



EUROPEAN
COMMISSION

Brussels, 29.5.2019
SWD(2019) 218 final

COMMISSION STAFF WORKING DOCUMENT

North Macedonia 2019 Report

Accompanying the document

**Communication from the Commission to the European Parliament, the Council, the
European Economic and Social Committee and the Committee of the Regions**

2019 Communication on EU Enlargement Policy

{ COM(2019) 260 final }

Table of Contents

1	INTRODUCTION.....	3
1.1	Context	3
1.2.	Summary of the report.....	3
2.	FUNDAMENTALS FIRST: POLITICAL CRITERIA AND RULE OF LAW CHAPTERS.....	6
2.1.	Functioning of democratic institutions and Public Administration Reform.....	6
2.1.1.	Democracy	6
2.1.2	Public administration reform.....	10
2.2	Rule of law and fundamental rights	14
2.2.1	Chapter 23: Judiciary and fundamental rights	14
2.2.2	Chapter 24: Justice, freedom and security	33
3.	Fundamentals first: economic development and competitiveness	45
3.1.	The existence of a functioning market economy.....	45
3.2.	The capacity to cope with competitive pressure and market forces within the Union	51
4	Good neighbourly relations and regional cooperation	53
5.	ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP.....	55
5.1	Chapter 1: Free movement of goods	55
5.2	Chapter 2: Freedom of movement for workers	57
5.3	Chapter 3: Right of establishment and freedom to provide services.....	58
5.4	Chapter 4: Free movement of capital	59
5.5	Chapter 5: Public procurement.....	60
5.6	Chapter 6: Company law	62
5.7	Chapter 7: Intellectual property law	62
5.8	Chapter 8: Competition policy	63
5.9	Chapter 9: Financial services	65
5.10	Chapter 10: Information society and media	66
5.11	Chapter 11: Agriculture and rural development.....	68
5.12	Chapter 12: Food safety, veterinary and phytosanitary policy.....	69
5.13	Chapter 13: Fisheries.....	71
5.14	Chapter 14: Transport policy.....	71
5.15	Chapter 15: Energy.....	73
5.16	Chapter 16: Taxation	75

5.17	Chapter 17: Economic and monetary policy	76
5.18	Chapter 18: Statistics.....	77
5.19	Chapter 19: Social policy and employment	78
5.20	Chapter 20: Enterprise and industrial policy	81
5.21	Chapter 21: Trans-European networks.....	82
5.22	Chapter 22: Regional policy and coordination of structural instruments.....	83
5.25	Chapter 25: Science and research.....	84
5.26	Chapter 26: Education and culture	85
5.27	Chapter 27: Environment and climate change	87
5.28	Chapter 28: Consumer and health protection	89
5.29	Chapter 29: Customs union	91
5.30	Chapter 30: External relations	92
5.31	Chapter 31: Foreign, security and defence policy	94
5.32	Chapter 32: Financial Control	95
5.33	Chapter 33: Financial and budgetary provisions	97
	ANNEX I – RELATIONS BETWEEN THE EU AND NORTH MACEDONIA.....	99
	ANNEX II – STATISTICAL ANNEX	100

1 INTRODUCTION

1.1 Context

The Stabilisation and Association Agreement (SAA) between the Republic of North Macedonia and the EU entered into force in April 2004. The passage to the second stage of the SAA, which the Commission had proposed in 2009, took place during the reporting period. Since 2009, the Commission has recommended to the Council to open accession negotiations with North Macedonia, a candidate country since 2005. In light of the progress achieved in previous years, in April 2018 the Commission repeated its unconditional recommendation to open accession negotiations. In June 2018, the Council set out the path towards opening accession negotiations in June 2019. The Commission has continued to thoroughly monitor the reforms set in the Council Conclusions and EU-related reforms across all sectors. North Macedonia has continued to deepen the reform momentum, delivering tangible results in the key areas identified in the June 2018 Council Conclusions. Good neighbourly relations have also been significantly strengthened. The entry into force in February 2019 of the historic agreement with Greece (also called the ‘Prespa agreement’) was a major breakthrough and sets an example of reconciliation for the region and beyond.

1.2. Summary of the report¹

Concerning the **political criteria**, North Macedonia has continued to maintain a steady pace of implementation of EU reforms throughout the reporting period. The government has taken steps to restore checks and balances, and to strengthen democracy and the rule of law. The country has continued to undergo fundamental changes in an inclusive and open political atmosphere. The country has continued to deliver tangible results in key areas identified in the Council Conclusions such as the judiciary, fight against corruption and organised crime, intelligence services reform and public administration. The culture of compromise in the political landscape has improved by the government’s efforts to reach out to all stakeholders, including the opposition and civil society, in an inclusive and transparent manner. Following the signature of the historic agreement reached with Greece in June 2018 (also known as the ‘Prespa agreement’), a consultative referendum was organised in September 2018, whereby an overwhelming majority of voters who cast their ballots supported EU and NATO membership by accepting the Prespa agreement. The presidential elections were well organised and the fundamental freedoms were respected, allowing the citizens to make informed choices between the candidates. The Parliament has improved its performance as a forum for constructive political dialogue and enhanced its oversight and legislative functions, including by limiting the use of fast-track procedures.

The inter-ethnic situation remained calm overall, despite some occasional tensions. The government pursued its commitment to increase trust among communities. The Ohrid Framework Agreement, which ended the 2001 conflict and provides the framework for preserving the multi-ethnic character of the society, is mentioned in the preamble of the Constitution and continued to be implemented.

¹ This report covers the period from March 2018 to March 2019. It is based on input from a variety of sources, including contributions from the government of North Macedonia, the EU Member States, European Parliament reports and information from various international and non-governmental organisations.

The climate in which civil society organisations operate has continued to improve. Civil society continued to play a constructive role in supporting democratic processes. Strategic documents have been adopted, providing guidance on the cooperation between government and civil society. Both governmental and non-governmental actors should aim at a meaningful consultation process.

On intelligence services reform, North Macedonia has made good progress. Following the reform of the system for interception of communications, the new Operational Technical Agency is fully operational. The country has also embarked on the reform of its intelligence services in cooperation with NATO and other partners. A model has been selected and the legal framework for establishing a new National Security Agency has been adopted.

North Macedonia is moderately prepared with the reform of its **public administration**. Good progress has been made, especially with the implementation of the public administration reform strategic framework, improved public consultations and increased transparency in policy-making and in the area of policy development and coordination. Steps have been taken to address alleged politicised appointments. However, further efforts are needed to enhance accountability of the administration and prevent its politicisation. Respect for the principles of transparency, merit and equitable representation remains essential.

The country's **judicial system** has reached some level of preparation / is moderately prepared and good progress was made in addressing the 'Urgent Reform Priorities' and recommendations from the Venice Commission and the Senior Experts' Group on systemic Rule of Law issues. The country demonstrated continued determination to improve the judicial system and the implementation of the new legal framework is a firm basis for continued progress. A new law on the Public Prosecutor Office to integrate the Special Public Prosecutor within the prosecutorial system has been prepared. The courts have been delivering judgements on some high profile cases filed by the Special Prosecutor's Office. Beyond legal changes, all judicial institutions need to demonstrate their exemplarity and contribute, through additional efforts, to restoring public trust in the judiciary.

As regards the **fight against corruption**, North Macedonia has some level of preparation. Good progress has been made through further consolidating a track record on investigating, prosecuting and trying high level corruption cases and through changes to the legislative framework. In this regard, the new legal framework for preventing corruption has improved and the appointment of the new members of the State Commission for Prevention of Corruption has been far more transparent than in the previous years. The Commission has taken important steps to proactively fight against corruption, involving high level officials across the political spectrum. The Special Public Prosecutor has confirmed its leading role in investigating and prosecuting high-level corruption cases. The authorities have to further step up efforts to demonstrate that fight against corruption is a national priority at all levels of powers. However, corruption is prevalent in many areas and remains an issue of concern.

In the **fight against organised crime**, the country has some level of preparation. The legislative framework is broadly in line with European standards, and efforts to implement strategies against organised crime and actively measuring their impact need

to continue. Some progress was also made in meeting last years' recommendations on improving the track record, stepping up law enforcement cooperation and substantially improving the operational capacity to fight trafficking in human beings. Further progress was made at the operational level through improving the effectiveness of the National Coordination Centre for the Fight against Organised Crime and participation in joint operations with EU Member States and neighbouring countries.

The legal framework for the protection of **fundamental rights** is largely in line with European standards and the country made good progress. It increased the protection against hate crime and discrimination with amendments to the Criminal Code and the adoption of the Law on Prevention and Protection from Discrimination. It also adopted an ambitious de-institutionalisation strategy and it transcribed its objectives to fight violence against women into an action plan for implementing the Istanbul Convention. However, the external oversight mechanism of the police is not yet fully operational and the country needs to develop further the use of alternative sanctions and probation. The country also needs to make additional efforts to consistently disseminate and address recommendations of European and international human rights bodies, notably regarding treatment of detained persons, women and persons with disabilities. The country has some level of preparation / is moderately prepared in the area of **freedom of expression** and it has made good progress over the last year. The climate for media freedom and freedom of expression continued to improve. It is essential that public officials and the political elites demonstrate a higher level of tolerance towards criticism, thereby upholding freedom of expression. The country needs to make sustained efforts to improve the independence and professional standards of the public broadcaster as well as its financial sustainability. Amendments to the Law on Audio and Audio-visual Media Services have been adopted and their implementation will require strong political commitment to guarantee professionalism, respect for the principles of transparency, merit-based appointments and equitable representation.

With regard to **regional cooperation**, the country maintained its good relations with other enlargement countries and participated actively in regional initiatives. Historic steps have been taken to improve good neighbourly relations, including through the entry into force of the Prespa agreement and its implementation, putting an end to one of the oldest disputes in the region. The Commission looks forward to the continued implementation of the bilateral treaty with Bulgaria.

As regards the **economic criteria**, North Macedonia has made some progress and is at a good level of preparation in developing a functioning market economy. Economic growth resumed after a year of stagnation, though investment remained subdued. The government took measures to improve public finance management and transparency. It adopted reforms of income taxation and the pensions system. However, the composition of spending worsened, and fiscal consolidation needs to be more ambitious in order to put public finances on a sustainable path. The functioning of the labour market is impaired by persisting structural problems. Contract enforcement and large informal economy continue posing challenges for the business environment.

North Macedonia has made some progress and is moderately prepared to cope with competitive pressures and market forces within the EU. Integration with the EU in trade and investment deepened further. Exports and manufacturing output diversified further towards higher-value products. However, skills shortages, and a lack of skills alignment

with those required by companies, reflecting shortcomings in education curricula, impair labour productivity and the competitiveness of the economy. Important investment gaps in public infrastructure remain.

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

North Macedonia continues to play an active and constructive role in the management of **mixed migration flows**. It cooperates effectively with EU Member States and neighbouring countries. Considerable efforts to ensure basic living conditions and services for all migrants staying in the country continued. There are still uncertainties on the scope and structure of migration flows. The inconsistent registration of migrants apprehended in irregular movements prevents regular and adequate protection-sensitive profiling, as well as referral to national protection mechanisms. Effective control at the southern border has been ensured, including with the deployment of guest officers from EU Member States at the border. The European Border and Coast Guard Status Agreement with the EU was initialled. However, the problem of frequent smuggling activities at the northern border need to be further addressed. The country continues to be under severe pressure due to its geographic location.

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

2.1. Functioning of democratic institutions and Public Administration Reform

2.1.1. Democracy

In parallel to the implementation of the Prespa agreement, North Macedonia has continued to show its commitment to deliver tangible results in implementing EU reforms in key areas such as (i) the judiciary, fight against corruption and organised crime; (ii) intelligence services; and (iii) public administration reform, including through the ‘Plan 3-6-9’ and ‘Plan 18’. The culture of compromise among political actors has improved by the government’s efforts to reach out to all stakeholders, including the opposition and civil society, in an inclusive and transparent manner. The government has taken steps to restore proper checks and balances, and to strengthen democracy and the rule of law.

Elections

Overall, the legal framework is conducive to the organisation of democratic elections. Some progress has been made in addressing and implementing the recommendations of
--

the Office for Democratic Institutions and Human Rights of the Organisation for Security and Cooperation in Europe (OSCE/ODIHR). The consultative referendum² was well organised and fundamental freedoms were respected. The presidential elections took place in a peaceful, orderly and transparent atmosphere. The conduct of these elections paved the way towards further strengthening the democratic processes in the country. The work on the electoral legislation needs to be finalised to address the remaining recommendations of OSCE/ODIHR and of the Venice Commission ahead of the next election cycle. The state institutions and bodies, notably the Ministry of the Interior and the State Election Commission, should make further efforts to systematically improve the accuracy of the voters list ('Urgent Reform Priority').

OSCE/ODIHR assessed that both rounds of the **presidential elections** (21 April and 5 May 2019) were well organised and the fundamental freedoms were respected, allowing the citizens to make an informed choice between candidates. Three candidates ran for the presidency, a woman and two men, including an ethnic Albanian. None of the candidate had an official party affiliation, but all of them were supported either by the ruling coalition or the opposition parties. In the second round, the coalition candidate won with 51.7% against the opposition candidate, who was supported by 44.8% of voters. The turnout was 46.7%. President Pendarovski took office in May 2019.

A **consultative referendum** was held on 30 September 2018. Of the 36.9% of voters who cast their ballots, 91.5% supported EU and NATO membership by accepting the Prespa agreement. OSCE/ODIHR assessed that the referendum proceeded in an orderly manner without major irregularities. Parliament was the 'authorised proposer' of the referendum and financed a public campaign for the referendum. The 'For' campaign was led mainly by the ruling parties and across ethnic lines. Media provided voters with extensive information and diverse views, despite the absence of an active 'against' campaign. Calls for 'boycott' were mainly relayed on social media and through rallies.

New provisions in the Electoral Code provided the grounds for electing the new **State Election Commission** (SEC), composed of members proposed by political parties, and the extension of their term to cover the presidential elections. SEC organised the referendum and the presidential elections impartially and professionally, and generally enjoyed public trust. A sustainable solution for the composition of the SEC needs to be found in a transparent and inclusive manner. Despite improvements of the voters' list, discrepancies between databases need to continue to be addressed.

In line with the recommendations of OSCE/ODIHR and the Venice Commission, the government undertook steps, in cooperation with civil society and political parties, towards a comprehensive reform of the **electoral legislation**. The legal framework underwent several changes, including the reimbursement of paid political advertisement from the state budget. Although the legal framework is conducive to the conduct of democratic elections, the referendum and the presidential elections highlighted that some aspects, such as campaign financing, remain unaddressed. The initial work on the electoral legislation needs to be finalised ahead of the new election cycle, in cooperation with OSCE/ODIHR.

² Following the signature of the Prespa agreement, the consultative referendum, held in September 2018, asked the following question 'Are you in favour of EU and NATO membership by accepting the agreement between the Republic of Macedonia and the Republic of Greece?'

Parliament

The Parliament improved its performance as a forum for constructive political dialogue and enhanced its legislative function. It has made some progress in restoring checks and balances over the executive power, focusing on deepening the reforms, further increasing its oversight capacity and its transparency. The Parliament carried out the ratification process of the Prespa agreement, including the promulgation of constitutional changes. Parliament also engaged constructively in the ‘Jean Monnet Dialogue’ with the European Parliament. The accountability for those who committed violence and orchestrated the attacks of April 2017 in Parliament continued to be established. Further efforts are needed to address security-related issues. A functional oversight of the work of the government and of intelligence services, as well as the capacity to monitor the protection of human rights and fundamental freedoms, should be further strengthened. Political parties need to further improve their internal democratic processes.

Parliament’s role as the main institution for **political dialogue** has improved considerably. Over the reporting period, there was an intense activity in Parliament with debates and adoption of EU-related laws. Consensus across party and ethnic lines was established on several occasions, including for the amendments to the laws requiring 2/3 majority, particularly in the areas identified by the Council Conclusions such as the judiciary, fight against corruption and intelligence services. The former President of the Republic refused to sign the laws adopted under the new name of the country, which required a second passage of these laws in the Parliament. The process of constitutional changes to implement the Prespa agreement revealed divisions between VMRO-DPMNE³ leadership and some of its members of Parliament, which resulted in the formation of a new parliamentary group.

The country continued to deal with the aftermath of the violent attacks in Parliament of 27 April 2017. Accountability for those who committed violence and orchestrated the incidents continued to be established by the courts. The verdict of the trials were announced in March 2019. 16 defendants, including high-level officials, were sentenced from 7 to 18 years in prison. The Public Prosecutor’s Office also opened investigations on those who ordered the attacks, including high-level politicians. As part of a broader reconciliation process, a Law on Amnesty was adopted in December 2018. This law does not provide for impunity regarding the organisation or perpetration of serious crimes related to April 27 attacks.

Although Parliament faces challenges in better planning and coordinating its work to achieve a more effective **legislative oversight**, the number of shortened and urgent procedures have significantly decreased. In 2018, 20% of laws were adopted in a shortened procedure and none in urgent procedure (compared with 75% in shortened procedure and one law in urgent procedure in the previous reporting period). Parliament adopted and started implementing its first 2018-2022 strategic plan. New inter-party groups on Roma⁴ and youth started working. The **Parliament’s oversight role** was significantly strengthened, including the oversight of the interception of

³ Internal Macedonian Revolutionary Organisation – Democratic Party for Macedonian National Unity

⁴ In line with the terminology of European institutions, the umbrella term ‘Roma’ is used here to refer to a number of different groups, without denying the specificities of these groups.

communications. The Parliament should continue to work on the efficiency of the democratic political system, including on the implementation of the Group of States against Corruption (GRECO) recommendations on transparency of party funding.

Parliament engaged constructively in the ‘Jean Monnet Dialogue’, an initiative of the European Parliament, aiming at creating an atmosphere of national dialogue and consensus among the political parties. The first round of dialogue took place in May 2018 and the second round is being prepared. The adoption of the **Code of Ethics**, aiming at addressing GRECO recommendations, was a concrete result of this process, and inclusive work on the **Rules of Procedure** is at an advanced stage.

The ethnic **representation of members of Parliament** largely reflects the ethnic composition of the population. Women’s representation in the Parliament is 38.3%.

Despite the latest changes, the transparency in financing of **political parties** needs to be further improved - see *Chapter 23 – Judiciary and fundamental rights*. Political parties also need to strengthen their democratic processes by further promoting freedom of assembly and expression.

Governance

Democratic governance was strengthened over the reporting period. The government continued to consolidate democracy and rule of law. It has sustained its commitment to deepen the reform momentum and to deliver tangible results, including through EU-related reform plans. It continued to improve its decision-making process and the transparency of its work. The inter-ethnic situation continued to be calm overall. The government has sustained efforts to foster inter-ethnic relations and to implement the Ohrid Framework Agreement (OFA).

The Law on Government was amended to provide for the establishment of the technical government and the so-called ‘Pržino government’ arrangements (i.e. Ministers and deputy Ministers from the opposition in key ministries) in advance of future parliamentary elections. During the reporting period, the Minister of Justice was replaced and there was a government reshuffle in June 2018 to include two ethnic Albanian parties, Democratic Party of Albanians (DPA) and Alternativa. The total representation of women in the appointed functions and in decision-making, management and governing bodies is 11%. Out of these, 15% were appointed as Ministers, 7% as deputy Ministers, 25% as state secretaries and 9% in other appointed positions.

Following the ‘Plan 3-6-9’, the government developed the ‘Plan 18’ for continuing the implementation of the **EU reform agenda**, prioritising the areas identified in the Council Conclusions. The administration participated actively in the meetings organised by the European Commission for the technical explanation of the *acquis*.

The **inter-ethnic situation** remained calm overall, despite some occasional tensions. The government pursued good relations among communities. A reference to the Ohrid Framework Agreement (OFA), which ended the 2001 conflict and provides the framework for preserving the multi-ethnic character of the society, is mentioned in the preamble of the Constitution. The Law on the Use of Languages, which is considered by ethnic Albanian political parties as an important legislative element that contributes to complete the implementation of the OFA, entered into force in January 2019. The law

was sent to the Venice Commission for its opinion.

Decentralisation has been a commitment since the OFA was signed in 2001. The transition towards effective fiscal decentralisation to municipalities is still ongoing. The law on reporting and recording of public institutions' obligations was changed to allow the state to take over up to 51% of existing debts of municipalities as a one-off measure. At the same time, work on introducing sound fiscal rules for local government has begun. These measures aim to avoid a possible relaxation of financial discipline among municipalities.

Civil society

The environment in which civil society operates has continued to improve, with its involvement in policy-making and legislative processes. Strategic documents were adopted, guiding the government's cooperation with civil society organisations. Both governmental and non-governmental actors should ensure that safeguards are in place to further strengthen checks and balances and should aim for a meaningful consultation process. An improved legal and financial framework is still needed to strengthen an enabling environment for civil society.

An empowered civil society is a crucial component of any democratic system and is recognised as such by state institutions. Good progress was made towards the regular functioning of the Council for Cooperation between Government and Civil Society and the adoption of the 2018–2020 strategy, including its action plan. Further efforts are needed to address limited transparency, including through a more inclusive internal and sectorial consultation process within the Council. Additional efforts are needed to address the financial sustainability of civil society organisations such as a broader tax harmonisation and predictable public budgeting.

Civilian oversight of the security/intelligence sector

Thanks to cross-party compromise, the legal framework enabling the reform of the interception of communication was adopted with 2/3 majority. The new Operational Technical Agency (OTA) started working in November 2018. The parliamentary oversight committee over interception of communications is in the process of hiring experts to assist its work in this area. The Committee performed four inspection visits to the Bureau for Security and Counterintelligence (UBK), the OTA, the Customs Administration and the Financial Police in 2018 and 2019.

A broader reform of the intelligence services is under way, in cooperation with NATO and other partners. New laws on the National Security Agency and on the coordination of the intelligence and security community have been adopted. It is essential that these laws are swiftly implemented, in cooperation with NATO and strategic partners. It is foreseen for the new Agency to replace the existing Bureau for Security and Counterintelligence as an independent state body, without police powers and with the competence to gather intelligence for guaranteeing the security of the State.

2.1.2 Public administration reform

North Macedonia is **moderately prepared** with the reform of its public administration. **Good progress** was achieved with the implementation of the public administration reform strategic framework and in the area of policy development and coordination. The

Ministry of Information Society and Administration has now a designated team to coordinate public administration reform efforts with other key institutions, and the first government monitoring reports have been published. The Ministry has also set up a team to support public authorities with implementation of the Law on General Administrative Procedures. Further steps have been taken to improve transparency, including by publishing the number of public service employees and increasing the use of public consultations. The State Commission for Prevention of Corruption has started to address cases of politicised appointments by the current and previous governments. Further efforts are needed to enhance accountability of the administration and prevent politicisation of public service. The Commission's 2018 recommendation on merit-based recruitments in open competitions remains valid, especially on senior management appointments. The respect for principles of transparency, merit and equitable representation remains essential.

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

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

Strategic framework for public administration reform

The 2018-2022 **public administration reform strategy** and the 2018-2021 **public financial management reform programme** are the umbrella strategies for public administration reform. The government has started to monitor and report on their implementation, but an integrated monitoring and reporting framework has yet to be established. Civil society has actively participated in the monitoring of the government's reform efforts. The high-level Public Administration Reform Council and the Public Financial Management Council ensure **political support** and supervision of reforms. The Ministry of Information Society and Administration has increased its capacities to drive the reform at the technical level. The Ministry of Finance needs to become increasingly involved in the overall reform coordination, also due to increased focus on managerial accountability (*see Chapter 32 – Financial Control*). The reform also needs to be made **financially sustainable** and systematically costed in the state annual budget and the medium-term expenditure framework. Implementation of the reform strategies is still very much dependent on external donor funding.

Policy development and coordination

The legal framework and institutional structures provide for a **policy-making system**, including for managing the process of EU integration. Policy planning still needs to be reinforced and become consistent with medium-term budgetary planning. The government updated guidelines on preparation, monitoring and reporting of strategic planning documents in August 2018. The General Secretariat needs to enhance its central coordination and quality control role to follow up on implementation of these guidelines. It will also need to upgrade the procedural rules and guidance on development and monitoring of sector strategies. In December 2018, the government adopted a decision to improve coordination among the main 'centre of government'

institutions. The improved coordination will be addressed in detail by the amendments to the government's rules of procedure.

Evidence-based policy and legislative development are only partially ensured. Administrative data collection and consistent use of data for decision-making need to be strengthened. The quality of regulatory impact assessments has slightly improved, while budgetary impact assessments are still either missing or they are not comprehensive. Inter-ministerial consultations need to be properly integrated in the process. **Public consultations** have improved through the national electronic consultation system. The government's proposals to use shortened and urgent procedures for adopting legislation have significantly decreased (*see 2.1.1. Democracy*).

Public scrutiny of government work has improved, thanks to the increased number of published government monitoring reports and communication.

Public financial management

The government has implemented the 2018-2021 public financial management reform programme and published the first annual monitoring report in early 2019. The programme covers seven priorities. The 2019-2021 fiscal strategy report underwent sufficient parliamentary debate. It further strengthens budget management and fiscal discipline to maintain macroeconomic stability, achieve gradual fiscal consolidation and maintain a low budget deficit. The preparation of the 2018 and 2019 budgets has been enhanced and subjected to public consultation. Further efforts should be considered to strengthen the government's investment management and planning capacities.

Progress has been made in improving **budget transparency** through the publication of a citizens' budget and increased budgetary data. Budget transparency and accountability of public fund management should be ensured through efficient monitoring by the executive and the Parliament. This includes following up on the State Audit Office recommendations.

Public service and human resources management

While the Law on Administrative Servants and the Law on Public Sector Employees in principle ensure **merit-based recruitment, promotion and dismissals**, these laws are not fully applied across the administration. There are contradicting provisions in the Law on Internal Affairs, which allow employees to be excluded from the application of the Law on Administrative Servants. Procedures for temporary or service employments with lower criteria are used in many cases, bypassing the criteria set in the Law on Administrative Servants. The grounds for dismissals need to be made more transparent. Following public allegations of appointments of family members by the previous and current government, measures have been taken by the government and investigations have been launched by the State Commission for Prevention of Corruption. The findings of the State Commission for Prevention of Corruption may require further changes in the recruitment processes of public institutions to make them more transparent and merit-based. – *See Chapter 23 – Judiciary and fundamental rights*.

While the government followed a specific procedure for the appointment of senior managers, after the latest early parliamentary and local elections, there have been concerns over consistent non-application of the principle of merit. A number of senior deputy positions were introduced without merit criteria. The government is preparing a

new law to regulate the conditions for recruitment and dismissals for top managerial positions.

The Ministry of Information Society and Administration is in charge of coordinating and monitoring the **management of human resources** across the public administration. However, its capacity needs to be strengthened to ensure systematic application of the legislation. Better functionality of the Human Resources Management Information System and its systematic use by line institutions has to be ensured. The **remuneration system** needs to be revised.

The representation of women in the public service has remained over 50%. Equitable representation is not consistent across the public sector and across all categories of civil servants. There is higher representation of some minorities in the institutions whose hierarchy includes that minority. Smaller ethnic minorities remain underrepresented in the public sector. Despite the government's announcements, no decision has been taken by the responsible institutions on how to tackle the issue of public employees not showing up for work and on determining their final job positions.

Professional development is not yet systematic, and a centralised database of the training offered by various institutions is yet to be established. While **integrity in the public** service is sufficiently regulated, including whistle-blower legislation, data needs to be made available on how integrity mechanisms are implemented in practice.

Accountability of the administration

To improve the administration's rationality and **lines of accountability**, a functional review has been launched to assess around 128 governmental institutions and their functions and possible overlaps. A number of institutions have continued to report to both their line ministry and to the government in parallel. Managerial accountability is not systematically implemented within institutions, and there is insufficient delegation of responsibility through the various management levels (*see Chapter 32 - Financial Control*).

Citizens' right to good administration is protected by the independent institutions, especially the Ombudsman and the State Audit Office. Systemic follow-up to their recommendations still needs to be ensured. **Citizens' right to access public information** has improved through increased transparency of most central government institutions and the publication of 21 standard sets of documents. An open data mechanism was set up. It requires a commitment by all state institutions to regularly provide and update data. The delays in appointing of the Commission for Protection of Free Access to Public Information from May 2018 until the end of March 2019 made it non-responsive to appeals in that period. Its capacities have remained insufficient to monitor compliance with the proactive disclosure of information requirements.

The law on administrative disputes was adopted in May 2019. In practice, the appeal procedure for **citizens' right to administrative justice** is overly complex and lengthy. Delays occur in enforcing administrative court rulings. While legislation defines **citizens' right to seek compensation** and the liability of public authorities in cases of wrongdoing, data is yet to be collected to monitor compensation for damages.

Service delivery to citizens and businesses

The national portal for services is being upgraded to create a more **user-oriented administration** that will serve as a single contact point and allow for equal access and a digital interface with the state administration. The population register is yet to become functional as the basic source of information for both state institutions and citizens' interaction with the administration. The application of the interoperability framework increased but political will and funding are needed for it to reach its full potential. The quality of services to citizens has remained lower than the services offered to businesses.

Simplifying administrative procedures has been extremely difficult, as the Law on General Administrative Procedures has not yet been implemented systematically across the administration. The Ministry of Information Society and Administration has set up a 'help desk' team to support central and local government authorities in applying the law. Considerable further training and awareness-raising is needed to ensure legal certainty for citizens and businesses.

