

# THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Report 2015

## EU Enlargement Strategy

### 1. POLITICAL CRITERIA

#### Democracy:

- Shortcomings regarding elections, previously signalled by OSCE/ODIHR, and other suspicions, were reflected by the content of the intercepted communications. The relevant **Urgent Reform Priorities** (recommendations on systematic rule of law issues by EU) need to be implemented.
- **The absence of the main opposition party** (16 months, return to parliament on 1 September) for most of the reporting period diminished the quality of reforms and hindered the operation of checks and balances.
- The leaders of the four main parties committed, inter alia, to a **transitional government** which will prepare early parliamentary elections in April 2016.
- The review of the **Ohrid Framework Agreement**, which ended the 2001 conflict and provides the framework for the inter-ethnic relations, needs to be completed. (The **decentralisation of government** is of particular importance)
- Although some progress was made, **civil society organisations** (CSOs) have continued to express serious concerns about the difficult climate in which they operate. The national authorities should involve civil society in policy-making and legislation in a more regular and effective manner.

#### Public administration reform:

- The country is **moderately prepared** with the reform of its public administration.
- Concerns about politicisation have been reinforced by the content of the **wiretaps**, and **merit based recruitment, promotion and dismissal** of public servants at lower positions continues to be undermined.
- The organisation of the Macedonian administration does not yet ensure effective **lines of accountability**, neither between institutions nor within institutions.
- **A medium-term budgetary framework and fiscal transparency** still needs to be put in place and improved.

#### Rule of law:

- The country's judicial system has **some level of preparation**. However, the situation has been **backsliding**.
- Achievements of the last decade's reforms are being undermined by real and potential **political interference** in the work of the judiciary.
- The '**Urgent Reform Priorities**' set out what the country needs to do to avoid further backsliding.
- Concerning **the fight against corruption**, some level of preparation has been achieved. Legislative and institutional achievements were, however, **overshadowed by a lack of political will and political interference** in the work of the relevant bodies, especially in high-level cases. (**High-level political corruption**)
- The country has achieved some level of preparation in the fight against **organised crime**. **No progress** has been made.
- The country has been affected by the phenomenon of foreign **terrorist fighters and radicalisation**. A comprehensive and effective **strategy is needed** to prevent and counter radicalisation.

### Human rights and the protection of minorities:

- The legal framework for protecting human rights is **broadly in line** with European standards, but more focus needs to be placed on implementing it.
- **Implementation is lacking**, in particular in the areas of prison reform, Roma integration, rights of the child and persons with disabilities. LGBTI community continues to suffer from discrimination and homophobic media content.
- **The freedom of expression and the media** remains a serious challenge in the current media culture and political climate. The country continued to **backslide** over the past year.

### Regional issues and international obligations:

- The country generally maintains **good relations** with other enlargement countries and plays an active role in regional cooperation.
- The '**name issue**' with Greece needs to be resolved as a **matter of urgency**.
- On 4 September, the former Yugoslav Republic of Macedonia signed a **Memorandum of Understanding** with Austria, Hungary and Serbia to extend **joint border controls** between signatory states to the country's border with Greece and to include the country in a **joint investigation** team on people smuggling.
- Fresh impetus has been given to regional cooperation by the **Berlin Process**, with the Western Balkan Six (WB6) intensifying cooperation among themselves and with the EU.

## 2. ECONOMIC CRITERIA

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

Source: Eurostat

### The existence of a functioning market economy

*The FYROM has a **good level of preparation** in developing a functioning market economy. **Overall, no progress was made.***

- Positive developments in business environment.
  - In February 2015, the government repaid in advance all outstanding loans to the IMF.
  - Current transfers from abroad fell, but remained significant
  - Setting up a business became slightly easier
  - New jobs were created mainly in low-productivity sectors and agriculture,
  - The unemployment rate has steadily fallen since 2008 (34 %), to 28 % in 2014
  - The banking sector remained stable
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- Backsliding in the management of public finances.
  - Little progress on structural reforms of the labour market
  - Backsliding on fiscal discipline

- Cooperation between the government and the business sector has declined
- The share of Greece as a destination of the country's exports has fallen from 10 % in 2008 to 5 % in 2014
- The development of a competitive private sector remained hampered by weak contract enforcement and the large informal economy.

The FYROM should pay particular attention to:

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

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

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

*The economy is **moderately** prepared to cope with competitive pressures and market forces within the Union.*

- **Some progress** was made particularly as regards addressing prevalent shortcomings in human capital and physical infrastructure.
- **However**, businesses remained concentrated in low-productivity activities
- Further investment is needed to boost labour productivity growth and speed up the transformation of the economy.
- Public infrastructure is in need of modernisation

The FYROM should pay particular attention to:

→ improving the employability of workers by better aligning education with labour demand needs, and improving the basic and transversal skills of students at all levels of education

→ upgrading linkages between foreign direct investors and the economy and encouraging investment in capital goods and innovation

→ better prioritising investment and aligning the transport strategy with the regional agenda on connectivity

#### Ability to assume the obligations of membership

Chapter 1: **Free Movement of goods:** The country is **moderately prepared** in the area of free movement of goods. However, there was **no further progress** last year in eliminating non-tariff barriers to trade.

Chapter 2: **Freedom of movement for workers:** Preparations in the area of freedom of movement for workers are still at an **early stage**.

