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North Macedonia 2022 Report

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European Economic and Social Committee and the Committee of the Regions**

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1. INTRODUCTION

1.1. CONTEXT

Implementation of the Stabilisation and Association Agreement (SAA) between North Macedonia and the European Union, which entered into force in April 2004, continued. Since 2009, the Commission has continuously recommended that the Council open accession negotiations with North Macedonia, a candidate country since 2005. In March 2020, the European Council endorsed the Council's decision to open accession negotiations with North Macedonia¹. On 19 July 2022, the first Intergovernmental Conference on accession negotiations took place with North Macedonia, following the approval of the Negotiating Framework by the Council. The Commission immediately launched the analytical review of the EU *acquis* (screening) process, which is the first step in the negotiating process.

The authorities have continued to demonstrate, including publicly, their commitment to advancing on their EU path. North Macedonia has also fully aligned with the EU positions on the war in Ukraine, demonstrating thereby once more that it is a reliable partner. The country's existing challenges have been exacerbated by the impact of the COVID-19 pandemic and by new risks stemming from Russia's aggression against Ukraine, including high energy, commodity and food prices, combined with supply-chain disruptions. North Macedonia has taken measures to mitigate the impact of the war.

1.2. SUMMARY OF THE REPORT²

The reporting period was characterised by intense efforts, which led to the start of the accession negotiation process. The holding of the first Intergovernmental Conference in July 2022 was a historic moment and marked a new phase in the EU accession process for North Macedonia. This was a clear recognition of the determination of North Macedonia to implement EU related reforms.

On the **political criteria**, North Macedonia continued its efforts to strengthen democracy and the rule of law, despite some challenges. The country has shown its commitment to continuing to deliver results in key areas of the fundamentals. Local elections took place in October 2021. The Office for Democratic Institutions and Human Rights of the Organisation for Security and Cooperation in Europe (OSCE/ODIHR) assessed that they were competitive and fundamental freedoms were widely respected. However, limited progress was made over the reporting period in addressing the outstanding recommendations made by the OSCE/ODIHR and the Venice Commission. As mentioned in the previous reports, the electoral legislation should be comprehensively reviewed to address existing inconsistencies and the relevant laws need to be adopted in a timely, inclusive and transparent manner, well before the next elections. In this regard, the authorities need to step up their efforts and show political will to further improve the electoral process.

The work of **Parliament** was marred by political polarisation, which delayed the adoption of many pieces of legislation. Following intense debates, Parliament adopted conclusions on the proposal which paved the way for the opening of accession negotiations. Parliament needs to

¹ <https://www.consilium.europa.eu/media/43076/26-vc-euco-statement-en.pdf>

² This report covers the period from June 2021 to June 2022. It is based on input from a variety of sources, including contributions from the government of North Macedonia, the EU Member States, European Parliament reports and information from various international and non-governmental organisations. This also includes the results of comparative assessments and indices produced by other stakeholders, in particular in rule of law.

The report uses the following assessment scales to describe the state of play: early stage, some level of preparation, moderately prepared, good level of preparation and well advanced. To describe progress made during the reporting period, it uses the following scale: backsliding, no progress, limited progress, some progress, good progress and very good progress. Where appropriate, also interim steps have been used.

play an active and positive role in the EU accession negotiation process. Joint and prompt efforts by all parties are needed as a matter of priority to strengthen Parliament's role as a forum for constructive political dialogue, particularly on the EU reform agenda. Parliament and government committed to launch and achieve as a matter of priority the relevant constitutional changes, with a view to including in the Constitution citizens who live within the borders of the state. Proper planning and consultations are necessary to limit the use of fast-track procedures in order to allow for effective scrutiny of and consultation on legislation. Oversight of the executive through parliamentary questions to ministers should be conducted on a more regular basis. The proposals for internal reform of Parliament agreed during the third round of the 'Jean Monnet Dialogue' in early 2020 should be implemented without further delay. Criminal responsibility for those who orchestrated or committed violence in the attack on Parliament on 27 April 2017 continued to be established, including with second instance verdicts. The government continued to work on the EU reform agenda and on addressing the consequences of the COVID-19 pandemic and of the war in Ukraine. Decisive efforts are needed to build momentum for reforms and move forward on the EU accession negotiation process. Particular focus is needed on ensuring the effective implementation of existing legislation rather than launching ad hoc initiatives. Inter-ethnic relations remained stable and the Ohrid Framework Agreement continued to be implemented.

Civil society organisations (CSOs) continue to operate in an enabling environment, including with the adoption of the strategy of cooperation with and development of civil society 2022-2024. Civil society continued to play an important role in decision-making processes and in monitoring the activities of the state. However, efforts are needed to improve transparency in policymaking and the inclusiveness of consultation processes. The legal and financial frameworks still need to be improved and implemented in practice.

North Macedonia implemented a comprehensive reform of its **intelligence services**. However, the country needs to strengthen its capacity for parliamentary oversight over the intelligence services.

North Macedonia remains moderately prepared in terms of its **public administration reform**. It made limited progress in implementing last year's recommendations. It adopted the new 2022-2025 public financial management reform programme. However, the adoption of the legislation on organisation and operation of state administrative bodies and the new legal framework for human resources management (revision of the Law on Administrative Servants and the Law on Public Service Employees and a new Law on Top Management Service) have been delayed. The new framework aims to improve the management of human resources across the administration and provide greater assurance for merit-based recruitment, promotion and dismissal, including at senior management level. The new organic budget law was adopted in September 2022. The State Commission for Prevention of Corruption has been proactive in addressing cases of nepotism, cronyism and political influence in the process of recruiting public sector employees and in appointing members of supervisory and management boards.

The **judicial system** of North Macedonia has achieved some level of preparation / is moderately prepared. Some progress was achieved in the field of the judiciary, through the steady implementation of the judicial reform strategy, thereby addressing the recommendations made by the Venice Commission and the Senior Experts' Group on systemic rule of law issues. The preparation of a new judicial reform strategy has started, in an inclusive manner, building upon the lessons learnt from the previous one. Implementation of the updated action plan on the judicial reform strategy has continued but needs to become more systematic. The judiciary has demonstrated its commitment to protect its integrity and independence. The pace of implementation of the human resources strategies for the judiciary

and prosecution services needs to be stepped up. Judicial institutions have implemented consistently the new rules for the appointment, promotion, discipline and dismissal of judges and prosecutors. Promotions in the higher courts faced a delay and scheduled retirements further decreased the number of judges and prosecutors. The Judicial Council and the Council of Public Prosecutors continued implementing the strategic plans. Any new draft law on the Academy for Judges and Prosecutors should maintain the Academy as the sole entry point to the judiciary and prosecution and should ensure that access to these professions is fair and transparent. Work was undertaken to upgrade the software system aiming at putting into practice the provisions of the Law on case flow management for automatic and random distribution of cases in the courts, through the automated court case management information system (ACCMIS).

The country has achieved some level of preparation / is moderately prepared in the prevention and **fight against corruption**. Some progress has been made as the country continued to consolidate its performance on investigating, prosecuting and trying several corruption cases, including at a high level. The cases initiated by the former Special Prosecutor's Office (SPO) continued to move forward, establishing accountability for the illegal wiretaps. A number of cases were subject to first-instance rulings. In line with previous years' recommendations, the State Commission for the Prevention of Corruption (SCPC) has been proactive in providing policy guidance to public institutions on preventing corruption and it opened several cases, including cases against high-level officials. The conclusions of its regular reports should be addressed in full. Efforts to improve the functioning of the SCPC should continue with a further allocation of financial and human resources. Additional human and financial resources should be made available to the Public Prosecution Office, investigative centres and law enforcements units in charge of investigating corruption. Sectors most vulnerable to corruption require targeted risk assessments and dedicated actions.

North Macedonia has some level of preparation in the **fight against organised crime**. It has made some progress, mainly in operational cooperation with international partners, as well as in improving the coordination of activities to combat organised crime. More needs to be done to improve the effectiveness of law enforcement in fighting certain forms of crime, such as money laundering and financial crimes. The investigative centres at the Basic Public Prosecution Office need to be strengthened to achieve their objectives of increasing the efficiency of investigations and improving coordination between prosecutors, the police and other relevant bodies.

Some progress has been made in the **fight against terrorism and preventing/countering violent extremism** in line with the objectives set out in the joint action plan on counter-terrorism for the Western Balkans and the bilateral implementing arrangement. A national strategy for the prevention of money laundering and financing terrorism (2021-2023) was adopted in 2021. Work should continue on reintegration and resocialisation of returnees as well as on de-radicalisation in prisons.

The legal framework on the protection of **fundamental rights** is largely in line with European standards. The deinstitutionalisation process is progressing with the resettlement of persons with disabilities to community-based care. The Ministry of Labour and Social Policy continues to invest in community services, including support for victims of gender-based violence. It is of particular importance to implement all the provisions of the Law on prevention and protection from violence against women and domestic violence. Continued improvements can be noted in gender mainstreaming and respect for women's rights. The recommendations made by the European Committee for the Prevention of Torture regarding the treatment of detainees and convicts were not adequately addressed. Implementation of the legislation on hate speech and of the national action plan for the Istanbul Convention's

provisions needs to be improved. The civilian external oversight mechanism over the police is still not fully functional and it lacks representatives from civil society organisations.

North Macedonia has achieved some level of preparation/ is moderately prepared in the area of **freedom of expression**. Overall, it made limited progress during the reporting period to address the previous recommendations. The general context is favourable to media freedom and allows for critical media reporting, although there were some tensions during the 2021 local elections. Action on self-regulation of the media should resume and produce practical results in advancing professional standards of journalism. Greater transparency is needed to regarding media advertising by state institutions and political parties. The authorities need to step up their efforts to reform the public service broadcaster, ensuring its independence, professional standards and financial sustainability. The reform process of the public service broadcaster, in line with its five-year development strategy, is constrained by delays in appointing members of its programming council. The council of the Agency for Audio and Audiovisual Media Services still needs to be appointed. The labour rights of journalists still need to be addressed.

On **regional cooperation**, the country maintained good relations with other enlargement countries and continued its engagement in regional initiatives. Existing bilateral agreements, including the Prespa Agreement between North Macedonia and Greece as well as the Treaty of Friendship, Good Neighbourliness and Cooperation with Bulgaria, need to be implemented in good faith by all parties.

On the **economic criteria**, North Macedonia has made some progress and has achieved a good level of preparation in developing a functioning market economy. In 2021, the economy largely recovered from the COVID-19 pandemic. The government continued to implement fiscal support measures to help the recovery. Helped by rebounding tax revenue, the fiscal deficit fell to 5.4 % of GDP in 2021, while debt levels stabilised after a rising significantly in 2020. With the rise in food and energy prices accelerating in early 2022, the government adopted a new set of fiscal measures to contain the negative impact on the economy, though the fiscal measures could have been better targeted. The central bank tightened its policy stance in view of rising inflationary pressures. Important policy reforms to improve fiscal governance and the sustainability of public finances stalled. After long delays, the new organic budget law, which provides for fiscal rules and a fiscal council, was adopted by the Parliament in mid-September. The management of public investment needs further improvement. The banking sector remained sound. Regulatory measures to ease borrowing requirements were phased out in 2021. The business environment continues to be held back by the large size of the informal economy and by slow progress in streamlining para-fiscal charges.

North Macedonia has made some progress and is moderately prepared to cope with competitive pressure and market forces within the EU. Integration with the EU in trade and investment remained at a high level in 2021, in spite of lockdowns and disruptions of supply chains domestically and in trade partner countries. The share of high-value products in exports increased further. There was further progress towards improving vocational educational training, but major skills shortages persist to meet labour market needs, entailing a long school-to-work transition. These issues, as well as large gaps in transport and energy infrastructure, low investment and innovation spending are holding back the country's potential for growth. The digitalisation of the economy is advancing, but the competitiveness of domestic businesses could be improved through a wider offering of public e-services.

As regards its ability to assume the obligations of membership, North Macedonia is moderately prepared in most of the areas covered by **Cluster 2 on the internal market**,

namely the free movement of goods, services and capital, intellectual property, competition policy, financial services and consumer and health protection. The country has achieved a good level of preparation on company law, although it is still at an early stage on freedom of movement for workers. In the reporting period, North Macedonia made good progress on free movement of capital and some progress on company law and financial services. No progress was made on competition policy. Overall, more progress is needed in the coming year in the areas covered by this cluster as it will feed into North Macedonia's preparations to meet the requirements of the EU's internal market. Work on this cluster is of highly relevant for the development of the Common Regional Market.

Overall, North Macedonia is moderately prepared in most of the areas covered by **Cluster 3 on competitiveness and inclusive growth**, including in digital transformation and media, taxation, enterprise and industrial policy, education and culture and economic and monetary policy. It has achieved a good level of preparation in science and research and in the customs union. Some progress was made in most of the areas covered by this cluster. Good progress was made in the area of economic and monetary policy, following the adoption of the Organic Budget Law in September 2022. More efforts are needed, however, particularly in areas where limited progress was made, such as digital transformation and media as well as education and culture.

On **Cluster 4 on the Green Agenda and sustainable connectivity**, North Macedonia has achieved a good level of preparation in trans-European networks. The country is moderately prepared on transport policy and energy and has achieved some level of preparation on environment and climate change. Some progress was made in the areas of environment and climate change. Substantial efforts are needed in the areas where limited progress was made such as in energy, transport policy and trans-European networks. The country needs to accelerate the implementation of the Economic and Investment Plan and of the Green Agenda for the Western Balkans over the upcoming period.

North Macedonia is moderately prepared in most areas of **Cluster 5 on resources, agriculture and cohesion**. It has achieved a good level of preparation in the area of food safety, veterinary and phytosanitary policy and is at an early stage of preparation in financial and budgetary provisions. Over the reporting period, some progress was made in agriculture and rural development and in food safety, veterinary and phytosanitary policy. However, further efforts are needed, in particular in areas where limited or no progress was made, such as in fisheries, financial and budgetary provisions, and in regional policy and the coordination of structural instruments.

Concerning **Cluster 6 on external relations**, North Macedonia is moderately prepared in the area of external relations and has reached a good level of preparation with regard to the common foreign and security policy. The country made limited progress during the reporting period on common commercial policy. North Macedonia has made very good progress by fully aligning with the EU common foreign and security policy, following Russia's aggression against Ukraine. By doing so, North Macedonia has shown it can be a reliable partner.

North Macedonia remains on one of the main transit routes for migration movement. The country continues to play a constructive role in the management of **mixed migration flows**. It cooperates effectively with neighbouring countries and EU Member States, including with guest officers from the EU Member States on the ground. Efforts to ensure basic living conditions and services for all migrants staying in the country continued. The registration of migrants and adequate protection-sensitive profiling remains a priority and needs to be carried out in a more systematic manner. In August 2022, the Commission negotiated a status agreement with North Macedonia that would allow the European Border and Coast Guard

Agency (Frontex) to deploy the European Border and Coast Guard standing corps to the country. The agreement is expected to be signed before the end of the year. The country should take a more systematic approach to fighting the smuggling of migrants.

2. CLUSTER 1: THE FUNDAMENTALS OF THE ACCESSION PROCESS

2.1. FUNCTIONING OF DEMOCRATIC INSTITUTIONS AND PUBLIC ADMINISTRATION REFORM

2.1.1. Democracy

The reporting period was characterised by intense efforts, which led to the start of the accession negotiation process. The holding of the first Intergovernmental Conference in July 2022 was a historic moment and marked a new phase in the EU accession process for North Macedonia. This was a clear recognition of the determination of North Macedonia to implement EU related reforms. The country continued its efforts to improve democracy and the rule of law, despite some challenges.

Elections

Overall, the legal framework remains conducive to the organisation of democratic elections. However, limited progress has been made over the reporting period in addressing and implementing the outstanding recommendations made by the OSCE/ODIHR and the Venice Commission. As mentioned in previous reports, the electoral legislation should be comprehensively reviewed to address existing inconsistencies and the relevant laws need to be adopted in a timely, inclusive and transparent manner, well before the next elections. In this regard, the authorities need to step up their efforts and show political will to further improve the electoral process.

Local elections took place on 17 and 31 October 2021. Overall, VMRO-DPMNE³ won 42 mayoral posts (against five in 2017) and SDSM⁴ won 16 (against 57 in 2017). The ethnic Albanian parties broadly retained their positions won in 2017. Only two women were elected as mayors. Political parties should take further steps to encourage the participation of women in the electoral process.

According to the **final report by the OSCE/ODIHR**, the elections were competitive and fundamental freedoms were widely respected. However, there are still numerous gaps and inconsistencies in the electoral legal framework. The frequent and often unaligned changes to the Electoral Code, which were adopted in a hasty manner and just prior to elections, are contrary to international good practices. Candidates could campaign freely, but negative rhetoric, frequently targeting women, was noted. While the voting procedures were generally respected, frequent issues were identified with the use of biometric identification devices.

A comprehensive reform of **electoral legislation**, in line with all outstanding OSCE/ODIHR recommendations and following a broad consultative process, needs to be finally completed well in advance of the next elections. The accuracy of the voter register should be improved through systematic data updates.

In both rounds of the local elections, the **State Election Commission** met most legal deadlines, despite the short timeframe to adapt to the amendments to the Electoral Code adopted in September 2021. The State Election Commission needs to be allocated the necessary resources in a timely manner to carry out its mandate efficiently and independently.

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

⁴ *Social Democratic Union of Macedonia*

Parliament

The work of Parliament was marred by political polarisation, which delayed the adoption of many pieces of legislation. Following intense debates, Parliament adopted conclusions on the proposal which paved the way for the opening of accession negotiations. The Parliament needs to play an active and positive role in the EU accession negotiation process. Joint and prompt efforts by all parties are needed as a matter of priority to strengthen Parliament's role as a forum for constructive political dialogue, particularly on the EU reform agenda. Proper planning and consultations are needed to limit the use of fast-track procedures in order to allow for effective scrutiny of and consultation on legislation. Oversight of the executive through parliamentary questions to ministers should be conducted on a more regular basis. Parliament should implement without further delay the proposals for internal reform agreed during the third round of the 'Jean Monnet Dialogue' in early 2020. Criminal responsibility for those who orchestrated or committed violence in the attack on Parliament on 27 April 2017 continued to be established. Some political parties took steps to improve their internal democracy. Further efforts are needed to increase the transparency of the funding of political parties.

Following the replacement of Members of Parliament, who became mayors after the 2021 local elections, and ministers after the restructuring of the government in January 2022, the number of women Members of Parliament (50 out of 120, i.e. 42%) increased by three and is now the highest ever. The number of MPs from the non-majority communities remained unchanged (42 out of 120, i.e. 35%). Alternativa joined the ruling coalition in January 2022, while BESA moved to the opposition – *see Governance*.

After difficult and tense debates, Parliament adopted in July 2022 the proposal that paved the way for the start of the EU accession negotiations. As a negotiating country, North Macedonia has new opportunities and responsibilities. In this regard, Parliament has an important role to play in the **EU accession negotiation process**. The governing coalition and opposition need to work together constructively within Parliament and focus on concrete steps in the negotiation process, including by taking forward EU related reforms in the interests of citizens. Over the reporting period, Parliament has remained the main forum for **political dialogue**. In March 2022, Parliament adopted with cross-party consensus a Declaration Condemning Military Acts which Jeopardise the Territorial Integrity and Sovereignty of Ukraine. The opposition supported several laws and a set of economic measures to address the consequences of COVID-19. The National Council for EU Integration, chaired by the opposition, has the responsibility for securing broad consensus on the EU agenda. It held three sessions during the reporting period.

However, the work of Parliament was marred by persisting polarisation between the ruling parties and the opposition, which escalated into disruptions and attempted physical altercation on some occasions. Since May 2022, VMRO-DPMNE started an 'active blockage' of Parliament. Following the opening the accession negotiation process, the main opposition party submitted in September 2022 to Parliament an initiative for a referendum about the law on ratification of the Treaty of Friendship, Good Neighbourliness and Cooperation between Bulgaria and North Macedonia. This initiative was rejected by the Speaker. Controversies surrounding the composition of the Committee on Issues of Elections and Appointments delayed the work of that committee and of other committees. A lack of consensus further delayed important appointments of four new judges of the Constitutional Court, five deputy ombudspersons, two members of the Council of Public Prosecutors, members of the programme council of the public service broadcaster and the council of the Agency for Audio and Audiovisual Media Services, and a member of the Commission for Protection and

Prevention against Discrimination. Appointments to these positions must be based on merit and not on political grounds.

Challenges remain in terms of planning the **law-making process** more efficiently. In 2021, Parliament adopted 213 laws, of which 113 were under the regular legislative procedure, 81 under shortened procedure and 19 ratifications. The opposition challenged the use of the ‘EU flag’ procedure, a fast-track procedure aiming at aligning legislation with the EU *acquis*, and it blocked several draft laws at the level of committees. The number of laws adopted in shortened procedure decreased slightly but remains still high. These need to be significantly limited as they reduce opportunities for inclusive legislative processes and meaningful debates – see 2.1.2. *Public Administration Reform*.

Parliament **oversight** of the executive continued with seven sessions for parliamentary questions in 2021. Such sessions were halted prior to the October 2021 local elections and resumed only in April 2022, more than three months after the new government took office. Two motions of no confidence in ministers of the former government were not debated as new ministers took on those portfolios. The plenary and relevant committees discussed the annual reports of regulatory, monitoring and supervisory bodies.

There was no significant progress in implementing the commitments made during the third round of the ‘**Jean Monnet Dialogue**’ in early 2020. These include amending the **rules of procedures**, including on the constitutive session, greater governmental oversight, public hearings, the parliamentary calendar and procedures for EU-flagged laws. While the working group on the ‘Jean Monnet Dialogue’ met twice in 2021 and one more time in 2022 to discuss the implementation of the commitments made, limited progress has been made and the Rules of Procedure remain unchanged. The process should be completed without further delay to ensure a better functioning of Parliament.

As regards the **protection of human rights** and fundamental freedoms, Parliament approved with cross-party support the new organisation of the Ombudsman’s Office. The Club of Women MPs and inter party parliamentary groups on youth, LGBTIQ, people with disabilities and Roma implemented numerous activities in close cooperation with relevant civil society organisations. Parliament and government committed to launch and achieve as a matter of priority the relevant constitutional changes, with a view to including in the Constitution citizens who live within the borders of the state.

Work continued to establish the accountability for the **violent attacks in Parliament in April 2017**. The Court of Appeals in Skopje upheld first instance sentences for those who committed violence.

Efforts should continue to improve the efficiency of the democratic system, including transparency on the **funding of political parties**, to address the recommendations made by the Group of States against Corruption (GRECO). See Chapter 23 – *Judiciary and fundamental rights*. Political parties should also improve their internal democratic processes. SDSM⁵ held direct elections for a party leader for the second time.

Governance

The government continued to work on the EU reform agenda and on addressing the consequences of the COVID-19 pandemic and of the war in Ukraine. Decisive efforts are needed to build momentum for reforms and move forward on the EU accession negotiation process. Work should focus on ensuring that the existing legislation is implemented

effectively rather than launching ad hoc initiatives. Inter-ethnic relations remained stable and the Ohrid Framework Agreement continued to be implemented.

In January 2022, 62 of 120 Members of the Parliament supported the new government, led by a new Prime Minister. The new ruling coalition is composed of SDSM (together with its electoral coalition partners from smaller parties), DUI⁶, Alternativa and DPA⁷. In the government, 19% of ministers, 12% of deputy ministers and 36% of state secretaries are women.

The main priorities of the **government programme for 2022-2024** focus on sustainable economic growth, social inclusion and human capital development, rule of law and good governance, promoting democracy and freedom as well as NATO and EU integration.

Following the start of the EU accession negotiations process, government adopted in September the **Structure for Negotiation**, led by the Chief Negotiator. It is important to ensure that this structure functions smoothly and effectively, while including the relevant stakeholders in a transparent and inclusive manner.

The **inter-ethnic situation** remained calm overall. The Committee on Inter-Community Relations accelerated its efforts to improve inter-ethnic relations by holding regular sessions despite the COVID-19 pandemic, and by implementing intercultural activities between students from different ethnic communities. The 2001 Ohrid Framework Agreement, which fosters the multi-ethnic character of the society, continued to be implemented.

The country needs to finalise the reform process of the **local self-government** system. The amendments to the law on financing local self-government units aim at securing additional financial resources for municipalities and strengthening public finance management at local level. Building on this, the government should progress with the overall reorganisation of competencies between the central and the subnational level. Municipalities have encountered severe financial difficulties as a result of inflation and increased energy costs. The polarisation between municipalities, mostly led by the opposition after the October 2021 local elections, and the government has complicated the negotiations to agree on measures to address this issue.

Civil society

Civil society organisations (CSOs) continue to operate in an enabling environment, aided by the adoption of the strategy of cooperation with and development of civil society 2022-2024. Civil society continued to play an important role in decision-making processes and in monitoring the activities of the state. However, efforts are needed to improve transparency in policymaking and the inclusiveness of consultation processes. The legal and financial frameworks still need to be improved and implemented in practice.

Civil society is a key component of any democratic system and continues to be recognised as such by the state institutions.

Civil society has played an essential role by monitoring government policies and providing important information for both citizens and state institutions. Civil society organisations continued to promote human rights and fundamental freedoms by being steadfast in their roles as watchdogs and through their involvement in policy-making. Despite the negative economic and social impact of the COVID-19 pandemic, civil society organisations have demonstrated a unified response in supporting activities to provide assistance to people in need.

⁶ Democratic Union for Integration

⁷ Democratic Party of Albanians

The Council for Cooperation between the Government and Civil Society continues to be the main structural channel for consulting and involving civil society in policy dialogue and decision-making. However, further efforts are needed to involve civil society in policy and structural policy-making in a more inclusive and transparent manner. The representatives of the civil society organisations have boycotted the work of the Council since March 2022. The authorities did not reinstate standard allocations for state funding of the annual programme for cooperation with civil society in the supplement to 2022 state budget.

The strategy for cooperation with and development of civil society 2022-2024, adopted in December 2021, aims to improve the legal and institutional environment for civil society, with an adequate financial framework for activities of CSOs and a sound state-funding model. An effective monitoring framework is needed to implement the strategy. Local authorities are encouraged to involve civil society organisations in policy-making processes.

Civilian oversight of the security/intelligence sector

Parliamentary oversight of the intelligence services was exercised more regularly, but further work is needed to improve efficiency. The relevant committees carried out inspections of the institutions of the security sector. However, the delay in employing the technical experts impeded the performance of the Committee on Interception. The Civilian Oversight Council is not fully functional and needs to be allocated sufficient administrative and financial resources to carry out its mandate, as a matter of urgency.

2.1.2 Public administration reform

North Macedonia remains **moderately prepared** in terms of its public administration reform. It made **limited progress** in implementing last year's recommendations. It adopted the new 2022-2025 public financial management reform programme. However, the adoption of the legislation on organisation and operation of state administrative bodies and the new legal framework for human resources management (revision of the law on administrative servants and the law on public service employees and a new law on top management service) have been delayed. The new framework aims to improve the management of human resources across the administration and provide greater assurance for merit-based recruitment, promotion and dismissals, including at senior management level. The new organic budget law was adopted in September 2022. The State Commission for Prevention of Corruption has been proactive in addressing cases of nepotism, cronyism and political influence in the process of recruiting public-sector employees and in the process of appointing members of supervisory and management boards.

As last year's recommendations were not sufficiently addressed, they remain valid. In the coming period, the country should, in particular:

- adopt the law on administrative servants, the law on public service employees and the law on top management service and start their implementation;
- adopt the law on organisation and operation of state administrative bodies and related secondary legislation in line with the recommendations for the new organisation of state administrative bodies and start their implementation;
- ensure full implementation of the law on general administrative procedures with a focus on electronic exchange of documents.

Strategic framework for public administration reform

Implementation of the 2018-2022 **public administration reform strategy** and its monitoring and reporting continued with some delays. Only some of the planned activities were fully

implemented. The 2018-2021 **public financial management reform programme** ended in December 2021. In June 2022, the government adopted a new programme for the period 2022-2025. The high-level Public Administration Reform Council and the Public Financial Management Council continued to provide both **political support** for and supervision of reforms. The Ministry of Information Society and Administration still lacks a properly staffed public administration department to drive the reforms at technical level. Efforts to improve managerial accountability (see *Chapter 32 – Financial control*) should be further enhanced. Implementation of both strategies continues to depend largely on donor funding. However, the annual budget allocation for the public administration reform increased noticeably.

Policy development and coordination

The legal framework and the institutional structures provide for a coherent **policy-making system** and include, an electronic system for strategic planning and preparation of the government's annual work plan. Efforts continued to clarify the responsibilities of some policy-making institutions and ensure their proper functioning and in streamlining reporting lines. Medium-term budgetary planning and fiscal policies are consistent with the government's strategic priorities. The government adopted a new methodology for preparing, monitoring and reporting on sector strategies in May 2022 with the aim of strengthening policy planning. The General Secretariat's central coordination and quality control role remains insufficient. The new 2021-2025 National Programme for the Adoption of the *Acquis* was adopted in June 2021, reflecting the revised enlargement methodology. No report has been published on its implementation yet. Progress in EU-related reforms is addressed as a pre-agenda item at each government session.

Evidence-based policy and legislative development continue to be partially ensured. There are still institutions that have not digitalised their registers, which hinders the quality of administrative data. The sharing of administrative data needs to be expanded and simplified in order to be more consistently used in the decision-making process. Regulatory impact assessments continued to be formally used for all laws that the government sent to Parliament in regular procedure, but not for the laws that were adopted in shortened procedure. All regulatory impact assessments, irrespective of the legislative procedure, should be sent to Parliament. Efforts are ongoing to improve the use and quality of regulatory impact assessments, in particular budgetary impact assessments. The Ministry of Information Society and Administration, which is responsible for the process, should strengthen its capacity to carry out more effective and consistent quality control. The national electronic consultation system allows for the inclusive participation of all stakeholders in **public consultations**. However, quality control and follow-up to the public consultation process needs to be further improved. The share of laws adopted under shortened procedures fell slightly, to 38% in 2021 (see 2.1.1. *Democracy*). These laws did not undergo a proper public consultation process and were not regularly accompanied by impact assessments. The quality of legislative drafting needs to be improved. Frequent legislative amendments create legal uncertainty and impede proper implementation. The use of the 'EU flag' procedure needs to be consistent and clearly linked to laws that aim primarily at aligning national law with the EU *acquis* (see 2.1.1 *Democracy*).

Public scrutiny of government work is ensured through government press releases and the publication of the agendas and minutes of government sessions. Documents adopted at government sessions are not published. The publication of the 2020 and 2021 annual reports on the work of the government has also been delayed.

Public financial management

The national authorities have completed implementation of the 2018-2021 **public financial management reform programme**. There were some delays due to the COVID-19 pandemic, unrealistic planning and the delayed adoption of the organic budget law. The law was finally adopted in September 2022. The country submitted the 2022-2024 Economic Reform Programme in good time, which aims to stabilise debt in the medium term by curbing current expenditure. In June 2022, the government adopted a new public financial management programme for the period 2022-2025 (*see also Chapter 17 – economic and monetary policy*).

The Ministry of Finance continued its efforts to improve the **transparency** of public finance management. It continued to publish data on the revenue and expenditure of public and state-owned companies on a quarterly basis. It also launched a new transparency tool on public debt and published quarterly reports on execution of local government budgets.

The Ministry of Finance must invest further in increasing public participation at every phase of budget preparation, execution and reporting. Budgetary transparency and **public expenditure effectiveness** need to further improve through the efficient implementation of the new organic budget law as well as the development of an integrated financial management information system. The System is also foreseen in the 2022-2025 public financial management reform programme. The 2022-2024 Economic Reform Programme foresees the development of an integrated tax information system to improve the digitalisation of the public administration.

Public service and human resources management

North Macedonia needs to adopt the revised law on administrative servants and law on public sector employees and the new law on top management service, with the aim of ensuring **merit-based recruitment** and fair **promotions** and **dismissals** at management level. Amendments to these laws since they were adopted in 2014 have led to inconsistent application of recruitment and promotion procedures. Contradictory rules in the law on internal affairs that allow for employees to be excluded from the scope of the law on administrative servants still apply. The administration still frequently uses procedures to convert temporary or service employment contracts into permanent contracts. The grounds for dismissal also need to be made more transparent. A proper follow-up should be ensured to the recommendations of the State Commission for Prevention of Corruption on improving public-sector recruitment procedures (*see Chapter 23 – Judiciary and fundamental rights*).

The Ministry of Information Society and Administration coordinates and monitors the **management of human resources** across the public administration. The commitment and capacity of all the institutions involved need to increase to ensure the systematic application of relevant legislation. The use of the Human Resources Management Information System by line institutions increased. The **remuneration system** is yet to be revised. A number of institutions still maintain the practice of paying salary supplements although for lower amounts under the Law on Execution of the 2022 budget.

According to the register of public-sector employees, which does not include staff of institutions such as the army and law enforcement agencies, as of December 2021, 55.3% of all public service employees were women. However, women are by far less represented in top management positions, accounting for 14% of all management staff in June 2022. A resource centre for gender-responsive policy-making and budgeting was set up in March 2022 in the Ministry of Labour and Social Policy. Equitable representation of minorities remains inconsistent across the public sector and across all categories of civil servants. Concerns have been expressed, including by the State Statistical Office, over the initiative of the Ministry of

Information Society and Administration to revise the percentage in the formula of the so-called ‘BalancER’. This is a human resources tool, which determines the proportion of public employees from each ethnic group. The transfer of employees from the Ministry of Political System and Relations between Communities to various institutions was not completed, thus continuing to undermine the principles of merit and effectiveness.

Professional development is not systematic and the government still lacks a centralised database of all trainings offered by the various institutions. It upgraded the regulations **on integrity in the public service** at both central and local level and adopted a methodology for assessing the risk of institutional corruption in November 2021. The State Commission for Prevention of Corruption is working on strengthening professional integrity in the municipalities. Whistle-blower legislation is in place but there is no data on whether and how whistle-blowers are protected from retaliatory action. According to the annual report of the State Commission for Prevention of Corruption, the institutions reported 44 whistle-blower instances in 2021 and sent nine reports directly to the State Commission.

Accountability of the administration

Following the functional review of 139 central government institutions, in March 2022 the government adopted a report with recommendations and proposals on the reorganisation of functions per policy area, selecting three institutions in which to run a pilot. The government is currently working on adopting a new law on state organisation to streamline the institutional framework, eliminate overlapping competences, improve the administration’s efficiency and improve the **lines of accountability**. The delegation of decision-making authority to middle management both at central and at local level is still limited. Further efforts are needed to efficiently mainstream managerial accountability across the public administration (*see Chapter 32 - Financial Control*).

Legislation provides for **scrutiny by independent oversight bodies**, in particular the State Audit Office and the Ombudsperson. However, the effectiveness of these bodies needs to be improved. There needs to be more systematic follow-up to their findings and recommendations. **Citizens’ right to access public information** is enshrined in legislation. The proactive disclosure of information and datasets on official websites should be further encouraged, however. The Agency for Protection of Free Access to Public Information increased its staff and training offers and created two new portals for applicants and information holders. The COVID-19 pandemic was the main reason for delays in responding to requests for public information by many institutions.

The legal framework covering **citizens’ right to good administration** provides for administrative and judicial reviews. Most of the decisions continue to be based on procedural considerations and not on merit, which in combination with lengthy procedures, discourages citizens from pursuing administrative justice. There were delays in enforcing administrative court rulings by the respective institutions, which were themselves rarely decided on merit. The legislation gives **citizens the right to seek compensation** and stipulates the liability of public authorities in cases of wrongdoing. In 2021, courts awarded compensation for damages in eight cases.

Service delivery to citizens and businesses

Most administrative services for citizens and businesses are offered both offline and online – through the national e-portal for service, including facilities for people with special needs. Efforts are ongoing to upgrade the e-portal to bring in 135 new services in an attempt to develop a more **user-oriented service delivery**. The number of both registered users and completed services on the portal increased in 2021, but remains below expectations. State

institutions offering services to citizens need to demonstrate more commitment to providing services through the e-portal. The population register was used to crosscheck the 2021 census data. The quality of data in the register needs to improve as it is used as the principal register in the country. The government encouraged all state institutions to use the interoperability framework to its full potential.

North Macedonia made no progress on **simplifying administrative procedures**. The law on general administrative procedures is not yet systematically implemented across the administration.

2.2. RULE OF LAW AND FUNDAMENTAL RIGHTS

2.2.1 Chapter 23: Judiciary and fundamental rights

The EU's founding values include the rule of law and respect for human rights. An effective (independent, high quality and efficient) judicial system and an effectively fighting against corruption are of paramount importance, as is the respect for fundamental rights in law and in practice.

North Macedonia **has achieved some level of preparation / is moderately prepared** to apply the EU *acquis* and European standards in this area. Overall, it has made **some progress**, including through strengthened judicial independence. Implementation of the judicial strategy reached its final stage and a new strategy is being prepared. The Law on the Public Prosecutor's Office continued to be implemented consistently, thereby ensuring the accountability for crimes arising from and related to the illegal wiretaps. This resulted notably in important verdicts in high level cases. The State Commission for the Prevention of Corruption continues to carry out its mandate proactively. Corruption remains prevalent in many areas and is an issue of concern. North Macedonia continues to meet its general obligations on fundamental rights but there are challenges in implementing existing legislation. The Ombudsman's Office increased budget has enable it to recruit specialised staff, in order to better accomplish its role. It is essential to complete the long-drawn appointment of members of independent and regulatory bodies, based on merit. The functional independence of the human rights bodies must be guaranteed at all times, including by allocating sufficient financial resources to enable them to carry out their mandate properly. The situation in prisons remains dramatic. Systemic solutions to improve detention conditions should be implemented with the utmost urgency. Freedom of expression and pluralistic viewpoints continued to thrive, but challenges remain. The country needs a strategy on further media reforms, elaborated with the support of all relevant stakeholders.

