

STABILISATION AND ASSOCIATION
BETWEEN
THE EUROPEAN UNION
AND
THE REPUBLIC OF
NORTH MACEDONIA

The Stabilisation and Association Council

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COVER NOTE

Subject: Fifteenth meeting of the EU-the Republic of North Macedonia Stabilisation and Association Council (Brussels, 19 March 2019)

Delegations will find attached the position of the Republic of North Macedonia tabled on the occasion of the 15th meeting of the EU-the Republic of North Macedonia Stabilisation and Association Council.

XV Meeting of the Stabilization and Association Council

Republic of North Macedonia - European Union

Brussels, 19 March, 2019

Skopje, 14 March, 2019

Position Paper of the Republic of North Macedonia

The following positions are to be presented by the Delegation of the Republic of North Macedonia at the XV Meeting of the Stabilisation and Association Council between Republic of North Macedonia and the European Union. The positions stem from the reforms proposed by the Government of the Republic of North Macedonia, referred to under the Urgent Reform Priorities, Plan 18 and the on-going updating of the NPAA –2019 revision.

The EU Council conclusions of 26 June 2018, endorsed at the European Council of 28 June 2018 regarding the possibility of setting a date for start of accession negotiations have also been taken into consideration in defining the positions for this Meeting.

1. Bilateral Relations under the Stabilization and Association Process

Last year was a year of historic importance for the Republic of North Macedonia. By taking a decisive leap in closing the overly sensitive open issue on the name, but also big steps and continuous efforts in strengthening democracy and implementing reforms, the Government demonstrated maturity, responsibility and vision for the future of the country.

This approach enabled the country to come closer to accomplishment of its strategic goals, EU and NATO membership. On 6 February 2019, the Accession Protocol for membership of the Republic of North Macedonia to NATO was signed. The decision to start accession negotiations with the EU is expected to be adopted at the June Council; opening up a way for more structured and focused reform process.

The key achievement in the past period was the entry into force of the Prespa Agreement, signed on June 17, 2018. With the signature of the Agreement, the Republic of North Macedonia and the Hellenic Republic made historic turning point in closing the 27 year old dispute; at the same time giving hope to the Region and Europe that seemingly unsolvable issues can be resolved if approached openly and sincerely.

North Macedonia today is the only country in the Region without open issues with its neighbours and with defined and confirmed borders. In addition to improving the credibility of the country as reliable international partner, the Government, through a constructive approach, managed to transform its relations with Bulgaria and Greece into stable partnerships, with wide open perspectives for their development into strong strategic partnerships. These neighbours became strong supporters of our country's future in EU and NATO.

Further evidence that this is a right approach is that immediately after agreements with both countries were reached, cooperation in all areas intensified, including improved political and economic cooperation.

Although in the past year, big portion of political energy was understandably spent on putting an end to open bilateral issues, the reform processes were not neglected, having in mind their importance for the overall progress of society. The Government, based on the recommendations put forth in June 2018 Conclusions, developed Plan 18, which focuses on four key reform areas: judiciary, reform of intelligence and security services, fight against organized crime and corruption and public administration reform, at the same time paying attention to reforms in all other areas.

The Republic of North Macedonia is back on regular pre-accession tracks, engaging in regular meetings of SAA sub-committees, and actively participating at the explanatory meetings for chapters of the EU Acquis, which is recognition of its advancement and the clear path for opening of accession negotiations in June 2019, as provided by the Council Conclusions of June 2018.

The Stabilization and Association Agreement (SAA) is implemented without any obstacles. An important step forward has been the decision for transition to the second stage of association between the Republic of North Macedonia and the European Community and its Member States, pursuant to Article 5(3) of the SAA. The Decision entered into force on 4 December 2018. Implementation of the obligations of the Second stage will further demonstrate country's capacity and preparedness for fulfilling of obligations undertaken under EU acquis.

The immediate priority for the Republic of North Macedonia is to deliver further results in the key reform areas. This, in addition to the efforts for strengthening good neighbourly relations, will provide a compelling case in front of EU Member States when making their political decision for start of EU accession negotiations with North Macedonia in June 2019.

With full understanding of the on-going challenges the European Union is facing in wake of the European Parliament elections in May, that go to the very foundations of the Union and its shared values, the country expects that EU will remain strongly dedicated to the enlargement process. This process gives strong support and impetus to political and economic reforms in candidate countries, but more importantly, it strengthens peace, democracy and stability not only in the Region, but the EU as well. Consequently, we expect that EU, as catalyst of stability and prosperity in the Region will continue assessing all countries in the Region based on their individual merit and continue to provide clear and tangible membership perspective to all.

