



Republic of Macedonia

ECONOMIC REFORM PROGRAMME

2016

January 2016

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ABBREVIATIONS

| | |
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| AFIEPRM | Agency for Foreign Investments and Export Promotion of the Republic of Macedonia |
| APE | Agency for Promotion of Entrepreneurship of the Republic of Macedonia |
| AREC | Agency for real estate cadastre |
| BC | border crossing |
| BEER | behavioural equilibrium exchange rate |
| CEB | Council of Europe Development Bank |
| CEFTA | Central European Free Agreement |
| CM | Cadastral municipality |
| COSME | EU Programme for the Competitiveness of the SMEs |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| ECB | European Central Bank |
| EIA | Environmental impact assessment |
| EIB | European Investment Bank |
| ELEM | Macedonian Power Plants |
| ENER | National Electronic Registry of Regulations |
| ENIF | Enterprise Innovation Fund in Western Balkans |
| ERP | Economic Reform Program |
| ESA | European System of Accounts |
| ESAM | Employment Agency of the Republic of Macedonia |
| EU | European Union |
| FAO | Food and Agriculture Organization of the United Nations |
| FDI | Foreign Direct Investment |
| FITD | Fund for Innovations and Technology Development |
| GDP | Gross domestic products |
| GIS | Geographic information system |
| GS | Government Securities |
| ICT | Information and Communications technology |
| IEP | Individual Employment Plan |
| IIP | International Investment Position |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IPA | Instrument for pre-accession assistance |
| IPARD | Instrument for pre-accession assistance for Rural Development |
| IT | Information Technology |
| KfW | Kreditanstalt für Wiederaufbau – German Development Bank |
| LPIS | Land Parcel Identification system |
| MBDP | Macedonian Bank for Development Promotion |
| MEPSO | Electricity Transmission System Operator |
| MES | Ministry of Education and Science |
| MR | Macedonian Railways |
| MTBF | Medium- Term budgetary framework |
| MTEF | Medium-Term expenditure framework |
| NBRM | National Bank of Republic of Macedonia |
| NQF | National Qualifications Framework |
| NSDI | National Spatial Data Infrastructure |
| NTTO | National for Technology Transfer Office |
| OTC | Over the counter |
| PEFA | Public Expenditure and Financial Accountability |
| PESR | Public Enterprise for State Roads |
| pp | percentage point |
| REER | Real Effective Exchange Rate |
| ROE | Return on equity |
| ROA | Return on assets |
| SDR | Special Drawing Rights |
| SEE | Southeast Europe |
| SEETO | South East Europe Transport Observatory |
| SFA | Social financial assistance |
| SIGMA | Support for Improvement in Governance and Management |
| SLI | State Labour Inspectorate |
| SMEs | Small and medium-sized enterprises |
| SSA | Stabilisation and Association Agreement |
| SSO | State Statistical Office |
| TEN-T | Trans-European Transport network |
| TFP | Total factor productivity |
| TIDZ | Technological Industrial Development Zones |
| VAT | Value Added tax |
| WBIF | Western Balkans Investment Framework |
| WTO | World Trade Organization |

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The European Union introduced a new approach to the economic governance in the Enlargement Strategy as of October 2013, becoming the key pillar in the enlargement process. Main objective of this approach is to help the enlargement countries tackle the economic fundamentals so as to meet the economic accession criteria. Improvement of the economic governance in the enlargement countries is important for maintaining the support for enlargement of the European Union (EU).

New approach to the economic governance in the enlargement process is inspired by the European Semester process at EU level. This approach means a significant change in the dialogue on the economic policies and better reporting to the end of providing clearer instructions for the reforms necessary for supporting long-term economic growth and competitiveness. As of 2015, the Western Balkan countries, among which the Republic of Macedonia as well, have been invited to improve their economic policies and economic governance by preparing annual Economic Reform Programmes (ERP).

Economic Reforms Programme 2016 is the second document of this type prepared in line with the instructions given by the European Commission (EC). Programme shows the medium-term macroeconomic and fiscal framework, as well as the sectoral structural reforms for promoting both competitiveness and growth.

Macroeconomic policy of the Republic of Macedonia is aimed at achieving the strategic goals for long-term and sustainable economic growth, maintaining financial and macroeconomic stability, increasing the competitiveness of the economy, increase employment and improve the living standards of the population. Republic of Macedonia will continue to pursue adequate fiscal policy aimed at maintaining macroeconomic stability and encouraging economic activity by increasing the quality of public finances, increasing capital expenditures to improve infrastructure and strengthening the ability of private sector for growth and job creation. The main objective of monetary policy will be to maintain price stability by keeping a stable exchange rate of the Denar against the euro, in order to create a favourable macroeconomic environment for long-term economic development.

These objectives will be achieved by improving the business environment, supporting innovation, entrepreneurship and small and medium enterprises (SMEs), development of human capital and economic infrastructure of the country, encouraging investment activity, attracting foreign direct investments (FDI), agriculture development and promotion of foreign trade.

Programme is prepared in line with the 2014-2018 Programme on Government Operations of the Republic of Macedonia, as well as the other national strategic documents, such as the National Programme for Adoption of the Acquis Communautaire, the Stabilisation and Association Agreement and the national sectoral strategies. In addition, the Programme is in line with the EU Strategy for fast, sustainable and comprehensive economic development "Europe 2020", as well as the SEE- 2020 Strategy of the Council for Regional Cooperation, called "Jobs and Prosperity in a European Perspective", which closely follows the vision of the "Europe 2020" Strategy. Remarks and recommendations indicated in the 2015 Progress Report on the Republic of Macedonia, as well as the specific recommendations of the Ministerial Dialogue as of May 2014, were also taken into consideration during the Programme preparation.

All competent state institutions participate in the preparation of this document, however, the social partners and the business community also contributed to its creation.

1.1. Measures taken to implement the targeted policy guidelines adopted at the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 12 May 2015

Conclusion 1. Improve the management of public finances by adhering rigorously to the 2015-2017 medium-term fiscal targets outlined in the ERP, and frontload consolidation so as to be on track for the 2017 budget deficit target of 2.9% of GDP. Use any additional fiscal space for further consolidation measures, so as to protect growth-enhancing capital spending in case of unexpected budget pressures. Keep tight control on the development of transfer payments, pensions, and public wages. Introduce a medium-term expenditure framework. Inform in a timely and regular manner on the size of the government workforce and payroll.

Fiscal consolidation remains to be the main priority in the medium-term period under the new 2016-2018 Fiscal Strategy. Taking into account that the public debt in the Republic of Macedonia is at a moderate level, dynamics of fiscal consolidation in the coming medium-term period is designed in line with the dynamics of trends in the real sector and developments in the European economy. Hence, fiscal policy in the coming period provides for gradual reduction of the level of budget deficit, which is projected at 3.2% of GDP in 2016, 2.9% of GDP in 2017 and 2.6% in 2018.

Ministry of Finance continuously monitors the performance of revenues and other inflows, expenditures and other outflows of the Budget of the Republic of Macedonia, thereby undertaking appropriate measures for meeting the fiscal target and providing room for realising the priority investments.

In order to improve the management of public finances SIGMA¹ conducted a mission in 2015 for providing relevant information in the field of public administration and public finances. During 2015, an Assessment of public expenditure and financial accountability under PEFA² (Public Expenditure Financial Accountability) Methodology was also performed. The recommendations of these two reports will be taken into account in the drafting of a Public finance management reform programme.

As of December 2015, implementation of the Project on Strengthening Medium-Term Budgeting for Efficient Public Finance Management commenced through IPA 2011, the main activities of which will be aimed at determining the programme classification of expenditures, strengthening the capacities for medium-term planning and reporting in line with the ESA Methodology. Expected results from the Project, apart from the Programme classification, are also preparation of medium-term expenditure framework, whereby the concept for implementation of Medium Term Budget Framework (MTBF) and Medium Term Expenditure Framework (MTEF) will be appropriately defined, and respective legal amendments, manuals and bylaws will be prepared accordingly.

As regards the strict control over pensions and salaries in the public sector, we point out that any future increase will be accompanied by a detailed analysis of the fiscal space, the fiscal conditions and the effects of the external economic developments.

According to the data published by the Ministry of information society and administration³ in July 2015, the scope and structure of the public sector employees is presented as follows:

| | | |
|---|--|---------|
| GENERAL GOVERNMENT SECTOR | Central level institutions: Assembly, Government, ministries, constitutional bodies, funds, agencies, directorates, committees, regulators, National Bank and other central level legal entities | 19.938 |
| | Defence and Ministry of Defence employees | 7.130 |
| | Police and Ministry of Interior employees | 10.496 |
| | Justice: courts, public prosecutors, prisons, correctional and other institutions | 4.483 |
| | Social and children's care: social care centres, kindergartens, old people homes, institutes and other branch institutions | 5.169 |
| | Culture and cultural heritage: cultural centres, museums, theatres, libraries, institutes and other branch institutions | 3.269 |
| | Education and science: primary and high schools, universities, boarding schools and campuses and other branch institutions | 33.826 |
| | Health: public health care institutions, institutes and other branch institutions | 18.948 |
| | Municipalities: municipal administration | 5.846 |
| TOTAL GENERAL GOVERNMENT SECTOR EMPLOYEES | | 109.105 |
| PUBLIC ENTERPRISES | PUBLIC ENTERPRISES communal works, markets, parks, water supply, housing, traffic, infrastructure, sports facilities, halls, public information and other activities of public interest | 19.148 |
| TOTAL PUBLIC SECTOR EMPLOYEES | | 128.253 |

¹ <http://www.sigmaweb.org/publications/Baseline-Measurement-2015-fYRMacedonia.pdf>

² <https://www.pefa.org/en/assessment/mk-dec15-pfmp-pr-public-en>

³ <http://mioa.gov.mk/files/dokumenti/Obem%20i%20struktura%20na%20vraboteni%20vo%20javniot%20sektor.pdf>

Conclusion 2. Improve the composition of spending, by prioritising investment projects according to their productive potential, and be more transparent on the cost-benefit analysis underlying transfer and investment spending items on the budget. Provide more timely and detailed data on planned and executed capital expenditure.

One of the pillars upon which the 2016 Budget is based is the high level of capital investments aimed at developing Macedonian economy and boosting its competitiveness. As for public investments, realisation of investment projects is envisaged, being aimed at improving the transportation network in the country, improving the energy and utilities infrastructure, etc.

In fact, the main focus will be directed towards construction and modernisation of the road and railway infrastructure and intensifying the activities for construction of the National Gas Pipeline System, as well as significant investments in the social infrastructure. During the preparation of the investment projects, feasibility study, including cost-benefit analysis, is compulsory, based on which decision on the project funding is reached. Republic of Macedonia accepted the EU methodology for infrastructure investment projects tailored to the Western Balkans. A National Investment Committee adopted the single list of projects which was submitted to the European Commission on 9th December 2015 by the National IPA Coordinator.

These investments, in addition to the current positive effect on the economic activity, will also contribute to boosting the competitiveness of the country in the long run. Commitment to constant increase of public investments in the past years proved to be efficient for several sectors, above all the construction, which registered average annual growth of 8.8% in the last three years, as well as the industry, indirectly, which grew annually by 8.3% on average in the same period.

Expenditure side of the Budget of the Republic of Macedonia in the next medium-term period is projected to the end of fully supporting Macedonian economy through increased level of investments in infrastructure projects, as well as improvement of the economic situation of targeted groups of the population (pensioners and beneficiaries of social benefits). Thereby, disciplined budget spending will continue to be implemented, with an emphasis to restrictiveness and rigorous control over less productive costs, on one hand, at the account of significant investments in capital projects, in particular in the field of infrastructure on the other.

Substantial public investments, presenting the development component of the fiscal policy aimed at improving economic perspectives and quality of life of the citizens, will continue to be a priority in the next medium-term period. For more details see part 3.3.

Conclusion 3. Improve the fiscal transparency by including more comprehensive data on the debt of public companies and contingent liabilities in the government's debt management strategy and inform about arrears. Speed up transition to ESA 2010 reporting and resume fiscal notifications. Continue to keep tight control on guaranteed and non-guaranteed borrowing by state-owned enterprises and municipalities.

Public debt data transparency was improved by amending the Law on Public Debt in 2014, according to which the Ministry of Finance publishes, on quarterly basis, comprehensive table⁴ for the stock of the total public debt, including the central government debt, the debt of municipalities and the guaranteed debt of public enterprises and state-owned companies. In the previous period Ministry of Finance had published central government debt, while other public debt segments, were dispersed at several places and sources. In addition, Ministry of Finance prepares Annual Report on Public Debt⁵, being a comprehensive report showing the public debt level and structure, as well as the activities related to public management undertaken in the past period.

As regards the process of issuing new guarantees, Ministry of Finance takes into account the long-term sustainability of the debt, whereby the process of making new borrowings is strictly regulated and subject to the borrowing procedure determined in the Law on Public Debt, according to which the claimants of guarantees should fulfil certain criteria so as for the country to be able to issue guarantee. Non-guaranteed debt is insignificant and it is not expected to increase in the next period.

As of November 2015, implementation of the Project on Strengthening Medium-Term Budgeting for Efficient Public Finance Management will commence through IPA 2011, the main activities of which will be aimed at determining the programme classification of expenditures, strengthening the capacities for medium-term planning and reporting in line with the ESA Methodology, also including the debt-related data. Improved fiscal reporting is the third component in the mentioned project.

⁴ <http://www.finance.gov.mk/mk/node/57>

⁵ <http://www.finance.gov.mk/mk/node/60>

Conclusion 4. Improve the employability of workers, by better aligning skills with labour demand needs notably by developing the education system. Strengthen performance evaluations of active labour market policies with a view to better targeting skills development, and inform on their methodology and results in a timely manner.

In October 2015, the 2020 National Employment Strategy of the Republic of Macedonia was adopted, the main goal of which is increasing employment, quality of working positions and productivity, with special emphasis on the vulnerable groups. The specific strategic objectives are aimed at increasing the effectiveness and efficiency of the employment policy, by providing special support to the vulnerable categories, improving the capacity of the private sector for job creation and improving the educational system, which will generate know-how and skills according to the needs of employers.

In addition, 2016-2020 Youth Employment Action Plan was adopted in August 2015, main objectives being better matching of the supply and demand of skills on the labour market, promoting job creation driven by the private sector and facilitating the employment of young people.

2015 Operational Plan for Services on the Labour Market and the active employment programmes and measures covered around 16,000 persons for which Denar 628.5 million were provided. The Operational Plan was prepared in line with the Assessment of the effects of the measures, carried out in 2014 by external experts⁶. EARM continuously monitors the performance of the participants under the measures. See part 4.2.7. for the effects of active measures and policies.

In the 2016 Operational Plan on Services on the Labour Market and the active employment programmes and measures around 14,000 persons are expected to be covered for which Denar 693.3 million are provided.

The reform process in education is continuing aimed at finalising the modernisation of 2- and 3-year secondary vocational education in the context of lifelong learning, as well as improvement of the system of adult education. In Q4 2015, reform activities commenced related to 4-year secondary vocational education and post-secondary vocational education.

National Board for the Macedonian Qualification Framework was established, and activities continued with the referencing to the European Qualification Framework. In 2015, 24 training programmes were verified, ensuring qualifications or partial qualification and 5 programmes for acquiring skills. In addition, 16 institutions providing training-related services were verified. In addition to the 80 adopted occupational standards, another 2 occupational standards were developed that need to be adopted. Concept Paper on Non-Formal Education and Informal Learning, as well as Concept Paper for Adult Primary Education, were adopted, aimed at validation of prior learning for gaining qualification or partial qualification.

Under the Skills Development and Innovation Support Project, preliminary study was prepared with tools for assessing the future needs for skills on the labour market in the Republic of Macedonia, covering the results from the forecasts based on the econometric model. Field research for the Delphi method and the survey of employers are in progress. There is ongoing preparation of Programme and Operating Grants Manual for cooperation of secondary vocational schools with the industrial sector.

New Teaching Programmes for Innovation and Entrepreneurship for secondary schools were prepared. The Innovation and Entrepreneurship textbook for first year of secondary school is being translated to all teaching languages and will be distributed by the beginning of the second semester in 2016, while the remaining textbooks are in the process of approval.

Activities for implementing a Skills Observatory have commenced, enabling the Ministry of education and science to analyse the adequateness of skills of secondary vocational education graduates according to labour market needs and gather information on employability of certain occupations.

Conclusion 5. Step up efforts to create supply linkages between foreign and domestic companies with a view to enhancing productivity and employment in the domestic economy.

Under the Supplier Development Pilot Programme being implemented with funds from the World Bank's grant Macedonia Competitive Industries and Innovation Support Programme, an initial selection of 50 domestic companies - potential suppliers was carried out according to 3 criteria: 1/number of contracts with foreign companies, 2/number of countries where the companies export and 3/number of introduced standards. Afterwards, the selection was narrowed down to 20 companies on the basis of the visits made to all 50 domestic companies and their financial data. Five domestic companies were finally selected and Business Review was prepared on the basis of the Model of Excellence of the European Foundation for Quality Management for each of the selected 5 companies. This Report provided for identifying the advantages and the weaknesses in the operations of these companies, at the same time determining a short-term plan with defined areas for improving the performance of the companies.

Activities were carried out aimed at enhancing the capacities of the institutions included in the process of linking domestic with foreign companies. In addition, there is ongoing assessment of the regulatory framework for the purpose of determining the regulatory incentives and limitations as regards the linkage between domestic companies - potential suppliers with foreign investors in the Republic of Macedonia. Findings from the assessment of the regulatory framework

⁶ http://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-budapest/documents/publication/wcms_385198.pdf
http://www.ilo.org/wcmsp5/groups/public/---europe/---ro-geneva/---sro-budapest/documents/publication/wcms_385203.pdf

will be summed up in a Report. As for the component for facilitating the access to finance, report on the existing and potential sources of financing of companies will be prepared. As regards the coming period, event for dissemination of the results from the Supplier Development Pilot Programme will be organised, which will be attended by both domestic and foreign companies, as well as the competent institutions and the World Bank.

Conclusion 6. Increase efforts towards facilitating the disposal of non-performing loans by banks, involving all key stakeholders including the central bank as necessary, with a view to removing potential obstacles to credit extension in the context of a sustained pick-up in credit demand.

The non-performing loans in the banking system of the Republic of Macedonia grew since the beginning of the global financial crisis, yet retaining a moderate level, which in the last three years has been relatively stable at around 11%. The National Bank constantly monitors the movement of the non-performing loans, not only in terms of maintaining the financial stability of the country, but also because of possible impairments to the credit channel. In this context, the central bank takes action to determine the causes of the high persistence of existing non-performing loans, and the reasons for the emergence of new non-performing loans.

In the first half of 2015, the NBRM prepared a detailed analysis of the structure and concentration of non-performing loans. The analysis did not identify any legal, regulatory or tax obstacle to implement extensive write-offs of "old" non-performing loans by the banks, including taking action to restructure loans extended. On the other hand, given the underdeveloped and illiquid real estate and movable property market in the Republic of Macedonia, banks are not able to quickly and easily sell foreclosures based on uncollected claims. In this context, it is important to note that in the recent period intensified efforts to establish register of prices of concluded transactions with real estate and register of the estimated value of the property in Macedonia have been done. The analysis found a high concentration of non-performing credit portfolio composed of legal entities, where 50 largest non-performing loans accounted for nearly 60% of total non-performing loans to legal entities. In about 60% of non-performing loans banks did not adapt the contractual terms of approved loans. More than half of the amounts of non-performing loans are "fully covered" and if we exclude these loans, the share of non-performing loans to total loans would have been halved. At the beginning of 2015, the NBRM conducted a survey among banks for the activities and measures taken regarding the management of credit exposure with non-performing status and the reasons for not deciding to write off the claims, although they been bad for a long time and even fully impaired in their balance sheets.

Timely and appropriate restructuring of loans that are close to a state of default is probably the best proactive measure that is at the disposal of banks, certainly if expected positive effects from restructuring. In this regard, in March 2013 the NBRM adopted a new regulation on credit risk management, which, among other things, encourages banks to timely restructure of the loans. In this context, there is obvious progress in loan restructuring in 2015. In the second quarter of 2015, banks have written-off household claims which are mostly associated with the Law on one-off writing-off of the household debts, which considering the relatively small amount had no significant impact on the dynamics of total non-performing loans. In December 2015, changes in the Decision on credit risk management have been adopted, according to which, starting from June 30, 2016; banks will perform write-offs of all claims which are fully booked for more than two years. In addition, banks will further have the opportunity and obligation to take actions for collection of these claims, although they are written off.

Conclusion 7. Review the transport strategy in order to align it with the regional agenda on connectivity, with a particular focus on the core investment priorities (core network) and establish a credible planning and funding mechanism. A single sector pipeline would help prioritise investments.

The investment activities in the National Transport Strategy 2007-2017 are focused on construction and improvement of services for transport system users along European corridors that connect us with the region and the rest of the European continent. It is a goal which was being realized in the past period as well, with specific investment activities and projects. The same focus will further continue and principles of investment in the transport system i.e. transport policy will be maintained in the next period when updating the strategy for the period after 2017. This focus of investments is in line with the investment priorities of the recently defined Indicative extension of the TEN-T Comprehensive and Core Network to the Western Balkans.

The recently updated Single list of projects in the transport area, adopted by the National Investment Committee, is a logical extension and complement to the priority list of projects established in 2011, which is consistent with the objectives envisaged in the transport strategy.

Conclusion 8. Improve the business environment by implementing the Master plan for Competitiveness and the related Government Action Plan. These should include measures affecting competitiveness, such as a more predictable legal and regulatory environment, enforcement of contracts, respect of IPRs, payment discipline, labour legislation, quality and integrity of inspection services, etc. Ensure regular and structured dialogue with social partners regarding the implementation and review of the Master plan. Step up efforts to fight against corruption and informalities in the economy.

In March 2015, the Government, upon proposal of the National Entrepreneurship and Competitiveness Council, adopted the second Action Plan, resulting from the Master Plan for Competitiveness, with measures aimed at boosting the competitiveness of Macedonian economy. It covers 32 measures in 9 areas, those being the following: Improvement of business environment and support to SMEs (4 measures), linkage of domestic companies with FDIs in Macedonia (3 measures), improvement of liquidity and access to finance (2 measures), improvement of economic activity (6 measures), improvement of sophistication of consumers (2 measures), improvement of labour force productivity (3 measures), increase of infrastructure quality (4 measures), improvement of education and research and development (5 measures) and improvement of public private dialogue and transparency (3 measures). Implementation of activities is ongoing, wherein most of the measures (26) are implemented in cooperation with or by the National Entrepreneurship and Competitiveness Council, which continued with activities for efficient tripartite dialogue.

The number of visits to the Single Electronic Registry of Regulations www.ener.gov.mk - ENER has a growing trend, where existing regulations in the country as well as draft law-proposals of ministries are presented, together with Regulatory Impact Assessments. Option is available for the public to submit comments and proposals on draft regulations directly to the competent institutions.

The latest amendments to the Law on Civil Procedure⁷ create a basis for further strengthening of protection of the rights of parties in judicial proceedings by allowing the parties and their legal representatives the opportunity for direct interrogation of witnesses and experts in order to obtain the necessary evidence. Also, the value of minor value commercial disputes is increased with the amendments. An attempt to resolve commercial disputes amounting to Denar 1,000,000 by mediation is prescribed as mandatory, prior to submitting a complaint to the court.

For further improving and upgrading the software Automated Court Case Management Information System (ACCMIS), under the IPA 2010 Project for further support for independent, responsible, competent and efficient judiciary and promotion of probation and alternative measures, three new software solutions were implemented in 2015, those being the following: 1/Module for scanning hard copy incoming documents arriving in the admissions offices of each court, 2/ Interconnection between the courts and the Public Prosecutor's Office having an impact on the speed of communication between these institutions and reducing the period of delivery of documents, and 3/ Establishing www.sud.mk web portal which will provide access and advanced search by various criteria on court decisions, publication of a calendar of trials for every court in the country, asking questions and receiving complaints from citizens, contact information about Courts, access to FAQs, latest news and developments of each court and other information. These software solutions are expected to be operational in the first half of 2016.

New Law on customs measures for implementation and protection of IPR's⁸, developed on the basis of the EU Regulation 608/2013 was adopted in May 2015. This Law regulates the conditions and procedures for taking action by the customs authorities when there are valid reasons for suspicion that the goods infringe IPR's.

Several amendments to existing laws are being prepared, aimed at further improvement, promotion and clarification of labour legislation. Amendment of Labour Relations Law⁹ was adopted, increasing paid maternity leave period from 12 to 15 months for employee who will give birth to a child or will adopt more children at once. The Law Amending the Law on Labour Inspection was adopted as well, aimed at harmonisation with the Law on Prohibition and Prevention of Performing Unregistered Activity¹⁰, where it was prescribed that labour inspectors, among other, will supervise unregistered activity.

The realization of project "Promoting social dialogue", conducted by International Labour Organization (ILO) with IPA financial support continued in 2015, and aims to strengthen capacities of social partners and tripartite social dialogue on national and local level. An increasing number of training courses and workshops on topics and issues related to the social dialogue at different levels were organized.

Government undertakes measures for reducing grey economy through annual Action plans for fight against the grey economy. Measures that are undertaken are of different nature, focusing on penalty measures and strengthened inspections. The implementation of the project "Support to the fight against undeclared work", co-financed by EU under IPA Component 4, continued during 2015. The project is implemented in a period of two years, until May 2016, and aims to contribute to improving the efficiency and effectiveness in tackling unregistered activity, by conducting detailed research and analysis of the occurrence and effects from the unregistered activity in the Republic of Macedonia, substantially

⁷ Official Gazette of the Republic of Macedonia 124/15 from 23.07.2015

⁸ Official Gazette of the Republic of Macedonia 88/15

⁹ Official Gazette of the Republic of Macedonia 72/2015

¹⁰ Official Gazette of the Republic of Macedonia 33/2015

strengthening the capacity of State Labour Inspectorate (SLI) and other relevant entities, and enhance the coordinated involvement and cooperation among relevant institutions and social partners in the fight against undeclared work. So far, several activities aimed at strengthening the capacity of SLI and other institutions are accomplished, as well as several purchases (vehicles, ICT equipment) to improve working conditions and efficiency of inspection services.

Conclusion 9. Improve access to finance for SMEs and speed up bankruptcy procedures. Continue with the implementation of the innovation strategy, and step up the use of instruments foreseen by the Innovation Fund.

In terms of access to finance, financial loan agreements between European Investment Bank (EIB) and Macedonian Bank for Development Promotion (MBDP), intended for credit support to SMEs and priority projects, are successfully and fully realized i.e. four phases totalling EUR 350 million. These four credit lines supported 1,758 companies' projects (505 from the first, 275 from the second, 439 from the third and 539 projects from the fourth credit line) and 6,940 new jobs were created.

To further improve access to finance in 2016, MBDP will implement the following activities: enhanced promotion of insurance claims from domestic and foreign companies and enhanced promotion of factoring, especially in terms of export receivables insured in MBDP where the liquidity of companies would significantly improve.

Additionally, in terms of facilitating access to finance for SMEs, measures to encourage new forms of financing, such as venture capital, are taken. In this regard, activities for establishment of legal and organizational framework for business angels in the Republic of Macedonia have started (see measure 9. Financing companies through business angels).

Regarding bankruptcy procedures, the Republic of Macedonia is ranked 37th among 189 countries, according to the "Doing business 2016" Report. The average duration of bankruptcy procedure is 1.8 years, being similar with the countries of the Organization for Economic Cooperation and Development (OECD) (1.7 years) and significantly shorter than the average of Europe and Central Asia countries (2.3 years). Aimed at accelerating bankruptcy procedures, the system of electronic selection of bankruptcy trustee started to function from 23.04.2015, in order to ensure equitable distribution of the bankruptcy proceedings of licensed trustees.

In the upcoming period, activities for upgrading E-auction system - electronic sales of property from bankruptcy estate are envisaged, which will enable electronic auction of the property subject to liquidation to be done in regular liquidation procedure as well. This will enable faster market exit for companies in liquidation.

To the end of increasing the tendency of the business sector towards introducing innovations, as well as raising the awareness of small- and medium-sized enterprises about the use of innovations, measures for building the innovation infrastructure, have been envisaged, such as: establishment of Centres for Technology Transfer, Research and Development Centres, Centres of Excellence. The commitment for private sector development, in particular innovation development, will also be realised by establishing and/or further developing sustainable innovation infrastructure within universities, establishing/developing capacities of technology accelerators in order to raise awareness, encourage the entrepreneurial spirit and help the young population and students to start their own businesses.

The Fund for innovations and technology development became operational in February 2015. Two public calls were announced in 2015 and 32 companies were selected for financing. The announcement of public calls will continue in 2016.

The Fund organised info-meetings and promotional activities across the country, in cooperation with the municipalities, the centres for development of planning regions, universities, chambers of commerce and its regional offices. In October 2015, the Fund in cooperation Skopje Fair have organised the Forum for Innovation and Technology for the first time. For more details see section 4.2.5. Measure 13.

2. MACROECONOMIC FRAMEWORK

2.1. Recent economic developments

International economic environment. Growth rate is expected to amount to 3.1% in 2015 at global level and to surge to 3.5% in 2016 and 3.7% in 2017. Global economy in 2015 will increase with the lowest rate after 2009, as a result of the slowed-down increase of fast-growing economies. Outlook for global GDP growth and trade was deteriorated, mainly as a result of the crisis of fast-growing economies, being on broad basis, as well as the change of the driving forces of growth of Chinese economy (shifting of driving forces from investments and manufacturing toward consumption and services).

Recovery of the economy in the EU and the Euro zone is envisaged to continue in the coming period as well, as a result of the reduced prices of oil, depreciation of the euro and monetary easing from the European Central Bank. Such circumstances stimulated both private consumption and export, while investment activity despite the favourable financial conditions, lags behind due to the economic and political uncertainty. Thereby, growth slowdown in emerging market economies, having influence over the reduction of the scope of global trade, increased global insecurity, as well as the continuous geopolitical tensions, are expected to reduce the effects from the favourable conditions for growth. Real GDP growth in the Euro zone is expected to increase to 1.6% in 2015, 1.8% in 2016 and 1.9% in 2017. Growth in the EU is expected to increase from 1.9% in 2015 to 2.0% in 2016 and 2.1% in 2017.

Table 2.1. Macroeconomic indicators in the Euro zone and EU

| Year | GDP | | | Inflation | | | Unemployment rate | | |
|-----------|------|------|------|-----------|------|------|-------------------|------|------|
| | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 |
| Euro zone | 1,6 | 1,8 | 1,9 | 0,1 | 1,0 | 1,6 | 11,0 | 10,6 | 10,3 |
| EU | 1,9 | 2,0 | 2,1 | 0,0 | 1,1 | 1,6 | 9,5 | 9,2 | 8,9 |

Source: European Economic Forecast (Autumn 2015)

Recovery of the labour market in the EU slowly progresses; however, it is stable in line with the improvements of the economic activity. Unemployment rate in the EU is expected to account for 9.2% in 2016 and 8.9% in 2017. Inflation rate in the EU is expected to account for 0% in 2015, mainly as a result of the low prices of goods and energy sources. Inflation rate in the EU is expected to amount to 1.1% in 2016 and 1.6% in 2017.

Recent economic developments in the Republic of Macedonia.

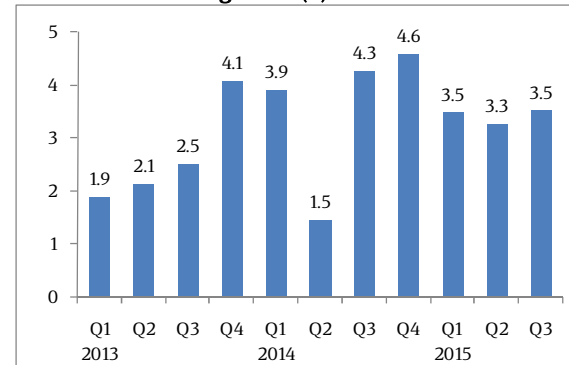
Gross domestic product. Growth of economic activity continued in 2015, which in the first three quarters of 2015 accounted for 3.4%. According to the GDP production side, several sectors registered positive growth rates. The favourable developments in construction continued in 2015 and in the first three quarters the sector registered high growth rate of 11.8%. Growth of the service sector accounted for 4.1%, where Trade, transport and catering grew by 6.6% and had the largest contribution to growth of economic activity. Industry grew by 1.2% in the first three quarters of 2015. Influenced by unfavourable weather conditions, agricultural production dropped by 3.2%.

Analyzed according to the expenditure side, growth in the first three quarters in 2015 was driven by export of goods and services, experiencing real growth of 5.2%. Increase in export was mainly a result of the increased export potential of the country, amid gradual recovery of external demand. Export growth was accompanied by the change in the structure of the export towards products with higher value added, in line with the activities of companies in the free economic zones. According to the monthly data on exports of goods for this period, exports of machinery and transport equipment increased by 27.2% and chemical products by 17.6%. Imports of goods and

services grew by 0.9% in real terms, with net exports having a significant positive contribution to economic growth.

Final consumption grew by 3.0% in the first three quarters of 2015 due to growth in the private and public consumption. Private consumption also grew by 3.0% in real terms, as a result of growth in employment, wages and growth of crediting to households, while public spending increased by 2.9%. Gross investments decreased by 1.9% in real terms during this period.

Chart 2.1. Real GDP growth (%)

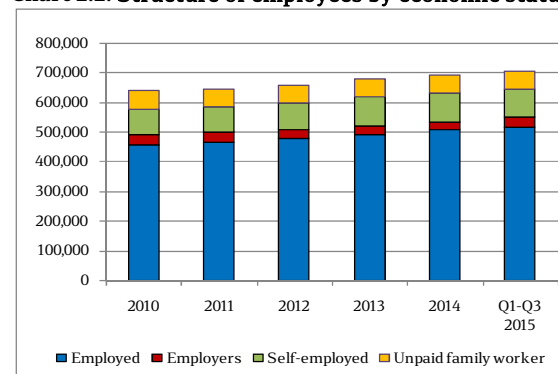


Source: State Statistical Office

Labour market. Positive trends on the labour market continued in 2015. According to the Labour Force Survey, employment rate is continuously increasing and in Q3 2015 amounted to 42.4%, being higher by 1,1 p.p. compared to the same quarter in 2014. In the first three quarters of 2015 employment rate amounts to 41.9%, being higher by 0.8 p.p. compared to the same period last year. The number of employed persons in the first three quarters in 2015 was higher by 2.1% compared to the same period in the previous year. Increase of employment is mainly due to activities of companies in free economic zones and realisation of active measures and policies aimed at unemployment reduction, including the new project "Macedonia employs".

Employment growth was accompanied by drop of the number of unemployed persons, decreasing by 5.9% in the first three quarters of 2015. Such trends on the labour market caused for the unemployment rate in Q3 2015 to reduce to 25.5%, i.e. to drop by 2.4 p.p. compared to the same quarter of the previous year. In fact, in Q3 2015, unemployment was at the lowest level since the independence of the country until today. In the first three quarters of 2015 the unemployment rate amounts to 26.5%, being lower by 1.6 p.p. compared to the same period in 2014. Active population in the first three quarters of 2015 accounted for 57.1% of total working-age population. Average net salary in the first nine months of 2015 was higher by 2.6% in nominal terms and by 2.3% in real terms in relation to the same period in 2014, while average gross salary grew by 2.9% in nominal terms and by 3.3% in real terms.

Chart 2.2. Structure of employees by economic status

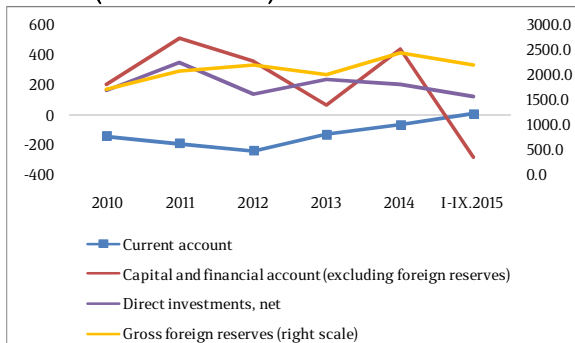


Source: State Statistical Office

External sector. The developments on the balance of payments' current account in 2015 are in line with the changes of the world prices of commodities, stronger positive spillovers of the new production facilities on the total export, as well as the increase in the domestic economy, on the backdrop of relatively slow recovery of the external environment. The balance of payments' current account in the period January-September 2015 registered a small surplus in amount of EUR 2.8 million, contrary to the deficit in amount of EUR 73 million in the same period of the previous year. The narrowing of the current account balance was mainly caused by lower trade deficit and the higher surplus in trade of services, besides higher deficit in the primary income and almost unchanged net inflows of the secondary income. Within the secondary income, net purchased cash on the currency exchange market remained at almost the same level compared to the same period last year.

In the first nine months of 2015, within the inflows on the financial account, the largest contribution came for the net inflows based on FDI. In January – September 2015, the FDI equal EUR 119 million, composing around 1.3% of the estimated GDP. Within total FDI, the largest portion (about 77%) refers to inflows in equity and reinvested gain, contrary to the smaller share of the intercompany debt. At the end of September 2015, the gross foreign reserves account to EUR 2.189 million, which is a decrease of 10.2%, compared to the end-2014, mainly due to the transactions on behalf of the Government (including the early debt repayment towards IMF in February). The foreign reserves are maintained at adequate level, providing average coverage of the import of goods and services from the following year of over four months.

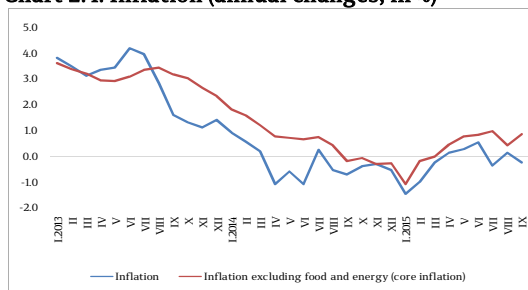
Chart 2.3. Balance of payments and gross foreign reserves (in millions EUR)



Source: NBRM.

Inflation. The average annual inflation in the period January-September 2015 was -0.3%, and since the beginning of the year, mainly a deceleration trend of the negative rate was registered. The low average inflation is mainly due to lower fuel prices in line with the downward movements at the international markets. The average core inflation, which excludes variable categories (food and energy), was 0.3% per year (in the second and third quarter, it stabilized at 0.7%).

Chart 2.4. Inflation (annual changes, in %)

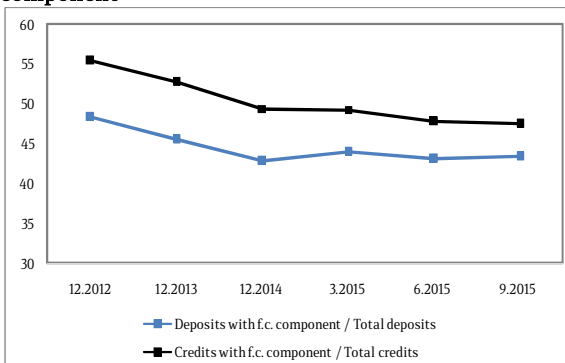


Source: SSO, NBRM calculations.

Monetary Developments and Exchange Rate. The environment for monetary policy implementation in the first three quarters of 2015 is assessed as favourable, amid low inflation, stable exchange rate against the euro and an appropriate level of foreign reserves. Consequently, the implementation of accommodative monetary policy, while keeping the reference interest rate at a low unchanged level and changes in other instruments, continued.

On the backdrop of solid economic activity, in September 2015 an annual increase in the broadest money supply M4 of 6.2% was registered. In September 2015, the total deposits of the domestic

Chart 2.5. Deposits and credits with foreign currency component



Source: NBRM.

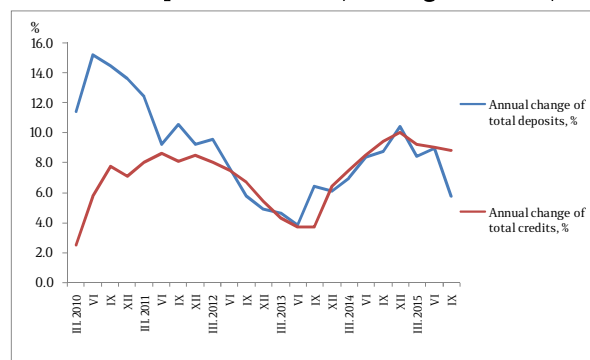
private sector surged by 5.7%, annually, but it is still moderate deceleration compared to the end of 2014, mainly influenced by the uncertainty related to the domestic political situation and escalation of Greek crisis. Faster growth was recorded in Denar deposits (8.3%) compared to the growth in foreign currency deposits (2.7%), with growth of Denar deposits creating about 83% of the annual growth of the total deposits. The average share of foreign currency deposits in the total deposits during the crisis fell from about 55% in mid-2009 to around 42% in September 2015

(which is even slightly lower than pre-crisis level by the end of 2007). The change in the currency preference of the entities during the global crisis was largely determined by the uncertainty

regarding the crisis in the euro area, as well as higher yields on Denar instruments, thus indicating the confidence in the domestic currency. However, this several-year trend stabilized in 2015, probably under the influence of escalated political uncertainty. By sectors, the total household deposits in September registered an annual growth of 5%, while corporate deposits increased by 7.1%, with almost two thirds of the reported annual growth stemming from the growth of household deposits.

Chart.2.6.

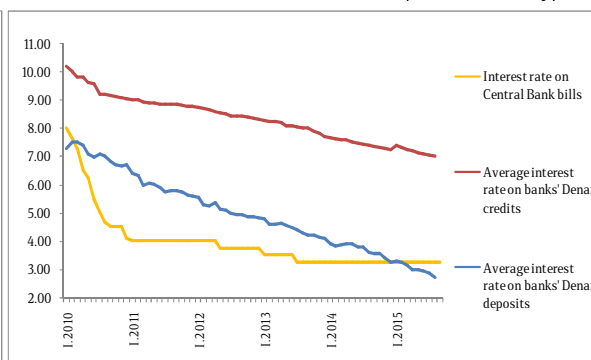
Total banks' deposits and loans (annual growth, in %)



Source: NBRM.

Chart. 2.7.

Interest rates of the NBRM and banks (in %, annually)



Source: NBRM.

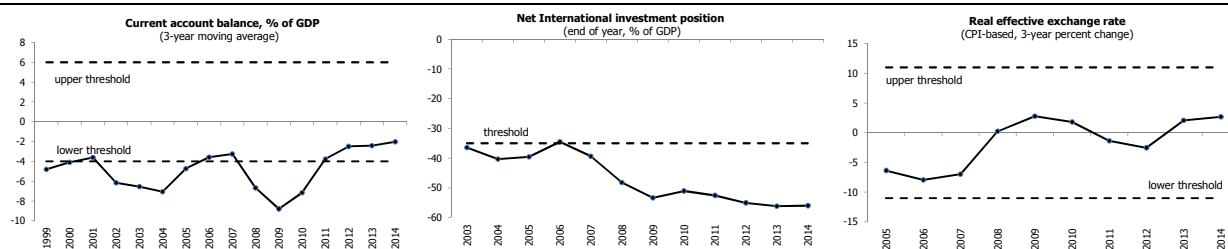
At the end of September 2015, the bank loans to the domestic private sector registered annual increase of 8.8%, amid slight deceleration during the year. On the backdrop of slower deposit growth, the credit-to-deposit ratio registered a moderate upward trend, equalling 91.5% in September. By currency, credit growth is entirely explained by the growth in Denar loans (by 11.4%), while foreign currency loans were almost unchanged. Such movements in the loans' currency structure correspond to changes on the liabilities side, driven by growth in the Denar deposits. By sectors, in the first nine months of the year, increased contribution accounted for household loans with 61% of the total annual increment versus equal share of loans to households and enterprises in the previous year, indicating a change in the orientation of sectoral lending. The majority, about 86% of the annual growth of loans are long-term.

Interest rates in the banking sector registered a moderate decrease. The average weighted interest rate on total Denar loans since the beginning of 2015 decreased by 0.4 p.p. and in September 2015 it equalled 7% annually. At the same time, the average deposit interest rate dropped by 0.6 p.p. and in September 2015 it equalled 2.7% annually. Given the larger reduction of deposit interest rate, the interest rate spread has been widened compared to the beginning of the year by 0.2 p.p. to the level of 4.3 p.p. In September 2015, the interest rates on foreign currency loans and foreign currency deposits amounted to 5.8% and 1.2%, and from the beginning of the year, decreased by identical 0.3 p.p., respectively.

Box 2.1. Indicators for the Macedonian Economy in 2014 under the Macroeconomic Imbalances Procedure of the European Commission

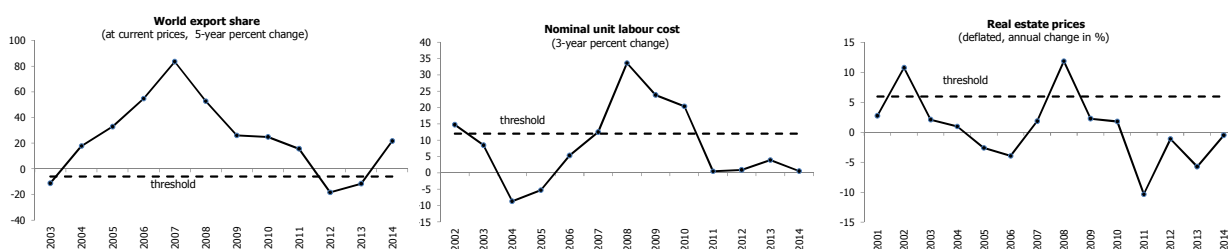
The monitoring of the economy based on the list of scoreboard indicators with determined indicative thresholds, pursuant to Macroeconomic imbalances procedures - MIP¹¹ of EC, which is implemented for the EU member states, can be useful also for monitoring the basic vulnerability areas with the candidate countries, as well as for perceiving their level of convergence to the EU. Following are the main indicators for the Macedonian economy in 2014 within this approach, according to the given thresholds.

¹¹ Alert Mechanism Report, European Commission, February 2012.

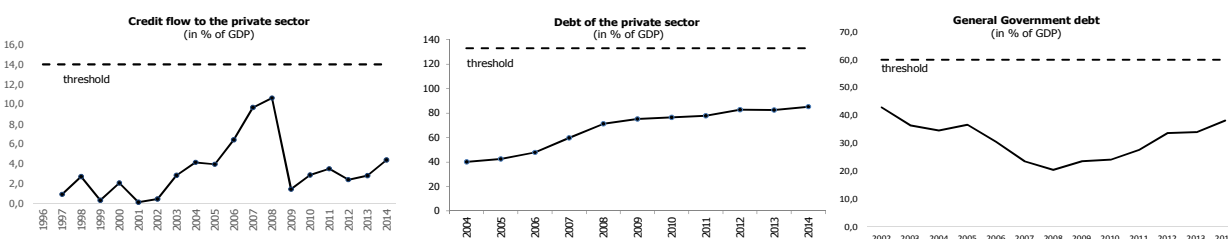


The deficit on the current account of the Republic of Macedonia, as three-year moving average, in 2012-2014 period, is maintained relatively stable and it is smaller than the set lower vulnerability threshold (-4% of GDP), therefore it is within the allowed interval. Since 2007, the net international investment position of the country has been registering a trend of deepening with a certain improvement in 2010, but re-extended in the following few years, so in 2014 it reached about -53% of GDP which is significantly below the vulnerability threshold of -35% of GDP. It should be borne in mind that the net international position on the liabilities side also includes foreign direct investments, which make up nearly half of the increase in total liabilities abroad in the past three years. In this light, when analyzing the converging economies, just because of the effect of foreign direct investment, under the EC's approach, other indicators should also be considered, such as net external debt, which includes only debt instruments, on a net basis. At the end of 2014, the net external debt of the Republic of Macedonia equalled 21.6% of GDP (18.7% of GDP in 2013).

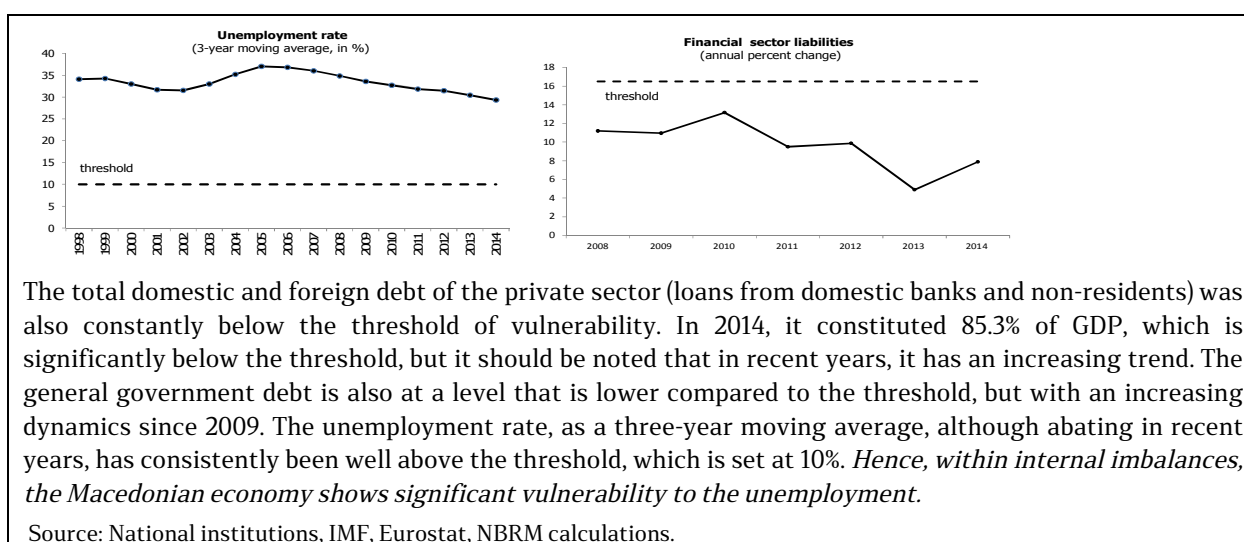
The real effective exchange rate (REER) is mainly depreciating, which contributes to the competitiveness of the economy. In 2013 and 2014, the three-year change in REER indicates a small appreciation of about 2% (mainly due to the nominal effective exchange rate), which is within the allowed range.



