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Table of Contents

1. INTRODUCTION.....	3
1.1. CONTEXT	3
1.2. SUMMARY OF THE REPORT.....	3
1.3. STATE OF PLAY OF THE ACCESSION NEGOTIATIONS.....	8
2. CLUSTER 1: THE FUNDAMENTALS OF THE ACCESSION PROCESS	8
2.1. FUNCTIONING OF DEMOCRATIC INSTITUTIONS AND PUBLIC ADMINISTRATION REFORM.....	8
2.1.1. <i>Democracy</i>	8
2.1.2. <i>Public administration reform</i>	13
2.2. RULE OF LAW AND FUNDAMENTAL RIGHTS	17
2.2.1. <i>Chapter 23: Judiciary and fundamental rights</i>	17
2.2.2. <i>Chapter 24: Justice, freedom and security</i>	39
2.3. ECONOMIC CRITERIA	54
2.3.1. <i>The existence of a functioning market economy</i>	54
2.3.2. <i>The capacity to cope with competitive pressure and market forces within the Union</i>	63
2.4. PUBLIC PROCUREMENT, STATISTICS, FINANCIAL CONTROL	67
<i>Chapter 5: Public procurement</i>	67
<i>Chapter 18: Statistics</i>	69
<i>Chapter 32: Financial control</i>	71
3. GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION	74
4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP	76
CLUSTER 2: INTERNAL MARKET	76
<i>Chapter 1: Free movement of goods</i>	77
<i>Chapter 2: Freedom of movement for workers</i>	79
<i>Chapter 3: Right of establishment and freedom to provide services</i>	79
<i>Chapter 4: Free movement of capital</i>	81
<i>Chapter 6: Company law</i>	82
<i>Chapter 7: Intellectual property law</i>	83
<i>Chapter 8: Competition policy</i>	84
<i>Chapter 9: Financial services</i>	85
<i>Chapter 28: Consumer and health protection</i>	87
CLUSTER 3: COMPETITIVENESS AND INCLUSIVE GROWTH.....	89
<i>Chapter 10: Digital transformation and media</i>	89
<i>Chapter 16: Taxation</i>	91
<i>Chapter 17: Economic and monetary policy</i>	92
<i>Chapter 19: Social policy and employment</i>	93
<i>Chapter 20: Enterprise and industrial policy</i>	96
<i>Chapter 25: Science and research</i>	97
<i>Chapter 26: Education and culture</i>	98
<i>Chapter 29: Customs union</i>	100
CLUSTER 4: THE GREEN AGENDA AND SUSTAINABLE CONNECTIVITY.....	101
<i>Chapter 14: Transport policy</i>	102
<i>Chapter 15: Energy</i>	103
<i>Chapter 21: Trans-European networks</i>	105
<i>Chapter 27: Environment and climate change</i>	107

CLUSTER 5: RESOURCES, AGRICULTURE AND COHESION.....	109
<i>Chapter 11: Agriculture and rural development</i>	<i>109</i>
<i>Chapter 12: Food safety, veterinary and phytosanitary policy</i>	<i>111</i>
<i>Chapter 13: Fisheries and aquaculture</i>	<i>112</i>
<i>Chapter 22: Regional policy and coordination of structural instruments</i>	<i>113</i>
<i>Chapter 33: Financial and budgetary provisions.....</i>	<i>115</i>
CLUSTER 6: EXTERNAL RELATIONS	116
<i>Chapter 30: External relations</i>	<i>116</i>
<i>Chapter 31: Foreign, security and defence policy</i>	<i>117</i>
ANNEX I – RELATIONS BETWEEN THE EU AND NORTH MACEDONIA.....	120

1. INTRODUCTION

1.1. CONTEXT

The first intergovernmental conference on accession negotiations with North Macedonia took place in July 2022. At the same time, the first step in the accession negotiations process was taken with the launch of the analytical examination of the EU *acquis*, the ‘screening’. This has progressed smoothly. North Macedonia continued to implement the Stabilisation and Association Agreement and the joint bodies under the agreement met at regular intervals.

The EU accession negotiation process with North Macedonia is conducted in line with the revised enlargement methodology, and with the requirements set out in the Negotiating Framework, which have an even stronger focus on the fundamentals (cluster 1) of the accession process.

The authorities have continued to demonstrate and to declare publicly their commitment to advancing on their EU path. Now that the accession negotiations process has begun, the pace of EU-related reforms needs to pick up.

North Macedonia has also fully aligned with the EU positions on Russia’s war of aggression against Ukraine, sending a strong signal of its strategic choice of EU accession and showing itself once more to be a reliable partner. In 2023, North Macedonia has played an active role in a complex geopolitical context during its term as chair of the Organisation for Security and Cooperation in Europe (OSCE). The impact of Russia’s war of aggression against Ukraine, including high energy, commodity and food prices and disruptions in supply chains, has weighed heavily on the economy and seriously affected vulnerable households and small and medium-sized enterprises.

1.2. SUMMARY OF THE REPORT¹

The reporting period was marked by the start of the EU accession negotiations process, including the screening process. The political situation remained polarised, which had an impact on the proper functioning of democratic institutions.

On the **political criteria**, North Macedonia continued its efforts to strengthen democracy, while it faced significant challenges in the area of the rule of law. Overall, the legal framework remains conducive to the holding of democratic elections in North Macedonia. However, no progress was made to address and implement the outstanding recommendations by the OSCE's Office for Democratic Institutions and Human Rights and the Venice Commission. As mentioned repeatedly in previous reports, electoral legislation should be comprehensively reviewed to address inconsistencies in a timely, inclusive and transparent manner.

Parliament’s work was marred by political polarisation, which deepened further, delaying the adoption of many reform laws and important appointments. The EU accession negotiation process requires broad consensus of major political parties. All parties need to start engaging in a constructive and inclusive political debate, to strengthen the role of Parliament.

¹ This report covers the period from June 2022 to June 2023. 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. It 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 scale 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, interim steps have also been used.

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 and who are part of other peoples, such as Bulgarians. Excessive and sometimes inappropriate use was made of fast-track procedures and of the ‘EU flag’ procedure, in some cases due to the lack of consultations and poor planning of the legislative calendar. The ‘EU flag’ should be used when directly linked to the adoption of laws whose main goal is aligning with the EU *acquis*, and not to short-cut public debate on important issues. Parliamentary oversight of the executive was regularly exercised through parliamentary questions to ministers. Parties should spare no efforts in meeting long-overdue commitments for internal reform dating from the third round of the ‘Jean Monnet Dialogue’ in early 2020. Work continued on establishing criminal responsibility for those who orchestrated or committed violence in the attack on Parliament on 27 April 2017. Prompt implementation of recommendations by the Group of States against Corruption is required to increase the transparency of funding for political parties. Parliament should ensure the timely review of the statutory reports sent to it by state agencies and bodies.

Overall, **civil society** organisations (CSOs) in North Macedonia continue to operate in an enabling environment. However, the government should increase its efforts to mainstream civil society engagement in priority areas and consultation activities. CSOs should play an important role in the reform process and be involved in decision-making processes. Existing legal and financial frameworks still need to be amended and implemented in practice, notably to provide consistent mechanisms for awarding public funding to CSOs. There is a need for the Council for Cooperation between the Government and Civil Society to resume its activities.

The country needs to strengthen its capacity for parliamentary oversight of the **intelligence services**.

North Macedonia remains moderately prepared in terms of **public administration reform**. Limited progress was made in the reporting period with the adoption of the new public administration reform strategy and the accompanying action plan in July 2023. Despite having started the process five years ago, the country still has not adopted the revised legislative framework for human resources management, which includes the revised Law on administrative servants, the Law on public sector employees and new legal provisions on top-level management. The new framework should improve human resource management across the administration and help ensure merit-based recruitments, promotions, and dismissals at all levels, including senior management. Legislation has not yet taken on board the State Commission for the Prevention of Corruption’s recommendations on nepotism, cronyism, and political influence in the recruitment of public sector employees and in the appointment of members of supervisory and management boards. Improvements in accountability in the public administration are undermined by the failure to adopt the new Law on state organisation. There are ongoing efforts to improve delivery of services to citizens and businesses.

The **judicial system** of North Macedonia is in between some and moderate level of preparation. There was no progress on the judiciary during the reporting period. The Judicial Council should strive to protect the integrity and independence of judges and institutions and should resist any external influence. The controversial dismissal of the President of the Judicial Council raised concerns about undue political influence. The adoption of a new judicial reform strategy aimed at improving the performance of institutions is behind schedule. Progress on implementation of the human resource strategies for the judiciary and prosecution services was limited. The lack of measures to address the impact of scheduled

retirements affected efficiency. Most promotions for higher courts faced further delays. Work continued on upgrading the automated court case management information system for random distribution of cases in courts. A similar system was introduced in the Public Prosecutor's Office.

The country is in between some and moderate level of preparation in the **prevention and fight against corruption**. No progress was made. Corruption remains prevalent in many areas and is an issue of concern. Delays and reversals in trials of high-level corruption cases increased, resulting in some cases in the expiration of the statute of limitations. The Criminal Code was amended through an expedited parliamentary procedure. The maximum legal penalties for specific corruption-related criminal offences were reduced, having implications on the application of the statute of limitations and affecting, halting or even terminating a large number of high-level corruption cases, including from the former Special Public Prosecutor's Office (SPO). The amendments also hamper the authorities' ability to investigate and prosecute such offences. This is a matter of serious concern.

The State Commission for the Prevention of Corruption was proactive in providing public institutions with policy guidance on preventing corruption. It opened several cases, but its recommendations need to be followed up. Efforts to improve the functioning of the SCPC should continue, especially by allocating additional funding for the recruitment of specialist staff. Additional human and financial resources 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.

North Macedonia has some level of preparation in the fight against **organised crime**. Some progress was made during the reporting period. The country continues to have a good level of operational cooperation with EU Members States, non-EU neighbouring countries, Europol and Eurojust. A new Law on money laundering and financing of terrorism entered into force in July 2022. Implementing legislation now needs to be drafted and adopted promptly. 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. North Macedonia needs to adopt and implement the necessary legislation to regulate the activity of the Asset Recovery Office. The capacity of the National Coordination Centre for the Fight against Organised Crime needs to be improved. Coordination remains crucial for all stakeholders involved in fighting organised crime, including between prosecutors and police.

Some progress was made in the **fight against terrorism and violent extremism** in line with the objectives set out in the joint action plan on counterterrorism for the Western Balkans and the new bilateral implementing arrangement. The national strategies for countering terrorism (2023-2027) and countering violent extremism (2023-2027) were adopted in May 2023, with the related action plans.

North Macedonia is on one of the main transit routes for migration movements. The country continues to play an active role in the management of **mixed migration flows**. Efforts continued to ensure basic living conditions and services for all migrants in the country. There is, however, a need to enhance institutional and administrative capacities for all aspects of migration management. More staff and additional material and technical resources are required to increase capacity to a satisfactory level. Systematic registration of migrants is needed, 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. A contingency plan to manage large migratory flows needs to be finalised and adopted. The Status Agreement for operational cooperation in border

management with the European Border and Coast Guard Agency (Frontex) entered into force on 1 April 2023, allowing the launch of a joint operation with the deployment of officers from EU Member States to provide support with border control and the management of irregular migration and cross-border crime.

The legal framework on the **protection of fundamental rights** is partially aligned with the EU *acquis* and standards on fundamental rights. The country continues to meet its general obligations on fundamental rights, but the legislation should be implemented in a more systematic manner. Some significant amendments to the Criminal Code were adopted in February 2023, regulating criminal acts of gender-based violence. Parliament should make appointments to independent and regulatory bodies based on merit. The functional independence of human rights bodies must be guaranteed at all times. This means, amongst other things, allocating sufficient funds. Services for victims of gender-based violence still need reinforcement and proper funding to meet the standards laid down by the Istanbul Convention. Persons with disabilities continue to face direct and indirect discrimination, social exclusion and barriers. The Ombudsman's Office and the Commission for the Prevention and Protection against Discrimination signed a memorandum of understanding to formalise their coordination. The situation in prisons is still dire. The recommendations made by the European Committee for the Prevention of Torture on the treatment of detained and convicted persons were not addressed, which is a matter of serious concern. Detention conditions should be improved with the utmost urgency. Special attention should be given to promoting non-discrimination, increasing effectiveness in addressing hate crime and hate speech and strengthening the capacity and independence of institutions in charge of protecting the rights of persons belonging to minorities or communities. The Agency for Community Rights Realisation needs to receive sufficient funding to further promote the protection of minorities and the implementation of the national 'One Society for All and Interculturalism' strategy. The capacity of law enforcement and criminal justice officials to effectively prevent and prosecute all instances of violence, hate crimes and hate speech needs to be enhanced. The external oversight mechanism for the police, including the prison police, is still not fully functional, with the three CSOs representatives still to be selected by the Parliament. The enacted amendments to the Law on civil registry pave the way to resolving cases of statelessness and fulfilling the country's international obligations.

North Macedonia is in between some and moderate level of preparation in the area of **freedom of expression**. Overall, it made limited progress. The general context is favourable to media freedom and allows for critical media reporting. The amended Criminal Code and Law on civil liability for defamation raised the overall level legal protection for journalists. However, a number of attacks, threats and some intimidating behaviour towards journalists were noted. Greater transparency is needed regarding media advertising by state institutions and political parties. Reform of the public service broadcaster is required to strengthen its independence, professional standards and financial sustainability. Since December 2018, Parliament has been delaying the appointment of the public service broadcaster's programming council and media regulator's council. Working conditions for journalists remain challenging.

On the **economic criteria**, North Macedonia has made some progress and is at a good level of preparation in developing a functioning market economy. In 2022, the economy was badly hit by the fallout from Russia's war of aggression against Ukraine, which significantly slowed down its post-COVID-19 recovery. The government supported households and businesses through large-scale energy subsidies, tax reductions and targeted direct income support. Owing to an inflation-driven boost to tax income and under-execution of several

expenditure categories, the general government deficit remained below the revised target. Capital expenditure was raised significantly, but still fell short of the revised plan. The public debt ratio dropped but remains significantly above pre-COVID-19 levels. The central bank tightened its policy stance further in view of still elevated inflationary pressures, which began to subside gradually towards the end of 2022 and beyond. The current account deficit rose substantially as energy import prices surged, but external financing needs were met with the help of market-based and IMF borrowing. The Organic Budget Law (OBL) adopted in September 2022 provides for the introduction of fiscal rules and a fiscal council, strengthening fiscal sustainability. However, progress has been slow in implementing wider-ranging measures to improve the management of public investment, vital for underpinning the government's plans for a sizeable increase in capital expenditure. The banking sector was resilient throughout the crises. The labour market showed some improvement, but structural problems persist, including high youth and long-term unemployment and a large gender gap. The business environment continued to be impeded by the large size of the informal economy, slow progress in streamlining parafiscal charges and an untransparent and inefficient State aid regime.

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 2022. The share of high-value products in exports increased further and trade openness surged to a record high. There was further progress in improving vocational educational training, but major skills shortages persist relative to labour market needs, entailing long school-to-work transitions. These, coupled with large gaps in transport and energy infrastructure, low investment and low innovation funding, are restricting potential growth. 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. North Macedonia made good progress on free movement of capital and some progress on financial services and consumer and health protection. Limited progress was made on the free movement of goods, rights of establishment to provide services. No progress was made on company law, intellectual property law and competition policy and freedom of movement for workers. Overall, more progress is needed in the coming year in the areas covered by this cluster, to 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.

Overall, North Macedonia is moderately prepared in most of the areas covered by **cluster 3 on competitiveness and inclusive growth**, including digital transformation and media, taxation, social policy and employment, and enterprise and industrial policy. The country is in between a moderate and a good level of preparation in the area of economic and monetary policy. It has a good level of preparation in the areas of science and research and customs union. Some progress was made on taxation, economic and monetary policy, enterprise and industrial policy, science and research policy, social policy and employment. More efforts are needed, however, particularly in areas where limited progress was made, such as digital transformation and media, customs union, and education and culture.

On **cluster 4 on the green agenda and sustainable connectivity**, North Macedonia has a good level of preparation on trans-European networks and some level of preparation on environment and climate change. The country is moderately prepared on transport and energy policy with some progress made on energy, particularly on regional gas interconnectors and on renewables. Substantial efforts are needed in areas where limited progress was achieved, such as transport, trans-European networks and the protection of the environment. In the upcoming period, the country needs to accelerate implementation of the Economic and Investment Plan and of the Green Agenda for the Western Balkans².

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

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 on the common foreign and security policy. The country made some progress during the reporting period on common commercial policy. It has made good progress by maintaining full alignment with EU common foreign and security policy. By doing so, North Macedonia has shown itself to be a reliable partner, including at international level.

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

1.3. STATE OF PLAY OF THE ACCESSION NEGOTIATIONS

Following the political inter-governmental conference on accession negotiations with North Macedonia that took place on 19 July 2022, the Commission immediately launched the **screening** process, which is progressing smoothly. All sessions on Cluster 1 (Fundamentals) and Cluster 2 (Internal Market), Cluster 3 (Competitiveness and Inclusive Growth) and Cluster 4 (Green Agenda and Sustainable Connectivity) have taken place. Explanatory sessions on Cluster 5 (Resources, Agriculture and Cohesion) and Cluster 6 (External Relations) have been completed and bilateral sessions on these are ongoing. The remaining screening meetings are scheduled until December 2023.

2. CLUSTER 1: THE FUNDAMENTALS OF THE ACCESSION PROCESS

2.1. FUNCTIONING OF DEMOCRATIC INSTITUTIONS AND PUBLIC ADMINISTRATION REFORM

2.1.1. Democracy

The political situation remained polarised, which had an impact on the proper functioning of democratic institutions.

² COM(2020) 641 final

Elections

Overall, the legal framework remains conducive to the organisation of democratic elections in North Macedonia. However, no progress was made over the reporting period to address and implement the outstanding recommendations by the OSCE's Office for Democratic Institutions and Human Rights (ODIHR) and the Venice Commission. As mentioned repeatedly in previous reports, electoral legislation should be comprehensively reviewed to address inconsistencies in a timely, inclusive and transparent manner.

In August 2022, **local elections** took place for the Tetovo municipal council and mayoral elections in Centar Zhupa and in Mavrovo-Rostushe. These were conducted in an orderly manner.

Concerning the legal framework, there was no progress in addressing or implementing any outstanding OSCE/ODIHR recommendations.

In April 2023, the Ministry of Justice set up a working group on electoral reform tasked with implementing outstanding OSCE/ODIHR recommendations and ideally drafting a new Electoral Code. The main opposition party decided not to take part in the working group officially. The working group has yet to produce any significant outcome. A comprehensive review of legislation on the electoral process is needed to address existing inconsistencies and further align the system with European and international standards. A broad consultative process should underpin this reform. The accuracy of the electoral register should be improved through systematic checks, reviews and data updates.

Ahead of the next elections, the State Election Commission needs to be allocated the necessary resources in good time, so that it can carry out its mandate efficiently and independently.

Parliament

Political polarisation in Parliament deepened further, delaying the adoption of many reform laws and important appointments. The EU accession negotiation process requires broad consensus of major political parties. All parties need to start engaging in a constructive and inclusive political debate, to strengthen the role of Parliament. Excessive and sometimes inappropriate use was made of fast-track procedures and of the 'EU flag' procedure, in some cases due to the lack of consultations and poor planning of the legislative calendar. The 'EU flag' should be used when directly linked to the adoption of laws whose main goal is aligning with the EU *acquis*, and not to short-cut public debate on important issues. Parliamentary oversight of the executive was regularly exercised through parliamentary questions to ministers. Parties should spare no efforts to implement long-overdue commitments to internal reform dating from the third round of the 'Jean Monnet Dialogue' in early 2020. Work continued on establishing criminal responsibility for those who orchestrated or took part in the violent attack on Parliament on 27 April 2017. Prompt implementation of recommendations by the Group of States against Corruption is required to increase the transparency of funding for political parties. Parliament should ensure the timely review of the statutory reports sent to it by state agencies and bodies.

After some Members of Parliament (MPs) were replaced, the number of women MPs increased from 50 to 51 out of 120, reaching the highest percentage ever (42.5%). The number of MPs from non-majority communities decreased (from 42 to 41 out of 120 (34%). The Alliance for Albanians joined the ruling coalition in March 2023, while Alternativa moved to the opposition. *See Governance.*

Political dialogue in Parliament suffered from the lack of cross-party consensus, though the opposition did support some economic, energy and social measures. Parliamentary parties need to collaborate on the EU accession negotiation process and accelerate implementation of EU-related reforms. The National Council for EU Integration does not meet frequently. It held only three sessions including a joint one with the Committee on EU Affairs. Decisive steps are needed to ensure that the Council fulfils its function as the principal vehicle for advancing EU integration in Parliament.

Persisting polarisation between the ruling parties and the opposition prevented Parliament from functioning properly. The main opposition party VMRO-DPMNE³ actively blocked parliamentary work, which was a significant obstacle to progress in Parliament's legislative agenda. Nevertheless, it did participate in some debates on important issues even though it abstained from the vote, for example on ratification of the Frontex Status Agreement. Following government coalition reshuffle, the composition of parliamentary bodies was changed to proportionally reflect the new coalition and to ensure it had a majority in key bodies. No consensus was reached on long-overdue important appointments. These concern two new judges for the Constitutional Court, five deputy ombudspersons, 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. It is imperative that appointments to these positions are based on merit and not on political grounds.

The **law-making process** would benefit from more efficient planning and coordination between the ruling coalition and the opposition. From January 2022 to 15 June 2023, out of 165 laws adopted, 51 were adopted by regular procedure, 86 under shortened procedure and 28 concerned ratification. The opposition criticised the government for misusing the fast-track 'EU flag' procedure for aligning legislation with the EU *acquis*. The 'EU flag' procedure was used, among other things, to amend the Criminal Code by introducing lower penalties for crimes of corruption, and to amend laws on labour relations, expropriation, urban planning, construction and highways to be built (notably road corridor VIII and Xd), despite the fact that the amendments did not generally concern the alignment of existing legislation with the EU *acquis*. The use of 'EU flag' procedure must be consistent, and clearly linked to laws aiming primarily at aligning national law with the EU *acquis*. Comprehensive consultations should consistently take place, including with the European Commission. The number of laws adopted by shortened procedure increased from 38 % to 58% at the expense of meaningful debate and inclusive legislative process. The use of fast-track procedures should be limited. They should not be used to short-cut public consultation or resolve procedural difficulties in the legislature, or to compensate for poor planning at government level. *See 2.1.2. Public administration reform.*

Parliamentary **oversight** of the executive continued with regular sessions for parliamentary questions. The executive provided answers to 167 parliamentary written questions received in 2022 and the first quarter of 2023. Two interpellations were not considered during the reporting period – on the work of the Chairpersons of the Committee on Political System and Relations among Communities, and the Committee on Elections and Appointments. Discussions in plenary and relevant committees on the 2021 annual reports from regulatory, monitoring and supervisory bodies were completed only early 2023.

Implementation of the commitments made during the third round of the 'Jean Monnet Dialogue' in early 2020 remains outstanding. These include amending **rules of procedure**,

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

for example on the constitutive session, greater governmental oversight, public hearings, the parliamentary calendar and procedures for ‘EU-flagged’ laws. The working group on the ‘Jean Monnet Dialogue’ convened in November and December 2022 and in June and September 2023, and agreed on several aspects of the review of legislative procedures. The rules of procedure should be adopted without further delay to improve the functioning of Parliament.

As regards the **protection of human rights** and fundamental freedoms, the permanent oversight committee remained inactive. The Women Members of Parliament Club organised the first ever plenary session on gender issues to mark its 20th anniversary. The inter-party parliamentary groups on youth; on lesbian, gay, bisexual, transgender, intersex and queer (LGBTIQ) persons; on persons with disabilities; on Roma⁴; and on environment successfully completed numerous activities, in close cooperation with relevant civil society organisations. Parliament and government committed to launch and achieve as a matter of priority relevant constitutional changes, with a view to including in the Constitution citizens who live within the borders of the state.

A working group tasked with preparing **constitutional amendments** was established in April 2023. It was composed of 23 representatives from different political parties, including four MPs and experts. Opposition parties, including VMRO-DPMNE and Levica, did not nominate representatives. The working group unanimously approved and submitted a draft initiative proposing amendments to the government in May 2023. On 18 July, the government adopted the initiative for constitutional changes, which was submitted to Parliament. The draft makes provision for the inclusion of six further communities in the preamble and in two articles of the Constitution, namely Bulgarian people, Croatian people, Montenegrin people, Slovenian people, Jewish people, and Egyptian people. On 18 August, a plenary session on the adoption of the initiative to amend the Constitution was held but was put on hold as the required two-third majority votes could not be ensured.

In May, the Supreme Court rejected a request for a retrial of those convicted for the storming of Parliament on 27 April 2017. It dismissed, as unfounded, the request for an extraordinary re-examination of the verdicts of both the Criminal Court and the Court of Appeals.

Action is needed to ensure the transparency of **funding for political parties**. Action should include addressing the recommendations made by the Group of States against Corruption (GRECO). (*See Chapter 23 – Judiciary and fundamental rights.*) Political parties should improve their internal democratic processes, including the transparency of elections to party bodies.

Governance

Since the first political intergovernmental conference opening EU accession negotiations with North Macedonia in July 2022, the institutions have mobilised significant resources to engage actively in the screening process, which is proceeding smoothly. The government also increased its efforts to communicate the practical benefits of EU accession for the citizens. The government needs to intensify its work to advance the EU reform agenda. Permanent and decisive steps are required to accelerate implementation of EU reforms and move forward in the EU accession negotiation process. Cross-party collaboration remains vital in this regard. The authorities should refrain from adopting *ad hoc* measures which are not in line with the

⁴ In line with the terminology of European institutions the umbrella term ‘Roma’ is used here to refer to a number of different groups, without denying the specificities of these groups.

EU *acquis* and European standards. Inter-ethnic relations remained stable, and the Ohrid Framework Agreement continued to be implemented.

In March 2023, 65 MPs out of 120 supported the formation of the new government coalition. The ruling coalition is now composed of SDSM⁵, DUI⁶ and the Alliance for Albanians and is supported by several smaller political parties. In the government, 25% of ministers, 31% of deputy ministers, and 29% of state secretaries are women. Women held 15% of the executive positions in different government bodies and agencies.

After the reshuffle, the key priorities of the government programme for 2022-2024 remained unchanged. These include sustainable economic growth, social inclusion and human capital development, rule of law and good governance, promotion of democracy and freedom as well as NATO and EU integration.

As part of the EU accession negotiation process, relevant national representatives, coordinated by the Chief Negotiator, actively participated in the screening meetings organised by the Commission starting in July 2022. Building on the experience of the screening process, North Macedonia needs to continue strengthening its **EU negotiating structures** and achieve sound coordination among line ministries and institutions, while further developing EU-*acquis*-related expertise across the public administration.

The **inter-ethnic situation** remained calm overall, with isolated cases of tension amid protests in the summer of 2022 against the proposals designed to remove the obstacles to the opening of EU accession negotiations. The Committee on Inter-Community Relations continued to foster the multi-ethnic and multi-cultural dimension of the society, notably by organising intercultural activities among students. The 2001 Ohrid Framework Agreement, which fosters the multi-ethnic character of the society, continued to be implemented.

There was limited progress as regards reform of **local self-government**, mostly related to fiscal decentralisation. However, the fiscal benefits deriving from last year's amendment to the Law on financing of local self-government units have not yet been felt by municipalities. The government should urgently improve the normative and financial framework in line with the 2021-2026 programme for sustainable local development and decentralisation. Municipalities have continued to experience severe financial difficulties as a result of inflation and increased energy costs. The government and the municipalities should consider setting up a permanent cooperation mechanism with the aim of reviving interinstitutional dialogue between different levels of government, particularly in relation to the EU accession negotiations process.

Civil society

Overall, civil society organisations (CSOs) in North Macedonia continue to operate in an enabling environment. However, the government should increase its efforts to mainstream civil society engagement in priority areas and consultation activities. CSOs should play an important role in the reform process and be involved in decision-making processes. Existing legal and financial frameworks still need to be amended and implemented in practice, notably to provide consistent mechanisms for awarding public funding to CSOs. There is a need for the Council for Cooperation between the Government and Civil Society to resume its activities.

⁵ *Social Democratic Union of Macedonia*

⁶ *Democratic Union for Integration*

Civil society is a key component of any democratic system and is recognised as such by the state institutions. CSOs continue to operate in an enabling environment. They play a vital role in promoting and advancing human rights, the rule of law and stability, by being steadfast in their roles as watchdogs and seeking to take part in decision-making processes. CSOs need to be consulted on draft legislation more systematically and meaningfully. The role of civil society in the EU accession negotiation process needs to be strengthened.

The Council for Cooperation between the Government and Civil Society is still the main structural channel for consulting and involving civil society in policy dialogue and decision-making. Budget allocations for the annual programme for cooperation with civil society were not reinstated in the supplement to the 2022 budget. This contradicts the policy aims of the strategy of cooperation with civil society 2022-2024. CSOs have boycotted the work of the Council since March 2022 as a result of the government decision to transfer funds for financing of CSOs from the General Secretariat to the Ministry of Political System and Relations among the Communities. There is a need to rebuild trust and cooperation. The role of the Council and of the relevant unit within the General Secretariat of the government needs to be enhanced.

Implementation of the strategy for cooperation with and development of civil society 2022-2024 is ongoing, although an effective monitoring framework is needed to check on its implementation. Local authorities need to be more proactive and to develop a consistent approach to involving CSOs in policymaking at local level.

Civilian oversight of the security/intelligence sector

The parliamentary committees that oversee the intelligence services held several meetings, but further efforts are needed to improve their efficiency.

The Special Department for investigation and prosecution of crimes committed by persons with police powers and members of the prison police is operational. However, the lack of sufficient staff hampers its efficiency.

The civil control mechanism is composed only of the representative of the Ombudsman's Office. Parliament has not selected the civil associations, which should be part of the mechanism.

The Council for Civilian Supervision, which is regulated by the Law on interception of communication, has not been set up in practice. In July 2023, Parliament adopted Amendments to the Law necessary for operationalising the Council for Civilian Supervision.

2.1.2. Public administration reform

North Macedonia is **moderately prepared** in the reform of its public administration. **Limited progress** was made in the reporting period with the adoption of the new public administration reform strategy and the accompanying action plan in July 2023. Despite having started the process 5 years ago, the country still has not adopted the revised legislative framework for human resources management, which includes the revised law on administrative servants and the law on public sector employees and new legal provisions on top level of management. The new framework should improve human resources management across the administration and help ensure merit-based recruitments, promotions and dismissals at all levels, including senior management. Legislation has not yet taken on board the State Commission for the Prevention of Corruption's recommendations on nepotism, cronyism and political influence in the recruitment of public sector employees and in the appointment of members of supervisory and management boards. Improvements in

accountability in the public administration are undermined by the failure to adopt the new law on state organisation. There are ongoing efforts to improve delivery of services to citizens and businesses.

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

- adopt and start implementing the revised law on administrative servants, the revised law on public service employees and the legal provisions on top management service;
- adopt and start implementing the law on state organisation and other related laws in line with the recommendations on the new organisation of state administrative bodies;
- ensure full implementation of the law on general administrative procedures by completing the digitalisation of institutions' registers and data exchange, and simplifying electronic procedures.

Strategic framework for public administration reform

The new 2023-2030 **public administration strategy** and its accompanying action plan were adopted in July 2023. Several actions have been carried over from the previous strategy without any mitigation measures proposed despite past challenges with their implementation. Measures planned for the first year of the 2022-2025 **public financial management reform programme** fell behind schedule due to delays in the adoption of key legislation. The high-level Public Administration Reform Council met once during the reporting period. There is insufficient **political support**, leadership and supervision of reforms. The Ministry of Information Society and Administration does not have sufficient human resources to drive forward the reforms at technical level. National funding for the public administration reform strategy and the public financial management reform needs to be increased as key reform activities are still largely dependent on donor support.

Policy development and coordination

A legal framework and institutional structures for a coherent **policymaking system** are in place. However, further efforts are needed to clarify the responsibilities of policymaking institutions, ensure their proper functioning and streamline reporting lines. Medium-term budgetary planning and fiscal policies remain consistent with the government's strategic priorities. The central coordination and quality control role of the General Secretariat slightly improved, but remains insufficient. No regular update or reports on the implementation of the 2021-2025 national programme for the adoption of the *acquis* have been forthcoming.

Evidence-based policymaking and legislative development have been partially successful. However, certain pieces of adopted legislation, such as the Law on construction of corridors VIII and X-d, to be implemented by Bechtel Enka, conflict with parts of the legal framework and with international commitments. Many institutions have not yet digitalised their registers. The sharing of administrative data needs to be expanded and data need to be simplified in order to better inform policymaking and new legislation. Regulatory impact assessments continued to be carried out only as a formality, rather than as an assessment of the potential impact of new laws. Efforts to improve the use and quality of regulatory impact assessments continued, in particular for budgetary impact assessment. However, the Ministry of Information Society and Administration has insufficient resources to ensure effective and consistent quality control.

The national electronic consultation system is an inclusive one, enabling all stakeholders to participate in **public consultations**. However, it is not used to its full potential, in particular

by citizens and businesses. Quality control, feedback and follow-up to the public consultation process need to be improved. The share of laws adopted under shortened procedures went up to 58% 2022. These laws did not undergo a proper public consultation process and were not regularly accompanied by impact assessments. The quality of legislative drafting also needs to improve. Frequent legislative amendments create legal uncertainty and impede proper implementation. Abuse of the use of the ‘EU flag’ procedure continued. The ‘EU flag’ should only be used when directly linked to the adoption of laws whose main goal is aligning with the EU *acquis* (see 2.1.1 Democracy).

Public scrutiny of government work is supported by regular government press releases. However, the publication of the agendas and minutes of government sessions was occasionally delayed. Documents adopted at government sessions are not published consistently. Moreover, the government has failed to publish annual reports on its work for the years 2020, 2021 and 2022.

Public financial management

In June 2022, the government adopted a new **public financial management reform programme** for 2022-2025. The programme is made up of eight pillars. In April 2023, the government published the first annual monitoring report for 2022 and draft action plan for 2023. This report revealed poor implementation and results, suggesting that planning needs to be more realistic.

In September 2022, the Organic Budget Law (OBL) was adopted by the Parliament. The law provides a legal foundation for several key public financial management reforms, including strengthening medium-term budget preparation, reviewing budget classifications and putting in place an Integrated Financial Management Information System. The OBL also aims to make the fiscal strategy more comprehensive and to develop a broader system to monitor fiscal risks, including for state-owned enterprises and municipalities. The public financial management reform agenda has gained momentum after the adoption of the OBL but progress is still slow in several key reform areas.

The Ministry of Finance continued to improve the **transparency** of public finance management by publishing data on the revenue and expenditure of public institutions, local governments and state-owned companies every quarter. The human resources capacity of the Ministry of Finance remains limited.

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 increase further through the efficient implementation of the OBL.

Public service and human resources management

No progress was made on the adoption of the long-awaited revised legislation on administrative servants and on public sector employees, or on the new legislation on top levels of management, aimed at ensuring **merit-based recruitment** and fair **promotions** and **dismissals**. The regular amendments to the laws on administrative servants and on public sector employees since their adoption in 2014 have led to an inconsistent application of recruitment and promotion procedures across the public sector. Contradictory rules in the law on internal affairs and other sectoral laws allow employees in these sectors to be excluded from the scope of the law on administrative servants. Moreover, the administration still uses procedures to convert temporary or service employment contracts into permanent ones.

The supreme audit institution found irregularities and the misuse of the IT system for testing candidates for positions in the public administration. The performance appraisal system, although established on paper, is still not systematically used. In addition, insufficient transparency on the grounds for dismissal of civil servants continues, and data on dismissals of non-managerial staff is lacking. Proper follow-up to the recommendations of the State Commission for Prevention of Corruption on improving public sector recruitment procedures should be ensured. The national authorities need to develop a retention policy for the public administration in order to avoid further losses of valuable expertise and a decline in administrative capacity. A large number of vacancies in senior ranks were not filled via competitive procedures (18 vacancies) but by appointing acting managers (40 appointments).

The Ministry of Information Society and Administration is responsible for coordinating and monitoring **human resources management** across the public administration. The number of institutions using the human resources management information system has increased. Reports from individual state audit institutions indicate that some public service employees still receive a salary despite not having a formal assignment and without having to show up for work. Initiatives have been launched to revise the **remuneration system** to ensure more consistent levels of pay and to promote mobility. Some institutions have developed legal solutions allowing a unilateral increase of salaries for some staff categories. The practice of paying salary supplements continued under the 2022 and 2023 budget execution laws. Nevertheless, the turnover rates of staff working on the management of EU funds puts in question the effectiveness of these measures.

On 31 December 2022, women represented 56.29% of all public service employees according to the register of public sector employees, not including staff of institutions such as the army and law enforcement agencies. Concerns remain over the percentages applied in the formula of 'BalancER' - a human resources tool that determines the proportion of public employees from each ethnic group. The revised formula includes the non-resident population and does not take into account the percentage of citizens that have not declared their ethnicity in the census. The transfer of employees from the Ministry of Political System and Relations between Communities to various institutions has not yet been completed. Furthermore, the ministry conducted a new recruitment procedure aiming to deploy the new recruits to various institutions.

On **professional development**, there is still no centralised database of all training provided by the various institutions and projects. **Integrity** guidelines were developed at both central and local level. Whistle-blower legislation is in place, but the protection of whistle-blowers needs to be improved. According to the annual report of the State Commission for Prevention of Corruption, the institutions reported 24 instances involving whistle-blowers in 2022 and sent 10 reports directly to the State Commission.

Accountability of the administration

The reorganisation of central government institutions, which aims to streamline the institutional framework, eliminate overlapping powers, improve the administration's efficiency and improve **lines of accountability**, was delayed due to the new law on state organisation not yet being adopted. This also held back the reorganisation of the three pilot ministerial systems. Delegating decision-making authority to middle management remains limited both at central and local level. Continued efforts are needed to efficiently mainstream managerial accountability across the entire public administration (*see chapter 32 - Financial control*).

Legislation on **scrutiny by independent oversight bodies**, in particular the State Audit Office and the Ombudsperson, is in place. There needs to be a more systematic follow-up to their findings and recommendations, both by the government in addressing shortcomings and preventing further irregularities (*see e.g. chapter 20 - Enterprise and Industrial Policy, chapter 25 - Science and Research and chapter 15 - Energy*), and by law enforcement agencies in prosecuting offences. **Citizens' right to access public information** is embedded in legislation. The proactive disclosure of information and datasets on official websites needs to be further encouraged, in particular at local level. The Agency for Protection of Free Access to Public Information processes lodged appeals promptly and proactively monitors information holders despite limited funding.

The legal framework for **citizens' rights to good administration** is in place, both as regards administrative justice and judicial review. In practice, however, administrative disputes continue to face unreasonable delays. Appeal procedures are complex and lengthy, consisting of several appeal layers. There are repetitions of procedures, as most decisions are based on procedural considerations and not on merit. Delays continue to occur in enforcing Administrative Court rulings by the respective institutions. The legislation lays down **citizens' rights to seek compensation** and the liability of public authorities in cases of wrongdoing.