2.2 Rule of law and fundamental rights

2.2.1 Chapter 23: Judiciary and fundamental rights

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

The country has **some level of preparation / is moderately prepared** to apply the *acquis* and European standards in this area. Recent legislative changes have largely addressed the 'Urgent Reform Priorities', recommendations of the Venice Commission and the Senior Experts' Group on systemic Rule of Law issues. This led to **good progress** in completing the amendments to the legal framework, particularly in the area of judiciary and non-discrimination, to address police impunity and to reinforce the protection of fundamental rights. The courts have pronounced final convictions in high profile cases under the remit of the Special Prosecutor's Office. The Office has intensified its work in investigating and prosecuting crimes arising and surrounding the wiretaps. Discussions are ongoing between the government and the opposition to finalise a sustainable solution for the status of the Special Prosecutor's Office. It is essential to continue establishing legal accountability for the crimes arising from and surrounding the wiretaps. The anti-corruption framework has been reinforced by a new law and new competences for the State Commission for the Prevention of Corruption. The work of the new Commission has already yielded results, including on high level cases. The full implementation of the new framework will be key to demonstrating the ability of the authorities to prevent corruption and conflict of interests. However, corruption is prevalent in many areas and remains an issue of concern. The legal and policy framework for fundamental rights is generally in place and the Ombudsman's Office has been granted additional responsibilities. Efforts have been made to further improve the human rights situation in practice but a substantial allocation of funds and strong leadership are needed to ensure implementation and sustainability of measures taken. It is essential that choices made in appointment of members of independent and regulatory bodies are based on merit to ensure that they are composed of competent

persons whose integrity cannot be questioned. The functional independence of these bodies must be guaranteed at all times, including through adequate funding.

Functioning of the judiciary

The judicial system has **some level of preparation / is moderately prepared**. There was **good progress** in addressing the ‘Urgent Reform Priorities’ and recommendations from the Venice Commission and the Senior Experts’ Group on systemic Rule of Law issues. The Venice Commission praised the authorities’ constant efforts to bring the rules governing the judicial system in line with international standards and practices. The country stepped up the implementation of the judicial reform strategy and revised its action plan. Regular monitoring at all levels is needed to ensure that timelines are respected. All stakeholders need to remain engaged to deliver a reform that will benefit citizens. Implementation of the new legal framework provides a firm basis for lasting change. Beyond legal changes, it is essential that all judicial institutions demonstrate their exemplarity and contribute, through additional efforts, to restoring public trust in the judiciary.

In the coming year, the country should in particular:

- continue implementing the judicial reform strategy, prioritising the development of a human resources strategy and improving the automated court case management information system (ACCMIS) to ensure it is fully functional and reliable;
- ensure consistent implementation of the new rules for appointment, promotion, discipline and dismissal of judges, and demonstrate that the independence of the judicial system is respected and promoted at all levels, shielding it from any risk of political interference;
- fully implement the new legal framework related to the reform of the Judicial Council and adopt a reform of the Council of Public Prosecutors.

Strategic documents

The 2017-2022 **Strategy on Judicial Reform** is the guiding document for reform in this sector and the implementation of the related action plan, updated in October 2018, is well under way. The country adopted amendments to many laws governing this sector, notably the Laws on Courts and on the Judicial Council in line with Venice Commission recommendations as well as the Criminal Code, and the law on misdemeanours. The country’s consistent efforts to bring the rules governing the judicial system in line with international standards and best practices have been noted by the Venice Commission in its March 2019 Opinion on the Law on the Judicial Council. The Council for Monitoring the Implementation of the Judicial Reform established in April 2018 meets regularly. It acted as a forum for debate among professionals on the implementation of strategic steps. The Council adopted the first annual report on implementation of the Strategy in January 2019.

Management bodies

The Judicial Council maintained its mixed composition. In 2018, judges elected six new members of the **Judicial Council** from among their peers and the new Council President was elected from this contingent in April 2019. The Law on the Judicial Council was amended in May 2018 and in April 2019 following consultation with the

Venice Commission and the Council updated its internal rules accordingly. The Council sessions are public and partly broadcast on audio-visual media. The changes made to the legal framework increased the accountability of the Council's members. The Council remains a professional full-time body but the new provisions remove the possibility for immediate renewal of the six-year mandate for its judges-members and the voting rights of both ex-officio members for all procedures.

The Parliament elected two practicing lawyers as new members of the **Council of Public Prosecutors**. The planned amendments to the Law on the Council of Public Prosecutors have yet to be adopted. The Council still lacks adequate human and financial resources and has no separate budget, which brings into question its independence from the State Public Prosecutor's Office. The Council has not increased its transparency, with decisions on appointments still lacking reasoning and it needs to fulfil its role more proactively.

Both Councils need to demonstrate a decidedly more proactive attitude in delivering on their respective mandates.

Independence and impartiality

Judicial independence is enshrined in the Constitution. Measures taken have had a positive impact on the independence of the judiciary but continuous efforts are needed to remove the risk or perception of political interference. Provisions in the newly amended laws, provided they are properly implemented, can ensure the independence of the judiciary. The Association of Judges continued to actively participate in reforms. It established the first Judicial-Media Council bringing together judges and journalists to strengthen transparency. The Judicial Council's efforts to protect judges' independence were limited and it is essential that it steps up its efficiency to shield them from potential external or internal pressure.

The **Special Prosecutor's Office (SPO)** continued its work, filed several indictments and opened new investigations (more details under *Fight against corruption*). There are different interpretations concerning the right of the SPO to open new investigations and file indictments after 18 months following the handover of wiretaps. A draft law to incorporate the SPO within the Public Prosecutor's Office is under discussion with a view to enabling the SPO to continue its work. In September 2018, the SPO published a special report highlighting evidence of judicial misconduct revealed in the unauthorised interception of communications. The State Commission for the Prevention of Corruption has opened a file over alleged abuse of power and corruption targeting some members of the judiciary.

The audit of the automated court case management information system (ACCMIS) was completed in the courts with extended competence and the Ministry of Justice, following adoption of a plan for regular supervision of the courts' application of the system, has started its implementation. The audit led to investigations being open both by the Public Prosecutors' Office and the Judicial Council. The investigations are ongoing but have not yet yielded concrete results. An upgrade of the system is envisaged to address some of its deficiencies. It is essential that the country introduces a case management system that is fully functional, interconnected and reliable and that permits to extract data at the central level.

Accountability

Both judges and prosecutors are obliged to declare their assets upon election or following a change which exceeds an amount defined by law. Amendments to the Law on Courts and to the Law on the Judicial Council positively revised the criteria for disciplinary responsibility of judges and introduced the possibility for anyone to initiate a procedure before the Judicial Council, leading to six such requests being filed by legal professionals and lawyers. Additionally, the Law on the Judicial Council introduced accountability for members of the Judicial Council, thereby addressing a previously noted shortcoming. The Advisory Council for Judicial Ethics met twice but its impact is as yet limited. The Academy of Judges and Prosecutors organised training sessions on ethics and conflict of interest.

In terms of accountability of judges, following the abolition of the Council for Determination of the Facts, the Judicial Council is processing five files against judges or Presidents of Courts, including of the Supreme Court. None has been completed, leading to some of the judges concerned perceiving this as a form of pressure. One judge was dismissed for unprofessional and inapt performance of duty in February 2019 and 10 disciplinary procedures were initiated in 2018. Disciplinary procedures were launched against three prosecutors. There was slow progress in enforcing the decisions of the European Court of Human Rights on dismissed judges.

Professionalism and competence

The amendments to the Law on Courts and the Law on the Judicial Council improved the system of **appointment and promotion** and introduced qualitative criteria in the **professional evaluation** of judges, in line with the Venice Commission's recommendations and the 'Urgent Reform Priorities'. The amendments also provide that appointments to the first instance give prominence to candidates' ranking upon their completion of the training in the Academy for Judges and Prosecutors in the appointment procedure. In 2018, the Judicial Council appointed 4 judges and 2 Presidents of courts. The amendments introduced a procedure for appeals to the Supreme Court regarding appointment procedures.

The Council of Public Prosecutors appointed 25 prosecutors at different levels and enabled 21 prosecutors to perform their tasks beyond retirement age to address the shortage of staff. Both Councils need to improve the transparency of their work and ensure respect for meritocracy in appointments and promotions. The Academy for Judges and Prosecutors organised a total of 189 in-service training sessions. Consistent implementation of the new legal framework is essential for the following period.

Quality of justice

The Academy remains the sole entry point into the judiciary, in line with recommendations of the Senior Experts' Group on systemic Rule of Law issues. A new managing board for the **Academy for Judges and Prosecutors** was elected in October and a new Director selected by the Board in November 2018. The post of Deputy remains vacant.

The Supreme Court continued to work on improving the consistency of judgments and on harmonising court practice. According to figures received from the authorities, in 2018, the budget allocated to courts increased by approximately 2% and it stood at

0.29% of GDP. The budget for prosecution offices increased at a similar rate. In mid-2018, the country had 25 judges and 8.4 prosecutors per 100 000 inhabitants, compared to the 2016 European average of 21.5 judges and 11.7 prosecutors (as reported by the European Commission for the Efficiency of Justice). A procedure for hiring 190 staff in courts is ongoing and 33 new staff provided reinforcements to the Public Prosecutor's Offices in February 2019.

The information technology situation in the judiciary is improving along with the implementation of an IT strategy for the justice sector but it remains predominantly dependent on donor funding. Lack of funds and staff continues to hamper the renewal and maintenance of the IT tools. The physical conditions in courts are very varied and accessibility remains a challenge across the country, for instance in the civil court in Skopje.

Whereas the Supreme Court started holding regular meetings with the four courts of appeal on consistency of jurisprudence in civil law cases, not all courts managed to promptly upload judgements in the database for online access to jurisprudence. Courts do not always have access to judgements of other courts, thereby impeding consistency. The procedure for secondments to the European Court of Human Rights was completed, thus fulfilling this 'Urgent Reform Priority'.

Efforts are needed to promote the use of **alternative dispute resolution**. Arbitration is still not considered as a viable tool to ensure justice, either by parties or by the courts. The effects of the implementation of the new law on mediation, adopted in 2013 are still to be assessed.

Efficiency

Nearly all courts maintained a **clearance rate** of 100% or higher, demonstrating continued efficiency. There is no issue of backlog of cases in courts. The implementation of the law on languages may affect the efficiency in courts and public prosecutor's offices.

In December 2018, amendments to the Law on Salaries of Judges were adopted as well as to the Law on Judicial Service, providing for modalities on payment of supplements to salaries of judges and of the judicial administration following previous salary increases in the prosecution.

An initial assessment of the court network was carried out as a preliminary step to the development of a comprehensive human resources strategy in the judiciary. Work on a similar exercise for the prosecution has been initiated. This will help to ascertain the real needs in public prosecutor's offices. The insufficient number of expert associates and other support staff puts a strain on the functioning of courts and Public Prosecutors' Offices. The absence of a strategy affects the proper planning and allocation of human and budgetary resources.

Amendments to the Law on Notaries and to the Law on **Enforcement** were adopted in December 2018. A new tariff for enforcement officers was adopted in February 2019, following challenging negotiations. Overall, the system has proved to be an improvement compared to the previous system of enforcement by the courts. The notary payment order works well, discharging the burden on the courts. However, the overall cost of enforcement and the length of the procedure still obstruct the system's

efficiency. This, together with the mandatory presence of an attorney for procedures before notaries (including for inheritance) risks impeding access to justice. The monitoring of the enforcement officers' activities by the Chamber and the Ministry of Justice needs to be improved. A holistic approach to the reform of the sector covering the different stakeholders is needed to address remaining challenges.

Fight against corruption

North Macedonia has **some level of preparation** in the fight against corruption. **Good progress** has been made through further consolidating its track record on investigating, prosecuting and trying high level corruption cases and by making changes to legislation. The new legal framework for preventing corruption has improved and the appointment of the new members of the State Commission for Prevention of Corruption has been far more transparent than in previous years. The Commission has taken important steps to proactively fight against corruption, involving high level officials across the political spectrum. The Special Public Prosecutor has confirmed its leading role in investigating and prosecuting high-level corruption cases. A new law on the Public Prosecutor Office to integrate the Special Public Prosecutor within the prosecutorial system has been prepared. There is an awareness at political level of the need to effectively address corruption. The criminal justice response against high-level corruption has started to generate concrete results, which needs to continue. The authorities have to further step up efforts to demonstrate that the fight against corruption is a national priority at all levels of power.

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

- proactively implement the new rules for preventing and fighting corruption and encourage, from the highest political level, a more proactive attitude on the part of all actors engaged in this area;
- reaffirm its political will to fight corruption by supporting all relevant institutions with the necessary autonomy in exercising their prerogatives as well as human and financial resources;
- consolidate the track record of final convictions in high-level corruption cases, including by confiscating criminal assets; ensure that the legal accountability of the wiretaps is continued independently from ongoing reforms within the prosecutorial system.

Track record

North Macedonia continued to build on its track-record for investigating, prosecuting and trying high level corruption cases. The **Special Prosecutor's Office (SPO)** filed 18 indictments for serious criminal offences. Most of them concern abuse of office, abuse of position, forgery of documents, embezzlement, and large-scale fraud. One indictment is pending confirmation by the Court. A total of 112 individuals are on trial in 17 cases. Furthermore, the SPO has established its jurisdiction over two major cases where there were suspicions of procedural and substantial irregularities. In the case dubbed 'Monster' where five people were murdered, six individuals are standing trial. In the corruption case dubbed 'Magyar Telekom', three individuals are standing trial. Court hearings in several prominent cases have resumed involving former senior officials such as the former Minister of Transport, the former Minister of the Interior, several former

Security and Counterintelligence officials, key business people and local officials. The courts ordered pre-trial detention for the former Minister of Transport, the former Secretary General of the Government and the former Director of the Bureau for Security and Counterintelligence. This was commuted into house arrest. In 2018, the courts issued five judgments against 19 individuals, including three verdicts based on a guilty plea. Final sentences were pronounced against the former Prime Minister, his assistant, the former Minister of the Interior and the former Director of the Bureau for Security and Counterintelligence. In first instance, the court pronounced a guilty verdict and imprisonment sentences from 3 years to 4 years and 6 months against four former members of the State Election Commission, the leader of the Democratic Party of Albanians (DPA) and the former Head of Security and Counterintelligence. There are 108 individuals currently under investigations in 19 ongoing investigations. The Courts need to consolidate their track record to demonstrate that the practice initiated in cooperation with the Special Prosecutor's Office is reinforced.

The **Public Prosecutor for Prosecuting Organised Crime and Corruption** has opened five new investigations involving seven individuals in high-level cases (compared to six in 2017 involving 10 suspects). In total, together with four cases still under investigation since 2017, there are **nine ongoing cases involving 17 individuals**. Cases mainly concern violation of procurement rules. Some cases involve high-level officials such as the former Minister of Health, the former Deputy Minister of Economy, and the former Secretary General of the Government. This is in line with the SPO practice of investigating senior officials to establish legal accountability of public office holders and tackle their impunity. The court issued a first instance judgment against one of the accused. In one case, one defendant is standing trial. Investigating and prosecuting high-level cases needs to continue.

Regarding investigations of **other officials** such as administrative Directors, the Public Prosecutor for Prosecuting Organised Crime and Corruption opened 11 new investigations involving 16 suspects. In three cases involving four individuals, investigations were closed. There are also 14 cases involving 26 suspects currently under pre-investigation.

In 2018, the State Commission for Prevention of Corruption received 1 590 statements of interest and 1 852 declarations of assets. In total, there are 6 633 declarations from elected and appointed officials currently published on the Commission's website. In March 2018, five out of the Commission's seven members, including its President, resigned. The resignation was triggered by public reactions to the findings of the State Audit Office on alleged financial irregularities. Consequently, the regular verification of statements of interest and declarations of assets was hampered by procedural restrictions during the year. As a result, within the short lapse of time between January and February 2018 the Commission initiated only 26 procedures to determine the existence of conflict of interest (149 were initiated for the whole of 2017). Under the previous law, the Commission still had limited powers to act promptly and efficiently. The Commission sent seven cases to the Basic Court for Misdemeanour proceedings. In three cases, the court pronounced fines, and in one case, it issued a warning. The Commission sent eight requests to the Public Revenue Office after the violation by officials of their obligation to declare their property. With the new law, the Commission

will be able to act and pronounce sanctions autonomously for a more meaningful impact of its assessments and decisions.

The new Commission, whose members were appointed in February 2019, opened investigations over allegations of nepotism in the public administration in 65 cases. Investigations already yielded results. The commission determined that out of the 36 cases examined so far, there were 21 cases of possible nepotism and wrongdoings during the recruitment process. Those cases fall either under the responsibility of previous officials or under the current administration. Consequently, in at least four cases, family relatives already resigned, and two misdemeanour procedures are ongoing against one Minister and against the President of the Council of Public Prosecutors. The Commission closed 15 cases due to the lack of determining elements or because no conflict of interest was determined. The Commission also opened in May additional cases involving current and former high state officials. The State Commission for Prevention of Corruption also calls for reviewing several laws for preventing use of discretionary powers in the recruitment process.

During 2018, within the Ministry of the Interior, the Department for Internal Control, Criminal Investigations and Professional Standards started five individual disciplinary procedures (14 in 2017). Procedures are ongoing. The Department also initiated criminal proceedings on seven corruption-related charges against six of the Ministry's employees (compared with 13 proceedings against 15 employees in 2017).

Institutional framework

Prevention measures

A new State Commission for Prevention of Corruption was appointed in February 2019. In accordance with the new law, selection criteria for members are stricter and require increased experience and a proven track record in the fight against corruption (10/12 years). Neither the members nor the President can be former members of Parliament, former government members or a donor or former member of a political party's management board in the last 10 years. In an effort to be more inclusive and transparent, the selection is the result of a three tier process involving members of the political parties, the opposition, and representatives of specialised NGOs, and then a representative of the Ombudsman Office, journalists associations and members of the Academy of Sciences. Interviews of the candidates were broadcast on the parliamentary channel.

To strengthen its capacity in fighting impunity and lack of integrity, the Commission is vested with additional powers. It will be able to directly request information from numerous financial institutions – banking, traffic institutions to facilitate the process of verification of the officials' statements of interest and of assets. It will also be able to initiate misdemeanour procedures. The competence sharing with other competent institutions has been clarified and a long-overdue mechanism to support functional independence established. The budget will be voted directly by the Parliament and not through the Ministry of Finance to strengthen its financial autonomy. The new law also provides its Secretariat with extended executive (operational) powers to manage its work.

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

The State Audit Office's IT infrastructure has been improved but is still not interconnected with other relevant institutions.

Existing penalties under the Law on the Prevention of Corruption and Conflict of Interest and the Electoral Code need to be applied more systematically and visibly.

Law enforcement

The main institutions dealing with law enforcement are the Department for Serious and Organised Crime within the Ministry of the Interior and a specialised Public Prosecutor's Office for Prosecuting Organised Crime and Corruption within the Public Prosecutor's Office. A draft law is under discussion to enable the Special Prosecutor's Office to continue its work.

In cases of corruption, the police refer the cases to the public prosecutor who then leads investigations. The long overdue investigative centres were established, as required by the Law on Criminal Procedure. The investigative centres will support the public prosecutor assuming their leading role in investigations. The Public Prosecutor's Office must also demonstrate its capacity to act proactively in pursuing cases referred by the State Commission for Prevention of Corruption, the State Audit Office and other institutions. In the field of economic crime, experienced and trained police officers are working at central level, and some public prosecutors have solid knowledge about conducting financial investigations. Those skills need to be fully used through a comprehensive strategic approach with clear priorities within the public prosecutorial office. Setting up the investigative centres aims to support this process and alleviate shortcomings at local level.

The electronic case management system at the Public Prosecutor's Office is in place but must become more efficient. Investigations of corruption in public procurement and concessions are becoming more frequent due to the SPO's activities. The SPO has also started financial investigations and making use of confiscation of assets. The powers and resources of the police, the Public Prosecutor's Office, the courts and the Agency for Management of Confiscated Property need to be strengthened to allow seizure and confiscation of criminal assets, including in the early stages of criminal investigations. This should confirm the positive trend of adopting temporary measures for freezing bank accounts and property. It was decided to freeze bank accounts in four cases compared to only one last year.

Legal framework

North Macedonia is party to all international anti-corruption conventions, including the United Nations Convention against Corruption. The criminal code penalises a wide range of corruption related offences. In 2018, the government improved the legal framework for preventing corruption by adopting a new Law on Prevention of Corruption and Conflict of Interests. The new law increases the powers of the State

Commission for Prevention of Corruption. It clarifies and strengthens a set of key rules governing incompatibilities between certain public functions, or restrictions on doing business while holding public functions. The law also includes sanctions against institutions that fail to provide information. It facilitates the collection of information by establishing a single form for the declaration of assets and statement of interests in line with the GRECO recommendations. The forms are submitted electronically into the database to ease control and verification.

The Law on the **Financing of Political Parties** stipulates the manner and procedure for ensuring financial means and their management to political parties. Rules on the financing of pre-electoral campaigns are set out in the Electoral Code. Amendments to the Law on the Financing of Political Parties from the state budget increased the proportion of funds available from 0.06% to 0.15%, to increase the financial independence of political parties. In parallel, the maximum amount of donations by both legal entities and individuals was decreased. The State Audit Office exercises ex-post control and the State Commission for Prevention of Corruption's new powers will allow it to carry out inspections at any time, allowing the continuous monitoring of party financing.

Amendments to the **law on free access to public information** were adopted. These amendments incorporate the right to request information on public finances of political parties.

The **Law on lobbying** adopted in 2008 regulates lobbying activities, the registration of lobbyists and includes a supervision mechanism. There is still a need for introducing rules on how members of Parliament engage with lobbyists and other third parties who seek to influence the legislative process.

Amendments to the Law on the Protection of **Whistle-blowers**, and secondary legislation, implement the recommendations of the Venice Commission but require further alignment with the new EU *acquis* on this issue. A 'Manual for the protection of whistle-blowers' was prepared, and a software was developed to encrypt the data received by the State Commission for Prevention of Corruption.

Strategic framework

The State Programme for Prevention and Repression of Corruption and Reduction of Conflict of Interests with a multiannual action plan (2016-2019) is the fifth strategic document. The priorities are to strengthen the institutional and legal framework, and ensure effective sanctions against corruption. It also aims to increase public participation and ensure efficient coordination, monitoring and evaluation. The recent reforms contribute substantially to achieving these objectives, notably the strengthening of the institutional and legal system, and the repression part via the work of the Special Public Prosecutor's Office.

Fundamental Rights

The legal framework on the protection of **fundamental rights** is largely in line with European standards. Good progress was made with the adoption of amendments to the Criminal Code on hate crime and the adoption of the Law on Prevention and Protection from Discrimination, a national action plan for implementation of the Istanbul Convention and the de-institutionalisation strategy. However, the external oversight

mechanism of the police is not yet fully operational. The country also needs to make additional efforts to consistently disseminate and address recommendations of European and international human rights bodies, notably regarding the treatment of detained persons, women and persons with disabilities. The probation system needs to be further developed by ensuring availability of alternative sanctions, as this will have a positive effect on both individuals and on the penitentiary system as a whole. Continued efforts are needed to implement the judgments of the European Court of Human Rights.

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

- ensure that all recommendations of European and international human rights bodies are systematically disseminated and implemented, in particular those related to detention, gender equality and the rights of persons with disabilities;
- develop further community services to identify children at risk and to support children victims of violence, Roma and children with disabilities, including by improving inter-agency cooperation;
- implement the new Law on the Protection and Prevention against Discrimination, ensure the harmonisation of other laws with this new law, and improve follow-up of all new and outstanding cases of discrimination, hate crime and hate speech.

The country has ratified most **international human rights instruments**. In the reporting period, the country underwent the United Nations' Universal Periodic Review by the Human Rights Council and was reviewed by the UN Committees on the Elimination of Discrimination against Women and on the Rights of Persons with Disabilities respectively. Practitioners working in those areas must be made aware of the recommendations stemming from these bodies so that they may introduce adequate changes in their working practices.

The **European Court for Human Rights (ECtHR)** has found violations of the European Convention on Human Rights in 12 cases related mainly to freedom of association in conjunction with freedom of religion, right to liberty and security and right to a fair trial. The number of new applications lodged with a decision-making body decreased to 305 and there are 339 cases pending before the court. The number of pending ECtHR judgements to be executed stood at 51 at the end of March 2019, with four undergoing an enhanced monitoring procedure. The authorities have made progress in execution of protracted judgments and in April 2018 they issued a public apology in the *El Masri* case. The staff of the Bureau for Representation before the ECtHR was increased to five people in 2018.

The **promotion and enforcement of human rights** was strengthened with the new competences granted to the Ombudsman's office on the external oversight of the police. The Ombudsman's office was also tasked with monitoring implementation of the UN Convention on the Rights of Persons with Disabilities. The government made good progress on the implementation of measures stemming from the Ombudsman's 2016 report. The Office's budget was increased and additional staff recruited. This additional staff will help the Ombudsman's Office to fully exercise its prerogatives. However, it will need further strengthening to effectively fulfil its new obligations. The Office received 3 458 complaints in 2018, with the largest share concerning the judiciary followed by labour relations, penitentiary conditions and consumer rights. The largest

number of confirmed violations related to financial and tax issues, followed by labour relations, child rights and judiciary.

The government has prepared an action plan to address the recommendations of the European Committee for the Prevention of Torture and provided quarterly reports to the Committee. This led to improvements in the **prevention of torture and ill-treatment**. Staff members in penitentiary and educational-correctional institutions were trained on the new Code of Conduct for Prison Personnel based on the European Code of Ethics for Prison Staff. Amendments to the Laws on Courts and on the Public Prosecution Office completed the legislative framework for establishing an external oversight mechanism over the work of the police and the prison police. Prosecutors have been assigned and have started their work on overseeing the police. However, the mechanism is not fully operational as investigators still need to be nominated and the civil society members of the civil control mechanism with the Ombudsman's Office have yet to be selected.

Work is ongoing to take the most derelict facilities out of operation to address the inhumane conditions noted by the Committee for the Prevention of Torture in some detention facilities. Poor conditions in police stations, social care facilities and psychiatric institutions need to be urgently addressed. Despite reinforcements in terms of staff, the National Preventive Mechanism against torture continues to be hindered by insufficient resources.

In 2018, only three complaints for excessive use of force and ill-treatment were filed to the Directorate for Execution of Sanctions. However, this could indicate a low level of trust in complaint mechanisms. The nine complaints filed with the Ombudsman's Office for ill-treatment in prisons were dismissed as unfounded while three complaints for ill-treatment by the police were transmitted to the Public Prosecutor's Office. Out of the 64 complaints from citizens on the use of force by police officers, only five were deemed admissible by the Unit for Internal Control and Professional Standards at the Ministry of Interior. In turn, the unit submitted criminal charges for ill-treatment in three cases involving four police officers and notified two other cases involving three police officers to the Public Prosecutor's Office. The number of criminal charges against police and prison officers for cases of ill-treatment remains very low. It is expected that the new external oversight mechanism over the work of the police and the prison police will address the perception of impunity. From January to mid-March 2019, the relevant unit within the Public Prosecutors' Office received and started investigating 50 reports against police officers and a few reports of the use of excessive force in prisons.

Construction and refurbishment in the **prison system** is ongoing. New semi-open and open units were inaugurated in Idrizovo Prison but the transfer of inmates to the new premises is slow. The new Law on Execution of Sanctions, adopted in March 2018 addresses weaknesses in the development of a professional management approach in the prison system and introduces new rules limiting the duration of solitary confinement. The strategy for the development of the penitentiary system continued to be implemented and some prison staff were trained on the treatment of violent prisoners, dynamic security, and on international standards and national legislation.

The penitentiary sector remains underfunded, understaffed and overly reliant on donor assistance. Healthcare in prisons remains deficient and the transfer to the Ministry of

Health is still not finalised. The release of 795 persons based on the December 2017 Law on Amnesty reduced prison overcrowding but is not a sustainable solution as the probation system is still at an early stage of development. The rollout of probation was further delayed until probation officers were recruited for 26 basic courts in November 2018. Following the adoption of the relevant secondary legislation in May 2018, the courts have slowly started issuing alternative sanctions to detention. Developing alternatives to detention is fundamental for sustainably alleviating overpopulation, improving the resocialisation and rehabilitation of convicts and reducing the risk of re-offending. Additional efforts are required to ensure that education and re-socialisation services are available in all penitentiary and educational-correctional facilities.

On the **protection of personal data**, the Directorate for Personal Data Protection needs adequate resources to perform its tasks effectively. In 2018, the Directorate received 396 complaints and carried out 291 inspections, including in the fields of judiciary and law enforcement. Most complaints concerned alleged abuse of personal data on social networks, and alleged unlawful direct marketing and video surveillance. Nine misdemeanour cases were initiated in 2018 but the number of administrative sanctions in cases of breach of personal data protection legislation remains low. The Directorate has continued to review draft legislation, including on the reform of the interception of communication, to ensure its compliance with data protection rules. The Directorate continued to provide training to personal data controllers and processors and to law enforcement personnel and judiciary personnel. Although amendments to the Criminal Code strengthened personal data protection in criminal cases, there was no concrete progress on alignment with the General Data Protection Regulation 2016/679 and Directive 2016/680 (Law Enforcement Directive). The country has not signed the 2018 Protocol amending the Convention for the Protection of Individuals with regard to the Automatic Processing of Personal Data of the Council of Europe.

