



Republic of North Macedonia

ECONOMIC REFORM PROGRAMME

2020-2022

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Republic of North Macedonia
Ministry of Finance

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ABBREVIATIONS

AD ESM	Power plants of North Macedonia
AD MEPSO	Macedonian Electricity Transmission System Operator
AP5	Additional Protocol 5
BEER	behavioral equilibrium exchange rate
CACM	Capacity Allocation and Congestion Management
CEE	Central and Eastern Europe
CEF	Center of Excellence in Finance
CEFTA	Central European Free Trade Agreement
CSW	Centre for Social Work
DAOA	Day Ahead Operational Agreement
DMS	dynamic message signs
DMO	Destination Management Organisation
GDP	gross domestic product
GHG	greenhouse gas
GMA	guaranteed minimal assistance
CPI	consumer price index
GS	Government Securities
GVA	gross value added
GVC	global value chain
HEI	higher education institutions
ICT	information and communication technology
ITS	Intelligent Transport System
IIP	international investment position
IMF	International Monetary Fund
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EE	energy efficiency
EEI	energy efficiency improvement
ERP	Economic Reform Programme
ESCO	energy service company
EU	European Union
EMF	Environmental management framework
ENQA	European Association for Quality Assurance in Higher Education
ESRP	Employment and Social Reform Programme
EQAR	European Quality Assurance Register
FDI	foreign direct investment
FEMI	Fund for Equity and Mezzanine Investments
FITD	Fund for Innovation and Technology Development
FED	federal reserve
LGU	local government unit
LTF	local trading solution
LTU	long-term unemployment
MAFWE	Ministry for Agriculture, Forestry and Water Economy
MAP	multi-annual plan
MAP REA	Multi-annual Action Plan for a Regional Economic Area
MBF	Medium-term budgetary framework
ME, MoE	Ministry of Economy
MEMO	Organised Market Operator
MOES	Ministry of Education and Science
MF, MoF	Ministry of Finance
MISA	Ministry for Information Society and Administration
MLSP	Ministry of Labour and Social Policy
MRC OPSCOM	Multi Regional Coupling Operations Committee

MSME	micro, small and medium enterprises
NECP	National Energy and Climate Plan
NEET	not in education, employment, or training
NEMO	Nominated Electricity Market Operator
NGA Networks	next generation access networks
NGO	non-governmental organisations
NRA	national regulatory authority
NQF	national qualifications framework
OECD	Organisation for Economic Cooperation and Development
PBG	policy based guarantee
PISA	Programme for International Student Assessment
PIT	personal income tax
PPL	Public Procurement Law
PSC DAMI	Programme Steering Committee for Day-Ahead Market Integration
REER	real effective exchange rate
RES	renewable energy sources
RJBS	Railway Joint Border Station
RWIS	Road Weather Information System
R&D	research and development
SAA	Stabilisation and Association Agreement
SEE	South East Europe
SLCP	short lived climate pollutants
SME	small and medium enterprises
SSO	State Statistical Office
STP	Science and Technology Park
TEN-T Network	Trans-European Transport Network
TRACES	Trade control and expert system
TFP	total factor productivity
TPP	thermal power plant
TSO	transmission system operator
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organisation
UNFCCC	United Nations Framework Convention on Climate Change
VAT	value added tax
VET	vocational education and training
VNIL	validation of non-formal and informal learning
VPN	virtual private networks
WB6	Western Balkan 6
WBTF	Western Balkan Trade and Transport Facilitation
WIM	weight in motion
WTTC	World Travel and Tourism Council
WTO	World Trade Organisation
YG	Youth Guarantee

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Introduction

The Economic Reform Programme (ERP) 2020 – 2022 presents the medium-term macroeconomic and fiscal framework, as well as the sectoral structural reforms for promoting both competitiveness and growth.

The programme is prepared in line with the Government Programme 2017-2020, the Revised Fiscal Strategy for the period 2020-2022, and the annual 2020 Budget of the Republic of North Macedonia, as well as other national strategic documents, such as the National Programme for Adoption of the Acquis Communautaire, the Stabilisation and Association Agreement and the national sectoral strategies: Public Finance Management Reform Programme 2018-2021, Strategy for formalisation of the informal economy 2018-2022, Innovation Strategy 2012-2020, Competitiveness Strategy 2016-2020, the Revised Employment and Social Reform Programme 2020-2022 etc.

In addition, the Programme is in line with the EU Strategy for fast, sustainable and comprehensive economic development "Europe 2020", the SEE 2020 Strategy of the Council for Regional Cooperation, called "Jobs and Prosperity in a European Perspective", which closely follows the vision of the "Europe 2020" Strategy, as well as the Multi-annual Action Plan for a Regional Economic Area in the Western Balkans.

EC recommendations indicated in the 2019 Progress Report on the Republic of North Macedonia, Chapter 3. Economic development and competitiveness, referring to the existence of a functioning market economy and the capacity to cope with the Union's competitive and market forces are taken into consideration during the Programme preparation. The three key challenges of the EC Report on the Assessment of the Economic Reform Programme 2019-2021: formalisation of the informal economy, addressing youth unemployment and integration of domestic companies in global value chains, as well as joint conclusions from the Economic and Financial dialogue from May 2019 have also been considered.

Ministry of Finance (MF) coordinated the entire document preparation process together with the relevant state institutions. The draft sectoral structural reforms were shared with the social partners and the business community via MF's website and via e-mail and have been discussed at the Economic and Social Council session. There was continuous cooperation with the EC and CEF during the preparation of the document through missions and workshops in order to improve the quality of ERP and to strengthen capacity of institutions for prioritisation and coordination of economic policies.

1. Overall policy framework and objectives

Positive movements in the first nine months of 2019, reflected through more intensive growth of investments, strong support of consumption to the economic growth, continuous strong growth of export, further crediting to the private sector, growth of construction activity and industry, underpin the 2019 projected economic growth of 3.5%.

In 2020, real GDP growth is expected to be 3.8%, and to continue to increase with a stronger intensity in the next two years, reaching 4.1% in 2021 and 4.3% in 2022, driven by domestic demand. In 2020, the inflation rate is expected to be 1.5%, and in 2021 and 2022 an inflation rate of 2% is projected. The stable exchange rate of the denar against the euro will be maintained, in order to sustain price stability as ultimate goal of the monetary policy.

Fiscal policy in the period 2020-2022 is characterised by enhanced public finance management and fiscal sustainability, which contribute for maintaining macroeconomic stability, further fiscal consolidation, or maintaining a low budget deficit. In this regard, the annual growth rate of total budget expenditures will gradually slow down from 5% in 2020 to 4.4% in 2022. Combined with the expected revenue collection, this will result in a gradual narrowing of the overall budget deficit from 2.3% of GDP in 2020 to 2% of GDP in 2021 and 2022. The primary budget deficit will also drop from 1.2% of GDP in 2020 to 0.9% and 0.8% respectively in 2021 and 2022.

The structural reforms in ERP 2020-2022 will be aimed at further improving transport and energy markets, energy efficiency, stimulating innovation and creativity, improving competitiveness of the service and agriculture sectors, digitalization of administrative services, reducing informal economy, facilitating trade and strengthening human capital. Implementation of these measures complemented by active labor market measures, should contribute to increase of the competitiveness of the Macedonian economy, creating jobs and reducing unemployment.

2. Implementation of the policy guidance

G 1: Stabilise the debt ratio by moving towards a balanced primary budget while implementing the budgeted capital expenditure. Adhere to agreed consolidation measures, in particular the new pensions indexation formula. Implement legal and organisational measures to improve revenue collection.

In the Revised Fiscal Strategy 2020-2022, the primary budget deficit is projected at 1.2% of GDP with the Budget for 2020, 0.9%

and 0.8% in 2021 and 2022, respectively. With moderate increase of guaranteed debt by 2021, mainly due to the implementation of road infrastructure projects with government guaranteed loans and its reduction in 2022, moderate increase in total public debt in 2020 and 2021 is expected to 50.4% and 50.9% of GDP, respectively, followed by its reduction to 50.4% of GDP in 2022, which is below the 60% GDP limit for medium and long term public debt. Capital investments in the coming medium-term period indicate intensification of infrastructure projects, i.e. investments in road, rail, energy and communal infrastructure, as well as capital investments to improve health, education, social conditions, agriculture, culture, sport, environmental protection and the judiciary. Capital investments are projected at 3.2% of GDP in 2020, 3.5% in 2021 and 3.8% in 2022.

The Pension Fund reform, which began in early 2019, aimed at stabilising financial flows in the Pension Fund, abolished the rule that pensions should be increased half by wage growth and half by cost of living, leaving only cost of living as a criterion. After one year of implementation, the pension reform gave the expected results: decreased deficit in the Pension Fund by Denar 3.7 billion and increased revenues by 10%. It is expected that earnings will continue to increase with the increase in the minimum and average wage, employment growth, but also with the measure of subsidising wage growth contributions for which the budget for 2020 is foreseen Denar 2.4 billion. The latest legislative changes from December 2019 envisage the possibility of raising pensions by 5% in the years when the minimum wage increases above 15% and the average salary increases by 5%.

The 3 years IPA project "Improvement in Revenue Collection and Tax and Customs Policy" has started with implementation. The main objective of the project is to improve the stability, efficiency and quality of the overall revenue system in the country in order to ensure sustainable and sound management of public finances. The project will be implemented by the MoF, PRO and CA, and comprises 4 components: 1/ Harmonisation of tax and customs regulations with EU legislation; 2/ Strengthening the capacity of the MoF to conduct tax policy analysis and forecasting; 3/ Strengthening the operational and administrative capacities of the CA for the implementation of national legislation and procedures, accounting and IT services management, and 4/ Strengthening the operational and administrative capacities of the PRO for the implementation of the national legislation and procedures, IT services and procedures.

Based on amendments to the Law on Personal Income Tax, as well as the implementation of the IPA Project "Simplification of procedures for reporting and payment of personal income tax for taxpayers - individuals" under the new system e-Personal Tax <https://e-pdd.ujp.gov.mk>, PRO developed and tested future business processes ("To-Be" business processes) and software that enabled the issuance of a pre-filled Annual Tax Return by 2019. Based on data from the electronic calculations of taxpayers and data received from third parties for 2018, PRO prepared a pre-filled annual tax return for the realised taxpayers' incomes, which was submitted to the citizens by April 30, 2019 through the e-Personal Tax system. The citizen's obligation was only to confirm or correct the completed annual tax return by May 31, 2019 at the latest. Moreover, business requirements and specification for e-Personal Tax system upgrades with MPIN and PIT-DB/PIT-B system upgrades have been prepared. A draft design of the new calculation of the MPIN salaries has been prepared. The solution is currently being tested in the data transmission part of the integrated payment system kernel.

The establishment of e-tax administration and the progress of the PRO need also overcoming the shortage of IT staff, the natural outflow of highly qualified staff in the PRO functions and the motivation of the employees that carry the burden of implementing tax reforms. Based on the adopted Annual Plan for Employment for 2019, started a procedure for employment of 35 officials and selection of candidates in the Administration Agency is underway. In addition based on internal call procedure, a Decision for selection of candidates for promotion of 63 administrative/tax officials was made, and a complaint period is underway.

The finished IPA2/EUIF Project "Development and re-engineering of business processes of the new tax integrated IT system" delivered a Modelled Business Processes (BPM2) that show the global business process chart which needs to be re-engineered and integrated into the new IT system ("To-Be" system), technical specification for the new integrated IT system hardware and software and quality control - technical support for implementation.

An expert is hired for analysis of technical specifications for the software and hardware (including the hardware for the Disaster Recovery Centre), a market analysis, as well as for preparation of tender documentation for the new integrated tax IT system. After submission of expert's report, a decision should be made on the way of financing of the new integrated tax IT system. The technical support to ensure quality control is foreseen in the Twinning project "Improving Tax Collection and Tax and Customs Policy". Also, the activities to provide a suitable location for a new IT system room are under way, which is a prerequisite for starting the public procurement procedure.

G 2: Further increase the transparency of public finances by including public enterprises in the general government fiscal reporting framework where mandated by international statistical standards. Adopt the new organic budget law including fiscal rules and arrangements for an independent fiscal council.

In order to promote transparency, with the Amendments to the Law on Public Enterprises of April 2018, the public enterprises are obliged to publish the annual and quarterly reports on their websites, which will enable timely and transparent monitoring of the financial operations of these entities. Fiscal Strategy 2020-2022 includes data on the performance of publicly owned enterprises and state-owned companies. Also, the Electronic Liability Reporting System (ESPEO) records data on the total amount of outstanding and unpaid liabilities of public companies and companies established by the state or municipalities. Public debt data transparency has been improved with the amendments to the Public Debt Law of May 2019 that includes non-guaranteed debt of public enterprises in the definition of public debt. In addition, the SSO regularly submits Excessive Deficit Procedure (EDP) tables to Eurostat. The State sector coverage includes public enterprises (such as Railway Infrastructure, National Radio Television, Deposit Insurance Fund, etc.) in accordance with the ESA 2010 methodology. The list of state-owned institutional units is publicly

available on the SSO's website. The MoF also works on a public debt disclosure website to be launched in February 2020. Public debt is a sum of government debt and debt of public enterprises established by the state or municipalities, as well as companies that are wholly or predominantly owned by the state or municipalities for which the state has issued a state guarantee.

The new Budget Law is in the final phase of preparation, i.e. there is a feedback from international institutions and it is expected that the public consultation procedure will start soon. The law should be in line with improvements in the public finance management system, with the aim of providing a framework for sound, predictable and sustainable fiscal policy and increased budget discipline and accountability. The law proposes fiscal rules, as well as the establishment of a Fiscal Council that should provide independent and professional analysis and opinions on macroeconomic and fiscal assumptions, fiscal strategy, budget, budget execution reports, fiscal risks, and fiscal rules compliance.

G 3: Operationalise the adopted denarisation and non-performing loan resolution strategies, also by prioritising key areas of reform. Continue to closely monitor the emergence of potential financial stability risks related to the consumer loan segment, deploying appropriate micro- and macroprudential policy tools if needed. Legally clarify the national bank's mandate to set macroprudential policy and establish a framework for an effective co-operation among all agencies involved in macroprudential supervision.

a) Denarisation strategy. In the period from mid-2009 to 2015, there was a trend of intensive *denarisation* on both sides of the banks' balance sheet, primarily on the liabilities side, and then on the assets side. During this period, the share of deposits with foreign currency component in total deposits declined by about 18 percentage points, while the share of loans with foreign currency component in total loans decreased by about 11 percentage points. The shift in currency preferences in favour of denar deposits, in addition to the macroeconomic stability and the sound and stable banking sector, is due to the following factors: strengthened fundamentals of the domestic economy, higher yield on domestic currency instruments, crisis in the euro area, efforts to develop domestic financial markets as well as the National Bank macro-prudential measures aimed at promoting domestic currency (mainly changes to the reserve requirements). Uncertainty about the political situation and speculations during the second quarter of 2016 interrupted the positive trend. Yet, the share of deposits with foreign currency component slightly increased (by about 1.5 percentage points in the second quarter of 2016), then stabilised, and reversed to the pre-crisis level, which was largely maintained during 2017-18. It is worth noting that the benefits of the multiyear de-euroisation process have been preserved, despite the external and internal shocks, and in 2019, there was again moderate strengthening of the denarisation of deposits.

In 2017, the National Bank drafted a Denarisation strategy aimed at further strengthening of the confidence in the domestic currency, which is aimed at supporting the monetary strategy of targeting the denar exchange rate and strengthening of the financial stability. At its session held on 20 December 2018, the Government adopted this Strategy, which includes measures aimed at denarisation of the economy, as well as involvement of other competent institutions. The implementation of the Strategy began in 2019, which included elaboration of nine measures of eight areas listed in the Strategy (only for one area there was no activity anticipated for this year). As of December, four of the nine measures (44%) were completely implemented and five were significantly implemented.

The implemented activities include: a) further implementation of sustainable macroeconomic policies aimed at maintaining macroeconomic stability as a key determinant for the confidence in the domestic currency, as confirmed by the IMF Staff Report on article IV consultation as of January 2020; b) gradual increase in the spread between the interest rates on government securities in domestic currency and FX clause in the primary market in favour of the domestic currency, in order to increase the demand for domestic currency instruments; c) an analysis exploring the possibilities for changes to the deposit insurance scheme has been prepared by an inter-institutional working group. It has been concluded not to make changes in the deposit insurance scheme towards differentiation of the risk premiums from the viewpoint of the deposits currency structure, considering that it is not a practice in the EU, generally it is not often in use, therefore there are not enough arguments for appropriate effects on Denarisation level; d) further development of financial education, by undertaking activities for education of the households (lectures and educational articles by the National Bank), including the topic on currency risk (additionally preparation of a National strategy for financial education and financial inclusion is underway).

b) Strategy on non-performing loan resolution and management. In 2016, the National Bank submitted a comprehensive questionnaire to the banks aimed to explore possibilities for efficient settlement of banks' bad claims. On this basis, in 2017, the National Bank prepared a Draft Strategy, with proposed measures and activities for better management of nonperforming loans, including their sale. The Government at its session held on 20 December 2018 adopted this Strategy, which requires coordinated action of several institutions in the country. In December 2018, amendments to the Law on Enforcement Procedures and the Notary Public Law were adopted, which were part of the envisaged activities within the Strategy.

Three Strategy measures were foreseen for 2019, of which two were fully implemented and one significantly implemented: a) as part of the analyses of the possibility for amending the Decision on the contents and the manner of functioning of the Credit Registry, the amendments to this Regulation began to apply in July 2019, the main purpose of which was to comply with the provisions of the new Decision on the methodology for credit risk management, which, among other things, fully applied the European definitions of non-performing loans, including the criteria on the so-called *unlikelihood to pay*, and for restructured loans; b) proper laws and bylaws have been adopted for the establishment of a register of banks' foreclosed property for sale as an activity of the Agency for Real Estate Cadastre; c) further strengthening of the supervision and surveillance of the management of banks' non-performing loans, with particular emphasis on strengthening the bank corporate governance.

The National Bank has already taken specific actions to implement some of the proposed measures. As part of the EU twinning project, it has been agreed that experts from the central banks of Croatia and Greece will share their and the European experience in selling claims, including regulatory aspects, in an attempt to assess Macedonian regulatory and market requirements and opportunities for appropriate changes and/or improvements in this regard. Also, as from July 2019, banks have been required to write off non-performing loans that have been fully provisioned for more than one year (this has replaced the regulatory requirement for mandatory write-off of non-performing loans that have been fully provisioned for more than two years, valid from 1 January 2016). Banks will still have opportunity to take actions to collect the written-off non-performing claims. During 2018 and in the first three quarters of 2019, the share of the banks' non-performing loans to total bank placements was maintained at around 5%.

c) *Consumer loans.* In recent years, consumer credit growth has ranged between the usual levels (11%-12%) achieved in the period after the introduction of the higher capital requirement measure for long-term consumer loans in early 2016. The annual growth rate of total consumer loans as of 30 September 2019 was 12.3%. The non-performing consumer loans to total consumer loans ratio was low and equalled 2.3%. So far, a capital buffer of 3.1% of the total own funds of the banking system was established from the additionally allocated capital as required by the measure. The National Bank closely monitors the consumer loan movements and is ready to take further action, as necessary. In this context, in 2019, a consumer credit analysis was conducted addressing the potential risks and reconsidering the need for additional measures.

d) *Macro-prudential framework.* In order to formalise the macro-prudential mandate of the National Bank, the draft amendments to the Law on the National Bank have been prepared by the National Bank, that need to be reviewed. There are also activities to review the role and composition of the Financial Stability Committee. At the end of September 2019, all supervisory authorities in the country reviewed the modalities for establishing the macro-prudential mandate. The National Bank has prepared a draft Memorandum of Understanding on the maintenance of financial stability that includes all relevant issues on the role of the Committee, its members, structure, tasks and objectives, operations, data exchange among financial regulators for the purposes of maintaining financial stability. The draft Memorandum provides for the establishment of subcommittees as committee's operational bodies.

G 4: Put in place and apply transparent and consistent procedures for business inspections implemented by inspectorates with clear mandates. Create a register of para-fiscal charges on central and local level. Reduce the time and costs of commercial disputes by strengthening the institutional capacity of civil courts.

The adopted Law on Inspection Supervision provides for measures and activities for transparent and consistent procedures in the performance of inspection supervision. A new oversight planning mechanism is in place to ensure that high-risk firms are properly planned for oversight, and the low-risk firms are less frequently planned. A new measure has also been introduced, which greatly enhances the preventive role of inspection services.

The MISA Service Catalogue contains data on fees and administrative fees for over 700 services for individuals and legal entities. Based on those data, the MoE performed an Analysis of Para-Fiscal Fees for SMEs¹. This exploratory analysis of the scope and weight of the para-fiscal fees for SMEs is the first of its kind, provides a general overview of the situation and serves as a basis for designing a registry of para-fiscal charges in future. An event in December 2019 promoted this Analysis, which is one of measures in the Action Plan for Implementation of the Strategy for the Formalisation of the Informal Economy 2018-2022.

Pursuant to the Decision, on 25.11.2019 a working group has been established for drafting the Law on Amendments to the Law on Civil Procedure. Preparation of a Strategy for Human Resources in the judiciary is also underway and is expected to be adopted in the second half of 2020.

G 5: Ensure the implementation of the Action Plan for Formalisation of the Informal Economy 2018-2020 in accordance with the timeline.

Part of the activities from the AP for formalisation of the informal economy 2018-2020 are foreseen to be implemented through the EU project "Improving Working Conditions" which started in Nov. 2019 and will last until Nov. 2021. The project envisages: development, collection and monitoring of statistics and indicators related to the informal economy and preparation of annual reports on the scope and characteristics of the informal economy, in cooperation with the SSO, MLSP, PRO, SMI, DIT; designing a voucher system or equivalent mechanism that promotes better working conditions and formal employment in service sectors with a high prevalence of undeclared work, i.e. in activities with a dominant employment of women and young people with a focus on seasonal work, occasional services, domestic assistants, etc.; introduction of ID cards for workers in certain sectors (agriculture, construction, catering, etc.); system of cooperation of institutions in the field of informal economy (at national and local level); promotion of the benefits of the regulatory environment and new forms of support for the formalisation of the informal economy, etc.

In order to narrow the VAT evasion, amendments to the Law on cash payments registration were adopted in the area of regulating the issuance of invoices to caterers and organisers of special games of chance in betting, stipulating that the fiscal bills may not be cancelled after 15 minutes have elapsed since they were issued.

In order to reduce the informal economy and abuses with fiscal bills, the Law on VAT Refund to Individuals was adopted, which enables individuals to refund 15% of the VAT stated in the fiscal bills they receive for the purchase of goods and services.

¹ Finance Think, http://www.financethink.mk/wp-content/uploads/2019/12/PolicyBrief_no.38.pdf

Citizens have to scan the received fiscal bills for cash payments in MyVAT platform and report to the PRO in order to exercise the right to refund part of the tax. Additionally, in Dec. 2019 the prize game MyVAT#MyPrize was launched and the mobile application was upgraded with new features. The prize winning game stimulates citizens to ask for fiscal bills and thereby participate in the fight against the informal economy while having the opportunity to win cash prizes. If the scanned fiscal bill doesn't win a prize, citizens receive an message aimed at educating them about taxes and boosting tax morale. Initial results from the prize draw show increased number of mobile app users that scanned fiscal bills.

Introduced is a Service Catalogue containing more than 1,200 services based on more than 190 laws and Analysis of Para-fiscal Charges for MSMEs. The main goal is to quantitatively and qualitatively analyse services, prioritise service digitisation and most importantly, analyse para-fiscal charges to determine the justification for their existence and consider reducing or eliminating them altogether.

Within the project "Strengthening Social Dialogue", an Analysis² of the appropriate legal framework related to the informal economy was made, more specifically on the gap between the Law on Prohibition and Prevention of Unregistered Activity, the Law on Inspection Supervision, the Law on Foreign Exchange Inspection, the Law on Financial Inspection in Public Sector, the Law on Administrative Inspection, the Law on Forestry and Hunting Inspection, the Law on Technical Inspection, the Law on Crafts, the Law on Safety and Health at Work, the Law on labour Relations, the Law on labour inspection, the Law on education inspection, the Law on sanitary and health inspection and the Law on trade. The analysis also contains recommendations for harmonisation of the Law on Prohibition and Prevention of Unregistered Activity with the other material laws mentioned above in order to strengthen the legal framework for combating the informal economy, as well as a draft Checklist for compliance with the provisions of the Law on Prohibition and Prevention of Unregistered Activity, which will serve as an example for the further development of similar lists in accordance with the provisions of other laws, both for legal entities and for inspection authorities.

In order to strengthen the advisory role and preventive activities related to the unregistered activity and increase the number of companies that have registered the activity, the PRO in 2018 and 2019 has conducted trainings for more than 200 individuals on irregularities regarding the Tax Procedure Law.

In order to intensify the activities for addressing the informal economy within the scope of the work of the Ministry of Finance and its bodies, the Public Revenue Office, the Customs Administration, the Financial Intelligence and Financial Police, the MoF coordinates preparation of Plan of activities for intensifying the addressing of the informal economy and creating a better business environment. An online platform for the informal economy is being developed that will impact awareness, have an educational and informative role and will provide a road-map for the measures. The MoF thus contributes to the implementation of the Strategy for formalisation of the informal economy.

Having in mind that the Republic of North Macedonia is a small open economy, special focus in the action plan will be placed on e-commerce as an area that offers the opportunity for better integration of domestic firms with global markets and the opportunity for the development of the digital economy. In the direction of digitisation and improvement of the business environment, a model for introduction of e-invoice by the PRO is underway. In October 2019, a working group was established within the MoF to tackle the informal economy in e-commerce, as a significant industry that is constantly growing. A round table including chambers and stakeholders was organised to map out the challenges in the field of e-commerce. The reduction of the informal economy is a priority of the Ministry of Finance because it can significantly contribute to improved and increased revenue collection. Activities that will be undertaken in this direction include raising awareness of the potential of e-commerce, continuous education of citizens, companies and institutions for e-commerce, development of a solution for connecting e-commerce with the PRO system (virtual fiscalisation) and the introduction of a pre-arrival information system for small consignments at the post office. Having in mind that the Internet creates an opportunity for the development of unfair competition and in order to enable a fair business environment, it is planned to make mapping of e-commerce actors, improvement of e-commerce regulation and improved control mechanisms will be implemented by the competent inspectorates, the Customs Administration and the Public Revenue Office.

G 6: Implement the Youth Guarantee in the whole territory with an emphasis on underdeveloped regions by ensuring sufficient and qualified human resources of the Employment Agency, and the participation of relevant stakeholders. Strengthen the governance in the education sector in order to accelerate the modernisation of the education system at all levels through improving infrastructure, curricula and teachers' qualifications. Adopt and implement the new social protection legislation for improving the impact of social transfers on poverty reduction.

In the first half of 2019, a consulting company conducted a Functional Analysis of the ESA in order to obtain more information needed during adopting of the new Rulebook on Internal Organization and Rulebook for Systematisation of Jobs in the ESA. The Functional Analysis Report confirmed the need to establish a separate Youth Employment Unit, as well as other recommendations to improve the functioning of the ESA, which will be incorporated into the new rule-books.

The following is an overview of activities to modernise the education system separately at each level of education. **In preschool education:** A draft document on professional competences for educators for better developmental outcomes of children has been developed in consultation with the relevant as a basis for regulating the career development of kindergarten staff. It defines the knowledge, skills and attitudes of kindergarten staff. The IPA 2017 project "Raising the quality of pre-school education and care" will be launched soon. Innovative ways to develop socio-emotional skills and endurance in children are introduced through a new

² The analysis of the legislation for the needs of the Economic and Social Council was prepared by the Centre for Research and Policy Making, within the EU-funded project "Strengthening Social Dialogue", and it is implemented by the International Labour Organisation.

two-year programme developed. By the end of November 2019, 133 collegiate educators acquired professional competence in 3 areas. **In primary and secondary education:** A new Law on Primary Education and the Law on Teachers and Associates in Primary and Secondary Schools were adopted. According to the new Law on Primary Education, from the 2019/2020 school year, the minimum number of students per class is reduced from 24 students to 20 students, and a combined class can have up to 10 students, in order to ensure a higher quality of teaching. Regarding the right to education for all children, the possibility of organising and realising primary education in health and home conditions for students of home and hospital treatment for more than three weeks is introduced. In order to meet the interests of the students in primary education, the law stipulates that the students should be organised in a class community and a student parliament, and a student ombudsman will be elected. In order to promote multiculturalism and interethnic integration, the law stipulates that a school integration team will be set up. The manner of school management is improved in order to eliminate the political influence in the education. The Bureau for Development of Education has drafted national standards based on the European Framework of Core Competences. The Curricula for Macedonian Language for Communities and Albanian Language for Communities have been prepared as an elective subject. A Concept for Inclusive Education and Manuals for teachers on inclusion of students with disabilities are prepared as well. Also, the principal of the *primary school* establishes: 1) a school inclusion team that cares for inclusive policies and practices at the whole school level and 2) an inclusive student team that works on an individual education plan or modified curriculum. Since this year, students with disabilities are being evaluated by the Commission for additional educational, health and social support based on the International Classification of Functioning (ICF). Students from special schools and classes, who receive a recommendation for regular school attendance, starting from the 2019/2020 school year, are enrolled in regular school instruction and are provided with around 300 educational and personal assistants. In terms of *VET reforms*, from the 2019/2020 school year to the first year of secondary vocational education, new modular curricula have been introduced in all 14 sectors for all qualifications. The curricula are developed in collaboration with the business community and are expressed in EQVET credits and contain learning outcomes. VET curricula for second, third and fourth year in VET have been prepared and adopted and will be implemented gradually. The new modular programmes are based on learning outcomes and assessment criteria. The modular curricula and introduction of work-based learning in year 3rd and year 4th as an integral element of the technical VET system, as well as increasing the participation of hands-on instruction and exercises, will give students greater opportunity to develop broader key competences and skills both in school and in real time in companies. In support of the reformed secondary VET and implementation of the new modular curricula, a process has been started for purchase of equipment for vocational schools. For a third year in a row the Grant programme for strengthening the cooperation between the schools and the business community is implemented. This Grant programme has so far awarded a total of 42 grants and by the end of the project the training would cover approximately 3600 students and 620 teachers. In the 2019/2020 school year, dual VET is delivered in seven VET schools for three profiles. The MoES, with the support of the European Training Foundation (ETF), prepared an assessment of the current supply and future need for skills in the Northeast, Southwest and Polog regions and the document "Establishment of Regional Vocational Education and Training Centres in the Republic of North Macedonia" was prepared. Adoption of the Law changing and amending the Law on VET is ongoing and it will enable establishment of the Regional VET Centres. Also, ongoing is the process of adoption of a new Law on Adult Education with a view to aligning it with the NQF and implementing a system of validation of non-formal and informal learning is ongoing. The State Examination Centre announced the results of PISA 2018, according to which the Republic of North Macedonia is 62nd in Sciences, 66th in Reading and 67th in Math, out of 79 countries and economies who participated. **Improvement of infrastructure conditions:** In terms of improving the infrastructure conditions of the schools, a new elementary school building has been built and two new primary schools are under construction. Reconstruction of 18 primary and secondary schools across the country has been completed. Ten school sports buildings have been built and 15 new school sports halls are under construction.

The Law on Social Protection, the Law on Social Security for the Elderly and the amendments to the Law on Child Protection came into force in May 2019. All bylaws for implementation of the new regulation have been promulgated and the first payment of cash rights under the reformed social protection system and child protection was made in June 2019.

The new **Law on Social Protection** introduced guaranteed minimum assistance and enabled activation of GMA users in the labour market. The categorical benefits were integrated into generic cash benefits, according to the basis of use, and a combination of cash assistance rights was enabled. The administrative procedure for acquiring financial assistance rights has been simplified. Beneficiaries of guaranteed financial assistance for the first time have been entitled to child and educational allowance (for primary and secondary education), thus introducing a family package, i.e. providing funds to alleviate the poverty of materially insecure households. The **Law on Social Security for the Elderly** aims to increase the effectiveness of cash benefits for this category of citizens and to reduce the percentage of poverty among the elderly over 65 who cannot provide livelihoods in another way. Reform in the area of **child protection** has made it easier to access child allowance, so that low-income families with children now do not need to have an employed member in the family in order to enjoy the child allowance. This was a condition that has been key in achieving the right to child allowance in the past. A new entitlement - an education allowance for children who attend primary and secondary school regularly - has been introduced to support parents in paying school costs, for low-income households as well as for GMA beneficiaries. At the same time, the one-time financial assistance for a new-born as a right now is allowed to be used not only for the first child, but also for the second child. In order to facilitate the life and to have greater social inclusion of persons with disabilities, the right to compensation for persons with intellectual disabilities is expanded enabling the parents who have taken care for their child with disabilities and have not placed it in social institution, to be entitled to a pension at the age of retirement, because they have not acquired retirement in any other way. A

Rulebook on the manner and scope of social services, norms and standards for the provision of social services has been adopted. The prices of the social protection services shall be decided by the Minister on the basis of a methodology for setting the prices of services depending on the standards and norms for the provision of social services.

3. Macroeconomic framework

3.1 Recent economic developments

International Economic Environment³. Global economic activity grew with weaker intensity in the first half of 2019. Growth of Manufacturing was significantly slowed down during this period, and the increased trade and geopolitical tensions, which increased the uncertainty regarding the global trade system and the international cooperation in general, negatively affected the global trade, as well as the confidence of investors and their decisions. Thereby, adjustments to increased accommodative monetary policy, primarily by FED by lowering the reference interest rate in July and September, as well as by the European Central Bank, which lowered the deposit interest rate and announced the re-launching of the program for quantitative easing, wherein, securities will be purchased, leads to mitigating the effects of trade and geopolitical tensions on the financial market and the economic activity.

Growth of global economy in 2019 was projected at 3.0%, which is expected to accelerate in the next years, by which 3.4% growth is expected in 2020, with projected growth of 3.6% in both 2021 and 2022. In the EU, growth of economic activity is expected to slow down in 2019, being projected at 1.5%, whereas average annual growth of 1.6% is envisaged in the next medium-term period. In 2019, Germany, as the most significant trading partner of our country, was strongly affected by the significant slowdown of the global demand of cars, by which growth of economic activity in 2019 is expected to amount to 0.5%, whereby stronger growth is expected in the upcoming medium-term period, projected at 1.3% in average annually, however being lower compared to the previous projections.

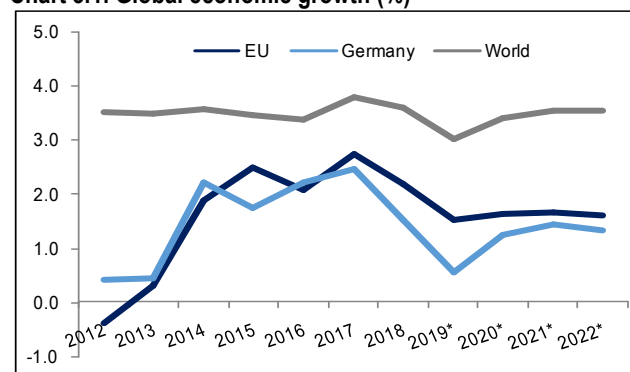
Risks with respect to the projected global economy growth rates, are downward. Further escalation of trade tensions, accompanied with increased uncertainty with respect to economic policies, as well as the increased geopolitical tensions, could adversely affect global trade, investments and economic activity, respectively.

Recent economic trends in the Republic of North Macedonia

Gross Domestic Product. With respect to the domestic economy, during the first nine months of 2019, economic growth amounted to 3.6%, being broad based. Construction activity increased by 5.6% in real terms, based on the high-frequency data and was a result of the performed construction works as regards buildings and civil engineering structure, i.e. road construction.

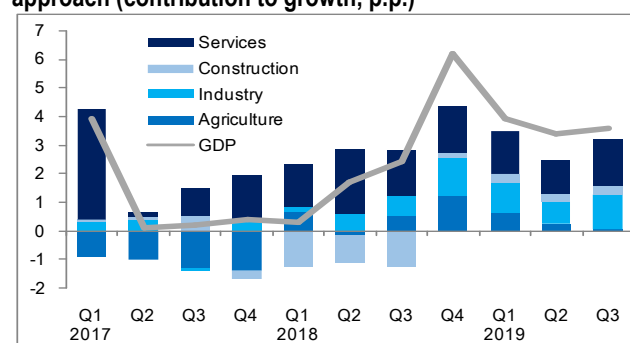
Industrial activity in this period also increased by 5.6% in real terms. Based on the monthly data on industrial production, in the period January - September, favourable trends were recorded in all three sectors, i.e. Manufacturing, Mining and Electricity supply. Within Manufacturing, manufacture of motor vehicles, machinery, equipment and electrical equipment, i.e. activities where major foreign industrial capacities are active, accounting for around one fourth of industrial production, had more significant contribution to growth. Manufacture of beverages, textile, pharmaceutical products and preparations, etc. had solid contribution to growth, too.

Chart 3.1. Global economic growth (%)



Source: International Monetary Fund, October 2019 (* - forecast)

Chart 3.2. Economic growth structure by production approach (contribution to growth, p.p.)



Source: Calculations of MoF based on SSO data

³ International Monetary Fund "Global Economic Outlook", October 2019.

In the first nine months, services sector experienced real growth of 2.2%, mostly as a result of the increased activity in Trade, transportation, accommodation and food services. Growth of trade activity in this period, in line with the high-frequency data arises from the favourable trends in all three segments, i.e. retail trade, wholesale and trade with motor vehicles. Agriculture in the first nine months picked up by 4.2% in real terms.

Observed according to the expenditure side, growth of economic activity in the first nine months, was a result of the growth of domestic demand, amid growth of consumption and gross investments, while net export had negative contribution to growth, especially in the third quarter. (Chart 3.5)

Consumption in this period surged by 3.9% in real terms, thus continuing to underpin the economic activity, amid positive contribution by private and public consumption. Growth of private consumption reached 3.9%, being mostly a result of the increase of household disposable income, amid increased wages and growth of employment in the country, also supported by the increased crediting to households. Public consumption increased by 3.5% in real terms, arising from the higher expenditures for goods and services and wages and allowances.

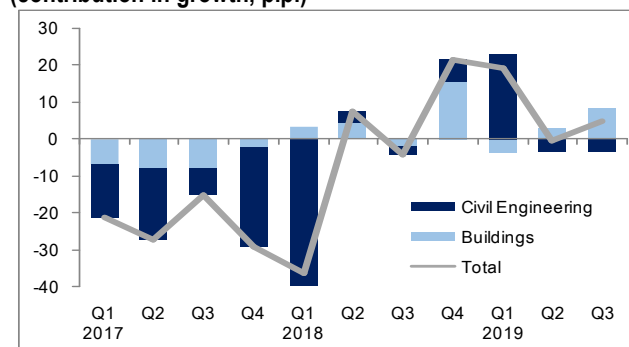
Gross investments experienced 4.3% growth, mostly as a result of the investments in construction works and, to a certain extent, investments in machinery and equipment in conditions of increased import of capital goods. Intensified investment activity is also underpinned by the growth of long-term crediting to enterprises.

Export of goods and services in the first nine months increased by 12.2% in real terms, mainly as a result of export by the capacities in the free economic zones, i.e. export of machinery, transport equipment and chemical products, also supported by the sound performance of some of the other export segments, such as food and metal industry. Import of goods and services grew by 11.6% in real terms, driven by import of intermediary and capital goods, amid growth of investments and export.

2019 Assessment. Positive movements in the first nine months in 2019, reflected through more intensive growth of investments, strong support of consumption to the economic growth, continuous strong growth of export, further crediting to the private sector, growth of construction activity and industry, underpin the 2019 projected economic growth of 3.5%.

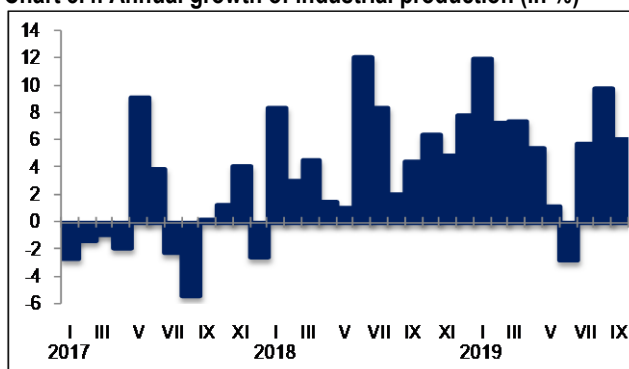
Labour Market. Positive trends on the labour market continued in 2019 as well, with somewhat stronger dynamics compared to the previous year. According to the Labour Force Survey, average number of employed persons in the first three quarters of 2019 increased by 5.2%, i.e. by 39.6 thousand persons compared to the same period in 2018, whereby employment was mostly increased in manufacturing, i.e. it absorbed 18.7% of the newly created jobs. Growth of employment was also recorded at service activities and construction sector. Employment rate reached 47.4% in the third quarter of 2019, being 2.3 p.p. increase in relation to the same quarter in 2018. Employment growth was accompanied by the drop of the number of unemployed persons, by which unemployment rate in the third quarter reduced to 17.1%, i.e. by

Chart 3.3. Growth structure of completed construction works (contribution in growth, p.p.)



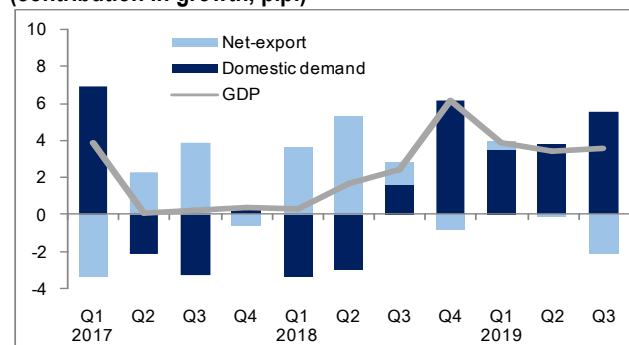
Source: Calculations of MoF based on SSO data

Chart 3.4. Annual growth of industrial production (in %)

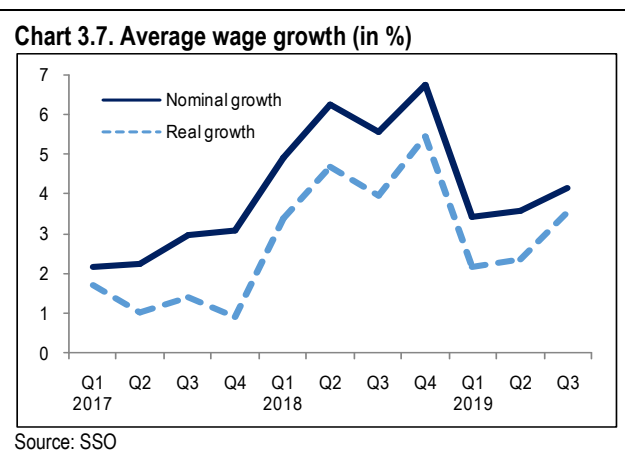
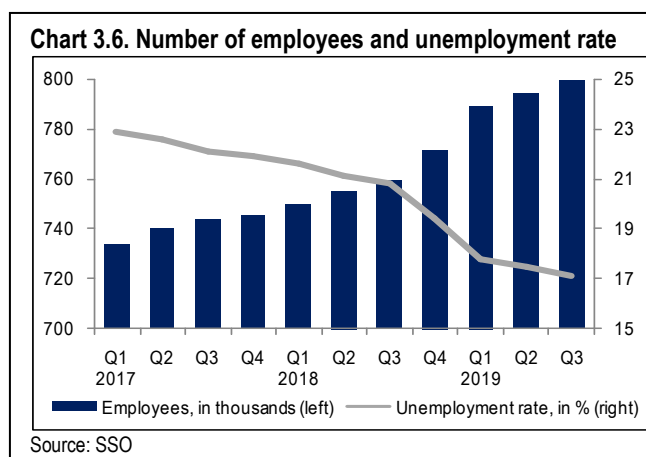


Source: SSO

Chart 3.5. Economic growth by expenditure approach (contribution in growth, p.p.)

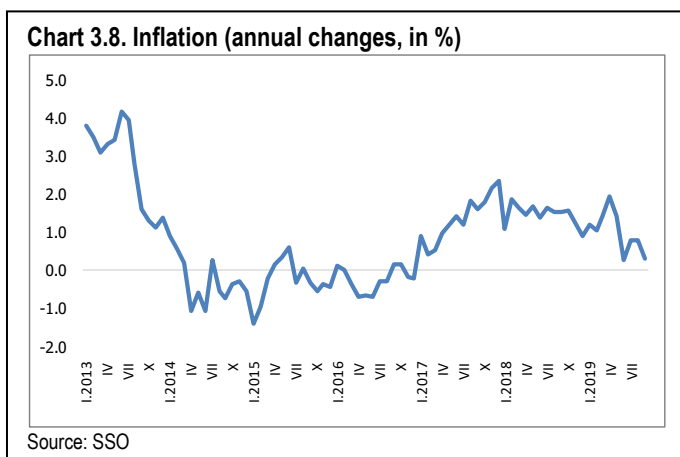


Source: Calculations of MoF based on SSO data



3.7 percentage points compared to the same quarter of 2018. All age groups experience decrease of unemployment rate. Active population in the third quarter of 2019 accounted for 57.2% of total working-age population.

Average monthly net wage in the period January- September 2019 was higher by 3.7% in nominal terms, and by 2.7% in real terms, being a result of the increase of wages at several activities. Thus, in nominal terms wages increased by 4.6% in manufacturing, 5.9% in the construction sector, 8.1% in the transportation activity, 3.2% in the information and communication activity, 4.7% in the education, and 9.9% in the field of health and social protection, etc.



External Sector. Trends in the current account balance of payments in the first three quarters of 2019 indicate a small deficit, with further solid export performance in both new manufacturing facilities and some of the traditional manufacturing and service sectors, despite the deteriorating global environment. In the period January-September 2019, the current account registered a small deficit of EUR 13 million (surplus of EUR 90 million in the same period last year). The deficit resulted from the higher trade deficit (mainly reflecting the import-dependent export), as well as the lower surplus in the trade in services, while the

primary income deficit and the secondary income surplus remained similar. Within the secondary income, net purchased cash on the currency exchange market, through which the private transfers were approximated, was slightly higher (by 1.8% compared to the same period last year).

In the first three quarters of 2019, inflows in the financial account were mainly based on trade credits, foreign direct investment (FDI) and loans. In the period January-September 2019, FDI, net, amounted to EUR 113 million, which is lower compared to the same period of 2018 (EUR 299 million). According to the components, there were high net inflows of equity and reinvested earnings, which were largely offset by outflows based on intercompany debt.

At the end of September 2019, gross foreign reserves were EUR 3,127 million, up 9.1% compared to the end of 2018, mainly due to the high National Bank purchase on the foreign exchange market. Foreign reserves were maintained at an adequate level, ensuring an average import coverage of about four months in the next year.

Inflation. In the period January-September 2019, the average annual inflation equaled 1%. The inflation movement was influenced by food prices (mainly vegetables), as well as higher prices of tobacco products (in line with the gradual increase in excises).

Table 3.1. Balance of payments

(% of GDP)	2014	2015	2016	2017	2018	I-IX.2019
Current account deficit	-0,5	-2	-2,9	-1,1	-0,1	-0,1
Goods, net	-21,7	-20,1	-18,8	-17,8	-16,2	-12,1
Services, net	4,5	3,8	3,5	3,7	3,4	3,4
Primary income, net	-1,9	-3,2	-4	-4	-4,2	-3,0
Secondary income, net	18,6	17,4	16,4	17	16,8	11,6
Financial account, net	5,1	-0,1	6,3	-0,5	5,1	-0,3
(without foreign reserves)	2,3	2,2	3,3	1,8	5,6	1,0
FDI, net	5,6	0,7	4,4	-0,2	3,0	-1,0
Portfolio investments, net						

Source: NBRNM, SSO; NBRNM forecast for GDP in 2019.

The average core inflation, excluding variable categories (food and energy), equaled 0.8% per annum (NBRNM calculations). Within the headline inflation index, food contributed with 0.7 percentage points, core inflation with 0.4 percentage points, while energy made a negative contribution of 0.1 percentage point. The main contribution to core inflation was made by prices of alcoholic beverages and tobacco largely influenced by one-off non-market price changes (higher tobacco excise duties), and less by higher prices of some types of services. The average core inflation, excluding categories of: unprocessed food, energy, liquid fuels and lubricants, and tobacco and alcoholic beverages, was 0.6% (SSO calculations).

Monetary Developments and Exchange Rate. In 2019, the monetary policy continued to be focused on preserving price stability by maintaining a stable nominal exchange rate of the denar against the euro. In 2019, the monetary policy was eased by cutting the policy rate in March from 3.25% to 3%, which was a record low. This relaxation reflects the low and stable inflation, solid external position, favorable foreign exchange market movements and positive banking system developments.

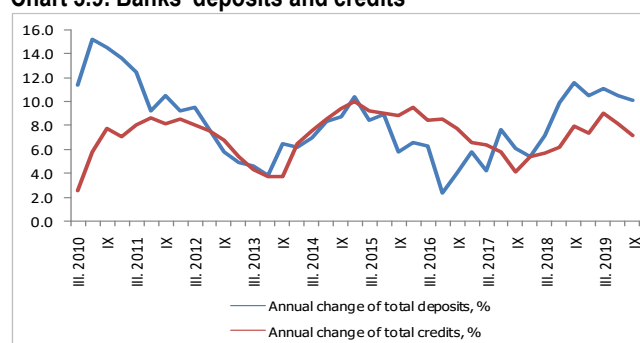
The annual growth of broad money M4 at the end of September 2019 was 10.8% (increase of 11.8% at the end of 2018). Total private sector deposits in September 2019 were higher by 10.1% on an annual basis, which is similar to the growth rate as at the end of 2018 (10.5%). Analysing by sector, household deposits in the banking system increased by 9.3% (by 9.5% at the end of 2018), with simultaneous acceleration in corporate deposits which were higher by 11.1% (by 9.5% at the end of 2018). In September, nearly two-thirds of the annual growth of total deposits resulted from the growth of household deposits.