Service delivery to citizens and businesses

On **user-oriented service delivery**, legislation and IT infrastructure allow most administrative services to be offered both online and offline – through the national e-portal for services, including facilities for people with special needs. The update of the portal with 135 new services should be completed. Currently, the number of digital services available to citizens is symbolic and mainly consists of services that are rarely requested with the most common services, such as issuing of personal documents, not yet available online. Even offline, these basic services have deteriorated with additional administrative requirements from citizens. The quality of data in the population register needs to improve as it is the country's principal register. The legislation on an interoperability framework is not updated in line with the latest EU standards, while the tool itself is not used to its full potential by the relevant institutions, which is an obstacle for progress on provision of digital services. North Macedonia should ensure alignment with both the European Interoperability Framework (latest revision in 2017) and the Interoperable Europe Act (2022).

No progress was made on **simplifying administrative procedures**. The law on general administrative procedures is still not 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 effective fight against corruption are of paramount importance, as is the respect for fundamental rights in law and in practice.

North Macedonia has in between some and moderate level of preparation to apply the EU <i>acquis</i> and European standards in this area. Overall, there was no progress on strengthening judicial independence and improving the legal framework for fundamental rights protection.

Functioning of the judiciary

The judicial system of North Macedonia is in between **some and moderate level of preparation**. There was **no progress** in the field of the judiciary during the reporting period. The Judicial Council should strive to protect the integrity and independence of judges and institutions and should resist any external influence. The controversial dismissal of the President of the Judicial Council raised concerns about undue political influence. The adoption of a new judicial reform strategy is behind schedule. It should aim to improve the performance of institutions. Progress on implementation of the human resources strategies for the judiciary and prosecution services was limited. The lack of measures to address the impact of scheduled retirements affected efficiency. Most promotions for higher courts faced further delays. Work continued on upgrading the automated court case management information system (ACCMIS) for random distribution of cases in courts. A similar system was introduced in the Public Prosecutor's Office.

The Commission's recommendations from last year have not been implemented and remain valid. In the coming year, the country should in particular:

- complete the implementation of 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 prepare the new strategy on judicial reform (2023-2027) without delay;
- revise the legislative framework and overall functioning of the Judicial Council to enhance its transparency and independence and step up the implementation of the human resources strategies for the judiciary and the prosecution;
- ensure that ACCMIS is fully functional and compatible with level of complexity of court cases and the method for assessing judges and presidents of courts.

Strategic documents

According to the 2022 assessment report on implementation of the **judicial reform strategy** (2017-2022), out of 227 activities, 140 have been fully implemented, 18 are ongoing, 14 are delayed, 43 require continuous implementation, 6 concern legislative measures that are pending in Parliament, and 6 were abandoned due to a change in the approach. The process to adopt the new judicial reform strategy for 2023-2027, which started in September 2022, is delayed. Implementation of the Law on the Public Prosecutor's Office continued. Limited progress was made in implementing the strategies for human resources management in the courts and in the Public Prosecutor's Offices.

Management bodies

There are serious concerns about undue external influence over the work of the Judicial Council and judiciary. In November 2022, the President of the **Judicial Council** resigned to protest against alleged attempts to exert undue influence from within the judiciary and the business community. The new President, who took office in December 2022, was demoted in April 2023 through a controversial procedure, raising questions about respect for laws and procedures. Civil society organisations and legal scholars condemned this unprecedented step and called on all members of the Council to resign. The demoted President continued to serve as a member of the Council. In May, she filed a lawsuit with the Administrative Court challenging the legality of her demotion, and a criminal report with the Skopje Basic Public Prosecutor's Office against some of her Judicial Council peers for misuse of official duty and authorisation. Two members of the Judicial Council, judges elected by their peers, resigned in June 2023. One explained that she was resigning over the unlawful and non-transparent

demotion of the former President, and disagreement with some of the Council's stances. The other announced that he would contribute better if serving as a judge. In July, judges elected two new members, one of whom, a judge of the Supreme Court, resigned shortly afterwards citing personal reasons. Attempts by the new President to limit the presence of camera crews to Council sessions ceased after interventions of several CSOs and the Judicial Media Council. According to the Corruption Risk Assessment of the Judiciary, published in June 2023, 72% of the judges interviewed either fully disagree (27%) or partially disagree (45%) that the Judicial Council effectively safeguards judicial independence. Only 26% agree.

In March 2023, the Constitutional Court annulled two articles of the Law on the Judicial Council, thus allowing all Council members, and not only those elected by Parliament, to be elected as president or deputy. The new President and his Deputy, elected in May and June 2023, are both judges. In October 2022, the Judicial Council adopted a code of ethics for its members. In December, the Council amended its rules of procedure to better regulate procedures for determining the responsibility of a judge or a president of court. Transparency in the Council decision-making process should increase.

In February and April 2023, prosecutors elected two new members to the **Council of Public Prosecutors (CPP)**. Parliament, with a delay, elected two members of the CPP. In November 2022, over 160 public prosecutors throughout the country, directly elected the new Head of the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption (OCCPPO), applying for the first time the 2020 Law on the Public Prosecutor's Office and amendments to the Law on the CPP. The election did not help to build public trust in the transparency of the process, given that no qualifying criteria were set at the outset and serious concerns about possible external influence in the process were raised. The CPP improved its transparency by making sessions available on social media platforms but stills needs to provide reasoning for its decisions. The media have regular access to the Council but limited physical space in Council sessions is a constraint. The budget allocation for the Council increased but it remains understaffed and lacks IT resources to perform its tasks effectively.

Independence and impartiality

Judicial independence is enshrined in the Constitution. Both the Judicial Council and the CPP need to act decisively to promote and safeguard the independence, integrity and professionalism of judges and prosecutors. Further efforts are needed to increase transparency and prevent any attempt to exert undue influence or intimidation. The implementation of the Declaration on Open Judiciary, signed in March 2022 by 12 different judicial institutions, CSOs and professional associations, led by the Supreme Court, continued and helped to improve transparency in the judiciary. The Judicial Media Council adopted a two-year work plan focusing on preparation of its communication strategy and conducted training on communication skills for 40 judges and courts' spokespersons. Political actors should refrain from publicly commenting on judicial proceedings. The Commission for the supervision of the functionality of the **automated court case management information system** carried out 9 out of 19 supervisions planned for 2022. A system for electronic distribution of cases in the Public Prosecutor's Office became operational in January 2023. Reliable statistical data are needed on the performance of the judiciary and the prosecution service, in line with the recommendations and methodology of the European Commission for the Efficiency of Justice (CEPEJ) (a Council of Europe body).

Accountability

The Association of Judges' Advisory Body for Judicial Ethics received no new requests for opinions.

In 2022, the Judicial Council received 72 requests to determine the responsibility of 144 judges or presidents of court. It dismissed 5 judges. The Judicial Council issued a written reprimand to 2 judges and fined a court president and a judge. The CPP dismissed 1 prosecutor and, at their own request, ended the tenure of 2 prosecutors against whom it had initiated disciplinary proceedings. 4 judges were dismissed for reasons relating to unprofessional performance, and 1 for a severe disciplinary offence. According to opinion polls, public trust in the judiciary dropped to the lowest level ever (around 8%).

In 2022, the State Commission for the Prevention of Corruption issued 11 misdemeanour payment orders against 6 judges, 3 court presidents and 2 prosecutors for failing to submit asset declarations or reports on the change of their property status and interests.

Professionalism and competence

The Judicial Council elected four court presidents, two Supreme Court judges, two Court of Appeal judges in Gostivar, 27 basic court judges and one court president. The Council assigned 17 judges to serve in different courts for a one-year period. Elections to the higher courts were further delayed by some attempts to interfere in the process of appointing judges and by the lack of an accredited company to perform psychological and integrity tests for candidate judges.

The CPP appointed two prosecutors in the State Public Prosecutor's Office (PPO), four in the higher PPOs, two heads of basic PPOs and two new prosecutors to the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption (OCCPPO). In 2022, a total of 5 574 professionals participated in 227 in-service training sessions organised by the Academy for Judges and Prosecutors.

Quality of justice

The new Law on the **Academy for Judges and Prosecutors**, adopted in June 2023 maintained the Academy as the sole entry point to the judiciary and prosecution service, and heeded the European Commission's recommendation not to shorten initial training. In anticipation of the adoption of the Law, the Academy informed the candidates for the ninth intake that the entry qualification exam scheduled for 29 May to 4 June would be postponed, as the new Law sets a different order for entry tests.

The 57 graduates from the seventh intake were recruited in basic courts and PPOs. The Judicial Council published a vacancy in June 2023. The CPP elected 18 prosecutors and published a new vacancy. The Academy continued its active cooperation with the European Judicial Training Network and the Academy for European Law. The total budget for training initiatives in 2022 amounted to EUR 1.74 million, a 46.3% increase compared to the previous year. One interpreter was recruited.

The Supreme Court and the four Courts of Appeal contributed to the **consistency of judgments** and harmonised court practices. They focused on reviewing high-profile cases and cases of public interest. The Supreme Court, upon an initiative of its President, adopted a principled stance that all courts should publish their decisions, whether final or not, on their websites. The Court also adopted a principled stance on the direct application of the Constitution and the European Convention on Human Rights in appeals procedures against decisions of the Judicial Council on the dismissal of judges or court presidents. The Supreme Court adopted and published 17 additional principled legal opinions, stances and conclusions.

At the end of 2022, there were 409 judges, (22.3 per 100 000 inhabitants) 61.3% of whom were female and 157 prosecutors (8.5 per 100 000 inhabitants), 55% of whom were female. According to CEPEJ, the European averages are 22.2 judges and 18.8 prosecutors per

100 000 inhabitants. The 2022 budgetary allocation for the judicial system was about EUR 83.5 million. Scheduled retirements were one of the factors driving numbers down: 64 judges and 16 prosecutors retired (48 retired judges and 11 prosecutors in 2022). It remains crucial 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 continued to implement the IT strategy. To recruit additional IT staff, the judiciary will have to offer working conditions comparable with those in the private sector.

There are 46 licensed mediators. In 2022, a mediation agreement was reached in 397 out of 918 cases, and 121 are ongoing. The relevant chambers, the Academy for Judges and Prosecutors and the Association of Judges, should continue to promote of mediation and other **alternative dispute resolution** methods. The body tasked with assessing and ensuring the quality of mediation is the National Council for Mediation, which is not yet functional.

Efficiency

Efficiency of the judiciary was affected by the Judicial Council's lateness in electing new judges, and by limited progress in the implementing a human resources strategy in the courts, which would include setting up a new network of courts.

The average **clearance rate** for the basic courts dropped from 100.8% to 97.8%. The number of unfinished cases under the old procedural laws increased. 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. The Constitutional Court's decision to annul two articles of the Law on salaries and emoluments of elected and appointed persons resulted in an increase of salaries for judges and prosecutors. A systemic solution has yet to be found to the issue of salaries in the judiciary, considered inadequate. No steps were taken to reduce the overall cost and duration of the enforcement process (the bailiff's services).

Fight against corruption

The country is in between **some and moderate level of preparation** in the prevention and fight against corruption. **No progress** was made. Corruption remains prevalent in many areas and is an issue of concern. Delays and reversals in trials of high-level corruption cases increased, resulting some cases in the expiration of the statute of limitations. The Criminal Code was amended through an expedited parliamentary procedure. The maximum legal penalties for specific corruption-related criminal offences were reduced, having implications on the application of the statute of limitations and affecting, halting or even terminating, a large number of high-level corruption cases, including from the former Special Public Prosecutor's Office (SPO). The amendments also hamper the authorities' ability to investigate and prosecute such offences. This is a matter of serious concern.

The State Commission for the Prevention of Corruption was proactive in providing public institutions with policy guidance on preventing corruption. It opened several cases, but its recommendations need to be effectively followed up on. Efforts to improve the functioning of the State Commission for the Prevention of Corruption should continue, especially by allocating additional funding for the recruitment of specialist staff. Additional human resources and financial means should also be made available to the PPO, investigative centres and law enforcements units in charge of investigating corruption. The sectors most vulnerable to corruption require targeted risk assessments and dedicated actions.

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

- enhance implementation of the national strategy for the prevention of corruption and conflict of interests and properly implement GRECO's recommendations;
- allocate sufficient human and financial resources, including financial experts, to the Office of the Basic Public Prosecutor for Organised Crime and Corruption to ensure effective accountability in high-level corruption cases;
- improve its track record in high-level corruption cases – with timely, professional and transparent proactive investigations, prosecutions, final convictions and recovery, including confiscation of criminal assets, value-based confiscation, extended confiscation and third-party confiscation.

Track record

North Macedonia continues to investigate, prosecute and try corruption cases, including high-level corruption cases. There are concerns about patterns emerging from, but not limited to, several cases previously dealt with by **the former Special Prosecutor's Office** after first-instance verdicts have been delivered. These include an increasing number of delays and reversals, resulting in the expiration of the statute of limitations in some cases. The most frequent reasons for postponement include the absence of defendants or defence counsel, prosecutors, mainly due to health issues, and members of trial panels, when these are appointed to another court. Judges must proactively and efficiently manage their cases to ensure timely justice. Judicial accountability should be ensured in this respect.

The cases of the former Special Prosecutor's Office continued to be tried mostly by the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption (OCCPPO). So far, there have been **final convictions** in 12 high-level corruption cases. **First-instance verdicts** were issued in 37 high-level corruption cases. In the 27 former SPO cases to be tried by the OCCPPO, there have been final convictions in six cases while trials are ongoing for most of the remaining ones. In 2022, the OCCPPO opened 39 cases of alleged corruption against 148 individuals and 6 legal entities. The September 2023 amendments to the Criminal Code are cause of serious concern because of their impact on former SPO cases, since a large part of the cases pertained to the offences whose provisions were altered. The reduced statutes of limitations affect, halt or even lead to the termination, of a large number of cases. Since the amendments took effect mid-September, some former SPO case have already been terminated, or had hearings postponed because the charges were no longer valid, or the statute of limitations had expired.

In 2022, 12 investigations were opened, charges were filed in four cases against 20 individuals. One is a high-profile case against a former Secretary General of the Government, for abuse of an official position.

In 2022, 16 first-instance judgments were handed down against 62 individuals. and 8 second-instance judgments were issued against 40 individuals.

In 2022, 35 criminal sentences were passed (compared with 23 in 2021). In these cases, six individuals (14 in 2021) were sentenced to prison, while 29 (nine in 2021) received suspended sentences.

The **State Commission for the Prevention of Corruption** continued to fulfil its role and opened several new cases. In 2022, the SCPC processed a total of 145 cases (106 in 2021) of alleged **conflict of interest**, of which 27 (17 in 2021) were initiated by the SCPC itself and

118 (89 in 2021) at the request of other parties. In 2022, 161 cases were closed (152 in 2021), of which 18 dated from 2019, 20 from 2020 and 53 from 2021. In 2022, a conflict of interest was established in six cases (two in 2021). Initiatives were submitted to the competent authority calling on it to determine responsibility, resulting in two disciplinary procedures. The SCPC issued opinions on 87 out of the 88 requests it received. In 2022, the SCPC found grounds for suspecting breaches of the Law on the prevention of corruption and conflict of interest, resulting in 37 misdemeanour payment orders (32 in 2021).

The SCPC also submitted three requests to the SCPC Misdemeanour Commission to initiate misdemeanour proceedings against public officials. As regards irregularities in **asset declarations**, in 2022, the SCPC issued 372 misdemeanour payment orders (86 in 2021), of which 367 related to fines for offences committed under Article 82 of the Civil Code, and 5 to failure to report an increase in property. In January 2023, the SCPC adopted an annual plan to monitor property ownership and other interests, involving 21 officials: 5 prosecutors, 5 judges, 6 MPs and 5 public office holders in the government.

In 2022, 583 cases of **corruption** were initiated (599 in 2021), 20 at the initiative of the SCPC (16 in 2021), and 563 based on reports submitted by third parties (583 in 2021). Of the cases initiated, 560 were addressed (404 in 2021). Of the cases submitted on the basis of reports, the SCPC found grounds for suspected breaches of the Criminal Code in 12 (11 in 2021) and submitted initiatives to the public prosecutor in all 12 cases. The SCPC launched initiatives asking the competent authorities to ascertain which officials were responsible for what breaches in 6 cases (5 in 2021). In addition, 12 recommendations and 2 indications were submitted to state institutions and authorities calling on them to take specific measures in response to the circumstances ascertained.

GRECO's Fourth Round Evaluation Report on the prevention of corruption in respect of Members of Parliament, judges and prosecutors contained 19 recommendations for North Macedonia. In its report on implementing these recommendations, GRECO concluded that nine of the 19 recommendations had been implemented (or dealt with) satisfactorily, 9 had been partly implemented and 1 had not been implemented. In March 2023, North Macedonia submitted a situational report to GRECO on the measures taken to implement the remaining recommendations.

The Parliamentary Committee on Issues of Rules of Procedure and Immunity adopted a training curriculum for a code of ethics workshop for Members of Parliament, as recommended by GRECO.

In June 2023, GRECO adopted the second compliance report on preventing corruption and promoting integrity (as part of the Fifth Evaluation Round), which concluded that 13 of the 23 recommendations had been implemented satisfactorily, 9 partially implemented and 1 not implemented.

Institutional framework

Preventive measures

The Law on the prevention of corruption and conflict of interest needs to be fully implemented. The SCPC continued to fulfil its role in providing policy advice to public institutions proactively.

The SCPC needs to further strengthen its capacity to instigate initiatives before the competent authorities at its own initiative, identifying possible wrongdoings not yet reported in the media. Too often, the conclusions of the SCPC reports are not followed up by the institutions concerned. The SCPC's ability to verify declarations of interest and asset

declarations is limited because the data is not systematically cross-checked with the data recorded in the cadastre (property register) or held by other relevant institutions. Cross-checks are only carried out on the asset declarations of around 20 officials a year, selected according to specific criteria.

By the end of 2022, the number of SCPC staff had increased from 34 in 2021 to 48 (compared with the 64 planned). The 2023 SCPC budget also increased by approximately 15% compared to the 2022 budget, mainly thanks to support from donors. Further action is needed to strengthen and support the SCPC, and to make sure it is adequately resourced. The SCPC would benefit from specialist staff with investigative experience, for more effective verification of asset declarations. Furthermore, the SCPC should be strengthened to allow for an exchange of information with neighbouring countries. 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 for whistle-blowers and monitor implementation of the national strategy for the prevention of corruption. Software enabling communication between the IT systems of the cadastre, the Revenue Service, the Ministry of the Interior and the central register must be operational on time and must enable more effective checks of asset declarations. 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 local self-government. As of the end of 2022, a total of 85 institutions had signed an integrity policy and appointed contact persons on these issues (18 state bodies and public sector institutions and 67 local authorities).

Training on integrity was organised for ministries, state bodies and local authorities. A training centre was set up within the SCPC. The SCPC is also working on software solutions for trainings, and public awareness-raising campaigns were organised on integrity, on whistle-blower protection, and more generally on the fight against corruption.

In 2022, the Ministry of the Interior adopted its regular internal anti-corruption programme with an action plan and provided training on related topics for staff members.

Law enforcement

The main law enforcement institutions dealing with corruption 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 the Interior. The OCCPPO inherited most of the former Special Prosecutor's Office high-profile cases. The OCCPPO has not yet moved to its new premises. Budget and staffing levels are still insufficient to effectively tackle cases of corruption and organised crime. Currently, the OCCPPO is working with 14 prosecutors. This is still not enough given the OCCPPO's wide range of responsibilities. There are 4 investigators, 9 associates and 16 support staff assisting the prosecutors but no financial experts or analysts. The Office still lacks strategic planning in handling investigations and cases, which affects its overall efficiency. The Office could be more efficient, if more specialisations were introduced and if resources were focused on the most complicated cases.

At the end of 2022, the OCCPPO signed cooperation agreements with the Central Registry and the Real Estate Cadastre Agency allowing it direct access to their databases. Similar agreements need to be concluded with the Association of Banks, the Ministry of the Interior and the Employment Agency. The OCCPPO should increase cooperation, information-sharing and follow-up to SCPC's initiatives and recommendations.

The State Audit Office, investigative centre/judicial police in the PPO and the police all lack sufficient resources to pursue high-profile cases. Limited and partially inadequate technical equipment and facilities remain a central problem. The quality and efficiency of investigations need to improve. Moreover, in many cases there is a need for investigations to be accompanied by parallel financial investigations into persons and companies suspected of involvement in wrongdoing. Limited use is made of freezing and confiscation mechanisms. To increase the number of financial investigations, the prosecution service should be allocated appropriate financial and human resources, the relevant institutions should coordinate with each other more and have better access to integrated databases.

The State Audit Office carries out *ex post* checks and publishes annual reports on its website. In November 2022, the State Audit Office sent the Public Prosecutor's Office two requests for them to take action in response to alleged irregularities which came to light during the audit of two participants in the election campaign. No requests for public prosecutorial action were submitted following the audit performed on political parties' financial statements and accounts. The State Audit Office produces quality audit reports, in which it identifies key findings and gives appropriate recommendations, which the authorities should follow up on systematically.

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 funding can be provided to political parties and managed correctly. The Electoral Code sets out the rules on the financing of electoral campaigns. The Law on **free access to public information** allows applicants to obtain information on the public financing of political parties. The Law on **lobbying** entered into force in June 2022. The Law extends the role of the SCPC adding the responsibility to keep a register of lobbyists and lobbying organisations. No organisations have been registered to date. The Law on the protection of **whistle-blowers** still needs to be further aligned with the EU *acquis*.

In September 2023, Parliament adopted amendments to the Criminal Code through an expedited procedure, which prevented the comprehensive consultations with domestic stakeholders and the European Commission prior to their adoption. Whilst some changes on strengthening confiscation measures can be considered as limited improvements, these should be paired with strong legal and procedural safeguards, as well as functioning tracing, freezing, and management measures for an effective national asset recovery system. Other amendments, in relation to specific corruption-related criminal offences, are of concern since they reduce the maximum legal penalties, have implications on the statute of limitations, and delete a specific category of offences, notably abuse of office in public procurement. In addition, the amendments raise serious concerns as they also affect the applicable criminal procedures, limiting the scope of investigations, and thus hampering the authorities' ability to effectively prosecute high level corruption cases.

Strategic framework

Implementation of the national strategy for the prevention of corruption and conflict of interest (2021-2025) and the related action plan continues to proceed very slow, indicating an overall lack of commitment and sense of ownership from the institutions concerned. Only 10% of the activities planned for 2022 were implemented in full, 35% are ongoing, 55% have not been implemented. This is a significant decrease from the previous year when 20% of the

activities planned for 2021 were implemented in full, 27% were ongoing and 59% were not implemented. Parliament has yet to discuss the report on implementation of the strategy in 2021 and the SCPC report on the 2021 local elections.

Fundamental rights

The legal framework on the protection of fundamental rights is partially aligned with the EU *acquis* and European standards on fundamental rights. The country continues to meet its general obligations on fundamental rights, but legislation should be implemented in a systematic manner. Some significant amendments were made to the Criminal Code regulating criminal acts of gender-based violence. Parliament should make appointments to independent and regulatory bodies based on merit. The functional independence of human rights bodies must be guaranteed at all times. This means, amongst other things, allocating sufficient funds. Services for victims of gender-based violence still need improvement – and proper budgeting – to meet the standards laid down by the Istanbul Convention. Persons with disabilities continue to face direct and indirect discrimination, social exclusion and barriers. The Ombudsman's Office and the Commission for the Prevention and Protection against Discrimination signed a memorandum of understanding to formalise their coordination. The situation in prisons is still dire. The recommendations made by the European Committee for the Prevention of Torture on the treatment of detained and convicted persons were not addressed, which is a matter of serious concern. Detention conditions should be improved with the utmost urgency. Special attention should be given to promoting non-discrimination, increasing effectiveness in addressing hate crime and hate speech, strengthening the capacity and independence of institutions in charge of the protection of rights of persons belonging to minorities or communities. The Agency for Community Rights Realisation needs to receive sufficient funding to further promote the protection of minorities and the implementation of the national strategy 'One Society for All and Interculturalism'. The external oversight mechanism for the police, including the prison police, is still not fully functional, with the three CSOs representatives still to be selected by the Parliament. The enacted amendments to the Law on civil registry pave the way to resolving cases of statelessness and fulfilling the country's international obligations.

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

- address the dire conditions in prisons and step up efforts to promote alternatives to incarceration and implement relevant recommendations on detention conditions, made by national and international institutions;
- allocate the necessary resources to the Commission for the Prevention and Protection against Discrimination enabling it to fulfil its mandate;
- ensure proper implementation of the Law on civil registry in order to end statelessness.

North Macedonia has ratified most **international human rights instruments**. On 20 March 2023, Parliament ratified Protocol No 16 to the European Convention for the Protection of Human Rights and Fundamental Freedoms allowing the highest courts to request the European Court of Human Rights (ECtHR) to give advisory opinions on questions of principle relating to the interpretation or application of the rights and freedoms established by the Convention.

In June 2023, there were 368 applications pending before the **ECtHR**, which delivered judgments on 8 applications and found breaches of the European Convention on Human Rights in 6 out of 7 cases (compared with 3 in 2022). Most of these related to the right to a

fair trial, the right to liberty and security and the protection of property. In the reporting period, there were 354 new applications allocated to a decision body. Currently, there are 8 cases under enhanced supervision by the Committee of Ministers.

In order for North Macedonia to fully benefit from its observer status in the European Union Agency for Fundamental Rights (FRA), it needs to develop a comprehensive monitoring and data collection system in order to assess the level of implementation of human rights legislation, policies, and strategies. The Ombudsman's Office remains the central body for the **promotion and enforcement of human rights**. Following a protracted delay in the appointment, by Parliament, of five Deputy Ombudspersons, the Ombudsman withdrew the names proposed and a new vacancy was published in May 2023. The Office strengthened its cooperation with CSOs, including those dealing with the protection of rights of the child. Its budget increased by 0.9% compared to 2022. There were no new recruitments. In 2022, the Office dealt with 3 482 complaints of which 3 209 had been received in 2022 and 273 had been rolled over from the previous year. Based on these, the Office initiated 2 173 procedures. Violations were confirmed in 683 cases (31.43% of all cases). Amongst the Office's other activities, it referred 120 cases to higher instances (17.57% of the total) and was still waiting for a response in 57 cases (8.35% of the total).

Regarding the **prevention of torture and ill treatment**, North Macedonia still needs to implement the recommendations published by the European Committee for the Prevention of Torture (CPT) in 2021 and those from previous reports.

The external oversight mechanism for the police, including the prison police, is still not fully functional, with the three CSO representatives provided by statute still to be selected by Parliament. In 2022, the Ombudsman's civil control mechanism acted on 11 complaints, up from 8 complaints in 2021. It submitted 3 requests to the PPO to initiate a procedure for determining criminal responsibility, compared to 1 similar request sent in 2021. In one case, brought before the Skopje Basic Criminal Court, a police officer was found guilty of harassment when on duty. In 2022, the relevant section in the PPO opened 163 new cases (criminal charges) against 299 individuals with police powers or members of the prison police suspected of having committed criminal offences. All reported cases must be investigated without delay and safeguards against ill treatment by the police must be implemented systematically. There needs to be more awareness raising about the external oversight mechanism for the police, and better training opportunities to promote a good understanding of the system.

In 2022, the Department for Internal Control, Criminal Investigations and Professional Standards at the Ministry of the Interior handled 52 complaints on the use of excessive physical force by police officers (63 complaints in 2021), of which 28 were found to be ungrounded and 20 lacked evidence. Four criminal charges were filed with the PPO against 6 police officers for ill treatment when on duty. In 2022, the prisons submitted 129 reports on the use of coercion against sentenced persons to the Directorate for the Execution of Sanctions.

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. ECtHR case law shows that poor detention conditions can be considered grounds for a violation of Article 3 on prohibition of torture. In 2022, the National Preventive Mechanism made 18 visits to police stations, prisons, educational correctional institutions, psychiatric hospitals and places where foreigners and asylum-seekers are accommodated or detained. Issues raised in the previous years remain pending, especially the lack of appropriate working conditions for police officers and the lack

of adequate healthcare in prisons. In addition, the National Preventive Mechanism reported a worrying deterioration in security conditions in the Idrizovo closed ward.

Although infrastructure was renovated and improved in a number of prison facilities, conditions in parts of Idrizovo prison and other detention facilities of the **prison system** remain inhumane. Reported overcrowding raises additional concerns for prison population (2 476 persons sentenced and detained according to data from April 2023). Renovating the most derelict building in line with the CPT recommendations is a priority.

The appointment of a new acting Head of the Directorate for the Execution of Sanctions and an acting Director of Idrizovo prison was a positive step, taking account of their relevant professional backgrounds. However, the requirements of the 2019 Law on executions of sanctions for the selection of prison management were not consistently applied.

Regular inspections of prisons should continue. Corruption in prisons continues to be a recurrent issue. In 2022, a plan for the prevention of corruption in the national prison system 2022-26 was adopted, together with the 2023 annual plan. Despite a positive effort to incentivise medical staff working in prisons with a hardship allowance, the lack of adequate healthcare or measures to treat drug addiction in prisons remains an issue of serious concern.

In order to be fully implemented, the 2021-2025 strategy for developing the prison system requires funds, additional staff and political commitment.

The probation system continues to develop, and the number of cases is increasing. In 2022, the total number of cases handled by the 11 probation offices increased to 475 (451 in 2021). Cooperation should continue between the public and private sector and civil society, and between agencies. Coordination has improved between probation officers, judges, public prosecutors, prison staff and other institutions before a convict is released and this should continue. The concentration of most of the probation cases in the Skopje Basic Criminal Court of, highlights the need for training and awareness raising on the benefits of probation in other courts in the country. No progress was made in adopting amendments to the legal framework regarding alternative sentences and alternative procedures to increase their use. No meaningful progress was made in addressing 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**, full alignment with the General Data Protection Regulation is needed. Areas requiring alignment are: the transfer of personal data; the independence of the Personal Data Protection Agency (PDPA); obsolete parts of old national laws that need to be repealed. The PDPA submitted amendments to the Law on personal data protection (LPDP). The country needs to adopt national legislation in line with the EU Law Enforcement Directive.

Many sector laws that contain provisions on the processing of personal data have yet to be harmonised with the LPDP. Additionally, the PDPA is not always consulted on sectoral laws or implementing legislation and its advice is not always taken on board.

In general, data controllers do not implement the LPDP. In 2022, the Agency received 19 notifications on breaches of personal data rules, compared with 1 notification in 2021.

The Agency's capacity does not match its tasks and powers. The Agency presently works with only 21 staff among which there are only 5 supervisors and 1 IT specialist. The Agency is not fully autonomous financially. State funds allocated to the Agency are just sufficient to cover basic functions without any room for investment in staff professional development or

replacement of outdated vehicles and IT equipment.

In 2022, the Agency carried out 170 supervisions (compared to 304 in 2021), received 300 complaints (540 in 2021), and issued reprimands in 10 cases (17 in 2021). The Agency issued 15 opinions on draft laws and implementing legislation. The Agency delivered 13 training sessions and held 19 coordination meetings with personal data protection officers, in line with good practice. Recent changes in the Law on financial companies led to an increase in the number of complaints. Due to an inconsistency in the Law, there have been complaints by citizens about the misuse of personal data when obtaining ‘fast loans’. The Agency started to issue misdemeanour charges against some of the relevant companies. The Agency’s annual report in Parliament revealed that genuine consideration and follow-up of recommendations was lacking.

Thematic supervision on the interception of communications involved the relevant institutions. Improvements are needed in the field of data protection in the electoral sector.

In the absence of accurate data on the number of cybercrime attacks involving personal data violations and the number of indictments and final judgments regarding these cases, there is a public perception that institutions have weak capacity or commitment to prosecute these cases. There is a strong need for further awareness raising and to foster a culture of personal data protection in all sectors.

Freedom of thought, conscience and religion is guaranteed by the Constitution and is implemented in practice. The law prohibits discrimination on grounds of religion. The Commission for Relations with Religious Communities and Groups is the main government body responsible for cooperation between the government and registered religious communities and is encouraged to continue to foster inter-religious dialogue and cooperation between the religious communities. The government is delaying accreditation of religious secondary schools in the country, which prevents students with diplomas from these schools from accessing higher education.

Freedom of expression

North Macedonia is in between **some and moderate level of preparation** on freedom of expression. Overall, it made **limited progress**. The general context is favourable to media freedom and allows for critical media reporting. The amended Criminal Code and Law on civil liability for defamation raised the overall level legal protection for journalists. However, a number of attacks, threats and some intimidating behaviour towards journalists were noted. Greater transparency is needed regarding media advertising by state institutions and political parties. Reform of the public service broadcaster is required to strengthen its independence, professional standards and financial sustainability. Since December 2018, Parliament has been delaying the appointment of the public service broadcaster’s programming council and media regulator’s council. Working conditions for journalists remain challenging.

The Commission’s recommendations from last year remain valid. In the coming year, North Macedonia should:

- revise the legal framework governing the media to bring it into line with the EU *acquis* and European standards, in particular on competition and state aid rules, intellectual property rights, part of the EU Single Market;

- step up implementation of the strategy to reform the public broadcaster and finalise appointments for the public service broadcaster's programme council and the media regulator's council;
- continue to promptly address all threats and acts of violence against journalists and ensure perpetrators are brought to justice.

The overall environment enables freedom of expression and critical reporting. The legal framework was strengthened: the amended Criminal Code and the Law on civil liability for defamation, adopted in November 2022, have increased legal protection for journalists. Systemic challenges remain to be addressed: deep media polarisation, physical and verbal violence against journalists, working conditions for media workers, especially their labour and social rights. The laws encompassing the functioning of the media need to be implemented. Digital technologies and disruptions on the media market point to the need for a general strategy on reform of media in cooperation with all stakeholders.

Intimidation of journalists

In 2022, the Ministry of the Interior recorded 17 cases of attacks against journalists and opened investigations. The Association of Journalists recorded 14 incidents involving journalists, of which 4 involved physical attacks or illegal detention, and 11 involved verbal attacks, threats and other forms of intimidation. The Agency for Audio and Audiovisual Media Services and the media associations regularly condemned such incidents. In February 2023, Parliament adopted amendments to the Criminal Code increasing protection for journalists while performing their professional duties. The Public Prosecution Office in Skopje appointed of a prosecutor to monitor the proceedings in response to attacks on journalists. This is a positive development. The public prosecutor appointed has the authority to monitor proceedings in which journalists appear as injured parties, witnesses or reported persons while performing their work. The Ministry of the Interior appointed a contact person at the Department of Cybercrime and Digital Forensics making it easier for journalists to report incidents involving cyberbullying and other online threats to their safety. The authorities need to ensure impartial, speedy and effective investigations in bringing perpetrators to justice. Politicians and public officials on different occasions used unacceptable language against journalists. Online harassment and verbal attacks continued, especially on social media, with an increase in cases against female journalists. Old cases of physical attacks against journalists remain unresolved.

Legislative environment

The Law on audio and audiovisual media services is broadly in line with the EU *acquis*, following the legislative changes of July 2023. Furthermore, the legal framework encompassing the functioning of the media needs to further improve, in line with EU *acquis* and international standards. The OSCE ODIHR recommendations on the electoral legal framework have still to be addressed. The concerns raised by media associations about state-funded political advertising in the media need to be addressed in line with the EU *acquis* and European best practices.

In November 2022, a group of parliamentarians proposed amendments to the Law on audio and audio-visual media services that impose, on the government and local authorities, duties to organise and fund public interest campaigns. However, the media regulator and some associations of journalists criticised the proposals, stressing that they could undermine the independence of the media and disrupt the media market. More sustainable solutions are needed to support media viability.

In 2022, the government continued to reduce funding for the broadcasting sector. Parliament, once more, failed to appoint new members to the Public Service Broadcaster's Programme Council and Media Regulator's Council. The terms of office of the current members of both councils was extended until Parliament elects new members.

Implementation of legislation/institutions

In 2022, the media regulator continued its supervisory role over various forms of media and over illicit media concentration and ownership. The regulator continued to work with CSOs and media outlets to promote media literacy and human rights topics such as gender equality and respect for the rights of persons with disabilities by broadcasters.

The financial stability and independence of the media regulator need to be strengthened. This is even more important since it received additional responsibilities following the alignment of the national legislation with the EU Audiovisual Media Services Directive.

In 2022, the Council of Media Ethics received 78 complaints about breaches of ethical standards. The most frequent complaint, accounting for 49.37% of cases, was about violations of the legal provision that *'the journalist should publish accurate and verified information'*. Though hate speech is prohibited online and offline, it persists online. In 2022, the association of journalists expressed particular concern about hate speech and insults directed at journalists and media workers by politicians and other public office holders. The number of defamation and insult lawsuits involving journalists was more than double the number for last year: 54 cases in 2022 against 20 in 2021.

Public service broadcaster

Reform of the public service broadcaster was further delayed. Despite the 2021 Law on audio and audiovisual media services, in 2022, the authorities once again used discretionary powers granted by law to cut funding to the broadcasting sector. Budgetary fluctuations create uncertainty in planning. The authorities need to provide sufficient and stable funding for the public broadcaster. No solution was found to settle the public service broadcaster's old debts towards state institutions. Further efforts are needed to ensure the independence and sustainability of the public broadcaster, both financially and legally.

Economic factors

The COVID-19 pandemic, Russia's war of aggression against Ukraine and the global economic and energy crises created additional pressures on the media industry. The authorities supported media outlets through a range of economic measures, including a reduction in the broadcasting licence fee for radio and television for 2023. Media associations continued to raise concerns about media integrity and editorial independence, and indicated the need for an assessment of the impact of ownership concentration on media pluralism and editorial independence. They also pointed to the risk of individuals or a group of media owners having excessive influence on media outlets. Further support is needed for the development of professional and investigative journalism. Media independence should be further safeguarded.

In November 2022, a group of MPs submitted amendments to the Law on audio and audiovisual media services to lift the ban on government advertising on commercial channels. Some media associations oppose this, fearing it could undermine the independence of the media and disrupt the media market. Media associations continued to express concern over legal provisions enabling political parties to use state funding to advertise in the media and over the lack of transparency of party-political advertising generally and on online media

platforms in particular. In 2022, there were five daily newspapers, including two in Albanian. The authorities continued to support the print media with just over EUR 300 000 in funding.

As required by law, the media regulator publishes a register of broadcasting and print media, including information on the number of employees and type of employment. The number of online media outlets is estimated at between 150 and 200.

Internet

Online media are not governed by any specific law. There is a shift in the advertising market towards digital, with growing threats from disinformation, breaches of intellectual rights, and a lack of transparency concerning paid political advertising. Certain online media outlets are subject to influence from political figures. Political parties are not obliged to disclose their spending on social media campaigns. There is inadequate oversight regarding the utilisation of personal data for election campaign purposes.

The public's understanding of the risks of disinformation needs to be improved as do and media literacy skills throughout society. Current counter-disinformation measures are not very effective.

Stronger self-regulation is needed for online media, in particular through promotion of the registry of online media (promedia.mk) and the development of professional standards for online journalism. With regard to access to information, the Agency for the Protection of Free Access to Public Information received 343 complaints, of which 195 were predominantly from CSOs, while 148 complaints were filed by individuals.

Freedom of artistic expression

Freedom of artistic expression is broadly guaranteed.

