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# 1. INTRODUCTION<sup>1</sup>

## 1.1. Context

The European Council granted the status of candidate country to the former Yugoslav Republic of Macedonia in December 2005. The Stabilisation and Association Agreement between the former Yugoslav Republic of Macedonia and the EU entered into force in April 2004. The Commission first recommended to the Council the opening of accession negotiations with the country in 2009.

The reporting period was dominated by a serious political crisis in the country. On 2 June and 15 July, the European Commission and Members of the European Parliament facilitated an agreement between political parties on ending the crisis and the European Commission presented "Urgent Reform Priorities" on the systemic institutional failings arising out of the crisis that the government and all other political actors committed to implement.

## 1.2. Summary of the report

Concerning the **political criteria**, serious challenges reported in previous years have been underscored by the country's most severe political crisis since 2001 with intercepted communications, apparently involving senior government officials, suggesting breaches of fundamental rights, interference with judicial independence, media freedom and elections, as well as politicisation and corruption. Concerns about all of these issues had been signalled in previous Progress Reports. The breakdown of political dialogue and difficulties in arriving at consensus on issues highlighted once again the divisive political culture in the country.

Based on an agreement facilitated by the Commissioner, with the help of three members of the European Parliament, in June/ July, Members of Parliament of the main opposition party returned to parliament on 1 September after having boycotted it for more than a year. The boycott seriously affected the oversight function of the institution over the executive branch. Other key bodies failed to exercise effective oversight. Work has begun on the implementation of the political agreement. Implementation needs to continue and much more needs to be done on the "Urgent Reform Priorities"<sup>2</sup> to deliver results on these and other pre-existing agreed reform targets.

The inter-ethnic situation remains fragile. The review of the Ohrid Framework Agreement, which ended the 2001 conflict and provides the framework for the inter-ethnic relations, needs to be completed.

Following a major police operation in an ethnic Albanian neighbourhood of Kumanovo that claimed 18 lives, all political leaders in the country called for restoration of calm and underlined that this incident should not be seen as inter-ethnic. Events at Kumanovo still need to be fully investigated.

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<sup>1</sup> This report covers the period from October 2014 to September 2015. 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. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account.

<sup>2</sup> The 'Urgent Reform Priorities': [http://ec.europa.eu/enlargement/news\\_corner/news/news-files/20150619\\_urgent\\_reform\\_priorities.pdf](http://ec.europa.eu/enlargement/news_corner/news/news-files/20150619_urgent_reform_priorities.pdf). The recommendations of the Senior Experts' Group: [http://ec.europa.eu/enlargement/news\\_corner/news/news-files/20150619\\_recommendations\\_of\\_the\\_senior\\_experts\\_group.pdf](http://ec.europa.eu/enlargement/news_corner/news/news-files/20150619_recommendations_of_the_senior_experts_group.pdf)

Civil society organisations have played a constructive role in the context of the crisis through demanding accountability from the political actors across ethnic lines. At the same time organisations continue to express their concerns about the difficult climate in which they operate and the limited government commitment to dialogue, as well as about public attacks by politicians and pro-government media.

The country is moderately prepared in the area of public administration reform. There has been progress on some issues. However, concerns about politicisation have been reinforced by the content of the wiretaps, and merit based recruitment continues to be undermined. Public trust in the functioning of the institutions has further eroded. Some steps have been taken to reform public financial management, but a medium-term budgetary framework and fiscal transparency still needs to be put in place and improved.

The country's judicial system has some level of preparation. The situation has been backsliding since 2014 because the achievements of the last decade's reform process have been seriously undermined by actual and potential political interference in the work of the judiciary. Indications of wrongdoings and offences arising from the intercepted communications still need to be fully investigated. The authorities now need to demonstrate real political will to ensure the full independence of the judicial system, including allowing the newly-appointed Special Prosecutor to work unhindered in investigating the wiretaps and their content.

Concerning the fight against corruption, some level of preparation has been achieved. Legislative and institutional achievements were, however, overshadowed by a lack of political will and political interference in the work of the relevant bodies, especially in high-level cases. A track record of effective prosecution, especially on high level corruption, still needs to be established.

In the fight against organised crime, the country has reached some level of preparation. Sufficient capacity and expertise to carry out financial investigations and asset confiscations in a systematic manner still needs to be established.

The legal framework for the protection of human rights is broadly in line with European standards. However, implementation is lacking, in particular in the areas of prison reform, Roma integration, rights of the child and persons with disabilities. The lesbian, gay, bisexual, transgender and intersex (LGBTI) community continues to suffer from discrimination and homophobic media content. The country shows some level of preparation regarding freedom of expression. Exercising this freedom, however, is a serious problem in the current media culture and political climate, and the country continued to backslide in this area. Attempts to limit media reporting on matters of public interest are worrying.

The country generally maintains good relations with other enlargement countries and plays an active role in regional cooperation. Steps have been taken to improve good neighbourly relations. The 'name issue' with Greece needs to be resolved as a matter of urgency.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia is at a good level of preparation in developing a functioning market economy. The country benefits from a stable macroeconomic environment, supported by sound monetary policy, favourable conditions for market entry, and a sound legal system. There was some backsliding in public finance management. Medium-term fiscal targets were relaxed, the composition of public spending remains tilted towards transfers and subsidies and the development of overall public debt, as well as its transparency, remain a concern. The budget should be more geared towards growth and employment, while its overall design, transparency and implementation

should be improved. A high level of non-performing loans has constrained credit supply and needs to be addressed by further policy action. Unemployment remains high at 28%.

The economy is moderately prepared to cope with competitive pressures and market forces within the Union. There was some progress in diversifying the export structure as a result of direct investment; trade and investment links with the EU strengthened further. However, the country needs to improve the employability of people, in particular the youth, by better aligning education with labour market needs, upgrade linkages between foreign direct investors and the domestic economy, and better prioritise investment.

As regards its **ability to take on the obligations of membership**, the country has a relatively good level of alignment with the *acquis*. More focus is needed on administrative capacity and effective implementation. In most areas, the country is moderately prepared, including in the areas of public procurement, statistics and, financial control. Further efforts are needed across the board, in particular in those few areas where the country is at an early stage of preparation.

Mixed-migration flows increased dramatically, creating a substantial burden on the country's asylum and migration framework. The authorities have taken measures to provide for safer passage of third country nationals over its territory and provided shelter and humanitarian supplies, with EU support as well as the support of others.

## **2. POLITICAL CRITERIA**

### **2.1. Democracy**

This year the former Yugoslav Republic of Macedonia has faced its worst political crisis since 2001. The divisive political culture, lack of compromise and breakdown in dialogue took the form of a continuing and protracted political crisis, including a boycott of parliament by the main opposition party<sup>3</sup> and further erosion of trust in public institutions. The crisis deepened further with the publication of intercepted conversations including senior government and governing party officials suggesting breaches of fundamental rights, interference with judicial independence, media freedom and elections, and politicisation and corruption in various fields. Concerns about all of these issues had been signalled in previous Progress Reports. The Macedonian government, the parliament and relevant oversight bodies failed to react adequately to the revelations.

In response, the Commission issued 'Urgent Reform Priorities' based partly on its previous recommendations and partly on recommendations provided by a group of independent senior rule of law experts brought in to analyse the situation. The independent experts identified significant shortcomings in the areas of interception of communications, the judiciary and prosecution services, external oversight by independent bodies, elections and the media<sup>4</sup>. In parallel, the Commissioner, with the help of three members of the European Parliament, facilitated a political agreement in June/ July. The leaders of the four main parties committed, inter alia, to a transitional government which will prepare early parliamentary elections in April 2016. So far, not all elements of the agreement have been implemented and a number of deadlines have been missed. The leaders also committed to implement all of the Commission's recommendations on systemic rule of law issues (Urgent Reform Priorities); implementation of these has slowly been started, but without sufficient results to date.

### **Elections**

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<sup>3</sup> *Social Democratic Union of Macedonia (SDSM)*

<sup>4</sup> These issues and the recommendations to address the situation are referenced throughout this report.

Shortcomings regarding elections, previously signalled by OSCE/ODIHR, and other suspicions, were reflected by the content of the intercepted communications. The relevant Urgent Reform Priorities need to be implemented.

These communications included discussion of manipulation of the voter list, vote buying, voter intimidation, including threats against civil servants and companies, and preventing voters from casting their votes. As set out in the ‘Urgent Reform Priorities’, the outstanding OSCE/ODIHR recommendations need to be fully implemented before early elections are held in April 2016. Despite the commitments in the political agreement, negotiations on electoral-related reforms were lengthy and difficult. Political and legal action rather than legislation is needed to address the other issues which have been brought to light.

## **Parliament**

The ongoing crisis has underlined the need for parliament to substantially improve its performance as a forum for constructive political dialogue and representation, as well as its legislative and oversight functions. This needs to include credible functional oversight of the work of the intelligence services and the capacity to monitor the protection of human rights and fundamental freedoms in the country. The absence of the main opposition party for most of the reporting period diminished the quality of reforms and hindered the operation of checks and balances.

Parliament’s work continued to be seriously hampered by the political crisis, including the absence of the largest opposition party, SDSM, for 16 months before returning to parliament on 1 September. As a result, parliament failed to provide the necessary checks and balances on the executive’s power, most obviously on oversight of the intelligence services at the heart of the interception of communications. During the summer, the two relevant oversight committees were reactivated, now under opposition leadership, but an Inquiry Committee into the interception of communications still needs to be established (Urgent Reform Priorities).

The recommendations made in August 2013 by the committee of inquiry into the events in parliament of 24 December 2012 were not finalised because of the withdrawal of SDSM from the relevant working group in October 2014, and work still needs to restart (Urgent Reform Priority). Implementing these recommendations would significantly improve the functioning of parliament and the scheduling of its work. Consultations on proposed legislative and constitutional changes were carried out through several public debates with the participation of civil society organisations and academia. The Committee on European Affairs reviewed 11 laws under the National Programme for EU Integration. However, frequent changes to recently adopted legislation, including its suspension, point to shortcomings in policy preparation, consultation and legislative processes. A constructive meeting of the National Council for European Integration took place on 18 September, on the occasion of a meeting of the High Level Accession Dialogue.

## **Governance**

The governance of the country was strained by the ongoing political crisis and called into question by revelations of unethical behaviour, illegal activities and even potential criminal offences. Only limited political responsibility was taken through the resignation of two ministers and the head of the intelligence service. Failures of oversight by key bodies need to be addressed and all independent regulatory, supervisory and advisory bodies need to be able to carry out their functions proactively, effectively and free from political pressure. Inter-ethnic tensions underlined the need to fully implement the Ohrid Framework Agreement.

The government coalition of the VMRO-DPMNE<sup>5</sup> and DUI<sup>6</sup> remained stable, though severely strained by the crisis. In May it lost its two-thirds majority, required for key decisions, with the defection of an MP from the DOM<sup>7</sup> party from the VMRO-DPMNE coalition due to political fall-out from the revelations. The Minister of Interior and the Minister of Transport and Communications, as well as the head of the intelligence service, resigned after the intercepted communications were revealed.

Since May, the opposition organised several demonstrations to protest against the lack of transparency and level of state capture by the government. There have also been an increased number of demonstrations protesting at the lack of consultation in government policy-making on laws which have been repealed or suspended.

The inter-ethnic nature of the government coalition was a factor that contributed to **inter-ethnic stability**. The leaders of the four main political parties committed, in the 2 June political agreement, to fully implement the Ohrid Framework Agreement, which ended the conflict of 2001 and provides the framework for preserving the multi-ethnic character of the society. However, there remains a lack of trust between communities, and inter-ethnic tensions persist. Further initiatives are needed to promote good inter-community relations and an inclusive multi-ethnic society. The long-promised review of the implementation of the Ohrid Framework Agreement, including policy recommendations, needs to be urgently completed and followed up. As in previous years, the political and community leaders successfully handled potential inter-ethnic incidents.

The serious events in Gošince and Kumanovo raised concerns and questions which still need to be investigated thoroughly and transparently.

**Constitutional changes** were proposed by the government in a broad range of areas, despite the absence of the main opposition party from parliament. Neither the proposed changes, nor related implementing legislation, have been adopted by parliament as the two-thirds majority could not be reached. Although there was wide public consultation and debate on the proposals, the concerns expressed by the European Commission about their compatibility with the *acquis* have not all been addressed yet.

The **decentralisation of government** is of particular importance as it is a key element of the Ohrid Framework Agreement (see also 2.4. *Ohrid Framework Agreement*). One municipality (Plasnica) has still not completed the second phase of fiscal decentralisation. Some progress has been made with the adoption of the strategic decentralisation programme for 2015-2020 and its action plan. However, the decentralisation process needs to be better coordinated and efforts are required to ensure that especially rural municipalities have the financial sustainability to carry out responsibilities transferred to them. Distribution of capital funds to municipalities needs to be carried out in a more transparent and coordinated manner. Multi-annual budget planning and improved collection of statistical data at local level is also needed. It is an issue of concern that some opposition-run municipalities were subject to a disproportionate number of inspections.

The report by senior rule of law experts pointed to the failure of independent oversight and control bodies to follow up effectively on the interception revelations (Urgent Reform Priority). More generally, all of the independent regulatory, supervisory and advisory bodies should be able to exercise their powers in a proactive and effective manner, without external pressure and without exercising inappropriate political self-restraint or interpreting their own

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

<sup>6</sup> *Democratic Union for Integration*

<sup>7</sup> *Democratic Renewal of Macedonia*



mandate in an excessively formal way. These bodies include the State Election Commission, the State Commission for the Prevention of Corruption, the Agency for Audio and Audiovisual Media Services, the Office of the Ombudsman, the Judicial and Prosecution Councils and the State Audit Office.

### **Civil society**

Although some progress was made, civil society organisations (CSOs) have continued to express serious concerns about the difficult climate in which they operate. They report being subject to harsh criticism by politicians and pro-government media, and a limited government commitment to dialogue. During the political crisis of 2015, CSOs often played a constructive role by organising numerous peaceful protests across ethnic lines, and demanding greater accountability of politicians. Civil society also demonstrated cross-ethnic unity in the aftermath of the tragic Kumanovo events of spring 2015. At the same time, political polarisation and divide can still be observed between CSOs supporting the government and those opposing it. The national authorities should involve civil society in policy-making and legislation in a more regular and effective manner.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by state institutions. The binding framework of rules for state financing of civil society has not been, however, adopted, and the system for allocating state funds to civil society remains ineffective and inefficient.

Insufficient administrative capacity and the lack of a specific budget in the Government Unit for NGO Cooperation are hampering implementation of the 2012-2017 strategy on cooperation with civil society. The relevant 2015-2017 action plan has not yet been adopted. The working group for monitoring the law on associations and foundations has not been established by the Ministry of Justice. The Council for Cooperation between government and civil society is not yet established, and neither is the working group for monitoring the law on associations and foundations has not been established by the Ministry of Justice.

The Secretariat for European Affairs continues to consult civil society, including on financial assistance-related matters, the preparation of the High Level Accession Dialogue being a good example. In general, however, CSOs' involvement in policy-making and legislative drafting remains insufficient. The single electronic register of legislation is not used for online consultations for most draft legislation. The minimum period for consultations and the obligation to provide feedback on comments are not fully complied with. The code of good practice for CSOs' participation in policy-making processes is implemented inconsistently. Local government lacks the capacity to ensure cooperation with CSOs is undertaken.

### **Oversight of the intelligence services**

In theory, the country has a system of oversight in place, which has not functioned in practice in the case of the security and intelligence services. The parliamentary committees which are responsible for the oversight of the security and intelligence services on the one hand, and the interception of communications for intelligence and law enforcement purposes on the other, have met infrequently or not at all in recent years. They had not complied with their statutory reporting duties, had not conducted inspections (until this autumn) and had not compelled the Minister of Interior or the head of the intelligence service to appear before them. Sufficient responsibility has not been taken for the serious failings within the intelligence service to prevent the illegal interception of individuals' private communications over a significant period of time. The clear recommendations on both oversight and reform of the intelligence services in the 'Urgent Reform Priorities' must be implemented.

## 2.2. Public administration reform

The country is **moderately prepared** with the reform of its public administration. It made **some progress** on legislation and improvement of service delivery to citizens and businesses. Concern about politicisation has been heightened by the content of the leaked wiretaps and delay in fully implementing the new legal framework. Strong political will is necessary to guarantee the independence of administration and respect for the principles of transparency, merit and equitable representation. In the coming year, the country should in particular:

→ address serious concerns about the politicisation of public service; ensure full implementation of the principles of accountability, transparency and merit (Urgent Reform Priority, including introduction of an improved human resources management information system);

→ suspend and review the implementation of the Law on Transformation of Temporary Positions into Permanent Contracts until the principle of merit is fully observed (Urgent Reform Priority);

→ adopt a public administration reform strategy and a public financial management reform programme, which will address the weaknesses identified, including budget transparency.

### Public service and human resources management

Tailor-made, political and arbitrary recruitments took place on a large scale. The new legal framework, comprising the Law on Administrative Servants and the Law on Public Sector Employees, which entered into force in February, should combat this trend as it created uniform rules for public sector employees at both central and local level. All implementing legislation has been adopted, including the methodology on equitable representation. The laws represent an improvement by regulating **merit-based recruitment, promotion and dismissal** of public servants at lower positions, but they fall short in relation to senior public servants. Concerns continue over the transparency of staff mobility and possible misuse of dismissal procedures.

The public sector has been further inflated with the practice of creating new posts on political or social grounds, in particular before the new laws entered into force. The Law on Transformation of Temporary Positions into Permanent Contracts was adopted in February by a fast-track procedure and without prior public consultation nationally or with the EU partners only a few days before the entry into force of the framework laws. This law circumvents the principles of merit-based recruitment by converting thousands of temporary contract staff into permanent civil servants or public employees without open competition.

While recruitment from the biggest non-majority community is increasing, smaller communities remain under-represented. Efforts to meet targets for equitable representation did not always take account of institutions' real staffing needs and the principle of merit. The number of public employees not required to turn up to work has increased.

The Ministry of Information Society and Administration's (MISA) responsibility for coordination and monitoring of **human resources management** has been extended to cover all public sector institutions. It is in charge of providing real-time data on the entire public service. The total numbers of permanent and temporary employees, of all types, should be made public regularly (Urgent Reform Priority). There is no uniform civil service **remuneration system** across the public sector, leading to inconsistent levels of pay and hindering mobility. Close monitoring of the application of the legislation is of key importance to address its shortcomings.

The right to continuous **professional development** of civil servants is partially covered, and the use of e-learning systems increased. There is, however, no centralised database of training offered by various institutions and no cumulative data on training already provided. Legislation promoting **integrity in public service** has had relatively limited impact.

#### Policy development and coordination

The legal framework and institutional structures are in place to ensure a coherent **policy-making system**, including for European integration. However, staffing in the core coordination functions is inadequate. A system for medium-term policy planning is in place but sectoral planning is not well developed and strategies are usually not costed.

Only some elements of **inclusive and evidence-based policy and legislative development** have been laid down. Ministries do not generally have internal rules laying down processes to draft policies and legislation. A large proportion of civil servants focus on implementation of policies, affecting negatively policy development and the administration's capacity to draft policy and legal documents, including those needed to comply with the *acquis*. The obligatory inter-ministerial and public consultations process on policies and legislation is often insufficient and public participation is inconsistent. This has, for example, led to widespread protests and the eventual suspension of legislation (*See Chapter 26*). The obligatory regulatory impact assessments for legislative and policy proposals are not always carried out in practice or with sufficient quality. Financial impact assessments are usually not prepared, which is a significant shortcoming.

**Public scrutiny over government work** is ensured in theory, as the government is under a legal obligation to monitor and report on implementation of its programme. Most of the reports are not made public, however. Also, the reports focus more on quantitative outputs than on qualitative assessment whether policy objectives are achieved.

#### Accountability of the administration

The organisation of the Macedonian administration does not yet ensure effective **lines of accountability**, neither between institutions nor within institutions. Supervision would need to be clarified, as some institutions have to report parallel both to the relevant ministry and the government. Managerial accountability is not implemented systematically, and there is little delegation of responsibility to middle management. (*See Chapter 32 – Financial control*)

The relevant internal and external oversight mechanisms are in place to ensure **the citizens' right to good administration**. However, the opposition's long-term absence from parliament undermined parliamentary oversight. The Ombudsman continues to function efficiently, and around 87 % of his 2014 recommendations were implemented by the administration. However, better follow-up by a number of central institutions is still needed. (Urgent Reform Priority / see also *Governance*) .The **right to access public information** is regulated in the Law on Free Access to Information of Public Charter but the scope of exemptions is too broad. The independent commission that reviews appeals does not have sufficient capacity to monitor compliance with proactive disclosure of information, and is not empowered to impose penalties to encourage better enforcement of legislation.

Regarding the **right to administrative justice**, the law on general administrative procedures ensures the right of appeal. A new body reviewing internal administrative appeals against inspection and misdemeanour proceedings was established, but has not become functional. Efficiency in the administrative courts increased but there are delays in enforcing court rulings and the appeal procedure remains too onerous. The **right to seek compensation** and the liability of public authorities in cases of wrongdoing is regulated, but data on compensation for damages is not available.

### Public financial management

The medium-term budgetary framework is not yet in place. The parliament does not have the resources to monitor the use of public funds. There is also no efficient mechanism to monitor the budgetary impact of government proposals. Implementation of the public internal financial control strategy is in its initial phase.

A comprehensive **public financial management reform programme**, addressing the identified shortcomings and linking and sequencing different areas and reform measures, is currently being developed. **Budget transparency** is not ensured as comprehensive, timely and reliable budgetary information is not publicly available. Moreover, the 2015-2017 fiscal strategy and the 2015 budget were adopted without adequate parliamentary discussion.

### Service delivery to citizens and businesses

A **user-oriented administration**, among other things by developing e-services, is a government priority. The inter-operability framework is being developed. Equal access to public services is partially established. An increasing range of services is offered to business through one-stop-shops or online, albeit at a slow pace. However, the number of services provided to the public through the e-government portal is limited, especially those with transaction possibilities. The use of quality assurance tools is encouraged and currently 16 % of the central government institutions measure public satisfaction. A newly adopted law on general administrative procedures, to enter into force in 2017, is a good step towards **simplifying administrative procedures**. Substantial training at central and local level is needed to ensure it is applied uniformly. Considerable efforts are also needed to reduce the estimated 130 special administrative procedures hampering modernisation of service delivery before the new law enters in force.

### Strategic framework for public administration reform

A comprehensive **public administration reform strategy** is in place but will expire at the end of 2015. It focuses mainly on outputs, not targets and indicators. The 2016-2020 strategy is yet to be developed including an action plan, linked to medium-term and annual budget planning. MISA's capacity to ensure efficient co-ordination of the strategy's implementation should be strengthened. **Political support** is ensured through the public administration reform committee chaired by the Prime Minister. However, the declared commitment to transparency, accountability and merit in public administration has been compromised by ad-hoc measures allowing public employment as a social measure or the mass conversion of temporary staff to permanent status. This also limits **financial sustainability** of a wider public administration reform agenda.

## **2.3. Rule of law**

### **Functioning of the judiciary**

The country's judicial system has **some level of preparation**. However, the situation has been **backsliding**. Achievements of the last decade's reforms are being undermined by real and potential political interference in the work of the judiciary. Outstanding issues already identified in previous reports remain to be addressed. The 'Urgent Reform Priorities' set out what the country needs to do to avoid further backsliding. The legislative and institutional structures which are already in place need to be put to use, in good faith and in the spirit intended. In the coming year, the country should in particular:

- depoliticise the appointment and promotion systems in practice, not only in law;
- provide full support and resources to the Special Prosecutor;

- reform the existing discipline and dismissal system for judges;
- adopt a new Judicial Reform Strategy and action plan addressing remaining shortcomings in a sustainable manner;
- improve strategic planning, needs assessment, resource management and allocation within the judiciary.

### Strategic documents

A number of judicial reforms were already carried out under **the judicial reform strategy** and its accompanying **action plans** from 2004 to 2010. A new strategy and action plan focusing on a number of specific areas, including alternative dispute resolution and access to justice, are still at an early stage of development.

### Management bodies

The **Judicial Council**, established in 2006, is composed of 15 full-time members, of whom eight are judges designated by their own ranks and five are lay members (three designated by parliament and two by the President) from the ranks of university law professors, lawyers and other eminent legal experts. The President of the Supreme Court and the Minister of Justice are *ex officio* members, the latter without voting rights. The President of the Judicial Council is designated by its members every three years. Four of the five lay members are elected under the ‘Badinter rule’, ensuring equitable representation of the communities. As well as carrying out core responsibilities — deciding on the appointment, evaluation, dismissal, termination, detention and immunity of judges — the Judicial Council cooperates closely with the Academy of Judges and Prosecutors and also oversees statistical data collection through the automated court case management system. It maintains an accessible website and publishes annual reports online. The Judicial Council’s sessions are public, but their records are not. The **Council of Public Prosecutors**, established in 2008, is still lacking its own budgetary allocations, appropriate IT support and enough staff.

