopted.

## 5.21. Chapter 21: Trans-European networks

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

In the area of transport networks, there is a **good level of preparation**. The country achieved **some progress** during the reporting period.

In the coming year, the country should in particular:

- further strengthen the operational and technical capacity of all management and stakeholder institutions dealing with the development of TEN T and TEN E networks;
- mobilise sufficient resources for the implementation of the Transport Community Treaty;
- proceed with the harmonisation of the legal framework with the Trans European Network Regulation.

On **transport networks**, the country continued to participate in the South-East Europe Transport Observatory (SEETO) and respected the commitments of its Memorandum of Understanding. The country ratified the Treaty establishing the Transport Community in December 2017.

Construction work on the motorway section along Corridor X, co-financed by EU funds (IPA) funds, was completed in February 2018. Other rehabilitation works along Corridor X was also completed. Construction of the rail Corridor VIII towards Bulgaria has experienced some delays. Further efforts are needed to accelerate progress on this Corridor and other other priority sections on Core and Comprehensive network both on rail and road.

The continuity of operations within all institutions and bodies involved in implementing large investment projects must be ensured. A stronger focus on connectivity reform measures will ensure the sustainability of such infrastructures in the country. The railway border crossing agreement with Serbia has been signed but adequate infrastructure needs to be built for it to become effective.

On **energy networks**, preliminary works to build the Bitola-Elbasan (Albania) 400kV electricity interconnection section are under way. The state-owned gas transmission operator completed construction of the Klecovce-Štip gas transmission pipeline. Activities on the gas pipeline Štip – Negotino are ongoing.

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

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

The country is **moderately prepared** regarding regional policy and coordination of structural instruments. **Some progress** was made on establishing an institutional framework for managing EU pre-accession assistance (IPA) and on the further implementing sector-based programming.

In the coming year, the country should in particular:

- further strengthen the administrative and financial capacity needed for procuring and implementing EU funds properly and in a timely fashion;
- enforce financial management, control and audit and develop an integrated monitoring and performance assessment framework;
- improve the transparency and visibility of EU funds.

As regards the **legal framework**, a new budget law and new budget classification is under preparation. Development of a Medium Term Expenditure Framework to support sector budgeting has begun. The budget law in force allows certain budget flexibility but multi-annual budgeting is still not operational.

The institutional framework for management of the EU pre-accession assistance (IPA) has been established, audited, accredited since 2009 and has been progressively increasing its effectiveness. However, stronger political commitment is needed to ensure swift implementation of EU-funded programmes by further enhancing the capacity of management structures to procure and implement programmes.

Regarding **administrative capacity**, a staff recruitment retention policy and plan still needs to be developed and implemented.

Some progress has been made in **programming** with the progressive introduction of the sector approach under IPA. As regards infrastructure, the country established a National Investment Committee, and a single project pipeline is being updated.

On **monitoring and evaluation**, the monitoring committees under indirect management are established and meet regularly. The evaluation plan for decentralised IPA funds has been

adopted but implementation has not started yet. A management and information system still needs to be developed. **Transparency** of the use of IPA funds still needs to be increased and **visibility** of EU assistance should be enhanced by using more innovative approaches.

As regards the **financial management and control system**, national systems were further developed to comply with the requirements for indirect management of IPA funds but further enforcement is still needed to prevent irregularities and ensure proper monitoring on the base of key operational indicators and performance milestones. Further improvements are needed in regard to human resources in internal audit units/bodies.

### 5.23. Chapter 25: Science and research

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

The country has a **good level of preparation** in the area of science and research. **Some progress**, although limited, was made in the area of science and research activities and innovation in companies.

As not all 2016 recommendations have been implemented, in the coming year, the country should in particular:

→ increase the level of investment in research and promote participation in the EU's Horizon 2020 research programme;

→ develop a Smart Specialisation Strategy to underpin national research and innovation strategies and policies.

Limited progress was achieved in the area of **research and innovation policy**. The national Strategy on research and the national programme on higher education and scientific activity have not been updated. Overall, the investment in research and innovation remains low at 0.44 % of GDP, almost entirely constituted by public investments. Preparations for a smart specialisation strategy and sector specific scientific priorities have only begun.

As regards the EU **framework programme**, the country's annual participation in the Horizon 2020 programme has doubled in 2016 and preliminary figures for 2017 show a continuation of this very positive trend. Overall, the Horizon 2020 success rate is low at 9.7 %. Specific promotional events for Horizon 2020 have been organised.

As regards to the **European Research Area**, the country has a limited research capacity compared to European average. The country has not developed a national roadmap for research infrastructures to make an optimal use of public investments.

With respect to **Innovation**, the European Innovation Scoreboard defines the country as a modest innovator, with performance gradually increasing over time. However, utilisation of funding for innovation and research has declined as the Fund for innovation and technological development did not manage to fully disburse resources for innovative projects in companies, as planned in 2017.

### 5.24. Chapter 26: Education and culture

*The EU supports cooperation in education and culture through funding programmes and through the open method of coordination. Member States must also prevent discrimination and assure quality education for all children including from vulnerable groups and of EU migrant workers.*

The country is **moderately prepared** in this area. **Some progress** was made with the

adoption of the Comprehensive Education Strategy 2018-2025.

As the 2016 recommendations have largely not been implemented, in the coming year the country should in particular:

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

On **education and training**, the level of public spending on education, at 3.8 % of GDP in 2016 has been decreasing comparing with previous years. Low enrolment of children at both pre-school and pre-primary levels remains a concern. Only 23.6 % of children attend licensed pre-school institutions. Pre-school education continues to be under-resourced. Substantial improvements in the quality and delivery of primary and secondary education are required. Completion rates in lower and upper secondary education are almost universal.