Freedom of thought, conscience and religion continued to be guaranteed and discrimination on grounds of religion prohibited. In April 2018, the European Court of Human Rights ruled that the State violated the Convention by refusing to renew the registration of the Tetovo-based Bektashi Community. The Court's rejection of the country's complaint on the Orthodox Ohrid Archdiocese (Greek-Orthodox Ohrid Archdiocese of the Peć Patriarchy) judgment with respect to freedom of association seen in the light of freedom of religion means it now has to be implemented. The Committee of Ministers of the Council of Europe examined the same case in March 2019 and it welcomed the decision to reopen the registration proceedings and to ensure redress for the applicants in compliance with the Convention. Pope Francis visited the country in May 2019.

Freedom of expression

The country has **some level of preparation / is moderately prepared** in the area of freedom of expression and made **good progress**. The climate for media freedom and freedom of expression has improved. Open political debate and critical media reporting continued. Further self-regulation efforts are required to improve professional standards and the quality of journalism. The ban on government advertising was respected. Sustained efforts are needed to improve the independence, professional standards and financial sustainability of the public broadcaster. It is essential that the authorities

continue to promote freedom of expression. Amendments to the Law on Audio and Audio-visual Media Services have been adopted and their implementation will require strong political commitment to guarantee professionalism, respect for the principles of transparency, merit-based appointments and equitable representation. The financial sustainability of private media and working conditions of journalists remain a challenge. The country has addressed some of the recommendations from the 2018 report, notably by creating a climate that is favourable for expressing pluralistic viewpoints.

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

- continue supporting media pluralism, promoting professionalism, objective reporting and investigative journalism. Build resilience to effectively combat disinformation;
- continue reforming the public broadcaster, ensuring its financial viability and independence;
- continue paying attention to the swift and effective follow-up by law enforcement and judicial authorities of all instances of physical and verbal violence against journalists.

The overall situation and political climate for media continued to improve. The government intensified its efforts to support media through legislative changes and by providing financial subsidies for print media. The open dialogue and increased transparency of institutions is acknowledged by professional organisations. Challenges remain however and additional measures are needed to support freedom of expression.

Intimidation of journalists

Since March 2018, there were five new cases of intimidation of journalists, marking a decrease from the previous year. The Ministry of the Interior started to cooperate with the Association of Journalists to establish accountability for incidents of physical and verbal abuse or threats against journalists. However, there were two incidents of statements against the media being made by high government officials. Politicians and public officials still need to demonstrate a higher level of tolerance towards criticism and promote freedom of expression. Procedures for police conduct towards journalists and registration of attacks need to be improved. Law enforcement authorities and the Public Prosecutor's Office need to effectively follow-up all incidents against journalists. Old cases of the most serious physical attacks against journalists (13) have not been resolved due to unprofessional conduct in the investigations.

Legislative environment

The Law on Audio and Audiovisual Media Services was amended in December 2018 and February 2019. The law is now in general accordance with European and international standards on audiovisual media. Some stakeholders criticised the opacity of the process and absence of public consultation on last minute changes to the law. In view of changing market realities, the legislative framework will nonetheless need to be further aligned with the new Audio-visual Media Services Directive. Hate speech is illegal both online and offline. Preliminary steps have been taken to reduce fines for defamation to a symbolic amount which is expected to improve the sense of balance between freedom of expression and protection of reputation.

Implementation of legislation/institutions

The Agency for Audio and Audiovisual Media Services has been exercising its supervisory role, including during the referendum and the presidential elections. Due to ambiguities in the legal framework, the State Election Commission and the media regulator each presented contradictory instructions on the access of referendum stakeholders to paid advertising. As part of the media monitoring during the referendum, the Agency initiated five misdemeanour procedures notably for misuse of paid public propaganda and disrespecting deadlines.

The number of investigative articles rose from 0.8% in 2017 to 2% in 2018 but the quality of reporting and respect for professional standards need further improvement. The Public Prosecutor's Office opened an investigation against a journalist on the grounds of hate speech. In 2018, the Council of Media Ethics received 68 complaints for disrespect of ethical standards, notably online (76.5%). Since March 2018, 12 new lawsuits on defamation were registered against journalists.

Public service broadcaster

The reform of the public service broadcaster is at an early stage. As provided for by the Law on Audio and Audiovisual Media Services, funding for the public broadcaster, the regulator and the broadcasting public enterprise from the state budget will increase to 0.8% after the budget rebalance. The financial sustainability of the public broadcaster needs to be ensured. Upholding the public broadcaster's independence and preventing undue political influence needs continuous attention. Additional efforts are required to improve the quality and objectivity of its reporting, to improve procedures and to modernise its technical equipment. A longer-term strategic reform needs to be developed in consultation with stakeholders.

Economic factors

The media agency increased its efforts to disclose the possible existence of illegal media concentration. It is essential to further strengthen the capacity of the regulator to identify collusion between media and politics which impedes editorial independence. The economic impact of rapid technological developments on the audio-visual media market needs to be evaluated by the authorities when preparing new legislation.

Government advertising on commercial channels is banned. Media stakeholders expressed concerns that legal changes permitting public funding of the referendum campaign via media advertisements risked repeating influence of political parties on editorial lines. There are six daily newspapers, including two in Albanian language. Following the recommendations of the Senior Experts' Group on systemic Rule of Law issues in 2017, the authorities allocated approximately EUR 700 000 to support the print media.

Internet

The legislation prohibiting internet service providers from controlling internet traffic continued to be applied. Online media remains unregulated. Disinformation, hate speech, disrespect of professional standards and violations of intellectual property rights are frequent in online media. The authorities need to take measures to effectively combat disinformation. Self-regulatory principles and ownership transparency are needed to increase the respect for ethics and professionalism in online media.

Professional organisations and working conditions

There was no progress on improving the labour and social rights of journalists whose working conditions are very poor. Consequently, journalists still practice self-censorship. Lengthy negotiations led by the independent union of journalists and media workers did not result in any collective union agreement with any media outlet. Union members are part of working groups working on updating relevant laws.

(See also Chapter 10 - Information society and media)

Freedom of Assembly and Association are guaranteed by the Constitution which, similar to the Law on Public Assemblies, allows assemblies without prior announcement. However, no new legal safeguards were introduced regarding the provision on ‘participation in a crowd which commits a crime’ during the process of amendments to the Criminal Code. During 2018 there were no restrictions on the exercise of these rights, including in terms of location. The ‘boycott’ campaign against the 30 September referendum took the form of rallies and social media activity. It featured nationalistic language which was often inflammatory. Regular gatherings also took place to protest against the process of changing the name of the country resulting from the Prespa agreement. These gatherings did not give rise to concerns in terms of use of force. On freedom of association, the Law on Associations and Foundations does not contain undue restrictions to the exercise of this right.

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

Regarding **property rights**, the absence of strategic documents results in lengthy procedures and insufficient coordination between institutions. This leads to delays in updating registers by the municipal authorities and the Central Register. The Cadastre Office maintained a high rate of resolved cases in 2018 (98%). The reduction of costs introduced in January 2018 led to improvements in citizens’ access the Cadastre services. Registration of land and properties is complete and in December 2018, a funding agreement was signed for the laser scanning of the country's territory. However, the administrations that handle restitution, compensation, and legislation processes struggle to manage their caseload. There remain approximately 7 000 denationalisation cases which still need to be resolved.

The legal framework on **non-discrimination** has been further aligned with the EU *acquis* and European standards with the adoption of the Law on Prevention and Protection against Discrimination. This law covers a wide range of protected grounds which now also includes sexual orientation and gender identity. A National Coordinative Body was set up to monitor the implementation of the legal and strategic framework on non-discrimination.

Weaknesses in terms of budgetary allocations and implementation of the 2016-2020 National Strategy for Equality and Non-Discrimination remained. Deficiencies in the work of the Commission for Protection from Discrimination persisted while its premises and financial resources remained inadequate. There is public mistrust of this body, which is seen as politicised and linked to the former ruling party. The new Law foresees the election of a new Commission. The Ombudsman’s Office received 77 complaints on

discrimination. Amendments to the Criminal Code adopted in December 2018 clarified provisions on hate crime and expanded the protected grounds. The Public Prosecutor's Office became more proactive in opening investigations for alleged hate speech. Collection of data on hate speech is not systematic while an increase in cases of hate crime was noted in the Civil Society database. The Agency for Audio and Audiovisual Media Services reported one case of alleged hate speech and discrimination, which was rejected by the Commission for Protection from Discrimination.

Some progress was made **on equality between women and men**. The legal framework is largely in line with the *acquis* but it needs upgrading following the ratification of the Istanbul Convention. The government adopted a national action plan for implementing the Convention and a national action plan for gender equality (2018-2020) which proposes to introduce a 50% quota for ensuring participation of women in electoral processes and decision-making by 2020. The plan envisages measures to raise awareness of gender equality and address gender stereotyping. The Parliament adopted a new Law on Termination of Pregnancy, which removes some of the restrictions and administrative obstacles (compulsory counselling followed by a three-day waiting period) which had been previously introduced in 2013. Gender budgeting provisions were implemented at ministerial level. In 2018, three new crisis centres for victims of sexual violence were set up in Skopje, Tetovo and Kumanovo. However, additional shelters for victims of sexual and gender-based violence and human trafficking will be needed to meet the standards of the Istanbul Convention. The gender equality unit of the Ministry of Labour and Social Policy plays a key coordination role and it needs to be adequately resourced to ensure legal and policy tools are implemented effectively.

The legal framework for **the rights of the child** largely complies with international standards. The amendments to the Criminal Code adopted in December 2018 expand the definition of violence against a child, explicitly covering psychological violence, online violence and peer violence and raise the minimum age for unwed life with a child from 16 to 18. Implementation of legislation needs to be reinforced and stakeholders should make the best interest of the child a guiding principle. The national Coordination Body for Protection of Children from Abuse and Neglect has been monitoring violence against children against a set of indicators. Following the monitoring of the Lanzarote Committee of the Council of Europe, a number of recommendations were issued to the country related to protection of children from sexual abuse, covering for example prevention, awareness-raising and screening of professionals in contact with children.

A new action plan for children is still pending since the last one expired in 2015. The deinstitutionalisation process is under way and resettlement of children to community based care has started, leading to the closure of three residential institutions. Additional community services are needed to identify children at risk and to support Roma and children with disabilities who are victims of discrimination and segregation. 2018 saw an increase in child trafficking and a study found that 8 out of 10 children in the country faced violence. Despite measures taken to improve inter-agency cooperation, coordination in preventing and responding to violence is limited. The Ombudsman's Office confirmed 66 violations of child rights in 2018. The Law on Juvenile Justice is being implemented but access to justice and legal representation should be improved. There were no improvements in the material conditions and availability of education for detained children.

There was some progress in improving the **rights of persons with disabilities**. The national coordinative and monitoring bodies for implementing the UN Convention on the Rights of Persons with Disabilities were established. In October 2018, the UN Committee on the Rights of Persons with Disabilities recommended further efforts to guarantee non-discrimination, to repeal provisions allowing involuntary deprivation of liberty, to improve accessibility, to ensure inclusive education, etc. The government adopted an ambitious National Strategy on Deinstitutionalisation (2018-27) and corresponding action plan. The government is committed to ensuring that by 2020 no child under 3 years old will be institutionalised. The resettlement of some children with disabilities to small community homes has begun. The moratorium on admitting new residents to the Special Institute of Demir Kapija remains in effect but conditions in this institution remain very poor. In 2018, the Ombudsman's Office reported 21 complaints related to discrimination against children with disabilities. *(See also Chapter 19 – Social Policy and employment)*

The rights of **lesbian, gay, bisexual, transgender and intersex** (LGBTI) persons are better protected following amendments to the Criminal Code and adoption of the new Law on Prevention and Protection from Discrimination. Sexual orientation and gender identity are grounds for protection in both. The positive attitude from the political leadership and advocacy by the LGBTI inter-party group of 13 MPs continued. However, societal prejudice, hate speech, discrimination and widespread intolerance are prevalent against LGBTI persons. Incitement to homophobic/transphobic hatred and violence needs to be more effectively prevented and prosecuted. No final convictions have been issued for the 2012, 2013 and 2014 attacks on the LGBTI support centre. Further efforts are needed on tackling and collecting data on hate crimes and hate speech based on sexual orientation and gender identity. The legal framework does not allow for the official recognition of same-sex couples. Transgender persons' access to healthcare remains limited. Preparations to establish legally regulated gender recognition procedures were initiated in November 2018. In January 2019, the ECtHR found the country to be in violation of the Article 8 of the Convention related to the right to private and family life following a case related to the absence of legal gender recognition procedures.

Regarding **procedural rights**, the legal framework notably provides for the presumption of innocence and the right to communicate with a lawyer. Amendments to the Law on Criminal Procedure to transpose provisions of the EU *acquis* related to the right to interpretation and translation, the right to information and victims' rights have yet to be adopted. However, the country already partly provides these rights in practice. There were delays in adopting the law on legal aid which impeded access to justice of the most vulnerable people including children. The Law on Compensation for Victims of Crime has yet to be adopted. The broadcasting of 'Basic Court Skopje 1' issuing verdicts to suspects in cases of the Special Prosecutor's Office in May 2018 and in March 2019 raised concerns on the respect for the presumption of innocence.

Regarding the **protection of minorities**, work is ongoing to strengthen the legal framework on minorities on non-majority communities. The Parliament adopted the law enabling the establishment of a new Ministry of Political System and Inter-Community Relations. This Ministry would take over the functions of the Secretariat for the Implementation of the Ohrid Framework Agreement and of directorates dealing with

communities' issues under the Ministry of Education and Science and the Ministry of Culture. This new Ministry needs to work closely with the Agency for Communities Rights Realisation. Institutions in charge of minority-related policies are politically and ethnically divided, with unclear roles and are left outside the mainstream policy and decision-making process. The absence of bias disaggregated data collection does not allow the level of discrimination faced by members of minorities to be verified. However, the authorities and the media must pay attention to this issue. While the government shows commitment to the integration of all people, including through the work initiated on drafting of a strategy under the motto 'One society for all', more work needs to be done on improving social cohesion. There is no system to monitor the implementation of the recommendations issued by the Advisory Committee of the Framework Convention on National Minorities, and existing measures, mainly funded by donors, are insufficient.

Implementation of the **Roma** inclusion strategy (2014-2020) and corresponding action plans for education, employment, housing and gender, and health, is gradual and much remains to be done on Roma inclusion. The government is committed to continuously increasing funding for Roma integration policies, but the lack of expenditure monitoring, combined with the poor absorption of existing funds, remains a problem.

According to a regional survey on Roma inclusion, the country has fared well compared to its neighbours and has improved in all five priority areas, albeit at different rates. The completion rate of compulsory education stands at 70%. However, this figure is significantly lower than that of the mainstream population living in similar areas. Roma girls are particularly affected, often due to early marriages. Segregation in school remains high, with 40% of marginalised Roma students attending majority Roma schools. Systematic, rather than reactive measures by state institutions are required to address the issue of street children. The Ombudsman's Office reports about 337 child beggars recorded on the streets. Of these, 328 are Roma of all age groups, including babies.

The Roma Information Centres, together with Roma health and education mediators, provide good support. Regarding housing, the objective to reduce the gap between Roma and non-Roma citizens is progressing very slowly and most of the planned measures have not been implemented. Many Roma settlements are not included in existing urban plans and only 17.6% of all allocated social housing is reserved for Roma. At 49%, the unemployment rate of Roma is significantly above that of their non-Roma neighbours. In addition, the number of Roma benefiting from concrete employment measures is very limited. A revision of the mechanism in place to promote Roma employment at all levels is needed. Although efforts have been made to decrease the number of Roma without identification documents, through a public call and the work of civil society organisations, no preventive measures were taken to avoid future cases. There is no mechanism to identify or determine statelessness and no stateless protection status. The number of Roma without identity documents is estimated to be around 700. The set of priority actions identified in the November 2017 Roma seminar are only partially addressed with the monitoring and reporting responsibilities being unclear.

2.2.2 Chapter 24: Justice, freedom and security

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

North Macedonia is **moderately prepared** to implement the *acquis*. **Good progress** was made, including on legal alignment in the area of migration. The operational capacities of law enforcement agencies improved. Good progress was also made in meeting last year's recommendations by implementing the reform of the system of interception of communication in line with the 'Urgent Reform Priorities'. This needs to be reinforced by completing police and intelligence sector reforms. With the adoption of the Strategy for Strengthening the Capacities for Conducting Financial Investigations and Confiscation of Property and the setting up of a dedicated financial investigation unit in the police, major steps were taken to prioritise financial investigations and asset recovery. Migration management efforts continued, including the initialling of an agreement with the EU for cooperation with the European Border and Coast Guard Agency. Systematic registration of migrants and protection-sensitive profiling, to guarantee that their needs are addressed, need to be enhanced. Measures to counter violent extremism and fight terrorism need to continue.

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

- provide all necessary means to effectively implement the Strategy for Strengthening the Capacities for Conducting Financial Investigations and Confiscation of Property;
- ensure that institutional reforms of the security sector (criminal police, financial units, intelligence services, National Coordination Centre for the Fight against Organised Crime) are effective and translated into a proactive policy of implementing the strategic documents and achieving further tangible results;
- ensure that priorities are clearly defined when preventing and fighting terrorism and that the Coordinator's office can effectively perform its mandate.

Fight against organised crime

The country has **some level of preparation** in the fight against organised crime. The legislative framework is broadly in line with European standards. Efforts to implement strategies against organised crime and actively measure their impact need to continue. **Some progress** was also made in meeting last year's recommendations by further improving the track record, stepping up law enforcement cooperation and substantially improving the operational capacity to fight trafficking in human beings. Further progress was made at the operational level by improving the effectiveness of the National Coordination Centre for the Fight against Organised Crime and participating in joint operations with EU Member States and neighbouring countries. However, more needs to be done on threat assessments and on prioritising the fight against money laundering and financial crimes. Coordination remains crucial for all stakeholders involved in fighting organised crime.

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

- based on an improved threat assessment capacity, further bolster the track record of

investigations, prosecutions and convictions for organised crime and money laundering, and demonstrate the ability to effectively dismantle organised criminal networks;

- increase the effectiveness of the national asset recovery system, including by establishing an asset recovery office in line with the EU *acquis*;
- continue the work on establishing a centralised bank account register, in line with the provisions of the 5th EU Money Laundering Directive.

Institutional set-up and legal alignment

The country has 213 uniformed police officers per 100 000 inhabitants compared with the EU average of 318 per 100 000 people in 2016 according to Eurostat. In 2018, 593 new police officers were hired. No new public vacancies were announced. 500 new police candidates started their one-year training programme. The internal organisation and systematisation of the Ministry of the Interior was put on hold, pending ongoing broader security sector reforms that are affecting the intelligence sector.

Key **institutions** in the fight against organised crime include specialised police departments within the Ministry of the Interior that deal with different types of organised crime. In addition, two specialised units deal with financial crimes: the Financial Intelligence Unit under the Ministry of Finance collects information and helps identify suspicious transactions, the Unit for Financial Crime under the Ministry of the Interior also collects information and has investigative powers. To reform the financial crime sector, preparations are underway to set up new specialised financial investigation units within the Customs administration and within the Financial Police Directorate.

Some sectors of the police – border police for instance – are well equipped. The Police Training Centre within the Ministry of the Interior provides both initial and vocational training, however it is not yet fully operational.

The system for intercepting communications was reformed, resulting in the establishment of the Operational Technical Agency (OTA), which became operational on 1 November 2018. The director of the Agency was nominated by the Parliament with a 2/3 majority. The procedure for employing personnel was completed. The OTA is a new independent institution, which upon an anonymised court order, permits the intermediation between the telecom operators and the authorised bodies, to intercept communications for the protection of the security of the state and for the purpose of criminal investigations. Some authorised bodies still need to set up the connection to the OTA. Those which are connected can intercept communications as per their competences. The establishment of OTA is in line with the ‘Urgent Reform Priorities’.

Regarding the **legal framework**, the Criminal Code is broadly in line with European standards and criminalises trafficking in human beings, online child pornography, computer crime and drug trafficking. Amendments were adopted to incorporate the non-punishment principle, so that victims of trafficking in human beings are not punished for offences committed in the course, or as a consequence, of being trafficked.

Legal developments also include amendments to the law on weapons with the view to aligning with the *acquis* on control of small arms and light weapons (SALW) and the Law for the Prevention of Money Laundering and Financing of Terrorism adopted in

June 2018. The Law on the Freezing, Confiscation and Management of Criminal Assets has yet to be further amended and fully harmonised with the recent strategy on Strengthening Capacities for Financial Investigations and Confiscation of Assets. The legal status and functions of the Agency for Management of Confiscated Property need to be strengthened. The Law on Witness Protection was amended to ensure witnesses are included in the protection programme upon the Special Public Prosecutor's Office request due to the high sensitivity of the cases it deals with.

North Macedonia has established a **strategic framework** for fighting organised crime, including the Police Development Strategy and a 2016-2020 action plan, which is being implemented. A national assessment of threats of serious and organised crime in line with EUROPOL's Serious Organised Crime Threats Assessment methodology needs to be developed and should inform decisions on operational priorities in addressing organised crime in the years ahead.

The adoption in February 2018 of the 2018-2020 Strategy for Strengthening the Capacities for Conducting Financial Investigations and Confiscation of Property together with an action plan is a positive step towards introducing a systemic approach for asset recovery. It complements the 2017-2019 National Strategy for the Fight against Money Laundering and Financing of Terrorism and the 2014-2020 National Drugs Strategy. It requires the setting up of separate organisational units for conducting financial investigations in the Public Prosecution Office, the Ministry of the Interior, the Financial Police Directorate and the Customs Administration. Its implementation is ongoing. Four investigative centres are also set up at the main Public Prosecution Office.

The 2018-2022 National Cybersecurity Strategy adopted in July 2018 is an additional effort to address key security issues. It is based on the EU Cybersecurity Strategy and the NATO Cyber Defence Pledge. The relevant 2018-2022 action plan was adopted in December 2018. It covers cyber resilience, cybercrime and cyber defence. In addition, the Cybercrime Strategy was adopted in September 2018.

Implementation and enforcement capacity

The number of criminal investigations opened at the prosecutor's office in relation to criminal organised groups increases regularly. In 2018, 23 new cases were under investigation (compared to 12 cases in 2017 and 16 cases in 2016). The number of indictments also increased and 87 individuals suspected of being members of organised criminal groups were indicted (against 37 in 2017). The courts have issued first instance judgments in 11 cases and have pronounced prison sentences against 29 individuals ranging from one to 12 years. Most of the investigations and trials concern drug trafficking and smuggling of migrants. The department of the Ministry of the Interior dealing with organised crime launched financial investigations in four cases against 57 individuals. Of those individuals, 39 are suspects so far. Those figures do not reflect the total number of cases where serious criminal offences such as smuggling migrants are committed by one or two individuals and therefore do not fall under the strict definition of organised criminal networks but do constitute offences subject to investigations and prosecution. The Customs administration also conducted two financial investigations on organised crime.

The external oversight mechanism has been established to ensure the independent supervision of law enforcement authorities and address potential abuses. Following the amendments to the relevant laws adopted by the Parliament, the Special Department for investigation and prosecution of crimes committed by the individuals with police powers and members of the prison police in the Basic Public Prosecutor's Office for Prosecuting Organised Crime and Corruption was set up in December 2018. Since its establishment this department has opened cases against 15 people, two of whom have been indicted and two of whom are in detention. The civil control mechanism within the Ombudsman needs to be established for the whole oversight mechanism to be fully operational. This is an important step in securing accountability of law enforcement bodies.

The **National Coordination Centre for the Fight against Organised Crime** has significantly improved its operational capacity. Relevant institutions such as the Ministry of the Interior, Customs, the Financial Intelligence Unit, and the Public Revenue Office, assigned their representatives and are connected to the centre. All participating authorities have access to their respective databases. Only the Public Prosecutor's Office and financial police still exchange information via email in the absence of their own database. The centre has demonstrated its capacity to efficiently collect, exchange, and analyse information. Verifications were undertaken for 316 people and 57 legal entities linked to organised or serious crimes with effective results.

Progress was made in further improving the **relations between prosecutors, the police and other relevant bodies** and agencies as a result of the long overdue establishment of investigative centres in the respective Public Prosecutor's Offices in Skopje, Kumanovo and Tetovo, and the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption. The prosecution service can now fully play its leading role in the investigations.

Organised crime and corruption need to be further prioritised in terms of human resources in the Prosecution Office. The Basic Public Prosecutor's Office for Prosecuting Organised Crime and Corruption does not have enough public prosecutors (only 10 out of the planned 15 positions are filled). Inter-operability has been set up between the police, the Public Prosecutor's Office, and other law enforcement bodies and its implementation should be monitored. The implementation of the merit-based recruitment policy and career system enshrined by the law requires continuous scrutiny. Special investigative measures were used in two organised crime cases. The concept of **intelligence-led policing** is being implemented but needs to be strengthened and aligned with ongoing judicial and police reforms. The country needs to continue its efforts to act along the priorities of the EU policy cycle.

The country participates in **international police cooperation** through the main cooperation channels. It has access to various platforms and databases as well as direct communication with Interpol. Cooperation with Europol is well-established following the conclusion of a strategic agreement in 2007 and an operational agreement in 2011. A liaison officer from the country has been posted in Europol headquarters in The Hague since 2015. In 2018, the country participated in the annual planning of operational actions under the European Multidisciplinary Platform against Criminal Threats (EMPACT) on facilitation of irregular migration. The country participated in three regional operations within the framework of the EMPACT Joint Action Days. It

also committed itself to participate in five operational actions together with EU Member States to combat migrant smuggling in 2019. The country's law enforcement authorities should make use of regional initiatives, such as the Joint Operational Office in Vienna, and the Task Force Western Balkans, which is serving as a regional operational platform for international investigations into migrant-smuggling organised - crime groups.

Law enforcement and prosecution bodies must further build up operational capacity, including for systematically conducting **financial investigations**. Despite some progress, there is still a need to further improve coordination, operational capacity and the systemic exchange of data. Establishing a central bank account register whose access would significantly contribute to the quality of financial investigations, is pending the finalisation and adoption of the new Law on Payment Services.

The **confiscation of criminal assets** should now also be a strategic priority in the national fight against organised crime, terrorism and high-level corruption. The country's tools for freezing, managing and confiscating criminal assets are still not effective enough. A more integrated operational approach to effectively ensure asset recovery is needed.

Following the implementation of the National Strategy for Combating **Trafficking in Human Beings and Illegal Migration** (2017-2020), a dedicated Task Force was set up, including representatives from the Ministry of the Interior and two prosecutors from the Basic Public Prosecutor's Office for Prosecuting Organised Crime and Corruption. This is a positive step towards a greater efficiency in fighting trafficking in human beings and illegal migration as it ensures real time communication between the relevant authorities. In February 2019, this approach resulted in the arrest of a group of 21 members against whom criminal charges for smuggling migrants were brought. The task force supported the arrest of members of three other groups against which investigations are currently ongoing. In one group involving nine individuals, measures were adopted to temporarily freeze 53 bank accounts of four physical entities and 24 bank accounts of three legal entities. Measures were adopted to ensure the seizure of 13 real estate properties. Final sentences were pronounced against 11 individuals for migrant smuggling related activities ranging from 1 to 6 years imprisonment. Figures show that the number of detected smuggling cases increased from 17 in 2017 to 58 in 2018. The Basic Public Prosecutor's Office for Prosecuting Organised Crime and Corruption filed criminal charges in 44 cases involving a total of 73 individuals.

Against Trafficking in Human beings, five mobile teams for identifying vulnerable categories, including victims of human trafficking were formally established on 5 February 2018 in Skopje, Bitola, Kumanovo, Tetovo and Gevgelija. The mobile teams are composed of members of relevant institutions (Ministry of the Interior and the Ministry of Labour and Social Policy) and civil society organisations. In 2018, a higher number of victims of trafficking were identified compared to last year, 10 including 6 minors, and 6 criminal charges were brought against 17 individuals. In one case, three people were sentenced between 13 and 12 years in prison.

Criminal charges for **money laundering** were brought in 20 cases against 23 individuals, and two final judgements were pronounced against two individuals. All relevant institutions must properly apply anti-money laundering legislation. Both the

Financial Police Directorate and the Financial Intelligence Unit have insufficient resources and capacities.

On **small arms and light weapons** there are operational results with 129 pieces of firearms seized. In 2017, no arms were destroyed, while in 2018, 590 pieces of various dysfunctional, damaged and unusable weapons were destroyed. In 2018, 187 criminal offenses on illegal production, holding and trading with weapons or explosive materials were detected, for which 203 perpetrators and two legal entities were criminally charged. This is a 45% increase in the detection rate compared with last year. 18 verdicts were pronounced against 20 individuals. In 18 cases, the items used for committing the crime were seized. There are specific rules for the import and sale of weapons and ammunition including specific regimes and procedures for four distinct categories. The country also participated in one of the regional operations under the European Multidisciplinary Platform against Criminal Threats for the prevention of illegal trade and smuggling of weapons and ammunition, illegal migration, illicit drug trafficking and fraud with documents.

Regarding **cybercrime**, a total of 105 computer crimes were detected including two involving the production and distribution of child pornography and two involving displaying pornographic material to a child. There are no established procedures so far to systematically monitor the darknet. North Macedonia should now also strengthen a more effective law enforcement response focusing on detection, traceability and the prosecution of cyber criminals.