We appeal to the EU to take into consideration the circumstances and importance of adopting a decision to start accession negotiation in June 2019.

1.1. Pre-Accession Strategy in Light of the Accession Partnership

1.1.1. Political Criteria

The Republic of North Macedonia in a short period of time demonstrated serious commitment in taking crucial political decisions and delivered visible results in its EU integration agenda.

The Government with strong determination and firm commitment lead this delicate process and managed to fulfil all its obligations required to bring Prespa Agreement into force. In particular, following the historical signature of the Prespa Agreement on June 17, 2018, the complex process commenced with the ratification of the Agreement on June 20, and then again on July 5 by the Parliament.

On September 30, 2018 a consultative Referendum was held successfully and the huge majority of the citizens who voted, supported the Prespa Agreement. OSCE/ODIHR assessed that the Referendum was administered impartially and fundamental freedoms were respected throughout the campaign and that referendum day was generally calm and well organised. Following the Referendum, and in accordance with its obligations from the Prespa Agreement, the Government initiated the Parliamentary procedure for the adoption of the Constitutional amendments. The procedure lasted from October 2018 until 11 January 2019, when the Parliament adopted the Decision for the Promulgation of the Amendments No. XXXIII, XXXIV, XXXV and XXXVI of the Constitution, as well as the Constitutional Law for the Implementation of the Amendments XXXIII, XXXIV, XXXV and XXXVI. In the following days, in accordance with its obligations from the Agreement, Greece ratified it on 25 January, 2019 and a bit later, ratified the NATO accession protocol as well. Upon the completion of all necessary internal legal procedures by the parties, the Agreement entered into force on 12 February 2019.

Fulfilling further its obligations, the Ministry of Foreign Affairs of the Republic of North Macedonia notified all international, multilateral and regional organizations and UN members states and observer states to the UN of the entry into force of this Agreement, communicated the changes and kindly requested its partners to adopt and use the name and terminologies for all usages and purposes.

There is a strong and undisputed commitment for full implementation of the Prespa Agreement. In this regard, the Government established an Inter-sectoral working group for implementation of the Agreement, which coordinates the activities of the institutions and adopts decisions in this regard.

This complex process of implementation is ongoing, and in less than a month, significant number of activities have been undertaken. The new name is already in full use on behalf of state institutions, the plates on border crossing points have been adapted with the new name, and preparations have started for issuance of new travel documents, identification documents, and a specific plan for gradual replacement of money is being developed. Interim measures have also been put in place regarding travel documents and licence plates. The Joint Interdisciplinary Committee of experts for historic, archaeological and educational issues between North Macedonia and Greece is meeting regularly.

Having in mind the historical achievements of the Prespa Agreement, we firmly believe that we have turned a new page, it is time to write on it. Therefore, we appeal, to the EU and its Member States to respect, adopt and use the name and terminologies agreed between us and our Greek friends.

Parallel to activities for implementation of the Prespa Agreement, the Government remained focused on continuing and advancing reforms in areas covered by the Urgent Reform Priorities. The major goal is to keep the intensive reform dynamic and deliver results in view of facilitating and ensuring the adoption of a decision for start of accession negotiations at the June 2019 Council. We expect that the June decision will value both the results North Macedonia in the field of reforms, and its special achievements. Besides the complexity of the accession process, there is well-founded conviction that the country has the capacity needed to succeed.

On 30 October 2018, the Government adopted **Plan 18**, to serve as a guiding mechanism for delivering sustainable results on the necessary reforms' agenda in the area of judiciary, security and intelligence services, public administration reform and fight against organized crime and corruption. Plan 18 was prepared in a transparent and inclusive process, in consultation with institutions, opposition parties, the civil society sector and international partners. The measures foreseen are pursued at satisfactory pace, in extremely complex internal circumstances.

An independent, representative and effective **Council for cooperation and further development of the civil society sector** has been established. The Council is an advisory body of the Government, tasked with advancing cooperation, dialogue and development of the civil sector. Since its establishment and selection of members in 2018, the Council has held nine sessions. Representatives of civil society organizations are increasingly involved in working groups drafting laws and strategies. On 30 October 2018, the Government started submitting to Parliament a six-month legislative agenda, with a view to enhancing the predictability of the legislative process.

Regarding **freedom of expression**, it should be underlined that the largest number of reported cases of physical and verbal threats against journalists have been cleared and closed and misdemeanour charges have been filed against the perpetrators. In view of protecting pluralism in the media, the Government adopted Support Programme for printed media for 2018, under which 50 million Denars were allocated to cover printing and distribution costs of printed media incurred in 2017. Identical measure will be implemented in 2019 as well.