The Ministry of Education and Science (MOES) adopted a new Comprehensive Education Strategy 2018-2025 with a costed action plan in February 2018. The Ministry also produced a new Manual for developing new Qualifications for the National Qualifications Framework. The country's National Qualifications Framework is referenced to the European Qualifications Framework. In higher education, the gross enrolment rate of students increased to 34.2 %. However, the completion rate remains low.

The quality of education continues to be a challenge at all levels. According to the 2015 OECD Programme for International Student Assessment (PISA) assessment the country ranks fourth from the bottom of the list of over 70 countries tested. The country committed to participate in the 2018 PISA exercise. Education remains at risk of corruption and political influence.

On vocational training and adult education (VET), 113 new occupational profiles and 69 new standards for Qualifications have been developed and adopted to bring them closer to labour market needs. There remains the need for a higher level practical and work based training in vocational education and training programmes as well as much higher level of involvement of employers in education and training. The quality of VET programmes and qualifications needs to be further strengthened to encourage employers to engage a greater number of VET graduates.

Children and students with disabilities and from Roma communities continue to face barriers to regular and quality education and training.

The country continues to participate actively in the Erasmus+ Programme in an equal footing as the rest of EU Member States. The levels of mobility are good with over 340 incoming and outgoing exchanges per year, but no presence of Higher Education Institutions from the country had been registered in the Capacity Building in Higher Education action.

On **youth**, the local branch office of the Regional Cooperation Office (RYCO) is to be opened in 2018 in Skopje. Government priorities for youth continue to promote youth participation in the democratic process, education relevant to labour market to address high levels of youth unemployment and social inclusion as presented in the National Youth Strategy 2016–2025. The revised Youth Action Plan was adopted. More than 6 000 young participants benefited from one of the three Youth mobility actions since 2014 (mobility of youth workers, youth exchanges and the European Voluntary Service). (*See also Chapter 19: Social policy and employment*)

As regards **culture**, a new National Strategy for Culture Development 2018-2022 was adopted in February 2018. No additional measures have been taken by the country in the context of the implementation of the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions. A more systematic approach and appropriate budget allocations for protection of cultural heritage in the country is needed. Active participation in the “Creative Europe” programme continued and some measures were taken to better promote the programme.

## 5.25. Chapter 27: Environment and climate change

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

The country is **at some level of preparation** in this area. **Some progress** has been achieved in further aligning policies and legislations with the *acquis*, in water, nature protection and waste sectors in particular. However, significant efforts are needed as regards implementation and enforcement.

As not all 2016 recommendations have been implemented, in the coming year, the country should in particular:

- improve coordination between the government, central level institutions and municipalities to actively work towards air quality improvement;
- intensify the efforts for implementation of adopted regional waste management plans and establishing of integrated regional waste management system;
- start implementing the Paris Agreement, also by developing a comprehensive strategy on climate-related action consistent with the EU 2030 framework.

### Environment

In the area of **horizontal legislation**, the National Strategy on Environment and Climate Change has been adopted. The administrative capacities of the structures on central and local level still remain weak and insufficient. The environmental impact assessment process has improved but needs further improvement in order to ensure a more effective **public participation**, in particular in the hydropower sector, mining and other infrastructure investments in national protected areas and areas of high natural value or potential Natura 2000 sites. The Law on environmental inspection is still not adopted. Further efforts are needed on the transposition and implementation of Environmental Liability, INSPIRE and Environmental Crime directives.

On **air quality**, the legislative alignment is almost complete, but its implementation remains weak. Progress has been made in reporting air quality data. The web portal on air quality real time monitoring has been improved to allow more user friendly access by the public. The commitment and coordination between the government, central level institutions and municipalities to actively work towards air quality improvement need to be enhanced. Air pollution levels, especially in Skopje, Tetovo and Bitola are still very high. Air quality improvement plans have still not been developed for all zones where the levels of pollutants exceed the limit values. The national air quality monitoring network still requires considerable human, technical and financial reinforcement.

Regarding **waste management**, the legal framework is partially aligned. The work on further alignment of legislation related to special waste streams has commenced and the national waste prevention plan is under preparation. A new law on waste, incorporating the updated

circular economy principle, is being prepared and is expected to be adopted by the end of 2018. Regional waste management plans and technical documentation for establishing waste management centres have been developed for seven regions. The existing regional waste management structures still suffer from lack of administrative and financial resources and are not fully operational. Considerable efforts are needed to invest in establishing integrated waste management system. Economic incentives to promote recycling are still limited and the lack of organised extended producer responsibility scheme is hindering the market.

On **water quality**, the country achieved some level of preparation. Cities have been identified and specific implementation plans for the Urban Waste Water Treatment and Drinking Water Directives have been developed, together with a national investment programme for the water sector. The new pricing methodology, based on full cost recovery, is being applied in municipalities above 10 000 people. The river basin management plans for Vardar and Black Drim rivers are still under preparation. More efforts are required to reduce non-revenue water. The country needs to make significant efforts in enforcement and inter-institutional coordination. More efforts are needed for the alignment with the Nitrates and Bathing Directives while the Groundwater and Water Quality Standards Directives remain at an early stage of transposition.

In the area of **nature protection**, further alignment with Birds and Habitats Directives has been achieved by developing a new law on nature protection. A plan for the implementation of Birds and Habitats Directives was prepared and adopted. Eight potential sites of Community Importance (SCIs) under the Habitats Directive and three potential Special Protected Areas (SPAs) under the Wild Birds Directive have been identified and a plan for future field research work was developed. The Geographic Information System for nature protected sites, in compliance with the Natura 2000 network, was developed and a functional database established. Further activities are needed to establish a monitoring system of the conservation status of habitat types and species. Implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora Regulation (CITES) remains at early stage. Nature protection obligations should be recognised and respected by the central government whenever hydropower, mining and large infrastructure investments are planned.

