



Pre - accession Economic Programme 2013 -2015

**Macroeconomic Trends,
Public Finances
and Structural Reforms**

Ministry of Finance of the Republic of Macedonia

Skopje, January 2013



**The 2013 – 2015 Pre-accession Economic Programme has been adopted
by the Government of the Republic of Macedonia,
on its 116th Session, held on 29th of January, 2013.*

***The 2013 – 2015 Pre-accession Economic Programme has been discussed and adopted by the
Economic council of the Government of the Republic of Macedonia,
on its 47th Session, held on 28th of January, 2013.*

****Social Partners and the business community have been consulted on the draft document
(See Annex 2 for more details).*



Contents:

List of tables.....	4
List of charts	4
List of boxes	4
Abbreviations	4
Preface.....	7
PART I General Macroeconomic Framework and Objectives.....	9
PART II Macroeconomic Trends	12
2.1. Economic Overview.....	13
2.1.1. Recent macroeconomic trends.....	13
2.1.2 Recent developments in financial sector	22
2.2. Medium-term macroeconomic scenario	28
PART III Public Finances	35
3.1. General government budget balance and debt stock.....	37
3.1.1 Actual state-of-play and medium term expectations.....	37
3.1.2. Fiscal Strategy.....	41
3.1.3. Structural Deficit	48
3.1.4. Public Debt Management	49
3.2. Sensitivity analysis.....	53
3.3. Quality of Public Finances.....	55
3.4. Long-term Sustainability of Public Finances.....	56
3.5. Institutional Features of Public Finances	57
PART IV Structural Reforms	60
4.1. Challenges/Priorities for Economic Growth and Structural Reform Agenda.....	61
4.2. Key Reform Areas.....	61
4.2.1 Business environment.....	62
4.2.2. Labour market	65
4.2.2.1. Education.....	65
4.2.2.2. Labour market.....	68
4.2.3. Entreprises Sector	70
4.2.4. Financial system.....	72
4.2.5. Agriculture and agricultural policy	76
4.2.7. Administrative reforms	80
4.2.8. Additional reform areas.....	81
4.2.8.1. External trade	81
4.2.8.2. Attracting foreign direct investment and promotion of exports	82
4.2.8.3. Customs System.....	84
4.2.8.4. Energy	86
4.2.8.5. Fiscal decentralization.....	86
4.2.8.6. Transport.....	87
4.3. Matrix of policy commitments (in Denars).....	89
PART V Annexes.....	98
Annex 1. Summary data to the Pre - accession economic Programme for 2013 – 2015.....	99
Annex 2. List of institutions and other organizations, from which opinion on the 2013-2015 PEP was required.....	109



List of tables

- Table 2.1. International economic environment – selected macroeconomic indicators (%)
- Table 2.2. GDP growth rates in the Republic of Macedonia (production and expenditure methods)
- Table 3.1. Budget of the Republic of Macedonia (Denar million)
- Table 3.2. Consolidated general government budget (Denar million)
- Table 3.3. Net-budgetary impact from key reform commitments (Denar million)
- Table 3.4. Projected deficit and its financing (Denar million)
- Table 3.5. Aggregate fiscal indicators and production gap
- Table 3.6. Public debt stock (in Euro million)
- Table 3.7. Sensitivity analysis of Budget deficit
- Table 3.8. 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 (index points)
- Table 4.1. New planned investments, production/exports (Euro million) and envisaged employments

List of charts

- Chart 2.1. Industrial production index (2005 = 100)
- Chart 2.2. Processing production index and level of capacity utilisation
- Chart 2.3. Changes in the structure of exports (% of total exports)
- Chart 2.4. Capital inflows, net and foreign reserves (in millions of Euros)
- Chart 2.5. Gross external debt
- Chart 2.6. Structure of employees by economic status
- Chart 2.7. Inflation and core inflation (annual change, in %)
- Chart 2.8. Interest rates (in %) on annual level
- Chart 2.9. Money supply M4 and total loans (annual change in %)
- Chart 2.10. Financial intermediation
- Chart 2.11. Real GDP growth and inflation rate
- Chart 2.12. GDP by expenditure method, contribution to growth
- Chart 2.13. Employment growth and unemployment rate
- Chart 2.14. Labour productivity and TFP (growth rates)
- Chart 2.15. Balance of payment (% of GDP)
- Chart 2.16. Structure of the balance of payments current account (% of GDP)
- Chart 3.1. Budget deficit of EU member-states and candidate countries (in % of GDP)
- Chart 3.2. Government debt of EU Member States and candidate countries (% of GDP)
- Chart 3.3. Structure of current expenditures
- Chart 3.4. Budget deficit
- Chart 3.5. Public debt trends
- Chart 3.6. Public guaranteed debt
- Chart 3.7. Ownership structure of outstanding government securities
- Chart 3.8. Capital expenditures

List of boxes

- Box 2.1. Indicators for the Macedonian economy in accordance with the EC's Macroeconomic Imbalances Procedure
- Box 3.1. Activities for improving the treasury operations
- Box 4.1. FDI in Republic of Macedonia



Abbreviations

ACCMIS	Automated Court Case Management and Information System
CA	Customs Administration
CB bills	Central Bank bills
CCN	Common Communication Network
CDPS	Customs Declaration Processing System
CEB	Council of Europe Development Bank
CEFTA	Central European Free Trade Association
CSI	Common System Interface
EARM	Employment Agency of the Republic of Macedonia
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECVET	European Credit System for Vocational Education and Training
EFTA	European Free Trade Association
EIB	European Investment Bank
EIICM	European Information and Innovation Centre in Macedonia
ELEM	Macedonian Power Plants
EQARF	European Quality Assurance Reference Framework
ESA	European System of Accounts
ESFRI	European Strategy Forum on Research Infrastructures
ESC	Economic and Social Council
EU	European Union
EURES	European Employment Services
EXIM	Single Window for Licenses for Import, Export and Transit of Goods and Tariffs Quotas in the Republic of Macedonia
FDI	Foreign Direct Investments
FP	Framework Programme
FX	Foreign Exchange
GDP	Gross Domestic Product
GIS	Geographic Information System
GFS	Government Finance Statistics
GRECO	Group of States against Corruption
GS	Government Securities
HPP	Hydro Power Plants
IAIS	International Association of Insurance Supervisors
ICT	Information and communication technologies
IFIs	International financial institutions
IOSCO	International Organization of Securities Commissions
IPA	The Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IT	Information Technology
ISCO	International Standard Classification of Occupations
ISO	International Organization for Standardization
KfW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)
LDBIS	Legal Database Information System
LGU	Local Government Units
MAPAS	Agency for Supervision of Fully Funded Pension Insurance
MSEI-10	Macedonian Stock Exchange Index
MBDP	Macedonian Bank for Development Promotion



MEPSO	Electricity Transmission System Operator of Macedonia
SEC	Macedonian Securities and Exchange Commission
Mw	Mega watt
NCTS	New Computerized Transit System
NECC	National Entrepreneurship and Competitiveness Council
NEER	Nominal Effective Exchange Rate
NGO	Non-governmental Organization
NPAA	National Programme for Adoption of the Acquis
PIFC	Public internal financial control
p.p.	Percentage Point
REER	Real Effective Exchange Rate
RIA	Regulatory Impact Assessment
ROAA	Return on Average Assets
ROAE	Return On Average Equity
SAA	Stabilization and Association Agreement
SEE	South -eastern Europe
SEETO	South East European Transport Observatory
SMEs	Small and Medium-Sized Enterprises
TAIB	Transition Assistance and Institution Building
TARIC	Tariff and Regulation of the Community
TARIM	Customs Tariff Database
TIDZ	Technological and Industrial Development Zones
TFP	Total Factor Productivity
USAID	United States Agency for International Development
VAT	Value Added Tax
VET	Vocational Education and Training
XBRL	eXtensible Business Reporting Language



Preface

Honourable,

In line with the set practice in the European System of Multilateral and Fiscal Surveillance, Republic of Macedonia has prepared the seventh Pre-Accession Economic Programme in a row, covering the period from 2013 to 2015. The Programme is a predecessor of the Convergence Programmes which EU Member States prepare within the Stability and Growth Pact. By preparing the Programme, Republic of Macedonia prepares itself for gradual integration in the multilateral fiscal surveillance within the Economic and Monetary Union and the *“Europe 2020”* Strategy.

Continuity in fulfilling the obligation of the Republic of Macedonia, as candidate country for EU membership, to prepare and submit to the European Commission medium-term Pre-Accession Economic Programme reflects the readiness of Macedonian administration to respond to the challenges Macedonian economy faces in the process of convergence with the Member States and gradual integration in the European family.

Economic progress, partially conditioned by the dynamics of the integration process, is one of the key factors of country's growth, while the process of European integration itself implies secure advancement of the country on the road to success, development and progress. Similar like in the previous years, 2013-2015 Pre-Accession Economic Programme reflects the focus of the Government of the Republic of Macedonia on intensification of the economic growth and development to the end of reducing unemployment and improving the living standard of all citizens.

Acquiring fully-fledged membership in the European Union is top national priority of the Republic of Macedonia, which is given a general consensus. As such, to be part of the European family is a strong motive and lead of comprehensive economic reforms of the Government of the Republic of Macedonia. Republic of Macedonia has achieved exceptionally a lot as regards realisation of its strategic goal for fully-fledged membership in the EU, it has been clearly affirmed with the recommendation for start of negotiations by the European Commission, which the country is given four year in a row already.

Government of the Republic of Macedonia shares the European vision, strives for an economy based on knowledge, innovations and sustainable development. Perspectives of the Republic of Macedonia, as a candidate country for EU membership, are harmonised and developed based on the goals and priorities set in the *“Europe 2020”* Strategy for growth and employment.

This year's Pre-Accession Economic Programme is based upon the already set objectives of the economic policy of the Government of the Republic of Macedonia, thereby elaborating the macroeconomic trends and projections, public finances management policies, as well as agenda on structural reforms to be implemented in the period 2013 – 2015. The Programme presents the performance and the medium-term expectations in the real, financial, external and monetary sector, public finances, including the activities for harmonisation of the Macedonian legislation with the European one, thereby reflecting the recommendations in the last European Commission's 2012 Progress Report, recommendation of the High-Level Accession Dialogue and the Accession Partnership.

Key economic benefits from the European Union integration process are the access to larger market, increased competitiveness, increased level of foreign investments and unemployment reduction. The safest way to growth and development of the Macedonian economy is approaching the European Union and fulfilment of economic criteria set in the 1993



Copenhagen Treaty. In time of globalisation and increased competitive pressure, development of knowledge-based economy, development of SMEs, innovations, job creation, favourable business climate and development of new technologies remain to be the main challenge to the Republic of Macedonia. To that end, priority of the Republic of Macedonia is implementation of reforms, which will mean fulfilment of Copenhagen criteria. The country remains dedicated to the ultimate goals, i.e. fully-fledged membership in the European Union.

Republic of Macedonia continues to meet all obligations envisaged in the first stage of implementation of Chapter 5 (Movement of workers, establishment, rendering services, capital) of the Stabilisation and Association Agreement. Therefore, in October 2009, European Commission proposed shifting to the second stage of the association, in line with Article 5 of SAA. Full SAA implementation means full harmonisation of the national legislation with the *Acquis Communautaire*, as well as full functionality of the institutions.

By being fully devoted, through an intensive dialogue with all economic actors, we will remain to be strongly committed to investing in the development of the economy, which is to result in intensification of comparative advantages necessary for the positioning of the Republic of Macedonia on the European market it deserves.

Yours sincerely,

Zoran Stavreski, MA
Vice Prime Minister and
Minister of Finance
of the Republic of Macedonia



PART I

General Macroeconomic Framework and Objectives



1.1. General Macroeconomic Framework and Objectives

2013–2015 Pre-Accession Economic Programme (hereinafter: PEP) is in line with the 2011 -2015 Programme on Government Operations of the Republic of Macedonia, as well as many national strategic documents, such as the National Programme for Adoption of the Acquis Communautaire, the Stabilisation and Association Agreement and the national sectoral strategies. Taking into account the above-mentioned, PEP is a coherent strategic document, presenting the national economic policy of the Republic of Macedonia. The Programme refers to the realised economic movements, presents the projections for the next three years and the key structural reforms, which will be implemented so as to strengthen the quality of the functional market economy, able to cope with the competitive forces following the accession to the European Union (the EU).

Unlike the previous Programme, which was prepared in conditions of a moderate growth of economic activity, 2013-2015 PEP is prepared in conditions of slowdown of economic activity in the country. Intensity of the debt crisis in Europe remains to be a factor of uncertainty and declined economic activity. In fact, external surrounding is a significant factor for realisation of higher economic growth rates. Hence, main assumption in the macroeconomic scenario is the expectation for gradual recovery and low growth of economic activity in the EU on the medium run, realisation of the planned foreign direct investments (FDI) and agenda for structural reforms (see Part IV), which contribute to increase of competitiveness of the country. Thus, real GDP growth in 2013 is expected to be 2%. In the coming two years, in line with the expectations for growth of economic activity in the EU and at other most important trade partners, moderate acceleration of growth of Macedonian economy is expected. Thus, real GDP growth in 2014 is projected at 3.2%, and at 3.8% in 2015.

In line with the priorities of the Government of the Republic of Macedonia, macroeconomic policy in the coming medium-term period will be focused on unconditional maintenance of financial and macroeconomic stability and enhancement of competitiveness of the economy on permanent basis, job creation and social protection of vulnerable groups above all by further improvement of the business environment and creating equal opportunities for economic growth and development of all participants in the economic processes, conducting tax and customs policy aimed at supporting the development of economic entities, encouraging investment activity and attracting FDIs, as well as developing human capital and economic infrastructure of the country.

Objectives of the fiscal policy in the coming three-year period will remain focused on maintaining macroeconomic stability and supporting Macedonian economy by conducting prudent fiscal policy with reasonable and non-distortive rates of budget deficit and low level of government debt, improving the quality of public finances, mainly by increasing capital expenditures aimed at improving infrastructure and physical capital, thereby preserving stable exchange rate and taking into account the sustainability of the government debt.

Like so far, monetary policy in the period 2013 - 2015 will be aimed at maintaining price stability, by maintaining stability of the exchange rate, as nominal anchor in the economy. In the past period, strategy of targeting nominal Denar exchange rate to the Euro has shown to be quite successful as regards maintenance of price stability, aimed at realising the most favourable macroeconomic climate for long-term sustainable economic development.

Increase of economic growth by increasing industrial production with higher value added and production and geographic diversification and expansion of export to the end of strengthening competitive positions of the country and the Macedonian companies globally, as well as



reduction of unemployment as a precondition for higher living standard of the Macedonian citizens, are the highest strategic priority of the Government of the Republic of Macedonia in line with the Programme on Government Operations. In order to properly respond to the priorities, in the period 2013 – 2015, Government of the Republic of Macedonia remains committed to implementing the structural reform agenda in all sphere of the economic life. Realisation of this agenda will mean step forward towards completing the process of transition and accession in the EU, i.e. success in implementing the model of economic development promoted by the Government of the Republic of Macedonia, based on competitive economy, providing for equal opportunities for all. Such model, taking into account the specific characteristics of the Macedonian economy, is based on the EU Strategy for smart, sustainable and inclusive economic growth, known as *“Europe 2020”* Strategy.

Taking into account the identified challenges to the economic policy, following are key areas in the structural reform agenda for the period 2013–2015: continuous improvement of the business environment, enhanced support to innovativeness, entrepreneurship and micro-, small- and medium-sized enterprises (MSMEs), as main promoters of dynamic economic growth and unemployment reduction, promoting human capital, as well as increased export support and promotion. In addition, economic policy is focused on implementing reforms in order to create effective and professional public administration, strengthening legal security, strengthening supervisory capacities of regulatory bodies in the financial system, as well as increasing productivity in agriculture.

PEP 2013 – 2015 comprises of three main parts. First part analyses recent macroeconomic developments and presents medium-term macroeconomic scenario for the period 2013 - 2015, the second one presents the policies for public finances management in the Republic of Macedonia, including analyses and medium-term projections of the Budget of the Republic of Macedonia and public debt management. This part also includes institutional features of public finances. The third part shows the reform agenda and the reform priorities for the next three years.



PART II

Macroeconomic Trends



2.1. Economic Overview

2.1.1. Recent macroeconomic trends

International Economic Environment. In 2011, global economic activity continued to grow, however with a slowed down pace, especially characteristic for the second half of the year. Thus, the global economy in 2011 experienced growth of 3.8% compared to the growth of 5.1% in 2010 (Table 2.1). Slowed-down growth was mainly due to the deteriorated macroeconomic indicators at the advanced economies as a result of the problems with sustainability of public finances and banking sector (especially evident in the Eurozone), increase of unemployment rates, deteriorated risk perceptions of the investors, natural disasters (earthquake in Japan and New Zealand and floods in Australia) and the Arab spring. On the other hand, despite the weaker performance in 2011, growth at fast-emerging economies and developing countries was relatively high. Driving factor of growth in these countries was domestic demand, stimulated by coordinated stimulative packages, as well as high growth of credits. Such trends inevitably contributed to drop in the production, hence the drop of the volume of trade as well, which in 2012 experienced slower growth of 7.8% annually, following the high growth of 12.3% registered in 2010.

Despite the growth slowdown, slight increase of the general price level was observed in 2011, and average inflation rate in 2011 was 5% (3.7% in 2010). Such trends were a result of the increase of global prices of energy sources, especially evident in the first half of the year. Thereby, crude oil price experienced annual growth of 39.3%, while prices of primary products surged by 17.8% compared to the level in 2010.

Recent data on economic trends show that global economy is still vulnerable, risks are still high, indicators of economic activity and unemployment in the first half of 2012 show worsen performance. In fact, taking into account the increased downward risks, European Commission (EC) autumn projections on global economic growth in 2012 are additionally revised downwards to 3.1% from 3.3% in 2012 according to spring projections.

Downward revision of growth projections as regards global economy is related to the relatively modest results of the policies of Eurozone countries to restore confidence in mid-term perspectives, above all due to the increased risks arising from fiscal consolidation and the still vulnerable financial system. Actually, despite the fact that fiscal consolidation in most of the Eurozone countries is deemed necessary, rigid austerity measures still significantly affect the reduction of demand and economic growth. At the same time, in many countries, mainly in the EU periphery, banks are still weak as a result of exposure to the public sector and the perspectives for improvement of their performance are deteriorated as a result of reduced prospects for recovery of the Eurozone on the short term. As a result, crediting requirements are more rigid despite the adjustment of the monetary policy, above all by the largest Central Banks (European Central Bank, Bank of England, US Federal Reserves, Bank of Japan), which continued to maintain policy of low interest rates and to support financial intermediation as a whole. Annual credit growth rate in the EU is at the lowest level compared to the last 15 years, with 0% growth of credits in the Eurozone in Q2 2012, as a result of the banks being cautious as regards quality of loans.

Accumulated government debt in EU remains to be main reason for continuation of the European debt crisis which, at moments, puts the survival and the functioning of the Eurozone and the euro as a currency into question. Recent Eurostat data show that at the end of Q2 2012, government debt of the 17 Eurozone countries reached 90% of total GDP of the monetary union, being the highest level since euro introduction in 1990. Similarly, in the full 27-member EU,



government debt rose to record high level of 84.9%. Government debt as a percentage of GDP in Greece reached high 150.3%, in Italy – 126.1%, in Belgium – 102.5%, in Ireland – 111.5%, in France – 91%, and Germany also registered record high level of 82.1% of GDP.

As for the expectations for the next medium-term period, moderate optimism of EC is observed in the Autumn Economic Forecast Report as of November 2012. First signs of improvement of economic growth are envisaged for the second half of 2013, as a result of coordinated economic policies on stabilisation of public finances and progress as regards corrective measures to reduce imbalances which, according to EC, will gradually contribute to restoring confidence necessary for increase of private consumption and improvement of investors' perceptions. Hence, global growth rate of 3.1%, i.e. 3.3% in 2012 and 2013 respectively is envisaged, while economic growth rate in the EU is envisaged at -0.3% in 2012 and 0.4% in 2013. As for 2014, certain growth acceleration is envisaged, whereby global growth rate will account for 3.9%, while growth rate in the EU will be 1.6%. Developing countries and emerging economies are expected to register stable economic growth of around 5%. In its Autumn Report, the EC forecasts for global trade to drop by 3.2% in average in the coming medium-term period, while effects of the debt crisis will be also felt on the labour market, where unemployment rate in the EU will be kept at the level of around 10%.

Table 2.1. International economic environment – selected macroeconomic indicators (%)*

	2010	2011	2012f	2013f	2014f
GDP growth					
World	5.1	3.8	3.1	3.3	3.9
EU	2.1	1.5	-0.3	0.4	1.6
Eurozone	2.0	1.4	-0.4	0.1	1.4
USA	2.4	1.8	2.1	2.3	2.6
Developing countries and emerging economies	7.5	6.1	5.0	5.3	5.7
International trade growth	12.3	7.8	4.0	4.4	5.5
Unemployment rate					
EU	9.7	9.7	10.5	10.9	10.7
Eurozone	10.1	10.1	11.3	11.8	11.7
USA	9.6	8.9	8.2	7.9	7.5
Inflation					
EU	2.1	3.1	2.7	2.0	1.8
Eurozone	1.6	2.7	2.5	1.8	1.6
USA	1.6	3.2	2.1	2.0	2.1
Oil prices (in Euros)	60.5	79.7	87.3	83.9	79.3

Source: European commission, European Economic Forecast, November 2012 *f- forecast

* EC Autumn Report does not include projections for 2015.

Inflation rate in the EU in the past period was driven by the increase of prices of food, energy sources, base metals and raw materials, as well as by the increase of indirect taxes and regulated prices in some of the EU Member States. However, in the next medium-term period, EC forecasts reduction of the effect of these factors and envisages for inflation rates to reduce to 2% in 2013, i.e. 1.8% in 2014, compared to the forecast of 2.7% for 2012.

Recent Economic Trends in the Republic of Macedonia. Macedonian economy in 2011 was relatively protected against the influence of the debt crisis in the Eurozone, taking into account the absence of larger macroeconomic imbalances and the stable financial system which applies classical model of functioning and relies mainly on domestic sources of financing. Hence, Republic of Macedonia realised 2.8% growth rate in 2011, due, above all, to the performance in the first half of the year, when national economy experienced real growth of 4.8% as a result of the increased foreign effective demand. Additional impetus in the first half of the year was given by the increase of government capital investments, increased credit



activity and increased employment. However, towards the middle of the year, negative effects from the debt crisis in the EU, as the major trade partner to the Republic of Macedonia, started to be felt. Stagnation, and later on drop of foreign demand in the last two quarters, had adverse effects, above all, on the domestic industry and the export sector, on the domestic demand, which led to sharp slowdown of growth in the second half of the year.

In 2012, effects from the unfavourable external surrounding were additionally intensified as a result of the reduced demand for Macedonian export and lower inflow of capital, causing for the economic activity to slow down. Reduced demand for Macedonian products caused for industrial production and export of goods to decline, thus limiting the growth potential of the Macedonian economy, leading to GDP drop of 0.5% in the first three quarters in 2012 (Table 2.2).

Table 2.2. GDP growth rates in the Republic of Macedonia (production and expenditure methods)

	2011	2011				2012			
		I	II	III	IV	I	II	III	Average
GDP	2.8	6.1	3.6	1.3	1.0	-0.9	-0.7	0.2	-0.5
GDP by production method									
Agriculture	1.4	9.5	2.7	-9.1	6.0	-0.4	2.2	0.6	0.9
Industry	4.2	16.5	6.5	0.5	-3.9	-8.6	-7.2	-7.6	-7.8
Construction	12.3	20.1	20.6	8.0	6.8	-11.5	-6.0	16.7	1.7
Services	2.2	1.9	4.7	1.3	1.1	1.6	0.5	1.4	1.2
GDP by expenditure method									
Final consumption	3.3	3.8	6.6	1.7	1.1	0.4	0.3	-1.5	-0.3
<i>Private</i>	3.9	4.6	7.0	2.8	1.5	0.1	0.8	-2.4	-0.5
<i>Public</i>	0.7	0.6	5.1	-2.8	-0.1	1.7	-2.3	2.3	0.6
Gross capital formation	12.3	54.4	-19.1	28.8	8.6	-6.6	25.8	14.6	11.4
Export of goods and services	11.2	37.2	12.7	3.0	0.2	0.0	0.7	-2.9	-0.8
Import of goods and services	13.2	36.6	6.1	11.3	4.7	-0.3	9.6	1.2	3.5

Source: State Statistical Office

Analysing GDP from the expenditure side, high growth rate of gross investments of 11.4% (as a result, above all, to the growth registered in the second quarter of 25.8%) limited GDP decline, at the same time creating the bases for strengthening the competitiveness of the economy in the coming period. Final consumption declined by 0.3% in real terms in the first three quarters. Thereby, personal consumption dropped by 0.5%, while public consumption grew by 0.6%. Export of goods and services registered average real drop of 0.8% in the first three quarters, while import of goods and service experienced average real growth of 3.5%.

According to the production side of GDP, reduced demand for Macedonian products caused for industrial production, which registered average real decline of 7.8% in the first three quarters, to drop. Construction sector, following its decline of 8.1% in the first half in 2012, conditioned by the extremely bad weather conditions, as well as the higher comparative basis in the first half last year, grew by 16.7% in the third quarter, and average growth in this sector was positive, accounting for 1.7%. In the first three quarters in 2012, services sector experienced average growth of 1.2%, while agriculture registered 0.9% growth rate.

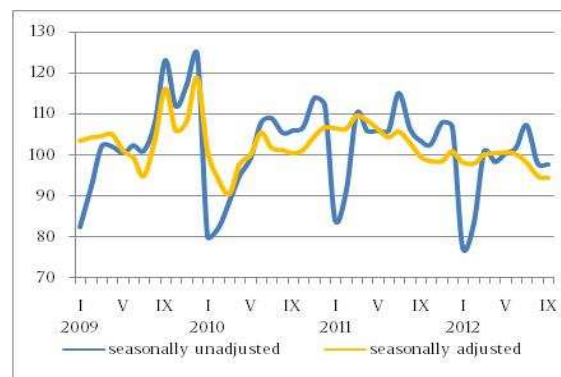
Industry. Industrial production in 2011 surged by 4%. However, in 2011, two particular periods as regards trends of industrial production index can be pointed out. In the first half of 2012, industry experienced accelerated growth, registering 9.5% growth on cumulative basis, compared to same period in 2010. Growth of industrial production in the first half in 2011 was mainly driven by the positive performance in the processing industry, registering 13.9% growth on cumulative basis, as well as performance in mining, which experienced 11.6% growth on cumulative basis.

Such trends were a result of the favourable global environment, which contributed to increase of production in export-oriented sectors, in particular metal and textile industries. Second period refers to the second half in 2011, characterised with growth slowdown, i.e. drop in industrial production, as a result of the reduced foreign effective demand. Hence, average growth in the second half in 2011 was -1.6%, mainly as a result of the decline in the processing industry (-0.8%). As regards separate industrial branches, in 2011, growth was registered at 13 out of total of 27 industrial branches. The highest positive contribution was given by the production of electrical equipment, experiencing 2.2-fold increase. More significant positive contribution has the increased production of clothing, tobacco, other transport equipment and metals. Energy production registered the largest decline of 9.7%.

Negative trends in the industry, which commenced in the second half in 2011, continued in the first nine months in 2012, mainly as a result of the reduced external demand. In fact, on cumulative basis, in the period January–September 2012, industrial production dropped by 6.9%, compared to the same period in 2011, whereby decline was registered at 16 out of 27 branches within the total industrial production index. Out of the branches with highest share in the index structure, decline was registered at production of metals (10.3%), production of clothing (13.6%), production of other non-metal mineral products (24.7), production of tobacco (7.2%), production of beverages (0.5%) and production of coke and refined oil products (70.8%). Analysed by groups, processing industry, participating with 83.7% in the total industrial production, dropped by 7%, electricity, gas, steam and air-conditioning supply declined by 6.9% and mining and quarrying decreased by 4.2%.

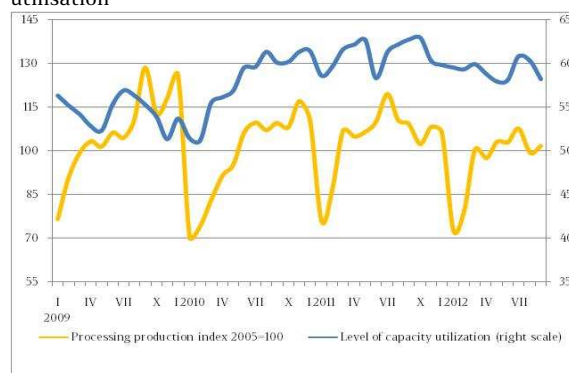
Trends in processing industry are relatively good approximation of overall trends in the economy, due to its importance and connection to other sectors in the economy. In 2011, level of utilisation of industrial capacities experienced no significantly fluctuations (Chart 2.2). Favourable trends at prices of main export products on the global stock markets, increased foreign demand observed in part of the year and increased public investments were the main stimulating factors for greater utilisation of industrial capacities. Thus, main driving force of growth was industry, trade and construction, whereby industry contributed the most to the growth in the first half of the year, while its contribution in the second half of the year was negative. In line with the economic trends, in 2012, utilisation of industrial capacities registered certain slowdown.

Chart 2.1. Industrial production index (2005 = 100)



Source: SSO and calculations of the Ministry of Finance

Chart 2.2. Processing production index and level of capacity utilisation

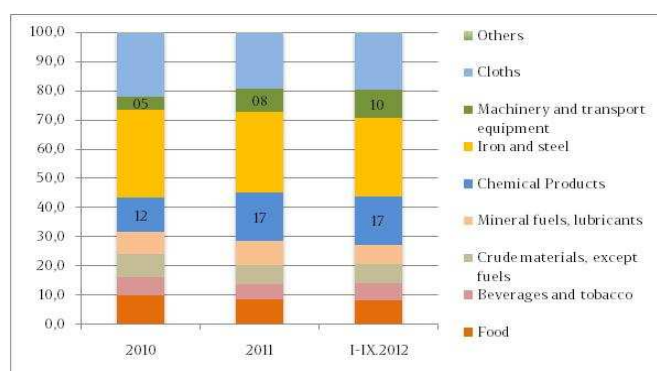


Source: SSO and calculations of the Ministry of Finance

External sector. In 2011, the balance of payments current account registered a deficit of 3% of GDP, which is 1 p.p. of GDP more compared with the previous year. The moderate expansion of the deficit is mainly due to the increased deficit in foreign trade of goods (by 1.8 p.p.). Deteriorated deficit in the income (by 0.2 p.p. of GDP) also had a small contribution to the widened current account deficit. On the other hand, higher surplus was recorded in services (by 0.8 p.p. of GDP). At the same time, current transfers increased their positive balance by 0.3 p.p. of GDP. Namely, in the second half of 2011, growth of private transfers accelerated, being especially prominent in the last month of the year when there was a significant increase in the net purchase from currency exchange operations, mainly under the influence of psychological factors related to the future of the Eurozone. In 2011, net inflows on the capital and financial account (excluding official reserves) amounted to 6.7% of GDP and mostly they were generated on the basis of net long-term borrowing from abroad (6.1% of GDP), mainly by the public sector. Additionally, net inflows of 4.5% of GDP were generated on the basis of foreign direct investments. At the end of 2011, gross foreign reserves reached Euro 2,069 million providing more than four months of coverage of imports of goods and services of the next year.

In the first nine months of 2012, a negative current account balance on the balance of payments of Euro 108.4 million, or 1.4% of GDP was registered. Compared to the same period last year, the current account deficit registered narrowing of 57%. Amid slight deterioration in the trade deficit and reduced surplus in the trade in services, the improvement is due to the higher net inflows from current transfers and the narrowing of the deficit in the category income. The annual growth in current transfers of 17.1% was mainly due to the increased inflows from private transfers, i.e. from the net purchase of foreign currency on the currency exchange market that in the analyzed period was higher by 26%. This increase is partly due to the present uncertainty regarding the crisis in the Eurozone, as well as the positive effects from non-residents in the domestic economy.

Chart 2.3. Changes in the structure of exports (% of total exports)



Source: SSO

In the period January-September 2012, the cumulative trade deficit¹ increased by 2.2% on an annual basis, amid reduced exports by 2.7% and a decline in imports of 0.9%. Such movements in foreign trade reflect the deterioration of the global environment and the further weakening of the external demand, as well as the lower domestic economic activity. Moreover, the deterioration in the trade balance was registered in the second quarter, influenced by the net exchange of inputs for industry, primarily from the import activities of one company in the free economic zone and its increased imports of non-ferrous metals, as well as the increased imports of ores, reduced surplus in the trade of iron and steel, and higher deficit in trade of food (mostly due to the increased imports of cereals). The structural analysis indicates that as a result of the new entities in the economy, a significant improvement in the export structure is registered. It is based on the increased share of products with higher value added on the part of exports, mainly chemical products and machinery and transport equipment (Chart 2.3).

¹ According to the foreign trade statistics, where imports are presented on cif basis.



The analysis of the trade of the Republic of Macedonia, according to trading partners, in the period from January to September 2012, indicates increased trade with the EU by 3.9%, where it accounts for 60.4% of the total trade of the Republic of Macedonia. Thus, in the trade with the countries of the EU, as our most important trading partner, there was a widening of the deficit by 21.7% on an annual basis. The widened trade deficit was mostly a result of the higher deficit in the trade with Greece, while positive changes were registered in the trade balances with Germany and Great Britain. The gradually increased share of developing countries in the exports in recent years is worth to be noted, which confirms the ability of exporters to conquer new markets in the crisis period (from about 2% in 2008 to about 8% in 2011 and 2012).

In the period January-September 2012, the real effective exchange rate (REER) of the Denar deflated by the Consumer Price Index appreciated by 0.7% on an annual basis, while the real effective Denar exchange rate according to the prices of industrial producers appreciated by 1.4%. In conditions of a favorable price ratio, thus faster growth of foreign than domestic consumer prices (and unchanged ratio concerning the other price index), such change reflects the appreciation of the nominal effective Denar exchange rate in relation to the currencies of some of the countries - trading partners. The results of the models for the evaluation of the equilibrium REER² as of the last quarter of 2011, do not point to large deviations from the equilibrium level, and in the period 2003 - 2011 they have been maintained within acceptable margins of +/-4% whereby in 2011, they were in the zone of undervalued exchange rate.

In the first nine months of 2012, net inflows in the capital and financial account (including errors and omissions) amounted Euro 119.8 million, or 1.5% of GDP. Most important source of capital inflows are direct investments, net (Euro 50.7 million, or 0.7% of GDP), mostly in the form of equity capital and reinvested earnings, amid a significant outflow from this category to foreign investors in the period from August to September has been registered. At the end of September 2012, gross foreign reserves stood at Euro 2,104.2 million, which is an increase of Euro 34.7 million compared with the end of 2011. Foreign reserves have been maintained at an adequate level, providing an average coverage of imports of goods and services of the next year of about 4 months.