The Law on Audio and Audio Visual Media Services has been adopted. The Law regulates the work and funding of the Agency for Audio and Audiovisual Media Services, the Council of the Agency for Audio and Audiovisual Media Services, measures in case of violation of regulations, special bans, obligations of broadcasters to broadcast programmes in Macedonian language and the languages of the communities, prohibition of Government advertising, obligations of operators which re-broadcast programs, as well a number of other issues ensuring the independence and professionalism of the public broadcaster - the National Radio and Television (NRT). With regards to higher budget allocations to NRT, the legally-proscribed funding-related annual obligations will be fulfilled under the restructuring of the Budget.

Pursuit of constructive political dialogue and enhancement of legislative work at **Parliament** remains key priority. At the wake of holding the second Jean Monnet dialogue, the working group is intensively working on the amendment of the Parliamentary Rulebook. According to GRECO's Fourth Round of Evaluation recommendations, Parliament on 28 January 2019 adopted the amendments to MP's Code of Ethics introducing more precise regulation of conflict of interest and integrity, as well as stricter sanctions for noncompliance. Parliament continues to work on designing measures to improve its oversight role, strengthen its independence and improve the legislative process in general. Number of reports have been submitted to Parliament by regulatory, control and oversight bodies. Parliament enhanced interaction with civil society by means of organising number of public hearings for wide range of issues.

The Government of the Republic of North Macedonia is committed to successfully organizing the forthcoming **presidential elections**, by ensuring respect of international standards. The first round of elections is scheduled for 21 April 2019, and the second for 5 May 2019.

Regarding judicial reform, the implementation of the Strategy for Justice System Reform 2017-2022, accompanied with an Action Plan, is on-going with satisfactory pace and expected deliveries. The Government and the Council monitoring the Strategy implementation have adopted the first report on the implementation of the Strategy. A series of reform laws, as provided in the Strategy, have been adopted, mainly focused on improving all aspects of judicial independence. Substantial efforts were invested to ensure inclusive process. On 4 March 2019, Parliament adopted a number of reform laws - the Law on Courts, the Law on Administrative Disputes and the Law on Misdemeanours – in an inclusive process including the opposition parties. The very important Law on Courts incorporated fully the opinion and recommendations of the Venice Commission. It redefines the conditions for election of first and higher instance court judges, as well as the conditions for dismissal of judges, which would be applied only in cases of most grievous violations; finally the category of a junior judge for a period of 2 years has been introduced.

New legal texts for the Judicial Council and the Council of Public Prosecutors have been drafted, and are currently in Parliamentary procedure. The draft Law on the Judicial Council will be considered by the Venice Commission, at its session scheduled for 15 March 2019. Under the new legislative solution, membership of the Judicial Council is still professionally based, and a procedure for establishment of responsibility of Judicial Council members is introduced. Under the amendments to the Law on the Council of Public Prosecutors, the mandate of the Council is enhanced, new provisions for transparency of the work of the Council and provisions prescribing the obligation of making all decisions of the Council public have been introduced, and for the first time a procedure is introduced for dismissal of a member of the Council.

The new Law on the Public Prosecutor's Office is in parliamentary procedure. This Law regulates the status, mandate and autonomy of the Special Public Prosecutor's Office (SPPO), which is to become part of the overall system of public prosecution, but with high level of independence and autonomy in its activities and financing. The legislative proposal, importantly, ensures continuity of current activities of SPPO and continuation of on-going pre-investigation and investigation procedures. In particular, SPPO will retain the mandate to process criminal offences related to and arising from the content of the illegally intercepted communications in the period from 2008 to 2015, for which indictments have been filed or for which there are already preliminary investigations or on-going investigations, and cases taken over falling within the mandate of the SPPO, according to the initial law establishing the SPPO. Furthermore, the mandate of the SPPO is widened and will also cover criminal offences relating to elections and voting, and high-profile corruption cases. In addition to regulating issues relating to the status and mandate of the SPPO, the Law introduces important novelties with regard to the assessment, promotion and election of (all) public prosecutors. Pursuant to the recommendations of the Peer Review Mission of the EC, the condition that only candidates that have completed the Academy of Judges and Public Prosecutors may be considered for appointment to the office of public prosecutor remains. The adoption of this Law also helps fulfil GRECO recommendations relating to the disciplinary responsibility of public prosecutors. In this context, there are clear, precise and predictable grounds envisaged for establishment of disciplinary responsibility for which commensurate disciplinary sanctions have been set forth. An Analysis of Judicial Network of the Republic of North Macedonia has been done, which will serve as a basis for Strategy for Human Resources Management in the Judiciary, but also improving the judicial network overall.