Functioning of the judiciary

The judicial system of North Macedonia has achieved **some level of preparation / is moderately prepared**. **Some progress** was achieved in the field of the judiciary, through the steady implementation of the judicial reform strategy, thereby further addressing the recommendations made by the Venice Commission and the Senior Experts' Group on systemic rule of law issues. The preparation of a new judicial reform strategy has started, in an inclusive manner, building upon the lessons learnt from the previous one. Implementation of the updated action plan on the judicial reform strategy has continued but needs to become more systematic. The judiciary has demonstrated its commitment to protect its integrity and independence. The pace of implementation of the human resources strategies for the judiciary and prosecution needs to be stepped up. Judicial institutions have implemented consistently the new rules for the appointment, promotion, discipline and dismissal of judges and prosecutors. Promotions for higher courts faced a delay and scheduled retirements further decreased the number of judges and prosecutors. The Judicial Council and the Council of

Public Prosecutors continued implementing the strategic plans. Any new draft law on the Academy for Judges and Prosecutors should maintain the Academy as the sole entry point to the judiciary and prosecution and should ensure that access to these professions is fair and transparent. Work was undertaken to upgrade the software system aiming at putting into practice the provisions of the Law on case flow management for automatic and random distribution of cases in the courts, through the automated court case management information system (ACCMIS).

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

- finish implementing the judicial reform strategy and the updated action plan, with a specific focus on adopting a new law on civil procedure, in line with European standards and on preparing the new strategy on judicial reform (for 2023-2027) without delay;
- step up implementation of the human resources strategies for the judiciary and public prosecution network, and use them as an indicator to forecast upcoming recruitment;
- deploy all the necessary resources to ensure that the automated court case management information system (ACCMIS) is fully functional and compatible with the new measure of complexity of court cases and the method for assessing judges and presidents of courts.

Strategic documents

Implementation of the **strategy on judicial reform** (2017-2022) entered its final phase and an assessment report on implementation of the strategy was prepared. Its findings will need to feed into the preparation of the new strategy on judicial reform for the period 2023-2027, which started in September 2022. The Council for Monitoring the Implementation of Judicial Reform met twice during the reporting period, in December 2021 and April 2022 and approved the 2021 annual implementation report. Several legislative measures remain pending in the Parliament, including a new draft law on civil procedure. The implementation of the Law on the Public Prosecutor's Office continued, following its entry into force in 2020. There was limited progress in implementing the strategies for human resources management in the courts and in the Public Prosecutor's Offices.

Management bodies

Parliament elected a new member of the **Judicial Council** in December 2021. In line with the method for qualitative assessments of judges and presidents of courts, the Judicial Council set up commissions to assess candidates for higher courts and court presidents. In September 2022, judges elected three new members of the Council, replacing those concerned with scheduled retirements. In September 2021, the administration adopted the method for determining the complexity of court cases by analysing the indicative number of cases to be heard each month by a judge. In September 2022, the Judicial Council adopted its programme and action plan for the prevention of corruption in the judiciary for 2022-2025. The Council needs to strengthen its role as guardian of the independence and impartiality of judges, and to improve its transparency.

In March 2022, Parliament elected a new member of the **Council of Public Prosecutors**. The members of the Council elected its new President in September 2021. Scheduled retirements concerned one member of the Council and there are two vacancies in total. The Council should provide reasoning for its decisions and ensure regular access of the media to its sessions, which was not always possible due to the limited space and COVID-19 restrictions in place. The budget allocation for the Council increased to EUR 371,000 but it still lacks sufficient staff and the IT resources needed to perform its tasks effectively.

Independence and impartiality

Judicial independence is enshrined in the constitution. The President of the Supreme Court, the Judicial Council, practitioners and some civil society organisations (CSOs) reacted against the proposed reopening of several judicial cases, included in the government programme, at the request of a coalition partner. Both Councils need to continue pursuing their commitment to full respect for the principle of independence of the judiciary and increasing transparency needs to continue in both Councils. It is important to ensure that the judiciary is shielded from any risk or perception of undue external interference. The Declaration on Open Judiciary signed in March 2022 by 12 different judicial institutions, CSOs and professional associations, led by the Supreme Court, should help improve transparency and public trust in the judiciary.

The software system aiming at putting into practice the provisions of the Law on case-flow management for automatic and random distribution of cases, through the **automated court case management information system** (ACCMIS), is being upgraded. The administration needs reliable statistical data, in line with the recommendations and methodology of the Council of Europe European Commission for the Efficiency of Justice (CEPEJ), on the performance of both the judiciary and the prosecution.

Accountability

The Advisory Body for Judicial Ethics of the Association of Judges met four times since June 2021 and issued four opinions. The initial training programme at the Academy for Judges and Prosecutors for 2022/23 includes lectures on ethics, business culture and deontology.

In 2021, the Judicial Council received 142 requests to determine the responsibility of a judge or president of court (two more than in 2020). Since June 2020, the Judicial Council has dismissed six judges, and the Council of Public Prosecutors upheld the decision of the Chief Prosecutor on the dismissal of one prosecutor. The general reason provided for such dismissals was related to unprofessional performance. The Judicial Council issued a written reprimand to one judge and fined a president and a judge.

In 2021, the State Commission for the Prevention of Corruption issued misdemeanour payment orders against three judges or court presidents of courts for failing to submit asset declarations or reports on the change of their property status and interests.

Professionalism and competence

The Judicial Council started to apply the new methodology for **professional evaluation** for the **appointments and promotions** with decisions on 97 candidates for judges and four for Presidents of courts. Scheduled retirement of three members of the Judicial Council further delayed election of judges for higher courts whereas vacancies for posts of Presidents of Courts in smaller cities were difficult to fill.

The Council of Public Prosecutors appointed five prosecutors in the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption (OCCPPO) and appointed two heads of basic PPOs. A total of 1,639 professionals participated in 47 in-service training sessions organised by the Academy for Judges and Prosecutors.

Quality of justice

It is important that any new law on the **Academy for Judges and Prosecutors** maintains the Academy as the sole entry point to the judiciary and prosecution, to ensure a fair and transparent access to these professions in line with the recommendations of the 2018 peer

review mission on judicial training. It is equally important that the Academy heeds the European Commission's recommendations not to shorten the initial training.

The initial training of 59 students of the seventh intake is underway. The 97 students in the eighth intake, selected on 15 April 2022 started their training in May. The Academy marked its 15th anniversary and is actively cooperating with the European Judicial Training Network (EJTN) and the Academy for European Law (ERA). The total budget allocated to training initiatives at the Training Centres and to other initiatives implemented directly by courts and prosecution offices in 2021 amounted to EUR 1,193,036, a 38 % increase on the previous year. No new employees were recruited.

The Supreme Court and the four Courts of Appeal continued their efforts to improve the **consistency of judgments** and to harmonise court practices. In December 2021, the Supreme Court adopted its new Rules of Procedure. In 2021 it has adopted 35 principle legal opinions, stances and conclusions, all published on its website.

At the end of 2021, there were 473 judges, (26 per 100,000 inhabitants) 61% female judges and 170 prosecutors (nine per 100,000 inhabitants), 55% female prosecutors, less than in 2020. According to the European Commission for the Efficiency of Justice (CEPEJ), the European averages are 21 judges and 12 prosecutors per 100,000 inhabitants. The 2021 budgetary allocation for the judicial system was about EUR 40 million. The retirements from June 2022 decreased further the number of judges by 48 and of prosecutors by 11. It is essential to speed up implementation of the human resources strategies for the courts and public prosecutors' offices and to plan ahead for staffing needs. The Council for Digitalisation in the Judiciary intensified the work to implement the IT strategy. Five pilot courts received IT equipment provided by foreign donors. The recruitment of additional IT staff depends on offering working conditions that are competitive with those in the private sector.

In December 2021, Parliament adopted a new law on mediation, which promotes the quality of mediation and unifies the application of the law by all licensed mediators. Work is needed to continuously promote mediation and the use of other **alternative dispute resolution** methods, including through the relevant chambers, the Academy for Judges and Prosecutors and the Association of Judges.

Efficiency

Most of the courts continued the positive trend of maintaining a **clearance rate** of 100% or higher, with the exception of administrative cases with 86.56% in first instance and 111.01% in appeal for the same cases. The number of unfinished cases under the old procedural laws continued to fall. No efforts were made to address the Venice Commission recommendations to re-examine the provisions of the Law on the use of languages related to bilingualism in judicial proceedings. There is a need for a comprehensive and prompt solution to the issue of salaries in the judiciary, considered inadequate. The claims of the judicial administration, including for career advancement, remained pending. No steps were taken to tackle the overall cost and duration of the enforcement process.

Fight against corruption

The country **has achieved some level of preparation / is moderately prepared** in the prevention and fight against corruption. **Some progress** has been made as the country continued to consolidate its track record on investigating, prosecuting and trying several corruption cases, including at a high level. The cases initiated by the former Special Prosecutor's Office (SPO) continued to move forward, establishing accountability for the illegal wiretaps. A number of cases were subject to first-instance rulings. In line with last years' recommendations, the State Commission for the Prevention of Corruption (SCPC) has

been proactive in providing policy guidance to public institutions on preventing corruption and it opened several cases, including against high-level officials. Efforts to improve the functioning of the SCPC should continue, and a further allocation of financial and human resources is needed. Additional human resources and financial means should also be made available to the Public Prosecution Office, investigative centres and law enforcements units in charge of investigating corruption. The sectors most vulnerable to corruption require targeted risk assessments and dedicated actions.

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

- continue action to fight corruption by increasing support to the bodies responsible for implementing the national strategy for the prevention of corruption and conflict of interests and effectively enforce GRECO's recommendations;
- allocate sufficient resources to the Office of the Basic Public Prosecutor for Organised Crime and Corruption, including financial experts, in order to ensure effective accountability for high-level corruption cases;
- continue to increase the number of final convictions in high-level corruption cases, including the confiscation of criminal assets, value-based confiscation, extended confiscation and third-party confiscation.

Track record

North Macedonia has continued to make progress in investigating, prosecuting and trying corruption cases, including for high-level corruption cases. The **cases of the former Special Prosecutor's Office (SPO)** continued to be tried mostly by the Public Prosecution Office for Organised Crime and Corruption. So far, there have been **final convictions** in seven cases against 17 defendants. Trials are ongoing for most of the remaining cases. **First-instance verdicts** have been issued in 11 cases.

The courts issued first-instance convictions including against prominent former government officials such as the former Prime Minister, the former Minister of Transport, the former Minister of Interior and the former Director of the Bureau of Security and Counterintelligence (UBK). Three of those found guilty remain at large.

In the case brought by the former SPO, called 'Titanic 1', eight out of the 21 defendants pleaded guilty to parts of the charge. In February 2022, four defendants were sentenced in first instance to prison: the former Minister for Transport and Communications to four years and six months, the former Minister of Interior to two years and six months, one defendant to one year and another to three years. The remaining four, including the former Head of Cabinet, the former Deputy Minister of Justice, and the former Secretary General of the government, were sentenced to probation.

In another former SPO case named 'Toplik', the Basic Criminal Court of Skopje found the six defendants guilty of abuse of official position and authority in relation to the selling of land for the construction of a residential complex. In April 2022, the Court sentenced on a first instance verdict a former Minister of Transport and Communications to three and a half years in prison, one member of the Ministry's public procurement commission was sentenced to three years in prison. The four other members of the commission were sentenced to two years in prison, and suspended for five years.

In another case of the former SPO, called 'Tariff', the Skopje Court of Appeal annulled, in November 2021, the first-instance verdict from December 2019 and ordered a retrial. The former director of the state-owned electricity company, AD ELEM, was accused of having

made unlawful payments to the consortium that had won the tender for providing a software system.

In April 2022, the Court ruled at first instance on the ‘Vodno Construction Land’ case and found five defendants out of six guilty. A former Prime Minister was sentenced in absentia to a concurrent prison sentence of seven years and a fine for money laundering and unlawful acquisition of property. The former Director of the Bureau of Security and Counterintelligence (UBK) was sentenced to one year and three months in prison, two defendants to two years in prison, suspended for five years, and a businessman to one year in prison. The charges against the sixth defendant were dropped. The court also ordered the confiscation of all real estate property that had been temporarily seized.

In July 2021, the Basic Public Prosecutor’s Office for Organised Crime and Corruption charged four people in relation to the tender for Skopje’s double-decker buses. A former Minister of Transport and Communications and a former director of the Public Transport Enterprise of Skopje (JSP), who is currently Member of Parliament, are accused of having used their official position to obtain gains for the economic operator from China to procure 202 buses, causing damage to the state budget of approximately EUR 4.77 million. In March 2022, a former Minister of Transport and two other defendants pleaded guilty and were sentenced to two years’ probation. The trial is ongoing for the former director of JSP.

In June 2022, the Supreme Court rejected the requests from the former Special Prosecutor for an extraordinary review of the ‘Racket case’, thereby upholding the verdicts in which the former Special Prosecutor was sentenced to seven years’ imprisonment.

In June 2022, in the former SPO ‘Talir 2’ case, the Court convicted in first instance a former Prime Minister to six years’ imprisonment and a former Secretary General of the government to two years’ suspended sentence for abuse of their official position enabling a legal entity to build the headquarters of a political party, at a time when the company had concluded public procurement contracts with state bodies and public institutions or companies. This was in breach of the Law on political parties, the Law on the financing of political parties and the Law on obligations. The ruling also ordered the confiscation of the party headquarters and other premises across the country, owned by the political party.

In February 2022, the Supreme Court quashed on procedural grounds the decision taken by the Court of Appeals in Skopje against the former President of the Skopje Criminal Court for manipulation of ACCMIS. In May 2022, the Court of Appeals in Skopje, in a repeated procedure, decided to uphold his conviction of two and half years’ imprisonment. In July 2022, the Supreme Court rejected the request for extraordinary review of the final decision.

In 2021, the **Public Prosecutor for Prosecuting Organised Crime and Corruption** opened investigations into seven cases of alleged corruption against 25 suspects (14 high-profile investigations involving 49 individuals in 2020). Investigations are ongoing against 21 individuals regarding alleged abuse of official position and against nine individuals on alleged money laundering. Charges were filed in eight cases against 38 individuals. Trials are ongoing in 54 cases against 244 individuals. 48 individuals were convicted in first-instance judgments (50 individuals in 2020). 14 individuals were convicted in second-instance judgments.

In 2021, the financial police office investigated 27 cases, which led to criminal charges related to corruption. In three cases, high-value movable and immovable assets were temporarily frozen. In four cases, valuable assets for a total value of approximately EUR 256,000 were confiscated after the first-instance judgments.

The **State Commission for the Prevention of Corruption (SCPC)** continued to fulfil its role proactively and opened several new cases. In 2021, the SCPC processed a total of 106 cases

of alleged **conflict of interest**, of which 17 were initiated by the SCPC itself and 89 at the request of other parties. In 2021, 152 cases were closed (149 in 2020), of which 12 dated from 2019 and six from 2020. In 2021, a conflict of interest was established in two cases for which the initiatives submitted to the competent authority were to determine responsibility, resulting in one disciplinary procedure. In one case, the SCPC submitted an initiative for criminal proceedings against two responsible officials, and issued a public reprimand for failure to remedy a conflict of interest. The SCPC has issued opinions on all 85 requests received. The SCPC found grounds for suspected breaches of the Law on the prevention of corruption and conflict of interest, resulting in 32 misdemeanour payment orders.

The SCPC also submitted four requests to the SCPC Misdemeanour Commission to initiate misdemeanour proceedings against officials, due to lack of payment after payment orders were issued. In 2021, the SCPC received 1411 declarations of conflict of interest to verify. In 2021, 7 758 asset declarations were accessible on the SCPC website (7 362 in 2020). 2,006 assets declarations were submitted to the SCPC. As regards irregularities in **asset declarations**, in 2021, the SCPC issues 86 misdemeanour payment orders, all of which were related to non-submission/late submission, except one which was related to failure to report an increase in property. 29 requests to initiate misdemeanour procedures were submitted to the SCPC for unpaid fines.

In 2021, a total of 599 cases of **corruption** were initiated, 16 at the initiative of the SCPC and 583 based on reports submitted by third parties. 404 cases were addressed. Of the cases submitted on the basis of reports, the SCPC found grounds for suspected breaches of the Criminal Code in seven cases and submitted initiatives to the public prosecutor (two cases in 2020). The SCPC launched initiatives before the competent authorities to ascertain the responsibility of officials in five cases.

To address the recommendations made by the Council of Europe Group of States against Corruption (GRECO) in the Fifth Evaluation Round report, North Macedonia adopted amendments to the law on internal affairs and to the law on police in April 2022. The changes to the legislative framework include the obligation to submit asset declarations, the ban on employees being members of a political party or a body of a political party, a new integrity test, and of objective and professional criteria for the appointment of the director of the public security bureau (head of the police).

Institutional framework

In January 2022, the incoming government created a new post of Deputy Prime Minister responsible for good governance policies. Implementation of the anti-corruption action plan titled 'Action 21' is ongoing, as planned.

Preventive measures

The State Commission for the Prevention of Corruption continued to fulfil its role proactively and boosted its capacity to verify statements of interest and assets. However, the authorities should make more efforts to fully address the conclusions of the SCPC reports. The Law on Prevention of Corruption and Conflict of Interest needs to be fully implemented and the SCPC needs to be strengthened, supported, and adequately resourced. By the end of 2021, the SCPC had a total of 34 employees out of the 64 planned. New IT software solutions are in place to increase information sharing with all public institutions for the prevention of corruption and to increase integrity in the public sector, provide protection to whistle-blowers and monitor implementation of the national strategy for the prevention of corruption.

Efforts continue to improve the transparency and integrity of public institutions. The SCPC adopted an integrity policy with guidelines for state bodies and public sector institutions, and

guidelines for the local self-government. As of June 2022, 66 municipalities, 15 state bodies and public sector institutions, including the Ministry of Interior, have also adopted an integrity policy. Public campaigns were held to raise awareness on integrity, on whistle-blower protection, and more generally on the fight against corruption.

In June 2021, the Customs Administration adopted a new code of conduct for customs officers. In September 2021, the Ministry of Interior adopted its regular internal anti-corruption programme with an action plan and provided training on related topics, including on the protection of whistle-blowers and ethics for staff members.

Law enforcement

The main institutions dealing with law enforcement are the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption (OCCPPO) within the Public Prosecutor's Office and the Department for Serious and Organised Crime within the Ministry of Interior. The OCCPPO inherited most of the former Special Prosecutor's Office (SPO) high-profile cases. The OCCPPO has not yet moved to the allocated new premises. Together with the State Audit Office, the investigative centre/judicial police in the prosecutor's office and the police need sufficient resources allocated in order to pursue high-profile cases properly. In March 2022, five public prosecutors were elected in the OCCPPO. Staffing levels are insufficient to fully tackle cases of corruption and organised crime.

The Chief Public Prosecutor suspended the Head of the OCCPPO from office in August 2022 pending a disciplinary procedure initiated following a criminal complaint by the former Acting Director of the Financial Police. The Council of Public Prosecutors (CPP) rejected the appeal of the Head of the OCCPPO, as being groundless, thus confirming her suspension from office.

In 2021, assets were confiscated in four cases for a value of approximately EUR 256,000. Real estate, movable and immovable property, and shares were frozen in temporary measures in three cases of alleged corruption.

Legal framework

The country is party to all international anti-corruption conventions, including the United Nations Convention against Corruption.

The Law on the **financing of political parties** stipulates how financial means can be provided to political parties and managed correctly. The Electoral Code sets out the rules on the financing of electoral campaigns. The State Audit Office (SAO) carries out ex-post checks and publishes annual reports on its website. Seven audit reports were submitted to the State Election Commission (SEC) and the State Commission for the Prevention of Corruption (SCPC) following the 2021 local elections.

The Law on **free access to public information** allows applicants to obtain information on the public financing of political parties.

Following the June 2021 adoption of the new Law on **lobbying**, the SCPC adopted implementing legislation and internal acts to prepare for the law to enter into force in June 2022. The law extends the competences of the SCPC adding the responsibility to keep a register of lobbyists and lobbying organisations, which became operational in June 2022. The Law on the protection of **whistle-blowers** still needs to be further aligned with the EU *acquis* including to provide for civil, criminal and/or administrative liability of an official who recommended or participated in retaliation, and to reverse the burden of proof.

Strategic framework

Implementation of the national strategy for the prevention of corruption and conflict of interest (2021-2025) and the related action plan has been slow. Only 20% of the activities planned for 2021 were implemented in full by the end of year. In order to be effective, implementation of the National Strategy should be carried out at all levels of the administration, not only at the level of the line ministries.

Fundamental rights

The legal framework on the protection of fundamental rights is largely in line with European standards. The deinstitutionalisation process is progressing with the resettlement of persons with disabilities to community-based care. The Ministry of Labour and Social Policy continues to invest in community services, including supporting victims of gender-based violence. It is of particular importance to implement all the provisions of the Law on prevention and protection from violence against women and domestic violence. Continued improvements can be noted in gender mainstreaming and respect for women's rights. The recommendations made by the European Committee for the Prevention of Torture on the treatment of detained and convicted persons were not adequately addressed. Implementation of the legislation on hate speech and of the national action plan for the Istanbul Convention's provisions needs to be improved. The civilian external oversight mechanism over the police is still not fully functional, lacking representatives from civil society organisations.

Last year's recommendations were addressed only partially and remain valid. In the coming year, the country should, in particular:

- allocate the necessary financial and human resources enabling the Commission for Prevention and Protection against Discrimination to become fully functional and increase the cooperation with the Ombudsman Office;
- the recommendations of international monitoring bodies, especially with regard to the rights of persons in detention/prison and the dramatic conditions in prisons should be implemented with utmost urgency and efforts should be stepped up to promote alternatives to incarceration;
- provide adequate support and community services to vulnerable categories of children, especially children victims of violence, Roma children and children with disabilities.

North Macedonia has ratified most **international human rights instruments**. In June 2021, the Parliament ratified the Council of Europe Protocol amending Convention 108 for the Protection of Individuals with regard to Automatic Processing of Personal Data. In November 2021, the country became the 35th Member State party of the International Holocaust Remembrance Alliance. The country submitted periodic reports under the UN Convention on the Elimination of All Forms of Racial Discrimination, as well as the answers to the questions from periodic reports under the Convention on the Rights of Child.

In June 2022, there were 813 applications pending before the **European Court for Human Rights** (ECtHR). The ECtHR delivered 11 judgements and found breaches of the European Convention on Human Rights in three cases (against 14 in 2021), relating to the right to a fair trial, the prohibition of torture and the freedom of expression. In the reporting period, there were 370 new applications allocated to a decision body. Currently, there are 11 cases under enhanced supervision by the Committee of Ministers.

The Ombudsman's Office remains the central body for the **promotion and enforcement of human rights**. In 2021, the Ombudsman's Office issued special reports on the implementation of the principle of equitable representation and on gender representation in the public sector. Five deputy ombudspersons need to be appointed by Parliament, without

further delay. Cooperation with the CSOs needs to improve. The Office's budget was 8% higher than it was in 2020, and a new systematisation of staff was approved in April 2022. Out of 2,686 complaints received, breaches were confirmed in 35.8% of cases (2,448 complained received in 2020). These predominantly concerned the rights of the child (18.4%); judiciary and other legal professions (10.9%); social protection (8.8%); consumer rights (8.3%); finances (6.2%) and labour rights (5.4%). Following the involvement of the Ombudsman's office, all six complaints related to the conduct of the population census were addressed. There was a slight increase in the responsiveness of the administrative and other bodies with public competences (66.2% of the cases, against 63% in 2020), which is still lower than the 80% achieved in previous years.

North Macedonia still needs to implement the recommendations made by the European Committee for the Prevention of Torture (CPT) published in 2021. The July 2021 CPT report reiterated past findings on the **prevention of torture and ill treatment**. The main shortcomings of the prison system remain: the poor prison management system and staff performance, low staffing levels, poor quality healthcare provided to inmates, inter-prisoner violence, squalid material conditions, a lack of purposeful activities and endemic corruption.

The external oversight mechanism for the police, including the prison police, is still not fully functional, with the three civil society organisations' representatives still to be selected by the Parliament. Past issues affecting the effective participation of civil society representatives must be resolved, including the extension of their one-year mandate. In 2021, the Ombudsman's civil control mechanism acted on eight complaints, two against police officers and six against members of the prison police, a decrease since the previous year when it took action on 21 complaints. It submitted one request to the Public Prosecutor's Office to initiate a procedure for determining criminal responsibility, against ten similar requests sent in 2020. This led to one case being brought before the Basic Criminal Court Skopje for harassment in the act of duty by a police officer.

In 2021, the dedicated section in the Public Prosecutors' Office opened 91 new cases (criminal charges) against 213 persons with police powers or members of the prison police suspected of having committed criminal offences. As a result of the investigations, 33 persons were charged, 20 criminal order proposals were submitted, and first-instance verdicts against 50 persons (six imprisonment sentences, 36 conditional sentences, four fines and four acquittals) were issued in 2021. There needs to be greater awareness-raising of the external oversight mechanism over the police to achieve a good understanding of the system.

All reported cases must be investigated without delay and the safeguards against ill treatment by police must be implemented systematically. In 2021, the Department for Internal Control and Professional Standards at the Ministry of Interior handled 63 complaints on the use of excessive physical force by police officers (65 complaints in 2020), of which 19 were found to be ungrounded and 40 lacked evidence. Three criminal charges were filed for ill treatment in the act of duty and one notification was submitted to the Public Prosecution Office. In 2021, 112 reports on the use of means of coercion against sentenced persons were submitted by the prisons to the Directorate for Executions of Sanctions, of which 27 cases concerned the use of physical force, leading to inspections. In one reported case, the use of physical force in Idrizovo prison was established, but the prison did not submit a report to the Directorate for Executions of Sanctions. Cooperation with civil society organisations in stamping out ill treatment continued during the reporting period.

North Macedonia should urgently tackle the persistent issue of inadequate detention conditions in prisons, police stations, social care and psychiatric facilities, in line with the recommendations in the last CPT report. In 2021, the National Preventive Mechanism made

33 visits to police stations, prisons and educational correctional institutions as well as places where foreigners and asylum seekers are accommodated or detained. Issues raised in the previous years remain pending, especially the lack of information and access to a lawyer in police stations and the lack of adequate healthcare in prisons.

Although infrastructure was renovated and medical equipment was delivered to a number of penitentiary facilities, the conditions of detention in parts of the Idrizovo Penitentiary-Correctional Facility and other detention facilities of the **prison system** remain inhumane. Reported overcrowding raises additional concerns for the 2,462 persons sentenced and detained (data of March 2022). Renovating the most derelict building in line with the CPT recommendations should be a priority. To professionalise prison management it is important that the appointment of prison directors, including interim directors, is made solely on the basis of the 2019 Law on the execution of sanctions. Regular inspections of prisons should continue. Corruption in prisons is also a recurrent issue. In February 2022, an annual plan to combat corruption was adopted and needs to be implemented. Following adoption of the programme for initial and continuous training and specialisation of officials, the prison training centre in Idrizovo is finally operational and an initial training session for new employees has been organised. The lack of adequate healthcare or measures to treat drug addiction in prisons remains an issue of serious concern, to be addressed by the Ministry of Health.

In order to be fully implemented, the strategy for the development of the penitentiary system 2021-2025 requires funds, additional staff and political commitment. An inter-ministerial group was set up to monitor and evaluate the implementation of the strategy. The process of releasing convicts back into the community should be prepared through inter-institutional cooperation between prisons and the post-penal assistance.

The probation system continues to develop and the number of cases is increasing. In 2021, 451 probation cases (276 in 2020) were recorded, most of which were community service, suspended sentences with protected supervision and supervision for conditional release. Cooperation between the public and private sector and civil society, and interagency cooperation should continue. Coordination has improved between probation officers, judges, public prosecutors, prison staff and other institutions before a convict is released and this should continue, as should awareness raising on the benefits of probation. No progress has been made in adopting amendments to the legal framework regarding alternative sentences and alternative procedures to increase their use. These measures are necessary to improve the resocialisation and rehabilitation of convicts and to lower the risk of re-offending, including for juveniles. No meaningful progress has been made to address the overall lack of purposeful educational, recreational and vocational activities for sentenced and remand prisoners. Educational and resocialisation services, and treatment programmes, should be run in all penitentiary facilities and educational correctional facilities.

Regarding the **protection of personal data**, the full application of the Law on Personal Data Protection (LPDP) started in August 2021. The new law aims to align its data protection framework with the General Data Protection Regulation. Additional amendments are under preparation with a view of further alignment.

Continued understaffing in the Personal Data Protection Agency (PDPA) has a serious negative impact on implementation of the law. It is also undermining the PDPA's ability to perform its tasks effectively and independently.

Despite this situation, in 2021, the PDPA carried out 304 supervisions (a 29% increase on 2020). 62 supervisions were in the public sector and the remaining in the private sector. The PDPA also received 540 complaints, of which 45% were related to alleged breaches of

personal data protection rights on social networks. The PDPA issued 17 opinions on draft laws and implementing legislation and one order in the field of personal data protection. It initiated amendments to three laws in order to harmonise them with the LPDP. The PDPA is not systematically consulted on sectoral laws or implementing legislation and its advice is not always taken on board.

Several improvements are needed in the field of data protection in the electoral sector. The Electoral Code brought in the use of biometric data, but the procedure did not include prior consultation with the PDPA. However, the State Election Commission addressed some of the supervision irregularities identified by the PDPA.

In the reporting period, the PDPA carried out another supervisory check in the Operational-Technical Agency (OTA) into the interception of communications. Progress was made in terms of compliance with regulations on personal data protection. The OTA took action on 6 out of 12 obligations and took partial action on other obligations.

Freedom of thought, conscience and religion is guaranteed by law and in practice, and discrimination on grounds of religion is prohibited. The Commission for Relations with Religious Communities and Groups is encouraged to organise inter-religious dialogue and to improve cooperation between the religious communities.

Freedom of expression

North Macedonia has achieved **some level of preparation/ is moderately prepared** in the area of freedom of expression. Overall, it made **limited progress** during the reporting period to address the previous recommendations. The general context is favourable to media freedom and allows for critical media reporting although there were some tensions during the 2021 local elections. Action on self-regulation of the media should resume and produce practical results in advancing professional standards of journalism.

Greater transparency is needed regarding media advertising by state institutions and political parties. The authorities need to step up their efforts to reform the public service broadcaster, ensuring its independence, professional standards and financial sustainability. The reform process of the public service broadcaster, in line with its five-year development strategy, is constrained by delays in appointing members of its programming council. The council of the Agency for Audio and Audiovisual Media Services still needs to be appointed. The labour rights of journalists still need to be addressed.

Last year's recommendations remain valid. In the coming year, the country should:

- revise the legal framework governing the media in accordance with the EU *acquis* and European standards, in particular by continuing work to align national laws with the revised European Directive on Audiovisual Media Services;
- step up action to implement the strategy to reform the public broadcaster and finalise appointments for the public service broadcaster's programme council and the media regulator's council;
- promptly address all instances of threats and acts of violence against journalists and ensure that the perpetrators are brought to justice.

Freedom of expression and pluralistic viewpoints continued to thrive in a generally favourable overall political context. Despite this, the media reforms expected stalled due to a lack of political consensus and a shift in focus due to the COVID-19 pandemic. Challenges remain in implementing the legal framework encompassing the work of media, especially on the Law

on audio and audiovisual media services. Although instances of physical and verbal violence decreased, online threats against journalists and media workers are increasing. The working conditions for media workers remain challenging, especially their labour and social rights. The authorities and the media regulator supported media outlets during the COVID-19 pandemic. The country now needs to draw up a strategy on reform of the media, with the support of all stakeholders.

Intimidation of journalists

In 2021, the Ministry of Interior recorded eight cases of attacks against journalists (ten cases in 2020). Criminal charges were brought in three cases (for a crime committed during a protest, a breach of copyright and related rights and an online threat). Investigations for the remaining five attacks are ongoing. The association of journalists recorded five attacks, three of them against female journalists. During the 2021 local elections, the number of incidents involving journalists increased, which was condemned by the Agency for Audio and Audiovisual Media Services and the association of journalists.

The existing legal framework and commitment to international standards provided sufficient mechanisms for law enforcement authorities and the Public Prosecutor's Office to bring perpetrators to justice. Further action is needed to ensure impartial, speedy and effective investigations. A TV station complained of prolonged financial investigations and its journalists being invited for information talks by the prosecution office. Politicians from all levels of governance and public officials should constantly set an example of high standards for the respect of freedom of media in their interactions with journalists. Online harassment and verbal attacks on journalists, notably on social media, have continued. Old cases of physical attacks against journalists remain unresolved.

Legislative environment

In 2021, the authorities and the media regulator continued supporting the media to alleviate the impact of the COVID-19 pandemic.

The process of alignment of the Law on audio and audiovisual media services with the EU *acquis* needs to continue. In September 2021, Parliament adopted amendments to the Electoral Code related to the media and to paid political advertising. The OSCE/ODIHR report on the local elections recommended that regulations on paid political advertisement in the media should be reconsidered, in order to allow unimpeded access to the media based on reasonable and objective criteria.

The practice of providing paid political advertising in broadcast, print and online media funded from the state budget continues to be a concern among media associations, due to the risk of political influence on media independence. Affected by a declining media market and the pandemic, some media outlets have lobbied actively to remove the ban on government advertising in the private media, in order to increase their revenues. However, media associations have criticised the prospect of amending the Law on audio and audiovisual media services, which would allow advertising of public institutions in the media, highlighting the risk that it could undermine the independence of the media and disrupt the media market.

In March 2022, in the context of disinformation concerning the war in Ukraine, the government banned the retransmission of Russian TV channels by amending the Law on restrictive measures based on the Council Regulation. The government continued cut funding for the regulator, the public broadcaster and the public enterprise for broadcasting, using the provisions of the Law on audio and audiovisual media services. Parliament also delayed the appointments of the new members of the public service broadcaster's programme council and media regulator's council, thereby demonstrating the absence of political consensus on media

reforms. Hate speech is prohibited both online and offline, but it persists online. In December 2021, an online threat to journalists published on social media was sanctioned by a court judgment.

Implementation of legislation/institutions

During the 2021 local elections, the Agency for Audio and Audiovisual Media Services monitored the media coverage and reported no breaches of the Electoral Code. As part of its legal obligations, the regulator continued its supervisory role over the broadcasters, print media, operators of public electronic communication networks and providers of on-demand media services, as well as on illicit media concentration and ownership transparency. The regulator continued working with civil society organisations and media outlets to promote media literacy and human rights topics such as gender equality and the inclusion of persons with disabilities.

The financial stability and independence of the media regulator needs to be consolidated following the harmonisation of national legislation with the EU Audiovisual Media Services Directive. In 2021, the Council of Media Ethics received 109 complaints for breaches of ethical standards, 90% of which concerned online cases. The self-regulatory body noted breaches of the Code of Journalists in 48 cases. The Council of Media Ethics reported increased pressure over its work from political and economic actors, but also from media representatives. In 2021, the association of journalists reported a decrease in court cases for insult and defamation involving journalists, from 30 cases in 2020 to around 20 ongoing cases. In 2021, a total of 81 court rulings were issued in connection with Article 10 of the European Convention for Human Rights, against 57 in 2020 and 99 court rulings in 2019 respectively.

Public service broadcaster

The comprehensive reform of the public service broadcaster was further delayed. Despite the requirements of the Law on audio and audiovisual media services specifying the amount of public funding for the public broadcaster as a percentage of the state budget to be 1% as of 2021, the actual rate only reached 0.59% in July 2022 because of the authorities' use of the discretionary powers granted by law. This was insufficient. The total budget of the Public Service Broadcaster in 2021 amounted to 13.4 million EUR, while in 2022 it is 15 million EUR. The financing of the public broadcaster has seen a steady decline over the last few years. The continuous decrease in funding is hindering implementation of the public service broadcaster development strategy, creating uncertainty in planning processes and affecting the overall quality of performance. Solutions for the public service broadcaster's old debts towards state institutions were not found, including on the implementation of favourable court rulings with regard to the public service broadcaster's premises. The independence and sustainability of the public broadcaster, both financially and as regards the legal framework, has yet to be fully ensured.

Economic factors

The COVID-19 outbreak exacerbated the ongoing trend in lower income for the media industry, leading the government to adopt measures to help the industry. Concerns about media integrity and independence continue to be raised by media associations due to the precarious financial viability of media entities. Additional steps are needed to support professional and investigative journalism. The Media Agency monitors media ownership on a regular basis. Efforts must be made to safeguard the media's independence from political intrusion. Advertising by the government on commercial channels is prohibited. Media associations continued to express their concern about the prospect of amending Article 102 of

the Law on audio and audiovisual media services to allow state-funded public-interest campaigns. The media associations also expressed concern over the prospect of political parties using state funding to advertise in the media as a potential way to gain political influence on editorial lines.

Out of twenty publishers of print media, there are five daily newspapers, including two in the Albanian language. The authorities continued to support the print media by allocating EUR 500,000 in 2021. The Agency for Audio and Audiovisual Services publishes a register of broadcasting and print media, including information on the number of employees and type of employment.

Internet

Online media is not governed by a specific law, and there are differing views on the need for regulation, especially in view of the growing threats from disinformation. Online media and social media platforms are the main source of disinformation, misinformation, hate speech, breaches of professional standards and intellectual property rights infringements. Campaigns are needed to boost the understanding of stakeholders and the general public and increase their resilience in the face of disinformation, are needed. Media associations continued to promote the established registry of online media (promedia.mk) in order to increase professionalism and standards of online journalism. With regard to access to information, the Agency for the Protection of Free Access to Public Information received 798 complaints, of which 608 were predominantly from civil society organisations, while 190 complaints were filed by individuals.

