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**THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA**  
**2010 PROGRESS REPORT**

*accompanying the*

**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Enlargement Strategy and Main Challenges 2010-2011**

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# COMMISSION STAFF WORKING DOCUMENT

## 2010 Progress Report

### 1. INTRODUCTION

#### 1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkans region. This report on progress made by the former Yugoslav Republic of Macedonia in preparing for EU membership largely follows the same structure as in previous years. The report:

- briefly describes the relations between the former Yugoslav Republic of Macedonia and the Union;

- analyses the situation in the former Yugoslav Republic of Macedonia in terms of the political criteria for membership;

- analyses the situation in the former Yugoslav Republic of Macedonia on the basis of the economic criteria for membership;

- reviews the former Yugoslav Republic of Macedonia's capacity to assume the obligations of membership, that is, the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

The period covered by this report is from mid-September 2009 to 1 October 2010. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of the former Yugoslav Republic of Macedonia, the EU Member States, European Parliament reports<sup>1</sup> and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding the former Yugoslav Republic of Macedonia in its separate communication on enlargement<sup>2</sup>, based on the technical analysis contained in this report.

#### 1.2. Context

The European Council of December 2005 granted the status of candidate country to the former Yugoslav Republic of Macedonia. The Stabilisation and Association Agreement

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<sup>1</sup> The rapporteur for the former Yugoslav Republic of Macedonia is Mr Zoran Thaler.

<sup>2</sup> Enlargement Strategy and Main Challenges 2010-11 (COM(2010) 660 of 9.11.2010).

(SAA) between the former Yugoslav Republic of Macedonia and the EU was signed in April 2001 and entered into force in April 2004. The Council adopted the Accession Partnership for the country, including key priorities for reform, in February 2008. In October 2009, the Commission recommended to the Council to open negotiations with the country, as well as to move to the second phase of SAA Implementation. The Council has not yet taken a position on the Commission's proposals. Visa liberalisation came into force in December 2009.

### **1.3. Relations between the EU and the former Yugoslav Republic of Macedonia**

The former Yugoslav Republic of Macedonia is participating in the **Stabilisation and Association Process**.

The country has been implementing all the commitments undertaken with the **Stabilisation and Association Agreement (SAA)** with the EU, which is a key priority of the Accession Partnership. In particular, the country continues to fulfil all the commitments foreseen under the first stage of implementation of Title V (Movement of workers, establishment, supply of services, capital) of the SAA. On this basis, the Commission in October 2009 made a proposal on transition to the second stage of the Association, pursuant to article 5 of the SAA.

The regular **political and economic dialogue** between the EU and the country has continued through the SAA structures. The Stabilisation and Association Committee met in June 2010 and the Stabilisation and Association Council in July 2010. Seven sub-committees have been held since September 2009. The multilateral economic dialogue between the Commission, EU Member States and Candidate Countries in the context of the pre-accession fiscal surveillance continued, including a meeting at Ministerial level in May in Brussels. The new Special Group on Public Administration Reform was established in June 2010, and held its inaugural session in September 2010.

The EU provided guidance to the authorities on reform priorities through the **Accession Partnership** of February 2008. Progress on these reform priorities is encouraged and monitored through the bodies set up under the SAA. Based on the Accession Partnership and the 2009 Progress Report the government adopted its annual revision of the national programme for the adoption of the *acquis* in December 2009.

**Visa liberalisation** for citizens of the former Yugoslav Republic of Macedonia was granted by the Council, after consultation with the European Parliament, as of 19 December 2009. It applies to holders of biometric passports travelling to the Schengen area. This decision was based on the substantial progress in the areas of justice, freedom and security and fulfilment of the specific conditions set out in the roadmap for visa liberalisation.

As regards **financial assistance**, the new Instrument for Pre-Accession Assistance (IPA) started on 1 January 2007. The current Multi-Annual Indicative Planning Document (MIPD) 2009-2011 for the former Yugoslav Republic of Macedonia, adopted in June 2009, remains fully relevant. €294.7 million are allocated to support the country's efforts to comply with the Copenhagen accession criteria and to help prepare the country to meet the challenges of future EU membership. The IPA National programme 2010 amounts to €36.9 million. In addition the country continues to benefit from different regional and horizontal programmes which include an **IPA crisis response package** developed in 2008. The package is fully operational in 2010. Cross border cooperation is also used to promote capacity building and dialogue between local and regional authorities of neighbouring countries, namely Bulgaria, Greece and Albania.

The EU financial assistance portfolio managed by the EU Delegation in Skopje amounts to €108 million. By July 2010, more than 60% of this total had been contracted and 40% disbursed. Assistance focuses on support to the implementation of the Ohrid Framework Agreement, strengthening of administrative capacity with particular emphasis on the rule of law sector, economic development, and the ability to assume the obligations of EU membership. In the context of pre-accession, the EU is in the process of transferring the management of IPA funds to the national authorities under the Decentralised Implementation System (DIS). Further attention is still needed to establish the necessary management and control systems to assume this responsibility.

**Civil society** has received extensive financial support from the EU under the Civil Society Facility. EU funding is given through different national and regional horizontal IPA programmes, and includes aid to establish the national civil society forum, capacity building to civil society organisations, and the assistance to regional NGO support centres. The national programmes provide significant support to improve the development and sustainability of civil society organisations and further capacity building of the government unit for NGO cooperation.

The former Yugoslav Republic of Macedonia participates in the following **EU Programmes**: 'Entrepreneurship and Innovation programme' (EIP) of the 'Competitiveness and Innovation Framework Programme', the 'Seventh Research Framework Programme', 'Progress', 'Culture', 'Europe for Citizens', 'Fiscalis 2013' and 'Customs 2013'.

## **2. POLITICAL CRITERIA**

This section examines the progress made by the former Yugoslav Republic of Macedonia towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

### **2.1. Democracy and the rule of law**

#### *Parliament*

The work of the parliament has continued on the basis of dialogue, a key priority of the accession partnership. It adopted numerous pieces of legislation related to the accession to the European Union. Nonetheless there were some difficulties in the relations between the main political forces.

Several measures were taken to strengthen the institutional capacity of the parliament in line with the 2009 Law on parliament. The concept of public oversight hearings on the work of the government was introduced by three parliamentary committees. The budgetary resources of parliament were increased by 24%, despite austerity measures, in order to allow new recruitment and a major refurbishment of the parliament building. Research capacity was increased by recruiting, for the first time, assistants to the political party groups. The Parliamentary Institute was formally established. Its objective is to enable all parties to have greater access to information and analysis. In line with the Law on languages, draft laws and other motions in the parliament are translated into Albanian. The use of Albanian in oral

procedure continues in committees and in hearings, including by the chair, as well as in the plenary. The parliamentary TV channel is also interpreted into Albanian.

The Committee on EU Affairs and the National Council for EU Integration, which is chaired by the opposition, continued to hold regular sessions. They discussed, in particular, the 2009 Progress Report, the related Action Plan and the annual revision of the National Programme for the adoption of the *acquis* (NPAA), as well as its implementation.

The e-Parliament continues to function smoothly. The existing rules of procedure have overall been satisfactorily implemented.

The number of women MPs increased to 41, representing over 30% of the total. A new parliamentary group was established by the opposition New Social Democratic Party, Liberal Party and New Alternative.

After one year of discussions the amendments to the rules of procedure were adopted in September. These should strengthen parliamentary cooperation in the future by setting out clearly the right of the opposition to table issues on the parliament's agenda. However, during the reporting period there was little dialogue on sensitive political issues. In response, the opposition groups decided to stop participating in formal coordination meetings from April to September. The opposition DPA, which has 5 MPs, continued the boycott of parliament which it began in August 2009.

An incident in parliament at the beginning of July between opposition members and a plain clothes policeman highlighted the tense political climate and the need to increase confidence between political actors. The opposition tabled motions of no confidence against the parliamentary Speaker and the Minister of Interior which were hotly debated but were finally rejected. A Parliamentary Inquiry Committee was established at the end of July. It is important that it clarifies the responsibilities for the incident and makes proposals to avoid any repetition in the future.

The parliamentary committee on inter-ethnic relations failed to meet several times due to the inability to achieve a quorum. Six sessions out of a total of ten scheduled since its establishment in mid-2008 have been cancelled. Cooperation between the parliamentary committee for relations among communities and the corresponding committees in the municipalities remains insufficient.

The National Council for EU Integration suffered from uneven support from the government which on occasion failed to provide materials and reports or the presence of ministers. The oversight committee on the work of the intelligence agency did not meet and the committee on interception of communications and on local self-government remained among the least active. The committee for relations among communities was disrupted by the absence of the MPs from the ruling coalition, who prevented the quorum from being reached. The committee limited its activity to the application of double majority ('Badinter majority') rules in parliament for non-majority community legislation. This also had a negative effect on the work of inter-ethnic councils at local level. The involvement of civil society representatives in public hearings and other consultations remained ad hoc and selective and the follow-up to recommendations of the civil society sector by parliament inconsistent.

The government followed-up the 2008 and 2009 *elections* and the ODIHR/OSCE recommendations. It established a high-level steering committee and four working groups on electoral administration, elimination of voter intimidation, amendments to the electoral code,



and updating the voters list. The electoral code remains to be amended. The courts sentenced 65 perpetrators of irregularities in the 2008 early parliamentary elections. Regarding the irregularities in the 2009 presidential and local elections, no charges were pressed.

Overall, there has been further progress in the reform of the *parliament*. Amendments to the rules of procedure were adopted to safeguard the rights of the opposition. The parliament took measures to strengthen its institutional capacity, in particular through launching public hearings and establishing a Parliamentary Institute. However, the Parliamentary Committee on inter-ethnic relations failed to meet several times due to the lack of a quorum. The government's cooperation with the National Council for European Integration needs to be developed further.

### *Government*

The government coalition continues to be stable and to resolve differences through cooperation. It has continued to take forward the EU reform process, in particular through the adoption of its annual revision of the NPAA. However, coalition relations have been strained by insufficient dialogue on initiatives perceived to have a divisive effect on inter-ethnic relations, such as the introduction of teaching of the state language from the first year and a new urban plan for 'Skopje 2014'.

The Secretariat for European Affairs convened monthly meetings of the EU integration structures within the administration. Nonetheless it needs to further strengthen the coordination of the EU integration agenda.

Decentralisation, which is a basic principle of the Ohrid Framework Agreement, continued. The inter-ministerial working group on decentralisation met regularly. The programme and action plan for implementing decentralisation 2008-2010 were updated. Another 6 of the 85 municipalities entered the second and last phase of the fiscal decentralisation process. This provides for a more substantial transfer of competencies and financial management to the local level. The Law on financing the units of local self-government was amended to increase the share of VAT transferred to municipalities from 3% to 4.5% from 2010 to 2013.

The strategy for transferring the management of state-owned land to the municipalities from 2011 was finalised. Capacity-building programmes are being implemented to strengthen the capacity of municipalities in the areas of property tax administration, human resources and financial control. Financial affairs units were established in seven municipalities. 48 municipalities established internal audit units or engaged an internal auditor and the majority have become operational. The human resources capacity of the Ministry of Local Self-Government (MoLSG) for the management of EU funds has been increased.

However, progress in meeting the objectives of decentralisation needs to be accelerated through the impetus of the Ministry of Local Self-Government. The Ministry of Finance needs to strengthen its capacity to develop policy on local government budget issues. The inter-ministerial committee for monitoring the financing of municipalities has only met once. The transparency and coordination of central funding for municipal projects needs to be significantly strengthened in line with the objective of balanced regional development.

The eleven municipalities which remain in phase 1 of the decentralisation process all have sizeable debts or lack financial management capacity. Additional efforts should be made to prepare them for moving into phase 2. Blocked accounts remain problematic for municipalities in both phase 1 and 2. Mechanisms to address the significant disparities in

delivery of public services are limited and rural and small municipalities are especially disadvantaged. Some municipalities remain weak in monitoring or enforcing property tax collection.

There are administrative bottlenecks impeding the opening of new schools. Social care services remain to be decentralised. Exchange of data between the land registry, the civil registry, the revenue office and the municipalities is yet to be strengthened.

Significant additional efforts at central and local level are needed to strengthen the administrative capacity of some municipalities. This concerns in particular financial control, strategic planning, human resources management and economic development. The State Audit Office reported numerous shortcomings in the application of financial control standards and procurement rules as well as poor follow-up of previous recommendations. There was little progress in implementing annual training programmes in a systematic manner. Monitoring and appraisal of staff performance need to be significantly strengthened as does fair representation. There are concerns about illegal dismissals due to political interference.

Overall, the government coalition continues to be stable and to resolve differences through cooperation. It has continued to take forward the EU reform process. However, more dialogue is required on issues concerning inter-ethnic relations. Additional efforts are necessary to take the decentralisation process forward. The financial framework for local service delivery needs to be more transparent and equitable.

#### *Public administration*

As regards reform of the public administration, a key priority of the Accession Partnership, progress was partial and mainly confined to legislative aspects. The political and operational responsibility for management of public administration remains fragmented. The High Committee on public administration, formally led by the Prime Minister, meets on a monthly basis to address the reform needs in the field. The Committee's conclusions, however, have not been systematically and effectively implemented.

In an effort to streamline discussion on public administration reform and to drive it forward in a structured manner, a specialised platform was created with the EU under the framework of the Stabilisation and Association Agreement (SAA). The Special Group on Public Administration Reform held its first session in September 2010.

The Law on public servants was enacted in order to introduce similar provisions to those in the Law on civil servants. It will enter into force in April 2011. The law regulates the scope of the public service as a whole; recruitment procedures; rights and obligations of public servants and their protection; and responsibility, assessment, and termination of employment. The law entrusts new competences to the Civil Servants Agency (CSA): preparation of an annual plan on fair representation, reports on disciplinary procedures and staff appraisals, training of public servants, and keeping of a public servants registry. The Ministry of Justice adopted the code of ethics for public servants in August 2010.

The amendments to the Law on civil servants adopted in 2009 entered into force in March 2010. The CSA has adopted most of the relevant implementing legislation and is coordinating its application, including conduct of the recruitment procedure. State administrative bodies (SABs) and municipalities have begun to align their organisational charts with the Law on civil servants. The CSA developed monitoring plans and performed inspections. It also

continued to strengthen its capacities to develop and deliver general training for civil servants. However the training plan for 2010 could not be implemented due to budgetary restrictions.

The CSA reported no cases of unlawful promotions and demotions of civil servants, or violations by them of the provisions of their code of ethics. Regarding disciplinary proceedings against civil servants, activities are appropriately handled by the CSA on a regular basis. The administrative capacity of the human resources (HR) units in some ministries and the CSA was increased slightly. The working group to coordinate the network of HR units is now operational.

There was progress in police reform with the entry into force of the Law on internal affairs, which aims to ensure the professionalism and de-politicisation of officials of the Ministry of Interior (MoI), including senior police officers. The MoI adopted most relevant pieces of implementing legislation and established working groups for monitoring their implementation, including the Collective Agreement with Police Trade Unions. The Systematisation Act that will introduce a merit-based career and appraisal system remains to be adopted.

However, the recruitment procedure under the Law on public servants does not guarantee a merit-based recruitment procedure, nor does it establish when an external rather than an internal recruitment procedure will apply. Also, there is no probationary period and promotion is not clearly linked to staff appraisals. The capacity of the CSA to take on the new competences conferred by the Law on public servants is insufficient in terms of expertise, budget and available infrastructure.

The Law on civil servants allows certain rights and responsibilities of civil servants in some institutions to be regulated differently. This fragments the legal framework applicable to civil servants, allowing for too many exceptions. Two out of eleven laws governing these institutions have been partially harmonised with the Civil Servants Law. Salary-related provisions in particular remain inconsistent. The final stage of the civil servant's recruitment does not guarantee a transparent, merit-based selection, as it leaves too large room for discretion. Similarly to the Law on public servants, the application of the external versus internal recruitment procedure is not specified.

There is still no comprehensive reporting to the CSA in line with the legal obligations on appointments, promotions, training of civil servants, fair representation, and complaints lodged by civil servants. A number of HR units at central and local level remain understaffed. Implementation of HR standards is slow, as only 10 pilot institutions have started systematically introducing them. The capacity to perform staff appraisals remains insufficient. There is no coherent planning of HR needs across the entire civil service. More than 18 months after it was established, the main civil servants training facility is not operational.

Concerns remain regarding politicisation of the public service. There have been reports of replacement of trained professionals with appointees of limited experience in several institutions. Also, senior management positions have been filled in the absence of appointment criteria, sometimes with staff under temporary contracts.

Although the government acknowledged that the number of temporary posts within the public administration is disproportionately high, it has not provided precise information on the number and type of its temporary staff. The hiring of temporary staff is not compliant with procedures set out in the Laws on civil and public servants to guarantee transparency and

merit-based selection. A large number of temporary posts were converted into permanent ones in the third quarter of 2010. This process in many cases did not provide for an open, transparent, competitive and merit-based recruitment. The recruitment of a large number of employees from the non-majority communities is on a quantitative basis and without matching the needs of the institutions with the required training and qualifications. The recruitment procedure is vulnerable to undue influences. There is no structured relationship between the CSA and the Secretariat for Implementation of the Ohrid Framework Agreement for planning of fair representation. The number of complaints submitted concerning replacement or dismissal from work by municipal civil servants to the CSA increased following the municipal elections. The CSA reported that most of the complaints were rejected as unfounded.

As regards general administrative procedure, the administrative silence is equivalent to implicit rejection in the majority of cases. This approach is to the detriment of the citizens vis-à-vis the administration. The appeals procedure through the second-instance commissions is not uniform across the public administration.

Effective social dialogue between the government and the organisations representing civil servants remains to be established. The payroll system in the public administration is not unified, affecting unity and mobility. The practice of paying ad hoc allowances to public servants for assuming certain types of tasks pertaining to their job duties is not transparent and without proper justification. The career-related supplements for civil servants continued to be inconsistently applied. The quality of strategic planning within SABs and municipalities is insufficient, and is mainly confined to budgetary planning. The related budgetary support is inadequate. SABs need to pay higher attention to transparency and accountability. The State Audit Office (SAO) reported numerous shortcomings in the SABs' and municipalities' accounts regarding the application of internal financial control standards, procurement rules, and human resources policy. The regulatory impact assessment is not applied systematically. The use of the citizens' charter has been expanded to other SABs, yet there is no feedback on its effectiveness.

Public bodies accepted the Ombudsman's recommendations in the majority of cases in 2009. However, there was a decrease in responsiveness observed, in particular in the second-instance government commissions, and in the Interior Ministry's units for status rights and for border control.

The quality of legislative drafting by the central and local administration needs further improvement. The Constitutional Court annulled provisions in nearly 25% of cases where laws were challenged.

Amendments introduced to the Law on free access to public information sought to increase its effectiveness in particular by introducing a public interest test. The number of complaints received by the National Commission dropped considerably. Almost half of the complaints received resulted in the information being made available. However, the effectiveness of the National Commission is hampered by its small budget allocation and the tacit refusal of some of the public bodies to provide information. Information relating to public expenditure continued to be subject to various exceptions provided by the law and thus only partially available to the public.

*Overall* there was some progress as regards reform of public administration, notably through the adoption of the Law on public servants. However, significant further efforts are needed to ensure the transparency, professionalism and independence of public administration. Respect

of the legal framework needs to be ensured in practice, in particular as regards staff recruitment. The process of converting a large number of temporary posts into permanent ones in many cases did not provide for competitive and merit-based recruitments. Police reform has made further progress. The new Law on internal affairs entered into force and most necessary implementing legislation has been adopted.

### *Judicial system*

Limited progress was made in implementing the reform of the judiciary, a key priority of the Accession Partnership.

Regarding the independence of the judiciary, no further progress was made in ensuring that the existing legal provisions are implemented in practice. The role of the Minister of Justice within the Judicial Council raises serious concerns about the interference of the executive in the work of the judiciary. The boundaries between the grounds for disciplinary procedures and the grounds for judicial review are not clearly defined. Further efforts are needed to ensure that the assessment of judges' professional ability is not made primarily on the basis of quantitative criteria, such as reversal rates of judgements, but also on qualitative criteria in line with Council of Europe recommendations. Appointments of some members of the Judicial Council were not in line with established criteria.

The Prime Minister, the Minister of Justice, the Speaker and several VMRO-DPMNE MPs openly criticised the work and the decisions of the Constitutional Court, considering them to be politically motivated. The President of the Constitutional Court defended the Court and called on the political parties to respect the Court's authority. The implementation of the 2008 Law on lustration resulted in a first case when the lustration committee found that the President of the Constitutional Court cooperated with the secret services. The President of the Constitutional Court denied these allegations. These developments have raised concerns about pressure on the independence of the judiciary.

The Judicial Council made some efforts to improve professionalism of the judiciary. In order to ensure merit-based recruitment, the Judicial Council and the Council of Public Prosecutors have appointed 39 out of 54 graduates from the Academy for Training of Judges and Prosecutors (ATJP). A new law on the ATJP was enacted in July to further clarify the criteria for selection of judges. However, further efforts are needed to establish a comprehensive human resources strategy, including long-term planning of recruitment needs, career management and mobility issues. ATJP continues to provide continuous training which remains necessary.

Continued efforts were made to improve efficiency. The 2009 budget for the courts and for the Public Prosecutor's Office were slightly increased despite the economic crisis. Also, the court budgetary council facilitated a higher rate of absorption of the funds allocated to the courts. The Automated Court Case Management Information System (ACCMIS) is fully implemented in all courts. The courts published over 34,000 decisions, thus strengthening transparency.

The Laws on salaries of judges, prosecutors and members of the Judicial Council and of the Council of Public Prosecutors were amended to provide for a unified salary system. The salaries among serving judges and prosecutors, including those who are serving in the two councils, are harmonised.

The backlog of old court cases continues to be a major problem. While 20 out of 27 basic courts managed to resolve most of the newly received cases and to reduce their backlog, the four courts of appeal and the administrative court did not

Departments in the new Administrative Court, the Court of Appeal in Gostivar, the higher prosecutor's office in Gostivar, and the Council of Public Prosecutors remained understaffed. The Ministry of Justice lacked appropriate human resources in key sectors such as for the EU and anti-corruption. The Council for Judicial Reform, whose role is to steer the reform and monitor its implementation in the presence of all key actors in the judiciary, is not meeting regularly. Delayed enactment of the amendments to the Law on criminal procedure still prevents full implementation of the Law on the public prosecutors as regards the pre-trial investigation phase. Amendments to the Law on administrative disputes to address the Constitutional Court ruling introducing a right to appeal are still outstanding.

No systematic efforts were undertaken to improve the coverage and the reliability of judicial statistics. The Public Prosecutor's Office remains without access to the internet.

*Overall*, there was limited progress on judicial reform. The efficiency of courts was strengthened through improved budgetary management and a reduction of the backlog of cases. However, the Judicial Council and the Council of Public Prosecutors need to ensure high standards of independence and impartiality of the judiciary in practice. It is key that recruitment into the judiciary is principally from amongst the qualified graduates of the Academy for Training of Judges and Prosecutors.

#### *Anti-corruption policy*

Progress was registered in the implementation of the anti-corruption framework, which is a key priority of the Accession Partnership. All 14 recommendations of the Group of States Against Corruption (GRECO) second evaluation round have been followed up. The GRECO report for the third evaluation round was published, comprising 13 recommendations on the incrimination of corruption-related offences and on the transparency of political party funding to be implemented by September 2011. The country has initiated the procedure for acceding to the OECD Convention on Combating Bribery of Foreign Public Officials. The amendments to the Criminal Code introducing provisions on extended confiscation, illicit enrichment and criminal liability of legal persons for influence peddling entered into force. The regulatory framework for the status of public officials other than civil servants was set up. The inter-ministerial working group for monitoring the state anti-corruption programme met on a regular basis.

Three large-scale police operations were carried out, leading to the arrest of numerous border police officers, doctors and officials from the Pension and Disability Insurance Fund. Prison sentences were imposed on some of the defendants in first-instance court decisions. For the others the investigation or the court proceedings are ongoing.

The Office for Prevention of Money Laundering and Financing of Terrorism now has direct access to the asset declarations database of the State Commission for Prevention of Corruption (SCPC). Following checks by the SCPC two mayors were fined up to 70% of their unjustified difference in wealth, in line with the legal provisions. The number of conflicts of interest detected by the SCPC increased. The SCPC increased the number of completed cases from 567 in 2008 to 828 in 2009. Some improvements are noted in the mechanism for follow-up of the State Audit Office recommendations with 55 reports issued in 2009.

However, implementation of the anti-corruption legal framework remains deficient. The new legislation was not accompanied by proper impact assessments, with the result that planning of the necessary human and financial resources and preparation for implementation was inadequate. The entry into force of the new provisions of the Criminal Code, in particular on illicit enrichment and extended confiscation, were not sufficiently prepared and will require additional training.

The case-law on corruption is inconsistent. Three of the highest-level corruption cases with imprisonment decisions have been sent back to the lower courts due to procedural flaws found in the first-instance proceedings. The limited capacity of the Criminal Law Section in the Skopje Court of Appeal was further weakened by the suspension of more than half of its judges for disciplinary reasons. Two of the judges were dismissed and the other three were returned to the Court after three months. Independence of the judiciary remains a matter of serious concern affecting the determination to combat corruption. The role of the Ministry of the Interior in authorising the use of interceptions is not in line with EU standards and raises concerns about undue political interference. Moreover, the external oversight mechanism needs to be strengthened.

