

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

1. INTRODUCTION

1.1 Context

- April 2004: Stabilisation and Association Agreement
- December 2005: Candidate country
- Since 2009: recommendations by the Commission to the Council to open accession negotiations
- 2015: the Commission was prepared to extend its recommendation, conditional on the continued implementation of the Pržino Agreement and substantial progress in the implementation of the 'Urgent Reform Priorities'.

2. POLITICAL CRITERIA

2.1 Democracy

In 2016 the deep political crisis of FYROM continues, exacerbated by the wiretaps scandal of 2015. Democracy and the rule of law are challenged by capture of institutions (judicial bodies, regulatory agencies and media outlets). The Pržino agreement is partially implemented and limited progress was made in terms of concrete implementation of the 'Urgent Reform Priorities'. The agreements and important decisions taken in summer 2016, which pave the way for early parliamentary elections, provide an opportunity for the country's leaders to finally overcome the long-lasting crisis.

Elections

Work must continue to ensure a credible electoral process, to address the OSCE/ODIHR3 recommendations and to enhance the capacities of the State Election Commission. Greater transparency is needed to increase citizens' trust in its work.

Parliament

The legislative and oversight functions are weak. Active participation of all parliamentary parties has to be implemented, as well as political accountability for the illegal wiretaps and the capacity to monitor the protection of human rights and fundamental freedoms in the country.

Governance

There are concerns about state capture of institutions and key sectors of society: independent regulatory, supervisory and advisory bodies were not able to carry out their functions free from political pressure. The government needs to restore credibility through: robust reforms, credible elections, implementation of the Pržino Agreement, review of the Ohrid Framework Agreement in an inclusive and transparent manner followed by the implementation of any resulting recommendation.

Civil society

CSOs continue to denounce the deterioration of the climate in which they operate, the limited government commitment to dialogue, public attacks by politicians and **pro-government media**. Both government and non-governmental actors should cooperate more constructively to find a way out of the crisis.

Oversight of the intelligence services

The recommendations on both oversight and reform of the intelligence services in the 'Urgent Reform Priorities' were not implemented: the oversight system is still not fully functional, in particular the intelligence services.

2.2 Public administration reform

The country is moderately prepared with the reform of its public administration. However, there is insufficient progress in the implementation of the Commission's previous recommendations. The use of the public sector as a political instrument is still evident and the lack of political commitment to deliver on necessary reforms in public financial management led to a significant reduction of EU financial assistance in 2016. For the coming year, the country should: address serious concerns about politicisation of the public service; ensure full implementation of the principles of accountability, transparency and merit (as provided in the 'Urgent Reform Priorities'); suspend and review the implementation of the law on transformation of temporary positions into permanent contracts until the principle of merit is fully observed (as per the 'Urgent Reform Priorities').

Policy development and coordination

Coherent policy-making system. However, the quality of the European integration coordination system is decreasing due to lack of political will to implement EU-related reforms. Inclusive and evidence-based policy and legislative development needs to be improved and public scrutiny over government work, now formally in place, has to be effective.

Public financial management

Multiannual public financial management reform programme in preparation on a technical level, but without a formal government-led dialogue and a medium-term budgetary framework adopted. strengthened Internal control system has to be strengthened; audit coverage of total public spending has to be increased in order to improve accountability and transparency of the public finances. Budget transparency is not ensured.

Public service and human resources management

Implementation of the new merit-based recruitment and appraisal procedures on administrative servants began in September 2016. However there is a lack of the basic principle of merit in public administration. The Ministry of Information Society and Administration does not yet have enough leverage to coordinate and monitor human resources management. The remuneration system across the public sector remained non-uniform

Accountability of the administration

Effective lines of accountability are not in place between or within institutions. A clear separation of reporting and accountability requirements between party and state must be ensured. Concerns continued to be expressed about excessive classification of documents by the government as confidential (also an ‘Urgent Reform Priority’), thereby impeding citizens’ right to access public information.