Chart 2.4 Capital inflows, net and foreign reserves (in millions of Euros)

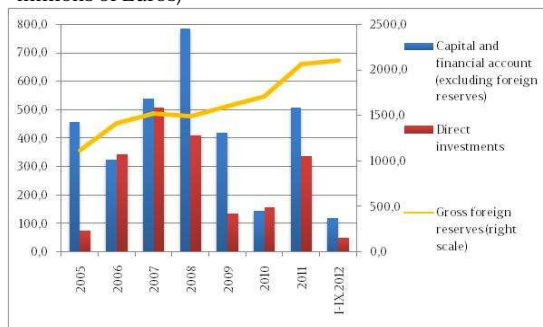
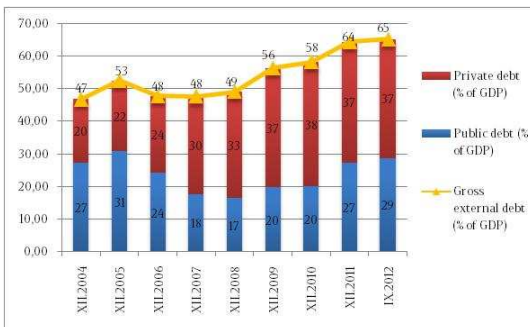


Chart 2.5. Gross external debt



Source: National Bank of the Republic of Macedonia

At the end of the third quarter of 2012, gross external debt (Chart 2.5) reached Euro 5,070 million, or 65.3% of GDP, which is an increase of Euro 223 million compared with the end of 2011. The public sector borrowings explain 78% of the cumulative growth. Thus, the public sector external debt in the three quarters of 2012 increased by Euro 174 million, mostly as long term

² According to BEER approach (behavioral equilibrium exchange rate) for the evaluation of the equilibrium real Denar exchange rate, based on a narrower definition of the real effective exchange rate and constructed on the basis of the five largest trading partners of the Republic of Macedonia from the European Union (REER-EU5).



loans and bonds. However, the public sector external debt has been maintained at low level amounting 25.4% of GDP, whereas the external debt of the central government is low at the level of 20.5% of GDP. The private sector debt registered a moderate increase by Euro 49 million, mainly due to inter-company borrowings, thus liabilities towards direct investors increased by Euro 86 million, while the liabilities to unrelated entities declined by Euro 37 million (mostly loans and trade credits). The external debt of the banking sector remained almost unchanged in the analyzed period. Regarding the maturity structure, long-term debt still has a dominant share in the total debt of 66.9%. According to most indicators of indebtedness, following the methodology of the World Bank, Macedonia is a country with low level of debt. If repo transactions by the NBRM are excluded, which appear in almost the same amount both on the side of the liabilities and on the side of claims on non-residents, the gross debt represents 61.9% of GDP.

Labour market. Developments in the real sector reflected on the labour market as well. Activity rate in 2011 amounted to 56.8%, being lower by 0.1 p.p. compared to the previous year, employment rate amounted to 38.9%, while unemployment rate amounted to 31.4%, experiencing 0.6 p.p. decrease compared to 2010. In 2011, labour force in the Republic of Macedonia amounted to 937,326 persons, 639,340 out of which were employed, while 297,986 persons were unemployed.

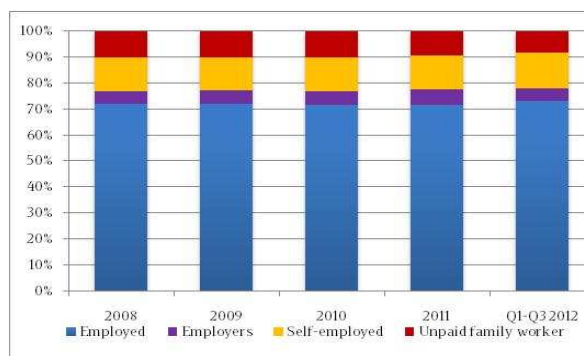
According to the Labour Force Survey, number of unemployed persons in the first three quarters in 2012 was lower by 0.3% on annual basis. During the analysed period, unemployment rate was kept at the same level of 31.2%. Thereby, analysed by quarters, unemployment rate registered a declining trend, whereby in the third quarter in 2012, it accounted for 30.6%. Number of employees in the first

three quarter in 2012 was, in average, almost identical compared to the same period previous year. However, analysed by quarters, number of employees registered an upward trend, whereby, in the third quarter in 2012, it grew by 0.6% on annual basis. Greater resistance of employment to the decline of economic activity is partially explained with the fact that most of the drop in the production was concentrated in the capital-intensive, rather than in labour-intensive branches, while, new capacities in the technological industrial development zones (TIDZ), which absorbed most of the new labour force, had positive effect on employment.

In 2011, average net salary surged by 1.4% in nominal terms and dropped by 2.4% in real terms, while gross salary registered lower nominal and real growth rate of 1.2%, i.e. 2.6% respectively. In the first nine months in 2012, average net and gross salary grew by 0.2% in nominal terms compared to the same period in 2011. During the same period, inflation conditioned negative real growth of net salary of 2.5% and drop of gross salary of 2.6%.

Inflation. Average annual inflation in 2011 was 3.9%, compared to 1.6% in 2010. The increase in the price level in 2011 was driven by supply side factors. The main driver of growth in inflation was the food component, further supported by the increase in the prices of energy products and rising domestic regulated prices. Thus, changes in the prices of the food component had the largest contribution to the growth of the inflation index in 2011 of 2.4 p.p..

Chart 2.6. Structure of employees by economic status



Source: SSO.



Prices of energy had a contribution of 0.9 p.p., of which the increase in the domestic prices of oil products contributed with 0.5 p.p. to the overall inflation growth rate, while the rest refers to the rising prices of electricity and heating. Core inflation in 2011 was 1.1% in average.

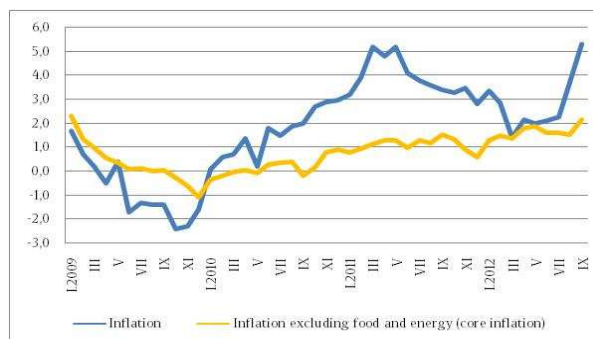
As for the dynamics, in the first half of the year, slower domestic inflation growth was registered, while in the third quarter the inflation realised moderate acceleration in terms of higher regulated prices of electricity and heating (in august) and food.

In the period January to September 2012, the average annual inflation was 2.8%. The most significant contribution of 1.1 p.p. to the average annual inflation was that of the housing prices, due to the effect of rising prices of electricity and heating. Food prices had an additional contribution of 0.6 p.p., while the contribution of transport and communication services prices was 0.4 p.p. Prices in the categories: clothing and footwear, health and hygiene, and restaurants and hotels, contributed with about 0.2 p.p. to the average inflation, each. Core inflation averaged 1.6% in the first three quarters of 2012. Given the slower economic activity and wider negative output gap, there are no inflationary pressures through the demand channel. In such circumstances, the main risks to the inflation movement by the end of 2012 are the world food and energy prices.

Monetary policy. After the continued easing of the monetary policy in 2010, in 2011, the key interest rate of the NBRM remained unchanged at 4%. In the first half of the year, one of the major risks was the accelerated growth of the inflation mainly influenced by the world food and energy prices. In the second half of the year, the risks for the monetary policy were mainly related to the increased uncertainty about the debt crisis in the Eurozone. Despite the exceptionally pronounced uncertainty, the balance of payments position was favorable. At the same time, inflationary pressures weakened, amid relatively stable core inflation, and relatively positive developments on the foreign exchange market. In September, NBRM made changes to the regulations governing the liquidity risk management (introduction of a single liquidity ratio, in force since October 2011) and reserve requirement (exemption from the obligation for reserve requirement for household term deposits of over two years and repo transactions, in force since the beginning of 2012). The changes that were done in circumstances of unchanged key interest rate of the NBRM, point to certain easing of the monetary conditions in the country. In 2011, the broadest money supply registered an annual growth of 9.7%, amid growth of total deposits of 9.2%. Just like in 2010, also in 2011 the growth of the Denar deposits (14.3%) was more intensive compared to the growth of foreign currency deposits, contributing to the increase in the total deposits by 76.1%. During 2011, banks continued to increase their credit support to the domestic economy, with the loans extended to the private sector being higher by 8.5% compared to the end of 2010.

In the first three quarters of 2012, the changes in the monetary policy were aimed at its relaxation, which was made possible by the influence of several factors. Namely, the risks in the external sector remained at a low level, amid further retention of stable inflation and exchange rate expectations. On the other hand, due to the weaker economic activity in the

Chart 2.7. Inflation and core inflation (annual change, in %)



Source: SSO and NBRM



Eurozone, as well as the unfavorable weather conditions at the beginning of the year, the vulnerability of the real sector increased, and in the first quarter a decrease in economic activity was registered. In such conditions, at the beginning of April 2012, NBRM adopted changes in the operational framework of the monetary policy, which were directed towards the development and support of financial markets, more active liquidity and banks' investment portfolio management. These changes included a reduction in the frequency of CB bills auctions to one time within the period of reserve requirement and a transition from an unlimited amount tender to a tender with limited amount and a maximum interest rate, which was determined at the current level of 4%. Furthermore, NBRM introduced regular weekly repo operations to provide liquidity in the banking sector, as well as standing deposit facilities (overnight and with seven-day maturity) and reduced the interest rate on the standing overnight lending facility. At the beginning of May, according to the macroeconomic projections for the next period, which indicated a relatively favourable environment for the monetary policy implementation in accordance with the expectations for maintaining low and controlled inflation and balance of payments position that provides additional foreign reserves, NBRM reduced the key interest rate by 0,25 p.p., bringing it down to the historically lowest level of 3.75%. The interest rates realized on CB bills auctions held after this change are close to the maximum and are maintained at an average level of about 3.73%. Monetary easing is aimed at higher credit growth and hence support for the domestic economy.

Chart 2.8. Interest rates (in %) on annual level

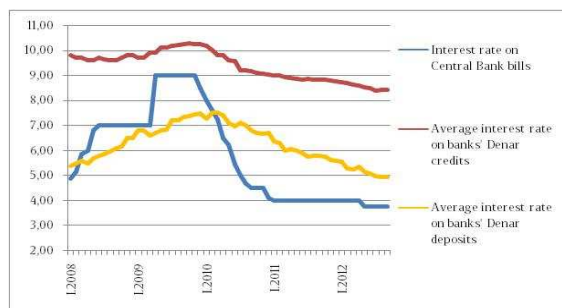
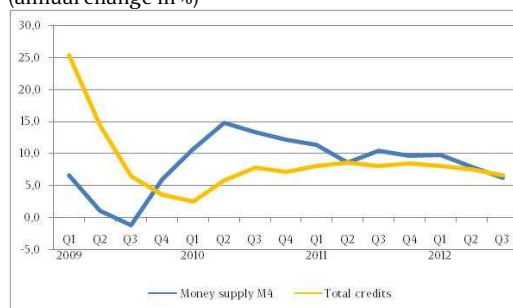


Chart 2.9. Money supply M4 and total loans (annual change in %)



Source: National Bank of the Republic of Macedonia

According to the changes in the monetary policy, in the first three quarters of 2012, liquidity was created through the monetary policy instruments. The annual growth rate of reserve money (including reserve requirement in foreign currency) equalled 13.7% in September 2012 (9.5% in December 2011). In conditions of decelerated economic activity, the annual growth of broad money M4 slowed down and equalled 6.3% in September (9.7% in December). In September, total deposits increased by 5.7% on an annual basis (9.2% in December), with fast growth of Denar deposits (16.4%) and a decline in foreign currency deposits (4.6%). The average share of foreign currency deposits in total deposits since the end of 2011 onwards has been steadily decreasing, and from about 51% in September 2011 it was reduced to 46% in September 2012 (close to the pre-crisis level in 2008, when this share averaged about 45%). Such a change in the currency preferences of the agents is largely conditioned by the uncertainty regarding the crisis in the Eurozone, as well as by the higher yields on Denar instruments. Analyzed by sectors, faster growth was registered in the total household deposits, which increased by 9.2%, while corporate deposits decreased by 4.2%. In terms of maturity, more intensive growth was registered in long-term deposits, which is reflected in a gradual increase in their share in the total deposits (20% in September 2012).

The moderate annual growth of total loans continued, and in September 2012 it equalled 6.6% (8.5% in December 2011). These developments occurred in conditions of decelerated economic



activity and still present uncertainty regarding the global environment, which acts toward increased caution in terms of the banks' credit exposure. Moreover, the loan/deposit ratio remained at the level of about 90% during the first three quarters, which indicates that there is a room for further increase of lending in the domestic economy. However, the pace of credit growth remains mainly driven by the banks' perceptions regarding the risks. Regarding the currency, credit growth is fully explained by the growth of Denar loans (9.3%), while foreign currency loans decreased (0.6%). Such movements in the currency structure of loans are partly due to the changes on the liabilities side, driven by the growth in the Denar deposits. Regarding the sectors, increased corporate lending had a greater contribution to the growth of total loans (57%), which is aimed at supporting private sector investments.

Interest rates in the banking sector followed the movement of the key interest rate and in the first nine months of 2012 they registered a moderate decrease. The interest rate on the total Denar loans decreased from 8.8% in December 2011 to 8.4% in September 2012. At the same time, the average deposit interest rate registered a more intensive reduction from 5.6% in December 2011 to 4.9% in September 2012. Such more intensive reduction in the deposit interest rate led to an increase in the interest rate spread from 3.2 to 3.5 p.p.. In December 2011, the interest rates on foreign currency loans and foreign currency deposits were 7.3% and 2.5%, and in September 2012 they decreased to 6.9% and 2.2%, respectively.

2.1.2 Recent developments in financial sector

Banking sector. During 2012, the banking system maintained its stability and soundness, retaining high and stable liquidity and solvency. As of September 30, 2012, the total assets of the banking system amounted to Denar 339 billion, which is an increase of 5.6% compared to September 30, 2011. Financial intermediation by banks, as measured by the share of assets, loans and deposits to GDP, has been continuously deepening, even during the crisis.

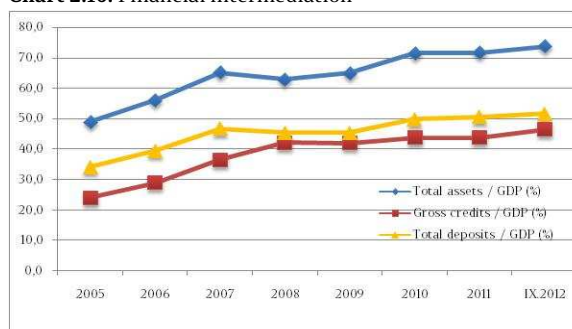
Intensified saving in Denars (which began late in 2011), continued in 2012, and in mid-2012, Denar deposits became dominant in the currency structure of the deposit base, for the first time after a long period of time.

Credit risk prevails in banking activities. Non-performing loans are rising moderately and growth is mainly coming from the corporate sector. As of September 30, 2012, the share of non-performing loans in total loans to non-financial entities accounted for 10.9% (10.0% as of June 30, 2012). Non-performing loans are fully covered by allocated impairment.

Banks in the Republic of Macedonia have maintained strong and stable liquidity, which is primarily based on the high amount of liquid assets that are at banks' disposal (30.2% of total assets are liquid assets). Coverage of household deposits and short-term liabilities with liquid assets is as high as 57.5% and 49.3%, respectively. Loan to deposit ratio accounts for 89.4%.

Macedonian banking system has stable and high solvency. Capital adequacy ratio is 17.1% and Tier1 rate is 14.4%. Own funds are characterized by high quality (over 80% of them are core

Chart 2.10. Financial intermediation



Source: National Bank of the Republic of Macedonia



capital). At the beginning of the third quarter of 2012, the new methodology for determining capital adequacy began to be applied, which is completely based on the standardized approaches for determining the capital requirement for covering credit, market and operational risk, as defined in the first pillar of Basel 2. The new regulation, in addition to better connecting the banks' risk profile with the required amount of own funds, enables regulatory relief in some of the items included in the calculation of the capital for covering credit and currency risks. Thus, the new methodology, despite the introduced requirement for the banks to set aside capital to cover operational risk, did not cause significant effects on the capital adequacy ratio.

The results of the stress test simulations show that the banks' resilience is satisfactory. In order to test some of the possible channels of transmission of the negative effects of the Greek crisis on the domestic banking system, three simulations for default were conducted (of 30%, 50% and 100%) of the credit exposure of banks to: (1) Greek non-residents; (2) the 100 largest net exporters to Greece; (3) domestic entities that have liabilities based on credit operations to Greece; (4) domestic entities that have claims on Greece based on credit operations. The results of the three simulations show satisfactory resilience of the banking system. Namely in the three simulations, the capital adequacy ratio of the banking system decreased by 1.1, 1.8 and 3.7 p.p. respectively (from 17.4% as of June 30, 2012) and the capital adequacy is not reduced under the legally prescribed 8% in any individual bank.

In the first nine months of 2012, the Macedonian banking system registered profit of Denar 644.3 million, which is 1.5 times higher than the profit registered in the first nine months of 2011. The main reason for improving the profitability of banks is the net interest income growth. As a result, banks' profitability indicators have improved (rates of return on assets and equity amounted to 0.3% and 2.3%, respectively), and there was also an improvement in the operational efficiency measured by the reduction of the share of total regular income spent for covering operational costs (from 68.8% to 65.2%).

Despite the small involvement of domestic banks in the international financial markets, current events with some of Europe's banking systems or individual banks can be a source of risk to the banking system of the Republic of Macedonia. Namely, $\frac{3}{4}$ of the capital in the banking system is foreign capital, and nearly 72% of it comes from the EU. Subsidiaries of EU banks in the Republic of Macedonia represent 58% of the total assets of the banking system.

Current guidelines from the EC for implementation of restructuring programmes to certain European banks that use state aid, as well as the introduction of a number of constraints on their group business strategies, create a risk of possible spillover of the consequences of these measures and policies towards the Macedonian subsidiaries of these banks.

At this point such restrictions apply to one parent bank of a subsidiary in the Republic of Macedonia, but it is likely that these measures and the effects can spread to other banks, primarily to subsidiaries of Greek banks in the Republic of Macedonia. The indicated bank, which according to its size, has a systemic importance for the country and for the financial stability, already suffers the consequences from the narrowing of the activities, and their possible extension in the future can be a potential risk to the stability of this bank. Narrowing of credit activity leads to loss of the bank's customers, and thus a decline in deposits as the main source of funding, a decline in revenue, but it could also affect its credibility and reputation. With all this, it is especially important that the bank is not dependent on its parent bank, neither in terms of funding nor in the performance of daily activities and it has no need for "enforced" deleveraging.



Capital market. In the period January - September 2012, Securities and Exchange Commission (SEC) issued 10 approvals for issuance of long-term securities in the total amount of Denar 7,354 million or around Euro 120 million. Out of the 10 approved issues of shares, 1 issue was realised as a public offer, 6 issues were intended for the existing shareholders in companies as institutional investors, 2 issues were realised on the basis of conversion of claims of the Republic of Macedonia into founding capital and 1 issue of securities was realised from company's funds for payment of dividends for the current year by issuing new shares to the existing shareholders (scrip dividend).

Total of 17 authorised participants, operating with securities, 11 out of which were brokerage houses and 6 were banks authorised to operate with securities, were registered on the secondary capital market in the Republic of Macedonia in September 2012. In the first half of 2012, SEC permanently revoked the licence for performing all securities-related activities of a brokerage house and adopted a decision for fulfilment of liquidation requirements. Issued working licence was revoked upon request by the brokerage house, on the basis of adopted Decision of the Assembly of Shareholders. As of 30th September 2012 inclusive, total turnover realised on the Macedonian Stock Exchange in the first 9 months amounted to around Denar 3,679 million or around Euro 60 million, being a decline by 50.6% compared to the same period in 2011. Since the beginning of 2012, there were 32 listed companies and their total market capitalization on 30th September 2012 amounted to Denar 24,950 million or around Euro 407 million. On 30th September 2012, Macedonian Stock Exchange Index (MSEI-10) amounted to 1,822.4 index points, being a decline of 15.8% compared to its value on 30th September 2011 (2,164.0).

In the period January-September 2012, 4 investment fund management companies operated on the capital market in the Republic of Macedonia, managing 9 open-end investment funds, being by 1 fund more compared to the same period previous year. In fact, in the period May-July 2012, SEC gave consent for establishment of 1 new open-end investment fund. In line with the investment goals and investment policy, this Fund's property assets will be invested mainly in portfolio of low-risk debt securities and instruments on the money market. The Fund is mainly intended for investors who do not want to expose their funds to market fluctuations or investors who, in a certain time period, have available financial assets to gain yield on. Trend of establishment of new investment funds in the Republic of Macedonia is of great importance for further movement, dynamic development and increase of liquidity on the capital market in the Republic of Macedonia. On 31st September 2012, net value of the property of open-end investment funds amounted to Denar 275 million or around Euro 4.48 million.

Insurance sector. It is characteristic for the Republic of Macedonia that the insurance market is insignificantly involved in the financial system. For 2011, the insurers' assets account for 3.4% of total financial funds in the country. The 2011 insurance penetration data show that the total gross written premium (GWP) is 1.5% of GDP, whereas in terms of insurance density, the premiums per capita amount at Denar 3.304, which is comparable to South East European countries.

As of September 2012, 15 insurance companies actively operate in the insurance market, 20 insurance brokerage companies and 9 insurance agencies. The insurance companies show moderate market concentration, although this trend is continuously decreasing. As of 2012 Q3 data shows that 4 insurance companies have over 10% market share and the top five insurers have 59.2% market share. Fourteen insurance companies are dominantly owned by foreign investors, which own 83% of the total capital, whereas only one insurer is owned by domestic shareholders. Nine insurance companies have been established by international insurance



groups situated in EU, which provide additional value and advantage to these insurers for implementing good practice applied in EU.

According to the most recent available data, as of 2012 Q3 the total gross premium written by all insurance companies operating in the Macedonian market amount at Denar 5.3 billion, out of which 7% account for life insurance business and 93% account for non-life insurance business. In comparison to the same period of 2011, GWP has registered an increasing trend including both insurance groups. The GWP for non-life insurance has increased for 1.4% whereas life insurance GWP has shown larger increase of 20.6%. The increase in GWP for both groups of insurance is 2.6%. Analysed by classes of insurance, the dominant position in non-life insurance business is held by motor insurance. The compulsory car insurance (motor third party liability) is the most dominant class of business which increased by 1.9%. Casco motor insurance decreased by 5.1%, property insurance increased by 10.1% and accident insurance decreased by 4.6%. The most evident is the increase in life insurance business by 20.6%.

Fully – funded pension insurance. Fully-funded pension insurance market comprises two pension companies, which manage one mandatory and one voluntary pension fund. Assets of pension funds are separated from the assets of the companies, being kept in authorized banks as custodians of assets.

As of 30th September 2012 inclusive, the number of members in the second pillar amounted to 316,876, out of which 22% were voluntary and 78% were mandatory members. As of 30th September 2012, net funds in the second pillar amounted to around Denar 20 billion, being increase in the funds by 34% compared to September 2011. As of 30th September 2012, around 15% of the funds of mandatory pension funds were invested abroad, while around 85% were invested in domestic financial instruments.

As of 30th September 2012 inclusive, the third pillar comprised 13,526 members, around 28% out of which were individual members, while around 72% were participants in professional pension schemes. Funds of the voluntary pension funds on 30th September 2012 amounted to around Denar 165 million, being an increase of the funds by 92% compared to September 2011. As of 30th September 2012, around 13% of the funds of mandatory pension funds were invested abroad, while 87% were invested in domestic financial instruments.

Leasing. On 31st August 2012, there were 11 licenced leasing companies on the financial leasing market in the Republic of Macedonia, 10 out of which were active. As regards the ownership structure in the leasing sector, foreign capital has dominant share, participating with 94.1%, 77% out of which was owned by foreign financial institutions, while the reminder was owned by foreign non-financial legal entities (17%).

Unlike the tendency for gradual recovery of the overall financial system, leasing sector continued to feel the adverse consequences from the external surrounding in the third quarter in 2012 as well. At the end of 2011, assets of the leasing sector grew by Denar 820 million, while on 31st August 2012, they dropped by 15% compared to 31st December 2011. The increase of the total value of leasing companies' capital by 41% compared to 31st December 2011 can be deemed as a positive signal for the future operations of the leasing industry. Increase of leasing companies' capital will provide for their better capitalization and improvement of their future performance.

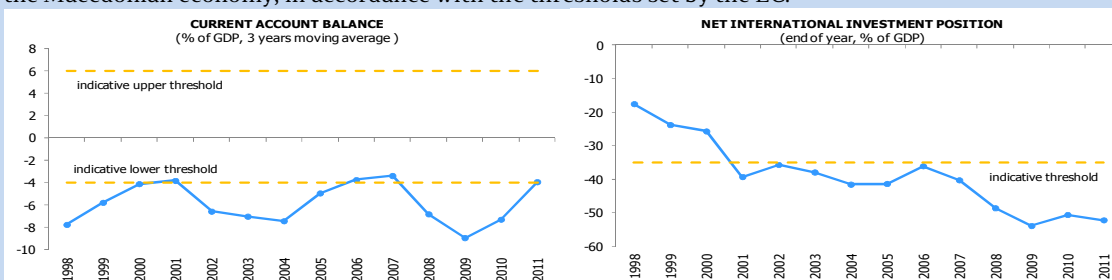
Decline in the volume of activities and non-performing loans of the leasing sector led to losses in its operations. On 31st August 2012, leasing companies realised total operating loss in the amount of Denar 27 million. Number and value of newly concluded leasing contracts continued to decline in the third quarter 2012 as well. By 31st August 2012 inclusive, 829 new contracts



were concluded, being a drop of 44% compared to the end of 2011. Value of concluded contracts in the same period amounted to Denar 1,022 million, being a decline of 39% in relation to 31st December 2011. Legal entities have the main position in the structure of newly concluded and active leasing contracts, accounting for 76% and 68% respectively. During the three quarters in 2012, movables were exclusively financed through financial leasing. Average interest rate on the newly concluded leasing contracts in the third quarter in 2012 was 9%, being an insignificant increase compared to the end of 2011, when it amounted to 8.9%.

Box 2.1. Indicators for the Macedonian economy in accordance with the EC's Macroeconomic Imbalances Procedure

The last world economic crisis pointed to the need for increased efforts to monitor macroeconomic developments in each economy. In this context, the indicators within the Macroeconomic Imbalances Procedure - MIP³, pertaining to external and internal imbalances with given thresholds, could be useful for timely identification of potential imbalances also in the EU candidate countries. The charts bellow show the degree of fulfilment of the basic indicators within this procedure by the Macedonian economy, in accordance with the thresholds set by the EC.

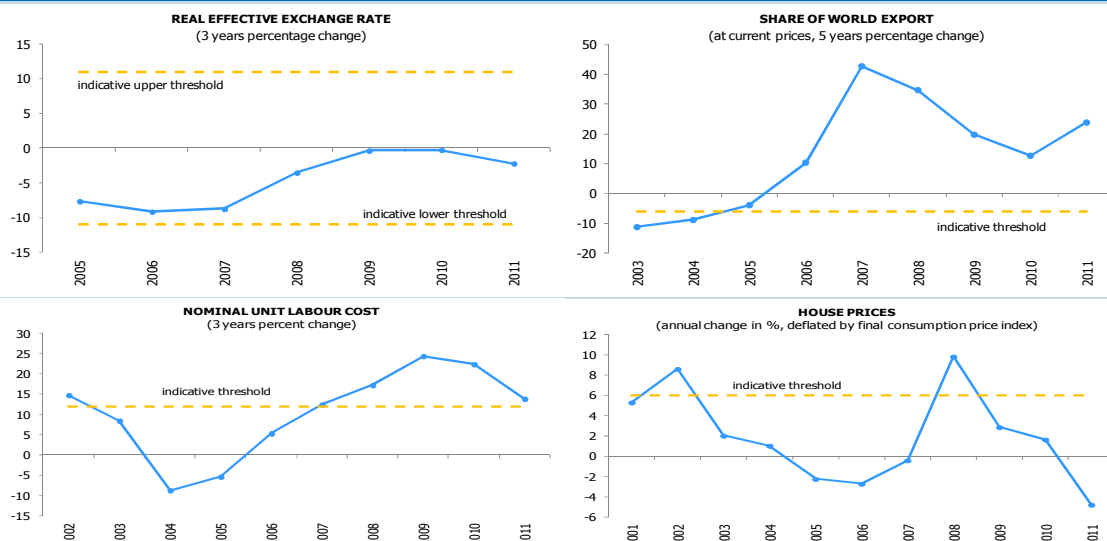


Current account balance of the Republic of Macedonia, as a three-year moving average, continuously moves at or below the lower threshold of vulnerability. In 2011, this indicator was on the lower threshold of vulnerability (-4%) i.e. on an acceptable level. However, in relation to this indicator, the EC approach emphasizes that in the interpretation of this indicator the characteristic features of the converging countries should be taken into account⁴. This means that for the Macedonian economy even a higher level of deficit would be acceptable, if it is sustainable, i.e. it is advisable to view the current account deficit in combination with the capital and financial account.

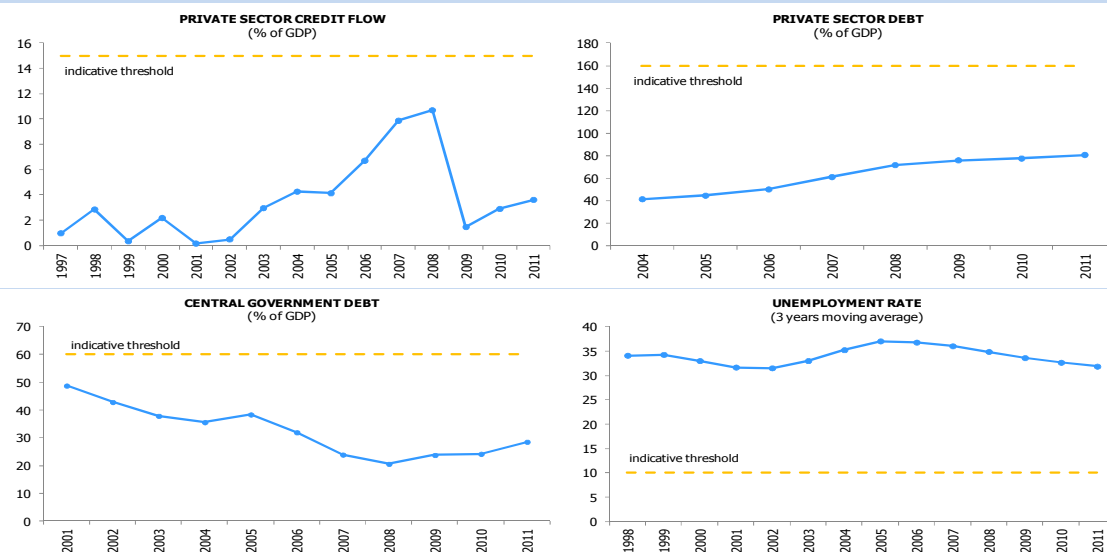
The net international investment position of the country, since 2006 onwards has been deepening, with certain stabilization in 2010 and 2011 at a level of around 52% of GDP. This level is well above the threshold of vulnerability of 35% of GDP, which points to the net foreign liabilities of the economy as a zone of vulnerability of the economy. It should be borne in mind that the net international position on the liabilities side include FDIs that account for half of the increase in total foreign liabilities in the last three years. In this context, exactly because of the effect of FDI, in the analysis of converging countries, the EC approach suggests to consider also other indicators, such as the net external debt, which takes into account only debt instruments, on a net basis. At the end of 2011, the net external debt of the Republic of Macedonia equalled 13.1% of GDP.

³ Alert Mechanism Report, European Commission, February, 2012.

⁴ Commission Staff Working Paper, Scoreboard for the surveillance of macroeconomic imbalances: envisaged initial design, November 2011.



REER is mainly maintained in the zone of depreciation or it is unchanged, which is in favour of the competitiveness of the economy. In 2011, the REER indicates moderate depreciation of about 2%. Export market share of the economy in the world exports as a five-year change has been outside the zone of vulnerability of the economy, since 2005. After the decline during the global crisis, in 2011 the export market share increased, indicating enhanced competitiveness of Macedonian exporters. Nominal unit labor costs observed as a three-year change have continuously been in the zone of vulnerability since 2008, with a downward trajectory since 2009, and in 2011 they come close to the threshold of vulnerability, i.e. an acceptable level that does not jeopardize the competitiveness of the economy. In summary, concerning external imbalances, the Macedonian economy shows potential vulnerability in the domain of foreign liabilities, however, as previously explained, there are arguments that contain this issue.



As for the internal imbalances, annual changes in the banks' lending to the private sector are constantly maintained below the threshold of vulnerability, with the highest annual change of loans of around 11% of GDP in 2008 being below the threshold of 15% of GDP. In 2011, the change of the loans is 3.6% of GDP, which is significantly lower than the threshold. Changes in real estate prices, after their peak in the period of economic expansion in 2008, when they were in the vulnerability zone, continued to register a decline and exit the zone of vulnerability, and in 2011 they registered a negative annual change. Total domestic and foreign debt of the private sector (loans from domestic banks and from abroad) is also consistently below the threshold of vulnerability. In 2011, it stood at 80.8% of GDP, which is half the



threshold of 160% of GDP, but on the other hand it should be pointed out that in recent years it has registered a growing trend. Government debt is also maintained nearly half lower than the threshold (in 2011, at the level of 28.6%, compared to the threshold of 60% of GDP), with a moderately growing dynamics in recent years. Unemployment is the biggest problem of the Macedonian economy, which is also confirmed by this approach. The unemployment rate, as a three-year moving average is consistently by about twenty p.p. above the threshold, which is set at 10%.

Hence, within the scope of internal imbalances, the Macedonian economy shows exceptional vulnerability regarding the unemployment, which emphasizes the importance of job creation activities, on the one hand, and a more accurate evidence of unemployment, on the other. For this reason, top priority of the Government of the Republic of Macedonia in accordance with its Programme is to stimulate economic growth and employment growth as a prerequisite for improving the living standard of the citizens and ensuring a better quality life. Hence, the measures and reform activities envisaged for the following mid-term period (see Part IV in PEP for more details) aim at increasing growth and lowering the unemployment rate.

2.2. Medium-term macroeconomic scenario

Macroeconomic policy of the Republic of Macedonia is aimed at achieving the strategic priorities of the country for long-term and sustainable economic growth, increase of competitiveness of the economy on permanent basis, job creation and better living standard of the population. It will be focused towards:

- maintaining macroeconomic stability,
- maintaining low level of general government debt,
- increasing the competitiveness of the economy through further improvement of the business environment and encouragement of investment activity and attracting FDIs, and
- development of human capital and economic infrastructure of the country.

Macroeconomic policy in the period 2013-2015 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 maintaining macroeconomic stability of the economy.

External economic environment is a significant factor for realisation of higher economic growth rates. Medium-term macroeconomic scenario is based on the expectations for slow exit of the EU economy from the recession and realisation of low positive growth rates in the coming several years, realisation of the planned FDIs and structural reforms which contribute to increasing country's competitiveness.

Hence, macroeconomic policies for support to the economy and continuation of structural reforms for increase of country's competitiveness are of crucial importance for increased level of investments, production and productivity of the economy.

Gross Domestic Product. Real GDP growth in 2013 is expected to be around 2%. In 2014 and 2015, in line with the expectations for the growth of economic activity in the EU and other important major trade partners, moderate acceleration of growth is expected. Thus, real GDP growth in 2014 is projected at 3.2%, and at 3.8% in 2015.

In 2013, slow recovery of the real sector is expected and industrial production growth of 2.3% in real terms. According to the expected growth dynamics of foreign demand and metals' prices in the coming period, industrial production is expected to register certain growth acceleration. Thus, industrial production growth in 2014 is projected at 3.8%, and at 4.5% in 2015.



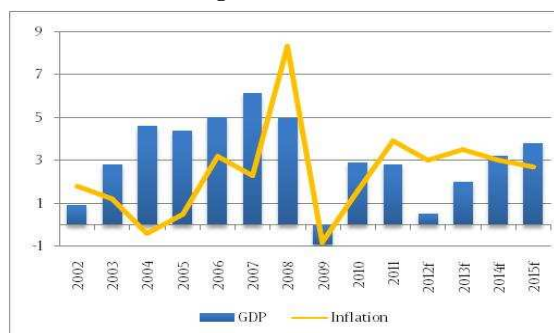
Highest growth of economic activity during the analysed period, according to the production side of GDP, is expected in the construction sector. Average real growth rate is expected to be around 4.5%, mainly due to planned infrastructure projects and investments in technological industrial development zones (TIDZ). Services sector, having the highest share in GDP creation, is expected to register average growth rate of 2.7% in the analysed period. Real growth rates by year and sector are shown in Table 1f, Annex 1. Within services, trade sector is expected to achieve higher growth rate, 3.5% on average, in the analysed period. Projection of real growth in the agriculture sector is 3.4% on average, in the analysed period, encouraged by subsidies for support of agriculture, including the funds from the Budget of the Republic of Macedonia and funds from the fifth IPA component.

