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The former Yugoslav Republic of Macedonia 2016 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**

2016 Communication on EU Enlargement Policy

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1. INTRODUCTION¹

1.1. Context

The Stabilisation and Association Agreement between the former Yugoslav Republic of Macedonia and the EU entered into force in April 2004. The European Council granted the status of candidate country to the former Yugoslav Republic of Macedonia in December 2005. The Commission recommended for the first time to the Council to open accession negotiations with the country in 2009. In 2015, the Commission stated that it was prepared to extend its recommendation, conditional on the continued implementation of the Pržino Agreement, which was facilitated by Commissioner Hahn and three Members of the European Parliament in 2015, and substantial progress in the implementation of the 'Urgent Reform Priorities'.

The deep political crisis continued in 2016, exacerbated by the attempt to pardon individuals charged or allegedly involved in the wiretaps. This decision was rescinded in the face of national and international protests. The Pržino agreement is partially implemented and limited progress was made in terms of concrete implementation of the 'Urgent Reform Priorities'. The agreements and important decisions taken in summer 2016, which pave the way for early parliamentary elections, provide an opportunity for the country's leaders to finally overcome the long-lasting crisis.

1.2. Summary of the report

Concerning the **political criteria**, the country was faced with the continuation of the most severe political crisis since 2001. Democracy and rule of law have been constantly challenged, in particular due to state capture affecting the functioning of democratic institutions and key areas of society. The country suffers from a divisive political culture and a lack of capacity for compromise. On 20 July and 31 August 2016, leaders of the four main political parties reached a deal on the implementation of the Pržino Agreement, including by setting 11 December 2016 as the date for early parliamentary elections and declaring their support to the work of the Special Prosecutor. They reiterated also their commitment to implement the 'Urgent Reform Priorities'.

The inter-ethnic situation remained fragile. The review of the Ohrid Framework Agreement, which ended the 2001 conflict and provides the framework for the inter-ethnic relations, still needs to be completed in a transparent and inclusive manner.

Civil society played a constructive role in supporting democratic processes and ensuring greater checks and balances. At the same time, civil society organisations continue to express their concerns about the deterioration of the climate in which they operate and the limited government commitment to dialogue, as well as about public attacks by politicians and pro-government media.

The country is moderately prepared with the reform of its public administration. There has been some progress, although limited, over the past year. The implementation of the new legal framework on human resources management started. However, there is insufficient progress in the implementation of the Commission's previous recommendations. Rather than being suspended, temporary contracts continued to be transformed into permanent ones without

¹ This report covers the period from October 2015 to September 2016. It is based on input from a variety of sources, including contributions from the government of the former Yugoslav Republic of Macedonia, the EU Member States, European Parliament reports and information from various international and non-governmental organisations. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account.

open competition. Ineffective accountability lines, the use of the public sector as a political instrument, allegations of pressure exerted on public employees and alleged politicisation of administration in an electoral year continue to be of concern. A comprehensive 2017-2022 public administration reform strategy is belatedly under preparation. Furthermore, the lack of political commitment to deliver on necessary reforms in public financial management led to a significant reduction of EU financial assistance in 2016.

The country's judicial system has some level of preparation. However, the situation has been backsliding since 2014 and achievements of the previous decade's reform process have been undermined by recurrent political interference in the work of the judiciary. The authorities failed to demonstrate necessary political will to address effectively the underlying issues as identified in the 'Urgent Reform Priorities'. The obstructions faced by the newly established Special Prosecutor have shown the need to address effectively the lack of independence of the judiciary and to prevent selective justice.

Concerning the fight against corruption, the country has some level of preparation. Corruption remains prevalent in many areas and continues to be a serious problem. The legislative and institutional framework has been developed. However, the structural shortcomings of the State Commission for Prevention of Corruption and political interference in its work have minimised the impact of past efforts. There is still a need to establish a convincing track record, especially on high level corruption cases. In the fight against organised crime, the country has reached some level of preparation. The legislative framework is broadly in line with European standards and strategies have been elaborated. However, the law enforcement capacity to investigate financial crimes and confiscate assets needs to be developed further.

Concerning the protection of human rights, the legislative and institutional framework is largely in line with the European standards. More efforts are needed in practice to ensure the respect of human rights of vulnerable groups, including refugees and migrants. There is also a continuing lack of political will and adequate resources to enable the relevant supervisory and regulatory bodies to fulfil their mandate independently and effectively. The most marginalised categories of the population are still not being accorded full protection. In the area of freedom of expression, the country has some level of preparation. However, freedom of expression and the situation of the media remain a serious challenge in the current political climate.

With regard to regional cooperation, the country generally continues to maintain good relations with other enlargement countries and participated actively in regional initiatives. Steps have been taken to improve good neighbourly relations, including through the recent progress in implementing the confidence-building measures with Greece. The 'name issue' needs to be resolved as a matter of urgency.

As regards the **economic criteria**, the former Yugoslav Republic of Macedonia has a good level of preparation in developing a functioning market economy. Overall, no progress was made towards a functioning market economy during the reporting period. Macroeconomic stability was preserved and the macroeconomic environment strengthened further in 2015. This was supported by major public infrastructure spending and foreign direct investment, although signs of weaknesses were observed in the first quarter of 2016. Despite unemployment remaining high, particularly for youth, it has decreased during the reporting period. Certain vulnerabilities remain, however, such as the low competitiveness of the domestic private sector which is hampered by weak contract enforcement, the large informal economy, and difficult access to finance. The management of public finances did not improve and public debt increased further.

The economy has a moderate level of preparation to cope with competitive pressures and market forces within the Union. Some progress was made to foster innovation and foreign

investments and digitalisation is progressing fast. The economy is poorly diversified, however, and manufacturing industry produces mainly low value-added products. The economy continued to suffer from weaknesses in education curricula, low innovation rates and significant investment needs, including in public infrastructure, that make it less competitive.

As regards its **ability to assume the obligations of membership**, the country is moderately prepared in most areas, including in the areas of competition, transport and energy. Further efforts are needed across the board, in particular in those few areas where the country is at an early stage of preparation, such as freedom of movement of workers. More focus is also needed on administrative capacity and effective implementation.

The country continued to be affected by the migration crisis. This created a substantial burden on its asylum and migration system. The country continued to cooperate with neighbouring countries and Member States and made efforts to provide shelter and humanitarian supplies, with EU support as well as the support of others. The country should maintain its efforts to ensure effective screening of refugees and migrants and address relevant protection needs. The country should also maintain its efforts to decrease the number of unfounded asylum applications lodged by its nationals in EU Member States.

2. POLITICAL CRITERIA

2.1. Democracy

The reporting period was marked by the continuing political crisis and the partial implementation of the 2015 **Pržino Agreement**. Although some deadlines were met, most were late and required constant involvement and support from the EU and the US. Some key commitments remained unfulfilled. Although work on these has started, limited progress was made on the concrete implementation of the 'Urgent Reform Priorities', primarily due to a lack of political will.

The deep **political crisis**, which arose from the 2015 revelations of wide-spread illegal interceptions of communications (wiretaps) and their serious content, continued in 2016. The President's decision to pardon 56 individuals charged or allegedly involved in the wiretaps was subsequently rescinded in the face of strong domestic and international protests. Overall, democracy and the rule of law continue to be challenged, in particular due to the capture of institutions such as judicial bodies, regulatory agencies and media outlets. The country suffers from a divisive political culture and a lack of capacity for compromise. Narrow party interests continue to prevail over the interests of the country and its citizens on key issues.

A welcome accord on the implementation of the Pržino Agreement was reached on 20 July 2016². On 31 August, the political leaders took a number of further important decisions, including setting the date of early parliamentary elections on 11 December 2016. These recent accords, including notably on the preparation and holding of credible elections, are an opportunity for the country's leaders to finally overcome the long-standing crisis, address systemic rule of law issues and put the country firmly back onto the EU path.

Elections

Ahead of the early parliamentary elections, work must continue to ensure conditions for

² Referred below as the '20 July agreement'.

a credible electoral process (such as preventing and investigating the intimidation of voters, ensuring separation of state and party activities, balanced media reporting and continuously updating the voters' list) and to address the OSCE/ODIHR³ recommendations. Efforts should continue to enhance the capacities of the State Election Commission. Greater transparency is needed to increase citizens' trust in its work.

Following letters sent by the EU and US to the Prime Minister, indicating that the conditions for credible elections were not in place at that point, the political leaders decided to postpone the early parliamentary elections from 24 April 2016 (as initially provided for in the Pržino agreement) to 5 June 2016. Those elections were postponed, too, when three signatories of the political agreement deemed that the conditions were not met and only one submitted a list of candidates. On 31 August 2016, the political leaders agreed to hold early parliamentary elections on 11 December 2016.

The November 2015 amendments to the electoral code partially addressed previous OSCE/ODIHR recommendations. These amendments introduced a quota of 40 % for candidates of the less-represented gender on party lists. The code was also amended in July 2016 to reflect the provisions of the 20 July agreement. The code could benefit from a future review in order to ensure internal coherence and consistency with the relevant legislation.

The composition of the State Election Commission was changed to include three independent members, in addition to the six nominees from the four main political parties. It operated in a tense political environment. Its work was impaired by political interference, lack of cooperation from various stakeholders, a limited timeframe and resources.

Parliament

The ongoing crisis underlined once again parliament's weak legislative and oversight functions and the need to substantially improve its performance as a forum for constructive political dialogue and representation. The focus needs to be on active participation of all parliamentary parties, proper consultation and impact assessment prior to the enactment of legislation, credible functional oversight of the work of government and the intelligence services, establishing political accountability for the illegal wiretaps, and the capacity to monitor the protection of human rights and fundamental freedoms in the country.

Parliament's work continued to be seriously hampered by the political crisis, including by a lack of political dialogue, its dissolution⁴ and the non-participation of the main opposition party in parliamentary activities from 23 June to 22 July 2016. The parliament was dissolved again on 17 October 2016 ahead of the early parliamentary elections on 11 December 2016. During the reporting period, the parliament did not adequately fulfil its function of providing checks and balances. The practice of frequent legislative changes to laws and use of shortened procedures for adoption, without sufficient consultation or impact assessment, continued.

The two committees responsible for oversight of the security services (one on security and counterintelligence, and one on the interception of communications) need to carry out their mandate. The inquiry committee failed to deliver on political accountability over the illegal wiretaps because members of the main ruling party either did not participate in hearings or would not answer questions. All three committees failed to submit their initial reports as

³ Organization for Security and Co-operation in Europe/Office for Democratic Institutions and Human Rights

⁴ The parliament was dissolved on 6 April before the early parliamentary elections planned on 5 June 2016. Following the decision of the Constitutional Court, it reconvened on 18 May 2016 and amended the electoral code to postpone the 5 June elections.

agreed in the Pržino Agreement. The parliamentary committee established following the President's decisions on pardons decided that there were no grounds for impeachment. There was no progress on implementing the earlier recommendations of the Committee of Inquiry into the events in parliament of 24 December 2012.

Governance

Serious challenges to the democratic governance of the country continued, raising concerns about state capture of institutions and key sectors of society. Independent regulatory, supervisory and advisory bodies were not able to carry out their functions proactively, effectively and free from political pressure, leading to limited oversight of the executive.

The government needs to restore credibility by implementing robust reforms, preparing and holding credible elections, committing to and implementing all obligations under the Pržino Agreement. The Ohrid Framework Agreement needs to be reviewed in an inclusive and transparent manner and any resulting recommendations implemented.

Following the Pržino Agreement, SDSM⁵ ministers joined the interim government in November 2015 and deputy ministers from VMRO-DPMNE⁶ and SDSM, with veto rights on election-related matters, were appointed to several ministries. However, obstructionism and lack of cooperation on all sides were reported in these cross-party ministries. As foreseen in the Pržino Agreement, ex-Prime Minister Gruevski resigned in January.

In April, DUI⁷ replaced its Ministers following the release of illegal wiretaps of a private nature. Following the reconvening of parliament on 18 May, VMRO-DPMNE and DUI accepted the resignation of SDSM ministers and decided therefore to continue in their coalition. After the latest agreement of 20 July, a new interim government in charge of organising elections was appointed by the parliament on 2 September 2016, which includes again Ministers from SDSM.

The Macedonian government made limited progress in implementing the 'Urgent Reform Priorities', accepted in June 2015. Backsliding continued in some critical areas of the rule of law.

Inter-ethnic relations remained fragile. The Ohrid Framework Agreement (OFA), which ended the 2001 conflict, provides the framework for preserving the multi-ethnic character of society. In general, this process remained highly politicised. With international support, the State Secretariat for the Implementation of the OFA, prepared a report with recommendations and submitted it to the government in December 2015. There has been no follow-up to date. Overall, the situation remained mostly calm. Inter-ethnic tensions caused by public displays of religious and ethnic symbols were calmed by community and political leaders.

Decentralisation of government is a key element of the OFA. Central budget underfunding and low capacity of local tax collection compromise the capacity of some municipalities to carry out their obligations. The legal framework for local self-government needs to be reviewed.

Another essential part of the OFA is balanced regional development. On this point, a 2016-2019 action plan envisages a more transparent and balanced distribution of national funds. The 2016 budget for regional development has doubled and the 2017 budget envisages another increase, but this will still be insufficient.

⁵ *Social Democratic Union of Macedonia*

⁶ *Internal Macedonian Revolutionary Organisation — Democratic Party for Macedonian National Unity*

⁷ *Democratic Union for Integration*

Civil society

No progress was made in addressing last year's recommendations. The environment in which civil society organisations (CSOs) operate worsened. The national authorities must consult and engage with civil society to find a way out of the crisis by better involving CSOs in policy-making, legislative process and in discussions resulting in concrete actions. Both government and non-governmental actors should cooperate more constructively. The state must ensure relevant legal, financial and policy frameworks to ensure the functioning of civil society.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by state institutions. CSOs continued to express serious concerns about the difficult environment and the climate of fear in which they operate. In general, they continued to report being subject to harsh and disproportionate criticism by politicians and certain media. Following the presidential pardons, CSOs organised numerous protests across ethnic lines, made efforts to strengthen democratic processes and ensure greater checks and balances. A group of CSOs prepared a 'Blueprint for Urgent Democratic Reforms' in July 2016. At the same time, political polarisation and divisions can be observed between CSOs who support the governing party and those who oppose it. Some CSOs reported targeted investigations and infringement of privacy by law enforcement agencies when they disagreed with the government on sensitive political issues. Individual members were fined and taken to court following civil disobedience during the protests (also called the 'colourful revolution').

There has been limited government commitment to dialogue with CSOs. Their involvement in policy-making and legislative drafting remains insufficient, although some further efforts were made by the Secretariat for European Affairs. Some 89 CSOs expressed serious concerns about the process for establishing the Council for Cooperation between the government and civil sector, in particular over the lack of a proper consultative process and the selection process of civil society representatives. Local government continued to lack the capacity to cooperate with CSOs.

Inadequate administrative capacity and the lack of funds in the government unit for NGO Cooperation prevent the implementation of the 2012-2017 strategy for cooperation with civil society. The drafting of the 2015-2017 action plan is still pending. A binding framework for standardised rules for state financing of civil society has not yet been adopted and the allocations of state funds remain insufficient. A fully functional legal framework, based on the law on associations and foundations, is still not in place.

Oversight of the intelligence services

The two oversight committees chaired by the opposition (one on security and counter-intelligence and one on interception of communications) began their work in September 2015. They visited the Bureau for Security and Counterintelligence (UBK) and other services, but did not perform any effective oversight.

The clear recommendations on both oversight and reform of the intelligence services in the 'Urgent Reform Priorities' were not implemented. The oversight system is still not fully functional, in particular as regards the intelligence services. Work on intelligence sector reform was finally launched in October 2016 with external support.

2.2. Public administration reform

The country is **moderately prepared** with the reform of its public administration. There was **some progress**, although limited, over the past year. The implementation of the new legal framework on human resources management started. However, there has been insufficient commitment to implement the Commission's 2015 recommendations. Ineffective accountability lines, the use of the public sector as a political instrument, allegations of pressure exerted on public employees and alleged politicisation of administration in an electoral year continue to be of concern. Furthermore, the lack of political commitment to deliver on necessary reforms in public financial management led to a significant reduction of EU financial assistance in 2016.

Strong political commitment is necessary to guarantee the independence of the public administration and respect for the principles of transparency, merit and equitable representation. In the coming year, the country should in particular:

- address serious concerns about politicisation of the public service;
- ensure full implementation of the principles of accountability, transparency and merit (as provided for in the 'Urgent Reform Priorities' as well as the law);
- suspend and review the implementation of the law on transformation of temporary positions into permanent contracts until the principle of merit is fully observed (as per the 'Urgent Reform Priorities');
- adopt a public administration reform strategy and a public financial management reform programme, which will address the weaknesses identified, including budget transparency.

Policy development and coordination

The legal framework and institutional structures continued to ensure a coherent **policy-making system**. A medium-term policy planning system is in place and strategies now include more information on their financing. However, the quality of the European integration coordination system is decreasing due to lack of political will to implement EU-related reforms. Sectoral planning needs to be improved, also in view of receiving EU assistance.

The capacity for **inclusive and evidence-based policy and legislative development** needs to be improved. Obligatory inter-ministerial and **public consultations** on policies and legislation remained a formality. The quality of obligatory regulatory impact assessments for legislative and policy proposals is weak. Financial impact assessments are very often not prepared, and procedures are applied only formally.

Public scrutiny over government work is formally in place, but a decreasing number of selected government reports are made public. Those reports that are publicly available continue to focus more on quantitative outputs than on qualitative assessment of achieved policy objectives.

Public financial management

Preparations for the multiannual **public financial management reform programme** continued at technical level. However, a formal government-led dialogue on the programme is yet to be launched and a medium-term budgetary framework is yet to be adopted.

The following areas have been identified among the main priorities for development of public finances in the country: the public availability and comprehensiveness of fiscal data; budget classification and the budget revenue planning process; a strengthened internal control system; alignment of public procurement legislation with the *acquis* and its efficient

implementation; and increased audit coverage of total public spending in order to improve accountability and transparency of the public finances. Payment arrears were identified by the 2015 public expenditure and financial accountability assessment as a further important area to be tackled by the government.

Budget transparency is not ensured, because clear, comprehensive, timely and reliable budgetary and statistical information is not publicly available. The 2016-2017 fiscal strategy and the 2016 budget did not undergo sufficient parliamentary debate. The lack of appropriate public and parliamentary scrutiny raises concern about the transparency of the budgetary process. Parliament has limited capacity to exercise control on use of public funds and there is no efficient mechanism to monitor the budgetary impact of government proposals.

Public service and human resources management

The implementation of the new **merit-based recruitment and appraisal procedures** enshrined in the 2015 law on administrative servants began in September 2016. However, rather than being suspended, temporary contracts continued to be transformed into permanent ones without open competition. This was contrary to the ‘Urgent Reform Priorities’, as it ran counter to the basic principle of merit in public administration and bypassed the new uniform rules for public-sector employees. No figures were made public on the number and type of such contracts. Concerns remained also over the transparency of staff mobility and possible misuse of **dismissal procedures**. Criteria for senior management positions should be made more detailed to limit political appointments and dismissals.

Allegations of pressure on the public sector employees continued, reinforcing the perception of high levels of politicisation. The final report of the OSCE/ODIHR Election Observation Mission (July 2016) notes that there are credible allegations that public sector employees suffered intimidation, pressure and threats to their employment to attend counter-demonstrations. Allegations of intimidation to attend demonstrations were also reported.

After long delays, the methodology on equitable representation was signed and published. However, figures on equitable representation remained almost unchanged, while smaller communities remained under-represented. Efforts to meet targets for equitable representation often did not take account of institutions’ real staffing needs and the principle of merit. The number of public employees not required to show up for work continued to increase.

The Ministry of Information Society and Administration does not yet have enough leverage to coordinate and monitor **human resources management**. A first report on the number of employees in the public sector was published (one of the ‘Urgent Reform Priorities’). There is still lack of clarity on the issue of temporary employees. The **remuneration system** across the public sector remained non-uniform, leading to inconsistent levels of pay and hindering mobility.

Professional development continued for public servants through training. The new human resource software in place provides cumulative data on training already provided but there is no centralised database of the training offered by various institutions. The impact of legislation promoting **integrity in the public service** remained relatively limited.

Accountability of the administration

As effective **lines of accountability** are not in place between or within institutions, a functional review is needed to assess the rationality of the organisation of the Macedonian public administration. Some institutions continued to report in parallel both to their line ministry and to the government. Clear separation of reporting and accountability requirements between party and state must be ensured. Managerial accountability is still not systematically

implemented and there is little delegation of responsibility to middle management. (*See chapter 32 — Financial control*).

Appropriate internal and external oversight mechanisms are in place to ensure **citizens' right to good administration**. The quality and impact of parliamentary oversight needs to be improved. The Ombudsman continued to work efficiently but systemic follow-up of his repeated recommendations is required from a number of institutions (see the 'Urgent Reform Priorities').

Concerns continued to be expressed about excessive classification of documents by the government as confidential (also an 'Urgent Reform Priority'), thereby impeding **citizens' right to access public information**. The volume and quality of information published by individual state bodies fell. The Commission that reviews appeals continued to have insufficient capacity to monitor compliance with the requirement for proactive disclosure of information. It needs more integrity and powers to impose penalties to encourage better enforcement of the relevant legislation.

On the **right to administrative justice**, the current appeal procedure remained onerous, complex and lengthy, comprising several appeal layers. Administrative courts' efficiency increased, but delays in enforcing court rulings remained. The **right to seek compensation** and the liability of public authorities in cases of wrongdoing is in place but data on compensation for damages is still not available.

Service delivery to citizens and businesses

Government activities on building **user-oriented administration** slowed during the reporting period. The interoperability framework is not operational due to a lack of funding and political will to implement it. The number of services provided to the public through the e-government portal remained modest and primarily focused on businesses. The relevant government portal does not qualify as one-stop-shop portal as it is merely an information site.

Equal access to public services is partially in place. The legislative framework on general administrative procedures was amended, **simplifying** more than 180 special **administrative procedures**. A new approach and substantial training at central and local level are needed to ensure it is applied uniformly.

Strategic framework for public administration reform

A comprehensive 2017-2022 **public administration reform** strategy is belatedly under preparation, it should be finalised through as inclusive a process as possible and be linked to medium-term and annual budget planning. The capacity of the Ministry of Information Society and Administration and other involved institutions to efficiently coordinate and monitor implementation of the strategy needs to be strengthened. The lack of implementation of the recommendations in last year's report and the delays in implementing the new legal framework have compromised the declared **political support** and the commitment to the principles of transparency, accountability and merit in public administration. This also limits the **financial sustainability** of a wider public administration reform agenda. A new approach and strong political commitment from the highest political leadership is needed to ensure full understanding and enforcement of these principles.

2.3. Rule of law

Functioning of the judiciary

The country's judicial system has **some level of preparation**. However, **backsliding** continued and this constitutes a serious concern. The reforms of the last decade continued to

be undermined by political interference in the work and appointment of the judiciary. There was no progress on last year's recommendations or on the outstanding issues already identified in previous reports and the 'Urgent Reform Priorities'. The work of the Special Prosecutor must not be obstructed. In the coming year, the country should in particular:

- depoliticise the appointment and promotion systems in practice, not only in law;
- provide full support and resources to the Special Prosecutor;
- reform the discipline and dismissal system for judges, in line with EU and Venice Commission recommendations;
- develop a serious justice sector reform strategy and action plan addressing remaining shortcomings in a sustainable manner;
- improve strategic planning, needs assessment, resource management and allocation within the justice sector, including within the Ministry of Justice.

Strategic documents

The adoption and implementation of a new judicial reform strategy is key to securing the benefits of past reforms and preventing further setbacks. Such a strategy should address persistent shortcomings in a candid, systematic and integrated manner and should foresee an inclusive consultation process with relevant national and international stakeholders. There are concerns that preparatory work for such a strategy has not taken full account of those shortcomings.

Management bodies

The new president and deputy president of the Judicial Council were elected by its members. A new member was also appointed by the parliament, who retired one month later, calling into question the seriousness of the parliament's appointment policy. Public prosecutors elected four new members of the Council of Public Prosecutors from among their peers. Parliament also renewed the mandates of two serving members of the Council and appointed a further new member. Concerns persist about the merit and professional experience of some members of management bodies appointed by parliament, as well as the treatment of professional staff.

Independence and impartiality

There was no progress in ensuring the functional independence of the justice system. Reports of **selective justice** in certain high-profile or politically sensitive court cases continued. Public demonstrations illustrated the climate of political tension surrounding the work of the judiciary, especially in relation to the wiretapping scandal. Although the President of the Judicial Council and the President of the Supreme Court have pointed publicly to the need to respect the independence of the judiciary, there is no framework in place to protect judges against external pressure. Concerns about judges' **security of tenure**, including in the light of 2015 Venice Commission recommendations, have not been addressed.

The work of the **Special Prosecutor's Office (SPO)**, established in 2015 to investigate cases linked to the wiretapping scandal, continued to be hampered in practice. Criminal courts regularly refused to grant pre-trial measures requested by the SPO as part of its investigations and the Council of Public Prosecutors and the ruling party publicly criticised its work. The international community continued to insist that the SPO must be allowed to fulfil all its functions independently.

The **automated court case management information system** requires further upgrades to prevent any misuse. The system needs to ensure that cases cannot be allocated to a specific judge on political or personal grounds, and this needs to be monitored on a systematic basis. There were also allegations of direct interference in the assignment of judges to handle specific procedures initiated by the Special Prosecutor.

Accountability

The codes of ethics for judges (2006) and prosecutors (2004) are in place but there is little evidence of effective monitoring of compliance. Ethics is part of the curriculum of the Academy for Judges and Prosecutors. Judges and Prosecutors are under a legal obligation to declare their assets on an annual basis and report on possible conflicts of interest. The State Commission for the Prevention of Corruption (SCPC) checks these assets, but its powers of verification remain limited.