North Macedonia has signed up to the **Declaration for the Future of Internet** of 28 April 2022⁸. Signed by 60+ international partners to date, the Declaration sets out the vision and principles of a trusted Internet.

Professional organisations and working conditions

Journalists' labour and social rights are represented by the Independent Trade Union of Journalists and Media Workers. Journalists working for of the public service broadcaster and of news information agencies are organised in separate unions. The unions' dialogue with the government needs to be improved, in order to find acceptable solutions to persisting challenges, such as the high number of short-term or part-time contracts without health and social insurance. Most media workers' income is lower than the national average salary. Labour rights, such as the right to annual leave, paid overtime hours and paid night shifts, are often disregarded.

Numerous media outlets lack an internal code of ethics, as well as professional and career opportunities for professional training. Many journalists have a vulnerable contractual status and difficult socio-economic conditions which contributes to a culture of self-censorship and creates openings for media owners to strongly influence editorial policy. Further efforts are needed to protect journalists' professional and labour rights, freedoms and security.

In 2021, the total number of employees in the broadcasting media was 2,449, of which 1814 in full-time employment and 635 employed part-time. There is no comprehensive data on the overall number of journalists due to the fact that the online media is currently not covered. Additional measures to promote gender equality in the media industry are needed.

(See also Chapter 10 - Digital transformation and media)

⁸ [Declaration for the Future of Internet | Shaping Europe's digital future \(europa.eu\)](#)

The right to **freedom of assembly and association** is guaranteed by the constitution and the government respects the law on citizens' associations and foundations, which remains unchanged. More efforts are needed to implement all the rulings of the European Court of Human Rights with regard to the registration of associations. The legislation is in line with the EU Charter of Fundamental Rights and the European Convention on Human Rights. Restrictions on assembly rights were put in place at various times during the COVID-19 pandemic. Despite short periods of restrictions, several lawful assemblies and gatherings took place without hindrance, respecting existing health and safety protocols due to the pandemic. However, incidents occurred in September 2021 when hundreds of protestors gathered in Tetovo after a COVID-19 hospital caught fire, resulting in five people being detained.

Several protests were held in July 2022 against the proposals designed to remove the obstacles to the opening of EU accession negotiations. Between 7,000 and 15,000 demonstrators participated in the protests, which on some occasions degenerated into clashes between demonstrators and police.

The naming of the Bulgarian Cultural Club opened in Bitola in April 2022 caused deep concerns amongst citizens. Public officials in North Macedonia strongly condemned the incident of June 2022, when there was an attempt to set on fire the premises of the Cultural Club. The national authorities have investigated the case and the Court convicted the perpetrator to a suspended prison sentence.

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

North Macedonia did not make any significant improvements in the procedures for enforcing **property rights**, which remain lengthy and expensive for citizens, due to the lack of a central institution and the lack of coordination between institutions dealing with these rights. Despite announcements, the administration has still not developed a national strategy on property rights. Property registers are not regularly updated and are still kept in analogue format, particularly at the municipal level. The Cadastre Office maintained a satisfactory rate of over 90% of cases resolved. The registration of land and properties has been completed and laser-scanning has been conducted across the whole country. The administrations that handle restitution, compensation and legalisation processes still struggle to manage their caseload, mainly due to understaffing and a lack of funds. Over 6,000 denationalisation cases are still open and form the bulk of complaints addressed to the Ombudsman's Office, even though this process was officially declared closed in 2013.

Regarding **non-discrimination**, numerous logistical and financial challenges continued to hamper the work of the equality body – the Commission for the Prevention and Protection against Discrimination. The government has cut the annual budget of this Commission again and the recruitment of administrative staff has not been completed. These issues affect the enforcement of the Law on prevention and protection against discrimination and need to be addressed as a matter of urgency. There has been criticism concerning the lack of independence of the Commission as regards budgetary expenditure due to inconsistencies in the law. Parliament failed to fill a vacancy in the Commission. Commissioners and civil society have also criticised the lack of diversity in the new Commission, notably as regards gender and persons with disabilities.

Despite existing challenges, in 2021, the Commission adopted its internal acts and strategic documents and worked on 167 complaints. It confirmed discrimination in 60% of the cases brought against the public sector. Based on its wide-ranging powers, including *ex officio* powers, the Commission acted as *amicus curiae* in two court proceedings and submitted two requests for a misdemeanour procedure. The Commission suggested improvements to the law

on the prevention of and protection against discrimination. A new strategy for equality and non-discrimination 2021-2026 was adopted. The new members of the National Coordinative Body for Equality and Non-discrimination have not been appointed which prevents the institution from functioning at its full potential. The Ombudsman's Office received 43 complaints on grounds of discrimination (62 in 2020), predominantly concerning work and labour relations, and it issued 23 opinions. In collecting statistics by areas and grounds of discrimination, the Ombudsman followed the law on the prevention and protection against discrimination. The Ombudsman's department for anti-discrimination protection remains understaffed. The Ombudsman's Office and the Commission for the Prevention and Protection against Discrimination still need to establish regular and effective coordination in order to ensure that the non-discrimination principle is properly addressed.

The Ministry of Interior manages a website for citizens to report hate crime, hate speech and other forms of violence, but the follow-up actions are not fully transparent. There should be a systematic practice of collecting data on hate speech. A more proactive and holistic approach in addressing hate speech and hate crime is needed.

Some progress was made on **gender equality** by developing a normative framework for alignment with the Istanbul Convention and a policy framework to integrate gender perspectives and align national law with the EU gender equality *acquis*. With the adoption of the National Strategy for Gender Equality 2021-2026, in July 2022, good progress was made towards establishing an effective system for gender mainstreaming. However, adoption of the draft law for gender equality is still pending. The cross-institutional mechanisms designed to implement and monitor policies promoting gender equality need strengthening, notably by improving the organisational arrangements, boosting its technical capacity, budget and professionals trained according to the international standards.

Further alignment with the provisions of the Istanbul Convention on preventing and combating violence against women and domestic violence remains a challenge. Action is pending to align related laws and adopt implementing legislation to the Law on the prevention of and protection from violence against women and domestic violence. In April 2022, North Macedonia submitted its first Report to the Group of Experts on Action against Violence against Women and Domestic Violence (GREVIO).

The Ministry of Justice still needs to amend the Criminal Code in order to provide full protection to victims from all forms of violence including femicide. Services for victims of gender-based violence need to be expanded and a proper budget is needed to meet the Istanbul Convention standards, including access for women with disabilities and respecting different cultural, ethnic, and religious factors when reporting violence. The country lacks clear cross-institutional protocols and the police and health workers lack the capacity to fully assess the consequences of violence and to take adequate measures. The state budget supports only the existing five operational shelters, one crisis centre and three centres for victims of sexual violence. The provision of psychosocial and other prevention services remains uncoordinated and dependent on financing from local self-government, foreign donors and the business community. A specialised 24/7 team for the urgent protection of vulnerable groups operates only in the capital. Due to the overburdened health system during the pandemic, the lack of adequately trained staff and the limited number of accommodation facilities, victims of gender-based and domestic violence faced serious challenges in accessing health services.

In March 2022, the Ministry of Labour and Social Policy opened a resource centre for gender-responsive policymaking and budgeting to increase the capacity of public administration to implement measures related to the EU Directive 2006/54/EC on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of

employment and occupation and include gender mainstreaming in institutional planning, programming and actions. However, the administration lacks proper gender-strategic planning and budgeting tools are lacking, which limits the opportunities for effective gender mainstreaming in policymaking and for integrating the gender perspective into sector dialogue and public finance management.

The lack of reliable gender-disaggregated data across sectors creates significant constraints in developing evidence-based policies and measures. The first National Gender Equality index was published in 2019 but has not been updated. Collecting and analysing gender statistics requires boosting the capacity of relevant institutions and improved institutional coordination.

Gender gaps and stereotypes remain evident in public and political life (*see 2.1.1. Democracy*).

The two ‘Public Room’ cases, where explicit photos and private information of girls and women were shared on an online platform, resulted in a court ruling against the founder and administrator of the platform for the production and distribution of child pornography (female minors). There are still gaps in the related legislative framework as the Criminal Code and related implementing legislation is not being harmonised with the Istanbul Convention. Follow-up by the institutions in cases of rape and domestic violence needs to be improved by clear cross-institutional protocols and standardised reintegration services for the victims.

The administration amended the legal framework governing the protection of the **rights of the child** in line with international standards. However, a wider societal and inter-party consensus is needed on key legislative reforms to bridge legal gaps, following the needs and best interests of children. Discrepancies between the family law provisions on adoption and international standards have not been addressed. An action plan for children, including a sufficient budget and sectoral models to provide effective services for children, has yet to be prepared.

Further efforts are needed to address structural challenges, such as the lack of resources by state institutions dealing with child rights, the lack of strategic documents on child rights and functioning of the statutory body responsible for overseeing implementation of the Convention on the Rights of the Child. Consultations of young people in policymaking needs to be improved. There is a need to improve cooperation among institutions to better understand and address the challenges faced by different groups of children are facing, such as children with disabilities or children from the Roma community.

In 2021, 254 complaints were filed with the Ombudsman related to breaches of children’s rights, nine of which concern children with disabilities. The Ombudsman issued 139 opinions, which were accepted in 93 cases. However, institutions need to put in place systemic changes following the Ombudsman’s recommendations. Parents/caregivers continue to file the majority of complaints, rather than children themselves. The National Coordinating Body for the Protection of Children from Violence adopted a Protocol on the actions of multi-sector teams for the protection of children victims of abuse, neglect and violence. Training for multi-sector teams was provided in 12 cities across the country.

However, challenges remain to fully implement the national strategy to end violence against children (2020-2025). The authorities should allocate sufficient resources to the child protection system to address the increasing challenges of online violence and abuse (cyber-bullying). Further efforts are needed to raise awareness of violence against children among the general public and professionals to recognise abuse and report it. The country needs to bring in programmes to support the rehabilitation, resocialisation, or reintegration of children victims of violence.

The COVID-19 pandemic demonstrated that the digitalisation of services should go in parallel with increased efforts to educate and facilitate the access to these technologies for vulnerable groups, who often lack digital skills.

Despite the substantial set of social and child protection measures to combat the socio-economic consequences of COVID-19, analysis has demonstrated that relative child poverty has increased, putting an additional 19,000 children at risk. Further efforts are needed to make the social protection system more child-sensitive based on a child-centred service delivery model, including by strengthening professional development and supervision in the delivery of good quality child protection services. Local governments and civil society organisations should improve cooperation with social work centres to develop and support new community services around the country, including services to support children at risk, Roma children and children with disabilities who are victims of discrimination and segregation.

North Macedonia continued its work to fully include children with disabilities in mainstream schools and pre-schools continued. However, the change from a medical-based to a social model of disability assessment based on human rights has not been brought in systematically. Despite the improvements in the legal framework, action to provide equal access to education for children with disabilities is at an early stage. With regard to children without parental care, investments were made to strengthen the childcare system, particularly in foster and community-based care homes. Community-based services and sub-regional centres for foster family assistance were made available throughout the country and no children remain now in institutionalised care.

The authorities identified six child victims of trafficking in human beings in 2021. An additional five children were identified as being potential victims of trafficking in human beings. More measures are needed to ensure that vulnerable children are protected from sexual exploitation. It is necessary to expand the legal education provided to judges and public prosecutors is necessary on issues such as discrimination based on disability, gender-based and sexual violence against women, and violence against children.

The law on juvenile justice requires systematic implementation. Access to justice, legal representation and the capacity of public officials involved with child victims, child witnesses and children in conflict with the law are still inadequate. The inter-sectoral approach to implementation of the legal framework needs to be systematised and streamlined among professionals of juvenile justice. The legal framework should also be further updated in line with international standards and EU directives, including the Directive (EU) 2016/800 on procedural safeguards for children who are suspects or accused persons in criminal proceedings⁹.

The detention conditions for boys in the juvenile educational-correctional facility near Tetovo have improved. However, between September 2021 and June 2022 they have not had access to education. The facility is in a remote location, making it unfit for resocialisation and rehabilitation purposes. Girls have been detained for one year in the educational correctional facility in the female ward of Idrizovo, prison which did not allow for appropriate care, education, resocialisation and rehabilitation support. The legislation should be amended to find a long-term solution for educational correctional measures for girls.

North Macedonia made limited progress in improving the **rights of persons with disabilities**. The mechanism to monitor the implementation of the Convention for the Rights of Persons

⁹ Directive (EU) 2016/800 of the European Parliament and of the Council of 11 May 2016 on procedural safeguards for children who are suspects or accused persons in criminal proceedings, OJ L 132, 21.5.2016, p. 1–20.

with Disabilities is functioning within the Office of the Ombudsman. The National Strategy on Achieving Equal Rights for the Persons with Disabilities is in place. Preparatory work has started to draft the national strategy on the rights of people with disabilities. The government adopted the action plan to implement the deinstitutionalisation strategy for 2022-2024. Work continues to resettle the beneficiaries from the Special Institute Demir Kapija continues. The Ombudsman signed a memorandum for cooperation with 22 civil society organisations, part of the National Monitoring mechanism. However, the mandate of the national coordination body for implementing the Convention and its capacity to influence decision-makers in state structures remains minor. In 2021, the Commission for Prevention and Protection against Discrimination took action on six complaints related to discrimination on the basis of disability. 911 students with special needs have been enrolled in general primary schools and 312 in secondary education, supported by educational assistants to assist inclusive teams. Persons with disabilities continue to face considerable discrimination, both direct and indirect, due to infrastructure-related barriers, a lack of information and services, discriminatory attitudes and social exclusion. (*see also Chapter 19 – Social policy and employment*)

The promotion of equality and the condemnation of hate speech, hate crime, discrimination and intolerance against **lesbian, gay, bisexual, transgender, intersex and queer (LGBTIQ)** should be systematic. Despite having a legal framework that protects against discrimination and hate crime on the grounds of sexual orientation and gender identity, the implementing these laws remains challenging. Following a European Court for Human Rights' judgment (January 2019), authorities prepared amendments to the law on civil registry to bring in the legal gender recognition procedure. However, the draft law was withdrawn from parliamentary procedure in March 2022, for additional changes. The legal framework does not allow for the official recognition of same-sex couples.

Several politicians have made homophobic and discriminatory statements. Investigations into the attacks in 2012, 2013 and 2014 on the LGBTIQ support centre have not progressed. In November 2021, the office of an LGBTIQ organisation in Tetovo was vandalised and activists received death threats. The absence of systematic data collection on hate crimes based on sexual orientation and gender identity and their ineffective follow-up by the authorities remains a serious issue. Hate crime cases are registered in the civil society database leading to reports. Action is needed to increase the capacity and awareness of law enforcement officers and legal professionals to effectively prevent and prosecute all instances of violence, hate crimes and hate speech. There was no progress made to remove of the negative stereotypes and hate speech toward LGBTIQ people in textbooks, or to adopt the national action plan for LGBTIQ for 2021-2025. In June 2021, the authorities facilitated the successful organisation of the Pride Parade, attended by the President of North Macedonia and a number of ministers. Hate speech and derogatory terms for LGBTIQ persons continue to be prevalent in the online space. Serious efforts are needed to protect and ensure people can exercise their LGBTIQ rights.

Concerning **procedural rights**, the country remains partially aligned with the EU *acquis*. The authorities should take concrete steps to adopt the draft law on the compensation for victims of crime, including victims of trafficking in human beings. The draft law was withdrawn from parliamentary procedure, for additional consultations.

As regards free legal aid, the Ministry of Justice has intensified its efforts to provide access to primary and secondary legal aid to the citizens who cannot afford to hire an attorney. Free legal aid is accessible through the 34 regional branch offices of the Ministry of Justice, civic associations authorised to give legal aid, legal clinics within the faculties of law and lawyers certified to give secondary legal aid. A register of associations and individual lawyers who provide legal aid is available on the website of the Ministry of Justice. Increasing numbers of

requests have been submitted and approved for primary and secondary legal aid. The system of legal aid in criminal proceedings needs to be reformed to improve access to justice, mainly to revise the criteria to access legal aid in criminal proceedings (in cases of mandatory defence, defence of indigent persons and cases of representation of the interests of victims of crime). The budget allocated for legal aid in 2021 amounted to EUR 81,000. The budget implemented for legal aid in 2021 amounted to EUR 28,000.

The authorities should also take concrete steps to adopt legislation in line with the Directive (EU) 2016/800 on procedural safeguards for children who are suspects or accused persons in criminal proceedings.

As regards the **protection of minorities**, the authorities continued to implement the national strategy ‘One Society for All and Interculturalism’. The Agency for Protection of Non-majority Communities moved to the premises of the Ministry of Political System and Inter-Community Relations, which ought to accelerate the communication between this body and the authorities responsible for rights of persons belonging to smaller ethnic communities. In the course of 2021, the Agency started to provide funds to finance projects run by civil society organisations working to promote and protection of the rights of non-majority communities.

Coordination between the Permanent Advisory Body of the government and the Coordination Body of the Prime Minister’s office is ongoing, though it still lacks transparency. More efforts are needed to ensure the full independence of the Agency for Communities Rights Realisation and the Language Implementation Agency in terms of protecting their focal interest group, the smaller ethnic communities. Both institutions remain understaffed and insufficiently funded. The local authorities should make use of the national strategy to improve the situation at the municipal level, where the representation of non-majority communities remains insufficient.

There was some progress on the inclusion of **Roma**. North Macedonia adopted the new strategy for Roma inclusion 2022-2030 covering antigypsyism, education, employment, social care and healthcare, housing, civic registration and culture was adopted. The strategy does not systematically address participation, empowerment and capacity building. The country also adopted the action plan for the protection, promotion and fulfilment of the human rights of Roma women and girls 2022-2024 was also adopted. The remaining action plans in other key areas still need to be prepared. The government appointed an adviser to the Prime Minister in charge of Roma inclusion issues. In the school year 2021/2022, 420 Roma children, of which 208 coming from families at social risk, attended kindergartens in 15 municipalities. 1,601 Roma children aged six were enrolled in primary school for the school year 2021/2022. The annual dropout rate per grade for Roma children in primary education is 4% and for secondary education is 5%. No measures were taken to prevent irregular attendance of Roma children in primary education, to reintegrate children who are not enrolled in education on time or have left education without completing it. There are no systematic measures to address the issue of street children. The Minister of Education and Science hired 30 Roma educational mediators to work in 17 municipalities. Segregation in school remains high.

Pursuant to the Law on unregistered persons in the birth registry adopted by the end of January 2020, of the 700 identified unregistered persons, 318 applications for registration in the special birth registry were submitted, of which 292 people were registered. 15 displaced families are from Kosovo*, including 60 children housed in temporary shelters in Vizbegovo.

The number of unemployed Roma is 12,990 which is a slight decrease from 13,703 in 2021. The number of Roma benefiting from active measures for employment was 589 or 5.2% of all

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

beneficiaries. No new measures were brought in that take a targeted approach to Roma. The 2021 Youth Guarantee Plan included 979 Roma (488 were women). The government completed a geographic mapping of Roma settlements which provides an overview of the living conditions in Roma settlements in 14 municipalities with the largest Roma population. The majority of Roma settlements are still not covered by urban plans. In 2021, the Commission for the Prevention and Protection against Discrimination recorded seven cases of discrimination based on Roma ethnicity. Roma women and girls remain particularly vulnerable, often due to unemployment. The government is working on the priority actions identified in the November 2019 Roma seminars; monitoring and reporting is ongoing. The commitment to implement the Poznan Declaration priorities remains satisfactory.

EU citizens' rights

In December 2012, North Macedonia amended the law allowing the **acquisition of citizenship for special economic interest**. The migratory and security risks this scheme could pose to the EU are being closely monitored, especially keeping in mind inconsistencies in the criteria for granting citizenship. North Macedonia should refrain from enabling systematic acquisition of citizenship based on special economic interest.

2.2.2 Chapter 24: Justice, freedom and security

The EU has common rules for border control, visas, residence and work permits, external migration and asylum. Schengen cooperation entails the lifting of border controls within the EU. Member States also cooperate with North Macedonia in the fight against organised crime and terrorism, and on judicial, police and customs matters all with the support of the EU justice and home affairs agencies.

North Macedonia is **moderately prepared** to implement the EU *acquis*. **Some progress** was made in this chapter and in addressing last year's recommendations, mainly with the implementation of the Joint Action Plan on Counterterrorism, as well as adoption of strategic documents in the field of border management and migration. Measures to counter violent extremism and fight terrorism need to continue. Registration of migrants needs to be carried out in a systematic manner and protection-sensitive profiling needs to be improved. The country should establish a proper system for managing irregular movement and stop the practice of returning migrants outside a legal framework. Cooperation with the EU law enforcement agencies remains good, and a liaison prosecutor to EUROJUST has been appointed. Since only partial progress was made on last year's recommendations, these remain valid.

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

- continue the proactive implementation of the institutional reforms of the structures fighting organised crime with a focus on increasing operational capacity and cooperation;
- continue to implement the Joint Action Plan on Counterterrorism, with a focus on prevention of extremism, reintegration of former foreign terrorist fighters and deradicalisation in prisons;
- systematically register migrants and improve protection-sensitive profiling, as well as adopting a more systematic approach to fighting migrant smuggling; align national legislation with the EU's list of visa required third countries.

Fight against organised crime

North Macedonia has **some level of preparation** in the fight against organised crime. **Some**

progress was made mainly in operational cooperation with international partners, as well as in improving the coordination of activities against organised crime, but more needs to be done to improve the effectiveness of law enforcement in fighting certain forms of crime, such as money laundering and financial crimes. The investigative centres at the Basic Public Prosecution Office need to be strengthened to achieve their objectives of increasing the efficiency of the investigations and improving the coordination between prosecutors, the police and the other relevant bodies.

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

- further improve its track record on investigating, prosecuting and convicting instances of organised crime and money laundering with a focus on confiscation of proceeds of crime;
- adopt and implement the necessary legislation on asset recovery;
- prepare the necessary legislation on cybersecurity and set up a coordinated and unified system for tackling cybercrimes.

Institutional set-up and legal alignment

The country has 330 police officers per 100 000 inhabitants, compared with an EU average of 333 (Eurostat, 2018-2020). In 2021, 590 police officers were employed, and 600 new public vacancies were announced.

Key **institutions** in the fight against organised crime include specialised police units within the Ministry of Interior, which deal with different types of organised crime and financial investigation. In addition, there is a Financial Intelligence Unit under the Ministry of Finance that collects information and helps identify suspicious transactions. Financial Investigation units operate within the Customs Administration, the Financial Police and within the Ministry of Interior.

The police is generally well-equipped and trained. The Police Training Centre within the Ministry of the Interior provides both initial and vocational training. The Ministry of Interior has prepared a Strategic Plan for the period of 2021-2023 that determines the medium term priorities and contains objectives for the development of the police force and replaced the previous Police Development Strategy.

North Macedonia implemented a comprehensive reform of its **intelligence services**. The National Security Agency (NSA) is still located in the premises of Ministry of Interior. The technical conditions for the proper functioning of the system for the interception of communications have been further improved. The Operational Technical Agency has continued to provide connection in the system for the interception of communications.

The Asset Recovery Office (ARO) set up within the Public Prosecution Office, is understaffed, employing only one public prosecutor, out of five foreseen. The law on the Asset Recovery Office has still not been adopted.

The National Cyber Security Council is composed of the Ministers of Defence, Interior and Information Society and Administration, but was not active in the reporting period. The National Cybersecurity Strategy 2018-2022 and related action plan will expire in the end of 2022. The new strategy is under preparation and needs to take into account assessment of the implementation of the previous strategy.

Regarding the **legal framework**, the Criminal Code is broadly in line with European standards and criminalises trafficking in human beings, online child pornography, computer crime and drug trafficking. North Macedonia is party to the Council of Europe ‘Budapest’ Convention on cybercrime and was among the 22 countries that signed its Second Additional

Protocol on enhanced co-operation and disclosure of electronic evidence. In relation to the negotiation for a United Nations convention on cybercrime based on resolution 74/247 of the United Nations General Assembly, North Macedonia demonstrated voting patterns that are fully convergent with the position taken by the EU and its Member States.

As regards the **strategic framework**, there is a National Strategy for the prevention of money laundering and financing terrorism (2021-2023), and a National Strategy for capacity building for financial investigations and confiscation of property (2021-2023) together with the Action Plan. In June 2022, the Parliament adopted new legislation on the fight against money laundering and the financing of terrorism that aims to align with the 5th Anti Money Laundering Directive, including crypto-assets and to address the recommendations of the Financial Action Task Force. Cooperation among institutions continues to increase, and new tools have been set up to ease reporting and monitoring of suspicious transactions based on a risk assessment approach. The Financial Intelligence Office strengthened its analytical capacity for data processing and financial analysis. 15 people were indicted and 7 convictions were reached against 16 perpetrators for money laundering in 2021.

A National Strategy for combating trafficking in human beings and illegal migration (2021-2025) continued to be implemented. The National Commission for combating trafficking in human beings and illegal migration is responsible for monitoring the implementation of the strategy. The decentralisation of the National Commission, through the creation of local commissions at the municipal level, still needs to be implemented effectively on the ground. The National Strategy for Control of Small Arms and Light Weapons and Action Plan 2022-2025 aiming to harmonize with the objectives of the 2018 Roadmap sustainable solution to the illegal possession, misuse and trafficking of small arms and light weapons, and their ammunition in the Western Balkans remains to be adopted.

Implementation and enforcement capacity

The track record of investigations, prosecutions and convictions in the fight against organised crime has overall improved.

In 2021, investigations were launched against 119 people. There were indictments brought against 55 persons. Financial investigations were conducted in 3 cases. There were 10 cases with first instance decisions to confiscate assets (cars, money, mobile phones). There are 15 ongoing trials. In 2021, 173 verdicts for organised crime have been reached at all instances.

The **external oversight mechanism** is being implemented. The Special Department for investigation and prosecution of crimes committed by persons with police powers and members of the prison police in the Public Prosecutor's Office has only two investigators. The department registered cases of excessive use of force by law enforcement officials against 135 persons. Investigative procedures were against 31 persons and verdicts were passed against 18 persons.

The National Coordination Centre for the Fight against Organised Crime is operational but it needs to improve its operational capacity. Its activity has contributed to shortening of the time of exchange of data and information about the needs of the involved institutions; sharing of information between institutions on the 'need-to-know' principle; coordination between institutions in cases when there is a request for data and information on the same targeted natural or legal person; as well as support for the international exchange of information, especially in the area of international police cooperation, which is an important segment in the fight against organised and serious crime. All participating authorities have access to their respective databases, and all have nominated their representatives.

The Basic Public Prosecutor's Office for Organised Crime and Corruption has insufficient human resources and lacks financial resources for expert services. Specialisation within the Office is needed, as well as a pro-active approach in pursuing cases.

The investigative centres in the Basic Public Prosecution Office in Skopje, Kumanovo and Tetovo and in the Basic Public Prosecutor's Office for Organised Crime and Corruption are operational, but still lack sufficient human and financial resources and adequate equipment to perform properly. These investigative centres have still not achieved their objectives of increasing the efficiency of the investigations and improving the coordination between prosecutors, the police and the other relevant bodies.

The country participates in **international police cooperation** activities through the main cooperation channels. Cooperation with Europol is well established following the conclusion of a strategic agreement in 2007 and an operational agreement in 2011. There is operational cooperation in the fight against trafficking of human beings, weapons, and drugs. A secure communication link for information exchange (SIENA) is established.

North Macedonia continued to cooperate with EU police services through the European Network of Fugitive Active Search Teams (ENFAST), in which it has an observer's status. The country also participates in EMPACT (the European Multidisciplinary Platform Against Criminal Threats). In 2022, North Macedonia committed to participate in 26 operational actions in nine of the 15 EMPACT operational action plans (OAPs), including as co-leader for 1 operational action. In 2021, North Macedonia participated in 32 EMPACT operational actions. North Macedonia appointed a National EMPACT Coordinator.

The country continued to participate actively in EMPACT Joint Action Days (JADs), such as the JAD South East Europe 2021 (promoting closer cooperation in the work against firearms trafficking, the smuggling of migrants and drugs trafficking), the JAD Mobile 4 (targeting various modalities of motor vehicle crime, including smuggling of stolen vehicles via the external borders, parts of vehicles, as well as associated document fraud) and the JAD Danube 6 (focused on combatting the smuggling of migrants, fighting trafficking in human beings and document fraud).

The National Serious and Organised Crime Threat Assessment was adopted on 15 December 2021 in accordance with the EUROPOL policies EMPACT cycle 2022-2025.

Cooperation between the country and the EU Agency for Law Enforcement Training (CEPOL) is well established and based on a working arrangement. A dedicated contact point is in place. North Macedonia has full access to the CEPOL Exchange Programme.

Confiscation of criminal assets is not sufficiently used in criminal proceedings with only four cases of confiscation of property in 2021. The **confiscation of criminal assets** should become a strategic priority in the fight against organised crime, terrorism and high level corruption in the country.

On **small arms and light weapons**, there are visible results with 328 pieces of firearms seized in 2021. In the same year, 178 criminal offences on illegal production, possession and trading in weapons were detected, for which 195 perpetrators were criminally charged.

Regarding **cybercrime**, the cyber incident response unit and Ministry of Interior (Cybercrime unit) are obliged to exchange cyber incident and cybercrime data in accordance with the Criminal Code. Cybercrime statistics (criminal justice statistics) are published by Ministry of Interior on an annual basis. There has been an increase in detection by 5.6 % with a total of 169 computer crimes detected. In 2021, the number of registered crimes of sexual exploitation of children on the internet has increased by 37.5 % to 11 cases.

Efforts in key areas of the implementation of activities of within the goals related to Western Balkans in the EU Action Plan on firearms trafficking¹⁰, which include harmonisation of legislation with EU *acquis*, drafting of a new Small Arms and Light Weapons strategy and action plan, defining new rules of procedure for the SALW Commission as well as in improving the investigation and record keeping capacities. Activities on awareness raising, outreach and education on the dangers and risks related to the misuse, illicit possession and trafficking of firearms/SALW are limited, as well as reduction of illicit firearms through legalisation, voluntary surrender, deactivation and destruction.

Cooperation in the field of drugs

Institutional set-up and legal alignment

A national drugs observatory (NDO) exists since 2007 in the Ministry of Health. However, it lacks sufficient staff and hence its operational capacity (e.g. in terms of data collection) remains limited. There is still no national early warning system to liaise with the European Monitoring Centre for Drugs and Drug Addiction on new psychoactive substances and new trends.

The 2021-2025 National Drug Strategy and the Action Plan 2021 - 2023 were adopted in July 2021. The Strategy is based on human rights, guaranteed security of all citizens, and aims at providing quality services by state government bodies, the bodies of the local self-government units, the institutions, and the civic associations. Proper implementation, monitoring and evaluation of the Strategy need to be ensured.

A new law on Control of Narcotic Drugs and Psychotropic Substances has been drafted. Any changes to the law must comply with the EU *acquis* and international standards.

Implementation and enforcement capacity

The operational capacity of the NDO is limited. It needs to have sufficient staff and a regular process of cooperation with relevant stakeholders. A national early-warning system needs to be set up.

In 2021, there was a significant improvement in the prevention of drug trafficking. A total of 701 criminal offences were recorded against 840 perpetrators. 10 organised criminal groups with 61 members were uncovered and suppressed, while in the first half of 2022, 9 organised groups of 36 members.

In 2021, the Ministry of Interior confiscated 18,301 stems of cannabis and as 6,960 ml of alcoholic solutions of tetrahydrocannabinol from legal entities holding a License for production of cannabis oil extracts for medical purposes, whose production premises and equipment were used for illegal cultivation of the narcotic drug - cannabis and production of oil extracts. The control of those entities by law enforcement authorities needs to be strengthened.

Cooperation with neighbouring countries is good, including on ad hoc operations.

Fight against terrorism

Institutional set-up and legal alignment

There is a national coordinator for counter-terrorism and countering violent extremism and two deputies responsible for the prevention of violent extremism and for the fight against

¹⁰ Aligned with the goals and key performance indicators of the 2018 Regional Roadmap for a sustainable solution to the illegal possession, misuse and trafficking of small arms and light weapons and their ammunition in the Western Balkans.

terrorism.

The Office is responsible for coordinating inter-institutional cooperation, in the form of the National Committee for the Prevention of Violent Extremism and the Fight Against Terrorism, chaired by the National Coordinator. The committee includes representatives of the key institutions countering terrorism and violent extremism. The new composition was nominated in November 2021.

Responsibility for terrorism-related issues is with the Ministry of Interior's Department for the Suppression of Organised and Serious Crime.

The **legal framework** is broadly aligned with the EU *acquis* and international anti-terrorism instruments. A bank account register is still not established. Legislation on the protection of critical infrastructure is under preparation.

The national **strategy** for countering terrorism (2018-2022) and the strategy for countering violent extremism (2018-2022), and related action plans, will expire at the end of 2022. The drafting of new strategic documents has started, and those need to be aligned with the EU policy and key principles on Preventing and Countering Violent Extremism (P-CVE), following an evaluation and in consultation with relevant stakeholders and adopted.

A National Plan for reintegration, resocialisation and rehabilitation of foreign terrorist fighters returnees and members of their families (women and children) continued to be implemented. Further progress is needed to develop a single and comprehensive approach in dealing with foreign terrorist fighters and their families.

The implementation of the Bilateral Implementing Arrangement of the Joint Action Plan on Counter-Terrorism for the Western Balkans progresses well and the parties agreed to update the arrangement. North Macedonia submitted the fourth interim report in March 2022. Further efforts are required in order to implement the remaining activities envisaged in the arrangement.

Implementation and enforcement capacity

There are currently 9 foreign terrorist fighters in prison. No prisoners were released in 2021 and two persons were released in the first half of 2022.

143 citizens of the country have left for conflict zones since 2012: of these 69 have returned, 38 have been killed. There are 5 active fighters in the conflict zones. No departures to the conflict zone were registered in 2021 and 2022.

Local mechanisms for the prevention and countering of violent extremism are in place. Community action teams are set up in four sensitive municipalities (Cair, Gostivar, Kicevo and Kumanovo) and have prepared their own action plans.

Efforts were made to set up structures and mechanisms to deal with reintegration at the local level with a whole-of-society approach and inclusion of civil society. Nine local multidisciplinary teams have been set up in Skopje, Tetovo, Kumanovo, Gostivar, Ohrid, Struga, Kicevo, Plasinca and Makedonski Brod in order to provide support to returnees and their families and are starting with their activities. Coordination between the different bodies established at local level is needed, as well as making them fully operational. A better clarification of competences, tasks and responsibilities between local and central level on P-CVE is needed.

Radicalisation in prisons remains a concern and more actions are needed in that respect.

Judicial cooperation in civil and criminal matters

The liaison prosecutor with EUROJUST facilitated ongoing investigations of serious, cross-border, organised crime, terrorism, given the increased number of cases that have connection with the Western Balkans.

Progress was limited regarding the legal framework for cooperation in civil and commercial matters. An Agreement for mutual legal aid in civil matters was concluded with Kosovo. North Macedonia should ratify the four Hague Conventions that it has already signed. In 2021, there were 856 incoming and 233 outgoing requests for mutual legal assistance in civil matters. The employees in the international legal aid department attended a workshop on the application of the Hague Conventions.

There were 429 incoming and 141 outgoing requests for mutual legal assistance in criminal matters. During 2021, the country has not sent out nor received any requests for the transfer of sentenced nationals back to their country of origin or extradition requests.

Staff in the Department for Mutual Legal Assistance attended English courses. One of employees in the unit for criminal matters is the EUROJUST contact point and another is the European Judicial Network (EJN) contact point. The country has appointed a liaison prosecutor for EUROJUST, who works only part time. The country participated in 32 new cases at EUROJUST, most of them relating to organised property crime, money laundering, terrorism and swindling and fraud. Steps were taken to establish cooperation with the European Public Prosecutor's Office (EPPO).

Legal and irregular migration

Institutional set-up and legal alignment

The legal framework is largely in line with EU standards. The declaration of a state of crisis at the country's borders was extended until the end of 2022, allowing for the continued deployment of the army. The Ministry of Interior is the main actor in the field of migration. The fragmentation of tasks between the **institutions** dealing with migration persists, making management less effective. In December 2021, Parliament adopted a new Resolution on Migration Policy and its Action Plan (2021-2025) which defines the country's strategic directions and measures in migration management. The country's new migration profile 2021 was developed, which includes relevant statistics on legal and irregular external migration and on internal migration, as well as analysis based on the perception of migration trends in the last decade (2009-2019). The new **strategy** for integration of refugees and foreigners is still pending adoption, as there is no political will to move it forward. The implementation of the National Strategy for Cooperation with Diaspora 2019-2023 should be enhanced. The readmission agreements with EU countries continue to be implemented.

Implementation and enforcement capacity

North Macedonia continues to play an active role in the management of mixed migration flows on one of the main transit routes for irregular mixed movement. The contingency plan to manage large migratory flows still needs to be finalised and adopted. With the support of guest officers from EU Member States, effective control at the southern border has been ensured.

While the registration of migrants apprehended in the country resumed at the beginning of 2021, the lack of proper protection-sensitive profiling and referral to national protection mechanisms of all persons identified as needing international protection or having other protection needs remains a concern. Registration of migrants needs to be carried out in a systematic manner and protection-sensitive profiling needs to be improved. With the support

of the national authorities, European Border and Coast Guard Agency developed an in-depth assessment (Masterplan) for North Macedonia, providing a comprehensive, detailed and feasible implementation plan for the development of IT systems and communication infrastructure for the identification and registration of mixed migration flows in line with EU requirements to support future interoperability with EU large-scale IT systems. In the absence of effective readmission arrangements with the neighbouring countries, the practice of returning apprehended migrants outside of the legal and/or procedural framework to neighbouring countries continued and should be discontinued as a matter of priority. There is a systematic substantial discrepancy between the figures of reported irregular crossings and presence in the transit centres, which are often almost empty.