Professional organisations and working conditions

In 2022, the Independent Trade Union of Journalists and Media Workers registered various breaches of labour rights, notably the high number of short-term or part-time contracts with no health and social insurance, no right to annual leave, unpaid overtime and compulsory night shifts. Dialogue with the government needs to be improved. Advocacy aimed at improving working conditions in the media is hindered by economic challenges in the sector and opposition to the unionising of journalists. Further efforts are needed to protect journalists' professional and labour rights, freedoms and security, in particular by strengthening the legal framework for the work of unions. Many journalists have no choice but to accept precarious contractual arrangements. This, together with difficult socio-economic conditions in the sector, contribute to a culture of self-censorship and create opportunities for media owners to influence editorial policy.

The Agency for Audio and Audio-visual Media Services launched a new specialised website on gender equality and media, aiming to serve as a resource centre for journalists. Analysis showed that there are too few women executives in the private media. Additional measures to promote gender equality in the media industry are needed.

(See also Chapter 10 – Digital transformation and media)

The right to **freedom of assembly and association** is guaranteed by the Constitution and the government ensures that the legislation is thoroughly implemented. The country's legal framework is largely aligned with its international obligations in terms of freedom of

association. Further efforts are needed to implement rulings of the ECtHR relating to the registration of associations.

Following the amendments to the current Law on associations and foundations, introduced in November 2022, the Central Registry rejected the use of the names ‘Ivan Mihailov’ and ‘Tsar Boris III’, thus removing the two Bulgarian cultural associations in Bitola and Ohrid from the list of associations and foundations that are allowed to legally operate in the country. This followed an assessment by the Commission for the Uses of Names, which established that the naming of the two cultural clubs after controversial historical figures had triggered a reaction in society. The drafting of new legislation on associations and foundations should be subject to a broad consultation process with civil society and concerned stakeholders. The law should aim to apply the highest international standards and guidance in this area, including by consulting the Venice Commission prior to the adoption of the law, in line with the recommendation of the European Commission against Racism and Intolerance (ECRI).

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

No significant progress was made with regard to **property rights**. Procedures remain lengthy and expensive, due to the lack of an efficient central institution and the lack of coordination between institutions dealing with these rights. There was no progress with the national strategy on property rights. At municipal level, property registers are not regularly updated and are still kept in analogue format. 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 covered the whole country. The administrations that handle restitution, compensation and legalisation processes still struggle to manage their caseload, mainly due to understaffing and 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.

Non-discrimination principles are enshrined in the Constitution and national legislation. The authorities should align the national legal framework with anti-discrimination provisions, based on the Law on promotion and protection against discrimination. On the back of the 2021-2026 strategy for equality and non-discrimination, the authorities adopted an action plan for implementation of the strategy, accompanied by a financial forecast. The Commission for the Prevention and Protection against Discrimination continued to be proactive, despite existing logistical and financial challenges. The Commission’s annual budget was slightly higher than the previous year, but this is considered insufficient to enable the Commission to perform its functions. Among the issues hindering the Commission’s work are: two unfilled commissioner posts (out of seven in total), a lack of financial independence, low numbers of administrative staff and some limitations in the current anti-discrimination Law. Parliament once more failed to agree on the appointment of commissioners, which affects the enforcement of the Law on the prevention of and protection against discrimination. The lack of diversity in the Commission, notably as regards gender and persons with disabilities, continues to attract criticism from certain commissioners and civil society. Despite existing challenges, in 2022, the Commission worked on 248 complaints and 7 *ex officio* procedures and issued two recommendations. It confirmed discrimination in 30% of cases, particularly in public information and media and labour relations. Based on its wide-ranging powers, the Commission submitted 14 requests for misdemeanour procedures. In response to a request made by the Commission, a court passed judgment confirming the discrimination findings.

The legal framework on combating hate speech needs further improvements, in line with the European Commission against Racism and Intolerance (ECRI) General's Policy Recommendation No 15 on combating hate speech. Furthermore, the country should fully address ECRI's findings and recommendations in its sixth report of September 2023.

The availability of official data on hate crime remains sporadic, despite efforts by the authorities to develop a recording and data collection framework. A civil society database continues to register hate crime cases successfully. Among law enforcement and criminal justice officials, a greater capacity to prevent and prosecute all instances of violence, hate crimes and hate speech is needed. Strengthening of the capacities and understanding of law enforcement officials and legal experts is needed, as part of a wider effort to foster a more tolerant and non-discriminatory culture in society.

In October 2022, 49 members of the National Coordination Body for Equality and Non-discrimination were appointed. The Ombudsman's Office worked *ex officio* on three cases and received 76 complaints on grounds of discrimination (43 in 2021), predominantly concerning work and labour relations, and it issued 16 opinions. The Ombudsman's Department for Anti-Discrimination Protection remains understaffed.

In 2022, the Ministry of the Interior opened investigations into 11 online crimes. CSOs report that hate speech is on the rise in the country. There should be a systematic practice of collecting data and addressing hate speech and hate crime.

Some progress was made on promoting **gender equality** through further alignment with the Istanbul Convention on Preventing and Combating Violence against Women and Domestic Violence and developing a policy framework for integrating gender perspectives and aligning with the EU gender equality *acquis*. A national strategy for gender equality was adopted in July 2022, together with an action plan for 2023-2024. In February 2023, amendments were made to the Criminal Code, regulating criminal acts of gender-based violence, including stalking and hate crimes based on gender identity and gender differences. The Ministry of Defence continues to implement the operational plan for implementing the Second National Action Plan on the UN Security Council Resolution 1325 *Women, Peace and Security* (2020 - 2025). However, there is no progress in implementing the objective on communication and capacity building for the implementation of Resolution 1325 at local level, including the local self-government units and the Association of the units of local self-government. The cross-institutional mechanisms for implementing and monitoring gender equality policy need to be strengthened with an improved structure, technical capacity, adequate funding and trained professionals in line with international standards. The Law on Gender Equality has not been adopted yet. This is largely due to a growing anti-gender movement countrywide. Anti-gender campaigns, at times supported by local government officials, religious and political leaders, raise serious concern.

Implementation of the Istanbul Convention remains a challenge. While the Law on the prevention of and protection from violence against women and domestic violence was adopted in 2021, the implementing legislation was not adopted. Implementation also suffers from the lack of adequate funding (including for the National Coordinative Body on Domestic Violence), effective operating procedures and programmes for the reintegration of victims of violence.

Operational cross-institutional protocols are missing, and the police and health workers still struggle to assess the consequences of violence and respond to them. Victims of gender-based and domestic violence faced several challenges in accessing health services due to a lack of adequately trained staff and limited accommodation facilities. CSOs providing services for

victims outside the capital are still entirely dependent on donor funding.

Persistent gender gaps exist also in employment and in labour force participation. Among the working age population, 46% of women have consistently been out of the labour force compared to 23.3% of men. The gaps are even wider for marginalised women. Roma women aged between 40 and 44, in particular, have the highest unemployment rate. Women registered as individual farmers are excluded from the Law on health insurance when it comes to compensation due to illness, workplace injury and absence due to pregnancy, birth and motherhood.

In addition, 50.5% of women are out of the labour force because of their caring responsibilities towards other people, compared to 1.7% of men. This shows that unpaid care work directly contributes to inequalities in women's participation in the labour force and women's exclusion more generally. The adoption of a draft Law on labour relations, which includes shared parental leave, and a Law on harassment at the workplace has been pending for a number of years now.

The lack of reliable sex disaggregated data across sectors is a significant obstacle to developing evidence-based policies and proper measures. The first national gender equality index, published in 2019, has not yet been updated. The relevant institutions lack the capacity and coordination needed for proper gathering and analysis of gender statistics.

Various legislative, institutional and policy measures protect the **rights of the child** in line with international standards and EU *acquis*. However, a better legislative framework, more funding and more human resources are needed across most sectors. Further reforms and better interinstitutional cooperation are needed to ensure respect for children's rights to education, health, protection from violence, non-discrimination, etc.

The preparation of a national action plan for children was further delayed. North Macedonia still has no national body responsible for coordinating all policies relating to implementation of the UN Convention on Child Rights and the Optional Protocols. Family law provisions on adoption and marriage under the age of 18 fall short of international standards. This has to be addressed as a matter of urgency. The third optional protocol on communications procedure is still not ratified. In 2022, 252 complaints were filed with the Ombudsman related to breaches of children's rights, 12 of which concern children with disabilities. The Ombudsman issued 103 opinions, which were accepted in 87 cases. Awareness raising is needed on the possibility for children to file complaints themselves. Further action is needed to strengthen the capacity, in particular, the human and financial resources, of the Ombudsman's Department for the Rights of the Child and Persons with Disabilities. The Ombudsman also needs to be more independent and to have a stronger remit.

Children need to be more involved in the making of policies related to or affecting children's rights. The best interests of the child should be the primary consideration when institutions devise policies relevant to children and this principle should be incorporated into all relevant laws and policy documents. Mechanisms for protecting children from violence need more support, in the form of sufficient funding and implementation of the national strategy to end violence against children (2020-2025). To ensure a cultural shift and dismantle the social acceptance of violence against children, appropriate educational support for parents is needed, aimed at strengthening positive, non-violent parenting skills. Measures are needed to strengthen the child protection system and improve the collection of data on violence and abuse, both online and offline. There is currently no provision for specialised therapy and child-friendly rehabilitation for children who are victims of violence. Reliable and

comparable data disaggregated by age and sex is essential for the implementation and monitoring of the National Strategy on addressing violence against children.

There is lack of up-to-date information on measures undertaken to combat child poverty and to assess the impact of the existing legal protection. Despite social protection measures aimed at combating the socioeconomic consequences of COVID-19, further efforts to prevent and mitigate the effects of child poverty are needed. Authorities need to commit to making changes to the social protection system to be more child-sensitive and based on a child-centred service delivery model. Cooperation at local level needs to improve among stakeholders, to involve child rights CSOs and children themselves in decisions that affect them. The capacity of social work centres needs to be expanded, so that they can 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 efforts to include children with disabilities in regular schools and pre-schools. However, there are insufficient financial and human resources to implement the Law on primary education and the social model of disability assessment based on human rights. Despite improvements in the legal framework, some issues remain, relating to the collection of centrally disaggregated data on children with disabilities, the lack of suitable facilities, the lack of community services, and prejudice. This leads to marginalisation and discrimination against children with disabilities in terms of access to education, health and social protection services. With regard to children without parental care, community-based services and sub-regional centres for foster family assistance were made available throughout the country and no children are in institutionalised care. However, the authorities should continue to reform the child protection system in ways that would prioritise family placement for children over small group homes.

The authorities identified 7 child victims of trafficking in human beings in 2022. More measures are needed to ensure effective support for vulnerable children, including protection from sexual exploitation. The authorities need to set up training programmes on children's rights for all professionals. Continuing professional development training should be provided to judges and public prosecutors on issues such as discrimination based on disability, gender-based violence against women, and violence against children. The National Action Plan and Strategy for the fight against trafficking in children (2021–2025) should be aligned with the Lanzarote Convention.

The new Law on justice for children was adopted, in line with international standards and the EU *acquis*, including the Directive on procedural safeguards for children who are suspects or accused persons in criminal proceedings.

The administration of child justice was enhanced by the adoption of a 2022-2026 strategy on justice for children and a 2022-2023 action plan, further promoting alternative measures to custody and children's resocialisation. There is a need for concrete measures supporting the judicial training providers and all relevant professionals' bodies to address the rights of the child and child friendly and accessible justice in their activities. Legislation needs to be amended to find child-friendly solutions for educational correctional measures for girls. The educational correctional facility in Volkovija hosts only young males; in the absence of a female section, there is no long-term provision for statutory education for girls. There is a need for regular monitoring and inspection of the educational correctional facility in Tetovo and Ohrid prison, to ensure that the authorities provide proper protection and other services for the children detained there. Access to justice and legal representation is still inadequate, as is the capacity of public officials involved with child victims, child witnesses and children

in conflict with the law. Juvenile justice professionals need to take a more consistently inter-sectoral and streamlined approach to implementing the legal framework.

The rights of **persons with disabilities** are constitutionally guaranteed and set out in greater detail in the Law on prevention and protection from discrimination. A number of other laws specifically regulating social policy and assistance are also relevant in this context. The new 2023-2030 national strategy for the rights of persons with disabilities was adopted, along with the 2023-2025 action document. Rules were adopted for the functional assessment of children with disabilities according to the international classification of functioning, disability and health. The rules are in line with the Convention on the Rights of Persons with Disabilities (CPRD) and will enable assistance to be given based on children's individual needs. Implementation of the 2018-2027 national deinstitutionalisation strategy continues. This involves a transition from institutional care to family and community-based care with support from social services. The national coordination body for the implementation of the CPRD consists of representatives from the relevant ministries and two representatives of CSOs for persons with disabilities. A team for monitoring implementation has been incorporated into the Ombudsman's Office. The new Law on primary education promotes the full inclusion of students with disabilities by transforming special schools and classes into learning support centres. There are no more children with disabilities in large-scale social care institutions. To support the mainstreaming of education for children with disabilities, 725 education assistants are now employed, covering 850 children. A number of adults with disabilities are being gradually rehoused in 57 newly established residential units for supported living. Home care and day-care services have also been set up. (*see Chapter 19 – Social policy and employment for aspects related to social services, assistance and benefits*).

Negative stereotypes and hate speech against **lesbian, gay, bisexual, transgender, intersex and queer (LGBTIQ)** persons prevail in society. There was no progress in removing negative stereotypes and hate speech toward LGBTIQ persons from textbooks, nor in adopting a national action plan for LGBTIQ as part of systematic promotion of equality and prevention of discrimination. There was no progress in implementing the ECtHR judgment (January 2019) concerning legal gender recognition by amending the Law on the civil registry. The legal framework does not allow for the official recognition of same-sex couples.

No progress was made in investigating the attacks on the LGBTIQ support centre which took place in 2012, 2013 and 2014. Law enforcement agencies did not pursue the investigation into the acts of vandalism on the office of an LGBTIQ organisation in Tetovo or into death threats against activists. The court in Strumica handed down a six-month prison sentence for an attack against an LGBTI activist. In June 2023, the authorities facilitated the successful organisation of a LGBTIQ pride parade. However, CSOs and LGBTIQ activists criticise the authorities for shrinking the space for CSOs, especially those working on sexual and reproductive rights. Growing anti-LGBTIQ rhetoric, at times involving political and religious figures, has led to increased intolerance and hate-speech within society. Serious efforts are needed to enable LGBTIQ persons to enjoy their rights.

Concerning **procedural rights**, the country remains partially aligned with the EU *acquis*. The Law on compensation for victims of violent crime was adopted by Parliament and entered into force in May 2023.

The country has a solid network providing primary and secondary free legal aid to those 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 were 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. Most of all, the authorities need to revise the eligibility criteria for legal aid in criminal proceedings (for mandatory defence, defence of indigent persons and representation of the interests of victims of crime). The budget allocated for legal aid in 2022 amounted to EUR 616 304, while the budget implemented amounted to EUR 521 612 (a 0.7% increase compared with 2021).

The country is not yet aligned with the European Protection Order Directive. Further amendments are needed to the Law on criminal procedure to ensure alignment with the Victims' Rights Directive (for instance, regarding the individual assessment of victims). The Law on the payment of monetary compensation to victims of violent crimes entered into force in May 2023. This includes victims of trafficking in human beings. The authorities should also take concrete steps to adopt legislation in line with the Directive on procedural safeguards for children who are suspects or accused persons in criminal proceedings.

As regards the **protection of minorities**, the authorities continued to partially implement the national strategy to promote a multi-ethnic society, 'One Society for All and Interculturalism'. However, further efforts are still needed to ensure sufficient political support, coordination between relevant authorities, adequate funding and other resources, in order to promote equal opportunities and to improve social cohesion in the country. The Language Implementation Agency and the Agency for Community Rights Realisation remain under-staffed and under-funded. There is a need for the training and recruitment of translators and interpreters. Further efforts are needed to strengthen the financial independence of these two institutions, which will enhance their ability to resist political influence. Representation of non-majority communities at local level remains poor. The authorities should implement the recommendation issued by the Advisory Committee of the Framework Convention on National Minorities to ratify the European Charter for Regional or Minority Languages, signed in 1996. The authorities need to organise a public consultation and top adopt in a timely manner a new strategy building on the concept of 'one society and interculturalism', for 2023-2025.

There was some progress with inclusion of **Roma**. With the 2022-2030 Roma inclusion strategy now in place, the action plans were adopted in October 2023 covering anti-gypsyism, education, employment, social care, healthcare, housing, civic registration and culture. An adviser to the Prime Minister overseeing Roma inclusion issues was also appointed as the National Roma Contact Point. Enrolment of Roma children in kindergartens increased slightly by 1.25% from 420 last year to 462. In the 2022/23 school year, 4 429 Roma children enrolled in the first grade of primary education and 202 children were identified by CSOs as not registered. The annual dropout rate for Roma children in primary schools is still relatively high. According to the Ministry of Education and Science, 93.17% Roma pupils remained in school after the academic year 2021/22, while 6.83% left. 89.08% of Roma children of school-leaving age successfully completed their secondary education. The employment of 35 Roma education mediators is a positive step, while segregation in schools remains a significant issue. There are no systematic measures in place to prevent irregular attendance or to reintegrate children who have left education, or systematic enforcement of compulsory education at primary and secondary level as required by the law.

Access to preventive and curative health services, reducing mortality, addressing discrimination and unequal treatment by health professionals and women's health remain key challenges in the field of Roma healthcare. There is a slight decrease in the number of unemployed Roma. Measures were introduced to target Roma individuals with low levels of

education and promote their inclusion in the labour market. 969 Roma were included in the Youth Guarantee scheme. A geographic mapping of Roma settlements in five municipalities identified areas where housing interventions are needed. Most Roma settlements are still not covered by urban plans. The enacted amendments to the Law on civil registry, the Law on Registering the Place of Residence and the Law on ID pave the way to resolving all known cases of statelessness and fulfil the country's international obligations. They guarantee the right of registration for children born in the territory of North Macedonia within 45 days of birth, regardless of the status of their parents. Ending statelessness can have a significant positive impact on the affected Roma and society as a whole.

Cases of discrimination and police brutality based on Roma ethnicity were recorded, particularly against young Roma, girls and Roma in detention. Other barriers such as a lack of digital skills and access to technology continue to prevent Roma people from fully enjoying their rights and accessing most services, most of which are now digital (healthcare, education, employment, social protection etc.). Additional efforts and resources are required to speed up inclusion of Roma, to tackle anti-gypsyism, discrimination and educational and spatial segregation, and to reduce inequalities with the rest of the population. The government is working on implementing the priorities identified in the Poznan Declaration and on priority measures identified in the EU Roma bilateral seminars. Overall, while progress has been made, further efforts are needed to fully promote inclusion and protection of Roma and tackle anti-gypsyism and discrimination, including multiple and structural discrimination, against Roma. Systematic participation, empowerment and capacity building are required.

Citizenship rights

In December 2012, North Macedonia amended the law allowing the **acquisition of citizenship for special economic interests**. The scheme could pose migratory and security risks, especially given the different criteria for granting citizenship. In line with the Commission's recommendation on this matter in its sixth report under the visa suspension mechanism, North Macedonia should refrain from systematically granting citizenship based on special economic interest (investor citizenship schemes), as such schemes pose risks as regards security, money laundering, tax evasion, terrorist financing, corruption and infiltration by organised crime, and are incompatible with the EU acquis.

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. Cooperation in the field of counterterrorism, and the prevention and countering of violent extremism was further upgraded by the new arrangement for the implementation of a joint action plan on counterterrorism. The national strategies for countering terrorism (2023-2027) and countering violent extremism (2023-2027) were adopted in May 2023, along with the related action plans. Registration of migrants needs to be done 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. A contingency plan to manage large migratory flows needs to be finalised and adopted. The Status Agreement for operational cooperation in border management with Frontex entered into force on 1 April 2023. This made it possible to launch a joint operation

with the deployment of officers from EU Member States to provide support with border control and the management of irregular migration and cross-border crime. Last year's recommendations were only partially addressed, and remain valid. In the coming year, the country should in particular:

- continue to proactively reform the structures responsible for fighting organised crime with a focus on increasing operational capacity and cooperation;
- ensure effective implementation and monitoring of the national strategies for countering terrorism (2023-2027), countering violent extremism (2023-2027) and of the joint action plan on counterterrorism;
- systematically register migrants and improve protection-sensitive profiling, adopt a more systematic approach to fighting migrant smuggling and align national legislation with the EU's list of visa-required countries.

Fight against organised crime

North Macedonia has **some level of preparation** in the fight against organised crime. **Some progress** was made in the area of the fight against terrorism and violent extremism. The country continues to have a good level of operational cooperation with EU Members States, non-EU neighbouring countries, Europol and Eurojust. A new Law on money laundering and financing of terrorism entered into force in July 2022. Certain forms of crime, such as money laundering and financial crimes still need to be addressed more effectively.

The capacity of the National Coordination Centre for the Fight against Organised Crime needs to be improved. Coordination remains crucial for all stakeholders involved in fighting organised crime, including coordination between prosecutors and police.

Most of the recommendations from last year remain valid. In the coming year, North Macedonia should in particular:

- improve its track record on investigations, prosecutions and rendering convictions in organised crime and money laundering cases with a focus on confiscation of proceeds of crime;
- adopt and implement the necessary legislation for an Asset Recovery Office;
- strengthen human and financial capacities of the law enforcement agencies investigating organised and serious crimes, financial crimes and money laundering.

Institutional set-up and legal alignment

The number of police officers increased in 2022, reaching 347.6 per 100 000 inhabitants (330 in 2021), which is higher than the EU average of 335.3/100 000 (Eurostat, 2019-2021).

Key **institutions** in the fight against organised crime include the specialised police units within the Ministry of the Interior, which have jurisdiction and competence over different types of organised crime and financial investigations. Medium-term priorities and objectives for the development of the police force are determined in the Ministry of the Interior's strategic plan for 2022-2024. In 2022, 47% of the planned activities were implemented.

In 2018 and 2019, North Macedonia comprehensively reformed its intelligence services in line with the findings of the report by the Senior Experts' Group on Systemic Rule of Law Issues. The former Bureau for Security and Counterintelligence (UBK) was replaced by the National Security Agency (NSA) which, contrary to its predecessor, is no longer under the authority of the Ministry of the Interior and does not have police powers. The NSA is located

within the premises of the Ministry of the Interior, which is against international standards and continues to be a matter of concern.

The Operational and Technical Agency can be authorised by a court order to monitor communications as part of a criminal investigation or in the interests of state security and defence or as part of monitoring of mobile operators. It does not yet have its own independent premises and is located in a building owned by one of national telecommunications operators. The Agency has modernised its technical systems and started to digitalise the procedure for obtaining court orders. The mandate of the Director of the OTA expired in September 2023, leading to a gap in the functioning of the agency until the appointment by the Parliament of a new director.

The National Coordination Centre for the Fight against Organised Crime (NCCFOC) is operational but, to ensure its proper functioning, permanent staff should be recruited to cover positions currently filled by temporary staff. A database for better data management and software for information analysis have been developed and are expected to be fully operational before the end of 2023.

There are three structures with a role in conducting **financial investigations**: the Financial Police Office within the Ministry of the Interior, responsible for financial crimes under police jurisdiction; the Financial Intelligence Office within the Ministry of Finance, responsible for intelligence analysis related to money laundering and terrorism financing; and the Sector for Control and Investigation within the Customs Administration, responsible for investigating crimes within its jurisdiction.

The Asset Recovery Office is part of the Unit for International Legal Assistance in the Public Prosecutor's Office. Though preparations have been underway since 2021, the Office, is not yet regulated by law. and functions on the basis of standard operational procedures.

Both the Ministry of Defence and the Ministry of the Interior have responsibilities for cybercrime and cybersecurity. The army is also developing capacity for cyber defence and cooperates with international organisations in the field of global cyber security and hybrid threats. The Ministry of the Interior's Sector for Computer Crime and Digital Forensics carries out investigations into cybercrime, using digital forensics.

Regarding the **legal framework**, the Criminal Code is regularly updated to stay in line with EU and international standards. Its scope has been extended to criminalise activities such as trafficking in human beings, online child pornography, drug trafficking, computer crime. More recently, provisions were added to bring the Criminal Code into line the Council of Europe's Convention on Preventing and Combating Violence against Women and Domestic Violence.

The country is a signatory to the 'Convention on Cybercrime on Enhanced Cooperation and Disclosure of Electronic Evidence' (Budapest Convention). North Macedonia signed the Convention's second additional protocol in May 2022, but it has not yet been ratified by Parliament.

North Macedonia is implementing a wide range of **strategic documents** concerning organised crime and other forms of serious crime, based on the corresponding EU strategies. These include: a national strategy against human trafficking and irregular migration together, accompanied by an action plan (2021-2025), a national strategy against children trafficking (2021-2025), a national drug strategy (2021-2025), a strategy for building capacity to conduct financial investigations and confiscate property, with action plan (2021-2023), a national

strategy for control of small arms and light weapons, with action plan (2022-2024), and a national strategy for preventing money laundering and terrorism financing (2021-2023).

In line with Europol methodology and policy, in 2022, the Ministry of the Interior prepared and presented a 'national serious and organised crime threat assessment (SOCTA) 2021'. Launched at the beginning of 2022, it defines the priorities in the fight against organised and serious crime.

Concerning **trafficking in human beings**, in compliance with the recommendations from the Group of Experts on Action against Trafficking in Human Beings, in November 2022, a Law on state compensation for victims of violent crime was adopted, also covering the crime of human trafficking. In March 2023, the Ministry of the Interior and the State Labour Inspectorate signed a cooperation memorandum at the initiative of the National Anti-trafficking Commission, to strengthen cooperation on prevention, detection and suppression of trafficking in human beings for the purpose of labour exploitation, and to ensure timely protection of victims of labour exploitation and child victims of all forms of exploitation.

Concerning **small arms and light weapons**, national legislation is not yet harmonised with EU directives and regulations. After the adoption of the Law on Development, Production and Trade in Military Goods, implementing legislation was finalised in 2022. The Law on Weapons of North Macedonia is partly aligned with Directives 2021/555(EU) and still pending the alignment with Implementing Directive 2019/68 on marking of firearms and Implementing Directive 2019/69 on technical specification of alarm and signal weapons. The responsible authority is the Ministry of Interior. There is a national commission for the control of weapons, that cooperates with the relevant national authorities (ministries of interior, defence, justice, finance (customs administration), foreign affairs, and agency for seized and confiscated property (for the destruction of weapons).

In the framework of the actions in Western Balkans within the EU Action Plan on firearms trafficking, which correspond with the goals of the Regional Roadmap to better control SALW in Western Balkans, North Macedonia improved the investigation and record keeping of firearms capacities and made some progress with limited destructions of the confiscated firearms and ammunition and surplus ammunition. Several activities related to the implementation of the Roadmap continued to be limited, including awareness raising, outreach and education on the dangers and risks related to the misuse, illicit possession, and trafficking of firearms/SALW, as well as reduction of illicit firearms through legalization, voluntary surrender and deactivation.

Concerning **child sexual abuse**, the Cybercrime and Digital Forensics Section liaises with the Interpol I-24/7 Child Sexual Exploitation-ICSE network.

Implementation and enforcement capacity

In 2022, 21 investigations on organised crime groups were initiated involving a total of 102 persons (compared with 17 investigations in 2021); of these, 13 are still ongoing (compared with 11 in 2021) and 8 were closed in 2022 (six in 2021), of which 1 was transferred and 1 dismissed. Seizure measures were applied in nine cases. 27 individuals were indicted, and eight verdicts were reached, resulting in prison sentences or suspended sentences with probation. The external oversight mechanism is being implemented. Within the Public Prosecutor's Office, the Special Department for investigation and prosecution of crimes committed by persons with police powers and members of the prison police has only two investigators. Two posts are vacant. In the reporting period, the Department registered 183 cases against 299 individuals (135 in 2021), 25 verdicts were reached / penalties handed down, eight cases were transferred, and 74 cases were dismissed.

The NCCFOC is operational, and its role and activities increased in 2022. All institutions participating in NCCFOC nominated their representatives in 2022. The Centre: facilitates the exchange of data and information among the affiliated institutions; shares information among institutions on a 'need-to-know' basis; coordinates activities among institutions in cases where more than one received a request about a natural or legal person; and supports the international exchange of information, especially between police forces.

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

The country participates in **international police cooperation** activities through the main cooperation channels (INTERPOL, Europol and the South-Eastern Law Enforcement Centre (SELEC)). The level of cooperation and exchange of information with Europol is good and increased in 2022. North Macedonia is participating in Europol analysis projects in the field of organised and serious crime and combating terrorism. The Ministry also provided input for the development of Europol's EU serious and organised crime threat assessment (SOCTA). In 2022, the relevant authorities participated in activities forming part of Europol's analysis project 'Hydra', on Islamic terrorism.

The National Central Bureau (NCB) INTERPOL Skopje is working on expanding INTERPOL I-24/7 communication system. Connectivity has been provided with some of the databases available in I-24/7. The national authorities and NCB INTERPOL are working to expand access to other databases in that system.

In 2022, 1 887 new cases were opened in the International Police Cooperation Sector (1 429 at NCB INTERPOL, 254 at Europol, 151 at Liaison Officers, and 53 at SELEC). Most cases concern the illegal drug trade, illegal arms trade, financial and computer crime, violent crime, motor vehicles, irregular migration and human trafficking, computer crime and missing persons.

Operational international police cooperation with neighbouring countries includes Albania, Serbia, Greece and Bulgaria, and has been conducted through established channels: NCB INTERPOL, Europol National Units, and SELEC.

North Macedonia is participating in the European Multidisciplinary Platform against Criminal Threats (EMPACT). In 2022, the country participated in 26 operational actions, and was co-leader of one operational action (part of the operational action plan (OAP) on firearms). In 2023, North Macedonia has substantially increased its participation in EMPACT and is involved in 98 operational actions. It is co-leader of four operational actions (two as part of the OAP on firearms trafficking, 1 as part of the OAP on migrant smuggling and 1 as part of the OAP on cocaine, cannabis and heroin trafficking). North Macedonia continued to participate in EMPACT joint action days.

Cooperation with CEPOL has been based on a Working Arrangement since 2017. In accordance with the EU strategic training needs assessment, 27 specialised/resident training courses were developed by CEPOL, the EU agency for law enforcement training, and were

attended by 150 representatives from the Ministry of the Interior in 2022. Law enforcement officers also participated in the exchange programme training organised by CEPOL. It is recommended that the authorities of North Macedonia, with the assistance of CEPOL, design, prepare and organise targeted training to address the priority training topics at national level as follows: Counter Terrorism: Prevent; Counter Terrorism: Protect; Counter Terrorism: Respond; Firearms trafficking; and Environmental crime.

Since 2014, an **intelligence-led policing** model has been implemented in the Ministry of the Interior's Public Security Bureau. The Ministry is now able to detect current needs and set strategic priorities and activities for each year, for greater efficiency in fight against organised and serious crime.

The Financial Intelligence Unit conducted four financial investigations against 44 individuals and four entities in 2022. A total of nine law enforcement officers were assigned to the unit. There is still a need for additional technical equipment and other material. Access to several databases was provided and negotiations are underway to provide access to the cadastral (property) register database.

The Financial Police Office (FPO) currently has five positions for investigators occupied, with four still vacant. A standard operating procedure for conducting financial investigations was adopted in July 2022. It conducted 25 financial investigations in 2022. The FPO has access to several databases of other institutions. An additional database is currently being developed which connects the FPO database to those of the Customs Office, the Public Revenue Department and the Ministry of the Interior.

The Sector for Control and Investigation within the Customs Administration initiated a total of 14 financial investigations against 22 individuals and nine legal entities in 2022. All eight available positions for executors in the service have been filled. The Customs Administration adopted a procedure for financial investigations in July 2022.

In May 2023, the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) discussed and approved a report regarding the country's technical compliance and effective implementation of the international anti-money laundering and combating the financing of terrorism (AML/CFT) standards, in accordance with the 2013 Financial Action Task Force (FATF) methodology. According to the conclusions set out in the evaluation report published in July 2023, the legal framework has improved, but the authorities should further strengthen measures to combat money laundering, the financing of terrorism and proliferation, in particular through investigations and prosecutions (*see chapter 4*).

The Law on prevention of money laundering and financing of terrorism entered into force in July 2022. The Law aims to align with EU Directive 2018/843, the fifth Directive on the prevention of the use of the financial system for the purposes of money laundering and financing of terrorism and to address the revised Financial Action Task Force recommendations. Additional implementing laws deriving from the Law need to be drafted and adopted. North Macedonia needs to align its legislation with Directive (EU) 2018/1673 on combating money laundering by criminal law.

In 2022, the authorities managed to freeze assets worth around EUR 40 million, including cash, land, business premises, apartments, shares and securities. They confiscated assets worth some EUR 28 million.

North Macedonia is currently implementing its national strategy against human trafficking and illegal migration. This is accompanied by an action plan and a national strategy against

trafficking in children – both covering 2021-2025. The Group of Experts on Action against Trafficking in Human Beings published its third-round evaluation report on North Macedonia. Recommendations were made to the authorities to address gaps and weaknesses in the legal framework and in other areas. To further align with the EU *acquis*, amendments to the legislative framework should be adopted, including on the referral to the Centre for Victims of Trafficking in Human Beings of foreign victims of trafficking in human beings who cooperate with the authorities. Adequate avenues for compensation for victims should be provided.

In 2022, 9 victims were identified as part of investigations and prosecutions of perpetrators of trafficking in human beings. Of these, 8 were victims of internal trafficking while 1 was exploited abroad (in a neighbouring country). As a result of the investigations, 6 criminal charges were brought against 19 individuals for alleged trafficking in human beings offences.

In 2022, the Ministry of the Interior filed charges against 210 individuals, accused of committing 199 crimes involving **small arms and light weapons**. Moreover, 139 weapons were seized in 2022. Under the supervision of the State Commission for destroying weapons, 270 seized weapons were destroyed in February 2023.

Concerning **cybercrime**, in 2022, the authorities registered 287 criminal acts constituting computer crimes under the Criminal Code, committed by 220 perpetrators. The most common computer crimes are: ‘damage and unauthorised entry into a computer system’, ‘spreading xenophobic material via information systems’, ‘processing and use of a false payment card’, ‘endangering safety’.

Regarding online child sexual exploitation, the number of registered crimes in 2022 was 14. Of the reported crimes, eight were solved and eight perpetrators were identified. The remaining cases are being investigated. There were seven reported cyber-attacks against public institutions and public infrastructure in 2022 and 11 against private institutions. The Ministry of the Interior’s Sector for Computer Crime and Digital Forensics participated actively in EMPACT.

The Central Register has kept a register of beneficial owners since January 2021, but not all entities that are required to have provided the necessary information.

In accordance with the Law on payment services and payment systems, a single register of accounts was set up and maintained by the Central Register. Infrastructure for the register is currently being constructed, and technical specifications have been defined for the software and its main components. It is expected that the register will be operational by the second quarter of 2024.

In the reporting period, witness protection measures were applied in 4 cases.

Cooperation in the field of drugs

Institutional set-up and legal alignment

The national strategy against drugs covers the period 2021-2025 and is being implemented through a specific action plan. The National Drugs Observatory was set up in 2007, but its operational capacity remains limited. It lacks resources to cope with its daily drug monitoring tasks. There is still no national early warning system capable of connecting with relevant national bodies to enable fast exchange of information about illegal manufacturing and illicit trade on a national and international level.

The European Monitoring Centre for Drugs and Drug Addiction has had technical cooperation arrangements with North Macedonia since 2007. The focal point for this cooperation is the Ministry of Health, which also cooperates with the International Narcotics Control Board, and United Nations Office on Drugs and Crime.

National legislation on drugs, psychotropic substances and precursors does not comply with the EU *acquis* or international standards.

Implementation and enforcement capacity

There was a positive trend in the prevention of drug trafficking. A total of 749 crimes were detected in 2022 (compared with 701 in 2021), leading to criminal prosecution against 9 legal entities and 853 perpetrators (840 in 2021). Police action broke up 12 organised groups (10 in 2021) with 46 members (36 in 2021).

In 2022, the authorities seized 2 561 kg of marijuana and 8 723 kg of cannabis stems (18 301 kg for both in 2021) from legal entities with licences for the cultivation of cannabis for medicinal purposes, which raises concerns about deficiencies in the system for legal cultivation. Law enforcement authorities need to gain tighter control over those entities and their activities, to prevent illegal activity and take effective measures against infringements.

Regarding international police cooperation, throughout 2022 the Ministry of the Interior received 62 pieces of information concerning the illegal trafficking of drugs through INTERPOL from EU and non-EU countries. The relevant police structures also maintained a good level of cooperation with Europol, with 481 messages concerning ‘illicit drug trafficking’ exchanged through Europol’s secure information exchange network application (SIENA) in 2022. In addition, 18 cases of illicit drug trafficking were opened as a result of exchanges of information through SELEC.

Harm-reduction activities, one of the main pillars of the country’s drug policy, are implemented by local CSOs through a nationwide network of national focal points.

Preparatory work was done on the register of drug users by the Institute for Public Health in cooperation with the Ministry of the Interior. The register now needs to be finalised.

In February 2023, the Agency for the Management of Confiscated Property destroyed 1 400 kg of confiscated drugs and illegal psychotropic substances following a final court decision.

Cooperation with Eurojust continues. Between April 2022 and February 2023, North Macedonia was involved in 20 new cases at Eurojust – 17 as requested country and three as requesting country. Most cases related to money laundering, swindling or fraud. North Macedonia’s acting Eurojust Liaison Prosecutor was actively engaged in facilitating ongoing investigations.

Fight against terrorism

Institutional set-up and legal alignment

North Macedonia has a national committee for countering violent extremism and counterterrorism, but the draft rulebook for its work needs to be adopted.

North Macedonia’s legislative framework is broadly aligned with the EU *acquis* and international counterterrorism instruments and is sufficient for the prosecution of individuals suspected of committing or aiding terrorist activities or participating in foreign wars.

National strategies for countering terrorism (2023-2027) and countering violent extremism (2023-2027) were adopted in May 2023. These are based on the four pillars of the UN and EU's global strategies: prevention, protection, prosecution/enforcement and response.

The country continues to implement its national plan for the re-integration, re-socialisation and rehabilitation of returnees from foreign armies and members of their families. A variety of activities are implemented daily in the work with foreign terrorist fighters and their families.

In December 2022, the European Commission and North Macedonia's Ministry of the Interior signed a new arrangement for the implementation of a joint action plan on counterterrorism for the Western Balkans. The arrangement upgrades cooperation on counterterrorism and action to prevent / counter violent extremism. It requires national authorities to submit interim reports twice a year.

Implementation and enforcement capacity

North Macedonia submitted in July 2023 a first progress report on the implementation of the bilateral arrangement for the implementation of the Joint Action Plan on Counterterrorism for the Western Balkans. Implementation of the newly signed counterterrorism arrangement began with some priority activities, undertaken in accordance with the schedule.

At local level, measures to prevent violent extremism and terrorism continue to be implemented by local councils for prevention, action teams in community, and local multidisciplinary teams. Two additional local action teams were set up in November 2022 in Prilep and Struga. Local multidisciplinary teams now operate in 9 municipalities – Skopje, Kumanovo, Gostivar, Tetovo, Kicevo, Ohrid, Struga, Stip and Prilep – to provide support for returnees and their families. These teams work in coordination with social service centres. Greater clarity is needed around the division of powers, tasks and responsibilities between local and central level, for better cooperation on prevention and countering of violent extremism. The state needs to adopt additional legal provisions to legitimise and regulate the activities of local-level bodies.