Professionalism and competence

While they have become more clearly merit-based, decisions on **appointment and promotion** of court presidents and higher court judges continue to be vulnerable to political bargaining. First-time entrants to the professions are required to have graduated from the Academy for Judges and Prosecutors. However, the law on the academy was amended in December 2015 to reduce the merit requirements for candidate prosecutors without good reason and concerns about political motivations persist. The **professional evaluation** system continues to be based on quantitative criteria. The 'Urgent Reform Priorities' in these areas have not been addressed.

Quality of justice

The **Academy for Judges and Prosecutors** is the institution responsible for initial and in-service training of all judges, prosecutors and court staff. This also covers relevant aspects of European Union law and European Court of Human Rights (ECtHR) jurisprudence. It is financed by the state budget and foreign donors. All courts produce quarterly and annual activity reports. Most of them publish press releases on ongoing high-level investigations and trials.

ICT systems are in use in all courts, although sometimes with obsolete hard- and software as well as insufficient funding for renewal and maintenance. The situation is improving across public prosecutors' offices.

Online access to jurisprudence, and in particular "searchability", still needs to improve in line with 'Urgent Reform Priorities'. Permanent training is still required to improve the reasoning in court judgments. Encouraging secondments of national judges to the ECtHR is among the 'Urgent Reform Priorities'. As regards **alternative dispute resolution**, there has been little use of the option of mediation. The country is an observer in the European Judicial Training Network.

Efficiency

The **clearance rate** maintained by most courts is 100 % or higher, meaning that they are able to process at least as many cases as they receive in one year. Court **backlogs** have not been an issue of concern for several years. The **overall length of court proceedings** from initiation to final judgment remains a concern in a number of old cases. The Bureau for Representation before the ECtHR made significant efforts to ensure the speedy execution of all ECtHR judgments (an 'Urgent Reform Priority'), achieving good results.

Fight against corruption

The country has **some level of preparation**. The legislative and institutional framework has been developed over a decade, as well as a track record on both prevention and prosecution. **No progress** was achieved in the past year on the outstanding issues or on last year's recommendations. Corruption remains prevalent in many areas and continues to be a serious problem. A significant slowdown was noted in both prevention and repression activities. The capacity to effectively tackle corruption continued to be undermined by political interference in the work of relevant bodies, hampering their ability to act proactively and non-selectively, especially in high-level cases ('Urgent Reform Priorities'). In addressing the shortcomings outlined below, the country should pay particular attention in the coming year to:

- demonstrating real political will by providing law enforcement with necessary autonomy, specialised staff and equipment and by defining clearly specific objectives and indicators to measure achievements or failures;
- reviewing the status and composition of the State Commission for Prevention of Corruption (SCPC) to make it more transparent, merit-based and independent from political parties;
- improving public awareness and trust in the fight against corruption by increasing the visibility of anti-corruption measures and the results achieved;
- developing a credible track record on fighting high-level corruption, including asset recovery (as per the 'Urgent Reform Priorities');
- implementing an effective legal framework for the protection of whistle-blowers, in line with European standards (as per the 'Urgent Reform Priorities') and Venice Commission recommendations.

Track record

While the track record of **investigations, prosecutions and convictions** is strong on corruption offences committed by lower-level officials, it remains very weak on high-level corruption. There has still not been a proper follow-up on the 2015 **interception of communications** scandal that raised serious allegations of **high-level political corruption** and unlawful **interference in various sectors of society**. This selective passivity raised concerns over the independence of the police, the Public Prosecutor's Office and the SCPC.

Financial investigations and asset confiscation are still used very rarely and the respective capacities of law enforcement and judicial institutions remained weak.

The track record on **control of party and campaign financing** indicates that the existing penalties under the law on the prevention of corruption and the electoral code need to be applied in practice in a more systematic and visible manner.

The SCPC regularly initiates misdemeanour proceedings for failure to **declare assets** or submit **statements of interest**. It also investigates potential conflicts of interest and refers asset discrepancies to the Public Revenue Office for further investigation. However, since 2015, the SCPC has significantly slowed down its corruption prevention activities.

Institutional framework

The SCPC is the main institution responsible for **prevention of corruption**. However, it lacks functional independence: the selection and appointment process of its members is not transparent and seems to favour political loyalty over professionalism and integrity.

The SCPC suffers from certain structural shortcomings which the national authorities are not willing to address effectively. This deprives the SCPC of effective means to fulfil its duties.

The SCPC is also deprived of investigative powers. Instead it has to rely either on the Public Revenue Office or on the courts. Court decisions are often issued after cumbersome and lengthy procedure. Often these decisions exonerate officials from their responsibility or reduce penalties, on unclear or disputable grounds. For failures to submit statements of conflict of interest, the SCPC is only empowered to issue public reprimands which have a very low deterrent effect. It shares its role in monitoring election campaign financing in an unclear manner with the State Audit Office, the State Election Commission, the Public Revenue Office and law enforcement bodies. Journalists complain of difficulties in obtaining information from the SCPC, whose decisions are not public, which further reduces public trust in it.

On **law enforcement**, the Unit for the Fight Against Corruption within the Ministry of the Interior Department for Serious and Organised Crimes still has substantial specialised staffing and equipment needs. It also lacks safeguards against politicisation and interference. The Agency for Management of Confiscated Property continues to have insufficient powers and resources.

The capacity of the prosecution service to lead criminal investigations and direct law enforcement agencies still has to be strengthened, as well as its ability to fulfil its functions notwithstanding political circumstances. The Special Prosecutor's Office is the sole body that has been proactive in investigating high-level cases, in compliance with its mandate, but continues to face a lack of cooperation from state bodies.

Legal framework

The **criminal code** penalises a broad range of corruption-related offences. However, following a Constitutional Court decision in April parts of the 2009 law on pardons were repealed, re-introducing the possibility for the President to **grant pardons** for offences including election and voting fraud, drug trafficking, paedophilia and crimes against humanity at any stage of criminal procedure. This clearly opens up the risk of interference with the course of justice. The President's subsequent attempt to pardon 56 individuals charged or allegedly involved in the wiretaps reinforced the public perception of impunity and selective justice. It also showed a serious lack political will to engage effectively against corruption.

Financing of political parties and campaigns is regulated mainly by the 2004 **law on the financing of political parties** and the **electoral code** of 2006. The 2015 amendments to the electoral code were not sufficient to address all legal shortcomings. There is still no indication of political will to create an effective mechanism to monitor the financing of political parties and election campaigns.

The respective control and investigative powers and responsibilities of the State Audit Office, the SCPC, the State Election Commission and law enforcement agencies are still unclear, leading to a mutual abdication of responsibility. Since 2014, a suspension of party financing from the state budget was imposed in a handful of cases which did not have the expected deterrent effect.

There is no effective prevention and punishment of **conflicts of interest**. The penalties for failing to submit statements or for established conflicts of interest are weak. Likewise, procedures to verify assets declarations and impose penalties are fragmented and inefficient.

The implementation of the law on **free access to public information** remained ineffective. Political parties are still excluded from the list of holders of information.

A new law on **protection of whistle-blowers** was adopted in November 2015 but substantial legal, institutional and practical preparations are still needed for effective implementation of the law. The Venice Commission recommendations and earlier European Commission recommendations still need to be followed up in order to complete the legislative framework.

The country is party to all the relevant international Conventions but there is still no indication that their provisions are used in practice.

Strategic framework

The relevant strategies and action plans continued to be implemented. However, they are not based on comprehensive assessments and inclusive consultation processes. Also, the current action plan of the State Programme for Repression of Corruption and Prevention and reduction of Conflict of Interest lacks ambition and credibility.

Fight against organised crime

The country has achieved **some level of preparation** in the fight against organised crime. The legislative framework is broadly in line with European standards. **No progress** was made specifically on last year's recommendations. A separate Unit for Economic Crime and Corruption was established at the Ministry of the Interior. However, more still needs to be done to improve the effectiveness of law enforcement in this area. In addressing the shortcomings outlined below, the country should pay particular attention in the coming year to:

- establishing an improved track record on combating money laundering and improving capacity and expertise to carry out financial investigations and asset confiscations on a more systematic basis;
- establishing an independent, external and transparent oversight mechanism for the police;
- stepping up efforts to improve cooperation between the various law enforcement agencies by bringing the National Coordination Centre for the Fight against Organised Crime into full operation;
- revising the legal and technical framework on intercepting communications and increasing the effectiveness of special investigative measures for genuine law enforcement purposes (as per the 'Urgent Reform Priorities').

Track record

A comprehensive track record on **investigations, prosecutions and convictions** in the fight against organised crime has already been in place for some time. In recent years a number of criminal networks and routes have been dismantled, in particular relating to **people smuggling, human trafficking and drug trafficking**, reflecting the country's location on the Western Balkans trafficking routes.

Proper implementation of **anti-money laundering** legislation is still needed by all relevant institutions, including banks. There are relatively few cases, and the necessary data collection to track them effectively should be stepped up. Coordination among the relevant anti-money laundering institutions slightly improved, but more needs to be done.

The use of **special investigative measures** is quite common in organised crime cases, but criminal investigations need to be separated from interception for security purposes. The law enforcement and prosecution bodies need more expertise and greater capacity and authority to conduct serious **financial investigations**. The precautionary **freezing of assets** is rarely applied, which leads to poor confiscation rates. More systematic cooperation is needed

between the Agency for Management of Confiscated Assets and law enforcement agencies, prosecutors and the judiciary.

The level of **sentencing** by courts appears on the whole to be appropriately strict, although efforts are still needed to ensure greater consistency.

Institutional and operational capacity

A major **police reform** started 15 years ago and reforms continued in specific areas. To align with the law on internal affairs, a new rulebook on the structure of the unit and job description was adopted. The Ministry of the Interior has **specialised units** dealing with different types of crime. The level of police equipment is generally good.

The Sector for **Internal Control** and Professional Standards is not sufficiently effective, especially when it comes to ill-treatment. Penalties imposed against police officers are not sufficiently dissuasive. An independent and efficient oversight mechanism for the police still needs to be established and the existing complaints mechanism needs to be implemented in a consistent manner. Although clear criteria for recruiting and evaluating police officers exist, there are persistent allegations of politicisation.

Relations between prosecutors and police still need to be improved so that the prosecution service can fully play its leading role in investigations. Only one of the planned multi-disciplinary **investigative centres** under the direction of the Public Prosecutor has been set up so far and is still not properly staffed and equipped. There is still no electronic interconnection between the police and the Public Prosecutor's Office, which would allow information to be shared efficiently. The **National Coordination Centre** for the Fight against Organised Crime is established by law, but is still not operational. Following enhanced border controls along the Western Balkan route and the subsequent increase of smuggling of migrants, law enforcement authorities face challenges in identifying and arresting smugglers. Sustained efforts by the institutions in charge of this area need to continue.

The Special Prosecutor has requested amendments to the existing law on **witness protection** in order to widen its scope to cover cases under the SPO's jurisdiction, but the parliament has rejected the proposed amendments.

The powers and resources of the police, the Public Prosecutor's Office, the courts and the **Agency for Management of Confiscated Property** still need to be strengthened so they can seize and confiscate assets more effectively and frequently. The financial police and the Financial Intelligence Unit have weak resources and capacities.

An operational **agreement with Europol** has been in place since 2011 and the country has a cooperation agreement with Eurojust in force since 2010. Close cooperation continued with international and regional bodies in the fight against organised crime.

Legal framework

The country's **criminal code** is largely in line with European standards. The **law on criminal procedure** was modernised in 2010. The 2006 law on interception of communications was amended in 2012 but the 'Urgent Reform Priorities' recommend separating the mandate, regulations and technical facilities for interception in criminal investigations from those for security and intelligence purposes. Working groups were set up to begin to address the issue with external support. Broad consensus will be needed to take this forward.

The police, customs administration and financial police need to be given the technical means to carry out interceptions without having to rely on the intelligence services. Legislation on the seizure and confiscation of criminal assets needs to be improved and its implementation

stepped up.

Strategic framework

The national organised crime threat assessment, inspired by the EU SOCTA methodology, was adopted in March 2016 and the regional threat assessment was adopted in June 2016. National strategies are in place to combat human trafficking and illegal migration (2013-2016), drugs (2014-2020), terrorism (2016-2020) and police development (2016-2020). Nevertheless, strategic planning capacities within the Ministry of the Interior and the Public Prosecutor's Office should be strengthened.

2.4. Human rights and the protection of minorities

Overall situation

The legal framework for protecting human rights is broadly in line with European standards, but laws are sometimes not fully or correctly applied. The bodies involved in protecting and promoting human rights lack sufficient staff and financial resources, they coordinate poorly and, in some cases, are not considered independent.

Weaknesses in the implementation of human rights standards continue to affect primarily the most vulnerable and marginalised groups in society, including children and young people, people with disabilities, Roma and LGBTI people.

Shortcomings particularly affect the following areas:

- Serious practical problems persist over freedom of expression due to uneven implementation of the law and political interference.
- The prison system continues to be heavily understaffed and mismanaged, resulting in systemic breaches of international human rights standards.
- The establishment of an independent oversight mechanism is a recurrent demand, which has still not been addressed, necessary ensure that complaints of police ill-treatment are investigated seriously and thoroughly.

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

Freedom of expression

The country has **some level of preparation**. The legislative framework is broadly aligned with both the *acquis* and international standards, although further reforms have been called for within the country. Freedom of expression and the situation of the media remain a serious challenge in the current political climate. There was **no progress** in this area over most of the past year. Relevant figures on government advertising, which can constitute a tool to exercise influence over broadcasters, have still not been made public by the authorities. Balanced and diversified reporting by the mainstream media is still lacking, although there were some encouraging signs over the summer in terms of reporting by the public broadcaster and some private channels. In the coming year the country should in particular:

→ show tangible results of ongoing reforms within the Public Broadcaster, aiming at addressing lack of political independence and lack of balanced reporting ('Urgent Reform Priorities');

- ensure full transparency on government advertising, not only on the spending of public finances but also on its recipients and contents ('Urgent Reform Priorities');
- ensure that the public has access to objective and accurate reporting and a variety of viewpoints through the mainstream media, particularly the public service broadcaster;
- all media stakeholders should assume their respective responsibility for professional conduct.

Intimidation of journalists

The media reflects the strong polarisation of society along political lines. There were a number of reports of **intimidation of journalists** and judicial proceedings against journalists. On 12 April, several journalists were injured by the police during the protests against the President's pardoning of 56 individuals and the premises of two pro-government media outlets were damaged.

Legislative environment

The laws are broadly in line with the *acquis* although there are continuing calls for further reforms coming from within the country. Amendments to the electoral code set out rules for the portrayal of political parties by the public service broadcaster, strengthened the monitoring of the media by the Agency for Audio and Audio-visual Media Services (including through an ad-hoc body established within the Agency) and prohibited financing of political parties' campaigns by the media.

Implementation of legislation/institutions

Implementation of legislation remained deficient and freedom of the media continued to decline throughout the year. Practical measures in the 'Urgent Reform Priorities' to improve the media situation have still not been addressed. Journalists' organisations and civil society offered their recommendations for media reforms. There has been little political commitment to promote media pluralism and independence. With the 31 August political agreement, some improvements in news reporting have been noted in particular as regards MRT and some private channels; these need to be confirmed with time.

Political interference in the editorial policies of the media, in particular nationwide broadcasters, remained a serious concern. There are indications that most private broadcasters appear to have coordinated their editorial policy in favour of the main ruling party. Many media do not meet their obligations on balanced and professional reporting. In some mainstream media, members of the opposition and their activities are negatively portrayed, as are civil society protests. There was insufficient coverage in televised debates of politicians from across the political spectrum, even though debates would allow the expression of diverse ideas and opinions. Low professional standards and ethics persisted at some media outlets, to the detriment of the public's right to receive objective and balanced reporting.

Investigative reporting remained limited. There have also been rare instances of self-criticism. Throughout the reporting period, some 20 new defamation lawsuits against journalists were registered. The large-scale illegal wiretapping of journalists revealed last year, uncertain working conditions and an increase in threats and attacks on media further contributed to self-censorship.

The **Agency for audio and audio-visual services** made efforts to complement the self-regulatory functions of the profession, playing a more proactive role on issues of professionalism and journalistic standards and ethics. There are concerns about pressures on the agency members.

Public service broadcaster

Serious concerns remain over the **public service broadcaster** (MRT)'s balance in reporting. According to OSCE/ODIHR Election Observation mission, media monitoring noted that newscasts provided limited information about political events and failed to provide comprehensive analysis on a daily basis. In several cases, journalists mixed facts with their own political opinions when covering the news. The sustainability and autonomy of MRT financing must be ensured and implemented. The code of ethics of MRT still needs to be adopted. The Ombudsman Office's recommendation concerning unlawfully collection of licence fees from vulnerable groups in society remained unresolved. The new chief editor of MRT was appointed in September 2016 following the 20 July agreement.

Economic factors

The **law on audio and audio-visual media services** regulates **media ownership** by laying down restrictions and prohibitions on conflicts of interest. However, most of the TV stations with a national concession and newspapers of wide circulation belong to individuals known to have close links with the government ruling coalition. **Government advertising** was suspended, but the data and criteria for granting such contracts (which should be transparent, objective and non-discriminatory) have still not been made publicly available. The use of unpaid public service announcements of a truly public interest nature should also be further explored (as per the 'Urgent Reform Priorities').

Legislation prohibits operators from controlling internet traffic, except to protect network connections against becoming overloaded. In practice, operators do not block, slow down, alter, degrade or discriminate against any internet content. Investigative reporting is primarily carried out by internet media.

Professional organisations/professional conditions

In July 2016, a new *Independent Syndicate of Journalists in Macedonia* was established, representing several media portals. Journalists from MRT are organised in a self-governing union. Weak union protection and poor labour conditions contributed to the continuing problem of self-censorship. None of the country's media outlets have signed a collective agreement with the Independent Union of Journalists and Media Workers. Most often journalists work under temporary contracts.

2.5. Regional issues and international obligations

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

The country still maintains a 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 needs to align with the EU position.

In September 2016, there were 664 Roma refugees from Kosovo* registered in the country, of whom 18 were recognised refugees, 173 whose asylum applications were rejected and 473 were under subsidiary protection. There were 183 internally displaced persons (47 families). In 2015, 152 people were voluntarily repatriated to Kosovo and Serbia. The Ministry of Labour and Social Policy continued to provide support to 80 families for rented housing and utilities, under the integration strategy.

Regional cooperation and good neighbourly relations form an essential part of the

country's process of moving towards the EU. They contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past. The country has continued to participate actively in regional initiatives such as the South East Europe Cooperation Process (SEECP), the Regional Cooperation Council, CEFTA, the Western Balkans Six, the Energy Community Treaty, the European Common Aviation Area Agreement, the Central European Initiative (CEI), the Regional Initiative for Migration and Asylum (MARRI) and RECOM.

The impetus given through the '**Berlin process**' and the Western Balkan Six initiative, particularly on the connectivity agenda, continued to foster increased regional cooperation. Building on the results of previous summits, the 4 July 2016 Paris summit saw further advances on the connectivity agenda but also opened cooperation in new areas, notably through the establishment of the Regional Youth Cooperation Office to be established in Tirana. The country has participated actively.

The country remained constructively committed to **bilateral relations** with other enlargement countries and neighbouring EU Member States. It signed a bilateral convention on regional cooperation with Kosovo under Article 12 of the SAA and needs to do the same with Bosnia and Herzegovina.

Bilateral relations with *Albania* remained generally good.

An agreement was ratified on collocation of diplomatic mission and consular posts with *Bosnia and Herzegovina* in March and the country continued its contribution to the EUFOR Althea operation.

Relations with *Kosovo* continued to develop, with the signature and ratification of an agreement to facilitate travel between the two countries using personal identification documents. Some tensions resulted from politicians' statements alleging participation of people from Kosovo in the Kumanovo incident in 2015.

Agreements with *Montenegro* were ratified in March 2016 on legal assistance in civil and criminal cases, and on mutual enforcement of judgments in criminal cases.

Relations with *Serbia* remained good and continued to deepen. Some tensions arose following the vote to support Kosovo's membership of UNESCO.

Relations with *Turkey* developed, including a visit by the Deputy Prime Minister in charge of European Affairs to Turkey in February 2016. In August 2016, President Ivanov met with his Turkish counterpart in Istanbul.

Relations with *Bulgaria* continued to be affected by differences, primarily about the interpretation of history. A number of high-level visits took place. During their visit for the SEECP Summit meeting in Sofia, President Ivanov and Foreign Minister Poposki met with their counterparts. The respective Academies of Science and Art held their third meeting in Skopje. Negotiations on a bilateral agreement on good neighbourly relations continued. However, ongoing issues remained. The countries continued to cooperate on defence issues and good cooperation continued on cross-border matters and on sectoral and trade relations, including infrastructure priorities. People-to-people contacts continued normally.

Relations with *Greece* continued to be affected by the name issue. There were no formal talks on this issue under the auspices of the UN during the reporting period. The foreign ministers met in bilateral and multilateral formats. The visit by Foreign Minister Poposki to Athens in December 2015, during which he paid a courtesy call on the President and the Deputy Speaker, was the first in more than 15 years. The latest visit by Greek Minister of Foreign Affairs, Nikos Kotzias, took place during the ambassadorial conference in August 2016. The

speakers of the parliament met for the first time in September 2016. Constructive discussions continued in assessing positively progress in the implementation of the confidence building measures, which were launched after the visit of the Greek Foreign Minister in 2015. The confidence building measures have started to produce tangible results. Direct contacts were established between the two foreign ministries and political consultations were held at the level of political directors and legal experts. A Memorandum of Understanding on exchanges of students was signed between the University of Cyril and Methodius of Skopje and University of Piraeus. The two chiefs of police also met officially for the first time and direct contacts were established between the respective ministries. Although the migration crisis challenged bilateral relations, it also had a positive spill-over effect on overall bilateral cooperation. Economic and trade relations continued normally.

The Presidents of *Croatia* and *Slovenia* jointly visited the country in the context of the migration crisis.

3. ECONOMIC CRITERIA

Key economic figures	2014	2015
Gross domestic product per capita (% of EU28 in PPS)	37	n/a
GDP growth (%)	3.5	3.7
Unemployment rate (female; male) (%)	27.7; 28.6	26.7; 25.1
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	70.8	70.2
Current account balance (% of GDP)	-0.8	-1.3
Foreign direct investment (FDI) (% of GDP)	2.4	1.7

Source: Eurostat

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

The monitoring of these economic criteria should be seen in the context of the central importance of economic governance in the enlargement process. Each enlargement country prepares an Economic Reform Programme (ERP) annually, 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

The former Yugoslav Republic of Macedonia has a **good level of preparation** in developing a functioning market economy. However, **no progress** was made during the reporting period. Macroeconomic stability was preserved and the macroeconomic environment strengthened further in 2015, supported by major public infrastructure spending and foreign direct investment, although with signs of weaknesses in the first quarter of 2016. Unemployment is

decreasing, but remains high, particularly for youth. Certain vulnerabilities remain, such as the low competitiveness of the domestic private sector which is hampered by weak contract enforcement, the large informal economy, and difficult access to finance. The management of public finances did not improve. In addition to the sustained large fiscal deficits over the past years, the rising financing needs of state-owned enterprises managing the government's investment agenda are driving up public debt levels.

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

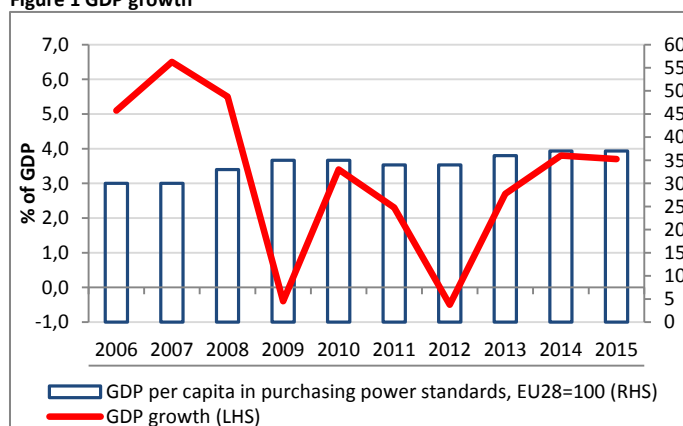
- underpinning fiscal consolidation by identifying concrete revenue and expenditure measures;
- moving towards a better targeting of transfer spending and improving the growth-friendliness of public finance;
- improving fiscal transparency and budget planning capacity.

Economic governance

The government remains committed to promoting growth and employment by market-based economic policies. Support to private sector competitiveness, public infrastructure developments, and export promotion remained the pillars of the government's economic policy. However, employment is boosted by large-scale government programmes as well as active labour market measures, rather than by job creation in private local enterprises. Commitment to fiscal consolidation is lacking, as the government failed to point out concrete measures, while repeatedly revising annual deficit targets upwards in mid-year. The ERP policy guidance from 12 May 2015 regarding macro-fiscal issues has not been addressed, while the guidance on labour market policies and on structural reform has been only partially addressed.

Macroeconomic stability

Figure 1 GDP growth



Economic expansion accelerated in 2015, but has slowed down in 2016 in the context of a political crisis.

After a real output decline in 2012, the economy posted stable growth rates averaging 3.4 % between 2013 and 2015. Since 2012, household consumption has become an increasingly important contributor to growth, while investment and the foreign balance proved volatile. The construction sector was the fastest growing industry in this period. In

2015, real GDP increased by 3.7 %, driven by domestic consumption and net exports. Overall investment remained flat, in spite of strong public infrastructure spending. Growth lost momentum in the first half of 2016, averaging 2.1 % year-on-year. The average per-capita income (purchasing power standards) amounted to 37 % of the EU-28 average in 2015, an increase of 3 percentage points (pp) since 2012.

