

# North Macedonia 2017



**Total: 56**

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## Political Freedom

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### **Free and Fair Elections : 5.71**

Political crisis and turbulences in Macedonia have intensified throughout the last year, occasionally paralyzing the functioning of the state and dividing society along political lines. At the mid of 2016, through mediation by the EU, a transitional government had been established and further steps were agreed between political parties for ensuring a road map for free and fair elections, needed so as to bring stability to the country. After two postponements, elections were finally held on 11th of December 2016. International observers marked them as relatively free and fair. They result in high polarization of votes between two dominant Macedonian political parties who passed the threshold together with several parties of the Albanian minority. Some irregularities have been observed. According to OSCE ODIHR report, State Election Commission and number of representatives of the resident diplomatic community were accused of electoral interference by ruling party Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE). Although VMRO-DPMNE won the biggest share of MPs, 51 out 120, they didn't manage to find any partner who would participate with them in the government. However, opposition did manage to do so and ensured majority of seats. Subsequently, the President of Macedonia, himself coming from VMRO-DPMNE, refused to give a mandate for creation of government to the Social Democratic Union of Macedonia (SDSM), due to alleged concerns for protecting ethnic integrity of Macedonia and concerns of participation of Albanian parties in the majority coalition. That brought the political life in the country to the point of boiling. That refusal was followed by months of negotiations, uncertainty and use of legal and extra-legal tools for facilitating or preventing the formation of the new government. That ultimately led to the ethnic based violence in the Macedonian parliament, after an ethnic Albanian was elected as the President of the Parliament. New government was finally formed at the end of May 2017, led by the Prime Minister Zoran Zaev from SDSM.

### **Absence of Unconstitutional Veto Players : 4.17**

Macedonia doesn't have unconstitutional veto players. However, democracy, rule of law and governance in the country had been often undermined and ineffective. During the time of transitional government, deep political polarization made the functioning of the institutions very hard. Activities of leading representatives of the former ruling party VMRO-DPMNE, especially of the President of Macedonia Gorge Ivanov, posed a particular threat to democracy. By refusing to hand over the mandate for building the government to the SDSM, which had a majority support in the parliament, merely because he disagreed with policies they wanted to implement in the

country, Ivanov supported the appeals by the former Prime Minister Nikola Gruevski and created a climate in which violent attacks on SDSM and on Albanian politicians in the Macedonian parliament were the next step. Weak mechanisms of the civil control over intelligence services also present a possible threat to the system of checks and balances. Their influence came into the focus of attention during the so called Wiretapping Scandal, which revealed a high profile corruption in the country. President Ivanov had initially pardoned 56 people, implicated to be involved in corruption, but after strong street protests and pressure he revoked his decision.

## **Freedom of Press : 3.6**

Freedom of the media is not respected in Macedonia. Strong government pressure on media reporting, high control and self-censorship over state advertising, intimidation of journalists, violent attacks, or alleged imprisonment by security forces, were what has characterized media landscape during the observed period and what has created an atmosphere of fear. Due to those, Press Freedom score of Macedonia in Freedom Barometer index declined further. Deep political division in society and adjacent political tensions didn't bypass media landscape, where outlets have been divided on more pro-government or more pro-opposition ones, with the former ones been dominant. Journalists were targeted by the protesters or by security forces on several rallies. That included both verbal and physical attacks. The violence especially escalated in the first half of 2017, when the struggle for changing the government heated up. Relations between media outlets and politicians, to some extent revealed in the Wiretapping scandal that included eavesdropping of more than 100 journalists, remained intense, enabling a strong influence by politicians on media reporting. In order to ensure fair representation of political parties prior to and during the parliamentary campaign, four major political parties agreed to form a provisionally body with a power to sanction biased reporting.

