

North Macedonia 2015



Total: 58.95

Political Freedom

Free and Fair Elections : 6.07

The Former Yugoslav Republic of Macedonia is a parliamentary republic, with elections held periodically and generally complying with the international standards. The members of the 123-seat unicameral parliament elect the Prime Minister, who is the country's leading political figure and *de facto* chief executive. The President is elected by a direct vote and has a largely ceremonial post. A few ethnically based political parties strive for better political representation of the ethnic Albanians, who account for 25 per cent of the country's population. Despite the fact that the parliamentary opposition to the ruling Christian-democratic government was continuously contesting the results of the 2014 early parliamentary elections, another round of snap elections was not called in 2015. Accusing Prime Minister Gruevski of a vast election fraud, which had guaranteed him once again a full parliamentary majority, the opposition parties - the biggest among them being the Social Democratic Party and the Liberal Democratic Party - boycotted the parliament and did not assume their seats. The allegations were manifold, referring to the reports of voter intimidation, vote-buying, inaccuracy of the electoral roll, illicit control over the election administration and unequal access to media.

Absence of Unconstitutional Veto Players : 5

The constitution of Macedonia does not allow for the presence of traditional unconstitutional veto players, but an alleged corruption at high levels of the country's governance has reportedly facilitated unlawful interventions into public policies. Moreover, for nine years now, Macedonia has been led by a single Prime Minister, Nikola Gruevski (leader of the VMRO-DPMNE party), who has won four consecutive elections since 2006. All the opposition parties claim that throughout this period he managed to gain a full control over the state resources and to effectively use them in favour of his own party ambitions. The public sector has been put under the strict control of the government.

Freedom of Press : 4.2

Press freedom in Macedonia continues to be the poorest in Europe. The press is only partly free. The "2015 Press Freedom Index", provided by "Reporters without Borders" ranks the country 117 out of 180 countries worldwide. Similarly to most of the countries of the region, the lack of

transparent media ownership, compounded to unclear media financing, affects negatively the free media environment in Macedonia. The private TV outlets and a part of the printed press have allegedly been tied with political and business interests, which strongly influence their content. On the other hand, the government silences the vast state-owned media, including national TV, radio and print outlets. In the first part of 2015, the opposition leader Zoran Zaev disclosed a large amount of audio recordings of illegal wiretapping commanded by Nikola Gruevski's government over the last four years. More than 20.000 people had been wiretapped, according to Zaev, amongst which opposition politicians, Cabinet members, other public figures, and more than 100 journalists from independent media outlets. The surveillance practices strongly violated the country's constitution and were perceived as an attempted censorship and control over the media. Internet and the social networks in particular remain as the most trustful channel for information exchange and communication. Numerous anti-government demonstrations were called, namely, via social networks.

Rule of Law

Independence of the Judiciary : 4.33

Independence of judiciary has been among rare areas of public life which experienced any notable improvements during the past year. That was due to consistent previous reforms, many of which had been launched more than a decade ago when Macedonia used to be the most advanced EU aspirant country in Western Balkans. The court system is now at least technically if still not fundamentally independent of political influence. However, Freedom House has warned of weak independence of the Constitutional Court. It declined to examine several laws suspected to be non-constitutional. For instance, the lustration law, otherwise crucial for safeguarding democracy and human rights, allegedly lacked mechanisms of preventing political vendettas disguised as purges of the pre-1991 secret police collaborators. As for other influences, corruption and nepotism remain as problem in Macedonia's judiciary. There was allegedly an ethnic bias in some rulings, e.g. in the June 2014 verdict on the murder at Lake Smilkovci in 2012. The European Commission noticed in its October 2014 progress report that judicial proceedings in "FYRoM" needed more transparency and reminded on a basic principle of rule of law that "justice must not only be done but must also be seen to be done".

Corruption : 4.5

There was just a minor improvement, thus Macedonia took place 64 (of 175 countries) in the Transparency International's Corruption Perception Index 2014. Its score rose (from 44 in 2013) to 45. In many areas corruption is prevalent and poses a serious problem. One of those is judiciary. Another one is politics. Financing of political activities is insufficiently transparent. Employment or promotion in public sector is largely burdened with nepotism, corruption or political cronyism. Although there is a sizeable private sector, even in it political parties often influence hiring, firing or investments. In October 2014, EU suggested Macedonia ("FYRoM") more continuity and endurance in anti-corruption struggle, more building on past experiences, more strategic planning, prioritizing political or other high level corruption and elimination of selective enforcement of the existing anti-corruption laws. However, events in the first half of 2015, like a political earthquake, have changed the "business-as-usual" approach by many people to the issue - and to the root causes - of corruption in Macedonia. Namely, secret tapes were revealed by the main opposition

party SDSM, alleging that the PM Gruevski and his aides, together with secret services, wire-tapped more than 20.000 citizens and that they were receiving bribes from foreign investors to Macedonia or were involved in other huge corruption. The ruling VMRO-DPMNE party responded by releasing material that alleged corruption by the SDSM leader Zaev during his Mayor-ship in Strumica. Mass protests in the streets against or pro-government followed, dangerously polarizing the country. The cold war between the two political blocks continues, while EU has managed to facilitate their agreement at least on the timeline of early elections, in April 2016. At those, corruption will certainly be among the main issues.