Analysed according to the expenditure side of GDP, domestic demand is expected to contribute positively to economic growth. Projection for gross investments growth in this period is 7.2% on average in real terms, with prospects of achieving higher growth rates in 2014 and 2015. Growth of gross investments is a result of keeping the high share of capital expenditures in the total budget expenditures, by realizing major infrastructure projects (see Part II for more details), as well as expectations for gradual increase of private investments driven mostly by expected FDIs.

In the period 2013-2015, personal consumption is expected to grow by 2.7% on average in real terms, while public consumption is anticipated to surge by 0.6% on average. Real growth rates for each year and category are shown in Table 1a, Annex 1.

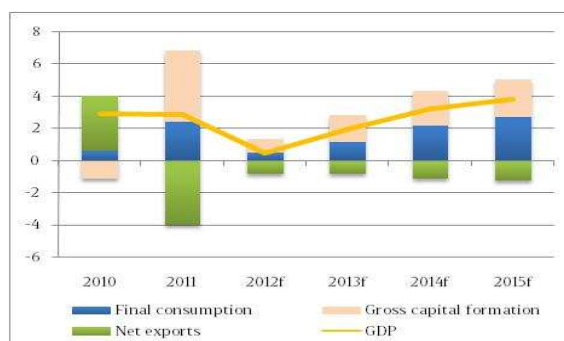
Gradual growth of foreign demand, accompanied by the expectations for a moderate increase of global export prices, points out to intensification of the exports growth as well. In addition to the effects of these factors, an important factor to growth of exports in this period will be the increase of total export potential, resulting from the expansion of the existing export capacities, as well as the new ones that have been announced. In fact, such investments are expected to contribute towards improvement of the export structure in the country in the future, while on a shorter run, they are to contribute towards import increase, at the same time, providing for improvement of its structure, taking into account that they also assume higher import of investment goods. Export of goods and services is expected to realise average growth of around 9% in real terms. Expected increase of domestic demand and export activity will also provide for increase of import which, in this period, is expected to be 8% on average.

Chart 2.11. Real GDP growth and inflation rate



Source: SSO and calculations of the Ministry of Finance
*f-projections

Chart 2.12. GDP by expenditure method, contribution to growth



Source: SSO and calculations of the Ministry of Finance
*f-projections



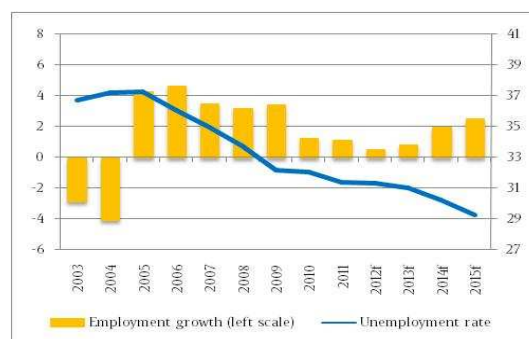
Labour market. Envisaged economic growth in the period 2013-2015 is expected to have positive effect on labour market trends. According to the projections, average annual increase in the number of employees of 1.8% is expected. This will, on other hand, result in decline in the number of unemployed persons by 1.4% on average in the analysed period. Job creation is also expected from the increase in labour force, projected to surge by 0.6% on average. Such trends imply for employment rate in 2015 to increase to around 40%, while unemployment rate is projected to be reduced to around 29% (see Chart 2.13). Active population in 2015 is expected to account for 56.9% of the working-age population. Labour market indicators by year are shown in Table 1c, Annex 1. In the analysed period, nominal growth of average gross wage is expected to range between 1.4% and 3%.

Sources of growth. Decline of economic activity in the first half in 2012 was accompanied by the decline of the total factor productivity (TFP)⁵. Chart 2.14. shows labour productivity and TFP in the period 2005-2015.

Productivity of production factors in the period 2013 –2015 is expected to have slight positive contribution to economic growth, on average participating by 11%. Labour is expected to contribute to economic growth with 26%. Physical capital, according to the projections on investment growth, in the period 2013-2015, is expected, on average, to grow by 4%, contributing by 54% to the total economic growth.

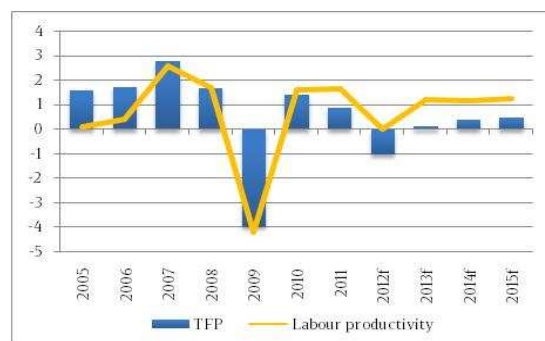
Potential growth. One of the main parameters used in projecting the basic macroeconomic aggregates is the potential GDP. To the end of calculating the potential output, Hordrick Prescott trend estimation was used. This method belongs to the group of statistical approaches and, according to it, potential GDP growth is estimated at 3.4%⁶. The estimated rate of potential growth, however, should be interpreted with caution, taking into account that the method applied is based solely on historical data for GDP⁷. Production gap, in percent of potential output for the period 2011 – 2015, is shown in Table 5, Annex 1. In 2012, in conditions of worsened external environment and drop in the economic activity in the first half of the year, cyclical component of the output is in the negative zone. In the coming medium-term

Chart 2.13. Employment growth and unemployment rate



Source: SSO and projections of the Ministry of Finance
*f-projections

Chart 2.14. Labour productivity and TFP (growth rates)



Source: Calculations and projections of the Ministry of Finance
*f-projections

⁵ TFP is (Solow) residual of growth of other factors of economic growth, labor and capital. When calculating TFP, rate of depreciation of accumulated capital of 10% was used, and the average value of the income from capital is estimated at 41% and the rest is part from the labor.

⁶ Due to the non-economic developments, 2001 is excluded from the calculations.

⁷ Trend value is estimated by minimizing the gap between the actual production and the trend and the variability thereof for the whole sample.



period, in line with the projections on output growth and the estimated trend of the output, the gap will be in a negative zone until 2014, moving to the positive zone in 2015.

Inflation. The adverse shock of the world prices of food and energy, as well as the increase of regulated prices in the third quarter of 2012, caused acceleration of inflation. Retention of these trends on world markets and their transmission on domestic prices resulted for inflation rate to reach 3.3% in 2012. In 2013, the average inflation is expected to be around 3.5%, amid expected further growth of food prices in the first half of the year. The relatively high level of fuel prices, and the assumed increase in regulated electricity prices will have an additional, but smaller effect. The assessments for further retention of the negative output gap in 2013 indicate the absence of inflationary pressures from the demand side, thus the pace of inflation will be driven mainly by supply side factors. The monetary policy, as before, will be oriented at maintaining the stability of the exchange rate as a nominal anchor, which is aimed at maintaining price stability.

In 2014, it is expected that the inflationary pressures from food and energy prices, as well as their possible pass through effects on other prices in the economy will be exhausted. Thus, it is expected that in 2014 inflation will be normalized, amounting to between 2.6% - 3%, and it would be maintained at a similar level also in 2015. In the medium term, inflation will be influenced by the movement of world prices of primary products, and the dynamics of economic activity in the domestic economy.

External sector. On the medium run, the trends in the current account, are to a large extent determined by the recovery of the global economy, the dynamics of capital inflows and domestic economic activity. Namely, in the next three years, the foreign effective demand for Macedonian products is expected to gradually strengthen, which is aimed at increasing the exports. Additional positive effect on exports in the post crisis period is expected from the new entities, which in recent years have further strengthened the export potential. At the same time, in line with the gradual improvement in the sentiment of foreign investors, inflows on the basis of foreign direct investments are expected to gradually increase, which in the first phase is expected to lead to increased import pressures in the process of establishing the new entities. Along with the pressure of moderately strengthened domestic demand on imports, it would result in moderate deterioration of the trade deficit. Given the expectations for gradual normalization of private transfers in the medium term, such developments would lead to deepening of the current account deficit. However, in a longer run, the positive effects of foreign investment from previous years regarding the exports are expected to strengthen, which is expected to act toward increased foreign exchange inflows and narrowing of the current account deficit.

For 2012, slight narrowing of the current account deficit to 2.8% of GDP is estimated, mainly due to increased inflows of private transfers, amid slightly increased trade deficit. Low foreign demand for domestic products and the less favourable export prices are the main factors that had an adverse effect on exports in 2012. Negative trends on the export side are expected to be exhausted in 2013, amid stabilized foreign demand, starting from the second half of the year. The announced expansion of the export potential of some of the export-oriented entities in the country will have a significant positive effect on exports in 2013. The recovery of the global economy and increased exports from the new capacities in 2013 will result in higher nominal growth of exports than that of imports and slight narrowing of the trade deficit to 22.3% of GDP. As for the trade deficit, a relatively stable non-energy trade deficit is expected, while the narrowing of the trade deficit is expected to result from the slight improvement of the energy trade balance. At the same time, in conditions of revival of the economic activity and foreign



demand, increased surplus is expected on the basis of the exchange of services. On the other hand, after the exhaustion of the short-term effects associated with the uncertainty regarding the crisis in the Eurozone private transfers are expected to stagnate and reduce their share in GDP. Hence, in 2013, a moderate deterioration of the current account deficit of 3.5 - 3.8% of GDP is expected.

Chart 2.15. Balance of payment (% of GDP)

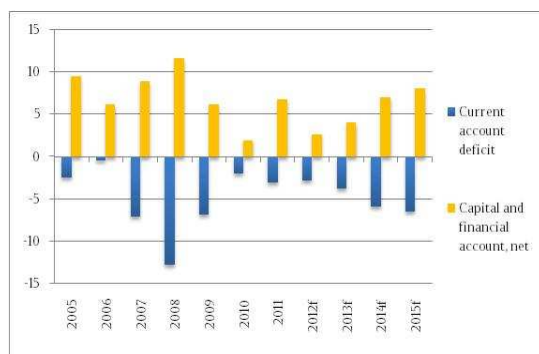
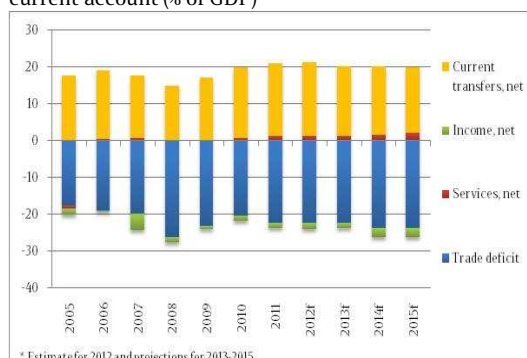


Chart 2.16. Structure of the balance of payments current account (% of GDP)



Source: National Bank of the Republic of Macedonia

In 2014 and 2015, further recovery of the domestic economy is expected, in line with the expected developments in foreign demand. However, despite the continued growth in exports, increased domestic demand and higher inflow of FDI are expected to create stronger import pressures that would lead to widening of the trade deficit to 23 - 24% in 2014 and 2015. The positive balance in the trade of services in the medium term is expected to gradually increase, in line with the growth potential of the services sector. In the period 2014 - 2015, the share of net inflows based on private transfers in GDP is expected to register a tendency of slight slowing down, according to the expectations for their gradual normalization, after the exhaustion of the factors that enabled their extremely high level in 2012. However, their level in 2015 is expected to be lower by about 2.5 p.p. compared to the estimation for 2012. In the category income, the deficit is expected to gradually increase, which is mainly due to the expected higher outflows based on income from FDI. Such an assumption is based on the expected growth of FDI inflows, gradual acceleration of economic activity and favourable financial results, which can be expected to lead to increased outflow based on dividends to foreign shareholders. Such developments in the balance of payments current account are expected to result in a moderate widening of the deficit to 4.8 - 5.9% of GDP in 2014. In 2015, the current account deficit would be maintained at a similar level, which would be followed by a process of its gradual reduction, in accordance with the expected more significant boost of the export potential based on FDI.

Net inflows on the capital and financial account in the period 2013 - 2015 are expected to have a gradual upward trend, mainly influenced by the expected movement of FDI. Unfavourable global and domestic economic developments, as well as continued high uncertainty resulted in relative restraint of foreign companies from investing in 2012. However, it is expected that the recovery of the global and domestic economy in the next year will result in acceleration of private capital inflows to a level of about 3% of GDP in 2013. The realization of the already announced projects will have a significant contribution to the growth of FDI. Furthermore, the stabilization of the conditions in the financial markets will allow increased inflows on the basis of borrowing. However, these inflows will mostly reflect the net indebtedness of the public sector in line with the projected budget deficit for 2013 and announced financial construction for its financing. The gradual stabilization of global financial flows, reduced uncertainty and



improved perceptions of foreign investors, are the factors that will act toward growth of private financial flows. Consequently, FDI are expected to gradually increase also over the next two years, approaching to around 5 - 6% of GDP in 2015, a level common for the pre-crisis years. Government external borrowing in the medium term will largely depend on the needs for financing the budget deficit and borrowing conditions in international markets. The revival of the domestic economic activity is expected to bring appropriate new borrowing of the private sector, so the debt of the private sector in the period 2013 - 2015 is expected to grow moderately. However, the medium term external debt sustainability analysis, in the context of the overall macroeconomic scenario, points to a sustainable level of debt, with the projected economic expansion being expected to be largely supported by foreign non-debt funding.

Intensification of capital inflows in the next three years will allow them to cover the enlarged current deficit and to enable further increase in foreign reserves. According to the projected movements in the current and capital and financial account, gross foreign reserves in the next medium-term horizon are expected to grow continuously and to be maintained at a level of about four months of coverage of import of goods and services from each subsequent year. This level of foreign reserves is aimed at supporting the Strategy of exchange rate targeting.

Risks to Macroeconomic Scenario. Medium-term macroeconomic scenario is accompanied by certain uncertainties and risks. In the coming medium-term period, global economy is susceptible to downward risks. Debt crisis in the Eurozone is still a threat to global economic growth and economic growth in the Republic of Macedonia. On the short run, low economic activity in the Eurozone will most probably be the most serious potential risks to the developing countries such as the Republic of Macedonia.

Realisation of the risks for worse economic performance in the EU and other trade partners of the country can worsen the prospects for growth of economic activity in the Republic of Macedonia. Possible prolongation of the European debt crisis and weaker dynamics of growth of global economy can adversely reflect on export and industrial production, which would lead to further instability on the international markets, restraining of investors and drop in the inflow of capital in the country. On the positive side, the effect of planned FDIs, being in the phase of realisation or being announced, can be expected to fully materialise in the next several years.

As regards inflation, risks to projected inflation rate in 2013 are mainly upwards, and their materialisation depends, to a great extent, on the trends of world prices of commodities. Additional risk factor is also the size of the transferable effect of the so-far increase of prices of energy sources on the other prices in the economy.

As regards external sector, projections for BOP current account balance in the period 2013-2015 is accompanied by risks, mainly related to the global economic ambient. In fact, unfavourable global environment in the period of the global crisis continuously affects the national economy, increasing the risks as regards the external position. Possible weak external demand can adversely affect the presence of domestic exporters on the foreign markets. In addition, trends of global prices are accompanied by uncertainty. On the other hand, it is a fact that the number of export capacities in the economy gradually grows, which, on the medium term, should result in further diversification of export and improvement of export performance. Realised positive changes in the export structure in the recent years, changes with respect to geographic divergence of export, as well as increased export-market share, speak in favour of this. At the same time, this would contribute towards strengthening the flexibility of the economy in relation to external shocks. In addition, with respect to the projection for private transfers, it can be assessed that upward risks are present, taking into account the possibility



to maintain the level of private transfers. Risks as regards capital inflows are moderately downwards and are mainly connected to the possible prolongation of the global recovery, which would result in further instability of the international markets and restraining of investors. Overall caution of the international capital market increases the uncertainty as regards external debt and non-debt financing.

Government and NBRM will continue to carefully monitor the risks on daily basis, to the end of prompt reaction by the fiscal and the monetary policy respectively. At the same time, regular analyses of the needs to implement adequate measures to reduce potential adverse effects from the development in the debt crisis in the Eurozone on the national economy will continue. In addition, in order to continuously monitor the developments in the financial system in the Republic of Macedonia, as well as the global trends, particularly the risks to the global financial system, and to the end of maintaining stability of the financial system in the country, Financial Stability Committee will continue organising regular meetings in the coming medium-term period as well.



PART III

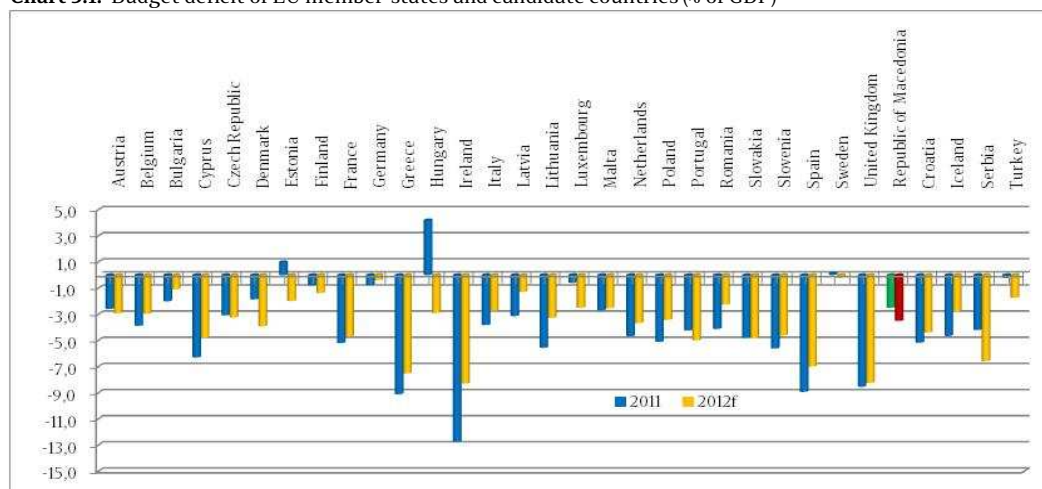
Public Finances



In continuity with the previous years, fiscal policy in both 2011 and 2012 was aimed at achieving reasonable balance between both strategic goals of the Government of the Republic of Macedonia referring to unconditional preserving of macroeconomic stability and encouraging economic activity by increasing the quality of public finances and strengthening the ability of private sector for growth and job creation.

Total optimality of fiscal policy in achieving these goals is assessed according to the level of budget deficit and the structure of public expenditures. Despite all challenges and risks from the external sector, the budget deficit in the Republic of Macedonia in 2011 was maintained at moderate level of 2.5% of GDP. This is one of the lowest Budget deficits in the EU (chart 3.1) and lower than the EU average (3.9% of GDP for 2011) and the average of the other EU candidate countries (-3.6% for 2011).

Chart 3.1. Budget deficit of EU member-states and candidate countries (% of GDP)*



Source: IMF, WEO, October 2012 and Ministry of Finance of the Republic of Macedonia, November 2012

*f-projections

In addition, as it is shown in Chart 3.2., Republic of Macedonia is among the countries with the lowest government debt (27.8% of GDP for 2011) compared to the EU Member States (64.6% of GDP in average in 2011) and the other EU candidate countries (58.8% of GDP in average in 2011).

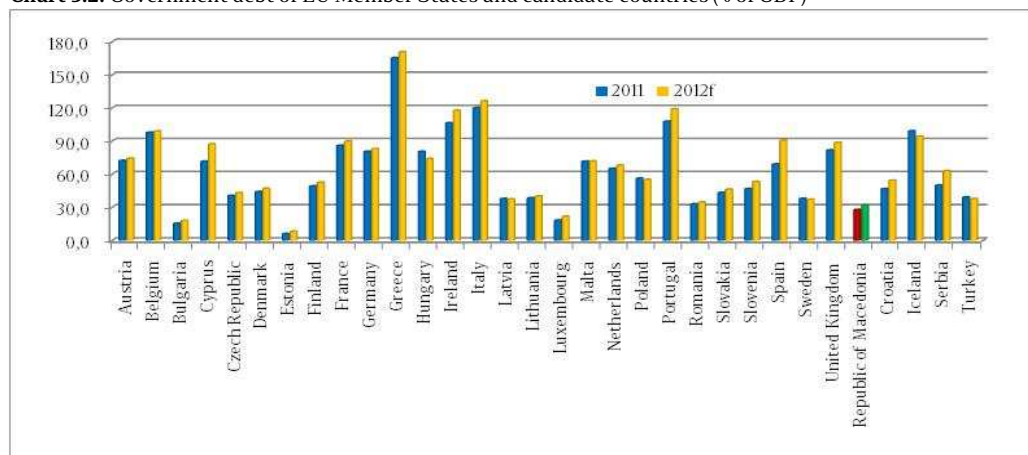
Renowned credit rating agencies, Fitch and Standard and Poor's (S&P), in 2012, affirmed the credit rating of the Republic of Macedonia as a result of the low indebtedness, low level of budget deficit, sound economic policies, stable financial sector and inflow of FDI as potential for the economic growth in the coming medium-term period. Fitch notes the fiscal discipline taking into account the targeting of the nominal Denar exchange rate to the euro. In addition, Fitch notes that the risk of contingent liabilities from the banking and private sectors is low. In addition, Fitch notes that the risk of contingent liabilities from the banking and private sectors is low. At the same time, IMF, in recent analysis⁸ of the trends of the government securities market, notes that the prudent fiscal policy conducted in the Republic of Macedonia in the past period, contributed to achieving macroeconomic stability of the country.

Taking into account the current challenges in the external environment, Republic of Macedonia has fiscal space for moderate borrowing, for the purpose of increasing the support to the economy, if in the next medium-term period, there is spill-over of the effects of the debt crisis in the Eurozone, without thereby putting into question the ability for debt repayment.

⁸ IMF (2012) "Debt Market Development in Republic of Macedonia", Selected Issues paper, IMF, Publication Services, Washington DC;



Chart 3.2. Government debt of EU Member States and candidate countries (% of GDP)*



Source: IMF, WEO, October 2012 and Ministry of Finance, November 2012

*f-projections

In the period 2013-2015, fiscal policy will continue to feature further improvement of quality of public finances and disciplined budget funds management, which will result in maintenance of low fiscal deficit and public debt at sustainable level. By more efficient usage of budget funds in development programmes and infrastructure investments, fiscal policy will be aimed at preserving macroeconomic stability and increasing economic activity. Fiscal policy in the next medium-term period will continue to be balanced between realisation of two objectives:

- on the short run, to respond to the need to mitigate fluctuations in the business cycle;
- on the long run, fiscal position to be driven by the need to establish sustainable level of public debt, by maintaining moderate level of budget deficit, which would not lead to increase in the level of public debt above the long-term sustainable level.

3.1. General government budget balance and debt stock

3.1.1 Actual state-of-play and medium term expectations

Actual State-of-Play in 2011. In 2011, central government budget⁹ envisaged deficit¹⁰ of 2.5% of GDP (composed of 2.1% deficit of GDP of the core budget, 0.2% deficit of GDP of own accounts for self-financing activities, 0.1% of GDP deficit of the Pension and Disability Insurance Fund, 0.1% of GDP deficit of the Agency for State Roads and balanced budgets of the Health Insurance Fund and the Employment Agency). 2.5% deficit of 2011 GDP retained the dynamics of low budget deficit, which is aimed at encouraging the growth of domestic economy, through increased share of capital investments in the structure of the expenditure side of the Budget.

Total budget revenues were realised in the amount of Denar 137,166 million, i.e. 92.4% compared to the projected ones under the 2011 Budget. They were higher by 3.8% compared to the performance in 2010. Within total revenues of the Budget of the Republic of Macedonia, Denar 118,669 million was realised on the basis of tax revenues and social contributions, i.e. 86.5% of total genuine revenues. Tax revenues accounted for the most in the structure of total revenues with 57%, followed by contributions with 29%, non-tax revenues with 9%, while capital revenues and other revenues accounted for 3%, i.e. 2%.

⁹ Definition for the central government budget includes central government budget and budgets of the four budget funds (Pension and Disability insurance Fund, Health Insurance Fund, Employment Agency and Agency for State Roads).

¹⁰ Fiscal statistical data is in line with IMF GFSM 1986.



Tax revenues in 2011 were realised in the amount of Denar 78,910 million or 98.7% compared to the initial projections. Revenues collected on the basis of VAT accounted for the most in the total revenues, i.e. 54%. Comparison on annual basis shows higher tax revenues by 7% compared to last year. What is especially important is that this increase is mainly due to the better performance of VAT revenues, being higher by 12% than last year.

Revenues on the basis of social contributions were higher by 2.8% compared to 2010, being realised by 94% compared to the projections. Non-tax revenues were realised in the amount of Denar 12,844 million or by 80% of the projections. Capital revenues were realised in the amount of Denar 3,787 million, mainly from dividend, privatisation and lease of construction land, as well as sale of flats, while revenues on the basis of donations were realised in the amount of Denar 1,087 million.

Total expenditures of the Budget of the Republic of Macedonia in 2011 amounted to Denar 148,649 million or 92.9% of the initial projections. Realisation in 2011 was higher by 4.2% compared to 2010. Most of the expenditures were realised according to the plan, having usual performance dynamics. Total of Denar 23,147 million was paid for salaries and allowances or 2.2% more compared to 2010. Expenditures related to goods and services were lower by 4.9% compared to 2010, amounting to Denar 13,958 million, while social transfers were higher by 5.3%, accounting for Denar 67,188 million. Funds in the amount of Denar 35,751 million were allocated for regular payment of pensions, while transfers to private pension funds accounted for Denar 3,483 million. Denar 2,269 million was allocated to the Employment Agency for payment of unemployment benefits. Funds to finance health services and benefits amounted to Denar 20,491 million. As for other transfers, grants were regularly transferred to the local government units (LGUs) from the Budget, on the basis of VAT grant, both block and earmarked grants for financing the competences transferred to the municipalities in the amount of Denar 14,074 million. Denar 3,471 million were intended for regular servicing of the liabilities on the basis of interest, while Denar 8,101 million was intended for repayment of internal and external debt. Capital expenditures in 2011 were realised in the amount of Denar 17,710 million, being higher by 15.5% compared to 2010.

In 2011, the Budget of the Republic of Macedonia realised deficit in the amount of Denar 11,483 million or 2.5% of GDP, i.e. the plan was fully realised. Thus, the central budget realised deficit of 2.2% of GDP, while the Funds realised deficit of 0.3% of GDP. Structure of fiscal balance of the Budget of the Republic of Macedonia shows biggest share of the core budget or 83% of the total consolidated budget deficit. Financing of the 2011 deficit was provided through foreign borrowing.

Total revenues in the general government budget (Budget of the Republic of Macedonia and the budgets of LGUs) amounted to Denar 147,092 million or 32.7% of GDP in 2011, while total expenditures reached the amount of Denar 158,979 million or 35.3% of GDP. Thereby, deficit of consolidated general government budget was realised in the amount of Denar 11,887 million or 2.6% of GDP.

Actual State-of-Play in 2012. In the period January-September 2012, total realised revenues of the Budget of the Republic of Macedonia amounted to Denar 102,377 million (21.5% of GDP), i.e. 68.5% of the initial projections was realised. Within total realised revenues of the Budget, Denar 87,202 million was realised on the basis of tax revenues and social contributions, i.e. 85.2% of total genuine revenues. Tax revenues accounted for the most in the structure of total revenues with 56%, followed by contributions with 29%, non-tax revenues with 9%, while capital revenues and donations accounted for 4%, i.e. 2%. Tax revenues of the Budget of the Republic of Macedonia in the period January-September 2012 were realised in the amount of Denar 57,448



million. VAT revenues accounted for the most in the structure of realised tax revenues with 51.7%, excises participated with 21.4%, Personal Income Tax with 12.2%, profit tax with 5.2%, import duties with 5.2% and other tax revenues participated with 4.3%.

Table 3.1. Budget of the Republic of Macedonia (Denar million)

	2012 Budget	Budget realization in January – September 2012
1. Total revenues	149,532	102,377
1.1. Tax revenues and contributions	123,766	87,202
1.1.1 Tax revenues	82,295	57,448
1.1.2 Contributions	41,471	29,754
1.2. Non-tax revenues	15,196	9,546
1.3. Capital revenues	5,815	4,066
1.4. Donations	4,755	1,563
2. Total expenditures	161,667	114,402
2.1. Current expenditures	140,231	102,018
2.1.1 Salaries and allowances	23,057	17,032
2.1.2 Goods and services	15,918	10,407
2.1.3 Transfers	97,591	71,655
2.1.4 Interest	3,665	2,924
2.2. Capital expenditures	21,436	12,384
3. Deficit	-12,135	-12,025
4. Financing of the deficit	12,135	12,025
4.1 Inflow	17,676	16,243
4.1.3 External sources	13,876	6,962
4.1.3 Domestic sources	3,600	16,834
4.1.4 Deposits/ Additional sources	0.0	-7,606
4.1.5 Income from sale of shares	200	53
4.2 Outflow	5,541	4,218
4.2.1 Repayment upon foreign borrowing	3,613	2,480
4.2.2 Repayment upon domestic borrowing	1,928	1,738

Source: Ministry of Finance

In the period January-September 2012, total expenditures of the Budget of the Republic of Macedonia were realised in the amount of Denar 114,402 million (24% of GDP), i.e. they were realised by 70.8% of the annual Budget. Observed by categories, expenditures related to wages and salaries and allowances amounted to Denar 17,032 million, while expenditures related to goods and services accounted for Denar 10,407 million. Transfers accounted for the most in the total budget expenditures i.e. 62.3% (Denar 71,655 million), while capital expenditures, as of September inclusive, were realised in the amount of Denar 12,384 million. In the analysed period, the repayment of principal in relation to the total debt amounted to Denar 4,218 million, while interest-related payments amounted to Denar 2,924 million. Out of the total outflows on the basis of repayment of credits, outflow for repayment of principal to domestic creditors amounted to Denar 1,738 million, while Denar 2,480 million were outflows for repayment of principal to non-resident creditors. In the period January-September 2012, budget deficit was realised in the amount of Denar 12,025 million or 2.5% of GDP.

Despite the cautious planning of the Budget, deteriorated economic trends caused problems with the liquidity of the Budget and the determined practices for management of public finances. As it was elaborated in Part II above, deterioration of the economic activity in the Eurozone negatively affected Macedonian economy, thus the budget revenues as well. To that end, in order to adjust the spending to the current economic trends, in June 2012, Supplementary Budget was prepared, envisaging decrease of the expenditures for goods and services and the capital expenditures. However, settlement of the liabilities towards the private sector became more difficult. In addition, when preparing the Budget, some of the



liabilities were not taken into account since the previously established system did not envisage recording of multi-annual liabilities of budget users. These non-projected revenues could not be easily absorbed within the allocated budget funds, causing occurrence of arrears.

Nonetheless, in the last couple of months, significant progress in resolving the issue of arrears was achieved. Namely, in September 2012, Government of the Republic of Macedonia adopted timeframe for paying the arrears starting from October 2012, and it is envisaged for all arrears to be paid by the end of February 2013. Activities were also undertaken (Box 3.1.) aimed at improving the treasury operations so as not to incur new arrears in future. As a result of the undertaken activities for reducing the arrears, their amount was significantly reduced and as of 31st of December 2012, they amounted to Denar 1,370 million, meaning reduction by 75% compared to the amount of arrears in September 2012, amounting to Denar 5,650 million.

Considering this, it is expected for the Budget deficit to account for 3.7% of GDP, being considered as optimal level for 2012. However, despite the deficit increase by around 1.2 p.p. for 2012, the intention of the Republic of Macedonia is to continue to be a country with low budget deficit.

Box 3.1. Activities for improving the treasury operations

To the end of further enhancement of the financial management in the public sector and prevention of accumulation of new arrears, the Manual on the Manner of Treasury Operations (Official Gazette no. 18/12) was amended, defining the procedures for reporting of multi-annual liabilities of budget users to the Treasury, improving the procedures for reporting liabilities in line with the signed agreements and defining procedures for validation of assumed liabilities by the internal auditors.

For the purpose of total recording and planning of the multi-annual liabilities, working group was established (Decision of the Government of the Republic of Macedonia, no. 04-27553 /1 dated 26th July, 2012), the goal of which is defining the technical specifications and the necessary documentation for upgrading the Treasury software with new module, in which the multi-annual liabilities will be reported.

Thus, precise planning and monitoring of the liabilities from the moment of concluding the public contracts up to their execution, will be provided, which will, after all, result in efficient planning of liquidity and enhancement of public finances management.

Medium-Term Expectations. Objectives of the fiscal policy in 2012 and in the coming mid-term period as well, will remain focused on maintaining macroeconomic stability, supporting the Macedonian economy by improving the quality of public finances, mainly by intensifying capital investments aimed at improving infrastructure and physical capital, taking here into account the foreign trade position and preserving stable Denar exchange rate. Thereby, budget deficit rate will be reasonable and non-distortive for the economy, in particular if one takes into account that it includes increase of investments, pensions, social benefits and subsidies.

Projection of public finances for the coming medium-term period is based upon the performance in 2012, projected macroeconomic indicators for the next period, as well as the effects of the planned reforms for increase of economic development and encouragement of investments.

Projected revenues of the consolidated government budget in the next mid-term period decline relatively, as a share of GDP, from 31.7% of GDP in 2013 to 30.7% in 2015. As a result of continuity in implementing disciplined budget policy and strengthened consolidation of public spending, in the period 2013-2015, total expenditures will also decline from 35.4% in 2013 to 33.7% in 2015.

Determined main postulates of fiscal policy in the following mid-term period, provide for keeping the deficit of the consolidated government budget at optimal level of around 3% of the projected GDP (Table 3.2).



Table 3.2. Consolidated general government budget (Denar million)

	2013	2014	2015
Consolidated general government budget - Revenues	158,914	166,099	174,549
% of GDP	31.7	31.2	30.7
Consolidated general government budget - Expenditures	177,152	183,774	191,177
% of GDP	35.4	34.5	33.7
Consolidated general government budget - Deficit	-18,238	-17,675	-16,628
% of GDP	-3.6	-3.3	-2.9
Central Budget - Revenues	87,697	92,099	97,443
% of GDP	17.5	17.3	17.2
Central Budget -Expenditures	105,297	109,284	113,541
% of GDP	21.0	20.5	20.0
Central Budget - Deficit	-17,600	-17,185	-16,098
% of GDP	-3.5	-3.2	-2.8
Budget funds - Revenues	44,439	46,227	48,614
% of GDP	8.9	8.7	8.6
Budget funds- Expenditures	44,534	46,187	48,614
% of GDP	8.9	8.7	8.6
Budget funds - Deficit	-95	40	0
% of GDP	0.0	0.0	0.0
Local government Budget-Revenues	26,778	27,773	28,492
% of GDP	5.3	5.2	5.0
Local government Budget - Expenditures	27,321	28,303	29,022
% of GDP	5.5	5.3	5.1
Local government Budget -Deficit	-543	-530	-530
% of GDP	-0.1	-0.1	-0.1
Gross domestic product	500,995	532,538	567,699

Source: Ministry of Finance

3.1.2. Fiscal Strategy

Projected revenues in the Budget of the Republic of Macedonia. Total genuine revenues for the period 2013-2015 are projected in the amount of around 29% of GDP, whereby their share in GDP per year declines in line with the policy for reducing tax burden on the economy. Thereby, tax revenues account for around 56% in the projected revenue structure, followed by revenues on the basis of social contributions with around 28%, non-tax revenues and capital revenues with around 14%, while the rest of the revenues are expected to be realised from IPA funds. With respect to tax revenues, most revenues will be realised on the basis of VAT, personal income tax and excises.

Projections for social contributions, which are genuine revenues of the Pension and Disability Insurance Fund, Health Insurance Fund and the Employment Agency, in the next medium-term period, are based on the planned dynamics of reducing social contribution rates, as well as the effects from the implementation of the reform in this segment. Non-tax revenues in the next medium-term period account for around 9% in overall revenues, and the most significant is the share of revenues on the basis of administrative fees, concessions from mineral raw materials and other non-tax revenues the budget users realise.