### Independence and impartiality

The independence of judges is enshrined in law. In the large majority of ‘ordinary’ cases, courts are able to act independently. Relatively few complaints are made to the Judicial Council over bias or partiality and none have been upheld. However, there are repeated reports of selective justice and **political interference** in certain high-profile or politically sensitive court cases. This casts a shadow over an otherwise functioning judicial system. The **random allocation of cases** has been required by law since 2006 and is implemented through the electronic case management system since 2009. However, the Judicial Council does not monitor the system systematically and there are concerns that it is sometimes be circumvented in key cases. The criminal and civil procedure legislation provides clear **recusal-mechanisms** for judges in cases of conflicts of interest. Concerns about judges’ **security of tenure** still need to be addressed due to the high number of dismissals in recent years: since 2007, there have been 59 dismissal proceedings, resulting in 44 dismissals. While the numbers of dismissals have fallen drastically in the past two years, the legislative framework still needs to be revised, particularly regarding the often vague grounds for dismissal and the narrow scope for imposing less severe disciplinary measures.

### Accountability

The **codes of ethics** for judges (2006) and prosecutors (2004) were both updated in 2014. Since 2010, the entrance criteria for the Academy of Judges and Prosecutors include integrity-testing. The two-year initial training programme for judges and prosecutors and the final exam also include a component on judicial and prosecutorial **ethics**. There are multiple

complaints mechanisms for the public to use. Complaints can be lodged via, among others, the Ministry of Justice, the Office of the Ombudsman and the Supreme Court. Aside from the **disciplinary framework** which is in place, there have in the recent past also been criminal prosecutions against judges and prosecutors and the principle of immunity does not pose any practical obstacle, as it is revoked by the Judicial Council in such cases. The State Commission for Prevention of Corruption has also regularly sought misdemeanour fines against judges who fail to submit **asset declarations** or statements of interest and the system works smoothly in practice.

### Professionalism and competence

Although the entrance criteria for the judicial profession were toughened in 2010, as were the professional experience pre-requisites for promotion to higher courts, concerns persist about how the rules are applied in practice. There are no transparent means to assess whether the objective, merit-based criteria are in fact applied in decisions on judicial **appointments and promotions**, especially when comparing multiple candidates. The system of **professional evaluation** is based almost exclusively on numerical benchmarks relating to the numbers of cases processed per month and the procedural deadlines met. It does not include any features of qualitative assessment, such as the clarity of reasoning in judgments or level of specialisation. It takes negligible account of contributions to jurisprudence, academia or teaching and it includes unjustified criteria such as the number of cases overturned on appeal. This can also have knock-on consequences for both promotions and dismissals given that they are closely linked to the results of the evaluation procedure. Despite repeated criticisms, no improvements have yet been introduced. The lack of clear reasoning in court judgments remains a significant problem still to be addressed.

### Quality of justice

The **Academy for Judges and Prosecutors** was established in 2006 and has so far produced four graduating classes of 80 candidates in total, of whom 78 have been appointed as first-time judges and prosecutors. In addition to the two-year pre-service training programme, the Academy provides ongoing in-service training for all judges, prosecutors and court staff. This also covers relevant aspects of EU law and European Court of Human Rights (ECtHR) jurisprudence. It operates e-training through its web portal and decentralised training outside the capital. The Academy is financed from the state budget and by donors. It still lacks sufficient support staff. Its ability to provide high-quality training, both from experienced national professionals and international guest trainers, needs to be secured and monitored on an ongoing basis. All courts produce quarterly and annual activity reports. The Judicial Council **monitors** these, as well as the annual report of the Supreme Court. The Automated Court Case Management Information System (ACCMIS) allows court activities to be followed up daily, and has also been used to compile data in specific areas, such as pre-trial detentions and the identification of ‘old cases’.

**ICT** systems are in use in all courts but some public prosecutors’ offices still lack equipment. **Online access to law and jurisprudence** is available in principle but is inconsistent in practice. Despite several initiatives to promote **alternative dispute resolution**, including under the 2009 Law on Mediation, there is a low level of uptake by the public of the options available. The country has observer status in the European Judicial Training Network.

### Efficiency

Most courts at all levels maintain a **clearance rate** of 100 % or higher, meaning that they are able to process at least as many cases as they receive in one year. **Backlogs** have not been an issue for several years. Individual stages of court proceedings are generally concluded within

the legal deadlines; however, the **overall length of court proceedings** from initiation to final judgment remains a concern in some categories of cases. Amendments were made to both the criminal and civil procedure legislation several years ago, addressing the problem of repeated referrals and re-examinations following appeals (so-called ‘ping pong’ appeals). However, the improvements benefit only cases started after the amendments entered into force which has created a confusing procedural landscape and a category of increasingly lengthy ongoing proceedings which still labour under the old rules. This needs to be addressed. The European Court of Human Rights has confirmed that the Supreme Court provides an effective domestic remedy for length of proceedings complaints.

The 2015 **budget** for the courts is EUR 30.2 million and EUR 7 million for the prosecution service. In terms of budgetary spending per inhabitant, this is significantly lower than the European average. The number of both judges and court staff per 100 000 inhabitants is significantly above the European average. There is still no dedicated human resource management system or any strategy aimed at improving **resource allocation**.

### **Fight against corruption**

The country has **some level of preparation** in the fight against corruption, having set up the necessary legislative and institutional framework over the last decade as well as developing a track record on both prevention and prosecution. **No progress** has been achieved in the past year on the outstanding issues identified. Corruption remains widespread. The capacity to effectively address it is currently being undermined by a lack of political will and political interference in the work of the relevant bodies, which is hampering their ability to act proactively and non-selectively, especially in high-level cases (Urgent Reform Priorities). In addressing the shortcomings outlined below, the country should pay particular attention in the coming year to:

- demonstrating real political will in the fight against corruption in the form of autonomous and effective measures by law enforcement and supervisory bodies, notably the State Commission for Prevention of Corruption;
- increasing the visibility of anti-corruption measures and the results achieved to improve public awareness and trust;
- developing a credible track record on fighting high level corruption;
- creating an effective framework for the protection of whistle-blowers, in line with European standards and best practices (Urgent Reform Priorities).

### Track record

Significant efforts have been made in recent years by the state bodies involved in the fight against corruption to collect the data needed to properly monitor **investigations, prosecutions and convictions** in this field. Over 220 criminal proceedings have been launched in the past six years and over 30 high-level cases in the past 12 years. While the track record is strongest on combating corruption connected with serious and organised crime activity, as well as abuse of office by low to medium level officials, it is weak on **high-level political corruption**. Serious allegations against senior government officials have yet to trigger thorough investigations. This selective passivity raises concerns over the independence of the police, the Public Prosecutor’s Office and the State Commission for the Prevention of Corruption (SCPC).

Widespread allegations of politicisation and of **political interference** by the executive and the ruling political parties in the work of the law enforcement agencies and the judiciary need to be addressed. The **content of the intercepted communications** has implicated members of

the government and senior officials in abuses of power and corruption in public procurement, urban planning, political party financing and public employment, as well as in interfering in the independence of the judiciary, the media and elections. The reluctance of the relevant law enforcement bodies, including the Public Prosecutor's Office, to follow up on these revelations in a swift and decisive manner is of concern. The effective fight against corruption requires not only the pro-active efforts of enforcement, regulatory and oversight bodies but also the political will of all other actors to allow them to carry out their functions fully, as intended by law (see also the 'Urgent Reform Priorities').

**Financial investigations** and **asset confiscation** are still used quite rarely in corruption cases.

The track record on **control of party and campaign financing** indicates that the existing penalties under the Law on Prevention of Corruption and the Electoral Code need to be applied much more systematically and visibly in practice.

The SCPC regularly initiates misdemeanour proceedings for failure to **declare assets** or submit **statements of interest**, with over 700 cases launched in the past five years. It also investigates potential conflicts of interest (over 680 cases in the past five years) and refers asset discrepancies to the Public Revenue Office for further investigation (over 230 cases in the past five years). Data collection and monitoring in this area is at an advanced stage.

The implementation of the Law on **Free Access to Public Information** remains ineffective and in practice penalties are not imposed for failure to comply. Political parties are still excluded from the list of holders of information, and thus remain outside the scope of the enforcement regime. **Whistleblowing** does not occur in practice due to the lack of any comprehensive protection. Proposed legislation on the topic needs to be aligned with European standards.

#### Institutional framework

The SCPC is the main institution on the **prevention side**. It was established in 2002 and has responsibilities in the areas of political party and campaign financing, asset declaration and conflicts of interest. It carries out systematic and ad hoc verifications and acts on complaints from the public. All of its annual reports are published on its website, some also in English. The SCPC has limited enforcement powers of its own, mainly issuing public warnings. However, it regularly institutes misdemeanour proceedings before the courts (resulting in fines) for failure to comply with various reporting obligations, and also refers cases of potential corruption directly to the Public Prosecutor. Where asset discrepancies are found, the SCPC refers cases for further investigation to the Public Revenue Office, which has the power to impose a punitive 75 % tax rate on undeclared income. While it has competent staff, the SCPC still lacks the adequate human and technical resources to function effectively. Although formally independent, the SCPC is regularly criticised for its members' lack of political will to fight corruption in a proactive, independent and non-selective manner. Public awareness of the SCPC's activities is quite low and awareness-raising on its role should be strengthened.

On the **law enforcement side**, most corruption cases are handled by the specialised Basic Public Prosecution Office for Organised Crime and Corruption in Skopje. Since 2007 this has special competence for public sector corruption as well as organised crime, while cases of private sector corruption are handled by the local prosecution offices around the country. The new Law on Criminal Procedure which applies since December 2013 aims at strengthening the role of the prosecutor in the pre-trial phase and improving the capacity to tackle complex organised crime and corruption cases. Despite many activities undertaken to prepare for the entry into force of the new system, the capacity of the prosecution service to lead criminal



investigations and effectively direct law enforcement agencies still needs to be strengthened. The Ministry of Interior's Sector for fighting corruption still needs to be reinforced with adequate staff and equipment. The Agency for Management of Confiscated Property does not have sufficient powers and continues to be under-resourced.

### Legal framework

The Criminal Code penalises active and passive bribery in both the public and private sectors, active and passive trading in influence, illicit enrichment and abuse of funds for campaign financing. It provides for prison sentences ranging from six months to ten years. In practice, sentences imposed are most commonly of three to four years, but heavier sentences of seven or eight years have also been given regularly, depending on the circumstances of the case.

The 2004 Law on the Financing of Political Parties and the recently amended 2006 Electoral Code contain both criminal and misdemeanour provisions on funding and election-related corruption. Fines range from EUR 500 to EUR 5 000 for breaches relating to party and campaign financing, donations, reporting and pre-election payments from the state budget. However, the enforcement regime is not being put to full use, as the penalties foreseen are not imposed on political parties in practice, despite complaints and media reports of breaches. The respective control powers and responsibilities of the State Audit Office, the SCPC and the State Election Commission are unclear under the legislation, leading to a mutual abdication of responsibility which needs to be addressed.

The legal framework for prevention is provided by the 2002 Law on Prevention of Corruption (covering asset declarations), the 2007 Law on Preventing Conflicts of Interest, the 2006 Law on Free Access to Public Information and the 2008 Law on Lobbying. The first two have been amended several times, notably in response to successive rounds of GRECO (Group of States against Corruption) evaluations. There is still no comprehensive system for protecting whistle-blowers.

The country is party to the **UN Convention against Corruption** since 2007 and the Council of Europe Criminal and Civil Law Conventions since 2002 and 2003 respectively. While legislation penalises illicit enrichment in line with Article 20 of the UN Convention against Corruption, there is no indication that the provisions are used in practice.

### Strategic framework

The country is implementing its 2011-15 state programmes for preventing corruption and conflicts of interest and their respective action plans. However, the programmes lack visibility and the relevant state institutions do not treat implementation as a priority. Implementation costs, and how these costs are shared among the institutions, are not clearly set out. Several important anti-corruption measures have still to be implemented.

### **Fight against organised crime**

The country has achieved **some level of preparation** in the fight against organised crime. **No progress** has been made. The legislative framework is broadly in line with European standards. The general capacity to deal with organised crime was increased by establishing specialised units both in the police and the public prosecution office. However, more still needs to be done to improve the effectiveness of law enforcement in this area. In addressing the shortcomings outlined below, the country should pay particular attention in the coming year to:

→ establishing a sound track record on combating money laundering, and improving capacity and expertise to carry out financial investigations and asset confiscations on a more systematic basis;

→ stepping up efforts to improve cooperation between the various law enforcement agencies by bringing the National Coordination Centre for the Fight against Organised Crime into full operation;

→ revising the legal and technical framework for intercepting communications, and increasing the effectiveness of special investigative measures for genuine law enforcement purposes (Urgent Reform Priorities).

#### Track record

Significant efforts have been made by the authorities to collect data needed to monitor **investigations, prosecutions and convictions** in the fight against organised crime. In the past seven years, almost 500 criminal proceedings have been launched against over 2 000 defendants. The largest groups of cases concern **people smuggling, human trafficking and trafficking in drugs**. This also reflects the country's position on the Balkan route for these crimes. A number of criminal networks and routes have been destroyed in recent years thanks to cooperation with neighbouring countries and EU Member States through Eurojust.

Effective implementation of **anti-money laundering** legislation by all relevant institutions, including banks, is still needed. There are relatively few cases, and the data collection needed to track them effectively needs to be stepped up to the same level as for other areas of organised crime. This requires improved coordination among the relevant anti-money laundering institutions, and in particular the cooperation of the Financial Intelligence Unit.

The use of **special investigative measures** is quite common in organised crime cases, but more efforts are needed to ensure both that this technique is applied more effectively by law enforcement agencies and that the appropriate oversight is carried out. The expertise of law enforcement and prosecution services and their capacity to conduct serious **financial investigations** should be strengthened. The precautionary **freezing of assets** during the initial phase of the investigation is rarely applied, which leads to poor confiscation rates at the end of criminal procedures. More systematic cooperation between the Agency for Management of Confiscated Assets and law enforcement agencies is needed.

The level of **sentencing** by courts appears on the whole to be appropriately strict, although efforts are still needed to ensure greater consistency. The principle of presumption of innocence of the accused is not always ensured in practice. Some high-profile organised crime cases have been criticised as highly politicised, and have even led to the dismissal of judges who were not considered to have reached a 'correct' decision.

#### Institutional and operational capacity

A major **police reform** started 15 years ago and reforms continue in specific areas. The Ministry of Interior has **specialised units** dealing with economic organised crime, money laundering and financial investigation, corruption, drug trafficking, criminal intelligence analysis, interception of communications, witness protection, trafficking in weapons and dangerous substances, human trafficking, cybercrime investigation, digital forensics and terrorism respectively. The general level of police equipment in terms of vehicles, premises, IT and radio communication systems is relatively good (for example, TETRA communications technology is well established and in operation). The Sector for **Internal Control** and Professional Standards is well established and handles hundreds of police complaints effectively. However, independent, external and transparent oversight of the police needs to be established and the existing complaints mechanism must be implemented in a consistent manner. While clear criteria for recruiting and evaluating police officers exist, there are persistent allegations of politicisation. According to the most recent Eurostat figures, the country has over 500 police officers per 100 000 inhabitants.

The **Basic Public Prosecution Office for Organised Crime and Corruption** has special competence for crimes committed by organised groups, cross-border crimes, drug trafficking, money laundering, terrorism, human trafficking and smuggling of migrants, among other things. **Relations between prosecutors and police** still need to be improved for the prosecution service to fully play its lead role in investigations, as provided for by the new Law on Criminal Procedure. Investigative centres are being set up within the public prosecution offices, where members of the Judicial Police, the Financial Police and the Customs Administration will work under the direction of the Public Prosecutor. There is no electronic inter-connection between the police and the Public Prosecutor's Office, which would allow information to be shared efficiently. The **National Coordination Centre** for the Fight against Organised Crime, which will bring together a multi-disciplinary staff to optimise inter-agency cooperation, is established by law but not yet operational.

The National Committee to Combat **Human Trafficking** and Illegal Migration has operated since 2001 as an inter-ministerial body coordinating various activities. Since 2003 it has included a sub-group on the trafficking of children. A National Reporter on human trafficking was appointed by the government in 2009. The Office of the National Referral Mechanism operates within the Ministry of Labour and Social Policy and provides coordinated assistance and protection to victims of human trafficking, especially women and children. The Council for **Witness Protection**, which includes representatives of the Supreme Court and the prosecution service, was established in 2005 and is authorised to put witnesses in the protection programme and provide changes of identity. The Ministry of Interior has several forensic units, including for biological and **DNA identification**. The national DNA database, established in 2007, contains around 13 000 identified and 3 500 unidentified DNA profiles. The powers and resources of the police, the Public Prosecutor's Office, the courts and the **Agency for Management of Confiscated Property** still need to be strengthened so they can take measures to seize and confiscate assets more frequently.

An operational **agreement with Europol** has been in place since 2011 and the country is the only one in the region to have a cooperation agreement with Eurojust, in force since 2010. Close cooperation in the fight against organised crime continues with international and regional bodies such as Eurojust, Europol, the Southeast European Law Enforcement Centre and the US Drug Enforcement Agency, as well as police services in several other countries.

#### Legal framework

The country's **Criminal Code** is largely in line with European standards. The **Law on Criminal Procedure** was overhauled completely in 2010 to modernise and optimise the criminal procedure, especially for complex investigations, under the central guidance of the Public Prosecutor. It has applied since December 2013. A special Law on Witness Protection has been in place since 2005. The 2006 Law on Interception of Communications was amended in 2012 to address the potential for special investigative techniques to be abused. Nevertheless the content of the intercepted communications has brought to light serious shortcomings in the practical application of the law, which need to be addressed. The 'Urgent Reform Priorities' include separating the mandate, regulations and technical facilities for interception in criminal investigations, on the one hand, from those for security and intelligence purposes on the other. The police, Customs Administration and Financial Police need to be given the technical means to carry out interceptions without having to rely on the intelligence services. Legislation on the seizure and confiscation of criminal assets needs to be improved and its implementation stepped up. Extended confiscation is provided for by the law since 2010 but rarely used in practice.

## Strategic framework

Activities are under way to draw up both national and regional threat assessments for serious and organised crime, inspired by the EU SOCTA methodology.

National strategies are in place to combat human trafficking and illegal migration (2013-16), drugs (2014-20), and terrorism (2011-15). Work continues on the new cyber-security strategy.

### **Fight against terrorism**

The country has been affected by the phenomenon of foreign terrorist fighters and radicalisation. A comprehensive and effective strategy is needed to prevent and counter radicalisation, in close cooperation with religious leaders and communities, social and front-line workers, the education system and youth organisations. The phenomenon of foreign terrorist fighters needs a dedicated approach by the intelligence and law enforcement community and a coherent judicial policy towards offenders.

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

### **Overall situation**

The legal framework for protecting human rights is broadly in line with European standards, but more focus needs to be placed on implementing it. The various bodies involved in protecting and promoting human rights lack sufficient staff and financial resources and sometimes coordinate poorly. General weaknesses in the implementation of human rights standards affect the most vulnerable and marginalised groups in society, including children and juveniles, disabled persons, the Roma and the LGBTI community.

Shortcomings particularly affect the following areas:

- The prison system continues to be heavily underfunded, understaffed and mismanaged, which leads to systemic breaches of international human rights standards.
- Police impunity needs to be addressed by establishing an independent oversight mechanism and investigating complaints of ill-treatment seriously and thoroughly.
- Despite improvements to the legislative framework, problems in the area of the freedom of expression persist in practice.

A detailed analysis of freedom of expression follows below. For a detailed analysis of developments on other human rights and the protection of minorities, see *Chapter 23 — Judiciary and fundamental rights*. For developments in trade union rights, anti-discrimination and equal opportunities, see also *Chapter 19 — Social policy and employment*.

### **Freedom of expression**

The country has **some level of preparation** regarding freedom of expression. The legislative framework has been overhauled in recent years and is aligned with both the *acquis* and international standards. Nevertheless, the freedom of expression and the media remains a serious challenge in the current media culture and political climate. The country **continued to backslide** over the past year. In addressing the shortcomings outlined here, in the coming year the country should in particular:

→ ensure full transparency on government advertising and develop a mechanism for unpaid public service announcements of a true public interest character (Urgent Reform Priority);

→ enforce, at political level, the exercising of appropriate self-restraint by politicians and public officials not to resort to defamation actions, in line with ECtHR case law ('Urgent Reform Priority');

→ ensure that the public has access to objective and accurate reporting and a variety of viewpoints through the mainstream media, particularly the public service broadcaster.

### Intimidation of journalists

There were several reports of intimidation and harassment of journalists, two reports of property damage and two death threats against journalists in 2015. Journalists continued to report a general climate of self-censorship and the publication of intercepted telephone conversations confirmed that journalists had been under **extensive and unlawful surveillance** for several years.

### Legislative environment

The Criminal Code was amended in 2012 to **decriminalise defamation** and insult. A Law on Civil Liability for Insult and Defamation was adopted, among other things setting out maximum levels of damages which could be awarded in cases involving the media. The 2013 Law on Media regulates basic obligations, protections and freedoms relating to the media. **Blasphemy** is not a criminal offence. The legislation on **hate speech** is largely in line with the *acquis* but data collection on the reporting, investigation and prosecution of hate speech and hate crime is not yet systematic. Training of law enforcement, prosecutors, judges and media employees needs to be increased in this field. Regulations on **registration of journalists** and **access to information** follow international standards. However, according to journalists there is a tendency by public authorities to over-use the ‘classification’ of documents, most notably those relating to the costs of the Skopje 2014 project, to prevent public access to information.

### Implementation of legislation/institutions

The regulatory regime was reformed in 2013 with the adoption of the new Law on Audio and Audiovisual Media Services, and the Broadcasting Council has been replaced by the **Agency for Audio and Audiovisual Media Services**. Legislation provides for the Agency’s formal and financial independence but there are concerns about its political independence in practice (see also *Chapter 10 - Information Society and Media*).

The content of the intercepted communications brought to light revelations which confirmed existing concerns about the media environment. The corollary rights of the media to impart information and ideas which are of public interest and of the public to receive them, as foreseen by the ECtHR, are undermined by regular **political interference in the editorial policies** of the media, in particular mainstream nationwide broadcasters. This has extended as far as direct control over the content and timing of news reporting.

The tendency of politicians and public officials to sue each other for **defamation** instead of engaging in open debate needs to be addressed urgently as it has a chilling effect on freedom of expression.

As regards **online** freedom of expression, legislation prohibits operators from controlling internet traffic, except to protect network connections against becoming overloaded. In practice operators do not block, slow down, alter, degrade or discriminate against any internet content. The interception scandal has, to some degree, had the effect of increasing the self-confidence of various segments of society, allowing them to express their reactions and opinions without self-censorship, particularly on social media.

The **Media Ethics Council**, established in 2014, is a self-regulatory body that receives complaints about media content. It publishes all its decisions on its website. A large number of the complaints received so far were made by media against other media, emphasising the persistent polarisation and lack of solidarity within the media itself. Both the Council and the

relevant journalists' associations have a responsibility to contribute towards improving professional and ethical standards through training and awareness-raising.

#### Public service broadcaster

Regulation of the public service broadcaster MRT is in line with EU standards. **Financing** is not independent of the government and despite measures to improve license fee collection, this revenue source is not sufficient. Other means to ensure financial independence have been discussed, but no decision has yet been reached. MRT's full **editorial independence** is still not ensured. Its failure to inform the public on issues of public interest, including the interception affair, in a balanced and non-selective manner continues to undermine its role as a public broadcaster (see also *Chapter 10 - Information Society and Media*).

Concerns about a lack of balance in reporting could be addressed, for instance, by broadcasting more regular debates involving more than the governing parties.

#### Economic factors

The Law on Audio and Audiovisual Media Services regulates **media ownership**, setting out limitations and prohibitions relating to conflicts of interest.

The largest television outlets with concessions to broadcast nationally (SITEL, KANAL5, ALFA and MRT, the public broadcaster) favour the government and report selectively on opposition or civil society activities.

**Government advertising** provides the largest single source of funding and has a major influence on the media market at both national and local level. There is no systematic or detailed reporting on government advertising. Moreover, the content of the intercepted communications revealed close links between government and media owners with the highest viewership and circulation, who also receive most of the funding allocated to government advertising campaigns. The 'Urgent Reform Priorities' include a commitment to ensure full transparency on government advertising and to develop a mechanism for unpaid public service announcements of a truly public interest character.