The export market share of the economy in the world exports, as a five-year change, has been registering decelerated growth rates since the beginning of the crisis. In 2012, this indicator dropped below the lower threshold (-6%), but in 2013, the rate of annual decline reduced and in 2014 it registered a significant annual growth and the indicator returned to the safe area. Such movements reflect the improved export performances, reflecting the structural changes in the economy in the last several years. The three-year change of the nominal unit labour costs, followed a downward trajectory since 2009, and from 2011 onward this indicator is located in a safe area, being maintained relatively stable. *Generally speaking, within external imbalances, the Macedonian economy shows potential vulnerability in the domain of foreign liabilities, where besides the lessening arguments, caution in this area is necessary.*



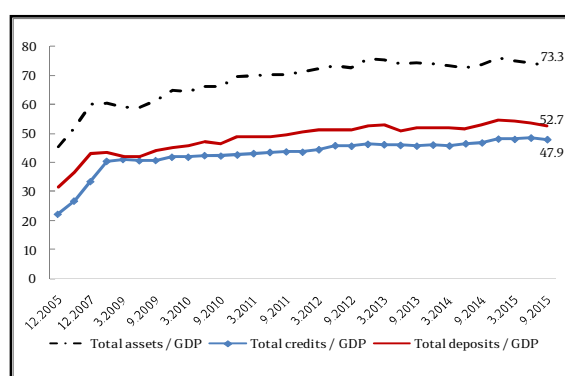
Regarding the internal imbalances, the annual changes in the banks' loans to the private sector is constantly below the vulnerability threshold. In the last two years, the changes in the loans moderately accelerated, reaching 4.4% of GDP in 2014, which is significantly lower than the threshold. In 2014, the financial sector's liabilities accelerated and recorded an annual growth rate of about 8%, which is below the threshold (16.5%). The change in the real estate prices, after their peak in the period of economic expansion in 2008, when they were in the area of vulnerability, registered a downward trend, and in the period 2011-2014 they had a negative annual change.



Banking System. Banks are the dominant institutional segment with a share of 86.8% in the total assets of the financial system at the end of 2014, whose stability is key for maintaining the stability of the overall financial system. As of September 2015, fifteen banks and three savings houses are operating in the Republic of Macedonia. The highest share¹² in the ownership structure of banks accounts for shares owned by foreign shareholders (75.96%), primarily from EU countries (56.3%). Eleven banks are predominantly in foreign ownership and seven of them are subsidiaries of foreign banks.

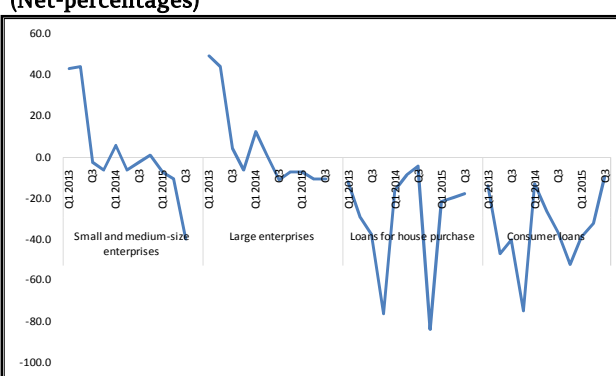
Amid solid economic growth, despite the strong domestic political turmoil and inherent risks and uncertainties related to the outcome of the debt crisis in Greece, the total banks' activities in the country registered an increase during 2015. Along with the increase in the assets of the Macedonian banks (5.6% annually, at the end of September), the level of financial intermediation continued to grow (at the end of September 2015, the share of the total loans of the banking system in GDP increased compared with the level achieved the same period of 2014 by 1.1 p.p.). In this context, it is also important to note the gradually improved assessment of the access to loans, as part of the assessment of the competitiveness of the economy¹³.

Chart 2.8. Financial intermediation (% of GDP)



Source: NBRM, SSO.

Chart 2.9. Change of the banks' lending criteria (Net-percentages)



Source: NBRM Banks' lending survey.

Note: negative net percentage means relaxation.

¹²Last available data as of June 2015.

¹³Pursuant to the Global Competitiveness Report of the World Economic Forum, 2015-16, according to the latest ranking the Republic of Macedonia is at the 56th position according to the criteria Ease of access to loans (improvement for 40 positions compared to 2011), with the grade of this criterion 2.4 in 2011 being increased to 3 in 2015 (where the highest grade is 7).

The NBRM Lending Survey to banks in the first three quarters of 2015, indicates further easing of lending conditions to enterprises (to the large and the small and medium-size enterprises), which is mainly in terms of interest rate, non-interest expenses, the amount and the maturity of the loan, rather than in terms of collateral requirements. At the same time, conditions for lending to households are in the zone of relaxation, which mainly refers to the interest rate for housing and consumer loans, as well as non-interest expenses and maturity in consumer loans.

The total indebtedness of the corporate sector¹⁴ kept growing in 2014 (by 1.3 p.p.) and reached about 64% of GDP. Unlike the previous two years, when the foreign creditors were the main reason for the annual deepening of the debt of the domestic corporate sector, in 2014, the contribution of the domestic banks to the debt growth has increased. Structurally, more than half of the debt of the corporate sector is to non-residents, mainly based on short-term loans and trade credits (therefore the claims of non-residents - parent companies and trading partners should also be taken into consideration), less than half is debt to domestic banks, while the share of other segments of the domestic financial system in financing the activities of this sector remained minor. The indebtedness of households in 2014 increased (by 1.3 p.p.), but still remained relatively low at around 21% of GDP, with most of the debt (94.1%) being to domestic banks and the rest mainly refers to other domestic financial institutions.

Credit risk. The quality of the loan portfolio of the banking system, according to the share of non-performing loans in the total loans of non-financial entities, is at moderate and stable level, which in the past three years is around 11% (11.7% at the end of the third quarter of 2015). The credit risk is mainly concentrated in companies. In the third quarter of 2015, there was a significant slowdown in the annual growth rate of non-performing loans, which amounted to 4% at the end of September (compared to 13.8% in September 2014). However, the average annual growth rate in the first nine months of 2015 is 8%, which is higher than the average annual growth rate in the same period of 2014 (6.9%) and the average annual growth rate for the whole of 2014 (7.8%). Dominant part of the growth of non-performing loans still stems from corporate loan portfolio of banks, which in the first three quarters of 2015 grew at an average annual rate of 9.1%. After a longer period (about 3 years) of almost unchanged level of non-performing loans of households, in 2015 they registered a moderate average annual growth rate of 4.4%. The non-performing loans are covered entirely by total provisions (103.1%), which contribute to minimizing the risk of banks' own funds from not being collected at all.

The NBRM constantly monitors the movement of the non-performing loans and undertakes activities to determine the causes of the high persistence of existing non-performing loans and the reasons for the emergence of new non-performing loans. In 2012, empirical models for estimation of the most important macroeconomic determinants of non-performing loans were developed and they are continually updated. The empirical analysis has confirmed the high degree of persistence of non-performing loans, as well as the statistically significant impact on the main macroeconomic variables on the movements of non-performing loans, but also stated that this influence is weakening in recent years. The latter leads to the conclusion that the growth of the non-performing loans in recent years is largely conditioned by the materialization of idiosyncratic part of the overall credit risk in individual banks and/or customers, which could significantly contribute to the deterioration of loans quality of the banking system, especially considering the traditionally high concentration of credit portfolios, both at the system and on separate bank level. At the end of 2014, the NBRM in collaboration with the International Finance Corporation organized a workshop for banks which provided an opportunity to exchange

¹⁴Last available data.

experiences and generally raising awareness about the importance of the process of building a sustainable system for managing non-performing loans and troubled debt resolution.

In the first half of 2015, the NBRM prepared a detailed analysis of the structure and concentration of non-performing loans. The analysis did not identify any legal, regulatory or tax obstacle to implement extensive write-offs of "old" non-performing loans by the banks, including taking action to restructure loans extended (banks even have the opportunity, as the main creditors of certain corporate customers, to actively engage in a process of reorganization of the enterprise-debtor in case of opening of bankruptcy procedure). On the other hand, given the underdeveloped and illiquid real estate and movable property market in the Republic of Macedonia, banks are not able to quickly and easily sell foreclosures based on uncollected claims, which may deter the activities for undertaking property offered as collateral for the uncollected claims. In this context, it is important to note that in the recent period intensified efforts to establish two new registers - registry of prices of concluded transactions with real estate and register of the estimated value of the property in Macedonia, have been done¹⁵. These registers can be of great benefit to the banks not only in establishing new loans to customers who offer property as collateral, but also in making a decision on forced collection of a claim based on the activation of the collateral.

The analysis found a high concentration of non-performing credit portfolio composed of legal entities (which dominates the total non-performing loan portfolio), where 50 largest non-performing loans accounted for nearly 60% of total non-performing loans to legal entities. The analysis showed that there is a room to restructure non-performing loans (in about 60% of non-performing loans banks did not adapt the contractual terms of approved loans). More than half of the amount of non-performing loans are "fully covered", which limits the adverse effects on banks' capital, but is indicative of the lack of success of banks in the resolution of non-performing loans. If we exclude these loans, the share of non-performing loans to total loans would have been halved. The structure of the non-performing credit portfolio are mostly overdue loans, and in half of non-performing loans, customers are late more than two years in servicing liabilities (out of them, in half cases there is delay in the payment of liabilities longer than four years), which is an indicator of the relatively long period of time in which non-performing loans are kept in banks' portfolios.

At the beginning of 2015, the NBRM conducted a survey among banks for the activities and measures taken regarding the management of credit exposure with non-performing status and the reasons for not deciding to write off the claims, although they been bad for a long time and even fully impaired in their balance sheets. Generally, banks cited a list of common activities and measures taken to manage non-performing loans (increased personal contact with customers, adjusting the credit conditions to the current financial difficulties), and do not resort to write-off of claims until there is the slightest possibility of recovery, or until they exhaust all legal possibilities for collection of non-performing claim. In this context, the existence of collateral for non-performing claim is often a cause which deters banks from implementing faster and more extensive write-off of claims. In fact, more than 85% of non-performing claims are collateralized by a security instrument, and even 60% of them are covered with residential real estate for living and lease of residence and/or business premises.

Timely and appropriate restructuring of loans that are close to a state of default is probably the best proactive measure that is at the disposal of banks to avoid the non-performing status of their customers, certainly if expected positive effects from restructuring. The latter requires need for establishment and continuous improvement of credit risk management by banks, not just

¹⁵Within the Agency for real estate cadastre of the Republic of Macedonia.

when approving new loans, but also throughout the entire life of the loan. In this regard, in March 2013 NBRM adopted a new regulation on credit risk management, which, among other things, encourages banks to timely restructure of the loans¹⁶. In this context, there is obvious progress in loan restructuring, which at the end of June 2015 comprised 28.4% of total non-performing loans, compared to 16% in June 2013. Analyses show that at the end of 2014, the restructuring was successful (two years after its implementation) with 59.7% and 74.6% of restructured loans of enterprises and households, respectively. Additionally, in 2014 the rate of sale of foreclosed assets improved to 13.6% (in 2013 it was 9.5%). In the second quarter of 2015, banks have written-off household claims who are mostly associated with the Law on one-off writing-off of the household debts¹⁷, which considering the relatively small amount had no significant impact on the dynamics of total non-performing loans (excluding this write-off, the quarterly growth rate of total non-performing loans in this quarter would be higher by only 0.3 p. p.).

In December 2015, changes in the Decision on credit risk management have been adopted, according to which, starting from June 30, 2016, banks will perform write-offs of all claims which are fully booked for more than two years, thus in which the bank determined and fully covered the credit risk of non-collection at least two years before. According to existing regulations, banks are obliged to fully reserve claims where the client failed to pay at least 1 up to 5 years if there is specific collateral, and with the new measure, after two years when fully booked, are required to write them off. In addition, banks will further have the opportunity and obligation to take actions for collection of these claims, although they are written off. It is particularly important that this measure does not cause additional costs for banks because claims which are fully booked at least two years ago will be written off.

Other banking risks and performance indicators. In the first nine months of 2015, the Macedonian banking system registered 50% higher profit compared to the same period of 2014. The larger profit reflected on improvement of the profitability indicators, with return on assets (ROA) and return on equity (ROE) being equal to 1.2% and 11.1%, respectively. Amid present risks in the banks' loan portfolio and the historically low levels of interest rates on deposits, the maintenance of the profitability is a challenge for the banks in the coming period.

The liquidity of the banking system remained sound. At the end of September 2015, one third of the assets are liquid assets covering about 57% of the total short-term liabilities and nearly 60% of total household deposits. The high and stable solvency of the banking system strengthened additionally. At the end of June 2015, the capital adequacy ratio equalled 16.2%, which is double compared to the statutory minimum of 8.0%.

Table 2.2. Basic bank risks indicators (in %)

Source: NBRM.

| | 2013 Q4 | 2014 Q4 | 2015 Q1 | 2015 Q2 | 2015 Q3 |
|--|---------|---------|---------|---------|---------|
| Capital adequacy | | | | | |
| Capital adequacy ratio | 16,8 | 15,7 | 16 | 16,2 | 16,1 |
| Asset quality | | | | | |
| Non-performing loans / gross loans (non-financial entities) | 11,5 | 11,3 | 11,6 | 11,5 | 11,7 |
| Total loans provisions / non-performing Loans (non-financial entities) | 103,3 | 104,7 | 105,5 | 106,0 | 103,1 |
| Profitability | | | | | |
| ROAA | 0,6 | 0,8 | 0,6 | 1,0 | 1,2 |
| ROAE | 5,7 | 7,4 | 5,5 | 9,4 | 11,1 |
| Operational expenses / total income (costs / income ratio) | 60,6 | 55,5 | 50,8 | 51,9 | 51,5 |
| Liquidity risk | | | | | |
| Liquid assets / total assets | 32,8 | 33,2 | 33,1 | 32,0 | 31,7 |
| Liquid assets to total short-term liabilities | 57,4 | 59,2 | 59,5 | 57,2 | 56,9 |
| Sensitivity to market risk | | | | | |
| Net open foreign exchange position / own funds | 15,6 | 17,5 | 10,3 | 8,5 | 7,7 |

¹⁶ With the aforementioned regulations introduced impairment and special reserve of at least 30% if certain claim becomes non-performing, which is an incentive for banks to take actions to restructure the loans before they "gain" non-performing status.

¹⁷Official Gazette of the Republic of Macedonia No. 112/2014.

In December 2015, changes in the methodology for capital adequacy have been done, mainly aimed to slowdown the high growth of long-term consumer loans. In the last two years, quite rapid growth is registered in consumer loans, primarily consumer loans with maturity of over ten years, whose annual growth rate in September 2015 climbed to 47.5%. In practice, almost always, after rapid growth in lending, usually in conjunction with eased lending conditions, a period of difficult collection of claims follows. So far, the portfolios of consumer loans of Macedonian banks do not show performance of the risks of rapid growth and eased lending conditions. The growth of non-performing consumer loans is moderate, although in the last months it accelerates. However, under the influence of the accelerated credit growth, the share of non-performing consumer loans to total consumer loans is at a relatively low level (5.2%). The measures are introduced in order to limit the potential risks of the accelerated growth of long-term consumer loans, thus to influence preventively on signals for potential future growing risks of these loans, and not only for the quality of banks' loan portfolio, but also for the level of indebtedness of the households, because the indebtedness of the existing borrowers, rather than new borrowers, grows. The measure increases capital requirement for banks on long-term consumer loans with a term equal to or longer than eight years, by increasing the risk rate for claims based on consumer loans with contracted maturity equal or longer than eight years from 75% to 150% and from 100% to 150%. In order not to cause major distresses on the consumer loans market, yet the growth rates to be reduced to a moderate level, this measure is aimed only at newly approved long-term consumer loans - after January 1, 2016 with a term equal to or longer than eight years, whereby prolongations and restructurings are covered. It is expected that the banks will follow the signal of the National Bank and will contribute to slowing the rapid growth of these loans.

Furthermore, to prevent the possibility of diverting borrowing to credit cards and overdraft bank accounts (which have quite stable and moderate growth) due to the measure in terms of long-term consumer loans, capital requirement with risk weight of 75% on the increase of the exposure based on approved overdraft bank transaction accounts and credit cards realized on the reporting date relative to December 31, 2015, is introduced. Therefore, the measure does not apply to the existing exposure on these products, but affects their possible further increase.

At the same time, the capital requirement for guarantees issued by banks is reduced, which guarantees payment based on a certain business relationship of the client (conversion factor is reduced from 100% to 50%, thus equalling to the factor applied for letters of credits) and claims of banks which are secured by commercial property that meets certain conditions (risk factor reduced from 100% to 75%). In addition to complying with the European Regulation (575/2013 as of 26 June, 2013) on prudential requirements for credit institutions and investment firms, by allowing banks to allocate a lower amount of capital for loan guarantee operations with legal entities, including small and medium enterprises, this measure in turn can lead towards reducing the cost of banks and thus the clients for this type of operation. Additionally, conditions for facilitating access to financial services for legal entities are created, including the small and medium size enterprises.

At the end of June 2015, in the context of the escalation of the Greek crisis, the NBRM introduced interim protective measures (valid until the end of the year) to limit capital out flows by residents of the Republic of Macedonia (individuals and legal entities) to Greek entities based on newly concluded capital transactions. The measure was introduced to prevent the disturbance in the balance of payments and strengthening the resilience of the financial system to external factors.

In order to test the resilience of the Macedonian banking system to adverse movements in the macroeconomic environment, two adverse macroeconomic scenarios were used, spanning a period of two years (2015 - 2016). The first adverse macroeconomic scenario is hypothetical and based on scenarios developed by the FED, and for the macroeconomic stress testing of the Macedonian banking system the so-called serious adverse scenario was chosen, which assumes,

among other things, deteriorated international economic conditions, including adverse developments in EU¹⁸, that would have adequate consequences on the Macedonian economy¹⁹. The second adverse macroeconomic scenario is called historical scenario and assumed mirroring the movements in the analyzed macroeconomic variables realized in the certain past period (from 2009 to 2010, when the negative effects of the global financial crisis on the domestic economy were most evident) in the period 2015-2016. The historical scenario has a higher level of extremeness compared to hypothetical macroeconomic scenario (the FED made), and assumes somewhat less favourable movements on the part of macroeconomic variables, in particular, the annual growth rate of GDP. The results of the macroeconomic stress-testing²⁰ indicate generally satisfactory resilience of the banking system to unfavourable developments in the macroeconomic environment, according to both scenarios. In fact, despite the increase in the share of non-performing loans in total loans to non-financial entities and the simultaneous decline in the rate of return on average assets, capital adequacy ratio of the banking system does not fall below 8% (at the end-2016 reduced to 8.5%).

The relatively high resilience to shocks of the banking system is confirmed by sensitivity tests that are conducted on a regular quarterly basis. Simulations show that only with extremely high growth in non-performing credit exposures to non-financial entities (by 86.4%, versus the actual annual growth rate of 4% in September 2015), i.e. almost double the ratio of non-performing loans to non-financial entities, capital adequacy of the banking system would be reduced to 8%.

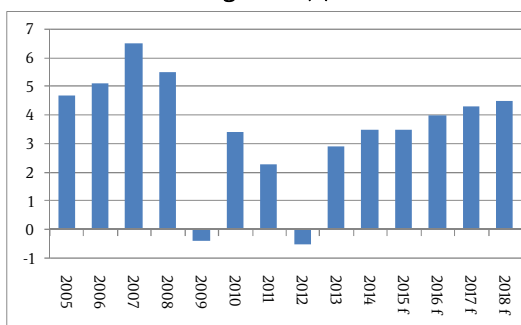
2.2. Medium-term macroeconomic scenario

Macroeconomic policy of the Republic of Macedonia in the coming period is aimed at fulfilling the strategic commitments of the Republic of Macedonia for long-term and sustainable economic growth, increasing competitiveness of the economy and job creation, as well as better living standard of the population.

Macroeconomic policy in the period 2016-2018 provides conditions for increased economic activity through sustainable fiscal policy, which, in coordination with the monetary policy, will contribute to achieving sustainability of the external position of the country and ensuring inflation level to underpin the economic activity.

Gross Domestic Product. Taking into account the expectations for the external surrounding, the sound macroeconomic policies, i.e. the structural reforms aimed at increasing country's competitiveness, as well as the active fiscal policy by realising significant investment projects, favourable economic trends are expected to continue in the period 2016 – 2018. Real GDP growth in 2016 is projected at 4%, 4.3% in 2017 and

Chart 2.10. Real GDP growth (%)



Source: SSO and calculations of MoF, f - forecast

¹⁸Scenario according to the FED (October 2014), developed for the needs of the last program for capital planning and conducting stress tests for 2015 on selected US banking holding companies and banks. This scenario assumes a significant weakening of global economic activity, followed by increased volatility in the prices. At the end of 2015, real GDP for the US economy is about 4.5 p.p. lower (compared with the third quarter of 2014), growth in unemployment (of about 4 p.p.), increase in oil prices (up to \$ 110 per barrel) and a sequential increase of inflation (up to 4.25%), as well as appreciation of the US dollar. The share prices are assumed to drop by about 60%, and prices of the residential and commercial property, by 25% and 30%, respectively. The real GDP of the euro area would be reduced by about 5 percent (more details: <http://www.federalreserve.gov/newsevents/press/bcreg/20141023a.htm>).

¹⁹In case of materialization of the unfavourable scenario developed by FED, the Macedonian economy growth would be smaller compared to the forecast in the basic macroeconomic scenario of NBRM by 1.3 p.p. in 2015 and by 0.3 p.p. in 2016, accompanied by fall in the interest rates and price level in the economy.

²⁰In order to examine the behaviour of the Macedonian banking system amid the adverse macroeconomic scenarios, models have been developed for the interdependence between selected indicators of banks' operations (the indicator of the share of the non-performing loans in the total loans of non-financial entities and the rate of return on average assets) and some basic macroeconomic variables. For the first time a contagion matrix was developed, which examines the possible negative spillover from one bank to another in a case of eventual complete or partial default on interbank claims/liabilities, as a logical continuation of the materialization of adverse macroeconomic scenarios. Also, by using a contagion matrix the adverse effects that supposed "distress" in the individual banks would have on insurance companies and compulsory pension funds were assessed.

4.5% in 2018, driven by the expected growth of export and investments. Consumption is also expected to have positive contribution to economic growth, particularly private consumption.

Export of goods and services is envisaged to achieve average real growth of around 9% in the period 2016-2018, mainly as a result of the expectations as regards the operating of the export capacities of the foreign companies, amid gradual growth of foreign demand. Export growth is expected to be accompanied by further diversification and improvement of the export structure, to the end of increased share of higher value-added products. Projected growth of domestic demand and export activity imply growth of import as well, which, in this period, is expected to be 7.7% in average.

Growth of gross investments in the period 2016 - 2018 is projected at 7.8% in average. Projected growth of investments is based upon the planned investments in the public sector, as main driving force of investments in infrastructure, as well as the expectations for gradual growth of private investments, mainly driven by FDIs. As for public investments, investments aimed at improving the transportation network in the country (highways, railway line, regional and local roads), investments in energy and utilities infrastructure, as well as in the education, social and health system are envisaged. These investments, in addition to the current positive effect on the economic activity, will also contribute to increasing the competitiveness of the country in the long run, being of key importance for increasing productivity and production.

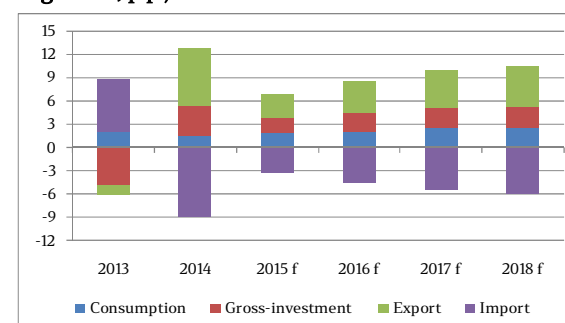
In the period 2016 - 2018, private consumption is expected to experience real growth of 3.2% in average, as a result of the expected increase in the number of employed and the projected growth of salaries. Public consumption growth in this period is projected at 1.1% in average.

Analysed according to the production side, i.e. by activities, in the period 2016 - 2018, construction activity is expected to achieve average growth rate of 6% on real basis, as a result of the realisation of the planned infrastructure projects and the announced investments in TIDZ and the industrial zones. Favourable trends in the industry are expected to continue in this period, the growth being projected at 4.3% in average, in line with the expected growth of foreign demand and the increased production potential of the economy as a result of the investments in the free economic zones.

Services sector, having the largest share in GDP, is expected to register average growth rate of 3.9% in this period, whereby trade and transportation activity are envisaged to contribute mostly to this growth.

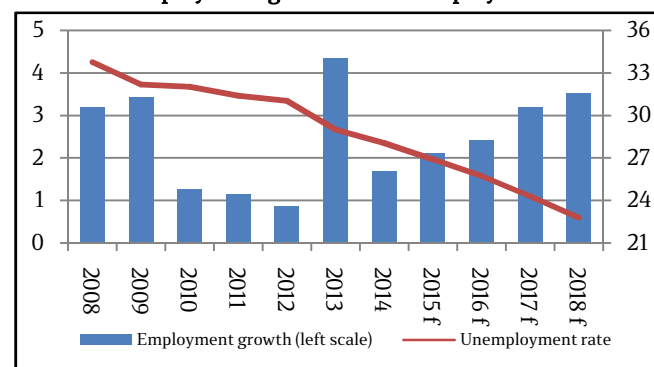
Real growth of agriculture is expected to be 2.2% in average, supported by the subsidies provided from the Government. Real growth rates by years and sectors are shown in Table 1e in Annex 1.

Chart 2.11. GDP by expenditure method (contribution to growth, p.p.)



Source: MoF calculations and projections, f - forecast

Chart 2.12. Employment growth and unemployment rate

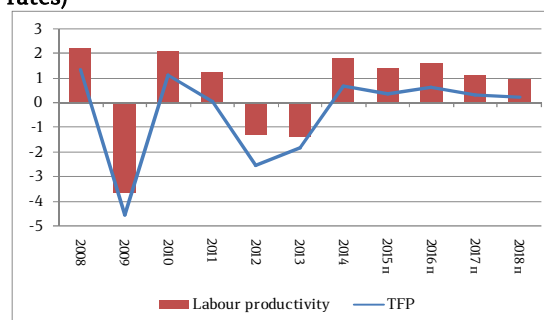


Source: SSO and calculations of MoF, f - forecast

Labour market. Envisaged economic growth in the period 2016 - 2018 is expected to have positive effects on the labour market trends. According to the projections, average annual increase of the number of employed of 3% is expected in this period, as a result of the job creation in the free economic zones, the active measures and programs for employment, as well as the realisation of public sector infrastructure projects. This will, on the other hand, result in decline in the number of unemployed persons by 4.3% in average in this period. Increase of labour demand in this period is expected to be reflected on the labour supply, projected to increase by 1.2% in average. Such trends on the labour market will cause for the unemployment rate to drop to around 22% by the end of 2018. Average increase of net salaries in this period is expected to be around 3% in nominal terms.

Sources of Growth. Chart 2.13 shows the growth of both labour productivity and total factor productivity (TFP)²¹ in the period 2008-2018. Taking into account the projected growth rates of gross fixed capital formation and the number of employed, TFP in 2015 is expected to have positive contribution to the economic growth. In the period 2016 - 2018, as shown on the chart, growth of productivity of production factors is expected to remain within the positive zone. TFP contribution to growth in this period has a share of 8.7% in average. Labour is expected to contribute to economic growth with 55.4%. Physical capital, considering the projections on gross capital formation growth, in the analysed period, is expected to grow by 7% in average, contributing by 35.9% to total economic growth.

Chart 2.13. Labour productivity and TFP (growth rates)



Source: SSO and calculations of MoF, f - forecast

Potential Growth. Calculation of potential output is a basis for assessing the cyclical position of the economy. Hodrick Prescott filter was used for calculating the potential output. This method belongs to the group of statistical approaches and, according to it, potential GDP growth is estimated at 3.4%. Still, this estimated rate of potential growth should be interpreted with caution, taking into account that the method applied is based solely on historical data of GDP²². Data on the output gap in percentage of the potential output for the period 2014 - 2018 is shown in table 5 of Annex 1. According to the projections of the output growth in the coming medium-term period and the assessment of the trend, in 2016, cyclical component of the output is in the negative zone in average throughout the year. In 2017, the output gap is expected to move into the positive zone and to remain positive in 2018.

Monetary and exchange rate policy. The monetary policy is oriented towards maintaining price stability by keeping a stable exchange rate of the Denar against the euro. On the backdrop of low inflation, favourable balance of payment position, generally favourable macroeconomic developments and maintenance of solid credit growth, in the first three quarters of 2015, the NBRM maintained its key interest rate unchanged at 3.25% (unchanged since July 2013). At the same time, changes were done to some of the other instruments in order to stimulate lending by banks, as well as savings of the private sector, thus keeping up with the implementation of accommodative monetary policy.

²¹ TFP is a residual of the growth of other factors of production, i.e. labour and capital.

²² Trend value is estimated by minimising the gap between the actual production and the trend and the variability thereof for the entire sample.

As a continuation of the changes in 2014, in March 2015, the interest rates of the NBRM on both overnight and seven-day deposits were reduced to 0.25% and 0.5%, respectively. This emphasized the role of these instruments exclusively for short-term liquidity fine-tuning, simultaneously strengthening the mechanism for further channelling of the banks' excess liquid assets to longer-term investments.

The measure of releasing the banks from allocating reserve requirement for loans extended to export and energy sectors, applied from the beginning of 2013, was effective also during 2015 and provided significant support to credit growth. Due to the positive effects on the banks' lending, at the end of 2015, the implementation of this non-standard measure was extended for additional two years. Consequently, banks are expected to continue active lending support to the companies in these sectors through a wide range of new loan products and more favourable interest rates.

The NBRM continuously monitors the movements in the currency structure of deposits and loans, as well as in the interest rate spread of instruments in domestic and foreign currency. In this regard, in recent years, several changes in the reserve requirements ratios have been implemented, generally aimed at reducing the reserve requirement ratio in liabilities in national currency (and on the longer term). In this regard, since September 2015, a zero rate of reserve requirement on household Denar deposits over one year has been implemented (thus these liabilities receive the same treatment as liabilities over two years, for which zero rate has already been applied since 2012), which stimulate household savings in domestic currency, and consequently it should contribute to increased lending by banks. These last amendments are aimed at maintaining favourable trends in this domain in the recent years, which in turn, increases the credibility of monetary policy based on the stability of the exchange rate of the Denar against the euro.

In the next three years horizon, the monetary policy will remain oriented towards preserving price stability by maintaining a stable exchange rate of the Denar against the euro. The results of the models for assessing the equilibrium real effective exchange rate²³ of the Denar as of the last quarter of 2014, do not indicate major deviations from the equilibrium level and in the period 2003 to 2014 they were maintained within acceptable range of +/- 3%, and in 2014 they suggest that the exchange rate has slightly been underestimated.²⁴ Regarding the monetary policy conduct, it is important to disclose also the results of the monetary transmission models, which with the latest update as of 2014 indicated an improvement in the interest rate transmission channel from the policy rate to the banks' interest rates (improvement also in the transmission to the lending interest rates, although at higher pass-through effect to deposit rates).

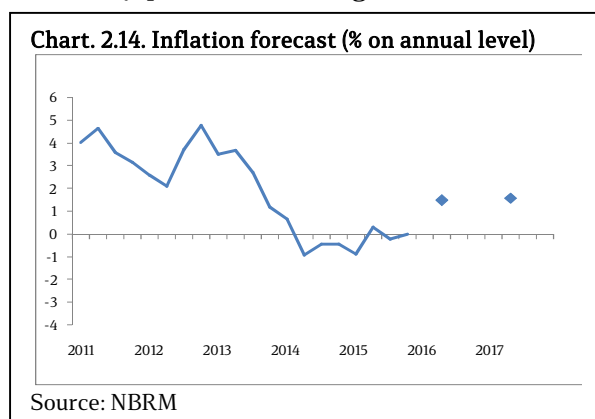
In the period of turbulent external environment, including also 2015, the monetary policy confirmed its flexibility and appropriately adjusted its monetary policy instruments; in order to encourage credit growth, strengthen the deposit base on a long run in national currency, at the same time achieving its primary and intermediary monetary policy goal. In this context, the monetary policy provided sufficient stimulus, revived the credit growth, and some of the measures are expected to produce effects in the next period. In 2015, the inflation remained low, under the dominant influence of the global supply side factors, but the core inflation remained positive. According to the forecast of the other segments of the economy, in the next three years, we can expect moderate inflation and generally favourable developments on the foreign exchange market, although accompanied by risks. Fiscal policy, and in particular the way of

²³According to the BEER (behavioural equilibrium exchange rate) approach for assessment of the equilibrium Denar exchange rate, which is based on a narrower definition of the real effective exchange rate and is designed on the basis of the five major trading partners of the Republic of Macedonia from the EU? In models (set with different specification and assessed according to various techniques), the following independent variables are included: productivity differential, trade openness, public consumption and the total net foreign assets.

²⁴IMF's analyses also confirm that there is no significant deviation in the real exchange rate (IMF Staff Report for 2015 Article IV Consultation, September 2015, p.22).

financing the budget deficit in the period ahead, remains a significant factor influencing the environment for monetary policy implementation, which also emphasizes the importance of monetary and fiscal policy coordination. Developments in the external sector, the structure of imports and their effects on the foreign exchange market and the foreign reserves, will be crucial for the monetary setup in the following period. In addition, the dynamics and the structure of the credit growth in terms of consumer versus investment lending as well as the developments of deposits and interest rate spreads will be further monitored. Monetary authorities remain ready to take appropriate measures, if necessary, to maintain price and financial stability in the economy.

Inflation. The global factors on inflation on medium run indicate a moderate acceleration in domestic inflation, after its low level in 2015, in line with the general downward trend of main commodity prices. The foreign effective inflation²⁵ in 2015 is estimated at -0.1% (contrary to the



expected 1.3% according to the last year scenario) on the backdrop of low inflation in all considered import partners. In 2016, foreign inflation is expected to reach 1.4% and in 2017, it is expected to increase moderately to 1.7%. Such expectations are in line with the expected slow upward movements in the main commodity prices on the international market.

In the last quarter of 2015, the average annual inflation rate in the Macedonian economy is expected to remain low. Consequently, the average inflation rate in 2015 is expected to be

around 0%. In terms of components, the unchanged average price level compared to the previous year reflects the negative changes in energy prices (in line with the fall in world oil prices) with a relatively small increase in food prices and core inflation. Compared with last year scenario, when inflation was expected to equal about 1%, in this scenario, the inflation in 2015 is estimated at a lower level, which is mainly due to the greater decline in the global oil prices and the smaller increase in the food prices than expected. Amid negative output gap, the inflationary pressures by the demand side were not present.

In 2016, the price level is expected to gradually increase and inflation to be around 1.5%. The increase of prices in the following year is in line with movements in import prices, amid expectations for intensification of inflation in trading partners, as well as upward movements in food and energy price components expected in the second half of the year, according to expectations for increase in the world prices of oil and wheat. To a smaller extent, effects on inflation are expected also from the further growth of domestic demand. It is expected that the acceleration of the rate of inflation will continue throughout 2017 and 2018, when it is expected to slowly approach the historical average and to equal 1.6% and about 2%, respectively. The risks to the projected path of inflation are attributable to the uncertainty about the global economy and movements in the global prices of primary products.

External sector and its medium term sustainability. The developments in the balance of payments' current account of the Republic of Macedonia reflect structural changes in the economy over the last few years, which enabled the strengthening of the export sector and improve the current account balance. Namely, the current account deficit in the last five-year

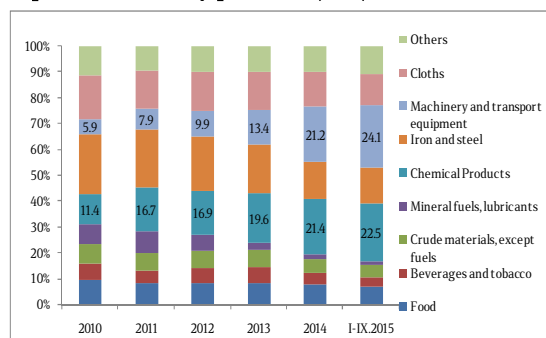
²⁵The calculation of effective foreign inflation is derived from a weighted sum of the consumer price indices of nine countries that are the most important exporters of consumption goods in the Republic of Macedonia. Weighted structure is based on normalized shares of nominal imports from each country in the total nominal imports in the period 2010-2012.

period (2010-14) equals 2% of GDP, on average. According to the actual data and estimates for the last quarter of 2015, the current account deficit for 2015 was estimated at 0.5% of GDP, which would be a moderate narrowing of 0.3 p.p. compared to the previous year, mainly as a result of the improved balance in the trade of goods and services. The estimated deficit for 2015 is significantly lower than the expected in last year's macroeconomic scenario (3.9% of GDP), also mainly due to the lower trade deficit in goods and services than expected, while primary and secondary income are within the expectations.

In the period January - September 2015²⁶ the trade deficit was by 6.7% lower compared to the same period of the preceding year, with the export growth (9.5%) exceeding the import growth (by 4.4%). The increase in exports is mainly due to higher export of machinery and transport equipment and of chemical products, which mainly reflects the impact of new production facilities in the technological industrial development zones. The increase in the imports is mainly due to the higher import of raw materials and equipment, in line with the dynamics of the economic activity and investment consumption, contrary to the lower energy imports, especially in fuels (amid significantly lower price effect). In the period January - September 2015, the highest deficits in the trade of goods were registered in the trade with Great Britain, Greece and Serbia, while significant surpluses were registered in the trade with Germany and Kosovo.

Chart. 2.15.

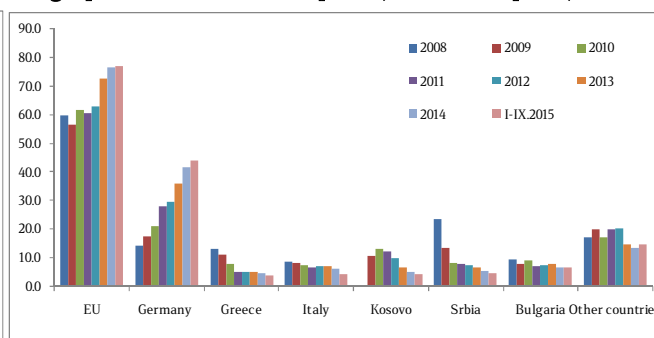
Export structure by products (in %)



Source: SSO.

Chart. 2.16.

Geographic distribution of exports (% of total exports)

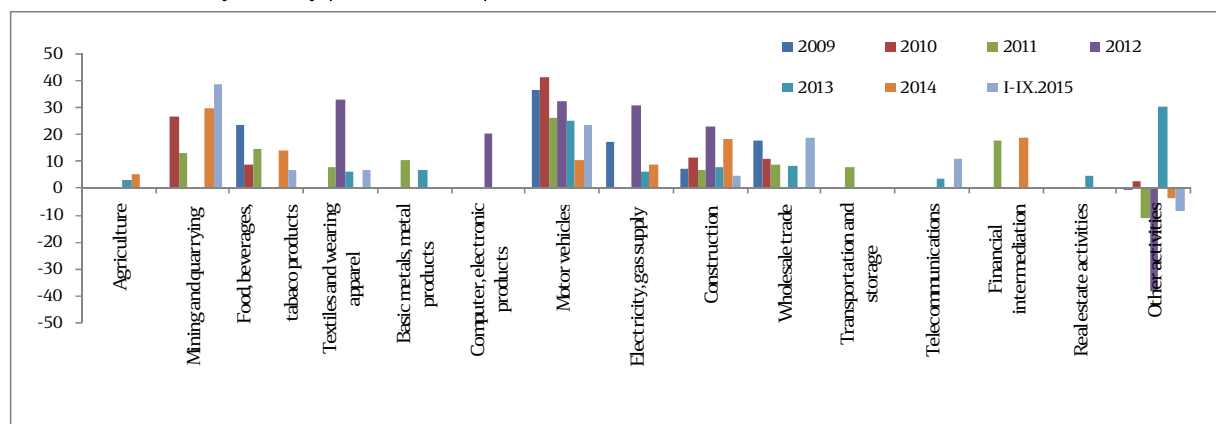


Source: SSO.

Analyzing the structure, as a result of the new capacities in the economy, the export structure significantly improved. It is based on the gradual increase in the share of products with higher value added on the export side, mainly chemical products, and machinery and transport equipment, which at the end of September 2015 reached 46.6%. Changes in export structure correspond with foreign direct investment, which in the recent years, were mainly concentrated in these sectors. In the period 2009-2014, on average, about 65% of the new foreign capital is invested in the tradable sector; therefore its further contribution to greater export diversification can be expected. On the other hand, lower share of the traditional export products - iron and steel and textile products was registered (given smaller fall in the textile contrary to the more evident drop in iron and steel), with their share of dominant 41.1% in 2010 being reduced to 25.7% at the end of September 2015, which proves the export diversification and modernization of the export structure. Regarding the export of iron and steel, the unfavourable trends in the recent years were influenced by the developments in the international metals market and the fall in their prices. Exports of mineral fuels and lubricants have seen reduction on the export side in recent years, which mainly reflects the change in the business orientation of the oil refinery, which is in foreign ownership (with reflection on both sides of the external trade).

²⁶According to external trade statistics, where imports are presented on CIF basis.

Chart 2.17. FDI net, by activity (% of total FDIs)



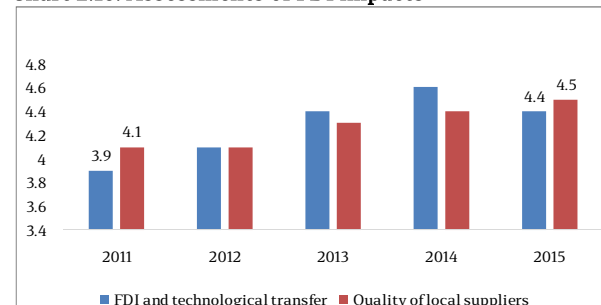
Source: NBRM.

The entries of the FDI in the sector of tradable goods have positive effects on the transfer of new technologies and modernization of the production structure. It is perceived through continued progress in the evaluation of the criteria on FDI and technology transfer within the assessment of the competitiveness of the Macedonian economy. The FDI have positive effects on local suppliers through increased demand for raw materials and the requirements for improving working standards, which contributes towards improving the assessment of the quality of local suppliers²⁷. Accordingly, the secondary effects of the FDI in the economy are gradually increasing.

The analysis of the geographic distribution of Macedonian export proves the dominance of the EU as a major export destination, where in January-September 2015 about 77% of the Macedonian exports have been exported. Within the EU, annual increase was registered in the share of exports to Germany (positive developments are registered in the exports to Belgium and Spain, although at low initial shares, while the share of exports to Greece and Italy continued to reduce). The total trade of the Republic of Macedonia to the EU in January - September 2015 constitutes about 68% of the total trade of the Republic of Macedonia, and in terms of higher growth in exports than imports, there was a narrowing of the deficit with the EU of nearly 33%, annually.

Within January - September 2015, the real effective exchange rate (REER)²⁸ of the Denar deflated by the consumer prices and prices of the industrial producers, depreciated by 0.1%, i.e. 1.7% on annual basis, respectively. This mainly arises from the favourable relative price ratio in both price indices, while the nominal effective exchange rate of the Denar appreciated amid fluctuations of the currencies of some countries - trading partners. By excluding primary products (as products with fluctuating prices) from the calculation, REER based on both price indices registered higher depreciation of 1% and 2.8%, respectively. The nominal unit labour cost in the first three quarters

Chart 2.18. Assessments of FDI impacts



Source: Global Competitiveness Report, WEF, 2015-16.

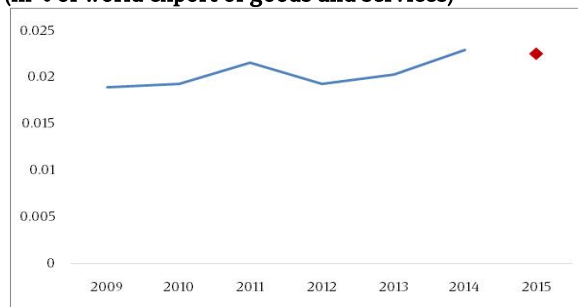
* Highest grade: 7.

²⁷Pursuant to the Global Competitiveness Report of the World Economic Forum, 2015-16, the Republic of Macedonia, according to the latest ranking, is at 76th position according to the FDI and technology transfer criteria (an improvement of 37 positions in the last five years) and 47th place according to quality of local suppliers criteria (improved ranking according to this criterion by 44 positions compared with 2011).

²⁸ Within the REER, the calculation of the nominal effective exchange rate and relative prices includes 15 major trade partners of the Republic of Macedonia by their share in foreign trade in the period 2010-2012 and the base period 2010.

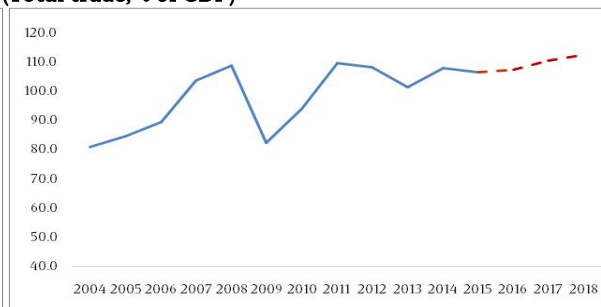
of 2015 registered a moderate growth of 1.7%, which considering productivity growth was due to faster increase in wages

Chart 2.19. Export market share
(in % of world export of goods and services)



Source: IMF and NBRM, forecast for 2015.

Chart 2.20. Trade openness
(Total trade, % of GDP)

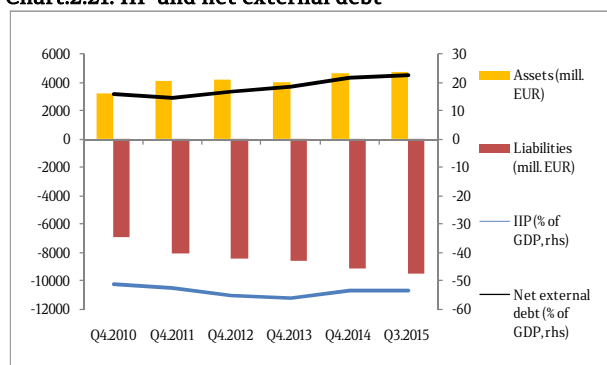


Source: SSO and NBRM forecast for the period 2015-2018.

Export market share of the economy in world exports in 2013 and 2014 increased, in line with the recovery of the Macedonian economy and the rapid growth of the Macedonian export. In 2015, maintenance of the export market share at relatively stable level is estimated. The degree of trade openness of the Macedonian economy is generally high, at about 100% in recent years, with a slight slowdown in 2013, reflecting the reduced trade during the second wave of the crisis. After the recovery in 2014 and stabilization in 2015, the degree of trade openness of the economy is expected to gradually increase in the following three-year period.

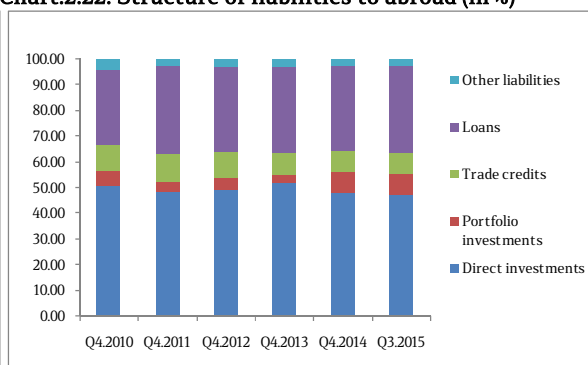
International investment position and external debt. At the end of the third quarter of 2015 the negative international investment position (IIP) increased by 4.8% compared with the end of 2014, with higher growth in foreign liabilities (3.5%) compared with the growth of assets (2.3%) being registered. The widening of the negative IIP came from growing negative net position of "other sectors" (with a rise in net liabilities mainly based on direct investments) and in the same direction was also the decrease in the positive IIP of the monetary authority, in line with the fall in foreign reserves, which was largely neutralized by the effect of the reduced Government's negative net position²⁹ (in line with the repayments to abroad) and to a lesser extent, by the decreasing negative position in depository institutions. In September, the negative IIP equals 53.2% of the estimated GDP and it remained almost unchanged relative to the end of 2014.