As regards **industrial pollution and risk management**, a new law on industrial emission and related implementing legislation have been developed but not adopted yet. No progress has been made on transposing the SEVESO III Directive, EU Eco Label Regulations or EMAS. The national emission reduction plan for large combustion installations was approved by the Energy Community Secretariat. Some progress has been made on integrated permits, but further improvement on quality is required.

On chemicals, more work is needed as regards implementation of Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and Classification, Labelling and Packaging regulations. Implementing legislation related to chemicals still needs to be adopted, along with adequate monitoring and implementation capacities.

On **noise**, preparatory work has finally begun for preparation of strategic noise maps and respective action plans.

No progress has been made in the area of **civil protection**. The country continues to actively participate in the EU Civil Protection Mechanism, but it still lacks streamlined, coordinated and efficient disaster mitigation and response at all levels. The country is still not connected with the Common Emergency Communication System.

## **Climate Change**



The level of alignment remains at an early stage. The development of a comprehensive policy and strategy on climate action well integrated into all relevant sectors should be a priority. In addition to mitigation, efforts need to be put into adaptation to climate change.

The Country ratified the Paris agreement in November 2017 and needs to start its implementation. Regarding commitments under the UN Framework Convention on Climate Change (UNFCCC), the Second Biennial Update Report, including mitigation measures in energy sector, agriculture, forestry, land use and waster sector has been adopted. In the area of transparency of climate action, the inventory process for greenhouse gases reporting meets the necessary technical conditions for ensuring sustainability, but a sustainable financing is lacking.

As for legal alignment, the country needs to seriously step up efforts to transpose and start implementing the climate *acquis*, particularly on emissions monitoring and reporting, EU Emissions Trading System and effort sharing.

Administrative capacity remained largely insufficient and awareness-rising activities need to be considerably strengthened.

## 5.26. Chapter 28: Consumer and health protection

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

The country remained **moderately prepared**, but **no progress** has been observed in the area of health protection.

As the majority of last year's recommendations were not implemented, the country should, in the coming year:

→ align the legal framework with the *acquis* on consumer protection and strengthen the operational structures for consumer protection;

→ increase the sustainability, efficiency, cost-effectiveness and quality of services in the field of communicable diseases and implement the recommendations from the Technical Assessment Report on the country's capacities in the area of communicable diseases;

→ establish registers for cancer and rare diseases.

As regards **consumer protection**, the legal framework is still only partly aligned with the *acquis*. Alignment with the general Product Safety Directive and the collective redress *acquis* is not completed. The state grants to consumer organisations remained limited and only cover advisory services and fees to international consumer organisations, though consumer organisations were able to conduct several thematic surveys, developed mobile applications, and issued a number of brochures and educational materials. The mediation scheme remains prohibitively expensive for consumers. Resources dedicated to consumer protection remain limited. Awareness-raising activities on **non-safety-related issues** continued. Market supervision on **product safety-related issues** needs to be reinforced in order to ensure effective consumer protection, and alignment with the product safety *acquis* needs to be completed.

With regard to **public health**, the **Strategy for Health 2020** that entered into force focuses on five main areas: public health, non-communicable diseases and risk factors, communicable diseases and crisis preparedness, health system, and resources. However some of the

sophisticated health equipment that has been purchased is not yet in use, and there is a lack of professional medical staff.

With regard to **tobacco control** national legislation is partly aligned with *acquis*. The enforcement of tobacco control deteriorated over the reporting period and smoking in public areas is not penalised.

On **blood, tissues, cells and organs**, further efforts are needed to achieve alignment with the *acquis* on blood, tissues, cells and organs. Kidney transplants resumed following a period of shortage of organs and funding.

In the field of **serious cross-border health threats including communicable diseases**, the Ministry of Health has accepted the European Commission's Technical Assessment Report on the country's capacities in the area of **communicable diseases**. Further alignment and implementation with EU *acquis* and standards is necessary. Specialist training is needed to guarantee effective prevention and control of communicable diseases. Strengthening the capacity and the infrastructure for qualitative microbiological surveillance is recommended. Proper funding for early detection should be ensured. State funds for HIV/AIDS and tuberculosis were ensured after the Global Fund withdrew from the region. Prescription of antibiotics needs to be more strictly controlled to strengthen the fight against anti-microbial resistance.

With regard to **patients' rights in cross-border healthcare**, national legislation is not aligned with the *acquis*. The **e-health card** is not used, and the e-medical registers are not yet developed. The lack of financial resources seriously hampers the implementation of public health policies. As regards rare diseases, national registries are yet to be established and properly budgeted. Definition of what is considered a rare disease need to be harmonised with international standards. Funding and access to specialised knowledge for the treatment of rare diseases remained limited and non-transparent and left to civil society organisations or families. National legislation on **medicines for human and veterinary use** is partly aligned with the *acquis*. Maximum sale prices criteria for medicines are set by the Health Insurance Fund but the medicines covered by the national health insurance are available to the patients only in the first days of the month. Supplementary measures for proper quality and traceability controls of **medicines for human and veterinary use** subject to parallel trade need to be introduced.

There were several public awareness campaigns on prevention and control of non-communicable diseases. The national **cancer screening** programme activities continued although the inclusiveness of all eligible patients in the target groups should be improved. The national and regional **cancer** registers are not yet established.

Substantial efforts are needed to improve sanitary and human resource conditions in **mental health** facilities.

With regard to **nutrition and physical** activity the prevalence of obesity among 7 year old children increased.

On **drug abuse prevention and harm reduction**, the population aged 17-27 is most at risk. The most used drug is marijuana.

On **health inequalities**, access to healthcare services and funding for investments and staff for treatment of people with severe physical and intellectual disabilities is poor, particularly in the Roma community.