#### Professional organisations/ professional conditions

Representation of journalists is divided between two associations, the *Association of Journalists of Macedonia* (AJM) and the *Macedonian Association of Journalists* (MAN). Here too, polarisation occurs along political lines, with the recently reactivated MAN tending towards pro-government stances on most issues. The older of the organisations, the AJM, has continued to draw attention to a number of important issues such as the impact of government advertising on the diversity of the media and the role of the media during the political crisis. Job security is fragile and labour rights are still inadequately enforced, contributing to the continuing problem of self-censorship.

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

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

The country still maintains a 2003 bilateral immunity agreement with the United States, granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. This is not in compliance with the EU Common Positions on the integrity of the Rome Statute, nor with the related EU guiding principles on bilateral immunity agreements. The country needs to align with the EU position.

As of 1 January 2015, there were 869 Roma refugees from Kosovo\* registered in the country and 119 **internally displaced persons**. There are currently 536 people under subsidiary protection. In 2014, 83 people were voluntarily repatriated to Kosovo and Serbia. The Ministry of Labour and Social Policy continues to provide financial support to families for rented housing and utilities, under the integration strategy. Court procedures concerning internally displaced persons, relating to claims for damages resulting from the 2001 conflict, are still under way and most of those affected remain housed with host families.

The number of third country nationals crossing the border from Greece into the country reached unprecedented numbers, with peaks in August and September. A total of 296 550 persons transited the country from January until mid-September. Over 178 900 people - mainly Syrians, Afghans and Iraqis – registered their intention to apply for asylum after new legislation was adopted in June. Only a fraction of them effectively applied for asylum. On 4 September, the former Yugoslav Republic of Macedonia signed a Memorandum of Understanding with Austria, Hungary and Serbia to extend joint border controls between signatory states to the country's border with Greece and to include the country in a joint investigation team on people smuggling.

**Regional cooperation and good neighbourly relations** form an essential part of the country's process of moving towards the EU. The country has continued to participate actively in regional initiatives, including in the South-East European Cooperation Process, the Regional Cooperation Council, the Energy Community Treaty, the European Common Aviation Area Agreement and the Central European Free Trade Agreement. It assumed the rotating presidency of the Central European Initiative in January 2015. Its priorities include advancing the sustainable development of the region by developing the necessary energy and transport infrastructure and promoting tourism and the agricultural sector. Fresh impetus has been given to regional cooperation by the **Berlin Process**, with the Western Balkan Six (WB6) intensifying cooperation among themselves and with the EU. In April, WB6 countries reached an agreement on the South East Europe core regional transport network, which extends the EU corridors to the region to improve connectivity within the Western Balkans as well as with the EU. At the WB6 meeting in Vienna in August, the WB6 countries committed to abstain from misusing outstanding bilateral issues in the EU accession process and discussed other urgent problems, including the migratory pressures on Europe.

The former Yugoslav Republic of Macedonia has continued to play a generally constructive role in **bilateral relations with other countries seeking to join the EU and with neighbouring EU Member States**. However, a bilateral convention on regional cooperation, under Article 12 of the Stabilisation and Association Agreement, has not yet been concluded with Serbia.

Bilateral relations with *Albania* remained generally good. A memorandum of understanding on defence was signed in January. An agreement to jointly recognise respective social insurance schemes and a protocol on cultural cooperation for 2015-2020 were signed in March. The Albanian government reacted to the Kumanovo incident by calling for calm and a transparent (international) investigation into the events, while defending the territorial integrity of the country. The Albanian government has reiterated its concerns about the full implementation of the Ohrid Framework Agreement.

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\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

Relations with **Bosnia and Herzegovina** continued to develop. Agreements on the exchange and mutual protection of classified information with Sarajevo were signed and entered into force on 1 September 2015. The country continued to contribute to the EUFOR ALTHEA operation in Bosnia and Herzegovina and, as of June 2015, has two staff in the operation's Operational Command.

Cooperation with **Montenegro** was further strengthened. In September 2014, the two countries signed an agreement on mutual recognition of driving licences. In February, they signed a protocol on the collocation of their diplomatic and consular offices in Paris, France. A meeting of the joint committee on EU affairs was held in March in Skopje, during which the two countries exchanged their experiences of the accession process.

Relations with **Serbia** are good and continue to deepen. Regular political dialogue continued at the highest level. At the two governments' second joint session, several cooperation agreements were signed in the field of economy, culture, the environment, tourism, education, science and technology, together with an agreement on a border-crossing point. The Serbian authorities condemned the attacks in Kumanovo in May. The Serbian government condemned the violent incident in Kumanovo.

Relations with **Kosovo** continued to develop. A memorandum of cooperation between the public prosecutors of both countries in combating cross-border crime and terrorism was signed in late December. In January, the two countries signed an agreement on the promotion and mutual protection of investment. In response to allegations that the attack on the border police station in Gošince was instigated from Kosovo and that Kosovo citizens were involved in the incidents in Kumanovo, the government of Kosovo called for the country's territorial integrity to be respected and condemned the violence. The government in Kosovo has also called for the full implementation of the Ohrid Framework Agreement.

Close relations with **Turkey** were maintained, as demonstrated by the Turkish Prime Minister's visit to Skopje in December 2014.

Relations with **Bulgaria** continued to be affected by differences, primarily about the interpretation of history. A number of high-level visits took place. Negotiations on a bilateral agreement on good neighbourly relations continued. Open issues remain, however. The countries continued to cooperate on defence issues. Good cooperation continued on cross-border matters, as well as on sectoral and trade relations, including infrastructure priorities. People-to-people contacts continued normally.

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

Relations with **Greece** continued to be affected by the name issue. There were no formal talks on this issue under the auspices of the UN during the reporting period. Regular meetings at official and expert level took place in June 2015 in Skopje. The Greek Foreign Minister took the initiative to visit Skopje for the first time in 11 years. On this occasion, the two sides agreed on a number of important confidence-building measures. Economic and trade relations continued normally.



### 3. ECONOMIC CRITERIA

Key economic figures	2013	2014
Gross domestic product per capita (% of EU28 in PPS)	35.6	36
GDP growth (%)	2.7	3.8
Unemployment rate (female; male) (%)	29 (29; 29)	28 (28.6; 27.7)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	70.4 (57.1; 83.4)	70.8 (56.8; 84.5)
Current account balance (% of GDP)	-1.8	-1.3
Foreign direct investment (FDI) (% of GDP)	3.3	3.3

Source: Eurostat

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

The Monitoring of these economic criteria should be seen in the context of the increased importance of economic governance in the enlargement process. In order to improve their economic governance, in 2015 the enlargement countries were asked to prepare Economic Reform Programmes (ERPs), which set out a medium-term macro-fiscal policy framework together with key structural reforms aimed at supporting the framework and boosting competitiveness. The ERPs were the basis for country-specific recommendations jointly adopted by the EU and the Western Balkans and Turkey in the Economic and Financial Dialogue meeting on 12 May 2015.

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

The former Yugoslav Republic of Macedonia has **a good level of preparation** in developing a functioning market economy. Overall, **no progress** was made. On the one side positive developments were recorded particularly as regards the business environment. The macroeconomic environment strengthened further, despite key vulnerabilities. However, this was counterbalanced by backsliding in the management of public finances. The government continued to promote growth and employment through major public infrastructure investment and foreign direct investment (FDI). This contributed to improving the structure of exports and job creation. However, the development of a competitive private sector remained hampered by weak contract enforcement and the large informal economy.

In line with the 2015 ERP recommendations and in order to support long-term growth, the former Yugoslav Republic of Macedonia should pay particular attention to:

→ improving medium-term budget planning and execution, and adhering more rigorously to the medium-term fiscal strategy;

→ continuing with structural reforms to improve the business environment and establishing an efficient bankruptcy procedure;

→ taking further measures to repair the bank lending channel.

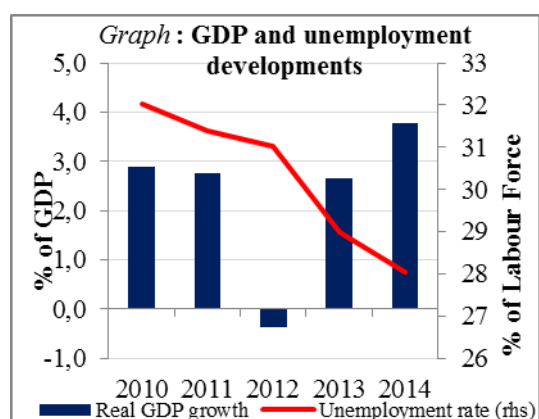
### Economic policy essentials

**The government remained committed to pursuing market-based economic reforms, attracting FDI and developing the private sector.** In January 2015, the authorities submitted their Economic Reform Programme (ERP), outlining key economic, fiscal and structural reforms and policies for 2015-2017. The government has made little progress on structural reforms of the labour market and there was even backsliding on fiscal discipline. Efforts to strengthen medium-term budget planning and execution and the employability of workers should therefore be strengthened. The government should take further measures to implement the ERP recommendations, which are set out below.

The government continued to engage actively with the international financial institutions. In November 2014, the IMF concluded its fourth and last post-programme monitoring mission related to the country's 2011-2013 precautionary liquidity credit line. In February 2015, the government repaid in advance all outstanding loans to the IMF.

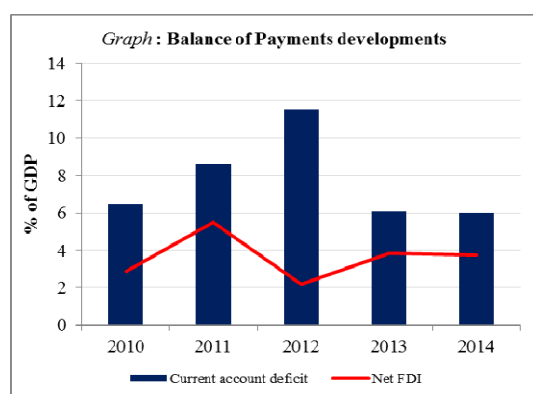
### Macroeconomic stability

**The macroeconomic environment strengthened further, but key vulnerabilities remained a source of concern.** The economic recovery continued, with domestic demand becoming the sole driver of growth. Output expanded by 3.8 % in 2014 and solid growth continued in the first quarter of 2015. Investment picked up markedly in 2014 due to public road, rail and energy infrastructure projects and new FDI. Import demand, mainly investment-related, increased accordingly.



The recovery of industrial production from its 2012 trough continued, driven by the manufacturing sector, which accounts for about three quarters of industry, although performance in the first quarter of 2015 disappointed. Overall, sustainable development of the economy can only be achieved if the domestic private sector continues to develop and contribute more to growth.

**The stability of the external sector relied increasingly on public borrowing abroad.** The current account deficit has declined steadily since 2009 and stood at a moderate 1.3 % of GDP in 2014. This development has been driven by an improvement in the merchandise trade balance, spurred largely by exports made by foreign investors in the automotive components sector.



Current transfers from abroad fell, but remained significant. FDI inflows (3.3 % of GDP) remained markedly below their 10-year average (4.3 % of GDP). External debt stood at 70 % of GDP at the end of 2014, up by more than 5pp from a year earlier, mainly due to an increase in public debt and, somewhat less, in FDI-related intercompany lending. Hence, movements in foreign exchange reserves were increasingly driven by public borrowing abroad,

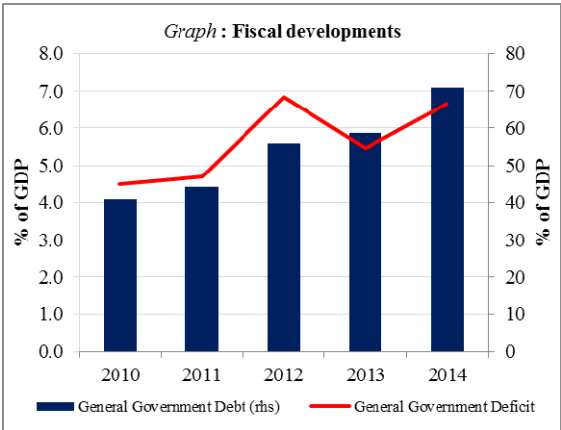
rather than by private investment.

Risks to the domestic economy from the economic situation in Greece, via trade, investment and financial linkages appear limited at this point. The share of Greece as a destination of the country's exports has fallen from 10 % in 2008 to 5 % in 2014, yet fuel imports have risen markedly. In the medium term, a sustained crisis in Greece may, however, impact on the economy through a protracted loss in consumer and investor confidence, lower exports and more costly external government financing.

**Labour market conditions remained burdened by structural impediments.** The unemployment rate has steadily fallen since 2008 (34 %), to 28 % in 2014. Significant gender differences persist with economic activity rates of women being considerably lower than those of men (56.8 % compared to 84,5 % for 2014). Job creation returned to average speed in 2014 after a surge in 2013. New jobs were created mainly in low-productivity sectors and agriculture, supported by public subsidies and active labour market measures. It is estimated that the public sector accounts for 20 % of total employment. **Prices remained stable; monetary policy successfully defended the currency peg.** Lower prices for food and for energy contributed to a fall of 0.3 % in the consumer price index (CPI) in 2014. Annual average inflation has steadily decreased since 2011, when it stood at 3.9 %. Since April 2015, headline inflation has registered positive gains again. The central bank kept the key policy rate unchanged in 2014.

**Fiscal discipline slipped again in 2014 and 2015, pointing to a need to improve medium-term expenditure planning.** The government adopted a supplementary budget in autumn 2014, due both to revenue shortfalls and to earlier and higher-than-expected expenditure on infrastructure. The supplementary budget revised the deficit target upwards, from 3.4 % to 3.6 % of GDP. However, the actual budget deficit was even higher, at 4.2 % of GDP, on account of ad hoc increases in spending on pensions, social benefits and subsidies, as well as additional resources required for the construction of the Corridor X motorway.

**ERP recommendation 1:** ‘Improve the management of public finances by adhering rigorously to the 2015-2017 medium-term fiscal targets outlined in the ERP, and frontload consolidation so as to be on track for the 2017 budget deficit target of 2.9% of GDP. Use any additional fiscal space for further consolidation measures, so as to protect growth-enhancing capital spending in case of unexpected budget pressures. Keep tight control on the development of transfer payments, pensions, and public wages. Introduce a medium-term expenditure framework. Inform in a timely and regular manner on the size of the government workforce and payroll.’



In July 2015, the government adopted again a supplementary budget, raising expenditure in particular for social welfare assistance, police wages, and budgeted capital expenditure. The 2015 deficit target was raised from 3.4 % to 3.6 % of GDP despite increased revenue projections. GDP growth expectations reduced for 2015, by 0.5pp to 3.5.

The composition of public spending did not improve. In 2014, investment accounted for only 10 % of the budget and even less of actual spending. Some 45 % of total spending went on social transfers including pensions, which

the government had increased, as in the previous year, beyond what was required by law and despite falling prices. Public sector wages and agricultural subsidies were also raised beyond statutory requirements in 2014.

The government's commitment to the medium-term fiscal strategy weakened - the 2015-17 strategy provides for a gradual decline in the general government deficit to 2.9 % of GDP by 2017, relaxing the previous target of 2.6 %. Given the 2015 supplementary budget, and in anticipation of a further increase in entitlement spending in the upcoming pre-election period, reaching the 2017 target seems overly ambitious. Overall, the link between the medium-term framework and the annual budget process remains weak, leading to further retrenchment of fiscal space needed to absorb unexpected spending pressures or revenue contraction.

**ERP recommendation 2:** ‘Improve the composition of spending, by prioritising investment projects according to their productive potential, and be more transparent on the cost-benefit analysis underlying transfer and investment spending items on the budget. Provide more timely and detailed data on planned and executed capital expenditure.’

**Public debt levels have risen markedly in recent years and amendments to the public debt law raise concerns about transparency.** The general government debt ratio is still comparatively moderate, but has been rising continuously since 2008. The increasing financing needs of state-owned enterprises, which carry out major infrastructure works, have contributed to a marked rise in overall public debt, which stood at 46 % of GDP at the end of 2014, compared with 38.6 % at the end of 2013. This is likely to rise further in the short to medium term, given the scale of planned investment projects. In the summer of 2014, the government amended the public debt law to restrict the scope for borrowing by state-owned enterprises with state guarantees, while encouraging non-guaranteed borrowing. As a result, the public debt figure will be less transparent. The government should improve the management and the transparency of public finances, practise more rigorous fiscal discipline and improve fiscal transparency as recommended in ERP recommendations 1, 2 and 3.

**ERP recommendation 3:** ‘Improve the fiscal transparency by including more comprehensive data on the debt of public companies and contingent liabilities in the government’s debt management strategy and inform about arrears. Speed up transition to ESA 2010 reporting and resume fiscal notifications. Continue to keep tight control on guaranteed and non-guaranteed borrowing by state-owned enterprises and municipalities.’

Interplay of market forces

**The public sector’s share of the economy remained largely unchanged.** In 2013, the government sold its minority stake in two companies. However, the number of fully state-owned enterprises remained unchanged at 15. In January 2013, the Public Enterprise for State Roads (PESR), which is state-owned, started operations. In October 2014, the government decided to postpone full liberalisation of the electricity market, planned on 1 January 2015, for five years. Administered and regulated prices accounted for some 15 % of the CPI basket. Most are regulated prices that usually cover production costs. Electricity prices for households and small companies as well as prices for natural gas and oil remain subject to regulation by the Energy Regulatory Commission (ERC).

Market entry and exit

**Setting up a business became slightly easier, but market exit remained cumbersome.** The implementation of measures under the ‘regulatory guillotine’ project progressed further, with a view to facilitating business registration. However, the ‘one-stop-shop’ procedure is

advancing only slowly. Conditions for obtaining public support and administrative fast-track procedures implicitly favour (bigger) foreign firms, as local firms can rarely meet the investment size criteria. Connections between the more technologically advanced foreign companies and the domestic private economy are poor, which is a particular concern. Progress in simplifying market exit is more limited; the bankruptcy law was amended to shorten procedural deadlines and allow out-of-court settlement in the event of insolvency.

Legal system

**Frequent legal changes, uneven implementation of laws and difficult contract enforcement burdened business operations.** Since 2011, the government has adopted a number of judicial reforms to speed up procedures and improve capacity, e.g. by upgrading information and electronic delivery systems, which accelerated certain court procedures and improved the handling of backlog cases. No major new reforms were undertaken in 2014 and beyond. Protection and enforcement of intellectual property rights remain a concern. The large informal economy continued to hamper competition and private sector development. The Labour Ministry regularly updates its action plan on reducing the shadow economy, but the indicators and measures presented are not fully coherent, and there is no results-based assessment of previous measures. Government arrears still affected domestic companies’ liquidity, despite the recent adoption of the Law on Payment Discipline. The business environment should be improved in accordance with ERP recommendation 8.

**ERP recommendation 8:** ‘Improve the business environment by implementing the Master Plan for Competitiveness and the related Government Action Plan. These should include measures affecting competitiveness, such as a more predictable legal and regulatory environment, enforcement of contracts, respect of IPRs, payment discipline, labour legislation, quality and integrity of inspection services, etc. Ensure regular and structured dialogue with social partners regarding the implementation and review of the Master Plan. Step up efforts to fight against corruption and informalities in the economy.’

**Cooperation between the government and the business sector has declined in recent years.** The proportion of draft laws published on the electronic register (ENER) fell significantly over recent years, and the number of laws that undergo frequent changes or are adopted with too short consultation deadlines has increased. In many cases, there is little ex post consultation with stakeholders on the laws’ impact and effectiveness once they have been implemented (see also political criteria – Policy development and co-ordination).

Financial sector development

**The banking sector remained stable despite high levels of non-performing loans (NPL).** The financial sector remains dominated by banks which account for roughly 90 % of the financial system’s total assets. Foreign ownership of banking assets remains high, at about 70 %, and concentration levels have not declined much over recent years – the three biggest banks hold 60 % of the sectors assets, compared to about 66 % in 2010. The main funding source of banks are deposits, which have kept growing since 2013. Financial stability indicators, such as regulatory capital ratios, point to the system’s continued resilience. Profitability improved in the second half of 2014, after a lacklustre performance in the preceding two years partly due to the high share of bad loans. Since 2013, the central bank has managed to gradually reduce

**ERP recommendation 6:** ‘Increase efforts towards facilitating the disposal of non-performing loans by banks, involving all key stakeholders including the central bank as necessary, with a view to removing potential obstacles to credit extension in the context of a sustained pick-up in credit demand.’

the share of outstanding loans denominated in foreign currency, hence decreasing exchange rate risks. Further measures should be taken to implement ERP recommendation 6.

Roughly one fifth of the domestic banking sector's assets and liabilities are held by two subsidiaries of Greek banks. Both are financially sound and their funding is assured mainly through domestic deposit-taking. In addition, the central bank put in place prudential measures aimed at containing possible repercussions from the banking crisis in Greece. As a temporary emergency measure, it also prohibited residents from exporting capital related to capital transactions such as debt and equity purchases and long-term lending to Greece.

Liquidity in the banking sector remained ample in 2014 and beyond, and bank lending to the private sector continued to rally. While lending to non-financial companies picked up noticeably, these funds were used mainly for working capital purposes, rather than for new investment. The ratio of non-performing to total loans to the non-financial sector remained elevated, at 11.5 %, at the end of the second quarter of 2015, and only somewhat lower than a year earlier. The ongoing establishment of a modern and comprehensive land registry (cadastre) is expected to help inform lenders about the value of real estate as collateral. The setting up of a private and public credit registry should also boost the quality of lending.

Bank lending remains by far the dominant form of company financing, with the development of a wider financial market stalled - equity financing by public listing has even declined in recent years. To support the restoration of credit flows, the government should take further measures to facilitate the write-off of bad claims. To improve access to finance for companies under ERP recommendation 9, the government should support the development of venture capital and equity financing, leasing and factoring, among other measures.

**ERP recommendation 9:** ‘Improve access to finance for SMEs and speed up bankruptcy procedures. Continue with the implementation of the innovation strategy, and step up the use of instruments foreseen by the Innovation Fund.’

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

**The economy is moderately prepared to cope with competitive pressures and market forces within the Union. Some progress** was made particularly as regards addressing prevalent shortcomings in human capital and physical infrastructure. However, businesses remained concentrated in low-productivity activities and it is necessary to increase the value added in productive sectors. Further investment is needed to boost labour productivity growth and speed up the transformation of the economy. Overall, the state's influence on competitiveness increased.

In line with the 2015 ERP recommendations and in order to support long-term growth, the former Yugoslav Republic of Macedonia should pay particular attention to:

- improving the employability of workers by better aligning education with labour demand needs, and improving the basic and transversal skills of students at all levels of education;
- upgrading linkages between foreign direct investors and the economy and encouraging investment in capital goods and innovation;
- better prioritising investment and aligning the transport strategy with the regional agenda on connectivity.

## Human and physical capital

**The share of highly qualified workers in the economy is rising, but structural factors limit an increase in labour productivity.** Recent reforms have led to greater participation in education. The number of early school leavers has dropped and pre-school enrolment has increased in the past three years. The overall proportion of tertiary education graduates in the workforce rose by 4 % to 18 % of the workforce between 2009 and 2013. However, one quarter of university graduates were unemployed, as most new jobs were concentrated in low-productivity sectors.

The main challenges remained the low labour market participation (particularly among women), skills mismatches, and limited job opportunities in advanced industrial sectors. Hence, labour productivity has remained at around 18 % of the EU average for a number of years. The structure of employment remained focused on low-productivity sectors, and agriculture (19 % of total employment). The government continued to address labour market

challenges primarily through a wide variety of active measures, including an array of employment subsidies to incentivise recruitment. These measures did not adequately address the underlying structural causes of unemployment, and were not sufficiently subjected to performance evaluations. This weakened their impact. Implementation of the 2013-

**ERP recommendation 4:** ‘Improve the employability of workers, by better aligning skills with labour demand needs notably by developing the education system. Strengthen performance evaluations of active labour market policies with a view to better targeting skills development, and inform on their methodology and results in a timely manner.’

2020 vocational education and training strategy is lagging behind in many areas. Several measures have been adopted, but their effectiveness is insufficiently monitored. Overall, worker employability could be improved by following ERP recommendation 4. To achieve marked improvements in labour productivity, the education system would benefit from closer ties between education programmes and employers, including foreign investors operating in higher value added sectors.

**Public infrastructure is in need of modernisation.** The state of transport and energy infrastructure continued to hamper economic development. The government is addressing this challenge through large-scale public investment projects. As a result, total investment volumes rose sharply in 2013 and again in 2014, with public projects accounting for about one fifth of total investment in the manufacturing and construction industries.. It makes it all the more important to base the development of infrastructure on a reviewed transport strategy aligned with the regional agenda on connectivity, in accordance with ERP recommendation 7.