Short-term external vulnerabilities remained contained. The current account deficit has remained moderate in recent years. In the four quarters to June 2016, it stood at 2.5 % of

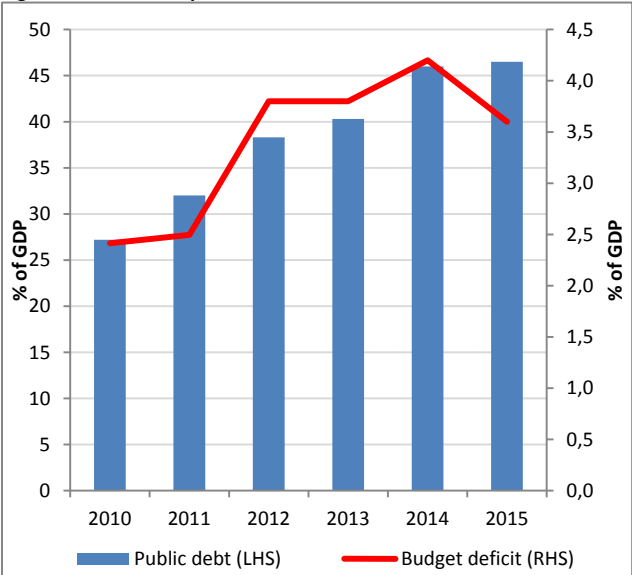
GDP, albeit higher than its average of 1.5 % of GDP over the past five years. The rise in 2016 came largely on account of a widening merchandise trade deficit, which remains large, at 19.9 % of GDP, yet lower than on average between 2011 and 2015 (23.2 %). The trade deficit has been covered historically by robust private transfer inflows, significantly alleviating external imbalances. While still more than compensating for the current account deficit, foreign direct investment inflows dropped to 1.9 % of GDP in 2015, compared to an average of 2.7 % in the preceding five years, as companies adjusted to new tax legislation, and the political crisis lingered on. The composition of new FDI, shifting from equity to debt financing, has become more volatile and less conducive to structural change in the economy in recent years.

Public sector borrowing abroad impacts on external debt. The external debt of the country has been rising rapidly since 2009 (+14pp), as the public sector increasingly resorted to foreign financing. Private sector indebtedness abroad increased, too. At the end of 2015, external debt amounted to 70 % of GDP. Foreign exchange reserves declined in 2015, even though the government issued a Eurobond in November 2015 (EUR 270 million). Some of the loss was made up in the first quarter of 2016, and reserves were further boosted by a EUR 450 million Eurobond issued in July 2016. Reserves coverage remains satisfactory at about 4 months of prospective imports.

ERP policy guidance: "Underpin fiscal consolidation by identifying concrete revenue and expenditure measures; move towards a better targeting of transfer spending and improve the growth-friendliness of public finance, in particular by fully executing planned priority public investment spending. Protect against fiscal risks by using any excess revenue to create fiscal buffers."

The central bank successfully defended price stability and the currency peg. After several years of easing, monetary policy has become more restrictive since mid-2015, motivated by broader-based economic growth, ample liquidity in the financial sector, and strong household credit growth. In May 2016, the central bank raised the key interest rate from 3.25 % to 4 %, in response to speculation-driven pressure on banks' deposits, and amid continuing subdued price pressures. In 2015, consumer prices dropped by 0.3 %, as in 2014, driven by declining fuel and transport prices, supported by lower food prices. Annual average inflation has been decreasing since 2011, when it stood at 3.9 %. The bank also effectively stimulated the "denarisation" of loans and deposits, reducing foreign exchange risks. The country's exchange rate is anchored through a de facto peg to the euro.

Figure 2 Fiscal developments



The government fails to indicate concrete measures underpinning fiscal consolidation. The authorities are planning an expenditure-based reduction in the general government deficit from 3.6 % of GDP in 2015 to 2.6 % in 2018, relying on optimistic assumptions of economic growth rather than specific savings. Yet, further ad-hoc increases in pensions, social transfers, and public wages are likely this year, as in previous years, while the pace of GDP growth is slowing down.

Revenue shortfalls due to over-optimistic growth assumptions and underperforming collection, as well as spending pressures, have repeatedly required the adoption of a supplementary budget and a higher deficit target in recent years.

ERP policy guidance: "Improve fiscal transparency and budget planning capacity by the swift introduction of a medium-term expenditure framework; by providing multi-annual projections of detailed revenue and expenditure components in the medium-term strategy as well as by comprehensive reporting of extra-budgetary expenditure in the consolidated fiscal reports. Inform systematically about payments arrears."

Revenues have been overestimated by an average of 6 % in the last five years. In June 2016, the government resorted again to a supplementary budget, with a further revision in August. On average between 2009 and 2015, 62 % of total expenditure was devoted to transfers, especially pensions. In the same period, only about 84 % of budgeted capital expenditure was implemented.

Public debt levels have been rising fast. An increasing amount of public capital expenditure has been shifted off-budget in recent years to state-owned enterprises (SOE), financed almost entirely by government-guaranteed credit. This, in addition to the rising primary fiscal deficits, has led to accelerating increases in public debt, by 23.5pp, to 46.5 % of GDP between 2008 and 2015. There is little transparency about the fiscal risks linked to the execution of sizeable public infrastructure works through state enterprises. Meanwhile, the government has successfully lengthened its debt maturities, and only a small share remains (domestic) short-term debt.

The policy mix does not fully address the economic challenges. To promote sustainable growth and employment and contain risks to external balances, economic policy needs to focus on supporting the domestic private sector; targeting labour market weaknesses, and, diversifying the economy's structure. This would be aided by better targeted public expenditure and strengthened efforts at fiscal consolidation and debt stabilisation. The external borrowing of public sector bodies needs close monitoring so as to avoid challenges to monetary policy through its impact on domestic liquidity.

Functioning of product markets

Business environment

Business development suffers from weak and uneven law enforcement. Low corporate taxation and simplification of regulatory requirements are cornerstones of the government's policies to facilitate business operations. Yet, obtaining licences and permits for operation is perceived to be easier for foreign investors than domestic companies, which is one of the key issues for domestic businesses. Moreover, opaque interpretation of business regulations, notably by local administrations, uneven enforcement of rules and contracts, as well as corruption and the large informal economy hamper private sector development. In 2015, the number of new businesses, as well as the amount of registered founding capital, declined, compared to the preceding year and to the five-year average, possibly reflecting in part the lingering political uncertainty.

ERP policy guidance: "Ensure a reliable and predictable regulatory environment for businesses by reducing the use of the urgency procedure for legislation, ensuring proper consultation of the stakeholders and reinforcing the independence of commercial courts."

Institutional capacities to enforce the law are weak. Resolving a commercial dispute through a court remains time-consuming and costly. Moreover, the efficiency of the judiciary

system appears to be increasingly impacted by political interests. There were no new measures adopted on facilitating business exit, which remains challenging. Liquidation procedures after bankruptcy have been shortened in recent years, but still take about 1.8 years on average.

The sizeable shadow economy is an important obstacle to business. The informal share of the economy is large, impacting on the competitiveness of the formal private sector. Estimates range from some 20 % of total output (State Statistical Office) to about 40 %, depending on the method applied. This creates problems of competition for registered companies and obstacles to investment. Policy measures in recent years were aimed at reinforcing the capacities of public bodies, involved in tackling the informal economy, as well as changes to tax and labour legislation intended to reduce labour cost and enhance the incentives for formal employment.

State influence on the product market

The public sector's share of the economy remains contained, yet discretionary policy enforcement by the government creates concerns. The value of state assets in GDP amounted to 13 % of GDP in 2015, having declined marginally, but steadily over the past five years. Yet, while the state's stake in the economy remains moderate, the involvement of the government in the private sector is growing in other ways, such as through uneven application of rules and regulations, inspections, and public procurement procedures. There is limited information on amounts and beneficiaries of state aid. The large share of state-owned land remains an obstacle to the development of the agricultural sector and prevents this land from being used as collateral by private owners seeking a bank loan.

Energy prices are still largely set by the Energy Regulatory Commission (ERC). After the government postponed the liberalisation of the electricity market in 2014 by 5 years, contrary to the agreement of the EU Energy Community, electricity prices for households and small companies remain regulated by the ERC, with a schedule to allow gradual adjustment between 2016 and 2020. Prices paid by households do not cover cost and are cross-subsidised by prices charged to small companies. Natural gas prices, too, remain in the ERC's remit, even though legislation was adopted in 2015 to open the market. Oil and oil derivatives prices are also regulated, but follow global market prices. Administered and regulated prices accounted for 15 % of the CPI basket in 2015, largely unchanged from previous years.

Privatisation and Restructuring

The privatisation process is at an advanced stage. In 2015, there were no further privatisations, and the number of enterprises in full or partial state ownership remained unchanged from a year earlier. The value of state assets in GDP amounted to 13 % of GDP in 2015, having declined marginally, but steadily over the past five years. The implementation of a joint-venture between a state-owned company and a multinational tobacco enterprise is ongoing.

Functioning of the financial market

Financial stability

The banking sector shows resilience in the face of lingering credit risk. The financial sector remains dominated by banks which account for about 90 % of the system's assets. Concentration remains high and unchanged compared to previous years, with about 60 % of assets held by the three biggest banks, out of a total of 15 banks operating in the country. The solvency ratio amounted to about double of the domestic supervisor's required minimum level of 8 %. Banks' profitability rose markedly in 2015. The quality of banks' assets, however, did

not improve. The ratio of NPL to total loans to the private sector amounted to 11.4 % on average in 2015, only slightly below the average in 2014, and has declined only marginally

since then. There was some progress in reducing the amount of non-performing loans as the central bank imposed an obligation on banks to write-off fully-provisioned loans that have been on their books for more than 2 years, with effect in June 2016.

Access to finance

Credit growth to companies slows amidst political uncertainty.

Access to finance still remains difficult for SMEs, given impediments to both credit supply and demand, despite abundant liquidity of banks. Financial intermediation strengthened in 2015

compared to the preceding two years, with assets, credit and deposits rising as a share of GDP. Commercial bank loans remain by far the dominant source of financing, as SMEs are reluctant to tap equity and bond markets, and venture capital markets remain in their early stage of development. Loan growth to private households (12.4 % yoy on average in 2015) was almost double the growth rate of credit to non-financial companies, which has slowed down markedly since summer 2015. In order to curb the growth of long-term consumer loans, the central bank increased capital requirements on these assets in December 2015. Given the uncertain political situation, credit demand from SMEs and corporates has been subdued since mid-2015. To facilitate credit extension to SMEs, the government, in 2015, withdrew the last tranche of a credit line for SME development extended by the European Investment Bank. However, no other significant policy measures were adopted in 2015 to facilitate access to finance for SMEs.

Functioning of the labour market

Structural weaknesses hinder the functioning of the labour market.

The country's overall unemployment rate remains persistently high, in particular for long-term unemployed and young workers, albeit declining steadily in recent years. In the second quarter of 2016, it dropped to 24 %, down by 2.8pp on the year. Between 2011 and 2015, the economy has created a large number of jobs. Annual employment growth amounted to 2.5 % on average, carried by job creation in the public sector, in construction and manufacturing, and through active labour market measures. Yet, the employment build-up was not in line with output growth, as significant structural weaknesses of the economy impede the functioning of the labour market.

Labour force participation remained modest. The activity rate has been stagnant over recent years, at about 70 % of the working age population (20-64 years). The employment rate has increased only marginally – only 52 % of the working age population held a job in 2015.

ERP policy guidance: "Develop comprehensive strategies involving all relevant stakeholders in order to both further foster the resolution of non-performing loans by banks and further promote the use of the local currency with a view to reducing risks to financial stability and the real economy. There would be a case for a gradual removal of the central bank's accommodative monetary policy stance to the extent that authorities' sanguine macroeconomic scenario is realised (including through its impact on inflation expectations and on the output gap)."

ERP policy guidance: "Strengthen the provision of activation measures especially for vulnerable youth, women and long-term unemployed and further improve the capacity of the Employment Service Agency for profiling and personalised counselling of job seekers."

Given low female participation rates, the gender gap remains important, with women less likely to be in employment (42 %) than men (62 %).

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

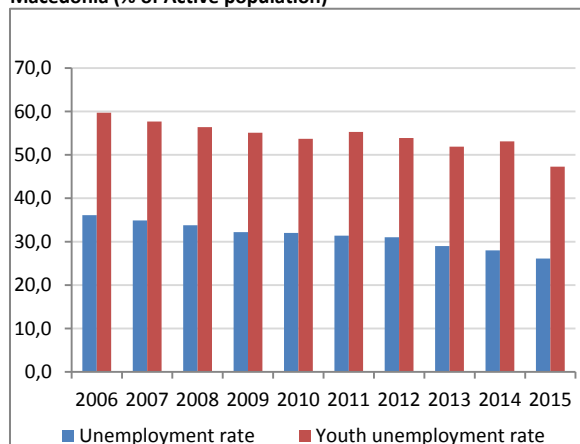
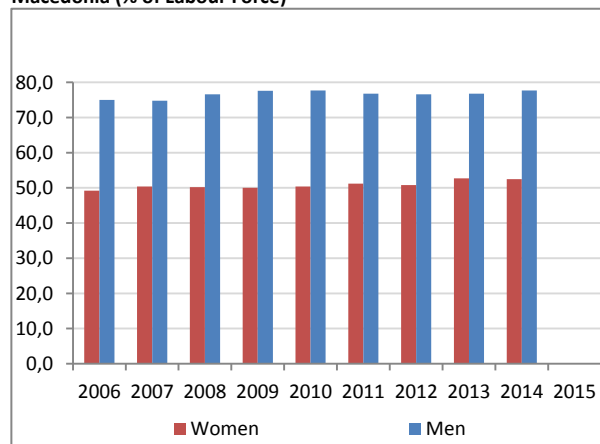


Figure 4 Participation rates in the former Yugoslav Republic of Macedonia (% of Labour Force)



The informal economy accounts for a large, but shrinking share of employment. About 20 % of employment took place in the informal economy in 2015, down from 28.6 % in 2008. Informal work concerns especially young workers and long-term unemployed. To tackle the problem, the government introduced a programme waiving or reducing social contributions for newly hired registered unemployed workers for a period of up to five years. The programme has been extended for another year.

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

The economy has a **moderate level of preparation** to cope with competitive pressures and market forces within the Union. **Some progress** was made to foster innovation and foreign investments and digitalisation is progressing fast. There was a limited shift towards higher value added in manufacturing, but the structural transformation towards a more diversified economy is progressing slowly. The economy continued to suffer from weaknesses in education curricula, low innovation rates and significant investment needs including in public infrastructure.

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

- upgrade higher education and vocational curricula, so as to better align skills with labour market needs;
- improve the innovation infrastructure in order to promote the competitiveness of the domestic private sector.

Education and innovation

Higher education needs reforms to address the skills gap. The country has suffered from a marked drain of skilled workers since the 1990s, the rebuilding of which proves difficult given low enrolment rates and deficiencies in the education system. Shortcomings in tertiary and vocational education often impede applicants from gaining skills required to work in technology-intensive sectors. This restrains output potential and impedes the reallocation of resources towards sectors with higher productivity and the spread of imported technology to the domestic economy. Public expenditure on education, at 4 % of GDP, is only slightly lower

than the EU average, yet enrolment rates (18 % for pre-school, 91 % for primary school and 73 % for secondary school education) and attainments have improved only marginally over the past five years, pointing to certain weaknesses in the education and training programmes. The employment rate of higher education graduates is above the average of the economy, yet completion rates are low. The share of early school leavers remained constant at 12 % of total students. Modernisation of the VET programmes is currently underway, yet the implementation of the 2013-2020 Strategy is lagging. The country participated in the PISA⁸ assessment for the first time in 2015, but results are not yet available.

Innovation rates for the private sector remain low. Public and private expenditure on research and innovation, as a share of GDP remained modest, compared to the EU average, at 0.52 % in 2014, and only slightly higher than in 2010. The government has tackled this problem mainly by the creation of the Innovation Fund which started disbursements in 2015 to stimulate R&D in SMEs. However, the absorption capacities of SMEs for the Fund's instruments are limited, calling for measures to strengthen their skills and technologies.

Physical capital and quality of infrastructure

The economy's capital stock is in need of modernisation.

The country's capital base is in need of renewal, even though modern production plants by foreign investors and public infrastructure investments have led to some upgrading in recent years. The investment ratio has remained constant, at 23-24 % of GDP, between 2011 and 2014. Some 70 % of investment was carried out by private enterprises (domestic and foreign), while the remainder is public investment financed through the government budget, international financial institutions, and public enterprises. The National Investment Committee, charged with the preparation and implementation of infrastructure investments, was created in June 2015, but there are concerns as to its efficiency.

ERP policy guidance: "Adopt a credible public finance management reform programme. Prioritise public investments against clear policy objectives and identify the needs to which they respond. Increase the transparency on the selection criteria for the investments and on their impact on economic growth and on the fiscal path. "

Regional connectivity in transport and energy is limited. Transport infrastructure linkages to regional neighbours and connection to the Trans-European Transport Networks remain a challenge. The country made, some progress, although limited, in implementing the connectivity reform measures agreed in the context of the Western Balkans Investment Framework. The focus should be on the establishment of functioning maintenance system along with the improvement of the capacities of the public enterprise in charge. The strategically important Corridor X motorway part is expected by the government to be completed by May 2017, turning the focus on road maintenance and the weak capacities of the public enterprise in charge. While the electricity transmission connection with Serbia has been completed, interconnection with Albania, which would link the country to the wider Corridor VIII network, is still in the planning phase.

The digitalisation of the economy is advanced. Both fixed and mobile broadband use has expanded in recent years, covering some 94 % of companies in 2015, compared to 87 % five years earlier. During this period, the share of households with internet access at home increased by 14pp to 69 %. The number of mobile phone subscriptions relative to population size stands at 100 %.

⁸ OECD's Programme for International Student Assessment

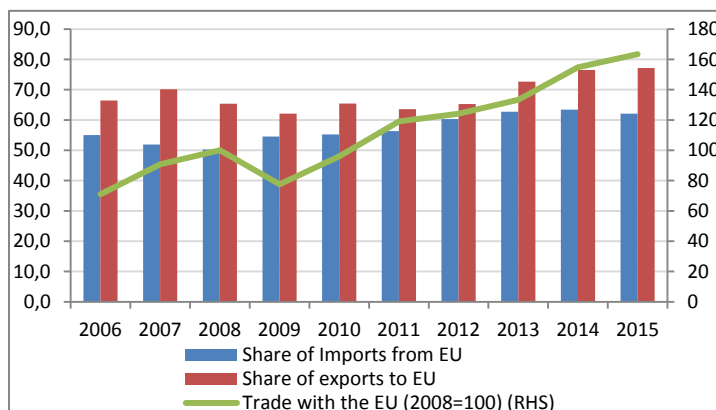
Sectoral and enterprise structures

The structural transformation of the economy is progressing slowly. The sectoral structure of the economy has remained largely stagnant in the past five years. At over half of gross value added, services account for the largest share, with agriculture providing 10 %, and industry and construction another 22 % (of which manufacturing around 12-13 %). Yet, the structure of the manufacturing sector shifted somewhat from basic manufactured goods towards products of higher value (chemicals, machinery) in this period. Half of the economy's jobs are in services, followed by industry and construction (27 %) and agriculture (24 %), again without significant changes since 2011. The structure of the corporate sector and its contribution to output has also remained stable, with SME accounting for over 99 % of all companies, and providing over 76 % of value added in the economy.

Economic integration with the EU and price competitiveness

The EU is an increasingly important export market and the major investment partner for the country. Trade openness of the economy is high. The country's total value of exports and imports of goods and services amounted to 108 % of GDP in 2015, about the same as five years earlier. Merchandise trade with the EU has increased steadily in the past 10 years and amounted to 68 % of the country's total trade in 2015. Exports rose particularly towards Germany and Belgium, on account of the operations of foreign direct investors, at the expense of exports to CEFTA countries. Imports sourced in the EU increased by 3 % compared to the previous year. While the share of EU direct investment inflows varies considerably (90 % of total in 2013; 7 % in 2014), the share of the stock of EU in total foreign investment has been high, but stagnant, at about 81 % over the past 5 years. Total Foreign Direct Investment (FDI) stock per capita and as percentage of GDP is, however, low.

Figure 5 Trade integration with the EU



Improved external competitiveness hinges on further export diversification.

Change in the composition of exports remains slow, with limited progress towards higher value added products over the past five years. The shares of iron and steel products, as well as of clothing in total exports have fallen somewhat, while chemicals, and machinery and transport equipment became

more important, mainly on account of foreign investment. After having declined for two years, labour productivity has been rising since early 2014, yet by less than real net wages, which have been supported by subdued price pressures as well as by steady increases in nominal pay. Gross wages are broadly aligned with the average output per employed person. The real effective exchange rate (CPI-based) has remained largely stable in the past five years.

4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

4.1. Chapter 1: Free movement of goods

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

The country is **moderately prepared** on the free movement of goods. **Some progress** was made, in particular on further eliminating non-tariff barriers to trade and strengthening the administrative capacity of the Bureau of Metrology. Further alignment is ongoing and necessary.

In the coming year, the country should:

- complete the adoption of measures to remove non-tariff barriers to trade;
- complete alignment on the General Products Safety Directive and ensure adequate administrative capacity to enforce the legal framework.

General principles

A well-established and functional institutional framework provides proper conditions for **production, distribution and marketing of industrial products**. Full alignment with some of the key *acquis*, in particular for general product safety and the 2014 directives on product harmonisation is still pending.

Legislative alignment is yet insufficient to negotiate an Agreement on Conformity Assessment and Acceptance and no progress was made in this area. Plans for further **alignment of the legislation with the *acquis*** are set out in the national plan for adoption of the *acquis* and individual strategic documents for standardisation, metrology and accreditation.

Non-harmonised area

The action plan aimed at removing non-tariff barriers to trade to comply with **Articles 34-36 of the Treaty** on the Functioning of the European Union (TFEU), adopted in 2009 is being implemented. However, nine legal acts constituting obstacles to trade still need to be removed. No progress was made on removing them.

The Ministry of Economy and the Institute of Standardisation continued to fulfil their **obligation to notify on regulations** related to technical and non-harmonised legislation and standards and technical specifications. The procedure for notifying the European Commission in accordance with the relevant directive is in place.

Harmonised area: quality infrastructure

There is a legal basis and administrative structure in place for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance. However, further alignment in these areas is required, in particular for general product safety and market surveillance.

The **Institute of Standardisation** adopted 23,446 European standards and standardisation technical documents as national standards, mostly by the use of the "cover page" method. It is a full member of CEN and CENELEC. The Institute also developed a strategy for its development 2016-2020 and started the procedure to acquire national accreditation following ISO/IEC 17021.

There are 165 **conformity assessment** bodies in the country for calibration, testing, medicinal laboratories, product and process certification and inspection. The Institute of Accreditation received significant state budget funds in 2016 to accredit a number of laboratories operating within higher education facilities. The Institute of Accreditation has been a full member of the International Accreditation Forum since September 2015 and signed an agreement on mutual recognition of the results of certification bodies for products, processes and services but not yet for quality management — ISO 9001. It also signed a multilateral agreement on medicinal laboratories under the ILAC (Organisation for Laboratory Accreditation Cooperation) mutual recognition agreement.

The Bureau of Metrology is the official **metrology** body. Its capacity was strengthened with the recruitment of new staff and the upgrading of its laboratories. The Bureau issues calibration certificates and conducts thousands of verifications of measuring instruments. It signed a memorandum of understanding with the National Metrology Institute of Spain on knowledge exchange and the upgrading of measurement capabilities for reference gas mixtures.

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

In 2015, the State Market Inspectorate (SMI) conducted nearly a thousand inspections (909) in connection with the law on general **product safety**, mostly on household appliances, windows, doors, toys and children's clothing. 200 inspections concerned construction products. The SMI requested 40 withdrawals of goods from the market and banned the import of one product (a non-automatic weight measuring device). The SMI participates in inspections with other inspection bodies and with the customs authorities. Budget limitations prevent the SMI from conducting more numerous tests.

The State Sanitary and Health Inspectorate conducted testing on 208 samples of toys and detected incompliance in 10 cases.

Harmonised area: sectoral legislation.

With regard to '**New and Global Approach**' **product legislation**, the level of alignment is uneven. The country adopted legislation designed to be aligned with the EU *acquis* in many sectors, particularly toys, gas appliances, machinery and medical devices. However, alignment was not achieved with the latest EU *acquis* in this area. In the area of construction products, all 10 Eurocodes (standards) and the corresponding annexes were adopted. No progress has taken place as regards conformity of civil explosive standards.

In the past years the national legislation has been adopted and designed to be aligned with almost all the '**Old Approach**' **product legislation** (including chemicals legislation such as REACH and the Regulation on classification, labelling and packaging of substances and mixtures (CLP), fertilisers, drug precursors and good laboratory practices) and with the *acquis* on relevant **procedural measures** (including firearms, textiles, footwear and crystal glass).

No progress was made with regards to aligning the *acquis* with REACH. As such, further action is required in order to align national legislation with the *acquis*. Furthermore, alignment with the *acquis* on the return of cultural goods has not taken place. Public authorities that control and supervise implementation of the laws are in place and are fully operational.

Acquis-compatible legislation is in place concerning the licencing and regulation system for economic operators dealing with **drug precursors**, the obligation for them to report suspicious orders or transactions and mechanisms are in place to detect smuggling. The

situation is similar for civil explosives. The categories of **fertilisers** covered by national legislation are designed to be fully aligned with the *acquis*.

4.2. Chapter 2: Freedom of movement for workers

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

Preparations in the area of freedom of movement for workers are still at an **early stage**. **Some progress** can be reported, especially on further simplifying the administrative procedures for work and residence permits.

In the coming year, the country should:

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

→ start taking steps in the area of coordination of social security systems in order to identify which administrative measures (strengthening the administrative capacity) would have to be introduced in preparation for future accession.