From the currency viewpoint, at the end of September 2019, denar deposits including deposit money registered a faster annual growth (12.3%), compared to the growth in foreign currency deposits, including deposits with currency clause (7%). At the end of September 2019, the growth in denar deposits, including demand deposits, constituted 72% of the annual growth of total deposits. Consequently, the share of deposits with currency component (FX and FX clause) in total deposits at the end of the third quarter of 2019 was 39.5%, which is slightly below the level at the end of 2018 (40%), moderately lower than in September 2018 (40.6%) and significantly lower compared to the level at the onset of the global crisis (about 60%).

Bank loans to the private sector continued to grow in the first three quarters of 2019. At the end of September 2019, adjusted for the effect of write-offs under the regulatory measure⁴, their growth rate was 7.0% (7.3% growth at the end of 2018). The growth of household lending (10.3%) was more pronounced, compared to the corporate lending (4.1%). In September, about 72% of the annual growth of total loans stemmed from the growth of household loans, with lower contribution of corporate loans of about 27%.

Interest rates in the banking sector slightly decreased. The average weighted interest rates on denar loans and denar deposits were 5.5% and 1.8% per annum in September 2019, which compared to the end of 2018, is a decrease of 0.3 percentage points and 0.2 percentage points, respectively. Consequently, compared to the end of 2018, interest rate spread was narrowed by about 0.2 p.p. to 3.7 p.p.. In September 2019, the average interest rates on foreign currency loans and deposits equaled 4.6% and 0.8%, respectively, which is a decrease of 0.1 p.p. of the interest rates on foreign currency loans compared to the end of 2018, whereas the interest rates on foreign currency deposits remained unchanged, thus narrowing the interest rate spread (by 0.1 p.p.) to 3.8 p.p.. Interest rate differential between denar and

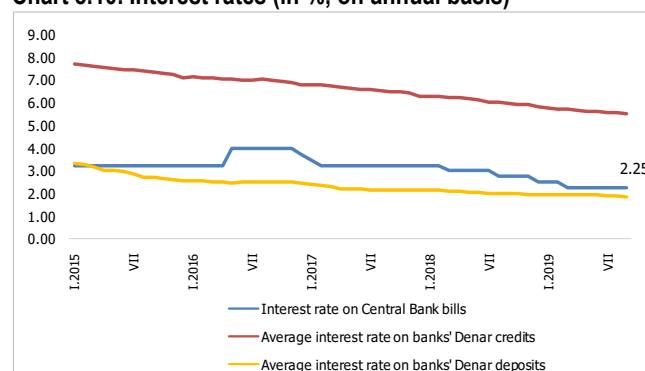
Chart 3.9. Banks' deposits and credits



Source: NBRNM.

* In the period VI.2016-VI.2017 and in Q3.2019 corrected for the write-offs.

Chart 3.10. Interest rates (in %, on annual basis)



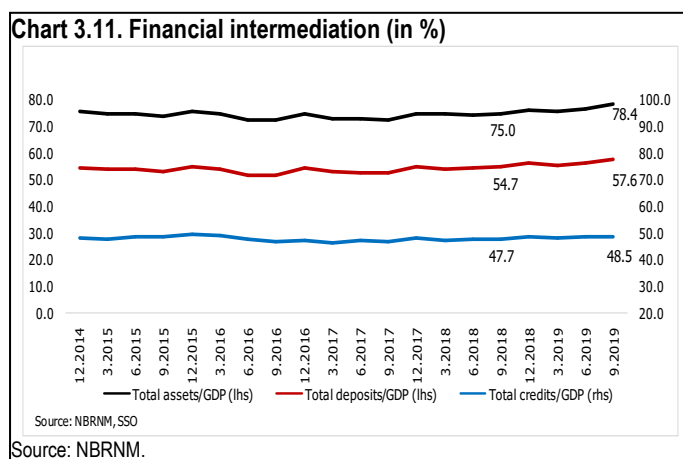
Source: NBRNM.

⁴The annual loan rates since July 2019 have been influenced by the NBRNM's measure for writing-off of claims fully covered for more than a year.

foreign currency deposit interest rate narrowed by 0.1 p.p. compared to the end of 2018, and equaled 1.1 p.p. in September 2019.

Banking System. Banks remained leaders in the financial system, making up 82.5% of the total assets of the financial system⁵. Fifteen banks operate in the Republic of North Macedonia, of which eleven are predominantly owned by foreign shareholders, and six are foreign bank subsidiaries⁶. Foreign banks (mainly EU) dominate almost all the important positions of the banking system's balance sheets.

Bank activities. In the first nine months of 2019, amid sound economic fundamentals, without any economic imbalances, banking activity movements were favorable. Both deposit and lending activities registered upward, yet slower, annual movements. The annual growth of the banking system assets (of 8.9%) was mainly driven by the deposit growth, which



was entirely determined by short-term denar deposits. Both non-financial sectors contributed to the growth, primarily the deposits of the household sector. The increased lending has still been driven by the higher level of household loans. As of 30 September 2019, the shares of total assets of the banking system, loans and deposits in GDP increased compared to the same period of 2018, reaching 78.4%, 48.5% and 57.6%⁷, respectively.

The NBRNM Bank Lending Survey for the first three quarters of 2019 points to retention of the net easing of credit standards for corporate loans, which still largely derives from the interest rate. Net easing of credit standards is seen in both large and small and medium-

sized enterprises. Regarding the factors that influence the corporate credit standards, competition from other banks is the main factor that contributes to the easing of credit standards, while the competition from the non-banking sector and the competition from the market financing continue to have little impact on the easing of credit standards. Also, there is continued net easing of standards for approving households loans, mainly in terms of interest rate and non-interest expenses for both housing and consumer loans. Competition from other banks remains the most pronounced factor that influences the net easing of the credit standards of the both types of household loans.

Credit risk. The annual growth of non-performing loans equaled 4.1% as of 30 September 2019. However, the share of non-performing loans in the non-financial sector remained unchanged on an annual basis and in September 2019, it was 5.0%. Most of the non-performing loans originate from non-financial corporations, making the largest contribution to the growth of these loans. The ratio of corporate non-performing loans deteriorated by 0.3 percentage points on annual basis to 8.0%. The ratio on household non-performing loans was low and equaled 2.1% (2.4% as of 30 September 2018). The high coverage of non-performing loans with impairment continued in the third quarter of 2019 (67.2%), which along with the satisfactory volume and quality of own funds, limited the potential adverse effects on the banks' solvency from default of these loans. Banks are prudent when calculating expected credit losses, and therefore ensure greater coverage with provisions compared to the historical loan default rates. This was particularly pronounced in the corporate loan portfolio, whose inherent risk was higher compared to the household loan portfolio. At the end of 2018, the Government adopted the Non-Performing Loan Management Strategy, and some of the activities started to be implemented in 2019.

Consumer credit growth ranged between the usual levels (11%-12%) achieved in the period after the introduction of the higher capital requirement measure for long-term consumer loans since early 2016. The annual growth rate of total consumer loans as of 30 September 2019 was 12.3%. The non-performing consumer loans to total consumer loans ratio was low and equaled 2.3%. So far, a capital buffer of 3.1% of the total own funds of the banking system was established from the additionally allocated capital as required by the measure. The National Bank closely monitors the consumer loan movements and is ready to take further action if necessary.

Corporate and Household Debt. The Macedonian banking system mainly operates on the domestic market, and therefore, the performance and the level of corporate and household debt are crucial for its stability and the stability of the other financial system segments. In 2018, amid relatively favorable environment with reduced risks from the domestic

⁵ Source: Financial Stability Report for the Republic of North Macedonia for 2018.

⁶ In November 2019, the dominant owner of a bank changed, yet the bank remains an EU bank subsidiary.

⁷ The data for September 2019 are calculated using the latest available GDP data for the second quarter of 2019.

environment, improved perceptions of foreign investors and further retention of the positive performance of the new industrial facilities, the domestic corporate sector achieved better operating results. The amount of corporate debt continued to grow, albeit at a slower pace, which led to a slight reduction in the corporate debt rate for the first time in the last five years, estimated at 66.9%⁸ of GDP (from 67.2% in 2017). The debt growth was largely due to the increased corporate debt financing from abroad, as well as the accelerated growth of domestic debt amid enhanced credit support to companies by the domestic banking sector. The coverage of financing costs with the operating profit improved, reaching 4 times in 2018.

Despite the debt increase over the past years, the total household debt rate was not high, which is particularly evident through its share in GDP, which in 2018 was 25.4% (from 24.4% in 2017). The acceleration of household debt growth in 2018 is due to the further strengthening of the credit support from the banking system, which accounts for nearly 95% of the household debt. Households' ability to repay principal and interest and only interest was high, measured as a ratio of these liabilities to disposable income (8.8% and 2.3%, respectively).

Profitability. The trend of banks' positive financial result continued in the first nine months of 2019, but with lower intensity compared to the same period of the previous year. The poorer financial result mainly reflected the depletion of the effects of the one-off factors⁹ in the first quarter of 2018. Consequently, the profitability and efficiency ratios of the banking sector declined, but remained appropriate - as of 30 September 2019, the return on average assets and the return on average equity and reserves of the banking system were 1.5% and 13.5%, respectively. Net interest income was the driving component of total banks' income (two-thirds), which, in the first nine months of 2019, continued to decrease moderately, given the low interest rates, faster reduction of the lending than deposit interest rates, and higher deposit growth compared to banks' lending activity. Thus, the challenge remains for banks to generate higher growth rates of net interest income or expand their sources of income through diversification of banking activities, but also to reduce operating costs in order to ensure sustainable profitability of the banking sector in the medium and long term.

Table 3.2. Main banking system indicators in %

	2014Q4	2015Q4	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3
Capital adequacy														
Capital adequacy ratio	15,7	15,5	15,2	15,4	15,8	16,2	15,7	16,4	16,5	16,3	16,5	17,0	17,4	16,9
Asset quality														
Non-Performing Loans / gross loans (non-financial entities)	11,3	10,8	6,6	6,4	6,8	6,6	6,3	5,1	5,1	5,0	5,2	5,2	5,5	5,0
Total provisions to Non-Performing Loans (non-financial entities)	104,7	108,4	114,9	114,3	109,2	112,0	110,7	124,0	124,1	123,9	118,9	119,8	113,3	108,8
Profitability														
ROAA	0,8	1,1	1,5	1,5	1,4	1,4	1,4	3,1	2,4	2,2	1,7	1,5	1,4	1,5
ROAE	7,4	10,4	13,6	13,8	12,7	12,6	13,5	28,0	21,3	19,5	16,0	13,5	13,1	13,5
Operational costs / total income	55,5	51,6	49,8	50,0	50,8	50,0	48,7	42,2	44,6	45,7	46,2	50,9	50,9	50,0
Liquidity														
Liquid assets / total assets	33,2	31,4	30,9	30,4	29,7	29,5	29,8	30,4	30,1	30,6	30,6	31,2	31,3	32,4
Liquid assets / total short-term liabilities	59,2	54,9	53,5	53,4	51,5	51,6	51,7	53,5	52,7	53,7	53,2	54,7	54,2	56,5
Sensitivity to market risk														
Net foreign exchange position / owned funds	17,5	11,1	14,5	9,6	7,8	7,3	6,2	6,6	6,4	8,1	3,8	1,9	1,8	5,1

Source: National Bank

Insolvency Risk. Banking system solvency is stable and improved compared to 2019. As of September, compared to end of 2018, own funds increased mainly due to the reinvestment of profits of 2018 in the banks' capital. The capital adequacy ratio of the banking system in the third quarter of 2019 was solid 16.9%, while the ratio between the highest quality segment of the banking system's own funds (common equity Tier 1 capital) and risk weighted assets reached 15.3%. The increase in own funds was largely used to boost available capital, above the regulatory and supervisory requirement, which accounted for 10% of total own funds and was available to banks to cover contingent business risks. Stable and high solvency and the structure of the banking system own funds are the fundamentals of its stability and resilience to potential shocks.

Liquidity risk. Banking system liquidity remained satisfactory and stable in the first nine months of 2019. Bank liquidity ratios remained as usual, whereby liquid assets made up roughly one third of the banks' total assets, covering more than half of the short-term liabilities and slightly more than 60% of the total household deposits. The positive trends in the deposit base of the banking system provided stable sources for financing credit growth, which is better perceived by the movements of the loan to total deposit ratio, which aggregately remained around 85%¹⁰ at the end of September 2019.

Stress testing. The banking system of the Republic of North Macedonia maintained its stability, as confirmed by the regular quarterly sensitivity tests, as well as the annual macro stress test conducted by the National Bank. Stress testing of the resilience of the banking system in the third quarter of 2019 did not show significant changes compared to the

⁸ Source: Financial Stability Report for the Republic of North Macedonia in 2018, latest available data.

⁹ In the first quarter of 2018, a number of non-performing claims on a large corporation was collected by several banks and capital gains were generated from the sale of equity stake, which were occasional events.

¹⁰ Excluding the effect of the write off requirement, this ratio remained below 100% (90.5%).

previous quarter. Hypothetical shocks on the part of the credit risk had the greatest impact on the stability of the banking system. Stress testing showed that the capital adequacy of the banking system would drop below 8% only in the case of exceptional growth of non-performing loan exposure to non-financial entities (of nearly 310%), i.e. in the case of migration of about 17% from regular to non-performing credit exposure.

In 2018, as part of the regular annual macro stress test conducted as scenario-analysis of the banking system, the National Bank developed a baseline macroeconomic scenario (which included forecasts of future expected trends in the economy, which the National Bank implements on a regular basis) and an unfavorable macroeconomic scenario (which assumed negative external and domestic shocks). The results of the stress testing indicated satisfactory resilience of the banking system to extreme macroeconomic shocks, and the bank-by-bank analysis indicated pronounced sensitivity of individual banks to macroeconomic shocks and accordingly, a need for recapitalisation, in the case of materialisation of the assumed macroeconomic scenario. Besides the regular macro-stress test, which was based on a scenario analysis, in 2018, the National Bank also conducted a reverse stress testing.

3.2 Medium-term macroeconomic scenario

Macroeconomic policy of the Republic of North Macedonia is aimed at developing the economy and raising the living standard of citizens, by creating favourable business climate, support of investment and export activity of enterprises, job creation in the country through active employment measures, increase of wage level, as well as strengthening of the social protection system.

Table 3.3. Comparison of GDP growth and inflation projections for North Macedonia

Institution	Real GDP growth (%)				Inflation rate (%)			
	2019	2020	2021	2022	2019	2020	2021	2022
European Commission	3.2	3.2	3.3	:	1.4	1.9	2.0	:
IMF	3.2	3.4	3.2	3.3	1.3	1.7	2.0	2.2
World Bank	3.1	3.2	3.3	:	1.6	1.8	2.0	:
EBRD	3.2	3.2	:	:	:	:	:	:
Vienna Institute	3.3	3.4	3.4	:	1.4	2.4	2.5	:
NBRNM	3.5	3.8	4.0	:	1.0	1.5	2.0	:
Ministry of Finance	3.5	3.8	4.1	4.3	1.0	1.7	2.0	2.0

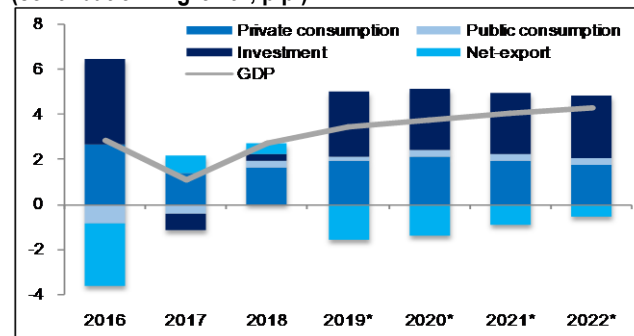
Source: European Commission (European Economic Forecast, November 2019), IMF (World Economic Outlook Database, October 2019), World Bank (Western Balkans Regular Economic Report, October 2019), EBRD (Regional Economic Prospects, November 2019), Vienna Institute (Forecast Report, November 2019) and NBRNM (Quarterly Report, November 2019).

Gross Domestic Product. Real GDP growth is projected at 3.8% in 2020, before somewhat picking up in the next two years, projected at 4.1% in 2021 and 4.3% in 2022, driven by domestic demand.

Solid contribution of consumption to the economic growth is envisaged to continue in the next medium-term period. Growth of private consumption is projected at 3% in average annually in the period 2020-2022, driven by the expected increase of household disposable income, supported by the envisaged growth of crediting to households. Income growth originates from the expected increase of wages and employment in the country, underpinned by the government measures for wage increase, unemployment reduction, as well as activation and strengthening of the social protection of vulnerable categories. Real growth of public consumption in the 2020-2022 period is projected at 1.9% in average annually.

In the 2020-2022 period, gross investments are projected to increase by 7.8% in real terms in average annually. Planned investments of public sector, especially those in the road infrastructure, foreign investments in technological industrial development zones, as well as continuous support of investment activity of domestic and foreign enterprises, support of innovative activity and technological development of enterprises, etc., are expected to have positive contribution to investments growth. Main preconditions for achieving the projected growth of investments are retaining the political stability in the country, as well as the confidence of economic entities.

Chart 3.12. Expenditure structure of GDP growth (contribution in growth, p.p.)



Source: SSO and MoF forecast (* - forecast)

Thereby, the efforts for continuous improvement of business climate and the road infrastructure are significant factors for long-term growth of investments.

In the following medium-term period, net export is expected to have negative contribution to economic growth, amid deteriorated outlook for external demand growth, but which is expected to improve gradually (Chart 3.12). Real growth in export of goods and services in the 2020-2022 period is projected at 8.9% on average annually, due to the export of existing industrial facilities with foreign capital, increase of export potential in the country through FDI inflows, measures to boost exports, as well as the gradual recovery of some of the traditional export sectors. Projected growth of domestic demand and export activity condition stronger import of intermediary goods, capital goods and consumer goods. Hence, import of goods and services in the analysed period is expected to have average annual growth of 8.5% in real terms.

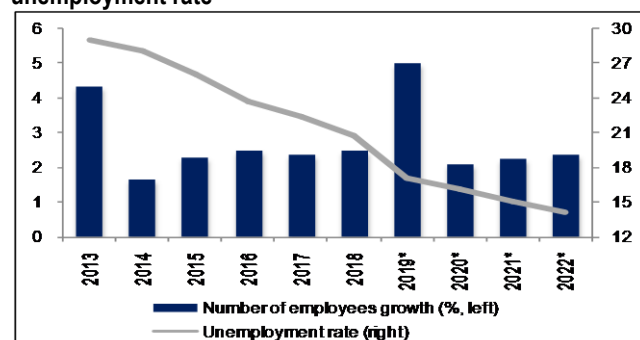
Labour Market. Anticipated growth in economic activity is expected to be accompanied by employment growth, supported by active employment measures and programs, as well as the support for domestic and foreign enterprises to create new jobs. According to the projections, in the 2020-2022 period, the number of employed is expected to experience average annual growth of 2.2%, which will contribute to the decrease of the average unemployment rate to 14.2% in 2022, while the average employment rate is expected to increase to 50.2%. Increase of the average net-wage in this period is expected to be 5.5% annually in nominal terms.

Sources of Growth. In 2019, in conditions of recovery of growth of investments in fixed assets and intensified growth of the number of employed persons, total factor productivity (TFP)¹¹ is expected to have negative contribution to the economic growth. Chart 3.14 shows the growth of both labour productivity and TFP in the 2013-2022 period. In the 2020-2022 period, growth of productivity of production factors is expected to move to the positive zone. In fact, TFP contribution to economic growth in this period has an average share of 24.5%. Labour is expected to contribute to economic growth with 35.8%. Physical capital, according to the projections on investment growth, in the analysed period, is expected to grow by 4.6% in average on annual basis, contributing with 39.7% to total economic growth.

Potential Growth. Calculation of potential output is basis for estimating the cyclical position of economy. Two methods have been used to calculate the potential output. The first group of methods is based on historical data on real GDP, i.e. group of statistical methods (a-theoretical), whereby Hodrick-Prescott (HP) filter and Christiano-Fitzgerald (CF) filter are applied, according to which potential GDP growth is estimated at 3.2%. According to the Production Function Approach (PFA), applied by the EC¹², potential GDP growth is estimated at 3.0%. Results from the calculation of potential output are presented in the charts below, as well as in Table 5 in Annex 3.

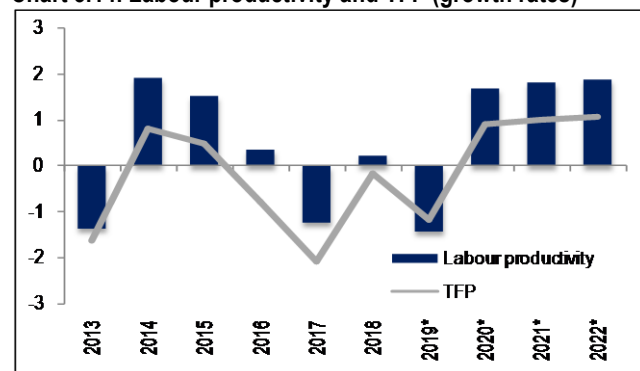
According to the projections on real GDP growth in the coming medium-term period and the estimations on the trends of the potential output, cyclical component of output is in the negative zone in 2019. In 2020, output gap is expected to move in the positive zone, in line with the calculations based upon the production function method, while according to the group of statistical methods, the production gap remains negative, though being significantly narrowed compared to 2019. In 2021 and 2022, positive

Chart 3. 13. Growth of number of employees and unemployment rate



Source: SSO and MoF forecast (* - forecast)

Chart 3.14. Labour productivity and TFP (growth rates)



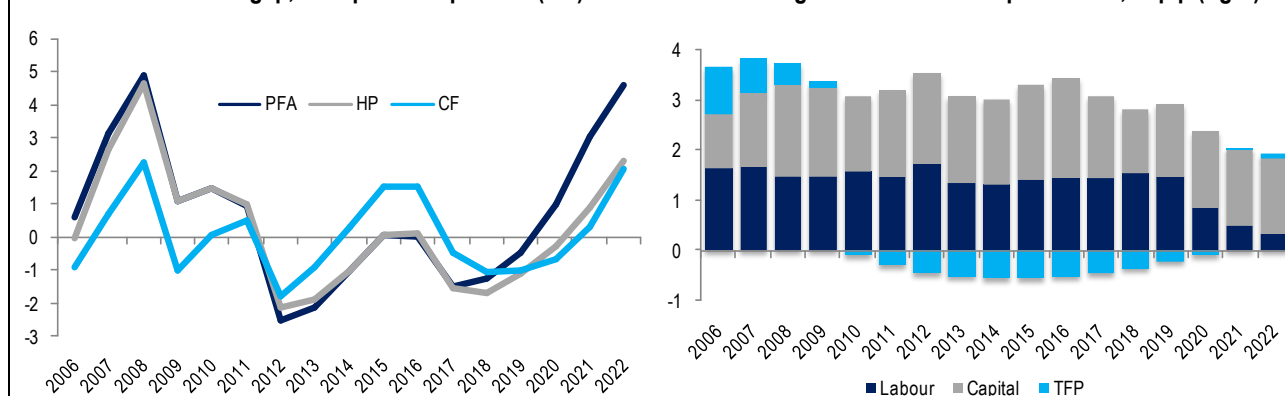
Source: Calculations of MoF (* - forecast)

¹¹ TFP is residual of growth of other factors to economic growth, labour and capital. As regards the calculation of physical capital, the so-called perpetual inventory method has been applied (see Berlemann and Wesselhöft, Estimating Aggregate Capital Stocks Using the Perpetual Inventory Method, 2014), by applying 4% depreciation rate to the accumulated capital. Average value of the share of income from capital is estimated at 35%, while the remainder of the income is from labour.

¹² Based on the study of Havik et al, The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps, 2014.

output gap is envisaged according to both types of methods, by which the calculations based upon the production function method suggest higher gap compared to the statistical methods.

Chart 3.15. Production gap, % of potential product (left) and contribution in growth of factors of production, in p.p.(right)



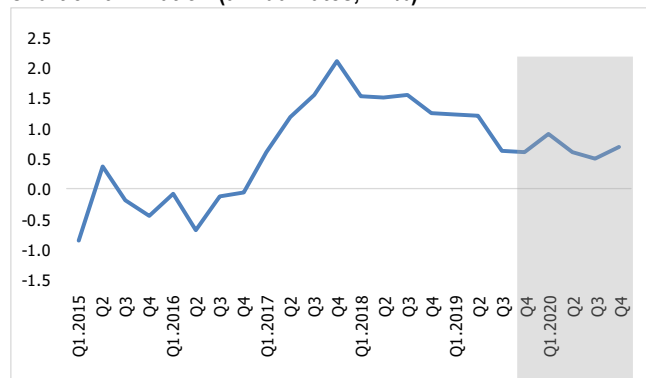
Source: Calculations of MoF

Inflation. Global and domestic inflation factors in the medium term point to moderate inflation trends. Foreign effective inflation¹³ for 2019 is estimated at 1.5% (which is slightly lower compared to last year's scenario of 1.8%). In 2020, foreign inflation is expected to slightly accelerate to 1.6%, and to reach 2% in 2021.

In the last quarter of 2019, the average annual inflation rate in the Macedonian economy is expected to remain low. Consequently, the average inflation rate in 2019 is expected to be around 1%, with moderate positive contribution of the core inflation and the food component, despite the negative changes in the energy component. Compared to last year's scenario (inflation of around 2%), the inflation expectations for 2019 in this scenario are lower, due to the lower performances in the first three quarters of the year, as well as the estimates for lower pressures from import prices on the domestic inflation. Significant pressures from the domestic demand are not expected.

In 2020, inflation is expected to moderately accelerate to 1.5%, given the positive contribution of core inflation as a result of the further acceleration of the growth of domestic demand, as well as the growth of food inflation, amid small negative effect of the energy component. Amid expected further acceleration of the domestic economic growth and moderate rise in world prices, in 2021, the inflation is forecasted to gravitate around the historical average of 2%, remaining similar in 2022. The main risk to the inflation forecast remains associated with the uncertainty regarding the future dynamics of the market prices of primary commodities, especially oil.

Chart 3.16. Inflation (annual rates, in %)

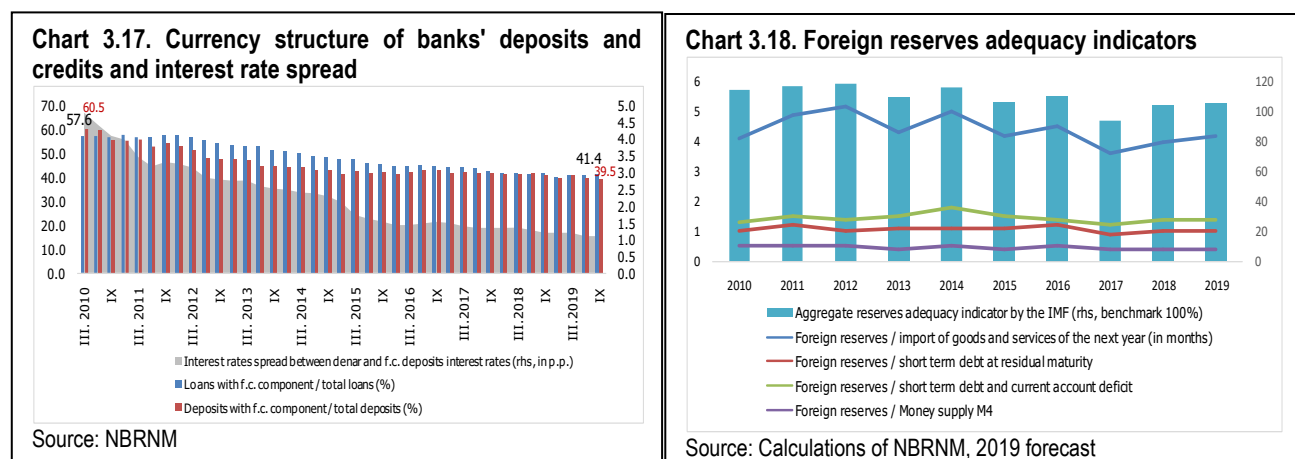


Source: SSO: October forecast of NBRNM for 2019-2020.

Monetary and exchange rate policies. Monetary policy is oriented towards preserving price stability by maintaining a stable exchange rate of the denar against the euro. Amid low and stable inflation, solid external position and stable foreign exchange market developments, as well as positive bank deposit and loan developments, the National Bank continued to conduct accommodative monetary policy. In March 2019, the policy rate was cut from 2.5% to 2.25%, which is a record low.

The National Bank on regular basis follows the movements in the currency structure of deposits and loans, as well as in the interest differential for instruments in domestic and foreign currency. In this light, multiple changes have been made in the reserve requirement rates in recent years, generally aimed towards cutting reserve requirement rates on denar liabilities (and in the longer term) which, along with the influence of other factors, were favorable for the dynamics and share of denar deposits. The multiyear trend of denarisation in the post-crisis period was interrupted in 2016 due to the

¹³The calculation of effective foreign inflation is derived from a weighted sum of the consumer price indices of nine countries - major exporters of products for personal consumption in the Republic of North Macedonia. Weighted structure is based on normalized shares of nominal imports from each country in the total nominal imports in the period 2010-2012.



increased internal uncertainty. In the next two years, this process stagnated and was reinforced again in 2019. Maintaining the benefits from de-euroisation in recent years in turn increases the credibility of the monetary policy that aims towards stability of the exchange rate of the denar against the euro. Also, a Denarisation Strategy was adopted at the end of 2018, which defines measures for comprehensive treatment of this issue, the implementation of which started in 2019.

Observing the set of monetary instruments, the measure that released banks from reserve requirements on loans to export and energy sector was in effect in 2019. This measure has been valid since early 2013, whereas it was extended several times (the latest being at the end of 2017) valid until the end of 2019.

In the next three years, the monetary policy will remain oriented towards preserving price stability by maintaining a stable exchange rate of the denar against the euro. The results of the models for estimating the equilibrium denar real effective exchange rate¹⁴ as of the last quarter of 2018, did not indicate major deviations from the equilibrium, and were maintained within acceptable range of +/-3% in the period 2003-2018, suggesting moderate exchange rate undervaluation during 2018¹⁵. Regarding the monetary policy conduct, we should mention the results of the monetary transmission models that, with the latest update as of 2018, indicate continuous improvement in the interest rate transmission channel from the policy rate to banks' interest rates (amid higher transmission effect on deposit rates).

Against the backdrop of turbulent external setup in recent period, the monetary policy has confirmed its flexibility and appropriately adjusted its monetary instruments towards promoting credit growth, strengthening denar deposit base in the long term, while achieving its primary and intermediary monetary objective. In this context, the monetary policy provided sufficient incentive and revived the credit growth, and some of the measures, particularly those related to the currency structure and savings maturity, are expected to produce effects in the period ahead. In 2018-2019, inflation remained low, under the dominant influence of global factors on the supply side and moderate growth in core inflation. Foreign reserves registered high growth and were maintained at an adequate level, as measured by different indicators, indicating readiness for absorption of potential shocks. According to the forecasts of other economic segments, in the next three years, we can expect low and stable inflation and generally favorable movements in the foreign exchange market, yet accompanied by more pronounced risks. Fiscal policy, and in particular the way of financing budget deficit and the implementation of the announced fiscal consolidation in the period ahead remain a significant factor for the monetary policy environment. External sector developments, import structure and effects on the foreign exchange market and foreign reserves, will be crucial for the monetary setup in future. In addition, there will be regular monitoring of the pace and structure of credit growth in terms of consumer lending vis-a-vis investment lending, and of the movement of deposits and interest rate spreads. Monetary authorities remain ready to respond appropriately, if necessary, to maintain price stability in the economy.

Bank deposit and loan forecast. For 2019, banks' deposit growth is expected to be maintained close to 10% per annum (growth of nearly 8% per annum was expected in the last year's scenario). According to the projected economic growth,

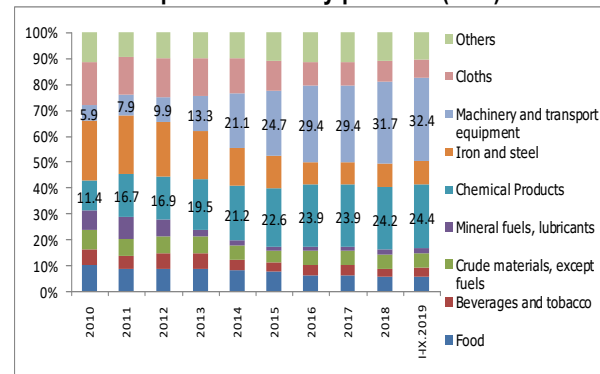
¹⁴ According to the BEER (behavioral equilibrium exchange rate) approach for assessment of the equilibrium denar exchange rate, which is based on a narrower definition of the real effective exchange rate and is designed on the basis of the five EU major trading partners of the Republic of North Macedonia. Models (set by different specification and estimated by various techniques), include productivity differential, trade openness, public consumption and total net foreign assets, as independent variables.

¹⁵ IMF's analyses also indicate no significant deviation in the real exchange rate (IMF Staff Report 2018 Article IV Consultation, January 2019, p.37). According to the IMF methodology, deviations from the equilibrium level of +/- 5% indicate that the external position is generally consistent with the fundamentals and there is adequate policy nexus.

the expected balance of payments inflows and the expectations of economic agents for the next three years, there are assumptions for maintenance of the propensity to save in banks, and accordingly, deposit growth of about 8.5% per annum for 2020-2021.

In 2019, loans registered moderate increase, with expectations for credit growth of 7% (without the effect of write offs) at the end of the year (around 8% in the last year's scenario). The credit activity of the banking sector in the next three years is expected to be an important factor supporting the growth of private consumption and investment. In the period 2020-2022, moderate acceleration of credit growth is expected at a rate of 8% per annum, with expectations for increased credit supply and higher demand. Thus, amid solid solvency and liquidity, stronger competition, stable environment and sufficiently available sources of financing, banks are expected to increase credit supply for both the households and the corporate sector. Higher disposable income and favorable expectations are estimated to further support the credit demand and the credit standing of economic agents.

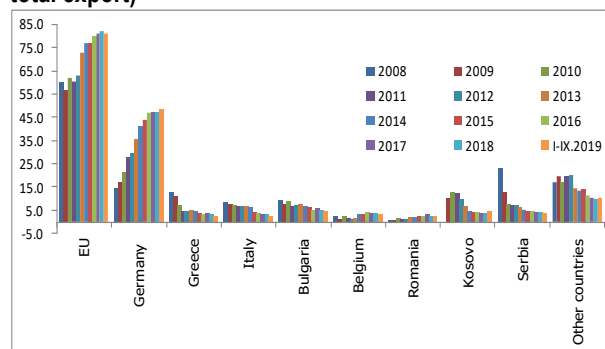
Chart 3. 19. Export structure by products (in %)



Source: SSO

External Sector. Structural changes in the economy over the last few years has strengthened the exports and improved the currency account balance. Current account deficit in the period 2010-2018 averaged 1.8% of GDP (despite the previous multiyear average of about 6%). Stable current account performance points to strengthened economic fundamentals and greater external sector resilience to domestic and external shocks. According to the actual developments and estimates for the last quarter of 2019, the current account deficit for 2019 is estimated at 1.3% of GDP, which is wider compared to the previous year (0.1% of GDP), yet moderate and within the multiyear average. The estimated deficit for 2019 is almost as expected in the last year's macroeconomic scenario presented in the last year's ERP (1.5% of GDP).

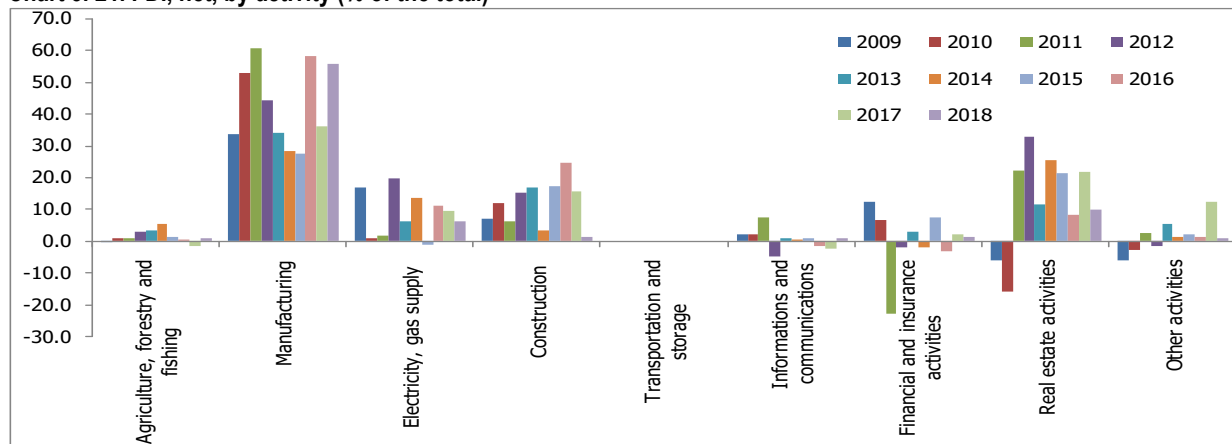
Chart 3. 20. Geographical breakdown of the export (% of total export)



Source: SSO

In the period January-September 2019, the total trade deficit¹⁶ widened by 5.7%, amid faster annual export growth of 13.2%, compared to import growth of 11.4% (with slightly higher absolute import growth). The increase in exports is mainly due to higher export of machinery and transport equipment, and chemicals, which mainly reflects the effect of the

Chart 3. 21. FDI, net, by activity (% of the total)



Source: NBRNM

¹⁶ According to the foreign trade statistics, where the imports are presented on c.i.f. basis.

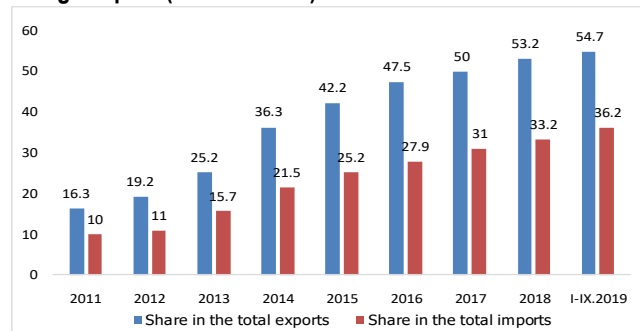
new foreign-owned export facilities. Positive contribution was also made by some traditional sectors (export of food, energy, iron and steel, in particular). Imports increased mainly due to the higher import of raw materials, equipment and energy. The highest trade deficit in goods in the period under observation was registered in the trade with the Great Britain, whereas the highest surplus was registered in the trade with Germany.

Analysing the structure, as a result of the new capacities in the economy, the export structure significantly improved. It is due to the gradual increase in the share of products with higher added value in exports, mainly chemicals, and machinery and transport equipment, which reached 56.8% at the end of September 2019. Changes in export structure correspond with foreign direct investment, which in recent years, were mainly concentrated in these sectors. On the other hand, there was a decrease in the share of traditional export products - iron and steel, and textile products (with smaller reduction in textiles versus more pronounced decline in iron and steel), with their joint share declining from the dominant 40% in 2010 to 16% at the end of September 2019, which confirms the larger production dispersion and modernisation of the export structure. It should be born in mind that the unfavorable trends in the export of iron and steel in times of global crisis were largely influenced by the unfavorable constellation in the international market of metals, which resulted in its fall. In 2017, given the more conducive world market price movements and the global recovery, the share of export of iron and steel in total exports stabilised, and in 2018¹⁷, it slightly increased and remained at that level throughout 2019.

Trade activity of new companies in foreign ownership has been intensifying. The share of exports of these companies in total exports of goods in the economy grew steadily, reaching about 55% of total exports in the first nine months of 2019. Given that these companies import raw materials and equipment, the share of imports of these facilities in total import of goods also increased, yet sustaining at a lower level than the growth of exports (about 36% share in total imports in the first nine months of 2019).¹⁸ The new foreign-owned companies noted a positive net balance in the foreign trade, which averaged 0.4% of GDP in the period 2011-2013, while in the next four years it intensified and reached 5.3% of GDP in 2018 (3.9% of GDP in 2017).

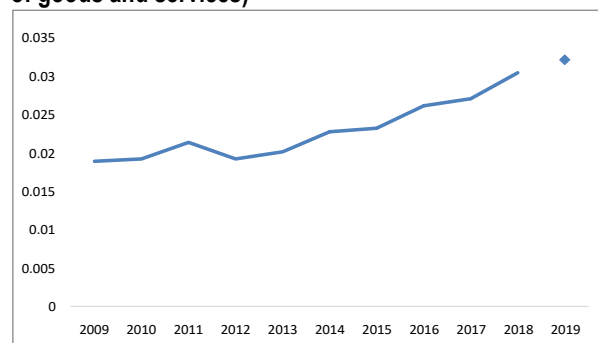
Besides the direct effects on exports and employment, FDIs in the tradeable sector have multiple positive effects on the economy. It mainly implies possibilities of transfer of new technologies, modernisation of production structure, and increased demand for raw materials from local companies that improves the quality of local suppliers (particularly by forcing implementation of standards in their businesses). It is estimated that there is room for strengthening the links between foreign companies and local suppliers, which would additionally increase the secondary effects of FDI on the economy.

Chart 3.22. Exports and imports of the new companies with foreign capital (% of the total)



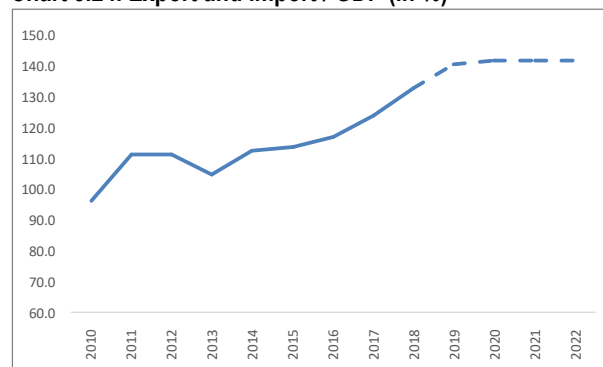
Source: NBRNM and SSO

Chart 3. 23. Export market share (% of the world export of goods and services)



Source: IMF, SSO; NBRNM forecast for 2019.

Chart 3.24. Export and import / GDP (in %)



Source: SSO; NBRNM forecast for the period 2019-2022.

¹⁷ Including the restart of a large facility.

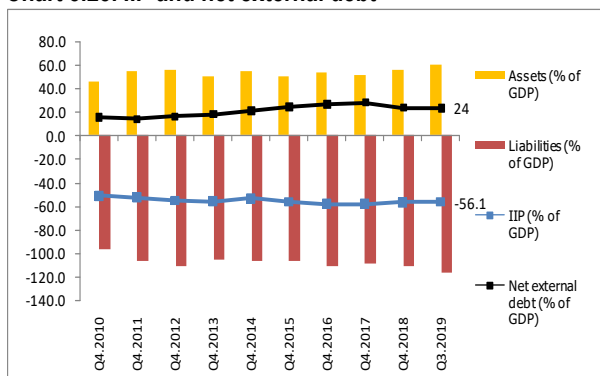
¹⁸ Source: NBRNM. According to the foreign trade statistics (customs declarations), where export of goods is presented on f.o.b. basis, while import of goods is on c.i.f. basis.

The analysis of geographic distribution of Macedonian exports confirms the EU dominance as a major export destination, which in the period January-September 2019 imported around 81% of the Macedonian exports, which is a significant increase compared to 2008 when nearly 60% of the Macedonian exports was oriented towards the EU. Within the EU, in recent years, the share of exports to Germany have seen a significant growth, with positive trends in the exports to Belgium, Hungary and Romania, amid low initial shares, and decreased share in exports to Greece, Italy and Bulgaria. The total trade with the EU in the period January - September 2019 accounts for about 71% of the total trade of the Republic of North Macedonia, being almost balanced amid similar export and import changes (slight surplus in the same period last year).

In the period January-September 2019, the real effective exchange rate (REER)¹⁹ of the denar deflated by CPI registered an annual depreciation of 1.2%, while excluding primary commodities, the denar REER deflated by the same price index depreciated by 0.5%, compared to the same period last year. Such movements in the two indices reflected the favorable effect of the relative prices and the moderate appreciation of the nominal effective exchange rate of the denar against the currencies of some of the trading partners. Nominal unit labour cost increased by 7.8% p.a. in the first three quarters of 2019, amid wage growth and small productivity reduction (reflecting the faster employment growth).

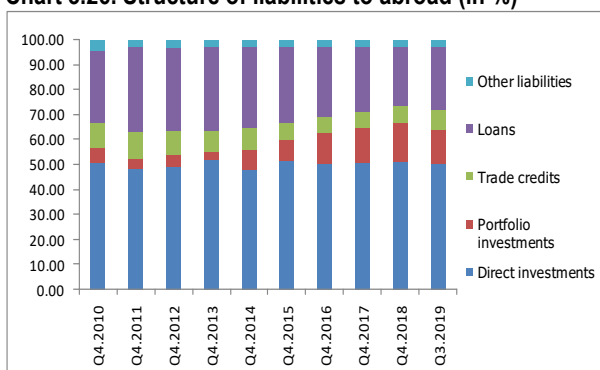
The export market share of the economy in the world exports increased in 2018 as a continuation of the growth in the previous period, from 2013 onwards. In 2019, the export market share in the world export of goods and services is expected to continue moderately accelerating, given the solid increase in the Macedonian exports despite the small deceleration of the world exports. The degree of trade openness of the Macedonian economy is generally high, with a marked upward trend in the period 2014 - 2019, estimated to reach around 140% of GDP in 2019. Over the next three years, the degree of trade openness of the economy is estimated to remain relatively stable.

Chart 3.25. IIP and net external debt



Source: NBRNM and SSO

Chart 3.26. Structure of liabilities to abroad (in %)



Source: NBRNM

International investment position and external debt. At the end of the third quarter of 2019, the net negative international investment position (IIP) increased by 3.3% compared to the end of 2018, amid higher increase in external liabilities compared to the increase in assets. The negative IIP expanded amid increased negative net position of deposit-taking corporations and other sectors, which was partially offset by the increase in the positive IIP of the monetary authority (reflecting the growth of foreign reserves), as well as the slightly decreased negative net position of the government²⁰. In September

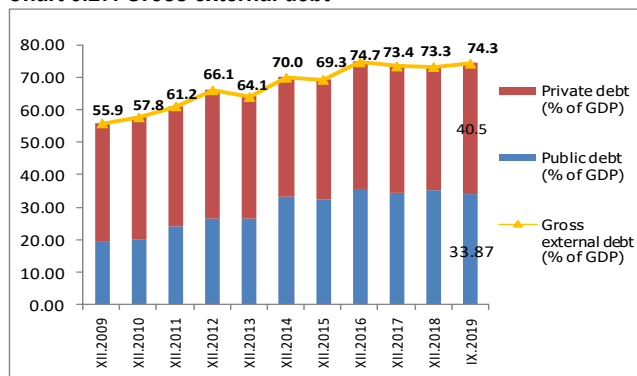
2019, the negative IIP was 56.1% of the estimated GDP, and compared to the end of 2018, it narrowed by 0.3 percentage points of GDP.

Given the significant share of foreign direct investment as external liabilities (about 50% in recent years), typical for the converging countries, the analysis of external position also needs to consider other variables, such as net external debt, which includes only net debt instruments. At the end of the third quarter of 2019, net external debt accounted for 24% of the estimated GDP, down 0.3 percentage points from the end of 2018, which is entirely due to the decline in public net debt, whereas the net private debt slightly increased.

¹⁹ Within the REER, the calculation of the nominal effective exchange rate and relative prices includes 15 major trade partners of the Republic of North Macedonia by their share in foreign trade in the period 2010-2012 and a base period 2010.

²⁰ Government sector includes central government, local government and social security funds.

Chart 3.27. Gross external debt



Source: NBRNM

At the end of the third quarter of 2019, the gross external debt was EUR 8,268 million (without the NBRNM repo transactions, which appear in almost the same amount on both the side of the liabilities to and the claims on non-residents). The gross debt equaled 74.3% of GDP and compared to the end of 2018, it is higher by 1 percentage point of GDP. This increase was due to the private sector debt, which increased by 2.3 percentage points of GDP, amid public debt decline of 1.2 percentage points of GDP. The long-term debt, occupying approximately 70%, still dominates the debt structure.

At the end of the third quarter of 2019, the coverage of short-term debt by residual maturity with foreign

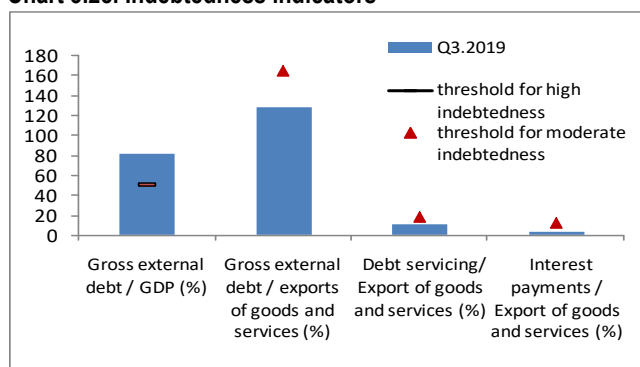
reserves was nearly 1, which indicates solid liquidity in terms of external payments same as at the end 2018, amid higher short-term debt by residual maturity and solid increase in foreign reserves. The analysis of foreign indebtedness²¹ indicates a low indebtedness based on three indicators (gross external debt, debt servicing and repayment of interest, each relative to export of goods and services), whereas only gross debt-to-GDP indicates high indebtedness. According to the financial account forecast for 2019-2022, compared to 2018, all debt indicators are expected to improve in the period ahead (given the expected export strengthening). In this context, gross debt to GDP ratio would increase until 2020, and then moderately slow down. Observing the maturity structure, long-term debt is expected to remain prevalent.