Projection of the revenues of the Budget of the Republic of Macedonia with regard to foreign donations in the coming period include the donations that the budget users would realise for specific projects, as well as disbursements from the EU pre-accession funds.

Projected Expenditures in the Budget of the Republic of Macedonia. Expenditure side of the Budget of the Republic of Macedonia in the next medium-term period is designed so as to fully support the recovery of Macedonian economy, to overcome consequences of the crisis period,



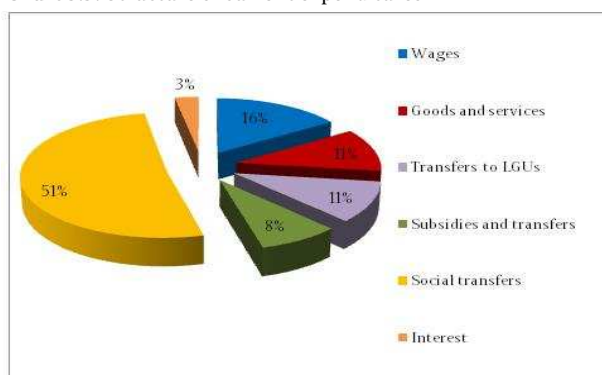
to improve the economic position of targeted groups of citizens (pensioners and beneficiaries of social benefits) and to increase investments in infrastructure projects. Disciplined budget spending will continue to be implemented, with an emphasis to restrictiveness and rigorous control over less productive 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 2013-2015 is around 32% of GDP. When projecting the 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 and increase of salaries in the public sector;
- total and timely payment and increase of pensions and social benefits, for the purpose of ensuring the well being of the beneficiaries of these rights;
- increase of subsidies in the field of agriculture, to the end of strengthening and support of this sector.
- provision of increased amount of funds, from both domestic and foreign sources, for the purpose of fully completing the commenced capital projects, in particular in infrastructure projects, as support to the economic recovery.

Thereby, expenditures related to pensions are projected on the basis of the assessed increase in the number of pension beneficiaries and the calculated pension indexation according to the projected increase of the costs of living and of the salaries. Projections of the necessary funds of Health Insurance Fund takes into account the effects from the planned controls for more efficient usage of funds, as well as the effects from the implementation of the health treasury system by fully applying the budgetary principles.

Chart 3.3. Structure of current expenditures



Source: Ministry of Finance

Within the medium-term projections of social benefits, funds are planned for regular servicing of the state liabilities towards the socially most vulnerable families in the form of social welfare, child allowances, allowances on the basis of rights of disabled persons, invalids of war 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 and proper targeting of these allowances towards the most vulnerable categories.

Envisaged reforms in the agricultural sector will create conditions for establishing an efficient and competitive agricultural sector and its successful integration in the EU. These reforms will be successfully realised through increased financial support to farmers, and therefore subsidies in the amount of Euro 130 million are planned in 2012, Euro 135 million in 2013, Euro 140 million in 2014 and Euro 150 million in 2015, as well as funds under the IPARD Programme.

To the end of realising and maintaining positive economic growth rates, in the following mid-term period it is envisaged for significant amount of the Budget to be intended for public investments. Regarding budget funds for capital expenditures, significant investments are envisaged in completion of the construction of Corridor X highway and railway infrastructure,



energy and utilities infrastructure, as well as capital investments in improving the conditions in the educational, social and health system, agriculture, environment protection and judiciary.

For the purpose of arranging and organising the TIDZ, funds in the amount of Denar 413 million is projected in the 2013 Budget, which will provide for construction of infrastructure facilities and geo-mechanical investigative activities in the zones.

To the end of strengthening the agriculture sector, increased level of capital investments is planned in the amount of around Denar 978 million, referring to construction of hydro-systems and investments for improving the competitiveness and modernisation of agricultural holdings restructuring and upgrading the EU standards.

Capital investments planned in the other areas, including the judiciary, public order and security, defence, culture and information technologies envisage certain increase, in line with the planned realisation dynamics of the activities and projects in these areas.

Efficient usage of funds provided with loans from international financial institutions (IFIs) and bilateral creditors will be basis for series of investment activities and reforms in the following mid-term period envisaged in line with the loan agreements, which will provide job creation and favourable business environment.

In the field of road infrastructure, implementation of the Regional and Local Roads Programme Support Project will continue with loan funds from the World Bank and the European Bank for Reconstruction and Development (EBRD). This Project is part of the policy of the Government of the Republic of Macedonia for equal regional development, being aimed at improving the quality of road infrastructure in the Republic of Macedonia and reducing the costs for access of municipalities to markets and services.

In 2012, construction of motorway section Demir Kapija- Smokvica along Corridor X started, by which the main axis of Corridor X, passing through the Republic of Macedonia, will be completed. Under this capital infrastructure project, new modern motorway section Demir Kapija – Smokvica long around 28 km, will be built, being a highway in line with the European standards. In addition, by modernising the road toll system and constructing new road tolls along Corridor X, the collection at road tolls will be improved. Project realisation is supported with loan from EIB, EBRD, grant funds through the IPA, as well as budget funds.

Regarding the railway infrastructure, it is envisaged to continue the commenced activities for implementation of the Rail Corridor X Project, financed with EBRD loan, by which several motorway sections along Corridor X, the total length of which is around 30 km, will be repaired. Within this Project, in October 2012, repair of the motorway sections Tabanovce - Kumanovo and Miravci - Smokvica started, while in the course of 2013, the other envisaged motorway sections along Nogaevci - Negotino will start. Main purpose of the Project is modernisation of the railroad tracks, reduction of its maintenance costs and ensuring safe railroad traffic. In addition, in the field of railway traffic, in the next medium-term period, emphasis will be also put on realisation of the Project for Completion of Rail Corridor VIII. By constructing Corridor VIII, railway transportation will be developed, which will contribute to increasing the trade, i.e. improving the approach and connecting with the neighbouring countries, as well as to improving competitiveness of the economy and the communication with the European countries. Construction of eastern part of railroad tracks along Corridor VIII (Kumanovo – Deve Bair- border towards Bulgaria) which is 88 km long will be carried out in three phases, with financial support from the EBRD, the EIB and IPA funds. In 2013, implementation of the first phase of the Project will start, covering the Kumanovo – Beljakovce section, financed with a loan from the EBRD.



In parallel to the implementation of the projects in the field of railway infrastructure, in 2013, the Macedonian Railways Fleet Renewal Project, financed with loan from the EBRD, will start. By implementing this Project, railroad fleet of the public company 'Macedonian Railways Transport' will be renewed, the condition of the existing railroad fleet will be improved, thus creating conditions for better-quality services for transportation of passengers and goods and the competitiveness of 'Macedonian Railways Transport' will be improved.

In 2013, realisation of the M-NAV Modernisation Project is expected to start, which will be realised with a loan without sovereign guarantee from EBRD and with own funds of M-NAV AD Skopje. This Project envisages improvement of the performance of the overall system (safety, capacity, cost effectiveness, efficiency, flexibility, predictability, environmental impact, etc).

At the same time, in the next medium-term period, second phase of the Project for Irrigation of South Valley of the River Vardar will continue, being aimed at increasing productivity and sustainable development of agricultural production, financed with KfW loan, covering rehabilitation and modernisation of systems for irrigation of land area of 3,904 ha.

To the end of ensuring, exercising and improving human rights as regards conditions for accommodation, hygiene, health protection and leisure time activities of the convicted and detained persons, implementation of the Project for Reconstruction of Penitentiary Institutions, financed with CEB loan, will continue in the coming period. Project realisation envisages reconstruction of four penitentiary institutions, thus implementing the standards envisaged in the European Prison Rules.

Activities and measures of the Government of the Republic of Macedonia as regards social policy are supported by the Conditional Cash Transfer Project, financed by the World Bank, which is expected to contribute to poverty reduction at vulnerable groups by conditioning the existing pecuniary benefits in the coming period.

To the end of continuing the reforms for protection of property-legal affairs and registration of property rights, in the course of 2013, realisation of activities will continue pertaining to upgrading the already commenced reforms in the Real Estate and Cadastre Agency, supported by additional financing under the World Bank Real Estate Cadastre and Registration Project. Realisation of this Project will improve the delivery of public services in the real estate cadastre sector and registration of rights, having direct impact on the economic development through the real estate market. Project also supports the Public Revenue Office, by improving the working conditions in the regional offices, as well through automatisisation of business processes and digitalisation of the existing records to the end of creating digital archives.

For the purpose of increasing the access of households, farmers and SMEs to financial protection from losses caused by natural disasters, Regional Project on SEE and Caucasus Catastrophe Risk Insurance Facility, to be financed with a World Bank loan, started to be implemented in 2012. The loan will be used as contribution in "Europa Re", which is a specialised regional catastrophe risk reinsurance company owned by SEE countries. Participation in this Project will provide for creation of a new financial instruments, under favourable conditions for the enterprise sector, the farmers and the households, for insurance against natural disasters, such as floods and droughts, which has not at all been developed so far in the country.

To the end of improving the conditions in the health institutions, CEB provided funds for realisation of the first phase of the Project for Rehabilitation of Health Provider Institutions. Objective of the Project is to improve health infrastructure, operational services for delivery of



respective health services, as well as to introduce new and modern equipment and technology to replace most of the existing obsolete equipment. This phase includes reconstruction or rehabilitation of the most urgent 20 health provider institutions. In addition, EU technical assistance under WBIF instrument provided for comprehensive assessments of the scope and the type of repairs, as well as financial resources for the rest of the health provider institutions, as well as the Clinical Centre. On the basis of this assessment, it is envisaged to develop a Strategy for phased realisation of reconstruction and extension of the remaining health provider institutions and other health facilities, and such phased realisation will be carried out by ensuring additional financial resources in the form of loans from international financial institutions.

In the coming medium term, it is envisaged for the realisation of the first phase of the Project for Building Physical Education Facilities in Secondary Schools, funded with loan from the CEB, to continue. In 2012, second stage of this Project started including new physical education facilities as well as renovation of primary and secondary schools throughout the whole country.

One of the important elements in the social development policy is to increase the quality of life of low-income persons and the vulnerable groups by providing their appropriate housing. Activities and measures of the Government of the Republic of Macedonia 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 from the CEB, as well as from the Budget of the Republic of Macedonia.

For the purpose of ensuring balanced regional development, improving the conditions and increasing the quality of life in the rural areas by providing potable water, implementation of the Water Supply and Waste Water Collection Project, financed with EIB loan, started in 2011. Within this Project, municipalities obtained irrecoverable funds, with which they will finance their investments for rehabilitation, superstructure or new construction of water supply infrastructure, water supply system, drinking water treatment facilities, wastewater drainage systems, faecal sewage and wastewater treatment stations. In addition, realisation of the first phase of the Project will continue, referring to improvement of water supply and sewage networks in eight municipalities, funded from the KfW. At the same time, the Project envisages second phase to include larger investment operations as regards water supply and sewerage network in the municipalities.

First phase of the Zletovica Water Basin Utilisation Improvement Project will be completed in 2013. Under EIB support, second and third phase will be realised, covering the irrigation and generation of electricity by constructing small hydro-power plants (HPPs) along the course of the River Zletovica. Realisation of this multi-purpose Project will provide potable water in the municipalities in the Eastern region of the country, support to the development of the agriculture, as well as increase of the participation of sustainable energy sources in the final energy consumption.

In the field of energy, implementation of the Project for Construction of Gas Pipeline in the Republic of Macedonia will commence in the coming period, with financial support from the EBRD, EIB, funds from the liabilities of former Soviet Union towards the Republic of Macedonia and own participation of the Republic of Macedonia. Goal of the Project is to supply the businesses, the public sector and the households with cheap and environment-friendly energy, which will result in reduction of emission of harmful gases into the atmosphere. In 2013, construction of the route of the national gas pipeline system Klecovce- Stip-Negotiono, with leg to thermo-power plant (TPP) Negotino, to be financed with the funds provided from



the liabilities of former Soviet Union towards the Republic of Macedonia. In the coming medium term, it is envisaged for part of the gas pipeline to be financed with loans from the EBRD and EIB.

Although not being part of the central budget, it is still important to point out the investments in the energy sector, aimed at increasing the generation of electricity from renewable energy sources up to 20% in line with the guidelines presented in the “Europe 2020” Strategy and the 2020-Strategy for Renewable Energy Sources of the Republic of Macedonia. Hence, in the coming medium term, rehabilitation of six HPPs, financed with a loan from KfW, will continue. “Wind Farm Bogdanci” Project, financed with a loan from KfW, is being implemented, the realization of which is envisaged to lead to increasing the installed capacity of AD ELEM by around 30-40 MW. In addition, in 2013, construction of Lukovo Pole Dam and intake of Korab Waters will be realized, financed with a loan from the World Bank, as well as a construction of a reservoir intake structure with Boskov Most HPP will commence, which will be financed with a loan from EBRD. At the same time, realisation and modernisation of TPP Bitola continues with financial support from Deutsche Bank, to the end of reducing the emissions of nitric oxides, in line with the EU directives. In addition, in 2013 with World Bank loans, construction of 110 kV transmission line from Bitola 3 to Bitola 4 electricity transformation stations will continue, as well as revitalization of 110 kV transmission line from Skopje 1 to Tetovo 1 and construction of 400 kV transmission line from Stip (Republic of Macedonia) to Nish (Republic of Serbia). EBRD loan is expected to provide for commencement of the construction of 400 kV transmission line from Bitola (Republic of Macedonia) to Elbasan (Republic of Albania). In addition, in 2013, AD MEPSO will obtain loan from EBRD with no sovereign guarantee for the purpose of realising the MEPSO Rehabilitation and Control Project. Implementation of this Project will increase the quality of delivery of electricity, safety when supplying electricity to the users of the transmission system, and it will also lead to revitalisation of 110 kV transmission lines older than 40 years.

Budgetary implications from major structural reforms¹¹. Projected expenditures in the Budget also cover the expenditures for key structural reforms presented in Part IV of the 2013 - 2015 PEP. Table 3.3 below shows the net budgetary impact from the measures envisaged in different areas. Taking into account the goal of the Government for reducing unemployment, which in Part II (Box 2.1.) above was identified as serious internal imbalance, as it can be seen in the Table 3.3 below, the net budgetary impact is highest for the area of labour market.

Table 3.3. Net-budgetary impact from key reform commitments (Denar million)

	2013	2014	2015
Business environment	-93,5	-433,9	- 428,6
Labour market	2.214,0	2.704,2	3.197,6
Enterprises sector	84,5	-51,6	23,9
Financial system	0,3	- 38,4	-25,6
Agriculture	1.700,5	1.710,1	1.838,3
Rule of Law	-5,7	7,6	78,0
Administrative reforms	7,9	51,9	93,2
Customs	-15,4	-17,8	-10,6
Energy	- 28,9	-31,5	3,1
Transport	458,5	544,1	453,1
Total impact on the Budget	4.322,1	4.444,8	5.222,5
Total impact on the Budget (in % of GDP)	0,86	0,83	0,92

Source: Calculations of the Ministry of Finance

¹¹ For more details see Part IV, Section 4.3.



Projected deficit and its financing. In line with 2013 budget revenue and expenditure projections, central budget deficit was projected at 3.5% (Table 3.4), while on the medium run, budget deficit was projected at 3.2% in 2014 and 2.8% of GDP in 2015.

Financing of the projected deficit will be ensured from foreign sources (favourable credits from IFIs, credit lines intended for financing certain projects, Eurobonds and other type of external borrowing) and domestic sources (issues of government securities). Besides the crisis in the Euro zone and the big caution of foreign investors on the capital market, Government of the Republic of Macedonia has managed to ensure financial resources in the amount of Euro 250 million through the World Bank's new instrument Policy Based Guarantee (PBG), through which the Government will provide financing under very favourable conditions. Thus, the financing of the Budget for 2013 and beginning of 2014 is being entirely secured. In addition, the Government of the Republic of Macedonia has already secured funds, in total amount of Euro 183,6 million, intended for servicing liabilities on the basis of the 2009 Eurobond (interest and principal) which falls due on 08.01.2013. With the policy of regular and timely obligations servicing, the Government wants to send a strong signal to all investors for the high level of macroeconomic and fiscal stability in the country, at a challenging period when many European countries are faced with the effects from the sovereign debt crisis.

Table 3.4. Projected deficit and its financing (Denar million)

	2013	2014	2015
Budget balance	-17,695	-17,145	-16,098
Deficit financing	17,695	17,145	16,098
Inflow	33,464	27,988	39,382
External sources	17,758	24,348	35,782
Domestic sources	15,706	3,640	3,600
Outflow	15,769	10,843	23,284
Repayment upon external borrowing	13,896	9,098	20,490
Repayment upon domestic borrowing	1,873	1,745	2,794

Source: Ministry of Finance

In the course of 2013, trends on the international capital market will continue to be monitored. Foreign borrowing as source of financing will be used by budget users for realisation of specific projects. As for the borrowing on the domestic market, main commitment in the coming medium term will be continuation of the policy for enhancement and further development of the securities market. Thus, on the period to come, special emphasis will be put on increase of longer-term securities and continuation of the maturity of the permanent portfolio of government securities by issuing longer-term securities, i.e. by issuing 5, 7 and 10-year government bonds. Special interest in investing longer-term securities issued by the Republic of Macedonia is expected from the pension funds, as well as from commercial banks and insurance companies. In addition, to the end of improving the liquidity of the domestic government securities market, in the coming medium-term period, implementation of measures and activities will continue, pertaining to gradual reduction of the share of government securities with foreign exchange clause in the total issued government securities, targeting of positive annual net borrowing and re-opening of the already held auctions of government securities.

Local Government Budget. In the period 2013-2015, it is expected for the LGUs to continue with the upward trend of own revenues, strengthening of the capacities for development of policies for financing the LGUs and enhancing the capacities for financial management. Competences in several sectors undertaken by the municipalities increased the administrative and fiscal capacities and strengthened the capacities for management of larger scope of



financial resources. Successful administration and collection of own revenues continues the increasing process of own revenues of LGUs and the capacities for management of funds, execution of transferred competences and management of financial resources necessary for their execution.

Own revenues of LGUs are expected to stabilise in the coming medium term, fully including tax base of natural persons and legal entities and re-assessing the value of real estate. Conditions have been created for employment of expert - evaluator or usage of services of authorised evaluator when determining the value of real estate for the needs of taxation of property. Thus, more quality and objective assessment in line with the new methodology is expected. Additional stable revenues of LGUs have been provided through the increase of the percentage of revenues on the basis of VAT grants to 4.5% in 2013. Starting from 2013, new revenues for municipalities will be realised from fees, being collected by issuing concession for usage of water resources for electricity generation (50%:50%) depending on which area the concession activity is performed as of 2016, and, in the meantime, revenues will be distributed in the following proportion: 75% for the LGUs and 25% for the Central budget.

In the coming medium-term period, LGUs will continue with more intensive execution as regards transferred competences for management of construction land and treatment of illegally built facilities. More dynamic local development in the coming medium-term period will continue with construction of more significant capital projects, providing higher quality of local services. Implementation of multi-annual capital investments increased the interest for donations and access to the capital market, especially in borrowing soft loans.

In the following mid-term period, the City of Skopje will continue the realisation of the Project *"Through New Concepts for Efficient Traffic towards Cleaner Skopje"*, supported with EBRD loan. For the needs of the Project, EBRD also provided grant funds for technical assistance, while the City of Skopje also participates with own funds.

In the following mid-term period, realisation of the Municipal Services Improvement Project (MSIP) financed from the World Bank, will continue, supporting the strengthening of the management at local level. Project enables the LGUs and the public utility enterprises, which in line with the legislation can borrow funds, to finance projects in line with their priorities. As a result of the great interest shown by the LGUs in using the funds for financing their needs under very favourable conditions, in July 2012, the second phase of the MSIP started. Loan funds are intended for financing infrastructure investment projects in the field of water supply and wastewater drainage, management of solid waste and other investments in municipal services, having potential for generating revenues, i.e. making savings or being of high priority for the municipalities. Project is worth Euro 56,1 million in total and it is envisaged to last by November 2017. Conditions, under which Ministry of Finance on-lends the funds to the LGUs include 6-month Euribor with variable spread, grace period of maximum 3 years and 13-year repayment period. As of 30th September 2012, 21 LGUs used the possibility to finance their investments through this Project. In line with the projections of the Ministry of Finance, it is expected for another 8 sub-loan agreements to be signed with 5 municipalities by the end of 2012, while during 2013, it is planned for at least 12 sub-loan agreements to be signed with the participating LGUs in the Project. This will provide adequate solutions for more dynamic economic development, higher employment rate and better living standard at local level.

3.1.3. Structural Deficit

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 reflected in the fiscal developments as well, through automatic stabilisers, due to which the real fiscal position of the country is actually blurred. Hence, to have a clearer picture of the fiscal position, we calculate and analyse the cyclically adjusted budget deficit.

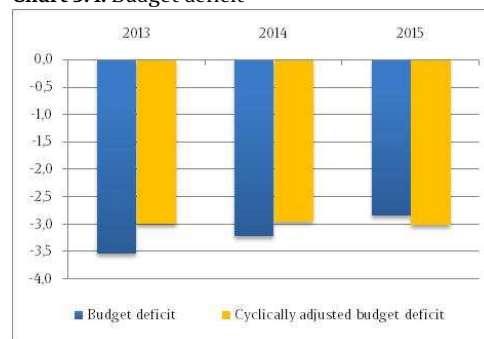
Table 3.5. Aggregate fiscal indicators and production gap

	2013	2014	2015
Total budget balance	-3.5	-3.2	-2.8
Primary budget balance	-2.7	-2.4	-2.0
Production gap (% of potential output)	-1.6	-0.8	0.6
Cyclical component of the budget	-0.5	-0.3	0.2
Cyclically adjusted total budget balance	-3.0	-2.9	-3.0
Cyclically adjusted primary balance	-2.2	-2.1	-2.1

Source: Calculations of the Ministry of Finance

On the basis of the projected economic growth and its structure for the period 2013 – 2015, i.e. the estimated output gap, negative cyclical component of the budget in the first two years of the PEP period was calculated, whereas in 2015 its value is positive, given that the projected output is above the potential output. As a result, total cyclically adjusted deficit in the period 2013-2015 is around 3%, whereby in 2013 and 2014 it is lower than the projected one, while in 2015 it is higher (see Chart 3.4). Primary cyclically adjusted budget deficit on the medium run is somewhat above 2% (Table 3.5).

Chart 3.4. Budget deficit



Source: Calculations of the Ministry of Finance
*f-projections

3.1.4. Public Debt Management

Legal framework. Medium-Term Fiscal Strategy is the framework determining the public debt management policy in the Republic of Macedonia. In fact, recent amendments to the Law on Public Debt (“Official Gazette of the Republic of Macedonia”, no. 35/2011) envisage for the public debt management policy to be an integral part of the Medium-Term Fiscal Strategy. Such amendment is initiated as a result of the so-far inconsistency between the Fiscal Strategy and the Public Debt Management Strategy as regards the timeframe for their adoption. The amendments integrate public finances management, i.e. fiscal framework, and public debt and ensure full data consistency.

In order to ensure sources of financing the needs of the state with the lowest costs on medium- and long-term, at the same time maintaining sustainable level of risk, 2013 – 2015 Fiscal Strategy of the Republic of Macedonia defines the following medium-term ceilings:

- maximum level of government debt in the coming three years not to exceed 35% of GDP;
- maximum level of total government debt in the coming three years not to exceed 45% of GDP;
- amount of guaranteed public debt in the coming three years not to exceed 10% of GDP;
- share of Euro-denominated debt in the total public debt in foreign currency not to be below 70%.

At the end of the third quarter in 2012, government debt of the Republic of Macedonia¹² amounted to Euro 2,402.3 million, i.e. 30.3% of GDP (Table 3.6.), being significantly lower than

¹²Government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, including the debt of



the average of the EU Member States and the other EU candidate countries. On the other hand, total public debt of the Republic of Macedonia¹³, pursuant to the Law on Public Debt ("Official Gazette of the Republic of Macedonia", nos. 62/2005, 88/2008 and 35/2011) and GFS Methodology amounted to Euro 3,231.5 million, accounting for 40.8% of GDP and, compared to end-2011, it increased by 0.9 p.p. During the analysed period, domestic public debt accounted for 37.7% in the total public debt, while external debt accounted for 62.3%. Share of domestic public debt dropped by 2.4 p.p. compared to the share of the external public debt. Change in the domestic-external public debt ratio is primarily due to the reduced level of debt of the NBRM on the basis of the issued treasury bills, as well as the amortisation of structural bonds.

From the point of view of interest structure, changes were observed at the total public debt. In fact, in the period January - September 2012, decrease of variable interest rate debt by around 2.8 p.p. was noticed at the end of 2011. Hence, ratio between fixed interest rate debt and variable interest rate debt was 43.5% to 56.5% respectively. Increase of fixed interest rate debt is a result of the reduction of level of Central Bank bills, increase of government bonds in the government securities portfolio, as well as of the PBG loan, having fixed interest. From currency point of view, foreign currency debt participates with 73% and, compared to end-2011, it dropped by 3.26 p.p.

During 2013, moderate growth of investment activity is projected, by using credit support from abroad. In addition, in the period 2013-2015, new investments in the field of energy, road and railway infrastructure, water supply and sewerage network, sports facilities, construction of social flats, as well as investments in the field of education, aimed at boosting productivity, i.e. strengthening competitiveness of the economy on the long run, are expected.

Table 3.6. Public debt stock (in Euro million)

	2006	2007	2008	2009	2010	2011	30.09.2012
External public debt	1,223.0	1,027.9	1,115.7	1,373.8	1,484.3	1,944.6	2,012.2
Government debt	1,025.2	877.2	921.2	1,105.3	1,173.8	1,582.1	1,640.1
NBRM	42,4	0,0	0,0	71,7	76,4	78,2	78,2
Public enterprises	155,4	150,6	194,5	196,8	234,1	284,3	294,0
Domestic public debt	806,5	899,9	754,5	755,0	973,7	1.059,9	1.219,3
Government debt	648,4	552,8	465,9	492,0	537,0	510,8	762,2
NBRM	155,3	344,3	285,2	260,4	422,5	524,9,7	427,9
Public enterprises	2,8	2,8	3,5	2,7	14,3	24,1	29,1
Total public debt according to GFS methodology and pursuant to Public Debt Law	2,029.5	1,927.8	1,870.2	2,128.8	2,458.0	3,004.5	3,231.5
Total public debt as % of GDP	38.8	32.3	27.8	31.6	35.4	39.9	40.8
Government debt	1,673.6	1,430	1,387.1	1,597.3	1,710.8	2,092.9	2,402.3
Government debt as % of GDP	32.0	24.0	20.6	23.7	24.6	27.8	30.3

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

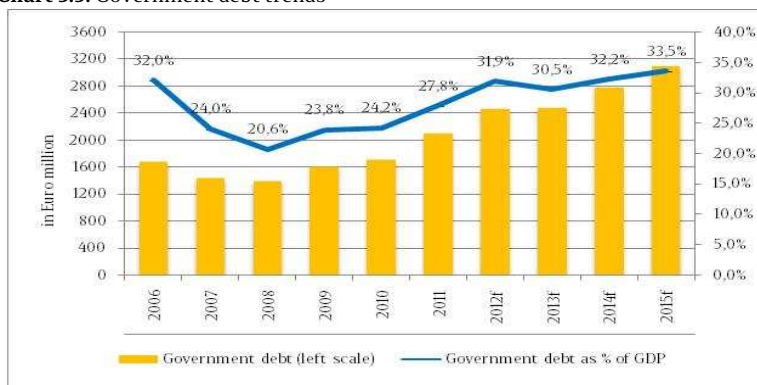
public institutions established by the Republic of Macedonia and the LGUs, the LGUs within the City of Skopje and the City of Skopje.

¹³ Public debt comprises all financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, including the debt of public institutions established by the Republic of Macedonia, municipalities, municipalities within the City of Skopje and the City of Skopje, debt of public enterprises and companies fully or predominantly owned by the state, municipalities, municipalities within the City of Skopje and the City of Skopje and debt of the National Bank of the Republic of Macedonia.



In addition, in the coming medium term, larger volume of investments is expected in the energy sector, which would be realised through borrowing by the public enterprises in the energy sector. However, in the coming medium-term period, the government debt was projected at around 30–35% of GDP, with firm commitment not to jeopardize the long-term sustainability of the level of country indebtedness, as well as the debt ceilings set under the Fiscal Strategy.

Chart 3.5. Government debt trends*

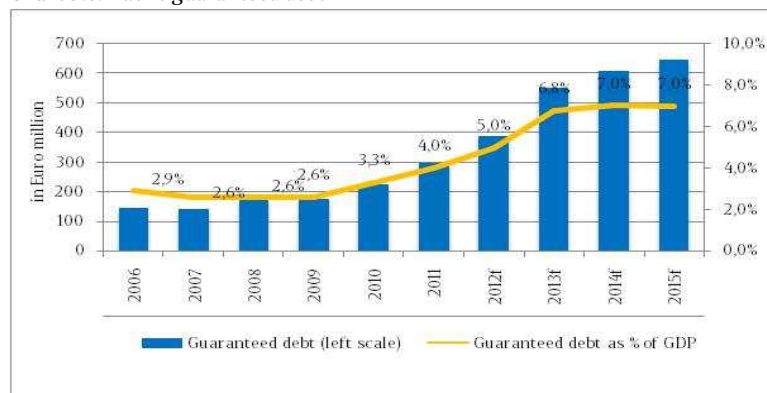


Source: Ministry of Finance and National Bank of the Republic of Macedonia

*f-projections

Issued sovereign guarantees are contingent liabilities for the Budget of the Republic of Macedonia, amounting to Euro 307.24 million as of 30th September 2011 inclusive, being 3.9% of GDP. In the period 2013-2015, guaranteed debt in relation to GDP will be retained within the guaranteed debt target.

Chart 3.6. Public guaranteed debt*



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

*f-projections

Primary Government Securities Market. In the first three quarters of 2012, total of seventy seven auctions of government securities were carried out, i.e. forty auctions of 3-month treasury bills, twelve auctions of 6-month treasury bills, eight auctions of 12-month treasury bills, seven auctions of 3-year government bonds and ten auctions of 5-year government bonds. Total amount offered for sale at the auctions was Denar 85,605.49 million, demand amounted to Denar 79,489.55 million, and the amount realised was Denar 79,489.55 million.

As of September 2012 inclusive, stock of outstanding government securities (short- and long-term) amounted to Denar 38,644.96 million, Denar 29,808.97 million out of which as treasury bills, and the rest as government bonds.

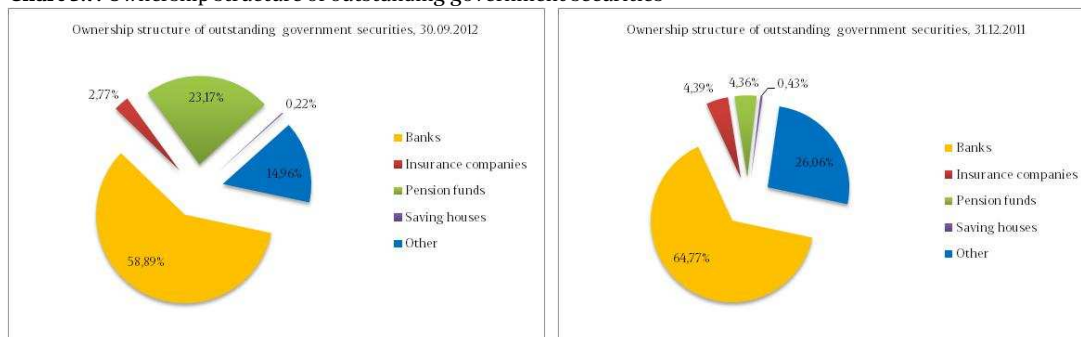


In the period January-September 2012, interest rates on short-term government securities experienced one-off change, and depending on the maturity of instruments, they changed from 0.1 p.p. to 0.45 p.p. In the analysed period, interest rates on 3-month treasury bills without and with foreign exchange clause, reduced by 0.2 p.p., accounting for 4% and 3.9% respectively at the end of September, interest rates on 6-month treasury bills with foreign exchange clause decreased by 0.1 p.p., amounting to 4% at the end of September, while interest rates on 12-month treasury bills without foreign exchange clause surged by 0.45 p.p., accounting for 4.75% at end-September. In this period, interest rates on long-term securities did not change, whereby interest rates on 3-year government bonds without and with foreign exchange clause amounted to 5.3% and 5.1% respectively, while interest rates on 5-year government bonds without and with foreign exchange clause accounted for 5.7% and 5.5% respectively.

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 2012 as well (Chart 3.7.). In the period January - September 2012, except for the pension funds, all other categories of market participants decreased their share in the ownership structure. During the analysed period, share of banks dropped by 5.06 p.p. in relation to the share of other market participants. As of September 2012 inclusive, ratio between banks and other market entities was 58.9% to 41.1% respectively.

Within the reform for improving the domestic government securities market, Ministry of Finance and the IMF jointly defined Action plan with measures and activities to the end of continuation of the maturity of the existing government securities portfolio by issuing longer-term securities, i.e. by issuing 3- and 5-year government bonds. In addition, to the end of improving the liquidity of the domestic government securities market, in the past period, there was gradual reduction of the share of government securities with foreign exchange clause in the total issued government securities, targeting of positive annual net borrowing and re-opening of the already held auctions of government securities.

Chart 3.7. Ownership structure of outstanding government securities



Source: Ministry of Finance

Secondary Market for Government Securities. Structural government bonds were traded on Macedonian Stock Exchange. In the period January-September 2012, trading only in government denationalisation bonds was recorded. Total volume of trading during the analysed period amounted to Euro 104.7 million, reducing by 19.3% compared to the same period previous year, while total turnover amounted to Euro 962.4 million, decreasing by 16.4%.

International Capital Market. Both Eurobonds issued by the Republic of Macedonia in 2005 and 2009 were traded on the international capital market. Purchase price of the 2005 Eurobond, falling due in 2015, ranged from 90.625% to 97.625% while yield to maturity ranged from 5.3% to 7.5%. Purchase price of the 2009 Eurobond, falling due in 2013, ranged from 101% to 103.625% while yield to maturity ranged from 5.3% to 7.7%.



Credit Rating of the Republic of Macedonia. Republic of Macedonia on annual basis, obtains new revised credit rating by the international credit rating agencies S&P and Fitch. In 2012, both credit ratings affirmed the credit rating of the Republic of Macedonia, which were awarded by them last year.

In May 2012, S&P credit rating agency announced that it affirms previously awarded credit rating for foreign and domestic currency of the Republic of Macedonia BB, as well as the stable outlook of the country. Awarded credit rating of the Republic of Macedonia by S&P is a result of the favourable fiscal policy and low indebtedness, as well as the prospects for possible EU accession, being pillar for implementation of the reforms.

In October 2012, Fitch credit rating agency announced that it affirms previously awarded credit rating grade for foreign and domestic currency of the Republic of Macedonia BB, as well as the stable outlook of the country. Affirmation of the credit rating of the Republic of Macedonia by Fitch is based upon the low level of inflation, moderate budget deficit, relatively low public debt, as well as well-capitalised banking sector. In addition, rating affirmation is also based upon sound economic policies, as well as upon inflow of foreign investments, being potential for economic growth, and their increase in future may also have positive influence on the improvement of the credit rating grade of the country.

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 was one stronger signal to the foreign investors that Republic of Macedonia is a country in which they can have confidence in and could be assured of sound macroeconomic policies in future as well.

3.2. Sensitivity analysis

Sensitivity of Budget Deficit. According to the main macro-fiscal scenario, presented above in the Programme, prudent fiscal policy and relatively low budget deficit is envisaged in the coming medium-term period, to the end of providing favourable climate to intensify economic activity. 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.