Chart 2.21. IIP and net external debt



Source: NBRM.

Chart 2.22. Structure of liabilities to abroad (in %)



Source: NBRM.

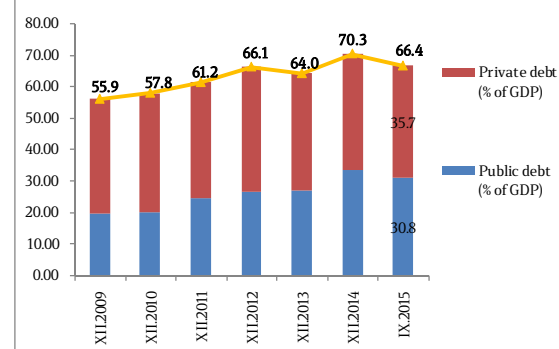
Given the significant share of foreign direct investment on the foreign liabilities side (about 50% in recent years), which is a common feature of converging economies, when analyzing the external position, it is necessary to consider other variables, as well, such as net external debt, which includes debt instruments only, on a net basis. At the end of the third quarter of 2015, the

²⁹ The government sector includes: central government, local government and social security funds.

net external debt of the Republic of Macedonia is 22.4% of estimated GDP, which is an increase of 0.8 p.p. of GDP compared to the end of 2014 (with an increase in net debt in the public sector by 1.7 p.p. and decrease in the private sector by 0.9 p.p.).

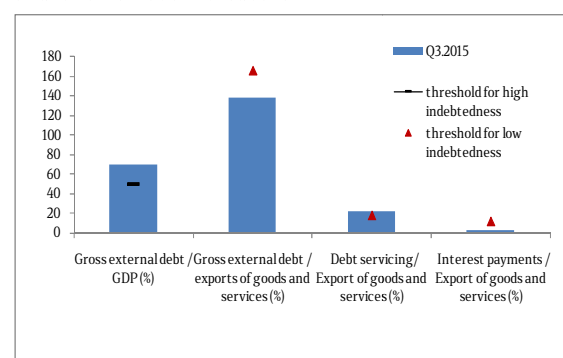
At the end of the third quarter of 2015, the gross external debt equalled EUR 5,952.3 million (without the repo transactions of the NBRM, which are almost in the same amount on both sides, the liabilities to and the claims on non-residents). The gross debt equals 66.4% of GDP and in comparison with the end of 2014; it is lower by 3.8 p.p. of GDP. This reduction is due to lower public sector debt (2.6 p.p. of GDP) mainly due to early repayment of IMF debt and lower external debt of the private sector (by 1.2 p.p. of GDP). The long-term debt, occupying close to 75%, is still predominant in the debt structure.

Chart 2.23. Gross external debt



Source: NBRM

Chart 2.24. Debt indicators



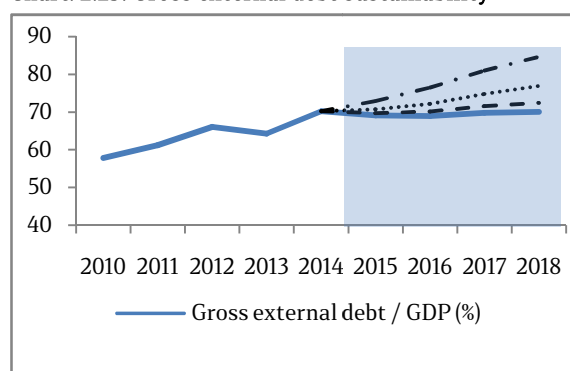
Source: NBRM calculations

At the end of the third quarter of 2015, the coverage of short-term debt by residual maturity by foreign reserves was 1.1, indicating solid liquidity relative to the payments to abroad. The analysis of the external indebtedness³⁰ of the Republic of Macedonia indicates a low level of indebtedness based on three indicators (gross external debt, debt servicing and repayment of interest relative to the export of goods and services, respectively), while the indebtedness is high only by the share of the gross debt in GDP. According to the forecast of the balance of payments' financial

account for the period 2016-2018, three indebtedness indicators which are calculated as ratios to the export of goods and services (abovementioned), are expected to improve in the next three years, given the expected acceleration of exports, mainly as a result of the new companies with foreign capital. Observing maturity structure, the long-term debt is expected to remain prevalent.

The basic scenario of the analysis of the sustainability of the external debt³¹, after the increase in the gross external debt in 2014, in 2015 indicates moderate decline and thereafter maintenance of similar level in the following three-year horizon, with slight fluctuations in some years. The primary current account deficit (excluding interest payments) is the basic flow that creates debt.

Chart. 2.25. Gross external debt sustainability



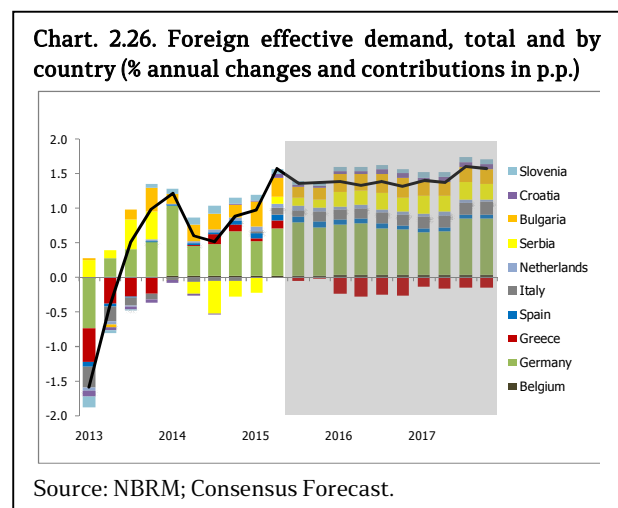
*for 2015-2018 forecast; external debt sustainability framework, NBRM

³⁰The analysis is tailored using the World Bank approach, where the calculation of the indicators uses three-year moving averages of GDP and exports of goods and services, as denominators. The methodology also defines criteria of indebtedness, as reference values for indebtedness level.

³¹ The external debt sustainability analysis is based on the IMF approach. The basic scenario assumes average GDP growth in the period 2016-2018 of 4% and it is based on the presented balance of payments forecast.

On the other hand, the automatic debt dynamics (which includes the effects of the GDP growth and the changes in the nominal interest rate) and non-debt capital flows act towards its reduction. The stress tests indicate that the expected debt stabilization on a medium run, is however, especially sensitive to shocks with the primary current account and the economic growth.

Balance of Payments Forecast. The global economic recovery, despite the slowdown in 2015, is expected to continue in the coming years. In this context, the foreign effective demand for Macedonian products³² in 2015 on an annual basis is estimated to accelerate, marking an increase



of 1.3%, less than expected in last year's scenario (1.5%). Economic activity of trading partners is expected to intensify further in 2016, when the increase in the foreign demand is projected at 1.4% (versus 1.5% as previously expected), and in 2017 it would reach 1.5%. Observed through the contributions of individual countries, the most significant contribution to the strengthening of foreign demand is expected from the German economy, followed by the recovery of both the Bulgarian and Serbian economy, contrary to the adverse expectations for Greek economy.

The latest assessment for the external sector in the following three years indicate maintenance of moderate current account deficit at the level of around 2% of GDP. In the next three years, the sources of covering the external funding needs are expected to be created by borrowings and direct investments. It is expected that capital inflows would allow maintenance of an adequate level of foreign reserves of around four months coverage of imports of goods and services of the next year.

Along with the gradual recovery of foreign demand, with further positive effect of the existing companies with foreign capital, as well as those pending to be established and start producing, exports of goods and services in the next three years is expected to increase further. In the next three years, the import of goods and services would be driven by growth in imports for the needs of production intended for exports, as well as imports for the increased investment consumption. Thus, part of the new FDI inflows during the facilities establishing reflects with the increased import of machinery and equipment. At the same time, some of the planned public infrastructure works in the medium term are expected to increase the outflows based on services. For 2015, it is estimated a moderate narrowing of the trade deficit in goods and services to 15.8% of GDP (versus realized 17.5% of GDP in 2014). This is achieved amid growth of export of goods (especially by new industrial facilities) and lower growth in imports (with a reduced energy imports) and increased surplus in trade of services. The estimated trade deficit in goods and services in 2015 is lower in terms of expectations from the last year scenario (18.4% of GDP), mainly due to the improvement in the energy balance considering the price effect of fuels (at the same time higher performances of new export facilities within the non-energy balance, neutralized by traditional sectors). In the period 2016 - 2018, the deficit in goods and services is expected to stabilize at around 16% of GDP, registering a slight decreasing tendency (in 2017-18).

³²The calculation of external demand takes into account the GDP growth rates (from Consensus Forecast) of the ten most important trading partners, according to their share in the Macedonian exports in the period 2010-2012.

An important part of the deficit in the trade in goods and services will continue to be funded from the inflows based on secondary income (which includes also the net purchase on the currency exchange market, as a basic component of the private transfers), which in 2015 remain relatively high, although lower compared to the previous year. In 2015, the level of net inflows based on secondary income is estimated at 17.7% of GDP, compared to 18.6% of GDP in 2014. The reduction in the relative share of this category, after the excessive levels in the acute phase of the global crisis in 2011-12, is expected to continue in the next three years at a moderate pace. For 2016 and 2017, they are projected at about 17%, and in 2018, they would be 16.5% of GDP. Thus, these inflows would be approaching the pre-crisis level registered in the years of economic expansion. The deficit in the category of "primary income" in the current account for 2015 is estimated at 2.4% of GDP, while in the next three years, it is expected to be maintained at level of about 3% of GDP.

Chart. 2.27. Balance of payments (% of GDP)

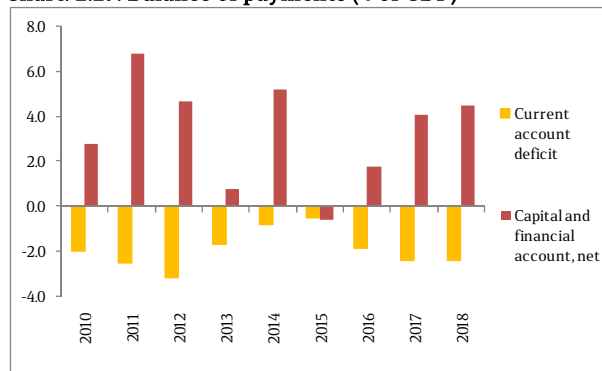
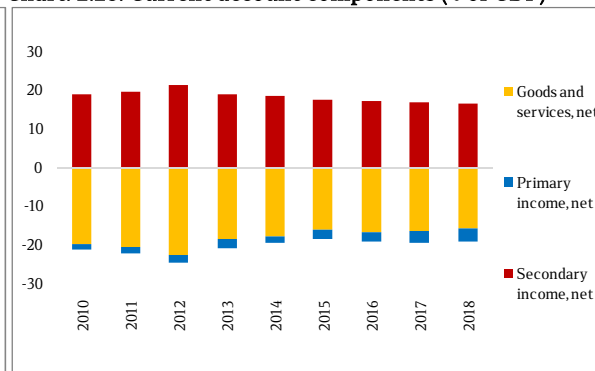


Chart. 2.28. Current account components (% of GDP)



Source: NBRM. Estimate for 2015 and forecast for 2016-2018

In such projected movements in the current account items, for 2015, the current account deficit is estimated at 0.5% of GDP, while in 2016 it is expected to moderately enhance to 2% of GDP. In the next two years, the negative balance on the current account is expected to stabilize at around 2.4% of GDP. Amid relatively stable trade deficit in goods and services, the moderate widening of the current account deficit in the next three years will come from the expected further reduction in inflows from private transfers and slight widening of the deficit in primary income. The stabilization of the deficit in goods and services to around 16% of GDP is in line with the expected medium-term effects of FDI inflows in recent years in the tradable sector, which have contributed to changes in the structure of the economy, larger export diversification, and consequently in terms of strengthening of their export potential and the more favourable external environment, contributed to the narrowing and stabilization of the trade deficit to lower levels (for comparison, the deficit in trade in goods and services in 2009 amounted to 22.7% of GDP).

In 2015 and the following three years, the capital inflows will mainly result from the expected FDI, the expected external borrowings of the public and private sector. The growth of the domestic economy and the improvement of the global environment are expected to contribute to maintaining positive perceptions among investors. In 2015, the FDI were estimated at 2.6% of GDP and in the next three years, they are expected to gradually grow and in 2018 to reach 3.3% of GDP. However, this represents a downward revision compared with last year scenario, in the context of deteriorating global environment and volatility in financial markets during 2015. Total net inflows on the financial account in 2016 would amount to almost 2% of GDP, and in 2017-18 they will be around 4% of GDP. Projected trends in the current and financial account are estimated to provide additional accumulation of foreign reserves in the next three years and further maintenance of relatively stable and adequate coverage of the average imports of each coming year.

Financial sector. The upsurge of economic activity and stabilization of risk perceptions are expected to contribute to further maintenance of solid credit growth in banks during the coming

period. In 2015, the credit growth is estimated at 7.7%, with similar credit dynamics being expected in the following two years (an increase of about 7-8% annually). The expected credit growth reflects the positive signals on the sides of both supply and demand. Namely, the growth in household consumption and investments will contribute to a stable demand for loans. On the supply side, a positive contribution is expected from the continued growth of the deposits, as well as the banks' stable risk perceptions. In addition, favourable effects on the savings and lending are further expected from the measures undertaken by the NBRM. Concerning the deposits, it is estimated that by the end of 2015, the deposit growth in the banking system will equal 4%. The expected acceleration of economic growth and especially the growth in employment and wages, as well as more stable external and internal environment, are estimated to lead to faster growth in the deposits of approximately 7% and 9% per year in the following two years.

Main priorities in the area of the financial system remain to be the maintenance of financial system stability, its further development, as well as enhancing intermediation. Therefore, the following activities will be undertaken:

In the period 2016-2018, new Banking Law will be adopted, by which, banking regulations will be aligned with the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms. The new Law will provide for strengthening the banks' capacity for adequate risk management, which is related to their activities, as well as for loss absorption, which can occur during the business operations. At the same time, the level of quality of banks' capital will be raised, and their better supervision will be provided, thus **increasing the protection of depositors**.

During the same period, what is also envisaged is adoption of **2014/59/EU Bank Recovery and Resolution Directive** establishing a framework for the recovery and resolution of credit institutions and investment firms, thus creating conditions for quick response by supervisory bodies in case of risks in the banks' operations.

By the end of 2016, new Law on Payment Services will be adopted, in which the Payment Services Directive and the Electronic Money Directive (2009/110/EC) will be transposed. Law on Payment Services will be prepared within the Project "Further Harmonisation with the EU Acquis in the Field of Movement of Capital and Payments and Financial Services - Securities Markets and Investment Services", financed from IPA 2010.

Law on Payment Services will provide for:

- opening the payment services market for providers of payment services other than banks, as well as for new issuers of e-money and increasing the competition in this segment of the payment system;
- establishing harmonised prudent regime for giving authorisations to payment services providers other than banks, as well as for new issuers of e-money, for the purpose of providing adequate level of safety of the users of payment services and
- harmonised operational manuals that will be applied on all providers of payment services and issuers of e-money for the purpose of providing equal access to the market of payment services.

By the end of 2016, within the Project "Further Harmonisation with the EU Acquis in the Field of Movement of Capital and Payments and Financial Services - Securities Markets and Investment Services", the Settlement Finality Directive (98/26 EC) will be transposed in both the Law on Payment Services and the Law on Securities Market. Implementation of the Directive in these laws provide for minimizing the systemic risks of the participants in the existing payment system and the existing securities settlement system, as well as maintaining their stability.

In 2017, new Insurance Law will be adopted, in which the Solvency II Directive (2009/138/EC) will be transposed. Insurance Law will be prepared within the Project “Further Harmonisation with EU in the Field of Insurance and Increase of Market Operations”, within the National Programme for IPA Component 1 – TAIB for 2012-2013.

The two new laws in the field of capital market (Law on the Securities Market and the Law on Issuance and Offer of Securities) will be adopted by the end of 2016, which will be to a great extent harmonised with the EU Acquis in the field of capital market. Adoption of these Laws will provide for greater protection of minority shareholders in joint stock companies, greater transparency of companies and introduction of new financial instruments. For the purpose of preparing these laws, Project was approved through IPA 2010. Project implementation commenced on 25th February 2015 and it will last until August 2016. At present, there is ongoing preparation of the first draft texts of the Laws. Following the adoption of the Laws by the end of 2016, Securities and Exchange Commission will adopt the bylaws necessary for its implementation.

2.3. Alternative scenario and risks

Alternative scenario. Alternative macroeconomic scenario is based on the assumption for lower economic growth in the EU and other trade partners of the country in the analysed period. According to this scenario, real GDP growth projection for 2016 is 2.8%, 3.3% in 2017 and 3.6% in 2018.

Such scenario implies weaker external demand and adverse effects on the domestic exporters i.e. lower growth of export of goods and of industrial production in the country. This is expected to also affect the inflow of capital in the country in the form of direct investments, implying slower growth of gross investments in the medium term, as a result of the lower growth of investments in the construction sector and of import of investment goods (equipment, machines, etc.).

According to this scenario, real export growth is projected at 5% in 2016, 6.3% in 2017 and 6.8% in 2018. Real growth of gross investments is expected to be 5.1% on average in the analysed period. Lower growth of gross investments in relation to the baseline scenario is mainly due to the slower growth of private investments, and growth of public investments to a lesser extent. Effects on consumption are expected to be lower compared to other components. Hence, real growth of public consumption is projected at 1% on average in the analysed period. Real growth of private consumption is projected at 2.1% in 2016, 2.8% in 2017 and 3% in 2018. Lower growth of both export and domestic demand imply slower growth of import of goods, which, on average in the analysed period, is envisaged to surge by 5%.

As regards labour market, lower economic growth implies slower growth of the number of employed and slower pace of reduction of unemployment rate compared to the baseline scenario. Hence, according to the alternative scenario, average annual increase in the number of employed is expected to be 2.3%, resulting in a decrease of the number of unemployed persons by 3.3% on average in the analysed period, assuming that projected rates of change of inactive population have not changed in relation to the baseline scenario. Such trends on the labour market will cause for the employment rate at the end of 2018 to drop to 23% and employment rate to surge to 45%.

As regards inflation rate, it is assumed that the trends of commodity prices remain unchanged in relation to the baseline scenario, i.e. we assume similar forecast as regards the developments on the supply side and the level of foreign prices. Slower economic growth, according to the alternative scenario, implies that no inflationary pressures from the demand side are expected, taking into account that the negative output gap is projected to be closed in 2018 according to this scenario. Hence, unlike the baseline scenario, no upward pressure of domestic demand is expected on the inflation rate in 2018.

Effects of the alternative scenario on the budget deficit are presented in point 3.6. Sensitivity Analysis.

Risks. Risks to the projected economic growth rates are generally related to the global economic trends, above all the pace of EU's economic growth. Thus, weaker economic performance in EU and other trade partners of the country could have adverse effects on the export activity and investment demand, as well as on the growth of the domestic economy. Domestic risks are associated with the political crisis, whose effects were mostly felt during the second quarter of 2015. Possible retention of this risk during 2016 may adversely affect economic activity, but the effects are expected to be limited, as was the case in 2015.

On the other hand, stronger global growth than expected and a stronger impact of the already implemented and future structural reforms in the EU or the realization of the investment plan for Europe are positive risks, the materialisation of which can contribute to higher growth of the Macedonian export and industrial production and higher inflow of capital in the country. In addition, effect of new FDIs, being in the phase of realisation or being announced, can be expected to fully materialise in the next several years.

The main risks to the presented scenario for the external sector in the next period still arise from the dynamics of the global recovery and its influence on the growth of the domestic economy and investor perceptions. Any weaker external demand may have adverse effects on the presence of domestic exporters in foreign markets. On the backdrop of increased instability on the global financial markets, larger risk aversion of the investors is possible. Consequently, risks of lower capital inflows of non-debt financing or possible capital outflows in order to finance parent companies are not excluded, although in this scenario, private capital inflows are projected at a lower level. Additionally, also the movement of the world prices is accompanied with uncertainty, with possible effects on both the domestic inflation and the export prices. The unfavourable market conjunction on the international metals markets may impact the growth perspectives and exports of the domestic metal industry, as traditional export sector, although with significantly lower share in the last years (in context of the structural changes in the economy and already the dominant share of the sectors which produce products with higher value added).

Assessment and scope of the effects of new export capacities in the economy is crucial for the trade balance forecast. The number of export capacities in the economy has been increasing and after the establishment of production, they begin to contribute to the country's exports. The trade deficit in 2014 and 2015 was lower than expected, mostly due to the new export companies, which points to an upward risk (potential for the future, too). In the medium term, changes in the production structure are expected to lead to further diversification of exports and improved export performances, which goes in favour of strengthening the resilience of the economy to external shocks. Given the growing number of new production capacities in the economy, and the expected improvement of the global environment, the expectations in this regard are justified. At the same time, the forecast of net inflows from secondary income (within this item, of the net cash purchased on the currency exchange market), which assumes gradual slowdown of their share in GDP, can generally be assessed as conservative, thus reduces the downward risks to the this category and also leaves room to compensate for possible downward risks in the trade balance within the current account.

The risks to the inflation forecast are mainly related to the assumptions regarding developments in the prices of primary goods, possible changes in regulated prices and their possible second-round effect on other prices in the economy. In the light of conditionality of inflation mainly from exogenous factors on the supply side (the output gap would register slow positive changes), the risks to the projected path of inflation in the medium term is difficult to assess.

Regarding the expectations on the banks credit growth, the dynamics of global recovery in the context of its impact on domestic economic growth and quality of the loan portfolio, as before, would affect the banks' risk perceptions and consequently, the lending dynamics. The risks associated with the business strategies of foreign banking groups, as well changes in the regulatory requirements, can also have effects on the operations of their subsidiaries in the country.

The aforementioned risks to the macroeconomic scenario for the next three years point to a need for constant monitoring of any changes in the external and domestic economic conditions in the following period and timely taking of adequate measures by policy makers.

3. FISCAL FRAMEWORK

3.1. Policy strategy³³ and medium-term objectives

Fiscal policy in the coming medium-term period will be aimed at maintaining macroeconomic stability and encouraging economic activity through increase of capital expenditures and investments in infrastructure and improving the doing business conditions to release the potential of the private sector for growth and job creation. Thus, role of fiscal policy is designed to ensure preserving macroeconomic stability and encouraging economic growth as main conditions for job creation and improvement of the living standard.

Table 3.1. Consolidated general government budget (Denar million)

| | 2016 | 2017 | 2018 |
|--|----------------|----------------|----------------|
| Consolidated general government budget - Revenues | 188,884 | 198,366 | 205,607 |
| % of GDP | 32.3 | 32.0 | 31.2 |
| Consolidated general government budget - Expenditures | 207,868 | 216,194 | 222,600 |
| % of GDP | 35.6 | 34.9 | 33.8 |
| Consolidated general government budget - Deficit | -18,984 | -17,828 | -16,993 |
| % of GDP | -3.2 | -2.9 | -2.6 |
| Central Budget - Revenues | 109,671 | 115,753 | 119,950 |
| % of GDP | 18.8 | 18.7 | 18.2 |
| Central Budget - Expenditures | 128,621 | 133,590 | 136,945 |
| % of GDP | 22.0 | 21.6 | 20.8 |
| Central Budget - Deficit | -18,950 | -17,837 | -16,995 |
| % of GDP | -3.2 | -2.9 | -2.6 |
| Budget Funds - Revenues | 49,645 | 52,119 | 54,601 |
| % of GDP | 8.5 | 8.4 | 8.3 |
| Budget Funds - Expenditures | 49,679 | 52,110 | 54,599 |
| % of GDP | 8.5 | 8.4 | 8.3 |
| Budget Funds - Deficit | -34 | 9 | 2 |
| % of GDP | 0.0 | 0.0 | 0.0 |
| Local Government Budget - Revenues | 29,568 | 30,494 | 31,056 |
| % of GDP | 5.1 | 4.9 | 4.7 |
| Local Government Budget - Expenditures | 29,568 | 30,494 | 31,056 |
| % of GDP | 5.1 | 4.9 | 4.7 |
| Local Government Budget - Deficit | 0 | 0 | 0 |
| % of GDP | 0.0 | 0.0 | 0.0 |

Source: Ministry of Finance, Fiscal Strategy 2016-2018

Projection of public finances in the next medium-term period is based upon the commitment to their gradual consolidation, by reducing the budget deficit to below 3% starting 2017. Projected revenues of the consolidated government budget in the next three-year period decline relatively,

³³ Fiscal Strategy 2016-2018 is published on the Ministry of finance' website http://www.finance.gov.mk/files/u6/Fiskalna%20Strategija%20na%20RM%202016-2018-1_ang_0.pdf

as a share of GDP, from 32.3% of GDP in 2016 to 31.2% in 2018. As a result of continuity in implementing disciplined budget policy and strengthened consolidation of public spending, in the period 2016-2018, total expenditures will also decline from 35.6% in 2016 to 33.8% in 2018.

Set basic postulates of the fiscal policy in the coming period provide for gradual reduction of the deficit level and its positioning at a level of around 2.6% of the projected GDP in 2018.

3.2. Budget implementation in 2015

Budget revenue and inflow performance exceed the expectations for this period of the year, while expenditures are executed on regular and timely basis. In the period January - September 2015, total revenues were collected in the amount of Denar 117,445 million, i.e. collection was higher by 12.3% in relation to the revenue collection in the analysed period last year. Denar 68,584 million out of this amount are tax revenues, being higher by Denar 7,807 million or by 12.8% more compared to last year. Profit tax revenues experienced the biggest increase, the collection of which amounted to Denar 9,592 million, being higher by Denar 6,002 million or 167% compared to the same period in 2014. Excise revenues were also higher than the projections. During the first nine months of 2015, they reached Denar 14,521 million, being higher by Denar 2,136 million or by 17.2% more than last year. On the other hand, collection of VAT revenues was by 2.5% lower compared to the analysed period in 2014, i.e. they reached Denar 30,623 million, predominating in the structure of tax revenues with 44.6%.

Revenues on the basis of social contributions were collected in the amount of Denar 34,957 million. This was by Denar 2,803 or 8.7% more compared to the same period in 2014. Denar 23,493 million was collected on the basis of pension insurance, while revenues collected on the basis of health insurance contributions amounted to Denar 9,975 million. Revenues performance corresponded to the positive trends in the real sector and the growth of economic activity respectively.

During the first nine months of 2015, non-tax revenues were collected in the amount of Denar 9,351 million, which compared to the same period in 2014, they were higher by Denar 1,672 million, i.e. by 21.8%. Capital revenues were collected in the amount of Denar 1,968 million, being higher by 25.9% compared to the analysed period last year, and being generated from sale of construction land and social flats. Budget users generated Denar 2,585 million on the basis of donations on the basis of international multilateral and bilateral cooperation.

Expenditures in the period January-September 2015 were executed in the amount of Denar 131,319 million, i.e. by Denar 9,301 million or 7.6% higher compared to the same period last year. During this period, all liabilities of the budget users and the due liabilities towards domestic and foreign creditors were settled on time.

Within this framework, current expenditures were executed in the amount of Denar 119,961 million. During this period, Denar 18,376 million was paid for salaries and allowances to the employees with the budget users, while expenditures related to goods and services were executed in the amount of 12,950 million.

Transfers-related expenditures accounted for the most in the current expenditures, amounting to Denar 83,656 million in this period. Government liabilities on the basis of payments related to exercising the rights to guaranteed social protection of the citizens (pecuniary allowances to vulnerable categories of citizens, as well as child allowance and parenting payments) were settled on regular basis, accounting for Denar 5,333 million. Increase of social welfare benefits by 10% was realized within these expenditures with the payments made in July. As regards regular payment of pensions, Denar 33,667 million was allocated therefore, with respect to financing health services and benefits, Denar 17,544 million was paid, while Denar 859 million was allocated for payment of unemployment benefits through the Employment Agency. Denar 10,852

million was transferred from the Budget of the Republic of Macedonia to the municipalities, as block grants for financing the transferred competences, as well as earmarked grants for financing the operating costs in local public institutions. In addition, Denar 1,300 million was transferred on the basis of VAT revenues. During this period, agricultural subsidies were paid on continuous and regular basis, aimed at improving the quality and the competitiveness of the sector.

Denar 4,979 million was allocated for regular servicing of liabilities on the basis of interest, according to the repayment schedules on domestic and foreign borrowing. Denar 2,925 million out of this amount was allocated for payment of interest on foreign borrowing.

In the period January - September 2015, capital expenditures were executed in the amount of Denar 11,358 million. In this period of the year, activities for realization of major infrastructure projects were intensified, such as the construction of Corridor 10 highway and investments in reconstruction and construction of the railway infrastructure. At the same time, many projects were realised, aimed at improving the infrastructure in education sector, health sector and utilities infrastructure, by constructing schools, sports facilities, playgrounds, water supply and sewerage network, as well as reconstruction of health facilities.

During this period, budget deficit amounted to Denar 13,874 million, being by Denar 3,580 million or by 20.5% less compared to the respective budget in 2014. Inflows to the Budget provided for regular and early repayment of principal, amounting to Denar 17,277 million.

Table 3.2. Budget of the Republic of Macedonia 2015 (Denar million)

| (Denar million) | Budget 2015 | Realisation in the period January-September 2015 |
|---|----------------|--|
| 1. Total revenues | 166.842 | 117.445 |
| 1.1. Tax revenues and contributions | 142.527 | 103.541 |
| 1.1.1 Tax revenues | 95.338 | 68.584 |
| 1.1.2 Contributions | 47.189 | 34.957 |
| 1.2. Non-tax revenues | 16.433 | 9.351 |
| 1.3. Capital revenues | 2.880 | 1.968 |
| 1.4. Donations | 5.002 | 2.585 |
| 2. Total expenditures | 186.981 | 131.319 |
| 2.1. Current expenditures | 164.747 | 119.961 |
| 2.1.1 Salaries and allowances | 25.082 | 18.376 |
| 2.1.2 Goods and services | 19.766 | 12.950 |
| 2.1.3 Transfers | 113.447 | 83.656 |
| 2.1.4 Interest | 6.452 | 4.979 |
| 2.2. Capital expenditures | 22.234 | 11.358 |
| 3. Deficit | -20.139 | -13.874 |
| 4. Deficit financing | 20.139 | 13.874 |
| 4.1 Inflow | 48.958 | 31.151 |
| 4.1.3 External sources | 4.339 | 2.863 |
| 4.1.3 Domestic sources | 23.596 | 11.358 |
| 4.1.4 Deposits/Additional sources | 20.973 | 16.917 |
| 4.1.5 Revenues on the basis of sale of shares | 50 | 13 |
| 4.2 Outflow | 28.819 | 17.277 |
| 4.2.1 Repayment upon foreign borrowing | 22.664 | 11.795 |
| 4.2.2 Repayment upon domestic borrowing | 6.155 | 5.482 |

Source: Ministry of Finance

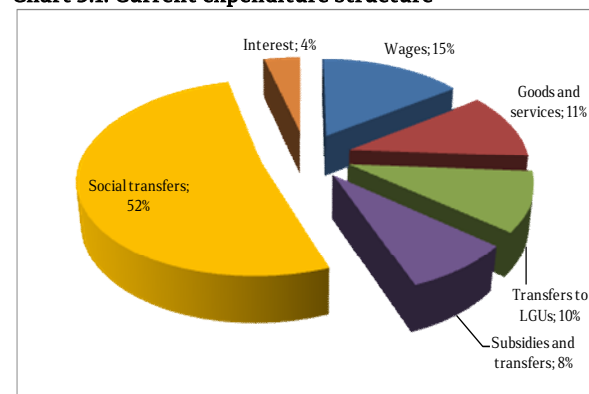
3.3. Medium-term budgetary outlook

Total genuine revenues of the Budget of the Republic of Macedonia (central government) for the period 2016-2018 are projected to around 30% of GDP, whereby their share in GDP by years is reduced, in conditions of unchanged tax policy, i.e. keeping low tax rates and low tax burden on the business sector. Thereby, tax revenues account for around 57.6% of the projected revenues, followed by revenues on the basis of social contributions accounting for around 27.7%, non-tax revenues and capital revenues accounting for around 11.9%, while the rest of the revenues are expected to be generated from IPA Funds and other donations. With respect to tax revenues, most revenues will be generated on the basis of VAT, personal income tax and excises.

In the next medium-term period, projections for social contributions, which are genuine revenues of the Pension and Disability Insurance Fund, Health Insurance Fund and the Employment Agency, are based on the expected positive economic trends, which will appropriately reflect on the growth rates of both employment and salaries. Non-tax revenues in the next medium-term period account for around 10.5% of the total revenues, wherein revenues on the basis of administrative fees and other non-tax revenues the budget users generate on their own accounts account for the most.

In the coming period, budget revenue projections with regard to foreign donations include the donations the budget users will realise for specific projects, as well as disbursements from the EU pre-accession funds.

Chart 3.1. Current expenditure structure



Source: Ministry of Finance

In the coming medium-term period, expenditure side of the Budget will be aimed at realisation of two components: development component aimed at supporting the growth of the Macedonian economy by investing in major infrastructure projects, and social component aimed at maintaining social stability and improving the living standard of the citizens, above all the vulnerable categories of citizens (pensioners, beneficiaries of social welfare and farmers).

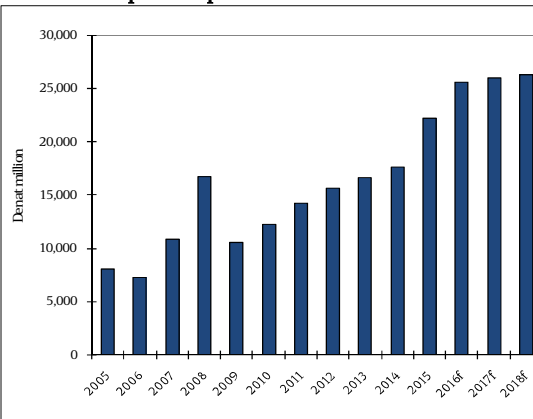
Thereby, disciplined budget spending will continue to be implemented, with an

emphasis to restrictiveness and rigorous control over less productive costs, on one hand, and increase of investments in capital projects on the other. Average share of expenditures in the Budget of the Republic of Macedonia in the period 2016-2018 is around 32.9% of GDP.

When projecting the current expenditures for the next period, the following assumptions were taken into account:

- As regards expenditures related to wages and salaries and allowances, continuation of strict control over new employments. Further increase of salaries will be a result of detailed calculations for each fiscal year, in order to determine the specific volume and dynamics in line with the Budget possibilities, and depending on the fiscal condition and the effects from the external economic trends;

Chart 3.2. Capital expenditures



Source: Ministry of Finance

- Increase and timely payment of pensions and social benefits, for the purpose of ensuring the well being of the beneficiaries of these rights. In the course of 2016, pension-related expenditures are projected with the respective increase, hence around 307,000 pensioners will have their pensions increased by 5% in average, i.e. Denar 650 each, starting with the September pension to be paid in October 2016. Subsequently, 5% pension increase in average is also planned in 2017, starting with the September pension to be paid in October 2017. Policy for planned increase of pensions depends on the fiscal condition and it will be implemented if no serious external crisis occurs that would adversely affect the economic and the financial situation in the Republic of Macedonia. Medium-term projections also include increase of social benefits for socially most vulnerable families as social assistance (increased by 5% starting June, to be paid in July 2016) and regular servicing of liabilities on the basis of child allowance, allowances on the basis of rights of disabled persons, war invalids and civilian invalids and asylum seekers. Planned reforms in the social sphere, by simplifying the procedures for exercising these rights, as well as the effects from the integration of social centres in unique information system, will provide certain savings, at the same time extending the scope and proper targeting of these allowances towards the most vulnerable categories;

- Further provision of funds for agricultural subsidies, to the end of supporting competitiveness of this sector. Planned reforms in the agricultural sector, as well as the substantial amount of subsidies and funds under the IPARD Programme will provide for its further enhancement and support, to the end of boosting the export of Macedonian agricultural products and conquering new markets.

- Improvement of the quality of university education and vocational education, as well as public financial support for stimulating the innovations in Macedonian companies.

In the coming medium-term period, fiscal policy will focus on ensuring substantial public investments, being a precondition for improvement of economic perspectives, as well as better quality of life of the citizens. To the end of realising and maintaining positive economic growth rates, significant amount from the Budget is expected to be intended for public investments in the coming three-year period. Public investments presenting the development component of the fiscal policy will continue to be of priority and dominant importance. In the past several years, capital projects financed from the Budget of the Republic of Macedonia fully affirmed their justification, having strong influence when tackling the effects from the economic crisis. Denar 25,578 million is envisaged for capital investments in 2016 Budget.

Within budget funds allocated for capital expenditures, substantial investments are envisaged in completion of the construction and rehabilitation of the road and railway infrastructure, energy and utilities infrastructure, as well as capital investments in improving the conditions in the educational, social and health system, agriculture, environmental protection and judiciary.

Efficient usage of budget funds and funds provided with loans from international financial institutions and bilateral creditors will be basis for series of investment activities and reforms, which will provide for job creation and favourable business environment.

Transport infrastructure is planned to be improved through implementation of the projects for construction of road and railway sections along Corridor VIII and Corridor X, being part of the Southeast Europe Transport observatory (SEETO), and in line with the SEETO multi annual plan. Projects for improving the transport infrastructure are presented in detail in section 4.2.2.1. Transport.

Within the “Project for Construction of Gas Pipeline System in the Republic of Macedonia“, construction of the section Klecovce – Stip is underway. Construction of the other sections Stip - Negotino – Bitola and Skopje – Tetovo – Gostivar is expected to commence in 2016.

Public investments at local level include number of measures and activities in several areas. Strengthening of management at local level and improving municipal services is presented in detail in the section Local government budget. Increasing the quality of life, especially in rural areas, supply of clean drinking water and waste water drainage, modernisation of irrigation systems and creating new employment opportunities will be achieved through implementation of several projects in different regions.

In the field of health, improving health infrastructure, delivery of appropriate health services and introducing new and upgraded equipment and technology is realised through many reforms and activities. In 2016, implementation of the Project for construction, reconstruction and modernisation of the University Clinical Centre “Mother Teresa” in Skopje and the Regional Clinical Hospital in Shtip will commence, which will be financed with budget funds and Council of Europe Development Bank (CEB) loan.

Measures and activities for building physical education facilities in primary and secondary schools, as well as rehabilitation of primary and secondary schools in the Republic of Macedonia financed with CEB loan and Budget funds will continue to be realised in the period to come.

The Projects “Zletovica Water Basin Utilisation Improvement Project” and “Irrigation Program Southern Vardar Valley” will contribute to achieving both increased productivity and sustainable development of the agricultural production in this region.

Preparatory activities for implementation of the Lake Ohrid Sewage Improvement Project are ongoing, aimed at rehabilitating and upgrading the wastewater treatment plant in the region.

The Project for Reconstruction of Penitentiary Institutions, financed with CEB loan, will continue in 2016, under which the standards set in the European Prison Rules will be implemented.

Activities and measures in the social policy are also supported through the Project for Housing of Vulnerable Groups, investing in construction of flats for low-income persons.

Projected Deficit and its Financing. In the period 2016-2018, budget deficit is envisaged to gradually reduce, as follows: 3.2% of GDP in 2016, 2.9 of GDP in 2017 and 2.6% of GDP in 2018.

Funding of the projected deficit will be provided from foreign sources (favourable loans from international financial institutions, credit lines intended for financing certain projects, Eurobonds and other type of foreign borrowing) and domestic sources (issues of government securities).

Borrowing abroad with loans from international financial institutions, as source of financing, will be used by budget users for implementation of specific projects.

As for the borrowing on the domestic market, Ministry of Finance will continue to issue government securities in the next period as well. The purpose is, by regular issuance of government securities, to provide for more efficient financing of the budget needs and reducing the financing costs, as well as encouraging the further development of the financial market in the Republic of Macedonia.

Table.3.3 Projected deficit and sources of its financing (Denar million).

| | 2016 | 2017 | 2018 |
|-----------------------------------|----------------|----------------|----------------|
| Budget balance | -18,984 | -17,827 | -16,993 |
| Deficit financing | 18,984 | 17,827 | 16,993 |
| Inflows | 40,546 | 39,557 | 43,675 |
| External sources | 22,861 | 18,100 | 17,578 |
| Domestic sources | 18,894 | 21,422 | 25,249 |
| Deposits | -1,209 | 35 | 848 |
| Outflows | 21,562 | 21,730 | 26,682 |
| Repayment upon foreign borrowing | 12,381 | 9,155 | 10,340 |
| Repayment upon domestic borrowing | 9,181 | 12,575 | 16,342 |

Source: Ministry of Finance

In the coming period, Ministry of Finance will continue extending the maturity structure of government securities portfolio by issuing long-term securities, i.e. by issuing 2-, 3-, 5-, 10- and 15-year government bonds. Pension funds, as well as commercial banks and insurance companies, are expected to, in particular, show interest in investing in long-term securities issued by the Republic of Macedonia.

Local Government Budget. In the course of 2015, process of administration and collection of own revenues, in particular revenues on the basis of taxes on real estate, has successfully continued, fully including the tax base of natural persons and legal entities and re-assessing the value of real estate, as well as strengthening the capacities for carrying out the transferred competence and managing the financial resources and financing of multi-annual capital projects.

Compared to 2005, when fiscal decentralisation process commenced, municipal revenues increased by 5 times (from Denar 5.9 billion in 2005 to Denar 28.2 billion in 2014). Collection of local taxes, administered by the municipality, experienced more than two-fold increase, while share of local taxes in GDP of 1% in 2005 surged to 1.3% in 2014, by improving the collection structure, speaking of continuous strengthening of local government capacity.

In the coming medium-term period, municipalities will continue to successfully perform the administrative competences in the field of taxes and fees, to manage, in a more flexible manner, more funds within the own revenues and the increased volume of transfers (grants) in the field of education, culture, social protection (mainly kindergartens) and fire fighting.

By providing favourable loans in all municipalities, the Government has provided credit lines from international financial institutions (World Bank, EIB, KfW and EBRD) for financing significant investment operations. Funds will be used for improving both the local services and the utilities infrastructure.

Strengthening the governance and service delivery at local level is supported by the "Municipal Services Improvement Project" financed by the World Bank. The project allows municipalities and public utility companies, who will be able to borrow according to law, to finance water supply and waste water drainage investments, solid waste management and other investments in municipal services that have the potential to generate revenues or savings or are of high priority to municipalities.

So far, 57 municipalities have participated in the Project, out of which 46 have concluded one or several sub-loan agreements in a total amount of EUR 41.6 million, one project has been approved to 1 municipality, while the remaining 10 municipalities are in the process of preparing the project documentation. Value of municipal projects, which are in preparatory stage, amounts to EUR 7 million.

Due to municipalities increasing interest for these favourable loans the implementation of the project to improve municipal services will continue in 2016 by starting a third phase of this project.

In addition, each municipality, having successfully realised project funded under a loan, will be given the possibility to fulfil certain criteria to be given an investment grant as well. So far, 14 municipalities have concluded grant agreements with the Ministry of Finance (10 out of which have implemented the projects, while projects in 4 municipalities are in implementation phase), 1 municipality has an approved project, 5 municipalities are preparing the technical documentation, while the remaining ones have not have yet defined the projects to be financed with the grant funds.

Starting 2015, as well as in the coming years, IPA funds for rural development, which EU allocated to the Republic of Macedonia through IPA 2013 Structural Funds, under IPA 5th Component – Rural Development, will be also implemented through this Project. This is a joint project of the Republic of Macedonia, the EU and the World Bank, aimed at improving the quality of life in the

rural areas, narrowing the differences between the urban and the rural municipalities and improving the competitiveness of rural areas. Funds under IPA project will be awarded to 78 municipalities in the form of grants, which they can use solely for financing infrastructure projects in the rural areas.

Municipalities in the Republic of Macedonia will continue using funds under the cross-border cooperation programmes with the neighbouring countries (Bulgaria, Greece and Albania), financed with EU funds. These projects are aimed at underpinning local economic development and strengthening the cooperation and the partnership between municipalities in the border regions with the neighbouring countries.

Ministry of Finance, Ministry of Local Self-Government and MBDP have supported the use of funds under IPA Component II (Cross-Border Cooperation) with a credit instrument within MBDP, providing for short-term crediting of municipalities – beneficiaries of funds under this IPA component. This instrument will continue providing for the municipalities to bridge the gap and to ensure funds for advance payments of invoices for the performed works within the projects financed under IPA Component II. The instrument is active since 1st January 2014, aimed at enabling faster realisation of the Cross-Border Cooperation Programme and strengthened capacities of municipalities for co-financing projects funded by the EU at local level. In 2014, 4 municipalities used this possibility and 3 municipalities in 2015.

Modifications and amendments to the Law on Equal Regional Development propose for greater self-sustainability in financing the operations of the Centres for Development of Planning Regions, regulate their functioning and closely define the competences of policy makers as regards encouraging equal regional development. At the same time, application of the principle of partnership is emphasized as one of the main objectives for regional development in the EU, i.e. participative approach by all stakeholders at regional level to the end of strengthening the participation of all stakeholders in the process of identification and realisation of regional priorities.

3.4. Structural balance

Economic activity, over time, tends to grow, but, moving along the trend line, the economy usually fluctuates above and below the long-term trend. Such cyclical developments in the economy are also reflected in the fiscal developments, through automatic stabilisers. In order to exclude the effects from fluctuations of economic activity on the fiscal indicators and to assess the basic fiscal position of the country, we calculate and analyse the cyclically adjusted budget balance. Cyclically adjusted budget deficit, i.e. the structural deficit, is obtained

by adjusting the budget revenues and the budget expenditures for the effect of deviation of potential from actual GDP, whereby the adjustment is made on aggregate level.

Calculations point out that cyclically adjusted budget deficit accounted for 3.3% in 2015, and it was lower than the projected budget deficit in the respective year, taking into account that the cyclical budget component has a negative value, as a result of the assessed negative production gap.

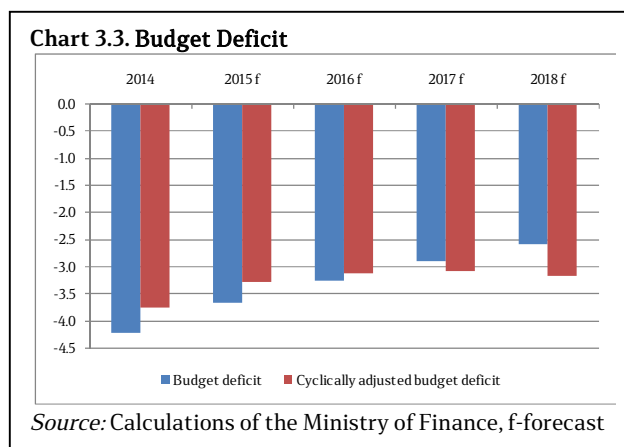


Table 3.4. Aggregate fiscal indicators and production gap

| | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|--------------|
| Total budget balance | -3.6% | -3.2% | -2.9% | -2.6% |
| Primary budget balance | -2.5% | -2.3% | -1.7% | -1.4% |
| Production gap | -1.1% | -0.4% | 0.6% | 1.8% |
| Cyclical component of the budget | -0.4% | -0.1% | 0.2% | 0.6% |
| Cyclically adjusted total budget balance | -3.3% | -3.1% | -3.1% | -3.2% |
| Cyclically adjusted primary budget balance | -2.1% | -2.1% | -1.9% | -2.0% |

Source: Calculations of the Ministry of Finance

Note: Data on production gap and cyclically adjusted total/primary budget balance are expressed in relation to the potential GDP.

In 2016, taking into account that projected GDP is expected to remain below the potential one, cyclical component of the budget is negative, and the cyclically adjusted budget deficit accounts for 3.1%. In 2017 and 2018, in conditions of positive production gap, value of cyclically adjusted deficit is higher than the projected budget deficit, i.e. it amounts to 3.1% in 2017 and 3.2% in 2018. During the analysed period, cyclically adjusted primary budget deficit accounts for 2.0% in average (see table 3.4.).

3.5. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

At the end of Q3 in 2015, government debt of the Republic of Macedonia³⁴ amounted to EUR 3,233.3 million, i.e. 36.0% of GDP. At the end of Q3, total public debt³⁵, which includes both the government debt and the guaranteed debt, amounted to EUR 3,941.4 million, accounting for 43.9% of GDP. During the analysed period, domestic government debt accounted for 39.1% in the total government debt, while the external government debt accounted for 60.9%. Share of external government debt dropped by 3.2 p.p. compared to the end of 2014, above all as a result of the early repayment of the IMF Precautionary Credit Line, amounting to US\$ 174 million. From interest structure point of view, fixed interest rate debt increased by 4.4 p.p. compared to end-2014, by which the ratio between fixed interest rate debt and variable interest rate debt was 71.7% to 28.3% respectively. Such increase of fixed interest rate debt was a result of the increased level of issued government bonds with fixed interest rates, as well as the early repayment of the IMF Precautionary Credit Line with variable interest rate. As for the currency structure of foreign currency debt, share of euro-denominated debt in the foreign currency debt portfolio accounted for 86.0% and, compared to end-2014, it increased by 5 p.p.