## 5.27. Chapter 29: Customs union

*All Member States are part of the EU customs union and follow the same customs rules and*

*procedures. This requires legislative alignment, adequate implementing and enforcement capacity, and access to the common computerised customs systems.*

The country has maintained a **good level of preparation** on the customs union. **Some progress** was made on administrative and operational capacity.

As not all 2016 recommendations have been implemented, in the coming year the country should:

→ complete and consolidate its IT systems, safeguard their upgrade and maintenance and ensure business continuity.

In the area of **customs legislation**, the degree of alignment with the *acquis* is generally high. The 2017 customs tariff was adopted in line with the latest changes in the EU Combined Nomenclature. The country is a member of the Common Transit Area, applying EU rules on transit movements. The Regional Convention on Pan-Euro-Mediterranean (PEM) preferential rules of origin is applied. Legislation on customs enforcement of intellectual property rights and provisions on risk management, drug precursors, duty relief and cultural goods are broadly aligned with the *acquis*. Several customs provisions of the law on zones for technological and industrial development are still not in line with the *acquis*. The customs administration has continued to charge a small fee for processing customs declarations, which is also not in line with the *acquis*.

Regarding **administrative and operational capacity**, the standards of professional integrity and quality controls continue to be systematically applied. The country applies automated risk management methods and actively participated in inter-agency cooperation. The customs administration participated in the work of the National Coordination Centre for Organised Crime and the National Border Management Coordination Centre.

Cooperation with other customs authorities in the region continued, including through data exchange and in joint operations. The capacity of the customs terminal at the main border crossing with Serbia was increased. The IT strategy is regularly updated, with the current strategy sufficiently addressing relevant challenges in the IT area. The new electronic system for processing customs declarations and excise documents has yet to be completed. The electronic integrated tariff system (Integrated Tariff Environment) continues to be underutilised. The common transit system (New Computerised Transit System, NCTS) runs smoothly and the number of declarations processed in 2017 tripled compared to 2016. However, the maintenance, upgrade and business continuity of all customs IT systems needs to be systematically ensured. Further increasing awareness of the benefits of the common transit system among economic operators and optimising its use are still priorities for the customs administration.

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

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

The country is **moderately prepared** in the area of external relations and **some progress** was made during the reporting period. It continued its good cooperation with the EU, including within the World Trade Organisation (WTO), but its institutional capacity to fully participate in the EU commercial, development and humanitarian policies is still insufficient.

In the coming year, the country should in particular:

→ adopt the relevant legislation and strengthening its administrative capacity in the field of

export control of dual-use goods;

→ strengthen the overall administrative capacity of the team in charge of trade with the EU, CEFTA and work within the WTO framework in the relevant Ministry, in particular in view of a smooth implementation of the Multi-Annual Action Plan for a Regional Economic Area.

As regards the **common commercial policy**, the country continued to coordinate its positions and align its policies closely with those of the EU, including within the WTO. The country has ratified the WTO Trade Facilitation Agreement and notified an ambitious list of commitments. It now needs to complete its notification under Articles 1.4, 10.4.3, 10.6.2 and 12.2.2 of the WTO Trade Facilitation Agreement and ensure full implementation of its commitments.

The country continued its active participation in CEFTA. It adopted the Protocol 5 on Trade Facilitation which was ratified in January 2018. In addition, the country took important commitments at the occasion of the Western Balkans Summit in Trieste to implement a Multiannual Action Plan for the development of a Regional Economic Area in the Western Balkans. The implementation of the plan will allow further economic integration within the region, based on EU rules and standards.

The country aligned its national control list of dual-use goods with the 2016 EU regime of exports, transfer, brokering and transit of dual-use items in March 2018. It also participated in training activities under the EU P2P (Partner to Partner) programme on export control of dual-use goods. Its application for membership of the Wassenaar Arrangement can facilitate implementation of the acquis on dual use goods exports control.

The number of **bilateral investment agreements (BITs) in force with third countries** rose to 39, of which 19 are with EU Member States. The country should analyse all of these with regard to the need for their harmonisation with EU law.

There was no progress in the areas of **development policy** and **humanitarian aid**.

## 5.29. Chapter 31: Foreign, security and defence policy

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

The country remained moderately prepared. Some progress was made during the reporting period, with continued participation in civil and military crisis management missions.

In the coming year, the country should in particular:

→ improve alignment with EU declarations and Council decisions on common foreign and security policy.

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

The **institutional framework** enabling the country's participation in the common foreign and security policy (CFSP) and security and defence policy (CSDP) is in place.

On the **common foreign and security policy (CFSP)**, the country supported the Global Strategy for the European Union's Foreign and Security Policy. The country aligned, when invited, with 53 out of 65 EU declarations and Council decisions representing an alignment rate of around 83 % during the reporting period. The country did not align with, inter alia, EU

restrictive measures related to Russia and Ukraine.

*(For more information on developments concerning the International Criminal Court, see Political criteria — Regional issues and international obligations.)* The country cooperated with the EU within the UN and other international organisations and aligned itself with the various EU statements related to conflict prevention.

The country continued to participate in some, but not all, international export control arrangements and instruments on **non-proliferation**. Following its application for membership of the Wassenaar Arrangement, the country continues to work on the entry requirements.

The country continued to engage actively in cooperation with international organisations and aligned with EU statements delivered at international organisations (UN, OSCE and Council of Europe).

During the reporting period, no **security measures** were activated beyond those relating to border security in the context of the migration and refugee crisis. Crisis stocks in command and control were renewed.

The country continued to actively participate in military crisis management operations under the **common security and defence policy (CSDP)**, notably EUFOR ALTHEA Bosnia and Herzegovina and the NATO-led "Resolute Support" mission in Afghanistan. The country continued to contribute to the "2014-2020 European Union Battle Group" and KFOR through the Host Nation Coordination Centre. Formal cooperation with the European Defence Agency continued.