Forecasts of the Balance of Payments. In the next period, the global economy is expected to enhance at a slower pace, accompanied by risks. The foreign effective demand for Macedonian products²² was revised downward during 2019 and

was estimated to increase by 1.1%, which is less compared to the expectations in last year's scenario (2%). The downward revision is largely due to the lower expected economic growth of Germany. The economic activity of the trading partners for 2020 is expected to accelerate to 1.3%, and for 2021, the growth of foreign demand would further accelerate to 1.6%.

The latest external sector estimates for the next three years suggest moderate current account deficit below 2% of GDP. In the next three years, the needs for external funding are expected to be covered by external borrowing and foreign direct investments. It is expected that capital inflows will ensure maintenance of adequate level of foreign reserves of about four-

Chart 3.28. Indebtedness indicators



Source: Calculations of NBRNM

month cover of import of goods and services for the next year.

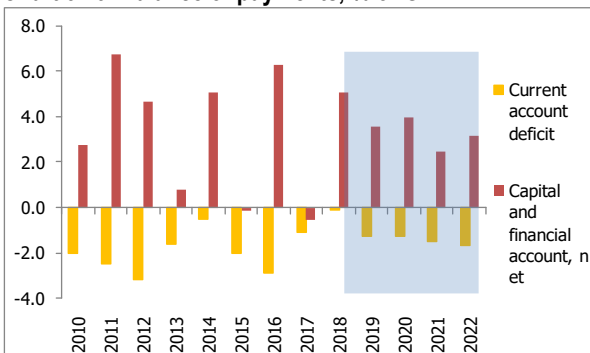
Along with the increase in foreign demand (although moderate), with further positive effect of the existing foreign-owned companies and larger utilisation of their facilities, as well as those pending to be established, in the next three years, the exports of goods and services are expected to continue increasing, although at a slower pace compared to the previous three-year period. In the next three years, imports would experience small changes, mainly driven by the increased imports for the purposes of export oriented production and investment consumption as well as higher energy imports. For 2019, trade deficit in goods and services is expected to moderately widen to 13.4% of GDP (12.8% of GDP in 2018). This assessment is based on the estimated moderately higher trade deficit in goods, versus the slightly higher surplus in services. The moderate expansion of the trade balance in goods is mainly due to the moderate expansion of the energy trade balance, amid slight expansion of the non-energy balance (amid import-dependent export). The estimated deficit in 2019 is close to the expectations of the last year's scenario (12.9% of GDP). The slight widening of the trade deficit is estimated as short-lived. Thus in 2020, the deficit is expected to be moderately lower to 13% of GDP, and in the next two

²¹ Tailored use of the World Bank method, where the calculation of the indicators is based on three-year moving averages of GDP and exports of goods and services, as denominators. The methodology also defines criteria of indebtedness, as reference values for indebtedness level.

²² The calculation of external demand takes into account the growth rates of GDP (Consensus Forecast) of the ten major trading partners, according to their share in the Macedonian exports in the period 2010-2012.

years, the gradual narrowing would continue to 12.2% of GDP in 2022. In this light, energy trade deficit is expected to narrow in line with the expected trends in world crude oil prices, and non-energy deficit to further narrow as a result of new and traditional export activities. Favorable movements in the trade in goods are expected to be fed by positive shifts in the service balance, amid enhanced export outlooks for the service sector (especially in the area of processing services rendered, transport and travel services, IT services).

Chart 3.29. Balance of payments, % of GDP



Source: NBRNM. Estimate for 2019 and forecast for 2020-2022

A significant part of the trade deficit will still be financed by inflows of secondary income (which primarily reflects the net purchase on the currency exchange market as the main component of private transfers). Net inflows of secondary income in 2019 are estimated at 16.1% of GDP, which is similar to 2018 (16.8% of GDP). In the next three years, net inflows in the secondary income are expected to register a mild declining tendency (to 15.1% of GDP in 2022). The primary income deficit for 2019 is estimated at 4% of GDP, while in the next three years, it is expected to increase moderately and to be maintained at nearly 5% of GDP, in line with the forecasts for growth in the foreign investors' capital income.

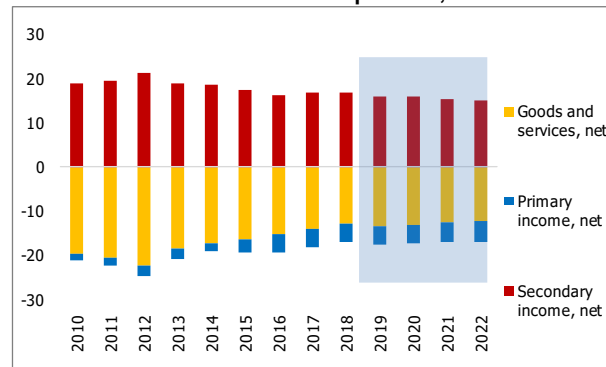
Amid such current account forecast, the current account deficit is estimated at 1.3% of GDP for 2019, and would remain relatively stable below 2% of GDP in the next three years (1.7% of GDP in 2022). In addition, the moderate narrowing of trade deficit in goods and services amid improved trade of both components is expected to be partially offset by the moderate expansion of the primary income deficit and the expectations for further slight slowdown in inflows of private transfers. The reduction of deficit in goods and services to around 12-13% of GDP is in line with the expected medium-term effects of FDI inflows in recent years in the tradeable sector (as well as the expectations for further inflows) that have already changed the structure of the economy, contributed to greater dispersion and modernisation of the production structure, and consequently, given the strengthened export potential and mainly conducive external environment, narrowed and stabilised trade deficit (as a comparison, the trade deficit in goods and services in 2009 was 22.7% of GDP).

In 2019 and the next three years, capital inflows will mainly generate from the expected FDI and the expected external public and private borrowing. In 2019, FDI is estimated at 2.6% of GDP, which is a slowdown compared to 2018, when there was a relatively high inflow (5.6% of GDP), partly due to one-off factors. The domestic economy growth and the stabilisation of the domestic political situation, along with the moderate growth of global economy are expected to create stable perceptions among investors and FDI at about 3.5% of GDP in the next three years. This forecast is similar to last year's scenario and is due to the continuity of FDI inflows (including the years of internal political crisis) as well as to expectations for reinvesting part of the earnings of the existing foreign companies. In addition, such a forecast is supported by the ongoing policies to attract new FDI and further reforms for improving business environment. Amid FDI net inflows, loans and trade credits, there are estimates for net inflows on the financial account of 3.6% of GDP in 2019, which would increase to 4% of GDP in 2020. According to the expected government deleverage based on the issued Eurobond, in 2021 the net financial inflows would be maintained at a lower level (2.5% of GDP), and would be reinforced next year (above 3% of GDP). Cumulatively, forecasted flows in the current and financial account are expected to ensure additional accumulation of foreign reserves in the next three years and maintain adequate coverage of the average imports of each coming year.

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Financial Sector. In 2020, the activities will be further focused on retaining the financial system stability, its further development, increase of the intermediation, promotion of transparency, as well as strengthening of institutional and administrative capacities. Therefore, the following activities are planned to be realised:

Chart 3. 30. Current account components, % of GDP



Source: NBRNM. Estimate for 2019 and forecast for 2020-2022

-To adopt new Banking Law will be adopted, by which, banking regulations will be aligned with the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms.

- To adopt the 2014/59/EU Bank Recovery and Resolution Directive, thus creating conditions for quick response by supervisory bodies in case of risks in the banks' operations. This Law will be adopted after adoption of a new/amendments to the Banking Law in order to regulate bank recovery plans, promote early intervention plans etc.

- To adopt the new Law on Payment Services and Payment Systems. During July and August 2019, three public debates were organised, during which the following was presented, discussed and argued: draft solutions under the Draft Law, transposing the Directive (2015/2366/EU) on payment services, E-Money Directive (2009/110/EU), Settlement Finality Directive (98/26,2009/44), Directive (2014/92/EU) on the comparability of fees related to payment systems, payment account switching and access to payment systems with basic features, Regulation (2015/751/EU) on interchange fees for card-based payment transactions and Regulation (260/2012) establishing technical and business requirements for credit transfers and direct debits in euro, as regards the provisions related to the direct debits.

There is ongoing implementation of some of the comments, remarks and proposals given by the stakeholders under the new wording of the Draft Law on Payment Services and Payment Systems.

- In 2020, two new laws in the field of capital market will be adopted (Law on Financial Instruments and Law on Prospectus and Transparency Obligations). IPA Project has been approved for the preparation of these laws. In May 2019, working group was established, composed of representatives of all stakeholders (Securities and Exchange Commission, Macedonian Stock Exchange, Central Securities Depository, National Bank of the Republic of North Macedonia and Association of Brokers), working on preparing the final wording of the respective laws.

The new legal framework will create conditions for development of new products and services on the financial market in the Republic of North Macedonia, introduce new trading markets, provide higher level of market stability, strengthen the powers of supervisory bodies, enhance transparency by providing high-quality information and improve the protection of investors and all market participants.

- In 2020, the legislation in the field of insurance will be harmonised with the Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), thus achieving compatibility of domestic insurance industry with the one in the EU Member States.

3.3 Alternative scenario and risks

Alternative Scenarios. Two alternative scenarios will be explained below, being related to some of the below mentioned risks.

The first alternative macroeconomic scenario assumes slower growth of foreign demand during the forecasting period, especially the economic activity in the EU, as our most important trading partner. Such scenario implies slower growth of export activity of the industrial production as well, especially of the activities that are strongly related to the international trade flows and policies. Hence, projected real growth of export was lower by 2.2 p.p. in average annually compared to the baseline scenario, i.e. average annual growth of 6.7% was projected in the forecasting period.

Such scenario also assumes unfavourable effects on the inflow of capital in the country in the form of direct investments, implying slower growth of gross investments in the medium term, as a result of the lower growth of investments in the construction sector, as well as the import of investment goods. As result thereof, the projection on real growth of gross investments amount to 5.8% in average annually in the forecasting period, compared to the projected growth of 7.8% in line with the baseline scenario. Lower growth of gross investments is mainly due to the slower growth of private investments, and to a lesser extent to the growth of public investments.

Effects on the consumption are expected to be smaller in relation to the other components. Hence, real growth of public consumption is projected at 1.4%, while real growth of private consumption is projected at 2.3% in average annually in the forecasting period. Lower growth of both export and domestic demand implies slower growth of import which, in the analysed period, is envisaged to surge by 6.4% in average annually, as opposed to the projected growth of 8.5% according to the baseline scenario. Such adjustments with respect to GDP components imply economic growth of 2.9% in 2020, 3.1% in 2021 and 3.2% in 2022.

The second alternative macroeconomic scenario is related to the risk of weaker contribution of domestic demand to the economic growth, amid lower realisation of infrastructure projects and execution of capital expenditures, as well as

weaker impact from the support to the enterprises' investment activity. Under such conditions, real growth of gross investments is projected at 4% in average annually in the forecasting period, being lower by 3.8 p.p. in relation to projection according to the baseline scenario, whereby it is estimated that most of this effect is due to public investments. Thereby, weaker growth of investments implies lower real growth of import which, under this scenario, is 7.5% in average annually in the forecasting period, compared to the 8.5% p.p. in line with the baseline scenario. Effects on the export in this period are expected to be somewhat lower, whereby net export has lower significant contribution to the economic growth in 2020 and 2021 under the baseline scenario, having slight positive contribution in 2022. However, more favourable net export demand only partially offsets the negative effect of the weaker growth of investments on domestic demand and economic growth. Thus, under this scenario, growth of economic activity is projected at 3.1% in 2020, 3.4% in 2021 and 3.6% in 2022.

As regards labour market, sluggish economic growth implies slower growth of the number of employees and slower pace of reduction of unemployment rate compared to the baseline scenario. Hence, according to the first alternative scenario, average annual increase of the number of employees is projected to be 1.7% in the forecasting period, while unemployment rate is projected to decline to 14.9% in 2022. According to the second alternative scenario, growth of employment in the forecasting period is projected to be 1.8% in average annually, resulting in decline of unemployment rate to 14.7% in 2022.

As regards inflation rate, it is assumed that trends of primary commodity prices on the global stock markets remain unchanged in relation to the baseline scenario, i.e. we assume similar projections as regards the developments on the supply side and the level of foreign prices. Slower economic growth in the forecasting period, according to both alternative scenarios, implies that the inflationary pressures by the demand are lower compared to the baseline scenario, taking into account that the estimated production gap in both scenarios is significantly lower.

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

Risks. Prospects for growth of Macedonian economy are accompanied by risks, both foreign and domestic ones, which may affect the confidence of investors, the dynamics of the foreign trade, and thus the economic growth and job creation.

Main foreign risks are related to the deteriorated prospects for growth of the economic activity in the EU, especially in Germany. Macedonian economy, having high level of trade openness is under the influence of the international trade flows and policies, especially those referring to specific activities such as automotive industry. Thus, recent slowdown of Germany industry, in particular the manufacture of cars, is turning into a serious risk for the economies with strong automotive and automotive parts industry, such as North Macedonia. Hence, deteriorated prospects for global trade growth, as well as increasing signs of slowdown of Germany economy, especially of Manufacturing, may significantly affect the export of the country.

Projected growth of the domestic demand, which is expected to significantly contribute to boosting the economic activity, is related to risks, which refer primarily to the increase of gross investments, i.e. realisation of infrastructure projects, as well as the potential effects from the support to the investment activity of both the domestic and the foreign companies on the economy. Thereby, maintenance of the political stability in the country is a key precondition for achieving the projected growth of investments.

Long-term economic growth is to a great extent conditioned from the dynamics of implementation of the necessary structural reforms, which if enhanced, will provide for intensifying the economic growth, while the delay in resolving the structural drawbacks could hinder the faster and convergent economic growth of the country.

The main risks to the given external sector scenario in the period ahead in part arise from the global surrounding, particularly the growth pace of the major trading partners. Compared to the last year's scenario, the risks of the global environment are even more pronounced, in line with the overall global environment. Any weaker external demand may have adverse effects on the presence of domestic exporters in foreign markets. The weaker global outlook and the potential financial market instability could increase investors' risk aversion and consequently, risks of lower capital inflows of non-debt financing or possible capital outflows for funding parent companies. It is estimated that the direct effects of Brexit on the Macedonian economy would be small, while potential risk is the second-round effect through the EU, as our major trading partner. In addition, the movement of world prices is accompanied by uncertainty, with possible effects on domestic inflation and export prices. Although the expected movements in the world metal prices for the next period are in a different direction, it should be noted that favorable movements are expected in nickel prices, which is relevant for the growth and export outlook of the domestic metal industry as a traditional export sector, although with significantly reduced share in recent years (in the context of structural changes in the economy and already dominant share of higher value-

added industries). In this context, we should mention the uncertainty arising from the global trade war and the possible consequences for the small open economies. The recovery of the German economy is a particular risk, given the strong trade link with this country, through value-chain companies, although no effects were experienced during 2019.

The assessment and extent of the effects of new export capacities in the economy is crucial for the trade balance forecast. The current scenario incorporates an expectation that in the next three years some of the existing companies will continue to increase the utilisation of the production potential, while the effect will gradually decrease. In addition, upward risk remains especially to companies that started or accelerated their activities in the last few years. In the medium term, changes in production structure are expected to further diversify exports and improve export performance, which is conducive to strengthening the resilience of the economy to external shocks. The forecast of net inflows from secondary income (within them, net purchased currency on the exchange market) shows a gradual slowdown in their share in GDP, which can generally be regarded as conservative. The forecast of net inflows from FDI considers the past performance, and is assessed as moderate, taking into account the continuity of these inflows (at a moderate level, even in the years of crisis), the expectations for reinvestment of some of the earnings of the existing companies with foreign capital, as well as the continuation of the FDI attracting policies.

Risks to inflation forecast are mainly conditioned upon the assumptions about the movements in prices of primary commodities, potential changes in regulated prices and possible pass-through effect on other prices in the economy. Risks to the forecasted medium-term inflation path are mainly related to the external factors on the supply side.

Observing the expectations for banks' credit growth, the pace of domestic economy and the loan portfolio quality would, as before, affect the banks' risk perceptions and consequently, lending. Risks arising from business strategies of foreign banking groups, although lower recently, and changes in the regulatory requirements could also affect the businesses of their entities in the country.

In recent years, there have been certain domestic political risks, yet with limited impact on the economy. Their future presence, if any, may increase the restraint of economic agents, primarily in the short term, even though the economy has already shown some vitality in this regard. On the other hand, the improved Euro-Atlantic perspectives point to potential upward risks to the scenario. The fore mentioned risks to the macroeconomic scenario for the next three years²³ entail constant monitoring of the changes in the external and domestic economic setup in the period ahead and timely taking of adequate measures by policy makers.

4. Fiscal framework

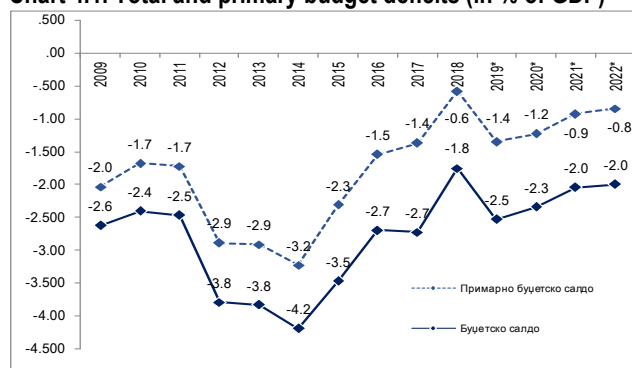
4.1 Fiscal Strategy²⁴ and Medium-Term Objectives

Fiscal policy in the 2020 - 2022 period reflects strengthened public finance management and fiscal sustainability, contributing to preserving macroeconomic stability, further fiscal consolidation, i.e. maintaining low budget deficit.

Medium-term priorities will focus on increasing the competitiveness of the economy and the employment, creating a favourable business climate, supporting and developing SMEs, improving social safety and protection, developing innovation activity, as well as underpinning the economy with significant investments in infrastructure projects.

Annual growth rate of total budget expenditures of the Republic of North Macedonia will gradually drop from 5% in 2020 to 4.4% in 2022 in the next medium-term period. Coupled with the expected revenue collection, this will result in gradual narrowing of the overall budget deficit from 2.3% of GDP in 2020 to 2% in 2021 and 2022. Primary budget deficit will also reduce from 1.2% of GDP in 2020 to 0.9% and 0.8% on 2021 and 2022, respectively. Public debt, in the medium run, will reach 50.9% of GDP in 2021 as a result of the intensified capital projects, afterwards dropping to 50.4% of GDP in 2022.

Chart 4.1. Total and primary budget deficits (in % of GDP)



Source: MoF, * - forecast

²³ The external and monetary sectors forecasts relies on the 2019 Budget and the 2020-2022 Fiscal Strategy.

²⁴ Revised 2020-2022 Fiscal Strategy is published on the website of the Ministry of Finance

<https://finance.gov.mk/files/u6/REVIDIRANA%20Fiskalna%20Strategija%20na%20RSM%202020-2022%20-%2012.12.2019.pdf>

Table 4.1. Consolidated general government budget (Denar million)

	2020	2021	2022
Consolidated general government budget - revenues	237,023	248,043	258,280
% of GDP	32.0	31.5	30.8
Consolidated general government budget - expenditures	254,408	264,148	275,063
% of GDP	34.4	33.6	32.8
Consolidated general government budget - balance	-17,385	-16,105	-16,783
% of GDP	-2.3	-2.0	-2.0
Central Budget - revenues	129,138	135,518	141,057
% of GDP	17.5	17.2	16.8
Central Budget - expenditures	146,165	151,613	157,830
% of GDP	19.8	19.3	18.8
Central Budget - balance	-17,027	-16,095	-16,773
% of GDP	-2.3	-2.0	-2.0
Budget Funds - revenues	69,095	73,472	77,620
% of GDP	9.3	9.3	9.3
Budget Funds - expenditures	69,453	73,482	77,630
% of GDP	9.4	9.3	9.3
Budget funds - balance	-358	-10	-10
% of GDP	0.0	0.0	0.0
Local government budget - revenues	38,790	39,053	39,603
% of GDP	5.2	5.0	4.7
Local government budget - expenditures	38,790	39,053	39,603
% of GDP	5.2	5.0	4.7
Local government budget - balance	0	0	0
% of GDP	0.0	0.0	0.0

Source: Ministry of Finance

4.2 Budget implementation in 2019

In the period January - October 2019, total budget revenues were collected in the amount of Denar 166.8 billion (79.2% of 2019 projections)²⁵, being by 8.6% higher compared to the budget revenues collected in the same period in 2018. Tax revenues and contributions accounted for 88.1% of total revenues. Tax revenues and contributions were collected in the amount of Denar 147 billion, i.e. 79.9% of the 2019 Budget, i.e. they were higher by 5.5% in relation to the same period in 2018. Tax revenues were collected in the amount of Denar 96.7 billion, being higher by 3.5% in relation to the same period in 2018. Social insurance contributions were collected in the amount of Denar 50.3 billion (81.9% of the projections), and they were higher by 9.7% compared to the social insurance contributions collected in the same period in 2018.

In the period January - October 2019, total expenditures of the Budget of the Republic of North Macedonia were executed in the amount of Denar 172.1 billion (75.4% of the projections), being higher by 7.9% compared to the budget expenditures executed in the same period in 2018. Thus, funds in the amount of Denar 162.9 billion were spent for current expenditures or by 7.7% more compared to last year, while funds in the amount of Denar 9.3 billion (40.8% of the annual projections) were spent for capital expenditures.

Thus, budget deficit in the period January - October 2019 amounted to Denar 5.4 billion, accounting for 0.8% of the 2019 projected GDP. Primary balance as of the analysed period inclusive, accounted for 0.2% of the projected GDP.

Table 4.2. 2019 Budget of the Republic of North Macedonia

(Denar million)	2019 Budget	Realisation in the period January - October 2019
1. Total revenues	210,551	166,779
1.1. Tax revenues and contributions	184,037	147,010
1.1. 1 Tax revenues	122,577	96,698
1.1. 2 Contributions	61,460	50,312
1. 2. Non-tax revenues	19,145	15,390

²⁵ In line with the 2019 Supplementary Budget of RNM

1.3. Capital revenues	2,026	1,444
1.4. Donations	5,343	2,935
2. Total expenditures	228,251	172,138
2.1. Current expenditures	205,542	162,874
2.1.1 Wages and allowances	28,423	22,921
2.1.2 Goods and services	19,284	12,378
2.1.3 Transfers	149,579	120,554
2.1.4 Interests	8,256	7,021
2.2. Capital expenditures	22,709	9,264
3. Deficit	-17,700	-5,359
4. Deficit financing	17,700	5,359
4.1 Inflows	34,007	19,620
4.1.1 Domestic sources	19,404	15,390
4.1.2 External sources	10,140	8,693
4.1.3 Depoits ("-" is accumulation of account)	4,464	-4,463
4.2 Outflows	16,307	14,261
4.2.1 Repayment upon domestic borrowing	10,320	9,962
4.2.2 Repayment upon foreign borrowing	5,987	4,299

Source: Ministry of Finance

4.3. Budget Plans for 2020

Total revenues of the 2020 consolidated budget are projected at Denar 222.3 billion, whereby expenditures are projected at Denar 239.7 billion.

Such projected revenues and expenditures result in reducing the budget deficit to 2.3% of GDP or Denar 17,385 million in absolute terms. Projected deficit is in line with the previous 2020-2022 Fiscal Strategy, confirming the strong commitment to fiscal consolidation, accompanied by further budget discipline and provided significant fiscal room to support domestic economy and citizens and infrastructure projects.

2020 Budget revenue projections are based upon:

- revenue collection in the current 2019,
- expectations for economic performance in the next year,
- projected effect from the increase of social contributions,
- slight easing of tax policy, at the same adjusting certain tax rates, which is expected to cause multiple effect, i.e. - it is envisaged to provide greater tax coverage, fair and streamlined administrative procedures, as well as support to the private sector, which would result in reducing the tax evasion, as well as
- strengthening the mechanisms for reducing the informal economy.

2020 tax revenues are projected at Denar 130.1 billion on the basis of the above-mentioned assumptions. VAT accounted for the most of the projected tax revenues, accounting for 42.8%, while excise duties accounted for 22.2%.

Under 2020 Budget, Denar 17.3 billion is projected to be generated on the basis of non-tax revenues (administrative fees, concessions and other non-tax revenues) and Denar 2.2 billion such as capital revenues (on the basis of sale flats and land and on the basis of planned dividend by AD Macedonian Telecom).

Table 4.3. Budget of the Republic of North Macedonia (Denar million)

(Denar million)	2019 Budget	2020 Budget	Absolute change 2020-2019	2020/2019 (%)
Total revenues	210,551	222,308	11,757	5.6
Tax revenues and contributions	184,037	197,162	13,125	7.7
Tax revenues	122,577	130,129	7,552	6.2
Contributions	61,460	67,033	5,573	9.1
Non-tax revenues	19,145	17,322	-1,823	-9.5
Capital revenues	2,026	2,183	157	7.7
Donations	5,343	5,641	298	5.6
Total expenditures	228,251	239,693	11,442	5.0
Current expenditures	205,542	215,922	10,380	5.1

Wages and allowances	28,423	30,615	2,192	7.7
Goods and services	19,284	20,578	1,294	6.7
Transfers to LGUs	19,124	21,375	2,251	11.8
Subsidies and Transfers	21,556	19,035	-2,521	-11.7
Social Transfers	108,899	116,046	7,147	6.6
Interests	8,256	8,273	17	0.2
Capital expenditures	22,709	23,771	1,062	4.7
Budget Balance	-17,700	-17,385	315	-1.8
Financing	17,700	17,385	-315	-1.8
Inflows	34,007	60,598	26,591	78.2
Domestic sources	19,031	27,072	8,041	42.3
External sources	10,513	34,634	24,121	229.5
Deposits ("-" is accumulation of account)	4,464	-1,108		
Outflows	16,307	43,213	26,906	165.0
Repayment upon domestic borrowing	10,320	16,290	5,970	57.8
Out of which GS	9,776	6,589	-3,187	-32.6
Repayment upon foreign borrowing	5,987	26,923	20,936	349.7
Memorandum				
Net Domestic Borrowing	8,681	10,772		
Net Domestic Borrowing (continuous GS)	9,225	12,300		
Net Foreign Borrowing	4,526	7,411		
Primary Budget Balance	-9,444	-9,112		
Primary Budget Balance, % of GDP	-1.4	-1.2		
Budget Balance, % of GDP	-2.5	-2.3		

Source: Ministry of Finance

Social contributions, as genuine revenues of the Pension and Disability Insurance Fund and the Employment Agency, are projected at Denar 67 billion. This projection includes the effects from the increase of social contribution rates by 0.5 p.p.s, estimated at around Denar 1.1 billion within the budgets of the respective social funds.

During 2020, on the basis of donations, Denar 5.6 billion is envisaged, which are planned for the budget users to realise through special revenue accounts for specific projects, as well as disbursements under the EU pre-accession funds.

Total 2020 budget revenues, projected in the amount of Denar 239.7 billion, are aimed at regular and timely fulfilment of all legal obligations, as well as support to domestic economy, strong support to the private sector and the citizens, investments in human potentials, accelerated realisation of infrastructure projects, encouragement of future investments and innovation of domestic companies, support to the policies for economic growth and higher living standard of the population, as well as the priority for the integration processes for EU and NATO membership.

2020 current expenditures are projected in the amount of Denar 215.9 billion, intended for regular payment of the already increased wages of the public sector employees, timely and regular payment of increased pensions, guaranteed minimum income and other social allowances, payment of agricultural subsidies, intensified support to small- and medium-sized enterprises, support and subsidising of innovation activities, as well as measures for increasing wages and subsidising of mandatory social insurance contributions, i.e. financial support to employers, which will provide for increasing the wage of employees up to EUR 100. When projecting the expenditures, the following assumptions were taken into account:

- as regards expenditures for payment of wages and allowances, 2020 projections reflect the effects from the already realised 5% wage increase for the employees at the budget users in the last quarter in 2019, the effect from the new 10% wage increase for the employees in the educational institutions at central level, aimed at raising the living standard of employees and increasing the incentive for professional, quality and fulfilment of the working tasks.
- timely payment of pensions, for which pension increase is projected under the 2020 budget due to the additional indexation amid increase of minimum and average wage, which is expected to be around Denar 700, starting with the pension in January. This increase was envisaged as additional indexation, above the regular indexation

of costs of living, in order to provide for appropriate level of higher living standard at the elderly as well, followed by the improved living standard of employees;

- implementation of active employment policies and measures, which will be focused on creating employment programmes, measures and services, which will be implemented so as to improve the functioning of the labour market, support the job creation, employ young people, support for employment of disabled persons, activation of the users of guarantee minimum assistance, in a way that the working-able members of the household will be included in the active employment programmes and measures for the purpose of increasing their employability and employment (*Chapter 5. Structural reform measures, measure 15: Youth Guarantee and Measure 16: Enhancement of Financial Benefits in the Field of Social Protection*);
- Health protection realised through the Health Insurance Fund mainly refers to the financing of health services and measures in this field such as capitation increase, availability of pharmaceuticals throughout the month, increase of the wages of medical specialists, as well as increase of the wages of the medical staff in public health institutions. Under 2020 Budget, starting with the wage in February, increase of wages was planned for the doctors and the medical staff from 5 to 25 percent;
- Ensuring adequate level of social protection for the most vulnerable is of special importance for reaching higher level of social justice. Thereby, already commenced reform of the social protection system is included, by introducing guaranteed minimum income. Social protection reform as of 2019 provided for redesigning the types and targeting of social assistance, aimed at supporting the most vulnerable categories, as well as ensuring social safety of adultery (*Chapter 5. Structural reform measures, measure 15: Youth Guarantee and Measure 16: Enhancement of Financial Benefits in the Field of Social Protection*);
- ensuring substantial amounts for payment of agricultural subsidies, to the end of strengthening and supporting this sector, boosting the export of Macedonian agricultural products and conquering new markets;
- boosting the economic growth and development, by enhancing the competitiveness of the private sector via measures for new investments, measures to support the export and conquer new markets, support to job creation, support to SMEs, innovation activity, technological development and research, as well as encouraging foreign and domestic investments;
- within LGU transfers, funds have been provided for the already increased wages for the employees in the institutions from the transferred competences to LGUs by 5% in 2019, i.e. wages of the employees in the schools, kindergartens, elderly homes, cultural institutions and fire workers. In addition, for the purpose of motivating the teachers, being crucial for building more productive future generations, funds have been provided for increasing the wages of education workers by 10%, starting as of January 2020.

Capital investments projected at Denar 23.8 billion, have been provided from budget funds, IPA funds and loans. They are intended for intensification of the infrastructure projects, i.e. investments in road and railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environment protection and judiciary.

2020 projected deficit in the amount of Denar 17.4 billion, repayment of foreign debt principal in the amount of Denar 26.9 billion and domestic debt repayment in the amount of Denar 16.3 billion, will be financed by external borrowing and borrowing on the domestic government securities market. Repayment of foreign debt principal includes the regular servicing of liabilities on the basis of foreign debt, while domestic debt repayment covers: early repayment of domestic loan in the amount of Denar 8.2 billion, repayments of government bonds in the amount of Denar 6.6 billion and repayment of structural bonds in the amount of Denar 1.5 billion.

Domestic borrowing is projected at Denar 27.1 billion, which will be provided from short-term loan from domestic commercial banks, and it will be intended for refinancing the second installment of the PBG loan extended in 2013, as well as by borrowing with government securities. Borrowing on the domestic market will provide for financing under favourable conditions, using the favourable interest rates. For the purpose of optimising the payments, reducing the refinancing risk, as well as using the low interest rates, the main commitment of the Ministry of Finance will be portfolio optimisation and lengthening maturity of the issued securities.

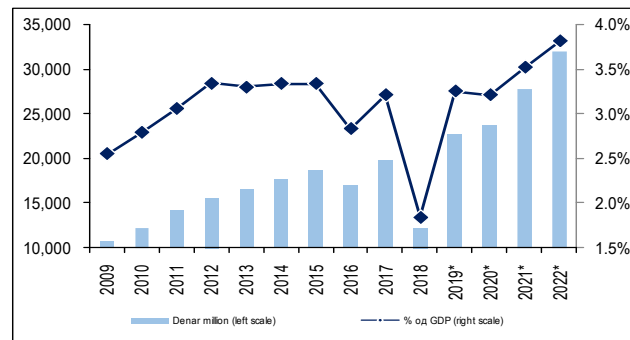
Foreign borrowing may be realised through issuance of Eurobond on the international capital market and by disbursement of funds under favourable loans from foreign financial institutions and credit lines intended for financing certain projects. Thereby, the choice of a financing source will be based on the favourable ongoing developments on the international capital market. For the purpose of prudent public finance management, Ministry of Finance will consider the possibility for active debt portfolio management through liability management activities.

4.4. Medium-term budgetary outlook

Total revenues of the Budget of the Republic of North Macedonia (central government and Funds) for the period 2020 - 2022 are projected to 29.6% of GDP on average annually. Tax revenues account for 58.4% of the projected revenues, followed by revenues on the basis of social contributions accounting for 30.3%, non-tax revenues and capital revenues accounting for 8.9%, while the rest of the revenues are expected to be generated from IPA Funds and other donations. With respect to tax revenues, most revenues will be generated on the basis of VAT, personal income tax and excises. Structural Reform Measure: Reduction of Informal Economy (Chapter 5, Measure 10) is aimed at improving the tax collection.

Average share of expenditures in the Budget of the Republic of North Macedonia in the period 2020-2022 is 31.7% of GDP. Current expenditures comprise 88.9% of the total expenditures in this period, whereby their share is envisaged to gradually reduce, they are intended for regular payment of wages to the employees in the public sector, timely and regular payment of pensions, guaranteed minimum income and other social benefits, payment of agricultural subsidies, support to SMEs, as well as subsidising innovative activities.

Chart 4.2. Capital expenditures in the Budget of RNM



Source: MoF, * - forecast

In the coming medium-term period, fiscal policy remains to focus on ensuring substantial public investments, being a precondition for improvement of economic perspectives, as well as better life of the citizens. To that end, significant amount of funds for capital investments is projected in the Budget, including funds provided under loans from international financial institutions and bilateral creditors, the share of which is projected to reach 3.8% of GDP (Chart 4.2). The projected amount speaks of intensification of infrastructure projects, i.e. investments in road and railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environment protection and judiciary.

In addition to the Budget, substantial investments in road infrastructure are ongoing through the Public Enterprise for State Roads, such as: Road Upgrading and Development Project (Kriva Palanka - Rankovce)", at the same time, construction of Kicevo - Ohrid Highway is ongoing. Activities envisaged under the National Roads Programme will be intensified in the coming period, envisaging construction of road sections Stip - Kocani and Raec - Drenovo, as well as reconstruction and rehabilitation of 26 road sections, total length of which is around 400 km. At the same time, Stip - Radovis Road Section Project is being financed and is in the process of realisation. In the coming medium-term period, construction of Skopje-Blace highway section is expected to start, which will provide for both positive effects on the economic, social and environmental aspects in the region and easier international transportation and trade in the region, particularly between the Republic of North Macedonia and Republic of Kosovo. As regards rehabilitation and reconstruction of local roads in the country, "Local Roads Construction and Rehabilitation Project" was launched in 2019.

As for the railway infrastructure, focus will be placed on completion of the implementation of the "Project for Improvement of the Railway Corridor X", as well as intensification of the activities within the "Project for Completion of Rail Corridor VIII", being aimed at connecting the Black Sea with the Adriatic Sea, which speaks of the huge strategic and economic significance of this Project.

Construction of the eastern part of Rail Corridor VIII, i.e. the part towards the Republic of Bulgaria, is carried out in 3 phases. Realisation of the first phase (Kumanovo - Beljakovce section), 30.8 km long, and second phase (Beljakovce - Kriva Palanka section), 34 km long, will be intensified within the envisaged period. Preparation of the third phase (Kriva Palanka - Deve Bair section, border towards the Republic of Bulgaria), covering 23.4 km, is completed. In parallel to the investments in railway infrastructure, implementation of the "Macedonian Railways Fleet Renewal Project" will continue.

As regards the transport infrastructure, significant project activities will be carried out, aimed at promoting deeper economic integration within the region, reducing the trade costs and enhancing the transport efficiency in the Republic of North Macedonia (Chapter 5. Structural reform measures, Measure 3: Implementation of an Intelligent Transport System (ITS) along Corridor 10, the funds for which are not available for public use due to the sensitive period, i.e. publishing a

tender for the ITS Project; and Measure 13: Facilitating North Macedonia - Serbia Cross-Border Crossing, EUR 2.7 million²⁶ being envisaged therefore).

By implementing the “Project for Construction of Gas Pipeline System in the Republic of North Macedonia“, business sector, public sector and households will be provided supply with cheap and environmentally friendly energy, at the same time reducing the emission of harmful gases. Construction of the sections of the national gasification system Stip - Negotino - Bitola and Skopje - Tetovo - Gostivar is ongoing. In the coming period, the Government will focus on the realisation of the new “Project on Interconnection Gas Pipeline between the Republic of North Macedonia and the Republic of Greece.

Implementation of the “North Macedonia Public Sector Energy Efficiency Project” will commence in the next medium-term period, covering energy efficiency measures to be implemented by the municipalities in the country (*Chapter 5. Structural reform measures, Measure 2: Promotion of Renewable Energy Sources and Improvement of Energy Efficiency, EUR 16.5 million being projected therefore*).

Construction of the Regional Clinical Hospital in Stip will continue in the coming period, and activities for the commencement of the construction of new Clinical Centre in Skopje are also being undertaken.

As regards education, implementation of the “Project for Construction of Physical Education Facilities in Secondary Schools” is expected to be completed in the coming period. In addition, implementation of the “Project for Construction of Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools” will continue.

Technical documentation will commence to be prepared, on the basis of which “Energy Efficiency Rehabilitation of Student Dormitories in North Macedonia” will be implemented.

Implementation of the second and the third phases of “Zletovica Water Basin Utilisation Improvement Project” is planned to commence. Main objective of the second phase is provision of irrigation for 4,570 ha net area in the region of Probitip and Kratovo municipalities. Implementation of the third phase, which includes construction of small hydro power plants along the flow of Zletovica River, will provide for reducing electricity shortage in the region, safe, secure and quality supply of energy for the consumers and increased energy efficiency. Second phase of the “Irrigation Programme Southern Vardar Valley” will continue in 2020 as well. Rehabilitation and modernisation of the irrigation systems in the Valandovo region are envisaged under the Project. At the same time, implementation of the third phase of this Project, as well as the implementation of Lisice Hydro System - irrigation phase and electricity generation phase, will commence (*Chapter 5. Structural reform measures, Measure 4: Improving of Irrigation Systems, EUR 156.7 million being envisaged therefore*).

“Agriculture Modernisation Project” will be prepared and implemented, which is to include establishment of agriculture purchasing and distribution centres, as well as construction of system for disposal and /or processing of animal by-products.

An important priority the Government of the Republic of North Macedonia will focus on is the preparation and the implementation of the “Skopje Wastewater Project”.

In the area of environment, activities are being undertaken for preparation and implementation of projects on establishment of integrated regional waste management systems in the Southeast, Southwest, Vardar and Pelagonija regions. These activities are of great significance, since they are aimed at construction of landfills, procurement of equipment for collection of solid waste, construction works for closure of uncontrolled dumpsites, as well as technical assistance for strengthening the capacities of public utility enterprises.

One of the important elements in the social development policy is to increase the quality of life of low-income persons and vulnerable groups by providing for their appropriate housing. Government activities and measures as regards social policy are also supported under the “Project for Housing of Vulnerable Groups”, encompassing construction of flats for low-income persons. Within this sector, Government of the Republic of North Macedonia implements a new project to include implementation of reforms in the social protection area, as well as investment activities aimed at improving the social infrastructure, i.e. reconstruction and construction of early childhood development centres (*Chapter 5. Structural reform measures, Measure 16: Enhancement of Financial Benefits in the Field of Social Protection, EUR 36.9 million being envisaged therefore*).

²⁶ The application has been assessed positively. Out of the necessary EUR 5.3 million, grant in the amount of EUR 2.7 million is provided, with the remaining funds in the amount of EUR 2.6 million to be provided.

In order to provide fresh capital for small- and medium-sized enterprises, as well as support for new projects, job creation, increased liquidity of the economy and higher exports, implementation of the fifth EIB credit line for financing small- and medium-sized enterprises, in the amount of EUR 100 million, is ongoing.

Projected Deficit and its Financing Financing of the projected deficit, as well as debt repayments, will be provided from domestic and foreign borrowing (Table 4.4). In the period 2020 - 2022, borrowing abroad may be realised on the basis of issuance of Eurobond on the international capital market, as well as disbursements of funds under favourable loans from international financial institutions and credit lines intended for financing certain projects. Thereby, the choice of a specific external financing source will be based on the ongoing and the expected developments on the international capital market. Furthermore, borrowing on the domestic market will be realised on the basis of a short-term domestic loan, as well as issuance of government securities, thus providing for additional financing under favourable terms and conditions, by using historically the lowest interest rates and the high level of interest of investors. For the purpose of optimising the payments and reducing the refinancing risk, main commitment of the Ministry of Finance will be to lengthen the maturity of issued securities, by issuing treasury bonds with longer maturities. To that end, and for the purpose of efficient public debt management, Ministry of Finance will also take into account the possibility for early repayment of part of the debt, i.e. determining more favourable debt maturity, currency and interest structure.

Table 4.4. Projected Deficit and Sources of its Financing

(Denar million)	2020	2021	2022
Budget Balance	-17,385	-16,105	-16,783
Deficit financing	17,385	16,105	16,783
Inflows	60,598	58,743	30,836
External sources	34,634	40,161	10,621
Domestic sources	27,072	13,914	18,862
Deposits	-1,108	4,668	1,353
Outflows	43,213	42,638	14,053
Repayment upon foreign borrowing	26,923	37,543	7,069
Repayment upon domestic borrowing	16,290	5,095	6,984

Source: Ministry of Finance, Revised Fiscal Strategy of the Republic of North Macedonia 2020 - 2022

Local Government Budget. In the medium run, municipalities are expected to continue the trend of improved collection of own revenues, strengthening the capacities for development of policies for financing the municipalities and enhancing the capacities for financial management. For the purpose of realising the strategic commitments, strong commitment to encouraging sustainable local development, good local governance and creating conditions for more active, more effective and more innovative role of the local authorities in implementing national objectives for growth and development will continue in the next period as well.

Stable revenues are allocated to the municipalities from the Budget of the Republic of North Macedonia on the basis VAT grant (general grant), in the amount of 4.5% of VAT collected in the previous year. As regards the grants for transferred competences, criteria for distribution of funds allocated for the transferred competences in the field of primary and secondary education, culture, child care and protection of elderly people and fire fighting will be analysed in the following period. In 2020, in addition to kindergartens, block grants in the field of child care will be also allocated to early childhood development centres within the public kindergartens. As regards firefighting, earmarked grant in the 2020 Budget of the Republic of North Macedonia will be allocated for financing the wages of the employees in four newly established territorial firefighting units.

New revenues are provided by allocating funds from lease of state-owned agricultural land to the municipalities, the proportion of which is 50% for the Budget of the Republic of North Macedonia and 50% for the municipalities and the municipalities in the City of Skopje, which are being distributed since 2018, depending on the location of the agricultural land under lease, provided that collection of revenues on the basis of tax on real estate exceeds 80% in relation to the ones projected in the previous year. Municipalities also have higher revenues from the fee collected by issuing concession for usage of water resources for electricity generation (50% for the central government budget and 50% for the local authorities), depending on which area the concession activity is performed.

Increased own revenue performance at the municipalities, in particular revenues collected on the basis of taxes on real estate, as a result of better inclusion of the real estate of natural persons and legal entities and re-assessment of the value of real estate, will continue in the next medium-term period. At the same time, part of the municipalities generate higher revenues on the basis of property taxes as a result of the higher rate of calculation and collection of property tax

within the margin set pursuant to the Law on Property Taxes. Higher revenues are also expected by applying the improved elements of calculation in the Methodology on Determining Market Value of Real Estate, as well as the improved quality assessment of the value of real estate, thus providing the municipalities the legal possibility to employ an expert - an evaluator or to use the services of licenced evaluators.

In the coming period, higher revenues are expected to be generated by determining the real market value of the real estate after completing the procedure on treatment of illegally built facilities on construction and agricultural land. Further on, municipalities will continue performing the transferred competences for management of construction land and treatment of illegally built facilities on construction and agricultural land, the respective sources of revenues therefore being determined in the municipal budget.

4.5. 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 also reflected in the fiscal developments, through automatic stabilisers. In order to exclude the effects from fluctuations of economic activity on the fiscal indicators and to estimate the basic fiscal stance of the country, we calculate and analyse the cyclically adjusted budget balance, which is obtained by adjusting the budget revenues and the budget expenditures by the effect of deviation of the potential from the actual/projected GDP, whereby the adjustment is made on aggregate level for the central government budget as well.

In 2019, taking into account that projected GDP is expected to be close to the potential one, cyclical budgetary component is narrowed, i.e. cyclically adjusted budget deficit is almost equal to the projected one (Chart 4.3).

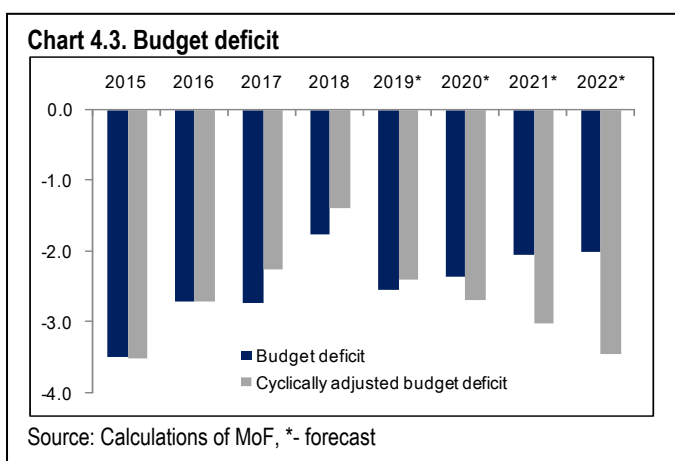


Table 4.5. Aggregate Fiscal Indicators and Output Gap

	2019	2020	2021	2022
Total budget balance	-2.5%	-2.3%	-2.0%	-2.0%
Primary budget balance	-1.4%	-1.2%	-0.9%	-0.8%
Output gap	-0.5%	1.0%	3.1%	4.6%
Cyclical budget component	-0.1%	0.3%	1.0%	1.4%
Cyclically adjusted total budget balance	-2.4%	-2.7%	-3.0%	-3.4%
Cyclically adjusted primary budget balance	-1.2%	-1.6%	-1.9%	-2.3%

Source: Calculations of the Ministry of Finance

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

In the period 2020-2022, in conditions of positive output gap, cyclical budget component is positive, hence the estimated cyclically adjusted budget deficit is higher than the projected budget deficit, i.e. it amounts to 2.7% in 2020, 3.0% in 2021 and 3.4% in 2022. During the analysed period, cyclically adjusted primary budget deficit accounts for 1.9% on average annually (Table 4.5.).

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

At the end of Q3 in 2019, government debt of the Republic of North Macedonia²⁷ amounted to EUR 4,445.0 million, i.e. 39.2% of the projected GDP. At the end of the third quarter, total public debt²⁸, which includes the government debt and the debt of public enterprises established by the state or by the municipalities, the municipalities in the City of Skopje and the City of Skopje, amounted to EUR 5,405.2 million, accounting for 47.7% of the projected GDP. Pursuant to the Law on Modifications and Amendments to the Public Debt Law ("Official Gazette of the Republic of North Macedonia", no. 98/19, dated 17th May 2019), national definition of public debt is expanded, also covering the non-guaranteed debt of the public enterprises established by the state or the municipalities, the municipalities in the City of Skopje and the City of Skopje.

²⁷ Government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of North Macedonia, the public institutions established by the Republic of North Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje.

²⁸ Public debt comprises the government debt and the debt of public enterprises and joint stock companies established by the state or by the municipalities, the municipalities in the City of Skopje and the City of Skopje.

Thus, starting Q2 2019, public debt stock also includes non-guaranteed debt of the public enterprises. In Q3 2019, it amounted to EUR 36.6 million, i.e. it accounted for 0.3% of GDP. During the analysed period, domestic government debt accounted for 39.9% in the total government debt, while the external government debt accounted for 60.1%. Share of external government debt dropped by 2 p.p. compared to end-2018, as a result of borrowing on the domestic market in the course of 2019, placing the focus on longer-maturity treasury bonds. Exposure of government debt portfolio to market risks registered a further decrease, in accordance with the favourable changes in the interest and the currency structures. From interest structure point of view, fixed interest rate debt increased by 1.1 p.p. compared to end-2018, above all as a result of both the issuance of treasury bonds on the domestic market, which are instruments with fixed interest rate, and the external borrowing with fixed interest rate. Share of fixed interest rate debt in the total government debt is significantly above the minimum share of 60% determined by the Fiscal Strategy, amounting to 77.9% in Q3, as opposed to the variable interest rate debt which was 22.1%. As for the currency structure of foreign currency debt, share of euro-denominated debt in the foreign currency government debt portfolio is 92.4%, significantly above the minimum share of 85% determined by the Fiscal Strategy and, compared to end-2018, it increased by 0.1 p.p..