## **Rule of Law**

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### **Independence of the Judiciary : 4.34**

Unlike other countries where the government demonstrated authoritarian tendencies by taking away the independence of the judiciary and law enforcement sector first, Macedonia's decade-long rule of VMRO-DPMNE and PM Nikola Gruevski actually ended up by the attempted capture of those. In other words, the democratically established state structures that were being developed during the first 15 years of transition have proved viable enough to survive a whole decade of attempted state capture by conservative authoritarians. After the order established in 2006 fell apart in 2015, Special Prosecutor was named in 2016, to investigate serious breaches of law, i.e. major abuse of power, committed mainly by the central government. Those included illicit party financing, staged tender procedures for the biggest infrastructure projects, initiating violence against non-compliant local government politicians, money laundering, trading of influence, nepotism, etc. VMRO-DPMNE tried but failed to derail those investigations. After December 2016 elections, subsequent post-election crisis and building of a different (SDSM-led) ruling majority, ordinary prosecutors and judges will be more willing – or at least will not be scared - to push on with those investigations.

## **Corruption : 3.7**

Macedonia saw a dramatic fall in both its ranking and its score in the Transparency International's Corruption Perceptions Index 2016. In just two years its score fell from 45/100 to 37/100. In 2014 it was 64th (of 175), while in 2016 it was 90th (of 176 countries). Between spring 2015 and spring 2017, the country has been heavily polarized along political party lines, basically over corruption issue. The tapes that Macedonia's opposition released showed massive scale corruption or other abuse of power at the highest level - taking "cuts" of the major infrastructural projects or of procurement for the security sector, fixing tenders, bribing journalists, extorting donations to the party from companies, illicit favouring of party activists regarding employment in public sector, etc. Far more than other manifestations of authoritarianism, corruption was a catalyst for public anger that led to street protests, interim government, independent investigations, early elections and subsequent change of the ruling majority in spring 2017. New government so far has not agreed to pardon its predecessors. It faces not least corruption at the top but also clientele system from top to bottom, at the local level even reaching out into the private sector.

## **Protection of Human Rights : 5.56**

During the 2015-2016 street protests, Macedonia's riot police have demonstrated bias: they occasionally used excessive force against opposition rally participants, while they, on 27 April 2017, defaulted on defending the Parliament building from pro-government protesters who stormed it and wanted to prevent by force the establishment of a new majority and the change of government. The toll was more than 100 injured people, including several MPs. Arbitrary behaviour of the police anyway became common. Tensions are high in Macedonia even aside of party politics. Islam-o-phobia is on the rise and hate speech, on the grounds of religion or ethnic origin, is more common than before. The new centre-left government promised a repeal of the conservative family legislation which had limited women's and child rights and re-traditionalized family, as well as a comprehensive improvement of the position of LGBT citizens. Currently, Macedonia is, after Turkey, the second most homophobic country on Balkans peninsula. On the top of it, the treatment of refugees or other migrants was bad – police several times beat or used tear gas against them at the southern border, while those accepted into the country have been kept detained in refugee camps.

## **Economic Freedom**

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### **Security of Property Rights : 5.33**

Private property rights in Macedonia are mostly protected. However, there are many problems within the judiciary, stemming from strong executive influence which can be depicted as state capture. This leads to an environment in which property rights are protected for those with good political connections, and the law is not applied equally. Court impartiality is also affected by corruption. Furthermore, judicial processes are very slow, lasting on average almost 2 years, which is more than enough to diminish the public trust in judiciary. Administrative courts often fail

to deliver verdicts in accordance with judicial precedents, therefore requiring parties in the process to appeal to appellate courts, increasing their workload substantially and prolonging legal processes. Insolvency procedures are also slow, on average lasting 1.5 year, and with low recovery rates of less than 50% of the claim. Private property registration is a long process, due to inefficient local tax office procedures to determine the level of transfer tax. Legislation in effect since February 2016 requires obligatory mediation between companies for all disputes up to 15 000 euro of value as a precondition for going to court. This measure, although intended to promote mediation procedures in order to decrease workload pressures on the judiciary, in fact only imposed additional costs and prolonged contract enforcement. There are signs of the lack of policy stability and predictability in designing and enacting regulation, which is usually done in a non-transparent way and without public consultations.