### **5.30. Chapter 32: Financial Control**

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

The country is **moderately prepared** in this area. **Some progress** was made with implementation of the Commission's 2016 recommendations. Further considerable efforts are needed to embed managerial accountability in the administrative culture and ensure Public Internal Financial Control (PIFC) legislation is implemented effectively. Improved internal control over public funds and effective follow-up of audit recommendations has yet to be pursued. The independence of the State Audit Office is not yet enshrined in the Constitution.

Over the coming period, the country should in particular:

- adopt a new medium-term strategic document on PIFC, with a specific focus on the definition and implementation of managerial accountability;
- improve follow-up to the State Audit Office's recommendations by the government and Parliament;
- adopt and implement the national anti-fraud strategy as well as define and strengthen the coordination role of the Anti-fraud Coordination Unit.

#### **Public internal financial control**

There were considerable delays in implementing the Public Internal Financial Control (PIFC) **strategic framework** for the period 2015-17. The PIFC Council did not meet during the reporting period and it did not exercise effective supervision on implementation of the

strategy. A new and more comprehensive strategic document on PIFC, with a specific focus on the definition and implementation of managerial accountability, needs to be prepared. A mechanism for effective coordination, monitoring and reporting of the public administration, public financial management and PIFC reforms needs to be also put in place.

**Managerial accountability** is not well embedded in the administrative culture of the public sector. The state administrative structure with a number of bodies that report both to the ministry and to the government does allow for effective accountability. Concerning institutional performance, performance management has not yet been established. Institutions focus primarily on legality and compliance rather than on achieving results. There is no efficient delegation of decision-making authority within ministries. The Ministry of Finance and the Ministry of Information Society and Administration should start to identify legal, procedural and other obstacles to managerial accountability in the public sector (*see Public Administration Reform*).

The legal framework for implementing **internal control** is harmonised with the internal control framework of the Committee of Sponsoring Organisations (COSO) and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI), but it is not yet efficiently implemented at central and local level. Rulebooks and manuals need to be further updated and implemented by budget users. Risk management strategies and registers have been adopted by most of the budget users but are not embedded in the organisation's risk management processes. Irregularity management needs to improve. The administrative capacity of the Financial Inspection Department in the Ministry of Finance is weak.

Concerning **internal audit practice**, the legal framework is in line with international standards. There are 158 internal audit units exist at central and local level with 213 internal auditors, including 86 internationally certified auditors. However, most units do not have sufficient staff. Most audit units have strategic and annual plans, but quality assurance remains limited. There is no accredited training programme in place to increase the number of certified auditors. Only minor progress was made on implementing internal audit standards, rulebooks and manuals.

The **Central Harmonisation Unit** provides methodological guidance and training, but it should significantly step up its monitoring and quality review activities. Budget users are not efficiently implementing the manuals for financial management and control and risk management developed by the Unit. It prepared the 2016 annual PIFC report, which the government adopted with a considerable delay.

### **External audit**

The State Audit Office Law is largely in line with the INTOSAI standards. However, the Office's independence is not yet anchored in the **Constitution**.

The State Audit Office has sufficient **institutional capacity** to perform its tasks, with 70 of its 82 auditors being certified as public auditors. It carries out a compliance audit on the final government accounts of the core budget by June each year. Audit coverage amounted to 40% of total audit expenditure in 2017. It has carried out training of staff in the audit management system, performance audit and ethics. Its annual plan is adopted by December each year. The new strategic development plan for the period 2018-2022 has been adopted in December 2017.

The **quality of audit work** is in line with INTOSAI standards. However, performance auditing needs to be further enhanced.

As regards **the impact of the audit work**, the recommendations of the State Audit Office are not efficiently implemented by the auditees or used by the Parliament. The follow-up of

recommendations needs parliamentary supervision through a debate on audit reports which would improve the scrutiny of the executive and ensure that public funds are used more transparently and with greater accountability.

### **Protection of EU financial interests**

As regards **acquis alignment**, national legislation addresses the main elements. However, it still needs to be harmonised and improved to ensure the overall anti-fraud system functions efficiently. The national **anti-fraud coordination service (AFCOS)** has to strengthen its key coordination role and an efficient AFCOS network needs to be established. A national anti-fraud strategy on the protection of the EU's financial interests still needs to be produced and adopted. There is **cooperation with the European Commission** on a case by case basis. The reporting of irregularities and suspected fraud cases through the Irregularity Management System has started. 21 cases have been reported through the system since 2011, including 4 cases in 2016 and 2 cases in 2017. However, a solid track record on investigations and reporting on irregularities needs to be further developed.

### **Protection of the euro against counterfeiting**

Concerning **acquis alignment**, national legislation defines counterfeiting procedures as well as the roles and responsibilities of institutions involved. The National Bank carries out **technical analyses** of counterfeit money. However, the existing database system of counterfeit banknotes in the National Bank, which was upgraded with a software system, cannot be accessed by the Investigative Centre within the Ministry of the Interior. Coordination among these institutions needs to be further improved. No formal **cooperation agreements** are in place with the European Central Bank on banknotes or with the European Commission on coins. Cooperation with foreign banks and bodies is not yet regulated. The country takes part in the actions of the Pericles 2020 programme.

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

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

Preparations **in this area** remain at an **early stage**. **Some progress** was achieved in aligning the legal framework on taxation, customs, statistics and financial control.

A solid institutional set-up for the own resources system, coordination structures, administrative capacity and implementing rules needs to be established.