As regards **access to the labour market**, the law on the employment of foreigners was amended, reducing the deadline by which the Employment Agency has to respond to applications for work permits by foreigners and introducing a 'single permit for work and residence'. The law also introduces 'external service providers' as intermediaries between the national authorities and applicants. This makes it easier for intermediaries to obtain visas on behalf of individuals. **EURES** (the European jobs network) services are not broadly utilised.

On **coordination of social security systems**, parliament ratified an agreement on coordinating social insurance with Albania, in addition to those already signed with 21 other countries.

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

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

The country is **moderately prepared** on the right of establishment and freedom to provide services. **Some progress** was made during the reporting period, particularly with regards to the continued arrangements for the market liberalisation of the postal services.

In the coming year, the country should in particular:

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

→ establish a single point of contact for 'one-stop shops,' further facilitating ease of access to the marketplace for new enterprises;

→ ensure that the liberalisation of the universal postal service is completed.

There were no developments on the **right of establishment** or the **freedom to provide cross-border services**. One-stop shops are being progressively deployed. These make it easier to set up and operate companies and contribute to improving the country's investment climate. However, the country still needs to establish a point of single contact, as required by the

Services Directive and as provided for in the 2016-2020 national strategy for innovation and competitiveness. Foreign companies still cannot be accredited to offer ISO 9001 certification for public administration bodies concerning quality assurance. This is an impediment to the free movement of services.

The Postal Agency continued arrangements for the **postal services** market liberalisation scheduled for 1 January 2017. The postal regulatory agency is sufficiently staffed and issues two types of licence: individual licences for universal postal services and general authorisations for an unlimited period. General licences have been granted to 34 service providers, while the universal service is provided by *AD Macedonian Post*. The postal agency still needs to establish a separate accounting system and to further strengthen its monitoring capacity. Shortcomings remain with regard to the financing of the net costs of the universal service obligation.

As regards **mutual recognition of professional qualifications**, the number of regulated professions fell, but the updated list still needs to be published. Furthermore, the description of the study programmes for professions with minimum training requirements still needs to be updated to bring it into line with the *acquis*. The competences and work of the inter-ministerial working group also need to be strengthened.

4.4. Chapter 4: Free movement of capital

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

In the area of free movement of capital, the country is **moderately prepared**. **Some progress** was made, in particular on fight against money laundering and the financing of terrorism. In the coming year, the country should in particular:

→ implement the new legislation on payment systems and capital;

→ demonstrate a sound track record in fighting money laundering and the financing of terrorism, and complete a national risk assessment and further align with the EU *acquis*.

On **capital movements and payments**, the country continued to meet SAA first stage requirements. Certain restrictions on capital movements remain, e.g. EU citizens are not yet allowed to purchase agricultural land. The Central Bank partially relaxed restrictions on holding accounts abroad. Capital controls, designed to face potential spill-over from the Greek economic crisis, expired in December 2015.

The legislative framework concerning the **fight against money laundering** and financing of terrorism, was amended to address some of the shortcomings identified by the Moneyval Committee. By-laws were adopted to strengthen reporting, monitoring and supervision. Further improvements will be needed in order to align with the EU *acquis* in this field.

The Financial Intelligence Office continued to implement the national risk assessment. The Office's capacity and cooperation with law enforcement counterparts were further strengthened, but it still needs to develop a consistent track record. The cooperation of all stakeholders in this area, free of political interference, must be guaranteed to ensure proper investigation and prosecution of offences.

In 2015, according to the Financial Intelligence Unit, the number of suspicious transactions referred to the Office increased to 175 from 153 in 2014. The Financial Intelligence Unit submitted 30 notifications to law enforcement bodies relating to money laundering and the

financing of terrorism (31 in 2014) and 25 people were prosecuted and 13 convicted for money laundering.

4.5. Chapter 5: Public procurement

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

The country is **moderately prepared** in this area, which is particularly vulnerable to corruption. There was **no progress** in the reporting period. None of the recommendations were implemented. Significant efforts are needed to ensure a transparent, efficient and effective public procurement regime. More needs to be done to prevent irregularities and corruption during the procurement cycle. Investigations into allegations of serious conflicts of interest and abuse of public office need to be followed up. In the coming year the country should in particular:

- reconsider the mandatory use of e-auction and the role of the Public Procurement Council;
- ensure the equal treatment of EU procedures and align fully to the *acquis* especially in the area of concessions;
- ensure that reports of irregularities are properly investigated.

Institutional set-up and legal alignment

The **legal framework** on public procurement remained broadly in line with the 2004 EU procurement directives, although the level of alignment has been reduced through frequent amendments since 2013. The country is yet to align with the EU Directive on Defence and Sensitive Security Procurement and the 2014 EU rules on public procurement. The generalised use of the ‘lowest price’ criterion and the obligation for contracting authorities to obtain approval from the Public Procurement Council if they wish to use non-price criteria when awarding contracts had negative effects on offers and contracts. The country continued to keep records on professional misconduct by businesses, excluding them from future tenders. This ‘blacklisting’ practice is not in line with European Court of Justice case-law. The Commission recommended in the 2015 Report and the relevant subcommittee that the country addresses these two issues, but this recommendation was not followed.

The fee required for registering EU-based economic operators in the e-procurement system is less favourable than that charged to domestic companies, despite the fact that the SAA provides for access under the same conditions as national companies. Amendments to the public procurement law regulate the separation of tasks and legal status between the Public Procurement Council and the Public Procurement Bureau. The Public Procurement Bureau remained the backbone of the public procurement system. The obligation to obtain prior consent from the Public Procurement Council gives contracting authorities access to specialised expertise when drafting tenders and led to a decrease in the number of negotiated procedures. Nonetheless, it makes the procurement process more complex, expensive and time-consuming.

There is no register of public procurement experts. The insufficient cooperation between the Public Procurement Council, the Public Procurement Bureau, the State Commission for Protection of Competition and the State Commission for Prevention of Corruption undermines the fight against corruption and the proper implementation of the public procurement principles.

The **strategy** on public procurement is not inclusive and limits itself to the strategic priorities of the Public Procurement Bureau. Overall supervision of implementation and reporting mechanisms is lacking.

Implementation and enforcement capacity

The country's **public procurement market dropped to 8 %** of GDP and 25 % of the state budget in 2015. The e-concession portal was launched. The mandatory e-procurement system is in place. This provides for some transparency, but the upgrade to include changes in contracted amounts and linking annexes to contracts should be completed. However, the mandatory use of e-auctions is not only not in line with the *acquis*, but also seems to hinder the procurement system.

Many contracting authorities continue not to publish their procurement plans. Detailed requirements prevent competition in tenders and tender requirements remain too complex for small and medium-sized enterprises to participate.

In one quarter of all public biddings there was only one bidder. The use of negotiated procurement procedures without prior publication decreased from 5.5 % to 4 % of the total value of procurement in 2015.

Until the Special Prosecutor Office was established, there was no investigation on the alleged irregularities in the 'Skopje 2014' project, on the award of certain large infrastructure and health contracts, or on serious conflicts of interest and abuse of public office. The strengthening of the internal audit function is vital to improve contract implementation and monitoring (see *chapter 32 - Financial control*).

The Ministry of Economy's administrative capacity to implement concessions and public-private partnerships legislation remained weak. There is no register on concessions and public-private partnerships and data is patchy, particularly as regards the Skopje airport and Skopje City concessions notably missing. The Public-Private Partnership Council is not operational.

The contracting authorities' **capacity to manage public procurement processes** needs to be further improved. Despite the existence of the regulatory and institutional framework on **integrity and conflict of interest**, there is no risk indicator system. The number of integrity-related reports remained low.

Efficient remedies system

As regards the right to legal remedy, the structure and the independence of the legal remedy system formally complies with the *acquis*. Full alignment with the Remedies Directive, in particular related to standstill period and time limits, is not yet achieved. The number of appealed tenders grew to 3.22 % in 2015, and the State Appeals Commission upheld complaints in 43.11 % of the 610 cases. Sanctions on misdemeanours that occur during the review process remain disproportionate and make decision-making highly formalistic. The **implementation capacity** of the SAC and the courts needs to be strengthened and appointments freed from political interference. Improving access to the commission's decisions and web browsing tools would increase transparency.

4.6. Chapter 6: Company law

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

The country has reached a **good level of preparation**. **Some progress** was achieved, concerning in particular the operation of the statutory audit oversight authority. In the coming year, the country should in particular:

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

As regards **company law**, amendments to the law on trade companies were made concerning the functioning of joint-stock companies and protection of minority investors. The Directive on Cross-border Mergers is not fully aligned.

There was no progress on **corporate accounting**. The Directive on annual financial statements, consolidated financial statements and related reports of certain types of undertakings is not yet transposed into national law. The Institute of Chartered Accountants is established but is still not functioning in accordance with its mandate. Alignment with the EU Directive 2014/56 on **statutory audit** of annual accounts and consolidated accounts is yet to be achieved. The Council for Advancement and Oversight of Audit is fully operational and developed its international cooperation.

4.7. Chapter 7: Intellectual property law

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

The country is **moderately prepared** in this area. **Some progress**, although limited, was made during the reporting period. There is still no strategy on intellectual property. In the coming year, the country should in particular:

→ improve consultation of the stakeholders when drafting legislation;

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

→ reinforce capacity and coordination among the authorities in charge of implementing the intellectual property laws and raise public awareness of the importance of protecting intellectual property rights.

On **copyright and neighbouring rights**, the law on copyrights was amended in February 2016 to regulate the functioning of collective management of rights and remuneration distribution and to abolish the cap to remunerations of right-holders, but the collective management system is still underdeveloped. The system for electronic recording of broadcast music works needs to be finalised. The Ministry of Culture revoked the licence of one of the collecting societies, with the result that certain fees are no longer collected, and subsequently (in July) licensed one more society in the areas of music rights. The capacity of the Ministry of Culture to deal with copyright and neighbouring rights remains insufficient.

As regards **industrial rights**, the State Office of Industrial Property concluded a bilateral cooperation agreement with the European Patent Office for 2016-18 and made its database available to the public. Challenges remain, in particular in providing services to the public.

The number of court cases on infringements of intellectual property rights is still low and there is no credible **enforcement** record. The Agency for Audiovisual Media Services conducted inspections and found certain irregularities by broadcasters. The functions of the Coordinative Body for Intellectual Property do not cover the coordination of policy-making

and of legislative work. Its funding is insufficient and there is no budget for awareness-raising and education of right-holders and the public about the importance of intellectual property rights. Coordination between the enforcement authorities is insufficient.

4.8. Chapter 8: Competition policy

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

The country is **moderately prepared** in the area of competition policy. **No progress** was made in this field during the reporting period. The country is relatively advanced as regards legislative alignment, but significant efforts are needed on enforcement. In the coming year, the country should in particular:

→ strengthen the enforcement record of the Commission for the Protection of Competition (CPC);

→ increase the transparency for state aid granted by the government.

Antitrust and mergers

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

As regards the **institutional framework**, the CPC is responsible for the implementation of the law on protection of competition. The authority is accountable to parliament, which appoints the President and the four members of the Commission. It is formally largely an operationally independent authority. The CPC may act upon a complaint, a notification (e.g. for mergers) or on its own initiative. It can also issue requests for information and carry out unannounced inspections at firms' premises ('dawn raids'). The CPC may impose fines and accept remedies when competition rules are infringed.

A policy of leniency towards self-reporters of cartels is in place but has yet to be used. The CPC may approve mergers with or without conditions or prohibit them. The CPC also provides opinions on draft legislation that may affect competition. The authority's decisions may be appealed before the Administrative Court.

As regards **administrative capacity, staffing** of the CPC appears sufficient, but its level of expertise needs to improve. Its funding is variable, decided each year, raising concerns on its independence. In terms of **implementation**, the activity of the CPC has been stable and significant over the period over the period of 2013 – 2015, with a total of 18 decisions adopted on cartels and abuses of dominant position with fines amounting to EUR 4.5 million. The CPC needs to step up its enforcement policy, using all tools available, in particular on-site inspections and the leniency programme. In 2015 the CPC issued five opinions on draft pieces of legislation with an impact on competition. It should actively follow up on those opinions to ensure that they are adhered to. There are concerns over lack of independence and capacity of courts in dealing with anti-trust cases.

State aid

As regards the **legislative framework**, the law on state aid is mostly aligned with Articles 107 and 108 of the TFEU and the SAA, but still needs to be harmonised with the *acquis* with regard to secondary legislation for certain forms of aid and specific sectors. The state aid inventory has not yet been established and the regional aid map has not yet been drawn up.

As regards the **institutional framework**, the CPC is responsible for the implementation of the law on state aid. The law provides that all new or modified state aid measures must be notified to the CPC for assessment of their compatibility before they can be granted. The CPC can adopt a negative decision or authorise an aid measure under certain conditions. If an aid measure is not notified, the CPC has the power to investigate it *ex post*. If the CPC finds that the aid given is incompatible with the law on state aid, it can order the recovery of the aid.

The **administrative capacity** of the CPC's state aid division is inadequate as it lacks staff and equipment. It only has three staff members to deal with a growing number of cases and outdated equipment.

As regards **enforcement**, the CPC adopted 25 decisions in 2015. These decisions were all positive mostly related to foreign investors active in special economic zones and none of these was appealed. The CPC did not receive any complaints between 2013 and 2015, indicating low awareness of state aid rules among stakeholders. The State Commission for Prevention of Corruption issued a warning about possible conflicts of interest as regards a state aid measure provided by the regional authorities.

A certain number of aid measures, mostly granted at central level, are notified late and therefore not investigated by the CPC. State aid continued to be provided for air transport without being notified to the CPC. Awareness of the state aid rules among aid grantors needs to be further improved.

Liberalisation

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

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

4.9. Chapter 9: Financial services

EU rules aim at ensuring fair competition between and the stability of financial institutions, namely banking, insurance, supplementary pensions, investment services, markets and post-trade infrastructures. They include rules on authorisation, operation and supervision of these institutions.

In the area of financial services, the country is **moderately prepared**. **Some progress** was achieved in the enforcement capacities of financial market regulators and their cooperation with European supervisory authorities. In the coming year, the country should focus on:
→ adequately addressing consumer protection.

On **banks and financial conglomerates**, banking law was amended in order to strengthen corporate governance, improve supervisory framework for controlling large exposures, and enhance the corrective measures against the banks. More needs to be done to protect consumers and prevent unfair banking practices.

The central bank updated the banking regulations, in order to strengthen corporate governance, align with rules on capital adequacy, improve the supervisory framework for controlling large exposures and to enhance the corrective measures against banks. More needs to be done to protect consumers and prevent unfair banking practices.

The Central Bank signed a memorandum of cooperation with the European Banking Authority after the positive assessment on the compliance with the Capital Requirements Directive IV on data confidentiality.

On **insurance and occupational pensions**, the track record of the Insurance Supervision Agency continued to improve as it issued several licences. However, the legislation authorising the Ministry of Finance to set premiums for motor vehicle insurance and the provision setting a 50 % limit on investing in non-domestic securities are in conflict with the *acquis*. Delayed transfer of funds from the state pension insurance fund to private funds resulted in a breach of the legislation on the management of deposits.

Concerning **financial market infrastructure**, alignment with the Financial Collateral Directive is incomplete, while alignment with the Settlement Finality Directive has not yet begun. There were no developments on the government's plans to establish international financial zones. On **securities markets and investment services**, the securities law was amended, making it possible to secure bonds by real estate. Domestic brokerage houses and banks are now allowed to trade on foreign securities markets. A common order routing platform was established by the Skopje, Zagreb and Sofia stock exchanges to link their equities markets.

4.10. Chapter 10: Information society and media

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

There is a **good level of preparation** in the field of electronic communications and the information society. **No progress** was made during the reporting period. In the coming year, the country should in particular:

- ensure correct implementation of the legal framework on electronic communications and audio-visual media;
- strengthen the independence and capacity of the media regulator and the public service broadcaster;
- ensure that the necessary preparation is done to introduce the 112 emergency number by the end of 2018, including allocating the necessary financial resources.

In the area of **electronic communications and information and communications technologies**, some concerns remain regarding the implementation of the law on electronic communications. The quality parameters for internet access were increased only to the internet access next to the main roads. Fixed broadband penetration is almost 18 % of the population, while mobile broadband, including 2G/3G, reached 55 %. Expansion of the 4G mobile network continued. The prices for regional roaming services further decreased on 1 July 2016 following the 2014 agreement with Bosnia and Herzegovina, Montenegro and Serbia. The European emergency number 112 has still not been introduced due to lack of political commitment and financial resources.

An audit commissioned by the regulator, the Agency for Electronic Communications and published in March 2015, found that the spectrum fees surpass the regulator's operational financial needs. The audit also suggested that the regulator uses 45 % of its surplus funds for purposes other than developing electronic communications, which would be contrary to its mandate. Some concerns remain about its ability to act independently and its legal powers to donate should be removed. Public consultation procedures with operators improved. The

administrative capacity of the Ministry of Information Society and Administration needs to be strengthened so that it is better able to prepare strategic documents, align with legislation, and ensure coordination with other institutions

As regards **the information society**, a track record needs to be built up on the application of the electronic signature. Capacities to ensure cyber security remain low and the national cybersecurity strategy should be adopted. Electronic government and interoperability are not yet operational, despite the equipment and software provided. A long-term 2020 digital strategy needs to be developed. Barriers to e-commerce, including customs duties and VAT on imports for small value items, still have to be removed.

In the field of **audio-visual policy**, the media regulator, the Agency for Audio and Audiovisual Media Services was more proactive in reminding media outlets of their legal obligations. It initiated 157 measures in response to violations of the law on media and law on audio and audio-visual media. The Agency also made initial steps to address hate speech and unprofessional reporting, but it should further develop activities on media literacy. Concerns over the public service broadcaster's lack of editorial and financial independence continued. The country participates in the Media sub-programme of 'Creative Europe', with the National Film Fund as national contact point.

4.11. Chapter 11: Agriculture and rural development

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

The country is **moderately prepared** in the area of agriculture and rural development. **Some progress** was made to implement the Instrument for Pre-accession Assistance for Rural Development (IPARD II). In the coming year, the country should in particular:

→ continue to focus on more effective use of IPARD funds.

As regards **general agricultural issues**, a monitoring and evaluation system for the national agriculture and rural development strategy and programmes has still not been established. The organisational structure of the Ministry of Agriculture, Forestry and Water Economy does not fully reflect the strategy and policy mandate. A comprehensive functional review should lead to improved sector planning and operational efficiency.

There has been limited progress concerning **common market organisation**. The disbursement of national direct subsidies stands at around EUR 100 million per year. The contribution of direct payment measures on farm incomes is not reported and has not yet been assessed. The farm accountancy data network is underused in the calculation of levels of direct support. An upgrade of the integrated administration and control system is ongoing. Data entry controls and on-the-spot checks need to be carried out regularly in order to have a reliable integrated farm register. There was no progress on establishing a farm advisory system.

Rural development investments on improving access to irrigation, land consolidation and promotion of agricultural cooperatives remains low. Preparation for IPARD measures, investments in rural public infrastructure, improvement of training and advisory service whose implementation was initially planned for 2016-2017 need to be intensified. Further assessment is needed to identify the bottlenecks in programming rural development, designing measures and in implementation.

Despite the efforts to improve the implementation of the **IPARD Programme** and the increased number of applications, around EUR 16.2 million in EU funds remained unused in

2015. Lack of and high turnover of staff and manual processing of files in AFSARD (the IPARD agency) has created a backlog of projects, delaying decisions and payments.

Certified **organic production** is expected to increase. Stronger inspection and control measures are needed to ensure the organic quality required for exports. Implementation of other **quality schemes** could be better promoted to farmers.

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

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

The country has **some level of preparation** in the area of food safety, veterinary and phytosanitary policy. **Some progress** was made in this area. In the coming year, the country should in particular:

- increase the ability to control vector-borne diseases;
- determine the plant pest status in the country.

On **general food safety**, a National Council for Food and Animal Feed was established to provide scientific and technical support to the Food and Veterinary Agency. On **veterinary policy**, the Agency continued to provide regular updates on the system of controls for imports and import requirements for live animals and animal products. A programme for eradication of brucellosis in sheep and goats was adopted. The Veterinary Agency continued to vaccinate foxes against rabies and is implementing, with EU support, emergency vaccination of cattle in order to control the spread of lumpy skin disease in the country. Identification and registration system for pigs is not fully implemented.

Regarding the **placing on the market of food, feed and animal by-products**, a rulebook was issued on control of salmonella. The country is on the list of third countries from which table eggs may be introduced onto the EU market. Collection and treatment systems for animal by-products have not yet been established.

As regard **specific rules for feed**, a national plan for official controls of animal nutrition was adopted but has not yet been implemented. Some progress was made on **food safety rules**. Implementing legislation on extraction solvents and purity of additives was adopted and the Agency started implementing new food labelling requirements.

There was some progress on **phytosanitary policy** such as the adoption of an action plan to establish a plant passport system. The State Phytosanitary Laboratory accredited 20 additional laboratory methods under ISO 17025. However, the Phytosanitary Directorate is understaffed and lacks training and equipment, while the effectiveness of the phytosanitary inspectors should be improved. Phytosanitary controls and monitoring should be based on a risk assessment. International standards for determining the plant pest status in the country are not implemented. Coordination between the competent authorities remains poor and ineffective.

4.13. Chapter 13: Fisheries

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

The country is **moderately prepared** in the area of fisheries. **Good progress** was made on monitoring, inspection and control of catches as well as on fish health surveillance. There was

improvement in fish stocks management in trans-boundary lakes. In the coming year, the country should:

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

Good progress was made in **inspection and control** and the monitoring of catches.

The fisheries **market policy** should provide more and better information to consumers on the fishery products placed on the market. Providing information on sustainable exploitation of fish stocks and species might be considered.

4.14. Chapter 14: Transport policy

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

The country is **moderately prepared** in the area of transport policy. **Some progress**, although limited, was achieved in the past year in relation to the connectivity reform measures. However, several shortcomings in the transport sector that prevent proper sector planning and coordination, as well as lack of political commitment to deliver on necessary sectoral reforms, resulted in reduced EU financial assistance. More work is needed to strengthen the financial and technical capacity of the national accident investigation body for air and rail transport, as well as to strengthen administrative capacity for all modes of transport.

In addition to addressing the shortcomings outlined above, in the coming year the country should, in particular:

→ improve sector planning and coordination;

→ improve road safety conditions and strengthen the operational and administrative capacities of the inspection body;

→ focus on implementing the connectivity reform measures on rail reform and the opening of the rail transport market for at least domestic and regional undertakings;

→ adopt legislation on intelligent transport systems (ITS) and improve the capacity and resources for the implementation of ITS.

As regards the **general transport *acquis***, the key strategic documents for the transport sector and its sub-sectors were adopted and legislation is fully aligned with the *acquis* on arrangements for summertime. There is a need to strengthen the operational and administrative capacity for all modes of transport. The legal frameworks for establishing the air and rail accident investigation bodies are in place, but the independent rail accident investigation body has not yet been established and the operationalization of the air accident investigation body is ongoing.

On **road transport**, the legal framework reached a reasonable level of alignment. Legislation aimed at aligning with the *acquis* on dangerous goods was adopted in November. However, the legal entity responsible for conducting the conformity assessment of the existing equipment for the carriage of dangerous goods was not appointed. The country needs to continue aligning with the safety *acquis* in this area and develop its enforcement capacity to reduce fatalities and increase roadside checks of commercial vehicles.

Both the legal competencies and operational capacity of road inspectors need to be improved to better enforce social legislation. In addition, rules need to be adopted on the application of penalties for infringements of the European Agreement concerning the Work of Crews of

Vehicles engaged in International Road Transport (AETR). Legislation on clean and energy-efficient road transport vehicles and on intelligent transport systems (ITS) needs to be transposed without further delay.

Regarding the **rail transport *acquis***, the country separated infrastructure management and operations and assigned the respective responsibilities to two state-owned railway companies, thus meeting a major requirement of the *acquis*. Separation of the accounts of the national operator's passenger and freight operations and the transposition and application of large part of the new provisions of Directive 2012/34/EU on a Single European Railway Area are lagging behind.

The national legislation allows private legal entities to transport goods for their own needs, which does not constitute an effective opening of the market. Full open access to the railway market for foreign operators still needs to be achieved.

Railway safety legislation is harmonized. Further efforts should be made, however, to meet the requirements for its implementation.

The two cross-border railway cooperation agreements with Greece still need to be finalised. The protocols on the cross-border railway cooperation agreement with Serbia were signed. The cross-border railway cooperation agreement needs to be more widely implemented. The establishment of the accident investigation committee needs to be finalised.

The country, despite being landlocked, is party to all basic **transport** conventions of the International Maritime Organisation and has submitted its membership applications to the Paris Memorandum of Understanding and to the European Maritime Safety Agency.

Relevant EU legislation has been transposed in the area of **inland waterway transport**, with the exception of the Regulation on recognition of certification and transportation of goods and passengers. An authority responsible for inland waterways has been established. To achieve full alignment, an *acquis*-compliant law on merchant shipping needs to be adopted. The country actively participates in the EU Strategy for the Development of the Danube Region. It also signed the main international agreements on inland waterways, as well as a number of bilateral agreements with neighbouring countries.

On **aviation**, the country has achieved a relatively good level of alignment with the *acquis* and has made considerable progress on implementing the first transitional phase of the European Common Aviation Authority Agreement. Concerns about possible state aid in the aviation sector need to be addressed.

On the single European sky (SES) legislation, the country has already completed transposition and implementation of the SES I legislation and partially transposed the SES II *acquis*. Aviation safety legislation is partially aligned with EU legislation whereas the working arrangement with European Aviation Safety Agency covers all aspects of the *acquis* in civil aviation safety and environmental protection of products, organisations and personnel.

As regards **combined transport**, no national legislation was adopted. More needs to be done to develop combined transport. Following the pre-selection of a location for establishing a multimodal transport node near Skopje, further development is needed of the balanced intermodal transport and mobility system.