The drafting procedure for amendments to the Law on Criminal Procedure is underway in view of harmonizing this Law with international standards on procedural rights and hence with EU directives on the right to translation and interpretation in criminal proceedings, the right to be informed in criminal proceedings, victims' rights, and protection of personal data while cooperating on criminal cases.

The Law on Free Legal Aid is also in parliamentary procedure. This Law will ensure access to justice and quality and fair trials to larger number of citizens. The coverage of persons eligible for free legal aid on grounds of their material situation is expanded.

A Plan for regular monitoring of courts' application of the Automated Court Case Management IT System (ACCMIS) has been adopted. The Plan envisages monitoring of 16 courts in 2019. The case filed following the inspection of the ACCMIS system is in preliminary investigation stage at the Skopje Basic Public Prosecutor's Office.

In the area of **fight against corruption**, significant steps have been undertaken to reform the legislative and institutional framework governing the work and competences of the National Commission for the Prevention of Corruption (NCPC), with legislative provisions clearly defining the mandate of the Commission, i.e. the reinstatement of the leading role of the Commission in this area and ensuring its full independence in preventing and countering corruption. The Law was adopted on 17 January 2019. It is fully compliant with highest European standards, and its adoption was supported by the opposition parties as well. The Law stipulates the establishment of a new professionally based anti-corruption Commission, with enhanced mandate and effective mechanisms for fight against corruption. The Law regulates the composition, selection and competences of the Commission, defining it as a coherent professional body composed of a president and six members, elected on a five-year term of office, without the right to re-election. The new composition of the Commission was elected on 8 February 2019, in a transparent and inclusive procedure. The process included members of the opposition, civil society representatives and media professionals and was pursued by a special Committee for selection of candidates, which conducted public interviews with candidates, broadcast on the Parliamentary TV channel. The now operational Commission for the Prevention of Corruption has already opened a number of cases involving allegations of nepotism in employment of candidates in the public sector and allegations of malfeasance by incumbent and former holders of public of office.

With the aim of systemically enhancing the leading role of the public prosecution, a Decision has been adopted for the establishment of three investigation centres at Basic Public Prosecutor's Offices in Skopje, Kumanovo and in Tetovo.

Regarding the reform of the **security and intelligence services**, the new Operational-Technical Agency (OTA) has been established, becoming fully functional as of 1 November 2018. The premises and the budget required for functioning of the OTA have been ensured. All secondary legislation required for the implementation of the new legislative solution has been adopted, while the equipment which previously was at the UBK has been moved to the new premises of the OTA. Thus, all possibilities for abuse of this system have been curbed, having in mind that strong oversight mechanisms have been introduced. Separate specialized units tasked with application of special investigative measures of communication surveillance have been set at the Directorate for Security and Counterintelligence (for purposes of protection of the security of the state) and at the Bureau for Public Security (for purposes of criminal investigations). These units have been linked to OTA and the required number of working stations has been provided. A civilian and parliamentary oversight mechanism over the work of OTA and use of special investigative measures has been established. The Council for civilian oversight was established, while the Parliamentary Committee for Oversight of the Implementation of Measures of Communication Surveillance published a public call for recruitment of 2 technical experts that would provide continual support to the Committee. The Parliamentary Committee made the first visit to OTA on 14 March 2019.

The Government adopted the Plan for Reform of the Security – Intelligence Sector. The package of laws is in regular Assembly procedure as of 6 March 2019. The proposed Law on the National Security Agency envisages abolishment of the UBK and the establishment of a new National Security Agency, which will no longer be part of the organizational structure of MoI. Another law from the said package of laws reforming the security - intelligence sector is the Law on Coordination of the Security - Intelligence Community in the Republic of North Macedonia, which stipulates the establishment of a special body to coordinate the security - intelligence community. This Body will have clearly delineated mandate, composition, manner of work and procedure for adoption of decisions. Other laws part of the said package of laws, which are aimed at harmonizing the legal framework with the above referred to laws are the following: the draft Law amending the Law on Communication Surveillance, the draft Law Amending the Law on Internal Affairs, the draft Law amending the Law on Aliens.

Public Administration Reform (PAR): The first six-month report on the implementation of the 2018-2022 **Strategy for Public Administration Reform** has been adopted.