Protection of Human Rights : 5.79

Political partisan and ethnic divisions, as well as presence of religious and nationalist extremism in various forms, destabilize Macedonia. Street protests often turn violent, whereby police easily overreach their authority. Arbitrary arrests have been more common than before. Ethnic discrimination outside one's own ethno-linguistic neighbourhood is not a rarity, which especially goes for Romany as a "visible minority". Islamophobia is in the rise. The treatment of Syrian or other war refugees by the police in the first half of 2015 was violent and humiliating. Freedom of thought and expression is curtailed. The position of LGBT community is worsening, not least owing to increased homophobia in society but also to the revision of the earlier anti-discrimination laws and to the constitutional ban on same-sex marriage. Family legislation is anyway de-modernized, for all couples. Women comprise a decent 40/123 ratio among the MPs, yet changes to the entrenched traditional division of gender roles are slow and shallow. Generally, the human rights situation is worse than a year ago.

Economic Freedom

Security of Property Rights : 5.59

Private property rights are not adequately respected in Macedonia. Courts are not impartial in their dealings and could be under influence of interested groups outside the courtroom. Some of the court proceedings even could be perceived rather as a political, than as a legal process. Furthermore, judicial processes are costly, slow and ineffective, due to high number of required legal procedures and their long duration. Enforcement of court judgments is ineffective and slow. Registering property is a slow process due to tax collection authorities which calculate property sales tax. Strong points in the Macedonian judiciary system are scarce restrictions on real property sales and low business costs of crime.

Size of Government: Expenditures, Taxes, and Enterprises : 7.85

The size of government is considerably smaller in Macedonia than in most other countries in the region, reaching only 32.6% of GDP. Macedonia did not experience a major recession during the economic crisis, but was faced with sluggish growth. The government has been using fiscal stimulus by increasing capital investments in infrastructure in order to foster growth, with mixed results – the growth did follow, but its sustainability was not secured. The budget deficits that were used as a fiscal instrument of economic policy led to a substantial increase in public debt, by 80%

in a couple of recent years (debt ratio increased from 20.6% in 2008 to 38% of GDP in 2014), thus calling for a moderate fiscal consolidation in order to prevent further debt increase. The situation might be eased by the expected growth, among the highest in the region (3.8% of GDP in 2015). Future growth prospects are under constraint of the developments in the EU, coupled with the high level of non-performing loans (NPL) in the banking sector, targeting private sector investment and growth. Low government spending resulted in a relatively lower tax burden – VAT stood at 5% and 18%, while personal income and corporate tax are set at low 10%. However, high social security contributions of 27%, coupled with the personal income tax, lead to the labour tax wedge of 37%, slightly above the OECD average. On the other side, government subsidies and transfers are still high due to inefficiency of state owned enterprises (SOE), which are poorly managed. Non-targeted social policy, in the manner of inadequate and lower prices of goods produced by these SOEs, is another limit on successful functioning of these enterprises. The two biggest public-owned companies, operating in the road infrastructure (PESR) and electricity (ELEM) also pose a significant financial risk for the public finance, due to their rising indebtedness.

Regulation of Credit, Labour, and Business : 7

The regulatory environment is favourable to private enterprises in Macedonia, which was even proclaimed the top performer in 2009 by the World Bank. Macedonia holds the highest rank in Doing Business report in the South East Europe region. Starting a business is cheap and timely, while compliance with tax procedures is not burdensome. Administrative requirements and associated bureaucracy cost can be substantial, for example for getting electricity. Favouritism and extra payments have been fostered in an environment of weak state institutions with overlapping authority. The market inspection services are considered to be malfunctioning, therefore the establishment of Inspectorate Council, which covers all inspections but those in custom, tax and financial intelligence, is a step in the right direction, leading to increased coordination and cooperation between those bodies. Financial institutions are well integrated into the international financial market, without any major restrictions. Labour regulation is mostly flexible - due to flexible working hours and because collective bargaining does not incur high costs to businesses. But the minimum wage is relatively high as compared to the average monthly salary, and legal firing of workers can be costly due to prescribed levels of severance pay.

Freedom to Trade Internationally : 8.62

As a small open economy, Macedonia is open to free trade. Trade tariffs are low, with the average of 7.2%, with the exception of agriculture products, where tariffs can be significantly higher. Regulatory trade barriers still remain, incurring costs on the imported goods, due to complicated product standardization procedures. Customs' bureaucracy could be less demanding, in order to speed up export and import procedures, but the main challenges lie in the poor state of the transportation infrastructure, most notably in the quality of roads and railways, which impedes transport of goods and increases the costs of freight. Capital controls on short-term capital inflow in order to limit the impact on the national currency exchange rate are maintained. Macedonian economy is integrated in the regional economy through the Stability and Accession Agreement (SAA) with the European Union, signed in 2001, and Central European Free Trade Area (CEFTA) as of 2006. These two free trade agreements connect Macedonian economy with its main trade partners: Germany, Italy, Greece, Bulgaria, Serbia and Kosovo.