Taking into account that medium-term fiscal scenario is based on macroeconomic assumptions, we believe they are a factor with the largest potential effect on the fiscal trends. Thus, as a first scenario, we assume realisation of the risks for worse economic performance in the EU and other trade partners of the country, which would deteriorate the prospects for growth of economic activity in the Republic of Macedonia. Baseline scenario, on which budget revenue and expenditure projections are based, envisages real GDP growth of 2% in 2013, 3.2% in 2014 and 3.8% in 2015 (See 2.2. Medium-Term Macroeconomic Scenario). As for this scenario, we assume that GDP real growth rates were lower than the baseline scenario by 1/2 in 2013 and 1/3 in 2014, i.e. 1% growth in 2013 and 2.1% in 2014. As a result, budget deficit in 2013 would amount to 3.7% of GDP and 3.5% of GDP in 2014. Effects of this negative shock continue in 2015 as well, whereby budget deficit accounts for 3.1% of GDP or 0.3 p.p. above the projected level. Table 3.6 shows the Budget deficit in the analysed period according to the baseline and alternative pessimistic scenarios.



Table 3.7. Sensitivity analysis of Budget deficit

	2013	2014	2015
GDP, real growth rate	2.0	3.2	3.8
Budget revenues, growth rate	-1.1	4.5	5.3
Budget expenditures, growth rate	2.5	3.7	4.2
Budget deficit (% of GDP)			
Baseline scenario	-3.5	-3.2	-2.8
Scenario 1. Lower GDP growth rate by 1/2 in 2013 and 1/3 in 2014	-3.7	-3.5	-3.1
Scenario 2. Higher negative growth rate of revenues by 50% in 2013 and lower positive growth rate by 20% in 2014	-3.7	-3.6	-3.2
Scenario 3. Higher growth rate of expenditures by 1/4 in 2014	-3.5	-3.5	-3.1

Source: Calculations of the Ministry of Finance

Budget revenues are projected to be lower by 1.1% in 2013 compared to the 2012 Supplementary Budget and to increase by 4.5% in 2014 and 5.3% in 2015. Thus, as a second scenario, we assume for economic entities to refrain from spending and investments and consequently higher negative growth rate of revenues by 50% than the initially projected one in 2013 and lower positive growth rate by 20% in 2014. Under such assumptions, budget deficit would amount to 3.7% in 2013, 3.6% in 2014 and 3.2% of GDP in 2015.

Under the third scenario, one-off shock is envisaged on the budget expenditure side in 2014, which generates 25% higher growth rate of budget expenditures in relation to the projection in the baseline scenario. As a result, budget deficit is higher by 0.3 p.p. in 2014 and 2015 than the level envisaged in the basic projections, reaching 3.5% and 3.1% of GDP, respectively.

Government of the Republic of Macedonia is prepared, should any of the presented scenarios occur, to respond appropriately, by lowering the public consumption to a level necessary to maintain the projected budget deficit. On the other hand, sound economic policies, macroeconomic stability and low level of government debt provide for the Republic of Macedonia to borrow favourable credits from international financial institutions, credits from commercial banks that would be guaranteed, above all, from the World Bank, as well as credit lines intended for financing certain projects.

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 to which public debt portfolio in the Republic of Macedonia is exposed. Following appear as main risks identified at managing this portfolio:

- re-financing risk;
- market risk, including the following risks:
 - a) *interest rate risk*;
 - b) *exchange rate risk*;
- risk of contingent liabilities and
- operational risk

Sensitivity of Public Debt. To the end of analysing sensitivity of public debt portfolio in the Republic of Macedonia to exposure to market risk, i.e. interest rate risk and exchange rate risk, analysis was made of the effects of changes in the interest rate and the exchange rate on the external government debt. Such sensitivity analysis of the trends at interest-related costs in the Budget of the Republic of Macedonia, on the basis of external debt is based on the following assumptions:

- by changing a single variable, all other variables remain the same, i.e. *ceteris paribus*;
- in conditions of possible movements at other currencies in relation to the euro, Denar exchange rate in relation to the euro remains stable; and



- lack of correlation between interest trends and exchange rate trends.

Analysis covers the period 2013-2015, being based upon scenarios of increase of interest rate by 1 p.p. and 2 p.p. of the baseline scenario, as well as appreciation and depreciation of the euro compared to the other currencies by 10%.

Table 3.8. 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 (index points)

	2013	2014	2015
Baseline scenario	100.0	100.0	100.0
Scenario 1: +1% interest rate	109.3	108.7	106.4
Scenario 2: +2% interest rate	118.7	117.3	112.8
Scenario 3: appreciation of Euro in relation to other currencies by 10%	102.7	105.6	101.8
Scenario 4: depreciation of Euro in relation to other currencies by 10%	97.3	94.4	98.2

Source: Calculations of the Ministry of Finance

Main conclusions under this analysis are the following:

- interest-related costs for servicing on the basis of external government debt are sensitive to the trends at interest rates. If the interest rates in the period 2013 – 2015 increase by 1 p.p., it would cause increase of the interest-related costs by 9.3% at the most, as a result of the exposure of the debt portfolio to the interest rate risk, being a result of the relatively high share of the debt with variable interest rates;
- future Euro appreciation, i.e. depreciation in relation to other currencies in the portfolio (US dollar, Japanese yen and special drawing rights) by 10% will cause increase, i.e. decrease of servicing-related costs due to the fixed Denar exchange rate regime in relation to the Euro. In the period 2013 - 2015, possible unfavourable trends at exchange rates of other currencies in relation to the Euro will not cause any significant increase of the servicing-related costs, since most of the external government debt is Euro denominated.

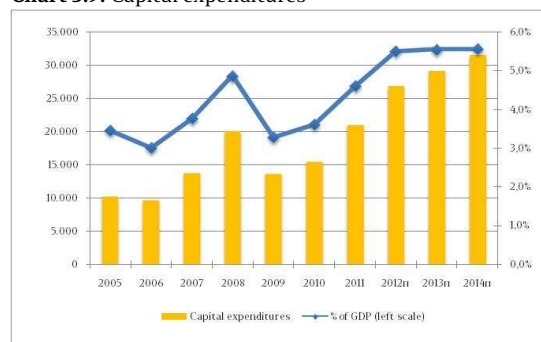
3.3. Quality of Public Finances

In the course of 2012, as well as in the coming medium-term period, policies will be aimed at improving the quality of public finances, both on revenue and expenditure side. In the first half of 2012, Supplementary Budget was adopted, by which appropriate adjustment of Budget projections and Budget consumption is carried out.

In the coming medium-term period, public expenditures will be very important instrument for increase of both the potential development and the production and demand. At the same time, during 2012, as well as in the coming medium-term period, structural improvement is expected on the expenditure side of the Budget, by significantly increasing the share of capital investments and maintaining the social component, and better controlled and more restrictive usage of less productive expenditures.

Thereby, in line with the priority sectoral policies, in the coming medium-term period, significant increase of capital investments for construction of road and

Chart 3.9. Capital expenditures



Source: Ministry of Finance

*f-forecast



railway infrastructure is envisaged, which will have positive effects on the recovery of economic activity and job creation. In addition, through increase of pension and social benefits, increased agricultural subsidies, as well as credit lines for SMEs for starting new businesses with low interest rates, will provide for increase of the living standard and employment in line with the top priority of the Government of the Republic of Macedonia for increase of both economic growth and employment, as precondition for increase of the living standard of citizens and better and more quality life¹⁴.

3.4. Long-term Sustainability of Public Finances

Calculations for long-term sustainability of public finances¹⁵ are based upon the following assumptions:

- average economic growth in the analysed period by 4%,
- stable labour productivity growth by around 2%,
- increase of male participation rate from 76.3% in 2010 to 89.6% in 2060,
- more intensive increase of female participation rate (from 51.8% in 2010 to 75% in 2060), by which share of female population in the total active population is expected to reach 46% in 2060,
- reduction of unemployment rate with higher intensity in the first thirty years (from 32.2% in 2010 to 9.5% in 2040) and with lower intensity in the the remaining 20 years, thus projected unemployment rate accounted for 4.8% in 2060.
- gradual increase of the share of population at the age above 65 years, reaching 11.4% 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 6.2% of GDP in 2010 to 6.6% in 2040 and stabilisation at 6.5% in the other 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 excluded from the calculations. Thus, share of expenditures for pensions in GDP in the period by 2030 is expected to amount to 9%, and in the next period, gradual reduction of the share is envisaged, if one takes into account that there will be reduction of the share of those pensioners, whose pensions have been fully paid from the first pillar, while there will be increase of the share of those pensioners, who will receive part of their pensions from the first pillar, and the other part one the second pillar.

Public expenditures for health protection as percentage of GDP are projected to gradually increase from 4.5% in 2010 to 5.5% in 2060. Such projected growth of expenditures was a result of the effects of population aging and the increased expenditures for health protection in line with the labour productivity growth.

Expenditures for education as percentage of GDP are envisaged to increase from 4.6% in 2010 to 5% in 2030 and to remain at the same level by the end of the analysed period. Increase of the share of expenditures for education is important for restructuring the labour market, reducing the unemployment rate and higher productivity and economic growth.

¹⁴ Parliament of the Republic of Macedonia adopted the Operating Programmeme of the Government of the Republic of Macedonia (2011–2015) on 29th July 2011.

¹⁵ See Table 7 see in Annex 1.



Interest-related costs in relation to GDP are expected to increase to 1% in 2030 from 0.7% in 2010, while in 2060, it is expected for the share to reduce to 0.8%, in line with the projected trend of budget balance.

3.5. Institutional Features of Public Finances

Ministry of Finance is committed to improving the quality of public finances, which is a continuous process. During 2012, 2013 Draft Budget of the Republic of Macedonia was prepared and submitted on time to the Parliament, and together with the Budget, modifications and amendments to the Budget Law were also prepared, being in line with the recommendations of the High Level Accession Dialogue (HLAD) with the EC.

Proposed amendments to the Budget Law will provide for improvement of the process of strategic planning of the budget users and the spending units in a way that it will be more efficient and it will fully reflect the activities and the necessary funds for their execution. Thereby, strategic plans of budget users should include quantified programmes, activities, goals and priorities of budget users for the 3-year period, which should not exceed the maximum amounts of appropriations for the next three fiscal years determined by the Government of the Republic of Macedonia. Strategic plans are an integral part of the budget request by budget users, being submitted to the Ministry of Finance in a way, determined under this Law. If the budget users fail to prepare and submit the strategic plans within the determined deadline, it will be deemed that the budget request is not complete and it will be returned to the budget users with a reference to be elaborated in more details within a deadline determined by the Ministry of Finance. If budget users fail to act in line upon the instructions by the Ministry of Finance, it will be considered as if they did not submit budget request at all and the Ministry of Finance, on their behalf, prepares the Draft Budget.

In the next medium-term period, activities will be carried out, to the end of:

- improvement of the budget process by strengthening the process of strategic planning and preparation of three-year strategic plans, as a whole, being consistent with the planned funds and programmes in the Budget and the set maximum limits of the expenditures for the coming two year;
- preparation of Organisation Classification to the end of defining the hierarchical setup of the budget institutions, to define first line budget users - Ministries and second-line budget users - all other agencies, commissions, and similar;
- preparation of Programme Classification so as to precisely define the activities by programmes in line with the planned activities in the Strategic Plans and establishment of mechanism for their monitoring through appropriate performance indicators, which is after all the main goal of programme budgeting;
- completion of the existing operating procedures and flow of documents and information, taking into account that reforms to be undertaken for the purpose of improving the budget planning and execution process will to a great extent complicate the working processes as well;
- designing a model of multi-annual budgeting, paying special attention to the development programmes, with indicative projections for the coming two years and a possibility to transfer appropriations for financing capital projects and projects funded under the pre-accession funds from one to another fiscal year;
- increase of transparency of the budget process, by shifting the timeframe for preparation of the budget process, at the same time, including the NGOs, the experts and the business community in the budget preparation itself;



- further harmonising and applying the International Accountings Standards; and
- strengthening the fiscal capacity of LGUs and ensuring a possibility for their borrowing.

Public Internal Financial Control (PIFC). Republic of Macedonia, in the last several years, intensively implemented the reforms for the purpose of developing the public finances management. Reforms are aimed at improving the management and control systems with public funds, by which as a future Member State, would be ready to cope with the challenges the membership entails, as well as the possibilities for using the EU funds.

In the recent years, good progress was achieved in the Republic of Macedonia, since on the basis of the Law on PIFC, all by-laws were adopted, being already in force. Financial Affair Units (FAU) were established, while the function of internal audit became more professional. In the next medium-term period, full implementation of the Law on PIFC will follow.

In order for the policies on PIFC to be more comprehensive, more consistent and more easily applicable, in 2013 the Law on PIFC will be appropriately modified and amended. For the purpose of facilitating the implementation of the Law, criteria will be determined, in line with which, it will be determined which small entities will be freed from the obligation for establishing special organisational FAU and Internal Audit Units. In 2013, Law on Financial Inspection in the public sector will be also adopted, which will govern the principles, competence, organization of the financial inspection in the public sector, as well as the procedure for carrying out financial inspection.

Introduction of ISO standard 9001:2008. During 2012, Ministry of Finance started procedure for introducing quality management standard ISO 9001:2008 which is a voluntary international standard for documented quality management system (QMS), meaning implementation of sustainable system for quality operations of the institution. Main goal, which is expected to be achieved by implementing this standard, is establishment of QMS in the Ministry of Finance. Thereby, the Ministry is focused on increasing the effectiveness and efficiency of the operations by precisely defining the responsibilities of the determined working post, precisely determining the deadlines for completing the tasks, defining the processes within the organisational units and the Ministry as a whole, identifying the weaknesses of the system and risks and determining activities for overcoming these weaknesses or risks. Until the beginning of 2013, activities are envisaged for the purpose of implementing the ISO standard 9001:2008, those being the following: analysis of constant working procedures, identifying the differences between the current state of play and the requests of ISO standard 9001:2008, defining the scope of work in the Ministry of Finance to be subjected to application and implementation of the QMS, informing the management bodies and the managerial civil servants about the concept of QMS and the benefits from its establishment, defining the process working model, defining the key service performance indicators as regards services and their efficiency, preparing project plan for introducing QMS in practice with time frame for its implementation, carrying out training plan and training of employees to qualify them for documenting and implementing QMS, checking the working procedures in terms of whether they are prepared in line with the requests of ISO standard 9001:2008 and obtaining certificate ISO 9001:2008. In the period 2013-2015, annual checks of the functioning of QMS in the Ministry of Finance will follow.

Introduction of ESA 95 Methodology. SSO was beneficiary of IPA 2007 Project *“Technical Assistance to SSO”*, whereby Ministry of Finance and NBRM participated as partners in the component for harmonisation of the national accounts. Project started in 2010 and ended in 2012. The component of the Project related to the harmonisation of the national accounts was focused on implementation of regulations related to ESA95. Working group contributed to



enhancing the data exchange data between the included institutions, and thereby a decision was adopted for the NBRM to be the institution responsible for preparing financial accounts.

Implementation of the National Classification of Activities NCA Rev. 2 for the national accounts was completed for the data 2009-2010. Sectoral accounts and tables from the Deficit Protocol were experimentally compiled. Activities are in progress and the quality of available data is being analysed.

There is ongoing implementation of the Project “*Support to the SSO for Capacity Building and Improving Compliance of Statistics with EU Standards*” supported under 2009 IPA, which started in 2012 and which will last until August 2014. Within the Project, activities for implementing ESA95 will continue, however issues for ESA2010 will be also considered. ESA2010 issues are also supported through the planned IPA 2011 Multi-beneficiary Programme, by which it is expected for the most important issues from the changes in ESA2010 to be carried out. Cooperation between SSO, Ministry of Finance and NBRM will be of special importance in this process.

To the end of fully accepting ESA95, from the point of view of the quality of data to be presented, following activities are to be undertaken in the coming medium-term period: a) implementation of Commission Regulation 1500/2000 with respect to general government expenditure and revenues, Regulation 2516/2000 as concerns taxes and social contributions, Regulation 1221/2002 as regards principles of ESA and regional accounts with respect to taxes and contributions, Regulation 113/2002 with regard to revised classifications of expenditure according to purpose (COFOG), Regulation 2558/2001 as regards reclassification of settlements under swaps arrangements, related to Protocol on the excessive deficit procedure, as well as Council Regulation 3605/93 on the application of the Protocol on the excessive deficit procedure, which will provide for full implementation of data and their submission to Eurostat; b) application of the new Classification of Activities NKD REV 2; c) undertaking preparatory activities related to ESA 2010.

Budget transparency. Pursuant to the Budget Law and to the end of full transparency, data in the framework of the government's fiscal statistics are regularly published on the website of the Ministry of Finance. Namely, on the website of the Ministry of Finance, data are being regularly published about the realization of revenues and the execution of the central Budget (the so-called fiscal tables), as well as data about the realization of revenues and expenditures of the general government Budget and data about the stock of external and internal debt of the central government. According to the calendar for publication of data which is also published on the website of the Ministry of Finance, the data are published each month and no later than 30 days after the expiration of the period specified.

In addition, Minister of Finance submits Report on the Execution of the Budget of the Republic in the first six months to the Government of the Republic of Macedonia by 31st July at the latest in the fiscal year, accompanied by updated report on macroeconomic indicators and projected revenues, as well as assumed liabilities and expenditures in the fiscal year. In favour of greater transparency, the Budget of the Republic of Macedonia and the annual statement, are published in Official Gazette of the Republic of Macedonia, while budgets of LGUs and annual statements are published in the Official Gazette of LGUs.



PART IV

Structural Reforms



4.1. Challenges/Priorities for Economic Growth and Structural Reform Agenda¹⁶

Ultimate goal of the transition process of the Republic of Macedonia is development of modern, democratic society based on developed market economy, taking appropriate care of the economic and social challenges and problems. Taking into account that the EU is based on these same values and standards, the EU membership, is considered as affirmation that the transition process has been completed or that it is in very advanced phase. Hence, the national priority for obtaining fully-fledged EU membership of the Republic of Macedonia is the main driving forces when determining the guidelines for implementation of the reforms in the Republic of Macedonia.

Transition process and the EU accession process are two processes, which support each other. While successful transition process is considered to be a precondition for EU membership, the EU accession process, on the other hand, has proved to be successful instrument for accelerating the transition process of the country. Despite that the Republic of Macedonia has accomplished a lot in terms of realising its strategic national goal and overcoming the challenges the transition and EU accession processes bring, however, a number of challenges still lie ahead for the period 2013-2015.

The Government of the Republic of Macedonia for the next medium-term period identified the following priorities for the structural reforms agenda and the economic policy as a whole:

1. reduction of unemployment rate, as the most burning issue of Macedonian economy in line with the EC Procedure on Macroeconomic Imbalance (See Box 2.1. in Part II), and
2. realising economic growth rates by increasing industrial production with higher added value and diversifying and expanding the export to the end of strengthening competitive position of the country and the Macedonian companies.

In order to respond to the challenges, Government of the Republic of Macedonia remains committed to implementing the structural reform agenda in all spheres of the economic life in the period 2013-2015 as well. Realisation of this agenda will mean step forward in completing the transition and EU accession processes, i.e. success in implementing the economic development model that the Government of the Republic of Macedonia promotes, being based on competitive economy providing equal possibilities for all. Such model, taking into account the specificity Macedonian economy, is based on the EU Strategy for smart, sustainable and inclusive economic growth, known as *"Europe 2020"* Strategy.

4.2. Key Reform Areas

As it was presented in Box 2.1. (Indicators for Macedonian economy in line with the Macroeconomic Imbalance Procedure of the EC) in Part II, in the field of internal imbalance, Macedonian economy shows exceptional vulnerability as regards unemployment, stressing the importance of job creation activities on one hand, and more precise records of unemployment, on the other. Therefore, top priority of the Government of the Republic of Macedonia in line with its Operational Programme is increase of both economic growth and employment, as precondition for increase of the living standard of citizens and better and more quality life¹⁷. Hence, envisaged measures and reform activities presented in this Part of 2013 – 2015 PEP are aimed at realising this top priority.

¹⁶ Fiscal implications for the envisaged activities for the period 2013-2015 are shown in the end of Part IV (Section 4.3.).

¹⁷ Parliament of the Republic of Macedonia adopted the Operating Programme of the Government of the Republic of Macedonia (2011–2015) on 29th July 2011.



Taking into account the identified challenges to the economic policy, key areas in the structural reform agenda for the period 2012–2014 are the following: reduction of long-term unemployment and unemployment of young people, continuous improvement of business climate, strong support of innovation, entrepreneurship and SMEs as main promoters of economic growth and unemployment reduction, enhancement of human capital, strengthening of rule of law and contract enforcement, attraction of FDIs and increased support and promotion of export. In addition, economic policy focuses on implementing reforms so as to create effective and professional public administration, strengthening of supervisory capacities of the regulatory bodies in the financial sector, as well as increase of productivity in agriculture.

4.2.1. Business environment

Taking into account the fundamental principles in the economic section of the Operating Programme of the Government of the Republic of Macedonia, referring to establishment of high level of economic freedom and equal conditions for operations of the economic entities, support of entrepreneurship, continuation with the dynamic implementation of economic reforms for improvement of business climate and enhancement of competitiveness of Macedonian economy, continuation of the determined reform activities is envisaged in the next medium-term period. Best practices of many European countries and recommendations of international institutions are incorporated in these measures and activities. Implementation of these projects is expected to contribute directly to increase of economic growth and reduction of unemployment as structural problem of Macedonian economy.

Doing business. In line with the World Bank Doing Business 2013 report, Republic of Macedonia is ranked at the high 23rd place in the world according to the conditions for doing business. Thereby, World Bank Doing Business 2013 report noticed that Republic of Macedonia is a leader in SEE region according to the conditions for doing business. It is worth mentioning that in the most recent Report, Republic of Macedonia is ranked at the high 5th position in the group of 50 countries, which from 2005 until today implemented a lot of reforms for improving the conditions for doing business. This points to the capacity of the Republic of Macedonia to implement reforms and the wish for strengthening of functioning of the market economy, being capable to endure the competitive pressure and to achieve real convergence with the EU Member States.

Despite the results in the past, the Government of the Republic of Macedonia will continue to implement additional measures and activities to the end of further improvement of business climate in the country, which are expected to contribute to enhancing competitiveness of Macedonian economy. In line with the analysis of the separate indicators of *“Doing Business 2013”* report, more significant measures and activities envisaged for the period 2013-2015 are the following: enhanced promotion of electronic registration of business, reduction of costs and the time necessary for obtaining electricity connection that will provide for applying the new network rules, establishment of electronic services of paying taxes and fees in the City of Skopje, continuous increase of the database of the Private Credit Bureau, introduction of mandatory obligation for electronic payment of taxes for legal entities, enhancement of the system for electronic submission of customs declarations and customs documents, enhanced promotion of mediation when resolving disputes for the purpose of reducing the high cost as percentage of the claim and increase of the rate of reorganisation and restructuring of enterprises undergoing bankruptcy procedure.



Regulatory reform. As regards the regulatory guillotine, at present the implementation of the measures from the second and third phase is ongoing, aimed at achieving elimination of numerous administrative barriers, as well as simplification of a huge number of procedures for issuing authorizations and licenses for doing business. After the analyses and assessment of the received proposals from SMEs, in June 2012 the Government adopted an Action plan for implementation of the fourth phase of Regulatory guillotine named *"Advantages for the small"* which marked the official implementation of this phase. Additionally, in accordance with its Programme for the period 2011-2015, the Government initiated a new project - *"Regulatory Guillotine for simplification of regulations and reducing the costs of craftsmen"*. The goal of this project is to identify the problems that craftsmen are facing during their work. At the end of August 2012, the Government reviewed the requirements submitted by craftsmen and adopted a set of 20 acceptable requirements. It is expected that the fulfilment of the requirements in the following mid-term period will lead towards improvement of the regulative for craftsmen, reduced costs for craftsman and simplification of procedures for crafts.

Regulatory Impact Assessment (RIA). As regards RIA, so as to further built the administrative capacities for implementation of RIA, the Action plan for improvement of the regulatory reform in Republic of Macedonia is currently being implemented. The activities adopted in the Action plan include: drafting of a working version of the new RIA Methodology, preparation of new form of the RIA report, as well as establishment of criteria and check list of the quality of RIA documents, introduction of ex-post analysis for which a working version of the Methodology for implementing ex-post analysis was drafted, execution of complete and detailed analysis of the drafting process of laws, by –laws and other strategic documents in line ministries, as well as development of diagrams, training of 60 state servants for advanced RIA techniques, etc.

With an aim for further broadening the knowledge of civil servants regarding the techniques used for implementation of RIA (cost–benefit, standard-cost model, etc.) in the following mid-term period a complete RIA will be made on handicrafts and social housing issues and the results will be published in a Manual for implementation of RIA by the civil servants.

In the next period, promotional and educational event is planned to be organized for presentation of the upgraded Single National Electronic Register for legislation (ENER) with goal of providing its wider use as well as training of civil servants involved in the RIA process and ENER regarding the feedback mechanisms.

One stop shop (OSS) for domestic and foreign investors. In the following mid-term period, the Government of the Republic of Macedonia plans to establish a system which will enable all licenses and permits for starting and running a business to be issued at one single point. Feasibility study which incorporates proposition on several options for establishing OSS will give legal, organizational and technical framework for establishing OSS, as well as a map of institutions responsible for issuing business permits and licenses. Cost-analysis for issuing licenses/permits will also be provided during this phase of the project, as well as database of business licenses and permits. The project for establishing OSS for domestic and foreign investors is in correlation to the EU Directive of services.

Additionally, preparatory activities aimed to pilot a project for issuing construction permits will be implemented in 2013-2015 period. The pilot project is planned to start in 2013 and it will contribute for testing the electronically approach for establishing single window for issuing electronically services for business community.



Innovation strategy. During 2011 and 2012, the Government of the Republic of Macedonia supported by the Organization for Economic Cooperation and Development (OECD) performed an assessment of the national innovation system and based on the results obtained, a strategic document for innovations (2012 – 2020) and an Action plan (2013 – 2015) were developed. The Innovation Strategy in medium-term focuses on four main objectives: strengthening the propensity of the business sector to innovate, strengthening human resources for innovation, creating a regulatory environment in support of innovation and increasing the knowledge flow between the innovation actors. The implementation of the measures of the Action Plan of the Innovation strategy are expected to strengthen the competitiveness and encourage economic development based on knowledge and innovation, which is described as one of the three main objectives of the Strategy *"Europe 2020"*. Furthermore, it is expected that the Innovation Strategy will contribute to the creation of an effective innovation system for all relevant stakeholders (the business community, the academic sector and the public institutions). The Government has recently intensified its efforts to strengthen the competitiveness of the private sector. As a result, one of the central measures of the Innovation Strategy is the establishment of a Fund for innovation and technological development. The Fund will support growth and expansion of SMEs, through commercialization of innovations and it will enhance investments in research and development and transfer of new technologies. As a result, the overall investment in the area of innovation will be increased, and the communication and collaboration between the business sector and universities will be improved. The Fund will not only offer different funding instruments (grants, conditional loans and equity investments), but it will also provide technical assistance to companies in order to prepare them for better utilization of funds from regional and European funds.

Participation in the regional project *"Western Balkan Enterprise Development and Innovation Facility (WB EDIF)"*. During the period 2013 – 2015, Republic of Macedonia will be part of the regional project WB EDIF, which is established by the EC, EBRD and the European Investment Fund. This project is meant to provide new sources of financing for the companies from the SEE region, and it is comprised of four components: Innovation Fund, Expansion Fund and Guarantee Facility and Technical Assistance Fund.

Learning from the business community. So as to achieve a broad consensus, create economic policies and strengthening the dialogue with the business community, the Government of the Republic of Macedonia in the period of 2013-2015 will continue with the implementation of the project *"Learning from the business community"*. The goal of project is to identify ideas and initiatives of the business community, which should improve the business environment, and overcome the constraints that the companies are facing within their business activities. For that purpose, government teams comprising of different institutions will annually visit at least 100 companies all over the country. The project includes companies with different size and success degree, which directly or through the Chambers of Commerce will show interest to be visited by the government teams.

The implementation of this project began in 2010, when a total of 150 companies were visited by the government teams in 24 cities in the Republic of Macedonia. From approximately 130 requests and initiatives that had been considered in detail by the relevant institutions, 40% were accepted and fully implemented, 10% were partially realized, and the rest were not accepted or were considered as groundless. By the end of 2011, new 165 companies were visited and 220 requests and initiatives were submitted, for which the institutions are still taking appropriate measures.



Action plan for improving global competitiveness of the Republic of Macedonia. During 2013-2015, a review of the Action plan for improving global competitiveness and economic freedom is planned to be made. The review will incorporate additional measures driven by the 2012-2013 Global Competitiveness Report of the World Economic Forum (WEF). Action plan is planned to be coordinated with the business community in a so-called *“Master Plan”* for improving global competitiveness and economic freedom of the Republic of Macedonia.

National Entrepreneurship and Competitiveness Council activities (NECC). NECC is an operating body with a mission to ensure wide consensus and to strengthen Public Private Dialogue. The activities of NECC in the following mid-term period are targeted towards improving competitiveness of the country through identifying priority areas and creating National strategies for development of the competitiveness of Macedonian economy, improving conditions and decreasing the costs for running a business, export of valued added goods and services to developing markets, as well as increasing domestic and foreign investments, and analysis of the Global Competitiveness Report of the WEF.

Top management. One of the initiatives in the Operations Programme of the Government (2011-2015) is the *“Top Management”* project, which aims to provide theoretical and practical training for managers from export oriented companies in the country.

This project allows managers to improve their managerial skills and gain practical experience in the processes of negotiation, decision-making, marketing and management of resources in foreign companies. The transfer of foreign experience will contribute towards improving the competitiveness of the Macedonian companies and increasing the export volume. Within the first phase of the project, 98 managers undertook theoretical training in the country. Out of them, 28 managers went on practical training in Slovenia, and 11 managers went on a practical training in Germany. For the period 2013-2015, theoretical training to additional 100 managers is planned to be provided, as well as organization of practical training for the managers that have passed the theoretical training in the first phase of the project.

Macedonian Sun. The purpose of this project is to introduce a sign named *“Macedonian Sun”*, which will stand for products that besides meeting the internationally required standards of compliance, meet additional criteria defining fine quality. This project will simplify procedures for obtaining certificates, reduce the costs for obtaining the certificates, strengthen the competitiveness of the companies and it will enhance the export potential of the Macedonian economy. At the same time, the *“Macedonian Sun”* sign will represent an internationally recognizable brand for good quality. As such, it will raise the awareness among the Macedonian companies for streamlining their business strategy to achieve competitive advantage based on quality.

4.2.2. Labour market

4.2.2.1. Education

Taking into account that the human resources are the basis for sustainable development, new employments and increased international competitiveness, three out of five mid-term strategic priorities of the Government of the Republic of Macedonia under its Operating programme are related to the development of human capital.

Science and research. In line with the recommendations of the 2012 Progress Report, the National Programme for Research and Development 2013-2016 will be adopted. Preparations for successful involvement in the new EU programme *“Horizon 2020”* have intensified. The continuation of the multi-year capital projects *“Translation of 1,000 professional, scientific books and textbooks”* and



"Laboratories 2010/2020" for purchasing 190 laboratories for the public higher education institutions and scientific institutes will facilitate the integration of the Republic of Macedonia into the European Research Area and will contribute to the Innovation Union which is also in accordance with the recommendations of the 2012 Progress Report. University-enterprise cooperation will be encouraged by financing of small (up to Euro 50,000) and large projects (over Euro 50,000) for development of new technologies in the private sector with involvement of university professors as principal researchers.

Higher Education. The implementation of the Bologna process will continue in the period 2013-2015, in particular in the area of quality assurance in higher education, inter-disciplinarily of study programmes and development of doctoral studies. State financial support to agreed quotas of II- and III-cycle students will continue. Public-private partnerships will be encouraged for improvement of capacities for accommodation of students of the public higher education institutions. In accordance with the national policy for equal access to higher education, social cohesion and lifelong learning, the *"Project 35/45"* will continue. So far, over 1,000 adults have enrolled higher education under this project. The internationalization of higher education will continue, supported by the EU programmes in the area of education and by the new EU programme in the areas of education and youth 2014-2020, as well as by the CEEPUS programme. The project *"Scholarships for studies abroad"* will continue providing opportunities for studies at prestigious foreign universities in the areas relevant for the socio-economic development of the Republic of Macedonia.

Primary and Secondary Education. The key policies in the areas of primary and secondary education in the next mid-term period will be related to: improvement of the legislative framework, development of contemporary study programmes encompassing implementation of contemporary education methodologies and intensive usage of ICT, raising the quality of the educational process, providing equal conditions for education of the pupils from all socio-economic categories, the children with special educational needs and to the further development of integrated education.

In line with the priorities of the High Level Accession Dialogue between the Republic of Macedonia and the European Union, the project *"Early Socialization"* for acquiring knowledge, skills and for development of curricula for quality pre-school education will continue. The project *"Skilful and Competent"* will contribute to increased acquiring of applicable knowledge, skills and competences through introduction of entrepreneurship in the programmes at all levels, improving the competency and effectiveness of the teaching staff, monitoring and improvement of the outcomes of the education process, as well as developing partnerships with the private sector in support to the process of acquiring higher practical knowledge, skills and competences by the pupils. Special attention will be paid to the inclusion of pupils with special educational needs in the secondary schools, reforms of the arts education through improvement of the work conditions and through promotion of policies for early learning of foreign languages in accordance with the recommendations of the Council of Europe. In framework of the support to equal access to all levels of education and in accordance with the priorities of the Accession Partnership, the Government of the Republic of Macedonia will continue to support free transport of pupils in primary and secondary education, free accommodation in dormitories of pupils in secondary education and it will continue providing scholarships to pupils with special educational needs, pupils coming from lower social categories, talented pupils and talented pupils – sportsmen.

In line with the recommendations of the 2012 Progress Report, numerous activities will continue for the implementation of the Strategy for Integrated Education, with active support



of a large number of European and international donors. In accordance with the recommendations, the support to Roma pupils will continue with measures for increased participation in the education system, reduced percentage of early school leavers and increased quality of education, including provision of over 600 grants to Roma pupils on annual basis, as well as further implementation of the mentoring and tutoring system (120 grants provided for the school year 2012/13). In response to the recommendations of the 2012 Progress Report, the improvement of the educational infrastructure will continue. Rules for increased energy efficiency of the buildings will be applied. Attention will be paid to balanced regional development, especially in the communities with population of mixed ethnic origin.

Vocational education and training (VET). The reforms in the area of VET will continue in line with the Bruges. In accordance with the EU flagship initiative “*New Skills for New Jobs*”, the implementation of the Protocol for Cooperation of the Social Partners and of the Memorandum for Understanding and Cooperation will continue, thus providing the basis for a lasting cooperation with the VET Centre. The implementation of the Strategy for Development of the VET Centre, the development of standards for vocations and study programmes in accordance with the labour market needs, including programmes for pupils with special educational needs, examination programmes and tests for external evaluation of pupils’ achievements will continue. The participation of the Republic of Macedonia in the regional project for entrepreneurial education in SEE will continue. The on-going IPA twinning project supports the reforms of the two- and three-year VET. The national VET Strategy 2013-2020 and the Action Plan (developed with support of the European Training Foundation) will be adopted in the first half of 2013. In accordance with the Operational plans for active programmes and measures for employment, the cooperation of the VET Centre with the Employment Agency will continue in the area of development of programmes and organization of training for vocations in need on the labour market. The involvement of the VET Centre in the implementation of the National Employment Strategy 2011-2015 will continue in the following mid-term period.

Adult education. Annual action plans will support the implementation of the Strategy for Adult Education, in particular in the direction of strengthening the system for verification of providers of adult education and the system for verification of programmes for adult education, as well as maintenance of the catalogues of providers of adult education and of verified programmes for adult education. The promotion of career development and professional upbringing will continue. The cooperation with the administration of the LGUs and with the social partners will be strengthened. Aiming at increased social cohesion and equal access to education, the project “*Centres for Education of Adults*” continues, with special attention to the regions in need of this type of education. The Centres for Education of Adults will continue the cooperation with the Employment Agency in the area of development and implementation of programmes for education of adults, for profiles in need on the labour market. Significant contribution to the development of the system for adult education provides the on-going IPA twinning project “*Support to Capacity Building of the Centre for Education of Adults, Development of Programmes for Adult Education and of Programmes for Literacy and for Completion of Primary Education of Excluded Persons*”. In the mid-term period, the implementation of the Rulebook for the National Framework for Higher Education Qualifications will continue. In 2013, the focus will be on the development of the National Framework of Qualifications for levels different than higher education. Capacity building for implementation of the Directive 35/2006/EC for mutual recognition of professional qualifications will continue in the following mid-term period as well.