The Draft Law on Senior Civil Service is prepared and should ensure higher degree of professionalization, primarily through introduction of clearly defined criteria and procedures for appointment and dismissal of high-ranking managers in the public sector.

The Law on Inspection Supervision, which is expected to significantly improve the legal security of entities subject to inspection, as well as reduce the repressive character of inspection supervisions and the amount of fines, has been adopted in the first reading in the Parliament.

An Analysis has been made of the organizational set-up, mandate and responsibility and accountability procedures of state administration bodies and other bodies and organizations of the central government. This Analysis forms the basis for drafting of the new Law on the Organization and Work of Bodies of the State Administration. In order to improve access to public information, a new Law on Free Access to Public Information has been drafted. The draft Law is in Assembly procedure. The draft Law defines the scope of entities-holders of information and the public interest. The National Commission will be transformed into an Agency, i.e. an independent state body, which ensures functional independence.

With the goal of facilitating access to information, a special section containing all relevant documents relating to the Public Administration Reform was opened on MISA's and Ministry of Finance websites.

There have been a number of activities undertaken for the advancement of the application of the Law on General Administrative Procedure, such as establishing a Helpdesk providing information about the Law on General Administrative Procedure, trainings for the administration, etc.

In view of strengthening mid-term budgeting, as well as achieving higher degree of transparency and better monitoring of public spending, but also making more realistic mid-term projections and attaining predictability and accountability, the Ministry of Finance is drafting a new Law on Budgets. In parallel with the budget reform, the adoption of the new Law on Public Procurements and the Law on the Public Debt, which is in Assembly procedure, continuous activities are undertaken for reform of the public finance management system, by establishing a new efficient and integrated IT system for finance management (IFMIS) at the Ministry of Finance.

In the context of **human rights protection**, state administration bodies continually and timely implement the recommendations of the Ombudsman.

A legal framework has been adopted establishing an external mechanism for oversight of the work of the police and of persons with police authorities, with the aim of preventing torture, inhuman and degrading treatment and ill-treatment. At the Basic Public Prosecutor's Office for Prosecution of Organized Crime and Corruption, a Specialized Unit has been established to investigate and prosecute crimes perpetrated by individuals having police authorities and by prison police staff. In the last two months, the Unit has processed cases involving 15 individuals, out of which indictments have been filed against 2 persons and remand prison has been ordered for 2 individuals.

Penitentiary System Reform: to implement the recommendations of CoE's European Committee for the Prevention of Torture a number of measures have been introduced, including ones aimed to improve prison conditions and capacities, reintegration treatment programs for inmates, implementation of alternative sanctions and finally health care and security in prisons.

With the goal of implementing recommendations relating to gender equality, under the **2018-2020 National Gender Equality Action Plan** operative plans have been developed for a number of institutions. There are compulsory gender equality e-trainings for the administration. Funds have been allocated for the implementation of the National Action Plan for Implementation of the Istanbul Convention and measures are undertaken for the protection of victims of gender based violence and prevention of gender based and domestic violence.

The Government adopted the 2018-2027 **National Strategy for Deinstitutionalization, accompanied with an Action Plan**, both serving as documents setting forth the reform of the system of social protection and specifically setting forth the transition from providing institutionalized to providing deinstitutionalized social protection. In the past year, the Ministry of Labour and Social Policy successfully closed the biggest orphanage in the country, the infant (0-3 y.o.) section in the orphanage in Bitola and the unit for minors at the Demir Kapija Institute for persons with special needs by relocating its residents to foster care families and small group homes.

A systemic solution has been found for the **inclusion of Roma children in pre-school education**, by providing exemption from fee for childcare in kindergartens. These fees will be covered by the funds from municipal budgets. Funds are continuously provided for ensuring provisional housing of street children and their families.

On 11 March, 2019, the Parliament of the Republic of North Macedonia adopted the new Law on the Prevention of and Protection against Discrimination, which is harmonized with the EU *Acquis* and international standards on protection against discrimination. The new Law expands the list of discriminatory grounds, by adding prohibition of and protection against discrimination on grounds of sexual orientation and gender identity, improves the concept and definition of discrimination, the procedures governing the composition, election and eligibility criteria of members of the Commission for the Prevention of and Protection against Discrimination, expands the Commission's mandate, especially in terms of prevention of discrimination; introduces new provisions allowing use of new evidence in court proceedings and the *actiopopularis* institute; and envisages exemption from payment of court fees.

The Law on Use of Languages was adopted with the aim of advancing **inter-ethnic relations and strengthening internal cohesion**. The Law was published in the Official Gazette on 14 January 2019. The adoption of the Law thus closed the only remaining legislative issue under the Ohrid Framework Agreement.

