

North Macedonia 2019



Total: 59.58

Quick facts

Population:	2.077 million
Unemployment rate:	20.7 %
GDP:	12.670 billion \$
GDP growth rate:	2.7 %
GDP per capita:	15710 \$ PPP

Political Freedom

Free and Fair Elections : 5.71

Political life in North Macedonia has significantly normalized in comparison to previous years. The country changed its name during the observed period and thereby ended its long-standing dispute with Greece, thus paving way towards democratic reforms and EU and NATO accession. A referendum on the change of name was held in September 2018, with opposition calls to citizens to boycott voting, resulting in insufficient turnout by 37% of citizens. Ruling Social Democratic Union of Macedonia (SDSM) then brought initiative to the Parliament, which adopted it in October. Another opportunity for the citizens of North Macedonia to cast their votes arose in April and May 2019, when two rounds of presidential elections took place. In the runoff, an SDSM-backed candidate Stevo Pendarovski defeated Gordana Siljanovska-Davkova from the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE). With 53,6% of votes, he became President of North Macedonia. OSCE oversighted the electoral process, concluding that elections were “well administered” and “respected fundamental freedoms”. Hence, electoral fairness was improved as compared to previous elections, which abounded with abuse of power by politicians, politicization of the State Electoral Commission (SEC), non-transparent campaign financing and vote frauds and irregularities on the election-day. Problem of party financing in the campaigns remained unaddressed, however voter intimidation, abuse of power and voting-day violations were minor.

Absence of Unconstitutional Veto Players : 5

Constitution provides democratically elected officials in North Macedonia with effective power to govern the country and conduct decision-making processes without interference from unconstitutional veto players, which themselves exist in society. Although the situation has improved, there are still some undermining factors that remained to be addressed after the democratic shift of governments in 2017. Deep social division alongside political party lines exists and is often reflected on supposedly neutral institutions. New state president is elected in 2019, thus it is now expected that greater level of cooperation will be established between the President and the Parliament, institutions which so far had often misused their authority to transfer political-party disputes onto - and re-dig societal trenches at - the state level. Corruption is widespread in all branches and tiers of power in North Macedonia, making the system of checks and balances weak and prone to undermining. Strong ties between political and economic elites enable their interference into decision-making processes.

Freedom of Press : 6.83

North Macedonia showed progress when it came to media freedom during the observed period. There is wide range of broadcast, print and online media outlets that operate in the country however their objective reporting is subordinate to deep polarization of society along political lines and politicization of private media. Poor economic situation in the media and very low salaries have caused decrease of professionalism among journalists. Due to such political, social and economic pressure, journalists often tend to censor their own narrative. Still, the recent normalization of the political situation led towards more balanced reporting by some media outlets. There are now fewer cases of intimidation and verbal and physical violence directed towards reporters. EU welcomed improvements in the media sector as a part of the accession process, in its latest report on North Macedonia, especially emphasizing that "Amendments to the Law on Audio and Audio-visual Media Services which have been adopted will require strong political commitment to guarantee professionalism, respect for the principles of transparency, merit-based appointments and equitable representation". North Macedonia is ranked as 95th on the Reporters without Borders 2019 World Press Freedom Index, improving its position by 14 places.

Rule of Law

Independence of the Judiciary : 4.72

Regardless of who was in power, judiciary in North Macedonia has for the entire decade been equally far away from independence of executive branch of power or other outside influences. After the protests of 2015, 2016 elections and change of government in 2017, lots of hopes were put into the Special Prosecutor Katica Janeva, to have charged all those responsible for a decade of state capture, corruption, embezzlements or other misuse of power. By mid-2019, upon the outbreak of the „Boki 13“ scandal, she herself had to resign and criminal investigation was launched against her, for extortion and/or corruption. The affair came atop suspicions that many other investigations (or even trials) regarding misdeeds of the former (VMRO-DPMNE) government officials were manipulated, and trade-offs thereby concluded, so as to get enough support by the opposition for constitutional changes and ratification of the „name-deal“ with Greece. Not least independence but also efficiency of the judiciary is a problem. Discrepancy between reforms adopted in parliament and those implemented on the ground is another one. EU

has put the progress in judiciary as one of the main demands prior to even opening accession negotiations, while poor condition thereof, coupled with corruption, have been welcome excuses for all those in the EU who for political reasons wanted to delay such opening. On the brighter side, the situation in prisons in North Macedonia, notably in the by-far the biggest and most notorious one in Idrizovo, started improving, especially in terms of living conditions and more humane treatment of inmates, although much more is to be done regarding their medical care and in fighting inner-prison violence and drug-trafficking.