The practice of handing down light sentences for terrorism-related offences remains a challenge for prevention efforts, and more effective follow-up is required for convicted foreign terrorist fighters after they are released from prison.

Radicalisation in prisons remains a concern despite the existence of a strategy on the penitentiary system (2021-2025) which includes provides measures against radicalisation in prisons. Online radicalisation should be addressed effectively, which requires better equipment and training, and human capacity building.

No foreign terrorist fighters were repatriated in the reporting period. In 2022, five individuals were indicted for allegedly perpetrating five separate crimes involving 'terrorism' and 'participation in foreign paramilitary or para-police formations'. In 2022, 3 cases resulted in convictions for the crime of 'terrorism', of which two were final and one under appeal procedure. In comparison, court verdicts were passed against four repatriated foreign terrorist fighters and one person was indicted for terrorism in 2021.

In 2022, the sector dealing with the fight against terrorism, violent extremism and radicalism located within the Ministry of Interior participated in Europol's analytical projects on the fight against terrorism and financing for terrorism. A total of 387 messages were exchanged with partner services from other countries, through SIENA, Europol's counterterrorism platform.

The Financial Intelligence Office updated indicators for the recognition of suspicious transactions potentially linked to the financing of terrorism or proliferation financing. In 2022, a number of strategic analyses were adopted by the Head of the Financial Intelligence Office, such as the strategic analysis for proliferation finance, a strategic analysis for transactions through fast money transfer services, and a manual to facilitate the use of practical indicators for identifying suspicious financial transactions.

A memorandum for cooperation, coordination and exchange of information for effective and efficient application of the Law on restrictive measures was signed in September 2022 by the Minister of Interior, the Minister of Foreign Affairs, the Director of the Intelligence Agency, the Director of the Financial Intelligence Office, the Director of the Agency for National Security and the Public Prosecutor. Financial restrictive measures were introduced for 15 individuals who participated in foreign armies, police, paramilitary or para-police formations outside North Macedonia.

Additional multidisciplinary teams were set up within the state prison system to monitor the behaviour of inmates convicted of terrorism.

Pre-release standard operating procedures and post-penal assistance were introduced for radicalised convicts.

Judicial cooperation in civil and criminal matters

Progress regarding the legal framework for cooperation in civil and commercial matters was limited. North Macedonia should ratify the 2005 Hague Choice of Court Convention, the 1996 Hague Child Protection Convention, the 2007 Hague Child Support Convention and its Protocol on Applicable law, which have been already signed. Furthermore, the country should take the necessary steps to ratify the 2019 Hague Convention on the Recognition and Enforcement of Foreign Judgments in Civil or Commercial Matters (the 'Hague Judgments Convention').

The Ministry of Justice's Criminal Department is currently understaffed, with just a head of department and four civil servants, out of a planned seven.

In 2022, there were 789 incoming and 220 outgoing requests for mutual legal assistance in civil matters (compared with 429 incoming and 141 outgoing in 2021). The requests are forwarded to the relevant authority within seven days.

In 2022, there were 1 147 incoming and 824 outgoing requests for mutual legal assistance in criminal matters (compared with 856 incoming and 233 outgoing requests in 2021). These cases have not been fully processed and the Ministry of Justice does not have accurate data on the number of ongoing procedures.

Cooperation with Eurojust continues. The Ministry of Justice issued Rules on cooperation between the State PPO, the Ministry of Justice and Eurojust. These Rules are based on the 2021 Law on international legal cooperation in criminal matters. North Macedonia's acting Eurojust Liaison Prosecutor was actively engaged in facilitating ongoing investigations. The procedure for selecting a permanent Eurojust Liaison Prosecutor, upon a call published in December 2022, is ongoing.

In October 2022, the European Public Prosecutor's Office and North Macedonia's State Public Prosecutor's Office concluded a working arrangement.

Legal and irregular migration

Institutional set-up and legal alignment

The legal framework for migration is largely in line with EU standards. The state of crisis declared at the country's borders was further extended until the end of December 2023, allowing for the continued deployment of the army.

The Ministry of the Interior is the main operator in the field of migration.

North Macedonia has a series of strategic documents in place on migration: the 2021-2025 national strategy for integrated border management with an action plan for implementation (2022-2025); the resolution on migration policy for 2021-2025; the 2021 migration profile and the 2019-2023 national strategy for cooperation with the diaspora. The new strategy for the integration of refugees and foreigners has been pending adoption since September 2021. A contingency plan to manage large migratory flows still needs to be finalised and adopted.

North Macedonia participates in the regional Anti-Smuggling Operational Partnership with the Western Balkans launched in November 2022 to support law enforcement and judicial cooperation against criminal smuggling networks and to increase border management capacities.

Implementation and enforcement capacity

The country continued to play an active role in the management of mixed migration flows. Further efforts were made to ensure basic living conditions and services for all migrants in North Macedonia. However, there is a need to enhance institutional and administrative capacities for all aspects of migration management by increasing the number of employees and by providing additional material and technical resources. As of April 2023, Frontex has been deployed and has provided operational support on the country's southern border.

The strategic framework should be further strengthened, particularly on implementation of support measures. While registration of migrants resumed in 2021, the lack of adequate protection-sensitive profiling needs addressing as a priority. Better, more systematic registration and protection-sensitive profiling is required. The fragmentation of tasks between the multiple institutions dealing with migration makes migration management less effective. Implementation of the in-depth assessment (masterplan) for North Macedonia developed by Frontex last year is still pending.

The readmission agreements and implementing protocols signed with eight EU Member States continue to be implemented. Four additional agreements are under negotiation. In addition, North Macedonia has bilateral readmission agreements with eight non-EU countries (six further agreements are being negotiated). Cooperation with neighbouring countries continues to be satisfactory. However, there is room for more cross-border cooperation with neighbouring countries in implementing returns and addressing trafficking in human beings and smuggling of migrants.

The number of irregular movements through North Macedonia increased, with 27 391 irregular arrivals in 2022 compared to 20 874 in 2021. Most of these people were travelling from Greece towards Serbia. Nationals of Syria (11 018), Pakistan (5 594) and Morocco (2 541) constituted the largest groups, most of whom were single males. Irregular migrants in transit remain targets for organised criminal groups engaged in people smuggling, who often extort money and abuse the migrants in various ways. A new phenomenon in the Western Balkans is the misuse of North Macedonia's visa-free regime by individuals coming

from Türkiye, Tunisia, India, Burundi and China, among others. North Macedonia re-introduced visa requirements for nationals of Azerbaijan, Botswana and Cuba.

In 2022, 107 cases of smuggling were detected, involving 1 454 migrants (compared with 64 cases involving 815 migrants in 2021 – an increase of 67.2% and almost 80% respectively). The number of migrants smuggled remained high and combating smuggling networks remains a priority.

Regular reception capacity was unchanged and is appropriate to current needs. The arbitrary detention of persons apprehended in irregular movements for the purpose of taking statements as evidence before the Criminal Court remains an issue of concern. The percentage of asylum applications registered at the reception centre for foreigners in Gazi Baba significantly increased to 62.5% in the first quarter of 2023, from just 8% in 2022.

Since the attempt to build a new EU-funded reception centre for foreigners was blocked by a government decision in October 2021, no improvements have been made in the existing reception centre, where living conditions are poor and basic rights are not respected. The National Preventive Mechanism within the Ombudsman repeatedly pointed out that this facility does not meet the required standards for hosting persons with restricted freedom of movement. The detainees do not receive the information about legal remedies they would need to fully understand their legal status or the length of detention.

Two temporary transit centres providing short-term housing remain operational (Vinojug capable of housing 1 500 persons and Tabanovce with a capacity of 500). However, both transit centres are unsuitable for longer stays and the legal status of both centres breaches international standards. The lack of legal oversight over migrants' freedom of movement in the Vinojug transit centre is also a major issue.

Since the summer of 2021, North Macedonia has temporarily hosted some 791 evacuees/refugees from Afghanistan. By September 2023, 674 had been resettled. Since March 2022, North Macedonia has been hosting refugees from Ukraine. By September 2023, 67 151 Ukrainians have arrived in North Macedonia, 48 807 of which left the country. By June 2023, 405 Ukrainians had received temporary residence in North Macedonia on humanitarian grounds. Under the Law on foreigners, temporary residence means the right to legally reside in the country for 1 year with the possibility of extension.

There are 235 Roma, Askhali and Egyptian individuals from Kosovo* in the country, including 11 with refugee status, 64 under subsidiary protection and approximately 160 whose protection status has ended. The individuals remain in a vulnerable situation due to the lack of legal status and insufficient access to basic rights.

In 2022, a total of nine persons were assisted with voluntary returns to their countries of origin within the assisted voluntary return and reintegration programme.

Asylum

Institutional set-up and legal alignment

The asylum sector in the Ministry of the Interior is the authority responsible for asylum procedures. The Law on international and temporary protection is largely aligned with the EU *acquis*. However, efforts are still needed to improve information and counselling in detention facilities and at border crossings. Efforts are also needed to improve personal interview and border procedures. Further efforts are needed to improve working rights of applicants for

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

international protection, and access to a personal identification number so they can work, open a bank account and manage property. Furthermore, there is a need for the current legislation to provide alternatives to detention for persons involved in irregular movements. Further efforts are required to improve delays in family reunification for persons under subsidiary protection, particularly for unaccompanied minors. Delays can be counter to the principle of the best interest of the child.

Under the Law on foreigners, persons who enjoy international protection can be granted long-term residence. However, they must still present proof of regular income and a registered place of residence to benefit from this provision. Given the vulnerability of some applicants, notably Roma people from Kosovo under subsidiary protection, there is a risk that the rights under this provision remain theoretical, without practical implementation. The existing database on foreigners still needs to be upgraded with a new asylum module to provide a case management tool for processing asylum claims. There is no backlog of asylum cases. Most cases are discontinued due to the high rate of claim abandonment.

Implementation and enforcement capacity

Implementation of asylum procedures is not fully aligned with the EU *acquis*. Developing the asylum authorities' administrative capacity remains a challenge, particularly as regards the recruitment and retention of highly qualified and dedicated staff, which is a prerequisite for high-quality administrative processing of asylum claims. The government has not invested enough in improving the asylum system, for example by through funding, technical expertise and staff to fill specific roles.

There is no problem with access to the asylum procedure and asylum claims are promptly registered and processed. However, the quality and speed of asylum decisions remains of concern. Most of those granted subsidiary protection are vulnerable persons and unaccompanied minors. Decisions are based on humanitarian needs but without proper consideration of the merits of the claim. The overall length of the entire asylum procedure is unreasonable; it may last for several years from initial registration of an asylum claim.

The Administrative Court and the High Administrative Court take decisions on procedural grounds rather than on the merits of individual asylum claims. The cases returned to the administrative authority remain unchanged despite court rulings. This lengthens the asylum procedure, without providing asylum-seekers with an effective remedy. The practice continued of holding in-person hearings with attorneys and asylum officials present but without the asylum-seekers themselves. Although guaranteed by law, no procedure has been implemented to adequately cater for persons with specific needs. Furthermore, decisions on expulsion are made with no quality assessment, and without the necessary steps being taken to ensure that returning asylum-seekers will not be subjected to persecution in their country of destination.

A lack of personal identification numbers for asylum-seekers and persons under temporary protection remains unaddressed and is a critical gap in the legal protection of rights.

Further efforts are needed to ensure that the children of asylum-seekers are provided with proper educational services in accordance with the Law on primary education. There is a lack of national data on refugee and asylum-seeker children in primary and secondary education.

In 2022, 168 asylum applications were submitted (compared with 100 applications in 2021), with most applicants coming from Syria (49%), Morocco (10%), Afghanistan (6%), Türkiye (5%) and Iraq (5%). The registration of asylum applications is not integrated, with different entities within the Ministry of the Interior being involved. These include police stations

where applications are first registered, reception centres and the Sector for Asylum. By the end of 2022, the Sector for Asylum had conducted 14 asylum interviews (mostly online), rejected 20 asylum applications, and granted no form of international protection (refugee status has not been granted to anyone since 2016), while most decisions were written off due to high rates of absconding. In the first quarter of 2023, 71 asylum applications were registered, a 500% increase compared to the same period in 2022. Most of the applicants came from Afghanistan, the Democratic Republic of the Congo, Pakistan and Syria.

The roadmap for cooperation agreed on between the European Union Agency for Asylum and North Macedonia for the period October 2020–September 2022 remained an important tool for: strengthening the asylum system, particularly for persons with special needs and unaccompanied minors; strengthening the training system on asylum and reception; increasing the quality of asylum decisions; and strengthening the reception system for vulnerable migrants and unaccompanied minors.

Visa policy

The national visa regime is largely aligned with that of the EU. To date, only Türkiye is accessible without visa for North Macedonia but not for the EU. In January 2023, North Macedonia reintroduced a visa requirement for nationals of Botswana and Cuba. The decision to temporarily allow nationals of Azerbaijan to enter North Macedonia without a visa expired in March 2023 and was not extended. The Commission's sixth report under the Visa Suspension Mechanism of 2023⁷ concluded that North Macedonia continued taking action to address the Commission's previous recommendations and recommended North Macedonia to continue this good progress. North Macedonia has a high level of compliance with International Civilian Aviation Organisation standards. The visa sticker meets the EU requirements.

Schengen and external borders

Institutional set-up and legal alignment

The legislative framework for the management of North Macedonia's external borders is largely aligned with the EU *acquis*. The Department of Border Affairs and Migration is a specialised unit within the Ministry of the Interior. The country has eight border crossing points. The border police are structured into four regional centres, within which police stations for border surveillance and border checks operate. North Macedonia has a National Coordination Centre for Border Management.

A new integrated border management strategy for 2021-2025 was adopted in 2022. It aims to achieve safe and open borders that allow fast and secure transit of passengers and goods, while enabling effective measure to be taken against irregular cross-border activities.

Implementation and enforcement capacity

A Status Agreement for operational cooperation in border management with Frontex was signed in October 2022, including a Macedonian language version. Following the entry into force of the status agreement on 1 April 2023, a North Macedonia 2023 joint operation was launched on 19 April with the deployment of 110 officers to provide support for border control and the management of irregular migration and cross-border crime along the entire border section with Greece. Reinforcing controls along North Macedonia's borders will help increase security at the EU's external borders.

⁷ COM(2023) 730 final

Cooperation with the border services of Albania, Bulgaria, Kosovo and Serbia is carried out in accordance with the Schengen catalogue of recommendations and best practice. The following agreements were signed and are being implemented: Agreement on freedom of movement with identity cards (Western Balkans); Agreement on regulation of local traffic; and Agreement on systematic prosecution of perpetrators of crimes. In 2022, a total of 786 meetings and other contacts at all levels were held with these countries' border services (compared with 708 in 2021); 355 mixed patrols were carried out (compared with 96 in 2021); and 1 247 information exchanges took place through the Joint Contact Centres (compared with 1 988 in 2021). There are no mixed patrols with Greece and no Joint Contact Centre has yet been set up.

In 2022, 85 disciplinary procedures were conducted against police officers from the Department for Border Affairs and Migration and from the four regional centres for border affairs. These procedures resulted in 54 fines, 11 dismissal decisions and one warning; 19 procedures were terminated. In 2022, an investigative procedure was launched in a case established in 2021 against 11 persons for criminal offences under Articles 353 (abuse of official position and authorisation) and 357 (receiving a bribe) of the Criminal Code, and in March 2023, an indictment was filed against five persons for the crimes of criminal association and of receiving bribes and against one person for the crime of receiving a bribe.

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

2.3. ECONOMIC CRITERIA

	2014-19 average	2020	2021	2022
North Macedonia - Key economic figures				
GDP per capita (% of EU-27 in PPS) ¹⁾	37	38	42	42
Real GDP growth	3.0	-4.7	3.9	2.1
Economic activity rate of the population aged 15-64 (%) , total	65.3	65.5	66.8	66.4
<i>female</i>	52.3	54.0	55.1	54.3
<i>male</i>	77.8	76.7	78.4	78.4
Unemployment rate of the population aged 15-64 (%) , total ²⁾	23.2	16.6	15.8	14.5
<i>female</i>	22.9	16.1	13.8	12.6
<i>male</i>	23.4	16.9	16.9	15.9
Employment of the population aged 15-64 (annual growth %) ²⁾	2.7	-0.5	n.a.	n.a.
Nominal wages (annual growth %)	3.2	8.3	5.7	11.1
Consumer price index (annual growth %)	0.5	1.2	3.2	14.1
Exchange rate against EUR	61.57	61.67	61.63	61.62
Current account balance (% of GDP)	-1.4	-2.9	-3.1	-6.0
Net foreign direct investment, FDI (% of GDP)	3.1	1.4	3.3	5.2
General government balance (% of GDP)	-2.8	-8.0	-5.4	-4.5
General government debt (% of GDP)	39.4	51.9	51.8	51.1

Notes :

1) Eurostat

2) From Q1-2022, the Labour Force Survey is based on the results of the 2021 population census, restricting comparability with previous year's data. In a first step, the Statistical Office has recently revised 2021 data based on census data.

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.

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 2022, the economy was badly hit by the fallout from Russia's war of aggression against Ukraine, which significantly slowed down its post-COVID recovery. The government supported households and businesses through large-scale energy subsidies, tax reductions and targeted direct income support. Owing to an inflation-driven boost to tax income and under-execution of several expenditure categories, the general government deficit remained below the revised target. Capital expenditure was raised significantly, but still fell short of the revised plan. The public debt ratio dropped, but remains significantly above pre-COVID-19 levels. The central bank tightened its policy stance further in view of still elevated inflationary pressures, which began to subside gradually towards the end of 2022 and beyond. The current account deficit rose substantially as energy import prices surged, but external financing needs were met with the help of market-based and IMF borrowing.

A new Organic Budget Law (OBL) provides for the introduction of fiscal rules and a fiscal council, considerably strengthening fiscal sustainability. However, progress has been slow in implementing wider-ranging measures to improve the management of public investment, vital for underpinning the government's plans for a sizeable increase in capital expenditure.

The banking sector was resilient throughout the crises, and financial stability was bolstered by progress on some key legislation. The labour market showed some improvement, but structural problems persist, including high youth and long-term unemployment rates and a large gender gap. The business environment continued to be impeded by the large size of the informal economy, slow progress in streamlining parafiscal charges and an opaque and inefficient State aid regime.

Last year's recommendations were only partly implemented and remain partially valid. To improve the functioning of the market economy, North Macedonia should in particular:

- provide targeted and temporary support to vulnerable households and firms to cushion the impact of the energy crisis, if needed, and at the same time start to phase out untargeted subsidies to the energy sector;
- adopt and submit to Parliament the next set of revenue-enhancing measures, in line with the tax system reform strategy;
- accelerate implementation of the public investment management action plan, in particular by ensuring the new Department for Public Investment Management in the Ministry of Finance becomes fully staffed and operational;
- strengthen access to active labour market measures, in particular for the low-skilled unemployed and people in vulnerable situations.

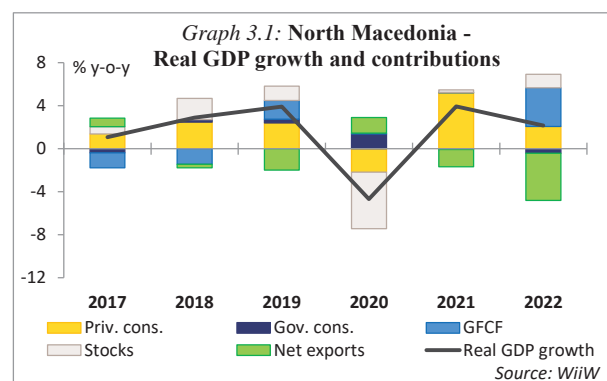
Economic governance

The government provided fiscal support to help the economy cope with rising price pressures, but progress on important reforms was slow. While phasing out the broad-based pandemic-related support measures adopted in 2020 and 2021, the government adopted two sets of – partially – better targeted and temporary measures in 2022, to ease the burden of high food and energy prices on households and small business. These include a temporary reduction in the VAT rate on electricity for households, as well as sizeable subsidies for the state-owned electricity producer, ESM, which supplies the electricity to the universal supplier in the regulated market, to lower the price of electricity for its customers. It currently satisfies 100 percent of the demand of the regulated market, through government decision. Through the Law on financial support for socially vulnerable categories of citizens to deal with the energy crisis, adopted in November 2022, the government has provided targeted direct income support. It also introduced temporary price caps on certain food products, which were lifted on 1 June 2023. The new Organic Budget Law, enacted by Parliament in September 2022, introduced fiscal rules and a fiscal council as well as an improved medium-term budget framework. However, progress has been slow in other key reform areas. Improvements to the management of public investment are hampered by staffing and IT issues. Some of the public revenue-enhancing tax reforms adopted by the government in December 2022, which aim to reduce tax exemptions, were stalled in Parliament. The new legal framework for public-private partnerships (PPPs), which would address a number of shortcomings in the management of PPPs and of concessions, has yet to be adopted by the government. The government has advanced in implementing the green transition, notably by adopting major legislation to increase the use of renewable energies.

The policy guidance jointly agreed on at the May 2022 Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye has been partially implemented. The country benefits from EU budget support worth EUR 80 million to cushion the impact of energy price increases on households, small and medium-sized enterprises and public service providers, of which EUR 72 million was disbursed in March

2023. In November 2022, the country received the first EUR 110 million tranche from an arrangement under the IMF's Precautionary and Liquidity Line (PLL)⁹. On 12 July 2023, in view of the country's large financing needs in 2023 and 2024, and following a request from the government, the Council and the European Parliament endorsed a Commission proposal for macro-financial assistance to North Macedonia of up to EUR 100 million.

Macroeconomic stability

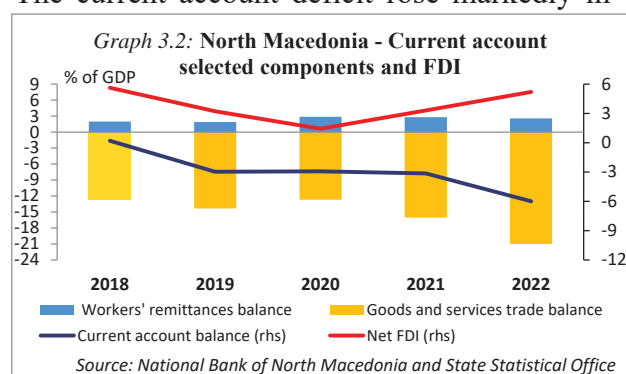


GDP growth slowed, as the economy was hit by the fallout from Russia's war of aggression against Ukraine. Following a partial recovery from the recession caused by the COVID-19 pandemic, annual GDP growth slowed down to 2.1% in 2022, from 3.9% in 2021, as external demand weakened, disruptions in global supply chains persisted, and global food and energy prices rose rapidly. Trade dynamics were buoyant, but the rate of import growth

exceeded the export growth rate, which meant that external trade made a negative contribution to economic growth. Investment rose strongly, partly on account of the build-up of stocks of intermediate products and raw materials, as companies anticipated further price rises. Private consumption growth slowed sharply despite being bolstered by remittances from abroad and government support measures. While industrial production and construction output declined, the service sector continued its post-COVID trend of strong annual increases. In the first half of 2023, annual GDP growth dropped to 1.6% on average. Convergence with EU income levels has been slow, with real GDP per capita increasing from 37% of the EU-27 average in 2017 to 42% in 2022.

Reflecting the country's large dependence on energy imports and surging import prices, the external position deteriorated in 2022. The current account deficit rose markedly in

2022, to 6% of GDP from 3.1% in 2021, much above its average in the pre-COVID-19 period 2017 to 2019 (1.5%). This rise is accounted for by a widening energy trade deficit, which reflects the country's high dependence on energy imports and skyrocketing international energy prices. In addition, in an uncertain environment, companies built up their inventories of imported production inputs. Deterioration in the energy and trade balance in 2022 was partly offset by a sizeable increase in private transfers (remittances) and in the services surplus, helped by a rebound in tourism. In the first half of 2023, the merchandise deficit has narrowed sharply, in annual terms, largely reflecting the drop in energy import prices and driving a large improvement in the current account balance. Foreign direct investment (FDI) inflows recovered after a fall triggered by the COVID-19 pandemic, increasing to 5.2% of GDP in 2022, and almost covered the surging deficit. External debt amounted to 84.3% of



⁹ The IMF's first review of the PLL program has been delayed from April 2023, mainly as the IMF is seeking more clarity on the fiscal implications of the (single-sourced) contract with the US-Turkish consortium Bechtel-Enka to build a EUR 1.6 billion (around 10 percent of GDP) highway section of Road Corridor 8/10d.

GDP at end-2022 (+2.3 percentage points (pps) year on year), with long-term debt accounting for the bulk of the total (70%). The increase was largely due to a rise in private intercompany lending, which is an important instrument for improving liquidity for foreign-owned companies in the country. About 40% of total external debt is made up of intercompany loans and trade credits, which is a less risky and more flexible category of debt.

Foreign reserves have more than recovered following pressures in the first half of 2022.

Exchange markets dropped sharply in the first half of 2022 (-14% year on year at end-June 2022), mainly on account of increased conversion of domestic denar-denominated savings into euro-denominated deposits, surging energy imports, and high external debt payments. Subsequently, however, the exchange markets stabilised, supported by a good tourism season in 2022, external market borrowing, including a EUR 250 million private placement of government securities in Germany in September 2022 and a EUR 500 million Eurobond issuance in March 2023, as well as the disbursement of the first instalment from an arrangement under the IMF's Precautionary and Liquidity Line (PLL). Inflows from foreign direct investment surged in 2022, catching up after a pandemic-related trough, but became more muted in 2023 so far. Foreign reserves declined again with the government's redemption of the 2016 Eurobond in July 2023. At the end of August 2023, they stood higher by 26% y-o-y, corresponding to around 4 months of prospective imports. The denar has remained in a stable, *de facto* pegged exchange rate regime with the euro.

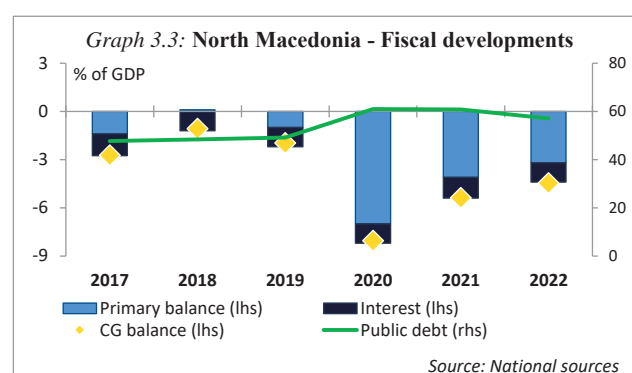
Monetary policy was appropriately tightened in view of persistent inflation. Annual average inflation in 2022 was at a record high of 14.2%, driven by the global energy and food price shock. The annual inflation rate peaked at 19.8% in October 2022, which was more than in peer countries in the region, before abating gradually to reach 8.3% in August 2023. Core inflation, however, has remained persistent, reflecting the high transmission from the recent energy price hikes into core sectors of the economy such as industrial production, transport, and hotels and restaurants. Appropriately, the central bank continued its tightening of monetary policy throughout 2022 and beyond. It raised the policy rate by 495 basis points in ten consecutive steps between April 2022 and August 2023, to 6.15%, thereby increasing the spread to the European Central Bank (ECB) policy rate. Furthermore, it adjusted reserve requirement rates, both in June and September 2022, and again in August 2023, to disincentivize shifts into euro deposits, that were a significant factor behind the drop in foreign reserves in early 2022. It also eased reserve requirements for bank lending for renewable energy projects. A 2020 repo line from the ECB, intended to provide Euro liquidity to the central bank, was extended in 2022. Concerns about the operational independence of the central bank persist, as the central bank 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.

An inflation-driven boost to tax revenue and under-execution of expenditure underpinned the lower-than-projected budget deficit in 2022.

The fiscal deficit came in at 4.5% of GDP, down from 5.4% in 2021 and remaining below the revised target of 5.3% of GDP adopted in the July 2022 budget revision. Central government revenue rose by 11.3% compared with 2021, driven by a 22.4% surge in VAT receipts. Current expenditure increased by 6.9% in 2022, which was less than the 8.3% increase in total expenditure. At 89.2% of budget, implementation of capital expenditure was higher than the average for the previous 5 years. The government has phased out some untargeted support measures. VAT on electricity for households was raised from the reduced 5% rate to a still reduced 10% on

1 January 2023¹⁰ and was normalised to the standard rate of 18% from 1 July. Several expenditure categories, most notably transfers to the state-owned electricity company, ESM, and capital expenditure, on the other hand, were heavily under-implemented in 2022. In January-July 2023 the budget deficit stood at 2.9% of the projected full-year GDP, with a weak performance on the revenue side from VAT, in particular. In July, the government raised public sector wages by 10%, effective from September 2023, and subsequently adopted a budget reallocation in order to accommodate the additional expenditure within the initial deficit target of 4.6% of GDP. In the 5 years preceding the pandemic, the general government fiscal deficit declined 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. The revenue ratio has remained largely unchanged at a relatively low level (2022: 30.6%) in the past 5 years, suggesting the need to take further measures to increase public revenue. The expenditure structure remains dominated by transfers to the pensions fund (2022: 28% of total expenditure), where a recent policy reversal back to linking annual pensions increases to both prices and average wages, has further exacerbated the financing pressures.

Inflation helped lower the public debt to GDP ratio in 2022 which however remains well above pre-pandemic levels. After having increased by some 10 pps to more than 50% in



2020, the general government debt-to-GDP ratio stabilised in 2021, and subsequently posted a slight decline in 2022 (-1.1 pps year on year to 50.9% of GDP). The public debt ratio dropped by more (-1.2 pps), to 59.8%, reflecting a decrease in the debt of public enterprises. Still, in nominal terms, the debt stock gradually increased further also in 2022 and in the first half of 2023. At the end of

June 2023, the general government debt level was higher by 19.3% compared to end-21. The share of fixed interest rate debt in total debt remained high throughout 2022 (74% at end-year) but stood somewhat lower than one year earlier (-1.3 pps). External debt accounted for some 60% of total general government debt at the end of 2022, the same as in 2021. Foreign currency debt, mostly denominated in euro (92% of total foreign currency debt), accounted for 76% of total debt (also unchanged year on year). The de facto exchange rate peg to the euro limits debt vulnerabilities stemming from fluctuations in the value of the denar. In March 2023, the government successfully issued a Eurobond, its ninth since 2005, for EUR 500 million, for refinancing the 2016 Eurobond (EUR 450 million) repayment in July 2023. The country has a proven track record of timely debt repayments.

The fiscal framework has been strengthened through a new Organic Budget Law (OBL), but deficiencies in public finance management remain. In September 2022, Parliament passed the OBL, which provides for the introduction of fiscal rules and a fiscal council and strengthens the medium-term budget procedure. Key provisions, such as the fiscal rules, are due to enter into force in 2025. Preparations for setting up the new fiscal council are advancing, with the members of the council nominated and appointed by Parliament in September 2023. However, the adoption of by-laws, which is necessary for the full implementation of the OBL, is not progressing. Furthermore, shortcomings in revenue

¹⁰ The planned increase from 5% to 10% had been postponed from July 2022 to January 2023.

collection and a large number of tax exemptions eroding the tax base hamper a potential increase in public revenue ratios. In December 2022, the government adopted tax policy reform measures in the areas of personal income tax, corporate income tax, and value-added tax, with a view to broadening the tax base. While amendments to the Law on Personal Income Tax entered into force in January 2023, amendments to the Law on Corporate Income Tax, to the Law on Value Added Tax, as well as a new Law on the Solidarity Tax were adopted by Parliament only in September 2023¹¹. Implementation of measures to improve the planning, allocation and execution of public investment projects, as presented by the government in its 2021 Action Plan, is progressing only slowly, hampered by staff shortages and IT requirements. The government set up a dedicated unit for public investment management in the Ministry of Finance in December 2022, to ensure centralised oversight of public sector investment, but it still has to become fully operational.

Fiscal risks are sizeable and not always well monitored. Risks to the government's fiscal consolidation plans have increased, notably from the government's March 2023 contract with the Bechtel-Enka consortium for the construction of part of Road Corridor 8/10d. The project is expected to cost EUR 1.3 billion (10% of 2022 GDP) and to be completed over a 6-year period, with EUR 215 million (1.7% of 2022 GDP) earmarked in the 2023 budget. A special law that replaces standard public procurement rules for this project has been adopted and enacted by Parliament. To solidify the fiscal cost and manage fiscal risks, in particular recent rises in construction costs and uncertain cost evolution of the project, the IMF requested the authorities to provide an independent due diligence study as a structural benchmark under the 2022 precautionary and liquidity line for North Macedonia, which is delayed. Further fiscal risks stem from expenditure arrears, which remain consistently above 3 percent of GDP, as well as from public sector wage growth, and the July 2023 decision by the government to link future rises in public sector wages to average wage growth, in addition to price developments. The rising pensions bill poses further risks to fiscal sustainability, also exacerbated by the recent change in the indexation formula. The steep rise in minimum wages (+12% as of April 2023), in line with the new methodology for alignment adopted in 2022, further impacts on general wage and pension developments. Some fiscal risks, such as contingent liabilities arising from PPPs and other off-budget entities are not systematically reported to the central government¹².

The policy mix has been somewhat inconsistent, in addressing the challenges posed by the cost-of-living crisis and high energy imports, but financial and macroeconomic stability was secured. Monetary policy was appropriately tightened in view of soaring inflation, and measures to promote savings in domestic currency ('denarisation') were stepped up, which contributed to the stability of the exchange rate. Fiscal support to households and companies, on the other hand, could have been better targeted and fiscal consolidation plans could be more ambitious, also in order to help monetary policy to contain inflation. Energy subsidies remained large, against the background of falling market prices. Furthermore, the government's decision to revise the indexation mechanism of public wages and the minimum wage from 2024 is likely to fuel domestic price pressures and put at risk fiscal consolidation plans. Further improvements in the fiscal framework, such as monitoring and addressing fiscal risks and improving public investment management, would make a

¹¹ Furthermore, in August 2023, the government passed tax base-broadening amendments to the Excises Law, with parliamentary adoption still pending. These changes include the introduction of ad-valorem excise for cigars and cigarillos at 9 percent and the introduction of the new excise calendar that envisages a gradual increase of specific excises over time.

¹² There is a requirement in the new Organic Budget Law for the government to include a description of fiscal risks (at a minimum those pertaining to the government's contingent liabilities) in the annual fiscal strategy; and for the Fiscal Council to assess fiscal risks relating to various public entities, including public enterprises and public-private partnerships.

significant contribution to further safeguarding macroeconomic stability and raising the economy's growth potential.

Functioning of product markets

Business environment

Challenges in the business environment are undermining the competitiveness of domestic companies, investment and global value chain integration. North Macedonia's economy relies heavily on its integration in global value chains, in particular in the automotive sector, with export-destined production concentrated among a few firms. The reliance on imported inputs makes the economy vulnerable to external shocks. These competitive pressures are exacerbated by low productivity, partly stemming from a lack of skills and from sluggish adoption of innovation and new technology, as well as by a complex legal and regulatory environment and the large informal economy. The impact of the COVID-19 pandemic and Russia's invasion of Ukraine has intensified these structural challenges. The government's approach to simplifying the business environment is not sufficiently systematic and consistent.

The government has progressed somewhat in streamlining the array of parafiscal charges. Activities to optimise, consolidate and streamline parafiscal charges are ongoing. The government has tasked the Ministry of the Economy with coordinating the process, but the decision to streamline 100 selected parafiscal charges will have to be adopted by the government as a whole. Implementation of other key measures to improve the business environment is protracted, such as 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 duration 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. Work is ongoing to upgrade the e-portal in order to develop a more user-oriented service delivery. The number of registered users and completed services on the portal is increasing, but remains below expectations. Many of these services remain purely informational and cannot be fully performed online (OECD, 2022).

Challenges posed by the large informal economy are not addressed in a decisive manner. The informal economy continues to present a major obstacle to business operations. According to IMF estimates, it likely accounts for as much as 38% of GDP¹³. The number of informal employees as a proportion of total employees is estimated to have decreased from 18.6% in 2018 to 13% in 2022. Implementation of the government's 2018 Strategy and Action Plan to combat the informal economy remains sluggish, particularly regarding the formalisation of undeclared workers. In October 2022, to enable more efficient coordination between relevant institutions and stakeholders, the Ministry of Finance took over responsibility for preparing the new 2023-2027 Strategy for Formalisation of the Informal Economy with an Action Plan which were adopted by the government in September 2023. The government adopted tax legislation at the end of 2022 to strengthen the tax-paying culture and thereby fight the informal economy. 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

The transparency and efficiency of State aid remains deficient. Instead of tackling the

¹³ The IMF figure is at the upper range of estimates.

country's underlying structural challenges and business environment issues, the government's flagship policy to attract FDI and improve domestic firms' competitiveness relies on providing various forms of State aid to businesses. The effects of State aid on efficiency and competition have not yet been assessed. The 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 powers of the Commission for the Protection of Competition in State aid supervision. The public information provided by the government on State aid to companies remains incomplete and the criteria for the selection of beneficiaries are often unclear. 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. There is no strategy for properly determining priorities, goals and policies for investment activities in the country's technological industrial development zones.

Competition in the energy market is increasing. While the energy market was fully liberalised in 2019, almost all households and small companies remain in the regulated electricity market being provided with heavily-subsidized electricity. In the last quarter of 2022, 24 639 consumers (per metering point) purchased electricity from active suppliers in the open electricity market, according to mutually agreed (unregulated) prices. This makes up about 55% of the market, compared to some 53% at the end of 2019. In 2022, there were 18 electricity suppliers in the open market and one electricity supplier in the regulated electricity market. An increasing number of consumers have been switching electricity suppliers. In 2019, 2 350 consumers switched supplier. In 2020, that figure rose by 10.8% to 2 603 consumers, in 2021 by a further 37.1% to 3 568 consumers and in 2022 by 11.7% to 3 986 consumers.

Privatisation and restructuring

The public sector's stake in the economy remains low. In 2022, the number of companies in full-state ownership declined by two, to 15, compared to the preceding years. The number of companies in partial ownership decreased by one, to 38, most of these with a state ownership share of below 1% of issued capital¹⁴. The total value of state ownership in enterprises was unchanged, at about 10% of GDP. There are currently no plans for further privatisations.

Functioning of the financial market

Financial stability

Bank capitalisation and profitability have improved since the pandemic. The banking sector remained resilient throughout the recent crises. Banks' capital adequacy ratio increased further in 2022, and in December 2022, it was well above its level of 5 years earlier, far exceeding the regulatory minimum. Liquid assets accounted for over a third of total assets at end-2022 and covered more than half of short-term liabilities. At 12.2%, return on equity was above its pre-pandemic level at end-2019 (11.7%). The proportion of loans to the non-financial sector which were non-performing has been steadily decreasing since the end of 2013, to a record low of 2.8% at the end of 2022 (-0.2 pps year on year). However, financial diversification is progressing slowly, with banks still accounting for some 79.1% of financial sector assets at end-2021, only slightly lower than the end-2016 figure (84.7%). The share of foreign equity in total bank equity has been consistently high in the past 5 years, at about

¹⁴ 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 indicates that there are 88 SOEs, of which 35 are 100% owned by the government of North Macedonia.