Table 3.5. Public debt stock (EUR million)

Source: MoF and NBRM

| | 2011 | 2012 | 2013 | 2014 | 30.09.2015 |
|--|---------------|---------------|---------------|---------------|---------------|
| External Public Debt | 1882.0 | 1941.2 | 2078.7 | 2725.1 | 2654.7 |
| Government Debt | 1582.1 | 1615.9 | 1597.5 | 2092.2 | 1970.5 |
| Guaranteed debt | 299.9 | 325.3 | 481.2 | 633.0 | 684.2 |
| Domestic Public Debt | 532.9 | 967.6 | 1202.7 | 1196.2 | 1286.7 |
| Government Debt | 510.8 | 938.6 | 1174.1 | 1170.3 | 1262.8 |
| Guaranteed debt | 22.1 | 29.0 | 28.6 | 25.9 | 23.9 |
| Total Public Debt according Public Debt Law | 2414.9 | 2908.8 | 3281.4 | 3921.3 | 3941.4 |
| Total Public Debt as % GDP | 32.0 | 38.3 | 40.3 | 46.0 | 43.9 |
| Total Government Debt | 2092.9 | 2554.5 | 2771.6 | 3262.5 | 3233.3 |
| Total Government Debt as % GDP | 27.7 | 33.7 | 34.0 | 38.2 | 36.0 |
| Guaranteed Debt | 322.0 | 354.3 | 509.8 | 658.9 | 708.0 |
| Guaranteed Debt as % of GDP | 4.3 | 4.7 | 6.3 | 7.7 | 7.9 |

³⁴ Government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, public institutions established by the Republic of Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje.

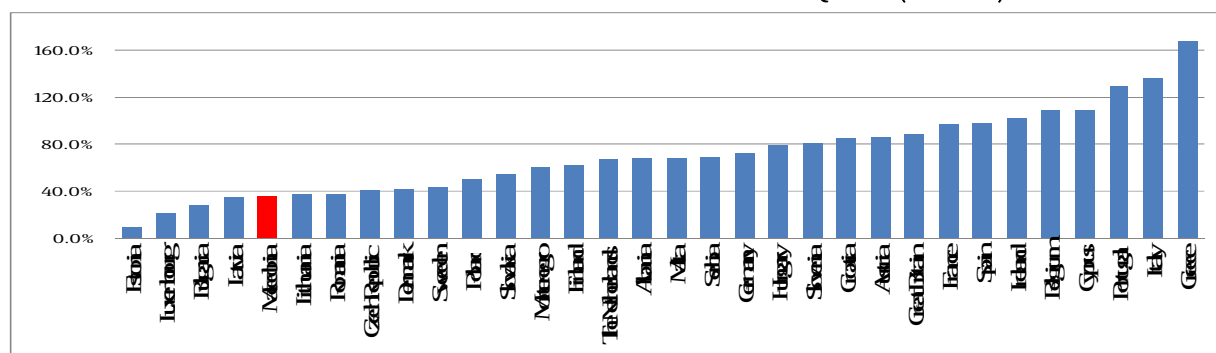
³⁵ Public debt comprises the government debt and the guaranteed debt of public enterprises and state-owned joint stock companies.

To the end of further managing both the government and the public debt, on 27th February 2015, Republic of Macedonia made early repayment, in full, of the debt towards IMF. In fact, in order to anticipate the risk of further increase of the US dollar, Ministry of Finance adopted decision to early repay this credit line. IMF credit line in the amount of SDR 197 million was borrowed in March 2011 and it started to be repaid in mid-2014, while the remaining debt, being early and fully repaid, amounted to SDR 123.1 million (US\$ 153 million).

Medium-Term Fiscal Strategy, covering 3-year period, is the framework determining the public debt management policy in the Republic of Macedonia.

Investments launched in the past period in the field of road and rail infrastructure, water supply and sewerage, sports facilities, education, health, energy, construction of the National Gasification System, as well as other projects that are in line with the Programme of the Government of the Republic of Macedonia, are expected to continue realizing in the period 2016 - 2018. The projects, co-financed with foreign loans, will be implemented by the state administration bodies, strongly committed not to jeopardize the long-term sustainability of the debt level of the country. According to the Fiscal Strategy, moderate and contained increase of government debt up to 41.5% of GDP is expected at the end of 2018, while public debt is expected to account for 52.4% of GDP during the same period. The Fiscal Strategy is submitted to the Parliament of the Republic of Macedonia, whereby the legislative authority has insight in the public debt management policy.

Chart 3.4. Government debt of EU Member States and candidate countries in Q2 2015 (% of GDP)



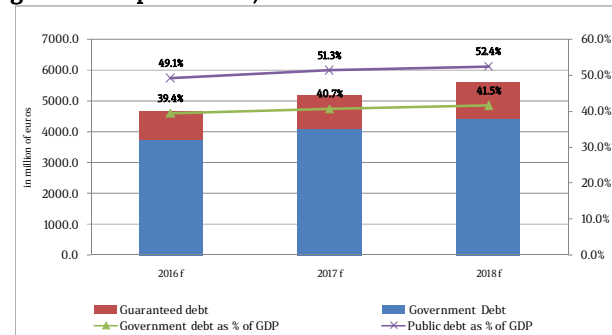
Source: Ministry of Finance, Eurostat, October 2014

In order to reduce the exchange rate risk, currency limits are set in the Fiscal Strategy, whereby the minimal share of euro-denominated debt in the foreign currency debt portfolio should account for 80%. In addition, interest limit on government debt is also set in the Fiscal Strategy, i.e. the fixed interest rate debt should account for at least 50% in the total debt portfolio.

In order to protect central government debt portfolio against the refinancing risk, minimum level of the “average time to maturity” indicator in 2016 should be 3 years. In order to protect central government debt portfolio against the interest rate risk, minimum level of the “average time to refixing” indicator in 2016 should be 2 years.

Republic of Macedonia remains to be moderately indebted country as a result of the cautious and successfully managed fiscal policy in the past years.

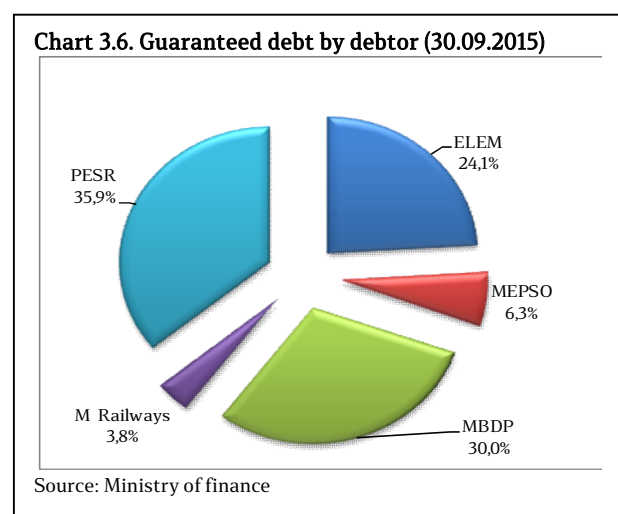
Chart 3.5. Forecast of total public debt (government and guaranteed public debt)



Source: Ministry of finance

Moderate growth of investment activity is projected in the course of 2016, by using credit support from abroad. In addition, in the period 2016 – 2018, investments are expected to be carried out in the field of road and railway infrastructure, water supply and sewage network, construction of social flats, as well as investments in the field of education and health aimed at increasing productivity, i.e. boosting the competitiveness of the economy in the long run. Guaranteed debt in relation to GDP is expected to experience a moderate increase, as a result of the new planned projects in the field of road infrastructure and energy sector for which the state will issue guarantees.

However, as for the new borrowings, account is taken of the long-term sustainability of debt, whereby the process of issuing new guarantees is strictly regulated and subject to the borrowing procedure prescribed in the Public Debt Law, according to which the public debt issuers should fulfil certain criteria so as for the country to be able to issue guarantee. As of 30th September 2015



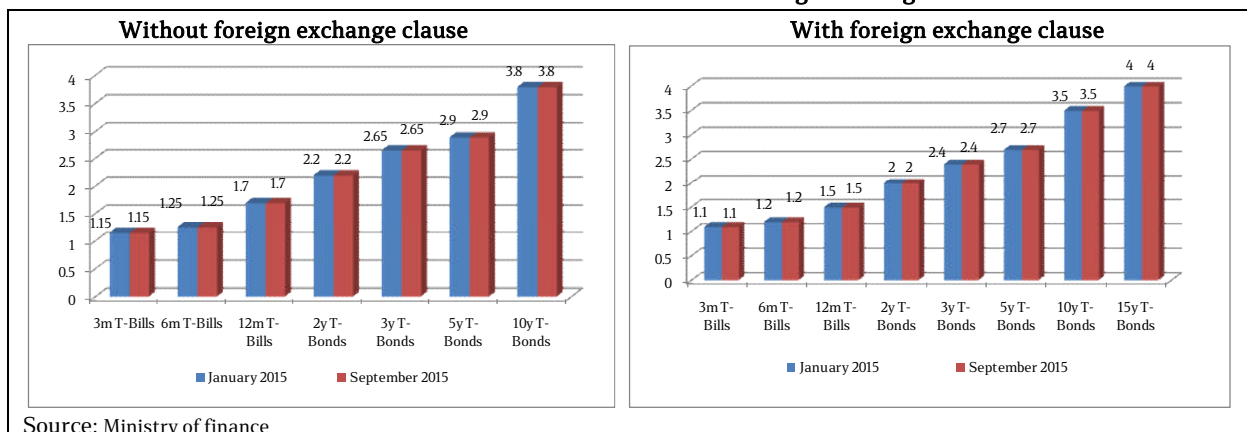
inclusive, issued sovereign guarantees amounted to EUR 708.0 million, accounting for 7.9% of GDP (included in the public debt which accounted for 43.9% of GDP).

Primary Government Securities Market.

According to the Calendar for Issuance of Government Securities (GS) on the Domestic Market, in the course of 2015, Ministry of Finance issued 6- and 12-month treasury bills on regular basis, as well as 2-, 3-, 10- and 15-year government bonds. In the period January – September 2015, total of 69 auctions of GS were carried out, i.e. 24 auctions of treasury bills and 45 auctions of government bonds.

Total amount offered for sale at the auctions was Denar 37,120.3 million, demand and amount realised accounted for Denar 36,610.84 million.

Chart. 3.7. Interest rates of Government Securities without and with foreign exchange clause



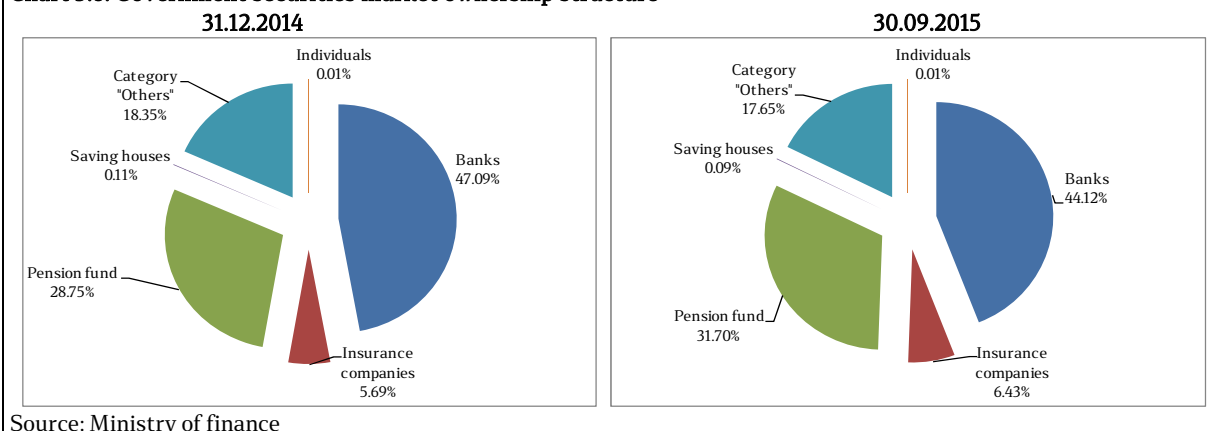
Interest rates on government securities in the period January – September 2015 are shown in Chart 3.7., whereby it can be seen that interest rates on government securities in this period remained at the same level, i.e. they experienced no changes.

As of September 2015 inclusive, stock of outstanding government securities amounted to Denar 72,724.07 million, Denar 31,293.60 million out of which as treasury bills and Denar 41,430.47 million as government bonds.

Despite the reduced share of banks in the ownership structure of outstanding government securities, trends of their dominant share in ownership structure of government securities

continued in the course of 2015 as well (Chart 3.8.). In the period January - September 2015, except for the pension funds and insurance companies, share of other categories of market participants in the ownership structure decreased. During the analysed period, share of banks dropped by 2.97 p.p. in relation to the share of other market participants. As of September 2015 inclusive, ratio between banks and other market entities was 44.12% to 55.88% respectively.

Chart 3.8. Government securities market ownership structure



Secondary Government Securities Market. Legal regulations on secondary trading in the Republic of Macedonia provide for trading in all structural government securities on the Macedonian Stock Exchange AD, as well as trading in continuous government securities on the OTC markets.

In the period January - September 2015, only trading in government denationalisation bonds was recorded at the Macedonian Stock Exchange. Total volume of trading during this period amounted to Denar 586.50 million, surging by Denar 205.81 million compared to the same period last year.

During the same period, 5 transactions with government securities, pertaining to treasury bills, and 13 transactions with government securities, pertaining to government bonds, were realised on the OTC market. Total nominal trading amount amounted to Denar 1,467.86 million. Compared to the trading in the same period last year, it can be concluded that larger number of transactions with government securities were realised in 2015, while total nominal amount of trading was higher by Denar 813.55 million.

International Capital Market. In the course of 2015, in addition to the Eurobond issued in 2014, the Eurobond issued in 2005, falling due in December 2015, continued to be traded on the international capital market. As of September 2015 inclusive, yield to maturity as regards the Eurobond issued in 2005 accounted for 1.4187%, while yield to maturity with respect to the Eurobond issued in 2014 accounted for 4.3198%. The Eurobond issued in 2005 was fully paid on 8th December 2015.

Republic of Macedonia issued a Eurobond on the international capital market in November 2015 in the amount of EUR 270 million with 4.875% coupon rate, i.e. yield of 5.125% and 5-year repayment period i.e. 2020. More than 100 investors have subscribed, most of which are from Europe and the USA. World-renowned investment banks, pension funds, insurance companies and equity funds are among the investors. The transaction was realized in cooperation with City Bank, Deutsche Bank and Erste Bank.

Credit Rating of the Republic of Macedonia. On 25th August 2015, "Fitch" Credit Rating Agency announced that it affirmed the previously awarded BB+ foreign and local currency sovereign credit rating of the Republic of Macedonia, revising the country's outlook to negative from stable. In fact, this credit rating was awarded to the Republic of Macedonia in 2010, and since then

onwards, it has been affirmed each year. “Fitch” indicates the following strengths of the Macedonian economy in the Report: macroeconomic stability, low inflation, low interest costs, well-capitalised and liquid banking sector, moderate current account deficit and high level of investments, which are to underpin the medium-term growth potential. In addition, according to World Bank research, Republic of Macedonia is highly ranked among the group of top economies in the world on ease of doing business.

On 16th October 2015, “Standard & Poor’s” Credit Rating Agency affirmed the previously awarded BB- foreign and local currency sovereign credit rating of the Republic of Macedonia, at the same time affirming the stable outlook of the country. Affirmed credit rating is based upon the moderate level of both public and government debt, low inflation and stable and well-capitalised banking sector. According to “Standard & Poor’s”, growth of the economy in the coming four years is expected to be supported by the commenced capital investments, foreign investment inflows, as well as continuous export growth.

Stable credit rating of the Republic of Macedonia is a strong signal to foreign investors and it has positive impact on the interest rate at which the country borrows on the international capital market, as well as the overall economic and political image of the Republic of Macedonia. In addition, affirmation of the credit rating is yet another strong signal to the foreign investors that Republic of Macedonia is a country which they can have confidence in and could be assured of sound macroeconomic policies in future as well.

3.6. Sensitivity analysis

Sensitivity of Budget Deficit. Medium-term projections are always coupled with certain degree of uncertainty and risks, thus we present here a review of the results from the sensitivity analysis, examining budget deficit sensitivity under three pessimistic scenarios, the conditions being different than the ones taken as basis for medium-term projections.

Table 3.6. Sensitivity analysis of budget deficit

| | 2016 | 2017 | 2018 |
|--|------|------|------|
| GDP, real growth rate | 4.0 | 4.3 | 4.5 |
| Budget revenues, growth rate | 6.3 | 5.3 | 3.8 |
| Budget expenditures, growth rate | 5.0 | 4.2 | 3.1 |
| Budget deficit (% of GDP) | | | |
| Baseline Scenario | -3.2 | -2.9 | -2.6 |
| Scenario 1. Lower GDP growth rate in the analysed period according to the alternative scenario | -3.6 | -3.5 | -3.4 |
| Scenario 2. Lower growth rate of revenues by 25% in 2016 and by 20% in 2017 | -3.7 | -3.6 | -3.3 |
| Scenario 3. Higher growth rate of expenditures by 1/3 in 2016 | -3.8 | -3.4 | -3.1 |

Source: Calculations of the Ministry of finance

Taking into account that medium-term fiscal scenario is based on macroeconomic assumptions; we consider them as factor with potential effect on the fiscal trends. Thus, as first scenario, we assume lower economic growth, in line with the alternative scenario, being explained in point 2.3. In fact, the baseline scenario, upon which budget revenue and expenditure projections are based, envisages real GDP growth of 4% in 2016, 4.3% in 2017 and 4.5% in 2018, while in line with the alternative scenario, real GDP growth projection is 2.8% in 2016, 3.3% in 2017 and 3.6% in 2018. Accordingly, budget deficit, as a percentage of GDP, is by 0.4 p.p. higher in 2016, by 0.6 p.p. in 2017 and by 0.8 p.p. in 2018 compared to the baseline scenario. Table 3.6. shows the budget deficit in the analysed period compared to both the baseline and the alternative scenarios.

As a second scenario, we assume for economic entities to refrain from spending, and the result thereof would be reduction of the annual growth rate of total budget revenues by 1/4 in 2016 and by 1/5 in 2017 compared to the previously projected rates presented in Table 3.6. Thus, by assuming for growth of budget revenues in 2016 and 2017 to account for to 4.7% and 4.3%

respectively, budget deficit would account for 3.7%, 3.6% and 3.3% of GDP in 2016, 2017 and 2018 respectively.

Under the third scenario, one-off shock is envisaged on the budget expenditure side in 2016, which generates 1/3 higher growth rate of budget expenditures in relation to the growth rate projected in the baseline scenario. As a result, i.e. increase of budget revenues by 6.6% in 2016, budget deficit is by 0.6 p.p. higher than the level envisaged in the baseline scenario, reaching 3.8% of GDP. Should projections for increase of both budget revenues and expenditures in 2017 and 2018 remain unchanged, effects from 2016 spill over to the next two years as well, hence budget deficit is by 0.5 p.p. higher compared to the baseline scenario projections.

Government of the Republic of Macedonia is prepared, should any of the presented scenarios occur, to respond appropriately, by adjusting the public spending, i.e. the budget expenditures, to a level necessary to retain the projected budget deficit rates.

Public Debt Risks. Uncertainty arising from the future trends of macroeconomic variables on the international capital market significantly affects the decision making for efficient management of debt portfolio of the country. In conditions of large oscillations of economic variables, need arises to actively manage risks which public debt portfolio in the Republic of Macedonia is exposed to. Main risks identified when managing this portfolio are re-financing risk, market risk, including interest rate risk and exchange rate risk, risk associated with contingent liabilities and operational risk.

Sensitivity of Public Debt. To the end of assessing sensitivity of public debt portfolio to exposure to market risk, i.e. interest rate risk and exchange rate risk, effects from variation of interest rates and the exchange rate on the external government debt were analysed. Sensitivity analysis is based upon the following assumptions: by changing one variable, all other variables remain unchanged, i.e. *ceteris paribus*, in conditions of possible currency movements in relation to the euro, Denar exchange rate in relation to the euro retains the stable value, and non-correlation between interest rate movements and exchange rate movements.

The analysis covers the period 2016-2018, being based upon scenarios of increase of interest rate by 1 p.p. and by 2 p.p. compared to the baseline scenario, as well as increase of euro appreciation and depreciation by 10% compared to the other currencies

Table 3.7. Sensitivity analysis of servicing-related costs of the external government debt where there is change in both the interest rates and the foreign exchange rates

| | 2016 | 2017 | 2018 |
|--|--------------|--------------|--------------|
| Baseline scenario | 100.0 | 100.0 | 100.0 |
| Scenario 1: increase of respective interest rates by 1 pp. | 107.7 | 107.2 | 107.3 |
| Scenario 2: increase of respective interest rates by 2 pp. | 115.4 | 114.4 | 114.6 |
| Scenario 3: appreciation of other currencies of the portfolio in relation to the euro by 10% | 101.1 | 101.4 | 101.2 |
| Scenario 4: depreciation of other currencies of the portfolio in relation to the euro by 10% | 98.9 | 98.6 | 98.8 |

Source: Calculations of the Ministry of finance

Main conclusions under this analysis are the following:

- Servicing-related costs on the basis of interest on external government debt are sensitive to the interest rate movements. If interest rates rise by 1 p.p. in the period 2016 - 2018, it would cause for interest-related costs to surge by 7.7% at the most, as a result of the exposure of the debt portfolio to interest rate risk, being a result of the relatively high share of the variable interest rate debt portfolio.
- in this period, possible unfavourable movements at exchange rates of other currencies in relation to the euro will not cause any more significant increase of the servicing-related costs, due to the fact that most of the external government debt is denominated in euro. Therefore, future euro appreciation, i.e. depreciation, in relation to the other currencies in the portfolio (US dollar, Japanese yen and special drawing rights) by 10% will cause an increase, i.e. decrease, of servicing-related costs by 1.1% in 2016, 1.4% in 2017 and 1.2% in 2018 at the most. In addition, due to the de facto fixed Denar exchange rate regime in relation to the euro, this risk is minimised, i.e. sensitivity of public debt portfolio is at lower level.

3.7. Sustainability of public finances

Calculations for long-term sustainability of public finances³⁶ are based upon the following assumptions:

- average labour productivity growth of 2%,
- increase of male participation rate from 76.8% in 2014 to 89.2% in 2060,
- more intensive increase of female participation rate (from 52.7% in 2014 to 75.4% in 2060), by which share of female population in the total active population is expected to reach approximately 46% in 2060,
- reduction of unemployment rate with higher intensity by 2030, projected at 13.4% in 2030, and with lower intensity in the remaining 30 years, whereby unemployment rate is projected to account for 4.4% in 2060,
- Gradual increase of the share of population above 65 years of age, reaching around 12% in 2060.

In addition, it is assumed that non-tax budget revenues, as % of GDP, will not be changed. On the basis of the above-mentioned assumptions, as well as the employment growth projections, certain increase of the share of revenues on the basis of pension insurance contributions is envisaged from 5.7% of GDP in 2014 to 6.2% in 2030 and stabilisation at slightly below 6% in the remaining analysed period. As for pension-related expenditures, it is worth mentioning that those of the Pension and Disability Insurance Fund are taken into account, while expenditures of the private pension insurance funds are not taken into account. Thus, share of pension-related expenditures in GDP in the period by 2030 is expected to account for almost 9.5%, while, in the coming period, the share is envisaged to gradually reduce, if one takes into account that share of pensioners, having been paid their pensions in full from the first pillar, will decline, and share of the pensioners, to be paid part of their pensions from the second pillar, will rise. Public expenditures for health protection as percentage of GDP are projected to gradually increase from 5% in 2020 to 5.5% in 2060. Such projected increase of expenditures was partially a result of the effects of population aging. Education-related expenditures as percentage of GDP are envisaged to range from 5% to 5.5% during the analysed period. Interest-related costs are expected to surge to 1.5% of GDP in 2030, while in 2060, it is expected for the share to reduce to around 1%, in line with the projected trend of budget balance, i.e. government debt.

³⁶ See Table 7 in Annex 1.

3.8. Institutional features

Efficient public finance management and establishing stable fiscal position in the long run provide for solvency as regards the assumed liabilities and the payment of expenditures.

Improvement of public finance management system, by improving the both medium-term budget framework and the transparency, will remain to be the key priority in the next medium-term period.

Thus, during 2015, within the Public Administration Reform Project, in cooperation with the European Commission, SIGMA conducted a mission so as to provide relevant information in the field of public administration and public finances on the basis of collecting data from the relevant institutions.

In the course of 2015, public expenditures and financial accountability were assessed in line with the PEFA (Public Expenditure Financial Accountability) Methodology. PEFA assessment is aimed at determining the state of play of the Public Finance Management (PFM) system in the Republic of Macedonia. Recommendations in these two will be considered in the preparation of a Public finance management reform programme.

Compulsory legal regulation of medium-term budget planning for all EU member states arises from the Directive 2011/85/EU. EU Member States should establish a credible, effective medium-term budgetary framework providing for the adoption of a fiscal planning horizon of at least 3 years and the annual budget preparation should be consistent with the provisions of the medium-term budgetary framework.

Each EU candidate country should strengthen its capacity for annual preparation of medium-term budget framework (MTBF) and medium-term expenditure framework (MTEF), where the government present its medium-term plans and manners to meet the economic criteria for EU membership.

The need for further improvement of medium-term fiscal projections and establishment of a medium-term budget framework was noted in the EC assessment on the Economic Reform Programme 2015-2017, in the SIGMA 2015 report, in the PEFA 2015 report and in the IMF report 15/243.

It was noted that the government has, in fact, taken the steps to improve the public finance management, such as strengthening the capacities for budget planning, that implementation of the budget provides positive results in terms of budget control, the budget process follows the annual cycle and the fiscal situation is to a large extent under control.

According to the recommendations given in these reports there is a need to further improve the medium-term planning, as well as to provide greater extent of additional information regarding public finances.

Therefore, within IPA 2011, the realization of the Twinning Project “Strengthening the Medium-Term Budgeting for Effective Public Financial Management“ has started in December 2015. Main activities of the Project will be focused on determining a program expenditure classification, enhancing the capacities for medium-term planning and reporting in line with ESA Methodology, all to the end of improving the quality of public expenditures.

Main Project objective is improving the public finance management, the central focus being placed on medium-term budget planning as a main precondition for sound public finances and maintenance of stable fiscal position.

Expected results from the Project, apart from the program classification, are also preparation of medium-term fiscal framework, whereby the concept for implementation of MTEF and MTBF will be appropriately defined, and respective legal amendments, manuals and bylaws will be prepared accordingly.

Funds have been provided under IPA 2011 Technical Assistance Facility Envelope for realising the Project “Development of Proposals for Implementation of Modern Integrated Financial Management Information System”. Under the Project, Ministry of Finance plans to engage experts who are to prepare a study, together with an analysis and assessment of the state of play of the financial management information systems of the Ministry of Finance, and solutions will be proposed for establishing a modern integrated financial management information system.

4. STRUCTURAL REFORM PRIORITIES IN 2016-2018

4.1. Identification of key obstacles to growth and competitiveness

To the end of boosting competitiveness and economic growth of the Republic of Macedonia, as well as attaining higher economic growth rates, activities in the coming period will be aimed at further improvement of transport and energy infrastructure, agriculture sector, business environment, promotion of innovation and technology absorption, as well as human potential development, improvement of developments on the labour market and inclusion of vulnerable groups.

Efficient and safe transport infrastructure facilitates and stimulates mobility of people and goods, contributing to overcoming the limitations of the local markets and creating assumptions for balanced regional development. In the coming period, activities aimed at modernization of the existing energy infrastructure and construction of new energy facilities are also determined, providing for increased energy supply security. Hence, construction and improvement of infrastructure lead to reduction of unemployment and poverty, achieving better living standard, increased competitiveness of the national economy and achieving accelerated economic growth.

Taking into account the importance of the agricultural sector in terms of share of GDP, number of employed persons and contribution to foreign trade, measures will be undertaken focused on land consolidation and development of functional land market, as well as measures to improve the irrigation systems.

Special focus will be placed on enhancing the business environment by further streamlining the regulatory and the administrative burden on the business, activities aimed at SME supporting and development, facilitating the access to finances, improving the property rights and property registration, etc.

Taking into account the geographic location and the size of the country, FDI increase, reducing the energy import, increasing the competitiveness and enhancing the productivity of companies, as well as increasing the industrial high value-added manufacturing, will be especially important for increasing resilience of the Macedonian economy to the effects of the external risks.

One of the factors of exceptional importance for the competitiveness of the Macedonian enterprises, also being underdeveloped, is the research and development capacity and introduction of innovations. To that end, activities will be undertaken to improve innovation infrastructure and simplify their financing, as well as to link the universities and the companies for the purpose of innovation commercialization.

As regards trade integration, Republic of Macedonia will continue striving for stimulating regional trade of goods and services within CEFTA and applying the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin. Transit procedure will be additionally facilitated and accelerated by modernizing and expanding the most frequent border crossings.

Republic of Macedonia continues implementing the activities aimed at supporting human capital development by further improvement of education quality, improvement of quality of curricula and

their adjustment to the needs of the private sector, as well as additional training of the teaching staff.

Although Macedonian economy shows improvement as regards the unemployment, which significantly reduced in the past period, the Government puts additional efforts for its further decrease. A lot of measures, being aimed at improving the state of play, which yielded results, were undertaken in the past period, and the Government will continue implementing the employment policies, focused on encouraging labour market demand, matching labour force supply and demand according to the labour market needs, improving labour force supply, as well as reducing grey economy. Special focus will be also placed on the vulnerable groups on the labour market, on enhancing their knowledge and skills and increasing their employability.

4.2. Structural reform priorities by area

4.2.1. Public Finance Management (PFM)

Public finance management is a serious obligation and a challenge that requires continuous adjustments, reforms and improvements especially in terms of unpredictable and turbulent economic environment. Having in mind these reasons, fiscal policy in the upcoming mid-term period will be aimed at maintaining macroeconomic stability and stimulating economic activity through capital expenditures and investments in infrastructure, as well as improving doing business conditions in order to release the private sector's potential for growth and job creation.

In order to improve the management of public finances steps were taken in the past period such as strengthening of capacities for budgetary planning, supplementing the public debt management strategy which is part of the fiscal strategy in terms of determining the maximum amount of refinancing, as well as currency risks and interest rate risks. Currently, the process of planning and implementation of the budget is guided by medium-term fiscal strategy that contains binding targets for revenues and expenditures at aggregate level, deficit and debt. In this context it is necessary to strengthen the capacity for annual preparation of a Medium-term budget framework (MTBF) and Medium-term expenditure framework (MTEF), which will focus on medium-term plans and the manner of meeting the economic criteria for EU membership. The EU twinning project, which is at the beginning of its implementation, should improve the effectiveness of the medium-term budget planning, program budgeting and fiscal reporting, thus contributing to the formulation of sustainable medium-term fiscal projections and strengthen fiscal discipline and credibility. For more detail see part 1.1 and 3.8.

4.2.2. Infrastructure

4.2.2.1. Transport

Republic of Macedonia is an economy dependent on trade. In order to promote exports and attract foreign direct investment (FDI), the Government is focused on development of infrastructure, especially transport infrastructure, which will contribute to better connectivity to EU markets and access to nearby sea ports in Greece and Bulgaria. Road infrastructure is an important priority since most goods, including exports, are transported by road (85% of passengers and 91% of exported or internally transported goods in 2014). Macedonia's road network totals about 8,200 km, of which 4,000 km with asphalt surfacing. Roads are classified as national roads (872 km), regional roads (3,450 km) and local roads (approximately 3,900 km). Road transport is the key mode for intercity passenger travel, after which follows the railway network, which has a total length of 700 km and is used mainly for travel along the Corridor X. Hence, the road network is the primary mode for internal mobility and trade.

The most important transport corridors in Macedonia are the Pan-European Corridor X, which runs north-south across the country (from the border with Serbia to the border with Greece) and the Pan-European Corridor VIII, which runs east-west connecting Durres port in Albania with the Black Sea in Bulgaria.

The country's economy depends primarily on Corridor X and the Port of Thessaloniki. Ports of Corridor VIII represent new potential transport routes. This leads to the impetus to improve and upgrade Corridor VIII for efficient access to Bulgarian and Albanian ports, as well as access to potential markets in the East.

The development of the two main international corridors is unbalanced. The completion of the construction works on the Demir Kapija - Smokvica road section will result in a full Corridor X Highway by the end of 2016. On the other hand, Corridor VIII is only 36% upgraded at a highway level and is in need of further upgrading. The imbalance in the development of roads of these two main corridors in the country and the dominant use of Corridor X are a cause for economic and strategic concern. The western section of Corridor VIII (to Albania) is currently being extended to a highway level with financial assistance from the Chinese Exim Bank and is foreseen to be completed by 2019. Therefore, the continuation of the construction of the eastern part of the road Corridor VIII is considered a priority. Completed road Corridor VIII will contribute to strengthened country's integration in the region and the EU and could lead to new market opportunities. Currently, the road connection is the only connection to Bulgaria and Albania, given that railway transport is available from Kumanovo to Kicevo. Railway Corridor X is fully constructed and its rehabilitation is currently underway.

The Indicative Extension of the Core Network Corridors in the Western Balkans linked to the Trans-European Transport Network (TEN-T) was confirmed at the Vienna Western Balkans Summit 2015, and the priority of Corridors VIII and X was also confirmed, since they are considered as extension of the main network and provide connectivity with neighbouring countries and better integration of Europe. As a result, considerable efforts and funding are devoted to the development of these corridors. Investment priorities in transport infrastructure are in accordance with the multiannual plan of the Southeast Europe Transport Observatory (SEETO) and the National Transport Strategy 2007-2017.

The sectoral list of projects in transport is part of the Single Project Pipeline, approved by the National Investments Committee. The list of projects in the transport sector is a continuation of the policies and the list of projects prepared and adopted by the Government in August 2011.

The measure in the Economic reform programme 2015 - Preparation of a Study and an Action Plan for improvement of the safety on the overall SEETO network (Corridor X, X-d, VIII, route 6 and route 8), funded by IPA, is realized. The preparation of the study and action plan provided recommendations for improving standards for designing of new road systems, including reconstruction and rehabilitation, for identifying and locating safety issues, for appropriate actions to reduce the negative effects of transport, to reduce the risk of road accidents and significantly reduce of casualties. The recommendations are aimed at continuously introducing infrastructure safety management measures which are binding in all stages of planning and execution, proper and efficient road maintenance, as well as ensuring visibility on roads by eliminating physical obstacles. These recommendations are applied in preparation of tender documents for road construction and rehabilitation projects.

Measure 1: Upgrading and rehabilitation of Corridor X

Railway infrastructure

- Renewal of the railway Corridor 10

The renewal of the third and last section of Corridor X, Negotino – Nogaevce (L=30 km), shall be completed with loan funds from the European Bank for Reconstruction and Development (EBRD). In the previous period, reconstruction was performed on the sections Tabanovce – Kumanovo (L=12 km) and Miravci – Smokvica (L=12km). Completion of works on the three sections will enable increase of the speed limit up to 120 km/h, which reduced travel time. The project is expected to finish at the end of 2016.

- Rehabilitation and upgrading of the Railway Station in Skopje and 10 other larger stations according to the best EU practices

This project is funded through IPA Component 3 – Regional development. The aim of the project is modernization of the Railway station in Skopje according to the best European practices so as to meet the demands and needs of passengers, including passengers with special needs. The project should also contribute to improved safety and security, as well as modernisation of the signalisation and passenger information system. The activities are expected to be completed in mid-2016.

Activities are in progress for modernization of major rail stations along Corridor X and X-d under EU best practices. The project will include 10 railway stations: Veles, Prilep, Bitola, Gevgelija, Bogomila, Chaska, Tabanovce, Demir Kapija Gradsko, Negotino - Vardar. The project amounts to EUR 2.5 million and foresees complete reconstruction and upgrade of all major elements of the railway stations. The project will be completed by the end of 2016.

Road infrastructure

- Construction of the section DemirKapija - Smokvica

By completing the road Corridor X at a motorway level, the capacity and the overall efficiency of the route E-75 North – South shall improve. The construction of the motorway section in length of 28.3 km shall be realised with funds from the IPA Component for Regional Development, from EBRD, EIB, as well as from national budget funds. The project is already 72% completed and is expected to be finished by the end of 2016.

- Rehabilitation of the section Veles - Katlanovo

The rehabilitation of the motorway section Veles – Katlanovo shall improve the capacity and overall efficiency of the route E-75 South – North and shall provide safe and faster transport. The construction works are completed and the section will be officially put into operation in early 2016.

- Rehabilitation of bridges with grant from NATO

The third phase of the project relates to strengthening of 13 bridge constructions along the section: Veles – Katlanovo, rehabilitation of the secondary elements of the bridge constructions such as the drainage storm water systems, replacement of the protective railings, as well as replacement and correction of the carriageway construction on these bridges. The activities should be completed by mid 2016. At the moment, 10 out of 13 bridges are completed.

- Rehabilitation and upgrading of the motorway section Smokvica - Gevgelija

The contract value is EUR 8,917,170, of which 85% are IPA funds, and the other 15% are budget funds. The duration of the construction works following the contract signing shall be 12 months. The works have started in December 2015.

- Construction of road A1 and Pan-European Corridor Xd Gradsko – Prilep at express road level, section Most on river Raec – interchange Drenovo. The road in length of 10.2 km shall be

financed with an EBRD loan, and shall be realised in the period 2015 – 2019. The section from Gradsko to Drenovo should be financed from the Transport Sector Operational Programme (TSOP) 2014-2020 and construction works should start in first half of 2017.

- **Rehabilitation and upgrading of the motorway section Kumanovo-Miladinovce and Miladinovce-Kumanovo.** Tender is ongoing and works co-financed from IPA should start in early 2016 and be completed within 15 months.

Measure 2: Upgrading and rehabilitation of Corridor VIII

Railway infrastructure

- Reconstruction of the railway section from Kumanovo to Beljakovce (30.8 km)

The loan from EBRD in March 2014 was used to start construction works on the first section of the Eastern part of the railway Corridor VIII, Kumanovo – Beljakovce. The construction of this section is underway. WBIF provided support with two grants, one in the amount of EUR 2.5 million for provision of supervision of construction works, and second one in the amount of EUR 1.5 million for preparation of project documentation.

- Construction of new and reconstruction of the existing railway section from Beljakovce to Kriva Palanka (34 km)

For the second section of the Eastern part of the railway Corridor VIII, Beljakovce – Kriva Palanka, in December 2014, a loan was awarded from EBRD in amount of EUR 145 million for the construction works. In the second quarter of 2016, it is envisaged that a contract will be signed with a selected construction company that will perform the reconstruction of the existing bridges, tunnels, alignment and build new ones in a period of 48 months. A EUR 2.7 million WBIF grant was used for preparation of project documentation.

- Preparation of technical documentation for the section from Kriva Palanka to Deve Bair, border with Bulgaria

For the third section of the Rail Corridor VIII, tender for preparation of technical documentation is underway and is should be completed in mid 2017. Support is provided by IPA funds.

Road infrastructure

- Construction of motorway A2, section Kichevo – Ohrid, in length of 57 km.

The timeframe for completion of the investment is February 2018. The funds are provided with a loan from the China Exim Bank. The project is realised according to the envisaged dynamic and so far 14% are completed.

- Construction of motorway A2, section Trebenishte – Struga, in length of 8 km.

The funds for this project were provided through an EBRD loan, and shall be realised in the period 2016-2019.

- **Construction of express road A2, section Rankovci – Kriva Palanka**, with possibility for future motorway upgrading, in length of 23 km. The funds for this project are provided through a World Bank loan amounting to EUR 78 million and shall be realised in the period 2016 – 2019.

- **Construction of express road A2, section Kriva Palanka – border with Bulgaria.** Funding for this project will be provided by a loan from the EBRD in the amount of EUR 30 million, in the second half of 2016.

Measure 3: Upgrading and rehabilitation of the local and regional road infrastructure

- Construction of the motorway A4, section Miladinovci – Sv. Nikole – Shtip, in length of 47 km.

This investment shall be the first motorway section in the eastern part of Macedonia. Overall progress of construction works is 28%. The timeframe for completion of the investment is May 2017.

- Project for construction, reconstruction and rehabilitation of national and regional roads

The realization of these investments will significantly improve interconnections within regions and among regions themselves, thus facilitating the flow of goods and services and shortening travel time and transportation while improving road safety. This measure comprises two parts:

(A) Rehabilitation and reconstruction of the existing road A3, section Stip - Kocani at an expressway level and the section Ohrid - Peshtani. The investment amounts to EUR 181 million and the funds are provided by a loan from the EBRD. The project will be implemented in the period 2016-2019.

(B) Upgrading of 16 road routes with a total length of 209.8 km in the period 2015-2019. The investment amounts to EUR 88 million, financed by two loans from the World Bank. In 2015, the rehabilitation of 6 road sections started.

4.2.2.2. Energy sector

The priorities of the Government of the Republic of Macedonia in the energy sector, linked to the national goals for security and development, include: reliable energy supply, sustainable economic development and competitiveness of the economy.

The primary energy consumption in Macedonia is around 120,000 TJ yearly of which about 55% are provided from domestic production and the rest is imported. Total demand of oil derivatives, natural gas and coal are provided from import. The total annual electricity demand, in the past several years, is around 8,000 GWH, out of which about 70% are provided from domestic production and the remaining quantity is imported.

Energy infrastructure includes electricity sector, coal sector, oil and petroleum products sector, natural gas sector and heat sector.

Total installed capacity in the electricity sector is around 1,963.8 MW (hydro power plants with 638 MW, thermal power plants with 1,035 MW, thermal power plants on natural gas with 287 MW, renewable energy sources - photovoltaic with 3.8 MW).

Main gas pipeline enters in Macedonia at Deve Bair-Bulgarian border and stretches through Kriva Palanka, Kratovo and Kumanovo to Skopje. It is 98 km in length. The main gas pipeline has a capacity of 800 million Nm³ per year with a possibility for increase to 1,200 million Nm³ per year through construction of a compression station at the beginning of the main gas pipeline. By implementing the "Project for Construction of Gas Pipeline System in the Republic of Macedonia", business sector, public sector and households will be supplied with cheap and environmentally friendly energy, at the same time reducing the emission of harmful gases in the atmosphere. Construction of the section of the national gas pipeline system Klecovce - Stip commenced in 2015. Construction of the other sections of the national gasification system Stip - Negotino - Bitola and Skopje - Tetovo - Gostivar is expected to commence at the beginning of 2016.

The total installed capacity of the heating systems is about 630 MW. The biggest heating system is the one with operated by the Balkan Energy Group, to which approximately 550 MW are connected.

In the Energy Development Strategy 2010-2030 activities regarding modernization of the existing energy infrastructure and construction of new energy facilities are defined. These activities enable increasing of security of supply.

Pursuant to the Energy Law, the Energy Development Strategy is revised by the government every 5 years and applicable for the next 20 years. Strategy for Energy Development 2035 was prepared by the Macedonian Academy of Sciences and Arts (MANU) with financial support from the US Agency for International Development (USAID). For its preparation, Advisory body was formed comprising representatives from relevant institutions and energy companies. Within the Macedonian Energy Association an expert debate was organized, as well as a public consultation on the prepared strategic assessment of the environmental impact. The text of the draft strategy was discussed within the National Council for European Integration within the Parliament of the Republic of Macedonia in December 2015. The adoption of the strategy is planned in the second half of 2016.

The measure - Construction of 400 kV Interconnection overhead line TS Stip - Macedonian Serbian border, which was envisaged in last year's programme, is completed, thus the process of connecting the electricity transmission systems between Macedonia and Serbia is realized. With the finalization of the last project phase, MEPSO closed the investment worth over EUR 11 million. A total of 168 towers were built as part of 400/110 kV substation Stip to the Macedonian-Serbian border. It is an overhead line with length of 70 km and was built in 12 months. The capacity to exchange electricity of this line is 600 MW (megawatts).

The construction of the transmission line began in December 2014, while in November 2015 the interconnecting line was already placed under voltage. This line is the first direct interconnection between Macedonian and Serbian transmission systems. It significantly increases the electricity transmission capacity of our transmission system and strengthens its reliable and stable operations. With this line Macedonia gets the fifth interconnection with neighbouring transmission system: two connections to Greece and one with Bulgaria, Serbia and Kosovo.

Measure 4: Construction of 400 kV Interconnection overhead line TS Bitola 2- Macedonian Albanian border and 400/110 kV TS Ohrid

Investment for construction of 400 kV Interconnection overhead line is the first interconnection between Macedonia and Albania is the last part of the realization of Corridor VIII for electricity transmission between Bulgaria, Macedonia, Albania and Italy. This project is on the list of projects of interest to the Energy Community of Southeast Europe, which lists infrastructure projects of major importance to the SEE.

Direct benefits³⁷ for MEPSO from construction of this interconnection is reflected by revenues from: reduced electricity losses (approximately EUR 1.9 million/ year), decrease of undelivered electricity (approximately EUR 1,500/ year), increased production of electricity (average of EUR 700,000/ year), efficient dispatching and balancing generators (average EUR 400,000/ year), increased transmission capacity and greater transit of electricity (approximately EUR 70,000/ year). Electricity interconnection between Macedonia and Albania brings significant benefits to overcome “bottlenecks“ in the network that restrict access of generators to the regional market of electricity. This reduces the production cost, both in national systems and on regional level. Additionally, both systems will benefit from reduction of imported energy and reduce the overflow reservoirs (final effect means “liberation“ of existing “green energy“).

Feasibility Study and Environmental Impact Assessment (EIA) are prepared and approval of the EIA is received by the Ministry of environment and physical planning. Two WBIF grants are

³⁷Feasibility Study and ESIA for Elbasan (AL) - Bitola (MK) 400 kV Transmission Line, COWI – IPF Consortium, January 2013.

provided, one in the amount of EUR 800,000 for preparation of the Feasibility study and EIA, and another in the amount of EUR 900,000 for preparation of technical documentation. Total value of transmission lines and transformer station construction is EUR 49 million, out of which EUR 37 million is secured through EBRD loan and EUR 12 million is investment grant approved by WBIF. This grant is awarded because this project is part of the EU Connectivity Agenda and is arranged as following: EUR 3 million for Smart Grid and EUR 9 million to cover the participation of MEPSO in this project.

The loan agreement between MEPSO and EBRD was signed on December 10th 2015, and in the next period the process of land acquisition will start followed by construction of the transmission line and substation, which is expected to be completed by the end of 2019.

In terms of the project impact on the national and regional transmission network, we can expect the following effects:

- creating 400 kV contour Albania - Macedonia - Greece,
- increased transmission capacity of the network to support the forecasted load growth and transit of electricity and connection of new production capacities,
- improved reliability of the regional network, security of supply and stability of the transmission system,
- reduction of technical losses in electricity transmission system,
- Improved quality of power supply (normalizing the voltage profile, stabilize the flow of power and frequency fluctuations, etc.)
- support the development of a regional electricity market in South East Europe and creating opportunities for trade with Bulgaria and Italy and
- Reducing the cost of providing spare capacity and enabling support in emergency situations.

Measure 5: Rehabilitation and modernization of the transmission network and power system

The investment for revitalization and modernization of the transmission network and management of power system consists of four components:

- revitalization of six 110 kV transmission lines,
- new equipment for substations,
- complete closure of the optical ring transmission network and
- Installation of systems for monitoring and management of substations.

This investment will achieve: increased reliability of operation of facilities, reducing the level of depreciation of equipment installed in the 110 's transmission fields kV substations, significantly reducing the number of outages of pylons and therefore reduce the dry condition of the consumer Macedonia, raising the level of the continuous supply of electricity to consumers, reduce the cost of maintenance and management problems with the old lines, increasing the quality of electricity at the transmission system, increased security to workers and the environment.

The four components of the project should be implemented by the end of 2017. In 2016 preparation of technical and tender documentation will continue after which tenders will be announced.

For the implementation of the measure EUR 25 million loan from the EBRD is provided and EUR 15.5 million are MEPSO's own funds.

The revitalisation and modernisation of the transmission network will contribute to accurate and reliable operation of the network, data transmission for remote regulation and video surveillance of all objects connected to the transmission network. Also, it will enable connectivity with neighbouring telecommunication networks for data transmission of Serbia, Bulgaria, Greece and Albania through existing and new interconnecting lines, meeting the requirements of the

European Network of Transmission System Operators ENTSO-E to provide digital electronic connection with at least two neighbouring transmission system operators for data exchange, being of vital importance for management of the system and stability of supply in the region.