Irregular movements through the territory continued at a decreased pace compared with the previous years. The number of irregular arrivals in 2021 was 20 874 persons, compared to 41 257 persons recorded in 2020, traveling predominantly from Greece towards Serbia (some 86 %), with the nationals of Pakistan (34 %) and Afghanistan (22 %) constituting the largest groups, mainly single males. People in irregular movement remain targets of organised criminal groups engaged in people smuggling, that often extort money and abuse them in various ways. They are at risk of human rights violations along the route. Five migrants died in 2021 while on the move in the country.

Although police operations were carried out and some arrests took place, smuggling of migrants continues. 64 cases of smuggling of 815 migrants were detected. In comparison to 2020 the detected cases of migrant smuggling showed a decrease of 33 %, and there is also a decrease of more than 70 % with regard to smuggled migrants. The number of migrants smuggled remains high and combating smuggling networks must be improved as a priority.

Two temporary transit centres at the borders are still in function, offering short-term accommodation for a total number of 2 810 persons (798 in Vinojug and 2 012 in Tabanovce) in 2021. Neither of the transit centres are suitable for long-term stays, and the authorities continue to be reluctant to provide for more than a temporary stay. The running costs of both centres continues to be covered from non-governmental sources. The legal status of both centres remains a serious gap that has led to the adoption of several practices not in line with legal standards. There is no procedure or judicial oversight of the decision for accommodating migrants in Vinojug that became a closed centre, with limited freedom of movement for migrants. In 2021, the national authorities also used Vinojug to *de facto* detain migrants intercepted during the smuggling incidents for the purpose of taking their statements as evidence before the Criminal Court (many of them unaccompanied minors), while those seeking asylum were processed within 3-4 days and transported to Vizbegovo Reception Centre for Asylum Seekers.

The readmission agreement with the EU is being implemented in a satisfactory manner by the country. In August 2021, the Protocol between the Government and the States of the Benelux on the Implementation of the Readmission Agreement. The implementing protocols with ten EU Member States continue to be efficiently implemented. In 2021, the decrease in the number of return decisions issued to nationals of North Macedonia continued. (2 200 in 2021 compared to 2 360 in 2020, representing a 7% decrease), as well as in the number of people effectively returned (940 in 2021 compared to 1 445 in 2020, representing a 35% decrease). In the first six months of 2022, 940 citizens of North Macedonia were ordered to leave, while 540 were effectively returned.

In 2021, North Macedonia temporarily hosted some 633 evacuees/refugees from Afghanistan. The evacuees were hosted in local hotels, while awaiting resettlement to other countries. By the end of November, 85 evacuees/refugees were resettled.

As of March 2022, North Macedonia has started hosting refugees from Ukraine, mostly in private accommodation, who have been granted a temporary protection status.

Refugees from Kosovo, mainly Roma estimated at 251, remain in limbo with an uncertain status. Except for a limited number (14) of recognised refugees, the rest have either subsidiary protection (87) or no status (150). While the national authorities are not returning or deporting them, they remain without status and without access to rights. After two decades of living in the country, with various statuses, there is a need for a sustainable solution. In 2021 through the assisted voluntary return and reintegration programme, a total of 6 third country nationals not in need of international protection, were assisted with their return to their countries of origin, including Türkiye, Armenia and Iraq.

Asylum

Institutional set-up and legal alignment

The Law on international and temporary protection, is largely aligned with the EU *acquis* and relevant by-laws are in place. A gap remains in the area of detention for people in irregular movement, as the current legislation does not provide alternatives to detention. The absence of personal identification numbers for asylum-seekers and persons under temporary protection remains unaddressed and is a critical gap in the protection of rights guaranteed by the law, such as the right to work, opening a bank account and managing property, certification of education and others. The law provides the right for family reunification. Recognised refugees can benefit from it immediately but concerns remain regarding delayed family reunification for people under subsidiary protection, for two years following status recognition. Since subsidiary protection is becoming a prevalent form of protection granted in the country, including for unaccompanied children, such delays may significantly affect the right to family unity and, in the case of children, contravene the principle of the best interest of the child.

The law on foreigners allows for granting long-term residence to people who have enjoyed international protection, thus facilitating their local integration. However, they must still present proof of regular income and a registered place of residence to benefit from this provision. Given the extreme vulnerability of some applicants, there is a risk that the rights under this provision remain only theoretical. Such requirements are especially difficult for Kosovo Roma who are still under subsidiary protection. Their status is reviewed every year and prevents them from acquiring long-term employment.

Implementation and enforcement capacity

The implementation of the asylum procedure is not yet in line with the EU *acquis*. The arbitrary detention of people apprehended in irregular movements in the reception centre for foreigners in the Gazi Baba municipality to ensure their testimony as witnesses in court cases against smugglers continued. This practice is not in line with international standards. During 2021, a total of 197 adults (171 men and 26 women) were detained in the centre for foreigners in Gazi Baba as well as 18 minors (3 accompanied and 15 unaccompanied). Following a government decision of October 2021 to suspend construction activities for the new reception centre for foreigners in Bardovci, no new location was found for this building. The only remaining facility of this type is the old reception centre for foreigners in Gazi Baba. Regular reception capacity remained unchanged and is adapted to current needs. The authorities did not put in place alternative state-run accommodation facilities for persons with specific needs. In 2021, the time spent in detention was between 29 and 50 days on average, which is considered as too lengthy. There is still no effective judicial control over the detention practices and migrants in detention do not benefit from legal counselling and assistance to have effective access to justice and legal remedies.

Access to the asylum procedure continued to be ensured. In 2021, 100 applications for asylum were submitted (a decrease in comparison to 211 in 2020), out of which 22 % from Syria, 16 % from Pakistan, 9 % from Türkiye, 7 % from Cuba and 5 % from Chechnya. Asylum claims were promptly registered and processed. By the end of 2021, the Sector for Asylum conducted 25 online asylum interviews, granted subsidiary protection to four persons and rejected 23 persons, while the procedures for the others were discontinued as the asylum-seekers had absconded. Refugee status has not been granted to anyone since 2016. The existing database on foreigners still needs to be upgraded through the development of a new asylum module, which should provide a case-management tool for processing asylum claims. There is no backlog of asylum cases, and the majority of cases are discontinued due to the high rate of claim abandonment.

Despite some progress, the quality of asylum decisions remains of concern. Most of those granted subsidiary protection are vulnerable persons and unaccompanied and separated children without a proper consideration of the merits of the claim but rather of the humanitarian needs. The length of the entire asylum procedure may last several years, which is not efficient. Inter alia, credibility assessments, the legal reasoning of decisions, the individual assessment of the personal circumstances of the applicants, the correct assessment of relevant and updated country of origin information, and the prioritisation of manifestly founded cases remain to be addressed. Although guaranteed by law, no favourable procedure has been implemented in relation to persons with specific needs.

The Administrative Court and the High Administrative Court continue to take decisions on procedural grounds rather than on the merit of the asylum claims. The cases returned to the administrative authority remain unchanged despite the court ruling. Therefore, the asylum procedure is prolonged with no effective remedy. The in-person hearing of attorneys and asylum officials, but not of the asylum-seekers, continued. Decisions on status determination are usually accompanied by an automatic ruling of expulsion without quality assessment of whether an individual may be subject to persecution upon return.

In 2021, the Sector for Asylum continued the practice of terminating international protection for refugees from Kosovo who were granted subsidiary protection. Between January and December 2021, 43 Kosovo Roma (21 cases) lost subsidiary protection. Such practices undermine the possibilities of finding a lasting solution for the remaining refugees from Kosovo and closing this long-standing issue. There are no state-funded interpretation services provided at any stage of the asylum procedure or for any language, and this represents a major gap in the asylum procedure. Free legal aid foreseen under the amended Law on Free Legal Assistance remained unavailable.

In 2021, the government continued to enrol asylum-seeking children in primary education shortly after their arrival. However, proper inclusion in the educational process needs to be addressed, providing that children undergo a procedure to determine their level of knowledge as foreseen by the Law on Primary Education and are placed in the appropriate education level. In addition, no systematic Macedonian language and extracurricular classes are offered to foster an easy transition between education levels, including secondary education. Older children continue to miss education opportunities due to these gaps. Teachers should benefit from support and guidance in working with refugee children.

High level political will is needed to implement further improvements in the asylum system. The country cooperates with the European Union Agency for Asylum (EUAA) through implementation of a comprehensive Roadmap to support the establishment of asylum and reception systems in line with EU standards for the period 2020-2022.

Visa policy

The visa regime is largely aligned with that of the EU. The Commission's fourth Report under the Visa Suspension Mechanism¹¹ of August 2021 concluded that North Macedonia continues to meet the visa liberalisation benchmarks. The national legislation is not fully in line with the EU list of countries whose nationals are subject to a visa for short stays in the EU. Short stay visas have been unilaterally abolished for nationals of third countries who are national holders of a permanent or temporary residence permit issued by an EU/Schengen Member State as well as for nationals of third countries who are in possession of valid multiple US, Canadian and UK visas. North Macedonia has re-introduced the visa requirement for Russian nationals in March 2022.

The visa policy needs to be further aligned for a number of countries currently on the EU visa-free list, whose nationals are still required to have a visa to enter North Macedonia.

Schengen and external borders

Institutional set-up and legal alignment

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

The legislative framework for the management of external borders is largely aligned with EU standards. The National Strategy for Integrated Border Management 2022-2025 was adopted in 2022 and is aligned with the 2006 EU concept on integrated border management. The Law on Border Control remains to be amended in order to align it with Directive 2016/681 on the use of passenger name record (PNR) data for the prevention, detection, investigation and prosecution of terrorist offences and serious crime.

Implementation and enforcement capacity

Mixed police patrols are deployed at the southern border involving members of the border police of Austria, Croatia, Czechia, Hungary, Poland, Slovenia, Slovakia and Serbia, to manage migration flows. The national authorities cooperate with the European Border and Coast Guard Agency (Frontex) and participate in joint operations. In August 2022, the Commission negotiated a status agreement with North Macedonia that is expected to be signed before the end of the year. In the meantime, the country cooperates with Frontex in developing an operational plan, allowing for the rapid deployment of teams in the country.

North Macedonia's National Coordination Centre for cooperation in the field of external border surveillance is partially operational with more progress required on institutional and operational capacity, IT and technical expertise.

Cooperation with neighbouring countries continues to be good. There is a smooth implementation of border agreements with most neighbouring countries. Joint border patrols with neighbouring countries and the joint police contact centres continued to regularly exchange information. There were mixed patrols with Albania, Serbia and Kosovo. There are currently two common border-crossing points for local traffic with Serbia and one with Albania

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

¹¹ COM(2021) 602 final

2.3. ECONOMIC CRITERIA

<i>Table 3.1:</i>	2013-18	2019	2020	2021
North Macedonia - Key economic figures	average			
GDP per capita (% of EU-27 in PPS) ¹⁾	37	38	37	42
Real GDP growth	2.9	3.2	-6.1	4.0
Economic activity rate of the population aged 15-64 (%), total ¹⁾	65.1	66.3	65.5	65.5
<i>female</i>	52.0	54.8	54.0	53.4
<i>male</i>	77.8	77.3	76.7	77.1
Unemployment rate of the population aged 15-64 (%), total ¹⁾	25.2	17.4	16.6	15.8
<i>female</i>	24.7	18.6	16.1	14.7
<i>male</i>	25.5	16.6	16.9	16.6
Employment of the population aged 15-64 (annual growth %)	2.5	5.4	-0.5	0.2
Nominal wages (annual growth %)	2.5	5.1	8.3	5.7
Consumer price index (annual growth %)	0.8	0.8	1.2	3.2
Exchange rate against EUR	61.58	61.51	61.67	61.63
Current account balance (% of GDP)	-1.3	-3.3	-3.4	-3.5
Net foreign direct investment, FDI (% of GDP)	3.0	3.2	1.5	3.7
General government balance (% of GDP)	-3.1	-2.0	-8.2	-5.4
General government debt (% of GDP)	38.3	40.5	51.9	51.8

Notes:

1) Eurostat

Source: national sources

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

Economic governance has become even more central in the enlargement process in recent years. The Commission's monitoring takes place in two processes: the Economic Reform Programme exercise and the below assessment of compliance with the economic criteria for accession. Each enlargement country prepares an 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 Türkiye at ministerial level in May each year.'

2.3.1. The existence of a functioning market economy

North Macedonia has made **some progress** and is at a **good level of preparation** in developing a functioning market economy. In 2021, the economy largely recovered from the COVID-19 crisis, partly reflecting fiscal support measures implemented to help the recovery. Simultaneously, the government stepped up public investment although capital spending still lagged behind plans. Helped by rebounding tax revenue, the fiscal deficit declined to 5.4 % of GDP in 2021, while the general government and the public debt levels stabilised after a large increase in 2020. With the rise in food and energy prices accelerating in early 2022, the government adopted a new set of fiscal measures to contain the negative impact on the economy. These measures were though not well targeted to those most in need. The central bank tightened its policy stance in view of rising inflationary pressures.

Important policy reforms to improve fiscal governance and the sustainability of public

finances stalled. The management of public investment remains to be improved; the new framework for governing public-private partnerships has not yet been adopted by the government; and the indexation of pensions has been changed to also reflect wage developments alongside inflation, implying further expenditure pressures on the already strained Pension Fund. After long delays, the new Organic Budget Law, which provides for fiscal rules and a fiscal council, was adopted by the Parliament in mid-September.

The banking sector remained sound, liquid and profitable, and financial stability was bolstered by progress on some key legislation. Credit growth to the private sector accelerated, in particular to companies. Regulatory measures to ease borrowing requirements were phased out in 2021. The business environment continued to be impeded by the large size of the informal economy and slow progress in streamlining para-fiscal charges.

As the recommendations of last year were partly implemented and in order to improve the functioning of the market economy, North Macedonia should in particular:

- Improve the targeting of fiscal support to help vulnerable households and companies facing rising food and energy prices and ensure its the temporary nature; improve revenue collection and broaden the tax base in line with the Tax System Reform Strategy, including by streamlining tax exemptions;
- Implement the Organic Budget Law and ensure the timely establishment of the Fiscal Council;
- To improve the business environment, widen the range of services available for businesses and citizens on the government's e-portal and streamline para-fiscal charges in line with the established inventory.

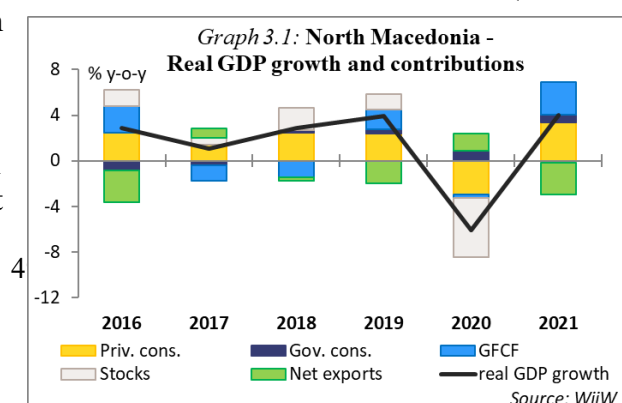
Economic governance

The government provided large-scale fiscal support to the economy to cope with rising price pressures, but progress on important reforms was slow. While continuing to implement pandemic-related anti-crisis measures from six packages adopted in 2020 and 2021, the government agreed on a new set of measures, in March 2022, to ease the burden of high food and energy prices on the economy. At the same time, it bolstered public investment, by raising capital expenditure in 2021 and launched a new Growth Acceleration Plan for the period 2022 to 2026, which foresees sizeable public investment to leverage additional private financing. Yet, some important reforms have progressed only slowly or stalled, such as improvements in public investment management; the broadening of the tax base; the establishment of a fully functioning state-aid registry; and the adoption of a new legal framework for public-private partnerships. The new Organic Budget Law, which provides for fiscal rules, a fiscal council and a proper medium-term budgetary framework was submitted to the Parliament in December 2021 and was finally adopted in mid-September 2022. There was reform reversal with regard to the move back to a price and wage-linked indexation formula for pensions, which is likely to raise the pensions bill considerably.

The policy guidance jointly agreed at the July 2021 Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye has been partially implemented. The government fulfilled all conditions for the disbursement of the second tranche (EUR 80 million) of macro-financial assistance from the European Union.

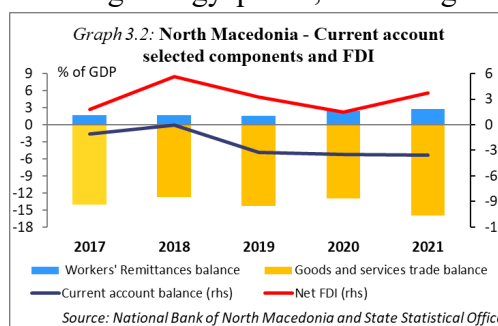
Macroeconomic stability

Domestic demand recovered in 2021 amidst accelerating inflation. After output



dropped by 6.1 % in 2020, the economy rebounded by 4 % in 2021, driven by domestic demand. Remittances from abroad returned to pre-crisis levels, bolstering household's disposable income, and wage subsidies from the government helped to keep employment stable. COVID-19-related containment measures were gradually lifted. Growth dynamics slowed down towards the end of 2021, as external demand weakened, disruptions in global supply chains aggravated, and food and energy prices started to rise rapidly. Due to strong import growth, driven by steeper global commodity prices as well as reinvigorated domestic demand, net exports' contribution to GDP growth turned negative in 2021. In the first half of 2022, annual GDP growth averaged 2.6%, driven partly by a robust rise in investment. Convergence with EU income levels has remained sluggish. Real GDP per capita has increased only marginally in the past five years, from 36 % of the EU-28 average in 2015 to 38 % in 2020.

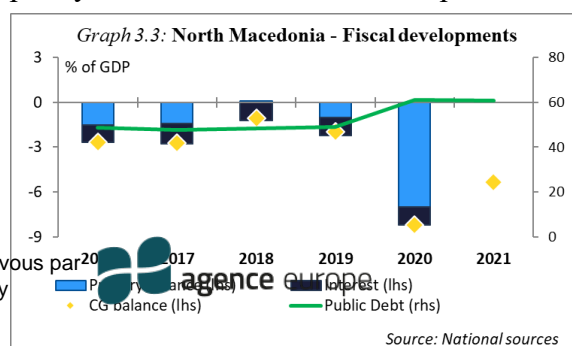
The external position started to deteriorate in late 2021, as the post-pandemic recovery strengthened while import prices rose sharply. In 2021, the current account deficit remained at the same level as one year earlier, at 3.5 % of GDP, above its average of the period 2017 to 2019 (1.5 %). However, since the last quarter of 2021, the merchandise trade balance has deteriorated steadily, largely on account of rising energy prices, reflecting the country's high dependence on energy imports. This led to a widening in the current account deficit, even though private transfers from abroad, including workers' remittances, picked up markedly in 2021 and beyond, after their pandemic-related decline in 2020, and the surplus in the services balance increased, as containment measures were lifted. The shortfall in the current account in 2021 was covered by net FDI inflows, which reached 3.7 % of GDP, from a low 1.5 % in 2020, hence surpassing their average in the period 2017 to 2019 (3.5 %).



After having decreased each year between 2016 and 2019, the external debt ratio jumped by 7.3pps in 2020 to 80.3 % and it rose further to 81.4 % in 2021, mainly as a result of continued foreign financing for crisis-induced needs. However, the structure of the debt implies moderate risks. Long-term debt makes up about 70 % of the total, and the share of intercompany debt and trade credits, which constitute less volatile components of foreign debt, is high.

Foreign reserves came under pressure in early 2022 which abated somewhat over the summer. Foreign reserves were bolstered in 2021 (+8.4 % year-over-year at end-2021, representing five months of prospective imports) by financial inflows, including the second tranche of macro-financial assistance from the European Union, a pickup in foreign direct investment, as well as portfolio inflows. However, in the first quarter of 2022 and beyond, due to a large increase in the energy trade deficit, domestic conversion pressures into euro-denominated assets, and public debt repayments, foreign reserves declined. Partly due to a seasonal increase in private transfers, reserves increased slightly over the summer. However, at end-August they were still lower by 9.8 % compared to end-2021.

The central bank continued its accommodative monetary policy in 2021, but started tightening in early 2022, in light of accelerating inflation. The central bank raised the key policy rate four times between April and July 2022, from the historic low of 1.25% to 2.5%, effectively putting an end to its accommodative policy stance during the pandemic. Beginning in late 2021, import price increases accelerated, and domestic price pressures firmed up,



including from sustained wage growth, which was further fuelled by an 18.5 % hike in the minimum wage as of March 2022. The consumer price index rose by 3.2 % in 2021, compared to 1.2 % in 2020, with increases accelerating further each month since the beginning of 2022, to an average of 11.6 % in the first eight months. The currency is in a stable, *de facto* pegged exchange rate regime with the euro. Concerns arose about the operational independence of the central bank, as it has not been exempted from the draft laws on administrative servants and the law on public sector employees. Overall, the monetary policy stance has been in line with current economic fundamentals, responding to market expectations of further rising inflation, while mitigating the negative impact on the economy stemming from the pandemic and the energy crisis.

Public finances improved in 2021, as tax revenue recovered. In the 5 years preceding the pandemic, the general government fiscal deficit was declining each year, in terms of GDP, partly on the back of under-execution of budgeted capital expenditure, before jumping to 8.2 % of GDP in 2020 as the COVID-19 crisis hit public finances. Driven by higher tax income, public revenue recovered gradually through 2021 from the pandemic-related trough. Capital spending, at 79 % of the revised budget, was, again, severely under-implemented, yet much increased compared with 2020.¹² The deficit (5.4 % of GDP) remained below the revised target, and substantially below the 2020 deficit. Implementation of measures in 2021 from the six sets of anti-crisis measures amounted to some 2.5 % of GDP. The 2022 budget foresees a gradual phasing out of pandemic-related support amidst a large increase in capital expenditure. In March 2022, the government adopted measures totalling some EUR 400 million, to mitigate the negative economic impact from rising food and energy prices. This includes transfers to the state-owned electricity producer to subsidise prices on the regulated market, as well as temporary reductions in the VAT rate on fuel, gas oil and liquified petroleum gas (LPG) from 18% to 10 % (these measures expired on 1 June), and an extension of the lower VAT rate on electricity, delaying the gradual return to the regular 18 % rate,¹³ as well as a temporary zero rate on basic food products. To accommodate this package, the government, in May 2022, revised the budget, raising the deficit target to 5.3 % (+1pp compared to the original 2022 budget), in spite of an inflation-driven boost to tax income in the first quarter.

Debt levels stabilised in 2021 after the pandemic-induced surge in 2020. Both general government debt and public debt declined marginally in 2021 as a share of GDP. Government debt amounted to 51.8 % of GDP at end-2021 (-0.1pp y-o-y), after surging by 10.4pps y-o-y in 2020. The share of foreign currency debt increased in both years, because financing requirements were covered to a large part through borrowing abroad. Apart from funding the still elevated budget deficit in 2021, the government needed to roll over a Eurobond worth EUR 500 million, which it had refinanced through a new Eurobond issued in March 2021 (EUR 700 million). With no Eurobond maturing, debt rollover needs are benign in 2022, but financing the still elevated budget deficit requires careful debt management amid tightening global financial conditions.

Deficiencies in public finance management remain. Shortcomings in revenue collection and a large number of tax exemptions eroding the tax base have contributed to a decline in public revenue ratios in recent years. The rising pensions bill poses further risks to fiscal sustainability, exacerbated by the recent change in the indexation formula, a steep rise in

¹² However, this does not account for capital expenditure carried out by off-budget entities, the most significant one being the Public Enterprise for State Roads, which is implementing a sizable multi-year investment programme of over EUR 1 billion. Central and local government habitually accounts for about one third of total public sector investment.

¹³ The planned increase from 5 % to 10 % has been postponed from July to December 2022.

minimum wages, and a one-off pension increase in the first half of 2022. Further fiscal risks emanate from the recent resurgence of high budget arrears in the health sector.

Implementation of fiscal governance reforms has been sluggish. Implementation of the Action Plan for improving public investment management (PIM) is heavily delayed, including the setting up of a dedicated PIM unit in the Ministry of Finance. A draft law on public-private partnerships (PPPs) to address shortcomings in the current framework governing PPPs and concessions, was finalised in 2021, but is still awaiting adoption by the government. The law, which also provides for improved monitoring of fiscal risks arising from PPPs, would facilitate the planned increase in public investment. The government did not progress much on the implementation of its March 2021 Action Plan operationalising the 2020-2023 Tax System Reform Strategy. Rather, the tax base was further narrowed through new, partly permanent exemptions, such as for personal income tax in the IT industry. In August, the government announced plans for tax reforms aimed at expanding the tax base, including the introduction of progressive income taxation, to be implemented in the period 2023-25.

Progress on the implementation of the Organic Budget Law is slow. The new Organic Budget Law was adopted by the Parliament in September 2022 after a lengthy procedure, requires substantial secondary legislation, the development of which is only in its initial phase. Moreover, its implementation depends heavily on the introduction of the new integrated IT system (IFMIS), which is yet to be established as well.

The policy mix aimed to cushion the impact of the pandemic and the rise in the cost of living, but fiscal support could have been better targeted in view of the available fiscal space. With pressures on the budget increasing, broad-based fiscal support, such as tax exemptions for energy products, poses a risk to fiscal sustainability. The government faces the challenge of targeting support to vulnerable households and companies, and to keep support temporary. Shortcomings in the planning, implementation, and monitoring of measures, as well as in their transparency and accountability, impact on their effectiveness.¹⁴ The government also needs to envisage a gradual return to fiscal consolidation once the recovery is firmly entrenched. The recent tightening of monetary policy was appropriate, in light of increasing price pressures.

Functioning of product markets

Business environment

Streamlining the array of para-fiscal fees has progressed slowly. After the government took a first step in early 2021 towards reducing the number of para-fiscal fees, the process of assessing and optimising the published list of 377 charges at central and local level has not progressed much. The implementation of other key measures to improve the business environment is also protracted, such as the implementation of the 2019 Law on inspection supervision and implementing transparent and consistent procedures for inspections. The new bankruptcy law, intended to facilitate market exit by reducing the cost and time of procedures, has not yet been adopted. The use of fast-track procedures for public consultation has not abated, while quality control and ex post follow up to consultations remains deficient. The scope of digital services available on the national e-service portal with full electronic interaction has not much increased, with implementation suffering from low institutional capacity. In general, the government's approach to simplifying the business environment is not sufficiently systematic and consistent.

¹⁴ See also the findings of the April 2022 Performance Audit Report on the government's COVID-19 measures by the State Audit Office of North Macedonia.

Challenges posed by the large informal economy are not addressed in a decisive manner.

The informal economy continues to pose an important obstacle to business operations for regulated firms. According to IMF estimates, it could account for as much as 38 % of GDP.¹⁵ Implementation of the government's Strategy and Action Plan to combat the informal economy remains sluggish, in particular regarding the formalisation of undeclared workers. In October 2021, the government adopted a report assessing the implementation of this Plan, and also adopted a new, 2021-2022 Action Plan. The country's informal sector takes various forms, of which the most prominent are unregistered labour, partially undeclared wages and other irregularities in the enforcement of the Labour Relations Act.

State influence on the product market

Transparency and efficiency of state aid remains deficient. State aid was stepped up in 2020 (7.9 % of GDP) and 2021 (6.8 %), compared to the pre-COVID-19 period (average 2017-2019: 5.3 %), but its governance deteriorated further. While the authorities have ensured public dissemination of information related to the adoption of the COVID-19 support measures, including through a dedicated webpage, the information provided remains incomplete and the criteria for the selection of beneficiaries are often unclear. Anti-crisis measures suffer from inadequate planning, implementation and monitoring, as well as transparency and accountability. There is little *ex-ante* analysis of potential impact and little *ex-post* efficiency evaluation, as the April 2022 report from the State Audit Office found. The government also provided liquidity support to companies, in the form of interest-free credit. Overall, transparency and effectiveness of state aid is affected by the high number of state aid providers, the lack of an updated registry, and the still marginal competences of the Commission for the Protection of Competition (CPC) in state aid supervision. As a precondition for the establishment of a state aid registry, the government is setting up a management information system connecting different institutions, but overall, the process is delayed. The energy market was fully liberalised in 2019. However, in 2021, reforms in the energy sector slowed down since there was no tangible progress, either in the unbundling of the gas transmission system operator GA-MA AD, although a long-standing dispute over its ownership was finally settled. In 2021, 53.5 % of the electricity needs are provided on the open electricity market. This share increased compared to 52.24 % in 2020. Over 20 000 retail customers switched suppliers in 2021.

Privatisation and restructuring

The public sector's stake in the economy remains low. In 2021, the number of companies in full-state ownership went up by one (GA-MA AD Skopje, gas transmission), to 17, compared to the three preceding years. The number of companies in partial ownership decreased by one, to 39, most of these with a state ownership share of below 1 % of issued capital).¹⁶ The total value of state ownership in enterprises amounted to some 10 % of GDP. There are currently no plans for further privatisations.

Functioning of the financial market

Financial stability

The banking sector remained sound throughout the crisis. Banks are well-capitalised, liquid and profitable. The capital adequacy ratio increased further in 2021 and was above its level of five years earlier (+2.1 pps. at 17.3 % of risk-weighted assets), much exceeding the

¹⁵ The IMF figure is at the upper range of estimates.

¹⁶ The figures are based on information from the government. A new harmonised and internationally standardised Global Database of State-Owned Enterprises (SOEs) by the World Bank shows that there are 88 SOEs, of which 35 owned by the Government of North Macedonia at 100 percent ownership.

regulatory minimum. Liquid assets accounted for over one third of total assets at end-2021 and covered more than half of short-term liabilities. Return on equity (12.9 %) was higher than one year earlier. Bank funding was stable, with the loan-to-deposit ratio unchanged year-on-year (82 %). However, financial diversification progresses slowly, with banks accounting for some 80.5 % of financial sector assets at end-2020, lower by 5.3pps. compared to end-2015. The share of foreign equity in total bank equity has been consistently high in the past five years, at about 75 %.

Demand for foreign currency deposits remains strong. The appetite of savers for euro-denominated deposits, induced by, first, the COVID-19 crisis, followed by the energy crisis, continued. The share of foreign currency in total bank deposits has increased each quarter since end-2020, amounting to 47.4% at the end of the first quarter 2022 (+5.2pps. year-over-year). This prompted monetary authorities, in late March 2022, to amend reserve requirements, in order to promote local currency deposits in line with its 2018 denarisation strategy. The share of foreign-denominated in total loans, on the other hand, dropped in the same period. The ratio of non-performing loans (NPL in total loans to the non-financial sector has been decreasing continuously since the end of 2013, to a record low of 3.1 % at the end of the first quarter 2022. Households and corporates benefitted from regulatory easing with regard to lending, including measures enabling banks to approve a temporary moratorium on loan repayments, which were phased out in 2021.

Steps have been taken to strengthen the institutional framework for ensuring financial stability. Amendments to the Financial Stability Law, which would assign the central bank the leading role in developing and implementing macro-prudential and financial stability policies remain to be adopted. A regulation to facilitate the sale of NPLs was adopted in March 2022. Improved instruments to deal with NPLs are vital, as the economy might still face a rise in NPL, following regulatory normalisation and renewed cost pressures on companies from rising import prices and the war in Ukraine. Also, in July 2022, the National Bank adopted a decision to increase the countercyclical capital buffer to 0.5% as of August 2023.

With a view to improving financial literacy, the financial regulators, led by the central bank, adopted the first national Strategy for Financial Education and Financial Inclusion in 2021. On this basis, the central bank adopted a Code of Good Practices for Financial Education, establishing the principles to be respected by institutions offering financial education programmes.

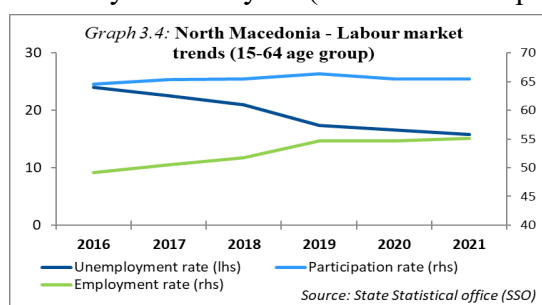
Access to finance

Bank lending has sped up, but financial deepening progresses only slowly. Central bank action as well as liquidity support from the government have eased access to finance for companies since the onset of the pandemic. Credit growth to the non-financial private sector picked up in 2021 (+0.3pps year-over year to 6.2 % on average), and accelerated further in the first three months of 2022. Unhabitually, growth in lending to corporates exceeded the increase for households. Local currency lending rose faster than credit in foreign currency. At 88.3 %, the ratio of total assets of the banking sector to GDP was below its level of one year earlier, but substantially above its level of end-2016 (74.8 %).

Functioning of the labour market

The recovery and government support measures have bolstered the labour market, but structural problems remain. Wage subsidies and liquidity support from the government bolstered labour market resilience also in 2021 and beyond. According to data for the second quarter of 2022 from the Labour Force Survey, which has been based on the results of the

2021 population census since the first quarter of 2022, the labour force (15-64) dropped by 14.2 % year-over-year (end of second quarter 2022), while the activity rate rose by 0.9 pps in



this period, to 66.4 %, implying a large drop in the working age population.¹⁷ The number of unemployed decreased even more sharply than the labour force, bringing the unemployment rate down to 14.7% (-1.3pps. year-over-year). Labour market participation rates rose for both, men and women. Yet the gender gap widened for the second year in a row, after narrowing consistently between 2014 and 2019, as the participation rate

for men rose by more during the pandemic than the rate for women. The gap widened by 2.5pps, to 25.8pps. (end of second quarter 2022), compared to the same period one year earlier. Youth unemployment remains high, at 30.9 %, but is declining steadily (-6.9pps. year-over-year). Compared to the first quarter of 2022, the unemployment rate for the age group 15-24 years declined by 3.9pps, with the labour force in this cohort lower by 7.9%. Youth unemployment has declined significantly since the government's Youth Guarantee scheme entered into force in 2018. Around 80 % of unemployed are so long-term, largely reflecting an entrenched skills mismatch. Given limited human and financial resources in employment agencies, the government faces the challenge of better targeting the vulnerable unemployed, with a view to their participation in active labour market policies. The share of informal workers in total employees remained high, at some 14 % in 2019, according to government data, even though declining persistently since 2015. The average tax wedge is regressive in North Macedonia at the bottom of the income distribution: the average contribution rate therefore takes a much higher share of the total income of low-wage earners.

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

North Macedonia has made **some progress** and is **moderately prepared** to cope with competitive pressure and market forces within the Union. Integration with the EU in trade and investment remained at a high level in 2021, in spite of lockdowns and disruptions of supply chains domestically and in trade partner countries. The share of high-value products in exports increased further. There was further progress towards improving vocational educational training (VET), but major skills shortages persist with regard to labour market needs, entailing long school-to-work transition. These, as well as large gaps in transport and energy infrastructure, coupled with low investment and innovation spending are restricting potential growth. The digitalisation of the economy is advancing, but the competitiveness of domestic businesses could be improved through a wider offering of public e-services.

As some of the 2021 recommendations have not been fully implemented, most requirements stay the same and North Macedonia should in particular:

- Increase financial and human resources to speed up reforms of the VET system;
- Adopt and implement energy efficiency legislation, including implementing legislation to the energy efficiency law and enhance related human and technical capacity;
- Set up an energy efficiency fund.

¹⁷ The new census implies a structural shift in labour market data, impacting the results of the LFS. Hence, as the Statistical Office points out, this affects the comparability with data from preceding years. Compared with the first quarter 2022, the labour force (15-64) rose slightly in Q2, by 0.1pps, and the unemployment rate declined by 0.2pps., partly reflecting seasonal effects.

Education and innovation

Progress in reforming education curricula and reducing skills mismatches is hampered by lack of funding and capacity. While North Macedonia has progressed very well in terms of the number of people with higher educational attainment, curricula are not well suited to equip graduates with necessary skills to match labour demand. State financial support for education is insufficient and coordination between the education sector and businesses is weak. In 2020, public spending on education and training amounted to 3.3 % of GDP, compared to an average of 3.7 % of GDP in the past five years. This is much below the EU-level (5 %) and also below peer-country averages. It hinders an adequate implementation of the 2018-2025 education strategy. Moreover, spending is highly inefficient, mainly on account of outdated formulas for the redistribution of public education funds by the municipalities. There was substantial improvement in the 2018 PISA ranking, compared to 2015, but the country still ranks in the lowest quartile. Vocational training (VET) curricula are under revision since 2019, so as to adjust them to labour market needs. However, the modernisation of the country's three VET centers is hampered by slow parliamentary adoption of necessary legislation. Innovation activity remains, overall, low. At 0.4 % of GDP, including a small share from the private sector, the economy's expenditure on research and innovation has not increased over recent years, and remains significantly below the EU average. The country remains an emerging innovator, according to the EU innovation scoreboard.