75%.

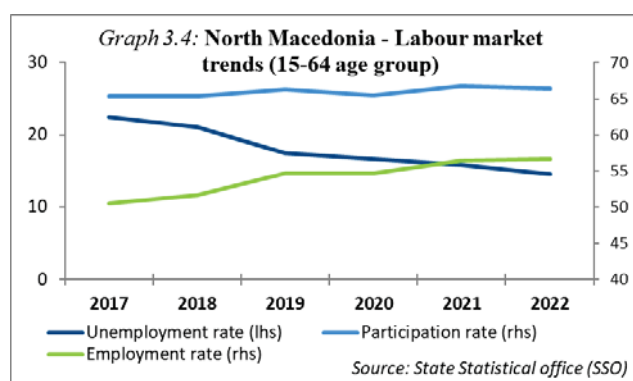
The legal and institutional framework for ensuring financial stability has been strengthened. In July 2022, the new Financial Stability Law was enacted, giving the relevant authorities in the financial sector a legal mandate to develop and implement macroprudential measures to maintain the stability of the financial system. The Law sets up the Financial Stability Council, which held its first meeting in November 2022 and submitted the first annual financial stability report to Parliament at end-March 2023. In February 2023, the Council of the National Bank adopted a new decision on the credit risk management methodology, so as to strengthen the management of non-performing and restructured loans, due to enter into force on 1 January 2024. In August 2023, the National Bank's decision to increase the countercyclical capital buffer to 0.5%, adopted in July 2022, entered into force. The National Bank has already scheduled increases in the countercyclical buffers to 0.75 by 2024Q2 and to 1% by 2024Q4. However, critical legislation including the Bank Resolution Law and the Deposit Insurance Law is not yet enacted by Parliament.

Access to finance

Growth in credit to the private sector decelerated, while deposit growth remained robust. Annual growth in loans to households and non-financial companies has also been decelerating since autumn 2022, with corporate loans particularly affected. Lending to nonfinancial corporations slowed down mainly on account of repayments of working capital loans linked to the surge in energy costs. Even so, over 2022 as a whole, private-sector credit growth accelerated by 3.8 pps to 9.6% year on year, before slowing in the first quarter of 2023 to 8.3%, and further to 6.4% in the second quarter. Foreign exchange loans are contributing most to the annual increases. The proportion of loans that were foreign-denominated rose by 0.8 pp year on year to 43.2% in the first quarter of 2023. The increase was more pronounced in the corporate sector, partly because corporations needed extra liquidity to cover their energy purchases. Overall, however, the currency denomination of domestic credit shifted further towards denar-denominated loans in the latter part of the year. While household demand for foreign currency deposits strengthened throughout the pandemic and energy crises, deposits in national currency have rebounded since early 2023, supported by the central bank's strategy of applying different reserve requirements for bank deposits in foreign and local currency. The share of foreign currency-denominated in total bank deposits amounted to 46.7% at the end of the first quarter 2023 (-0.7 pp year on year).

Functioning of the labour market

The labour market's resilience masks persistent structural problems. While fiscal support to employers was gradually withdrawn in the second half of 2022, the labour market



continued to prove resilient. The employment rate has steadily increased over the last decade. The COVID-19 pandemic interrupted this trend, but in the first quarter of 2023 the employment rate stood above the pre-pandemic level, at 56.5%. For 2022 as a whole, the average unemployment rate (15-64 age group) was 14.5%, compared with 15.6% in 2021. The labour force decreased by 1.3% year on year, with the bulk of the drop accounted for by women (-2%, compared with 0.8% for men). The labour market participation rate dropped to 66.4% in 2022 (-0.4 pps year on year). Young people in particular continue to

face obstacles to entering the labour market. In 2022, the government adopted a new implementation plan to strengthen the Youth Guarantee which has been in place since 2018 and which has contributed to a significant reduction in youth unemployment from 45.4% in 2018 to a still high 32.5% in 2022. The rate of inactivity in the labour market is particularly high for women and, after steadily narrowing between 2014 and 2019, the gender gap widened for the third year in a row in 2022 (by 0.8 pps to 24.1 pps.), as the participation rate for men remained stable (at 78.4%), while it dropped for women (to 54.3%). Long-term unemployment stands at around 80% of total unemployed, largely reflecting an entrenched skills mismatch. Spending on active labour market policies (0.3% of GDP in 2022) is relatively high in regional comparison, but lower than the EU average (0.6% of GDP). 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 the labour market. Average gross nominal wages rose by 11.1% in 2022, with the annual increase accelerating to 14.3% on average in the first half of 2023. Real wage growth turned positive as of April 2023 after raising the minimum wage according to the indexation mechanism that takes into account inflation and changes in average wages. The average tax wedge is regressive at the bottom of the income distribution: the average contribution rate therefore takes a much higher share of low-wage earners' total income.

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 EU. Integration with the EU in trade and investment remained at a high level in 2022. The share of high-value products in exports increased further and trade openness surged to a record high. There was further progress towards improving vocational educational training (VET), but major skills shortages persist relative to labour market needs, entailing long school-to-work transitions. These, coupled with large gaps in transport and energy infrastructure and low investment and innovation funding, are restricting potential growth. Digitalisation of the economy is advancing, but the competitiveness of domestic businesses could be improved through a wider offering of public e-services.

As the 2022 recommendations have not been fully implemented and remain mostly valid, North Macedonia should in particular:

- adopt the new Law on VET, the Law on secondary education and the Law on adult education, and increase financial and human resources to speed up reforms of the VET system;
- finish unbundling gas transmission systems, increase investment in new energy sources and enhance administrative capacity in the Energy Department of the Ministry of Economy and the Energy Agency;
- adopt secondary legislation under the Energy Efficiency Law and operationalise the energy efficiency fund; adopt the Law on biofuels and the energy efficiency renovation strategy for buildings; and establish a renewable energy guarantee of origin scheme.

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 well in terms of the number of people with higher education qualifications, curricula are not well suited to equipping graduates with skills to match labour demand. State financial support for education

is insufficient and coordination between the education sector and businesses is weak. In 2022, public spending on education and training amounted to 3.7% of GDP, about the average of the preceding 5 years. This is below both the EU-level (5%) and peer-country averages, and impedes implementation of the 2018-2025 education strategy. Moreover, spending is 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 ranking¹⁵, compared to 2015, but the country still ranks in the lowest quartile. VET curricula have been under review since 2019 to align them with labour market needs. However, the government has not yet adopted a new VET Law with a focus on inclusion, labour market needs and a new methodology of financing VET. The envisaged annual report on the implementation of the education strategy, which should include recommendations for a new formula for higher education funding, has not yet been published. The percentage of adults participating in learning was 2.6% in 2020, which is significantly below the EU-27 average of 10.8% (2021). Further development of qualifications is key to bringing medium-skilled and low-skilled people into the labour market.

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 remains significantly below the EU average. Participation of the private sector in overall research spending remains particularly weak, at 0.1% of GDP. Allocations to the Fund for Innovation and Technological Development and its programmes have increased, but their effectiveness, design and methodology could benefit from an independent evaluation. Links between businesses and others involved in innovation are very weak. To overcome the lack of strategic direction towards innovation, a smart specialisation strategy has yet to be adopted and implementation measures to be developed.

Physical capital and quality of infrastructure

Investment spending remains moderate despite a major need to increase physical capital. Gross capital formation (including inventories) rose to 35% of GDP in 2022 (+1.8 pps year on year), exceeding its pre-COVID level (2019: 34.5%). Investment in fixed assets (gross fixed capital formation) increased steadily in the 5 years to 2021 (latest data), when it reached 22.5%. This is above the average of 21.9% in the preceding 5 years, and close to the EU-27 average of 22.8% (2022). Investment in construction as a percentage of total investment in 2021 (55.2%) was down on its 5-year average (58.2%), while investment in machinery and equipment rose to 35.3% of total investment, above the average (32.8%). The share of private-sector investment in total investment remained steady in the 5 years up to 2021, at around 75%. In the face of the current energy crisis and 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 is progressing slowly. Road transport continues to dominate the transport sector. There is limited investment in other means of transportation and no consistent and intelligent system for managing and controlling traffic. Relatively low-quality transport infrastructure, as well as weak trade and transport logistics continue to present barriers for businesses. The joint electronic toll collection system between Serbia and North Macedonia has become operational, facilitating trade and travel between the two countries. There has been some progress on upgrading major road sections to highway level. Work has started on Railway Corridor VIII, which aims to link North Macedonia with Albania and Bulgaria and will give the country's companies an alternative export option via

¹⁵ PISA is the OECD's Programme for International Student Assessment.

Albanian and Bulgarian ports.

The digitalisation of the economy continues to advance, but is still at a low level compared with the EU. The percentage of households with internet access at home increased by 10.1 pps. between 2017 and 2021, to 83.6%. A fixed broadband connection to the internet is used by 88% of household users, and by 92% of businesses with 10 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 e-government services and develop digital skills.

The government is taking steps to incentive investment in energy efficiency improvements in the public sector. The economy is characterised by high-energy intensity with low efficiency in energy production and consumption. North Macedonia is a contracting party to the Energy Community Treaty and its government has committed to reducing the use of energy, which requires substantial investment. Further improving energy efficiency, including in residential and public buildings, is also important to lower the economy's dependence on energy imports and to enable a reduction in fiscal subsidies for energy. Yet, implementation of the 2020 Law on Energy Efficiency and the adoption of by-laws is lagging behind. In order to support energy efficiency investments in the public sector, which has the greatest potential to improve energy efficiency, the government is establishing an Energy Efficiency Fund (EEF). At the end of 2022, the government decided to establish the EEF within the Development Bank. The legal and regulatory framework for its establishment and operationalisation requires amendments to the Law on the Development Bank, which have been adopted by the Parliament in October 2023. Rules of procedure of the Fund and a project pipeline remain to be established.

The legal framework for investment in renewable energy sources was improved. Electricity generation is highly dependent on coal, and, with domestic coal reserves declining, on imports. The proportion of energy from renewable sources remains comparatively low, at 17.3% in 2021. The government plans to increase renewable energy to 35-45% of energy consumption by 2040, to reduce the country's high reliance on imported liquid fuel and natural gas. In November 2022, Parliament enacted amendments to the 2018 Energy Law incentivising investment in renewable energy sources, notably solar power. At the same time, the central bank began implementing a measure to encourage lending to the corporate sector to finance domestic electricity production projects from renewable sources.

The distribution of natural gas remains limited. Meanwhile, the distribution of natural gas is advancing, as an intermediate step in the decarbonisation process, with efforts made to enhance the transmission and distribution network. The natural gas market was liberalised in 2015. The number of connected users remains limited; in 2022, it increased by 10% year on year, to 550. Similarly limited are the length of the transmissions network (+5% year on year to 210 km) and the total distributed quantities. Gas accounts for some 11% of electricity production. There was little progress in the unbundling of the gas transmission system operator, now planned for end-2023. The work to connect to regional gas pipelines is making slow headway. 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.

Sectoral and enterprise structure

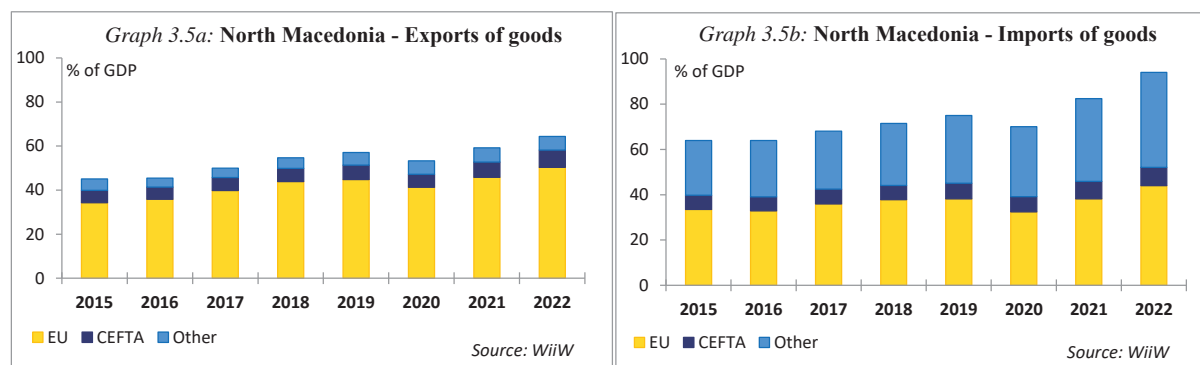
The diversification of the economy continued after the pandemic. The economy's output is strongly reliant on the manufacturing sector. Services and trade have only gradually increased their share in value added in recent years. Together, they accounted for some 66%

of total value added in 2022, about the same as a year earlier, and up from 60.4% in 2016. The share of manufacturing decreased slightly for the second year in a row, to 14.6% of value added in 2022, having progressively gained ground in the pre-pandemic years. The share of construction increased somewhat, in annual comparison, in 2022, to 6.2%, reflecting a recovery of investment after the pandemic, yet remaining below its average of 7% in 2017-2021. After steadily dropping over a number of years, the share of agriculture remained at 9% of value added, as in 2021.

Trade and services increasingly dominate the employment structure. In employment, too, trade and services assume an increasingly important role, accounting for close to 60% of total employment in 2022, compared with 58.4% in 2021. The manufacturing sector's share in total employment also rose in 2022, compared to the preceding year (+0.4 pps to 19.6 %), possibly reflecting in part the post-pandemic end of short working hour regimes and a pick-up in production. The construction sector accounted for 6.5 % of all employment, as in 2021, and the share of agriculture dropped by 1.8 pps year on year, to 10%.

Economic integration with the EU and price competitiveness

Trade openness increased steeply as both exports and imports surged. The economy posted a large increase in trade openness (exports and imports in goods and services as a percentage of GDP) in 2022, to a record high of 171% (2021: 148.5%, 2015-19 average: 120%), which is by far the highest level in the Western Balkans. Trade values increased by more than nominal GDP in 2022, largely reflecting the steep rise in energy imports, but also a large increase in export values. The share of higher-value added products in the export structure rose further in 2022, including chemicals (32% of total exports) and machinery and transport equipment (31%), at the expense of traditional exports such as iron and textiles (below 20%). In 2022, the EU was the country's most significant trading partner, accounting for 59.6% of total trade (78.3% of total exports compared with 77.3% in 2021 and 46.8% of total imports compared with 46.2% in 2021). As the second most important trading partner region, the Central European Free Trade Agreement accounted for 10% of total trade, with the share of exports slightly higher and the share of imports lower than in the preceding year (12.1% of total exports and 8.6% of total imports). EU countries also remain the biggest investors in North Macedonia, accounting for some 50% of total FDI inflows in 2022 (2021: 56%), but the EU-27 share in the total stock of direct investment has declined to 64% at end-2021, compared to 66% in 2015.



External competitiveness slightly deteriorated. In 2022, the real effective exchange rate (REER) of the local currency appreciated by 2.1%, on an annual basis, due to an increase in the nominal effective exchange rate in relation to the currencies of some of the trading partner countries, with relative prices remaining stable. The rise in real wages coupled with stagnant or declining productivity erodes price competitiveness. Nominal unit labour cost rose by some 7% in 2022, reflecting the stark increase in nominal wages, while productivity

growth remained muted. Over the last 5 years, the REER of the denar deflated by inflation has seen little change in either direction (on average a small appreciation of 1%). Concerns over external competitiveness have increased as wage growth has accelerated, fuelled by the 12% hike in minimum wages starting from April 2023¹⁶.

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 in the reporting period. The capacity of key institutions, contracting authorities and economic operators should be increased through continuous training. National authorities should introduce more effective anti-corruption measures across the procurement cycle. The direct award of the contract for the construction of Corridor VIII and X-d raises concerns as it exempts the project from applying the law on public procurement.

The recommendations from last year's report were not fully implemented and therefore remain valid. In the coming year, the country should in particular:

- adopt the public-private partnership law and the law on concessions, to further align the legal framework in these areas with the EU *acquis*;
- improve coordination among key stakeholders and strengthen their capacity to implement the principles of transparency, free competition, equal treatment and non-discrimination;
- further increase the use of 'most economically-advantageous tender' (MEAT) criteria for the award of contracts, and improve the monitoring of public procurement procedures through reporting and efficient follow-up of irregularities, conflict of interest cases and fraudulent practices.

Institutional set-up and legal alignment

The **legal framework** on public procurement is broadly aligned with the EU *acquis*. The practice of 'blacklisting' companies due to professional misconduct during the procurement phase continued, although this is not in line with EU rules. In 2022, 55 negative references were issued against 50 economic operators, of which 21 expired and nine were removed by the Public Procurement Bureau. By the end of 2022, 25 negative references issued in 2022 were active, as well as six negative references issued in 2018 and 2019.

The finalisation and adoption of the Law on PPP and the Law on concessions are still pending.

In March 2023, the government approved a contract for the construction of highway sections along Corridor VIII and X-d. The contract was directly awarded to an international consortium without a competitive procedure as the ad hoc Law on determining the public

¹⁶ Public sector wages were increased by 10 percent in September 2023, in addition to the linear increase as a result of the minimum wage increase in March 2023, as well as several separate decisions granting larger wage increases implemented in 2023. Higher average nominal wages accelerate the increase in pensions under the new indexation formula, thus creating additional demand pressures.

interest and the Law on nominating a strategic partner for the implementation of the project for the construction of infrastructure Corridor VIII and X-d adopted by the Parliament in 2021 exempts the project from the application of the law on public procurement. In May 2023, the Government submitted for adoption to the Parliament legal amendments that are necessary for the implementation of the project. These laws were labelled with the EU flag to fast-track the procedure although this was not an appropriate use of the procedure.

The 2022-2026 public procurement strategy is under way. According to the first monitoring report of 2022, 68% of the activities have been fully implemented, 8% are ongoing and 24% were moved forward to 2023. The Public Procurement Bureau (PPB) continued to modernise and improve the country's public procurement system and to enhance the system's performance and functionalities. However, the PPB's capacity, monitoring and control competencies need to be strengthened.

The Public Procurement Bureau and Ministry of Economy continued activities to accede to the WTO Agreement on Government Procurement (GPA). On 7 June 2023, the Committee on Government Procurement decided on the accession of North Macedonia to the GPA.

In 2022, a Memorandum of Understanding to exchange information and standardise procedures was signed between the Public Procurement Bureau, the State Appeals Commission, the Commission for the Protection of Competition, the State Audit Office and the State Commission for Preventing Corruption. This should result in a more effective exchange of data and information with the objective of enhancing consistency and integrity in implementing the legal framework.

The capacity of the Ministry of Economy, the Ministry that deals with concessions and PPPs, remains limited. In 2022, only one new agreement establishing a PPP was concluded. The PPP register and the register on concessions still need to be set up.

The electronic system for public procurement is working efficiently. Despite the development of an e-marketplace platform and e-catalogues, procuring entities demonstrated little interest in using this system. In 2022, 70 small value procurements were concluded using e-market. Contracting authorities' annual procurement plans 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 2022, the **public procurement market** amounted to 8.6% of the country's GDP as compared to 11% in 2021. It represented 25% of the state budget. The capacity of both central and local contracting authorities needs to be strengthened.

On the award criteria used in public procurement procedures, the use of 'most economically-advantageous tender' (MEAT) is still limited. In 2022, only 1 383 procurement notices out of 22 901 applied MEAT criteria (6.03%). There is a need for organisation of continuous training of contracting authorities on how to apply this criterion.

Contract award and implementation monitoring shows that the use of negotiated procurement procedures (number of procedures) fell to 6.6% in 2022, from 8% in 2021. An assessment of the use of centralised procurement and framework agreements by the Public Procurement Bureau is under way. The proportion of the overall value of public procurement awarded to SMEs increased to 57% in 2022 compared to 53% in 2021. Tender cancellation (number of procedures) increased to 31% compared to 28.8% in 2021. In 2022 the average

number of bids accounted for three bids per tender procedure and approximately one third of contracts were awarded in tender procedures with a single bid.

Capacity to manage public procurement processes needs to be further enhanced, especially by local authorities, to ensure a more coherent approach in managing the procurement cycle. The quality of tender documentation remains a challenge for smaller contracting authorities.

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

Efficient remedy system

The legislation on the **right to legal remedy** is broadly aligned with the EU *acquis*. The **implementation capacity** of the State Appeals Commission is insufficient for handling the number of appeals (967 in 2022, 1 109 in 2021). Additional qualified staff are needed to ensure timely processing of the appeals. In the reporting period, 83 complaints were filed against the decisions of the State Appeals Commission before the Administrative Court.

On the **prevention of corruption**, the public procurement strategy includes measures to fight against corruption and conflict of interest. However, the follow-up of red flag reports published on the PPB's website is insufficient. The country should improve institutional coordination with the State Commission for Prevention of Corruption and law enforcement institutions to follow up on the findings of red flag reports.

Chapter 18: Statistics

EU rules require Member States produce statistics based on the principles of professional independence, impartiality, reliability, transparency, and confidentiality. Common rules are in place 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 finalising the publication of the population census data in December 2022. Improvements are noted in most statistical areas and in aligning sectoral statistics with EU standards, including better use of administrative sources. Continued efforts are needed to improve the scope and data quality underpinning macroeconomic and social statistics.

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

- carry out the agriculture census by June 2024;
- urgently ensure adequate staffing and sufficient financial resources for the State Statistical Office;
- continue to improve macroeconomic statistics, notably by enhancing consistency, timeliness and coverage of excessive deficit procedure and government finance statistics and by further aligning financial accounts and quarterly national accounts with the European System of Accounts 2010 (ESA 2010).

The **statistical infrastructure** has reached a high level of alignment with the EU *acquis* and international standards. In February 2023, the government adopted a new programme for statistical surveys for 2023-2027. Another main statistical producer - 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. On quality management, in 2023 the State Statistical Office (SSO) introduced an internal quality audit to monitor the quality of products and processes. Human resources in the SSO have increased only slightly. However, the SSO's

annual budget for regular operations increased by 9.4% in nominal terms in 2023 compared to 2022, reversing the previous 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 for the development of an employment register. In June 2022, the SSO started to test the logical design of the new national statistical business register. Overall data submission to Eurostat has further increased.

The country made some progress on **macroeconomic statistics**. The SSO made very limited progress regarding the excessive deficit procedure (EDP) tables. The SSO transmitted EDP notification tables for North Macedonia to Eurostat in October 2022 and in April 2023. The latest submission included 2022 data (i.e. for the first time data for t-1). Significant further efforts are needed to improve the quality, consistency, coverage and timeliness of EDP tables and government finance statistics provided through ESA 2010 transmission programme. Moreover, to comply with ESA 2010 rules on sector classification, it is needed to reclassify without further delay inside the government sector a large public company with a substantial impact on government deficit and debt. For the quarterly accounts, tables on GDP by income approach were compiled and sent to ESTAT for publication in August 2023. However, further efforts are needed to ensure the completeness and quality of data submitted on quarterly national accounts.

Trade by invoicing currency (TIC) statistics for 2022 were submitted to Eurostat in March 2023 in line with the latest European Business Statistics Regulation requirements. In October 2022, the SSO began compiling quality reports in Eurostat's European Statistical System metadata handling tool. It also compiled quality reports on detailed data for 2020 and on TEC data (trade by enterprise characteristics - TEC) for 2019. 2020 TEC data are fully harmonised with the Methodological Manual for TEC statistics. In January 2023, these data were transmitted to Eurostat in SDMX format.

The central bank continued to transmit annual financial accounts stock data to Eurostat (data series 2013-2021, non-consolidated balance sheets only) and to prepare experimental quarterly financial accounts data (stocks and flows), and annual flows data by sub-sector and financial instrument. It produced and disseminated external sector data in line with the latest 6th BoP Manual (BPM6).

On **business statistics**, good progress was made. Regarding inward foreign affiliates statistics, data for 2020 were published in December 2022. In June 2023, the SSO carried out a third pilot survey on international trade in services statistics by geographical breakdown. Work on tourism satellite accounts (TSA) was completed. In September 2022, the first TSA data for 2019 was published and submitted to Eurostat. Based on the European business statistics requirement, the structural business statistics (SBS) compilation methodology improved, extending the coverage of activities, and refining the calculation of the variables and the technical format for the data transmission. An algorithm for calculating the basic variables for firms providing financial services was created and in October 2022, preliminary data for 2021 was sent to Eurostat. In March 2023, the final business data for 2021 were published. Work is under way to set up a 'complex enterprises' statistical unit. Regarding business demography, in June 2022 the SSO provided Eurostat with the complete set of data for 2020 as required by the Regulation.

Good progress was made on **social statistics**. The SSO published the 2021 population census data. Based on this census data, in June 2023 the SSO produced new time series of the population data at national level. Submission of the results of the survey on income and living

conditions has been delayed due to shortage of staff. The SSO started using administrative registers for education statistics. Crime statistics data for 2018-2021 were submitted to Eurostat in August 2023. In summer 2022, the SSO conducted a gender-based violence survey. The results were submitted to Eurostat but metadata are missing and the data are not disseminated. Labour force survey micro data and the 2020 labour cost survey data were not submitted to Eurostat during the reporting period.

Good progress is noted for **agricultural statistics**. In June 2022, the SSO carried out the pilot agricultural census. Preparations for the main agricultural census in 2024 need to be stepped up, including the legislative and budgetary framework. Data for fishery statistics were aligned to EU standards, published by the SSO and submitted to Eurostat in December 2022. For forestry statistics, the SSO assessed the data sources for the compilation of forestry accounts.

On **energy and environmental statistics**, in May 2023 monetary environmental accounts were compiled for the main tax categories as well as for expenditure on environmental protection. The scope of the environmental goods and services sector accounts was broadened. Moreover, physical energy flow accounts (PEFA) were compiled for each reference year between 2018 and 2020 using the 'PEFA builder'. Material flow accounts data were also regularly reported to Eurostat, although material flow balances are not yet included. The inclusiveness of energy balances data increased thanks to the inclusion of solar heat energy. Data collection for energy statistics improved thanks to the re-design and reduction of number of statistical surveys for data collection.

Chapter 32: Financial control

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. **Some progress** included the setting up of the Anti-Fraud Coordination Service Network, the adoption of the Organic budget Law and the Law on inspection, and the signature of a Memorandum of Understanding between the Parliament and the State Audit Office to strengthen follow-up on individual audit reports. On internal control and managerial accountability, the adoption of the public internal financial control (PIFC) Law has been delayed for more than two years. The efficiency of financial inspection needs to be strengthened. The independence of the State Audit Office is not yet guaranteed by the Constitution. The efficiency of parliamentary oversight of public funds and follow-up to audit recommendations needs to improve.

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

- adopt the new PIFC Law and related methodological tools and start to implement them to improve transparency, managerial accountability and sound management of public funds;
- adopt the draft state audit Law to strengthen the State Audit Office's (SAO's) independence, boost cooperation between the SAO and the Parliament, improve parliamentary scrutiny of individual audit reports and the follow-up of recommendations provided by SAO;
- ensure the efficient functioning of the Anti-Fraud Coordination Service Network (AFCOS) and improve the prevention, management and reporting of irregularities that affect EU funds.

Public internal financial control

PIFC initiatives are included under pillar VI of the 2022-2025 public finance reform programme. The implementation of the PIFC policy paper is included in the public financial management reform programme's annual monitoring report for 2022. The Organic Budget Law was adopted in September 2022 after a long delay but PIFC reforms continued to be undermined due to delays in adoption of the PIFC law and limited capacity of key institutions.

The legal framework for **internal control** is broadly harmonised with international standards. Its implementation needs to be further strengthened. 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 and consistent application of the manual on managerial accountability is yet to be ensured.

A new financial inspection Law was adopted by Parliament in January 2023 but **financial inspections** are not yet working efficiently. This will require strengthening capacity, further developing methodological tools and ensuring their implementation.

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

The **Central Harmonisation Unit** (CHU) continued to coordinate financial management and control and internal audit in the public sector, and to provide methodological guidance. A new unit for quality check on the financial management and control and internal audit operations was established. However, the capacity of CHU remains insufficient. CHU currently has eight staff for monitoring and reporting on the functioning of the overall internal control system, which encompasses more than 1 300 public entities.

External audit

The current **state audit** Law is broadly harmonised with international standards. The new state audit Law aimed at strengthening the public sector's external audit function and increasing the SAO's financial and operational independence - not yet guaranteed under the Constitution, should be adopted. The SAO carries out a compliance audit on the final government accounts of the core budget by June each year. In 2022, the audit covered 82% of expenditure, which is an increase of 2% from last year. This included expenditure covered by the regularity audit for an amount of EUR 3 182 million EUR (i.e. 77%), expenditure covered by the performance audit for an amount of EUR 188 million (i.e. 4%), and expenditure covered by the compliance audit for an amount of EUR 39 (i.e. 1%).

The 2021 annual report on the audits carried out was adopted by the Parliament in March 2023 and published on the SAO's website. Its **quality** was deemed sufficient. In 2022, the SAO carried out the full audit work programme consisting of 188 audits, including 171 regularity (financial and compliance) audits, 10 performance audits, two IT audits and five compliance audits. Reports were sent to Parliament for deliberation and published on the SAO's website. The quality of the audit reports is acknowledged by local and international stakeholders.

Regarding its **institutional capacity**, a new 2023-2027 SAO development strategy and related action plan were adopted in September 2022. The strategy closely aligns with the priorities and measures set out in 2022-2025 public financial management reform programme. The SAO continues to work on the 2020-2023 human resources management strategy. The new SAO systematisation act, approved in December 2022, provides for 245

job posts, of which 114 or 46% are filled (104 audit staff, seven administrative support staff and three technical staff).. In 2022, SAO staff increased by one person. The SAO's 2023 budget was approved, and it has continued to implement the annual plan for the professional development and training of state auditors, to raise awareness of its activities among citizens and the media, and to implement the 2020-2023 communication strategy.

On the **impact of audits**, in 2022 some actions were taken in response to 80% of the audit recommendations. Cooperation between the SAO and the Parliament continued to improve and a Memorandum of Understanding between the two was signed in October 2022. Nevertheless, parliamentary scrutiny over budget preparation and implementation needs to be further enhanced. Transparency and accountability in the management of public funds needs to be strengthened. This will require efficient monitoring mechanisms by the executive and the Parliament and the effective implementation of audit recommendations.

To combat corruption, PIFC institutions and the SAO should strengthen cooperation with anti-corruption/law enforcement institutions. Moreover, monitoring systems should be strengthened and mechanisms to monitor the number of cases investigated, prosecuted and subject to court resolutions as a result of internal audits or inspections should be developed.

Protection of the EU's financial interests

Some progress was made in 2022 on the protection of EU's financial interests. The legal basis to formally establish the framework for the protection of EU's financial interests (AFCOS) was adopted in December 2022 and AFCOS' staff has been extended to five employees. National legislation is broadly aligned with the EU Directive on fighting fraud affecting EU's financial interests by means of criminal law. Amendments to the Criminal Code to further align it with the EU *acquis* were adopted by the Parliament in February 2023. The national 2022-2025 anti-fraud strategy and related action plan were adopted by the government in June 2022. The national authorities reported 85 cases of irregularities through the irregularity management system in 2022, of which one case was reported as suspected fraud. This is a further consolidation of the reporting trend of the last four years, which has seen a considerable improvement in comparison with previous years. The national authorities should continue their good cooperation with the European Commission on investigations.

Protecting the euro against counterfeiting

On **alignment with the EU *acquis***, national legislation is to some extent aligned with EU regulations setting out the system for fighting euro counterfeiting. Progress in the reporting period has been limited. The National Bank continued to improve its capacity by organising online trainings courses and by involving experts from all key institutions in capacity building.

The capacity 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 set up.

3. GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION

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

North Macedonia maintained its engagement in a number of regional initiatives such as the Central European Free Trade Agreement, the Energy Community, the Transport Community,

the South-East European Cooperation Process and the Regional Cooperation Council. North Macedonia also actively participated in initiatives such as the Central European Initiative and the Centre for Security Cooperation.

The **EU-Western Balkans Summit** in December 2022 took place for the first time in the region, in Tirana. The summit focused on the support to the region in the fields of energy and migration, and on youth cooperation, roaming, green lanes and overall progress on implementing the Economic and Investment Plan.

On the **Common Regional Market**, a political breakthrough was achieved at the Berlin Process Summit in Berlin in November 2022, where leaders adopted three mobility agreements respectively on higher education qualifications, on professional qualifications and on free movement with identity cards. North Macedonia has ratified all three mobility agreements and has deposited the related notification instruments. A number of important decisions agreed at the technical level within CEFTA remain blocked.

Overall, the country's cooperation and **bilateral relations** with other enlargement countries and neighbouring EU Member States continued to evolve positively.

Bilateral relations with **Albania** remained good. In November 2022, the governments of North Macedonia and Albania held a second joint session in Skopje, during which the two countries signed 21 bilateral agreements and memorandums of understanding for joint cooperation in a number of areas, including security, defence, infrastructure, energy, education, science and culture. Both governments agreed on three initiatives on Corridor VIII infrastructure of, the construction of a dry port in Struga, and the opening of the new Struga-Pogradec border crossing point. Albania and North Macedonia will also set up joint investigation teams in the fight against organised crime. The countries also agreed to pursue cooperation on defence, security, digitalisation, border control, improving child protection and the use of Albanian sign language in both countries.

Relations between the North Macedonia and **Bosnia and Herzegovina** continue to be good. The two Foreign Ministers met in the margins of the meeting of the Berlin Process and Foreign Ministers of the six Western Balkan countries in London. At the beginning of 2023, the Foreign Minister of Bosnia and Herzegovina paid an official visit to North Macedonia. Several bilateral agreements are in place, including on cooperation on EU integration.

Bilateral cooperation with **Kosovo** continues to be intensive and constructive, with several meetings held at the highest level. The President of Kosovo visited North Macedonia in April 2023. The Parliament of Kosovo set up a Group for Friendship with North Macedonia. The Speaker of the Parliament of Kosovo paid an official visit to North Macedonia in December 2022. In March 2023, the two Prime Ministers met in the margins of the Delphi Economic Forum.

Bilateral relations with **Montenegro** continued to be good. In February 2023, there were comprehensive political consultations between the Foreign Ministries of both countries at State Secretary level, focusing on bilateral, EU and NATO-related issues. In February 2023, the President of North Macedonia met with the Prime Minister of Montenegro in the margins of the World Economic Forum in Davos. The Foreign Minister held meetings with the President and Prime Minister of Montenegro in the margins of the Adriatic Charter meeting in March 2023. The two Prime Ministers met in the margins of the Delphi Economic Forum in March 2023. The two countries signed a Programme of Cooperation on culture for 2023-2026.

Bilateral relations with **Serbia** are good. The two Prime Ministers met in the margins of the Munich Security Conference and the Foreign Ministers met twice in the margins of other international events. In January 2023, the Serbian Defence Minister paid an official visit to North Macedonia, and the two Ministers of the Interior signed a Protocol on border controls at the joint Lojane-Miratovac border crossing point. In March 2023, the Prime Minister of North Macedonia visited Belgrade. During the visit, three memorandums of understanding were signed on measures promoting the movement of persons and goods, cooperation in the mining and energy sector, and a project to establish an interoperable electronic road tolling system. In April 2023, a memorandum of understanding on cooperation in EU integration was signed.

Relations with **Türkiye** are good. The two countries celebrated 30 years of diplomatic relations. The Chairperson of the Turkish Grand National Assembly paid a visit to North Macedonia in November 2022. In the wake of the devastating earthquake in the eastern part of Türkiye in February 2023, the government dispatched humanitarian aid, and soldiers and members of the Directorate for Rescue and Protection to provide aid. In February 2023, the two countries signed a memorandum of cooperation on youth and sports.

Relations with **Ukraine** have intensified since the beginning of Russia's aggression. North Macedonia declared support for Ukraine as a priority for its OSCE Chairmanship in 2023. North Macedonia supports the territorial integrity and sovereignty of Ukraine, condemning Russia's aggression against Ukraine. North Macedonia has provided humanitarian and military assistance and is fully aligned with the EU's package of restrictive measures against Russia. North Macedonia and Ukraine have agreements on trade, the protection of investments, culture, education, tourism, transport and military cooperation. A visa-free regime has been in place for short stays since 2019.

Relations with **Georgia** are good. In his capacity as incoming OSCE Chairperson-in-office, North Macedonia's Minister of Foreign Affairs met with his Georgian counterpart December 2022. An agreement on culture is in place.

Relations with **Moldova** are good. North Macedonia, through its chairpersonship of OSCE follows the Transnistrian settlement process. In his capacity as OSCE Chairperson-in-office, North Macedonia's Minister of Foreign Affairs travelled to Chisinau to address some of the challenges Moldova is facing, in particular the situation in Transnistria. Both countries have agreements in place on transport, trade, customs, finance, medicine and health, police, foreign affairs and consular matters. There is no visa-free regime between both countries.

During the reporting period, relations with **Bulgaria** focused on the next steps in North Macedonia's EU accession negotiations process and on the bilateral commitments under the Treaty of Friendship, Good-Neighbourliness and Cooperation and its Protocol. North Macedonia set up an inter-ministerial working group, chaired by the Minister of Foreign Affairs, to coordinate implementation of measures provided for in Protocol. Thematic sub-groups were also created on: hate speech; rehabilitation of victims of repression from the communist period; implementation of recommendations adopted by the Multidisciplinary Expert Commission on Historical and Educational Issues; and protection against discrimination. The Multidisciplinary Expert Commission on Historical and Educational Issues held several meetings during the reporting period. In October 2022, the President of North Macedonia paid an official visit to Bulgaria, and a month later the Foreign Minister went on an official visit to Sofia. In October 2022, the two Prime Ministers launched the construction works on the eastern railway segment of Corridor VIII in North Macedonia at a ceremony attended by several ministers from both countries. In December 2022, the two Foreign Ministers opened a bilateral business forum in Skopje. At the forum, four agreements

worth over EUR 3 million were signed by companies from both countries. Bilateral relations were negatively affected by statements made by individual politicians and by several incidents, in particular those relating to Bulgarian cultural clubs, to celebrations of historical events and historical figures, football events and to the denial of entry of citizens, including Members of the European Parliament. The relevant authorities in North Macedonia took some steps to address these situations, and, where necessary, establish accountability, including by launching investigations and bringing those responsible for criminal acts to justice. Further efforts are needed to promote an atmosphere of dialogue and mutual respect.

Cooperation with *Greece* intensified, particularly in key areas of mutual interest. Progress was made on implementation of the Prespa Agreement and further efforts should continue in this regard. Several meetings were held at Prime Minister and Foreign Minister level. In October 2022, the two Prime Ministers met in the margins of the European Political Community in Prague. In November 2022, the permanent mixed border commission held its 10th meeting. In December 2022, the Foreign Minister of North Macedonia paid an official visit to Greece, followed by a visit by the Deputy Prime Minister in charge of EU Affairs in January. The Greek Foreign Minister visited Struga in June 2023 to participate in the Prespa Forum Dialogue. The two countries intensified energy cooperation on the construction of the natural gas interconnector between North Macedonia and Greece.

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 financial services and on consumer and health protection. Limited progress was made on the free movement of goods, rights of establishment to provide services. No progress was made on company law, intellectual property law and competition policy and freedom of movement for workers.