4.2.3. Sector developments

4.2.3.1. Agricultural sector development

Agriculture in Macedonia has a significant share in GDP, employs a large number of persons and has a high contribution to foreign trade. Despite its overall importance for Macedonia's economy, the sector is fragmented, poorly equipped and with relatively outdated technology, having implications on growth. The fragmented production and lack of mechanization makes it difficult for farmers to achieve economies of scale in production and produce the quantities required for certain markets, constraining agricultural growth. Also, spending more resources on irrigation will be critical to increase production of high-value added crops.

Progress on land consolidation and development of a functioning land market would also be important to make the sector more productive. Agriculture is one of the sectors directly harmed by a climate changes. Both water scarcity and water demand for irrigation are predicted to rise in near future. Irrigation systems are already insufficient and poorly designed for small farms. Many farms depend on local wells and unsustainable extracted groundwater, which is neither regulated nor priced.

Measure 6. Improvement of Irrigation Systems

According to the World Bank publication "Reducing the Vulnerability of Macedonia's Agricultural Systems to Climate Change", agriculture is one of the most climate-sensitive economic sector, and without a clear plan for aligning agricultural policies with climate change, the livelihoods of rural populations are at risk. Over the next 40 years climate change will grow more severe and will hamper agriculture conditions. Temperature increases are projected to be higher, and precipitation declines greater, during the crucial summer growing period. By predicting water supply and demand under climate changes, substantial water shortages in the future are expected, meaning that there will be insufficient water available to irrigate all crops. This could lead to losses for farmers of 50% or more for most crops under the medium impact scenario if nothing is done to adapt.

The total irrigation capacity installed can provide irrigation of 163,693 ha agriculture land or 144,984 ha in an average dry year. Irrigated areas in 2014 are estimated at 20,575 ha or only 4% of arable land. The percentage of irrigated agricultural land is under the EU 27 average (about 5%). Irrigated area is well below the average of countries with a Mediterranean climate where Macedonia belongs (for example: Greece 31%, Malta - 27%, Cyprus - 21%, Italy - 21%, Spain - 10%).

According to the National Strategy for Agriculture and Rural Development 2014-2020: "Rehabilitation and construction of irrigation systems is a policy priority, especially in terms of the expected adverse effects of the climate change that will mostly affect the reduction of the available amount of water for irrigation and increase the needs for irrigation. Hence, the ultimate goal is to increase the current irrigated areas in the country to the level of installed capacity (163,693 ha), and gradually expand hydro-systems to reach the objective for irrigated area at half of the arable area (around 250 thousand ha). Specifically, most of the large capital investment in new hydro-systems and investments for expansion and reconstruction of existing hydro-systems in the country should commence in the upcoming period. These investments will have a direct impact on increasing yields and physical volume of agricultural production. Future phases of designing the systems will in accordance with the analysis of the future impact of climate change, for the purposes of proper adjustment of the technical parameters".

Cost-effectiveness of the new investments in irrigation can be achieved if implemented in parallel with the land consolidation projects.

In order to ensure continuous and long-term investments in infrastructure for irrigation and drainage, a ten-year planning document "Investment Plan for the Water Management Master Infrastructure for the period 2015-2025" is prepared. This plan includes all envisaged investments in the water economy until 2025, divided into the following types of infrastructure works:

- Rehabilitation and reconstruction of installed infrastructure for irrigation and drainage in order to achieve their sustainability and water conservation;
- Upgrading and expansion of the existing hydro-system in order to increase the irrigated area in the country; and
- Construction of new major facilities in the Macedonian hydro-system.

Priority of the investments is given to the completion of construction of the hydro systems Lisiche, Zletovica and South Vardar Valley and new large systems such as the Rechani dam on Orizarska River and the Konsko dam near Gevgelija, followed by 10 new micro-accumulations, construction of main supply pipeline within the project Raven-Rechica, construction of a dam on the Slupchanska River, and an irrigation system on Markova River near Kuklish, as well as expansion of the HS Bregalnica and the HS Strezevo.

Second and third phases of the "Zletovica Water Basin Utilisation Improvement Project" will be implemented with a support by EIB. Main objective of the second phase is provision of irrigation for 4,570 ha net area in the region of Probistip and Kratovo municipalities. Implementation of the third phase, which includes construction of small hydro power plants along the flow of Zletovica River, will provide for reducing electricity shortage in the region, safe, secure and quality supply of energy for the consumers and increased energy efficiency.

Second phase of the "Irrigation Program Southern Vardar Valley", to continue in 2016 as well, will be financed with KfW loan. This phase, covering rehabilitation and modernisation of the irrigation systems in the South-eastern region, will contribute to achieving both increased productivity and sustainable development of the agricultural production in this region.

In order to achieve full functional efficiency and sustainable management of the country's hydro-system in the upcoming period reforms will be implemented by setting the institutional regulation on better foundations. A single institution is established - a state owned joint stock company "Water Management of the Republic of Macedonia", whose authority is managing all hydro-systems in the country and represents the highest authority in the structure of water management. Despite the commitment for sustainable management of irrigation and drainage systems, this institution will implement planned capital investments in line with government plans. Organisationally, the company brings together the existing water companies. In the upcoming period, the company should develop adequate capacity to manage the existing infrastructure and capacity for planning and design of new systems and technologies for irrigation / drainage.

Investments in large HS will be complemented by construction of small scale community irrigation systems (up to 200 ha). These investments are planned to be supported under IPA 2015-2017 and are subject to prior planning and preparation of tender documents in 2016 under IPA 2013.

Costs for large HS amount to EUR 250 million (national funding and international borrowing), while small scale irrigation systems (under IPA) amount to EUR 2 million project preparation facility and EUR 5 million investments.

Milestones:

M1: At least 20 small scale irrigation projects are prepared and implemented (IPA support)

M2: New large scale systems first phase (dam construction) is implemented

M3: At least 3 large scale old systems are renewed.

Provision of access to farmers to regular irrigation is expected to increase competitiveness by adoption of new varieties, diversification to higher value crops and higher yields. Facilitating community small scale irrigation systems shall promote sustainability of rural livelihoods.

Measure 7. Consolidation and defragmentation of agricultural land

High fragmentation of agricultural land (small and fragmented land parcels) has adverse effects on productivity and efficiency of the agriculture production, and hence the competitiveness of Macedonian agricultural products. Without any changes towards the improvement of the existing land structure, the agricultural sector potential will remain underutilised.

The average parcel size of agriculture land is below 0.2 ha (high frequency of parcels below 0.2 ha) and with significant presence of borders in between or dispersed small plots of unorganized agricultural space.

According to the National Strategy for Agriculture and Rural Development 2014-2020: "Re-parcelisation projects and consolidation of land will be carried out in parallel with infrastructure planning in terms of the quality of the road network and irrigation network as part of an integrated approach to rural development.

Table 4.1: Land Use based on LPIS

| Code | Land use | No. of physical blocks | Area in ha | % of the total area | Average size of physical blocks |
|--------------|---|------------------------|----------------|---------------------|---------------------------------|
| 200 | Arable land – fields | 266 731 | 349 460 | 71 | 1,31 |
| 210 | Glasshouses and plastic tunnels | 3 515 | 3 479 | 0,7 | 0,99 |
| 310 | Meadows | 48 912 | 58 440 | 11,9 | 1,19 |
| 400 | Undefined land use – perennial plantations (grape or fruit plantations) | 15 399 | 9 567 | 1,9 | 0,62 |
| 410 | Grape plantations | 37 784 | 29 687 | 6,0 | 0,79 |
| 420 | Orchards | 16 996 | 9 650 | 2,0 | 0,57 |
| 500 | Land of varied use | 22 536 | 31 798 | 6,5 | 1,41 |
| 900 | Temporarily non-arable land | 555 | 153 | 0,0 | 0,27 |
| Total | | 412 428 | 492 232 | 100 | 1,19 |

Source: LPIS 2012 (Ministry of agriculture, forestry and water economy's calculations 2013)

Consolidation process will be implemented through two projects for consolidation in two regions, one of which would include redistribution of land and investment in infrastructure, and the other will be based on voluntary exchange. Priority will be given to regions with developed and intensive agriculture where small and fragmented parcels significantly limit the further development of agriculture as a primary agricultural activity in rural areas, primarily on the basis of interest shown by the farmers. The process of land consolidation will be initiated by at least half of the land owners in the consolidated area or ex officio by the relevant ministry. The consolidation is implemented if at least 70% of owners of land parcels in the consolidation area agree to conduct the consolidation through distribution of agricultural land, that is, all owners for consolidation with exchange. Consolidation process will be used to increase the area of land per farm by purchasing or allocation of state agricultural land available for rent.

To achieve better results, the active land consolidation policies in agriculture will be combined with appropriate adaptation to other policies which have an impact on preventing further fragmentation or initiation and intensification of the consolidation process of the agricultural land such as "the mobility of the agricultural land market".

Threats from further division of agricultural land among the heirs or other entitled persons should be brought to attention. Too many heirs on small land plots are bringing additional risks to the land consolidation process.

The measures for consolidation of agricultural land will be promoted by regular informing of potential beneficiaries and the general public. For this purpose, a communication plan will be prepared and regular campaigns will be conducted to familiarize farmers with consolidation projects and to promote positive experiences of farmers from consolidation projects already implemented and completed.

In the period 2015-2016, at least two pilot consolidation projects are implemented with the support from the Food and Agriculture Organization of the United Nations (FAO) and possible large-scale consolidation projects are identified that would include larger consolidation area.

Follow up land consolidation projects are planned under IPA 2017. The potential land consolidation projects to be implemented with IPA support are going to be identified in 2015/2016 based on assessment of the farmers' interest in regions to implement land consolidation.

Total costs amount to EUR 4 million (out of which EUR 1 million national funding).

Milestones:

M1: At least two pilot consolidation projects are implemented (FAO support).

M2: At least three regional (larger-scale) land consolidation projects are implemented (IPA support).

Allowing farmers to acquire farms with fewer parcels that are larger and better shaped and to expand the size of their holdings enables them to become more competitive. Improving the agricultural property structure can facilitate the adoption of new agricultural technologies leading to a more prosperous and efficient agricultural sector. Benefits from land consolidation in EU countries include increases in gross income of farmers and reduction of working hours in the field.

By renewal of rural communities, land consolidation can promote social stability. Results from various research and assessments of land consolidation projects show that many communities that have experienced land consolidation show increases in the number of new jobs created.

4.2.3.2. Industry sector development

The Industrial Policy of the Republic of Macedonia is focused on the concept of economic development that encourages the domestic industry towards products with higher value added and services based on knowledge, research and innovation. Priority is given to the development of capacities for application of research and industrial manufacturing of sustainable, organic and specialized high-tech products and services for the international market with its own design, highly skilled workforce, modern managerial approach and the use of research and development.

The policies are represented in a number of strategic documents and measures: Industrial Policy of the Republic of Macedonia 2009-2020, the Strategy for Development of craftsmanship 2011-2020, Innovation Strategy, Package of measures to improve competitiveness, measures to support the cluster association etc.

According to the production method of GDP, industry growth in 2014 was 4.3%, where manufacturing industry grew by 10%. Macedonian manufacturing industry has a significant share in GDP (9.8% in 2014), and its importance is undeniable in terms of employment and sustainable regional development. In the first three quarters of 2015, the industry grew by 1.2%, and in August and September 2015 industrial production recorded an annual growth of 12.7% and 8.6% respectively, indicating that the industry achieved solid growth, which is expected to continue in coming months.

According to the volume of industrial production, the most important activities in the structure of manufacturing industry include: food and beverages, textiles and clothing, metal processing, machinery and equipment, tobacco and pharmaceutical products and preparations. The manufacturing industry employs about 20% of the total workforce.

In the last few years a gradual change in the structure of industrial production was noticed, as a result of activity of the new foreign companies in TIDZ and industrial zones that produce goods with higher technological value. Such diversification of production makes the Macedonian industry more resilient in terms of economic developments in the external environment.

Republic of Macedonia will continue to be actively involved in regional initiatives arising from the implementation of the SEE 2020 Strategy and related to the three flagship initiatives: 1. Skills and Mobility 2. Connectivity and 3. Competitiveness. Within the Competitiveness initiative, more regional activities and projects will arise to connect the private sector in the region, forming regional clusters, utilization and upgrading of the industrial base, promoting and supporting innovation, increased participation in international trade, investment promotion, trade and elimination of trade barriers, joint promotion and development of brands, improving policies for SMEs creation and growth, improving investment conditions, supporting strategic sectors etc.

A web portal konkurentnost.mk and the portal Enterprise Europe Network www.een.mk, as well as other web pages of relevant institutions are available so that companies are better informed about programmes and measures supporting competitiveness, terms and procedures for application. Both provide information about programmes financed by EU.

Within the Agency for Foreign Investments and Export Promotion of the Republic of Macedonia (InvestMacedonia) Action Plan for 2016 activities to promote exports are envisaged, with focus on the following sectors: Textile industry; Agribusiness/Food industry; Metal industry and precise mechanics - including automotive parts; and Information and Communication Technology-ICT. The 2016 program includes business events and fairs, beneficial to the business community. Department of Export Promotion will continue to organize online video meetings every three months between economic promoters and domestic companies, as well as between foreign and local companies. This project enables easier access to foreign markets having reliable information in advance.

4.2.3.3. Services sector development

The service sector in Macedonia has the highest share in GDP of more than 50%. In 2014, services grew by 5% and contributed with 2.7 p.p. in the total growth of economic activity. In the first three quarters of 2015 services grew by 4.1% and contributed with 2.3 p.p. in the total GDP growth. This sector is the largest employer accounting for over 50% of the total number of employed persons in 2014.

In the area of tourism, through the Program for the Development of Tourism in 2015, the Ministry of Economy supported international and bilateral cooperation in important tourist organizations and institutions, especially with the World Tourism Organization, the European Committee on Tourism, European Travel Commission, the Central European Initiative and others, training of human resources in the tourism and catering sector, implementation of projects, especially in rural tourism, support of various tourist events and business forums, etc. In 2015, in order to promote wine tourism as one of the alternative forms of tourism in the region having potential for development, the first Regional conference to support wine tourism was organized. Also, in cooperation with the United Nations Industrial Development Organization (UNIDO) the conference Balkans as a tourist destination was organized.

In the period 2014-2015, project with UNIDO was successfully implemented, aimed at training of human resources in tourism and catering. According to the National Strategy for Tourism

Development, the project ECO Macedonia is realized, where Ministry of Economy in cooperation with other institutions undertakes measures such as: continuation of activities for marking trails, recreational tours and places for recreation in national parks, infrastructure improvement, marking and promotion of protected areas, activities in the area of organic production and its promotion, adoption of detailed urban plans for investment in eco tourism etc.

In terms of access to the Internet, according to the State Statistical Office, 93.5% of businesses with ten or more employees had access to broadband internet in 2015 (via fixed or mobile connection). Around 52% of enterprises had a website, out of which 79% had description of their products/services and price lists on it, 40.2% had indicated links/references to their social media profiles, and 16.4% provided online ordering or reservation. Regarding the public sector, 100% of the entities (central and local authorities) have access to the Internet since 2010. In terms of households, 69.4% had internet access at home.

A short-term National ICT Strategy 2016-2017 is prepared by key stakeholders from the public and private sector and civil society. The document contains instruments and measures to increase the contribution of the ICT industry towards sustainable economic development and to support job creation in ICT and other supported industries.

Within state institutions there are many applications that enable advanced two-way interactive and integrated services to the business community for issuing import and export licenses, transport of passengers and goods permits, registration of employment, services for company registration, filing tax returns and paying taxes, public procurement, construction licensing, cadastre services etc.

The development of economy in the Republic of Macedonia is closely linked to the development of the service sector. Trade in services is an important and still under-used source for creating new jobs, which continues to have impact on the overall economy. In this respect, a **Draft Law on services** is prepared, which transposes the general principles of the Directive 32006/L0123. The adoption of this law will provide a legal framework to eliminate the remaining barriers that hinder access to and provision of services in the country. The draft-law will ensure cross-border provision of services after the accession of the Republic of Macedonia in the European Union. It is expected to be adopted in 2016.

Measure 8. Programme for increasing market employability (I phase)

The program aims to create jobs and increase the income of the unemployed and under-involved women and men in Macedonia, with a special focus on young people. The measure is supported by the Swiss Agency for Development and Cooperation. Together with the private sector, activities will be performed on improving opportunities and increasing access to international, regional and domestic market, product design, access to finance and improving the skills of the labour force in the three selected sectors: tourism, creative industry and green (environmental) economy. The first phase of the program is implemented in the period April 1 2015 to April 1 2019, and 62.5 million Swiss francs are provided for it.

The program envisages activities which will contribute to increasing the competitiveness of small businesses in the three selected sectors, particularly in five sub-sectors: tourism, ICT, products design, organic farming and energy efficient construction. They will solve key causes of bottlenecks that impede job creation, access to knowledge, skills, technologies and mechanisms for delivery to targeted producers and stimulate demand for local products and services. The program will also provide information about access to funding and will facilitate the dialogue on policies improvement. Thus, selected sectors will be assisted in creation of decent jobs and achieving sustainable economic growth.

Specifically, the following is foreseen:

1. Tourism and Catering

The three tourist destinations in Macedonia - Ohrid, Mavrovo and Krusevo, will be assisted in exploiting the full potential of historical, natural and cultural heritage through the methodology developed for management of destinations, enhancing provision of services and enrichment of the tourist offer. It will help attract more tourists, which in turn will lead to economic growth and employment. Certain activities have already started in 2015 in tourist destinations Ohrid and Mavrovo.

2. Creative industries

Subsectors IT services and product design are supported. The program will support products made by Macedonian companies in order to allow greater participation on the domestic, but also on world markets.

3. Green Economy

The focus is on organic farming and energy efficiency in the construction sector. Producers of organic agriculture will have an easier and more acceptable access to resources and will offer a diverse and constant delivery of organic products. Integrated, sustainable and efficient solutions to save energy will be provided in the construction sector.

Activities implemented under the program are expected to lead to:

- Enterprises in the tourism and catering industry, creative industry and green economy grow with expansion on existing markets and accessing to new market opportunities.
- Access to improved services (supporting functions for acquiring skills, financial services) is promoted for companies in the three sectors.
- The policy and regulatory framework is favourable for private sector growth in the targeted sectors.

Expected key outcomes of the programme are creation of more than 2,000 jobs, with particular attention to employment opportunities for young women and an increase in net income of more than 1,000 companies by EUR 1.5 million over a period of 4 years.

Activities for 2016:

Tourism and Catering:

- Commencement of activities for Destination management in order to improve and diversify tourism products / services in Krusevo,
- Continuation of the activities for Destination management in order to improve and diversify tourism products / services in Ohrid and Mavrovo,
- Building capacities of students at the Faculty of Tourism in Ohrid through the Young Talents Programme of the World Tourism Forum (Lucerne).

Creative industries:

- Improving access of IT companies to international markets through improved skilled labour in Macedonian IT companies,
- Services to support designers,
- Presentation of policies and practices for gender-sensitive human resources management in Creative Industries,
- Supporting employability of women in IT companies through an opportunity for child care at IT companies (kindergartens),
- Facilitating access to services and best practices for IT companies through establishment of an accelerator within the Faculty of Engineering and Information Technology in Bitola.

Green Economy:

- Promotion of organic products for export,

- Raising awareness for organic production, a campaign led by the needs of private businesses,
- Improving access to knowledge for organic production by supporting the Rural incubator,
- On the job training for unskilled workers in sustainable construction.

Horizontal measure:

- Access to services that support development of female entrepreneurship and businesses owned by women in the five sub-sectors.

4.2.4. Business environment, corporate governance and reduction of the informal economy

Improving business environment and increasing the competitiveness of the economy is one of the main priorities of the economic policy of the Government. By series of measures taken in recent years aimed at reducing the regulatory and administrative barriers, speeding up procedures and reducing costs, Republic of Macedonia has significantly strengthened its business environment. This progress is confirmed in the latest World Bank's report "Doing Business 2016" where Macedonia is ranked 12th among 189 economies in the world. The progress recorded in the Global Competitiveness Report 2015-2016 published by the World Economic Forum, where Macedonia is ranked 60th among 144 economies in the world.

Private sector in Macedonia mainly consists of SMEs, accounting for 99.28% in total number of active enterprises. Because of their high share in the total number of enterprises, SMEs are important source for employment, investment and significant GDP creators. In 2014 their number was 60,521, which is a small decrease compared to 2013, when their number was 60,579. SMEs absorb the majority of the workforce and contribute to unemployment reduction. From the total number of employees, 75.9% are engaged in SMEs. Strengthening the competitiveness of the private sector is a key challenge that will enable sustainable economic development by supporting companies for developing the necessary capacities and skills for diversification of production and creating goods and services with higher value added simultaneously based on innovation, internationalization, networking and clustering.

Republic of Macedonia has adopted several strategic documents which generally define the policy for enterprises and follow the recommendations from the Europe 2020 strategy, the Small Business Act and other relevant regional initiatives. These strategies cover the following areas: competitiveness, SMEs and entrepreneurship, research, development and innovation, cooperation in clusters, growth of exports, inflow of foreign investments, sustainable and regional development, all closely linked with the industrial policy. The preparation of **new Strategy for development of SMEs** is in its initial phase, which will be based on the Small Business Act and will be an overall strategy for improving competitiveness as an umbrella strategy. The Strategy is expected to be prepared in 2016.

In order to further improve the business environment, the main problems that business sector faces are continually identified through dialogue between the government and the business community and visits to companies within the project "**Learning from Business Community**", and measures are designed to overcome them. One of the main barriers is access to finance. SMEs in the country have limited access to finance often because of their size, lack of coverage for traditional sources of funding, and sometimes because of low financial literacy of entrepreneurs. In this regard, the government has taken measures to facilitate the access to finance, by securing favourable credit lines. In the following period, financing from favourable credit lines will be focused on priority sectors or entities facing more difficult access to the usual sources of funding. One possibility for financing the companies is favourable loans through MBDP. The financial loan agreement between EIB and MBDP, intended for **credit support of SMEs** and priority projects (four phases with total amount of EUR 350 million), has been successfully implemented. These

four credit lines supported 1,758 projects of companies (505 from the first, 275 from the second, 439 from the third and 539 projects from the fourth credit line) and 6,940 new jobs have been created.

Financial institutions are often reluctant to grant loans for start-ups or companies in early stage of business, because they are considered as high risk. Access to capital is particular problem for start-ups and micro companies. The concept of **venture capital funding** is still not sufficiently developed and entrepreneurs and potential business angels are still not aware of this type of funding, therefore some of the innovative ideas may remain an idea. By developing the concept of financing through business angels, or concept of venture capital funding, SMEs and start-ups will overcome the obstacles to access to finance.

New measures for improved access to finance are expected to arise from the new SME Strategy measures. Existing measures are mainly the instruments offered through the National and Regional Innovation Fund, COSME, HORIZON 2020, EDIF, ENEF, MBDP.

In the period 2007-2015, FDI inflow in Republic of Macedonia is above EUR 2.2 billion. The export of foreign companies located in TIDZ constantly grows and covers 30% of the total export. However, the trade balance between domestic companies and foreign investors in Macedonia is still low.

The Economic Reform Programme 2015 included the measure **Preparatory activities for the program for connecting domestic and foreign companies**, which is already completed. The implementation covered the following activities: processing of the database of potential suppliers; gathering information for foreign investors' needs and selection of domestic companies that will receive expert support through this program. For each of the selected companies a Report on the business capacity of the companies based on the Excellence Model of the European Foundation for Quality Management was prepared. This report identified the strengths and weaknesses in the operation of these companies, while simultaneously a short-term plan with defined areas for improving the performance of the company was identified. In the preparation of the report, international experts and management team of the company were involved. An assessment of the regulatory framework was conducted in order to determine the regulatory incentives and restrictions for connecting domestic companies - potential suppliers with foreign investors, which will be summarized in a report of the experts.

For the implementation of further activities funds need to be secured in the next period.

Providing technical support to domestic companies is planned to upgrade their quality of work in order to make them suitable suppliers. In the next period, an event will be organized to disseminate the results of the Suppliers Development Pilot Program, where domestic and foreign companies will participate, as well as the competent institutions and the World Bank. The next steps include cooperation with international (EBRD, IMF, etc.) and local (MBDP, FITD etc.) financial institutions that could provide technical support to companies.

To facilitate access of domestic companies to foreign investors InvestMacedonia continuously collects relevant information for investors and their needs. For this purpose, a database of suppliers in the country is prepared, which will contribute to strengthening relations with existing investors in the country, and will help in the process of attracting new ones. The data will be available on InvestMacedonia's website through an interactive web portal, which will be finalized during 2016.

Cooperation between foreign companies operating in the country and local companies will be further stimulated in future by support to improve quality, quantity and reliability of products, improvement of technical and managerial skills, business planning and access to capital. The growing technological and business sophistication of local suppliers, in turn, will provide backward linkages with FDI and will stimulate exports.

The integration of the existing electronic systems is necessary to facilitate the process of information distributing, reducing the cost and duration of procedures. There are several electronic systems in the country for different purposes (company registration, issuing of construction permits, issuing export - import licenses, registering workers etc.).

The procedure for **registering property** and the overall operations of the Agency for Real Estate Cadastre (AREC) is well advanced. In the "Doing Business 2007" Report Republic of Macedonia was ranked 87th according to the Registering property indicator when the overall procedure lasted 98 days. The time needed to register property today is only 30 days and in the last "Doing Business 2016" Report, Macedonia is ranked 50th.

AREC introduced new services for citizens and professional users through the implementation of **e-cadastre**, aimed at increasing the transparency of operations. AREC connected all professional users through the electronic counter (notaries, surveying companies, municipalities, banks, appraisers and others), which enabled electronic issuance property list, a copy of the plan, graphic excerpt of digital cadastral plan for preparation of geodetic report, as well as electronic delivery of documentation for changes in the real estate cadastre.

AREC's measures envisaged in the Economic Reform Programme 2015 - Implementation of measures to further improve the business environment, are realized. Regarding **Digitalization of cadastral plans** – the updating of vectorization archive originals of cadastre plans was carried out in line with the Action Plan on cadastral maps digitization, realized by the end of 2015. Vectorized cadastral maps are imported in the graphic database (MakEdit). After the harmonization of the graphic data in cadastral maps with attributed data, they are stored in a central database (e-kat). There are 1,811 CM imported and maintained in the MakEdit database until 30.10.2015, i.e. 98.23% of the total territory, while a total of 1,660 CM or 90.55% of the territory are placed in the e-kat central database.

GIS portal is established as a browser for all geospatial data under AREC. Data on cadastral parcels and buildings recorded in the cadastre, topographic maps, geodetic points, air footage of the territory, infrastructure facilities, all information regarding parcels, buildings and their owners and locations where building permit is issued, are all available on GIS portal. In addition, the GIS portal presents all the points of interest, such as: locations of notaries, geodetic companies, municipalities, all locations where cadastre services are available outside AREC departments.

The establishment of a national **NSDI geo-portal** was realized in May 2015. Searching and publishing data and services can be performed on the geo-portal, and NSDI subjects can create custom metadata using metadata editor. AREC provided data and web services (CSW, WMS, WFS) on the portal relating to: state border, statistical regions, local government units, settlements and digital terrain models. In addition to the published data prepared according to national standards, standardized information is also available on administrative units and digital elevation model constructed according to technical specifications in the INSPIRE Directive. The portal will enable NSDI subjects to publish geospatial data, which are 16 government institutions, the City of Skopje and the Economic Chamber of Macedonia.

The **Sales Price Registry** was established and put into production on March 18 2015³⁸. As of 10.30.2015, data on total 4,307 transactions / purchases are entered in the register, out of which 2,639 sales and 1,668 leases.

In the next period, establishment of **real estate Mass valuation system** is envisaged, which can be used for property taxation, managing state land, agricultural land and forests lease,

³⁸ The Register can be accessed via <http://gis.katastar.gov.mk/arec/>.

establishment of special economic zones and expansion of e-government services. The system will consist of Sales Price Registry, preparation of property valuation models and reporting system to property owners for the value of their property.

In 2016 AREC - Unit of Mass valuation continues to feed in data to the Sales Price Registry. Due to increased number of transactions, the Unit will be transformed into Mass valuation Department. Quarterly reports from the Sales Price Registry will be continuously published in order to follow the trend of prices in the real estate market. The implementation of the pilot project in five municipalities is underway, aimed at comparing data from AREC and municipal databases. At the moment, data is also exchanged with the National Bank on the real estate market prices.

Staffing of the Mass valuation Department and implementation of the pilot project will be financed under ARES's budget. Sales Price Registry represents a module of the e-kat system. Based on data in Registry, value zones of the whole territory of the Republic of Macedonia will be determined. Value zones supplemented with field data collected will allow the establishment of mass valuation models providing the market value of the property.

Costs for field inspection for collecting additional data about properties amount to EUR 1.3 million, while procurement of hardware and software is estimated at EUR 500,000. Consultant services for establishment of the mass valuation system in the scope of value zoning, modelling, model testing and calibration will amount to EUR 250,000, and the training of employees in the mass valuation sector is estimate to about EUR 100,000. In the next period activities will be done for providing the necessary funds.

In 2016 on the job training will be carried out and additional data on real estate will be collected. In 2017, adoption of the Law on mass valuation of real estate is envisaged, as well as a pilot project and in 2018 the introduction of the system is planned.

The government is committed to **reducing the informal economy**, which continued its downward trend, but is still present in the domestic economy. It creates unfair competition, and companies that operate in the informal economy grow sub-optimally. The government is taking measures to reduce the informal economy through annual Action plans for combating gray economy. The measures are of a different nature, though with a focus on punitive measures and strengthened inspections, but at the same time the Government provides incentives to enter to the formal economy, such as measures to reduce labour costs, reduce administrative barriers for companies etc.

In this direction, the project "Support to the fight against undeclared work" is being implemented, co-financed by the European Union under IPA Component 4. The project is implemented in a period of 2 years, until May 2016 and aims to contribute to improving effectiveness and efficiency in tackling undeclared work by conducting extensive research and analysis of the occurrence and effects of undeclared work in the country, significantly strengthening the capacity of the State Labour Inspectorate and other relevant entities, and enhance the coordinated involvement and cooperation between relevant institutions and social partners in the fight against undeclared work. So far, several activities have been realised, aimed at strengthening the capacity of the inspectorate and other institutions, as well as several purchases (vehicles, ICT equipment) to improve working conditions and efficiency of inspection services.

Measure 9: Financing companies through business angels

Informal venture capital market in the Republic of Macedonia is not yet sufficiently developed, being an obstacle for start-ups. The Business angels financing concept aims to support entrepreneurs who experience financial difficulties and have innovation-oriented ideas. Adoption of legal framework aims to institutionalize angel investment capital and induce investments.

The initiative to support the concept of business angels financing arises from the Innovation Strategy of the Republic of Macedonia 2012-2020.

When designing the concept of business angels in Macedonia, the experience from EU countries (Slovenia, Croatia, Great Britain) and Turkey that have already established a system of informal venture capital, i.e. business angels, will be taken into consideration, as well as the solutions from the European Business Angel Network.

The measure envisages establishment of a legal framework for informal venture capital, that is adoption of a law on business angels which will describe in detail who can be a business angel, the conditions and criteria regarding licensing of business angels, networks of business angels, tax incentives for investment, investment protection etc.

For the establishment of a legal and organizational framework for business angels in the Republic of Macedonia, technical and financial support is envisaged under IPA 2014-2020, in the Program for 2016, within the Sector for Competitiveness and Innovation activities.

The establishment of legal environment (adoption of law) is envisaged for Q1 2016, while the implementation of the system for Business angel licensing will be carried out in Q3 2016.

There is a wide agreement on the importance of entrepreneurship and its financing at a very early stage for economic development. Start-ups backed by qualified angel investors drive and shape innovation and speed up structural changes in the economy. They also improve competition, hence contributing to productivity and job creation.

Measure 10: Support to competitiveness of the enterprise sector

In order to support private sector, Ministry of Economy and Agency for Entrepreneurship Support create annual programs with measures for enhancing competitiveness. The measures are designed in line with relevant strategic documents.

The 2016 Program for support to competitiveness, innovation and entrepreneurship will be implemented through co-financing of activities of enterprises. The focus of the Ministry of Economy will be SMEs support, implementation of industrial policy measures and clusters support. Within the SMEs support, part of the expenses for craftsmen and craft associations will be subsidized, female entrepreneurship will be supported, as well as companies that will introduce new standards. Entrepreneurship will be promoted through co-financing of several promotional events. Regarding the implementation of the industrial policy, support is offered to companies for the development of enterprise, product development and market development, while support to cluster associations is provided through co-financing of projects. Agency for Entrepreneurship Support offers training for SMEs, a voucher system for consultancy services etc. For the implementation of the program in 2016 a total of EUR 258,000 are provided.

Measure 11: Establishment of One Stop Shop System for business licenses and permits

The purpose of the proposed measure is development of legal, organizational and technical framework for establishing a system that will allow secure electronic document exchange between selected public institutions according to their mandates with the purpose of electronic issuing of business licenses and permits at a single point. The measure will be implemented through several activities, such as mapping relevant procedures and processes, institutions, as well as developing IT solution for exchanging documents and information among various institutions for operation of the newly established “Umbrella system”. The proposed measures will contribute to increase competitiveness by reducing regulatory burden and cost for running a business, decreasing time needed for issuing business license and permits, improving access to information on regulation changes, better access to assistance for setting up and running a business and increase information on licenses and permits needed to export abroad.

One Stop Shop System is envisaged as a high priority project and is part of Government Program 2014-2018.

The European Commission 2014 Progress Report states that “the Government's ‘regulatory guillotine’ project has made some progress in facilitating market entry, focusing on reduction of administrative burdens for small and medium enterprises. However, business still faces difficulties in obtaining licenses and permits – the ‘one-stop shop’ procedure is advancing only slowly, and needs to be extended to business activities beyond construction permits.

For establishing legal, organizational and technical framework EUR 650,000 are provided under IPA Component 1- programming period 2012-2013. For electronic document exchange between selected public institutions EUR 350,000 are provided under IPA Component 1- programming period 2012-2013.

Implementation:

- Legal, organizational and technical framework (analyses, studies and technical documentation prepared by Q3 2016),
- Electronic document exchange system in selected public institutions (first institution connected to the system by Q3 2017),
- Electronic document exchange system in additional public institutions (additional institutions connected to the system by mid 2019).

4.2.5. Technological absorption and innovation

One factor that is extremely important for the competitiveness of Macedonian companies, which is also under-developed, is the capacity to undertake activities for research and development and introduction of innovations.

Innovative activities are positively related to many indicators of success in companies' operations. Companies that innovate are much more likely to export and most of them face significant increase in turnover and profits after the introduction of innovations. In general, the innovative capacity of Macedonian firms is not sufficient, both, in terms of human capital and financial resources for R&D and innovation. Companies rely more on internal knowledge for innovation than on external knowledge, thus cooperation between companies and other stakeholders is limited. Companies consider the high cost of innovation and limited access to financing through bank loans or by raising capital as the main obstacle to introduction of innovations.

The collaboration between public sector, R&D/academia and industry is weak and to a large extent insufficiently documented or promoted even where it exists. Public and business spending in research and innovation amounts to 0.44% of GDP.

In addition, the higher education sector has not developed a centralized mechanism for supporting innovative implementation of research output or technology transfer to and/or from external agencies such as foreign researcher and enterprises. The higher education sector in the Republic of Macedonia consists of 5 public and 9 private universities and 5 non-university private institutions, enrolling about 58,000 students, out of which 85% are attending public universities. At the tertiary level, gross enrolment rate is 71.2%, being among highest enrolment rates in new EU member states³⁹. Furthermore, increase in enrolment rate has not been properly matched by an increase in adequate resources and, consequently, the quality of higher education, including its responsiveness to labour market demands, remains a challenge.

³⁹ Gross Tertiary Enrolment Ratios: Slovenia 87%, Romania 59%, Bulgaria 57%, Slovakia 55% Croatia 54%.

In this regard, a series of activities are undertaken aimed at building the infrastructure for innovation, as an addition to the activities realized so far, such as the establishment and operation of the Fund for innovation and technological development.

Measure 12: Triple Helix Partnership

Triple Helix partnership as a potential for innovation and economic development in a knowledge based society lies in a more prominent role of universities, industry and government to generate new institutional and social formats for production, transfer and application of knowledge. In reference to that Ministry of Education and Science (MES) has initiated establishment of the National Technology Transfer Office (NTTO) as a mechanism for linking the higher education sector to the innovation elements of the Macedonian economy and to promote implementation of innovative activity between research and firms.

As part of the Innovation Strategy of the Republic of Macedonia 2012-2020, National Office for Technology Transfer (NTTO) as first institutionalized triple helix partnership is in the process of formation. 13 institutions will be founders of NTTO: 6 universities, Chambers of Commerce, Institute for Accreditation of the Republic of Macedonia, Fond for Innovation and Technology Transfer, Macedonian Academy of Sciences and Arts, and Macedonian Bank for Development Promotion. It is planned that NTTO starts its operations in January 2016.

NTTO will have a function that is wider than the usual academic offices for technology transfer. Also, it should offer broader set of services including management of research contracts, fostering university-industry cooperation, supporting universities and industries on issues related to technology and intellectual property. By offering these types of services NTTO should generate revenues which would help it sustain its activities in the long run.

NTTO will prepare a register of experts in various industrial areas in the country, as well as register of available laboratories and laboratory services that are procured under the project "Equipping of laboratories for scientific research and applied activities" for the purpose of greater accessibility to the end users. The following end users are identified: scientific and research institutions, public and private universities with research potential, start-up and spin-off companies, innovative companies and industries, foreign technology oriented companies that would be interested to collaborate with local partners, existing and potential foreign investors, chambers of commerce, non-government organisations and foundations, cluster associations, research companies, consulting companies and banks.

Based on the analysis of potential, priorities and national strategies of the country, international trends, research, innovation and technological potentials and capacities in the country, it was concluded that there are three main thematic areas that need to be highlighted in the process of technology transfer: Agriculture, Information and communication technology – ICT and Renewable power (Green energy). Projects stemming from the following "additional areas": chemical, pharmaceutical, metallurgy, machinery and automotive industries as well as tourism, will be supported by NTTO in case there are exploitable R&D results, experience in running applicative projects and commitment.

Within the Skills development and innovation support project (financed by the World Bank), EUR 870,000 are provided for technical assistance and financial resources to facilitate the initial stage of NTTO formation.

The project is scheduled to be completed by the second half of 2019, when is expected that NTTO will establish itself as a major partner in technology transfer.

Milestones:

M1: Support around 10 pilot innovative projects in the first year of its functioning (2016), double that target in the second year and continue to increase the number of supported projects per year from the third year onwards.

M2: Have at least 5 patent analysis and 2 patents filed in 4 years period.

This measure is expected to stimulate key elements of an innovation economy, i.e. entrepreneurship, commercially oriented research, university-industry partnership, and risk-taking that can lead to improved exports of products and services.

Students, staff of universities, research institutions and enterprises are expected to benefit from the NTTO activities since it should foster technology commercialisation, global know-how absorption and industry-university collaboration. It will play important and crucial role in capacity building for creativity, innovation, and entrepreneurship for aforementioned stakeholders (faculty members, undergraduate and graduate student, SMEs and large companies, incubators, researchers etc.).

Positive implications of technology transfers should also include productivity improvements, technological catching-up and growing complementarities of domestic firms, competitive effects of domestic firms, increase of youth employment, youth entrepreneurial activities and job creation.

NTTO should help the stakeholders to find partners from the industry as well from the academia for available Horizon 2020 and other EU funding opportunities.

Measure 13: Extending access to finance for innovation and technological absorption

Access to finance has been identified as one of the main obstacles for boosting investment in the private sector. By providing public co-financing earmarked for innovation and technology absorption the Fund for Innovation and Technology Development (FITD), established in 2014, aims to fill in the gap in the available funding offered by international donors and commercial banks. At the same time, by risk-sharing and conditional beneficiary co-financing, such public funding tends to increase the share of private sector investment in activities related to innovation and technology absorption. Parallel to providing access to finance, FITD aims at promotion and enhancement of innovation activities in the private sector by enabling access to information and strengthening human capacities.

FITD currently offers assistance through four financial instruments for support of innovation and technology development:

- I. Co-financing Grants for Newly Established Companies: Start-up and Spin-off
- II. Co-financing Grants and Conditional Loans for Commercialization of Innovations
- III. Co-financing Grants for Technology Transfer
- IV. Co-financing Grants for establishment, operation and investment of business and technological accelerators and incubators.

The experience gained from the first funding round of the FITD has revealed that the capacity of the start-ups to access finance is moderately low. Out of 78 project applications received within the first round, 34 passed the first evaluation round and only 16 companies were awarded funds although the budget allocations were sufficient to finance approximately 20 companies. Majority of the companies rejected during the first call have applied for the second call without sufficiently improving their applications. After the second call in September 2015 for I, II and III instrument, the Fund received a total of 95 project applications. In accordance with the allocated funds for this call, by the end of 2015 the Fund concluded agreements to finance 17 new projects, but none under the instrument for technology transfer despite the available funds for 2 projects.

This leads to the conclusion that the capacities for access to finance needs to be strengthened on the demand side parallel to providing public funding.

Currently FITD offers only limited access to finance in terms of eligibility for funding and type of funding compared with the interest of potential users. The existing instruments are offered in a form of co-financing grant schemes for micro and SMEs. This financing structure does not meet the needs and requirements of different profiles such as larger companies and research centres, nor offers alternative funding options such as venture capital.

In the coming years FITD will continue to implement the existing grant schemes, while the proposed reform measure aims to expand funding opportunities available through these existing support instruments by designing new support tools, as well as establishing a Fund for equity and mezzanine investment and Co-investments scheme for innovative companies.

Increased access to financing for innovation and technology absorption leads to introduction of innovative products/services/processes which in turn lead to: diversification in goods and services; increased capacity of domestic enterprises to meet international quality and safety standards and increased export potential.

The proposed reform measure consists of two sub-measures aimed at expanding alternative forms of financing:

I. Extending already available grant-schemes

Existing grant-schemes will be expanded with three new instruments in order to (1) extend the eligible beneficiaries to big companies, (2) extend the eligible beneficiaries to Higher educational institutions and Research Institutions as R&D service providers to the private sector and (3) establish a network of experts for providing technical assistance to the private sector related to innovation and technology absorption. Unlike the first two instruments related to increasing the supply of alternative forms of financing, the third instrument is aimed at strengthening the human capacities related to innovation and technology absorption and making it available as a support service for the private sector at favourable terms.

Milestones:

1. Conditional loans for commercialization of innovations in large companies

M1: Developed by-laws for introduction of the new support instrument (2016)

M2: Initiating implementation of the new instrument (2017)

2. Co-financed grants and conditional loans for commercialization of innovations for cooperative projects from the Higher educational institutions and the business sector

M3: Developed by-laws for introduction of the new support instrument (2016)

M4: Initiating implementation of the new support instrument (2017)

3. Technical assistance for support and advancement of innovation activity and technology transfer

M5: Established network of experts for provision of services (innovation potential analyses, trainings on innovation introduction and management of innovation based projects, development of project proposals for national and international funds, trainings on mobilizing additional financing - venture capital, legal advice, intellectual property rights, etc.) (2016)

M6: Strengthened capacities of the network of experts in the relevant areas (2016)

M7: Developed by-laws for introduction of the new support instrument (2016)

M8: Initiating implementation of the new support instrument (2016)

II. Establishing a Fund for Equity and Mezzanine Investments and Co-investing scheme

1. Fund for Equity and Mezzanine Investments

M9: Developed by-laws for establishment and registration of Fund for Equity and Mezzanine Investments (2016)

M10: Publishing an open call for a private funds management company to manage the Fund's assets earmarked for implementation of equity and mezzanine investments instruments (2017)

M11: Initiating equity and mezzanine investments (2017)

2. Co-investing scheme

M12: Developed by-laws for establishment of Co-investment scheme (2016 and 2017)

M13: Publishing an open call for co-investors (2017)

M14: Initiating equity and mezzanine investments (2017)

FITD operational activities are financed by the state budget. The financial assistance allocated for the current four instruments of the Fund is attained by a loan agreement with the International Bank for Reconstruction and Development (World Bank) in amount of EUR 9 million within an implementation period 2015-2019. FITD has also been assigned with 1% of the annual IPARD budget.

FITD shall financially cover the activities foreseen for 2016 related to the proposed reform measures partly by the institutional budget and partly by the technical assistance component from the World Bank loan. For further implementation of these measures FITD is participating in the programming of IPA2.

Creating new business activities based on innovation will lead to creating new jobs for highly skilled workers, especially for young workforce with up-to-date skills and entrepreneurial spirit.

4.2.6. Trade integration

As a small and open economy Republic of Macedonia has to rely on exports and increased competitiveness to sustain long-term growth. Thus, trade integration is an important component of the country's economic development. Most of the country's trade is with the EU Member States. In that sense Republic of Macedonia's trade integration is supported both through the Stabilisation and association agreement (SAA), as well as through the regional free trade area - CEFTA.

Following the European processes for full membership in the EU, Republic of Macedonia is committed under Title VI of the Stabilisation and Association Agreement to align its legislation with European law in a period of 5 years after the implementation of SAA, to broaden certain fundamental elements of the *acquis* on the internal market, and other trade-related areas in terms of taking the necessary measures to comply the technical regulations with European procedures for standardization, metrology, accreditation and conformity assessment.

Respecting the stated commitment, the Republic of Macedonia became a full member of the European association for accreditation in 2007, a MLA member and signatory of ILAC in 2012, a member of EUROMET and WELMET in 2010, and a full member of the European standardisation organization CEN/CENELEC in 2012.

The EU is the main trading partner of the country, accounting for around 77%⁴⁰ of the country's exports in 2014 and the first 9 months of 2015, while imports account to 63.5% and 62.4% respectively. The Western Balkan region (or the new CEFTA region) is the other main trading partner, representing 14.0% and 12.2% of the country's exports in 2014 and the first nine months of 2015, while imports accounts for 10.3% and 9.9% respectively.

⁴⁰ 76.6% and 76.8% respectively.

Foreign investments (mainly within TIDZ) have a positive effect on production and exports structure. Although they have a high import component, their contribution to net-export is growing. There are ongoing activities for greater involvement of local businesses in the supply chain of foreign companies. Growth in exports of goods was mainly due to increased export potential of the country and is accompanied by change in the structure towards products with higher value added, due to manufacturing and exporting of companies in the technological industrial development zones and industrial zones.

Measure 14: Establishing free trade area within CEFTA

-Conclusion of regional Protocol on trade in services

Following the obligation of CEFTA Parties pursuant to Article 27 of the CEFTA Agreement, there will be gradual approach towards achieving progressive liberalization in trade of services and mutual opening of services markets in context of European integration, bearing in mind the GATS provisions within the World trade organisation (WTO).

The opening of the services market should be higher than the liberalization committed with WTO membership or potential membership, as well as strengthening of intra-regional trade with services.

In 2015 four rounds of negotiations for liberalization of services were held in the following sectors: business and professional services, tourism services, environmental services, communication services, audio-visual services, construction services, distribution, education and health services. Two additional rounds of negotiation are scheduled for 2016.

Progress in negotiations will continue in the next period and should result in conclusion of a Regional Protocol on Trade in Services by the end of 2016. In parallel with the negotiations on liberalization of services, negotiation and conclusion of an Agreement on mutual recognition of professional qualification are foreseen in 2016.

In 2016 two rounds of negotiation will follow concerning the level of liberalization in financial and transport sectors services, and if deem necessary additional rounds of negotiation will be arranged for finalizing it. The implementation will follow after completing the ratification of the Protocol by CEFTA Parties during 2017.

This will enable trade facilitation and liberalization of trade in services in order to reduce any restriction on services export which may exists in the region. In the coming period, increase in volume of trade in services is expected, equal openness of CEFTA markets etc. The share of services in total trade was 22.6% in 2013, 31.5% in 2014 and 22.3% in the first half of 2015. Services are represented in transportation, travel, telecommunications, information and computer services, cultural and recreational services.

The experts' working meetings in the process of negotiation is financed from multi country IPA 2015-2017 and EUR 341,250 will be allocated for this measure.

- Conclusion of regional Framework Agreement on trade facilitation

Reaffirming the mandate and principles contained in paragraph 27 of the Doha Ministerial Declaration (WT/MIN(01)/DEC/1) and in Annex D of the Decision of the Doha Work Program (WT/L/579), as well as paragraph 33 of the Annex E to the Hong Kong Ministerial Declaration (WT/MIN (05)/DEC), to improve relevant aspects of Articles V, VIII and X of the GATT 1994, with regard to faster transfer, flow and clearance of goods, including goods in transit, WTO members adopted the Agreement on Trade Facilitation in December 2013 in Bali, recognizing the need for effective cooperation on trade facilitation and customs compliance issues. Being aware that three CEFTA Parties are not WTO members and in respect to equivalent application of the principles and rules of the WTO Agreement, the CEFTA parties decided to conclude Framework Agreement on trade facilitation applicable solely for the countries in the region.

In 2015, two rounds of negotiations were held regarding the Draft text of the Framework Agreement on trade facilitation. Progress in the negotiation process will continue in the upcoming period and should result with conclusion of the Agreement by mid 2016.