Service delivery to citizens and businesses

Government activities on building user-oriented administration (mainly e-services) slowed during the reporting period. Equal access to public services partially in place. Legislative framework on general administrative procedures simplified.

Strategic framework for public administration reform

A comprehensive 2017-2022 public administration reform strategy is belatedly under preparation. The lack of implementation of the recommendations in last year’s report and the delays in implementing the new legal framework have compromised the declared political support and the commitment to the principles of transparency, accountability and merit in public administration.

2.3 Rule of law

Functioning of the judiciary

The country’s judicial system has **some level of preparation**. The situation has been backsliding since 2014 due to recurrent political interference in the work of the judiciary. In the coming year, the country should: depoliticise the appointment and promotion systems in practice, not only in law; provide full support to the Special Prosecutor; reform the discipline and dismissal system for judges, in line with EU and Venice Commission recommendations.

Fight against corruption

The country has **some level of preparation**. However no progress was achieved on last year’s recommendations. Corruption continues to be a serious problem and there is still no indication of political will to create an effective mechanism to monitor the financing of political parties and election campaigns.

The country should pay particular attention in the coming year to demonstrating real political will by providing law enforcement with necessary autonomy, specialised staff and equipment and by defining clearly specific objectives and indicators to measures achievements or failures.

Fight against organized crime

The country has achieved **some level of preparation**. The legislative framework is broadly in line with European standards. No progress was made specifically on last year’s recommendations. The Special Prosecutor has requested amendments to the existing law on witness protection in order to widen its scope to cover cases under the SPO’s jurisdiction, but the parliament has rejected the proposed amendments.

The law enforcement capacity to investigate financial crimes and confiscate assets needs to be developed further.

2.4 Human rights and the protection of minorities (see also chapter 23 — Judiciary and fundamental rights)

The legislative and institutional framework is largely in line with the European standards. More efforts are needed in practice to ensure the respect of human rights of vulnerable groups, including refugees and migrants

The prison system continues to be heavily understaffed and mismanaged, resulting in systemic breaches of international human rights standards. The establishment of an independent oversight mechanism is a recurrent demand, which has

still not been addressed. The inter-ethnic situation remained fragile. The review of the Ohrid Framework Agreement, still needs to be completed in a transparent and inclusive manner.

Freedom of expression

The country has **some level of preparation**. Freedom of expression and the situation of the media remain a serious challenge with intimidation of journalists and judicial proceedings against journalists. Serious concerns remain over the public service broadcaster (MRT)'s balance in reporting. In the coming year the country should show tangible results of ongoing reforms within the Public Broadcaster, aiming at addressing lack of political independence and lack of balanced reporting ('Urgent Reform Priorities'); ensure full transparency on government advertising, not only on the spending of public finances but also on its recipients and contents ('Urgent Reform Priorities').

2.5 Regional issues and international obligations

The country continued to cooperate fully with the International Criminal Tribunal for the former Yugoslavia; there are no remaining cases or appeals pending in The Hague. The country generally continues to maintain good relations with other enlargement countries and participated actively in regional initiatives. Relations with **Bulgaria** continued to be affected by differences, primarily about the interpretation of history. With **Greece** steps have been taken to improve good neighbourly relations, including through the recent progress in implementing the confidence-building measures. The confidence building measures have started to produce tangible results. The 'name issue' needs to be resolved as a matter of urgency

3. ECONOMIC CRITERIA

The government remains committed to promoting growth and employment by market based economic policies. Economic expansion accelerated in 2015, but has slowed down in 2016 in the context of a political crisis.

3.1 The existence of a functioning market economy

Good level of preparation.

Vulnerabilities: low competitiveness of the domestic private, weak contract enforcement, large informal economy, difficult access to finance.