There have been no major developments on **traditional own resources, value added tax-based resource** and **gross national income-based resource**. The country has to further align its legal framework with the *acquis* and strengthen administrative capacity, especially on customs, taxation, statistics and financial control. Instruments to fight and reduce tax evasion, fraud and the informal economy need to be further strengthened in order to ensure appropriate contributions to the EU's own resources system upon accession. The country will need to accelerate efforts to ensure the exhaustiveness of the national accounts and gross national income calculations. (*For further information see also chapters 16-Taxation, 18-Statistics, 29-Customs union and 32-Financial control*).

Regarding **administrative infrastructure**, some progress was made in building up the capacity of relevant key institutions in this area. Legislative and administrative changes are needed so the country can calculate, collect, pay and control own resources, as well as

improve co-ordination mechanisms and reporting to the EU.



## ANNEX I — 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 Stabilisation and Association Agreement (SAA) with the EU is the framework for relations with the EU, including political and economic dialogue. Experts met in ten subcommittees, although the subcommittee on internal market and competition was cancelled due to lack of progress in this area. The Stabilisation and Association Committee met in June 2017. In the Stabilisation and Association Council meeting in July 2017, discussions focused on the opportunity for a new beginning and the importance of implementing the "Pržino agreement" and "Urgent Reform Priorities".

The country continued to implement commitments under the SAA, including all those relating to the first stage of implementation of Title V ('Movement of workers, establishment, supply of services, capital'). The Commission has assessed that the conditions for passage to the second stage of the Association, under Article 5 of the SAA, are met. The Council has not yet decided on the Commission's 2009 proposal to that effect. The Protocol to the Stabilisation and Association Agreement to take into account Croatia's accession to the EU entered into force on 1 February 2017.

No meeting was held under the **High-Level Accession Dialogue**. There was some progress, since the second half of 2017, on meeting related targets.

**Visa liberalisation** for citizens of the country travelling to the Schengen area has been in force since December 2009. As part of the monitoring mechanism, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. A readmission agreement between the EU and the country has been in force since 2008. The Joint Readmission Committee took place in Brussels on 9 October 2017 and concluded that implementation of the Readmission Agreement is satisfying, with some points of action for further improvement.

The implementation of the **Instrument for Pre-accession Assistance II for 2014-2020 (IPA II)** is well underway. By the end of 2017, programmes totalling EUR 296 million have been adopted, out of which EUR 176 million (60 %) have already been contracted. Some progress has been made in programming of EU funds using the sector-based approach.

Under the **Instrument for Pre-accession Assistance** for 2007-2013 (IPA I), the last outstanding programmes have been contracted by the end of 2017 and some of them closed. Delays in procurement managed by the national authorities under indirect management have resulted in "losses" for the country EUR 143.7 million of the EU funds under IPA I, which translates into 29 % of total IPA I funds lost. Due to lessons learned, indirect management with the beneficiary country has begun to be used more selectively.

In general, stronger political commitment is needed to ensure swift implementation of EU-funded programmes. Urgent measures are needed to improve the planning, programming and management capacities in the national IPA structures. Business continuity within IPA structures should be ensured. Staff retention policy must be addressed as a matter of urgency to ensure continued competence and acquired administrative capacity of operating structures.

The national authorities need to better promote the sound financial management and control system established within the national IPA structures across the whole of the public administration, thus contributing to enhanced administrative capacity overall.

In March 2017, the European Commission adopted the fourth special measure amounting to

EUR 30 million, supporting the Western Balkan countries to improve their border and migration management capabilities in the context of the European refugee crisis. This assistance comes on top of three special measures adopted previously, with a total value of EUR 20 million, to help the most affected Western Balkan countries to cope with increased mixed migration flows.

## ANNEX II – STATISTICAL ANNEX

### STATISTICAL DATA (as of 16.02.2018)

#### The former Yugoslav Republic of Macedonia

<b>Basic data</b>	Note	2005	2012	2013	2014	2015	2016
Population (thousand)		2 035	2 060	2 062	2 066	2 069	2 071
Total area of the country (km <sup>2</sup> )		25 713	25 713	25 713	25 713	25 713	25 713

<b>National accounts</b>	Note	2005	2012	2013	2014	2015	2016
Gross domestic product (GDP) (million national currency)		308 447	466 703	501 891	527 631	558 954	598 881p
Gross domestic product (GDP) (million euro)		5 032	7 585	8 150	8 562	9 072	9 723p
GDP (euro per capita)		2 470	3 680	3 948	4 141	4 382	4 691
GDP per capita (in purchasing power standards (PPS))		6 700	9 000	9 300	9 900	10 500	10 900
GDP per capita (in PPS), relative to the EU average (EU-28 = 100)		28	34	35	36	36	37
Real GDP growth rate: change on previous year of GDP volume (%)		4.7	-0.5	2.9	3.6	3.9	2.9p
Employment growth (national accounts data), relative to the previous year (%)		4.9	1.2	5.6	2.4	:	:
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)		-0.2	-1.6	-2.5	1.2	:	:
Unit labour cost growth, relative to the previous year (%)		-1.8	-0.4	-1.7	3.7	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2010 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-28 = 100)		44.0	44.0	42.8	43.6	:	:
<b>Gross value added by main sectors</b>							
Agriculture, forestry and fisheries (%)		11.3	10.5	11.5	11.7	11.1	10.5p
Industry (%)		17.6	17.8	17.3	18.3	19.3	19.9p
Construction (%)		6.2	6.6	8.2	8.0	8.1	8.6p
Services (%)		64.9	65.1	63.0	62.0	61.5	61.0p
Final consumption expenditure, as a share of GDP (%)		96.4	92.5	89.3	86.9	85.8	82.1p
Gross fixed capital formation, as a share of GDP (%)		19.0	23.4	23.7	23.4	23.8	24.0p
Changes in inventories, as a share of GDP (%)		0.7	5.5	5.0	6.8	6.5	8.6p
Exports of goods and services, relative to GDP (%)		34.8	45.4	43.4	47.7	48.7	50.0p
Imports of goods and services, relative to GDP (%)		51.0	66.8	61.5	64.9	65.0	64.7p
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