Corruption : 3.7

Unlike judiciary, situation regarding corruption in North Macedonia has somewhat improved in 2018 as compared to 2017. The country rose on the list of Transparency International's Corruption Perception Index, to share the places 93-98/180, with an improved score of 37/100 (against 35 in 2017). But, as Freedom House warns in its 2019 report, „corruption remains a serious problem, and there has been widespread impunity for corrupt government officials”. The circumstances of flee, in late-2018, of the sentenced ex-PM Nikola Gruevski to Hungary, to avoid serving his prison term, have never been fully explained. Anti-corruption portal GAN named, in its January 2018 update, that public procurement, land administration and public services were areas with the highest corruption risks. Many monitors pointed out at patronage networks (especially at the local level), including not least public but also private sector companies and their employees, as a political factor, e.g. in illicit deeds such as vote buying or voter intimidation.

Protection of Human Rights : 5.91

Since the change of government in 2017, there have been a few notable improvements in the field of human rights in North Macedonia, yet a lot has to be done to merely get back to where the country was a decade and half ago. Accession to NATO has catalyzed reforms of the security structures, but newly established intelligence agencies are yet to demonstrate their independence from political pressure and dedication to respect civil rights and liberties. The biggest breakthroughs were in the field of minority rights. The official use of the Albanian language alongside Macedonian was extended in 2018. In 2017, legal change of gender was allowed. LGBT community has organized, albeit under heavy police protection, the first Pride Parade in the capital Skopje, on 29 June 2019. Still, when ethnic minorities are concerned, much more has to be done for the inclusion and mainstreaming of Roma. As for same-sex unions, their legalization and regulation are still not in sight. Last decade's conservative backslide in the field of women rights and family regulation has mostly been revoked, yet more has to be done to fight domestic violence, human trafficking, or under-representation of women in politics or management. In academia, corruption and nepotism have been seriously damaging the otherwise favorable intellectual climate amid lack of political influence on the contents of the academic work.

Economic Freedom

Security of Property Rights : 4.36

Private property rights in North Macedonia are mostly respected. The political changes with the new government, which has been in charge since June 2017, created a reform momentum which alleviated some problems within judiciary. There is a widespread opinion that the current

government until now demonstrated a greater respect for independence of judiciary than previous governments during their term. However, the main judiciary problems, such as out-of-court influence over courts, politicization of the judicial oversight body and inadequate funding of the judiciary, remain widely present. Still, the judicial environment remains under political influence and law and regulations are not equally applied to all entities. Furthermore, judicial processes are slow, lasting on average almost 1.7 years, which is a slight improvement as compared to the previous year. These problems lead to an overall low public trust in judiciary. Administrative courts often fail to deliver verdicts in accordance to judicial precedents, urging concerned parties in the process to appeal to appellation courts, increasing their workload substantially and prolonging legal processes. There are special courts that cover commercial and contract disputes between business entities. Insolvency procedures are also slow, taking on average 1.5 years, and they deliver very low recovery rates of less than 50% of initial claim. Recent changes in voting procedures for the reorganization plans and greater participation of creditors in insolvency proceedings have not significantly improved the situation in this area. Private property registration is a long process, lasting almost a month on average, due to inefficient local tax office procedures which determine the level of transfer tax, which can be substantial. The cadastre system has been improved in recent years. Majority of real estate records have been digitalized. Not all land has a clear title, but urban areas are mostly covered. But, local and regional zoning plans are not coordinated, which could have a negative impact on business certainty in land development. The 2016 legislation - which requires obligatory mediation between companies in all disputes up to 15 000 euro of value as a precondition for going to court - imposes additional costs to businesses and further prolongs contract enforcement, even though its initial intention was to promote mediation and decrease pressures on the judiciary. Foreign investors can be active in almost all industries, but in certain ones (such as banking, insurance, energy and transport, etc.) they have to meet licensing requirements. Foreign residents cannot acquire agricultural land in Macedonia, but this is easily avoided through establishment of a local, foreign-owned, company.

Size of Government: Expenditures, Taxes, and Enterprises :

8.09

Government consumption in North Macedonia is relatively small as compared to other countries of the region, with public expenditure reaching just 32% of the GDP in 2018. Economic growth in 2018 reached 2.8% after the political situation stabilized and the business environment was normalized with the new government. The growth also picked up in 2019, but mostly on rising wages and pensions, and public investments which had been recently increased. Budget deficit is rising again, from -1.1% of GDP in 2018 to a projected -2.4% in 2019. Capital spending on infrastructure also increased, but it is still below its previous years' levels. The level of public debt stood at 40.5% of GDP in 2018, but it has been rising due to the high deficits, although its medium-term level is expected to slowly decrease. However, since the early parliamentary elections were called for April 2020, fiscal slippage could be attested. Government pension system is unsustainable, with huge deficits, which are covered from state coffers. As in other countries in the region, demographic changes will further create stress to public finances, with high emigration rate being more important on the short run. After the full scale privatization programs during the previous two decades, the number of SOEs in the country is estimated to stand at 120, most of which are public utility companies owned by the central government. But SOEs are also present in energy, transportation, media and banking. Corporate governance in SOEs is weak and prone to political influences through politically appointed management boards. The SOEs mostly have weak business performance, and their operations are tied to alleviating social pressures through lower prices, at the expense of investments in capital. Two biggest public-owned companies, operating