The number of cases in which a conflict of interest was found and action taken is still low. The asset declarations of civil servants and the declarations of interest are confidential and are not being checked on substance. No consistent track record on checking asset declarations of appointed and elected officials has been built up.

Transparency of public expenditure is not satisfactory. The law on public access to information does not expressly provide that the content of the public contracts is public. This leads to divergent interpretations throughout the administration. The internal control mechanisms in the public administration remain weak. Legal and institutional protection of whistle blowers is largely insufficient. Consequently, reporting of suspicions of corruption within the public service remains scarce.

The implementation of the legislation on financing of political parties and election campaigns has not yet yielded results. No sanctions for non-compliance with the law have been applied by the supervisory bodies. VMRO, SDSM and DUI submitted their reports one year after the deadline.

The SCPC's strategic plan for public relations has not had a visible impact. The SCPC members continue to perform their tasks part-time, which may affect the effectiveness of ex officio actions. Public trust in the independence and impartiality of the SCPC is still rather low. The SCPC remains reactive rather than proactive. Following the 2010 state budget rebalance the SCPC faces severe financial difficulties.

The capacity of the Ministry of Justice to coordinate at technical level monitoring of the anti-corruption policies is insufficient. While the technical-level meetings of the inter-ministerial working group intensified, the high-level political commitment to monitoring of the implementation of anti-corruption policies has weakened. No comprehensive exercise has been carried out so far to identify the extent and nature of corruption in the public sector. The statistics system relevant for the monitoring of anti-corruption policies is still insufficiently developed. There is no comprehensive approach to developing specific anti-corruption strategies for the vulnerable areas of the public sector.

*Overall*, some progress was made in the field of anti-corruption policy. Further steps were taken to set up the National Intelligence Database. Large scale police operations making use of special investigative measures were carried out. However, the track-record of enforcement on corruption cases is inconsistent. Existing provisions on asset declarations, conflict of interest and financing of political parties are not implemented effectively. Corruption remains prevalent in many areas and continues to be a serious problem.

## **2.2. Human rights and the protection of minorities**

### *Observance of international human rights law*

There was some progress in the **ratification of human rights instruments**. Protocol 14 bis to the Convention for the protection of human rights and basic freedoms was ratified. The Council of Europe Convention on the protection of children against sexual exploitation and sexual abuse was ratified. The European Charter for regional or minority languages is still not ratified.

**The European Court of Human Rights (ECtHR)** found that the country had violated the European Convention on Human Rights in 21 cases, mostly related to trial in a reasonable period of time. A total of 400 new applications were made to the ECtHR since October 2009. As of September 2010, there were 1,122 cases pending before the ECtHR regarding the former Yugoslav Republic of Macedonia.

There was limited progress in the **promotion and enforcement of human rights**. The legal framework is broadly in place, however the institutional framework is not completed. The Ombudsman's Office continued to be the main focal point for the protection and promotion of human rights.

### *Civil and political rights*

With regard to the **prevention of torture and ill-treatment and the fight against impunity**, the Ombudsman was designated as a national prevention mechanism for implementing the Optional Protocol to the Convention against Torture and has set up a corresponding specialised unit on combating ill-treatment. The sector for internal control and professional standards in the Ministry of the Interior continued to perform frequent checks on the observance of professional standards. No case of illegal arrest was reported.

The lack of additional resources given to the Ombudsman's Office hampered the establishment of three new units including the one on combating ill-treatment. Allegations of ill-treatment of apprehended persons by the special 'Alpha' police units, which remain in place only in Skopje, persisted. In 2009, 46 investigations were carried out into allegations of abuse by the special mobile unit as compared to 33 in 2008. The numbers of cases of ill-treatment which were prosecuted dropped to 36 criminal charges against 50 police officers in 2009 as compared to 67 criminal charges against 75 police officers in 2008. This has raised concerns about the effectiveness of the complaints system and there is still no robust independent mechanism for oversight of the law enforcement agencies. Decisions in this area by the European Court of Human Rights, in particular as regards police brutality towards the Roma, were not fully implemented.

Inhumane and degrading treatment in psychiatric institutions is a matter of particular concern. The conditions in mental hospitals, notably Demir Hisar and Demir Kapija, remain considerably below minimum standards.



A comprehensive Law on legal aid was enacted in December and became operational in July. The scheme is managed by the Ministry of Justice in partnership with bar associations and civil society organisations. A wide range of eligible persons may benefit from legal aid, notably those on social security, pensioners, single parent families and asylum seekers. The law provides for legal aid in all court and administrative proceedings and thus improves **access to justice**.

The statistics compiled by the Ministry of Justice showed an increase in the duration of court cases in 2009. The basic courts resolved 56% of civil cases within six months, a smaller proportion than in 2008 (65%). A similar trend is observed in commercial and criminal cases. The second-instance government commissions, which decide on appeals filed against decisions by administrative bodies, continue to be the least responsive to the Ombudsman's instructions.

Some progress can be reported with the reform of the **prison system**. Amendments to the Law on execution of sanctions were enacted on the inspection and supervision services. These strengthen the controls regarding management, human rights, health care and anti-corruption policies. The government adopted an updated action plan for 2010 for the construction, refurbishment and maintenance of prisons. A loan of €46 million from the Council of Europe Development Bank (CEB) was concluded for the implementation of a reconstruction project for the Idrizovo, Kumanovo and Skopje prisons and for the Tetovo Correctional-Educational Centre. The inmates of the Idrizovo semi-open ward, where degrading and inhumane conditions were reported, were relocated in April and the renovated ward was reopened in September. The Idrizovo closed ward remains to be renovated.

In 2009, 49 complaints against prison staff were filed with the Directorate for Execution of Sanctions. Disciplinary procedures were applied in 2009 to 108 prison staff. The procedures for dealing with complaints of ill-treatment have been improved, in particular through the introduction of the Ombudsman's mailbox system and the organisation of training activities. The Ministry of Labour and Social Policy temporarily relocated the Tetovo Correctional-Educational Centre. A strategy was adopted for the re-socialisation and rehabilitation of inmates. Reconstruction of the detention cells was completed in Kisela Voda police station and is in progress for several other police stations.

However, the strategic plans for the prison system do not ensure proper prioritisation and a balance among short-, medium- and long-term measures. The current capacity of the Directorate for Execution of Sanctions to manage the project covered by the CEB loan is insufficient. Moreover, due to the economic crisis measures, the budget of the prison administration, which was already insufficient, has been cut by 10% in the 2010 budget revision.

The degrading conditions and the dire state of some prisons, in particular Idrizovo and its closed ward, remain of serious concern. Prisons continue to face overcrowding and an inadequate healthcare system. Most of the prisons are underfunded and cannot cover their basic maintenance expenses. The mechanisms for preventing and combating ill-treatment and corruption in prisons remain weak. The system is not yet sufficiently proactive in detecting these cases and ensuring proper follow-up.

The capacity of the prison inspection service is largely insufficient. There are only five inspectors. Appointments to some prison management positions are still subject to political interference, affecting the effectiveness of the prison reform and the day-to-day

administration of prisons. Training of prison staff is still not systematic. Training of prison governors on management matters is largely insufficient. Treatment of vulnerable prisoners, including juveniles, continues to be deficient. Conditions in detention cells remain substandard in a significant number of police stations.

The European Parliament's recommendation on follow-up to the Khaled El-Masri case of alleged extra-judicial detention has still not been responded to.

**Freedom of expression** remains generally well protected. There has been some progress in ensuring a transparent, independent and diverse media environment. Amendments introduced to the Broadcasting Law repealed the possibility for the public service broadcaster to be declared bankrupt or liquidated, and reduced the amount of the monthly broadcasting fee in an attempt to improve broadcasting fee collection. Moreover the rate of collection of the viewing license fee has increased significantly. It is important to consolidate these efforts to ensure sustainable funding of the public service broadcaster and the Broadcasting Council. The broadcast licensing process is strongly influenced by economic and political interests. The media remain divided along ethnic and political lines and self-censorship is widespread. Only one TV channel (Albanian language) broadcasts recurrent bilingual programmes and actively contributes to greater mutual understanding between the two largest communities. Ownership of the printed media is still not transparent and highly concentrated. There is no self-regulation mechanism for monitoring professional standards which should be upheld. Libel charges which target individual journalists with heavy fines remain a concern. Intimidation of journalists, who face political pressure and threats, is a serious concern.

With regard to **freedom of assembly and association**, the overall situation is satisfactory. There were no cases of misuse of the legislation or prohibited registrations. The newly enacted Law on citizens' associations and foundations provided for wider practice of the right of association. This was extended to legal entities, foreigners and minors, and the right to associate without needing to register a formal legal entity. It also introduced the possibility for civil society organisations to perform directly economic activities and to obtain the status of public benefit organisation.

The government's strategy and action plan for cooperation with **civil society organisations** continues to be implemented. Involvement of civil society in the policy development process and in legislative drafting is growing. Nonetheless, a consistent approach to encouraging all-inclusive public participation in decision making, including appropriate institutional mechanisms, needs to be developed.

Implementation of the Law on lobbying resulted in selective access of interest groups to policy making. Lobbying can only be undertaken at the invitation of the relevant legislative body and is allowed for civil associations but not for foundations. Implementation of the Law on sponsorship and donations is not progressing, due to the complex administrative requirements and lack of public awareness.

The system for the allocation of state financing of civil society organisations needs further improvement, in particular as regards public benefit organisations. Evaluation and selection mechanisms need to be fully transparent. Civil society organisations remain heavily dependent on foreign funding and the lack of sufficient financial resources remains a serious constraint.

As regards **freedom of religion**, the Law on the legal status of churches, religious communities and religious groups is being implemented for the most part. Registration was completed for 26 religious entities. The Bektashi group requested their registration to be put on hold until they reach an agreement with the Islamic religious community.

Overall, whilst *civil and political rights* are broadly respected, limited further progress was made. A comprehensive law on legal aid was adopted. The semi-open ward of Idrizovo prison, which had degrading and inhumane conditions, was closed down. However, the oversight of law enforcement agencies needs to be strengthened. The strategy to address the degrading prison conditions is progressing slowly. There are growing concerns about undue political interference in the media. Involvement of civil society in policy development remains limited. The Ombudsman continued to be the main focal point for protection and promotion of human rights. However, the authority and the resources of the Ombudsman need to be strengthened.

#### *Economic and social rights*

As regards **women's rights**, implementation of the national strategy against domestic violence has continued. Progress was made in implementing the Law on equal opportunities between men and women. A civil servant from the Ministry of Labour and Social Policy in charge of dealing with complaints against unequal treatment has been appointed. The capacities of most of the local commissions on equal opportunities have been strengthened. Compulsory annual reporting on equal opportunities has improved, mainly at central level. The issue of discrimination in the workplace and sexual harassment has been addressed by amendments to the Labour Law. Limited actions targeting Roma women have been implemented. However, the fight against domestic violence suffers from insufficient awareness among the population and an approach which is sensitive to victims. The coordination body for the national strategy to combat domestic violence needs to strengthen its efforts in this regard.

The participation of women in political life remains low at local level. The sector for equal opportunities still does not have adequate human and financial capacity to fulfil its mandate. A strategic long-term approach to equal opportunities is still missing. Action in this area continues to rely mostly on foreign donations. In some municipalities the turnover among members of local commissions on equal opportunities jeopardises their efficiency.

Discriminatory customs, traditions and stereotypes are widespread and undermine women's basic rights. Little has been done to improve women's rights in rural areas. Insufficient attention is paid to women's health. Roma women and girls still suffer from both racial and gender discrimination.

As regards **children's rights**, the Law on protection of children has been amended. The implementation of the national action plan for the protection of children's rights, the national action plan on preventing and combating sexual abuse and paedophilia and the fight against trafficking of children progressed very slowly. An updated action plan for the implementation of juvenile justice law covering the period 2010–2012 was developed. The National Council for Prevention of Juvenile Delinquency has been established. Juvenile offenders have been withdrawn from prisons where they had been at risk of association with adult inmates.

However, the standards and protocols for the implementation of the Law on juvenile justice are not yet in place. The mechanisms for monitoring its enforcement are not effective. There

is a shortage of specialised trained police officers, public prosecutors and prison staff for dealing with juvenile victims or juveniles in conflict with the law. Police detention cells and educational-correctional centres do not meet the basic international standards for administration of juvenile justice. Education programmes and vocational training for juveniles in educational-correctional centres should be strengthened. Prevention of juvenile delinquency remains of concern, since no strategic documents have yet been developed in this area. No budget has been allocated to the state compensation fund set up by the Law on juvenile justice. International instruments such as the UN Convention on Rights of the Child are poorly implemented.

The Council of Europe Convention on the protection of children against sexual exploitation and sexual abuse was ratified in October. There was an increase in the number of reported cases of physical and sexual abuse and abduction. Street children, the majority of which are Roma, remain a significant problem, often combined with other issues such as drug consumption and petty crime. With reference to the right to education, Roma children are highly disadvantaged, with a primary education completion rate of 44.6%, a transition rate to secondary school of 27% and an overall secondary school net attendance of 17.4%. Children with disabilities remain a highly vulnerable group with limited access to health care and integration into the educational and recreational system. Health and social services lack sufficient skilled professionals.

Concerning **socially vulnerable people and people with disabilities**, a national strategy on equality of rights of people with disabilities 2010-2018 was adopted. The related action plan foresees the construction of access ramps in buildings of public interest. The number of day-care centres, small communal houses and support for families accepting people with disabilities as forms of social care services is steadily increasing. The administrative capacity of the municipalities remains insufficient to fulfil the social policy responsibilities to be transferred to them as part of decentralisation. In general, social integration of people with disabilities remains limited. Further efforts are needed to ratify the UN Convention on the rights of persons with disabilities and to adopt the proposed law for protection of the rights of persons with disabilities.

As regards **labour and trade unions rights**, registration of trade unions and employers' associations in accordance with the amended Law on labour relations has been accomplished. There are 35 trade unions listed in the register of the Ministry of Labour and Social Policy and 6 employers' associations. The criteria for membership of the Economic and Social Council have been clarified, and new members have been appointed. The Council has become operational and needs to contribute to a functional and representative social dialogue. The capacity of the social partners has not improved as trade unions continue to lack stable finances, management capacity and an active membership. Bipartite social dialogue remains weak in particular in the private sector. In the public sector the collective agreements are not respected as the legitimacy of the signing trade union is questioned by the other trade unions. The tripartite dialogue has recently been reactivated. The Economic and Social Council needs to strengthen its role as a forum for policy dialogue. (*See also Chapter 19 — Social policy and employment*)

There was partial progress in the area of **anti-discrimination policy**. A framework law has been enacted which contains a list of grounds of prohibited discrimination and establishes a commission for protection against discrimination. However the law omits 'sexual orientation' as grounds for discrimination and the law does not comply fully with the *acquis*. Moreover the law does not endow the envisaged monitoring and protection mechanism with sufficient

administrative capacity. The quality of the dialogue on the law was low. The debates in parliament were divisive and remarks from civil society and the international community were not considered.

Meanwhile there is growing concern about stigmatisation and incidents of discrimination against the Lesbian, Gay, Bisexual and Transgender (LGBT) community. In this context the government needs to raise awareness about the need for respect and tolerance of diversity.

The availability of statistics and other information on direct, indirect and multiple forms of discrimination is still very limited. In this area, preparations are lagging behind.

As regards **property rights**, the guarantee for the *right to property* has been further ensured with the establishment of a land register for over 97.5% of the country's territory. The Law on denationalisation was amended so that the appeals procedure was transferred from second-instance committees to the administrative court. This aims to reduce delays in reaching final decisions.

However, the process of returning property confiscated during the period of the Socialist Federal Republic of Yugoslavia exceeds substantially the legal deadlines set. The enforcement of restitution claims for which a final decision has been taken is not satisfactory. The land registry office reduced the fees for its services and regularly organised open days for the public. The average duration of land registry procedures was shortened from 45 to 10 days. The backlog of property dispute proceedings continued to suffer delays. There has again been no progress on returning property of religious communities.

*Overall*, whilst social and economic rights are broadly in place, there was limited further progress. The implementation of the strategy against domestic violence has continued. The participation of trade unions in the Economic and Social Committee has been clarified. A framework anti-discrimination law has been adopted but it has important gaps, notably as regards sexual orientation. A strategic approach to equal opportunities needs to be developed. Additional efforts are needed to implement the juvenile justice law and the UN Convention on the Rights of the Child.

#### *Respect for and protection of minorities, cultural rights*

In the field of **cultural rights**, progress was made in the implementation of the Law on the use of languages spoken by at least 20% of the citizens. In parliament, implementation of the Law on languages went forward with the recruitment of more skilled translators and interpreters. The Secretariat for the Implementation of the Ohrid Framework Agreement (SIOFA) strategic plan provides for additional training for interpreters. The use of Albanian in oral procedure continued in plenary and committee sessions and the parliamentary TV channel is interpreted into Albanian.

However, many state institutions as well as local entities have not made progress, and clear responsibility for planning and monitoring implementation of the language law needs to be established. Smaller ethnic communities continue to face a lack of facilities for teaching in their mother tongue.

As regards **minorities**, the Ohrid Framework Agreement (OFA) remains crucial for ensuring continued inter-ethnic cooperation and political stability. The legislative framework for

protecting non-majority communities<sup>3</sup> is largely in place. The government has engaged constructively in dialogue with the OSCE High Commissioner for National Minorities on support for the integration of ethnic communities through education. Subsequently, in early October the government adopted a strategy on Integrated Education. This aims to follow a balanced and phased approach aimed at raising the overall quality of education, promoting the learning of each others languages and increasing inter-ethnic interaction between pupils. Nonetheless, so far, despite the efforts of the government the separation of pupils along ethnic lines in several schools or language shifts persists.

The administrative capacity of SIOFA was slightly increased. Additional staff was recruited, including one person transferred from the SEA. Training was provided to the newly recruited staff. The government's strategic plan for implementing the OFA over the period 2010-2012 was prepared by SIOFA in close cooperation with the OSCE. It assigns a much greater role to the Secretariat in coordinating, promoting and monitoring implementation of the Ohrid Framework Agreement. This concerns in particular integrated education, use of languages and decentralisation. The Law on public servants established an obligation to prepare annual plans for non-majority communities, which are to be submitted to the Civil Servants Agency. The overall number of civil servants from the non-majority ethnic communities was 29% by December 2009. Nonetheless greater efforts are needed to ensure that recruitments match the needs of the administration.

However, the political dialogue on inter-ethnic relations was sometimes tense. The content of the first national encyclopaedia and the urban plan 'Skopje 2014' triggered protests and inter-ethnic resentment. There were insufficient preparatory consultations among key stakeholders regarding the decision to introduce state language teaching as of the first year for pupils from non-majority communities. This sparked protests in primary schools by teachers, parents and children. The Constitutional Court annulled the decision to introduce state language teaching as of the first year. According to the Constitutional Court, the Minister's decision was not in line with the Law on primary education of 2008. This stipulates that schoolchildren of non-majority communities are to start learning the state official language as of fourth year.

Committees for relations among communities were not set up in all municipalities where they are required by law. Their effectiveness continues to be limited by poor operational capacity, unclear competences and weak status. Their role is still largely unknown by the public and their recommendations are often disregarded. In many municipalities, the committees are not functional and their composition does not reflect the ethnic structure of the local population. SIOFA still lacks administrative and strategic planning capacities, while the application of the human resources and internal control standards are insufficient. Nine years after the signature of the Ohrid Framework Agreement the SIOFA has so far not produced a report on its activities and the progress achieved in implementing the OFA. Monitoring and coordination of the implementation of the Ohrid Framework Agreement among all administrative bodies concerned is still weak. Greater efforts are needed to ensure its effective implementation and full respect for the spirit of the OFA. Efforts are also needed to foster enhanced trust between the ethnic communities, especially in the areas of culture and language.

The agency for protecting the rights of minorities which represent less than 20% of the population is not yet fully operational. In the absence of clear competences, budget and

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<sup>3</sup> Albanian, Bosniak, Roma, Serbian, Turkish, Vlach and others.

mandate, the agency did not undertake any substantial activity or initiative to defend the interests of the smaller minorities.

The representation of the smaller communities, particularly the Turkish and Roma, in the civil service still remains low. Planning to ensure gradual fulfilment of the recruitment targets for non-majority communities and a single data collection system on fair representation for the entire public sector are still to be established. The practice of recruiting high numbers of civil servants from non-majority communities irrespective of the needs of the public administration continued. Reportedly some of these civil servants failed to meet the selection criteria, while others were not provided with offices or equipment.

There was no progress in clarifying the implications of the Constitutional Court decision to annul some provisions of the Law on use of flags of the communities.

In September 2010, there were 1,567 **refugees/asylum-seekers** in the country, of whom the vast majority continue to be Roma from Kosovo<sup>4</sup>. 24 were recognised refugees, 1,015 have the right to stay temporarily in the country under subsidiary protection, 88 were asylum-seekers and 403 were persons of concern from Kosovo with granted leave to stay. There are shortcomings in both asylum adjudication and the judicial review of asylum cases. The latter continue to be conducted mainly on procedural aspects rather than on merits. There have been cases of non-compliance with the ‘non-refoulement’ principle leading to the deportation of rejected asylum-seekers. Roma from Kosovo in refugee-like situations face particularly difficult conditions and continue to have limited access to social services, employment, health care, education and adequate housing.

The number of registered **internally displaced persons** (IDPs) decreased from 736 in 2008 to 621 in 2009. The majority of the complaints lodged by IDPs against the state for damages caused by the 2001 conflict are still pending in court.

As regards the **Roma**, between February 2008 and April 2010, some 3,100 Roma obtained personal documents. A limited number of projects targeting Roma were implemented. 19 municipalities signed a memorandum of cooperation with the Government for implementing the activities of the Decade of Roma Inclusion 2005-2015 and the Roma Strategy. Several municipalities adopted local action plans on employment.

A national strategy on poverty alleviation and social exclusion has been adopted. Enrolment rates of Roma children in secondary and university education have slightly increased. The Cyril and Methodius State University opened a new section for the Roma language. The active labour market measures programme targeting Roma was partially implemented. Despite budgetary restrictions the financial support for Roma programmes was maintained at the 2009 levels.

However, implementation of the Roma Strategy and the action plans in the framework of the 2005-2015 Decade of Roma Inclusion slowed down further. The inter-ministerial coordination working group on implementation of the Roma strategy met only twice. The new advisory body consisting of deputy ministers of four relevant ministries and a representative of the Secretariat for European Affairs was not operational. The commitment and cooperation of the line ministries remained low. State funds remain insufficient in the light of the challenges. No

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<sup>4</sup> Under UNSCR 1244/1999.

additional staff was allocated to the office of the Roma minister without portfolio or to the unit for implementation of the Roma Strategy.

Unemployment among Roma increased to 78.5% compared to around 32% among the general population. The low income and high mortality rates among Roma remained unchanged. Housing and living conditions are substandard. The number of Roma children attending school is low and drop-out rates continue to be high, particularly those of Roma girls. Several cases of ethnically segregated schools have been reported. Roma children continue to be disproportionately over-represented in special schools for children with learning disabilities. The number of Roma street children continues to grow. The Ombudsman for 2009 has reported 9 complaints from Roma regarding police ill-treatment. However many Roma are reluctant to lodge complaints. The intervention of special police in April at a market in the Roma-populated area of Suto Orizari in Skopje, which led to numerous people being injured, has not been investigated. There is no reliable set of statistics on the number of Roma who still lack valid personal documents. Media often represent Roma in a manner that reinforces negative stereotyping.

Progress was achieved in the area of *cultural rights and minorities*. There has been some progress on equitable representation and the government undertook initial steps to foster inter-ethnic integration in the education system. Nonetheless, integration of ethnic communities remains limited and greater dialogue is needed to foster trust especially in the areas of culture and language. Some progress can be reported regarding the rights of Roma. The number of persons lacking personal documents was reduced. However, Roma continue to face very difficult living conditions and discrimination.

### **2.3. Regional issues and international obligations**

The former Yugoslav Republic of Macedonia continued to cooperate fully with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. In May 2010, the ICTY Appeals Chamber affirmed the acquittal of Ljube Boskoski, a former Minister of the Interior, in the Ljuboten case. The Appeals Chamber upheld the twelve-year sentence of the Trial Chamber against Johan Tarculovski, a former police officer, concerning the same police raid in Ljuboten. Of the four cases that the ICTY transferred back to the national authorities, three have reached the domestic court system. Two of these cases are still with the investigative judge. The third case went to trial, but has encountered numerous procedural obstacles. The fourth case, which relates to the leadership of the National Liberation Army (NLA), who are now senior members of the Democratic Union for Integration party (DUI), is still with the Office of the Public Prosecutor. Ethnic Albanian political parties assert that all the cases are covered by the 2002 Amnesty Law.

The former Yugoslav Republic of Macedonia still maintains the 2003 bilateral immunity agreement with the United States granting exemptions from the jurisdiction of the **International Criminal Court**. This does not comply with the EU Common Positions on the integrity of the Rome Statute or the related EU guiding principles on bilateral immunity agreements. The country needs to align with the EU position.

**Regional cooperation and good neighbourly relations** form an essential part of the country's process of moving towards the European Union. The country has continued to actively participate in regional initiatives, including the South-East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty, and the European Common Aviation



Area Agreement (ECAAA). The country held the 2010 Presidency of the Energy Community. The country continued to contribute to the EU ALTHEA mission in Bosnia and Herzegovina. A trilateral agreement for the protection and sustainable development of the Prespa Lake area was concluded by the ministers of environment of the littoral states.