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

Cooperation in the field of drugs

Institutional set-up and legal alignment

Progress was made in taking steps for aligning drugs-related legislation with the EU *acquis* through amending the Law on Drug and Psychotropic Substance Control. The draft amendments aim to establish a stronger system for detecting new psychoactive substances. This needs to be supported by the formal establishment of a national early warning system as required by the EU *acquis*. A National Drugs Observatory exists since 2007 in the Ministry of Health.

The 2014-2020 National Drug Strategy is aligned with the 2013-2020 EU Drugs Strategy and its new 2018-2020 action plan, has been adopted .

Implementation and enforcement capacity

In 2018, good progress was made in developing the track record of seizing drugs and dismantling organised crime groups. There was an increase in the detection of drug-related criminal offences and in the number of perpetrators. There were 673 criminal acts detected on illicit production and illegal circulation of narcotics, psychoactive substances and precursors (467 in 2017) involving 782 perpetrators (532 in 2017) and 116 acts of facilitating the use of narcotics (88 in 2017) with 124 perpetrators (97 in 2017). Altogether, 1 538 kilograms of various narcotics were seized, more than four times the quantity of narcotics seized in 2017. The largest share was marijuana with 1 532 kg seized, followed by heroin with 1.9 kg seized, and cocaine with 587 grams seized. Investigations resulted in the dismantling of eight organised criminal groups

involving 46 people trafficking marijuana. Cooperation with neighbouring countries is good, including ad-hoc cooperation. In 2018, one international drug shipment of liquid cocaine was intercepted. Five international criminal investigations were also conducted, confirming the good cooperation with third countries including under EMPACT.

The operational capacity of the National Drugs Observatory needs to be strengthened to allow it to correctly implement its drug-monitoring tasks. Data collection, analysis and reporting in line with the European Monitoring Centre for Drugs and Drug Addiction requirements and methodologies requires further strengthening.

The lack of secure storage for drugs and drug precursors prior to destruction remains an issue of concern. According to current legislation, it is not possible to keep only a small sample as material evidence for court proceedings, instead of the entire seized quantity. An appropriate process for destroying precursors has yet to be set up.

Fight against terrorism

Institutional set-up and legal alignment

There is National Coordinator for Counter-Terrorism and Countering Violent Extremism, and two deputies responsible for preventing violent extremism and for fighting terrorism. The Coordinator is the head of the National Committee for Countering Violent Extremism and Countering Terrorism. The Office of the National Coordinator and the National Committee have improved their capacities through various basic and specialised training and are more operational. Cooperation has increased between law enforcement agencies, intelligence services and relevant key state institutions (education, health, and social services). More needs to be done on relations with local communities and civil society organisations. Necessary human and financial resources need being secured.

The Basic Public Prosecutor's Office for Prosecuting Organised Crime and Corruption is responsible for terrorism related offences. So far, the Bureau for Security and Counterintelligence is responsible for internal security and counterintelligence, including foreign fighter returnees, but it is undergoing major reforms.

The Criminal Code is largely aligned with the *acquis* and international instruments on anti-terrorism.

The 2018-2022 National Counter Terrorism Strategy and the 2018-2022 Strategy for Countering Violent Extremism, and their relevant action plans, by which the government moved from a purely security based approach to a more integrated and preventive approach, are being implemented. Steps have been taken to set up a community action team involving various stakeholders at local level to support prevention and early identification of radicalisation in the communities. Training was organised for education personnel. In October 2018, the country signed the Joint EU-Western Balkans Action Plan on Counter-Terrorism, which sets out concrete steps for enhanced cooperation in countering terrorism and preventing radicalisation over the next two years.

Implementation and enforcement capacity

There have been no anti-terrorist operations since November 2016, when 25 people (operations dubbed "Cell 1", "cell 2", "cell 3") were convicted on charges of

participating in foreign military, police and paramilitary formations. In 2018, six of those convicted were released from prison. But there is no systematic mechanism for monitoring them after their release. Systematic mechanisms are needed to monitor foreign terrorist fighters once returned and/or released.

It is estimated that around 106 of the country's citizens left for conflict zones (Syria and Iraq) since 2012. No one left in 2018. Approximately 103, i.e. 2/3 of the ones that left, have since returned to the country, around 20 are still in Syria and 30 have been killed there.

Steps were undertaken for de-radicalisation programs in prisons. This needs to continue.

North Macedonia is actively participating in the implementation of the Western Balkan Counter Terrorism Initiative (WBCTi).

Legal and irregular migration

Institutional set-up and legal alignment

Progress was made in improving the legal framework with the adoption of amendments to the Law on International and Temporary Protection and the Law on Foreigners. The crisis situation at the country's borders was extended until 30 June 2019, authorising continued deployment of the army.

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

Implementation and enforcement capacity

North Macedonia continues to play an active and constructive role in the management of mixed migration flows. It cooperates effectively with EU Member States and neighbouring countries. Considerable efforts to ensure basic living conditions and services for all migrants staying in the country continued. There are still uncertainties on the scope and structure of migration flows. The inconsistent registration of migrants apprehended in irregular movements prevents regular and adequate protection-sensitive profiling and the referral to national protection mechanisms. With the assistance of the army and deployment of guest officers from EU Member States effective control at the southern border has been ensured. However, the problem of regular smuggling activities at the northern border needs to be further addressed.

The country continues to be under severe pressure due to its geographic location. The migratory flows continued to be largely transitory, with most migrants arriving from Greece and leaving North Macedonia after a couple of days. The number of officially reported illegal crossings has substantially increased compared with the previous year (16 895 attempts in 2018 compared to 2 831 in 2017) reportedly mainly on the southern border with Greece (13 494). This could include repeated attempts from the same individuals. Most migrants are from Pakistan, Iran and Afghanistan. The number of migrants transiting the country is considered to be much higher than official figures.

About 32 500 migrants are considered to have illegally crossed the country's borders in both directions since the beginning of 2018, including many Iranians crossing illegally from Serbia and moving onwards to Greece.

As of November 2018, around 60 people are stranded in the country. 44 criminal charges were filed against 62 individuals for smuggling migrants resulting in verdicts in nine cases (16 convicted, charges dismissed against 7). Combating smuggling networks needs to be a priority.

The Resolution on Migration Policy adopted by the government in 2015 is the main policy document in this field. One of its strategic priorities is to identify migrants, profile them, and refer them to the appropriate protection system.

Progress was made on improving reception conditions in the asylum centre in Vizbegovo. In 2018, a total of 299 individuals applied for asylum. The country continued to arbitrarily detain a number of people apprehended in irregular movements in order to ensure their witness statements in court cases against smugglers. The transit centres for migrants near Gevgelija and Tabanovce are almost empty. Neither of the transit centres is suitable for long-term stays, and the authorities continue to be reluctant to provide more than a temporary stay.

The readmission agreement with the EU is being implemented in a satisfactory manner in regards to own nationals. The return rate, which remains above 100%, shows that citizens who are ordered to leave the EU are effectively returned, with a high share of Roma. The country needs to develop services for returnees and to revive the coordinating body on returnees. In 2018, the number of third country nationals who returned to their country of origin remained low. Assisted voluntary returns procedures were carried out for 21 migrants. The country needs to put in place a return mechanism for irregular migrants, in line with the *acquis*.

More effort is needed to successfully reintegrate returnees, especially the most vulnerable such as Roma - who represent a large part of returns. Increased cooperation communication and coordination is needed between central level governments, among central and local authorities and with international organisations and NGOs active in the reintegration of returnees. The government should consider reviving and reinforcing the coordination body of returnees under the leadership of the Ministry of Labour and Social Policy.

Asylum

Institutional set-up and legal alignment

Further important steps were taken to align the national legislation with the EU *acquis*. A new Law on International and Temporary Protection was adopted, improving the concept of safe third country and family reunification. A list of safe countries of origin was adopted. Standard Operating Procedures (SOPs) on unaccompanied children and on vulnerable categories of foreigners are in place but further efforts are necessary to ensure its systematic implementation.

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

The 2017-2027 Integration Strategy for Refugees and Foreigners has not yet been adopted. There is a programme and budget allocated for its implementation under the Ministry of Labour and Social Policy's responsibility. After a decade of existence, the Ministry abolished the integration centre, a separate unit tasked with initiating, supporting and coordinating activities for promoting integration. Instead, the Inter-Municipal centre for Social Work Skopje took over some of the integration tasks. More efforts are needed to address negative public attitudes towards migrants and refugees.

Implementation and enforcement capacity

The Ministry of the Interior is upgrading the existing database on foreigners by developing a new asylum module to provide a case-management tool for processing asylum claims.

Progress was made in reducing the time it takes to process asylum applications and arbitrary practices related to accessing the asylum procedure are no longer a concern. However, the quality of decision making on asylum procedures should be improved, including at the appeal level. Difficulties persist in providing translation during interviews with asylum-seekers and free legal aid is not accessible in practice due to a number of requirements which asylum seekers are not able to fulfil.

In the absence of an adequate system for the orderly management of irregular movements, in particular the possibility to effectively implement some readmission arrangements with neighbouring countries, illegal returns continued. Since January 2018, international organisations recorded 8 823 persons returned irregularly to Greece. On 1 June 2018, a protocol related to the readmission agreement with Kosovo* entered into force.

In 2018, 299 applications for asylum were submitted, six individuals were awarded subsidiary protection, but none were granted refugee status. One refugee status was granted for one person from Kosovo present in the country since 1999, a new-born at the time. Most cases were discontinued as the applicants disappeared before a decision was taken. Most decisions involved denying or revoking asylum. Decisions on the cessation of the right of asylum mainly affected Kosovo refugees, whose status was discontinued after 18 years of residence in the country. These individuals remain on the territory with no legal status. Kosovo Roma were particularly affected. From September 2017 to December 2018, subsidiary protection was lifted in 64 cases affecting 184 individuals, all Kosovo Roma, including six cases on grounds of threat to national security. These cases are being challenged before the administrative court.

Visa policy

In order to ensure a well-managed migration and security environment as the underlying condition for the continuous fulfilment of the benchmarks, the country needs to ensure full alignment with the EU visa policy. Since 2009, there has been an operational link between the country's diplomatic and consular missions, the national visa information system N-Vis and the Visa Centre at the Ministry of Foreign Affairs.

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

The visa-free travel regime with the EU continued to work smoothly. The national authorities continued cooperation to tackle unfounded asylum applications made in Schengen members and associated countries. The number of applications decreased. It came down from 505 to 285 six months later.

Schengen and external borders

Institutional set-up and legal alignment

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

The legislative framework for the management of external borders is largely aligned with EU standards. In line with the current Police development strategy, there are plans to further upgrade the strategic and legal framework. The 2015–19 Integrated Border Management strategy is aligned with the 2006 EU concept on Integrated Border Management. A concept and methodology of risk management for the border operations is in place and it regulates the management and implementation of risk analysis by the border police.

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

Implementation and enforcement capacity

Mixed police patrols are being deployed on the southern border involving members of the border police of Austria, Croatia, the Czech Republic, Hungary, Poland, and Slovakia, to manage migration flows. The national authorities cooperate extensively with the European Border and Coast Guard Agency (EBCGA), including as observers in joint operations. The text of the status agreement between the EU and the country was initialled in July 2018. Following the signature and ratification of the agreement and the development of an operational plan, the teams will be deployed in the country. North Macedonia actively participated in the Western Balkan Risk Analysis network.

The implementation of the 2015-2019 Integrated Border Management Strategy and related action plan need to continue. Although the National Coordination Centre for Integrated Border Management prepares regular reports on risk analysis, its institutional and operational capacity still needs to be strengthened. IT and technical expertise must be stepped up, as a matter of priority.

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

There continues to be good cooperation with neighbouring countries. There is a smooth implementation of border agreements with all neighbouring countries. A formal agreement has not yet been concluded with Greece, but bilateral technical cooperation works in practice. Joint border patrols conducted with Albania, Bulgaria, Kosovo, and

Serbia and the joint contact centres with these countries continued with regular exchanges of information. There are currently two common border-crossing points for local traffic with Serbia and Albania.

Judicial cooperation in civil and criminal matters

Regarding the legal framework on cooperation in *civil and commercial matters*, procedures are pending for accession to and ratification of the following Hague Conventions: 1996 Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Cooperation in Respect of Parental Responsibility and Measures for Protection of Children; 2005 Choice of Court Convention; and 2007 Convention on the International recovery of Child Support and Other Forms of Family Maintenance and its Protocol for the Law Applicable to Maintenance. The country issued 264 requests for civil cases and received 384.

For judicial cooperation in *criminal matters*, the country issued 184 requests and received 804. The country sent 10 requests for the transfer of sentenced nationals back to their country of origin, and received 76 requests. It issued 200 extradition requests and received 87.

The Ministry of Justice Department of International Legal Assistance works with two-thirds of its planned staff. Six of them work in the unit that handles mutual legal assistance requests in criminal and civil matters, and four work in the unit that handles the extradition and transfer of sentenced individuals. There is a new software for registering cases and for the movement of requests for mutual legal assistance and statistical reports.

The national liaison prosecutor for Eurojust was appointed and started working in November 2018. In addition to the contact point that is in place since 2011, three additional contact points for relations with Eurojust were appointed in August 2018, creating conditions for intensifying cooperation and already resulting in an improved exchange of information.

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

3. FUNDAMENTALS FIRST: ECONOMIC DEVELOPMENT AND COMPETITIVENESS

North Macedonia: Key economic figures	2010-15 average	2016	2017	2018
GDP per capita (% of EU-28 in PPS)	35.0	37.0	37.0	:
Real GDP growth	2.6	2.9	0.2	2.7
Economic activity rate of the population aged 15-64 (%) , total	62.0	64.5	65.3	65.4
<i>female</i>	48.7	50.8	51.7	52.2
<i>male</i>	76.8	77.8	78.4	78.3
Unemployment rate (%) , total	30.0	24.0	22.5	21.0
<i>female</i>	24.4	22.9	22.0	20.1
<i>male</i>	27.3	24.6	22.9	21.5
Employment (annual growth %)	1.9	2.4	2.7	2.5
Nominal wages (annual growth %)	1.2	2.0	2.6	5.7
Consumer price index (annual growth %)	1.8	-0.2	1.4	1.5
Exchange rate against EUR	:	61.60	61.57	61.51
Current account balance (% of GDP)	-2.0	-2.9	-1.0	-0.3
Net foreign direct investment, FDI (% of GDP)	2.6	3.3	1.8	5.8
General government balance (% of GDP)	-3.4	-2.7	-2.7	-1.8
General government debt (% of GDP)	32.7	39.6	39.3	40.5

Source: Eurostat and national sources

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

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

3.1. The existence of a functioning market economy

North Macedonia has made **some progress** over the last 12 months and is at a **good level of preparation** in developing a functioning market economy. Economic growth resumed after a year of stagnation, though investment remained subdued. The government took measures to improve public finance management and transparency. It adopted reforms of income taxation and the pensions system. However, the composition of spending worsened, and fiscal consolidation needs to be more ambitious in order to put public finances on a sustainable path. The functioning of the labour market is impaired by persisting structural problems.

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

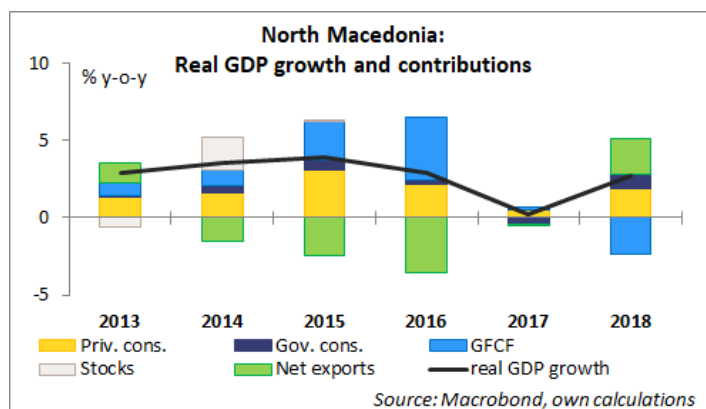
- stabilise the debt ratio by moving towards a balanced primary budget and by improving revenue collection;
- improve fiscal governance by adopting fiscal rules and a proper medium-term expenditure framework;
- implement measures to reduce the informal economy in accordance with the 2018-2020 strategy and action plan;
- implement the youth guarantee in the whole territory of the country with an emphasis on underdeveloped regions.

Economic governance

The government pursues market-based economic policies, with an increased focus on social cohesion, while also enhancing state aid. In collaboration with the IMF, the World Bank and the European Commission, the government implemented reforms to improve public finance management, and to introduce progressive income taxation. It adopted changes to the pensions system, which are expected to lead to lower pension expenditure and higher government revenue in the medium term. The government continued to implement the 2017 public administration reform strategy. It took steps to ensure the independence of the judiciary, and to fight corruption. Financial support for business investment and employment was increased, while criteria for and beneficiaries of state aid remained opaque. Minimum wages were raised, while productivity growth is subdued and the informal economy remains sizeable. The policy guidance jointly agreed at the May 2018 Economic and Financial Dialogue between the EU and the Western Balkans and Turkey has been partially implemented.

Macroeconomic stability

Economic growth picked up in 2018, but investment remained muted. After stagnating in 2017 as confidence suffered due to political uncertainty, GDP growth accelerated to 2.7% y-o-y⁵. Consumer spending was boosted by rising wages, transfers, and household credit.



Investment, however, which had been increasing at an average annual rate of 5% between 2012 and 2016, did not recover from the trough it entered in 2017. Manufacturing output continued to expand, though at a slower pace than the average of the preceding 5 years. Convergence with EU income levels remains

sluggish. Real GDP per capita has increased from 34% of the EU-28 average in 2012 to 37% in 2017.

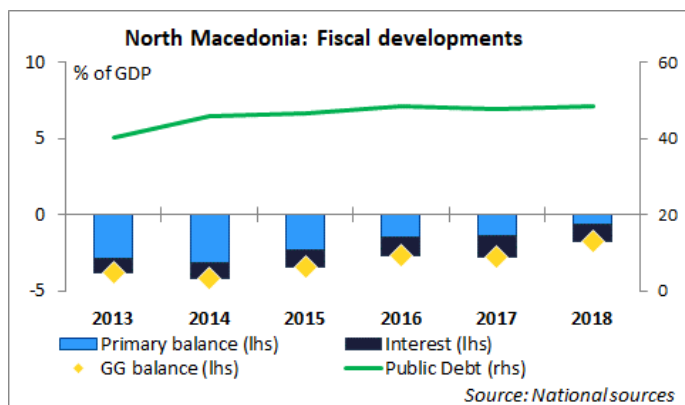
External vulnerabilities remain contained. The current account deficit narrowed by 0.7 percentage points (pps) year over year (y-o-y) in 2018, to 0.3% of estimated GDP,

⁵ According to a first estimate from the national statistical office.

driven by further improvement in the trade balance. Private transfers remained stable compared to 2017, but still below their average of the past 5 years, by over 1pp. Inflows from foreign direct investment also increased markedly in 2018 after a slump in 2017 and stood at 5.8% of GDP, well above their average of 2.6% in the preceding 5 years. External debt has, however, been rising rapidly since 2009 on the back of heavy public sector borrowing abroad and rising intercompany debt. At 74% of GDP at the end of 2018, it is higher by 4pps than the average in 2013-2017. Moreover, the high degree of euroisation of banks' loans and deposits poses a further challenge on the external side. Foreign exchange reserves were replenished in 2018 after having dropped in the previous year, which more than compensated for the government's early partial repayment of a Eurobond due in 2020. At the end of 2018, reserves stood some 23% higher than 1 year earlier and covered some 4-5 months of prospective imports.

The monetary policy stance remains supportive of price stability and the currency peg. In 2018, consumer prices increased by 1.5% on average, only slightly faster than in the previous year (1.4%). Inflation was driven by rising energy prices and related spill overs, in particular to the transport sector. Core inflation remained muted. Stable foreign exchange markets and solid economic fundamentals prompted the central bank between March 2018 and March 2019 to lower the key interest rate in four consecutive steps of 25 basis points (bps) each to a historic low of 2.5%. The central bank continued to pursue the 'denarisation' of banks' balance sheets, with moderate success. The share of foreign currency-denominated loans to total loans dropped further, to 41.4% at the end of 2018 (-1.1pps y-o-y), but remains high. Overall, the current monetary policy stance is considered to be in line with economic fundamentals, given, in particular, still moderate inflation dynamics, low risks to external stability and a fairly mild pick-up in corporate lending.

The composition of public spending has worsened. Government expenditure has been increasingly tilted towards current expenditure over the last 6 years. Social transfers made up half of total expenditure in 2018, only a slight decline from the preceding year. The proportion of capital expenditure, after having risen between 2009 and 2012, has declined since, from 12% in 2012 to 6% in 2018. Overall, the improvement in primary fiscal deficits between



2015 and 2018 mainly resulted from under-implementation of capital expenditure (however, this does not account for capital expenditure carried out by off-budget entities). Including the public enterprise for state roads (PESR), primary deficits amounted on average to around 2.4% of GDP between 2008 and 2017. Smaller deficits are needed to ensure the stabilisation of public debt in the medium- to long run. The government has taken some measures to raise revenue and tackle the pensions deficit. The 2019 budget incorporates higher pension contribution rates, and a change of pension indexation to inflation-only, as well as a return to progressive income taxation,

and an increase in capital gains tax. Yet, increased state aid and social transfers have added risks to fiscal consolidation.

Fiscal deficits drive public debt levels. Public debt, in terms of GDP, dropped slightly in 2017 for the first time since 2009 and increased again only marginally in 2018, to 48.4% at the end of the year. The government financed a large part of the fiscal deficit and debt redemption from its deposits at the central bank and from foreign reserve accumulation. Vulnerabilities arise from the high share of foreign-currency denominated debt (about 80%), which increased in the last years, and a large share of short-term maturities. With the growing reliance on Eurobonds, the floating rate-share of debt (about 35%) has been decreasing in recent years.

The management of public finances improved further. The government continued the clearance of unpaid public sector liabilities and previously blocked VAT refunds, and set up accounting tools to prevent the build-up of future arrears. The implementation of the Public Financial Management Reform Programme, which was adopted in December 2017, is on track for the most part. However, the new organic budget law, which sets out fiscal rules, a medium-term budget framework, and the establishment of an independent fiscal council has not yet been adopted. Moreover, the borrowing of public enterprises tasked with major public infrastructure works increasingly drives public debt and contingent liabilities for the government. The financing of these off-budget entities remains opaque, and is generally not included in general government fiscal reporting even where required by statistical standards.

The policy stance needs further adjustment to address economic and fiscal challenges. The current policy mix of expansive fiscal policy and accommodating monetary policy is still largely appropriate given the moderate rebound of economic activity amidst contained inflation. The government's reforms to reduce the pension deficit and return to progressive income taxation are likely to improve public finances in the medium-term. However, fiscal space has narrowed in past years and the recent stepping-up of income support and state aid carries new risks to fiscal sustainability. In addition, the increase in minimum wages poses a challenge for competitiveness given stagnating labour productivity and shortcomings in workers' skills. Addressing these issues requires: (i) a well-calibrated interaction between more ambitious fiscal consolidation through lower primary deficits and preservation of growth-enhancing capital expenditure; (ii) further structural reforms to make labour and product markets more competitive; and (iii) progress in the rule of law and the fight against corruption.

Functioning of product markets

Business environment

Contract enforcement is still inefficient. Institutional capacity to enforce the law remains weak, and resolving a commercial dispute through a court is time-consuming and costly. Some optimism for business comes from the government's commitment to reduce the number of unannounced inspections and the amount of para-fiscal fees. The legislation on inspections is currently being amended with a view to also reducing the fines for various misdemeanours. It is important to ensure that the new legislation introducing transparent inspections procedures carried out by inspectorates with clear mandates is applied. The delays in VAT returns and public bodies' compliance with their payment obligations to the private sector as required by the EU Late Payment

Directive continue to impact negatively on companies' liquidity. Legislative reforms are under way to improve the independence and impartiality of the courts. Amendments to relevant laws concerning disciplinary liability of judges and procedures have been adopted. In 2018, the number of new companies decreased by 5% compared with the previous year. No further measures were taken in the reporting period to simplify company registration. Deletions on the company register decreased by 39% and new bankruptcy procedures by 48%. The new bankruptcy law is still under preparation.

Competition from the informal economy weighs on the competitiveness of the formal private sector. The size of the informal economy, estimated by the national statistical office at about 17.4% of total output in 2016, has decreased only slowly over the past years, in spite of previous measures. In 2018, the government adopted a strategy and action plan to reduce informal employment, outlining a number of measures for the formalisation of jobs and targeting shortcomings in the business environment considered likely to drive firms to informality. Companies define the large shadow economy and the entrenched corruption as major obstacles to doing business and as negatively affecting investment behaviour.

State influence on the product market

Private ownership is dominant, but the transparency of state aid is still an issue. At the end of October 2018, the number of companies in which the government held a stake remained the same as in the three preceding years (16 companies in full state ownership). The value of state assets as a percentage of GDP remained at the level of previous years (11.4%). However, the governance of state-owned enterprises (SOE) falls behind on international good practice on some counts. Companies continue to be subject to para-fiscal charges with no clear purpose, in particular at local level. In addition, the large share of state-owned land remains an obstacle to agricultural development, restricting its use as collateral. Transparency on selection procedures and beneficiaries of state aid, which was enhanced through the government's 'Plan for Economic Growth' is still an issue. There is no single state aid registry, which undermines the capacity of the Commission for Protection of Competition (CPC) to disclose, monitor or evaluate the effectiveness of state aid. The regime's compatibility with EU rules is also questionable.

Privatisation and Restructuring

There were no further privatisations of state-owned companies in the reporting period. The government ruled out the privatisation of electricity producer 'ELEM'. The company is putting in place ownership unbundling, in line with the Third EU Energy Package. The restructuring of the privatised tobacco company 'Tutunski kombinat AD Prilep', one of the companies with the biggest government share, which entered into a strategic partnership with Philip Morris in 2014, is proceeding slowly. The government is still in the preparatory stages of privatising the composite material producer 'Eurokompozit AD Prilep'.

Functioning of the financial market

Financial stability

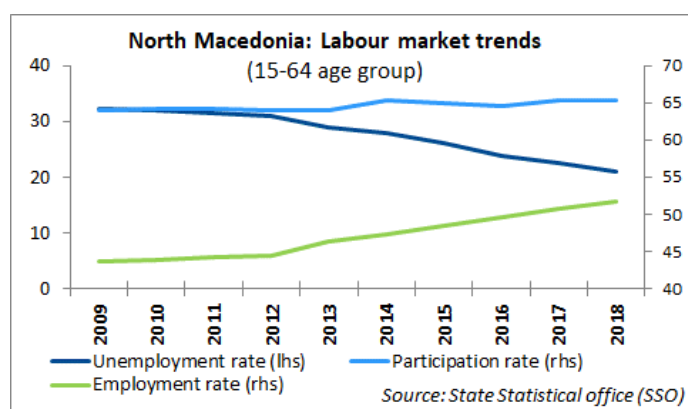
The banking sector further improved its resilience. Banks dominate the country's financial sector, even though their share in total financial sector assets fell to 83% in

2017, down from 88% in 2013. Concentration remains high and unchanged compared with previous years, with some 58% of assets held by the three biggest banks (out of 15). Liquidity is abundant — liquid assets account for one third of total assets and cover more than half of short-term liabilities. The capital adequacy ratio rose further in 2018, well exceeding the regulatory minimum. The share of non-performing loans (NPL) in total loans to the non-financial sector (including mandatory write-offs) dropped by 1.1pps y-o-y to 5.2% at the end of 2018. The decline is mainly due to the collection of non-performing claims in the corporate sector. However, a proportion of NPL was shifted off banks' balance sheet, impeding loan restructuring. The share of euro-denominated deposits and loans remains high, in spite of a number of measures by the central bank to incentivise lending and saving in local currency.

Access to finance

The level of financial intermediation deepened further. Financial sector assets rose further during the reporting period, to 76.2% of GDP (+1.3pps y-o-y) at the end of 2018. Private, non-financial sector loans rose by an average of 6.2% on the previous year. Households accounted for most of the credit increase, while growth of corporate credit, which has been picking up continuously since autumn 2017, also accelerated. However, strict collateral requirements and complex application procedures remain a problem for loan seekers. Commercial bank loans remain by far the main source of financing for small and medium-sized businesses.

Functioning of the labour market



Declining unemployment conceals structural problems. Supported by government programmes, job creation continued at a solid, though decreasing pace (2.4% on average between 2012 and 2018). Amidst a declining labour force, the average annual unemployment rate (15-64 age group) dropped by almost 10 pps to 21% between 2012 and 2018.

However, structural problems in the labour market impair the economy's potential to raise productivity. The decrease in overall unemployment partly reflects low activity rates. The gender gap remains significant, with about 78% of men participating in the labour market, compared with 52% of women, with little change over the past 5 years. Youth unemployment, which has slowly, but steadily declined in recent years, remains high. The employment rate has increased from 44% in 2012 to 51.7% in 2018, but remains low by regional comparison. Around 80% of unemployed are long-term unemployed, reflecting the skills mismatch. In the last 5 years the labour force declined by almost 1%, mainly because of high emigration.

Informal employment continues to decline, but the proportion remains high. The proportion of informal employment, at 18.1% in 2017, has decreased steadily from 28.6% in 2008, but remains significant, especially for the low-skilled. The high labour

tax wedge affects participation and formal employment. In August 2018, the government adopted an action plan to implement its 2018-2020 strategy for incentivising the formalisation of informal work, flanked by improvements to the administration's monitoring capacity. The government has also taken measures to curb cash and 'envelope' payments.