Private sector investments remained subdued. Domestic firms did not sufficiently invest in the renewal of their capital assets and in innovation. As a result, there is an emerging dichotomy in the country’s capital stock, with foreign investment increasingly focused on higher-productivity, technology-intensive sectors (mostly concentrated in special economic zones), while capital stock in the local economy remains low and relatively outdated.

**ERP recommendation 7:** ‘Review the transport strategy in order to align it with the regional agenda on connectivity, with a particular focus on the core investment priorities (core network) and establish a credible planning and funding mechanism. A single sector pipeline would help prioritise investments.’

## Sectoral and enterprise structure

**The sectoral structure of the economy remained largely stagnant.** Manufacturing contributed some 12 % to gross value added in 2014, the same as in 2009. Agriculture's share of the economy declined only slightly during that period, to 10 %, while trade and services increased by 4.5 % and contributed almost half of the country's value added. The structure of business also remained largely unchanged, with micro-enterprises and small businesses accounting for more than 98 % of all companies. However, in the last three years, the number of large companies has more than doubled, mainly due to foreign investment, although their share remained below 1 %. SMEs provided the bulk of jobs (80 % of total employment). The sectoral structure of the economy would benefit from following ERP recommendation 5.

**ERP recommendation 5:** 'Step up efforts to create supply linkages between foreign and domestic companies with a view to enhancing productivity and employment in the domestic economy.'

## State influence on competitiveness

**While the government's share of economic assets remained moderate, its influence on private sector competitiveness through regulations and subsidies is rising.** The state's ownership of economic assets remained relatively moderate at about 15 % of GDP. However, the large share of state-owned land remained an obstacle to the development of the agricultural sector and to bank lending to companies and households, which is based on property as collateral. There is a wide range of policy instruments through which the government increasingly has an impact on the economy's competitiveness, such as direct subsidies and tax exemptions, in particular for foreign investors; unpredictable inspections of firms and sanctions; public guarantees for loans to state-owned enterprises; public infrastructure projects; and active labour market programmes. While the legal framework for state aid was strengthened in recent years, the information provided about the amounts and beneficiaries of state aid and about ex post evaluation has been limited.

## Economic integration and convergence with the EU

**Further progress was made in developing closer trade and investment links with the EU.** Trade openness is relatively high given the state of economic development of the country. Trade in goods remained buoyant in 2014, at about 129 % of GDP. Exports rose by 5pp to 52 % of GDP, compared to a year earlier. The EU remained by far the most important trade partner in both exports and imports. In the first seven months of 2015, 77 % of total exports went to the EU, broadly stable from the same period in 2014, and 4pp higher than in this period in 2013. At 63 %, the share of the country's imports which originated in the EU also remained elevated.

With foreign investors increasing production, the structure of exports shifted somewhat towards products with higher value added — machinery and transport equipment exports accounted for 21 % of the total in 2014 (7 % higher than in 2013). Exports have diversified in recent years, but remain highly concentrated — iron and steel, metal ores, clothing and food accounted for about 40 % of all exports in 2014, compared with 56 % in 2010. EU companies are the main foreign direct investors in the economy. Their share of total FDI stock increased further in 2014, for the second year in a row, by 1.5 %, to 83 %.



## 4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

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

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

The country is **moderately prepared** in the area of free movement of goods. **Some progress** was made, in particular on strengthening administrative capacity. However, there was no further progress last year in eliminating non-tariff barriers to trade. In the coming year, the country should in particular:

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

→ further align itself with provisions on conformity acceptance so that an agreement on conformity assessment acceptance can be negotiated.

With alignment with the EU *acquis* already well advanced in this area, no additional progress can be reported on **general principles**. Of 42 legislative amendments required to eliminate non-tariff barriers to trade, in line with Articles 18 and 19 of the Stabilisation and Association Agreement (SAA), nine still need to be adopted. Concerning **horizontal measures**, the Institute of Standardisation adopted 26 649 standards and **standardisation** documents, of which 22 893 are European standards. The sale of standards increased by 24 % compared with 2013. The institute's capacity improved with the appointment of new staff reaching a total of 25. It began issuing certifications under ISO 9001 standards and improved cooperation with EU standardisation bodies.

The alignment of **conformity assessment** with the *acquis* remains advanced but not yet sufficient to allow an agreement on conformity assessment acceptance to be negotiated.

On **accreditation**, there were no legislative developments. The European Co-operation for Accreditation completed its first supervisory assessment of the Institute of Accreditation, whose capacity is adequate and was further strengthened. It now has a staff of 25, 93 external assessors and 60 external experts. The Institute is an active member of the European Co-operation for Accreditation, the Multilateral Agreements Committee, as well as a full member of the International Laboratory Accreditation Cooperation. The institute issued 17 accreditations during the reporting period, and has withdrawn 19 since it started operating. There are now 130 accredited bodies in the country, including nine institutes with new accreditation for ISO/IEC17025 and EN/ISO 15 189.

The Bureau of **Metrology** issued 13 calibration and measurement options for weight, volume and flow in the database of the International Bureau of Weights and Measures. It continued to cooperate with the European Association of National Metrology Institutes on flow, temperature, electricity and liquid pressure and joined the European Programme for research in the field of metrology (EMPIR).

In 2014, the State Market Inspectorate significantly increased its inspections under the Law on Product Safety (to 777, from 147). Inspections under the Law on Construction Products declined to 112 from 360. It carried out 1 287 joint inspections with the Bureau of Metrology, identifying 123 abuses. Overall, product quality infrastructure is advanced.

Regarding the '**Old Approach**' and the '**New and Global Approach**', a new Law on Construction Products was enacted in June to align with the *acquis*, and the rulebook on single approval of vehicles was amended to meet European technical specifications on the

import and marketing of vehicles. No additional progress on aligning with '**New and Global Approach**' product legislation or on **procedural** matters can be reported.

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

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

Preparations in the area of freedom of movement for workers are still at an **early stage**, but **some progress** was made in the past year.

The capacity for cooperating with **EURES**, the European jobs network, was developed further by training the administration.

On **coordination of social security systems**, the parliament ratified agreements on coordinating social insurance with Slovakia, Italy and Hungary. Negotiations continued with Albania, Serbia and Turkey. The country signed agreements with eight Member States on using the **European Health Insurance Card** and negotiations with Croatia are ongoing.

#### 4.3. 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. **Some progress** was made. In the coming year, the country should in particular:

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

→ complete liberalisation of the universal postal service.

On the **right of establishment**, the simplification of documentation procedures continued, the IT system was strengthened and its use expanded.

On **freedom to provide cross-border services**, some progress was made towards establishing a Point of Single Contact by developing one-stop shops for setting up companies. Restrictions remain in force on certain services, including veterinary medicine, and regulated professions. The Law on Services is yet to be enacted.

Amendments to the Law on **Postal Services** limited the validity period of the universal service provider's licence and regulated the application of fines for misdemeanours. Shortcomings remain on financing of the net costs of the universal service obligation. The regulator issued licences for other postal services and established a register of licences. It needs to strengthen its monitoring capacity.

On **mutual recognition of professional qualifications**, registers of regulated professions were updated and the number of regulated professions fell. A moderate level of *acquis* alignment has been achieved. A new national coordinator was appointed to make progress towards full alignment. Legislation from 2010 needs to be updated and legislation on commercial agents and professional use of toxic products still needs to be aligned further.

Certification under the ISO 9001 standard is a minimum requirement for public administrations, but can currently be provided only by companies accredited by the relevant national institute, and not yet by EU certification bodies.

#### 4.4. 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 former Yugoslav Republic of Macedonia is **moderately prepared**. **Some progress** was made, in particular in the fight against money laundering and financing of terrorism. The capacity of the Financial Intelligence Unit was further strengthened but it still needs to develop a consistent track record.

Limited progress took place on **capital movements and payments**. The country already meets the requirements of the first stage of the SAA, and further liberalisation depends on moving to the second stage. Restrictions on capital movements remain, in breach of the *acquis*, and EU citizens are not yet allowed to purchase agricultural land. In June, the central bank introduced temporary capital controls to prevent spillover from the Greek economic crisis.

Under the National Payment System Council's action plan for implementing the 2013-17 strategy for developing payment systems, further steps were taken to harmonise **payment systems** with EU requirements and increase their capacity.

Concerning the **fight against money laundering** and financing of terrorism, the Financial Intelligence Office was strengthened by seven new staff and an integrated financial intelligence and reporting system. The number of suspicious transactions referred to the Financial Intelligence Unit continued to fall. In 2014, the unit submitted 31 notifications to law enforcement bodies related to money laundering and financing of terrorism (25 in 2013) and 14 people were prosecuted and seven convicted for money laundering.

#### 4.5. Chapter 5: Public procurement

*EU rules ensure public sector procurement of goods and services in any Member State is open to all EU companies on the basis of non-discrimination.*

The country is **moderately prepared** in this area, which is an area particularly vulnerable to corruption. **Some progress** was achieved, especially through the mandatory use of e-procurement, but recent amendments to the procurement law reduced the level of alignment with the *acquis*. More efforts are needed to prevent corruption during the procurement cycle. Significant efforts are needed to ensure an efficient and effective public procurement regime. Allegations of serious conflicts of interest and abuse of public office have not yet been investigated. In the coming year the country should in particular:

→ increase the transparency of public spending by publishing real-time information on all public procurement contracts;

→ remove inconsistencies with the *acquis* including on blacklisting companies, conditions for using awarding criteria; ensuring harmonisation with EU procurement rules on defence and security as well as the 2014 EU procurement Directives, especially on concessions;

→ ensure that reports of irregularities are properly investigated.

#### Institutional set-up and legal alignment

On the **legal framework**, the 2007 Law on Public Procurement is broadly aligned with the *acquis*, but the level of alignment has been reduced through frequent amendments since 2013. The country has not yet achieved alignment with the EU Directive on Defence and Sensitive Security Procurement or the 2014 EU rules on public procurement. The generalised use of the

'lowest price' criterion and the obligation for contracting authorities to obtain approval from the Public Procurement Council in case they wish to use non-price criteria when awarding contracts is not in line with the *acquis* and has detrimental effects on the quality of the offers. Keeping records on professional misconduct by businesses and excluding them from future tenders is equivalent to 'black-listing' and not in line with European Court of Justice case-law.

The Procurement Council started operation in May. The obligation for contracting authorities to obtain consent from the Public Procurement Council before publishing a contract notice gives them access to specialised expertise when drafting terms of reference but makes the procurement process more complex, expensive and time-consuming. Insufficient cooperation between the Public Procurement Council, the Public Procurement Bureau, the State Commission for Protection of Competition and the State Commission for Prevention of Corruption undermines the way that procurement principles are implemented and the fight against corruption.

A **strategy** for developing the public procurement system is in place but includes only the strategic priorities of the Public Procurement Bureau. Moreover, there is no overall supervision of implementation and reporting mechanisms. After the Public Procurement Council was set up in 2014, the Public Procurement Bureau saw part of its staff transferred to the Council, and the Bureau's director was not appointed, weakening the Bureau's capacity to perform its supervisory and institutional role.

#### Implementation and enforcement capacity

The country's **public procurement market** is at 12 % of GDP and 34 % of the state budget in 2013 including the 'Skopje 2014' public infrastructure project. The use of e-procurement increased transparency. Procurement plans are adopted annually but contracting authorities are not obliged to publish them. Often annexes are not drafted until after contracts have been awarded and not included in the e-procurement system. The information made available should include changes in contracted amounts, from the initial tender amount to the final amount paid. The country has not yet established a centralised procurement body for certain types of procurement. Joint procurement is done on an ad hoc basis. Tender requirements remain too complex for small and medium-sized enterprises to participate widely in public tenders. Negotiated procurement procedures without prior publication accounted for 5.5 % of the total value of procurement in 2014.

No **monitoring** of the contract award process is in place, nor is contract implementation monitored by a centralised inspection system. The State Audit Office carries out only an annual external audit of the contracting authorities and there are no ad hoc audits. There has been no investigation of the alleged irregularities reported by the municipality of Centar about the 'Skopje 2014' project, of allegations of serious irregularities in the award of some large infrastructure and health contracts, or of other allegations of serious conflict of interest and abuse of public office. The strengthening of the internal audit function is vital to improve contract implementation and monitoring (*see Chapter 32 on financial control*).

The Ministry of Economy's weak administrative capacity hampers implementation of the legal framework on concessions and public-private partnerships. Data on concessions awarded and public-private partnerships is patchy; notable omissions are the airport and Skopje City concessions. Integration of data on concessions and public-private partnerships in the system for e-procurement, managed by the Ministry of Economy, will increase transparency. The Public-Private Partnership Council has not yet started work.

Contracting authorities' **capacities to manage public procurement processes** improved. Training and certification programmes, administered by the Public Procurement Bureau,

increased the professionalism of both contracting authorities and businesses. Contracting authorities are obliged to employ certified procurement officers in the tender evaluation processes. A help desk operates at central level, and frequently asked questions are regularly updated on the website of the Public Procurement Bureau.

There is a regulatory and institutional framework on **integrity and conflict of interest** mechanisms in public procurement. However, a risk indicator system to better identify potential integrity problems is not yet in place and the number of integrity-related reports remains low.

#### Efficient remedies system

As concerns the **right to legal remedy**, the structure of the legal remedy system formally complies with the *acquis* and includes the State Appeals Commission, whose members are appointed by parliament for five years and whose decisions can be challenged in the Administrative Court. However, full alignment with the Remedies Directive is not yet achieved. Misdemeanours occurring during the review process are subject to disproportionate sanctions and make decision-making highly formalistic. In 2014, the State Appeals Commission upheld complaints in 190 of the 638 cases it reviewed and the court delivered 66 judgments on cases brought against decisions of the commission, ruling against it in 13 instances. This high rejection rate remains an issue of concern. On **implementation capacity**, the capacity of the commission and the court to deal with an increasing number of appeals needs to be strengthened. Appointments to both institutions need to be freed from political interference. Improving access to the commission's decisions would increase transparency.

#### **4.6. 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.*

The country has a **good level of preparation** in the area of company law. Some **progress** was achieved, particularly on auditing. The Central Registry has also been updated and now refers only to active companies. In the coming year, the country should in particular:

→ continue efforts towards alignment to the latest *acquis* on accounting and auditing.

The legislative framework for **company law** was amended to regulate the relations, rights and the obligations between stakeholders. 30 010 inactive entities were removed from the Central Registry. Alignment with the Directive on cross-border mergers is not yet completed, particularly on employees' participation in the management bodies of companies established as a result of cross-border mergers.

In the area of **corporate accounting**, the relevant Ministry of Finance unit was strengthened. The Institute of Chartered Accountants is still not operational, preventing professional accountants from receiving in-service training. Alignment with the Directive on annual financial statements, consolidated financial statements and related reports of certain types of undertakings is not yet done.

Following new rules adopted in September 2014, the legislative framework for **auditing** was further aligned with the provisions of the Directive on statutory audit of annual accounts and consolidated accounts regarding the performance of quality assurance reviews, their transparency and disciplinary measures. The Council for Audit Promotion and Supervision adopted a new statute and guidelines on preparation of audit reports on transparency.

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

*The EU has harmonised rules for the legal protection of copyright and related rights. This covers, for instance, computer programs, broadcasting and trademarks, designs, biotechnological inventions and pharmaceuticals.*

The country is **moderately prepared** in this area. **Some progress** was made on customs enforcement. The commitment and capacities of the institutions responsible for enforcing and protecting intellectual property rights and the *acquis* vary, but remain insufficient. A satisfactory track record on investigation, prosecution and judicial handling of piracy and counterfeiting is lacking. Public awareness campaigns are not yet well developed. In the coming year, the country should in particular:

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

On **copyright and neighbouring rights**, the Ministry of Culture adopted a rulebook on record-keeping of authors' rights and holders of related rights. The Ministry of Culture and the Ministry of Information Society and Administration jointly established a system for electronic recording of broadcast music works. The government has not yet approved the tariff schemes of collective rights management societies and the capacity of the Ministry of Culture to deal with copyright and neighbouring rights is still insufficient.

On **industrial property rights**, the State Office for Industrial Property cooperated with the Office for Harmonisation in the Internal Market and with the European Patent Office on several projects, but the trademark databases of the first two should be better integrated. The State Office does not have enough staff to provide good quality services or training to the public and the business community, nor to cooperate internationally.

Some progress was made on **enforcement** of intellectual property rights. The Coordination Body for Intellectual Property has had a positive impact but the level of commitment differs between law enforcement institutions and sharing responsibility between 11 different law enforcement bodies hinders more efficient investigation and legal actions. The State Market Inspectorate lacks basic equipment, IT and training to ensure effective enforcement. The Agency for Audio and Audiovisual Media Services issued 10 orders to broadcasters to prevent further violations of copyright and neighbouring rights. Some 30 misdemeanour cases were lodged with the courts, but the absence of a credible enforcement record hinders information on the follow-up action taken. The three public laboratories are still not legally authorised to detect and analyse counterfeit medicines, so their evidence is not accepted in court. Public awareness of the threats posed by counterfeit goods to health and safety remains limited.

#### 4.8. Chapter 8: Competition policy

*EU rules protect free competition. They include anti-trust rules against restrictive agreements between companies and abuse of dominant position. EU rules also prevent governments from granting state aid which distorts competition.*

The country is **moderately prepared** in the area of competition policy. **Some progress** was made in this field. However, the budget and the administrative capacity of the Commission for the Protection of Competition (CPC) remain insufficient. In the coming year, the country should in particular:

→ strengthen the enforcement record of the CPC.

In the area of **antitrust and mergers policy**, new guidelines on vertical restraints and on horizontal agreements were adopted in June 2015. The CPC and the Public Procurement

Bureau adopted joint guidelines on detecting bid rigging. The overall budget of the CPC in 2014 was EUR 275 000, which is not enough for it to fully carry out its mandate.

The CPC adopted 11 decisions on **state aid** in 2014. State aid represented 0.08 % of the country's GDP in 2014, which appears very low. Aid under the *de minimis* regime ranged from EUR 13 000 up to EUR 93 000, i.e. below the EUR 200 000 ceiling, which indicates restrained use of the *de minimis* aid tool. The State Commission for Prevention of Corruption issued a public warning about conflict of interest on one of the regional state aids provided by the government. The systems for reporting on the use of state aid are not used by all state aid providers, which hampers effective monitoring. State aid continued to be provided for air transport without being notified to the CPC. The state aid register has not yet been established and the regional aid map has not yet been drawn up in accordance with EU guidelines on regional state aid.

#### 4.9. Chapter 9: Financial services

*EU rules aim at ensuring 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 is **moderately prepared** in the area of financial services. **Some progress** was made, particularly on improving the implementation and enforcement capacities of financial market regulators. The concerns expressed by the European Commission and the Venice Commission, about the *acquis* compatibility of the proposed international financial zones, still need to be adequately addressed.

On **banks and financial conglomerates**, the law was amended to comply with the new Basel principles of effective banking supervision and on specifying capital buffers, as required by the *acquis*. The central bank updated the banking regulation on own funds to further align with the Capital Requirements Directive IV. The liquidity risk management regulations were amended to introduce a new liquidity ratio and to amend the definitions of own funds. The credit bureau law was amended to allow exchange of information with other administrations. The law on the deposit insurance fund was also amended to cover certificates of deposits.

On **administrative and supervisory capacity**, cooperation continued between the central bank and the supervisory authorities of the parent banks of domestic subsidiaries. Local subsidiaries passed the stress test, better than their parent banks, proving the solidity of the banking system. The central bank actively participates in the regional group of supervisors. Together with the other financial supervisors, it launched a financial literacy campaign.

Amendments to the **insurance** supervision law introduced new classes of insurance. The legislation authorising the Ministry of Finance to set premiums for motor vehicle insurance is still not aligned with the *acquis* and prevents competition in the motor insurance market. The track record of the Insurance Supervision Agency improved. It issued new standards on risk management and on the internal audit and control system of insurance companies. It also made 11 on-site visits resulting in 73 corrective measures and 48 procedures, including payment of fines and misdemeanour procedures. The use of visible 'vignettes' for motor vehicles that have been registered and insured seems to have reduced the number of unregistered vehicles, but reliable data on uninsured vehicles is still lacking. Quality control procedures for supervising voluntary pension insurance schemes were upgraded. The 50 % limit on investing in non-domestic securities is not in line with the *acquis*.

On **financial market infrastructure**, alignment with the Financial Collateral Directive remains incomplete, while alignment with the Settlement Finality Directive has not yet begun.

On **securities markets and investment services**, amendments to the securities law introduced a new definition of certificates for deposits. The commitments of brokerage houses when dealing with clients' orders were more precisely regulated. The Securities and Exchange Commission continues to cooperate actively with the other members of the International Organisation of Securities Commissions.

#### 4.10. 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.*

There is a **good level of preparation** in the field of information society and media. In the past year, **some progress** was made. In the coming year, the country should in particular:

→ ensure proper implementation of the newly adopted legislation on electronic communications and audiovisual media services;

→ strengthen the independence and capacity of the audiovisual media regulator and the public service broadcaster.

In the area of electronic communications and information and communications technologies, amendments to the Law on Electronic Communications were adopted, further aligning it with the 2009 EU regulatory framework, although some concerns remain. The scope of universal service was extended to basic broadband access. Fixed broadband penetration remained at 23% of the population, while mobile broadband, including 3G, reached 66%. The 4G telecommunication network continued to be expanded across the country.

The credibility of the telecom regulator continues to be undermined by the allocation of surplus funds for purposes other than developing electronic communications. Spectrum fees were lowered but remain high. Public consultation procedures with operators need to improve. The administrative capacity of the Ministry of Information Society and Administration needs to be strengthened. The introduction of the 112 emergency phone number is overdue, due to a lack of financial resources.

The agreement of 29 September 2014 signed by the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Montenegro and Serbia on reducing the prices of mobile roaming services came into force on 1 July 2015.

As regards **information society services**, a new law on e-Signature was adopted. A National Centre for Computer Incident Response (as a CERT) was established. An ICT strategy as well as strategies on cyber security and broadband were developed. There are still barriers to e-commerce, such as higher customs duties.

In the field of **audiovisual policy**, the Law on Audio and Audiovisual Media Services was amended, but with limited stakeholder consultation. Through the alignment with the EU's Audiovisual Media Services Directive, the country can now access the MEDIA sub-programme under the EU programme "Creative Europe". The regulatory authority, the Agency for Audio and Audiovisual Media Services, adopted implementing legislation on ownership, conditions for awarding a broadcasting licence and protection of minors. The regulator still needs to demonstrate that it works in an independent, non-discriminatory and transparent manner. Serious concerns continued over selective reporting and the public service broadcaster's lack of editorial and financial independence.



#### 4.11. 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. The new strategy for agriculture and rural development for 2014-2020 provides the framework needed to tackle key constraints on the sector's development. In the coming year, the country should in particular:

→ focus on more effective use of IPARD funds.

Some progress has been made on **general cross-cutting issues** with the strengthening of institutional capacity. Further efforts are needed to ensure the integrated administration control system functions properly, to develop organic farming and the use for policy formulation of the Farm Accountancy Data Network.

In the area of **common market organisation**, closer economic cooperation between farmers is needed for value chains to work more effectively. Improving quality and marketing in strategic sub-sectors such as fresh vegetables, fruit and milk is a recognised priority.

The 2014-2020 national strategy for **agriculture and rural development** was adopted. To implement land consolidation and land privatisation successfully, the Ministry needs greater administrative resources. Greater transparency is needed on budget allocations for the national programme for agriculture and rural development. The capacity to implement, monitor and evaluate the national programme needs to be strengthened. Concerns remain about the effective use and maintenance of irrigation facilities. Direct payments to farmers need to be developed, as do policy objectives, and their impact monitored.

Significant steps have been taken to address major implementation issues related to the Instrument for Pre-accession Assistance for Rural Development (**IPARD**) where, despite an increase in applications, EUR 15.6 million was returned unused to the EU budget in 2014. The administrative capacity of the Agency for Financial Support in Agriculture and Rural Development was strengthened and progress was made towards accrediting new IPARD measures. The new 2014-2020 IPARD Programme was adopted in January 2015.

**Organic farming and quality protection policy** saw some progress. Marketing of organic products and protection of their quality improved. Preparations were made to register two products under the Protected Geographical Indication label. Administrative capacity, however, remains insufficient.

#### 4.12. 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.*

There is **some level of preparation** in the area of food safety, veterinary and phytosanitary policy. **Some progress** was made, particularly on food safety. In the coming year, the country should in particular:

→ increase administrative capacities, in particular in inspection services and laboratories;

→ step up efforts on phytosanitary policy.