4.2.2.2. Labour market

Taking into account the problem of structural unemployment in the Republic of Macedonia, top strategic priority of the Government of the Republic of Macedonia, according to the Operational Programme and the priorities set in many strategic documents, is the increase of economic growth and reduction of long-term unemployment, high unemployment rate of young people, as well as raising the awareness about the need for fight against unregistered employment, as one of the preconditions for increased living standard of citizens. Increase of the participation in the labour market and reduction of structural unemployment are among the main priorities and recommendations arising from the Accession Partnership of the Republic of Macedonia and 2012 Progress Report.

To the end of creating a coherent strategic framework for unemployment reduction, in 2012, in cooperation with the social partners, policies and programmes were implemented, being in line with the National Employment Strategy (2012-2015), defining the key priorities, goals and policies to contribute to increased participation and opening of jobs on the medium run:

- further improvement of business climate and competitiveness and increased level of investments;
- improvement of labour market mechanisms, such as amendments to the illegal regulation, determination of minimum salary and similar;
- improvement of educational system and human resources in line with the needs on the labour market;
- increase of public awareness about issues related to labour market and employment;
- fight against grey economy and informal employment;
- efficient labour market services by further modernisation and improvement of both quantity and quality of services, improvement of procedures for exchange of data;
- providing greater safety and security at working posts;
- implementation of active labour market policies;
- development of efficient and functional social dialogue and similar.

For the purpose of realising the goals set in the 2015 National Employment Strategy, measures from the National Employment Action Plan 2011-2013 will be implemented, being in line with the integrated directions of the "Europe 2020" Strategy. Thereby, taking also into account the Initiative for the possibility for the young people from the EU to develop programmes for employment, education and skills for the young people, as well as for undertaking activities within the national employment policies, in cooperation with the International Labour Organisation (ILO), new National Employment Action Plan 2013-2015 was prepared, by which it is planned to include 28% of the total young population at the age of 15-29 so as to increase employability, which will help them to be more prepared when entering the labour market.

During 2012, the ILO analysed the performances under the three active labour market programmes (training, subsidized employment and self-employment assistance), being implemented by the Employment Service Agency of the Republic of Macedonia (ESARM) in the period 2007-2010. Analysis of results show that 57.8% of all participants from the three considered programmes were employed even during 2012, being considered as relatively high percentage. Thereby, 77.2% of the persons, who during the period 2007-2012, used funds from the self-employment programme, 55.8% of the persons who used funds from the training programme and 43.4% of the subsidized employment programmes, retained their working post even in 2012. As a result of this analysis and the performance of these measures, the Government in the coming medium-term period as well, will continue to implement such and similar measures for the purpose of improving the developments on the labour market.



Taking into account the specific needs and conditions on the labour market in the Republic of Macedonia, institutional capacities, as well as possibilities for public financing, aimed at reducing long-term unemployment, high unemployment rate of young people, increasing the participation of women in the labour market and reducing structural unemployment, following measures will be realised in the period 2013-2015:

- support to self-employment for starting own business;
- additional employment with grants for each newly employed person in companies registered under the self-employment measures;
- preparation for employment through trainings, re-qualifications or additional qualifications of unemployed persons so as to acquire knowledge and skills to increase their employment;
- training in certain professions being deficient on the labour market according to the needs of the labour market indicated in the previous year;
- support to self-employment with favourable credits;
- formalising informal businesses so as to reduce grey economy;
- internship as support for first employment for young persons up to the age of 27;
- subsidising employment of unemployed persons having difficulties to be included in the labour market (long-term unemployed, young persons, single parents, persons older than 55-62 years of age, victims of domestic violence, women, persons with a status of children without parents, Roma, etc);
- subsidising employment of disabled persons, etc.

Management of employment policies will be underpinned with improved monitoring system, oriented towards analysing data, communicating and using information on the progress in the implementation of employment policies and the achievements of its goals. Management of employment policies will be underpinned with evaluation system. Monitoring and evaluation system is developed within the implementation of Twining Project *“Support to the National Employment Policy”*.

Implementation of the IPA Project *“Further Modernisation of the Employment Service Agency”* will contribute to strengthening the institutional capacities and further modernisation of ESARM and improvement of the quality, efficiency and effectiveness of its services. Activities of the Project in the coming period as well will be aimed at simplifying and rationalising the procedures, giving services to unemployed persons and employers, internal communication and management of knowledge, planning, monitoring and reporting and human resources.

In the next medium-term period, ESARM will continue with the commenced activities, by planning and carrying out new activities that will contribute to total transformation in contemporary employment service harmonised with the EU standards. Special accent is put on the following activities: Introduction of quality management system in line with ISO standard 9001:2008, implementation of Law on Modifications and Amendments to the Law on Employment and Unemployment Insurance so as to be aware of the real number of job seekers, determination of the structure of job seekers, creation of appropriate active employment policies and measures adjusted to the needs of the job seekers and the possibilities on the labour market, development of employment services by increasing the scope of users and strengthening the individual approach in the operations with unemployed persons, in particular with the persons facing less possibilities on the labour market, implementation of IPA projects *“Support to the Employment of Young People, Long-Term Unemployed and Women II”* and *“Support to the ESARM for Implementation of Active Employment Measures and Services”*, participation in the implementation of the IPA project *“Strengthening the*



Capacities for Effective Implementation of the Acquis in the Field of Freedom of Movement for Workers”, strengthening the human resources by trainings through the Programme for Bilateral Cooperation between the Ministry of Labour and Social Policy of the Republic of Macedonia and the Ministry of Labour, Employment, Professional Training and Social Dialogue of France, implementation of USAID project “*Youth Network for Acquiring Employment Skills*” to the end of improving the quality of the supply on the labour market and monitoring the fluctuation of labour force and envisaging of new employments by employers through analysis of the skill needs on the labour market in the Republic of Macedonia.

4.2.3. Enterprises Sector

Small and medium enterprises. Participating with 99.6% in total number of enterprises and absorbing 79.5% of total number of employed, micro and SMEs continue to be important participants in the economy.

During 2013, an integral Programme for competitiveness, innovations and entrepreneurship will be prepared and implemented that will unite the Programme for implementation of industrial policy, Programme for development of entrepreneurship, competitiveness and innovations of SMEs and Programme for support and development of clusters. This goal of this is strengthening the support for SMEs, more efficient creation and implementation of policies for increasing their competitiveness and increasing transparency and information to the business community about the measures for support aimed to increase competitiveness. The integrated Programme envisages the following activities: support of business incubators and business centres, implementation of quality standards ISO, HACCP and HALAL, women entrepreneurship, promotion of crafts, promotion of young craftsmen and authentic handcraft.

The third phase of the Project for SMEs and other priority projects financing, valued Euro 100 million, represents continuation of the successful implementation of the first and second phase of the Project (in total value of Euro 150 million), as well as continuation of the Government support to the private sector (support of new projects, job creation, increased liquidity and increased export). In July 2012, additional agreement with EIB was signed, for the realization of the third phase. The first tranche of this Project amounting Euro 22 million was withdrawn in November 2012 that shows the great interest of SMEs for using these funds.

Industrial Policy. Pursuant the priorities of the Pre-accession partnership the strategic document “*Industrial policy of Republic of Macedonia 2009-2020*” is currently being implemented promoting integrated and proactive approach for stimulation of the competitiveness of the economy. The document defines several areas of intervention that influence directly the stimulation of the competitiveness of the industry such as: increase of the international cooperation and stimulation of FDI, applicable research, development and innovations, eco-technologies, products and services for sustainable development, development of SMEs and entrepreneurship and cooperation in clusters and networks. The goals of this strategic document are in line with the priorities and initiatives proposed in the Strategy “*Europe 2020*”, that is, the initiative for establishment of integrated industrial policy in the era of globalization in which focus is on the competitiveness and sustainable growth, as well as, the initiative for strengthening the competitiveness.

For the period 2013 – 2015, numerous new projects are proposed that would strengthen the support to the development of the private sector based on knowledge and innovations, closely connected to the determination for enabling higher private investments in the domain of



research and development offered in the initiative for creation of Innovation Union as part of the Strategy "Europe 2020".

Namely, in the next mid-term period further implementation of the Export promotion strategy is planned where as a priority sectors for support are the following: metal industry, automotive industry, textile, agro-businesses, food-processing industry and ICT. The measures involve support for participation on fairs, B2B meetings, trade missions etc. Also, the focus in the period 2013-2015 is on strengthening the institutional capacity of the Agency for foreign investments and export promotion ('Invest in Macedonia'), for extensive trade and investment promotion.

In order to have an efficient coordination between all stakeholders and harmonization of the activities, an Action plan for implementation of the industrial policy for the period 2012-2013 was adopted. Significant input in the strengthening of the institutional capacity for implementation of the proactive industrial policy will be through the realization of the IPA project – *"Strengthening the institutional capacity for implementation of the industrial policy"*, that is expected to begin in 2013.

Into direction of more transparent informing of the business community for the measures and programmes intended for their support, an interactive web solution (www.konkurentnost.mk) was developed recently where all measures and programmes of the Government, donor projects and other relevant information related to competitiveness are being presented.

Within the vertical aspect of the industrial policy, several strategies/programmes for development of certain sectors such as textile, tourism and steel are being prepared so far. With support from the World Bank, several sector analyses (for textile, automotive industry, food processing, logistics and transport) are prepared that provide better review of the sector and the priorities for increasing the competitiveness and export potentials of these sectors. For the period 2013-2015, as separate programmes for sector support are the programmes for support of tourism. From the point of view of the sector oriented export promotion, promotional activities are realized for ICT, food processing and agricultural products through different donor projects

Special attention will also be paid to the social responsibility of the companies. The Government will continue with coordination of the activities related to the development of social responsibility in the Republic of Macedonia. For five years, the Ministry of Economy grants National awards for the most social responsible companies and plans to continue with organization of such events in future.

Competition and State aid. The IPA 2009 project *"Support to the Commission for Protection of Competition for State Aid Control"*, has begun in April 2012 and it will last 18 months. In the frameworks of the project, workshops are being held and by-laws deriving from the Law on State Aid Control are envisaged to be prepared. Two ordinances and one guideline are expected to be adopted by the end of 2012, which will be fully compliant with relevant regulations and guidelines of the EU. In addition, in the area of competition and state aid, the following activities are being planned for the period of 2013-2015:

- trainings for all stakeholders in the control of State aid (State aid providers and recipients, judges and journalists);
- further strengthening of the administrative capacity of the Commission for protection of competition by providing advanced trainings and increase the number of employees of antitrust and mergers;
- issuance of a Guide for disclosure of unlawful agreements in public procurements;



- further effective implementation of the legislation on protection of competition in order to ensure free competition and effective implementation of the legislation on control of state aid and improve the quality of state aid decisions.

Consumer protection. During the first quarter of 2013, the implementation of the IPA project *"Harmonization of legislation and capacity building in the field of consumer protection"* is expected to begin. The project is scheduled to last until 2015. The project consists of two components, whereby the first component includes further harmonization of the consumer regulation and upgrading the capacity of governmental and non-governmental institutions to further successfully create and implement consumer protection policies. The second component includes direct financial support to NGOs in the field of consumer protection which is expected to contribute to the active participation of NGOs in the field of consumer education, information and counselling of consumers, increasing the capacity of NGOs for managing issues in the area of consumer rights, increase awareness of consumer rights, consumer policy implementation through well structured strategies for increasing consumer awareness, active participation in the establishment and provision of alternative dispute resolution procedures and establishment and development of a database for registering and resolving consumer complaints.

4.2.4. Financial system

Banking sector. To the end of further liberalizing capital movement, in line with recommendations in 2012 Progress Report, new Law on Foreign Exchange Operations will be adopted by the end of 2013.

In 2013, Law on Modifications and Amendments to the Law on Credit Bureau will be adopted. Amendments to the Law are aimed at introducing supervision over the functioning of the Credit Bureau and expanding the scope of data available to the Credit Bureau. Such amendments to the Law will contribute to increasing the usefulness of data and services by the Credit Bureau, improving effectiveness of business entities and promoting business and investment climate in the Republic of Macedonia, as one of the preconditions to attracting foreign investors.

In the period 2013-2015, regulatory changes at international level and at EU level will be observed, in particular as regards measures to improve the conditions at banks and establish so-called bridge bank. After adopting the respective Directives, Republic of Macedonia will implement them. In 2013, preparatory activities will be commenced for preparation of regulation on advanced approaches according to Basel II, taking into account the state-of-play in the banking sector and the banking supervision. Regulation is expected to be adopted in the concerned three-year period. During this period, activities as regards regulation of standards contained in Basel III will be undertaken as well.

To the end of full harmonisation with the respective EU legislation, new Law on Payment Operations will be adopted in the coming medium-term period. Due to its complexity, a project is approved through IPA 2010, realisation of which is expected to start at the beginning of 2014. By transposing Directive 2007/64/EC in the national legislation, payment services will be liberalised, i.e. new entities, other than commercial banks, will be able to enter the payment services market. Adoption of the new Law on Payment Services will contribute to strengthening the use and the application of new digital and computer devices for carrying out payment transactions, timely preparation of institutions in charge of regulating, licensing and



supervising payment services providers and introducing new payment instruments for credit transfers and direct borrowing.

Capital market. In line with the 2012 Progress Report and the goals for reforms of the financial system from the Strategy "Europe 2020", in the period 2013-2015, several activities in the field of capital market are envisaged, the final goal of which is establishing modern, market-oriented, stable and competitive financial sector. Thus, adoption of new Law on Capital Market is planned, which will be fully harmonised with the Acquis, and which 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 the new Law, Project was approved through IPA 2010, the realisation of which is expected to start at the beginning of 2013. In addition, new Law on Takeover of Joint Stock Companies will be adopted, which will additionally precisely determine the exceptions of the obligation for giving offer for taking over, procedure for determining existence of joint venture and will govern the rules of neutrality, reciprocity and penetration.

To the end of harmonising the national legislation with UCITS 4 package (introduction of feeder funds and master funds, European passport, procedures for cross-border and national mergers of investment funds and ensuring more information for the investors by introducing document as supplement to the basic prospectus of the Fund), amendments to the Law on Investment Funds will be adopted.

In the next medium-term period, SEC will realise working visits of relevant regulatory bodies from the region to the end of improving its operations and exchanging experience in the field of corporate finances and supervision over market participants. In addition, SEC priorities will be also focused on further strengthening of the securities market through several activities, which are planned to be covered in the future Strategy for Development of Government Securities Market for the period 2013-2018 and the Action Plan on its implementation, among which the following:

- intensive preparation of acts and procedures necessary for introducing ISO standard for the operational internal quality of SEC;
- for the purpose of promoting and increasing transparency and facilitating the operations of companies when submitting financial reports, SEC will continue with activities for improving the electronic system for submission of reports and will continue to carry out workshops with the joint stock companies;
- participation in the introduction of system for electronic submission and processing of relevant financial data (introduction of XBRL Strategy) by authorised participants on the securities market, joint stock companies with special reporting obligations, investment fund management companies, investment funds;
- adoption of Continuity Plan for SEC Activities, which will describe the procedures and measures to be undertaken in certain emergencies, so as to ensure smooth functioning of the SEC operations.
- deepening the cooperation with the other regulators on the securities markets in the region to support the activities related to integration of securities markets by introducing a joint platform for trading, settlement - accepting mutual rules on transparency and mutual rules on listing;
- in order to stimulate and boost trading on the secondary market and introduce new securities on the market, organisation of workshops and trainings is planned so as to stimulate the limited liability companies to implement IPO, as well as to stimulate the existing joint stock companies for new public offers of securities.



- preparation of programme together with the Macedonian Stock Exchange and the Central Securities Depository, for education of both potential issuers of securities and potential investors, as well as for promotion on the capital market, etc.

Insurance sector. In order to implement the best EU practices but firstly and more importantly to support the insurance industry and strengthen its stability, the medium-term plan will focus on enforcement of a new Insurance Act based on the new EU Directive 2009/138/EC (Solvency II) to be implemented. The new act will help in overcoming the weaknesses and doubtfulness and vagueness of the present regulations, especially in terms of regulations on establishment and management of insurance companies, brokerage companies' and insurance agencies' services. Moreover, the Insurance Supervision Agency (referred to hereinafter as ISA) will be authorised to commence the process of defining and determining the implementation of the standards for solvency of insurance companies. For proper implementation of the solvency standards ISA will organise regular training for its staff and make necessary recruiting in supervision department.

The activities in relation to the Project on Insurance Market Development against Catastrophe Risks will continue. By the end of 2012 Europe Re will enter into partner agreements with non-life insurers which operate in the insurance market of the Republic of Macedonia. Together with these insurers Europe Re will develop new insurance products to be promoted and implemented in September 2013. ISA will undertake many measures and activities to promote the development of this segment of the insurance market and by the end of 2012 will enact subordinate regulations and bylaws on net retention as a starting point in exercising supervision based on risk.

Within established cooperation the World Bank has technically supported the ISA in their endeavours to liberalise the compulsory car insurance (motor third party liability) market which complies with the recommendations of the EC Report on the progress of the Republic of Macedonia for 2011. The aim of this project is to establish and develop a regulatory framework and an opportunity for actuarial calculations to be applied in premium rates and technical reserves for compulsory car insurance (motor third party liability).

One of the most imperative priorities for ISA is the activities in terms of consumer protection development and Insurers' complains handling processes. For that purpose ISA will organise a workshop on improvements of consumer protection and development of public awareness and education on financial knowledge by the end of 2012.

ISA will continue to cooperate with supervisory bodies from other EU member countries with which they have signed memorandum for cooperation principally in conducting mutual supervision with regulatory bodies in the companies' home country. Furthermore ISA will attend supervisory colleges upon prior invitation from the regulators of the home countries where insurers are situated and which operate on the Macedonian insurance market.

In terms of regulations and licensing activities, during the period 2013 - 2015 it is planned for 6 more subordinate regulations and bylaws to be enacted which directly derive from the Law on insurance supervision and other legislation within jurisdiction of ISA governing the matters related to licensing and assessment rules for shareholders and managers, risk management, reinsurance, reporting to ISA and other.

Beside many activities regarding the establishment and continuous improvement of the regulatory framework, during the period 2013 - 2015 ISA will be focused on activities for further development and advancement on the work of insurance agencies and insurance intermediaries through organising continuous training for insurance agents and brokers.



These training courses to be continuously organised for insurance agents and brokers will increase the efficacy of the insurance services provided in the market and enhance the confidence among beneficiaries of insurance services within insurance industry. Currently ISA is running a training course for actuaries and new actuaries are expected to obtain licences in 2013. This actuarial training course has attracted great interest and therefore ISA will organise a new circle of training courses for actuaries during the period from 2013 to 2015.

ISA has initiated a Self-assessment Project on Application and Compliance Level with the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS) and achieved satisfactory results in applying ICP 1 and ICP 2. For the period from 2013 to 2015 ISA will continue its activities in relation to Self-assessment Project and other Insurance Core Principles.

Currently ISA is engaged in collecting necessary documentation and preparing to meet requirements of ISO 9001/2008 related to quality management systems and the implementation of those standards which activity will be completed in 2013.

Fully-funded pension insurance. Improvement of the pension system, including the fully-funded pension insurance, i.e. the second and the third pillar of the pension system, is precondition for realising the strategic commitments of the Government of the Republic of Macedonia for bringing closer the European standards and values, as well as for providing dignified life of all citizens.

On the basis of the amendment to the Law on Fully Funded Pension Insurance starting July 2012, by the end, appointment of members of the Council of Experts of Agency for Supervision of Fully Funded Pension Insurance (MAPAS), as well as change of internal acts in the first half of 2013 is expected, by which the institutional independence of the MAPAS will be practically completed, being in line with the EC recommendations in the 2012 Report.

In line with the EC recommendations for strengthening the supervision capacity of the MAPAS, in September 2012, employees in the Control Sector acquired certificates for investment advisers. Training of the employees in the Control Sector was carried out covering the topic – Capital Markets. These trainings will continue in October and November 2012. Three employees in the MAPAS, at the end of 2012 and 2013, will participate in trainings on Macedonian Stock Exchange for better education, professionalism and competitiveness. In addition, it is planned for employees to participate in workshops for financial education organised by IOPS is planned, as well as seminars related to supervision based on risk assessment for the purpose of obtaining risk management certificates.

In October 2012, first field control started, being bases on risk assessment of the second pension companies by persons authorised by the MAPAS in the presence of IPA consultant in this field. By the end of 2012, the control-related activities should be completed and the results should be summed up, and afterwards they should be compared with the results of the first such control of the other company.

In MAPAS, there are ongoing preparations of documentation and implementation of qualitative standards for the first certification for obtaining ISO standard 9001/2008, envisaged to be completed in 2013. In addition, MAPAS also works on introduction of Information Security Management System (ISMS) to the end of implementing ISO 27001/2005.

By the end of 2014, what is planned is adoption of bylaws arising from the Law on Payment of Pensions and Pension Benefits from Fully Funded Pension Insurance. In the coming medium-term period, this system will be improved and developed.



To the end of supervision that is more efficient and reducing the possibilities from the transfer of potential risks between the different segments of the financial system, in the period 2013-2015, cooperation between national supervisory bodies will continue by carrying out regular meetings.

4.2.5. Agriculture and agricultural policy

Land policy. For the period of 2013-2015, priorities in the area of land policy are:

- continuous distribution of available state-owned agricultural land of farmers, including pastures;
- regulating the use of agricultural land which is owned by farmers, but without proof of ownership;
- registration of existing facilities for agricultural purposes, constructed on agricultural land and allowing construction of agricultural facilities under simplified procedure, without the payment utility fees;
- establishment of institutional capacity for management processes for consolidation of agricultural land and application activities in accordance with the National Strategy for agricultural land consolidation project by providing support for the consolidation of agricultural land;
- provision of state agricultural land to socially unprotected categories of citizens and their inclusion in the categories of employees who earn their livelihood from agriculture.

In the next period, the activities for informing agricultural producers about the procedures and benefits of registering farm facilities built on agricultural land will be intensified. Also, the institutional environments for transparent implementation of the land policy will be strengthened.

Direct support policy. In the transition period of adjustment of direct support systems in-line to the CAP priorities and mechanisms for payment of direct support under the European Agricultural Guarantee Fund (EAGF), the Government will continue with the implementation of direct support measures aimed at:

- maintaining a continuous and stable agricultural policy of direct support in livestock farming, fruit growing and gardening, farming, viticulture and production of tobacco through direct payments per head and per hectare;
- strengthening the efficiency of the system of direct support measures through usage of indicators and results from the Farm Accountancy Data Network (FADN);
- strengthening the system of payment of direct support and administrative control measures through the Integrated Administrative Control System (IACS) and complementary systems in particular through the implementation of electronic connection logs for evidence of agricultural holdings and implementation of a system for identification land parcels, the wine cadastre and cadastre of orchards and olive plantations;
- institutional capacity building of the Agency for Financial Support in Agriculture and Rural Development for the implementation of the functions of *"Paying agency"* on the principles and mechanisms of direct support payments under EAGF.

Regulation of markets in agri-food products. In order to fully implement the provisions of the new Law on the quality of agricultural products which is in accordance with EU regulations on "Common Market Organization", in the next medium-term period, establishment of registers for higher standards for geographical indications, designations of origin and



traditional uniqueness. With the support of USAID-funded project 'AgBiz', technical assistance will be provided for all interested parties to register 11 products with geographical indications.

In addition, in the next medium-term period, the following activities have been planned: provision of technical support for informing the agricultural producers for the possibility of concluding contracts for purchase of agricultural products, registration of buyers and education on the functioning of the market of agricultural products, implementation of programmes for promotion of national brands on new alternative markets and domestic marketing campaigns, introduction of national quality mark "*Macedonian sun*", providing continuous information regarding trends, demand and prices of agricultural markets and forecasts trends in the coming seasons through the Market information system at the MAFWE.

In the next medium-term period, formation of new agricultural cooperatives and strengthening of their capacity for independent functioning is envisaged, as well as establishing a system of continuous training for cooperatives' managers for improving their marketing, organizational and management skills, organizing a national media campaign for promotion of economic association of farmers and initiating interest among farmers.

Rural Development. The priorities of the rural development policy for the period 2012-2014 are the following:

- improvement of existing measures that apply in the IPARD Programme, aimed at improving the conditions for eligibility and expanding the funding opportunities to fully implement the programme goals which are mainly focused on the modernization and increasing of competitiveness of agricultural holdings, application of food safety standards and diversification of economic activities in rural areas;
- implementation of measures for raising interest of the rural population, the business community in rural areas and NGOs to establish LAGs and preparation of local development strategies and their implementation;
- financial support of the process for faster transfer of agricultural holdings to young farmers at the age of 18 to 40, by providing financial incentives to start new agricultural businesses aimed at decreasing of unemployment rate among young people;
- support of production which is based on agro-ecological approach for maintaining special traditional landscapes, bio-diversity and promotion of traditional varieties and species;
- promotion of the possibility for establishment and development of family businesses for achieving additional incomes from agricultural and non-agricultural activities, through co-financing of projects for diversification of activities in rural areas.

Regarding the development of rural tourism, the focus in the coming medium-term period will be on strengthening the tourism offer in rural areas, in particular by implementing the following activities:

- enhanced promotion of measures for support of investment in rural tourism under the IPARD;
- continued implementation of measures for support of municipalities to enrich their tourist offer, through investments in public picnic areas, marking field and forest hiking trails, establishment of bicycle paths and walkways and etc;
- introduction of unified standards for rural accommodation according to the 'EURGITES' system of standards for obtaining the "*Pomegranate*" domestic label and establishing an information network for all providers of rural tourism services;



- strengthening of services in rural areas, through education of providers of tourist services in rural areas, promotion of the use of ethno - style, traditional architecture, traditional housing, folk art, handcrafts, customs, folklore and traditional dishes; and
- promotion of wine tourism by making tourism programmes, such as *"Macedonian Wine Road"* for domestic and foreign visitors and organized visits to wineries and wine regions, testing of traditional Macedonian food and wine, etc.

In order to provide a system of continuous partnership and involvement of NGOs in creating and monitoring the effects of rural development policy, a National network for rural development is envisaged to be established. In addition, in the next mid-term period, establishing of a system for research and implementation of technical and technological practices in agriculture and rural development is envisaged, as well as introduction of special multi-year programme for research and development in agriculture. In the period of 2013 – 2015, providing of state aid is envisaged for investments delivering applicative research projects and establishment of demonstration-testing areas based on approved multi-annual implementation plan in the amount of 1% of the total assets.

Food safety. Concerning the food-safety, the focus for the period 2013 – 2015 shall be put on the following activities:

- implementation of a multi-annual measures programme and indicators for monitoring and improving of the quality of milk and establishing of a milk quality monitoring system. For this purpose, establishment of two regional laboratories for southern and eastern part of Macedonia is planned in order to examine the hygiene and quality of milk which is in line with the recommendations in the 2011 EC Progress Report;
- conformity assessment of operators who work with food of animal origin in terms of meeting the EU standards for food safety, upon which their activities to achieve the minimum standards for food safety will be monitored; and
- establishing a system for treatment, gathering and processing of waste of animal origin.

In the field of veterinary health, the activities in the next medium term are mainly related with liberalization of veterinary services and increasing the quality of veterinary services, completion of registers for identification and registration of animals and establishment of registry of bee families for successful monitoring of diseases and control of the number of bee families.

Phytosanitary policy. During the period of 2013-2015 a long-term strategy is envisaged to be prepared with active measures and policies for increasing the quality of seed and planting material as well as strengthening the system of internal monitoring of plant diseases, quality control of the fertilizers, plant protection and education of farmers for usage of certified seeds and seedlings. So as to strengthen the supply of quality planting material, a possibility for public-private partnership will be introduced which is expected to enable the construction of at least one modern nursery for seeds and planting material. Through the programme for financial support of the rural development, activities will be funded for establishment of gene-bank of indigenous plant varieties and application of indigenous species so to maintain their representation in terms of biodiversity, which is in accordance with the recommendations of the 2012 Progress Report. Additionally, efforts in this area will focus on increasing production of seeds and seedlings and providing safety equipment through specific measures to control the production and trade of seeds, their labeling and quality. In the following mid-term period, activities will follow for strengthening the legal framework as well as development and implementation of monitoring plans for export of agricultural products of plant origin.



4.2.6. Rule of law and enforcement of contracts

Government of the Republic of Macedonia in the period 2013-2015 will continue with its realization of activities that will be aimed at further strengthening of the independence and increasing the efficiency of the judiciary. In this context, the priorities of the Government in the period 2013-2015 will be concentrated on the implementation of the adopted laws regarding the judiciary.

In the next medium-term period, an initial training will be conducted with the fifth-generation of listeners for judges and prosecutors within the Academy for Judges and Public Prosecutors. Moreover, during the realization of the initial training, special emphasis will be placed on trainings in the area of the EU law and international standards and practical aspects and specialization of candidates for judges and public prosecutors at an earlier stage of the training.

Within the Academy for Judges and Public Prosecutors, the realization of continuous training for judges and prosecutors will continue, especially on topics that are aiming at implementation of international standards and specialized topics in the field of civil procedure, commercial law, bankruptcy law, etc.

In the area of independence of judiciary, the activities will be directed towards the implementation of the legal provisions, relating to the system of career promotion of judges, new provisions for disciplinary responsibility and estimation of unprofessional performance of the work of judges by introducing objective and measurable criteria and by increasing the transparency in the work of the courts and the implementation of the new system of evaluation of judges through objective qualitative and quantitative criteria.

According to the Accession Partnership recommendation to allocate adequate resources to the judiciary, in the period from 2013 until 2015, the court budget will be doubled, and with an annual increase of 0.1%, from the current 0.4% in relation to GDP up to 0.8% of GDP in 2015.

Regarding the collection of statistical indicators for the operation of courts, priority will be placed on the implementation of the adopted Methodology for Judicial Statistics. For this purpose, a software application is developed that enables collection, processing and analysis of statistical data on the courts' work. This system, will especially contribute to the planning within the judiciary, for which eleven indicators will be used to measure the successfulness of courts' work, as it is defined in the Methodology.

Regarding the efficiency of the judiciary, in future, in the following mid-term period emphasis will be put on finishing the project involving electronic delivery and tone recording of trials. In addition, emphasis will be put on the work of enforcement of agents and notaries after undertaking of payment orders and old enforcement cases from courts. In the area of assessment and expertise, activities will be aimed at increasing of quality of the performed expertise and assessments that will be achieved by increasing of the skills of the experts and assessment agents. To realize this goal, activities will continue for passing of exams for enforcement agents and assessment agents, as well as issuing of licenses and establishment of required registers.

In the period of 2013 - 2015, implementation of IT in the judiciary will continue. In this direction, the process of implementation of information technology will be expanded to the Public Prosecution Office, which will provide connectivity of information system between the judiciary and public prosecution.



In terms of combating against the organized crime and corruption, activities in the medium-term period will be focused on application of new institutes introduced in the penal legislation, and above all, the expanded confiscation and illicit enrichment, as well as training of all entities in the system for fight against corruption. In addition, special attention will be dedicated to the application of new Law on Criminal Procedure (which starts its application from 01.12.2013), in which key novelty is the transfer of investigations from the courts competence to the public prosecution office.

In the area of criminal law, in the period from 2013 until 2015, more activities will be realized for undertaking of penal records from the Ministry of Interior in the courts of the Republic of Macedonia.

4.2.7. Administrative reforms

Reform of public administration. The Government of the Republic of Macedonia has set a goal to conduct reforms in the forthcoming medium-term period aimed for increasing efficiency, effectiveness and confidence strengthening in administration. In this respect, it has outlined the following measures in the part of public administration reform for the period 2013-2015:

- strengthening capacities of the Ministry of information society and administration (MISA) and the State Administrative Inspectorate (SAI), in line with the recommendations in the 2012 Progress Report;
- continuous implementation of the project *"Evaluate the Administration"*, that would help citizens to express their satisfaction with offered services by state institutions directly through the software device connected with the salary calculation system. This project has been aimed for raising civil servants' accountability;
- continuous realization of the *"No Wrong Door"* project in order to provide citizens with proper services regardless of the place or office they have addressed to;
- continuous upgrading of the *"Civil Journal"* aimed for raising awareness of the benefits of this tool;
- systematic implementation of the RIA, in line with the recommendations in the 2012 Progress Report;
- implementation of a system for permanent measurement of consumers' satisfaction with administrative services, within the *"Barometer of Quality"* project;
- drafting a Law that would provide more precise definition of the manners for salary determination and increase, based on the principle of career and competence based promotion;
- continuous activities for introduction of the ISO and CAF standards, and adoption of a new Law on general administrative procedure (LGAP) that would increase citizens' rights in administrative procedures and facilitate accomplishment of responsibilities toward state institutions, in line with the EC and Sigma recommendation; and
- continuous implementation of the interoperability system for electronic data and document exchange between institutions.

Improvement of the transparency and the accountability of the administration. Regarding the improvement of the transparency and the accountability of the administration, the attention in the next three years will be focused on the process of strengthening the administrative capacity for the strategic planning through implementation of trainings on strategic planning that is in the same direction with the priorities arising from Pre-accession partnership. Continuous capacity building for strategic planning and continuous



implementation of training on strategic planning in-line with the Operations programme of the Government is expected.

In the period 2013-2015, a coordinated and harmonized implementation of the Strategy for cooperation with the civil sector for the period 2012-2017 will continue, mostly by encouraging and supporting the participation of the civil society in the process of policy creation, decision-making, and capacity building cooperation, which is correlated with the Strategy *"Europe 2020"*.

The focus in the next three-year period will be also on the continued development of civil society by encouraging development outside the City of Skopje and rural areas, which is in the same direction with the priorities arising from the Strategy *"Europe 2020"*. The development of the local strategies for cooperation with civil society in eight pilot municipalities will be supported by the IPA project *"Sustainable civil society"*. The cooperation with the Ombudsman will be highly promoted and developed in the next period as well.

4.2.8. Additional reform areas

4.2.8.1. External trade

Trade openness. The degree of trade openness is an important indicator and component of economic growth. During the past period, continuous expansion of the integration of the Republic of Macedonia in global trade flows and increased trade openness can be observed. In 2011, there was some stabilization and improvement of the performance of the external sector, where trade openness has increased by 15 p.p. compared to 2010 amounting to 109.5%. Unfavourable developments in the external environment in the first nine months of 2012 resulted in negative developments in the external sector, with exports of goods declining by 3.5% and imports by 1.9%. According to the projections of the Ministry of Finance, trade openness in 2012 is expected to be around 104% with a tendency to grow in 2013 and 2014 to 107% and 114% respectively, while in 2015 it is expected to be around 121%.

Liberalization of trade in goods within the CEFTA. Regarding 2006 CEFTA Accession Treaty, the activities of the Republic of Macedonia were directed towards ratification of the Additional Protocol of CEFTA 2006 for further trade liberalization. Additional protocol with Albania entered into force on 15.11.2011 and Moldova 13.01.2012. These protocols enabled full liberalization with these two countries by abolishing customs duties on trade in agricultural and food products with the exception of wine, where a reciprocal quota of 1,000 hectolitres is granted.

Trade with services. Taking to consideration the advantages of higher freedom in the trade with services in the region within the frames of CEFTA, in 2012 activities for assessment of the potentials for additional liberalization of the services among the CEFTA member-states have been undertaken. Namely, pursuant the CEFTA agreement, analysis of the current level of openness of the markets for services and identification of regulatory barriers to trade in services has been made. The results of the analysis indicated the possibility of further liberalization of trade in services in order to achieve higher integration of countries into global markets services. In this direction, in the next medium-term period, activities will follow for further liberalization and establishing common priority service sectors that have the potential for liberalization as well as the timeframe, scope, format and factors that should be considered in the process of liberalization.