4.15. Chapter 15: Energy

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

The country is **moderately prepared** in this area. **Some progress** was made on security of supply while no progress was made on the opening of the electricity market. The obligations under the Energy Community Treaty are not fully implemented. In the coming year, the country should particularly focus on the following:

→ fully implementing Energy Community Treaty obligations, including closing the dispute settlement cases over postponed electricity market opening;

→ adopting legislation compliant with the third energy package and unbundling of the electricity and gas system operators according to the third energy package;

→ improving the capacities of the Energy Department in the Ministry of Economy and of the Energy Agency.

The **National Energy Strategy** until 2035 is still not adopted. The availability of coal for the Bitola thermal power plant should be addressed urgently as this is a matter of security of supply. The enactment of the **oil stocks law** was again postponed, now until 1 January 2018. The country's oil stocks, which have remained stable, correspond to 69 days of imports.

The country is making progress on developing **electricity transmission interconnectors**. A new 400kV electricity line with Serbia has been completed and commissioned, preparatory activities are under way for constructing a new 400kV electricity line between Bitola and Elbasan in Albania. On **gas interconnections**, construction of the Klecovce-Štip gas transmission pipeline is continuing and its completion is expected by the end of 2016. On the development of a **power market with the neighbouring countries**, the country has signed the Memorandum of Understanding on the regional electricity market development of the Western Balkan countries. Although the country has signed a shareholder agreement with the regional electricity Coordinated Auction Office SEE CAO, taxation of services related to cross-border electricity trade is not harmonised with the Energy Community guidelines. The VAT law must be amended to avoid double taxation of services provided by foreign market participants.

The country has not adopted its framework legislation in line with the EU's third energy package in gas and electricity or the corresponding implementing legislation.

To create an internal energy market, the country established the appropriate market actors. However, no measures were taken towards further unbundling of utilities in line with the country's obligations under the third energy package. Starting from 1 July 2016, the electricity market opening was further extended for customers with an annual electricity consumption of above 1 000 MWh. The estimate is that around 45 % of the total electricity consumption is covered by the open electricity market. Regardless of market opening in practice, the right of all customers to choose their supplier will be introduced only in 2020, in breach of the country's obligations under the Energy Community Treaty. The natural gas market is fully liberalised. By-laws on electricity prices and tariffs determine the criteria for assessing how to ensure that the tariffs of regulated energy activities are **cost reflective**. Regulated prices apply to electricity generation in the state-owned utility.

The energy law lays down conditions for **third-party access to the natural gas** market in line with the *acquis*. The transmission grid code and the gas market rules are aligned with the requirements for capacity allocation and transparency, but do not go into sufficient detail on cross-border issues and on assessing market demand for new investment. An entry-exit transmission tariff system, as required by the *acquis*, is not in place.

The **Energy Regulatory Commission (ERC)** regulates the price of electricity for households and SMEs which do not qualify for eligibility under the envisaged scheme of gradual opening,

as well as the price at which the incumbent generator ELEM sells electricity to the suppliers of last resort. This is detrimental to the functioning of the wholesale market, and ERC's competences need to be extended to cover the complete set of regulatory powers and objectives provided for under the third package.

In the area of hydrocarbons, the mineral resources law transposed the Hydrocarbon Licencing Directive, but alignment is yet to be confirmed.

The country adopted a **national renewable energy action plan (NREAP)**. The headline target is for 21 % of primary energy consumed to come from RES by 2020. Currently this proportion is 17.5 %. This target is not in line with the mandatory target of 28 % RES by 2020 to which the country has committed itself.

The **Renewable Energy Directive** is only partially transposed into national legislation. The country established feed-in tariffs to promote RES and support schemes for various renewable energy technologies were adopted. However, caps on capacities imposed for several types of renewable sources like wind, solar, biomass and biogas until 2020 are **obstacles** to the country to reach its renewable energy targets in 2020. The process of simplifying and streamlining procedures for authorisation, permitting, licencing and connection to the grids has to continue as it is critical for the further development of energy from renewable sources.

The Bern Convention Standing Committee recommended suspending the **hydropower** investment projects in the Mavrovo National Park until the environmental assessment of their cumulative impact has been carried out. There is an interest in the further development of hydropower. Such development should be in conformity with the relevant EU legislation on environment and the assessment of potential new projects should take into account the impact on areas of high nature interest.

The country has not adopted the second **National Energy Efficiency Action Plan**, and the third one that was due by the end of June 2016. Both the Energy Department of the Ministry of Economy and the Energy Agency have insufficient staff and technical/engineering capacities. There is lack of national funding for energy efficiency and the ESCO market is underdeveloped.

The country adopted legislation to align with the **Energy Efficiency Directive** and the **Energy Performance of Buildings Directive**. However, the decision to postpone the implementation of the energy performance certification scheme reflects a lack of political will to implement the requirements of the *acquis* or to promote investments in building renovation.

On **nuclear energy, nuclear safety and radiation protection**, the Radiation Safety Directorate revised the 2016-2018 nuclear safety and protection strategic plan. An amended rulebook was adopted on qualifications and health requirements for operators with ionising radiation sources. The country has ratified relevant international conventions on nuclear safety and radiation protection and is a full member of the ECURIE system, but there is no long-term and safe radioactive waste storage facility. Radon monitoring is carried out by the Institute of Public Health and the radon map is prepared and constantly updated. There are no plans to build a nuclear power plant in the near future.

4.16. Chapter 16: Taxation

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

The country is **moderately prepared** in this area. **Some progress**, although limited, was made towards harmonisation of the legal framework during the reporting period. In the coming year, the country should in particular:

→ improve the capacities of the tax system, at central and local level, to provide modern tax services to citizens (including e-tax, compliance risk management, quality assurance and IT system modernisation);

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

As regards **indirect taxation**, minor amendments were made to the law on VAT. On *excise duties*, legal changes were made to prevent speculative stocks of tobacco products, to regulate the status of small independent breweries and on the requirements to obtain excise licences.

On **direct taxation**, the law on personal income tax was amended to extend the deadline for commencing the taxing capital gains realised from the sale of securities. Amendments were also made concerning the manner in which tax profit is calculated. Progress was made on **administrative cooperation and mutual assistance**. New agreements were signed to avoid double taxation and prevent fiscal evasion. Some 47 cooperation and mutual assistance agreements are in place, including with EU Member States.

As regards **operational capacity and computerisation**, the reorganisation of the Public Revenue Office is ongoing. The aims of the reorganisation are to improve performance efficiency, align business processes with ISO 9001/2008 and implement compliance risk management. Internal audit activities are also developing. The Office monitors cash payments of taxpayers through fiscal cash registers and e-tax services have been expanded. The Office continued to participate in inspections to combat the informal economy, to detect unpaid tax liabilities and unregistered taxpayers and to stimulate voluntary compliance.

4.17. Chapter 17: Economic and monetary policy

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

The country is **moderately prepared** in the area of economic and monetary policy. **Some progress** was made on increasing the capacity of the country's institutions to draft and implement economic policy. In the coming year, the country should in particular:

→ set up a medium-term budgetary framework, and report on arrears, so as to improve fiscal discipline and transparency;

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

On **monetary policy**, *acquis* alignment of the legal framework is well advanced. The functional and institutional independence of the central bank is ensured. The law on the central bank forbids both monetary financing of the public sector and privileged access by the public sector to financial institutions. It also establishes price stability as the primary objective of the central bank, in line with the primary objective of the European System of Central Banks.

As regards **economic policy**, further alignment with the Directive on requirements for budgetary frameworks is needed. The country made some progress on adopting the 2010 European System of National and Regional Accounts (*see chapter 18 — Statistics*). The capacity to make credible macroeconomic and budgetary forecasts remains low.

Fiscal notifications and excessive deficit procedures are incomplete. Further improvements in transparency and management of public finances are necessary. Economic policy coordination is weak. The 2016-2018 economic reform programme was submitted on time but lacked analytical rigour and external stakeholders were insufficiently involved. The policy guidance adopted in May 2015 was partially implemented.

4.18. Chapter 18: Statistics

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

The country is **moderately prepared** in the area of statistics. **Some progress** was achieved in the past year, notably in efficiency of data collection and the alignment of sectoral statistics with EU standards. Continued efforts remain necessary to improve the quality of data in the areas of macro-economic and social statistics as well as for full harmonisation with the EU *acquis*. In addressing the shortcomings outlined below, in the coming year, the country should in particular:

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

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

In the field of **macro-economic statistics** the SSO currently compiles annual and quarterly gross domestic product (GDP), in current and constant prices, aligned with ESA 2010. Annual sector accounts and supply/use tables are compiled. Further efforts are required to harmonise government finance statistics and produce quarterly sector accounts. Excessive deficit procedure notifications are only partially transmitted and financial accounts are not yet produced. Statistics on the balance of payments and on foreign direct investment are compiled by the Central Bank according to the latest standards.

Structural **business statistics** and short-term statistics for the sectors of industry and construction are well developed but additional quality improvements are needed as well as the introduction of short-term statistics for services and, overall, an increased coverage of variables. The business register represents a good basis for sampling and data delivery but its quality can be improved further. Foreign affiliates' statistics are not available. Further alignment is needed in tourism and transport statistics. Research and development data and Information and Communication Technologies statistics are sufficiently aligned with the EU *acquis*.

In the field of **social statistics**, the SSO has created a sample frame for social surveys with a new method. A population census was not carried out in the previous census round; although population data are regularly produced, the missing information from a recent population census affects the quality of a wide range of statistics. Migration statistics need to be

developed. The survey of income and living conditions is implemented and there was progress in implementing social protection statistics. Labour market statistics are broadly aligned with the EU *acquis* but crime, education and public health statistics are not yet aligned.

Statistics on agricultural production are partially produced according to the EU *acquis* and the farm structure survey is conducted regularly. Agro-monetary statistics according to the EU *acquis* are in place but supply balance sheets are not yet produced. Annual crop statistics need to be aligned with the EU *acquis*. **Energy statistics** are largely in line with the EU *acquis*. Short-term energy statistics and energy balances are produced. Statistics on waste, water and on **environmental** protection expenditure are published but material flow balances are not yet produced.

4.19. Chapter 19: Social policy and employment

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

The country remains **moderately prepared** in this area. **Some progress** was made during the reporting period. Despite a decrease in the official unemployment rates, young people and the long-term unemployed still face difficulties in labour market inclusion. Efforts to alleviate poverty were insufficient and remain a serious problem, in particular for Roma and people with disabilities. The anti-discrimination law is still not aligned with the *acquis* and its implementation mechanisms were not strengthened. In the coming year, the country should in particular:

- tackle unemployment and improve the labour market conditions, in particular for young people, the long-term unemployed and socially disadvantaged groups;
- finalise and start the implementation of the Employment and Social Reform Programme;
- fully utilise the mechanisms for amicable settlement of labour disputes and improve the efficiency of the bipartite and tripartite social dialogue;
- ensure that appropriate institutional and financial resources are made available to implement the existing social inclusion, the Roma action plan and poverty alleviation strategies.

Amendments to the **labour law** were enacted, regulating parental leave and fines for employers not complying with the law on minimal wages. The capacities of institutions in charge of enforcing labour law remained weak. Ratified ILO conventions are regularly reported on and followed up. Alignment with the *acquis* remained at an early stage.

On **health and safety at work**, administrative capacities were slightly improved but remained insufficient to ensure enforcement of legal provisions. The National Council for Occupational Health and Safety did not perform its duty to coordinate monitoring and implementing the Occupational Health and Safety regulations.

The capacities of the Economic and Social Council as the lead institution for tripartite **social dialogue** were strengthened. The overall lack of trust in social dialogue, both among employers and employees, remains unchanged. The International Organisation of Employees admitted the two largest employers' organisations as members. The capacity of social partners needs to be strengthened further. Overall, the effectiveness of their role in the policy-making process remains limited. The first national free-of-charge mechanism for the amicable settlement of labour disputes was established and became operational in September 2015.

On **employment policy**, the unemployment rate slightly decreased, but remained high at 24.5 % in Q1 2016. In addition to the creation of new jobs and an increase in labour registration, the unemployment rate also declined due to a new sample method applied in the Labour Force Survey.

Labour market participation remained low, especially among women at 52 % (15-64 years old) in 2015, Roma and people with disabilities. Youth and long-term unemployment remained a major challenge and the highest priority.

The profiling system to categorise the unemployed and the preparation of individual employment plans were further developed and underline the efforts to improve the matching of skills demand and supply on the labour market.

The new 2016-2020 employment strategy was adopted in October 2015. Preparations for participation in the **European Social Fund** continued. The 2007-2013 Operational Programme for Human Resource Development is in the final stage of implementation (see *chapter 22 – Regional policy and coordination of structural instruments*).

Some progress was made on **social inclusion and protection**. The legal framework for social protection is comprehensive but requires amendment to introduce new services. Implementation of the 2011-2021 national programme for the development of social protection is limited and the Ministry of Labour and Social Policy lacks capacity. Cooperation is needed between the social protection, education and health sectors. As the cash benefit support does not give the desired results in terms of reducing poverty and exclusion, which are particularly high among Roma and people with disabilities, a review or replacement of the system should be considered. Roma and children with disabilities often lack of proper social protection. (See also *chapter 2 – Freedom of movement of workers*)

Implementation of the 2010-2020 national strategy for *elderly* people has improved overall care for the elderly.

The amended law on *child* protection introduced a special allowance for children and young people with disabilities. The national coordinating body to monitor implementation of the relevant UN Convention on Persons with Disabilities remained inactive.

A law on a national database for persons with *disabilities* was enacted, but its implementation has been delayed. There is a lack of commitment and resources to implement policies in this area and labour market access for people with disabilities is inadequate. The de-institutionalisation process is progressing too slowly, with residential institutions in a particularly poor state. Even though the number of children living in institutions decreased further de-institutionalisation and development of alternative community-based services are needed. Extremely poor conditions amounting to ill-treatment were observed at the Special Institution for disabled people in Demir Kapija. The government needs to take urgent action to ensure adequate living conditions while re-activating the implementation of the National Strategy for Deinstitutionalisation in the System of Social Protection.

Regarding **non-discrimination in employment and social policy**, overall, the administrative capacity to support social inclusion remained inadequate at both central and municipal level.

On **equality between women and men in employment and social policy**, the new strategy on non-discrimination, adopted in June 2016, includes references to gender equality and the Istanbul Convention. Further measures are still needed to address gender pay equality and gender equality in the labour market. (See also *chapter 23 – Judiciary and Fundamental Rights*)

4.20. Chapter 20: Enterprise and industrial policy

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

The country is **moderately prepared** in this area. **Some progress** was made by adopting a new strategy for competitiveness and several legal amendments. In the coming year, the country should:

→ continue adapting the legal framework and develop measures to facilitate SMEs' access to finance;

→ adopt a strategy promoting women's entrepreneurship, a strategy for SMEs and a strategy for tourism.

On **enterprise and industrial policy principles**, a number of strategies were adopted, including a strategy on competitiveness and the second 2016-2018 action plan to support the innovation strategy.

More than 20 laws relevant for doing business were amended to enable ex-officio exchange of data between public institutions. Furthermore, the fines for misdemeanour violations by companies were reduced to take into account companies' size. A new law on craftsmanship was enacted. Even though the law on financial discipline was amended to address identified shortcomings in implementation, companies still face difficulties on enforcement of contracts, in particular on outstanding receivables. The law on financial discipline and the law on obligations should be further aligned with the EU Late Payment Directive.

With regard to **enterprise and industrial policy instruments**, the National Council for Entrepreneurship and Competitiveness provided fora for public-private dialogue. Several amendments to the law on technological industrial development zones further enhanced the attractiveness of such zones. However, concerns exist as to whether the tax regime for such zones complies with the EU code of conduct of business taxation and the Customs Code.

The law on a health zone was adopted, which sets up a legal framework for yet more specialised development zones. The Fund for Innovation and Technological Development awarded a first set of grants to companies for innovative actions. Its success depends on further measures designed to strengthen the skills and technologies in SMEs being taken. No significant efforts were made to diversify the financing instruments for SMEs. EU financing instruments for business development, under COSME and EDIF, were underutilised.

4.21. Chapter 21: Trans-European networks

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

In the area of transport networks, there is a **good level of preparation**. The country achieved **good progress** during the reporting period. In the coming year, the country should in particular:

→ further improve inter-institutional communication;

→ further strengthen the operational and technical capacity of all management and stakeholder institutions dealing with transport infrastructure;

→ complete project documentation for the Tabanovce joint border crossing station.

On **transport networks**, the country actively participated in the South-East Europe Regional Transport Network and complied with its undertakings under the Memorandum of Understanding. Construction work continued on the motorway section along Corridor X co-financed by IPA I (2007-2013) funds. Reconstruction works along Corridor X also continued.

Construction of the segment of rail Corridor VIII towards Bulgaria, financed by an EBRD loan and by the Western Balkans Investment Framework, will be reviewed due to delayed implementation. Concerns remain about the lack of preparedness and lack of maturity of planning in key sectors. All institutions and bodies involved in implementing large investment projects need further to strengthen their operational and technical capacities. The country also needs to focus on connectivity reform measures that will ensure the sustainability of such infrastructures.

On **energy networks**, construction of the new Štip-Niš (Serbia) 400kV electricity interconnection was completed. Preparatory works to build the Bitola-Elbasan (Albania) 400kV electricity interconnection section are also under way. The state-owned gas transmission operator continued to build the Klecovce-Štip gas transmission pipeline. This is expected to be completed by the end of 2016.

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

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

The country is **moderately prepared** in this area. **Some progress** was made in sector-based programming. In the coming year the country should focus on:

- building the administrative and financial capacity needed for procuring and implementing EU funds properly and in a timely fashion;
- addressing shortcomings in financial management, control and audit;
- improving the transparency and visibility of EU funds.

As regards the **legislative framework**, the law on balanced regional development needs to be fully implemented, in particular by allocating further funding. The **institutional framework** needs to be strengthened to ensure correct and timely implementation of the programmes for both IPA I and IPA II. This will also help avoiding further de-commitment of EU funding. A system of well-substantiated workload analysis should be developed to ensure progress in the area of **administrative capacity**. There was only limited progress on introducing a sector-based approach in **programming** EU funds. General strategic planning, however, needs to be improved.

Some progress was made in implementing the system for **monitoring and evaluation** of projects and programmes. Further capacity strengthening is, however, needed so that recommendations can be properly followed up. Transparency in the use of EU funds needs to be increased.

Further efforts are needed to strengthen the **financial management, control and audit** of EU funds (*see chapter 32 — Financial control*). Systematic monitoring, on-the-spot checks and internal and external audits need to be carried out in order to prevent irregularities.

4.23. Chapter 23 Judiciary and fundamental rights

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

The country has achieved **some level of preparation** for applying the *acquis* and European standards in this area. The legal and institutional frameworks are largely in place. However, there was **no progress** in the past year. The authorities did not demonstrate sufficient will to tackle effectively the lack of independence of the judiciary. Corruption remains prevalent in many areas and continues to be a serious problem. The Special Prosecutor faced administrative and judicial obstruction. Political interference and structural weaknesses undermined the functioning of the State Commission for the Prevention of Corruption. The institutional framework for promoting and protecting human rights needs to be improved through adequate resources, staffing and support for the fulfilment of relevant institutions' mandate. Credible measures need to be taken to ensure the full exercise of freedom of expression.

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

→ demonstrate greater political will to ensure the independence of the judicial system and to allow the Special Prosecutor to work unhampered;

→ ensure the functional independence and merit-based recruitment of regulatory, supervisory and oversight bodies so that they can fulfil their duties in a professional and proactive manner (an Urgent Reform Priority);

→ take strong measures to strengthen the institutions in charge of preventing and fighting corruption and desist finally from any political interference in their work;

→ ensure freedom of expression and adopt and implement credible measures to support pluralism in the media;

→ urgently address police impunity and sub-standard conditions in the prison system.

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

Functioning of the judiciary

Strategic documents

Multiple amendments to the legal framework were made, in a hasty manner, with shortened adoption procedures and without proper consultation with the professions affected, including in the areas of misdemeanours, sentencing, notaries and bailiffs or, where relevant, the European Commission and/or the Venice Commission. Political will is needed to move the reforms forward in the right direction.

Management bodies

The Judicial Council made some efforts to improve transparency, particularly through regular updates of its website and by allowing the presence of journalists and Civil Society Organisations at its sessions. The Council of Public Prosecutors still lacks its own budgetary allocations, appropriate IT support and staffing.

Independence and impartiality

The new President of the Association of Judges started to actively engage in promoting judicial independence. However, there are no indications that judges feel confident enough to

complain to the competent bodies. The Judicial Council's stated intention of protecting judges from interference has not produced results in practice. The authorities did not initiate reforms on the existing discipline and dismissal system for judges, as recommended by the Venice Commission.

Accountability

The Judicial Council, the Ministry of Justice and the Ombudsman's Office continued to handle the increasing number of complaints about the work of the courts. In 2015 the Supreme Court received 610 compensation claims for unreasonably lengthy court proceedings (compared to 637 in 2014) and awarded EUR 103,165 in compensation and costs. The Judicial Council dismissed one judge in 2015 and the Council for Public Prosecutors dismissed one prosecutor. There was only one request for determining the responsibility of a judge under the new procedure in 2016, which was rejected. The State Commission for the Prevention of Corruption (SCPC) launched misdemeanour proceedings against 3 prosecutors in 2015, for failing to submit asset declarations.

Professionalism and competence

In 2015 the Judicial Council appointed 20 Court Presidents, after some considerable delay. In September 2016 the Council appointed 7 basic Court judges (all graduates of the Academy) as well as 11 appellate court judges, 2 higher administrative court judges and 4 Supreme Court judges (all with judicial experience). The Council of Public Prosecutors appointed 17 prosecutors.

There is still a lack of transparency in the system of appointment and promotion and no steps have been taken to ensure de-politicisation in line with the 'Urgent Reform Priorities'. A new professional evaluation system focusing on appraisal of judges' core competencies has still not been introduced so the system remains heavily focused on quantitative criteria. The recommendations of the European Commission and the Venice Commission in this area have not been addressed.

Quality of justice

During 2015, the Academy provided 267 in-service training sessions to 5 888 participants. Of the 13 candidate judges and prosecutors from the fifth generation who successfully completed their pre-service training in February 2016, 12 have already been appointed in basic courts and basic public prosecutor's offices. 37 new candidates enrolled for pre-service training at the Academy. The Academy still lacks sufficient support staff.

December 2015 amendments to the law on the academy lowered the criteria for enrolment of candidate public prosecutors and shortened their training cycle from 24 months to only 9 months. This potentially affects not only the quality of training, but also creates an imbalance between future judges and prosecutors' level of and access to training. In August 2016 a call was published for 60 candidate prosecutors who will undergo this shorter training cycle.

Ensuring consistency of judgments is still a challenge, although the Supreme Court continued its efforts.

Efficiency

A comprehensive human resources management strategy is needed. In November 2015 the Judicial Council adopted a decision reducing the number of judges from 740 to 636, apparently without any needs- or impact-assessment having been carried out. 130 new support staff were recruited to the Public Prosecutor's Office in 2015, again without a clear strategy in place. The 2016 budgets for the courts and prosecution service are both significantly lower

than the per capita European average, while the number of judges and court staff per 100 000 inhabitants are significantly above the European average, raising questions about efficiency and the correct allocation of resources.

Amendments to the laws on judges', prosecutors' and prosecution staff's salaries allowing for bonuses in specific circumstances were not reflected in the law on court administration, which resulted in strikes by administrative staff for several months.

When implemented, the new law on misdemeanours should reduce the number of proceedings before the court, and the new law on sentencing should produce increased judicial consistency. New laws on notaries and on bailiffs (both to apply from January 2017) were adopted despite strong criticism.

Anti-corruption policy

Track record

The number of **investigations, prosecutions and convictions** in corruption cases fell overall in 2015. Of the 6 investigations officially presented by the Special Prosecutor's Office since the end of 2015 in relation to the wiretapping scandal, more than half are corruption-related cases.

More than half of the **high-level corruption cases** launched since 2003 have been completed. The credibility of the track record (an 'Urgent Reform Priority') remained marred by the lack of effective investigations of serious allegations made against senior officials and by protracted prosecutions in high-profile cases. Investigations of corruption in **public procurement** and concessions remained limited in 2015, despite persistent allegations of widespread corruption.

No substantial sanctions were imposed for breaches of **political party and election campaign financing** regulations. A more credible supervision system and a consistent track record of effective and dissuasive penalties, in particular against major political parties, still needs to be developed.

Most cases are still referred to the prosecution service by the police. A more proactive approach is required from other law enforcement and supervisory bodies. The tendency of the Public Prosecutor's Office not to pursue criminal investigations initiated by the State Commission for the Prevention of Corruption (SCPC), the State Audit Office and other institutions continued.

In 2015, the SCPC slowed down its corruption prevention activities significantly. It filed only 2 requests to prosecutors to initiate criminal proceedings (compared with 7 in 2014). It carried out checks on **asset declarations** of only 43 elected and appointed officials. It also initiated 7 misdemeanour proceedings for failure to declare assets (51 in 2014). The SCPC asked the Public Revenue Office to conduct asset examination procedures in only 10 suspicious cases (58 in 2014). Unlike in previous years, the Public Revenue Office did not initiate any asset verification procedures on its own initiative.

As regards **conflict of interest**, the SCPC received 437 statements of interests in 2015 and misdemeanour procedures were initiated against 3 officials for failure to submit their statements of interests (22 in 2014). The SCPC also initiated 107 procedures to resolve conflicts of interest. The only available sanction, a 'public reprimand', was pronounced against 16 officials for refusing to resolve their conflicts of interest.

The system for investigating and penalising undeclared assets remained lengthy and cumbersome. The SCPC's ability to fully implement the system of penalties for reporting

failures is being undermined by courts applying weak sanctions, often below the level required by law.