On **general food safety**, the Law on Food Safety was further aligned with the EU *acquis*. Memoranda of understanding and communication procedures were signed between the

relevant food and feed safety bodies. Procedures to verify the effectiveness of official controls were put in place. The Food and Veterinary Agency was certified as ISO 9001-compliant for having met quality management standards. The agency took on 47 more employees.

On **veterinary policy**, the agency continued to update systems for controlling imports of live animals and animal products and improved controls on the identification, registration and movement of animals. The agency continues to vaccinate foxes against rabies. Additional legislation on non-commercial movement of pets and zoo-technical issues was enacted, as well as new legislation on animal welfare. Accumulated payment arrears to authorised veterinary associations and the Faculty of Veterinary Medicine jeopardise the agency's ability to implement animal health programmes.

Regarding the **placing on the market of food, feed and animal by-products**, rulebooks were issued on hygiene, controls and animal by-products. Collection and treatment systems for animal by-products have not yet been established.

Some progress has been made on **food safety rules**. Following changes to the *acquis*, the veterinary and food agency revised implementing legislation on food contact materials, labelling, food supplements and food for particular nutritional use. The agency upgraded its information system to include the register of business operators with food of non-animal origin and processing of consumer complaints. The agency, however, remains understaffed and lacks equipment. The annual monitoring programme for food safety is only partially implemented.

There was some progress on **phytosanitary policy**. Implementing legislation was adopted on plant health and plant protection products. Inspection plans and guidelines were developed for the phytosanitary inspectorate. The State Phytosanitary Laboratory hired new staff and 15 additional laboratory methods were accredited under ISO 17025. However, harmful organisms and plant protection products are only partially monitored and a phytosanitary information system has not yet been established. Implementation of international standards for phytosanitary measures, particularly for export certification and determining pest status, is needed. The Phytosanitary Directorate is still understaffed and lacks training and equipment. Coordination between the competent authorities remains poor and ineffective.

#### 4.13. 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.*

There is a **moderate level of preparation** in the area of fisheries. **Some progress** was made on monitoring catches. In the coming year, the country should:

→ make further efforts to align market policy with the *acquis*.

Fish production in the country is based on aquaculture and commercial lake fishing. The *acquis* on **resources and fleet management, inspection and control** is only marginally applicable to the former Yugoslav Republic of Macedonia. The Law on Fisheries and Aquaculture was amended to monitor fish catches more effectively. The 2015 **state aid** budget for fisheries and aquaculture remained stable at EUR 1.5 million, but only 20 % of the amount allocated to financially support fisheries and aquaculture in 2014 was used.

Alignment is less advanced on **market policy**. Only health-related product labelling rules exist. The national authorities need to prepare to implement Regulation 1379/2013 on the common organisation of the markets in fishery and aquaculture products.

#### 4.14. 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 remains **moderately prepared** in this area. **Some progress** was made but additional efforts are needed to align road safety and railway legislation with the *acquis*. In the coming year, the country should in particular:

- take further steps to strengthen administrative capacity on road and rail transport safety;
- accelerate the process of fully re-opening the rail market;
- ensure rail and air accident and incident investigation bodies work better.

In **road transport**, priority needs to be given to further aligning road safety legislation with the *acquis*. The Roads Safety Council continued its campaigns to reduce fatalities. To adequately implement the *acquis*, particularly on roadside inspections, operational and administrative capacity needs to be strengthened. Further alignment is needed in **rail transport**. Changes to bring infrastructure charges for international freight to competitive levels were introduced. Licensed operators are still unable to fully access the railway market. Staffing of the Accident Investigation Committee remains unclear. A cross-border agreement with Serbia was concluded.

In the area of **inland waterway transport**, further work is needed to regulate recognition of certification and transportation of goods. No measures were taken on **intermodal transport** after one potential location was selected for a multimodal node. Priority needs to be given to developing a balanced intermodal transport and mobility system that is environment-friendly and competitive.

The Law on Contractual and Real Rights Relations in Air Transport was amended, bringing national legislation further into line with the *acquis*. The 2013-2018 national aviation strategy was amended to allow the establishment of a national airline carrier. Concerns remain over financial incentives granted to air operators to apply requirements under phase I of the European Common Aviation Agreement. The technical and administrative capacity of the air navigation services provider was strengthened. The aviation investigation, accidents and incidents body needs to be more transparent. The country actively participates in the Joint Service Provisional Area (JSPA) initiative.

#### 4.15. Chapter 15: Energy

*EU energy policy covers competition and state aids, equal access to resources, the internal energy market, energy efficiency, nuclear energy and nuclear safety and radiation protection.*

The country is **moderately prepared** in this area. **Some progress** was made on security of supply but not on the opening of the electricity market. Obligations undertaken under the Energy Community Treaty are not fully implemented. In the coming year, the country should in particular implement the following obligations undertaken under the Energy Community:

- open the electricity market;
- participate in the regional electricity Coordinated Auction Office;
- prepare and adopt the national energy efficiency and national renewable energy action plans.

As regards **security of supply**, a new Law on Mandatory Oil Reserves was enacted to apply as of January 2016. The current levels of oil reserves were increased to 71 days. The government postponed full implementation of the Law on Energy, delaying the opening of the electricity market until 2020, causing the Energy Community Secretariat to open a dispute settlement case for this breach of obligations. The state-owned gas transmission operator started construction of the Klecovce-Štip gas transmission pipeline, expected to be completed by the end of 2016. Construction of the new 400kV electricity line with Serbia and activities to prepare construction of the Bitola-Elbasan (Albania) section of the electricity transmission network are under way. The Energy Department in the Ministry of Economy, as well as the Energy Agency are understaffed.

On the **internal energy market**, the government launched a procedure in November 2014 for awarding public-private partnership contracts to finance and develop the gas distribution system in the eastern and western regions of the country. In November and December 2014 the Energy Regulatory Commission adopted grid codes for transmission and distribution of electricity and amended the Electricity Market Rules. The Energy Community Secretariat opened an infringement procedure for failure to participate in the activities of the regional Coordinated Auction Office.

The natural gas market was opened for competition on 1 January 2015. The Energy Regulatory Commission adopted implementing legislation on natural gas prices for the supplier of last resort and grid codes for natural gas distribution. The dispute over the ownership of the gas transmission pipeline has not been resolved.

The national action plan on **renewable energy** has not yet been adopted and the deadline for submitting it to the Energy Community Secretariat was missed. The Law on Biofuels and related implementing legislation and the national action plan for biofuels was prepared. The second action plan on **energy efficiency** has not yet been adopted. Systems for monitoring the implementation of energy efficiency measures are not yet developed. Implementing legislation on energy audits was adopted. Any further development of hydropower should take place in conformity with EU environmental legislation.

On **nuclear energy, nuclear safety and radiation protection**, the Radiation Safety Directorate revised the nuclear safety and protection strategic plan for 2015-2017 on the basis of international standards for physically protecting nuclear materials and facilities.

#### **4.16. Chapter 16: Taxation**

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

The country is **moderately prepared** in the area of taxation. **Some progress** was made. The Law on Special Zones for Technological and Industrial Development is still not compliant with the EU Code of Conduct for Business Taxation. In the coming year, the country should in particular:

- continue to fight tax fraud, tax evasion and the informal economy;
- further develop the Public Revenue Office's compliance risk management system and strengthen its audit capacity and function;
- bring fiscal provisions on technological development zones into line with the EU Code of Conduct for Business Taxation.

On **indirect taxation**, amendments to the Law on Value Added Tax (VAT) came into force in January 2015. The legal basis for ‘e-invoices’ was established. Processing of VAT refund requests within the legal deadline improved. Regarding *excise duties*, a duty was introduced on petroleum coke and cigarette taxes were increased. A new law on prohibiting and preventing unregistered activities was enacted in December 2014 to reduce the informal economy and strengthen cooperation between different authorities.

There was progress on **direct taxation**. The profit tax law was amended so that since 1 January 2015 taxation is based on annual profit and no longer on distributed profit. Taxation of gains from games of chance and betting was further improved with the introduction of obligatory automated IT tracking of payments. Amendments to the Law on Personal Income Tax enacted in July include the regulation of the fiscal treatment of capital gains on sale of real estate.

Progress was made in **administrative cooperation and mutual assistance**. The country was assessed as largely compliant with phase 2 of the peer review conducted under the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. The recommendations of the peer review report should be adequately followed up. Further progress was made through double taxation agreements. The agreement on the country’s participation in the EU’s Fiscalis 2020 programme was ratified.

Progress was made on administrative and **operational capacity**. Revenue collection increased. The Public Revenue Office (PRO) continued to develop the compliance risk management system and a Council for Compliance was established. The efficiency of the internal audit and control system improved. The PRO further improved work processes based on the ISO 9001/ 2008 quality management system. The tax inspectorate’s capacity was strengthened by new methods to prevent tax evasion. As of 2015 cash registers are compulsory and the PRO now monitors online cash turnover in real-time. ‘E-tax’ services have been further expanded. The law on prohibiting and preventing unregistered activities aims to reduce the informal economy through stronger control mechanisms, such as joint inspections with other control bodies, increased information sharing and controls. Modernising the IT system should be a priority and part of an overall modernisation strategy.

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

*EU rules require the independence of central banks and prohibit them directly financing the public sector. 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 but the capacity of the country’s institutions to draft economic policy remains insufficient. In the coming year, the country should in particular:

- improve economic policy coordination within government and with relevant stakeholders;
- introduce expenditure benchmarks and fiscal rules to improve public finance management.

On **monetary policy**, *acquis* alignment of the legal framework is well advanced. The functional and institutional independence of the central bank is ensured. The law on the central bank forbids both monetary financing of the public sector and privileged access by the public sector to financial institutions. It also establishes price stability as the primary objective of the central bank, in line with the primary objective of the European System of Central Banks (ESCB). The central bank has inflation forecasts, but no official target.

On **economic policy**, further alignment with Directive 2011/85 on requirements for budgetary frameworks is needed. The lack of expenditure benchmarks or fiscal rules has allowed loose management of public finances (*see economic criteria*).

Economic policy is drawn up essentially by the central government with limited involvement of decentralised administrations or external stakeholders. The 2015-2017 Economic Reform Programme was submitted on time but appears to have involved limited input from line ministries and external stakeholders. Better internal coordination and external consultations should be ensured. Further steps were taken to improve central institutional capacity on macroeconomic forecasting and analysis, in line with the Directive on requirements for budgetary frameworks. The country has made some progress in adopting the 2010 European System of National and Regional Accounts (*see Chapter 18 – Statistics*).

#### **4.18. 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 achieved in the past year, notably in the alignment of sectoral statistics with EU standards.

Continued efforts are needed to improve the quality of data in the areas of macro-economic and social statistics as well as for full harmonisation with the EU *acquis*. In addressing the shortcomings outlined below, in the coming year, the country should in particular:

- further strengthen human and financial resources of the State Statistical Office;
- further align statistics with the European System of Accounts 2010;
- transmit tables for the Excessive Deficit Procedure (EDP) to Eurostat.

As regards **statistical infrastructure**, the legal framework is broadly in line with the European statistics Code of Practice. The State Statistical Office (SSO) is the main producer and coordinator of statistics. Its professional independence is enshrined in law but needs to be strengthened in practice, including through adequate resourcing. Other producers of statistics are the Central Bank and the Ministry of Finance, which have signed Memoranda of Understanding with the SSO. The main classifications are in compliance with the EU *acquis* and upgraded regularly. The availability and quality of administrative data sources remains a problem. Data transmission to Eurostat increased in terms of coverage.

In the field of **macro-economic statistics** the SSO currently compiles annual and quarterly gross domestic product (GDP) data in current and constant prices. Annual sector accounts and supply/use tables are compiled. Further efforts are required to harmonise government finance statistics and produce quarterly sector accounts. Excessive deficit procedure notifications are not yet transmitted and financial accounts are not yet produced. Statistics on the balance of payments and on foreign direct investment are compiled by the Central Bank according to the latest standards (6th Balance of Payments Manual). The harmonised index of consumer prices and purchasing power parities are aligned.

Structural **business statistics** and short-term statistics for the sectors of industry and construction are well developed but additional quality improvements are needed as well as the introduction of short-term statistics for services and overall, an increased coverage of variables. The business register represents a good basis for sampling and data delivery but needs more frequent updating. Foreign affiliates statistics are not available. Further alignment

is needed in tourism and transport statistics. Research and development data and ICT statistics are sufficiently aligned with the EU *acquis*.

In the field of **social statistics**, in May 2015 the SSO started preparing an up to date sample frame for social surveys by collecting data on the number, type and territorial distribution of dwellings and households, as well as the number of persons living in the recorded households in selected enumeration areas. The main deficiency continues to be the lack of reliable and recent population data, affecting the quality of household surveys and per capita data. Migration statistics need to be developed. The survey of income and living conditions is implemented and there was progress in implementing social protection statistics. Labour market statistics are broadly aligned with the EU *acquis*. Crime, education and public health statistics are not yet aligned.

**Statistics on agricultural production** are partially produced according to the EU *acquis*. The farm structure survey is conducted regularly. Agro-monetary statistics according to EU standards are in place but supply balance sheets are not yet produced.

**Energy statistics** are largely in line with the EU *acquis*. Short-term energy statistics and energy balances are produced. Statistics on waste, water and on **environmental** protection expenditure are published. Material flow balances are not yet produced.

#### **4.19. 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 anti-discrimination. They also promote social dialogue at European level.*

The country is **moderately prepared** in the area of social policy and employment. **Some progress** was made in the last year. However, labour market conditions remain very difficult, with continuing high unemployment rates, alarming levels of youth and long-term unemployment and very low participation rates of women. Although policy measures are being taken to promote social inclusion, poverty remains a serious problem, in particular for Roma. The Law on Anti-Discrimination needs to be amended to comply with the *acquis*. Anti-discrimination mechanisms need to be strengthened. In the coming year, the country should in particular:

- tackle unemployment, in particular among youth and the long-term unemployed;
- improve bipartite and tripartite social dialogue, particularly in the private sector and especially for collective bargaining;
- ensure appropriate institutional and financial resources are made available to implement the social inclusion and poverty alleviation strategies already adopted.

Amendments to **labour law** were enacted, regulating publication of job vacancies and compulsory social insurance. Efforts to enhance the capacity of the various institutions in charge of enforcing labour law, and improve cooperation among them, remain fragmented. Alignment with the *acquis* remains at an early stage.

On **health and safety at work**, the Law on Occupational Safety and Health was amended and two relevant rulebooks were adopted. However, this was done without consulting the National Council for Occupational Health and Safety or assessing their impact on alignment with the *acquis*. The division of responsibilities and coordination between the relevant institutions still needs to be improved. Administrative capacity remains insufficient to ensure proper implementation and enforcement of the legal provisions. Overall, the country remains moderately prepared on aligning with the *acquis* in this area.

The role of the Economic and Social Council as the lead institution for tripartite **social dialogue** was strengthened. A tripartite social dialogue was established in 12 municipalities. Amendments to the Law on Peaceful Settlement of Labour Disputes introduced external mediators and arbiters but implementation is slow and partial. The trust in social dialogue both among employers and employees should be strengthened as well as the capacity of social partners in shaping policy. Overall, consultation of social partners in the policy-making process remains limited. The influence of trade unions and employers' organisations is limited and their capacity remains weak.

Regarding **employment policy**, the unemployment rate remains high at 27.4% % in Q1/2015. The public sector remains the main employer. Labour market participation remained very low, especially among women (38.8% in Q1/2015) and Roma. Amendments to the Law on Employment and Insurance in Case of Unemployment and implementation of new tax reliefs provide additional assistance. Development of a profiling system of the unemployed continued. In December 2014, the country launched the employment and social reforms programme to address the high unemployment rate, poverty and inequalities. The Employment Service Agency continued to modernise its electronic services.

Preparations for participation in the **European Social Fund** continued with EU assistance. The lack of strategic guidance and planning and poor inter-institutional coordination reduced the effectiveness of the human resource development programme. Due to delays in procurement planning, substantial EU funding was returned unused to the EU budget. (*See Chapter 22*).

Some progress has been made on **social inclusion**. The capacities of the relevant institutions are weak, as is cooperation between them. The reform of social services at local level is being piloted in four municipalities. Implementation of the 2011-2021 national programme for developing social protection is nonetheless limited. Measures under the national strategy against poverty have had limited impact and poverty levels remain high, particularly among Roma. Data on poverty has not been regularly updated. Implementation of the 2010-2020 national strategy for elderly people has improved care of the elderly. The amended Law on Child Protection introduced a special allowance for children and young disabled persons. Lack of commitment and resources hampered implementation of the 2010-2018 national strategy on equal rights for persons with disabilities. Labour market access for persons with disabilities is inadequate. The national coordinating body to monitor implementation of the relevant UN convention remained inactive. The administration's capacity to promote social inclusion did not improve and remains inadequate at municipal level.

Amendments to legislation on **social protection** introduced subsidies for private sector employers hiring workers from vulnerable groups. The amended Law on the Pension and Disability Insurance improved the recording of data on insurance and salaries. The administrative capacity of the relevant institutions remains weak.

Moderate progress was made on implementation of the 2011-2015 **anti-discrimination** strategic plan. The Commission for Protection against Discrimination improved its cooperation with civil society organisations and municipalities. Data collection and analysis improved but remains limited, with more systematic collection needed of data disaggregated according to gender. (*See also Chapter 23 – Judiciary and Fundamental Rights*)

The Law on **Equal Opportunities** for Women and Men was amended to establish a unified reporting system and a deputy coordinator for equal opportunities in ministries and the gender units. There is progress on developing institutional capacity at local level and an increasing number of municipalities are developing local action plans. The use of gender-responsive budgeting tools continued under the 2012-2017 Strategy. However, further measures are still



needed to address pay inequality between men and women. (See also Chapter 23 – Judiciary and Fundamental Rights)

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

*EU industrial policy enhances competitiveness, facilitates structural change and encourages an enterprise friendly environment that stimulates small and medium sized enterprises.*

The country is **moderately prepared** in the area of enterprise and industrial policy. **Some progress** was made, particularly on the Fund for Innovation and Technological Development, which began operating. In the coming year, the country should in particular:

→ continue adapting the legal framework and take measures to facilitate SMEs' access to finance.

On **enterprise and industrial policy**, the National Council for Entrepreneurship and Competitiveness contributed to the 2015 programme for competitiveness and entrepreneurship. This aims to improve the business environment and simplify licensing and permitting requirements in line with the principles of the Small Business. The Agency for Promotion of Entrepreneurship still has no resources to carry out its main mandate. Enforcing contracts, especially those between public bodies and the private sector, remains difficult and requires further capacity-building at the administrative court level.

Concerning **enterprise and industrial policy instruments**, the 2014-2020 national strategy on entrepreneurial learning was adopted to promote entrepreneurship and set up a system of lifelong entrepreneurial learning. Financing for implementation of the numerous measures is not yet secured. The Late Payment Directive still needs to be fully reflected in the Law on Financial Discipline. The Enterprise Europe Network (EEN) 2015-2020, part of the COSME Programme, was established in 2015. It will follow up the EEN activities carried out in the country under the predecessor programme of COSME, the Entrepreneurship and Innovation Programme (EIP).

Activities to attract foreign investors continued: 10 new technological industrial development zones were prepared and, to attract investment, the relevant law was amended to allow the sale of land and buildings in the zones. However, the conditions of sale/lease for individual investors remains at the government's discretion and there is an overall lack of transparency.

An EIB-co-funded loan instrument is operating to facilitate much-needed access to finance for small companies. A set of new measures to promote employment was introduced in May. Under these measures, companies may receive state subsidies for social benefits for new employees. No developments were noted on **sectoral policies**. The number of tourist in the country grew by 5.1% in 2014.

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

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

There is a **good level of preparation** in the area of trans-European networks. **Good progress** was made in the reporting period. In the coming year the country should:

→ further improve inter-institutional communication and strengthen the technical capacity of all management and stakeholder institutions dealing with transport infrastructure.

Regarding **transport networks**, the country continued to participate in the South-East Europe Transport Observatory (SEETO). The country played an active role in the Western Balkans 6 connectivity agenda by endorsing the agreement on the regional core transport network in

Brussels in April, and the further agreement (in Riga in June) on the core network corridors and on the list of projects to be implemented by 2020 (in Vienna in August).

The government adopted the 2014-2020 sector operational programme for transport. Motorway construction, co-financed by EU funds, along the extension of Orient East-Med core corridor in the Western Balkans (former Corridor X) is under way and reconstruction of two sections of motorway and 11 railway stations along the same corridor began. Construction of the first phase of the Corridor VIII railway towards Bulgaria, financed by the Western Balkans Investment Framework and a loan from the European Bank for Reconstruction and Development, is progressing. The administrative and technical capacity of all of the institutions and bodies involved needs to be strengthened further.

On **energy networks**, construction of the new 400kV interconnection overhead line with Serbia (Štip-Niš) is under way, as are preparations for the construction of the Bitola-Elbasan (Albania) section of the electricity transmission network.

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

*The EU funds regional development in the Member States. Implementation is the responsibility of the Member States that must have adequate administrative capacity to ensure the good handling and sound financial management of the projects.*

The country is **moderately prepared** in the area of regional policy and coordination of structural instruments. **No progress** can be reported. In the coming year, the country should focus on:

- building the administrative and financing capacity needed for procuring and implementing EU funds properly and in timely fashion;
- addressing shortcomings in the financial management, control and audit system.

Regarding **the legislative framework**, the law on regional development is not fully implemented. The budget preparation process must be improved to ensure overall financing capacity is adequate and contracted work is paid for on time. Regional and municipal development is lagging behind.

Programmes relating to the **institutional framework** need to be better prepared and implemented. Inter-ministerial coordination and stakeholder consultation need to be improved, including civil society and donors.

**Administrative capacity** must be strengthened. Progress in this area is still insufficient. Even if staff turnover has decreased, a proper policy to encourage staff to stay, including training, must be put in place.

Implementation of sector-based **programming** is slow. All procurement-related processes, from identifying projects to evaluating tenders and contracting, still need major improvement. Efforts are needed to prepare programmes in timely fashion.

Systematic follow-up is needed of **monitoring and evaluation** findings, recommendations, project and programme indicators, and the sustainability of results. Full use needs to be made of the management information system. EU funding needs to be made more visible.

Further efforts are needed to strengthen **financial management, control and audit** (*See Chapter 32 — Financial control*). Systematic monitoring, on-the-spot checks and internal and external audits are needed to prevent irregularities.

#### 4.23. 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 effective fight against corruption are of paramount importance, as is the respect for fundamental rights in law and in practice.*

The former Yugoslav Republic of Macedonia has **some level of preparation** for applying the *acquis* and European standards in this area. The legal and institutional framework is largely in place. However there has been **no progress** in the past year. The current lack of political will to tackle the remaining challenges at the highest level is holding back the capable administration from reaching its full effectiveness. The de facto de-politicisation of judicial appointments and promotions, overhaul of the professional evaluation system and reform of the disciplinary provisions are still outstanding. A credible approach to fighting high level corruption is needed and public trust in the relevant institutions needs to be strengthened. Adequate staffing, funding and coordination are required in the field of fundamental rights. In the coming year, the country should in particular:

→ demonstrate real political will to ensure the full independence of the judicial system; provide full support and resources to the Special Prosecutor appointed to look into the making and content of the intercepted conversations;

→ strengthen the institutions in charge of preventing and fighting corruption and desist from any political interference in their work;

→ ensure full freedom of expression and the media and take strong measures to address police impunity and sub-standard conditions in the prison system;

→ restore public confidence in delivery of justice especially for the politically sensitive cases through increased transparency of court procedures and consistency of jurisprudence.

*(See also the specific recommendations on the judicial system, the fight against corruption and freedom of expression in sections 2.3 and 2.4.)*

#### **Functioning of the judiciary**

##### Strategic documents

Preparation of the 2015-2020 strategy and action plan for judicial reform is at an early stage. Six working groups have been established, including on access to justice, administrative law and IT and e-justice. The process requires stronger political support and far better coordination between different stakeholders, which could be achieved by using the Council for Judicial Reform more effectively. Recent changes to the legal framework suffered from inadequate consultation with the legal professions and international bodies in the field.

##### Management bodies

The Judicial Council's election of its new President and Deputy President in March triggered widespread criticism, given that both are lay members appointed by parliament who do not have judicial experience. The legal requirement that lay members should come from the ranks of university law professors, lawyers or eminent legal experts is not honoured in practice: three of the five current lay members were previously career officials in the public administration and two were previously acting judges. This undermines the professional balance and high level of competence foreseen by the legislation. Additional criteria added by April amendments to the Law on the Judicial Council did not significantly clarify the situation. In October 2014, the Council of Public Prosecutors elected an appropriately experienced President.