Ratification of the Pan-Euro-Med cumulation. The Law on ratification of the Regional convention on Pan-Euro-Mediterranean preferential rules of origin, entered into force on



30.05.2012. The ratification of this Convention allows replacement of all existing protocols on rules of origin in preferential trade agreements concluded by EU and facilitates the administrative procedures of the existing rules of origin, thus ensuring greater harmonization of the application of preferential rules of origin. In the following mid-term period, protocols of origin will not be integral part of the new free trade agreements and with the application of this Convention uniform rules of origin shall apply. Upon ratification of this Convention, Republic of Macedonia will be able to apply preferential rules of Pan-Euro Mediterranean cumulation within the Regional Convention with EU Member States, EFTA countries, the countries of the Stabilisation and Association process and Turkey.

Application of diagonal cumulation with the EFTA countries. As of 01.01.2012, diagonal cumulation of origin began to be applied between Republic of Macedonia, Albania, Croatia and the Serbia on the one hand, and the EFTA countries on the other.

Agreements on economic cooperation. Following the good cooperation that the Republic of Macedonia establishes with a number of countries on a bilateral basis, the need for deepening cooperation in economic areas where there are business interests became evident. These agreements allow for new investments and increasing competitiveness among companies. In this context, the conclusion of such bilateral agreements on economic cooperation is projected to cover various economic areas, such as: energy, infrastructure, transport, agriculture, industry, forestry, entrepreneurship, tourism and other areas which can be mutually agreed. So far, Republic of Macedonia has signed 33 bilateral agreements for economic cooperation.

4.2.8.2. Attracting foreign direct investment and promotion of exports

In the period 2013-2015, the Agency for attracting foreign investments and promotion of exports (*Invest in Macedonia*) will continue with marketing campaigns on global TV channels and newspaper networks in order to increase the country's image as an attractive location for investment with excellent conditions for doing business. In parallel to this process, in order to achieve more effective presentation to foreign companies that are interested in expansion and relocation of their businesses in other countries, the number of economic promoters will be increased. Namely, at present there are 25 economic promoters who are engaged in active promotion of investment opportunities and export potential of the Republic of Macedonia, but during the period of 2013-2015 it is envisaged that the number will grow to 30. To further create a better business climate attractive for foreign investors, in the next medium-term period, the implementation of the Programme for encouraging investment for the period 2011-2014 will continue.

As of first quarter of 2013, the new web site of *Invest in Macedonia* will be presented which will allow for greater efficiency and easier visibility of its contents. In compliance with the ongoing export promotion activities, an appropriate adjustment to the web-site is being made by introducing interactive trade portal. The portal will contain relevant information about foreign markets and information for Macedonian exporters and their profiles. In the next period, *Invest in Macedonia* will actively continue with the process of putting into operation the Department of Export Promotion, identifying appropriate personnel, as well as providing adequate professional staff.

Box 4.1. FDI in Republic of Macedonia

The Government considers FDI as one of the cornerstones for future growth and, through its agency *Invest in Macedonia*, has been active in efforts to attract private investors in recent years. In addition to



international fairs, advertisements about the fast-improving investment climate in Macedonia have been published in a number of global TV and newspaper networks. In addition, high-level officials (including the Prime Minister and the Minister of Finance) are often present at the road-shows organized in targeted countries, addressing private businesses directly. Over the past years significant reforms have been made to improve the business climate and this has been reflected in the Doing Business Report of the World bank, World competitiveness report by the World economic forum, Index for economic freedom by the Heritage Foundation and alike. Macedonia has been repeatedly cited as one of the top five reformers in the world and was ranked as 23rd on the Ease of Doing Business 2013. Finally, free TIDZ have been established to ensure that firms have access to high-quality physical infrastructure.

These efforts have helped to attract FDI, which reached 4.5 percent of GDP in 2011. Unlike other countries in the region, almost all investments are export-oriented and many are part of a long-term investment plan for Macedonia. Large companies, such as Johnson Matthey and Johnson Controls, are already expanding their production through a second wave of investments, a sign of confidence in the country. Several companies also invested for the first time during 2012 –largely in light manufacturing– and are expected to start production by the end of the year or in early 2013. Minimum investment amounts (as per state aid contracts) for selected key investors, envisaged production/exports and envisaged employments for the period of 2012-2015 are presented in **Error! Reference source not found.**

Total 4.1. New planned investments, production/exports (Euro million) and envisaged employments

	New planned investments			Production/Exports			Envisaged employments
	Total	2012	2013	2012	2013	2014	2012-2015
Johnson Matthey (2 nd phase)	75,1	18,8	56,3	0,0	570,0	750,0	100
Johnson Controls (2 nd phase)	20,0	10,0	10,0	3,2	12,2	13,9	1,300
Kemet Electronics	12,5	12,5	0,0	2,3	13,5	20,0	200
Tecnohose	2,9	1,8	1,1	1,5	3,0	5,0	93
Protec/Prodis	2,7	2,6	0,1	2,0	3,0	4,0	100
Motherson	11,1	8,3	2,8	0,0	4,0	11,5	150
Van Hool	18,6	9,3	9,3	0,0	12,2	54,2	385
Kromberg&Schubert	15,0	5,5	9,5	6,8	31,4	64,5	1,907
Draexelmeier	15,4	1,1	14,3	0,7	34,7	123,7	2,984
Total	173,3	69,9	103,4	16,5	684,0	1.046,8	5,920

**some of the investment were realized in 2011 and begining of 2012*

In addition, a large number of companies are in an advanced stage of negotiations with the Government on new FDIs (mostly in the auto industry, food and construction). Total green-field FDI in 2013 (largely by export-oriented industries) is expected to reach around Euro 270 million (3.3% of GDP). This trend is likely to continue in 2014 as the Government continues pursuing its agenda of improving the business climate combined with aggressive marketing as well as expanding the number of Free TIDZ from the current four zones up to ten.

Source: World bank, 'Invest in Macedonia', Ministry of Finance and Cabinet of the Minister in-charged for FDI, Vele Samak MBA

In terms of the responsibility of 'Invest in Macedonia' for providing complete and quality service to potential foreign investors in the phases of pre-investment, investment and re-investment, a database of potential investment projects will be made in the following mid-term period, as well as database of suppliers and database on locations and already constructed facilities offered for sale, joint venture or lease.

In the period 2013-2015, in order to identify the main challenges and problems encountered in their daily operations 'Invest in Macedonia' will continue to work closely with foreign companies that have already invested in the country and in order to eliminate unnecessary barriers for doing business, it will inform relevant institutions. It is expected that all of the



activities will contribute to the increase in FDI inflows, which will increase economic growth and provide new jobs.

4.2.8.3. Customs System

For the purpose of realising the partnership priorities of the Republic of Macedonia in the EU, as well as harmonising Macedonian customs legislation with the Acquis, modifications and amendments to the Customs Law and the Decree on Implementation of the Customs Law were adopted in 2012.

Within the Project for Establishing New Computerised Transit System (NCTS), being realised through two parallel projects – Implementation of NCTS and Management Support to the NCTS Implementation, during 2012, intensified activities were undertaken to introduce national NCTS application. The application was tested in line with EU scenarios, and the results of the testing and the necessary remarks were sent to the contractor, for their implementation.

Harmonisation of the Customs Tariff and the EU Combined Nomenclature will continuously to be carried out in the next medium-term period as well, whereby new modifications and amendments of the Combined Nomenclature will be appropriately implemented in the national legislation. To the end of providing uniform application of the rules for classification of goods transponding of the regulations in this field will continue through appropriate modifications to the Decree on Implementation of Regulations of the Commission of European Communities, pertaining to classification of certain goods in the Combined Nomenclature.

Downward trend of customs duties in line with the envisaged dynamics of reducing the customs rate envisaged in the Operating Programme of the Government of the Republic of Macedonia for the period 2011-2015 will continue in the next period as well. In fact, starting 1st January 2013, customs duties for several sectors and industries will be reduced or abolished, such as metal processing industry, car industry, and the customs rates for buses, minibuses and freight wagons intended for railway transportation will be also reduced. Reduction of the customs duties for these goods will directly influence the reduction of production costs, which will result in increase of both competitiveness and productivity in these industrial branches, at the same time encouraging the development of the transportation sector.

Customs Administration (CA) will continue to implement the activities for further improvement of institutional and administrative capacities through continuous system of trainings and enhancement of human resources. Fight against corruption will continue by undertaking preventive measures for its elimination, further enhancement of the already established systems, providing control of the corruption and deviant phenomena and their timely prevention, by constantly upgrading the own institutional and administrative capacities.

As regards transit, CA will implement all necessary requirements for accession of Republic of Macedonia to the Convention on Common Transit Procedure between EU Member States and EFTA and inclusion of the Republic of Macedonia in the NCTS.

With respect to excises, in the period 2013 -2015, national excise legislation will be revised and harmonised with EU Directives, new system for processing excise documents will be introduced, to provide for electronic submission and procession of excise applications, accounting records and collection of excise debt, recording quantities of excise goods released in free circulation, recoding and monitoring decisions of excise refund, recording and



monitoring issuance of excise control marks, issuing and recoding excise licences and approvals and their holders, as well as recoding and monitoring stock of excise goods.

In the period 2013-2015, CA will introduce and implement new System for Processing Customs Declarations and Excise Documents (SPCDED) – a solution which, within customs and excise procedures, will provide the CA with customs declarations and excise documents, control over movement of excise goods and exchange of e-mail messages within the automatic administrative operations, efficiency in carrying out control over collected and refunded customs duties, excises, fees and other charges, trade facilitation through faster flow of goods, improvement of security in the supply chain, in line with the EU standards and the standards of the World Customs Organisation. This system will provide for exchange of data between customs authorities and economic operators, as well as between customs authorities and other government institutions. Interconnection with NCTS and IET systems in the EU is envisaged within the implementation of the new SPCDED, to be realised through projects financed under IPA 2008 and IPA 2009.

By implementing the new Data Processing System, integrated customs and statistical nomenclature of EU TARIC (TARIM) will be introduced, aimed at realising the strategic priorities, such as increase of the number of companies to use simplified procedures and strengthening the control mechanism.

CA will continue to improve the business and operational procedures by enhancing the existing and introducing modern document management systems and application of new technologies in the operations, continuous availability and functionality of all operational information systems, further reorganisation and strengthening the CA, as well as upgrading the e-learning system.

In line with the ICT Strategy of the CA, what is of high priority is to define alternative procedures and to establish information system to provide for fast recovery following a possible disaster and continuity of the business processes. Alternative procedures are business procedures and measures, which are undertaken in cases defined in the Business Continuity Plan or in the Contingency Plan. As for the IT systems, being especially critical, alternative procedures and their organisation should be also supported within the customs legislation.

In addition, CA, has as its priority goals cooperation with economic operators and other state institutions and inspection services, improvement of cooperation and exchange of data with government bodies, other customs administrations and EU bodies, improvement of business and the operational procedures through participation in the projects of e-government, fight against illegal trade and organised crime, improvement of administrative capacity of the customs service in detecting different forms of customs frauds. Special attention will be paid to the cooperation with the other competent government institutions and inspection services to the end of further development and operationalisation of the risk analysis system, so as to enhance efficiency when detecting illegal trade and crime. CA role will be also strengthened as regards safety and protection of health, environment and intellectual property rights.

In the period 2013-2015, main priority of the customs laboratory will be improving the working conditions in the laboratory, revision of the agreement for business-technical cooperation between CA and the Institute of Chemistry within the Faculty of Natural Sciences and Mathematics, as well as all necessary activities for the purpose of accrediting laboratory methods in the defined scope of testing.



4.2.8.4. Energy

In-line with the recommendations in the 2012 Progress Report, the regulatory framework in accordance with the Energy Law as a prerequisite for further liberalization of the electricity market is expected to be completed in the first half of 2013. In the period of 2013 - 2015, activities will follow for allowing complete openness of the markets for electricity and natural gas. In addition, in accordance with the recommendations in the 2012 Progress Report, the programme of the Government for subsidizing part of the electricity bills of the socially vulnerable households will continue to be implemented. In the first half of 2013, a programme for the implementation of the Energy Development Strategy will be prepared which will identify measures, conditions, manner and pace of implementation of the Strategy, as well as obligations of state institutions, municipalities and energy providers that have an obligation to provide a public service.

In accordance with the commitment of the Government for contribution towards meeting the targets of the strategy *"Europe 2020"*, in 2012 activities were undertaken for the implementation of the Energy Efficiency Action Plan that provides measures and activities for achieving 9% energy saving in 2018, compared to the average power consumption during the period of 2002-2006. In accordance with the recommendations in the 2012 Progress Report, in the period 2013-2015, the focus will be on preparation of by-laws for energy efficiency in buildings, on conducting energy audits as well as strengthening the capacities of the institutions involved in the implementation of energy efficiency policies.

Taking into account the EC recommendations for promotion of electricity produced from renewable energy sources, the focus in the following mid-term period will be on the implementation of the new Action Plan for Renewable Energy, which will provide measures and actions aimed at achieving the strategic goal for increasing the share of renewable sources in final energy consumption in 2020. In the next mid-term period, efforts will be made to continue with the implementation of the annual Programmes for reimbursement of costs incurred for purchased and installed solar panels. In 2013, activities will follow for harmonization of national legislation with Directive 2009/28. Also, activities will be undertaken related to measuring the potential of wind energy in five places in the country in order to examine the possibility for usage of wind to produce electricity. In the period of 2013-2015, announcements will be published for granting concession for water for generating electricity.

4.2.8.5. Fiscal decentralization

Fiscal decentralisation is one of the priorities arising from the Accession Partnership of the Republic of Macedonia with the EU. The goal for all municipalities (except for the Municipality of Plasnica) in 2012 to finance the transferred competences with block grants was achieved, by which the phased approach for transferring and managing the material and financial resources for the transferred competences in the field of education, culture, child care and social protection, ended. Under the modifications and amendments to the legislation, in the next medium-term period, it is expected for the capacities for developing policies for financing municipalities to be enhanced, by determining the value of the real estate, for the needs of property taxation to be carried out by an expert-evaluator, upgrading the Methodology for Determining the Market Value of the Real Estate, increasing the VAT grants, borrowing based on transparent and simplified procedures and strengthening the capacities for financial management and control.



In the coming medium-term period, successful administration and collection of own revenues continues the increasing process of own revenues of municipalities and the capacity for management of funds, execution of transferred competences and management of financial resources and other resources necessary for their execution. Progress as regards fiscal decentralisation is confirmed with the data on collected tax revenues, over which, the municipality has tax collection autonomy, which in the period 2005-2011, experienced two-fold increase. In addition, there was increase of the participation of local taxes in GDP from 1% in 2005 to 1.5% in 2011.

Government will continue to implement the fiscal decentralisation process within the fully established legal and institutional framework of local government, with developed, responsible and functional LGU and level of local democracy that will bring the citizens closer, as much as possible, to the local government institutions.

4.2.8.6. Transport

According to the priorities of the Accession Partnership, Republic of Macedonia continues with the implementation of the Memorandum of Understanding for the SEE main regional network and actively participates in the regional initiatives, with strong and substantial cooperation in the framework of the South East Europe Transport Observatory (SEETO). Republic of Macedonia participates in the development of a new five-year plan 2013-2017 and in the implementation of priorities over the Annual Plan 2012 - 2015. In addition, Republic of Macedonia actively participated in the negotiations on the Treaty establishing a Transport Community between the EU and SEE countries, which started in June 2008.

In April 2012 the Ministry of Transport and Communications (MTC) has updated the National Transport Strategy (2007 - 2017). The main objectives of this strategy are: promoting economic growth by building, enhancing, managing and maintaining transport services, infrastructure and networks for maximum efficiency; promoting integrated and interconnected transport network which establishes effective customer services as well as the activities and areas in the Republic of Macedonia beneficiaries of this network; promoting social factor by connecting remote and disadvantaged communities and increasing the accessibility of the transport network; promoting environment protection and improvement of the health by building and investing in public transport and other efficient and sustainable transport which reduces emissions and consumption of resources and energy; improving the travel safety by reducing accidents and enhancing the personal safety of pedestrians, cyclists, drivers, passengers and providing integration by facilitating planning and issuing travelling tickets and providing regular connections between different forms of transport. The next review of the objectives and activities under the Strategy is planned to be held in April 2014.

Road traffic. In order to provide full regulation of the road transport relations with the countries of Europe, in the period 2013-2015, it is planned continuation of activities for the conclusion of the Agreement on international transport of passengers and goods with the countries with which the Government has not concluded an agreements yet i.e. the Kingdom of Sweden, Republic of Finland, Republic of Lithuania, Republic of Portugal and the Republic of Ireland. In order to strengthen the administrative, operational and managerial capacities of the State Transport Inspectorate (STI), which is also stated as a remark in the EC Progress Report for 2012, the framework of the project supported by the IPA for the effective implementation of road transport legislation in the next period provides implementation of the 18-month training on inspection controls while performing transport of passengers and goods by road traffic by inspectors from STI.



Inland waterways. During the year 2012 amendments have been prepared on the Law on inland waterways in order to implement Directive (87/54/EEC) for access to the professions to perform activities of transport of goods by inland waterways.

Rail traffic. In the next mid-term period, it is foreseen continuation of activities related to the compensation of the losses in passenger transport through the provision and delivery of funds in the budget of the MTC, and for railway infrastructure through annual programme for financing the railway infrastructure, preparation and publication of the announcement of network by the manager of the railway infrastructure. Also, it is foreseen additional staffing with qualified personnel of the Authority for safety of the rail system, and the preparation of guidelines for issuing safety certificates to railway carriers, permitting drivers, trainers and examiners to perform authorization of training and implementation exams for general professional ability, professional knowledge and competence relating to rolling stock and railway infrastructure to drivers, performing inspectorial supervision.

Air traffic. In the next med-term period, new national strategy is foreseen for the development of aviation in the Republic of Macedonia. Following the concept of the *"Single European Sky"*, the Government of Republic of Macedonia is taking steps to restructure the airspace based on traffic flow, rather than according to national borders. In order to offer concrete solutions to improve the situation in the sector of the air traffic ongoing is the preparation of a regional project *"Preparation of a study on the importance of air traffic sector for economic and social development and cooperation in SEE"*, which would be funded through the WBIF instrument. Activities that are planned for the next med-term period mostly involve: promoting the use of helicopters for transportation from airports to hotels, resorts and hospitals, in order to use helicopters to transport as a substitute for urban transport, giving airfields under concession, in order to provide improvement and development of infrastructure, improving the safety of air traffic, reviews of existing and conclusion of new bilateral agreements on regular air traffic, the revision of the bylaws of the Aviation Law in order to comply with the airport Acquis with EU regulations, international standards and recommended practices and ratified international agreements, attracting new low tariff airlines and starting the initial activities on satellite navigation in the transport sector.

Postal Service. Operation of the Postal Agency as an independent regulatory body is geared towards the implementation of the legal obligations and responsibilities in order to strengthen the conditions for the provision of universal service, conducting controlled and gradual liberalization of the market and protect the interests of users of postal services. Given that by the beginning of 2015 the reserved service shall be abolished, i.e. the monopoly in the provision of postal services, the Agency's priority activity will be constantly monitoring the universal service provider for a complete and consistent provision of universal service in the interests of users. Postal Agency, in accordance with its responsibilities for monitoring the postal market will be focused on the creation of quality services, particularly regarding the speed and accuracy, with which the postal services will be under constant supervision by the authorized persons of the Agency.

Gasification. Based on the Feasibility Study prepared for the gasification system, a preliminary design has been developed for the entire national system with a total length of 849km, after which in 2011/2012 Infrastructure Project and Basic project were prepared for the priority gas- route length of 410km divided into five sections. In addition, the Government of Republic of Macedonia has begun proceedings for Programme for Development of the gas economy of the Republic of Macedonia for the next ten years as well as a study for the development of natural gas distribution.



4.3. Matrix of policy commitments (in Denars)

Description of policy	2012	2013	2014	2015
4.2.1. Business environment				
<i>One stop shop (OSS) for domestic and foreign investors (Registry)</i>				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	0	--	0	0
B.1 Direct impact on budgetary revenues	9.400.000	--	27.700.000	27.700.000
B.2 Direct impact on budgetary expenditures	9.400.000	--	27.700.000	27.700.000
<i>Activities of the National Entrepreneurship and Competitiveness Council activities (NECC)</i>				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	600.000	4.300.000	1.200.000	1.200.000
B.1 Direct impact on budgetary revenues	300.000	12.000.000	12.000.000	12.000.000
B.2 Direct impact on budgetary expenditures	900.000	16.300.000	13.200.000	13.200.000
<i>Fund for innovation and technological development</i>				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	24.600.000	18.450.000	18.450.000
B.1 Direct impact on budgetary revenues	--	98.400.000	252.150.000	252.150.000
B.2 Direct impact on budgetary expenditures	--	123.000.000	270.600.000	270.600.000
<i>Paryicipation in the Western Balkan Enterprise Development and Innovation Facility</i>				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	3.075.000	0	0
B.1 Direct impact on budgetary revenues	--	0	4.305.000	4.305.000
B.2 Direct impact on budgetary expenditures	--	3.075.000	4.305.000	4.305.000
<i>Action plan for improving global competitiveness of the Republic of Macedonia</i>				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	--	18.000.000	18.360.000	18.727.200
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	18.000.000	18.360.000	18.727.200
<i>Strategy for innovations (2012 - 2020)</i>				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	--	8.625.000	5.227.500	5.227.500
B.1 Direct impact on budgetary revenues	--	93.480.000	182.757.500	186.242.500
B.2 Direct impact on budgetary expenditures	--	102.090.000	187.985.000	191.470.000
<i>Project „Top management” - phase 2</i>				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	50.000.000	--	--
B.1 Direct impact on budgetary revenues	--	0	--	--
B.2 Direct impact on budgetary expenditures	--	50.000.000	--	--
<i>Regulatory impact assessment</i>				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	1.230.000	1.734.539	1.769.229	1.804.614
B.1 Direct impact on budgetary revenues	6.842.503	0	0	0
B.2 Direct impact on budgetary expenditures	8.072.503	1.734.539	1.769.229	1.804.614
4.2.2. Labour market				
<i>National Programme for Research and Development and Programme for technological development and mobility</i>				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	121.853.000	147.120.000	390.000.000	429.000.000
B.1 Direct impact on budgetary revenues	176.330.000	171.428.000	0	0
B.2 Direct impact on budgetary expenditures	298.183.000	318.548.000	390.000.000	429.000.000
<i>Translation of 1000 professional, scientific books and textbooks</i>				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	90.000.000	90.000.000	80.000.000	70.000.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	90.000.000	90.000.000	80.000.000	70.000.000
<i>“Laboratories 2010/2020” for public higher education institutions</i>				



A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	137.678.000	252.028.000	400.000.000	600.000.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	137.678.000	252.028.000	400.000.000	600.000.000
Implementation of the Strategy for Integrated Education and Social Inclusion				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	1.033.957.484	964.398.370	962.396.000	962.396.000
B.1 Direct impact on budgetary revenues	55.876.079	110.043.759	94.428.900	84.889.000
B.2 Direct impact on budgetary expenditures	1.089.833.563	1.074.442.129	1.056.824.900	1.047.285.000
Project "Skilful and Competent"				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	49.380.000	62.063.000	62.063.000	62.063.000
B.1 Direct impact on budgetary revenues	7.717.160	68.704.910	64.063.000	64.063.000
B.2 Direct impact on budgetary expenditures	57.097.160	130.767.910	126.126.000	126.126.000
IPA twinning project "Modernization of the education and training system"				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	8.040.530	1.914.412	--	--
B.1 Direct impact on budgetary revenues	45.562.998	10.848.333	--	--
B.2 Direct impact on budgetary expenditures	53.603.526	12.762.745	--	--
IPA "Procurement and upgrade of the teaching equipment in accordance with the developed and reformed standards and instructional plans and programmes in vocational education and training system"				
A. Implementation profile*		x	x	
B. Net direct budgetary impact (if any)	--	4.776.373	3.184.249	--
B.1 Direct impact on budgetary revenues	--	27.066.114	18.044.075	--
B.2 Direct impact on budgetary expenditures	--	31.842.487	21.228.324	--
IPA "Strengthening the lifelong learning through modernization of vocational education and training systems and adult education"				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	2.509.200	5.854.800	4.182.000
B.1 Direct impact on budgetary revenues	--	14.218.800	33.177.159	23.698.041
B.2 Direct impact on budgetary expenditures	--	16.728.000	39.031.959	27.880.041
IPA "Procurement of books on intercultural education & teaching materials for schools in ethnically mixed communities"				
A. Implementation profile*			x	x
B. Net direct budgetary impact (if any)	--	--	1.151.280	767.520
B.1 Direct impact on budgetary revenues	--	--	6.523.920	4.349.280
B.2 Direct impact on budgetary expenditures	--	--	7.675.200	5.116.800
IPA "Procurement of teaching and sports equipment for schools in ethnically mixed communities"				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	1.062.720	708.480	--
B.1 Direct impact on budgetary revenues	--	6.022.080	4.014.720	--
B.2 Direct impact on budgetary expenditures	--	7.084.800	4.723.200	--
IPA twinning project "Support to Capacity Building of the Centre for Education of Adults, Development of Programmes for Adult Education and of Programmes for Literacy and for Completion of Primary Education of Excluded Persons"				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	7.380.677	1.591.374	--	--
B.1 Direct impact on budgetary revenues	41.823.998	9.017.745	--	--
B.2 Direct impact on budgetary expenditures	49.204.674	10.609.119	--	--
IPA "Procurement of system with the database in terms of the process of recognition of professional qualifications"				
A. Implementation profile*			x	x
B. Net direct budgetary impact (if any)	--	--	2.167.135	1.444.756
B.1 Direct impact on budgetary revenues	--	--	12.280.433	8.186.956
B.2 Direct impact on budgetary expenditures	--	--	14.447.568	9.631.712
IPA "Implementation of the legal framework in relation to the process of recognition of professional qualifications"				



A. Implementation profile*			x	x
B. Net direct budgetary impact (if any)	--	--	4.797.000	5.166.000
B.1 Direct impact on budgetary revenues	--	--	27.183.000	29.274.000
B.2 Direct impact on budgetary expenditures	--	--	31.980.000	34.440.000
Twining Project "Support to the National Employment Policy"				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	6.139.596	1.674.435	--	--
B.1 Direct impact on budgetary revenues	34.791.044	9.488.464	--	--
B.2 Direct impact on budgetary expenditures	40.930.641	11.162.899	--	--
Annual operating plans for active labour market measures and self-employment program through loans				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	604.524.400	762.730.000	777.984.600	793.544.292
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	604.524.400	762.730.000	777.984.600	793.544.292
Support to the ESA in the implementation of active labour market measures and services				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	523.900.000	534.378.000	545.065.560
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	523.900.000	534.378.000	545.065.560
Support to the ESA in the implementation of active labour market measures and services on the labour market (construction)				
A. Implementation profile*			x	
B. Net direct budgetary impact (if any)	--	--	5.283.900	--
B.1 Direct impact on budgetary revenues	--	--	29.942.100	--
B.2 Direct impact on budgetary expenditures	--	--	35.226.000	--
Support to the ESA in the implementation of active labour market measures and services on the labour market (equipment)				
A. Implementation profile*		x	x	
B. Net direct budgetary impact (if any)	--	1.668.600	1.112.400	--
B.1 Direct impact on budgetary revenues	--	9.455.400	6.303.600	--
B.2 Direct impact on budgetary expenditures	--	11.124.000	7.416.000	--
Modernization of the Employment Agency of the Republic of Macedonia				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	3.825.266	5.100.354	--	--
B.1 Direct impact on budgetary revenues	21.676.505	28.902.006	--	--
B.2 Direct impact on budgetary expenditures	25.501.770	34.002.360	--	--
Strengthening the fight against undeclared jobs				
A. Implementation profile*		x	x	
B. Net direct budgetary impact (if any)	--	3.615.300	7.230.600	--
B.1 Direct impact on budgetary revenues	--	20.486.700	40.973.400	--
B.2 Direct impact on budgetary expenditures	--	24.102.000	48.204.000	--
Strengthening the fight against undeclared jobs (procurement of equipment for State Labour Inspectorate)				
A. Implementation profile*		x	x	
B. Net direct budgetary impact (if any)	--	1.668.600	1.112.400	--
B.1 Direct impact on budgetary revenues	--	9.455.400	6.303.600	--
B.2 Direct impact on budgetary expenditures	--	11.124.000	7.416.000	--
Improving the employability of women from minority ethnic groups				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	9.373.824	3.808.116	1.464.660	--
B.1 Direct impact on budgetary revenues	53.118.336	21.579.324	8.299.740	--
B.2 Direct impact on budgetary expenditures	62.492.160	25.387.440	9.764.400	--
Strengthening the role of local partners in the field of preparation and implementation of projects of social inclusion				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	726.000	740.520	755.330
B.1 Direct impact on budgetary revenues	--	4.117.000	0	0
B.2 Direct impact on budgetary expenditures	--	4.853.000	740.520	755.330
Introducing computerized systems for records of users of social services in the centres for social work and education of personnel				



A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	0	0	--	--
B.1 Direct impact on budgetary revenues	860.000	860.000	--	--
B.2 Direct impact on budgetary expenditures	860.000	860.000	--	--
Promoting social inclusion and inclusive labour market				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	8.136.928	5.424.619	--	--
B.1 Direct impact on budgetary revenues	46.109.258	30.739.505	--	--
B.2 Direct impact on budgetary expenditures	54.246.186	36.164.124	--	--
Tackling youth unemployment, women and long-term unemployed (second grant)				
A. Implementation profile*		x	x	
B. Net direct budgetary impact (if any)	--	7.416.000	17.613.000	--
B.1 Direct impact on budgetary revenues	--	42.024.000	99.807.000	--
B.2 Direct impact on budgetary expenditures	--	49.440.000	117.420.000	--
Strengthening the capacities for labour market integration with particular emphasis on women from minority ethnic groups				
A. Implementation profile*	x		x	--
B. Net direct budgetary impact (if any)	1.462.478	2.924.956	487.493	--
B.1 Direct impact on budgetary revenues	8.287.374	16.574.749	2.762.458	--
B.2 Direct impact on budgetary expenditures	9.749.852	19.499.705	3.249.951	--
Strengthening the role of local partners in the field of preparation and implementation of projects for social inclusion (phase 2)				
A. Implementation profile*	--	x	x	--
B. Net direct budgetary impact (if any)	--	1.112.400	741.600	--
B.1 Direct impact on budgetary revenues	--	6.303.600	4.202.400	--
B.2 Direct impact on budgetary expenditures	--	7.416.000	4.944.000	--
Promoting Social Inclusion				
A. Implementation profile*			x	
B. Net direct budgetary impact (if any)	--	--	13.084.883	13.346.581
B.1 Direct impact on budgetary revenues	--	--	74.147.671	75.630.624
B.2 Direct impact on budgetary expenditures	--	--	87.232.554	88.977.205
Modernization and adaptation of the Centres for Social Work (construction)				
A. Implementation profile*			x	
B. Net direct budgetary impact (if any)	--	--	5.339.520	--
B.1 Direct impact on budgetary revenues	--	--	30.257.280	--
B.2 Direct impact on budgetary expenditures	--	--	35.596.800	--
Modernization and adaptation of the Centres for Social Work (equipment)				
A. Implementation profile*		x	x	
B. Net direct budgetary impact (if any)	--	3.837.780	2.558.520	--
B.1 Direct impact on budgetary revenues	--	21.747.420	14.498.280	--
B.2 Direct impact on budgetary expenditures	--	25.585.200	17.056.800	--
4.2.3. Enterprises sector				
Programme for Competitiveness, Innovation and Entrepreneurship				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	13.371.000	15.000.000	15.000.000
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	13.371.000	15.000.000	15.000.000
IPA (2009) "Capacity building for the implementation of the industrial policy"				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	--	7.915.050	8.523.900	1.826.550
B.1 Direct impact on budgetary revenues	--	71.235.450	76.715.100	16.438.950
B.2 Direct impact on budgetary expenditures	--	79.150.500	85.239.000	18.265.500
IPA (2009) "Support of the Commission for Protection of Competition for state aid control"				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	--	1.127.499	307.500	--
B.1 Direct impact on budgetary revenues	--	21.422.499	5.842.500	--
B.2 Direct impact on budgetary expenditures	--	22.549.998	6.150.000	--
IPA (2010) "Harmonization of legislation and capacity building in the field of consumer protection"				



A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	3.185.700	1.162.350	3.487.050
B.1 Direct impact on budgetary revenues	--	28.671.300	10.461.150	387.450
B.2 Direct impact on budgetary expenditures	--	31.857.000	11.623.500	3.874.500
Export promotion strategy				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	1.000.000	1.200.000	1.400.000	1.428.000
B.1 Direct impact on budgetary revenues	4.000.000	4.000.000	4.000.000	0
B.2 Direct impact on budgetary expenditures	5.000.000	5.200.000	5.400.000	1.428.000
State aid for foreign investors in the country				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	112.920.000	183.000.000	190.000.000	190.000.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	112.920.000	183.000.000	190.000.000	190.000.000
4.2.4. Financial system				
IPA (2010) "Harmonization with the EU legislation in the area of free movement of capital and financial services payment – Securities Market and investment services"				
A. Implementation profile*			x	x
B. Net direct budgetary impact (if any)	--	--	4.797.000	3.198.000
B.1 Direct impact on budgetary revenues	--	--	43.173.000	28.782.000
B.2 Direct impact on budgetary expenditures	--	--	47.970.000	31.980.000
Introduction of ISO 9001/2008 in the Securities and Exchange Commission				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	300.000	--	--
B.1 Direct impact on budgetary revenues	--	0	--	--
B.2 Direct impact on budgetary expenditures	--	300.000	--	--
SEE and Caucasus Catastrophe Risk Insurance Facility Project				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	240.000.000	--	--	--
B.1 Direct impact on budgetary revenues	0	--	--	--
B.2 Direct impact on budgetary expenditures	240.000.000	--	--	--
Introduction of ISO 9001/2008 in the Insurance Supervision Agency				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	267.000	--	--	--
B.1 Direct impact on budgetary revenues	0	--	--	--
B.2 Direct impact on budgetary expenditures	267.000	--	--	--
IPA (2008) "Support of MAPAS"				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	0	--	--	--
B.1 Direct impact on budgetary revenues	27.064.920	--	--	--
B.2 Direct impact on budgetary expenditures	27.064.920	--	--	--
4.2.5. Agriculture and Agriculture Policy				
IPA (2009) "Capacity building for the implementation of policies in the field of agriculture and rural development"				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	3.050.400	12.132.925	1.575.425	--
B.1 Direct impact on budgetary revenues	38.769.600	91.043.575	29.933.075	--
B.2 Direct impact on budgetary expenditures	41.820.000	103.176.500	31.508.500	--
IPA (2009) "Strengthening the capacities of competent authorities for food safety, veterinary and phytosanitary policy"				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	2.384.047	5.562.777	3.973.412
B.1 Direct impact on budgetary revenues	--	21.456.427	50.064.997	35.760.712
B.2 Direct impact on budgetary expenditures	--	23.840.475	55.627.775	39.734.125
IPA (2010) "Procurement of vaccines against rabies"				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	0	--	0	--
B.1 Direct impact on budgetary revenues	43.542.000	--	29.028.000	--
B.2 Direct impact on budgetary expenditures	43.542.000	--	29.028.000	--
Strategy for improving and monitoring the quality of milk				