Although the National Commission for the Protection of the Right to Free Access to Public Information stated in its annual report that 93 % of around 5000 requests for access to information had received a positive reply, the number of complaints increased (960 in 2015). There are indications that the authorities do not disclose information in areas such as budget expenditure, procurement, the operation of law enforcement authorities and the judiciary.

Institutional framework

Prevention measures

The **SCPC** is still not in a position to fulfil its mandate, despite the adoption of a methodology for anti-corruption verification, the establishment of a new unit with four temporary employees and an electronic register of elected and appointed officials to facilitate the control of assets and interests (an 'Urgent Reform Priority'). The SCPC's status, funding and technical tools still remain inadequate and it still needs to demonstrate its independence. The number of complaints continued to drop in 2015, down to only 124 compared with 141 in 2014 and 201 in 2013. This indicates a drop in the level of public trust and confidence in the SCPC.

The **State Audit Office's** IT infrastructure improved but interconnection with other relevant institutions is still not in place. The enforcement regime needs to be further improved and the roles of relevant institutions need to be clarified to enable control of political party donors and assets received and owned by political parties.

An institution needs to be empowered to ensure effective and timely control and supervision of **public procurement**, concessions, public-private partnerships and execution of public contracts. There is no administrative penalty regime. The transparency and accountability of public institutions and state enterprises, and of public expenditure, are still insufficient. The National Commission for the Protection of the Right to Free **Access to Public Information** remained passive and is criticised for its lack of functional independence.

The Academy for Judges and Prosecutors, the SCPC and the Training Centre of the Ministry of the Interior continued to provide a variety of **anti-corruption training**. 226 border police officers attended eight specialised training courses on the fight against corruption. The private sector should be systematically included in corruption prevention activities.

Law enforcement

The existing specialised units in police and prosecution face some difficulties especially in fighting high-level corruption. The Ministry of the Interior's **Unit for the Fight against Corruption** is still inadequately equipped and understaffed. The **Public Prosecutor's Office** budget increased to EUR 8 million in 2016 and it launched an electronic case management system aimed at improving its efficiency and integrity. **The Special Prosecutor's Office** received EUR 4.13 million for 2016 and could finally recruit its staff, but its work was hampered by obstruction and a lack of cooperation from other institutions, as well as insufficient technical equipment.

The powers and resources of the police, the Public Prosecutor's Office, the courts and the **Agency for Management of Confiscated Property** should be strengthened so that criminal assets can be seized and confiscated more frequently, including in the early stages of criminal investigations.

In 2015, the Ministry of the Interior's **Unit for Internal Control, Criminal Investigations and Professional Standards** started disciplinary procedures against 20 police officers on

charges of corruption (11 in 2014). The procedures resulted in fines against nine officers and one dismissal. The Unit also started criminal proceedings in 14 corruption-related cases (11 in 2014). To ensure proper oversight of police work, the Unit's independence should be strengthened and an external oversight mechanism of the Ministry of the Interior created.

The **customs administration** further improved procedures for corruption risk assessment. It adopted a new code of conduct, carried out internal investigations and organised anti-corruption training. Following 51 disciplinary procedures in 2015, 5 customs officers were dismissed for corruption-related violations (compared with 4 in 2014). No criminal charges for corruption were brought against customs officers in 2015 (there were 5 such cases in 2014). The customs administration needs additional technical equipment so that it can independently carry out special investigative anti-corruption measures.

Legal framework

There are still significant gaps and weaknesses in the legislation. A new **law on the protection of whistle-blowers** was adopted in November 2015 but Venice Commission recommendations still need to be addressed. Amendments were made to the electoral code, which partially addressed previous OSCE/ODIHR recommendations, including on election campaign financing. However, some OSCE/ODIHR and GRECO recommendations on political parties still need to be addressed.

The State Audit Office was given the task of reviewing complaints about campaign financing. The law on state audit was amended to increase the fines for non-cooperation by auditees and their responsible staff. However, there are concerns over legal certainty and potential abuse of the new penalty regime.

The SCPC currently has inadequate powers to put an end to and penalise conflicts of interest in cases where the official concerned refuses to cooperate.

Strategic framework

Some important measures set out in the 2011-2015 state programmes to prevent corruption and conflicts of interest and their action plans were not implemented. The overall impact of these state programmes has been limited.

The new state programmes for 2016-2019 are focused on fewer priorities. However, they fail to address the criminal framework for combating corruption, where many legal, institutional and practical weaknesses persist. They are equally short on detail and ambition in other key parts. Implementation costs and the bearers of these costs were not set out in the state programmes and no specific funds from the state budget were secured to implement them.

Fundamental rights

The country is already a party to most **international human rights instruments**. In 2016, it ratified Protocol 15 amending the Council of Europe Convention for Protection of Human Rights and Fundamental Freedoms and also became an observer to the European Union Agency for Fundamental Rights.

Since September 2015 the **European Court of Human Rights** (ECtHR) has found violations of the European Convention on Human Rights (ECHR) in 11 cases relating mainly to prohibition of torture and degrading treatment, the right to a fair trial, respect for family life and protection of property. A total of 359 new applications were allocated to a decision-making body, bringing the total number of pending applications to 318. In January 2016 the ECtHR held that there had been a violation of the right to fair hearing, due to the overall

unfairness of the lustration proceedings relating to the former President of the Constitutional Court.

The Bureau for Representation before the ECtHR made significant efforts to ensure the speedy execution of ECtHR judgments (an 'Urgent Reform Priority') and achieved good results. The country has reduced the number of ECtHR judgments still to be executed by more than half to 56, of which 3 are under enhanced supervision. The Bureau still remains understaffed however, and would benefit from seconding staff members to the Council of Europe to gain further expertise. As regards the *El Masri* case, the Committee of Ministers noted with profound regret that the authorities have so far provided no information on the outstanding issues and firmly urged them to accelerate the setting-up of an *ad hoc* commission to establish responsibility of the individuals involved.

On the **promotion and enforcement of human rights**, the Office of the Ombudsman remains the key oversight institution. In 2015, it received 4 403 complaints, an increase of 3.6 % from 2014. The overall level of follow-up to the Ombudsman's recommendations remains high at around 82 % (87 % the previous year), but the number of bodies which fail to respect his recommendations has increased.

The law on the Ombudsman's Office was amended in September with a view to fulfilling the Paris Principles (an 'Urgent Reform Priority') but support from the national authorities to the Ombudsman Office is still insufficient. It remains under-staffed and lacks adequate budgetary means.

There was no tangible progress on the **prevention of torture and ill-treatment**. Most of the recommendations of the 2015 Committee for the Prevention of Torture report remain unimplemented. The national preventive mechanism is understaffed and has not been fully operational. Cooperation between the Ombudsman's Office, the Public Prosecutor's Office and Ministry of the Interior was poor. Inhumane conditions persisted in penitentiary and detention facilities (in particular in Idirizivo and Skopje), police stations, social care and psychiatric facilities.

The Ombudsman's Office received 21 complaints of ill-treatment by police and the Unit for Internal Control and Professional Standards at the Ministry of the Interior received 62 complaints in 2015. In three cases, it determined that unjustified physical force had been used. Criminal ill-treatment charges were brought against one police officer.

Some 13 complaints submitted to the Ombudsman's Office and 38 complaints to the Directorate for Execution of Sanctions related to excessive use of force by prison staff. Two prison officers were disciplined for excessive use of force. Concerns persist that disciplinary measures in ill-treatment cases are not dissuasive and the number of criminal charges remains very low. There is continued concern over the absence of an effective external oversight mechanism for the Ministry of the Interior, which reinforces the perception of impunity and lack of accountability.

The situation in the **prison system** remains critical. There was a significant (20 %) increase in the prison budget, but it remains insufficient to cope with the needs of the prison system, which remains heavily understaffed and mismanaged. Overcrowding raises concerns and urgently calls for increased use of alternative penalties. The law on probation service was adopted, but its application was postponed to November 2016.

Inhumane physical conditions in a number of penitentiary facilities and in almost all detention facilities triggered protests and hunger strikes. There was no progress on provision of basic education to juveniles and other re-socialisation services for prisoners. Poor healthcare services, including limited access to psychiatric care, persisted. No progress was made on

implementing numerous prison management rules. Inter-prisoner violence remains a serious concern.

The Directorate for **Personal Data Protection** aimed at strengthening its capacity through training, recruitment of new permanent staff and an increased budget. Some 394 inspections were carried out in 2015 in both the public and private sectors (404 in 2014). The Directorate received 393 complaints in 2015 (371 in 2014), most concerning alleged abuse of personal data on social networks. Further efforts are needed to ensure full harmonisation of legislation with the law on personal data protection. Greater use should be made of available administrative penalties.

The Directorate has still not taken any action following the scandal over illegal interception of citizens' communications and also did not react to complaints submitted by NGO members after their personal data was published in several pro-government media. Efforts are still needed as regards the Directorate's political independence and proactive approach (as per the 'Urgent Reform Priorities'). The new law on privacy needs to be aligned with the 2015 recommendations of the Venice Commission.

Freedom of thought, conscience and religion continued to be guaranteed and the number of religious entities rose to 32 following the registration of the religious community of Orthodox Albanians.

Freedom of expression continued to be seriously challenged under the current political climate. Drastic changes in policy are required beyond legislative texts. There were 10 new reported cases of intimidation of journalists and 8 court proceedings involving journalists. No legal action was taken over past physical altercations involving journalists, including a physical attack by a senior politician.

The legal framework on hate speech is generally in line with international standards but its implementation needs to be stepped up: the prosecution service did not initiate any new proceedings and there is only one ongoing. Access to information legislation follows international standards but in practice it is difficult for journalists to obtain requested information. The tendency by public authorities to over-use the 'classification' of documents persists. The law on civil liability for insult and defamation needs to be further harmonised with the case-law on Article 10 of the European Convention for Human Rights and correctly implemented by the judiciary.

The Agency for Audio and Audio-Visual Media Services was more proactive in reminding media outlets of their legal obligations. It initiated 157 measures in response to violations of the law on media and law on audio and audio-visual Media (*see also chapter 10 — Information society and media*).

The Council of Media Ethics prepared a 'Charter on Ethical Reporting during Elections'. It was signed by most media outlets but largely ignored in practice. Since September 2015, the Council has received 86 complaints, resulting in 77 decisions. In general, media outlets were reluctant to publish its decisions, indicating a low commitment to self-regulation of ethical standards. Serious efforts are needed to develop a culture of professional ethics, both in offline and online media.

Financing of the public service broadcaster (MRT) is not independent of the government and despite attempts to improve licence fee collection, this revenue source is not sufficient. MRT adopted 'Ethical and Professional Principles of MRT for Media Coverage of the Election Process' but the MRT code of ethics still needs to be adopted. There was some improvement on professional reporting. However, MRT still does not have full editorial independence (*see also chapter 10 — Information society and media*).

The lack of transparency in the area of government advertising has still not been addressed (as per the ‘Urgent Reform Priorities’). Lack of transparent financing of media and ties between officials and media owners continued to be a serious concern.

The representation of journalists continued to be polarised. The government needs to restore a fully inclusive dialogue with journalist associations without favouring any specific one.

Freedom of association is satisfactory, but less so **freedom of assembly**. Numerous protests continued throughout the country against the background of the continuing political crisis. There were a series of anti-government protests, dubbed the ‘colourful revolution’, led by the civic movement ‘I protest’, with demonstrators throwing paint on controversial Skopje 2014 monuments and public buildings. While there were a few violent incidents, the protests were largely peaceful. Restraint from violence should be shown by both protesters and police in the context of the exercising of freedoms of association and assembly. The Criminal Code offence of ‘participating in a crowd which commits a crime’ is still applicable without safeguards. This broad provision remains open to interpretations which can infringe on the freedom of assembly in practice. The Ombudsman’s call for adequate human rights safeguards in connection with the use of rubber bullets or Tasers was not followed up by the authorities.

The Ombudsman’s Office confirmed 160 breaches of **property rights** in 2015; most still concerned the slow process of denationalisation. The process of privatising construction land is still very slow and cumbersome and the number of resolved cases is very low. The Cadastre Office needs to follow up on the requests and recommendations of the Ombudsman and to respect relevant court decisions in order to provide legal certainty concerning property rights.

On **non-discrimination**, alignment with the *acquis* is incomplete, notably lacking the prohibition of discrimination on the grounds of sexual orientation. A national Strategy for equality and non-discrimination 2016-2020 was adopted in June. The new members of the Commission for Protection from Discrimination were appointed in a non-transparent selection process. Some members have made public statements which call into question the appropriateness of their appointment and their ability to act in an objective and professional manner. Serious concerns persist about impartiality and independence of the Commission. It still has limited financial and human resources. The number of complaints filed with the Commission decreased significantly and the number of resolved cases confirming discrimination in 2015 is insignificant (3 out of 66).

There is no systematic data collection in place on the reporting, investigation and prosecution of hate speech and hate crime. Data collected by civil society shows such crimes are not adequately pursued by the authorities (see also *chapter 19 — Social Policy and Employment*).

On **equality between women and men**, a 2016-2020 Strategy for Equality and Non-Discrimination was adopted in June 2016 but little has been done to effectively promote gender equality. The law on termination of pregnancy still has restrictive procedural rules that could lead women to resort to illegal abortions. Domestic violence remains a concern. The law on the prevention, protection and combating of domestic violence suffers from serious gaps. There is no definition of other forms of gender-based violence or accurate data on reported cases. There is a need for more shelters for victims. There are no shelters in some regions. The limited capacity of the existing shelters for domestic violence needs to be addressed. Efforts by the Ministry of Labour and Social Policy towards a more inclusive approach are positive but not sufficient. The Gender Equality Unit of the Ministry of Labour and Social Policy remained under-resourced. Public awareness on gender equality is lacking and gender stereotyping persists (see also *chapter 19 — Social policy and employment*).

Efforts are needed to further strengthen the **rights of the child**.

Stigma and discrimination towards Roma children and children with disabilities are still widespread. A mechanism for systematically collecting data on the situation of children with disabilities, street children and Roma children needs to be put in place. In 2015, the Ombudsman's Office received 158 complaints concerning children's rights, of which he found 74 to be breaches. Measures and resources for prevention of violence against children are still insufficient.

Mediation and other alternatives to criminal procedure in respect of juveniles should be more effectively promoted. The juvenile educational-correctional facility was relocated but premises remain inadequate. No police stations have child-friendly detention facilities. Regular training for juvenile justice professionals has yet to be introduced.

There was no improvement on strengthening **the rights of persons with disabilities**. The legal and policy frameworks are insufficiently implemented and persons with disabilities continue to experience direct and indirect discrimination. Conditions in special institutions in some cases amount to ill-treatment. Despite previous assurances, the authorities have not yet reformed the system.

Full and equal access for children and young people with disabilities to education and training has not yet been achieved. The inter-party parliamentary group for the Rights of people with disabilities actively advocated for their rights and interests. The National Coordinating Body for Implementation of the UN Convention on the Rights of Persons with Disabilities remained inactive.

As regards **lesbian, gay, bisexual, transgender and intersex (LGBTI) persons**, prejudice and stereotyping is present in society, media and online. Considerable efforts are still needed to counter intolerance towards LGBTI people. The 2012 attacks on the LGBTI support centre still have not been investigated. In December 2015, the conviction and 7-month prison sentence of the perpetrator of a violent attack against two LGBTI activists in 2012 was quashed on appeal.

No proper gender reassignment treatment is available. Transgender people can access only limited health services. The national authorities should considerably intensify efforts to raise awareness of and respect for diversity in society. The positive cooperation between civil society and police in one municipality, to celebrate human rights day and LGBTI persons, set a positive example. The training of law enforcement bodies, prosecutors, judges, health workers and teaching staff remains important.

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

On **procedural rights**, no changes were made to the applicable laws. The legal aid system suffers from inadequate funding and restrictive requirements.

While the overall framework for the protection of **minorities** is in place, the implementation, monitoring and coordination of minority-related policies remained weak. Minorities representing less than 20 % of the population are left outside the mainstream policy and decision-making process. Measures against the separation along ethnic lines in schools are insufficient and segregated education has adversely affected social cohesion and integration of communities.

The national TV broadcaster offers programmes in minority languages, as do national and regional radio. The selection of state-funded projects on culture and inter-ethnic relations lacks transparency. Equitable representation in public administration does not ensure representation of all minorities at senior level.

At the end of the **Roma** Decade 2005-2015, the country made some positive steps, but much still needs to be done to improve the social inclusion of Roma. In Skopje at least ten Roma families have been evicted from dwellings where they were living, without prior notice or sustainable solutions, in breach of basic international principles and national commitments. Implementation of official policies suffers from the lack of political support, financing and administrative capacities. The implementation of the Roma Seminar conclusions and the 2014-2020 strategy for Roma inclusion is lagging behind. National action plans were adopted in May and relevant ministries are tasked with implementing the activities under their budgets.

Overall, segregation, stereotyping and other forms of discrimination remained prevalent. Most Roma are unemployed, have no proper health coverage, live in inappropriate living conditions in segregated housing and are socially excluded. Roma health mediators work in 13 municipalities but access to health is still a widespread problem. Birth registration rates of Roma are very low (200 out of 800 were completed). The most disadvantaged Roma have problems in accessing social benefits due to lack of documents. Restrictive administrative procedures threaten to cut assistance when additional family income from other sources is registered.

Action to address the disproportionate number of Roma children placed in special needs schools is slowly being implemented and there was some improvement on general access to education, with more 35 children enrolled at all levels. However, the dropout rates remain significant and the phenomena of child begging and child marriages persist.

4.24. Chapter 24: Justice, freedom and security

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

The country is **moderately prepared** to implement the *acquis*. It made **some progress** by amending existing laws (the law on foreigners, the criminal code and the law on border control) and adopting strategic documents in several areas (police, terrorism). Measures were taken to deal with the humanitarian consequences of the regional migration crisis in the short term. Following the decrease of mixed migration flows along the Western Balkan route, the humanitarian situation stabilised and pressure increased on the southern and northern borders especially due to larger smuggling activities. In the coming year, the country should in particular:

- ensure effective border management and step up action against people smuggling and human trafficking as a high priority;
- continue capacity building for the management of mixed migration flows and improve its asylum system;
- provide adequate accommodation and special consideration to vulnerable categories (unaccompanied minors, women with children).

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

Legal and irregular migration

Institutional set-up and legal alignment

The law on foreigners was amended in December 2015 to address the complexity and duration of procedures for obtaining a work permits and residence permits for employment or self-employment. A single procedure was introduced to apply for a residence permit for work.

The law also aims to align with the *acquis* on the right to family reunification, the status of third-country nationals who are long-term residents, conditions of admission of third-country nationals for the purposes of studies, pupil exchange, unremunerated training or voluntary service, and return of illegally staying third-country nationals.

In November 2015 a standard operating procedure establishing a comprehensive approach towards unaccompanied foreign minors was adopted and in July 2016 additional standard operating procedures on vulnerable categories of migrants were also adopted.

A Crisis Management Centre responsible for managing the flow of migrants and refugees was established in 2015, with a Steering Committee and Assessment Group Centre for Crisis Management, and its mandate has been extended until the end of 2017. The Ministry of the Interior's Unit for Border Affairs and Migration is generally responsible for security aspects and management of the borders. A specialised unit within the Department for Serious and Organised Crime deals with the fight against human trafficking and people smuggling, while the Ministry of Labour and Social Policy is in charge of migrants' and refugees' access to services and their socioeconomic integration.

In the second half of 2015, several inter-agency bodies were established but a lack of clarity persists over the division of powers, coordination and responsibilities.

Implementation and enforcement capacity

The lack of **reliable data** on the scope and structure of migration flows needs to be addressed.

The overall **staffing** situation in the Unit for Border Affairs and Migration is satisfactory. Border police capacities were reinforced through a series of bilateral agreements, enabling deployment of guest officers from EU Member States and Serbia. However, the country lacked material and human resources to respond to the continuous large-scale mixed migration flows. The migration flows created pressure on the overall migration management system and significant deficiencies exist, particularly in the Regional Centre for Border Affairs South, which resulted in partial screening, identification and registration of migrants, not meeting EU standards. Additional measures are needed to ensure that individuals' specific needs are identified and addressed, including through appropriate referral channels. Insufficient institutional capacity and human resources were noted in the Crisis Management Centre.

In 2015, the influx of people transiting along the Western Balkan route increased rapidly. In the period from September to November 2015, a total of **428 597 people** were registered as transiting the country. Between January 2016 and March 2016, **89 628** foreign nationals were registered. The majority were from Syria, Afghanistan and Iraq. As the registration capacity of the authorities was not sufficient, the actual number of people in transit is assessed as being much higher.

The state of crisis on the border, declared in August 2015, was extended until 30 June 2017, enabling the army to support the border police. In response to enhanced border controls along the Western Balkan route, national authorities implemented an admissibility criterion based on nationality allowing entry only to nationals of Syria, Iraq and Afghanistan since November 2015. Illegal border crossings and smuggling increased. Following enhanced border controls along the Western Balkan route, the flow of migrants and refugees coming via Greece has significantly reduced. Around 900 migrants and refugees remained stranded in the country, a number that has fallen over time due to reported smuggling. As of October 2016, the estimated number of stranded persons is around 200.

In 2015, 398 552 irregular migrants were apprehended at borders, mostly from Syria, Iraq, Afghanistan and Pakistan. From January to August 2016, 84 cases of attempts to smuggle a total number of 1 480 migrants were detected. Criminal charges were submitted against 72 people, including 12 foreign nationals for smuggling of migrants. Law enforcement bodies need to be more proactive in preventing and arresting people smugglers.

One reception centre for **irregular migrants** awaiting return is operational, with a total capacity of 120 to 130 people. Following recent renovation, basic conditions are in place but the centre is still not suitable for accommodation of vulnerable categories or persons. Access to appropriate shelter facilities remains poor, as does access to healthcare, water and sanitation.

Temporary transit centres for migrants were opened near Gevgelija and Tabanovce, close to the borders with Greece and Serbia, with an official capacity of 1 500 and 500 respectively. At the beginning of the migration crisis, the situation in the transit centres was poor, but has improved over time. Neither centre is equipped for the longer term due to the authorities' refusal to prepare for more than a temporary transit situation. Additional protection measures for the most vulnerable categories, sufficient and adequate capacity and regular oversight of conditions are needed in all reception centres.

The number of persons **returned** to their country of origin remains low. Assisted voluntary returns procedures have been carried out for 23 migrants. From January 2015 to end-January 2016, 15 496 migrants were returned to the territory of Greece due to falsified certificates, documents or because of the nationality-based restrictions imposed along the Western Balkan route.

The **readmission agreement** with the EU is implemented in a satisfactory manner. In 2015, 1 832 people were returned to the country, mainly from EU Member States. The country still needs to conclude readmission agreements with a number of countries of origin of irregular migration while upholding the non-*refoulement* policy towards asylum seekers. Negotiations to conclude a readmission agreement with Turkey have been under way since 2010.

Asylum

Institutional set-up and legal alignment

The country is party to the 1951 Geneva Convention relating to the Status of Refugees and its 1967 Protocol. Its legal framework is largely in line with the *acquis*. However, the law on asylum and temporary protection was amended in April 2016 to the effect that an application made by a person from a safe third country would be considered as manifestly unfounded, which is incompatible with the Asylum Procedures Directive. The legislation should ensure that an individual case-by-case assessment is still guaranteed for the assessment of the merits of an application, as required by the *acquis* and in line with the principle of non-*refoulement*. The amendments also provided that the principle of family reunification may only be exercised three years after obtaining refugee status, which is incompatible with the Family Reunification Directive.

The country has the necessary institutions and procedures in place to handle asylum claims. The Section for Asylum is the first instance body in the Ministry of the Interior. Appeals can be lodged before the Administrative Court within 30 days from the date of the delivery of the decision. The court then has 2 months to rule on the case. An accelerated procedure is available in cases of manifestly unfounded applications. In all cases, the Higher Administrative Court hears appeals against second instance decisions.

Implementation and enforcement capacity

The Section for Asylum is not fully staffed. 14 positions out of 23 are currently filled. The Section still struggles to cope with asylum applications in a timely manner. In-service training of case handlers is needed.

As regards the asylum procedure, the quality of decision-making remains inadequate. The capacity to evaluate the applications on merit is still weak and more training is needed. Court decisions in asylum cases are often not taken on the basis of a thorough examination of the merits. Sufficient interpretation capacities are lacking. A sufficient budget is needed to facilitate the effective integration of refugees. There was no progress on setting up a database for verifying the personal data, photographs and fingerprints of asylum seekers. There have been reported cases of *refoulement* at the borders targeting an unidentified number of migrants. There are limited protection-sensitive screening mechanisms to identify and refer appropriately those who may be in need of protection.

On the whole the asylum recognition rate remained low, mainly due to limited local integration prospects. The Administrative Court continued to process asylum appeals largely on procedural rather than substantive grounds. In 2015, 1 578 requests for asylum were submitted for 1 888 people but only 34 final decisions were taken, of which 13 negative and 4 positive. From January 2016 until July 2016, 525 persons submitted applications, of which 5 were granted subsidiary protection, 23 were rejected, and for 401 applicants the procedure was stopped after they left the reception centre.

The country is still a transit country. The vast majority of asylum applicants leave before completing the procedure. There is one reception centre in Vizbegovo with a capacity of 300. Lack of security remained a problem as the centre is targeted by organised criminal groups, who reportedly enter the facility after regular working hours when security is low. An additional facility for vulnerable categories was established in Skopje with a capacity of 16.

In February 2016, the country initiated a procedure to conclude a formal agreement with the European Asylum Support Office, negotiations are ongoing.

Visa policy

Legislation is largely aligned with the *acquis*. The link between diplomatic and consular missions, the national visa system N-Vis and the Visa Centre at the Ministry of Foreign Affairs has been operational since 2009.