The management of public finances did not improve and public debt increased further. Employment is boosted by large-scale government programmes as well as active labour market measures, rather than by job creation in private local enterprises. Commitment to fiscal consolidation is lacking, as the government failed to point out concrete measures. Improvements needed: underpinning fiscal consolidation by identifying concrete revenue and expenditure measures; moving towards a better targeting of transfer spending and improving the growth- friendliness of public finance; improving fiscal transparency and budget planning capacity.

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

Moderate level of preparation. Progress in fostering innovation, foreign investments and digitalization. The economy is poorly diversified, however, and manufacturing industry produces mainly low value-added products. The economy continued to suffer from weaknesses in education curricula, low innovation rates and significant investment needs, including in public infrastructure, that make it less competitive.

The EU is an increasingly important export market and the major investment partner for the country. Trade openness of the economy is high. Recommendations: upgrade higher education and vocational curricula, so as to better align skills with labour market needs; improve the innovation infrastructure in order to promote the competitiveness of the domestic private sector.

4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

The country is moderately prepared in most areas, including in the areas of competition (CHAPTER 8), transport (CHAPTER 14) and energy (CHAPTER 15). Further efforts are needed where the country is at an early stage of preparation, such as freedom of movement of workers (CHAPTER 2). More focus is also needed on administrative capacity and effective implementation. The country continued to be affected by the migration crisis (CHAPTER 23), that creates a substantial burden on its asylum and migration system. The country continued to cooperate with neighbouring countries and Member States and made efforts to provide humanitarian supplies, with EU and other support. The country should maintain its efforts to ensure effective screening of refugees and migrants and address relevant protection needs. The country should also maintain its efforts to decrease the number of unfounded asylum applications lodged by its nationals in EU Member States.

Chapter 1: Free movement of goods

Moderately prepared. Some progress was made, in particular on further eliminating non-tariff barriers. Improvements needed: complete the removal of non-tariff barriers to trade; complete alignment on the General Products Safety Directive and ensure adequate administrative capacity to enforce the legal framework.

Chapter 2: Freedom of movement for workers

Still at an **early stage**. Some progress in simplifying the administrative procedures for work and residence permits. Improvements needed: continue adaptation of the legal framework in line with EU *acquis* on access to the labour market, in particular as regards non-discrimination on grounds of nationality against EU workers; coordination of social security systems.

Chapter 3: Right of establishment and freedom to provide services

Moderately prepared. Some progress in arrangements for the market liberalisation of the postal services. Improvements needed: continuation in aligning the mutual recognition of professional qualifications and the Services Directive to EU *acquis*; establishment of a single point of contact for 'one-stop shops'; completion of the liberalisation of the universal postal service.

Chapter 4: Free movement of capital

Moderately prepared. Some progress made on fight against money laundering and the financing of terrorism. In the coming year, the country should implement the new legislation on payment systems and capital; demonstrate a sound track record in fighting money laundering and the financing of terrorism, and complete a national risk assessment.

Chapter 5: Public procurement

Moderately prepared. None of the recommendations were implemented. The area is vulnerable to corruption: significant efforts are needed to ensure a transparent, efficient and effective public procurement regime. In the coming year the country should: reconsider the mandatory use of e-auction and the role of the Public Procurement Council; ensure the equal treatment of EU procedures and align fully to the *acquis* especially in the area of concessions.

Chapter 6: Company law

Good level of preparation. In the coming year, the country should continue efforts towards alignment with the latest *acquis* on accounting and auditing.

Chapter 7: Intellectual property law

Moderately prepared. Lack of strategy. The country should improve consultation of stakeholders when drafting legislation; investigate and persecute infringements of intellectual property law; raise awareness of the importance of protecting intellectual property right.

Chapter 8: Competition policy

Moderately prepared. No progress made. The country is relatively advanced as regards legislative alignment, but efforts are needed on enforcement. In the coming year, the country should strengthen the enforcement record of the Commission for the Protection of Competition (CPC); increase the transparency for state aid granted by the government.