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

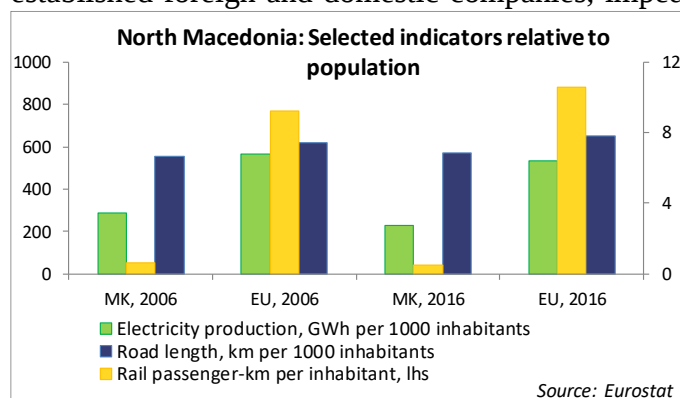
North Macedonia has made **some progress** and is **moderately prepared** to cope with competitive pressures and market forces within the EU. Integration with the EU in trade and investment deepened further. Exports and manufacturing output diversified further towards higher-value products. However, skills shortages, and a lack of skills alignment with those required by companies, reflecting shortcomings in education curricula, as well as infrastructure investment gaps impair labour productivity and the competitiveness of the economy.

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

- complete investment in road and rail transport;
- strengthen governance and efficiency of spending in the education sector in order to accelerate the modernisation of the education system at all level;
- address the causes for weak integration of domestic companies in global value chains.

Education and innovation

The skills mismatch is obstructing competitiveness and growth. Public expenditure on education — around 4% of GDP on average over the last 5 years — is only somewhat lower than the EU average. However, enrolment and completion rates in secondary (about 87% completion) and post-secondary education remain below the EU average and have risen only marginally in this period. Education outcomes are below most regional peers, and lower than could be expected from the country's income level, as shown in the latest (2015) PISA ranking and the 2018 World Bank's Human Capital Index. The gap between skills offered by graduates and those sought by companies, restrains potential growth and is exacerbated by the large-scale emigration of high-skilled labour. The government has piloted reformed vocational curricula, including grants for cooperation between companies and schools. In spring 2018, it adopted a new education strategy, but implementation is largely outstanding. Reform of quality assurance and standardisation in primary and secondary education is also still on the agenda. The lack of qualified workers further complicates the cooperation between established foreign and domestic companies, impeding the structural transformation of the economy.



Public and private spending on research and development (R&D) remains low. At 0.4% of GDP in 2017, the economy's expenditure on research and

innovation has not increased over recent years, and remains significantly below the EU average (2% in 2016). The business sector accounts for only around 26% of overall R&D expenditure. The government supports private R&D through the Innovation Fund, which started disbursements in 2015, but had a slow take-up. In 2018, funds were bolstered and the regulatory framework was amended resulting in an increase in disbursements.

Physical capital and quality of infrastructure

Investment gaps hamper productivity growth. The quality of the capital stock is generally low, even though foreign direct investment has upgraded production plants in some sectors in recent years. The widely outdated transport, energy, health and education infrastructure negatively affects labour productivity. The investment gap is particularly big in the energy sector. Low capacity for power production leads to frequent power-cuts and losses in power transmission and distribution. The establishment of a cross-border power exchange is hampered by price regulation in the national electricity market. The construction of an electricity line with Albania is at an early stage, and a planned gas interconnection with Greece is still at the funding stage.

Cross-border connectivity in transport is advancing. The last part of the ‘Corridor X’ motorway was completed in 2018 and road works on ‘Corridor VIII’, which had been stalled temporarily on the section Kicevo-Ohrid, have resumed. However, the upgrading of rail connections to neighbouring countries and the facilitation of cross-border crossings is slow. Cumbersome procurement procedures and contractors’ poor performance hamper implementation. Given these shortcomings, investment spending remains insufficient — in 2018, gross capital formation amounted to 33% of GDP, unchanged from one year earlier. The digitalisation of the economy is progressing, but remains low compared with the EU. The percentage of households with internet access at home has increased by 21pps between 2012 and Q1 2018 (79.3%) and mobile broadband penetration is expanding further. However, fixed broadband penetration is still restricted, which negatively affects business competitiveness. Online sales are also developing sluggishly.

Sectoral and enterprise structures

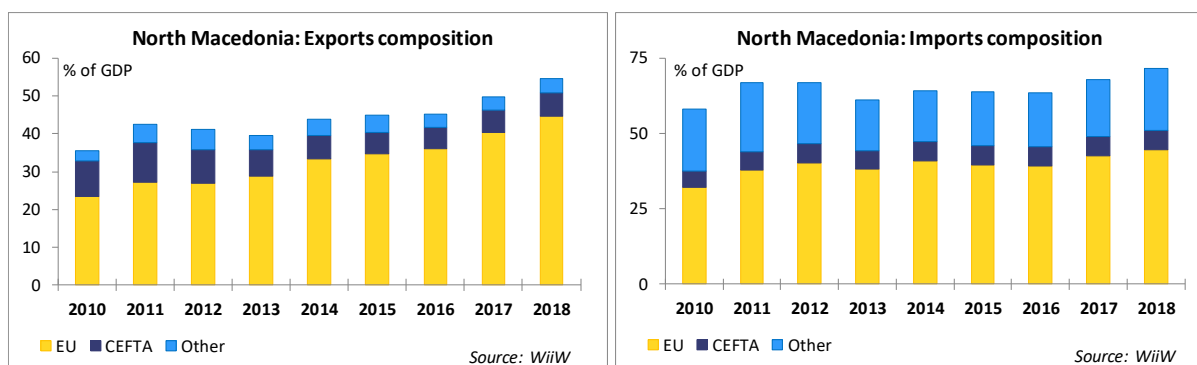
The structural transformation of the Macedonian economy remains slow. The sectoral and business structure of the economy has remained largely unchanged in the past 5 years. At some 60%, services account for the largest proportion of gross value added. Industry contributed 19.5%, which is only slightly above its share in 2013, and agriculture accounted for 10%. Mainly due to foreign companies, industry’s share of higher value-added manufactured goods (machinery and equipment, chemical products) rose at the expense of basic goods (iron, steel and clothing). Over half of the economy’s jobs are provided by services, which is only slightly more than 5 years earlier, followed by industry (31%, compared with 30% in 2013) and agriculture (16%, down from 19% in 2013). Over 99% of all companies are SMEs, providing over 77% of value added in the economy and an almost equal amount of employment. 40% of companies were active in the trade sector, and 13% in manufacturing. The government is supporting SMEs through the Competitiveness, Innovation and Entrepreneurship Programme, and the Economic Growth Plan. In 2018, the government adopted a new SME strategy for

2018-2023. In February 2018, it adopted a medium-term programme for financial support of micro and SMEs through co-financed grants from the Innovation Fund.

Economic integration with the EU and price competitiveness

The importance of the EU as a trade and investment partner continues to grow.

The economy posts a high and growing degree of trade openness, at 126% of GDP in 2018 (+8pps y-o-y). Exports to the EU, which accounted for 82% of total exports, increased by 18.4% y-o-y, and imports from the EU were higher by 11.5%. While trade volumes with other Western Balkan countries continued to increase in 2018, the share in total trade declined further (-0.7pps to 11% of total exports, and -0.8pps to 8.8% of imports). EU firms also increased their share in the country's stock of foreign investment in the past years, accounting for some 82% of total in 2017 (+3pps y-o-y). The economy's structural transformation remains driven by foreign investors. However, integration in global production networks remains scarce, mainly due to the type of products manufactured by the FDIs, and the position of FDIs in the structure of global value chains (i.e. upstream or downstream). The international cost competitiveness of



the economy deteriorated somewhat further in 2018, as the increase in gross wages (on average +5.7 % y-o-y), reinforced by the rise in minimum wage levels decided by the government, outpaced labour productivity growth. The real effective exchange rate (CPI-based) has remained stable in the past 5 years.

4 GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION

The reporting period was marked by the historic agreement reached with **Greece**, under the auspices of the United Nations and with the strong support of the European Union, resolving the name dispute. This agreement strengthens good neighbourly relations and sets an example of reconciliation for the region and Europe as a whole. Greece was the first country to ratify the NATO accession protocol, following which the Prespa agreement entered into force in February 2019. As part of the agreement, the Joint Interdisciplinary Committee of Experts on Historical, Archaeological and Educational Issues was created and met twice during the reporting period. In April 2019, Prime Minister Tsipras visited North Macedonia. Nine agreements were signed during the visit, including on defence cooperation and on the opening of a new border crossing point. Direct air transport service of passengers between North Macedonia and Greece was re-established.

Good neighbourly relations and regional cooperation form an essential part of the country's process of moving towards the EU. They contribute to stability, reconciliation

and a climate conducive to addressing open bilateral issues and the legacies of the past. The government has taken a very positive approach to regional cooperation and good neighbourly relations. The country has continued to participate actively in regional initiatives such as the South East European Cooperation Process, the Regional Cooperation Council, CEFTA, the Energy Community Treaty, the European Common Aviation Area Agreement, the Central European Initiative, the Regional Initiative for Migration and Asylum, RECOM, RYCO, the Regional School of Public Administration (ReSPA), Adriatic Ionian Initiative and the 'Brdo-Brijuni process'.

North Macedonia took part in the implementation of the Multiannual Action Plan (MAP) for the development of a Regional Economic Area in the Western Balkans, although more attention is needed to secure timely adoption of the incurred measures as well as streamlining regional commitments into national policies. The country participated in the **Western Balkans** summit in London in July 2018. The Minister of the Interior signed the Memorandum of Understanding between the EU-28. Building on the results of previous summits, the July 2018 London Summit brought a renewed commitment to the connectivity agenda. Dialogue with the Western Balkans continued in Skopje on the implementation of the Digital Agenda, to which all leaders of the region had committed through a statement of support. More particularly concerning the negotiations on roaming fees, a regional agreement was signed at the Western Balkans Digital Summit in Belgrade in April 2019 enabling Roam like at Home (RLAH) as of July 2021. The European Commission's regional conference on media (Media Days) was also held in Skopje. Member States and the Western Balkan partners signed the Joint Action Plan on Counter Terrorism for the Western Balkans at the Justice Home Affairs Ministerial in Tirana in October 2018. In February 2019, at the Ministerial Meeting on Clean Energy Transition held in Podgorica, the Ministers of Energy and Environment of the Western Balkans committed to adopting concrete measures aiming at the implementation of the Paris Agreement and the Energy Community obligations based on the EU Clean Energy for All Europeans Package.

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

Bilateral relations with **Albania** have intensified. Albania provided strong support to the Prespa agreement. Albania's Foreign Minister paid an official visit to Skopje in September 2018. Prime Minister Zaev visited Tirana in March 2019. Albania ratified the NATO accession protocol.

The Law ratifying the Agreement with the Council of Ministers of **Bosnia and Herzegovina** for the traveling of citizens of the two countries was adopted in June 2018. A Memorandum of Cooperation was signed with the national institute of metrology of Bosnia and Herzegovina. Several bilateral agreements are in place, including on cooperation in the EU accession process.

Relations with **Kosovo** continued to develop, despite the challenges created by Kosovo's decision in July 2018 to temporarily introduce customs duties for import of fruits and vegetables, which had a negative impact on bilateral trade. On 1 June 2018, a protocol related to the readmission agreement with Kosovo entered into force. Contacts between government officials continue to intensify. Works on the new crossing point at Stancic - Belanoc were inaugurated in June 2018.

Relations with **Montenegro** remained good. In March 2019, Montenegro ratified the protocol on the accession of North Macedonia to NATO. A plan for bilateral cooperation in defense area for 2018 was signed in April 2018. An agreement on fighting human trafficking was signed in July 2018. Consultations between the two Foreign Affairs Ministries on NATO cooperation were held in July 2018 in Podgorica. In November 2018, the two countries signed an agreement on property relations.

Relations with **Serbia** improved. In May 2018, the Speaker of the Parliament of North Macedonia visited Belgrade. President Vucic and Prime Minister Zaev met at the Presevo border crossing in September 2018 to announce the launch of an integrated border management project. The Law ratifying the Agreement with the Government of Republic of Serbia for Cooperation in Tourism was adopted in February 2018.

Relations with **Turkey** remained good. Steps have been taken by the Turkish State Development Agency TIKA in the areas of healthcare, education, and historical and religious heritage preservation. The laws ratifying the agreement on military and financial cooperation, and amendments to Protocol 2 to the Agreement for Free Trade, were adopted in May 2018.

The implementation of the Treaty of Friendship, Good Neighbourliness and Cooperation with **Bulgaria** is ongoing, with several meetings of the Joint Commission on Historical and Educational Matters taking place in a constructive atmosphere. The Law ratifying the agreement with the government of Bulgaria on cooperation in case of catastrophes was adopted in May 2018. Prime Minister Zaev visited Sofia in February 2019. The joint intergovernmental commission on trade and economic cooperation held its first meeting in Skopje in March 2019, 10 years after it was set up. Bulgaria ratified the NATO accession protocol.

5. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

5.1 Chapter 1: Free movement of goods

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

The country is **moderately prepared** on the free movement of goods. **No progress** was made in the reporting period and last year's recommendations still stand. In the coming year, the country should:

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

General principles

The country has a well-established institutional framework for the **production, distribution and marketing of industrial products**. Plans to **further align the legislation with the *acquis*** are set out in the National Plan for Adoption of the *acquis*, and in individual strategic documents for standardisation, metrology and accreditation. However, these plans need to be implemented.

Non-harmonised area

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

Harmonised area: quality infrastructure

The legal basis and administrative structure for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance are in place. There was no progress in further harmonising the national legislation with the *acquis* in the areas of general product safety and market surveillance.

The **Standardisation** Institute is a full member of the European Committee for Standardisation/European Committee for Electro-technical Standardisation (CEN and CENELEC). It adopted 25 608 European standards and technical standardised documents as national standards.

There are 182 active **conformity assessment** bodies in the country for calibration, testing, medicinal laboratories, product and process certification and inspection. The **Accreditation** Institute signed agreements with the International Accreditation Forum, the European Cooperation for Accreditation and the International Laboratory Accreditation Cooperation. The European Cooperation for Accreditation has completed a second positive monitoring verification on the way the Institute operates, and there was a recognition of certificates for quality management systems in the reporting period. A new accreditation scheme on calibration and testing of laboratories was prepared. Accreditation schemes for the certification of personnel and the organisational set-up of skills testing are still missing.

The Bureau of **Metrology** is the country's official metrology body. It has been a member of the European Association of National Metrology Institutes since 2007 and has signed an agreement with the General Conference on Weights and Measures. Its capacity has been strengthened. Five new employees have joined, bringing the total to 42. A Memorandum for Cooperation has been signed with the National Institute of Metrology of Bosnia and Herzegovina.

In the area of **market surveillance**, the State Market Inspectorate conducted more than 680 inspections in connection with the Law on General **Product Safety** in 2018 (down from 752 in 2017), mostly on household appliances, toys and children's clothing. It also conducted 225 inspections on construction products (down from 524 in 2017). The inspectorate has withdrawn 35 harmful products from the market as disclosed on its website. However, no measures were taken to improve the State Market Inspectorate's human resources capacity and equipment. Budget limitations continue to prevent effective market surveillance operations and proper testing. A coordinating body on market supervision continues to coordinate activities of the State Market Inspectorate with other inspectorates and the customs authorities.

Harmonised area: sectoral legislation

On the '**New and global approach**' **product legislation**, the level of alignment with the *acquis* continues to be uneven. The country has adopted legislation designed to be aligned with the *acquis* in many sectors, particularly toys, gas appliances, machinery and medical devices. However, in the reporting period no progress was made on

aligning national laws with the latest *acquis* in these and other areas, including civil explosives and motor vehicles.

National legislation has been designed to align with almost all of the ‘**Old approach**’ **product legislation**. A modest start of harmonisation with the *acquis* has been made on the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and on the legislation on chemicals, classification, labelling and packaging of substances and mixtures and the good laboratory practices. However, in the reporting period no progress was made on further aligning legislation or on strengthening administrative capacity in this area. The categories of **fertilisers** covered by national legislation are designed to be fully aligned with the *acquis*. Legislation designed to align with the *acquis* and relevant procedural measures on **firearms** is incorporated into the national legal framework.

On **procedural measures**, the Ministry of Economy and the Standardisation Institute have been identified as the bodies responsible for **notification procedures** on standards and technical regulations. Public authorities that control and supervise the application of the laws are in place and fully operational. There is no **external border check** of conformity with the product safety rules for products imported from non-EU countries. The licensing, monitoring and controlling systems for economic operators dealing with **drug precursors** and **civil explosives** are in place but the relevant national legislation is only designed to be aligned with the *acquis* that was replaced by a newer *acquis*. **The Law on Protection of Cultural Heritage** was amended to align with the *acquis* on the return of **cultural goods**.

5.2 Chapter 2: Freedom of movement for workers

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

Preparations in the area of freedom of movement for workers are still at an **early stage**. **No progress** was made in the reporting period. In the coming year, the country should:

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

The Law on Employment of Foreigners regulates the **access to the labour market** of foreign workers. Every year, the country decides on the maximum quota of working permits for foreigners divided by types. A foreign worker can obtain a single permit by submitting a single application to one authority under the current institutional set up. EU citizens do not have access to posts in the public administration. As no steps were taken to further align national legislation with the *acquis*, there is no distinction made between a foreigner and an EU citizen.

There are 23 bilateral agreements that **coordinate social security systems**, 14 of which are with EU Member States. No new agreement was ratified in 2018. The country has 18 mutual agreements for health insurance that allow citizens from one country to use health care services of another country, on the basis of temporary employment, tourism

or business travel, education, science and cultural cooperation. There are nine agreements on the use of the **European Health Insurance Card** between the country and Member States. No new agreement was ratified in 2018.

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

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

The country is **moderately prepared** on the right of establishment and on the freedom to provide services. Some **progress** was made during the reporting period, last year's recommendations remain valid. In the coming year, the country should in particular:

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

As regards developments on the **right of establishment and on the freedom to provide cross-border services**, the Law on Services was adopted in March 2019. Articles 26 and 27 of the Services Directive should be included in consumer protection legislation. The screening process of sectoral legislation, which identifies incompatibilities with the *acquis*, needs to continue. The point of single contact, including a company registration, as required by the Services Directive, has not been established. It is recommended to launch a test phase for its establishment. Foreign companies still cannot offer ISO 9001 certification on quality assurance to national public administration bodies. This remains an impediment to the freedom to provide services.

The **postal services** market liberalisation was further delayed, with 1 January 2020 as the new deadline for abolishing the reserved area or postal monopoly of the universal service. *AD Macedonian Post* provides for universal service, covering more than 90% of the postal market. The introduction of a separate accounting system for the universal postal service and the financing of a net cost of the universal service obligations are still under preparation. Authorities should guarantee and fully respect the independence of the Postal Agency and strengthen its administrative and regulatory capacity. In 2018, 37 licensed postal service providers actively operated on the postal market, with licences for different types and scopes of services and geographic operating areas.

For the **mutual recognition of professional qualifications**, no significant progress has been made. There has been no development in adopting the Law on Recognition of Professional Qualifications designed to align with the *acquis*. The necessary adjustments to national law to comply with the minimum training requirements outlined in the EU Directive - training of the 'sectoral professions' that benefit from an automatic recognition of their professional qualifications - have not been implemented. The data validation of the professional qualifications electronic register still needs to be

finalised and the accredited professional qualifications need to be included. An updated and transparent list of all regulated professions containing justifications for each is still missing. There is also a need to further strengthen the institutional capacity for the mutual recognition of professional qualifications.

5.4 Chapter 4: Free movement of capital

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

The country is **moderately prepared** in the area of free movement of capital. **Some progress** was made by enacting new legislation on fighting money laundering and by drafting a new law on payment services and systems. In the coming year, the country should, in particular:

- apply the rules for free movement of capital after entry into force of the second stage of the Stabilisation and Association Agreement (SAA);
- adopt and implement the new legislation on payment services;
- demonstrate a sound track record in fighting money laundering and the financing of terrorism, and further align with the *acquis* in this area.

On **capital movements and payments**, the country progressed to the second stage requirements of the SAA. However, restrictions on capital movements remain, namely for residents who cannot hold a bank account abroad. Foreigners can open a bank account in the country, but they cannot own agricultural land, unless a reciprocity agreement is in place.

On **payments systems**, the central bank is governing its oversight. A new payment system law was drafted to align with the latest modifications in the relevant directives.

On the **fight against money laundering and the financing of terrorism**, further work is needed to align with the *acquis*. The country was removed from the MONEYVAL follow-up procedure after it had addressed the system's shortcomings. The strategy for fighting money laundering is being implemented. A new law on fighting money laundering was adopted, focusing on ultimate beneficial ownership and enhanced customer due diligence. A new Memorandum of Understanding regulates the cooperation between law enforcement agencies, intelligence services and relevant key state institutions as the Central Bank. In 2018, the Financial Intelligence Office reported an increase from 109 to 194 of suspicious transactions submitted. The Office sent 64 reports (34 in 2017) of money laundering and terrorism financing cases and 183 notifications (94 in 2017) for other actions to the law enforcement bodies. As a consequence, nine people were indicted and two people convicted for money laundering or terrorism financing (see also *Chapter 23 - Judiciary and fundamental rights and Chapter 24 - Justice, Freedom and Security*).

5.5 Chapter 5: Public procurement

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

The country remains **moderately prepared** in this area, which is particularly vulnerable to corruption. **Some progress** was made with the adoption of the new public procurement law in January 2019 to ensure a more transparent and effective public procurement system. Further efforts are needed to prevent irregularities and corruption during the procurement cycle. In the coming year, the country should in particular:

- ensure further alignment with the 2014 EU Directives on public procurement, especially on public-private partnerships, concessions and defence, and adopt relevant secondary legislation of the new public procurement law to allow its full implementation;
- ensure that reports of public procurement irregularities are properly investigated and offenders penalised;
- strengthen the administrative capacity of the Public Procurement Bureau and the Supreme Audit Office for the oversight and monitoring of public procurement and of the Ministry of Economy for the management of concessions and public-private partnerships.

Institutional set-up and legal alignment

The new **legal framework** on public procurement is broadly aligned with the 2014 EU classical and utilities Directives on public procurement. With its entry into force in April 2019, the use of ‘mandatory’ e-auctions and of the lowest price as the sole award criterion are no longer applied. However, companies continue to be excluded from future tenders due to professional misconduct ('blacklisting'), which is not in line with the European Court of Justice case law. The approximation with the EU Directive on Defence and Sensitive Security Procurement is still under development. All legal and financial instruments used in the area of public procurement and concessions, including inter-governmental agreements concluded with non-EU countries for the implementation of joint projects, should comply with the principles of transparency, competition, equal treatment and non-discrimination.

The conditions for registration in the e-procurement system are now equal for both EU-based and national companies. The new legal framework provides for oversight and monitoring powers of the Public Procurement Bureau, maintaining its role as the pillar of the public procurement system. Cooperation is limited between public procurement bodies and stakeholders, including the State Appeals Commission in Public Procurements, the State Commission for Protection of Competition and the State Commission for Prevention of Corruption. The Ministry of Finance’s administrative capacity, considering its responsibility for the overall supervision and reporting mechanism of these processes, remains insufficient. Centralised purchasing remains limited.

Public procurement is embedded in the 2018-2021 reform programme on public finance management (see section on *Public Administration Reform*). This inclusive approach

leads to the digitalisation of public procurement by introducing e-appeals, e-market for small value procurements and e-catalogues.

Implementation and enforcement capacity

On the **awarding of public contracts**, the public procurement market constituted 9% of the country's GDP and 20.6% of the state budget in 2018. The use of mandatory e-auctions is not in line with the *acquis* and was rectified with the entry into force of the new law. The linking of awarded contracts to their annexes is required under the new legal framework on public procurement. Contracts awarded under the 'Skopje 2014' project are being investigated by the Special Prosecutor's Office, but remain untraceable in the e-procurement system. Tender cancellations increased, particularly after the abolishment of the Public Procurement Council.

The new legal framework on public procurement obliges the contracting authorities to publish their procurement plans in order to increase transparency and allow planning and preparation on an annual basis. The proportion of the overall value of public procurement awarded to SMEs has steadily decreased in the last three years, arriving at 65.6% in 2018.

The link between contract notices and contracts awarded in the e-procurement system increased transparency and reduced the risk of deviation in the post-contracting phase. The use of negotiated procurement procedures with and without previous publication was 5.7% of the total value of procurement in 2018, down from 2017.

The Special Prosecutor's Office continued to investigate cases of abuse of official authorisation and abuse of official position involving numerous public procurement procedures. There have been final verdicts in some small cases including ones involving the former Prime Minister and former high-level officials. The strengthening of the internal audit function remains vital to improve contract implementation and monitoring (see *Chapter 32 – Financial control*).

The Ministry of Economy is still in charge of concessions and public-private partnerships but has only two employees dealing with these matters. There is no register on concessions or on public-private partnerships and data are insufficient. The Skopje airport and Skopje city concessions are not publicly available. The Public-Private Partnership Council is still not operational.

The capacity to manage public procurement processes is uneven between contracting authorities and is particularly challenging for small contracting authorities.

The new legal framework on public procurement requires the professionalisation of the contracting authorities that manage the public procurement processes. A regulatory and institutional framework on **integrity and conflict of interest** exists. A new State Commission for Prevention of Corruption was appointed under a fully revised legal framework. The Commission is vested with additional powers and shall demonstrate its ability to fulfil its mandate also in the procurement sector. The number of integrity-related reports remains very low and follow-up investigations and proper penalties are missing.

Efficient remedies system

The new legal framework on public procurement ensures the independence of the legal remedy system and the structure remains formally compliant with the *acquis*. Following the abolition of the Public Procurement Council in November 2017, the number of appeals increased from an average of 650 per year to 737 in 2018. The State Appeals Commission's resolution rate remained stable at 95% including in 2018. Penalties for misdemeanours occurring during the review process are now set out in the Criminal Code. The State Appeals Commission's president and four members were replaced after their term of office ended in November 2018. Efforts are needed to reinforce the professionalisation of the Commission's staff. It is necessary to increase transparency by improving access to the Commission's decisions and web browsing tools and by linking them to the E-Procurement system. The Courts **implementation capacity** also needs to be strengthened.

5.6 Chapter 6: Company law

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

The country has a **good level of preparation** in the area of company law. As **no progress** was made during the reporting period, the country should in particular:

→ align the company law, in particular with the *acquis* on corporate accounting, statutory audit, and cross-border mergers.

The legislative framework for **company law** is still not aligned with the EU Directive on cross-border mergers. A public register for the e-registration of companies and disclosure of their financial statements, compulsory for any company registration regardless of size, is managed under the central register. A corporate governance code has yet to be established under company law.

Corporate accounting legislation is partly aligned with the EU Accounting Directive. International Financial Reporting Standards (IFRS) and the IFRS for SMES are applied, which is beyond the specifications of the EU accounting directive. Reporting requirements for non-financial information have not been met. On **auditing**, a law introducing an effective system of investigations and sanctions still needs to be adopted. The Council for Advancement and Oversight of the Audit acts as an independent body. Preparations are under way to formally request the granting of equivalence and adequacy by the Commission. The Institute of Certified Auditors is responsible for certifying and training auditors and for recognising their qualifications. Public-interest entities are defined in the audit law, which has some specific requirements on their statutory audit (e.g. the obligation to form an audit committee and the mandatory rotation of auditors). A statutory audit is performed according to adopted international auditing standards. Overall, further efforts are needed to align with the latest *acquis* on corporate accounting and statutory audit.

5.7 Chapter 7: Intellectual property law

The EU has harmonised rules for the legal protection of intellectual property rights (IPR), and for the legal protection of copyright and related rights. Rules for the legal

protection of IPRs cover for instance, patents and trademarks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, computer programmes and broadcasting.

The country remains **moderately prepared** in this area. **Some progress** was made in raising awareness about counterfeiting and its threats to health. In the coming year, the country should in particular continue to:

- increase the number of investigations and infringements of intellectual property particularly in the area of industrial property, with a focus on the misuse of trademarks;
- improve the legal framework on intellectual property, notably the collective rights management system by aligning with the Collective Rights Management Directive and the industrial property rights by aligning with the Enforcement Directive and with the Trade Secrets Directive;
- establish an information platform for law enforcement institutions to exchange data on IPRs.

Amendments to the legal framework on **copyright and neighbouring rights** have been delayed. The authors' rights are safeguarded by the single licensed collective management organisation. The current legal framework allows for parallel organisations to collect fees from authors, but without a licence. The unit responsible in the Ministry was upgraded but staffing remained low, with only four members of staff dealing with this issue. Weak capacity leads to weak cooperation, both with national and international counterparts.

For **industrial property rights**, the State Office for Industrial Property continued its strategic cooperation with the European Patent Office, the World Intellectual Property Office and the European Union Intellectual Property Office. This cooperation focuses on raising awareness about counterfeit goods, rather than best practices on enforcement of IPRs. The provision of good quality services to the business community remains a challenge.

The crucial activities planned under the 2016-2018 strategy on industrial property rights were not implemented, including the setting-up of an information platform to exchange IPR-related data among law enforcement institutions. This prevents the establishment of a credible **enforcement** record and of reliable statistics on institutional handling of IPR-infringements. The Coordination Body for Intellectual Property lacks political support in its efforts to fight counterfeit and piracy and protect right-holders rights. The government did not replace its former ex-officio members.