Overall, the implementation of the visa-free travel regime with the EU continued smoothly. The national authorities continued cooperation to tackle unfounded asylum applications made in Schengen Members and associated countries. The number of applications fell significantly in January to June 2016 (3 551) compared to the same 6-month period in 2015 (7 532). The authorities ran public information campaigns about the abuse of visa liberalisation. They also continued to carry out additional border controls, surveillance patrols and risk analysis. Criminal charges were brought against 9 persons for facilitating abuse of the visa-free regime in the first half of 2016. Some efforts were made to improve the socioeconomic conditions of vulnerable groups, particularly Roma, through specific support programmes in the areas of employment, education and health. However, the root causes of this phenomenon still require greater structural efforts and the investment of proper resources.

Schengen and external borders

Institutional set-up and legal alignment

The legislative framework for the management of external borders is largely aligned with EU standards. The law on border control, together with implementing legislation, continued to be harmonised with the Schengen border code. The border police is a specialised Unit within the Ministry of the Interior. It includes four regional offices and local stations for border surveillance and a mobile unit deployed according to risk analysis findings.

Since 2003, the country implements an integrated border management (IBM) strategy. The current IBM strategy (2015–2019) was adopted in September 2015 and is aligned with the 2006 EU concept on IBM. The Schengen action plan was adopted in 2008. The country still needs to create a single coordination centre for the exchange of police information as part of the preparations for establishing a Sirene bureau at a later stage.

Implementation and enforcement capacity

The border police has a total of 1608 staff. As part of the overall restructuring of the Ministry of the Interior the border police was strengthened in the south of the country. Staff **training** continued (92 trainings between January and June 2016), with an emphasis on combating human trafficking and migrant smuggling, detection of forged documents, the fight against vehicle smuggling, police use of intelligence, dealing with mixed migration flows and refugee protection, treatment of asylum applications, detecting drugs and combating corruption.

The 2015-19 **integrated border management** strategy and action plan are at an early stage of implementation by the National Coordination Centre for Border Management. The main strands of the new strategy relate to identified security threats (namely due to poorly managed irregular migration and cross-border crime); challenges in the area of border control and border surveillance. Although the Centre prepares regular monthly and quarterly reports on risk analysis, its institutional and functional capacities remain weak.

Some **investments** have been made in border surveillance and infrastructure along the green border, especially in reaction to the increased migration influx. Part of these investments was covered using EU and bilateral assistance. However, further investments in border management are still required. There should be a special focus on prioritising those borders which are most exposed to irregular migration flows.

Overall, **inter-agency cooperation** between border guards, customs and other bodies worked well through the National Coordination Centre for Integrated Border Management. However, these agencies do not have mutual access to databases and there is no formalised and secured information exchange with the appropriate security services. With the increased influx of migrants, some efforts were undertaken with a view to achieving more detailed registration, but new solutions could not be tested. The detection of false or fraudulent documents remained low. A track record of detection, investigation and prosecution of cross-border crime in coordination with all competent law enforcement authorities needs to be established.

The main burden of investigation for more complex crimes is on the Department for the Fight against Serious and Organised Crime and, in certain cases, the Bureau for Security and Counterintelligence (UBK).

Cooperation with neighbouring countries continued to be good, particularly on the technical level. The country has concluded border agreements with all its neighbours apart from Greece. Joint patrols are conducted with Serbia, Kosovo, Bulgaria and Albania and the country has established joint contact centres with these countries. Bilateral cooperation with

Greece, especially at technical level, improved with the increasing mixed migration flows. The agreement with Frontex is being implemented smoothly.

Judicial cooperation in civil and criminal matters

Concerning judicial cooperation in **civil matters**, the country has not yet acceded to the Hague Convention of 19 October 1996 on Jurisdiction, Applicable Law, Recognition, Enforcement and Co-operation in Respect of Parental Responsibility and Measures for the Protection of Children or to the Convention of 23 November 2007 on the International Recovery of Child Support and Other Forms of Family Maintenance.

Concerning judicial cooperation in **criminal matters**, in 2015, the country received 1 418 requests for mutual legal assistance in criminal matters and 597 in civil matters. It sent 1 137 requests to other countries for criminal matters and 941 for civil matters. The country issued 116 extradition requests and received 25 from abroad. There were 22 requests for transfer of sentenced nationals back to the country and 37 new requests for the transfer of sentenced foreign nationals to their respective countries.

Agreements with Montenegro on legal assistance in civil and criminal cases, and on mutual enforcement of judgments in criminal cases were ratified in March. A cooperation agreement with Eurojust is in force. However in practice, there is very limited cooperation.

Fight against organised crime

Institutional set-up and legal alignment

New amendments to the **Criminal code** were adopted in December 2015, introducing prison sentences for criminal acts connected with exploitation of minors. An important part of the law on criminal procedure is the investigative centres intended to institutionalize cooperation between prosecutors and police, to date only one investigative centre was formerly established but it is still not operational due to lack of staff and equipment...

The law on the freezing, confiscation and management of criminal assets needs to be improved. The legal status and functions of the Agency for Management of Confiscated Property need to be strengthened.

In spite of EU expert assistance the **law on the interception of communications** has still not been amended to bring it into line with European standards. The process of internal reform and oversight on intelligence is far too slow.

The 2016-2020 police development strategy was adopted in January 2016 and provides for a proactive model of policing. However, an action plan including allocation of resources is still lacking. Despite repeated recommendations, an independent external oversight mechanism has still not been established for the police.

Anti-money laundering legislation improved but additional amendments are required to ensure full compliance with the *acquis*. Inter-institutional cooperation still needs to improve. The Financial Intelligence Units increased their expertise and their new reporting and analytical system procedures should improve cooperation with other law enforcement agencies.

Both the Ministry of the Interior and the Public Prosecutor's Office have established specialised units fighting serious and organised crime. The new rulebook for restructuring the Ministry of the Interior was adopted in August 2015 and establishes three main Units: General and Violent Crime Unit, Economic Crime and Corruption Unit, Illegal trafficking in Drugs, Weapons, Hazardous Substance Unit. Thus, the number of units within the Department for Suppression of Organised and Serious Crime was reduced from 8 to 3.

The custom administration, financial police and border police are key players in fighting organised crime but clarity is needed over the division of their respective powers. The Customs Administration took part in nine international operations to detect and prevent illicit trade. Cooperation continued with various regional intelligence liaison offices. Cooperation and exchange of intelligence with the customs authorities of the neighbouring countries and the wider region intensified.

The Ministry of the Interior has several forensic units, including for biological and DNA identification.

The National Commission for Combating Human Trafficking and Illegal Migration has operated since 2001 as an inter-ministerial coordinating body to monitor and analyse trafficking in the country. The Commission has been active in the past but suffers from a lack of political support in the field. The Office of the National Referral Mechanism operates within the Ministry of Labour and Social Policy and provides coordinated assistance and protection to victims of human trafficking, especially women and children.

The cyber security strategy is still not finalised and needs to be aligned with the European Cyber Security Strategy. A new section on cyber-crime was created in the Ministry of Interior's Unit for Internal Affairs.

Implementation and enforcement capacity

This year, 400 police cadets were recruited. Although the law requires a merit-based recruitment policy and career system, allegations of politicised recruitment and dismissals by the Ministry still persist and need to be addressed. There is a well-established Training Centre within the Ministry of the Interior providing both initial and vocational training; a working agreement with CEPOL was signed in July.

Staffing in the Department for the Fight against Serious and Organised Crime continued to increase, with 10 new employees hired. The Basic Public Prosecutor's Office for Organised Crime and Corruption employed nine support staff in 2014 and a further 13 in 2015. At the moment, there are 280 public prosecutors. However, concerns remained about political interference in some cases.

In the Agency for Management of Confiscated Property, 50 out of 55 positions are filled. Established in 2014, the National Coordination Centre for the Fight against Organised Crime is still not operational due to financial restraints, namely a lack of staff and IT equipment. An action plan was adopted to make the Coordination centre operational.

National strategies are in place to combat human trafficking and irregular migration (2013-2016), drugs (2014-2020), terrorism (2016-2020) and police development (2016-2020). The national organised crime threat assessment, inspired by the EU methodology, was adopted in March 2016. The establishment of the National Intelligence Database was delayed until 2018. Direct cross-border cooperation with other national police services continued, through exchanges of operational information and intelligence, joint operations, joint investigative teams and the involvement of public prosecutors from the countries concerned.

During 2015, the Ministry of the Interior detected 150 cases involving 319 perpetrators. The cases included migrant smuggling, money laundering, bribery, human trafficking and counterfeiting. In the same period there were 88 final convictions (109 in 2014).

An increasing number of suspicious transaction reports were noted in 2015. The Financial Intelligence Unit received 174 reports of suspicious transactions in 2015, 154 of which referred to money laundering and 20 to financing of terrorism. It submitted 30 reports on money laundering and financing of terrorism for further investigation by law enforcement. In

the same period, one final verdict was reached concerning 13 individuals convicted of money laundering. During 2015, the Financial Intelligence Unit concluded a further five Memoranda of Understanding with financial intelligence units in Lichtenstein, the United Kingdom, Kosovo, Azerbaijan and Russia.

There was increased irregular migration, smuggling and human trafficking. As regards trafficking in human beings, 156 criminal proceedings involving 186 defendants ended in convictions in 2015, including an employee of the Ministry of the Interior, who was sentenced to 4 years imprisonment. In total, three victims of trafficking (one woman and two children) and 11 potential victims were identified in 2015. However, the level of identification remains low, as does the international cooperation to combat the phenomenon.

Special investigative measures, which are still used mainly by the police, were applied in 127 cases in the first half of 2016 and 291 cases in 2015. All three law enforcement agencies with powers in this field, including the Financial Police and Customs Administration, need to have the technical capacity to intercept communications independently of the intelligence services. Trust in the system was undermined by the existence and content of the illegal wiretaps. However, this should not detract from the continued and effective use of special measures for genuine criminal investigation purposes. There is a need to separate criminal investigation from interception for security purposes, both in terms of functions and institutional mandates.

Several successful police operations against organised criminal groups were carried out, leading to the dismantling of international networks for drug trafficking and smuggling of migrants. However, financial investigations, along with the seizure and confiscation of assets, remain rare. Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

Fight against terrorism

The country has to some extent been affected by the phenomenon of foreign terrorist fighters and radicalisation. The number of citizens reported to have left for conflict zones in the Middle East is estimated at 140-150, of whom 25 have died, 20-23 are believed to be involved in armed conflict and 72 have returned.

Institutional set-up and legal alignment

The participation in foreign armed conflict and facilitating such conflict is already criminalised. Contacts with foreign fighters are supposed to be reported to the state authorities within 24 hours, on penalty of punishment for withholding information.

The 2013-2019 strategy to fight terrorism was adopted in March 2016, which includes the concepts of violent extremism, radicalisation, prevention and reintegration. The fight against terrorism has a dominantly security-based approach. Dialogue and cooperation should be established between security agencies and the local community and CSOs.

The anti-terrorism strategy provides for the conclusion of bilateral agreements with neighbouring countries and the setting up of joint operational teams, as well as investigation into financial flows. However, the latter requires further legislative changes.

The main institutions dealing with terrorism are the Bureau for Security and Counterintelligence (UBK); the Intelligence Agency; the Ministry of Defence and the Ministry of the Interior. In addition, the Ministry of Foreign Affairs plays a facilitating role in international legal cooperation.

The strategy establishes a national counter-terrorism coordinator but only for the security agencies. It does not include a public role for the coordinator. The strategy is not accompanied by an action plan containing concrete follow-up projects and resources.

Implementation and enforcement capacity

Reportedly, returning foreign fighters are monitored by the security services. A counter-terrorism operation led to the arrest of 11 people, on criminal charges of participation in a foreign army, police, para-military, or para-police formations. All were found guilty and received sentences of between two and seven years. Sentenced persons are held in different prison locations. Security authorities consider that these arrests and sentences had a deterrent effect on radicalisation and recruitments and on the number of people allegedly joining ISIS. However, activities in this area need to involve local religious leaders and civil society. The country also needs to focus on detecting and stopping financial flows feeding terrorism.

Cooperation in the field of drugs

The 2014-2020 national drug strategy is coordinated with the EU's drug strategy and action plan and the UN political declaration to combat drugs. Amendments to the law on the control of narcotic drugs and psychotropic substances were adopted and allow some use of cannabis for medical purposes.

Good cooperation continued between the Ministry of the Interior and the customs administration notably in four cases of illicit drug trafficking, resulting in the shutting down of international channels. Good cooperation continued between the national focal point and the European Monitoring Centre for Drugs and Drug Addiction.

There was a decrease in seizures of narcotics. Overall, nine international channels were shut down and five organised criminal groups, involving 41 people, were identified and dismantled. Criminal prosecution started against 718 perpetrators.

The destruction of seized drugs continued in 2015 under the responsibility of the Ministry of Health.

Customs cooperation

The Customs Administration took part in nine international operations to detect and prevent illicit trade in counterfeit and pirated goods, drugs, weapons, dangerous waste, and high-risk chemicals. Cooperation continued with the regional intelligence offices of the World Customs Organisation, United Nations Office on Drugs and Crime, and Europol. Information about seized goods was regularly entered into the respective databases. Cooperation and exchange of intelligence with the customs authorities of the neighbouring countries intensified. The Customs Administration systematically cooperated with the Southeast European Law Enforcement Centre (SELEC) by taking part in its operations, notably in fighting against illegal migration. The use of the New Computerised Transit System (NCTS) increased and preparations were intensified for joining the Anti-Fraud Transit Information System (ATIS). By their use, Customs participates in the systems for investigation and analysis of transit data to detect abnormal patterns in transit movements and applies unified procedures for risk analysis. The Customs Administration actively uses the SEED system that provides for systematic electronic exchange of data between the Western Balkan countries, with the aim of prevention of customs violations and more efficient border control. (*See also chapter 29- Customs union*).

4.25. Chapter 25: Science and research

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

There is a **good level of preparation** in the area of science and research. **Some progress**, although limited, was made on research activities, while support for innovation in companies was further developed. In the following year, the country should:

- continue increasing the level of investment in research, in particular in the private sector
- promote participation in the EU's Horizon 2020 research programme;
- adopt a 2016-2020 programme for higher education and scientific research and take actions to strengthen research capacity in line with the European Research Area priorities.

In the area of **research and innovation policy**, no action was taken to strengthen research capacity. The strategy on research, which expired in 2010, has not been updated. Due to lack of funding there were no calls for support of science and research and the national programme on higher education and scientific activity has not been updated. The level of investment in research improved slightly to 0.52 % of GDP, which is significantly below the EU average.

With respect to **innovation union**, an Action plan for implementing the innovation strategy 2016-2018 was adopted. However, the grants available under the Innovation Fund were not fully disseminated due to the companies' lack of capacity.

The first results on the country's participation in the Horizon 2020 were mixed: there was successful participation on societal challenges but the participation of SMEs and grants for individual researchers (Marie Skłodowska Curie) was weak. The overall country rate of success in Horizon 2020 is about 10.31 % (*as of March 2016*) with a value of EUR 2 million, which is less than the national contribution. The Ministry of Education, Science and Research drew up an action plan to stimulate participation in H2020.

In support to the **European Research Area**, the country provided public funding for 115 researchers to participate in international scientific meetings and ratified the International Agreement establishing a Centre for Research and Innovation of the Western Balkans to implement the Regional Strategy on Research for Innovation. The Ministry of Education, Science and Research has limited capacity to prepare a new European Research Area roadmap

4.26. Chapter 26: Education and culture

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

The country is **moderately prepared** in this area. **Some progress** was made, in particular on a strategic framework. Children from non-majority communities and children with special needs continue to face barriers to accessing quality education. In the coming year, the country should in particular:

- increase support for teacher training, the professional development of teachers and an effective assessment process;
- improve access to quality education for all, in particular children with disabilities and children from Roma communities;
- on the basis of the evaluation of previous reforms conducted in the education sector,

develop and implement the new strategic framework for education, ensuring that all reform processes have fully consulted a wide range of stakeholders.

Legislation on **education** was aligned with the law on general administrative procedure. The consultation process for reforming the higher education law, involving students and professors, stalled. Pre-school education continues to be under-resourced. Systems in place for the professional development of teachers and career advancement in education require greater investment and better implementation.

In 2015, the national qualifications framework (NQF) entered into force and the country successfully presented its referencing report to the European Qualifications Framework Advisory Group in February 2016. The Ministry of Education and Science progressed with preparation of a detailed roadmap for NQF implementation, but more practical and work-based training is required with the involvement of employers. In adult education, the Ministry of Education and Science adopted the concept for adult non-formal education and informal learning (NFIL), including provisions on its validation. Although some support measures were introduced, children with disabilities and from Roma communities continue to face barriers to regular and quality education. Education remains a high risk sector for corruption and political influence, especially in higher education. The country continued to participate fully in the Erasmus+ programme.

As regards **culture**, the national authorities need to ensure a systematic approach and appropriate budget allocations to protect cultural heritage in the country. Active participation in the Creative Europe programme continued.

4.27. Chapter 27: Environment and climate change

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

The country has **some level of preparation** in this area. Although there has been **some progress** in alignment of policies and legislation to the *acquis*, more efforts are needed on water quality, industrial pollution and risk management, chemicals and climate change. Moreover, implementation is very limited particularly on air quality and nature protection.

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

- improving the implementation of the national plan for air quality protection;
- improving the environmental impact assessment process to ensure effective protection of national protected areas, areas of high natural value and potential Natura 2000 sites;
- ratify and start implementing the Paris Agreement; also by developing a comprehensive strategy on climate-related action consistent with the EU 2030 framework for climate and energy policies.

Environment

In the area of **horizontal legislation**, the national strategy on environment and climate change still needs to be adopted. Structural administrative capacity at a central and local level remained weak and insufficient. Priority measures were identified to strengthen the implementation of environmental legislation at local level. The environmental impact assessment and the strategic impact assessment process need to be further improved to ensure effective **public participation**. This applies in particular for projects in the hydropower sector

and other infrastructure projects in national protected areas, areas of high natural value and potential Natura 2000 sites.

The law on *environmental inspection* needs to be adopted without any further delay. Successful implementation of the law may be considerably hampered by the existing law on inspection supervision, which is not in line with EU *acquis* and relevant best practice. An information and reporting system for inspection services was also developed and the software works well in its initial stage.

Further work is needed on transposing and implementing the remaining horizontal environmental directives, such as the Environmental Liability Directive, INSPIRE and the Environmental Crime Directive.

Legislative alignment with the *acquis* on **air quality** is well advanced. However, the implementation of measures laid down in the national plan for air quality protection remained limited. Air pollution still reaches high levels during winter, but air quality plans have only been developed for Bitola, Skopje and Tetovo and not for all the zones where levels exceed limits. The national air quality monitoring network continued to suffer from a lack of regular financial resources. The web portal for real-time air quality monitoring is publicly accessible, although technical IT problems often occur.

Regarding **waste management**, the legal framework is partially aligned. Further alignment on special waste streams is necessary. The implementation of the Waste Directives is still at an early stage. Regional waste management structures are still not fully operational, suffering from a lack of administrative and financial resources. The actions set out in the adopted regional waste management plans are only partially implemented. Preparations continued to close non-compliant landfill sites and establish regional waste management centres. The selective collection of different types of waste should be increased. Economic incentives to promote recycling and prevention of waste generation remained limited.

On **water quality**, the country achieved some level of preparation. River basin plans are being prepared, agglomerations identified and sensitive areas defined. A new law on setting prices on water services was adopted in January 2016. A system for monitoring water quality and quantity is needed. Untreated urban wastewater remains the main source of pollution. The preparation of specific implementation plans for the Urban Waste Water Treatment and Drinking Water Directives is under way. New infrastructure is being constructed and existing infrastructure is being upgraded, although national funding is insufficient. Administrative capacities are insufficient to implement all measures required under water-related directives. Flood hazard and risk maps for all river basins still need to be developed.

Alignment with the *acquis* started in the field of **nature protection**, in particular the Habitats and Birds Directive. The national strategy on biodiversity and its action plan have not yet been adopted. Work continued to develop a national strategy for nature protection. Initial steps were taken to designate and manage the Natura 2000 network of protected areas. Concerns remain high about the insufficient protection of protected areas, areas of high natural value and potential Natura 2000 sites, and also about the cumulative impact of planned hydropower investment projects. Previous European Commission's recommendations regarding hydropower projects have not been taken into account. A strategic approach in hydropower development is needed, in which projects should be carried out in line with the EU *acquis* requirements (SEA/EIA/Bird and Habitat Directives).

As regards **industrial pollution and risk management**, alignment with most EU directives and regulations (the Industrial Emissions Directive and the Ecolabel and Eco-Management and Audit Scheme Regulations) is at an early stage. Further work is needed to implement the

SEVESO III Directive and EU Eco label Regulation. The national emission reduction plan for large combustion installations was prepared and sent to the Energy Community Secretariat for adoption. Integrated environmental permits and inspections are performed, but process still needs to be accelerated. The country adopted a Plan for Monitoring the Quality of Heavy Fuel Oil and Gas Oil.

On **chemicals**, the updates of the national implementation plan to reduce and eliminate persistent organic pollutants are yet to be adopted. More work is needed on implementing the REACH and the CLP Regulation. Alignment is pending for the legislation on animal's experiments and Asbestos. The implementing legislation on chemicals still needs to be adopted and adequate capacities still need to be put in place.

Some progress was made on strengthening administrative capacity for preparing strategic **noise** maps and action plans.

The country is a member of the **EU Civil Protection Mechanism** and actively participates in the EU **Civil Protection** Mechanism activities and in several regional IPA projects. Most recently, the country requested to activate the EU Civil Protection Mechanism after the floods in August 2016. The National Coordinator for disaster risk reduction was appointed and work started on the strategy for disaster risk reduction and management. *Administrative capacity* at national and local level regarding disaster risk management needs to be further strengthened. The country is still not connected to the EU Civil Protection Mechanism's Common Emergency Communication and Information System (CECIS).

Climate change

The level of alignment is at an early stage. The country still needs to develop a comprehensive policy and strategy on climate action consistent with the EU 2030 framework. In addition to mitigation, efforts need to be put into adaptation to climate change. The National Climate Committee, as the main inter-institutional mechanism, played an important role in developing the country's Intended Nationally Determined Contribution (INDC). The country signed the Paris Climate Agreement in April 2016, but it still needs to be ratified and implemented. The country has technical capacity to prepare good quality greenhouse gases inventory reports, but a sustainable approach for reporting obligations is lacking. This area should be regulated in line with the EU monitoring, reporting and verification. In view of emissions trading, a roadmap for introduction of monitoring, reporting and verification (MRV) was developed. Software for tracking emissions of polluting substances in the atmosphere from industry was developed. The Action Plan for reduction of CO₂ emissions from aviation was submitted to the International Civil Aviation Organisation. Further efforts should be made in the field of emission standards and control of pollution from transport, with a focus on full transposition of the EU legislation on fuel quality. Administrative capacity remained largely insufficient.

4.28. Chapter 28: Consumer and health protection

EU rules protect consumers in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, patients' rights and communicable diseases.

The country is **moderately prepared**, but **no progress** has been observed in the area of consumer and health protection. In the coming year, the country should — as the majority of last year's recommendations were not implemented — in particular:

→ strengthen the operational structures serving consumer protection;

→ increase the sustainability, efficiency, cost-effectiveness and quality of services in the field

of communicable diseases.

On **consumer protection**, the legal framework does not fully align with the *acquis* on consumer rights and consumer alternative dispute resolution. Consumer organisations are weak and state grants only cover advisory services and fees to international consumer organisations. The existing mediation scheme is too expensive for consumers. The lack of administrative resources in the Ministry of Economy continues to hamper effective policy implementation and coordination.

Awareness-raising activities on **non-safety-related issues** continued. On product **safety-related issues** further efforts are needed by regulatory bodies to ensure effective consumer protection. Further efforts are needed to complete alignment with the General Product Safety Directive.

Though there was some investment and training in **public health** it was not systemic: for example, new equipment was installed in sub-standard facilities, whereas other facilities lack adequately trained staff. Establishment of e-medical registers was launched but the e-health card remained only partially functional.

The enforcement of **tobacco control** requires strengthening

With regard to **communicable diseases**, proper funding for early detection should be ensured. A manual for immunization was published and distributed. Testing and monitoring of HIV/AIDS was reinforced following an increase in HIV infection among men. Prescription of antibiotics needs to be stricter controlled to strengthen the fight against anti-microbial resistance.

On **blood, tissues, cells and organs**, preparations started to establish a university clinic for the transplantation of organs and tissues. Transplantation surgeries ceased for a few months due to a lack of organs and finances. New software for blood donor management was introduced. Further efforts are needed to achieve alignment with the *acquis*.

As regards **pharmaceuticals**, the use of cannabis for medical purposes was legalised. Use of human and veterinary pharmaceuticals continued to improve. Sanitary and human resource conditions in the **mental health** facilities remained poor.

Regarding **health inequalities**, more investment and staffing are needed for treatment of people with severe physical and intellectual disabilities, as well as for treatment of Roma. Dietary guidance was issued on nutrition quality in kindergartens and primary schools.

Cancer screening activities continued. Funding, access to pharmaceuticals and specialised knowledge for treatment of **rare diseases** remained limited. A register for individual rare disease is missing. This seriously hinders adequate treatment. Initiatives are left with the civil society organisations set up by family members of people affected with rare diseases.

4.29. Chapter 29: Customs union

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

The country achieved a **good level of preparation** on customs union. **Some progress** was made on legislative alignment and on administrative and operational capacity. Certain customs provisions of the law on zones for technological and industrial development are still not in line with the *acquis*. In the coming year, the country should:

→ abolish fees for customs declarations;
→ complete and consolidate the developed IT systems, ensure their upgrade and maintenance and guarantee business continuity.

In the area of **customs legislation**, the 2016 customs tariff was adopted in line with the latest changes in the EU Combined Nomenclature. The amended Protocol 4 to the SAA was ratified to include provisions for application of the Pan-Euro-Med Convention on preferential rules of origin. The amended Customs Code further reduced the penalty fees set for customs violations. The number of registered requests for customs protection of trademarks doubled in 2015 compared with the previous year as a result of new simplified procedures. The customs administration continued to charge a fee for processing customs declarations, which is not in line with the *acquis*.