### Independence and impartiality

The extent of previously suspected political interference in both the appointment of judges and the outcome of court proceedings was confirmed by the content of the intercepted communications. In order to restore public confidence, professional bodies such as the Judicial Council and the Association of Judges need to be proactive in visibly promoting judicial independence and defending the judicial profession from any form of explicit or implicit pressure, both external and internal. Long-standing concerns about the security of tenure of judges were not addressed by the recent creation of a new 'Council for Determining the Facts and Initiating a Procedure for Determining the Responsibility of a Judge'. Given that the number of disciplinary proceedings has actually fallen dramatically in recent years, the timing and creation of a new body devoted entirely to preparing the procedure for dismissing judges appears misplaced and is a further blow to a profession which is already under siege. The defective legislative grounds for dismissal, which jeopardise judicial independence, have still not been addressed.

### Accountability

Revised codes of ethics for judges and prosecutors were adopted in 2014. The Judicial Council, the Ministry of Justice and the Ombudsman's Office continued to handle complaints about the work of the courts in 2014 (the latter received 901, up from 732). However the Judicial Council's competence to hear complaints from members of the public, which had been carried out transparently for several years including through public meetings, was removed in 2015. This constitutes a step backwards. The Supreme Court continued to receive compensation claims for unreasonably lengthy court proceedings (637 in 2014, compared with 434 the previous year) and it awarded EUR 115 963 in compensation and costs. One dismissal procedure was initiated by the Judicial Council in 2014. The Council for Public Prosecutors dismissed two prosecutors, one of whom was accused of several crimes. The State Commission for the Prevention of Corruption launched misdemeanour proceedings in 2014 against 5 judges, 1 former judge and 2 prosecutors for failing to submit asset declarations and against 15 judges and 1 prosecutor for failing to submit statements of interest. In October 2014, the sensational arrest of 25 employees (including 14 sitting or former judges) of Basic Court Skopje I amid accusations of corruption raised concerns about the line between accountability and political pressure. The case concerned high numbers of misdemeanour fines whose enforcement had been delayed beyond the limitation period. Given the need to protect the procedural rights of the judges involved, the case could have been handled in a different way. The apparent failure at court management level to detect any systemic problem at an earlier stage raises questions about the timing and nature of the criminal allegations.

### Professionalism and competence

In 2014 the Judicial Council appointed three new judges, all graduates of the Academy for Judges and Prosecutors, as required by law. It also appointed 14 basic court presidents, of whom eight had already served as presidents and two were acting presidents. The Council of Public Prosecutors appointed 14 prosecutors including four graduates of the Academy. Despite the objective, merit-based criteria set out in the law, the appointment of court presidents and higher court judges is still vulnerable to political bargaining which not only affects the outcome but often also delays the appointment procedure, to the detriment of the courts concerned. Professional evaluation criteria still need to be introduced which focus on appraising judges' core competencies, such as legal drafting and reasoning, organisational skills, participation in training activities and level of specialisation. The current system is heavily focused on quantitative criteria, targets and deadlines, without reference to quality of

performance or professional development. The lack of clear of reasoning in court judgments is a problem. This skill needs to be taught in a more harmonised way and applied consistently by the courts.

### Quality of justice

A revised Law on the Academy for Judges and Prosecutors introduced stricter criteria for appointment of the Academy's Programme Council, as well as for the students. The fifth generation of students to undertake the two-year initial training programme (13 candidate judges and prosecutors) have completed the nine-month theoretical training and are currently on placement in courts and public prosecution offices for the 15-month practical training. In 2014, the Academy provided in-service training via 280 training programmes for 7 560 participants. The Supreme Court continued to take structural measures to ensure the consistency of judgments of the lower courts.

### Efficiency

In 2014 the vast majority of first instance and appeal courts, as well as the Administrative Court, High Administrative Court and Supreme Court, continued to maintain a clearance rate of 100 % or more. The overall length of proceedings, particularly for 'old cases', remains a concern. There is still no dedicated human resource management system or strategy aimed at improving resource allocation across the court system, and disparities persist. The 2015 budgets for the courts and prosecution service are both significantly lower than the per capita European average. The number of both judges and court staff per 100 000 inhabitants are significantly above the European average, raising questions about efficiency. Recent changes to the legislative framework for court staff removed many of the professional criteria previously required and give rise to concern that the court administration will increasingly employ more numerous but less qualified staff. In 2014, the Public Prosecutor's Office (PPO) recruited 55 new support staff across the country and in 2015 a further 129. At the same time, several prosecutors' offices, notably in rural areas, suffer from severe shortages of prosecutors.

### **Anti-corruption policy**

#### Track record

The track record of **investigations, prosecutions and convictions in corruption cases** continued to develop. In 2014, a further 60 criminal investigations and prosecutions were added. While investigation, prosecution and first instance verdicts are usually swift, significant **delays can occur at the appeal stages** due to repeated referrals and re-examinations at first instance, notably in older cases started before improvements were made to the criminal procedure legislation. For cases which have reached the court stage the conviction versus acquittal rate is good and substantial prison sentences are regularly imposed. However, attention needs to be paid to the number of cases which are **dropped by the prosecution service** before reaching the court stage. In particular, it should be clarified whether this is due to problems in coordinating with the referring law enforcement agencies or in gathering sufficient evidence at the investigative stage. Most cases are referred to the prosecution service by the police and the State Commission for the Prevention of Corruption (SCPC). This shows the need for a more proactive approach also from other law enforcement and supervisory bodies, such as the Customs Administration, Financial Police, Financial Intelligence Unit, Public Revenue Office, State Audit Office and relevant public procurement bodies.

Of the 30 or so **high-level corruption cases** launched since 2003, half have been closed while the rest are still ongoing. Repeated appeals and lengthy proceedings are a problem. Moreover,

the credibility of the track record in fighting high-level corruption is weakened by the failure to investigate serious allegations made against senior public officials. This includes allegations made in the recent interceptions scandal, which implicated several politicians.

Investigations of abuse of **public procurement** procedures remained limited in 2014.

In 2014, the Minister of Justice started suspending annual **political party financing** from the state budget for parties which had breached financial reporting rules in the last 3 years. Around 75 suspensions were imposed, but subsequently reversed for 18 political parties after they belatedly submitted the outstanding financial reports. No substantial fines have been imposed yet. A more credible supervision system and consistent track record of effective and dissuasive penalties, including fines against major political parties, still needs to be developed.

In 2014, the SCPC completed systematic checks on the **asset declarations** of 49 public officials and 73 incoming and outgoing mayors, as well as on the **statements of interest** of 152 judges and 91 prosecutors. It initiated 51 misdemeanour proceedings for failing to declare assets against mayors, judges, members of parliament and directors of state bodies and 22 for failing to submit statements of interest against judges and members of parliament. It also asked the Public Revenue Office to conduct asset examination procedures in 58 suspicious cases (an increase from 35 in 2013) and started 171 procedures to try to resolve conflicts of interest. The system for investigating and penalising undeclared assets is rather lengthy and the 75 % tax penalty has been imposed in only handful of cases so far. The SCPC's ability to fully implement the system of penalties for reporting failures is being undermined by courts failing to impose the levels of fines set out by law, releasing officials from liability on technical grounds or allowing protracted appeals in what should be simple administrative matters.

### Institutional framework

#### *Prevention measures*

The **SCPC** received a 44 % budget increase to EUR 509 000 in 2015 but its capacity still needs to be strengthened. Above all, the SCPC needs to demonstrate its independence by fulfilling its mandate to fight corruption in a pro-active and non-selective manner. The number of complaints to the SCPC continued to drop in 2014, to only 141 (201 in 2013). This raises concern over the level of public trust and confidence in the SCPC.

The IT infrastructure of the **State Audit Office** was improved, however it still lacks the special IT tools needed to properly supervise the financing of political parties and election campaigns in line with its strengthened role in this area. Moreover, the unit responsible for carrying out this supervision remains under-staffed.

There is still no institution empowered to ensure effective and timely control and supervision of **public procurement**, concessions, public-private partnerships and execution of public contracts. No administrative penalty regime is yet envisaged for milder violations of the law and reports of corruption in public procurement are not tackled adequately. The transparency and accountability of public institutions and state enterprises, and of public expenditure, are still insufficient. The National Commission for the Protection of the Right to Free **Access to Public Information** remains passive, weak in status and focused on training rather than on systemic shortcomings in the area.

The Academy for Judges and Prosecutors, the SCPC and the Training Centre of the Ministry of Interior continued to provide various **anti-corruption training** programmes. More efforts

should be made to raise public awareness of anti-corruption measures and the private sector should be systematically included in corruption-prevention activities.

#### *Law enforcement*

The budget of the **PPO** increased slightly to EUR 7 million in 2015. However, the resources earmarked for implementing the new Law on Criminal Procedure were reduced by 20 % to EUR 1.4 million. The roll-out of the PPO's electronic case management system, which would improve both its efficiency and integrity, has been delayed. The Ministry of Interior's Sector for the fight against corruption remains inadequately equipped and under-staffed, with 7 of the 19 posts yet to be filled.

The powers and resources of the police, the PPO, the courts and in particular the **Agency for Management of Confiscated Property** should be strengthened so that assets can be seized and confiscated more frequently and in a more coordinated manner in corruption cases, to ensure a deterrent effect. In particular, asset seizures and other provisional measures should be undertaken more systematically in the early stages of criminal investigations to ensure assets are successfully confiscated at the end of the procedure.

In 2014, the Ministry of Interior's **Sector for Internal Control and Professional Standards** (SICPS) started disciplinary procedures against 188 police officers (down from 277 in 2013), of which 11 cases related to corruption (12 in 2013). The procedures resulted in 9 officers being fined. The SICPS also started criminal proceedings in 11 corruption-related cases (6 in 2013). To ensure proper oversight of police work the SICPS should become independent from the Ministry of Interior.

The **Customs Administration** continued its anti-corruption work by adopting a corruption risk assessment manual, conducting internal and external surveys and organising anti-corruption training. It imposed disciplinary measures on 199 customs officials in 2014 (77 in 2013), of whom 4 were dismissed for corruption-related violations (none in 2013). Corruption-related criminal charges were brought against 5 customs officers in 2014 (none in 2013). The customs administration should continue its anti-corruption efforts and should acquire technical equipment allowing it to independently carry out special investigative measures.

#### Legal framework

Amendments were made to the Law on Prevention of Corruption which introduced the necessary legal basis for the establishment of a register for elected and appointed persons. Bylaws on the register were adopted by the SCPC. An amendment to the Criminal Code refined the criminal offence of abuse in concluding an agreement between interested parties. However, a number of OSCE/ODIHR and GRECO recommendations on political party and campaign financing still need to be addressed. Loopholes on donations, campaign bank accounts and campaign debts still need to be closed. The powers of the SCPC to put an end to or penalise conflicts of interest in cases where the official concerned refuses to cooperate are currently inadequate.

#### Strategic framework

Important measures envisaged in the 2011–2015 state programmes for preventing corruption and conflicts of interest and their action plans are behind schedule, in particular those related to the political sector, the judiciary and public procurement. While many measures have been implemented, the overall impact of the state programmes has been limited in terms of controlling and reducing corruption. The state programmes for the next period need to have a higher status and legal force. They should also focus more on key priorities and weaknesses,

rather than on excessive numbers of broad, technical measures with limited anti-corruption impact. The financial costs of individual measures and the bearers of those costs must be spelled out to ensure sufficient resources are allocated to the fight against corruption.

### **Fundamental rights**

Regarding **international human rights instruments**, action plans are being developed to implement the most recent recommendations under the UN Convention on the Elimination of all Forms of Discrimination against Women and those of the second Universal Periodic Review of the UN Human Rights Council. The Council of Europe's Committee for the Prevention of Torture carried out its 11th country visit in 2014.

Since September 2014, the **European Court of Human Rights (ECtHR)** has found that the country violated the European Convention on Human Rights (ECHR) in 11 cases relating to the right to life, prohibition of torture and degrading treatment, right to a fair trial within a reasonable time, respect for family life and protection of property. A total of 379 new applications were allocated to a decision-making body, bringing the number of pending applications to 324. At present, 117 ECtHR judgments still have to be executed by the country, of which two are under enhanced supervision. The government submitted its action plan in relation to the *El Masri* judgment after considerable delays. The Committee of Ministers urged the authorities to carry out a fresh investigation of the case in order to bring those responsible to justice. The country's Bureau for Representation before the ECtHR remains seriously under-staffed and the country rarely seconds national judges to the ECtHR (see the 'Urgent Reform Priorities').

On the **promotion and enforcement of human rights**, the Office of the Ombudsman remains the key oversight institution underpinning democratic values in the country and continued to deliver on its constitutional and legal mandate to protect citizens' rights. In 2014 the Ombudsman received 4 249 complaints, an increase of 11 % from 2013. The level of follow-up on the Ombudsman's recommendations rose to 87 %. However, some public authorities including the Ministry of Interior and some prison institutions continue to be less responsive. Amendments to the Law on the Ombudsman aiming at full compliance with the Paris Principles were prepared some time ago but have still not been adopted by Parliament (this is also one of the 'Urgent Reform Priorities'). Sufficient resources for the Ombudsman's office have still not been provided.

Regarding the **prevention of torture and ill-treatment**, the Office of the Ombudsman continued to play an active role as national preventive mechanism (NPM) under the Optional Protocol to the Convention against Torture. However, it remains under-resourced and its current staffing level is critically low, requiring urgent action to ensure that it can continue to function. In 2014 the NPM carried out 28 preventive visits to places of detention and warned against worsening conditions. There was limited follow-up to its recommendations by the relevant authorities. Inhuman physical conditions persist in a number of prisons and almost all detention facilities. Seriously substandard conditions in juvenile facilities and in Idrizovo prison continue to cause concern.

In 2014, the Ombudsman's Office received 20 complaints of ill-treatment or excessive use of force by the police. The Sector for Internal Control and Professional Standards received 71. In four cases it was determined that unjustified physical force had been used. Criminal charges were brought against two police officers. In January the ECtHR found that potentially lethal use of force by a member of the special Alfa unit in 2009 violated the right to life. Prisoners' complaints to the Ombudsman's Office increased to 274 in 2014 (247 in 2013). Most concerned inhuman conditions and 14 ill-treatment or excessive use of force. The Directorate for Execution of Sanctions received 75 complaints against prison staff, including 3 for torture



or ill-treatment. One prison officer was convicted for failure to report ill-treatment and received a conditional sentence. Procedures have yet to be established for conducting detailed examinations of all alleged cases of torture, inhuman treatment and other unprofessional conduct towards inmates and detainees. Concerns persist that severe disciplinary measures are not being imposed on police and prison officers in ill-treatment cases and the number of criminal charges remains low.

A new strategy and action plan for the **prison system** for 2015-19 were adopted in May but adequate financial resources need to be allocated to ensure proper implementation. Administrative capacity improved with the recruitment of 46 new staff in prisons and 5 in the Directorate for Execution of Sanctions. There is still no systematic initial and in-service training programme for prison staff although ad hoc, largely donor-led training took place. The prison reconstruction programme continued, despite major delays. The prison system continues to be heavily underfunded, under-staffed and mismanaged, leading to systemic breaches of international human rights standards. Increasing overcrowding, in some facilities exceeding 200 %, raises serious concerns over its sustainability. Provisions for conditional release, alternative sanctions and non-custodial pre-trial measures continue to be under-used. A probation service has yet to be introduced. Basic education and other re-socialisation services have yet to be provided to juveniles in detention. Numerous prison management rules, re-socialisation measures and treatment programmes for vulnerable groups have yet to be fully implemented in practice. The transparent and merit-based appointment of prison directors and prison staff should be ensured as an urgent priority and is key to tackling many of these problems.

The Law on **Personal Data Protection** is largely aligned with the EU *acquis*. The Directorate for Personal Data Protection continued to strengthen its capacity through ongoing training, employment of 4 new staff and a slight budget increase. It further increased its activities in 2014, carrying out 404 inspections in the public and private sectors (387 in 2013) and finding 300 violations in total. It received 371 complaints in 2014 (404 in 2013), mostly concerning abuse of personal data on social networks. The number of personal data controllers and processors trained increased to 66 in 2014 (54 in 2013) and active public awareness-raising measures continued. The Directorate was consulted on draft legislation, public policies and operations of data controllers more frequently than in previous years. Further efforts are needed to ensure full harmonisation of sectoral legislation with the Law on Personal Data Protection. The Directorate, which is an independent regulatory body, has yet to take action following the recent disclosure of massive unlawful interception of individuals' electronic communications. This has raised questions about its ability to act with full independence.

**Freedom of thought, conscience and religion** continues to be guaranteed and enforced. Following the rejection of three new applications which did not meet legal requirements, the number of registered religious entities remains at 31.

In the area of **freedom of expression**, increased reports of harassment and intimidation of journalists were noted, as were some cases of property damage by unknown perpetrators. A funeral wreath was delivered to the family of a journalist critical of government policies. There were several physical altercations involving journalists, including a physical attack by a senior politician, which was not condemned by the government. Numerous journalists were revealed by the content of the intercepted communications to have been under illegal surveillance. Some intercepts indicated that media had been under direct and indirect government pressure to alter their reporting. Attempts to limit reporting on matters of public interest are worrying. There is still a lack of transparency on government spending on media advertising and the government has failed to provide details on the amounts, criteria and

recipients despite the requirement under the Law on Audio and Audiovisual Media Services to do so (see also the ‘Urgent Reform Priorities’).

The Agency for Audio and Audiovisual Media Services continued to play an active regulatory role. It carried out industry-wide programme monitoring in areas including protecting young audiences and fostering and protecting cultural identity. It also prepared numerous studies and reports, including on the treatment of gender issues by broadcasters and a guide to monitoring hate speech. The Agency approved changes in the ownership structures of three regional TV and radio stations and carried out administrative supervision of the transparency of 138 broadcasters’ operations.

Since becoming operational in November 2014 the new self-regulatory body for the media, the Media Ethics Council, received 40 complaints against various media outlets and issued decisions on 39. However, in many cases the media concerned did not publish the Council’s decision, limiting the impact of self-regulation. Principles of fair reporting in online media were also adopted by Web portals. There is still a large amount of litigation in the area of defamation and insult, pointing to the need to further revise the legislation and court practice. Greater emphasis should be put on non-judicial resolutions such as mediation (in non-media cases) and right to reply mechanisms (in media cases). Investigative reporting remains weak. The professional standards and ethics of some journalists, notably in the mainstream media, remain a serious problem. The tendency of influential programme hosts to use deliberately offensive or provocative language under the mantle of freedom of expression continues to be unhelpful in a media culture which is dominated by polarisation, intimidation, a lack of solidarity and a lack of balanced, objective debate. The widespread misappropriation of the term hate speech for what is in fact unprofessional or provocative language in the media also continues. This risks overshadowing true incidents of hate speech, which must be investigated and penalised when they do occur. The country continued to backslide in this area, although the publication of the content of the intercepted communications have increased open public discussion of political issues.

Measures were taken to increase the financing of the public service broadcaster MRT, including improvements to the licence fee collection system. However, there are serious concerns about MRT’s editorial independence. It provided limited reporting of the interception revelations, and some of the published recordings implied that government officials had threatened public service journalists’ job-security if they did not report along the ‘desired’ lines.

**Freedom of association** is satisfactory but the situation regarding **freedom of assembly** has deteriorated. Protests by students, university and high school professors, journalists and other citizens’ groups increased as a result of the political situation and the most recent education reforms. In May public protests against police brutality led to a violent clash between police and protesters. Civil society observers reported that police used excessive force to restore public order and, after dispersing the protesters, continued to make arrests in the surrounding areas. There were concerns that some of those detained had nothing to do with the protests. There appears to be an increasing reliance on the criminal offence of ‘participating in a crowd which commits a crime’. This broad provision is open to interpretations which infringe the freedom of assembly, since the state has an obligation to protect the majority of peaceful demonstrators rather than incriminate them. Amendments to the Law on Police increased its powers relating to public order, including allowing the use of tasers and rubber bullets. Such broad powers need to be balanced by accompanying provisions to safeguard human rights. Clear operational standards are needed, as well as rigorous human rights training for all police officers involved in such activity.

The Ombudsman's Office received 239 complaints about **property rights** in 2014 and found breaches in 102 cases. Most complaints concerned the slow process of denationalisation and the work of the Cadastre Office. The Cadastre Office needs to be far more proactive in rectifying errors and omissions made at administrative level, so as to provide legal certainty on property rights.

As regards **non-discrimination**, from its creation in January 2011 until the end of 2014, the Commission for Prevention of and Protection from Discrimination has only received 288 complaints and confirmed the existence of discrimination in 12 cases. Much greater efforts are needed to raise public awareness of the Commission's role and work. It remains understaffed and under-resourced and concerns persist about its independence. The legislative framework still needs to be aligned with the *acquis* as regards discrimination on grounds of sexual orientation. Collection of data on the reporting, investigation and prosecution of hate speech and hate crime is still not systematic and several cases of hate speech in social media and blogs require adequate follow-up by the authorities. (See also *Chapter 19 — Social Policy and Employment*.)

As regards **equality between women and men**, a gender equality strategy (2013-2020) and action plan (2013-2016) are in place and some ministries have earmarked a budget for implementation. Of the 123 members of Parliament 42 are women including one minister. Four of the 84 mayors are women, as are 405 councillors (30 % of the total). Mechanisms to promote gender equality lack visibility and there are limited opportunities for civil society organisations and external stakeholders to feed into decision-making processes. Gender stereotyping persists and further measures are needed to combat double or multiple discrimination, particularly against Roma women. A new Law on Combating Domestic Violence was adopted to protect survivors, but it fails to recognise all forms of violence and only provides for civil proceedings against perpetrators. Further public awareness raising measures are necessary, particularly in rural areas. (See also *Chapter 19 — Social policy and employment*).

Regarding **rights of the child**, the Law on Child Protection was amended to introduce early childhood development services and broaden the scope of child protection. New kindergartens and early childhood development centres were opened, with the latter providing a range of quality services, especially for the most vulnerable children. However, services to protect children most at risk remain limited. The most marginalised children who fall outside both the education and healthcare systems, as well as children with disabilities, continue to face problems accessing their rights. The National Commission on the Rights of Children still lacks qualified staff and funding. The Ombudsman's Office received 124 complaints in 2014 about breaches of children's rights. The lack of systematic collection of data in this area remains a major shortcoming.

Implementation of the new Law on Justice for Children started and mediation was successfully used as an alternative to criminal proceedings involving juveniles. Child-friendly interrogation rooms were installed in eight police stations, but none has child-friendly detention facilities required by law. Training was held for juvenile justice professionals and should be introduced on a permanent basis. Police services and Centres for Social Work dealing with juveniles remain underfunded and under-staffed. The status and resources of the State Council for Prevention of Juvenile Delinquency should be strengthened to ensure it functions properly. Most municipalities have yet to establish local councils for preventing juvenile delinquency, and most of those that do exist are inactive. Despite improvements in the law, there is still no systematic access to legal aid for juveniles in practice.

Little improvement can be reported on **integration of persons with disabilities**. An interparty parliamentary lobby group was established to promote the rights of disabled people. Implementation of the 2010-18 national strategy on equal rights for people with disabilities is inadequate. The national coordinating body monitoring implementation of the UN convention on the Rights of Persons with Disabilities is inactive.

**Lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons continue to suffer discrimination and homophobic media content, both online and offline. A sixth violent attack occurred during the celebration of the second anniversary of the LGBTI support centre, leaving two people injured. Despite calls by civil society organisations and the international community for the perpetrators to be prosecuted, none of the attacks has yet been fully investigated. In August parliament rejected a draft amendment to the anti-discrimination legislation, which would have prohibited any form of direct or indirect discrimination on the grounds of sexual orientation and gender identity. Considerable efforts are still needed to raise awareness of and respect for diversity within society and to counter intolerance. This needs to be done through public campaigns and training of law enforcement bodies, prosecutors, judges and health workers.

Despite many difficulties, **labour and trade union rights** are generally respected. Implementation of the Law on Peaceful Settlement of Labour Disputes, and the start of mediators' and arbiters' work, has been slow. Trust in social dialogue both among employers and employees should be strengthened as well as the capacity of social partners in policy shaping. (See also *Chapter 19 — Social Policy and Employment*.)