Overall, more progress is needed in the coming year in the areas covered by this cluster as it will feed into the preparations of North Macedonia 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** on the free movement of goods. Although national legislation allows products to be traded freely, alignment with the latest EU *acquis* needs to be intensified. **Limited progress** was made on last year's recommendations by the

adoption of two laws to align with the EU General Products Safety Directive. Most of last year's recommendations therefore remain valid.

In the coming year the country should, in particular:

- adopt the Law on market surveillance and the implementing legislation necessary to complete the alignment with the EU General Products Safety Directive, and start to significantly increase the human resources that ensure market surveillance;
- prepare and adopt a new action plan to eliminate non-tariff barriers to trade and ensure compliance with Articles 34-36 of the Treaty on Functioning of the European Union (TFEU);
- finalise and adopt a strategy for the free movement of goods to ensure further alignment of national legislation with the relevant EU *acquis*.

General principles

The country has set up the institutional framework for the **production, distribution and marketing of industrial products**. A new Law on technical requirements and a Law on general product safety designed to align with the relevant EU *acquis* were adopted, but the relevant implementing legislation has not yet been adopted. A new Law on market surveillance also needs to be adopted.

Non-harmonised area

The follow-up and implementation of compliance with **Articles 34-36 TFEU** is ensured by the Ministry of Economy. The Ministry has completed a screening of the national legal framework to identify areas not compliant with these articles. The drafting of an action plan for the elimination of non-tariff barriers to trade and to ensure compliance with Articles 34-36 TFEU is under way. This should be completed, adopted, and implemented.

Harmonised area: quality infrastructure

The necessary institutional and legal structure for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance is in place. The National **Standardisation** Institute is a full member of the European Committee for Standardisation (CEN) and the European Committee for Electro-technical Standardisation (CENELEC), and participates in the work of relevant EU standardisation bodies. It adopted 24 953 European standards as national standards and adopted 84 national standards.

By June 2023, North Macedonia had 19 active **conformity assessment** bodies for calibration, testing, medicinal laboratories, product and process certification and inspection. The Institute for **Accreditation** of the Republic of North Macedonia is a member of the International Accreditation Forum, of the European co-operation for Accreditation (with which it has signed a Multilateral Agreement) and also party to the Mutual Recognition Agreement of International Laboratory Accreditation Cooperation (ILAC). It ensures the accreditation procedures for testing, calibration and medical laboratories, product certification bodies, and inspection bodies. There is no national accreditation scheme for the certification of personnel and for 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. It has well equipped calibration laboratories for mass, temperature and relative humidity, length and angle, pressure, volume and flow, time and frequency, electrical quantities, acoustics and vibration and one laboratory for testing the quality of

fuels. All accredited laboratories are signatories to the European Accreditation Multilateral agreement.

The State Market Inspectorate (SMI) is the **main market surveillance** body, along with the State Technical Inspectorate and the State Sanitary Inspectorate. There is also a coordination body for market surveillance. In 2022, the SMI carried out 539 inspections under the general **product safety** law (up from 428 in 2021) and 168 under the construction products law (up from 20 in 2020). This led to 59 harmful products being taken off the market, in particular textiles and toys. The Inspectorate has 257 employees, but an insufficient number of licenced inspectors (151). There is no efficient software system for market surveillance document management in place, including for the recording of inspection results or proper risk planning and management.

Harmonised area: sectoral legislation

On **‘new and global approach’ product legislation**, the level of alignment with the EU *acquis* remains low. No progress was made on aligning with the relevant EU *acquis* during the reporting period. Since January 2023, 10 Eurocodes with 58 standards and 57 national annexes have become obligatory in the construction sector.

National legislation is not yet aligned to the latest EU **‘old approach’ product acquis** on motor vehicles, two or three wheeled vehicles, tractors (agricultural, forestry), or non-road mobile machinery emissions. New laws on these products aligned with the relevant EU *acquis* need to be adopted. No progress has been made on alignment with the EU *acquis* on chemicals, including the Regulations on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), chemicals, classification, labelling and packaging of substances and mixtures (CLP), good laboratory practices (GLP), and **fertilisers** and **detergents**. Administrative capacity in the area of **firearms** also remains insufficient.

On **procedural measures, notification procedures** for standards and technical regulations are ensured by the Ministry of Economy and the Standardisation Institute. National legislation is partly aligned with the EU *acquis* on returning **cultural goods** unlawfully removed from a Member State. On **drug precursors**, import or export of these products has to be pre-approved, and is tracked by a national IT system, and legal entities are obliged to report to the authorities any suspicion of abuse of manufacturing, marketing, unusual orders, theft or any other illegal activity regarding narcotic drugs and psychotropic substances. On **civil explosives**, economic operators need to be licenced by the authorities to buy, sell, import and export, and use these products, and an electronic system is in place to track the purchase, transfer, import, transit, and export of explosive for civil use.

The national strategy for the prevention of corruption pointed out that the inspectorates responsible for market surveillance and product safety are vulnerable to corruption, and that they have unclear and overlapping powers, and inadequate staffing.

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 for workers. **No progress** was made in addressing last year’s recommendations, but the authorities organised capacity building activities for civil servants who will work on the European network of employment services (EURES) and the European Labour Authority (ELA).

Last year's recommendations therefore remain valid. In the coming year, North Macedonia should in particular:

- strengthen the capacity of the Employment Service Agency, by continuing training activities, and further align legislation and exchange of good practices, in line with EURES and ELA regulations;
- continue to adapt the legal framework to the EU *acquis* on access to the labour market, particularly to rules on non-discrimination on grounds of nationality against EU workers in all sectors;
- continue negotiating and concluding bilateral agreements on social security coordination and healthcare insurance with EU Member States and put in place administrative measures to prepare for accession.

No progress was made on aligning national legislation with the EU *acquis* on **access to the labour market**. Foreign workers entering the country require a work permit. The Agency for Employment issues several types of work permits for foreign workers in line with the annual quotas set out in the Law on employment of foreigners. EU citizens still cannot access public administration posts and some posts in private companies are also exclusive to citizens of North Macedonia. In 2022, North Macedonia issued 800 work permits to foreign workers and 334 during the first five months of 2023.

Capacity building activities for public servants took place in the area of **EURES** and the **European Labour Authority** over the reporting period.

No new agreements for bilateral **coordination of social security systems** or for mutual recognition of the healthcare services were concluded in the reporting period. The country has 23 bilateral agreements in place for the coordination of social security systems, out of which 13 are with EU Member States. It also has 18 agreements in place for mutual health insurance, out of which 12 are with EU Member States.

Citizens of nine EU Member States may use the **European Health Insurance Card** and the Card is recognised by public and private healthcare institutions in the country that have a contract with the Fund for Health Insurance.

The Employment Service Agency needs to adopt an integrity policy document strengthening the efforts to fight corruption.

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. EU rules on postal services focus on improving the quality of universal service, gradually opening the market to competition, and the establishment of an independent regulator.

On the right of establishment and the freedom to provide services, North Macedonia is **moderately prepared**. It made **limited progress** notably on alignment with the Services Directive. The legislative framework in the areas of postal services and mutual recognition of professional qualifications remains to be aligned with the EU *acquis*.

Last year's recommendations remain valid. In the coming year, North Macedonia should in particular:

- adopt and start implementing the 2024-2025 action plan to ensure that sectoral laws

comply with the EU Services Directive, and increase the amount of information and ensure online access to services under a Point of Single Contact;

- further align legislation with the EU *acquis* on postal services, including with the Postal Services Directive and with the Regulation on cross-border parcel delivery;
- align with the EU *acquis* on mutual recognition of professional qualifications, including Directive on recognition of professional qualifications and Directive on a proportionality test before adoption of new regulation of professions.

On the **right of establishment and freedom to provide cross-border services**, North Macedonia continued to align its legislation with the EU Services Directive by adopting amendments to the Law on performing accounting activities and the Law on mineral resources. A new 2024-2025 action plan to address non-compliance of sectoral laws is being prepared. The point of single contact (www.uslugi.gov.mk) needs to be developed and upgraded to meet the requirements set out in the Services Directive. By September 2023, 238 services for citizens and businesses were accessible online (applications may be submitted electronically).

In the area of **postal services**, national legislation is aligned with the 1997 and 2002 Postal Services Directives and partly with the 2008 Postal Services Directive, as the designated universal service provider (the Post of North Macedonia) still has the exclusive right to provide reserved postal services until 31 December 2023. The Postal Agency is the independent regulatory authority ensuring compliance with postal law and monitoring quality of service against European standards for universal service provision in North Macedonia. There are currently one universal service provider and 33 other postal operators. In view of the near future postal market opening to full competition, preparations are ongoing to set up systems for accounting separation and net cost calculation of the universal service, in line with the Postal Services Directive. North Macedonia is preparing to align its framework with the Regulation on cross-border parcel delivery services. The Postal Agency and the Ministry of Transport and Communications should ensure they have sufficient administrative capacity to monitor and enforce the new postal market rules.

No progress was made on the **mutual recognition of professional qualifications**. The law designed to align with the relevant EU *acquis* has not yet been adopted. National legislation still needs to align with EU Directive 2005/36/EC to comply with minimum training requirements. A transparent list of all regulated professions and an electronic register are yet to be put in place. The institutional capacity of the Ministry of Education and Science's section dealing with the 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, with 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 on further aligning national law with the EU *acquis*, with the adoption of a new law to fight money laundering and financing of terrorism and implementing legislation on the law on payment systems and services. There is a need to swiftly further strengthen administrative capacity. In the coming year, the country should, in particular:

- refine, adopt and implement the roadmap with actions and timelines for applying EU rules on the free movement of capital, including the acquisition of agricultural land;
- continue to implement the new law on payment systems and services, including through market entry of new payment services providers, contributing to a broader high quality set of secure payment services, and through advancing the establishment of the unified register of bank accounts;
- on the fight against corruption, implement the new legislation on prevention of money laundering and financing of terrorism in line with the EU *acquis*, including by adopting the implementing legislation and by upgrading the register of beneficial owners.

North Macedonia maintained some restrictions on **capital movements and payments**. For example, the opening of a bank account abroad by residents is still subject to restrictions and authorisation. The same conditions apply if residents want to receive insurance services abroad. Non-residents can still not acquire agricultural land. In this respect, North Macedonia is lagging on its obligations under the Stabilisation and Association Agreement. The country should further refine and begin to implement the roadmap for applying EU rules in this area, in line with obligations under the Stabilisation and Association Agreement. North Macedonia maintains a register of direct investments and a register of real estate investments for both non-residents investing in North Macedonia and residents investing abroad. The registries are largely for statistical purposes and transactions cannot be blocked for failing to be registered therein.

In January 2023, the law on **payment systems and services** entered into force. Good progress was made in terms of alignment of national legislation with EU rules on payment services, as the National Bank adopted a significant number of implementing acts on payment institution licensing, e-money institutions and payment system operators, as well as on their oversight. Moreover, steps were taken to facilitate the comparison of fees among payment service providers. As required by the fifth Anti-Money Laundering (AML) Directive, the law on payment systems and services also plans for a unified register of bank accounts to be set up under the Central Registry.

The new Law on the fight against money laundering and the financing of terrorism that aims to align with the fifth AML Directive entered into force in July 2022. After the onsite visit of the Council of Europe's Committee of Experts on the Evaluation of AML Measures and the Financing of Terrorism in September 2022, the Moneyval plenary adopted the fifth Moneyval report in May 2023. In this report, North Macedonia has been rated compliant or largely compliant in 28 of 40 FATF recommendations. Among the shortcomings identified are a modest number of convictions related to money laundering, concerns about the proportionality, dissuasiveness and effectiveness of pecuniary sanctions, the data quality of the Beneficial Ownership Register, lack of sanctions for failures related to basic or beneficial ownership information, technical deficiencies on confiscation, lack of systematic approach to conducting a financial investigation, and a low number of Suspicious Transaction Reports compared to the to the risk, context, and size of the country. The Financial Intelligence Office prepared ad hoc assessments of specific trends, such as money laundering threats, proliferation financing and transactions conducted through fast money transfer service providers. It also improved its IT applications. In 2022, obliged entities submitted 258 suspicious transactions reports (315 in 2021). The Office sent 44 reports (92 in 2021) of money laundering and terrorism financing cases and 159 notifications (305 in 2021) of other cases to law enforcement bodies. (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. **No progress** was made during the reporting period. The country needs to step up efforts to align its legislation with the EU acquis in this area.

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

- align national legislation with the *acquis* on encouraging long-term shareholder engagement, on cross-border conversions, mergers and divisions and on the use of digital tools and processes in company law;
- adopt legislation on accounting and on audit aligned with the latest EU *acquis* in these areas, to include strengthening the role and capacity of the Council for Advancement and Oversight of Audit.

On company law and corporate governance, alignment with the Company Law Directive is well advanced on the formation, registration and domestic, mergers of companies. The Central Registry provides a modern one-stop-shop system where company registration and the filing of documents - including financial documents - can be carried out fully online. In the future, the national business register should be technically ready to interconnect with the EU Business Registers Interconnection System. The 2021 Corporate Governance Code is only mandatory for listed companies that meet certain criteria. National legislation is broadly harmonised with the EU *acquis* on the legal forms *Societas Europaea* and European Economic Interest Grouping, while draft legislation to partially align with the EU *acquis* on a European cooperative society awaits adoption by Parliament. Further alignment is necessary with the EU *acquis* on cross-border operations (mergers, divisions, conversions), as well as with the rules on the encouragement of long-term shareholder engagement (2017 Directive), and 2022 Directive on gender equality on boards of directors.

On company reporting, a draft Law on accounting, aimed at further alignment with the EU *acquis* in this area, is going through the adoption process. North Macedonia will need to align with the most recent *acquis* (2022) on corporate sustainability reporting. International financial reporting standards apply to all companies, with no reduced obligations for small and medium enterprises as provided for in the EU *acquis*. Although certain provisions of the *acquis* on transparency requirements for listed companies are already well reflected in current national legislation, further alignment is needed in this area. Adoption is also pending of a new draft law on audit, aimed at reaching greater harmonisation with the EU *acquis*, including the area of investigations and sanctions. Currently, there is no body with ultimate responsibility for statutory audit oversight, as required by the EU Audit Directive. The visibility and overall performance of the Council for Advancement and Oversight of the Audit remains poor. Efforts are needed to ensure its independence.

Chapter 7: Intellectual property law

The EU has harmonised rules for the legal protection of intellectual property rights (IPR), copyright and related rights. Rules for the legal protection of IPR cover for instance, patents and trade marks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, software and broadcasting.

North Macedonia remains **moderately prepared** in the area of intellectual property law. **No progress** was made over the reporting period. Further efforts are needed to align the legislation with the EU *acquis* in this area.

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

- further improve the legal framework on copyright and related rights, notably by aligning with the Directive on collective rights management and the Directive on orphan works;
- further improve the legal framework on industrial property rights, by aligning with the Directive on the enforcement of intellectual property rights and with the Directive on trade secrets;
- implement the 2021-2026 intellectual property strategy and make operational the online information platform for law enforcement institutions to exchange data on intellectual property rights.

In the area of **copyright and related rights**, the adoption of the amendments to the Law on copyright to further align it with the EU *acquis*, including on the collective rights management system, orphan works and certain permitted uses of certain works and other subject matter protected by copyright and related rights, for the benefit of persons who are blind, visually impaired or otherwise print-disabled remains delayed. North Macedonia is not yet aligned with the Directives on online transmissions of broadcasting organisations and retransmissions of television and radio programmes (SatCab II Directive), on copyright and related rights in the Digital Single Market (DSM Directive). The relevant intellectual property rights unit in the Ministry of Culture remains significantly understaffed.

Regarding **industrial property rights**, the State Office for Industrial Property (SOIP) continued its cooperation with the EU and international bodies, in particular with the EU Intellectual Property Office (EUIPO). The SOIP also started to fully use EUIPO's harmonised database of products and services for the registration of trade marks. North Macedonia needs to further align its legislation with the EU *acquis* in this area, in particular on patents, trade secrets, and the Directive on IPR enforcement.

On **enforcement**, the hardware infrastructure of the information platform for exchanging IPR-related data, still needs to be made operational, in order to provide full insight into the institutional handling of IPR infringements. The coordination body for the protection of intellectual property needs to step up its activity to address the key challenges related to IPR. Substantial work is needed on the overall enforcement of IPR.

From January until the end of August 2023, there were 18 cases of suspected infringement of intellectual property rights involving 22 380 pieces of 43 trademarks of seized goods. Violation of intellectual property rights was confirmed in 7 cases (for 9 588 pieces) involving 12 international trade marks.

Chapter 8: Competition policy

EU rules protect free competition. They include antitrust rules against restrictive agreements between companies and the abuse of a 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 in the reporting period. The Commission for Protection of Competition (CPC) continues to face budgetary and capacity constraints. The enforcement record remains low.

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

- further align the legislative framework, in particular the implementing legislation in the area of State aid and antitrust, with the EU *acquis*.
- ensure full transparency of State aid granted by the authorities;
- strengthen the administrative and financial capacity of the national competition authority.

Antitrust and mergers

The **legislative framework** is broadly aligned with the EU *acquis* in the area of antitrust and mergers, although parts of implementing legislation remain to be aligned.

On the **institutional framework**, the 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 remains 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 undermines enforcement.

On **implementation**, the number of merger decisions increased from 81 in 2021 to 101 in 2022, including decisions on small cases. The CPC should increase onsite inspections and use the leniency instrument to strengthen enforcement. Further strengthening, including training of judicial professionals is needed on the application of antitrust and merger rules.

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 CPC issues non-binding opinions and binding decisions on State aid. The enforcement capacity of CPC staff dealing with State aid control remains insufficient.

Concerning **implementation**, the CPC issued 27 decisions and 33 opinions on State aid in 2022. No negative or conditional decisions were adopted by the CPC in the reporting period. One procedural order has been adopted on completion of procedure examining the existence of unlawful State aid. Increased awareness among aid-granting public bodies of the existence of State aid rules is reflected in the growing number of requests for opinions and notifications of State aid submitted by the ministries to the CPC.

Liberalisation

Antitrust 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 among, and the stability of, financial institutions, namely banking, insurance, supplementary pensions, investment services and securities markets. They include rules on authorisation, operation and supervision of these institutions.

The country remains **moderately prepared** in the area of financial services. **Some progress** was made on further alignment with the EU *acquis* on banks and financial market infrastructure, namely through adoption and entry into force of new legislation on payment services and payment systems, on financial stability, on credit risk management, and on disclosure of banks' data and reports. Alignment with the EU *acquis* on the supervisory and regulatory framework for credit institutions and financial market infrastructure is well advanced. Alignment in the area of insurance and capital market is still lagging behind, partly due to the size and the structure of the market. The central bank organisational set up was restructured to reflect its function of a bank resolution authority. The continued failure to effectively tackle and prevent unregistered and uninsured vehicles is a concern.

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

- adopt the recovery and resolution law to allow for the possibility to design a bank resolution authority and amend the law on deposit insurance as well as the banking law to improve deposit insurance in line with EU requirements;
- advance with the preparation and adoption of key pieces of legislation that regulate capital markets, namely the Law on financial instruments and the Law on prospectuses and transparency of security issuers;
- address gaps in alignment with the revised versions of Capital Requirements Regulation and Directive, notably with the net stable funding ratio and align with the Solvency II Directive, notably pillar 1 and pillar 3 of that Directive.

On **banks and financial conglomerates**, North Macedonia adopted in February 2023 a new methodology on credit risk management and a decision on disclosure of banks' data and reports, partly aligning with both the Capital Requirements Regulation and Directive. The central bank restructured its organisational set-up by establishing a new department for banking regulation and bank resolution, separate from the bank supervision sector. Basic ratios of the banking sector continue to be well above the minimum requirements. The Law on deposit insurance and the Banking Law have not yet been amended to improve deposit insurance, including to introduce depositor preference, in line with EU requirements and to address the concerns raised by the Constitutional Court in June 2021 revoking priority to the claims of the deposit insurance fund on a failed bank. Neither the legislation nor the capacity of the Ministry of Finance to license and supervise financial companies sufficiently protect consumers and both therefore require reinforcement. Legislation on the bank resolution authority (including a Law on bank resolution and its implementing legislation and amendments to the Law on the central bank and the Banking Law) is yet to be adopted. The legal and institutional set-up for establishing the financial Ombudsperson is yet to be finalised. Legislation aligning with the requirements of the Covered Bond legislation is yet to be implemented.

On **insurance and occupational pensions**, legislation aligning with the Solvency II Directive is yet to be adopted. A new rulebook on life insurance was issued linked to the

investment risks an insured person undertakes when investing in shares via investment firms. Legislation still allows the Ministry of Finance to set premiums for motor vehicle insurance, which is contrary to the EU *acquis*. Data on the proportion of vehicles that are uninsured is available, but it is unclear whether these vehicles are actually in circulation. Based on the number of non-insured vehicles discovered through controls, the portion of uninsured vehicles was 5.8% in 2022. No systemic measures are taken to prevent uninsured driving. The 50% limit on investing in non-domestic securities by pension funds is still in place, contrary to the EU *acquis* and the second stage of the Stabilisation and Association Agreement (SAA).

On **financial market infrastructure**, provisions of the new Law on payment systems and services aim to achieve a high level of alignment with the settlement Finality in payment systems. Provisions of the *acquis* related to securities settlement systems still need to be reflected in the domestic legislation of North Macedonia. The country's legislation is not yet aligned with the Financial Collateral Directive and new legislation in this area remains to be adopted. The new Law on financial stability adopted in August 2022 regulates the status, composition, tasks and functioning of the Financial Stability Committee, an interinstitutional body that monitors the financial system and foresees actions to prevent financial instability.

As regards **securities markets and investment services**, the Securities and Exchange Commission issued legislation on the issuance and registration of foreign securities on domestic markets, as planned under the second stage of the SAA. Legislation still needs to be further aligned with the EU *acquis*, including the Markets in Financial Instruments Directive, the Prospectus Regulation, and the Capital Requirements Directive, as well as provisions on liquidity and solvency ratios for brokerage houses. Moreover, North Macedonia is still to align with the EU *acquis* with respect to MiFIR (Markets in Financial Instruments and Amending Regulation) and benchmarks. As regards investment funds, North Macedonia has adopted legislation to align with the Directive relating to undertakings for collective investment in transferable securities but further alignment with the EU *acquis* is required in this area. Moreover, North Macedonia is still to align with the EU *acquis* with respect to the Directive on alternative investment fund managers and the Directive on the cross-border distribution of undertakings for collective investment in transferable securities.

On **sustainable and digital finance**, North Macedonia is not yet aligned with the EU *acquis* on taxonomy, nor on EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks. The National Bank has started working on the development of a Strategy for the management of climate-related risks, which will cover regulatory and supervisory activities, as well as activities related to monitoring the impact of these risks on financial stability. As part of the Strategy, North Macedonia adopted a Decision on the methodology for credit risk management in February 2023, according to which banks will be required to adequately incorporate the climate-related risks in their credit risk management from January 2025. Finally, the country's Stock Exchange has prepared a Guide for environmental, social and governance (ESG) reporting for listed companies, in order to raise awareness among policy makers, regulatory and institutional investors.

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 has rules for upholding patients' rights in cross-border healthcare and in preparing for and responding to cross-border health threats.

In the area of consumer and health protection North Macedonia remains **moderately prepared**. **Some progress** was made on addressing last year's recommendations, by the adoption of the new Law on consumer protection, which is designed to align with many items of the EU consumer *acquis*. The other recommendations remain valid. The country's first-ever liver transplantation was made. Many challenges remain to be addressed in the area of public health, notably in regard to tobacco control, and the availability, scope of services, geographical distribution and funding of primary healthcare and on cancer screening could be improved. Alignment with EU health *acquis* remains incomplete.

In the coming year, the country should in particular:

- adopt and start to implement the next three-year consumer protection strategy and reinforce the capacity for market surveillance;
- intensify efforts on tobacco control by implementing the relevant EU *acquis* effectively and ratifying the Protocol to Eliminate Illicit Trade in Tobacco Products;
- ensure adequate funding and capacity to ensure the early detection of cancer and rare diseases based on data from the registers.

Consumer protection

The country adopted a new Law on **consumer protection** designed to align with several of the EU consumer *acquis*, including the *acquis* establishing rules on unfair terms in consumer contracts, unfair business-to-consumer commercial practices, price indication timeshare and long-term holiday product, resale and exchange contracts, consumer rights, digital content and services, and the sale of goods. The Law on consumer protection is also designed to be aligned with the latest changes to EU consumer *acquis* introduced by Directive (EU) 2019/2161 on the better enforcement and modernisation of Union consumer protection rules and the EU *acquis* on liability for defective products (relevant to product safety – see below), though implementing legislation on this still needs to be adopted. National legislation is not yet aligned with the current EU *acquis* on package travel. The law on consumer protection clearly defines the responsibilities of the physical and legal commercial bodies towards consumers. The next three-year consumer protection strategy is yet to be adopted. The web platform providing information on consumer protection still needs to be developed. The mediation scheme remains expensive and difficult for consumers to access.

Some progress was also made in aligning national **product safety** rules with the EU *acquis* (see above). The country now needs to adopt the implementing legislation necessary to complete the alignment with the EU General Product Safety Directive. The State Market Inspectorate intensified inspections under the national Law on general product safety (500 in 2022, up from 428 in 2021) and carried out 130 inspections under the Law on construction products. The Inspectorate maintained its good cooperation with the customs for control of harmful products on the market. The number of inspections increased to 4 838 in the reporting period. The number of licenced inspectors (170) remains insufficient as many of the staff are close to retirement. On **non-safety-related issues** further efforts are needed on developing the guidance and procedure for consumers' appeals and means of compensation.

Public health

Primary **healthcare** in North Macedonia is provided free of charge. However, the availability, scope of services, geographical distribution and funding of primary healthcare could be improved. During the reporting period, the **e-health** application was updated with new functionalities and new modules, and a mobile application called "MyHealth" was

launched. This allows patients access to their health record, including what medical examinations they have had, referrals to specialists, prescriptions, vaccines received, and relevant certificates. Certain specialists continue to be lacking. The ratio of doctors and nurses per 100 000 inhabitants continues to be below the EU average, and medical staff, nurses and specialists continue to leave the public health sector to work either in the private sector or abroad. Out-of-pocket healthcare costs remain high, at 38%, constituting a barrier to equal access to healthcare.

No progress was made on **tobacco control**. Though the institutional and legal setup in place are broadly aligned with the EU *acquis* on smoking in public places, it is not systematically implemented and is still broadly tolerated and unsanctioned, especially in restaurants and other facilities, even in some closed areas. Smoking in public areas should be penalised in line with the EU *acquis*, but this is not fully applied. North Macedonia has not yet ratified the Protocol to Eliminate Illicit Trade in Tobacco Products. On **communicable diseases**, the upgrade of the syndromic disease reporting system in real time was completed. On **COVID-19**, few preventive measures remain in place.

Progress was made on **blood, tissues, cells and organs**. The number of performed transplantations continued to increase, including the first-ever liver transplantation. However, the country is yet to align with the *acquis* on **patients' rights in cross-border healthcare**.

On **medicines for human and veterinary use**, legislation was adopted, designed to align to the *acquis* on residues of pharmacologically active substances, residues of pesticides and the maximum levels of individual contaminants in and on food from animal origin. As regards **cancer screening**, the first report on the National Register of Malignant Neoplasms was published. A comprehensive and proactive approach on cancer screening is lacking, and funding for cancer screening is insufficient. Following public pressure, funding for **rare diseases** somewhat increased but not sufficiently to cover the costs for medical treatment of all registered patients. An online survey was done on **drug abuse prevention**, and there was awareness raising in schools on drug abuse and **alcohol related harm reduction**. There was no progress on **healthy environments**. Some efforts were made with regard to fighting **health inequalities**, particularly for people living in poverty and people living in remote areas, though these were led by international organisations and the non-governmental sector rather than by the health authorities.

The national strategy for the prevention of corruption identified the health sector and inspectorates as vulnerable to corruption, in particular as there are no effective criteria for determining the prices of health services or of medicines. Procedures for treatment abroad are non-transparent and not objective. The inspectorates responsible for market surveillance and product safety have unclear and overlapping jurisdictions, and inadequate staffing. Most of the anti-corruption strategy activities in the health area have not been carried out. Strengthening integrity, asset declarations and digitalisation are considered key tools for preventing corruption.

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. The country is in between a moderate and a good level of preparation in the area of economic

and monetary policy. It has a good level of preparation in the areas of science and research and in the customs union. Some progress was made in the areas of taxation, economic and monetary policy, enterprise and industrial policy, science and research policy, as well as social policy and employment. More efforts are needed, however, particularly in areas where limited progress was made, such as digital transformation and media, customs union, and 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 the universal availability of modern services.

The country is **moderately prepared** in the area of digital transformation and media. **Limited progress** was made during the reporting period, consisting of a slight increase in the number of electronic services offered to citizens and businesses. The Law on audio-visual media was amended in order to align with the EU Directive on Audiovisual Media Services of 2018 in July 2023. North Macedonia joined the Digital Europe Programme in 2023. The services of the 112 European emergency number were further developed.

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

- finalise and adopt the long-term information and communication technology (ICT) strategy; finalise and adopt the national cybersecurity strategy for 2023-2027; align national legislation with the European Electronic Communications Code, the EU broadband cost reduction Directive; the EU Directive on security of network and information systems (NIS 2 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.

The country continued to successfully participate in the Digital Agenda for the Western Balkans and benefit from the regional roaming-free agreement. In line with the 2019-2023 national broadband operational plan's targets, 5G signal was expanded to Skopje. Authorities continued to carry out activities included in the 2018-2022 national cybersecurity strategy. However, there is need for better coordination and interinstitutional cooperation. North Macedonia needs to adopt the national cybersecurity strategy for 2023-2027. The 112 European emergency number services increased their capacity, but communication among emergency services and human resources need further improvement.

On **electronic communications and information technologies**, in 2022, 75.57% of all households had access to fixed broadband internet, while nationwide broadband coverage with 30-100 Mbps stood at 82.84% and >100Mbps at 63.1%. Mobile broadband take-up increased to 86.12%. Only 2.53% of all households had access to ultrafast broadband internet. Segregated data on access to internet by schools, hospitals, enterprises, etc., is not collected by the Agency for Electronic Communications. This Agency granted approvals for the use of radiofrequencies for 5G. Telecom operators continued to invest throughout the country. No progress was made on aligning the legal framework on electronic communications with the EU *acquis*. The Broadband Competence Office publishes biannual reports on the broadband development in the country and the implementation of the National

Operational Broadband Plan. Authorities need to align national legislation with the EU Broadband Cost Reduction Directive.

The alignment of national legislation with the EU Regulation on electronic identification and trust services for electronic transactions in the internal market (eIDAS Regulation) was further delayed. Alignment with the Digital Services Acts and Digital Markets Act needs to be stepped up, to provide predictability for the business community. Amendments to the Law on audio and audio-visual media services were adopted on 18 July 2023, thus aligning the legislation with the Audiovisual Media Services Directive.

On **competitive safeguards**, the telecom market remains predominantly shared by the two biggest mobile operators.

Regarding **digital transformation**, the long-term information and communication technologies strategy for 2021-2026 has not been adopted. The strategy's activities on digital skills development should be built upon and supported with specific measures. The country signed an association agreement to the Digital Europe Programme on 30 June 2023.

The national regulator promoted cybersecurity through its national centre responding to computer incidents. Cyber-related incidents were reported in 145 entities such as state institutions, banking, health, energy, transport and communications organisations. Better coordination and interinstitutional cooperation is needed on cybersecurity and on strengthening the National Cybersecurity Council's capacity. State institutions need to further strengthen their cyber capacity and infrastructure.

The new law on security of networks and information systems, needs to be adopted to align with the NIS and NIS2 Directives. The Ministry of Information Society and Administration needs to strengthen its capacity to drive the digital transformation and media reforms. The full independence of the regulator for electronic communications needs to be ensured.

The national e-portal for services has been upgraded. The number of institutions connected to the interoperability platform was increased, but the platform is not being used by most of the state institutions because of the lack of communications software. To modernise and digitalise the public sector, more efforts and better cooperation among institutions are still required. The quality of data in the population register needs to be improved and continuously verified with other registers. The number of digital services offered through the governmental e-portal remains modest, 392, mainly consisting of services that are rarely requested and used. State institutions need to ensure better cooperation in advancing the digitalisation of the government 96.940 users were registered on the national e-portal.

With regard to **e-commerce**, online shopping increased. On statistical performance and digital competitiveness, the collection of data based on the Digital Economy and Society Index (DESI) indicators needs to be improved.

On **audio-visual policy**, the Parliament failed to appoint new members of the media regulator and the public broadcaster councils, despite this being a precondition for accelerating media reforms. The Public Service Broadcaster received additional funding, thus slightly increasing its percentage. (*See also the section: freedom of expression*). In July 2023, the Law on audio and audio-visual media services was amended to align with the 2018 EU Directive on Audiovisual Media Services.

During the reporting period, the Agency for Audio and Audio-visual Media Services continued to fulfil its legal obligations on the promotion of media literacy, to analyse gender equality in the media and to supervise the broadcasters. The media regulator publicly condemned the pressure and threats on journalists and media outlets. The national strategy

and action plan on building resilience and confronting hybrid threats (2021-2025) includes measures to address disinformation and hybrid threats. However, efforts to combat disinformation are limited. The audio-visual sector continued to benefit from the country's participation in the MEDIA and cross-sectoral strands of the Creative Europe programme.

Chapter 16: Taxation

EU rules on taxation cover value-added tax, excise duties and aspects of corporate taxation. They also cover 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 amending its preferential tax regime in the technological and industrial development zones. As a result, North Macedonia was removed from the Annex II list of the non-cooperative jurisdictions for tax purposes. The country has yet to start the automatic exchange of financial account information as per the Organisation for Economic Co-operation and Development (OECD) standard.

As some of last year's recommendations were not fully implemented, they remain valid. In the coming year, North Macedonia should in particular:

- develop a new integrated IT tax system for the Public Revenue Office (PRO), improve its compliance risk management and the strategic reform process of the PRO;
- start preparations for putting in place a mechanism to implement the automatic exchange of financial account information with EU Member States effectively, in line with the OECD global standard.

On **indirect taxation**, the VAT exemptions and preferential rates for essential products were removed at the end of 2022. A preferential VAT rate of 10 % was applied for some energy products to alleviate the effects of high international energy prices. The preferential VAT rate of 10% for electricity for households was applied until 30 June 2023. Delays still remain in the VAT refund process, as only 45% of the requests submitted in 2022 were refunded within the legal deadline of 30 days.

There were some changes to **direct taxation**. A personal income tax flat rate of 10% was complemented with a rate of 15% for income stemming from games of chance. Exemption from taxation on interest on savings and from taxation on capital gains on securities was abolished with the amendments to the Law on personal income tax, as of 1 January 2023. The country still needs to align its legislation with the Merger Directive.

On **administrative cooperation and mutual assistance**, North Macedonia has signed 49 double taxation agreements, including with all EU Member States except Cyprus, Malta, Portugal and Greece, with whom negotiations are ongoing. The country has not yet committed on a date to start the automatic exchange of financial account information as per the OECD standard. The country remains dedicated to implementing the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) minimum standards. In January 2023, North Macedonia amended its preferential tax regime in the free economic zones, thus meeting the Forum on Harmful Tax Practices and the EU's requirements to promote good governance in the area of taxation.

Regarding **operational capacity and computerisation**, the PRO still has to improve its business processes, implement a new integrated IT tax system replacing the current fragmented IT system, develop compliance risk management and continue to expand e-services. Work on the 2021-2025 tax system reform strategy continues. During the reporting

period, the Law on PRO was amended to allow for a more dynamic organisational structure to correspond with the ongoing IT modernisation process. A stronger monetary incentive for customers to request invoices on their purchases was introduced, 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 in order to improve tax collection. The PRO and the State Commission for the Prevention of Corruption signed an Agreement on data exchange and cooperation. The PRO is obliged to provide data from the unique register of taxpayers to the SCPC, in accordance with the Law on prevention of corruption and conflict of interest.

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 is **in between a moderate and a good level of preparation** in the area of economic and monetary policy and **some progress** was made. A new Organic Budget Law was adopted by Parliament in September 2022 and the drafting of implementing legislation was initiated. The three members of the new Fiscal Council were appointed by Parliament in September 2023. On monetary policy, alignment of the country's legal framework with the EU *acquis* remains at an advanced stage. On economic policy, the information provided in the fiscal strategy has been enhanced, but alignment with the EU fiscal framework is only partial and shortcomings on the monitoring of the fiscal risks persist.

In the coming year, North Macedonia should in particular:

- adopt implementing legislation to the Organic Budget Law with a view to fully applying fiscal rules, a strengthened medium-term budgetary framework and a prudent management of fiscal risks;
- take the necessary legislative and organisational steps to enable the Fiscal Council to take up operations and assess the 2024 budget and the new fiscal strategy;
- exclude the central bank from the scope of the Law on administrative servants, the Law on public sector employees and the Law on the payroll system.

On **monetary policy**, the alignment of the legal framework of North Macedonia with the EU *acquis* remains at an advanced stage. In line with the objectives of the European System of Central Banks, the central bank pursues price stability as its primary objective. The central bank also supports economic growth through its policies. A subordinate objective is to contribute to safeguarding a stable, competitive and market oriented financing system. Monetary policy has been appropriately tightened in response to rising inflation. Continued vigilance remains important, also in view of a wide, albeit narrowing inflation differential with the euro area. The functional and financial independence of the central bank is provided for in the Law on the National Bank. There is a need to maintain the central bank's independence in its key statutory tasks, including in staffing issues, in line with the Law. In that vein, the central bank needs to be excluded from the scope of laws which may affect its independence, including the law on administrative servants, the law on public sector employees as well as the newly proposed public sector payroll law. The central bank should be able to conduct internal organisations and employment plans without having to seek the approval of the government.

Regarding **economic policy**, North Macedonia began drafting implementing legislation for the 2022 Organic Budget Law (OBL) in line with the EU Budgetary Frameworks Directive.

The new Law provides for numerical fiscal rules for the general government deficit and debt, the establishment of an independent fiscal council, and improvements in the medium-term budgetary framework. The provisions of the new OBL should be swiftly implemented in full. The medium-term fiscal consolidation presented in the 2023-2027 Fiscal Strategy is reflected in the 2023 budget, supported by a rules-based budget framework under the new Organic Budget Law. Preparations have advanced on setting up an independent Fiscal Council to monitor compliance with the rules and verify macro-fiscal projections, and the medium-term fiscal framework was strengthened within the 2024-2028 fiscal strategy which was adopted in June 2023. Limited progress was made on strengthening the monitoring of fiscal risks related to state-owned enterprises, public-private partnerships and local government units. As envisaged by the OBL, there is a need to develop a comprehensive registry of state-owned enterprises and a methodology to assess related risks.

The 2023-2025 **Economic Reform Programme** (ERP) was submitted on 1 February 2023. 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 May 2022. The level of implementation of the policy guidance has improved compared to last year, notably due to progress in the macro-fiscal area. The ERP's macro-economic framework is coherent and consistent, while somewhat optimistic. For structural reforms, the focus is on addressing properly-identified key structural challenges, including the green transition. Implementation of the ERP's structural reforms measures needs to improve, as it has been affected by the limited capacity of public institutions and a focus on short-term measures to offset the energy crisis.