Physical capital and quality of infrastructure

Investment spending remains low in light of major needs to increase physical capital. Gross capital formation (GCF) as a share of GDP rose to 33.8 % in 2021, up from 29.6 % in 2020. The share of gross fixed capital formation (GFCF) in GCF amounted to 76 % in 2020, or 22 % of GDP (compared to 24 % in 2015). The share of investment in construction has been rising in recent years and made up about 29.5 % of GFCF in 2020, followed by industry (22 %). Trade, transportation, food and services accounted for 17 % of GFCF. In terms of ownership, public sector investment makes up about 22 % of the total amount of GFCF, mainly on account of road construction through the Public Enterprise for State Roads. In the face of the current energy crisis, as well as the protracted works on a number of major road and rail projects, the need to modernise the country's capital stock, in particular the transport and energy networks, appears ever more pressing.

Regional transport connectivity progresses slowly. There has been some progress on upgrading major road sections to highway level, but the works on Rail Corridor VIII to Bulgaria are still stalled. After the second deadline to complete the construction of the Kicevo-Ohrid motorway was missed in June 2021, the period for completion was extended by another two years. Works on Road Corridor X have restarted with a new contractor. The construction of the Eastern end of Rail Corridor VIII towards Bulgaria, which suffered from the termination of contracts in 2020 upon lack of progress on site and poor implementation capacity, is still facing significant problems, and no new contractor has been selected. Regarding Rail Corridor X, the joint agreement with Greece for facilitation of the rail border procedures is still pending. There was some progress on the Joint Railway Border Station with Serbia, with the tender procedure to be launched by end-2022. Maintenance and service of regional and local roads and rail systems need to be improved.

The digitalisation of the economy is advancing further, but remains low compared with the EU. The percentage of households with internet access at home increased by 10 pps. between 2015 and 2020, to 79 %. A fixed broadband connection to the Internet is used by 88 % of household users, and by 92 % of enterprises with ten or more employees, but smaller companies still face obstacles. Of the total number of enterprises, 54.5 % had a

website/homepage. Overall, there is a particular need to increase access to broadband; expand available e-government services; and develop digital skills.

Energy diversification needs are pressing, while measures to improve energy efficiency are lagging. The economy is characterised by high-energy intensity with low efficiency in energy production and consumption. Electricity generation is highly dependent on coal, and, with domestic coal reserves declining, on imports. The government plans to increase the share of renewable energy sources to 35-45 % of energy consumption by 2040. The distribution of natural gas, as an intermediate step in the decarbonisation process, is advancing, with efforts made to increase the transmission and distribution network. The total distributed quantity in 2021 was around 426 million m³ (+26.13 % compared with 2020). Gas accounts for some 11 % of electricity production, and 100 % of the country's gas is imported from Russia through a single connection. The connection to regional gas pipelines progresses only slowly. Works on the gas interconnection with Greece have not yet started. This project would support diversification of natural gas sources and facilitate access to transit pipelines. Further improving energy efficiency, including in residential and public buildings, is important to lower the economy's dependence on energy imports and to allow for the reduction of fiscal subsidies for energy. Yet, partly on account of limited technical capacity, the government has not progressed with the adoption of the needed by-laws to implement the 2020 Law on Energy Efficiency. Also, the legal and regulatory framework for the establishment of the Energy Efficiency Fund remains to be adopted. The government is providing a range of financial initiatives to support the private sector in its greening efforts, including the recently adopted Plan for Accelerated Growth (2022-2026), which foresees two funds to finance green economy projects.

Sectoral and enterprise structures

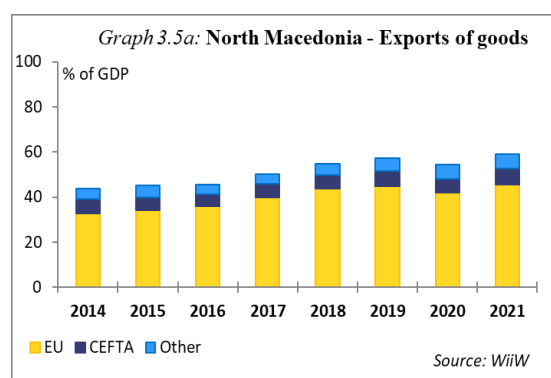
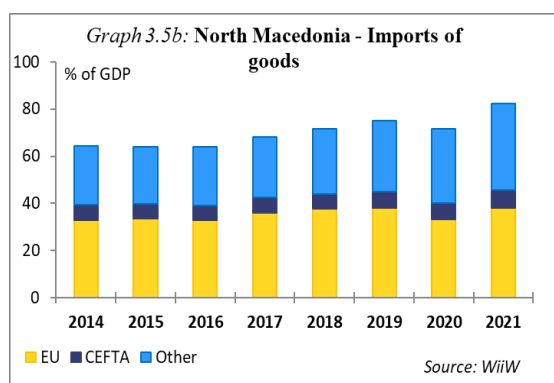
The economy's output structure diversified further through the pandemic. Even through the past two years, in which economic activity was troubled by pandemic-related restrictions, the sectoral and business structure continued their gradual transformation towards a higher share of services, including trade, in value added and in employment. The output structure, too, is increasingly determined by the service industries, which together accounted for some 66 % of total value added in 2021 (compared to 60.4 % in 2016 and 64 % in 2020). The share of manufacturing decreased slightly, compared to the preceding year, after having progressively gained ground in previous years. It stood at 14.8 % of value added in 2021 (-0.3pps. year-over year). Construction, too, weighed more lightly, overall (5.8 % of value added, compared to 6.2 % in 2020 and an average of 7.2 % in the period 2016-2020), reflecting weak investment dynamics during the pandemic. The share of agriculture dropped further in 2021, to 9 % (-0.8pps.).

Employment in services remained robust in spite of lockdowns. Although services were badly hit by pandemic-related containment measures, they still accounted for over half of total employment in 2021 (57.6 %), which is a stark increase compared to 5 years earlier (2016: 52.3 %), and higher than in 2020 (57 %), when lockdown rules were even stricter. In spite of the weak performance of the manufacturing sector in 2021, its share in total employment remained almost unchanged from the preceding year, possibly owing to government support schemes such as wage subsidies and reduced working hours. It is significantly above its level of five years earlier (19 %). The agricultural sector is gradually becoming less significant for overall employment. Its share in total employment dropped further in 2021 (11.5 %, down from 12 % in 2020 and 16.6 % in 2016). Overall, it is likely that financial support from the government's anti-crisis measures, which prioritised certain sectors of the economy, to some extent impacted on sectoral employment trends over the past 2 years.

The number of businesses increased again in 2021, after the large drop in 2020. The number of total companies in business decreased slightly further in 2021, on account of a further drop in micro companies (1-9 employees). On the other hand, the number of SMEs increased (+1.4% year-on-year) again, after the pandemic-induced decline in 2020. Overall, the share of SME and micro enterprises in total enterprises increased by 0.2 pps in 2021, to 99.8%, which is the average of the past five years. Micro and small companies account for 97.8% of total (+0.1pps), broadly stable compared to the pre-COVID-19 level.

Economic integration with the EU and price competitiveness

Trade openness remains relatively high. The economy posted a large increase in trade openness (exports and imports in goods and services as a share of GDP), to 148 % of GDP in 2021, after a drop in 2020 (to 130 % from 138 % in 2019), when trade volumes declined by more than GDP. The share of higher-value added products in the export structure rose further in 2021, including chemicals (26.8 %) and machinery and transport equipment (31.5 %), at the expense of the traditional exports such as iron and textile (below 20 %).



Mainly reflecting the product trade structure, which was impacted by the pandemic and its disruption of supply chains, exports to CEFTA countries increased, as a share of total, while those to the EU remained the same. In 2021, exports to the EU accounted for 77.3 % of total exports, which is only slightly less than in 2020, and partly due to the continued weakness in automotive supply exports, for which EU economies are the most important destination markets. The EU's share of imports, at 46.2 % of total, was about the same as in the preceding year. The share of exports to CEFTA countries (11.8 % of total exports) was higher by 0.8pps., while the share of imports from CEFTA countries remained about the same, at 9.5 % of the total in 2021. EU countries remain the most important investors in North Macedonia, accounting for some 56 % of total FDI inflows in 2021, but the EU-27 share in the total stock of direct investment has been declining since 2015 (66.1%), and amounted to 61.9 % in 2020 (EU-27). Concerns over external competitiveness have increased as wage growth accelerated, fuelled by the recent 18.5 % hike in minimum wages, coupled with compensating wage subsidies to employers, and by increases in public sector wages. The real effective exchange rate (CPI-based) continued to remain broadly stable also in 2021, appreciating somewhat in the last quarter, and depreciating in spring 2022.

2.4. PUBLIC PROCUREMENT, STATISTICS; FINANCIAL CONTROL

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.

North Macedonia is **moderately prepared** in the area of public procurement. **Limited progress** was made with the adoption of the new Public Procurement Strategy 2022-2025 and the launching of the new e-market system for low value procurement. Capacities of key institutions, contracting authorities and economic operators have to be further enhanced through continuous training. National authorities should implement more effective anti-corruption measures in the procurement cycle. The Strategic Partnership Law for the construction of Corridor VIII and part of Corridor X adopted last year raises concerns as it exempts the project from the application of the law on public procurement.

As the recommendations from last year's report were not fully implemented, in the coming year, the country should in particular:

- adopt the Public-Private Partnership (PPP) Law and the Law on Concessions, to further align the legal framework in these areas with the EU *acquis*;
- improve the co-ordination among key stakeholders and strengthen their capacities to implement the principles of transparency, free competition, equal treatment and non-discrimination;
- improve control of public procurement procedures through the efficient follow-up and reporting of irregularities, cases of conflict of interest and fraudulent practices.

Institutional set-up and legal alignment

The **legal framework** on public procurement is largely aligned with the EU *acquis*. The practice of 'blacklisting' companies due to professional misconduct during the procurement phase continued, which is not in line with the EU rules. In 2021, 33 negative references were issued by contracting authorities, six negative references were removed by the Public Procurement Bureau (PPB). The finalisation and adoption of the Public-Private Partnership (PPP) Law and the Law on Concessions is delayed.

In July 2021, the law nominating a strategic partner for the construction of Corridor VIII and part of Corridor X was adopted by the Parliament. The Law exempts the project from the application of the law on public procurement and directly awards the contract without a competitive procedure. The State Commission for the Prevention of Corruption initiated a procedure to assess the constitutionality of this law. In December 2021, the Constitutional Court did not accept the initiative.

The Public Procurement Strategy 2022-2026 accompanied by an action plan for the year 2022 was adopted in March 2022. The PPB continued to modernise and improve the public procurement system in the country in order to enhance its performance and functionalities. However, the monitoring and control competencies of the PPB need to be strengthened.

The cooperation among the PPB, the Ministry of Economy and the State Appeals Commission (SAC) remains insufficient. A more effective exchange of data and information should be ensured including with the State Commission for the Protection of Competition, the State Audit Office (SAO) and the State Commission for the Prevention of Corruption.

The capacity of the Ministry of Economy, dealing with concessions and PPPs, remains limited. During 2021, five new agreements establishing a PPP were concluded. The PPP register and the register on concessions need to be established. In March 2021, four trainings for public-private partnership were held, one for the media and non-governmental organisations and three continuous general trainings for the employees of the central state and local institutions.

The electronic system for public procurement is functioning efficiently. The development of a platform for e-marketplace, e-catalogues and further improvement of the SAC processing system is ongoing. Annual procurement needs plans of the contracting authorities are regularly published on the electronic system for public procurement. The electronic archive module ensures the integrity of electronic procedures by keeping the documentation in original electronic form, while the e-complaints module provides for an electronic exchange of data with the appeals procedures.

Implementation and enforcement capacity

In 2021, the **public procurement market** amounted to 11% of the country's GDP as compared to 8.5% in 2020. It represented 32% of the state budget. Capacities of contracting authorities on central and local level need to be strengthened.

In terms of award criteria used in public procurement procedures, the use of most economically advantageous tender (MEAT) criterion is still limited. Continuous training of contracting authorities on the application of this criterion needs to be organised.

On **monitoring of contract award and implementation**, the use of negotiated procurement procedures increased to 8% in 2021, as compared to 5.4% in 2020. An assessment of the use of centralised procurement and framework agreements by the PPB is ongoing. The proportion of the overall value of public procurement awarded to SMEs decreased to 53% in 2021 as compared to 63 % in 2020. Tender cancellation decreased to 28.8% as compared to 30.8 % in 2020.

The **capacity to manage public procurement processes** needs to be further enhanced, especially at the local level, in order to ensure a more coherent approach in procurement cycle management. The quality of tender documentation remains a challenge for smaller contracting authorities.

The regulatory and institutional mechanisms regarding **integrity and conflict of interest** are still insufficient. There is no risk assessment system incorporated in the procurement cycle in order to ensure timely information on possible corrupt practices or irregularities.

Efficient remedy system

The legislation on the **right to legal remedy** is broadly harmonised with the EU *acquis*. The **implementation capacity** of the SAC remains insufficient. In view of the significantly increased number of appeals compared to the past years (1 109 in 2021, 1 076 in 2020 and 902 in 2019), there is a need for additional qualified staff in order to ensure timely processing of the appeals. The resolution rate in 2021 was at 97.9 %.

Chapter 18: Statistics

EU rules require that Member States are able to produce good quality statistics in line with the principles of the European statistics Code of Practice and based on professional independence, impartiality, reliability, transparency, and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.

The country is **moderately prepared** in the area of statistics. **Good progress** was made, in particular with the publication of the first batch of the population census data in spring 2022. Improvements are noted in all statistical areas and in further aligning of sectoral statistics with EU standards, including enhanced use of administrative sources. Continued efforts are needed to improve the scope and data quality of macroeconomic and social statistics. As last year's recommendations were not fully carried out, in the coming year, the country should, in particular:

- publish all results of the population census by the end of 2022 and ensure that the results of the census are considered in decision-making and resource allocation;
- urgently ensure adequate staffing and sufficient financial resources for the State Statistical Office;
- continue to align financial accounts and quarterly national accounts with the European System of Accounts 2010 (ESA 2010).

The legal framework for **statistical infrastructure** is broadly in line with the European Statistics Code of Practice. In December 2021, the State Statistical Office (SSO) started preparing the new programme for statistical surveys for 2023-2027 in consultation with stakeholders. Regarding other main statistical producers, the central bank remains fully committed to the European statistics code of practice. The Ministry of Finance has yet to appoint a head of statistics. The SSO backup storage equipment was configured and made operational at the national Disaster Recovery Centre in Prilep; the SSO data are backed up daily. At the end of 2021, SSO adopted a new communication strategy to streamline the use of social media. During the reporting period, the SSO has adopted several strategic papers related to quality management such as the Quality Declaration, the Quality Policy and the Roadmap for introducing Internal Quality Audit. Human resources of the state statistical system continued to decrease and the SSO financial plan for new posts for 2021 and 2022 was not approved. In 2021 and 2022, the SSO's annual budgets for regular operations have been reduced, continuing a negative trend.

On **classifications and registers**, the main classifications comply with the EU *acquis* and are updated regularly. Progress was made in the use of administrative data sources, including for carrying out the combined methodology of the population census. In June 2022, the SSO started testing the new logical design of the Statistical Business Register. In October 2021, the administrative register of agricultural holdings was re-designed and its data regularly feed the Statistical Farm Register. Thanks to the census operation, data availability and quality have improved, though there is still a need to further comply with new requirements. Data transmission to Eurostat further increased but remains incomplete.

The country made good progress on **macroeconomic statistics**. The SSO continued to improve the Excessive Deficit Procedure (EDP) tables in terms of coverage and consistency between financial and non-financial data. The SSO transmitted the October 2021 EDP notification for North Macedonia, including relevant annexes. Still, coverage of EDP and government finance statistics supplied through the ESA 2010 transmission programme need to be further expanded. In April 2022, trade by invoicing currency (TIC) statistics were transmitted to Eurostat according to the latest EU requirements.

The National Bank continued to transmit to Eurostat the annual financial accounts stock data (data series 2013 – 2020) and advanced in preparation of experimental quarterly financial accounts data (stocks and flows), and annual flows data (by (sub)-sectors and financial instruments). In September 2021, the National Bank transmitted to Eurostat more detailed data for FDI income (by activity and geographical breakdown) and for FDI positions and transactions (data with cross-tabulation by activities and geographical breakdown) for the year 2020.

On **business statistics**, good progress was made. On foreign affiliates statistics, data for 2019 were published. In June 2021 and in June 2022, the SSO conducted the first and second pilot survey on International Trade in Services Statistics (ITSS) with a geographical breakdown. Preliminary work to set up tourism satellite accounts (TSA) made good progress.

Very good progress was made on **social statistics**. Progress made for the census of population, households, and dwellings in North Macedonia, which was conducted between 5-30 September 2021, is particularly relevant. All activities planned for the census were completed on time despite challenges. An innovative combined census method of administrative registers and field enumeration was applied. First results of the census were published in March, April and June 2022. The full set of results of the census, including household data and geographical grid statistics are being published in batches. This is a major achievement: up-to-date data on population is essential for planning and implementing adequate social, demographic, and economic policies for the benefit of all citizens. Data transmission of the survey on income and living conditions and crime statistics has been delayed due to shortage of staff. Progress was achieved in labour market statistics. Activities are under way to source data from the administrative registers for education statistics.

In the area of **agricultural statistics**, the SSO has started preparations for the agricultural census which was piloted in June 2022. The methodology is harmonised with EU standards. Data for fishery statistics aiming at alignment with EU standards were produced and published in June 2022. Statistics concerning organic production have improved. For forestry statistics, SSO has re-designed the survey of forest fires and published the data of the *ad hoc* survey in December 2021.

In the area of **energy and environment statistics**, environmental protection expenditure statistics, waste statistics, water statistics, and environment-related taxes' statistics were further aligned with the EU *acquis*. In October 2021, for the first time, the SSO reported data to Eurostat, including compiled Environmental Protection Expenditures (EPEA) tables and quality reports with preliminary data compiled for Environmental Goods and Services Sector, Air Emission Accounts and Physical Energy Flow Accounts. The compilation of tables for environmental expenditure for the government is outstanding. Material flow accounts data are regularly reported, although material flow balances are not yet included. The comprehensiveness of energy balances needs to be increased with the inclusion of solar heat energy. The results of a sample survey for energy consumption in households were published in August 2021.

Chapter 32: Financial control

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

The country is **moderately prepared** in the area of financial control. **Limited progress** was achieved with the advancement of the internal control system and managerial accountability in budget users both on local and central level and the adoption of the new organic budget law in September 2022. The implementation of the public internal financial control (PIFC) policy paper and action plan has been negatively influenced by the COVID-19 pandemic and the limited capacity of key stakeholders. A new PIFC law is currently in parliamentary procedure. The functioning of the financial inspection is still not sufficient. The independence of the State Audit Office is not guaranteed by the Constitution. The efficiency of parliamentary oversight of public funds management needs to improve.

The recommendations from last year's report remain valid. In the coming year, the country should in particular:

- adopt the new PIFC law and methodological tools and start their implementation in order to improve transparency, managerial accountability and sound management of public funds;
- adopt the draft state audit office law which should enhance cooperation between the State Audit Office and the Parliament and improve parliamentary scrutiny over budget implementation and follow-up to the recommendations of the State Audit Office;
- ensure the establishment and efficient functioning of the anti-fraud coordination network and improve the prevention, management and reporting of irregularities affecting EU funds.

Public internal financial control

The PIFC policy paper links the PIFC-related priorities of the 2019-2022 public administration reform strategy with those of the 2018-2021 public financial management reform programme. The new 2022-2025 public finance reform programme continues to cover the priorities defined in the PIFC **strategic framework** and the PIFC policy paper. During 2021, there were delays in the implementation of these strategies due to the COVID-19 pandemic, the limited capacity of key stakeholders and delays in the adoption of key legislation, including the organic budget law and the PIFC law. The organic budget law was finally adopted in September 2022. Reporting on the implementation of the PIFC policy paper has been integrated the 2021 Annual Monitoring Report of the public financial management reform programme.

Despite ongoing work to provide further guidance, the efficient implementation of **managerial accountability** remains a challenge for budget users at central and local levels. Coherent application of the manual on managerial accountability is yet to be ensured. The legal framework on **internal control** is broadly harmonised with international standards. Its implementation needs to be further strengthened.

Efficient functioning of the **financial inspection** is yet to be achieved. Further harmonisation of the legal basis is needed as well as the development and implementation of methodological tools, which will provide for sound financial management.

Fragmentation and inadequate staffing of the **internal audit** function undermine its organisational capacity and quality assurance. A national certification system for internal auditors should be introduced.

The **Central Harmonisation Unit** continued to provide methodological guidance and to coordinate the development of financial management and control and internal audit in the public sector. Its capacities remain insufficient, especially for monitoring and reporting on the functioning of the overall internal control system, which amounts to 1380 public entities.

External audit

The **State Audit Office** law is largely harmonised with international standards. Further harmonisation of the legal framework is ongoing in order to ensure an improved external audit function in the public sector and enhance the financial and operational independence of the State Audit Office. Its independence is not yet guaranteed by the Constitution.

The State Audit Office carries out a compliance audit on the final government accounts of the core budget by June each year. In 2021, the audit coverage of the total audit expenditure was 80%. The structure of audited expenditure includes expenditure covered with regularity audit for an amount of 129.48 million denars (i.e. 53%), expenditure covered with performance audit for an amount of 61.84 million denars (i.e. 26%), and expenditure covered with

compliance audit for an amount of 2.42 million denars (i.e. 1%). The 2020 annual report on performed audits was adopted by the Parliament in March 2021 and published on the website of the State Audit Office. The **quality of audit work** can be considered sufficient. In 2021, the Office issued 109 final audit reports, which were sent to Parliament for deliberation and published on the website of the State Audit Office.

With regard to its **institutional capacity**, the Office has continued to implement the 2018-2022 development strategy and the 2020-2023 human resources management strategy. The number of staff in 2021 increased by 15 people. The State Audit Office's budget for 2022 was approved as requested and compared to 2019, it has increased by 49.59 %. In 2022, six additional staff members will be recruited as per the 2022 Annual Employment Plan of the State Audit Office.

The State Audit Office continued the implementation of the annual plan for the professional development and training of state auditors. Progress has been made in raising public awareness of its activities, increasing the interest of the media, and implementing the 2020-2023 Communication Strategy.

As regards the **impact of the audit work**, the State Audit Office's recommendations are not efficiently implemented by the auditees. In 2021, 88% of the audit recommendations were implemented. The cooperation between the State Audit Office and the Parliament continued to improve. However, parliamentary scrutiny over the budget preparation and implementation still needs to be further enhanced. Transparency and accountability of public funds management has to be strengthened on the basis of efficient monitoring mechanisms both by the executive and by the Parliament, including an effective follow-up of the audit recommendations of the State Audit Office.

Protection of the EU's financial interests

The national legislation remains largely harmonised with the EU Directive 2017/1371 on the fight against fraud to the Union's financial interests by means of criminal law. The process of alignment the relevant EU *acquis* and amendments to the Criminal Code are in parliamentary procedure. The capacities of the anti-fraud co-ordination services (anti-fraud coordination network) at the Ministry of Finance have been strengthened and it currently has five employees. The legal basis for the establishment of the institutional framework of the system for protection of the EU financial interests (anti-fraud coordination network) has been developed. The 2022-2025 national anti-fraud strategy and the related action plan were adopted by the government in June 2022. The national authorities reported 19 cases of irregularities through the irregularity management system in 2021, out of which 18 cases were qualified as irregularities and 1 case as suspected fraud. The national authorities should continue their good cooperation with the European Commission on investigations. To ensure this, in particular, the independence of the judicial authorities from any public pressure should be ensured and the authorities should be provided with adequate modern equipment allowing them the proper discharge of their duties.

Protection of the euro against counterfeiting

As regards EU ***acquis* alignment**, national legislation is to some extent harmonised with the EU regulations defining the system for fight against counterfeiting of the euro. There has been limited progress in the reporting period. In 2021, the National Bank continued to improve its capacities through online trainings and by involving experts from all key institutions. The capacities of the Ministry of the Interior to prevent, detect and investigate criminal offences related to counterfeiting money, remain limited. An electronic system for exchange, processing, analysis and reporting of cases still needs to be established.

3. GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION

Good neighbourly relations and regional cooperation form an essential part of North Macedonia's European integration process and contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past.

The country continued to participate in a number of regional cooperation initiatives, such as the Central European Free Trade Agreement (CEFTA), the Energy Community, the Transport Community, the South-East European Cooperation Process (SEECP) and the Regional Cooperation Council.¹⁸

Following the May 2022 Foreign Affairs Council, EU foreign ministers held, for the first time, an informal exchange of views with Western Balkans counterparts. The **EU and Western Balkans Leaders Meeting on 23 June 2022** reaffirmed the EU perspective of the partners in the region and gave impulse to intensify the cooperation and integration agenda. Particular focus was placed on the integration of the Western Balkans into EU measures to reduce the negative impact of the Russia's aggression against Ukraine in terms of food and energy supplies and independence, as well as to support capacity building for cyber security and the social agenda, notably involving youth in the economy. The meeting was also an opportunity to discuss closer political cooperation, including foreign policy alignment of the Western Balkans with EU positions and restrictive measures.

At the **EU-Western Balkans summit in Brdo pri Kranju** in October 2021, the six Western Balkans leaders reaffirmed their commitment to inclusive regional cooperation, strengthening good neighbourly relations and investing more decisive efforts in establishing the Common Regional Market. The summit announced a range of concrete deliverables benefiting the Western Balkans, including the first set of actions under the Economic and Investment Plan; the pledge to boost COVID-19 vaccination rates; the path towards lower roaming costs; an innovation agenda for the Western Balkans; green lanes to reduce border waiting times and Transport Community action plans for smart transport and sustainable connectivity.

The **Common Regional Market**, as agreed by the leaders of the Western Balkans at the 2020 Berlin process summit in Sofia, is critical in increasing the attractiveness and competitiveness of the region. It will help North Macedonia to speed up the recovery from the aftermath of the pandemic, notably to attract investors looking for diversification of supply and shorter value chains and to maximise the benefits of the infrastructure investments under the Economic and Investment Plan. A number of important decisions to facilitate the movement of workers remain blocked. It is important that all parties play a constructive role in building the Common Regional Market and deliver on their joint commitments set out in its action plan. Albania, North Macedonia and Serbia seek to deepen regional cooperation in a number of areas, notably economic integration through the Open Balkan Initiative (OBI), implementing de facto some elements of the Common Regional Market on which no formal agreement has been reached yet between the parties. Four OBI summits have been held over the reporting period.

In October 2021, North Macedonia along with other Western Balkan partners endorsed the action plan for the **Green Agenda for the Western Balkans**, which aims at reflecting the European Green Deal and contributing to the sustainable socio-economic development and

¹⁸ North Macedonia also participates in the 'Brdo-Brijuni process', the European Common Aviation Area Agreement, the Regional Initiative for Migration and Asylum, the Regional School of Public Administration (ReSPA), the European Strategy of the Adriatic Ionian Region (EUSAIR), the Organisation of the Black Sea Economic Cooperation (BSEC), etc. North Macedonia has the status of observer in the Danube process.

the green recovery of the region after the pandemic. North Macedonia should contribute to successfully implement this joint regional vision, with high level of ambition, putting sustainable development, resource efficiency, nature protection and climate action at the centre of all economic activities.

In June 2022, the second meeting was held of the Prespa Forum for Dialogue on the future of the Western Balkans in the contemporary security architecture, including with the participation of regional stakeholders. The aim of the forum is to promote dialogue, regional cooperation and good neighbourly relations.

The country generally maintains good **bilateral relations** with other enlargement countries and neighbouring EU Member States.

Bilateral relations with **Albania** remained good, including with frequent high-level visits from both sides. The agreement between the government of North Macedonia and the Council of Ministers of Albania on mutual recognition of approvals for Authorised Economic Operator for Security and Safety (AEOS) was signed. In February 2022, new joint border crossing points between Albania and North Macedonia were opened.

Relations between the country and **Bosnia and Herzegovina** continue to improve in terms of development and cooperation. The Foreign Minister met the deputy chairwoman of the Council of Ministers of Bosnia and Herzegovina, in the margins of the Western Balkans Foreign Ministers meeting in London in December 2021. The Prime Minister met the chairman of the Council of Ministers of Bosnia and Herzegovina in the margins of the Investment Summit for the Western Balkans.

Bilateral cooperation with **Kosovo** is very good and several meetings were held at the highest level. The Speaker paid an official visit to the Assembly of Kosovo in March 2022. The President of North Macedonia visited the KFOR Regional Command – West and the members of the contingent from North Macedonia.

Bilateral relations with **Montenegro** remained good. The ministers for information society and administration and of education and science participated in the Fourth Digital Summit of the Western Balkans countries in Podgorica in October 2021. The Deputy Prime Minister for EU Affairs participated in the Balkan Integration Forum 2021 in Podgorica. The President of North Macedonia paid an official visit to Montenegro in April 2022.

There is an improvement in the bilateral cooperation with **Serbia**. Two meetings were held between the ministers of foreign affairs over the reporting period. An Agreement on the establishment of cultural-information centres in Skopje and Belgrade was signed in February 2022. The first meeting of the Committee for national minorities was held in February 2022. The Serbian Prime Minister visited North Macedonia in May 2022.

During the reporting period, the country completed several activities with **Türkiye**. The President of the Grand National Assembly of Türkiye visited Skopje on two occasions and had meetings with the leadership of the country. The Mayor of Skopje participated in the Summit of Balkan Mayors in Istanbul, where she signed a Declaration on the cooperation of Balkan cities. During the visit a Memorandum of understanding was signed between the Academy of Judges and Public Prosecutors and the Judicial Academy of Türkiye. A memorandum of cooperation was signed in Ankara between the Directorate of Protection and Rescue of North Macedonia and the Agency for Disaster Management and Emergency Situations at the Ministry of Interior of Türkiye. The memoranda of understanding and cooperation in the fields of forestry and water and the Agreement between the governments for cooperation in the field of the veterinary policy and food safety entered into the force at the beginning of 2022.

During the reporting period, relations with **Bulgaria** focused on overcoming pending bilateral issues, which paved the way for the start of the EU accession negotiation process. Bilateral contracts have intensified, including with several high level visits and meetings. The two Prime Ministers met in Sofia, after the tragic bus accident in Bulgaria in November 2021. In January 2022, a joint session between the two governments was held in Sofia, during which working groups were formed, focusing on the economy, trade and innovation; infrastructure, transport and connectivity; European integration and green policies; culture, science and education; and an additional working group on other bilateral topics. Regular meetings of the working groups led to the signature of several cooperation documents, including in agriculture, transport, entrepreneurship, education, youth and sports as well as tourism. There was also a declaration on the reduction of roaming tariffs between the two countries. The constitutional courts of both countries held a meeting in Skopje in May 2022 and signed a memorandum on cooperation. The multidisciplinary expert commission on historical and educational issues held several meetings during the reporting period. The second meeting of the Joint Intergovernmental Commission took place in July 2022. A bilateral protocol from the meeting of the Joint Intergovernmental Commission established under article 12 of the Treaty of Friendship, Good Neighbourliness and Cooperation was signed in July 2022.

Cooperation with **Greece** has intensified in areas of mutual interest. Working and expert groups were set up on fulfilling the obligations of the Prespa Agreement. The President of the country paid his first official visit to Greece in October 2021, where he met high-level Greek officials. The foreign minister met the alternate minister for European affairs of Greece after the EU-Western Balkans summit. The seventh meeting of the joint expert committee on archaeological, historical and educational issues was held in Athens. In May 2022, the Prime Minister attended a ceremony to mark the start of the construction of the liquefied natural gas terminal in the Greek city of Alexandroupolis, together with the Prime Ministers of Greece and Bulgaria and the President of Serbia. The Foreign Minister of Greece visited Ohrid in June 2022 to participate in the Prespa Forum Dialogue.

4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

CLUSTER 2: INTERNAL MARKET

The internal market cluster covers: free movement of goods (Chapter 1); freedom of movement for workers (Chapter 2); right of establishment and freedom to provide services (Chapter 3); free movement of capital (Chapter 4); company law (Chapter 6); intellectual property law (Chapter 7); competition policy (Chapter 8); financial services (Chapter 9); and consumer and health protection (Chapter 28). North Macedonia is moderately prepared in most of the areas covered by Cluster 2 on internal market, namely the free movement of goods, services and capital, intellectual property, competition policy, financial services and consumer and health protection. The country has achieved a good level of preparation on company law, although it is still at an early stage on freedom of movement for workers. In the reporting period, North Macedonia made good progress on free movement of capital and some progress on company law and on financial services. No progress was made on competition policy. Overall, more progress is needed in the coming year in the areas covered by this cluster as it will feed into North Macedonia's preparations to meet the requirements of the EU's internal market. Work on this cluster is highly relevant for the development of the Common Regional Market.

Chapter 1: Free movement of goods

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

North Macedonia is **moderately prepared** in the area of the free movement of goods. While some national legislation in this allows products to be traded freely, alignment remains to be ensured in many areas, not least where the EU *acquis* has been updated in recent years. There was **no progress** in implementing last year's recommendations.

Last year's recommendations have not been addressed and remain valid. In the coming year the country should, in particular:

- complete alignment with the EU General Products Safety Directive;
- complete the comprehensive screening to ensure compliance with Articles 34-36 of the Treaty on Functioning of the European Union;
- strengthen administrative capacity to enforce the legal framework.

General principles

The country has set up the institutional framework for the **production, distribution and marketing of industrial products**. However, full alignment with the relevant EU *acquis* is not yet in place as the Law on technical requirements and the by-laws to implement the Law on general product safety have not yet been adopted. Further **alignment** of the national **legislation with the EU *acquis*** has commenced.

Non-harmonised area

The follow-up and implementation of compliance with **Articles 34-36** of the Treaty on Functioning of the European Union (TFEU) is ensured by the Ministry of Economy. Screening of the national legal framework to identify cases that are not compliant with Articles 34-36 and what to do to address this started at the beginning of 2022.

Harmonised area: quality infrastructure

The necessary institutional and legal structure for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance is in place. A new horizontal strategy for development in the area of free movement of goods is yet to be adopted. The National **Standardisation** Institute is a full member of the European Committee for Standardisation (CEN) and European Committee for Electro-technical Standardisation (CENELEC), and participates in the work of relevant EU standardisation bodies. It adopted 24 761 European standards as national standards and adopted 84 national standards. Its work follows the national Strategy for standardisation 2020-2022.

In June 2022, there were 19 active **conformity assessment** bodies for calibration, testing, medicinal laboratories, product and process certification and inspection. The National **Accreditation** Institute is a member of the International Accreditation Forum, the European Cooperation for Accreditation and the International Laboratory Accreditation Cooperation. However, there are still no national accreditation schemes for the certification of personnel and skills testing.

The Bureau of **Metrology**, the national metrology body, is an official member of the European Association of National Metrology Institutes and the General Conference on Weights and Measures. The capacity of the Bureau was strengthened with new technical equipment for several laboratories and the hiring of new technical staff, specifically trained to use the referenced equipment.

During 2021, the main body responsible for **market surveillance**, the state market inspectorate, devoted a significant part of its activities and inspectors to monitoring the implementation of health-protection measures in the context of the COVID-19 pandemic.

Nevertheless, the number of core inspection activities increased. In 2021, 473 inspections were performed under the general **product safety** law (up from 428 in 2020) and 131 under the construction products law (up from 20 in 2020). This led to 16 harmful products being taken off the market. The inspectorate has 278 employees, but an insufficient number of licenced inspectors (171) and many staff are close to retirement. It also lacks an efficient software system to record inspection results and proper risk planning and management.

Harmonised area: sectoral legislation

In the area of **‘new and global approach’ product legislation**, the level of alignment with the EU *acquis* remains low. No progress is reported in alignment to the EU *acquis* in the area of machinery, lifts, low voltage, pressure equipment, portable pressure equipment, electromagnetic compatibility, personal protective equipment, low voltage, gas appliances, explosive atmospheres, pressure equipment, radio and telecom equipment, nor on toys and medical devices. Eleven implementing legal acts to align with the EU *acquis* related to general product safety have still not been adopted. In the construction sector, ten Eurocodes with 58 standards and 57 national annexes have not yet entered into force - their application remains voluntary up to 2023.

The national legislation under the **‘old approach’ product legislation** is not yet aligned to the current EU *acquis* on vehicles, medicines for human use or medicines for veterinary use. There has been no progress on the alignment and implementation of the EU Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), on chemicals, classification, labelling and packaging of substances and mixtures (CLP), on good laboratory practices (GLP), or on **fertilisers** and **detergents**. The administrative capacity in the area of **firearms** has not improved.

On **procedural measures**, the Ministry of Economy and the Standardisation Institute are responsible for the **notification procedures** for standards and technical regulations. Public authorities performing the relevant checks and supervision are in place and fully operational. The licensing, monitoring and control systems are operational for businesses dealing with **drug precursors** and **civil explosives**. National legislation is designed to align with the EU *acquis* on returning **cultural goods** unlawfully removed from a Member State. There are no **external border checks** rules for products imported from non-EU countries on conformity with product safety.

Chapter 2: Freedom of movement for workers

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

North Macedonia is at an **early stage** of preparation in the area of freedom of movement of workers. Over the reporting period, **no progress** was made to address last year’s recommendations, which remain valid.

In the coming period, North Macedonia should in particular:

- continue to adapt the legal framework in line with the EU *acquis* on access to the labour market, in particular regarding non-discrimination on grounds of nationality against EU workers;
- step up signature of agreements on social security coordination and health care insurance with EU Member States and identify administrative measures to be introduced in preparation for future accession.

There was no progress in aligning the national legislation with the EU *acquis* in the area of **access to the labour market**. EU citizens still have no access to posts in public administration, except some positions in the areas of health and education. Furthermore, some posts in the private sector may be occupied exclusively by citizens of North Macedonia. The Agency for employment issues various types of work permits for foreign workers following the annual quotas. In 2021, North Macedonia issued 755 work permits for foreign workers. There are still no activities in preparation to join the European network of employment services (EURES) upon accession.