The new Law on Criminal Procedure, applied since the end of 2013, guarantees the **procedural rights** of suspected and accused persons and victims of crime. It sets out clearly the right to interpretation and translation of the defendant, victim, private plaintiff and witness, and establishes the defendant's right to a lawyer. It also specifies the information which must be given to anyone who is invited for questioning or detained. This includes the reasons for their detention, any charges against them, the right to remain silent and the right to inform a third person and/or diplomatic or consular authorities. Adequate medical assistance must be provided as needed or upon request and any person deprived of their liberty must be brought before a court within 24 hours. Legal aid is available under the 2009 Law on Free Legal Aid but its implementation is not yet widespread. Special safeguards are in place for juveniles and for vulnerable witnesses or victims. The presumption of innocence is set out in the Constitution and the Law on Criminal Procedure but there have been some concerns about its full observance, including in relation to the content of the intercepted communications. Further efforts are needed, particularly as regards statements made to the public and media, including by the courts and by members of the executive. The ECtHR has found several violations of the right to liberty in cases where pre-trial detention was imposed without concrete and sufficient justification, and judges have made efforts to improve the reasoning given in pre-trial detention orders and extensions, but there is scope for further improvement. Trial *in absentia* is possible in certain circumstances.

Regarding the protection of **minorities** and cultural rights, the Ohrid Framework Agreement continues to provide a basis for inter-community relations. The Agency for the Protection of Minorities representing less than 20 % of the population still struggles with an inadequate mandate, insufficient budget and a lack of support from relevant institutions. The Directorate for education in communities' languages and the Directorate for the promotion of culture of the communities also continue to be inadequately funded and staffed. Inter-institutional cooperation remains weak. Systemic measures to ensure that all communities can exercise their ethnic, cultural and linguistic rights remain largely donor-funded. Curricula for the Roma, Vlach and Bosnian languages in elementary schools were developed, coming into

effect from 2016/17. Limited use was made of the new policy measures to promote inter-ethnic relations under the integrated education strategy. Measures against separation along ethnic lines in schools are insufficient. Multiple forms of discrimination against the non-majority communities persist and action to combat stereotyping, including in the media, remains ineffective.

The new **Roma** strategy for 2015-20 was adopted. The Ministry of Labour and Social Policy's unit for implementing Roma policy was strengthened. The Roma Seminars have been held regularly but their conclusions have not been followed up comprehensively and coordination among institutions is still weak. A number of government projects on social housing, education, employment and social assistance have produced some good results. Roma health mediators are functioning in six municipalities. Under a project to include people in the register of births, 120 of the 550 people identified so far have been registered. However, the most disadvantaged Roma still have problems accessing social benefits due to their lack of administrative documentation. Hardly any progress can be reported in terms of political representation, media coverage in the Roma language and the status of the Roma language in municipalities with a Roma majority. Roma have limited economic opportunities. Poverty remains the biggest factor behind the low share of Roma children in education. There continues to be a disproportionate number of Roma children placed in special needs schools. Segregation, stereotyping and other forms of discrimination remain prevalent. Complaints have been registered by Roma prevented from leaving the country and of mistreatment of Roma who have returned after unsuccessfully seeking asylum abroad. Roma refugees and internally displaced persons continue to live in substandard conditions and their access to education, housing, health and employment remains a concern. The number of active Roma non-governmental organisations is declining because less funding is available.

#### **4.24. 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 inside the EU. There is also cooperation in the fight against organised crime and terrorism, and judicial, police and customs cooperation.*

The country is **moderately prepared** for implementing the *acquis* in this area. It has made **some progress** by adopting new laws and strategic documents in several areas (migration, money laundering and terrorism). The country is on the transit route for mixed migration via Turkey and Greece towards northern Europe. Urgent measures were taken to deal with the humanitarian consequences of the regional migration crisis in the short term, but authorities have been overwhelmed by the escalating numbers. International cooperation and law enforcement, in particular in the area of organised crime, remained strong. In the coming year, the country should in particular:

- strengthen capacity regarding mixed migration flows of refugees and economic migrants, especially early identification of those needing protection, vulnerable groups and minors;
- ensure effective border management and step up action against people smuggling and human trafficking as a high priority;
- adopt and implement the new anti-terrorism strategy and action plan, with a special focus on measures preventing radicalisation.

*(See also the specific recommendations on the fight against organised crime in section 2.3.)*

## **Legal and irregular migration**

The government adopted the 2015-2020 migration strategy and action plan in January. As regards the legal residence and work of foreigners, 4 219 temporary residence permits were issued in 2014, of which around a quarter were for employment or self-employment purposes. The number of irregular migrants detected increased significantly from 1 750 in 2014 to 24 637 in the first 7 months of 2015. In 2014, 1 213 people were returned to the country under the readmission agreement with the EU, which continues to be implemented smoothly on the whole.

During summer 2015, the former Yugoslav Republic of Macedonia faced an unprecedented number of third country nationals entering the country, primarily through Greece, on route to other EU Member States. The numbers of new arrivals regularly reached around 5 000 per day. Urgent legislative measures were taken on 18 June in order that third country nationals declaring 'an intention to apply for asylum' could be issued with documentation and allowed 72 hours' legal stay to register their claim. The new legal framework significantly reduced the scope for organised crime groups involved in people smuggling and also provided easier access to public transport, reducing the risk of accidents. Over the past year, 24 people had been killed by trains while transiting the country clandestinely on foot alongside railway tracks. The changes effectively put an end to transfers of migrants to the Centre for Foreigners in Gazi Baba, which had been widely criticised by domestic and international monitors due to serious under-capacity and overcrowding and is no longer in general use.

The government also developed an emergency response plan in the event of continued influx. In view of the substantial rise in third country nationals transiting the country, further efforts are needed in the area of cooperation and information sharing, especially on the borders with Greece and Serbia. Attention should be paid to proper contingency and emergency planning to enable the country to manage the migratory flows more efficiently. The crisis has highlighted the need for a cross-cutting strategic approach encompassing migration, asylum and law enforcement, in particular the fight against people smuggling and human trafficking.

## **Asylum**

The number of new applications for asylum continued to increase, from 1 364 in 2014 to 1730 so far in 2015. Refugee status was granted to 11 people in 2014 and three in 2015, the majority coming from Syria. The Ministry of Interior appointed a full-time representative of the asylum unit to the reception centre in Vizbegovo, improving access to the asylum procedures. On the whole, the asylum recognition rate remains low, and the Administrative Court continues to process asylum appeals largely on procedural rather than substantive grounds, leading to long delays and repeat appeals. In 2014, one asylum seeker was granted legal aid under the Law on Free Legal Aid, but for the remaining 40 applications the procedure had to be stopped as the asylum seekers had left the country. It is important that the existing asylum legislation be fully implemented by ensuring that access to and information about asylum procedures are readily available.

## **Visa policy**

Legislation is largely aligned with the *acquis* and the link between diplomatic and consular missions, the national visa system N-Vis and the Visa Centre at the Ministry of Foreign Affairs has been operational since 2009. An agreement on joint use of consular premises with Serbia was signed in September 2014.

Implementation of the visa-free travel regime with the EU has continued smoothly overall. The national authorities continued cooperation to tackle unfounded asylum applications made in Schengen members and associated countries, and the overall numbers fell by around 10%

in 2014. In addition to running public information campaigns, the authorities continued to carry out additional border controls, surveillance patrols and risk analysis. Criminal charges for facilitating abuse of the visa-free regime were brought against 32 people in 2014 and against 7 people during May-July 2015. Some efforts were made to improve the socio-economic conditions of vulnerable groups, notably Roma, through specific support programmes in the areas of employment, education and health. However, the root causes of this phenomenon still require greater structural efforts and the investment of proper resources.

### **Schengen and external borders**

The national integrated border management development strategy for 2015-2019 is being prepared. Good cooperation with Albania, Bulgaria, Kosovo and Serbia continued, including through the operation of the respective joint contact centres and regular mixed border patrols. A joint cooperation centre was opened with Kosovo in January 2015 at Hani i Elizit/Blace. Good cooperation and exchange of best practices continued with Frontex, as did participation in other bilateral and multilateral cooperation initiatives in the field of border operations. The capacities of the National Coordination Centre for Border Management were strengthened slightly but internal coordination and cooperation with related ministries remains weak.

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

The country received 2 252 new requests for mutual legal assistance in 2014 and made 2 856 such requests to other countries. Around a third of such exchanges related to **criminal matters** and two thirds to **civil matters**. As regards judicial cooperation in criminal matters, the country issued 100 extradition requests and received 20 from abroad. A total of 45 requests for transfers of sentenced persons were also processed.

The former Yugoslav Republic of Macedonia is the only enlargement country to have a cooperation agreement with Eurojust, in force since 2010.

### **Fight against organised crime**

#### Track record

During 2014, the Ministry of Interior filed 93 criminal charges (85 in 2013) against 584 people accused of involvement in different types of organised crime, including drug trafficking, people smuggling and financial and economic crimes. In the same period there were 109 convictions at first instance, 101 at second instance and 27 decisions given by the Supreme Court within the extraordinary review procedure.

The Financial Intelligence Unit submitted 154 reports of suspicious transactions in 2014. It submitted 31 notifications related to **money laundering** and financing of terrorism to law enforcement for further investigation (up from 25 in 2013). In the same period, 14 people were prosecuted and 7 convicted of money laundering.

As regards **trafficking in human beings**, 37 criminal proceedings involving 52 accused persons ended in convictions in 2014. The Ministry of Interior also submitted criminal charges against 8 police officers involved in trafficking. In total 8 victims were identified, of whom 6 were minors. Four cases of forced marriage including both sexual and labour exploitation, 3 cases of sexual exploitation and 1 case of forced begging were detected.

There was a general increase in **drug seizures**, with those involving heroin rising the most (by 73.5%). In 2014 the Ministry of Interior seized 632 kg of marijuana, 20 kg of heroin, 318 g of cocaine, 1 187 stems and 3 816 seeds of cannabis, 5 kg of hashish, 1 189 ecstasy tablets and 1.2 kg of amphetamine. In addition, the Customs Administration seized around 4 kg of heroin, 91 kg of marijuana, 20 g of hashish and 96 ecstasy tablets. As a result of two

joint operations (with Switzerland and Bulgaria, and with Serbia) three heroin trafficking channels to the EU from Turkey were cut off. Cigarette seizures in 2014 and first quarter of 2015 totalled 757 270 as well as a further 103.5 kg of tobacco. The destruction of seized drugs continued in 2014 under the responsibility of the Ministry of Health (involving 187 kg of marijuana, 46 kg of heroin, 447 cannabis stems and over 1 000 tablets and capsules).

**Special investigative measures**, which are still used mainly by the police, were applied in 307 cases in 2014 (271 in 2013). All three law enforcement agencies with powers in this field, including the Financial Police and Customs Administration, need to have the technical capacity to carry out interception of communications independently of the intelligence services, whose facilities they currently rely on. Trust in the system has been undermined by the content of the intercepted communications which implied serious abuse of special investigative measures within the intelligence services. However, this should not detract from the continued and effective use of special measures for genuine criminal investigation purposes.

#### Institutional and operational capacity

In 2014, 400 police cadets completed basic training and 399 of them were recruited. Training of a further 400 is currently underway. In addition, 50 vacancies for candidates with higher education were filled in the Ministry of Interior. Although the Law on Internal Affairs and the human resources strategy introduced a merit-based recruitment policy and career system, allegations of politicised recruitment by the Ministry still persist and need to be addressed.

Implementation of the ‘national intelligence model’ continued, with the preparation of 11 standard operating procedures, seven guidelines and a manual. Steps were undertaken to set up national and regional threat assessments of serious and organised crime activities, inspired by the EU SOCTA methodology. The establishment of the National Intelligence Database has been delayed until 2018.

Staffing in the Department for the Fight against Serious and Organised Crime at the Ministry of Interior continued to increase, with 10 new employees hired. The Basic Public Prosecutor’s Office for Organised Crime and Corruption employed 9 support staff in 2014 and a further 13 in 2015. Within the same Office, the first Investigative Centre was established, equipped with IT and audio-visual recording facilities, and started to function.

The specialised units in both the Ministry of Interior and the Public Prosecutor’s Office fighting serious and organised crime are well established. However, general understaffing still hampers their ability to handle cases with maximum effectiveness and concerns remain about political interference in some cases. The National Coordination Centre for the Fight against Organised Crime is established by law but is still not operational pending the development of procedures for data exchange between the relevant institutions, training and supply of IT equipment.

Direct cross-border cooperation with national police services continued, through exchanges of operational information and intelligence, joint operations, joint investigative teams and the involvement of public prosecutors from the countries concerned.

#### Legal framework

In March 2015 the Law on Police and the Law on Internal Affairs were both amended to standardise the use of video recordings of police actions. Amendments to the Law on Police additionally allow for rubber bullets and tasers to be used in situations which threaten public order. The introduction of such broad powers need to be accompanied by adequate human rights protection, which should be set out clearly in the legislation and operating procedures



and be accompanied by training. The Ombudsman has called for clear rules on the use of such measures to be laid down in the relevant secondary legislation.

### Strategic framework

Work is currently underway to prepare the new cyber-security strategy, along the lines of the EU strategy in this area, including cybercrime as one of its four pillars. Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

### **Fight against terrorism**

The Criminal Code was amended in September 2014 to introduce a new criminal offence of participation in foreign army, police, para-military or para-police formations. In August 2015 charges were brought against 36 people under the new provisions. The new Law on Prevention of Money Laundering and Financing of Terrorism was adopted in September 2014 and a new Law on Property Rights Restrictions for Prevention of Terrorist Financing is in preparation. A new anti-terrorism strategy and action plan, addressing among other things radicalisation and foreign terrorist fighters, are under preparation. Radicalisation remains a serious challenge for the country. Efforts need to be enhanced to identify, prevent and disrupt the flow of foreign terrorist fighters traveling to countries such as Iraq and Syria.

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

The National Drug Strategy 2014-2020 is coordinated with the drug strategy and action plan of the EU and the UN political declaration to combat drugs, as well as reflecting national and regional priorities. Amendments to the Law on Control of Narcotic Drugs and Psychotropic Substances are being prepared, including on the early warning approach and timely, partial or full banning of new psychoactive substances emerging on the market. Plans are underway to set up supervisory bodies for the implementation of prevention activities under the Strategy and for activities relating to drug addiction treatment. Good cooperation continued between the national focal point and the European Monitoring Centre for Drugs and Drug Addiction.

### **Customs cooperation**

The Customs Administration took part in four international operations and four projects to detect illicit trade in counterfeit goods, drugs, cultural goods and high-risk chemicals. Cooperation continued with the regional intelligence liaison offices of the World Customs Organisation, the South-East European Law Enforcement Centre and the United Nations Office on Drugs and Crime. Information about seized goods was regularly entered in the respective databases. Cooperation and exchange of intelligence with the customs authorities of the neighbouring countries and the wider region continued. Regular information on illicit trade in drugs was exchanged with the German Customs Investigation Bureau. A cooperation agreement was signed with the customs administrations of Hungary, Serbia and China. (*See also Chapter 29 — Customs union*).

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

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

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

There is a **good level of preparation** in the area of science and research. Good progress was made with respect to actions on innovation, and with initial and active participation in the EU Research and Innovation Programme "Horizon 2020". In the coming years, the country should focus on:

- actions to strengthen the research capacity in line with the European Research Area;
- increasing the level investment in research in particular by the private sector.

A network of national contact points was established and representatives in the **Horizon 2020** Programme Committees, have been nominated. Several workshops and information days on Horizon 2020 have been organised which resulted in a large number of applicants submitting proposals for funding. Based on first Horizon 2020 statistics, about 20 projects were successfully evaluated. An Action Plan on promotion and support for participation in Horizon 2020 was adopted focussing on SMEs and mobility of scientists. The country cooperates actively at regional level on the implementation of the Regional Strategy on Research for Innovation and with the Central European Initiative (CEI) and UNESCO.

As regards policy actions on **research and innovation**, the country concentrated on innovation. Implementation of the National Innovation Strategy is high on the political agenda, as demonstrated by the allocation of EUR 20 million (in part with a World Bank loan) through the Fund for Innovation and Technological development to facilitate access to risk capital to co-finance innovations, new technologies start-ups and spinoff companies. As regards strengthening **research capacity**, a new 2015-2019 programme for higher education and scientific and research activities is being prepared, aiming at funding national research in line with the EU priority areas. The level of investment in research stagnated at less than 0.30%. The country nominated representatives to the European Research Area Committee and related advisory bodies but due to lack of administrative capacity participation was limited.

#### 4.26. 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 facilitate education of children of EU migrant workers.*

The former Yugoslav Republic of Macedonia is **moderately prepared** in this area, and **some progress** was made in the past year. Improvements were seen in pre-school education and on early school-leavers. Children from non-majority communities and children with special needs continue to face barriers in access to quality education. Participation in the EU's Creative Europe programme has made an important contribution to the country's cultural activities locally and regionally. Far-reaching reforms of the education system were put on hold following large public protests. In the coming year, the country should in particular:

- reform teacher training aimed at improving the basic and transversal skills at basic levels of education;
- evaluate the implementation of reforms in the education sector from 2005 to 2015;
- develop a new strategic framework for education, linking all reform processes and involving a wide range of stakeholders.

Regarding **education, training and youth**, the government introduced a wide-ranging reform by amending the laws on primary, secondary and higher education as well as a law establishing a teacher academy. Following mass protests by students and academics over lack of consultation and objections to content, the reform was put on hold for a year.

The number of places in pre-school education facilities increased. The number of places in pre-school education facilities increased. The proportion of three to six-year olds in early childhood education has steadily increased (34% in 2014), but remains well under the EU average and targets (95% by 2020). Children from rural areas, from non-majority communities and with disabilities remain disadvantaged. Measures were introduced to support education of children with special needs.

Some progress was made in modernising vocational education and training programmes and occupational standards. However, most of these do not match the demands of the labour market. The country participates fully in the Erasmus+ programme. The administrative and financial capacity of the National Agency for European Educational Programmes and Mobility was strengthened.

Concerning **culture**, the Law on Protection of Cultural Heritage was amended and bilateral agreements on cultural cooperation signed. Participation in the Creative Europe programme continued successfully. The relevant institutions need to be strengthened to ensure policies are implemented and monitored effectively. Strategic expenditure planning needs to be improved.

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

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

In the field of environment and climate change, the country is **moderately prepared**. **Some progress** was made in transposing the *acquis*, in particular general horizontal legislation and air quality and chemicals laws. In the coming years, the country should focus on:

- finalise the setting up of systematic strategic planning, and start implementing the country's contribution to the expected 2015 Paris Climate Agreement;
- implementing national legislation and increasing investment, especially in the waste and water sectors.

On the **environment**, some progress was made in the area of **horizontal legislation**. The environment and climate change strategy was developed. Public communication and access to environmental information improved, although public consultations still need to do so.

Some progress was made in aligning with the *acquis* on **air quality** but air pollution levels remain high. They pose serious risks to health and they need to be addressed urgently. Implementation of measures laid down in the national plan for air quality protection remains limited and insufficient, although some general measures were implemented. Data reporting and dissemination of information on air quality improved. Work continued on transposing the *acquis* on control of volatile organic compound emissions from petrol use, on planning air quality protection and improvement at local level. Adequate financial resources are needed to support the automatic air quality monitoring network.

Regional **waste management** plans and strategic environmental assessments were developed for two regions, and are at a preparatory stage in the other four. The implementation of the legislation on special waste streams continued, but is still lagging behind.

On **water quality**, planning and preparation of river basin management plans and future infrastructure investment to improve the systems for waste water collection and treatment are ongoing. The government began preparations for establishing integrated water management systems, but the river basin management boards are not yet operational. A system for monitoring water quantity and quality is needed.

Regarding **nature protection**, the transposition of the *acquis* on natural habitats and wild fauna and flora is delayed. Implementation of the nature protection *acquis* and designation of a Natura 2000 network has still not begun. The Fifth National Report to the Convention on Biological Diversity was adopted. Cross-border cooperation was improved with the designation of the Ohrid-Prespa region as a transboundary biosphere reserve. The national nature protection strategy still needs to be completed. Concerns remain about the potentially detrimental environmental impact of the planned construction of two large hydropower facilities, Lukovo Pole and Boškov Most. Investments in hydropower need to be in conformity with relevant EU environment legislation, respecting EIA, water legislation and nature protection obligations, especially for national protected areas and areas of high natural value, potential protected Natura 2000 sites. Public consultations with stakeholders continue to not always be properly applied, and results not always fully reflected in decisions.

On **industrial pollution control and risk management**, the integrated pollution prevention and control permitting procedures are under way but far behind schedule. The issuing of permits needs to speed up.

In the area of **chemicals**, initial steps were taken to establish an inter-sectoral body for major accident prevention and control. The national plan to reduce and eliminate persistent organic pollutants was adopted.

No progress was made on **noise**. The preparation of maps and action plans still lags behind.

The country continues to actively participate in the EU **Civil Protection** Mechanism and in several regional projects aimed at strengthening cooperation. However, it has still not connected with the Civil Protection Mechanism's common emergency communication system. Disaster risk reduction and management need to be treated as a matter of priority, particularly in the light of the 2015 floods.

The country still needs to develop a comprehensive policy and strategy on **climate action**, consistent with the EU 2030 framework. More efforts are needed to integrate climate action into all relevant sectoral policies and strategies. The country submitted its First Biennial Update Report to the United Nations Framework Convention on Climate Change. The country submitted its intended nationally determined contribution (INDC) and adopted it as an input to the expected 2015 Paris Climate Agreement. The country is at the early stages of transposing and implementing EU climate *acquis*. A Roadmap for achieving long term climate action objectives was developed. Some progress was made on ozone depleting substances. The country needs to continue to pay attention to adaptation to climate change.

Overall, there has been some progress towards strengthening the country's **administrative capacity** to implement and enforce legislation on the environment and climate change, but it remains largely insufficient at all levels. The environmental monitoring and information system is inadequate. Environmental protection and climate action requirements are still not well integrated into other areas of policy-making and implementation.

#### 4.28. 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 and communicable diseases.*

The country is **moderately prepared** in the area of consumer and health protection. **Some progress** was made in the last year. In the coming year the country should in particular:

→ strengthen the operational structures serving consumer protection;

→ ensure efficient and high-quality healthcare.

The Council for **consumer protection** was established, but its impact on individual cases remains modest. The Law on Consumer Protection was amended to align with the *acquis*. The lack of administrative and financial resources, however, hampers effective policy implementation. On **product safety-related issues**, a new Law on Market Surveillance was enacted and market supervision was intensified, although further efforts are needed by market supervisors and other regulatory bodies to ensure effective consumer protection. Awareness-raising activities were carried out on **non-safety-related issues**.

Investment in **public health** continued. Mobile and rural pharmacies were introduced and measures adopted to reduce the price of pharmaceuticals, resulting in savings of EUR 33 million. A free telephone line for medical counselling was established. However, the e-health card system is only partially functional. The lack of human and financial resources, including accrued arrears, continues to undermine the sustainability of public health programmes and equal access to healthcare. The health sector has not yet been decentralised effectively.

The enforcement of **tobacco control** legislation is uneven and primarily focused on major urban areas. Public health centres provide counselling on giving up smoking.

New polyvalent vaccines were introduced as part of the mandatory immunisation against **communicable diseases** and the rapid alert system on communicable diseases was successfully deployed. The inter-agency commission continued to work towards full implementation of international health regulations, but more administrative capacity is needed. Supervision of antibiotics was strengthened, requiring medical prescriptions. Free HIV/AIDS tests showed an increase in HIV infection amongst males.

On **blood, tissues, cells and organs**, a central information system was set up for tissue matching, storage, replacement and transplantation. A protocol for cadaver transplantation was prepared in line with Eurotransplant standards and a list of potential recipients was established. Standard operative procedures for transfusion medicine and quality control of blood and blood safety were adopted. The haemophilia centre was certified at European level. Further efforts are needed to achieve full alignment with the *acquis*.

A rulebook on veterinary **pharmaceuticals** was adopted to transpose relevant EU regulations, increasing the level of overall health protection. Administration of human pharmaceuticals improved. The Ministry of Health ensures the monitoring, tracing and quality assurance of pharmaceuticals subject to parallel trade.

**Mental health** facilities continue to be under-staffed and under-resourced. Centres for treatment of depression were opened in 36 healthcare centres. The 2014-2020 mental health strategy and action plan is not yet adopted.

The 2014-2020 strategy and action plan on preventing **drug abuse** were adopted, aiming to reduce demand for and supply of drugs. Regarding **health inequalities**, programmes to include Roma and Roma health mediators continued. A project to increase physical activity

by children with Down syndrome was launched. Civil society organisations raised concerns over the strict application of the abortion law. Awareness campaigns were launched on **nutrition and physical activity**.

A new programme for prostate **cancer screening** began. The cancer registry is not yet fully operational and cooperation with the State Statistical Office on mortality data not yet ensured. Sustainable funding is needed to screen all age groups for cervical, breast and colon cancer.

The amended excise law provides that 1 MKD per cigarette box is allocated for pharmaceuticals for **rare diseases**, but funding and specialised knowledge for their treatment remains limited.