In the first half of 2016 three or four rounds of negotiation for the conclusion of the Agreement will follow, aiming to meet the deadline given in point 26 of the Final Declaration adopted at the Vienna Western Balkans Summit on 27 August 2015. The implementation of the Agreement should start before the next Summit in France in 2016.

In the next period it is expected to improve the conditions on trade facilitation, to simplify the customs procedures in exporting, to develop "single window" system among Customs authorities of CEFTA Parties, active work of the CEFTA Committee on Trade Facilitation that was established by a Decision of the CEFTA Joint Committee in 2014. The CEFTA Committee will monitor the work of the institutions according to the obligations arising from the Framework Agreement and analyse the implementation of the CEFTA Framework Agreement on trade facilitation provisions with WTO Agreement on trade facilitation.

IPA 2 Multi-country regional project to facilitate trade amounting to around EUR 3,000,000 will start at the end of 2016 aimed at implementation of the concluded Framework Agreement.

Measure 15: Application of the Regional Convention on Pan-Euro Mediterranean rules of origin

- Implementation of the Protocol for rules of origins of the Regional Convention

In the process of integration of the Republic of Macedonia in the global economy, the approach is towards harmonization of Protocols for rules of origin for application of diagonal cumulation according to the free trade Agreements that Republic of Macedonia has signed with EU, European Free Trade Association States, CEFTA Parties and the Republic of Turkey, in line with the rules of the Regional Convention. The goal is to apply unified rules of origin.

Republic of Macedonia ratified the Protocol for rules of origin according to the CEFTA Agreement on August 27 2014, thus four out of seven CEFTA countries (Republic of Macedonia, Albania, Serbia and Montenegro) officially apply the Convention's Protocol of origin in its mutual trading as of September 12 2014.

Based on the Decision for amendment of Protocol 4 for rules of origin within Stabilization and Association Agreement (Official Journal of EU L304/91 from October 23 2014), the Protocol was adopted by the Macedonia-EC Council for Stabilization and Association.

Republic of Macedonia has already initiated harmonization of the Protocols for rules of origin with European Free Trade Association States and the Republic of Turkey, which is planned to be completed at the beginning of 2016 and to be ratified in the period 2016/2017.

It is expected that diagonal cumulation will be equally applied in the Pan-Euro Mediterranean Region according to unified rules of origin. 47 countries are signatories of the Regional Convention, out of which Republic of Macedonia applies Free Trade Agreements with 40 countries (3 multilateral agreements and 1 bilateral). Applying diagonal cumulation among 40 countries gives a greater opportunity to utilize the preferential treatment in trade of goods. Full application of the Convention is an opportunity to participate in the global supply chain, where the rules of origin in exports will be treated according to the Pan-European rules and will be exempt from customs duties even though inputs and raw materials will be imported from a country signatory to the Regional Convention. Duty-free treatment gives a greater opportunity for goods to be more competitive on the importing country market.

Measure 16: Upgrading the customs clearance facilities of road border crossings Tabanovce (IPA 2012) and Kafasan (IPA 2013)

Due to spatial limitations and increased volume of traffic flow of loads of goods at road border crossing (BC) Tabanovce, the most frequent BC in the Republic of Macedonia, along the Pan-European Corridor X and BC Kafasan, the most frequent BC towards the Republic of Albania, along Pan-European Corridor VIII, the present condition for processing shipments of goods are limited. In order to expedite and facilitate trade upgrading of the existing facilities is needed.

It is expected that the number of passing vehicles using BC Tabanovce will increase: at entrance by 25%-30%; at exit by 34%-38% while the number of transit vehicles in both directions would be 30% of total passing cargo vehicles.

Activities for preparation of the necessary documents to obtain building permit and technical documentation for publication of a tender for works have commenced in July 2015.

The project for upgrade of BC Tabanovce is financed from IPA (2012) and national co-financing. Allocated funds for the project are EUR 1.89 million out of which EUR 1.45 million are IPA funds (Component 1) and national co-financing amounts to EUR 0.44 million.

The project for upgrade of BC Kafasan is financed from IPA (2013) and national co-financing. Allocated funds for the project are EUR 1.48 million out of which EUR 1.14 million are IPA funds (Component 1) and national co-financing amounts to EUR 0.37 million.

The preparation of documentation for provision of building permits and technical documentation for tender publication is ongoing and are planned to be completed by the end of Q1 2016. Tendering procedures are planned until Q3 2016 and Q4 2016, while the construction will be carried out from Q3 2016 until Q3 2018 and from Q4 2016 until Q3 2018 respectively.

Construction works at the border crossings will include expansion of the existing customs terminals and other facilities, as well as additional traffic lanes for the movement of cargo shipments.

The projects will contribute to: expedite and facilitate exchange of goods through both border crossings; facilitate transport along Trans National Axes North- South (Corridor X) and East-West (Corridor VIII) linked to the Trans European Transport Networks after 2018, reduce bottlenecks and within other ongoing activities such as introduction of the Common transit system completed in 2015, to greater competitiveness.

Expected outcomes (benefits) from the implementation of the projects are: increased flow of shipments of goods, reduced time to complete border formalities, improved infrastructure for application of modern inspection tools, thus expediting the exchange through border crossings, and facilitating transport along Pan-European Corridors X and VIII.

4.2.7. Employment and labour markets

Despite the improvements on the labour market, the country still faces high unemployment and low employment and activity rates. Mid-level occupations are the most common in the structure of employment and free (vacant) positions, requiring workers with secondary (vocational) education. Highest growth in the number of employees (jobs created) is among highly educated persons. Transition from education to the labour market is difficult for young people. A significant part of unemployment is long-term, contributing for the unemployed to gradually lose their knowledge and skills, their productivity decreases, thus the chances of finding a job. Activity of the working population is low due to low activity of women and low-educated people. Employment policy has been greatly enhanced in recent years by undertaking active measures on the labour market.

On the labour supply side, measures are aimed at improving the skills of the unemployed persons, retraining and requalification, support to young unemployed people to gain work experience, etc. However, matching the companies' needs and the available labour force remains a major challenge. Labour demand is mainly encouraged by improving the business environment and reducing labour costs.

Activities for preparation of new National strategy for employment 2016-2020 started in February 2015, as an open and participative process involving all relevant institutions, organizations and social partners. Government adopted the Strategy in October 2015. As part of this strategic document, analysis and detailed overview of the status, trends and challenges on the labour market in the Republic of Macedonia are provided, as well as priority policies and strategic objectives in the relevant areas for the next five-year period, aimed at increasing employment, quality of workplaces and productivity.

Particular attention was given on designing and implementation of measures and activities for promotion of youth employment, by introducing special measures for this vulnerable group on the labour market, implementation of tax incentives for employment of young people, measures for reducing their informal employment, info meetings etc. In August 2015, the Action plan for employment of young people 2016-2020 was adopted, which defines specific activities and results for the next five-year period, the realisation of which will improve matching supply and demand of skills on labour market, promotion of (formal) jobs creation in the private sector, facilitation of school to work transition etc.

The Employment Service Agency of the Republic of Macedonia (ESARM) will continue with the implementation of active measures and services in accordance with the 2016 Operational plan. The planned coverage for this year is 37.470 unemployed people and the allocated budget is EUR 11.5 million. The implementation of the project for self-employment through lending as well as the project "Macedonia employs" will continue to be implemented together with the programs and measures in the 2016 Operational plan. Special attention will be paid to increase of employment of young people up to 29 years old.

As a result of the active labour market policies and measures, around 24,500 jobs were created in the period 2007-2015. The realization of the project "Macedonia employs" started in April 2015, providing favourable conditions for employment of unemployed persons facing difficulties in employment. So far 10,400 people are employed under this project. As of March 2014, 11,000 people are employed with the measure for employment of young people by exemption from paying social contributions. The policy for attracting foreign investment contributed to employment of over 16,000 people, out of which 6,650 are employed in 2015. By recently announced investments in the upcoming period, this figure is expected to increase to over 34,000 direct employments. Favourable loans for domestic companies, provided by the European Investment Bank created 6,940 jobs.

Although operations and services of ESARM were modernized in the past period, still a small part of employers use its services in hiring employees. Activities for upgrading ESARM database, restructuring and alignment with European standards are being conducted through the two-year twinning project "Support to the ESARM for implementation of active measures and services of employment". Methodology and tools for assessment and monitoring of the effectiveness of active measures are defined, and trainings for employees of the Agency are being carried out for preparation of assessment reports of the effectiveness of the measures and several other trainings and workshops for enhancing their capacity and quality of services they provide. Projects for piloting active measures for employment, targeted according to the needs of labour market on local level, have been implemented in four cities.

Measure 17: Profiling of unemployed persons and designing an Individual Employment Plan 2 (IEP 2)

The new format of the Individual Employment Plan will be initially implemented for active job seekers registered for the first time (inflow). After the unemployed persons are registered in the Registry of unemployed persons, they are directed to their first interview with an official from ESARM. On the first interview, the ESARM Official collects all personal information about the individual and by using the Employability Checklist, classifies it in one of the three profiles (conducts profiling of the unemployed person) as directly employable, moderate obstacles, significant obstacles.

If the unemployed person is classified as directly employable or with moderate obstacles during employment, the Counselling session continues with development of an Individual Employment Plan, in accordance with the existing practice in the Local ESARM Employment Centres (IEP version 1).

If it is determined that the unemployed person faces significant obstacles during employment, the first session is completed by entering the information about the individual and scheduling a second (longer) meeting for formulation of an Individual Strategy for Employment (IEP version 2).

The new tool which is introduced in the working process of ESARM is targeted for persons in a non-advantageous position on the Labour Market and in the context of ensuring the most adequate combination of services and programs for employment, which are available with the Annual Operational Plans for Employment Services and Active Labour Market Measures. With the new approach of work, the confidence and cooperation between the unemployed person and ESARM as a service for the citizens will be strengthened, because all the activities will be adapted to the real needs of the unemployed person for his/her employment. On the other hand, the financial means which are spent for implementation of the services, programs and measures for employment will be mainly directed towards this category of unemployed persons who need assistance the most during the employment process.

This measure is an ongoing activity in most of the Public Agencies for Employment in the EU Member states. Within the implementation of the IPA Project "Further Modernization of the Employment Service Agency" a Methodological guide was designed for the work of the Employment Centres, during which, the profiling of the unemployed persons is noted as one of the more significant activities. In this context special set of guidelines were also prepared within ESARM. Previously, within the CARDS Project a new model of Services was prepared where profiling of unemployed persons is also included. The key findings of the ILO Study on Active Labour Market Measures impact evaluation; state that profiling of the unemployed persons in several categories is needed, taking into consideration their possibility for employment.

The measure will start with its implementation as of January 2016. According to the existing legislation Individual Employment Plan is designed for each person who is registered in ESARM as an unemployed person – Active Job-Seeker, within 30 days. It is valid for a period of 6 months, during which, if the unemployed person does not find a job within this period, the Individual Employment Plan is reviewed and modified. With the new tool which is implemented in the ESARM working process, an Employability checklist is also included for all the job-seekers as a tool for improvement of the design of an Individual Employment Plan.

The first counselling session – follows after the registration of the clients as active job seekers – has the purpose to collect additional information necessary for development of the client's profile, as well as to agree on the most adequate activities regarding the process of transition towards employment. The information that need to be collected are related to the factors for which it is known to affect the outcomes from the Labour Market: age, gender, education,

professional qualifications, previous working experience, family status, period of unemployment, place of residence, health problems / disability and other factors.

The tool for building the client's profile is the Employability checklist which is composed of a matrix for each of the five different areas related for finding and keeping the working place, namely: i) education and training; ii) professional qualifications; iii) skills at the working place; iv) skills for job search and preparedness for work; and v) other factors (transport, care for dependant person, housing, social care, financial problems, safe environment and health). Each matrix describes three levels, from level 1, which points to a challenge, up to level 3, which points to a strong side. These matrixes ensure a method for determination of the current status of the client and in the course of time, a method for measurement of the progress in the problematic areas. This checklist is a tool for the counsellors from ESARM to better understand the areas in which the clients face problems, as well as determine the best activities in order to help the client in planning during job search and the process of employment.

For each area of interest a level is noted based on the answers provided by the client during the first interview (the matrix for each area of interest has a certain number of questions which the counsellor may direct to the client). At the end of the interview, when questions are asked regarding all the areas of interest, an aggregated level of employability is determined for the client, which will help the Counsellor to discuss with the client and to agree on the type of support which is necessary and which will be noted in the Individual Employment Plan.

The second counselling session with clients from level 1 should be conducted in a peaceful surrounding and sufficient time is needed to investigate in detail all the areas which pose a risk (all the areas which were categorized as level 1 in the matrixes of the Employability checklist) in order to strengthen those areas which pose strong points of the client. Some areas of interest are not within the frames of ESARM services. Nevertheless, the difficulty with which the client is facing in one of the areas of interest may have a negative effect on the job search and employment, therefore the ESARM Counsellors are supposed to try to respond to all clients' needs by forming a partnership with other public services or programs.

The second session is supposed to result in formulation of activities which the client would undertake with the support of ESARM. The Client is obliged to undertake certain activities and to attend recommended/scheduled services and programs, and ESARM is obliged to put on a disposal services, programs and other support in the abovementioned timeframe.

It was necessary to make adjustments in the ESARM Software for implementation of this measure. In addition, the realization of the measure will not cause any fiscal implications.

Measure 18: Education and Qualifications for All

Improving competitiveness of the economy requires skilled and better educated labour force, mobility of competencies and their recognition and use by individuals, employers and the entire society, as well as increased technology absorption, and diffusion knowledge, skills, competence and innovation. That, among other things, requires the establishment of a new system of values and a new attitude towards education and qualification.

In this direction, Republic of Macedonia adopted the National Qualification Framework (NQF) as an instrument for reform in the education and training system, with purpose to integrate and coordinate education and training and improve transparency, approach, advancement and quality of qualifications in relation to the labour market, individuals and society.

The establishment of NQF is necessary step in developing education and training relevant for the labour market, hence participation of social partner is particularly important, as well as increasing attention to learning outcomes, quality assurance, recognition of qualifications (in particular prior education) and assistance in know-how transformation into recognized skills.

Within NQF Referencing Process, Inventory and Analysis Report on existing qualification is prepared, noting that reformed qualifications in 3-years VET based on learning outcomes and that there is need for modernisation of 4 -year qualification in vocational education and higher education.

The Inventory includes 241 general education, formal VET, non-formal verified programmes, qualifications that exist in aviation sector and other qualifications, as well as 1,190 higher education qualifications.

| Type: Education Level Qualification | | Type: Professional Qualification | |
|--|--------|---|--------|
| Successfully acquired qualifications | Number | Successfully acquired qualifications | Number |
| Primary education | 2 | Verified programmes for adult education | 58 |
| General secondary education | 9 | Aviation Sector | 22 |
| Secondary arts education | 29 | Master crafts exam | 1 |
| 2-years VET | 1 | | |
| 3-years VET | 64 | | |
| 4-years VET | 55 | | |
| Higher education (all cycles) 1.147+43 | 1,190 | | |

NQF comprises implementation of several sets of activities:

- Analysis and redefinition of existing qualification and development of new qualification based on the labour market needs.
- Establishment of Sectoral qualification committees.
- Skills Development and Innovation Support Project, financed by a World Bank loan, within the component Modernization of Secondary Technical Vocational Education and Training two sub-components would be financed: (i) Quality and labour market relevance of TVET through development of curriculum and programmes based on occupational standards, assessment of the secondary TVET school network, development of a training program for teachers and other staff, development of training materials and provision of equipment for school-based practical training and (ii) Improvement of the school-industry collaboration through school grants.
- Skills Observatory is aimed to strengthen labour market and education information systems. This Observatory will make available to the public, policy-makers and stakeholders information on the performance (e.g. students placed in practical training at firms, job placements after graduation) and resources available (e.g. courses, firms providing internship and practical training opportunities, infrastructure, instructors) in VET schools, higher education institutions as well as general labour market information on employment opportunities and wages in different occupations and sectors.
- Enhancing lifelong learning through Modernisation of vocational education and training and adult education systems aims to supply teaching equipment for vocational training, reform curricula, improve adult education, practical work, cooperation between students and teachers in 2-year and 3-year VET, develop new occupational standards and standards of qualifications, supply software to school's network and support modernisation of the post-secondary education system, prepare analysis and modernise legislation on post-secondary education according to labour market needs.
- Enhanced cooperation between higher education institutions and private sector, as well as between secondary schools and private sector to the end of providing quality practical work for students in companies.

Funding:

Further improvement of the system for development and implementation of the National Qualification Framework - Budget: EU funds EUR 2,500,000 (85% EU + 15% national contribution)

Enhancing Lifelong Learning through Modernizing the Vocational Education and Training and Adult Education Systems - Budget: EU funds EUR 2,300,000 (85% EU + 15% national contribution)

Skills Development and Innovation Support - Budget: World Bank loan EUR 4,200,000

Support to the modernization of post-secondary education system - Budget: EU funds EUR 250,000 (85% EU + 15% national contribution)

Development of cooperation between higher education institutions, the private sector and relevant public bodies - Budget: EU funds EUR 750,000 (85% EU + 15% national contribution).

4.2.8. Fostering social inclusion, combating poverty and promoting equal opportunities

Labour market situation in terms of employment and unemployment rates indicates that there are people in the labour market that are vulnerable, with low probability to find a job. However, certain individual characteristics of unemployed such as education, gender, age, social status, etc., affect the level of vulnerability of each person. The analysis of the labour market showed that women (especially those with low education, coming from rural areas), young people, persons unemployed for a long time and poor people (social assistance recipients) have a very low probability to find a job (if active), while some of them are even less likely to be active in the labour market. The difficulties are even greater for people who have more than one of these characteristics (eg, young, less educated, long-term unemployed, without any working experience). Therefore, achieving higher employment (and activity) rates is impossible without special focus on policies aimed at these groups, particularly their integration in the educational process, thus gaining the necessary knowledge and skills to make it easier to engage in the labour market.

In the past period, the system of social protection, including social financial assistance (SFA) were subject to many changes in order to improve targeting and increase protection. Major savings were achieved with introduction of Management Information System for monetary allowances, which connected electronically all Social work centres.

A measure for activation and employment of the social assistance recipients has recently started, which matches the social assistance recipients registered as jobseekers and the required workers for job vacancies (according to the employees' needs).

Together with the relevant institutions and other entities, 2015 Operational plan for implementation of the National Strategy for Poverty and Social Exclusion Reduction 2010-2020 was prepared, which specifies the planned measures and activities to improve the status and quality of services for socially excluded people.

With financial support from the Ministry of Labour and Social Policy and two grant schemes under IPA Component 4, projects in the field of social protection and social inclusion, improving skills, education levels and qualifications of vulnerable groups for their easier inclusion in the labour market, strengthening sectoral cooperation in this area etc., are implemented by non-governmental organizations, public institutions, local governments.

In order to strengthen the system, services and professional capacities for social inclusion of people at social risk and to promote equal opportunities on the labour market, implementation of two-year project "Improving services for social inclusion" under IPA Component 4, has started in July 2015. The project provides establishment of standardized models and services for vocational rehabilitation and personal assistance to people with disabilities for their successful inclusion in the labour market, exchange of experience, capacity building of experts in this area, establishing a system for cooperation and data exchange between the relevant institutions and monitoring of social services provided by social work centres and social protection institutions.

To enhance the inclusion on the labour market, the Programme for self-employment of persons with disabilities, is being implemented, aiming to cover a total of 360 unemployed persons with disabilities, out of which 120 will create their own business and 240 will employ in those newly established enterprises. About Denar 59 million are provided by the Government for realisation of this program. All unemployed persons with disabilities can participate in the programme.

One of the important elements in the social development policy is to increase the quality of life of both low-income persons and vulnerable groups by providing for their appropriate housing. Government activities and measures as regards social policy are also supported under the Project for Housing of Vulnerable Groups, by investing in construction of flats for low-income persons, the funds being provided under a loan from CEB.

Measure 19: Equal Education Opportunities

The need for quality, inclusive and intercultural education in primary and secondary education remains a priority in the context of negotiations for EU accession. Development of adequate knowledge and skills from compulsory educational levels is a key prerequisite for competent human capital, being of particular importance to economic development, social cohesion and sustainable development.

The measure Equal Education opportunities provide inclusion of all children in the education system and ensure equal access for all children regardless of their origin and competences to all educational levels. The focus is on completing primary and secondary education for children from vulnerable groups enabling them to acquire the necessary qualifications and skills and to be able to actively engage in the labour market.

The following separate sub-measures are scheduled:

1. Provision of textbooks, free transport and different scholarships for students

This sub-measure will support and motivate students from rural areas and vulnerable groups, talented students or athlete students to achieve better results.

2. Equitable and inclusive quality early learning and education

This sub-measure will increase inclusion of Roma children in the education process and will provide equitable approach to early learning and education for all, including children with special needs.

3. Creation of new comprehensive educational strategy 2016-2020

Main document in the educational process is the National program for education development 2005-2015. Activities for creation of new comprehensive Educational strategy 2016-2020, including action plan, financial resources and a clear timeframe, are ongoing.

The specified activities are directed towards increasing the participation of inclusive and quality early learning and compulsory education (primary and secondary) through new and amending established regulations, organizing training for trainers, providing materials, new systemic decisions as well as support for overcoming identified obstacles for inclusion of marginalized children, including Roma children and children with special needs.

The reforms will continue with pre-service and in-service teacher training system, so that teachers acquire the required competencies and professional standards needed for inclusive education system. Quality assurance mechanisms, including inspection, monitoring and evaluation, will be strengthened. Cross-sectoral approach will be introduced, and within transfers to educational institutions, additional funds in favour of children with special needs can be obtained.

In reference to the measures for equal access to all education levels focused on retaining children to finish primary and secondary education, few national projects are being realized:

1. Advising parents and students by expert teams in schools,
2. Providing free transport for students in primary and secondary schools,
3. Providing free transport for students with special needs as well as for their chaperon,
4. Free accommodation and food in public primary schools,
5. Accommodation in student's dormitories for high school students among which students with special needs,
6. Free textbooks for primary and secondary education,
7. Scholarships for talented students, talented students athletes, students with special needs, talented students coming from families with low socio-economic status and scholarships for parentless children,
8. Scholarships to students from Roma origin.

Aiming to provide even greater inclusiveness of Roma children in the education process, the new four-year project for scholarships and tutorial for the period 2014-2018 is under way. The activities under this project are financed by the Roma Education Fund from Budapest, and 600 new scholarships and 120 tutorial grants are being provided. As of the 2013/2014 academic year, 2,862 scholarships and 661 grants for mentoring students from Roma origin were provided.

Also, the Ministry of Education and Science provides 1,500 scholarships for students from socially vulnerable categories, 1,405 scholarships for talented students in universities with particularly high academic achievements, 50 scholarships for talented students, 140 scholarships for talented athletes, 50 scholarships for students with special needs, 400 scholarships for students coming from families with low socio-economic status and 800 scholarships for parentless children.

Funding:

Providing free textbooks, free transport and different scholarships for students (2016):

Denar 460,000,000 - Free textbooks for primary and secondary education

Denar 371,931,685 - Different scholarships for pupils and students

Denar 1,000,000,000 - Free transport for pupils

Budget of the Republic of Macedonia – Ministry of Education and Science

Equitable and inclusive quality early learning and education (2016-2020)

USD 7 million – UNICEF (Country Program Document 2016-2020)

Denar 54,626,875 (2016-2018) – Scholarships and tutoring of Roma secondary school students (Denar 38,855,000 from the Budget of the Republic of Macedonia, Ministry of Education and Science and Denar 15,771,875 from the Roma Education Fund)

Denar 24,650,000 (2016) – block grants for children with special needs

Develop a new comprehensive educational strategy 2016-2020 – EUR 250,000 (85% IPA and 15% national contribution)

Milestones:

M1: Decreasing % of early leavers from education and training. Baseline: (2012): 11.4%, Target: (2020): 10%.

M2: % of respondents aged 15+ supporting inclusion of children with special needs in regular schools. Baseline: (2014): 4%, Target: (2020): 40%.

4.3. Summary of reform priorities

To the end of improving transport infrastructure, considerable efforts and funding are devoted to the development of Corridors X and VIII, since they are considered an extension of the main

network in Western Balkans linked to the Trans-European Transport Network (TEN-T) and provide connectivity with neighbouring countries and better integration of Europe. In addition, investments will be aimed at construction and rehabilitation of local and regional road infrastructure, all to the end of boosting local economic development and competitiveness, better linking of companies, better transport services for the population, greater traffic safety and tourism development.

Priorities in the energy sector in the coming period are aimed at revitalization and modernization of distribution network and electricity and energy system management, as well as construction of new energy facilities, providing for increased energy supply security. Hence, construction of 400 kV interconnection transmission line TS Bitola 2 – Macedonian–Albanian border and 400/110 kV transmission line TS Ohrid is envisaged, being on the list of projects of interest to the Energy Community of Southeast Europe, which lists infrastructure projects of paramount importance to SEE.

To the end of improving the state of play in the agricultural sector, in the medium-term period focus will be placed on improvement of irrigation systems and consolidation and defragmentation of agricultural land.

In order to improve the state of play in service sector, a program for increasing market employability will be conducted, which will help selected sectors in creating jobs and achieving sustainable economic growth.

One of the main priorities when creating and conducting economic policies is enhancement of the business environment and boosting the competitiveness of the Macedonian economy. Therefore, activities will be undertaken to support SMEs competitiveness, facilitate access to finance and establish one-stop shop system for business licenses and permits.

National Technology Transfer Office will be established thus contributing to fostering technology commercialisation, global know-how absorption and industry-university collaboration. In addition, FITD will expand the financing possibilities available through the existing instruments.

Taking into consideration the importance of trade integration of the country, establishment of a free trade zone within CEFTA by concluding a Regional Protocol on Trade in Services and concluding a Regional Framework Agreement on Trade Facilitation, as well as applying the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin, is a priority in the coming period. In addition, measures will be undertaken to expand customs clearance facilities at Tabanovce and Kafasan border crossings, which are one of the most frequent border crossings.

For the purpose of improving labour market developments, introduction of Individual Employment Plan is envisaged, as a tool intended for unemployed persons so as to provide the most appropriate combination of services and programmes to facilitate their education-to-work transition. In order to improve the system of education and training due to the existing gap between education, training and employment there are ongoing activities related to the National Qualifications Framework, which is a tool for reforming the education system, integration and coordination of education and training with the business sector and improve quality of qualifications in relation to the labour market, individuals and society.

Aiming at inclusion of all children in the education system and ensuring equal access for all children to all educational levels regardless of their origin and competences, the focus in the next period will be on children from vulnerable groups to complete primary and secondary education, which will contribute for gaining the necessary qualifications and skills and enabling them to actively engage in the labour market.

5. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Projected expenditures in the Budget of the Republic of Macedonia include funds for key structural reforms in the coming period. Budget expenditures are the largest in Infrastructure, due to the large number of infrastructure projects in transport and energy, being implemented to improve the country's competitiveness. Also, significant funds are earmarked for encouraging technology absorption and innovation, as an extremely important factor for achieving high rates of economic growth. The effect on budget revenues is calculated at Measure 13: Expanding access to finance for innovation and technological absorption.

More details on the budgetary implications of the structural reforms are presented in Table 10 of Annex 1.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

Economic Reform Programme 2016 represents a joint result of the collaboration of many institutions, and the overall preparation is coordinated by the Ministry of Finance. The preparation of this program as a coherent strategic document is confirmation of the capacity of the administration in terms of coordination and efficiency. The program was prepared by the Ministry of Finance, coordinated by the Vice President of the Government and Minister of Finance, in cooperation with the following institutions:

- Cabinet of the Deputy Prime Minister in charge of economic affairs;
- Secretariat for European Affairs of the Republic of Macedonia;
- National Bank of the Republic of Macedonia;
- Ministry of Economy;
- Ministry of Labour and Social Policy;
- Ministry of Education and Science;
- Ministry of Transport and Communication;
- Ministry of Agriculture, Forestry and Water Economy;
- Ministry of Information Society and Administration;
- Ministry of Justice;
- Directorate for Technological Industrial Development Zones;
- Commission for Protection of Competition;
- Agency for Supervision of Insurance;
- Securities and Exchange Commission of the Republic of Macedonia;
- Agency for Supervision of Fully Funded Pension Insurance;
- Employment Service Agency of the Republic of Macedonia;
- Agency for Foreign Investment and Export Promotion;
- Ministry of Finance - Customs Administration;
- Fund for Innovation and Technical Development;
- Macedonian Bank for Development Promotion;
- Agency for Real Estate Cadastre.

The program was adopted by the Government in January 2016.

Considering the fact that the program should be submitted to the European Commission no later than January 31 2016, upon proposal of the Ministry of Finance, all participants in the meeting held on 15.10.2015, determined a timetable for implementation of activities for the preparation of this document:

- Activities for preparation of ERP started on 21.09.2015, after receiving the final Guidelines for the ERP

- Two meetings were held in the Ministry of Finance on 15.10.2015, one with the coordinators of all institutions participating in the preparation of ERP and second one with representatives at highest level from the European Commission, OECD, participating institutions and stakeholders
- A workshop was held on 09.11.2015 with the participating institutions and OECD experts for preparation of the structural reforms
- A mission supporting the preparation of the ERP by the European Commission was carried out on 23.11.2015
- In the period between 23 to 31.12.2015, consultations with the stakeholders were held by publishing the draft ERP on the Ministry of Finance's website
- Preparation of the first ERP draft - December 31 2015
- Submission of ERP to the Government of the Republic of Macedonia - January 2016
- Submission of ERP to the European Commission no later than January 31, 2016

Having in mind that for the last year's programme the European Commission acknowledged the efforts the Government is making in implementing reforms to improve competitiveness, the Ministry of Finance made additional effort to maintain and improve the quality of this year's document in accordance with the recommendations made by the Commission.

During the preparation of this program a consultation process with stakeholders was conducted at national level: the business community, the universities, ZELS, local authorities, social partners, civil society and other stakeholders.

In that direction on 10.15.2015 there was a meeting of ministers and directors of the institutions participating in the preparation of the document, representatives from the European Commission and representatives from OECD and representatives from:

- Macedonian Academy for Science and Arts;
- "Ss. Cyril and Methodius" University, Faculty of Economics – Skopje;
- University American College;
- South –East European University - Tetovo;
- State University of Tetovo, Faculty of Economics – Tetovo;
- "Goce Delcev" University, Faculty of Economics – Stip;
- "St. Clement Ohridski" University, Faculty of Economics – Prilep;
- FON University, Faculty of Economics - Skopje;
- European University, Faculty of Economics – Skopje;
- "Ss. Cyril and Methodius" University, Economic Institute – Skopje;
- Association of the units of local self - government of the Republic of Macedonia;
- Economic chamber of the Republic of Macedonia;
- Macedonian Chambers of Commerce;
- Economic chamber of the North-West Region in the Republic of Macedonia;
- American Chamber of Commerce in the Republic of Macedonia.

In the period between 23 and 31.12.2015, the ERP draft was published on the Ministry of Finance's website and at the same time invitations were sent to all stakeholders to actively contribute to the process of preparation of the document by providing their opinion on the content and proposals for its improvement. The received opinions and suggestions were reviewed by the institutions participating in the preparation of ERP 2016.

More detailed information on contributions submitted by the stakeholders is presented in Annex 2 of the document.

7. SUMMARY DATA

ANNEX 1: Tables

Table 1a. Macroeconomic prospects

| | ESA Code | 2014 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|----------|----------------|----------------|------|------|------|------|
| | | Level (bn EUR) | Rate of change | | | | |
| 1. Real GDP at market prices | B1*g | 7,800 | 3.5 | 3.5 | 4.0 | 4.3 | 4.5 |
| 2. GDP at market prices | B1*g | 8,150 | 4.7 | 5.1 | 5.8 | 6.1 | 6.3 |
| Components of real GDP | | | | | | | |
| 3. Private consumption expenditure | P3 | 5,704 | 2.1 | 2.5 | 2.8 | 3.4 | 3.5 |
| 4. Government consumption expenditure | P3 | 1,420 | 1.0 | 1.2 | 1.3 | 1.0 | 1.0 |
| 5. Gross fixed capital formation ⁴¹ | P51 | 2,203 | 13.1 | 5.8 | 7.5 | 8.0 | 8.0 |
| 6. Changes in inventories and net acquisition of valuables (% of GDP) | P52+P53 | : | : | : | : | : | : |
| 7. Exports of goods and services | P6 | 3,648 | 18.2 | 6.3 | 8.1 | 9.2 | 9.5 |
| 8. Imports of goods and services | P7 | 5,175 | 16.0 | 5.0 | 6.8 | 8.1 | 8.3 |
| Contribution to real GDP growth | | | | | | | |
| 9. Final domestic demand | | 9,3 | 5.5 | 3.7 | 4.5 | 5.1 | 5.2 |
| 10. Change in inventories and net acquisition of valuables | P52+P53 | : | : | : | : | : | : |
| 11. External balance of goods/services | B11 | -1,5 | -1.9 | -0.2 | -0.5 | -0.8 | -0.7 |

Source: SSO and calculations of the Ministry of finance

Table 1b. Price developments

| | | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------|------|------|------|------|------|
| 1. GDP deflator | %, yoy | 1.1 | 1.5 | 1.7 | 1.7 | 1.7 |
| 2. Private consumption deflator | %, yoy | 0.0 | 0.7 | 2.0 | 1.6 | 1.6 |
| 3. HICP | %, yoy | : | : | : | : | : |
| 4. National CPI | %, yoy | -0.3 | -0.3 | 2.0 | 2.0 | 2.0 |
| 5. Public consumption deflator | %, yoy | -0.1 | 1.6 | 1.4 | 2.3 | 2.3 |
| 6. Investment deflator | %, yoy | -2.1 | 2.3 | 1.4 | 1.8 | 1.7 |
| 7. Export price deflator (goods & services) | %, yoy | -2.3 | 3.0 | 2.1 | 2.0 | 1.8 |
| 8. Import price deflator (goods & services) | %, yoy | -4.3 | 2.1 | 2.1 | 2.0 | 1.8 |

Source: SSO and calculations of the Ministry of Finance

Table 1c. Labour market developments⁴²

| | ESA code | 2014 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|----------|-------|----------------|---------|---------|---------|---------|
| | | Level | Rate of change | | | | |
| 1. Population (thousands) | | | 2,067.5 | 2,070.4 | 2,073.3 | 2,076.2 | 2,079.1 |
| 2. Population (growth rate in %) | | | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| 3. Working-age population (persons) | | | 1,673.5 | 1,674.7 | 1,678.8 | 1,687.2 | 1,698.3 |
| 4. Participation rate | | | 57.3 | 57.6 | 57.9 | 58.3 | 58.8 |
| 5. Employment, persons | | | 690.2 | 704.7 | 721.6 | 744.6 | 770.7 |
| 6. Employment, hours worked | | | : | : | : | : | : |
| 7. Employment (growth rate in %) | | | 1.7 | 2.1 | 2.4 | 3.2 | 3.5 |
| 8. Public sector employment (persons) | | | : | : | : | : | : |
| 9. Public sector employment (growth rate in %) | | | : | : | : | : | : |
| 10. Unemployment rate | | | 28.0 | 26.9 | 25.7 | 24.3 | 22.8 |
| 11. Labour productivity, persons | | 752,9 | 1.8 | 1.3 | 1.6 | 1.1 | 0.9 |
| 12. Labour productivity, hours worked | | | : | : | : | : | : |
| 13. Compensation of employees | D1 | : | : | : | : | : | : |

Source: SSO and calculations of the Ministry of Finance

⁴¹ Data refers to gross capital formation.

⁴² ILO definition (15+) is used for the labour market indicators.

Table 1d. Sectoral balance

| % of GDP | ESA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------------|-------|-------|-------|-------|-------|
| 1. Net lending/borrowing vis-à-vis the rest of the world | B9 | 4.8 | -0.9 | -0.1 | 1.7 | 2.1 |
| of which: | | | | | | |
| - Balance of goods and services | | -17.5 | -15.8 | -16.5 | -16.2 | -15.7 |
| - Balance of primary incomes and transfers | | 16.7 | 15.3 | 14.6 | 13.8 | 13.3 |
| - Capital account | | 5.2 | -0.6 | 1.8 | 4.1 | 4.5 |
| 2. Net lending/borrowing of the private sector | B9/ED P B9 | 9.0 | 2.7 | 3.1 | 4.6 | 4.7 |
| 3. Net lending/borrowing of general government | | -4.2 | -3.6 | -3.2 | -2.9 | -2.6 |
| 4. Statistical discrepancy | | 0.4 | 0.2 | 0.0 | 0.0 | 0.0 |

Source: National Bank of the Republic of Macedonia

Table 1e. GDP, investment and gross value added

| | ESA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-----|-------|-------|-------|-------|-------|
| GDP and investment | | | | | | |
| GDP level at current market prices (in Denars) | Blg | 525,6 | 552,3 | 584,1 | 619,6 | 658,5 |
| Investment ratio (% of GDP) | | 30,5 | 31,4 | 32,3 | 33,5 | 34,6 |
| Growth of Gross Value Added, percentage changes at constant prices | | | | | | |
| 1. Agriculture | | 2.2 | 0.3 | 2.0 | 2.2 | 2.3 |
| 2. Industry (excluding construction) | | 20.1 | 2.5 | 3.8 | 4.4 | 4.7 |
| 3. Construction | | 1.8 | 6.0 | 5.6 | 6.0 | 6.3 |
| 4. Services | | 5.0 | 3.5 | 3.6 | 4.0 | 4.0 |

Source: SSO and calculations of the Ministry of Finance

Table 1f. External sector developments

| Euro billion | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|
| 1. Current account balance (% of GDP) | -0.8 | -0.5 | -1.9 | -2.4 | -2.4 |
| 2. Export of goods | 2.8 | 2.9 | 3.1 | 3.3 | 3.7 |
| 3. Import of goods | 4.6 | 4.7 | 5.0 | 5.4 | 5.9 |
| 4. Trade balance | -1.9 | -1.8 | -2.0 | -2.1 | -2.2 |
| 5. Export of services | 1.3 | 1.4 | 1.4 | 1.6 | 1.7 |
| 6. Import of services | 0.9 | 1.0 | 1.0 | 1.1 | 1.2 |
| 7. Service balance | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |
| 8. Net interest payments from abroad | : | : | : | : | : |
| 9. Other net factor income from abroad | -0.2 | -0.2 | -0.2 | -0.3 | -0.3 |
| 10. Current transfers | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 |
| 11. Of which from EU | : | : | : | : | : |
| 12. Current account balance | -0.1 | 0.0 | -0.2 | -0.2 | -0.3 |
| 13. Capital and Financial Account | 0.4 | -0.1 | 0.2 | 0.4 | 0.5 |
| 14. Foreign direct investment | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 |
| 15. Foreign reserves* | 2.4 | : | : | : | : |
| 16. Foreign debt* | 6.0 | : | : | : | : |
| 17. Of which: public* | 2.8 | : | : | : | : |
| 18. O/w: foreign currency denominated | : | : | : | : | : |
| 19. O/w: repayments due | : | : | : | : | : |
| 20. Exchange rate vis-à-vis EUR (end-year) | 61.5 | 61.5 | 61.5 | 61.5 | 61.5 |
| 21. Exchange rate vis-à-vis EUR (annual average) | 61.6 | 61.5 | 61.5 | 61.5 | 61.5 |
| 22. Net foreign saving (lines 21-25: percentages of GDP) | : | : | : | : | : |
| 23. Domestic private saving | : | : | : | : | : |
| 24. Domestic private investment | : | : | : | : | : |
| 25. Domestic public saving | : | : | : | : | : |
| 26. Domestic public investment | : | : | : | : | : |

Source: National Bank of the Republic of Macedonia

* Data for 2015 are as of September 2015

Table 1g. Sustainability indicators

| | Dimension | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|-----------|-------|-------|-------|-------|-------|
| 1. Current Account Balance | % of GDP | -2.5 | -3.2 | -1.7 | -0.8 | -0.5 |
| 2. Net International Investment Position | % of GDP | -52.6 | -55.1 | -55.9 | -53.3 | -53.2 |
| 3. Export market shares | % growth | 11.6 | -10.5 | 4.9 | 13.4 | : |
| 4. Real Effective Exchange Rate (CPI based, 2006=100)* | % growth | 0.4 | 0.1 | 1.6 | 1.0 | -0.1 |
| 5. Nominal Unit Labour Costs | % growth | 0.0 | 1.5 | 2.5 | -0.8 | 1.7 |
| 6. Private sector credit flow | % of GDP | 3.5 | 2.4 | 2.8 | 4.4 | : |
| 7. Private sector debt | % of GDP | 77.8 | 82.7 | 82.6 | 85.3 | : |
| 8. General Government Debt | % of GDP | 27.7 | 33.7 | 34.0 | 38.2 | 36.0 |

Source: National Bank of the Republic of Macedonia and Ministry of Finance

* Data for 2015 are as of September 2015

Table 2a. General government budgetary prospects

| | ESA | 2014 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-----------|-------------------|----------|------|------|------|------|
| | | Level (bn denars) | % of GDP | | | | |
| Net lending (B9) by sub-sectors | | | | | | | |
| 1. General government | S13 | -22,2 | -4.2 | -3.6 | -3.2 | -2.9 | -2.6 |
| 2. Central government | S1311 | -22,1 | -4.2 | -3.6 | -3.2 | -2.9 | -2.6 |
| 3. State government | S1312 | : | : | : | : | : | : |
| 4. Local government | S1313 | 0,0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5. Social security funds | S1314 | -0,2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| General government (S13) | | | | | | | |
| 6. Total revenue | TR | 156,7 | 29.8 | 32.2 | 32.3 | 32.0 | 31.2 |
| 7. Total expenditure | TE | 178,9 | 34.0 | 35.8 | 35.6 | 34.9 | 33.8 |
| 8. Net borrowing/lending | EDP,B9 | -22,2 | -4.2 | -3.6 | -3.2 | -2.9 | -2.6 |
| 9. Interest expenditure | EDP,D41 | 5,1 | 1.0 | 1.2 | 1.0 | 1.2 | 1.2 |
| 10. Primary balance | | -17,1 | -3.3 | -2.5 | -2.2 | -1.7 | -1.4 |
| 11. One-off and other temporary measures | | : | : | : | : | : | : |
| Components of revenues | | | | | | | |
| 12. Total taxes (11 = 11a+11b+11c) | | 92,0 | 17.5 | 18.6 | 18.7 | 18.5 | 18.3 |
| 12a. Taxes on production and imports | D2 | 72,1 | 13.7 | 13.8 | 13.9 | 13.7 | 13.6 |
| 12b. Current taxes on income and wealth | D5 | 17,5 | 3.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| 12c. Capital taxes | D91 | 2,4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 |
| 13. Social contributions | D61 | 44,2 | 8.4 | 8.5 | 8.4 | 8.3 | 8.2 |
| 14. Property income | D4 | 3,8 | 0.7 | 1.0 | 1.1 | 0.9 | 0.8 |
| 15. Other (15 = 16-(12+13+14)) | | 16,7 | 3.2 | 4.0 | 4.2 | 4.3 | 3.9 |
| 16 = 6. Total revenue | TR | 156,7 | 29.8 | 32.2 | 32.3 | 32.0 | 31.2 |
| p.m.: Tax burden (D2+D5+D61+D91-D995) | | 136,2 | 25.9 | 27.1 | 27.1 | 26.8 | 26.5 |
| Selected components of expenditures | | | | | | | |
| 17. Collective consumption | P32 | 59,4 | 11.3 | 11.9 | 11.5 | 11.0 | 10.6 |
| 18. Total social transfers | D62 + D63 | 78,4 | 14.9 | 15.1 | 15.0 | 14.9 | 14.6 |
| 18a. Social transfers in kind | P31 = D63 | : | : | : | : | : | : |
| 18b. Social transfers other than in kind | D62 | 78,4 | 14.9 | 15.1 | 15.0 | 14.9 | 14.6 |
| 19 = 9. Interest expenditure (incl. FISIM) | EDP,D41 | 5,1 | 1.0 | 1.2 | 1.0 | 1.2 | 1.2 |
| 20. Subsidies | D3 | 13,6 | 2.6 | 2.7 | 2.7 | 2.6 | 2.4 |
| 21. Gross fixed capital formation | P51 | 22,4 | 4.3 | 4.9 | 5.4 | 5.2 | 5.0 |
| 22. Other (22 = 23-(17+18+19+20+21)) | | : | : | : | : | : | : |
| 23. Total expenditures | TE | 178,9 | 34.0 | 35.8 | 35.6 | 34.9 | 33.8 |
| p.m. compensation of public sector employees | D1 | 36,8 | 7.0 | 7.1 | 6.9 | 6.7 | 6.5 |

Source: Ministry of Finance

Table 2b. General government budgetary prospects

| | | ESA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-----------|-------|-------------------|-------|-------|-------|------|
| | | | Level (bn denars) | | | | |
| Net lending (B9) by sub-sectors | | | | | | | |
| 1. General government | S13 | -22.2 | -20.1 | -19.0 | -17.8 | -17.0 | |
| 2. Central government | S1311 | -22.1 | -20.1 | -19.0 | -17.8 | -17.0 | |
| 3. State government | S1312 | : | : | : | : | : | |
| 4. Local government | S1313 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 5. Social security funds | S1314 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 | |
| General government (S13) | | | | | | | |
| 6. Total revenue | TR | 156.7 | 177.8 | 188.9 | 198.4 | 205.6 | |
| 7. Total expenditure | TE | 178.9 | 197.9 | 207.9 | 216.2 | 222.6 | |
| 8. Net borrowing/lending | EDP,B9 | -22.2 | -20.1 | -19.0 | -17.8 | -17.0 | |
| 9. Interest expenditure | EDP,D41 | 5.1 | 6.5 | 5.9 | 7.5 | 7.9 | |
| 10. Primary balance | | -17.1 | -13.6 | -13.1 | -10.4 | -9.1 | |
| 11. One-off and other temporary measures | | : | : | : | : | : | |
| Components of revenues | | | | | | | |
| 12. Total taxes (11 = 11a+11b+11c) | | 92.0 | 102.6 | 109.1 | 114.6 | 120.5 | |
| 12a. Taxes on production and imports | D2 | 72.1 | 76.1 | 81.0 | 85.1 | 89.6 | |
| 12b. Current taxes on income and wealth | D5 | 17.5 | 23.7 | 25.2 | 26.5 | 28.0 | |
| 12c. Capital taxes | D91 | 2.4 | 2.7 | 2.9 | 2.9 | 2.9 | |
| 13. Social contributions | D61 | 44.2 | 47.2 | 49.2 | 51.6 | 54.0 | |
| 14. Property income | D4 | 3.8 | 5.7 | 6.3 | 5.6 | 5.6 | |
| 15. Other (15 = 16-(12+13+14)) | | 16.7 | 22.2 | 24.3 | 26.6 | 25.5 | |
| 16 = 6. Total revenue | TR | 156.7 | 177.8 | 188.9 | 198.4 | 205.6 | |
| p.m.: Tax burden (D2+D5+D61+D91-D995) | | 136.2 | 149.8 | 158.3 | 166.2 | 174.5 | |
| Selected components of expenditures | | | | | | | |
| 17. Collective consumption | P32 | 59.4 | 65.9 | 67.1 | 68.4 | 69.7 | |
| 18. Total social transfers | D62 + D63 | 78.4 | 83.1 | 87.8 | 92.3 | 96.4 | |
| 18a. Social transfers in kind | P31 = D63 | : | : | : | : | : | |
| 18b. Social transfers other than in kind | D62 | 78.4 | 83.1 | 87.8 | 92.3 | 96.4 | |
| 19 = 9. Interest expenditure (incl. FISIM) | EDP,D41 | 5.1 | 6.5 | 5.9 | 7.5 | 7.9 | |
| 20. Subsidies | D3 | 13.6 | 15.1 | 15.7 | 16.0 | 16.0 | |
| 21. Gross fixed capital formation | P51 | 22.4 | 27.3 | 31.4 | 32.0 | 32.6 | |
| 22. Other (22 = 23-(17+18+19+20+21)) | | : | : | : | : | : | |
| 23. Total expenditures | TE | 178.9 | 197.9 | 207.9 | 216.2 | 222.6 | |
| p.m. compensation of public sector employees | D1 | 36.8 | 39.3 | 40.4 | 41.7 | 43.1 | |

Source: Ministry of Finance

Table 3. General government expenditure by function

| Percentage of GDP | COFOG | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------|------|------|------|------|------|
| 1. General public services | 1 | 4.1 | 4.4 | 4.4 | : | : |
| 2. Defence | 2 | 1.1 | 1.1 | 1.0 | : | : |
| 3. Public order and safety | 3 | 2.4 | 2.5 | 2.6 | : | : |
| 4. Economic affairs | 4 | 3.4 | 3.9 | 3.8 | : | : |
| 5. Environmental protection | 5 | 0.2 | 0.2 | 0.2 | : | : |
| 6. Housing and community amenities | 6 | 2.0 | 2.1 | 2.3 | : | : |
| 7. Health | 7 | 4.9 | 5.1 | 5.1 | : | : |
| 8. Recreation, culture and religion | 8 | 0.8 | 0.8 | 0.8 | : | : |
| 9. Education | 9 | 3.9 | 4.1 | 4.0 | : | : |
| 10. Social protection | 10 | 11.4 | 11.5 | 11.4 | : | : |
| 11. Total expenditure (item 7 = 23 in Table 2) | TE | 34.0 | 35.8 | 35.6 | 34.9 | 33.8 |

Source: Ministry of Finance

Table 4. General government debt developments

| Percentage of GDP | ESA | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-----|------|------|------|------|------|
| 1. Gross debt ⁴³ | | 38.2 | 38.6 | 39.4 | 40.7 | 41.5 |
| 2. Change in gross debt ratio | | 4.2 | 0.4 | 0.9 | 1.3 | 0.8 |
| Contributions to change in gross debt | | | | | | |
| 3. Primary balance ⁴⁴ | | 3.3 | 2.5 | 2.2 | 1.7 | 1.4 |
| 4. Interest expenditure (incl. FISIM) ⁴⁵ | | 1.0 | 1.2 | 1.0 | 1.2 | 1.2 |
| 5. Stock-flow adjustment | | 0.0 | -3.2 | -2.4 | -1.6 | -1.8 |
| of which: | | -- | -- | -- | -- | -- |
| - Differences between cash and accruals | | : | : | : | : | : |
| - Net accumulation of financial assets | | : | : | : | : | : |
| of which: | | -- | -- | -- | -- | -- |
| - Privatisation proceeds | | : | : | : | : | : |
| - Valuation effects and other | | : | : | : | : | : |
| p.m. implicit interest rate on debt | | 3.0 | 3.2 | 2.8 | 3.2 | 3.1 |
| Other relevant variables | | | | | | |
| 6. Liquid financial assets | | : | : | : | : | : |
| 7. Net financial debt (7 = 1 - 6) | | : | : | : | : | : |

Source: Ministry of Finance

Table 4a. Potential liabilities

| % of GDP | 2015 | 2016 |
|---|------|------|
| Public guarantees | 9.4 | : |
| Of which: related to the financial sector | 2.7 | : |

Source: Ministry of Finance

Table 5. Cyclical developments

| Percentage of GDP | ESA | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|----------|------|------|------|------|------|
| 1. Real GDP growth (%) | B1g | 3.5 | 3.5 | 4.0 | 4.3 | 4.5 |
| 2. Net lending of general government | EDP.B.9 | -4.2 | -3.6 | -3.2 | -2.9 | -2.6 |
| 3. Interest expenditure | EDP.D.41 | 1.0 | 1.2 | 1.0 | 1.2 | 1.2 |
| 4. One-off and other temporary measure | | : | : | : | : | : |
| 5. Potential GDP growth (%) | | 2.9 | 3.1 | 3.3 | 3.3 | 3.3 |
| Contributions (percentage points): | | | | | | |
| - labour | | : | : | : | : | : |
| - capital | | : | : | : | : | : |
| - total factor productivity | | : | : | : | : | : |
| 6. Output gap | | -1.5 | -1.1 | -0.4 | 0.6 | 1.8 |
| 7. Cyclical budgetary component | | -0.5 | -0.4 | -0.1 | 0.2 | 0.6 |
| 8. Cyclically-adjusted balance (2-7) | | -3.8 | -3.3 | -3.1 | -3.1 | -3.2 |
| 9. Cyclically-adjusted primary balance (8-3) | | -2.8 | -2.1 | -2.1 | -1.9 | -2.0 |
| 10. Structural balance (8-4) | | : | : | : | : | : |

Source: Ministry of Finance

⁴³ As defined in Regulation 3605/93 (not an ESA concept).