Chapter 3: **Right of establishment and freedom to provide services:** The country is **moderately prepared** on the right of establishment and freedom to provide services.

Chapter 4: **Free movement of capital:** In the area of free movement of capital, the FYROM is **moderately prepared**. The capacity of the Financial Intelligence Unit was further strengthened but it still needs to develop a consistent track record.

Chapter 5: **Chapter 5: Public procurement:** The country is **moderately prepared** in this area, which is an area particularly vulnerable to **corruption**.

Chapter 6: **Company law:** The country has a **good level of preparation** in the area of company law.

Chapter 7: **Intellectual property law:** The country is **moderately prepared** in this area. **Some progress** was made on customs enforcement.

Chapter 8: **Competition policy:** The country is **moderately prepared** in the area of competition policy.

Chapter 9: **Financial services:** The country is **moderately prepared** in the area of financial services. **Some progress** was made, particularly on improving the implementation and enforcement capacities of financial market regulators.

Chapter 10: **Information society and media:** There is a **good level of preparation** in the field of information society and media.

Chapter 11: **Agriculture and rural development:** The country is **moderately prepared** in the area of agriculture and rural development.

Chapter 12: **Food safety, veterinary and phytosanitary policy:** There is **some level of preparation** in the area of food safety, veterinary and phytosanitary policy.

Chapter 13: **Fisheries:** There is a **moderate level of preparation** in the area of fisheries.

Chapter 14: **Transport policy:** The country remains **moderately prepared** in this area.

Chapter 15: **Energy:** The country is **moderately prepared** in this area. Obligations undertaken under the Energy Community Treaty are not fully implemented.

Chapter 16: **Taxation:** The country is **moderately prepared** in the area of taxation. The Law on Special Zones for Technological and Industrial Development is still not compliant with the EU Code of Conduct for Business Taxation.

Chapter 17: **Economic and monetary policy:** The country is **moderately prepared** in the area of economic and monetary policy. **Some progress** was made but the capacity of the country's institutions to draft economic policy remains insufficient.

Chapter 18: **Statistics:** The country is **moderately prepared** in the area of statistics. Continued efforts are needed to improve the quality of data in the areas of macro-economic and social statistics as well as for full harmonisation with the EU *acquis*.

Chapter 19: **Social policy and employment:** The country is **moderately prepared** in the area of social policy and employment. However, labour market conditions remain very difficult, with continuing high unemployment rates, alarming levels of youth and long-term unemployment and very low participation rates of women.

Chapter 20: **Enterprise and industrial policy:** The country is **moderately prepared** in the area of enterprise and industrial policy. **Some progress** was made, particularly on the Fund for Innovation and Technological Development, which began operating.

Chapter 21: **Trans-European networks:** There is a **good level of preparation** in the area of trans-European networks. **Good progress** was made in the reporting period.

Chapter 22: **Regional policy and coordination of structural instruments:** The country is **moderately prepared** in the area of regional policy and coordination of structural instruments. **No progress** can be reported.

Chapter 23: **Judiciary and fundamental rights:** The former Yugoslav Republic of Macedonia **has some level of preparation** for applying the *acquis* and European standards in this area. The legal and institutional framework is largely in place. However there has been **no progress** in the past year.

Chapter 24: **Justice, freedom and security:** The country is **moderately prepared** for implementing the *acquis* in this area. It has made **some progress** by adopting new laws and strategic documents in several areas (migration, money laundering and terrorism). The country is on the transit route for mixed migration via Turkey and Greece towards northern Europe.

Chapter 25: **Science and research:** There is a **good level of preparation** in the area of science and research. **Good progress** was made with respect to actions on innovation, and with initial and active participation in the EU Research and Innovation Programme "Horizon 2020".

Chapter 26: **Education and culture:** The FYROM is **moderately prepared** in this area, and **some progress** was made in the past year. Improvements were seen in pre-school education and on early school-leavers.

Chapter 27: **Environment and climate change:** In the field of environment and climate change, the country is **moderately prepared**. Some progress was made in transposing the *acquis*, in particular general horizontal legislation and air quality and chemicals laws.

Chapter 28: **Consumer and health protection:** The country is **moderately prepared** in the area of consumer and health protection. In the coming year the country should strengthen the operational structures serving consumer protection, ensure efficient and high-quality healthcare.

Chapter 29: **Customs union:** The country has a **good level of preparation** in the area of customs union. **Good progress** was made on legislation and administrative and operational capacity, although introducing fees for customs declarations is a step backwards. Certain customs provisions of the Law on Special Zones for Technological and Industrial Development are still not in line with the *acquis*.

Chapter 30: **External relations:** The country is **moderately prepared** in the area of external relations, with **some progress** over the past year. The country continued its good cooperation with the EU within the World Trade Organisation (WTO), but its institutional capacity to fully participate in EU commercial, development and humanitarian policies is still insufficient.

Chapter 31: **Foreign, security and defence policy:** The country is **moderately prepared** in this area. **Some progress** was made as the country continues to participate in civil and military crisis management missions. However, the country should improve its alignment with EU declarations and Council Decisions on foreign and security policy.

Chapter 32: **Financial control:** The country is **moderately prepared** in this area. **Some progress** was made in the past year, especially in strengthening public internal financial control (PIFC) and external audit.

Chapter 33: **Financial and budgetary provisions:** Preparations are at an **early stage** but **some progress** was achieved in this chapter. The administrative framework for applying the own resources rules needs to be set up.