Table 4.6. Public Debt Stock (EUR million)

	2012	2013	2014	2015	2016	2017	2018	30.09.2019
External Public Debt	1,941.2	2,078.7	2,725.1	2,847.5	3,286.0	3,187.5	3,537.8	3,590.1
Government debt	1,615.9	1,597.5	2,092.2	2,096.7	2,446.6	2,376.8	2,695.0	2,669.3
Guaranteed debt	325.3	481.2	633.0	750.8	839.4	810.7	842.7	910.6
Non-guaranteed debt								10.1
Domestic public debt	967.6	1,202.7	1,196.2	1,379.7	1,425.4	1,599.4	1,664.4	1,815.1
Government debt	938.6	1,174.1	1,170.3	1,356.6	1,404.9	1,581.7	1,649.4	1,775.7
Guaranteed debt	29.0	28.6	25.9	23.2	20.5	17.7	15.0	13.0
Non-guaranteed debt								26.5
Total public debt pursuant to the Public Debt Law	2,908.8	3,281.4	3,921.3	4,227.2	4,711.4	4,786.9	5,202.2	5,405.2
Total public debt as % of GDP	38.3	40.3	45.8	46.6	48.8	47.7	48.6	47.7
Total government debt	2,554.5	2,771.6	3,262.5	3,453.3	3,851.5	3,958.5	4,344.4	4,445.0
Government debt as % of GDP	33.7	34.0	38.1	38.1	39.9	39.4	40.6	39.2
Total guaranteed debt	354.3	509.8	658.9	774.0	859.9	828.4	857.7	923.6
Guaranteed debt as % of GDP	4.7	6.3	7.7	8.5	8.9	8.3	8.0	8.1
Total non-guaranteed debt								36.6
Non-guaranteed debt as % of GDP								0.3

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

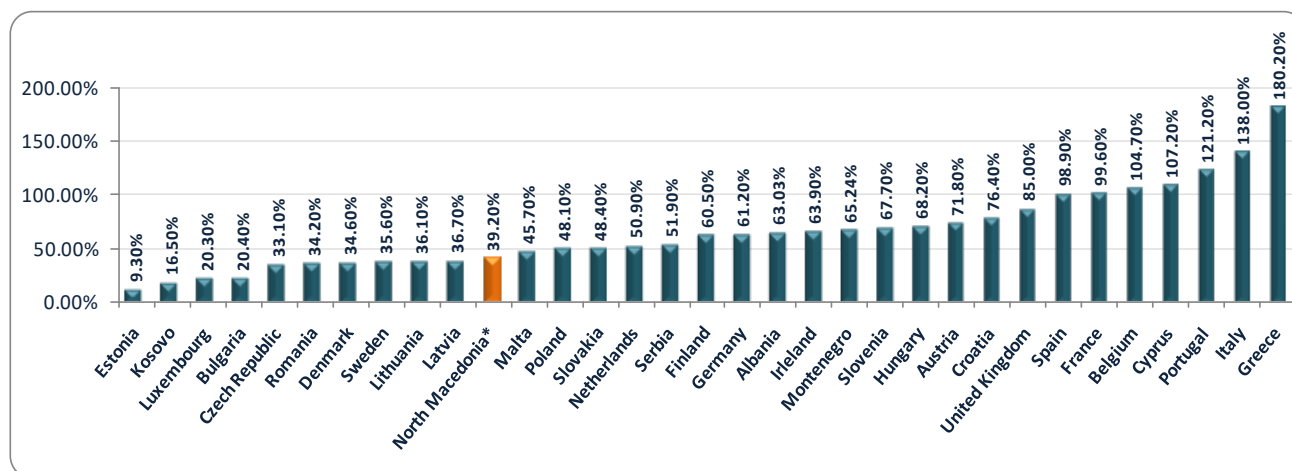
Medium-Term Fiscal Strategy, covering 3-year period, is the framework determining the public debt management policy in the Republic of North Macedonia. Pursuant to the amendments to the Public Debt Law, starting 2020, public debt management policy will be determined in a separate Public Debt Management Strategy, which the Government of the Republic of North Macedonia will adopt by 31st of May in the current year at the latest for the coming three-year period.

Investments launched in the past period, as well as new investments, in the field of road and rail infrastructure, water supply and sewerage, investments in education, health, energy, gasification, environment, reforms in the agriculture and the social sectors, development of municipalities, as well as other projects that are in line with the Programme of the Government of the Republic of North Macedonia, are expected to continue in the period 2020 - 2022. The projects will be implemented by the state administration bodies, public enterprises and companies being predominantly owned by the state. The projects will be co-financed with foreign loans, the Government thereby being strongly committed not to jeopardise the long-term sustainability of the debt level of the country. In addition to investment projects, part of the borrowing is aimed at covering the budget deficit, i.e. providing for smooth Budget execution. Furthermore, part of the borrowing will be also intended for repayment of debt liabilities falling due in the coming period. Thereby, in 2020 and 2021, around EUR 835 million is to be repaid on the basis of three previous borrowings alone (second installment in the amount of EUR 155 million under PBG Loan, concluded in 2013, Eurobond in the amount of EUR 500 million issued in 2014 and remaining portion of the Eurobond in the amount of EUR 180 million, issued in 2015), as well as other principal repayments on the basis of borrowing on both the domestic and the external market.

In order to reduce the exchange rate risk, the Strategy sets limits on the currency structure of the government debt, whereby the minimum share of the euro-denominated debt in the foreign currency debt portfolio should be 85%. The

Strategy also sets a limit on the interest structure of the government debt, i.e. fixed interest rate debt should account for at least 60% of the total debt portfolio.

Chart 4.4. Government Debt of EU Member States and Countries in the Region in Q2 2019 (% of GDP)



Source: Ministry of Finance, Eurostat, October 2019

In order to protect the central government debt portfolio against the re-financing risk, minimum threshold of “average time to maturity” indicator in 2020 should be 4 years. In addition, maximum threshold on share of debt falling due in 2020 in the total central government debt is determined to be 35%²⁹. In order to reduce the re-financing risk in 2020, Ministry of Finance, in January 2018, made an early repayment of part of the previously issued Eurobond, in the nominal amount of EUR 91.7 million.

In order to further smoothen the redemption profile and reduce the re-financing risk, as well as generate additional savings, Ministry of finance will continue to consider the possibility for debt restructuring in the coming period by actively managing the debt portfolio through liability management activities.

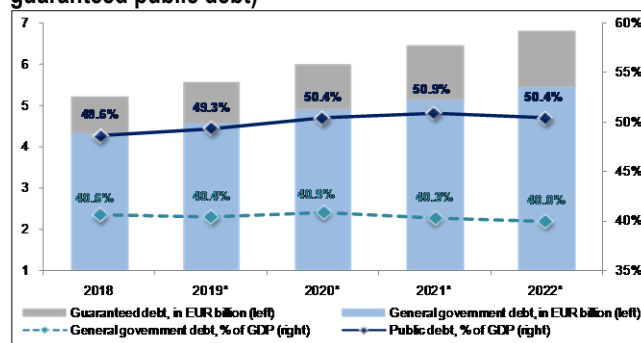
In order to protect the central government debt portfolio against the interest rate risk, minimum threshold of “average time to re-fixing” indicator in 2020 should be 3 years.

Republic of North Macedonia will remain a moderately indebted country as a result of the commitment to conduct a disciplined fiscal policy in the coming period.

Guaranteed Debt. On the basis of the analyses made on trends of projected guaranteed public debt in the period 2020-2022, it is expected to moderately increase by 2021, as a result of the disbursement of loan proceeds under the projects, mainly in the field of road infrastructure, implemented with loans for which sovereign guarantee is issued, after which guaranteed debt is expected to reduce to 9.9% of GDP in 2022. Thereby, level of guaranteed debt throughout the whole period is below the set maximum limit.

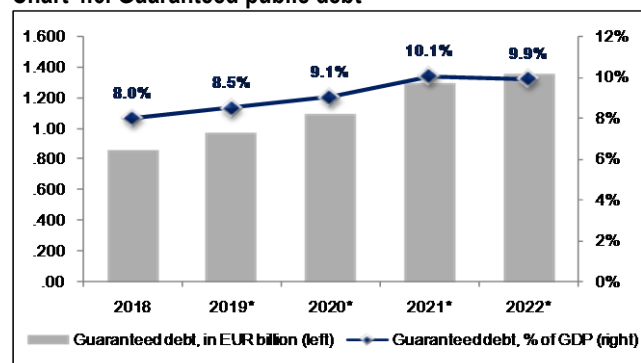
As for the new borrowings, account is taken of the long-term sustainability of debt, whereby the process of

Chart 4.5. Forecast of total public debt (government and guaranteed public debt)



Source: MoF and MoF forecast *

Chart 4.6. Guaranteed public debt

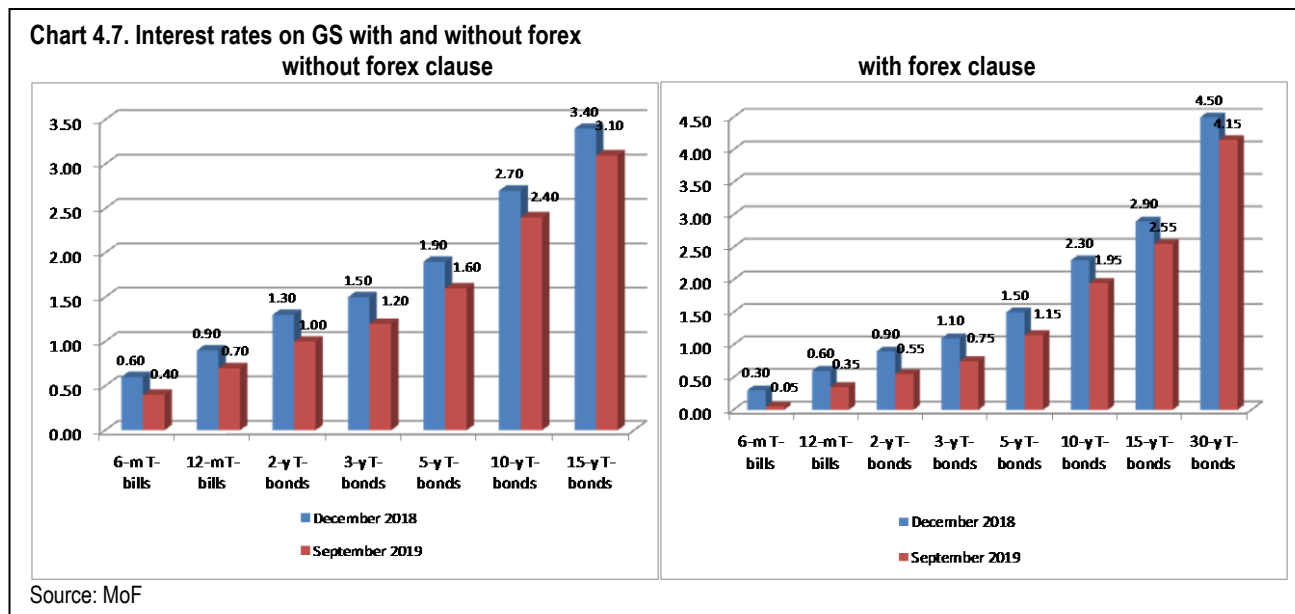


Source: MoF and MoF forecast *

²⁹ This indicator includes the repayments of treasury bills with a maturity less than 1 year, but excludes any possible buyback.

issuing new guarantees is strictly regulated and subject to the borrowing procedure prescribed in the Public Debt Law, according to which the public debt issuers should fulfill certain criteria as for the country to be able to issue guarantee. As of 30th September 2019 inclusive, issued sovereign guarantees amounted to EUR 923.6 million, accounting for 8.1% of GDP (included in the public debt which accounted for 47.7% of GDP).

Primary Government Securities Market. According to the Calendar for Issuance of Government Securities (GS) on the Domestic Market, in the period January - September 2019, Ministry of Finance issued 12-month treasury bills, as well as



2-, 5-, 15- and 30-year treasury bonds.

During this period, total of 29 auctions of GS were held, i.e. 14 auctions of treasury bills and 15 auctions of treasury bonds. Total amount offered for sale at the auctions was Denar 34,849.57 million, demand amounted to Denar 92,566.01 million and the amount realised accounted for Denar 34,849.65 million.

In the course of 2019, Ministry of Finance carried out measures adopted under the Strategy for Denarization, i.e. issuance was focused on Denar-denominated securities which, as of the third quarter inclusive, amounted to Denar 31,149.63 million as opposed to Denar 3,700.02 million issued through government securities with forex clause. This measure was stimulated by the additional increase of the difference in the spread of interest rates on government securities with and without forex clause.

Interest rates on government securities in the period December 2018 - September 2019 are shown in Chart 4.7. Interest rates continued to decline in 2019 as well, whereby the interest rates on government securities were subsequently reduced on two occasions in January and in August.

As of September 2019 inclusive, stock of outstanding GS amounted to Denar 105,246.27 million, Denar 33,149.42 million out of which as treasury bills and Denar 72,096.85 million as treasury bonds.

Secondary Government Securities Market. Legal regulations on secondary trading in the Republic of North Macedonia provide for trading in all structural GS and continuous treasury bonds.

In the period January - September 2019, trading in treasury/government denationalisation bonds was recorded at the Macedonian Stock Exchange. Total volume of trading during this period amounted to Denar 315.78 million, decreasing by Denar 162.71 million compared to the same period last year.

During the same period, 1 transaction with government securities, pertaining to treasury bills, and 23 transactions with government securities, pertaining to treasury bonds, were realised on the OTC market. Total nominal trading amounted to Denar 857.67 million. Compared to the trading in September 2018, it can be concluded that more transactions with government securities were realised as of 30th September 2019 inclusive, while total nominal amount of trading was higher by Denar 476.71 million.

International Capital Market. In the course of 2019, Eurobonds issued by the Republic of North Macedonia, falling due in 2020, 2021, 2023 and 2025, were traded on the international capital market. As of September 2019 inclusive, yield to

maturity as regards the Eurobonds falling due in 2020, 2021, 2023 and 2025 amounts to 0.292%, 0.583%, 0.911% and 1.230% respectively.

Credit Rating of the Republic of North Macedonia. On 1st February 2019, “Fitch” Credit Rating Agency affirmed North Macedonia at “BB”, with a positive outlook, while on 1st July 2019, it upgraded its rating from “BB” to “BB+”, with a stable outlook. The Agency positively rated the steps undertaken to improve public financial management, in particular greater budget transparency and introduction of a fiscal expenditure rule for the municipalities, as well as the measures undertaken within the pension reform, better targeting of social assistance and progressive taxation, contributing to deficit reduction. In addition, on 13th December 2019, “Fitch” Credit Rating Agency affirmed the Republic of North Macedonia’s “BB+” rating with a stable outlook. On 8th March and 6th September 2019, “Standard&Poor’s” Credit Rating Agency affirmed Republic of North Macedonia’s previously awarded credit rating for local and foreign currency at BB-, at the same time affirming the country’s stable outlook.

4.7. Sensitivity Analysis

Sensitivity of Budget Deficit. Medium-term economic projections are based on certain assumptions, primarily on macroeconomic environment, designing of economic policies and their implementation, as well as the absence of greater shocks.

Medium-term economic and fiscal projections are always accompanied by certain level of uncertainty and risks. The possible occurrence of these risks would result in deviations from the baseline medium-term scenario, i.e. different movements of the key fiscal variables.

Therefore, this section includes an overview of the results from the sensitivity analysis, examining the central government budget deficit sensitivity under three risk scenarios, which assume different conditions than the ones taken as basis for medium-term projections discussed above. Thereby, all risks are analysed separately and all scenarios assume absence of other deviations from the baseline scenario.

Taking into account that medium-term fiscal scenario is based on certain macroeconomic assumptions, they are considered to be primary factor with a potential effect on the fiscal trends. Hence, as a first risk scenario, we assume the materialisation of downside risks in relation to the external environment, according to the first alternative scenario explained in point 3.3. Under this scenario, projected average annual real GDP growth in the period 2020 - 2022 is 3.1%, i.e. it is by 1.0 p.p. lower compared to the baseline scenario. Hence, possible lower economic growth will also imply lower performance of the cyclical component of budget revenues. Thus, this scenario would result in budget deficit of 2.7% of GDP on average annually in the coming three-year period, i.e. deficit widening by 0.6 p.p. on average compared to the baseline projections. Table 4.7. shows the budget deficit in the this period according to the baseline and the risk scenarios.

The second risk scenario assumes lower execution of capital expenditures, according to the second alternative scenario explained in point 3.3, i.e. their execution at a level of around 70% in relation to the planned with the baseline scenario. Lower execution of capital expenditures would cause a slowdown of growth of gross investments, and accordingly a lower real GDP growth rate in relation to the baseline scenario, by an average of 0.7 p.p. per annum in the analysed period. This scenario would adversely affect tax revenues as well, which would exceed the effect of the reduced expenditures. Therefore, according to this scenario, budget deficit would worsen by 0.4 p.p. on average annually compared to the baseline scenario in the period 2020 - 2022.

Table 4.7. Sensitivity Analysis of Budget Deficit

	2020	2021	2022
Budget deficit (% of GDP)			
Baseline scenario	-2.3	-2.0	-2.0
Scenario 1. Lower economic growth	-2.8	-2.6	-2.7
Scenario 2. Lower execution of capital expenditures	-2.7	-2.4	-2.5
Scenario 3. Lower collection of tax revenues	-3.2	-2.9	-2.9

Source: Calculations of the Ministry of Finance

The third scenario assumes a reduced collection of total tax revenues by 5% per year in the analysed period compared to the baseline scenario. In conditions of unchanged level of budget expenditures and unchanged economic growth, lower tax revenues would lead to higher budget deficit, which would be 3.0% of GDP on average annually during the analysed period.

Materialisation of any of the above risk scenarios in the upcoming period would result in relatively limited effects on the budget deficit. More precisely, sustainability of fiscal policy in the medium run is in no case jeopardised.

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

Public Debt Sensitivity. In order to assess the exposure of the debt portfolio to market risk, i.e. interest rate risk and exchange rate risk, simulation of the impact of change of interest rates and exchange rate over the costs for servicing the external government debt was carried out. Sensitivity analysis on the trends of servicing-related costs in the Budget of the Republic of North Macedonia as regards the external debt is based on the following assumptions: by changing one variable, all other variables remain unchanged, i.e. *ceteris paribus*, in conditions of possible currency movements in relation to the euro, Denar exchange rate in relation to the euro retains the stable value, and non-correlation between interest rate movements and exchange rate movements.

The analysis covers the period 2020-2022, being based upon scenarios of increase of interest rate by 1 p.p. compared to the baseline scenario, as well as euro depreciation by 10% compared to the other currencies.

Table 4.8. Sensitivity analysis of servicing-related costs of the external government debt when changes occur in both the interest rates and the foreign exchange rates

Index figures	2020	2021	2022
Baseline Scenario	100.0	100.0	100.0
Scenario 1: increase of respective interest rates by 1 p.p.	105.0	105.5	106.9
Scenario 2: appreciation of other currencies in the portfolio in relation to the euro by 10%	100.6	100.4	101.3

Source: Calculations of the Ministry of Finance

Main conclusions under this analysis are the following:

- servicing-related costs on the basis of external general government debt are sensitive to the interest rate movements. Should interest rates in 2020 surge by 1 p.p. in relation to the baseline projection, it would cause for interest-related costs to increase by 5.0%, i.e. by EUR 4.8 million, with similar effects in both 2021 and 2022. Such sensitivity could be explained as exposure of debt portfolio to interest rate risk.

- possible future euro depreciation in relation to the other currencies in the portfolio (US dollar, Japanese Yen and Special Drawing Rights) by 10% will cause an increase of servicing-related costs by 0.6% in 2020, i.e. by EUR 3.0 million. Given the obtained results, it may be concluded that possible unfavourable movements of exchange rates of other currencies in relation to the euro will not cause any significant increase of the servicing-related costs, as a result of the fact that most of the external general government debt is euro-denominated.

4.8. Fiscal Governance and Budgetary Frameworks

Maintenance of the overall fiscal discipline on the medium run is one of the priorities in the projecting and budgeting process, which will result in: a) medium-term fiscal consolidation; b) distribution of resources based upon the programmes and the included programme indicators; and c) Medium-Term Budget Framework that serves as a reliable guidebook for the future distribution of the budget funds for each budget user.

Measures planned within the 2018-2021 Public Financial Management Reform Programme (within the priorities for Improved Fiscal Framework, Planning and Budgeting, Budget Execution and Transparent Government Reporting) are aimed at establishing fiscal rules and Fiscal Council, strengthening and upgrading the programme budgeting, providing improved information on the projects, continuation of the process of introducing comprehensive medium-term budget framework (MBF), establishing integrated public finance management IT system, as well as enhancing transparency.

Activities planned within the above-mentioned priorities and their successful implementation should be solidly based upon the new Budget Law. This Law should provided for the framework, which defines the public finance management system in North Macedonia.

Ministry of Finance, in cooperation with foreign experts (from the IMF and the World Bank) intensively worked, in the past period, on thorough and comprehensive determination of the areas for further improvement of the public finance management, preparation of the structure, the contents and the scope of the new Budget Law, as well as preparation of

proposals for certain areas included in the Law (Medium-Term Fiscal Strategy, structure of the budget documents, organisational structure, registry of public sector entities, fiscal rules, enhancement of the transparency).

New Law being in the final preparatory stage is in line with the improvements of the public finance management system, for the purpose of providing a framework for conducting sound, foreseeable and sustainable fiscal policy and increasing the budget discipline and accountability. New mechanism of the Law includes:

- establishment of fiscal rules and institutionalisation of the Fiscal Council;
- publication of a registry of public sector entities;
- improvement of the medium-term fiscal strategy process, preparation of baseline scenario and new initiatives;
- transparency improvement (submitting data on public enterprises, local government units); and
- establishment of integrated public finance management IT system.

In the upcoming period, Ministry of Finance will continue to work on preparing by-laws, guidelines, manuals and similar, aimed at operationalising the new Budget Law, further improving the PFM system, developing a detailed plan for all working process in the Ministry of Finance and their mapping, as well as preparation of detailed technical specification for integrated public finance management IT system.

Public finance transparency has significantly increased by promoting the Open Finances portal (<https://open.finance.gov.mk/mk/home>), by making the past, the present and the future financial transactions of the budget users available to the public. Making all Treasury data available to the public will significantly contribute to fighting the corruption and the irregularities in the operations of the state institutions. The first phase envisages for transactions of the Central Budget institutions i.e. ministries, agencies, offices and the social funds to be published on the "Open Finances" platform, while the second phase envisages transactions of LGUs and their budget institutions to be published as well.

4.9. Sustainability of Public Finances

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

- average labour productivity growth of 1.7%;
- increase of male participation rate from 78.3% in 2018 to almost 86% in 2060,
- more intensive increase of female participation rate (from 52.2% in 2018 to around 76% in 2060), by which share of female population in the total active population is expected to reach 47% in 2060;
- reduction of unemployment rate with higher intensity by 2040, projected at 7.2% the same year, and with lower intensity in the remaining 20 years, whereby unemployment rate is projected to account for 3.7% in 2060,
- gradual increase of the share of population above 65 years of age, reaching around 31.3% in 2060.

On the basis of the employment and wages growth projections, an average annual growth of 5% of revenues on the basis of pension insurance contributions is envisaged in the analysed period, while their share in GDP amounts to around 6%. As for pension-related expenditures, it is worth mentioning that only those of the Pension and Disability Insurance Fund are taken into account. Taking this into account, and according to the projected demographic trends, 3.6% average annual increase of pension-related expenditures is envisaged in the analysed period, while their share in GDP is expected to be kept above 8.5% by 2030, whereby in the coming period, the share is envisaged to significantly reduce, which is expected to be 5.3% in 2060. Public expenditures for health protection as percentage of GDP are projected to gradually increase, reaching almost 7% in 2060. Such projected increase of expenditures is mainly a result of the effects of population aging. Education-related expenditures are envisaged to increase by 5.8% on average annually in the next forty years, so their share in GDP is expected to reach 5% in 2060. Interest-related costs are envisaged to account of around 1% of GDP in the analysed period, and are expected to gradually decrease after 2030, in line with the projected trend of budget balance, i.e. government debt and projected effective interest rate.

5. Structural reforms in 2020-2022

5.1. Identification of key obstacles to competitiveness and inclusive growth

Economic growth in first nine months of 2019 remained solid at 3.6%. The construction sector registered growth of 5.6%, driven by both buildings construction and civil engineering construction. Services sector registered increase of 2.2%, as a result of increased activity in trade and transportation. The agriculture sector recorded growth of 4.2% in the same period. Favourable trends in manufacturing, mining and energy supply contributed to growth of industrial sector by 5.6%. Employment gains contributed for unemployment rate in Q3-2019 to decrease to 17.1%, i.e. by 3.7 p.p.s compared to

same quarter in 2018. Job creation was strongest in manufacturing, absorbing 18.7% of newly created jobs. Also, there was increase in employment in services and construction sector.

Although the Macedonian private sector has been creating jobs, they are not the high-productivity, well-paid jobs the country needs. Whether the country can become more productive will depend critically on how it can attract high-value-added FDI and build a strong, outward looking domestic private sector. Macedonian economy as small one, where domestic demand has been undermined by high unemployment and relatively low wages, needs export markets to accelerate its growth. Trade liberalisation with proximity of EU markets encouraged FDI, mainly in manufacturing resulting in rapid increase in export sophistication³⁰. The share of manufactured products in total exports is about 90%. Export growth is mainly driven by the capacities in the free economic zones specialised in technology-intensive sectors. Looking by technological intensity structure, the medium and medium to high technology manufacturing industries contributed by about half to industrial index rise and similar is their export share. This means that there is still significant share of labour-intensive industries with low productivity within the industry sector.

According to UNIDO Competitive Industrial Performance Index 2018³¹ North Macedonia is ranked 78th out of 150 countries, yet if compared to other countries, there is a need for increasing the share of high-value added manufacturing industry in economy output. Notwithstanding the fact that the country's manufacturing sector structure has changed by shifting gradually to higher technology-based production and by increasing its share in GDP, this is still not translated in higher value added per capita which measures the industrialisation of a country. Increased value added per capita leads to rising of the living standard, as the real GDP per capita is around 36% of EU-28 average in 2017. The IMF Analysis on FDI in New Member States and Western Balkans³² states that much of the pre- and post-production services activities, which hold the higher share of value added are done by parent companies, meaning research and development activities, which have increased over time, are kept in host countries. For this reason, the domestic companies should embrace more vigorously the advantages of the digital technology for increasing their productivity, competitiveness and their share of value added in higher technology industries.

In this regard, only investing in research, development and innovation can provide success on the global market, which is becoming increasingly integrated in value chains. According to the European Innovation Scoreboard 2018³³, North Macedonia is a modest innovator as it shows performance level below 50% of the EU average. The report states Attractive research systems and Innovators as the strongest innovation dimensions, while Sales impact and Intellectual assets are the weakest innovation dimension. The report shows that firms' investments in R&D are negligible, compared to Non-R&D innovation expenditures. It also shows very low level of patent and design applications vs. trademark applications, in favour of the latter.

The OECD report – Competitiveness in South East Europe: A Policy Outlook 2018³⁴, states that in a global economy increasingly dependent on knowledge and skills, investment in education and competencies is critical to increase human capital and thus improve labour productivity, which is a long-term driver of economic competitiveness. PISA results for North Macedonia are well below its peers from CEE and the OECD average, and North Macedonia along with Kosovo are the lowest achievers among SEE countries. Mismatches between private employer needs and the skills provided by the education system are problem for decreasing the high unemployment rate in North Macedonia, especially youth unemployment being at a level of 47.6% in 2017, almost three times higher than EU average. In this sense, the activation policies should play key role in supporting young, long-term, women and vulnerable groups to find suitable employment and increase employment opportunities. Closely related to this is the need to strengthen the integration of social work centres and public employment agencies for better targeting the employability of social assistance beneficiaries.

The larger integration of companies in higher technological global value chains depends in a great extent on further improvement of the business environment. Despite the continuous improvement of business regulations, there is a need to improve law enforcement conditions, simplify existing legislation and reduce unnecessary costs. Lack of innovation is closely related to lack of proper logistic such as excellent public services, customs, communication links and transport infrastructure. The country needs to continue with improving the competitiveness of the energy sector, and particular attention should be given to sustainable development given the high potential for renewable energy sources and energy efficiency³⁵.

³⁰<https://www.worldbank.org/en/country/northmacedonia/publication/fyr-macedonia-systematic-country-diagnostic-seizing-brighter-future-for-all>

³¹<https://stat.unido.org/country/MKD.pdf?sessionid=5302677C31C67CE81999C66B812E7916>

³²<http://www.imf.org/en/Publications/WP/Issues/2018/08/21/Foreign-Direct-Investment-in-New-Member-State-of-the-EU-and-Western-Balkans-Taking-Stock-and-46152>

³³ https://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en

³⁴ <http://www.oecd.org/south-east-europe/programme/competitiveness-south-east-europe.htm>

³⁵ <http://www.oecd.org/south-east-europe/programme/competitiveness-south-east-europe.htm>

Building inclusive society means decreasing income gaps as inequality can worsen growth sustainability. What presents real challenge is the existence of an informal sector that creates unequal conditions for companies that are paying taxes and social contributions and adhere to the legislation. Also, there are large intersectoral differences in productivity, or lack of access to finance, especially for SMEs³⁶.

The European Commission in its Assessment report on Economic Reform programme 2019-2021³⁷ identifies three main structural challenges that need to be addressed to boost competitiveness and inclusive growth:

- youth unemployment,
- integration of domestic companies into global value chains and
- formalisation of the economy.

The informal economy distorts competition, decreases the quality of the business environment, decreases public revenue and leaves some workers without social protection or with limited rights.

By failing to integrate with global value chains, domestic firms are missing lucrative opportunities and the ability to increase their productivity, learn from best practices and in such way positively influence the country's trade balance, growth and competitiveness.

The Joint Conclusions from the Economic and Financial Dialogue from May 2019 referring to needed structural reforms policies, are directly linked to above mentioned challenges:

- Put in place and apply transparent and consistent procedures for business inspections implemented by inspectorates with clear mandates. Create a register of para-fiscal charges on central and local level. Reduce the time and costs of commercial disputes by strengthening the institutional capacity of civil courts.
- Ensure the implementation of the Action Plan for Formalisation of the Informal Economy 2018-2020 in accordance with the timeline.
- Implement the Youth Guarantee in the whole territory with an emphasis on underdeveloped regions by ensuring sufficient and qualified human resources of the Employment Agency, and the participation of relevant stakeholders. Strengthen the governance in the education sector in order to accelerate the modernisation of the education system at all levels through improving infrastructure, curricula and teachers' qualifications. Adopt and implement the new social protection legislation for improving the impact of social transfers on poverty reduction.

5.2. Summary of reform measures

Energy and transport market reform
Measure 1: Increasing the competitiveness of the electricity market
Measure 2: Promotion of renewable energy sources and improvement of energy efficiency
Measure 3: Implementation of an Intelligent Transport System (ITS) along Corridor 10
Agriculture sector development
Measure 4: Improving of irrigation system
Measure 5: Consolidation and defragmentation of agricultural land
Measure 6: Agricultural cooperatives
Industry sector development
/
Services sector development
Measure 7: Increasing competitiveness in the tourism and hospitality sector
Business environment and reduction of the informal economy
Measure 8: Harmonisation of the Public Procurement Legal framework with the Acquis
Measure 9: Development of a National E-Services Portal
This measure is linked to the 5th Policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2019: "Create a register of para-fiscal charges on central and local levels"

³⁶ <http://www.oecd.org/south-east-europe/programme/competitiveness-south-east-europe.htm>

³⁷ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north_macedonia_2019-2021_erp.pdf

Measure 10: Reducing the informal economy This measure is linked to the 4th and 5th Policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2019: “Put in place and apply transparent and consistent procedures for business inspections implemented by inspectorates with clear mandates” and “Ensure the implementation of the Action Plan for Formalisation of the Informal Economy 2018-2020 in accordance with the timeline”.
Research, development and innovation and the digital economy
Measure 11: Enhancing cooperation between the academy and the industry
Trade-related reforms
Measure 12: Trade facilitation Measure 13: Facilitating North Macedonia-Serbia cross-border crossing
Education and skills
Measure 14: Further development of the qualification system This measure is linked to the 6th Policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2019: “Strengthen the governance in the education sector in order to accelerate the modernisation of the education system at all levels through improving infrastructure, curricula and teachers’ qualifications”.
Employment and labour markets
Measure 15: Youth guarantee This measure is linked to the 6th Policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2019: “Implement the Youth Guarantee in the whole territory with an emphasis on underdeveloped regions by ensuring sufficient and qualified human resources of the Employment Agency, and the participation of relevant stakeholders”.
Social protection and inclusion
Measure 16: Enhancement of financial benefits in the field of social protection This measure is linked to the 6th Policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2019: “Adopt and implement the new social protection legislation for improving the impact of social transfers on poverty reduction”.

5.3. Analysis by area and structural reform measures

5.3.1 Energy and transport market reform

Energy market. The main goal of the energy policy of the Republic of North Macedonia is to create the most suitable development of the energy sector which will ensure: reliable, safe and quality energy and fuel supply to consumers, accelerated economic development and increased care for and protection of the environment.

The stated key objectives shall be achieved through the following strategic commitments:

- Achieving sustainable development of the energy sector
- Reduce import dependency
- Diversification of fuels

The country has limited range of options for energy supply and is highly dependent on energy imports as demand has outpaced domestic supply. In the total amount of electricity for consumer needs for 2018, domestic generation accounts for 69.02%, while imports account for 30.98%. The total installed capacity of the power plants from all installed generators is 2,076 MW. Total number of final consumers of electricity for year 2018 is 741,867, out of which 83,180 are non-household consumers. Number of consumers eligible to choose supplier, according to the legislation in force, i.e. those that have exercised eligibility is 301, and the number of consumers supplied under market conditions is 1,226. According to this information, real liberalisation of electricity market is 47.26%. Comparing year 2018 with 2017 one will notice increase in the percentage of liberalisation for 39.75%. There are 24 active traders on the free electricity market and the electricity flow is increased for 49.6% comparing with year 2017. Also, 4,344 measurement points changed their supplier in 2018, which points to an increase of 31.68% compared to 2017 (3299).

Table 5.1. Electricity market liberalisation

activity	Year	
	2018	2017
Total number of final customers of electricity	741,867	728,827
Number of all non-household customers	83,180	84,943
Customers who change their supplier	4,344	3,299
Number of customers supplied under market conditions	1,226	226
Number of customers eligible to choose supplier, according to the legislation in force, regardless of how many have exercised eligibility	301	226
Real liberalisation of electricity market in MK (%)	47.26	39.75

Source: Ministry of Economy

Regarding the energy sources, almost half of domestic electricity generation is due to hydropower. Water is one of the most cost-effective sources of energy and is the most significant renewable energy source in North Macedonia. The hydro power plants are accumulated and flowing, with an average annual output of 1,200 GWh, and the total installed capacity is 554 MW, of which 40% are owned by AD ESM.

The greenhouse gas emissions as a ratio to GDP are five times higher than EU average and will require incremental investments if it is to moderate emissions by 2040. Lignite causes 70% of all CO₂ emissions. The heavy industry (iron and steel, ore processing and cement), poor isolated buildings, inefficient appliances in households and low percentage of renewable resources in households contribute to high greenhouse gas emissions. Conventional hydropower plants cover about 20% of energy needs, but are influenced by the changeable hydrological conditions. The renewable energy sources generation achieved 7% of energy supply till 2016, supported by government's preferential tariffs for hydropower plants, wind, photovoltaic, biogas and biomass plants. Increasing RES and achieving EE targets requires additional investments. Also, achieving the targets and expansion of renewable sources provides opportunity for new jobs and decrease of import dependency.

Energy development strategy 2040 has been adopted by the Government. The Strategy is based on five closely related pillars and mutually reinforcing dimensions: security, solidarity and trust; a fully integrated internal energy market; energy efficiency, climate action - decarbonising the economy and research, innovation and competitiveness. In accordance with the Energy Law, within six months after adopting the Strategy, the Government shall adopt Programme for implementation of the Energy development strategy.

Transport market. The country is uniquely positioned at the crossroads of two major regional transport corridors: Pan-European Corridor 10, which links Northern Europe through Serbia and North Macedonia to port of Thessaloniki in Greece and Pan-European Corridor 8, extending from east to west and connecting the port of Durres in Albania with the ports of Burgas and Varna on the Black Sea in Bulgaria. These corridors are part of the extensions to the EU core TEN-T networks. The road Corridor 10 is 174 km long and its full length is on a highway level. The railway Corridor 10 is 213 km long and is fully constructed. The road Corridor 8 is 304 km long, but only 37% have been upgraded to highway level, thus it needs further upgrading. The railway Corridor 8 that is under construction will link the ports in Bulgaria and Albania through North Macedonia thus providing an alternative transportation opportunity for Macedonian companies.

With respect to the quality of the transport infrastructure, the 2017 Global Competitiveness Report ranks the country 80th out of 138 economies, below aspirational peers (which rank between 33rd and 70th) but above Bosnia and Herzegovina, and Albania among structural peers (note: concrete indicators assess the quality of roads - extensiveness and conditions, quality of railroads infrastructure - extensiveness and condition and access to seaports for landlocked countries). North Macedonia had already prioritised new infrastructure investments along the main transport corridors to consolidate its position as a regional transport hub. Substantial investments have already been made for the corridors but the priority for new investment is to expedite completion of these corridors. There is also a need to improve transport services and maintenance. As transportation by roads is expected to grow rapidly and the number of fatalities from traffic accidents is 78 per million inhabitants, significantly above the average of 52 for EU28, road safety conditions need to be improved. At an estimated 2 percent of GDP, the economic costs of traffic accidents are high. The high and growing share of road transport and the prevalence of old vehicles are the main reason for transport emissions. Transport is the second highest

emitter of green gas emissions, after energy; it produces about 15 percent of total GHG emissions. Modernising transport systems will be important for climate-change mitigation.³⁸

Measure 1: Increasing the competitiveness of the electricity market

1. Description of the measure

This measure continues from last year, the details of the implementation are shown in Table 11.

In order to get competitive prices and free electricity market for all customers, the market legalised step by step. Consumers have the right to choose their supplier of electricity and to buy electricity from trader of their choice at planned price that best meets their needs, or remain in the regulated tariff.

The adoption of the new Energy Law enabled the fulfilment of the energy "soft measures", removal of the main legal obstacles for establishment of organised electricity market, as well as full liberalisation of the energy market, which had started from January 2019. Universal supplier is selected in the beginning of 2019 and it is company named EVN HOME. According to the new Energy Law, the deregulation of the generation price is terminated and the right of all buyers to change the supplier is regulated. Additional activities will be undertaken for implementation of "soft measures" from group 4 of the Third energy package.

The Republic of North Macedonia should join the existing electricity exchange in some of the neighbouring countries or establish its own electricity exchange (taking into account liquidity and economic justification). In this regard, Action Plan for the establishment of National Organised Electricity Market (NEMO) was adopted, and AD MEPSO, as operator of the electricity market, has committed to implement it. With the establishment of the electricity trading platform, day ahead will enable secure functioning of liquid energy market and creation of conditions for increased competition in providing energy to the consumers. The appointment of NEMO is in accordance with the EU CACM Regulation (Capacity Allocation and Congestion Management). After NEMO designation in 2019, the Government will adopt the rules for Organised Market Operator (MEMO). After this decision for MEMO the ongoing project of day ahead market coupling between North Macedonia and Bulgaria will proceed.

Electricity Market Rules have been adopted by the Energy Regulatory Commission³⁹. The increase in liquidity is expected after the merger of the market with at least one of the neighbouring countries.

The changes in prices in electricity market are given in the table below:

Table 5. 2. Electricity market price change

	Year	
	2018	2017
Electricity price for open electricity market (EUR/MWh)	57,73	49,07
Electricity price for open electricity market for big eligible customers (EUR/MWh)	57,36	51,10
Electricity price for open electricity market for small eligible customers (EUR/MWh)	55,55	44,92
Average electricity price for tariff customers (EUR/MWh)	64,85	71,58

Source: Ministry of Economy

The new balancing mechanism is fully market-oriented and will apply to all electricity market participants. The electricity Transmission System Operator (TSO) organises and manages the balanced energy market. Procedures for adoption of the Balance Rulebook are finished. AD MEPSO (TSO) will procure balancing services from the providers of balance services at the national, and in the perspective at the regional market for balancing under competitive conditions.

The current generation company AD ESM signed a Memorandum of Understanding with the Energy Community Secretariat for technical assistance for improving its electricity trading capacities and developing business strategies for managing its electricity generation and trading portfolios in order to be competitive on the electricity market. With gradual deregulation of the production price, households and small consumers after January 1, 2019 are able to choose their own electricity supplier, and if they do not choose, they will be supplied by the universal supplier as a supplier of last resort. Market integration within the region is expected to decrease the cost of energy in North Macedonia. This will lead to decreasing of the overall electricity price.

³⁸<https://www.worldbank.org/en/country/northmacedonia/publication/fyr-macedonia-systematic-country-diagnostic-seizing-brighter-future-for-all>

³⁹ Official Gazette of RM No. 173/18 dated September 2018

In order to protect the vulnerable consumers, it is envisaged a Programme for Protection of Vulnerable Energy Consumers for 2020 to be adopted. Categories of vulnerable costumers need to be defined and associated measures, including financial support and responsible institutions for realisation of the programme. This programme is prepared by the Ministry of Economy in cooperation with the Ministry of Labour and Social Policy.

a. Planned activities for 2020

- Activities connected with day ahead market coupling between IBEX (Bulgaria) and MEMO (North Macedonia).

Following steps are planned:

1. Communication to stakeholders
 2. Coordination with MRC OPSCOM
 3. Testing with MRC Simulation facility
 4. Coupling Go-live preparation
 5. Decision on the PX administration model (Serviced, own LTF, etc.)
 6. Observer status in MRC of the newly established company (PX)
 7. Full or partial CACM adoption in MK - NEMO designation process (NRA)
 8. MK to become a signatory of the global DAOA
 9. Removal of the "export tariffs" from the Bulgarian side
 10. Go-live date determination and dry run testing with real participant
 11. LTF (local trading solution) testing
 12. Market maker agreement with key player (s)
 13. Products definition and system(s) establishment
 14. Public presentation
 15. Training materials preparation and members' training organisation
- Adoption of programme for protection of Vulnerable Energy Consumers

b. Planned activities for 2021

- Multi-regional merger of the electricity markets of the signatory countries of the Treaty establishing the Energy Community and the EU Member States
- Technical assistance will be provided by the Energy Community to find compatible solution for multiregional coupling of Macedonian NEMO and EU Member States, in accordance with the EU CACM Regulation.

2. Results Indicators

Indicator	Baseline (2019)	Intermediate target	Target (2020)
Electricity consumption in isolated regime via organised day-ahead market	-	-	at least 5%

3. Expected impact on competitiveness

This measure will enable liquid electricity market and creation of conditions for increased competition in the energy supply to consumers, as well as increase in number of companies that will participate on the open energy market. Further liberalisation of the electricity market has effects on other economic sectors, especially those whose competitiveness depends on energy prices. The expectation is that more than 70% of consumers will be on free electricity market.

4. Estimated cost of the activities and the source of financing

About EUR 1 million is envisaged for implementation of the activities related to the establishment of energy exchange. In 2020 and 2021, EUR 960,000 will be spent on opening new working positions, installing new software that will be used to connect the national electricity market to neighbouring markets, procedure for appointing NEMO and for unexpected costs. Also, about EUR 100,000 will be used for the Programme for protection of vulnerable energy consumers for 2020. As for estimated costs, EUR 960,000 are budget funds, while EUR 100,000 are from other grants.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Opening the electricity market positively affects employment, bearing in mind that opening of new companies directly affects creation of new job positions. The number of companies that own license for supply and license for electricity trade

has increased by more than 10%, taking into account the novelties in accordance with the new Energy Law. Gender equality will be respected in the process of implementing the measure.

6. Environmental impact

In 2016 in Paris, within the Western Balkan Countries Summit (WB6), the Republic of North Macedonia signed the Sustainability Charter, for which the Energy Community Secretariat has prepared a detailed Plan for the implementation of measures related to: improving the EE governance, implementing support measures for improving the sustainability of EE systems, measures to reduce the negative consequences of climate change and fostering transparency of sustainable energy markets.

Coal will continue to be widely used in the industry and space heating. Our country is energy dependent on its exploration, production and use. Environmental pollution by using lignite is a challenge, but it is a priority setting strict environmental criteria and maximum care for the protection in the working process and of the environment. In this regard, completion of the third phase of the TPP Bitola reconstruction will result in a reduction of SO_x and dust emission in accordance with European directives and Macedonian legislation, improvement of ambient air around REK Bitola and the city of Bitola, as well as reduction of the noise at the plant.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Achieving liquidity in isolated mode	High	- In accordance with all prepared bylaws, energy trading conditions foresee compensation of maintenance costs for the electricity distribution and transmission system (losses), - Merge the day-ahead markets between Bulgaria and North Macedonia.
Implementation of CACM Regulation as a precondition for quick connection to neighbouring organised electricity market	High	Currently, preparations are done to overcome this potential risk within the Energy Community Secretariat, with the participation of the PSC DAMI (Programme Steering Committee for Day-Ahead Market Integration) by the contracting parties and the PSC MRC (Programme Steering Committee for Multiregional Coupling) by countries included in the MRC.
Harmonisation of the domestic legislation in the area of VAT. The risk is identified by the Energy Community Secretariat within the Study for all Western Balkan countries on the situation related to VAT	High	The recommendations of the Study are appropriately implemented in the domestic legal system for VAT
Greater risk and pressure on AD ESM revenues and profitability given the current situation in Europe, where liberalisation and decarbonisation brings challenges for power utilities.	High	Increase the electricity production with small operational costs. Technical support for improvement of capacities for electricity trade and development of business-strategies for production management and trading portfolios in order to be market competitive.

Measure 2: Promotion of renewable energy sources and improvement of energy efficiency

1. Description of the measure

This measure continues from last year, the details of the implementation are shown in Table 11.

Greater use of renewable energy sources (RES) and energy efficiency improvement (EEI) is one of the main strategic goals in the energy sector. According to the RES Action Plan, the percentage share of RES in the final consumption in 2020 is set up to 23.9% and in 2025 up to 25%. According to SSO data, the share of RES in 2016 is 18%, and in 2017 it is 19.6%⁴⁰. This percentage should be achieved through the construction of new RES plants, as well as reinforced energy efficiency measures in accordance with the RES Strategy for 2020, as well as the new Energy Development Strategy

⁴⁰http://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat/MakStat_Energija_EnergetIndikator/425_Ene_Mk_17UOIBfp_ml.px/?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef

2040, which will include full analysis on energy efficiency. The Government has adopted the new Energy Development Strategy 2040, and next step is development of a separate implementation programme for the period of five years.

Table 5. 3. Total installed capacity of producers from RES:⁴¹

	Producers from RES (types of power plants)	2017 (in MW)	2018 (in MW)
1	hydro power plants (large + small)	584.6	586.6
2	wind power plant	36.8	36.8
3	biogas plants	6.9	6.9
4	photovoltaic power plants	17.1	18.5
	Total:	645.5	648.9

Source: Energy and Water Services regulatory Commission of the Republic of North Macedonia

Pursuant to the Sustainability Charter signed at the WB6, the Republic of North Macedonia has committed itself to introduce market-oriented support mechanisms for promoting RES (auctions and premiums).

In 2020, with technical assistance, an analysis will be prepared for the possibilities of introduction of Guarantees of Origin for electricity generated from renewable sources, as well from highly efficient combined energy plants. This will enable the suppliers and/or traders to consumers to verify to an electricity customer the share of electricity produced from renewable sources.

The three-year Forth Energy Efficiency Action Plan is currently under preparation and it is expected to be adopted in the beginning of 2020. It will determine how to set the targets for 2021 year.

It is also necessary to adopt the Energy Efficiency Law and accompanying bylaws. The Law is in the parliamentary procedure and is expected to be adopted in the beginning of 2020.

According to the Law, the Government shall adopt decree to determine how the savings targets in the final electricity consumption will be met, whether only with binding scheme where the obligation will be fulfilled by the electricity distribution companies and/or electricity suppliers, or with binding scheme in combination of alternative measures. It is necessary to create favourable conditions (economic, technical and legal) for effectuation of energy services agreements in order for energy serving companies (ESCO) to be able to guarantee for the achieved savings by applying energy efficiency measures. After adoption of the Energy Efficiency Law, the Decree regulating the energy service contracts will be adopted, which will fully open the market for the ESCO companies, especially for the public buildings sector.

The main reform according to Energy Efficiency Law provisions, is that Large Traders (in the industry and other relevant sectors) shall be obliged to perform energy audits every 4 years, or to employ certified energy auditors, in order to be achieved energy savings by the largest energy consumers. There will be no obligation for SME's, though they may perform energy audit.

The establishment and operation of the Energy Efficiency Fund is important in order to accelerate implementation of energy efficiency programmes, measures, and investments. The Energy Efficiency Fund will be regulated by separate law.

In 2020, North Macedonia as a Contracting party of the Energy Community, is required to develop an integrated National Energy and Climate Plans (NECPs).

The NECPs should cover the period from 2021 to 2030, laying down the pathway to achieve the agreed 2030 targets, build upon what each Contracting Party should deliver in relation to their policies for 2020 (as a baseline), and include a perspective until 2050 in order to ensure consistency with long-term relevant policy objectives at EU, UNFCCC and Energy Community level. The NECPs may be built upon Contracting Parties' existing national energy and climate policy strategies and should take a holistic approach and address the five main dimensions of the Energy Union in an integrated way.

a. Activities planned in 2020

- Adoption of Programme for implementation of the Energy Development Strategy
- Adoption of the Integrated National Energy and Climate Plans,

⁴¹[Annual Report of the Energy and Water Services Regulatory Commission of the Republic of North Macedonia for 2018](#)

- Analysis of the possibilities for introduction of Guarantees of Origin for electricity produced from renewable energy sources, as well from highly efficient combined energy plants,
- Adoption of bylaws arising from the Energy Efficiency Law (Decree for establishing a binding energy efficiency scheme, Decree regulating the energy service contracts, MVP Rulebook, Rulebook regulating the methodology for determining the level of energy efficiency in the conduct of public procurement procedures, Rulebook on Energy Audit of Large Traders, Rulebook on high efficiency cogeneration plants),
- Annual plan for reconstruction of at least 1% of the total useful floor area of buildings published in a list of buildings that do not meet the minimum energy performance requirements owned and used by public sector entities at the state level,
- Conducting procedure for authorisation of large traders energy auditors and issuing licence for companies performing energy audits,
- Comprehensive assessment of the potential for applying highly efficient combined energy generation and efficient central heating and air conditioning systems,
- Preparation of typology of buildings needed for adoption of the Strategy for reconstruction of buildings by 2030,
- Adoption of Law on Establishing Energy Efficiency Fund.

b. Activities planned in 2021

- Adoption of Strategy for reconstruction of buildings by 2030
- Establishment of Energy Efficiency Fund

2. Result Indicators

The percentage share of RES in the final consumption is set up to 23.9% by 2020. The primary energy savings in 2020 are estimated at 256 ktoe annually, and the final energy savings in 2020 are estimated at 226.27 ktoe, whereby the cost of 1 Kw/h of energy savings is estimated at EUR 0.23, taking into account that the life cycle of individual energy efficiency measures is estimated to be 10 years. Based on the data from the Third Energy Efficiency Action Plan, it is estimated that the internal rate of return for all implemented energy efficiency measures for final consumption in all sectors, with the exception of the transport sector, is 22%. It differs significantly among sectors:

- Residential sector: 10%
- Public and commercial sector: 9%
- Industrial sector: 182%.