The former Yugoslav Republic of Macedonia plays a constructive role as regards **bilateral relations with neighbouring Member States and other enlargement countries**. Its relations remained good with *Albania, Bosnia and Herzegovina, Croatia, Montenegro* and *Turkey*. Several reciprocal high-level visits involving these countries took place. With *Albania*, an agreement was reached to establish two joint police operative teams to fight organised crime. Furthermore, a protocol of cooperation between the Ministries of Foreign Affairs and a protocol of cooperation between the diplomatic academies were signed. As regards *Bosnia and Herzegovina*, agreements on the avoidance of double taxation and on cooperation in the area of education and science are being developed. The Parliament of the former Yugoslav Republic of Macedonia issued a declaration on Srebrenica. The bilateral relations with *Croatia* are close as evidenced by regular bilateral visits at the highest level. The country has a trade surplus with Croatia, which continues to be one of its most important trading partners. With *Montenegro*, a memorandum of cooperation in the area of defence was signed. Relations with *Turkey* have been further strengthened in the economic, cultural and diplomatic fields.

Relations with *Serbia* remained overall good in spite of deepening relations with Kosovo<sup>5</sup>. Several high-level visits involving the authorities of both countries took place. The President of Serbia visited Skopje in June 2010. Serbia maintains its policy of non-recognition of the border demarcation agreement between the former Yugoslav Republic Macedonia and Kosovo. In September the countries signed a bilateral agreement to facilitate traffic over the local border crossing points. Unresolved issues concerning relations between the Orthodox churches in the two countries remain.

The demarcation of the former Yugoslav Republic of Macedonia's border with *Kosovo* was completed. Full diplomatic relations with Kosovo were established. Agreements on economic, defence and police cooperation were signed, the latter envisaging joint police patrols at the shared border.

Relations with *Greece* continued to be close, notably in the economic sphere. Relations between the two countries continue to be adversely affected by the unresolved name issue. The country remains engaged in talks under the auspices of the UN in order to resolve it. Actions and statements which could negatively impact on good neighbourly relations should be avoided. The direct meetings at the highest political levels are positive steps, although this momentum has not yet led to concrete results. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.

Relations with *Bulgaria* have remained good. Several high-level meetings took place. An agreement on friendship and good-neighbourly relations between the two countries is being discussed, and there is agreement to renew the triennial memorandum on cooperation on EU integration. Ethnicity-based issues are a continued area of concern.

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<sup>5</sup> Under UNSCR 1244/1999.

*Overall*, the former Yugoslav Republic of Macedonia is an active partner in the region. Bilateral relations with neighbours further improved, but relations with Greece continue to be affected by the unresolved name issue.

### **3. ECONOMIC CRITERIA**

In examining economic developments in the former Yugoslav Republic of Macedonia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

#### **3.1. The existence of a functioning market economy**

##### *Economic policy essentials*

A broad consensus on the fundamental features of the country's economic policy has been maintained. As in previous years, the country is participating in the EU pre-accession fiscal surveillance procedure. It presented its fourth Pre-accession Economic Programme in February 2010 and submitted its fifth Fiscal Notification in May 2010. However, the preparation, submission and quality of the information provided were impeded by constraints on administrative capacity. Cooperation with the World Bank and the IMF has continued. Furthermore, a number of medium-term strategies define the policy framework, such as the public investment programme for 2010-12, the fiscal strategy 2010-2012 and the public debt strategy for 2010-12. Structural reforms continued in a number of areas, although progress was slower than in the past. *Overall*, a broad political consensus on the fundamentals of economic policy has been maintained.

##### *Macroeconomic stability*

In 2009 the economic output in the country declined by 0.8%. The impact of the financial crisis on the economy has remained relatively limited so far, partly due to the financial sector's limited exposure to toxic assets, but also to the stable private capital inflows and resilient domestic demand. During the first three quarters of 2009, GDP declined by 1.7% compared to the same period a year before, while the fourth quarter of 2009 saw positive year-on-year growth of 1.6%. In the first quarter of 2010, the output level was about 1% lower than a year before, while in the second quarter output rose by 0.4% year-on-year. Compared to the first half year in 2009, the output level was still 0.3% lower than a year before. The decline in private and public demand remained moderate, while investment dropped by nearly 20%. The reduction in domestic demand was accompanied by a similar decline in imports, while exports rose by 15%. Several indicators, such as industrial production, point to continued weak demand for manufactured products. Average per capita GDP remained stable in absolute terms during, however, in relation to the EU-27 average it improved from 34% of the EU-27 average in 2008 to 35% in 2009. *Overall*, after a moderate decline in economic activity during the first three quarters of 2009, indications of a recovery in 2010 are still unclear.

External balances improved during the reporting period, as a result of declining imports, improving exports and a recovery of private capital inflows. The current account deficit declined, from nearly 13% of GDP in 2008 to about 7% in 2009 and 3.8% of GDP on an

annualised basis in mid 2010. In the first half of 2010, commodity imports increased year-on-year by 6.5%, while export revenues rose by 23%. As a result, the trade deficit narrowed from 24.5% of GDP in the first half of 2009 on an annualised basis to 22% of GDP in the first half of 2010. The inflow of private transfers increased from 11.4% of GDP in the first half of 2009 to 18.8%. FDI inflows remained low, at around €115 million or annualised 3.7% of GDP. Foreign reserves recovered from marked losses in early 2009, reaching coverage of expected imports of close to 5 months. Foreign debt increased, mainly due to private sector intercompany lending but also higher public sector borrowing abroad. *Overall*, external imbalances improved due to both, shrinking imports reflecting weakening domestic demand and improving external demand. Private capital inflows remained strong.

Unemployment in 2009 remained very high at 32.2% and continued to increase in 2010. The overall labour market situation was stable in 2009, while the first half of 2010 saw a deterioration, with a year-on-year employment decline by 1%. The employment decline reflects a significant drop in officially registered employment in agriculture (by nearly 5% compared to a year before), partially compensated by a similar increase in public sector employment (mainly in education and community services). About 20% of the unemployed are between 15 and 24 years old. Unemployment in this age group has remained very high at around 55% (June 2010). Even though the existence of a substantial informal sector leads to overestimation of actual unemployment, very high unemployment remains an important issue, in particular among young people and the less educated. *Overall*, the situation in the labour market started to deteriorate in early 2010. However, increases in public sector employment partially offset the negative impact of the global financial crisis on the labour market. The level of unemployment remains very high, in particular among the young and less educated.

Monetary and exchange rate policy have remained stability-oriented. The Central Bank managed to maintain the de facto peg. Since October 2009, the Central Bank has lowered interest rates for short-term Central Bank bills from 9% to 4.5%, taking advantage of the recovery of confidence in the stability of the exchange rate and trying to support the economy through lower interest rates. Private-sector weighted interest rates declined after their peak in the last quarter of 2009. Rates for denar loans declined from 10.3% in September 2009 to 9.6% in May, while the rates for denar deposits declined from 7.5% in December to 7.1% in May. Spreads continued to narrow slightly, from 2.8% in autumn 2009 to 2.5% in May. The speed of credit growth decelerated towards end-2009, but has started to accelerate again. *Overall*, the exchange rate policy and monetary policy have remained sound and stability-oriented.

Inflation in 2009 was negative at -0.8%. After a strong rise in the overall price level in 2008, consumer prices turned negative in 2009 mainly due to lower food prices. In 2010, CPI inflation remained moderate, with a year-on-year increase by 1.1% during the first nine months. As in 2009, the main contribution to low inflation came from declining food prices, which were 0.9% lower on average during the first nine months of 2010, while prices for fuel and lighting rose by 8.8%, partly due to higher costs of imported energy. Prices for housing increased by 6.8%. Core inflation, which excludes the impact of energy and food prices on the overall price level, was 2.6% in 2008, but declined to 0.3% in 2009. In 2010, core inflation has remained close to zero.

The overall fiscal policy stance in late 2009 and the first half of 2010 has been oriented towards cushioning the impact of the global financial crisis, while trying to meet previously announced fiscal deficit targets, i.e. 2.8% of GDP in 2009 and 2.5% in 2010. In 2009, the authorities were confronted with a 6% decline in revenues, instead of an expected 6%

increase. Thus, the government had to abandon overly optimistic spending plans and to cut total spending by 0.5%, instead of boosting it by 10% as envisaged in the original 2009 budget. As a percentage of GDP, total spending remained unchanged (at around 35% of GDP), while revenues as a share of GDP declined by almost 2 percentage points, leading to an increase in the deficit from 1% of GDP in 2008 to 2.7% in 2009. Despite declining revenues, the government kept to its original plan of lowering direct taxes and also granted tax reliefs to some public and a number of private enterprises. Furthermore, the authorities increased social transfers and subsidies. These additional measures amounted to slightly more than 1% of GDP and supported both, the disposable income of households but also some chronically troubled companies. However, in order to meet the original deficit target, the authorities reduced capital spending by the same amount. Thus, while overall spending has remained largely unchanged, the quality of spending has deteriorated. This is due to increased transfers at the cost of more medium-term oriented spending, such as capital investment in infrastructure or education. In the first half of 2010, fiscal balances have remained on track with the end-year deficit target of 2.5% of GDP. However, in recent months, the government seems to have accumulated substantial payment arrears, which strain the private sector's liquidity and could translate into a significantly higher accrual based deficit. In order to finance the deficit, the government resorted to reserves and international lending, which resulted in an increase of public debt by 3 percentage points in 2009, from 21.4% of GDP at end-2008 to 24.6% by end-2009. Fiscal decentralisation continued, with further measures to strengthen the fiscal viability of indebted municipalities. *Overall*, fiscal policy tried to support disposable income but maintained internal and external balances. This helped to stabilise the economy. In the medium term, the government's recent approach of lowering revenues while maintaining or increasing spending is not sustainable.

The overall macroeconomic policy mix remained stability-oriented. In response to the crisis, monetary conditions were gradually relaxed, taking into account the country's policy of a de facto peg to the euro. Public spending was largely maintained despite a significant drop in revenues. This helped to stabilise disposable income and domestic demand. However, increases in transfers and subsidies were mainly financed by cutting capital spending, which had a negative impact on the quality of public spending. Furthermore, lack of discussion with the country's stakeholders had a negative bearing on the quality of the measures taken. *Overall*, the general policy mix improved, trying to respond to the negative impact of the crisis, while keeping in mind the need to maintain macroeconomic balances. However, the quality of public finances deteriorated and the issue of high unemployment, in particular among the young, remains a major policy challenge.

#### *Interplay of market forces*

Privatisation is largely completed and the economy is mainly driven by market forces. The private sector accounts for 81% of total output and 78% of total employment. After a marked, mainly crisis-related increase in the number of companies with state shares in 2008 and 2009, the number of companies with state shares remained stable at close to 70. The value of state capital in local companies amounts to 13% of GDP. The majority of state capital, - 78.5% - is concentrated in five companies, mainly public utilities, such as electricity production and transmission, where the state is majority owner, and telecommunications, where the state is a minority owner.. The practice of setting electricity prices below full cost recovery continues and leads to distortions in the domestic price structure. *Overall*, the role of state ownership is low and mainly limited to telecommunication, energy and public services.

#### *Market entry and exit*

The government has continued improving legislation on market entry and exit. The implementation of the second phase of establishing a 'one-stop-shop' for business start-ups has continued. The costs of registration have been reduced further. The process of simplifying regulation, the so-called business guillotine, has entered its third phase, with a particular emphasis on improving the regulation-related dialogue with the business community. The process of closing down companies, overdue to be wound up, has continued. The number of newly created enterprises was 11% lower in the first eight months than a year before, while the number of new bankruptcies was 18% higher than a year before. However, the number of enterprises deleted from the trade registry declined by only 5.8%. The backlog in bankruptcy cases has been further reduced. *Overall*, barriers to market entry are rather low and some further progress has been achieved in reducing entry barriers and improving market exit.

### *Legal system*

The legal system for a functioning market economy is largely in place. The registration of real estate ownership rights is practically completed, compared to 90% in September 2009. The National Electronic Registry (ENER), which provides information on draft legislation and a platform for stakeholder consultation, and the Insurance Supervisory Agency (ISA) have started operating. Furthermore, a private credit bureau has been established and the Company Law and the Litigation Law have been amended. However, no progress has taken place on speeding up legal procedures, as the entry into force of the amendments to the Law on contract enforcement has been postponed for another year, to July 2011. Despite improved legal and financial independence of regulatory and supervisory bodies, the administrative capacities and the enforcement record of some of those institutions, such as the State Anti-Corruption Commission (SACC), or the energy regulator, continue to be limited. As a result, some regulatory and supervisory agencies are not yet fulfilling their role as guardians of the rule of law and providers of a level playing field for all economic operators. *Overall*, some progress in improving the legal system has been achieved, such as further clarification of real estate ownership rights. However, weaknesses in the rule of law, notably in the judiciary, which is characterised by slow procedures insufficient resources and unreliable contract enforcement, and prevalent corruption continue to have a negative effect on the business environment.

### *Financial sector development*

The financial sector has remained stable and has so far weathered well the financial market turbulences. The value of financial assets recovered to pre-crisis levels, increasing from 66% of GDP end 2009 to 68.3% in mid 2010. The level of financial intermediation is relatively low, but recovered marginally, with the share of loans increasing from 42.7% of GDP end 2009 to 43.7% in mid 2010 and deposits rising from 46.2% end 2009 to 48.6% in mid 2010. Deposits continue to be the sector's main source of liquidity. The coverage of loans through deposits is still above 100. The volume of loans has started to recover since spring and was in mid-2010 some 3-4% higher than a year before. However, the rate of increase is significantly lower than before the crisis. The low level of financial intermediation in combination with a cautious lending policy of the banking sector helped to contain the impact of the global financial crisis. However, the high thresholds for companies, in particular SMEs, to get access to credits also constrain the private sector's growth potential. The capitalisation of bond and stock markets recovered in the second half of 2009, but has been declining since the beginning of the year. Currently, the value of the capital market accounts for about 30% of GDP (stocks 23% and bonds 7%), which is the level recorded in 2005.

The structure of the sector has remained largely unchanged. The share of state ownership in the sector remains low, at 7% of the sector's assets. The main state asset is the majority share in the country's only development bank and a limited number of remaining minority shares in private banks. There are 18 banks and 9 savings houses operating in the market, with the five largest banks accounting for three quarters of the sector's assets and deposits. The efficiency of financial intermediation has continued to increase slightly, as indicated by the continued slight decline in the spreads between lending and borrowing rates, from some 3 percentage points in September 2009 to 2.5 percentage points in mid-2010. Profitability in the sector has remained low in the aftermath of the crisis: for example, the return on assets was 0.4% in mid-2010, compared to 0.5% the year before. The size of the non-banking financial sector has remained small, at 5% of the total sector's funds. However, regulation and supervision of this sector has improved, with closer supervision of the stock exchange through the Securities and Exchange Commission and the establishment of an Insurance Supervisory Agency.

Despite continued uncertainty, the stability of the sector has been maintained, benefiting from the stricter regulatory standards and stronger supervisory capacity introduced in the last few years. However, the exposure of the banking sector to non-performing loans deteriorated in the first half of 2010, increasing to 10.1% of loans, compared to 8.8% in the last quarter of 2009 and 7.5% a year before. Loans with a foreign currency component remained stable at 54% of total loans. The capitalisation of the banking sector remained high, with an average capital adequacy ratio of 16.5% in mid 2010. Large banks reported an average capital adequacy ratio of 14.3% and small banks as high as 43.4%. *Overall*, the financial sector weathered the international financial crisis relatively well, benefiting from low exposure to toxic assets and a cautious lending policy. However, financial intermediation has remained low, impeding more dynamic growth of the private sector, in particular of SMEs.

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

#### *Existence of a functioning market economy*

Overall, macroeconomic stability has been maintained despite the negative impact of the global financial turbulence. Despite some improvements in the area of market entry and exit, and with respect to the legal system, the business environment continues to be impaired by the weak rule of law, notably by a slow judiciary and weaknesses in contract enforcement, market regulation and supervision. Structural unemployment remains very high. Predictability of market conditions has suffered from an increased number of ad hoc changes to the legal environment.

#### *Human and physical capital*

The authorities kept up efforts to improve the physical infrastructure for education and have taken measures to provide higher education to a greater number of persons, for example by establishing decentralised tertiary education facilities. Budgetary allocations for education were at around 5% of GDP in 2009, but were slightly reduced in the 2010 supplementary budget. Like last year, a significant share of spending has been on renovation and construction of school buildings and the purchase of IT equipment. The number of teachers in primary and secondary schools has been further increased, in particular in the area of secondary education and foreign languages. However, further efforts are required to improve the quality of the provided education. Despite continued efforts, the overall level of education and training of the labour force is still relatively low. In particular, the skill mismatch still is substantial. There remains significant room for improving the efficiency of public spending on education

and for raising the quality of education. *Overall*, measures to improve the level of qualification have continued. However, the still low level of education requires further sustained efforts in order to improve the country's human capital endowment.

The country's capital endowment has remained relatively low and its quality is still suffering from previous periods of underinvestment. Some further progress has been made on improving the transport infrastructure. However, as a result of crisis-related uncertainty and fiscal constraints, private domestic investment has declined sharply during the last year. Furthermore, continued low level of legal certainty had a negative impact on inflows of FDI, which in 2009 and the first half of 2010 have remained low, at 3.7% of GDP. In some cases, persistently slow legal procedures, fragmentation of responsibilities between central and local governments and an ongoing dispute related to investor protection continue to be an impediment to FDI. Spending on strengthening the knowledge-based economy has remained low. Capacity of administration to serve the businesses remained impeded by frequent staff reallocations and time consuming procedures. *Overall*, the country's capital stock continued to be low, indicating a low attractiveness of the country for foreign capital. Infrastructure continues to require repair and modernisation.

### *Sectoral and enterprise structure*

The focus of economic activity has continued to move away from manufacturing towards services. However, in the past two years, the public sector was the only sector increasing substantially both, its share in employment, but also its share in terms of output generation. Financial intermediation continued to be the most important and growing sector with about 20 % of GDP, followed by public administration which grew by almost 1 percentage point to about 19% of GDP while agriculture continued to decrease to about 17%. In terms of employment, services in particular public administration and trade grew in importance. In terms of enterprise creation the trading sector was most dynamic. The informal sector remains large, although there are indications that it has been reduced, for example by improving tax collection, lowering the tax burden, reforming collection of social security contributions and providing financial incentives for registration. The informal sector is fuelled by weaknesses in tax and expenditure policies, as well as in law enforcement, including the fight against corruption and organised crime. It reduces the tax base and the efficiency of economic policies. Gas and electricity markets remain dominated by single suppliers, undermining effective competition. In the sectors of telecommunication and transport, no significant structural change has taken place. *Overall*, structural change towards diversification and activities with higher value-added has remained limited. Competition in network industries remains constrained by dominant incumbent suppliers. The large informal sector remains an important challenge.

### *State influence on competitiveness*

Direct state influence on competitiveness has increased as a result of more frequent state interventions to shield troubled companies from the impact of the international financial crisis. However, the overall level of systematic state intervention is still low. Energy prices still do not cover the full costs, which leads to distortions in relative prices and to substantial losses on the part of state-owned energy providers. Official data point to a low level of state aid, less than 1% of GDP. However, this figure is not comparable to state aid data compiled in accordance with EU standards. The institutional setup for monitoring state aid and competition issues is in place. However, the agency's capacity to guard a level playing field among market participants is limited. *Overall*, state influence on competitiveness remained low, although state interventions were more numerous than in the past.

## *Economic integration with the EU*

The country has a small, open economy, with total trade in goods and services accounting for close to 100% of GDP (2009). However, as a result of the crisis, the level of both exports and imports has declined. Trade integration with the EU is advanced, with currently about 62% of all exports being directed to and about 53% of imports originating from the EU-27. CEFTA is the country's second most important trading partner, with about 31% of exports and about 12% of imports. The export structure continues to be highly concentrated on a limited range of products, with textiles and clothing accounting for about 24% of total exports and manufactured iron products for 26%. In terms of FDI, the EU is the country's main investor, accounting for about 60% of total FDI inflows. *Overall*, trade integration with the EU is well advanced, but exports remain concentrated on a few price-sensitive products.

International price competitiveness remained unchanged. The exchange rate against the euro has remained stable in nominal terms.

### **4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP**

This section examines the former Yugoslav Republic of Macedonia's ability to assume the obligations of membership – that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses the former Yugoslav Republic of Macedonia's administrative capacity to implement the *acquis*. The analysis is structured in accordance with the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers progress achieved during the reporting period and summarises the country's overall level of preparations.

#### **4.1. Chapter 1: Free movement of goods**

Some progress can be reported as regards **general principles**. Implementation of the action plan for achieving compliance with Articles 34 to 36 of the TFEU has started.

There has been good progress in the area of **horizontal measures**. A comprehensive strategy with milestones for implementing the *acquis* for the relevant horizontal institutions has been adopted. Further separation of the regulatory, standardisation, accreditation and conformity assessment functions has been ensured through some of the legislation adopted. The number of independent bodies for carrying out conformity assessment activities has increased. However, the strategy for full alignment with the *acquis* in the area of horizontal measures is yet to be implemented. The Law on general product safety is to be revised in order to fully comply with the 2008 horizontal *acquis* on harmonised products.

The Institute for *standardisation* (ISRM) continued working towards fulfilling the conditions for full membership of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardization (CENELEC). The pace of adoption of European standards (ENs) has accelerated. By October 2010, the ISRM had adopted 15,308 standards, of which 13,707 are European standards. The newly adopted standards relate mainly to the areas of ferrous and non-ferrous metallurgy, machinery, medicinal products and services, construction products and oil derivatives. A total of 3,477 national standards are harmonised European standards. The ISRM has identified about 11,700 potentially conflicting standards, of which 3,146 have already been withdrawn. .



Four new technical committees were established, bringing the total number to 36. Membership of the ISRM assembly increased to 81 standardisation stakeholders and 7 government representatives. The administrative capacity of the institute was strengthened by recruiting two new members of staff, making a total of 21. The ISRM published a catalogue of national standards.

The Ministry of Economy designated a number of bodies to carry out *conformity assessment* activities.

The adoption of the new Law on *accreditation* ensured further alignment with the EU *acquis*. The number of staff and experts working for the Institute for Accreditation (IARM) increased to 15 full-time employees, 16 lead assessors, 64 technical assessors and 44 experts. By October 2010, the IARM had accredited a total of 55 conformity assessment bodies and withdrawn 9 accreditations. The procedure for signing multilateral agreements covering testing laboratories, inspection bodies and product certification bodies with European cooperation for Accreditation (EA) started. The IARM signed co-operation agreements with the accreditation body of Bosnia and Herzegovina.

In the area of *metrology*, amendments to the Law on metrology and the Rulebook on measuring instruments were adopted, ensuring further alignment with the EU *acquis*. The first two reference standards of the Bureau of Metrology, for volume of flow and for measuring unit for mass, were recognised as national standards. The Bureau acquired full membership status with the European Association of National Metrology Institutes (EURAMET). In July 2010, the Government adopted a strategic development plan for the Bureau of Metrology and for the metrological infrastructure for 2010-2012. The procurement of new equipment for laboratories for temperature, mass, pressure, time and frequency improved the institutional capacity of the Bureau. However, no laboratories have been accredited yet and they are not yet adequately equipped to enable effective operation of the Bureau. Moreover, the Bureau's staff has been reduced by three employees.

*Market surveillance* remains weak. The Law on market surveillance was enacted, providing a legal framework and coordination structure for cooperation between all state bodies in charge of market surveillance. Additional measures are still needed for further alignment with the *acquis*. The State Market Inspectorate (SMI) recruited 5 additional market inspectors in the product safety unit, bringing the total to 10 inspectors. The SMI and the State Technical Inspectorate still face difficulties related to their wide scope of responsibilities, limited funding, and insufficiently trained staff to conduct comprehensive checks on technical compliance of products.

Preparations in the area of horizontal measures are advanced.

Progress has been good in the area of **Old Approach product legislation**. A number of rulebooks transposing the relevant *acquis* related to medicinal products, chemicals, cosmetics, textiles and motor vehicles entered into force. Their alignment with the *acquis* remains to be confirmed. Preparations in the area of Old Approach product legislation are advancing.

There has been progress in the area of **New and Global Approach product legislation**. A number of rulebooks relating to construction products, machinery, and medical devices came into force. Their alignment with the *acquis* remains to be confirmed. In the area of New Approach legislation the preparations are moderately advanced.

Progress can be reported in the area of **procedural measures**. The Law on testing and marking of firearms and ammunition and several rulebooks regulating the movement of firearms, transposing the relevant EU directives, have been adopted. Their alignment with the *acquis* remains to be confirmed. Cooperation between the various competent authorities in charge of cultural goods resulted in several criminal charges being pressed and the confiscation of the illegally traded goods. Preparations in the area of procedural measures are moderately advanced.

### *Conclusion*

There has been good progress in the area of free movement of goods. Part of the horizontal and sector *acquis* has been transposed. Attention needs to be paid to effective implementation of the newly adopted legal acts. The administrative capacity of the market surveillance authorities is still insufficient to ensure the enforcement of technical legislation. Full membership and effective exchange of information with the relevant EU bodies are yet to be ensured.