Chapter 9: Financial services

Moderately prepared. Some progress achieved in the enforcement capacities of financial market regulators and their cooperation with European supervisory authorities. In the coming year, the country should focus on adequately addressing consumer protection.

Chapter 10: Information society and media

Good level of preparation. No progress was made. The country should ensure correct implementation of the legal framework on electronic communications and audio-visual media; strengthen the independence of the media regulator and the public service broadcaster; ensure that the necessary preparation is done to introduce the 112 emergency number by the end of 2018, including allocating the necessary financial resources.

Chapter 11: Agriculture and rural development

Moderately prepared. Some progress was made to implement the Instrument for Pre-accession Assistance for Rural Development (IPARD II). In the coming year, the country should continue to focus on more effective use of IPARD funds.

Chapter 12: Food safety, veterinary and phytosanitary policy

Some level of preparation. Some progress was made. In the coming year, the country should increase the ability to control vector-borne diseases; determine the plant pest status in the country.

Chapter 13: Fisheries

Moderately prepared. Good progress was made on monitoring, inspection and control of catches, fish health

surveillance, fish stocks management in trans-boundary lakes. In the coming year, the country should make further efforts to align market policy with the *acquis*.

Chapter 14: Transport policy

Moderately prepared. Some limited progress was achieved in the past year in connectivity reform measures. Several shortcomings that prevent proper sector planning and coordination, lack of political commitment to deliver on necessary reforms, resulted in reduced EU financial assistance. In the coming year the country should, in particular: improve sector planning and coordination and road safety conditions; strengthen the operational and administrative capacities of the inspection body.

Chapter 15: Energy

Moderately prepared. Some progress made on security of supply; no progress on the opening of the electricity market. The obligations under the Energy Community Treaty are not fully implemented. In the coming year, the country should fully implement Energy Community Treaty obligations; improve the capacities of the Energy Department in the Ministry of Economy and of the Energy Agency

Chapter 16: Taxation

Moderately prepared. Some limited progress made towards harmonisation of the legal framework. In the coming year, the country should: improve the capacities of the tax system, at central and local level, to provide modern tax services to citizens (including e-tax, compliance risk management, quality assurance and IT system modernisation); bring fiscal provisions on technological development zones into line with the EU Code of Conduct for Business Taxation.

Chapter 17: Economic and monetary policy

Moderately prepared. Some progress made on increasing the capacity of the country's institutions to draft and implement economic policy. In the coming year, the country should set up a medium-term budgetary framework, and report on arrears, so as to improve fiscal discipline and transparency; introduce fiscal rules so as to improve public finance management.

Chapter 18: Statistics

Moderately prepared. Some progress achieved in the past year in efficiency of data collection and the alignment of sectoral statistics with EU standards. Efforts necessary to improve the quality of data in macro-economic and social statistics as well as for full harmonisation with the EU *acquis*. In the coming year the country should: further strengthen human and financial resources of the State Statistical Office; further align statistics with the European System of Accounts 2010; transmit a full set of tables for the Excessive Deficit Procedure (EDP) to Eurostat.

Chapter 19: Social policy and employment

Moderately prepared. Some progress was made. Decrease in the official unemployment rates, but young people and long-term unemployed still face difficulties. Efforts to alleviate poverty were insufficient and remain a serious problem, in particular for Roma and people with disabilities. The anti-discrimination law is still not aligned with the *acquis* and its implementation mechanisms were not strengthened. In the coming year, the country should: tackle unemployment and improve the labour market conditions, in particular for young people, the long-term unemployed and socially disadvantaged groups; finalise and start the implementation of the Employment and Social Reform Programme.

Chapter 20: Enterprise and industrial policy

Moderately prepared. Some progress made by adopting a new strategy for competitiveness and several legal amendments. In the coming year, the country should continue adapting the legal framework and develop measures to facilitate SMEs' access to finance; adopt a strategy promoting women's entrepreneurship, a strategy for SMEs and a strategy for tourism.