<b>Business</b>	Note	2005	2012	2013	2014	2015	2016
Industrial production volume index (2010 = 100)		99.5	104.0	107.3	112.5	118.0	122.0
Number of active enterprises (number)	1)	:	54 392	54 305	53 749	54 738	55 308p
Birth rate: number of enterprise births in the reference period (t) divided by the number of		:	11.9	10.0	10.6	10.3	:

enterprises active in t (%)							
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	14.3	:	:	9.3p	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	76.7	78.0	75.0	74.4	75.9p
Value added by SMEs (in the non-financial business economy) (EUR million)		:	2 110	2 251	2 257	2 413	2 632p
Total value added (in the non-financial business economy) (EUR million)		:	3 213	3 395	3 460	3 740	4 002p

<b>Inflation rate and house prices</b>	Note	2005	2012	2013	2014	2015	2016
Consumer price index (CPI), change relative to the previous year (%)		0.5	3.3	2.8	-0.3	-0.3	-0.2
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

<b>Balance of payments</b>	Note	2005	2012	2013	2014	2015	2016
Balance of payments: current account total (million euro)		-122	-240	-134	-43	-177	-265
Balance of payments current account: trade balance (million euro)		-997	-2 008	-1 863	-1 856	-1 823	-1 809
Balance of payments current account: net services (million euro)		116	309	375	384	349	347
Balance of payments current account: net balance for primary income (million euro)		-88	-164	-193	-161	-286	-384
Balance of payments current account: net balance for secondary income (million euro)		847	1 622	1 547	1 589	1 583	1 581
Net balance for primary and secondary income: of which government transfers (million euro)	2)	53	60	74	110	54	91
**3 year backward moving average of the current account balance relative to GDP (%)		:	-2.6	-2.4	-1.8	-1.4	-1.7p
**Five year change in share of world exports of goods and services (%)		:	:	:	:	:	:
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)		74.9	131.1	229.4	197.4	202.8	316.9
Foreign direct investment (FDI) abroad (million euro)		2.3	-19.9	22.8	7.7	13.9	21.6
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	-5.6	0.4	3.0	5.5	13.6
Foreign direct investment (FDI) in the reporting economy (million euro)		77.2	111.2	252.2	205.1	216.7	338.4
of which FDI of the EU-28 countries in the reporting economy (million euro)		50.8	117.1	226.7	13.8	-15.2	212.8
**Net international investment position, relative to GDP (%)		-39.6	-55.1	-55.9	-53.1	-56.0	-57.3
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)		:	1.6	-3.3	6.5	2.3	-7.5

<b>Public finance</b>	Note	2005	2012	2013	2014	2015	2016
***General government deficit / surplus, relative to GDP (%)		0.2	-3.8	-3.9	-4.2	-3.5	-2.7
***General government gross debt relative to GDP (%)		36.7	33.7	34.0	38.1	38.1	39.6
Total government revenues, as a percentage		32.7	29.6	28.0	27.8	28.8	28.3

of GDP (%)							
Total government expenditure, as a percentage of GDP (%)		32.5	33.4	31.9	32.0	32.2	31.0

<b>Financial indicators</b>	Note	2005	2012	2013	2014	2015	2016
Gross external debt of the whole economy, relative to GDP (%)		50.2	68.2	64.0	70.0	69.3	74.2p
Gross external debt of the whole economy, relative to total exports (%)		149.9	153.3	147.9	146.6	142.2	148.3
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		501	1 072	1 138	1 391	1 644	1 811
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		1 708	3 540	3 545	3 801	4 081	4 339
Money supply: M3 (M2 plus marketable instruments, million euro)		1 777	4 330	4 558	5 040	5 374	5 713
Total credit by monetary financial institutions to residents (consolidated) (million euro)		1 153	3 551	3 779	4 157	4 544	4 594
**Annual change in financial sector liabilities (%)		:	:	1.2	11.8	4.1	6.8
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)	3)	8.50	2.10	1.86	1.79	0.99	1.02
Lending interest rate (one year), per annum (%)	4)	13.00	4.23	3.75	3.75	3.75	4.25
Deposit interest rate (one year), per annum (%)	4) 5)	:	1.00	0.75	0.50	0.25	0.25
Euro exchange rates: average of period (1 euro = ... national currency)		61.296	61.530	61.583	61.623	61.610	61.595
Trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)	4)	1 123	2 193	1 993	2 436	2 262	2 613

<b>External trade in goods</b>	Note	2005	2012	2013	2014	2015	2016
Value of imports: all goods, all partners (million euro)		2 518	5 071	4 983	5 505	5 801	6 107
Value of exports: all goods, all partners (million euro)		1 523	3 124	3 235	3 747	4 088	4 329
Trade balance: all goods, all partners (million euro)		-995	-1 947	-1 748	-1 758	-1 714	-1 777
Terms of trade (export price index / import price index * 100) (number)	6)	101	98	97	97	100	:
Share of exports to EU-28 countries in value of total exports (%)		65.7	65.3	72.6	76.5	77.0	79.9
Share of imports from EU-28 countries in value of total imports (%)		58.9	60.3	62.7	63.4	62.0	62.0

<b>Demography</b>	Note	2005	2012	2013	2014	2015	2016
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		2.0	1.7	1.9	1.9	1.3	1.2

Infant mortality rate deaths of children under one year of age (per thousand live births)		12.8	9.8	10.2	9.9	8.6	:
Life expectancy at birth: male (years)		71.6	73.0	73.4	73.5	73.5	:
Life expectancy at birth: female (years)		75.9	76.9	77.5	77.5	77.4	:

<b>Labour market</b>	Not e	2005	2012	2013	2014	2015	2016
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	69.6	70.4	70.8	70.2	69.6
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	48.2	50.3	51.3	51.9	53.3
Male employment rate for persons aged 20–64 (%)		:	57.5	59.7	61.6	61.5	63.7
Female employment rate for persons aged 20–64 (%)		:	38.7	40.7	40.8	42.1	42.5
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		26.2	35.4	37.9	38.6	40.1	40.7
<b>Employment by main sectors</b>							
Agriculture, forestry and fisheries (%)		:	17.3	18.7	18.5	17.9	16.6
Industry (%)		:	23.6	23.5	23.4	23.4	23.1
Construction (%)		:	6.3	6.9	7.0	7.1	7.2
Services (%)		:	52.8	50.9	51.1	51.6	53.1
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	:	:	:	:	:
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	:	:	:	:	:
Unemployment rate: proportion of the labour force that is unemployed (%)		37.3	31.0	29.0	28.0	26.1	23.7
Male unemployment rate (%)		36.5	31.5	29.0	27.7	26.7	24.4
Female unemployment rate (%)		38.4	30.3	29.0	28.6	25.1	22.7
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		62.6	53.9	51.9	53.1	47.3	48.2
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		32.3	25.5	23.9	23.4	21.3	19.2
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED levels 0-2) (%)		:	36.4	33.2	31.0b	30.0	28.8
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)		:	:	:	:	:	:

<b>Social cohesion</b>	Not e	2005	2012	2013	2014	2015	2016
Average nominal monthly wages and salaries (national currency)		12 597	20 902	21 145	21 394	21 906	22 342
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2010 = 100)		:	:	:	:	:	:
GINI coefficient		:	39	37	35	34	34
Poverty gap		:	43.1	39.0	36.1	33.1	32.9
*Early leavers from education and training: proportion of the population aged 18–24 with		:	11.7	11.4	12.5	11.3p	9.9

at most lower secondary education who are not in further education or training (%)							
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<b>Standard of living</b>	Not e	2005	2012	2013	2014	2015	2016
Number of passenger cars relative to population size (number per thousand population)		124.4	146.5	168.2	179.8	185.5	190.7
Number of mobile phone subscriptions relative to population size (number per thousand population)		597.6	1 084.6	1 083.9	:	1 005.9	:
Mobile broadband penetration (per 100 inhabitants)		:	:	:	51	55	:
Fixed broadband penetration (per 100 inhabitants)		:	:	:	17	18	:

<b>Infrastructure</b>	Not e	2005	2012	2013	2014	2015	2016
Density of railway network (lines in operation per thousand km <sup>2</sup> )		28.1	28.1	28.1	28.1	28.1	:
Length of motorways (kilometres)		216	259	259	259	259	259

<b>Innovation and research</b>	Not e	2005	2012	2013	2014	2015	2016
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.23	0.33	0.44	0.52	0.44	:
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	:	:	:	:	:
Percentage of households who have internet access at home (%)		11.2e	58.3	65.1	68.3	69.4	75.3

<b>Environment</b>	Not e	2005	2012	2013	2014	2015	2016
*Index of greenhouse gas emissions, CO <sub>2</sub> equivalent (1990 = 100)	7)	98.7	98.8	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)		490.8	411.5	373.4	350.5	332.2	325.2p
Electricity generated from renewable sources relative to gross electricity consumption (%)		17.5	11.7	18.7	15.5	24.9	27.0
Road share of inland freight transport (based on tonne-km) (%)		91.3	93.2	92.4	94.7	96.0	96.9

<b>Energy</b>	Not e	2005	2012	2013	2014	2015	2016
Primary production of all energy products (thousand TOE)		1 632	1 561	1 425	1 331	1 266	1 114
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:
Primary production of solid fuels (thousand TOE)		1 289	1 246	1 053	986	876	745
Primary production of gas (thousand TOE)		0	0	0	0	0	0
Net imports of all energy products (thousand TOE)		1 199	1 428	1 300	1 403	1 395	1 576
Gross inland energy consumption (thousand TOE)		2 869	2 980	2 783	2 707	2 665	2 684

TOE)							
Gross electricity generation (GWh)		6 942	6 262	6 094	5 374	5 646	5 629

<b>Agriculture</b>	Not e	2005	2012	2013	2014	2015	2016
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		:	94.0	98.6	100.5	106.4	:
Utilised agricultural area (thousand hectares)		1 229	1 268	1 260	1 263	1 264	1 267
Livestock numbers: live bovine animals (thousand heads, end of period)		248	251	238	242	253	255
Livestock numbers: live swine (thousand heads, end of period)		156	177	167	165	195	203
Livestock numbers: live sheep and live goats (thousand heads, end of period)		:	:	807	822	822	825
Raw milk available on farms (thousand tonnes)		:	:	430	436	417	463
Harvested crop production: cereals (including rice) (thousand tonnes)		648	460	562	629	484	641
Harvested crop production: sugar beet (thousand tonnes)		58	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)		756	691	687	776	845	810

: = not available

b = break in series

e = estimate

p = provisional

\* = Europe 2020 indicator

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

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

#### Footnotes

- 1) Excluding NACE Rev. 2 Sections A, O, T, U and Class 64.20.
- 2) Secondary income only.
- 3) 2005 and 2012-2013: the interest rates are calculated as weighted averages; data cover bilateral over-night transactions. 2014 and 2015: end of year (31 December).
- 4) End of year (31 December).
- 5) 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%.
- 6) Ratio of Paasche unit value indices.
- 7) Part of the greenhouse gas inventory prepared in the context of the Third National Communication (UNFCCC).