## **4.2. Chapter 2: Freedom of movement for workers**

There has been little progress in the area of **access to the labour market**. Amendments to the Law on employment of foreigners simplified the procedures for issuing work permits. A guidebook for visas and work permits of foreign nationals was published. Activities for the development of a central database of foreign nationals are advancing. In order to provide EU citizens with access to the public service, the nationality condition of the Law on public servants will have to be adjusted. Preparations in this area are at an early stage.

Little progress can be reported with regard to the country's participation in the European employment services network (**EURES**). An action plan outlining the measures and activities for participation in EURES has been prepared. Preparations in the area of EURES remain on track.

There has been no progress in the area of **coordination of social security systems**. The capacities of the public authorities to coordinate social security schemes need to be strengthened. Preparations in this area are moderately advanced.

There has been progress in the area of the **European health insurance card**. Agreements on applying the card were concluded with Luxembourg and the Netherlands, bringing the total to six. Preparations in the area of the European health insurance card are at an early stage.

### *Conclusion*

Little progress can be reported in the area of freedom of movement of workers. The institutional capacity remains an impediment. In this area, the country is not yet prepared.

## **4.3. Chapter 3: Right of establishment and freedom to provide services**

There was little progress in the area of the **right of establishment**. Further efforts were made to simplify the procedures for granting authorisations and to increase their transparency and objectivity. However, some decisions are delayed or reversed. The licensing regime under the amended Law on Construction is not harmonised with the *acquis*. Preparations in the area of the right of establishment are on track.

Some progress was made in the area of the **freedom to provide cross-border services**. The action plan for harmonisation with the Services Directive has been adopted. Some efforts were made to overcome the gaps in coordination among the authorising bodies. The Ministry of Economy was designated as the coordinating body. However, foreign operators providing cross-border services are still not treated differently than operators providing services through a permanent establishment in the country. The nationality requirement is still present in several sectors of services. The administrative capacity of the various authorising bodies remains unsatisfactory. In the area of cross-border services the country is not yet prepared.

Progress can be reported in the area of **postal services**. The Postal Agency continued with implementation of the postal legislation and adopted relevant implementing legislation. With the new Postal Law a clear timetable was established for full market opening. Following the reduction of the reserved area to items weighing above 50 grams, several new operators entered the market. Preparations and alignment with the postal *acquis*, especially regarding the first and second Postal Directives, are well advanced. However, in order to bring the national postal legislation into line with the third Postal Directive further legislative amendments will be needed. The status and future operating arrangements for restructuring of the universal postal service provider remain to be clarified. Preparations in the area of postal services are on track.

Little progress has been made regarding **mutual recognition of professional qualifications**. An action plan for upgrading the system for mutual recognition has been adopted. The coordinating group comprising the sectoral institutions responsible for implementing and enforcing the mutual recognition of professional qualifications became operational. However, the legislation still does not distinguish between academic and professional qualifications. The administrative capacity of the information centre for recognition of foreign academic diplomas within the Ministry of Education and Science remained insufficient. Alignment with the Directive on Recognition of Professional Qualifications is outstanding. Alignment with the Lawyers' Directives (77/249/EC and 98/5/EC) has yet to be achieved. Preparations in the area of mutual recognition of professional qualifications are at an early stage.

### *Conclusion*

Overall, preparations in the area of the right of establishment and freedom to provide services are moderately advanced, more particularly in the area of postal services. The level of coordination among the various bodies responsible for authorising cross-border services is not sufficient. The preparations for mutual recognition of professional qualifications are at an early stage.

## **4.4. Chapter 4: Free movement of capital**

There was no progress in the area of **capital movements and payments**. The country already met the requirements of the first stage of the Stabilisation and Association Agreement (SAA) in 2008. The decision to move to the second stage of the SAA has to be adopted by the Council. There are restrictions on residents regarding portfolio investments. EU citizens are not allowed to purchase agricultural land. The ceilings on the amounts of transfers that non-residents can perform through their local currency and foreign exchange accounts remain. This represents an effective barrier to the free movement of capital. The restrictions imposed under the Law on foreign exchange operations on the amount of cash that may be carried across the borders have not been removed. Nationals are still not allowed to buy shares in non-domestic companies, open accounts in foreign banks, or purchase real estate abroad.

Preparations for future liberalisation in the area of capital movements and payments have been set out and are conditional on transition to the second stage of the SAA.

Some progress was made in the field of **payment systems**. The amendments to the Law on fast money transfers lowered the entry barriers to the money remittance market, and now allow some competition. Alignment with the Payment Services Directive remains to be achieved. Most of the charges for cross-border electronic payment transactions are still disproportionate to those for domestic electronic payment transactions. In the area of payment systems, the country partially meets its targets.

There was some progress in the **fight against money laundering**. The Law on prevention of money laundering and financing of terrorism has been further amended, taking into account the recommendations of the last Moneyval Mutual Evaluation Report, with the aim of transposing the third Anti-Money Laundering Directive; alignment remains to be confirmed. The Office for Prevention of Money Laundering and Financing of Terrorism (OPMLTF) has issued additional implementing legislation on the reporting requirements for and the analysis and processing of suspicious transactions. The awareness of the reporting institutions has further increased, and the Office has developed an electronic system for the exchange of encrypted information and improved its statistics. However, the number of reports on suspicious transactions in the reporting period dropped by 20%. Reporting is still uneven and most suspicious transaction reports continue to come from banks. There is regular communication between the OPMLTF and the investigating and prosecuting authorities on all cases of suspicious transactions or other financial criminal acts that are analysed by the Office. The OPMLTF signed memoranda of understanding on sharing information with counterparts in two more EU Member States (Latvia, Estonia), and four non-EU jurisdictions (Norway, San Marino, Argentina, Canada), bringing the total number of MoUs to 37. The enforcement record regarding court decisions on money laundering and their execution is not satisfactory. In 2009 there were only 2 indictments concerning 12 persons and only one conviction. The number of employees in the Office has decreased, but most of them are permanently employed. The legislative preparedness, administrative capacity, and enforcement record in combating money laundering are moderately advanced.

### *Conclusion*

There was some progress in the area of free movement of capital, especially in the field of fast money transfers and money laundering. However, there are restrictions on short-term capital movements and on cross-border payment transfers. The preparations in the area are on track.

## **4.5. Chapter 5: Public procurement**

Little progress has been made as regards **general principles**. The Public Procurement Law was amended to be harmonised with the Criminal Code and several pieces of legislation implementing the law were adopted. The Law on Concessions and Public-Private Partnerships is not aligned with the *acquis*.

With regard to administrative capacity, the staff of the PPB was increased to 17 people. The PPB adopted a strategy for the development of the public procurement system for 2010-2012 which confirms the maturity of that institution in developing, piloting and monitoring the country's public procurement policy. The training centre of the PPB became operational. The PPB's cooperation with the State Audit Office (SAO), the State Commission for Prevention of Corruption and the Commission for Protection of Competition continued. Statistics on

corruption cases related to public procurement handled by the courts are still missing. The trend in tender cancellations and failures continued. There is still insufficient awareness regarding conflicts of interest, ethics and anti-corruption in procurement procedures. The capacity of the unit responsible for concessions in the Ministry of Economy is not sufficient to deal with large-scale projects and its cooperation with other institutions engaged in the public procurement system remains insufficient.

As regards general principles, the country is generally on track.

Some progress has been made regarding transparency in the **award of public contracts**. E-procurement became mandatory as of January 2010 for at least 30% of the total estimated value of all public contracts. The integration of the two existing electronic procurement systems has been achieved. However, the awareness of the contracting authorities regarding the criterion of the economically most advantageous tender is insufficient. Furthermore, works have often started and even been completed before the respective tender has been launched. The SAO detected serious irregularities in procurement procedures, but the Public Prosecutor's Office in most cases established only minor omissions. This resulted in few charges being pressed against the contracting authorities. As regards award of public contracts, the country is moderately advanced.

Progress can be reported as regards the **remedies** system. 95% of the cases received in 2009 were resolved by the State Appeals Commission (SAC). The SAC publishes justification of its decisions. However, the enforcement of decisions of the SAC is not satisfactory, which poses problems for an effective remedies system. Alignment with the amended EU Directive on remedies has yet to be achieved. The SAC remains severely under-budgeted and understaffed. As regards the remedies system, the country is moderately advanced.

### *Conclusion*

Progress has been made in the area of public procurement. Transparency of procurement procedures was increased, but they need to be simplified, in particular as regards entities operating in the utilities sector. The legislation on concessions and public-private partnerships is not in line with the *acquis*. The remedies system, despite the good work of the SAC, needs to be considerably strengthened. Efforts are needed to further improve the administrative capacity in the field of public procurement and concessions.

## **4.6. Chapter 6: Company law**

Good progress can be reported in the area of **company law**. The Company Law was amended with the aim of aligning it with the Fourth Company Law Directive on the annual accounts of certain types of companies and with the Tenth Company Law Directive on cross-border mergers of limited liability companies. Further amendments were introduced with regard to the right of pre-emption of shareholders, completing alignment with the Shareholders Rights Directive, and the electronic registration of companies. In addition, a new levy scheme of the Central Registry was issued. In line with the First Company Law Directive, applicants now pay lower levies for data issued by the Central Registry. The Law on European Company was adopted and will be applicable upon the country's entry into the EU. In the area of company law, the country is well on track.

Some progress was made on **corporate accounting**. A Rulebook on accounting standards was adopted. It aims to transpose the international accounting standards (IAS), the international financial reporting standards (IFRS) and the accounting *acquis*. A Rulebook on the form and

content of annual accounts of banks and other financial institutions was adopted. Explanatory notes became a mandatory element of the annual accounts.

Little progress can be reported as regards **auditing**. A rulebook on auditing standards was adopted with an aim to transpose the international standards on auditing, assurance engagements and related services established by the International Federation of Accountants (IFAC). The Institute for Chartered Auditors (ICA) translated the Code of Ethics and the International Standards on Auditing (ISA). However, there is not yet a public register, a disciplinary programme or a quality control system in place. A public oversight system for chartered auditors has yet to be established. Chartered auditors' qualifications obtained abroad are still not recognised. The ICA remains understaffed, with only two employees. Overall, in the area of accounting and auditing the country is not yet sufficiently prepared.

### *Conclusion*

Good progress has been made in the area of company law. The Company Law was further aligned with the *acquis* and the Law on European Company was adopted. However, the alignment of the legal framework in the area of auditing remains at an early stage. The administrative capacity of the Institute for Chartered Auditors remains weak. A public oversight system for chartered auditors has yet to be established. Qualifications obtained abroad have yet to be recognised.

## **4.7. Chapter 7: Intellectual property law**

Some progress has been made on **copyright and neighbouring rights**. A new Law on copyright and neighbouring rights was enacted with an aim to reach alignment with the Enforcement Directive. Following best international practice, copyright royalties will be calculated on the basis of the income instead of the profit. The website of the Ministry of Culture on copyright protection is now regularly updated. The decisions of the Ministry of Culture to suspend the activities of two of the three collective rights management (CRM) societies were annulled following a decision of the Administrative Court. However, the Ministry of Culture did not reinstate these two CRM societies' licences. Only the Association for Protection of Copyright on Musical Works (ZAMP) is currently active. The unit responsible for copyright in the Ministry of Culture remains understaffed, with only four employees. In the area of copyright and neighbouring rights the country is moderately advanced.

Further progress has been made in the area of **industrial property rights**. The Criminal Code was amended to better define intellectual property rights (IPR) infringements and to increase the maximum prison term to five years. The country ratified the Patent Law Treaty, the Vienna Agreement for establishing an international classification of the figurative elements of marks, the Singapore Treaty on the law on trademarks, the Lisbon Agreement for the protection of appellations of origin and their international registration, and the Protocol amending the Agreement on trade-related aspects of intellectual property (TRIPS). The staffing of the State Office for Industrial Property (SOIP) remains sufficient even though it has decreased from 34 to 32 in 2010. Activities to raise awareness of IPR issues were held in cooperation with the World Intellectual Property Organisation (WIPO), the European Patent Office, the European Patent Academy, the Skopje Law Faculty, and the Academy for training of judges and prosecutors. In the area of industrial property rights the country is well advanced.

Some progress can be reported as regards **enforcement**. The national strategy for intellectual property is being implemented. The Coordination Body for Intellectual Property (CBIP) adopted its operational programme for combating piracy and counterfeiting. The CBIP continued to take regular action throughout the country and seized about 130,000 counterfeit products and closed 10 outlets in 2009. Information about the activities of the CBIP is published monthly. Goods seized were mainly counterfeit audio/video CDs, clothing, cigarettes and alcohol. Those goods that were the subject of a court decision were forwarded to the Agency for Managing Confiscated Property and publicly destroyed. A group of customs officers was trained to specifically deal with combating counterfeiting and piracy. State market inspectors received training to recognise counterfeit products. However, the division of competences between the law enforcement institutions is not clear. Awareness of the health and safety risks of counterfeit pharmaceutical products is limited. A reliable enforcement record is still missing. A system for exchanging data between the law enforcement institutions has yet to be established and the method for collecting statistical data on enforcement is underdeveloped. Counterfeit channels are rarely traced and little was undertaken to eradicate the top of the counterfeit pyramid. The number of misdemeanour, civil and criminal proceedings remains unsatisfactory. Only 23 out of 98 cases dealt with by the specialised IPR departments of the 13 basic courts were completed in 2009. Fines of up to €1,000 were imposed on legal entities. Criminal and misdemeanour charges were pressed against individuals, but the selling of counterfeit products on temporary stalls continued. Cooperation with the Agency for Managing Confiscated Property has been established. As regards enforcement, the country is moderately advanced.

### *Conclusion*

Some progress has been made in terms of the IPR legal framework. A new Law on copyright and neighbouring rights was enacted. Law enforcement institutions cooperate, but the division of responsibilities over IPR enforcement is unclear. The CBIP took regular action; however, counterfeiting and piracy remains widespread and fake products continue to be sold in the main streets, markets and outlets. The track record on investigation, prosecution and judicial handling of piracy and counterfeiting is not satisfactory. The level of awareness of intellectual property rights among the public remains low.

## **4.8. Chapter 8: Competition Policy**

No significant progress can be reported in the area of **anti-trust, including mergers**. The percentage of decisions of the Commission for Protection of Competition (CPC) confirmed by the Administrative Court has increased. However, the enforcement record has decreased slightly in the field of mergers, with nine decisions taken, and remains low in the area of cartels. The CPC took three decisions in cases involving abuse of a dominant position. The suspension clause, and the possibility to appeal to the Supreme Court further delays the enforcement of CPC decisions. The number of staff in the CPC dealing with anti-trust and mergers remains insufficient. The general budget of the CPC for 2010 and the training efforts have remained stable. The number of judges in the Administrative Court working on competition cases is adequate. Judges received training on anti-trust and mergers. Preparations in the area of anti-trust, including mergers, are moderately advanced.

There has been some progress in the field of **state aid**. The Law on technological-industrial development zones, fully in line with the *acquis*, was enacted. The Regulation establishing conditions and procedures for granting regional aid was amended, aligning the rules on aid to large investment projects with the *acquis*. However, the CPC took only one decision in the

field of state aid. The number of reporting institutions has increased but remains insufficient. The number of staff dealing with state aid is adequate. Some training was given to state aid providers, but awareness of state aid regulations among government institutions, business and the general public is not yet sufficiently developed. In the energy sector, most of the (lignite) coal reserves are still being managed by the electricity generation company and there is still no clear legal and financial separation between the lignite excavation activities and operation of the thermal power plants. In the area of state aid the country is on track.

### *Conclusion*

Some progress was made in the area of competition, especially in alignment with the state aid *acquis*. The human resources of the Commission for Protection of Competition are sufficient to cover state aid but inadequate in the field of anti-trust and mergers. The enforcement record remains low in the field of cartels and state aid. The financial resources of the Commission for Protection of Competition are still inadequate. Advocacy on anti-trust and state aid rules towards companies or public bodies granting aid is still weak. Overall, preparations in the area are moderately advanced.

## **4.9. Chapter 9: Financial Services**

Good progress was made in the area of **banks and financial conglomerates**. Several pieces of secondary legislation were adopted. Most of the Basel Core Principles for banking supervision and further elements of the Basel II framework are being implemented. The central bank NBRM improved its supervision by starting to apply a risk-based approach. Good cooperation has been maintained between the Central Bank (NBRM) and the supervisory authorities of those countries whose banks own some of the biggest banks in the country, in particular Greece. Some experts left the supervisory department in the NBRM, but its administrative capacity remains satisfactory in terms of the number of staff and expertise for the current level of market development. The first private credit bureau, which helps credit institutions to assess credit risks, became operational. The Ministry of Finance and the NBRM signed a Memorandum of Understanding for maintaining financial stability and managing financial crises.

There were no activities to improve consumer protection. Alignment with the *acquis* on financial conglomerates and deposit guarantee schemes still has to be achieved. Preparations in the area of banks and financial conglomerates are on track.

Some progress has been made in the area of **insurance and occupational pensions**. The Insurance Supervisory Agency (ISA) became functional and self-sustainable. The country launched the transposition of the relevant *acquis* in the insurance area. Pursuant to the Law on

Insurance Supervision, a manual setting the requirements for insurance agents and brokers has been adopted. Part of the implementing legislation for off-site supervision has been adopted by the ISA, aiming at transposing the Solvency I Directive; alignment remains to be confirmed. There is no enforcement record yet. Seven memoranda of understanding have been signed, including three with EU member states' insurance supervisory authorities that supervise insurance companies with local branch offices. The ISA signed an MoU with the Office for Prevention of Money Laundering and Financing of Terrorism and has become a member of the International Association of Insurance Supervisors.

However, no on-site supervision has been conducted, and there is still no properly financed guarantee fund for insolvency of insurers. Some insurance companies still lack adequate



reinsurance. Uninsured driving is still a problem. The Ministry of the Interior has no credible enforcement record in combating uninsured driving. The legislation implementing the Law on vehicles, regulating vehicle registration and insurance, which should have been applied from 1 June 2010, is still not applied. The provisions in the Law on compulsory insurance of road vehicles authorising the Ministry of Finance to set the premiums for motor vehicle insurance, which represent an effective barrier to competition among the insurance companies, have not been removed.

The law on fully-funded pension insurance has been amended, ensuring increased operational and functional independence of the Agency for supervision of fully funded pension insurance (MAPAS). Further legislation implementing the Law on fully funded pension insurance has been issued by MAPAS. There is no credible enforcement record yet in applying risk-based supervision. However, pursuant to the national legislation, pension funds can invest only 30% of their assets in non-domestic securities, which is against the principles of EU law.

An important challenge would be future alignment of insurance legislation with the Solvency II framework, which is currently being prepared. This will impact not only on the insurance industry but also on the necessary supervisory capacity. Overall, the country is advancing in the area of insurance and occupational pensions.

There was some progress in the area of **financial market infrastructure**. A committee on financial stability has been set up comprising the Ministry of Finance and the central bank. A committee, coordinating the four financial supervisory authorities has also been established. Alignment with the *acquis* remains to be confirmed. Some financial services, such as leasing, are neither regulated nor supervised. The Settlement Finality Directive and the Financial Collateral Directive are not yet transposed. Preparations in the area of financial market infrastructure have been launched.

There has been good progress in the area of **securities markets and investment services**. The Law on securities was amended, transposing the *acquis* on compensation schemes for investors, and on the acquisition of holdings in the financial sector; alignment remains to be confirmed. All the necessary legislation implementing the Law on investment funds entered into force, reflecting the basic principles of the *acquis* on undertakings for collective investment in transferable securities. The Securities and Exchange Commission (SEC) signed a memorandum of understanding with its counterpart in Montenegro. The administrative and operational independence of the SEC is satisfactory. The amended Securities Law requires the members of the SEC to be full-time employees. This has, however, not yet been implemented. The transposition of the Capital Adequacy Directive has not been completed. The overlap between the responsibilities of the Central Bank and the SEC in the area of licensing and supervision of trading in securities has still not been addressed. The IT system of the SEC has not been upgraded and is still not adequate. In the area of securities markets and investment services the country is moderately advanced.

### *Conclusion*

There was overall good progress in the area of banking, capital markets and pension insurance. Efforts have been made to ensure proper regulation and supervision of the insurance sector, including establishment of the Insurance Supervisory Agency. However, some financial services, such as leasing, remain neither regulated nor supervised. The overall level of preparation in the area diverges widely across sectors.

#### 4.10. Chapter 10: Information society and media

Good progress can be reported in the area of **electronic communications and information technologies**. Parliament enacted amendments to the Law on electronic communications to further improve its alignment with the EU *acquis*. However, the provisions on interception of communications raise questions as to their compatibility with European standards. The Law on construction has been amended to give authority to municipalities in granting permissions for building telecommunications infrastructure. The regulator adopted several amended regulations that are expected to improve competitive conditions and introduced cost-based accounting methodologies for the pricing of fixed and mobile services. The market analysis process and subsequent imposition of regulatory remedies has progressed significantly. The regulator is adequately staffed and self-financed. It has increased its capacities to manage frequencies and enforce its decisions. Furthermore, it has established a consumer protection department and a call centre, increasing the level of transparency. Regulatory measures were applied in closer cooperation with the competition authority. However, the level of cooperation remains insufficient to allow thorough enforcement of the competitive safeguards. A tender procedure for the designation of a universal service provider is being prepared. A new national internet exchange point remains to be established. The emergency number 112 will still have to be introduced. The administrative capacity within the competent ministry needs to be strengthened. Preparations in this area are advanced.

Some progress can be reported in the area of **information society services**, notably in the fields of e-government and e-education, or establishing the *Macedonian Academic research Network* (MARNet). The legislation is already well aligned with the E-commerce and Conditional Access Directives. It is necessary to establish an administrative structure for the implementation of the E-commerce Directive, in particular a national contact point. Preparations in this area are advanced.

Some progress can be reported in the area of **audiovisual policy**. The Broadcasting Law was amended to remove provisions on bankruptcy proceedings against the public service broadcaster. The Broadcasting Council stepped up its market monitoring activities and started cooperating with the competition authority. This cooperation led to the identification of a few cases of breaches of competition rules. However, the legislation on media ownership and concentration is not fully enforced. The regulator is not able to monitor the market effectively. The re-introduced system for collecting the broadcasting fee has started to yield results, but sustainable funding of the public service broadcaster and the Broadcasting Council still needs to be secured. Media legislation is not yet aligned with the Audiovisual Media Services Directive, which prevents the country from fully participating in the MEDIA programme. Moreover, the Broadcasting Council adopted implementing legislation which introduces compulsory subtitling in local language for foreign programmes broadcast via cable TV, which may interfere with the principle of freedom of reception and retransmission enshrined in the Audiovisual Media Services Directive. Digital television was introduced. However, no roadmap has been developed for full digital switch-over and use of the digital dividend. Preparations in the area of audiovisual policy are lagging behind.

#### *Conclusion*

There has been further progress in the field of electronic communications and information society services. Alignment with the EU *acquis* and market liberalisation are improving and substantial efforts have been made to use ICT policies for public service provision to citizens and businesses. In the area of audiovisual policy, the capacity of the Broadcasting Council has

been strengthened, but it is still not adequate to monitor the market effectively. The sustainability of the public service broadcaster is yet to be ensured. Media legislation is not yet aligned with the Audiovisual Media Services Directive and the Broadcasting Council introduced new legislation on subtitling of foreign programmes which may interfere with the principle of freedom of reception and retransmission. Preparations in the area of electronic communications and information society services are advanced, but preparations in the area of audiovisual policy are lagging behind.

#### 4.11. Chapter 11: Agriculture and rural development

Further **horizontal** progress has been made. A revised law on agriculture and rural development was enacted that regulates the basic aspects of agricultural support policy, including direct payments, market support measures and rural development. For 2010 a total of €86.7 million is allocated for direct support schemes; this includes direct area and headage payments, premium payments for strategically important products, and non-commodity based payments. However, institutional capacity remains insufficient, with significantly reduced budgetary allocations in 2010 for salaries of public servants in the sector and delays in filling vacant posts.

Progress can be reported towards setting up an integrated administration and control system (*IACS*). The basis for a land parcel identification system (*LPIS*) has been established, with aerial acquisition and initial digitalisation of physical blocks completed. The real estate register currently covers 98% of the country, of which approximately 92% is agricultural land. However, a fully functional farm register, with a supporting automated IT system, is not yet completed. Compatibility of data registers is not yet achieved, most notably with respect to the animal identification and movement control register. There are currently insufficient human resources to manage and maintain a functioning *IACS*.

The capacity of the *paying agency* (the Agency for Financial Support for Agriculture and Rural Development — *AFSARD*) has been further strengthened. Staff employed in *AFSARD* are well trained and highly motivated. However, their number is not sufficient given their increasing range of responsibilities. Preparations for implementation of the European Agricultural Guarantee Fund (*EAGF*) (direct payments) are still at an early stage.

Some progress has been registered in the development of a sustainable and efficient agricultural information system. The Ministry of Agriculture and Water Economy (*MAFWE*) has adopted a rulebook that defines the parameters for a functioning agricultural market information system (*AMIS*). A national committee to administer a farm accountancy data network (*FADN*) has been established, pilot *FADN* activities have commenced and alignment with the *acquis* has been largely achieved. Provision of support in agriculture is covered by the revised Law on agriculture and rural development. However, the measures introduced differ from the EU provisions in certain areas, particularly tobacco. Preparations in the area of horizontal issues are on track.