3. Expected impact on competitiveness

The implementation of the measure will ensure: diversification of the supply, increased competition of the energy markets, increased resilience to energy price hikes, increased utilisation of renewable energy sources which lead to lowering the prices of RES, increase of the domestic energy production, security and continuity in the energy supply of households and companies.

4. Estimated cost of the activities and the source of financing

For this measure EUR 29,018,500 are planned from the budget as well from grants and loans, out of which EUR 16,468,500 are planned for the period from 2020-2022. The Public Sector Energy Efficiency Project that is currently implemented covers the period from 2020-2025 and includes a loan in amount of EUR 25 million for decreasing the public sector energy consumption and support for establishing and operationalisation of sustainable public sector financing mechanism. Under preparation is IPA 2 grant scheme in amount of EUR 4 million for implementation of pilot measures on climate changes and EE. For the new working posts, budget funds in amount of EUR 18,500 are planned.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Creation of temporary and permanent jobs in the production and distribution of equipment is expected, as well as in other services such as design, installation, operation and maintenance. In the construction sector, construction workers and highly qualified personnel will be engaged. Additionally, in the operation and maintenance of the plants, additional staff will be required. In the industrial sector, highly qualified staff with appropriate professional qualifications (auditors and ESCO companies) will also be recruited, who will be continuously engaged in the monitoring of consumption and proposing of new measures for achieving savings. Gender equality will be respected in the process of implementing the measure.

6. Environmental impact

Increased use of renewable energy sources and the maximisation of energy savings is much needed as it directly impacts emission reductions and protects the public health, the environment and moderates the climate change resulting from the harmful effects of the energy activities.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Delaying the establishment of the Energy Efficiency Fund	High	The appropriate recommendations from the Analysis on the manner of establishment of the Energy Efficiency Fund should be incorporated into the new Law on Establishment of the EE Fund. Also, it is necessary to develop procedures for the manner of operation of the Fund and approval of the projects that implement measures for EE.

Measure 3: Implementation of an Intelligent Transport System (ITS) along Corridor 10

1. Description of the measure

This measure continues from last year, the details of the implementation are shown in Table 11.

The measure envisages implementation of ITS with several devices such as WIM (weight in motion) on A1 Motorway (section Tabanovce - Gevgelija, part of Corridor X) in the length of 175 km, Road Weather Information Systems (RWIS), which are a road weather stations built to collect data on weather conditions and air pollution, including systems for monitoring GHG (SLCP) emissions.⁴² The most part of M1 North-South section Tabanovce - Gevgelija is built as a highway A1 and is equipped with basic traffic signalisation and equipment. The ITS will provide for variety of traffic data and the number and type of vehicles that move along corridor X, as well as meteorological data along the route throughout the year which can be used for statistical and analytical purposes. The introduction of an ITS is closely linked to approximation with the directives from the EU transport acquis. It will enable road connectivity to EU standards and contribute to facilitate trade and transport. By development of ITS along road Corridor X, one of the strategic objectives stated in the National Transport Strategy will be fulfilled i.e. maintaining a high level of safety and traffic flow in all conditions.

In relation to the regional approach, the expected economic impact is reduction in travel time to the border crossing points. It is in line with the Multiannual Action Plan (MAP) which provides a structured agenda for furthering regional economic integration, focusing on regional circulation of goods, services and capital, mobility of skilled workforce, a dynamic investment space, and digital integration. This measure is part of regional project "Reduce trade costs and increase transport efficiency in the Western Balkan 6", Component 2: Enhancing transport efficiency and predictability. It includes Albania, North Macedonia and Serbia. The measure is closely linked to Measure 12 Trade facilitation.

a. Activities planned in 2020

- provision of funds for implementation and project approval,
- Start the process for selection of the contractor for construction and selection of supervision of construction. Signing contracts and start of construction activities. The length of the contract for construction is 12 months and for supervision is 18 months. It is expected then installation to start by the end of 2020.

b. Activities planned in 2021

- Continuation of activities for installation and supervision.

c. Activities planned in 2022

- Continuation of construction activities. Finishing activities: procedure for hand over certificate and continuation of the Defect notice period.

2. Results Indicators

An EU report summarising evaluation results for ITS projects implemented in Europe between 1994 and 1998 finds that a dynamic signal control can reduce travel times by 17 percent, increasing to 20 percent when the dynamic signal control

⁴²<http://documents.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

strategies are integrated with information and guidance⁴³. An US study indicates that one DMS (Dynamic Message Signs) is likely to reduce $100 \times (1 - \text{EXP}(-0.181)) = 16.6\%$ of crashes per year, when other factors in the model are controlled⁴⁴.

The benefits of the ITS improvements will begin after 1 year once the systems are installed and the life cycle of the ITS equipment is 10 years (installation in 2020, benefits from 2021 to 2031). The average number of trucks on corridor with an annual growth equal to projected GDP growth.⁴⁵

Indicator	Baseline (2018)	Target (2021)
Reduced number of traffic accidents along Corridor X	67 ⁴⁶	56
Reduced number of traffic accidents expressed in% along Corridor X	0%	16.6% ⁴⁷
Reduced travel time along Corridor X	103	85.5
Reduce travel time in% along Corridor X ⁴⁸	0%	17% ⁴⁹

3. Expected impact on competitiveness

The use of ICT in the field of transport, related to infrastructure, vehicles or users is fast becoming one of the most important areas in the EU to deliver improvements in network capacity, traveller mobility and therefore enhance economic productivity. In the Western Balkans, ITS could support improvements in congestion management, incident detection and recovery, advice on diversion and rerouting, real time travel information and better journey time estimate. Harmonisation or interoperability of systems is also essential for seamless and safe cross border transport movements.

The Intelligent Transportation and Traffic Management System will provide significant improvement in the performance of the current traffic flow through reduced delays due to timely reporting and traffic redirection. The greatest impact is expected to be an increase in safety and in saving travel time. Total travel time will be reduced as a result of coordination of the timely information system for road users along Corridor X. Because of the early alerting for possible delays by the system, the time savings by excluding the delays will allow the users to decrease their travel costs and therefore Corridor X will be more competitive for usage, especially for international transport. Companies carrying out transport activities will have lower costs and shorter transportation time.

4. Estimated costs for activities and the source of financing

After the project revision the financial construction is to be finalised. The funds are planned to be provided through WBTF project loan.

Note: Due to the sensitive period (Publication of the tender for ITS project) this data will not be available for public usage.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender equality

The implementation of this system will have a direct short-term impact on companies that work with this type of equipment by increasing their number of employees. Within the regional project that this measure is part of, a gender survey is planned to be undertaken that will shed light on some of the gaps that exist around barriers that women traders face in undertaking trade across the WBs at the firm level. The results will be used for potential interventions to help women headed businesses.⁵⁰

6. Expected impact on environment

ITS will have low to moderate, mainly site-specific environmental impacts. In the deployment phase, impacts will mainly relate to traffic safety issues during the modifications, including for the deployment of ITS systems. None of the impacts is expected to be large-scale or irreversible. In addition to introducing early warning systems to monitor and address climate related risks on the road network, the weather stations that will be installed within Intelligent Transport System (ITS) will collect data and monitor GHG emissions from road transport (specifically SLCP emissions connected with air pollution). The information that will be collected through GHG (SLCP) emissions monitoring systems will help linking specific climate

⁴³CODE, 2000, "Network and Traffic Management: Final Area Report" for the "Telematics Applications for transport within the Fourth Framework Programme". Available on: http://collections.internetmemory.org/haeu/20161215121151/http://cordis.europa.eu/pub/telematics/docs/tap_transport/netrama.pdf, accessed Feb 15, 2018.

⁴⁴ Oh J. et al. (2015), Michigan Department of Transportation, "Costs and Benefits of MDOT Intelligent Transportation System Deployments".

⁴⁵ Based on data from SEETO, EU and National Customs, counts from 2015, updated via linear regression for 2018.

⁴⁶ According to the data for 2017 provided by PESR

⁴⁷ Using the assumptions in the above mentioned US study

⁴⁸ In a usual traffic excluding the waiting time on the border crossings

⁴⁹ Using the assumptions in the above mentioned EU report

⁵⁰ <http://documents.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

change and development priorities (e.g. mitigation, adaptation and improving air quality) and be a valuable support to governments of the WB6 in developing regulatory and policy reforms and institutional strengthening for pursuing low-emissions development.

7. Potential risks

Risk	Probability (low of high)	Mitigating actions
Prolongation of the activities for completion of the project	Medium	Regular monitoring of the implementation of the activities
Delay in adoption of appropriate legislation and by-laws for this type of systems	Medium	Using EU technical assistance (TAIEX) in better and efficient legislation approximation

5.3.2 Agriculture, industry and services

5.3.2.1 Agriculture sector development

Agriculture plays an important role in the Macedonian society, with wide regional differences.

According to the SSO data, the agriculture, forestry and fishery sector participates in the gross domestic product with 9.2% in 2016 and 7.9% in 2017. Its share in the total gross value added (GVA) was 9.4% in 2017, whereas the biggest contribution has the South-Eastern region with 29.7%, then The Pelagonija Region with 22.1 %, and the smallest contribution has the North-Eastern and South-Western region with 4.2%. The biggest contribution into value of the crop production has the South-Eastern region with 35.9%, and into value of livestock production, the biggest contribution comes from the Pelagonija Region with 19.9 %.

The GVA in 2017 declined for 12.8% compared to 2016. Production of agricultural “business branch” for 2017 has reduced for 9.5 % compared to 2016. The value of agriculture production in 2017 contributes with nearly 90% into the total production value in agricultural “business branch”. At the same time, its share in employment was 16.2% in 2017, and in the business entities 15.7%, registering a modest decline over the past years. Further modernisation and development of the agri-food sector can generate jobs which is one of the biggest priorities in the country, and at the same time to stimulate the economic growth.

Rural areas in North Macedonia face many structural and socio-economic challenges. According the criteria defined in the List of Rural areas and rural communities, the total rural area covers 88.7% of the country territory (including 62 municipalities) and is populated with 985,000 citizens or 47.5 % from total population.

Mostly, the rural economy is presented by small enterprises (including the micro enterprises) which focus their economic activity on local/regional markets. Almost all enterprises from primary agriculture production, are mostly located in the rural regions. The food industry (except for meat products and slaughterhouses) is in the rural areas because of the closeness to the raw materials from the agriculture. According to the Strategy for micro and small enterprises, the main challenges for development of micro and small enterprises are: inconvenient business environment including the challenges from inconsistency of the legal framework, insufficient access to business development services, restricted access to finance, insufficient entrepreneurship culture, low productivity, low level of innovation etc. Additionally, the big disparity in regional development and development of urban instead of rural communities, and the lack of basic infrastructure as part of the business environment, creates basic structural barriers for the development of business activities in rural areas.

Primary agricultural production remains caught in a low-productivity-low-income trap. Crop production in the period until 2018 is characterised by decreasing of the cereal areas and increasing the areas under tomatoes and the number of the native apple trees and penny vines is increasing. In 2018 the number of sheep decreased, and the number of cattle increased. The number of pigs varies from year to year. The production of pork meat increased in 2018.

Most farmers are engaged in production for own use and small sales, are registered as unemployed and are poorly engaged in the labour market. Unemployment among the working rural population is most prevalent in age group from 25-49 years.

The number of agricultural holdings at the country level according to the latest Structural Survey of the State Statistical Office shows that the total number of agricultural holdings is 178,125, of which 99.8% (i.e. 177,845) are individual agricultural holdings and their number increased by 4.2% compared to 2013 (170,885).

The average size of agricultural holdings in 2016 was 1.8 ha and 2.1 livestock units. Value added per worker in agriculture, as a measure of agricultural productivity, in 2016 was 19,127 and is 2/3 of the EU average of 29,425. 87.5% of the available land is used agricultural land (a 2 p.p.s increase compared to 2013), partly as a result of the decline in the total land area available to individual agricultural holdings with 15% of the total used agricultural land by the business subjects.

The consolidation of agricultural land will be done through the exchange of parcels with or without changing their form to a complete change of borders of land plots to get larger land with proper shape, suitable for agricultural production. Additionally, they will revise the already granted state agricultural land with a categorisation according to the quality based on which the size and duration of the concession will depend.

This process is expected to contribute to improved productivity, increased physical volume and quality of agricultural products, and improved competitiveness of agricultural production on both domestic and foreign markets.

The trade deficit in agri-food industry in 2018 increased by 10.3% compared to 2017, reflecting the weak competitiveness of the sector. The country is a net importer of agri-food products, though in certain categories such as tobacco, wine, fruits, vegetables and lamb there are trade surpluses.

Measure 4: Improving of irrigation systems

1. Description of the measure

This measure is rolled over from last year, the implementation details are presented in Table 11.

The capital investments in construction of dams and irrigation systems have already started and will proceed in the next period. Overall objective of irrigation investments is increasing of irrigated areas in the country on the level of installed capacity (144,000 ha) and gradual widening of irrigation systems to fulfil the objective irrigated land to be a half of total cultivated land (around 250,000 ha). Those capital investments will have direct impact over increasing of irrigated crop yields and physical agricultural production.

The activities are realised in accordance with the "Investment Plan for Water Management Master Infrastructure 2015-2025", which encompasses the following types of infrastructure works:

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

Beside construction of dams, new irrigation systems construction will start:

- HS Konsko, after finishing with construction of Dam Konsko - Gjevgjelija,
- HS Lisiche - Veles, irrigation system on dam Lisiche,
- HS Zletovica - Probishtip, irrigation system on dam Knezevo,
- HS South Vardar - Gjevgjelija, in process of construction,
- HS Raven – Rechica, in process of construction,
- IPA small irrigation systems up to 300 ha.

The measure will be extended with new activities within next ERP 2021-2023, referring to the rehabilitation and extension of 4 irrigation schemes in the Vardar River Basin. The purpose of these activities is sustainable increase of the agricultural production and productivity within the 4 selected irrigation schemes by improved availability and efficient use of water resources. Start-end of the activities is expected in the period 2020 - 2025. The total cost is approximately EUR 110 million, of which EUR 80 million are provided through a loan, EUR 2.8 million through a grant and EUR 27.2 million through government contribution.

The institutional setup of irrigation and drainage sector consists of central management through stated owned Stock Sharing Company, with HQ in Skopje and 14 branches. In addition, farmers can organise themselves through agricultural cooperatives responsible for irrigation management on farm level.

Activities	2020	2021	2022
Construction of dam Konsko	Continuing construction works	Continuing construction works	Finishing of construction works
Construction of dam Rechani	Continuing construction works	Continuing construction works	Continuing construction works
Construction of irrigation system Raven – Rechica	Continuing construction works	Continuing construction works	Finishing of construction works
Construction of dam on Slupchanska river	Starting procedure for providing construction license	Starting construction works	Continuing construction works
Second and third phase on HS Zletovica	Finishing negotiations with EIB for financing of project and starting with tender preparation	Starting construction works	Continuing construction works
Second phase of South Vardar irrigation system	Continuing construction works	Continuing construction works	Finishing of construction works
IPA small irrigation systems	Finishing construction of 3 irrigation systems started in 2019. Finishing with technical documentation preparation for other 5 irrigation systems	Starting construction of 5 systems. Finishing construction of 3 irrigation systems.	Finishing construction of 2 irrigation systems started in 2021.

Main contractor of this measure is Ministry of agriculture, forestry and water economy.

Ministry of environment and physical planning is acting separately for each individual application concerning procedures described in Water Law.

2. Results indicators

Implementation of the measure will increase the share of irrigated agricultural land in relation to arable land from the current 4% to approximately 6%, or increase the irrigated area by 50% compared to 2014 (from 20,575 to 34,925 ha). This will be accomplished with implementation of this measure and construction of three new dams and nine new irrigation systems.

Thereby, output indicators of the measure are:

- Constructed three (3) dams - Konsko, Rechani and Slupchanska; and
- Constructed nine (9) new irrigation systems
- New agricultural land of 14,350 ha covered with irrigation systems and possible for irrigation.

Indicator	Baseline (2018)	Intermediate target (2023)	Target (2025)
Constructed three (3) dams	-	1	3
Constructed nine (9) irrigation system	-	6	9
50% increase in irrigated land	20,575 ha	33,700 ha	34,925 ha

3. Expected impact on competitiveness

The measure will contribute to the improvement of the farmers' living conditions, and sustainable increase of the agricultural production and productivity by improved availability and efficient use of water resources. The income of agricultural households is expected to increase 3-5 years after the completion of the measure activities.

Access to regular irrigation for farmers is expected to contribute for sustainable agricultural production based on possibility for cultivation of profitable agricultural crops dependable on irrigation, as well as possibility for increased yields of current agricultural crops that are significantly lower without irrigation (e.g.: no irrigation vs irrigation: corn 2,320/6,700kg/ha, cereals 2,530/4,500kg/ha, grapes 7,000/30,000kg/ha, alfalfa 3,000/16,000kg/ha etc.).

Additionally, the measure will enable production of electricity through construction of hydropower plants.

4. Estimated cost of the activities and the source of financing

The total cost of the measure for the period 2020-2022 is around EUR 156.7 million, of which EUR 91.5 million from central budget, EUR 3 million are IPA funds, EUR 4.3 million grants and EUR 57.9 million project loans.

Activities/ EUR million	Spent until October 2019	2020	2021	2022
Construction of dam Konsko Base year: 2017	14.0	12.2	14.4	0
Construction of dam Rechani Base year: 2018	0.8	9.8	7.2	13.7
Construction of irrigation system Raven – Rechica Base year: 2018	2.6	8.0	4.1	0
Construction of dam on Slupchanska river Base year: 2019	0.4	0.0	3.0	6.0
Second and third phase on HS Zletovica Base year: 2020	0.0	7.2	9.6	37.5
Second phase of South Vardar irrigation system Base year: 2018	4.0	6.8	9.2	0
IPA small irrigation systems up to 300 ha - preparation of tender documentation Base year: 2018	3.3	3.0	3.0	1.5

Note 1: The purpose of column "Spent until October 2019" in the Table under section 4 is to have clear picture about total value of each activity: funds spent from the beginning of activity (base year) plus funds planned for next years should give total value of each activity.

Note 2: There are differences in estimated cost of the activities and the budgetary impact for this planning period (2020-2022) comparing to previous planning period (2019-2021) due to following reasons:

- Estimated costs planned for next year are not always same with those actually approved with the Budget
- Long process of obtaining the necessary permits and construction approvals can be reason for delay of realisation of activities and payments.

Note 3: Three activities from this measure should be finished in 2022. After finishing with construction of dam Konsko, HS Raven – Rechica and HS South Vardar, operation and maintenance activities will continue. The Stock Sharing Company "Water economy of North Macedonia" will be the institution in charge, and in some cases farmer organisations (Agricultural cooperatives responsible for irrigation).

5. Expected impact on social outcomes, such as employment, poverty education, equality and gender

The construction of hydro systems will have a direct short-term impact on employment, by engaging construction workers. There is currently no estimate for these jobs. Additionally, in the medium and long term, positive impact on employment is expected as a result of increased competitiveness of the agricultural sector. The gender equality will be respected in the process of implementation of the measure.

6. Expected impact on the environment

Environmental impact assessment studies or elaborates are done for each of the capital projects.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Long process of obtaining the necessary permits and construction approvals	High	Increased level of institutional cooperation
Long process of land expropriation	High	Increasing capacity of State Attorney's Office in proceeding requests for expropriation to the Ministry of Finance - Property and Legal Affairs Office, regional offices

Measure 5: Consolidation and defragmentation of agricultural land

1. Description of the measure

This measure is rolled over from last year, the implementation details are presented in Table 11.

The ongoing land consolidation activities are taking place within the IPA 2015 project "Implementing the National Land Consolidation Programme". In total 23 potential land consolidation projects have been identified, based on a nationwide feasibility study and an assessment of the interest of landowners and other impact factors in micro locations across the country.

During the implementation of two pilot projects for consolidation in certain regions of the country in the period 2014-2016, a number of obstacles and inconsistencies in the existing legislation were found that prevent the implementation of consolidation of agricultural land in the procedures for allocation and exchange of land. For these reasons, amendments to the Law on Consolidation of Agricultural Land and new by laws were adopted in 2018. The second round of amendments to the law is planned for second quarter of 2020, and draft proposal is already prepared.

The expected effects of this process are the reduction of fragmentation of land parcels, their clustering, improved shape of parcels for applying modern techniques and production technologies, increased average size and providing access to new or rehabilitated agricultural infrastructure.

More details on expected impact on improvement of the situation regarding the land abandonment and utilisation of state owned agricultural land in Annex 6.

The activities are realised in accordance with the National Strategy for Consolidation of Agricultural Land 2012-2020.

a. Activities planned in 2020

- Continuation with strengthening of the capacities of MAFWE, especially the regional units and the Department for Consolidation of agricultural land, exchange and identification of land parcels,
- Continuing the training of service providers for preparation of re-allotment and infrastructure plans,
- Finalisation of new 4 re-allotment plans,
- Finalisation of 4 infrastructure plans and construction,
- Finalisation of 4 environmental impacts analyses in the areas where agricultural land consolidation is carried out,
- Utilisation of the land consolidation measure (sub-measure 124) from the National Programme for Agriculture and Rural Development.

Note: As the discussion for project extension between the Beneficiary Institution, the Implementing Organisation and the Donor are ongoing, the activities planned for 2020 according to the current project document might be subject to amendment.

b. Activities planned in 2021

- Implementation of land consolidation activities within the IPA 2019 project "Implementation of the National Land consolidation programme" (4 consolidation projects).

c. Activities planned in 2022

- Implementation of land consolidation activities within the IPA 2019 project "Implementation of the National Land Consolidation Programme" (4 consolidation projects).

The base year for the measure is 2016.

2. Results Indicators

Increased consolidated agricultural land areas.

Baseline indicators: Number of agricultural holdings (192,000 in 2010); Average agricultural land size per agricultural holding (1.47 ha in 2010); Agricultural holdings covering areas up to 1 ha (63% in 2007); Agricultural holdings covering areas of 3 or more ha (11% in 2007).

3. Expected impact on competitiveness

Improving the structure of agricultural holdings by consolidation of land parcels that are larger and better shaped should facilitate the adoption of new agricultural technologies that will lead to an efficient agricultural sector. Benefits of land consolidation in EU countries include increasing farmers' gross income and reducing working time in this area.

4. Estimated cost of the activities and the source of financing

The total costs for implementation of the National Land Consolidation Strategy are provided from IPA II and FAO in the total amount of EUR 2,561,189 for the entire period of implementation, out of which EUR 1,001,189 in 2018, EUR 900,000 in 2019 and EUR 660,000 in 2020. While total of EUR 250,000 was allocated under the land consolidation measure in the

National Programme for Support of Agriculture and Rural Development for 2019. The budgetary implications for land consolidation for the national budget financed through the National Programme for Support of Agriculture and Rural Development will be subject of further planning for 2020 and 2021 respectively.

Note: Under IPA 2019 it is estimated that in total EUR 1.000.000 will be allocated, with annual costs of EUR 500,000 for 2021 and 2022.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The results of various surveys of land consolidation projects show that many communities that have experienced land consolidation show an increase in the number of jobs created.

The new legal framework supporting the implementation of agricultural land consolidation procedures, especially emphasises the gender issue, by providing mechanisms for inclusion of spouses in the decision making processes by guaranteeing their rights as rightful unregistered joint owners of agricultural land acquired during the marital union.

6. Expected impact on the environment

The process of land consolidation is in accordance with spatial and physical planning, and includes legal and technical measures to ensure environmental impact assessment and mitigation measures in the stage of specific types of rural infrastructure development. In addition, the objectives of the land consolidation stipulated in the legal framework envisage objectives directly connected to the environmental protection such as consolidation for the purpose of expansion of environmentally protected areas and afforestation.

Through the application of land consolidations, travelled distances between agriculture parcels are greatly reduced, and the effectiveness of agricultural process such as soil management, fertilisation and crop protection is drastically increased. This has a direct impact in the reduction of CO₂ emissions in the agricultural sector, whereby lesser input of machinery (fossil fuels) achieves the same or greater agricultural outputs (crops produced) on the same area of land. Additionally, land consolidation improves the natural landscape, and protects land from soil erosion by creating improved land structure and ameliorative and irrigation infrastructure.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
The land consolidation department is understaffed	Medium	Extensive communication, advocacy, policy dialogue
Issues related to land registration obstruct the land consolidation process	Medium	Proper project selection, integration of specific procedures and involvement of legal expertise Ensure proper coordination and cooperation between MAFWE and the Agency for Real Estate Cadastre
Negative image of land consolidation due to past experiences	Medium	Extensive communication, combining project design with other measures, participative/open planning processes, using good examples from pilots (e.g. from ongoing FAO project)
Non-compliance of various policy instruments	Medium	Proper coordination between different agencies, communication and awareness raising activities focused on policymakers, enhanced policy dialogue

Measure 6: Agricultural cooperatives

1. Description of the measure

This measure is rolled over from last year, the implementation details are presented in Table 11.

Agricultural cooperatives represent one of the pillars for market modernisation and preparation of the country for development of the EU model of Producer Organisations and, as such, should receive strong attention.

Modernisation of food distribution can offer a good opportunity to organise the producers, as modern customers require consistent quality and quantity of supplies that organisations of farmers can provide more easily than individual farmers. Therefore, strong cooperatives are needed to achieve this objective.

The objective of horizontal integration of subjects involved in food production sector is mainly oriented towards agricultural cooperatives as the most suitable way for improvement of agricultural products supply chain structure. Investments in marketing and product certification are crucial for cooperatives development in the forthcoming period.

Activities for supporting association of farmers in agriculture cooperatives are part of the measure "Economic association of agricultural holdings for joint agricultural activities" within the "Programme for financial support of the rural development" and on-going implementation of the EU project "Support to development of agricultural cooperatives". Support from the national budget is disbursed in two ways, 100% refund of management costs and 90% co-financed amount for purchase of mechanisation.

The establishment of agricultural cooperatives is envisaged in the National Strategy for Agriculture and Rural Development 2014-2020, aimed at improvement of the agriculture sector structure, improvement of the market position of farmers, increase of their bargaining power in relation to wholesale buyers, as well as getting lower prices for raw materials, machinery and investment assets.

In the Registry of agriculture cooperatives there are 54 cooperatives registered so far, of which 7 are large size and the other 47 are small size cooperatives, with a total capacity of 1,530 ha arable land, 6,000 bee families, 900 cattle, 500 goats and 12,000 sheep. The total number of agriculture holdings joined in cooperatives is around 560. The procedure for registration in MAFWE is very simple and takes less than 5 working days.

a. Activities planned in 2020

Implementation of some of the planned activities under ERP 2019-2021 are moved in advance for one year, hence activities planned for 2019, 2020 and 2021 are shifted for 2020, 2021 and 2022, respectively.

Activity	Description
1. Providing continued financial support for cooperatives (continues from the previous period)	- Assistance for establishing and functioning of agricultural cooperatives - Investments for application of mutual production practices for agricultural products quality standards compliance or production of higher quality agricultural products and - Organising the informative and promotional activities for agricultural products.
2. Revising the legal framework for agricultural cooperatives in the way that cooperative principles are better fulfilled	- Law on cooperatives; - Law on agriculture and rural development; - Law on Water economy; - Law on Agricultural Activity and - Law on Employment and Unemployment Insurance.
3. Developed monitoring system for agricultural cooperatives functioning and effectiveness of national support measures	- Monitoring and evaluation of the economic activities of the agricultural cooperatives - Assessment of the use of national support measures - Better exchange of information between the MAFWE and the agricultural cooperatives
4. Encouraging the process of market-oriented association of farmers into cooperatives	- Optimisation of production costs and joint procurement or producing of production materials
5. Support for investments in processing, finalisation and placement of agricultural products	- Introducing mutual operations for storing and marketing of agricultural products or final processing, finalisation and distribution of agricultural products and - Introduction and mutual application of higher quality standards for agricultural products.

b. Activities planned in 2021

Activity	Description
1. Providing continued financial support for cooperatives (continues from the previous period)	- Assistance for establishing and functioning of agricultural cooperatives; - Support for insurance premiums - Investments for purchasing of agricultural machinery - Investments for application of mutual production practices for reconciliation of the quality standards of agricultural products or production of agricultural products with higher quality and - Organising the informative and promotional activities for agricultural products.
2. Support for acquisition of Protected labels of quality of the agriculture and processed products	- Training and education of human resource potential and members of the agricultural cooperative on the benefits offered by acquisition of Protected labels of quality of the agriculture and processed products
3. Support for investments in processing, finalisation and marketing of agricultural products (continues from the previous period)	- Introducing mutual operations for storing and marketing of agricultural product or final processing, finalisation and distribution of agricultural products and - Introduction and mutual application of higher quality standards for agricultural products.

period)	products.
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c. Activities planned in 2022

Activity	Description
1. Providing continued financial support for cooperatives (continues from the previous period)	- Assistance for establishing and functioning of agricultural cooperatives - Investments for application of mutual production practices for agricultural products quality standards compliance or production of higher quality agricultural products and - Organising the informative and promotional activities for agricultural products.
2. Support for modernisation and innovative management of agriculture cooperatives	- Introduction and utilisation of modern technological achievements and promoting innovative practices for modernisation of agricultural cooperatives
3. Support for investments in processing, finalisation and marketing of agricultural products (continues from the previous period)	- Introducing mutual operations for storing and marketing of agricultural product or final processing, finalisation and distribution of agricultural products and - Introduction and mutual application of higher quality standards for agricultural products.

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)
Number of agriculture cooperatives at the end of each year	64	74	84
Contribution of cooperatives to the agricultural production value-gross agricultural output, %	5	10	15
Young farmers (age below 40) members of agriculture cooperatives, %	23	25	27
Women associated to agriculture cooperatives, %	19	20	21

3. Expected impact on competitiveness

Establishment of agricultural cooperatives is an opportunity for development of farms by promoting economic partnership that through joint production, sale and marketing of their products, will strengthen their market role, increase competitiveness and efficiency, increase individual income of the farmer, and moreover will provide for qualitative production, assured sale and higher profits.

4. Estimated costs of the activities and the source of financing

The total cost of the implementation is EUR 6,360,000, out of which in 2020: EUR 2,440,000; 2021: EUR 2,860,000 and 2022: EUR 1,060,000.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The community will benefit from the development of agricultural cooperatives through increasing and retaining jobs in agriculture and processing industry. The gender equality will be respected in the process of implementation of the measure. During the selection procedure additional points are assigned for financial support to agriculture cooperatives with female members.

The agricultural cooperatives help in the creation of employment opportunities. Firstly, cooperatives offer self-employment to their members, whose participation in the economic activities makes it possible for them to be guaranteed a decent income. Secondly, the spill over effect of cooperative' activities is indirect employment providing for non-members to generate income through transactions and opportunities created by cooperatives.

Currently 54 persons are employed as managers of the existing cooperatives. It is expected the number to be doubled with the employment of staff for machinery operation, considering new investments in modernisation of agriculture production. Also, new cooperatives will emerge so the number of the employees will further increase.

6. Expected impact on environment

Agricultural cooperatives are considered as potential organisational vehicles for sustainable development due to their multiple objectives and diverse roles. A lot is expected from agricultural cooperatives since they depend mainly on natural resource-based activities where sustainability issues are central concerns.

Management of natural resources in a sustainable way is a guarantee for ensuring a long-term development of agriculture. Therefore, the adoption of environmental approach in agricultural practice, with conservation and enhancement of natural resources in rural areas, will be one of the priorities of the agricultural cooperatives.

The agricultural cooperatives will be a model of sustainable agriculture that cares for the protection of the environment and biodiversity. In the upcoming period, agricultural cooperatives will have to implement the concept of “green” agriculture as a logical and natural way of carrying out their agricultural activities. In the adoption and implementation of the agroecological approach, the cooperatives will be supported by the state through the agricultural policies’ measures.

Protection and improvement of the physical, chemical and biological soil conditions, reduction of environmental problems arising from agricultural activities’ impact on water quality, and the efficient use of water in agriculture through the requirements for cross-compliance should gradually become habitual, widely accepted minimum conditions in the agricultural production.

In the forthcoming period, the support of agricultural cooperatives for production based on extensive cultivation methods that have no negative impact to nature and produce healthy food for the population will continue with accent on organic production, aiming to increase the domestic consumption and provide crucial long-term sustainability of agricultural cooperatives.

Efficient waste management and generating and consuming renewable resources energy and improvement of energy efficiency, should improve both the incomes generated by agricultural cooperatives and the environmental protection.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
The limited capacity of cooperatives prevents modernisation of production practices of members and transfer to new technologies production	High	Enabling priority to agricultural cooperatives in granting state agricultural land. Additional points should be given to agricultural cooperatives in the procedure for granting state agricultural land.
The status of individual agricultural producer vs. members of cooperatives in terms of tax policy (VAT and PIT)	High	Assess tax policy regarding individual agricultural producer vs. members of cooperatives to provide equal treatment. Members of cooperatives are in unfavourable position because they pay more taxes than individual agricultural producers, which demotivates them to merge into cooperatives.

5.3.2.2 Industry sector development

The industrial sector is foundation of the economy that is closely connected to economic growth, investment, export, employment, research and development, productivity, value added etc.

One of the key features of domestic market is its size, it is relatively small and does not provide enough opportunities for growth of the economy. Thus, the alternative is seen through enhancing competitiveness, expanding domestic companies’ export and accessing foreign markets. According to SSO data for 2017, only 5% of companies are exporters and this number in EU is above 13%. The structure of exports was dominated by enterprises exporting to EU. The share of large enterprises in the value of exports on the EU market was 78.4%. More than 50% of the external trade value was concentrated in the top 10 enterprises on the export side, while on the import side a similar share was realised by the top 50 enterprises⁵¹. Foreign investments from the free economic zones participate with almost half of the export value.

Research and Development (R&D) expenditure as a proportion of GDP is 0,37% in 2018, while EU 2020 target is 3% of GDP. The level of cooperation between universities and industrial sector is very low. Less than 10% of companies have some form of regular cooperation with the universities, except for IT and automotive industry where the cooperation is on a higher level⁵².

The Industrial Policy evaluation confirms the above mentioned and points to key problems for growth of the economy, more specifically the problems the industry is facing with:

- low productivity and low productivity growth rates,
- low modernisation of the production process and obsolete technologies used by the production process (introduction of new technologies and innovation),
- insufficient development of clusters and value chains,
- lack of cooperation between the scientific and educational institutions and industry, as well as between the domestic companies and FDIs,

⁵¹http://www.stat.gov.mk/pdf/2019/7.1.19.08_mk.pdf

⁵²WB Systematic country diagnosis, 2018 p. 27

- export concentration and very large dependency on 7 export products (67% of the export), as well as high share of basic and low technology products,
- weak compliance of the educational programmes with labour market needs resulting in lack of adequately trained work force.

The new Industrial Strategy for the period 2018-2027, adopted by the Government in November 2018, integrates measures for creating industry based on green, innovative, circular and smart growth. The foreseen 38 measures are divided in five strategic goals aimed at reinforcing the manufacturing foundation, raising productivity, innovation and technology transfer, catalysing green industry and green manufacturing, stimulating manufacturing export and building a learning manufacturing sector. One of the activities in the Action Plan 2018-2020 of the Strategy is Identifying and targeting the support of priority sub-sectors in the manufacturing industry, through smart specialisation. In this regard, a process of developing a Smart Specialisation Strategy is underway. Mapping of strategic documents related to smart specialisation and Mapping of economic, innovative and research capacities is done. The whole process is conducted in coordination with the Joint Research Centre.

5.3.2.3 Services sector development

The services sector accounts for over half of employment and over 60% of GDP. The sector grew by 2.6% in 2018, but it faces several structural problems. The further development and growth of services sector companies is hampered by weak entrepreneurial skills and a significant skills gap in employees, particularly soft skills, which are especially important in services.

Export of the country's services continues to grow and it increased by 1.5% in 2018. However, services still represent only 25% of the value of the country's export basket, which is partially explained by the low share of high growth firms in the sector. In the last 3 years only 5.5% of medium sized service firms experienced average annual growth in employment of more than 10%. Tourism and transport continue to constitute the largest chunk of the country's export in services (40%) followed by services provided to manufacturing companies (25%). The latter have significant growth potential because their development is closely related to the inflow of export-oriented FDI. Telecommunications and computer and other information services, along with other business services, represent close to 25% of service exports and could also be expanded. There is potential for regional cooperation with Western Balkan neighbours when it comes to the export of services, especially for tourism packages, which in many cases are complementary rather than competing.⁵³

Tourism and hospitality. North Macedonia has good tourism potential, but it lacks an adequate approach towards planning and management of tourism development in the country. The total contribution of travel and tourism to the country's GDP, employment, and total capital investment in 2017 was fair (6.6%, 6.1%, and 2.4%, respectively) in comparison with other countries in the region. Leisure travel spending (inbound and domestic) generated 66.8% of direct Travel&Tourism GDP in 2017 compared with 33.2% for business travel spending. Domestic travel spending generated 44.2% of direct Travel&Tourism GDP in 2017 compared with 55.8% for visitor exports (i.e. foreign visitor spending or international tourism receipts) (WTTC⁵⁴).

The number of tourists increased by 12.8% in 2018 compared to 2017, the number of domestic tourists increased by 13.9%, while of foreign tourists by 12.2%. The number of nights spent increased by 14.5% in the same period, out of which the number of nights spent by domestic tourists increased by 13.8%, while those by foreign tourists increased by 15.2% (SSO). Capital city Skopje and UNESCO-protected Ohrid and ski resorts such as Mavrovo and Popova Šapka remain the key tourist attractions in the country, complemented by rural, alternative and cultural heritage tourism.

The country needs comprehensive approach and streamlined action in the sector Tourism where several actions are implemented over the past year. Moreover, all the analyses show that tourism sector faces problems when it comes to clear and targeted promotions, capacities to absorb the incoming tourist and needs of better destination management approach. In the following period quality marketing strategy for tourism will be prepared.

Measure 7: Increasing competitiveness in the tourism and hospitality sector

1. Description of measure

This measure continues from last year, and details of implementation are presented in Table 11.

⁵³ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north_macedonia_2019-2021_erp.pdf

⁵⁴ <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/macedonia2018.pdf>

The measure is aimed at providing support and capacity building for improving the environment and skills along with targeted infrastructure investments, supporting tourism activities and promoting destinations, and will also help to better connect with related industries and SMEs. The support is realised at several potential tourist destinations in the country through a combination of infrastructure investments, technical assistance and capacity building support.

This measure is implemented through 1) Programme for local and regional competitiveness and 2) Programme for increasing employment opportunities in the market.

a. Activities planned in 2020

Implementation of activities planned for 2019 are prolonged to 2020.

- Further implementation of a set of activities related to establishing a destination management process and implementation of the concept of organisations that will play a role in destination management
- Implementation of large infrastructure and small investment sub-grants under the grant scheme
- Strengthening the capacity to implement the activities of key government institutions, as well as the private sector and civil society organisations, in order to play an active role in tourism development
- Improved access to international markets, improved destination management and improved tourism services.

b. Activities planned in 2021

Activities for financing infrastructure projects were expected to be completed in 2019. However, the implementation of works was slowed down which is the reason for prolonging the deadline for completion of the capital investments activities in the tourism sector by the end of 2020. The investments are mainly in the tourist infrastructure as in several geographical areas throughout the country.

Simultaneously, the second phase of the Programme for increasing employment opportunities in the market aiming to improve the quality of tourist facilities will last until 2023.

c. Activities planned in 2022

Further implement the activities of the Programme for increasing the employment opportunities in the market with emphasis on adventure tourism.

2. Results Indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)
Number of tourists	Annual growth of 3%	More than 1,250,000 tourists per year	More than 1,500,000 tourists per year
Number of nights spent	Annual growth of 2%	More than 3,000,000 nights spent per year	More than 3,100,000 nights spent per year

3. Expected impact on competitiveness

Total investments in the tourism sector that intervene to improve the performance of both the public and private sectors are expected to progress the service on the public as well as on the business side, both from a market perspective and in terms of end users - tourists. Improved service to the stakeholders will also mean increased competitiveness of the sector.

The positive effects are particularly evident in specific sub-industries where for few years investments have already been made in improving services. Past investments in specific subindustry (alternative tourism) yielded initial positive results and highlighted the individual geographical regions in the country to become desirable destinations for this specific segment of the tourism sector equally for domestic and for foreign tourists. Hence, additional work on capacity development and investment in alternative tourism infrastructure is expected to have a positive effect on the entities and the market in the future. Upward trends in local economic growth and improved productivity, service quality, links and innovation at the level of business entities and other stakeholders (security, guides, etc.) are foreseen.

4. Estimated cost of the activities and the source of financing

The total funds for implementation of the measure in the next three years amount to EUR 14.1 million, of which EUR 13 million by 2020.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

New jobs will be created along the entire value chain in the tourism industry, especially for young people and women. Also, spill over effects are expected on other industries and sectors in their further growth and development (education, trade, transport, etc.).

Given that gender inequality is particularly prevalent in rural areas, this measure could have a positive impact on women's activity rates.

6. Expected impact on environment

The project contains an Environmental Management Framework that describes procedures to be followed during its implementation in order to ensure adequate addressing of the environmental and resettlement issues as may become necessary in the course of project implementation.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Risks related to the management of the measure and change in the level, as well as the sustainability of the support of the implementing agency and of the public entities that are beneficiaries of the measure	High	Strong communication with institutions, the private sector, civil society and other relevant stakeholders in order to maintain a broad platform for reform support that will help overcome the risk of inadequate management of activities
Low level of stakeholder cooperation and limited capacity to implement the measure	High	Capacity building of public sector agencies and substantial technical assistance for agency coordination and public-private dialogue
Potential risks of inappropriately used funds	High	Close monitoring of available and spent funds and liaising with relevant decision makers in order to avoid bottlenecks in the implementation of activities

5.3.3 Business environment and reduction of the informal economy

For a business environment that will enable more dynamic growth, it is necessary to pay attention to the following:

- Inefficient and unreliable public services diminish trust in government institutions and, crucially, encourage informality. When services are efficient, less time is spent on basic bureaucratic tasks and can be dedicated to more productive uses. Services which are not easily accessible or inefficient give greater licence to non-compliance and can facilitate the growth of the informal sector.
- Despite the low tax burden, companies complain about the so-called para-fiscal charges, especially micro and small enterprises indicate that these payments do not consider the size of the firm. Often there are overlaps on the same charges at central and local level, and an additional problem is the fact that for some of the charges there is no clear purpose why they are used and what do they finance.
- Opaque interpretation of business regulations, notably by local administrations, uneven enforcement of rules and contracts, as well as corruption and the large informal economy hamper private sector development⁵⁵.
- Existing informal economy creates an unlevelled playfield with formal businesses that comply with the taxes, contributions, and regulations. In fact, approximately 30% of companies indicate the informal sector as their primary constraint to growth⁵⁶.

Public services. Most of the government institutions on central and local level have developed systems that offer e-services for the users. However, all the systems have general functionalities such as identification of users and payment that are common, but are implemented and maintained in different manner. This is far from cost-efficient, as its costs are budgeted by every institution separately, but the total price on national level is paid by the taxpayers. Additionally, different and non-uniformed interfaces, forms and submission processes for businesses demand dedicated authorised person(s) with specific trainings in order to electronically communicate with respective institutions.

According to the findings outlined in the SIGMA reports for 2015⁵⁷, 2016 and 2017, the country lacks a modern public services portal, offering platform and space for e-services from any institution.

⁵⁵ European Commission Progress Report of the Republic of Macedonia 2016

⁵⁶World bank Policy notes 2017

Government's commitment to reduce the administrative burden to the users (citizens and businesses) is impeded by lack of structured data regarding requested documents and proofs in order to deliver a service, as well as para-fiscal charges, for all services. The institutions in charge of delivering the services maintain this data in silos with different structures, thus making comparison and analysis is difficult. Moreover, in the process of digital transition from traditional to electronic services, the para-fiscal charges remain unchanged.

Contract enforcement. The country is among best 20 in the world for doing business according to the latest WB Doing Business 2020 Report, ranking 17th out of 190 countries. Among different indicators it ranks best for protecting of minority investors, getting construction permit, paying taxes. Nevertheless, challenges remain in enforcing contracts, in particular the number of days that have significantly increased over the years. Resolving insolvency and offering second chances to entrepreneurs remains a challenge for companies according to the key stakeholders and experts. The new National Strategy for small and medium-size enterprises 2018–2023 has identified these challenges and within the first strategy pillar the government has committed to simplify the legal and regulatory environment with a focus on bankruptcy proceedings.

Fair competition. The recent IMF Report⁵⁸ states that the share of informal economy is estimated at 38% of total output in 2016. According to the report, the economic costs of the informal sector are substantial. While the shadow economy can contribute to economic growth by creating opportunities that are not available in the formal economy, it creates inefficiencies and reduces the economy's long-term growth potential. It is key obstacle that disincentivises the businesses for investment, human capital formation and technological innovation.

According to SSO data, the share of informally employed in the total number of employees in 2018 is 18.6% and has decreased by 4 p.p.s compared to 2014. Approximately half of informally employed are in the agriculture sector, and according to their economic status, approximately half are unpaid family workers. Informal employees with elementary occupations are most dominant. The most common reason for working in the informal economy is the lack of regular jobs, the seasonal nature of work, the economic benefits, etc. Regarding the participation of informally employed, in the total number of employees, by gender, men have a rate of 20.7%, and women 15.3%.

Measure 8: Harmonisation of the Public Procurement Legal framework with the Acquis

1. Description of the measure

This measure is rolled over from last year, the implementation details are presented in Table 11.

The measure aims to harmonise the Public Procurement Law with directives 2014/24/EU, 2014/25/EU and with the Remedies Directive 2007/66/EC.

The new PPL was adopted by the Parliament in January 2019. The law envisages, inter alia, introduction of an electronic market for small public procurements, electronic publication of public procurement plans, administrative control carried out by the Public Procurement Bureau, simplifying public procurement procedures etc.

The professionalisation of civil servants working with public procurement will strengthened the capacities of the contracting authorities and economic operators in the implementation of the PPL, by systemic approach in organising trainings and certification of public procurement entities, especially for the novelties provided in the new PPL.

a. Activities planned in 2020

- Development of low-value procurements e-market place
- Professionalisation of civil servants working with public procurement.

Responsible institution for implementing of activities is the Public Procurement Bureau.

2. Results Indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)
Published annual procurement plans of the Contracting Authorities	100%	/	/
Development of low-value procurements e-market place	1	/	/

⁵⁷<http://www.sigmaweb.org/publications/public-governance-monitoring-reports.htm>

⁵⁸<https://www.imf.org/en/Publications/CR/Issues/2020/01/24/Republic-of-North-Macedonia-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-48982>

3. Expected impact on the competitiveness

The new PPL harmonised with the directives makes it easier and cheaper for SMEs to bid for public contracts, ensures the best value for money for public purchases and respects the EU's principles of transparency and competition. It also allows for environmental and social considerations, as well as innovation aspects to be taken into account when awarding public contracts, so that public procurement encourages progress towards particular public policy objectives. The new rules take a more holistic view of value for money, thus not only raising the question of minimising cost, but looking at what else can be achieved through procurement.

Creating conditions for fair competition among economic operators in a great manner provides benefits to contracting authorities, as obtaining competitive bids can result in savings and rational utilisation of public funds. The savings of public funds leave room for their allocation in other important fields.

4. Estimated cost of the activities and the source of financing

- Upgrade of the public procurement software according to the new PPL – EUR 400,000 planned for 2020.
- Professionalisation of civil servants working with public procurement: 30,000 EUR per year.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Creating conditions for fair competition among economic operators in a great manner provides benefits to contracting authorities, as obtaining competitive bids can result in savings and rational utilisation of public funds. The savings of public funds leave room for their allocation in other important fields, thus creating additional opportunities for economic operators that may have positive impact on employment. The gender equality will be respected in the process of implementation of the measure.

6. Potential impact on environment

In line with the new legislation, the technical specifications of potential projects shall include information on environmental impact assessment as well as climate change.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Delay with development of low-value procurements e-market place	High	Timely initiation of a public procurement procedure for the development of the low-value procurements e-market place

Measure 9: Development of a National E-Services Portal

1. Description of the measure

This measure is rolled over from 2018, the implementation details are presented in Table 11.

The measure envisages activities for development of a dynamic e-services web portal (National e-services Portal), as a single contact point with state bodies according to the one-stop-shop principle and the use of standardised user interfaces. The goal of the National Portal is to increase the efficiency of state institutions and provide faster and simpler services by creating a single contact point and by background electronic data exchange between institutions. At the beginning, the portal will provide information for all services (based on the Catalogue of services) and e-services only for citizens, however, the very next steps would be to develop required functionalities to enable legal entities to be Portal users. The public launch of the portal was in the end of 2019.

The e-services portal is closely connected with the current activities on interoperability, the National Population Register as well as establishing Halls for Single Point of Services. Additionally, the legal basis is harmonised with EU legislation⁵⁹.