In concluding the bilateral agreement with the USA, exempting US citizens from the jurisdiction of the **International Criminal Court** the Republic of North Macedonia took into consideration the EU guidelines of September 2002. Thus, in line with the EU guidelines the Agreement envisages the possibility to terminate the Agreement upon the request of one of the signatory parties.

There are no pending cases or appeals against the Republic of North Macedonia before the **International Criminal Tribunal for the former Yugoslavia**.

The Republic of North Macedonia continues to be an active and constructive actor in the regional setting, making a substantive contribution to further deepening of good-neighbourly relations, **regional cooperation** and strengthening regional security. The Republic of North Macedonia continues to be actively involved in all regional initiatives, while contributing to advancing regional cooperation, considering this an investment in the stability, security and prosperity of the Region. North Macedonia attaches great importance to the Berlin Process, continuing its active participation in this setting, considering the Process to be a driver of regional cooperation at the highest level. The Government started with participation in the Adriatic – Ionian initiative, and as a next step, it is prepared to be included in the Adriatic – Ionian Strategy. We expect that the EU will process the procedure for including the country in this Strategy.

The activities are undertaken for signing of the Status Agreement between North Macedonia and the European Union on actions by European Border and Coastguard Agency in the Republic of North Macedonia.

1.1.2 Economic criteria

According to data from the State Statistical Office, macroeconomic stability was preserved with real GDP growth by 2.7% in the fourth quarter of 2018. Average annual growth for 2018 is estimated at 2.7%. Analysed by expenditure components, economic activity growth in the first three quarters of 2018 resulted from increased consumption and the positive contribution of net exports. Export of goods and services registered growth by almost 13% in real terms, amid favourable external demand developments, while import of goods and services registered significantly lower growth compared to exports, i.e. grew by 5.7% in real terms, resulting in a significant contribution of net exports to economic activity growth. Consumption in the first three quarters of 2018 registered real growth of 3.1%, with private consumption increasing by 2.3% and public consumption by 6.7%.

The positive trends in the labour market continued in 2018. In the fourth quarter of 2018 the unemployment rate decreased to 19.4% or by 1.5 percentage points (pp) compared to the same quarter in 2017, with noticeable decrease of unemployment figures for youth and women. In Q4 2018, employment rate reached 45.9, which is an increase of 1.6 percentage points compared to the same quarter in 2017. The number of employed in the first three quarters grew by 2.1%, or by 15.7 thousand persons compared to the same period in 2017, with employment increasing in all sectors, mostly in industry, especially in the manufacturing industry. Significant improvement of the labour market was achieved with the adoption of the new Operational Plan for active labour market measures for 2019 and the implementation of the measure "Youth Guarantee".

The average annual inflation rate in 2018 was 1.5%. Inflation developments were mainly driven by higher transport prices (in line with world energy prices), food, as well as alcohol beverages and tobacco. In the next two years, inflation is projected to reach historical average of 2%. The risks regarding inflation are mainly linked to developments of primary products' prices on the world markets.

In the area of fiscal policy, the general government debt of the Republic of North Macedonia as of 31.12.2018 amounted to 4.34 billion Euros, or 40.7% of GDP. Public debt amounted to 5.2 billion Euros, or 48.7% of GDP. As a result of the prudent fiscal policy in recent years, the Republic of North Macedonia remains moderately indebted country.

Regarding fiscal planning and fiscal transparency, in December 2018 the government adopted the Fiscal Strategy 2019-2021. According to the Strategy, budget deficit is projected at 2.5% GDP in 2019, 2.3% GDP in 2020, and 2% GDP in 2021. In addition, the Law on Budgets which introduces fiscal rules, fiscal council, medium – term budgeting and further improvement of fiscal transparency is in a drafting phase. In January 2019, the Fitch Credit Rating Agency announced that it affirmed the country' credit rating at BB, with a positive outlook, after it revised the country's outlook to positive from negative last year.

In the area of capital investments, significant funds are planned for capital projects investments in road and railway infrastructure, communal and energy infrastructure, agriculture, education and child care, as well as the health sector. The realization of infrastructure projects is expected to intensify during 2019.

Liquidity and solvency of the banking system remained stable and high. Liquid assets represent about one-third of total assets of the banking system, covering more than half of short-term liabilities and close to 60% of total household deposits. Capital adequacy ratio, as of September 2018, is 16.3%. The Strategy for management and resolution of non-performing loans was adopted by the Government in December 2018 and its implementation is ongoing. As of December 31, 2018, the share of non-performing loans (NPL) in total loans equalled 5.2%.