No new agreements for bilateral coordination of social security systems, nor agreements for mutual recognition of the healthcare services were concluded in the reporting period. The country has 23 bilateral agreements for the coordination of social security systems, out of which 13 in force with EU Member States, and 18 agreements for mutual health insurance, 12 with EU Member States. The citizens may use the European Health Insurance Card in nine EU Member States.

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.

In the area of establishment and the freedom to provide services, North Macedonia is **moderately prepared**. **Limited progress** was made. The Point of Single Contact for services is available as an electronic platform and has been regularly updated. There were no developments to further harmonise with the EU *acquis* on recognition of professional qualifications. In the coming year, North Macedonia should in particular:

- increase the scope of information and online access to services available with the Point of Single Contact;
- further align the national legislation with the EU *acquis* on postal services, including with the Postal Services Directive and with the Regulation on cross-border parcel delivery;
- align the national legislation with the EU *acquis*, in particular on mutual recognition of professional qualifications and services.

On the **right of establishment and freedom to provide cross-border services**, North Macedonia continued to align the national legislation with the EU Services Directive. The action plan to address non-compliance of sectoral laws was updated to identify provisions contrary to the Directive and in certain sectors, the relevant amendments were adopted. The platform (www.uslugi.gov.mk) is set to be the Point of Single Contact for services and is regularly updated with new functionalities. By September 2022, the portal contained information about 819 services for citizens and businesses, of which 203 allow e-application. The national public administration bodies do not recognise the certifications on quality systems issued by companies registered in EU Member States. This hinders their freedom to provide services and is against the multilateral agreement for the mutual recognition of certifications.

As of January 2022, the Law on **Postal Services** allows the full liberalisation of the postal services in the country as the universal postal service is no longer exclusive authority of the Post of North Macedonia. In September 2022, there were 45 postal service providers with general authorisations, including the Post of North Macedonia as the designated universal service provider on the entire territory of the country. The independence and administrative

capacities of the postal regulator, as well as the capacity of the Ministry of Transport and Communications to deal with the postal sector, need to be strengthened. The Post of North Macedonia still needs to set up systems for accounting separation and net cost calculation in line with the Postal Services Directive. The findings of the audit report by the State Audit Office on the Post of North Macedonia, indicating recurrent irregularities, were not yet addressed.

No progress was made as regards the **mutual recognition of professional qualifications**. The law on the recognition of professional qualifications designed to align with the EU *acquis* has not been adopted yet. Legislation still needs to be harmonised with the EU Directive 2005/36/EC to comply with minimum training requirements. The list of the regulated professions issued in 2019 has been withdrawn by the authorities for further harmonisation. As a result, a transparent list of all regulated professions, including their justifications, is missing and the data validation in the electronic register has not been completed. The institutional capacity of the Ministry of Education and Science's section dealing with mutual recognition of professional qualifications needs to be strengthened.

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.

North Macedonia is **moderately prepared** in the area of free movement of capital. **Good progress** was made in further alignment with the EU *acquis*, both through the adoption of legislation on payment systems as well as through a new law to fight money laundering and financing of terrorism. There is a need to swiftly proceed with implementing the legislation and further strengthening administrative capacity. In the coming year, the country should, in particular:

- prepare a roadmap with actions and timelines to apply EU rules in the area of free movement of capital, including acquisition of agricultural land;
- start implementing new legislation on payment systems and services, including by adoption of secondary legislation;
- implement the new legislation on anti-money laundering and financing of terrorism in line with the EU *acquis*, including by adoption of implementing legislation.

North Macedonia maintained some restrictions on **capital movements and payments**. For instance, non-residents cannot acquire agricultural land. In that, North Macedonia is late in implementing its obligations under the Stabilisation and Association Agreement. There is a need to finalise a roadmap to apply EU rules in this area, in line with obligations under the Stabilisation and Association Agreement.

In April 2022, the Parliament adopted the law on **payment systems** and services that aims to align legislation with the EU *acquis*, including the Second Payment Services Directive, the Electronic Money Directive and the Payment Accounts Directive. In the meantime, the National Bank has advanced the preparation of the 20 relevant by-laws, through consultations with the stakeholders. The law on payment systems and services also establishes a unified register of bank accounts under the Central Registry as required by the 5th Anti Money Laundering (AML) Directive.

In the **fight against money laundering and the financing of terrorism**, in June 2022 new legislation on the fight against money laundering and the financing of terrorism was adopted

that aims to align with the 5th AML Directive, including crypto-assets and to address FATF recommendations. In December 2021, the National Council for Capital Markets set up a working group led by the Ministry of Finance to regulate crypto-currencies. As indicated in the legislation, a bank account registry needs to be established by December 2023. The National Council for the prevention of money laundering adopted rules of procedures for the Moneyval on-site visit of September 2022. Overall, cooperation among institutions continues to increase, and new tools have been set up to ease reporting and monitoring of suspicious transactions based on a risk assessment approach. The Financial Intelligence Office strengthened its analytical capacity for data processing and financial analysis. In 2021, obliged entities submitted 315 Suspicious Transactions Reports (292 in 2020). The Office sent 92 reports (35 in 2020) of money laundering and terrorism financing cases and 305 notifications (122 in 2020) of other cases to the law enforcement bodies. As a result, 15 people were indicted and 16 convicted for money laundering in 2021. (See also Chapter 23 - Judiciary and fundamental rights and Chapter 24 - Justice, Freedom and Security).

Chapter 6: Company law

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

The country has a **good level of preparation** in the area of company law. **Some progress** was made in bringing company legislation further in line with the EU *acquis* during the reporting period, in particular through adoption of a new Corporate Governance Code. Further progress is needed in the area of corporate accounting and statutory audit in line with recommendations below.

In the coming year, North Macedonia should in particular:

- further align with the EU company Law *acquis*, including on encouragement of long-term shareholder engagement;
- adopt legislation on accounting and on audit aligned with the latest EU *acquis* on corporate accounting and statutory audit;
- strengthen the role of the Council for Advancement and Oversight of the Audit.

On **company law**, alignment with the EU *acquis* is well advanced on the formation, registration, merger and division of companies. The revised Corporate Governance Code is in force since October 2021; its application is mandatory for listed companies, in accordance with the EU Directive on the annual financial statements, consolidated financial statements and related reports of certain financial undertakings. Further alignment is necessary with the 2019 EU *acquis* on the use of digital tools, cross-border operations, as well as with the rules on the encouragement of long-term shareholder engagement.

On **transparency**, the listing rules of the country's stock exchange are designed to be in line with the requirements of the Transparency Directive.

On **company reporting**, the draft legislation on accounting still needs to be adopted, based on a broad consensus with the Association of Accountants and the relevant Chamber of Commerce. International financial reporting standards apply to all companies, with no reduced obligations for small and medium enterprises. In the area of non-financial reporting, the legal framework remains to be aligned with the EU *acquis*. Adoption of the draft legislation on **audit**, investigations and sanctions, is also outstanding. The visibility and overall performance of the Council for Advancement and Oversight of the Audit remains

poor. Further efforts are required for the Council to start operating as a true and financially independent regulatory body.

Chapter 7: Intellectual property law

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

North Macedonia remains **moderately prepared** in this area. **No progress** was made and last year's recommendations remain valid. Enhanced efforts are needed to further align the legislation with the EU *acquis* in this area.

In the coming year, North Macedonia should in particular:

- further improve the legal framework on intellectual property, notably the collective rights management system, by aligning with the Collective Rights Management Directive, and industrial property rights, by aligning with the Enforcement Directive, with the EU *acquis* on design and with the Trade Secrets Directive;
- implement the Intellectual Property Strategy 2021-2026 and make operational the online information platform for law enforcement institutions to exchange data on IPRs.

In the area of **copyright and neighbouring rights**, the adoption of the amendments to the law on copyright to further align it with the EU *acquis*, including the collective rights management system, has been delayed. The relevant IPR unit in the Ministry of Culture remains understaffed.

As for **industrial property rights**, the State Office for Industrial Property continued its cooperation with the EU and international bodies. The strategy on industrial property rights is still to be implemented by the authorities and incorporated in the new law on intellectual property. The legislation on industrial property needs to be aligned, in particular with the Enforcement Directive and the Trade Secrets Directive.

On **enforcement**, the information platform for law enforcement bodies to exchange IPR-related data has been set up, but needs to become operational in order to provide full insight into the institutional handling of IPR infringements. The coordination body for the protection of intellectual property exists, but has yet to address the key challenges with regard to IPRs. The Customs Administration maintained its level of seizing counterfeit goods, coming mainly from Türkiye.

Chapter 8: Competition policy

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

The country is **moderately prepared** in the area of competition. **No progress** was made. The legislative framework remains broadly harmonised with EU rules. The Commission for the Protection of Competition remains understaffed and continues to face budgetary constraints. The enforcement record remains low. The recommendations from last year were not addressed and remain valid.

In the coming year, the country should in particular:

- strengthen the administrative and financial capacity of the national competition authority;
- increase the transparency of State aid granted by the government;
- further align implementing legislation in the area of State aid and antitrust.

Antitrust and mergers

The **legislative framework** is broadly aligned with the EU *acquis* in the area of antitrust and mergers, but implementing legislation has yet to be aligned.

On the **institutional framework**, the Commission for the Protection of Competition (CPC) is responsible for implementing the Law on the protection of competition. It can impose fines, propose remedies or issue an opinion if competition rules are breached. The CPC may approve mergers, with or without conditions, or prohibit them. Its decisions are binding and can be subject to an appeal before the Administrative Court.

The CPC continues to be understaffed, leading to a limited enforcement capacity. Its annual budget remains insufficient. The poor capacity of the CPC as well as of the courts dealing with antitrust cases hinder proper enforcement.

On **implementation**, the number of merger decisions increased from 60 in 2020 to 81 in 2021, including decisions on small cases. The CPC adopted also five misdemeanour decisions including one on abuse of dominant position. The CPC should increase on-site inspections and use the leniency instrument to strengthen enforcement. There is still a need for further strengthening of the national courts to apply antitrust and merger rules and for further training of judicial professionals in these areas.

State aid

The **legislative framework** on State aid broadly reflects Articles 107 and 108 TFEU. The law on State aid and its implementing legislation need to be further aligned with the EU *acquis*. The State aid inventory still lacks transparency.

On the **institutional framework**, the CPC is also responsible for implementing the Law on State Aid. The Commission issues non-binding opinions and binding decisions on State aid. So far, the CPC has never exercised its power to investigate *ex-officio* an aid measure not duly notified. Regarding enforcement capacity, the staff of CPC dealing with State aid control (four in total) remains insufficient.

Concerning **implementation**, the CPC issued 17 decisions and 26 opinions on State aid in 2021, none of them negative or conditional. The continuous requests for opinions and notifications of State aid submitted by ministries reflect rising awareness of the aid granting public bodies of the existence of State aid rules.

Liberalisation

Anti-trust and State aid rules also apply to state-owned undertakings and undertakings entrusted with special or exclusive rights, except when applying them would obstruct the performance of the particular tasks assigned to them. There is no evidence of the existence of commercial monopolies within the meaning of Article 37 TFEU.

Chapter 9: Financial services

EU rules aim to ensure fair competition between financial institutions and their stability, namely rules on banking, insurance, supplementary pensions, investment services and

securities markets. They include rules on authorisation, operation and supervision of these institutions.

In the area of financial services, the country is **moderately prepared**. **Some progress** was made regarding partial alignment with the EU *acquis* on settlement finality and on securities and investment funds. While alignment with the EU *acquis* is well advanced on the supervisory and regulatory framework for credit institutions, planned alignment in the area of insurance and capital market is lagging behind. Implementation of long-term Basel III liquidity standards progressed. Some actions were taken to prevent unfair banking practices and promote consumer protection. Last year's recommendations were only partially implemented. In the coming year, the country should in particular:

- adopt the bank resolution law and implementing legislation and on that basis complete the designation of a bank resolution authority;
- properly tackle and prevent unregistered and uninsured vehicles;
- continue to address consumer protection and establish a financial Ombudsperson.

On **banks and financial conglomerates**, in November 2021, the European Banking Authority acknowledged the European Commission's decision to consider the supervisory and regulatory framework applicable to credit institutions in North Macedonia as equivalent to that applied in the EU. The capacities of the Ministry of Finance to licence and supervise financial companies and financial leasing providers needs to be reinforced. With an end 2021 leverage ratio of 10.7%, banks hold a vast cushion above the EBA minimum requirement of 3%. Efforts are ongoing to develop legal provisions on bank resolution in line with the EU framework, notably the Bank Recovery and Resolution Directive. A decision of the Constitutional Court in June 2021 revoked priority to the claims of the deposit insurance fund on a failed bank. The law on deposit insurance and the banking law need be amended to improve deposit insurance and to address the concerns raised by the Constitutional Court. Consumer protection was addressed through the new national strategy on financial education and financial inclusion, adopted in July 2021. The central bank set up a dedicated section on its website for consumer information. It issued guidelines on publication of standardised data on basic banking products by individual banks, aiming to prevent unfair banking practices.

As regards **insurance and occupational pensions**, the adoption for the law aligning legislation with the Solvency II Directive is still pending. Legislation that authorises the Ministry of Finance to set premiums for motor vehicle insurance, which is contrary to the EU *acquis*, continues to be in place. Data on insured vehicles is inconsistent and no systemic measures are taken to prevent uninsured driving. The 50 % limit on investing in non-domestic securities by pension funds is not in line with EU *acquis* and the second stage of the Stabilisation and Association Agreement.

On **financial market infrastructure**, legislation adopted in April 2022 partially aligns with the Settlement Finality Directive. Alignment with the Financial Collateral Directive is still not complete. In February 2022, a financial market development strategy was adopted focusing on expanding the supply of long-term securities and increasing demand through greater participation of households as well as domestic and foreign institutional investors.

As regards **securities markets and investment services**, the law on investment funds was amended in July 2021. This law, as well as adopted implementing legislation on investment funds and on securities aims to advance in alignment with EU *acquis*, including on undertakings for collective investment in transferable securities (UCITS), fund mergers, master-feeder structures and notification procedure. Legislation to further align with the EU *acquis*, including the markets in financial instruments directive, the capital requirements

Directive, as well as provisions on liquidity and solvency ratios for brokerage houses remains to be adopted.

Chapter 28: Consumer and health protection

EU rules protect consumers' economic interests and 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, and medicines for human and veterinary use. The EU also ensures high common standards for upholding patients' rights in cross-border healthcare, and serious tackling cross-border health threats including communicable diseases.

North Macedonia remains **moderately prepared** in this area of consumer and health protection. **Limited progress** was made in the reporting period in regard to cancer reporting and cancer detection, but not on last year's other recommendations, which remain valid. In the coming year, the country should in particular:

- align the legal framework with the EU *acquis* on consumer protection, and strengthen the operational structures serving consumer protection;
- intensify efforts on tobacco control by effectively implementing the EU *acquis* on this and by ratifying the Protocol to Eliminate Illicit Trade in Tobacco Products;
- ensure adequate funding and specialised knowledge for early detection of cancer and rare diseases based in data from the registers.

Consumer protection

There was no progress in adopting the new law on **consumer protection**, and no progress was reported on capacity building or public investment in this area, though some progress was made in aligning the national product safety rules with the EU *acquis*. The next three-year Consumer Protection Strategy is yet to be adopted. Inspections by the State Market Inspectorate increased in the reporting period, to a total of 3 566 inspections. The web platform providing information on consumer protection still needs to be developed. The mediation scheme continues to be expensive and difficult for consumers to access.

In 2021, the Inspectorate carried out 473 inspections under the general **product safety law** (up from 428 in 2020) and 131 inspections under the construction products law (up from 20 in 2020). Following these inspections, the Inspectorate withdrew harmful products from the market, mostly toys, lights, protective gloves, motorcycle helmet and children's clothing. The Inspectorate has 278 employees but has an insufficient number of licenced inspectors (only 171) and many staff are close to retirement. On **non-safety-related issues** further efforts are needed to define the guidance and procedure for consumers' appeals and means of compensation.

Public Health

The **health** sector in North Macedonia still faces losses of medical staff, as nurses and specialists, who are moving, either move to the private sector or leave to work abroad. This contributes to issues accessing specialists, out-of-pocket health care costs remain high, and there is still a lack of professional training for using some advanced health equipment. The 2021-2030 Health Strategy and its action plan is designed to address some of these issues and provide high quality, efficient and effective health care, including community-based health care.

There was no progress on **tobacco control**. The institutional and legal setup is in place and is in line with the EU *acquis*, but it is not systematically implemented - smoking in public areas

and restaurants should be sanctioned in line with the EU *acquis*. North Macedonia has still not ratified the Protocol to Eliminate Illicit Trade in Tobacco Products.

North Macedonia is partly aligned to the EU *acquis* on **communicable diseases**. The 2019-2023 National Strategy for control of antimicrobial resistance is in line with the conclusions of the Council of the European Union. North Macedonia is gradually recovering of the COVID-19 pandemic, and the number of positive cases, hospitalised patients and fatalities decreased constantly. The country has abolished most preventive measures. The authorities report that 75 % of the population has recovered from COVID-19 and consider that they gained natural immunity, 47 % of people received two COVID-19 vaccine doses, and 7 % received a third dose. North Macedonia became a member of the EU Joint Procurement Agreement on medical countermeasures, and an observer in the EU Health Security Committee. It provides information to the Commission's COVID-19 data collection system, and it nominated a correspondent to the European Centre for Disease Prevention and Control.

There has been some progress on **blood, tissues, cells and organs**. The law on blood supply safety is in line with the EU *acquis*. There is no plasma-collecting centre, and no plasma fractionation plants, though plasmaphereses are performed at the Institute for Transfusion Medicine. The number of transplantations performed again increased in 2021. A bone-tissue bank has been established, collecting material to be used for transplantation. On **patients' rights in cross-border healthcare** national legislation is still not aligned with the EU *acquis*.

On **health inequalities**, the programme for active healthcare allows several target groups to access healthcare, including the Roma community, and people living in remote areas can get visits by doctors. The Ministry of Health has a programme for people with HIV/AIDS that provides funds for testing and basic monitoring tests, and antiretroviral therapy is available to all diagnosed patients. However, the overall budget for HIV/AIDS prevention was cut by 40%, threatening the treatment of people living with HIV/AIDS and HIV/AIDS prevention efforts. The main beneficiaries of these funds are non-governmental organisations that work directly with risk groups. The new strategy to combat HIV is yet to be not adopted Funding for **cancer screening** remains insufficient. The national cancer register is functional and regularly fed with new data. The national programme for early detection of cancer is operational. On **medicines for human and veterinary use**, national legislation needs to be further aligned with the EU *acquis*. The national strategy 2021-2030 covers the aspects of **mental health, health promotion, nutrition and physical activity**. The national registers on **rare diseases** are operational, and the relevant definitions are in line with EU standards.

CLUSTER 3: COMPETITIVENESS AND INCLUSIVE GROWTH

Cluster 3 on competitiveness and inclusive growth covers the following chapters: digital transformation and media (chapter 10); taxation (chapter 16); economic and monetary policy (chapter 17); social policy and employment (chapter 19); enterprise and industrial policy (chapter 20); science and research (chapter 25); education and culture (chapter 26) and customs union (chapter 29). Overall, North Macedonia is moderately prepared in most of the areas covered by this cluster. It has a good level of preparation in the areas of science and research and in the customs union. Some progress was made in most of the areas covered by this cluster. Good progress was made in the area of economic and monetary policy. More efforts are needed, however, particularly in areas where limited progress was made, such as digital transformation and media as well as education and culture.

Chapter 10: Digital transformation and media

The EU supports the smooth 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.

North Macedonia is **moderately prepared** in the area of digital transformation and media. **Limited progress** was made during the reporting period. The number of electronic services provided to citizens and businesses has slightly increased. The 112 European emergency number was officially introduced.

As last year's recommendations have been partially addressed, in the coming year the country should in particular:

- finalise and adopt the long-term information and communication technology (ICT) strategy; align national legislation with the European Electronic Communications Code and the EU Broadband Cost Reduction Directive; and continue efforts to align national legislation with the EU Directive on Security of Network and Information Systems (NIS Directive) and the 5G toolbox;
- strengthen the independence and capacity of the media regulator, the public service broadcaster and the regulator on electronic communication;
- improve the functioning of the 112 emergency number by ensuring adequate human resources and improve communication among emergency services.

During the reporting period, North Macedonia continued to successfully participate in the Digital Agenda for the Western Balkans and fully implemented the Regional Roaming Agreement, benefiting from the regional roaming-free zone since July 2021. Implementation of the 2019-2023 national broadband operational plan was further delayed. Implementation of the 2018-2022 national cybersecurity strategy accelerated and the 112 European emergency number was officially introduced in the country. However, the communication among emergency services is not yet adequate and human resources are not yet sufficient.

On **electronic communications and information technology**, in 2021, 77.92 % of the total number of households had access to fixed broadband internet, while nation-wide broadband coverage was 99.48 %. Mobile broadband take-up was 75.83 %. Access to ultrafast broadband internet was 2.32 % of the total number of households. Steps were taken by the Agency for Electronic Communications to grant approvals for use of radiofrequencies for 5G. Frequencies were granted in 2022 to two telecom operators. The legal framework on electronic communications needs to be further aligned with the EU *acquis*. The regulator has adopted the by-laws to implement the amendments to the Law on Electronic Communications, envisaging new responsibilities for the regulator with regard to prior security approval for installation of 5G equipment by the telecom operators. The draft Law on Security of Networks and Information Systems has not yet been adopted. The Ministry of Information Society and Administration needs to strengthen its capacities to drive the digital transformation. Concerns remain over the independence of the regulator for electronic communications. The Law on Electronic Communications and the Law on Audio and Audiovisual Media Services need to be further aligned with the EU *acquis*. With regard to competitive safeguards, the Commission for Protection of Competition initiated a revision of the tendering procedure for 5G published by the Agency for Electronic Communications in November 2021, based on discounted prices for the potential operator entering the telecom market. However, a few months later the Commission needed to re-start the tendering procedure.

North Macedonia has yet to align national legislation to the EU's Regulation on electronic identification and trust services for electronic transactions in the internal market (eIDAS Regulation).

Regarding **digital transformation**, the long-term information and communication technology (ICT) strategy (2021-2026) is still not adopted. The strategy for development of digital skills and a reference framework for digital literacy throughout the society should be developed and adopted. Improving digital literacy is a priority under the education strategy, to ensure the digital transformation through a cross-cutting approach.

The national e-portal for services has been upgraded. In 2021, the number of registered users and services registered on the e-portal slightly increased, but further steps need to be taken. The interoperability system's utilisation is still impeded by a lack of communications software in many institutions, as well as a lack of willingness to fully exploit its capabilities. To modernise and digitalise the public sector, more efforts and better cooperation amongst institutions are still required. The quality of data in the population register needs to be improved and continuously verified with other registers.

With regard to e-commerce, the National Bank reported 61% increase of Internet transactions by citizens in the first semester of 2021. With regard to statistical performance and digital competitiveness, collection of data based on the Digital Economy and Society Index (DESI) indicators has been estimated to be available and fully aligned in 87 %.

On **audio-visual policy**, the Parliament further delayed the appointment of the members of the media regulator and the public broadcaster councils, in accordance with the Law on Audio and Audio-Visual Media Services (LAAVMS). Media outlets continued receiving support as part of the measures aimed to alleviate the effects of the COVID-19 pandemic.

The allocation of state funds for the broadcasting sector, securing the budget for the public service broadcaster, media regulator and broadcasting public enterprise, has been further reduced in 2021, reaching 0.59 % of the total revenues realised in the year preceding the fiscal year for which the amount is prescribed. The Public Service Broadcaster received additional funding, thus slightly increasing its percentage. LAAVMS defines a gradual increase over time (up to 0,8 % in 2019; up to 0,9 % in 2020; 1 % as of 2021). However, the government keeps a discretionary right in distribution of the funds by conditioning the allocations not to impair the fair allocation of budget funds and not to affect the funds planned for all budget expenditures.

The Agency for Audio and Audiovisual Media Services continued to be proactive in promotion of media literacy, gender equality in the media programmes, as well as in condemning the pressure and threats on journalists and media outlets. Transparency of media ownership is a legal obligation for the audio-visual and print media. The media regulator publishes the registers of the broadcasters and print media on its website. However, there are no legal obligations for online media with regard to media ownership. In October 2021, the government adopted the National Strategy and Action Plan on building resilience and confronting hybrid threats (2021-2025). These documents include a wide range of activities addressing challenges of disinformation and hybrid threats. The audio-visual sector continued to benefit from the country's participation in the Creative Europe Media sub-programme with five projects supported in the period 2020-2021.

Chapter 16: Taxation

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

North Macedonia is **moderately prepared** in the area of taxation. **Some progress** was made specifically in reducing the administrative burden for taxpayers and the VAT refund process. The country needs to further improve the capacity of the tax administration by efficiently implementing the 2021-2025 Tax System Reform Strategy and to ensure an effective automatic exchange of tax information with EU Member States. North Macedonia is included in the EU list of non-cooperative jurisdictions for tax purposes due to having in place a preferential tax regime, which it committed to reform by the end of 2022.

Recommendations of last year's report were not fully implemented and remain valid. In the coming year, North Macedonia should in particular:

- develop a new integrated IT tax system for the Public Revenue Office, improve its compliance risk management and further extend e-services for tax payers;
- start preparation for putting in place a mechanism for the effective implementation of the automatic exchange of tax information with EU Member States in line with the OECD Global Standard;
- amend the Law on technological and industrial development zones by the end of 2022.

On **indirect taxation**, the Law on VAT was amended in March 2022 to allow VAT exemption for essential products for consumption until 31 May 2022. Preferential VAT rate of 10 % was introduced for some energy products to alleviate the effects of high international energy prices. The application of a preferential VAT rate of 5 % for electricity for households was extended until the end of 2022. Delays remain in the VAT refund process, although it improved in 2021, with 55 % of claims refunded within the legal deadline. The Law on excise was amended in March 2022 to allow for reduction of excise duties on gas and products derived from oil, in order to mitigate the impact of high international energy prices on the final consumers. Implementing regulation, which was adopted to reflect these change, remained in force until 31 May 2022.

There were no changes regarding **direct taxation**. A flat 10 % rate applies to personal income tax. Interests on savings and capital gains on securities remain exempt. The country still needs to align its legislation with the Merger Directive.

On **administrative cooperation and mutual assistance**, North Macedonia has signed 50 double taxation agreements, including with all EU Member States, except Cyprus, Greece, Malta and Portugal. The country has not yet committed on a date to start the automatic exchange of financial account information as per the Organisation for Economic Co-operation and Development (OECD) standard. The country remains dedicated to implement the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) minimum standards. North Macedonia has committed to amend its preferential tax regime in the free economic zones by the end of 2022, in the framework of the Forum on Harmful Tax Practices and the EU's own efforts to promote tax good governance.

Regarding **operational capacity and computerisation**, the Public Revenue Office still has to improve its business processes, implement a new integrated IT tax system, develop compliance risk management and further extend e-services. The 2021-2025 Tax System Reform Strategy is being implemented. The Public Revenue Office (PRO) is facilitating voluntary compliance by issuing pre-filled annual tax returns through the electronic personal tax platform. Implementation of the scheme for monetary inducement for customers to require invoices and tickets on their purchases continued, with the aim of combating the informal economy. The PRO took part in joint inspections with other national bodies to identify unpaid tax liabilities and unregistered taxpayers to improve tax collection.

Chapter 17: Economic and monetary policy

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

The country remains **moderately prepared** in the area of economic and monetary policy. **Good progress** was made as the Organic Budget Law was adopted, providing for fiscal rules and a fiscal council. Furthermore, measures to counteract the socio-economic impact of COVID-19 were implemented and short-term measures, aimed at mitigating the economic impact of the war in Ukraine, were put in place. On monetary policy, alignment of the country's legal framework with the EU *acquis* is at an advanced stage. On economic policy, alignment is only partial and shortcomings, including public investment management, persist. Since the Commission's 2021 recommendations were not fully implemented, in the coming year, North Macedonia should, in particular:

- implement the Organic Budget Law which includes provisions for fiscal rules, a fiscal council and a medium-term budgetary framework;
- ensure the timely establishment of an independent fiscal council;
- exclude the central bank from the scope of the law on administrative servants and the law on public sector employees to safeguard its full independence.

On **monetary policy**, the alignment of the country's legal framework with the EU *acquis* continues to be at an advanced stage. In line with the objectives of the Eurosystem/European System of Central Banks, the central bank pursues price stability as its primary objective and supports economic growth through its policies. It assumes the central role for prudential supervision of the banking sector and acts as a guarantor of financial stability. The operational and financial independence of the central bank is provided for in the Law on the National Bank. However, to safeguard the central bank's independence in its key statutory tasks, including in staffing issues, in line with the Law, the central bank needs to be excluded from the scope of the law on administrative servants and from the law on public sector employees. Relatedly, the central bank should be able to conduct internal organisations, employment plans, and transfer of employees from other public institutions without having to seek the approval of the Ministry for Informatics Society and Administration or other ministries.

Regarding **economic policy**, North Macedonia adopted in September 2022 the Organic Budget Law establishing numerical fiscal rules for the general government deficit and debt, aiming at alignment with the EU Budgetary Frameworks Directive. The law also contains provisions for setting up an independent fiscal body to monitor compliance with the rules, as well as for a strengthened medium-term fiscal framework. Currently, the multi-annual Fiscal Strategy provides revenue, expenditure and deficit projections for a 5-year horizon. While, generally, these projections provide the basis for the annual budget of year t , frequent budget revisions in mid-year often require substantial adaptations of the multi-year fiscal strategy. Hence, the government revised the Fiscal Strategy 2022-2024 in December 2021, after the July 2021 budget revision had rendered the original fiscal strategy, adopted in June 2021, obsolete. The original 2022 budget was based on these assumptions, but had to be revised in May 2022, as a new set of fiscal support measures to mitigate the impact of higher energy and food prices on companies and households had to be accommodated, raising the deficit target. In May 2022, too, the government adopted the Fiscal Strategy 2023-2025. It is based on obsolete growth and inflation projections, and is unlikely to provide a plausible basis for the upcoming 2023 draft budget. Macroeconomic and fiscal projections are currently done at the Ministry of Finance. Upon implementation of the OBL, the new fiscal council is expected to

take over responsibility for projections for the preparation of the annual budget and the Fiscal Strategy.

The availability and quality of excessive deficit procedure (EDP) statistics deteriorated in the April 2022 notification. The notification tables contained only the 2018-2020 data which had already been reported in October 2021. Compliance of data with ESA 2010 is lacking in a number of areas, such as the delimitation of the general government sector, which requires the reclassification of relevant public sector enterprises. The government publishes the amount of government guarantees to public sector enterprises, which constitute contingent liabilities for the government.

The 2022-2024 **Economic Reform Programme** (ERP) was submitted on time. The macro-economic framework is coherent and consistent, while overly optimistic. In terms of structural reforms, the focus is on green transition. The country has partially implemented the country-specific policy guidance jointly adopted by the EU and the Western Balkans and Türkiye at ministerial level in July 2021. Efforts to turn the ERP into a more policy relevant document to guide economic reforms consistent with other national plans and strategies need to continue.

Chapter 19: Social policy and employment

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

The country remains **moderately prepared** in the area of social policy and employment. **Some progress** was made with the further reduction of unemployment rate, an increase in the benefits for social assistance and the continuation of implementation of mitigating socio-economic measures to address the socio-economic impact of the COVID-19 pandemic. The implementation of the Youth Guarantee scheme continued successfully in the entire country. The implementation of the new Social Protection Act resulted in a slight reduction of the poverty rate, which however still remains high.

As last year's recommendations were only partially implemented, they remain valid. In the coming year, the country should in particular:

- continue to implement labour market activation measures for young, long-term and low-skilled unemployed people, including women, persons with disabilities and Roma, and ensure proper evaluation of the measures;
- further improve the capacities of the State Labour Inspectorate to address issues related to occupational safety and health; develop a system for tracking of injuries and fatalities at work; and reinforce bipartite social dialogue between employers and workers;
- establish a monitoring and evaluation system for social services and continue the social protection reform with stronger links to employment activation.

With regard to **labour law**, amended legislation established a retirement age limit of 64 years and 15 years of service as cumulative conditions for termination of employment on the basis of the age of the employee. The Law on the Minimum Wage and Labour Law were amended with changes to the criteria and methodology for payment of the minimum wage resulting in increase of minimum wage from 1 April 2022, and establishing Sundays as the weekly rest day from 1 January 2022. Work is ongoing on the new labour law with discussion on not aligned and open issues. The capacities to implement labour policies and legislation improved. However, they remain insufficient, as do the capacities of the State Labour Inspectorate (SLI), whose overall performance remains low. The SLI improved its capacities

by additional employment of twenty-five inspectors and implementing a series of trainings: further improvement is needed in the field of occupational safety. The SLI performed 9,530 inspections (6,308 in the field of labour relations and 3,222 in the field of OSH). There were 135 heavy injuries, and 30 fatal cases.

On **health and safety at work**, the government adopted a Strategy for Occupational Safety and Health 2021-2025 and Action Plan for the period 2021-2023 in December 2021. The preparation of a new law continued taking into account the impact of COVID-19 pandemic. The main challenge remains the inadequate application of the existing provisions contained in the Labour Law, Occupational Safety and Health Law. The knowledge of employers and employees of their respective rights and obligations is limited. The State Labour Inspectorate faced an increased number of requests due to the COVID-19 pandemic, including inspections related to working conditions.

COVID-19 remains recognised as occupational disease only for workers in the health sector with a payment of full salary compensation if infected with the COVID-19 at the workplace. Workers from other sectors are not included in these provisions.

The functioning of the tripartite **social dialogue** at the national and local level is refining, while on the bipartite level it is still lagging behind. The adoption and enforcement of collective agreements in the private sector is poor. Consultations with social partners took place during all changes in labour relations including preparations of the new labour act. Workers' confidence in trade unions' capacity to function independently has not improved. The implementation of the Law on the peaceful settlement of labour disputes is not yet implemented. Social partner's capacities still need to be strengthened. Provisions in the law on primary education and the law on secondary education, allowing for the replacement of striking workers, remain unchanged. Procedures for the registration of trade unions and employers' associations in the Registers remain with the Ministry of Labour and Social Policy. The bipartite social dialogue in the public sector resulted in the conclusion and restored respect of collective agreements, which is not the case in the private sector.

On **employment policy**, during 2021, the government adopted additional packages of temporary socio-economic measures supporting economy and employment, in order to tackle the effects of continuing COVID-19 pandemic. The Labour Market forecasting model was extended to cover 20 sectors and the occupational outlook to 74 occupations. The National Employment Strategy 2021-2027 was adopted together with Employment Action Plan 2021-2023. The implementation of measures on undeclared work under the 2018-2022 Strategy for the Formalisation of the Informal Economy continued. The Government adopted an Action plan for 2021-2022. The Employment Service Agency's capacity should be strengthened, in particular in order to better deliver on active labour market measures, the Youth Guarantee Scheme, the newly adopted policy measures targeting the negative effects of COVID-19 and their monitoring, evaluation and impact assessment.

The unemployment rate is at 15.2 % in Q4 2021, the lowest level since the country's independence. The female employment rate increased by 0,5 pp (48,6 % of the 15-64 year-olds) and youth (15-24 year-olds) employment decreased 0,3 pp to 18,3 % and the youth unemployment rate decreased to 34,6 % in Q4 2021. This is mainly due to the COVID-19 crisis. The main measure addressing youth unemployment continues to be the Youth Guarantee Scheme. In 2021, more than 19 000 young people participated in the programme with 41 % successfully finding employment or training opportunities. 969 Roma people were included in the Youth Guarantee, out of which 148 were employed in the period of 4 months. The employment of Roma, the long-term and low-skilled unemployed, and persons with

disabilities is supported by the guaranteed minimum assistance scheme introduced by the Law on Social Protection.

There is a moderate level of preparation for the participation in the **European Social Fund**. The indirect management with the beneficiary country (IMBC) projects are ongoing. There was no progress in enhancing capacities within state bodies to ensure their readiness to manage the ESF. *(See also Chapter 22 - Regional policy and coordination of structural instruments).*

Some progress was made in the field of **social inclusion and protection**. Implementation of the reforms deriving from the new law on social protection has progressed. There is a 45 % increase in the coverage of the beneficiaries of Guaranteed Minimum Assistance (GMA) and 48,8 % in child protection system. 28 749 students from primary and secondary school used the right to educational allowance. 3 300 individual activation plans were prepared for the users of the GMA. An electronic exchange of information between employment services and social protection services was set up. The 2022–2032 National Programme for the Development of Social Protection was prepared. The share of people living at risk of poverty or social exclusion slightly decreased in recent years but still stands at a very high figure of 32.6 % in 2020. The full-established monitoring and evaluation system for social services and proper centralised IT system to follow social assistance schemes is deficient. Decentralisation of social assistance remains moderate.

Implementation of the 2018-2027 national strategy on **de-institutionalisation** has progressed. Resettlement of adults from institutional care to foster families or community-based housing continued. The government adopted the new Action plan for implementation of the Deinstitutionalisation Strategy 2002-2024. Delivery of services such as home care, personal assistance, supported living and respite care were established. The methodology for licensing and determination of social service costs was adopted and non-public social service providers were licensed. Citizens' associations and private entities have been licensed as social services providers. The resettlement of the beneficiaries from the Special Institute Demir Kapija continues with the opening of 15 new residential units in the municipalities of Negotino, Veles, Demir Kapija and Skopje, some managed by private licensed service providers.