One of the cornerstones in the portal's toolbox is the Catalogue of Services, which is an independent and important software solution. The core of Catalogue of services is an electronic database of public services for both citizens and businesses, for services on central and local level. It contains all conditions, data and evidence necessary for the realisation of each public service, legal deadlines for the provision of service, distinction of data and documents that are obtained ex officio and those that citizens and legal entities will have to submit, legal remedies, the value of fees and

⁵⁹Relevant EU acquis (Regulation 910/2015 and its implementing acts, Directive 95/46 and Regulation 2016/679, and Directive 2003/98), as well as policy documents (EU eGovernment Action Plan 2016 – 2020, updated European Interoperability Framework, EU eGovernment Report 2016); Law on Electronic Management and its by-laws, Law on Data in Electronic Form and Electronic Signature, Law on General Administrative Procedure etc.

taxes, etc. The software solution for managing the Catalogue has already been developed and data for more than 1,200 services from over 190 laws has been entered.

The Catalogue of Public Services will contribute for improving records and overview of public services provided by state institutions and unification of services. Its main goals are: opportunity for quantitative and qualitative analysis of services; prioritisation for digitalisation of the services; and most importantly for analysis of the para-fiscal charges aiming to make informed decisions for decreasing the finance burden on users of services.

As a follow up of this process of creation of the Portal and Catalogue of services will be the process of identification of so-called tax cuts, because parafiscal charges as an additional fee at central and local level are big burden for companies, especially for SMEs. This analysis all-together with the one for parafiscal charges for SMEs in the countries of the region, will allow to determine the justification for the existence of specific parafiscal charges and to consider reducing or eliminating them altogether. Finance think for the needs of the MoE prepared an Analysis of para-fiscal fees for SMEs. The preparation of the Analysis and the justification for their reduction or elimination resulted from the draft measures of the Action Plan for Implementation of the Strategy for Formalisation of the Informal Economy 2018-2022, whose implementation is coordinated by the MLSP, but the MoE was in charge for the analysis. The analysis was launched at an event in December 2019.

a. Activities planned in 2020

- Qualitative and quantitative analysis of data in the Catalogue for administrative guillotine;
- Analysis of the usage of the National e-services Portal;
- Training for public sector employees –portal operators;
- Development of new electronic services;
- Upgrade the portal with functionality for creation of legal persons' profiles and enabling them to be users.

The activities will be implemented by the MISA in cooperation with other institutions.

2. Results Indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)
Number of users of the portal	2,000	5,000	More than 8,000
Number of e-services offered	50	75	More than 100
Number of services in the Catalogue	500	750	More than 1,000

3. Expected impact on competitiveness

The National e-services Portal is expected to reduce administrative and financial burden on citizens and businesses and increase the efficiency of businesses. Reducing the time and fees for obtaining the services entails a reduction in costs for businesses, leading to their increased competitiveness. This especially concerns SMEs, which will allow SMEs to complete administrative procedures with fewer personnel in shorter timeframe, compared to traditional channels for service delivery, thus increasing competitiveness not only with the big companies on national level, but regionally as well internationally.

4. Estimated cost of the activities and the source of financing

The cost is estimated at EUR 1,104,500.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

By reducing the administrative burden on companies and increasing their competitiveness, they could expand their activities and increase employment. Electronic services are equally accessible to all citizens and businesses, regardless of location (urban and rural), gender and social background, degree and type of disability, etc.

6. Expected impact on the environment

Paperless offices will have impact in all social spheres. Digital services can be consumed 24/7, from any internet connected point, which reduces the need for transport, thus indirectly impacting the pollution levels.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Insufficient coordination and communication between the institutions that need to be involved with providing e-services on the portal.	Medium	Establishing working group with stakeholders, and continue maintaining the regular cooperation, through meetings, workshops and training.
Commitment on the highest level in the institutions involved in portal development is not reflected in the commitment on operational level.	Medium	Regular communication and reporting to the National ICT council (ministerial level) for the progress and early warning notifications.
Required preconditions in the involved institutions are not met (human resources, system readiness, outsourcing contracts, etc.).	Medium	Preparation of working plans based on the analysis for realistic targets, involvements and deadlines.
Insufficient capacities and skills for Para-fiscal changes analysis of the services in the Catalogue.	Low	Regular communication with the Ministry of finance, as well as informing local partner donors and local NGOs experts in this field for possible cooperation.

Measure 10: Reducing the informal economy

1. Description of measure

The Strategy for Formalisation of the Informal Economy was adopted in 2018 and covers the period from 2018 to 2022. The overall objective of the Strategy is to create comprehensive and consistent system for reducing the number of informally employed, the share of unregistered business entities and informal activities within the formal economy. For implementation of the strategy, the Action Plan for Formalisation of the Informal Economy 2018–2020 was adopted, which contains a number of activities, some of which are planned to be implemented within the recently launched EU project "Improving Working Conditions". The project aims to encourage formal job creation and reduction of undeclared jobs and stimulate higher economic activity of women in the labour market. More specifically, the project consist of two components:

1. Supporting the implementation of selected legal, policy, institutional and awareness raising measures facilitating transition to formality, and
2. Fighting gender-based discrimination at work and reconciliation of family and professional life.

Through these activities, the following results are expected to be achieved:

- established system and built capacities for monitoring and detecting the informal economy;
- developed tools that ease inspection procedures for undeclared work prevention and ensure employers and their employees comply with the legislation and collective agreements in sectors prone to undeclared work;
- designed voucher-based system or equivalent mechanisms which promote better working conditions and formal employment in services sectors with high incidents of undeclared activities;
- education and awareness raising on the benefits of the transition to formality;
- developed and introduced measures for better access and activation of women in the labour market;
- strengthened mechanisms for protection against discrimination based on sex, gender, gender identity and sexual orientation, in access to and at the workplace, in line with international standards and EU instruments;
- created legal and policy environment conducive for decent care work, enabling among others recognition, redistribution and where relevant reduction of unpaid care work;
- organisations in the private and/or public sector supported in introduction of flexible work organisation arrangements or any other strategy that facilitates reconciliation of work and family life of their employees.

The Revised Employment and Social Reform Programme 2022, adopted by the Government in December 2019, set an indicator to measure tackling undeclared work - reducing the share of informal employees in the total number of employed persons. The target for 2022 is set at 16.9% (in 2018 it was 18.6%). The measures included in the Programme aimed at tackling informal employment are directly related to above mentioned project activities.

a. Activities planned in 2020

Planned activity	Institution in charge
1. Analysis of the availability and quality of data on the informal economy and development of the methodology for measuring the	Ministry Labour and Social Policy, State Statistical Office, State Labour Inspectorate, Public Revenue Office, State

informal economy	Market Inspectorate, Central Register of the Republic of North Macedonia, social partners
2. Defining the size and characteristics of the informal economy	Ministry Labour and Social Policy, Ministry of Economy, Ministry of Finance, State Labour Inspectorate, Public Revenue Office, State Market Inspection, social partners
3. Training in data crossing/combining, processing and analysing	Ministry Labour and Social Policy, State Statistical Office, State Labour Inspectorate, Public Revenue Office, State Market Inspectorate, Central Register of the Republic of North Macedonia, social partners
4. Pilot project for registration and regulation of seasonal work in the agriculture sector	Ministry Labour and Social Policy, Ministry of Finance, Ministry of Agriculture, Forestry and Water Economy, Public Revenue Office, State Labour Inspectorate
5. Defining a voucher system model and preparing a cost-benefit analysis of the impact thereof	Ministry Labour and Social Policy, Ministry of Economy, Ministry of Finance, State Labour Inspectorate, Public Revenue Office, State Market Inspectorate, social partners
6. Establishing a system for data collection and exchange between institutions	Ministry of Labour and Social Policy, State Labour Inspectorate, Public Revenue Office, State Market Inspectorate, social partners
7. Conducting an awareness raising campaign	Ministry Labour and Social Policy, Ministry of Economy, Ministry of Finance, State Labour Inspectorate, Public Revenue Office, State Market Inspection, social partners

b. Activities planned in 2021

Planned activity	Institution in charge
1. Establishing a legislative framework required for the introduction of identification cards, as well as training for their implementation	Ministry of Labour and Social Policy, State Labour Inspectorate, social partners
2. Developing a legal framework for a voucher system	Ministry Labour and Social Policy, Ministry of Economy, Ministry of Finance, State Labour Inspectorate, Public Revenue Office, State Market Inspection, social partners
3. Piloting and evaluating a voucher system in service sector	Ministry Labour and Social Policy, State Labour Inspectorate, Public Revenue Office, State Market Inspection, social partners
4. Conducting an awareness raising campaign	Ministry Labour and Social Policy, Ministry of Economy, Ministry of Finance, State Labour Inspectorate, Public Revenue Office, State Market Inspection, social partners

2. Results Indicators

Indicator	Baseline (2016)	Baseline (2018)	Intermediate target (2020)	Target (2022)
Share of informal employees in the total number of employed persons	-	18.6%	17.7%	16.5%
Reduce the share of informal economy as % of GDP	38%			

3. Expected impact on competitiveness

Efficient labour markets are in negative correlation with undeclared work, and are positively associated with higher competitiveness of the overall economy. Decreasing the informal economy will lead to better quality of work and working conditions, better business environment and fair competition, and puts the financial sustainability of social security systems at lower risk.

4. Estimated cost of the activities and the source of financing

In EUR	2020	2021	2022
Budgetary expenditures	57,000	-	-
Non-budgetary financing – IPA funds	500,000	500,000	-
Other grants	170,000	-	-

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Decreasing of distort for fair competition among firms and stimulate the creation of regular employment can lead to fair competition, decreasing in employment insecurity and new possibilities for decent work. At the same time, it should be noted that for some of the workers, informality is not a choice, but a necessity in which they are pushed by a lack of decent jobs. Impact will be gender balanced.

6. Expected impact on the environment

The measure is not expected to have an impact on the environment. The legal obligations and positive practices for improving the impact on the environment will be taken into account.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Stakeholders are not committed and consistent in their effort to fight informal economy and there is lack of coordination between institutions	Medium	Involvement of all stakeholders in the design phase of the new measures. Their participation will also be ensured through awareness raising activities.
Lack of public trust and confidence in the effectiveness of the administrative procedures and measures.	Medium to High	The risk will be addressed by ensuring good coordination among ministries and other relevant institutions and by creation of clear cross-sectoral rules for implementation of the policy measures for promotion of decent work. The implementation of the rules will be accompanied with targeted public campaign that will involve all institutional and non-institutional actors.

5.3.4 Research, development and innovation and the digital economy

Research, development and innovation. The Global Innovation Index (GII 2019) ranks North Macedonia 36th among the 39 economies in Europe in 2019, and 59th among total of 129 economies included in the GII 2019. The country performs the best in market sophistication while its weakest performance is in human capital & research. The "University/industry research collaboration" indicator is scored particularly low, as one of the weakest points in the ecosystem, placing the country 108th out of 129 countries.

The latest European Innovation Scoreboard (2019) ranks the country as a "modest innovator". Overall, the lowest scores are noted with indicators regarding PCT patent applications, design applications, and public-private co-publications.

The EC 2019 Country Progress Report, chapter 25: Science and research, notes that "...Some progress was made in science and research activities and specifically, in innovation support measures for companies. In the coming year, the country should: ensure a higher level of investment in research and innovation and promote participation in the EU's Horizon 2020 research programme."

One of the main reform measures implemented under the Innovation Strategy was the establishment of the Fund for Innovations and Technology Development (FITD) as a focal institution in the national innovation ecosystem. The main objectives of FITD are to provide access to finance and raise awareness on the benefits of R&D investment. So far, the Fund has piloted several financial instruments and supported over 300 projects in various industries. Majority of fund supported projects (6) are still in implementation phase. Projects financed under the first three calls, published in 2015-2016, are finalised. All 36 companies that have been supported (out of which 30 start-ups) are still active, and 19 of them are already paying royalty.

In order to assess the current state of play in the national innovation ecosystem three feasibility studies have been developed under a previously funded EUIF project "A Canvas for Innovation: a way forward to strengthening the national innovation ecosystem". One of them, the "Feasibility Study for Design and Implementation of Innovation Policy Instruments" aimed to remove overlaps and bridge the identified gaps in the current innovation ecosystem. The main gap of support has been identified in the areas of public-private knowledge transfers and linkages supporting academia-industry cooperation for innovation.

Digital economy. The new Law on Electronic documents, electronic identification and trust services has been adopted in June 2019 and shall enter into force by June 2020, repealing the current Law on data in electronic format and electronic signature. The new law is harmonised with the EU Regulation 910/2014 (eIDAS), and introduces a legal framework for electronic signatures, electronic seals, timestamps and other trust services, as well as introducing comprehensive

mechanisms and services to increase the confidentiality in the electronic transactions, thus providing legal safety and encouraging the use of electronic identification.

In the process of digitalisation, special effort is directed towards digitalisation of G2G processes and improving the quality of public services, enabling citizens, enterprises and organisations to carry out their business with government more easily, more quickly and at lower cost. As part of improving the effectiveness of public administration, enhanced e-government will affect administrative transparency; decrease the risks for corruption, strengthen the credibility of the public administration and restore confidence in the state systems. The new Law on Electronic Management and electronic services (repealing the Electronic Management Law), ensures a unified platform for data and document exchange among government institutions. This law regulates the work of the government authorities related to the exchange of data and documents in electronic format. This law presents the basis of the G2G communication in the country and is foundation for Interoperability platform, Central register, Single Sign On, National Portal for e-Services and all future government-owned information systems. Along these lines, the new Law on Central Population Register regulates the establishment of the population register using decentralised data model, and prescribes the methods for personal data collecting, processing, protecting and disclosing in line with the rules on personal data protection rules. The population register enables the issuance of electronic identification means on national level, which are considered as one of key enablers for e-government services.

As the Internet becomes more and more complex, digitally fuelled innovation has outpaced the ability to introduce adequate safeguards against cyber attacks. The National Cyber Security Strategy 2018-2022 addresses the challenges in cyberspace and fosters the development of safe, secure, reliable and resilient digital environment, supported by high-quality capacities, based on cooperation and trust in the field of cyber security. Regarding cybersecurity legislation, MISA prepared the first draft of the Law on security of network and information systems. The draft law has been published on ENER and public consultation deadline extended in order to involve all stakeholders. The Law transposes the EU NIS Directive, covering digital service providers, online marketplaces, online search engines and cloud computing services, as digital infrastructure in support of modern economy.

Broadband. A recent World Bank report (2018)⁶⁰ identified the low purchasing power of the population as the main reason for low penetration of user's access to fast and ultra-fast NGA networks. In addition, the report emphasises that high retail prices (in relation to average income) and high wholesale prices are a major obstacle for the development of broadband penetration in the country, as well as limited competition and investments in this field.

Mapping process of the existing and planned broadband coverage for the whole territory of the Republic of North Macedonia, conducted in 2018, demonstrated that the access to fast NGA network coverage for households (78%) is close to the EU average (80%), whereas access to ultra-fast NGA network coverage in North Macedonia (43.8%) is significantly lower compared to the EU average (58%).

Measure 11: Enhancing cooperation between the academy and the industry

1. Description of the measure

(1) Science and Technology Park (STP)

The STP is envisaged as a complex organisation that offers in one place professional business support and innovation services designed to increase the extent of innovation, as well as networking possibilities on national level. The establishment of the first STP in the country will be based on the findings of the feasibility study with an overall objective to strengthen the cooperation among academia, industry and government. The STP will potentially incorporate a National Technology Transfer Office.

The conducted Feasibility Study proposes ICT and Life Sciences as an area of specialisation of the STP. The technical faculty campus at UKIM is identified as most viable location for the STP. Additional analysis however should identify the specifications of the digital and the life sciences labs. Balanced public-private ownership and management structure is the most preferred model, with allocation of public funding for the initial phase of establishment.

- Development of bylaws for establishment of the STP (2020)
- Staffing and strengthening the human capacities of the STP (2020 onwards)
- Further development of the premises / hard infrastructure (2020 onwards)

⁶⁰ World Bank, 2018. "Seizing a Brighter Future for All": World Bank Systematic Country Diagnostic for Macedonia. <http://pubdocs.worldbank.org/en/606381543434479145/MKD-SCD-2018-ENG-Web.pdf>

(2) Co-financed grants for academia-industry cooperation

The grants' objective is to pilot cooperative projects for the academy and the industry. The measure would provide support to R&D activities in higher educational institutions and research centres with results applicable in the industry and compliant to business needs. A project proposal has been submitted under the EUIF mechanism to acquire technical assistance with EU expertise to design the co-financed grants. The experts should propose the most appropriate model for the ecosystem and develop the specifics of the pilot funding instrument.

- Development of the relevant bylaws (2020)
- Announcement of the public call (2020)
- Implementing calls under the support instruments (2020 onwards).

2. Results Indicators

	Baseline (2020)	Intermediate target (2021)	Target (2022)
Number of active contracts for business & academia innovation cooperation	15	25	50
Number of supported research projects	10	15	20

3. Expected impact on competitiveness

The proposed measure and its future roll out will introduce mechanisms to encourage RDI investments, innovation activity, business academia cooperation and commercialisation of innovation. The facilitated access to finance, as well as soft and hard infrastructure will increase the research activities in HEIs applicable in industry i.e. will enhance transfer of knowledge and technology transfer contributing to the competitiveness and export potential of the companies. The measure is complementary to the activities currently undertaken by the Fund, related to incorporation of domestic companies into global value chains, and thus enhancing the sustainability of the results of these measures. The results of this measure will be closely monitored to offer a more clear view on economic growth and competitiveness impact.

4. Estimated cost of the activities and the source of financing

EUR	2020	2021	2022
Science and Technology Park	1.000.000	.61	-
Co-financed grants for academia-industry cooperation	500.000	1.500.000	2.000.000

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

RDI investment leads to establishment of new businesses and growth of the existing business, generating new jobs especially for young people and for highly skilled workforce. The enhanced access to finance and investment in innovation infrastructure will encourage women entrepreneurship. Gender equality will be mainstreamed in the implementation of the activities and gender specific indicators will be included in the monitoring.

6. Expected impact on environment

Environmental assessment shall be embedded through appropriate evaluation criteria in the procedures for awarding grants. Projects with high environmental impact will not be financed. Projects with medium environmental impact will require environmental management plan which will be monitored during implementation.

The development of the STP premises will abide to all national legal requirements on environment protection, regarding construction works.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Lack of interinstitutional cooperation and participatory stakeholder involvement	Low	Establish consultation and cooperation mechanisms to increase effectiveness in the delivery of the results. Establishing M&E plan and risk mitigation plan and conducting regular meetings of the Monitoring Body
Capacity of FITD for implementing new measures	Medium	Further strengthening of the human resources in FITD: the new Systematisation Act is in preparation (expected to be adopted in

⁶¹ Further public funding will be determined in accordance with the terms of the public-private partnership agreement.

		2020) and foresees 50 positions in total.
Low capacity for research projects in the academia	Low	Providing free technical assistance to applicants. Development and implementation of a Communication Action Plan

5.3.5 Trade-related reforms

The SEE economies' total external trade in goods and services has been steadily increasing since the economic crises, driven largely by the strong recovery of exports. In the period from 2007 to 2015, total trade increased by about 30%, while exports rose by almost 60%. Trade as a share of GDP has also been increasing, rising from 88% in 2008 to 95% in 2015. The trade growth reflects increased trade with EU economies as the SEE economies become more integrated into global value chains. North Macedonia, Montenegro and Albania have WTO membership, and the remaining economies, although not WTO members, have committed to follow WTO rules under their obligations as signatories of the CEFTA Agreement. All SEE economies as accession candidates or potential candidates, are in the process of bringing their legislation into line with the EU Acquis through the application of the SAA. The SAA chapter on the free movement of goods provides for the establishment of a free trade area between each candidate or potential candidate and the EU. In addition, the autonomous trade preferences granted by the EU to SEE economies allow nearly all exports to enter the EU without customs duties or limits on quantities.⁶²

Yet, region's integration with international markets is relatively low. The WB6 have a low percentage of exports as a share of GDP compared to other economies in the region. With exports of goods and services close to 40% of GDP, Serbia and North Macedonia are the most integrated. By comparison, some regional peers, including Slovakia, Estonia, Lithuania, and Slovenia, have shares equal or higher than 75%. The dominant export market is EU, capturing about 60-70% of the exports, and on average, only 20% of the export went to neighbouring countries of WB6 and this has not changed in the last five years. Hence, the WB6 will trade more with the EU as they produce goods that are complementary to the EU's production structure and supply chains and will trade less with the WB region as they produce similar goods to each other. Trade corridors, such as TEN-T corridors, are the geographic interface within the WB region and the locus of cooperation efforts. Removing constraints in trade corridors can allow the formation of GVCs and promote better specialisation of industries in the region. Trade in goods is not hampered by tariffs in the region and the greater part of the cost of exporting and importing is related to compliance with procedures and time spent at the Border Crossing Points and Crossing Points, which include inspections, and customs clearance procedures. Exports can enter to EU tariff free, apart from quota restrictions on certain agricultural products. Yet, only 10-20 percent of firms are exporters. Thus, the crucial actions for trade in goods is not market access but to reduce the non-tariff measures and time costs to trade⁶³.

Regarding non-tariff barriers, improvement is needed in several categories, such as technical standards, sanitary and phytosanitary measures and administrative obstacles. In order to strengthen and improve the quality of risk analysis to avoid repetition of sampling and testing, as well as to establish regional standards for mutual recognition of programmes, documents and inspection certificates, to facilitate trade in goods, CEFTA countries undertake activities for the application of regional protocols that will be an integral part of the CEFTA Agreement. The Additional Protocol 5 that foresees obligations for trade facilitation, provides a legal basis for the electronic exchange of documents among the authorities of CEFTA parties involved in clearance of products, and will enable the mutual recognition of border documents and authorised economic operator programmes. The text for Additional Protocol 6 has been agreed by the CEFTA parties at the beginning of 2019, pending for adoption by the CEFTA Joint Committee. The Government of Republic of North Macedonia has adopted the text of Additional Protocol 6 for trade in services. The negotiations for Dispute settlement mechanism are about to start soon; the transparency is increased with regular updating of statistical portal with the data for trade in goods, services, FDI etc. The negotiations for mutual recognition for professional qualifications for doctors, dentists, engineers and architects had held few sessions for negotiations, but no common position was agreed yet. The implementation of the Protocol Concerning the Definition of the Concept of "Originating Products" and Methods of Administrative Cooperation referred to in Article 14, paragraph 1 and 3, has started from July 2019.

Along the transport Pan-European Corridor 10, extending from North to South across the country (from the border with Serbia to the border with Greece), most of the goods are transported by road transport. Thus, in the total freight transport for the period up until 2017, the share of road freight transport is over 91.7%, while the railway is less than 8.2%, according to SSO data. This leads to increased delays at road border crossings and slowdown in the flow of goods, due to the double border crossing controls and long time of controls. Hence, there is a need to increase the share of rail transport. In order to encourage greater utilisation of rail transport through Corridor 10, it is necessary to reduce the

⁶²https://www.oecd-ilibrary.org/development/competitiveness-in-south-east-europe_9789264298576-en

⁶³<http://documents.worldbank.org/curated/en/919401555624976466/Western-Balkans-Trade-and-Transport-Facilitation-Project>

waiting time at the railway border crossings by introducing the "one-stop-shop" system for shortening the border crossing procedures.

Measure 12: Trade facilitation

1. Description of the measure

The measure is rolled over from the previous year, details on its implementation are presented in Table 11.

The measure is related to the implementation of the Additional Protocol 5 to the CEFTA Agreement aimed at simplifying the inspections related to all clearance procedures and reducing formalities to the maximum extent possible through electronic exchange of information between customs authorities. As of the end of 2019 still one party - Kosovo had not ratified AP 5. The parties are also waiting from EC for the decision to include Moldova in SEED+ project activities.

It is expected to simplify inspections (food and veterinary agency, phytosanitary agency) related to all clearance procedures and reduce formalities to the possible maximum extent, to exchange data between customs authorities to the extent that each national legislation allows mutual recognition of the national Authorised Economic Operators' Programmes in each CEFTA Party, provided that both the legislation and implementation of each national programme is fully in line with the relevant EU acquis.

Trade policy and its facilitation are part of the Integrated Growth Pillar of the South East Europe 2020 Strategy. It is also presented in the Trade component of Multi-Annual Action Plan of Regional Economic Area (MAP REA). The main goal of this pillar is to promote regional trade that is non-discriminatory, transparent and predictable, and intensifies the flow of goods and services in the region. Trade policy is also linked with activities in other 3 components of MAP REA – investment, mobility and digital society.

The measure is linked and is complementary with the Measure 13 for facilitating North Macedonia - Serbia joint railway border crossing and integrated border management on Tabanovce - Presevo border crossing. Activities for integrated border managing are to be replicated on cross-border crossings with Republic of Albania and Republic of Kosovo.

a. Planned activities in 2020

Activities planned for 2019 have been postponed for 2020. The delay is due to the fact that the signed grant with EC in December 2018 is not yet operational, awaiting for staff to be allocated in CEFTA Secretariat that will be responsible for maintaining SEED+. In addition, the ratifying procedure should be finalised by Kosovo and status of Moldova to be settled for joining SEED+.

- Purchase of a new server with appropriate storage for incoming SEED + data and a new Firewall / Router to improve the current and to establish additional VPN links for processing of increased flow of messages and creating active network security equipment (Customs Administration).
- Develop transparent tools for extending the TRACEE Certificate of Veterinary Application with an appropriate warehouse for hosting a new software module to support the workflow of issuing certificates and Firewall equipment (Food and Veterinary Agency).
- Create system for phytosanitary certificates for which a new central server will be procured with adequate storage of a national phytosanitary software application and a firewall/router to establish VPN links to remote locations with permanent licenses for VPN clients (Phytosanitary Directorate).

2. Results indicators

The time for customs clearance is expected to be reduced by 25%. As a result, an increase of the trade volume is expected, as well as the gross value added in trade.

3. Expected impacts on competitiveness

By conducting controls based on risk analysis and by prior submission of information or issued veterinary or phytosanitary certificates through the TRACES system, the export-import time and cost will be significantly reduced. It is estimated that trade costs and the average time needed for import and export to other CEFTA countries will be reduced by 47%. This will contribute to an annual increase of exports to other CEFTA countries by 3.5% and to GDP growth of 0.9%.

4. Estimated costs for activities and the source of financing

The estimated cost of planned activities is in the amount of EUR 55,100.

5. Expected impact on employment and gender

More open markets for goods and services stimulate job creation. Gender equality will be respected in the process of implementation of the measure.

6. Expected impact on the environment

The measure will contribute to increase the level of using paperless procedures.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Coordination problems between countries might arise in the implementation phase	Medium	Regular consultation meetings between countries involved

Measure 13: Facilitating North Macedonia-Serbia cross-border crossing

1. Description of the measure

This measure is rolled over from last year. The implementation details are presented in Table 11.

The measure foresees construction of new Railway Joint Border Station (RJBS) between North Macedonia and Serbia. Currently, all international and transit trains have to make two stops, one in Tabanovce (North Macedonia) and one in Preshevo (Serbia). The authorities of each station execute customs, border police, phytosanitary, veterinary, radiology, as well as railway infrastructure and operation controls. By building JRBS in Tabanovce, these controls will be carried out only once and jointly by the authorities from the both countries on the basis of "one stop shop" principle.

The project envisages construction of a new, modern joint station in accordance with the EU standards, where the official staff of the Border Police, Customs and inspection services from both countries will be accommodated; upgrade of existing buildings for accommodation of staff from the railway infrastructure and railway carriers from both countries; construction of a new water supply and sewage system along with a waste water treatment plant and improvement of the connection between the road and railway crossing with construction of a new access road. The project documentation for new access road connection to the station is in preparatory phase. The total area of the facilities is 2,500 m².

This measure is a result of the signed Agreement on the establishment of border procedures, in accordance with the Directive 2012/34 for creation of a single European railway area between the Government of the Republic of North Macedonia and the Government of the Republic of Serbia in 2015. Protocols between the relevant services from both countries (police, customs, inspection services etc.) were signed in June 2016, by which the officials defined the method, methodology and procedures for the work of the joint station. Upon the operation of this station the results of the soft measures envisaged in the Agreement and the protocols will provide the effects of the facilitation.

This project is part of the national measures contained in the regional reform measures as part of the EC Connectivity Agenda and meets the soft measures' requirements related to border crossing points in WB6 countries for facilitation of rail transport. These national measures were promoted at the WB6 Summit in Vienna in August 2015.

This measure is closely related to the measure 12: Trade facilitation.

a. Activities planned in 2020

- Conclusion of a grant Agreement with EBRD and final closure of the financial construction.
- Tendering procedure for Works and Supervision Engineering.

b. Activities planned in 2021

- Selection of the construction operator and the supervision engineer and signing the contracts.

c. Activities planned in 2022

- Implementation of construction activities.

Ministry of transport and communications is in charge for implementation of activities.

2. Results Indicators

Indicator	Baseline (2018)		Target (2021)	
	Minutes	Percentage decreased	Minutes	Percentage decreased
Passenger train time savings	60	0%	30	50%
Freight train time savings	180	0%	90	50%

3. Expected impact on competitiveness

The construction of RJBS is expected to improve the competitive advantage of the rail compared to the road transport. The greatest impact is expected to be in the time saving. Total travel time saved is due to the fact that most controls will be done while train is in movement. Companies performing transport activities will experience lower costs and lower transport times, which will create conditions for increased amount of transport by railway.

4. Estimated costs of the activities and the source of financing

The estimated investment value is EUR 5,136,000, while for the maintenance of the facilities it is estimated that it will take EUR 50,000 annually for all components and phases (for buildings - construction part, electricity, machine parts, water treatment and sewage treatment plant, equipment and parking with access road). The Application is positively evaluated, and out of the needed EUR 5.3 million, a EUR 2.7 million grant is secured. The remaining EUR 2.6 million are still to be provided.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The construction of the RJBS will have short-term direct impact on employment by engaging construction workers. The gender equality will be respected in the process of implementation of the measure.

6. Expected impact on environment

The project documentation of the construction of the building of the RJBS Tabanovce respects the highest environmental protection requirements, such as the energy efficient buildings requirements and a sewage system with a water treatment plant.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Prolongation of construction activities for completion of the railway border crossing.	High	Regular monitoring of the implementation of activities for construction of the JRBS. The regional dimension of the measure contributes to reduction of the risk of untimely implementation of activities.
Lack of funds for closing the financial construction for building, equipment purchase and construction supervision.	High	All possible options for closure of the financial construction will be taken into account.

5.3.6 Education and skills

Youth unemployment, long-term unemployment, female unemployment and regional disparities are among the challenges facing North Macedonia. Long-term unemployment (LTU) in 2017 stood at 17.4% and more than half of long-term unemployed have been seeking employment for four or more consecutive years. Young women, the low skilled, young people living in rural areas and less represented ethnic groups are particularly exposed to unemployment or informal employment. The youth unemployment rate remains a serious problem. It peaked at close to 60% in 2007 but decreased over the years to reach 45.4 in 2018. The employment gap between best performing region (Southeast) and the weakest one (Northeast) remains significant at 25%. The high inactivity rate among women is closely related to educational attainment, which may signal some barriers to employment for women with lower levels of education. 30% of women in the labour force have a university level education compared to 17% of men, however, 12% of men are unemployed compared to 31% of women. Despite some increase in women's employment in the past years, the gender employment gap for people aged 20-64 is 21.9 pps (2017), almost double the EU-28 average. Considering low education levels, men have more than 2 times higher employment rate than women, even if employed women are on average better educated than employed men. The unemployment rate of Roma stagnates around 50% despite labour market improvements and several – largely ineffective – support schemes and policies.

Low quality employment affects the labour market dynamic and youth employment in particular. Approximately half of young workers aged 15-24 are in low quality employment. Particularly worrying is the high share of young people (estimated at 35%) in informal employment. A quarter of young people in 2017 (24.6% in Q3 2018) are not in employment, education or training (NEETs). Young people under 30 represent more than one third of all unemployed (37.9% in 2017). Knowledge-based service sectors have grown fast, but their share in employment remains rather low (around 10% in 2017)⁶⁴.

According to OECD Competitiveness Outlook 2018, the assessment of the dimension on education shows that North Macedonia achieves a score of 2.8⁶⁵, with the average for the countries of South-East Europe being 2.5, meaning that there is a solid strategic framework, but it is not always followed by implementation and the process of monitoring the public policies for providing feedback and corrections.

The Education Strategy for 2018-2025, defines a number of challenges related to the system of Vocational Education and Training as one pillar which directly addresses the issues of better employability, such as:

- insufficient attractiveness of VET (except certain vocations in the field of healthcare, economics and law), particularly regarding 2-year and 3-year vocational education,
- lack of modern post-secondary education system,
- mismatch between the VET supply and the labour market demand,
- additional complications arising from inflexibility and ineffectiveness of the new VET qualifications development system and procedures for adapting the VET curricula to the labour market requirements.

Enhanced support should be provided especially for vocational education and training, as well as good trainings for teachers and pre-school education⁶⁶.

Additional challenge is that less than 10% of companies regularly communicate with any educational institution, and that the system of vocational education and training, characterised by narrowly defined professional profiles and low flexibility, is not effective⁶⁷.

It is necessary to invest in post-secondary education, which does not attract a sufficient number of students due to obsolete and unreformed professional profiles. The Centre for Adult Education started to develop a system for validation of non-formal and informal learning (VNIL) by creating relevant conceptual guidance.

A new hardware system is purchased for the National Qualification Framework (NQF) Register to include qualifications at all levels to ensure transparency and visibility of qualifications. However, there are challenges in the implementation of the NQF that remain, such as capacity building, financing and engagement and stakeholder co-operation⁶⁸.

At the beginning of 2018, the Law on Higher Education was enacted, envisaging the establishment of a Quality Assurance Agency. The New Law stipulates establishment of a National Council for higher education, science and research, which has an obligation to propose to the Government a new model for financing the higher education and scientific research activity, which should contribute to advancing the investment in science and increasing the quality of higher education.

The key strategic documents targeting these challenges in a coordinated manner are: SEE Strategy 2020, Education strategy 2018-2025, VET strategy in the context of lifelong learning 2013-2020, Adult education strategy etc.

Measure 14: Further development of the qualification system

1. Description of measure

This measure is rolled over from last year, details on the implementation are presented in Table 11.

⁶⁴ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north_macedonia_2019-2021_erp.pdf

⁶⁵ (Competitiveness in South east Europe, A policy Outlook 2018).

⁶⁶ <http://mrk.mk/wp-content/uploads/2019/02/%D0%98%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98-%D0%B7%D0%B0-%D1%80%D0%B5%D0%B0%D0%BB%D0%B8%D0%B7%D0%B8%D1%80%D0%B0%D0%BD%D0%B8-%D0%B0%D0%BA%D1%82%D0%B8%D0%B2%D0%BD%D0%BE%D1%81%D1%82%D0%B8-%D0%BE%D0%B4-%D0%A1%D1%82%D1%80%D0%B0%D1%82%D0%B5%D0%B3%D0%B8%D1%98%D0%B0-%D0%B7%D0%B0-%D0%BE%D0%B1%D1%80%D0%B0%D0%B7%D0%BE%D0%B2%D0%B0%D0%BD%D0%B8%D0%B5-2018-2025-%D0%B7%D0%B0-2018.pdf>

⁶⁷ A credible enlargement perspective for and enhanced EU engagement with the Western Balkans" - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the regions.

⁶⁸ World Bank (2014c) Macedonia: Labour Market Assessment 2007-2011. Washington, DC: The World Bank.

⁶⁹ CEDEFOP, 2017b.

A new Law on Primary Education and a new Law on Teachers and Expert Associates in primary and secondary schools were adopted. The main focus is on quality assurance system based on a National Standard for each cycle of primary education with clearly defined learning outcomes, with attention to inclusiveness, respect for diversity of children's rights and democratic culture. Amendments to the Law on Secondary Vocational Education were adopted, with focus on introducing Regional VET centres in three pilot regions in the country - Southwest, Polog and Northeast region, through transformation of chosen secondary VET schools into centres. To that end, consultations were held with the professional auditorium and with the support of the European training foundation the vision for the Regional VET Centres is developed. Also, for the three regions, an in-depth analysis was conducted, a Concept for establishment of regional VET centres was developed and report with case studies has been prepared. In the pilot phase, the following stand apart as priority functions of the centres: continuous professional development of teachers, increase of the number of students and adults with special needs in education and training, validation of knowledge acquired, adult education at all levels, coordination of the practical teaching and close cooperation with the business community.

In order to overcome the great discrepancy between the skills acquired in the educational process and the needs of the employers, the implementation of the grant programme for supporting joint projects between vocational schools and companies continues, as well as the piloting of the curricula for dual vocational education. The reforms in formal and non-formal education should increase employability of young people, especially women and vulnerable groups (Roma and young people with special needs). To that end, in the future greater focus will be placed on cooperation between the education system (including non-formal education) and the business community. In order to build a flexible education system, primarily for companies to detect what skills are needed for workers and how to ensure the development of those skills (whether through a system of formal or non-formal education), a new approach of financing the VET is needed. This process will be opened through discussion and will be finalised in 2021. Piloting of the mentoring system that started in 2019 with the introduction of mentors to students in the companies will continue in the following years.

Regarding higher education, activities will continue for harmonising bylaws and accreditation and evaluation rules with the European standards and criteria, establishment of a Quality Assurance Agency in accordance with the new Law on Higher Education, adoption of an Action Plan for activities required for membership of the Quality Agency in ENQA and EQAR, including the Agency's self-evaluation process. The new IPA project will create opportunities for introducing model of Standard of Qualifications by piloting several Standards of Qualifications. Establishing a solid evidence-based foundation for effective policymaking is recognised as a key factor for promoting of a system for continuous improvements in the education system. In that direction, establishment and piloting of a comprehensive monitoring and reporting system is foreseen, as well establishing a new organisational unit in the MoES for research and development of educational policies.

a. Activities planned in 2020

Planned activity	Institution in charge
1. Development of 5 qualifications required by employers and flexible access to their acquisition	National Board for the Macedonian Qualifications Framework; Sectoral committees; Ministry of Education and Science; VET Centre; Providers of educational services
2. Development of training programmes and trainings for specific workplaces for further qualification	Providers of educational services and higher education institutions
3. Strengthening the cooperation between higher education institutions and the private sector, as well as secondary vocational schools and the private sector in order to ensure quality practical work for students in companies	Universities and higher education institutions; Secondary vocational schools; Companies.
4. Adopting legislation for establishment of three Regional VET Centres	Ministry of Education and Science, VET Centre

b. Activities planned in 2021

Planned activity	Institution in charge
1. Trainings on transversal skills at the request of employers	Employers; Providers of educational services
2. Establishment of a system for Validation of non-formal education for acquiring specific qualifications - recognition of previous learning	VET Centre; Special accredited institutions for validation of non-formal education
3. Refurbishment and adapting premises of 3 VET schools for Regional VET Centres	Ministry of Education and Science; VET Centre; Municipalities,

c. Activities planned in 2022

Planned activity	Institution in charge
1. Establishment of a system for Validation of non-formal education for acquiring specific qualifications - acknowledgment of previous learning	VET Centre; Special accredited institutions for validation of non-formal education
2. Development of 5 qualifications at level V - specialist and master for the needs of the labour market and the opportunity for self-employment in craft activities	National Board for the Macedonian Qualifications Framework; Sectoral committees; Ministry of Education and Science; VET Centre; National Chamber of Crafts of Republic of North Macedonia, Providers of educational services
3. Investments in human resource capacities for management of the new functions of the three Regional VET Centres, as well as acquirement of equipment	Ministry of Education and Science, VET Centre, Municipalities

2. Results indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Intermediate target (2021)	Target (2022)
Ratio of students enrolling to VET schools compared to general education	55%-45%	58%-42%	60%-40%	
System for validation of non-formal and informal learning				Established system for validation
Established 3 Regional Centres		Adoption of changes in the Laws	Refurbishment and Transforming 3 VET schools	Purchase of equipment and development of programmes for 3 regional VET Centres

3. Expected impact on competitiveness

Employees with higher qualifications will provide for higher efficiency and productivity in the companies and reduce the cost of training of employees for further qualification. The measure will contribute to reducing the inadequacy of education and labour market needs, acquiring skills and competences that will meet labour market needs, recognising acquired qualifications in the state by foreign investors and recognising qualifications acquired overseas by domestic employers, which will help for easier employability of job seekers.

4. Estimated cost of the activities and the source of financing

In EUR	2020	2021	2022
Budgetary expenditures	1,444,761	1,494,761	688,000
Non-budgetary financing – IPA funds	1,360,000	1,436,000	1,586,000
Total	2,804,761	2,930,761	2,274,000

This measure is planned to be financially supported by IPA 2018 – sectoral budget support.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Increasing the quality of curricula will lead to the acquisition of knowledge, skills and competences that will enable smooth transition from school to work. Additionally, strong transversal skills acquired as a result of new reformed curricula will contribute to better mobility of the workforce and career development. Most of the companies in North Macedonia are SMEs that do not have the capacity to recognise and develop the potential of their employees, so the NQF as a "focal point" for all stakeholders will contribute to better recognition of the necessary skills and competences.

6. Expected impact on the environment

The measure is expected to have neutral impact on environment.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Lack of an overall framework for implementation of all activities might contribute to various non systemic decisions	High	Establishing accompanying bodies for support of NQF (sectoral committees) consisting of employers' organisations, trade unions, students, higher education institutions, government institutions, associations etc.

Insufficient interest of the relevant parties, particularly employers, whose opinions and suggestions are crucial	High	Awareness raising for the role of NQF; Finding adequate instruments to motivate employers
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5.3.7 Employment and labour markets

Although the labour market is continuously improving in the past decade, as pointed out in the revised Employment Reform and Social Policy Programme 2022⁶⁹, it is still characterised by its structural specifics and rigidities, given the high unemployment and inactivity rates of the population (15-64), amounting to 17.5% and 34.9% respectively, at the end of the first half of 2019. In the European Union (28) these rates are 6.9% and 26.4% respectively. However, the trends on the Macedonian labour market in the last decade were favourable: the unemployment rate decreased from 36%, and the inactivity rate from 37.8% in 2005. Similarly, the number of employees continually grew, from around 540 thousands in 2006 to more than 770 thousands in 2018.

Two groups in the country's labour market are particularly at risk of unemployment and inactivity: youth and women. At the end of the first half of 2019, youth unemployment (15-24) was 34.9%, while the rate of young people (15-29) who in 2016 were neither employed nor in education or training accounted for 31.2%. High inactivity of women is particularly specific. At the end of H1 2019, 53.3% of women over the age of 15 were out of the labour market. An additional feature of labour statistics in general, and especially those of youth and women, is that they are of a long-term structural character.

The unemployment is characterised by several structural features. Most of the unemployed are high school graduates, suggesting that they face unemployment and potentially long transition period from school to work, given that 56% of all unemployed in 2017 have been waiting for employment for 4 years or more, while 78% of the unemployed were long-term unemployed.

The problems with unemployment the youth is facing with seem to require urgency by the employment policies. Out of the total youth population (15-29) of about 435 thousand people, around 124 thousand were employed in 2016 (28.6%). High youth unemployment rate means loss of investment in education and training, reduced tax base and higher social costs, while at the same time long periods of unemployment in the early stages of life adversely affect young people's employment prospects throughout their working lives. The average transition from school to first stable / satisfactory employment was 37 months for young men and 23 months for young women. The Macedonian labour market has a significant problem with absorbing new young people with completed education, especially those with no possibility to complete higher education. The longevity of job searching is particularly pronounced in women. But they still have another important feature - their inactivity in the labour market. Female labour market activity is only about 2/3 of that of men, and persistent throughout the years. It implies the so-called gender gap in the share of around 25 percentage points, which is more than twice that of the EU-28 (11.2% in 2016). In addition, it indicates that the structure of inactive women is particularly disadvantageous, with approximately 2/3 of them having primary or lower education, which together with the long period of absence from the labour market, makes them particularly hardly employable, even if they would wanted to get a job. As expected, the main reasons for not participating in the labour market among women are the domestic work and taking care of children and the elderly, as well as participation in education.

The Employment Reform and Social Policy Programme 2022 identifies the following challenges for the labour market and employment:

- unemployment among the most vulnerable categories of persons, in particular the youth, as well as the long-term unemployed, the disabled, the inactive and others;
- informal employment;
- the capacities and quality of the work and services of the public employment service;
- social dialogue and collective bargaining at all levels.

In relation to the employment and labour market, the Joint conclusion of the Economic and Financial dialogue in May 2019 is to implement the Youth Guarantee in the whole territory with an emphasis on underdeveloped regions by ensuring sufficient and qualified human resources of the Employment Agency and participation of relevant stakeholders.

⁶⁹ [http://www.mtsp.gov.mk/content/pdf/2019pravilnici/New%20node/Annex%201%20Draft_ESRP%20%20\(MKD\)_REVIZIJA%202022-11.12.2019.pdf](http://www.mtsp.gov.mk/content/pdf/2019pravilnici/New%20node/Annex%201%20Draft_ESRP%20%20(MKD)_REVIZIJA%202022-11.12.2019.pdf)

Measure 15: Youth guarantee

1. Description of measure

Employment Agency started with implementation of this measure in 2018 as a pilot activity in 3 employment centres (Skopje, Strumica and Gostivar), and in 2019 it is implemented throughout the country, with special emphasis on 3 regions (Polog, Northeast and Southwest), where the number of young people who belong to the category NEETs is the largest.

The YG measure provides for young people up to the age of 29, who are not employed or involved in education or training (NEETs), to receive an appropriate job offer, opportunity to continue their education or be involved in one of the active employment programmes and measures within 4 months after being registered as unemployed in the Employment Agency.

Following the implementation of the YG in the European countries, 3 pillars of activities have been identified:

1. Early intervention;
2. Identification and involvement of young people who are NEETs and
3. Activation with labour market integration.

Youth Guarantee begins with activation measures for young people who are registered as unemployed for the first time - active jobseekers (inflow). Once unemployed people are recorded in the register of unemployed, they are immediately directed for their first interview with an Employment Agency employee, who profiles their employability using a control questionnaire and develops individual employment plans. These plans define activities that will enable the young unemployed person, in the next 4 months, to be re-included in the educational process (not regular education) or to be involved in one of the employment measures and services that will enable them to increase their employment opportunities, or they will be offered appropriate employment that fits their education and skills. These activities include group and individual counselling; providing job search assistance services; motivational training; inclusion in one of the labour market integration measures (employment, education and training measures).

In the period 2020-2022, this measure will be supported by the IPA 2018 - Sector Budget Support, in 3 regions (Polog, Northeast and Southwest + Prespa).

a. Activities planned in 2020

This measure, with all the activities listed above in the "Description of measure" section, will be implemented in all 30 employment centres, considering the experience of the implementation in the previous 2 years.

A separate Youth Employment Unit will be established within the Department for Active Employment Measures and Services. This unit will plan, coordinate and monitor all activities for better inclusion of young people on the labour market, including the implementation of the YG Project, the National Youth Strategy and the National Youth Employment Action Plans.

This activity was planned to be implemented in 2019. However, in the first half of 2019, a detailed Functional Analysis of the Employment Agency was carried out, in order to provide more information relevant for the new rulebooks on internal organisation and systematisation of job positions. The Functional Analysis Report confirmed the need to establish a separate Unit for Youth Employment and contains other suggestions and recommendations for improving the functioning of the Agency, which will be incorporated in the new rulebooks.

Also, in order to strengthen Agency's human capacities for successful implementation of the YG, staff training working on this measure will be organised. In 2020, it is planned that 90 employees will be included in these trainings, conducted by internal trainers (employees who have been involved in the trainings for YG and work on this measure).

It is also planned to modernise 3 employment centres, in order to improve the physical capacities for working with the jobseekers and the employers.

b. Activities planned in 2021

This measure will continue to be implemented in all 30 employment centres, as part of their regular activities.

Trainings provided by internal trainers will be organised for 60 employees of Employment Agency working on YG.

In order to strengthen the physical capacity of the Agency, 3 Employment Service Centres are planned to be modernised.

c. Activities planned in 2022

This measure will continue to be implemented in all 30 employment centres, as part of their regular activities.

Trainings will be organised by internal trainers for 60 employees of Employment Agency working on YG.

2. Result Indicators

Indicator	Baseline (2018) pilot phase in 3 Employment centres	Intermediate target (2020)	Target (2022)
Youth unemployment rate (15-29)	37.0	-	30.5
Number of participants registered in the YG (entry level)	526	14,000	13,000
Percentage of participants who successfully completed the YG	41%	30%	30%
Number of Employment Agency's employees trained	60	90	60

3. Expected impact on competitiveness

The successful implementation of the YG measure will contribute to increasing the employment rate of young people up to the age of 29, and with that to increasing the overall employment rate in the country. The persons involved in this measure are covered with more intensive employment services and measures, which increase their employability.

4. Estimated cost of the activities and the source of financing

Activities under the YG will be financed from funds provided in the annual Operational Plans for Active Employment Programmes and Measures and Services on the Labour Market for 2020, 2021 and 2022. Typically, more than 90% of the budget of the annual Operational Plans is funded from Employment Agency's Budget. The total planned funds for active employment programmes and measures in the Employment Agency's budget are:

- 2020 – EUR 16.5 million;
- 2021 – EUR 13.8 million and
- 2022 – EUR 16.4 million.

In addition, for the period 2020-2022, this measure is foreseen to be financially supported by the IPA 2018 - Sector Budget Support, in 3 regions (Polog, Northeast and Southwest + Prespa) in total amount of EUR 6.2 million.