On **administrative and operational capacity**, professional integrity standards and internal controls were systematically applied. Risk management is developed and risk analysis is applied to transit operations. The use of simplified procedures is well developed. Capacities for carrying out customs controls and combating cross-border crime were strengthened. Inter-agency cooperation and exchange of information continued to result in seizures of illicit goods. Cooperation with customs authorities from the region continued. The new electronic system for processing customs declarations and excise documents was not completed. The electronic integrated tariff system is not fully utilised.

Following the country's accession to the EU conventions on common transit in 2015, the new computerised transit system was used without interruptions and the number of declarations processed increased. Raising awareness of benefits stemming from the common transit system among economic operators and optimising its use remain priorities of the customs administration.

4.30. Chapter 30: External relations

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

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

In the next period, the country needs in particular to:

→ strengthen its administrative capacity as regards dual-use goods export control.

On the **common commercial policy**, the country continued to coordinate its positions and align its policies closely with those of the EU, including within the WTO where it jointly submitted a report on the SAA end of implementation period to the WTO Committee on Regional Trade Agreements (CRTA). The Protocol to the SAA taking into account Croatia's accession to the EU was ratified. The country's ongoing efforts to join the Wassenaar Arrangement can facilitate the implementation of the *acquis* on dual-use goods export control.

There was no progress on **development policy** and **humanitarian aid**.

4.31. Chapter 31: Foreign, security and defence policy

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

The country is **moderately prepared** in this area. **Some progress** was made, with participation in civil and military crisis management missions. In the coming period, the country should:

→ continue improving its alignment with EU declarations and Council decisions on foreign and security policy.

Regular **political dialogue** between the EU and the country on foreign and security policy issues continued. (For information on bilateral relations with other enlargement countries and neighbouring Member States, see Political Criteria — *Regional issues and international obligations*).

On **common foreign and security policy** the country aligned, when invited, with 30 out of 41 EU declarations and Council decisions (73 % alignment). The country did not align its foreign policy with certain Council decisions including EU **restrictive measures** related to Russia and Ukraine.

On the **non-proliferation of arms**, following its application for membership of the Wassenaar Agreement, the country is working on the entry requirements.

The country continued to engage actively in cooperation with **international organisations**.

Under the **common security and defence policy**, the country sustained its participation in civil and military crisis management operations including EUFOR ALTHEA Bosnia and Herzegovina and the NATO-led ‘Resolute Support’ mission in Afghanistan. Contributions to the ‘2014-2020 European Union Battle Group’ and KFOR through the Host Nation Coordination Centre continued. Formal cooperation with the European Defence Agency started in September 2015.

4.32. Chapter 32: Financial control

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

The country is **moderately prepared** in this area. **No progress** was made in the past year with implementation of the Commission’s recommendations in the 2015 report. Considerable further efforts are needed to ensure effective implementation of public internal financial control (PIFC) legislation. Improved internal control over public funds, in line with a sound anti-corruption policy and follow-up of audit recommendations, has yet to be pursued. The independence of the State Audit Office in the constitution is not yet enshrined in the constitution. In the coming year the country should in particular:

→ ensure that there is a more systematic follow-up to government recommendations following the annual PIFC implementation report;

→ ensure effective implementation of risk assessment and other tools and techniques in public-sector organisations’ management processes;

→ adopt and implement the national anti-fraud strategy, strengthen the coordination role of

the Anti-fraud Coordination (AFCOS) Unit and improve management of irregularities through the Irregularity Management System.

Public internal financial control

As regards the **strategic** framework, the country continued to implement its 2015-2017 PIFC policy paper and action plan. The law on PIFC was amended to lay down the examination procedure for certifying internal auditors in the public sector. However, the Committee for Financial Management and Control and the Audit Committee, which has taken the role of a PIFC Council, did not meet regularly.

The **Central Harmonisation Unit (CHU)** continued developing methodological tools, such as manuals for financial management and control and risk management. However, the effective implementation of these tools by budget users remains limited. The CHU prepared an annual report on the implementation of PIFC in 2015, but the report was adopted only in September 2016. The CHU improved its coordination with the State Audit Office during compliance audits of the PIFC system. The CHU should significantly step up its monitoring and supervision over implementation of internal control in public-sector organisations and state-owned companies.

The legal framework on **financial management and control** is harmonised to a large extent with the internal control framework of the Committee of Sponsoring Organisations and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI). However, it is not yet implemented coherently at central or local level. Rulebooks and manuals will need to be further updated and adapted to the needs of smaller budget users. A few central and local government users have established financial affairs units, but more budget users need to follow suit. Risk management strategies have been adopted by most of the budget users at central and local level, but they need to be fully embedded in the organisation's risk management processes.

The law on financial inspection in the public sector provides for **centralised financial inspection** and was amended to be in line with the law on misdemeanours. The administrative capacity of the Financial Inspection Department in the Ministry of Finance was weakened by staff changes, and this delayed completion of inspections.

The **internal audit** legislation is in line with the international standards. Minor progress was made on implementing internal audit standards, rulebooks and manuals. 158 internal audit units exist at central and local level with 216 internal auditors, including 77 internationally certified. However, most units do not have sufficient number of auditors. Strategic and annual plans guide the audit work of most units, but quality assurance needs to be better implemented.

External audit

The amendments to the **constitution**, to fully ensure the financial, functional and operational independence of the State Audit Office (SAO) have not yet been approved by parliament. Apart from this, the **SAO law** is largely in line with INTOSAI standards.

The SAO has sufficient **institutional capacity** to perform its tasks, with 70 of its 85 auditors being certified public auditors. It carries out a compliance audit on the final government accounts of the core budget by June each year. The audit coverage of the total audit expenditure was 45 % in 2016. The SAO has carried out training of staff in international accounting standards, regularity and performance audit, public procurement and ethics. It also continued to implement its 2013-2017 strategy plan.

The **quality of audit work** improved in line with the INTOSAI standards, as the SAO is implementing the revised regularity and performance audit manuals. Performance auditing need to be further developed. As concerns the **impact of audit work**, the SAO's recommendations are not often efficiently implemented by the auditees. The follow-up of SAO's recommendations needs close parliamentary supervision as parliament still does not debate audit reports. Improved parliamentary follow-up of the SAO's recommendations would enhance scrutiny of the executive and ensure that public funds are used more transparently and with greater accountability.

Protection of EU financial interests

As regards **acquis alignment**, national legislation addresses the main elements of the Convention on the Protection of the EU's financial interests. The **Anti-fraud Coordination (AFCOS) unit** within the Financial Police has limited capacity to coordinate the overall anti-fraud system and fight against irregularities. The legal framework setting out its role and responsibilities needs to be improved. The AFCOS unit should increasingly focus its efforts on developing methodological tools in line with EU best practice and disseminating them and providing training to the network of irregularity officers. A national anti-fraud strategy needs to be adopted as well.

AFCOS unit has **cooperated with the European Commission** in carrying out on-the-spot checks. The country has also established procedures for reporting of irregularities and suspected fraud cases. Access to the Irregularity Management System has been obtained and 17 cases of irregularities have been reported to the Commission since 2011, including two cases during the past year. A solid track record on investigations and reporting needs to be further developed.

Protection of the euro against counterfeiting

Counterfeiting of both national and foreign currencies remained relatively low in the country. Concerning **acquis alignment**, national legislation lays down counterfeiting procedures as well as the roles and responsibilities of institutions involved. The National Bank carries out **technical analysis** of counterfeit money. The existing database system of counterfeit banknotes in the National Bank was upgraded with a software system, which, however, is not accessible to the Investigative Centre within the Ministry of the Interior. Coordination between the National Bank, the Public Prosecutor's Office and the Ministry of the Interior will need to be further improved. No formal **cooperation agreements** are in place with the European Central Bank on banknotes and with the European Commission on coins. Cooperation with foreign banks and bodies is not yet regulated. The country participates in the Pericles 2020 programme and the regional Balkan Network for Euro Protection initiative.

4.33. Chapter 33: Financial and budgetary provisions

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

Preparations are at an early stage . Some progress was achieved in aligning the legal framework on taxation, customs, statistics and financial control. A solid institutional set-up for the own resources system, coordination structures, administrative capacity and implementing rules will need to be established in due course.

No progress was made on **traditional own resources, value added tax-based resource and gross national income-based resource**. The country has to align further its legal framework and strengthen capacities, especially on customs, taxation, statistics and financial control. Instruments to fight and reduce tax evasion, fraud and informal economy need to be further

strengthened in order to ensure appropriate contributions to the EU own resources system upon accession. The country will need to make considerable efforts to ensure the exhaustiveness of the national accounts and GNI calculations. (*For further information see developments under chapter 16 — Taxation, chapter 18 — Statistics, chapter 29 — Customs union and chapter 32 — Financial control*)

On **administrative infrastructure**, some progress was made in building up capacities of relevant key institutions in this area. The country will need to establish a fully operational coordination structure, administrative capacity and implementing rules to ensure that it will be able, from accession, to correctly calculate, forecast, account for, collect, pay, control and report to the EU on own resources in line with the *acquis*.

ANNEX I — RELATIONS BETWEEN THE EU AND THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

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

The Stabilisation and Association Agreement (SAA) with the EU is the framework for relations with the EU, including political and economic dialogue. Experts met in seven subcommittees but the special group on public administration reform was cancelled due to lack of progress in this area. The Stabilisation and Association Committee and the Stabilisation and Association Council met in June 2016. The discussion at this year's Committee was again dominated by the political crisis in the country, the rule of law and the lack of progress and negative developments over the implementation of the 'Urgent Reform Priorities' agreed in June 2015. The meeting of the Stabilisation and Association Council did not take place during the reporting period.

The country continued to implement commitments under the SAA, including all those relating to the first stage of implementation of Title V ('Movement of workers, establishment, supply of services, capital'). The Council has still not decided on the Commission's 2009 proposal on passage to the second stage of the Association, under Article 5 of the SAA. The Protocol to the Stabilisation and Association Agreement to take into account Croatia's accession to the EU has been ratified by the parliament.

The amended Protocol 4 to the Stabilisation and Association Agreement was ratified to include provisions for application of the Pan-Euro-Med Convention on preferential rules of origin. The country is also engaging in the reinforced multilateral economic dialogue with the Commission and with EU Member States to prepare for participation in multilateral surveillance and economic policy coordination under the EU's economic and monetary union.

No meeting was held under the **High-Level Accession Dialogue** and there was little progress

on meeting its targets.

Visa liberalisation for citizens of the country travelling to the Schengen area has been in force since December 2009. As part of the monitoring mechanism, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. A readmission agreement between the EU and the country has been in force since 2008. The Joint Readmission Committee took place in Skopje on 21 June.

Over the 2007-2013 period, the EU provided financial assistance to the country under the **Instrument for Pre-accession Assistance** (IPA). It has allocated a total of EUR 610 million to the country, complemented by IPA multi-beneficiary programmes. Out of this overall amount, the national authorities are directly responsible for managing about EUR 470 million under the decentralised implementation system (DIS).

Delays in procurement under the DIS led to a situation in which the country was unable to absorb EUR 117 million of IPA funds. The overall de-commitment figures are still expected to rise as the measures taken by the national authorities to improve management of IPA assistance have not yet shown any tangible results. The administrative capacity to plan, design and implement projects remains an issue of concern, along with the rules on sound financial management. The country is thus at risk of continuing to be unable to make use of substantial IPA funds.

Under IPA II the EU allocated to the country EUR 664 million to carry out reforms. In November 2015, the Commission adopted the second IPA II annual programme, which was significantly reduced by approximately EUR 22 million due to lack of preparedness and lack of political will to draw up a credible and relevant sector budget support programme in public financial management.

The financing agreement for the multiannual programmes on transport and environment, also to be managed indirectly, is expected to be signed in September 2016. Implementation under IPA II is in its very early stages, with a couple of contracts signed by the EUD only. The main challenges remain the government's inability or unwillingness to prepare substantial reforms in key areas. In response, the Commission yet again reduced the EU financial assistance by approximately EUR 27 million from what was provisionally intended for 2016.

The European Commission adopted three special measures to help the Western Balkan countries most affected by increased mixed migration flows to cope better. EUR 15.5 million were directly allocated to the former Yugoslav Republic of Macedonia, as well as EUR 4.4 million in humanitarian aid.

ANNEX II – STATISTICAL ANNEX

STATISTICAL DATA (as of 5.10.2016)

The former Yugoslav Republic of Macedonia

Basic data	Note	2003	2011	2012	2013	2014	2015
Population (thousand)		2 024	2 057	2 060	2 062	2 066	2 069
Total area of the country (km ²)		25 713	25 713	25 713	25 713	25 713	25 713

National accounts	Note	2003	2011	2012	2013	2014	2015
Gross domestic product (GDP) (million national currency)		268 694	464 186	466 703	501 891	527 631	558 240p
Gross domestic product (GDP) (million euro)		4 386	7 544	7 585	8 150	8 562	9 061p
GDP (euro per capita)		2 200e	3 700e	3 700e	3 900e	4 100	4 400p
GDP (in Purchasing Power Standards (PPS) per capita)		5 700	8 800	9 000	9 500	10 100	10 600
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)		26	34	34	36	37	37
Real GDP growth rate: change on previous year of GDP volume (%)		2.2	2.3	-0.5	2.9	3.5p	3.7e
Employment growth (national accounts data), relative to the previous year (%)		0.1	1.4	1.2	5.6	:	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%)		2.1	0.9	-1.6	-2.5	:	:
Unit labour cost growth, relative to the previous year (%)	1)	1.2	-2.4	-0.2	-8.5	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-28 = 100)		39.3	44.6	44.2	43.5	:	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		13.4	10.9	10.5	11.5	11.7	11.4p
Industry (%)		18.4	19.0	17.8	17.3	18.3	18.7p
Construction (%)		7.6	6.1	6.6	8.2	8.0	7.9p
Services (%)		60.6	64.0	65.1	63.0	62.0	62.0p
Final consumption expenditure, as a share of GDP (%)		97.8	92.0	92.5	89.3	86.9	85.1p

Gross fixed capital formation, as a share of GDP (%)		20.1	23.5	23.4	23.7	23.4	23.1p
Changes in inventories, as a share of GDP (%)		-2.3	3.3	5.5	5.0	6.8	7.9p
Exports of goods and services, relative to GDP (%)		27.7	47.1	45.4	43.4	47.7	48.8p
Imports of goods and services, relative to GDP (%)		43.4	66.1	66.8	61.5	64.9	65.0p
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

Business	Note	2003	2011	2012	2013	2014	2015
Industrial production volume index (2010 = 100)		95.1	106.9	104.0	107.3	112.5	118.0
Number of active enterprises (number)	2)	:	71 022	70 010	68 158	67 545	:
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		:	12.9	11.9	10.0	10.6	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		:	9.3	14.3	:	:	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	77.3	76.7	78.0	75.0	:
Value added by SMEs (in the non-financial business economy) (EUR million)		:	2 241	2 107	2 250	2 257	:
Total value added (in the non-financial business economy) (EUR million)		:	3 401	3 213	3 392	3 460	:

Inflation rate and house prices	Note	2003	2011	2012	2013	2014	2015
Consumer price index (CPI), change relative to the previous year (%)		1.2	3.9	3.3	2.8	-0.3	-0.3
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

Balance of payments	Note	2003	2011	2012	2013	2014	2015
Balance of payments: current account total (million euro)	3)	-170b	-189	-240	-134	-69	-127
Balance of payments current account: trade balance (million euro)	3)	-891b	-1 905	-2 008	-1 863	-1 855	-1 825
Balance of payments current account: net services (million euro)	3)	135b	359	309	375	358	342
Balance of payments current account: net income (million euro)	3)	-53b	-131	-164	-193	-161	-222
Balance of payments current account: net current transfers (million euro)	3)	641b	1 487	1 622	1 547	1 589	1 577
of which government transfers (million euro)	3)	89b	77	60	74	111	49
**3 year backward moving average of the current account balance relative to GDP (%)	3)	-6.6	-3.8	-2.6	-2.4	-1.9	-1.3e
**Five year change in share of world exports of goods and services (%)							
Net inward foreign direct investment (FDI) (million euro)	3)	100.1	344.6	131.1	229.4	197.4	170.7
Foreign direct investment (FDI) abroad (million euro)	3)	0.3	-0.2	-19.9	22.8	7.7	-13.7
of which FDI of the reporting economy in the EU-28 countries (million euro)	3) 4)	:	:	-5.6	0.4	3.0	5.9
Foreign direct investment (FDI) in the reporting economy (million euro)	3)	100.4b	344.4	111.2	252.2	205.1	157.0
of which FDI of the EU-28 countries in the reporting economy (million euro)	3) 4)	72.5	224.4	117.1	226.7	13.8	-163.3
**Net international investment position, relative to GDP (%)	3)	-36.5	-52.6	-55.1	-55.9	-53.3	-54.4e
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)	3) 5)	31.4	-0.7	1.6	-3.4	6.4	2.5

Public finance	Note	2003	2011	2012	2013	2014	2015
***General government deficit / surplus, relative to GDP (%)		:	-2.5	-3.8	-3.9	-4.2	-3.5
***General government gross debt relative to GDP		36.5	27.7	33.7	34.0	38.2	38.0

(%)							
Total government revenues, as a percentage of GDP (%)		:	29.5	29.6	28.0	27.8	28.8
Total government expenditure, as a percentage of GDP (%)		:	32.0	33.4	31.9	32.0	32.2

Financial indicators	Note	2003	2011	2012	2013	2014	2015
Gross foreign debt of the whole economy, relative to GDP (%)	3) 6)	34.9	64.2b	68.2	64.0	70.3p	69.9p
Gross foreign debt of the whole economy, relative to total exports (%)	3) 6)	128.5	140.8b	153.3	147.9	147.7	144.0
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		461b	997	1072	1 138	1 391	1 644
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		1 260b	3 523	3 540	3 545	3 801	4 081
Money supply: M3 (M2 plus marketable instruments, million euro)		1 324b	4 147	4 330	4 558	5 040	5 374
Total credit by monetary financial institutions to residents (consolidated) (million euro)		761b	3 367	3 551	3 779	4 157	4 544
**Annual change in financial sector liabilities (%)		:	:	:	1.2	11.8	4.1
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)	7)	9.74	2.17b	2.1	1.86	1.79	0.99
Lending interest rate (one year), per annum (%)	8)	14.00	5.50	4.23	3.75	3.75	3.75
Deposit interest rate (one year), per annum (%)	8) 9)	:	:	1.00	0.75	0.50	0.25
Euro exchange rates: average of period (1 euro = ... national currency)		61.264	61.529	61.530	61.583	61.623	61.61
Trade-weighted effective exchange rate index (2005 = 100)	10)	97.3	107.8	107.9	109.4	112.5	115.1
**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)	8)	715	2 069	2 193	1 993	2 436	2 262

External trade in goods	Note	2003	2011	2012	2013	2014	2015
Value of imports: all goods, all partners (million euro)		2 031	5 053	5 071	4 983	5 505	5 777
Value of exports: all goods, all partners (million euro)		1 203	3 215	3 124	3 235	3 747	4 051
Trade balance: all goods, all partners (million euro)		-828	-1 838	-1 947	-1 748	-1 758	-1 726
Terms of trade (export price index / import price index * 100) (number)	11)	94	94	101	99	:	:
Share of exports to EU-28 countries in value of total exports (%)		63.7	63.5	65.3	72.6	76.5	77.2
Share of imports from EU-28 countries in value of total imports (%)		63.0	56.3	60.3	62.7	63.4	62.1

Demography	Note	2003	2011	2012	2013	2014	2015
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		4.4	1.6	1.7	1.9	1.9	1.3e
Infant mortality rate deaths of children under one year of age (per thousand live births)		11.3	7.6	9.8	10.2	9.9	:
Life expectancy at birth: male (years)		70.9	73.1	73.0	73.4	73.5	:
Life expectancy at birth: female (years)		75.7	77.2	76.9	77.5	77.5	:

Labour market	Note	2003	2011	2012	2013	2014	2015
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	70.1	69.6	70.4	70.8	70.2
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	48.4	48.2	50.3	51.3	51.9
Male employment rate for persons aged 20–64 (%)		:	57.8	57.5	59.7	61.6	61.5
Female employment rate for persons aged 20–64 (%)		:	38.8	38.7	40.7	40.8	42.1
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		28.5	35.4	35.4	37.9	38.6	40.1

Employment by main sectors							
Agriculture, forestry and fisheries (%)	:	18.7u	17.3	18.7	18.5	17.9	
Industry (%)	:	23.8u	23.6	23.5	23.4	23.4	
Construction (%)	:	6.2u	6.3	6.9	7.0	7.1	
Services (%)	:	51.1u	52.7	50.8	51.1	51.6	
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 (%)		36.7	31.4	31.0	29.0	28.0	26.1
Male unemployment rate (%)		37.0	31.8	31.5	29.0	27.7	26.7
Female unemployment rate (%)		36.3	30.8	30.3	29.0	28.6	25.1
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		65.7	55.3	53.9	51.9	53.1	47.3
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		31.2	25.9	25.5	23.9	23.4	21.3
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED 0–2) (%)	:		36.0	36.4	33.2	31.0b	30.0
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED 5 & 6) (%)	:		19.5	18.8	20.1	19.6b	18.9

Social cohesion	Note	2003	2011	2012	2013	2014	2015
Average nominal monthly wages and salaries (national currency)		11 824	20 847	20 902	21 145	:	:
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)		106.7	157.0b	152.3	:	:	:
GINI coefficient	:		38.5	38.8	37.0	35.2	:
Poverty gap (%)	:		44.9	43.1	39.0	36.1	:
*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 (%)	:		13.5	11.7	11.4	12.5	11.3p

Standard of living	Note	2003	2011	2012	2013	2014	2015
Number of passenger cars relative to population size (number per thousand population)		148.1	152.2	163.5	168.2	179.8	185.5
Number of mobile phone subscriptions relative to population size (number per thousand population)		300.4	1 104.9e	1 084.6	1 083.9	:	1 005.9
Mobile broadband penetration (per 100 inhabitants)	:		:	:	:	51	55
Fixed broadband penetration (per 100 inhabitants)	:		:	:	:	17	18

Infrastructure	Note	2003	2011	2012	2013	2014	2015
Density of railway network (lines in operation per thousand km ²)		27.2	27.2	27.2	27.2	27.2	27.2
Length of motorways (kilometres)		208	259	259	259	259	259

Innovation and research	Note	2003	2011	2012	2013	2014	2015
Public expenditure on education relative to GDP (%)		3.3	3.5	4.0p	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.21	0.22	0.33	0.44p	0.52p	:
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)	:		:	:	:	:	:
Percentage of households who have internet access at home (%)	:		55.0	58.3	65.1	68.3	69.4

Environment	Note	2003	2011	2012	2013	2014	2015
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)	13)	80.8	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)		517.4	423.1	408.1	363.6	341.4p	:

Electricity generated from renewable sources relative to gross electricity consumption (%)		17.9	15.2	11.7	18.7	15.5	:
Road share of inland freight transport (based on tonne-km) (%)	14)	93.6	91.8b	93.2	92.4	94.7	96.1

Energy	Note	2003	2011	2012	2013	2014	2015
Primary production of all energy products (thousand TOE)		1 666	1 736	1 525	1 357	1 263p	:
Primary production of crude oil (thousand TOE)		0	0	0	:	:	:
Primary production of hard coal and lignite (thousand TOE)		1 353	1 410	1 246	1 053	985p	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		1 029	1 435	1 453	1 295	1 383p	:
Gross inland energy consumption (thousand TOE)		2 740	3 131	2 976	2 711	2 628p	:
Electricity generation (thousand GWh)		6.7	6.8	6.3	6.1	5.4	:

Agriculture	Note	2003	2011	2012	2013	2014	2015
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		104.5	96.8	94.7	103.0p	:	:
Utilised agricultural area (thousand hectares)		1 303	1 120	1 267	1 260	1 263	1 264
Livestock numbers: live bovine animals (thousand heads, end of period)		260	265	251	238	242	253
Livestock numbers: live swine (thousand heads, end of period)		179	197	177	167	165	195
Livestock numbers: live sheep and live goats (thousand heads, end of period)		1 239	839	796	807	822	822
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)		192	376	350	381	387	361
Harvested crop production: cereals (including rice) (thousand tonnes)		466	555	457	562	629	489
Harvested crop production: sugar beet (thousand tonnes)		40	0	0	0	0	0
Harvested crop production: vegetables (thousand tonnes)		681	710	691	687	776	845

: = not available

b = break in series

e = estimate

p = provisional

u = low reliability

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

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

Footnotes

- 1) Total employment (employees and self-employed) and compensation of total employment are used to calculate this Indicator.
- 2) Excluding NACE Rev. 2 Sections A, O, T, U and Class 64.20.
- 3) Based on the balance of payments manual 6th edition.
- 4) Data on FDI flows by countries are produced only for the categories Equity capital and the Loans component of Other capital.
- 5) Calculation based on data in euro.
- 6) 2003: partial data coverage.
- 7) 2003 and 2011–13: the interest rates are calculated as weighted averages; data cover bilateral over-night transactions. 2014–15: end of year (31 December).
- 8) End of year (31 December).
- 9) In 2012, the *National Bank of the Republic of Macedonia* introduced two deposit instruments for the banks — overnight and 7-day deposit. At the end of year the rate for overnight deposits was 1 % and for 7-day deposits was 2 %.
- 10) NEER (nominal effective exchange rate).
- 11) Index (previous year = 100) of the ratio of Paasche unit value indices.
- 12) Break in series caused by the introduction of a new concept of gross income.
- 13) Part of the greenhouse gas inventory prepared in the context of the Third National Communication (UNFCCC).
- 14) Break in series caused by inclusion of pipeline transport and transport for own account.