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

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

The country has a **good level of preparation** in the area of customs union. **Good progress** was made on legislation and administrative and operational capacity, although introducing fees for customs declarations is a step backwards. Certain customs provisions of the Law on Special Zones for Technological and Industrial Development are still not in line with the *acquis*. In the coming year, the country should in particular:

→ remove fees for customs declarations;

→ finalise and consolidate ongoing IT projects, ensuring the maintenance and business continuity of the IT systems.

On 1 January 2015, fees were introduced for lodging and processing customs declarations, which is not in line with the *acquis* or the Stabilisation and Association Agreement.

The country's July 2015 accession to the conventions on a common transit procedure and on the simplification of formalities in trade in goods will significantly facilitate trade. The 2015 customs tariff was adopted in line with the latest changes in the EU Combined Nomenclature. A new Law on Representation in Customs Procedure defines the status of authorised and licensed representatives and lays down criteria for issuing authorisations and licences for customs representations. In May, a new Law on Customs Measures for Intellectual Property Rights (IPR) Protection was adopted which regulates actions to be taken by customs related to goods that are suspected of infringing IPR.

Good progress was made on **administrative and operational capacity**. Professional integrity standards and internal control measures were implemented systematically. Risk management was further developed and a new risk analysis module in transit operations was introduced. The use of simplified procedures is well developed. Capacities for carrying out customs controls and combating cross-border crime were strengthened. Improved inter-agency cooperation and exchange of information continued to result in seizures of drugs and counterfeit goods. Cooperation with neighbouring customs administrations continued, including through joint operations, and cooperation agreements with the Serbian, Hungarian and Chinese customs administrations were signed. The agreement on the country's participation in the EU's Customs 2020 programme was ratified. In relation to **IT**, the 'new computerised transit system' is fully operational since March 2014 and its maintenance was secured. The common communication network/common system interface was installed and successfully tested. The integrated tariff environment system was completed. Some of its functions are in use and consideration should be given to adding others that would benefit traders. A new system for processing customs declarations is expected to be completed soon.

#### 4.30. Chapter 30: External relations

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

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

On 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. It notified Category Commitments under the WTO Trade Facilitation Agreement, detailing the provisions it will implement when the agreement enters into force. The country also ratified the Additional Protocol 4 to the Agreement on Amendment of and Accession to the Central European Free Trade Agreement, abolishing all import duties on agricultural products from the Republic of Moldova. The competencies of the Commission on Export of Dual Use Goods and Technologies were strengthened.

36 **bilateral agreements** with other countries are in force, of which 18 EU Member States. In the areas of **development policy** and **humanitarian aid**, the country is lagging behind.

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

*Member States must be able to conduct political dialogue in the framework of the 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 is **moderately prepared** in this area. **Some progress** was made as the country continues to participate in civil and military crisis management missions. In the coming year, the country should in particular improve its alignment with EU declarations and Council Decisions on 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, *see Political criteria — Regional issues and international obligations*). On the **common foreign and security policy**, the country aligned itself, when invited, with 27 out of 40 EU declarations and Council Decisions (68 % alignment). On the illegal annexation of Crimea by Russia and events in eastern Ukraine, the country aligned its foreign policy in broad terms with the EU's stance but not with the Council Decisions introducing **restrictive measures** over those issues. (On the International Criminal Court, *see Political criteria — Regional issues and international obligations*.)

As part of measures on **non-proliferation of arms**, the country continued its efforts to become a participating state to the Wassenaar Arrangement.

The country continued to engage actively in cooperation with **international organisations**. It is a member of the UN Human Rights Council until 2016 and was elected to the Board of Directors of the International Atomic Energy Agency.

The country continued to participate in civil and military crisis management missions under the **common security and defence policy** (CSDP), in particular EUFOR ALTHEA Bosnia Herzegovina. The country extended its participation in the NATO-led Resolute Support mission in Afghanistan with 38 personnel as of 2015. The country has also officially contributed to the '2014-20 European Union Battle Group' since March 2014.

#### 4.32. Chapter 32: Financial control

*Based on international standards, EU financial control rules promote sound financial management of national income and expenditure. They also 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 in the past year, especially in strengthening public internal financial control (PIFC) and external audit.

However, significant efforts are needed with ensuring coherent implementation of the PIFC legislation across public administration and delegation of responsibilities. The independence of the State Audit Office in the Constitution has yet to be achieved. In the coming year, the country should in particular:

→ ensure that there is a more systematic follow up to government's recommendations following the annual PIFC review;

→ ensure efficient implementation of risk assessment and other tools and techniques in public sector organisations' management processes;

→ strengthen the coordination role of the Anti-fraud Coordination Service and improve management of irregularities through the Irregularity Management System.

##### Public Internal Financial Control

As concerns a PIFC **strategy** framework, implementation of the 2015-17 PIFC policy paper and its action plan adopted in December 2014 are under way. The Committee for Financial Management and Control and the Audit Committee have resumed their regular quarterly meetings.

The **Central Harmonisation Unit (CHU)** prepares an annual report on the implementation of PIFC, but it is adopted only in June the following year. The government issues recommendations on the basis of the report, but they need to be monitored more systematically. The CHU has ensured training for its staff and improved coordination with the State Audit Office (SAO). The CHU should further step up its monitoring and supervision over implementation of FMC in the public sector organisations and state-owned companies.

The legal framework for **financial management and control (FMC)** is established in line with the Committee of Sponsoring Organisations (COSO) model and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI), but the legislation is not coherently implemented by all institutions. Rulebooks and manuals will need to be further updated and adapted to the needs of smaller budget users. Management of risks should be fully embedded in the organisations' management processes. The Law on Financial Inspection regulates a **centralised budget inspection** function that is compatible with PIFC. The Financial Inspection Department in the Ministry of Finance, with four staff, launches investigations on the basis of suspicion of irregularities and fraud. The department still needs to reach its full operational capacity.

The legal framework on **internal audit** is in line with the international standards. Progress was made on better implementing internal audit standards, rulebooks and manuals. 151 internal audit units exist at central and local level, with 77 internal auditors internationally certified. However, most units do not have sufficient number of auditors. Most internal audit units conduct their audits based on strategic and annual plans, although not yet based on operational and systematic risk. Quality assurance needs to be better implemented.



## External audit

The **constitutional and legal framework** is not complete, as the State Audit Office's (SAO) independence is not anchored in the Constitution. Amendments are yet to be adopted by parliament. The SAO law is largely in line with the INTOSAI standards.

The SAO has sufficient **institutional capacity** to perform its tasks, with 70 of its 82 auditors being certified public auditors. The SAO is not required to perform a full financial audit on the final government accounts, which allows it to decide on the audits it wants to perform. The audit coverage, however, has been limited, leaving a majority of public funds unaudited. The SAO is committed to improving institutional capacity and continued to implement its 2013-2017 strategic development plan efficiently.

Concerning the **quality of audit work**, a revised regularity audit manual, covering both financial and compliance audit, and a performance audit manual were adopted. Special attention should be paid to improving capacity to carry out performance audits.

Regarding the **impact of audit work**, in 2014 the SAO audited 80 budget users on efficiency and effectiveness of their internal control systems, therefore proactively contributing to improvement of the public sector internal control standards. Implementation of recommendations needs to be closely monitored. The SAO's annual audit report is discussed in parliament but its recommendations are still not followed up systematically to ensure that public funds are used more transparently and with greater accountability.

## Protection of the EU's financial interests

The main elements of the Convention on the Protection of the EU's financial interests are regulated, ensuring a partial **acquis alignment**. A memorandum of cooperation between the Financial Police, the Public Prosecutor's Office, the Ministry of Interior and the customs administration was signed to facilitate joint inspections. The Financial Police department in the Ministry of Finance with four staff is the dedicated **Anti-fraud Coordination Service (AFCOS)**. It should focus its efforts on developing and disseminating methodological tools, establishing an AFCOS network and organising training for irregularity officers. A national anti-fraud strategy still needs to be adopted and implemented efficiently. On **cooperation with the European Commission**, one joint investigation was carried out in 2014, irregularities in seven cases (of which three concern potential fraud) were reported to the European Anti-Fraud Office (OLAF), albeit on paper and not electronically in the Irregularity Management System. Development of a solid track record on investigations and reporting needs to continue.

## Protection of the euro against counterfeiting

There remains relatively little counterfeiting of currencies in the country. On **acquis alignment**, national legislation already lays down the national anti-counterfeiting procedures and the roles and responsibilities of relevant institutions. The Banknote Department of the National Bank carries out **technical analysis** of counterfeit money, including euro banknotes and coins. Its cooperation with the Ministry of Interior should be improved further through timely exchange of information through the database system of counterfeit banknotes. No formal **cooperation agreements** are in place with the European Commission on coins or with the European Central Bank on banknotes on counterfeiting. Further efforts are needed to improve cooperation between national institutions involved in fighting counterfeiting. This should be done through systematic training, expanding practical experience and skills and improving cooperation with the European Commission and the European Central Bank.

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

*Rules for funding the EU budget provide for contributions based mainly on the gross national income of each Member State as well as from value-added tax and customs duties.*

Preparations are at an **early stage** but **some progress** was achieved in this chapter. The administrative framework for applying the own resources rules needs to be set up.

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

On **administrative infrastructure**, some progress was made towards fighting tax evasion and fraud and reducing the size of the informal economy, which remains a key challenge. The administrative capacities of the institutions involved in the own resources system (customs, taxation, statistics, financial control) need to be further strengthened and legislation further aligned with the *acquis*.

## **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 six sub-committees and in a special group on public administration reform. Meetings of the Stabilisation and Association Committee and the Stabilisation and Association Council took place in June and July 2015, respectively. The discussion at this year's Committee and Council was dominated by the serious political crisis in the country, on which the European Commission and Members of the European Parliament facilitated dialogue from March to July, as well as the systemic rule of law issues revealed in intercepted conversations involving senior government officials on which the European Commission presented "Urgent Reform Priorities" which the country needs to address.

As regards the SAA, the country has continued to implement commitments, including all those relating to the first stage of implementation of Title V ('Movement of workers, establishment, supply of services, capital'). The Council has still not decided on the Commission's 2009 proposal on passage to the second stage of the Association, under Article 5 of the SAA. The protocol on the adaptation of the SAA, to take account of Croatia's accession to the EU, was signed in July 2014; pending its ratification, the protocol is applied on a provisional basis with effect from 1 July 2013.

The country is also engaging in the reinforced multilateral economic dialogue with the Commission and with EU Member States, to prepare for participation in multilateral surveillance and economic policy coordination under the EU's Economic and Monetary Union. Under the **High Level Accession Dialogue**, work continued on a new table of targets, complemented by the "Urgent Reform Priorities". A plenary meeting was held in September involving, for the first time, several political parties and civil society.

**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 is in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by Frontex. The Commission has regularly submitted its post-visa liberalisation monitoring reports to the European Parliament and the Council. On the basis of a visa-waiver suspension mechanism, EU Member States can request the Commission, in an emergency situation and as a measure of last resort, to examine the possibility of temporarily suspending the visa waiver for third country nationals. A readmission agreement between the European Union and the country has been in force since 2008.

Over the period 2007-13, the EU provided financial assistance to the country under the **Instrument for Pre-accession Assistance** (IPA). It has allocated a total of EUR 610 million to the country, complemented by IPA multi-beneficiary programmes. Of this overall amount, the national authorities are directly responsible for managing about EUR 470 million under the decentralised implementation system (DIS). The delays in procurement under the DIS led to a situation in which the country was unable to implement EUR 70 million of IPA funds by the end of 2014, which were returned to the EU budget. Due to the limited national capacity to programme and to absorb IPA funds, there is a risk that further funds will be unused by the

country in the future. Administrative capacity to plan, design and implement projects needs to be strengthened, in line with the rules of sound financial management.

In December 2014, the Commission adopted its first IPA II National Programme for 2014. It addresses the sectors of democracy and governance, rule of law and fundamental rights, competitiveness and innovation, agriculture, transport and environment. The government adopted sector operational programmes on transport 2014-2020, as well as on environment and climate action, 2014-2020. The Framework Agreement between the country and the Commission on IPA II was ratified by the government on 10 June 2015, enabling the implementation of IPA II funds.

In October 2015, the Commission adopted a special measure of EUR 10 million, to strengthen the response capacity of the most affected countries in the Western Balkans to cope effectively with increased mixed migration flows, focusing primarily on Serbia and the former Yugoslav Republic of Macedonia.

## Annex II – Statistical Annex

### STATISTICAL DATA (as of 11.09.2015)

#### The former Yugoslav Republic of Macedonia

Basic data	Note	2002	2010	2011	2012	2013	2014
Population (thousand)		2 039	2 053	2 057	2 060	2 062	2066
Total area of the country (km <sup>2</sup> )		25 713	25 713	25 713	25 713	25 713	25 713

National accounts	Note	2002	2010	2011	2012	2013	2014
Gross domestic product (GDP) (million national currency)	1)	258 581	437 296	464 187	466 703	499 559p	525 843e
Gross domestic product (GDP) (million euro)	1)	4 241	7 109	7 544	7 586	8 112p	8 533e
GDP (euro per capita)	1)	2 099	3 459	3 665	3 680	3 930p	4 127s
GDP (in Purchasing Power Standards (PPS) per capita)	1) 2)	5 500	8 900b	8 800	9 100	9 500	10 000p
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)	1) 2)	26	35b	34	34	36	36p
Real GDP growth rate: change on previous year of GDP volume (%)	1)	1.5	3.4	2.3	-0.5	2.7p	3.8e
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)	1)	12.3	11.7	10.9	10.5	11.0p	10.2e
Industry (%)	1)	17.1	17.9	19.0	17.8	17.9p	18.0e
Construction (%)	1)	6.4	6.5	6.1	6.6	6.6p	6.8e
Services (%)	1)	64.2	63.9	64.0	65.1	64.4p	65.0e
Final consumption expenditure, as a share of GDP (%)	1)	98.1	93.8	92.0	92.5	89.6p	86.7e
Gross fixed capital formation, as a share of GDP (%)	1)	21.3	23.1	23.5	23.4	23.5p	:
Changes in inventories, as a share of GDP (%)	1)	-0.5	1.4	3.4	5.6	5.0p	:
Exports of goods and services, relative to GDP (%)	1)	26.3	39.8	47.1	45.4	43.8p	47.9e
Imports of goods and services, relative to GDP (%)	1)	45.2	58.1	66.1	66.8	61.9p	65.1e

Business	Note	2002	2010	2011	2012	2013	2014
Industrial production volume index (2010 = 100)		90.8	100.0	107.0	104.1	107.4	112.5
Number of active enterprises (number)	3)	:	71 638	71 022	70 010	68 158	:
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	16.8	12.9	11.9	10.0	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	13.6	9.3	:	:	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	:	:	:	:	:
Value added by SMEs (in the non-financial business economy) (EUR million)		:	:	:	:	:	:
Total value added (in the non-financial business economy) (EUR million)		:	:	:	:	:	:

Inflation rate	Note	2002	2010	2011	2012	2013	2014
Consumer price index (CPI), change relative to the previous year (%)		1.8	1.6	3.9	3.3	2.8	-0.3

<b>Balance of payments</b>	Note	2002	2010	2011	2012	2013	2014
Balance of payments: current account total (million euro)	4)	-402	-144b	-189	-224	-147	-114
Balance of payments current account: trade balance (million euro)	4)	-1 000	-1 532b	-1 905	-2 008	-1 858	-1 856
Balance of payments current account: net services (million euro)	4)	121	132b	359	309	361	358
Balance of payments current account: net income (million euro)	4)	-48	-100b	-131	-148	-212	-225
Balance of payments current account: net current transfers (million euro)	4)	525	1 356b	1 487	1 622	1 563	1 609
of which government transfers (million euro)	4)	103	31b	77	60	74	83
**3 year backward moving average of the current account balance relative to GDP (%)	4)	-6.2	-7.2	-3.8	-2.5	-2.4	-2.0
Net inward foreign direct investment (FDI) (million euro)	4)	112.0	156.9	344.6	117.3	263.8	278.0
Foreign direct investment (FDI) abroad (million euro)	4)	0.1	3.6	-0.2	-6.1	-11.6	-15.7
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)	4)	112.1	160.5b	344.4	111.2	252.2	262.3
of which FDI of the EU-28 countries in the reporting economy (million euro)	4) 5)	:	135.6	224.4	117.1	226.7	88.9
**Net international investment position, relative to GDP (%)	4)	:	-51.1	-52.6	-55.1	-56.2	-56.0
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)	4) 6)	29.1	5.4	-0.7	1.6	-3.4	6.4

<b>Public finance</b>	Note	2002	2010	2011	2012	2013	2014
***General government deficit / surplus, relative to GDP (%)		:	-2.4	-2.5	-3.8	-3.9	-4.2
***General government gross debt relative to GDP (%)		40.5	24.1	27.7	33.7	34.2	38.2
Total government revenues, as a percentage of GDP (%)		:	30.2	29.5	29.6	28	27.8
Total government expenditure, as a percentage of GDP (%)		:	32.6	32.0	33.4	31.9	32.0

<b>Financial indicators</b>	Note	2002	2010	2011	2012	2013	2014
Gross foreign debt of the whole economy, relative to GDP (%)	4) 7)	39.3	57.8b	64.2	68.2	64.3	69.8p
Gross foreign debt of the whole economy, relative to total exports (%)	4) 7)	150.5	150.5b	140.8	153.3	148.7	146.8
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	8)	432	933b	997	1 072	1 138	1 391
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	8)	1 052	3 277b	3 523	3 540	3 545	3 801
Money supply: M3 (M2 plus marketable instruments, million euro)	8)	1 141	3 781b	4 147	4 330	4 558	5 040
Total credit by monetary financial institutions to residents (consolidated) (million euro)		657	3 102b	3 367	3 551	3 779	4 157
Interest rates: day-to-day money rate, per annum (%)	9)	11.94	3.78b	2.17	2.10	1.86	1.79
Lending interest rate (one year), per annum (%)	10)	23.00	5.50	5.50	4.23	3.75	3.75
Deposit interest rate (one year), per annum (%)	10) 11)	:	:	:	1.00	0.75	0.50
Euro exchange rates: average of period (1 euro = ... national currency)		60.978	61.515	61.529	61.524	61.566	61.623
Trade-weighted effective exchange rate index (2005 = 100)	12)	93.3	106.8	107.8	107.9	109.4	112.5
Value of reserve assets (including gold) (million euro)	10)	770	1 715	2 069	2 193	1 993	2 436

<b>External trade in goods</b>	Note	2002	2010	2011	2012	2013	2014
Value of imports: all goods, all partners (million euro)		2 105	4 137	5 053	5 071	4 983	5 485
Value of exports: all goods, all partners (million euro)		1 178	2 535	3 215	3 124	3 235	3 723
Trade balance: all goods, all partners (million euro)		-927	-1 602	-1 838	-1 947	-1 748	-1 762
Terms of trade (export price index / import price index * 100) (number)	13)	106	90	94	101	:	:
Share of exports to EU-28 countries in value of total exports (%)		61.2	65.5	63.5	65.3	72.6	76.6
Share of imports from EU-28 countries in value of total imports (%)		64.4	55.2	56.3	60.3	62.7	63.5

<b>Demography</b>	Note	2002	2010	2011	2012	2013	2014
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		4.8	2.5	1.6	1.7	1.9	:
Infant mortality rate deaths of children under one year of age (per thousand live births)		10.2	7.6	7.6	9.8	10.2	:
Life expectancy at birth: male (years)		70.6	72.9	73.1	73.0	73.2	:
Life expectancy at birth: female (years)		75.6	77.2	77.2	76.9	77.2	:

<b>Labour market</b>	Note	2002	2010	2011	2012	2013	2014
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	70.4	70.1	69.6	70.4	70.8
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	48.1	48.4	48.2	50.3	51.3
Male employment rate for persons aged 20–64 (%)		:	58.4	57.8	57.5	59.7	61.6
Female employment rate for persons aged 20–64 (%)		:	37.5	38.8	38.7	40.7	40.8
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		25.8	34.2	35.4	35.4	37.9	38.6
Employment by main sectors							
Agriculture, forestry and fisheries (%)		:	:	18.1u	17.3	18.7	18.0
Industry (%)		:	:	24.1u	23.6	23.5	23.5
Construction (%)		:	:	6.2u	6.3	6.9	7.0
Services (%)		:	:	51.6u	52.7	50.6	51.4
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 (%)		31.9	32.0	31.4	31.0	29.0	28.0
Male unemployment rate (%)		31.7	31.9	31.8	31.5	29.0	27.7
Female unemployment rate (%)		32.3	32.2	30.8	30.3	29.0	28.6
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		58.4	53.7	55.3	53.9	51.9	53.1
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		27.0	26.7	25.9	25.5	23.9	:
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED 0–2) (%)		:	:	:	:	:	:
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED 5 & 6) (%)		:	:	:	:	:	:

<b>Social cohesion</b>	Note	2002	2010	2011	2012	2013	2014
Average nominal monthly wages and salaries (national currency)		11 279	20 553	20 847	20 902	21 145	:
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)	14)	103.0	160.8b	157.0	152.3	:	:
GINI coefficient — see definitions		:	40.9	38.5	38.8	37.0	:
Poverty gap		:	:	:	43.1	39.0	:
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	15.5	13.5	11.7	11.4	12.5

<b>Standard of living</b>	Note	2002	2010	2011	2012	2013	2014
Number of passenger cars relative to population size (number per thousand population)		150.9	151.1	152.2	163.5	168.2	179.8
Number of mobile phone subscriptions relative to population size (number per thousand population)		179.7	1 098.2	1 104.9e	1 084.6	1 083.9	:

<b>Infrastructure</b>	Note	2002	2010	2011	2012	2013	2014
Density of railway network (lines in operation per thousand km <sup>2</sup> )		27	27	27	27	27	27
Length of motorways (kilometres)		208	251	259	259	259	259

<b>Innovation and research</b>	Note	2002	2010	2011	2012	2013	2014
Public expenditure on education relative to GDP (%)		3.4	3.7	3.5	4.0p	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.24	0.22	0.22	0.33	0.44p	:
Percentage of households who have internet access at home (%)		:	46.0	55.0	58.3	65.1	68.3

<b>Environment</b>	Note	2002	2010	2011	2012	2013	2014
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2005 constant prices)	3)	589.5	493.5	521.6s	502.7p	453.9s	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		11.0	28.0	15.2	11.7	18.7p	:
Road share of inland freight transport (based on tonne-km) (%)	15)	91.7	89.0b	91.8	93.2	92.4	92.4

<b>Energy</b>	Note	2002	2010	2011	2012	2013	2014
Primary production of all energy products (thousand TOE)		1 577	1 616	1 736	1 525	1 373p	:
Primary production of crude oil (thousand TOE)		0	0	0	0	:	:
Primary production of hard coal and lignite (thousand TOE)		1 356	1 194	1 410	1 246	1 069p	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		1 486	1 271	1 435	1 453	1 172p	:
Gross inland energy consumption (thousand TOE)		2 892	2 879	3 131	2 976	2 722p	:
Electricity generation (thousand GWh)		6.1	7.3	6.8	6.3	6.1	:



<b>Agriculture</b>	Note	2002	2010	2011	2012	2013	2014
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		97.5	107.7	96.8	94.7	103.0p	:
Utilised agricultural area (thousand hectares)		1 316	1 121	1 120	1 267	1 260	1 263
Livestock numbers: live bovine animals (thousand heads, end of period)		259	260	265	251	238	242
Livestock numbers: live swine (thousand heads, end of period)		196	191	197	177	167	165
Livestock numbers: live sheep and live goats (thousand heads, end of period)		1 234	854	839	796	807	822
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)		198	347	376	350	381	387
Harvested crop production: cereals (including rice) (thousand tonnes)		645	541	555	460	562	:
Harvested crop production: sugar beet (thousand tonnes)		44	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)		678	887	845	704	702	778

: = not available

b = break in series

e = estimated value

p = provisional

s = Eurostat estimate

u = low reliability

\* = Europe 2020 indicator

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

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

Footnotes:

- 1) Based on ESA 2010.
- 2) Source: Eurostat.
- 3) Excluding NACE Rev. 2 Sections A, O, T, U and Class 64.20.
- 4) Based on the balance of payments manual 6th edition.
- 5) Data on FDI flows by countries are produced only for the categories Equity capital and the Loans component of Other capital.
- 6) Calculation based on data in euro.
- 7) 2002: partial data coverage.
- 8) 2002: excluding data for savings houses.
- 9) The interest rates are calculated as weighted averages. Data cover bilateral over-night transactions.
- 10) End of year (31 December).
- 11) 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%.
- 12) NEER (nominal effective exchange rate).
- 13) Index (previous year = 100) of the ratio of Paasche unit value indices.
- 14) Break in series caused by the introduction of a new concept of gross income.
- 15) Break in series caused by inclusion of pipeline transport and transport for own account.