A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	915.200.000	911.000.000	951.100.000
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	915.200.000	911.000.000	911.000.000
Programme for Rural Development				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	644.938.000	700.000.000	714.000.000	728.280.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	644.938.000	700.00.000	714.000.000	728.280.000
Programmes for seeds and planting material				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	2.000.000	4.000.000	4.080.000	4.161.600
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	2.000.000	4.000.000	4.080.000	4.161.600
Programmes for the protection of plants				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	2.000.000	7.000.000	714.000.000	728.280.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	2.000.000	7.000.000	714.000.000	728.280.000
Programme on food safety and veterinary				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	163.000.000	172.312.000	175.758.240	179.273.404
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	163.000.000	172.312.000	175.758.240	179.273.404
4.2.6. Rule of Law and Contract Enforcement				
Initial training of fifth generation listeners for judges and public prosecutors				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	10.800.000	11.000.000	8.000.000
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	10.800.000	11.000.000	8.000.000
Software for the collection, processing and analysis of statistical data on the work of the courts				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	0	--	--	--
B.1 Direct impact on budgetary revenues	1.845.000	--	--	--
B.2 Direct impact on budgetary expenditures	1.845.000	--	--	--
Electronic delivery and recording of sound on trials				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	0	--	--	--
B.1 Direct impact on budgetary revenues	3.881.850	--	--	--
B.2 Direct impact on budgetary expenditures	3.881.850	--	--	--
Implementation of the new Law on Criminal Procedure				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	81.990.000	83.629.800	85.302.396
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	81.990.000	83.629.800	85.302.396
IPA (2009) "Support the implementation of the reform of the justice system in area of criminal law"				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	4.933.665	5.515.635	2.226.525	--
B.1 Direct impact on budgetary revenues	22.816.500	35.249.750	20.038.750	--
B.2 Direct impact on budgetary expenditures	27.750.165	40.765.385	22.265.275	--
IPA (2010) "Support for effective prevention and fight against corruption"				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	1.746.600	2.183.250	436.650
B.1 Direct impact on budgetary revenues	--	33.185.400	41.481.750	8.296.350
B.2 Direct impact on budgetary expenditures	--	34.932.000	43.665.000	8.733.000
IPA (2011) "Strengthening the rule of law - Activity 1 (Support to the Ministry of Justice in the country's EU accession process)"				



A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	2.075.625	1.660.500	415.125
B.1 Direct impact on budgetary revenues	--	39.436.875	31.549.500	7.887.375
B.2 Direct impact on budgetary expenditures	--	41.512.500	33.210.000	8.302.500
4.2.7. Administrative Reforms				
<i>Strengthening the capacity of MISA and the State Administrative Inspectorate</i>				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	20.000	30.000	35.000
B.1 Direct impact on budgetary revenues	--	100.000	115.000	120.000
B.2 Direct impact on budgetary expenditures	--	120.000	145.000	155.000
<i>Project 'Rate this administration'</i>				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	15.350.000	15.350.000	15.350.000
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	15.350.000	15.350.000	15.350.000
<i>Improving the 'Civic Diary'</i>				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	615.000	627.300	639.846
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	615.000	627.300	639.846
<i>Quality Barometer</i>				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	20.500.000	20.500.000	20.500.000
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	20.500.000	20.500.000	20.500.000
<i>Introduction of ISO and CAF standards in the public administration</i>				
A. Implementation profile*			x	x
B. Net direct budgetary impact (if any)	--	--	18.450.000	18.450.000
B.1 Direct impact on budgetary revenues	--	--	0	0
B.2 Direct impact on budgetary expenditures	--	--	18.450.000	18.450.000
<i>Implementation of system for interoperability</i>				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	615.000	20.000.000	26.000.000
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	615.000	20.000.000	26.000.000
<i>Systematic application of RIA</i>				
A. Implementation profile*		x		
B. Net direct budgetary impact (if any)	--	8.097.500	8.097.500	307.500
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	8.097.500	8.097.500	307.500
<i>Strategy for cooperation with the civil sector (2012 - 2017)</i>				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	12.000.000	12.000.000	12.000.000	12.000.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	12.000.000	12.000.000	12.000.000	12.000.000
<i>IPA 2009 "Sustainable civil society"</i>				
A. Implementation profile*		x	x	
B. Net direct budgetary impact (if any)	--	0	0	--
B.1 Direct impact on budgetary revenues	--	49.200.000	43.050.000	--
B.2 Direct impact on budgetary expenditures	--	49.200.000	43.050.000	--
<i>Conducting regular training on strategic planning for the civil servants</i>				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	30.000	30.000	30.000	30.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	30.000	30.000	30.000	30.000
4.2.9.3. Customs system				
<i>IPA(2010) "Harmonization with the EU excise legislation and procedures"</i>				



A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	1.174.900	1.468.284	293.632
B.1 Direct impact on budgetary revenues	--	22.320.000	27.900.000	5.580.000
B.2 Direct impact on budgetary expenditures	--	23.494.900	29.368.284	5.873.632
IPA(2010) "Analysis and preparation of the new Customs Code"				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	1.174.900	1.468.284	293.632
B.1 Direct impact on budgetary revenues	--	22.320.000	27.900.000	5.580.000
B.2 Direct impact on budgetary expenditures	--	23.494.900	29.368.284	5.873.632
Implementation of new SPCDED				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	--	51.700.000	100.000.000	--
B.1 Direct impact on budgetary revenues	--	0	0	--
B.2 Direct impact on budgetary expenditures	--	51.700.000	100.000.000	--
IPA (2009) "Interconnection with the EU NCTS and ITE systems"				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	8.308.000	5.890.000	9.982.000	--
B.1 Direct impact on budgetary revenues	117.180.000	30.690.000	74.958.000	--
B.2 Direct impact on budgetary expenditures	125.488.000	36.580.000	84.940.000	--
4.2.9.4. Energy				
Implementation of the first Action Plan for Energy Efficiency of the Republic of Macedonia				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	--	930.000	1.000.000	1.000.000
B.1 Direct impact on budgetary revenues	--	0	0	0
B.2 Direct impact on budgetary expenditures	--	930.000	1.000.000	1.000.000
Implementation of the Strategy for Energy Development in the Republic of Macedonia until 2030				
A. Implementation profile*	x	x		
B. Net direct budgetary impact (if any)	4.000.000	4.460.000	4.906.000	5.396.600
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	4.000.000	4.460.000	4.906.000	5.396.600
Implementation of the Strategy for renewable energy sources - 2020				
A. Implementation profile*	x			x
B. Net direct budgetary impact (if any)	6.000.000	6.000.000	6.000.000	6.000.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	6.000.000	6.000.000	6.000.000	6.000.000
IPA (2009) "Strengthen the capacities of the Department of Energy within the Ministry of Economy and the Energy Agency"				
A. Implementation profile*		x		x
B. Net direct budgetary impact (if any)	--	5.036.850	5.424.300	1.162.350
B.1 Direct impact on budgetary revenues	--	45.331.650	48.818.700	10.461.150
B.2 Direct impact on budgetary expenditures	--	50.368.500	53.243.000	11.623.500
4.2.9.6. Transport				
South East European Transport Observatory (SEETO)				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	3.077.355	3.077.355	3.077.355	--
B.1 Direct impact on budgetary revenues	0	0	0	--
B.2 Direct impact on budgetary expenditures	3.077.355	3.077.355	3.077.355	--
Financial support for Wizz Air				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	45.000.000	86.000.000	135.000.000	40.000.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	45.000.000	86.000.000	135.000.000	40.000.000
IPA(2010) "Strengthening the administrative, operational and managerial capacity of the State Transport Inspectorate"				
A. Implementation profile*	x		x	
B. Net direct budgetary impact (if any)	1.476.000	2.952.000	492.000	--
B.1 Direct impact on budgetary revenues	13.284.000	26.568.000	4.428.000	--
B.2 Direct impact on budgetary expenditures	14.760.000	29.520.000	4.920.000	--
Annual programme for financing rail infrastructure				



A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	203.000.000	183.000.000	200.000.000	200.000.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	202.000.000	183.000.000	200.000.000	200.000.000
Compensation for losses in the railway passenger traffic				
A. Implementation profile*	x			
B. Net direct budgetary impact (if any)	214.300.000	210.000.000	210.000.000	210.000.000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	214.300.000	210.000.000	210.000.000	210.000.000
Total net budgetary impact				
Total impact on budgetary revenues	781.079.125	1.385.194.235	1.675.582.758	883.382.388
Total impact on budgetary expenditures	3.749.948.938	5.707.284.734	6.070.371.060	6.105.841.256

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

Source: participating institutions in the preparation of 2013 – 2015 PEP



PART V

Annexes



Annex 1. Summary data to the Pre - accession economic Programme for 2013 – 2015

Table 1a: Macroeconomic prospects

	ESA Code	2011	2011	2012	2013	2014	2015
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	7.063	2.8	0.5	2.0	3.2	3.8
2. GDP at market prices	B1*g	7.504	6.4	3.1	5.2	6.3	6.6
Components of real GDP							
3. Private consumption expenditure	P3	5.379	3.9	0.8	1.5	3.0	3.6
4. Government consumption expenditure	P3	1.259	0.7	-0.5	0.3	0.6	1.0
5. Gross fixed capital formation ¹⁸	P51	1.880	12.3	3.0	6.0	7.5	8.0
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+ P53	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7. Exports of goods and services	P6	3.594	11.2	-1.8	5.7	10.4	10.7
8. Imports of goods and services	P7	5.049	13.2	-0.2	5.3	9.1	9.5
Contribution to real GDP growth							
9. Final domestic demand		8.518	6.1	1.3	2.9	4.5	5.3
10. Change in inventories and net acquisition of valuables	P52+ P53	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
11. External balance of goods/services	B11	1.455	-3.3	-0.8	-0.9	-1.3	-1.5

Source: SSO and calculations of the Ministry of finance

Table 1b: Price developments

		2011	2012	2013	2014	2015
1. GDP deflator	%, yoy	3.5	2.6	3.2	3.0	2.7
2. Private consumption deflator	%, yoy	3.3	2.1	3.4	3.0	2.6
3. HICP	%, yoy	n.a.	n.a.	n.a.	n.a.	n.a.
4. National CPI change	%, yoy	2.3	-0.6	0.2	-0.5	-0.3
5. Public consumption deflator	%, yoy	-2.6	1.8	2.0	2.4	3.0
6. Investment deflator	%, yoy	0.7	1.7	2.6	2.8	2.5
7. Export price deflator (goods & services)	%, yoy	12.2	-1.2	2.4	3.0	3.0
8. Import price deflator (goods & services)	%, yoy	6.8	-1.2	2.4	3.0	3.0

Source: Calculations of the Ministry of Finance

Table 1c: Labor market developments¹⁹

	ESA code	2011	2011	2012	2013	2014	2015
		level	Rate of change				
1. Population (thousands)			2,058.5	2,060.9	2,064.0	2,066.9	2,069.8
2. Population (growth rate in %)			0.17	0.12	0.15	0.14	0.14
3. Working-age population (persons)			1,656.2	1,667.1	1,675.2	1,686.2	1,698.2
4. Participation rate			56.8	56.6	56.6	56.7	56.9
5. Employment, persons			645.1	648.3	653.5	666.6	683.2
6. Employment, hours worked			n.a.	n.a.	n.a.	n.a.	n.a.
7. Employment (growth rate in %)			1.1	0.5	0.8	2.0	2.5
8. Public sector employment (persons)			n.a.	n.a.	n.a.	n.a.	n.a.
9. Public sector employment (growth in %)			n.a.	n.a.	n.a.	n.a.	n.a.
10. Unemployment rate			31.4	31.3	31.0	30.2	29.3
11. Labour productivity, persons ²⁰		673.7	1.7	0.0	1.2	1.2	1.3
12. Labour productivity, hours worked			n.a.	n.a.	n.a.	n.a.	n.a.
13. Compensation of employees	D1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: SSO and calculations of the Ministry of Finance

¹⁸ Data refer to gross capital formation.

¹⁹ ILO definition (15+) is used for the labor market indicators.

²⁰ Real GDP per person employed.



Table 1d: Sectoral balance

% of GDP	ESA code	2011	2012	2013	2014	2015
1. Net lending/borrowing vis-à-vis the rest of the world ²¹	B.9	3.7	0.0	0.3	1.1	1.5
of which:						
- Balance of goods and services		-21.0	-21.4	-21.1	-22.3	-21.8
- Balance of primary incomes and transfers		18.1	18.2	17.3	16.3	15.2
- Capital account ²²		6.8	2.7	4.1	7.1	8.1
2. Net lending/borrowing of the private sector ²³	B.9/EDP B.9	-1.2	-1.0	-2.0	-0.7	-1.3
3. Net lending/borrowing of general government ²⁴		4.9	1.0	2.3	1.8	2.8
4. Statistical discrepancy		-0.2	0.5	0	0	0

Source: National Bank of the Republic of Macedonia

Table 1e: GDP, investment and gross value added

	ESA code	2011	2012	2013	2014	2015
GDP and investment						
GDP level at current market prices (in Denars)	Blg	461.7	476.1	501.0	532.5	567.7
Investment ratio (% of GDP)		27.2	27.6	28.5	29.6	30.8
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		1.4	1.0	2.1	4.2	3.8
2. Industry (excluding construction)		4.2	-5.6	2.3	3.8	4.5
3. Construction		12.3	3.8	3.5	5.0	4.8
4. Services		2.2	1.4	1.7	2.9	3.6

Source: SSO and calculations of the Ministry of Finance

Table 1f. External sector developments

Euro billion	2011	2012	2013	2014	2015
1. Current account balance (% of GDP)	-3.0	-2.8	-3.8	-5.9	-6.5
2. Export of goods	3.18	3.09	3.50	3.96	4.28
3. Import of goods	4.86	4.83	5.36	6.08	6.53
4. Trade balance	-1.68	-1.74	-1.86	-2.12	-2.25
5. Export of services	0.80	0.84	0.92	1.03	--
6. Import of services	0.71	0.76	0.81	0.88	--
7. Service balance	0.09	0.08	0.11	0.15	0.20
8. Net interest payments from abroad	--	--	--	--	--
9. Other net factor income from abroad ²⁵	-0.12	-0.12	-0.13	-0.20	-0.23
10. Current transfers	1.48	1.56	1.58	1.65	1.67
11. Of which from EU	--	--	--	--	--
12. Current account balance	-0.23	-0.22	-0.30	-0.52	-0.61
13. Foreign direct investment	0.34	0.10	0.25	0.40	0.52
14. Foreign reserves ²⁶	2.07	2.10	--	--	--
15. Foreign debt ²⁷	4.85	5.07	--	--	--
16. Of which: public	2.06	2.23	--	--	--
17. O/w: foreign currency denominated	--	--	--	--	--
18. O/w: repayments due	--	--	--	--	--
19. Exchange rate vis-à-vis EUR (end-year)	61.5	61.5	--	--	--
20. Exchange rate vis-à-vis EUR (annual average)	61.5	61.5	--	--	--
21. Net foreign saving (lines 21-25: percentages of GDP)	--	--	--	--	--
22. Domestic private saving	--	--	--	--	--
23. Domestic private investment	--	--	--	--	--
24. Domestic public saving	--	--	--	--	--
25. Domestic public investment	--	--	--	--	--

Source: National Bank of the Republic of Macedonia

²¹ Financing of the Balance of payments

²² Capital and financial account without official foreign reserves

²³ Residual

²⁴ Central government debt, net

²⁵ Net income, total

²⁶ For 2012, as of September.

²⁷ Ibid.



Table 1g: Sustainability indicators

	Dimension	2008	2009	2010	2011	2012 ²⁸
1. Current Account Balance	% of GDP	-12.8	-6.8	-2.0	-3.0	-1.7
2. Net International Investment Position	% of GDP	-48.6	-53.9	-50.6	-52.4	-51.9
3. Export market shares	%, yoy	3.4	-10.5	-0.2	11.7	n.a.
4. Real Effective Exchange Rate	%, yoy	1.5	1.0	-2.7	-0.5	0.9
5. Nominal Unit Labour Costs	%, yoy	6.7	14.0	0.6	-0.8	n.a.
6. Private sector credit flow	% of GDP	10.7	1.5	2.9	3.5	2.2
7. Private sector debt	% of GDP	71.7	75.9	77.5	78.6	n.a.
8. General Government Debt	% of GDP	20.6	23.8	24.2	27.8	30.2

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

²⁸ For 2012, data as of September 2012



Table 2: General government budgetary prospects²⁹

	ESA code	2011	2011	2012	2013	2014	2015
		Level (bn denars)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-11.887	-2.6	-2.7	-3.6	-3.3	-2.9
2. Central government	S1311	-10.833	-2.3	-2.5	-3.5	-3.2	-2.8
3. State government	S1312	/	/	/	/	/	/
4. Local government	S1313	-0.404	-0.1	-0.1	-0.1	-0.1	-0.1
5. Social security funds	S1314	-0.650	-0.1	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	147.092	31.9	33.6	31.7	31.2	30.7
7. Total expenditure ³⁰	TE	158.979	34.4	36.3	35.4	34.5	33.7
8. Net borrowing/lending	EDP.B9	-11.887	-2.6	-2.7	-3.6	-3.3	-2.9
9. Interest expenditure	EDP.D41	3.474	0.8	0.8	0.8	0.8	0.9
10. Primary balance ³¹		-8413	-1.8	-1.9	-2.8	-2.5	-2.1
11. One-off and other temporary measures ³²		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Components of revenues							
12. Total taxes (11 = 11a+11b+11c)		85.745	18.6	18.9	18.0	17.8	17.7
12a. Taxes on production and imports	D2	69.141	15.0	14.3	13.6	13.5	13.4
12b. Current taxes on income and wealth	D5	14.432	3.1	4.0	3.9	3.8	3.7
12c. Capital taxes	D91	2.172	0.5	0.5	0.5	0.5	0.5
13. Social contributions	D61	39.759	8.6	8.7	8.6	8.4	8.3
14. Property income	D4	5.592	1.2	1.6	1.3	1.3	1.3
15. Other (15 = 16-(12+13+14)) ³³		15.996	3.5	4.4	3.9	3.7	3.5
16 = 6. Total revenue	TR	147.092	31.9	33.6	31.7	31.2	30.7
p.m.: Tax burden (D2+D5+D61+D91-D995) ³⁴		125.504	27.2	27.6	26.6	26.2	26.0
Selected components of expenditures							
17. Collective consumption	P32	55.794	12.1	12.4	12.1	11.6	11.2
18. Total social transfers	D62 + D63	67.188	14.6	14.8	14.8	14.6	14.5
18a. Social transfers in kind	P31 = D63	/	/	/	/	/	/
18b. Other transfers	D62	/	/	/	/	/	/
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41	3.474	0.8	0.8	0.8	0.8	0.9
20. Subsidies	D3	10.026	2.2	2.7	2.6	2.5	2.4
21. Gross fixed capital formation	P51	22.497	4.9	5.7	5.0	4.9	4.7
22. Other (21 = 22-(16+17+18+19+20)) ³⁵		0.0	0.0	0.0	0.0	0.0	0.0
23. Total expenditures	TE ³⁶	158.979	34.4	36.3	35.4	34.5	33.7
p.m. compensation of employees	D1	35.626	7.7	7.7	7.3	7.2	7.1

Source: Ministry of Finance

²⁹ Budget projections for 2012 are from the 2012 supplementary Budget since the realization of the general government budget data will be available in June 2013, mostly because of the data that are to be gathered from the municipalities.

³⁰ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

³¹ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

³² A plus sign means deficit-reducing one-off measures

³³ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)

³⁴ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

³⁵ D.29+D4 (other than D41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

³⁶ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.



Table 3: General government expenditure (and outflows) by function

Percentage of GDP	COFOG code	2011	2012	2013	2014	2015
1. General public services	1	2.7	3.1	3.3	n.a.	n.a.
2. Defence	2	1.3	1.3	1.2	n.a.	n.a.
3. Public order and safety	3	2.8	2.7	2.6	n.a.	n.a.
4. Economic affairs	4	8.3	7.2	8.2	n.a.	n.a.
5. Environmental protection	5	0.1	0.1	0.1	n.a.	n.a.
6. Housing and community amenities	6	1.3	1.0	1.0	n.a.	n.a.
7. Health	7	5.4	5.4	5.2	n.a.	n.a.
8. Recreation, culture and religion	8	0.9	0.7	0.8	n.a.	n.a.
9. Education	9	4.6	4.6	4.4	n.a.	n.a.
10. Social protection	10	10.9	11.4	11.6	n.a.	n.a.
11. Total expenditure	TE	38.3	37.4	38.4	n.a.	n.a.

Source: Ministry of Finance

Table 4: General government debt developments

Percentage of GDP	ESA code	2011	2012	2013	2014	2015
1. Gross debt ³⁷		27.9	31.9	30.5	32.2	33.5
2. Change in gross debt ratio		3.6	4.0	-1.4	1.7	1.3
Contributions to change in gross debt						
3. Primary balance ³⁸		-1.8	-1.9	-2.8	-2.5	-2.1
4. Interest expenditure (incl. FISIM) ³⁹		0.8	0.8	0.8	0.8	0.9
5. Stock-flow adjustment		1.1	1.3	-5.0	-1.7	-1.5
of which:						
- Differences between cash and accruals ⁴⁰		n.a.	n.a.	n.a.	n.a.	n.a.
- Net accumulation of financial assets ⁴¹		n.a.	n.a.	n.a.	n.a.	n.a.
of which:						
- Privatisation proceeds		n.a.	n.a.	n.a.	n.a.	n.a.
- Valuation effects and other ⁴²		n.a.	n.a.	n.a.	n.a.	n.a.
p.m. implicit interest rate on debt ⁴³		3.3	2.9	2.7	2.9	2.9
Other relevant variables						
6. Liquid financial assets ⁴⁴		n.a.	n.a.	n.a.	n.a.	n.a.
7. Net financial debt (7 = 1 - 6)		n.a.	n.a.	n.a.	n.a.	n.a.

Source: Ministry of Finance

³⁷ As defined in Regulation 3605/93 (not an ESA concept).

³⁸ Cf. item 10 in Table 2.

³⁹ Cf. item 9 in Table 2.

⁴⁰ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

⁴¹ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

⁴² Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

⁴³ Proxied by interest expenditure divided by the debt level of the previous year.

⁴⁴ F1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).



Table 5: Cyclical developments

Percentage of GDP	ESA code	2011	2012	2013	2014	2015
1. Real GDP growth (%)	B1g	2.8	0.5	2.0	3.2	3.8
2. Net lending of general government ⁴⁵	EDP.B.9	-2.5	-2.5	-3.5	-3.2	-2.8
3. Interest expenditure	EDP.D.41	0.8	0.8	0.8	0.8	0.9
4. One-off and other temporary measure ⁴⁶		n.a.	n.a.	n.a.	n.a.	n.a.
5. Potential GDP growth (%) ⁴⁷		3.4	3.4	3.4	3.4	3.4
Contributions (percentage points):						
- labor		n.a.	n.a.	n.a.	n.a.	n.a.
- capital		n.a.	n.a.	n.a.	n.a.	n.a.
- total factor productivity		n.a.	n.a.	n.a.	n.a.	n.a.
6. Output gap		0.8	-1.2	-1.6	-0.8	0.6
7. Cyclical budgetary component		0.3	-0.4	-0.5	-0.3	0.2
8. Cyclically-adjusted balance (2-7)		-2.7	-2.1	-3.0	-2.9	-3.0
9. Cyclically-adjusted primary balance (8+3)		-2.0	-1.4	-2.2	-2.1	-2.1
10. Structural balance (8-4)		n.a.	n.a.	n.a.	n.a.	n.a.

Source: Ministry of Finance

Table 6: Divergence from previous programme

	2011	2012	2013	2014	2015
1. GDP growth (% points)					
Previous programme	3.5	3.0 – 4.0	3.5 - 4.2	4.0 – 4.7	--
Latest programme	2.8	0.5	2.0	3.2	3.8
Difference	-0.7	--	--	--	--
2. General government net lending (% of GDP)					
Previous programme	-2.5	-2.5	-2.5	-2.5	--
Latest programme	-2.6	-2.7	-3.6	-3.3	-2.8
Difference	0.1	0.2	1.1	0.8	--
3. General government gross debt (% of GDP)					
Previous programme	27.0	28.8	up to 28.8	up to 28.8	--
Latest programme	27.9	31.9	30.5	32.2	33.5
Difference	0.9	3.1	--	--	--

Source: Calculations of the Ministry of Finance

⁴⁵ Data refers to central government budget deficit

⁴⁶ A plus sign means deficit-reducing one-off measures.

⁴⁷ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).



Table 7: Long-term sustainability of public finances

Percentages of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	32.8	35.9	33.4	33.0	32.6	32.0	31.7
of which:							
- Age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Pension expenditure	7.7	8.9	9.0	9.0	8.8	8.6	8.5
- Social security pension	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Old-age and early pensions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Other pensions (disability, survivors)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Occupational pensions (if in general government)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- 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)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Education expenditure	n.a.	4.6	4.8	5.0	5.0	5.0	5.0
Other age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest expenditure	0.8	0.7	0.9	1.0	1.0	0.9	0.8
Total revenues	32.2	33.4	32.4	32.4	32.4	32.0	31.5
of which: property income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which: from pensions contributions (or social contributions, if appropriate)	6.0	6.2	6.3	6.5	6.6	6.5	6.5
Pension reserve fund assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which: consolidated public pension fund assets (assets other than government liabilities)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Assumptions							
Labour productivity growth	2.5	1.8	1.6	2.0	2.2	2.2	2.2
Real GDP growth	6.1	2.9	3.8	4.7	4.0	3.8	3.5
Participation rate males (aged 20-64)*	74.8	76.3	79.3	83.0	85.7	88.0	89.6
Participation rates females (aged 20-64)*	50.4	51.8	56.3	61.4	66.0	70.5	75.0
Total participation rates (20-64)*	62.8	64.2	67.8	72.2	75.8	79.3	82.3
Unemployment rate	35.2	32.2	24.5	14.2	9.5	6.1	4.8
Population aged 65+ over total population	9.6	9.7	10.0	10.3	10.6	11.0	11.4

* Data refer to the age group 15-64

Source: Calculations of the Ministry of Finance

Table 7a: Contingent liabilities

% of GDP	2012	2013
Public guarantees	5.0%	6.9%
Of which: linked to the financial sector	2.4%	2.6%

Source: Ministry of Finance

Table 8: Basic assumptions on the external economic environment underlying the PEP framework

	Dimension	2011	2012	2013	2014	2015
Short-term interest rate ⁴⁸	Annual average	1.33	1.19	1.11	1.10	1.10
Long-term interest rate	Annual average	n.a.	n.a.	n.a.	n.a.	n.a.
USD/EUR exchange	Annual average	1.39	1.29	1.30	1.30	n.a.
Nominal effective exchange rate	Annual average	1.7	-0.9	1.5	1.6	1.6
Exchange rate vis-à-vis the EUR	Annual average	61.5	61.5	61.5	61.5	61.5
Global GDP, excluding EU	Annual average	4.4	3.9	4.0	4.5	n.a.
EU GDP growth	Annual average	1.5	-0.3	0.4	1.6	1.9
Growth of relevant foreign markets ⁴⁹	Annual average	5.3	2.0	2.6	3.2	3.5
World import volumes, excluding EU (y-o-y)	Annual average	8.7	5.3	5.1	6.2	n.a.
Oil prices (Brent, EUR/barrel)	Annual average	79.7	87.3	83.9	79.3	n.a.

Source: European Commission, European Economic Forecast, Autumn 2012; IMF, World economic outlook, October 2012;

⁴⁸ Three-month LIBOR.

⁴⁹ Central East Europe (14 countries). Source: IMF, World Economic Outlook, Autumn 2011.



Table 9. Structural reform agenda and achievements

Major measures foreseen in previous year's PEP	Adopted (Yes/No)	Date	Comments
Enterprises sector			
Adoption of Regulation for determination of the conditions and procedure for granting regional assistance pursuant the Law on control of the state aid	yes	2011	
Implementation of the Project IPA 2009 – Support to the Commission for protection of the competition for control of the state aid	yes	2011	
Regulation on determination of the conditions and the procedure for granting regional aid	yes	2011	
Regulation on the closer conditions for group exemption of certain types of horizontal agreements for specialization	yes	2011	
Regulation on the closer conditions for group exemption of certain types agreements for research and development	yes	2011	
Regulation on group exemption of certain types agreements for insurance	yes	2011	
Regulation on group exemption of certain types vertical agreements	yes	2011	
Regulation on group exemption of certain types agreements for distribution and servicing of motor vehicles	yes	2011	
Regulation on closer conditions for group exemption of certain types of agreements on transfer of technology for license for know-how	yes	2011	
Regulation on the conditions and procedure for granting assistance of small significance (de minimis)	yes	2011	
Regulation on the closer conditions and procedure under which the Commission for deciding upon violation decides for exemption or reduction of the fine	yes	2011	
Regulation on the form and content for announcement for the concentration and necessary documentation that is submitted together with the announcement	yes	2011	
Organizing regional forums for SME	yes	continuously	
Programme for development of SME	yes	continuously	
Programme for support of SME	yes	continuously	
Subsidies for projects for support and promotion of the crafts	yes	continuously	
Organizing local seminars for innovations and SME	yes	continuously	
Strategy for innovation of Republic of Macedonia 2012-2020	yes	2012	
Industrial policy			
Implementation of the Strategy for industrial policy of Republic of Macedonia (2009-2020)	yes	continuously	
Implementation of the Strategy for development of the textile industry and Action Plan for revitalization of the textile industry.	yes	continuously	
Programme for implementation of the industrial policy	yes	continuously	
Programme for support and development of the cluster association	yes	continuously	
Strategy for export promotion	yes	2012	
Agriculture			
Adoption of the Programme for fisheries and aquaculture for a period of 12 years	yes	2012	
Preparation of Monitoring programmes for harmful organisms and their implementation	yes	2012	
Diagnosing and determining of harmful organisms, biological tests, research analysis of physical-chemical characteristics of products for plant protection, active matter analysis, seed material analysis	yes	continuously	
Financial sector			
Law on additional supervision of Financial Conglomerates	yes	2012	
Amendments to the Banking Law	no	2013	
Amendments to the Law on Investment Funds	yes	2013	
Strategy for Capital Market Development	no	2012	



New Law on Capital Market	no	2014	
New Insurance Law	no	2013	
Adoption of Law on Shareholding of Republic of Macedonia in "Europa Re" Share Capital	yes	2012	
Adoption of Law on Payment of Pensions and Pension Benefits	yes	2012	
Labour market			
Analysis of labour market needs, so as to harmonise qualification profile of labour force with the needs of companies	yes	continuously	
National programme for research and development and Programme for technological development (2012-2015)	yes	2012	
Vocational training for the first level of professional qualifications for adults who have not finished school	yes	continuously	
Project: "Early Socialisation"	yes	continuously	
Strategy for vocational education and training	no	2013	
Creation of standards on professions, curriculum and exam programmes in the Professional Education and Training Centre, in line with labour marker needs	yes	continuously	
Project: "Establishing vocational education for persons with only primary education" "	no	2012	
Administrative reforms			
Training of civil servants involved in the reform of public administration	yes	continuously	
Building the capacity of the Unit of Public Administration Reform for monitoring the implementation of the Strategy for Public Administration Reform	yes	continuously	
Conduct assessment to determine the impact of regulation	yes	continuously	
Fostering the development of civil society, particularly outside the capital and rural areas	yes	continuously	
Regulatory Guillotine to simplify regulations and reduce the cost of craftsmen	yes	2012	
Rule of law			
Law Amending the Law on Bar	yes	2012	
Law Amending the Law on Misdemeanour	yes	2012	
Publishing of the court decisions on court web sites	yes	continuously	
Updating of the law data base - LDBIS	yes	continuously	
Software application for collecting, processing and analyzing of statistical data in the courts	yes	2012	
Other reform areas			
Preparation of the project documentation for gasification	no	2013	
Multi-annual plan of SEETO 2012-2016	yes	2012	
Multi-annual plan of SEETO 2013-2017	no	2013	
An agreement for establishment of Transport community between EU and the SEE countries	no		The date on signing agreements have not been set by the EC
Fourth update of the National Transport Strategy	yes	2012	
Fifth update of the National Transport Strategy	no	2014	
Law on interoperability in railway system	yes	2011	
Law on amendments in the Law on contracts in transport	yes	2011	
Law on safety in the railway	no	2012	In parliament procedure
Law on railway system	no	2011	
Annual programme for investments in the railway infrastructure	no	2012	
Law on amendments in the inland waterway Law in area of misdemeanours and violations in the issuance of the approvals for line navigation	yes	2011	
Amendments to the Law on inland waterway in order to harmonize it	no	2012	



with the Directive on access to profession 87/540/EEC and the safety technical requirements 76/135/EEC			
Law on Amendments to the Law on Obligations and real estate relations in the air traffic	yes	2011	
Concession agreement for development, financing, operation and maintenance of the airport "Alexander the Great" - Skopje	yes	2011	
Attracting new and low cost airlines	yes	continuously	
Adoption of bylaws deriving from the Law on postal services	yes	2011	
Strategy for development of postal services	yes	2011	

*Date of adoption, or, alternately, date foreseen

Source: participating institutions in the preparation of 2013 – 2015 PEP



Annex 2. List of institutions and other organizations, from which opinion on the 2013- 2015 PEP was required:

- National Bank of the Republic of Macedonia;
- Agency for Supervision of Insurance of the Republic of Macedonia;
- Security Exchange Commission of the Republic of Macedonia;
- Agency for Fully Funded Pension Insurance of the Republic of Macedonia;
- Cabinet of the Deputy Prime Minister in-charge of economic affairs, Mr. Vladimir Peshevski, MA;
- General Secretariat of the Government of the Republic of Macedonia;
- Ministry of Economy of the Republic of Macedonia;
- Ministry of Agriculture, Forestry and Water Economy of the Republic of Macedonia;
- Ministry of Justice of the Republic of Macedonia;
- Ministry of Labour and Social Policy of the Republic of Macedonia;
- Ministry of Education and Science of the Republic of Macedonia;
- Ministry of Transport and Communication of the Republic of Macedonia;
- Ministry of Information Society and Administration of the Republic of Macedonia;
- Commission for Protection of Competition of the Republic of Macedonia;
- Agency for Employment of the Republic of Macedonia;
- Agency for Foreign Direct Investment and Export Promotion;
- State Statistical Office of the Republic of Macedonia;
- Customs Administration of the Republic of Macedonia;
- "Ss. Cyril and Methodius" University, Faculty of Economics – Skopje;
- "Ss. Cyril and Methodius" University, Faculty of Agricultural Sciences and Food – Skopje;
- University American College, Faculty of Business Economics and Organisational Sciences - Skopje;
- South -East European University, Faculty of Business and Economics - Tetovo;
- State University of Tetovo, Faculty of Economics – Tetovo;
- "Goce Delcev" University, Faculty of Economics – Stip;
- "Goce Delcev" University, Faculty of Agriculture – Stip;
- "St. Clement Ohridski" University, Faculty of Economics – Prilep;
- "Ss. Cyril and Methodius" University, Faculty of law "Iustinianus I" – Skopje;
- FON University, Faculty of Economics - Skopje;
- European University, Faculty of Economics – Skopje;
- "Ss. Cyril and Methodius" University, Economic Institute – Skopje;
- Association of Local Government Units;
- Federation of Trade Unions of the Republic of Macedonia;
- Independent Trade Union of Education, Science and Culture of the Republic of Macedonia;
- Union of Independent and Autonomous Trade Unions of the Republic of Macedonia;
- Association of Chambers of Commerce of the Republic of Macedonia;
- Chamber of Commerce of the Republic of Macedonia;
- American Chamber of Commerce in the Republic of Macedonia;
- Chamber of Commerce of the North-West Region in the Republic of Macedonia
- Federation of Farmers of the Republic of Macedonia;
- Centre for Research and Policy Making - Skopje;
- Institute for Democracy, Solidarity and Civil Society - Skopje;
- Centre for Economic Analyses – Skopje;
- CeProSARD Centre for promotion of sustainable agricultural policies and rural development– Skopje; and
- Macedonian Centre for International Cooperation – Skopje.



Institution in charge:
Ministry of Finance of the Republic of Macedonia

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Participating institutions:

- Ministry of Finance;
- National Bank of the Republic of Macedonia;
- Agency for Supervision of Insurance;
- Security Exchange Commission;
- Agency for Fully Funded Pension Insurance;
- Cabinet of the Deputy Prime Minister in-charge of economic affairs, Mr. Vladimir Peshevski, MA;
- General Secretariat of the Government of the Republic of Macedonia;
- Ministry of Economy;
- Ministry of Agriculture, Forestry and Water Economy;
- Ministry of Justice;
- Ministry of Labour and Social Policy;
- Ministry of Education and Science;
- Ministry of Transport and Communication;
- Ministry of Information Society and Administration;
- Commission for Protection of Competition;
- Agency for Employment;
- Agency for Foreign Direct Investment and Export Promotion;
- State Statistical Office; and
- Customs Administration.

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