5.8 Chapter 8: Competition policy

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

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

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

- step up the enforcement record of the Commission for the Protection of Competition (CPC), including on the most problematic cases mentioned below;
- increase the transparency of State aid granted by the government;
- ensure independence and capacity of the CPC.

Antitrust and mergers

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

On the **institutional framework**, the CPC is responsible for implementing the Law on Protection of Competition. Formally, the CPC is an operationally independent authority with the capacity to adopt enforcement decisions in antitrust and mergers. Its four members and President were appointed by Parliament in October 2018 for another five-year term. The delays in appointing the new CPC created a backlog of cases. The CPC is not adequately staffed and the level of expertise needs to improve through training activities. The budget allocated to CPC is not sufficient for the execution of its tasks and varies each year, raising concerns about its independence as well as creating issues of staff retention. The technical equipment is outdated. The CPC acts on complaints, notifications or on its own initiative. It can issue requests for information, carry out unannounced on-site inspections and conduct sector enquiries. If competition rules are breached, it can impose fines and propose remedies. A leniency policy towards whistle-blowers of cartels is in place, but has never been used. The CPC may approve mergers, with or without conditions, or prohibit them. It submits opinions on draft legislation that may affect competition. Its decisions can be subject to an appeal before the Administrative Court.

On **enforcement**, the number of merger decisions increased from 50 in 2017 to 61 in 2018 and the number of decisions adopted on cartels and abuse of dominant position dropped from seven in 2017 to five in 2018. No guidelines on the definition of the level of fines do exist. The CPC must strengthen its enforcement policy by increasing on-site inspections and by promoting the use of leniency. It should also continue to make full use of the possibility of fining, if applicable and in a transparent manner. Concerns remain over the lack of independence and the capacity of courts to deal with anti-trust cases. The CPC has been consulted on draft laws affecting competition.

State aid

The **legislative framework** on state aid control broadly reflects Articles 107 and 108 TFEU and its corresponding provisions in the SAA. The Law on State Aid and the Regulation for granting aid of minor importance (*de minimis*) still need to be amended.

Implementing the legislation on certain forms of aid and specific sectors still needs to be aligned with the *acquis*. In addition, the state aid inventory and the regional aid map are outdated and lack transparency.

With regard to the **institutional framework**, the CPC is also responsible for implementing the Law on State Aid. State aid grantors must notify the CPC of their plans to grant new or alter existing state aid so that it can assess its compatibility. If an aid measure is not notified, the CPC has the power to investigate it *ex-officio*, and can order its recovery.

However, the CPC's **administrative capacity** to deal with state aid control and enforcement remains insufficient with only three staff, outdated equipment and budget constraints.

More decisions were adopted in the area of **enforcement**. Notified and approved state aid represents 0.2% of the country's 2018 GDP. Concerning specific cases, the Ministry of Transport set up state aid schemes for air transport from 2012 to 2014 and from 2015 to 2018, to support one air carrier. The call for 2018 to 2021 failed twice, before the third call was awarded to the same carrier. Compliance of these schemes with the market economy operator principle, the aviation guidelines and the provisions of the SAA, needs to be confirmed. The Law on Support to Financial Investments was adopted in June 2018 to provide government incentives to the private sector. However, this scheme is not in line with the state aid *acquis*. In the future, the implementation of State aid rules should also be monitored by the CPC in large projects in cooperation with third countries. Safeguards to ensure that state aid measures are free from conflict of interest, still need to be put in place.

Liberalisation

Anti-trust and state aid rules apply also to state-owned undertakings and undertakings entrusted with special or exclusive rights, except when applying them would obstruct the performance of the particular tasks assigned to them. However, the country still needs to demonstrate that these rules are being enforced. There is no evidence on the existence of commercial monopolies within the meaning of Article 37 TFEU.

5.9 Chapter 9: Financial services

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

In the area of financial services, the country remains **moderately prepared**. **Some progress** was made on applying the regulations and strengthening the enforcement capacity of financial markets regulators. The central bank was designated as a bank resolution authority. The campaign on increasing financial literacy and consumer protection is ongoing. In the coming year, the country should focus on:

- further aligning with the banking capital requirements (CRR/CRD) framework and the insurance Solvency II framework;
- collecting data on unregistered and uninsured vehicles;

→ preparing a timetable of activities for implementing the second stage of the Stabilisation and Association Agreement (SAA) in the area of financial services.

On **banks and financial conglomerates**, the Financial Stability Committee designated the central bank as a bank resolution authority, pending formal adoption in the law. The new rules on good corporate banking practices were adopted, in line with the European Banking Authority's guidelines. The central bank adopted a new methodology for managing credit risks and licensing banks, following the Basel core principles for effective banking supervision. A new strategy on the management of non-performing loans was also adopted. The credit bureau can now prepare a credit report for the borrowers, contributing to better management of banks' loan portfolio and reducing credit risks. However, the institutional set-up, resolution tools and mechanisms need to be further defined. The efforts to align national law with EU regulations on prudential supervision to protect consumers and prevent unfair banking practices need to continue.

Concerning **insurance and occupational pensions**, the insurance market continued to grow steadily. Around half of all premiums were for motor vehicle insurance. The legislation authorising the ministry of finance to set premiums for motor vehicle insurance, which is contrary to the *acquis*, has not been removed. Relevant data on the proportion of uninsured vehicles is still unavailable. The number of uninsured vehicles indicates that the one-off police checks to remove such vehicles from the road are not sufficient. Aligning national rules with the Solvency II Directive has not begun. The transfer of ownership of one fully-funded pension fund was completed and an offer to establish a third pension fund was submitted to the pension insurance market regulator. The provision setting a 50% limit on investing in non-domestic securities by pension funds is still applied, contrary to the *acquis* and second stage of the SAA.

There was no development in the **financial market infrastructure**. Alignment with the Financial Collateral Directive and with the Settlement Finality Directive remains incomplete. Concerning the **securities markets and investment services**, additional transparency obligations, such as the extension of the period of compulsory listing for companies, have been included in the securities law. The long announced law on capital markets to align the national legislation to the *acquis*, including provisions prescribing liquidity and solvency ratios for brokerage houses, has still not been adopted.

5.10 Chapter 10: Information society and media

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

The country is moderately prepared in the field of electronic communications and information society. Some progress was made during the reporting period as the country amended the Law on Audio and Audio-visual Media Services, prepared a national cybersecurity strategy, started preparations for the 112 emergency number and aligned electronic identification, authentication and trust services with the *acquis*. As some of the 2018 recommendations have not been implemented, in the coming year the country should in particular:

- prepare a long-term information and communication technology (ICT) strategy;
- strengthen the independence and capacity of the media regulator and the public

service broadcaster;

→ continue to implement the action plan for introducing the 112 emergency number and allocate the necessary financial resources.

As part of the Digital Agenda, the country completed the mapping of the national broadband of existing electronic communication networks built with public funds and of 'next generation' access networks by commercial operators. The 2019-2023 broadband strategy has undergone wide public consultation and the adoption is in the final phase. The government adopted the 2018-2022 national cybersecurity strategy in July 2018 and the related action plan in December 2018. Authorities took part in negotiating the Regional Roaming Agreement and signed the agreement in April 2019. In addition, preparations began for introducing the European emergency number 112.

In **electronic communications and information and communications technologies (ICT)**, the fixed broadband penetration slightly increased to 19.46% (>30Mbps is 3.8% and for the >100Mbps around 0.16% of the population). Mobile broadband, including 2G/3G/4G, decreased to 61%. Investments in developing electronic communications increased. Public consultation procedures with operators intensified during the preparation of the amendments to the Law on Audio and Audio-visual Media Services.

Regarding **information society**, the strategy on the development of digital skills has not yet been developed, while the new education strategy includes digital literacy among its priorities. The application of electronic signatures is limited to a few institutions that provide services to businesses. The interoperability system is only used by some institutions despite the equipment and software having been installed. E-government is at an early stage of preparation. Since modernisation of the public administrations is a key element for successful digitalisation, North Macedonia should put more effort in implementation of e-government frameworks and services. E-commerce has increased by 62% in 2018. However, existing barriers to e-commerce have not been removed, including customs duties and VAT on imports for small value items.

On **audio-visual policy**, the Law on Audio and Audio-Visual Media Services was amended in December 2018 and February 2019, with the aim to bring it closer to the EU *acquis*. The media regulator has continued its proactive approach to reporting inflammatory or discriminatory language and hate speech, as well as unprofessional journalistic reporting. Cooperation with civil society, media and state actors to promote media literacy intensified. Developing a more systematic approach to media and digital literacy remains a priority. The regulator monitored ownership transparency of media outlets, reminding media outlets of their legal obligations. However, further strengthening the regulator's capacity and increasing inter-institutional cooperation on disclosing hidden media ownership and illegal media concentration is needed.

On the media reporting during the September 2018 referendum, discrepancies were noted in various legal acts, such as the Law on Referendum and Electoral Code. This led to a different reading by the State Election Commission and by the media regulator on the access of referendum stakeholders to paid advertising.

Concerns remained over the public service broadcaster's reforms. Strengthening its independence and ensuring effective operations and management continues to be a

priority. The audio-visual sector started benefiting from the country's participation in the media sub-programme of 'Creative Europe', with eight projects supported.

5.11 Chapter 11: Agriculture and rural development

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

The country remains **moderately prepared** in the area of agriculture and rural development. **Some progress** was made in the reporting period, in particular on the Farm Accountancy Data Network.

In the coming year, the country should in particular:

- finalise the national Farm Accountancy Data Network legal and procedural alignment to the *acquis*;
- prepare an action plan for further institutional and legal alignment to the *acquis* in the area of common market organisation;
- implement the Instrument for Pre-Accession in Rural Development (IPARD II) and ensure full absorption of the EU funding by strengthening the administrative capacity and competences of the IPARD Agency.

The country's legal framework for this chapter is largely aligned with the *acquis*. On **horizontal issues**, the 5-year national programme for direct payments and rural development support has been adopted. Direct payments remained coupled to production with limited application of cross-compliance rules. Annual spending continued in 2018, as in 2017, at around EUR 100 million. Decisions must be taken on decoupling direct payments from production and further policy alignment. Further developments of the Integrated Administrative and Control System (IACS) need to be complemented with strategic policy decisions on direct support measures. Efforts are also needed to align state aid measures to the *acquis*.

Aligning the Farm Accountancy Data Network (FADN) with EU rules is also underway. Efforts have also been made to improve data quality and widen its use for policy and research purposes. Concerning the Land Parcel Identification System (LPIS), new ortho-photo maps have been produced and the agricultural land is being digitised. However, the system's use of the remains limited as cadastral records are still the reference for area-based payments. Discrepancies between total agricultural area and declared agricultural parcels needs to be further addressed. Farm advisory services are provided by the National Extension Agency, which is chronically short in capacity and financing. The new legislation for advisory services opens the market for private advisory services.

On **common market organisation**, the legal framework on quality and marketing standards for agricultural products mostly in place. Legal provisions on market interventions in line with the EU *acquis* exist, but still need to be implemented. Progress is still needed in aligning of commodity-specific schemes and in supporting for public and private storage, producer organisations, and market intervention. Implementation capacity needs to be strengthened.

In **rural development**, although some progress has been made in the increase of staff at the Implementing Agency and the Managing Authority, capacity to absorb funding under the EU pre-accession programme for rural development (IPARD II) remains insufficient, increasing risk of de-commitment of the EU funding and delaying entrustment of new measures. On **quality policy**, the sectoral legislation is aligned with the *acquis* but progress has been limited on developing and promoting of quality schemes. Capacity to implement and control the quality schemes needs to be strengthened.

On **organic farming**, the legislation is aligned with the *acquis*. The required infrastructure is in place (competent authority, accreditation system for control bodies and certification system) and organic farming is supported via increased direct payments. The monitoring of organic certification and products need to be strengthened. The national market for organic products remained limited.

5.12 Chapter 12: Food safety, veterinary and phytosanitary policy

EU hygiene rules for food production ensure a high level of food safety. The rules ensure animal health and welfare, the safety of food of animal origin and animal nutrition, the quality of seed, plant protection material and protection against harmful organisms.

The country has a **good level of preparation** in the area of food safety and veterinary policy. **Good progress** was made, particularly on improving animal identification and registration, animal disease control and determination of the pest status in the country.

In the coming year, the country should in particular:

- continue with activities to improve hygiene, animal welfare and biosecurity standards on farms;
- establish an action plan to collect and treat animal by-products;
- adopt and implement legislation on pesticides.

On **general food safety**, the Law on Food Safety was amended, aligning with the new EU Regulation on official controls. The National Council for Food and Feed Safety provides scientific and technical support to the Food and Veterinary Agency's activities. Furthermore, the National Rapid Alert System for Food and Feed has been set up and the Agency's internal audit and training systems are operational. The Agency is performing its work according to ISO 9001:2015 quality management standards. New veterinary and phytosanitary border inspection facilities have been built with EU assistance at the border with Kosovo. The Agency has established a system for food fraud control, it reports regularly to the European Food Safety Authority and actively participates in their scientific networks.

On **veterinary policy**, the existing implementing legislation an internal market control system and on the non-commercial movement of pet animals is aligned with the *acquis*. On a control system for imports, the Agency provides regular updates on the safeguard measures of imports and import requirements for live animals and animal products. The reliability of the animal identification and registration system has been improved. The Agency improved the identification and registration of pigs and undertook activities to establish and upgrade biosecurity measures on the pig holdings.

Progress has been made on control measures for animal diseases. The Agency is vaccinating foxes against rabies and vaccinating against lumpy skin disease. It has put in place the antimicrobial resistance programme. Some implementing legislation on intra-EU trade in live animals, semen, ova and embryos has been amended. The initial survey of equids and farms with equids has been completed. Micro-chipping and registering of pet animals is standard practice. The Agency has also adopted a plan to control residues from pesticides, contaminants and microbiological hazards and to examine physical characteristics and chemical ingredients of food of non-animal origin and food contact materials from import. The animal protection and welfare of animals strategy and action plan have been adopted. The capacity to further align with and implement the *acquis* on zoo-technical issues remains weak.

On **placing on the market of food, feed and animal by-products**, the Agency continues its programme for dairy farms' full compliance with the health and hygiene standards. Existing legislation on animal by-products is aligned with the *acquis*. However, a collection and treatment system for animal by-products has not yet been set up. Existing rules for funding are based on EU-defined minima.

There has been some progress has been made on **food safety rules**. Some implementing legislation has been adopted on the safety requirements for food supplements and fortified food. Existing legislation is aligned with the *acquis* on labelling, additives authorised and purity criteria, food enzymes, extraction solvents, flavourings, food contact materials, food for particular nutritional uses, quick-frozen foodstuffs, contaminants, novel foods, ionising radiation, and mineral waters. Checks are not always carried out according to EU standards. The Agency regularly updates the health claims to help avoid misleading consumers.

Regarding **specific rules for feed**, the existing legislation is aligned with the *acquis* on the placing on the market and use of feed, feed additives and undesirable substances. The Agency is implementing a programme to monitor feed safety and to improve the feed safety system.

There has been progress on **phytosanitary policy**. The country's pest status has been determined. A law on plant protection products has yet to be adopted. The phytosanitary inspection is starting to introduce measures to the eradicate pests determined with the monitoring and control programmes. The Law on Seed and Propagation materials was amended. The setting up of the phytosanitary information system has started. However, the capacity of the Phytosanitary Directorate to provide an analysis of collected data and to define corresponding programmes for pest control and eradication remains limited. Coordination between the competent authorities has not improved. In general the administrative capacity is weak, though the State Phytosanitary Laboratory's capacity has been strengthened with new equipment.

The Law on **Genetically Modified Organisms** defines the measures for monitoring and labelling of these organisms, and their combination at all stages of their deliberate release in the environment and is aligned with the *acquis*. The alignment will continue with finalising legislation on lifting the ban on production, placing on the market and import of genetically modified organisms food and feed. The Food and Veterinary Agency is the competent authority for genetically modified food and feed and the control and monitoring activities are carried by food inspectors.

5.13 Chapter 13: Fisheries

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

North Macedonia continues to be **moderately prepared** in this area. **No progress** was made on last year's recommendation to further align market policy with the *acquis*. In the coming year, the country should:

→ further align its legislation with the *acquis* and ensure its implementation and enforcement, in particular for illegal, unreported and unregulated fishing, data collection, structural support and state aid.

As the fishery sector is based on commercial lake fishing and aquaculture, the *acquis* on **catch quotas, managing fleet capacity, inspection and control** hardly applies to the national context. During the reporting period, there were no developments on fisheries management, inspection, control, surveillance, monitoring, structural actions and international fisheries agreements.

North Macedonia should take steps to ensure full alignment with the *acquis* on illegal, unreported and unregulated fishing as well as on inspection and control. **Data collection** on fishing and aquaculture should be improved in line with the relevant *acquis*. As North Macedonia confirmed that their inland waters hosted European eel (*Anguilla Anguilla*), the country needs to ensure implementation of the EU Eel Regulation, by defining Eel Management Units and implementing management plans.

Structural measures for small-scale fisheries or inland fisheries were introduced based on the annual programme for financial support of fisheries and aquaculture with national budgetary commitments of around EUR 1 million. The Annual Program for financial support on fisheries and aquaculture in 2019 was adopted. Structural assistance combines investment support for aquaculture, financial support for increasing fish stocks and for promotion and marketing. North Macedonia did not apply any **state aid measures** in the reporting period.

The **administrative capacity** for the management, inspection and control of the fisheries policy needs further strengthening.

5.14 Chapter 14: Transport policy

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

The country is **moderately prepared** in the area of transport. **Limited progress** was made in the past year. Increased political commitment is required to deliver on necessary sectoral reforms. The administrative and operational capacity for all modes of transport also needs to be strengthened. The country should in particular:

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

- implement the connectivity reform measures on rail open the rail transport market at least for domestic and regional undertakings and set up a national system to continuously collect data on road crashes;
- adopt legislation on intelligent transport systems and combined transport and make further efforts to produce a strategic framework for implementing the systems and the core networks.

The key strategic documents for the transport sector and its related sectors are already in place. The new 2018-2030 national transport strategy was adopted in December 2018. There was no progress on strengthening the low operational and administrative capacity for all modes of transport. Efficient rail reform measures are needed to reduce reliance from road transport. The independent rail accident investigation body has still not been established. Further efforts are needed to EU passenger rights legislation in all modes of transport.

On **road transport**, the legal framework is broadly aligned with the *acquis*. Legislation on dangerous goods is also aligned with the *acquis*. However, the conformity assessment of the existing equipment for transporting dangerous goods still needs to be introduced. As in the previous year, the country's alignment with the social and safety *acquis* remains incomplete. Further efforts are needed to improve education and training, and to increase and strengthen enforcement capacity, particularly the administrative and technical capacity of the State Transport Inspectorate. The responsible authorities are urged to prepare a three-year road safety inspection (RSI) plan for the core and comprehensive network and implement pilot RSIs on high accident sections. Further efforts are also needed to set up a national system for continuously collecting road crash data. Penalties for infringing the European agreement on the work of vehicles crews engaged in international road transport also need to be harmonised. However, legislation on clean energy and energy-efficient road transport vehicles and on intelligent transport systems still needs to be aligned with the *acquis*. The legislation on market access for goods, passengers and pricing is aligned with the *acquis*. The *acquis* on access to international markets for coach and bus services has already been aligned.

For **rail transport**, the major requirements of the *acquis* are met in terms of unbundling the infrastructure manager and national operator. However, there are still delays in separating the accounts of the national operators on passenger and freight operations and in aligning with and applying many of the Single European Railway Area rules. More commitment and effort is needed to fully open the rail market. Railway safety legislation is aligned with the *acquis* but needs to be applied. The cross-border railway cooperation agreements with Greece and Kosovo still need to be fully implemented. The accident and investigation body has not yet been set up. In addition, the safety authority body is not yet fully operational.

On **maritime transport**, despite being landlocked, the country's is party to all the International Maritime Organisation's basic transport conventions. But as it has no maritime ports, it cannot become a member of the Paris Memorandum of Understanding.

National law is aligned with the relevant *acquis* for **inland waterways transport**, apart from the Regulation on the recognition of certification and transportation of goods and passengers. The Law on Merchant Shipping Needs is not aligned to the *acquis* as there is

no transport of goods on the inland waterways. The country actively participates in the International Commission of Sava River Basin but is not yet part of the EU strategy for the development of the Danube Region. The country signed the main international agreements on inland waterways and has good bilateral cooperation with neighbouring countries.

On **air transport**, the country has maintained good level of alignment with the *acquis* and is partially aligned with both aviation safety and security legislation. No progress was made in complying with the requirements of the European Common Aviation Authority Agreement's first transitional phase. The European Aviation Safety Agency still needs to check that the country is fully aligned with and implement the Single European Sky. Most safety areas, except the ones covered by the recent air traffic management inspection, have not been inspected by the Agency since 2012-2014. The working arrangement with the agency covers all aspects of the *acquis* in civil aviation safety and environmental protection of products, organisations and personnel. However, further efforts are needed to facilitate the Agency's standardisation inspections. On **combined transport**, no progress was made in finalising the relevant national legislation, but there has been some progress setting up of a multimodal node near Skopje.

5.15 Chapter 15: Energy

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

The country is **moderately prepared** in this area. **Good progress** was made in aligning the national rules with the third energy package. In the coming year, the country should in particular:

- finish unbundling (certification) the electricity and gas transmission systems;
- increase the number of staff and the technical/engineering capacity of the Energy Department in the Ministry of Economy and the Energy Agency;
- finalise new or updated secondary legislation in compliance with the Energy Law and the third energy package, adopt the Energy Efficiency Law to align with the Energy Efficiency Directive and the Energy Performance of Buildings Directive. Continue efforts to align the work under way with the Energy Strategy and the Climate strategy, ensuring consistency among objectives and preventing adverse incentives.

The national energy strategy until 2035 is being prepared and should be finalised by mid-2019. It should take account of EU energy and climate policy priorities and targets for 2030 and the upcoming integrated energy and climate strategy.

The availability of coal for the Bitola thermal power plant still needs to be urgently addressed, as this concerns **security of supply** and requires action, including investment in new and sustainable resources. The 2014 Law on Compulsory Oil Reserves was amended for the fourth time and its entry into force in January 2020 will be 5 years overdue. Corresponding implementing legislation and action plans that comply with the Oil Stocks Directive have been prepared, but are also delayed. The country's oil stocks

correspond to 63 days of average daily consumption, but the method for calculating them is deemed to be inadequate. The oil industry is still not adequately compensated for holding emergency oil stocks. It therefore does not participate in the calls for procurement of oil and petroleum products, which would allow the country to maintain and increase the oil stock.

Electricity transmission inter-connectors being developed and preparatory activities for constructing a new 400kV electricity line with Albania are under way. On gas interconnections, the government is taking measures to ensure the necessary funding for the construction of an interconnection line with Greece. The Transmission System Operator participates in the regional auction office in Southeast Europe. A Memorandum of Understanding on electricity day-ahead market coupling with the Independent Bulgarian Energy Exchange was signed, with a target date of mid-2019.

For **internal energy market**, the country adopted framework legislation in line with the EU's third energy package in gas and electricity. The electricity and gas markets are open for competition. The corresponding secondary legislation is in the process of being adopted. The appropriate market players have been identified. The electricity and gas transmission and distribution are formally unbundled. The electricity transmission operator applied to the Energy Regulatory Commission for certification and a preliminary decision is to be submitted to the Energy Community Secretariat for an opinion. The gas transport operator has not yet applied for certification. The unbundling of the electricity distribution system operator is complete and the revised compliance programme following the Law's adoption, has been approved by the regulatory authority. The electricity transmission system operator is in the process of completing its restructuring by spinning-off the market operator in a new company as a first step in establishing of organised market operator and coupling it with a neighbouring market. The Energy Regulatory Commission approves new market rules. The government has to adopt the decision on the form of an operator of the organised market.

The full balance responsibility of all market participants, required by law to be introduced by 1 January 2019 and the competitive provision of services have been postponed again.

A supplier of last resort and a supplier providing the overall service in the government's competitive public tendering procedure should be appointed by March 2019, after the selection committee has completed the selection procedure. A programme to protect vulnerable consumers has not yet been developed.

Currently, around 50% of total electricity consumption is covered by the open electricity market. This mainly covers sales to large industry consumers. From 1 January 2019 all customers, including small customers and households, are legally eligible and entitled to switch suppliers. Price regulation apart from supply to small customers and household in the universal service regime, has been abolished.

Third-party access to the natural gas system is regulated in the Energy Law, which is aligned with the *acquis*, but capacity allocation and transparency needs to be improved. No progress was made in setting up an entry-exit transmission tariff system, as required by the *acquis* and no positive developments were made in sorting out the dispute over the ownership of the gas transmission pipeline.

In the area of hydrocarbons, the Law on Mineral Resources law aims to align with the Hydrocarbon Licensing Directive.

The Energy Community lowered the 2020 renewable energy target from 28 % to 23 %.

The amended national **renewable energy** action plan is now in line with the binding target of 23 % of energy coming from renewable energy sources by 2020. The new Energy Law is fully aligned with the Renewables Energy Directive. The implementing legislation is in the process of being adopted. The new Energy Law determines a feed-in premium as a new mechanism for renewable energy sources support that will be granted on a competitive basis.

Investment in hydropower should be compliant with the relevant environmental *acquis*.

After having adopted its third national **energy efficiency** action plan, the country is on track to meet its mandatory targets. The energy service market still needs to be developed and the existing legislation amended so that energy service companies can be contracted. Financing to promote energy efficiency should be improved including by setting up the Energy Efficiency Fund. Municipalities should take steps to fully respect their obligation to develop and implement municipal energy efficiency programmes.

The country has drafted a new Energy Efficiency Law, aligning with the Energy Efficiency Directive and the Energy Performance of Buildings Directive. This new law is currently in the public consultation phase. Preparing and applying the secondary legislation remains a considerable challenge, due to limited human and technical capacity at the Energy Department of the Ministry of Economy and the Energy Agency.

Regarding **investment in infrastructure**, the county continues to build the following gas transmission pipeline sections: Stip – Negotino, Negotino – Bitola and Skopje-Tetovo-Gostivar.

For **nuclear energy, nuclear safety and radiation protection**, the country has ratified the relevant international conventions on nuclear safety and radiation protection and is a full member of the European Community Urgent Radiological Information Exchange system (ECURIE).

5.16 Chapter 16: Taxation

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

The country is **moderately prepared** in this area. **Some progress** was made in reducing the administrative burden for taxpayers and in shortening the time needed to process annual income tax returns. In the coming year, the recommendations from the previous year remain valid and the country should in particular:

- improve the capacity of the central and local tax administration by adopting and efficiently implementing the tax system strategy;
- further align the legal framework with the *acquis*, in particular the Law on Excise Tax, and amend the Laws on Personal Income Tax and Tax Procedures in accordance with the tax system strategy;
- ensure the ratification of the OECD Multilateral Convention on mutual

administrative assistance in tax matters by the end of 2019.

On **indirect taxation**, the VAT Law still contains certain exemptions not provided for in the *acquis*. Delays in the refund of VAT are less common than in the past. Regarding *excise duties*, the legal framework has to be further aligned with the *acquis*. The movement of excisable goods under duty suspension is still subject only to paper-based verification and electronic checks have not yet been set up.

Regarding **direct taxation**, the law on personal income tax has been amended to introduce progressive taxation, to reduce the administrative burden for taxpayers and to shorten the time needed to process annual income tax returns.

On **administrative cooperation and mutual assistance**, the government signed new agreements with EU Member States and non-EU countries to avoid double taxation and prevent fiscal evasion. In total, 49 such agreements have been signed, including 24 with Member States. On mutual assistance, a new procedure on international exchange of tax information has been adopted by the Public Revenue Office reflecting the latest OECD standards in this area. In June 2018 the country signed the OECD Mutual Assistance Convention in Tax Matters and has until the end of 2019 to ratify it. In August 2018, the country joined the OECD Inclusive Framework on Base Erosion and Profit Shifting.

Regarding **operational capacity and computerisation**, the Public Revenue Office still has to improve its business processes, implement a new integrated IT model, risk management tools and e-services. The tax system strategy, covering fair taxation, revenue collection, tax transparency, quality of services and green taxation, has yet to be adopted. On the informal economy, the Public Revenue Office continued to participate in joint inspections **with other national bodies** to identify unpaid tax liabilities and unregistered taxpayers, thus improving tax collection.

5.17 Chapter 17: Economic and monetary policy

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

The country remains **moderately prepared** in the area of economic and monetary policy. **Some progress** was made in implementing the public finance management reform programme. Not all recommendations of the 2018 report were fully implemented. In the coming year, North Macedonia should take further measures to:

- set up a proper medium-term expenditure framework to further improve fiscal discipline and transparency;
- improve fiscal governance by adopting fiscal rules;
- include public enterprises in the general government fiscal reporting framework where mandated by European statistical standards.

On **monetary policy**, aligning of the legal framework with the *acquis* remains advanced. However, further alignment is needed to ensure central bank's financial and institutional independence. According to the Law on the Central Bank, monetary financing of the public sector is prohibited and the public sector does not have privileged access to financial institutions. Price stability is the central bank's principal

objective, which is fully in line with the primary objective of the European System of Central Banks.