Year	Active measures on the labour market ⁷⁰	Strengthening of the human capacities ⁷¹	Strengthening of the physical capacities ⁷²	Total
2020	4.9 million	283,500	150,000	5.3 million
2021	4.1 million	467,000	150,000	4.7 million
2022	4.9 million	563,000	-	5.5 million

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The YG measure aims to improve the position of young people on the labour market, particularly most vulnerable persons (women and less represented ethnic groups living in underdeveloped regions) in terms of increasing their employability or job opportunities. The Annual Operational Plans for Active Employment Programmes and Measures and Services on the Labour Market for 2020, 2021 and 2022, foresees that at least 30% of the total number of participants will be young people up to 29 years old. At the same time, the new Law on Social Protection provides the obligation for social welfare beneficiaries and members of their households to register in the Employment Agency as active job seekers, to the end of their activation on the labour market and increasement of their employment possibilities. Successful implementation of the YG will contribute to improving the social status of unemployed youth, as well as to reducing poverty. Gender equality will be taken into consideration, whereby at least 50% of the YG participants (on inflow/outflow levels) will be women.

6. Expected impact on the environment

The implementation of the YG measure is not expected to have impact on the environment.

⁷⁰30% of annual planned budget for active labour market programmes and measures

⁷¹Salaries for new employees + employees training

⁷² Reconstruction / modernization of employment centres in the targeted regions through IPA

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Lack of human and physical capacities of Employment Agency	Medium	New employments, trainings of staff, improvement of physical capacities

5.3.8 Social protection and inclusion

Economic growth followed by favourable labour market trends (growth in employment and wages), growth in pensions and social assistance have contributed to the reduction of the poverty rate in recent years. According to the recent SSO data, the poverty rate in 2018 is 21.9%, while the Gini coefficient (Gini - measure of income inequality) is 31.9. The EU28 poverty rate is 16.9%, while the Gini coefficient is 30.3. Data for the period 2013-2018 show that nearly one in five citizens is poor, nearly one of three children is poor, while the most vulnerable group are the unemployed with a poverty rate of 41.9%. Of the households with children, nearly one in three households is poor.

Table 5.4. Laeken poverty and social exclusion indicators, 2013–2018

	2013	2014	2015	2016	2017	2018
At-risk-of-poverty rate, % of population	24.2	22.1	21.5	21.9	22.2	21.9
Males	24.6	22.3	21.5	22.1	22.4	21.8
Females	23.9	21.9	21.5	21.6	22	22
By age:						
0-17	30.9	29.0	28.6	28.6	29.9	29.3
18-64	23.6	21.4	20.7	21.3	21.1	21.2
65 and over	16.5	14.5	14.5	14.5	16.1	14.6
By most frequent activity status:						
Employed	11.1	9.8	8.9	9	9	8.8
Unemployed	43.7	40.5	39.7	41.1	38.7	41.9
Retired	10.9	8.4	7.3	7.1	7.7	7.9
Other inactive population	29.2	26.1	26.7	29.4	32.1	31.1
By children in household						
Households without dependent children	19.5	16.5	14.1	14.2	12.8	12.7
Households with dependent children	26.5	25.0	25.3	26	27.5	27.2
Number of persons below at-risk-of-poverty threshold, in thousand persons	500,4	457,2	445,2	453,2	460,3	455,1
At-risk-of-poverty threshold of single-person household - annual equivalent income in denars	70,275	71,925	78,362	82,560	90,120	97,000
At-risk-of-poverty threshold of four-person household (2 adults and 2 children aged less than 14) - annual equivalent income in denars	147,578	151,043	164,560	173,376	189,525	203,700
At-risk-of-poverty rate before social transfers and before pensions, % of population	41.0	41.7	40.5	41.6	40.7	40.8
At-risk-of-poverty rate before social transfers, with pensions, % of population	26.8	24.8	24.8	25.7	25.9	25.7
Inequality of income distribution, S80/S20, %	8.4	7.2	6.6	6.6	6.4	6.2
Inequality of income distribution, Gini coefficient, %	37.0	35.2	33.7	33.6	32.5	31.9

Source: SSO

Social assistance⁷³ - according to the system and structure prior to the major 2019 reforms - had very little effect on poverty reduction. The reason was primarily the very small amounts of social benefits, but also the insufficient effectiveness of targeting. In 2018, social assistance's contribution to poverty reduction was only 3.8 percentage points, which is particularly low when compared to the effect of pensions. Namely, in the same year, pensions contributed 15.1 percentage points to poverty reduction.

The delivery of social services in the country is particularly centralised, although the institutional and legal conditions for their decentralisation at local level and to private providers have been created. In the municipalities there are different categories of vulnerable groups of citizens who are on the margins of society or in different situations of social risk, so it is

⁷³[http://www.mtsp.gov.mk/content/pdf/2019pravilnici/New%20node/Annex%201%20Draft_ESRP%20%20\(MKD\)_REVIZIJA%202022-11.12.2019.pdf](http://www.mtsp.gov.mk/content/pdf/2019pravilnici/New%20node/Annex%201%20Draft_ESRP%20%20(MKD)_REVIZIJA%202022-11.12.2019.pdf)

necessary for the local self-governments to take more responsibilities for social services development tailored to the specific needs of the local community through their decentralisation. It is also necessary to encourage the development of programmes at local level that enable activation and working rehabilitation of vulnerable groups of citizens, which would contribute to increasing their participation in the labour market and exit the vicious circle of poverty and social exclusion. There is a need for further coordination and involvement of all community stakeholders in the process of providing quality and innovative social services. This is particularly important in the area of developing social protection programs at local level, that, so far, have not been properly budgeted from the municipalities' own sources.

The social protection system lacks services and facilities for adults with disabilities, while services for the elderly are insufficient. It is also necessary to develop professional rehabilitation services for persons with disabilities and personal assistance, for easier access to the education system, the labour market, as well as their full social inclusion.

The development of social services should in particular focus on creating efficient and effective services according to the needs of the users and according to local circumstances, providing for services to be available at the user's place of residence, in order to prevent institutionalisation and extend the stay in the home environment.

Given that the main objective of the social assistance system in the forthcoming period is to improve targeting and consequently more significantly impact on the poverty, the indicators within the ESRP predict that the coverage of households with social assistance will double by 2022, and the absolute poverty rate will decrease below 1%. The programs also provide for an adequate coverage of children and persons over 65, whose number is expected to grow gradually. With the implementation of reforms that came into force in 2019, these goals are expected to be achieved. In particular, new Laws on Social protection and Social security of the elderly were adopted, while the Law on Child Protection has undergone significant changes to improve the volume, scope and targeting of social assistance.

Measure 16: Enhancement of financial benefits in the field of social protection

1. Description of measure

This measure is rolled over from last year, details on the implementation are presented in Table 11.

The Law on Social Protection and the Law on Social Security of Elders came into force in May 2019. The reform in the area of child protection enabled easier access to child allowance, so that low-income families with children do not need to have an employed family member to enjoy the right, a condition that has been key in achieving the child allowance right. All bylaws related to the new regulation have been published and the first payment has been made in June 2019.

With the adoption of a bylaw, activation of GMA beneficiaries has been initiated for the purpose of training for work and employment. With this act, the cooperation between the employment and social protection services will be further enhanced and deepened, in order to support and activate the employable GMA beneficiaries. The Centres for Social Work and the Employment Centres will cooperate in the preparation and implementation of an individual activation plan for GMA beneficiaries, for the purpose of participating in the active employment measures and overcome the material insecurity of the household.

For increasing and further enhancing the effectiveness of various services, programmes and measures intended for different vulnerable groups in the labour market and to have more success in achieving expected effects, it is very important to introduce a new system for profiling of unemployed persons according to the possibilities and level of their employability, which will enable the most unemployable persons to be offered and provided with set of integrated services and measures that would facilitate their inclusion in the labour market.

A new Rulebook was introduced on the manner and scope of social services, as well as norms and standards for the provision of social services. The prices of the social protection services shall be determined by decision of the minister, based on a Methodology for setting the prices of services depending on standards and norms for their provision.

In order to strengthen the capacities of the professionals and establish a system of licensed social service providers, a procedure has been initiated for establishing a Licensing Commission that will issue, renew, extend and revoke a license to perform professional work in the field of social protection of the professionals employed in public and private social care institutions and other social service providers.

In the following period the focus and priority objectives of the Ministry of Labour and Social Policy is the development of social services which are introduced with the new Law on social protection.

a. Activities planned in 2020

- Public campaign for the new laws in order to familiarise end users,
- Monitoring the implementation of the new Law on Social Protection, especially in the part of targeting the beneficiaries for guaranteed minimum assistance right and introducing new supporting services for labour market entry,
- Strengthening the capacities of professionals in the Centres for Social Work and Employment Centres in the field of GMA beneficiaries' activation,
- Establishment of new social protection services in the direction of strengthening and activation of users,
- Expanding the social services network in local communities,
- Development of a software solution for social protection rights and services and its testing,
- Conducting trainings for the employees in the social protection system for delivery of services in the local community,
- Establishment of control mechanisms for functioning of the system.

b. Activities planned in 2021

- Implementation of the new software solution for social protection rights and services with data migration included,
- Increasing the type and scope of services to support activation of GMA beneficiaries,
- Increasing the availability and type of social protection services,
- Strengthening the capacities of professionals in the Centres for Social Work and Employment Centres in the field of activation of GMA beneficiaries,
- Monitoring and evaluation of the new social protection services quality.

c. Activities planned in 2022

- Increasing the effectiveness and efficiency of the Centres for Social Work and the Employment Centres,
- Ensuring availability of social protection services in all municipalities,
- Monitoring and evaluation of the new social protection services quality.

2. Results Indicators

Indicators	Baseline (2018)	Intermediate target	Target (2022)
At-risk-of-poverty rate	21.9%	-	16%
% of inclusion of existing GMA beneficiaries in the labour market	-	-	20%
Social services available to the local communities, %	-	-	25%

3. Estimated cost of the activities and the source of financing

The funds for implementation of the activities are planned in the amount of around EUR 35,600,000 for 3 years.

4. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Better targeting and increasing the effectiveness of cash transfers contributes to exit the poverty circle, economic strengthening and social inclusion, i.e. achieving the target poverty rate of 16% in 2022. The measure will contribute to optimal utilisation of financial resources aimed at providing social services.

Cash transfers for employable beneficiaries are foreseen to be conditioned with strengthening their work capacity and inclusion in the labour market, which is expected to contribute to the activation and employment of 20% of social beneficiaries. Within this measure, appropriate activities are planned for strengthening the capacities and employability of women from vulnerable categories. Gender equality will be respected in the implementation of this measure.

5. Expected impact on the environment

It is not estimated that the implementation of the measure will have an environmental impact.

6. Potential risks

Risk	Probability (low or high)	Mitigating actions
Delay in upgrading the software solution for administering cash rights	High	Detailed process monitoring
Low interest by the municipalities for service development and lack of human potential	Medium	Direct contacts with all municipalities, organising round tables, focus groups, development of measures for retraining the unemployed persons for services delivery
Untimely implementation of a new software solution for social protection rights and services	High	Detailed process monitoring

6. The cost and financing of structural reforms

The total cost for financing the structural reform measures under ERP 2020-2022 is EUR 268,118,647 for the whole period under which the Programme is submitted, i.e. for 2020-2022. Of that amount, EUR 161,034,519 are provided from the Central Budget, EUR 30,922,000 from IPA funds, EUR 5,771,870 are provided through other grants and EUR 70,390,258 are provided through project loans. Central budget funds account for 60.1% of total financing costs, IPA funds account for 11.5%, other funds for 2.2%, while 26.3% of total funds are provided through project loans.

The highest amount of funds for the implementation of the measures is planned for the measures of the agricultural sector, in particular for the improving of irrigation systems (EUR 156,735,335), followed by the social protection measure (Enhancement of financial benefits in the field of social protection - EUR 36,865,190), as well as measures from the energy sector, i.e. promotion of renewable energy sources and improvement of energy efficiency, for which EUR 16,468,500 are envisaged. The measures Youth Guarantee and Increasing competitiveness in the tourism and hospitality sector follow, for which EUR 15,513,500 and EUR 14,100,000 are planned, respectively.

7. Institutional issues and stakeholder involvement

The Economic Reform Programme 2020-2022, according to current practice, was prepared by the inter-ministerial working group for the preparation of the Economic Reform Programme, which includes nominated ERP coordinators from relevant ministries and institutions. The whole process is coordinated by the Ministry of Finance - as the national coordinator. In the process of preparing the Programme, the following institutions were involved: Cabinet of the Deputy Prime Minister in charge of economic affairs, National Bank of the Republic of North Macedonia, Ministry of Economy, Ministry of Labour and Social Policy, Ministry of Education and Science, Ministry of Transport and Communication, Ministry of Agriculture, Forestry and Water Economy, Ministry of Information Society and Administration, Ministry of Justice, Public Procurement Bureau, Public Revenue Office, Fund for Innovation and Technical Development, Employment Agency of the Republic of North Macedonia, State Statistical Office.

The process began with an initial event on May 22, 2019, attended by the Minister of Finance, the Minister of Information Society and Administration, the Governor of the National Bank, the Director of CEF Ljubljana, the State Secretary of the Ministry of Finance of Slovenia, The EC representative, coordinators from institutions involved in the process, representatives from CEF, EUD, international financial institutions, experts, university professors, as well as representatives from the civil sector. At the event, the Commission assessment of ERP 2019-2021 was presented, the joint conclusions of the Economic and Financial Dialogue in May 2019, the EC Guidance Note for the preparation of the ERP 2020-2022, as well as the draft work plan for the preparation of ERP 2020-2022.

On May 23, 2019, in the premises of the Ministry of Finance, the CEF representatives have acquainted the participants of the ERP WG, the EU-funded regional project to support the countries in the process of ERP preparation, as well as the Methodological Guidance for Costing of Structural Reforms (Costing Guidance).

In August 2019, the Government adopted the Working Plan for the preparation of ERP 2020-2022, as well as the Action Plan for Proposed Activities for Implementation of the Joint conclusions adopted at the Economic and Financial Dialogue in May 2019.

The first draft version of structural reforms under the new program was prepared in September 2019, and in October the institutions submitted their first report to the MF on the activities and status of implementation of the Joint conclusions.

TAIEX Expert Mission for sector diagnostics, structural reforms, the expected impact of competitiveness, employment and gender impact, performance and risks indicators, was held from 23 to 27 September 2019.

The second CEF Workshop on the Costing of Structural Reform Measures took place from 17 to 18 October 2019.

The second draft version of the Structural Reform Measures was prepared in late October 2019, prior to the EC's consultative mission from 4 to 6 November 2019.

From 5 to 20 December the third draft ERP 2020-2022 was published on the MF's website (<https://finance.gov.mk/mk/node/8416>) (Annex 2), as part of the public consultation process and at the same time electronic invitation was sent to stakeholders, for the submission of opinions and comments.

On December 25, 2019, the draft ERP 2020-2022 was discussed at a session of the Economic and Social Council. Comments and suggestions are attached in Annex 2.

The Government adopted the Programme at a session held on 28 January 2020.

Annex 1: Summary data

Table 1a. Macroeconomic prospects

	ESA Code	2018	2018	2019	2020	2021	2022
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	10.32	2.7	3.5	3.8	4.1	4.3
2. GDP at market prices	B1*g	10.70	6.5	6.0	6.1	6.4	6.5
Components of real GDP							
3. Private consumption expenditure	P3	6.86	2.4	2.9	3.3	3.0	2.8
4. Government consumption expenditure	P3	1.53	2.2	1.4	2.0	1.9	1.8
5. Gross fixed capital formation ⁷⁴	P51	3.27	0.9	9.0	8.0	7.7	7.6
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	:	:	:	:	:	:
7. Exports of goods and services	P6	6.48	16.9	10.5	8.3	9.0	9.3
8. Imports of goods and services	P7	7.83	12.9	10.8	8.7	8.5	8.4
Contribution to real GDP growth							
9. Final domestic demand		11.67	2.3	5.0	5.2	4.9	4.8
10. Change in inventories and net acquisition of valuables	P52+P53	:	:	:	:	:	:
11. External balance of goods/services	B11	-1.35	0.5	-1.5	-1.4	-0.9	-0.5

Source: SSO and calculations of the Ministry of finance

Table 1b. Price developments

		2018	2019	2020	2021	2022
1. GDP deflator	%	3,6	2,4	2,2	2,2	2,1
2. Private consumption deflator	%	2,8	1,0	1,7	2,0	2,0
3. HICP	%	:	:	:	:	:
4. National CPI	%	1,5	1,0	1,5	2,0	2,0
5. Public consumption deflator	%	3,0	4,1	2,8	2,6	2,4
6. Investment deflator	%	4,3	3,3	2,7	2,3	2,1
7. Export price deflator (goods & services)	%	0,0	-0,4	1,5	1,8	1,8
8. Import price deflator (goods & services)	%	0,0	-0,4	1,5	1,8	1,8

Source: Calculations of the Ministry of Finance and NBRNM

Table 1c. Labour market developments⁷⁵

	ESA code	2018	2018	2019	2020	2021	2022
		Level	Rate of change				
1. Population (thousands)			2.076	2.076	2.077	2.078	2.079
2. Population (growth rate in %)			0,08	-0,01	0,05	0,05	0,05
3. Working-age population (persons, thousands)			1.683	1.684	1.686	1.690	1.696
4. Participation rate			56,9	57,1	57,5	58,0	58,5
5. Employment (persons, thousands)			759	797	814	832	852
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			2,5	5,0	2,1	2,3	2,4
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate			20,7	17,1	16,1	15,1	14,2
11. Labour productivity, persons		836,5	0,2	-1,5	1,6	1,8	1,9
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

⁷⁴ Data refers to gross capital formation.

⁷⁵ ILO definition (15+) is used for the labour market indicators.

Table 1d. Sectoral balance

% of GDP	ESA	2018	2019	2020	2021	2022
1. Net lending/borrowing vis-à-vis the rest of the world	B9	5,1	2,4	2,7	1,0	1,5
of which:						
- Balance of goods and services		-12,8	-13,4	-13,0	-12,5	-12,2
- Balance of primary incomes and transfers		12,6	12,1	11,7	11,0	10,5
- Capital account		5,1	3,6	4,0	2,5	3,2
2. Net lending/borrowing of the private sector	B9/EDP B9	0,9	1,7	1,0	0,5	0,3
3. Net lending/borrowing of general government		-1,1	-3,0	-2,3	-2,0	-2,0
4. Statistical discrepancy		0,3	0,1	0,0	0,0	0,0

Source: NBRNM and MoF

Table 1e. GDP, investment and gross value added

	ESA	2018	2019	2020	2021	2022
GDP and investment						
GDP level at current market prices (in bn Denars)	B1g	658,1	697,4	739,9	787,1	838,2
Investment ratio (% of GDP)		31,9	33,9	35,5	36,7	37,9
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		7,4	:	:	:	:
2. Industry (excluding construction)		4,1	:	:	:	:
3. Construction		-11,9	:	:	:	:
4. Services		3,2	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

Table 1f. External sector developments

Euro billion	2018	2019	2020	2021	2022
1. Current account balance (% of GDP)	-0,1	-1,3	-1,3	-1,5	-1,7
2. Export of goods	4,9	5,4	5,8	6,1	6,5
3. Import of goods	6,6	7,3	7,7	8,2	8,7
4. Trade balance	-1,7	-1,9	-2,0	-2,1	-2,2
5. Export of services	1,6	1,7	1,8	2,0	2,1
6. Import of services	1,2	1,3	1,4	1,5	1,5
7. Service balance	0,4	0,4	0,4	0,5	0,5
8. Net interest payments from abroad	:	:	:	:	:
9. Other net factor income from abroad	-0,5	-0,5	-0,5	-0,6	-0,6
10. Current transfers	1,8	1,8	1,9	1,9	2,0
11. Of which from EU	:	:	:	:	:
12. Current account balance	0,0	-0,2	-0,2	-0,2	-0,2
13. Capital and financial account	0,5	0,4	0,5	0,3	0,4
14. Foreign direct investment	0,6	0,3	0,4	0,4	0,5
15. Foreign reserves	2,9	:	:	:	:
16. Foreign debt	7,8	:	:	:	:
17. Of which: public	3,8	:	:	:	:
18. O/w: foreign currency denominated	:	:	:	:	:
19. O/w: repayments due	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	61,5	61,5	61,5	61,5	61,5
21. Exchange rate vis-à-vis EUR (annual average)	61,5	61,5	61,5	61,5	61,5
22. Net foreign saving (% of GDP)	:	:	:	:	:
23. Domestic private saving (% of GDP)	:	:	:	:	:
24. Domestic private investment (% of GDP)	:	:	:	:	:
25. Domestic public saving (% of GDP)	:	:	:	:	:
26. Domestic public investment (% of GDP)	:	:	:	:	:

Source: National Bank of the Republic of North Macedonia

Table 1g. Sustainability indicators

	Dimension	2015	2016	2017	2018	2019
1. Current Account Balance	% of GDP	-2,0	-2,9	-1,0	-0,1	-1,3
2. Net International Investment Position *	% of GDP	-56,0	-57,7	-58,0	-56,5	-56,1
3. Export market share	% growth	2,2	12,9	3,4	12,5	5,1
4. Real Effective Exchange Rate *	% growth	-0,3	1,1	-0,5	1,4	-1,2
5. Nominal Unit Labour Costs *	% growth	0,1	3,6	3,9	6,9	7,8
6. Private sector credit flow **	% of GDP	4,5	3,0	2,5	3,3	:
7. Private sector debt **	% of GDP	88,0	87,6	87,7	87,4	:
8. General Government Debt	% of GDP	38,1	39,8	39,4	40,6	40,4

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

* Data for 2019 are as of September 2019

** Data for 2016 is adjusted for write-offs of non-performing loans

Table 2a. General government budgetary prospects

	ESA code	2018 Level (bn denars)	2018	2019	2020	2021	2022
Net lending (B9) by sub-sectors							
1. General government	S13	-7,121	-1,1	-3,0	-2,3	-2,0	-2,0
2. Central government	S1311	-11,764	-1,8	-2,4	-2,3	-2,0	-2,0
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	4,444	0,7	-0,5	0,0	0,0	0,0
5. Social security funds	S1314	-0,353	-0,1	-0,1	0,0	0,0	0,0
General government (S13)							
6. Total revenue	TR	200,877	30,5	32,3	32,0	31,5	30,8
7. Total expenditure	TE	207,998	31,6	35,3	34,4	33,6	32,8
8. Net borrowing/lending	EDP.B9	-7,121	-1,1	-3,0	-2,3	-2,0	-2,0
9. Interest expenditure	EDP.D41	7,737	1,2	1,2	1,1	1,1	1,2
10. Primary balance		0,616	0,1	-1,9	-1,2	-0,9	-0,8
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (11 = 11a+11b+11c)		122,839	18,7	18,9	18,9	18,5	18,1
12a. Taxes on production and imports	D2	87,043	13,2	13,5	13,5	13,3	13,0
12b. Current taxes on income and wealth	D5	32,645	5,0	5,0	5,0	4,8	4,7
12c. Capital taxes	D91	3,151	0,5	0,4	0,4	0,4	0,4
13. Social contributions	D61	56,535	8,6	8,8	9,1	9,1	9,0
14. Property income	D4	4,046	0,6	0,6	0,6	0,6	0,6
15. Other (15 = 16-(12+13+14))		17,457	2,7	3,9	3,5	3,4	3,2
16 = 6. Total revenue	TR	200,877	30,5	32,3	32,0	31,5	30,8
p.m.: Tax burden (D2+D5+D61+D91-D995)		179,374	27,3	27,7	27,9	27,5	27,1
Selected components of expenditures							
17. Collective consumption	P32	63,698	9,7	10,8	10,7	10,1	9,5
18. Total social transfers	D62 + D63	100,769	15,3	15,6	15,7	15,3	14,9
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	100,769	15,3	15,6	15,7	15,3	14,9
19 = 9. Interest expenditure	EDP.D41	7,737	1,2	1,2	1,1	1,1	1,2
20. Subsidies	D3	22,288	3,4	3,5	2,9	2,8	2,6
21. Gross fixed capital formation	P51	13,834	2,1	4,3	4,0	4,3	4,6
22. Other (22 = 23-(17+18+19+20+21))		:	:	:	:	:	:
23.=7. Total expenditures	TE	207,998	31,6	35,3	34,4	33,6	32,8
p.m. compensation of public sector employees	D1	41,389	6,3	6,4	6,6	6,2	5,8

Source: Ministry of Finance

Table 2b. General government budgetary prospects

	ESA code	2018	2019	2020	2021	2022
		Level (bn denars)				
Net lending (B9) by sub-sectors						
1. General government	S13	-7,12	-21,27	-17,39	-16,11	-16,78
2. Central government	S1311	-11,76	-16,99	-17,03	-16,10	-16,77
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	4,44	-3,57	0,00	0,00	0,00
5. Social security funds	S1314	-0,35	-0,71	-0,36	-0,01	-0,01
General government (S13)						
6. Total revenue	TR	200,88	225,24	237,02	248,04	258,28
7. Total expenditure	TE	208,00	246,50	254,41	264,15	275,06
8. Net borrowing/lending	EDP.B9	-7,12	-21,27	-17,39	-16,11	-16,78
9. Interest expenditure	EDP.D41	7,74	8,31	8,34	8,84	9,75
10. Primary balance		0,62	-12,96	-9,05	-7,26	-7,03
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (11 = 11a+11b+11c)		122,84	132,04	139,48	145,44	151,68
12a. Taxes on production and imports	D2	87,04	94,19	99,64	104,39	109,34
12b. Current taxes on income and wealth	D5	32,65	34,73	36,64	37,85	39,14
12c. Capital taxes	D91	3,15	3,12	3,20	3,20	3,20
13. Social contributions	D61	56,54	61,46	67,03	71,32	75,46
14. Property income	D4	4,05	4,46	4,73	4,73	4,73
15. Other (15 = 16-(12+13+14))		17,46	27,27	25,78	26,55	26,41
16 = 6. Total revenue	TR	200,88	225,24	237,02	248,04	258,28
p.m.: Tax burden (D2+D5+D61+D91-D995)		179,37	193,50	206,51	216,76	227,14
Selected components of expenditures						
17. Collective consumption	P32	63,70	75,05	78,97	79,27	79,87
18. Total social transfers	D62 + D63	100,77	108,95	116,10	120,34	124,93
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	100,77	108,95	116,10	120,34	124,93
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41	7,74	8,31	8,34	8,84	9,75
20. Subsidies	D3	22,29	24,43	21,16	21,80	22,20
21. Gross fixed capital formation	P51	13,83	29,77	29,85	33,89	38,31
22. Other (22 = 23-(17+18+19+20+21))		:	:	:	:	:
23.=7. Total expenditures	TE	208,00	246,50	254,41	264,15	275,06
p.m. compensation of public sector employees	D1	41,39	44,94	48,62	48,66	48,66

Source: Ministry of Finance

Table 3. General government expenditure by function

Percentage of GDP	COFOG	2018	2019	2020	2021	2022
1. General public services	1	2,9	3,9	3,4	:	:
2. Defence	2	0,9	1,1	1,2	:	:
3. Public order and safety	3	2,2	2,4	2,3	:	:
4. Economic affairs	4	3,3	3,7	3,6	:	:
5. Environmental protection	5	0,1	0,2	0,2	:	:
6. Housing and community amenities	6	1,7	2,8	2,1	:	:
7. Health	7	4,9	5,0	5,2	:	:
8. Recreation, culture and religion	8	0,6	0,6	0,6	:	:
9. Education	9	3,5	3,8	3,8	:	:
10. Social protection	10	11,5	11,9	11,9	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	31,6	35,3	34,4	33,6	32,8

Source: Ministry of Finance

Table 4. General government debt developments

Percentage of GDP	ESA	2018	2019	2020	2021	2022
1. Gross debt		40,6	40,4	40,9	40,3	40,0
2. Change in gross debt ratio			-0,2	0,5	-0,6	-0,3
Contributions to change in gross debt						
3. Primary balance		-0,1	1,9	1,2	0,9	0,8
4. Interest expenditure (incl. FISIM)	EDPD.41	1,2	1,2	1,1	1,1	1,2
5. Stock-flow adjustment		-1,1	-3,2	-1,9	-2,6	-2,3
of which:						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		3,2	3,1	3,0	2,9	3,1
Other relevant variables						
6. Liquid financial assets		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

Source: Ministry of Finance

Table 5. Cyclical developments

Percentage of GDP	ESA	2018	2019	2020	2021	2022
1. Real GDP growth (%)	B1g	2,7	3,5	3,8	4,1	4,3
2. Net lending of general government *	EDP.B.9	-1,8	-2,5	-2,3	-2,0	-2,0
3. Interest expenditure	EDP.D.41	1,2	1,2	1,1	1,1	1,2
4. One-off and other temporary measures		:	:	:	:	:
5. Potential GDP growth (%)		2,5	2,7	2,3	2,0	1,9
Contributions (percentage points):						
- labour		1,6	1,5	0,9	0,5	0,3
- capital		1,3	1,4	1,5	1,5	1,5
- total factor productivity		-0,3	-0,2	-0,1	0,0	0,1
6. Output gap		-1,2	-0,5	1,0	3,1	4,6
7. Cyclical budgetary component		-0,4	-0,1	0,3	1,0	1,4
8. Cyclically-adjusted balance (2-7)		-1,4	-2,4	-2,7	-3,0	-3,4
9. Cyclically-adjusted primary balance (8-3)		-0,2	-1,2	-1,6	-1,9	-2,3
10. Structural balance (8-4)		:	:	:	:	:

* Data pertains to central government budget

Source: Ministry of Finance

Table 6. Divergence from previous programme

	2018	2019	2020	2021	2022
1. GDP growth					
Previous programme	2,8	3,2	4,0	5,0	:
Latest programme	2,7	3,5	3,8	4,1	4,3
Difference (p.p.)	-0,1	0,3	-0,2	-0,9	:
2. General government net lending (% of GDP)					
Previous programme	-2,2	-3,0	-2,3	-2,0	:
Latest programme	-1,1	-3,0	-2,3	-2,0	-2,0
Difference (p.p.)	1,1	0,0	0,0	0,0	:
3. General government gross debt (% of GDP)					
Previous programme	41,0	43,3	43,2	41,4	:
Latest programme	40,6	40,4	40,9	40,3	40,0
Difference (p.p.)	-0,4	-2,9	-2,3	-1,1	:

Source: Calculations of the Ministry of Finance

Table 7. Long-term sustainability of public finances

Percentage of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	34,8	34,4	33,1	31,5	29,6	27,9
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	8,6	9,3	8,5	7,4	6,4	5,3
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	4,5	5,2	5,5	5,9	6,3	6,9
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	4,0	3,8	4,3	4,6	4,8	5,0
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	0,7	1,1	1,4	1,2	0,8	0,3
Total revenues	:	32,4	32,0	31,1	30,2	29,4	28,5
of which: property income	:	:	:	:	:	:	:
of which: from pensions contributions (or social contributions, if appropriate)	:	6,0	6,1	6,1	6,1	6,1	6,1
Pension reserve fund assets	:	:	:	:	:	:	:
of which: consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	2,2	1,7	1,7	1,6	1,7	1,7
Real GDP growth	:	3,4	3,8	3,3	3,0	3,0	3,0
Participation rate males (aged 20-64) ⁷⁶	:	77,7	77,3	80,1	82,5	84,4	85,9
Participation rate females (aged 20-64)	:	50,4	55,4	60,6	65,8	71,0	76,1
Total participation rate (20-64)	:	64,2	66,5	70,5	74,2	77,7	81,0
Unemployment rate	:	32,2	16,3	10,7	7,2	5,0	3,7
Population aged 65+ over total population	:	11,7	14,2	17,3	21,1	25,7	31,3

Source: Calculations of the Ministry of Finance

Table 7a. Potential liabilities

% of GDP	2019	2020
Public guarantees	9,6	10,2
Of which: related to the financial sector	1,2	1,2

Source: Ministry of Finance

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

	Dimension	2018	2019	2020	2021	2022
Short-term interest rate	Annual average	-0,3	-0,4	-0,4	-0,4	-0,3
Long-term interest rate	Annual average	1,1	0,4	0,3	0,4	0,6
USD/EUR exchange	Annual average	1,2	1,1	1,1	1,1	1,1
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	61,5	61,5	61,5	61,5	61,5
Global GDP growth, excluding EU	Annual average	3,8	3,2	3,3	3,4	3,4
EU GDP growth	Annual average	2,0	1,4	1,4	1,4	1,4
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU (y-o-y)	Annual average	4,1	0,4	2,1	2,5	2,5
Oil prices (Brent, USD/barrel)	Annual average	71,5	63,3	57,4	56,1	56,0

Source: European Commission, Economic Forecast Autumn 2019 and European Central Bank

⁷⁶Labour market calculation refer to the 15-64 age group.

Table 9. Selected employment and social indicators

	Data source	2016	2017	2018	2019	2020
1. Labour market participation rate (%) total (20-64 years old)	Eurostat	69,6	70,3	70,4	:	:
- male	Eurostat	83,8	84,4	84,2	:	:
- female	Eurostat	54,9	55,7	56,3	:	:
2. Employment rate (%) total (20-64 years old)	Eurostat	53,3	54,8	56,1	:	:
- male	Eurostat	63,7	65,6	66,6	:	:
- female	Eurostat	42,5	43,7	45,2	:	:
3. Unemployment rate (%) total	Eurostat	23,7	22,4	20,8	:	:
- male	Eurostat	24,4	22,8	21,3	:	:
- female	Eurostat	22,8	21,8	19,9	:	:
4. Long-term unemployment rate (%) total	Eurostat	19,1	17,4	15,5	:	:
- male	Eurostat	19,9	17,6	15,7	:	:
- female	Eurostat	17,8	17,1	15,1	:	:
5. Youth unemployment (15-24 years old) rate (%) total	Eurostat	48,2	46,7	45,4	:	:
- male	Eurostat	47,9	45,7	46,6	:	:
- female	Eurostat	48,8	48,6	43,2	:	:
6. Young people (15-24 years old) not in employment, education or training (NEET), in %	Eurostat	24,3	24,9	24,1	:	:
7. Early school leavers, in % (Eurostat definition) education in training	Eurostat	9,9	8,5	7,1	:	:
8. PISA rating	OECD			2015/2018 Читање 352/393 Математика 384/413 Наука 371/394		
9. PIAAC rating	OECD	:	:	:	:	:
10. Participation rate in early childhood education and care	Eurostat	39,3	39,5	:	:	:
11. GINI coefficient	Eurostat	33,6	32,5	31,9	:	:
12. Inequality of income distribution S80/S20 (Income quantile ratio)	Eurostat	6,6	6,4	6,2	:	:
13. Social protection expenditure in % of GDP	MoF	11,3	11,6	11,5	11,9	11,9
14. Health expenditure in % of GDP	MoF	4,9	4,9	4,9	5,0	5,2
15. At-risk-of-poverty before social transfers, % of the population	Eurostat	41,6	40,7	40,8		
16. Poverty rate	Eurostat	21,9	22,2	21,9	:	:
17. Poverty gap	Eurostat	32,9	37,3	37,7	:	:
Other indicators used in the EU Social Scoreboard						
18. Real adjusted GDHI - per capita in PPS (Index 2008=100)		:	:	:	:	:
19. Impact of social transfers (other than pensions) on poverty reduction	Eurostat	14,8	14,3	14,8	:	:
20. Self-reported unmet need for medical care	Eurostat	2,9	2,5	2,3	:	:
21. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)	Eurostat	34	32	:	:	:

Source: Eurostat, OECD, MoF

Table 10a: Costing of structural measures (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Measure 1: Increasing the competitiveness of the electricity market					
Year 2020	120,000	100,000	560,000	30,000	810,000
Year 2021	120,000	100,000	0	30,000	250,000 ⁷⁷
Year 2022	0	0	0	0	0
Measure 2: Promotion of renewable energy sources and improvement of energy efficiency					
Year 2020	18,500	4,220,000	0	0	4,238,500
Year 2021	0	6,310,000	0	0	6,310,000
Year 2022	0	5,920,000	0	0	5,920,000
Measure 3: Implementation of an intelligent transport system along Corridor 10⁷⁸					
Year 2020	0	0	0	TBD	TBD
Year 2021	0	0	0	TBD	TBD
Year 2022	0	0	0	TBD	TBD
Measure 4: Improving of irrigation system					
Year 2020	0	301,870	0	47,094,870	47,396,740
Year 2021	0	7,000,000	0	43,603,975	50,603,975
Year 2022	0	0	0	58,734,620	58,734,620
Measure 5: Consolidation and defragmentation of agricultural land					
Year 2020	150,000	280,000	0	380,000	810,000
Year 2021	0	340,000	0	500,000	840,000
Year 2022	0	340,000	0	500,000	840,000
Measure 6: Agricultural cooperatives					
Year 2020	0	1,380,000	0	1,060,000	2,440,000
Year 2021	0	1,800,000	0	1,060,000	2,860,000
Year 2022	0	0	0	1,060,000	1,060,000
Measure 7: Increasing competitiveness in the tourism and hospitality sector					
Year 2020	550,000	1,250,000	0	11,200,000	13,000,000
Year 2021	583,500	183,500	0	0	767,000
Year 2022	166,500	166,500	0	0	333,000
Measure 8: Harmonisation of the Public Procurement Legal framework with the Acquis					
Year 2020	0	430,000	0	0	430,000
Measure 9: Development of a National E-Services Portal					
Year 2020	72,000	822,000	0	210,500	1,104,500

⁷⁷ The funds are intended for activities of the market operator⁷⁸ Due to the sensitive period (Publication of the tender for ITS project) this data will not be available for public usage

Measure 10: Reducing the informal economy					
Year 2020	0	707,000	0	20,000	727,000
Year 2021	0	500,000	0	0	500,000
Year 2022	0	0	0	0	0
Measure 11: Enhancing cooperation between the academy and the industry					
Year 2020	0	120,000	500,000	880,000	1,500,000
Year 2021	0	0	1,500,000	0	1,500,000
Year 2022	0	0	2,000,000	0	2,000,000
Measure 12: Trade facilitation					
Year 2020	0	55,100	0	0	55,100
Measure 13: Facilitating North Macedonia-Serbia cross-border crossing					
Year 2020	0	0	0	2,700,000	2,700,000 ⁷⁹
Year 2021	0	0	0	0	0
Year 2022	0	0	0	0	0
Measure 14: Further development of the qualification system					
Year 2020	0	2,704,761	100,000	0	2,804,761
Year 2021	0	2,830,761	100,000	0	2,930,761
Year 2022	0	2,174,000	100,000	0	2,274,000
Measure 15: Youth guarantee					
Year 2020	183,500	2,600,000	2,400,000	150,000	5,333,500
Year 2021	367,000	2,200,000	2,000,000	150,000	4,717,000
Year 2022	563,000	2,500,000	2,400,000	0	5,463,000
Measure 16: Enhancement of financial benefits in the field of social protection					
Year 2020	0	0	36,856,190	0	36,856,190
Year 2021	0	0	0	0	0
Year 2022	0	0	0	0	0

⁷⁹ The application has been positively screened. From the total of EUR 5.3 million needed, a grant of EUR 2.7 million has been provided. The remaining EUR 2.6 million are to be provided.

Table 10b: Funding of structural reform measures (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Measure 1: Increasing the competitiveness of the electricity market								
Year 2020	710,000	0	0	0	100,000	0	0	810,000
Year 2021	250,000	0	0	0	0	0	0	250,000 ⁸⁰
Year 2022	0	0	0	0	0	0	0	0
Measure 2: Promotion of renewable energy sources and improvement of energy efficiency								
Year 2020	18,500	0	0	4,000,000	0	220,000	0	4,238,500
Year 2021	TBD	0	0	TBD	0	6,130,000	0	6,310,000
Year 2022	0	0	0	0	0	5,920,000	0	5,920,000
Measure 3: Implementation of an intelligent transport system along Corridor 10⁸¹								
Year 2020	0	0	0	0	0	TBD	0	TBD
Year 2021	0	0	0	0	0	TBD	0	TBD
Year 2022	0	0	0	0	0	TBD	0	TBD
Measure 4: Improving of irrigation systems								
Year 2020	36,428,746	0	0	0	301,870	10,666,124	0	47,396,740
Year 2021	32,597,212	0	0	3,000,000	4,000,000	11,006,763	0	50,603,975
Year 2022	22,467,249	0	0	0	0	36,267,371	0	58,734,620
Measure 5: Consolidation and defragmentation of agricultural land								
Year 2020	150,000	0	0	660,000	0	0	0	810,000
Year 2021	340,000	0	0	500,000	0	0	0	840,000
Year 2022	340,000	0	0	500,000	0	0	0	840,000
Measure 6: Agricultural cooperatives								
Year 2020	1,060,000	0	0	1,380,000	0	0	0	2,440,000
Year 2021	1,060,000	0	0	1,800,000	0	0	0	2,860,000
Year 2022	1,060,000	0	0	0	0	0	0	1,060,000
Measure 7: Increasing competitiveness in the tourism and hospitality sector								
Year 2020	3,000,000	0	0	10,000,000	0	0	0	13,000,000
Year 2021	0	0	0	0	750,000	0	0	750,000
Year 2022	0	0	0	0	350,000	0	0	350,000
Measure 8: Harmonisation of the Public Procurement Legal framework with the Acquis								
Year 2020	30,000	0	0	400,000	0	0	0	430,000

⁸⁰ These funds are planned for activities related with market operator⁸¹ Due to the sensitive period (Publication of the tender for ITS project) this data will not be available for public usage.

Measure 9: Development of a National E-Services Portal								
Year 2020	404,500	0	0	600,000	100,000	0	0	1,104,500
Measure 10: Reducing the informal economy								
Year 2020	57,000	0	0	500,000	170,000	0	0	727,000
Year 2021	0	0	0	500,000	0	0	0	500,000
Year 2022	0	0	0	0	0	0	0	0
Measure 11:Enhancing cooperation between the academy and the industry								
Year 2020	1,500,000	0	0	0	0	0	0	1,500,000
Year 2021	1,500,000	0	0	0	0	0	0	1,500,000
Year 2022	2,000,000	0	0	0	0	0	0	2,000,000
Measure 12: Trade facilitation								
Year 2020	55,100	0	0	0	0	0	0	55,100
Year 2021	0	0	0	0	0	0	0	0
Year 2022	0	0	0	0	0	0	0	0
Measure 13: Facilitating North Macedonia-Serbia cross-border crossing								
Year 2020	0	0	0	2,700,000	0	0	TBD ⁸²	2,700,000
Year 2021	0	0	0	0	0	0	0	0
Year 2022	0	0	0	0	0	0	0	0
Measure 14: Further development of the qualification system								
Year 2020	1,444,761	0	0	1,360,000	0	0	0	2,804,761
Year 2021	1,494,761	0	0	1,436,000	0	0	0	2,930,761
Year 2022	688,000	0	0	1,586,000	0	0	0	2,274,000
Measure 15: Youth guarantee ⁸³								
Year 2020	5,333,500	0	0	6.200.000 ⁸⁴	0	0	0	5,333,500
Year 2021	4,717,000	0	0		0	0	0	4,717,000
Year 2022	5,463,000	0	0		0	0	0	5,463,000
Measure 16: Enhancement of financial benefits in the field of social protection								
Year 2020	36,865,190	0	0	0	0	0	0	36,865,190
Year 2021	0	0	0	0	0	0	0	0
Year 2022	0	0	0	0	0	0	0	0

⁸²The application has been positively screened. From the total of EUR 5.3 million needed, a grant of EUR 2.7 million has been provided. The remaining EUR 2.6 million are to be provided.

⁸³The Annual Budget of ESARNM is part of the Central Budget, although it is 100% financed by the social contribution for employment (insurance in case of unemployment).

⁸⁴These funds are foreseen within the draft Annual Action Programme (IPA II for Sector Budget Support). The Financial Agreement is expected to be signed by the end of 2020. IPA funds can be utilised as Budget support after fulfilment of defined criteria for Youth Guarantee and funds spent from the Central Budget.

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2019-2021

Stage of reform implementation: 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

	Measure 1: Increasing the competitiveness of the electricity market	Stage of reform implementation (1-5)
Activities planned for 2019	1. Adoption of bylaws for practical implementation of the Energy Law.	4
	2. Separation and certification of the transmission system operator in accordance with the Third Energy Package.	5
	3. Establishing market operator.	4
	4. Procedures for the appointment of NEMO in accordance with the EU CACM Regulation.	4
	5. All necessary activities for market merging with the Bulgarian electricity market.	4
Description of implementation and explanation if partial or no implementation	1. The Energy Law entered into force on June 5, 2018 - full implementation. Part of the bylaws have been adopted, and part are under preparation. The deadline for full implementation of the bylaws is 18 months starting from the date of entry into force of the Energy Law. The following bylaws have been adopted and approved by the Energy Regulatory Commission for the implementation of all the aforementioned activities: Tariff system for sale of electricity to consumers supplied by the universal supplier and supplier in the last instance, Rules for electricity supply for the universal supplier, Electricity Market Rules, Rules for electricity supply, Rules for electricity supply for covering the losses in the electricity transmission system, Rules for allocation of cross-border transmission capacities, Rules for electricity supply for covering the losses in the electricity distribution system, Compliance programme (ESM).	
	2. Regarding the separation procedure, the Government of the Republic of North Macedonia adopted decision for transfer of shares from AD MEPSO to the Ministry of Transport and Communications. Within 30 days from the day of the transfer of the shares, the electricity transmission system operator starts the certification procedure. Prior to initiating certification procedure, the electricity transmission system operator shall set up new company - market operator within 30 days from the day of subscription to the Central Depository. The process for obtaining a license is finished. Rules for certification have already been adopted. The procedure for assigning compliance officer is done and certification is ongoing.	
	3. According to Article 68 paragraph 4 of the Energy Law, the operator of the electricity transmission system organises and manages the balance of services market. Within 90 days after the entry into force of the Energy Law, the electricity transmission system operator should adopt the balancing rules. The Balancing Rules are approved by the Energy Regulatory Commission in the second quarter of 2019.	
	4. Pursuant the new Energy Law, price regulation has been abandoned. The tariff system for the sale of electricity to consumers provided by the universal supplier and supplier of last resort was adopted. After the adoption of the Universal Supplier Rules, as well as the choice of the universal supplier, price regulation is no longer applicable. The time periods depend of the parties involved in the Technical Assistance for North Macedonia for establishment of institutional set-up for organised market day-ahead. The establishment of independent company - market operator is in progress; license for working is ongoing and established of organised market operator (MEMO) is in progress. The Government will take a decision when MEMO will start to operate as soon as possible (MEMO will replace the Power exchange.) Project for establishing organised market day-ahead is waiting for establishment of MEMO.	
	5. The Energy Community Secretariat has provided technical assistance for establishment of institutional set-up for organised day-ahead market, and it was prepared by BORZEN-operator of the Slovenian electricity market and BSP-Slovenian electricity market and NEMO (market-oriented). This draft model for organised electricity market was presented to the Government on May 30th. 2018. Part of this draft model for organised electricity market is also the time frame for implementation. Activities are finalised. Borzen finalised its work and he process of MEMO establishment is in its final phase.	

	Measure 2: Promotion of renewable energy sources and improvement of energy efficiency	Stage of reform implementation (1-5)
Activities planned for 2019	1. Adoption of the bylaws deriving from the Energy Law in the field of Renewable Energy Sources.	4
	2. Adoption of Annual Programme for Financial Support for Electricity Generation from Preferential Manufacturers Using the Premium.	5
	3. Conducting tender procedures with auction for granting the right to use premiums for preferential producers.	4
	4. Adoption of the Law on Energy Efficiency.	4
	5. Adoption of the bylaws arising from the Law on Energy Efficiency.	1
	6. Commencement of activities for preparation of typology of buildings needed for adoption of the Strategy for reconstruction of buildings by 2030.	1
	7. Preparation of analysis of the manner of establishing the Energy Efficiency Fund.	1
Description of implementation and explanation if partial or no implementation	1. Except the Rulebook for installers, all bylaws deriving from the Energy Law in the field of Renewable Energy Sources were adopted.	
	2. Adopted.	
	3. The Ministry of economy in June 2019 announced a Public call for awarding a contract for the right to use premium electricity produced by photovoltaic power plants built on state owned land, with a total installed capacity of 35 MW. In July 2019, a Public call was announced for awarding the right to use a premium for electricity generated and sold from photovoltaic power plants built on land that is not state owned or on state owned land on which right to use has been established, and here the total installed capacity of the photovoltaic power plants for which a premium will be granted is 27 MW. Auctions are conducted end of 2019.	
	4. The draft Law on Energy Efficiency currently is in Governmental procedure and the same is expected to be adopted beginning of 2020.	
	5. All the secondary legislation deriving from the Law on Energy Efficiency will be adopted in 2020, after adoption of the Law on Energy Efficiency	
	6. Technical assistance is provided for preparation of the typology of buildings in accordance with the TABULA methodology. The same will be completed in 2020.	
	7. Public Sector Energy Efficiency Project is currently under implementation. According the key findings and agreements reached during the last mission in May 2019, the project will include EUR 25 million loan to reduce energy consumption in the public sector and support the establishment and operationalisation of a sustainable financing mechanism for the public sector (the proposed Energy Efficiency Fund). The Fund for Energy efficiency will be regulated with separate law.	
	Measure 3: Facilitating North Macedonia-Serbia cross-border crossing	Stage of reform implementation (1-5)
Activities planned for 2019	1. Approval of the Application for Investment Grant (first screening mid of 2019, final approval end of 2019)	4
	2. EBRD will amend the Loan for rail Corridor X project and will start negotiation for signing the guarantee Agreement, if the Application is positively screened.	2
	3. Second half of the year - tendering procedure for Works and Supervision Engineering.	0
Description of implementation and explanation if partial or no implementation	Grant Investment Application Form is sent to the WBIF Steering Committee on 30 th November 2018. Application is approved, and EUR 2.7 mill are granted out of total financial cost of EUR 5.3 mill. The remaining EUR 2.6 mill need to be provided. end of 2019. The works are envisaged to start in 2020.	
	Measure 4: Implementation of an Intelligent Transport System (ITS) along Corridor 10	Stage of reform implementation (1-5)
Activities planned for 2019	1. Closure of financial construction, provision of funds for implementation and approval of the programme.	5
	2. Start the process for selection of the contractor for construction and selection of supervision for construction.	0
Description of	1. Project documentation was prepared and revised in 2019. The technical documentation was subject to audit and revision in terms of compliance with the European	

implementation and explanation if partial or no implementation	directives and experiences in the field of intelligent transport system. The control centre is constructed near the Petrovec toll station and upon procurement of the equipment, it will be installed in this control centre. The financial construction is closed.	
	2. A PIU is in phase of staffing.	
	Measure 5: Improving of irrigation system	Stage of reform implementation (1-5)
Activities planned for 2019	1. Continuing construction activities for dam Konsko.	3
	2. Starting construction activities for dam Rechani.	2
	3. Continuing construction activities for irrigation system Raven – Rechica.	3
	4. Finishing technical documentation and starting procedure for issuing construction permit for dam on Slupchanska river.	4
	5. Continuation of discussions and acting upon EIB's recommendations for loan approval for construction of II stage - irrigation and III stage - energy for HS Zletovica	2
	6. Starting construction activities for irrigation system South Vardar – second phase.	3
	7. Completion of technical documentation and start construction work on three irrigation systems	2
Description of implementation and explanation if partial or no implementation	1. Dam Konsko: Construction works progressing according to contract (30.7 %)	
	2. Dam Rechani: Construction license issued and constructor started with work in October 2019.	
	3. Raven – Rechica: Construction works progressing according to contract (14.5 %).	
	4. Dam on Slupchanska river: The technical documentation is completed, but the procedure for issuing construction permit is prolonged for 2020.	
	5. HS Zletovica (2 and 3 stage): Advancement in negotiations with EIB for financing the construction, finalisation expected in 2020.	
	6. South Vardar – second stage: Construction works going on in accordance to the contract	
	7. IPA irrigation systems: IPA project objective is preparation of technical documentation for 8 irrigation systems in total. During 2019, technical documentation has been finished for construction of 3 irrigation systems and constructors were selected for 2 irrigation systems (for 1 irrigation system tender failed). Until May 2020 technical documentation must be finished for the rest 5 irrigation systems.	
	Measure 6: Consolidation and defragmentation of agricultural land	Stage of reform implementation (1-5)
Activities planned for 2019	1. Adopt a revised and improved legal framework for the consolidation of agricultural land.	4
	2. Finalisation of 15 feasibility studies (analysis of the current state) of selected micro locations as potential consolidation areas	3
	3. Preparation of 9 consolidation plans for selected consolidation areas, and preparation of 4 infrastructure plans for the selected regions	3
	4. Finalisation of the consolidation projects in the pilot regions KO Konce and KO Egri	4
	5. Continuation of the capacity building of MAFWE, especially of the regional offices and the Department for consolidation of agricultural land, exchange and identification of land parcels	5
	6. Training of service providers for the preparation of consolidation and infrastructure plans	5
	7. Establishment of a system for monitoring and evaluation of the National Programme for Consolidation of Agricultural Land	4
Description of implementation and explanation if partial or no implementation	1. Second set of legislative amendments to the Law on consolidation of agricultural land has been prepared in December 2019. The procedure for their adoption has been postponed due to scheduled parliamentary elections for April 2020.	
	2. Ten feasibility studies are completed. Following the changes in the dynamic and scope of the MAINLAND project document, three additional studies will be prepared in the course of 2020.	
	3. Four consolidation and infrastructure plans are in preparation process.	