With respect to common market organisation, harmonisation of legislation with the *acquis* was initiated, including establishing marketing standards for selected crops (cereals and rice, dried fodder, fresh fruits and vegetables, and products of animal origin). As regards market management the revised Law on agriculture and rural development provides for market support measures such as intervention, consumption promotion and producers organisations. It is a useful, but limited, first step towards alignment with the EU common market organisation. Preparations in this area are at an early stage.

The existing legislation on *wine* has been adapted to take account of revisions to the *acquis*. A national strategy for grape and wine production has been adopted for the period 2010-15.

Alignment with the *acquis* in the area of **specialised crops** is on track for wine.

There has been good progress in the field of **rural development**. Implementation of the IPARD programme under component V started in December 2009 after the Commission decided to confer to the country management rights for three measures 'Investments in agriculture holdings', 'Processing and marketing' and 'Diversification in rural economy'.

A first call for proposals for the three currently accredited measures was completed in June 2010. The second call for proposals was launched in September 2010. However, due to difficulties in obtaining various national permits and certificates the rejection rate of projects was very high and improvements to the implementing procedures are imperative to increase the absorption of IPA component V measures.

It should be noted however that the institutional capacities of the MAFWE Managing Authority and the IPARD Agency might prove insufficient to manage the increasing range of responsibilities following the conferral of management. Remedial steps have to be taken in order to ensure proper implementation of the Programme.

Progress can be reported in the field of **quality policy**. A new legal framework covering regulation of marketing standards, requirements on presentation and consumer labelling, and establishing quality schemes has been enacted. Preparations in this area are moderately advanced.

There has been progress with **organic farming**. A law on organic production has been enacted. Alignment with the *acquis* remains to be achieved. Numbers of registered organic producers as well as total organic production continue to increase. A budget of €1.16 million has been allocated in 2010 to support organic production, including provision for a national campaign to raise awareness of organic food. Administrative capacity remains insufficient. Preparations in this area are advanced.

### *Conclusion*

Progress has been achieved in the field of agriculture and rural development. The rural development policy is gradually being aligned with EU requirements. Further strengthening of the administrative capacity of the paying agency and the operational structures for pre-accession assistance is needed. Alignment with the *acquis* requires further sustained efforts. Preparations in this area are on track.

## **4.12. Chapter 12: Food safety, veterinary and phytosanitary policy**

Some progress has been made as regards the **general** principles. The government adopted a new methodology for legal transposition by using indirect reference to EU legislation. The overlap between the two framework laws in this sector, and the lack of inter-institutional cooperation, still remain.

Progress has been made in the area of **veterinary policy**. Additional implementing legislation was adopted on *control systems in the internal market* and on *control systems for imports*; alignment remains to be confirmed. Trade Control and Expert System (TRACES)-type software has been introduced in the customs' electronic one-stop shop system for issuing

import and export licences. The capacity of border controls is still not sufficient, in terms of both infrastructures and administration. An EU-compatible control system is lacking.

The movement control part of the system for *identification and registration* of bovines, sheep and goats is not fully operational. Administrative capacity in the veterinary directorate for identification of animals remains weak. Training sessions on identification and registration of animals have been organised with a view to reducing the number of errors by the veterinary stations.

Some progress has been made in the area of *control measures for animal diseases*. Implementing legislation on control of brucellosis has been adopted and its implementation has started.. The veterinary directorate is implementing a programme for vaccination of small ruminants against brucellosis over the whole territory of the country. The *acquis* on transmissible spongiform encephalopathies has not been fully transposed. The capacities of the veterinary directorate remain insufficient to perform systematic controls in relation to transmissible animal diseases.

Limited progress has been made in the area of *animal welfare*. Several pieces of implementing legislation transposing the *acquis* have been adopted; alignment remains to be confirmed. The EC-approved annual monitoring programme for *prohibition of substances and residue control* has been amended with six new products. Some implementing legislation on *intra-EU trade in live animals, semen, ova and embryos, on non-commercial movement of pet animals and on import requirements for live animals and animal products* remains to be adopted. No new *international veterinary agreements* have been concluded. The capacity to further transpose and implement the *acquis* on *zootechnical issues* remains weak. The 2010 budget for *veterinary expenditure* on measures for animal health was reduced by 20% as compared to 2009.

The capacity of the laboratories of the veterinary faculty has been strengthened, although the validation procedures need to be improved. The administrative capacity of the veterinary inspectorate remains insufficient at both central and local level to implement an EU-compatible control system. The system for supervising the veterinary inspectors and veterinary stations has not yet been implemented. In the area of veterinary policy the country has started to address its objectives.

Some progress has been made as regards the **placing on the market of food and feed**. New rules for *funding of checks* have been adopted, including the calculation of fees based on EU-defined minima; alignment remains to be confirmed. A strategy and action plan for implementation of the Hazard Analysis Critical Control Point (HACCP) system for the period 2010 – 2014, has been adopted. Additional guidelines for implementing the HACCP, good hygiene practices and good manufacturing practices have been developed. Training has been provided for food business operators. The aid schemes for HACCP certification have been extended to 2010. The number of food business operators that implement hazard analysis critical control point (HACCP)-based procedures has increased but the procedures are not always applied correctly. Evaluation of food processing establishments for compliance with EU standards and their upgrading programmes is progressing slowly. A plan for improving the quality of raw milk has not been adopted due to the lack of available funding. The legislation on *hygiene rules, specific rules for animal products, control rules and specific control rules for animal products* only partially meets the EU requirements.

The *rules for animal by-products* have been adopted; alignment remains to be confirmed. The necessary comprehensive collection and treatment systems have not yet been set up. There is still no strategy for the treatment of animal by-products, including the categorisation of risk material. Preparations in this area are being initiated.

In the area of **food safety rules**, preparations of the new legal framework have commenced to avoid overlapping between the current veterinary and food laws. Implementing legislation was adopted on safety of alcoholic beverages and food contact material. Implementing legislation on *extraction solvents*, *food contact material* and *fortified food* has yet to be adopted.

The existing legislation transposes the *acquis* on *labelling*, *food additives*, *flavourings*, *food supplements*, *food for particular nutritional uses*, *quick-frozen foodstuffs*, *contaminants*, *novel food and genetically modified organisms (GMOs)*, *ionising radiation* and *mineral waters*; alignment remains to be confirmed. The capacity of the laboratory in the Institute for Health Protection is still insufficient, in terms of both human resources and procedures, to provide reliable results. The capacity of the food inspectorate in the food safety directorate has been strengthened, but the number, training and competence of staff remain insufficient. The monitoring programme for food safety has not been implemented due to lack of funds. In the area of food safety rules, the country partially meets its objectives.

Some progress was made on **specific rules for feed**. Legislative preparations in this area have started.

Little progress can be reported in the area of **phytosanitary policy**. With regard to *plant variety rights* the International Convention for the protection of new varieties of plants was ratified. A new list of *harmful organisms* has been adopted. Some implementing legislation on *plant protection products* has been adopted. The register of plant protection products has not been established yet. No action has been taken to implement the international standards for phytosanitary measures, in particular for surveillance, export certification and determining pest status in an area. Implementing legislation on the *quality of seeds and propagating material* has yet to be adopted. The administrative capacity of the phytosanitary directorate remains inadequate.

Coordination among the various competent authorities in the area of phytosanitary policy has not improved. The human resources, equipment and facilities for border controls are still inadequate. The improved capacity of the state phytosanitary laboratory remains under-used because its role in the national food safety monitoring system is undefined and samples are not received on a regular basis.

### *Conclusion*

There has been some progress in the area of food safety, veterinary and phytosanitary policy, in particular with respect to legislative preparedness and implementation of hazard analysis critical control point principles by food business operators. The administrative capacity, in terms of financial and human resources, remains insufficient, in particular as regards the effectiveness of monitoring and control systems. Preparations in the area of food safety, veterinary and phytosanitary policy are on track.

#### 4.13. Chapter 13: Fisheries

Progress has been made in the field of **resource and fleet management**. Registers of producers and databases of fish production and marketing in the sector are being maintained. The *acquis* requirement on fleet registration is not applicable. Preparations in this area are moderately advanced.

Little progress has been made in the area of **inspection and control**. The administrative capacity of the unit for fisheries and aquaculture within the Ministry of Agriculture and Water Economy (MAFWE) remains insufficient. This lack of capacity extends to the agricultural inspectorate, which plays the principal role in the control and inspection of fisheries. Preparations in this area are at an early stage.

Good progress has been made in the field of **structural actions**. A revised law on fisheries and aquaculture has been enacted. It provides for domestic fisheries support administered within the national rural development programme. Investments in aquaculture and fish farms are also eligible for IPARD support.

No progress has been achieved in the field of **market policy**. The administrative structure for implementing market policy is not yet in place. MAFWE does not yet have a register of all **state aid** approved in the fisheries sector. The national state aid schemes need to be aligned with the EU's structural and state aid policies, in particular regarding support for the stocking of fish waters.

There are no formal **international agreements**. Informal working arrangements have improved with Albania, and continue with Greece, covering the management of resources in the three lakes whose waters are shared.

#### *Conclusion*

There has been some progress in the area of fisheries. Administrative capacity still requires further strengthening. Since the country is landlocked, much of the fisheries *acquis* is not relevant. Preparations for implementation of the common fisheries policy are at an early stage. Preparations in the area of fisheries are on track.

#### 4.14. Chapter 14: Transport policy

There has been good progress in the area of **road transport**. An inter-governmental body was created to enhance implementation of the road safety strategy by providing a clear allocation of responsibilities and coordination between the bodies involved. The Road Safety Council continued to hold consultations with the relevant institutions. Regular road safety campaigns have started according to their annual plan. A new law on digital tachographs was enacted. The relevant implementing legislation has been adopted. Digital tachographs are being introduced. The card issuing authority has been established. The Law on road transport is still not fully aligned with the *acquis* on market access. The administrative capacity of the inspectorate needs to be strengthened. Preparations in the area of road transport are advanced.

Some progress can be reported on **rail transport**. The system of track-access charges between the infrastructure manager and train operator was published, but levels exceed direct costs and therefore render competition of rail with road transport difficult. The new Laws on the railway system and on railway safety have been enacted with a view to further alignment with the railway *acquis*. They require the establishment of a safety authority within the

Ministry of Transport and Communications and the accident investigation body. The regulatory body has become operational in its role as market regulator and licensing body. It participates regularly in the EU working group of regulatory bodies and has established cross-border contacts as required by EU law. Two private railway operators have applied for licences as railway undertakings. The first applicant, submitting the request in March 2010, has not yet received the licence. The second applicant has withdrawn. A major reason is the lack of clear guidelines for the applicants. Moreover, market access is complicated by the fact that the safety authority is not yet fully functional and hence the procedures for issuing safety certificates are not in place.

The agreement with Kosovo, based on the harmonised regional model prepared under a CARDS study in 2009 is ready to be initialled..

In the area of **inland waterways transport** some progress can be reported. The new amendments to the Law on inland waterway navigation were adopted. They regulate the technical requirements for waterway vessels and their inspection, improve security conditions and increase the amount of penalties. In this area, the country has to establish a track record of implementation of the relevant legislation.

No progress can be reported on **combined transport**. Preparations are on track.

Limited progress can be reported in the area of **air transport**. The amendment to the Aviation Law was enacted by parliament. Legislation implementing the Law on aviation with a view to further alignment was adopted. The Civil Aviation Agency has been turned into a separate regulatory body. The Civil Aviation Agency issued a licence to provide air-navigation services to the state-owned joint stock company. Parts of the first phase of the European Common Aviation Area agreement relating to conditions for access to the ground handling market, to air traffic management and to aviation safety and security procedures are not implemented. Several important pieces of the single European sky legislation have been correctly transposed but further efforts are needed to complete regulatory alignment with the single European sky within the ISIS Programme. The airspace, the interoperability and the flexible use of airspace regulations need to be transposed, and the airspace needs to be reconfigured into a functional airspace block. The amendment to the Aviation Law includes a reduction of the financial resources of the Civil Aviation Authority. The human resources of the Civil Aviation Agency have not been strengthened. Staff recently hired by the air-navigation services company lack relevant experience. The Air Accident Investigation Committee needs to strengthen its capacity to act as an independent body for investigating accidents and serious incidents. The air traffic department of the Ministry of Transport and Communications still lacks qualified staff. Administrative capacity in the air transport sector needs to be strengthened, particularly in terms of staff qualification. Preparations in this area are moderately advanced.

### *Conclusion*

Some progress can be reported in the area of transport policy. Digital tachographs are being introduced. The market opening for rail transport faces challenges. Administrative capacity needs to be strengthened in every sector of transport. In particular, efforts are needed to improve the functioning of the safety authorities. The Air Accident Investigation Committee needs to be strengthened in order to be able to act as an independent body for investigating accidents and serious incidents. Overall, preparations in this area are advanced.



#### 4.15. Chapter 15: Energy

A Strategy for Energy Development for the period 2008-2020 with a perspective to 2030 was adopted.

Progress can also be reported in the area of **security of supply**.. The government adopted a medium-term programme for building up mandatory reserves of oil and oil derivatives for the period 2010-2015, aimed at securing 90 days' average consumption, and an implementing regulation on the payment of fees for the import and production of oil and oil derivatives. At the end of September 2010, oil stocks were equivalent to only 26 days' average consumption. In the area of security of supply the country is at an early stage but on track.

There has been some progress in the area of the **internal energy market**. A proposal for a new comprehensive energy law, aligned with the energy acquis under the Energy Community Treaty, was adopted by the Government in September 2010 and is pending before Parliament. The Energy Regulatory Commission (ERC) adopted the rulebook on the conditions for electricity supply.. Market rules remain to be adopted. A subsidy scheme for vulnerable customers was introduced.. Electricity prices for households increased by around 10%, but still do not reflect costs. The rulebook on the method and conditions for regulating electricity prices has not been amended in a way that meets the cost-reflectivity principle.. Power bill collection rates remain insufficient to ensure the viability of the system. The electricity market is still not fully opened to all non-household customers. The dispute settlement procedure opened by the Energy Community Secretariat is still ongoing.

The ERC adopted the rulebook on the method and conditions for regulating prices for the transport, distribution and supply of natural gas. Natural gas supply has still not been unbundled from natural gas transmission, as required by the Natural Gas Directive. The ownership of the gas system remains unresolved.

The administrative capacity of the ERC was restructured and strengthened: four new staff members were hired, increasing the total number of staff to 21 (including commissioners), and the ERC benefitted from training *inter alia* in the fields of market and licensing compliance monitoring and tariff setting.. The energy department of the Ministry of Economy has been strengthened with four new staff, but its administrative capacity remains insufficient to address all energy policy challenges. In the area of the internal energy market the country is moderately advanced.

Progress can be reported in the field of **energy efficiency** and renewable energy. The energy efficiency strategy was adopted. An energy efficiency action plan in line with the commitments of the Energy Community's Energy Efficiency Task Force was finalised. The Ministry of Economy adopted two rulebooks on co-generation. The Energy Agency still lacks the necessary resources and administrative capacity to effectively promote energy efficiency and renewable energy sources. In the area of energy efficiency, the country has started to address its objectives.

The strategy for the use of **renewable energy** sources was adopted. It sets a target for a renewable energy share of 21% of the total energy consumption by 2020. The ERC adopted rulebooks on the use of feed-in tariffs for electricity produced from biomass and biogas.. The government signed concession agreements for the construction of 19 small hydropower plants. The feasibility study for the country's pilot wind farm was finalised. Preparations in the area of renewable energy are on track but significant further efforts will be necessary.

Progress has been made regarding **nuclear safety and radiation protection**. The Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management was ratified. The radiation safety directorate (RSD) issued several implementing regulations. However, their compliance with the EU *acquis* still needs to be checked. The administrative capacity of the RSD is acceptable, although additional staff are needed to enable the RSD to fulfil all its tasks. Licensing of the storage facility for radioactive waste is a key issue for guaranteeing safe management of radioactive waste in the country. This should be carried out in full compliance with the *acquis* concerning assessment of the environmental impact. Criteria for defining a technical support organisation should be established in order to enable the RSD to receive technical assistance, not least in the field of safety assessment of complex facilities. A national emergency plan has to be developed. Training in the field of radiation protection should be organised. The financial independence of the directorate is still not secured.

### *Conclusion*

Some progress has been made in the energy sector. New energy strategies were adopted. However, the new comprehensive energy law remains to be enacted. Electricity tariffs do not reflect costs. Whilst there has been good progress, a final resolution of the dispute with the distribution system operator, a major EU investor, is still outstanding. The energy regulator and the radiation protection regulator have to become functionally independent. Preparations in this area are moderately advanced.

#### **4.16. Chapter 16: Taxation**

No progress has been made in the area of **indirect taxation**. Nonetheless the rate of *value added tax* (VAT) on the supply of water for irrigation purposes was reduced from 18% to 5%, which is compatible with the *acquis*. The calculation of the *excise* duty on passenger cars was revised so that it is based on the car's value rather than the size of its engine. The excise duty on some products remains lower than the minimum required by the *acquis*. The preparations in this field remain on track.

In the area of **direct taxation**, the Profit Tax Law was amended. The new provisions stipulate that dividends paid to resident legal entities will not be taxed. These profits will be taxed only when the dividends are paid out to non-resident legal persons or to individuals (both resident and non-resident). These changes raise an issue of discrimination against non-resident legal persons and also raise questions with respect to the future application of the Parent-Subsidiary Directive. Preparations in this area remain moderately advanced.

There has been some progress in the field of **administrative cooperation and mutual assistance**. A double taxation agreement with Slovakia, which replaces the former agreement between Czechoslovakia and Yugoslavia, was ratified. The number of agreements concluded with EU Member States is now 23.

Little progress has been made as regards **operational capacity and computerisation**. From 1 January 2010, the management of excise duties was transferred from the Public Revenue Office (PRO) to the Customs Administration. The PRO updated its strategic plan for 2010-2012, but a detailed implementation plan is missing. The decentralisation of taxpayer services continued. The number of taxpayers increased to a total of 192,832. The PRO office in charge of large taxpayers increased the number of companies it covers from 175 to 235. The control policy and capacity for processing VAT tax returns has been centralised. Enforced collection

efforts intensified and audit efficiency increased: tax collection was some 50% higher in 2009, with a reduced number of audits. Auditing and arrears collection capacity remains weak, although efforts were made by providing the PRO's auditors with better tools and working methods in support of their controls. Tax investigation capacity and coordination to fight tax evasion remains insufficient. The PRO's planned staffing reinforcements for 2009 and 2010 did not materialise. An adequate IT system is lacking. A code of conduct for business taxation has yet to be developed and applied. Preparations in this area remain advanced.

### *Conclusion*

Limited progress can be reported in the field of taxation. No progress was made in harmonising indirect and direct taxation legislation with the *acquis*. Moreover, the new provisions introduced in the Profit Tax Law are diverging from the *acquis*. Some progress can be reported in the area of operational capacity for the tax administration as regards taxpayers' services and audit efficiency. Audit and tax investigation capacity to fight evasion remain weak, and an adequate IT system remains to be developed. The code of conduct for business taxation is not yet in place. Preparations in the area of taxation are on track.

## **4.17. Chapter 17: Economic and Monetary Policy**

Progress was limited in the area of **monetary policy**. The central bank issued new implementing legislation on calculating exchange rates. It continued to improve the monetary statistics by further complying with international standards. The central bank's reporting on the macroeconomic situation has been reinforced, although figures are not fully harmonised yet with the State Statistical Office. The shortcomings in the legal framework in some key areas, such as the full independence of the central bank, the prohibition on monetary financing of the public sector and the prohibition on preferential access for the public sector to financial markets, have not been addressed. Preparations in the area of monetary policy are on track.

Modest progress has been made in the field of **economic policy**. The submission of the fourth pre-accession economic programme, covering the period 2010-2012, was delayed. The macroeconomic framework is comprehensive and the fiscal framework is broadly in line with it. However, the description of structural reforms is not sufficiently comprehensive while the macroeconomic and fiscal frameworks are optimistic in the context of the expected external developments. The objectives are not clearly aligned with the accession-related policy priorities. As a consequence, the programme has only limited relevance and is not being used as a core document for economic policy-making. In 2009 the public debt amounted to 32.1% of GDP, which is lower than the 40% of GDP projected in the debt management strategy. Administrative capacity for policy implementation diverges widely: horizontally, among the state institutions, and vertically, between the central and local level. In the area of economic policy the country partially meets its objectives.

### *Conclusion*

Limited progress has been made recently in the area of economic and monetary policy. Monetary policy implementation by the Central Bank has improved. Alignment with the *acquis* is incomplete. Administrative capacity for economic policy formulation and implementation diverges widely. Nonetheless, overall preparations in the area of economic and monetary policy are on track.

#### 4.18. Chapter 18: Statistics

Good progress was made in the area of **statistical infrastructure**. The strategic plan of the State Statistical Office (SSO) for 2010-2012 was adopted. The staffing situation improved and the IT capacity was further reinforced. However, SSO's budget for 2010 was significantly reduced, the overall resource situation is weak and equitable representation needs to be ensured. A memorandum of understanding was signed with the Ministry of Agriculture, Forestry and Water Economy. Preparations in this area are advanced.

Progress was made in the field of **classifications and registers**. The classification of economic activities, NACE Rev. 2, has been introduced in the business register. Sources and procedures for updating the statistical farm register were defined. Preparations in this area are moderately advanced.

Good progress was made in the area of **sector statistics**. Preparations for the population and housing census scheduled for April 2011 are continuing. However, the budget for the population census is not yet secured and the law on census has not yet been adopted. The SSO carried out the first regular survey on income and living conditions. Population projections at regional level for 2005-2055 were published. The SSO implemented the EU ad hoc module for the labour force survey and started transmitting quarterly data to Eurostat. Improvements were made in short-term business statistics. Methodological improvements were made in national accounts. Revised quarterly accounts were published in June 2010. Further alignment with ESA 95 is needed. Compliance with ESA 95 of the Pre-accession Economic Programme remains weak. The preparation of harmonised indices of consumer prices is advanced. Progress was made in agricultural statistics. The farm structure survey has been carried out. Progress has been achieved in the field of waste statistics. Data transmission to Eurostat has increased significantly but needs to be further improved, in particular for economic data. Preparations in the area of sector statistics are advanced.

#### *Conclusion*

Overall, there was good progress in several areas, especially in producing sector statistics. However, there is still some way to go before full alignment with the *acquis* is achieved. The overall resource situation remains weak and equitable representation needs to be ensured. It is essential that funding is secured for the population and housing census 2011. Substantial efforts to improve sector statistics need to continue, in particular for economic statistics. Preparations in the field of statistics are advanced.

#### 4.19. Chapter 19: Social Policy and employment

There has been limited progress in the area of **labour law**. Amendments to the Law on labour relations have been enacted. However, complete alignment with the *acquis* and commensurate administrative capacities of the institutions responsible for implementation and enforcement of the labour law are still missing. Cooperation between the relevant institutions remains weak. Preparations in this area are advancing.

Some progress can be reported in the area of **health and safety at work**. The National Council for Occupational Safety and Health has been set up. The rulebook concerning the risks related to exposure to chemical substances at work was adopted. Alignment remains to be confirmed. The number of inspectors has increased from 35 to 40, and some training has been provided. Nevertheless, there is still a substantial demand to train inspectors and duty holders on the requirements of the transposed EU *acquis*. The number of inspections has

increased, reaching 60 per month per inspector. However, this high rate questions the quality of controls performed. The strategy for further development of health and safety at work has not been finalised. Consolidated recording of data on accidents at work is still lacking therefore, there is a need for a coherent system for the collection and analysis of data on accidents and ill-health which would enable to prioritise and target the work of the State Labour Inspectorate and against which a national strategy can be delivered. Overall, the administrative capacity remains insufficient to ensure proper implementation and enforcement of the legal provisions. Alignment with the *acquis* in the area of health and safety at work is moderately advanced.

There has been little progress in the **social dialogue**. Determination of the representative status of trade unions and employers associations for participating in bipartite and tripartite social dialogue is completed. The membership of the Economic and Social Council has changed, reflecting the representative status of its members. It has become operational, but has yet to contribute to functional and representative social dialogue. Tripartite and bipartite social dialogue remains weak and there is not sufficient commitment and strategic approach from the government to ensure adequate and effective participation of the social partners in the policy development process. The capacity of social partners to contribute to development of employment and social policies themselves continues to be weak. Preparations in this area are progressing slowly.

Limited progress has been made in the area of **employment policy**. The Employment Service Agency is slowly implementing the new service model. A public campaign was launched regarding employment in the grey economy. The unemployment rate remains high and labour market participation is still very low. The amendments to the Law on health insurance did not have the expected effect on decreasing the number of registered unemployed. There was a significant reduction, by more than one third, of the allocated budget for active labour market measures; it remained insufficient to have a real impact. Only very few of the measures included in the active labour market programme directly aim to address the skills needs and improve the employability of the labour force. Employment in the grey economy does not seem to have diminished. Efficient cooperation and coordination between enforcement bodies is lacking. Preparations in the area of employment policy remain at an early stage.

There was some progress in the preparation for participation in the **European Social Fund**. In 2009, conferral of management powers was granted and preparations started for the implementation of operations. However; implementation of the Human Resources Development Operational Programme, co-financed under IPA component IV, is moving very slowly. The implementation of operations has not yet started.