Regarding **economic policy**, the work to conduct sound budgetary policies and to further align fiscal policy with the Directive on Requirements for Budgetary Frameworks has advanced. The new draft organic budget law foresees the establishment of fiscal rules and independent fiscal oversight, has been prepared, but is still to be adopted. To increase transparency and accountability, more information was made available on the use of public resources. In 2018, a law was adopted on registering and reporting liabilities and arrears. Fiscal reporting and notifications under the excessive deficit procedure are in line with the European system of National and Regional Accounts 'ESA 2010'. The 2018-2020 public finance management reform programme is under way and the 2018 action plan was implemented.

The 2019-2021 **Economic Reform Programme** was submitted on time and its analytical diagnostics improved. Further efforts are needed to develop sufficient capacity for designing the structural reforms and implementing them promptly.

5.18 Chapter 18: Statistics

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

The country is **moderately prepared** in the area of statistics. **Good progress** was made, especially in preparing the population census and further aligning of sectoral statistics with EU standards. The notification for the extensive deficit procedure was submitted though further improvement in data is needed. Continued efforts are also needed to improve the scope and data quality of macroeconomic and social statistics. In the coming year, the country should in particular:

- implement the pilot phase of the population census, partly relying on administrative data;
- align financial accounts and quarterly national accounts with the European System of Accounts 2010 (ESA 2010);
- keep an adequate amount of personnel and budget sufficient financial resources for the State Statistical Office.

For **statistical infrastructure**, the legal framework is still broadly in line with the European Statistics Code of Practice. In 2018, the government signed the Commitment on Confidence to ensure the professional independence of the State Statistical Office. The Office increased its personnel. However, resources need to be increased further. Sufficient funds have been allocated to carry out the population census. Regarding other main statistics providers, the central bank is fully committed to the statistical standards code of practice. The Ministry of Finance has not yet appointed a head of statistics. On **classifications and registers**, the main classifications comply with the *acquis* and are updated regularly. The use of administrative data sources has increased, including for preparing the population census. Data availability and quality improved but still needs to be optimised. Data transmission to Eurostat further increased but remains incomplete.

On **macroeconomic statistics**, the State Statistical Office provides macroeconomic statistics and data on annual and quarterly GDP in current and constant prices, aligned with ESA 2010. Annual sectoral accounts and supply/use tables are prepared, although the time series is not yet complete. Quarterly national accounts are not fully available. For government finance statistics, the delimitation of the general government sector's units was published. The notifications for the excessive deficit procedure were submitted, though data quality needs to improve further. The financial accounts have been prepared and submitted in experimental data form. The central bank produces statistics on the balance of payments and foreign direct investment according to the latest standards.

Structural **business statistics** and short-term statistics for the industry and construction sectors are well developed. There have been further improvements in short-term statistics for services, which were published. The business register is in place and an outline to improve it has been agreed. The framework to produce foreign affiliates' statistics was set up. Tourism and transport statistic's alignment with the *acquis* improved. Statistics on research and development and on information and communication technologies are sufficiently aligned.

Concerning **social statistics**, a new population and housing census using a combined methodology is well advanced. The survey for statistics of income and living conditions was conducted. Social protection statistics improved. Migration statistics need to be further expanded. Labour market statistics are generally aligned with the *acquis*. Statistics on crime, education and public health need improvement.

Agricultural statistics are only partly adequate compared to the *acquis*. The farm structure survey continues to be regularly conducted. The EU methodology for the annual crop statistics was tested to align it with the *acquis*. Agro-monetary statistics are produced in line with the *acquis*. Supply balance sheets also saw an improvement for the livestock component. **Energy and environment statistics**, including environmental protection expenditure, waste, water, and environment-related taxes are mostly in line with the *acquis*. Short-term energy statistics and energy balances are supplied. Air emission accounts are not produced, however. Material flow accounts are generated, but material flow balances are not yet included.

5.19 Chapter 19: Social policy and employment

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

The country is **moderately prepared** in this area. **Some progress** was made during the reporting period. The employment and social reform programme is closely monitored by the government but lacks financing. The Youth Guarantee Scheme was piloted and measures were taken to include the long-term and inactive unemployed in the labour market. Poverty remains a serious problem but improvements are expected with the new Law on Social Protection that aims to ensure guaranteed minimum assistance for all unemployed. There have been efforts to focus policies more on people at risk of in-work poverty. As the previous year's recommendations have not been fully carried out, they remain valid. In the coming year, the country should in particular:

- improve the activation of unregistered, long-term and unskilled unemployed people, including women, persons with disabilities and Roma;
- intensify efforts to improve the capacity of the State Labour Inspectorate (SLI) and reinforce collective bargaining between employers and workers;
- implement the poverty alleviation strategy, the Roma inclusion strategy, and relevant action plans.

Amendments to the current **Law on Labour Relations** were adopted to clarify the rules and provide equal rights to people who have terminated their contract due to bankruptcy or liquidation. A new labour law is under preparation. A new Law on Private Employment Agencies aligned with the ILO Convention (C 181, 1997) was also adopted as well bylaws deriving from this law. The Law on Minimum Wage was also amended.

The capacity of and coordination between the relevant institutions tasked with enforcing the labour law, have not really improved. The staffing and professional performance level of the State Labour Inspectorate is too low to adequately cover the country's needs and will decrease further due to staff retiring in the next years. The country has no major issues with child labour.

Efforts were made to improve the responsiveness of and cooperation between employers and staff dealing with **health and safety at work**. This work remains incomplete due to the lack of capacity of the State Labour Inspectorate responsible for supervising the application of laws and other regulations in the field of labour relations, employment, occupational health and safety. Implementation of the 2017-2020 occupational health and safety strategy remains deficient. Various awareness-raising activities were organised under the action plan for the 2017-2020 occupational health and safety strategy. According to State Labour Inspectorate data, in 2018 the construction sector had the highest number of fatal accidents per year. According to civil society organisation data, there were 92 reported injuries at the workplace in 2018, of which 22 were fatal.

Limited progress was made on **social dialogue**. The social partners are involved in drafting the new Law on Labour Relations, which include rules on freedom of association, collective bargaining and strikes. The law, which is still at an early stage of drafting, will further regulate branch collective agreements, employer's agreements and the process of setting up a trade union. The Local Economic and Social Councils are expected to be developed further in 2019.

The unemployment rate fell slightly from 22.4% in 2017 to 20.7% in 2018. In parallel, women's labour market participation (52.2% of the 15-64 years old in 2018) and that of Roma and persons with disabilities did not improve and continued to be low.

The focus of employment policy remained on youth and the long-term unemployment. The piloting of the Youth Guarantee scheme targeting young people not in employment, education or training, its introduction and extension throughout the country is a very positive and important step in this regard.

The first medium-term strategy for the formalisation of the informal economy (2018-2022) and its 2018-2020 action plan were adopted. They set out measures for the

regulatory and business environment to: (i) increase the prominence of institutions in the labour market; (ii) increase inspections; and (iii) raise awareness among individuals and businesses on the importance of formalising informal activities. Adequate resources should be allocated to ensure that the action plan is carried out within the set timeframe. The occupational outlook was further developed, with 21 occupational descriptions published by Q3 2018.

Progress was made on **social inclusion and protection**. The new Law on Social Protection has been prepared. The law provides for major reforms in the social protection system. The risk of poverty in 2017, considering the poverty threshold of 60% of median equalised income, was 22.2%. The rate of employed people at risk of poverty was 9%, while for pensioners it was 7.7%. The Gini coefficient of measuring income distribution inequality was 32.4.

Following a pilot phase, where 64 people were given the opportunity to use it, the personal assistance scheme is now gradually being incorporated into the new policy.

Roma and persons with disabilities remain at the highest risk of poverty. A social pension scheme will be included in the new Law on Social Protection. It will provide assistance to people aged above 64 who are not entitled to any income support. The Social Work Centres' capacity is insufficient and the field level support to those in need of social services is inadequate. Measures that aim to reduce poverty remain insufficient. Social protection for children with a disability is still inadequate. National legislation, policy and programmes need to be harmonised with the UN Convention on the Rights of Persons with Disabilities. Employment opportunities for persons with disabilities are still limited.

The new 2018-2027 national strategy on deinstitutionalisation was adopted. Concrete measures on deinstitutionalisation are under way and alternative community-based services are being developed in parallel. Two community-based housing units have been made available to accommodate children from the Special Institution for Disabled People in Demir Kapija and other community-based housing units, including foster family accommodation for children from other institutions, have been founded. Conditions for adults with disabilities living in residential institutions remain very poor.

On **equality between women and men in employment and social policy**, the new Law on Prevention and Protection against Discrimination was adopted in March 2019. The 2018-2020 national action plan for gender equality, adopted by the government in 2018, is currently being implemented. The Ministry of Labour and Social Policy started to develop a national gender equality index in cooperation with the State Statistical Office. According to the 2018 statistics, the employment rate for people aged 15-64 is 41.7% for women and 61.4% for men. 39.2% of women employed in the private sector earn lower salaries than men. In the public sector, there is no difference in salaries between women and men.

The government set up the National Coordination Body, which is in charge of promoting and monitoring **non-discrimination and equal opportunities** in all spheres of social life. The Ombudsman's 2018 annual report reveals 25 discrimination cases, of which 16 are complaints about discrimination in employment. In 2018, the Ombudsman received 77 complaints on discrimination grounds, but only confirmed discrimination in 25 cases. (see also *Chapter 23 — Judiciary and Fundamental Rights*)

5.20 Chapter 20: Enterprise and industrial policy

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

North Macedonia is **moderately prepared** in this area. **Some progress** was made in the reporting period on the adoption of strategies and the implementation of measures to facilitate SMEs' access to finance and link foreign direct investments (FDI) with domestic firms. In the coming year, North Macedonia should:

- consolidate the institutional setup and further clarify the mandates of public bodies to ensure the effective implementation of policies;
- improve the structure and quality of public dialogue with businesses in all aspects of enterprise and industrial policy and corresponding measures;
- make a systematic, sustained effort to raise skills in domestic companies, notably SMEs, and ensure they adopt new methods and technologies.

On **enterprise and industrial policy principles**, the strategies for SME development, for industrial policy and for women's entrepreneurship were adopted. The new 2018-2020 industry strategy aims to raise the economic weight of manufacturing, adds resource efficiency, however, insufficiently addresses digitalisation. The government also adopted 2018-2022 strategy for the formalisation of the informal economy with an action plan that includes measures in the regulatory and business environment. Adequate resources should be allocated to ensure that the action plan is carried out within the set timeframe.

There are still numerous public bodies with overlapping and conflicting mandates. A trend towards implementation at a level that would not 'own' the output of measures could be observed. Communication between the government and the private sector should be further improved. Additional structural reforms are needed to improve the business environment.

Regarding **policy instruments**, the aspects of the Late Payment Directive on public bodies' payment obligations is not yet fully aligned with the *acquis*. The country should amend the Law on Financial Discipline as soon as possible as businesses still face difficulties in collecting claims from public bodies.

The budget for business support measures increased in 2018. However, reporting on their implementation and evaluation of results remain at an early stage. The transparency of the allocation process should be improved and the compliance with the country's state aid rules should be ensured. Under the plan for economic growth the government offers grants to companies. These grants intend to enable companies to adopt new methods and technologies, and to stimulate cooperation between FDI and local companies by subsidising the investments and reimbursing the co-operation costs of the investors. However, the effects on increasing domestic supply to FDI production remain unclear. The Innovation Fund disbursed grants to companies and to establish the accelerators. To function effectively the fund requires the deployment of full-time competent staff. Businesses should be made aware of the availability of technology

transfer and co-operation services, for example through the announced national office for technology transfer.

Bank lending remains the main source of private sector financing, with other financing instruments being modest or absent. Investment by the Enterprise Development & Innovation Facility (EDIF) in the private sector is modest. EU financing instruments for business development under the Programme for the competitiveness of SMEs (COSME) and EDIF remain underused. More efforts are needed to raise awareness in the private sector on the available instruments.

On **sectoral policies**, the 2018-2022 strategy for tourism development has not yet been adopted. The country should participate in the annual Tourism Advisory Committee.

5.21 Chapter 21: Trans-European networks

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

The country has a **good level of preparation** in this area. **Some progress** was made in the area of Trans-European networks during the reporting period.

In the coming year, the country should in particular:

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

On **transport networks**, the country continued to participate in the South-east Europe Transport Observatory and to respect the commitments of its Memorandum of Understanding.

The motorway section along Corridor X, co-financed by the EU, was opened to traffic in May 2018. Other reconstruction works along Corridor X and VIII were also completed. The lack of political commitment and decision-making significantly delayed the construction of the rail Corridor VIII towards Bulgaria. Additional efforts are needed to accelerate progress on this Corridor and other priority sections on the core and comprehensive network, both in rail and road. Additional efforts are required to carry out road safety audits in line with the Directive 2008/96/EC on all projects on the core and comprehensive network.

The capacity of institutions and bodies involved in carrying out large investment projects must be strengthened. The country needs to focus on connectivity reform measures to ensure the sustainability of such infrastructures. Future infrastructure investments need to be made in compliance with EU standards on public procurement, State aid and environmental impact assessment. Projects should be channelled through a single project pipeline, confirming the strategic orientation towards the trans-European networks. A condition of the railway border crossing agreement signed with Serbia is that North Macedonia needs to build the adequate infrastructure. However, this is still pending. Furthermore, the authorities have still not signed the remaining rail border crossing protocols with Kosovo, even though it was agreed that the implementation

agreement between the two customs authorities would be exchanged and that the negotiation process for the border police protocol would start at the beginning of 2018. Additional efforts are required to ensure opening of the rail market on the indicative extension of the Orient/East-Med corridor. Adopting the multiannual maintenance plans for the entire core network (rail and road) remains a challenge.

On **energy networks**, the design to build the Bitola-Elbasan (Albania) 400kV electricity interconnection section is still ongoing. The feasibility study and project documentation are being prepared for the gas interconnection with Greece. Further efforts are needed to revive the interconnection line with Serbia.

5.22 Chapter 22: Regional policy and coordination of structural instruments

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

The country is **moderately prepared** in the area of regional policy and coordination of structural instruments. **Some progress** was made in strengthening the national capacity for strategic planning and sector-based programming and monitoring of EU funds. Management and control systems have been successfully set up and good results have been achieved in the implementation of IPA I. In the coming year, the country should in particular:

- upgrade the administrative capacity across the Instrument for Pre-Accession (IPA) management structure and improve the dynamics in the contracting and implementation of the EU-funded projects, particularly in the areas of transport and environment;
- complete the performance assessment framework;
- ensure the sustainability and visibility of project results.

Regarding the **legislative framework**, some progress was made in harmonising national law with the *acquis* in other chapters, creating preconditions for the implementation of European funds and future structural funds.

In 2018, key strategic documents were adopted to support economic and social cohesion with the EU, such as the economic reform programme, economic and social reform programme, economic growth plan, national plan on agriculture and rural development, and the national strategy on transport.

The **institutional framework** for managing the EU pre-accession assistance has been set up and is operational. The procedure for entrusting authorities with management powers in the education, employment and social inclusion sectors was completed in June 2018, recognising progress made in addressing previous recommendations.

Regarding **administrative capacity**, further strengthening is needed. The staff retention policy and the management of human resources has become a concern.

The ICT systems within the structures do not provide for reasonable assurances for information security management. The relevant action plan, adopted by national authorities on 28 December 2017 still needs to be implemented.

In **programming**, the sectoral approach has proved positive.

On **financial management, control and audit**, although the procurement and contracting of EU funds is gradually improving, it remains a concern. The reliability of the procurement, contracting and payment forecasts need to improve, along with the line ministries' capacity to complete mature projects on time.

The internal auditing of EU funds should be improved in terms of regularity and coverage. More high quality internal auditors are needed. The amendments to the Law on Financial Inspection, adopted by the Parliament in September 2018, should strengthen the financial control environment.

Transparency in the use of EU funds improved. However, a more structured participation of national authorities is required to better inform citizens and communities on the opportunities and benefits of EU funds for the country.

5.25 Chapter 25: Science and research

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

The country has a **good level of preparation** in the area of science and research. **Some progress** was made in science and research activities and specifically, in innovation support measures for companies. However, last year recommendations have not been fully addressed. In the coming year, the country should:

- ensure a higher level of investment in research and innovation and promote participation in the EU's Horizon 2020 research programme;
- develop a smart specialisation strategy to underpin national research and innovation strategies and policies.

Some progress was reported in the area of **research and innovation policy**. The 2012-2020 innovation strategy continues to be the country's main policy for the improving innovation in private companies. However, other relevant policy documents on research, higher education and smart specialisation remain to be developed. Investments in research and innovation remain low at 0.43% of GDP and comes almost entirely from public sources.

Regarding the EU **framework programme**, the country's annual participation in and funding received from the Horizon 2020 programme is of concern, as 2018 figures are far below expectations. The Horizon 2020 success rate remained somewhat low at 11.2% (compared with a 15.3% average overall success rate). Efforts on organising promotional events and assistance to applicants increased but have not yet had a tangible impact.

Concerning the **European Research Area**, the country has a limited research capacity compared with the European average. The national roadmap for research infrastructures aimed at making use of public investments is not yet in place. However, Open Science activities have commenced.

On **innovation**, the 2018 European Innovation Scoreboard assesses the country as a modest innovator, having steadily improved its performance since 2010. Intellectual

assets are among the weakest innovation areas. The Fund for Innovation and Technological Development invested in companies to help the introduction of innovation. The INNOFEIT centre for technology transfer and innovation is producing its first tangible results. North Macedonia launched a scientific-technological park to encourage innovation in the country.

The **Smart Specialisation** (S3) process in North Macedonia started in March 2018. An inter-institutional working body was established, consisting of representatives of the government, relevant ministries and the academic community (S3 working group).

5.26 Chapter 26: Education and culture

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

The country is **moderately prepared** in this area. **Limited progress** was made with the adoption of the new Law on Higher Education. The introduction of measures from the comprehensive 2018-2025 education strategy remained limited. As none of last year's recommendations was implemented, they remain valid. In the coming year, the country should in particular:

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

Public spending on **education, training, youth and sport** remained at 3.8% of GDP in 2018.

The level of enrolment in early childhood education remains a concern. It falls far short of the EU Education and Training 2020 target of 95%, with only 30% of children attending licensed preschool institutions in the 2018/2019 school year. However, the government has taken measures to increase resources and preschool places by investing in preschool infrastructure and high-quality preschool education teacher training.

Substantial improvements is still needed in the quality of primary and secondary education. While there are high general completion rates in primary, lower and upper secondary education, an estimated 10% of children from Roma communities do not regularly attend primary school and their dropout rates remain high. A new country-wide project is developing a series of measures to support the inclusion of children in schools during the current 2018-2019 academic year. The quality of education is a concern at all levels and the system remains vulnerable to political influence and corruption. Children and students with disabilities and those from Roma communities continue to face barriers to regular and quality education and training. In December 2018, the Ministry of Labour and Social Policy adopted a decision requiring municipalities to cover all pre-school costs for enrolled Roma children as from January

2019. Compliance with this important measure should be closely monitored. Separation along ethnic lines in education continues. There has not been any reduction in the number of schools where students are separated and barriers to integration remain significant.

In higher education, the overall enrolment rate of students increased to more than 40% in the 2018/2019 academic year. However, the completion rate remains low. The government adopted a new Law on Higher Education in May 2018 after adopting the 2018-2025 education strategy and the related action plan in January. This new law reinforces the principle and practice of university autonomy and separates the structures for the assessment and development, accreditation and external evaluation of higher education facilities and study programmes. The law also sets out that a National Council for Higher Education, an Accreditation Board for Higher Education and a separate Evaluation Board for Higher Education should be set up during 2019.

Under the national qualifications framework system, three new standards of qualifications have been created for post-secondary education. Regarding cooperation with workplaces, five sectoral qualification committees were set up in February 2018. These committees are responsible for analysing existing qualifications, considering proposals for the introduction of new qualifications, and giving opinions on the compliance of occupational and qualification standards with the examination programmes.

In vocational education training (VET) and adult education, work-based learning and quality improvements in practical learning are ongoing. Further investment in VET teachers' professional development and introducing a more flexible, modularised VET curriculum with the direct involvement of employers in education and training is required. Closer monitoring of VET outcomes (e.g. labour market status of graduates) is also recommended.

The country is also aiming at increasing adult literacy rates with the launch of adult training programmes to complete primary and secondary education (this is a step in the right direction but not enough resources are allocated). The approval of systems for validating non-formal and informal learning is another positive step.

The country continues to actively participate in the Erasmus+ Programme and is on an equal footing with EU Member States in this respect. There were 602 incoming and outgoing students involved in such exchange programmes in 2018 and 35 projects involving local beneficiaries are currently being implemented. The country has been actively involved in the Bologna Process Monitoring Group, hosting and chairing sessions in Skopje in February 2019.

In 2018, North Macedonia participated in the 2018 OECD Programme for International Student Assessment (PISA) for the second time. Results of this assessment are due to be published in December 2019. The country will also participate in the Trends in International Mathematics and Science Study 2019 and Progress in International Reading Literacy Study 2021.

The 2018-2022 national strategy for **culture** development, adopted in May 2018, is at an early stage of implementation. The new Law on Protection of Cultural Heritage and the national strategy for the protection of cultural heritage are still under preparation.

The country played an active role in celebrating the 2018 European Year for Protection of Cultural Heritage. However, in addition to awareness-raising activities, regular and appropriate budget allocations are still needed to protect cultural heritage.

The only measure planned for implementing the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions is some basic public promotion in 2019.

The disbursement of funds under the annual programme for projects of significant national interests provoked criticism by numerous cultural operators on the Ministry of Culture's work and the political influence over its decisions. The Ministry of Culture's capacity needs to be further strengthened, so that cultural and creative sectors can contribute to societal development and increase tolerance among communities. Overall, the country shows a satisfactory level of participation in the Creative Europe Programme.

On youth, the local branch of the Regional Cooperation Office opened in Skopje in August 2018. Ongoing government priorities for young people include promoting youth participation in the democratic process, ensuring their education is relevant to the labour market to address high levels of youth unemployment and social inclusion, as presented in the 2016–2025 national youth strategy. See also *Chapter 19 – 'Social policy and employment'*.

The Law on **sports** has been amended to introduce tax relief measures for companies investing in sports. The governmental procedure on the law began in Q1 2019. The strategy on sports still needs to be developed. The annual budget for sports increased from 0.3% in 2017 to 1.4% in 2018, increasing young people's participation in sport activities. North Macedonia participated for the first time in the European Week of Sports by organising a large number of sport activities in the country.

5.27 Chapter 27: Environment and climate change

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

The country is at **some level of preparation** in this area. **Limited progress** has been achieved in further aligning policies and legislations with the *acquis* in the water, nature protection and waste sectors. Implementation and enforcement are lagging behind. In the coming year the country should in particular:

- implement air quality improvement measures by ensuring efficient coordination between central and local authorities, and the allocation of sufficient financial resources;
- implement the adopted regional waste management plans and establish an integrated regional waste management system;
- implement the Paris Agreement by developing a comprehensive strategy on climate-related action, consistent with the EU 2030 framework and start the process of developing a National Energy and Climate Plan, in line with Energy Community obligation.

Environment

Administrative capacity at central and local level remain weak and insufficient. Cooperation with civil society has improved, but further efforts are needed for effective public participation and consultation in decision-making processes. The implementation of Environmental Impact Assessment and public consultations need to improve, especially at the local level. No progress has been made in adopting the Law on Environmental Inspection and the Environmental Liability, INSPIRE and Environmental Crime Directives are still not fully aligned and implemented.

On **air quality**, although the legislative alignment is almost complete, its implementation remains weak. The lack of sufficient administrative and financial resources is still the main obstacle to putting in place air quality improvement measures. Air pollution levels are high in major cities. Insufficient human, technical and financial support for the national air quality monitoring network resulted in several interruptions. A special allocation to fund air quality improvement measures has been introduced in the 2019 state budget for the first time.

Regarding **waste management**, further progress was made in aligning the legal framework with the EU rules. The new Law on Waste and the national waste prevention plan have not been adopted, but the new 2018-2024 national waste management plan has been prepared. Several laws on special waste streams are pending adoption. The regional waste management plan for the Polog region is under way. The regional waste management structures face a lack of administrative and financial resources and are still not fully operational. The integrated waste management system is still delayed as setting up the regional structures took longer than expected. Economic incentives to promote recycling are still limited and the lack of an organised extended producer responsibility scheme is hindering the market.

On **water quality**, the country made some progress. After having developed implementation plans for the Urban Waste Water Treatment and Drinking Water Directives and a national investment programme for the water sector, the new tariff methodology based on full cost recovery is applied. A public consultation is ongoing on the river basin management plans for Vardar, Strumica and Crn Drim rivers. Flood hazard and risk mapping has been developed for almost all areas of the country, but significant efforts are needed to further align legislation with the *acquis*. Inter-ministerial cooperation in the water sector requires considerable improvement.

For **nature protection**, a national strategy for nature protection and a national strategy for the protection of biodiversity were adopted. The annual program for nature conservation for 2019 was adopted by the government. Work continues on identifying potential NATURA 2000 sites. Valorisation studies and management plans, required by the Birds and Habitats Directives, were prepared for two protected areas and commenced for two potential protected areas. Steps have been taken to establish ecosystem services. However, sustainable and long-term funding for protected areas from the central level is still absent. The implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora Regulation is still at an early stage. Any further development of hydropower should be in line with EU environmental legislation.

On **industrial pollution and risk management**, the new law on industrial emission and its related implementing legislation has not yet been adopted. However, the process of issuing integrated permits has improved in terms of quality and quantity. The administrative capacity in these areas needs to be strengthened at both local and central level. Aligning national rules with the SEVESO III Directive, EU Eco Label Regulations and Environmental Management Audit System is still at an early stage.

On **chemicals** there have been no developments on implementing Registration, Evaluation, Authorisation and Restriction of Chemicals and Classification, Labelling and Packaging Regulations.

On **noise**, strategic noise maps and action plans are under preparation. Inter-institutional cooperation and coordination between the key institutions is needed to ensure data collection.

There has been no progress on **civil protection**. The country continues to participate in the Union Civil Protection Mechanism, but lacks streamlined, coordinated and efficient disaster mitigation and response action at all levels. An inter-institutional working group has been set up to propose recommendations for improvement. The country is still not connected to the common emergency communication system and information system (CECIS) of the Commission, but the country need first to set up the secure trans-European services for telematics between administrations (sTESTA) connections.

Climate change

The alignment of the legal framework with the *acquis* is still at an early stage. The country has started developing a comprehensive strategy on climate action, consistent with the EU 2030 framework. It should also pursue efforts to implement the Paris Agreement, which North Macedonia ratified in November 2017. In 2018 the country submitted its second Biennial Update Report on climate change to the United Nations Framework Convention on Climate Change and currently the 4th National Communication and 3rd Biannual Update Report to the UNFCCC are in preparation. Technical, institutional and administrative capacity remains weak and needs to be strengthened at all levels. The efforts to mainstream climate action into other sectors (such as energy and transport) need to be intensified.

5.28 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 in cross-border healthcare, and serious cross-border health threats including communicable diseases, as well as medicines for human and veterinary use.

The country is **moderately prepared** in the area of consumer and health protection. **No progress** was made on either consumer or health protection. In the coming year the country should:

- align the legal framework with the *acquis* on consumer protection and strengthen the operational structures serving consumer protection;
- increase the sustainability, efficiency, cost-effectiveness and quality of services in the field of communicable diseases, and implement the recommendations from the

Technical Assessment Report on the country's capacity in this area;

→ publish reports on the registers for cancer and individual rare diseases and ensure adequate funding and specialised knowledge for early detection and treatment, based on registers' data.

Consumer Protection

No progress was made on the cross-cutting aspects of **consumer protection**, where alignment with the general Product Safety Directive and the collective redress *acquis* needs to be completed. No positive development was made on the mediation scheme, which remains expensive for consumers. No additional resources have been allocated, either in terms of staffing in the Ministry of Economy or state grants for consumer protection. Current resources are limited and only cover advisory services and fees from international consumer organisations. Outreach is modest and only takes the form of brochures and educational materials developed by consumer organisations. The use of more contemporary communications tools should be ensured. Action should be taken to reinforce market supervision on *product safety-related issues*. Alignment with the product safety *acquis* remains incomplete. A web platform where citizens can find all information on consumer protection and more awareness on *non-safety-related issues* is needed.

Public Health

Concerning Macedonian **public health**, amendments to healthcare law provide for increased salaries and improved retention policy. However, a high number of staff continues to leave the country. Inadequate use of sophisticated health equipment remains an issue. Data from e-medical registers should be used for proper policymaking. Lack of financial resources continues to seriously hamper the implementation of public health policies. More than one third of all health services are paid for out of pocket, indicating the quality of healthcare, and creating social discrepancies. There was backsliding in the area of **tobacco control**. The country has signed, but has yet not ratified the Protocol to Eliminate Illicit Trade in Tobacco Products. Smoking in public areas is not penalised. The amended legislation now allows smoking in some public areas and enforcing tobacco control has further deteriorated.

Action should be taken in the area of **blood, tissues, cells and organs**, where further efforts and proper funding are needed to align national rules with the *acquis*. The new country coordinator participated as an observer at EU events on transplants. A first-ever blood-stem transplant from a non-relative donor was made. Kidney transplantation from deceased donors resumed after several years.

Regarding **mental health** substantial efforts should be made to improve their sanitary and human resource conditions.

Concerning **socio-economic determinants of health**, no additional efforts were made in improving **nutrition and physical activity** and decreasing obesity.