Harmonization of the macroeconomic policy coordination system with the European Semester is performed through the Program for Economic Reforms (ERP) and the implementation of the Joint Conclusions from the ECFIN Ministerial Dialogue for which an Action Plan has been prepared.

In the area of horizontal measures supporting the competitiveness, the Medium-Term Program for Financial Support of Micro, Small and Medium Enterprises for 2018-2020 was adopted. In addition, Agreements for granting financial support were signed with about 100 companies. According to the business plans submitted, these companies are expected to invest up to 250 million Euros in the next five years, while state support for investments made in 2017 is approximately 9 million Euros.

In order to improve the business environment, the implementation of the Strategy for formalization of the informal economy 2018 - 2022 continued.

In the area of foreign direct investments (FDI), 2018 recorded high FDI net inflows, reaching EUR 622 million, or 5.9% of GDP, which is significantly higher compared to the overall inflows in 2017 (when they slowed down and amounted to 1.8% of GDP). FDI contributed to a significant change in the structure of exports – exports in the past was dominated by textiles and textile products and base metals, while now, exports are dominated by machines and electrical devices.

On BREXIT: the Government of the Republic of North Macedonia is trying to preserve the good relations with the UK, the traditional trade flows, as well as the investments in the country, especially taking into account that the UK is its third trading partner in the last years. This process is done with full respect of the country's commitment and relations with the EU.

Regarding the recently introduced safeguard measures against import on certain steel products, including steel products from our country, have been introduced on 31 of January with effect from beginning of February, it is important to reiterate that the largest part of the export is in the EU and there is no alternative market for our companies. We expect further discussions with a view to the revision of this measure.

Taking into consideration that the EU is our main trading partner, this change in the export structure shows that the country has made progress in the integration into the European value chain.

1. 1.3. Financial cooperation

The Government remains fully committed to the use and further improvement of the IPA funds absorption, in line with the applicable rules and procedures.

IPA I implementation is in its final phase. Namely, contracts from TAIB 2013 are being implemented, while during 2018 finalization of few remaining projects was done under IPA components for regional development and human resources development. The final reports for these two components were drafted and submitted officially to European Commission services.

IPA II implementation

During 2018, there was visible progress in the introduction of fully functional sector approach. The first reports for implementation of sector strategies were drafted. In the sector coordination part, meetings of sector working groups have been held on regular basis, both those on ministerial and on technical and bilateral level, with active participation of the donor community in the country and civil society representatives.

By the end of 2018, a decision has been made to establish one additional sector working group for local and regional development. Also, during 2018, the Performance assessment framework (PAF) was designed, with system of indicators. It is expected that in 2019, the PAF system will be fully operational, but also significant part of the work will be dedicated on the multiannual sector budget planning. Sector assessment based on sector roadmaps has been also conducted.

The Republic of North Macedonia, during 2018, and based on the mid-term review in 2017, was rewarded additional EUR 10 million for the overall progress in the country. The performance reward was distributed among sectors transport, environment and climate action and the European Integration Facility.

The programming of Annual Action Programmes for 2019 and 2020 has been finalized in all five defined sectors. The proposed action documents passed the first quality control of European Commission services. Within the Action Programme for 2019 in Sector Education, employment and social policy, we proposed introduction on sector budget support in view of demonstrating political commitment as early as programming stage. Despite our initiative - the programming action documents to be implemented by indirect management mode - 50% of the total allocations in the IPA 2014-2020 remain to be implemented via direct management, through the EU Delegation.

By the end of 2018, the Operational Structure concluded the contracting of 2014 IPA Action Programme in Sectors Justice and Home affairs. At the moment the implementation is ongoing for: Local and regional competitiveness (IPA 2014), Agriculture and rural development (IPA 2015), Competitiveness and innovation (IPA 2016), Home affairs (IPA 2016), Transport (2014-2020), Environment and climate action (2014-2020) and IPARD II. At the same time, the preparatory procurement activities are taking place in Sectors Public administration reform and Education, employment and social policy within the 2017 Action programme, as well as the Public finance management within the 2018 Action programme.

The Financing agreements for IPA 2017 Action Programme were signed at the end of 2018, which marked the beginning of the implementation phase. Respective Financing Agreements were signed within the programmes for cross border cooperation.

Monitoring is actively conducted for programmes currently in implementation. Sector Monitoring committees are set up as per IPA II rules. An annual schedule is agreed for all SMC meetings during 2019. During 2019, there is a plan to establish two new sector monitoring committee: one on Education, employment and social policies and one on Democracy and governance.