## **Size of Government: Expenditures, Taxes, and Enterprises :**

### **8.04**

Government in Macedonia is relatively thriftier if compared to other countries of the region, with public expenditure reaching only 30% of the GDP in 2016. Economic growth significantly slowed down in 2016, being only 2.4%, due to political instability that was reflected in lower private investments and corporate loans. Current public expenditures were also increased to bolster consumption, but at the expense of capital investments, which subdued budget deficit, itself standing at 2.6% of GDP. The level of public debt reached 40% of GDP in 2016, which is moderate taken the level of development. Government pension system is unsustainable, with huge deficits, which transferred to the state coffers. That calls for a substantive fiscal reform program in order to contain costs stemming from demographic changes, especially when already sizeable public deficits are taken into account. Full scale privatization programs during the previous two decades strongly decreased the level of influence of the state over the economy through state-owned enterprises (SOE). Those remaining are active mostly in the field of public utilities, but also in energy, banking and transportation. Their business performance is meager - management appointments are connected to political influence, while their operations are tied to purchasing social peace. The two biggest public-owned companies, themselves operating in road infrastructure (PESR) and electricity (ELEM) could pose a significant financial challenge for the public finance if their level of debt continued to rise. Low government spending resulted in a relatively lower tax burden, with VAT rates at 5% (preferential) and 18% (standard rate), while personal income and corporate taxes are both set at the low 10%. However, high social security contributions put the overall labour tax wedge slightly above the OECD average. There is a significant exemption from social contributions for employment of young workers, decreasing their relative costs, but it contributed little to decrease their unemployment level.

## **Regulation of Credit, Labour, and Business : 6.94**

Regulatory environment in Macedonia is mostly favourable to entrepreneurial activities, which is depicted by its high rank on the Doing Business list. However, the main problem in this regard was not the quality of regulation, but its actual implementation, which remained weak due to partial dealings of government officials and corruption. Furthermore, regulatory changes are frequent, without due process of proper consultative mechanism with the public, and sometimes even retroactively applied. Starting a business is among the most efficient processes, without a registration fee or paid in minimum capital, and is done in only two days, all due to the compulsory electronic online registration. Tax procedures are not overly burdensome, due to widespread electronic filing system, but they still require significant workload. Obtaining a construction permit

and getting electricity are very expensive, due to high fees of public entities in charge of these processes. On the other hand, labour regulation is mostly flexible - due to flexible working hours and hiring procedures: fixed term contracts are not prohibited for permanent tasks and their duration is limited to a very long period of 60 months. Collective bargaining is mostly concentrated in the public sector, so it does not incur high costs to private entities. But the minimum wage is relatively high, reaching almost two thirds of the average wage, which encourages activities in the shadow economy and unemployment. Firing workers could be costly due to the prescribed levels of severance pay, which rises with the years in tenure, protecting more seasoned workers. Macedonia levied the obligation of paying social contribution for natural persons on professional contracts, if they are not employed in the entity, which boosted freelancer and professional activities. The new law on misdemeanors somewhat harmonized fines and linked the gravity of the offense to financial resources of the company which alleviated many problems for SMEs that were put in worse conditions than big companies. Energy market liberalization continued in July 2016, where after yet another group of companies could have chosen their own electricity provider. This process is expected to gradually continue until 2020.

## **Freedom to Trade Internationally : 8.61**

Freedom of trade in Macedonia is mostly respected. Since 2003, Macedonia has been a World Trade Organization (WTO) member, which liberalized its foreign trade. Trade tariffs are not high, with the average MFN applied tariff rate of 6.8%, but tariffs on agriculture products could be much higher, reaching 12.8%. Regulatory trade barriers are still a hindrance to foreign trade, due to complicated procedures for standardization of products. Bureaucracy procedures at the Customs Office also hinder free movement of goods, with long procedures and allegations of misconduct and partial dealing with different companies. The poor state of the transportation infrastructure, most notably the quality of the roads and railways, is another obstacle, itself imposing increased freight costs. Full liberalization of the capital accounts is yet to be carried, since there are capital controls on movements of short-term capital. Main Macedonian trade partners are the EU countries Germany, Italy, Greece and Bulgaria, followed by neighbors from the region, such as Serbia and Kosovo. Therefore, bulk of its trade is conducted through Stability and Accession Agreement (SAA) with the European Union, signed in 2001, and Central European Free Trade Area (CEFTA) agreement as of 2006. Macedonia ratified the WTO Trade Facilitation Agreement (TFA) in 2015, which is expected to further liberalize trade flows after its implementation that is pending; it is also an observing member to the Government Procurement Agreement (GPA). The process of issuing of work and residence permits for foreign nationals is very slow and coupled with complicated procedures in practice.