Regular activities on drug abuse prevention and harm reduction continued. On **health inequalities**, the Ministry of Health allocated a budget to provide socially underprivileged women with contraception. However, this measure only applies to women who visit hospitals for reproductive health care, is not available in primary

healthcare facilities. Improved access to healthcare services is needed for the Roma community and more funding is needed to treat persons with severe physical and intellectual disabilities. Alcohol consumption and the associated prevention measures remained the same.

Funding for **cancer screening** is insufficient. The national and regional cancer registers were established and should provide quality data on the level of cancer incidence and the funds and treatment needed to ensure proper treatment and prevention. However, no reports on the registers are publicly available. There is no national program on breast and cervical cancer screening programme. Protocols for breast and cervical cancer have been designed, but still need to be approved and implemented. Inclusiveness needs to be improved so that all eligible patients in the relevant target groups have access to screening.

No substantial measures were taken on **health and environment**, apart from the recommendation to wear masks and the advice to people in risk categories to avoid going outdoors during periods of high air pollution.

The national registers on **rare diseases** were set up but need adequate funding. The definition of a rare disease still needs to be harmonised with international standards. Funding and access to specialised knowledge for treating rare diseases is limited and non-transparent, and is left to civil society organisations or families.

No progress was made on **patients' rights in cross-border healthcare** and national legislation is still not aligned with the *acquis*. Similar to last year, the national legislation on **medicines for human and veterinary use** remains partly aligned with the *acquis*. The list of medicines for human use, available through the national health insurance system, was updated after many years. However, the practice that medicines covered by the national health insurance are only available to patients in the first days of the month, continued. The country still needs to introduce supplementary measures to ensure proper quality and traceability checks of medicines for human and veterinary use subject to parallel trade, i.e. medicines bought in other countries at a cheaper rate.

Measles epidemic has been declared in December 2018. The Ministry of Health has taken steps to control the situation, by direct vaccination in schools and kindergartens and by launching a large vaccination campaign.

5.29 Chapter 29: Customs union

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

The country has maintained a **good level of preparation** on the customs union. **Good progress** was made. A new electronic system for processing customs declarations and excise documents was finalised and newly built customs terminals became operational. Several customs provisions under the law on Zones for Technological and Industrial Development are still not in line with the *acquis*. The country should:

→ continue to complete and apply its IT systems and, ensure their continuous upgrading and maintenance, and ensure business continuity.

The **customs legislation** is at a high level of alignment with the *acquis*. The 2018 customs tariff was adopted to correspond with the latest changes in the EU Combined Nomenclature. The Customs Code was amended to align its provisions on authorised economic operators (AEO) with the Union Customs Code (UCC). The customs administration organised a series of awareness-raising events and the first two companies were AEO-certified. Misdemeanour fines were reduced for minor customs offences, and the use of guarantees for the payment of customs debt for goods in transit was further aligned with the *acquis*.

The country is a member of the Common Transit Area, applying the EU rules on transit movements. The Regional Convention on Pan-Euro-Mediterranean preferential rules of origin is applied. The country ratified the amendments to the Convention on a Common Transit Procedure. The amended Protocol 2 of the Free Trade Agreement with Turkey, which harmonises it with the Pan-Euro-Mediterranean Convention, entered into force on 1 August 2018. Legislation on customs enforcement of intellectual property rights, risk management, drug precursors, duty relief and cultural goods are broadly aligned with the *acquis*. Several customs provisions of the Law on Zones for Technological and Industrial Development are still not in line with the *acquis*. The customs administration still charge a fee for processing customs declarations, which is also not in line with the *acquis*.

Regarding **administrative and operational capacity**, the standards of professional integrity and quality controls were applied systematically. Revenue collection was higher in 2018 than in 2017 thanks to the introduction of automated risk management with more targeted controls, better inter-agency cooperation, and increased voluntary compliance. The Commission's e-learning modules on the UCC to train both customs officers and economic operators, have been translated and published on the Customs Administration website.

The newly-built customs terminal at the main border crossing with Serbia was put into operation. Preparations for a joint border crossing control with Serbia intensified, receiving the official endorsement of both governments. The new electronic system for processing customs declarations and excise documents was finalised. Customs is also preparing to increase the use of the Integrated Tariff Environment (ITE) system. The number of declarations processed through the New Computerised Transit System (NCTS) continued to rise. Customs signed maintenance contracts for both the NCTS and the ITE systems and should ensure maintenance, upgrade and business continuity of all customs IT systems. Awareness needs to be raised among economic operators of the benefits of the customs IT systems.

5.30 Chapter 30: External relations

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

North Macedonia is **moderately prepared** in the area of external relations and **some progress** was made during the reporting period. The country ratified CEFTA Additional Protocol 5 on trade facilitation. It continued its good cooperation with the EU, including within the World Trade Organisation (WTO). Institutional capacity to fully participate in the EU commercial, development and humanitarian policies remains insufficient.

In the coming year, the country needs in particular to:

- strengthen the overall administrative capacity in the relevant ministries as concerns trade policy, the Central European Free Trade Agreement (CEFTA) and work in the WTO framework, particularly to efficiently implement of the multiannual action plan for the development of a Regional Economic Area in the Western Balkans;
- implement actions under the multi-annual action plan for the development of a Regional Economic Area, in particular implement CEFTA Protocol 5 on Trade Facilitation, adopt and implement the pending CEFTA Protocol 6 on Trade in Services and negotiate and ensure a swift adoption of CEFTA Protocol 7 on Dispute Settlement.

Regarding 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. In accordance with the WTO Trade Facilitation Agreement, the government established the National Committee on Trade Facilitation, consisting of 22 institutions, which met twice in 2018. The administrative capacity of institutions in charge of trade policy, in particular the Ministry of Economy, should be further strengthened.

The country continued its active participation in CEFTA and continued to implement the multi-annual action plan for the development of a Regional Economic Area. The country participated in pilot projects with Serbia and Moldova for the mutual recognition of authorised economic operators in the CEFTA region. An investment policy reform action plan was adopted. Negotiations with the CEFTA parties on the Agreement on mutual recognition of professional qualifications have started. The country nominated its negotiating team and adopted the negotiating mandate for the CEFTA dispute settlement mechanism.

The system for export control of dual-use goods and technologies has been set up and is in operation. The country aligned its list of dual-use goods with the 2017 EU regime on exports, transfer, brokering and transit of these items. Its application for membership in the multilateral export control regimes can contribute to the implementation of the *acquis* on dual-use goods exports control.

The country started aligning national law with Council Regulation 2368/2002 implementing the Kimberley Process certification scheme for the international trade in rough diamonds.

As concerns **bilateral agreements with third countries**, the number of bilateral investment agreements (BITs) remained at 39, of which 20 are with EU Member States.

No progress was made in the areas of **development policy** and **humanitarian aid**. The country is encouraged to establish a legal framework covering international cooperation and development policy, as well as humanitarian aid towards non-EU countries in accordance with EU policies and principles.

5.31 Chapter 31: Foreign, security and defence policy

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

North Macedonia continues to be **moderately prepared** in this area. **Some progress** was made during the reporting period, with continued participation in civilian and military crisis management missions. The ratification of the NATO accession protocol is ongoing.

In the coming year, the country should in particular:

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

Regarding the regular **political dialogue on foreign and security policy issues** between the EU and the country, consultations continued during the reporting period. A political dialogue between the EU and North Macedonia on UN issues took place in October 2018. The institutional framework enabling the country's participation in the common foreign and security policy (CFSP) and common security and defence policy (CSDP) is in place.

On **common foreign and security policy (CFSP)**, North Macedonia supports the Global strategy for foreign and security policy of the European Union. During the reporting period from beginning of March 2018 to end of February 2019, the country aligned, when invited, with 75 out of 87 relevant High Representative declarations on behalf of the EU and Council decisions representing an alignment rate of around 86 %. The country did not align with EU restrictive measures related to Russia and Ukraine among others.

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

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

The country continued to engage actively in *cooperation with international organisations* and aligned with EU statements delivered to international organisations (UN, OSCE and Council of Europe). The NATO accession protocol was signed in February 2019 and its ratification process is ongoing.

During the reporting period, no *security measures* were introduced beyond those related to border security in the context of the migration and refugee crisis.

The country continued to actively *participate in military crisis management* operations under the **common security and defence policy (CSDP)**, notably EUFOR ALTHEA Bosnia and Herzegovina and the NATO-led 'Resolute Support' mission in Afghanistan.

The country continued to contribute to the ‘2014-2020 European Union Battle Group’ and KFOR through the Host Nation Coordination Centre. Formal cooperation with the European Defence Agency continued.

In December 2018, North Macedonia officially applied to participate in the EU’s Hybrid Risk Survey in order to identify their key vulnerabilities and strengthen resilience against hybrid threats. In January 2019, the survey was launched with the Ministry of Defence.

5.32 Chapter 32: Financial Control

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

North Macedonia is **moderately prepared** in this area. **Some progress** was made with the adoption of the new Public Internal Financial Control (PIFC) policy paper and the 2019-2022 national anti-fraud strategy. The independence of the State Audit Office is yet to be constitutionally guaranteed. Further efforts are needed to address harmonisation of legislation, managerial accountability, including delegation of decision-making responsibilities, and functioning of internal control. The timely implementation of internal and external audit recommendations should be ensured. High-level of political support will remain instrumental for implementation of PIFC at all levels of the administration.

In the coming year, the country should in particular:

- start implementing the new PIFC policy paper to improve managerial accountability and internal control in the public sector;
- ensure more systematic and timely implementation of external audit recommendations;
- start implementing the national anti-fraud strategy, and formally set up the anti-fraud coordination service (AFCOS) and the AFCOS network.

Public internal financial control

A **strategic framework** is partially in place. All main aspects of internal control are addressed in a recently adopted PIFC policy paper. Some elements are, however, to be further defined and clarified based on experience gained through the implementation of pilot projects. Some enabling conditions for implementation of managerial accountability are also addressed in the public administration reform strategic framework, especially in the areas of policy development, human resources management and accountability. The PIFC Policy Paper provides for the establishment of a committee for monitoring the implementation of PIFC. In order to ensure appropriate coordination of all related reforms, this Committee will report, through the Public Finance Management (PFM) council, to the country’s Public Administration Reform (PAR) council. (See also the section on Public Administration Reform)

Managerial accountability still needs to be fully embedded in the administrative culture of the public sector. The managerial culture within public institutions is centralised with little delegation of decision-making and budgetary authority to middle management. Managerial accountability is further limited by a primary focus on compliance, rather than on performance.

The legal framework for **internal control** is broadly in-line with international standards. However, a proposed new PIFC law should address the comprehensive scope of internal control outlined in the new PIFC policy paper. Relevant secondary legislation and methodological guidance will need to be updated. The public funds entities' capacities to implement internal control standards, including risk management tools, have to be further enhanced both at central and local government level. The legal framework for centralised budget inspection function needs to be improved.

Internal audit practice is regulated in-line with international standards. However, further efforts are needed to efficiently roll out internal audit standards in the public sector. Most audit units have only one auditor and further efforts are required to train and certify audit staff. A quality review methodology is not yet systematically implemented.

The **Central Harmonisation Unit (CHU)** is in charge of developing and disseminating methodological guidance, and monitoring and reporting on PIFC implementation. The CHU should significantly increase its monitoring and supervision capacity, including through dedicated internal control and internal audit quality reviews. The CHU prepares annual reports on the state of PIFC implementation. Future reports should be adopted in a timely manner.

External audit

While the independence of the State Audit Office (SAO) is not yet anchored in the Constitution, the **legal framework** ensures SAO's independence broadly in line with standards of the International Organisation of Supreme Audit Institutions (INTOSAI).

The **institutional capacity** of the SAO should be further improved. The SAO carries out a compliance audit on the final government accounts of the core budget by June each year. The annual audit programme was adopted by December 2018 in line with the legal requirements. The SAO is implementing its 2018-22 strategic development plan.

On the **quality of audit work**, further efforts are needed to improve performance auditing in particular. In 2018, the SAO instigated eight performance audits; four were completed during the year in the other four are to be completed in 2019.

Regarding the **impact of audit work**, many SAO's recommendations have not systematically and timely implemented by the audited institutions. While the SAO annual audit report is discussed in the relevant parliamentary committee, increased parliamentary scrutiny and follow-up still needs to be ensured.

Protection of the EU's financial interests

National legislation addresses the main elements of the **acquis**, but further alignment is still needed. A 2019-2022 national anti-fraud strategy was adopted in December 2018. An **anti-fraud coordination service (AFCOS)**, previously within the Financial Police, needs to be made fully operational in the Ministry of Finance. An AFCOS network still

needs to be set up. **Cooperation with the Commission** has continued, and one joint investigation with the European Commission was carried out in 2018. Reporting to the Commission on irregularities and suspected fraud cases continued via the online Irregularity Management System (IMS). Since 2012, 20 cases have been reported through the system, including two cases in 2018.

Protection of the euro against counterfeiting

Concerning the **acquis alignment**, national legislation defines counterfeiting procedures as well as the roles and responsibilities of the institutions involved. The National Bank performs the **technical analysis** and the e-register of counterfeit money is under the Ministry of Interior's responsibility. Further efforts are needed to improve coordination among key institutions and to effectively exchange data between existing databases. No formal **cooperation agreements** are in place with the European Central Bank on banknotes or with the European Commission on coins. North Macedonia participates in the Pericles 2020 programme and in the regional Balkan Network for Euro Protection initiative.

5.33 Chapter 33: Financial and budgetary provisions

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

Preparations in this area are at an **early stage**. **Some progress** was achieved in aligning the legal framework on taxation, customs and statistics. The institutional setup needed for the efficient functioning of the own resources system has yet to be established.

In the coming year, the country should:

- develop legal framework and implementing rules for the efficient functioning of the own resources system;
- establish solid institutional and coordination structures and enhance administrative capacity of key institutions in the system.

Regarding **customs duties**, revenue collection increased as a result of the implementation of automated risk management with more targeted controls, better inter-agency cooperation, and increased voluntary compliance.

No progress was made on **traditional own resources; value added tax-based resource (VAT) and gross national income-based (GNI) resource**. Further efforts are needed to harmonise the legal framework, especially on customs, taxation, statistics and financial control. Instruments to fight and reduce tax evasion, fraud and informal economy as well as to improve internal control in the public sector have to be applied. The exhaustiveness of the national accounts and GNI calculations has yet to be achieved (*For further information see developments under Chapter 16 - Taxation, Chapter 18 - Statistics, Chapter 29 - Customs union and Chapter 32 - Financial control*).

With regard to **administrative infrastructure**, some progress was made in building up capacities of relevant key institutions in this area. However, further efforts are needed in order to ensure the timely and efficient functioning of the process of calculation, collection, payment and control of own resources as well as to improve the reporting and coordination mechanisms among all bodies involved.

ANNEX I – RELATIONS BETWEEN THE EU AND NORTH MACEDONIA

North Macedonia has been participating in the **Stabilisation and Association process** since 1999. The Stabilisation and Association Agreement (SAA) with the EU, signed in 2001, sets the framework for relations with the EU, including political, economic and technical dialogue. Experts met in seven subcommittees and one Special Group, according to schedule. The Stabilisation and Association Committee met in June 2018, followed by the Stabilisation and Association Council meeting in July 2018. A Stabilisation and Association Council was held in March 2019. Discussions focused on the progress made to advance the EU reforms, in particular in the areas identified by the June 2018 Council Conclusions and the strengthening of good neighbourly relations.

The country continued to implement its commitments under the SAA. On 4 December 2018, the SA Council adopted the decision on the passage to stage II of the SAA, based on the Commission's 2009 proposal.

The implementation of the **Instrument for Pre-accession Assistance II for 2014-2020 (IPA II)** is underway. By the end of 2018, programmes totalling EUR 395 million have been adopted, out of which EUR 151 million have been already contracted. Significant progress was made on a sector-based programming involving all stakeholders.

Programmes under the **Instrument for Pre-accession Assistance for 2007-2013 (IPA I)**, have been progressively implemented and finalised. By the end of 2018, 62.7% of all funds allocated for the country under IPA I have been paid.

A revised Indicative Strategy Paper was adopted in August 2018, enhancing the response to new challenges such as migration, terrorism and violent extremism, climate change and economic governance.

The main risk factor impeding the swift implementation of IPA pre-accession funds remains the limited administrative capacity of the national authorities to prepare mature projects and insufficient commitment to ensure sustainability of project results. Urgent measures are needed to improve the planning, programming and management capacities in the national IPA structures, particularly with respect to managing large infrastructure projects. The national authorities need to better promote the sound financial management and control system established within the national IPA structures across the whole of the public administration, thus contributing to the public administration reform itself.

The EU supports the participation of the country in 12 **EU programmes** with EUR 57.7 million. To make the most of this investment, the national authorities need to enhance the participation in the EU programmes by better promoting funding opportunities, supporting preparation of mature projects, as well as maximising the results of funded projects.

ANNEX II – STATISTICAL ANNEX

STATISTICAL DATA (as of 29.04.2019)

North Macedonia

Basic data	Note	2006	2013	2014	2015	2016	2017
Population (thousand)		2 038.5	2 062.3	2 065.8	2 069.2	2 071.3	2 073.7
Total area of the country (km ²)		25 713	25 713	25 713	25 713	25 713	25 713

National accounts	Note	2006	2013	2014	2015	2016	2017
Gross domestic product (GDP) (million national currency)		334 840	501 891	527 631	558 954	594 795	616 600p
Gross domestic product (GDP) (million euro)		5 472	8 150	8 562	9 072	9 657	10 014p
GDP (euro per capita)		2 700e	3 900e	4 100e	4 400e	4 700e	4 800p
GDP per capita (in purchasing power standards (PPS))		7 200	9 300e	9 900e	10 400e	10 800e	10 800p
GDP per capita (in PPS), relative to the EU average (EU-28 = 100)		29e	35e	36e	36e	37e	36p
Real GDP growth rate: change on previous year of GDP volume (%)		5.1	2.9	3.6	3.9	2.8	0.2p
Employment growth (national accounts data), relative to the previous year (%)		4.6	5.6	2.4	1.9	1.6	:
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)		0.5	-2.5	1.2	2.0	1.3	:
Unit labour cost growth, relative to the previous year (%)		9.6	-1.7	3.7	0.2	5.0	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2010 = 100)		-6.7	-1.9	1.6	2.2	9.1	:

Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-28 = 100)		43.7	42.8	43.3	43.0	44.1	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		10.3	11.5	11.7	11.1	10.6	9.1p
Industry (%)		17.0	17.3	18.3	19.3	19.7	20.6p
Construction (%)		7.9	8.2	8.0	8.1	8.0	7.2p
Services (%)		64.8	63.0	62.0	61.5	61.7	63.1p
Final consumption expenditure, as a share of GDP (%)		95.6	89.3	86.9	85.8	82.3	80.8p
Gross fixed capital formation, as a share of GDP (%)		20.1	23.7	23.4	23.8	24.4	:
Changes in inventories, as a share of GDP (%)		1.2	5.0	6.8	6.5	8.1	11.0p
Exports of goods and services, relative to GDP (%)		37.8	43.4	47.7	48.7	50.7	55.4p
Imports of goods and services, relative to GDP (%)		54.8	61.5	64.9	65.0	65.5	69.2p
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

Business	Note	2006	2013	2014	2015	2016	2017
Industrial production volume index (2010 = 100)		105.4	107.3	112.5	118.0	122.0	122.2
Number of active enterprises (number)	1)	:	54 305	53 749	54 738	55 469	55 203p
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	10.0	10.6	10.3	10.4	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	:	:	8.8	9.7p	:

People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	78.0	75.0	74.4	75.4	74.8p
Value added by SMEs (in the non-financial business economy) (EUR million)		:	2 251	2 257	2 413	2 607	2 693p
Total value added (in the non-financial business economy) (EUR million)		:	3395	3460	3740	4031	4 227p

Inflation rate and house prices	Note	2006	2013	2014	2015	2016	2017
Consumer price index (CPI), change relative to the previous year (%)		3.7	2.7	0.0	0.1	0.2	2.1
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

Balance of payments	Note	2006	2013	2014	2015	2016	2017
Balance of payments: current account total (million euro)		-23	-134	-43	-177	-275	-103
Balance of payments current account: trade balance (million euro)		-1 128	-1 863	-1 856	-1 823	-1 813	-1 788
Balance of payments current account: net services (million euro)		153	375	384	349	341	377
Balance of payments current account: net balance for primary income (million euro)		-21	-193	-161	-286	-384	-398
Balance of payments current account: net balance for secondary income (million euro)		973	1 547	1 589	1 583	1 581	1 706
Net balance for primary and secondary income: of which government transfers (million euro)	2)	59	74	110	54	91	113
**3 year backward moving average of the current account balance relative to GDP (%)		:	-2.4	-1.8	-1.4	-1.8p	-1.9p

**Five year change in share of world exports of goods and services (%)		:	:	:	:	22.54	43.00
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)		344.7	229.4	197.4	202.8	316.9	180.0
Foreign direct investment (FDI) abroad (million euro)		0.1	22.8	7.7	13.9	21.6	1.8
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	0.4	3.0	5.5	13.6	8.6
Foreign direct investment (FDI) in the reporting economy (million euro)		344.8	252.2	205.1	216.7	338.4	181.7
of which FDI of the EU-28 countries in the reporting economy (million euro)		272.7	226.7	13.8	-15.2	212.8	108.8
**Net international investment position, relative to GDP (%)		-34.5	-55.9	-53.1	-56.0	-57.7	-58.1
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)		14.8	-3.3	6.5	2.3	-7.5	0.4

Public finance	Note	2006	2013	2014	2015	2016	2017
***General government deficit / surplus, relative to GDP (%)		-0.5	-3.8	-4.2	-3.5	-2.7	-2.7
***General government gross debt relative to GDP (%)		30.6	34.0	38.1	38.1	39.9	39.5
Total government revenues, as a percentage of GDP (%)		31.1	27.9	27.7	28.8	28.5	29.1
Total government expenditure, as a percentage of GDP (%)		31.6	31.9	31.9	32.3	31.2	31.9

Financial indicators	Note	2006	2013	2014	2015	2016	2017
Gross external debt of the whole economy, relative to GDP (%)		45.7	64.0	70.0	69.3	74.7	73.6p

Gross external debt of the whole economy, relative to total exports (%)		123.9	147.9	146.6	142.2	146.7	133.7
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		601	1 172b	1 433	1 694	1 868	2 053
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		2 141	3 581b	3 843	4 131	4 396	4 564
Money supply: M3 (M2 plus marketable instruments, million euro)		2 232	4 215b	4 593	4 937	5 241	5 480
Total credit by monetary financial institutions to residents (consolidated) (million euro)		1 504	3 842b	4 229	4 626	4 632	4 883
**Annual change in financial sector liabilities (%)		:	1.4	12.6	5.5	6.9	1.9
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)	3)	5.72	1.86	1.79	0.99	1.02	1.01
Lending interest rate (one year), per annum (%)	4)	9.50	3.75	3.75	3.75	4.25	3.75
Deposit interest rate (one year), per annum (%)	4)	:	0.75	0.50	0.25	0.25	0.25
Euro exchange rates: average of period (1 euro = ... national currency)		61.188	61.583	61.623	61.610	61.595	61.574
Trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)	4)	1 417	1 993	2 436	2 262	2 613	2 336

External trade in goods	Note	2006	2013	2014	2015	2016	2017
Value of imports: all goods, all partners (million euro)		2 980	4 983	5 505	5 801	6 177	6 825
Value of exports: all goods, all partners (million euro)		1 918	3 235	3 747	4 088	4 390	5 007
Trade balance: all goods, all partners (million euro)		-1 062	-1 748	-1 758	-1 714	-1 786	-1 818
Terms of trade (export price index / import price index * 100) (number)	5)	89	97	97	100	96	:
Share of exports to EU-28 countries in value of total exports (%)		66.4	72.6	76.5	77.0	80.0	81.1
Share of imports from EU-28 countries in value of total imports (%)		55.0	62.7	63.4	62.0	61.9	62.9

Demography	Note	2006	2013	2014	2015	2016	2017
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		1.9	1.9	1.9	1.3	1.2	0.7
Infant mortality rate deaths of children under one year of age (per thousand live births)		11.5	10.2	9.9	8.6	11.9	9.2
Life expectancy at birth: male (years)		71.7	73.4	73.5	73.5	73.4	74.1
Life expectancy at birth: female (years)		76.2	77.5	77.5	77.4	77.5	77.9

Labour market	Note	2006	2013	2014	2015	2016	2017
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		68.0	70.4	70.8	70.2	69.6	70.3
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		43.9	50.3	51.3	51.9	53.3	54.8
Male employment rate for persons aged 20–64 (%)		53.6	59.7	61.6	61.5	63.7	65.6

Female employment rate for persons aged 20–64 (%)		34.0	40.7	40.8	42.1	42.5	43.7
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		27.9	37.9	38.6	40.1	40.7	41.4
Employment by main sectors							
Agriculture, forestry and fisheries (%)		:	18.7	18.5	17.9	16.6	16.2
Industry (%)		:	23.5	23.4	23.4	23.1	22.5
Construction (%)		:	6.9	7.0	7.1	7.2	7.2
Services (%)		:	50.9	51.1	51.6	53.1	54.1
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	:	:	:	:	:
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	:	:	:	:	:
Unemployment rate: proportion of the labour force that is unemployed (%)		36.1	29.0	28.0	26.1	23.7	22.4
Male unemployment rate (%)		35.3	29.0	27.7	26.7	24.4	22.7
Female unemployment rate (%)		37.2	29.0	28.6	25.1	22.7	21.8
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		59.7	51.9	53.1	47.3	48.2	46.7
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		31.1	23.9	23.4	21.3	19.2	17.4
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED levels 0-2) (%)		39.3	33.2	31.0b	30.0	28.8	25.5
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)		19.1	20.1	19.6	18.9	17.6	17.1

Social cohesion	Note	2006	2013	2014	2015	2016	2017
Average nominal monthly wages and salaries (national currency)		13 517	21 145	21 394	21 906	22 342	22 928
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2010 = 100)		73.4	93.2	94.6	97.1	99.3	100.5
GINI coefficient		:	37	35	34	34	32
Poverty gap		:	39.0	36.1	33.1	32.9	37.3
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		22.8	11.4	12.5	11.3p	9.9	8.5

Standard of living	Note	2006	2013	2014	2015	2016	2017
Number of passenger cars relative to population size (number per thousand population)		118.9	168.2	179.8	185.5	190.7	194.7
Number of mobile phone subscriptions relative to population size (number per thousand population)		695.1	1 083.9	:	1 005.9	989.9	968.3
Mobile broadband penetration (per 100 inhabitants)		:	:	51	55	57	61
Fixed broadband penetration (per 100 inhabitants)		:	:	17	18	18	19

Infrastructure	Note	2006	2013	2014	2015	2016	2017
Density of railway network (lines in operation per thousand km ²)		28.1	28.1	28.1	28.1	27.4	27.4
Length of motorways (kilometres)		216	259	259	259	259	259

Innovation and research	Note	2006	2013	2014	2015	2016	2017
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.19	0.44	0.52	0.44	0.44	0.36p
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	0.02	0.01	:	:	:
Percentage of households who have internet access at home (%)		14.0	65.1	68.3	69.4	75.3	73.6

Environment	Note	2006	2013	2014	2015	2016	2017
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)	6)	91.5	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)		482.5	373.3	350.5	331.1	326.8	334.0p
Electricity generated from renewable sources relative to gross electricity consumption (%)		18.7	18.7	15.5	24.9	27.0	17.1
Road share of inland freight transport (based on tonne-km) (%)		93.1	92.4	94.7	96.0	96.9	96.4

Energy	Note	2006	2013	2014	2015	2016	2017
Primary production of all energy products (thousand TOE)		1 657	1 425	1 331	1 266	1 111	1 161
Primary production of crude oil (thousand TOE)		0	0	0	0	0	0
Primary production of solid fuels (thousand TOE)		1 296	1 053	986	876	745	853
Primary production of gas (thousand TOE)		0	0	0	0	0	0
Net imports of all energy products (thousand TOE)		1 325	1 300	1 396	1 395	1 590	1 551

Gross inland energy consumption (thousand TOE)		2 965	2 783	2 707	2 656	2 696	2 762
Gross electricity generation (GWh)		7 006	6 094	5 374	5 646	5 630	5 600

Agriculture	Note	2006	2013	2014	2015	2016	2017
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		94.8	98.6	100.5	106.4	112.2	:
Utilised agricultural area (thousand hectares)		1 226	1 260	1 263	1 264	1 267	1 266
Livestock numbers: live bovine animals (thousand heads, end of period)		255	238	242	253	255	255
Livestock numbers: live swine (thousand heads, end of period)		167	167	165	195	203	202
Livestock numbers: live sheep and live goats (thousand heads, end of period)		:	807	822	822	825	832
Raw milk available on farms (thousand tonnes)		:	430	436	417	463	449
Harvested crop production: cereals (including rice) (thousand tonnes)		602	562	629	484	641	448
Harvested crop production: sugar beet (thousand tonnes)		0	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)		586	687	776	845	810	770

: = not available

b = break in series

e = estimate

p = provisional

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

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

ESA rules.

Footnotes

- 1) Excluding NACE Rev. 2 Sections A, O, T and U and Class 64.20.
- 2) Secondary income only.
- 3) Weighted averages. Data cover bilateral over-night transactions.
- 4) End of year (31 December).
- 5) Ratio of Paasche unit value indices (2015 = 100).
- 6) Part of the greenhouse gas inventory prepared in the context of the Third National Communication (UNFCCC).