	4.The consolidation project in the pilot region KO Konce is finalised and adopted by the participants in the process, while the plan for KO Egri is in final phase, the formal adoption planned in the beginning of 2020.	
	5.In 2019, five formal trainings were organised, followed by continuous on-the-job training, with focus on employees from Department for consolidation of agricultural land, exchange and identification of land parcels.	
	6.In 2019, five tailor made trainings were organised especially for geodetic companies recognised as service providers for the purpose of land consolidation, in the following areas: preparation of feasibility studies; multipurpose consolidation; with special focus on trainings for distribution and infrastructure plans. This activity has enabled capacity building of current and potential future service providers resulting in 20 registered companies in the Register of consolidation executors.	
	7.System is developed for monitoring and evaluation of the National Programme for Consolidation of Agricultural Land. Starting in 2019, activities will also continue in 2020, for developing specific tools for monitoring of the implementation and impact of individual consolidation projects and their specific phases.	
	Measure 7: Agricultural cooperatives	Stage of reform implementation (1-5)
Activities planned for 2019	1. Providing continued financial support for cooperatives (continues from the previous period).	2
	2. Encouraging the process of market-oriented association of farmers in agricultural cooperatives.	0
	3. Revising the legal framework for agricultural cooperatives in the way that cooperative principles are better fulfilled.	3
	4. Support for investments in processing, finalisation and marketing of agricultural products.	0
Description of implementation and explanation if partial or no implementation	1. Public Call is announced for funds from the Programme for Financial Support of the Rural Development for 2019 for measure 131 "Economic Association of Agricultural Holdings for joint agricultural activities". The measure will continue in 2020.	
	2. No implementation due to delay in the procedure of amending the Law on agricultural cooperatives.	
	3. The activities are carried out within EU supported project "Support to agricultural cooperatives". Public Call is announced for declaring interest in the development of agricultural cooperatives.	
	4. No implementation.	
	Measure 8: Financial support of investments	Stage of reform implementation (1-5)
Activities planned for 2019	1. Financial support for investments	5
	2. Financial support for competitiveness	5
Description of implementation and explanation if partial or no implementation	This measure and its activities is implemented based on the Law on Financial Support of Investments (adopted May 2018), as a part of the Government Economic Growth Plan (adopted December 2017). The first implementation year for the Growth Plan and the financial support law was 2018. Total of 182 companies applied for financial support. Following the evaluation, about 100 companies were positively evaluated and 97 have signed contracts. According to the submitted business plans, these companies are expected to invest up to 250 mil EUR over the five years period. These companies currently employ about 14,000 people, and in 2017 alone, the number of new employees in the companies is around 1,000. The Measure containing 10% return on capital investment and income has largest interest where over 90 companies have applied for this kind of support. 12 companies have applied for financial support for investment in scientific research centres. Of the total number of companies, 49 are small (5 of which are micro) , 32 are medium and 19 are large companies.	
	Measure 9: Financial support for micro, small and medium enterprises	Stage of reform implementation (1-5)
Activities planned for 2019	1. Support for SMEs with a rapid growth tendency ("Gazelles")	5
	2. Support for micro enterprises	5
	3. Support for professional training and practice for newly employed young people	5
Description of	The Measure 9 and its activities are implemented through mid-term Programme on support of MSMEs (adopted in February 2018) implemented by the Fund for	

implementation and explanation if partial or no implementation	Innovation and Technology Development, as a part of the Government Economic Growth Plan (adopted December 2017). The first implementation year for the Growth Plan and the financial support Law was 2018. Total of 87 business entities have signed contracts for financial support with the Fund, and in accordance with the projects' implementation dynamics in 2018 171 million denars or EUR 2.78 million were reimbursed.	
	Measure 10: Increasing competitiveness in the tourism and hospitality sector	Stage of reform implementation (1-5)
Activities planned for 2019	1. Establishing process for destinations management	3
	2. Implementation of large infrastructure and small investment sub-grants according to the grant scheme	3
	3. Strengthen capacities for implementation of activities of key government institutions, as well as the private sector and civil society associations, in order to play an active role in tourism development	3
	4. Improved access to international markets, improved destination management and improved tourism services	0
Description of implementation and explanation if partial or no implementation	<p>1. The establishment of process for destinations management and Destination Management Organisations (DMOs) has continued for the following destinations: One organisation for Destination 1 – Ohrid, Struga, Prespa and the surrounding area; One organisation for Destination 4 – Tikvesh and the surrounding area; One organisation for Destination 6 – Reka and the surrounding area and Destination 8 – Polog region. The establishment of these first organisations will define the need for establishment of this kind of organisations in other areas of the country. Their role will be to set an example for local stakeholders how to organise themselves for tourist service (accommodation, catering facilities, public water supply companies, waste management companies, municipalities, commercial entities, service providers and other stakeholders that are part of tourism destination for tourist service). After defining of destinations, plans for destination development are designed. Programme will be designed for working with the group of stakeholders from each of the three chosen destinations for establishing partnerships for destinations management and/or DMO. This process follows a set of general operating instructions (Manual) that have been developed and are in the process of being adapted to each destination accordingly. Three potential organisational models for DMO deployment have been identified: a new nonprofit association, a change to an existing local institution and a local department of the Agency for Promotion and Support of Tourism. In each of the three destinations, stakeholders agreed that the first and the second model are more acceptable and by the end of January 2019 it will be defined which model will be adopted.</p>	
	<p>2. The grant scheme for tourism infrastructure investment support and connection of destinations has two sub-components, first one for infrastructure investments and second one for grants for improving the delivery of tourist services and local economic effect. Two public calls are published for sub-grants in total amount of EUR 16.4 million for NGOs and business sector, as well as for the public sector (municipalities and public institutions). Total of 48 grant contracts have been signed, of which 16 for infrastructure and 15 for micro and small companies, 8 are in final stage of signing and 4 in approval phase.</p>	
	<p>3. In the period September-October 2019, the employees of the Agency for promoting and supporting of tourism and the Ministry of Economy participated in a workshop for development of competencies needed and applicable in the process of destination management. In the beginning of 2020, the employees of these institutions will be included in trainings for project management, monitoring and evaluation.</p>	
	4. Results will be achieved after project is being finalised.	
	Measure 11: Harmonisation of the Public Procurement Legal framework with the Acquis	Stage of reform implementation (1-5)
Activities planned for 2019	1. Preparation of bylaws arising from the next PPL	5
Description of implementation and explanation if partial or no implementation	<p>1. New Law on public procurement was adopted in January 2019. It incorporates key changes for preventing misuse and corruption in public procurement by improving transparency, accountability and integrity as well as improving quality. The law reflects the latest EU directive with the most economically advantageous offer as the main criteria. To increase transparency and accountability, the institutions are obliged to publish annual public procurement plans, thus allowing companies to become informed and plan accordingly, to publicise all public procurement contracts and annexes as well as monitoring and reporting on the implementation of the whole</p>	

	procurement and contracting cycle. The bylaws are adopted.	
	Measure 12: Development of a National E-Services Portal	Stage of reform implementation (1-5)
Activities planned for 2019	1. Launch and promotion of the National E-Services Portal	5
	2. Quantitative and qualitative analysis of the data entered in the catalogue	1
	3. Para-fiscal changes analysis of the services in the Catalogue, with recommendations	3
	4. Continue entering data on services from remaining laws in the Catalogue of services and maintain the up-to-date data in the Catalogue	4
	5. Development and adoptions of the bylaws on the respective regulatory acts.	3
	6. Development of new electronic services.	4
	7. Improvement of the National Portal with the Single Sign On functionality.	5
	8. Upgrade the portal with the possibility for legal persons' profiles and enable them as e users	0
Description of implementation and explanation if partial or no implementation	1. In December 2019, the National E-Services Portal was launched. In order to inform the public about the availability and advantages of the portal, promotional materials have been prepared and a promotional campaign has been launched.	
	2. Quantitative and qualitative analysis of the data entered in the catalogue is foreseen for 2020.	
	3. Within the Catalogue of Services maintained by MISA, data on over 1,200 services have been entered and 707 are approved and published on the National E-Services Portal. Within the data for all services, the values of fees and administrative fees for services for individuals and legal entities have been entered. This data is used by the Ministry of Economy to perform an Exploratory Analysis of Parafiscal Fees for MSMEs. The analysis of parafiscal charges for MSMEs has been prepared by Finance think for the needs of the ME, in order to make an exploratory analysis of the scope and burden of parafiscal charges for MSMEs. The analysis is the first of its kind, provides a general overview of the situation and the basis for in-depth data collection and analysis, and is a good basis for designing a registry of parafiscal charges. The analysis was promoted at an event in December 2019.	
	4. Data on all services from the initially selected 50 + 140 laws were entered by 2019. The process of filling the Catalogue is structured in three main phases: data entry for an identified service, verification of data by competent authorities and final approval by MISA. Data on more than 1200 services have been entered so far, and during 2019 707 of them were verified, approved and published on the Portal.	
	5. The bylaws are prepared and are in the consultation phase prior to their adoption	
	6. This activity is a continuous process and is foreseen to continue in 2020.	
	7. The Single Sign On functionality is developed, integrated with the portal and functional for individuals. The integration is done with the Public Revenue Office system of natural persons.	
	8. The National Portal provides information on all services (based on the Catalogue of Services) and e-services for citizens only, and the next steps will be to develop the necessary functionalities that will enable legal entities to use the Portal. This upgrade is expected to be realised in 2020.	
	Measure 13: Reducing the informal economy	Stage of reform implementation (1-5)
Activities planned for 2019	1. Analysis of the system for monitoring the informal economy	1
	2. Develop tools that ease inspection procedures for undeclared work prevention	1
	3. Design voucher-based system or equivalent mechanisms which promote better working conditions	1

Description of implementation and explanation if partial or no implementation	Activities will be supported through the IPA Project – Improving working condition that began its implementation in November 2019.	
	Measure 14: Improving Infrastructure and Access to Finance for Research, Development and Innovation	Stage of reform implementation (1-5)
Activities planned for 2019	1. Fund for Equity and Mezzanine Investments (FEMI)	2
	2. Science and Technology Park (STP)	3
	3. Co-financed Grants for Commercialisation of Innovation	5
Description of implementation and explanation if partial or no implementation	1. Preliminary consultations with relevant stakeholders have been conducted for development of the relevant bylaws. These consultations demonstrated interest among the investors. In expectation of allocation of additional funds for this measure by a potential investment partner, the implementation of this measure has been postponed.	
	2. An event has been organised for the initial launching of the STP on the premises of the technical faculties' campus. The accelerator has been incorporated as the first pillar of the STP.	
	3. A public call has been announced on 30.03.2019 under this instrument of support. 487 applications have been received, out of which 63 were approved for funding in total amount of over EUR 11 million.	
	Measure 15: Trade facilitation	Stage of reform implementation (1-5)
Activities planned for 2019	1. The Customs Administration will upgrade the customs systems intended for data exchange among the customs authorities in the region, purchase a new server with appropriate storage for incoming SEED + data, and purchase a new Firewall / Router to improve the current and to establish additional VPN links for processing of increased flow of messages and creating an active network security equipment.	1
	2. The Food and Veterinary Agency will develop transparent tools for extending the TRACEE Certificate of Veterinary Application with an appropriate warehouse for hosting a new software module to support the workflow of issuing certificates and Firewall equipment.	1
	3. The Phytosanitary Directorate will create a system for phytosanitary certificates for which a new central server will be procured with adequate storage of the national phytosanitary software application and a firewall / router to establish VPN links to remote locations with permanent licenses for VPN clients.	1
Description of implementation and explanation if partial or no implementation	Activities planned for 2019 have been postponed for 2020. The delay is due to the fact that the signed grant with EC in December 2018 is not yet operational, awaiting for the new staff to be allocated in CEFTA Secretariat that will be responsible for maintaining SEED+.	
	Measure 16: Further development of the qualification system	Stage of reform implementation (1-5)
Activities planned for 2019	1. Development of 5 qualifications required by employers and flexible access to their acquisition	5
	2. Development of training programmes and trainings for specific workplaces for further qualification	5
	3. Strengthening the cooperation between higher education institutions and the private sector, as well as secondary vocational schools and the private sector in order to ensure quality practical work for students in companies.	5
Description of	1. A total of 67 qualifications were developed (passed through the entire quality assurance process and are approved) and there are additional 14 qualifications that are	

implementation and explanation if partial or no implementation	prepared and need to pass through the quality assurance process during the approval process.	
	2. A total of 11 new adult education programmes have been developed and five adult education programmes have been redesigned, and a total of 49 special programmes have been verified.	
	3. The number of employers where the practical training is carried out is a total of 973, with 473 Memoranda of Cooperation signed.	
	Measure 17: Youth guarantee	Stage of reform implementation (1-5)
Activities planned for 2019	1. Implementation of the Youth Guarantee measure	4
	2. New Unit for Youth Employment within the Sector for Active Employment Measures and Services	1
	3. New employments in the Employment Agency	1
Description of implementation and explanation if partial or no implementation	1. In 2019, the YG measure was implemented throughout the country, with special emphasis on 3 regions (Polog, Northeast and Southwest), where the number of young people belonging to the category NEETs is the largest. As of 31.08.2019, the total number of unemployed persons included in the YG is 16,624, out of which 33% have successfully exited YG in a period of 4 months after registration as unemployed	
	2. In the first half of 2019, a detailed Functional Analysis of the Employment Agency was carried out, in order to provide more information which will be relevant for new Rulebooks on internal organisation and for systematisation of job positions in ESARNM. The Functional Analysis Report confirmed the need to establish a separate Unit for Youth Employment and contains other suggestions and recommendations for improving the functioning of the Employment Agency, which will be incorporated in the preparation of the new Rulebooks.	
	3. Applies the same as in point 2.	
	Measure 18: Enhancement of financial benefits in the field of social protection	Stage of reform implementation (1-5)
Activities planned for 2019	1. Adoption of a new Law on Social Protection	5
	2. Adopting new bylaws (rulebooks, guidelines, norms, etc.),	4
	3. Trainings for the persons employed in the social protection system in order to become acquainted with the new solutions and their smooth implementation	4
	4. Public campaign for the new legal solutions in order to familiarise end users	3
	5. Finalisation of the upgrade of the software solution for administering monetary rights	5
	6. Defining, designing and testing new software for administration of money rights and social services	1
	7. Implementation of the new software for administration of monetary rights and social services	0
	8. Establishing mechanisms for controlling of the functioning of the system	2
Description of implementation and explanation if partial or no implementation	1. The new Law on Social Protection entered into force in May 2019.	
	2. Bylaws are adopted for all monetary rights and for part of the social services.	
	3. Initial trainings were held for persons employed in the social protection system in order to familiarise them with the new solutions and their smooth implementation. The second set of trainings is underway.	
	4. A conference was held to promote the new Law on Social Protection, as well as several media appearances. Towards the middle of 2020, a 4-year campaign to introduce end users to the new law will begin, and the campaign will also include rights users.	
	5. This activity is not completed.	
	6. The new software for administering cash rights and social services is not developed.	
	7. The new software for administering cash rights and social services is not developed.	
	8. Establishing a control mechanism for the functioning of the system will mean integrating the new software with other competent institutions for the purpose of	

	monitoring the rights of users and the services they use. Also, there is an expert currently working on developing a control mechanism for the CSW as a service provider.
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Annex 2: External contributions to the ERP 2020-2022

Draft ERP 2020-2022 published on the MF's website for public consultation.

HOME MINISTRY · PUBLIC FINANCE · MACROECONOMICS · TAXES & CUSTOMS · FINANCIAL SYSTEM · PFC · PUBLIC PROCUREMENT LAWS AND REGULATIONS ·

Economic Reform Programme 2020-2022

Public consultation for draft Economic Reform Programme 2020 – 2022

INVITATION FOR PUBLIC CONSULTATION FOR DRAFT ECONOMIC REFORM PROGRAMME 2020 – 2022

We are glad to present you the Chapter 5 Structural Reforms in 2020 - 2022 from the draft Economic Reform Program 2020 – 2022 (ERP 2020), which the Government of the Republic of North Macedonia would submit to the European Commission at 31 Jan. 2020, the latest.

By regular preparation of the ERP, the Government of The Republic of North Macedonia joined the approach of the European Commission for supporting the growth and competitiveness through economic governess as a key pillar in accession process, in order to provide better reporting for national economic policy plans, including the needs for structural reforms.

The draft ERP 2020 is prepared through established national consultation process, centrally coordinated by the Ministry of Finance and supported by CEF expert assistance and assistance provided through TAIEX instrument, financially supported by EU. The document closely follows the instructions of the Guidance for Economic Reform Programs issued by EC in June 2019.

Having in mind the significance of the document and the need for high quality preparation, we undertake the public consultation process with broad involvement of the stakeholders. Therefore, we invite the business community, universities, local authorities, social partners, civil society and all other stakeholders for active contribution in document preparation process.

Please submit your comments and proposals in written no later than 20 Dec. 2019 the latest, at the following e-mail addresses:

andrija.aleksoski@finance.gov.mk National ERP Coordinator

vesna.cvetanova@finance.gov.mk

Aleksandra.Velkova@finance.gov.mk

PDF Economic Reform Program 2020-2022

PDF Guidance for the Economic Reform Programmes



**МОЈ ДАНОК 15%
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**АПЛИЦИРАЈ ЗА
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**ПОНИСКИ КАМАТИ
ПОВИСОКИ СУБВЕНЦИИ
НОВИ ПОВОЛНОСТИ**

КУПИ КУЌА, КУПИ СТАН

**Performance of
Capital
Investments
in the Budget of RNM**

**Предложи
промена -
за подобра**

Opinion from the Economic and Social Council with comments and suggestions regarding the ERP 2020-2022, in Macedonian.



Архивски број: 08-9551/5
Датум:

бр. 08-96/
02-01-2020

До Министерство за финансии
Скопје

Предмет: Мислење

Почитувани,

Ве известуваме дека Економско-социјалниот совет (ЕСС) на 55-та седница одржана на 25.12.2019 година, како трета точка на дневниот ред ја разгледа Нацрт - Програмата за економски реформи 2020-2022 и во однос на текстот и содржината го даде следното мислење:

Членовите на Советот едногласно се согласија дека Програмата е позитивен чекор кон согледувањето на состојбите во одредени области од домашната економија. Програмата соодветно ги утврдува клучните предизвици и речиси соодветно изведува одредени заклучоци за состојбата во однос на конкурентноста и инклузивниот раст.

По однос на текстот и содржината на Програмата, ЕСС ги дава следните забелешки и предлози:

- Мерките за образованието, конкретно во Програмата мерката 14, треба да се однесуваат на подобрување на вредносниот систем во образованието, воспоставување на систем на контрола и одговорност на наставниците и воспоставување на квалитетен однос на релација наставник – ученик, притоа елиминирајќи ги притисоците врз наставниот кадар и состојбата со одреден протекционизам во образовниот процес;
- Намалувањето на неформалната економија, отсликано преку мерката 10, во својата суштина треба да се однесува на мерки за контрола на потеклото на финансии, со клучна улога на Управата за јавни приходи, како и дека мандатот на инспекциските надзори треба во фокусот да го има изразениот неформален сектор, каде се најчесто присутни случаи на нерегистрирана дејност и непријавена работа, наспроти вршењето на надзор во средните и големите компании како етаблирани чинители во формалната економија;

1

Министерство за труд
и социјална политика на
Република Северна Македонија

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- Во однос на мерките кои се однесуваат на земјоделството, во Програмата треба да се предвидат и мерките во вид на субвенции, со цел да се согледа исходот и релевантноста на истите, додека начелното мислење на ЕСС е дека субвенциите треба да бидат условени со приносот и откупот, а не со насадите;
- Исто така, во однос на земјоделството, мерката за дефрагментација и консолидација на земјоделските земјишта во својата суштина да предвидува стимулативни активности за обработка на земјоделските површини, односно зголемување на трошоците за земјоделските површини кои нема да се обработуваат, како и дека соодветно треба да преку мерки да се адресира и состојбата со пазарот на труд во овој сектор, со цел да се стимулира вработувањето на младите во земјоделските дејности.

Во останатиот дел на текстот и содржината Економско-социјалниот совет нема забелешки.

Со почит,



Изработил: Горан Нешевски

2

Министерство за труд
и социјална политика на
Република Северна Македонија

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To: Ministry of finance

Subject: Opinion

We would like to inform you that the Economic and Social Council (ESC), at its 55th session held on 25.12.2019, reviewed the Draft Economic Reform Program 2020-2022, as the third item on the agenda and gave the following opinion on the text and its content:

The Council members unanimously agreed that the Program is a positive step towards understanding the situation in certain areas of the domestic economy. The program appropriately identifies key challenges and almost adequately draws some conclusions about competitiveness and inclusive growth.

Regarding the text and the content of the Program, the ESC makes the following observations and suggestions:

- Education measures, specifically measure 14 in the Program, should address the improving of the education's value system, establishing a controlling system and adequate responsibility for the teaching staff and establishing a quality teacher-student relationship, thereby eliminating the influence made on the teaching staff and the state of certain protectionism in the educational process;
- The reducing of the informal economy, reflected in Measure 10, should in its essence relate to measures to control the origin of finances, with the Public Revenue Office having the key role, and that the inspection should have clear mandate focused on the informal sector, where cases of unregistered activity and undeclared work are most common, as opposed to inspection on the medium and large companies as they are already established actors in the formal economy;
- In terms of measures relating to agriculture, subsidy measures should be foreseen in the Program in order to assess their outcome and relevance, while the ESC's general view is that subsidies should be conditional on the yield, not the plantations;
- Also, with regard to agriculture, the measure of defragmentation and consolidation of agricultural land, in its essence should provide activities that stimulate the cultivation of agricultural land, ie an increase in the cost (taxes) of agricultural land if the land is not cultivated, as well as that there should also be measures addressing the labor market situation in the sector, in order to stimulate youth employment in agriculture.

In the rest of the text and content of the Program, the Economic and Social Council has no remarks.

Respectfully,

President of
the Economic and Social Council
Mila Carovska

From: "Sofija Cali" <sofija.cali@yes.org.mk>

To: "Aleksandra Velkova" <aleksandra.velkova@finance.gov.mk>, "Vesna Cvetanova" <vesna.cvetanova@finance.gov.mk>, "Andrija Aleksoski" <andrija.aleksoski@finance.gov.mk>

Sent: Thursday, 19 December, 2019 14:16:40

Subject: ERP Public Consultation

Respected,

I would like to inform you that regarding the Economic Reform Program 2020-2022, the [Chapter 20 Platform](#) has no comments/suggestions on the document.

Best regards,

Sofija



Sofija Cali Kuzmanova, MSc.- Project Manager

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Annex 3: Status of implementation in January 2020 of recommendations from the 3rd Joint conclusion of Economic and financial dialogue in May 2019

The recommendation to *operationalise the adopted denarization and non-performing loan resolution strategies, also by prioritizing the key reform areas*, has been implemented as follows:

1. In relation to Denarization Strategy, until the end of 2019 the following priority activities have been implemented:
 - Strategic commitment on sustainable macroeconomic policy is implemented on regular basis.
 - The IMF Report on article IV consultation in January 2020 confirms the macroeconomic stability and sustainable macroeconomic policies.
(Institutions: National Bank and Ministry of Finance) (Completely implemented activity)
 - Analyzing the possibility for further differentiation of the reserve requirement ratios by currency.
 - The analysis is prepared, its review and discussion are underway, conclusions are expected by mid-March 2020.
(Institution: National Bank) (Substantially implemented activity)
 - Reconsideration of the possibility for gradual decrease of the limits on banks' open currency position.
 - The analysis is prepared, its review and discussion are underway, conclusions are expected by mid-March 2020.
(Institution: National Bank) (Substantially implemented activity)
 - Regular analysis on active use of the macroprudential measures for regulating the consumer loans approval with currency component for individuals.
 - The analysis is prepared, its review and discussion are underway, conclusions are expected by mid-March 2020.
(Institution: National Bank) (Substantially implemented activity)
 - Investigating possibilities for changes in the deposit insurance scheme.
 - The analysis was prepared and it has been concluded not to make changes in the deposit insurance scheme towards differentiation of the risk premiums from the viewpoint of the deposits currency structure, considering that it is not a practice in the EU, generally it is not often in use, therefore there are not enough arguments for appropriate effects on Denarization level.
(Institutions: Deposit Insurance Fund, Ministry of Finance, National Bank) (Completely implemented activity)
 - Increase of government securities issues in domestic currency.
 - On regular basis, under way.
(Institution: Ministry of Finance) (Substantially implemented activity)
 - Higher spread between interest rates of the government securities' in domestic currency and with a currency clause with an appropriate maturity on the primary market.
 - On regular basis, implemented.
(Institution: Ministry of Finance) (Completely implemented activity)
 - Supporting the development of the derivative market – conducting a bank survey and analyzing the results.
 - The analysis is prepared, its review and discussion are underway, conclusions are expected by mid-March 2020.
(Institution: National bank in cooperation with Ministry of Finance) (Substantially implemented activity)

- Further development of the financial education Institutions: The National Bank and Ministry of Finance.
 - Activities for education of the households have been undertaken (lectures and educational articles by the National Bank), including the topic on currency risk. (Completely implemented activity)
- 2. In relation to Strategy for dealing with non-performing loans, until the end of 2019 the following priority activities have been implemented:
 - Analysis of the possibility of amending the Decision on the content and management of the credit registry.
 - The activities for alignment with the changes in the Credit risk decision planned for year 2019 are implemented. (Institution: National Bank) (Substantially implemented activity)
 - Introducing a separate registry of the banks' real estate which are foreclosed and are subject to sale.
 - The laws and by-laws are adopted, the activity envisaged for year 2019 is implemented. (Institution: Agency for Real estate Cadaster) (Completely implemented activity)
 - Supervision and oversight on regular basis on bank' management of non-performing loans-strengthening the bank' corporate governance.
 - It is implemented on a regular base. (Institution: Ministry of Finance) (Completely implemented activity)

The recommendation to *continue to closely monitor the emergence of potential financial stability risks related to the consumer loan segment deploying appropriate micro and macro prudential policy tools if needed*, has been implemented as follows:

- The monitoring on regular basis continues, additionally an analysis for the consumer loans, the potential risks and reconsideration of the need for additional measures is going to be prepared.
 - The analysis is prepared, its review and discussion are underway, conclusions are expected by mid-March 2020. (Institution: National Bank) (Substantially implemented activity)

The recommendation for *legal clarification of the National Bank mandate on implementation of macroprudential policies as well as establishing a framework for effective collaboration between the agencies involved in the macro prudential supervision*, has been implemented as follows:

- Drafting a legal decision for macroprudential mandate and body as well as the manner of reorganizing the Financial stability committee.
 - The draft law amendment is prepared at the National bank and should be reviewed. A Draft Memorandum for cooperation between the financial regulators has been prepared and was sent to the regulatory and supervision bodies of the financial institutions in the country. The Memorandum is expected to be signed by mid-March 2020. (Institutions: National Bank and Ministry of Finance) (Partly implemented activity)

Annex 4: Indicators for the Macedonian economy in 2018 according to the Macroeconomic Imbalances Procedure of the European Commission

The monitoring of the economy, using scoreboard indicators with set of indicative thresholds, under the EC's Macroeconomic Imbalances Procedures⁸⁵ - MIP implemented in the EU member states, is useful for monitoring of the main areas of vulnerability among candidate countries, and for understanding the extent of their convergence towards the EU. Main indicators within this approach for the Macedonian economy in 2018, according to the given thresholds, are presented below.

Table 4.1 EC Macroeconomic Imbalances Procedure indicators for North Macedonia

Indicators	Indicative thresholds		2011	2012	2013	2014	2015	2016	2017	2018
	upper	lower								
External imbalances and competitiveness										
Current account balance (% of GDP, 3-year moving average)	-4	6	-3,8	-2,6	-2,4	-1,8	-1,4	-1,8	-1,9	-1,4
International Investment position, net (end-year, % of GDP)□	-35		-52,6	-55,1	-55,9	-53,1	-56,0	-57,7	-58,0	-56,4
Real effective exchange rate (CPI-based, 3-year percent change)	-11	11	-1,3	-2,4	2,1	2,7	2,2	1,8	0,3	2,1
Share in the world export (at current prices, 5-year percent change)	-6		22,9	-10,4	-7,6	21,9	24,9	24,2	47,5	56,8
Nominal unit labour costs (3-year percent change)		12	0,6	1,6	4,2	1,9	3,1	2,2	8,1	12,6
Internal imbalances										
Real estate prices (annual change in %, deflated)		6	-10,2	-1,1	-6,0	-0,5	0,0	0,8	-3,1	0,7
Credit flows to the private sector (% of GDP)		14	3,5	2,5	2,9	4,5	4,5	3*	2,5	3,3
Private sector debt (% of GDP)		133	82,1	87,2	84,4	85,9	88	87,6*	87,7	87,4
Public debt (% of GDP)		60	32,0	38,3	40,3	45,8	46,6	48,8	47,8	48,6
Liabilities of the financial sector (annual percent change)		16,5	9,5	10,0	5,0	7,9	8,1	3	3,7	3,4
Unemployment rate (3-year moving average)		10	31,9	31,5	30,4	29,3	27,7	25,9	24,1	22,3
Activity rate (3-year change in percentage points)	-0,2		0,5	-0,2	0,3	1,0	0,8	-1,2	-0,9	-0,1
Long term unemployment rate (3-year change in percentage points)		0,5	-2,8	-0,8	-2,8	-2,5	-4,2	-4,8	-6	-5,8
Youth unemployment (3-year change in percentage points)		2	-1,2	-1,1	-1,7	-2,1	-6,6	-3,6	-6,3	-1,9

* corrected for the write-offs of loans

Source: National institutions, IMF, Eurostat; NBRNM calculations using available data. However, some indicators do not correspond fully with the requirements under this approach. Shaded fields data point to noncompliance with the threshold.

The current account deficit of North Macedonia, as a three-year moving average, in the period 2011-2018 remained moderate compared to the lower vulnerability threshold (-4% of GDP), i.e. ranged within the limits. Since 2011, the net international investment position has been enhancing, with certain improvement in 2014, as well as in 2018 when it reached -56.4% of GDP. This level is well below the vulnerability threshold of -35% of GDP. It should be borne in mind that the net international position on the liabilities side also includes foreign direct investment, which makes up nearly half of the increase in total liabilities abroad in the last several years. In this light, when analysing the converging countries, just because of the effect of foreign direct investment, under the EC's approach, other indicators should also be considered, such as net external debt, which covers only net debt instruments. At the end of 2018, the net external debt of the Republic of North Macedonia was 24.2% of GDP (28.5% of GDP in 2017).

In the period 2013-2018, the three-year change in REER indicates a moderate appreciation of about 2% (determined mainly by the NEER), which is within the allowable range. Export market share of the economy in the world exports, as a five-year change, after the fall in 2012-2013, as a consequence of the crisis, registered a rapid annual growth in the period 2014-2018. These developments reflect the improved export performance, determined by structural economic changes in recent years. Nominal unit labour costs, as a three-year change, accelerated in 2017 and slightly exceeded the threshold in 2018 (amid higher wage growth than productivity growth, considering the employment growth), pointing to risks to the competitiveness of the economy. *In the area of external imbalances, the Macedonian economy shows potential vulnerability in the area of external liabilities (with arguments for relativisation of the issue), while attention should be paid to the movement of nominal unit labour costs.*

Analysing the internal imbalances, the annual changes in banks' loans to the private sector after 2011 have been moderate and constantly below the vulnerability threshold (14% of GDP). In 2018 this indicator was 3.3% of GDP (2.5% of GDP in 2017), which is still significantly below the threshold. In 2018, financial sector liabilities recorded an annual growth of 3.4%, which is similar to last year and below the threshold (16.5%). Real estate prices registered small positive changes in the period 2015-2016, decreased in 2017 (by 3.1% annually), and again slightly increased in 2018 (by 0.7%). The total domestic and foreign debt of the private sector (loans from domestic banks and abroad) was also constantly below the threshold of vulnerability. In 2018, it remained

⁸⁵ Alert Mechanism Report, European Commission, February 2012.

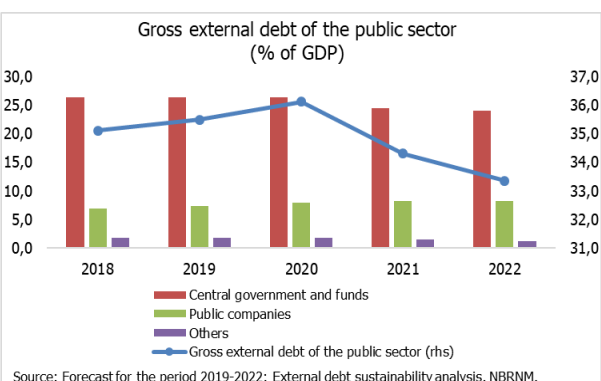
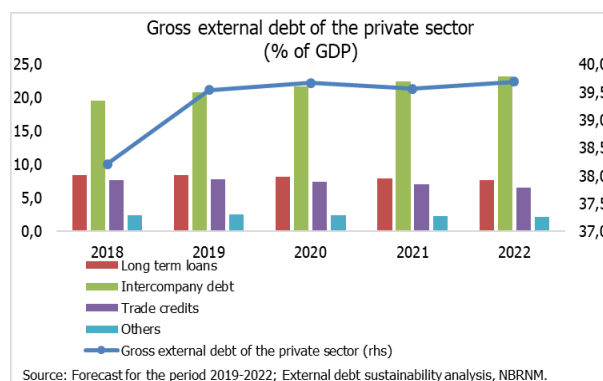
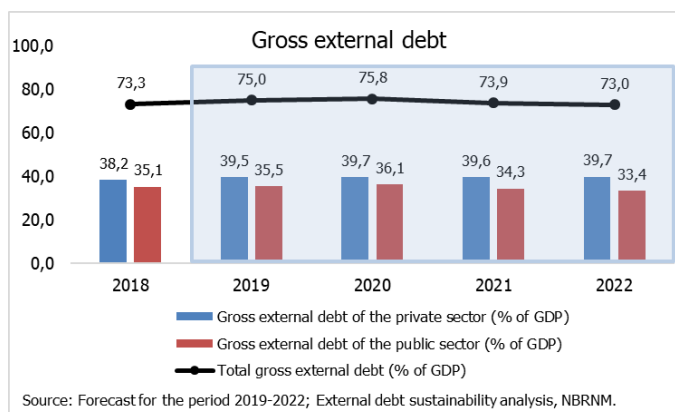
relatively stable and accounted for 87.4% of GDP, well below the threshold of 133% of GDP. Public debt is also below the threshold (48.6% of GDP in 2018), which is a slight acceleration compared to last year.

The unemployment rate, as a three-year moving average, although abating in recent years, has constantly been well above the threshold of 10%. Within the labor market, in 2015, the EC also introduced indicators of activity, youth unemployment (aged 15 to 24) and long-term unemployment (unemployed for more than one year). These indicators for the Macedonian economy in 2018 registered favorable changes (reduction of youth and long-term unemployment), within the safe zone. Activity rate has been decreasing for the three consecutive years, although the decline in 2018 was within the threshold, thus being in the safe zone. Hence, concerning internal imbalances, the Macedonian economy shows vulnerability to total unemployment rate and activity rate.

Annex 5: External debt sustainability analysis

According to the analysis of the external debtsustainability⁸⁶, the gross external debt at the end of 2019 is estimated at 75% of GDP, which indicates an increase relative to the previous year by 1.7 p.p. of GDP. The estimated increase of the external debt in 2019 mainly reflects the assessment for higher private sector debt by 1.3 p.p. of GDP. Additionally, an increase by 0.4 p.p. is estimated for the external debt of the public sector, amid the net external borrowing of the public enterprises in 2019 for financing of infrastructure projects. In 2020 an additional

increase of the external debt is estimated, in accordance with the expected external public debt increase as a result of the projected long term external borrowing of the public sector. In the following two years, 2021 and 2022, the external debt is expected to decrease amid higher amount of repayments (for maturing Eurobonds in



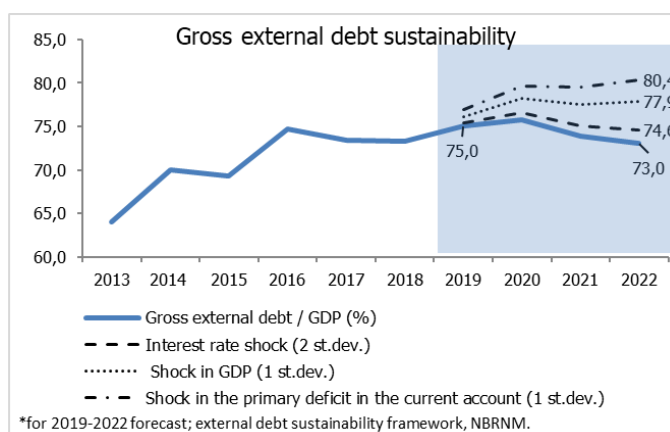
2021) as well as the lower debt flows of the private and public sector. Thus, the level of external debt in 2022 is expected to be lower than the actual in 2018 by 0.3 p.p., due to the decrease in the public sector debt by 1.8 p.p. amid expected fiscal consolidation, while the private debt is expected to be higher by 1.5 p.p. of GDP.

On average within the analysed period, all flows are in favor of external debt reduction, especially automatic debt dynamics (mainly due to the effects of the real GDP growth and the changes in the prices, with reducing positive contribution of the nominal effective interest rate) and non-debt capital flows. Additionally, the average primary current account deficit (excluding interest payments) acts in the same direction, since it is estimated to maintain at a low level in this four-year horizon (2019-2022). It should be noted that in the next three years, 2020-2022, an increase in the foreign exchange reserves is expected as well as their maintenance at the adequate level.

⁸⁶Source: Calculations and analysis of NBRNM, based on the IMF approach. The basic scenario assumes average GDP growth in the period 2019-2022 of 3.8% and it is based on the Fiscal strategy of the Republic of North Macedonia 2020-2022 (May 2019) and the presented balance of payments forecast (October, 2019), thus it is worth to point out that balance of payments statistics does not fully correspond to the external debt statistics.

Within the external public debt, in 2022 relative to 2018, only share of the debt of the public enterprises is expected to increase (by 1.4 p.p. of GDP) considering the expected borrowings for infrastructure projects, opposite to the expected decline at the other institutional segments. Within the private sector external debt only the intercompany debt relative to GDP is expected to increase by 2022 compared to 2018 (by 3.6 p.p. of GDP) amid expected further inflows of foreign direct investments, which would be partly offset by slight decline at the other categories.

The stress tests indicate that the expected debt dynamics on a medium run is sensitive to shocks on the primary current account and the economic growth. However, the structure of the external debt is in favor of lower vulnerability, considering relatively high share of about 40% in the overall forecasting horizon of intercompany debt and trade credits, as more flexible and less risky types of debt.



Annex 6: Expected impact on improvement of the situation regarding the land abandonment and utilisation of state owned agricultural land

The land consolidation regulatory framework is not directly dealing with land abandonment, as the basic precondition for participation in the land consolidation projects is holding the right of ownership over the asset (agricultural land), not the utilisation of the land. The main instrument for combating land abandonment is the legal instrument for taxation of unutilised agricultural land under the Law on property Taxation. However, with several mechanisms that are part of the three generic phases of land consolidation, the land consolidation instrument is contributing towards combating land abandonment to a great extent. Namely, the mechanisms for buying and selling of private land within the land consolidation process which are available according to the legal framework enables those landowners who are not utilising the agricultural land and very frequently do not even live in the country to sell it to the landowners who are actually utilising the agricultural land in the respective area. The sale purchase interest is identified during the feasibility phase by preparation of Land Mobility Map and further facilitated in the process of re-allotment planning under the direct supervision of the Land Consolidation Commission in MAFWE. In addition, the unutilised (vacant) state owned agricultural land can be subject to lease in accordance with the special rules for leasing within the land consolidation projects as explained above. All the above instruments for combating land abandonment have been included in the amendments to the Law on Consolidation of Agricultural Land. In general, the consolidation of the private parcels contributes as well to eradication of the non-utilisation and underutilisation of the land already owned by single owner of multiple small and scattered land parcels, as the consolidation of these scattered parcels in combination with improvement of the infrastructure is providing for an opportunity for better access and utilisation of the privately owned land.

The state owned land, if included in a proper way in the land consolidation process is considered as an important tool can catalyse of the process itself with a main objective to consolidate the private farm holdings. In the national regulatory framework on land consolidation, the state as an owner of agricultural land was included in the process of land consolidation under the same terms and conditions as the land of private landowners through a proxy appointed by the Ministry of Agriculture, Forestry and Water Economy with the amendments to the Law of May 2018. The basic rules for re-allotment and valuation of the land parcels that apply for all participants in the land consolidation process apply to the state owned land as well.

In addition, the state owned land, if in sufficient quantity within the specific land consolidation area in the process of majority based land consolidation, should be primarily used for construction of rural infrastructure envisaged as a part of the LC project and by using this mechanism, the deductions of maximum 5% for rural infrastructure from the private landowners (farmers) are lower than the ceiling statutory envisaged. Furthermore, the mechanism for leasing of the vacant state owned agricultural land during the land consolidation process, under conditions that differ from the regular leasing procedure envisaged in the Law on Agricultural Land are prescribed in with the amendments of the legal framework on land consolidation. The sitting tenants on the leased state owned land included in the majority based land consolidation projects, are protected through possibilities for continuation of the lease in cases where the state owned land is re-parcelled or by guarantees for losses compensation determined by an authorised valuator in the cases where there is not a sufficient quantity of state owned land after the re-allotment and deductions for infrastructure. The added value to the state owned

land done by the long term tenant is subject to statutory compensation by the new owner after the re-allotment based on valuation of the added value in accordance with the relevant methodology for valuation of the assets in the agriculture. The inclusion of the state owned land in voluntary projects in terms of single plan exchange is regulated in amended Law on Land consolidation and the basic requirement is that the state owned land after the re-allotment plan is approved should not be of lower value than the value of the state owned agricultural land initially included in the voluntary land consolidation project. The outright sale of state owned land within the land consolidation projects, especially relevant for the voluntary land consolidation as it can increase the overall land pool and increase the possibilities for success of the overall project in terms of bigger number of participants, is not yet regulated as the interventions in the regulatory framework are part of larger package of amendments needed to the Law on Sale of Agricultural Land. Detailed analyses of the situation with recommendations for improvement of the regulatory framework and the process of privatisation of the state owned land in general, including the privatisation in the land consolidation has been prepared by FAO and submitted to MAFWE as a final draft in September 2019. The finalisation of the amendments to the Law on Consolidation has been delayed due to forthcoming parliamentary elections and their adoption is expected to be in June 2020.

Annex 7: Contribution from consultations with stakeholders ERP 2020-2022

Content of the Economic Reform Programme	Institution	Person in charge
1. Overall Policy Framework and Objectives	Ministry of finance	Andrija Aleksoski Vesna Cvetanova Aleksandra Velkova
2. Implementation of the policy guidance	All institutions in charge	
3. Macroeconomic framework		
3.1. Recent economic developments	Ministry of finance National Bank of the Republic of North Macedonia	Nedzati Kurtishi Aneta Krstevska
3.2. Medium-term macroeconomic scenario	Ministry of finance National Bank of the Republic of North Macedonia	Nedzati Kurtishi Lenche Tagasovska Violeta S. Petreska Aneta Krstevska
3.3. Alternative scenario and risks	Ministry of finance National Bank of the Republic of North Macedonia	Nedzati Kurtishi Aneta Krstevska
4. Fiscal framework		
4.1. Fiscal strategy and medium-term objectives	Ministry of finance	Tanja Kostovska Alen Kalach
4.2. Budget implementation in 2019	Ministry of finance	Biljana Minoska Branko Dimchevski Viktorija Hristovska
4.3 Budget plans for 2020	Ministry of finance	Tanja Kostovska
4.4. Medium-term budgetary outlook	Ministry of finance	Tanja Kostovska Alen Kalach
4.5. Structural deficit	Ministry of finance	Nedzati Kurtishi
4.6. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments	Ministry of finance	Sanja M. Mancheva Aneta Dudevska
4.7. Sensitivity analysis	Ministry of finance	Nedzati Kurtishi Sanja M. Mancheva
4.8. Fiscal governance and budgetary frameworks	Ministry of finance	Tanja Kostovska Alen Kalach
4.9. Sustainability of public finances	Ministry of finance	Nedzati Kurtishi
5. Structural reform priorities in 2020-2022		
5.1. Identification of key obstacles to competitiveness and inclusive growth	Ministry of finance	Vesna Cvetanova
5.2. Summary of reform priorities	Ministry of finance	Aleksandra Velkova
5.3. Analysis by area and structural reform measures		

5.3.1. Energy and transport market reform	Ministry of Economy Ministry of Transport and Communication	Valentina Stardelova Zhaneta Petrovska Elena Markova Velinova Goran Temovski Biljana Zdraveva Jasminka Kirkova Aco Kostadinovski Vesna Cvetanova, MoF
5.3.2. Sectoral development		
5.3.2.1. Agricultural sector development	Ministry of Agriculture, Forestry and Water Economy	Maja Lazareska Joveska Lile Simonovska Kiril Georgievski Stojan Gacov Aleksandar Mitrevski Sashka Jovanovska Vukelija Tatjana Simovska-Novkovska Larisa Kitanov Acevska Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.3.2.2. Industry sector development	Ministry of economy Cabinet of the DPM in charge of economic affairs	Jasmina Trajanovska Dane Josifovski Vesna Cvetanova, MoF
5.3.2.3. Services sector development	Cabinet of the DPM in charge of economic affairs	Maja Barikj Dane Josifovski Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.3.3. Business environment and reduction of the informal economy	Public Procurement Bureau Ministry for information society and administration Ministry of labour and social policy Ministry of finance	Aleksandar Argirovski Rozalinda Stojova Orhideja Gjorgovska Marina Acevska Goran Veleski Mladen Frchkovski Olimpija Hristova Zaevska Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.3.4. Research, development and innovation and digital economy	Fund for Innovation and Technical Development Ministry for information society and administration	Katarina Krecheva Solza Kovachevska Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.3.5. Trade-related reforms	Ministry of Economy	Ilir Shabani Zorica Smileva Goran Temovski Biljana Zdraveva Jasminka Kirkova Aco Kostadinovski Vesna Cvetanova, MoF
5.3.6. Education and skills	Ministry of Education and Science	Nadica Kostoska Rosica Toshevska Vesna Cvetanova, MoF
5.3.7. Employment and labour markets	Ministry of labour and social policy Employment Agency	Goran Veleski Biljana Zhivkovska Goran Petkovski Vesna Cvetanova, MoF
5.3.8. Social protection and inclusion	Ministry of labour and social policy	Dushan Tomshikj Sofija Spasovska Vesna Cvetanova, MoF
6. The cost and financing of structural reforms	Ministry of finance	Andrija Aleksoski Vesna Cvetanova Aleksandra Velkova

7. Institutional issues and stakeholder involvement	Ministry of finance	Andrija Aleksoski Vesna Cvetanova Aleksandra Velkova
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