Little progress has been made on **social inclusion**. The potential of social policies for supporting stability and national reconciliation still needs to be fostered. The poverty rate has increased. The national programme for the development of social protection 2010-2021, and the national strategy on equality of rights of people with disabilities 2010-2018 was adopted. Development of the national strategy for alleviation of poverty and social exclusion has commenced. The number of small communal houses for people with disabilities has increased as well as the involvement of civil society organisations in the provision of social services. The high drop-out rate in the early years of education has decreased, but still remained significant, in particular for Roma children. The use of a coherent monitoring and evaluation system to assess policy reforms in this field remains to be strengthened. In general, progress in implementing the measures set by the national strategic plans concerning Roma, people with disabilities and other socially excluded people is very slow. Also, the budgetary

commitments and resources allocated by the relevant ministries are inadequate. Overall, the absence of a resolute and coordinated approach continues to limit the effectiveness of the rights of people with disabilities, such as their access to health and special care and their social integration. Preparations in this area are at an early stage.

Little progress can be reported in the field of **social protection**. Reforms in the pension and healthcare systems are ongoing. Implementation of the Law on social protection, which provides for a mechanism for harmonising the social welfare benefit with the cost of living, was slow. Administrative capacity is still insufficient to develop a sustainable and equitable social protection system. Preparations in this area are moderately advanced.

There was partial progress in the area of **anti-discrimination**. A framework law has been enacted. The Law contains a list of grounds of prohibited discrimination, going partially beyond EU-required grounds. However, it omits 'sexual orientation' as a ground for protection. Furthermore, the scope of the exceptions from prohibition of discrimination is too wide. The Law establishes a commission for protection against discrimination, competent to receive and consider individual complaints. It will come into effect on 1 January 2011. The three-month time limit for complaints to the commission for protection against discrimination is overly restrictive. So far, no provisions have been made to give the commission sufficient administrative nor budgetary capacity and its members will not be remunerated. The Law remains to be fully aligned with the *acquis*. In practice, discrimination based on sexual orientation, ethnic origin and disability continues. The availability of statistics and other information on direct, indirect and multiple forms of discrimination is still very limited. In this area, preparations are at an early stage.

Little progress can be reported on **equal opportunities**. Not all the provisions of the Law on equal opportunities are fully implemented yet. As provided by the Law, a person in charge of dealing with complaints for unequal treatment was appointed within the Ministry of Labour and Social Policy.

The capacities of the equal opportunity commissions at local level have been strengthened, but remain insufficient. The capacity of the section for equal opportunities remains inadequate in terms of financial and human resources. The implementation of the national strategy for protection against domestic violence suffers from a lack of coordination, particularly at local level. Support for activities and initiatives aimed at combating discriminatory customs, traditions and stereotypes, is weak. The female employment rate remains very low at 29.4% compared to 59.1 % in the EU. The trends in the labour market are less favourable for women than for men.

### *Conclusion*

Little progress has been made in the area of social policy and employment. A framework anti-discrimination law has been adopted but it is not yet in full compliance with the *acquis*. Efforts to build a consensus on anti-discrimination failed. Tripartite and bipartite social dialogue continues to be weak. Inclusion of Roma, people with disabilities and other socially excluded people is slow. The overall administrative capacity is still insufficient. Preparations in this area are not very advanced.

## **4.20. Chapter 20: Enterprise and industrial policy**

Progress can be reported in the area of **enterprise and industrial policy principles**. The second phase of the regulatory guillotine project implemented 27 measures aimed *inter alia* at

making the operation of the customs terminals and border inspections more efficient, cutting paperwork and streamlining administrative procedures, and reducing fees and tariffs. A third phase of the project has started, focusing on the penalty policy. Regular meetings on issues related to impediments to business operations take place between the government and the business sector. The guidelines for regulatory impact assessment came into force and the civil servants involved in the development of legal acts received training on how to apply them correctly. However, some line ministries still do not carry out a broad stakeholder consultation and a detailed and systematic analysis of draft laws.

The 'think-small-first' principle is not embedded in the law and policy development in the country. The human resources and the public funding for operation of the SME Department and the SME Agency remain insufficient. In the area of enterprise and industrial policy principles, the country is moderately advanced.

Some progress can be reported in the field of **enterprise and industrial policy instruments**. The country started to benefit more from the EU Entrepreneurship and Innovation Programme. The 2010 annual programmes to support competitiveness, entrepreneurship and clusters networking were adopted, totalling about €0.49 million. This represents a reduction of about 40% in comparison to the budgets in 2009. The export promotion activities have been transferred to the Agency for Foreign Investments and its 2010 budget is about €5.7 million. In 2009 the agency spent significant resources to attract foreign investors, with little tangible results.

The Law on obligations was amended in order to ensure further transposition of the Late Payments Directive. Full transposition will be ensured over several phases. The National Centre for Development of Innovations and Entrepreneurial Learning was established as a public-private body. The Government secured a € 100 million loan from the European Investment Bank, which is being used to improve the SMEs' access to capital through loans, guarantees and interest rate subsidies. Preparations in the area of policy instruments are moderately advanced.

There has been some progress in the area of **sector policies**. The strategy for tourism development 2009-2013 was prepared. It sets the priorities for the development of tourism based on sustainable natural and cultural values. The implementation of the strategy is supported with a budget of about €0.5 million. A significant share of the funds is allocated to the programme to subsidise visits by foreign tourists. The Agency for Promotion and Support of Tourism was staffed and started to operate. The Ministry of Economy budgeted about €57,000 for the 2010 programme for the restructuring of the textile industry. In 2009, the mining and basic metal production sectors recorded a drop in production of 3.6% and 42.1% respectively compared to 2008, and a reduction in the number of employees of 13.8% and 19.7% respectively. In the area of sector policies, the country is on track with the EU obligations.

### *Conclusion*

There has been some progress in the field of enterprise and industrial policy. Good progress is achieved in reducing administrative barriers and operating costs of businesses. New bodies have been established and significant resources are devoted to their operation. There are a number of strategies and annual programmes for supporting enterprises and the SME sector

which need streamlining and proper public funding. Measures addressing traditional sectors received inadequate budgets.

#### **4.21. Chapter 21: Trans European Networks**

Limited progress can be reported in the area of **transport networks**. The country continued to participate in the South East Europe Transport Observatory and to implement the multi-annual plan for 2010-2014 of the Memorandum of Understanding on development of the core regional transport network. Construction works on the motorway section along corridor X near the border with Serbia (Tabanovce-Kumanovo) are well on track. The preparation of the IPA project for the corridor X motorway section is severely delayed and the procurement process has not started. Administrative capacity, especially technical expertise, needs to be significantly strengthened. Substantial financial resources to upgrade the transport network infrastructure are still needed. In this area, preparations are moderately advanced.

There has been progress in the area of **energy networks**. The 400 kV electricity interconnection line with Bulgaria was completed. The preparations for the construction of a new 400kV electricity interconnection line with Serbia advanced. Initial discussions for the construction of a new 400kV electricity interconnection line with Albania have started which represents one of the infrastructure priority projects endorsed by the Ministerial Council of the Energy Community. The project for the reconstruction and revitalisation of the existing transmission substations and interconnections has continued, and several elements have been completed. The feasibility study for priority gas interconnections was finalised. In the area of energy networks the country is moderately advanced.

There was some progress in the area of **telecommunications networks**. The country has signed up to the information and communication technologies component of the Competitiveness and Innovation Framework Programme.

#### *Conclusion*

Some progress was made in the area of trans-European networks. The country is continuing to participate actively in the South East Europe Transport Observatory and the Energy Community. Procurement for the corridor X IPA co-financed project is significantly delayed. Preparations in this area are moderately advanced.

#### **4.22. Chapter 22: Regional policy and coordination of structural instruments**

No relevant progress has been made in the **legislative framework**. Further alignment is needed to ensure that Cohesion Policy can be implemented in respect of Community legislation and policies. Legislation needs to be put in place which allows for multi-annual programming and budget flexibility. In this area, preparations are moderately advanced.

There has been uneven progress in the **institutional framework**. In October 2009, conferral of management was granted under the Operational Programme for human resources development. The efficiency of the operating structure of the IPA human resources development programme has improved. Inter-ministerial coordination within the operating structure of the IPA regional development programme needs to be further strengthened. Continuous efforts are needed in the preparation and implementation of projects and operations under IPA Component III due to the longer period necessary for preparation of mature projects, the technical and financial complexity of the operations and the number of



preliminary steps that need to be undertaken before commencing major infrastructural works. Preparations in this area are moderately advanced.

Progress has been uneven in the area of **administrative capacity**. The implementation of the IPA human resources development programme is progressing well. However, the implementation of the regional development operational programme is significantly delayed. The administrative capacity of the national structures dealing with IPA Component III, and in particular of the relevant line ministries, needs further strengthening. Recruitment of technically knowledgeable staff with project management experience and well targeted training would contribute to improvement of the technical expertise within the ministries. In this area, the country is not yet sufficiently prepared.

In the area of **programming**, limited progress has been made. The national authorities have presented proposals for revision of IPA operational programmes for regional development (component III) and for human resources development (component IV). Administrative capacity in the area of programming and project preparation needs to be strengthened. Preparations in this area are advancing.

There has been limited progress in the area of **monitoring and evaluation**. Sectoral committees to monitor the operational programmes are functioning. The administrative capacity of the units for monitoring and evaluation of the line ministries needs to be improved. Preparations in this area are moderately advanced.

Some progress can be reported in the area of **financial management and control**. Administrative capacity, in terms of the necessary staff and training, has improved but not sufficiently. Preparations in this area are advancing.

### *Conclusion*

Some uneven progress can be reported in the area of regional development and coordination of structural funds. The implementation of the operational programme for human resources development is on track, while the implementation of the IPA regional development programme is delayed. The administrative capacity in the line ministries, in particular technical expertise, needs to be strengthened. It is also necessary to strengthen project preparation in order to ensure future absorption of IPA funds.. Overall, preparations in the area of regional policy and coordination of structural instruments need further effort and improvements.

### **4.23. Chapter 23: Judiciary and fundamental rights**

There was limited progress in the reform of the **judiciary**.

The Judicial Council and the Council of Public Prosecutors had a mixed record in securing the *independence* of the judiciary. Among 54 graduates from the first and second generation from the Academy for Training of Judges and Prosecutors (ATJP), 39 were recruited into the judiciary. Since September a total of 68 judges were recruited, as well as 12 new presidents of courts. Out of 26 judges recruited for higher courts 22 came from the judiciary. The principle of equitable representation is respected by both councils.

The Judicial Council made some further efforts to combat corruption and ensure *impartiality*, dismissing 6 judges for abuse of office. Legal amendments were adopted to provide for a

unified salary system for judges, prosecutors and members of the judicial council and the council of public prosecutors.

However, the role of the Minister of Justice within the Judicial Council and the Council of Public Prosecutors raises serious concerns about the interference of the executive power and political control in the work of the judiciary. Controversial dismissals and undue interference by the Minister of Justice indicate that the current system is not in compliance with European standards.

The Constitutional Court abolished the rulebooks on assessment of judges' performance; on disciplinary liability of judges; and on the manner for determining unprofessional performance of office, as they were defined through implementing legislation instead of the law. Further efforts are needed to ensure that the assessment of judges' professional ability is not made primarily on the basis of quantitative criteria, such as reversal rates of judgements, but also on qualitative criteria in line with Council of Europe recommendations.

As regards *professionalism and competence*, a new law on ATJP was enacted in July aiming inter alia to further define the criteria on selection of judges. The third intake of 17 students at the Academy for Training of Judges and Prosecutors (ATJP) completed the theoretical part of the training and started the practical part. It was determined that the fourth intake would be reduced to 9 students only, which reduces the role of the ATJP in providing the initial training of magistrates. The ATJP provided continuous training to almost 7000 participants in over 240 events.

Efforts continued to improve the *efficiency* of the judiciary. The 2009 budgets for the courts and for the Public Prosecutor's Office were slightly increased (by 1%). The court budgetary council enabled a higher rate of absorption of the funds allocated to the courts. Most of the basic courts maintained the trend of reducing their backlog. The council of judicial administration established a register of employees in court administration. The number of employees in the judicial administration increased slightly. The Automated Court Case Management Information System (ACCMIS) is fully implemented in all courts. The courts published nearly 34,000 decisions. The facilities of two more basic courts, and of the court of appeal in Gostivar were improved. However, the law on enforcement was amended in July, extending the deadline for transfer of over 600,000 enforcement cases from the courts to bailiffs to 2011; this has delayed reduction of the backlog in courts.

The judicial inspections by the Ministry of Justice have revealed improved results regarding general courts' performance. Regular supervisions were performed on the work of notaries and bailiffs. As a result 7 notaries were fined, and 15 disciplinary procedures were initiated against bailiffs.

Inclusion of the graduates from ATJP in judiciary was delayed due to the continued absence of a comprehensive human resource management system and lack of interest from graduates to apply for positions outside Skopje and other major cities. There is no mandatory ATJP programme for magistrates recruited directly from the legal professions.

The number of enforcement agents is insufficient, leading to delays in enforcement of decisions. The law on mediation is applied infrequently, with only 12 new cases. Delayed amendments to the law on criminal procedure are hampering the full implementation of the 2007 law on the public prosecutor's office. The system of appeals to the decisions of the Administrative Court remains to be introduced.

The budgetary constraints do not allow for sufficient staff in the courts and prosecutors' offices. The budget of the ATJP decreased by 2.3% compared to 2009. The Council of Public Prosecutors lacks staffing and equipment and its budget is still a part of the budget for Public Prosecutor's Office.

Overall, the backlog of cases in courts in 2009 was approximately 15% lower than in 2008. However, the four courts of appeal, the administrative court and certain major basic courts including Skopje 2, were not able to reduce their backlogs. With more than 900.000 cases pending before the courts, substantial further efforts are needed to reduce the backlogs.

The Council for Judicial Reform, chaired by the Minister of Justice, has not met since May 2009. The Ministry of Justice remained understaffed including in priority departments. Further efforts are needed to establish reliable and comprehensive statistics on the implementation of judicial reform. The Public Prosecutor's Office needs access to internet and intranet.

Overall, limited progress was made in judicial reform, a key priority of the Accession partnership. Budget management was improved. The backlog of cases in courts was somewhat reduced. However, the absence of a comprehensive human resources management plan has led to the weakening of the Academy for Training of Judges and Prosecutors, as the principal source of recruitment in the judiciary. Continued efforts are needed to ensure the independence and impartiality of the judiciary through the proper functioning of the Judicial Council and the Council of Public Prosecutors. Lack of reliable and consistent data on court cases hampers a thorough assessment on the real effects of judicial reform and the definition of remedial strategies. In this area, the country is moderately advanced.

Some progress can be reported in the area of **anti-corruption policy**. From the first Group of States Against Corruption (GRECO) evaluation round twelve out of thirteen recommendations have been implemented. Further steps were taken to implement the GRECO recommendations from the second round of evaluations thus leading to the fulfilment of all 14 recommendations. The third GRECO evaluation round covering the financing of political parties and incriminations was finalised and the GRECO reports were released in August 2010. These comprise 13 recommendations.

The amendments to the Criminal Code are applicable since March 2010 as regards the criminal liability of legal persons, introducing illicit enrichment, abuse of public procurement procedures, the complementary penalty of interdiction of the exercise of profession and fraud to the detriment of EU funds. A law on public servants was enacted which sets up a regulatory framework for public officials other than civil servants.

Large scale police operations led to the arrest of more than 60 police officers from three border crossing points and more than 35 doctors and officials from the Pension and Disability Insurance Fund charged with corruption offences. First instance convictions to imprisonment have been rendered for 44 of the border police officers. The number of suspended imprisonment sentences dropped to 2% in 2009 as compared to 48 % in 2008. Some additional training activities on confiscation and seizure were carried out for judges, public prosecutors and law enforcement agents. Since 2007 until 2009 the ordered confiscations and seizures showed a slightly increasing trend. However, the number of cases in which seizure or confiscation of assets were ordered remains low. Also, the majority of prosecuted corruption cases are for abuse of official position while prosecutions concerning other corruption offences such as bribery are scarce.

The capacity of the specialised unit on interception of communications within the Organised Crime Department of the Ministry of Interior was strengthened. The interception equipment is now separate from the one of counter-intelligence service. The Basic Prosecutor's Office for the Fight against Organised Crime and Corruption filled in most of its prosecutorial positions and was structured into two separate departments: one for offences against official duties and other for violent offences and another for offences against human rights, human health, public order, humanity and international law.

In 2009, the Sector for Internal Control and Professional standards within the Ministry of Interior brought 36 criminal charges against 50 police officers for 44 criminal offences of which 36 were corruption related (40% less than in 2008).

In 2009, the State Commission for Prevention of Corruption (SCPC) adopted a programme for training the trainers in the public administration on conflict of interest related matters and held 9 training sessions for judges, public prosecutors and civil servants on conflict of interest. 63 conflict of interest cases were initiated in 2009 and 50 were completed. In 20 cases conflict of interest was found. The SCPC adopted a template for the declarations of interest. Only 1,708 elected and appointed officials (i.e. approximately 50%) submitted their asset declarations within the deadline prescribed by the law and 3,223 by the end of July 2010. The SCPC initiated 40 misdemeanour procedures against the elected and appointed officials who failed to submit the declarations of interest and 217 against local self government officials. Also, the checks are not systematic. Thus a track record of implementation remains to be established.

In 2009 SCPC initiated 58 misdemeanour procedures for failure to submit asset declarations. 16 fines were imposed, 8 misdemeanour warnings were applied and 5 cases were dismissed. The Office for Prevention of Money Laundering and Financing of Terrorism gained access to the database storing the asset declarations of elected and appointed officials within the SCPC. The SCPC submitted 29 requests to the Public Revenue Office (PRO) in 2009 for checking asset declarations of elected and appointed officials. In 48% of these cases the procedure is ongoing, 12 cases were dismissed and in 2 cases of two municipality mayors the PRO taxed to 70% the unjustified wealth. Upon its own initiative, PRO opened 6 cases in 2009 of which three were dismissed and in the other three 70% taxation of unjustified wealth was applied. The SCPC took some steps to address the remaining backlog of cases and in 2009 increased the rate of processing complaints with 60% and the rate of completed cases with 46% as compared to 2008.

Cooperation among law enforcement agencies further improved. Two more institutions (i.e. the Broadcasting Council and Securities Exchange Commission) joined the anti-corruption cooperation protocol, bringing the number of signatories to 17. Further steps were taken to set up the National Intelligence Database, including the securing of the necessary funds.

The country moved one rank up in the Transparency International Corruption Perceptions Index 2009. Progress was registered in the publication of court decisions.

However, corruption remains a systemic problem. The track record in processing cases including high level corruption cases remains to be consolidated. First instance court decisions in the five high level corruption cases in which the defendants (i.e. a former prime minister, a former minister of defence, a former governor of the National Bank) had been convicted to imprisonment were overturned due to procedural errors in first instance and sent back to the lower court for the re-opening of procedures.

The concerns regarding independence of the judiciary weaken the capacity of the judiciary to deal with sensitive high level corruption cases. The limited capacity of the Criminal Law Section in the Skopje Court of Appeal was further weakened by the suspension of more than half of its judges for disciplinary procedures. Two of the judges who underwent disciplinary procedures were dismissed by the Judicial Council and the other three returned to the Court after three months. The joint trainings organised for prosecutors and judges on investigative measures and administration of evidence in corruption and organised crime cases are still insufficient.

The legislative framework on interception of communications foresees approval by the minister of interior of each interception order. The legislation is silent on the use of environmental interception (i.e. placing of microphones and/or video cameras in a given environment) and leads to inconsistent interpretation in practice of the required level of authorisation.

The vast majority of the corruption cases prosecuted and brought before courts are for abuse of official position, while the cases of typical corruption offences (e.g. bribing, trading influence) are scarce. The penalties applied by the courts tend to be lenient. The decisions of the public prosecutors for non-indictment are not being reviewed by a judge, thus creating a potential risk for outside interference in the high level or political corruption cases.

Unsatisfactory steps were taken to prepare for the entry into force of provisions of the Criminal Code concerning enforcement agents. Also, the provisions on illicit enrichment have not been implemented. The number of support staff of the Basic Public Prosecutor's Office for Fight against Organised Crime and Corruption remains insufficient. The Anti-corruption Unit within the Organised Crime Department of the Ministry of Interior has only 50% of its organisational chart appointed. The human resources capacity of the Sector for Internal Control and Professional Standards within the Ministry of Interior is low. There is insufficient specialisation of law enforcement agents and judiciary at local level, notably on petty corruption. The number of dissuasive disciplinary sanctions and criminal charges brought against customs officers for corrupt behaviour slightly decreased. The Agency for Managing Confiscation of Assets has insufficient human resources and financial capacity to fully perform its tasks.

No sanctions have been applied to the political parties which breached the rules on financing. VMRO, SDSM and DUI submitted their reports a year after the deadline. No prosecutions have been registered so far in the cases concerning expenditure in electoral campaigns. The GRECO recommendation regarding guidelines on requests for lifting immunity for members of parliament is still not implemented.

The recent amendments to the law on conflict of interest introducing the officials' obligation to submit a declaration of interest were not effective. The declarations of interest are treated as confidential and the responsible institutions only register them without carrying out any checks. No convincing track-record on checking asset declarations for elected and appointed officials has been established. The asset declarations for officials who have not been elected or appointed are confidential and are not being checked on substance.

The number of petitions submitted to SCPC decreased in 2009 by approximately 31% as compared to 2008. The level of public trust in the SCPC's independence and impartiality continues to be low. The SCPC continues to be more reactive than pro-active, acting mainly upon complaints.

The number of complaints submitted to the National Commission for Protection of the Right to Public Interest Information dropped significantly (50%). Information related to public expenditure continued to be subject to various exceptions provided by the law.

Overall, some progress was made on anti-corruption policy. The track record on high-level corruption cases remains to be consolidated. The preparation of the entry into force of new Criminal Code provisions, like those on illicit enrichment, was insufficient. The new legislation on conflict of interest and financing of political parties have shown little results so far. The asset declarations are not being properly checked on substance and the declarations of interest are not being checked at all. The country partially meets its priorities in this area.

Limited progress has been made in the area of **fundamental rights**. (*See also under Political criteria, and Chapter 19: Social policy and employment.*)

The number of complaints received in the Ombudsman's office in 2009 amounted to 3,632 which represents an increase of 20%. Violations were found in 30% of cases. The highest number of the violations was in the area of property rights (20%), followed by labour relations (12%, of which many among them coming from the civil servants in the local self-government units in the aftermath of the local elections); judiciary (9.6%); and violation of consumers rights (8.7%). The responsiveness of the competent institutions to the recommendations of the Ombudsman decreased to 71% compared with 84.4% in 2008. The second instance Government commissions were again the least responsive to the Ombudsman's instructions, followed by the Ministry of Interior – notably the units for Border control and migration, and for status rights of the citizens.

As regards the *prohibition of torture and inhuman or degrading treatment or punishment*, there was progress in the long-term planning for construction and rehabilitation of prisons. The strategic plans have yet to undergo a proper prioritisation and a balance among the short-, medium- and long-term measures. The conditions in some prisons remain of serious concern. Investigation and prosecution of allegations of ill-treatment are still insufficient. The lack of budgetary resources jeopardised regular functioning of the newly established unit on combating torture in the Ombudsman office.

With regard to *respect for private and family life* the Directorate for personal data protection continued with its satisfactory performance. Amendments to the law on personal data protection were adopted in order to strengthen the position of the Directorate and to improve the implementation of the law. Capacity building activities are underway. However, the Directorate received a reduced budgetary allocation. Also, there is no reference in the law to any form of judicial intervention.

Some progress was registered in the field of *freedom of thought, conscience and religion*. Under the law on the legal status of churches, religious communities and religious groups, registration was completed for 27 religious entities, with no pending applications.

With regard to *freedom of expression, including freedom and pluralism of the media*, the legal media policy framework is satisfactory, but its implementation has been uneven. The collection of the viewing license fee has started to improve but the sustainable funding of the public broadcaster and the Broadcasting Council still needs to be secured. The ownership of the print media is still highly concentrated and the concentration and transparency rules should be fully applied in the audiovisual media. The number of libel charges and

intimidations against journalists multiplied and the media continue to be subject to interference from political and business interests. (See also Chapter 10).

Some further progress was registered in *freedom of assembly and association, including the right to form political parties and the right to establish trade unions*. The registrations process required under the amended law on labour relations was completed for 33 active trade unions and 6 employers' associations. The newly enacted law on citizens' associations and foundations allows for a wider practice of the right of association. However, there are concerns with regard to the procedure for obtaining a status of public benefit organisation.

Limited progress can be reported in treatment of *socially vulnerable and persons with disabilities, and the principle of non-discrimination*. The 2010-2018 National Strategy on Equality of Rights of People with Disabilities was adopted, and the process of deinstitutionalisation continued. However, the access to health and special care, and social integration of people with disabilities continues to be limited. There was uneven progress in the area of anti-discrimination. A Framework law on anti-discrimination has been enacted but the Law omits "sexual orientation" as grounds for discrimination. Also, the nature and competences of the equality body do not meet the Paris principles and the Law is not fully aligned with the *acquis*. The Commission for Protection Against Discrimination is composed of only 7 members and does not have a secretariat. Independent performance of the tasks by the Commission should be guaranteed.

There was little progress as regards the *right to education*. The number of enrolments to the secondary schools has increased; however, there is large absenteeism among pupils as well as drop-outs. Drop-outs are higher before the completion of primary education. Literacy is low with a substantial number of pupils in the country having low standards in reading and 50% of the population at most having completed primary education. Large funds have been invested in education infrastructure; however, high regional disparities still remain in access to education.