Chapter 19: Social policy and employment

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

The country remains **moderately prepared** in the area of social policy and employment. **Some progress** was made, notably on steadily reducing unemployment and increasing social assistance benefits. The Youth Guarantee scheme was implemented successfully throughout the country. The negative impact of the energy crisis was offset by the continuous application of social protection measures, ensuring that the poverty rate did not increase.

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

- continue to implement the Youth Guarantee as well as activation measures for vulnerable groups, and set up systems to properly evaluate the measures;
- enhance the capacity of the State Labour Inspectorate to better address matters related to occupational safety and health; develop a system for tracking and monitoring injuries and fatalities at work; and continue to reinforce bipartite social dialogue focusing on collective bargaining and to strengthen the role and activity of social partners in the private sector;
- finalise the set-up of a monitoring system, ensure proper evaluation of social services and continue the social protection reform with emphasis on employment activation.

On labour law, extensive public consultations were held across the country on the yet-to-be-adopted new law on labour relations. As of March 2023, the minimum salary increased by approximately 12%. The capacity to implement labour policies and legislation did not

increase, and a reduction in the number of competent staff in public institutions was noted. The capacity of the State Labour Inspectorate (SLI) is as insufficient as last year. The annual plan for individual professional development and training of labour inspectors is under way but capacity needs to be increased further, in particular in the area of occupational safety and health. The SLI signed a memorandum for cooperation with the Public Revenue Office and the Ministry of Interior to improve efficiency and cooperation for preventing irregularities in labour law, the fight against human trafficking and labour exploitation.

On **health and safety at work**, the 2021-2025 strategy for occupational safety and health and 2021-2023 action plan remain valid. The main challenge remains the inadequate application of the provisions of the existing Law. Employers' and employees' knowledge of their respective rights and obligations on health and safety at work remains limited whereas the capacities of labour inspectorates need to be further increased. However, the national award on health and safety has raised awareness among employees. The SLI carried out 24 965 inspections (16 026 on labour relations and 8 939 on occupational safety and health). Shortcomings and irregularities were identified in 38% of the inspections, mainly resulting in warnings (3 202).

On **social dialogue**, social partners engaged in constructive tripartite social dialogue both at national and local level. The level of their involvement in policy development and policy change is inconsistent, representing a significant challenge. In July 2023, a new collective agreement for public sector employees was signed between unions and authorities. The bipartite social dialogue continues to face challenges due to poor adoption and enforcement of collective agreements affecting workers' rights and job security. Measures to encourage collective bargaining and strengthen the role of social partners in the private sector are insufficient. Overall implementation of the Law on the peaceful settlement of labour disputes remains poor, with only five recorded cases of successful amicable resolution in 2022. The capacity of social partners remains low, affecting the efficiency of social dialogue. Overall, more strengthening of social dialogue and promoting collective bargaining in both the public and private sectors is required including from the authorities.

On **employment policy**, the labour market forecasting model was extended to 11 additional descriptions, bringing the number of occupations covered to 85. The 2021-2027 national employment strategy and the 2021-2023 employment action plan remain valid. Measures to tackle undeclared work included in the 2018-2022 strategy for the formalisation of the informal economy continued. Authorities adopted the strategy for the formalisation of the informal economy 2023-2027 along with the Action Plan for the period 2023-2025 in September 2023. Active labour market measures and the reinforced Youth Guarantee scheme are currently not sufficiently monitored, evaluated and assessed. The Employment Service Agency is under-staffed.

The employment rate (aged 20-64) in Q4-2022 was 61.8% for the whole population. The unemployment rate decreased further to 13.7 % in Q4-2022. The female employment rate increased by 3.2% (51.8% of 15-64 year-olds). Youth (15-24 year-olds) employment remained at 18.3% and youth unemployment decreased to 31.8% in Q4-2022, compared to 34.9% in Q4-2021. The main measure addressing youth unemployment remains the Youth Guarantee scheme. A new plan for implementing the 2023-2026 Youth Guarantee was adopted by the authorities in March 2023. In 2022, more than 20 000 young people participated in the scheme, with 43% of them successfully finding employment or training opportunities. 969 Roma people participated in the scheme, out of which 148 found employment.

On participation in the **European Social Fund**, it is important to ensure that state bodies have the necessary capacity to manage the indirect management with the beneficiary country system. (See also Chapter 22 - Regional policy and coordination of structural instruments).

Progress was made on **social inclusion and protection** and on minimising the impact of the pandemic and energy crises. Additional subsidies were introduced, ensuring more comprehensive coverage for people in need. Guaranteed minimum assistance (GMA) was extended to reach 35 748 households. In addition, 31.7% of GMA recipients benefited from the child allowance and 21.2% from education allowances. Coordinators were appointed to facilitate communication between employment services and social work centres, and guidelines for supporting individual activation plans were developed. The 2022-2032 national programme for the development of social protection was adopted along with a roadmap for future improvements. The new 2023-2030 strategy for rights of persons with a disability and the 2023-2025 action document are yet to be adopted. The software for integrating cash benefits and social protection services needs to become operational. The decentralisation of social assistance remains at a moderate level. The accessibility of public services such as socio-health, employment, vocational education, and in particular specialised services for the people with disabilities and Roma, remained limited. The employment of Roma, the long-term and low-skilled unemployed, and people with disabilities is supported by the guaranteed minimum assistance scheme introduced by the Law on social protection.

As part of the national strategy on **de-institutionalisation** a total of 57 residential units were made functional by June 2023, providing living support to children and adults with disabilities. The number of children under the age of 18 in institutional care remained stable. The adoption of a methodology for licensing and calculating social service costs enabled services such as home care, personal assistance, supported living, and respite care to be set up and improved. A total of 85 civil society organisations and private providers of social service assistance are now available to serve the diverse needs of individuals.

On **non-discrimination in employment and social policy**, a comprehensive legislative framework is in place. However, the Law on promotion and protection against discrimination needs to fully align with EU anti-discrimination provisions. 53.5% of the cases on which the Commission for the Prevention and Protection against Discrimination worked referred to employment and labour relations. (See also Chapter 23 - Judiciary and fundamental rights).

On **equality between women and men in employment and social policy**, the gender gap in the labour market remains. In particular, the employment rate for men was 56.3% compared to 38.3% for women in 2021. Furthermore, 55.5% of women are inactive compared to 33.3% of men. Data on and a monitoring system for incidents of sexual harassment in the workplace are still not available. Some progress was made with the adoption of the 2023 programme for social security support for women in agriculture, entitling women with 'insured individual farmer' status to maternity benefits for the first time. Childcare and pre-school capacity increased during 2022 with the opening of seven new institutions and 10 facilities within public institutions. Childcare facilities increased, reaching a total of 36 125. Childcare capacity needs to be increased in urban areas in particular. The gender pay gap persists and authorities need to produce reliable data monitoring the gap. The 2022 Labour Force Survey indicated that the gap is a result of the fact that women are mostly concentrated in low-paying sectors and positions. The average net wage for men in 2021 was 2.6% higher than the average net wage, while the average net wage for women was 3.9% lower than the average net wage.

The work to prepare the Law on the prevention and protection against workplace harassment continued while the ILO convention 190 – 2019 Violence and Harassment was adopted in June 2023.

Chapter 20: Enterprise and industrial policy

EU 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 the area of enterprise and industrial policy. **Some progress** was made on last year's recommendations and entailed measures to increase the competitiveness of domestic companies. Recommendations from last year therefore remain largely valid and in the coming year, the country should, in particular:

- consolidate the institutional structure and mandates of public bodies and increase the effectiveness of industry and enterprise policy measures;
- adopt and start implementing the export promotion strategy;
- start implementing the new 2023-2027 strategy for formalising the informal economy, with an action plan, and ensure high-level political commitment.

Enterprise and industrial policy principles are incorporated in numerous strategic documents under the competence of different national authorities. Overall coherence and coordination is lacking in this area. Overlapping and conflicting mandates continue to make the institutional set-up complex and resources inefficient. To address this issue, the government adopted a plan to consolidate part of the administrative structure, with merging some institutions and integrating others into the Ministry of Economy. However, the plan is yet to be implemented (*see also the section on public administration reform*). Progress in implementing the 2022-2026 growth acceleration plan is slow.

The State Audit Office identified shortcomings in measures for tourism, for companies affected by COVID-19, the operation of the Fund for Innovations and Technological Development as well as in the Directorate for technological zones (*see also the section on Accountability of the administration and chapter 32 – Financial Control*).

The dialogue with chambers of commerce through the joint platform continued throughout the reporting period. The conduct of stakeholder consultations though is irregular (*see also sections on Economic Criteria and Public administration reform*). Legislation related to companies is frequently amended without an adjustment period for companies.

The business environment was negatively affected by several factors, such as an increase in the minimum wage and in some para-fiscal charges. There was some progress against informal business activities: a methodology to streamline para-fiscal charges was developed and taxation got somewhat less distortive. The 2023-2027 strategy for formalising the informal economy and an action plan 2023-2025 were adopted in September 2023. Cooperation of SMEs in innovation activities and ICT training by enterprises require more attention to reverse an unfavourable development over the past years. The export promotion strategy, targeting the internationalisation of domestic companies is still to be adopted.

On **policy instruments**, in April 2023, North Macedonia signed the Association Agreement for the participation in the EU Programme “Single Market Programme”.

Amendments to the Law on financial discipline to further align with the EU Late Payments Directive were adopted in June 2023. Nevertheless, still some key issues need to be clarified,

for example the criteria of calculation of the payment periods or the right to the flat fee compensation.

The Development Fund was established in 2022 and the mechanism for the functioning of the Hybrid Strategic Green Investment Fund has been put into operation for support to export of innovations and to European Green Deal practices. To mitigate the effects of the energy crisis and high inflation, the government introduced support measures that should be better targeted. Numerous policy measures based on grants to companies are in place, but as they have the potential to distort market competition and incentivise informal business while lacking transparency, they need to undergo an in-depth evaluation.

In terms of **sectoral policies**, as a first step towards developing a circular economy roadmap, the Ministry of Economy completed the mapping of the circular economy potential.

Chapter 25: Science and research

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

The country has a **good level of preparation** in the area of science and research. **Some progress** was made on strengthening the research and innovation capacity of the public and private sector by increasing the budget for science, by developing the yet to be adopted smart specialisation strategy and through the country's continuous improvement in the Horizon Europe participation. Some of last year's recommendations remain valid.

In the coming year, the country should:

- increase investment in research in line with the new European Research Area priorities;
- develop dedicated measures aiming to promote and increase participation in Horizon Europe and other relevant EU financing instruments in this area;
- 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**. The budget for science in 2022 and 2023 has been increased significantly compared to 2021 (to approximately EUR 3.5 million from EUR 1.3 million). However, investment in research and innovation continues to remain low, at 0.38% of GDP, while the participation of the private sector in the overall research is even lower, at 0.1% of GDP.

The country's participation in **Horizon Europe**, the EU's framework programme for research and innovation, has continued to increase, reaching for 2022 (according to data availability at publication date), 10 projects with EUR 4 million funding, surpassing the whole 2021 performance. Authorities need to strengthen their participation in the new European Research Area and in the new European Innovation Agenda. No progress is noted on the European Charter for researchers, the Code of Conduct for the recruitment of researchers and the number of HR Excellence in Research logos issued over the reporting period. The national technology transfer roadmap has not yet been developed.

On **innovation**, the European Innovation Scoreboard classifies for a second consecutive year North Macedonia as an 'emerging innovator' marking however an increase in its score performance from 45.6% in 2022 to 46.3% of the EU average in 2023. In 2022, the Fund for Innovation and Technological Development committed nearly EUR 16.5 million to support

innovation and research in 209 private companies. The Fund's efforts to intensify synergies between businesses and academia need to continue to increase prioritising the facilitation the green and digital transitions. The Fund needs to comply with the findings of the State Audit Office's compliance audit report, issued in December 2022. Authorities should further support the academia-business cooperation. The European Institute of Innovation and Technology (EIT) announced that in the 2023 EIT higher education initiative, two higher education institutions from North Macedonia were selected for funding as full partners of large consortia.

The **smart specialisation strategy**, the main policy document for innovation and research with clear sector-specific priorities, has not been adopted yet, providing a safeguarded framework for an efficient use of research and innovation funds.

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 with the adoption and introduction of guidelines and programmes to strengthen inclusiveness and promote green skills. The implementation of the 2018-2025 education strategy continued to be slow, as did the development of a proper monitoring system. The adoption of key legislation was further delayed.

The recommendations of last year's report remain valid. In the coming year, North Macedonia should in particular:

- finalise and adopt the Law on secondary education and the Law on vocational education and training and set up and operationalise the regional VET centres;
- adopt the Law for adult education;
- improve access to quality education for all, in particular children with disabilities and children from Roma communities; and increase pre-school enrolment and continue improving support for teachers' training and professional development.

The 2018-2025 strategy for education is the main document governing the education sector, but its monitoring mechanisms are not well defined. Targets and indicators need to be improved to allow a proper evaluation of the implementation of the reforms. Authorities need to strengthen coordination among institutions in developing legislation, ensuring a conducive institutional environment able to deliver its implementation.

The new law on VET which is essential for the VET reform is yet to be adopted. Its adoption is also needed to enforce the role of the country's five regional VET (RVET) centres. A cooperation scheme is in place between business companies, vocational high schools, the Chambers of Commerce and the Ministry of Education to support students' internships in private companies. Approximately 100 dual-education classes opened under this scheme, supported by public-private partnerships.

The Law for adult education has not yet been adopted. The Bureau for Development of Education continued its activities for the Concept for primary education by preparing curricula for primary grade 6, based on the national standards, including green skills provision.

In November 2022, the Ministry of Education and Science adopted the 'Concept for secondary adult education' to help improve quality of life for citizens and enable social development.

Public spending on **education and training** decreased slightly to 3.71% of GDP in 2022 (3.98% in 2021), which is still far below the EU average of 5%. Although some progress was made on pre-school education, the overall level of enrolment remained lower than the regional and EU standards, especially for Roma children. Whereas the EU education and training target on early childhood education and care attendance is set at 96%, only 42% of 3-6 years-olds were enrolled in licenced early childhood education institutions in 2022. In addition to expanding capacity to extend pre-school education to more children, the quality of pre-school education was increased.

96.63% of children were enrolled in primary education (of which 51.46% were boys, 48.54% were girls) and 85.59% in secondary education (of which 49% were girls, 51% were boys) in the 2021/2022 school year. 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 3 years.

Although North Macedonia has taken steps toward the digital transformation of its education and training system and digital skills are addressed throughout primary and secondary either cross-subject or through the subject of informatics, authorities need to continue to strengthen efforts towards effective, coherent and inclusive digital transformation of the education and training systems in North Macedonia, including the capacity of the systems to develop digital skills.

The country had engaged in international assessments of the education system (TALIS 2022, PISA 2022) during the reporting period. North Macedonia is not taking part in ICILS (International Computer and Information Literacy Study). The country continued to participate in the European Education Area (EEA) Working Groups 2021 - 2025.

The National Agency for Erasmus organised and supported more than 100 activities and events targeted at young people. The number of participants in funded youth exchange projects was 465 in 2022 (compared to 294 in 2020).

North Macedonia continued to participate in Erasmus+ and the European Solidarity Corps and participated also in the call for proposals for the European universities initiative, with one university winning a grant as part of a successful alliance. North Macedonia is participating in the European Education Area working groups 2021-2025.

With regard to **inclusion**, a modified programme for students with complex needs was launched in October 2022. The Bureau for the Development of Education prepared guidelines for developing and implementing a modified curriculum for primary students with complex needs. The Bureau also developed two training modules for inclusive school teams, and courses were conducted online. The number of Roma educational mediators increased further to reach 40, up from 35 in 2021, making their services available to 28 municipalities, up from 26 in 2021. In higher education, authorities granted 135 scholarships to Roma students. During the reporting period 450 scholarships were granted to children in primary education to support inclusiveness

On **culture** and the protection of cultural heritage, a new national strategy for 2023-2027 on the development of culture needs to be developed by the Ministry of Culture, ensuring also the appropriate budget allocations. The annual budget allocations for culture have decreased steadily in the last 3 years. Reforms following the recommendations of the functional analysis

of the Ministry of Culture and specialised bodies were further delayed. The Ministry of Culture and other relevant institutions need to strengthen their capacity to create and manage cultural policies based on sound public administration principles. In September 2023 Skopje was recommended to become the European Capital of Culture for 2028.

Further efforts are needed to reinforce institutional response and interinstitutional cooperation to protect cultural heritage and prevent illegal constructions. This includes the protection of cultural heritage sites of ‘particular importance’, such as lake Ohrid and the Skopje Old Bazaar. The country’s cultural heritage is not sufficiently safeguarded.

North Macedonia continued to fully participate in the Creative Europe programme's media and cross-sectoral strands. Authorities amended the national legislation in order to align it with the 2018 Audio Visual Media Directive, which is a prerequisite for country’s continuous participation in the programme. The number of beneficiaries of the Creative Europe programme remains satisfactory.

In the reporting period authorities developed the national **youth** strategy for 2023-2027, which is yet to be adopted.

In October 2022, North Macedonia signed the Council of Europe’s Convention on the Manipulation of **Sports** Competitions (Macolin Convention), which calls on public authorities to cooperate with sports organisations, betting operators and competition organisers to prevent, detect and penalise the manipulation of sports competitions.

With regard to transparency, the State Educational Inspectorate in cooperation with the Bureau for the Development of Education, is responsible for the implementation of the national curricula and supervises the implementation of the relevant legislation in all educational institutions.

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. **Limited progress** was made on consolidation, application and upgrade of IT systems while the Concept of authorised economic operators (AEO) was further promoted, including through regional cooperation initiatives among the customs administrations of the WB6 countries. The implementation of the New Computerised Transit System Phase (NCTS) Phase 5 is facing delays. North Macedonia has yet to ratify the Protocol on Elimination of Illicit Trade in Tobacco Products.

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

- implement the New Computerised Transit System Phase 5;
- continue the consolidation and full application of its IT systems, including alignment with the Commission's Multiannual 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 2023 customs tariff was adopted to reflect the latest changes in the EU Combined Nomenclature. The CEFTA Additional Protocol 5 on trade facilitation was implemented, and the authorised economic

operators (AEO) concept was further promoted. So far, 27 companies have been AEO-certified. 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 are consistently applied. A comprehensive intelligence system in support of investigation and enforcement is in place. Risk management is applied systematically with the percentage of physical controls at 5.9 % and documentary controls accounting for 15.7 % of all shipments in 2022.

Revenues collected by the Customs Administration increased by 15% compared to 2021, totalling close to EUR 2 billion. The one-stop control with Serbia was implemented and the one-stop system was also established at the main border crossing with Albania in August 2023. The digitalisation of customs procedures continued and a green customs declaration was introduced, enabling import and export procedures to be completed in one hour, fully paperless. The 2021-2025 strategy for ICT development, aimed at coordinating the alignment of national systems with those of the EU, was implemented. The implementation of NCTS Phase 5 is facing delays. The System for Electronic Exchange of Data (SEED+) is operational, ensuring harmonised work of the agencies present at the borders.

The number of seizures doubled compared to the previous year, with 114 seizures in 2022, including drugs, as well as foreign currency, gold and undeclared excise goods. Cooperation and exchange of intelligence with the customs agencies from the 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); and environment and climate change (chapter 27).

North Macedonia has achieved a good level of preparation in trans-European networks and some level of preparation on environment and climate change. The country is moderately prepared on transport and energy policy with some progress made in the area of energy, particularly on regional gas interconnectors and on renewables. Substantial efforts are needed in areas where limited progress was achieved, such as transport, trans-European networks and environment. The country needs to accelerate the implementation of the Economic and Investment Plan and of the Green Agenda for the Western Balkans in 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.

The country is **moderately prepared** in the area of transport. **Limited progress** was made in the reporting period in all transport modes though there was a partial alignment with the aviation safety legislation. The sector inspection bodies still lack administrative and operational capacity. Political commitment is still missing to deliver on necessary rail sectoral reforms.

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

- ensure qualified operational and administrative capacity of the inspection bodies and develop their enforcement capacity to reduce deaths on the road and on rail infrastructure;
- implement the connectivity reform measures on rail reform and open the rail transport market, amend national law to remove breaches of provisions of the Transport Community Treaty on opening up the rail market, and finalise pending border-crossing agreements/protocols;
- adopt and implement legislation on intelligent transport systems (ITS).

On the **general transport acquis**, the key strategic documents for transport and its sub-sectors are in place. Limited progress has been made in developing the action plan to accompany the 2018-2030 national transport strategy. Preparation of the national ITS strategy has progressed but it has not yet approved and national laws are still not aligned with the ITS Directive.

The operational and administrative capacity for all modes of transport is still lacking and no effort has been made to strengthen them. The result of this situation is the ineffective implementation of the Green Agenda for the Western Balkans. The law on air and railway accident investigation has still not been fully implemented. The independent rail accident investigation body has still not been created. Larger cities should develop sustainable urban mobility plans, which respect environmental and social standards, following best EU practices. Further efforts are needed to align with the acquis on public passenger transport services by rail and by road.

Although North Macedonia is actively engaged in the work of the Transport Community, there was limited progress on the implementation of the Transport Community Treaty action plan and elements of the smart and sustainable mobility strategy for the Western Balkans.

The legal framework for **road transport** is broadly aligned with the EU *acquis* and no progress was made during the reporting period. The Law on dangerous goods is aligned with the EU *acquis*, but there is still no legal entity appointed to conduct a conformity assessment on the existing equipment for the transport of dangerous goods. The executive body for road traffic safety has still not been set up as the law has not been adopted. Further efforts are needed to align with the social and safety *acquis*. The national accident and investigation body still needs to be set up. Similarly, no action plans on road safety inspection and audit have been adopted and implemented. The scope and the quality of the road safety statistics have been improved though additional steps are required to align fully with the EU *acquis*. Enforcement and the technical capacity of the State Transport Inspectorate remain weak. Penalties for infringing the European agreement on the work of crews of vehicles engaged in international road transport (AETR) still lack harmonisation. The five-year road maintenance plan has not been published since 2017; road maintenance is still carried out inefficiently and needs to be improved. More efforts are needed to align with the EU *acquis* on road infrastructure safety management and minimum safety requirements for tunnels in the trans-European road network. Legislation on clean energy and energy efficient road transport vehicles is not aligned with the EU *acquis*.

On **rail transport**, the main requirements of the EU *acquis* are met in terms of the unbundling of the infrastructure manager and the national operator. Further alignment with large parts of the single European railway area *acquis* continue to be delayed. The rail market is yet to be opened at domestic level. Amended railway safety and interoperability legislation was adopted in 2016, but lacks proper enforcement. Preparations for strengthening the operational capacity of the Railway Safety Directorate have started. There has been no

progress in setting up an accident and investigation body. The agreement on cross-border railway cooperation with Greece is yet to be finalised.

In the area of **maritime transport**, North Macedonia, as a landlocked country, participates 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*, but not with the Regulation on the recognition of certification and transportation of goods and passengers. The country does not participate in the EU strategy for the development of the Danube Region but continues to contribute actively in the International Commission of the Sava River Basin. More efforts are needed in aligning the legislation with common rules applicable to the passengers by inland waterway.

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 was made and technical experts have started work on setting up a multimodal node near Skopje. The specific legislation is partially aligned with EU rules. Progress needs to be made on adopting relevant legislation and setting up systems for electronic freight transport information exchange.

North Macedonia should increase efforts to align with and implement **EU passenger rights** legislation.

Chapter 15: Energy

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

North Macedonia is **moderately prepared** in the area of energy. **Some progress** was made in regional gas interconnectors and on renewable energy, with investments in solar power plants. As the energy crisis has demonstrated, North Macedonia needs to accelerate its transition towards green energy and reduce its dependence on gas and coal.

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

- ensure coherent energy policy, improve governance and institutional capacity in the energy sector and improve strategic investment programming and accelerate the transition towards green energy in accordance with the Green Agenda for the Western Balkans and the national energy strategy, as well as update and implement the national energy and climate plan-NECP), in line with the 2030 Energy Community climate and energy targets;
- adopt and implement the energy efficiency implementing legislation;
- complete the unbundling (certification) of the gas transmission systems operators and foster market development and regional market integration;

The government adopted a national energy action plan in December 2022, which includes measures to mitigate the socio-economic impact of the energy crisis in North Macedonia, as well as a review of the energy sector's strategic, institutional and legislative framework. The action plan formed the basis for a policy dialogue on the EU Energy Support Package (of EUR 80 million).

The need for a coherent and coordinated energy policy became even more evident with the energy crises. The government should increase its administrative capacity for dealing with energy policy, strategic planning and investments in the energy sector.

Concerning **security of supply**, the energy crises have demonstrated the country's dependence on coal and the need to accelerate the transition towards green energy. Both Bitola and Oslomej thermal power plants were operating on coal from limited domestic resources and imports. The lack of availability of coal for the Bitola thermal power plant still needs to be urgently addressed, by investment in new renewable resources. The Compulsory Oil Reserves Agency adopted a 2023-2025 action plan for the formation of mandatory reserves to release stocks in the case of an emergency. The oil stocks correspond to at least 53 days of average daily consumption.

The construction of a new 400kV electricity transmission interconnector line with Albania is under way. An electricity day ahead market has been established and the market coupling with Bulgaria is progressing while the establishment of the intra-day market is still pending. On gas interconnections, the government has finalised the initial design phase for the construction of an interconnection line with Greece and has drawn up feasibility studies for a line to Serbia and to Kosovo.

Concerning the **internal energy market**, the national framework legislation is in line with the EU's third energy package in gas and electricity, and the country's electricity and gas markets are open for competition. However, the transposition and implementation of the newly adopted electricity integration package is pending.

The electricity transmission and distribution network operators have been unbundled, in accordance with the EU *acquis*. The gas transmission system operator has not yet been certified as required by the third energy package. Amendments to the Energy Law were adopted, transposing the Regulation on wholesale energy market integrity and transparency (REMIT) and the TEN-E regulations.

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 Skopje, Tetovo, and Gostivar are progressing. The tendering process for awarding a public-private partnership for gas distribution system is ongoing.

Wholesale gas prices are fully deregulated; however the market remains illiquid, without a virtual trading point. All contracts are concluded bilaterally, on a monthly and yearly basis.

The Energy Regulatory Commission is functional and has continued to demonstrate regulatory independence. The Commission for the Protection of Competition carried out an investigation concerning the sales of electricity to the universal supply company. The State Audit Office has conducted several audits in relation to the energy crises and the operators. The electricity transmission system operator must address the findings of the 2016 and 2023 audit reports and improve their operations.

In the area of **hydrocarbons**, the Law on mineral resources remains to be aligned with the Hydrocarbon-Licensing Directive.

On **renewable energy**, the Renewable Energy Directive (REDI) remains to be transposed. The amended Energy Law makes the adoption of the national energy climate plan (NECP) a legal obligation for the country, replacing the renewable energy sources (RES) action plan. The NECP sets the target for the share of renewable energy sources in gross final consumption of energy in 2030 at 38%, and the indicative target for 2023 at 26%. The share of RES in the gross final energy consumption for 2022 was 18.8%. 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. An upgrade of the grid system is necessary.

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 cancelling guarantees of origin is not in place. Electricity prosumers are supported by the rulebook on renewables, and implementation should be enhanced. The procedures for the installation of photovoltaics on buildings is complicated and an obstacle to new investments.

The Government adopted a Just Transition roadmap and a coordination mechanism for governing and monitoring, in June 2023. The transition towards clean energy should include measures mitigating the negative social and economic impacts of the planned phase-out of coal-fired power plants in the concerned regions.

The Law on **energy efficiency** is aligned with the Directive on energy efficiency and the Directive on the energy performance of buildings. Following the latest amendments to the Energy Efficiency Directive, the update of the Law on energy efficiency is under way. The implementation of the current legislation has not improved. Energy performance certification requirements for buildings are not applied according to the legislation. The adoption of implementing legislation remains a challenge due to the limited human and technical capacity at the Energy Department of the Ministry of Economy and the Energy Efficiency Agency.

The structure of the energy efficiency fund is being set up. 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**, North Macedonia has ratified the relevant international conventions and is a full member of the European Community Urgent Radiological Information Exchange system (ECURIE). There is still no long-term and safe radioactive waste storage facility in place. The capacity of the Radiation Safety Directorate needs to be strengthened.

On **nuclear safeguards**, upon accession, the existing systems of accountancy and control of nuclear materials in North Macedonia would need to be adapted to accommodate for the safeguard provisions (chapter 7) of the Euratom Treaty.

Chapter 21: Trans-European networks

The EU promotes trans-European networks (TENs) 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 trans-European networks. **Limited progress** was achieved during the reporting period. However, the required legislative process was not completed, in particular the action plans to implement the Transport Community Treaty.

As last year's recommendations were not fully implemented, they remain valid. 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 and achieve the goals and deadlines set out in the action plans;
- implement the final provisions of the Railway Border-Crossing Protocol with Kosovo and urgently accelerate progress on completing rail Corridor VIII phase III (Kriva Palanka border with Bulgaria).

On **transport networks**, further efforts are needed to achieve the goals and deadlines.

Investments in the sector should be based on feasibility studies conducted in line with EU best practices, and should apply transparent procurement procedures. The staff retention policy by bodies involved in large investment projects remains limited, which considerably hampers the completion of strategic projects.

In May 2023, North Macedonia signed a high-level understanding with the European Commission updating the TEN-T maps. The amended maps for the new European Western Balkans Corridor will be part of the revised TEN-T Regulation, which is currently being discussed by co-legislators. Road Corridor X is functional, but works along Corridor X-d have accumulated additional delays. Contracts have been signed for the construction of four highway sections along Corridors VIII and X-d. The construction of the rail Corridor VIII towards Bulgaria started in November 2022 with two new contractors for phase I and II respectively, but the preparation of the tender documentation for phase III (Kriva Palanka border with Bulgaria) has accumulated significant delays. Additional and urgent efforts are needed to accelerate progress on rail Corridor VIII and other priority sections of the core network for both rail and road. Amendments to accelerate construction of four highway sections along Corridors VIII and X-d were adopted in May 2023 by using the ‘EU flag’ fast-track procedure, although this was not an appropriate use of the procedure. North Macedonia is expected to respect the obligations stemming from the Stabilisation and Association Agreement as well as to keep aligning with the EU *acquis* during the accession negotiation process.

To date, no agreement has been reached on establishing the Kremenica-Neos Kafkasos railway border-crossing with Greece. Finalising the mutual border agreement and ensuring the railway line becomes fully operational are key. Funding to build adequate infrastructure close to the Serbian border at the Tabanovce railway border station has still not been completely secured. 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 under way. Technical assistance to strengthen the transmission network in the south-eastern region of North Macedonia is ongoing. Works are also ongoing to build the gas transmission pipeline between Negotino and Bitola, and Skopje, Tetovo and Gostivar. The development of a natural gas interconnector between North Macedonia and Greece, a flagship project in the Economic and Investment Plan (EIP) for the Western Balkans, is a priority to enable security of gas supply in North Macedonia and is progressing well.

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.

North Macedonia has **some level of preparation** in this area. Overall, there was **limited progress** during the reporting period. In the waste management sector, the first national plan for waste prevention was adopted. On nature protection, the management plans for Shara Mountain and Osogovski Mountains were adopted. Implementation in all sectors needs to be strengthened to keep up with developments in the EU *acquis*. North Macedonia is encouraged to take further steps towards the green transition, notably under the Green Agenda for the Western Balkans.

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

- implement concrete measures to reduce air pollution at local and national level and to reduce point and diffuse pollution of freshwater resources;
- make operational the regional waste management system in the eastern and north-eastern regions; implement the Paris Agreement, including by adopting a Climate Law, consistent with the EU 2030 framework, and by adopting the national adaptation plan.
- strengthen significantly the administrative and inspection capacities, and implement structural reforms in all the sectors covered under this Chapter.

Environment

On **horizontal legislation**, North Macedonia needs to intensify the work to achieve full alignment with the cornerstone Directives on Environmental Impact Assessment and Strategic Environmental Assessment. This negatively impacts all other environmental sectors, infrastructure investments and overall public participation and perception. The Law on the environment was amended in July 2022 to introduce a ban on the construction/reconstruction of new installations for heavy and polluting industries less than five kilometres from a settlement or a nature protected area. The country has not yet aligned with the Directive on environmental liability and the Directive on environmental crime. The lack of specialised staff and weak institutional and administrative capacity are undermining quality control and the performance of environmental impact assessments.

Whilst air pollution remains a major concern in large cities, limited progress was made on **air quality** monitoring and no legislative developments on air quality were made during the reporting period. The automatic monitoring network continued to be maintained and was upgraded with a new station operating in Ohrid. The cadastres for air emission for Kicevo, Kocani, Stip, Kavadarci, Gevgelija and Prilep were finalised in 2022 While the ones for Veles, Tetovo, Gostivar and Struga are still under development. Air quality plans have been approved for Gostivar Municipality in February 2023 and by the Municipality of Kumanovo in December 2022.

In the area of **waste management**, the first (2022-2028) national plan for waste prevention was adopted in September 2022, setting out regulatory, policy and practical measures to be taken by various stakeholders across the public and private sectors.

The process for closing non-standard landfills in the eastern regions is ongoing. The use of plastic bags has decreased by 80% since their ban by end-2021 was introduced. A system set up by collective operators for the extended producer responsibility (EPR) scheme comprising public utilities and licenced private operators for the separate collection of plastic, paper and glass from households and businesses is operational, but capacity is limited. Activities aimed

at further improving the EPR system have begun. Nevertheless, implementation remains a significant challenge in the waste management sector.

North Macedonia needs to continue efforts to align national legislation with the EU *acquis* on **water quality management**. In February 2023, the 2023 water management programme was adopted for the design and construction of new - and maintenance and improvement of existing - public facilities for water supply and regulation of watercourses. The legal and policy framework for integrated water management aligning with the water *acquis* is largely in place. However, the slow pace of implementation and enforcement is an overwhelming, systemic weakness. Some progress was made on increasing the very low level of funding. The contract for the major construction project of the Skopje wastewater treatment plant (WWTP) was signed in April 2023 and that of the major construction project of the Kichevo sewerage network was signed in January 2023. To tackle water pollution the Urban Wastewater Treatment Directive (UWWTD)-related legislation needs to be implemented. No progress was made on completing the implementing rules and regulations, including on the designation of areas sensitive to eutrophication.

On **nature protection**, the process of designating Studenchishko Blato, Matka Canyon, Lake Ohrid and Belchisko Blato as protected areas has yet to be concluded. The management plans for Shara Mountain (and the Osogovski Mountains have been adopted and aim to strengthen the protection of these areas. The Law on nature, designed to align with the requirements of the EU Habitat and Wild Bird Directives, needs to be adopted. The national funds available for nature protection have been increased but are still far from sufficient. The lack of sustainable financing and of administrative capacity to manage protected areas remain a major challenge.

Activities to identify potential Natura 2000 sites continued throughout the country. Initial steps were taken to digitalise the system for issuing permits, promoting information exchange and cooperation to facilitate the implementation of CITES. Progress was made on cross-border cooperation for the protection of Prespa Lake during meetings of the Prespa Park Management Committee and the Water Management Working Group.

The implementation of UNESCO recommendations on the natural and cultural heritage of the Ohrid region remains insufficient. The Secretariat of the Bern Convention carried out a mission in connection with the open file “Alleged negative impacts on Ohrid Lake and Galichica National Park - candidates for Emerald areas”, due to infrastructure development.

In July 2023 the EU and North Macedonia signed the agreement on the country's participation in the LIFE programme. Joining the LIFE programme will allow North Macedonia to participate in the various environmental protection activities, including support for nature and biodiversity and climate action.

On **industrial pollution and risk management**, the law on industrial emissions is yet to be adopted and there have been no developments on integrated permitting. North Macedonia should align with the Seveso III Directive, the EU Ecolabel Regulation and the EU Eco-Management and Audit System.

No significant developments have been made in the area of **chemicals** and of **noise pollution** in the reporting period.

On **civil protection**, the European emergency call number E 112 has been available to people across the country since February 2022. Furthermore, the fleet of firefighting planes was serviced and new firefighting equipment was acquired. North Macedonia signed the revision of the administrative arrangement with the Union Civil Protection Mechanism.

Despite its longstanding participation in the system, no progress has been made in linking the national emergency communication system to the European Commission's Common, Emergency, Communication and Information System (CECIS) or in better defining the role of the national coordinator for the National Platform on Disaster Risk Reduction. The new national protection and rescue strategy for 2022-2025 is yet to be adopted. The country needs to take concrete steps to introduce a mandatory training programme for all territorial, fire and rescue/civil protection staff.

Climate change

The national energy and climate plan (2021-2030) was adopted in June 2022 but the Law on climate action is yet to be adopted. The fourth National Communication to the UN Framework Convention on Climate Change was adopted in February 2023.

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 and aquaculture (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 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, fisheries and aquaculture 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 regional policy and the coordination of structural instruments and financial and budgetary provisions.

Chapter 11: Agriculture and rural development

The EU's common agricultural policy supports farmers and ensures Europe's food security. It helps tackle climate change and the sustainable management of national resources; maintains rural areas and landscapes across the EU; and keeps the rural economy alive by promoting jobs in farming, agri-food industries and associated sectors. This requires strong management and control systems. There are also common EU rules for marketing standards, 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, notably with the preparation of the 2021-2027 action plan for the national strategy for agriculture and rural development, including budgeting for support measures under the 2023-2027 national programme for the development of agriculture.

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

- ensure transfer of the farm register and the land parcel identification system (LPIS) to the paying agency;
- adopt a legislative framework to further align with the EU *acquis* on areas such as support payments, common market organisation and farm advisory services;

→ improve the administrative capacity in the instrument for pre-accession assistance for rural development (IPARD) operating structures to ensure robust implementation of the IPARD III programme.

On **horizontal issues**, an action plan for the 2021-2027 national strategy for agriculture and rural development (NSARD) was prepared. Its alignment with the action plan on the Green Agenda for the Western Balkans needs to be ensured. The financing of the NSARD has been budgeted under the 2023-2027 national programme for the development agriculture and rural development and nearly 80% of the funds are allocated to direct support measures. North Macedonia continued a policy of complex coupled schemes of direct support to farmers. A new e-application system for direct support has simplified the application process and control system. The new Law for agriculture and rural development has been prepared. North Macedonia needs to align its national support measures to the EU *acquis*. Solutions for long-term staffing and for the premises of the paying agency, remain to be found.

All elements of the integrated administration and control system (IACS) are in place and comply with the EU *acquis*. However, data transfers and the inter-operability of the various elements need to be improved. The area-based payments continue to be determined based on the land parcel identification system (LPIS). New orthophoto maps are to be acquired and updates to the LPIS completed in 2023. The legislative framework for transferring the farmers' register and LPIS to the Paying Agency is still pending. On the farm accountancy data network (FADN), a new plan for selecting representative agricultural holdings has been prepared ensuring the expansion of the sample for data collection. Additional human and financial resources are essential to ensure the sustainability of the FADN system. Efforts are underway to develop the farm advisory services in line with the EU *acquis*.

Little progress was made on further aligning with the **common market organisation (CMO)**. Legislation in this area remains to be adopted. Development of a school schemes for fruit and vegetables continued in 2023.