On **equality between women and men in employment and social policy**, there is a noticeable gender gap in the labour market. In particular, the employment rate for men was 64,3 % compared with 45,5 % for women in 2021. Data on incidents of sexual harassment in the workplace or a system to investigate such are not available. According to the Law on Health Insurance, women need to work at least six months with the same employer to be entitled to maternity leave. Childcare and pre-school capacities increased during 2021 with 11 new facilities opened, which should support women return to the workplace. In 2022, care and education are delivered in 77 public and 30 private kindergartens. An additional increase of capacities is required in particular in urban areas. Both gender stereotyping and the gender pay gap persist.

The Law on the Protection against Workplace Harassment has to be adopted and activities for ratification of the 2019 Violence and Harassment Convention of International Labour Organisation number 190 continued.

On **non-discrimination in employment and social policy**, the comprehensive legislative framework is in place. In 2021, the new Commission for the Prevention and Protection against Discrimination worked on 167 complaints (77 complaints filed to the former Commission for Prevention and Protection against Discrimination, with 90 complaints being submitted to the new Commission). The Commission found that there was discrimination in 40 cases, whereas 65 % of the cases referred to employment and labour relations, and to

access to goods and services. The Ombudsman worked on 43 complaints for discrimination, out of which 22 cases in employment and labour relations, and six in the access to goods and services. (See also Chapter 23 — Judiciary and Fundamental Rights).

Chapter 20: Enterprise and industrial policy

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

The country is **moderately prepared** in this area. **Some progress** was achieved in implementing measures to support companies in mitigating the damaging effects of the COVID-19 pandemic as well as inflationary pressures (especially in the area of energy) and supply chain disruptions due to the war in Ukraine. Moreover, some efforts were made to formalise the informal economy. Legislation is not yet fully aligned with the EU Late Payment Directive.

The Commission's 2021 recommendations were not fully implemented. In the coming year, the country should:

- consolidate the institutional structure and mandates of public bodies to ensure effective implementation, monitoring and evaluation of strategies and policy measures;
- ensure high level political commitment when implementing, assessing and renewing the strategy and action plan for formalising the informal economy, with specific attention to its business environment component;
- develop measures to increase competitiveness of domestic companies and their integration in global value chains, other than state aid.

Enterprise and industrial policy principles are incorporated in several strategic documents under the competence of different national authorities. Nevertheless, the presence of several public bodies with overlapping and conflicting mandates makes the institutional set-up complex and resource inefficient. The Economic Growth Plan (EGP) remains the country's most important horizontal list of measures. The Law on support of investments, which provides the legal framework for the Plan, was amended to allow for more flexibility and increased grounds for state aid, in particular on large investments. The scope and objective of State aid granted under the EGP is still unclear and no impact assessment of State aid was made since its introduction.

Most of the existing strategies lack proper evaluation mechanisms, indicators and systematic impact assessment. A monitoring and evaluation unit in the Ministry of Economy is in its early stages. In addition, the country still has no strategy for attracting foreign investments and promoting innovation, despite various programmes implemented by the Fund for Innovation and Technological Development. A Smart Specialisation Strategy and an Export Promotion Strategy, which helps companies' transition to higher value-added activities, still have to be adopted.

The impact of the COVID-19 as well as new risks stemming from Russia's invasion of Ukraine, including high energy, commodity and food prices, combined with supply-chain disruptions, have exacerbated existing structural challenges. They negatively affected competitiveness and put significant additional burden on enterprises. Further to the six sets of measures to increase resilience of companies against the COVID-19 pandemic introduced in 2021, the government adopted a EUR 400 million package in March 2022 to protect citizens from rising food and energy prices and to help companies to maintain liquidity. With the aim

to support economic recovery through increased investments in greening, innovation, digitalisation and human capital, an acceleration plan was adopted in October 2021, targeting specifically private sector co-funding.

Frequent changes to the regulatory framework, complex administrative procedures, absence of rules in para-fiscal charges, uneven enforcement of business regulations and skills mismatches in the labour market remain major obstacles to doing business. The linkages between enterprises and other innovation actors remain very weak. In October 2021, the government adopted a new action plan for formalisation of the informal economy, following a report on implementation of the previous plan. On the basis of a published list of para-fiscal charges along with their value, efforts have started in view of evaluating, annulling, optimising and rationalising these charges, which could also help the formalisation of the informal economy. Efforts continued to improve the national e-services portal, which provides electronic services to citizens and companies.

On **policy instruments**, no progress was made in further aligning the Law on financial discipline to the EU Late Payment Directive, notably in the context of public bodies' payment obligations.

The post-investment bonuses granted to companies under the EGP continue potentially to distort market competition. While the government approved seven projects of national interest according to the Law on strategic investments, the policy objective and discretionary power to award public funds for high budget investments under this law remains to be clarified.

Commercial bank lending is still the main source of private sector financing and alternative finance remains limited, also due to an insufficient legal framework for factoring and microfinance. The Development Bank introduced a guarantee facility and a subsidised credit line for micro and small companies. North Macedonia expressed its interest to participate in the Single Market Programme (SMP). Formal negotiations for an Association Agreement started in March 2022 and are progressing.

In terms of **sectoral policies**, the industrial strategy focuses on the manufacturing industry without sectoral prioritisation. During the process of developing a smart specialisation strategy, the following sectors were identified: smart agriculture and food industry, industry 4.0 (encompassing the mechanical, metal processing and automobile industry), as well as smart buildings and materials.

Chapter 25: Science and research

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

The country has a **good level of preparation** in the area of science and research. **Some progress** was made in the research and innovations capacities in both the public and private sector as new funds for innovations were distributed to private companies; the National Road Map on Research Infrastructure was developed; and access to Horizon Europe and the European Open Science Cloud was secured. In the coming year, the country should:

- develop measures to promote Horizon Europe and other EU financing instruments in the area;
- ensure sufficient financing of the Innovation Fund;
- adopt the Smart Specialisation Strategy and start developing measures for its implementation.

Some progress was made to align with European standards on **research and innovation**. About 50 scientific and research projects of special national interest, or for the development of laboratory resources, received some EUR 4 million of public funds. Since August 2021, the Ministry for Education and Science has been actively participating in the work of the European Open Science Cloud Governance Board. Furthermore, the Faculty of Information Technology and Computer Engineering has been accepted as a member of the European Open Science Cloud. The Fund for Innovations and Technological Development undertook an evaluation of the implementation strategy for research and innovations 2015-2020. Despite such developments, the investment in research and innovation is still low, at 0.38% of GDP. In particular, the participation by the private sector in overall research spending remains low, at 0.1 % of GDP.

The country's performance in **Horizon Europe**, the EU's Framework Programme for Research and Innovation, has continued to improve (reaching 14 projects with EUR 2.8 million funding in 2021). The International Agreement between the European Union and North Macedonia for its full association to Horizon Europe was signed in December 2021, with a retroactive effect as of 1 January 2021. Regarding the new **European Research Area**, the country's research capacity has slightly improved, thanks to a public investment of about EUR 3.6 million. However, the research capacity, compared with the EU average, remains weak. The country signed a new agreement for cooperation in the field of education, science and technological development with China, bringing the total number of international agreements in this area to 27, out of which 11 are signed with EU Member States. However, funds and the scope of cooperation remain modest. The national roadmap on research infrastructure needs was finalised with support from the Regional Cooperation Centre

On **innovation**, the European Innovation Scoreboard classifies North Macedonia as an 'emerging innovator' with improved performance, according to EU standards. Since its establishment in 2014, the Fund for Innovation and Technological Development has invested more than EUR 80 million public funds in about 800 companies to stimulate innovations and adoption of new technologies.

The preparation for the **Smart Specialisation Strategy** has reached the final phase – the entrepreneurial discovery process and should then be adopted and implemented.

Chapter 26: Education and culture

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

North Macedonia is **moderately prepared** in the area of education and culture. **Limited progress** was made in the reporting period, still impacted by the COVID-19 pandemic. The implementation of the 2018-2025 education strategy is slow, as is the development of a proper monitoring system.

The recommendations of last year's report were only partially addressed and most remain valid. In the coming year, North Macedonia should in particular:

- adopt the Vocational Education and Training (VET) law and establish and operationalise the regional VET centres;
- finalise and adopt the Law for Adult Education;

→ improve access to quality education for all, in particular children with disabilities and children from Roma communities increase pre-school enrolment and continue improving support for teachers' training and professional development.

The Law on Primary Education started to be implemented in the 2019-2020 academic year, providing a basis for inclusive and quality education for all. According to the Concept for Primary Education, a new curriculum for students in the first four grades was adopted for the academic year 2021-2022. A significant number of trainings of teachers on the new curricula was conducted.

The new VET law still has not been adopted. It emphasises work-based learning and the role of five regional VET (RVET) centres to be established across the country, expecting to provide specific trainings targeted to the local job market needs in coordination with the business community. RVET should also eventually become centres of excellence with major investments carried out in providing support to schools. A campaign was developed to promote vocational education in the country under the motto "Learn smart, work professionally". Business companies, vocational high schools, the Chambers of Commerce and the Ministry of Education are supporting the development of a curriculum in schools with an increased number of internships in private companies. To this purpose, almost 100 dual-education classes were opened, with an increased number of practical education supported by public private partnerships. The Law for Adult Education needs to be adopted urgently and further clarity is needed on the next steps of the reform

Public spending on **education and training** increased slightly to 3.76% of GDP in 2021, which is still far from the EU average of 5%. After a period of budgeted reduction due to the pandemic, the 2021 education budget prioritised investment to improve the quality of primary and secondary education. Although some progress was made on pre-school education, the overall level of enrolment remained low, especially in the COVID-19 context. Whereas the EU Education and Training target for 2020 on early childhood education and care attendance is set at 95 %, only 45 % of children from 3-6 years of age in North Macedonia were enrolled in licensed early childhood education institutions in 2020-2021. This is a slight increase compared to the previous year. In addition to expanding the capacities for inclusion of a larger number of children in pre-school education, efforts have been done to improve the quality of pre-school education.

As for the other educational levels, 90.8 % of children were enrolled in primary education (90.6 % male, 91% females) and 78.9% in secondary education (Females 79.8 % Males 78.1 %) in the 2020-2021 school year. The total amount is 71 811 students out of them 35 200 females. Significant progress was made in boosting VET education at secondary level: the rate of student's participation in the secondary VET system is marked by a constant increase: 64% in 2021, compared to 62.1% in 2020 and 61.8% in 2019. In higher education, the overall enrolment remains low. The number of university students enrolled in the first year of studies has been declining in the last three years.

In 2021, the main testing for the Progress in International Reading Literacy Study (PIRLS 2021) was conducted. A database was sent to the International Association for the Evaluation of Educational Achievement (IEA) and has been approved. The State examination centre has participated in preparation of the regional report about the students' achievements in PIRLS 2021. Agreement for participation in the Teaching and Learning International Survey (TALIS 2024) was signed. The working group in the state examination centre for the conduction of the study was created.

In the school year 2021-2022, a concept for inclusive education was adopted, in accordance with the new Law on Primary Education: during this period, the special schools continued to operate as primary schools with resource centres, whose aim is to support the learning process of students with disabilities. In the academic year 2021-2022, 151 students with disabilities, who are included in regular education were awarded scholarship, reaching a total of 470 students under this project. The percentage of Roma students enrolled in higher education institutions has increased in the last three years from 46 % to 52 %. For the academic year 2021-2022, a total of 130 scholarships were awarded to Roma students from public and private higher education institutions and universities in the country.

The professional exams for teachers in primary and secondary schools are implemented since school year 2020-2021, in accordance with the regulation. The new rule books clearly define the obligations, conditions and the manner of the realisation of the internship and the professional exam, providing transparency to the entire selection process.

The country continues to actively participate in the Erasmus+ programme and the European Solidarity Corps, as a programme country. Under the 2021 call, overall 118 projects were awarded grants, including 22 projects in the Youth sector. It is forecasted that in 22 granted Youth projects, 615 youth participants, out of which 77 fewer opportunities participants will be involved. The forecasted figure of participants in all awarded projects under 2021 call is close to 2000.

The proposals amending the legal framework on **culture** and protection of cultural heritage have been withdrawn from the parliamentary procedure, while revision of the national strategy for protection of cultural heritage was further delayed. The implementation of the 2018-2022 national strategy for culture development has not been supported with appropriate budget allocations. The disbursement of funds under the annual programme for projects continues to be criticised by numerous cultural operators, for a lack of transparency in approval of the grants. The functional analysis of the Ministry of Culture and specialised bodies, emphasised *inter alia* the need of reforms taking into consideration the new cultural practices, growth of cultural and creative industries, the impact of digital technologies. There is a need for further strengthening of the capacities of the Ministry of Culture and other institutions, for the creation and management of cultural policies. There is a poor institutional response and inter-institutional cooperation in the protection of cultural heritage and prevention of illegal constructions, and denationalisation of the cultural heritage with 'particular importance status', such as Ohrid and the Skopje Old Bazaar. The country's cultural heritage is not sufficiently safeguarded and enhanced. The number of beneficiaries of the Creative Europe Programme continues to be satisfactory, with a total of 24 projects during the period 2020-2021.

In the area of **youth** policy development, the Agency for **Youth** and **Sports** maintains a register of youth organisations in which 80 organisations have been registered since the entry into force of this measure. The agency adopted a Rulebook on standardisation of Youth Centres in a transparent process and several centres have been created in the country. In addition, the agency supported the opening of four Youth centres providing technical assistance and equipment.

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.

North Macedonia has a **good level of preparation** in this area. **Some progress** was made

with continuous consolidation, application and upgrade of IT systems. The concept of authorised economic operators (AEO) was further promoted. The Customs Administration implements fully paperless environment for processing customs declarations and excise documents.

Last year's recommendations were partially implemented. In the coming year, the country should, in particular:

- continue the consolidation and full application of its IT systems, including alignment with the Commission's Multi-Annual Strategic Plan (MASP) modules, ensure their continuous upgrade, and business continuity;
- ratify the Protocol on Elimination of Illicit Trade in Tobacco Products.

The **customs legislation** is highly aligned with the EU *acquis*. The 2022 customs tariff was adopted to reflect the latest changes in the EU Combined Nomenclature. The Additional Protocol 5 on trade facilitation was implemented, and the authorised economic operators (AEO) concept was further promoted. So far, 23 companies were AEO-certified. Agreement for mutual recognition of AEO was signed with Albania in December 2021 and the agreement with Serbia started being implemented. North Macedonia is yet to ratify the Protocol on Elimination of Illicit Trade in Tobacco Products, signed in 2014.

On **administrative and operational capacity**, the standards of professional integrity and anti-corruption continued to be applied by the Customs Administration. A comprehensive intelligence and information system in support of investigation and enforcement is in place. Risk management was systematically applied with the percentage of physical controls at 6.3 % and documentary controls accounting for 18 % of all shipments in 2021. The CEFTA regional risk management strategy 2020-24 is being implemented. The Agreement to establish joint border controls with Albania was ratified in December 2021. A new Strategy for ICT Development 2021-2025 was adopted, aiming to provide coordinated and timely development and implementation of national systems with those of the EU. The System for Electronic Exchange of Data (SEED+) is operational, allowing for harmonised work of the agencies present at the borders, electronic exchange of data and greater transparency.

An inter-agency cooperation unit (AIRCOP) was established at Skopje airport, aiming at improved border control capacities focusing on high-risk passengers and air cargo.

The Customs Administration participated in three international operations and a number of projects, in cooperation with Europol and the World Customs Organisation (WCO), to combat illicit trade in drugs, counterfeit goods, medicines, medical devices and protective equipment, weapons, explosives, dangerous waste, cultural goods and tobacco products. It took part in 'STOP II' operation led by the WCO, focused on prevention of import, export and transit of counterfeit vaccines and medical supplies in the fight against COVID-19. Cooperation and exchange of intelligence with the customs agencies from the wider region and with international and regional organisations continued.

CLUSTER 4: THE GREEN AGENDA AND SUSTAINABLE CONNECTIVITY

The cluster on Green Agenda and sustainable connectivity covers: transport policy (chapter 14), energy (chapter 15); trans-European networks (chapter 21); environment and climate change (chapter 27). North Macedonia has achieved a good level of preparation in trans-European networks. The country is moderately prepared on transport policy and energy and has achieved some level of preparation on environment and climate change. Some progress was made in the areas of environment and climate change. Substantial efforts are needed in the areas where limited progress was made such as in energy, transport policy, and trans-

European networks. The country needs to accelerate the implementation of the Economic and Investment Plan and of the Green Agenda for the Western Balkans over the upcoming period.

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.

North Macedonia is **moderately prepared** in the area of transport. **Limited progress** was made in the reporting period. The transport sector still lacks administrative and operational capacity. Political commitment is still missing to deliver on necessary sectoral reforms.

As the previous year's recommendations were not fully addressed, they remain valid. In the coming year, North Macedonia should, in particular:

- strengthen the operational and administrative capacity of the inspection bodies and develop enforcement capacity to reduce fatalities on road and rail infrastructure;
- implement the connectivity reform measures on rail reform and open the rail transport market, amend the national law to remove existing breaches of provisions of the Transport Community Treaty with regard to opening up the rail market, set up a national system to continuously collect data on road crashes and finalise pending border-crossing agreements/protocols;
- adopt legislation on intelligent transport systems (ITS) and combined transport, and make further efforts to produce a strategic framework to implement ITS and the core networks.

On the **general transport *acquis***, the key strategic documents for transport and its sub-sectors are in place. No progress has been made in developing the action plan to accompany the 2018-2030 National Transport Strategy. The operational and administrative capacities for all modes of transport remain weak and need urgent strengthening. The situation is impeding the proper implementation of the Green Agenda for the Western Balkans in the area of transport and the transition towards less polluting modes of transport. The law on air and railway accident investigation has not been fully implemented. The independent rail accident investigation body has still not been created. Continued progress is also needed to align with the intelligent transport systems (ITS) directive and introduce relevant national laws. An overall strategy for ITS with accompanying resources is still missing.

The legal framework for **road transport** is broadly aligned with the EU *acquis* but struggles to keep up with its evolution. The law on dangerous goods is harmonised with the EU *acquis*, but still no progress was made on the conformity assessment of the existing equipment for the transport of dangerous goods. There has been no progress towards establishing an executive body for road traffic safety. The law for the creation of the Road Safety Agency still needs to be adopted. Further efforts are needed to align with the social and safety *acquis*. The national accident and investigation body still needs to be established with action plans on road safety inspection and an audit to be followed up and implemented. No progress was made to strengthen the enforcement and technical capacities of the state transport inspectorate. Further harmonisation is needed on penalties for infringing the European agreement on the work of crews of vehicles engaged in international road transport (AETR). Approval of the five-year road and rail maintenance plan has been further delayed and road maintenance is still carried out inefficiently. Legislation on clean energy and energy efficient road transport vehicles and intelligent transport systems is not aligned with the EU *acquis*.

In the area of **rail transport**, the main requirements of the EU *acquis* are met in terms of unbundling of infrastructure manager and the national operator. The new railway system has been established and adopted. In the railway sector, no progress was made in deciding the future of passenger and freight operations. Further alignment with large parts of the single European railway area *acquis* has been delayed. North Macedonia should amend legislation to remove existing breaches of provisions of Transport Community Treaty regarding opening up of rail market at national level. The rail market on the Orient East/Med corridor remains closed. Railway safety and interoperability legislation has been adopted, but without proper enforcement. Strengthening of operational capacities of the railway safety directorate is needed. There has been no progress in establishing the accident and investigation body. The agreement on cross-border railway cooperation with Greece has not been signed while the implementation agreements for joint controls on the rail border crossing with Kosovo were completed. Some progress was achieved on regional cooperation with the signature of a memorandum of understanding by Western Balkans infrastructure managers and with a Declaration on Rail at ministerial level.

On **maritime transport**, the country continues its participation in all basic transport conventions of the International Maritime Organisation, including the European Maritime Safety Agency (EMSA).

On **inland waterway transport**, North Macedonia is aligned with most of the EU *acquis*, except for the regulation on the recognition of certification and transportation of goods and passengers. There is no law on merchant shipping, as no goods are transported on the inland waterways. The country continues to participate actively in the International Commission of the Sava River Basin, but not in the EU strategy for the development of the Danube Region. More efforts are needed in aligning with EU *acquis* on waterborne transport.

In the area of **aviation**, the country has maintained a good level of alignment with the EU *acquis* and has partially aligned with the aviation safety legislation. Further efforts are still needed to facilitate European Aviation Safety Agency standardisation inspections.

On **combined transport**, progress is still needed in setting up a multimodal node near Skopje. There has been no progress in adopting specific legislation aligned with EU rules. Progress needs to be made on adopting relevant legislation and setting up systems for electronic freight transport information exchange.

Chapter 15: Energy

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

The country is **moderately prepared** in this area. **Limited progress** was made, notably with the adoption of the National Energy and Climate Plan and investments in solar power plants on 31 May 2022. In the light of the current geopolitical context, North Macedonia needs to accelerate its transition to renewables and significantly reduce its dependencies on gas.

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

- finish unbundling (certification) of the gas transmission system;
- increase the number of staff and the technical/engineering capacity of the Energy Department in the Ministry of Economy and the Energy Agency;
- adopt and implement the energy efficiency implementing legislation.

→ Utilise benefits in the Energy Community guarantees of origin and sign direct agreement with the service provider to use national electronic register for issuance, cancellation and trade of guarantees of origin, in line with the EU standards

Concerning **security of supply**, it is necessary to assess the quantity of coal needed to ensure the good functioning of the Bitola thermal power plant, including investment in new resources. The state-owned electricity generation company ESM should improve the operation and maintenance of the power generation facilities. The country has adopted a law on compulsory oil reserves and established the Compulsory Oil Reserves Agency. It adopted plans to release stocks in the case of an emergency. The oil stocks correspond to 54 days of average daily consumption.

The construction of a new 400kV electricity transmission interconnector line with Albania is under way. Interconnection capacities on the border with Greece and Kosovo are allocated through the central auction office in Southeast Europe and others bilaterally. The implementation of a roadmap for coupling with Bulgaria is pending the establishment of a day-ahead market in the country. On gas interconnections, North Macedonia and Greece Transmission System Operators signed a cooperation agreement in September 2021. There have been delays in the establishment and certification of independent gas transmission operators, as a pre-condition for the interconnector with Greece and diversification of energy sources.

The country adopted a five-year program for the implementation of the Energy Development Strategy and an integrated National Energy and Climate Plan was adopted in May 2022. Considering the energy crisis, it becomes even more important for the government to increase its administrative capacity in dealing with energy policy, strategic planning and implementation of actions in the relevant institutions.

On the **internal energy market**, the national framework legislation is in line with the EU's third energy package in gas and electricity. The electricity and gas markets are open for competition. The adoption of corresponding implementing legislation is well advanced.

The electricity transmission and distribution network operators are unbundled in accordance with the EU *acquis*. Like last year, the gas transmission system operator is not yet unbundled in line with the third energy package. Also, the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) regulation has not yet been approximated.

Third-party access to the natural gas infrastructure is in line with the EU *acquis*, but transparency needs to be improved. Works to build the gas transmission pipeline between Negotino–Bitola and Skopje-Tetovo-Gostivar are progressing.

Wholesale gas prices are fully deregulated, but the market remains illiquid without a virtual trading point.

The Energy Regulatory Commission (ERC) is functional and continued to demonstrate regulatory independence. The Commission for Protection of Competition did not carry out any investigation in the energy sector.

In the area of **hydrocarbons**, the law on mineral resources remains to be aligned with the hydrocarbon licensing directive.

The amended national **renewable energy** action plan is in line with the revised binding target of 23 % of energy coming from renewable energy sources by 2020 and 24 % by 2025. In 2020, the country achieved only a 19.3 % share. The energy law is moderately aligned with the renewables energy directive.

Investments in hydropower should be compliant with the relevant environmental *acquis*. Optimising balancing services and investments in energy transmission and energy storage should be promoted to improve the integration of renewable energy sources into the grid.

The capacity cap per type of renewable energy technology has to be removed to enable the achievement of the 2025 renewable energy targets. An electronic system for issuing, transferring and cancellation of guarantees of origin is still not in place. Alignment with the EU *acquis* on the sustainability of biofuels is needed. Electricity prosumers are enabled with the rulebook on renewables, but its implementation is lacking due to several administrative obstacles.

The transition towards clean energy needs coordination, including a governance mechanism, an action plan and a monitoring mechanism for a ‘just transition’ process. This process should include mitigation of the negative social and economic impacts of the planned closure of coal-fired power-plants in the respective regions.

The fourth action plan on **energy efficiency** has been adopted in September 2021. The law on energy efficiency is aligned with the energy efficiency and the energy performance of buildings directives. However, there are no changes regarding the lacking implementation of current legislation. The adoption of implementing legislation also remains a challenge, due to limited human and technical capacity at the Energy Department of the Ministry of Economy and the Energy Agency.

Financing incentives towards energy efficiency should be improved, including by setting up the energy efficiency fund. Municipalities are encouraged to take steps to fully respect their obligations to develop and implement energy efficiency programmes.

For **nuclear energy, nuclear safety and radiation protection**, the country has ratified the relevant international conventions and is a full member of the European Community Urgent Radiological Information Exchange system (ECURIE). The government adopted a national policy for radioactive waste management. However, there is still no long-term and safe radioactive waste storage facility in the country.

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.

North Macedonia has a **good level of preparation** in the area of transport networks. **Limited progress** was achieved during the reporting period, in particular in completing sector reforms.

As last year’s recommendations were not fully implemented, they remain valid. However, the third recommendation on the Railway Border Crossing Protocol with Kosovo was partly fulfilled.

In the coming year, the country should in particular:

- further strengthen the operational and technical capacity of all management and stakeholder institutions dealing with the development of both Trans-European Transport (TEN-T) and Trans-European Energy (TEN-E) networks, and harmonise the legal framework with the Trans-European Network Regulation;
- mobilise sufficient resources to implement the Transport Community Treaty;
- implement the final provisions of the Railway Border-Crossing Protocol with Kosovo.

On **transport networks**, the country continues to actively participate in the Transport Community Treaty (TCT) and in its meetings. All the TCT action plans have been adopted.

The authorities are encouraged to continue the cooperation under this treaty. Green corridors are functioning throughout the major corridors.

Road Corridor X is functional but works along Corridor X-d remain delayed. The construction of the rail Corridor VIII towards Bulgaria is facing significant delays with the selection of contractor(s) for phase I and II still not finalised and the procurement procedure for phase III (Kriva Palanka border with Bulgaria) accumulating significant delays, which is a source of concern for EU funding. Additional and urgent efforts are needed to accelerate progress in all phases of this rail corridor and other priority sections of the core network for both rail and road. The staff retention policy by bodies involved in large investment projects remains limited, which considerably hampers the completion of strategic projects. The railway border-crossing agreement with Greece has not yet been adopted, while some actions have been taken to implement the remaining border-crossing protocol with Kosovo. Both are encouraged to be finalised without any further delay. Funding to build adequate infrastructure close to the Serbian border at the Tabanovce railway border station has still not been secured. Like last year, no progress was made on adopting five-year road and rail maintenance plans.

On **energy networks**, the construction of a new 400kV electricity transmission interconnector line Bitola-Elbasan (Albania), is still underway. Technical assistance to strengthen the transmission network in the southeast region of North Macedonia is under implementation. Works are ongoing to build the gas transmission pipeline between Negotino–Bitola, and Skopje-Tetovo-Gostivar.

Chapter 27: Environment and climate change

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

The country has **some level of preparation** in this area. **Some progress** was made in nature protection and in climate change, including by the preparation and adoption of the management plan for Galichica National Park. However, implementation remains a concern in all sectors. The country needs to considerably step up ambitions regarding the green transition, notably in the context of the Green Agenda for the Western Balkans.

In the coming year, North Macedonia should in particular:

- accelerate efforts for the reduction of air pollution at the local and national level and the reduction of point and diffuse pollution of freshwater resources;
- enforce measures to establish a regional waste management system, in particular in the East and Northeast regions;
- implement the Paris Agreement, including by adopting a climate Law, consistent with the EU 2030 framework.

Environment

On **horizontal issues**, administrative capacity at all levels remains weak, with insufficient human and financial resources to implement and enforce legislation. The inspections performed have little impact. There is no improvement in implementation of Environmental Impact Assessments, with shortcomings especially in the public consultation processes and in the quality of the reports. Lack of transparency and access to information continues to be an issue. The law on environmental inspection and some amendments on the law on environment were adopted. Activities continued in the area of environmental liability.

On **air quality**, amendments to the law on ambient air quality were adopted in July 2021. Efforts to improve the air pollutant emission inventory continued. The 2021 Air Quality Plan for Bitola has been prepared. The 2021 Air Pollution Reduction Programme and the preparation of four Air Quality Plans have been launched in August and October 2022, together with five Cadastres of air pollutants. Despite the progress made, air quality remains a major concern in large cities. Two automatic monitoring stations for ambient air quality were installed in the municipalities of Berovo and Prilep, along with replacements of measuring instruments on several of the already existing monitoring stations.

On **waste management**, the national plan for waste management (2021-2031) has been adopted. The national waste prevention plan (2021-2027) has been prepared, but not yet adopted. Activities have started to build a regional waste-management system in several regions. The launching of a regional waste-management system in the northeast and east regions has been further delayed due to the resistance of the municipality of Sveti Nikole to host the central waste management facility. Activities for the closure of non-compliant landfills commenced in the East Region. Regional waste management structures are still not fully operational. Separate collection of waste streams and economic instruments to promote recycling, reuse and waste prevention remain limited. The preparatory works for the rehabilitation of the small pond in OHIS site were finalised and the actual clean up started.

On **water quality management**, work to align with the EU *acquis* has continued. Limited progress was made towards implementing and enforcing existing legislation. The groundwater cadastre, which aims to better manage and report on groundwater resources, is in the final stage of development. River Basin Councils have been nominated but are not yet operational. No tangible progress was made towards finalising river basin management plans. No progress was made in the designation of areas sensitive to eutrophication. The government included the establishment of wastewater collection and treatment infrastructure as one of the structural reform measures in the Economic Reform Programme 2022-2024. The speed of preparation and implementation of the remaining major projects remains a challenge.

Good progress was made on **nature protection**. The draft law on nature protection, aiming at aligning with the Birds and Habitat directives is prepared. The total percentage of protected areas increased to 13.9% from the territorial state. Further progress made in the valorisation studies, management plans and development of national red lists. Lake Ohrid together with Studencisko Blato were included in the List of the Ramsar Convention.

Activities for re-proclamation of the status of Mavrovo National Park need to be accelerated as a matter of priority in order to prevent further deterioration of its natural values.

In August 2021, the World Heritage Committee gave the country additional two years to implement the UNESCO recommendations for the Natural and Cultural Heritage of the Ohrid Region. The implementation of recommendations remains insufficient and requires stronger commitment and reaction from national and local authorities. In December 2021, the Standing Committee of the Bern Convention adopted a decision to open a case on Emerald sites of Lake Ohrid and the Galichica National Park as a result of concerns raised about impact from uncontrolled infrastructure projects over the sites.

On **industrial pollution and risk management**, the law on industrial emissions is still awaiting adoption. Deficient environmental impact assessment and public consultations, especially for B-type permits are of concern. There is no progress in polluter accountability, which negatively impacts the setting-up of a system to prevent industrial and chemical accidents. More efforts are needed to align with the Seveso III Directive, EU Ecolabel regulations and environmental management audit system.

In the area of **chemicals**, no progress is registered in the risk assessment of harmful effects of chemicals on human health and the environment, and in the implementation of the measures outlined in the readiness assessment report. Three new regulations were adopted in order to enable accelerated HCFC phase-out schedule.

There was no improvement in the area of **noise pollution** in the reporting period.

On **civil protection**, the new national strategy for protection and rescue for the period 2022-2025 was finalised. As regards the Union Civil Protection Mechanism (UCPM), North Macedonia is a participatory state already. The country submitted the required summary of the national risk assessment in March 2022. Further steps were taken to finalise the technical connection to the Union's Common Emergency Communication and Information System (CECIS). Wildfires and COVID-19 crisis highlighted the need to strengthen the legal framework and institutional capacities of the civil protection authorities.

Climate change

The long-term strategy on climate action and its action plan were adopted in September 2021. Several documents were developed as a supporting tool for the implementation of enhanced nationally determined contribution. The work to update the greenhouse gases inventory continued, as did the activities to develop the platform for monitoring, reporting and verification. The National Energy and Climate Plan was adopted on 31 May. The Law on Climate Action remains to be adopted. Capacity remains weak, in terms of both human and financial resources, despite the efforts undertaken.

CLUSTER 5: RESOURCES, AGRICULTURE AND COHESION

Cluster 5 on resources, agriculture and cohesion covers: agriculture and rural development (chapter 11); food safety, veterinary and phytosanitary policy (chapter 12); fisheries (chapter 13); regional policy and coordination of structural instruments (chapter 22); financial and budgetary provisions (chapter 33). North Macedonia is moderately prepared in most areas of Cluster 5. It has achieved a good level of preparation in the area of food safety, veterinary and phytosanitary policy and is at an early stage of preparation in financial and budgetary provisions. Over the reporting period, some progress was made in agriculture and rural development and in food safety, veterinary and phytosanitary policy. However, further efforts are needed, in particular in areas where limited or no progress was made such as in fisheries, financial and budgetary provisions, regional policy and the coordination of structural instruments.

Chapter 11: Agriculture and rural development

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

North Macedonia remains **moderately prepared** in the area of agriculture and rural development. **Some progress** was made during the reporting period. The adoption of an overall staff retention policy by the government benefited the IPARD structures and absorption of EU funds under the instrument for pre-accession for rural development (IPARD II) improved. Decoupling direct payments and transferring the farm register and the land parcel identification system (LPIS) to the paying agency remain to be achieved, as remains to adopt a legislative framework in the area of common markets organisation. Qualified staff need to be employed in the IPARD operating structure, according to a workload analysis.

In the coming year, North Macedonia should in particular:

- ensure additional staff resources to the IPARD operating structure and expand implementation of the IPARD III programme to make full use of available funding opportunities;
- progress in transferring the farm register and the land parcel identification system (LPIS) to the paying agency and prepare an Action Plan for the implementation of the National Strategy for Agriculture and Rural Development for the period 2021-2027;
- adopt a legislative framework for the further alignment with the EU *acquis* in the area of direct payments and common market organisation.

On **horizontal issues**, a temporary staff-retention policy was adopted by the government which had a positive impact on the staff of the IPARD structures. The National Strategy for Agriculture and Rural Development for the period 2021-2027, adopted in 2021, should be complemented by an Action Plan and budgeting to ensure its proper implementation, with a monitoring and reporting system. A law aligning national support schemes to farmers with the EU *acquis* should be adopted. Controls for the implementation of cross-compliance standards have been enhanced.

All elements for an integrated administration and control system (IACS) are in place and in accordance with the EU *acquis*. Area-based direct payments are determined by recordings of the Farm Register and land parcel identification system (LPIS). Progress has been made to improve the data quality of the Farm Register. However, limited progress has been made on the interoperability between the Farm Register and animal identification and registration system with regard to the quality of data on animals. The legislative framework for transferring the farmers' register and the LPIS to the paying agency remains to be established. Development of the farm accountancy data network (FADN) on the basis of a representative sample size is planned from 2022. Resources need to be increased in order to ensure the sustainability of the FADN system at all levels of data collection, quality assurance and reporting. North Macedonia needs to adopt an EU support project aiming at developing a new legislative framework, and aligning the farm advisory services with the EU *acquis*.

On the Common Market Organisation (CMO), a Working Group has been established. A new Law on CMO aligning with the EU *acquis* should be adopted.

On **rural development**, good progress was made in the absorption of EU funds under the Instrument for pre-accession assistance for rural development (IPARD II). However, the number of staff in the Managing Authority and IPARD agency needs to be increased. The IPARD III programme has been adopted and greater operational commitment is needed by the IPARD authorities to expand the number of measures available to farmers and rural areas to make use of the increased budget allocation under IPARD III.

On **quality policy**, there is no progress in the implementation of the quality schemes and the administrative capacities remained insufficient, despite the sector potential for traditional products and designation of origin. Additional efforts are needed to establish the legislative framework including for spirit drinks and to ensure protection of geographical indications in line with the EU *acquis*.

As regards **organic farming**, the legislation, competent authority, control bodies, and the accreditation and certification system are established and operational. A new law on organic production in line with the EU *acquis* needs to be adopted. Action to enhance the monitoring and control of organic certification and products has been limited. There is potential for further developing the sector and using the support opportunities under the IPARD III programme.

Chapter 12: Food safety, veterinary and phytosanitary policy

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

The country has a **good level of preparation** in the area of food safety and veterinary policy. **Some progress** was made, particularly on improving animal diseases and plant health control in the country.

As not all recommendations from last year were implemented, in the coming year, the country should in particular:

- further align the legislation on official control with the new EU legislation on official controls;
- strengthen capacities for data analysis in the Food Veterinary Agency;
- implement actions to achieve sustainable use of pesticides.

On **general food safety**, North Macedonia amended the Law on Food Safety with the EU *acquis* on official controls. The National Rapid Alert System for Food and Feed as well as the Agency's internal audit and training systems are operational. The Agency is performing its work in line with quality management standards. The Food and Veterinary Agency has taken measures to protect consumers by resolving consumer complaints.

On **veterinary policy**, the implementing legislation on animal welfare during slaughter was aligned with the EU *acquis*. On the control system for imports, the Food and Veterinary Agency provides regular updates on the safeguard measures of imports and import requirements for live animals and animal products.