⁴⁴ Cf. item 10 in Table 2.

⁴⁵ Cf. item 9 in Table 2.

Table 6. Divergence from previous programme

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------|------|------|------|------|
| 1. GDP growth (% points) | | | | | |
| Previous programme | 3.7 | 4.0 | 4.2 | 4.5 | : |
| Latest programme | 3.5 | 3.5 | 4.0 | 4.3 | 4.5 |
| Difference | -0.2 | -0.5 | -0.2 | -0.2 | : |
| 2. General government net lending (% of GDP) | | | | | |
| Previous programme | -3.7 | -3.3 | -3.2 | -2.9 | : |
| Latest programme | -4.2 | -3.6 | -3.2 | -2.9 | -2.6 |
| Difference | -0.5 | -0.3 | 0.0 | 0.0 | : |
| 3. General government gross debt (% of GDP) | | | | | |
| Previous programme | 37.7 | 35.5 | 37.3 | 38.7 | : |
| Latest programme | 38.2 | 38.6 | 39.4 | 40.7 | 41.5 |
| Difference | 0.5 | 3.1 | 2.1 | 2.0 | : |

Source: Calculations of the Ministry of Finance

Table 7. Long-term sustainability of public finances

| Percentage of GDP | 2007 | 2010 | 2020 | 2030 | 2040 | 2050 | 2060 |
|--|------|------|------|------|------|------|------|
| Total expenditure | 32.8 | 35.9 | 32.6 | 31.4 | 30.8 | 30.2 | 29.7 |
| of which: | : | : | : | : | : | : | : |
| - Age-related expenditures | : | : | : | : | : | : | : |
| - Pension expenditure | 7.7 | 8.9 | 9.2 | 9.4 | 9.0 | 8.7 | 8.5 |
| - Social security pension | : | : | : | : | : | : | : |
| - Old-age and early pensions | : | : | : | : | : | : | : |
| - Other pensions (disability, survivors) | : | : | : | : | : | : | : |
| - Occupational pensions (if in general government) | : | : | : | : | : | : | : |
| - Health care | 4.4 | 4.5 | 5.0 | 5.0 | 5.2 | 5.4 | 5.5 |
| - Long-term care (this was earlier included in the health care) | : | : | : | : | : | : | : |
| Education expenditure | : | 4.6 | 5.2 | 5.3 | 5.4 | 5.4 | 5.4 |
| Other age-related expenditures | : | : | : | : | : | : | : |
| Interest expenditure | 0.8 | 0.7 | 1.4 | 1.5 | 1.5 | 1.3 | 1.1 |
| Total revenues | 32.2 | 33.4 | 30.3 | 30.0 | 29.7 | 29.5 | 29.5 |
| of which: property income | : | : | : | : | : | : | : |
| of which: from pensions contributions (or social contributions, if appropriate) | 6.0 | 6.2 | 6.0 | 6.2 | 5.8 | 5.8 | 5.7 |
| Pension reserve fund assets | : | : | : | : | : | : | : |
| of which: consolidated public pension fund assets (assets other than government liabilities) | : | : | : | : | : | : | : |
| Assumptions | | | | | | | |
| Labour productivity growth | 2.9 | 2.2 | 1.5 | 1.9 | 2.3 | 2.3 | 2.1 |
| Real GDP growth | 6.5 | 3.4 | 4.2 | 4.0 | 4.0 | 3.8 | 3.5 |
| Participation rate males (aged 20-64) ⁴⁶ | 74.8 | 76.3 | 80.1 | 83.5 | 86.1 | 87.9 | 89.2 |
| Participation rates females (aged 20-64) | 50.4 | 51.8 | 56.8 | 61.7 | 66.3 | 71.1 | 75.4 |
| Total participation rates (20-64) | 62.8 | 64.2 | 68.5 | 72.6 | 76.2 | 79.5 | 82.3 |
| Unemployment rate | 35.2 | 32.2 | 20.7 | 13.4 | 9.0 | 6.3 | 4.4 |
| Population aged 65+ over total population | 9.6 | 9.7 | 10.0 | 10.4 | 10.8 | 11.2 | 11.8 |

Source: Calculations of the Ministry of Finance

⁴⁶ Labour market calculation refer to the 15-64 age group

Table 8. Basic assumptions on the external economic environment underlying the programme framework

| | Dimension | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|----------------|-------|-------|-------|-------|------|
| Short-term interest rate | Annual average | : | : | : | : | : |
| Long-term interest rate | Annual average | : | : | : | : | : |
| USD/EUR exchange | Annual average | 1.328 | 1.119 | 1.133 | 1.133 | : |
| Nominal effective exchange rate | Annual average | : | : | : | : | : |
| Exchange rate vis-à-vis the EUR | Annual average | 61.6 | 61.5 | 61.5 | 61.5 | 61.5 |
| Global GDP growth, excluding EU | Annual average | 3.7 | 3.3 | 3.8 | 4.0 | : |
| EU GDP growth | Annual average | 1.4 | 1.9 | 2.0 | 2.1 | : |
| Growth of relevant foreign markets | Annual average | : | : | : | : | : |
| World import volumes, excluding EU (y-o-y) | Annual average | 3.0 | 1.2 | 3.2 | 4.1 | : |
| Oil prices (Brent, USD/barrel) | Annual average | 99.7 | 54.8 | 54.2 | 58.8 | : |

Source: European Commission, Economic Forecast Autumn 2015

Table 10: Matrix of policy commitments

| Description of policy | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|
| Measure 1: Upgrading and rehabilitation of Corridor X | | | | |
| A. Duration of the reform* | | | | |
| B. Net direct budgetary impact (if any) (in €) | -3,118,500 | -50,043,500 | -67,356,000 | -4,000,000 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 3,118,500 | 50,043,500 | 67,356,000 | 4,000,000 |
| B.3 Possible non-budgetary financing (in €) | 3,731,500 | 14,050,500 | 3,400,000 | 17,179,550 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 3,731,500 | 14,050,500 | 3,400,000 | 17,179,550 |
| Measure 2: Construction, upgrading and rehabilitation of Corridor VIII | | | | |
| A. Duration of the reform* | | | | |
| B. Net direct budgetary impact (if any) (in €) | -3,453,700 | -25,000,000 | -37,800,000 | -38,162,000 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 3,453,700 | 25,000,000 | 37,800,000 | 38,162,000 |
| B.3 Possible non-budgetary financing (in €) | 1,154,300 | 0 | 1,700,000 | 0 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 1,154,300 | 0 | 1,700,000 | 0 |
| Measure 3: Upgrading and rehabilitation of the local and regional road infrastructure | | | | |
| A. Duration of the reform* | | | | |
| B. Net direct budgetary impact (if any) (in €) | -17,600,000 | -62,850,000 | -62,850,000 | -62,850,000 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 17,600,000 | 62,850,000 | 62,850,000 | 62,850,000 |
| B.3 Possible non-budgetary financing (in €) | 0 | 0 | 0 | 0 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 0 | 0 | 0 | 0 |
| Measure 4. Construction of 400 kV Interconnection overhead line TS Bitola 2- Macedonian Albanian border and 400/110 KV Ohrid | | | | |
| A. Duration of the reform* | | * | | X |
| B. Net direct budgetary impact (if any) (in €) | | 0 | 0 | 0 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | | 0 | 0 | 0 |
| B.3 Possible non-budgetary financing (in €) | | 3,000,000 | 10,000,000 | 18,000,000 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | | 2,000,000 | 3,000,000 | 4,000,000 |
| Measure 5. Rehabilitation and modernization of the transmission network and power system | | | | |
| A. Duration of the reform* | | * | | X |
| B. Net direct budgetary impact (if any) (in €) | | 0 | 0 | 0 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |

| | | | | |
|--|-------------|-------------|-------------|-------------|
| B.2 Direct impact on budgetary expenditure (in €) | | 0 | 0 | 0 |
| B.3 Possible non-budgetary financing (in €) | | 8,000,000 | 20,000,000 | 12,500,000 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | | 0 | 0 | 0 |
| Measure 6. Improvement of Irrigation Systems | | | | |
| A. Duration of the reform* | * | | | |
| B. Net direct budgetary impact (if any) (in €) | -10,000,000 | -10,000,000 | -15,000,000 | -15,000,000 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 10,000,000 | 10,000,000 | 15,000,000 | 15,000,000 |
| B.3 Possible non-budgetary financing (in €) | 2,000,000 | 0 | 2,000,000 | 3,000,000 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 2,000,000 | 0 | 2,000,000 | 3,000,000 |
| Measure 7. Consolidation and defragmentation of agricultural land | | | | |
| A. Duration of the reform* | * | | | |
| B. Net direct budgetary impact (if any) (in €) | 0 | 0 | -500,000 | -500,000 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 0 | 0 | 500,000 | 500,000 |
| B.3 Possible non-budgetary financing (in €) | 130,000 | 300,000 | 3,000,000 | 0 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 0 | 0 | 3,000,000 | 0 |
| Measure 8. Program for increasing of the market employability (I phase) | | | | |
| A. Duration of the reform* | * | | | |
| B. Net direct budgetary impact (if any) (in €) | 0 | 0 | 0 | 0 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 0 | 0 | 0 | 0 |
| B.3 Possible non-budgetary financing (in €) | 1,440,476 | 1,440,476 | 1,440,476 | 1,440,476 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 0 | 0 | 0 | 0 |
| Measure 9: Financing companies through business angels | | | | |
| A. Duration of the reform* | | * | | X |
| B. Net direct budgetary impact (if any) (in €) | | 0 | 0 | 0 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | | 0 | 0 | 0 |
| B.3 Possible non-budgetary financing (in €) | | 1,000,000 | 500,000 | 500,000 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | | 1,000,000 | 500,000 | 500,000 |
| Measure 10: Support to competitiveness of the enterprise sector | | | | |
| A. Duration of the reform* | | | | |

| | | | | |
|--|---|------------|------------|------------|
| B. Net direct budgetary impact (if any) (in €) | -258,000 | -258,000 | -1,500,000 | -1,500,000 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 258,000 | 258,000 | 1,500,000 | 1,500,000 |
| B.3 Possible non-budgetary financing (in €) | 0 | 0 | 0 | 0 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 0 | 0 | 0 | 0 |
| Measure 11: Establishment of One Stop Shop System for business licenses and permits | | | | |
| A. Duration of the reform* | | * | X | |
| B. Net direct budgetary impact (if any) (in €) | | -69,444 | -89,167 | |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | | 69,444 | 89,167 | |
| B.3 Possible non-budgetary financing (in €) | | 625,000 | 267,500 | |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | | 625,000 | 267,500 | |
| Measure 12: Triple Helix Partnership | | | | |
| A. Duration of the reform* | | * | | |
| B. Net direct budgetary impact (if any) (in €) | -181,000 | -130,000 | -120,000 | -46,500 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | -181,000 | -130,000 | -120,000 | -46,500 |
| B.3 Possible non-budgetary financing (in €) | 0 | 0 | 0 | 0 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 0 | 0 | 0 | 0 |
| Measure 13: Extending access to finance for innovation and technological absorption | | | | |
| A. Duration of the reform* | | | | |
| B. Net direct budgetary impact (if any) (in €) | -1,589,500 | -3,176,344 | -3,025,000 | -1,123,000 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | -1,589,500 | -3,176,344 | -3,045,000 | -1,175,000 |
| B.3 Possible non-budgetary financing (in €) | 0 | 0 | 0 | 8,370,000 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 0 | 0 | 0 | 8,370,000 |
| Measure 14: Establishing free trade area within CEFTA | | | | |
| A. Duration of the reform* | | | | |
| B. Net direct budgetary impact (if any) (in €) | 0 | 0 | 0 | 0 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 0 | 0 | 0 | 0 |
| B.3 Possible non-budgetary financing (in €) | This measure will be financed through Multi-country IPA 2 | | | |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | | | | |

| Measure 15: Application of the Regional Convention on Pan-Euro Mediterranean rules of origin | | | | |
|--|-------------|-------------|-------------|-------------|
| A. Duration of the reform* | | | | |
| B. Net direct budgetary impact (if any) (in €) | 0 | 0 | 0 | 0 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 0 | 0 | 0 | 0 |
| B.3 Possible non-budgetary financing (in €) | 0 | 0 | 0 | 0 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 0 | 0 | 0 | 0 |
| Measure 16: Upgrading the customs clearance facilities of the road border crossings Tabanovce (IPA 2012) and Kafasan (IPA 2013) | | | | |
| A. Duration of the reform* | | * | | X |
| B. Net direct budgetary impact (if any) (in €) | | - 83,430 | - 610,471 | - 86,099 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | | - 83,430 | - 610,471 | - 86,099 |
| B.3 Possible non-budgetary financing (in €) | | 274,398 | 2,111,183 | 404,419 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | | 274,398 | 2,111,183 | 404,419 |
| Measure 17: Profiling of unemployed and Preparation of Individual Employment Plan 2 | | | | |
| A. Duration of the reform* | | * | | |
| B. Net direct budgetary impact (if any) (in €) | | 0 | 0 | 0 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | | 0 | 0 | 0 |
| B.3 Possible non-budgetary financing (in €) | | 0 | 0 | 0 |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | | 0 | 0 | 0 |
| Measure 18: Education and Qualifications for All | | | | |
| A. Duration of the reform* | | | | |
| B. Net direct budgetary impact (if any) (in €) | -278,687 | -222,312 | -132,375 | |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 278,687 | 222,312 | 132,375 | |
| B.3 Possible non-budgetary financing (in €) | 1,579,227 | 1,259,772 | 750,125 | |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 1,579,227 | 1,259,772 | 750,125 | |
| Measure 19: Equal Education Opportunities | | | | |
| A. Duration of the reform* | | * | | |
| B. Net direct budgetary impact (if any) (in €) | -30,378,564 | -30,444,601 | -30,407,101 | -30,411,084 |
| B.1 Direct impact on budgetary revenue (in €) | | | | |
| B.2 Direct impact on budgetary expenditure (in €) | 30,378,564 | 30,444,601 | 30,407,101 | 30,411,084 |
| B.3 Possible non-budgetary financing | 1,274,497 | 1,575,781 | 1,360,281 | 1,360,281 |

| | | | | |
|--|--|-------------|-------------|-------------|
| (in €) | | | | |
| - B.3.1 Of which committed IPA funding including WBIF funding (in €) | 0 | 212,500 | 0 | 0 |
| <i>Total net budgetary impact</i> | | | | |
| Total impact on budgetary revenues | Total impact on budgetary revenues is not calculated | | | |
| Total impact on budgetary expenditures | 42,800,951 | 206,843,195 | 110,924,838 | 116,115,485 |

* indicate start and, if needed, end with an "X" mark

Table 11: Timetable of structural reform measures

| Measure 1: Upgrading and rehabilitation of Corridor X | | | |
|--|--|---|---|
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Renewal of the railway Corridor 10 | Renewal of the railway Corridor 10 | 1. Construction of the section Demir Kapija - Smokvica 2. Rehabilitation of bridges with NATO grant (Road Corridor 10) | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| | Rehabilitation of sections Kumanovo - Miladinovce and Miladinovce - Kumanovo | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| | | | |
| Measure 2: Upgrading and rehabilitation of Corridor VIII | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| | Construction of motorway A2, section Kichevo – Ohrid | | |
| Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 |
| | | Reconstruction of the railway section from Kumanovo to Beljakovce | Construction of new and reconstruction of the existing railway section from Beljakovce to Kriva Palanka |
| Measure 3: Upgrading and rehabilitation of the local and regional road infrastructure | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| | Construction of motorway A4, section Miladinovci – Sv. Nikole – Shtip | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| | | | |
| Measure 4: Construction of 400 kV Interconnection overhead line TS Bitola 2- Macedonian Albanian border and 400/110 KV TS Ohrid | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Land expropriation and tenders for construction of the transmission line and substation | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Construction of the transmission line and substation | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| Construction of the transmission line and substation | | | |
| Measure 5: Rehabilitation and modernization of the transmission network and power system | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Preparation of technical documentation, preparation of tender documentation and tendering and signing of contracts with the best bidders | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Tenders publication and signing contracts with best suppliers and implementation of the four components of the project | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| Implementation of the four components of the project | | | |
| Measure 6: Improvement of Irrigation Systems | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |

| | | | |
|---|--|--|---------|
| Preparation of tender documentation and construction of large hydro-systems | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Construction of large hydro-systems and small local irrigation systems | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| Construction of large hydro-systems and small local irrigation systems | | | |
| Measure 7. Consolidation and defragmentation of agricultural land | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Implementation of at least two pilot projects for consolidation with FAO support and identification of possible large-scale consolidation projects that would cover larger consolidation area | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| At least three regional (larger scale) land consolidation projects are implemented (IPA support) | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| At least three regional (larger scale) land consolidation projects are implemented (IPA support) | | | |
| Measure 8. Program for increasing of the market employability (I phase) | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| <ul style="list-style-type: none"> - Commencement of activities for Destination management in order to improve and diversify tourism products / services in Krusevo, - Continuation of the activities for Destination management in order to improve and diversify tourism products / services in Ohrid and Mavrovo, - Building capacities of students at the Faculty of Tourism in Ohrid through the Young Talents Programme of the World Tourism Forum (Lucerne). - Improving access of IT companies to international markets through improved skilled labour in Macedonian IT companies, - Services to support designers, - Presentation of policies and practices for gender-sensitive human resources management in Creative Industries, - Supporting employability of women in IT companies through an opportunity for child care at IT companies (kindergartens), - Facilitating access to services and best practices for IT companies through establishment of an accelerator within the Faculty of Engineering and Information Technology in Bitola. - Promotion of organic products for export, - Raising awareness for organic production, a campaign led by the needs of private businesses, - Improving access to knowledge for organic production by supporting the Rural incubator, - On the job training for unskilled workers in sustainable construction. - Access to services that support development of female entrepreneurship and businesses owned by women in the five sub-sectors. | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| | | | |
| Measure 9: Financing companies through business angels | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Adoption of a Business angels law | Promoting the concept of business angels and education of public. Establishing a scheme for accreditation of qualified business angels | Establishment of a reliable investment system (web platform) where angel investors and entrepreneurs can meet and negotiate | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Establishment of a reliable investment system (web platform) where angel investors and entrepreneurs can meet and negotiate | | Implementing mentoring programs, hiring independent consulting firms and other service providers to be part of this reliable investment system. Developing co-investment funds with business angel investor in order to reduce the risk of investment. | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| <p>Implementing mentoring programs, hiring independent consulting firms and other service providers to be part of this reliable investment system.</p> <p>Developing co-investment funds with business angel investor in order to reduce the risk of investment.</p> | | | |

| Measure 10: Support to competitiveness of the enterprise sector | | | |
|---|--|--|--|
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Publishing a public call | Implementing measures of the Program for support competitiveness, innovation and entrepreneurship | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Publishing a public call | Implementing measures of the Program for support competitiveness, innovation and entrepreneurship | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| Publishing a public call | Implementing measures of the Program for support competitiveness, innovation and entrepreneurship | | |
| Measure 11: Establishment of One Stop Shop System for business licenses and permits | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| | | Legal, organizational and technical framework (analysis, studies and technical documentation ready till Q3 2016) | |
| Q1 2017 | Q2 2017 | Q3 2017 | KQ2017 |
| | | Electronic system for documents exchange in certain public institutions (first institution connected to the system in Q3 2017) | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| | | | |
| Measure 12: Triple Helix Partnership | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Election of director and employees in NTTO. Preparation of technical specifications for procurement of office supplies. Concluding lease agreement for NTTO. | Employing director and other employees. Purchase office furniture and supplies. Preparation of a detailed business plan 2016 and Operational Plan 2016-2019. Study visit to Austrian TTO. | Defining the NTTO MIS system. Preparation of documents for operational functioning of NTTO. Acquisition of Patent Base. Implementation of planned activities under the Operational Programme. | Implementation of planned activities under the Operational Programme |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Implementation of planned activities under the Operational Programme | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| Implementation of planned activities under the Operational Programme | | | |
| Measure 13: Extending access to finance for innovation and technological absorption | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Conditional loans for commercialization of innovation for large companies | | | |
| M1: Developed by-laws for introduction of the new support instrument | | | |
| Co-financed grants and conditional loans for commercialization of innovations for cooperative projects from the Higher educational institutions and the business sector | | | |
| M3: Developed by-laws for introduction of the new support instrument | | | |
| Technical assistance for support and advancement of innovation activity and technology transfer | | | |
| M5: Established network of experts for provision of services (innovation potential analyses, trainings on innovation introduction and management of innovation based projects, development of project proposals for national and international funds, trainings on mobilizing additional financing - venture capital, legal advice, intellectual property rights, etc.) | | | |
| M6: Strengthened capacities of the network of experts in the relevant areas | | | |
| M7: Developed by-laws for introduction of the new support instrument | | | |

| | | | |
|--|----------------|----------------|----------------|
| M8: Initiating implementation of the new support instrument Fund for Equity and Mezzanine Investments M9: Developed by-laws for establishment and registration of Fund for Equity and Mezzanine Investments Co-investing scheme M12: Developed by-laws for establishment of Co-investment scheme Monitoring implementation of already supported projects Instrument I Support 25 new projects. Instrument II Support 10 new projects. Instrument III. Support 2 new projects. Instrument IV. Support 1 new project. | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Conditional loans for commercialization of innovation for large companies M2: Initiating implementation of the new instrument Co-financed grants and conditional loans for commercialization of innovations for cooperative projects from the Higher educational institutions and the business sector M4: Initiating implementation of the new support instrument Technical assistance for support and advancement of innovation activity and technology transfer Implementation of the new instrument Fund for Equity and Mezzanine Investments M10: Publishing an open call for a private funds management company to manage the Fund's assets earmarked for implementation of equity and mezzanine investments instruments M11: Initiating equity and mezzanine investments Co-investing scheme M12: Developed by-laws for establishment of Co-investment scheme M13: Publishing an open call for co-investors M14: Initiating equity and mezzanine investments | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| 1. Conditional loans for commercialization of innovation for large companies Implementation of the new instrument 2. Co-financing grants and conditional loans for commercialization of innovations for joint projects in the higher education and/or research institutions and businesses Implementation of the new instrument 3. Technical assistance for support and promote the innovation activity and technology transfer Implementation of the new instrument 4. Fund for Equity and Mezzanine Investments Functioning of the fund 5. Co-investing scheme Functioning of co-investing scheme | | | |
| Measure 14: Establishing free trade area within CEFTA | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Negotiations on financial and transport services liberalization Signing Protocol on Trade in Services Signing Framework Agreement on Trade Facilitation | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Ratification of the Protocol on Trade in Services by CEFTA member states | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| Measure 15: Application of the Regional Convention on Pan-Euro Mediterranean rules of origin | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Harmonization of protocols on rules of origin with EU, Turkey and the EFTA countries and the ratification of protocols on rules of origin | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Ratification of protocols on rules of origin | | | |

| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|---|---------|---------|---------------------------------|
| Measure 16: Upgrading the customs clearance facilities of road border crossings Tabanovce (IPA 2012) and Kafasan (IPA 2013) | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| | | | Beginning of construction works |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| | | | End of construction works |
| Measure 17: Profiling of the unemployed persons and designing of an Individual Employment Plan 2 | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| Preparation of Individual employment plan and formulating individual employment strategy (IEP version 2) for unemployed people facing significant obstacles to employment | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| Preparation of Individual employment plan and formulating individual employment strategy (IEP version 2) for unemployed people facing significant obstacles to employment | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| Preparation of Individual employment plan and formulating individual employment strategy (IEP version 2) for unemployed people facing significant obstacles to employment | | | |
| Measure 18: Education and Qualifications for All | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| <ul style="list-style-type: none"> Analyse and redefine existing qualifications and develop new qualifications based on the labour market needs Establishment of Sectoral Commissions for qualifications Modernising 4-year secondary technical vocational education and training Establishing Skills Observatory Strengthening lifelong learning through modernisation of vocational education and training and adult education Strengthening cooperation between higher education institutions and the private sector | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| <ul style="list-style-type: none"> Analyse and redefine existing qualifications and develop new qualifications based on the labour market needs Establishment of Sectoral Commissions for qualifications Modernising 4-year secondary technical vocational education and training Establishing Skills Observatory Strengthening lifelong learning through modernisation of vocational education and training and adult education Strengthening cooperation between higher education institutions and the private sector | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| | | | |
| Measure 19: Equal Education Opportunities | | | |
| Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
| <ol style="list-style-type: none"> Providing textbooks, free transport and scholarships to students <p>Students from rural areas and vulnerable groups of students, talented students or athletic students will be motivated to achieve better results.</p> <ol style="list-style-type: none"> Equal and inclusive quality early learning and education Creating new comprehensive educational strategy for the period 2016-2020 | | | |
| Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
| <ol style="list-style-type: none"> Providing textbooks, free transport and scholarships to students. <p>Students from rural areas and vulnerable groups of students, talented students or athletic students will be motivated to achieve better results.</p> <ol style="list-style-type: none"> Equal and inclusive quality early learning and education | | | |
| Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
| <ol style="list-style-type: none"> Providing textbooks, free transport and scholarships to students. <p>Students from rural areas and vulnerable groups of students, talented students or athletic students will be motivated to achieve better results.</p> <ol style="list-style-type: none"> Equal and inclusive quality early learning and education | | | |

Table 12: Summary of structural reform measures

| | |
|---|---|
| Measure 1: Upgrading and rehabilitation of Corridor X | |
| Short description | The proposed measure is aimed at improving and expanding road and rail infrastructure to better connect with the EU Member States and in particular with the Balkan countries in order to strengthen economic cooperation, economic growth, attract investment and create new jobs. |
| Summary of implementation timeline | Regarding railway infrastructure, rehabilitation of railway Corridor X will be performed through rehabilitation of section Negotino - Nogaevci and rehabilitation and upgrading of the railway station in Skopje according to EU best practices. Regarding road infrastructure rehabilitation will be performed of the sections Smokvica - Gevgelija, Kumanovo – Miladinovci and Miladinovci - Kumanovo. At the same time bridges are reconstructed with NATO grant (Road Corridor 10) which should be completed by mid-2016. Construction of the section Demir Kapija - Smokvica is undergoing and will be finished by the end of 2016. Construction of Road A1 and the Pan-European Corridor Xd Gradsko - Prilep construction works are expected to begin in the first half of 2017. |
| Cost of implementation | EUR 156 million |
| Expected impact on competitiveness | Completed road Corridor X will contribute to strengthened country's integration in the region and the EU and easier market access. |
| Measure 2: Construction, upgrading and rehabilitation of Corridor VIII | |
| Short description | The proposed measure is aimed at improving and expanding road and rail infrastructure to better connect with the EU Member States and in particular with the Balkan countries in order to strengthen economic cooperation, economic growth, attract investment and create new jobs. |
| Summary of implementation timeline | Regarding railway infrastructure, rehabilitation of railway Corridor VIII will be performed through reconstruction of section Kumanovo - Beljakovce and construction of new and reconstruction of existing railway section Beljakovce to Kriva Palanka. Preparation of technical documentation for section Kriva Palanka to Deve Bair border with Bulgaria is underway. Regarding road infrastructure, construction of highway A2, section Kicevo - Ohrid is ongoing and should be completed in 2018, and in the period 2016 to 2019 construction of the state road A2 and Pan-European Corridor VIII Trebenishte – Struga, express A2 road Kumanovo - Bulgarian border, section Rankovci - Kriva Palanka are planned. |
| Cost of implementation | EUR 102,7 million |
| Expected impact on competitiveness | Completed road Corridor VIII will contribute to strengthened country's integration in the region and the EU and could lead to new market opportunities. |
| Measure 3: Upgrading and rehabilitation of the local and regional road infrastructure | |
| Short description | The proposed measure is aimed at improving and expanding road infrastructure to better connect local regions with the country's main corridors in order to strengthen economic cooperation, economic growth, attract investment and create new jobs. |
| Summary of implementation timeline | Construction of A4 motorway, section Miladinovci - Sveti Nikole - Stip will be performed until May 2017, and the project for construction, reconstruction and rehabilitation of national and regional roads. |
| Cost of implementation | EUR 188,5 million |
| Expected impact on competitiveness | These investments will significantly improve connections within regions and between regions themselves, thus facilitating flow of goods and services and shortening travel time and transportation while improving road safety. |
| Measure 4. Construction of 400 kV Interconnection overhead line TS Bitola 2- Macedonian Albanian border and 400/110 KV Ohrid | |
| Short description | Investment for construction of 400 kV Interconnection overhead line is the first interconnection between Macedonia and Albania is the last part of the realization of Corridor VIII for electricity transmission between Bulgaria, Macedonia, Albania and Italy. This project is on the list of projects of interest to the Energy Community of Southeast Europe, which lists infrastructure projects of paramount importance to the SEE |
| Summary of implementation timeline | The loan agreement between MEPSO and EBRD was signed on December 10 th 2015, and in the next period land acquisition and publishing of tenders for the construction of the transmission line and substation will begin, which is expected to be completed by the end of 2019. |

| | |
|---|---|
| Cost of implementation | EUR 31 million |
| Expected impact on competitiveness | Interconnectivity electricity connection between Macedonia and Albania brings significant benefits to overcome “bottlenecks“ in the network that restrict access of generators to the regional market of electricity. This reduces the production cost, both in national systems and on regional level. Additionally, in both systems reduce imported energy and reduce the overflow reservoirs (final effect means "liberation" of existing "green energy"). |
| Measure 5. Rehabilitation and modernization of the transmission network and power system | |
| Short description | The investment for revitalization and modernization of the transmission network and power system consists of four components: revitalization of six 110 kV transmission lines that are around 50 years old, new equipment for substations, completely closing the optical ring transmission network and installation of the monitoring and management of substations. |
| Summary of implementation timeline | Projects of the four components should be implemented by the end of 2017. In 2016 tender documentation and the tenders will be published. |
| Cost of implementation | EUR 40,5 million |
| Expected impact on competitiveness | This project will achieve: increased reliability of operation, reducing the level of depreciation of equipment installed in the 110's transmission fields kV substations, significantly reducing the number of outages of pylons and therefore reduce the dry condition of the consumer Macedonia, raising the level of the continuous supply of electricity to consumers, reduce the cost of maintenance and management problems with the old lines, increasing the quality of electricity at the transmission system, increased security to workers and the environment. |
| Measure 6. Improvement of Irrigation Systems | |
| Short description | Increase the current irrigated areas in the country and gradually expand hydro-systems to reach the objective for irrigated area at half of the arable area |
| Summary of implementation timeline | <ul style="list-style-type: none"> •Rehabilitation and reconstruction of installed infrastructure for irrigation and drainage in order to achieve their sustainability and water conservation; •Upgrading and expansion of the existing hydro-system in order to increase the irrigated area in the country; and •Construction of new major facilities in the Macedonian hydro-system. |
| Cost of implementation | EUR 45 million |
| Expected impact on competitiveness | Provision of access to farmers to regular irrigation is expected to increase competitiveness by adoption of new varieties, diversification to higher value crops and higher yields. Facilitating community small scale irrigation systems shall promote sustainability of rural livelihoods. |
| Measure 7. Consolidation and defragmentation of agricultural land | |
| Short description | Consolidation process will be implemented through two projects for consolidation in two regions, one of which would include redistribution of land and investment in infrastructure, and the other will be based on voluntary exchange. Priority will be given to regions with developed and intensive agriculture where small and fragmented parcels significantly limit the further development of agriculture as a primary agricultural activity in rural areas, primarily on the basis of interest shown by the farmers. The process of land consolidation will be initiated by at least half of the land owners in the consolidated area or ex officio by the relevant ministry. The consolidation is implemented if at least 70% of owners of land parcels in the consolidation area agree to conduct the consolidation through distribution of agricultural land, that is, all owners for consolidation with exchange. Consolidation process will be used to increase the area of land per farm by purchasing or allocation of state agricultural land available for rent. |
| Summary of implementation timeline | In the period 2015-2016, at least two pilot consolidation projects are implemented with the support from the Food and Agriculture Organization of the United Nations (FAO) and possible large-scale consolidation projects are identified that would include larger consolidation area. Follow up land consolidation projects are planned under IPA 2017. The potential land consolidation projects to be implemented with IPA support are going to be identified in 2015/2016 based on assessment of the farmers' interest in regions to implement land consolidation. |
| Cost of implementation | EUR 4,3 million |

| | |
|---|--|
| Expected impact on competitiveness | Allowing farmers to acquire farms with fewer parcels that are larger and better shaped and to expand the size of their holdings enables them to become more competitive. Improving the agricultural property structure can facilitate the adoption of new agricultural technologies leading to a more prosperous and efficient agricultural sector. Benefits from land consolidation in EU countries include increases in gross income of farmers and reduction of working hours in the field. |
| Measure 8: Programme for increasing market employability (I phase) | |
| Short description | The program for increasing market employability (IME) aims to create jobs and increase the income of the unemployed and under-involved women and men in Macedonia, with a special focus on young people. The measure is supported by the Swiss Agency for Development and Cooperation (SDC) implemented by Swisscontact and the local partner PREDA Plus. IME is focused on strengthening the business sector in Macedonia, improving quality of products and services offered, expanding markets and creating favourable environment in the three selected sectors: tourism, creative industry and green (environmental) economy. |
| Summary of implementation timeline | The first phase of the program is implemented in the period April 1 2015 to April 1 2019 |
| Cost of implementation | EUR 4,3 million |
| Expected impact on competitiveness | Activities will contribute to increasing the incomes of men and women, especially the young, by increasing competitiveness among small businesses in key sectors and farmers. It is important that the focus is on providing sustainable systemic changes that will enable access to markets, generating income and adoption of systemic dynamics in medium and long run. Expected key outcomes of the programme are creation of more than 2,000 jobs, with particular attention to employment opportunities for young women and an increase in net income of more than 1,000 companies by EUR 1.5 million over a period of 4 years. |
| Measure 9: Financing companies through business angels | |
| Short description | Establishing a legal framework for informal venture capital, i.e. adoption of a special law on business angels. |
| Summary of implementation timeline | The concept of establishing legal framework for informal venture capital, which will consider the following key actions in establishing the investment system: <ul style="list-style-type: none"> • Adoption of a Law on business angels. • Establishment of a reliable investment system where angel investors and entrepreneurs can meet and negotiate. • Promoting the concept of business angels and education of the public. • Encouraging investment activity of business angels through introduction of various forms of tax breaks for their investments. • Establishing successful business angel networks in the Republic of Macedonia, following the example of other European countries will have a key role in the functioning of this system. • Establish a scheme for accreditation of qualified business angels. • Implement mentoring programs, hiring independent consulting firms and other service providers to be part of this reliable investment system. • Develop co-investment funds with business angel investor in order to reduce investment risk. |
| Cost of implementation | EUR 2 million |
| Expected impact on competitiveness | There is a wide agreement on the importance of entrepreneurship and its very early stage finance for economic development. Start-ups backed by qualified angel investors drive and shape innovation, speed up structural changes in the economy. They also introduce new competition, hence contributing to productivity and job creation. Therefore encouraging entrepreneurial activities in the early stage market will be more vital for economic development in the future |
| Measure 10: Support to competitiveness of the enterprise sector | |
| Short description | Support to the private sector is a key challenge that will enable sustainable economic development by supporting companies in developing the necessary capacity and skills to diversify production and to create products and services with greater added value simultaneously based on innovation, internationalization, networking and clustering. |
| Summary of implementation timeline | Support to the competitiveness of the enterprise sector is key to ensuring competitive private sector based on innovation and oriented towards internationalization. Ministry of Economy and the Agency for Entrepreneurship Support create annual programs that offer measures to promote competitiveness. The measures are created in accordance with relevant strategic documents. The programs are funded from the budget. The measures offer co-financing and supporting of companies in their development of skills, capabilities, products and market. Also some of the measures aimed at supporting clusters, support |

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| | infrastructure for SMEs, crafts and so on. |
| Cost of implementation | EUR 3,2 million |
| Expected impact on competitiveness | The implementation of the measures of this program provides direct support in strengthening the individual competitiveness of SMEs through co-financing costs for growth and development. |
| Measure 11: Establishment of One Stop Shop System for business licenses and permits | |
| Short description | There are several electronic systems in the country for different purposes (company registration, issuing of construction permits, issuing export - import licenses, registering workers etc.). It is necessary to integrate the existing electronic systems in order to facilitate the process of information distributing, reducing the cost and duration of procedures. |
| Summary of implementation timeline | The measure will be implemented through several activities, such as mapping relevant procedures and processes, institutions, as well as developing IT solution for exchanging documents and information among various institutions for operation of the newly established "Umbrella system". |
| Cost of implementation | EUR 1 million |
| Expected impact on competitiveness | The proposed measure will contribute to increase competitiveness by reducing regulatory burden and cost for running a business, decreasing time needed for issuing business license and permits, improving access to information on regulation changes, improve access to assistance for setting up and running a business and increase information on licenses and permits needed to export abroad. |
| Measure 12: Triple Helix Partnership | |
| Short description | Triple Helix partnership as a potential for innovation and economic development in a knowledge society lies in a more prominent role of universities, industry and government to generate new institutional and social formats for production, transfer and application of knowledge. In reference to that Ministry of Education and Science (MES) has initiated establishment of the National Technology Transfer Office (NTTO) as a mechanism for linking the higher education sector to the innovation elements of the Macedonian economy and to promote implementation of innovative activity between research and firms. |
| Summary of implementation timeline | As part of the Innovation Strategy of the Republic of Macedonia 2012-2020, National Office for Technology Transfer (NTTO) as first institutionalized triple helix partnership is in the process of formation. 13 institutions will be founders of NTTO: 6 universities, Chambers of Commerce, Institute for Accreditation of the Republic of Macedonia, Fond for Innovation and Technology Transfer, Macedonian Academy of Sciences and Arts, and Macedonian Bank for Development Promotion. NTTO will begin its operations in January 2016. |
| Cost of implementation | EUR 300,000 |
| Expected impact on competitiveness | This measure is expected to stimulate key elements of an innovation economy, i.e. entrepreneurship, commercially oriented research, university-industry partnership, and risk-taking that can lead to improved exports of products and services. |
| Measure 13: Extending access to finance for innovation and technological absorption | |
| Short description | Existing grant-schemes will be expanded with three new support instruments in order to (1) extend the eligible beneficiaries to big companies, (2) extend the eligible beneficiaries to Higher educational institutions and Research Institutions as R&D service providers to the private sector and (3) establish a network of experts for providing technical assistance to the private sector related to innovation and technology absorption. |
| Summary of implementation timeline | The measure will be implemented in the period 2016-2018. |
| Cost of implementation | EUR 15,8 million |
| Expected impact on competitiveness | Improving the competitiveness of Macedonian companies in domestic and international market by introducing technological and operational improvements in the private sector. |

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| | Measure 14: Establishing free trade area within CEFTA |
| Short description | Following the obligation of CEFTA Parties due to Article 27 of the CEFTA Agreement gradual approach towards achieving progressive liberalization in trade of services and mutual opening of service markets will be implemented, in context of European integration, bearing in mind the GATS provisions within WTO. In respect to equivalent application of the principles and rules of the WTO Agreement, the CEFTA parties decided to conclude Framework Agreement on trade facilitation applicable solely for the countries in the region. |
| Summary of implementation timeline | In 2016 two rounds of negotiation will follow concerning the level of liberalization in sectors: financial and transport services, and whether is necessary additional rounds of negotiation will be provided for finalizing it. The implementation will follow after completing the ratification of the Protocol by CEFTA Parties during 2017. As for the Framework agreement, in the first half of 2016 three or four rounds of negotiation for the conclusion of the Agreement will follow, aiming to meet the deadline given in point 26 of the Final Declaration adopted at the Vienna Western Balkans Summit on 27 August 2015. The implementation of the Agreement should start before the next Summit in France in 2016. |
| Cost of implementation | Activities will be financed from Multi country IPA 2015-2017 . |
| Expected impact on competitiveness | Trade facilitation and liberalization of trade in services will reduce any restriction on services export which may exist in the region. In the coming period, increase in volume of trade in services is expected, equal openness of CEFTA markets etc. In the next period it is expected to improve the conditions on trade facilitation, to simplify the customs procedures in exporting, to develop "single window" system among Customs bodies of CEFTA Parties, active work of the CEFTA Committee on Trade Facilitation that was established by a Decision of the CEFTA Joint Committee in 2014. It will monitor the work of the institutions according to the obligations arising from the Framework Agreement and analyse the implementation of the CEFTA Framework Agreement on trade facilitation provisions with WTO Agreement on trade facilitation. |
| | Measure 15: Application of the Regional Convention on Pan-Euro Mediterranean rules of origin |
| Short description | In the process of integration of the Republic of Macedonia in the global economy, the approach is towards harmonization of Protocols for rules of origin for application of diagonal cumulation according to the free trade Agreements that Republic of Macedonia has signed with EU, European Free Trade Association States, CEFTA Parties and the Republic of Turkey, in line with the rules of the Regional Convention. The goal is to apply unified rules of origin. |
| Summary of implementation timeline | Harmonization of the Protocols for rules of origin with European Free Trade Association States and the Republic of Turkey, which is planned to be completed at the beginning of 2016 and to be ratified in the period 2016/2017. |
| Cost of implementation | The measure has no fiscal implications |
| Expected impact on competitiveness | It is expected that diagonal cumulation will be equally applied in the Pan-Euro Mediterranean Region according to unified rules of origin. 47 countries are signatories of the Regional Convention, out of which Republic of Macedonia applies Free Trade Agreements with 40 countries (3 multilateral agreements and 1 bilateral). Applying diagonal cumulation among 40 countries gives a greater opportunity to utilize the preferential treatment in trade of goods. Full application of the Convention is an opportunity to participate in the global supply chain, where the rules of origin in exports will be treated according to the Pan-European rules and will be exempt from customs duties even though inputs and raw materials will be imported from a country signatory to the Regional Convention. Duty-free treatment gives a greater opportunity for goods to be more competitive on the importing country market. |
| | Measure 16: Upgrading the customs clearance facilities of road border crossings Tabanovce (IPA 2012) and Kafasan (IPA 2013) |
| Short description | The implementation of the infrastructure projects (measure) will contribute to: - Increased capacity of the crossing for shipments, - Reduced time to perform border formalities, - Improved infrastructure and using modern means of inspection, which will accelerate the exchange through the busiest border crossings, and will facilitate transport along the Pan-European Corridors 8 and 10 respectively? |
| Summary of implementation timeline | The measure includes expanding the existing infrastructure: - BC Tabanovce expanding the terminal for import and export of goods, construction of supporting facilities and additional lanes for movement of the goods traffic. - BC Kafasan construction of new import-export customs terminal, access roads, facilities for customs |

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| | clearance and reconstruction of existing facilities. |
| Cost of implementation | EUR 3,6 million |
| Expected impact on competitiveness | The measure will contribute to: accelerating and facilitating the exchange of goods through the busiest border crossings to Serbia and Albania; transport facilitation along the Pan-European Corridors 8 and 10 in 2018; reduced delays at border crossings, to the end of increased competitiveness. |
| | Measure 17: Profiling of unemployed and Preparation of Individual Employment Plan 2 |
| Short description | Individual Employment Plan is designed for each person who is registered in ESARM as an unemployed person – Active Job-Seeker, within 30 days. It is valid for a period of 6 months, during which, if the unemployed person does not find a job within this period, the Individual Employment Plan is reviewed and modified. With the new tool which is implemented in the ESARM working process, an Employability checklist is also included for all the job-seekers as a tool for improvement of the design of an Individual Employment Plan. |
| Summary of implementation timeline | The new format of the Individual Employment Plan will be initially implemented for active job seekers registered for the first time (inflow). After the unemployed persons are registered in the Registry of unemployed persons, they are directed to their first interview with an official from ESARM. On the first interview, the ESARM Official collects all personal information about the individual and by using the Employability Checklist, classifies it in one of the three profiles (conducts profiling of the unemployed person) as directly employable, moderate obstacles, significant obstacles. If it is determined that the unemployed person faces significant obstacles during employment, the first session is completed by entering the information about the individual and scheduling a second (longer) meeting for formulation of an Individual Strategy for Employment (IEP version 2). The measure will start with its implementation as of January 2016. |
| Cost of implementation | The measure has no fiscal implications |
| Expected impact on competitiveness | The new tool which is introduced in the working process of ESARM is targeted for persons in a non-advantageous position on the Labour Market and in the context of ensuring the most adequate combination of services and programs for employment, which are available with the Annual Operational Plans for Employment Services and Active Labour Market Measures. With the new approach of work, the confidence and cooperation between the unemployed person and ESARM as a service for the citizens will be strengthened, because all the activities will be adapted to the real needs of the unemployed person for his/her employment. |
| | Measure 18: Education and Qualifications for All |
| Short description | Republic of Macedonia adopted the National Qualification Framework (NQF) as an instrument for reform in the education and training system, with purpose to integrate and coordinate education and training and improve transparency, approach, advancement and quality of qualifications in relation to the labour market, individuals and society. |
| Summary of implementation timeline | <ul style="list-style-type: none"> • Analysis and redefinition of existing qualification and development of new qualification based on the labour market needs. • Establishment of Sectoral qualification committees. • Skills Development and Innovation Support Project, financed by a World Bank loan, is in process of implementation of activities from the component Modernization of Secondary Technical Vocational Education and Training that would finance sub-components: (i) Quality and labour market relevance of TVET through development of curriculum and programmes based on occupational standards, assessment of the secondary TVET school network, development of a training program for teachers and other staff, development of training materials and provision of equipment for school-based practical training and (ii) Improvement of the school-industry collaboration through school grants. • Skills Observatory is aimed to strengthen labour market and education information systems. This Observatory will make available to the public, policy-makers and stakeholders information on the performance (e.g. students placed in practical training at firms, job placements after graduation) and resources available (e.g. courses, firms providing internship and practical training opportunities, infrastructure, instructors) in VET schools, higher education institutions as well as general labour market information on employment opportunities and wages in different occupations and sectors. • Enhancing lifelong learning through Modernisation of vocational education and training and adult education systems aims to supply teaching equipment for vocational training, reform curricula, improve adult education, practical work, cooperation between students and teachers in 2-year and 3-year VET, develop new occupational standards and standards of qualifications, supply software to school's network and support modernisation of the post-secondary education system, prepare analysis and modernise legislation on post-secondary education according to labour market needs. • Enhanced cooperation between higher education institutions and private sector, as well as |