The IPA II Annual Report on Implementation was finalized at the end of February 2019 and will be submitted to NAO, IPA Audit Authority and Commission services. The general picture and reporting will be improved once PAF is introduced.

IPA structures are prepared to continue to implement the IPA II funds under the indirect management mode as preparation for the structural and investment funds.

With regards to IPA III, Republic of North Macedonia believes it is important, EC services take into consideration the recommendations deriving from the evaluation of sector based approach; finance actions that are relevant for the European integration process of the Western Balkan; involve again other DGs, such as DG REGIO and DG EMPL; include the coordination of IPA Multibeneficiary Programmes in the work of Sector working groups established in the country; and preserve the national envelopes to meet the national specificities for technical assistance and institution building.

The coordination of the **Western Balkans Investment Framework and the National Investment Committee** are functioning well. The revised Single project pipeline was adopted by NIC at its high-level meeting held on 28.11.2018. Through NIC, the Government of the Republic of North Macedonia runs its investment policy, having in mind the fiscal liquidity and the public debt.

Entry tickets for the **Union Programmes** are regularly planned and paid through the two financing sources. The reporting on the use of these Programmes is part of the both IPA II Annual report on implementation for 2017 and 2018. We also expect the Commission to list the next generation of Union Programmes for the period after 2020.

The biggest challenge in the IPA structures is the retention of the staff, especially IPA managerial staff in line ministries. In the past period, efforts were made on building a consensus in the Government for the need to retain the staff. The Government will work in the future to decrease the trend of IPA staff leaving, to increase the attractiveness of these posts and fill in the vacant positions.

2. Exchange of views about the situation in the Republic of North Macedonia and in the Western Balkans and other international issues of common interest

2. 1. Developments in the Western Balkans

The Republic of North Macedonia intensifies its commitments to open, bilateral and regional political dialogue, aiming to create a climate favourable to closing bilateral issues. The approach that the Republic of North Macedonia applies in this process is open, sincere and constructive. This will encourage cooperation on topical issues of relevance for the stability and sustainable development of the overall Region.

A new dynamic of cooperation and dialogue has been established in the relations with **Albania and Kosovo**, by intensifying the exchange of bilateral visits and meetings at margins of international conferences summits and high-level events.

In general terms, the bilateral relations with **Serbia** remain positive and constructive, being mainly focused on economic cooperation and on regional issues. We expect to reinstate the practice of convening G2G meetings as a mechanism, ensuring guidelines for further strengthening of bilateral dialogue and cooperation.

The Republic of North Macedonia has dynamic bilateral cooperation with **countries in the wider neighbourhood** (Slovenia, Bosnia and Herzegovina, Croatia, Montenegro, Turkey, Romania, and Moldova). In this context, there have been numerous official and working visits at high and highest level, as well as political consultations on issues of common interests in bilateral, regional and multilateral cooperation settings, consultations on political security and consultations on consular issues. The traditionally friendly relations and cooperation, featured with no open issues, continue to be strengthened and advanced.

2.2. Alignment with the CFSP

The Republic of North Macedonia pursues regular political dialogue with the EU and its Member-States bilaterally, but also in the multilateral context by participating in informal Ministerial meetings of the EU, to which it is invited.

The Republic of North Macedonia continues to be actively involved in the CFSP by aligning itself with statements and restrictive measures of the EU. A Coordination Body has been established tasked with coordination and monitoring of the implementation of restrictive measures. The Coordination Body held its first session on 2 November 2018 at which it adopted its Rules of Procedure for coordination and monitoring of restrictive measures and established a Register of introduced restrictive measures.

In the forthcoming period, the Republic of North Macedonia will make efforts to fully align itself with the Common Foreign and Security Policy of the EU. The opening of negotiations for EU membership will be of great importance in this context.

The Republic of North Macedonia participates in EU's operation in Bosnia and Herzegovina, EUFOR Althea (one officer). The contribution to the UN UNIFIL operation in Lebanon has been increased. Thus, in October 2018 two additional staff officers were deployed, as part of the Italian contingent. The total contribution to the mission is three staff officers. There are on-going discussions for participation in the EU Training Mission in the Central African Republic.

North Macedonia responded positively to the initiative for cooperation in the fight against hybrid threats against the EU. On 22 January 2019, the Government adopted a Decision for the establishment of a Working Group tasked with pursuing activities to build the resistance to hybrid threats and risks. The WG is currently filling-in the individualized Questionnaire on hybrid threats in order to define the needs and detect possibilities for possible cooperation/support of the EU in dealing with such threats and risks.