The guarantee for the *right to property* has been further ensured with the establishment of the cadastre for over 97.5% of the country's territory. Still, full respect is hindered by the protracted process of restitution of property confiscated during the socialist period. The Ombudsman's Office found unjustified delays in several procedures for restitution of property. The changes to the law on denationalisation, in force since June, foresee compensation, instead of returning of property in cases where the procedure has lasted longer and legal and factual problems have occurred. The amended law foresees an appeal procedure with the Administrative Court.

Some limited progress is registered in *gender equality and women's rights*. The law on equal opportunities between men and women is being implemented. A Mediator for treatment of complaints has been appointed and her mandate and a public campaign are in preparation. The compulsory annual reporting has improved. The participation of women in politics remains limited at local level. A few actions targeting Roma women have been implemented, while nothing has been done to address women rights in the rural areas. Implementation of 2008-2011 strategy on combating domestic violence has continued, although the national coordination body has a weak monitoring capacity.

With respect to the *rights of the child*, the law on protection of children has been amended. An updated Action Plan for the implementation of juvenile justice law covering the period 2010 – 2012 was developed. However, the standards and protocols for the implementation of the law

on juvenile justice are not yet in place and the mechanisms for monitoring its enforcement are not effective. The provisions of the international instruments and obligations continue to be largely unapplied. The Council of Europe Convention on the Protection of Children against sexual exploitation and Sexual Abuse is still not ratified. The number of reported cases of physical and sexual abuse has increased, but its real size remains unknown. Children with disabilities, street children and children from marginalised communities remain the most vulnerable groups.

With regard to *liberty and security* and *right to a fair trial*, the law on legal aid in all court and administrative procedures was enacted in December. Its application started in July, except of few provisions which will be applying after 1 January 2012, and a few more upon the country's accession to the EU. Further efforts are needed to strengthen the witness protection system.

Little progress was made on *minority rights and cultural rights*. The legislative framework for protection of non-majority communities is largely in place, but its effective implementation is yet to be ensured, together with a full respect of the spirit of the Ohrid Framework Agreement. Some progress was made in implementing the strategy for equitable representation of non-majority communities in the public sector. However smaller communities, notably Roma and Turks, remain at a disadvantage. The implementation of the Roma Strategy and the four action plans of the Decade of Roma Inclusion continued to be delayed due to insufficient budget and inadequate institutional capacity. Further efforts are needed to improve access of the Roma to identification documents.

There were no developments in relation to **EU citizens' rights**.

Limited progress was made in safeguarding fundamental rights. While the legislative framework is broadly in place no sustained efforts were taken for its implementation. Much remains to be done for both promotion and protection of human rights. Limited funding hinders the establishment, staffing or functioning of the institutions. The situation is even more acute at the local level. In this area, the country is moderately advanced.

### *Conclusion*

There has been limited progress in reform of the judiciary and in safeguarding fundamental rights and some progress in addressing corruption. Budget management of the courts was improved and the backlog of cases was somewhat reduced. However, the absence of a comprehensive human resources management plan has led to the weakening of the Academy for Training of Judges and Prosecutors, as the principal source of recruitment in the judiciary. Continued efforts are needed to ensure the independence and impartiality of the judiciary through the proper functioning of the Judicial Council and the Council of Public Prosecutors. Lack of reliable and consistent data on court cases hampers a thorough assessment on the real effects of judicial reform and the definition of remedial strategies.

The track record on high-level corruption cases remains to be consolidated. The preparation of the entry into force of new Criminal Code provisions, like those on illicit enrichment, was insufficient. The new legislation on conflict of interest and financing of political parties had shown no results so far. The asset declarations are not being properly checked on substance and the declarations of interest are not being checked at all. As regards fundamental rights, while the legislative framework is broadly in place further sustained efforts are needed for its implementation. Much remains to be done for both promotion and protection of human rights.



Overall, the country is moderately advanced in this area.

#### **4.24. Chapter 24: Justice, freedom and security**

Some progress has been made in the area of **migration**. Amendments to the Law on employment of foreigners have been enacted with the aim of easing the procedure for obtaining employment permits for self-employed foreigners. The government has adopted an action plan for the implementation of the resolution on migration policy 2009-2014 and the national migration profile for 2009. An action plan for the implementation of the national strategy for integration of refugees and foreigners 2008-2015 has also been adopted. The former Yugoslav Republic of Macedonia has continued to share statistical data on irregular migration with Albania, Bosnia and Herzegovina, Croatia, Montenegro and Serbia and to participate in the regional early warning system. In the period September 2009-September 2010, 1275 irregular migrants have been detected, of whom 1155 have been returned. The EU readmission agreement has continued to be implemented smoothly. 697 persons were received in accordance with the EU readmission agreement and bilateral agreements. The government has adopted programmes for the reintegration of readmitted persons and created a centre for this purpose. The strategy for integration of refugees and aliens is not fully implemented.. The central database for aliens, covering asylum, migration and visas, is still being developed. The Ministry of Labour and Social Policy continues to lack sufficient human and budgetary resources. In this area, the country is well advanced.

Good progress has been made in the area of **asylum**. Further amendments to the Law on asylum and temporary protection have brought it closer to the EU *acquis* and international standards. The transition from humanitarian to subsidiary protection has been completed. Eligible persons previously under humanitarian protection have been, with few exceptions, all granted subsidiary protection and identity documents with a validity of at least one year. The reception conditions in the centre for asylum-seekers in Vizbegovo are satisfactory. In the period September 2009-September 2010 97 asylum-seekers were accommodated in the centre. As of March 2010, the national authorities have the responsibility to provide monthly financial assistance to recognised refugees and persons under subsidiary protection. The Administrative Court has continued to render its decisions on asylum cases mainly on procedural rather than substantive aspects, and without hearing the applicant. Further efforts are needed to ensure full implementation of the new legal framework and to provide persons of concern with the relevant information on procedures, access to education, health care and timely financial assistance. Free legal assistance is not provided by the state and appointment of legal guardians of unaccompanied minors remains an issue. The administrative capacity of the section for asylum in the Ministry of the Interior and coordination with the other competent institutions are not adequate. In this area, the country is advanced.

There has been good progress in the area of **visa policy** and the wider framework of the visa liberalisation dialogue. Visa-free travel to the Schengen area entered into force in December 2009 for holders of biometric passports, after the country had fulfilled the requirements of the visa liberalisation roadmap. The authorities have reacted swiftly to the sudden surge, at the beginning of 2010, following the entry into force of the visa-free regime, of emigrants from the country who have introduced ill-founded asylum claims in Belgium and several other Member States. A high-level committee has been established, urgent measures were taken and more effective public messages were delivered. As a result, the trend was reversed in the first half of 2010. However, a new rise in asylum applications was registered in August and September. Efforts to address this issue are ongoing.

However, the authorities need to continue informing citizens about the rights and obligations stemming from visa-free travel. The national visa system N-VIS is fully functional and in use. 44 out of 45 diplomatic and consular missions of the country, together with eight border crossing points and the employment agency, are connected to N-VIS. More than 950.000 biometric travel documents have been issued so far. The country has not yet fully aligned its legislation with the EU negative and positive lists and in particular maintains a visa-free regime with neighbouring countries in the interest of a regional approach. In this area, the country is well advanced.

Good progress can be reported in the field of **external borders and Schengen**. The border demarcation process with Kosovo has been completed and a police cooperation agreement, including the possibility of joint border police patrols, has been signed with the Kosovo authorities. The country has maintained good cooperation with Frontex on the basis of the working arrangement and participates in the Frontex developed Western Balkans Risk Analysis Network. An upgraded strategy for integrated border management and the relevant action plan have been adopted for the period 2009-2013. Training is delivered on the basis of common EU standards. A border police mobile unit for inland detection of irregular migrants has been established. The first phase of implementation of the TETRA radio communication system has been completed. The risk analysis strategy and the standard procedures for ensuring risk analysis that have been adopted are not yet fully implemented. There is still no central database of false and genuine documents and no central database of specimen documents. The border police continue to lack adequate technical equipment and budgetary resources, in particular for border surveillance. Police stations responsible for border surveillance still have no access to the database of the Ministry of the Interior. Preparations in the area of external borders and Schengen are advanced.

Some progress can be reported in **judicial cooperation in civil and criminal matters**, especially in the implementation of previously ratified agreements. The Ministry of Justice has processed more than 400 requests (issued or received) in criminal matters. Training has been organised for law professionals on implementation of the main international instruments for cooperation in civil matters. Three bilateral agreements are negotiated with Kosovo on mutual assistance in criminal matters, extradition, and transfer of convicts. The agreement with Eurojust has entered into force on 23 June 2010. In this area, the country is moderately advanced.

There has been progress in the area of **police cooperation and the fight against organised crime**. In October 2010, an agreement establishing a regional office for improving cooperation in the fight against organised crime was signed with Albania, Bosnia and Herzegovina, Croatia, Montenegro and Serbia. An international law enforcement coordination unit has formally been established. The Second Additional Protocol to the European Convention on mutual assistance in criminal matters is being implemented, in particular with regard to the enforcement of special investigative measures in organised crime cases of smuggling of migrants and trafficking in drugs. 23 international arrest warrants have been executed in the country in 2009. Police reform has registered further progress. The Ministry of the Interior has adopted most of the necessary implementing legislation and has established working groups for monitoring its implementation. The Systematisation Act that will introduce a merit-based career and appraisal system remains to be adopted. (*See also Section 2 — Political criteria*)

Amendments to the Criminal Code have entered into force, increasing the level of penalties for certain offences and allowing the use of special investigative measures in more cases.

Moreover, the amendments have introduced new criminal offences, in particular in the area of criminal liability of legal persons, and increasing penalties for crimes perpetrated in the framework of a criminal association, such as cyber crime, economic crime, corruption, child pornography, trafficking in human beings, terrorism. Extended confiscation for organised crime, money laundering and terrorism-related offences has also been introduced in the Criminal Code. The training of law enforcement agents, prosecutors and judges organised so far on the new provisions of the Criminal Code, including crucial issues such as extended confiscation and illicit enrichment, has been far from sufficient.

In 2009, the witness protection programme has been activated in three cases. However, the witness protection unit has inadequate premises and equipment. The measures taken to ensure compensation of victims of organised crime were not sufficient.

The scope and the quality of the analysis carried out by the criminal intelligence and criminal analysis units within the Ministry of the Interior has increased significantly (e.g. 87.5% increase in the number of analyses carried out in 2009 as compared to 2008). However, the national intelligence database will not become operational before the end of 2012. The operational cooperation agreement with Europol has not yet been signed. The agreement is urgently needed in order to enable operational cooperation with Europol enhancing the effectiveness of the fight against organised crime, terrorism and other forms of serious crime.

Further steps have been taken with a view to staffing and equipping the sector for special investigative techniques of the department for organised crime. All interception orders are now enforced by this sector with equipment separate from the office for security and counter-intelligence. Amendments to the Law on electronic communications have been enacted, including technical provisions on the obligations of the telecommunication operators regarding the implementation of interception orders. The implementation of the Law on interceptions has strengthened the effectiveness of investigations. However, the direct involvement of the Ministry for the Interior in authorising the use of interceptions is against EU standards. Moreover, the external oversight mechanism needs to be strengthened. The customs administration and the financial police do not enforce special investigative measures orders, even if the Criminal Procedure Code allows them to do so. The case-law and the law enforcement agents' interpretations of the legal concept of organised crime remain inconsistent.

In the area of the fight against cyber crime, the amendments to the Criminal Code introducing new offences in the area of skimming, child pornography, xenophobia and racism on the internet have entered into force. First investigations of the new criminal offences have been initiated. However, only limited steps have been taken for the implementation of the sixth action-oriented measure for the fight against organised crime.

Overall, the staffing of the organised crime unit within the Ministry of the Interior has reached a level of only 65% of the total number of posts in the organisational chart. The effectiveness of the organised crime department is hampered by insufficient staffing of the units for criminal analysis and special investigative techniques. The administrative capacity of the cyber crime unit also remains insufficient. Overall, the numbers of specialised law enforcement agents at regional and local level are not sufficient.

Some progress has been made in the fight against trafficking of human beings. Amendments to the Criminal Code provisions on trafficking in human beings and smuggling of migrants for cases where juvenile victims are concerned have entered into force. An updated national

strategy for combating trafficking in human beings and irregular migration, a corresponding action plan with secured budget covering the period 2009–2012 and an action plan for combating trafficking in children for 2009–2012 have been adopted. A decision has been taken to set up a national shelter for admission and care of victims of trafficking. In addition to domestic victims, it will host foreign victims with a temporary residence permit. Intensive training of law enforcement agents took place to improve identification skills (not many victims have been identified), referral and coordination structures for victim protection.

However, a decrease of about 20% in discovered cases of human trafficking and 34% in cases of smuggling of migrants has been noted in 2009 as compared to 2008, following the general trend in the region. In 2009, 17 persons have been prosecuted for trafficking of 8 victims, including 7 minors. Court proceedings are ongoing for these cases, but there have not been any convictions in 2009. Detection of labour exploitation cases remains a challenge and further joint training for labour inspectors, law enforcement agents, prosecutors and the judiciary is needed. More efforts are needed in order to protect victims and facilitate their reintegration into society. Despite considerable challenges in the area of police cooperation and the fight against organised crime, the country is advanced.

Good progress can be reported in the **fight against terrorism**. Amendments to the Criminal Code which have extended the definition of terrorism and have included new criminal offences related to this area in line with the Council of Europe Convention on prevention of terrorism and the Council Framework Decision on combating terrorism have entered into force. The Law on internal affairs has defined more precisely the competences of the Office for Security and Counter-Intelligence. Amendments to the Law on the fight against money laundering and financing of terrorism have been enacted. A programme for national security and the fight against terrorism covering the period 2009–2011 has been adopted. Bilateral and multilateral cooperation has continued to improve. In 2009, two suspicious transactions specifically related to financing of terrorism have been reported to the Anti-Money Laundering Office, but have not led to a referral to the public prosecutor. Preparations in this area are well advanced. The overall statistics for money laundering are still missing.

Progress is noted in the **fight against drugs**. Implementation of the new action plan covering the period 2009–2012 is ongoing. In 2009, drug seizures have followed an increasing trend in terms of quantity, including a number of police operations by which some international channels of the Balkan route for trafficking in drugs have been eradicated. However, the country remains on one of the main Balkan drug trafficking routes. The human resources capacity of the Ministry of the Interior and the level of coordination between central, regional and local levels are insufficient. The country largely meets the *acquis* requirements.

Good progress has been made in the area of **customs cooperation**. The customs administration has participated in several international operations for detecting illicit trade and coordinated eleven of them. Cooperation and exchange of intelligence data with the customs administrations of neighbouring countries has been intensified, in particular with Bulgaria, Serbia and Kosovo, aimed at facilitating the movement of goods and passengers, boosting effectiveness in preventing and detecting illicit trafficking and tackling cross-border crime. The Customs Administration has hosted the annual World Customs Organisation Conference of the European region, which has discussed the enhancement of the fight against counterfeiting and piracy. Cooperation with the South-East European Cooperative Initiative and the Regional Intelligence Liaison Offices has been pursued further and information on seizures and intelligence data has been exchanged on a regular basis. Preparations in this area are on track.

Limited progress can be reported in the fight against **counterfeiting of the euro**. 357 banknotes have been seized in 2009, compared to 380 banknotes in 2008. Some training has been organised in the area of detection of forged banknotes, but overall investigative capacity remains weak.

#### *Conclusion*

Good progress can be reported on asylum, visa policy, external borders and Schengen. The increase in asylum seekers that arose in the first period of implementation of the visa-free regime is being addressed. Some progress has been achieved on migration. The authorities need to continue informing citizens about the rights and obligations stemming from visa-free travel. The implementation of police reform has continued and international police cooperation has improved. However, the role of the Ministry of the Interior in the procedure for enforcing interception orders needs to be addressed. The national intelligence database and the national coordination centre for the fight against organised crime have not yet been set up. The administrative capacity of some specialised units within the organised crime department of the Ministry of the Interior needs to be strengthened. Overall, preparations in this area are well on track.

#### **4.25. Chapter 25: Science and research**

Little progress can be reported in the area of **research policy**. The 2010 programmes for scientific research activities, technological development and technical culture were adopted. The 2010 budget for the programme for research and technological development maintained at the 2009 level. Financial resources are still limited and the capacities of the research facilities remain weak. Preparations in this area are moderately advanced.

Good progress is being made as regards the country's participation in the **framework programmes**. The number of applications and the projects selected and funded under the *Seventh EU Research Framework Programme (FP7)* increased. However, participation needs to be strengthened in a number of key areas, including mobility of researchers and SMEs. Moreover, the administrative capacity needs to be strengthened in order to ensure effective and sustainable participation in EU research cooperation. In this area, preparations are advanced.

Some progress can be reported in the area of future integration into the **European Research Area**. Representatives were appointed to the three main European research bodies: the European Research Area Committee, the European Strategy Forum on Research Infrastructures, and the Steering Group on Human Resources and Mobility. The law establishing a National Agency for Nuclear Technologies was adopted. The law creates a legal basis for strengthened cooperation with the European Organization for Nuclear Research (CERN). Funds were allocated to procure equipment for universities and laboratories. However, the investment in research, from both the public and the private sector, remains low (estimated at 0.5% of GDP in 2009). The lack of reliable statistics makes implementation and monitoring difficult. A strategy on research and innovation is still missing. Preparations in this area are moderately advanced.

#### *Conclusion*

Some progress can be reported in the area of science and research. The rate of participation in the *Seventh EU Research Framework Programme* has increased. However, the administrative capacities to support participation in the framework programmes need to be further

developed. To strengthen participation in framework programmes, the research institutes need to enhance their capacities and develop stronger links with industry. Preparations in the area of science and research are on track.

#### 4.26. Chapter 26: Education and Culture

There has been limited progress in the field of **education, training and youth**. The education reform process continued in line with the national education strategy for 2006–2015. An external performance assessment of pupils was established. New subjects, such as ethics, entrepreneurship, media and the environment, were introduced in schools. Implementation of the Bologna process in higher education continues. The council for adult education adopted the adult education strategy in the context of lifelong learning, and efforts have been made to develop a national qualifications framework (NQF). The country improved notably its performance in all the areas in which EU-level benchmarks have been set for 2010 and 2020, although it remains in general far below the EU average, in particular for participation in early childhood education and adult participation in lifelong learning. The country performed well concerning upper secondary school completion rates. Several local youth strategies were developed. However, resources are inadequate to implement the education strategy. High regional disparities in access to education remain.

There is limited interaction between members of ethnic communities. The first integrated bilingual secondary school started classes in September in Preljubiste. This donor-funded project allows for integrated bilingual education three times a week, in addition to extra-curricular activities. The integration of Roma students in secondary education remains a challenge. Training for teachers continues to be poor.

There was a setback regarding the country's participation in the Lifelong Learning and Youth in Action programmes. The managing board of the national agency was dismissed and the national agency's director resigned following allegations on conflict of interest. An audit by the Ministry of Education and an external audit detected irregularities in the management of funds. A new managing board and a new director have been appointed. The Ministry of Education and Science has not yet set up an effective control system assuring the proper functioning of the national agency and ensuring that the management of EU funds complies with all applicable rules and high standards of ethics and integrity. As a result, the Commission has suspended the preparatory measures for the Lifelong Learning Programme and the Youth in Action Programme. Preparations in the area of education, training and youth are moderately advanced.

Some progress can be reported in the field of **culture**. The country continued to participate in the Culture and in the Europe for Citizens programmes. The Ministry of Culture adopted strategies for the digitisation of cultural heritage and for the development of creative industries. Preparations in the area of culture are well advanced.

#### *Conclusion*

Limited progress has been made in the areas of education, training, youth and culture. Reforms continued at all levels of education. The country consolidated the improvement of its performance in relation to the Education and Training 2020 common benchmarks. However, the requirements for the management of the Lifelong Learning and Youth in Action programmes are not fulfilled. Interaction between the ethnic communities in education remains limited. In the area of education and culture the country partially meets its priorities.

#### 4.27. Chapter 27: Environment

Some progress was made in the area of **horizontal legislation**. The national strategy for sustainable development was adopted and a consultative body advising the government on sustainable development policy was established. Implementing legislation was adopted in the area of environmental assessment of plans and programmes. The administrative capacity for implementing the Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) Directives was improved. The requirements of the EIA and SEA concerning public consultation are still not adequately applied. Preparations in this area are advancing well.

Some progress was made in the area of **air quality**. The amended Law on ambient air quality was adopted as well as some implementing legislation. Several protocols to the Convention on long-range transboundary air pollution were ratified. The first annual inventory of air emissions following the Corinair methodology was completed. Administrative capacity is still insufficient, particularly at local level. The air quality monitoring system is still at an early stage. Preparations in this field are moderately advanced.

Some progress was made in the area of **waste management**. The Law on packaging and packaging waste was adopted. Implementing legislation was adopted in the area of municipal waste and for specific waste streams. The process of establishing an integrated municipal waste management system has started. Regional waste management bodies were set up in two regions and the procedure for issuing concessions for regional municipal waste landfills was launched in four regions. Administrative capacity is still insufficient, particularly at local level. Investments in this area are still far from adequate. A system to deal with data collection, registration and reporting is still not in place. Preparations in this area are progressing slowly.

Little progress can be reported in the area of **water quality**. Some implementing legislation was adopted. The implementation of the Water Law was postponed by one year. The administrative capacity to deal with integrated water management is largely insufficient and a clear division of responsibilities in this field still needs to be established. Very little progress is being made in addressing the important gaps in the water monitoring system. Planning and preparation of infrastructure investment is lagging behind and the funding is far too low compared to the needs in the sector. No progress was made in applying the user/polluter-pays principles. Preparations are lagging behind in this area.

Little progress was made in the field of **nature protection**. An amendment to the Law on nature protection was adopted. Some progress can be reported in the development and implementation of some management plans for protected areas. A national strategy and action plan for nature protection remains to be developed. Staff resources need to be increased. Financing for the management of protected areas is insufficient. The stakeholders need to be sufficiently involved. Preparations in this area are moderately advanced. Some progress was made in the area of forestry. The programme for expanded reproduction of forests 2010 was approved and its implementation started.

Little progress was made on **industrial pollution control and risk management**. The Convention on the transboundary effects of industrial accidents was ratified. Some implementing legislation for control of major accident hazards involving dangerous substances and for eco-labelling was adopted. Transposition of the legislation in the area of large combustion plants is lagging behind. The integrated pollution prevention and control

(IPPC) permitting procedure is behind schedule. The requirements for public consultation in relation to the IPPC permitting system are not always properly applied. Administrative capacity needs to be significantly strengthened, in particular for inspection activities. Preparations in this area are slow.

Regarding **climate change**, the country submitted its second national communication under the United Nations Framework Convention on climate change. Moreover, it associated itself with the Copenhagen Accord and introduced mitigation of climate change and adaptation to its effects into the key national strategies. Programming of projects to implement the clean development mechanism under the Kyoto Protocol continued. The EU Emissions Trading Scheme remains to be implemented. In this area, the country is at an early stage.

Little progress was made in the areas of **chemicals** and **noise**. Implementing legislation was adopted in the area of ozone depleting substances. However, transposition of the EU *acquis* in these fields remains to be completed. Administrative capacity is insufficient in terms of staff and equipment. Preparations in these areas are at an early stage.

The administrative capacity for implementing and enforcing environmental legislation is inadequate both at central and at local level. The coordination mechanisms between ministries and bodies responsible for the environment are still weak. Dialogue with and involvement of stakeholders needs to be significantly improved. The environmental monitoring and information system remains inadequate. The investment in the sector is still extremely low compared to the needs. Environmental protection requirements are still not well integrated into policy making and implementation in other areas.

### *Conclusion*

Overall, preparations in the field of the environment are moderately advanced. Further progress has been made in transposing the EU *acquis* into national legislation, in particular in the air quality and waste management sectors. However, efforts to align with the EU *acquis* in the water and climate change sectors need to be stepped up significantly and operational structures need to be put in place or strengthened in these fields. Administrative capacity is still weak at both central and local level. This is particularly true for the nature protection and industrial pollution and risk management sectors. Investments need to be significantly increased, especially in the waste and water sectors.

### **4.28. Chapter 28: Consumer and health protection**

There has been little progress in the area of **consumer protection**. As regards *horizontal aspects*, the regulatory and administrative frameworks remain poor. The consumer protection programme for 2009-10 was implemented but suffered from heavy budget cuts. The funds for activities related to the protection of consumers were reduced to less than one third of the already limited original budget. The lack of sufficient financial resources affects mostly the work of the main consumer protection organisation, whose budget was cut five-fold. The staff of the consumer protection department within the Ministry of Economy was decreased. Preparations in this area are on track.

There is some progress as regards *product-safety related issues*. A new law on market surveillance was enacted. However, the enforcement of the consumer protection legislation remains weak and market surveillance does not yet provide for effective and transparent protection of consumers. The administrative capacity of the coordinating body remains poor and the competences of the various inspectorates unclear.



There is no progress with regard to *non-safety related issues*. The *acquis* on unfair commercial practices, distance marketing of consumer financial services and injunctions has not yet been transposed. Preparations in the area of consumer protection are advanced.