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| | between secondary schools and private sector to the end of providing quality practical work for students and pupils in companies. |
| Cost of implementation | EUR 2,4 million |
| Expected impact on competitiveness | Improving competitiveness of the economy requires better educated and skilled labour force, mobility of competencies and their recognition and use by individuals, employers and the entire society, as well as increased technology absorption, and knowledge, skills, competence and innovation diffusion. That, among other things, requires the establishment of a new system of values and a new attitude towards education and qualification. |
| Measure 19: Equal Education Opportunities | |
| Short description | The need for quality, inclusive and intercultural education in primary and secondary education remains a priority in the context of negotiations for EU accession. Development of adequate knowledge and skills from compulsory educational levels is a key prerequisite for competent human capital, and it is also central to economic development, social cohesion and sustainable development. |
| Summary of implementation timeline | <p>The following separate sub-measures are scheduled:</p> <ol style="list-style-type: none"> 1. Provision of textbooks, free transport and different scholarships for students With this sub-measure students from rural areas and vulnerable groups, talented students or students athletes will be motivated to achieve better results. 2. Equitable and inclusive quality early learning and education This sub-measure will increase inclusion of Roma children in the education process, and will provide equitable approach to early learning and education for all, including children with special needs. 3. Creation of new comprehensive educational strategy 2016-2020 Main document in the educational process is the National program for education development 2005-2015. Activities for creation of new comprehensive Educational strategy 2016-2020, including action plan, financial resources and a clear timeframe, are ongoing. |
| Cost of implementation | EUR 95,5 million |
| Expected impact on competitiveness | The measures Equal Education opportunity provides inclusion of all children in the education system and ensures equal access for all children regardless of their origin and competences to all educational levels. The focus is on completing primary and secondary education for children from vulnerable groups enabling them to acquire the necessary qualifications and skills and to be able to actively engage in the labour market. |

ANNEX 2: Contribution from consultations with stakeholders ERP 2016-2018

The Economic reform program 2016 represents a joint result from the collaboration among several institutions, and the overall preparation is coordinated by the Ministry of Finance.

| Content of the Economic Reform Programme | Institution | Person in charge |
|---|---|---|
| 1. Overall Policy Framework and Objectives | Ministry of finance | Andrija Aleksoski Vesna Cvetanova Bojana Ilievska |
| 1.1. Measures taken to implement the targeted policy guidelines adopted at the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 12 May 2015 | All institutions in charge | |
| 2. Macroeconomic framework | | |
| 2.1. Recent economic developments | Ministry of finance National Bank of the Republic of Macedonia | Nedzati Kurtishi Bojana Ilievska Lenche Tagasovska Violeta S. Petreska Aneta Krstevska |
| 2.2. Medium-term macroeconomic scenario | Ministry of finance National Bank of the Republic of Macedonia | Nedzati Kurtishi Aneta Krstevska |
| 2.3. Alternative scenario and risks | Ministry of finance National Bank of the Republic of Macedonia | Nedzati Kurtishi Aneta Krstevska |
| 3. Fiscal framework | | |
| 3.1. Policy strategy and medium-term objectives | Ministry of finance | Verica Prokovikj Elena Trpkovska Tanja Kostovska Maja Argirovska |
| 3.2. Budget implementation in 2015 | Ministry of finance | Biljana Minoska Mara Srezovska |
| 3.3. Medium-term budgetary outlook | Ministry of finance | Verica Prokovikj Elena Trpkovska Tanja Kostovska Vukica Saveska Maja Argirovska Suzana Peneva Kristina Pavlovska Andrija Aleksoski |
| 3.4. Structural balance | Ministry of finance | Nedzati Kurtishi |
| 3.5. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments | Ministry of finance | Dejan Nikolovski Sanja M. Mancheva Biljana Krusharovska Aferdita Redzepe |
| 3.6. Sensitivity analysis | Ministry of finance | Nedzati Kurtishi Dejan Nikolovski Sanja M. Mancheva |
| 3.7. Sustainability of public finances | Ministry of finance | Nedzati Kurtishi |
| 3.8. Institutional features | Ministry of finance | Verica Prokovikj Elena Trpkovska Tanja Kostovska Maja Argirovska Trajko Spasovski |
| 4. Structural reform priorities in 2016-2018 | | |
| 4.1. Identification of key obstacles to growth and competitiveness | Ministry of finance | Andrija Aleksoski Vesna Cvetanova Bojana Ilievska |

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| 4.2. Structural reform priorities by area | | |
| 4.2.1. Public Finance Management (PFM) | Ministry of finance | Verica Prokovikj Elena Trpkovska Tanja Kostovska Maja Argirovska |
| 4.2.1. Infrastructure | | |
| 4.2.1.1. Transport | Ministry of Transport and Communication | Goran Temovski Ivona Stanchevska Darko Spiroski |
| 4.2.2.2. Energy sector | Ministry of Economy | Milica Karafiloska Andonov |
| 4.2.3. Sector developments | | |
| 4.2.3.1. Agricultural sector development | Ministry of Agriculture, Forestry and Water Economy | Margarita Deleva |
| 4.2.3.2. Industry sector development | Ministry of finance | Andrija Aleksoski Vesna Cvetanova Bojana Ilievska |
| 4.2.3.3 Services sector development | Ministry of finance Cabinet of the Deputy Prime Minister in charge of economic affairs | Andrija Aleksoski Vesna Cvetanova Bojana Ilievska Romela Popovikj – Trajkova Marija Pantikj Dane Josifovski |
| 4.2.4. Business environment, corporate governance and reduction of the informal economy | Ministry of finance Cabinet of the Deputy Prime Minister in charge of economic affairs Ministry of Economy Agency for Real Estate Cadastre Agency for Foreign Investment and Export Promotion Macedonian Bank for Development Promotion | Bojana Ilievska Jordan Trajkovski Ana Nikolova Romela Popovikj – Trajkova Marija Pantikj Dane Josifovski Jasmina Majstoroska Suzana Kostadinovska Lidija Krstevska Maja Kostova Goran Kovachev |
| 4.2.5. Technological absorption and innovation | Ministry of Education and Science Fund for Innovation and Technical Development | Elena Gligorovska Katarina Krecheva |
| 4.2.6. Trade integration | Ministry of Economy Customs Administration | Biljana D. Stojanovska Dejan Rajchanovski Ilija Janoski |
| 4.2.7. Employment and labour markets | Employment Service Agency of the Republic of Macedonia Ministry of Education and Science | Biljana Zhivkovska Natasha Janevska |
| 4.2.8. Fostering social inclusion, combating poverty and promoting equal opportunities | Ministry of Education and Science | Nadica Kostoska |
| 4.3. Summary of reform priorities | Ministry of finance | Andrija Aleksoski Vesna Cvetanova Bojana Ilievska |
| 5. Budgetary implications of structural reforms | All institutions in charge | |
| 6. Institutional issues and stakeholder involvement | Ministry of finance | Andrija Aleksoski Vesna Cvetanova Bojana Ilievska |
| 7. Summary data | All institutions in charge | |

The program was adopted by the Government of the Republic of Macedonia in January 2016.

Having in mind that for the last year's programme the European Commission acknowledged the efforts the Government is making in implementing reforms to improve competitiveness, the Ministry of Finance made additional effort to maintain and improve the quality of this year's document in accordance with the recommendations made by the Commission.

During the preparation of this program a consultation process with stakeholders was conducted at national level: the business community, the universities, ZELS, local authorities, social partners, civil society and other stakeholders.

The consultation process was conducted in accordance with the ERP 2016 Guidelines.

In that direction on 10.15.2015 there was a meeting of ministers and directors of the institutions participating in the preparation of the document, representatives from the European Commission and representatives from OECD and representatives from:

- Macedonian Academy for Science and Arts;
- "Ss. Cyril and Methodius" University, Faculty of Economics – Skopje;
- University American College;
- South –East European University - Tetovo;
- State University of Tetovo, Faculty of Economics – Tetovo;
- "Goce Delcev" University, Faculty of Economics – Stip;
- "St. Clement Ohridski" University, Faculty of Economics – Prilep;
- FON University, Faculty of Economics - Skopje;
- European University, Faculty of Economics – Skopje;
- "Ss. Cyril and Methodius" University, Economic Institute – Skopje;
- Association of the units of local self - government of the Republic of Macedonia;
- Economic chamber of the Republic of Macedonia;
- Macedonian Chambers of Commerce;
- Economic chamber of the North-West Region in the Republic of Macedonia;
- American Chamber of Commerce in the Republic of Macedonia.

Invitation to stakeholders for the meeting:

Pokana za sastanok_ERP

cabinet to: manu, contact, info, web, alifeta.selimi, contact, info,
jelisaveta, msaveska, mirko.tripunoski, savica.dimitrieska

13.10.2015 15:10

Cc: Igor Dimitrov, Natasa Stojmanovska, Suzana Stoimceva, Andrija Aleksoski,
Jordan Trajkovski, Bojana Ilievska, Kristina Jordanova

Почитувани,

Министерството за финансии го отпочна процесот за изработка на Програмата на економски реформи за 2016 година, која Владата на Република Македонија има обврска да ја достави до Европската комисија најдоцна до 31 јануари 2016 година.

Со оглед на важноста на овој документ кој треба да биде квалитетно изработен, неопходно е вклучување на поширок круг засегнати и заинтересирани страни и за таа цел ве покануваме на состанок во четврток 15.10.2015 година во 14:00 часот во просториите на Министерството за финансии, каде ќе се одржи состанок на високо ниво со претставници од ОЕЦД, Европската комисија и институциите вклучени во изработката на документот, со цел разгледување на Економската програма на реформи за 2015 година, новите насоки за изработка на документот, како и дефинирање на следните чекори и роковите за подготовка на документот.

На 30 јануари 2015 година Република Македонија ја достави до Европската комисија својата прва Програма на економски реформи за 2015 година. Програмата е објавена на веб страницата <http://www.finance.gov.mk/mk/node/4831> На овој начин Владата на Република Македонија се приклучи кон пристапот на Европската комисија за поддршка на долгорочен раст и конкурентност преку економското управување, како клучен столб во процесот на проширување, со цел да се обезбеди подобро известување за националните планови за економски политики, вклучително и потребните структурни реформи.

Со почит,

Кабинет на Заменик претседател на Влада и Министер за финансии

Translation of the text above:

Honourable,

The Ministry of Finance has started the preparation process for the 2016 Economic Reform Programme, which the Government is obliged to submit to the European Commission no later than 31 January 2016.

Having in mind the importance of this document it has to be of high quality and inclusion of a wider range of stakeholders and interested parties is necessary. Thereby we invite you to a high-level meeting in the Ministry of Finance on Thursday, 15.10.2015 beginning at 14:00, with representatives from the OECD, the European Commission and the institutions involved in the preparation of the document, where the 2015 Economic Reform Programme will be reviewed, the

new Guidance for the preparation of the document will be presented and the next steps and deadlines for the preparation of the document will be defined.

The Republic of Macedonia submitted its first 2015 Economic Reform Programme to the European Commission on 30 January 2015. The programme is published on the website <http://www.finance.gov.mk/mk/node/4831>. Thus Government adheres to the approach of the European Commission to support long-term growth and competitiveness through economic governance as a key pillar in the enlargement process, in order to ensure better reporting on national economic policies plans, including the necessary structural reforms.

Sincerely,

Cabinet of the Deputy Prime Minister and Minister of Finance

Agenda of the meeting with stakeholders:



AGENDA

ECONOMIC REFORM PROGRAMME **Republic of Macedonia**

Consultation Meeting With National Stakeholders

15 October 2015
14.00 – 15.00

VENUE:

Ministry of Finance
Skopje, Republic of Macedonia



| ECONOMIC REFORM PROGRAMME 2016-2018 | |
|-------------------------------------|---|
| 14.00 – 14.15 | WELCOME AND OPENING REMARKS <ul style="list-style-type: none"> • Mr. Zoran Stavreski, Deputy Prime Minister and Minister of Finance • Ms. Marzena Kisielewska, Head of the OECD South East Europe Division • Mr. Martin Klaucke, Head of Cooperation at EU Delegation |
| 14.15-14.40 | LESSONS LEARNED FROM PREPARATION OF ERP 2015 AND PRESENTATION OF THE ERP 2016 GUIDELINES AND PROCESS <p><i>Lessons learned from preparation of pilot ERP 2015.</i> <i>Brief presentation of the new guidance note, and the roles of the ERP coordinator, line ministries, and civil society in the development of the 2016 ERP document. The OECD will present their proposed approach and technical assistance in the development of the 2016 document.</i></p> <ul style="list-style-type: none"> • Mr. Stefano Dotto, DG NEAR, European Commission • Ms Marija Kuzmanovic, Policy Analyst, OECD South East Europe Division |
| 14.40-14.45 | TIMELINE AND NEXT STEPS <p><i>Timeline, milestones and next steps for the 2016 ERP preparation process</i></p> <ul style="list-style-type: none"> • Mr. Andrija Aleksoski, ERP Coordinator, Assistant Head, International Finance Relations and Public Debt Management Department, Ministry of Finance |
| 14.45-15.00 | CONCLUSION <ul style="list-style-type: none"> • Ms. Marzena Kisielewska, Head of the OECD South East Europe Division • Mr. Martin Klaucke, Head of Cooperation at EU Delegation • Mr. Zoran Stavreski, Deputy Prime Minister and Minister of Finance |

In the period between 23 and 31.12.2015, the ERP draft was published on the Ministry of Finance's website and at the same time invitations were sent to all stakeholders to actively contribute to the process of preparation of the document by providing their opinion on the content and proposals for its improvement.

The received opinions and suggestions were reviewed by the institutions participating in the preparation of ERP 2016.



ПОВИК ЗА КОМЕНТАРИ ЗА ПРОГРАМАТА ЗА ЕКОНОМСКИ РЕФОРМИ 2016 ГОДИНА

Ви ја претставуваме нацрт Програмата на економски реформи за 2016 година (ПЕР 2016), која Владата на Република Македонија ќе ја достави до Европската комисија до 31 јануари 2016 година, по усвојување на нејзиниот конечен текст.

Со подготовка на ПЕР, Владата на Република Македонија од 2014 година се приклучи кон пристапот на Европската комисија за поддршка на долгорочен раст и конкурентност преку економското управување како клучен столб во процесот на проширување, со цел да се обезбеди подбро известување за националните планови за економски политики, вклучително и потребните структурни реформи.

Нацрт ПЕР 2016 е подготвена преку веќе воспоставениот национален процес на консултации централно координиран од страна на Министерството за финансии. Изработката на документот е согласно „Насоките за програми за економски реформи“ издадени од Европската комисија. Во изработката е користена експертска поддршка од Организацијата за економска соработка и развој (ОЕЦД).

Со оглед на важноста на овој документ и потребата тој да биде квалитетно изработен, се спроведува процес на широка вклученост на заинтересирани страни на национално ниво. Затоа ги покануваме: бизнис заедницата, универзитетите, локалните власти, социјалните партнери, граѓанскиот сектор и другите заинтересирани страни за активен придонес во процесот на изработката на документот.

Вашите мислења, коментари и предлози може да ги доставите најдоцна до 31 декември 2015 година на следните е-маил адреси:

Translation of the above text:

We present to you the Draft 2016 Economic Reform Programme (ERP 2016), which the Government will submit to the European Commission by 31 January 2016, after the adoption of its final version.

With the preparation of ERP, in 2014 the Government adhered to the approach of the European Commission to support long-term growth and competitiveness through economic governance as a key pillar in the enlargement process, in order to ensure better reporting on national economic policies plans, including the necessary structural reforms.

Draft 2016 ERP is prepared within the already established national consultation process centrally coordinated by the Ministry of Finance. The preparation of the document is in line with the "Guidance for the Economic Reform Programmes" provided by the European Commission. The preparation was supported by experts from the Organization for Economic Cooperation and Development (OECD).

Given the importance of this document and the need for it to be of high quality, a process for broad involvement of stakeholders at national level is underway. We welcome: the business community, universities, local authorities, social partners, civil society and other stakeholders to actively contribute to the process of drafting of this document.

Your opinions, comments and suggestions may be delivered no later than December 31, 2015 to the following email addresses....

Within the consultation process with stakeholders' three opinions on the Draft 2016 ERP were received:



December 31, 2015

Dear Mr. Aleksoski,

Please find the attached AmCham Macedonia response to the draft 2016 National Economic Reform Program released for public comment on 23.12.2015. Please note that we have included both a Macedonian and English version to be used, as required.

I'd like to thank the Ministry of Finance for including the American Chamber of Commerce in Macedonia in the process of reviewing and commenting on the 2016 National Economic Reform Program. I'd also like to mention that to have greater inclusion of all relevant stakeholders toward creating a quality program that will address the current situation, it would be advisable to publish draft Programs on the National Electronic Register of Regulations (ENER), allowing them to be reviewed and commented on for at least 15 working days.

Given the limited time we had to comment on the Program, we have limited our feedback to just 3 subsections of the document (4.2.4 Public Finance Management; 4.2.4 Business environment, corporate governance and reduction of the informal economy; and 4.2.7 Employment and Labor Markets). For the same reason, we look forward to continued dialogue with respect to the Program's implementation details.

Generally, our impression is that the measures included in the draft we reviewed fail to address several important challenges and therefore are unlikely to help the country meet its reform and growth goals. Specifically, we believe that the Program should include measures in the following reform areas:

- Ensuring all budget users comply with the Law on Financial Discipline starting in 2016;
- Fostering real, open and systemic dialogue with company representatives;
- Reducing the grey economy;
- Reducing regulatory confusion;
- Increasing the predictability, consistency and fairness of inspections;
- Increasing transparency and oversight of company appeal and complaint mechanisms;
- Ensuring taxation and penalty policies are rational and fair;
- Encouraging internships in companies; and
- Ensuring strategic investments in educational quality.

We hope you will receive these comments as they were intended, as constructive criticism aimed at producing a higher quality reform program. Please feel free to contact me directly, if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Ms Osmanli".

Michelle Osmanli
Executive Director

American Chamber of Commerce in Macedonia response to the draft 2016 National Economic Reform Program released for public comment on 23.12.2015

Comments on Subsection 4.2.4: Public Finance Management

According to the information we received from Ministry of Finance representatives responsible for managing the public comment process, this section is in the early stages of development, which is why it doesn't contain all details on planned reforms. Despite this, we would like to mention that we welcome any and all reforms aimed at improving the payment practices of budget users toward the local private sector. Late payment by budget users toward the private sector contribute significantly to the liquidity problem in the country. With the adoption of the Law on Financial Discipline in 2013, this problem was compounded, since the Law doesn't apply to budget users, which exposed the part of the private sector that depends on payment from their budget user clients to additional risk.

The Law positions the government in the role of protector of small to medium companies from clients that intentionally delay payment to them to their own advantage. However, the Law introduced new fines that are occasionally issued against private sector entities, regardless of context (e.g., outstanding collections from their clients that are budget users). As in many other laws, sanctions imposed by the draft Law would be draconian in many cases, as fines do not correspond in any way to the debt amount. This means failure to pay an invoice of just a few Euros will result in a fine the same size as that of an invoice for a few million Euros. Also, the Law requires the payment of penalty interest and other penalties in all cases, potentially reducing debtors' ability and motivation to pay the original principal. Thus, interest forgiveness and other strategies for collecting bad debt are disappearing. On the flip side, it is not clear how the new Law would treat penalties agreed upon in a contract above and beyond those legally required. The position of creditors has likely been weakened, as debtors are likely to place a higher priority on paying State fines rather than repaying the original principle. In short, we believe the law as currently implemented actually reduces the likelihood of timely payment between private sector entities.

In order to minimize the negative impact of the current Law on Financial Discipline, the National Program should include reforms necessary to enable a significant increase in financial discipline of budget users toward the private sector. Given the State's obligation to monitor itself in this process, transparency of this process will be key to ensuring its credibility within the business community.

Comments on Subsection 4.2.4: Business Environment, Corporate Governance and Reduction of the Informal Economy

We agree that Government efforts to reform various aspects of Macedonia's business environment in line with assessments for the *Doing Business* Report and, to a lesser degree, the *Global Competitiveness Report* have raised the country's visibility as an FDI destination in the region. This is proven by an increase in brownfield and greenfield foreign direct investment and increased employment in such newly established operations. A limited number of bureaucratic processes have been tangibly improved, which has helped the businesses that utilize them.

Unfortunately, the measures included in the draft 2016 Program are rather limited in scope. While we would echo the need for continued investment in IT systems aimed at increasing e-government services as well as the continued expansion and improvement of the cadaster, such measures are not fundamental reforms. Instead, further reform is needed in a number of more fundamental areas that would create positive change in the business environment overall.

These reforms should include measures to:

- Foster real, open and systemic dialogue with industry via proper use of the National Electronic Register of Regulations (ENER), placing a moratorium on the use of the “short procedure” in Parliament and extending the standard public comment period.
- Reduce the grey economy by ensure enforcement institutions’ responsibilities are properly set, do not generally overlap with one another and that they are properly trained, equipped and motivated to tackle this problem systematically, throughout the territory of the entire country.
- Reduce regulatory confusion by ensuring official, consolidated legal texts are published more regularly, reducing conflicts between new laws and existing legislation, and requiring enforcement institutions to publish official, legally-binding guidance on the application of laws in concrete cases;
- Increase the predictability, consistency, fairness of inspections by increasing the scope of the Inspections Council’s work, increasing the transparency of all State institutions that carry out inspections; increasing the transparency of fine issuance as well as instructional material to help companies increase their compliance, and eliminating incentives for inspectors to increase collections;
- Increase transparency and oversight of company appeal mechanisms; and
- Ensure taxation and penalty policies are rational and fair.

Fostering Real, Open and Systemic Dialogue with Company Representatives

The Government’s introduction of ENER was a commendable move toward increasing public comment on proposed legislation that has been recognized by many. Unfortunately, in practice, the platform is not being treated by ministries as official correspondence, thus comments posted there are most often left unanswered by ministries. In order to truly strengthen public-private dialogue, ENER must be treated as a transparent and reliable, 2-way communication system.

While recent investors in the country’s Technological Industrial Development Zones are regularly invited to action-oriented meetings with the highest government officials, the vast majority of companies operating elsewhere in the country are systematically excluded from legislative and regulatory dialogue. This is because too many laws are being passed without any public comment period whatsoever. Roughly half of all laws passed in 2014 were proposed by ministries and passed by Parliament without a single day being allowed for public comment. A similar trend continued throughout 2015. According to the Parliament’s work plan, the so-called “short procedure” is meant to be used only when proposed changes are not “complex and large”. Given the vagueness of this definition, this procedure is being used for all kinds of changes, reducing the effectiveness of parallel efforts that government bodies make to conduct dialogue with various representatives of the business community. Therefore, meaningful public-private dialogue reform should begin with a moratorium on the use of the “short procedure” by Parliament.

Finally, even when it is respected, the minimum period of 10 calendar days for public comment confirmed by the government is simply too short to allow for thoughtful and constructive responses from company representatives. Thus, an impactful reform would be to set a minimum *15 working day* public comment period for all legislation and a 20 working day public comment period minimum for public comment on legislation proposed the summer and year-end periods.

Reducing the Grey Economy

We recognize significant government efforts since 2012 to decrease the operations of unregistered companies and to punish those that don’t use cash registers in accordance with the law. However, we were surprised to see that the draft 2016 Program did not include any reforms necessary to further reduce the grey economy. We believe that reform is needed to ensure enforcement institutions’ responsibilities are properly set, do not generally overlap with one another and that they are properly trained, equipped and motivated to tackle this problem systematically, throughout the territory of the entire country.

The State Market Inspectorate (SMI) should be one of the country's most important enforcement institutions when it comes to tackling the grey economy. However, SMI has virtually no budgetary resources for computers, software, vehicles, storage of seized items or other fundamental tools that would enable it to properly carry out its mission. Also, the law requires an in-person response to every citizen complaint, regardless of the issue in question or transaction size. Further, due to a Government order, an average of 70% of inspections SMI carries out are to enforce non-smoking legislation and closing times. All of these factors severely limit the SMI's ability to tackle the grey economy.

Similarly, the National Coordinative Body on Intellectual Property Rights Protection has no budget, no clear goals and no official mandate. We applaud the Government's creation of this Body, in recognition of the fact that effective IP enforcement requires constant communication and coordination between a number of State institutions. In practice, its members do not meet regularly and the Body continues to function solely on the enthusiasm and dedication of a few of its members. While the Body could serve an important data collection, tracking and dissemination role in the IPR enforcement sphere, it cannot achieve this without appropriate infrastructure and resources.

Reducing Regulatory Confusion

In addition to a rapidly changing legislative and regulatory environment where companies are rarely involved in the policy-making process, companies working in Macedonia face a great degree of regulatory confusion caused by:

- The lack of Regulatory Impact Assessments (RIA) that consider impacts on the private sector as well as sufficient time for companies to adjust to new legislation;
- The lack of official, consolidated texts of all laws in force;
- Passage of laws that conflict with measures in existing legislation; and
- The lack of official information published by enforcement institutions on how laws are to be applied in specific cases.

Thus, we believe that reform targeting the reduction of regulatory confusion should include measures to address each of these issues.

It is common practice in Macedonia for Parliament to adopt laws that enter immediately into force upon being published in the Official Gazette. This means companies have virtually no time to adjust their systems, deliver training to their employees or take other measures to comply with the law before it officially enters into force. We believe this is at least partly due to the fact that government RIAs do not take impact on the private sector into account (only State budget impact). The "grey zone" regularly created by this practice is further compounded by implementing legislation that is often late 6-12 months. Thus, reform targeting the reduction of regulatory confusion should include measures that ensure companies are not held liable for complying with a new Law until its sub-laws have been duly published and a reasonable amount of time has passed, allowing companies to take measures to comply with those sub-laws.

Too often, companies are forced to work from unofficial versions of laws that are manually pieced together with amendments either by private service providers or company employees. This practice exposes companies to unnecessary legal risk and favors large organizations that have the resources to manage this difficult process. For example, the Law on VAT was not officially consolidated between the years 1999-2013, despite many amendments to it during that time. Similarly, a consolidated version of the Company Law has not been published since 2004. Thus, reform aimed at reducing regulatory confusion in Macedonia's business environment should include the creation of a process that ensures that the responsible Parliamentary Commission publishes official, consolidated legal texts for general public use within 1 month of any and all amendments.

While the Secretariat of Legislation is tasked with ensuring new laws do not conflict with existing measures, this is happening on a regular basis. Reform is necessary to ensure the Secretariat has the appropriate resources, authority and influence needed to reduce the confusion created when laws conflict with one another.

Finally, companies are often in need of reliable official guidance on the application of laws to their concrete situation. Today, institutions with the authority to decide how a given regulation applies to a concrete company situation do not publish these opinions in that official capacity. This encourages uneven application and means that companies are not aware how the law is applied to similar cases, except in rare cases when companies seek an “authentic interpretation” from Parliament. Given the slowness of response and privacy concerns, this measure is rarely used. Companies are also discouraged from going this route by Parliament’s practice of rejecting such requests on the basis that the adopted laws are clear. Thus, reform should be made to require enforcement institutions to publish official, legally-binding guidance on the application of laws in concrete cases (excepting private entity data). This is particularly critical when companies have been punished for interpreting the application of the Law differently than enforcement institutions.

Increasing the Predictability, Consistency, Fairness of Inspections

Reforms targeting greater predictability, consistency and fairness of inspections would have a great impact on the local business environment. Such reforms would reduce unnecessary compliance risk for companies and increase their rate of proactive compliance. Specifically, reform is needed to:

- Increasing the scope of the recently-formed Inspections Council to all government entities that carry out inspections;
- Requiring State institutions that carry out inspections to publish materials online relevant for companies to understand their role and how to contact them with questions;
- Increase the transparency of fine issuance as well as instructional material for companies to increase their proactive compliance; and
- Eliminating all incentives for inspectors to increase collections from companies.

The creation of an Inspections Council with the goal of standardizing the work of all inspectorates was an important step in the right direction. However, the Council should include all State institutions that carry out inspections (e.g., Public Revenue Office, Customs Administration). Also, it is critical that the Council work to identify and reduce overlap in the responsibilities of State institutions that carry out inspections.

Toward increasing general awareness of the number, type and responsibilities of the country’s 28 State institutions that carry out inspections, each one must have a functional web site, where they will publish a relevant laws, sub-laws and internal procedures that are necessary for companies to understand their work and to be able to contact them with open questions. For example, today, the State Inspectorate for Agriculture doesn’t have a single piece of information available online.

Another important reform would be toward increasing the transparency of the issuance of fines. If fines are to serve an instructive role to other companies, more data must be made available publicly on which types of entities are being fined (e.g., size, sector, region) and for which types of offenses. Ideally, inspectorates would regularly publish case studies and other instructional materials on issues for which companies are commonly being fined, to help increase compliance.

Finally, inspectors must not be incentivized in any way to increase collections from companies. For example, UJP annual reports from at least 2007 mention “25% of revenues from discovered and paid taxes and interest” as a source of financing of the institution itself. We believe this constitutes a formal incentive for inspectors to find ways to increase collections, rather than simply ensuring the law is consistently applied as it was intended.

Increase Transparency and Oversight of Company Appeal and Complaint Mechanisms

To avoid maintain a business environment where companies are considered guilty before being proven innocent, complaint and appeal mechanisms must be consistent, transparent and efficient. Thus, reform is needed to prevent abuse of companies by individual inspectors by increasing the transparency of institutional handling of company complaints and ensuring best practices are being applied. Such measures would provide internal and independent oversight of appeal mechanisms and publishing of detailed data on complaints received from companies. Important questions to be answered include:

- What portion of appeals to institutional decisions are fully or partially accepted or rejected?
- How often does the Administrative Court overturn a decision by a State institution?
- What steps are taken to ensure decisions of the Administrative Court are respected? and
- Are the disciplinary actions taken for abuse of public positions consistent?

As part of this reform, it's critical to increase the transparency of the work of the Administrative Inspectorate. In the absence of concrete information about the workings of this institution, companies doubt that it is carrying out its intended function.

Ensure Taxation and Penalty Policies are Rational and Fair

Currently, a tiny portion of the business community bears an extremely high portion of the tax burden. The economy's tax burden should be shared across all sectors in a more even fashion, to prevent reducing the competitiveness of certain sectors. Thus, AmCham recommends that the country's tax structure be reviewed and reformed with the aim of spreading the country's tax burden as evenly as possible.

The recent amendment to Misdemeanor Law that reduced fines across a great number of laws was a step in the right direction, since fines had been consistently raised over the past several years without regard to their impact on companies of all sizes. However, penalty policies must be reformed more fundamentally with the goal of ensuring they serve the function of encouraging compliance. Specifically, the severity of misdemeanour fines must correspond to the severity of the offense, human/machine error must not be punished; companies that voluntarily identify and correct errors should not be punished; and enforcement officials must offer warnings and education to companies and allow time for corrective action before punishment is levied.

Comments on Subsection 4.2.7: Employment and Labor Markets

Encouraging Internships in Companies

In order for internship programs to increase in number and quality, regulators must adapt the current legal framework to allow employers to create programs that are beneficial to both companies and interns. In short, a more liberal approach is required to encourage a practice that imparts critical employability skills on workers and helps companies find the most qualified people for the job. The current regulatory approach is overly rigid; encourages superficial internships and forgeries; and unnecessarily depresses the number of quality internships offered in the country.

Lawmakers' fear of abuse has thus far prevented a practice that is likely to bring about far more good than harm. In order to encourage more companies to start or expand their existing internship programs, companies should be allowed to engage non-students as interns without regard to their age or educational status (i.e., those formally excluded from internship programs include non-students who are not registered with the Employment Services Agency as well as anyone older than 27).

Companies need a clear legal framework to guide their engagement of interns. Such a framework should include details such as the form of contract, maximum duration, remuneration, insurance, etc. Macedonia's current Labor Law is out of sync with its Law on Higher Education on the subject of internships. While

Article 99 of the Law on Higher Education requires every university student in the country to complete at least 30 days of “practical work” per year during their studies, there is no recognition of this practice in the current Labor Law.

Further, the Law on Higher Education states that “the manner and conditions for organizing the practical work shall be prescribed by the Minister”, however this official guidance is only at a very high level, resulting in inconsistent treatment of interns in the country (e.g., as volunteers, part-time employees).

The bureaucratic and administrative burden associated with engaging interns should be minimized. It should not be more onerous to engage an intern than it would be to hire an employee. Specifically, companies should not be required to go through intermediary institutions (e.g., temporary employment agencies, the Employment Services Agency, individual faculties) to engage interns.

To address each of the above challenges, the Ministry of Education & Science and the Ministry of Labor & Social Policy should propose specific legal guidance that will encourage the practice of internships in the country.

Ensuring Strategic Investments in Educational Quality

Investments in public education have largely been limited to improvements in physical infrastructure and opening new schools and universities. While this is a very necessary activity in a country with aging public education infrastructure, public investment is equally needed in teacher training and the introduction of modern teaching texts and other learning materials. This is particularly necessary in technical and vocational education institutions, which are meant to produce tangible skills that are meant to align with the local labor market. Despite Employment Service Agency findings that in 2013-14, just 10% of jobs offered on the local labor market were for positions that required a higher education degree, the Government recently announced its intention to build another State university in 2016. The Government also regularly cites the very high graduation rate from the country’s higher educational institution as proof that its labor force is highly qualified, however Government funds must be continuously invested to ensure the quality of education obtained at its institutions increases.



СТОПАНСКА КОМОРА НА МАКЕДОНИЈА
Основана 1922
ECONOMIC CHAMBER OF MACEDONIA
Founded 1922



OPINION ON 2016 ECONOMIC REFORMS PROGRAM

31.12.2015
Skopje

The Economic Chamber of Macedonia is the most vocal representative of businesses' interests and is committed to the improvement of the business environment in the country. In the light of this, the Chamber carefully reviewed the first draft-version of the 2016 Economic Reforms Program.

The Program is expected to encourage improvements in the business climate, growth in the real sector and industry, all in the name of promoting competitiveness.

Item 4.1 – Identification of key constraints to growth and competitiveness – addresses the most prominent economic issues and is expected to result in higher rates of economic growth. These include activities aimed at further improvement of traffic and energy infrastructure, agriculture, improvement of the business environment by further strengthening of the regulatory and simplification of the administrative burden on businesses, promotion of innovations and absorption of technology, trade integration, and promotion of labor market development.

The member companies of the Economic Chamber of Macedonia find it extremely important to have the measures aimed at improving the quality of the traffic infrastructure implemented. These are listed under **Item 4.2.2.1**. The realization of investments in road and railroad infrastructure along Corridors VIII and X is seen as vital. However, businesses underline that action is needed to facilitate the development of infrastructure at local level, as this is a very pressing need paramount to the Republic of Macedonia's overall development. This effort would lead to more efficient flow of goods and services and would promote balanced regional development in the country. In accordance with the real needs of the Pelagonija Planning Region's business community, further improvements to the infrastructure in this region are needed. One example of such improvements is the faster construction of the Veles-Prilep motorway section via Derven ridge. The section will not only promote the regional development of the Pelagonija Planning Region, but will also develop and maintain partnerships and networks with important regional stakeholders from the local authorities, the private and the non-governmental sector; it would raise the level of inter-municipal cooperation in terms of undertaking joint projects, involving several units of local self-government; it would encourage public-private partnerships for launching initiatives beneficial to the region's development.

In terms of energy, the Program envelops all activities envisaged in the Energy Strategy of the Republic of Macedonia, as a central strategic document, and the activities realized in the course of the past year. It should only be mentioned that OKTA Refinery has not been processing crude petrol for some time now and the oil pipeline is not used for the transport of crude oil. Currently, a permit is awaited to allow the use of the pipeline as a product pipeline (to transport oil products). OKTA imports oil products in tanks and trades these products on the market.

Item 4.2.3.1 explains the development of the agriculture sector and proposes two measures, despite the fact that agriculture is one of the three most significant sectors. Moreover, no measures for the processing industry development have been proposed. It is

estimated that the process of improving irrigation systems as described in the Program does not have a satisfactory pace, especially if one bears in mind its importance and relevance to the overall agricultural production. Other factors vital to the development of primary agriculture should be encompassed, such as: the improvement of agriculture techniques, the introduction of modern agro-technical measures, of new varieties of seeds, modification to the subsidies outline, for which the Government of the Republic of Macedonia should state its opinion.

The manufacturing industry plays an important role in terms of contribution to the GDP structure and workforce employment. In this respect, measures for industrial development of the country should be proposed. Special emphasis should be placed on measures for the basic industrial activities, which could be then upgraded to address industries with a higher degree of product finalization. In this respect, systemic measures providing equal conditions for industrial development could be adopted and implemented. More specifically, these would address the need for: changes in the prices for transmission of electricity and natural gas, lower charges for the so-called green energy fee, removal of the excise duty on petroleum coke, introduction of subsidies per realized export, supporting companies in the implementation of EU directives by obtaining certain certificates and standards for products, thereby leading to stronger exports.

It would be useful if **Chapter 4.2.4, entitled *Business Environment, Corporate Management and Reduction of the Informal Economy***, encompassed additional measures of interest to the business community.

The beginning of paragraph 4 addresses the financing of businesses via the Macedonian Bank for Development Promotion (MBDP). In line with the needs of the users of these services, the need for additional capital formation in the Bank, conducted with significant support from the budget starting in 2016, should be taken into account. The recapitalization of the Bank should be a continuous process, with a mid-term goal set at 2020, by which the Bank should reach the upper threshold for medium banks. Simultaneously with this process, the Bank should pay attention to constantly upgrading its staff and overall expertise. This is crucial for provision of financial services of better quality and efficiency, and the new processes arising from the strengthening of the Bank would surely necessitate such steps. In this respect, the Law on the MBDP should be modified, so as to put the approval of assets labeled as state aid under the competence of the bank, in line with the state's interest to have some sectors supported by the Bank, and to look into development programs and asset approval for regional development. This requires modification to the Law on Control of State Aid (Official Gazette of RM No. 145/2010) and the Law on Balanced Regional Development (Official Gazette of RM No. 63/2007; 187/2013 and 43/2014).

The Chamber supports further implementation of the project for providing a new credit line from EIB, but also suggests the introduction of subsidized conditions for use of loans to be applied to small and medium enterprises. More precisely, the proposal is to have an additional lowering of the existing interest rates paid by end users and extension

of the loan repayment deadlines, as the Budget has the financial means to cover such subsidized interest rates.

After paragraph 6 of this Chapter (connections via the programs COSME and Horizon 2020), we propose that the following modifications be made in the sections on insurance and textile:

“The insurance market in Macedonia has grown steadily over the past few years, which is a source of motivation to encourage the potential of the insurance sector. The gross written premium in 2014 reached 7.63 billion denars, marking a 6.08% rise relative to 2013, when the gross written premium was 7.19 billion denars. Non-life insurance realized a GWP of 6.74 billion denars, going up by 4.31% relative to the same period of the previous year. Life insurance realized a GWP of 888 million denars and had a 21.78% rise relative to the previous year. In order to stimulate the development of this sector, some laws need to be reviewed so as to bolster the insurance sector's presence on the market and to offer new and improved insurance products. The amendments to the Law on Contract and Torts, more specifically in the section on Insurance Contracts, need to be enacted in line with the market demand, thus enabling the contracting to be in accordance with the real needs of insurance users. In addition, this activity should be more publicly promoted, and the emphasis should be placed on professional liability insurance, as an important product of the insurance sector. It is through professional liability insurance that businesses are protected from any uncertain events in the future.

The textile industry is a leading manufacturing industry in the country, and is important in the overall creation of the GDP as it contributes with 3.2% in its structure. It also has high workforce absorbency and strong exports. In contrast to other sectors in the economy, the entrepreneurial initiatives of businesspeople have been more evident in this sector, as well as the increasing number of business relations established with foreign partners. This paves the way for further development.

We propose that the following draft-measure addressing this industry be incorporated in the 2016 Economic Reforms Program:

- To provide state aid so as to repurpose the “lohn” production (CMT production) into conventional production i.e. to establish a brand that will be exported, as one of the central goals in the Textile Industry Development Strategy. Analyses show that buyers will be gradually shifting from CMT production to conventional exports, and further on to product-and-design exports. At the moment, 90% of exports are CMT contracts, and the fact that an increasing number of new buyers are more interested in conventional exports (under a brand of the exporter), shows that companies will have to adjust slowly to this mode, which necessitates investments in several areas, ranging from human resources (education and training), modernization of the manufacturing process (quality manufacturing organization), to provision of assets for procurement of basic and additional materials. The mere fact that foreign buyers will be insisting on such a

change points out the importance of these steps, and the textile sector will have to adapt to the market demand. In this respect, we need the Government's support in enabling the transition from CMT to conventional exports, at first as an own product under another company's brand, and once this is fully implemented, as products made under the exporter's own brand.

Regarding **Measure 3 – Connecting domestic to foreign companies**, it is of paramount importance that both the public and the private sector give support to greater business cooperation between foreign and domestic companies so as to have each side make full use of its own and the other side's potential. A set of additional draft measures are proposed to intensify the business relations between domestic and foreign companies in the country, namely:

- Creating a unified and integrated online database of domestic companies that could act as suppliers to foreign companies, and identifying the type of products and services foreign investors need, which in turn could be procured from local companies. This is critical as different institutions and business associations have their own internal databases which are not always available to all stakeholders.
- Initiating regular business meetings among targeted sectors in an industry and networking of domestic and foreign companies, so as to share information about potential new areas of cooperation.
- Detecting existing problems that are a limiting factor for closer business relations with local companies and eliminating bureaucratic procedures that suppliers are facing when entering the free economic zones;
- Diversifying the industrial background of targeted foreign investors so as to have a more prominent multiplier effect, not only in terms of employing workforce, but also for creating value added from establishing ties and cooperation with domestic companies acting as local suppliers.

Regarding **Measure 4: Establishing a one-stop shop system for business licences and permits**, our suggestions are:

- To accelerate the establishment of an electronic system and use of electronic access in issuing permits and licences so as to overcome the challenges posed by long administrative procedures. These are typical in obtaining operational licences and decisions, acting as constraints to companies wishing to implement investment projects aimed at restoring and modernizing manufacturing facilities.
- To improve the opportunities for active inclusion of the business community in the policy-making process, by making the following changes:
 - The adoption of laws via summary proceedings should be a measure that is rarely used - in exceptional cases only.
 - The use of regulatory impact assessment should be extended to bylaws passed by competent ministries and other bodies acting as regulators of certain fields.

- The National Electronic Register of Regulations (ENER) should be upgraded in a way that enables the business community to participate actively in policy making by submitting its own initiatives and proposals.

In Measure 5, focused on strengthening ownership rights and property registration procedures by introducing a system for mass appraisal of real estate, it is suggested that a law on intermediation in real estate sales is passed. The right to ownership is constitutionally guaranteed, and real estate ownership in Macedonia is usually the property of highest value owned by citizens of Macedonia. Adopting a solid legal framework in this area will narrow the options for any possible fraud that might cause damage to citizens. Being an intermediary in a purchase-and-sale process for real estate is currently an area not regulated by law i.e. all registered legal entities in the Republic of Macedonia are allowed to perform this activity. Experience has shown that individuals often act as intermediaries in sales of real estate, and these are people who are not registered as trade companies and taxpayers.

A complete regulatory framework for intermediaries in real estate sales the following advantages will be reached:

- The quality of services in this area will be improved. By having realtors that are properly trained and real estate agencies that are licensed to work with sales of real estate, the approach to these activities will become more professional, responsible, and with a higher level of expertise, all the while staying in the framework of regulations and laws. In order to obtain a licence, a company will be obliged to have at least two employees, which could also increase the employment rate in companies acting as intermediaries in real estate sales.
- The nature of this activity is interdisciplinary. Therefore, people working in this field should have knowledge in several legislative fields. Conducting adequate trainings and organizing examinations are necessary to providing highly-skilled staff in this area. Education and experience are vital to quality, and only by quality services can one expect high rating, trust and progress.
- Professional liability insurance gives security to participants in real estate sales and users of intermediaries' services.

Regarding **item 4.2.5 - Absorption of Technology and Innovations**, a crucial factor in the growth of companies' competitiveness is the creation of additional opportunities developed by institutions. These would result in easier transfer of technologies and support to companies in creating innovations that would later result in value added. In the light of this, the Economic Chamber of Macedonia gives its positive opinion about the measures proposed in the 2016 Economic Reforms Program, in the section about Absorption of Technology and Innovations. The Chamber underscores that sustainable economic growth depends largely on the scale of investments in technologies, research and innovation.

Measure 1: Triple Helix Concept

The analyses of the Economic Chamber of Macedonia show that the process from generating an innovative idea to transforming it into a technology-based business is founded on research and development stemming from knowledge and innovations. This is the way forward to building an economy capable of competing on the international market with its skilled workforce and innovative companies. Innovation entails implementation of new or considerably improved products, new processes, new marketing methods or new organizational methods in business operations, organization of work and relations with external partners. All this can only be achieved by encouraging cooperation among scientific institutions, government institutions and the business sector. The Economic Chamber of Macedonia is aware of businesses' needs and provides support to the establishment of a National Office for Transfer of Technologies, which should support the Triple Helix concept and enable higher degree of cooperation among universities, government institutions and the business sector.

We as the Economic Chamber of Macedonia actively participate in building companies' capacities by introducing them to opportunities provided via European programs, which use funds that are exclusively allocated to transfer of technologies and innovations. These, in turn, are expected to raise the competitiveness and innovativeness of companies using the programs. The Republic of Macedonia is an EU candidate country and has access to a large number of European projects, where Macedonian companies can compete with their own ideas and projects and enjoy a level playing field with European enterprises.

Measure 2: Extending Access to Finance

Access to finance is essential to increased innovativeness and technological development of companies. The Economic Chamber of Macedonia has conducted analyses that show a need for establishing guarantee funds to facilitate the access to finance and to serve as a co-financing instrument for projects. While it is true that the Fund for Innovations and Technology Development is already providing co-financing grants for innovations development in different stages of company growth, we believe that institutions should support innovations with additional measures, and by creating guarantee schemes.

Regarding the section on **employment and labor market (4.2.7)**, the Economic Chamber of Macedonia extends its full support to the draft-version of the 2016 Economic Reforms Program i.e. its economic policies and economic management that provide structural reforms aimed at improving the competitiveness and growth of the economy.

We expect this program to enhance the relations between companies and the labor market in terms of workforce supply. This issue in the Republic of Macedonia is urgent and presents a great challenge. The proposed measures should improve unemployed people's skills, help them get access to retraining and additional training programs, thus providing the real sector with the workforce it truly needs.



The adoption and establishment of a National Qualifications Framework of the Republic of Macedonia, as an instrument for improving the education and qualifications of students, employed and unemployed people, thus encouraging mobility at both university and employment level, is a significant reform in this field and we completely support it. We expect the reforming nature of the NQF to intensify the ties between all stakeholders, to modernize the education systems, to achieve development of skills and innovation projects, and to narrow the gap between the education and the labor market i.e. between the supply of workforce from education institutions and the business community's demand.



СОЈУЗ НА СТОПАНСКИ
КОМОРИ НА МАКЕДОНИЈА
ВОДЕЧКА МАКЕДОНСКА ДЕЛОВНА МРЕЖА

СОЈУЗ НА СТОПАНСКИ КОМОРИ НА МАКЕДОНИЈА
Стопанска Интересна Заедница

Бр. 0302-1-007/16
18. 01. 2016 год.
СКОПЈЕ

**To: Ministry of Finance of the Republic of Macedonia
Str. Dame Gruev, No.12
1000 Skopje, Republic of Macedonia**

For: Mr. Andrija Aleksoski, coordinator of the Programme for Economic Reforms 2016

Subject: Opinion of Macedonian Chambers of Commerce on the Draft Programme for Economic Reforms 2016

Distinguished Mr. Aleksoski,

We would like to express our gratitude for the cooperation and hope for its extension in the future.

In this direction, and in accordance with our presence in the meeting regarding the Programme for Economic Reforms 2016, held on 15.10.2016 at the Ministry of Finance, we express appreciation for Your call for comments on the Draft Programme for Economic Reforms 2016.

We would like to inform You that Macedonian Chambers of Commerce supports the advancement of the business environment, the support of small and medium sized enterprises, entrepreneurship and innovation, the development of the human capital, advancement of the infrastructure and foreign trade, fostering the investment activity and the attraction of foreign direct investments, as well as the development of the agriculture, which are part of the Draft Programme for Economic Reforms 2016.

For any additional information, please contact us on tel: 076 455 045 or on e-mail: msaveska@sojuzkomori.org.mk, contact person: Maja Saveska.

Respectfully,

Mr. Mitko Aleksov, executive director
Macedonian Chambers of Commerce