The agency continued to align national legislation with the new EU *acquis* on animal health. Progress was made on control measures for animal diseases. Identified weaknesses related to data collection, verification and analysis remain. The Agency is conducting active surveillance programme for classical swine fever, African swine fever, lumpy skin disease, rabies and diseases in aquatic animals, however, collection, verification and analysis of data should be improved. The agency continued implementing the monitoring programme on antimicrobial resistance. The 2022 national monitoring programme on control of residues of veterinary medicinal products and contaminants in live animals and food stuffs of animal origin is in line with the EU *acquis* on bovine, ovine/caprine, porcine, poultry, aquaculture, milk, eggs, wild game and honey. The agency continued implementing an action plan on animal welfare. The capacity to further align with and implement the EU *acquis* on zoo-technical issues needs to be improved.

Some progress was made in the **placing of food, feed and animal by-products on the market** with the adoption of implementing legislation, aiming at aligning with the EU *acquis*. The revised law on animal by-products is yet to be adopted. A rulebook on the maximum levels of pesticides in or on food of plant and animal origin was adopted.

Some progress was also made on **food safety rules**. Legislation was aligned with the EU *acquis* on food additives, food contact materials and maximum levels for certain contaminants in foodstuffs. The agency continued implementing a program for monitoring of food safety, but the data needs to be further analysed.

Regarding **specific rules for feed**, the legislation was aligned with the EU *acquis* related to feed additives. The agency is implementing a programme for monitoring of feed safety.

Some progress was made on **phytosanitary policy**. The Phytosanitary Directorate regularly updates the list of harmful organisms in line with the new EU *acquis* and the country's pest status. A catalogue for selected plant pests covering phytosanitary action, pest identity cards and survey protocols for quarantine pests has been published. The phytosanitary information system is used as a platform for information sharing and coordination between relevant authorities. The law on phyto-pharmacy is aligned with the EU *acquis*. However, the actions to achieve sustainable use of pesticides are not implemented. There is no reliable data on the pesticide use in the country, nor analysis on the risks and impacts of pesticide use on human health and the environment. The phytosanitary inspection is implementing measures to eradicate pests identified through the monitoring and control programmes.

The Law on **genetically modified organisms** was aligned with the EU *acquis*. Production, placing on the market and import of genetically modified organisms food and feed is banned.

Chapter 13: Fisheries

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

The country is **moderately prepared** in this area. **Limited progress** was made over the reporting period and last year's recommendations remain valid. In the coming year, North Macedonia should in particular:

- align the law on fisheries with the EU *acquis* in the area of market policy, structural measures and State aid;
- improve the data collection system and reporting;
- establish a multi-annual programming of structural measures.

As North Macedonia only has inland fishing in lakes and aquaculture, a large part of the EU *acquis* on fisheries is not applicable. The national legal framework is however not keeping pace with changes to the EU's common fisheries policy.

Administrative capacities for **resource and fleet management**, and **inspections and control** of fisheries policy remain insufficient. The capacities to control illegal, unreported and unregulated (IUU) fishing in line with the EU requirements need to improve. There was no progress on alignment of the national policy and legislative framework with the EU *acquis* in the reporting period. North Macedonia has yet to strengthen its policy formulation, implementation and enforcement capacities. Overall coordination, including with the environment authorities regarding biodiversity protection needs to be strengthened.

Structural measures are insufficient for the development of aquaculture and restoration of fish funds. The data collection system for fisheries and aquaculture needs to be further developed in line with the EU *acquis*.

Alignment of the **market policy** and **State aid** with the EU *acquis* remains to be achieved and alignment with the EU Eel Regulation ensured.

Cooperation meetings on the **international agreements** for fisheries management have been limited due to COVID-19 restrictions.

Chapter 22: Regional policy and coordination of structural instruments

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

North Macedonia is **moderately prepared** in the area of regional policy and coordination of structural instruments. **No progress** was made over the reporting period.

All of last year's recommendations remain valid. In the coming year, the country should:

- upgrade the institutional, administrative and technical capacity for the management of the EU funds by adopting an overall staff retention policy, strengthening the capacity-building mechanism, improving the implementation of the EU and audit recommendations, aligning the management and control systems with the IPA III requirements, and improve the dynamics of the implementation of the allocated EU funds, particularly for the ongoing economic and investment plan flagships, such as railway and road corridor VIII and X, the waste water treatment plant in Skopje and the solar power plants Oslomej 1 and 2 and Bitola;
- strengthen the investment policy as a matter of urgency by streamlining the investment pipelines on the ground of sound, transparent and inclusive methodology, clear responsibilities of the stakeholders, viable public-private partnership framework and taking into consideration the overarching priorities and principles (green deal, energy independence and sustainability, no-one left behind principle);
- accelerate the reforms in the areas of public finance management, environment, transport, energy and digital connectivity, and labour market having high impact on regional policy and development; enhance the decentralisation process through a credible financing framework for municipalities, and strengthen the policy dialogue on regional development.

Some progress was made on the **legislative framework** with the adoption of the law on financing local self-governments and Organic Budget Law. The key laws, multi-annual expenditure framework and programme-based budgeting and the law on the internal financial control system in the public sector are still to be adopted.

The Growth Acceleration Plan (GAP) promoted in October 2021 provides a strategic and synergistic framework for channelling national, EU and other public and private donors' investment in the regional development. It further improves the compliance of the legal framework on public-private partnerships with the EU legislation.

In February 2022, the government adopted the programme for the implementation of the strategy for regional development, allocating about EUR 1 billion for regional development for the period 2021-2024. The country established an electronic system for coordination in planning, implementation, monitoring and evaluation of the policy for balanced regional development "SiReRa". In July 2022, EU funding was allocated to 19 projects addressing regional disparities.

No significant progress was made on the decentralisation of services and reorganisation of competences between the central and the subnational level.

The **institutional framework** for the management of the EU funds under IPA II is established but its performance is jeopardised by the weak administrative capacity. In December 2021, the Public Enterprise Railways Infrastructure (PERI) was integrated into the operating structure managing the EU funds under the IPA II multi-annual programme for transport (2014-2020). In February 2022, the government adopted the action plan for establishment of

the financial management and control systems for IPA III, encompassing adjustments in the legal framework, organisational set-up, capacity building measures, and preparation of the request for entrustment of budgetary tasks. The implementation of this action plan is ongoing. Decisions on the appointment of institutions and bodies, responsible for implementing IPA III should be made, taking into account their future role in cohesion policy.

The **administrative capacity** continues to deteriorate due to deficiency in the management of the human resources, lack of staff retention policy and weak training and on-the-job capacity-building function. While the recruitment plan has been adopted in 2020 and further implemented, it cannot compensate for the high staff turnover across the IPA structures including at managerial level. Last year, the structures for the management of the EU funds operated with less than 60 % of the accredited staff levels and with key managerial positions vacant.

The low staffing levels across IPA structures continue to put pressure on the established **financial management and control** systems and to negatively affect the quality of procurement, evaluation, contracting, control, monitoring and implementation functions. The low staffing levels and weak administrative capacities across IPA structures cause delays in the implementation, particularly of the IPA II multi-annual programme for environment and transport (2014-2020) under indirect management, which is at high risk of substantial de-commitment of funds. The delays in the implementation of all flagship projects is still an issue of serious concern. The capacities of the indirect management structures need to be further strengthened in order to ensure efficient and timely contracting and implementation of IPA programmes, and to be able to operate in an *ex-post* control environment.

Progress was made on **programming** of IPA III, reflected in the government's adoption of the strategic response to the IPA III Programming Framework, the completed programming of IPA 2021, and the advancement in programming of IPA 2022-2023. North Macedonia continues to improve the sector policy dialogue and the strategic planning process, which is key for programming of EU funds. The Public Financial Management (PFM) Reform Programme was adopted in June 2022. The adoption of other key sector strategies, such as public administration reform, should be ensured.

North Macedonia continues to gain experience in programming and implementation of regional policy territorial cooperation through the participation in cross border cooperation and transnational and interregional cooperation programmes. Equally, North Macedonia participates in the EU Strategy for the Adriatic Ionian Region (EUSAIR), which promotes cooperation and synergies among the participating EU and non-EU countries.

Progress was achieved in **monitoring and evaluation**. In December 2021, North Macedonia adopted the performance assessment framework, establishing officially the sector indicators and their targets until 2027, and serving as an instrument to monitor, measure, visualise and communicate the country's progress in implementing sector reforms. The country improved the quality of the annual IPA report, the participation in the IPA and SAA committees, and the monitoring of the conclusions of the EU-North Macedonia bilateral dialogues. However, the implementation of the conclusions needs to improve, since at average only 50 % of the agreed conclusions are implemented. The role of NIPAC and the line ministers on respecting the commitments has still to be strengthened.

The National Anti-Fraud Strategy for Protection of Financial Interests of the European Union 2022-2025 was adopted in June 2022. The system for protection of the EU financial interest still needs to be enhanced with the adoption of the legal grounds for the operation of the Anti-Fraud Coordination Service (AFCOS) encompassing the decree on the structure and the decision on establishment of the AFCOS network.

The internal and external **audit** functions are in place. The capacity of the Audit Authority has strengthened through training, capacity building, and strengthened cooperation with OLAF. The Audit Authority continues to perform to a good standard, following sound audit methodology and good audit coverage. However, the implementation of the findings identified through the completed regular (systems, operations and accounts) and follow-up audits continues to be less than 50 %, which is an issue of concern.

Chapter 33: Financial and budgetary provisions

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

Preparations under this chapter are at an **early stage**. **Limited progress** was achieved. National accounts and GNI calculations were further aligned and customs declarations and excise documents are fully electronically processed. The institutional set-up needed for the efficient functioning of the own resources system is yet to be established.

Since the recommendations from last year's report were not fully implemented, in the coming year, the country should:

- further improve the legal basis for the own resources system;
- strengthen the administrative capacities and co-ordination mechanisms among key stakeholders in the system.

Limited progress was made on the specific own resources administrative conditions, as laid down in the own resources regulations. Some progress was made in reducing the administrative burden for taxpayers and the VAT refund process. The measures to fight and reduce tax evasion, fraud and informal economy, as well as to improve internal control in public sector, are yet to be efficiently applied. Progress was made in aligning national accounts and GNI calculations. Customs declarations and excise documents are fully electronically processed and progress was made in the reporting period with continuous consolidation, application and upgrade of IT systems (*for further information, see developments under chapter 16 — Taxation, chapter 18 — Statistics, chapter 29 — Customs union and chapter 32 — Financial control*).

With regard to **traditional own resources**, initial capacity building on accounting and revenue allocation processes as per the EU provisions on A and B accounts has started. Progress was made on building-up the customs administration's operational and administrative capacities for enforcement of national legislation and procedures, accounting management and IT services, as a basis for the establishment of the traditional own resources system. The concept of authorised economic operators (AEO) was further promoted. A detailed analysis of the current process of the customs administration for recording customs debt and customs duties in its IT system has been elaborated.

Concerning **VAT**, the Tax System Reform Strategy 2021-25 continues to be implemented. In addition, a 2022 strategic action plan 2022-24 was elaborated. Its implementation is monitored quarterly by an established working group (*See further information under Chapter 16 – Taxation*).

With regard to the **administrative infrastructure**, further efforts are needed in order to ensure the timely and efficient functioning of the process of calculation, collection, payment

and control of own resources as well as to improve reporting and co-ordination mechanisms among all bodies involved.

CLUSTER 6: EXTERNAL RELATIONS

Cluster 6 covers: external relations (chapter 30) and foreign, security and defence policy (chapter 31). North Macedonia is moderately prepared in the area of external relations and has reached a good level of preparation with regard to the common foreign and security policy. The country has made limited progress during the reporting period on common commercial policy. North Macedonia has made very good progress by fully aligning with the EU common foreign and security policy, following Russia's invasion of Ukraine. By doing so, North Macedonia has shown it can be a reliable partner.

Chapter 30: External relations

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

The country is **moderately prepared** in the area of external relations and made **limited progress** over the last year. North Macedonia continued its good cooperation with the EU, including within the World Trade Organisation (WTO), and the implementation of CEFTA protocols. However, North Macedonia during the reporting period introduced export restrictions on a number of products without presenting sufficient justifications, nor following the procedures set out in the SAA. These decisions should be revoked, and North Macedonia should abstain from taking unilateral trade measures without justification and prior consultation with the Commission, in line with its commitments in the SAA. The institutional capacity to fully participate in the EU commercial, development and humanitarian policies is insufficient. Last year's recommendations were partially implemented.

In the coming year, the country should in particular:

- remove remaining unjustified trade restrictions;
- establish a legal framework covering international cooperation and development policy as well as humanitarian aid towards non-EU countries in line with EU policies and principles;
- further complete implementation of CEFTA Protocol 6 on trade in services, and conclude and adopt CEFTA Protocol 7 on dispute settlement.

On **common commercial policy**, North Macedonia continued to coordinate its positions and align closely its policies with those of the EU, including within the WTO, and is supporting the WTO reform. The provisions of the Trade Facilitation Agreement are fully applied and the National Committee on Trade Facilitation met twice in 2021. There was no progress in the negotiations for accession to the WTO Agreement on Government Procurement. The administrative capacity of the Ministry of Economy, in charge of trade policy, should be further strengthened. In March 2022, the government introduced quantitative restrictions prohibiting the export of sunflower oil, wheat, barley, maize and wheat flour, justifying it with critical shortages of essential products on the domestic market in the light of the war in Ukraine. These restrictions were lifted in May 2022. However, in July 2022, North Macedonia re-introduced the export restrictions on wheat, wheat flour and sunflower seeds and extended these restrictions to certain types of wood. In each case, insufficient evidence of a shortage was provided and the Commission was not notified or consulted in advance as required under the SAA. In October 2022 the Government decided to lift the export

restrictions on wheat, wheat flour and sunflower seeds. The remaining export restrictions on certain types of wood should be removed without delay unless sufficient justification is presented.

North Macedonia continued to participate actively in CEFTA and chaired its activities in 2021. The country has committed to implement the action plan for the development of a common regional market among the Western Balkan countries. The implementation of Additional Protocol 6 on services is underway. The country took an active role in implementing the green corridors, ensuring an uninterrupted flow of essential goods at the key border crossings with the neighbouring countries. The amended free trade agreement between North Macedonia and CEFTA countries was ratified in December 2021, replacing the protocol concerning the concept of originating products and methods of administrative cooperation.

The system for export control of **dual-use goods** and technologies is functional. The country has prepared amendments to its framework law on dual-use export controls in order to align it with EU Regulation 2021/821 on control of exports, transfer, brokering, and transit of dual-use goods and technologies. Outreach is performed regularly to inform the industry about legislative changes.

39 **bilateral agreements with third countries** (BITs) are in force, of which 19 are with EU Member States. The country is working on updating the existing model agreement for BITs.

There was no progress in **development policy** and **humanitarian aid**. The country is encouraged to establish a policy framework in the areas of development and international cooperation, as well as humanitarian aid, towards non-EU countries in line with applicable EU policies and principles.

Chapter 31: Foreign, security and defence policy

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

North Macedonia has reached a **good level of preparation** in the area of common foreign, security and defence policy. **Very good progress** was made during the reporting period, as the country aligned fully with the EU common foreign and security policy following Russia's invasion of Ukraine. Participation in EU crisis management missions and operations was stepped up. In the coming year, the country should in particular:

→ Maintain full alignment with the EU common foreign and security policy.

Regular **political dialogue** on foreign and security policy issues between the EU and the country continued, including through active engagement of North Macedonia in the EU-Western Balkans informal CFSP Dialogue at political directors' level. The institutional framework enabling the country's participation in the common foreign and security policy and, respectively, the common security and defence policy is in place.

On the **common foreign and security policy (CFSP)**, the country's alignment rate with relevant High Representative statements on behalf of the EU and Council Decisions reached 100 % in February 2022 (compared to 96 % in 2021). This clearly confirms the country's strategic orientation towards the EU. Following Russia's invasion of Ukraine, the country immediately aligned fully with the EU restrictive measures on Russia and Belarus, including the outstanding sanctions imposed following the illegal annexation of Crimea. The government continues to implement the EU restrictive measures. North Macedonia expelled eleven Russian diplomats and on at least two occasions refused overflight permission to

Russian government planes. North Macedonia also aligned with all the EU statements submitted at international organisations (UN, OSCE and Council of Europe), including the EU position in UNGA when voting on resolutions regarding Russia's aggression against Ukraine and its humanitarian impact. North Macedonia voted for suspension of the Russian Federation from the UN Human Rights Council.

North Macedonia maintains a bilateral immunity agreement with the United States, granting US citizens exemptions from the jurisdiction of the **International Criminal Court**. In doing so, the country 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. Alignment with the EU position is therefore needed.

On **conflict prevention**, North Macedonia continued the implementation of the 2018 Regional Roadmap for a sustainable solution to the illegal possession, misuse and trafficking of small arms and light weapons, and their ammunition in the Western Balkans.

On **non-proliferation**, North Macedonia participates in some, but not all, international export control arrangements and instruments on non-proliferation. It participates in the Proliferation Security Initiative and the Hague Code of Conduct. The country is committed to meeting the requirements to join the Wassenaar Arrangement. The country chaired the Multinational Advisory Group of the Centre for Security Cooperation (RACVIAC) until October 2021.

North Macedonia continued to actively cooperate with **international organisations**, while joining the EU in supporting the decision to suspend, and later expel, Russia from the Council of Europe. As 2023 Chairman-in-Office of the OSCE, North Macedonia joined Poland and Sweden in the OSCE Troika from January 2022 and assumed the Chairmanship of the OSCE Mediterranean Partnership for Cooperation Group.

In terms of **security measures**, the law on Classified Information, based on the 2013 Council Decision, is in force. By-laws regulating the inspection supervision of work with classified information are in place since 2019, while those on personal security were adopted in July 2022. Agreements on the exchange and mutual protection of classified information were signed with Greece and the US in 2021 and are being negotiated with Belgium, Portugal and Norway.

The country continued to actively participate in EU crisis management operations under the **common security and defence policy (CSDP)**, notably EUFOR ALTHEA in Bosnia and Herzegovina. North Macedonia participates in the military training mission in the Central African Republic (EUTM RCA). In February 2022, North Macedonia signed the Note of Accession to the Technical Agreement on the establishment of an EU Multinational Battle group with Greece as framework Nation and the participation of Bulgaria, Cyprus and Romania (HELBROC BG).

North Macedonia maintained a presence in a number of NATO-led missions including 'KFOR' in Kosovo. In May 2022, North Macedonia hosted the NATO Swift Response 22 exercise involving 4 500 personnel from eight allied countries. The country continues to participate in the United Nations Interim Force in Lebanon (UNIFIL) operation.

North Macedonia completed the EU's hybrid risk survey with the objective of identifying systemic vulnerabilities and streamlining the assistance provided by the EU in this field. Based on the EU's recommendations from the survey, the government adopted the National strategy on building resilience and addressing **hybrid threats** (2021-2025), together with an Action Plan in December 2021.

ANNEX I – RELATIONS BETWEEN THE EU AND NORTH MACEDONIA

North Macedonia has been participating in the **Stabilisation and Association process** since 1999. The Stabilisation and Association Agreement (SAA) with the EU, signed in 2001, sets the framework for relations with the EU, including political, economic and technical dialogues. Experts met in seven Sub-committees and one Special Group, according to schedule.

North Macedonia is a candidate country since 2005, with consecutive recommendations by the European Commission to open accession negotiations since 2009. On 26 March 2020, the European Council endorsed the Council's decision to open accession negotiations with North Macedonia. The first Intergovernmental Conference took place on 19 July 2022, following the approval by the Council of the Negotiating Framework. The Commission started immediately the screening exercise.

Visa liberalisation for citizens of North Macedonia travelling to the Schengen area has been in force since December 2009. A readmission agreement has been in force since 2008. The Commission's August 2020 fourth report under the visa suspension mechanism concluded that North Macedonia continues to meet the visa liberalisation benchmarks.

North Macedonia has reached 100% alignment with **EU common foreign and security policy** positions and declarations over the reporting period. North Macedonia continued to actively participate in EU crisis management missions and operations under the common security and defence policy.

Under the Instrument for Pre-accession Assistance 2021 – 2027¹⁹ (IPA III), a first financing decision of EUR 90.45 million was adopted at the end of 2021, providing support for EU accession and post-COVID-19 recovery, and enhancing the country's reforms in the areas of rule of law, fight against corruption and organised crime, protection of environment, sustainable economic development and facilitating the trade with the EU. This first set of programmes, complemented by a significant package of multi-country programmes and the rural development programme IPARD III, provide a significant contribution to kick-start the implementation of the Economic and Investment Plan for the Western Balkans and the Green Agenda. North Macedonia participates also in cross-border cooperation programmes, transnational cooperation programmes and Union Programmes.

The new activities will build on and add to the on-going programmes under IPA II (2014-2020), which are still providing significant support for the social and economic development of the country and contribute to key reforms. On the fundamentals, the ongoing EU assistance advanced the digital transformation of the country, putting in place the first almost 70 fully automated public e-services for citizens and businesses and continues to back up the reforms in the areas of rule of law, public administration and public finance. In addition, the civil society and private sector benefits of important EU support providing opportunities to grow and develop in a favourable environment. Significant EU financial assistance has been allocated to North Macedonia for protecting the environment and boosting the connectivity with the EU transport systems.

The EU provided substantial support to North Macedonia in fighting COVID-19 from the start of the pandemic and mobilised a substantial financial response package of around EUR 230 million including in macro-financial assistance, for immediate medical needs and socio-economic response to the pandemic, which has created an incentive for investment and

¹⁹ OJ L 330, 20.9.2021

growth, providing businesses with the opportunity to become sustainable and relevant in the European economic context.

The Commission set aside EUR 70 million in grants from IPA II for the Western Balkan partners to reimburse the Member States for the resale of doses they obtained under the EU Advance Purchase Agreements with COVID-19 vaccine producers, as well as equipment to facilitate the vaccine campaigns, of which North Macedonia received EUR 8.2 million., North Macedonia has received almost 780 000 vaccines as donations from EU Member States, or via re-sales by EU Member States fully funded by the EU grant, and is in the process of purchasing further EMA authorised COVID-19 doses bilaterally using the grant. It has also received over 200 000 via the COVAX initiative, which is significantly supported by the EU (COVAX also ensured the delivery of some of the doses donated by EU Member States).

STATISTICAL DATA (as of 01.09.2022)
North Macedonia

Basic data	Note	2009	2016	2017	2018	2019	2020
Population (thousand)		2 049 s	2 071 s	2 074 s	2 075 s	2 077 s	2 076 s
Total area of the country (km ²)	1)	25 436 w	25 436 w	25 436 w	25 436 w	25 436 w	25 436 w

National accounts	Note	2009	2016	2017	2018	2019	2020
Gross domestic product (GDP) (million national currency)		414 622	594 795	618 106	660 878	692 683	655 931 p
Gross domestic product (GDP) (million euro)		6 767	9 657	10 038	10 744	11 262	10 635 p
GDP (euro per capita)		3 300 e	4 660 e	4 840 e	5 170 e	5 422 sw	5 122 psw
GDP per capita (in purchasing power standards (PPS))		8 313 e	10 511 e	10 786 e	11 391 e	:	:
GDP per capita (in PPS), relative to the EU average (EU-27 = 100)		34.6	37.3	36.8	37.6	38.1	:
Real GDP growth rate: change on previous year of GDP volume (%)		- 0.4	2.8	1.1	2.9	3.9	- 6.1 p
Employment growth (national accounts data), relative to the previous year (%)		4	2	3	0	2	:
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)		- 5	1	- 2	3	2	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2015 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		45	44	43	45	45	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		12.0	10.6	9.1	9.8	9.4	9.8 p
Industry (%)		15.4	19.7	20.5	21.5	20.8	19.7 p
Construction (%)		6.5	8.0	7.5	6.2	6.5	6.2 p
Services (%)		66.2 s	61.8 s	62.9 s	62.6 s	63.4 s	64.1 ps
Final consumption expenditure, as a share of GDP (%)		95.8	82.3	81.6	80.1	79.5	83.9 p
Gross fixed capital formation, as a share of GDP (%)		24.6	24.4	22.5	20.0	21.0	22.1 p
Changes in inventories, as a share of GDP (%)		1.1	8.1	9.7	12.2	13.2	6.9 p

Exports of goods and services, relative to GDP (%)		32.8	50.7	55.1	60.4	62.4	58.9 p
Imports of goods and services, relative to GDP (%)		54.4	65.5	69.0	72.8	76.2	71.9 p
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

Business	Note	2009	2016	2017	2018	2019	2020
Industrial production volume index (2015 = 100)		89.1	103.4	103.6	109.2	113.2	102.4
Number of active enterprises (number)		56 131 w	55 469 w	55 359 w	58 231 w	58 765 w	57 853 w
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		17.6 w	10.3	9.2	8.8	9.2	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		11.4	9.3	7.7	6.8	12.1	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		76.0 sw	75.4 sw	74.3 sw	74.1 sw	73.7 sw	:
Value added by SMEs (in the non-financial business economy) (EUR million)		2 101 sw	2 607 ps	2 698 sw	2 895 sw	3 215 s	:
Total value added (in the non-financial business economy) (EUR million)		3 343 w	4 031 p	4 252	4 579	4 878	4 575 w

Inflation rate and house prices	Note	2009	2016	2017	2018	2019	2020
Consumer price index (CPI), change relative to the previous year (%)		- 0.1 d	0.2 d	2.1 d	2.3 d	0.7 d	1.2 d
**Annual change in the deflated house price index (2015 = 100)		:	:	:	:	:	:

Balance of payments	Note	2009	2016	2017	2018	2019	2020
Balance of payments: current account total (million euro)		:	- 275.5	- 102.9	- 7.1	- 368.3	- 366.2
Balance of payments current account: trade balance (million euro)		:	- 1 812.9	- 1 787.9	- 1 736.2	- 1 948.8	- 1 804.7
Balance of payments current account: net services (million euro)		:	340.7	377.0	370.9	335.7	426.5
Balance of payments current account: net balance for primary income (million euro)		:	- 383.9	- 397.5	- 450.7	- 519.6	- 411.5
Balance of payments current account: net balance for secondary income (million euro)		:	1 580.6	1 705.6	1 808.9	1 764.4	1 423.4
Net balance for primary and secondary income: of which government transfers (million euro)		:	90.8	112.8	109.1	43.2	110.0
**3 year backward moving average of the current account balance relative to GDP (%)		:	- 1.9	- 2.0	- 1.3	- 1.5	- 2.3
**Five year change in share of world exports of goods and services (%)		:	22.2	42.0	51.6	39.8	38.4

Net balance (inward - outward) of foreign direct investment (FDI) (million euro)		136.9 w	316.9 w	180.0 w	603.7 w	363.3 w	154.7 w
Foreign direct investment (FDI) abroad (million euro)		8.1 w	21.6 w	1.8 w	10.4 w	35.5 w	46.7 w
of which FDI of the reporting economy in the EU-27 countries (million euro)		:	13.6 w	7.2 w	0.4	27.2	31.3 w
Foreign direct investment (FDI) in the reporting economy (million euro)		145.0 w	338.4 w	181.7 w	614.1 w	398.8 w	201.4 w
of which FDI of the EU-27 countries in the reporting economy (million euro)		181.4 w	162.5 w	86.0 w	290.4 w	220.2	42.3 w
**Net international investment position, relative to GDP (%)		- 53.4 w	- 57.7 w	- 58.0 w	- 56.2 w	- 57.3 pw	- 64.9 w
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)		2.8 sw	2.0 sw	1.9 sw	1.9 sw	:	:

Public finance	Note	2009	2016	2017	2018	2019	2020
General government deficit / surplus, relative to GDP (%)		- 2.6 w	- 2.7 w	- 2.7 w	- 1.8 w	- 2.0 w	- 8.1 w
General government gross debt relative to GDP (%)		23.6 w	39.9 w	39.4 w	40.4 w	40.7 w	51.2 w
Total government revenues, as a percentage of GDP (%)		31.0 w	28.5 w	29.1 w	28.6 w	29.2 w	28.5 w
Total government expenditure, as a percentage of GDP (%)		33.6 w	31.2 w	31.8 w	30.4 w	31.2 w	36.7 w

Financial indicators	Note	2009	2016	2017	2018	2019	2020
Gross external debt of the whole economy, relative to GDP (%)		55.9 sw	74.7 s	73.4 s	73.0 s	72.4 s	80.3 ps
Gross external debt of the whole economy, relative to total exports (%)		176.4 w	146.7 w	133.8 w	121.4 w	117.0 w	136.3 w
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	2)	892.3 bw	1 867.8 w	2 053.3 w	2 436.7 w	2 857.4 w	3 314.2 w
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	2)	3 078.9 bw	4 395.9 w	4 564.2 w	5 103.4 w	5 609.3 w	6 215.5 w
Money supply: M3 (M2 plus marketable instruments, million euro)	2)	3 296.6 bw	5 240.6 w	5 480.3 w	6 072.6 w	6 571.1 w	7 070.9 w
Total credit by monetary financial institutions to residents (consolidated) (million euro)		2 959.2 w	4 632.0 w	4 883.0 w	5 237.6 w	5 552.3 w	5 791.4 w
**Annual change in financial sector liabilities (%)		:	6.9 w	1.9 w	7.6 w	12.2 w	6.1 w
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)	3)	6.01 w	1.02 w	1.01 w	0.99 w	1.00 w	1.00 w
Lending interest rate (one year), per annum (%)	4)	10.00 w	4.25 w	3.75 w	3.00 w	2.75 w	2.00 w
Deposit interest rate (one year), per annum (%)	4)	:	0.25 w	0.25 w	0.15 w	0.15 w	0.15 w

Euro exchange rates: average of period (1 euro = ... national currency)		61.276	61.596	61.575	61.512	61.506	61.675
Trade-weighted effective exchange rate index, 42 countries (2015 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2015 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)	4)	1 597.5 w	2 613.4 w	2 336.3 w	2 867.1 w	3 262.6 w	3 359.9 w

External trade in goods	Note	2009	2016	2017	2018	2019	2020
Value of imports: all goods, all partners (million euro)		3 637	6 177	6 825	7 676	8 463	7 599
Value of exports: all goods, all partners (million euro)		1 937	4 390	5 007	5 873	6 424	5 781
Trade balance: all goods, all partners (million euro)		- 1 700	- 1 786	- 1 818	- 1 804	- 2 040	- 1 818
Terms of trade (export price index / import price index * 100) (number)	5)	96.9 sw	96.6 sw	95.3 sw	94.9 sw	:	:
Share of exports to EU-27 countries in value of total exports (%)		60.5 s	78.8 s	79.7 s	80.3 s	78.5 s	77.5 s
Share of imports from EU-27 countries in value of total imports (%)		53.3 s	51.3 s	52.8 s	52.9 s	50.8 s	46.3 s

Demography	Note	2009	2016	2017	2018	2019	2020
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		2.3	1.2	0.7	0.8	- 0.3	- 3.2
Infant mortality rate deaths of children under one year of age (per thousand live births)		11.7	11.9	9.2	5.7	5.6	5.7
Life expectancy at birth: male (years)		72.3	73.4	74.1	74.6	74.7	72.2
Life expectancy at birth: female (years)		76.7	77.5	77.9	78.8	78.6	76.7

Labour market	Note	2009	2016	2017	2018	2019	2020
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		70.1	69.6	70.3	70.4	71.5	70.5
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		47.9	53.3	54.8	56.1	59.2	59.1
Male employment rate for persons aged 20–64 (%)		58.4	63.7	65.6	66.6	69.7	68.9
Female employment rate for persons aged 20–64 (%)		37.1	42.5	43.7	45.2	48.4	49.0
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		34.6	40.7	41.4	42.7	45.1	45.7

Employment by main sectors								
Agriculture, forestry and fisheries (%)		:	16.6 s	16.2 s	15.7 s	13.9 s	12.0 s	
Industry (%)		:	23.1 s	23.3 s	23.9 s	24.1 s	23.9 s	
Construction (%)		:	7.2 s	7.2 s	7.4 s	7.0 s	6.9 s	
Services (%)		:	53.0 s	53.2 s	52.9 s	55.0 s	57.1 s	
People employed in the public sector as a share of total employment, persons aged 20–64 (%)	6)		27.0 w	23.5 w	23.2 w	23.1 w	23.2 w	24.4 w
People employed in the private sector as a share of total employment, persons aged 20–64 (%)			73.0 w	76.5 w	76.8 w	76.9 w	76.8 w	75.6 w
Unemployment rate: proportion of the labour force that is unemployed (%)			32.2	23.7	22.4	20.8	17.3	16.4
Male unemployment rate (%)			31.8	24.4	22.8	21.3	16.5	16.7
Female unemployment rate (%)			32.8	22.8	21.8	19.9	18.4	15.9
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)			55.1	48.2	46.7	45.4	35.6	35.7
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)			26.3	19.1	17.4	15.5	12.4	12.4
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED levels 0-2) (%)			37.5	28.8	25.6	23.1	23.7	21.4
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)			17.9	17.6	17.1	16.6	13.3	12.9

Social cohesion

	Note	2009	2016	2017	2018	2019	2020
Average nominal monthly wages and salaries (national currency)		19 957 w	22 342 w	22 928 w	24 276 w	25 213 w	27 182 w
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2016 = 100)		99 w	100 w	101 w	106 w	109 w	116 w
GINI coefficient		:	34	32	32	31	31
Poverty gap		:	32.9	37.3	37.7	32.0	34.9
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		16.2	9.9	8.5	7.1	7.1	5.7

Standard of living

	Note	2009	2016	2017	2018	2019	2020
Number of passenger cars relative to population size (number per thousand population)		137.0	190.0	194.0	200.0	205.0	207.0

Number of mobile phone subscriptions relative to population size (number per thousand population)	7)	948.4 w	989.9 w	968.3 w	935.9 w	924.8 w	896.8 w
Mobile broadband penetration (per 100 inhabitants)	7)	:	57.4 w	61.1 w	60.9 w	65.1 w	66.1 w
Fixed broadband penetration (per 100 inhabitants)	7)	:	18 w	19 w	19 w	22 w	23 w

Infrastructure

	Note	2009	2016	2017	2018	2019	2020
Density of railway network (lines in operation per thousand km ²)	1)	27.5 sw	26.9 s	26.9 s	26.9 s	26.9 s	26.9 s
Length of motorways (kilometres)		251	259	259	287	335	335

Innovation and research

	Note	2009	2016	2017	2018	2019	2020
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)	8)	0.20 sw	0.44	0.35	0.36	0.37	0.38
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	:	:	:	:	:
Percentage of households who have internet access at home (%)		42.0	75.0	74.0	79.0	82.0	79.0

Environment

	Note	2009	2016	2017	2018	2019	2020
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)	9)	81.8 w	80.1 w	113.0 w	79.5 w	118.7 w	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2015 constant prices)		362.2	290.0	293.0	267.1	283.8	274.6
Electricity generated from renewable sources relative to gross electricity consumption (%)		15.5	24.1	24.8	24.8	23.8	23.5
Road share of inland freight transport (based on tonne-km) (%)		89.0 w	96.9 w	96.4 w	97.2 w	96.7 w	96.9 w

Energy

	Note	2009	2016	2017	2018	2019	2020
Primary production of all energy products (thousand TOE)		1 608	1 121	1 166	1 148	1 160	996
Primary production of crude oil (thousand TOE)		0	0	0	0	0	0
Primary production of solid fuels (thousand TOE)		1 293	745	849	800	860	684
Primary production of gas (thousand TOE)		0	0	0	0	0	0
Net imports of all energy products (thousand TOE)		1 274 s	1 590 s	1 553 s	1 513 s	1 664 s	1 645 s

Gross inland energy consumption (thousand TOE)		2 817	2 706	2 763	2 592	2 862	2 599
Gross electricity generation (GWh)		6 828	5 630	5 600	5 607	5 870	5 346

Agriculture	Note	2009	2016	2017	2018	2019	2020
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		93.6 w	112.2 w	99.9 w	111.8 w	105.4 w	:
Utilised agricultural area (thousand hectares)		1 014.4	1 267.1	1 266.0	1 264.1	1 264.6	1 270.5
Livestock numbers: live bovine animals (thousand heads, end of period)		:	255.0	255.0	256.0	219.0	222.0
Livestock numbers: live swine (thousand heads, end of period)		:	203.0	202.0	196.0	136.0	164.0
Livestock numbers: live sheep and live goats (thousand heads, end of period)		:	825.0 s	832.0 s	844.0 s	771.0 s	726.0 s
Raw milk available on farms (thousand tonnes)		:	477.4	462.2	478.5	456.1	461.1
Harvested crop production: cereals (including rice) (thousand tonnes)		605.7	640.9	447.7	598.3	563.1	578.8
Harvested crop production: sugar beet (thousand tonnes)		0.0	0.0	0.0	0.0	0.0	0.0
Harvested crop production: vegetables (thousand tonnes)		648.8	810.0	769.6	792.9	772.7	794.2

Source: Eurostat and the statistical authorities in North Macedonia

: = not available

b = break in series

d = definition differs

e = estimated value

p = provisional

s = Eurostat estimate

w= data supplied by and under the responsibility of the national statistical authority and published on an "as is" basis and without any assurance as regards their quality and adherence to EU statistical methodology

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

Footnotes:

- 1) Data is harmonised with the surface area in the Register of territorial units that is maintained by Agency for Real Estate Cadastre, as the official source of the surface areas of

the territorial units in the country.

- 2) From 2009: compiled in accordance with the IMF Monetary and Financial Statistics Manual and Compilation Guide, 2016.
- 3) Data cover bilateral over-night transactions. The interest rates are calculated as weighted averages.
- 4) End of year (31 December).
- 5) Laspeyres unit value index. 2015 = 100.
- 6) In the public sector are included data: Other (mixed, collective, state, undefined)
- 7) Source: Agency for electronic communications (AEC).
- 8) Total expenditures for R&D as published in statistical reviews for R&D activity.
- 9) Part of the greenhouse gas inventory prepared in the context of the Fourth National Communication (UNFCCC).