On **rural development**, good progress was made in absorbing EU funds under IPARD II. By the end of 2022, payments to recipients reached around EUR 42 million. It is critical that the IPARD authorities improve the disbursement of funds in 2023 to avoid the decommitment of the remaining IPARD II funds and to support the thorough implementation of the IPARD III funds for which entrustment was granted by the European Commission Overall, the capacity and staff retention of the IPARD authorities needs to be strengthened. No significant progress has been made in aligning national rural development policy with the EU *acquis*.

On **quality policy**, progress in implementing quality schemes has been limited but 2023 saw some developments in the registration process for a number of products. The legislative framework, including on spirit drinks remains to be fully aligned with the EU *acquis*. Administrative capacity remains insufficient, despite the sector's potential.

As regards **organic farming**, the legislation, competent authority, control bodies, and accreditation and certification system are in place. A new law on organics further aligning with EU *acquis* remains to be adopted and actions to enhance the monitoring and control of organic certification and traceability of organic products can be intensified. Efforts should be made to further develop the sector, making use of the support available under the IPARD III programme.

Chapter 12: Food safety, veterinary and phytosanitary policy

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

North Macedonia has a **good level of preparation** in the areas of food safety, and veterinary and phytosanitary policy. **Some progress** was made over the reporting period, particularly in fighting animal diseases, plant health control and implementing pest eradication measures based on phytosanitary monitoring programmes results.

The Commission's recommendations from last year were not met and therefore remain valid.

In the coming year, North Macedonia should in particular:

- adopt the draft laws on food safety, official controls and the new Law on animal health;
- strengthen capacity for data analysis in the Food Veterinary Agency;
- implement measures on the sustainable use of pesticides.

On **general food safety**, amendments to the Law on food safety and a new Law on official controls have been prepared but are yet to be adopted. The national rapid alert system for food and feed and the Food and Veterinary Agency's internal audit and training systems continued to operate efficiently. The Agency continued to perform its work in line with quality management standards and 566 consumer complaints were received and resolved in 2022.

On **veterinary policy**, a new Law on animal health, aimed at aligning with the new EU animal health legislation, is yet to be adopted. The Food and Veterinary Agency provides regular updates on safeguard measures for imports and import requirements for live animals and animal products.

Progress was made on control measures for animal diseases. The Agency has an active and passive surveillance programme in place for various diseases, but the collection, verification and analysis of data remains insufficient. The Agency continued implementing the monitoring programme on antimicrobial resistance. The 2023 national monitoring programme on control of residues of veterinary medicinal products and contaminants in live animals and foodstuffs of animal origin is in line with the EU *acquis* on bovine, ovine/caprine, porcine, poultry, aquaculture, milk, eggs, wild game and honey. The new Law on zoo-technics was adopted in April 2023. The capacity to align with and implement the EU *acquis* on zoo-technical issues remains 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 has been adopted.

Some progress was also made on **food safety rules**. The legislation was amended in December 2022 to align with the EU *acquis* on specific requirements for microbiological criteria for food. The Agency continued implementing a programme to monitor food safety, but the data is to be further analysed.

Regarding **specific rules for feed**, the legislation was aligned with EU requirements for processed proteins, and with procedures for sampling and laboratory testing. The Agency continued to implement a programme to monitor feed safety and the Agency collected 90% of the 500 planned feed samples.

Some progress was made on **phytosanitary policy**. The Phytosanitary Directorate regularly updated the list of harmful organisms in line with the new EU *acquis* and the country's pest status. The phytosanitary monitoring programme for plant health was implemented, and the phytosanitary information system further developed. The Law on phyto-pharmacy is aligned with the EU *acquis*. However, measures on the sustainable use of pesticides have not been implemented. Substantial work is still necessary to collect reliable data on national pesticides use and its impact on human health. The phytosanitary inspection body continued to implement measures to eradicate pests identified through monitoring and control programmes.

The Law on **genetically modified organisms** was aligned with the EU *acquis*.

Chapter 13: Fisheries and aquaculture

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 control and inspection, rules on markets and aquaculture and support for fisheries and coastal communities. Further, it promotes a sustainable aquaculture.

North Macedonia is **moderately prepared** in the area of fisheries and aquaculture. In the reporting period, **some progress** was made in aligning marketing standards, structural measures and State aid with the EU *acquis*.

Some recommendations from last year's report were not fully implemented. In the coming year, North Macedonia should in particular:

- adopt the Law on fisheries and aquaculture and the implementing legislation on marketing standards, consumer information, traceability and producer's organisations as well as a national strategy on aquaculture;
- improve the data collection system and reporting, such as establishing a data framework for collection of fisheries and aquaculture data, integration of all data sources and analysis;
- 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. Progress was made in aligning the national legal framework with the preparation of a new Law on fisheries and aquaculture. A new law on fisheries and aquaculture including relevant EU provisions on marketing standards, structural support and state aid, is yet to be adopted. The adoption of a multi-annual national strategy dedicated to aquaculture is pending.

The institutional framework for fisheries policy, inspections and control has been set up, but administrative capacity for **resource and fleet management**, and **inspections and control** remains insufficient although the *acquis* on catch quotas, inspection and control is only partially applicable due to lack of a coastline in the country. The Fisheries and Aquaculture Unit in the Ministry for Agriculture is understaffed. Some progress was made on capacity building, with intensive training courses organised. However, human resources for fisheries management and the control of IUU fishing need to be further improved in line with EU requirements.

North Macedonia should carry out activities to raise the public's awareness about illegal, unreported and unregulated fishing and its legal consequences. Specific attention should be given to preventing the illegal fishing of protected species and European eel.

The annual budget for **structural measures** is insufficient for developing aquaculture and restoring fish stocks. The government should increase structural support and prepare a multiannual financial and policy programme to address the sector's needs. The data collection system for fisheries and aquaculture needs to be further developed in line with the EU *acquis*. Interinstitutional coordination with the environment authorities needs to improve.

Alignment of the Market policy, structural support and State aid as well as alignment with the EU Eel Regulation is still outstanding due to the pending adoption of the new Law on fisheries and aquaculture.

No cooperation meetings on the **international agreements** for fisheries management of the transboundary lakes took place in 2022. Greece and North Macedonia applied a regular synchronised fishing ban at the Dojran lake each year. Cooperation meetings with Albania for the management of Ohrid lake fish stocks were held in June 2023.

Chapter 22: Regional policy and coordination of structural instruments

*Regional policy is the EU's main tool for reducing regional disparities and investing in sustainable and inclusive socio-economic growth. It is operating through "shared management" between the Commission and EU Member States. The implementation of cohesion policy programmes requires appropriate administrative capacity on programme and project level, the establishment of systems of sound financial management and control and also the fulfilment of other EU *acquis* elements such as environmental or public procurement legislation.*

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

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

- upgrade its institutional, administrative and technical capacity to manage EU funds by adopting an overall staff retention policy, strengthening capacities, improving the implementation of EU and audit recommendations, aligning management and control systems with the Instrument for Pre-Accession Assistance (IPA) III requirements;
- strengthen investment policy as a matter of urgency by streamlining investment pipelines underpinned by sound, transparent and inclusive methodology, clear responsibilities of the stakeholders and a viable public-private partnership framework;
- enhance the decentralisation process through a credible financing framework for municipalities and strengthen policy dialogue on regional development.

No progress was made on the **legislative framework**, but basic principles remain broadly in line with EU *acquis* on public procurement, public finance management, regional and municipal development, equal opportunities and non-discrimination, environmental protection, transport connectivity and energy transition. The strategic framework was strengthened with the adoption of new strategies on public procurement and gender equality, and the national energy action plan. No significant progress was made on the decentralisation of services and reorganisation of competencies between the central and the subnational level.

The **institutional framework** for the management of EU funds under IPA III is being further aligned with IPA III requirements in view of its future role in EU cohesion policy. However, the performance of the existing and new institutional set-up for multiannual operational programmes is jeopardised by weak administrative capacity.

Weaknesses persist in the **administrative capacity** of key institutions managing EU funds. The lack of a national staff retention policy, shortcomings in human resources management and exceptionally high staff turnover across the IPA structures remain key concerns. Overall, the structures managing EU funds operated last year with 79% of the optimal staff levels and with key managerial positions vacant. Progress with the IPA training centre was modest, taking the form of new furniture, IT and media equipment. Training plans were developed and effective training of new IPA practitioners began. However, the training centre is understaffed and a roster of trainers has not been established. North Macedonia needs to implement the government's August 2022 decision on setting up a roster of trainers and developing a training methodology effectively.

The **financial management and control** systems are functioning, but are under pressure due to staffing challenges. This continued to negatively affect actions under indirect management by the beneficiary country. At the end of 2022, EU funds for a total of EUR 24.8 million were decommitted under the IPA II multiannual programme for environment and transport (2014-2020), while the risk of further substantial decommitment remains high. To address the critical shortcomings and to be able to operate in an *ex-post* control environment, North Macedonia has stepped up the reorganisation of the financial and control systems for the new operational programmes under IPA III. Further efforts are needed to address the EU and audit recommendations on staff management and retention policy, procurement and contract planning, internal audit function and quality assurance.

The Financial Framework Partnership Agreement on the implementation of IPA III entered into force. The **programming** of IPA 2022 and IPA 2023 was completed and advances were made in the programming of IPA 2024 and operational programmes for 2024-2027. The sector policy dialogue, which supports strategic planning and programming, weakened in the last year as reflected by the infrequent meetings of the sector working groups.

North Macedonia continues to gain experience in regional policy and territorial cooperation programming and implementation through its participation in cross-border, transnational, and interregional cooperation programmes, including the EU Strategy for the Adriatic Ionian region.

On **monitoring and evaluation**, North Macedonia actively participates in the IPA and sector monitoring committees, however only 30% of the jointly-agreed conclusions have been implemented. The lack of political steer, the weak interinstitutional coordination and the weak central reporting and monitoring function of the office of the national IPA coordinator negatively affects the timeliness and quality of IPA reports.

Internal and external **audit** functions are in place. However, internal audit needs to be strengthened to better support the functioning of the management and control systems. The delay in adopting the new Law on public internal financial control is concerning. The Audit Authority continues to perform well and follows sound audit methodology with good audit coverage. The new 2023-2025 audit strategy was adopted in November 2022. However, the operational and technical capacity of the Audit Authority is undermined by staffing challenges. The implementation of the audit findings by the auditees remains very low. Out of 96 findings from previous audits, 23 were closed in 2022, representing an implementation rate of 24%, which is a serious concern.

As regards anti-corruption, in line with the new Organic Budget Law, in December 2022, the government adopted the decree on setting up the anti-fraud coordination service (AFCOS) network, which is the backbone of the system for protecting EU's financial interests in North Macedonia. The AFCOS network is now fully operational. In addition, the institutions

managing EU funds implement a financial management and control system accredited by the Commission, which is under the scrutiny of an external audit body and Commission services.

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.

The country is at an **early stage** of preparation in this chapter. **Limited progress** was made during the reporting period. North Macedonia reports national accounts data according to the ESA 2010 (European System of Accounts) methodology, however further improvements regarding the complete and timely transmission of annual national accounts are needed. The institutional set-up 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 in the areas of taxation (VAT), customs union, financial control and statistics;
- strengthen administrative capacity and coordination mechanisms among key stakeholders in the own resources system.

North Macedonia made limited progress on the administrative conditions for own resources laid down in the relevant Regulations, on reducing the administrative burden for taxpayers and on the VAT refund process. Measures to fight and reduce tax evasion, fraud and the informal economy, as well as to improve internal control in public sector are yet to be efficiently applied. North Macedonia continued its efforts to align its legislation with ESA 2010 standards but further efforts are needed to improve compliance with the ESA 2010 methodology. All customs declarations and excise documents are processed electronically and progress continued in the reporting period on consolidation, application and upgrade of IT systems (*for further information, see chapter 16 - taxation, chapter 18 - statistics, chapter 29 - customs union and chapter 32 - financial control*).

On **traditional own resources**, progress was made on consolidation, application and upgrading IT systems. The Customs Administration is fully paperless, processing customs declarations and excise documents electronically. The digitalisation of customs procedures continued with the introduction of a 'green' customs declaration, with import and export procedures being completed in 1 hour.

Concerning **VAT**, the 2021-2025 tax system reform strategy is still ongoing. In April 2023, the Public Revenue Office published the strategic plan for 2023-2025. On indirect taxation, the VAT exemptions and preferential rates for essential products were removed at the end of 2022. A preferential VAT rate was introduced for some energy products to alleviate the effects of the significant global increase in energy prices. The preferential VAT rate for electricity for households ceased to be applied on 30 June 2023. Delays remain in the VAT refund process. (*See chapter 16 - taxation*).

With regard to the **administrative infrastructure**, further efforts are needed to ensure the timely and efficient calculation, collection, payment and control of own resources as well as

to improve reporting and coordination mechanisms among all bodies involved. This is needed upon accession to the EU.

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 on the common foreign and security policy. The country made some progress during the reporting period on common commercial policy. It has made good progress by maintaining full alignment with EU common foreign and security policy. By doing so, North Macedonia has shown itself to be a reliable partner, including at international level.

Chapter 30: External relations

The EU has a common 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.

North Macedonia is **moderately prepared** in the area of external relations and made **some progress** in the reporting period. The country continued to cooperate closely with the EU, including within the World Trade Organization (WTO), and to implement CEFTA protocols. Trade restrictions on certain products were removed or expired by the end of 2022. Its institutional capacity to fully participate in EU commercial, development and humanitarian policies is still insufficient. Last year's recommendations were partially implemented. In the coming year, the country should in particular:

- further implement CEFTA Additional Protocol 6 on trade in services, and conclude and adopt Additional Protocol 7 on dispute settlement;
- set up a legal framework covering international cooperation and development policy and humanitarian aid towards non-EU countries in line with EU policies and principles.

On **common commercial policy**, North Macedonia continued to coordinate its positions and align its policies with those of the EU, including within the WTO, and is supporting the WTO reform. The country completed the certification process for the Services Domestic Regulation in the WTO framework. The provisions of the Trade Facilitation Agreement are fully applied and the National Committee on Trade Facilitation met twice in 2022. On 7 June 2023 the WTO Government Procurement Agreement (GPA) members decided to accept North Macedonia to the GPA.

The administrative capacity of the Ministry of Economy, the Ministry in charge of trade policy, should be further strengthened. Quantitative restrictions on the export of certain products, introduced in March 2022, were either removed or expired by the end of 2022.

North Macedonia continued to participate actively in CEFTA and has committed to implement the 2021-2024 Common Regional Market (CRM). Three agreements related to CRM implementation - freedom of movement with identity cards, recognition of professional qualifications and recognition of academic qualifications - were ratified by the Parliament in April 2023. The implementation of Additional Protocol 6 on services is under way.

The system for export control of **dual-use goods** and technologies is operational. In June 2023, the government adopted an updated list of dual-use products in order to align with the

EU Regulation on control of exports, transfer, brokering and transit of dual-use goods and technologies.

North Macedonia has 38 **bilateral investment treaties with third countries** (BITs) in force, of which 18 are with EU Member States. The country is updating the existing model agreement for BITs. The amended free trade agreement between North Macedonia and Ukraine was ratified in April 2023, further liberalising trade in food and agricultural products.

No progress was made on **development policy** and **humanitarian aid**. The country is encouraged to set up a policy framework on development, international cooperation and humanitarian aid, in line with EU policies and standards.

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 action, and apply agreed sanctions and restrictive measures.

North Macedonia has **a good level of preparation** in the area of common foreign, security and defence policy. **Good progress** was made during the reporting period, as the country maintained full alignment with EU common foreign and security policy, including with the EU restrictive measures following Russia's war of aggression against Ukraine. North Macedonia continued to participate in EU crisis management missions and operations under the common security and defence policy.

In the coming year, the country should in particular:

- maintain full alignment with EU common foreign and security policy.
- make further efforts to close space for foreign interference and information manipulation, including disinformation, and take actions towards building societal resilience against it and other forms of hybrid threats.

Political dialogue on foreign and security policy continued between North Macedonia and the EU, including through regular dialogues on foreign and security policy at all levels. In April 2023, North Macedonia participated in the ninth EU-Western Balkans meeting of Political Directors. In March 2023, North Macedonia participated at ministerial level at the first Schuman Security and Defence Forum and in May 2023 in the working lunch with members of the Foreign Affairs Council. The institutional framework enabling the country's participation in the common foreign and security policy and the common security and defence policy is in place. The country subscribes to the global strategy for EU's foreign and security policy and the Strategic Compass for Security and Defence.

On **common foreign and security policy (CFSP)**, the country's alignment rate with relevant High Representative statements on behalf of the EU and relevant Council Decisions has remained at 100%. This included all EU restrictive measures targeting following Russia's war of aggression against Ukraine. This is a strong signal of the country's strategic commitment to its EU path. North Macedonia also aligned with all EU statements submitted at international organisations, including co-sponsoring the resolution adopted at the UN General Assembly Emergency Special Session on Ukraine on 23 February 2023. The country continues to implement the EU *restrictive measures*, with the Law on restrictive measures providing the legal framework for introducing and monitoring the restrictive measures, including economic ones. The authorities should continue to strengthen their capacity to implement and enforce the sanctions in place. As there is no direct legal effect of aligning

with EU restrictive measures, a new legal act must be adopted by government decision for every new measure or amendment, creating a time gap between alignment and implementation.

Reflecting the strained relations with Russia, the visa agreement between the two countries was terminated taking effect in January 2023 and the license to work of the Honorary Consul of Russia in Bitola was withdrawn.

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 needed.

On conflict prevention, North Macedonia took over as OSCE Chair in January 2023 for the duration of one year. In his capacity as OSCE Chairperson-in-Office, the Minister of Foreign Affairs of North Macedonia visited Georgia, Azerbaijan and Armenia in April 2023 and Serbia and Kosovo in May 2023. In March 2023, North Macedonia provided a venue for a High-level Dialogue meeting in Ohrid between the President of Serbia and the Prime Minister of Kosovo, convened by HRVP Borrell. North Macedonia continued supporting EU measures and documents on conflict prevention.

On non-proliferation, North Macedonia continued to implement 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, and adopted a 2022-2024 national strategy and action plan for the control of small arms and light weapons in October 2022.

North Macedonia participates in some, but not all, international export control arrangements and instruments. 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 Law on the prohibition of the development, production, storage and use of chemical weapons implements the obligations of the Chemicals Weapons Convention and provides for the establishment of the cross-sector Committee charged with its administrative implementation.

North Macedonia continued its active **cooperation with international organisations**. Its priorities in the UN are in line with important EU priorities, including on security, protection of human rights and the climate, countering violent extremism, implementing the resolution on women, peace and security, promoting the role and participation of women and strengthening the role of youth. The second national action plan on the implementation of UNSC 1325 is monitored by a working group which published its second report in April 2023. In January 2023, the country assumed the position of Chair of the Organisation for Security and Co-operation in Europe (OSCE) with a focus on human security. Since then, it has been actively promoting European standards and values and seeking to meet the threats arising from Russia's war of aggression against Ukraine. In 2023, North Macedonia assumed the chairmanship of the US-Adriatic Charter. In March 2023, Albania, North Macedonia, Kosovo and Montenegro launched the informal 'Western Balkan QUAD – 100% alignment with EU CFSP' a platform aimed at facilitating their full alignment with the EU's CFSP.

On security measures, the Law on classified information, based on the 2013 Council Decision, is in force. Implementing legislation is in place on the inspection and supervision of work involving classified information and on personnel security. North Macedonia continued

to implement its security of information agreement with the EU on procedures regarding exchange of classified information.

Regarding the **common security and defence policy** (CSDP), the country continued to actively participate and contribute substantially to EU crisis management operations, notably EUFOR ALTHEA in Bosnia and Herzegovina. North Macedonia participates in the military training mission in the Central African Republic (EUTM RCA) and in the EU Battle Group HELBROC BG with one platoon. North Macedonia takes part in the EPF Balkan Medical Task Force assistance measure. North Macedonia participated in the Dynamic Employment of Forces to Europe for NATO Deterrence and Enhanced Readiness 2023 Exercise and maintained a presence in NATO-led missions 'KFOR' in Kosovo, NATO Mission Iraq (NMI) and in the Enhanced Forward Presence in the Baltic (eFP). The country continues to participate in the UN Interim Force in Lebanon operation with three army personnel. During the reporting period, North Macedonia provided significant military equipment to Ukraine.

North Macedonia takes part in the European Peace Facility Balkan Medical Task Force assistance measure and is a beneficiary of an assistance measure for the army of North Macedonia.

The country has begun the procedure to join the European Centre of Excellence for Countering **Hybrid Threats**, located in Helsinki. The country was the target of a sustained campaign of hoax bomb threats to schools and critical infrastructure for 5 months starting in October 2022. The authorities classified these events as a hybrid threats. As a result of the attacks, the Council for the Coordination of the Security-Intelligence Community set up an operational team for cybersecurity and hybrid threats, which is managed by the Public Security Bureau of the Ministry of Interior. 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.

ANNEX I – RELATIONS BETWEEN THE EU AND NORTH MACEDONIA

North Macedonia is a candidate country since 2005. 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 launched the screening process on the same day.

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 and in force since 2004, 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. The Stabilisation and Association Council took place in March 2023 in Skopje.

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 fifth report under the visa suspension mechanism concluded that North Macedonia continues to meet the visa liberalisation benchmarks.

North Macedonia has maintained its full alignment with **EU common foreign and security policy** over the reporting period. Substantial participation in EU crisis management missions and operations continued.

Under the **Instrument for Pre-accession Assistance 2021 – 2027 (IPA III)**¹⁷, the first financing decision of EUR 90.45 million, adopted at the end of 2021, provides 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 trade with the EU. The second financing decision of EUR 72.5 million was adopted at the end of 2022, providing support for the country's reforms in the areas of border and migration management, public administration, environment, health, social protection and gender equality and to back-up the EU accession process. At the EU-WB Summit in Tirana in December 2022, the Commission put forward an **Energy Support Package** of EUR 1 billion for the Western Balkans to address immediate, short-term, and medium-term needs in the region in the context of the energy crisis and of the Russian war of aggression against Ukraine. Following this announcement, a EUR 80 million budget support programme for North Macedonia was adopted at the end of 2022 to cushion the energy price increase to SMEs and vulnerable households and to accelerate the energy diversification.

These programmes, complemented by a significant package of multi-country programmes and the EUR 97 million rural development programme (IPARD III), provide a significant contribution to the implementation of the **Economic and Investment Plan for the Western Balkans and the Green Agenda**. North Macedonia benefits from complementary support for civil society and migration management. North Macedonia participates also in cross-border cooperation programmes, transnational cooperation programmes and Union Programmes.

The new activities complement the on-going programmes under **IPA II (2014-2020)**. Progress was achieved on the implementation of IPA II, which is still providing significant support for the social and economic development of the country and contribute to key

¹⁷ OJ L 330, 20.9.2021

structural reforms. On the fundamentals, the ongoing EU assistance continued to back up the reforms in the areas of rule of law, public administration and public finance and advanced the fight against corruption. With EU assistance, the reorganisation of state institutions at central level was launched and the digital transformation of the country advanced, with 230 fully automated public e-services for citizens and businesses put in place. The EU-supported Youth Guarantee benefitted over 9 400 young people in the regions facing the highest youth unemployment and schooling was improved for Roma children and children with disabilities. Significant EU financial assistance has been allocated to North Macedonia for protecting the environment and boosting the connectivity with the EU transport systems, including State Road A2 Kumanovo-Stracin (Corridor VIII) and the new expressway section Gradsko-Drenovo (Corridor X). Media, civil society and private sector continue to benefit of important EU assistance providing opportunities to grow and develop in a favourable environment. The EU support for the private sector benefitted over 5 000 companies, created over 1 300 new jobs and secured over 15 000 jobs in risk, 70% of which in eco-friendly business.

The **Western Balkans Investment Framework** (WBIF) has supported North Macedonia in the amount of EUR 296.7 million provided as IPA III grants for flagship projects in the area of clean energy, environment and climate, and sustainable transport.

On 12 July 2023, in view of the country's large financing needs in 2023 and 2024, and following a request from the government, the Council and the European Parliament endorsed a Commission proposal for **macro-financial assistance** to North Macedonia of up to EUR 100 million. Payments can follow, provided conditions attached to this assistance have been adequately respected.

The Council of the European Union adopted an assistance measure under the **European Peace Facility** worth EUR 9 million to the benefit of the army of North Macedonia, which will help its capacity to maintain and enhance operating standards to participate in EU military CSDP missions. The proposed support will include logistics, medical equipment, communication and information systems, intelligence capacities, chemical, biological, radiological and nuclear (CBRN), engineering and training equipment.

The EU provides support via IPA and the Foreign Policy Instrument to strengthen Western Balkans partners' resilience to face hybrid threats including cyber and foreign information manipulation and interference.

STATISTICAL DATA (as of 31/08/2023)
North Macedonia

Basic data	Note	2010	2017	2018	2019	2020	2021
Population (thousand)		2 053 s	2 074 s	2 075 s	2 077 s	2 076 s	2 069 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	2010	2017	2018	2019	2020	2021
Gross domestic product (GDP) (million national currency)		437 296	618 106	660 878	692 683	669 280	720 414 p
Gross domestic product (GDP) (million euro)		7 108	10 038	10 744	11 262	10 852	11 688 p
GDP (euro per capita)		3 460 e	4 840 e	5 170 e	5 420 e	5 240 e	5 672 sw
GDP per capita (in purchasing power standards (PPS))		8 597 e	10 787 e	11 389 e	11 881 e	11 349 e	:
GDP per capita (in PPS), relative to the EU average (EU-27 = 100)		34.5	36.8	37.6	38.0	37.8	:
Real GDP growth rate: change on previous year of GDP volume (%)		3.4	1.1	2.9	3.9	- 4.7	3.9 p
Employment growth (national accounts data), relative to the previous year (%)		- 4	3	0	2	- 7	:
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)		7	- 2	3	2	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)		46	43	45	44	47	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		11.7	9.1	9.8	9.4	9.8	8.4 p
Industry (%)		17.9	20.5	21.5	20.8	19.8	19.6 p
Construction (%)		6.5	7.5	6.2	6.5	6.0	6.3 p
Services (%)		63.9 s	62.9 s	62.6 s	63.4 s	64.3 s	65.8 ps
Final consumption expenditure, as a share of GDP (%)		93.8	81.6	80.1	79.5	82.8	83.7 p
Gross fixed capital formation, as a share of GDP (%)		23.1	22.5	20.0	21.0	21.6	22.5 p
Changes in inventories, as a share of GDP (%)		1.3	9.7	12.2	13.2	8.3	9.7 p
Exports of goods and services, relative to GDP (%)		39.8	55.1	60.4	62.4	57.8	66.2 p
Imports of goods and services, relative to GDP (%)		58.1	69.0	72.8	76.2	70.5	82.3 p
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

Business	Note	2010	2017	2018	2019	2020	2021
Industrial production volume index (2015 = 100)		84.7	103.6	109.2	113.2	102.4	103.9
Number of active enterprises (number)		56 740 w	55 359 w	58 231 w	58 765 w	58 570 w	59 122 pw
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)		16.1 w	9.2	8.4 b	8.5	8.0	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)		12.9	7.7	7.6 b	8.4 p	7.3 p	:

People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		77.8 sw	74.3 sw	74.1 sw	73.7 sw	73.9 sw	75.0 psw
Value added by SMEs (in the non-financial business economy) (EUR million)		2 399 sw	2 698 sw	2 895 sw	3 215 s	3 154 sw	3 528 psw
Total value added (in the non-financial business economy) (EUR million)		3 641 w	4 252	4 579	4 878	4 643 w	5 089 pw

Inflation rate and house prices	Note	2010	2017	2018	2019	2020	2021
Consumer price index (CPI), change relative to the previous year (%)		1.1 d	2.1 d	2.3 d	0.7 d	1.2 d	3.4 d
**Annual change in the deflated house price index (2015 = 100)		:	:	:	:	:	:

Balance of payments	Note	2010	2017	2018	2019	2020	2021
Balance of payments: current account total (million euro)		:	- 78.3	22.4	- 334.7	- 318.0	- 366.4
Balance of payments current account: trade balance (million euro)		:	- 1 787.3	- 1 736.2	- 1 948.8	- 1 803.6	- 2 370.3
Balance of payments current account: net services (million euro)		:	374.7	370.9	335.7	423.7	495.9
Balance of payments current account: net balance for primary income (million euro)		:	- 397.5	- 450.7	- 519.6	- 411.5	- 521.3
Balance of payments current account: net balance for secondary income (million euro)		:	1 731.8	1 838.4	1 798.0	1 473.4	2 029.4
Net balance for primary and secondary income: of which government transfers (million euro)		:	112.8	109.1	43.2	110.0	138.5
**3 year backward moving average of the current account balance relative to GDP (%)		:	- 1.7	- 1.1	- 1.2	- 1.9	- 3.0
**Five year change in share of world exports of goods and services (%)		:	41.9	51.6	38.5	38.0	25.4
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)		156.9 w	180.0 w	603.7 w	363.3 w	154.7 w	387.5 w
Foreign direct investment (FDI) abroad (million euro)		3.6 w	1.8 w	10.4 w	35.5 w	46.7 w	83.0 w
of which FDI of the reporting economy in the EU-27 countries (million euro)		:	7.2 w	0.4	27.2	31.3 w	59.7
Foreign direct investment (FDI) in the reporting economy (million euro)		160.5 w	181.7 w	614.1 w	398.8 w	201.4 w	470.5 w
of which FDI of the EU-27 countries in the reporting economy (million euro)		103.9 w	87.3 w	291.2 w	220.2	42.3 w	449.7
**Net international investment position, relative to GDP (%)		- 51.1 w	- 58.0 w	- 56.2 w	- 57.3 w	- 63.6 w	- 62.0 pw
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)		2.8 sw	1.9 sw	1.9 sw	:	:	:

Public finance	Note	2010	2017	2018	2019	2020	2021
General government deficit / surplus, relative to GDP (%)		- 2.4 w	- 2.7 w	- 1.8 w	- 2.0 w	- 8.1 w	:
General government gross debt relative to GDP (%)		24.1 w	39.4 w	40.4 w	40.7 w	51.2 w	:
Total government revenues, as a percentage of GDP (%)		30.2 w	29.1 w	28.6 w	29.2 w	28.5 w	:
Total government expenditure, as a percentage of GDP (%)		32.6 w	31.8 w	30.4 w	31.2 w	36.7 w	:

Financial indicators	Note	2010	2017	2018	2019	2020	2021
Gross external debt of the whole economy, relative to GDP (%)		57.8 sw	73.4 s	73.0 s	72.4 s	78.7 s	81.9 ps
Gross external debt of the whole economy, relative to total exports (%)		150.5 w	133.8 w	121.4 w	117.0 w	136.3 w	123.7 pw
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		973.4 w	2 053.3 w	2 436.7 w	2 857.4 w	3 314.2 w	3 605.5 w
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		3 318.2 w	4 564.2 w	5 103.4 w	5 609.3 w	6 215.5 w	6 864.0 w
Money supply: M3 (M2 plus marketable instruments, million euro)		3 659.6 w	5 480.3 w	6 072.6 w	6 571.1 w	7 070.9 w	7 703.7 w

Total credit by monetary financial institutions to residents (consolidated) (million euro)		3 148.7 w	4 883.0 w	5 237.6 w	5 552.3 w	5 791.4 w	6 277.8 w
**Annual change in financial sector liabilities (%)		:	1.9 w	7.6 w	12.2 w	6.1 w	12.9 w
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)	2)	3.78 w	1.01 w	0.99 w	1.00 w	1.00 w	0.88 w
Lending interest rate (one year), per annum (%)	3)	5.50 w	3.75 w	3.00 w	2.75 w	2.00 w	1.75 w
Deposit interest rate (one year), per annum (%)	3)	:	0.25 w	0.15 w	0.15 w	0.15 w	0.15 w
Euro exchange rates: average of period (1 euro = ... national currency)		61.519	61.575	61.512	61.506	61.675	61.636
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)	3)	1 714.5 w	2 336.3 w	2 867.1 w	3 262.6 w	3 359.9 w	3 643.3 w

External trade in goods	Note	2010	2017	2018	2019	2020	2021
Value of imports: all goods, all partners (million euro)		4 137	6 825	7 676	8 463	7 599	9 647
Value of exports: all goods, all partners (million euro)		2 535	5 007	5 873	6 424	5 781	6 969
Trade balance: all goods, all partners (million euro)		- 1 602	- 1 818	- 1 804	- 2 040	- 1 818	- 2 678
Terms of trade (export price index / import price index * 100) (number)	4)	98.6 sw	95.3 sw	94.9 sw	95.3 sw	102.4 sw	:
Share of exports to EU-27 countries in value of total exports (%)		63.7 s	79.7 s	80.3 s	78.5 s	77.5 s	77.1 s
Share of imports from EU-27 countries in value of total imports (%)		50.0 s	52.8 s	52.9 s	50.8 s	46.3 s	46.2 s

Demography	Note	2010	2017	2018	2019	2020	2021
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		2.5	0.7	0.8	- 0.3	- 3.2	- 5.1
Infant mortality rate deaths of children under one year of age (per thousand live births)		7.6	9.2	5.7	5.6	5.7	4.6
Life expectancy at birth: male (years)		72.9	74.1	74.6	74.7	72.2	71.1 b
Life expectancy at birth: female (years)		77.2	77.9	78.8	78.6	76.7	75.5 b

Labour market	Note	2010	2017	2018	2019	2020	2021
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)	5)	70.3	70.3	70.4	71.5	70.5	70.5 w
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)	5)	48.1	54.8	56.1	59.2	59.1	59.5 w
Male employment rate for persons aged 20–64 (%)	5)	58.4	65.6	66.6	69.7	68.9	69.5 w
Female employment rate for persons aged 20–64 (%)	5)	37.5	43.7	45.2	48.4	49.0	49.2 w
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)	5)	34.2	41.4	42.7	45.1	45.7	44.9 w
Employment by main sectors							
Agriculture, forestry and fisheries (%)	5)	:	16.2 s	15.7 s	13.9 s	12.0 s	11.5 w
Industry (%)	5)	:	23.3 s	23.9 s	24.1 s	23.9 s	23.9 w

Construction (%)	5)	:	7.2 s	7.4 s	7.0 s	6.9 s	6.8 w
Services (%)	5)	:	53.2 s	52.9 s	55.0 s	57.1 s	57.7 w
People employed in the public sector as a share of total employment, persons aged 20–64 (%)	6) 5)	27.0 w	23.2 w	23.1 w	23.2 w	24.4 w	25.6 w
People employed in the private sector as a share of total employment, persons aged 20–64 (%)	5)	73.0 w	76.8 w	76.9 w	76.8 w	75.6 w	74.4 w
Unemployment rate: proportion of the labour force that is unemployed (%)	5)	32.0	22.4	20.8	17.3	16.4	15.7 w
Male unemployment rate (%)	5)	31.9	22.8	21.3	16.5	16.7	16.4 w
Female unemployment rate (%)	5)	32.3	21.8	19.9	18.4	15.9	14.6 w
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)	5)	53.7	46.7	45.4	35.6	35.7	36.4 w
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)	5)	26.6	17.4	15.5	12.4	12.4	12.5 w
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED levels 0-2) (%)	5)	37.9	25.6	23.1	23.7	21.4	22.8 w
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)	5)	19.3	17.1	16.6	13.3	12.9	11.3 w

Social cohesion	Note	2010	2017	2018	2019	2020	2021
Average nominal monthly wages and salaries (national currency)		20 553 w	22 928 w	24 276 w	25 213 w	27 182 w	28 718 w
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2016 = 100)		101 w	101 w	106 w	109 w	116 w	119 w
GINI coefficient		:	32	32	31	31	:
Poverty gap		:	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 (%)	5)	15.5	8.5	7.1	7.1	5.7	4.6 w

Standard of living	Note	2010	2017	2018	2019	2020	2021
Number of passenger cars relative to population size (number per thousand population)		151.0	194.0	200.0	205.0	207.0	260.0
Number of mobile phone subscriptions relative to population size (number per thousand population)	7)	1 098.2 w	968.3 w	935.9 w	924.8 w	896.8 w	902.7 w
Mobile broadband penetration (per 100 inhabitants)	7)	:	61.1 w	60.9 w	65.1 w	66.1 w	67.6 w
Fixed broadband penetration (per 100 inhabitants)	7)	:	19 w	19 w	22 w	23 w	23 w

Infrastructure	Note	2010	2017	2018	2019	2020	2021
Density of railway network (lines in operation per thousand km²)	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	287	335	335	335

Innovation and research	Note	2010	2017	2018	2019	2020	2021
Public expenditure on education relative to GDP (%)		:	:	:	:	:	:
*Gross domestic expenditure on R&D relative to GDP (%)	8)	0.22 sw	0.35	0.36	0.37	0.37	:

Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	:	:	:	:	:
Percentage of households who have internet access at home (%)		46.1	73.6	79.3	81.6	79.4	83.7

Environment	Note	2010	2017	2018	2019	2020	2021
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)	9)	99.8 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)		358.4	293.0	267.1	283.8	270.1	268.2
Electricity generated from renewable sources relative to gross electricity consumption (%)		15.8	24.8	24.8	23.8	23.5	21.5
Road share of inland freight transport (based on tonne-km) (%)		89.0 w	96.4 w	97.2 w	96.7 w	96.9 w	96.8 w

Energy	Note	2010	2017	2018	2019	2020	2021
Primary production of all energy products (thousand TOE)		1 607	1 166	1 148	1 160	992	877
Primary production of crude oil (thousand TOE)		0	0	0	0	0	0
Primary production of solid fuels (thousand TOE)		1 194	849	800	860	685	552
Primary production of gas (thousand TOE)		0	0	0	0	0	0
Net imports of all energy products (thousand TOE)		1 268 s	1 553 s	1 513 s	1 664 s	1 648 s	1 822 s
Gross inland energy consumption (thousand TOE)		2 881	2 763	2 592	2 862	2 596	2 678
Gross electricity generation (GWh)		7 260	5 600	5 607	5 870	5 347	5 506

Agriculture	Note	2010	2017	2018	2019	2020	2021
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		100.0 w	99.9 w	111.8 w	105.4 w	108.8 w	:
Utilised agricultural area (thousand hectares)		1 120.6	1 266.0	1 264.1	1 264.6	1 270.5	1 268.8
Livestock numbers: live bovine animals (thousand heads, end of period)		:	255.0	256.0	219.0	222.0	178.0
Livestock numbers: live swine (thousand heads, end of period)		:	202.0	196.0	136.0	164.0	186.0
Livestock numbers: live sheep and live goats (thousand heads, end of period)		:	832.0 s	844.0 s	771.0 s	726.0 s	709.0 s
Raw milk available on farms (thousand tonnes)		:	462.2	478.5	456.1	461.1	389.2
Harvested crop production: cereals (including rice) (thousand tonnes)		547.8	452.9	605.3	569.6	585.5	568.9
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)		741.7	769.6	792.9	772.7	794.2	798.0 p

Source: Eurostat and/or 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) Data cover bilateral over-night transactions. The interest rates are calculated as weighted averages.
- 3) End of year (31 December).
- 4) Laspeyres unit value index. 2015 = 100.
- 5) The new IESS regulation has not been implemented
- 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).