in road infrastructure (PESR) and electricity (ELEM) could pose a significant financial challenge for the public finance if their efficiency is not assured. Low government spending results in a relatively lower tax burden than in other European countries, with VAT rates of 18% (standard) and 5% (preferential rate). Social security contributions put the overall labour tax wedge slightly below the OECD and regional average. There is a significant exemption from social contributions for employment of young workers, decreasing their relative costs, but this has contributed only slightly to the decrease in their unemployment rate. The recent tax reform, as of January 2019, made significant changes in the tax system: the tax system with the 10% personal income tax rate was made progressive by establishing a new tax bracket with the rate of 18%, albeit upon a very high threshold, effectively covering only 1% of (the highest) earners. Income from property rights, capital gains, capital, insurance etc. is now taxed by 15%, instead of 10%.

Regulation of Credit, Labour, and Business : 7.06

Regulatory environment in North Macedonia is mostly business friendly. The country is ranked very high on the Doing Business list. On the other hand, the overall regulatory system is complex. Its unpredictability due to frequent legislative changes and inconsistent implementation remains a significant hurdle. Corruption also remains widespread, although the new government committed itself declaratively to its eradication. Alignment with the EU regulatory standards is progressing, but its actual implementation in practice remains to be fully attested. Public procurement is prone to corruption, although usage of an automated electronic customs clearance process is widespread. Starting a business is expedient, without a paid in minimum capital, and is done in two weeks' time, all due to the compulsory electronic online registration. Tax procedures are also not overly burdensome, due to widespread electronic filing system - although they still require significant workload - but the VAT refunds take more than six months on average. Obtaining a construction permit and getting electricity is simplified - with only 3 procedures, taking on average three months - but incurring significant costs due to high fees of public utilities in charge. 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. The already high minimum wage (when compared to the average one) was further increased in July 2018, and again in April 2019, reaching almost two thirds of the average wage, with government commitment to increase it further, almost doubling its initial level in 2020. This might have significant impact on the labour market, through increase of 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, but notice periods remain flat. Recent changes to the labour regulations have increased worker protection at the expense of employment flexibility. The probationary period was lessened from 6 to 4 months; the deadline for submitting applications for new employees was decreased to 3 days; in poor performance cases, the employer must warn the employee in writing and provide a 15 day deadline for performance improvement prior to contract termination; contract termination must be based on criteria from the collective agreement; and, the reemployment rule was prolonged to two full years. New Labour Law has been announced by the government, with promises to have specifically tackled new types of working contracts. 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.

Freedom to Trade Internationally : 8.2

Freedom of foreign trade in North Macedonia is mostly respected. The country has been a member of the World Trade Organization (WTO) since 2003, which liberalized its foreign trade. Trade tariffs are moderate, with the average MFN applied tariff rate of 6.7%. However, tariffs on agriculture goods (13.1%) are more than double those of on manufactured goods (5.7%). Regulatory trade barriers are still a hindrance to foreign trade, due to complicated procedures of product standardization. Since North Macedonia aims at EU accession, it is slowly harmonizing its regulatory system with the common EU standards, which is also concerning trade. However, a recent halt of this process by the European Council, which did not allow the opening of the accession talks, might disturb that. Bureaucracy procedures at the Customs Office also impede 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, since it increases freight costs. Macedonia ratified the WTO Trade Facilitation Agreement (TFA) in July 2015, which is expected to further liberalize trade flows after its implementation, that is pending; and, in late 2017, the government established a National Trade Facilitation Committee in order to identify areas that needed harmonization with the TFA. Macedonia is also an observing member to the Government Procurement Agreement (GPA); and in February 2018 the government sent its bid to the WTO to upgrade its status from observer to a fully-fledged member. This process is ongoing. Macedonian main 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. However, there have been repetitive problems in trade in the CEFTA region since the dispute resolution mechanism is not fully functional. The current Kosovo 100% tariffs on goods from Serbia or Bosnia and Herzegovina had a significant impact on the growth of Macedonian exports to Kosovo. There are also trade agreements with EFTA, Turkey and Ukraine. In March 2018, the government passed its "Plan for Economic Growth", which provided substantial incentives to foreign companies operating in the 15 free economic zones (Technological Industrial Development Zones - TIDZ). These incentives have included a variety of measures, e.g. job creation subsidies, capital investment subsidies, or financial support to exporters. The central bank of North Macedonia pegged the national currency, the denar, to euro, and has kept it at practically the same level consistently since 1997. Full liberalization of the capital accounts is yet to be carried out, since there are capital controls on movements of short-term capital.