Chapter 21: Trans-European networks

Good level of preparation. Good progress. In the coming year, the country should further improve inter-institutional communication; further strengthen the operational and technical capacity of all management and stakeholder institutions dealing with transport infrastructure; complete project documentation for the Tabanovce joint border crossing station.

Chapter 22: Regional policy and coordination of structural instruments

Moderately prepared. Some progress made in sector-based programming. In the coming year the country should focus on: building the administrative and financial capacity needed for procuring and implementing EU funds properly and in a timely fashion; addressing shortcomings in financial management, control and audit; improving the transparency and visibility of EU funds.

Chapter 23: Judiciary and fundamental rights

Some level of preparation. No progress in the past year. Lack of will to tackle the lack of independence of the judiciary. Corruption continues to be a serious problem. The Special Prosecutor faced administrative and judicial obstruction. Political interference and structural weaknesses undermined the functioning of the State Commission for the Prevention of Corruption. In the coming year, the country should: demonstrate **greater political will to ensure the independence of the judicial system** and to **allow the Special Prosecutor to work unhampered**; ensure the functional independence and merit-based recruitment of regulatory, supervisory and oversight bodies so that they can fulfil their duties in a professional and proactive manner (an Urgent Reform Priority).

Chapter 24: Justice, freedom and security

Moderately prepared. It made some progress by amending existing laws (the law on foreigners, the criminal code and the law on border control) and adopting strategic documents in several areas (police, terrorism). In the coming year, the country should in particular: ensure effective border management and step up action against people smuggling and human trafficking as a high priority;

Chapter 25: Science and research

Good level of preparation. Some limited progress made on research activities and support for innovation in companies. In the following year, the country should: continue increasing the level of investment in research; promote participation in the EU's Horizon 2020 research programme;

Chapter 26: Education and culture

Moderately prepared. Some progress made. Children from non-majority communities and with special needs continue to face barriers to accessing quality education. The country should: increase support for teacher training and guarantee an effective assessment process; improve access to quality education for all, in particular children with disabilities and children from Roma communities.

Chapter 27: Environment and climate change

Some level of preparation. Some progress done, but more efforts are needed on water quality, industrial pollution and risk management, chemicals and climate change. The country should: improve the implementation of the national plan for air quality protection; ratify and start implementing the Paris Agreement, also developing a comprehensive strategy on climate-related action consistent with the EU 2030 framework for climate and energy policies.

Chapter 28: Consumer and health protection

Moderately prepared, but no progress in the area of consumer and health protection and the majority of last year's recommendations were not implemented. In the coming year, the country should strengthen the operational structures serving consumer protection; increase the sustainability, efficiency, cost-effectiveness and quality of services in the field of communicable diseases.

Chapter 29: Customs union

Good level of preparation. Progress made on legislative alignment and on administrative and operational capacity. In the coming year, the country should: abolish fees for customs declarations; complete and consolidate the developed IT systems, ensure their upgrade and maintenance and guarantee business continuity.

Chapter 30: External relations

Moderately prepared. Some progress done: fYRoM continued its good cooperation with the EU, including within the WTO, but its institutional capacity to fully participate in EU commercial, development and humanitarian policies remained insufficient. In the next period, the country needs to strengthen its administrative capacity as regards dual-use goods export control.

Chapter 31: Foreign, security and defence policy

Moderately prepared. Some progress made: participation in civil and military crisis management missions. In the coming period, the country should continue improving its alignment with EU declarations and Council decisions on foreign and security policy.

Chapter 32: Financial control

Moderately prepared. No progress in the implementation of the Commission's recommendations. Considerable further efforts are needed in the implementation of public internal financial control (PIFC) legislation. The country should ensure a more systematic follow-up to government recommendations following the annual PIFC implementation report.

Chapter 33: Financial and budgetary provisions

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