There has been some progress in the area of **public health**. Regarding *horizontal aspects*, the Law on public health was enacted and the government adopted various health programmes. The overall funding has increased, mainly for capital investments. A register for human resources in health was established pursuant to the Law on health data. The Law on health insurance was enacted providing legal basis for e-health insurance cards, an introduction of which is in a testing phase. Collaboration with civil society has been strengthened through weekly meetings between the ministry and health NGOs. A bi-annual collaborative agreement was signed with the World Health Organisation (WHO). Preparations in this area are on track.

There has been good progress in the area of *tobacco*. The Law on protection against smoking entered into force, imposing a general ban on smoking in public places. Enforcement of the law is at satisfactory level. Full alignment with the *acquis* is still to be confirmed. Pictorial health warnings on tobacco products were introduced. Preparations in this area are well advanced.

Some progress was made in the area of *communicable diseases*. Full legal alignment with the *acquis* in communicable diseases remains to be confirmed. Specific health programmes for prevention and control of some communicable diseases have been established. A multi-annual immunisation plan, including polyvalent vaccinations, has been introduced. The healthcare database, including the national early warning system, needs further improvement to become fully functional. Preparations in this area are on track.

There has been some progress in the area of *blood safety*, where the government adopted implementing laws. Reorganisation of the blood transfusion system is in its final stage. Legislation in this area is, to a large extent, aligned with the *acquis*. Work on legal measures in the field of human organs, *tissues and cells* have commenced. Preparations in this area are on track.

Limited progress can be reported in the field of *mental health*. Efforts are being made to de-institutionalise mental health care and move from psychiatric hospitals to community-based institutions. However, mental health institutions do not have sufficient staff and adequate financial resources. Preparations in this area are at an early stage.

Continued efforts are needed to address the *socio-economic determinants of health and health inequalities*. Some progress can be noted in the field of *cancer*. A new programme for the early detection of malignant diseases has been introduced. Monitoring for compliance with the Council recommendation on cancer screening will be needed. Efforts are being made to raise awareness of cancer issues, but funds are still insufficient. A strategy for palliative care was adopted. The cancer registry is established, but not fully operational. The State Statistical Office does not provide disaggregated morbidity data, since it considers this to be a breach of the confidentiality of personal data. Limited progress was made in the area of *alcohol consumption*. Regarding *health and environment*, a strategy on the adaptation of the health sector to climate change (2010-2015) has been adopted. Preparations in these areas are ongoing.

*Conclusion*

There has been some progress in the area of consumer and health protection. In the field of consumer protection market surveillance remains weak and does not ensure effective protection of consumers. As regards public health, good progress was made in the field of tobacco control and some progress was made in other areas. Progress in the area of consumer and health protection is hampered by the lack of sufficient financial resources and operational structures. Overall, preparations in the area of consumer protection are at an early stage, and moderately advanced in the area of health protection.

#### **4.29. Chapter 29: Customs Union**

Progress was made on **customs legislation**. The 2010 customs tariff was adopted taking into account the obligations arising from the Stabilisation and Association Agreement and the changes in the EU Combined Nomenclature. The Law on customs tariffs was amended to introduce provisions that will allow the use of integrated customs tariff in the process of customs clearance. The Customs Code was amended to introduce an obligation to submit electronic customs declarations and summary import and export declarations. A number of customs-related fees, including the fees for lodging customs declarations, for issuing EUR 1 certificates and for entering goods into free zones and warehouses, were abolished. However, some fees that are not in line with the *acquis* remain in force. Some of the provisions of the Law on technological-industrial development zones are still not fully aligned with the *acquis*. Preparations in this area are advanced.

Some progress has been made on **administrative and operational capacity**. The strategy for training and professional advancement continued to be implemented, and guidelines to ensure carrier advancement based on merit were adopted. A regional training centre under the aegis of the World Customs Organisation was opened. The Customs Administration introduced new internal procedures and electronic tools, such as an electronic document management system, which support the internal efforts to modernise working methods.

In the IT area, the preparations for the introduction of the new customs declaration processing system have intensified and the hardware and system software solutions were installed. The one-stop shop system for issuing authorisations for imports and exports and allocation of tariff quotas has been further upgraded and new functionalities were introduced. The customs administration has adopted a comprehensive ICT strategy, which includes a strategy for interconnectivity and interoperability with the EU's IT customs systems.

Operational capacities for customs controls, including the mobile units, were further enhanced, both at the borders and inland. Efforts to combat cross-border crime and infringement of intellectual property rights were stepped up and significant quantities of counterfeit goods were seized. The extended implementation of risk analysis and risk-based control systems resulted in increased collection of import duties. The customs administration participated in several international operations to prevent illicit trade in goods. Cooperation with other customs administrations was further intensified, in particular with those of neighbouring countries.

The Customs Administration needs to continue improving its administrative capacity, especially by bringing to operation the IT systems currently under development, as well as by continuing developing its human resource policy, including in the ethics and anti-corruption areas. Preparations in this area are well on track.

*Conclusion*

Some progress has been made in the area of the Customs Union, in particular as regards administrative and operational capacity. The customs legislation is sufficiently aligned with the *acquis*, except in the case of transit. The administrative capacity of the customs administration to implement legislation and to tackle cross-border crime and corruption needs strengthening. Preparations in this area are on track.

#### **4.30. Chapter 30: External relations**

There has been good progress in the area of the **common commercial policy**. The country continued gradually to reduce customs duties, in line with its *WTO* obligations. Customs duties were reduced for 426 tariff items. The most significant reductions of duties occurred for textiles and textile products. The average customs duty on industrial products was reduced to 6.31% (compared to 6.68% in 2009) and the duty on agricultural and fisheries products remained at 15.98%. The country continued to coordinate closely with the Commission and to align with the policies and positions of the EU in international trade negotiations.

There were no particular developments regarding *export credits*.

The institutions responsible for implementation and maintenance of the system for export control of *dual-use goods* signed a memorandum of cooperation. A database on chemical substances, goods and technologies was created, aimed at preventing illicit exports of dual-use chemicals. Preparations in the area of the common commercial policy are on track.

In the area of **bilateral agreements with third countries**, the country ratified investment protection agreements with Slovakia and Kuwait. The number of bilateral investment protection agreements ratified rose to 33, of which 28 are in force and 16 are agreements with EU Member States.

Some progress can be reported in the area of **development policy** and **humanitarian aid**. A unit for humanitarian and development aid with two employees has been established within the Ministry of Foreign Affairs. The ministry coordinated the country's humanitarian aid to China and Haiti. Preparations in both areas are being launched.

#### *Conclusion*

Progress was made in the area of external relations, in particular as regards the common commercial policy. Institutional capacity is not yet sufficient to enable the country to participate fully in the EU policies in the area of external relations, particularly in the fields of development policy and humanitarian aid.

#### **4.31. Chapter 31: Foreign, Security and Defence Policy**

The regular **political dialogue** between the EU and the former Yugoslav Republic of Macedonia continued to cover foreign policy issues. (*Concerning neighbourly relations with other enlargement countries and Member States, see Section 2 — Political criteria*)

As regards the **common foreign and security policy** (CFSP), in the reporting period, the country aligned itself with all relevant EU declarations and Council decisions, when invited. A database of the common positions and statements the country has aligned itself with was created.

Implementation of *restrictive measures* is continuing. A working group was set up within the Ministry of Foreign Affairs to review the process of implementing restrictive measures and to enhance coordination between the competent authorities.

With regard to *non-proliferation*, the country undertook initial preparations to become a party to the Wassenaar Arrangement on export controls for conventional arms and dual-use goods and technologies. A law on testing and marking firearms and munitions was adopted and initial steps were undertaken for alignment with Common Position 2008/944/CFSP defining common rules governing control of exports of military technology and equipment. Following the unsuccessful campaign for collecting illegal weapons on voluntary basis, amendments were enacted to the Law on weapons allowing voluntary surrender within a time limit of one year.

The country continued to engage actively in *cooperation with international organisations* (UN, OSCE, Council of Europe, etc.). (*As regards the International Criminal Court, see Section 2 — Political criteria: Regional issues and international obligations*)

With regard to *security measures (classified information)*, the certified computer unit for access to the EU network for the electronic exchange of classified CFSP information (ACN) is functional. The country signed bilateral agreements on exchange and mutual protection of classified information with Slovenia and France.

In the framework of the **common security and defence policy** (CSDP), the country showed sustained commitment to participate in civil and military crisis management operations. The country continued to take part in the EUFOR Althea mission, with a twelve-member medical team at Camp Butmir. The country increased its troop contribution to the NATO-led ISAF mission in Afghanistan by 80 soldiers to a total of 260 and continued to participate in the UN-led peacekeeping/UNIFIL mission in Lebanon by providing one staff officer. The country hosted the fourth coordination meeting of the countries participating in EUBG 2012/II and signed a letter of intent to participate in this battle group with a troop contribution of up to 150.

### *Conclusion*

There has been good progress in the area of foreign, security and defence policy, in particular in terms of efforts to ensure better coordination between the competent authorities in the implementation of international restrictive measures. The country aligned with all EU declarations and Council decisions and showed continued commitment to participate in CSDP operations. Sustained efforts are needed to reduce the number of illegal weapons and to ensure tighter control over arms brokering. Overall, preparations in the area of foreign, security and defence policy are well advanced.

### **4.32. Chapter 32: Financial Control**

Some progress can be reported in the area of **public internal financial control (PIFC)**. The government adopted a strategy for the development of PIFC, including a short-term action plan, but the document does not include medium- to long-term policy priorities. Implementation of the PIFC law is facing important delays. Some public organisations have established units for financial affairs and operational internal audit units but further effort is needed in all other budget users. Secondary legislation on financial management and control (FMC) remains overdue and FMC development is slow. Secondary legislation on Internal Audit has been adopted. The draft law on central financial inspection has not been adopted.

As regards **external audit**, parliament adopted a revised Law on the State Audit Office (SAO), strengthening its functional and financial independence. The SAO adopted a development strategy for 2010-2014, aiming to increase its independence and further upgrade the quality of its audit. Internal guidelines on the quality control of audits have been adopted. The SAO introduced a policy to follow up on previous audit findings and organised the first chartered state auditor exams for its staff. Discussions started on improving cooperation with Parliament, but no formal mechanism for reaction of the Parliament to the SAO Annual Report has been established yet. The independence of the SAO remains to be anchored in the Constitution.

Little progress can be reported on **protection of the EU's financial interests**. The Ministry of Finance's financial police department currently serves as the central contact point for cooperation with OLAF, without being formally appointed. A formal anti-fraud cooperation structure (AFCOS) remains to be named and made fully operational. Limited progress can be reported in the fight against **counterfeiting of the euro**. Some training was organised in the area of detection of forged banknotes, but overall investigative capacity remains weak.

#### *Conclusion*

There is limited progress regarding PIFC. Efforts are called for to complete the legal framework and to ensure its implementation, especially in relation to the establishment of Financial Management and Control systems. The new SAO Law reflects substantial progress towards aligning legislation in the area of external audit and the independence of the SAO.

### **4.33. Chapter 33: Financial and budgetary provisions**

In the field of **traditional own resources**, there was limited progress in improving the institutional capacity of the customs administrations. Implementation of anti-corruption measures in the customs administration has continued. However, internal control and external audit of the collection and accounting of traditional own resources remain insufficient.

As regards the **VAT resource**, the administrative capacity of the Public Revenue Office for audit has slightly improved. Internal audit and financial control capacity remains overall insufficient in the public administration. Further efforts are needed to fight tax evasion.

In the case of the **GNI resource**, limited progress was made towards producing more exhaustive national accounts. There was limited progress towards application of the ESA95 methodology and the introduction of improved estimates of the extent of the informal economy.

Although the *acquis* in this area does not require transposition, the establishment of appropriate **administrative infrastructure** is needed in due course to ensure correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the rules on own resources.

#### *Conclusion*

Some progress has been made towards improving the operational capacity of the customs and tax authorities, and the State Statistical Office. Further efforts are needed in areas linked to the application of the own resources system, including effective instruments to combat customs duties and VAT fraud. Appropriate coordination structures and administrative strengthening

will be needed for implementation of the rules on own resources in due course. The preparations in the area are on track.

## Statistical Annex

### STATISTICAL DATA (as of 14 October 2010) The former Yugoslav Republic of Macedonia

<b>Basic data</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population (thousand)		2 022	2 031	2 039	2 024	2 030	2 035	2 039	2 042	2 045	2 049
Total area of the country (km <sup>2</sup> )		25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713

<b>National accounts</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross domestic product (GDP) (million national currency)		236 389	233 841	243 970	251 486	265 257	286 619	320 059	364 989	411 728	:
GDP (million euro)		3 893	3 839	4 001	4 105	4 325	4 676	5 231	5 965	6 720	:
GDP (euro per capita)		1 926	1 890	1 963	2 029	2 130	2 298	2 564	2 919	3 283	:
GDP (in Purchasing Power Standards (PPS) per capita)		5 100.0	5 000.0	5 200.0	5 300.0	5 800.0	6 400.0b	7 200.0	7 900.0	8 400.0	8 400.0
GDP per capita in PPS (EU-27 = 100)		26.7	25.3	25.4	25.6	26.7	28.4b	30.4	31.7	33.5	35.6
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)		4.5	-4.5	0.9	2.8	4.1	4.1	4.0	6.1	5.0	:
Employment growth (national accounts, % change on previous year)		0.3	-1.7	-0.6	-1.9	-2.2	2.1	3.2	4.4	6.1	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		4.2	-2.9	1.4	4.8	6.4	2.0	0.8	1.7	-1.1	:
Real unit labour cost growth (national accounts, % change on previous year)		-7.0	-0.8	-0.4	2.7	-9.9	-8.6	3.2	-8.8	-2.0	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		48.2	46.2	46.4	48.1	51.4	54.3	55.1	57.0	57.9	:
Gross value added by main sectors (%)									1.7	-1.1	
Agriculture and fisheries		12.0	11.8	12.4	13.4	13.2	12.8	12.1	10.6	11.6	:
Industry		26.9	26.1	24.2	24.4	22.7	23.1	22.2	24.3	24.1	:
Construction		6.8	6.0	6.0	6.3	6.5	6.6	6.4	6.6	5.7	:
Services		54.2	56.1	57.5	56.0	57.7	57.6	59.3	58.5	58.7	:
Final consumption expenditure, as a share of GDP (%)		92.6	94.8	99.5	97.0	98.9	96.5	96.3	93.8	98.5	:
Gross fixed capital formation, as a share of GDP (%)		16.2	14.8	16.6	16.7	17.8	17.0	17.6	19.6	21.0	:
Changes in inventories, as a share of GDP (%)		6.0	4.2	4.0	3.2	4.1	3.8	3.9	5.0	5.8	:
Exports of goods and services, relative to GDP (%)		48.6	42.7	38.0	37.9	41.1	45.5	46.6	52.4	50.9	:
Imports of goods and services, relative to GDP (%)		63.5	56.6	58.2	54.8	61.9	62.8	64.5	70.8	76.2	:

<b>Industry</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Industrial production volume index (2000=100)		100.0	96.9	91.8	96.1	94.0	100.6	104.2	108.0	113.9	105.1

<b>Inflation rate</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Annual average inflation rate (CPI, % change on previous year)		5.8	5.5	1.8	1.2	-0.4	0.5	3.2	2.3	8.3	-0.8

<b>Balance of payments</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Balance of payments: current account total (million euro)	1)	-112	-263	-402	-170	-362	-122	-23	-421	-853	-483
Balance of payments current account: trade balance (million euro)	1)	-750	-589	-856	-753	-914	-859	-1 001	-1 181	-1 751	-1 551
Balance of payments current account: net services (million euro)	1)	53	-21	-24	-6	-43	-25	22	25	4	28
Balance of payments current account: net income (million euro)	1)	-76	-30	-48	-57	-32	-93	-26	-278	-91	-92
Balance of payments current account: net current transfers (million euro)	1)	661	377	525	646	628	853	982	1 012	984	1 131
of which government transfers (million euro)	1)	144	55	103	89	56	53	59	24	48	54
Net foreign direct investment (FDI) (million euro)		234	499	112	100	260	75	345	507	409	172
Foreign direct investment (FDI) abroad (million euro)	1) 2)	1	-1	0	0	-1	-2	0	1	9	-9
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)	1) 2)	233	500	112	100	261	77	345	506	400	181
of which FDI of EU-27 countries in the reporting economy (million euro)		:	:	:	43	125	41	255	355	264	198

<b>Public finance</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government deficit/surplus, relative to GDP (%)		2.3	-2.5	-0.5	0.1	0.4	0.2	-0.6	0.6	-1.0	-2.7
General government debt relative to GDP (%)		47.9	48.8	42.9	39.0	36.6	39.5	32.9	24.7	21.3	24.1

<b>Financial indicators</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross foreign debt of the whole economy, relative to GDP (%)		42.7	44.2	39.3	35.9	48.1	54.1	49.3	49.1	50.8	57.9
Gross foreign debt of the whole economy, relative to total exports (%)		93.6	108.4	108.5	95.7	121.7	122.8	104.7	92.6	98.0	151.2
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	3)	368	415	432	461	470	501	591	772	881	854
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	3)	690	1 145	1 052	1 260	1 475	1 708	2 130	2 728	2 913	3 040
Money supply: M3 (M2 plus marketable instruments, million euro)	3)	786	1 267	1 141	1 324	1 542	1 777	2 221	2 872	3 184	3 388
Total credit by monetary financial institutions to residents (consolidated) (million euro)	4)	624	620	657	761	951	1 153	1 504	2 093	2 803	2 913
Interest rates: day-to-day money rate, per annum (%)	5)	7.2	11.9	14.4	5.8	8.0	9.2	5.6	3.5	4.8	6.0
Lending interest rate (one year), per annum (%)	6)	17.5	23.0	23.0	14.0	13.0	13.0	9.5	7.5	8.5	10.0
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
euro exchange rates: average of period - 1 euro = ... national currency		60.725	60.913	60.978	61.264	61.338	61.296	61.189	61.184	61.265	:
Effective exchange rate index (2000=100)		100.0	105.9	109.9	114.3	117.3	119.6	119.9	119.4	120.6	:
Value of reserve assets (including gold) (million euro)		759	844	771	715	717	1 123	1 417	1 524	1 495	1 598

<b>External trade</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Value of imports: all goods, all partners (million euro)		:	:	2 105.3	2 031.3	2 354.0	2 601.0	2 979.7	3 795.0	4 587.3	3 615.8
Value of exports: all goods, all partners (million euro)		:	:	1 177.9	1 203.0	1 345.9	1 643.5	1 917.5	2 446.4	2 697.6	1 925.2
Trade balance: all goods, all partners (million euro)		:	:	-927.4	-828.2	-1 008.1	-957.5	-1 062.2	-1 348.6	-1 889.7	-1 690.6
Terms of trade (export price index / import price index)		95.4	97.1	106.4	94.5	82.9	95.6	88.4	107.3	106.1	97.5
Share of exports to EU-27 countries in value of total exports (%)		:	:	55.9	58.9	60.3	56.9	61.3	65.2	59.5	56.2
Share of imports from EU-27 countries in value of total imports (%)		:	:	61.7	60.3	60.8	54.7	53.0	49.6	49.0	52.2

<b>Demography</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		5.9	5.0	4.8	4.4	2.7	2.0	1.9	1.5	1.9	2.3p
Infant mortality rate: deaths of children under one year of age per 1000 live births		11.8	11.9	10.2	11.3	13.2	12.8	11.5	10.3	9.7e	:
Life expectancy at birth: male (years)		70.9	70.9	71.0	71.1	71.4	71.4e	71.5	71.1	72.0	:
Life expectancy at birth: female (years)		75.6	75.6	75.8	75.7	75.9	76.2e	76.4	75.9	76.1	:



<b>Labour market</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		59.7	61.8	59.8	61.3	58.8	60.7	62.2	62.8	63.5	64.0
Employment rate (15-64): share of population aged 15-64 that is in employment (%)		40.3	42.6	40.4	38.5	36.8	37.9	39.6	40.7	41.9	43.3
Employment rate male (15-64) (%)		49.7	50.6	48.6	45.6	44.4	45.4	48.3	48.8	50.7	52.8
Employment rate female (15-64) (%)		30.9	34.5	32.0	31.3	28.9	30.1	30.7	32.3	32.9	33.5
Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		26.2	27.7	25.8	28.5	24.5	26.2	27.9	28.8	31.7	34.6
Employment by main sectors (%)											
Agriculture		:	24.9	23.9	22.0	16.8	19.5	20.1	18.2	19.7	18.5
Industry		:	29.2	27.5	27.3	25.8	25.8	25.0	24.9	24.8	23.2
Construction		:	5.9	5.8	6.6	7.0	6.5	7.6	6.4	6.5	6.5
Services		:	39.7	42.6	43.8	50.1	48.0	47.1	50.1	48.9	51.7
Unemployment rate: share of labour force that is unemployed (%)		32.2	30.5	31.9	36.7	37.2	37.3	36.0	35.0	33.8	32.2
Share of male labour force that is unemployed (%)		30.5	29.5	31.7	37.0	36.7	36.5	35.3	34.6	33.5	31.8
Share of female labour force that is unemployed (%)		34.9	32.0	32.3	36.3	37.8	38.4	37.2	35.6	34.2	32.8
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		59.9	56.1	58.4	65.7	64.8	62.6	59.8	57.7	56.4	55.1
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)		26.9	26.5	27.0	31.2	31.7	32.3	31.1	30.1	28.7	26.3

<b>Social cohesion</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average nominal monthly wages and salaries (national currency)		10 193.0	10 552.0	11 279.0	11 824.3	12 293.3	12 597.0	13 517.0	14 584.0	16 096.0	19 957.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)		100.0	98.1	103.0	106.7	111.4	113.6	118.1	124.5	126.9	158.7
Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	:	32.2	:	:	:	:	:	:	:

<b>Standard of living</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of passenger cars per 1000 population		147.9	152.1	151.1	148.2	122.7b	124.3	118.7	121.9	128.6	:
Number of subscriptions to cellular mobile telephone services per 1000 population		49.4	109.0	179.7	300.4	491.6	597.6	695.1	884.2	1 157.9	1 036.8

<b>Infrastructure</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2
Length of motorways (thousand km)		0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3

<b>Innovation and research</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Spending on human resources (public expenditure on education in % of GDP)		:	:	3.4	3.4	:	:	:	:	:	:
Gross domestic expenditure on R&D in % of GDP		0.4	0.3	0.3	0.2	0.3	0.3	0.2	0.2	:	:
Percentage of households who have Internet access at home (%)	7)	:	:	:	:	11.0e	:	14.0e	16.5e	29.0e	42.0e

<b>Environment</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		659.3	668.5	771.4	710.9	685.2	685.6	700.5	660.8	629.1	:
Electricity generated from renewable sources in % of gross electricity consumption		16.9	9.2	11.0	17.9	18.9	17.5	18.7	11.2	9.3	:
Road share of inland freight transport (% of tonne-km)		60.0	87.0	92.0	94.0	91.0	93.0	92.0	88.0	84.0	:

<b>Energy</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Primary production of all energy products (thousand TOE)		1 595	1 642	1 577	1 666	1 598	1 578	1 617	1 504	1 624	:
Primary production of crude oil (thousand TOE)		0	0	0	0	0	0	0	0	0	:
Primary production of hard coal and lignite (thousand TOE)		1 273	1 419	1 356	1 353	1 293	1 288	1 296	1 254	1 378	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		1 104	1 011	1 486	1 029	1 152	1 248	1 323	1 469	1 403	:
Gross inland energy consumption (thousand TOE)		2 765	2 677	2 892	2 740	2 749	2 863	2 925	3 039	3 022	:
Electricity generation (thousand GWh)		6.8	6.4	6.1	6.7	6.7	6.9	7.0	6.5	6.3	:

<b>Agriculture</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agricultural production volume index of goods and services (producer prices, previous year=100)		101.0	90.2	97.5	104.5	107.0	100.3	105.0	98.0	104.5	102.9
Total utilised agricultural area (thousand hectare)		1 236	1 244	1 316	1 303	1 265	1 229	1 225	1 077	1 064	1 014
Livestock: cattle (thousand heads, end of period)		265	265	259	260	255	248	255	254	254	253
Livestock: pigs (thousand heads, end of period)		204	189	196	179	158	158	167	255	247	194
Livestock: sheep and goats (thousand heads, end of period)		1 251	1 286	1 234	1 239	1 432	1 244	1 249	944	950	849
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		220	201	198	192	213	197	235	374	368	343
Crop production: cereals (including rice) (thousand tonnes, harvested production)		565	476	556	466	677	645	595	469	615	609
Crop production: sugar beet (thousand tonnes, harvested production)		56	38	44	40	47	58	:	:	:	:
Crop production: vegetables (thousand tonnes, harvested production)		680	696	:	:	:	:	588	565	590	650

: = not available

p = provisional value

e = estimated value

b = break in series

1) For the period 2000-2002, the values in Euro are calculated using the annual average exchange rate; from 2003 the values in Euro are calculated on the basis of the current exchange rate.

2) The balance of payments sign conventions are used. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

3) Starting from 2003, data series for money supply are revised to include data for saving houses.

4) End of year; starting from 2003, the category Total credits by MFIs is expanded with loans granted by saving houses.

5) Until 2005 data cover transactions with all maturities concluded on the Institutionalized Money Market. From 2006, data cover bilateral transactions over night; end of year.

6) End of year.

7) There are no data for 2005 because ICT survey was conducted in February 2005, as a pilot survey, and data collected concerned 2004.